Property Taxes and Polycentricity

Justin M. Ross and Daniel Hummel

There are no taxes capable of financing our current system of local governments that can be locally levied and administered, except the property tax.


[The property tax] resembles a structure designed by a mad architect, erected on a shaky foundation by an incompetent builder, and made worse by the well-intentioned repair work of hordes of amateur tinkers.

—F. C. Stocker (1991: 1)

1. Introduction

Elinor and Vincent Ostrom have dedicated their professional careers to understanding polycentric forms of public administration. A polycentric public administration system is one that is highly decentralized, with many independent and overlapping jurisdictional boundaries. The purpose of this paper is to consider what form of public finance can allow for such a system to exist with the principles the Ostroms have laid out in what has become known as the “Bloomington School” of institutional analysis.

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The authors would like to express their gratitude to Beloit College participants in the Charles G. Koch Foundation Lecture Series and Student Research Colloquium, colleagues in Indiana University’s Workshop in Political Theory and Policy Analysis, and Ryan Woolsey for helpful comments and feedback. Any errors are our own.
Early on in their careers, the Ostroms argued for polycentric forms of public administration, particularly in metropolitan areas where many of their intellectual rivals believed a single centralized authority should exist. Ostrom et al. (1961) lay out the considerations that should determine the optimal design of public administration:

1. The size of the governmental unit required to undertake the provision of a good or service;
2. The citizens directly affected by provision;
3. The political community for whom the nature and provision of the public good is being determined.

While these criteria did not outright exclude a single universal general purpose administrator of all public services in a metropolitan area, it was also clear that such a form seemed unlikely. It was far more likely that the implied optimal design would have polycentric nodes of administration, in which administrative districts would be defined by a narrower set of functions, and that these districts could have non-congruent borders with other service districts. For example, within a metropolitan area there may be multiple school districts, as well as multiple police districts, and there does not need to be any correlation between the administrative boundaries of the police districts with those of the schools. Furthermore, service provision levels need not be the same across these units, as the preferences of the communities may differ for each type of service. Given the nature of these criteria, it is not surprising that many people view the Bloomington School of Political Economy, albeit incorrectly, as one that explicitly advocates for small, decentralized, and overlapping governmental units.

“Who” should determine such a polycentric system? The general Bloomington view has been that it should result from the democratic involvement of the population, and this has been an important reoccurring theme in their analysis of institutions. In the context of public administration, the notion of democratic involvement is more than having elected representation or voters who make an appearance on election days. Their view of democracy is one of local participation and contribution, making it much closer in spirit to Alexis de Tocqueville’s observation of Americans finding ways to encourage voluntary collaboration and shared experience within communities.

From a public finance perspective, the Ostrom-polycentric system represents a number of challenges. Any governmental unit must have a procedure for extracting economic resources so that its operations are adequately financed. This
fact was not lost on America’s founders, who devoted a considerable portion of the U.S. constitution to creating independent access to economic resources that would allow for a Federalist system of government. For overlapping governments to maintain a shared sovereignty, they must be able to independently and adequately access the same economic system. If autonomy of individual units within a system of multiple overlapping governmental units is desirable, then a means of permitting simultaneous financial independence of very similar areas in a relatively small community is necessary. These requirements are further complicated by the fact that mobility of citizens between government units serves as a constraint on such economic extraction.

America’s answer to the financing of polycentric public administration has been the real property tax—a tax levied against land and its capital improvements, so as to distinguish it from taxes on “personal” (e.g., cars or boats) or “intangible” (e.g., stocks or bonds) property—which has characteristics that are unique among taxes. These unique characteristics are discussed with an eye toward explaining how the real property tax allows for multiple, decentralized, and overlapping polycentric nodes of public administration to have financial independence necessary for fiscal autonomy. Furthermore, we discuss the way the property tax incentivizes the kind of democratic action that the Ostroms have associated with polycentricity.

The next section briefly describes the administration of the property tax, which is often misunderstood but important to understanding the incentives of taxpayers and public officials.

2. Property Taxes and Polycentrism

Before proceeding to why the property tax has emerged as America’s answer to the public financing of polycentricity, it is perhaps helpful to identify why most other taxes are not up to the task. From a legal perspective, the United States constitution has much to say regarding taxing powers, in part for the purpose of trying to maintain state and federal government sovereignty. Under Article 1, Section 2, Clause 3 of the Constitution, all federal direct taxes (including the property tax) must be apportioned among the states on the basis of population. The Federal government tended to rely upon import and export tariffs, and in 1913 was able to levy income taxes without apportionment with the passage of the 16th Amendment. States and their underlying “creatures” retained greater abilities to levy direct taxes.
The only non-property tax instruments whose revenue potential is adequate enough to allow for fiscal independence are those on sales and income. State governments have largely focused on these revenue sources, and increasingly delegated the property tax as the primary financing mechanism to the local levels. While local areas often can and do levy sales and income taxes, these sources are not good candidates because they represent taxes upon mobile bases. The smaller the district wishing to raise its individual rate, the more easily transactions move outside its jurisdiction. Furthermore, governments would inevitably find the size of their tax base to be jointly determined by all of the overlapping governments, such that the increasing of the rate by a school district might shrink the base and lower the revenue available to all other administrative districts with a shared domain.

2.1 The Administration of Property Taxes: Expenditures, Levies, and Rates

The property tax overcomes these problems in part because of its unique administration. This section describes how the nature of administration directly links the property tax revenue to the level of expenditures, and does so in a manner that provides a remarkably stable source of revenues. The property tax is formally an ad-valorem tax, meaning the liability on an individual property is determined as a percentage of its value. This leads to the common mistake, even among public finance scholars, of assuming that the property tax has the same relationship between rates and revenues as is seen in other forms of taxation. For other taxes, public officials determine the rate, either as a dollar per unit or as a percentage, and then tax revenue is derived from the observed volume in the taxable base.

Administering taxes upon real property works quite differently, in that the process begins with the amount of revenue to be raised. More precisely, the government body determines its expenditure level \( E \) for the fiscal year using the local democratic norms, and then it subtracts revenue \( R \) from all other sources to result in the property tax levy \( L \):

\[
L = E - R
\]

The levy \( L \) is the aggregate amount of revenue to be raised from property taxation. The above identity begets an important relationship that will be touched upon throughout the remainder of this paper: The community choice of property tax level is tantamount to a simultaneous choice of expenditure level on services. If other taxes were the sole source of revenue, then annual expenditures would rise

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1 See Hall and Ross (2010) for a recent review of local government tax instrument choice.
and fall in accordance with the volatility of the base to maintain balanced budgets. The choice of service level is far less predictable when that community chooses a fixed rate, even if it does so frequently. Whatever democratic process is employed to choose service provision is simultaneously, and with equal frequency, applied to the choice of property tax burden.

The next stage of the budgeting process is to convert the levy to a millage rate (i.e. property tax rate) to determine the tax burden faced by an individual household. The millage rate ($\tau$) is determined by dividing the aggregate levy by the aggregate level of total taxable property values ($P$):

$$\tau = \frac{L}{P}$$

For concreteness, consider an area with three parcels demanding a $1K property tax levy for services, and assume that the three parcels have taxable property values of $20K, $30K, and $50K. The millage rate in this case is:

$$\tau = \frac{1K}{20K + 30K + 50K = 100K} = 0.01$$

This millage rate results in the following distribution of tax burdens by parcel:

<table>
<thead>
<tr>
<th>Property Owner</th>
<th>Millage Rate</th>
<th>Tax Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,000</td>
<td>0.01</td>
<td>$200</td>
</tr>
<tr>
<td>$30,000</td>
<td>0.01</td>
<td>$300</td>
</tr>
<tr>
<td>$50,000</td>
<td>0.01</td>
<td>$500</td>
</tr>
</tbody>
</table>

One of the consequences of this process is that the millage rate is a “residual” rather than a determinant of the revenue raising process, and the value of the underlying property is also not a formal determinant.\(^2\) If the taxable value of property were to raise by a uniform 100% across all parcels, the millage rate would be cut in half and the distribution of the property tax burden would be unchanged:

$$\tau = \frac{1K}{40K + 60K + 100K = 200K} = 0.005$$

\(^2\) For a more in-depth discussion of “the residual view” and its determinants, see Ross and Yan (Forthcoming).
This millage rate results in the following distribution of tax burdens by parcel:

<table>
<thead>
<tr>
<th>Property Owner</th>
<th>Millage Rate</th>
<th>Tax Bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40,000</td>
<td>0.005</td>
<td>$200</td>
</tr>
<tr>
<td>$60,000</td>
<td>0.005</td>
<td>$300</td>
</tr>
<tr>
<td>$100,000</td>
<td>0.005</td>
<td>$500</td>
</tr>
</tbody>
</table>

Part of the reason for this form of administration is due to the fact that the tax is based upon a stock of an asset, rather than a flow of commercial exchanges. The physical quantity of land in the base will remain unchanged, and the capital investment will be a durable good composed of previous household investments. Furthermore, the frequency at which each of these parcels is traded can be quite low, with some not selling for decades. As such, the property tax requires an assessment process to determine the distribution of value across the base. During the property assessment process an agent of the government takes inventory of the structures and features of the property in its territory for the purpose of determining its taxable value.\(^3\) One could see where the potential for manipulation would arise if the property tax rate were fixed in the same manner as other taxes, as revenue could rise or fall at the whims of an administrative official.

By making the base independent of the revenue raised, however, it demotes the role of property assessment to only playing an equity role, in which each property pays in proportion to its share of the base. This is not to say that politics do not occur in property assessment, as there is evidence indicating that property assessors do respond to pressures from their constituents (see Ross, 2011, 2012a), but only that this process is only important to revenue extraction in terms of the political consequences of inequitable tax burdens. The necessity of the property assessment process is evident, but so is the subjectivity of the process.

\(^3\) Property assessments usually determine the taxable value of a property through some gauge of the “fair market value,” which is based upon a willingness-to-pay of hypothetical prospective buyers in normal circumstances. Basing the assessment on the “replacement cost” of the property unit was popular at one time, and that standard still exists in some areas of the United States. Interestingly, Adam Smith found property taxes based on a valuation to be “…an attention so unsuitable to the nature of government, that it is not likely to be of long continuance…” that would ultimately “…occasion much more trouble and vexation than it can possibly bring in relief to the contributors” (Smith 1776: 899).
Unlike most public officials, the assessor would literally visit taxpayers to determine their individual liability. This could create a considerable incentive to under-assess property, especially if the property assessor had been elected by that constituency. Passing a levy and then determining the millage rate by residual made the total property tax revenue collected independent from the property assessment process. No matter how error prone the assessor, or systematically biased towards lowering the assessed values of the constituency, the revenue raised would be the same. The assessment process would then only serve an equity role, so that changes in the distribution of the assessed values could be reflected in the distribution of individual liabilities. This process also makes municipal debt a relatively safe financial investment for lenders, who can be confident that the government is fully capable of repayment no matter what happens in the business cycle, and thereby lowering the cost of capital for investments in public services.

The levy setting process might be more problematic if voters could escape the jurisdiction without paying their property taxes. However, the property tax is levied in rem, or against the property rather than the person. As Mikesell (1998: 189) aptly observed, “[property tax] administration can proceed without much danger that the parcel will disappear or flee the jurisdiction.” Because the property itself is immobile, delinquent or non-compliant taxpayers are only capable of minimal revenue impact upon the taxing jurisdiction. Unpaid property taxes, as well as penalties, interest, and compliance costs can be accrued and attached as the first lien against a property. Any exchange of the property requires that the tax lien be paid, and the government retains the authority to seize and auction the property through a tax sale. It is no mystery then, that governments routinely collect 99-100 percent of the property tax revenues they levy, even if the taxpayer disappears or refuses to sell the property to a compliant taxpayer (Ross 2012b).

In summary, the administrative characteristics of the property tax create a number of important points of consideration for polycentric local government districts. First, property taxes are jointly determined with expenditures, so that there is no meaningful separation of the two figures during the budgeting process. Secondly, virtually all property tax revenue levied is collected, making it an adequate source of revenue for financing services. Third, it is levied against immovable property, which circumvents the mobility problem small districts experience when they raise taxes. Next we discuss how property taxes are conducive to overlapping governments, and why these features encourage a democratic process.
2.2 Property Taxes and Polycentric Nodes of Public Administration:

The property tax’s unique administrative characteristics allow for independent access by multiple overlapping governments, and does so in a way that maintains fiscal autonomy in terms of both revenue adequacy and administration. Furthermore, the administrative process is one that allows for relatively flexible jurisdictional boundaries by permitting changes in association of parcels across different public service districts within an area.

<table>
<thead>
<tr>
<th></th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100</td>
<td>$50</td>
<td>$200</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>$150</td>
<td>$200</td>
<td>$100</td>
<td></td>
</tr>
</tbody>
</table>

Figure 1: Polyville by Property Parcel and their Taxable Value

To illustrate how property taxes work in a polycentric system, consider the fictional metropolitan area of Polyville in Figure 1. This hypothetical account is employed for illustrative simplicity of identifying property-service affiliations, but the simplicity of administration is not meaningfully exaggerated. Figure 1 demonstrates an area composed of six property parcels, identified by a letter (A-F) and a taxable value. Let’s consider a case where Polyville is served by two school districts, three waste districts, two fire districts, and three library districts.\(^4\) Table 1 lists each of these districts and the property parcels which are within their jurisdiction, their public expenditures, property tax base, and the resulting implied millage rate. Once again, when each district determines its expenditure level, it is jointly determining the property tax rate because it must take the base as a given, creating an inseparable link between service level and tax burden.

As can be seen in Table 1, no two districts have exactly the same set of parcels in their domain. A household selecting a parcel is, in fact, simultaneously choos-

\(^4\) A monocentric alternative would have a single general purpose government covering all parcels and providing all services.
ing their most preferred bundle of public services and taxes within Polyville. To the extent that any particular district deviates from their preferences, they must hope to convince the administrative district to change its allocation by whatever means is consistent with the local democratic process.

Table 1: Polyville’s Arrangement of Public Services

<table>
<thead>
<tr>
<th>Public Service</th>
<th>Parcels</th>
<th>Expenditure ($)</th>
<th>Tax Base ($)</th>
<th>Millage†</th>
</tr>
</thead>
<tbody>
<tr>
<td>School District 1</td>
<td>A+B+C</td>
<td>20</td>
<td>(100+50+200)=350</td>
<td>0.0571</td>
</tr>
<tr>
<td>School District 2</td>
<td>D+E+F</td>
<td>10</td>
<td>(150+200+100)=450</td>
<td>0.0222</td>
</tr>
<tr>
<td>Waste District 1</td>
<td>A+D</td>
<td>5</td>
<td>(100+150)=250</td>
<td>0.0200</td>
</tr>
<tr>
<td>Waste District 2</td>
<td>B+E</td>
<td>5</td>
<td>(200+50)=250</td>
<td>0.0200</td>
</tr>
<tr>
<td>Waste District 3</td>
<td>C+F</td>
<td>5</td>
<td>(200+100)=300</td>
<td>0.0167</td>
</tr>
<tr>
<td>Fire District 1</td>
<td>A+B+D+E</td>
<td>40</td>
<td>(100+50+150+200)=500</td>
<td>0.0800</td>
</tr>
<tr>
<td>Fire District 2</td>
<td>C+F</td>
<td>20</td>
<td>(200+100)=300</td>
<td>0.0667</td>
</tr>
<tr>
<td>Library 1</td>
<td>B+D+E+F</td>
<td>60</td>
<td>(50+150+200+100)=500</td>
<td>0.1200</td>
</tr>
<tr>
<td>Library 2</td>
<td>A</td>
<td>10</td>
<td>100</td>
<td>0.1000</td>
</tr>
<tr>
<td>Library 3</td>
<td>C</td>
<td>10</td>
<td>200</td>
<td>0.0500</td>
</tr>
</tbody>
</table>

† Expenditure divided by Tax Base

Table 2 cross-tabulates the information from Table 1 as it would be recorded in a government database, abridged only by ignoring information specific to the parcel (e.g. address, owner’s name, and so on.). For each parcel, a public service provider is identified for each type of service, and in doing so it reveals that no two parcels have exactly the same set of providers. Since each property represents a unique bundle of public services, the effective millage rate to the parcel owner is calculated by summing the millage rates for each service provided in Table 1. The individual tax bill is calculated by applying the owner’s effective millage rate against their individual property value. The tax collector then remits this tax payment back to the service provider in proportion to the service millage rate’s share of the total effective millage rate. For example, parcel A has school district 1, waste district 1, fire district 1, and library district 2, and from Table 1 this implies an effective millage rate of \((0.0571 + 0.0200 + 0.0800 + 0.1000 =) 0.2571\). The resulting \((100 \times 0.2571 =)\) $25.71 tax bill is then split into four separate payments of \(\left(\frac{25.71 \times 0.0571}{0.2571} =\right)\) $5.71 to school district 1, \(\left(\frac{25.71 \times 0.0200}{0.2571} =\right)\) $2.00 to waste district 1, \(\left(\frac{25.71 \times 0.0800}{0.2571} =\right)\) $8.00 to fire district 1, and \(\left(\frac{25.71 \times 0.1000}{0.2571} =\right)\) $10.00 to library district 2.
This allows the political community for each service to differ for both logistical considerations in adequate service delivery, and for differences in preferences for the level of provision, all the while allowing for fiscal sovereignty. Since the base is independent and irrelevant to the amount of revenue, and the parcel cannot leave the tax jurisdiction, changes in chosen property tax revenue demands by one district do not directly influence the revenue raised in any other overlapping jurisdiction. If the parcel owners of Library District 2, for example, determined to double the expenditure level, it would raise their own property tax rate by an additional 0.10 mills with the entire burden falling on parcel A, and there would be no accompanying revenue effect on any of the overlapping jurisdiction. By contrast, if a library sales tax rate was added to transactions over parcel A, much like local and state income taxes are currently employed, there would be an accompanying shift as some transactions moved off of parcel A altogether, reducing the taxable revenue for all public service districts that administer to parcel A.

Now consider a more dynamic setting where parcels are capable of changing their affiliations. In principle, the ability of individual units to change public service affiliations is perhaps the most important mechanism in polycentric public administration, arguably more important than actually having multiple nodes. A system in which each parcel voluntarily opts into a universal provider of all services may be a better representative of a polycentric system than one that engages in mandatory (and static) decentralization. Suppose the owner of Parcel B conceives that Library District 3 would be a better fit for his preferences than District 1.

Table 2: Polyville’s Service and Tax Bill by Parcel

<table>
<thead>
<tr>
<th>Parcel</th>
<th>Value ($)</th>
<th>School</th>
<th>Waste</th>
<th>Fire</th>
<th>Library</th>
<th>Millage†</th>
<th>Tax Bill ($)††</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>0.2571</td>
<td>25.71</td>
</tr>
<tr>
<td>B</td>
<td>50</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0.2771</td>
<td>13.86</td>
</tr>
<tr>
<td>C</td>
<td>200</td>
<td>1</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>0.1905</td>
<td>38.10</td>
</tr>
<tr>
<td>D</td>
<td>150</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0.2422</td>
<td>36.33</td>
</tr>
<tr>
<td>E</td>
<td>200</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0.2422</td>
<td>48.44</td>
</tr>
<tr>
<td>F</td>
<td>100</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>0.2256</td>
<td>22.56</td>
</tr>
</tbody>
</table>

† - Sum of millage rates by public service found in Table 1. †† - Millage rate times Parcel Value.
Divorcing his affiliation would reduce the tax base in Library District 3 to $450 and increase it to $250 in library District 1, which *ceteris paribus* reduces the millage rate and tax burden for District 1 while increasing it in District 3. These effects may be mitigated somewhat by competing effects in the administration of services. In considering the acceptance of parcel B into the current library district, the current owner of parcel C would weigh the reduced tax burden against any perceived needed increases in expenditures to accommodate the higher demand, as well as any quality erosion such as greater congestion at the library. Likewise, the higher tax burdens to parcel owners D-E-F may be offset by lower expenditure demands and congestion. Further, the ability of parcel B (or any other contiguous parcel) to change affiliations can incentivize more aggressive competition for tax base that somewhat resembles a marketplace, in which library districts compete via product copying and/or differentiation.

This narrative should illustrate that, although the tax base cannot escape a jurisdiction, there remains mobility of association for at least the properties along the boundaries of its administrative zone. Association choice is not the only form of mobility that is important, as the next section will demonstrate that mobility effects remain an important component of the overall democratic nature of the tax.

### 2.3 Taxation In Rem Does Not Reduce the Importance of Mobility: Capitalization in the Housing Market:

The previous section described the administration of the property tax, and paid particular attention to the dynamics of public service affiliation. At the same time, the public services and the property values were held constant, and the incentives for competition in tax base came strictly from mobility of parcel owners to change their affiliated services. This section adds another layer to this set of incentives by considering the relationship between property values, public services, and taxes. An equilibrium outcome of a neoclassical model of consumer choice would be characterized by each property yielding the same level of utility across all consumers with the same endowment and preferences. Consider a case in which the stock of services are fixed across all parcels in a neighborhood, but the property tax payments differ. The present value of household expenditures for residence at the property will be the sum of the payment for the property \( v \) and the expected future property tax payments \( \left(\frac{t \cdot v}{i}\right) \), where \( i \) is the interest rate. The only reason for households to prefer one property over another in this case is due to differences in the tax payments and the quality of the public services \( g \) as
they enter into a dollarized household utility function, $U(g)$. A simple expression of this would be to consider the purchase price of the property as representing the benefits of the service less the tax payments that accompany it:

$$v = U(g) - \frac{tv}{i}$$

If the quality of the service rises in excess of its tax payments, the property appreciates in price $v$ so that household utility remains equal across all properties. If quality remains constant while the tax payments increase, then property values likewise decline. Hedonic estimation of this form is well understood and so commonly accepted in economics that it is frequently employed to estimate the inferred benefits of locational attributes that are not directly traded in a marketplace setting (see for example, see Brasington and Hite 2005; Chay and Greenstone 2005; Bayer et al. 2009; Nahman 2011; Leguizamon and Ross 2012).

From an ex-post perspective, capitalization would seem to undermine many concerns for inequalities arising from poorly administered public services because owners are compensated with less expensive property. For the notion of polycentricity, however, this capitalization of net benefits creates an additional set of political economy incentives because it incentivizes property owners to view public services as assets that contribute to their property wealth. Suppose a new curriculum is adopted in school district 1, but not in school district 2. If this curriculum revision turns out to be a desirable one, then property values in school district 1 will rise while those in school district 2 will depreciate until the difference between them is equal to the benefit of the curriculum revision. Even if parcel owners in school district 2 do not directly value the service (e.g. if they had no school age children), they nevertheless would suffer some loss of wealth by living in a district which has neglected a similarly favorable revision.

In section 2.2, the significance of mobility was limited to the prospect of a parcel switching public service associations, which of course is limited to the borders of each district. Capitalization returns mobility to an important consideration of the policy process because it only requires that there be demand for property in Polyville, which can come from current or potential new residents moving into the area. Competition for these migrants by creating an appealing community mix of services contributes to increasingly valuable property for the entrenched owners. Therefore, even if locals find no innate motivation to contrib-
ute to the democratic process and monitoring their local public administration, capitalization gives them a significant financial interest.

The role of housing values in encouraging local participatory democracy has been extensively reviewed in Fischel (2001), and it has long served as the motivation for the view among economists that there may be positive externalities from homeownership (see for example, Hoff and Sen 2005). The capitalization of property taxes should also make it an especially appealing revenue instrument to those who subscribe to the view that voters have a tendency to indulge in “irrational” policies that they would not prefer if they shared in the cost. For example, Caplan (2007) points to the minimum wage as an example of such a policy, which he argues would be less likely to receive widespread support if an individual vote were costly, by which it is meant that the vote is decisive and that the law would be binding to the voter’s employment prospects. By contrast, rent control seems to enjoy similarly high levels of voter sympathy, but seems to only persist in large cities with high rentership rates, possibly due to homeowners who recognize the negative effects the price control has on the housing stock (Fischel 2001).

The capitalization of public services and property taxes should also be an appealing characteristic to those in public administration who favor the bottom-up, inductive, public administration process. This vision of public administration values increasing citizen participation. Advocates of this view theorize that the result of this form of governance is an increase in competent and neutral administration, which is in line with the utility function of a government’s citizens (Weimer 2005). The problem with increasing citizen participation is determining how to effectively ascertain and utilize it in a manner that allows for a feedback mechanism, and there have been many proposals along these lines (see for example Fung 2003, 2006; Ebdon and Franklin 2006). We suggest that the solicitation of this information is tantamount to estimating what the impact of a project will be on housing prices, about which most property owners will care a great deal.

3. Conclusion

In this essay, we argue that property taxation has historically been the only revenue instrument for the public financing of a polycentric system of metropolitan government. In fact, we know of no other revenue instrument that mimics its characteristics sufficiently well enough to provide for an autonomous and sovereign local system. Over the last few decades, many states have undertaken significant reforms for the purposes of restraining local government access to the
property tax, and the cost of these services will likely be accompanied by diminished local sovereignty. For instance, in 2009 Indiana imposed property tax caps to limit the possible tax burden, and in exchange moved the operating budgets of all school districts into the general fund of the state. Likewise, in North Dakota there is a proposed constitutional amendment (Measure 2), which would eliminate property taxes as a source of local government revenue and replace it with state tax revenue. How plausible is it that Indiana school districts or North Dakota local governments will retain local autonomy over public service provision when the financing is provided by the state? Our expectation is that, over time, there will be an increasing emphasis on consolidation towards single general purpose governments that provide favorable economies of scale. Proponents of polycentricity should probably be opponents of reforms that detract from the property tax, and we echo the sentiments expressed by Mikesell (1997: 106):

[The property tax] is a tax which, because its base is visible, easily attached, and taxable at a leisurely pace, can be effectively administered at the local level. Hence, the idea of local governmental independence and the property tax are intimately linked. Other broad and productive options are beyond the possibility of local operation, save as supplements to a tax levied and administered by a higher (state) government. Thus if it is desired to have governmental services provided by a government that is close to the people, then the property tax is the only meaningful option. Those who value local government ought, by the same token, to love the property tax and to work to make it productive.

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5 This has been largely driven by school finance reform (see Fischel 2001). States have public education as a constitutional responsibility, and some have interpreted the local financing and provision of education as an unconstitutional source of financial inequity.
References


