

Systems Competition

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Marko Köthenbürger and Mikael Priks

Address:
Center for Economic Studies
Schackstr. 4
80539 Munich

Marko Köthenbürger
Marko.Koethenbuerger@ces.vwl.uni-muenchen.de
Phone: 089-2180 3021
Office Hours: Whenever you like! Please give me a call in advance.

Mikael Priks
Mikael.Priks@ces.vwl.uni-muenchen.de
Phone: 089- 2180 2956
Office Hours: Feel free to contact me at any time.

Course description

The course “Systems Competition” deals with competition in many different areas of the economy, such as government expenditure, environmental regulation, labour standards, quality standards, and banking regulation. Both theoretical and empirical aspects of the problems will be discussed. The book by H.W. Sinn (2003) will be the core reference for the course. At various points of the course the book will be augmented by supplementary material.

Contents

1. Introduction
2. Tax Competition
3. Mobility and the Welfare State
4. Social Dumping
5. Environmental Regulation
6. Competition of Product Standards
7. Banking Regulation
8. Competition of Competition Rules

Examination

There will be a written exam at the end of the course (7 February, 2006).

Core Reference

Hans-Werner Sinn, [*The New Systems Competition*](#), Yrjö Jahnsson Lectures, Basil Blackwell: Oxford, 2003.

Course Structure

I. Introduction

1. Globalization: stylized facts
2. Implications for public policy
3. Outline of the course

References: (* compulsory reading)

- *Devereux, M.P., R. Griffith, and A. Klemm, 2002: "Corporate Income Tax Reforms and International Tax Competition." *Economic Policy*, October, 451-495.
- *OECD Economic Outlook 2003, Paris. Chapter 6, 7 and 8.
- *Sinn, H.W., 2003: *The New Systems Competition*, Yrjö-Jahnsson Lectures, Basil Blackwell, Oxford. Chapter 1.

II. Tax competition

1. "Race to the bottom view"
 - a. Fiscal competition à la Zodrow-Mieszkowski
 - b. Fiscal competition and economic geography
 - c. Fiscal competition in federations: Does it make a difference?

References: (* compulsory reading)

- Baldwin, R.E. and P. Krugman, 2004: "Agglomeration, integration and tax harmonisation," *European Economic Review* 48, 1-23.
- Bucovetsky, S. and M. Smart, 2002: "The Efficiency Consequences of Local Revenue Equalization: Tax Competition and Tax Distortions." CESifo Working Paper No. 767, Munich; forthcoming in: *Journal of Public Economic Theory*.
- Büttner, T. 2005: "The Incentive Effect of Fiscal Equalization Transfers on Tax Policy." CESifo WP No. 1404, Munich.
- *Haufler, A. and I. Wooton, 1999: "Country Size and Tax Competition for Foreign Direct Investment." *Journal of Public Economics* 71, 121-139
- *Köthenbürger, M., 2002: "Tax Competition and Fiscal Equalization." *International Tax and Public Finance* 9, 391-408.
- Kind, H.J., K.H. Midelfart Knarvik and G. Schjelderup 2000, "Competing for Capital in a Lumpy World." *Journal of Public Economics* 78, 253-274.
- *Sinn, H.W., 2003: *The New Systems Competition*, Yrjö-Jahnsson Lectures, Basil Blackwell, Oxford. Chapter 2.
- *Zodrow, G.R. and P. Mieszkowski, 1986: "Pigou, Tiebout, Property Taxation, and the Underprovision of Local Public Goods." *Journal of Urban Economics* 19, 356-370.

2. Fiscal competition in a second-best world: Safeguard against fiscal expropriation?

- a. Leviathan governments
- b. Political agency problems
- c. Commitment issues

References: (* compulsory reading)

- *Besley, T. and M. Smart, 2003: "[Fiscal Restraints and Voter Welfare](#)", mimeo, LSE.
- Brennan, G. and J. Buchanan, 1980: *The Power To Tax: Analytical Foundations of a Fiscal Constitution*, Cambridge University Press, Cambridge.
- *Edwards, J. and M. Keen, 1996: "Tax competition and Leviathan." *European Economic Review*, 40, 113-134.
- *Janeba, E., 2000: "Tax Competition when Governments Lack Commitment: Excess Capacity as a Countervailing Threat." *American Economic Review* 90, 1508-1519.
- Köthenbürger, M., 2005: "Leviathans, Federal Transfers, and the Cartelization Hypothesis." *Public Choice* 122, 449-465

III. Globalization and the Welfare State

1. Why income redistribution?
2. Impact of globalization on the welfare state: Migration and more!
3. Policy Implications!

References: (* compulsory reading)

- Rodrik, D., 1998: "Why Do More Open Economies Have Bigger Governments?" *Journal of Political Economy* 106, 997-1032.
- *Richter, W., 2004: "Delaying Integration of Immigrant Labor for the Purpose of Taxation." *Journal of Urban Economics* 55, 597-613.
- *Sinn, H.W., 2003: *The New Systems Competition*, Yrjö-Jahnsson Lectures, Basil Blackwell, Oxford. Chapter 3.
- *Wildasin, D.E., 2000: "Labor-Market Integration, Investment in Risky Human Capital, and Fiscal Competition." *American Economic Review* 90, 73-95.

More information on the second half of the course will be provided by Mika in due course!