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Charles M. Tiebout: A Pure Theory of Local Expenditures, 1956
By Chris Stoddard

Background

Charles Tiebout (pronounced TEE-bow) received his education at a time when the supremacy of centralized government was at a peak both politically and intellectually. He earned his Ph.D. in economics from the University of Michigan. His 1957 dissertation about regional multipliers, however, had nothing to do with local public finance where he would make his largest contributions. As an instructor at Northwestern University, he published his seminal article, A Pure Theory of Local Public Expenditures, (*Journal of Political Economy* 64: 416–424) in 1956. From there he went on to teach economics at UCLA and then geography at the University of Washington. Tiebout stayed in Seattle until his early death in 1962 at the age of 43. He published and consulted in regional economic development, but his primary contribution and best-known work developed what is now known as the "Tiebout Hypothesis."

Innovation

The title of Tiebout's most famous article, "A Pure Theory of Local Expenditures," is a direct play on Paul Samuelson's famous 1954 article, "The Pure Theory of Public Expenditures." Samuelson and other economists had analyzed the "free rider problem" that governments face when they provide goods and services. If no one can be excluded from consuming these public goods, individuals do not have an incentive to reveal their preferences for them. Everyone has an incentive to understate their true preferences to reduce their own tax burden, while still hoping to be able to enjoy the public good supplied by others. Markets therefore fail to provide public goods efficiently, and some form of government intervention is needed.

Tiebout's key insight was that this problem is different when local governments provide goods to citizens who can move among distinct communities. If citizens are faced with an array of communities that offer different types or levels of public goods and services, then each citizen will choose the community that best satisfies his or her own particular demands. Individuals effectively reveal their preferences by "voting with their feet." Citizens with high demands for public goods will concentrate themselves in communities with high levels of public services and high taxes, while those with low demands will choose other communities with low levels of public services and low taxes. Competition among jurisdictions results in homogeneous communities, with residents that all value public services similarly. In equilibrium, no individual can be made better off by moving, and the market is efficient. It does not require a political solution to provide the optimal level of public goods.

In addition to perfect residential mobility, Tiebout's model assumes that there are no spillovers of benefits across communities, and that costs increase as additional people receive services. These conditions do not make local governments efficient providers of pure public goods like national defense. However, they do imply that local governments can efficiently provide what are essentially private goods like education and garbage collecting. Tiebout noted that at the time about half of all government services fell into the domain of local governments and were then subject to this type of analysis. In contrast to the prevailing assumption that government would often provide inefficient levels of public goods, Tiebout showed that these decentralized systems act just as regular markets.

Tiebout's paper was a purely theoretical piece, but it has had wide empirical application. A long literature in local public finance has built on his insights about community choice to estimate demands for local public goods like education, sanitation, and fire protection, and to study how property values reflect area taxes and services. Others have built on his model to explain why zoning laws are such a pervasive tool of urban and regional governments, as communities attempt to prevent free riding by citizens who buy small homes in communities with high property wealth and low tax rates. More broadly, Tiebout's insights have had a large impact on debates about fiscal federalism and the proper roles of central, regional, and local governments.

Publications

Metropolitan Finance Reconsidered: Budget Functions and Multi-Level Governments; with David B. Houston. *The Review of Economics and Statistics* 44. Nov. 1962: 412–417.

The Organization of Government in Metropolitan Areas: A Theoretical Inquiry, with Vincent Ostrom and Robert Warren. *American Political Science Review*. LV. Dec. 1961: 831–842. Reprinted in: Ostrom, Vincent. *The Meaning of American Federalism: Constituting a Self-governing Society* (San Francisco: Institute for Contemporary Studies. Distributed by National Book Network, Lanham, Md. 1991, pp. 137–161.

Exports and Regional Economic Growth. *The Journal of Political Economy* 64. April 1956: 160–164.

Related Works

Donahue, John D., Tiebout? Or Not Tiebout? The Market Metaphor and America's Devolution Debate. *Journal of Economic Perspectives* 11 (Fall 1997: 73–81. [this issue includes other papers on federalism and devolution that give credit to Tiebout]

Kollman, Ken, John H. Miller, and Scott E. Page, Political Institutions and Sorting in a Tiebout Model. *American Economic Review* 87. Dec. 1997: 977–992.

Hoyt, William H. and Rosenthal, Stuart S., Household Location and Tiebout: Do Families Sort. According to Preferences for Locational Amenities?" *Journal of Urban Economics* 42. Sept. 1997: 59–178.

Mieszkowski, Peter and George R. Zodrow, Taxation and the Tiebout Model: The Differential Effects of Head Taxes, Taxes on Land Rents, and Property Taxes. *Journal of Economic Literature* 27. Sept. 1989: 1098–1146.

Whiteman, J., Deconstructing the Tiebout Hypothesis. *Environment and Planning D: Society and Space* 1: 339–354.

Links Charles Tiebout at the University of Washington

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