

# Dynamic Fiscal Competition, Tax Incidence and Political Economy

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**Abstract:** This workshop reports on research – past, present, and prospective – devoted to understanding the impacts of tax and expenditure policies in jurisdictions (localities, states/provinces, nations) that compete for productive resources (such as labor and capital) in a dynamic setting. Because these resources are imperfectly mobile, migration and investment *flows* bring about gradual (not instantaneous) adjustments to *stocks* of labor and capital. Fiscal policies that affect migration and investment incentives thus affect the evolution of wages, returns to capital, and other incomes over time. As will become clear, traditional “comparative statics” incidence analysis, focusing on the polar cases of short- and long-run equilibria, need not be indicative of what happens over empirically-important intermediate time horizons.

The discussion will highlight the *dynamic economic incidence* of tax and expenditure policies, i.e., how these policies affect incomes and the economic welfare of different groups over time, depends on the degree of mobility of all productive resources and on their *simultaneous* dynamic adjustment to policy changes. Incidence analysis, of interest in its own right, is also important for political economy because it determines the incentives of different groups to influence the political process through which policies are determined (“voice”) as well as the extent to which external market opportunities (“exit”) constrain policy choices.

As background for the presentation, interested readers are referred to an unpublished paper<sup>1</sup> on “Fiscal Competition for Imperfectly-Mobile Labor and Capital: A Comparative Dynamic Analysis” analyzes the dynamic incidence of fiscal policies when there are two types of productive resources, such as labor and capital, that both adjust gradually to changes in fiscal policy. The workshop will summarize some of the findings of that paper in a comparatively nontechnical form, highlighting implications for public policy, political economy, and empirical research.

To see the potential connections to research on political economy, some readers may find it useful to review a (much less technical) paper on “Fiscal Competition”, previously-published in the *Oxford Handbook of Political Economy*.<sup>2</sup> This earlier paper focuses on the comparatively simple case where there is only one mobile productive resource. Extensions to the analysis of political economy issues with two (or more) imperfectly-mobile resources remain on the agenda for future research.

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<sup>1</sup>Available, together with animated graphics, on the author’s website:  
<http://davidwildasin.us/wp.html>

<sup>2</sup>A version is available (see listing for 2006) at:  
<http://davidwildasin.us/pub.html>