David R. Agrawal and Dirk Foremny*

Redistribution In A Globalized World

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Abstract: Due to technological change, the opening of borders, and increased economic integration, the financial costs of relocating businesses and factors of production, moving residences, changing jobs, and transporting goods and services across borders pose new challenges for countries and subnational governments seeking to implement redistributive policies. This increasing mobility across borders implies that redistributive policies may amplify interjurisdictional fiscal externalities. In this article, we selectively review the literature relating to redistributive policy in an open economy setting. We then consider some of the implications of globalization for policy design, both within federal systems and across countries. Although globalization poses new challenges for fiscal systems, it does not necessarily imply that redistributive policy becomes untenable and possibly enhances the need for redistribution.

Keywords: globalization, redistributive policy, mobility

JEL Classification: H2, H7, F6

1 Introduction

Due to technological change, the opening of borders, and increased economic integration, the financial costs of relocating businesses and factors of production, moving residences, changing jobs, and transporting goods and services have decreased substantially over the last several decades. At the same time, income and wealth inequality within and across countries has risen dramatically in many places. Despite this, inequality of economic opportunity and top incomes are highly concentrated and the observed migration rates within some countries

Agrawal and Foremny are also members of CESifo.

***Corresponding author: Dirk Foremny**, Department of Economics and I.E.B., Universitat de Barcelona, Facultat d'Economia i Empresa – Av. Diagonal, 690 08034 Barcelona, Spain, E-mail: foremny@ub.edu
David R. Agrawal, Martin School of Public Policy and Administration and Department of Economics, University of Kentucky, 433 Patterson Office Tower, Lexington, KY 40506-0027, USA, E-mail: dragrawal@uky.edu

have fallen dramatically. Economic shocks are highly spatially correlated, making poverty a spatial problem. In this paper, we will focus on theoretical and empirical analyses of redistributive policies, broadly defined, in a globalized setting.

Recently, policymakers have proposed that countries or states adopt progressive wealth taxes, progressive consumption taxes, and to increase taxes on top-income earners, while also reforming social insurance systems, safety net programs, and intergovernmental transfers to low-income regions. Yet, how these policies interact with increasing mobility opportunities, fiscal competition, and the implications of globalization on policy is not yet well understood. Moreover, policymakers must better understand the effects of these policies on economic outcomes, inequality, and behavioral responses. We selectively tackle these challenges for countries or sub-national regions.

A central tenet in public finance concerns the "tenable range" of local government redistributive policies, where the classic wisdom is that competition among governments in a federal system and the resulting mobility undermines decentralized progressive redistribution, and for this reason, redistribution is intrinsically a "national policy" (Musgrave 1959; Stigler 1957). But the opening of borders and increasing globalization make mobility across countries similar to mobility within a federal system. In part, this might be why, for example, Piketty (2014) called for a global wealth tax. To what extent does globalization then imply that redistributive policy even at the national level may become untenable?

In this paper, we review the literature on redistributive policy in a globalized world. We discuss the challenges posed by globalization for governments engaging in redistribution, especially progressive redistribution. The article emphasizes how globalization restricts governments, but that there is also reason to believe that globalization needs not imply the end of redistributive policy. Indeed, globalization may actually reinforce the need for redistributive policy as insurance and expand the scope of place-based redistributive programs. The special issue, and the articles in it, tackles these important issues.

As noted in Egger et al. (2019), the effects of globalization are not necessarily clear, *a priori*. On the one hand, increased mobility of capital and labor may place limits on the ability of countries to tax capital or labor. This increased mobility may manifest in heightened tax competition (Agrawal et al. 2022b; Brueckner 2003; Keen and Konrad 2013; Wilson 1999) for factors or workers, which may result in a downward convergence of tax rates or reductions in progressivity in tax systems (Devereux et al. 2002).[1] But, on the other hand, globalization exposes workers and capital to international shocks (e.g., trade shocks) that can result in

1 But, Haufler and Perroni (2020) show that even when individuals are not mobile across borders, market integration can raise the spread of individual contract returns, making contract choices

governments expanding the welfare state in order to insure workers vulnerable to these new shocks (Rodrik 1998).[2] These offsetting effects imply that the effects of globalization on government policy are likely complex.

But, there are other less discussed effects of tax competition. Globalization also makes taxpayers, especially high-income taxpayers, more "globalized." As a result of globalization, high-income individuals are more likely to earn income from many different jurisdictions—labor income from their home state of New York, with rental income from a vacation property that is owned in Portugal, consulting income from a contract in Germany, and capital income potentially earned in worldwide markets. As a result of taxpayers earning income in many jurisdictions, depending on the tax rules in place, taxes may be owed to nonresident jurisdictions. But even if all income were taxed only in the residential country, the existence of multijurisdictional income poses challenges for tax authorities. Standard tools, such as withholding and information reporting, may break down if one country cannot compel firms in another country to withhold taxes on income earned by nonresidents or to report the incomes earned to the tax authority in other countries. As a result, less effective enforcement tools imply increased evasion opportunities, most especially by those individuals at the top of the income distribution.

In addition, technological changes pose new challenges for governments. Recently, the COVID-19 crisis has amplified telework and e-commerce, which means that households now more than ever earn nonresident labor income from other jurisdictions and consume goods purchased from sellers around the world.[3] The digitalization of how we earn income and buy goods means that fiscal authorities need to place more emphasis on the tax rules underlying our tax systems (e.g., should taxes be source/residence based? Should taxes be origin or destination based? Who should remit taxes to the government?). But, at the same time, these technological advances can provide opportunities for governments to enforce taxes, by providing unique opportunities for information reporting and computerized audits that can be especially promising in developing countries.

In addition, income inequality is becoming increasingly concentrated. Gaubert et al. (2021b) shows that mean incomes at the county level are increasingly diverging although the divergence in median incomes is more muted. At the

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more sensitive to taxes. This in turn could place downward pressure on taxes absent mobility. Related, see Haufler and Nishimura (2022).

2 But, Wildasin (2007) notes that the absence of trade does not imply there is no income risk, and indeed the demand for insurance in autarky may be higher. Trade may shift the distribution of risk across households, possibly raising or lowering the social costs of risk.

3 See, for example, Agrawal and Stark (2022) and Agrawal and Brueckner (2022).

same time, county poverty rates have begun to equalize, perhaps as a result of means-tested transfer programs working. But, even though the variation in poverty rates has converged, poverty rates remain highly spatially concentrated. Moreover, top incomes have become increasingly spatially concentrated. At the same time, the role of place is very important in terms of upward mobility (Chetty and Hendren 2018a; Chetty and Hendren 2018b). Returning to economic shocks, the spatial concentration of these shocks may disproportionately affect workers in either urban or rural areas depending on the shock.

Given, this pronounced spatial concentration of poverty and increasing concentration of incomes, is there are role for place-based policies or place-based grants? Under one view, subsidizing places has efficiency consequences, perhaps implying that it is better to target individuals rather than people. But, Gaubert et al. (2021a) shows that place-based redistribution is able to improve on the outcomes relative to place-blind income taxes. Intuitively, place-based redistribution can generate welfare gains that purely income-based redistribution cannot when society values targeting distressed areas. In addition to place-based transfers to individuals, there is also a large literature on the role of intergovernmental grants attempting to equalize the opportunities of local governments. The desire for place-based redistribution may be especially the case if globalization spatially concentrates income shocks in particular high-poverty areas.

It is quite difficult to predict with certainty how these powerful forces of globalization will affect redistributive policy. While there is some presumption that globalization will work to limit the extent of redistirbutive policies, global integration may also promote productive utilization of resources and factor market integration can strengthen the incentives for human capital investment (Wildasin 1998, 2009). Immigration, not tax-induced, also has important implications for tax revenues and the expenditure side. Moreover, while mobility may limit the ability to engage in progressive redistribution, there are also forces muting these consequences. For example, the increasing concentration of top incomes in the United States in coastal states points to counteracting amenities that may limit the mobility elasticity.[4] Taken together, it would be difficult to conclude that globalization necessarily implies a decline in redistributive policies. In fact, there are reasons why it may increase the need for it.

Finally, it also remains unclear what the optimal level of government is to implement redistributive policy in the context of globalization. One view suggests that redistributive policies should be centralized because of locational forces that

4 Critically, Kleven (2014) notes that what governments spend the tax revenue on can be viewed as an endogenous amenity that allows governments to implement relatively high tax rates.

attract individuals who benefit from the welfare state and to repel individuals who finance it. Globalization implies that this argument is not restricted to within federal systems, as mobility now, more than ever, can transcend international borders. But, there is also evidence that preferences for redistribution vary across jurisdictions, in which case decentralization may be preferable (Pauly 1973). And absent policymaking by a supreme international body that appropriately internalizes all spillovers and externalities, the optimal level of government to implement redistributive policy is unclear.

In this article, we discuss issues for fiscal policy that arise due to globalization.[5] Given the complex nature of these issues, our discussion is inevitably shorter than is warranted to be able to refer to the entire body of literature in this area. Instead, we focus on some selective issues that we view as important.

2 Gloablization and Redistributive Policy

2.1 Intergovernmental Grants

The process of globalization creates important challenges for sub-national governments and decentralization. The exposure to economic shocks has become larger over recent decades and oftentimes has asymmetric effects on different regions or states within a country. An important feature of modern welfare states is to provide risk-sharing mechanisms — not only across citizens, but also across spatial units (von Hagen 2007). This creates new challenges for inter-governmental relations and the design of grant systems to smooth shocks.

Policy makers of central, regional, and local governments have different tools at their disposal. Vertical transfers and placed based polices might be a powerful tool for central governments to counteract these asymmetric shocks. In addition, horizontal fiscal equalization schemes are a further mechanism to distribute the burden of economic shocks across sub-national entities.

Besides the insurance and redistribution function, grants are often designed to influence subnational policies. In general, the design of the grant system is important to predict the impact on a recipient's behavior, with grants changing the relative price for a certain public goods being more effective. Matching grants are found to be particularly effective to incentivize spending, as each unit of grant received needs to be matched by a proportion of own funds. Gamkhar and Shah (2007) provide a review of empirical results. Globalization is likely to

5 See also Wildasin (2021) and Wildasin (2014).

increase the importance of these grants in order to maintain inter-regional equity, as spatial disparities are likely to increase.

The first contribution in the special issue "*The Long and Winding Road to Local Fiscal Equity in the United States: A Fifty Year Retrospective*" analyzes the impact of grants from an American perspective. Martinez-Vazquez and Timofeev (2022) measure the extent of equalization across local governments in the United States that is implicit or explicit in the federal and state grants systems. To do this, the authors look at the evolution of per capita amounts of resources available to local governments before and after the allocation of grants. The reduction of the within-state disparities through intergovernmental transfers makes the unmitigated between-state disparities account for 48% of total inequality.

In addition, factor mobility increasing as a result of globalization may increase the scope for central government grants to lower level governments. As discussed in Boadway and Flatters (1982) transfers from high-income to low-income jurisdictions may reduce the mobility responses of labor in response to policy differences by local governments. And transfers that are based on population or income can compensate jurisdictions when they realize an inflow of beneficiaries, reducing the incentives to engage in welfare-state related competition.

2.2 Placed-Based Redistribution

Place-based polices are another set of tools that governments can use to solve spatial disparities in income levels and unemployment. With the main objective of job creation in areas lagging behind, place-based policies commonly include tax subsidies, public investment programs, and beneficial rules and regulations for eligible jurisdictions. A well-known example is the European Union cohesion funds, under which relatively disadvantaged areas become eligible for specific transfer programs. Neumark and Simpson (2015) provide an excellent overview of the variety of policy instruments that have been implemented across countries.

von Ehrlich and Overman (2020) analyze spatial disparities across European cities and provide interesting comparisons to the United States. They document that around 14 percent of the population living in metropolitan areas in the European Union reside in zones which are below the threshold of 75 percent of the EU average GDP, the eligibility criteria for EU cohesion funds. In the United States, this accounts for only 7 percent of the metro population. von Ehrlich and Overman (2020) document disparities in income per capita, which started widening across US metros around 1995, and only about a decade later for the EU. The authors suggest that mobility, much larger in the US, is an important determinant of those differences.

Overall, studies show mixed results of place-based policies. While some policies worked in some places, others did not. Neumark and Simpson (2015) conclude that we need to know more about what works, why it works, where it does so, and for whom. The second contribution of this special issue "*Evolution of the New Market Tax Credit*" (White 2022) provides an interesting contribution to this literature. As low low-income jurisdictions usually lack investment, the aim of this place-based policy is to incentivize private investment via a federal tax credit. The author documents how characteristics of the proposed projects and of corporate and individual tax filers claiming the tax credit have changed over time. An interesting fact documented in the paper is that the share of projects claimed in metropolitan areas has decreased over time. The paper also quantifies the economic conditions that are correlated with the probability and amount of New Market Tax Credit investment a Census tract receives. Cross-sectional data within states indicate tracts with greater poverty rates are correlated with a higher likelihood of receiving investment due to this place-based policy.

2.3 Tax and Transfer Induced Mobility

Decentralized taxation and transfers are another important instrument that can be used to smooth spatially correlated economic shocks. How sub-national taxation functions when economic integration and openness increases is therefore an important topic in current academic and political debates, as globalization has not only increased the likelihood of asymmetric shocks, but also impacts the tools to deal with them.

Mobility costs have decreased with globalization, and behavioral responses of taxpayers might threaten the ability of countries or regions to implement redistributive policies. While labor has been traditionally assumed to be less mobile than capital, a recent literature has shown the importance of personal taxes on location choice (see Kleven et al. 2020, for an overview). Empirical studies document mobility effects, mostly at the upper end of the income- and skill distribution. Examples for cross-country migration include Kleven et al. (2013), which analyzes responses of football player across European countries and Akcigit et al. (2016), which documents responses for top inventors. Another strand of the literature identifies mobility responses to special preferential tax schemes for new residents – a form of tax competition which has recently gained importance across European countries (Kleven et al. 2013, 2014; Schmidheiny and Slotwinski 2018). Further evidence exists for migration across sub-national jurisdictions. And of course, there is evidence on the special role of tax havens and the role of off-

shoring on inequality (e.g., Alstadsæter et al. 2018; Alstadsæter et al. 2019; Johannesen and Zucman 2014).

While various studies show effects for the internal location choice of high income individuals with respect to personal income taxation (Agrawal and Foremny 2019; Brülhart and Parchet 2014; Muñoz 2019; Schmidheiny 2006; Young and Varner 2011; Young et al. 2016), the empirical literature has recently started to analyze mobility responses to wealth taxation. Agrawal et al. (2022a) use linked individual and wealth tax returns in Spain, and exploit a decentralization reform after which all regions adopted positive wealth tax rates apart from the capital region of Madrid. The study shows that the mobility elasticities from wealth taxation — contrary to conventional wisdom — are comparable to mobility responses in other settings for income taxes. The effects on the wealth tax base and its revenues in each region are not different from those of income taxes, but the study reveals two important insights in this setting. First, cross-base fiscal externalities — those coming from income taxes due to larger capital shares in the zero wealth tax regime — can be much more important than the direct fiscal externalities from wealth taxation. Furthermore, the equity effects of this tax policy can be large, as regional inequalities increased substantially with a large growth of the wealth concentration in Madrid. The paper demonstrates that minimum tax rates, a policy that recently gained importance in the political debate, can be an important remedy to those negative effects of low- or zero tax jurisdictions.

The third contribution in the special issue "*A Harmonised Net Wealth Tax in the European Union*" deals with this issue. In this paper, Krenek and Schratzenstaller (2022) provide estimates of the revenue that could be raised from a European Union net wealth tax. The authors estimate, under some assumptions, that a moderately progressive net wealth tax could raise approximately 170 billion Euros, while only affecting a small fraction of high wealth households. These estimates include various avoidance responses, including intra-national mobility of taxpayers.

Of course, while much of the recent literature has focused on the mobility of high-income households in response to taxes, the fiscal system can also redistribute by making transfer payments to low-income household more generous. At the opposite and of the spectrum, is potential mobility of low-income households in response to the generosity of the welfare state. As noted in Brueckner (2000), the evidence on mobility is mixed, but the evidence on strategic interactions suggests that governments engage competitively with each other, and thus at least perceive that mobility is a concern.

2.4 Immigration

While tax and transfer induced mobility represents one type of migration, immigration (for non-fiscal reasons) has also increased with globalization. Generally speaking, demographic changes resulting from shifts in fertility, mortality, and immigration have important implications for fiscal systems.[6] Immigration has been increasing in recent decades, and immigration is often the principal source for population growth in many EU countries (Wildasin 2006). And because immigrants are generally younger than the native population, foreign born are generally underrepresented in old-age groups.

Each immigrant household in a country engages in consumption and earns income, thus contributing tax revenues to their new country. But, they also benefit from public expenditures and transfers from the government. The relative importance immigrants make to tax revenues versus expenditure burdens to government depend on the characteristics of the household. Recent research seems to indicate that immigrants are net beneficiaries to the fiscal systems. But, at the same time, given immigrants contribute substantially to population growth, over the life-cycle, immigrants may help sustain pension programs as net contributors to the pension system. In this way, when thinking about the fiscal effects of immigration, it is important to think about the net present-value impact of immigration on fiscal systems and not just the on-impact pressures on the welfare state created by immigration. Here, Wildasin (1999) finds that immigration can result in a positive net fiscal contribution of more than 15% of lifetime wealth of the migrant.

2.5 Fiscal Competition

Mobility responses of factors can lead to fiscal competition, whereby governments seek to adjust their tax rates or spending policies in order to compete for mobile factors. Increases in globalization and the resulting tax competition generated by it have long been argued to place downward pressure on corporate income tax rates. For example, Figure 1 in Keen and Konrad (2013) shows a clear downward trend in the corporate tax rates of the world, especially in advanced economies. The authors write that the downward trend of corporate tax rates provides "the prima facie example of international tax competition at work." This downward trend in tax rates is often referred to as the race to the bottom, though

6 This is one reason given by governments as to why they wish to improve fertility rates. See, for example, Malkova (2018) and Brainerd and Malkova (2021).

that terms has a slightly misleading connotation and for this reason, we refrain from using it throughout the article.

As an explanation of how tax rates may follow this downward trajectory, consider the Kanbur and Keen (1993) model of tax competition which was simplified by Nielsen (2001). This model was originally used to study tax competition for cross-border shoppers, but as shown in Keen and Konrad (2013), it can easily be applied to many economic activities that can be shifted across borders. In this model, equilibrium tax rates are a function of jurisdiction size and the cost of shifting activities from one jurisdiction to another. This latter cost parameter is assumed to be the same for residents of both jurisdictions. This cost parameter is likely falling as a result of globalization. In equilibrium, a decline in the cost of shifting activities will lower tax rates in both jurisdictions. Critically, in this model, the tax rates in one jurisdiction are strategic complements with the tax rates of other jurisdictions. For this reason, the direct effect of the cost shock is reinforced by the strategic (competitive) effects. This intuition provides the standard argument for why tax competition intensifies the fall in tax rates resulting from globalization.

But, tax rates need not be strategic complements in all models. And in the case of tax rates being strategic substitutes, then the effect of shocks becomes more complex, especially if the shocks affect both competitor jurisdictions.

Given globalization is likely to have implications on the intensity of tax competition, policymakers have proposed various ways to mitigate these effects, ranging from minimum tax rates to complete harmonization. While the recent corporate tax debate has made some progress on this front, such policy interventions are less pronounced for other types of taxes at the international level, though they have been more commonly utilized within federal systems.

2.6 Nonresident Income

Globalization makes middle income individuals able to invest, earn income, and own properties in international markets. As an example, an individual living in the United States may earn income domestically, but also have consulting contracts in several countries for other entities around the world, may own rental properties that accrue income in several island nations, and may invest in the financial markets and banking system worldwide. As a result, globalization poses challenges for the administration of personal income taxes and not just corporate income taxes.

The dramatic increase in nonresident income raises problems for tax administrators that often rely on information reporting or withholding as ways to discourage

tax avoidance and evasion (Hepp 2013). But, when individuals earn income (capital or labor) oversees, tax administration becomes more challenging. Earning money overseas, perhaps as a means of deliberate shifting, means that information reporting becomes a less effective tool for the tax authority. In particular, the tax authority becomes less able to rely on third-party reporting by domestic firms and financial institutions. Instead, the tax authority needs to reply on more costly means of reporting such as bilateral information exchange agreements, which are often times ineffective. Interestingly, this issue of multi-jurisdictional income is not just an international issue, as individuals often earn income across multiple states in the United States.

Traditionally, enforcement of cross-border taxes has been based on the principle of information exchange upon request. In particular, tax treaties and Tax Information Exchange Agreements (TIEAs) provide for the exchange of information among governments when one government requests information concerning its residents. But, it is believed that financial investments abroad allowed for the evasion of taxes under such a regime (Zucman 2014). Some progress has been made with the U.S. adopting the Foreign Account Tax Compliance Act (FATCA), which attempts to induce foreign financial institutions to use a global regime of automatic information reporting for U.S. residents by imposing a withholding tax on nonparticipating institutions. This system attempts to shift some of the tax administration costs to financial institutions, given the compliance costs of participating in the system are nontrivial. Unfortunately, there is limited empirical evidence (De Simone et al. 2020) on this topic, but Dharmapala (2016) shows theoretically that unilateral FACTA may increase or decrease cross-border tax evasion.

3 Policies Addressing Globalization

As noted above, there are reasons why globalization may amplify the welfare state or redistributive taxation. But we have predominantly focused on some of the challenges. Given those challenges, can governments adopt policies that mitigate the potential negative effects of globalization on the welfare state or progressive redistribution of taxes? Again, we do not intend this to be an exhaustive list.

3.1 Federal Subsidies for Redistribution

Federal governments can implement policies that encourage progressive redistribution. In the United States, the federal deduction for state and local income

taxes (SALT) generally encourages state and local redistributive policy. For example, as noted in Stark (2003), the SALT deduction limits deductions to high-income itemizing taxpayers, favors progressive state income taxes over sales taxes, and confers the largest subsidy rates for the highest income tax payers. As a result, the SALT deduction subsidizes states to tax higher income taxpayers, making tax systems potentially more progressive. While there are many reasons one may want to reduce the SALT deduction, it does act as means of encouraging subnational governments to engage in redistributive policy.

This view is reflected in Cullen and Gordon (2008): "Individuals sort across jurisdictions in part based on the relative taxes and public service benefits they receive in each possible jurisdiction. When one jurisdiction changes its policies so that the distribution of net benefits becomes relatively more progressive, the resorting of net contributors and recipients across jurisdictions impacts the budgets of other jurisdictions. As long as these fiscal externalities are more positive the more progressive is a jurisdiction's tax system, the federal government can internalize these externalities by providing a subsidy that grows with the state and local tax payments made by higher income residents, as implicitly occurs now since only higher income residents tend to itemize their deductions under the Federal income tax."

3.2 Human Capital Formation and Intergovernmental Grants

In many federal systems around the world, human capital policy is squarely in the domain of local governments. But, because human capital moves jurisdictions when an individual migrates and because many individuals will not work in the town that educates them, investments in human capital are likely to be underprovided. As noted in Wildasin (2014), "Because human capital is typically acquired relatively early in the life cycle, the rewards that motivate human capital investment may thus ultimately materialize well after the investment is made, in many different locations." Such an underprovision of human capital is likely increasing in the mobility of the population, and suggests that intergovernmental grants or corrective subsidies for human capital investment are necessary by the federal government. This is especially the case if we believe that local governments are likely to be able to better provide public services such as education. And, for this reason, federal governments have access to grants that can induce municipalities to implement policies that internalize the spillover benefits to other jurisdictions.

3.3 Policies to Limit Tax Competition

The literature on tax coordination has focused on minimum tax rates and tax harmonization as ways to mitigate tax competition. Recent policy debates and international agreements on corporate tax reform seek to limit profit shifting and tax competition via a minimum tax rate.

Returning to the classic model of Kanbur and Keen (1993), first consider the case of tax harmonization. Tax harmonization involves a central authority forcing all governments to set tax rates at a single tax rate, usually one that is a weighted average of all the decentralized tax rates. In a Leviathan model, the authors show that harmonization can never raise revenues to the small (low-tax) jurisdiction regardless of the weights used to determine the harmonized rate. Moreover, harmonization will only increase tax revenues in the large (high-tax) jurisdiction if hamonization is to a rate that is sufficiently high. The implication is that both jurisdictions might fear harmonization.

In contrast to tax hamonization, Kanbur and Keen (1993) show that with a binding minimum tax rate, tax revenue is higher in both large and small jurisdictions. As a result, the policy would be revenue-supported by both low-tax and high-tax jurisdictions. Minimum tax rates also allow high-tax jurisdictions to raise their tax rates in response: given the minimum forces low-tax jurisdictions to raise their rates, if tax rates are strategic complements, so too will the high-tax jurisdictions.

But, while minimum tax rates might be possible in federal systems or even within supranational institutions such as the European Union, establishing a worldwide consensus can be extremely challenging. Absent a truly worldwide minimum tax rate, globalization will necessarily imply tax base leakage and competition will remain with the rest of the world.

3.4 Link Between Taxes and Spending

A tax system—even a progressive one—cannot necessarily be viewed separately from the expenditures those taxes finance. As noted in Kleven (2014), Scandinavian countries spend a significant amount of revenues on policies that are complimentary to work (e.g., child care, elder care, transportation) and to long run human capital formation (e.g., education). As a result, these expenditures help to counteract some of the negative effects of taxation that may arise from mobility by encouraging positive labor supply responses by those households that elect to stay.

3.5 Costly Migration

Mobility is generally not costless and what matters is whether the mobility costs are sufficiently small such that government policies in one jurisdiction can give rise to mobility elsewhere. On the tax side, there are some government policies that can influence the cost of migrating. For example, at the international level, governments may have access to an exit tax (Organ 2022). The exit tax is a tax based on the value of assets owned on the day prior to expatriation. Thus, for many individuals, the costs of international mobility can be substantial.

More recently, the state of California proposed a state wealth tax. Obviously mobility concerns were raised in response to a subnational wealth tax. As a result, the law (unpassed) was written such that the wealth tax will be assessed on former California residents for up to a decade after leaving the state. Such provisions and exit taxes can reduce international migration, but they are less common within federal systems.

4 Conclusions

As noted in Wildasin (2021), many important contributions in public economics come from models that either explicitly or implicitly invoke a "closed-economy" setting. Within the context of national economic policy, assumptions that factors are immobile may have been reasonable several decades ago. But, this is no longer the case at the international level, and especially not at the state and local level within a federal system. Economic integration implies the absence of border controls and declining mobility costs, which now make public economics an "open-economy" discipline. As a result, it would be useful to reconsider how the results previously derived in closed-economy models need revising in the context of open-economy forces.

One area where the literature has focused concerns the mobility responses of top income earners and the resulting tax competition that is spurred by globalization. But, the shift to open-economy models is not simply confined to changing redistributive policy via mobility. As we discuss, globalization makes taxpayers able to earn income in many different jurisdictions around the world. This implies that standard tools to mitigate tax avoidance, such as information reporting and withholding, may no longer be effective at ensuring honest reporting.

At the same time, globalization comes with technological changes. And while many of these technological changes may undermine the welfare state and redistributive policies, technology can also be exploited by governments. The

digitization of tax enforcement tools, especially in developing countries, has been critical for tax administration. These technologies can potentially be used to counteract any negative forces.

The effects of globalization on redistributive policy are highly complex. As a result, we hope that this special issue will inspire further research in public economics, including partnerships with urban, labor, and international trade researchers, to study the complex effects of globalization on redistributive policy. The future of public economics relies on careful theoretical and empirical models that take seriously the "open-economy" nature of the world we live in.

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