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Between democracy, business power and international organisations: Explaining three distributive conflicts in taxation in Central and Eastern Europe

Edgars Eihmanis
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Abstract

What drives redistributive tax reforms? Why do some countries develop redistributive politics in hard times, while others do not? There are few places that are better equipped to answer this question than Central and Eastern Europe. Not only do this region features a heavy structural dependence on multinational capital; over the last decade, it has become increasingly constrained by international fiscal conditionality. To explore the shifts and drivers of economic policy, this thesis focuses on the under-researched area of taxation— as much an instrument for economic development, as a means for redistribution. Challenging established accounts of the region, CEE countries represent a significant variation in tax policy reform since the global financial crisis of 2008. By focusing on four CEE political economies (Hungary, Slovakia, Romania, Latvia), this thesis contends that CEE tax policy post-crisis has been characterised by three emerging conflicts— between rich and poor, foreign and domestic businesses and, relatedly, the larger businesses and the self-employed. However, conventional *external* explanations regarding multinational capital and international organisations fall short of accounting for the variation between countries on these three dimensions. To address this deficit, this thesis connects the literature on political competition and business power. By applying process tracing and focused comparison methodology to unique qualitative data, this thesis argues that, although salience importantly shapes tax reform (i.e. only salient policies are politicised), salience largely depends on political competition. Only when salience and competition work together, are special interests less likely to shape policy. Furthermore, this thesis argues that the power and influence of a business depends on whether and to what extent the business can instrumentalise external/domestic "exit" constraints, depending on the business size. Specifically, if large/multinational businesses can shape policy via lobbying and threats of "exit" abroad, small businesses, lacking such options, can credibly threaten the state via "exit" into the shadow economy.

Jury:

Prof. Pepper Culpepper, Oxford University/formerly EUI (Supervisor)
Prof. Philipp Genschel, EUI
Prof. Cornel Ban (Copenhagen Business School)
Prof. Marek Naczyk (Oxford University)

Bio

Edgars Eihmanis' primary research interests lie in comparative political economy and public policy. His dissertation focuses on the politics of taxation and state-business relations in Central and Eastern Europe. He has also worked and published on EU socio-economic governance.

He holds MA degrees in Political Science and Sociology from the University of Amsterdam. Currently, he is a researcher in the East Central Europe COVID-19 monitor project.