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Tekijä-Författare-Author Kurusiov, Andrej			
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<p>Tiivistelmä-Referat-Abstract</p> <p>This theoretical work is largely based on two papers on international tax harmonization, environmental taxation and tax competition. In particular, the papers "Agglomeration, integration and tax harmonisation" (Baldwin, R. E., Krugman, P., 2004) and "Environmental taxation, tax competition, and harmonization" (Cremer, H., Gahvari, F., 2004) are used to support each other and to follow the logic of the thesis.</p> <p>The structure of present work is based on analysis of the above mentioned literature, thus, dividing it into major parts: the first part is devoted to issues of integration and tax harmonization and the second part extends the discussion to the issues of environmental taxation.</p> <p>The first part explores the issue of whether closer economic integration necessitates harmonization of tax rates among the countries. In this part I analyze the impact of tax harmonization policies, economies agglomeration as well as goods and market integration on international tax competition. The basic tax competition model is used in exploring the effects of agglomeration forces.</p> <p>Further, in this paper I demonstrate that greater economic integration triggers the raise of taxes (referred as 'race to the top'). In addition, 'split the difference' tax harmonization, which basically means agreeing on a tax level that is in between two positions can make both countries worse off, because without it one region can actually set a higher tax rate without having the capital depreciation and thus not to loose a potential tax revenue. This explains why tax harmonization is very rare in the real world. Consequently, the general conclusion is that agglomeration assumptions produce reverse propositions compared to standard tax competition literature.</p> <p>More specifically, the explanation of rare practical implementation of tax harmonization is also that an industrial concentration creates so-called 'agglomeration rent'. The 'core' region can this way set a higher tax rate without having the capital depreciation. Thus, the first part on my thesis analyzes and demonstrates the impact of agglomeration forces on tax harmonization.</p> <p>Second major part of the thesis addresses tax competition problem in the context of transboundary pollution. In particular, I analyze how effective are the policies of partial fiscal coordination. Economic integration is forcing companies to adopt the same or less polluting technologies. This unfortunately results in an increase of aggregate emissions and a decline of welfare. Without proper (partial) tax harmonization policies there is an obvious negative aspect of an economic integration.</p> <p>Additionally, in the second part I examine partial tax harmonization policies. With a higher tax, companies choose less polluting technologies, resulting in a decrease of aggregate emissions and the improvement of welfare. Alternatively, if an emission tax is decreased, companies tend to choose more polluting (cheaper) technologies and aggregate emissions will consequently increase and welfare will deteriorate. Finally, harmonization of emission taxes above their Nash equilibrium values causes aggregate emissions to decline and overall welfare to increase.</p> <p>In the present work I address the issues of international tax competition from different perspectives. Thus, as a result of extensive analysis of various factors influencing international tax competition and environmental protection my main conclusion is that a closer economic integration can positively influence the environment and overall welfare.</p>			
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