AN APPRAISAL OF THE PROPERTY TAX

This appraisal consists, in the main, of a catalog of defects, some of them a summary of previously elaborated points. The property tax does have virtues, so the public interest is in doing what can be done to minimize the defects, rather than merely describing the defects of the institution. The principal virtues are pragmatic rather than philosophical ones. The tax exists; it produces very large revenues; and our society and economy have adjusted to and worked through many of the baleful effects of the tax, at least of present levels of property taxation. These are significant advantages, but they are not enough to compel us to reject reform out of hand, or to ignore methods of reducing reliance on the tax over time.

Effects on Housing and Urban Development

To briefly recapitulate the appraisal developed in the previous section, the property tax, on balance, has the following kinds of significant effects on urban housing and development:

1. The tax amounts to a very high consumption tax on housing expenditure and thus tends to reduce consumer demand for housing. This in turn tends to limit growth in the stock of urban housing and to limit improvement in the quality of the existing housing stock.
2. These effects are not likely to be very evident in suburban communities, especially the better-off ones, for two reasons. First, the connection between property tax payments and local public services provided homeowners is a clear one in most suburbs. Second, the Federal income tax advantages of homeownership, for relatively well-off taxpayers, offset the property tax in large measure.
3. However, the deterrent effects of high taxes on consumption of, and investment in, housing in large central cities are serious. This is likely to be more true for tenants than for homeowners, and more so for lower income groups. For upper income groups, the outcome may be a marginal encouragement to the observed trends toward suburban residential locations; for the poor, the outcome will be less and poorer housing.
4. In many places, the property tax helps to make central city locations relatively unattractive for some types of business activity, although the evidence on this is by no means unequivocal.
5. Outside the central cities, in metropolitan areas which operate with large numbers of local taxing units (most SMSA's outside the Southern States), there are very large differentials in property tax bases. One consequence is an unacceptably wide variation in the scope and quality of the public services essential for urban living and for the achievement of a good urban environment.