accord with their personal preferences. For example, not all families use the same amount of water, not all use the same amount of highway transportation, and so on. There is a strong case for financing such services in the same way public utility services are financed—that is, via user charges which are like prices, rather than through general taxes.

If the purpose of providing the public service is to offer different consumers the services they want, and place some value on, then they ought to pay for such services in proportion to the costs. Otherwise, governments will be called upon to provide a great deal more of the service than people would be willing to consume if they did have to pay for it, which is a wasteful use of resources; or the service will be in such short supply that a form of nonprice rationing will be employed to allocate the service among consumers. The outstanding example of this is street congestion in cities: users pay for highways in the aggregate but not for specific individual uses of the streets, and therefore, not surprisingly, treat highways as a free good. The only deterrent to use of the streets at the most crowded times and in the most crowded places is the value one places on time; the rationing in effect then results in those who place a low value on time pre-empting the street space from those who place a high value on time. Ordinarily, in our society, rationing is on the basis of price. Somebody who values a service highly bids it away from someone who places a lower value on that service and would rather use his income for alternative kinds of consumption.[41]

The most striking opportunities for greater utilization of user-charges, as this would suggest, are in connection with financing of urban highway and parking facilities and services, waste collection and disposal, and recreational activities; the potential revenue in these areas alone equals roughly one-tenth of property tax revenue on a nationwide basis. The potential is relatively larger in urban areas, especially the larger ones, which provide more of these services and are generally less effective exploiters of user-charges.

LOCAL INCOME TAXES

The case for local income taxation does not rest on the argument that it is a good device for central city taxation of commuters. To be sure, the potential here is a large one. The municipal governments of the 43 largest cities collected $3.3 billion in property tax revenue in 1965–66. Excluding Washington, D.C., their local income tax revenue was $242 million, largely made up of the collections in Detroit, Louisville, and the larger cities in Pennsylvania, Ohio, and Missouri. But if all 43 cities had a flat 1-percent tax on income earned within the central cities, revenue would have amounted to perhaps $1.3 billion, probably $300 million of this from commuters. This is a substantial fraction of property tax revenue for these units of government.

The more general case for income taxation is that it does *not* have an especially adverse effect on housing, as does the property tax. It

[41] Netzer, "Financing Urban Government," in James Q. Wilson, editor, *The Metropolitan Enigma* (Chamber of Commerce of the United States, 1967), p. 65.