PROPERTY TAXATION IN RELATION TO INVESTMENT IN URBAN AREAS
(Discussion)

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A FEW POINTS of a footnote character are about all that I can add to Dr. Mitchell's paper.

The imposition of any tax will affect, to some extent, the pattern of consumption, saving, and investment and thus exercise some influence on the allocation of resources. Certain taxes, of course, will have less effect than others and this appears to be the case with the property tax, except for investment in urban rental housing.

While there are significant variations in effective rates on different types of property and property in different locations, the factor of deductibility of property tax in computing income tax tends to minimize somewhat the effect of differentials between effective tax rates in different localities. Thus, this factor would simply contribute to the neutral effect of property tax on investment. For manufacturing industry, the tax appears to have exercised little, if any, influence on the incentive to expand plant and equipment.

Dr. Mitchell points out that investment in residential rental housing and rental office loft space is probably the most sensitive to property tax burdens. It would seem that the chronic shortage of housing at reasonable prices is, to a significant extent, due to high effective taxes on real estate. The cost of housing now includes a good part of the cost of local government financed through the property tax. Recognizing that an indeterminate part of the tax on land has been capitalized, there is nevertheless some degree of differential tax burden on housing that probably has deterred investment in this field. A few governmental units have attempted to deal with this problem through temporary tax exemptions or exemptions for a limited period for industrial and housing purposes, but apparently these exemptions have not stimulated investment. The discouragement to private investment would seem to be a factor contributing somewhat to the development of public housing projects.

People are more aware of a capital value tax in depression than in prosperous years. As Dr. Mitchell observes, the property tax "is in nothing like the exposed position" of the 1930's; but a decline in the level of prices with assessed valuations and effective property taxes typically lagging behind would enhance the deterrent effects of property tax on investment. To the extent that the level of construction activity influences the level of national income and employment, the adverse effect of an increasing property tax burden in depression times would be great.

The changes due to deflation are sudden and abrupt. However, there are other significant changes in the amount of the tax which take place more gradually over a period of time due to greater or lesser reliance on the tax. Mitchell states that "such changes may be so slow that the owner fails to recognize the deterioration or enhancement of his investment." In the latter case it may be a windfall, and in the other an unanticipated increase in costs. Nevertheless this fluctuation in the tax burden is a factor which an investor will have to take into consideration. He knows there will be a property tax, but its amount will be largely independent of the amount of use and the profitability of the investment. Thus, because the amount of tax is subject to change, there is an element of risk and it could act as an element retarding investment.

The factors which may contribute to a future decline in the property tax were outlined effectively by Dr. Mitchell. To the extent that these materialize the effects of the tax will become even less apparent in relation to investment in urban areas.