Notes: Stimulating Effect of Proptax
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Stimulating Effect of Proptax
Notes by Mason Gaffney, 9/95

Data from Advisory Council on Intergovernmental Relations (ACIR), 1994. **Sig Features of Fiscal Federalism.** 2 vols.

1. Unlike earlier years, SFFF 1994 has virtually nothing on proptax. However, it gives state data on p.187, which are used here.

2. Vol. 2, T. R-2, p.187, gives "Proptaxes p.c." by state, FY 1992.

Table 1: Alabama, New Hampshire, and the U.S.

Place	Proptax per cap ($)	All S&L Txes per cap ($)	Ratio
U.S.	699	2178	.32
NH, top	1344	2098	.64
AL, btm	174	1435	.12

3. The top 5 states in Proptax/cap are higher income than the lowest 5 states. "Personal Income per Capita" from Vol. 2, p.198.

Table 2: States Ranked by Property Tax per Capita

State	Per Capita Figures			Psnl Inc/capita	
	Proptax	Alltax	Ratio	$k	Rank
TOP FIVE					
NH	1344	2098	.64	21.9	8
NJ	1268	2926	.43	26.1	2
CT	1198	3061	.39	27.2	1
NY	1178	3534	.33	24.1	3
AK	1069	3835	.28	22.1	7
Unwtd. Mean	1211	3091	.41	24.3	4.2
BOTTOM FIVE					
LA	277	1654	.17	15.9	45
AR	261	1518	.17	15.6	46
OK	243	1635	.15	16.4	42
NM	217	1788	.12	15.5	49
AL	174	1435	.12	16.5	41
Unwtd. Mean	234	1606	.15	16.0	44.6

The "NH 5" have high proptax/cap as the sum of two reasons: A, higher taxes/cap; B, higher proptax/alltax. Of the two

reasons, higher proptax/alltax is stronger: .41/.15 = 2.73; 3091/1606 = 1.92.

Do they levy higher taxes/cap because of higher p.c. incomes? 24.3/16.0 = 1.52. This direction of causation would require that a 52% rise of income/cap caused a 92% rise of alltaxes, and a 173% rise of proptaxes. That seems extreme, and therefore implausible. It is more plausible that the heavier dependence on proptaxes caused the rise of personal income/cap. This is pursued in #5, below.

(Caution. 1977 data, from 1978-79 SFFF, T.42, gives a different ranking, with NH at #8! Ranking then is AK, MA, NJ, CA, NY, CT, WY, NH, MT, NE, OR. Better trace these through the years.)

4. Hypothesis: **High Proptax/Alltax is associated with high Psnl. Inc./Cap.** This is important enough so: **COMPLETE THE RANKNG BY PROPTAX/ALLTAX.**. Take the top 11 vs. the bottom 11, cf. their incomes p.c.

All states ranked by Proptax/Alltax, 1992. Top and Bottom 11s only. Tax data on per capita basis. Data from SFFF, pp. 187, 198.

Table 3: States Ranked by Ratio of Property Tax to All Taxes

TOP ELEVEN

St.	Alltax	Proptax	Ratio	Rank	PI/Cap	Rank
NH	2098	1344	.64	1	21.9	8
MI	2173	950	.44	2	19.6	20
NJ	2926	1268	.43	3	26.1	2
WY	2335	991	.42	4	18.2	27
VT	2283	954	.42	5	18.8	26
RI	2243	943	.42	6	20.3	18
OR	2096	864	.41	7	18.6	28
MT	1770	707	.40	8	16.2	43
CT	3061	1198	.39	9	27.2	1
IL	2205	849	.39	10	21.8	9
TX	1857	730	.39	11	18.4	30
Mean	2277	982	.43		20.7	19.3

Table 3 (cont.)

BOTTOM ELEVEN

TN	1471	348	.24	40	17.7	35
NC	1814	374	.21	41	17.9	34
WV	1660	294	.18	42	15.6	47
KY	1755	297	.17	43	16.5	40
AR	1518	261	.17	44	15.6	46
LA	1654	277	.17	45	15.9	45
HI	2935	481	.16	46	22.2	6
OK	1635	243	.15	47	16.4	42
DE	2341	330	.14	48	20.7	14
AL	1435	174	.12	49	16.5	41
NM	1788	217	.12	50	15.5	49
Mean	1819	300	.17		17.3	36.3

The mean personal-income per cap. rank of the high proptax/alltax states is 19.3, vs. 36.3 for the low proptax/alltax states.

Mean alltax revs. are higher in the NH 11. This refutes the ordinary line that states like NH skimp on public spending (although NH itself is slightly below the U.S. mean of $2178).

The starkest contrast is between NH itself, with 64% of its S&L revenues from the proptax, and AL and NM, with 12%. NH ranks #8 in PI/Cap; AL ranks #41; NM ranks #49.

AL and NM are in the fast-growing sunbelt, but they are not high-growth states. NH is an old state in an old region - one of the original 13 colonies - but it is a growth state (get data on that). NM is between AZ and TX, two of the fastest-growing states, but NM does not grow much. UT and CO and NV all grow, but not NM. It does not attract many immigrants.

NM is a border state, with a minority popn. which doubtless lowers its mean personal income. So, however, is NH. The immigrant Quebecois fraction of the NH popn. probably exceeds the immigrant fraction in NM, and certainly that of AL.

We cannot attribute the higher proptax/alltax ratio of NH to higher incomes in NH, because its other taxes are much lower. It is, in fact, below the U.S. mean in Alltax/cap. The ordinary income-catchword line is that income arises independently of tax expenditures, and taxes are a kind of consumption item, reflecting a consumer taste for S&L services. This blanks our

minds to the possibility that a better tax system might raise incomes, and/or attract people of higher income.

NH is a rugged, mountainous northern-tier New England state with harsh winters, no outstanding farm resources, or minerals, or fuels, or ports, or natural urban confluences. It is a summer vacationland, and winter ski-land, but most of its affluent visitors presumably report their incomes elsewhere, to the south. It has many old mill towns with obsolescent and closed plants. Its only natural or non-institutional "lucky break" advantage would seem to be its Boston suburban bedroom communities on the Mass. fringe, but it is doubtful if they make up a large share of its population.

The mild winters of NM and AL let people survive with lower incomes than required to survive in NH. On the other hand, this factor tends to raise land values in the milder states, and should therefore make it easier to raise proptax revenues. This clearly has not been done in NM and AL.

The most likely causal relationship, therefore, is from the tax system to the personal income. Let us, therefore, pose the hypothesis that heavy reliance on property taxes, as opposed to other standard kinds, tends to cause higher incomes per capita. The data given support the hypothesis.

5. Rank by Personal Income per Capita (PI/Cap). This will sort out the effect of PI on taxes. States with higher PI/Cap will also have higher Alltax/Cap, because of income-elasticity (ϵ) of demand for public services. However, higher income will not cause higher reliance on the proptax. (If anything, it would cause higher reliance on the income tax.) Therefore, a finding of higher ratio of Proptax/Alltax in high income states indicates that the high ratio itself caused the higher incomes.

Table 4: States Ranked by Personal Income per Capita

St.	PI/Cap	Rank	Alltax /Cap	Proptax /Cap	Proptax /Alltax
TOP TEN					
CT	27.2	1	3061	1198	.39
NJ	26.1	2	2926	1268	.43
NY	24.1	3	3534	1178	.33
MA	23.7	4	2554	877	.34
MD	23.3	5	2332	653	.28
HI	22.2	6	2935	481	.16
AK	22.1	7	3835	1069	.28
NH	21.9	8	2098	1344	.64
IL	21.8	9	2205	849	.39
NV	21.7	10	2031	488	.24
Mean	23.4		2751	940	.35
US	20.1		2178	699	.32
BOTTOM TEN					
AL	16.5	41	1435	174	.12
OK	16.4	42	1635	243	.15
MT	16.2	43	1770	707	.40
SC	16.2	44	1584	451	.28
LA	15.9	45	1654	277	.17
AR	15.6	46	1518	261	.17
WV	15.6	47	1660	294	.18
UT	15.6	48	1701	461	.27
NM	15.5	49	1788	217	.12
MS	14.1	50	1323	357	.27
Mean	15.8		1607	344	.21

SUMMARY OF AND INFERENCES FROM TABLE 4, ABOVE

1. The U.S. mean Proptax/Alltax ratio is .32. 6 of the Top Ten states are above it. The other four are MD, .28; HI, .16; AK, .28; and NV, .24. These can be explained away (Appendix). The (unweighted) mean for the Top Ten states is .35.

9 of the Bottom Ten states are below the .32 ratio. The sole exception is MT. The unweighted mean for the Bottom Ten states is .21.

In sum, a high ratio of Proptax/Alltax is associated with the Top Ten; while a low ratio is strongly associated with the Bottom Ten. Thus, a tax-mix that is rich in Proptax is not the only cause of high incomes, but a tax-mix that lacks Proptaxes seems to guarantee low incomes.

2. Moving from the means of the Bottom Ten to the Top Ten:
-- PI/Cap rises from 15.8 to 23.4, a rise of 48%
-- Alltax rises from 1607 to 2751, a rise of 71%
-- Proptax rises from 344 to 940, a rise of 173%

One might explain the rise of Alltax as an effect of the rise of income. There is nothing, however, about a rise of income that would explain a higher preference for Proptax over All Other Taxes. This leaves us with the more likely finding that the preference for Proptax explains the higher incomes.

A weaker statement is that high incomes permit of higher Alltax, which acts as a brake on further rises, except that people learn to switch to a higher mix of Proptax because it is less braking than other taxes.

3. Moving from the mean of the Bottom Ten to the Top Ten, the ratio of Proptax/Alltax rises from .21 to .35, a rise of 67%.

4. The unweighted means of the Top Ten exceed the U.S. means as ff:

-- PI/Cap is 23.4, exceeding the U.S. mean of 20.1 by 16%.
-- Alltax is 2721, exceeding the U.S. mean of 2178 by 25%.
-- Proptax is 940, exceeding the U.S. mean of 699 by 34%.

5. The unweighted means of the Bottom Ten fall below the U.S. means as ff:

-- PI/Cap is 15.8, or 21% below the U.S. mean.
-- Alltax is 1607, or 42% below the U.S. mean.
-- Proptax is 344, or 51% below the U.S. mean.

6. Moving from the Bottom State, MS, to the Top State, CT, we see the ff. rises:
-- PI/Cap rises from 14.1 to 27.2, or by 93%
-- Alltax rises from 1323 to 3061, or by 131%
-- Proptax rises from 357 to 1198, or by 236%

7. Another difference between the Top Ten and the Bottom Ten is that the Bottom Ten are more rural. There is no obvious reason, however, why being rural would create a preference for All Other Taxes over Proptaxes. A plausible hypothesis, however, is that a bias against proptaxes would inhibit the growth of cities and commerce. NH is a state that has become quite urban in spite of lacking any great natural urban confluence, whereas LA, MS, and AL all are located on great waterways.

Our source, SFFF, reports separately on one city, that is Washington, D.C. It is, of course, a unique city and data on it may prove nothing about any other city, but I present them here for such bearing as they may have on this point.

Table 5: Washington, D.C.

POLITICAL CITY-STATE

St.	PI/Cap	Rank	Alltax /Cap	Proptax /Cap	Proptax /Alltax
DC	27.9		4114	1544	.38

6. Time-series Analysis: the California Case.

What happens when a State abruptly changes its degree of dependence on the property tax? California provides the most obvious case study, 1978-date. Its rank in P.I./Cap has dropped from #7, 1978, to #12, 1992.

The drop in **real** P.I./cap, and especially wage income p.c., is considerably greater. Both rents and housing prices soared after 1978, such that by 1988, one cannot find an apartment for less than $600/mo. (Laura Mecoy, (McClatchy News Service), 1988. "Hole in California's Safety Net," Contra Costa Times, 19 May.) In Miss., one can find an apt for $200/mo. If we had interstate c.o.l. differentials, including rents, we could state this more comprehensively. Lacking such "official" data, rent differentials are a good index.

The ff. is from Examiner Staff Report, 1991. "Costly housing hurts retailers." S.F. Examiner, 27 Sept. B-1. Reports on an ABAG study, *Understanding the Dynamics: Retail Trade, Wholesale Trade and Services in the S.F. Bay Region.* Authority is Ray Brady, ABAG Director, analytical and info services.

1980-89, disposable income fell for "majority" of region's residents. "Ave." household's income. 1985, = $26.5k; 1990, = $50.6k. Gain = 91%. (How about gain of wages? Probably a lot less.) However, cpi rose 64%

median rent rose 132%
from $274/mo to $635/mo.

median price of o-occ homes and condos rose 163%, from $98.1k to $257.8k.

-- (Examiner Staff Report, 1991. "Costly housing hurts retailers." S.F. Examiner, 27 Sept. B-1.

Cal.'s unemployment rate has been highest in the U.S., rising from xx to over 9%, three full percentage points above the national rate. It is "good news" when it falls to 8.5% in May, 1994 - high above the national rate of 5.6%, probably still highest in the U.S. (TPE 7 Oct 95, p.1). Its student/teacher ratio, Grades K-12, has risen from xx to xx. Its spending per pupil dropped from #5, 1965, to #40, 1985 (INSITE 1-1, 7/95, p.3).

Calif. was one of 3 states where md hshld incs fell - by 2.1%, 1992-94. Cal's poverty rate, 1994, was 17.9%, cf. U.S. rate = 14.5%. In rounder nos., CA 18% vs. U.S. 14%. LAT 6 Oct 95 A4

LAT 11 Oct 95 A5

A new Census Bureau Rpt., Kristin Hansen, Geographic Mobility: March 1993 to March 1994, shows net outmigration from Calif. to other states of 236,000 people that year. (Out of 31m, that is .76%.) Hansen, interviewed, cites more accurate "census estimates" that show net loss = 426k, or 1.37%, including international migration. Excluding internat., loss is higher: 2.3%. Most of that loss was from L.A.-Anaheim-Riverside "large metro area."

Michael Boskin blames defense cutbacks and govt. regns. (Anything to keep the light off Prop. 13!) Daniel J.B. Mitchell, UCLA, helped with UCLA Quarterly Ec. Forecast, forecasts fast new job creation ahead. Meantime, cites bust in Calif. "r.e. industry," by which he should mean construction, (but either he or the reporter, Colleen Krueger, gets it a little mixed up with r.e. prices, which he seems to see, vaguely, as a stimulus in themselves).

Calif. counties lack funds to maintain existing stretched-out roads. E.g. Riverside County is responsible for 2500 miles of roads. In last 8 years, has repaved ave. 19mi/year or .76%. At that rate, roads are repaved once every 130 years. It should be once every 20 years to keep roads in acceptable condition, "defined by loose industry standards." Most of the money the County spends on roads comes from county share of gas tax, now 18¢/gal (voters doubled it in 1990). - TPE 23 Oct 95 p.1

Couple this with fact that rising share of popn and assd values are outside incorp cities, served by counties. See altb\mtrls\enclaves\assdvals.pc

California's bond rating now ranks last among the States.

Some cities and neighborhoods are especially devastated. San Bernardino was, in 1976, an "All-American City," one of ten receiving the award as a "city on the go." Today, 1995, 40% of its 185,000 residents are on welfare, up from 18% in 1985. Still, md home value is $94k. High as that is, it is the lowest in southern Calif. A shack rents for $550. Absentee ownership and tenancy are way up, because in 1980s speculators moved in from L.A. and Orange Cty., thinking values had to rise. (So thinking, they ruined nbrhds and made values fall.)

Downtown L.A. is a basket case, 1995. It was boom and bust carried to the nth degree, like Hawaii. Fed. tax breaks encouraged spec. office building. Now, floorspace rents have dropped over 50% from their peak, and values even more. Walkaways and bankruptcies are many. See urb\valudata\lv&rents.92-, 15 Oct 95.

Large parts of the San Fernando Valley are failing to renew themselves following the Northridge Earthquake of 1/94. California has suffered and quickly rebuilt after many quakes before; this time it is different. See \revitali\ghostown.la.

It is too easy to "explain" California's fall by the ending of the Cold War and cutbacks in aerospace. Naturally, many professional "explainers" seize upon this factor. However, this alleged cause is much milder than was the ending of the Hot War in 1945. By the end of 1945, L.A. lost 3/4 of its aircraft workers; 80% of its shipbuilders. Motion pictures began a decline. Petroleum stopped being exported, was imported. Citrus etc. groves declined. L.A. was left without much of its former "economic base" of export industries. **Yet, 1945-49, L.A. jobs did not fall, they grew!** (Jane Jacobs, 1969, **The Economy of Cities,** NY:Random House, pp. 151-54.)

L.A. grew by replacing imports. It became remarkably self-contained, as large metropoles do. New local cos. took off. Wartime immigrants did not languish unemployed, nor return home, but stayed around to create or join in a fantastic burst of growth. Jobs in L.A. grew, as new, innovative firms sprang up producing hundreds of different things. First they served local markets; then began to export. 1/8 of all new businesses started in the U.S. during 1945-49 were in L.A. In addition, former sellers to L.A. opened branch plants there, e.g. Detroit auto-makers, Akron tire-makers.

What was different about L.A. in 1945-49? Why did L.A. thrive then, and not now? At that time California was taxing property heavily. In addition, its assessors were tuned into

valuing land at its highest and best use. Their consciousness had been raised, in the years before the war, first by Upton Sinclair's legendary EPIC campaign, with its stress on employing idle workers on idle land. Then, more specifically, there were the Georgist Initiative campaigns of Jackson Ralston, 1934-38, coming at a time when Georgism was politically quiescent in other states.

These campaigns "lost," but their mere happening indicates that California then was more hospitable to Georgist ideas than any other state. The tradition was deeply rooted: there had been single tax initiatives on the ballot in California at every election from 1912-24; in other states they died out much quicker after 1914 (Echols).

California's amazing growth and prosperity before 1942, and its resilience after 1945, up to 1978, were associated with attitudes favorable to taxing property heavily, and land heaviest of all. Absentee land speculators, rushing in to free-ride on California's enterprise, were required to share in bearing its public costs. Holders of prime land were pressed to sell or use it to pay the taxes. The writer has heard anecdotal evidence from executives of interstate firms, commenting on the greater pressure toward land performance in California.

California's fall did not begin until 1978, with Prop. 13. It continues. It might be instructive to compare Calif. with other states that ranked high in property taxation in 1977. AK, NJ, NY, CT, WY, and NH chose other paths, and did better.

Even now, at today's lower tax rate, a bit of the old magic remains. Cite Chase Ranch case, Corona. See revitali\sellland.

MA is another case like California, ff. its so-called "Prop 2½," 1980. (Fill in data.) Before 1980, MA ranked near the top in dependence on property taxation. After 1980 it still ranks fairly high, but much less so than before.

MI will make yet another case. Like MA, MI ranked near the top in dependence on property taxation, then suddenly changed drastically. Its change was too recent to see the results in available data, which lag actual changes by 2-3 years.

7. Some useful contrasts between neighbors are these:

AZ v. NM. 1978, AZ proptax/alltax ratio was .38, NM was .18 (1992, NM was .12). AZ is a high growth, high income state; NM the opposite.

NJ v. DE. 1978, NJ ratio was .50, DE was .16. More data needed.

APPENDIX A: Why some high-income states have low proptax/alltax.

MD, .28; HI, .16; AK, .28; and NV, .24

Hawaii is the most glaring anomaly. There are at least four factors.

a, C.O.L. there is very high, esp. due to high housing values and rents. Income data are not adjusted for this, even though Federal pay scales have long contained a COLA for location in HI. Median value of o-occ. home in HI, 1990 Census, was highest in U.S., $245K, cf. $79k for U.S. overall.

b, 1992 snapshot of HI is just at end of boom phase. HI is marked by high instability, based on inrush and outrush of outside speculators. When Japan crashed, Hawaii crashed. Very likely its P.I./cap is lower now, and will be so reported when the 1995 data are finally published.

Hawaii prosperity was just a shadow of Japanese prosperity. Now, Japanese lenders are foreclosing or taking back props. Hawaii hardest hit: it got 1/4 of all Japanese investing in U.S., 1985-90. It was ca. $16b; Japanese plungers have lost 1/3 of that - their timing was terrible. Hawaii has history of boom/bust cycles, based on first mainland, then Canadian investors, now Japanese (and some Korean, and probably Taiwanese). - LAT 26 Sept 95 A1

c, the balmy climate and long coastline of HI attract wealthy retirees whose incomes, derived from property elsewhere, are credited to HI. This would even include many Japanese billionaires, whose penchant for buying Hawaiian shorefront homes is famous. For example, Gensiro Kawamoto, flamboyant billionaire, walked away from lease on his 7.3 acre waterfront estate in Hawaii Kai, Honolulu, "after the rent for the land jumped to more than $1m a year." (That's >$137k/acre per year, or $3.14/sf per year - pure ground rent!)

d, Hawaii feeds heavily on U.S. naval base spending.

AK, even more than HI, has high local C.O.L., not adjusted for. Coupled with the harsh interior climate and gloomy, rainy coastal climate, it results in premium salaries required to keep workers in AK. These reflect payment for hardship, rather than being true higher incomes in the welfare sense.

MD, like DC and HI, feeds off Federal spending. Being suburban to D.C., it attracts the higher-paid Federal workers, lobbyists, etc.

NV depends on gambling, and feeds off neighbor states that outlaw it.