

Role of Spillover in the Repeated Interaction Model of Tax Competition

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Abstract

This paper generalizes the model of Cardarelli et al. (*Journal of Public Economic Theory*, 2002, 4(1), 19-38) by adding the benefit spillover of local public goods. Traditional public finance literature suggests that a benefit spillover is 'harmful' since it causes the choices of local governments to be inefficient from the viewpoint of society as a whole. This paper, however, shows that the spillovers can act as a beneficial factor in achieving an efficient outcome.

Keywords: repeated tax competition, spillover externality

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