Contents

	Preface Acknowledgements	xv xviii
	RT I roduction	1
1111	Toduction	1
1.	Why study state and local government finance?	3
	Headlines 3	
	Structure of subnational government 4	
	Fiscal characteristics of the subnational public sector 6	
	Diversity of subnational governments 13	
	International comparison: government spending in	
	selected industrialized nations 23	
	Fiscal role of subnational governments 25	
	Summary 28	
	Discussion questions 29	
	Notes 29	
	Selected readings 30	
2.	Microeconomic analysis: market efficiency and market failure	31
	Headlines 31	
	The efficiency of the market 32	
	When markets are not efficient 35	
	Distributional concerns 39	
	Efficient provision of public goods 40	
	Application to state and local governments 43	
	Application 2.1: Public and private provision of public safety 44	
	Summary 46	
	Discussion questions 47	
	Notes 48	
	Selected readings 48	

PART II

Public choice and fiscal federalism

3. Demand for state and local government goods and services

Headlines 51

Understanding and measuring demand 52

Evidence about demand for state-local services 57

Application 3.1: Business demand for government service 65

Summary 66

Appendix: Using elasticity to characterize demand 67

Discussion questions 70

Notes 71

Selected readings 72

4. Public choice without mobility: voting

Headlines 73

Fiscal choices 73

Majority voting 76

Alternative voting methods 82

Application 4.1: Voting for public school budgets 86

Summary 87

Appendix: Indifference curve approach to voting models 88

Discussion questions 90

Notes 91

Selected readings 92

5. Public choice through mobility

Headlines 93

The Tiebout hypothesis 94

Evaluation of the Tiebout model 96

Extensions of the Tiebout model 101

Public choice: Evidence 106

Summary 107

Discussion questions 108

Notes 109

Selected readings 110

6. Organization of subnational government

Headlines 111

Economic issues of fiscal federalism 112

Optimal government size 116

International comparison: Government structure in

four federal nations 120

1

		Contents ix
49	Policy applications and cases 121 Summary 125	
51	Discussion questions 126 Notes 127 Selected readings 127	
	PART III Provision of state and local goods and services	129
	7. Budgeting and fiscal outcomes	131
73	Headlines 131 Fiscal results 132 Application 7.1: The Great Recession and state-local fiscal responses 135 Budgeting process: Schedule and rules 138 Tax and expenditure limits 151 Summary 157 Discussion questions 158 Notes 159 Selected readings 159	
93	8. Costs and production of state and local goods and services Headlines 160 Measurement and production of government services 161 Application 8.1: The pension funding crisis 167 Productivity and costs 169 Application 8.2: Technology, productivity, and public safety 175 Private provision of public services 177 Application 8.3: Changing criminal justice policy in response to costs 182 Summary 183 Discussion questions 184 Notes 184 Selected readings 185	160
111	9. Pricing of government goods: User charges Headlines 186	186

Types and use of charges 188 Theory of user charges 190

Application of user charges 200

Application 9.1: Pricing at congested tennis courts 199 Application 9.2: Parking fees and parking meters 200

x Contents

International comparison 208

Summary 209

Discussion questions 210

Notes 211

Selected readings 212

10. Intergovernmental grants

Headlines 213

Grants in the U.S. fiscal system 213

Purposes of grants 219

Types of grants 220

Fiscal effects of grants: Economic theory 222

Fiscal effects of grants: Evidence 229

Is grant money different than tax money? 231

Intergovernmental grant policy 233

Application 10.1: American Recovery and Reinvestment Act (ARRA) 235

International comparison: Grants in major federal nations 237

Summary 239

Appendix: Indifference curve analysis of grants 240

Discussion questions 241

Notes 242

Selected readings 242

11. Borrowing, debt, and capital investment

Headlines 244

Borrowing and debt 244

Capital investment 251

Tax exemption for state and local bond interest 256

Policy issues 267

Application 11.1: Financing for sports facilities 273

Summary 274

Discussion questions 275

Notes 276

Selected readings 276

PART IV

Revenue for state and local governments

12. Principles of tax analysis

Headlines 279

The economic issues: Incidence and efficiency 279

Single-market tax analysis 282

	Multimarket tax analysis 290 Application 12.1: State diesel fuel taxes—multimarket analysis in practice Summary 296 Discussion questions 296 Appendix: Indifference curve analysis of tax efficiency 297 Notes 299 Selected readings 299	294
13.	The property tax: institutions and structure	300
	Headlines 300 Reliance on property taxes 301 The property tax process 303 Property assessment 310 Application 13.1: Opportunity cost and the value of leased commercial property 316 Property tax relief or reduction measures 317 Application 13.2: Payments-in-lieu-of-taxes 327 Summary 329 Discussion questions 330 Notes 331 Selected readings 332	
14.	Property tax: economic analysis and effects Headlines 333 Property taxes as capital taxes 334 Is the property tax regressive? 343 An alternative perspective: The benefit view 346 Land value taxation 347 Voting on property taxes 349 Summary 354 Discussion questions 354 Notes 355 Selected readings 356	333
15.	Sales and excise taxes Headlines 357 Reliance on consumption taxes 358 Consumption tax structure issues 362 Application 15.1: Sales taxes on services 367 Economic analysis: efficiency 374 Application 15.2: E-commerce, remote sales, and state taxation 380 Application 15.3: Cigarette taxes, smuggling, and use 383 Economic analysis: Equity 385	357

3

xii	Contents	
	Summary 389	
	Discussion questions 389	
	Notes 390	
	Selected readings 391	
16.	Income taxes	392
	Headlines 392	
	Reliance on income taxes 393	
	Income tax structure issues 394	
	Application 16.1: State income taxation of nonresidents 403	
	Economic analysis: Efficiency and equity 404	
	Application 16.2: State income taxation, progressivity, and mobility 408	
	Application 16.3: State income taxation and an aging population 410	
	The choice of state tax structure 413 International comparison: Types of subnational government taxation 417	
	Summary 417	
	Discussion questions 420	
	Notes 421	
	Selected readings 422	
17.	Business taxes	423
	Headlines 423	
	Reliance on business taxes 424	
	Application 17.1: Tax avoidance through holding companies 426	
	Business tax structure issues 427	
	Economic analysis: Efficiency and equity 436	
	Application 17.2: Discriminatory business taxes: The insurance case 443	
	Summary 444	
	Discussion questions 445	
	Notes 446 Solosted madings 446	
	Selected readings 446	
18.	Revenue from government monopoly and regulation	447
	Headlines 447	
	Economics of government monopoly 448	
	Application 18.1: The official of your city 453	
	Operation of government monopoly 455	
	Application 18.2: Expansion of state gambling: Internet and sports betting 471	
	Application 18.3: METOO-1: Personalized and specialty	
	license plates 472	
	Summary 474	
	Discussion questions 475	

Notes 476	
Selected readings 477	
FART V	479
Applications and policy analysis	4/2
14. Education	481
Headlines 481 Education environment 482 Intergovernmental grants for financing education 492 Application 19.1: State attempts to reform education finance—the Michigan case 501 Producing education 504 Application 19.2: School size and performance 512 Assessing educational results 514 Application 19.3: No Child Left Behind vs. Common Core standards 519 International comparison 521 Summary 526 Discussion questions 527 Notes 528 Selected readings 528	
20. Transportation	530
Headlines 530 Financing transportation: Current practice 531 International comparison: Differences in transportation modes and facilities 537 Financing transportation: Theoretical issues and alternative practices 538 Application 20.1: Alternatives to gasoline taxes 548 Optimal transportation pricing 551 Application 20.2: Transportation policy: A state or local function? 559 Application 20.3: Allocating transportation funds 560 Summary 562 Discussion questions 563 Notes 563 Selected readings 564	
21. Health and welfare	565
Headlines 565	

Poverty and health care in the United States 566

xiv Contents

Magnitude of health and welfare expenditures 571
Financing welfare and health care services: Major current programs 573
Financing health care and welfare services: Policy and structural issues 589
International comparison: Providing health care services 598
Summary 600
Discussion questions 601
Notes 603
Selected readings 604

22. Economic development

Headlines 606
Interstate differences in economic conditions 607
Interstate differences in fiscal policy 612
Application 22.1: Enterprise zones 622
Effects of fiscal factors: Theory 623
Effects of fiscal factors: Evidence 628
Policy issues 633
Application 22.2: Business climate studies and rankings 635
Application 22.3: Subsidizing sports for economic development 637
Application 22.4: Assembling land for public use 639
Summary 641
Discussion questions 641
Notes 642
Selected readings 643

61

71

Bibliography Subject index Name index