Review of MS 951, "Tax competition and determination of the quality of public goods"

The notion that horizontal tax competition over a mobile tax base leads to equilibrium tax rates that are lower than socially optimal levels is among the more pervasive beliefs in the field of tax competition. While this idea is presented as more of a general guideline on the market effects of competition rather than as an ironclad principle, examples where this assertion fails are difficult to find in the literature. In "Tax competition and determination of the quality of public goods," the authors develop such an example through a setup that requires minimum standards for public goods provided by local governments. The model is clearly and concisely described, and one can easily confirm the quantitative analysis supporting the model results.

The primary hesitation with this research concerns the assumptions made on the form of the utility function and of the tax options offered to local governments. On one hand, providing fully specified response functions allows interested parties to explore what sort of adjustments change the result and which still produce a Nash equilibrium dominant strategy of setting maximum tax rates on capital. However, scaling back the detail of the quantitative approach and instead analyzing the equilibrium strategies of local governments under a class of utility functions may produce a more generalizable result without sacrificing much in the way of accessibility. In absence of such a step, a brief explanation of any practical examples that may closely resemble the setup used in the model would help to spell out how this result may be useful from a policy perspective. Overall, this was an interesting and enjoyable read that could help lead to a better understanding of the effects of horizontal tax competition.