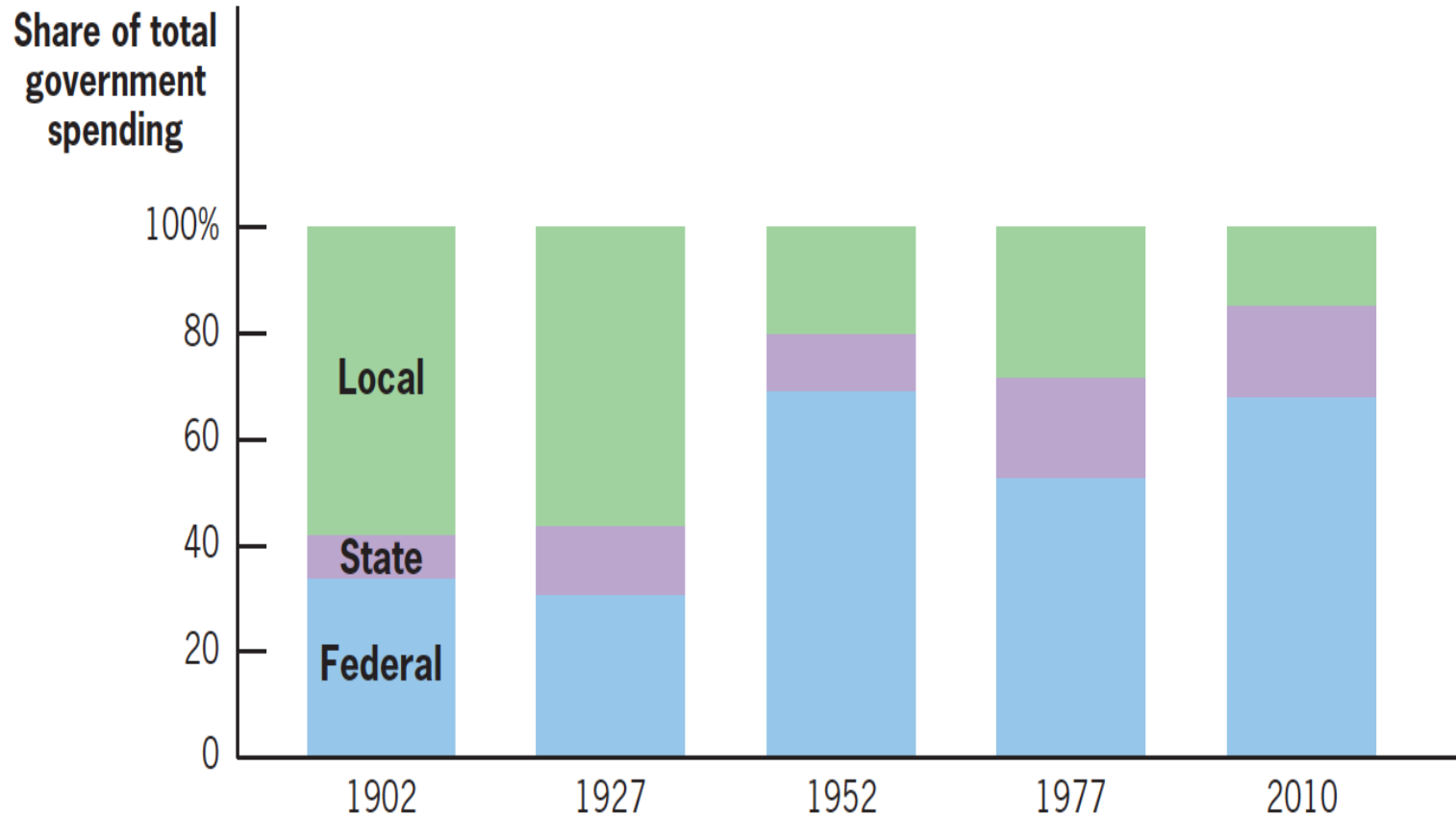


Fiscal Federalism in the United States and Abroad

- The distribution of government spending has changed dramatically over time in the United States.
- Local state and spending have declined considerably.
- Much state and local spending now supported by intergovernmental grants.
 - **Intergovernmental grants:** Payments from one level of government to another.

10.1

State and Local Spending in the United States, 1902–2010



10.1

Spending and Revenue of State and Local Governments

Spending			Revenue		
	State	\$/PC		State	\$/PC
Education spending	AK	3,010	Income taxes	NY	2,311
	MA	2,643		MT	854
	TN	1,50		Many	0
Health care spending	DC	10,349	Sales taxes	DC	1,847
	LA	6,759		Iowa	698
	UT	5,031		Many	0

10.1

Fiscal Federalism Abroad

	Spending (% of all)	Revenue (% of all)
Greece	0.0	0.8
Portugal	13.7	5.5
France	20.3	12.1
Norway	33.5	11.9
United States	50.0	35.7
Denmark	63.3	24.7
OECD Average	24.8	26.5

- Many countries engage in fiscal equalization.
- **Fiscal equalization:** Policies by which the national government distributes grants to subnational governments in an effort to equalize differences in wealth.

10.2

EVIDENCE: Evidence for Capitalization from California's Proposition 13

- California's Proposition 13 became law in 1978.
 - Set the maximum amount of any tax on property at 1% of the “full cash value.”
 - Full cash value: Value as of 1976, with annual increases of 2% at most.
- Reduced property taxes immensely in some areas, little change in others.

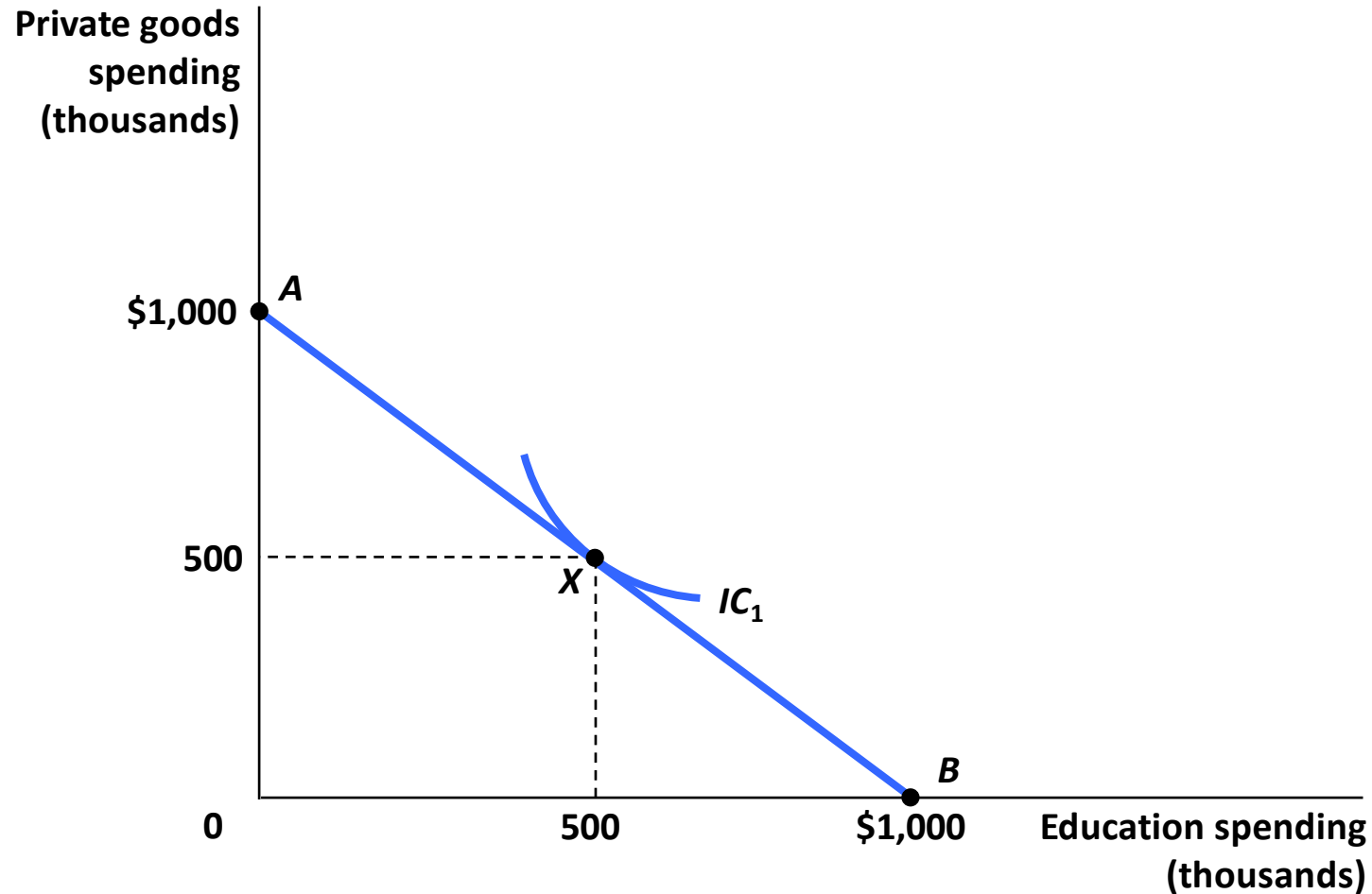
10.2

EVIDENCE: Evidence for Capitalization from California's Proposition 13

- Each \$1 of property tax reduction increased house values by about \$7, about equal to the PDV of a permanent \$1 tax cut.
- In principle, the fall in property taxes would result in a future reduction in public goods and services, which would lower home values.
- The fact that house prices rose by almost the present discounted value of the taxes suggests that Californians did not think that they would lose many valuable public goods and services when taxes fell.

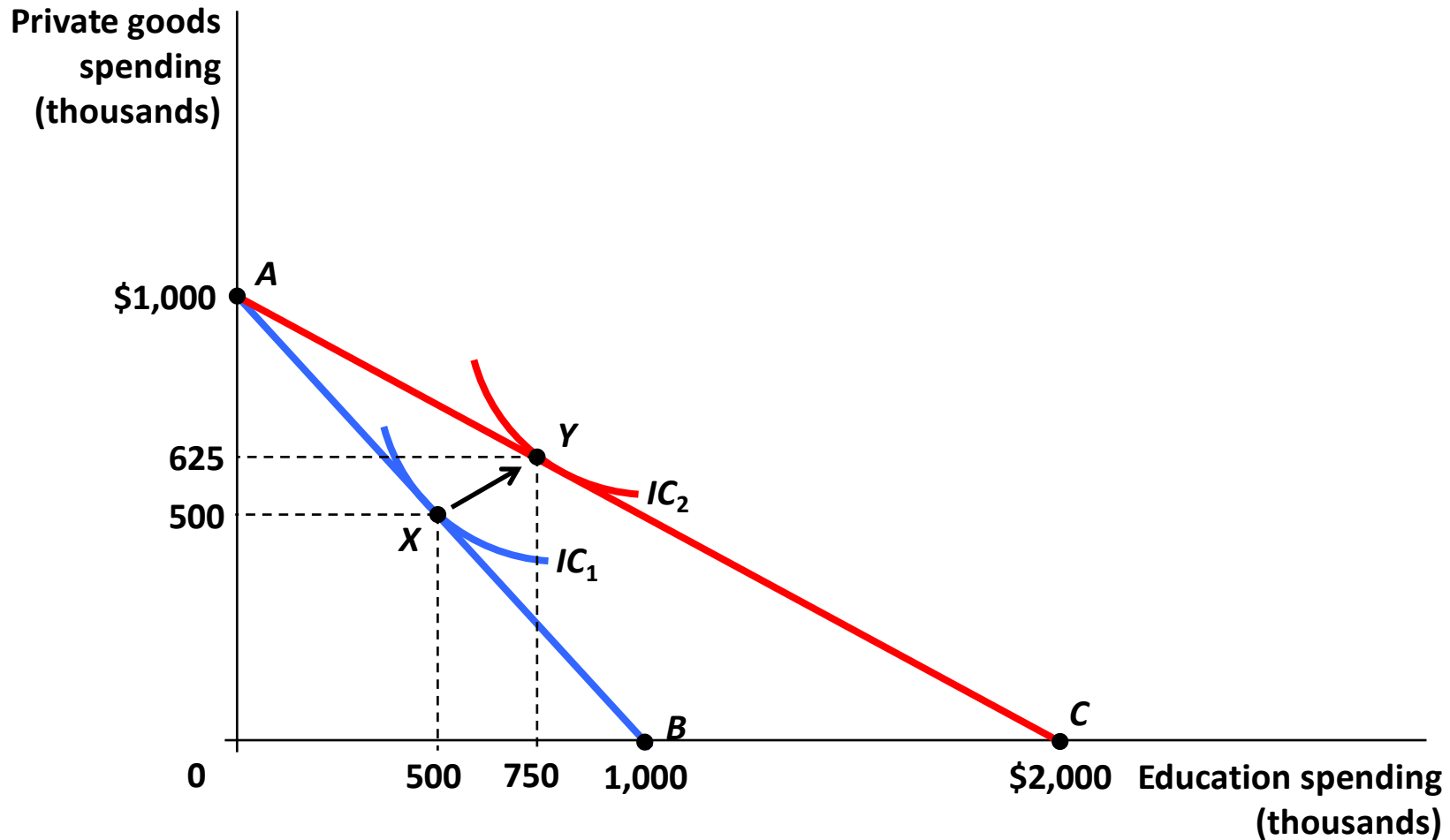
10.3

Tools of Redistribution: Grants



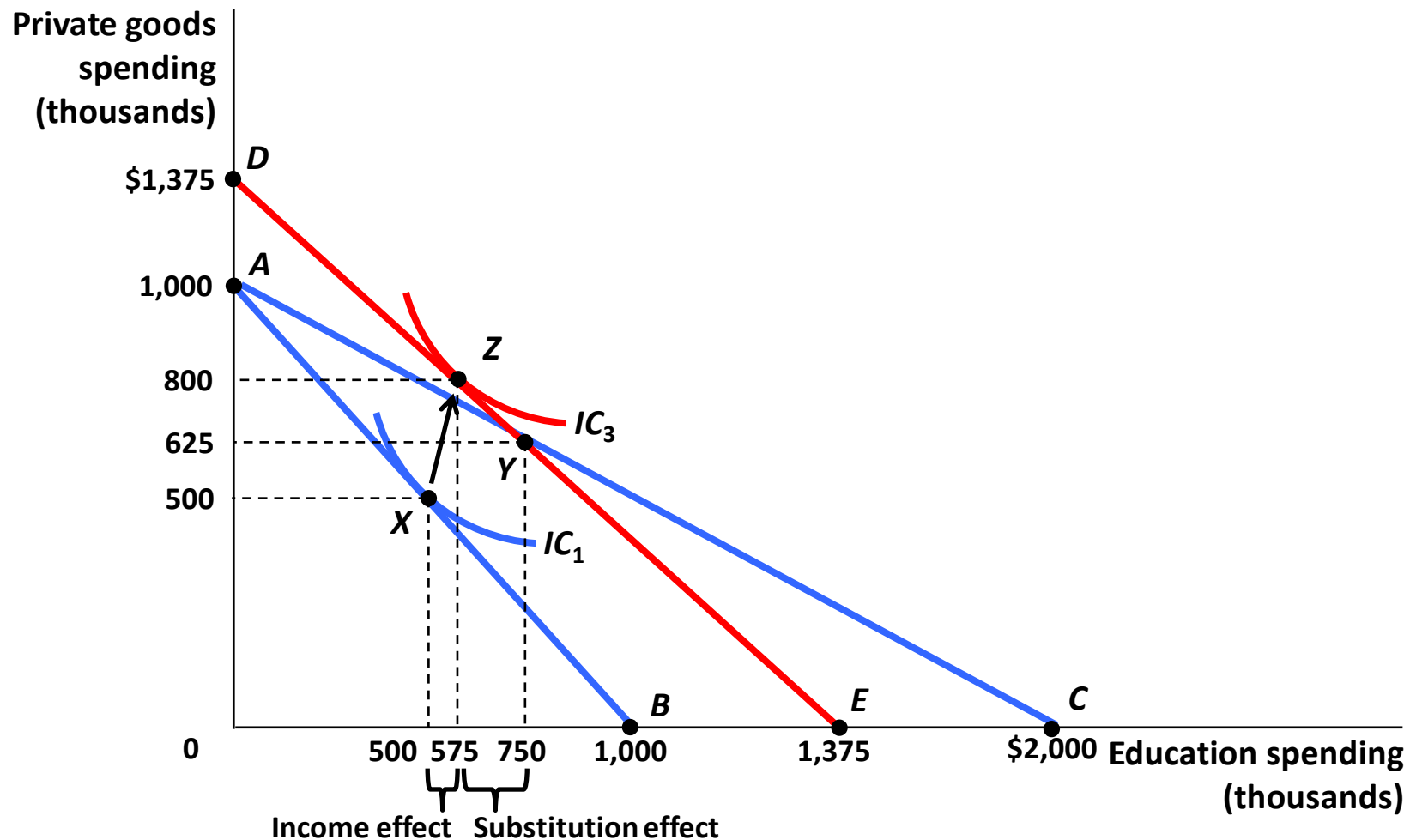
10.3

Matching Grants



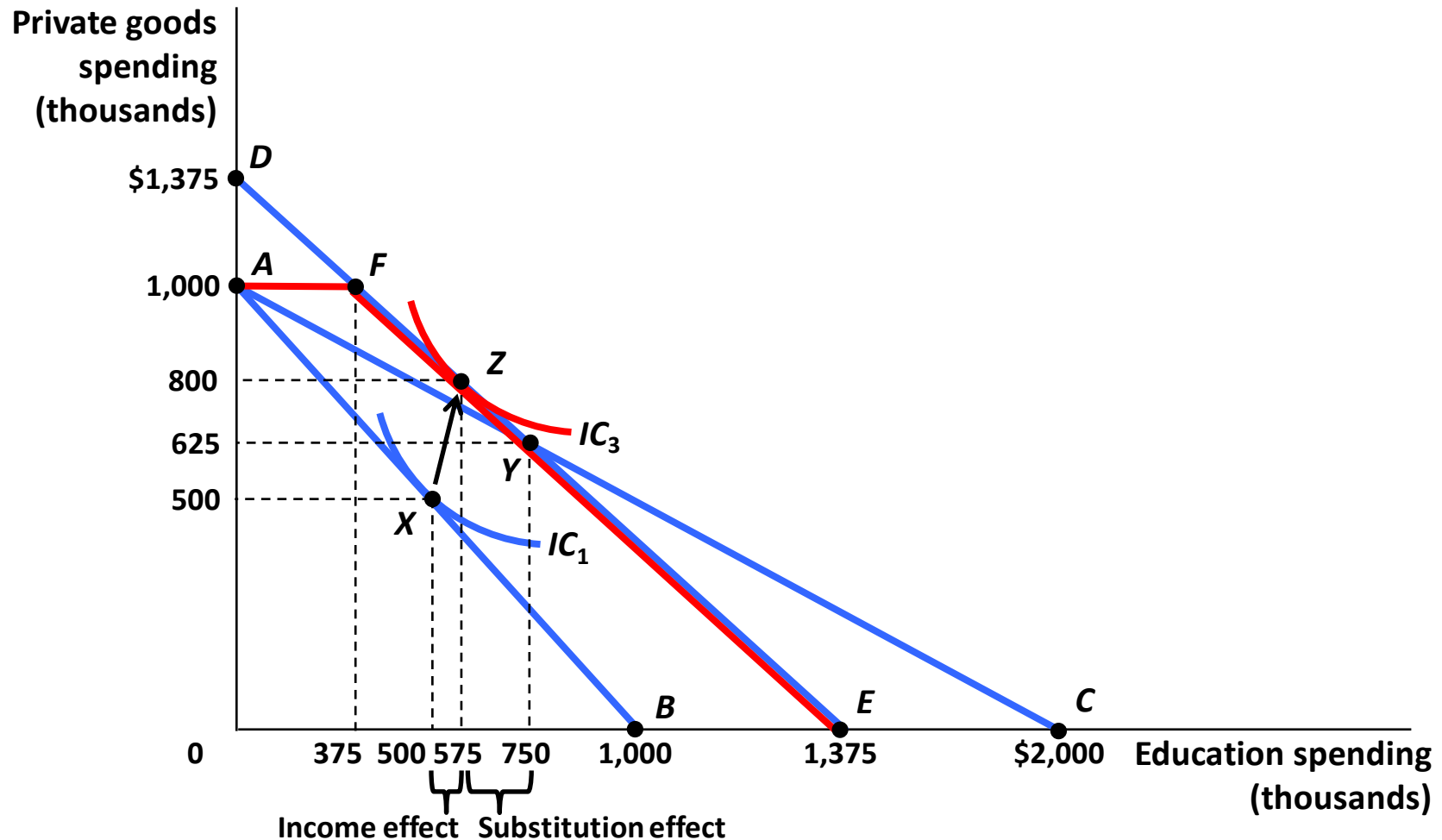
10.3

Block Grant



10.3

Conditional Block Grant



10.3

APPLICATION: School Finance Equalization and Property Tax Limitations in California

If residents perceived that property taxes were “too high” in California, why did they wait until 1978 to lower them?

- Proposition 13 actually a response to school finance equalization in California.
- Taxes no longer financed local school spending; just taxes, rather than prices. Tax price became infinite.
- Voters were happy to limit property taxes once those taxes no longer brought them any benefit.

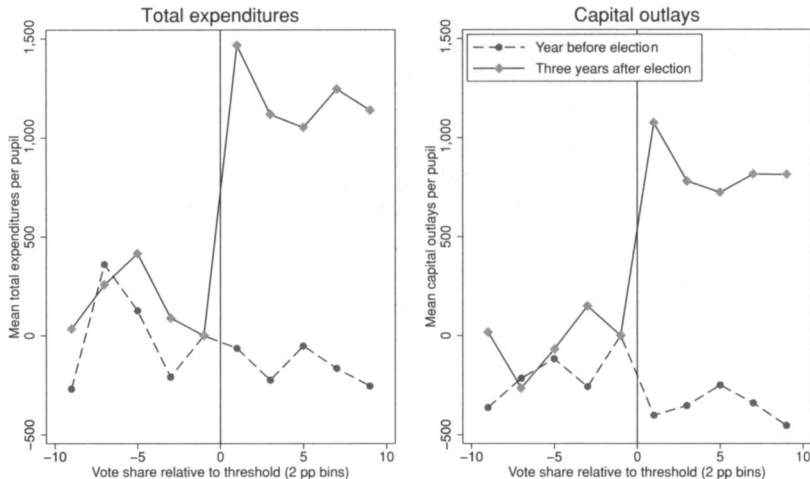


FIGURE II

Total Spending and Capital Outlays per Pupil, by Vote Share, One Year before and Three Years after Election

Graph shows average total expenditures (left panel) and capital outlays (right panel) per pupil, by the vote share in the focal bond election. Focal elections are grouped into bins two percentage points wide: measures that passed by between 0.001% and 2% are assigned to the 1 bin; those that failed by similar margins are assigned to the -1 bin. Averages are conditional on year fixed effects, and the -1 bin is normalized to zero.

Source: Cellini et al. (2010)

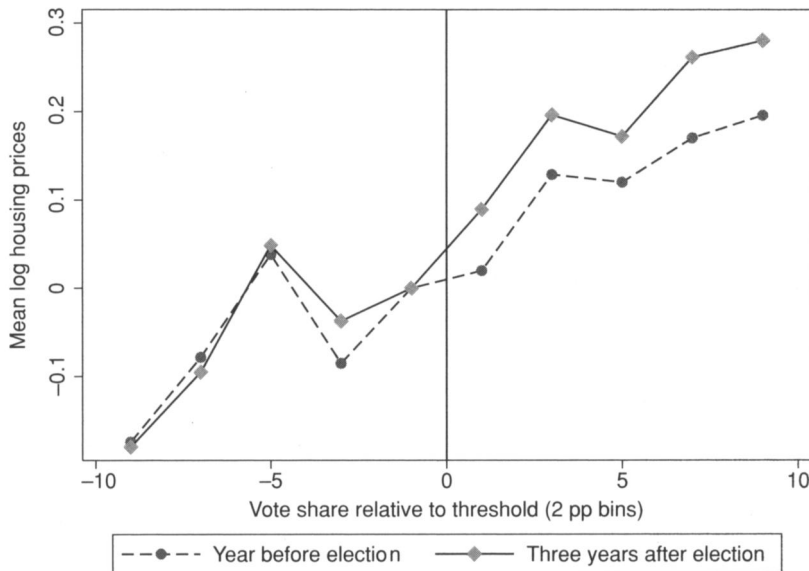


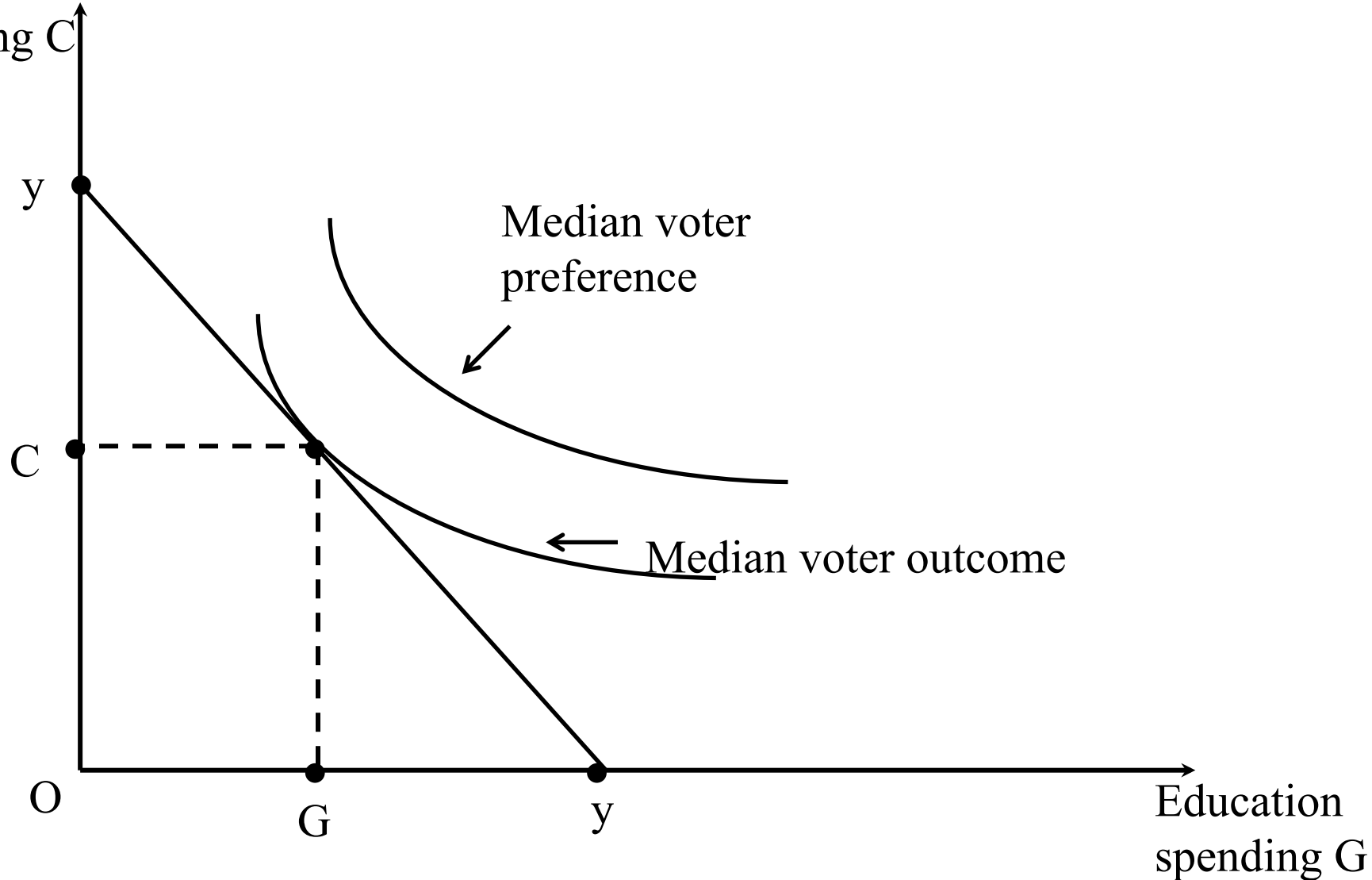
FIGURE V

Log Housing Prices by Vote Share, One Year before and Three Years after Election

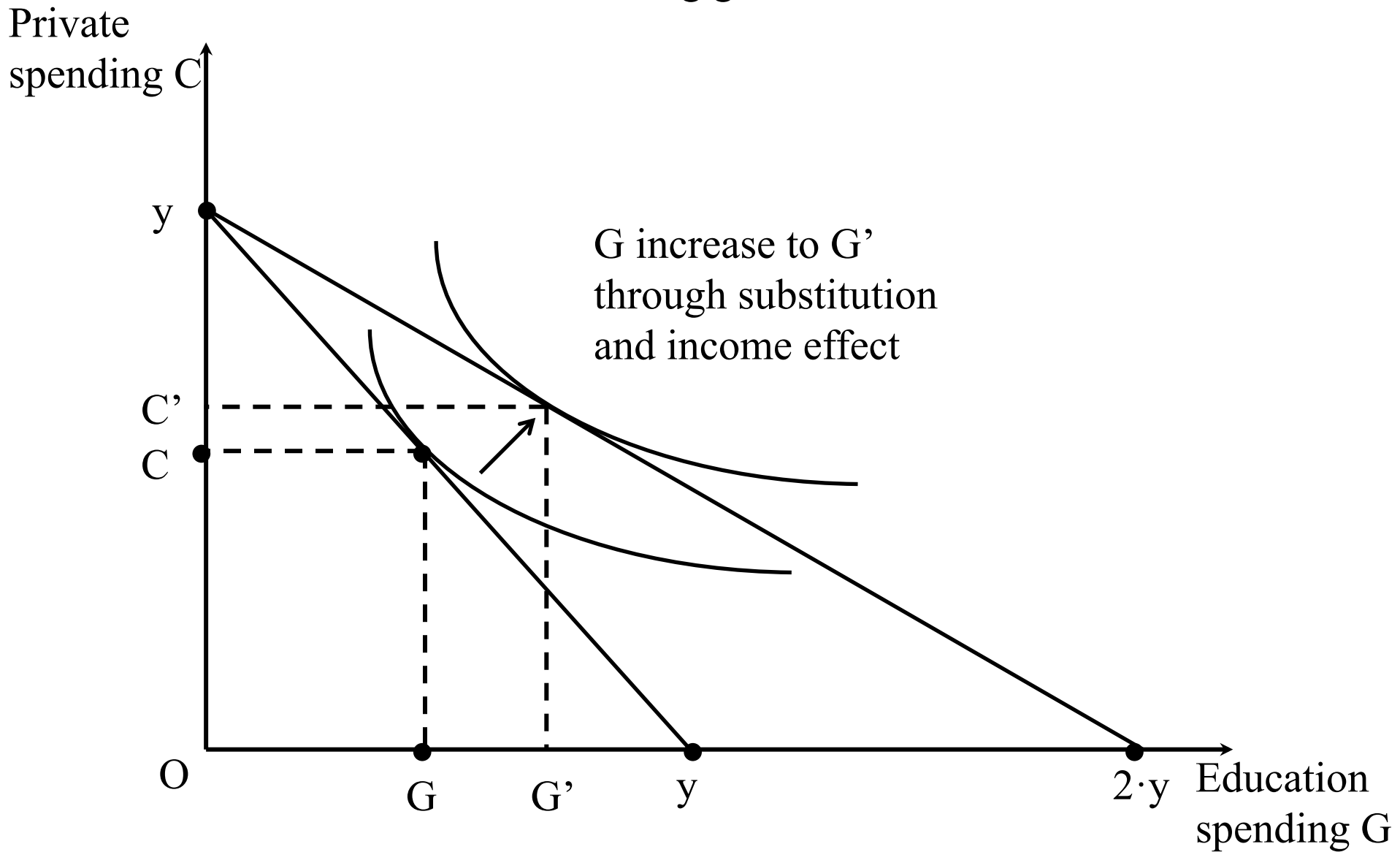
Graph shows average log housing prices by the vote share in the focal bond election. Focal elections are grouped into bins two percentage points wide: measures that passed by between 0.001% and 2% are assigned to the 1 bin; those that failed by similar margins are assigned to the -1 bin. Averages are conditional on year fixed effects, and the -1 bin is normalized to zero.

Local Public Spending

Private
spending C



Matching grant



Private
spending C

Block grant

G increase to G' through
income effect

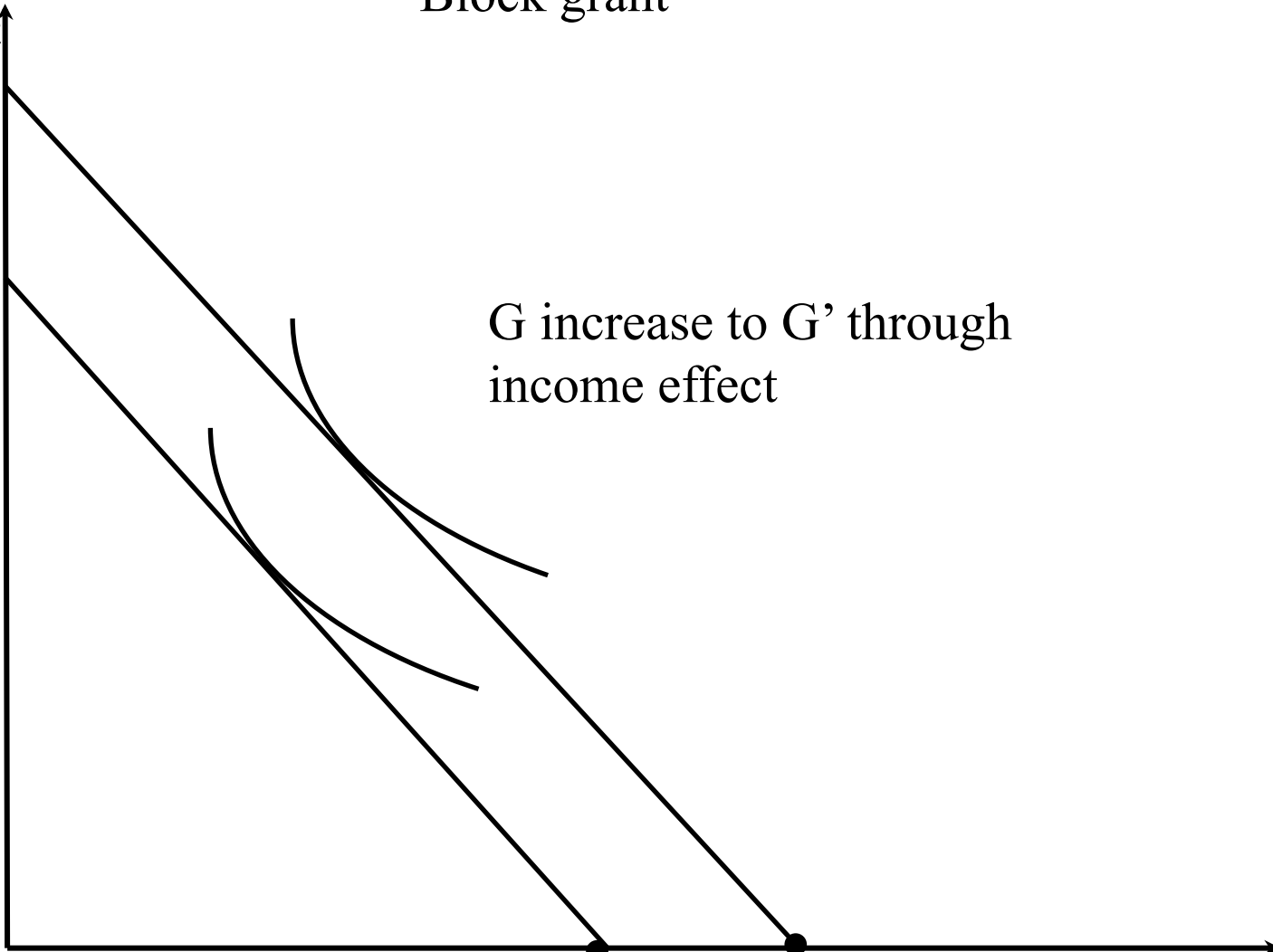
O

y

$y+E$

E

Education
spending G



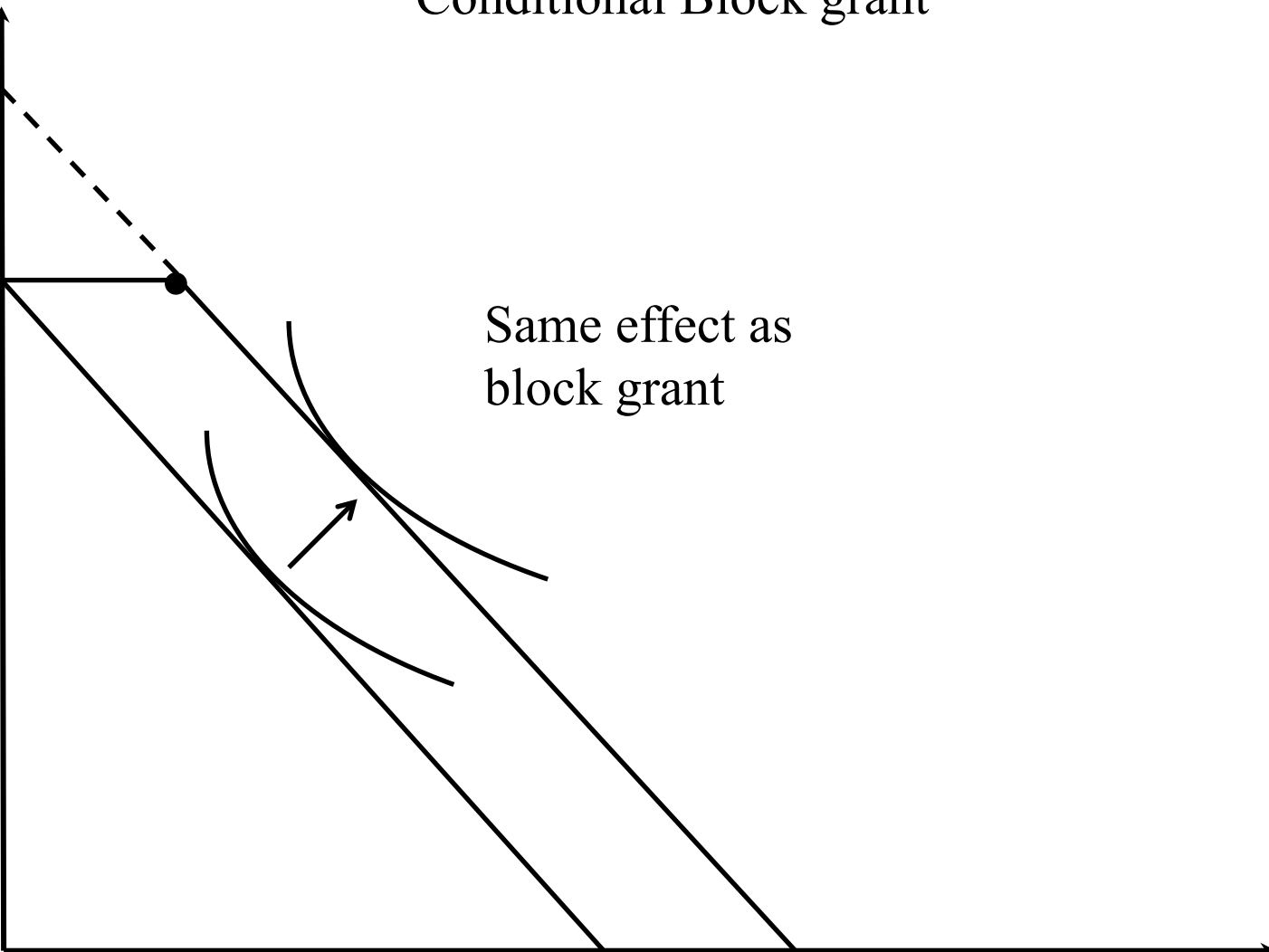
Private
spending C

Conditional Block grant

Same effect as
block grant

O

Education
spending G



Private
spending C

Conditional Block grant

Corner solution

O

Education
spending G

