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The segregative properties of endogenous jurisdiction formation with a land market*

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Abstract

This paper examines the segregative properties of endogenous processes of jurisdiction formation in the presence of a competitive land market. In the considered model, a continuum of households with different income levels and the same preference for local public goods, private spending and housing choose a location from a finite set. Each location has an initial endowment of housing that is priced competitively and that belongs to absentee landlords. Each location is also endowed with a specific technology for producing public goods. Households' preferences are assumed to be homothetically separable between local public goods on the one hand and private spending and housing on the other. Public goods provision is financed by a given, but unspecified, mixture of (linear) wealth and housing taxes. It is shown that stable jurisdiction structures are segregated by income *only if* households have a Marshallian demand for any public good (conditionally on the quantities of the other public goods) that is a monotonic function of the price of private spending. It is also shown that if there is only one public good, or if households preferences are additively separable between public and private goods, then the condition is also sufficient for segregation. Examples showing the sensitivity of the results to the assumptions of homothetic separability and additive separability are also provided.

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