

Partial Tax Coordination in a Repeated Game Setting

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Abstract

This paper addresses the problem of partial tax coordination among regional or national sovereign governments in a repeated game setting. We show that partial tax coordination is more likely to prevail, the smaller the number of the coalition subgroup of regions, the larger the number of existing regions in the entire economy. It is also shown that under linear utility partial tax cooperation is more likely to prevail, the stronger the preference toward a local public good. The main deriving force for these results is the response of the intensity of tax competition. The increased (decreased) intensity of tax competition makes partial tax coordination more (less) sustainable.

JEL classification: H71; H77

Keywords: Partial tax cooperation; Repeated game; Tax competition

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