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## *Introduction*

### *American Politics in 3D*

Over the past 50 years, a new government was created somewhere in the United States roughly every 18 hours. From cities and counties to school districts and transit authorities, there are now nearly 90,000 governments in the United States. The vast majority of them have the power to tax.

The proliferation of local governments has resulted largely from the layering of jurisdictions on top of one another. Territorially overlapping, single-function jurisdictions, including 35,000 special districts and 13,500 school districts, today constitute the majority of local governments. Collectively, these single-function jurisdictions have more civilian employees than the federal government and spend more than all city governments combined. As overlapping jurisdictions pile up, citizens increasingly receive services from—and pay taxes to—a multiplicity of independent governments.

The vertical layering of governments with independent tax authority raises fundamental issues of representation and taxation, which form the two major themes of this book. Representation in single-function governments operates through elected governing boards, which together employ a total of 173,000 local officials. Because these jurisdictions overlap, individual citizens today are represented by dozens—in some cases even hundreds—of local elected officers. Participating in so many elections places unprecedented demands on citizens. A citizen of Cook County, Illinois, for instance, would have to go to the polls on six separate dates over the course of four years in order to vote for each of the 70 different local officials that represent her. It is little surprise, then, that voter turnout in local single-function elections is usually in the range of 2 to 10 percent. Perversely, therefore, the proliferation of governments and elected officials may actually undermine democratic participation and accountability.

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I will argue that the narrow scope of participation in single-function elections has important implications for the policies enacted by local governments. Each overlapping jurisdiction shares the same tax base but serves a different special interest constituency. Parents care more about school spending than other residents do, for instance, and bookworms care more about libraries, and nature lovers care more about parks, and so on. Rather than engaging with each other in the push-and-pull pluralism that characterizes a general-purpose government, however, the jurisdictional fragmentation of specialized government encourages each group to focus its attention, and concentrate its influence, on its own narrow policy domain. As a result, because the benefits of a single-function jurisdiction's spending accrue disproportionately to a particular group but the costs of taxation are spread over all groups, a problem arises that is analytically similar to the *overfishing* problem seen in environmental economics. That is, just as each individual fisherman has an incentive to overexploit the shared resources of the sea because he receives all the benefits of the increased catch but suffers only a small fraction of the adverse consequences, so too, I contend, each government has an incentive to overexploit the shared tax base to provide benefits to its special-interest constituency. The *fiscal common-pool problem* is the major issue analyzed in this book.

### I.1 COOK COUNTY'S 10.25 PERCENT SOLUTION

In March 2008, Chicago attained the ignominious distinction of having the highest sales tax of any major American city, at 10.25 percent.<sup>1</sup> To understand how this milestone came to pass, one must first understand that, within the Chicago city limits, sales taxes are imposed by no fewer than six different governments: the state, city, county, transit authority, parks and recreation district, and water commission.<sup>2</sup> In fact, the feat that put Chicago's sales tax rate over the top was a 1 percentage point increase levied by Cook County. The simultaneous 0.25 percentage point bump by the regional transit authority was only icing on the layer cake.

As an overlapping jurisdiction in a densely developed county where most services are provided by incorporated municipalities, the Cook County government has become a specialized provider of two major services, public safety and hospitals, that together account for 90 percent

1 My discussion of this case is drawn from several news accounts, including Olmstead (2008), Ford and Keilman (2008), and the *Chicago Tribune* editorial board (2008), as well as the Cook County *Citizens' Budget Summary* for 2008.

2 The Metropolitan Pier and Exposition Authority levies an additional sales tax on restaurants and hotels.

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of its \$2.2 billion operating budget. Facing a \$230 million deficit from 2007, the county board threatened service reductions and job cuts in the Cook County Health Facilities, the second-largest public health system in the nation. The outcry was immediate and predictable, coming from employees and from constituents who depended on the county for heavily subsidized health care.<sup>3</sup> At a midnight meeting, the county board responded by raising its sales tax levy from 0.75 percent to 1.75 percent.<sup>4</sup> The tax increase was projected to yield \$430 million in new revenue for the county each year. Rather than cutting jobs, the new budget planned for 1,100 new positions, boosting the county's workforce to nearly 25,000. Critics of the board's decision to use a \$430 million tax increase to cover a \$230 million deficit could take solace in the fact that the board president's original proposal to raise the county's sales tax to 2.75 percent was defeated (by one vote).

While the late-night tax vote spared the county board from having to make tough budget cuts, and won it the admiration of employees and patients of the county health system, some other local governments were less pleased. Municipalities within the county worried about balancing their own budgets, as well as the health of their local businesses, if consumers crossed the border to shop, where in some cases the sales tax rate would now be 3 percentage points lower. Among some municipalities near the border, there was talk of secession. In the words of Palatine Village Council member Scott Lamerand, "What really gets me most is it's not only us: It's going to be the schools along with the village, the park district, any taxing body—the dollars are going to shift from our area" (Ford and Keilman 2008, p. 1). The Civic Federation, a local budget watchdog group, warned of the detrimental effects that the county's tax increase would have on overlapping jurisdictions. "The county, in its arrogance to grab so much tax revenue, has really thumbed its nose at other local governments," said Laurence Msall, the group's president (Ford and Keilman 2008, p. 2).

If Chicago now stands out for the loftiness of its accumulated sales taxes, there is nothing at all unusual about the basic problem it faces: common taxation by multiple governments. Nor is the issue restricted to sales taxes; indeed, concurrent property taxes may be even more ubiquitous. In the pages that follow, I will show that virtually every locality in the United States has multiple layers of taxing jurisdictions.

3 In addition to the intended subsidies, the county health system is regularly criticized for failing to collect even the patient fees it is owed (Olmstead 2008).

4 Countless news reports described that tax hike as a 1 *percent* increase rather than a 1 *percentage point* increase. In fact, this was a 133 percent increase in Cook County's sales tax.

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Chicago's tax escalation cannot easily be explained by traditional theories of local political economy. Beginning with Tiebout (1956), conventional wisdom has been that when there are many local governments, competition among them will keep taxes low, maybe even too low (Oates 1972). So, then, why does the county with the most local governments also have the highest taxes? The governments in this example do not appear to be competing with one another, unless it is competition for sales tax revenue. The familiar theories do not have an answer, nor do they provide a useful framework for understanding the common taxation of shared resources by overlapping, functionally specialized governments that is now the rule rather than the exception for U.S. localities. This is because the standard theories are missing two critical ingredients: institutions and politics. Put differently, the conventional theories inhabit a two-dimensional world where competition takes place through mobility. This book is about a three-dimensional world where competition takes place through politics.

#### 1.2 COMPETITION IN 2-D: VOTING WITH YOUR FEET

Fiscal common-pool problems have received scant attention from scholars of local politics. Indeed, problems of institutional design and accountability more generally have received relatively little attention. Scholars of local political economy have been fairly sanguine about the correspondence between citizen desires and government performance even as a growing body of scholarship questions the institutional foundations of democratic government.<sup>5</sup> In large part, the relative unconcern with classic problems of preference aggregation, information asymmetries, and electoral accountability at the local level reflects the belief that residential mobility is sufficient to keep governments informed, efficient, and honest. Voting with the feet seems to make voting at the ballot box superfluous. Thus, many who would be uncomfortable accepting the argument

5 Social choice problems inherent in democratic politics have become the subject of a vast literature demonstrating that voting mechanisms are subject to inconsistent aggregation, cycling and instability, and other such difficulties (Arrow 1951; Plott 1967). In the legislature, the possibility of vote trading may lead to outcomes that are collectively undesirable (Tullock 1959; Weingast, Shepsle and Johnsen 1981). Budget-maximizing bureaucrats may exploit information asymmetries to opt for and likely to receive excessive budgets (Niskanen 1971). A clever agenda setter can lead the median voter to support an undesirable policy by offering an even less preferred outcome as a reversion point (Romer and Rosenthal 1978, 1979; Rosenthal 1990). Even well-intentioned representatives have at best incomplete information about the preferences of their constituents and may inadvertently produce policies that the electorate does not favor (Matsusaka 1992). This line of research is encapsulated in Mueller (2003).

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that electoral competition ensures government fidelity to citizens' interests at the national level nevertheless accept the notion that interjurisdictional competition achieves just such an outcome at the local level (e.g., Brennan and Buchanan 1980; Weingast 1995). In this respect, Qian and Weingast are typical in their conclusion that "Competition among jurisdictions forces governments to represent citizen interests and preserve markets" (1997, p. 88).

The widely held belief that a local government is less likely than the national government to deviate from citizens' interests is inspired by Tiebout's (1956) classic article "A Pure Theory of Local Government Expenditures." In it, Tiebout sketched a view of the local public sector as the governmental analogue to the private marketplace, with competition among local governments leading to marketlike efficiency in the production of local public goods and services. It is difficult to imagine any area of political science or economics in which one model—indeed, one article—has had as profound an influence as the Tiebout model has had in the study of local political economy.<sup>6</sup>

Tiebout's (1956) model is largely a response to Samuelson's (1954) argument that nonexcludability and jointness of supply in public goods promote free riding and provide incentives for citizens to misrepresent their preferences. While Samuelson's analysis holds, Tiebout acknowledged, at the federal level, it need not apply to local expenditures. For whereas there is only one central service provider at the federal level, at the local level the citizen may choose from many municipalities offering different bundles of taxes and public goods. In making her choice of residential location, Tiebout argued, the citizen indirectly reveals her preferences for public goods. In other words,

Just as the consumer may be visualized as walking to a private marketplace to buy his goods, the prices of which are set, we place him in the position of walking to a community where the prices (taxes) of community services are set. Both trips take the consumer to market. There is no way in which the consumer can avoid revealing his preferences in a spatial economy. Spatial mobility provides the local public-goods counterpart to the private market's shopping trip. (Tiebout, 1956, p. 422)

In the Tiebout model, with a large number of competing governments a citizen-taxpayer can find perfect substitutes for the services of any particular local government, meaning that demand for that government's services is infinitely elastic, as in a competitive market. Local governments,

<sup>6</sup> Rhode and Strumpf (2003) estimate that more than 1,000 articles have been written about the Tiebout model.

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like competitive firms, thus become price-takers in their tax rates. Given such competition, each government will produce its output at the point of minimum average cost relative to population. All taxes become benefits taxes. In this setting, each resident chooses the locality whose bundle of taxes and services best matches her preferences, and all the messy issues of majority cycling, logrolling, agenda-setting, and the like are averted.

In fact, Tiebout competition has been seen as such a panacea that even Brennan and Buchanan (1980, ch. 9), whose “Leviathan” is perhaps the most extreme model of a disjuncture between citizens’ interests and government behavior, have suggested interjurisdictional competition as a sufficient constraint on government excess. Specifically, they suggest that Tiebout sorting and competition are “partial or possibly complete substitutes for explicit fiscal constraints on the taxing power” (1980, p. 184). In a perfect Tiebout world, even a revenue-maximizing government will behave like a competitive firm.<sup>7</sup>

Tiebout’s disciples have relatively uncritically adapted the competitive model of government to explain special-purpose jurisdictions. If interjurisdictional competition is good, the argument seems to be, then more jurisdictions must be better. Tiebout’s shopping analogy is extended to encompass special-purpose jurisdictions by Ostrom, Bish, and Ostrom, who write that “In the United States, in fact, several hundred separate local governments in a metropolitan area is not unusual—with each citizen generally participating in a city, county, school district, and several other special districts. ... Being a member of several local governments may seem complicated, but it is no more complicated than shopping in several establishments—some of which are general purpose stores and others of which are specialized” (1988, p. 97). The work of the Ostros and their colleagues and students has come to be known as the *Indiana School* of local political economy, whose guiding idea is *polycentricity*, or the desirability of having many centers of local government decision making that are independent of each other.<sup>8</sup>

### 1.3 POLITICS IN 3-D: TERRITORIAL OVERLAP AND CONCURRENT TAXATION

I do not doubt that competition among local governments for mobile residents and capital is a powerful, efficiency-enhancing force. But I do

<sup>7</sup> Empirical evidence for the *competition-constrains-Leviathan* hypothesis, however, has been mixed. See Oates (1989) for a review.

<sup>8</sup> The contributions to McGinnis (1999) provide a useful sampling of the polycentricity literature.

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doubt that the competitive model of government applies well to most special-purpose jurisdictions. In fact, I contend that the multiplication of single-function governments undermines, rather than enhances, interjurisdictional competition. The reality is that the proliferation of governments in the United States has resulted largely from the vertical layering of jurisdictions on top of one another rather than the horizontal partitioning of territory into competing units. Jurisdictions that share the same borders do not compete for mobile resources. Rather, they possess the authority to provide services to, and levy taxes on, the same people. Seen from this perspective, the two defining characteristics of single-function government are territorial overlap and concurrent taxation.

By *territorial overlap*, I mean a situation in which two or more governments co-occupy the same piece of land and, by implication, the same tax base. The territorial overlap of governments is plainly illustrated in Figure 1.1, which shows the various jurisdictions in the vicinity of Sheridan, Colorado, a small suburb in the Denver metropolitan area.<sup>9</sup> The city is overlaid by school, fire, recreation, and sanitation districts. The school, fire, and recreation districts roughly follow the municipal boundaries, while the city is carved into six separate sanitation districts. In fact, there are several additional jurisdictions overlapping Sheridan for which I was unable to attain boundary maps. In other words, Figure 1.1 actually understates the extent of jurisdictional overlap in this case. A gallery of maps for other areas of the country can be found on my Web site.<sup>10</sup>

The two-dimensional Tiebout model proceeds as though only the city layer of government exists, and proposes that competition among Sheridan and other cities in the Denver region will guarantee efficient policy outcomes. While it may be reasonable to think that Sheridan is competing for residents and businesses with other cities in the region, it is wholly implausible to think that the city and its overlapping jurisdictions are in competition with one another. The city cannot compete for residents with a school district or a recreation district, for example. From the citizens' perspective, the locational choice is a choice among composite bundles of services provided by combinations of overlapping jurisdictions. In other words, while the *provision* of services is unbundled, *consumption* of the services is not. Even when jurisdictions overlap in more complex patterns than those in Sheridan, the citizen's choice is ultimately of a single location rather than an à la carte assortment of

9 I produced the figure using GIS shapefiles downloaded from the county's Web site: <http://gis.co.arapahoe.co.us/>, accessed December, 26 2008.

10 The URL is <http://harrisschool.uchicago.edu/faculty/web-pages/christopher-berry.asp>.

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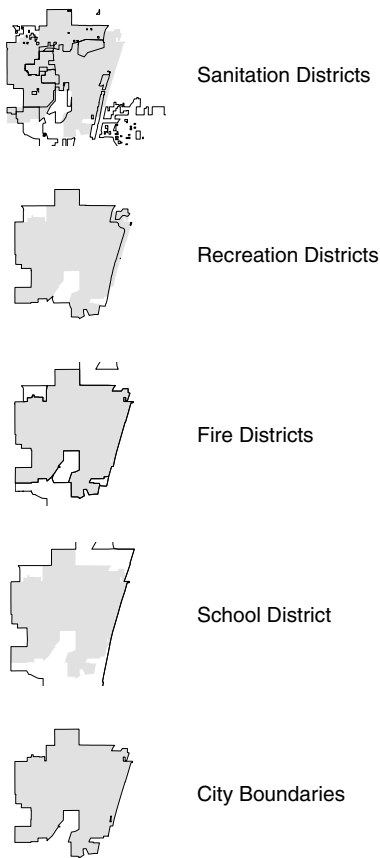


Figure 1.1. Local Governments of Sheridan, Colorado

jurisdictions. The location carries with it the imposed choice of a particular set of special district and municipal services.<sup>11</sup>

As a composite territorial unit, Sheridan and its overlapping special districts can be seen as a competitor with other jurisdictional composites in the region. However, the overlapping governments do not compete with each other. Instead, the various overlapping governments all have the authority to tax and provide services in the same territory.

This leads to the second defining characteristic of special-function government: concurrent taxation. When jurisdictions overlap, the most common scenario is that several governments independently tax the same property and economic activities within their shared territory, with

11 An exception might be a system like school vouchers, although in practice these systems usually allow a choice of schools within, rather than across, districts.



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each government controlling its own budget. Returning to Cook County, Figure 1.2 shows an actual residential property tax bill from the city of Evanston. While it is just an ordinary tax bill, the striking point is that the property owner is paying taxes to 14 different overlapping jurisdictions. The taxing jurisdictions include three general-purpose governments—the city of Evanston, the town of Evanston, and Cook County—as well as a host of special districts—two school districts (elementary and high school), a mass transit district, a water reclamation district, a community college district, a forest preserve district, a mosquito abatement district, and a tuberculosis sanitarium district.<sup>12</sup> Nor is concurrent taxation limited to property taxation, as was made clear in the preceding example of Cook County’s sales tax increase.

While Cook County is certainly above average in its degree of jurisdictional overlap, it is hardly an outlier. Although I do not have access to a property tax bill from every county in the country, Figure 1.3 shows a national map of an approximate measure of jurisdictional overlap: the number of territorially overlapping jurisdictions per municipality. The numerator is the number of jurisdictions that have the area flexibility to overlap the territory of a city. These jurisdictions include school districts and other special districts. The denominator is the number of municipalities.<sup>13</sup> The resulting ratio of overlapping jurisdictions to municipalities gives an indication of the extent of concurrent taxation in a county. Figure 1.3 shows that concurrent taxation is seen throughout the nation to varying degrees and is most extensive in the West and Midwest.

Together, territorial overlap and concurrent taxation transform the local tax base into a fiscal common-pool resource. Seen from this vantage point, the relevant literature from which to begin forging theories of special-purpose local government comes not from the Tiebout tradition, but from the modern study of distributive politics and comparative fiscal institutions.

#### 1.4 THE FISCAL COMMON POOL

While the essence of the problem was recognized at least as early as Aristotle—in his observation that “what is common to the greatest number has the least care bestowed upon it” (*Politics*, Book II, ch. 3)—Garret Hardin (1968) coined the phrase *tragedy of the commons* and hence became the intellectual figurehead for a large subsequent literature on the

12 Not all of these jurisdictions satisfy the requirements of fiscal and administrative autonomy necessary to be counted as independent governments by the Census Bureau, as explained in the next chapter.

13 Town and township governments are counted either as overlapping districts or as municipalities in different states, as will be explained in the next chapter.

