

Agglomeration and Progressive Taxation in a Multi-Region Economy

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Abstract

The aim of this paper is to consider how the presence of agglomeration economies impacts the ability of regional governments to implement progressive tax policies when workers are mobile. A number of authors have often pointed to the difficulty that government authorities below the federal level face in attempting to increase redistribution due to the ability of workers to relocate to location with more favorable tax policies. Yet casual empiricism appears to suggest that larger regions are able to sustain more progressive tax policies. Our contribution is to show that agglomeration allows for more progressive tax policies in larger regions, however tax progressivity narrows with a decline in congestion costs.