"Partisan Politics in Corporate Taxation": A Review

From the right and the left alike, politicians bemoan the rise of the multinational corporation. The right accuses the government of "cutting bad deals with China" and reducing American prowess on the international stage; the left labels the government as a self-seeking puppet of corporate interests that tramples upon the poor to fill its bottomless war coffers. In either case, the people lose while multinational corporations rake in ever-larger shares of the global welfare.

Steffen Osterloh and Marc Debus salve the anxieties of political pundits. In their article "Partisan Politics in Corporate Taxation," the researchers establish a link between political party affiliation and tax policy, especially highly visible statutory tax rates on multinational corporations. Essentially, different political parties take different approaches to corporate regulation: in a democratic system, the people can vote for parties which best serve their interests. Osterloh and Debus show that, though policymakers do not regulate corporate taxation entirely in accordance with the well-being of the median voter, they do tend to generate policy along party lines.

The researchers test four hypotheses in their study, including: 1) that left-wing politicians impose higher taxes because of the left's preference for public goods; 2) that increased international competition minimizes the tax policy differences between right-and left-wing parties; 3) that perceptions, however misled, of capital mobility affect politicians' tax policy decisions; and 4) that more fragmented governments tend to carry out smaller tax cuts than homogeneous coalitions (194-195).

Osterloh and Debus note that former research has diminished the effect of political ideology to a simple set of dummy variables labeling parties as left — center-left — center — center-right — right. They critique this method on three counts, including that these categories do not allow for international comparison, that they do not account for the change of a party's ideology over time, and that they do not allow for comparison on particular political issues under the broad umbrella of the party manifesto (196). To correct for these shortcomings, Osterloh and Debus use data from the Manifesto Research Group and the Comparative Manifesto Project. These data exhibit advantages in weighing the salience of issues within parties, generating a weighted left-right score for each political party that can shift over time, and isolating particular economic indicators for closer scrutiny (197).

To analyze tax burdens, Osterloh and Debus study both statutory corporate income tax rates and effective tax rates. The researchers believe that statutory tax rates represent "the most visible element of the national corporate tax system and hence an important element of tax policy" (196). A cursory glance at the summary statistics in the Appendix shows that corporate income tax rates are highly variable within countries (206), possibly as a result of political sway on corporate income tax rates.

To test their hypotheses on the salience of political party ideology in tax policy, Osterloh and Debus use two methods of analysis, including a multiple regression and a model of differences. In the first analysis with fixed effects, the researchers find that political ideology as measured by the Comparative Manifesto Project affects all tax rates (199). The statutory tax rate is the most affected: "as the most visible component of the tax system . . . we would expect that partisan politics play the strongest role concerning this part of the tax system" (199). In addition, tax burdens tend to decrease over time as neighboring countries become more economically integrated and compete with one another (199). To a lesser extent, Osterloh and Debus find that fragmented governments with numerous coalitions tend to feature higher tax rates for corporations (199), most likely because they are unable to coalesce around broad-based cuts. The second model measures the changes in tax policy as a result in changes in political ideology; Osterloh and Debus note that this analysis would be impossible if political ideology were assessed with a simple "left — right" dummy variable. The main contribution of this model is to show the adverse impacts of fragmented governments on their ability to pass significant tax cuts for corporations (203).

An important takeaway from this research indicates that, though the political ideology in party manifestos is a strong indicator of tax policy, political parties' power to change the status quo can be limited in certain circumstances. Osterloh and Debus highlight governmental fragmentation and the perception of international competition as major impediments to corporate income tax cuts. In some ways, the discussion of governmental fragmentation within countries mirrors the discussion of fragmented policy toward multinational corporations on the global scale. Oatley notes that the WTO has tried multiple times to establish international regulations on MNCs and FDI: these efforts have failed time and again (194). Governments partitioned by internal debate are similarly plagued with strife in creating a unified tax policy. However, the direction of change sought by the WTO and individual countries appears to be precisely opposite: while the WTO seeks to create a higher and more difficult benchmark of regulation for MNCs, individual countries seek to coalesce around lower tax rates that make it easier to attract foreign investment. This situation exemplifies the prisoner's dilemma on the international front and the struggle to shore up support on the domestic front — all, of course, motivated by the self-interest of government actors.

In the caustic climate of international competition, it is hard to see how political parties could rationally be expected to do more for the average voter. The cries, from right and left alike, about governmental weakness in the face of multinational corporations fail to acknowledge the government's honest struggle to balance aggregate welfare with individual well-being: they would cry even more loudly if MNCs abandoned their jobs and investment in the face of harsh regulations. If governments are serious about regulating multinational corporations, they ought to bring their concerns once more to the international stage.

References

1. Osterloh, S., and M. Debus. 2012. "Partisan Politics in Corporate Taxation." *European Journal of Political Economy* 28: 192-207.

2. Oatley, T. (2012). *International Political Economy.* New York: Routledge.