Expenditure efficiency capitalization in the price of housing. The case of urban transport in Italian municipalities

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This paper studies, from both a theoretical and an empirical point of view, the relationship between local government efficiency (LGE) and the local housing market. In particular, we look at the possibility that council's performance is capitalized in the price of housing. The theoretical analysis is developed inside a classical "Tiebout framework" using a simple model of urban political economy. The empirical analysis is based on data from the Italian municipalities relating to the period 2002-2007. Municipality performance is estimated with reference to the urban transport sector since this accounts for a large portion of public spending and its efficiency is easily perceived by residents.
We propose to measure the value of the tax-public benefit package in terms of local government technical efficiency using data envelopment analysis. Then we estimate a hedonic model regressing the price of housing on technical efficiency, intergovernmental grants, and other features of the local context.
In conclusion, the theoretical model shows the mechanism through which LGE is capitalized into the value of houses, whereas the empirical analysis provides robust evidence in support of the hypothesis of its positive capitalization in the price of housing. The latter can be considered, thus, an indirect measure of LGE.