

Revolving door politics and income inequality

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Could the profiles and career objectives of finance ministers explain government tax policy that benefits the rich?

Is there a revolving door when it comes to tax policy?



The revolving door

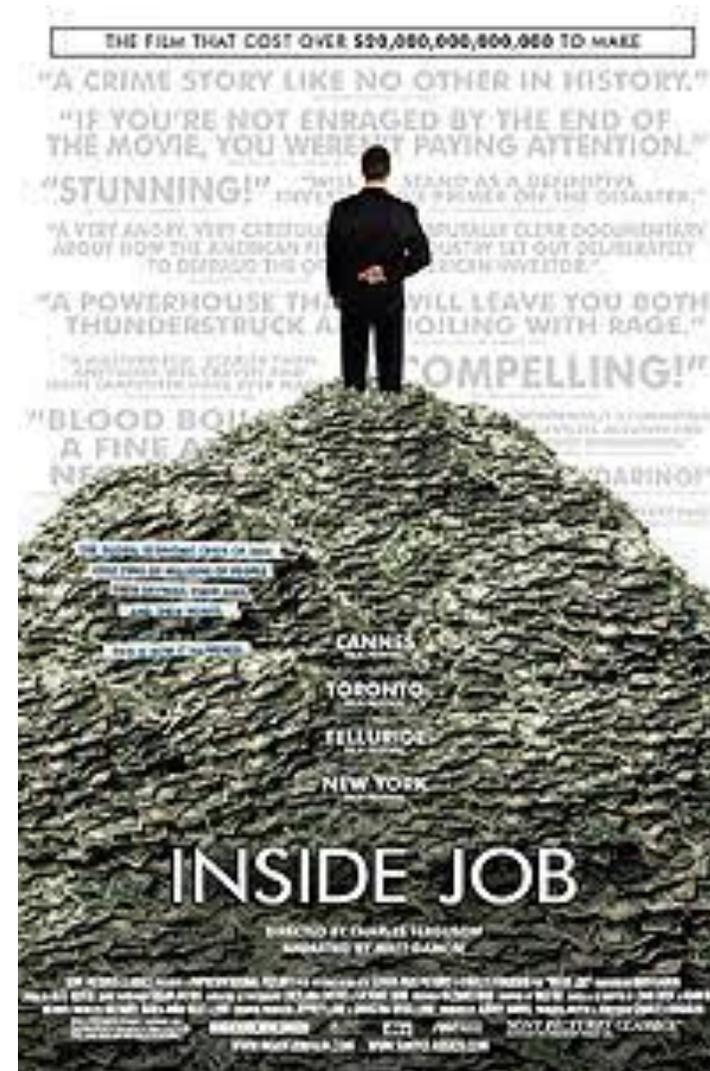
- Jobs after politics and financial benefits for firms (Egerod 2019)
- Business politicians & policy priorities (Kirkland 2019, Szakonyi 2020)
- Financial Liberalisation & former bankers (Wirsching 2018)

Defining revolving door

- Politicians will act in ways that advances their post-politics professional career..i.e. deliver to future bosses
- Politicians have their own policy preferences which are partly revealed and shaped by their past professional peers

The paradox

- Most political science argues that finance ministers are perfect agents to the PM
- However, most people think otherwise...
 - that finance ministers are often co-opted by the “enormous sums available to those willing to embrace the Wall Street Worldview” (the economist)



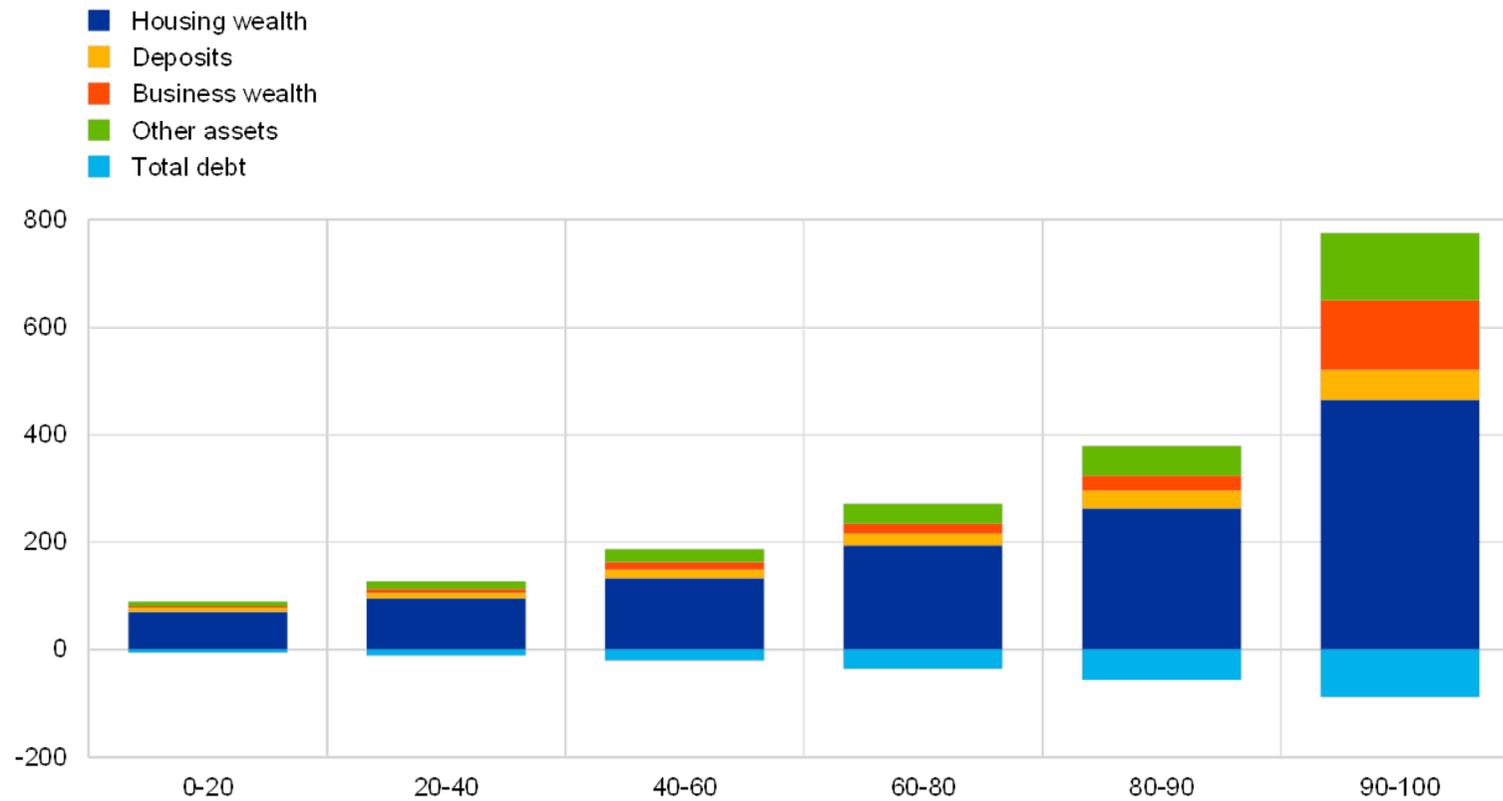
What would a revolving door hypothesis mean for income distribution

- The financial sector prefers lower regulation and lower taxation to increase its profit margins
- Bankers, as highly paid individuals probably prefer lower levels of capital taxation

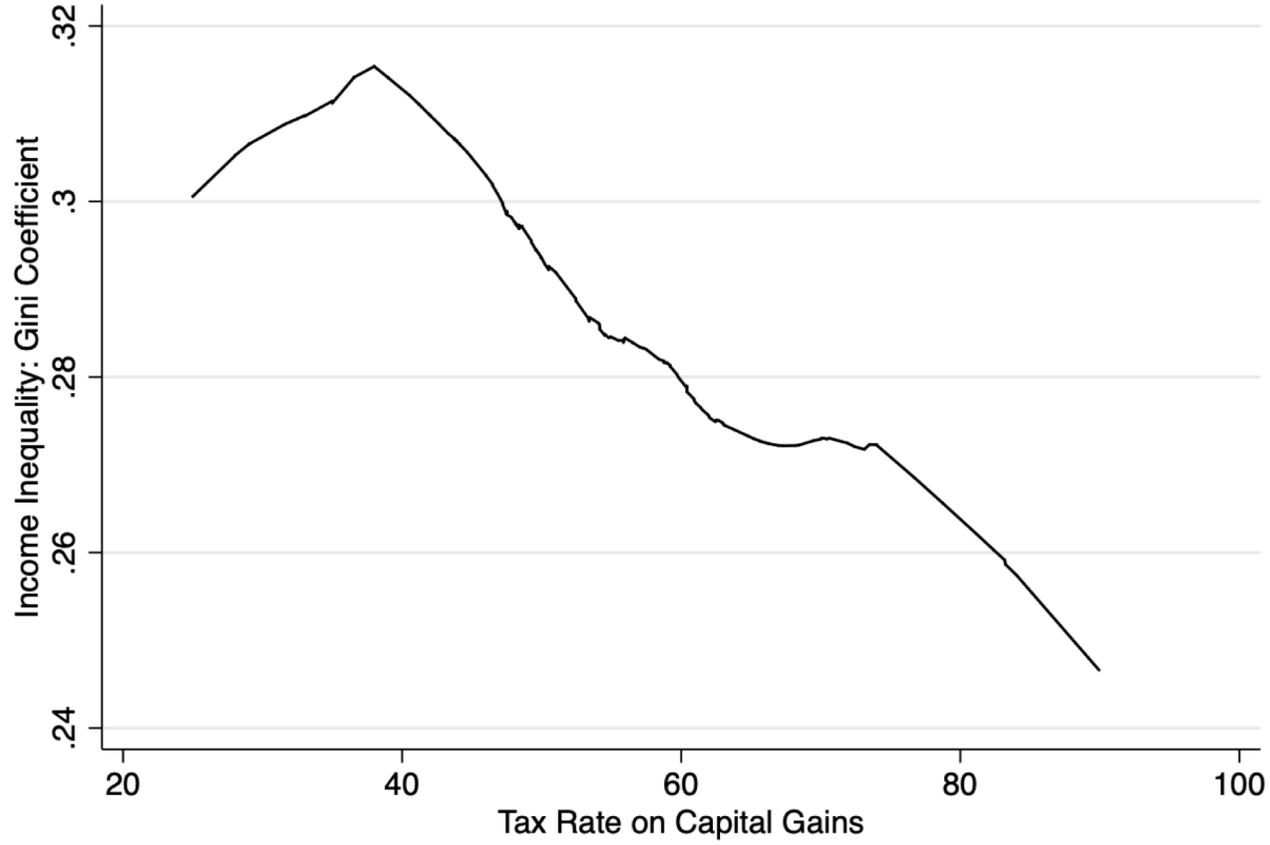
What about capital taxation?

- The rich derive most of their income from capital gains, not their labour.
 - Income taxation is not likely to affect the income of high earners

Capital Tax & Inequality



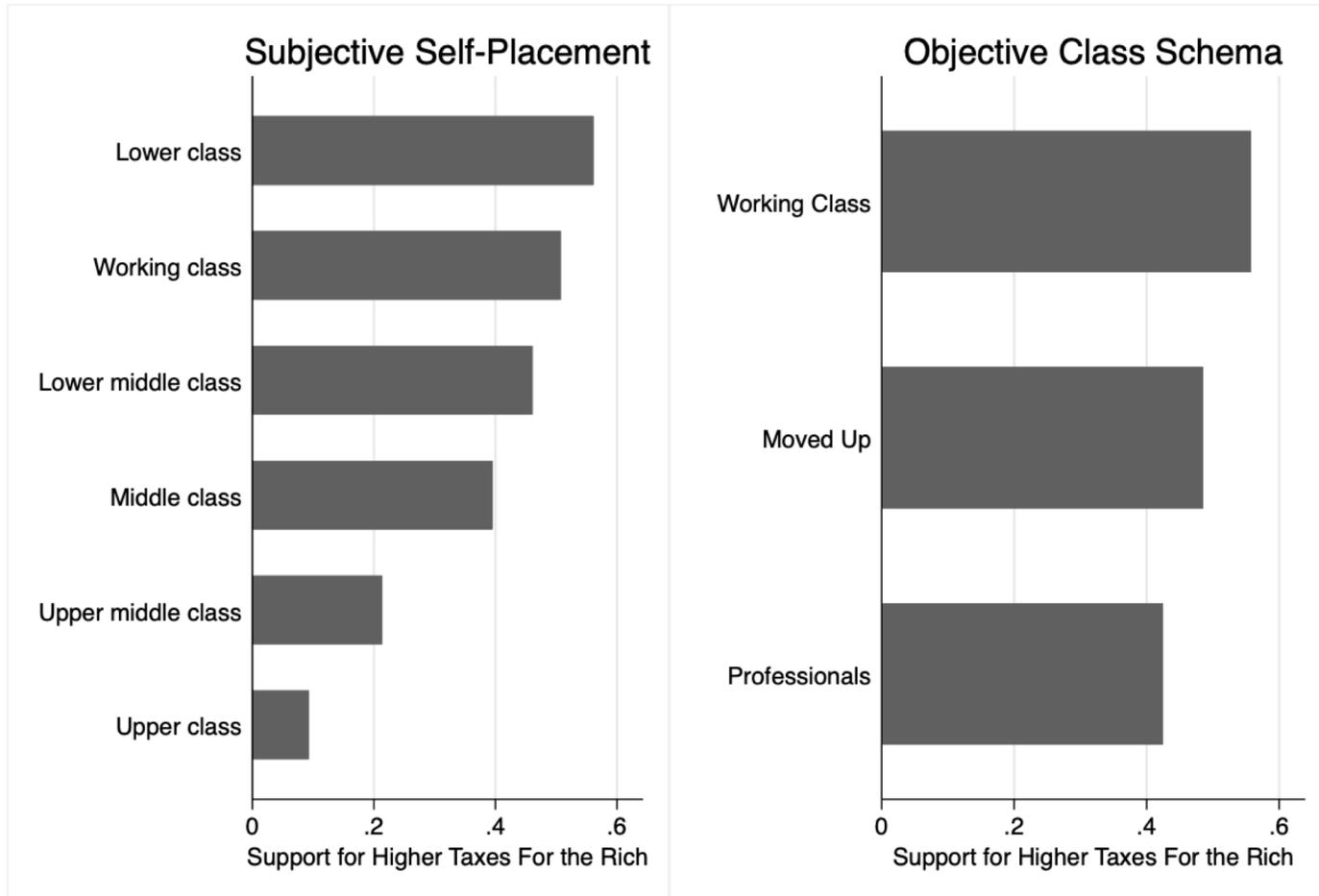
Marginal Tax Rates on High Income Earners



Why bankers?

- The productivity and salaries of the financial sector have increased a lot faster than those in the industrial sector
- Finance ministers who come from the financial sector are typically highly-paid individuals
- Those employed in the financial sector are typically in favour of lower government regulation and lower taxation that reduces the industry's profits.
- More broadly, higher income individuals prefer lower income and wealth tax

The Rich Pay Too Little Tax: ISSP 2009



Why finance ministers?

- They are in charge of tax policy
 - Income tax
 - Capital
 - Property tax
 - Indirect tax
 - Wealth tax
- They regulate the financial sector
 - Capital market liberalization
 - Indirect taxes on financial transactions

Hypothesis 1

- *H1: Finance ministers who come from the banking sector are more likely to be associated with lower capital tax rates & lower capital tax revenue*

Conditional Effects: The role of Institutions

- Countries with PR electoral systems have higher income tax rates but lower capital tax (Steinmo 1993, Hays 2003).
- Hays (2021): capital tax is lower under multiparty governments and corporatist institutions, especially under high capital mobility.
 - Capitalists can protect their interest when not in power because of the credible threat to centrist parties to form left-right coalitions.
- If corporatist systems are more likely to protect the interests of capital, even when capitalists are not in office, then we should expect bankers to have more policy impact in non-corporatist countries.

Hypothesis 2

- *H2: Finance ministers who come from the banking sector are more likely to be associated with lower capital tax primarily **in non-corporatist systems***

Why appoint bankers?

- When the government is friendly to capitalist interests, i.e right of center
- When the government seeks to co-opt the financial sector, i.e center-left
- When the government represents both labour and capital, i.e left-right coalition in corporatist system.

Hypothesis 3

- *H3: Bankers are more likely to be appointed by right of center parties in non-corporatist systems and by both left and right parties in corporatist systems.*

Hypothesis 4

- *H4: Finance ministers who reduce capital tax while in office, are more likely to find employment in the banking or corporate sectors after they leave office.*

Data

Explanatory variables

- 18 parliamentary democracies (mostly European)
- 545 finance ministers coded by their past and post-politics profession
- Unit of analysis: cabinet (all appointments, new & reshuffles)
- Country/year to test policy effects

DVs

- Tax rates on dividends (personal and corporate)
 - OECD/ Hays 2021
- Tax revenue as % of GDP from capital gains taxation
 - Eurostat

Data cont.

IVs: policy models

- Finance ministers & former bankers (worked in the financial sector)
- Finance ministers & former working class (union leaders, blue and white collar)
- Split sample between corporatist/non-corporatist countries
 - Corporatist: Austria, Belgium, Denmark, Finland, Germany, Netherlands, Norway, Sweden

DVs& IVs: appointments model

- DVs: Logistic model predicting the appointments of Bankers/ Working class finance ministers

Data cont.

Ivs: Being hired in the financial sector

- Cumulative change in tax revenue from capital gains tax, capita tax rates during the tenure of each finance minister.

DVs: Post politics appointment model

- Finance ministers who found a job in the financial sector after exiting politics, as long as they exited politics within a few years from their appointment.

Empirical Strategy

Appointment Models

- Logistic regression clustered by country

Policy Models

- Mixed effects models with both DV and IVs are in changes and a lagged DV.

Bankers are associated with cuts in capital tax but ONLY in liberal systems

These effects are short term, as both DVs and Ivs are in changes.

	Capital Revenue	Cap. Tax Rate
Lagged DV	-0.7850*** (0.073)	-0.0814*** (0.013)
LeftGovernment	0.0002 (0.000)	0.0100 (0.010)
Liberal Professionals	0.2152 (0.174)	0.7568 (1.368)
Openness	0.0924 (0.059)	0.5908 (0.528)
Working Class	-0.0449*** (0.012)	1.1561 (0.843)
Banker	-0.0273** (0.011)	-1.2434*** (0.403)
Constant	0.2260*** (0.050)	3.6003*** (0.679)
Observations	161	319
Number of groups	7	10
Robust standard errors in parentheses		
*** p<0.01, ** p<0.05, * p<0.1		

The minister's party's pro-market pledge and right-wing ideology are the strongest predictors for appointing bankers: left governments are not likely to appoint them, unless corporatist.

Working-class ministers are appointed in corporatist systems & by parties that do not pledge pro-market reform.

	(1)	(2)
	Banker	Working Class
Pro-Market Pledge	0.1554*** (0.052)	-1.6884*** (0.445)
Open List	-0.7904 (0.910)	0.7562 (1.214)
WBC	-0.7378 (0.473)	1.5723** (0.766)
Left Government	-3.9615** (1.790)	-0.2954 (3.925)
Left*WBC	1.2705* (0.662)	0.1720 (0.887)
Mean Lib. Profs	1.7807 (1.480)	-10.4151*** (3.176)
Capital Openessess	0.0360 (0.330)	-0.6851 (0.437)
Constant	-1.5902 (1.942)	-3.7864 (3.118)
Observations	131	131
Robust standard errors in parentheses		
*** p < 0.01 ** p < 0.05 * p < 0.1		

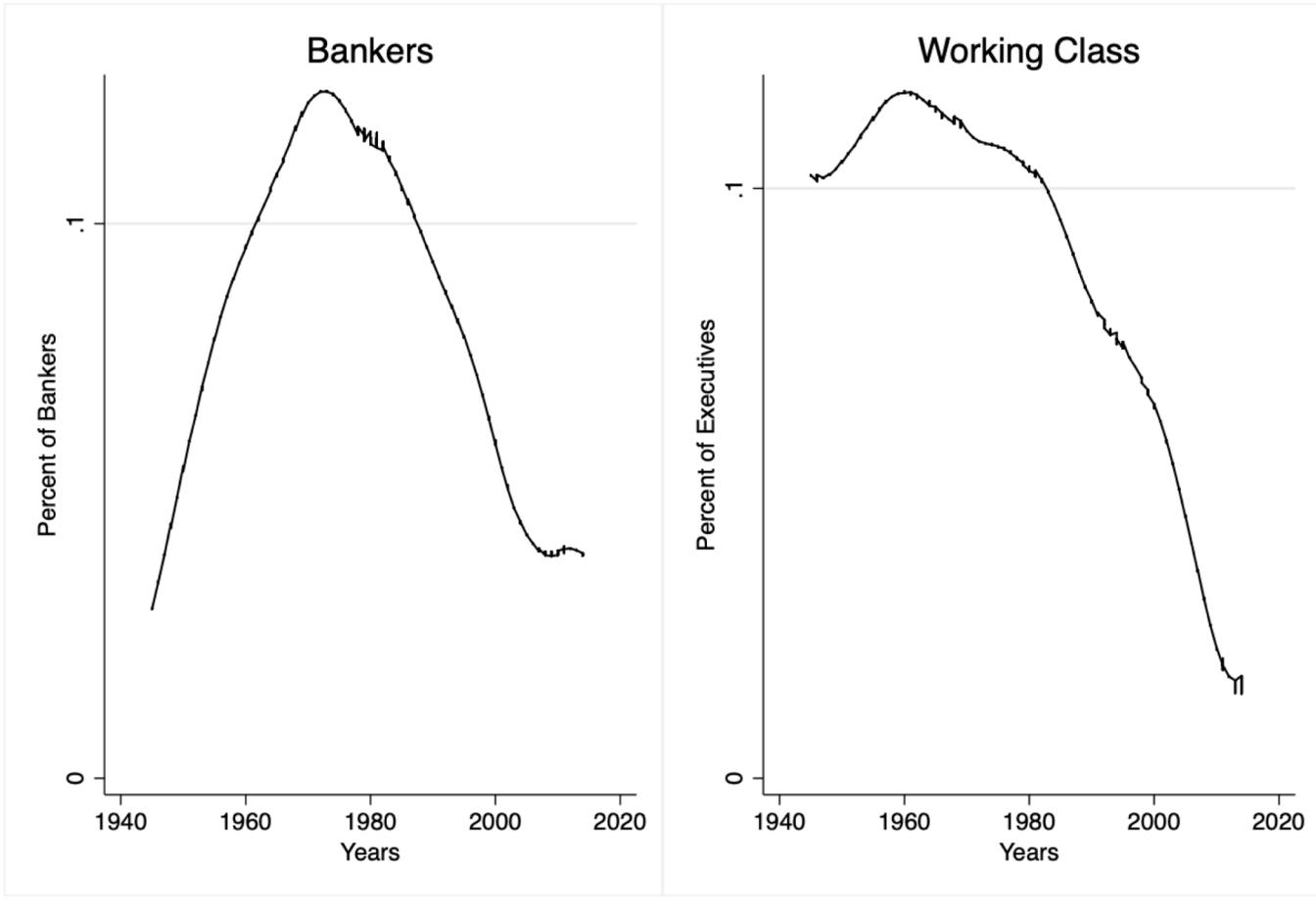
Finance ministers who are associated with lower revenue from tax on capital gains are more likely to find a job in the banking sector after exiting politics. Also, former bankers are more likely to find a job in the financial sector. Those with longer cabinet experience are not preferred by the sector or do not seek employment in that sector.

	(1)	(2)
	Banking Sector	Banking Sector
Cum D Capital Tax	-8.4610* (4.424)	
Cum D. Capital Rates		-0.0149 (0.035)
Cum Change VAT		
Former Banker	3.2488*** (0.679)	2.1277*** (0.731)
Economist	0.3517 (0.539)	1.2192** (0.514)
Left	1.4914** (0.688)	-0.5569 (0.875)
Years in Cabinet	0.0548 (0.098)	-0.3203* (0.191)
WBC	0.2259 (0.217)	0.3679 (0.333)
Constant	-5.5016*** (1.090)	-4.2104*** (1.113)
Observations	112	151

Thank you!

Looking forward to your comments/ suggestions/ questions

Bankers & Workers Over Time



	Working Class	Union Leader	Banker	Prof. Politician	Professor	Lawyer	Civil Servant
Australia	0.23	0.16	0.03	0.27	0.17	0.41	0.33
Austria	0.19	0.14	0.14	0.36	0.06	0.09	0.19
Belgium	0.00	0.00	0.05	0.07	0.53	0.51	0.30
Canada	0.00	0.00	0.10	0.21	0.11	0.71	0.07
Denmark	0.24	0.24	0.09	0.43	0.24	0.04	0.10
Finland	0.11	0.03	0.16	0.29	0.16	0.17	0.24
France	0.11	0.00	0.23	0.27	0.13	0.18	0.52
Germany	0.24	0.06	0.00	0.74	0.20	0.48	0.09
Greece	0.00	0.00	0.00	0.17	0.44	0.17	0.05
Ireland	0.04	0.00	0.06	0.67	0.15	0.34	0.10
Italy	0.01	0.01	0.00	0.00	0.54	0.27	0.03
Netherla	0.13	0.07	0.26	0.06	0.48	0.00	0.45
New Zealand	0.23	0.00	0.00	0.09	0.20	0.14	0.16
Norway	0.30	0.00	0.00	0.13	0.13	0.16	0.30
Portugal	0.00	0.00	0.21	0.00	0.74	0.03	0.10
Spain	0.00	0.00	0.00	0.00	0.51	0.00	0.36
Sweden	0.32	0.32	0.12	0.22	0.14	0.00	0.13
UK	0.20	0.04	0.27	0.19	0.23	0.24	0.20