

E889: Topics in International Taxation and Fiscal Competition

University of Mannheim
Spring Semester 2018

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Course Description: The course provides insights into current research in the area of public economics, with a focus on environments where countries/regions are linked by spillovers from tax/fiscal policies. This includes the following topics: taxation of interregionally mobile production factors, international migration of high skilled labor, the role of taxation for location decision of firms, tax and fiscal competition, profit shifting and policy coordination to prevent it. The course covers both theoretical and empirical approaches.

Lecture times and course organization:

The class consists of a series of lectures which take place on Tuesdays, 8:30 - 10:00 in room P043. In addition, and as part of the class we attend a session of the ZEW Public Finance conference on April 23 and 24, 2018 (details to be announced). Depending on the number of course participants, we will have several sessions for student presentations, most likely in the second half of the semester. The exact date(s) will be announced during the semester.

As part of the course requirement, you need to write two referee reports (3-4 pages each), in which you summarize the paper's main results, and then focus on the critical evaluation of the paper and outline suggestions for further research.

Let me know (by email) in advance if you cannot come to class.

Grading:

- Presentation of a recent paper, plus referee report on that paper (counts 60% of final grade)
- Referee report on another paper 30%
- Class participation 10%

Topics and Readings

1. Tax competition: The basic model

- Wilson, J. D. (1986): "A Theory of Interregional Tax Competition", *Journal of Urban Economics*, Vol. 19, pp. 296-315.
- Zodrow, G. R., and P. Mieszkowski (1986): "Pigou, Tiebout, Property Taxation, and the Underprovision of Local Public Goods", *Journal of Urban Economics*, Vol. 19, pp. 356-370.
- Bucovetsky, S. and J. D. Wilson (1991): "Tax Competition with Two Tax Instruments", *Regional Science and Urban Economics*, Vol. 21, pp. 333-350

2. Tax competition: Asymmetries

- Bucovetsky, S. (1991): "Asymmetric tax competition", *Journal of Urban Economics*, Vol. 30, pp. 167-181.
- Wilson, J.D. (1991): "Tax competition with interregional differences in factor endowments", *Regional Science and Urban Economics*, Vol. 21, pp. 423-451.
- Kanbur, R. and M. Keen (1993): "Jeux sans frontières: tax competition and tax coordination when countries differ in size", *American Economic Review* No. 83, pp. 877-892.
- Bucovetsky, S. (2009): "An Index of Capital Tax Competition, *International Tax and Public Finance*", Vol. 16, pp. 727-752.
- Haufler, A. and I. Wooton (1999): "Country size and tax competition for foreign direct investment", *Journal of Public Economics*, Vol. 71, pp. 121-139.
- Haufler, A. and I. Wooton (2010): "Competition for firms in an oligopolistic industry: The impact of economic integration", *Journal of International Economics* 80, pp. 239-248.
- Ottaviano, G.I.P. and T. Van Ypersele (2005): "Market Size and Tax Competition", *Journal of International Economics*, Vol. 67, pp. 25-46.
- Janeba, E. and S. Osterloh (2013): "Tax and the City – A Theory of Local Tax Competition", *Journal of Public Economics*, Vol. 106, pp. 89-100.

3. Taxation and labor mobility

- Simula, L. and A. Trannoy (2010): "Optimal income tax under the threat of migration by top income earners", *Journal of Public Economics* 94(1), pp. 163-173.
- Bierbrauer, F., Brett, C. and J.A. Weymark (2013): "Strategic nonlinear income tax competition with perfect labor mobility", *Games and Economic Behavior* 82, pp. 292-311.
- Lehmann, E., Simular. L and A. Trannoy (2014): "Tax me if you can! Optimal Nonlinear income tax between competing governments", *QJE* , pp. 1995-2030.
- Kleven, H., Landais, C. and E. Saez (2013): "Taxation and International Mobility of Superstars. Evidence from the European Football Market", *AER* 103(5), pp. 1892-1924
- Kleven, H., Landais, C., Saez, E. and E. Schultz (2014): "Migration and wage effects of taxing top earners: Evidence from the Foreigners' tax scheme in Denmark", *QJE* 129(1), pp. 333-378.

- Engelmann, D., Janeba, E., Mechtenberg, L. and N. Wehrhöfer (2017): "Preferences over Taxation of High Income Individuals: Evidence from Online and Laboratory Experiments", mimeo, December 2017.

4. Empirical local tax competition

- Agrawal, D. R. (2015): "The Tax Gradient: Spatial Aspects of Fiscal Competition", *American Economic Journal: Economic Policy*, Vol. 7(2), pp. 1-29.
- Baskaran, T. (2014): "Identifying local tax mimicking with administrative borders and a policy reform", *Journal of Public Economics*, Vol. 118, pp. 41-51.
- Gibbons, S. and Overman, H. G. (2012): "Mostly Pointless Spatial Econometrics", *Journal of Regional Science*, Vol 52: pp. 172. 191
- Eugster, B., and R. Parchet (2013): "Culture and Taxes: Towards Identifying Tax Competition", *Universitt St. Gallen Discussion Paper No. 2013-39*
- Bruelhart, Marius, Mario Jametti and Kurt Schmidheiny (2012) Do agglomeration economies reduce the sensitivity of firm location to tax differentials? *The Economic Journal* 122(563): 1069-1093.
- Parchet, R. (2014): "Are local tax rates strategic complements or strategic substitutes?", *IdEP Economic Papers No. 1407*.

5. Local Labor Markets and Place-Based Policies

- Roback, J. (1982). Wages, Rents, and the Quality of Life, *Journal of Political Economy*, Vol- 90(6), pp. 1257-1278.
- Kline, P., and E. Moretti (2013): Place Based Policies with Unemployment, *American Economic Review, Papers and Proceedings*, 103 (3)
- Kline, P., and E. Moretti (2014): "People, Places, and Public Policy: Some Simple Welfare Economics of Local Economic Development Programs", *Annual Review of Economics*, Vol. 6, pp. 629-662.
- Serrato Surrez, J. C. S., and O. Zidar (2016): "Who Benefits from State Corporate Tax Cuts? A Local Labor Market Approach with Heterogeneous Firms", *American Economic Review*, Vol. 106(9), 2582-2624
- Busso, M., Gregory, J., and P. Kline (2013): "Assessing the Incidence and Efficiency of a Prominent Place Based Policy", *American Economic Review*, Vol. 103, pp. 897-947.
- Neumark, D., and Simpson. H. (2015). Place-Based Policies, in Duranton, G., Henderson, V., and Strange W. C. (eds): *Handbook of Regional & Urban Economics*, Vol. 5, pp. 1197-1287.
- Kline, P. and E. Moretti (2014): "Local Economic Development, Agglomeration Economies, and the Big Push: 100 Years of Evidence from the Tennessee Valley Authority", *Quarterly Journal of Economics*, Vol. 129, pp. 275-331.
- Becker, S., Egger, P. and M. von Ehrlich (2010): "Going NUTS: The effect of EU Structural Funds on regional performance." *Journal of Public Economics*, Vol. 94(9), pp. 578-590.

6. Sub-national taxation and mobility/Real effects of corporate taxation

- Fuest, C., Peichl, A., and S. Sieglöcher (2015): "Do Higher Corporate Taxes Reduce Wages? Micro Evidence from Germany", IZA Discussion Paper No. 9606
- Serrato Surriz, J. C. S., and O. Zidar (2016): "Who Benefits from State Corporate Tax Cuts? A Local Labor Market Approach with Heterogeneous Firms", *American Economic Review*, Vol. 106(9), 2582-2624
- Moretti E. and D. Wilson (2015): "The Effect of State Taxes on the Geographical Location of Top Earners: Evidence from Star Scientists", NBER Working Paper No. 21120
- Sieglöcher S. (2016): "Employment Effects of Local Business Taxes", mimeo.

7. Taxation of Multinational firms

- Huizinga, H., and L. Laeven (2008): "International profit shifting within European multinationals", *Journal of Public Economics*, Vol. 92, pp. 1164-1182.
- Dharmapala, D., and J. R. Hines (2009): "Which countries become tax havens?", *Journal of Public Economics*, Vol. 93, pp 1058-1068.
- Dischinger, M., and N. Riedel (2011): "Corporate Taxes and the Location of Intangible Assets within Multinational Firms", *Journal of Public Economics*, Vol. 95, pp. 691-707.
- Hong, Qing, and M. Smart (2010): "In praise of tax havens: International tax planning and foreign direct investment", *European Economic Review*, Vol. 54, pp. 82-95.
- Johannesen, N., and G. Zucman (2014): "The End of Bank Secrecy? An Evaluation of the G20 Tax Haven Crackdown", *American Economic Journal: Economic Policy*, 6(1), 65-91.

8. Other interesting papers (can be used for course assignments)

- Haufler, A. and F. Stähler (2013): "Tax Competition in a Simple Model with Heterogeneous Firms: How Larger Markets Reduce Profit Taxes", *International Economic Review*, Vol. 54, pp. 665-692.
- Monte, F. Redding, S. J. and E. Rossi-Hansberg. (2015), *Commuting, Migration and Local Employment Elasticities*, NBER Working Paper No. 21706
- Becker, S. O., Egger, P. H. and Ehrlich, M. v. (2013). *Absorptive Capacity and the Growth and Investment Effects of Regional Transfers: A Regression Discontinuity Design with Heterogeneous Treatment Effects*, *American Economic Journal: Economic Policy*, Vol. 5(4), pp. 2977.
- von Ehrlich, M. and T. Seidel (2015): "The Persistent Effects of Place-Based Policy: Evidence from the West-German Zonenrandgebiet", *CESifo Working Paper Series No. 5373*
- Lyytikäinen, T. (2012). *Tax competition among local governments: Evidence from a property tax reform in Finland*, *Journal of Public Economics*, Vol. 96, pp. 584-595.
- Isen, A. (2014). *Do local government fiscal spillovers exist? Evidence from counties, municipalities, and school districts*, *Journal of Public Economics*, Vol. 110, pp. 577-588.
- Gumpert, A., Hines, J. R., and M. Schnitzer (2016): "Multinational Firms and Tax Havens", *The Review of Economics and Statistics*, Vol. 98(4), pp. 713-727.
- Dharmapala, D., and N. Riedel (2013): "Earnings Shocks and Tax Motivated Income Shifting: Evidence from European Multinationals", *Journal of Public Economics*, Vol. 97, pp. 95-107.