Introduction

For at least 40 years, the various bodies of literature on the property tax, on land use and on land use regulation have contained references to and comments on the relation between the property tax and how land is used in places where the property tax is an important source of local government revenue (and where local government finance is of some consequence), and the relation between the property tax and land use regulation regimes. Often the references have been asides to the main argument of the work in question; in other cases, the relations have been explored more systematically. But it is fair to say that there is not a coherent exposition of some of the main issues, despite their importance.

That importance may be self-evident:

- It is obvious that a tax on structures must affect the uses of land, and the lack of revenue from a serious tax on the value of land that results in higher taxes on structures also affects land use.
- The revenue from a given rate of property tax is affected by the way land is used and, therefore, it is likely that local land use regulators will pay attention to that effect in their regulations.
- The efficiency and equity of the property tax are affected by land use, and the way land uses are regulated. These considerations should have a major impact on the way we conceive the American property tax: is it in the main a distorting tax on mobile capital that is likely to have a regressive incidence (as in the writings of Peter Mieszkowski and George Zodrow), or, in many places, a benefits tax that is quite close to being a land value tax in disguise (as in the work of William Fischel)?
- In the public policy realm, the reception to land value tax proposals is very much affected by land use issues, as we see conspicuously in debate on preferential assessments of selected types of land use.

The 10 essays that comprise the book begin with a stage-setting essay that models taxes on land and buildings in the context of a dynamic model of taxes on land and buildings (Anas). The remaining nine essays examine how various tax mechanisms and nontax alternatives that regulate land use complement or substitute for one another in their effects on land use. Two
essays address the land use effects of variants of conventional property taxation, notably ‘tax increment financing’ (Dye and Merriman) and preferential assessments (Anderson), and a third looks at the land use effects of a widespread alternative local tax, the local sales tax (Wassmer). Three essays directly compare the land use effects of property taxes and direct regulation (Bogart; Cheshire and Sheppard; McDonald). The final three examine more radical institutional variants: the private community association as the mode of residential development (Nelson and Fischel, who see the issue quite differently) and the taxation of lot frontage rather than land value (Colwell and Turnbull).

Alex Anas, noting that static models of real estate markets, by pretending that all the land is available in the markets at all points in time, cannot answer the important questions relating to land value and building taxes. Instead, using a generalized perfect foresight model of real estate markets solvable by simulation, stripped down to its bare essentials, he shows that conventional property tax speeds up the demolition–reconstruction cycle, shortening the life span of buildings, thus resulting in excessive use of structural capital over time, while a tax on undeveloped land has the opposite effects. In the next stage, a different tax rate is levied on each type of undeveloped land and each type of building, the rates set to meet a desired revenue goal, recognizing the different price elasticities of demand and supply for these assets. The formulation is designed to calculate deadweight losses associated with optimal taxation schemes.

Richard Dye and David Merriman address a relatively new variant of property tax financing, tax increment financing, originally devised as a means of financing infrastructure in a defined (usually small) geographic area and thus speed development of that land. The resulting property tax revenue generated by the increased property values in the defined area is reserved for paying those infrastructure costs, mainly debt service on the bonds issued to finance the improvements, rather than being available for general local government purposes. The attraction is the local economic development and its spillovers. Dye and Merriman examine property value growth in Illinois municipalities (where the use of the device is very widespread). They find that the use of the device tends to shift the location of economic development, within municipalities as well as among them, and in many cases is not a positive-sum game.

John Anderson addresses a pervasive phenomenon in property taxation in the United States: preferential assessment for certain types of property, most commonly agricultural land. Typically, the preference for agricultural land takes the form of assessment on the basis of its value in its agricultural use, rather than its market value. As a result, the effective property tax rate is reduced for this type of property. This essay provides an overview of
the impacts of preferential assessment and an investigation of alternative policies. Impacts include a wealth transfer to owners of property for which preferential assessment applies, effects on the timing and intensity of land development, and implications for horizontal and vertical equity of the property tax system. Several alternatives are examined, including classified property tax systems, purchase of development rights, conservation easements and graded tax systems.

Robert Wassmer considers an important alternative to property taxation in local finance. Local government in many American states use sales taxes; in some states the rate of the local portion of the sales tax is quite high. That makes the location of new shopping malls and other concentrations of retail activity of considerable importance to local decision makers. But is the volume of total retail sales and retail sales of two types of ‘big-box’ stores (car and home improvement) that occur outside the central cities of metropolitan areas influenced by the extent to which local governments raise revenue through sales taxes? Is the location of retailing influenced by growth controls? These are issues in California and elsewhere in the American West. The results of a regression analysis that controls for other factors that cause retail activity to locate outside central cities indicate that statewide reliance on some forms of revenue positively affect total retail sales and, even more, the two forms of ‘big-box’ retailing outside central cities. Some urban growth controls have the opposite effect – reducing decentralization.

William T. Bogart explores the extent to which zoning is equivalent to factor taxes in the impact on factor prices, local production and intrametropolitan trade. He models metropolitan areas as sets of smaller open economies. He concludes that zoning, a form of quality control, and factor taxes, a form of quantity control, are indeed partial substitutes, but also partial complements. While economists clearly prefer tinkering with prices to optimize outcomes, the American constitutional limits on the power of state and local government to tax in ways that can be deemed unlawful impediments to interstate commerce or ‘taking’ of property without compensation do constrain the use of factor taxes to achieve non-fiscal goals, while there is much more constitutional latitude in zoning. Bogart notes that there are numerous problems in comparing the two policy approaches that should be addressed in future research.

Cheshire and Sheppard examine some alternative policies for physically containing the growth of urban areas. A microsimulation provides a comparison between land use planning policies that enforce an urban growth boundary and tax policies that limit development at the urban periphery. The simulation uses data for a rapidly growing city in the south of England. It analyzes the welfare costs, distributional impact and effects on urban
densities of alternative ways to achieve the degree of constraint currently observed. The authors find that the use of a tax on land could produce the same limitation on growth as existing regulatory policies, but with higher welfare levels at equilibrium. However, they find that the use of a tax designed to increase transportation costs, while capable of producing a compact urban form, would not raise welfare when compared to existing regulatory policies.

McDonald also compares local land use decisions and property taxation as policy instruments. His models connect these policy decisions to outcomes in the urban land and labor markets so that costs and benefits can be measured.

Robert Nelson and William Fischel address the land use control regime in the United States explicitly. They consider whether the rapid rise of private neighborhood associations in newly developed residential neighborhoods transforms the land use control regime and supplants local government provision of some public services. Nelson argues that it increasingly does just that, and in doing so renders some policy conflicts (as well as some of the issues discussed in this book) irrelevant.

Fischel views private neighborhood associations quite differently. He argues that these associations supplement, rather than displace, local government land use regulation. Homeowners appear to desire more, not less regulation, and therefore would oppose any proposal to substitute neighborhood associations for municipal governance. Less revolutionary reforms of local government, such as heightened judicial scrutiny of zoning under regulatory takings and more permissive rules for municipal secession and incorporation, might be more acceptable vehicles for reform and also would preserve local governments as mediating institutions in the American federal system.

In another essay that ‘thinks outside the box’, Colwell and Turnbull consider transformation of the property tax from one on the value of parcels of real property to one on the length of the frontage of parcels. They point out that many social costs of urban development are related to the total length of lot frontage. They develop a model of a closed urban area with no location rents in which there are identical rectangular lots. They find that the frontage tax does address the social costs but does not reduce the total areas as much as some less efficient alternatives. The essay emphasizes that the concept of inefficient urban sprawl is not simply related to the total size of the urban area occupied by a given population, but rather to the configuration of developed lots and the relationship between lot configuration and the size of the urban area.

The essays in the book were presented at a conference sponsored by the Lincoln Institute of Land Policy held in January 2002. The discussants at
that conference were: Karl Case, Wellesley College, Gary Cornia, Brigham Young University, Charles Leven, Washington University, Joyce Man, Indiana University, Wallace Oates, University of Maryland, Amy Ellen Schwartz, New York University, and Steven Sheffrin, University of California, Davis.

The papers were revised by their authors, who incorporated the suggestions and criticisms of those discussants. That would make including the discussants’ presentations in this book redundant. There was one exception to this: Fischel (who had been scheduled as a discussant) wrote an essay presenting a different view of the issue that Nelson’s essay discusses, rather than the usual brief discussant’s critique. The Fischel essay appears here, in edited form.

All of us who participated in this venture are grateful to the Lincoln Institute and its staff for convening the conference and making it a rewarding and comfortable experience.