

Tax Competition and New Economic Geography

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By using models of monopolistic competition, new economic geography provides a different prediction on the outcome of tax competition than standard tax competition literature. Any region that is concerned by agglomeration may then benefit from a taxable agglomeration rent and gain from tighter economic integration. On the empirical side, there are very few papers that try to test the theoretical predictions of such a literature. Most papers provide evidence of the existence of a taxable agglomeration rent by analysing either the governments' behaviour when setting their local tax rate or the location choices of new plants.

La nueva geografía económica, usando modelos de competencia monopolística, ofrece una predicción acerca del juego de la competencia fiscal, distinta de la visión estándar que venía ofreciendo la literatura. Algunas regiones que pertenecen a un área de aglomeración pueden beneficiarse de las rentas gravables de aglomeración y ganar así con la integración económica. Desde el punto de vista empírico hay algunos trabajos que tratan de probar estas predicciones. La mayoría evidencian la existencia de una renta de aglomeración gravable, cuando los gobiernos locales establecen su tipo impositivo o cuando escogen la localización de nuevos establecimientos empresariales.

Keywords: tax competition, new economic geography, taxable agglomeration rent

JEL classification: H2, H3, R12

1. INTRODUCTION

Standard tax competition literature predicts that competition among governments over scarce capital will bid down taxes and public spending to suboptimal levels (see the survey by Wilson, 1999). Although the specific asset of assumptions modifies the extent of the fiscal externality, tax rates are always too low as long as governments maxi-

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