

The critique of public choice theory on metropolitan governance literature review...

[Sociology](#), [Community](#)



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In addition to the fact that Tiebout's assumptions are unrealistic, as mentioned before, even with these assumptions he did not provide a mathematical proof of the equilibrium in his article. Some scholars tried to formalize the model and suggest that the model does not work as we would expect from a Pareto optimal general equilibrium model. Bewley (1981) showed that Tiebout equilibrium does not have a Pareto optimal solution unless we add some other restrictive assumptions to the model. He provided a series of examples which highlights the inefficiency of Tiebout model. Moreover, as the reviewed literature shows, relaxing Tiebout's assumption does not solve the inconsistencies and disequilibrium of the model. With this in mind, the literature reveals that the model does not provide sufficient support for its validity and utility in the real world.

-Testing Tiebout 1: Residential sorting (Tiebout's sorting) Do people vote with their feet?

Because residential mobility is the core of Tiebout's model, many scholars tried to test this assumption more than others. However, some scholars noted that (Lowery and Lyons, 1989, Kay and Marsh 2007) there are some

methodological problems in the much of the Tiebout literature. One problem is using aggregate data to show the communities are homogeneous in structure or preference in line with Tiebout's model. However, aggregate studies do not show that the homogeneity occurs because of the people's preferences of tax- service bundles. Instead, other factors, including proximity to work and other fiscal considerations, are typically the reasons for this homogeneity, and the primary impetus for moving into different jurisdictions.

In Kay and Marsh (2007), the public choice models based on the Tiebout hypothesis are very difficult to translate into a feasible stance on residential mobility. Tiebout's predictions of people 'voting with their feet' are not supported by the evidence, as people do not consider tax service bundles as a primary factor in relocation and moving into new jurisdictions. With that in mind,

An earlier example of this type of aggregate tests is Samuelson's (1958) critique of Tiebout. He says that existing urban communities are not homogeneous and there are migration thresholds among communities. However, Wood (1958) claimed that there is a high degree of homogenization within suburban communities. While some suburbs are very wealthy, some suburbs were very poor. There was stratification of political jurisdictions by wealth. Williams et al. (1965) verified Wood's findings and demonstrated the stratification by occupational class within suburban communities. Stein (1987) found heterogeneous tax-service packages across jurisdictions within metropolitan areas. However, their populations were not

socio-economically homogeneous as would be expected if the Tiebout's sorting hypothesis were true (Stein first used the term 'sorting hypothesis' for the Tiebout's model).

According to McDonald (2010), two perspectives exist when discussing the Tiebout hypothesis. Tiebout's hypothesis is said to provide one type of explanation for American population migratory patterns, as well as offer a defense for the fragmentation of metropolitan service areas. Tiebout's model is said to be able to determine property values through placing value on public goods and services. Furthermore, retirement patterns for the elderly are anticipated and explained through capitalizing community public goods into personal income.

However, this perspective is weighed heavily against the criticisms of the Tiebout model, which denotes the unrealistic assumptions that have been covered earlier. In essence, the only way in which these ideal, normative situations are able to work is through a series of increasingly strict assumptions, which can only happen a perfect world of public services that are proportional to the population, free trade regionwide, and totally homogenous communities with little to no spillover (McDonald, 2010). Furthermore, the Tiebout hypothesis has been found to be incredibly inconsistent with regards to the real behavior of citizens; studies have shown that communities are becoming more homogenous and similar in their tastes, showing a tendency toward the opposite trend than Tiebout is recommending. Econometric controls are not used very often in the Tiebout hypothesis, and community measures are typically accomplished through

flawed census tracts, which are far from representative of demographic shifts in communities (McDonald, 2010).

-Testing Tiebout : information and mobility

Some scholars tested this assumption and found that citizens usually do not have necessary information on tax and service packages of local governments (Lowery and Lyons, 1989). In most cases important tax and public service information is not freely and transparently available to the public (Boadway et al., 1999; Lockwood, 1999). Getting available information is usually costly and requires a certain level of education. People also face cognitive limitations to perceive and analyze the information correctly. On the other hand, Teske, Schneider, Mintrom, and Best (1993) argue that marginal consumers who think to move or enter a jurisdiction is highly informed about public goods and taxes. Bickers and Stein (1998) argue that even though most people do not have concrete information on tax-service bundles, when needed, they use information shortcuts to decide the best jurisdiction to move and reside. These may include socio-economic profiles of other people on the area, cleanliness of the streets, types of houses etc. In a recent study, Killian and Le (2010) found that as many as 74 percent of Americans can not tell the differences among county, city or special districts and they do not know under which type of local governments they live.

One of the biggest assumptions made in the Tiebout model is that all citizens are constantly updated and aware of all information related to the running of tax-related services, as well as how all municipalities are being run. " For the Tiebout model to work, citizen consumers must have accurate knowledge of

the alternative local public service-tax packages being offered elsewhere in their region" (Lowery & Lyons, 1989). Investigating the individual information assumptions and their respective validity, Lowery & Lyons (1989) sought to find out whether or not individuals had this perfect knowledge. Studying individuals' awareness of alternative service-tax packages provided by neighboring jurisdictions, their motivation to leave jurisdictions at the notification of incongruous service-tax packages, and the prioritizing of service-tax packages provided by municipalities as an incentive to move. The researchers did not find enough evidence to support these assertions, concluding that the way in which governments and their respective services are organized does not make a significant enough difference in the attitudes of households to justify the assertion that Tiebout makes (pp. 94-45). Essentially, the primary problem with the information assumption of the Tiebout model is the idea that households also know about comparable service-tax packages provided by adjacent or competing jurisdictions. This does not line up with the actual research and study of consumer bases, who often do not have that level of information about purchases of any kind, particularly homes (Teske et al., 1993). Those members who do are typically upper class, with high incomes, making them especially able to drive competition in these markets; extending the analogy to local public goods, the most informed citizen consumers will likely drive the market toward themselves. The problem with this is that the entire population is not equitably knowledgeable about these markets, and the competitive market favors high-income movers who have a disproportionate understanding of

service-tax packages (Teske et al., 1993). This removes the level playing field Tiebout assumes, and undercuts the validity of public choice.

Testing 3: Are fragmented local governments more efficient?

Dowding, John and Biggs (1994) reviewed this literature in detail in their survey article. Referring to the reviews of Zimmerman (1970) and Freisama (1972) they say that some scholars defended larger jurisdictions on the grounds of greater cost-effectiveness due to the economies of scale and scope. Opponents of this view (for example Bisch, 1971, 1979, and 1987) have used Tiebout model to argue that smaller jurisdictions are more efficient providers of public goods. Dowding, John and Biggs (1994) categorized the literature under two titles: supply-side tests and demand-side tests. Supply-side tests are about the productive efficiency of local bureaucracies and demand-side tests are about citizen's service satisfaction.

Dowding, John and Biggs (1994) categorize supply side-tests under two models. The first model is about bureaucrats' budget-maximizing tendencies and (Niskanen, 1971; Tullock, 1965; Martin and Wagner; 1978; Santerre, 1986) and tendencies to exploit the citizens through maximisation of tax revenues (Buchanan, 1975; Brennan and Buchanan, 1980). Because of the smaller tax base, budget-maximization may be more difficult in smaller jurisdictions (Dowding, John and Biggs, 1994). The second model is about competitions of smaller local governments (Dilorenzo, 1983; Epple and Zelenitz, 1981). Second model is closely related to Tiebout's first and sixth assumptions in a way that citizens' mobility and voting with their feet

restricts policy-makers' actions contrary to citizens' preferences. Dowding, John and Biggs (1994) say that it is hard to distinguish these two effects in the literature. Therefore they surveyed these two effects together. Another difficulty they faced in their review is that the studies that test the effects were measuring expenditure instead of efficiency. From the review of the existing literature they have concluded that the fragmentation generally leads to reduced expenditure but there is no generalizable proof for efficiency.

Demand side tests concerns about whether fragmented local governments are more effective to satisfy their citizens' preferences. To answer this question, Dowding, John and Biggs (1994) start to review the studies of Ostrom, Whitaker and Parks (Ostrom and Whitaker, 1973, 1974; Ostrom and Parks, 1973 ; Ostrom et al., 1977, 1978; Ostrom, 1983, 1983, 1985; Parks and Ostrom, 1981; Parks, 1985) and found that their argument that satisfaction is greater in fragmented small local governments than larger jurisdictions is not confirmed in their studies and their studies only shows personal relationship between public and police is better in smaller jurisdictions. Lowery and Lyons (1989) argue that jurisdictional structure is not related to citizen satisfaction. Downing, John and Biggs (1994) also conclude that it is difficult to argue that there is a relationship between city-size and citizen satisfaction levels.

Fiscal federalism efficiency is seen to be a rarity. Flatters et al. (1974) argue that " decentralized migration and movement of population will result in a Pareto-optimal distribution of population only under very special circumstances" (p. 110). As a result, it cannot be accurately said whether or

not a region that does not have abundant natural resources and land would have a population higher or lower than the average.

The Advisory Commission on Intergovernmental Relations (ACIR) conducted a comparison of two case studies - St. Louis County in Missouri, and Allegheny County in Pennsylvania - which revealed and examined their metropolitan organization and government. In the study, it was determined that many public service functions (police, fire, etc.) were able to sustain viability with few resources, though the two counties provided these services in different ways. The public choice perspective of the study argued that polycentrism was leading to more effective governing, particularly in the St. Louis area (ACIR, 1993). Because of the smaller jurisdictions, small governments were created that granted greater transparency and access to the citizens of these districts, and made the government more responsive to constituents' needs.

However, there were some negative downsides to public choice theory as utilized in the St. Louis area; first, the notion of voluntary cooperation leaves many distressed communities in the area without proper assistance and service allocation. Due to the volunteer nature of many services (e. g. fire department), resource sharing is often avoided or delayed, limiting problem solving capabilities. Furthermore, different jurisdictions lead to more disadvantageous tax burdens for the poor, as the poorer communities had to still tax themselves much more than in rich communities, while still not receiving as many services.

The economies of scale were determined to be roughly successful mainly

due to jurisdictional overlap - " without this overlap, the frequent characterization of highly fragmented metropolitan areas as 'Balkanized' would be more accurate" (p. 14). It was found that, by increasing jurisdiction to larger areas, the allocation of costs towards providing public services (e. g. special education) is much wider and takes less of a financial toll on the community. Given this information, the idea that smaller governments provide greater efficiency in the provision of public goods is not supported. While ACIR believes that metropolitan fragmentation as seen in St. Louis can work, it does do severe harm to distressed communities, and stands in the way of an ideal, equitable community being created.

Calabrese et al. (2009) examine the inefficiencies that come from metropolitan decentralization according to the tenets of the Tiebout theory. According to the researchers, " potential efficiency gains from decentralization are, in practice, largely dissipated" (p. 9). These inefficiencies are caused by the dilemmas that the social planner has in allocating head and property taxes to both the rich and poor. The social optimum they reach eliminates property taxation altogether and leaves only head taxes; this would create a more socially equitable means of taxation that allocates resources and monetary funds accordingly. Assuming no spillovers, and the idea that centralization involves uniform service provision, this still leaves the problem of a large number of households still selecting jurisdictions that have high allocation of household services compared to the tax paid. 95% of citizens involved in a theoretical, computational Tiebout equilibrium ended up with worse expenditure shares, with only the very rich and very poor receiving a greater allocation of tax services than they had

before (p. 15). This result points to dramatic inefficiencies in the Tiebout model that leave many people without properly-distributed tax service provisions.

Critique of Public Choice Theory

Ideological background -normative nature

Public choice theory is rooted in the ideological principles of normality, or "what ought to be", instead of a positive analysis of "what is." The overall goal of public choice theory is to determine just what a system can do in an ideal world; if public choice theory is performed correctly and according to the assumptions of its theorists, it will result in an equitable, perfect system. According to Cashin (2000), it is often said that smaller groups are more likely to find consensus for their actions and leave out a smaller proportion of people who disapprove of said actions (p. 1985). The principles of the public choice theory revolve around the idea that "voters at the state level appear to behave more self-interestedly as decision-making authority is brought closer to them, creating a risk of majoritarian voter tyranny for welfare recipients" (p. 1987).

Localism and public choice, as philosophies, are firmly entrenched in a normative view of local and metropolitan governance - they are extremely concerned with what should be; for example, some localist scholars, including Krug, believe that "local governments are powerless and that more authority ought to be vested in them in order to promote certain values" (Cashin, pp. 1995-1996). Local autonomy is said to be absolutely

paramount to public choice theory, due to the democratic way in which it allows citizens to participate in public affairs - furthermore, it permits goods and services to be distributed more effectively, and provides a better sense of community. By allowing municipal governments to have their own say in how to use land and charge taxes, the problems of dissatisfaction with public service provision should be eliminated (Cashin, 2000).

Localized government structures are justified on the ground of the principle of self-governance. With these smaller-scale governments in place, polycentrists argue that it is easier to maintain services and micromanage resources - there would ideally be less spillover, and less fragmentation and loss of coordination resulting from having more ground to cover (Ross & Levine, 1996).

It is often argued that local governance is more participatory compared to metropolitan governance. According to polycentrists, different people want different things from their governments, and they are willing to move to different jurisdictions that provide the special mix of services that they are looking for. If someone desires lower taxes, they can move to a district with lower taxes - polycentrism creates a multitude of governments from which a person can choose to reside (Ross & Levine, p. 335).

The Tiebout Hypothesis itself does not provide a solid normative ground for public policy. However, the followers of his legacy made strong normative claims. Many of the principles found in the Tiebout hypothesis itself led to the insight of separating service provision from service production by many

public choice scholars to create a new method of metropolitan governance (Howell & Moroney, p. 99). Working from that, many public choice thinkers have linked the same principles found in Tiebout to advance notions of local democracy and limited levels of government, including Vincent Ostrom (p. 99).

-Efficiency problems

There are many efficiency problems that exist with the Tiebout hypothesis and public choice theory. First, there is a claim that many diseconomies of scale occur as a result of a metropolitan area spreading too far - urban sprawl decentralizes a government, and makes it more difficult to maintain infrastructure (Ross & Levine, 1996). In a polycentric or public choice environment, however, dividing a metropolitan area into jurisdictions that can have their own service and taxation " packages" makes service provision more efficient, and appeals to the wishes of the constituents more readily.

However, these arguments do not provide an accurate or realistic picture of the real function of metropolitan areas. The idea that people selectively pick and choose their home jurisdictions or communities based solely on service and taxation attributes; more important factors such as home price, proximity to work and family, and the space afforded by households are factored into the public choice for location (Ross & Levine, p. 337).

-Equity problems

One of the most important criticisms of the public choice theory rests in its ignorance of diversity and equity, and how this attitude stunts social and economic mobility for people in different races and classes. According to polycentrism, a jurisdiction's actions are not affected by the spillover it presents to adjacent communities, only working together with another jurisdiction when it helps them. Given the deeply entrenched social issues of racial inequality and urban poverty, the stunting of social mobility that occurs through this lack of cooperation on the part of communities is a very dangerous and limiting perspective to take (Ross & Levine, p. 337).

Cashin (2000) argues that " In America's metropolitan regionsthe fragmentation of the polity into scores, if not hundreds, of separate political jurisdictions has created a different dynamic of oppression by powerful factions" (p, 1987). In essence, political majorities have created a sense of dominance that negatively affects minority groups, who are excluded from the political process in an event that is called " the tyranny of the favored quarter". In this instance, the high-powered and high-growth populations take more of the public infrastructure investments, as well as jobs, without contributing as much to the tax and social service burden as is typical. As a result, marginalized populations, such as minorities, are cut out of the decision making process while being reduced to poverty due to higher tax burdens than the advantaged. The decentralization of government to the advantage of self-interest has allowed tremendous income and social service disparities to occur, due in part to the principles of localism and public choice (p. 1988).

In conclusion, public choice or polycentrist theories do not represent an accurate view of the way metropolitan governance works. They fail to take into account a number of factors, not the least of which is an overly normative view of public governance which is unsustainable and unrealistic. The concept of 'voting with your feet' has been shown to be flawed, due to the lack of importance people place on tax-service burdens as a factor in fiscal mobility. Citizens typically do not have enough information on taxes and their local governments to make totally informed decisions on that front about where they are going to reside. Furthermore, fragmented governments are shown to be less efficiency, as they do not have the wider base of resources to allocate money to every single desired tax-related service that larger, more homogenous communities possess. Public choice theories also ignore the inherent social issues of fragmentation - in essence, fragmented jurisdictions make it more difficult for racial and ethnic minorities to experience effective social mobility. With these critiques in mind, it can be said that public choice theory, due to its many flaws, is not an ideal methodology for metropolitan governance.

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