Abstract:

This paper presents a spatial model of tax competition in an asymmetric duocentric city in which pollution from commuting is accounted for. Residential location being fixed, agents can chose their workplace and face a tradeoff between wage and commuting costs - including traffic-related pollution costs. We contrast the first best solution of a unique benevolent decision maker to cases of tax competition. In a first step, we revisit standard tax competition results in an asymmetric setting when one production factor can be exported when pollution is accounted for. We show that the incentive for the high productive jurisdiction to export the tax burden is affected by the resulting pollution import. In a second step, we introduce the possibility of decision makers who align their perception of pollution to those of their residents.