Tax Competition, Redistribution, and the European Welfare State

Leonie Backeberg

Tax Competition, Redistribution, and the European Welfare State



Bibliografische Informationen der Deutschen Nationalbibliothek

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über http://dnb.ddb.de abrufbar

Zgl. Diss., Universität Bremen Bremen, 08. Oktober 2020

Gutachter Prof. Dr. André W. Heinemann Prof. Dr. Jutta Günther

Druck auf alterungsbeständigem, holz- und säurefreiem Papier Munken Print Cream

ISBN 978-3-96138-279-8

© 2021 Wissenschaftlicher Verlag Berlin Olaf Gaudig & Peter Veit GbR www.wvberlin.de / www.wvberlin.com Alle Rechte vorbehalten. Dieses Werk ist urheberrechtlich geschützt. Jede Verwertung, auch einzelner Teile, ist ohne Zustimmung des Verlages unzulässig. Dies gilt insbesondere für fotomechanische Vervielfältigung sowie Übernahme und Verarbeitung in EDV-Systemen.

Druck und Bindung: SDL – Digitaler Buchdruck, Berlin Printed in Germany € 72,00

Für Ruth und Christian

Acknowledgments

Throughout the writing of this dissertation I have received a lot of guidance and support.

I would first like to thank my supervisor, André W. Heinemann, for always challenging me. Your questions pushed me to broaden my research from various perspectives. I am also deeply grateful to Jutta Günther, my second supervisor, for her encouragement and valuable guidance that helped me to successfully complete my dissertation. Thank you for always having my back. Besides my supervisors, my sincere thanks goes to the rest of my committee: Andreas Knorr, who I got to know as a true and trusted companion on international trips, and Sarianna Lundan, whose insightful comments kept me thinking until the end of my project.

This dissertation would not have been possible without the full support of my colleagues. Together we managed to overcome every crisis and I am incredibly grateful to have had you by my side to celebrate the good times. A special thanks goes to Antje Träger, Alexandra Heidel, Sonja Krause, and Britta Busse for their precious assistance and friendship. Moreover, I am greatly indebted to Kristof Kanzler for his patience, motivation, and constant encouragement during our shared time in Bremen and beyond.

Finally, I would like to express my gratitude to my family and friends for their tremendous understanding. Thank you, Ruth and Christian, for always being an inexhaustible source of support throughout the years.

Contents in Brief

1	Introduction	1
	Part I European Welfare States	
2	Historical and Theoretical Reflections on the Development of Welfare States	; 13
3	Welfare State Regimes: Structure of Revenue and Expenditure	39
	Part II The Extent and Effects of Tax Competition	
4	The Theory of Tax Competition	71
5	Tax Policy Convergence in the European Union	119
6	Corporate Taxation: The Spillover Effects of National Tax Rate Choices	161
7	Tax Competition and the Dynamics of Income Redistribution	201
	Part III Towards a European Welfare State	
8	A European Unemployment Benefit Scheme: Rationale and Perspectives	261
9	Conclusion	311

Contents

Ack	nowled	gments	vii
List	of Figu	ires	XV
List	of Tabl	es	xxi
Acro	onyms		XXV
1	Intro	duction	1
	1.1	Motivation	1
	1.2	Research Questions	4
1.3 Outline of the Dissertation			

Part I European Welfare States

2	Histo	rical and Theoretical Reflections on the Development of Welfare States	13
	2.1	Introduction	13
	2.2	Definition of the Welfare State	14
	2.3	Formation, Expansion, and Retrenchment of European Welfare States	17
		2.3.1 The Rise of the Welfare State in Western Europe	18
		2.3.2 Central and Eastern European Welfare States	24
		2.3.3 Welfare States in a United Europe	27
	2.4	Determinants of Welfare State Development	30
		2.4.1 The Functionalist Perspective	31
		2.4.2 The Institutionalist Perspective	33
		2.4.3 The Power Resource Perspective	34
	2.5	Conclusion	36
3	Welfa	re State Regimes: Structure of Revenue and Expenditure	39
	3.1	Introduction	39
	3.2	Literature on Welfare State Regimes	40
	3.3	Welfare State Regimes in the European Union	49
		3.3.1 The Liberal Welfare State	51

xii

4

	3.3.2	The Conservative Welfare State	54
	3.3.3	The Social Democratic Welfare State	57
	3.3.4	The Mediterranean Welfare State	60
	3.3.5	The Post-Communist Liberal Welfare State	62
	3.3.6	The Post-Communist Conservative Welfare State	64
3.4	Conclu	ision	66
	Pa	art II The Extent and Effects of Tax Competition	
The ⁻	Theory o	of Tax Competition	71
4.1	Introdu	uction	71
4.2	Definit	tion of Tax Competition	73
4.3	The No	on-Formal Beginnings	75
4.4	The Ba	asic Tax Competition Model	78
	4.4.1	Assumptions and Model Properties	78
	4.4.2	Externalities and National Best Responses	81
	4.4.3	Social Optimality and Publicly Provided Goods	85
4.5	Broade	ening the Scope: Extensions of the Basic Model	89
	4 5 1		00

	0 1	
4.5.1	Multiple Tax Instruments	90
4.5.2	Asymmetric Tax Competition	93
4.5.3	Public Debt	97
4.5.4	Governance Structures	98
4.5.5	Leviathan Governments	100

	4.5.6	Agglomeration Economies	104
4.6	Tax Incidence		106
	4.6.1	Partial Equilibrium Models	107
	4.6.2	Static General Equilibrium Models	109
	4.6.3	Dynamic General Equilibrium Models	112
4.7	Formu	lation of Hypotheses	113

5	Tax Policy Convergence in the European Union		119	
	5.1	Introdu	action	119
	5.2	Contex	t and Causal Relations: The EU as a Driver of Convergence	121
		5.2.1	Harmonisation	121
		5.2.2	Imposition	126
		5.2.3	Competition	128
		5.2.4	Communication	128
		5.2.5	Independent Problem-Solving	130
	5.3	Empiri	ical Literature on Convergence	130
	5.4	Data a	nd Methodology	135

Data all	d Wethodology	155
5.4.1	Econometric Convergence Tests	135

		5 4 0		120
		5.4.2	Procedure to Determine Convergence Clubs	139
		5.4.3	Data	141
	5.5	Results		142
		5.5.1	Tax Rate Convergence	143
		5.5.2 5.5.3	e	149 154
	5.6	Conclu	Sensitivity Analysis	154
	5.0	Concit	151011	137
6	Corp	orate Ta	xation: The Spillover Effects of National Tax Rate Choices	161
	6.1	Introdu	action	161
	6.2	Empiri	cal Literature on Corporate Tax Competition	163
	6.3	Data a	nd Methodology	172
		6.3.1	Basic Econometric Issues	172
		6.3.2	Estimation Strategy and Spatial Weights	176
		6.3.3	Data	180
	6.4	Results	S	182
		6.4.1	Regression Diagnostics	183
		6.4.2	Spillovers in European Corporate Taxation	184
		6.4.3	Assessing the Role of Capital Mobility	188
		6.4.4	Competition for Corporate Profits and Investments	194
		6.4.5	Sensitivity Analysis	197
	6.5	Conclu	ision	198
7	Tax (Competit	ion and the Dynamics of Income Redistribution	201
	7.1	Introdu	action	201
	7.2	Trends	and Measurement of Income Inequality	203
	7.3	Global	isation, Competition, Redistribution, and the Extant Literature	210
		7.3.1	Taking a Step Back: Globalisation and Market Income Inequa	lity 212
		7.3.2	Welfare States under Pressure	217
		7.3.3	The Missing Link: The Revenue Side of the State	222
	7.4	Data a	nd Methodology	226
		7.4.1	Econometric Complexities in Dynamic Panels	226
		7.4.2	Estimation Strategy and Interaction Terms	230
		7.4.3	Data	233
	7.5	Results	S	236
		7.5.1	Regression Diagnostics	236
		7.5.2	The Effect on Disposable Income Inequality	238
		7.5.3	Social Security Transfers as a Transmission Channel	245
		7.5.4	Sensitivity Analysis	250
	7.6	Discus	sion	252
	7.7	Conclu	ision	256

xiii

Part III Towards a European Welfare	State
-------------------------------------	-------

8	A Eu	ropean Unemployment Benefit Scheme: Rationale and Perspectives	261	
	8.1	Introduction	261	
	8.2	European Social Policy: A Historical Overview	264	
	8.3	Fiscal Rationale for a Common Social Security System	269	
		8.3.1 Cyclical Stabilisation	269	
		8.3.2 Allocative Efficiency	272	
		8.3.3 Redistribution	273	
	8.4	Design of a European Unemployment Benefit Scheme	275	
		8.4.1 A Genuine Scheme	276	
		8.4.2 An Equivalent Scheme	285	
		8.4.3 Genuine or Equivalent?	292	
	8.5	Discussion and SWOT Analysis	295	
		8.5.1 Strengths	296	
		8.5.2 Weaknesses	297	
		8.5.3 Opportunities	299	
		8.5.4 Threats	303	
	8.6	Conclusion	307	
9	Conc	lusion	311	
	9.1	Summary	311	
	9.2	Contributions	315	
	9.3	Limitations and Perspectives for Future Research	317	
Ref	erences		321	
Α	Apper	ndix to Chapter 2	359	
в	Apper	ndix to Chapter 3	365	
С	Apper	ndix to Chapter 5	371	
D	Apper	ndix to Chapter 6	397	
Е	Appen	Appendix to Chapter 7 4		