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[Tax Battle Lines Shift in Cities and Suburbs.]

Local income taxes were once blamed for causing businesses to flee to the suburbs. Not anymore.

For the past 30 years, local government finance has revolved around a simple, controversial idea known as the "suburban exploitation thesis." As the theory goes, suburbs have prospered at the expense of central cities. They've stolen taxpayers and businesses, and left behind hollowed-out shells of once-great communities. They benefit from unique central city amenities like parks, museums, universities and downtown business districts, but contribute nothing in exchange.

Of course, suburbanites see it differently. They pay a bevy of taxes and fees to regional entities for transit, airports, sports stadiums and other infrastructure that mostly serves central cities. And that's to say nothing about state and federal policies that redistribute resources — some of it coming from their pockets — toward struggling central cities.

The front line of this conflict has often been local income taxes. But now, for the first time in three decades, those battle lines are shifting.

Let's take a quick look at the numbers. Roughly 1 in 7 local governments levies a tax on income earned within their boundaries. Sometimes the tax applies to income earned within the city limits. Sometimes employers pay it based on their number of employees (also known as a "head tax" or "commuter tax"). Sometimes it applies to income earned by city residents regardless of where they work. Local income taxes are designed to ensure that those who use city services, whether they live there or not, pay for those services.

The argument opponents of the tax make is that local income taxes have hastened the demise of central cities. Businesses are mobile and can easily relocate someplace without a local income tax. Moreover, cities have offered generous local income tax abatements and exemptions to keep employers within their borders. All this adds up to a vicious cycle where a tax meant to preserve and protect central cities has driven away jobs or lowered tax revenues. For evidence, opponents say, look no further than Cleveland, Detroit, Kansas City, Mo., and Philadelphia. All saw a huge outmigration of jobs roughly 30 years ago, shortly after they imposed a local income tax designed to keep jobs within their borders.

Yet local income taxes persist. In fact, they're more popular than ever. Last year, voters in Kansas City and St. Louis overwhelmingly approved measures to renew their local income taxes. The Seattle City Council recently passed an income tax on the "One Percent" of residents who earn more than a half-million dollars annually. It's also considering a modified commuter tax to fund badly needed investments in local transportation infrastructure. Los Angeles and San Francisco have both floated proposals for a local "millionaire's tax" to fund homeless services. Columbus, Ohio, is one of several cities to retool its local income tax rather than get rid of it. The city used a system of credits and differential rates to make their tax fairer by ensuring residents pay only slightly more than nonresidents.

Meanwhile, as my colleague Scott Allard points out in his new book Places in Need: The Changing Geography of Poverty, there are more poor people living in suburbs today than in cities. What’s worse is that suburbs don’t have the government and nonprofit infrastructure to deliver assistance to those in need. Without the appropriate fiscal policy tools, suburbs will continue to struggle just as central cities did 30 years ago.

In other words, in many regions today we’re seeing the suburban exploitation thesis in reverse. Talent and capital are flowing back into central cities and leaving behind their suburban neighbors. That’s also why it’s no surprise that an unpopular tax like the local income tax is back in vogue. If the future is in cities, then the local income tax might become the go-to tax for the next 30 years.

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