Int Tax Public Finance (2017) 24:547–549
DOI 10.1007/s10797-017-9468-x

EDITORIAL

Introduction to the special issue on entrepreneurship, innovation and public policy

Katherine Cuff[1] · **Alfons Weichenrieder**[2]

Published online: 18 July 2017

This special issue of *International Tax and Public Finance* consists of selected contributions from the 282 papers presented at the 72nd Annual Congress of the International Institute of Public Finance (IIPF). The IIPF Congress was hosted by the University of Nevada at Reno on August 9–11, 2016, in South Lake Tahoe, Nevada, USA. The theme of the conference was ‘Entrepreneurship, Innovation and Public Policy,’ and we had four excellent keynote speakers discussing a variety of topics on this theme at the Congress. Roger Gordon, Professor of Economics at the University of California, San Diego, presented his most recent research on designing tax systems to encourage entrepreneurship. Robert Fairlie, Professor of Economics at the University of California, Santa Cruz, discussed his work on the role of government policy, specifically training programs and affirmative action, in fostering entrepreneurship in the USA, and Dietmar Haroff, Director of the Max Planck Institute for Innovation and Competition, detailed the role of research and development (R&D) in innovation, and the effect of tax policy on international patent transfers. Finally, Hal Varian, Professor Emeritus at University of California, Berkeley, and Chief Economist at Google gave a lively overview of the innovative Google tools that can be used to provide both new insights and new data for examining public economics questions.

Many of the papers presented at the conference fell under the theme of Entrepreneurship, Innovation and Public Policy, but a great number of the papers also dealt with

✉ Katherine Cuff
cuffk@mcmaster.ca

Alfons Weichenrieder
a.weichenrieder@em.uni-frankfurt.de

1 McMaster University, Hamilton, Canada

2 Goethe University Frankfurt, Frankfurt, Germany

other research areas in public economics. This diversity of presented topics is reflected in the selection of the six papers in this special issue.

Nowadays, social welfare systems are a ubiquitous part of the modern state. This was not always the case. Systems introducing pensions, health care and unemployment have been introduced at different times in different countries over the last 150 years. In their study, “On the Spread of Social Protection Systems,” Doina Radulescu, Peter Egger, and Nora Strecker gather an impressive set of international data to investigate the role of national spillover effects in the introduction of social welfare systems and their financing. They conclude from their data work that geographical neighborhood, common policy, and common culture have been important factors in this diffusion process.

With the combined effort of six authors, Mathias Dolls, Karina Doorley, Alari Paulus, Hilmar Schneider, Sebastian Siegloch, and Eric Sommer revisit the effect of aging on government budgets in their paper, “Fiscal Sustainability and Demographic Change: A Micro Approach for 27 EU countries.” Unlike other studies, the simulations in their paper account for how a reduction in the workforce will drive up wages and thereby increase tax revenues. While the implication differs across countries, for some countries the authors show that this wage effect is non-negligible and can help stabilize public finances.

Frank Fossen, Lukas Mergele, and Nicolas Pardo ask to what extent there exist expenditure spillovers between municipalities. In their paper, “Fueling Fiscal Interactions: Commodity Price Shocks and Local Government Spending in Colombia,” they emphasize exogenous changes in a municipality’s spending changes. As an instrument, they use the oil revenue changes that accrue to some of the municipalities in Colombia, and which are driven by world market prices of crude oil. While the application of a quasi-maximum likelihood (QML) estimation suggests strong spillover effects for all expenditure categories, the quasi-experimental IV regressions fail to confirm these spatial spillover results except for one expenditure category.

Yoshito Funashima and Kazuki Hiraga investigate the relationship between state-level government spending and economic growth in their paper “Wagner’s Law, Fiscal Discipline, and Intergovernmental Transfer: Empirical Evidence at the U.S. and German State Levels.” Wagner’s Law states that economic growth will be accompanied by growth of government spending as a share of economic output. State governments in the USA and in Germany face different degrees of fiscal discipline. By examining states in both countries, the authors can determine the effect of fiscal discipline on Wagner’s law. They find a negative relationship between government spending and economic output for German states whereas for US states they find that Wagner’s law holds. Their findings are robust to accounting for intergovernmental fiscal transfers and point to a new channel of growth in government spending—the absence of soft budget constraints.

A long-standing question in public finance is what level of government should tax which tax base, also known as the assignment problem. In his paper, “The Assignment and Division of the Tax Base in a System of Hierarchical Governments,” William H. Hoyt revisits this question and provides new insights by developing a rigorous analytical model incorporating vertical externalities. Vertical externalities arise whenever the decisions of one level of government affect the budget constraint of a higher- or lower-level government. He shows that the optimal degree of co-occupancy of a tax base between different levels of government will depend on the substitutability of the commodities within the tax base.

In his paper, "Self-Enforcing Agreements under Unequal Nationally Determined Contributions," Emilson C.D. Silva examines the incentive of countries to participate in an international environmental agreement. Unlike previous work, he considers the case of member countries acting non-cooperatively in their emission reduction investments. He shows that given there are spillovers of emissions reduction investments among member states, the stable endogenously determined coalition is one in which all countries who make positive emission reduction investments are members of the international environmental agreement.

We are grateful to the various authors for allowing us to consider their papers for the IIPF special issue, to the numerous referees for their valuable insights on the submissions, and to the editors and professional staff of *International Tax and Public Finance* for their assistance in the publication process. Of course, this issue would have not have been possible without the help of the 27 members of the Scientific Committee for the 72nd Annual Congress of the International Institute of Public Finance (IIPF) who initially reviewed hundreds of submissions for the IIPF Congress. A special thank you to our keynote speakers, the numerous presenters and discussants of the 72nd Annual Congress and most importantly, the local organizers for all their time and effort in making the IIPF Congress a great success!