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Centralization Trade-off with Non-Uniform Taxation

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Abstract: When local public goods are provided by a centralized authority, spillovers are internalized, but heterogeneity in preferences may be suppressed. Besley and Coate (2003) recently examined this classic trade-off for a uniform tax regime with strategic delegation. Here, we extend their approach by allowing for a non-uniform tax regime. We find that centralization with nonuniform taxation unambiguously increases welfare in comparison to uniform-tax centralization. With non-cooperative legislators coming from symmetric districts, our centralization dominates decentralization for any degree of spillovers. In other cases, non-uniform taxation at least improves the odds of centralization, if measured by a utilitarian yardstick.

JEL classification: H40, H70, H72, P51

Keywords: decentralization, taxation, local public goods

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