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.
- 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.