

Yardstick Competition among Portuguese Municipalities: The Case of Urban Property Tax (IMI)

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ABSTRACT

In a previous paper (Costa et al. 2011), we have tested if there is empirical evidence on the existence of strategic interaction among Portuguese municipal executives when they set rates of municipal taxes and in particular if we are in the presence of yardstick competition. The results obtained do not disclaim, in general, the existence of strategic interaction among Portuguese municipalities when setting rates of municipal taxes. Spatial interactions in municipalities' decision processes can be explained through the hypothesis of yardstick-competition causality. But, results were not enough to take full extent conclusions on such causality nexus. In this paper we evaluate how results are sensible to the inclusion of other control factors like the level of public services and goods, economies of agglomeration, the political inertia and power perpetuation phenomena and the consideration of terms limit to consecutive re-election of Mayors. Instead of studying several municipal taxes we concentrate the analysis on urban property tax.

Key words: Yardstick Competition; Local Governments; Portugal.

JEL Classification: H71; H73.