

Public Input Competition and Public Service Providers

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Abstract

While fiscal competition among countries or jurisdictions and the restructuring of public service provision such as Public-Private Partnerships (PPP) have been major trends of public finance in these two or three decades, they have mostly been studied separately. Among a few exceptions is Qian and Roland (1997), who argued that competition in public-input investment hardens the budget constraints of local governments. On the other hand, Cai and Treisman (2005) showed that poorly-endowed regions give up competition and hence competition does not discipline local governments, although public enterprises do not appear in their model. In this paper we assume that private companies, as well as local governments, can provide public services and show that poorly-endowed regions invest more in the production of these services than well-endowed ones.

Keywords: fiscal competition; Public Private Partnerships

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