

Research Project

Decentralization with porous borders: Public production in a federation with tax competition and spillovers

Project funded by own resources

Project title Decentralization with porous borders: Public production in a federation with tax competition and spillovers

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Organisation / Research unit

Departement Wirtschaftswissenschaften / Public Economics / Public Finance (Hintermann)

Project start 01.01.2016

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Status Completed

We analyze the strategic interaction of regional and federal governments, using a model that includes fiscal externalities in the form of inter-regional capital tax competition and technical externalities in the form of inter-regional spillovers. The federal government aims to correct for these inefficiencies using a transfer system. If the regional governments are policy leaders (such that federal policy is set conditional on regional choices), they will internalize both fiscal and technical externalities but free-ride on the transfer system. Efficiency can be achieved by introducing a second transfer scheme that is independent of regional public production. If the federal government sets its policy first and can commit itself to it, the outcome is efficient only if matching grants are used that financed outside of the transfer system.

Keywords Fiscal federalism; tax competition; externalities; spillovers; commitment; centralized leadership; decentralized leadership

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Other funds

Follow-up Project of... [2851751 Climate Change Extremes and Adaptation Strategies considering Uncertainty and Federalism \(CCAdapt\)](#)

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Published results

4514681, Armbruster, Stephanie; Hintermann, Beat, Decentralization with porous borders: Public production in a federation with tax competition and spillovers, 0927-5940 ; 1573-6970, International Tax and Public Finance, Publication: JournalArticle (Originalarbeit in einer wissenschaftlichen Zeitschrift)

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