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Economics of the Property Tax

By

DICK NETZER

Washington, D.C.: The Brookings Institution, 1966.

Pp. xviii, 326, \$2.50 (soft cover)

In recent years, there has been considerable discussion and debate on the imbalance of goods and services available in the public and private sectors of the economy relative to demand. The economic stagnation of the central sections of our large cities and accompanying social crises have focused additional attention on the capacity of local jurisdictions to finance important public services. Dick Netzer has competently undertaken a necessary and important study in an appraisal of the major source of revenue for financing public goods and services at the local level—the property tax.

Netzer purposely omits detailed discussion of the history of the tax, incidence theory per se, and application of ad valorem taxation to specialized property. The important subject of property tax administration is given only limited treatment. Instead, he addresses himself primarily to the economic merits of the tax vis-à-vis other sources of revenue. The analysis is handled within the framework of ascertaining the initial impact and incidence, the benefit component, the neutrality, and effects of geographic differentials of the property tax.

He begins by ascertaining the initial impact of the tax in terms of property use class, major economic sector and by industry. He then analyzes the question of incidence with emphasis on income class. The incidence of the tax is compared with incidence of the services it finances. In the analysis of incidence of the non-residential portion of the tax, alternative shifting assumptions are used and the results compared.

The neutrality of the tax—its effect on resources allocation—is analyzed in Chapter IV. A timely discussion of the property tax and the future of the big cities constitutes the major topic of this section and many topics on which additional research is needed are suggested.

Chapter V, an analysis of the effects of geographical differentials in property taxation, is discussed both in terms of inter-areal differences and differences within urban areas. After comparing his analy-

sis of inter-areal differences with other available empirical studies and tentatively concluding that property tax differentials among states and regions of the country probably have had relatively limited impact on allocative efficiency, he discusses differentials within urban areas, finding these effects to be more significant.

Chapter VI is limited exclusively to discussion of the personal property component of the tax base. Emphasis is on present coverage, incidence, and locational effects of a personalty tax as compared with alternatives of higher realty taxes, state corporate income taxes, sales taxes, and state personal income taxes.

Chapter VII is a general appraisal of the property tax based on the analysis of the preceding chapters. It concludes that the tax is deficient on a number of, but not all, counts. The tax, in aggregate terms, "contains a large measure of 'vertical equity': that is, on balance, it redistributes income from the rich to the poor. This comes about because the tax itself is more or less proportional in its incidence among income groups, but the expenditures it finances are very heavily 'pro poor' in their incidence."¹ Also, "the tax does not seem to be significant in inducing inefficient shifts in the spatial distribution of economic activity among regions of the country."²

Other criticisms of the tax are found to be more valid. "The tax may redistribute income in a desired direction, but it does this with great unevenness, both among and within tax jurisdictions."³ The author finds valid the charge that the tax is defective from the standpoint of horizontal equity—"equal treatment of equals." In addition, the tax is found to have objectionable inter-industry effects and also adverse consequences for spatial distribution within urban areas. In particular, "heavy taxation of real property is a deterrent to rebuilding of the big cities, especially when it is high in relation to the prevailing rates in the suburbs."⁴ This chapter also briefly discusses alternatives to the property tax and property tax administration. The book is rounded out with a discussion of alternative forms of the property tax, such as the taxation of "annual values," site values, land value increments, and a "family of user charges."

Netzer handles the formidable data problem by making maximum use of *Census of Government* and other Department of Commerce series. Many of the tables, on which much of the analysis is based,

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1. P. 164.
 2. P. 165.
 3. *Id*
 4. P. 166.

are necessarily computed for one or two year periods. In some cases, use of aggregate data, as pointed out by the author, may disguise important local variations.⁵ Such data limitations are inherent in the nature of the problem. An extensive appendix is included in which the derivation of some of the more complex data is explained.

The book stands not only as the most comprehensive recent analysis, but as a valuable guide to other research on property tax problems. In this sense alone, aside from its other merits, the book will be especially valuable to graduate students and others contemplating research on property taxation. Considering the complexity of the subject, the book is very readable and is an important contribution which will be of value not only to professional economists, but to legislators, public administrators, and others who are concerned with financing public goods and services at the local level.

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5. See especially Chapter III.

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