



Strasbourg, 21 June 2010

CDL-UD(2010)034

Engl. only

EUROPEAN COMMISSION FOR DEMOCRACY THROUGH LAW
(VENICE COMMISSION)

in co-operation with
the Swiss Federal Department of Foreign Affairs
and
the “Executive Campus HSG of St Gallen University”

in the framework of the Swiss Chair
of the Committee of Ministers of the Council of Europe

CONFERENCE

on “Democracy and decentralisation -
Strengthening democratic institutions through participation”

St Gallen, Switzerland, 3-4 May 2010

SPEECH

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The Rules of the Tax Competition Game

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Conference on Democracy and
Decentralization, St. Gallen, May 3-4, 2010



The Visionary Thing

- Another Utopia
 - A world in which sub-federal jurisdictions were symmetrically distributed in a country.
 - Responsibilities to conduct policies were assigned more or less properly.
 - Tax competition between jurisdictions could prevail.
 - Tiebout's shining city on a hill.
 - Taxpayers/ consumers of public services would vote by feet according to their preferences.
 - Efficient provision of public services: costs and demand.
 - Variety of bundles of tax prices and public services.



The First Skepticism

- Alfred Meier's Caveat:
 - Government policy in general, and public finances in particular, is not concerned with economic efficiency.
 - Calling for efficiency in government finances is like shouting „goal“ in a chess game.
- Redistribution and fairness concerns reign.
 - Tax autonomy: Does it mean full autonomy over rates and bases?
- Rates: Only surcharges or the full schedule?
 - Ability to pay principle, progressivity, flat taxes, minimum taxes.



The Second Skepticism

- Income tax base: Should we allow sub-federal jurisdictions to determine all deductions?
 - Special privileges: The base of „lump-sum“ taxes in Switzerland (income or costs).
- Corporation tax base: Profit shifting of firms
 - Common consolidated tax base and formula apportionment: Effects on ownership structures?
 - Taxation of holdings, domiciled companies and so on.



The Third Skepticism

- Asymmetries:
 - The Utopia formulated above could perhaps work with symmetric jurisdictions.
 - Usually, federations are asymmetric.
 - Legally: Spain, Russia.
 - Demographically: Population size.
 - Economically: Structural strengths and weaknesses.
 - Geographically: Core and periphery.
 - Asymmetries as the main rationale for fiscal equalization systems.
 - How much equalization is useful?

