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<p>Tiivistelmä-Referat-Abstract</p> <p>The European Union has taken down internal borders in Europe to allow for the free movement of people, companies, goods and services. Yet EU member states retain great liberty in setting their own tax levels and public systems. As mobility causes public economies to take the external situation into consideration when setting tax and public expenditure policies, this new setting can encourage fiscal competition between EU member states and lower income redistribution levels in the EU. This thesis examines this setting from the perspective of how labour mobility can cause fiscal competition.</p> <p>In recent decades, labour mobility in Europe has been quite low. This can be expected to change, however, partly because of the May 2004 enlargement of the EU.</p> <p>Wildasin (1991) models a combined federal and local system with federal subsidies and local income redistribution, with only the poor being allowed to move. In equilibrium local jurisdictions end up with the same income redistribution as all other local jurisdictions.</p> <p>Hindriks (1999) examines a setting where independent jurisdictions compete fiscally, attracting the rich and deterring the poor. Particularly the mobility of the rich is detrimental to income redistribution. Also the mobility of the poor has in most cases a negative effect. Jurisdictions can compete either in taxes, transfers or both in taxes and transfers, with competition in transfers having the strongest effect on income redistribution. Tax and income redistribution reasons are not currently the biggest cause to migrate in the EU. Despite this, expecting labour mobility levels to go up European nations will have to consider labour mobility induced fiscal competition as possibly limiting public policy in the future.</p>			
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