

## Tiebout and Crime: How Crime Affect the Income Tax Capacity

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**Abstract :** Despite the extensive literature on the relation between crime and migration, not much is known about how crime affects the tax capacity of local communities. This paper empirically investigates whether the Flemish local income tax base yield is sensitive to changes in the local crime level. The underlying assumptions are threefold. In a Tiebout world, rational voters holding the local government accountable for the safety of its citizens, move out when the local level of security gets too much alienated from what they want it to be (first assumption). If migration is due to crime, then the more wealthy citizens are expected to move first (second assumption). Looking for a place elsewhere implies transaction costs, which the more wealthy citizens are more likely to be able to pay. As a consequence, the average income per capita and so the income distribution will be affected, which in turn, will influence the local income tax base yield (third assumption). The decreasing average income per capita, if not compensated by increasing earnings by the citizens that are staying or by the new citizens entering the locality, must result in a decreasing local income tax base yield. In the absence of a higher level governments' compensation, decreasing local tax revenues could prove to be disastrous for a crime-ridden municipality. When communities do not succeed in forcing back the number of offences, this can be the onset of a cumulative process of urban deterioration. A spatial panel data model containing several proxies for the local level of crime in 306 Flemish municipalities covering the period 2000-2014 is used to test the relation between crime and the local income tax base yield. In addition to this direct relation, the underlying assumptions are investigated as well. Preliminary results show a modest, but positive relation between local violent crime rates and the efflux of citizens, persistent up until a 2 year lag. This positive effect is dampened by possible increasing crime rates in neighboring municipalities. The change in violent crimes -and to a lesser extent- thefts and extortions reduce the influx of citizens with a one year lag. Again this effect is diminished by external effects from neighboring municipalities, meaning that increasing crime rates in neighboring municipalities (especially violent crimes) have a positive effect on the local influx of citizens. Crime also has a depressing effect on the average income per capita within a municipality, whereas increasing crime rates in neighboring municipalities increase it. Notwithstanding the previous results, crime does not seem to significantly affect the local tax base yield. The results suggest that the depressing effect of crime on the income basis has to be compensated by a limited, but a wealthier influx of new citizens.

**Keywords :** crime, local taxes, migration, Tiebout mobility

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