

Policy diffusion and the missing response of mobile resources

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Abstract

Reforms (like e.g. tax reforms, the introduction of environmental standards etc.) are often introduced in one country and afterwards adapted by other countries. This paper analyzes a model where policy diffusion can be explained by competition for mobile resources (e.g. firms, rich individuals, etc.). With symmetric countries only one country reforms at the first stage while the other country adapts the reform afterwards. Forward-looking firms anticipate the adaption of the reform in the other country. Therefore, they respond less to the reform than the current difference in policies would imply. Asymmetries between countries might increase the number of reforms at the first stage.

Keywords: policy diffusion; intergovernmental competition; mobile resources; response elasticities

JEL classification: D78; H73