

A Taxing Dilemma: Land Take, Fiscal Revenues and Municipal Budget

Eulalie Saisset

Abstract :

Urban expansion drives biodiversity loss and increases travel costs without effectively boosting housing production, necessitating land use policies that limit development. Simultaneously, land-related tax revenues constitute a significant portion of municipal budgets, creating potential incentives for local authorities to develop land precisely when land value increases: a taxing dilemma between preserving soils and raising municipal revenues. Using a panel database of France's main land-related taxes and exploiting quasi-experimental variation in toxic loan exposure, we analyze how financial constraints affect land take. Results reveal nuanced responses: only municipalities severely affected by the debt shock exhibit an increase in land take. This effect primarily reflects commercial rather than residential development, accompanied by reduced densification. Municipalities strategically adjust fiscal policy by moderately increasing property taxes (their highest revenue-generating instrument). Responses vary by context: urban municipalities rely more on tax adjustments, while rural areas show greater land use flexibility. Under fiscal competition where policy options are constrained, land take increases substantially, highlighting environmental risks. These findings challenge the presumed tradeoff between local fiscal revenues and land conservation, suggesting that financial constraints typically promote restrained land use except under severe fiscal stress with limited alternatives. This demonstrates the necessity of considering tax system complexity regarding both incentives and environmental impact when designing policy.