

Effects of Taxes and Public Services on Location

Taxes

1. Local taxes have a strong negative effect on business growth, holding the quality of public services constant.
2. The elasticity of business activity with respect to local taxes (Percent Change Business Activity/Percent Change in Local Taxes) is inelastic (between -0.1 and -0.6) for intercity locational decisions, but very elastic (-1.0 to -3.0) for intracity location decisions.
3. The elasticity is larger for intracity locational decisions because locations in the same metro area are better substitutes than locations in other metro areas.
4. Manufacturing is more sensitive than other types of businesses to tax differentials within and between metro areas. This is because manufacturers are more likely to be oriented to the national market and thus have a wider range of locational choices.
5. Metropolitan areas with high business property taxes repel capital intensive industry such as manufacturing.

Public Services

1. If a city improves its public services it will grow faster, holding local taxes constant.
2. Public services with the largest effect on business growth are education and infrastructure (roads, airports).
3. The effect of a tax increase depends on how the extra revenue is spent. If it is spent on education, public safety, and infrastructure the tax/expenditure program promotes economic growth. If it is spent on redistributive programs for the poor, the tax has a negative effect on the city's growth rate.