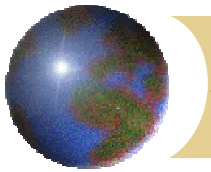


Comments on Altshuler and Grubert (2003)

ITPF/AEI Conference
9 December 2003

Mihir A. Desai
Harvard University & NBER



Overarching Reactions

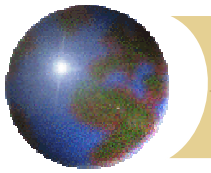
A&G Question: Is tax competition operative?

An important *measurement* question

Interesting data

Integrative paper that brings together various methodologies

Investigation of an alternative hypothesis – “self-help” – with interesting implications



Varied methodologies

I. Cross Country – 92-98, 92-00, 98-00:

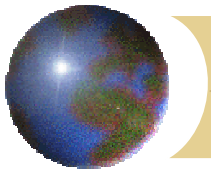
$$\Delta Tax Rate_{i,t} = \Delta MNC Activity_{i,t-1} + Tax Rate_{i,t-1} + Statutory Rate_{i,t-1} \\ + Small Dummy + Regional Dummies$$

II. Cross-Firm – 1984, 1996

$$Tax Rate_j = Statutory Tax Rate_j + Age_j + Mobility_j + Related Party_j \\ + Parent Characteristics$$

III. Cross Country – 92, 00, 92-00

$$(\Delta)MNC Activity_{i,t} = (\Delta)(1 - Tax Rate_{i,t}) + (\Delta)GDP Controls \\ + Trade + Interactions + Regional Dummies$$



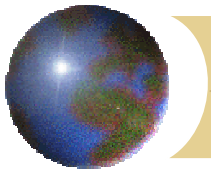
Varied methodologies

I. Cross Country – 92-98, 92-00, 98-00:

$$\Delta Tax Rate_{i,t} = \Delta MNC Activity_{i,t-1} + Tax Rate_{i,t-1} + Statutory Rate_{i,t-1} \\ + Small Dummy + Regional Dummies$$

FDI Losers, initial tax rates, small indicate competition; Statutory Rates indicate Self-Help

- I. Why is change in FDI a loss in “market share”? Scale FDI by total investment...
- II. To what degree are lagged statutory rates telling us something different than lagged effective rates? When are hybrids most desirable? How is this related to statutory rates?
- III. Lagged tax rates are problematic
- IV. How much can we learn from just studying 98-00? Do we think competition is usefully studied at such high frequencies? How do we think about crises?



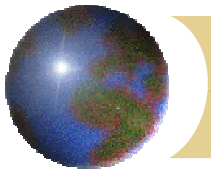
Varied methodologies

II. Cross-Firm – 1984, 1996

$$\text{Tax Rate}_j = \text{Statutory Tax Rate}_j + \text{Age}_j + \text{Mobility}_j + \text{Related Party}_j$$

Parent Characteristics

- I. Mobility as proxied by industry – why?
- II. Trade variables are great – but why isn't this a Clausing-like transfer pricing explanation?
- III. R&D results are curious...

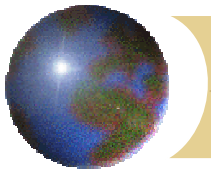


Varied methodologies

III. Cross Country – 92, 00, 92-00

$$(\Delta)MNC Activity_{i,t} = (\Delta)(1 - Tax Rate_{i,t}) + (\Delta)GDP Controls \\ + Trade + Interactions + Regional Dummies$$

- I. Classic capital demand equations to calculate tax elasticities
- II. I like the trade variable idea – try different ones (Rose) and *changes* in those
- III. How do I make sense of these specifications relative to the first ones?

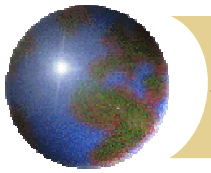


So what should we believe?

- I. Cross-Country – Determinants of Tax Rate Changes
- II. Cross-Firm – Determinants of Tax Rates
- III. Cross-Country – Determinants of Changing Capital Demand

General Suggestions

- I. Consider trade liberalizations to isolate effect of related party transactions – or CA liberalizations? In a panel...
- II. Employ data on parent's relative use of self-help techniques – indirect ownership – to explain *parent* declines in etrs
- III. Employ parent level variation in FTC status to explain behavior
- IV. Type I's are tough without more theory, Type II are intriguing but could use more of the self-help theory, and Type III ones I'm most sympathetic to given the theoretical backing for it



Unanswered questions.....

- I. How can we incorporate politics and interest groups into tax competition?

- II. Can we explain *differences* between statutory and effective rates through competition?

- III. Why aren't MNCs doing more self-help?