

# IWH Research Seminar in Economics

Montag, 17. Oktober 2016, 14:15–15:45 Uhr, Konferenzsaal im Erdgeschoss



## Commercial Land Use and Interjurisdictional Competition

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This paper considers effects of local public finances on land use. A theoretical analysis explores the trade off faced by a local government deciding about the amount of land made available for commercial use. While more commercial land tends to attract mobile factors, its expansion is assumed to have adverse effects on the quality of life. A distortion of the decision is shown to arise in an environment with tax competition, where a fiscal incentive arises to expand commercial land use. Fiscal redistribution through equalization grants, however, reduces this incentive. Based on the theory, the effect of tax competition and fiscal redistribution on commercial land use is investigated empirically using a large dataset of German municipalities. In order to identify differences in the degree of fiscal redistribution, I exploit institutional characteristics of the system of fiscal equalization to which these municipalities are subjected. The results confirm that the amount of land dedicated to commercial land use, tends to be higher in municipalities that are exposed to more intense tax competition.

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