Spatial interactions in property tax policies among Italian municipalities

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Discussion:
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Lungo il "sentiero stretto"
I governi locali in tempo di crisi

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General assessment

- Nice paper, a page turner
- I am a newcomer to FP, much much less about spatial issues.
- Disclaimer #1 paper is accepted in PiRS, so I will be creative in the comments. Either rubbish or use it for another paper.
- Disclaimer #2 I'm not a convert to spatial econometric, rather an heretic. My comments reflect that.

What this paper does

This paper does three things

- estimate the determinants of tax policy (where tax policy . . .)
- evaluates whether there are spillovers in tax policy across Italian municipalities
- contrast results about spillovers with the theory . . . I would not say it tests them!

The econometric model

- Usual tricks with spatial model selection $\Rightarrow$ Spatial Lag Model
- Choice of the weighing matrix.
- Estimated model: $y = \rho Wy + X\beta + u$

Results

- Find a number of determinants for tax policy (N-S divide, local net revenues, the Stability Pact, level of expenditure, political variables) for which common sense intuition flies.
- Find a way to “test” for the determinants of spillovers: expenditure spillovers, yardstick competition, vote with feet.
- Rule out the third one a bit quickly (stamp duties are not 9% on main dwellings); no empirical support for Yardstick competion; left with expenditure spillovers.
- Weaker spatial spillovers for larger cities.

Issues I: The econometric model

- I understand that one of the aims of the paper is to look for the determinants of tax policy, but throwing all possible determinants in and commenting all coefficients is kind of oldish way to do ... only correlations no causality ... all in, little control on what coefficients are saying (i.e. Your comment about the negative β on mayor's second mandate and good planning rests on a rather shallow intuition of what's going on)
- Much better focusing on one mechanism, trying to say something causal about it and use all other explanations as controls.

Issues II: Robustness

- Check results on the whole sample, with a dummy variable.
  Municipalities in "special status regions" have different incentives, but there's no reason for the spillover not to be there.
  I expect it to be local and on a smaller scale.
- Being a neighbor of a "special status region" is a game changer; unfair tax competition?

Issues III: Data

- Is 2014 a good year? No one is paying local taxes on the main dwellings, so why should there be any spillover? If taxes are not levied, why should they influence mayor's and/or taxpayers's behavior. In a crime story, you would be missing the motive ... or the corpse!
- Tax regime didn't change since 2014. If you had more years you could use panel techniques and also focus on diffs-in-diffs.
- Was ICI so different than IMU/TASI? For your sake, it was not ... also lot of taxpayers thinks so!

Issues IV: identification

- Even if a lot of work has been done in the field, spatial econometrics is a big black box . . .
- . . . remember that the spatial AR you're using as an infinite MA interpretation, so local shocks of very distant places influence each municipality.
- Bad controls is the rule!
- ρ is an estimate of tax spillover in the absence of common underlying shocks, otherwise reflection problem!
- You talk about S2SLS and instrumental variables to achieve identification, but there is no discussion about either issues.

A different model

- Quasi natural experiment instead of spatial econometrics?
- More explicitly, I would focus on municipalities which experienced unexpected changes in the tax rates and/or tax base and check whether is there an effect on contiguous municipalities (in the same LLM).
- That would be a causal effect.
- Same LLM because the cost of moving house and residence is lower if one can keep the workplace unchanged.