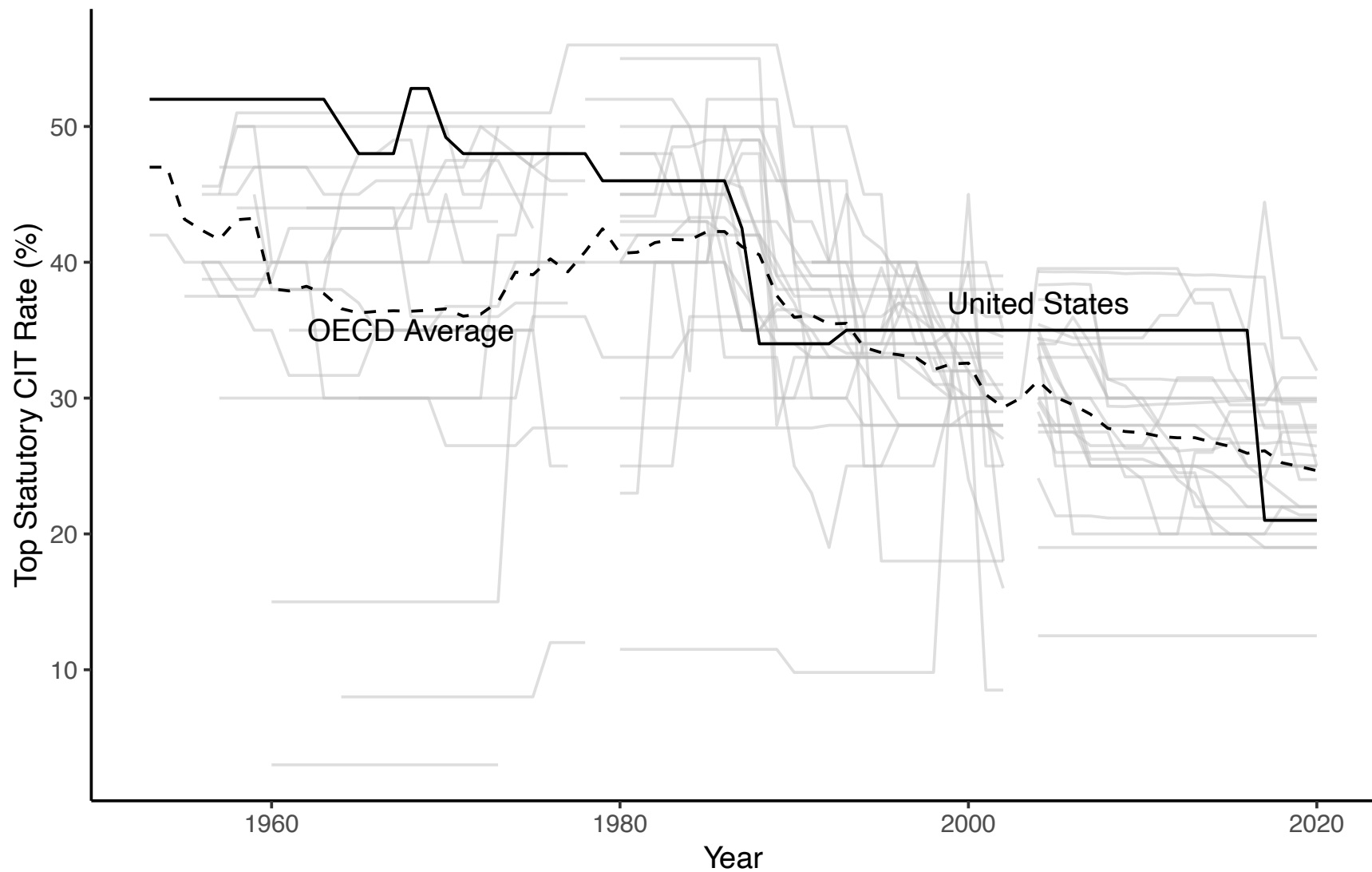


Rivalry and Equity Considerations in Mass Support for Corporate Income Tax Policy

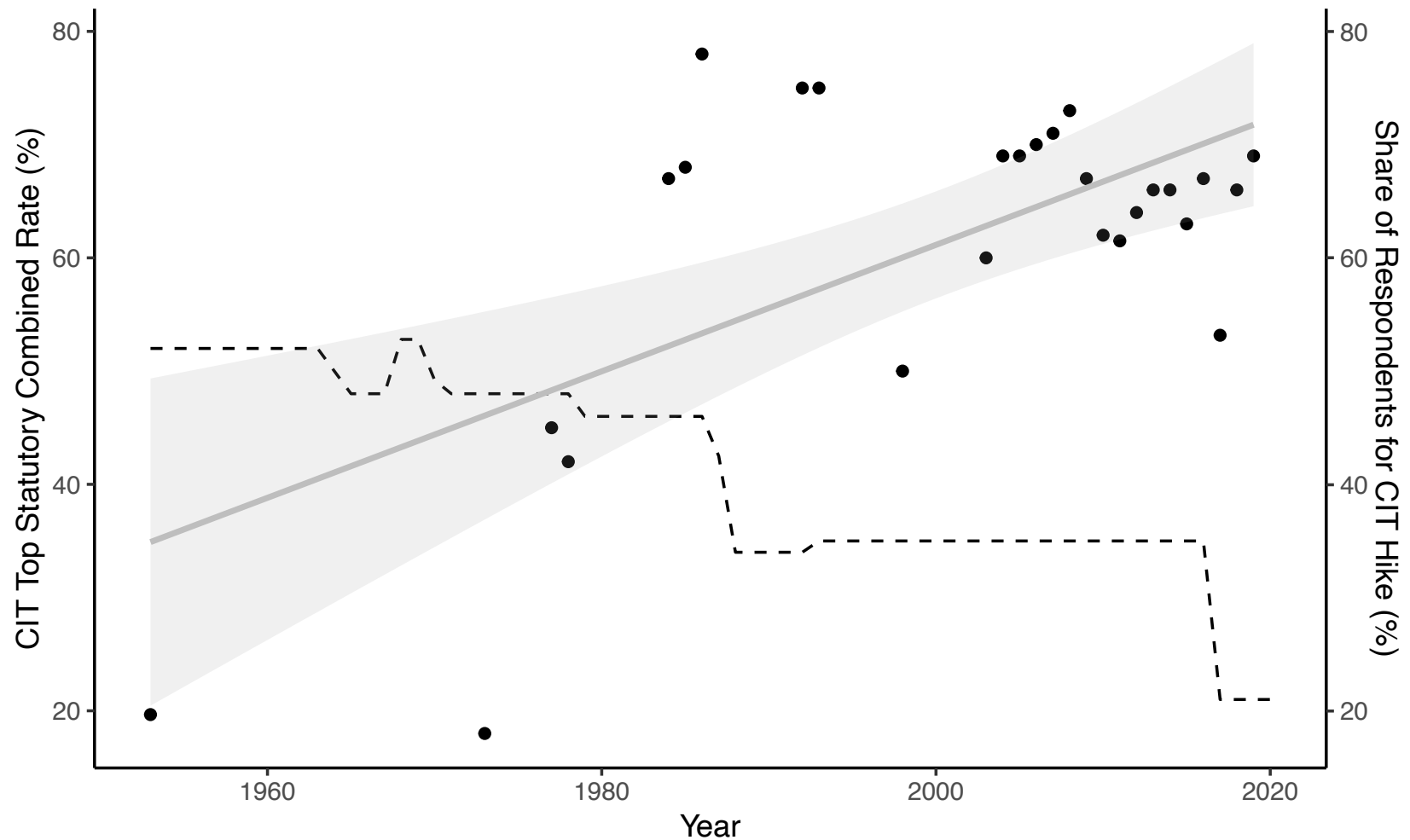
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International Political Economy Society Conference
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Race-to-the-bottom in global and U.S. corporate tax rates



But public support for raising corporate tax rates has risen



What are the determinants of public opinion on corporate taxation?

Voters are key players in setting of corporate tax policy

Globalization theory and race-to-the-bottom in corporate tax policy

- Nations produce one good using mobile factor (capital) and immobile factor (labor)
- Governments raise revenues from taxing factors of production
- To attract capital/prevent capital from relocating abroad, governments lower capital taxes
(Binder 2019, Christensen and Hearson 2019, Rixen 2011, Martin and Swank 2004, Hines and Summers 2009)

Lower corporate taxes results in higher income taxes

- To maintain revenue bases, governments must tax immobile factors, i.e. raise income taxes
- “Cruel logic of corporate tax in a global economy---that its burden falls most heavily on workers” (Desai 2012, Swank and Steinmo 2002, Rixen 2011)
- Public opinion key determinant of income taxes (cf. Williamson 2017, McKall and Kenworthy 2009)

Link between capital and income tax makes voters central to politics of corporate taxes

Voters face tradeoff in corporate tax policy preferences

Theoretical determinants of public opinion on corporate taxation

Rivalry

- Competition for global capital driven by desire for economic growth, investment, jobs, innovation ...
- Voters care deeply about policy impact on economy-wide outcomes (Cruces et al 2013, Fernández-Albertos and Kuo 2018; Kuziemko et al. 2015; Mohan et al 2015)
- Facing rivalry threat, public is willing to accept lower corporate taxes

Equity

- Equity centers around: who pays taxes, how much, relative to whom?
- Equity norms dominant in income tax preferences (Alt and Iversen 2017, Kelly and Enns 2010, McKall et al 2017)
- Citizens avoid taxing labor vis-à-vis capital on equity grounds (Hakelberg 2016, Genschel 2002, Plumper et al 2009, Basinger and Hallerberg 2004)

Research design

Experiment 1: Equity Finely Invoked

Control

Rivalry

Equity

Equity + Rivalry

Outcome: Support for Raising / Lowering / Not Changing Corporate Taxes

Experiment 2: Rivalry Finely Invoked

Control

Equity

Rival

Non-Rival

Rival

Non-Rival

Outcome: Ideal Corporate Tax Rate

Experiment 1: Invoking equity considerations

Equity Treatment

Part 1: Elicit Ideal Tax Burdens

- Respondents report ideal proportion of taxes raised from income taxes and corporate taxes
- Ideal Split: Individuals (40%), Corporations (60%)

Part 2: Contrast Ideal and Actual

- Respondents shown how their ideal split varies with actual income and corporate taxes raised in 2018
- Actual Split: Individuals (93%), Corporations (7%)
- Treatment highlights divergence between what is thought to be fair and the actual state of the world

Please read the text below carefully and answer the question. You will be allowed to continue in 10 seconds.

Assume that taxes paid by individuals/households on their incomes and taxes paid by corporations on their profits account for 100% of federal tax revenues.

In your ideal world, what percentage of federal tax revenues do you think **should** be paid for by individuals/households versus corporations?

Fill in the blanks in the table below to enter the percentage you think each source **should contribute to federal tax revenue**.

(Note: The categories must add to 100.)

Taxes paid by individuals/households on their incomes: (Income taxes and payroll taxes deducted from each paycheck)	<input type="text" value="0"/> %
Taxes paid by corporations on the profits they make:	<input type="text" value="0"/> %
Total	<input type="text" value="0"/> %

Please read the text below and answer the following questions. You will be allowed to continue in 10 seconds.

On the previous page, we asked you how much individuals/households versus corporations **should** contribute to federal tax revenues.

Please take a moment and read the information below which compares the actual contributions in 2018 to your response:

1. **Taxes paid by individuals/households on their incomes:** Income taxes and payroll taxes deducted from each paycheck

Actual contribution: **93%**
Your answer: \${q://QID9/ChoiceNumericEntryValue/1}

2. **Taxes paid by corporations on the profits they make:**

Actual contribution: **7%**
Your answer: \${q://QID9/ChoiceNumericEntryValue/7}

Compare your answers to the actual contributions of each source to total federal tax revenue in 2018...

Experiment 1: Rivalry broadly primed

Intersecting Rivalry Vignette

Please read the text below carefully and answer the following question. You will be allowed to continue in 10 seconds.

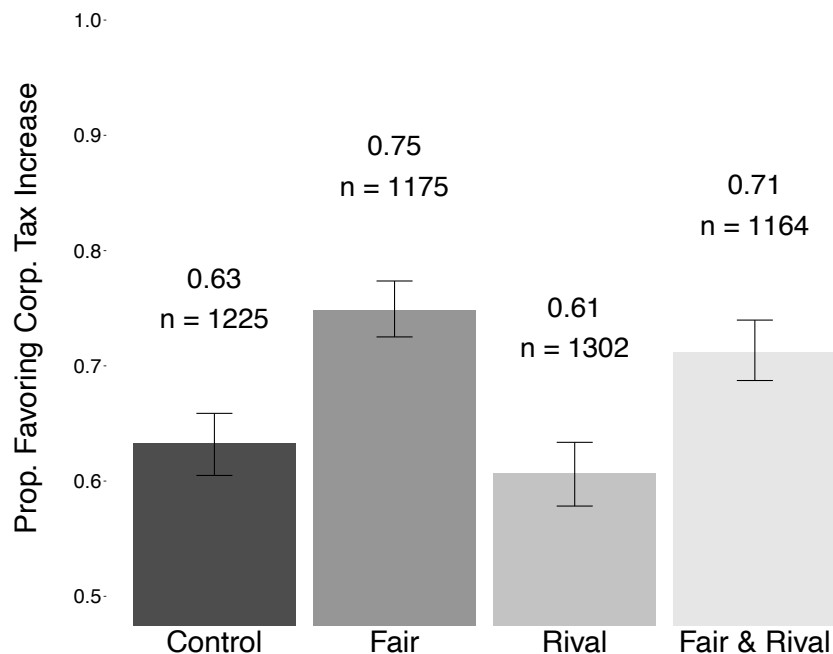
Differences in national corporate tax rates often cause companies to move from countries with higher tax rates to countries with lower tax rates. This is because companies looking to maximize profits are able to avoid higher taxes by moving to countries where they will be taxed at lower rates.

When this happens, countries with higher corporate tax rates can lose jobs and tax revenues that were created by the companies that moved to countries with lower tax rates. In addition, losing companies could lead higher tax countries to become less competitive in the global economy and less able to attract innovative businesses.

Results: Support for increasing corporate tax rate

Main Outcome

Keeping spending fixed, should corporations contribute more to total tax revenues? This would mean corporate tax rate would increase, individual tax rate would decrease....



Results

At baseline:

- Substantial majority favors increase: 63%

Treatment Effects:

- Equity: raises support by 19% (12pp)
- Rivalry: qualitatively small (-2pp, $p < 0.1$)
- Equity - Rivalry = 23% (14pp)
- Combined: Fairness dominates

Interpretation:

- In weighing trade-off between taxing labor and capital, respondents strongly support taxing capital when equity considerations are made salient
- When broadly primed, rivalry has no effect

Experiment 2: Invoking rivalry considerations

Rivalry Treatment

- Respondents informed of current U.S. corporate tax rate: **26%**
- Asked to consider current corporate tax rate in group of competitor countries.
- Rivals (Lower): **12% or 19%**
- Non-Rivals (Higher): **33% or 40%**
- Precisely specified threat
- Put voters in shoes of policymakers, responding to competitive threats in global economy

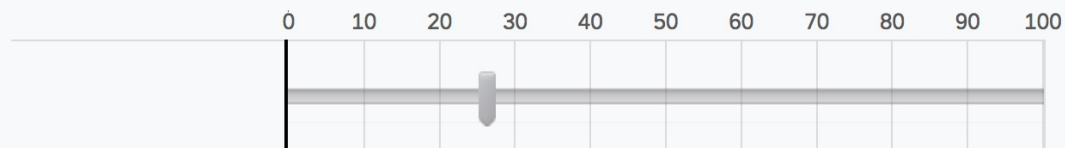
Please read the text below carefully and answer the following question. You will be allowed to continue in 10 seconds.

The US corporate tax rate is currently **26 percent**.

The average corporate tax rate in some other countries that compete in the global economy to attract companies is **26 percent**.

Assume that the government continues to spend the same amount as it does now.

In your opinion, what should the US corporate tax rate be?



Experiment 2: Equity broadly primed

Intersecting Fairness Vignette

Please read the text below carefully. You will be allowed to continue in 10 seconds.

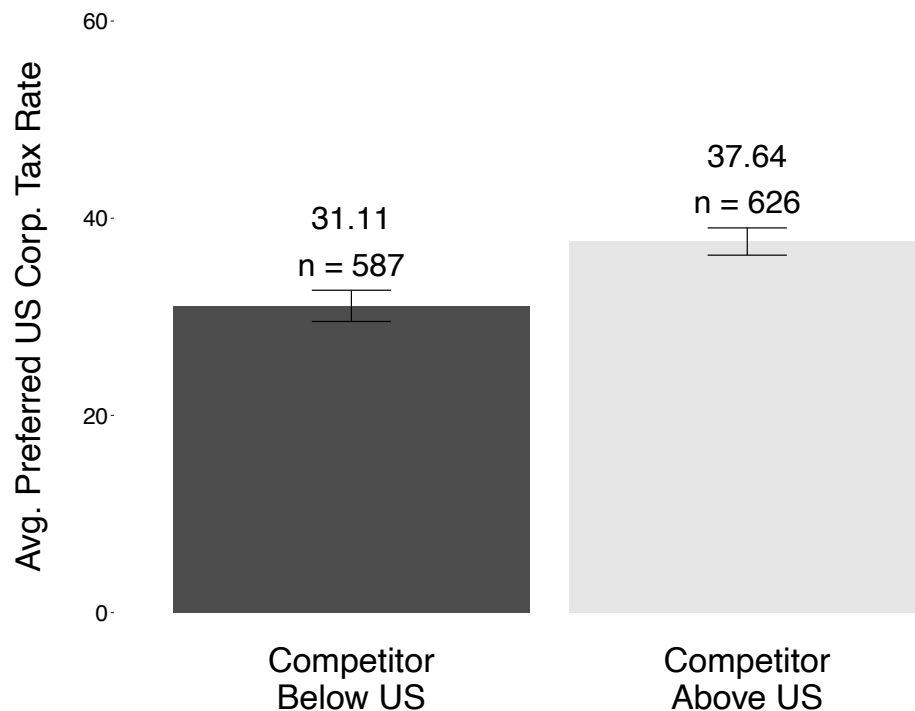
Assume that the government continues to spend the same amount as it does now.

In the short run, lowering the corporate tax rate would leave the government with less revenue than it currently needs. This means that individual income taxes could be raised. Conversely, raising the corporate tax rate would give the government more revenue than it currently needs. This means that individual income taxes could be lowered.

Preferred Corporate Tax Rate

Main Outcome

In your opinion, what should the US corporate tax rate be?



Results

Treatment Effects:

- Competitor nation that has a lower tax rate compared to one that has a higher tax rate than US, leads to 7pp decrease ($p < 0.01$) in respondents' preferred corporate tax rate.
- This effect is not mediated by priming fairness (short-term) considerations

Interpretation:

- Voters respond to precisely defined threats related to competition for mobile capital in the global economy by supporting downward shifts in domestic corporate taxation.
- Even with lower-tax competitors, voters raise U.S. taxes from 26% to 31%, but rivalry dampens support for tax hikes

Role of policy rhetoric on equity and rivalry

Elites and media emphasize rivalry when discussing corporate tax policy



President Biden

@POTUS

United States government official

The fact is a firefighter shouldn't pay more in taxes than an entire tech company.

A teacher shouldn't pay more in taxes than an oil company.

We're going to cut taxes for the middle class by ensuring the wealthy and large corporations pay their fair share.



Rep. Michelle Steel

@RepSteel · Sep 13

Increasing the **corporate tax** rate higher than communist China's will make the U.S. less **competitive** and send jobs overseas. We need pro-growth policies that will help our economy recover – not **tax** increases that will raise costs and reduce jobs.

In content analysis of elite rhetoric in media articles, ratio of rivalry-to-equity mentions is 3:1

Conclusions

Findings help explain divergence between public opinion and corporate tax policy trends

- We find considerable mass support for raising corporate taxes, bolstered by equity norms
- But when threats from economic competitors are precisely specified, voters report lower ideal domestic corporate tax rates, and de-emphasize fairness
- Results driven by specific mechanisms in globalization theory (broad primes insignificant)
- Elite rhetoric --- which disproportionately highlights rivalry --- may explain why public is willing to accept lower corporate taxes
- Large literature on tax preferences focusing on domestic within-group tradeoffs; we show that competitive pressures in the global economy inform and constrain these mass preferences
- Findings inform debates on corporate taxation, as policymakers devise tax regimes that are equitable, enjoy mass support, and protect national competitiveness in the global economy