The global competition for residents and investments inevitably transforms the very foundation of for countries' tax policy. It alters the way we (should) think of the classic normative goals of income tax policy. Efficiency, redistribution and even the concepts of community, national identity and democratic participation all pose significant new dilemmas due to the global competition perspective. Under competition tax ceases to be the compulsory tool used by the state to overcome collective action problems and becomes one of the instruments competing for residents and capital.

By providing taxpayers with a viable alternative, tax competition gradually turns the decision making process on its head. Instead of making compulsory demands on its subjects in order to promote the collective goals of a given group, the state acts increasingly as a recruiter—to solicit investments as well as residents.

The incentive to attract mobile residents and investments pushes policy-makers to limit tax's redistribution functions; to choose between their original constituents and others-- possibly more attractive ones; to depend less on voice-based and more on exit-based practices; and it renders mobility a particularly significant factor for gaining economic rights and benefits. Under these conditions, tax policy does not only determine the level and distribution of tax, nor does it restrict itself to determining the kinds and level of the services being provided. Rather, the new key role of mobility puts tax policy to a large extent in charge of the size and the make of the national group. By providing higher incentives for some and lower ones for others—tax policy in fact participates in determining who belongs to us.