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Reseña de "Urban Public Finance" de David Wildasin
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Problems of multi-level government finance and intergovernmental fiscal relations arouse growing interest. Local Public Economics represent a rich field, both for theoretical and empirical economic studies, and this book surveys major developments in this area. It provides an enlightening and relevant synthesis of the main analyses achieved in urban public finance, succeeds a clear-headed and thorough examination of the chief issues. One crucial item is to examine how resource allocation in the economy is modified with local governments.

The locational efficiency issue is at the heart of Section 2, which examines how households decisions are impacted by the local public sector’s fiscal policy, and analyses how many and which households efficiently locate in each jurisdiction at equilibrium.

First, Professor Wildasin emphasizes the necessity to take into account the openness of local jurisdictions, since not only people but also commodities, both goods and factor, private and public, can move across jurisdictions boundaries.

A “bare-bone” model used as a basis throughout the whole book considers a national economy made of several local economies. Each of them provides a vector of public goods that only benefit resident households, and the cost of which depends on the number of residents; different types of individuals coexist, with all members of a same type having identical preferences. Households are considered to be costless mobile, and transportation costs can be neglected in each jurisdiction, a vector of exogenously fixed resources is available, which may be used either as direct consumption goods or as inputs in a local production process; what remains enters an agricultural production process. If no congestion of public facilities is allowed, on the other hand, the spatial fixity of some resources makes it possible for a crowding phenomena to appear.

The objective of the planner is to define a Pareto-efficient allocation of resources, and one can wonder whether, in such an economy, a tax system able to lead to an efficient allocation of households across jurisdictions may exist. Different cases can emerge: if no congestion effect occurs and only wage or head taxation is allowed, a local tax intro-
duces distortions in the economy, whereas if taxation applies to resource or agricultural profits it is possible to reach an efficient locational equilibrium. Yet, if congestion effects cannot be avoided, a necessary condition for this equilibrium to remain efficient is to implement head taxes that can internalize these effects. As far as the local level is concerned, head taxes are not used to finance expenditure, taxes on property provide the main source of local governments own-revenue; (they are above all assessed on structures). As soon as demand elasticity is not zero and savings vary, these tax are distortionary since they can be avoided by relocating. Thus, locational efficiency can be reached if and only if local governments can use relevant tax instruments.

A second part of this chapter is devoted to finding out how population might be determined in a jurisdiction, both in terms of size and of composition, in order to maximise social welfare in this locality. The main result emphasized is the Henry George theorem, according to which, at the locally optimal population, resource rent is equal to local public expenditure and land rents are entirely taxed away. Several extensions can be displayed, but some assumptions can be questioned (such as the fact that a planner can directly control the number of households residing in a locality).

Last, it is useful to underline that if the elasticity of housing supply is different from zero, locational incentives will be affected by the property tax, and full efficiency will not be achieved. Some attempts to impose zoning requirements precluding the entry of households with demands for housing lower than the community average, i.e. fiscal zoning, can emerge and, under some conditions, they are likely to be conducive to fully efficient local taxation, but they also raise equity issues.

Section 3 examines the determination of local public expenditure when households are not mobile.

The local tax structure is taken as fixed, and the only way local tax rates vary is through the introduction of a government budget constraint. Different institutional structures are considered, but mainly two important kinds of models are addressed.

On the one hand, the community preference model is tackled. The assumption is made that a community can be considered as behaving as a single household; the chief conclusion is that matching grants lead to greater increases in spending per dollar transferred to a locality with respect to lump-sum grants, since they encompass both a substitution effect and an income effect: this is the flypaper effect. This conclusion
can be generalised to the case of heterogeneous and self-interested voters that determine local public expenditure through simple majority voting, and the assumption of identical households can be replaced by alternative justifications (more satisfactory from an empirical point of view).

On the other hand, the median voter model is studied, which commonly assumes that a fixed electorate must determine a public issue via a series of pairwise votes over a set of alternatives and according to a mere majority voting procedure that will lead to a majority voting equilibrium if the single-peakedness restriction on voter preferences is satisfied (this equilibrium will be the preferred outcome of the voter who has the median ideal point). Though this assumption falls if multidimensional issues are considered, a majority voting equilibrium may appear if issues are independent or if there are single-dimension sets of alternatives. The level of expenditure chosen by a median voter generally does not satisfy the Samuelsonian condition for first best efficiency (some limitations are to be related to the idea that there is no a priori reason why the median voter should be the household with median income or median house value, or to the multiple and fractile fallacy criticisms). Some applications of the median voter model are developed; variations and extensions, based on widened institutional structures or taking into account households mobility, are presented.

Conversely to the previous chapter, Section 4 examines how the determination of public expenditure is affected by household mobility.

The Tiebout hypothesis is at the centre of the analysis, i.e. people’s choice of location reveal their preferences for public goods. Capitalisation literature is scrutinised, with a clear-cut distinction between two kinds of capitalization: on the one hand, comparative static capitalisation is dealt with, which hints at some variation in a locality of the equilibrium land or property value resulting from some variation in local policy and occurring in a perfectly mobile residents framework (utility-taker jurisdictions represent a necessary condition for comparative static capitalization to occur; otherwise strong assumptions on preferences would be required). On the other hand, cross-sectional capitalisation is analysed, which depicts a variation in property across jurisdictions observed in a given equilibrium of public expenditure and taxes, if jurisdictions are otherwise identical and households can continuously vary

1 Role that bureaucrats might play in determining the agenda in a majority-voting decision
their tax-expenditure package through locational choice.

As far as comparative static capitalization is regarded, it appears that households mobility allows the revelation of preferences for the local public good because it is possible to infer the marginal rate of substitution between public and private goods from the knowledge of equilibrium house value variation in response to a policy change; a Lindahl equilibrium can be reached. The importance of some assumptions is obvious, as the absence of tax distortions, or the fixity of population induced by the fixity of the housing stock.

Models of profit-maximising localities, which result in both public expenditure and locational efficiency, are opposed to analyses based on the theory of clubs, which consider no spatial structure or locational fixity but allows interpersonal crowding effects; besides, Professor Willdasin pays attention to strategic interactions arising in profit-maximising entrepreneurs models and studies more into details enriched voting models.

Section 5 examines the tax incidence and the tax distortions induced by property and land taxation².

As regards tax incidence, two views contradict: on the one hand, the old view assumes that a tax on property is levied on land and on structure, with land supply fixed and structures becoming mobile in the long run; this mechanism can only be considered in a small jurisdiction frame since the net return to capital is considered as fixed. This kind of taxation proves to be regressive. On the other hand, according to the new view, a property tax is simultaneously imposed in thousands of jurisdictions in the entire economy; if capital supply is inelastic, the tax reduces the net return to capital and land, since a change of the property tax level (or structure) in one jurisdiction not only modifies the tax burden weighting upon land in this locality, but it also affects capital in the whole economy; the tax is progressive in its incidence.

To what regards property tax and resource allocation: on the one hand, in the economy as a whole, if aggregate capital supply is fixed, uniform property or capital income taxes disturb the efficiency of resource allocation by driving apart intertemporal marginal rates of substitution and transformation: they exert substantial effects on intersectoral resource allocation; on the other hand, in individual jurisdictions, capi-

² In each jurisdiction, fixed population, land and capital combine to form residential or non residential property
tal supply is perfectly elastic in the long run, a reduction of the local tax in one jurisdiction triggers off an inefficient inflow of capital. Property taxes improve the efficiency of resource allocation when they are imposed in an economy in which housing capital would otherwise be differentially undertaxed.

The last part of the chapter examines the conditions for land taxation neutrality. In a model where land and capital assets are held by life cycle utility-maximising households in an overlapping generation model, a rise of the tax induces a rise in capital, so that the return to capital decreases and gross returns to labor and land increase: land does not bear the entire burden of the land rent tax. A rise in the tax rate raises the discount rate, which discourages projects that yield returns in the more distant future.

Section 6 considers horizontal and vertical fiscal interactions and analyses the benefit and tax spillovers among local governments, intergovernmental grants and the probability that jurisdictions might use their policy to manipulate the size and composition of the resident population. Issues including interjurisdictional spillovers, tax export, tax competition, optimal local taxation, intergovernmental transfers, are dealt with. It is sometimes argued that the incentive to tax capital distorts local tax structure and that tax export induces higher-than-efficient levels of local public expenditure. Tax exportation is often related to the market power of a jurisdiction, tax competition reflects a highly elastic supply factor to a locality with respect to a locality unable to impose a burden on non resident factors owners.

Though much progress has been achieved in Local Public Economics since the diffusion of this book, this work remains a fantastic basis for anyone eager to study urban public finance and develop analyses in this area.

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