

# Taxation with Representation: Intergovernmental Grants in a Plebiscite Democracy

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# Research Question

- **Are intergovernmental grants equivalent to private income?**
- **Economic Relevance**
  - Conflicting evidence for the B & O theory that grants crowd-out local gov't spending.
  - Prediction is that grants are equivalent to a lump-sum tax reduction for the residents of locality receiving the grant.
- **Policy Relevance**
  - Understanding how local gov't responds could inform how public goods could be financed.

# Data

1. NH Dep. of Education - reform grants and enrollment
2. NH Dep. of Revenue Administration - municipal-level tax data
3. NH Office of State Planning - annual population by municipality
4. Nat'l Public-Elementary-Secondary Finance Data (Census Bureau) - school district finance data

# Research Design & Methodology

1. Rooted in the theoretical framework from B&O that predicts for each dollar of grant income received reduces local funding by 90 to 95 cents
2. Instrumental variables and municipal fixed effects.
  - Instrument is per pupil reform grant.
3. Empirical strategy mainly hinges on the reform grant not having endogeneity concerns because it was decided by court ruling outside political bargaining.

# Contribution

- A few years after the reform, for \$1 of grant income, the municipalities reduce local funding by 89 cents. Very close to the theoretical prediction of 90 to 95 cents.
- Robustness checks show municipalities especially satisfying B&O assumptions produce estimates ranging from 88 to 93 cents.
- Show that the reduction in local education spending, and no increase in spending on other public goods demonstrate the grant dollars were used to finance tax reductions.
- Shows a reduction in taxation inequality.

# Features I liked

- The model seems like a straightforward extension of basic theory.
- Very intuitive instrument, seems make for a clean experiment.

# Critiques/Concerns

- Seems to inform that under the perfect scenario, when B&O assumptions most closely align, the theory holds.
- I'm not sure we learned that much about broader implications of the theory. Other than it appears to hold under very specific scenarios.

# Extensions

- Might be useful to understand specifically which of the B&O assumptions being relaxed causes the mismatch in other studies. Is it the fungibility of funds or structure of political process impeding voters?
- More work on how grants affect communities of different income levels. Why do they stick better in low-income communities?