

Further Empirical Evidence on Residential Property Taxation and the Occurrence of Urban Sprawl^{*}

Robert W. Wassmer

Professor, Department of Public Policy and Administration, California State University,
Sacramento, Sacramento, California 95819-6081, (916) 278-6304

rwassme@csus.edu

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Abstract

Economic theory indicates that as the effective rate of taxation on residential property rises, a negative influence on capital intensity could occur through less multi-story structures built (an *Improvement Effect*). Alternatively, a positive influence on capital intensity could occur through housing consumers switching to smaller houses built on smaller lots (a *Dwelling Size Effect*). An empirical assessment of this issue is therefore necessary; however, methodological concerns in earlier empirical analyses cast doubt on the reliability of findings. Panel data, fixed effects, regression results indicate that a higher rate of effective residential property taxation increases the amount of land used for a given population (greater sprawl).

JEL Classification Codes

H22, H71, R14, and R51

1. Introduction

Most jurisdictions in the United States levy a rate of property tax that does not distinguish between the land and improvement components of the parcel taxed. The portion of the property tax falling upon land value is one of the *best* taxes – a result stemming from its inability to distort the supply of raw land. The share falling upon the improvements (buildings and other fixtures) to the land is one of the *worst* taxes – per its discouragement of improvements to unimproved

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