

City dwellers bear disproportionate federal tax burden

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Live in an expensive city? Think you pay too much in federal taxes? If so, a study in the current issue of the *Journal of Political Economy* finds that you're exactly right.

According to David Albouy, a University of Michigan economist, workers in expensive cities in the Northeast, Great Lakes and Pacific regions bear a disproportionate share of the [federal tax](#) burden, effectively paying 27 percent more in federal income taxes than workers with similar skills in a small city or [rural area](#).

Why the disparity? Workers in cities are generally paid higher wages than similarly skilled workers in smaller towns, so they're taxed at higher rates. That may sound fair, until one considers the higher cost of living in cities, which means those higher wages don't provide any extra buying power. The federal income tax system doesn't account for cost of living. So the effect is that workers in expensive cities like New York, Los Angeles and Chicago pay more in taxes even though their real income is essentially the same as workers in smaller, cheaper places.

The extra burden wouldn't be so excessive if more federal tax dollars were returned to urban areas in the form of higher federal spending. But according to Albouy's research, that's not the case. His data show that more federal dollars are actually spent in rural areas, despite the fact that cities send far more cash to Washington. The net effect of all this is a transfer of \$269 million from workers in high-cost areas to workers in lower cost rural areas in 2008 alone.

Over the long haul, Albouy says, the larger tax burden causes workers to flee large urban centers in the Northeast and settle in less expensive places in the South. So to some extent, it may have been the federal tax system that put the rust on the rust belt.

Detroit is a perfect example of a city that gets the short end of the stick.

"With its high wage levels, Detroit was, until recently, contributing far more in federal revenues per capita than most other places for over one hundred years," Albouy said. The recent federal bailout to Detroit automakers "is peanuts relative to the extra billions the city has poured into Washington over the 20th Century."

One expensive area that escapes the higher burden is Hawaii. Costs in Hawaiian cities are high, but wages remain low because people are willing to accept lower pay to live by the beach. As a result, Hawaiians aren't pounded by taxes the way New Yorkers are. But it also means that "powerhouse cities like New York indirectly subsidize people to live in really nice locations like Hawaii," Albouy said.

Albouy's analysis adds new empirical weight to a debate that started in the 1970s with the late New York Senator Daniel Patrick Moynihan. Moynihan commissioned a series of reports that showed the Northeast and Midwest sent far more money to Washington than it got back. Albouy's research is the first to provide an estimate of how much more individual workers in cities pay.

Albouy says that city folk shouldn't expect relief from this system anytime soon.

"Highly taxed areas tend to be in large cities inside of populous states, which have low Congressional representation per capita, making the prospect of reform daunting," he writes.

More information: David Albouy, "The Unequal Geographic Burden of Federal Taxation," *Journal of Political Economy* 117:4, August 2009.

Source: University of Chicago ([news](#) : [web](#))

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