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The influence of globalization on taxes and social policy: An empirical analysis for OECD countries

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Abstract

This paper uses panel regression for the period 1970â€“2000 to analyze whether globalization has influenced the OECD countries' social and overall spending, as well as the tax rates on labor, consumption and capital. Accounting for potential endogeneity of the regressors, the results show that globalization (measured by an index encompassing 23 variables) did not in general decrease leeway for independent national economic policy. Globalization even increased implicit tax rates on capital (as calculated by [Carey, D., Rabesona, J., 2002. Tax ratios on labour and capital income and on consumption. OECD Economic Studies 35]), a result that is mainly driven by economic integration. However, there seems to be competition over tax rates on capital when data based on legislation (as suggested by [Devereux, M.P., Griffith, R., 2003. Evaluating tax policy for location decisions. International Tax and Public Finance 10, 107â€“126]) is employed.

Depending on the method of estimation, increasing social integration also influences policies, while political integration does not matter for economic policy in most specifications.

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JEL classification

H7; H87; C23

Keywords

Globalization; Economic policy; Government expenditure; Social spending; Implicit tax rates; Dynamic panel; Tax competition

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