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TAX COMPETITION, ENVIRONMENTAL REGULATION AND AIR POLLUTION - EMPIRICAL EVIDENCE FROM 278 CITIES IN CHINA

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Abstract

We assess the impact of tax competition and environmental regulation on air pollution. Based on the data of 278 cities from 2007 to 2016 in China, we systematically investigate the impact of tax competition and environmental regulation on air pollution by spatial Durbin model and instrumental variable. We find that the race to the bottom of tax competition has positive effects on air pollution and negative spatial spillover effects. Environmental regulation has negative effects on air pollution and positive spatial spillover effects. The race to the bottom of tax competition among local governments restrains the haze reduction effect of environmental regulation; environmental regulation fails to achieve the goal of guiding tax competition to promote local high-quality economic development. We further find that tax competition and environmental regulation have lower impact on air pollution in large and medium-sized cities than small cities, and the effect of environmental regulation has become more and more significant since 18th CPC National Congress in China.

Keywords: air pollution, environmental regulation, spatial Durbin model, tax competition

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