

TAX COMPETITION AND FISCAL FEDERALISM

The course will cover a wide range of topics and will address a certain number of questions which are on the top of agenda among which: What is the impact of business taxation and public expenditures on the location of multinational firms? What do we know about profit shifting strategies? Does tax competition lead to tax rates being low ("race to the bottom")? Do public authorities mimic each other when setting their fiscal policy? Do governments act as Leviathan? Do European integration and the enlargement of the UE to the Central and Eastern European Countries make tax competition fiercer among UE member states? Do emerging countries compete between each other in order to attract foreign direct investments (FDI)? Is decentralization able to curb corruption in developing countries?

The course is taught in English but explanations in French will be provided occasionally as well.

Teaching language: English

Exam language: English or French

No pre-requisites but students are assumed to have a basic background in microeconomics. Students are advised to read again some chapters in the Varian's text book (especially those chapters devoted to the theory of consumer and producer, Nash equilibrium and an introduction to public goods). This course is also a part of the Joint Master in Public Affairs of Sciences-Po Paris, the London School of Economics and Political Science and the School of International and Public Affairs at Columbia University, New-York.

Introduction

Chapter 1: Tax Competition among sub-national governments: Theoretical Aspects and Empirical Evidence

1. A basic model of tax competition: Tax-induced mobility and the "race to the bottom"
2. Extensions of the basic model: Differences in jurisdictions' size, imperfect mobility of capital and Leviathan.
3. Tax competition and vertical externalities
4. Tax reactions functions and tax mimicking: Application to the Swiss cantons

Chapter 2: International Tax Competition: Taxes as a Determinant for Foreign Direct Investment (FDI)

1. Corporate income taxation: Some measurement issues
2. Effects of taxation on FDI's location among OECD countries: An empirical study based on gravitation model
3. Fiscal optimisation behaviour of multinational corporations.
4. Tax reactions functions and tax mimicking: Application to fiscal interactions between EU member states

Chapter 3: New Economic Geography (NEG) and Tax Competition

1. A quick insight into NEG: Centripetal forces (agglomeration) versus centrifugal forces (dispersion)
2. Economic integration and tax competition: a bell-shaped relationships
3. Application: Do "core countries" have to fear tax competition of the new EU member states?

Chapter 4: Tax Competition and Decentralization in Developing Countries

1. Tax competition and the Soft Budget Constraint phenomenon
2. Decentralization and corruption: Theory and empirical evidence
3. Tax competition between developing countries in Asia and Africa
4. Tax competition between local governments in Indonesia and China