

Abstract :

Building on recent contributions to the New Economic Geography literature, this paper analyses the relation between asymmetric market size, trade integration and business income tax differentials across countries. First, relying on a foot-loose capital model of tax competition, we illustrate that trade integration (or decreasing trade costs) reduces the importance of relative market size for differences in the extent of corporate taxation between countries. Then, using a dataset of 26 OECD countries over the period 1982-2004, we provide supportive evidence of these theoretical predictions: i.e., market size differences are strongly positively correlated with corporate income tax differences across countries but, crucially, trade integration weakens this link. These findings are obtained controlling for the potential endogeneity of trade integration and are robust to various alternative specifications and robustness checks.

.....

Nelly Exbrayat is an associate professor at GATE Lyon / St-Etienne and University of St-Etienne. Her research fields are economic geography, fiscal policy and environmental economics.

We are pleased to invite you to the
Lunchtime Seminar in Economics:

**Trade integration and business tax differentials:
theory and evidence from OECD countries**
joint with Benny Geys

Nelly Exbrayat
Gate Lyon/St.Etienne, University of St.Etienne

January 25, 2012
13:00 – 14:00

Campus Limpertsberg
Central Building, Room BS001
162a, avenue de la Faïencerie L-1511 Luxembourg

Lunch is planned for the participants

Registration: by email to fdef-colloques@uni.lu

Contact : crea@uni.lu (+352 46 66 44 6336 / 6139)