

Discussion of Ed Glaeser “Urban Public Finance”

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What is special about local/urban public finance?

- Factor mobility
- Spillovers
 - Agglomeration
 - Crowding
- Hierarchy
 - Federalism
 - Competition with many neighbors
- Spatial heterogeneity in endowments

Four questions

- How are local governments organized?
 - Cities, school boards, special districts
- What functions/services do local governments provide?
 - Water, sanitation, firefighters, police, schools, infrastructure
 - Zoning/regulation
- Why do they provide them?
 - Emphasis on preventing negative externalities and political economy issues.
- How is the necessary revenue raised?
 - Property taxes, sales taxes, fees, intergovernmental transfers.
 - Balanced budgets

Some quantitative research
questions for young scholars

How *should* local governments be organized?

- When are special districts a good idea? Are jurisdictional boundaries optimal? Should we have metropolitan governments?
- Well known theoretical literature (Tiebout, 1956; Oates, 1972; Besley and Coate, 2003).
 - “The key insight remains that heterogeneity and spillovers are correctly at the heart of the debate about the gains from centralization” (Besley and Coate, 2003)
- Small but important empirical literature on determinants of local government size (e.g. Alesina, Baqir, and Hoxby, 2004).
- Not much empirical work on optimal of design of local governments. (Strumpf and Oberholzer-Gee, 2002)
 - Does one size fit all?

Are local services being over- or under- provided?

- Pure public goods are likely to be underprovided but the political process in conjunction with mobility may, in some cases, lead to over-provision.
- Careful quantitative valuation of some services in recent literature:
 - School Facilities (Cellini, Ferreira, and Rothstein, 2010)
 - Local federal formula spending (Suarez Serrato and Wingender, 2011)
 - Transportation (Knight, 2004; Small, Winston, and Yan, 2005)
 - Some evidence on social costs/value of zoning/regulation (Glaeser and Ward, 2008; Greenstone and Gallagher, 2008).

Areas of opportunity

- Some programs haven't been adequately studied
 - Many large infrastructure projects still controversial and haven't been studied in general equilibrium context.
 - Value of local hospital services understudied.
 - Literature on effectiveness of police funding suffers from endogeneity problems and usually ignores equilibrium responses.
- Migration response to local benefit generosity levels still heavily debated (e.g. Borjas, 1999; Levine and Zimmerman, 1999; Kennan and Walker, 2010, 2011)
 - Important for services other than simply welfare benefits.
 - Critical for precise statements regarding efficiency

Areas of Opportunity (cont.)

- Migration response of firms/capital also important and controversial. (Bartik, 1991; Holmes, 1998; Head and Mayer, 2004; Rothenberg, 2011)
- How to factor into evaluation the potential benefits/costs of further agglomeration? (Glaeser and Gottlieb, 2008)
 - Qualitative conclusions from local and global analysis may differ with sharp agglomeration nonlinearities (Kline 2010)
 - Do these nonlinearities exist? (Kline and Moretti, 2011)
 - Are cities already too big or too small? (Henderson, 1977; Arnott, 1979; Albouy and Seegert, 2011)

How *should* revenue be raised?

- Local governments rely on property and sales taxes.
- Quantitative assessment of GE incidence and efficiency of property taxes still debated (Fischel, 2001; Nechyba, 2001; Zodrow, 2001).
- Same for sales tax. Moreover, efficiency of sales tax is probably changing with the rise of the internet. (Goolsbee, Lovenheim, and Slemrod, 2008).
- Out of sample questions: could we tax land ala Henry George? What would happen if we had local value added taxes?

Dynamic Concerns

- Local tax policy is often linked to economic development (Bartik, 1991).
- Can temporarily sheltering an industry or neighborhood from taxes constitute a good development strategy?
 - Million dollar plants (Greenstone, Hornbeck, and Moretti, 2008).
 - Federal empowerment zones (Busso et al, 2011; Ham et al. 2011) meant to be temporary.
- Big push investment strategies (Kline and Moretti, 2011)

Dynamic Concerns (cont.)

- Potential holdup problems in large contracted projects.
- Desirability of local budget balance given a mobile population.
- Whether to bail out local governments.