

**Workshop on “Local Public Goods, Politics and
Multijurisdictional Economies”**

Final report

Paris, 2nd and 3rd July 2002
Maison des Sciences Economiques
Université Paris-1 Panthéon-Sorbonne
106-112 Bd de l'Hôpital
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Organizers :

Hubert Kempf (EUREQua, U. Paris-1), Cuong Le Van (CERMSEM, U. Paris-1), Myrna
Wooders (U. Warwick)

1 – Executive summary

The proposed workshop was planned to discuss three major topics that witness recent advances both in theory and empirical public economics or deserve innovative and challenging analyses by economists:

- 1 - Local public amenities
- 2 - The political economics of local public goods and taxation
- 3 - Political institutions and fiscal federalism

These three topics are particularly relevant with the current debate on the future of European institutions: How should we understand subsidiarity? What sort of federalism should be adopted by Europeans? What is the right mix between markets and public interventions? What are the right boundaries for European public institutions?

The conference took place as scheduled in the premises of the Maison des Sciences Economiques of the Université Paris-1 Panthéon-Sorbonne.

15 papers were presented and discussed. All papers, except one, were discussed by a designated discussant. In addition, all papers excited animated discussion by the participants generally.

Contributors came from 6 European countries and from the USA.

Discussants came from 3 European countries (with a strong representation of French academics) and the USA.

While the subject of the Workshop was focused on questions of multijurisdictional economies, the diversity of interrogations and methods used by the various authors was stunning, ranging from empirical studies using econometric techniques to theoretical contributions, deeply rooted in game theory or the fundamentals of decision theory.

2- Scientific content

It is of course impossible to summarize the 15 contributions that have been presented and discussed during the workshop.

Four half-day sessions were designed by the organizers to treat the topics of the Workshop. It is probably suitable to follow this set-up to present the scientific content of the workshop.

A/ The first session dealt with the issue of fiscal federalism. This is clearly a major topic of interest for local public economics. It has clear relevance for the future of the European Union. Should there be a central government, in addition to local ones, that could be responsible for correcting the distortions created by horizontal competition among local jurisdictions. The first paper by Casella offers a theoretical model where redistributive motives and policies are linked to geographical imbalances and agglomeration effects. The paper by Conley and Rangel studies how to design a fiscal constitution that is able to protect future generations from expropriation and to generate optimal investment in intergenerational public goods. The empirical paper by Richard, Tulkens and Verdonck tests the existence of fiscal interactions between Belgian municipalities. They prove these interactions to exist but the adjustments to occur at an extremely low pace.

B/ The second session addresses the tax and amenity competition problem. The first paper by Wooders, Zissimos and Dhillon proves that the level of public good provision and taxation in an inefficient Nash equilibrium can be associated either with too much or too little public good provision. This is in contrast to the perhaps standard conclusion that tax competition leads to underprovision of public goods. Rizzo in his paper develops a theory of equalization by means of good mobility and then proceeds to test it using tax data from Canada. Pestieu, Sato and Marchand prove in a simple yet elegant model that partial cooperation may be socially desirable. Lastly Weymark offers a highly stylized theory of the notion of “shared goods”, intermediate between pure public and private goods.

C/ The third session was devoted to the political economy of local public goods / jurisdictions. Four papers were presented during this session. Pouyet and Laffont used asymmetric information theory to address the issue of the choice of the regulatory structure when a firm engages in different activities in different jurisdictions. The second paper by Ruys deals with the right concept of governance when public and private goals are combined. The paper by Bellettini also uses a common agency framework to analyse the behaviour of lobbies. Finally, the paper by Bordignon, Cerniglia, et Revelli uses spatial econometrics techniques applied on Italian cities data to test the theory of “yardstick” competition.

D/ The topic of the last session was on the use of coalitions and network theory in the study of local public entities. The paper by Barbera and Bevia deals with the connections between the choices over complex decisions and the partitions of citizens into different interest groups so as to get a stable solution. The second paper by Gomes and Jehiel considers the efficiency and convergence properties of dynamic processes of social and economic interactions. The third paper by Moizeau, Tropeano and Vergnaud investigates the possibility that informational (dis)advantages may be responsible for social and economic segmentation and discrimination. The fourth paper by Kempf and Moizeau uses coalition theory tools to show how the dynamics of inequality and changing social segmentation are related.

3 – Assessment

The organizers do not plan to publish in any way the proceedings of the workshop. It was understood by all participants that the workshop was intended for the presentation and the discussion of freshly baked contributions or work in progress. The discussions were a way for each participant to have a broader view of what is currently being researched in the domain of local public goods economics and to get a early feedback on his or her own work. This should allow contributors to improve their own work and make it ready for submission in scientific reviews of excellence.

The workshop, however, was not a once-and-for-all event. The organizers expect to build upon the personal links reinforced or created during the workshop and pursue collective research on the topic of local public economics.

Future meetings between participants to the workshop are already planned in Marseille, Paris, and at the next meeting of the Association for Public Economic Theory.

4 – Final Programme

Tuesday 2nd, 9.00 – 12.30

Fiscal federalism

1 – Alessandra Casella (Columbia University and GREQAM, Marseille)

Redistribution Policy. A European Model.

Discussant: Fabien Moizeau

2 – John Conley, University of Illinois.

Intergenerational Fiscal Constitutions: How to Protect Future Generations Using Land Taxes and Federalism (with Antonio Rangel)

Discussant: Emmanuelle Taugourdeau

3 – Magali Verdonck, CORE and University of Louvain-la-Neuve.

Dynamics of the fiscal interactions between Belgian municipalities: 1984-1997 (with Jean-François Richard and Henri Tulkens)

Discussant: Guy Gilbert

Tuesday 2nd, 14.30 – 18.30

Tax competition and amenities

4 – Ben Zissimos, Warwick University, UK.

Hotelling tax/amenity competition (with Myrna Wooders)

Discussant: Hubert Kempf

5 – Leonzio Rizzo, London School of Economics.

Equalization and Tax-Competition: Theory and Evidence

Discussant : Myrna Wooders

6 – Pierre Pestieau, Université de Liège, Belgique.

Can piecewise tax coordination be welfare improving? (with Motohiro Sato and Maurice Marchand)

Discussant: Charles de Bartolome

7 – John Weymark, Vanderbilt University.

On the economics of shared goods

Discussant: Jean-Marc Bonnisseau

Wednesday 3rd, 8.30 – 13.00
Political economy with local public goods

8 – Jérôme Pouyet, CERAS, Paris.
Subsidiarity bias in regulation (with Jean-Jacques Laffont)
Discussant: Amrita Dhillon

9 – Pieter Ruys, Tilburg University, the Netherlands.
Governance of Public-Private Partnerships
Discussant: Alain Desdoigts

10– Giorgio Bellettini, University of Bologna, Italy.
Lobbying for local public goods (with Sebastiano Bavetta)
Discussant: Etienne Lehmann

11 – Massimo Bordignon, Università Cattolica di Milano.
In search of yardstick competition : property tax rates and electoral behavior in Italian cities (with Floriana Cerniglia and Federico Revelli)
Discussant: Alain Trannoy

Wednesday 4th, 14.30 – 17.30
Coalitions and networks with local public goods

12– Salvador Barbera, Autonomous University of Barcelona, Spain.
Condorcet stable rules (with Carmen Bevia).
Discussant: John Weymark

13– Philippe Jehiel, CERAS, Paris, France.
Dynamic Processes of Social and Economic Interactions: On the Persistence of Inefficiencies (with A. Gomes).
Discussant: Anne van den Nouwelande

14 – Jean-Philippe Tropeano, EUREQua, University Paris-1 Panthéon-Sorbonne.
Informational neighborhood effects and the organization of the city, (with Jean-Christophe Vergnaud and Fabien Moizeau)
Discussant: Francisco Mora

15 – Hubert Kempf, EUREQua, University Paris-1 Panthéon-Sorbonne.
On the Joint Dynamics of Inequality and Social Segmentation (with Fabien Moizeau).

18.00 – *End of the workshop.*
Cocktail at the Mairie du Vème arrondissement.

5 – Contributors and Discussants

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6 – Statistical information on participants

Age :

Under 30 :

Countries of residence of contributors:

Belgium : 2
France : 4
Italie : 2
Netherlands : 1
Spain : 1
UK : 2
USA : 3

Countries of residence of discussants:

France : 8
Spain : 1
UK : 2
USA : 3

Positions of contributors

Full professors : 8
Associate professors : 3
Ph. Students : 4

Positions of discussants

Full professors : 9
Associate professors : 3
Ph. Students : 3