

6. Another consequence is wide variation in effective property tax rates. This can promote a less-than-optimal pattern of the location of business establishments. Equally important, it often leads to emphasis on fiscal criteria in land use planning—efforts to maximize the fiscal position of each of the large number of taxing units—rather than concern with the broader social, economic, and esthetic considerations which should be the basis for planning decisions in urban areas.

EFFECTS ON OTHER RESOURCE ALLOCATION

The effects of the property tax on central city housing and on the location of economic activity in urban areas are by far the most important of its resource allocation effects, for urban areas. There are, however, some other types of effects related to the fact that property taxes are usually much heavier burdens on some types of industries than on others, notably on particular types of public utility enterprises. Some of these effects are of relatively minor importance for urban areas in general, although important for specific firms. For example, the characteristically high property taxes on gas utilities increase gas rates to consumers relative to the prices paid for fuel oil, thus marginally discouraging use of gas for heating.²⁷

A more important effect is among competing forms of transportation. Because railroads own their own rights-of-way, and because of frequent discriminatory assessment of railroad property, property taxes on railroads are very high relative to those on others types of transportation. It is estimated that, in 1957, property taxes amounted to 4.9 percent of national income originating in railroad transportation but only 0.04 percent of national income originating in air transportation;²⁸ the corresponding figure for motor freight transportation was probably about 2 percent. Since these are regulated industries, the tax differentials do show up in rates to users, and encourage use of the nonrailroad modes. On balance, this facilitates decentralization of industrial activity away from central cities, since one of their major advantages in the past has been their superior rail freight facilities.

High and rising taxes on agricultural property²⁹ reduce net income of farmers and thus, on balance, help speed the conversion of farmland on the rural-urban fringe to urban uses. The more general effect on agriculture probably is to encourage marginal farmers to leave the industry and concentrate farmland in fewer but more heavily capitalized units of production.

EFFECTS ON INCOME DISTRIBUTION

One of the more frequent charges against the property tax is that it is more regressive³⁰ with respect to personal incomes than alternative forms of taxation. Before examining the evidence on the distribu-

²⁷ In New York City, natural gas rates to domestic consumers might be 10 percent lower, were property taxes no higher than those reflected in retail fuel oil prices. Since the prices of the two heating fuels are roughly equivalent now, the property tax appears to be a real deterrent to gas use.

²⁸ Netzer, *op. cit.*, p. 26.

²⁹ In 1957, these amounted to nearly 8 percent of national income originating in agriculture, versus 2 percent for nonfarm business. *Ibid.*, pp. 24, 28.

³⁰ Regressive taxes exact a higher percent of income as income decreases; progressive taxes exact a higher percent of income as income rises.