

Tax competition among municipalities in Finland¹

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Regional and local public sectors are often characterized by revenue equalization systems that even out tax base differentials between rich and poor jurisdictions. In such a context, the question arises about the existence of strategic interaction among local governments. This paper uses Finnish municipality data to test for local tax competition. We show that despite a strong revenue equalization system, Finnish municipalities still behave strategically in terms of tax setting.

Los sectores públicos locales y regionales se caracterizan, a menudo, por contar con sistemas de nivelación de rentas, que incluso diferencian las bases entre jurisdicciones “ricas” y “pobres”. En este contexto, la cuestión radica en estudiar la existencia de estrategias de interacción entre los distintos gobiernos locales. Así, nuestro trabajo utiliza los datos de los municipios finlandeses para testar la existencia de competencia fiscal a nivel local. Se demuestra que, a pesar de la existencia de un importante sistema redistributivo, los municipios de Finlandia se comportan estratégicamente a la hora de establecer sus tipos impositivos.

Key words: local government, tax competition, strategic interaction
JEL classification: H72, H73, D72, D78, H24, H25

1. INTRODUCTION

Since the late nineties a few studies have found the existence of correlation between tax rates of neighbouring jurisdictions at the decentralized level of government. This result is often considered as empirical evidence suggesting the existence of local tax competition. It is, for example, the case in Germany (Buettner, 2001), Belgium (Heyndels and Vuchelen, 1998), Spain

¹ We would like to thank participants in the 2nd PEARLE seminar at the Government Institute for Economic Research (VATT-Helsinki) for helpful comments.

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