

This Town Ain't Big Enough? Knowing When Decentralization Is Too Much

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The paper in one slide

Research Questions

1. How large are spillovers of public goods provided by French cities?
2. What are the welfare gains of centralized provision?

Methodology

1. Use rich administrative data of French cities for
 - 1.1 DiD: Migration, housing (cons., price) response to public good shock
 - 1.2 GMM: Estimate spillover parameter of spatial equilibrium model
2. Simulate model after merging cities within municipal federation

Findings

1. Spillovers are large (very!)
2. Welfare gains are large (very!)

Comments and Suggestions: 1. Spillover estimation

"A city's neighbors' public goods account for 89-96% of total public goods benefiting its residents."

1. Identification assumption: Investment-targeted subsidies = shock

Evidence says: transfers to lower gov'ts either rule-based or strategic

- ▶ Reduce economic divergence
- ▶ 'Get the most bang for the buck' (Flypaper effect)
- ▶ Provide vertical political support (Pork Barrel)
- ▶ Incentivize sub-central gov'ts behavior (favor 'early-mergers'?)

→ Make stronger case subsidies not targeted (context, empirical)

2. Does model accurately capture 'institutional features' of DGP?

- ▶ Is there really no coordination between cities?

Autonomy ≠ Ignorance

→ Check for correlation of spending among neighboring cities

- ▶ Can cities restrict access (formal, informal) to certain public goods?

Example: Need to be resident to sign up for school or kindergarten

→ Provide details on the institutional context (s.t. data limits)

Comments and Suggestions: 2. Welfare gains

"(...) a reform that would fully merge cities at the existing federation level would increase welfare by 60%."

Model is 'forced' to produce this outcome by two mechanisms

- ▶ Inputs: parameter values imply large spillover (based on DiD result)
 - ▶ Construction: typical benefits of decentralized systems missing
 1. Laboratory Federalism:
 - ▶ sub-central gov'ts discover 'better' policies (yardstick competition)
Qian, Roland and Xu (2006), Callander and Harstad (2015)
 2. 'One Size Fits None' Problem:
 - ▶ Population of jurisdiction $\uparrow \Rightarrow$ Variance of individual preferences \uparrow
Alesina and Spolaore (1997), Alesina, Baqir and Easterly (1999)
- Can you extend model to nest some of these elements?

My final slide

This is a great paper!

- ▶ Speaks to a relevant policy question
- ▶ Clear and well-written
- ▶ Comprehensive on data and model
- ▶ Transparent about strengths and weaknesses
- ▶ Looking forward to the next version