

Identifying Tax Mimicking in Municipal Health Insurance: Evidence from A Boundary Reform*

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Abstract

This paper examines whether tax mimicking occurs in municipal health insurance tax in Japan. To uncover the causal effect of strategic mimicking behavior among neighboring municipalities, we exploit the fact that insurance tax levels sharply dropped when municipalities experienced municipal amalgamation during the Heisei Great Amalgamation, which took place during mid-2000s. Utilizing the incidence of adjacent amalgamation as an instrumental variable, we investigate how insurance tax levels in adjacent municipalities affect tax levels in non-amalgamated municipalities. Results suggest that there is significant mimicking behavior for non-amalgamated municipalities which insurance tax levels were higher than those of neighbors before the Heisei Great Amalgamation. The other non-amalgamated municipalities do not respond to changes in adjacent insurance tax levels.

JEL classification: H20 H71 H77

Keywords: strategic interaction, instrumental variable, quasi-experiment, municipal amalgamation, principle stratification

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