Abstract

We investigate the effect of a shift from a decentralized tax system to tax harmonization on the spatial distribution of firms within an urban agglomeration. Our theoretical model follows from the literature on urban economics, in which the community is dominated by a central city connected with a set of asymmetric suburban jurisdictions. We derive a simple equation where the relative attractiveness of the central city depends on the tax scheme prevailing in the community but also on economic factors. By taking advantage of a reform in France in the late 1990s, the estimation uses a panel data set on tax rates, plants and other socio-economic variables for urban municipalities from 1995 to 2003. Our random growth (trend) model shows that tax harmonization seems to encourage plants location within central cities where firms can take advantage from agglomeration economies and lower commuting costs.