

Public Investment Competition, Spillover Effects and Regional Integration

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Abstract

As described herein, we analyze whether decentralized decision making with respect to public investment is socially efficient when each local government chooses a level of public investment in its region under a situation in which capital is perfectly mobile among regions and a local public good has a spillover effect. Furthermore, we analyze regional integration. Results show that public investment in equilibrium is more socially desirable if either the spillover effect is large, or the capital tax rate is high.

Furthermore, regional integration can achieve a socially optimal level of investment for any degree of economies of scale.

Keywords: Public Investment, Decentralization, Spillover Effects, Regional Integration

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