

When Populism Meets Globalization: Analysis of Tax Competition

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Abstract

We study extreme reduction of tax rates – one feature of right-wing populism – in the age of globalization. To this end, we construct a two-country tax competition model in which the residents in one of the two countries face information asymmetry about their policy-maker's type (benevolent or leviathan). We show that the extremely low taxation on capital arises when the policy-maker has reputation concerns, and globalization (an increase in mobility of tax bases across countries) alters the properties of this populism. In particular, reputation concerns inducing populism can improve the country's welfare in tax competition when the country is poor in terms of productivity whereas that is not the case in closed economy.

Keywords: Populism; Tax competition; Reputation; Signaling; the Leviathan

JEL classification: F21; H11; H20; H73

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