

What do Cities Spend on? What “should” they spend money on?

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What level of government does what?

- The study of “fiscal federalism” in economics focuses on questions of:
- assignment and allocation of public service provision across levels of government
 - Does the efficiency of the provision depend on the nature of the public service?
 - What are the distributional implications?
- Decentralization (local rather state, state rather than federal) vs. Centralization
- Key considerations:
 - The mobility of people and firms to move among jurisdictions
 - Economics/Diseconomies of Scale (reductions in duplication)

What level of government does what?

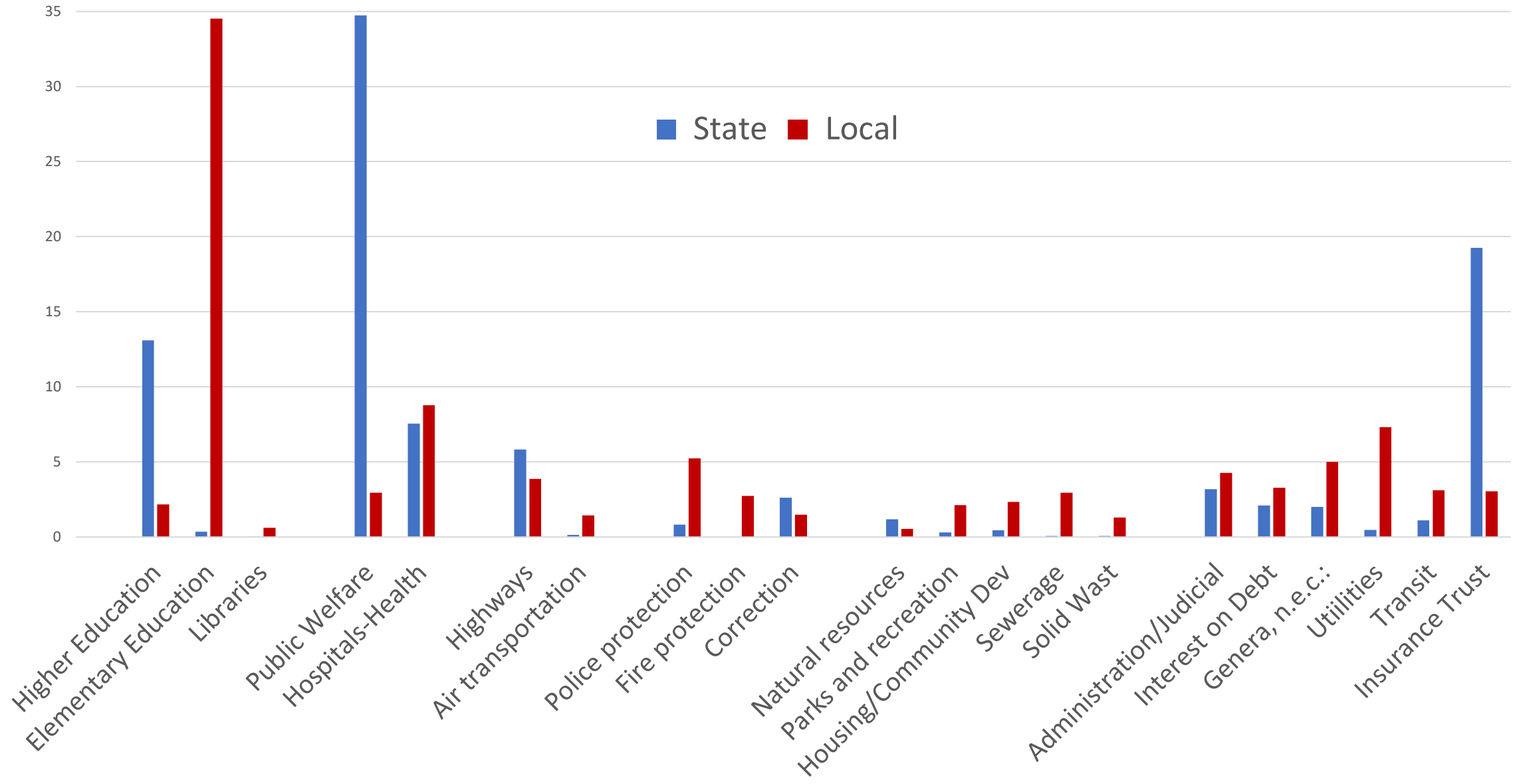
- Decentralization and mobility:
 - Ability of households to choose the level/mix of public services they want through choice of location (+)
 - Race to Bottom
 - Competition for tax base among jurisdictions → lowers public services (-)
 - Mobility of high-income/low-income households limits the extent of redistribution
 - Not exploiting economies of scale

What might economics suggest about level of government for different services

- Local: Limited returns to scale, No “spillovers in services”, More opportunities for choice
 - Police/Fire
 - Education
- State: Broader area of benefits/ spillovers, greater returns to scale
 - Highways
 - Higher Education
 - Corrections
 - Public Welfare
 - Mobility of recipient population (welfare magnets)
- Federal: Broadest area of benefits (US) & Greatest returns to scale
 - Defense
 - Public Welfare/Assistance
- General rule: the lower the level of government, the less redistributive tax and public service polices can be

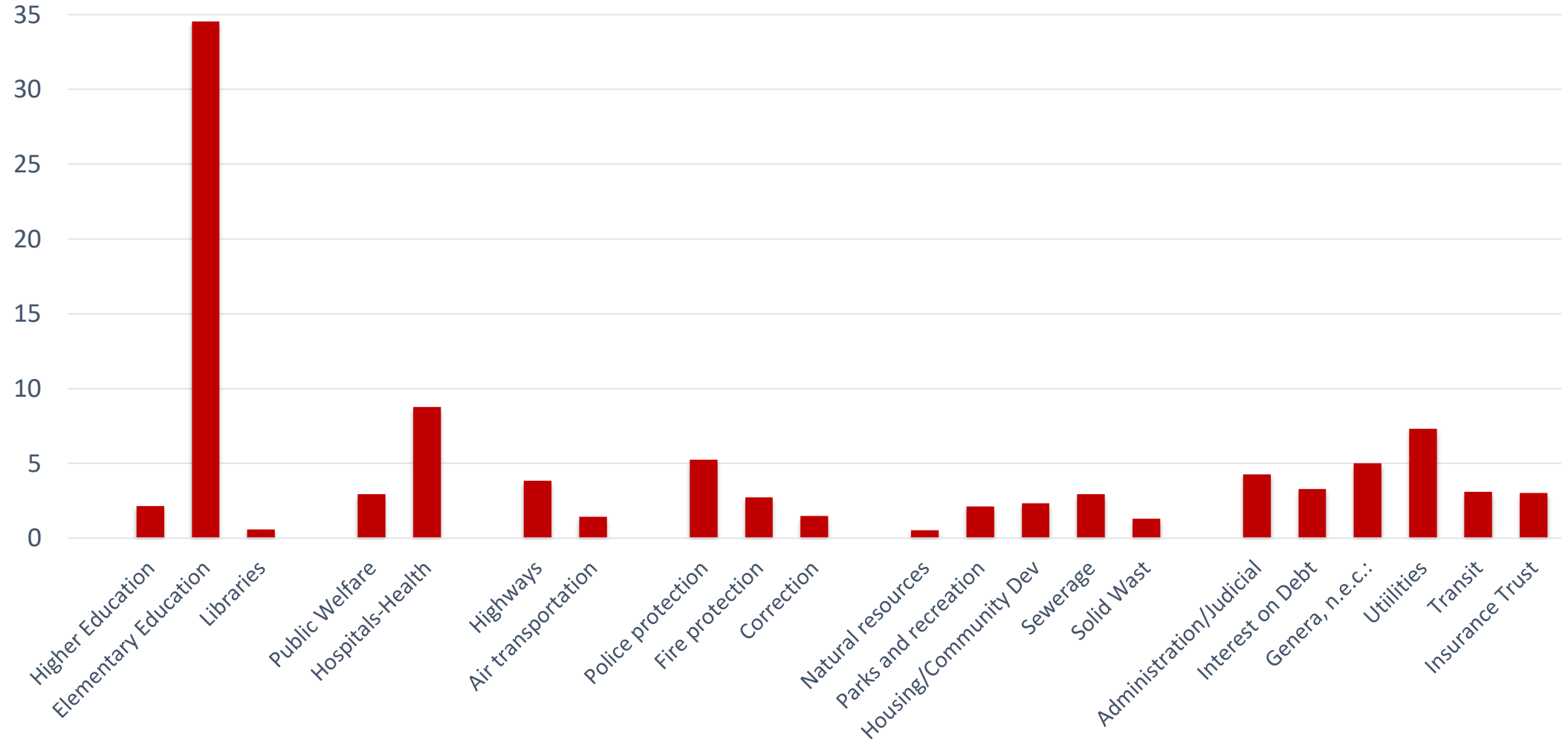
Local vs. State Expenditures

State and Local Expenditure Shares, US 2020

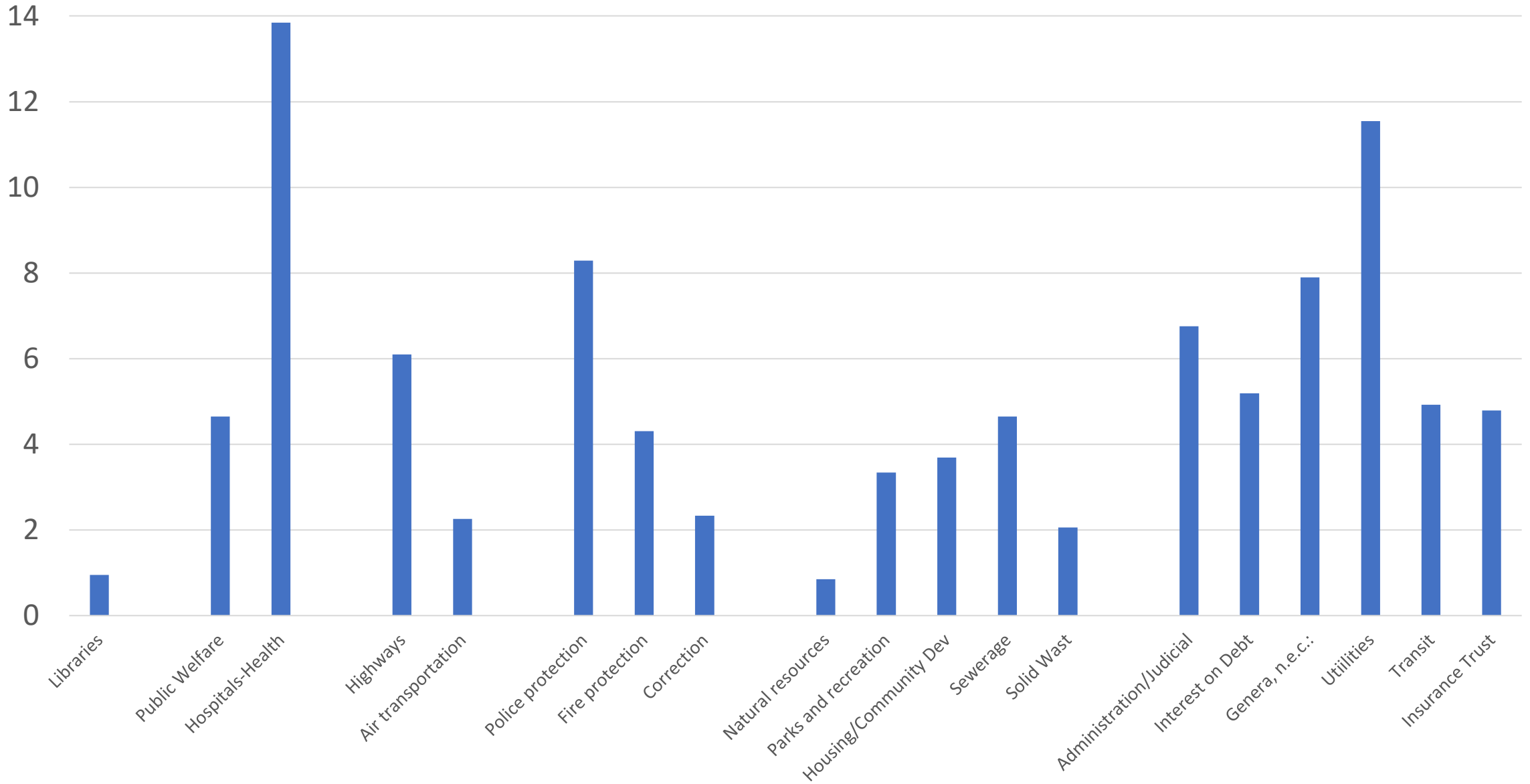


What do Local Governments Spend On?

Local Expenditure Shares, US 2020



Local Expenditure Shares Excluding Education, US 2020



Trends in Local Spending

Local Expenditure Shares, 2000, 2010, 2020, US

