

# A Unified Analysis of Tiebout Models and Tax Competition Models \*

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## Abstract

In this study, I construct a fiscal competition model in which immobile residents compete for mobile workers. This framework nests two influential theories, Tiebout (1956) and tax competition (Zodrow and Mieszkowski, 1986), which yield contrasting predictions on the efficiency of public goods provision in a federation. Using it, I investigate the efficiency of decentralized public goods provision from a unified perspective. When mobile workers are homogeneous, it is shown that mobility does not matter for the efficiency of public goods provision, as long as policies can be differentiated between mobile and immobile residents. I also reveal the source and the nature of inefficiency in various circumstances by exploiting the unique feature of the model. Then, I introduce taste heterogeneity of mobile workers. When the heterogeneity is sufficiently large, public goods for mobile workers are efficiently provided due to Tiebout sorting. Moreover, Tiebout sorting may greatly mitigate welfare loss from ‘race to the bottom’ by reducing the effective number of competing jurisdictions. Several extensions are also discussed.

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