Comment and Discussion on
"Role of Spillover in the Repeated Interaction Model
of Tax Competition"
by Ogawa and Kawachi

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This paper generalizes the model of Cardarelli et al . (Journal of Public Economic Theory, 2002, 4(1), 19-38) to examine how the spillover of local public goods can affect an achievement of efficient outcome in a setting of repeated tax competition. In recent years, the spatial externality of local public goods comes to have a strong influence on a regional economic by active interregional or international trade. The contribution of this paper is to analyze this regional issue in a repeated game, taking account of long-term relationship among regions. Consequently, this paper derives somewhat surprising but very interesting results, which contradict the conventional wisdom that the presence of spillover externality is 'harmful'. Namely, the existence of spillover externality works to make local governments choose efficient tax rates within the context of infinitely repeated tax competition. Given the presence of spillover externality with capital mobility, moreover, local governments are concerned with the spill-in effects of public goods from surrounding regions, which entails reducing local government's incentive to deviate from an efficient outcome.

Though this paper largely contributes to public economics and regional economics as shown above, there are the following four questions.

(1) Although there is no explanation whether trigger strategy, on page 10, lines 1-3 can achieve in the subgame-perfect Nash equilibrium or not, should authors explain it?
(2) Cardarelli et al. uses 'folk theorem (Friedman, 1971, Review of Economic Studies)' to demonstrate that there exists subgame-perfect Nash equilibrium. Does the last description in Appendix (page 13, lines 1-9) also indicate the same kind of proof? If so, should authors describe it?
(3) This model assumes the respective individual who decides the location of investment in the first period and consume in the second period. What should we interpret it from the viewpoint of economics?
(4) Should authors prove that critical value is decreasing in spillover's variable,   ?