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Thomas Eichner, Rüdiger Pethig



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Competition in emissions standards and capital taxes with local pollution^{*}

Thomas Eichner

Department of Economics, University of Hagen

Rüdiger Pethig

Department of Economics, University of Siegen

Abstract

This paper analyzes the competition in emissions standards and capital taxes when production causes local pollution and large jurisdictions act strategically. It is shown that emissions standard competition both with and without capital tax competition results in inefficient outcomes. The more productive jurisdiction imports capital and sets inefficiently tight emissions standards, whereas the less productive jurisdiction chooses inefficiently lax emissions standards. Adding capital tax competition improves local pollution, but exacerbates the capital distortion and the efficiency loss of emissions standard competition.

JEL classification: H23, H41, Q58

Key words: emissions standard, capital tax, local pollution, tax competition

^{*}Eichner: Department of Economics, University of Hagen, Universitätsstr. 41, 58097 Hagen, Germany, email: thomas.eichner@fernuni-hagen.de; Pethig: Department of Economics, University of Siegen, Unteres Schloss 3, 57068 Siegen, Germany, pethig@vwl.wiwi.uni-siegen.de. Financial support from the German Science foundation (DFG grant number EI 847/1-2 and PE 212/9-2) is gratefully acknowledged. Thanks also to two anonymous referees for helpful comments. Remaining errors are the authors' sole responsibility.

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