

# Voting with Feet, Yardstick Competition, and Optimal Provision of Local Public Goods

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## Abstract

This paper analyzes the efficiency of the equilibrium of yardstick competition among decentralized local governments by introducing the factor of the residents' choice between private goods and local public goods. The model included in the paper features incomplete contracts between principal and agent (residents and local government, respectively) and states that a local government attains accountability through the voting behavior of its residents in accordance with their yardstick comparison of their own locality with their neighboring localities. The results we obtained from the analysis are as follows. First, if we ignore the residents' consumption choice, we find that local governments tend to under-supply local public goods, due to the fact that their heads attach more importance to the government' re-election than to their residents' welfare. Second, in order to improve the efficiency of the yardstick equilibrium, local governments need to supply local public goods after considering regional disparities regarding residents' preference, exogenous environmental conditions, and other factors.

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