

## **Impact of Competitive Tax Policy on the Welfare State: An International Comparison**

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*This paper undertakes an analysis of four nations i.e., South Korea, USA, India and China for the time period 1985-2002, to empirically find out whether the apprehensions of anti-globalisers about the melting away of the welfare state due to globalisation and the resultant tax competition is warranted or not. It also seeks to find out the correlation, if any, between aggregate tax levels and the welfare expenditure. In case the empirical data justify the falling tax revenues, both in absolute inflation-adjusted values and as a percentage of GDP, then it is a matter of real concern and nation-states would have to take steps to arrest their falling revenues and meet increasing welfare expenditure. Although, even if a fall in tax revenue may not affect welfare expenditure directly due to its being largely pre-committed and of popular nature, still falling tax-revenues in itself may be concern as it hampers the redistribution power of the state.*

It is undoubtedly true that the current wave of economic globalisation has led to many benefits to individual nations and to the overall world welfare. It has resulted in higher Gross World Output, made possible through increased efficiency in resource allocation and by opening opportunities for expansion through trade and capital flows. However, it has not been an unmixed blessing. Economic integration has caused economies to become more inter-dependent, leading to greater international propagation of business cycles. It has also divided the world into winners and losers of international economic integration who are often at conflict with each other. However, an important criticism of globalisation has been its adverse effect on the taxing power of the nations which may melt away welfare states as they would then experience scarcity of resources for welfare spending including redistribution of income, provision of social goods etc. The argument runs that MNCs usually invest in nations with a lower corporate tax rate structure. Since no nation wants to be left behind

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