

Municipal merger under tax competition with debt

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Abstract

This paper analyzes whether municipal merger increases social welfare in a dynamic tax competition model. Though some papers about tax competition show that municipal merger increases social welfare because it terminates tax competition, the analysis finds that a welfare-decrease effect of municipal merger might eclipse a welfare-increase effect of municipal merger since it causes 'common pool problem'. Another result of this paper shows that governments issue excessive debts in both municipal merger and non-municipal merger cases, while the reason of this is different in each case.

Keywords: Municipal merger; Common pool; Tax competition

JEL Classification: H71; H72; H74

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