

Affluence and Influence Under Tax Competition: Income Bias in Political Attention

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Abstract

This study reveals that tax competition magnifies the political overrepresentation of the rich in democracy; thus, it prevents redistribution both economically and politically. We develop a capital tax competition model between countries, each comprising two distinct classes: rich and poor. An income bias in political attention creates an overrepresentation of the rich in each country. First, we show that tax competition diminishes the political attention of the poor, amplifying the rich's political influence. Hence, tax competition reduces capital taxation not only through conventional economic channels but also by altering political power in favor of the rich. Remarkably, from a global perspective, the attention of the poor is underprovided for their benefit. Second, rising inequality encourages the poor to pay attention to politics, thereby increasing capital taxation. However, we show that tax competition weakens this mechanism; thus, increasing inequality in tax competition is more likely to lead to reduced capital taxation than in a closed economy.

Keywords: Redistribution; Inequality; Capital tax competition; Political attention; Election

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