Globalization and Factor Income Taxation

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Abstract

How has globalization affected the relative taxation of labor and capital? We address this question by constructing and analyzing a database of effective macroeconomic tax rates covering 150 countries since 1965, obtained by combining national accounts data with government revenue statistics. We obtain 5 main findings. 1) The average effective labor and capital tax rates have converged globally, due to a 10 points increase in labor taxation and 5 points decline in capital taxation since the 1960s. 2) The decline in capital taxation is concentrated in high-income countries and driven by the collapse of corporate profits taxation.

3) By contrast, capital taxation has increased in developing countries since the 1990s, especially in large economies. 4) Using a variety of research designs, we find that the rise in effective capital tax rates in developing countries follows the rise of trade openness, while trade has a negative effect on capital taxation in developed countries. In both groups of countries, trade leads to an increase in effective labor taxation. 5) Countries with higher trade have a larger share of output produced in the corporate sector (where income is easier to observe and thus to tax) and less self-employment. Globalization appears to have had asymmetric effects on tax structures, contributing to the decline in tax progressivity in rich countries, but also to the growth of tax capacity in developing countries.