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Migration-proof Tiebout equilibrium:Existence and asymptotic efficiency

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Abstract

Tiebout's basic claim was that when public goods are local, competition between jurisdictions solves the free riding problem in the sense that equilibria exist and are always Pareto efficient. Unfortunately, the literature does not quite support this conjecture. For finite economies, one must choose between notions of Tiebout equilibrium which are Pareto optimal but which may be empty, or which are nonempty but may be inefficient. This paper introduces a new equilibrium notion called "migration-proof Tiebout equilibrium" which we argue is a natural refinement of Nash equilibrium for a multijurisdictional environment. We show for sufficiently large economies with homogeneous consumers, such an equilibrium always exists, is unique, and is asymptotically Pareto efficient

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