

Aspects of Tax Exporting: Is There a Worldwide Tax Burden?

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The objective of my dissertation is to develop a model to examine the concept of a “worldwide” tax burden. The notion is that large nations may be able to export a share of their tax burden to the rest of the world. In today’s economic environment, one of the major policy imperatives is to increase public spending to stimulate aggregate demand. The constraint on such demand management policies is the need to increase public expenditure without increasing taxation. Another issue being currently debated is the demand from several sections of the economy to reduce certain taxes that are viewed as detrimental to competition. The constraint on this demand is well documented in the extensive literature on tax competition and the ‘race to the bottom’. What if it were possible to meet both policy objectives? If a country could increase its GDP while reducing taxes, would this invariably be at the cost of the GDP of the rest of the world? Would this depend on the type of tax? Does this mean that a large enough country could have its cake and eat it too?

If this phenomenon of tax exporting can be quantified, we can examine the extent and nature of shifting of the tax burden. This is important because as globalization increases, the “race to the bottom” literature in taxation suggests that this exporting cannot or should not happen; or is being reduced all of the time. Is it? Or are some countries exporting the burden to other locations? Using a version of the famous general equilibrium model first developed by Prof Harberger in 1962, I analyze the extent of tax exporting in the presence of a public input in an open economy setting. I model two different taxes, the Capital Income Tax and a Consumption Tax and two different types of expenditure patterns, a government input and a transfer payment. The dissertation answers the following research questions:

- Can the extent of tax exporting be quantified using a general equilibrium model that is not dependent on functional forms?
- Does the extent of exporting depend on the type of tax used?
- Does the extent of exporting depend on the use to which the taxes are put?

The Dissertation is divided into six chapters. In chapter one, I present an overview of the problem and review the existing literature. The next five chapters approach the problem in the following way:

First, I develop a three sector, two “country” open economy version of the Harberger model of general equilibrium taxation incidence. The two countries are meant to represent a large open economy (such as the US or the EU as a whole) and the rest of the world taken together. I incorporate a publicly provided input to production paid for out of current tax revenues. In this chapter, I examine the effects of a tax on all capital in the large country. I develop the analytical

model staying as close as possible to versions of the Harberger analysis (1962, 1995 & 2008). I derive analytical expressions for the extent of exporting without assuming functional forms.

Second, I develop the same model with government input, this time using a general consumption tax in the large country. I develop comparable analytical expressions for this case using the same model structure. As in the previous chapter, I use the analytical solutions to measure exporting by developing expressions to measure changes in GDP in the large country and the rest of the world from the sources and uses sides.

The next chapter develops the capital income tax and consumption tax models of the previous chapters using a different pattern of expenditure. Instead of a government input, the model assumes that all tax revenues are returned as a lump-sum transfer payment to the consumer in the taxing country.

The last two chapters examine existing literature and data with the purpose of collecting a set of reasonable parameters. The aim is to eliminate those parameters on which we have some sort of consensus in the existing literature from the analytical expressions, so that we can concentrate on answering the research questions in the final chapter. Using such “non-controversial” data, I reduce the analytical expressions to unknowns in the variables of interest. Closely following Prof Harberger’s work and subsequent contributions, I analyze changes in GDP that would result from variations in the remaining variables of interest and draw conclusions with respect to the research questions.