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Property Taxation in the 1980s

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PROPERTY TAXATION IN THE 1980s

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Students of the property tax have been telling us of its demise for decades. In one very important sense they have been correct: the property tax has steadily diminished as a percent of personal income and total state and local government taxes. By 1977, property taxes accounted for only about one-third of total state-local government taxes (see Table 1). It may seem a paradox, given this decline, that so many of the most important fiscal issues of the 1970s revolved around property taxes. Proposition 13 and school finance reform come quickly to mind, and the fiscal problems of New York City and Cleveland were in no small measure due to the inadequacies of property tax financing. This policy concern with the property tax is, of course, not a paradox at all. It still is the most important *local government* revenue source and has increased substantially in real per capita terms.

TABLE 1

PROPERTY TAX TRENDS
1962, 1970, 1977

				Percent Change	
	1962	1970	1977	1962–70	1970–77
Property Taxes as a percent of personal income	4.3	4.3	4.1	−1.6	−3.8
Property Taxes as a percent of total State and Local Government Taxes	45.9	39.2	35.6	−14.4	−9.4
Per Capita Property Tax revenues (current dollars)	102.54	167.09	289.07	63.0	73.0
Per Capita Property Tax revenues (in real 1972 dollars)	145.34	182.89	204.17	25.8	11.6
Effective Property Tax Rate on Single Family Dwellings with Federal Housing Authority insured mortgages	1.53	1.98[a]	1.89[b]	29.4	−4.5
Percent of assessed value in residential property	34.6[c]	34.0[a]		−1.7	
Property Taxes as a percent of Personal Income					
Median State	44.0	44.5[a]	38.9[d]		
High State	61.2	76.3[a]	74.3[d]		
Low State	16.2	14.5[a]	11.8[d]		
Coefficient of Variation	13.8	15.7[a]	15.6[d]		

[a] 1971 data
[b] 1975 data
[c] 1966 data
[d] not including Alaska

SOURCES: *United States Census of Governments;* 1967, 1972
Governmental Finances; 1962, 1971, 1977
Survey of Current Business; January 1976, July 1977, September 1978

What of the property tax in the 1980s? Yet in projecting the performance of the property tax, one should look less at the tax itself than at the environment in which it is levied. Perhaps more than any other State and Local government tax, the property tax grows because of discretionary rate and base changes hence its future importance will be largely shaped by the political and economic environment in which it operates. The very modest goal of this paper is to suggest the nature of some of the political and economic pressures which will effect the future financing role of the property tax.

The view here is that a further decline in the relative importance of the property tax as a State and Local government financing source is inevitable. Over the long-run, the slow and unstable growth in the national economy, slower growth in the state-local sector, a trend toward financial centralization and continued shifts in the regional distribution of population and economic activity in the United States will limit the growth in property taxation.

Property Taxation and the National Economy

Even with discretionary rate increases, property taxes have represented a declining share of national personal income during the past fifteen years. Still, *per capita* property tax revenues—in real and money terms—have grown at a substantial rate (Table 1). In short, the income inelasticity of the tax base—a result of the inability of the property tax assessment process to fully capture property value growth—was more than offset by the growth in the overall economy and by rate increases. The future promises to be different. Inflationary and real increases in property values will be as difficult as ever to capture in the property tax base, the property value share of total income may be on the decline, there is ever-growing resistance to rate increases, and the overall growth in GNP will be too slow to compensate for these factors of decline.

In theory, the property tax base has grown as fast or faster than personal income during the past 15 years as property values have grown in response to demand and inflation.[1] High rates of inflation are likely for the near-term future and perhaps longer, hence it would seem important to consider the implications of inflation for growth in the property tax. But the property tax is only one revenue source so the proper questions to raise are whether inflation will produce disproportionately more or less pressure on the property tax and whether the property tax base will respond more or less to inflation than do other taxes. The evidence on these issues is more limited than one would expect.

Greytak and Jump have developed a set of inflation indexes which measure the impact of inflation on the expenditures and revenues of state and local governments.[2] They considered the periods 1967–1972 and 1972–1974 and we have extended their methodology to analyze the 1974–1976 period.[3] The period 1967–1972 was one of relatively stable prices but very rapid growth in the state and local government expenditures. Prices paid by state and local governments increased by approximately 23 percent during the period, accounting for about one-fourth of the growth of expenditures. While there was some increase in real compensation, the bulk of the expenditures growth could be attributed to increases in number of employees and amounts of materials and supplies used—*quantities* generally associated with levels of service. The effects of inflation on revenues during the 1967–1972 period were less uniform across the state and local sector. For the local sector the revenue-inflation index was slightly greater than the expenditure inflation index. More than one-third of the growth in own-source revenues at the local level could be attributed to the effect of inflation on the revenue base.

Prices behaved more erratically between 1972 and 1976. From 1972 to 1974 the Consumer Price Index (CPI) for all goods and services rose by 17.88 percent and the Wholesale Price Index (WPI) of all commodities rose by a massive 43.42 percent. A dampening of price increases accompanies the recession of 1974–75 and the initial stages of the recovery in 1976. Since inflation has once again accelerated, it would be instructive to analyze the effects of inflation since 1972 on the state and local sector.

While sufficient data are not yet available to break the total growth in expenditures and revenues into inflation and real effects, we can determine the inflation indexes (1972 = 100) for both expenditure and revenues. These are shown in Table 2 for states and all levels of local government for 1974 and 1976. The revenue-inflation indexes indicate how the own-source revenue base would have increased solely because of inflationary increases in the tax base. (Actual revenues grow at slower or faster rates depending on whether these inflationary effects on the tax base are captured.) The expenditure inflation index indicates how total expenditures would need to have grown simply to keep real expenditures constant. (Actual expenditures grow more or less rapidly as governments change their levels and/or mix of inputs.) For example, if the estimated increase in the nominal values of municipal tax bases which occurred between 1972 and 1974 had been taxed at the 1972 effective rates, the revenues raised by municipalities would have increased by about 15 percent (revenue inflation index 115.4, see Table 2). On the other hand, if municipalities had maintained 1972 levels of services and compensated employees and transfer recipients in accord with increases in the cost of living, expenditures would have increased by about 25 percent (expenditure inflation index 125.4). Similarly, by 1976 the indexes show that the 1972 revenue base for municipalities would have grown 30 percent over its 1972 level while expenditures would have increased 40 percent over their 1972 levels, disregarding any change in level of composition of labor and nonlabor inputs.

TABLE 2

EXPENDITURE AND REVENUE INFLATION INDEXES FOR STATE AND LOCAL GOVERNMENTS: 1972–76[a]

	Expenditure Inflation Indexes (1972 = 100)		Local—Source Revenue Inflation Indexes (1972 = 100)	
	(1) 1974	(2) 1976	(3) 1974	(4) 1976
States	125.4	140.8	116.6	128.3
Counties	125.4	140.5	116.7	133.3
Municipalities	125.4	140.6	115.4	130.7
Townships	125.6	141.5	114.8	130.7
School Districts	125.0	138.4	119.2	138.8
Special Districts	125.7	142.5	113.3	124.2
All State and Local Governments	125.3	140.2	116.9	129.6

[a]The indexes were computed using the methods and data sources noted in David Greytak and Bernard Jump, *The Effects of Inflation on State and Local Government Finances, 1967-1974*. Occasional Paper No. 25, Metropolitan Studies Program, Maxwell School, Syracuse, New York: 1975.

Several interesting conclusions may be drawn from these data. First, the impact of inflation during the 1972–74 period was approximately equal to that which occurred during the entire previous five years, 1967–72. Second, expenditures were much more responsive to inflation than were own-source revenues at both the state and local levels during the high inflation, 1972–74 period. Finally, while both indexes continued to increase during the 1974–76 period, the relative cooling of inflationary pressure did allow inflation-induced increases in state-local revenue bases to nearly keep pace with expenditures. In sum, during periods of high inflation, all state and local governments may expect a decline in the purchasing power of their revenues and therefore, will feel pressure to make discretionary revenue adjustments.

While the inflation indexes suggest that state and local sector purchasing power has fallen considerably since 1972, the actual effect of inflation may have been more severe and may have been disproportionately more unfavorable for local governments. This is because the revenue and expenditure inflation indexes used here measure the *potential* impact of inflation on expenditures and revenues. This means that state and local governments may not actually realize the inflation-induced increases in the revenue base. The gap between actual and potential would seem greatest for the local property tax. Assessment lags in property taxes would mean that the actual tax base would not expand as much as estimated under these inflation indexes and therefore the overall detrimental effect of price increases on the fisc would be understated. Furthermore, for declining cities it is possible that property values did not keep pace with the general rates of increase in property values experienced throughout the nation. Though data shortcomings preclude accurate measurement it would appear that local government revenues, particularly the property tax, have responded less to inflation than is indicated by the indexes in Table 2.

Quite apart from the inability of the assessment process to capture inflation-induced increases in property value is the possibility that the natural growth in the property tax base will slow in response to slower population and economic growth. The property tax base is essentially reproducible capital and land, and its growth in value may slow because of less pressure for new housing and commercial-industrial construction activity. Netzer makes the same point:

> It seems inevitable that, over time, real GNP should become less structure-intensive, with slow rates of population growth (which have obvious impacts on the need for residential structures) and a continued shift in the product mix from physical goods to intangible services. The corollary may be that there will be (relatively) more equipment in (relatively) fewer buildings, but much equipment is not subject to tax and it is reasonable to expect recent trends toward removal of tangible nonreal property from the tax base to continue. Slow population growth should imply slow growth in land value in the aggregate; changes in population distribution, e.g., among regions, should wash out in their effects on overall land values . . . I am persuaded that we should expect the GNP elasticity of the property tax base to be lower in future than it has been over the past generation.[4]

If there are countertrends which might lead to an increasing importance of the property tax, they lie with the increasing number of households and energy prices. The number of households is increasing even in states and cities which are losing population. More households, of course, imply an increased demand for housing and cet. par. an increasing elasticity of the property tax base. The evidence is limited on the revenue implications of increasing number of households. Peterson has shown that the elasticity of market value of property with respect to households is greater than that with respect to population[5]

The implications of changing energy prices are more difficult to sort out. If the rising price of gasoline discourages longer journeys to work, there likely will be a sorting effect on local populations as blue collar workers try to move closer to their jobs which are increasingly outside the central city. Some white collar workers may move closer to city jobs though public school problems may inhibit that movement. One view is that the central cities will be net losers in this process and that the losses will further dampen property values and therefore the yield from the property tax. The reverse could be true for suburban jurisdictions, so the net effect on property taxation is not clear. Moreover, many other issues are raised by the increasing relative price of gasoline. Will this hamper truck transportation and therefore reduce interregional migration of jobs and people? Will a revolution in communications or four day work weeks reduce transportation needs in general? While these hold important implications for the property tax because land values reflect transportation costs, our knowledge about household adjustments to a higher energy price is primitive.

Slower Growth in the State-Local Sector

Much of the historical growth in property tax revenues has been due to pressure from a rapidly growing state and local government sector. As the demand for public services increased and as the costs of providing these services rose, there was a continuous increase in the use of property tax revenue financing. One view of the future is that this trend will continue and while the growth in property taxes will not parallel that in income, it will be substantial in per capita terms. After all, inflation promises to remain high, local governments fiscal problems are still pressing and obsolescent capital infrastructure at the local level implies an increase in property-tax-financed debt.

On the other hand, there are good reasons to argue that limits to state-local sector growth in general, and to property tax growth in particular, are being approached. The very rapid growth in state and local government spending has been fueled by federal grant increases which promise to slow, Proposition 13 type movements will limit the discretionary increases in local taxes, and there is a general trend toward more fiscal centralization, i.e., toward state and federal financing. Moreover, there is much less pressure to raise funds for school finance, long a major reason for increasing property taxation.

State and Local Government Fiscal Health

A major factor which may limit the growth in the state-local government sector is the evaluation of its fiscal "health." If the time of acute financial problems of subnational governments has passed, much less federal help will be forthcoming. Is the state and local government sector fiscally healthy? A decade and a half ago the answer would have been a resounding no. General revenue sharing was being touted as a fiscal dividend to hard-pressed state and local governments and urban poverty and the quality of life in central cities were seen as major *national* problems. Many would still hold this view. Urban poverty is even more concentrated in central cities, per capita income in central cities has continued to decline relative to that in suburbs, and city/suburb disparities in public service levels and tax effort are pronounced. In many ways, urban governments are as poor and as dependent as their constituencies and their outlook is almost as bleak. Though generally agreed upon norms do not exist, the quality of public services provided in many central cities seems badly deficient. This situation, one could argue, eventually leads to short-run financial problems as have been experienced in New York and Cleveland.

Others would argue that these conditions are not widespread and in any case may be as much a result of bad management and conscious fiscal choices as an indication of true financial "distress." One could point to the increasing flow of federal and state resources to central cities and to the growing share of government spending on social welfare services as having significantly improved the financial condition of cities. Some have written off New York and Cleveland as special or unique cases which tell us little about central cities in general. The most pollyanna of all see a comparative advantage of central cities in capturing urban growth through a revitalization process referred to as "gentrification."

The stakes in this debate are the allocation of federal resources among governments. Those who argue that cities are distressed would call for an extension of the major programs of aid to local government and for a "targeting" in the distribution of these aids on distressed governments rather than a "spreading" among a larger number of jurisdictions[6] The argument has been extended to distressed regions and state governments and the concern to the spatial distribution of direct federal government expenditures.[7] Those who argue that the fiscal distress issue has been overstated call not only for less targeting but for a smaller federal aid share of the total federal budget. Federal expenditure reductions to combat inflation and the political pressures to limit, if not reduce, the size of government are the major supporting arguments for this position.

The debate over fiscal health is carried out on two fronts. The first centers on the meaning of the growing National Income Accounts (NIA) surplus for the state and local government sector. The second has to do with the measurement and interpretation of city "distress." The concern which has grown up around the increasing surplus as reported in the NIA for the state-local sector is easily understood. The surplus means an accumulation of financial assets by state-local governments, in effect, a saving of the excess of revenues over expenditures. This surplus reached over $30 billion by the end of 1977. But if state and local governments already had more revenue than they could spend, why then should federal assistance to states have continued to increase throughout this period? More to the point, why should the federal government—whose budget deficit has remained over $40 billion for most of this period—continue to subsidize this accumulation? Indeed, if federal assistance had been reduced by the amount of the state-local surplus in 1977, the federal budget would have moved substantially toward balance.

This reasoning and an independent set of arguments that inflationary pressures in the economy call for a reduction in the federal deficit have led some congressmen to the conclusion that now is the time to reduce the federal to state-local government flow of funds. The inflation issue aside, such a policy would be based on three premises which may not be valid: that a surplus for any government may be interpreted as describing fiscal health, that the NIA surplus measure is a good indicator of excess financial capacity, and that these surpluses are sufficient evidence to warrant *permanent* changes in the federal aid system. None of these premises, in fact, are unquestionably valid and none would seem to call for major reductions in federal assistance to the state and local government sector. The problem stems from a misinterpretation of the NIA data and from a failure to recognize the temporary nature of the improved fiscal condition of state and local governments during the post 1975 economic recovery period.

An almost diametrically opposite approach to evaluating the fiscal health of state and local governments is the measurement of fiscal *strain, distress,* or *hardship.* This approach is focused on urban areas, usually large cities, and attempts to compare their economic, social and fiscal health. The reason for financial distress studies are to identify candidates for special federal assistance or special federal concern or in the private sector to identify "risky" cities for investors. Nathan's work on identifying hardship cities has been used to monitor the actual distribution of federal assistance[8] as has a U.S. Treasury study of distressed cities,[9] but other studies have been more directly concerned with developing formulae to allocate federal grant funds among cities.[10]

There is no question but that any comparison of cities will lead to the finding of outliers in terms of social, economic and fiscal health, so it is not surprising that all studies of this type find some cities which are distressed. Most lists of cities in trouble—whether objectively or subjectively derived—include older cities of the Northeast and Midwest and relatively few of the newer cities in the South and West, but there is still disagreement over the specific list of cities which ought to be included on the critical list. This debate, such as it is, grows out of differences in the conceptual approaches and measurement techniques used and of the interpretation given the results.

The implications of a conclusion that the state-local sector is healthy are for reductions in the flow of federal aid to state and local governments. The property tax response to a cutback in federal aid is not clear. On one hand, a general slowing of state and local government expenditure growth would likely reduce the rate of increase in property taxation. Moreover, if federal aid has been stimulative of local government taxes (because of matching requirements or supplementary expenditures), a further long-term slowing in the growth of property tax revenues would be implied. On the other hand, in the short-run, there may be some increase in local property taxes to attempt to offset the reduction in external funding. If one were to look to historical data to develop a trend, the implication of a slower growth in the state/local sector would be for an even slower growth in property taxation. Between 1962 and 1970, a 1 percent increase in total state and local government expenditures was accompanied by a 0.93 percent increase in property tax revenues. The comparable figure for the 1970–1977 period is 0.96 percent. Hence, if the annual growth in state and local government spending is 3 percent less per year than it has been since 1970 (6.4 percent vs. 9.4 percent), then property taxes might be expected to grow at 6.1 percent annually (vs. 9.1 percent between 1970 and 1977).

Centralization

Perhaps the major fiscal trend during the past two decades has been the growing reliance of state-local government on federal aid flows. Increases in aids and state income taxes have compensated for the declining importance of the local property tax as a source of finance. The decline in own source revenues from 90 to 78 percent of total general revenues during this period is even more dramatic in light of the rapid rate of increase in state and locally raised revenues. For every 1 percent increase in GNP between 1954 and 1976, federal general revenues (including Social Security) grew by about 1 percent, state-local government revenues from own sources by about 2 percent, and federal aids by about 5 percent.

Accompanying these trends has been growing dominance of state government within the state-local sector. The state government share of total taxes collected rose from 50.7 to 57.5 percent between 1965 and 1977, and the state's share of direct expenditures increased from 34.9 to 37.9 percent (see Table 3). Such a trend is consistent with the factors which have characterized United States public sector growth during the past two decades. The increasing flow of federal grants increased the fiscal leverage of the state governments since until very recently, there was little direct federal-local assistance. State government income and sales taxes are more buoyant than local property taxes and there has been a trend toward heavier state government financing and direct administration of social welfare services.

The centralization of fiscal activity toward the state level appears a relatively uniform trend. As may be seen in Table 3, the average change in the percent of direct expenditures (excluding grants) made by state goverments increased by only 1.2 percentage points over the 1965–1977 period, but states became more alike in their division of fiscal responsibility between the state and local level. Only 14 of the 50 states had reductions in the state direct expenditure share, and all 14 were the less populous and more rural states. The increased state share of tax revenues is much more pronounced and as may be seen in Table 3, states have become much more alike in terms of state dominance of the tax system. Only five states moved against this trend.

Centralization suggests a decline in the importance of the property tax. As state governments continue to assume more and more fiscal responsibilities, the burden of financing shifts more and more on to sales and income taxes and away from local property taxes.

TABLE 3

INTERSTATE VARIATIONS IN SELECTED INDICATORS OF GROWTH IN THE RELATIVE FISCAL IMPORTANCE OF STATE AND LOCAL GOVERNMENTS

	Total Expenditures as a Percent of State Personal Income		Federal Aid as a Percent of Personal Income		Federal Aid as a Percent of General Revenues	
	1965	1977	1965	1977	1965	1977
Mean	17.0	20.6	3.4	5.1	18.9	23.7
Standard Deviation	3.6	3.2	2.2	1.3	7.5	3.8
Coefficient of Variation	0.21	0.16	0.66	0.25	0.56	0.15

	Revenues from Own Sources as a Percent of Personal Income		State Government Percent of Direct Expenditures		State Government Percent of Tax Revenues	
	1965	1977	1965	1977	1965	1976
Mean	13.4	16.4	43.1	44.4	56.0	62.4
Standard Deviation	1.8	2.9	10.6	9.3	12.2	10.4
Coefficient of Variation	0.13	0.18	0.25	0.21	0.22	0.17

SOURCE: U.S. Department of Commerce, *Governmental Finances 1964–65, 1976–77.*

The Implications of Regional Shifts in Population and Economic Activity[11]

The shifts in population and economic activity away from the Northeast and Industrial Midwest may also hold important implications for the long-run growth in the property tax. In terms of revenue structure there are distinct and important differences between the regions. Southern states are more heavily reliant on sales taxes and Northern states on property taxes (see Table 4). This difference is largely a reflection of the division of financial responsibility for services between the state and local levels. Where local government involvement in the delivery of services is strong, there tends to be much heavier use of the property tax. The Southern states tend to be more state government dominant, hence there is heavier *reliance* on nonproperty taxation. This difference is of considerable importance to the potential response of the fisc to growth or decline in the economic base. In the South, where there is heavy reliance on sales taxes, a combination of real growth and inflation will automatically generate substantial new revenues for expansion of the public sector. In the Northern Tier, where reliance is greater on property taxation, even the tax base growth generated by inflationary increases in income will not be fully or easily captured.[12]

TABLE 4

REVENUE STRUCTURE: BY REGION FOR 1977

Region	Percent of Own Source Revenue from: Property Taxes	Sales Taxes	Income Taxes	Per Capita Federal Aid	Federal Aid as Percent of Total General Revenue
NORTHERN TIER					
weighted	30.9	14.3	20.7	$283	20.3
unweighted	33.1	13.4	17.3	291	22.2
East North Central					
weighted	29.5	16.2	19.1	248	20.1
unweighted	29.2	16.5	19.3	246	19.8
Middle Atlantic					
weighted	29.7	13.6	23.2	314	20.0
unweighted	30.9	13.1	20.9	299	20.3
New England					
weighted	39.8	10.5	17.2	307	22.4
unweighted	37.4	11.0	13.9	325	25.1
SOUTHERN TIER					
weighted	20.4	18.4	11.9	260	23.8
unweighted	17.2	18.5	14.9	277	25.1
South Atlantic					
weighted	21.6	16.3	16.6	261	23.2
unweighted	19.4	15.8	19.1	279	24.1
East South Central					
weighted	14.4	23.8	12.7	279	27.1
unweighted	14.3	23.8	12.8	281	24.3
West South Central					
weighted	21.9	18.8	4.1	246	22.7
unweighted	17.8	18.8	8.8	271	25.1

SOURCE: U.S. Bureau of the Census, *Government Finances in 1976–77,* Series GF-77, 5 (Washington, D.C.: U.S. Government Printing Office, 1977); and, U.S. Department of Commerce, *Current Population Reports,* "Annual Estimates of the Population of States," Series P-25, No. 727, July, 1978. Resident Population.

A similar pattern emerges when revenue growth is compared. The presentation in Table 5 disaggregates increases in state and local government revenue by source of increase. The results are helpful in understanding the mechanics of the fiscal response over the period in question. Three patterns of change stand out. First, there was a growing use of sales and income taxes in both regions. Second, there has been much heavier reliance on property taxes in the Northern states. Third, the pattern of reliance on federal grant financing has differed between the two regions. The Southern states have been more reliant on grants throughout this period, but their dependence on grants has not increased substantially. The Northern states, on the other hand, financed only 19 percent of their 1962–1967 expenditure increases with grants as compared to 29 percent of their 1975–1977 period. The direct federal-local government aid included in the stimulus package accounts for much of this increase. The pattern described above holds true for most states in the two regions.

This pattern of revenue increase may reflect the greater automatic responsiveness of tax systems in the South which rely more on sales and less on property taxes. While detailed comparisons are not readily available, it would seem reasonable to assume that relatively more of the revenue increases in the North was the result of discretionary changes in the tax system. Data for 1975–76 suggest that rate and base changes in the income and sales taxes occurred with greater frequency in the North, especially among the harder pressed states.[13]

TABLE 5

INCREASES IN GENERAL REVENUES
OF STATE AND LOCAL GOVERNMENTS

Region	1962–1967 Percent of Increase due to: Sales and Income Taxes	Property Taxes	Federal Aid	1967–1972 Percent of Increase due to: Sales and Income Taxes	Property Taxes	Federal Aid
NORTHERN TIER						
weighted	24.9	22.2	18.6	26.3	23.7	20.2
unweighted	21.0	22.6	19.5	22.6	25.5	19.5
East North Central						
weighted	23.3	22.1	18.2	26.6	22.6	19.3
unweighted	25.0	21.8	17.6	25.5	23.9	17.8
Middle Atlantic						
weighted	27.7	21.7	18.3	27.7	22.3	21.1
unweighted	24.4	22.8	18.6	24.9	24.0	20.4
New England						
weighted	19.1	24.2	20.9	21.1	31.7	20.1
unweighted	15.9	23.2	21.4	19.1	27.6	20.5
	1972–1975			1975–1977		
NORTHERN TIER						
weighted	37.6	19.1	26.1	35.8	18.6	26.9
unweighted	33.0	21.3	31.0	31.5	18.2	29.8
East North Central						
weighted	38.4	15.1	25.7	38.9	16.5	26.9
unweighted	40.4	13.3	26.0	38.7	15.5	28.6
Middle Atlantic						
weighted	38.6	19.0	25.3	36.0	20.3	26.1
unweighted	34.8	20.4	26.9	36.9	19.5	27.0
New England						
weighted	30.5	32.7	30.6	27.2	19.1	29.4
unweighted	25.8	28.4	37.2	22.9	19.7	32.1

TABLE 5 (CONT.)

INCREASES IN GENERAL REVENUES OF STATE AND LOCAL GOVERNMENTS

Region	1962–1967 Percent of Increase due to: Sales and Income Taxes	Property Taxes	Federal Aid	1967–1972 Percent of Increase due to: Sales and Income Taxes	Property Taxes	Federal Aid
SOUTHERN TIER						
weighted	18.9	16.4	25.5	25.1	12.8	21.7
unweighted	19.3	14.2	26.5	25.4	11.0	23.5
South Atlantic						
weighted	21.9	18.6	21.8	26.3	14.0	20.3
unweighted	21.5	15.9	23.1	26.1	12.9	22.2
East South Central						
weighted	21.1	9.5	30.8	26.4	8.1	25.7
unweighted	21.0	9.5	31.1	27.1	7.9	26.0
West South Central						
weighted	12.1	17.8	27.8	22.1	13.4	21.9
unweighted	13.5	15.3	29.0	22.3	10.5	23.4
	1972–1975			1975–1977		
SOUTHERN TIER						
weighted	28.1	12.3	28.0	25.3	15.6	26.8
unweighted	31.1	10.5	28.5	28.7	12.6	29.2
South Atlantic						
weighted	30.5	12.7	29.3	26.0	17.6	27.6
unweighted	32.7	11.7	29.0	28.8	14.5	29.2
East South Central						
weighted	31.0	8.3	28.2	33.5	9.5	30.8
unweighted	31.2	8.3	28.5	33.3	9.6	30.5
West South Central						
weighted	21.8	14.4	25.5	19.9	15.9	23.4
unweighted	27.9	10.2	27.7	23.7	12.1	27.7

SOURCES: U.S. Bureau of Census, *Governmental Finances in 1962,* Series G-GF62, No. 2 (Washington, D.C.: U.S. Government Printing Office, October 1963); U.S. Bureau of Census, *Governmental Finances, 1966–1967, 1971–1972, 1974–1975, 1976–1977,* GF67, 72, 75, 77 (Washington, D.C.: U.S. Government Printing Office, 1968, 1973, 1976, 1978); and U.S. Department of Commerce, *Current Population Reports,* Series P-25, No. 727 (Washington, D.C.: U.S. Government Printing Office, July 1978).

Conclusions

All indications point to a continuing decline in the importance of the property tax. The growth in its base is slowing as national economic and population growth slows and it is not as stimulated as are other taxes during inflation. Less growth in the state-local sector, more fiscal centralization and fewer schoolchildren all accentuate this trend. The ongoing regional shifts in economic activity and population are toward the sunbelt states which traditionally make lighter use of the property tax. Finally, there is the taxpayer revolt which has made the property tax a focal point. Indeed, it is difficult to draft a scenario under which the property tax will increase in relative importance over the next few years. Yet, this declining importance notwithstanding, the property tax will remain the major local government tax revenue source and interest in improving its operation will not likely diminish.

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[1] Much of this discussion is summarized from Roy Bahl, Bernard Jump, Jr. and Larry Schroeder, "The Outlook for City Fiscal Performance," in *The Fiscal Outlook for Cities,* ed. by Roy Bahl (Syracuse, New York: Syracuse University Press, 1978); pp. 13-16.

[2] Bernard Jump, Jr. and David Greytak, *The Effects of Inflation on State and Local Government Finances, 1967-1974,* Occasional Paper No. 25, The Metropolitan Studies Program, Maxwell School (Syracuse, New York: Syracuse University, 1975).

[3] Bahl, Jump, and Schroeder, *The Fiscal Outlook for Cities,* pp. 13-16.

[4] Dick Netzer, "The Property Tax in the New Environment," Paper prepared for a conference on Municipal Fiscal Squeeze, Miami Beach, March 1979.

[5] George Peterson, "The Property Tax as a Revenue Source: Local Tax Base and Expenditure Elasticities." Paper presented to Eighteenth Annual TRED Conference, Lincoln Institute, Cambridge, Mass., September 13-15, 1979.

[6] For a discussion of the targeting and spreading issues, see Richard Nathan, "The Outlook for Federal Grants to Cities," in *The Fiscal Outlook for Cities,* ed. by Roy Bahl (Syracuse, New York: Syracuse University Press, 1978); pp. 75-92.

[7] For example, see Daniel Patrick Moynihan, "The Federal Government and the Economy of New York State," June 15, 1977.

[8] Richard Nathan and James Fossett, "Urban Condition: The Future of the Federal Role," *National Tax Association Proceedings* (forthcoming).

[9] U.S. Department of the Treasury, "Report on the Fiscal Impact of the Economic Stimulus Package on 48 Large Urban Governments" (Washington, D.C.: Government Printing Office, January 1978).

[10] For example, John Ross, *Alternative Formulae for General Revenue Sharing: Population Based Measures of Need,* The Center for Urban and Regional Studies, Blacksburg, Virginia: Virginia Polytechnic Institute, 1975.

[11] For a more complete discussion see my paper, "Regional Shifts in Economic Activity and Government Finances in Growing and Declining States," in *Tax Reform and Southern Economic Development* ed. by Bernard Weinstein, Southern Growth Policies Board (1979), pp. 17-87.

[12] David Greytak and Bernard Jump, Jr., "Inflation and Local Government Expenditures and Revenues: Method and Case Studies," *Public Finance Quarterly,* June 1977.

[13] Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism,* 1976–77 Edition, Vol. II (Washington, D.C.: ACIR): Tables 34–37.

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