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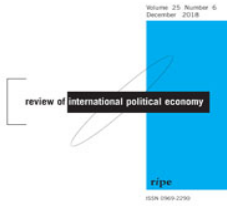
**More details/abstract:**

The financial crisis of 2007–2009 is now broadly recognised as a once-in-a-generation inflection point in the history of global economic governance. It has also prompted a reconsideration of established paradigms in international political economy (IPE) scholarship. Developments in global tax governance open a window onto these ongoing changes, and in this essay we discuss four recent volumes on the topic drawn from IPE and beyond, arguing against an emphasis on institutional stability and analyses that consider taxation in isolation. In contrast, we identify unprecedented changes in tax cooperation that reflect a significant contemporary reconfiguration of the politics of global economic governance writ large. To develop these arguments, we discuss the links between global tax governance and four fundamental changes underway in IPE: the return of the state through more activist policies; the global power shift towards large emerging markets; the politics of austerity and populism; and the digitalisation of the economy.

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# The new politics of global tax governance: taking stock a decade after the financial crisis

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Books discussed in this essay:

- Dietsch, P., & Rixen, T. (Eds). (2016). *Global Tax Governance: What it is and why it matters*. Colchester: ECPR Press.
- Fairfield, T. (2015). *Private wealth and public revenue in Latin America: Business power and tax politics*. Cambridge: Cambridge University Press.
- Harrington, B. (2016). *Capital without borders: Wealth managers and the one percent*. Cambridge, MA: Harvard University Press.
- Jogarajan, S. (2018). *Double taxation and the league of nations*. Cambridge: Cambridge University Press.

## ABSTRACT

The financial crisis of 2007–2009 is now broadly recognised as a once-in-a-generation inflection point in the history of global economic governance. It has also prompted a reconsideration of established paradigms in international political economy (IPE) scholarship. Developments in global tax governance open a window onto these ongoing changes, and in this essay we discuss four recent volumes on the topic drawn from IPE and beyond, arguing against an emphasis on institutional stability and analyses that consider taxation in isolation. In contrast, we identify unprecedented changes in tax cooperation that reflect a significant contemporary reconfiguration of the politics of global economic governance writ large. To develop these arguments, we discuss the links between global tax governance and four fundamental changes underway in IPE: the return of the state through more activist policies; the global power shift towards large emerging markets; the politics of austerity and populism; and the digitalisation of the economy.

## KEYWORDS

Global economic governance; global financial crisis; globalization; OECD; offshore finance; rising powers; tax; tax havens

## Introduction

The global financial crisis of 2007–9 ushered in a sense of existential crisis for the liberal international order (Acharya, 2018; Ikenberry, 2018). It marked the point at

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which the key locus of global economic governance shifted from the G7 to the G20, and it was part of the narrative around the seismic Anglo-Saxon electoral events of 2016. Now, the crisis has become a key inflection point in thinking about growing challenges to global economic governance, such as financial instability, inequality and overaccumulation. According to the editors of this journal's 20th anniversary issue, it "laid bare some fundamental challenges for all contemporary IPE scholarship" (Johnson et al., 2013, p1012). Such post-crisis stock-taking has been infused with a sense that international political economy (IPE) scholarship before and immediately after the crisis did not pay enough attention to big picture trends in the world we study (Cohen, 2009; Drezner & McNamara, 2013; Helleiner, 2011).

Global tax governance is a key window onto these trends. As Josef Schumpeter noted a century ago, 'the fiscal history of a people is above all an essential part of its general history' (Schumpeter, 1991). The same is true at international level: dramatic changes to the regime governing the taxation of cross-border investment are at once symptomatic of and essential to these broader upheavals in the IPE. It is unclear whether OECD-centric tax institutions can survive in the long term, even as they have broken new ground in terms of sovereignty-infringement and multilateralism. Catalysed by unilateral action by the United States, governments moved quickly after the financial crisis to clamp down on the use of tax havens for tax evasion by wealthy individuals, creating a global regime in which tax authorities from different states now automatically share bank information with each other (Hakelberg, 2016a). The OECD claims that EUR 93 billion in tax revenue has been reclaimed by governments as a result (OECD 2018a, p. 11). In contrast, governments have moved more slowly to address the problems associated with taxing multinational firms, struggling to overcome distributional tensions within the OECD and G20 (Hearson & Prichard, 2018; Lips, 2018).

Taking account of these changes, this essay sketches out a post-crisis research agenda on the political economy of international tax and its implications for IPE at large. That agenda, we contend, should aim to explain variation in the speed, scope and depth of change in the institutions of international tax governance, across time and issue area (Rixen & Viola, 2016). Pre-crisis, the international tax regime was marked by stability and incremental change in the face of dramatically escalating problems of tax avoidance and evasion, and research questions dwelt on this relative stability. The speed, scope and depth of change have all radically increased post-crisis, yet much research continues – incorrectly in our view – to minimise the significance of these developments.

We view the crisis as a structural break that destabilised ideas and institutions, for example the G7, that had already become out of step with political economic reality. For IPE scholarship, too, the crisis demonstrated many apparently stable patterns to be historically contingent and fragile (Johnson et al., 2013). The field of International Relations has also recently begun to interrogate its understanding of the 'when and how' of change (Paul, 2018, p. 177). In doing the same, we must overcome political economy's tendency to 'understate the extent of change, alternatively to code all observed changes as minor adaptive adjustments to altered circumstances in the service of continuous reproduction of existing systems' (Streeck & Thelen, 2005; see also Oatley, 2019).

**Table 1.** Shifts in the global political economy and global tax governance.

Political economic shift	Global tax governance shift
The return of the state	Greater willingness to act unilaterally has created conditions for sovereignty-constraining cooperation.
Global power shifts	The OECD has adopted institutional innovations that give non-members the right to varying degrees of participation.
Austerity, populism and expertise	Political engagement with international tax rules has reduced the autonomy of the tax policy expert community.
The digital economy	Existing rules produce perverse outcomes when applied to new digital business models, which has led to open distributional conflict, notably between the EU and US.

Exhibit A in this regard is the first book reviewed in this essay, an interdisciplinary work with a strong IPE contribution, edited by Peter Dietsch and Thomas Rixen. The volume provides a comprehensive and critical assessment of recent developments in international tax governance, but adopts what we regard as an overly pessimistic perspective on the degree to which events since the crisis illustrate transformative change. This is partly a timing issue: it is only now, more than a decade after the onset of the financial crisis, that the true extent of changes is becoming clear. But it is also a consequence of a focus on tax governance as a discrete area, rather than embedding it within the broader landscape of post-crisis IPE developments.

We develop this argument by discussing the links between global tax governance and four fundamental changes underway in the IPE at large: the return of the state; the global power shift towards large emerging markets; the politics of austerity and populism; and the digitalisation of the economy. [Table 1](#) summarises these implications. In doing so, we offer critical reviews of another three empirical accounts from other disciplines (Fairfield, Jogarajan and Harrington) to illustrate our argument, while also shedding light on IPE's added value.

First, governments' response to the crisis demonstrated a 'return of the state', with a newfound interventionism in a range of economic policy areas. No issue area throws the tension between globalisation and the state into sharper relief than international taxation, which has always been at the forefront of the chasm between globalisation and national sovereignty (Palan, 2003). Since the crisis, governments have been more willing to act collectively and unilaterally to combat tax avoidance and evasion by mobile capital. Tasha Fairfield's comparative politics study, based on over 400 interviews across Latin America, offers helpful insights into the interface between domestic politics and the structural power of capital here.

Second, the crisis dealt a fatal blow to the legitimacy of already-weakened governance institutions dominated by OECD powers. In taxation, this has manifested itself in a crisis for a governance system dominated by expert insiders from a Global North core (Rixen, 2011b). But as Sunita Jogarajan's legal history of the origins of that system reminds us, tensions between developed and developing country actors have been present since the regime's beginning.

Third, fiscal policy, under the label of 'austerity', has been a key part of the post-crisis political narrative (Blyth, 2013), pushing to the fore the political and

socio-economic inequalities created by globalization, and delegitimising expert-led global governance. Brooke Harrington's immersive sociological study of the enablers of tax haven abuse leads her to conclude that the game of 'cat and mouse' with tax authorities will continue. In our view, her deep dive into one community underestimates the normative shift in society at large: in the context of populism, the appearance of a tolerant attitude to abuse of tax havens by the wealthy has become increasingly unviable for political actors (Morgan, 2017).

Fourth, large-scale digitalisation of the economy is underway, upending the distribution of value within global production networks and creating an unprecedented consolidation of capital. Trends in the digital economy are inextricably linked to those in the financial system, for example the 'dot com' bubble in the late 1990s and the turn to business models based on data-driven advertising when that bubble burst (Srnicek 2016). We see the early impacts of digitalisation in the growing distributional tensions, especially between the US and EU, brought about by the obsolescence of the century-old global international tax system and the inadequacy of existing institutional tools to negotiate a new global settlement.

The essay begins with older, pre-crisis empirical landscape and its scholarship, demonstrating how the IPE literature consolidated a picture of an unusually resilient regime characterised by sovereignty-preservation, OECD-centrism and technocratic isolation. The subsequent sections discuss how the macro shifts mentioned above have transformed this regime, critically analysing the contribution each book under review makes to developing a new understanding of this post-crisis world. We argue that these books succeed when they allow us to analyse not just stability and incremental change, but also the rapid changes catalysed by the crisis, which we argue should be the emphasis of contemporary scholarship on the IPE of global tax governance.

## Stability in pre-crisis global tax governance

The international relations dimension of international taxation<sup>1</sup> has its origin in the 1920s, when states began to consolidate systems for taxing income on capital and labour and suddenly encountered a series of collective action problems (Rixen, 2008, p. 87). The first to be tackled through international cooperation was the problem of 'double taxation'. Left to its own devices, each state would tax its own residents on their domestic and foreign earnings, but it could also tax foreign labour and capital on the income earned within its borders. At the same time, the transnational mobility of capital opened new opportunities for escaping national tax burdens by arbitraging or evading national regulations. Unless states coordinated with each other, transnational trade and investment posed the dual problems of double taxation if both home and host state claimed the right to tax and double-non-taxation where neither did.

In response, in the 1920s and 30s, the League of Nations developed formal guidelines for the allocation of 'taxing rights' between states (Jogarajan, 2018; Picciotto, 1992). The architects of the international tax regime concluded that concerns about sovereignty and the complexity of multilateral negotiations with multiple distributional axes made a binding multilateral agreement impossible, and so they created a fragmented regime with no central authority, comprising instead a network of bilateral agreements (Rixen, 2008, pp. 87–96). The League's guidelines,

later inherited by the OECD, were enshrined in model bilateral treaties, to form the basis of actual treaties negotiated between countries. The bilateral network expanded rapidly and became the foundation of the international tax governance system, reaching more than 3000 treaties by the end of the 20th century.

These design choices, however, soon led to unintended conflicts, most particularly the persistence of tax competition and tax havens. Because of growing cross-border economic integration during the 20th century, nation-states' tax policies became interdependent – they shared a tax base of mobile, transnational capital, and each states' policy choices impacted the other. Competition between states for capital ensued, which some argued was desirable as it would pressurise states to adopt the optimal combination of public good provision and level of taxation to pay for it (Tiebout, 1956). Subsequent research illustrated that such competition could also have negative externalities, such as mutual erosion of tax bases and increased regressivity, as well as a 'race to the bottom' (Avi-Yonah, 2000; Oates, 1972). Sovereign jurisdictions thus faced a 'prisoner's dilemma', fearing that mobile capital and labour would respond negatively to increases in the tax rate they incurred.

This 'prisoner's dilemma', however, had uneven dynamics. In particular, smaller jurisdictions with little stock of capital of their own stood to benefit more from attracting foreign capital, compared to larger jurisdictions, which sought to balance international competitiveness with the integrity of their domestic tax systems (Rixen, 2010, pp. 43–46). Increased capital mobility and new business models exacerbated tax competition further in the late-20th century, as income was physically detached from the underlying activities that generated it. This was most notable for more fungible portfolio capital, while foreign direct investment often continued to flow to larger markets, given local cost benefits (Haufler & Wooton, 1999). The result, however, was a continuing downward pressure on corporate tax rates across the globe (Genschel & Schwarz, 2011; Swank, 2016).

'Tax havens' exploited this flexibility by offering the benefits of tax residency without requiring the physical relocation of people or business functions. These benefits included low tax rates, a shroud of secrecy to hide assets from other tax authorities, and rules about the allocation of taxing rights that allowed international mobile capital to exploit mismatches with other tax systems. The result was the emergence of a new *offshore* space, defined by Ronen Palan (2003, p. 19) as 'a set of juridical realms marked by more or less withdrawal of regulation and taxation on the part of a growing number of states.' Today, around ten percent of all global wealth remains offshore (Zucman, 2015). The offshore world enables tax avoidance and evasion, and estimates of the cost of multinational corporate tax have converged around an order of magnitude of \$200 billion a year (Crivelli, De Mooij, & Keen, 2015; OECD, 2015).

The international tax regime designed to solve the double taxation problem was, however, poorly equipped to deal with these problems, and resistant to change. In 'The Retreat of the State', Susan Strange identified it as a hallmark example of the impotence of states to govern effectively in the world economy, concluding that, 'it is clear that the failure of governments to devise a common tax regime imposes serious costs on all of them' (Strange 1996, p. 63).

Why was this? To begin with, 'sovereignty-preserving' institutional design choices prevented states from tackling tax havens. While the governance system



was aimed at handling double taxation, ‘it reinforced the problem of tax evasion and avoidance. Since governments retain their legislative tax sovereignty, they are also free to poach the tax base of other countries by offering favourable treatment to other countries’ citizens’ (Rixen, 2008, p. 150). A major stumbling block for states keen to deal with the tax haven problem was, then, a system designed to protect the formal sovereignty of ‘onshore’ states, which effectively allowed ‘tax havens’ to undermine that same sovereignty. The downfall of the OECD’s ‘Harmful Tax Competition’ project of 1997–2003 provides an apt illustration, the defence of ‘sovereignty’ becoming one of the main rhetorical strategies used by small island states to resist OECD interference in their tax laws (Sharman, 2006).

A second characteristic that promoted regime stability was states’ vested interests in maintaining a solution to the double taxation problem that revolved around the OECD. All states had an incentive to play by the existing rules to facilitate legitimate cross-border investment flows, even if they were biased in their allocation of ‘taxing rights’ (Rixen, 2008, pp. 159–161). Thus, developed states – which benefited disproportionately from the regime’s allocation of taxing rights – were deterred from any radical change by the fear of destabilising this bias in their favour (Genschel & Rixen, 2015). For example, despite initial ambitions to future-proof international tax rules against the emergence of the digital economy in the late 1990s, when OECD members and non-members collaborated to revise them, they could only agree on very modest changes, which most states did not consider worth implementing (Cockfield, 2005).

In the area of tax havens, meanwhile, the OECD’s central role did not raise ire among developing countries, because developed and developing countries suffered alike, and stood to benefit from a crack-down led by powerful states. Yet the OECD’s lopsided membership and technocratic identity, which suited its role as a focal point for the coordination problem of double taxation relief, was ill-suited to the kind of expansive enforcement regime that would have been necessary to resolve the tax haven problem (Sharman, 2006).

A final reason for the regime’s stability was the lack of broad domestic interest group engagement, meaning an absence of diverse political interference in the technically obscure policy processes at the OECD, with their consensus-based, expert-led modes of working (Genschel & Rixen, 2015; Sharman, 2006). Following the failure of the Harmful Tax Competition project, the Director of the OECD Centre for Tax Policy and Administration at the time, Jeffrey Owens, specifically lamented the absence of civil society pressure, saying ‘the emergence of non-governmental organisations intent on exposing large-scale tax avoiders could eventually achieve a change in attitude comparable to that achieved on environmental and social issues’ (Houlder, 2004).

Where non-state interests did participate, they were primarily technical experts, in particular from the business community, normatively aligned with the OECD insiders (Hearson, 2018; Palan, 2003, p. 73; Rixen, 2008, p. 119). Interventions from non-technical actors, meanwhile, were regarded as aberrations to be reined in by a community united around common normative foundations (Büttner & Thiemann, 2017; Ylönen & Teivainen, 2017). For example, perceived tax avoidance by Japanese firms emerged as a political issue in the US at the turn of the 1990s, and the Clinton administration elected in 1992 introduced new rules for the taxation of multinational companies that deviated from OECD standards. The OECD



did not embrace this challenge, but treated it as an unhelpful threat to the expert-led consensus; it formed a task force that criticised the US proposals and eventually brokered a compromise to limit the damage (Radaelli, 1998).

## New politics and new questions

While scholarship before the financial crisis did on occasion speculate on the possibilities for change of greater speed, scope and depth in the international tax regime, it was the global financial crisis that gave such speculation a firm grounding. Dietsch and Rixen's (2016) edited volume, *Global Tax Governance: What's wrong with it and how to fix it* provides a comprehensive analysis of recent material and normative challenges and changes to the international tax order, as well as practical, forward-looking reform proposals. In this paper we focus specifically on two sections of the book, titled 'The problem: International tax competition' and 'Shortcomings of the current regulatory framework and initiatives'. As the titles imply, the authors detail the structural factors underlying a broken international tax governance system, finding contemporary attempts by OECD and G20 countries to fix the system inadequate. The editors' introduction sets out three reasons

**Table 2.** Major global tax governance reform attempts pre- and post-crisis.

	Dates	Nature of change	Inclusive multilateralism	Institutionalised enforcement	Sovereignty-pooling
Tax avoidance: transfer pricing guidelines (Radaelli 1998)	1994–1995	Moderate	None: OECD only.	None: self-implementing.	None: adapts existing principles.
Tax evasion: harmful tax practices (Webb 2004; Sharman 2006)	1997–2003	Small	None: EU/OECD/G7 only.	None: sanctions threat proves hollow.	None: weak standards and bilateralism.
Distribution of the tax base: digital economy (Cockfield 2005)	1998–2002	Small	Some: OECD with ad hoc involvement of some non-member states.	None: largely unimplemented.	None: adapts existing principles.
Tax evasion: common reporting standard (Hakelberg 2016a)	2009–2014	Radical	Some: rule-setting by G20, implementation by over 100 countries.	Substantial: credible threat of G20 sanctions.	Substantial: strong standards and a multilateral treaty.
Tax avoidance: Base Erosion and Profit Shifting (Hearson & Prichard, 2018; Lips 2018)	2013–2017	Moderate	Some: rule-setting by G20, implementation by over 100 countries.	Some: credible threat of G20 sanctions for some minimum standards.	Some: mixture of strong and weak standards and a multilateral treaty.
Distribution of the tax base: digital economy	2013–present	Potentially radical	Substantial: rule-setting and implementation by over 100 countries.	Potentially: may include minimum standards.	Potentially: may include fundamental reforms and a multilateral treaty.

for this negative conclusion: the absence of ‘fully global and inclusive’ multilateralism, the lack of institutionalised enforcement, and states’ unwillingness to pool their fiscal sovereignty (Dietsch & Rixen, 2016).

In our view, that evaluation – not unique by any means to this edited volume – is overly pessimistic. Indeed, in the short time since the book was published, all three of these obstacles to radical change have been further eroded. Table 2 lists major international tax regime reform efforts before and after the crisis, illustrating how post-crisis developments have demonstrated a trend towards rapid change in all three areas, towards more radical, inclusive and enforceable governance. Furthermore, by shifting focus from developments in international tax governance to those in the IPE in which it is grounded, we identify ongoing pressures for change, and greater signs of a breakdown in resistance to it. In the following pages, we discuss the contribution of each of the books under review in the context of these four macro trends. For each macro change, we first assess its expression in the transformation from pre-crisis stability to post-crisis change in global tax governance, second how the books under review and other recent literature take account of this transformation, and third how, in our view, the IPE tax literature should proceed.

### **1. The return of the state**

One consequence of the financial crisis has been a revival of state intervention in global markets: examples include macroeconomic demand management through fiscal stimulus packages, the revival of industrial policy, expanded state regulation in previously self-regulating areas and an acceptance of capital controls (Grabel, 2011; Wade, 2012). This has provided a context in which states that had previously acquiesced to tax competition are more willing to stand up to the structural power of capital. For this reason, literature needs to treat the disciplining pressure of tax competition much more as a variable, rather than an invariant exogenous constraint.

Post-crisis interventionism stands in sharp contrast to the pre-crisis era where, as Lynne Latulippe (2016) argues in *Global Tax Governance*, tax competition was left largely unencumbered because its ‘goodness’ and ‘normality’ had been internalised by governments and policy-makers. Her chapter echoes Jason Sharman’s (2006) account of how the OECD’s support for ‘legitimate’ tax competition was weaponised by the defenders of tax havens. The effect, according to Kimberly Clausing (2016), also in *Global Tax Governance*, was an ‘inefficient capital allocation and changing the pattern of capital returns and wages across countries’ and ‘revenue-loss in high-tax jurisdictions relative to low-tax jurisdictions, creating concerns about fiscal externalities and possible under-provision of public goods’ (p. 38).

The trend to more activist states has led to take unilateral action against tax competition, creating a more sovereignty-constraining regime. Undoubtedly the most dramatic change here has been the unilateral introduction by the United States of FATCA (the ‘Foreign Accounts Tax Compliance Act’), which obliges financial institutions operating in the American market to provide data on Americans’ foreign accounts or face heavy withholding taxes. Here the US explicitly used its hegemonic position in global finance to override the sovereignty-preserving premise of mutual non-intervention. FATCA created a *de facto* international

minimum standard for the exchange of tax information, which authors in the Dietsch & Rixen volume regard as ‘astonishing’ (Hakelberg, 2016b, p. 124) because it ‘appears set to profoundly change the capacity for enforcement of individual tax obligations with respect to offshore accounts’ (Grinberg, 2016).

Importantly, FATCA also ‘unlocked’ a path for similar *multilateral* systems at the European Union and OECD-levels, expanding the automatic exchange of tax information to cover almost 150 countries. This stands in sharp contrast to the OECD’s previous attempt in the early-2000s, which had ended with relatively weak standards requiring tax havens only to exchange information with a few other states *on request*. While Richard Woodward (2016) in *Global Tax Governance* points to continuing inadequacies in the post-crisis regime, he also notes how it tightens the standards. The success of the new regime in comparison to the HTC project is attributed by participants to the new credible threat of sanctions by G20 powers, which indicates a new norm of sovereignty-infringement (Eccleston, 2013, p. 167).

The shift towards a sovereignty-constraining international tax order calls for a re-examination of our models of state preference formation and cooperation. The relationship between sovereignty and competition varies between states (Basinger & Hallerberg, 2004; Plümper, Troeger, & Winner, 2009) but also within them, as a dynamic, even dialectical, balance. We find an excellent guide to this in Tasha Fairfield’s *Private wealth and public revenue in Latin America: business power and tax politics*. Contrary to ‘convergence’ analyses of globalization (Appel, 2011), she emphasises that the impact of tax competition on each country depends on national politics rather than purely global factors: ‘Operationalizing structural power as capital mobility for large-N analysis, which is common in literature on taxation and globalization, can therefore be problematic’ (p. 279). Fairfield shows how the pressures of tax competition were counteracted through progressive tax increases in Argentina in the 90s and 00s, enabled by a diverse national economy and poorly organised economic elites that lacked reliable allies in Parliament. In contrast, the tax competition imperative took firm hold in Chile, where economic elites were cohesive and well-connected, and thus able to resist tax increases; policy-makers became unwilling to promote economic policies that might ‘harm private investment and macroeconomic stability’ (p. 71, 99). Finally, in Bolivia tax policy became a ‘high-stakes balancing act’ for governments, having to trade off appeasing mass social unrest and business influence, resulting in tax increases on foreign capital but not national elites.

Fairfield’s sophisticated study of domestic preference formation informs our understanding of the relationship between domestic tax politics and globalisation. However, even though it discusses banking secrecy, a core area of OECD-led cooperation, it nonetheless demonstrates a broader structural problem in the literature: a disjuncture between studies that focus on tax policies as purely national outcomes, and those focused on the transnational dimension of tax policy (Hearson, 2018). For example, while arguing for the primacy of instrumental and structural corporate power at national level, Fairfield notes that their exercise is limited by ‘administrative constraints’ and ‘technical principles’ (p. 11). Yet tax administration and the framing of technical principles are both highly internationalised and internationally-influenced activities (Appel, 2011, pp. 32–35; Christians, 2010a). The

domestic variables that Fairfield emphasises, and the international variables discussed here, are mutually co-constituted.

The case of banking secrecy is also one in which, by opening up the black box of domestic politics, the classic dividing line between large ‘onshore’ jurisdictions seeking to protect themselves from revenue losses, and smaller ‘offshore’ tax havens, breaks down. While large states themselves have historically had interests in protecting certain parts of the offshore industry<sup>2</sup>, recent evidence is demonstrating that the conceptual distinction between onshore and offshore is now even more blurred (Cobham, Jansky, & Meinzer, 2015; Garcia-Bernardo, Fichtner, Heemskerk, & Takes, 2017; Seabrooke & Wigan, 2017). Capital may not always seek to resist efforts to ‘crack down’ on tax havens, but may see it as a sophisticated form of tax competition. Indeed, the post-crisis tax cooperation agenda has arguably been designed to reconfigure national legal and administrative practice in small countries, while ignoring or even giving a selective advantage to the offshore industries of larger economies (Hakelberg & Schaub, 2017; Sharman, 2016).

These features of the ‘return of the state’ require us to focus our attention on the changing national-international dynamics and its radical implications for global tax cooperation and attitudes to sovereignty. In *Global Tax Governance*, neither Eccleston and Smith (2016, p. 178) nor Grinberg (2016, pp. 166–169) believe that recent sovereignty-constraining developments in the area of information exchange to combat tax evasion have extended to the area of corporate tax avoidance, addressed by the OECD and G20 through the project entitled Base Erosion and Profit-Shifting (BEPS). They conclude that corporate tax avoidance presents a much greater challenge because of its open distributional implications and greater threat to legislative sovereignty. However, since the volume was written, BEPS has led to new international institutions with deeper and broader sovereignty-constraining effects than ever before. In June 2017, 68 jurisdictions signed up to a legally binding multilateral tax instrument (‘MLI’), the first of its kind: previously, multilateral tax cooperation had only soft law status, while hard law was the province of bilateral treaties. The MLI immediately overrides more than 1000 bilateral treaties to close loopholes and strengthen states’ ability to tax international economic activity. Importantly, the MLI binds signatories to certain minimum standards extending beyond administration to tax policy, representing a clear pooling of legislative sovereignty. The compliance with these standards is further subject to peer review in the new ‘Inclusive Framework’ at the OECD, a forum encompassing over 100 countries. Still, as a patchwork of national reservations to the MLI illustrates, the future of tax competition and coordination depends firmly on decisions taken by heterogeneous governments.

## **2. Global power shifts**

The shift in global economic governance after the financial crisis from G7 to G20 was indicative of a second macro trend in IPE: the rise of emerging powers from outside the OECD (Ban & Blyth, 2013; Wade, 2011; Woods, 2010). As the hegemony of OECD members, and the US in particular, appears at risk, the liberal international order over which they presided also looks fragile. In older volumes on tax IPE, non-OECD countries were largely discussed, if at all, in the fact that many were also tax havens, or that their interests were simply overlooked. More recently,

as Richard Eccleston (2013, p. 16) has argued, ‘the extent and nature of international cooperation [is] increasingly dependent on the foreign economic policy priorities of China and other emerging powers.’

The OECD has not rested on its laurels in the face of this power shift. It now works much more closely with the G20, rather than G7, which allows it to call on the material resources and normative authority of an organisation including large emerging markets (Christians, 2010b; Eccleston, 2013; Grinberg, 2017). It has been extraordinarily effective at bringing developing countries inside the tent, creating two new bodies in which developing countries outnumber OECD states.<sup>3</sup> This newfound inclusiveness has bought the OECD legitimacy, but potentially at the expense of its ability to achieve effective and timely reform (Clifton & Díaz-Fuentes, 2011). As a consequence, both member and non-member states have pre-empted the BEPS project’s most difficult discussions by adopting unilateral anti-avoidance measures targeting the digital economy. Analyses of tax and other policy domains suggests that emerging economies’ engagement with existing standard-setting bodies tends to be selective, balanced against allegiance to their own policy ideas (Ban & Blyth, 2013; Hearson & Prichard, 2018; Lesage, Lips, & Vermeiren, 2019). And tensions over the role and legitimacy of the OECD, seen as custodian of a system favouring rich developed countries, continue to bubble under the surface of international tax debates (Eccleston & Smith, 2016).

Sunita Jogarajan’s exhaustive study of the League of Nations negotiations allows us to take the long view on these power shifts, providing important context on the frictions it creates. ‘Developing countries issues’ were already considered at the earliest attempts at international tax cooperation (Jogarajan, 2018, p. 251). Just as the OECD today, the League of Nations in the 1920s gradually broadened its work out to incorporate more developing countries and thus diverse voices in deliberations. Yet then, as now, late-comers to international standard-setting can have particular troubles overcoming its originators’ first-mover advantage. Jogarajan emphasises the historical importance of the transnational policymaking community in restricting new-comer influence, operating as key builders and maintainers of the emerging international tax system. She describes how the early institutional scaffolding was based on a ‘spirit of compromise and conciliation’ (p. 27–28) amongst experts, who agreed to ‘set aside personal preferences and nationalistic considerations’ (p. 236). In consequence, the ‘compulsion to follow’ prior ideas that had developed ‘significantly reduced the influence of (...) new experts’ (p. 165).

Is history repeating itself? Jogarajan believes so, concluding that ‘[t]he time for radical reform (...) has passed and (...) we are locked into the existing paradigm’ (p. 254). This echoes Thomas Rixen’s (2011a) historical institutionalist emphasis on path dependence following the critical juncture of the League of Nations era. While it is true that the OECD’s tax standards appear to enjoy near-hegemonic status across the globe (Hearson, 2016; Wijnen & de Goede, 2013), the changes underway in global economic governance call into question the durability of this ‘lock in’ effect. In terms of state-centric power, the shift to G20 economic governance illustrates that the present era differs from the 1920s and 1930s, in that traditionally marginalised nations can now challenge a system where historically they could ‘neither profit from tax competition nor effectively compensate competition-induced revenue shortfalls in capital taxation from other sources’ (Genschel & Seelkopf, 2016, p. 71). Nonetheless, shifts in the location of authority towards

emerging economies are certainly not given, and traditional powers remain central, leaving global governance institutions caught in the middle (Lesage et al., 2019; Wade, 2011; Woods, 2010). In this sense, international taxation provides an important window onto the ‘lock in’ effect observable across the IPE, where the asymmetric distribution of power at one time may enable a configuration of governance institutions that erect barriers to future power shifts (Farrell & Newman, 2019).

Jogarajan’s analysis also demonstrates the need to investigate how state power interacts with individual personalities to shape historical international tax politics. For instance, while Britain’s considerable influence in the interwar period related to its position as ‘a great economy’ (p. 172), its authority depended significantly on its representative to the League of Nations. The substitution of the ‘strongman’ Percy Thompson with the more ‘willing-to-compromise’ Gerald Canny enabled the finalisation of a key consensus report in 1927. In the present day, we must also extend this analysis to consider the staff of the OECD’s secretariat. Pascal Saint-Amans, Director of its Centre for Tax Policy and Administration, has described his role as “almost like an entrepreneurial job. You come up with a project; you raise the funds; you get people to buy into your product; and you move forward” (Johnston, 2017). Indeed, the OECD bureaucracy played a key role in pushing the G20 to add tax to its agenda in the post-crisis agenda-setting scramble (Eccleston, 2013). The OECD secretariat acts as a source of ideational authority (Jacobsson, 2006; Marcussen, 2001), which is ‘reinforced by the diffuse sense that the OECD’s knowledge is an expression of the best states’ best practices’ (Mahon & McBride, 2009), may well be enhanced by its co-optation of the G20.

### **3. Austerity and populism**

The rapid and correlated rise of politics of austerity populism led to ground-breaking political events such as Brexit, the US election of President Donald Trump, and the surge of anti-immigration parties in Europe (Best et al., 2017; Paul, 2018). A populist backlash against established global governance and the associated ‘death of expertise’ (Nichols, 2017) is most potently captured in Brexit proponent Michael Gove’s comment that ‘people in this country have had enough of experts’ (Mance, 2016). In this tinderbox atmosphere, tax politics has caught alight. The domestic and international politics that shapes and constrains governments’ fiscal actions is now conducted in the context of frequent front-page news stories about tax avoidance and evasion, alongside broad interest group mobilisation. While the signs of this politicisation predate the financial crisis (Rixen, 2008, pp. 148–9, 196–7), post-crisis austerity politics has connected international taxation to broader surges of populism. As Saint-Amans has noted:

If we step back and look at what’s happened over the past five years, we have moved from tax being just a tax geek thing to tax being a political item on the G-20 and many governments’ agendas (Johnston, 2017).

The order-of-magnitude shift can be seen when comparing the controversy surrounding a whistleblower from UBS in Switzerland in 2008–9, especially ‘LuxLeaks’ in 2014, the ‘Panama Papers’ in 2016 and ‘Paradise Papers’ in 2017. The UBS case involved the confidential disclosure of information to revenue authorities, and the

discussion it provoked took place almost entirely in elite political settings in the US Congress and the European Commission (Eccleston, 2013, pp. 115–117). In contrast, more recent leaks have involved public disclosure of confidential documents, and, alongside mainstream coverage of the tax affairs of well-known global brands such as Apple, Google and Starbucks, have driven moral panics over tax evasion and avoidance, cost political leaders from Iceland to Pakistan their positions, and put pressure simultaneously on a broad range of states (Oei & Ring, 2017). Previously, the stability of the international tax regime could partly be attributed to the insulation of a transnational policy community united around a shared normative foundation (Büttner & Thiemann, 2017; Hearson, 2018). Now, in the context of populism and politicisation, a more diverse set of domestic interests is pressurising international tax policy-makers, and actors from civil society and academia have entered directly into dialogue with the transnational tax community (Seabrooke & Wigan, 2016).

Harrington's (2016) book is an interesting example of a new wave of scholarship directing attention to the ways in which professionals and experts utilise normative, cognitive and relational strategies to control global political change (e.g. Ban, Seabrooke, & Freitas, 2016; Krisch, 2017; Seabrooke & Henriksen, 2017). Training as a wealth manager, she immersed herself within the 'offshore industry', gaining privileged access to the underbelly of the international tax system. She analyses in micro-level detail the historical role of the professional community in enabling tax competition and its effects. Wealth managers 'grew up' with the rise of global capitalism, Harrington argues, employing specialised expertise to effectively constrain attempts at tightening international tax regulation, 'thwarting the aims of the state without breaking any laws' (p. 9). The effect, she notes, was to maintain key features of the international tax regime and exacerbate its deteriorating effects on sovereignty and inequality. The general belief within the professional community, however, is simply that their services help states. Deriding the professions' poor reputation and its misunderstanding in the general public, one wealth manager told Harrington, '[w]ithout our profession, there wouldn't be the large pools of capital available to fuel economic development' (p. 257). The responsibility for eroding sovereignty and rising inequality, identified by Harrington as centrally associated with the profession's work, are argued by wealth managers to rest rather with exactly the states and institutions now trying to crack down on wealth managers (p. 239).

Like Jogarajan, Harrington's assessment of the outlook for change is largely negative:

[W]ealth management will continue to thrive. (...) [T]he game of "playing cat and mouse with tax authorities around the world", as one participant in this study described his work, seems unlikely to wind down anytime soon (p. 298–99).

Her book is certainly a powerful reminder that the context in which the politics of austerity and populism have arisen are not self-perpetuating and inevitable, and that professional experts often fight back. A key contribution is to highlight that "questions of agency have remained almost totally unexamined. (...) [W]e still lack a coherent account of the key actors involved [in processes of inequality], as well as their methods and motives" (p. 206).

Nonetheless, Harrington may have underestimated the extent to which the post-crisis political economy context of tax expertise has allowed challenges to



professional agency to arise and gain momentum. Public and political pressure for a 'fair' tax system displays little concern for the normative or technical basis against which transnational policy-makers have historically judged international tax rules. Political responses, not least the pressure from OECD member states to initiate the BEPS project, may often be designed to placate an angry public with 'political responses to perceived problems', more than to engage with the substantive issues that have led to public concerns (Grinberg, 2017: 1158). Activists have enhanced this destabilising effect by developing 'counter-expertise', pooling various knowledge resources in strategic coalitions in transnational forums, and successfully combining private technical and public political strategies (Quack, 2016; Seabrooke & Wigan, 2016).

The century-long era of 'quiet politics' (Culpepper, 2010) in international tax may thus be over, and problematizing it opens up new fruitful avenues for enquiry. Studies to date have primarily focused on transnational strategies by critical actors from the Global North, yet we know much less about how expertise politics operates in interplay with domestic tax settings, or about how experts and expertise from emerging and developing countries play into these processes. There's also the question of how different settings constrain or enable different kinds of expertise to gain authority. As Fairfield reminds us, the relative technical proficiency of policymakers and lobbyists/activists is central to policy outcomes (p. 81 and 152). These tensions point to an ongoing epistemic struggle for authority between political and technical actors.

#### **4. The digital economy**

Disruptive innovations such as the 'sharing economy', artificial intelligence and 3D printing, bundled together under the rubric of the 'fourth industrial revolution' (Schwab, 2017), are reshaping global value chains, slowly creating new fault lines among winners and losers from a new type of globalisation (Baldwin, 2018; Rosenau & Singh, 2002), as well as new distributions of capabilities among states and non-state actors. These fault lines have shown up quicker in international tax politics than other areas because of the chasm between public expectations and the low tax rates paid by the world's largest digital companies. These upheavals are pushing the envelope of change in each of the areas we have discussed above: the political pressures they created have driven a wave of unilateral actions, sparked vociferous inter-state conflicts that run across the OECD/non-OECD axis, and look set to break down the expert-led consensus. This is a terrain that differs considerably from that which formed the basis of all four of the books discussed here.

One factor marking out the digital economy is its separation from the underlying physical economy. Tax competition is still analysed, for example in Dietsch and Rixen, through the dichotomy between 'real' competition for job-creating foreign direct investment and 'virtual' competition for tax-optimising portfolio capital. This distinction is blurred by business models in which companies' major assets – their intellectual property – are virtual. The consequence has been digital firms with hundreds of billions of dollars hoarded offshore, untaxed. As such, it looks increasingly likely that the digital challenge proves the Achilles heel of the century-old international tax rules. The OECD (2019) has acknowledged that it requires reforms that 'may reach into fundamental aspects of the current international tax

architecture' that have comfortably privileged OECD countries for decades, and is addressing the topic through its Inclusive Framework of over 100 countries, rather than its core membership.

Indeed, digitalisation is eroding traditional coalitions and battle lines. The BEPS project sought to align taxable profits with 'value creation', an idea already being destabilised by technological changes. The term has thus become a highly contested battleground, providing a technical façade for fundamentally distributional politics (Muniesa, 2017). On one level, the changing international politics reflects changing patterns of investment flows, for example as the US and China switch places from net capital importer to exporter and vice versa. More importantly, however, technological changes are rendering direct investment positions an increasingly irrelevant axis of conflict between countries, since digital firms can make large amounts of money in one market without any local capital investment. Market size is rapidly becoming important, with countries possessing large consumer and user markets – from China to France – seeking to chip away at core norms of the international tax regime predicated on physical presence and fixed investment (Hearson & Prichard, 2018; Rocha & Christians, 2017).

The growth of giant digital firms is also generating conflict between historical allies, the EU and the OECD, especially the US. The controversies surrounding US-based digital firms have prompted calls for action at the OECD and G-20 levels under the BEPS project, but importantly also unilateral action in the European Union and beyond (OECD, 2018b), with proposals for a new tax on the revenues of large digital companies alongside antitrust investigations of several large US MNCs' tax affairs through the EU's state aid rules. This has prompted significant clashes between European and American policy-makers, with the latter condemning the former for anti-US bias (Rappeport, Schreuer, Tankersley, & Singer, 2018).

As the OECD's position was already vulnerable, a stalemate between its two most powerful membership blocs, and the newfound activism of European Union institutions in international tax matters, could compromise its first-mover advantage and destabilise its leadership role. While the EU has historically taken a back-seat to the OECD in international tax policy (Radaelli, 1997), today it is the arena providing the most significant challenges to OECD-led governance (Christensen, 2019). In recent years, EU policy-makers have clashed directly with the OECD consensus on high-profile issues such as corporate tax transparency (Lesage & Kacar, 2013), and now taxing the digital economy. They are supported by an activist civil society community, critical European politicians, and massive media attention.

Set against all of this, big data is simultaneously *enabling* international tax cooperation. A 'transparency revolution' is underway, permitted by new information transmission and security systems that allow safe global exchange of data critical to national tax compliance. This is illustrated most centrally by the automatic cross-border information sharing mechanisms of FATCA and its multilateral OECD counterpart, but also the development of technological infrastructure to support the obtainment and diffusion of large-scale whistle-blower data (Cockfield, 2016). This transparency, in turn, allows countries oversight of cross-border capital flows they have not had since eliminating capital controls, reducing the pressures of 'virtual' capital flight. While political economy lies at the heart of the dramatic progress on exchange of information since the crisis, technological change has also significantly lowered the barriers to progress.

## Conclusion

Reflecting on the historical contingency of conclusions drawn by IPE scholars in previous decades, Johnson et al. (2013) posed a question to all those working in the discipline:

Does what we thought we had learned about the politics of diverse issues such as domestic and international inequality, development, trade and investment patterns, aid politics, and democratic and autocratic politics in the shadow of globalization still hold in a post-crisis world?

By situating international taxation in the context of broader trends affecting the IPE, we have identified a structural break between the politics of global tax governance before and after the crisis. This new political economy is characterized by a growing willingness to pool and infringe sovereignty; the emergence of an OECD-G20 complex characterized by major internal tensions; significant politicization fostering unprecedented challenges to historically entrenched governance insiders; and a fundamental shakeup of longstanding political battle lines due to the digitalization of economies.

In contrast, much literature on global tax governance continues to emphasize continuity over change, as illustrated by the prognosis emerging from Dietsch & Rixen's edited volume and our assessments of three further monographs. We do take seriously Jogarajan's historically-grounded warning that new entrants into the regime will struggle to undo decisions made by its first movers, as well as Harrington's confidence, borne out of her immersive methodology, that recent progress against tax havens may merely be another move in a cat-and-mouse game, and Fairfield's emphasis on the national politics that have always mediated capital's structural power. Yet the driving trends we have identified are not unique to taxation. Indeed, the international tax landscape should act as a case study to inform scholars interested in these broader shifts in the IPE. As Jason Sharman (2012) has argued, the international tax system can act as a 'canary in the coal mine' for macro trends.

Beyond acting as an example, however, the contribution of developments in international taxation to broader changes in the global political economy is worthwhile considering on its own. The politicization of tax avoidance and evasion is not merely a by-product of the politics of austerity, since the wealthy's ability to minimize their tax bills has contributed centrally to the depletion of government budgets and the growth of inequality that fed into austerity politics. One lesson from Fairfield's Latin American cases is that such narratives can be powerful weapons in election campaigns. While tax havens did not create the financial crisis, they were intimately involved in many of the complex structures at its roots. Expertise politics, meanwhile, by its very nature transcends the boundaries between IPE's empirical subfields. Indeed, the ability to draw on different pools of expertise may be a key resource of influence in global governance (Seabrooke, 2014). At the juncture of tax and trade, for instance, Eskelinen and Ylönen (2017) have shown how epistemic arbiters were able to use international trade expertise to resist sanctions in the area of taxation. Andrea Binder (2019) also illustrates the substitutability of domestic banking and offshore finance for elites' wealth protection.

As a final observation, we return to our Schumpeterian view. Because of the intimate relationship between statehood and the power to tax, tax tells us

something about state-citizen relations, and hence about the interactions between states and citizens in the IPE. Before the crisis, the emphasis on stability in literature on the IPE of tax provided a fascinating window into nation states' willing capitulation to the forces of globalisation. Post-crisis literature, we contend, should now tell us something new about the evolving relationship between the state and globalisation. And indeed it does. States have, as Lana Mosley (2000) suggested, significant 'room to move' when it comes to fiscal policy, and they have increasingly been willing to use it when political and financial pressures push them towards doing so. Faced with the challenges of austerity politics, a global power shift and technological disruption, states have actively breached previous sovereignty-based constraints on unilateral and multilateral action. As sovereignty declines in importance to the international tax regime, we find ourselves questioning the dominant narrative of increasing unilateralism since 2016. In the case of taxation, states are responding to challenges since the financial crisis by coming together differently, but also – for the time being at least – more effectively.

## Notes

1. By 'international tax', we mean the taxation by individual states of the income earned by transnational or internationally mobile factors of production: portfolio capital, direct investment capital, and labour.
2. The very phenomenon of offshore originated with actions taken by the Bank of England that led to the creation of the Eurodollar market (Palan, 2003, pp. 26–32), and the early creation of offshore financial centres in small island states was encouraged by former colonial powers (Sharman, 2006).
3. The Global Forum on Transparency and Exchange of Information has 154 members, while the Inclusive Framework on Base Erosion and Profit Shifting has 129 members, as of June 2019.

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