

Welfare-Improving Asymmetric Information in Endogenous Timing Game of Tax Competition*

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January, 2018

Abstract

In tax competition, when all countries have complete information and the capital is owned by residents in the countries, each country wants to set its tax fast and the only outcome in endogenous timing game of tax setting is simultaneous-move (Ogawa 2013). In this paper I explore the properties of this setting under incomplete information; especially, I study the case that one country's productivity of private goods is uncertain for the other. I find that each type has an incentive to pretend the other type and pooling equilibrium always emerges. This results in an increase of social welfare compared with the setting under complete information because aggressive tax settings are suppressed. This result strongly depends on the assumption of capital ownership. I also find such an incentive makes it possible that Stackelberg equilibrium emerges endogenously in which uninformed country moves second and informed country moves fast.

Keywords: Tax competition, Endogenous timing, Incomplete information

JEL classification: D82, H30, H87.

*I am grateful to Akira Ogawa, Daiki Kishishita, Hikaru Ogawa and Susumu Sato for their valuable comments. This project is financially supported by JSPS Grand-in-Aid for JSPS Research Fellows (17J07819). All remaining errors are my own.

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