

“Our tax system should be...” – Tracing the evolution of norms guiding
tax policy

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Author:

Frederik Heitmüller

Graduate student in International Relations at Sciences Po Bordeaux and the University of Stuttgart

fheitmueller@gmx.de

Abstract

“Our tax system should be...fair, efficient, redistributive, enhancing welfare...”, but also “pro-growth, flat, competitive, favoring business...”. These are only a few examples of statements politicians have made about the principles of tax policy. Of course, a tax system can be all those things, but not all at once. Hence, those statements reveal something about the dominant norms guiding tax policy. Is justice the purpose of tax policy? Or competitiveness?

The incapacity of major powers to effectively ban tax evasion and tax avoidance (at least until recently) appears puzzling, as the labeled adversaries are mostly very small states without any economic weight. Focusing on norms can help to understand the issue: In 2004, Michael Webb pointed to transnational corporations as dominant voices in the discourse about tax policy and to prevailing norms among US policymakers that rather favored a “race to the bottom” in taxation than effective international regulation.

In the last years, something has changed: Civil society groups have called for tax justice and major events such as the financial crisis and the Panama papers have influenced public opinion. And indeed, some of the recent evolutions in international tax policy such as Automatic Information Exchange and the BEPS project look promising. However, the sustainability of these measures depends on a sustained will of major states to enforce them, which in turn is favored by a shift of the dominant norms guiding tax policy.

This paper attempts to find out whether such a norm-shift is about to occur. Using both qualitative and quantitative text-mining methods, general statements on tax policy by American politicians are identified in several thousand press articles and government sources covering the time span from 1997 to 2017 and their normative content is compared over time.

The analysis reveals that neoliberal norms are still dominant in the American tax policy discourse, where as they cannot claim exclusivity. Most significant is the rise of economic nationalism over the last twenty years.

Keywords: tax policy norms – race to the bottom – content analysis

Introduction

The main goal of this paper is to examine how policymakers in the USA justify tax policy, thus aiming to find out which are the dominant tax policy norms and how they evolved in the last decades. This question is relevant because norms fix the framework in which policy operates, which has a consequence on the likelihood for international cooperation that tackles the related problems of tax evasion, tax avoidance and real tax competition. Moreover, because of the US' important structural position in the international financial system, what is said and thought about tax policy in the USA has an incidence on the establishment of comprehensive international cooperation in matters of taxation. At the beginning of the millennium, Michael Webb described how neoliberal norms both among American and British leaders worked against the establishment of effective international cooperation in tax matters (Webb 2004).

In the last twenty years, the global economy has undergone a lot of transformations, new voices in the discourse about tax policy have emerged and there is a lot of debate on how to interpret these evolutions.

To describe the evolution of tax policy norms I conducted a semi-automatic content analysis on statements about tax policy extracted from US Congress publications and Associated Press news releases and classified the statements with the help of Robert Gilpin's typology of ideologies in the political economy. We will see that social-democratic norms, which are the only ones that are clearly favorable to cooperation in tax matters, are present in the discourse but have not gained on neoliberalism during the last twenty years. While neoliberalism becomes less dominant, economic nationalism, especially arguments about policy competitiveness, become more important in the discourse about tax policy in the USA.

At first I will explain the theoretical arguments for the importance of American tax policy norms for international cooperation in tax matters and introduce some concepts (1), then I will present an adapted version of Robert Gilpin's typology of ideologies in the political economy that is useful for classifying tax policy justifications (2). Further, I will present research that has been conducted on norms and taxation (3), explain my research methodology (4), describe the evolution of norms over the last twenty years (5) and finally offer some interpretations (6).

1. Theoretical context

In the international system, the related issues of tax evasion, tax avoidance and real tax competition (all concern a shift of the tax burden from mobile to immobile capital and individuals)¹ can be explained as an asymmetric prisoner's dilemma² (Dietsch, Rixen 2016, p. 7). Large states, such as the United States and the big states of the European Union, in theory prefer collective cooperation over defection (Dietsch, Rixen 2016, p. 7), principally because international tax competition limits large states' capacity to raise revenue and to choose their level of wealth and income redistribution, though the former effect is strongest for developing countries (Rixen 2016, p. 328). Small states always prefer defection over cooperation in theory since they can impose almost no taxes and can attract an international mobile tax base, which is extremely large compared to their size. But in the absence of cooperation between all states, large states also defect, for example by offering secrecy provisions for non-residents or lowering taxes on corporations.

Currently the large states pursue a dual strategy: Some promising initiatives to cooperate against tax evasion and tax avoidance have been undertaken mostly under the auspices of the OECD, such as the Automatic Exchange of Information and the Base-Erosion and Profit-Shifting projects. But these initiatives do not make a complete cooperative regime. They still have several shortcomings, do not include many developing countries who suffer most from tax competition and do not enjoy full support of the USA. They also lack a strong enforcement mechanism, so there is a risk for mock compliance (Woodward 2016).

And at the same time large states also persist in uncooperative behavior by offering secrecy provisions themselves or by participating in the "race-to-the-bottom" of taxation of the mobile tax base. For example, Tax Justice Network's Financial Secrecy Index ranks large countries such as the USA, Germany, Japan, and the UK among the top 15 secrecy jurisdictions. This high score is partly due to their important role in international financial flows, but also to the existence of prevailing secrecy provisions in domestic law (The Tax Justice Network 2017). Moreover, corporate tax rates in G20 countries have significantly fallen during the last 30 years

¹ The terms of tax evasion and tax avoidance refer to mobile capital reducing itself its tax burden, leaving the burden with immobile capital. Tax competition is the voluntary reduction of mobile capital's tax burden by governments. However, if you consider that governments permit tax evasion and avoidance or combat it only half-heartedly, these terms all appear as "three sides of the same coin", namely an uncooperative fight by governments for the world's mobile tax base and the investments that come along.

² A situation where the best outcome for the participants could be achieved through cooperation, but not knowing what the other would do, they prefer not to cooperate, because they know that if they behaved cooperatively and the counterpart did not reciprocate the behavior they would be worse off.

(from on average 40% in 1990 to 28,7% in 2015 (Berkhout 2016, p. 17)), while more of the tax burden is shifted towards consumption and labor taxes (OECD 2016).

Now there is no need to be generally pessimistic regarding the resolution of prisoner's dilemmas: In the domain of trade for example, the prisoner's dilemma of protectionism vs. openness³ has widely been overcome by strong institutions such as the General Agreement on Tariffs and Trade and its successor, the World Trade Organization, which bears great resemblance to an institutional proposal that has been made for the case of taxes (Rixen 2016).

Realist international relations theory explains the emergence of such cooperative regimes by the engagement of a leading nation, a *hegemon*, like the United Kingdom in the 19th century and the United States in the 20th century who are able to back institutions like the GATT and the WTO with the necessary power to prevent states from cheating (Gilpin 1987, p. 73). Although large states such as the UK or the US surely profit from free trade, they are not the ones who profit the most, since they already dispose of a large interior market⁴.

Why does the same not work for taxes? One could argue that one problem is the asymmetric nature of the prisoner's dilemma: the fact, that small states are supposed to always prefer defection over cooperation and would never be willing to sign a comprehensive convention. But large states can offer help to tax havens to develop alternative economic activities in exchange for cooperation ("side payments" in the jargon of game theory), or "persuade" tax havens to cooperation (one could also say "coerce") for example by denying uncooperative states access to their financial markets (Hakelberg 2016; Stiglitz, Pieth 2016). The crucial point rather is that the powerful states of the world, especially the USA as most powerful state, must seriously back a strong regime.

To better understand the whole picture, it is helpful to examine the prerequisites of the prisoner's dilemma concept and abandon the idea that all states pursue the same fixed interests. For an institutional solution to a prisoner's dilemma to come about, the relevant states must at first recognize that the situation is indeed a prisoner's dilemma. This leads to the consideration of norms and ideas. Norms are important because they fix the framework in which policy operates. Robert Gilpin for example admits, that a liberal international economy – an economy where states behave cooperatively to permit the free exchange of goods and capital – is only possible if the leader among the states, the hegemon, is also committed to liberal values (Gilpin 1987, p. 72). With other words, the USA supported free trade because free trade was conforming to

³ In the absence of cooperation, a state usually prefers to impose tariffs to protect its economy.

⁴ Smaller countries reap more gains from trade: They can more easily specialize in the production of one good, as the production will be absorbed by the market of the large country. For example, trade divided by GDP was only 0.28 for the United States, but 1.03 for Denmark in 2015 (World Bank 2017).

their conception of a good economic system, a system which leaves important decisions to the market and where the most important actor is the firm. But in the domain of taxation the norms might be different.

To gain more empirical insights on this theoretical argument, this paper attempts to find out what the tax policy norms in the USA are and how they have evolved.

But what are tax policy “norms”? According to Finnemore and Sikkink, “there is general agreement on the definition of a norm as a standard of appropriate behavior for actors with a given identity” (Finnemore, Sikkink 1998, p. 891). The two important words in this definition are “appropriate” and “standard”. “Appropriate” means that a norm contains a moral judgment. To recognize a norm from other kind of rules, one has to look if the rule has “the prescriptive (or evaluative) quality of ‘oughtness’” (Finnemore, Sikkink 1998, p. 891). Thus, a norm has its roots in a conception about what is good. “Standard” means that a norm is shared by a sufficiently large group. Consequently, “norm-breaking generates disapproval [...] and norm conforming behavior either [...] produces praise, or, in the case of a highly internalized norm, because it is so taken for granted, [...] provokes no reaction whatsoever” (Finnemore, Sikkink 1998, p. 892). But how can we apply this concept to tax policy?

The debate about one tax policy might be often very instrumentally oriented and there might be hundreds of different reasons why an individual might consider it right or wrong. But if we consider the *purposes* and the *principles* of tax policy or the tax system in general, the word norm makes more sense. So, a tax policy norm is the “appropriate behavior” for tax policy.

In a democracy, there are reasons to believe that there is not really a consensus either what the purpose of tax policy should be, but that is because not all the people share the same political identity. They have different visions of the world, which leads us to another related term: Ideology. Quite similar to a norm, an ideology is a set of normative beliefs. Usually, different ideologies struggle to shape the political system according to their conceptions of what is “good”. One can suppose that the general direction of policy and the conception of the national interest depend on which ideology is dominant at a certain point of time.

2. Three different ideologies and their application

According to Robert Gilpin there are three ideologies in political economy which struggle to impose their vision of the economic world: A liberal, a nationalist, and a Marxist perspective.

Also called mercantilism or protectionism, the ideology of economic nationalism considers that the economy should serve the interests of the state. Industrial development plays an important role. Purposes of economic policy are to promote national firms on the international stage and provide a strong welfare state domestically. Moreover, economic nationalism entails a zero-sum worldview, which means that states compete for relative gains with each other. Gilpin calls “policy competitiveness” a “distinctive feature of contemporary mercantilism” (Gilpin 1987, p. 34).

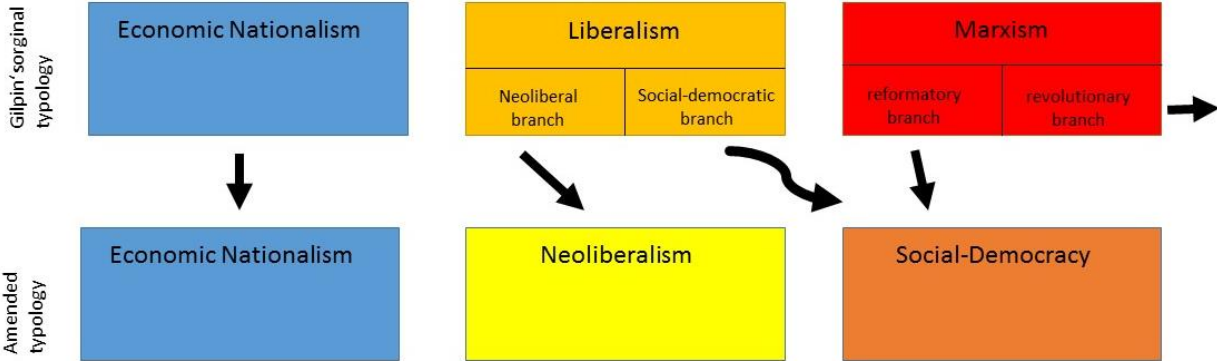
Underlying liberalism is the conviction that markets should be as free as possible and that the state’s role in the economy should be as limited as possible (Gilpin 1987, p. 27). Further, liberal political theory stresses the values of individual equality and liberty. At a difference with economic nationalism, notions such as national interest do not play such an important role. The overall goals of liberal economic policy are efficiency, economic growth, and individual welfare, achieved through the allocation of resources in a market (Gilpin 1987, p. 27).

The problem with liberal ideology is, especially when we consider taxation, that the policies which can be derived from these values can be fundamentally different and even opposed to each other. In fact, since liberalism is in the United States considered as a core principle of society, the differences inside liberalism are important. These differences arise, as some of liberalism’s goals can potentially be conflicting: Some liberals think for example that the ideal free market can only be achieved with strong state intervention that corrects market inefficiencies. People also disagree on whether equal treatment is sufficient for individual equality or whether a redistributive system should contribute to the achievement of equality. These oppositions lead to two main branches: Gilpin calls one “social-democratic”, in which state-intervention is generally welcome to correct the deficiencies of the market (Gilpin 1987, p. 27). The other variant, which rejects too much intervention, could be called “neoliberal” or “libertarian” variant. When discussing the OECD Harmful Tax Competition debate, Michael Webb uses the terms “social democracy” and “liberal economic ideology” to essentially describe the same ideas (Webb 2004, p. 800).

Thirdly, Marxist ideology’s central point is the critique of capitalism. According to Marxists the capitalist system is bound to break down sooner or later (or in the Leninist version leads to imperialism and in the end to a destructive conflict among the nations of the world). Here Gilpin also sees two different branches, a “revolutionary” kind that rejects the established system and a “social-democratic” kind which rather wants to make sufficient reforms (Gilpin 1987, p. 34). He points out that Marxism has developed in a system-compatible form which is very much like the social-democrat version of liberalism. Real rejection of capitalism is quite absent from

the political system of the United States, so we can propose a slightly different typology with the following three ideologies: Nationalism, neoliberalism and social-democracy.

Figure 1: Adapted version of Robert Gilpin’s typology of ideologies in the political economy



Why tax cooperation is essentially a social-democratic concern

Now if we apply these ideologies to the subjects of tax cooperation and free trade we can see the difference. The arguments for free trade mostly rely on the overall welfare of the world and aim at reducing government intervention in favor of the market.

In tax matters, we have seen that big states should aspire to international cooperation principally so that they can independently choose their level of government revenue and their level of redistribution.

In the neoliberal ideology, these are goals of second order since there is a preference for a small government and low level of redistribution. Equality means equal legal treatment and not literal economic equality. Some might even consider tax competition as desirable for its disciplining effect on “inefficient” government spending (Tiebout 1956).

The nationalist perspective is principally in favor of a strong welfare state and a strong interventionist economic policies. But it also considers the world economy as a zero-sum game. Thus, international tax cooperation would not be a first choice, especially if it favors *relatively* more other countries who have more difficulties to raise revenue than the USA (developing countries) or who because of their history already have a big welfare state (Continental European countries).

The social-democratic perspective is both in favor of redistribution and a welfare state and does not consider the government as an enemy. Also, international cooperation is welcome, no matter if we regard the roots of social-democracy as Liberal or Marxist. Liberalism is only con-

cerned with absolute and not with relative gains, and Marxism has an internationalist and altruist perspective. Thus, the case for international tax cooperation essentially stems from social-democrat ideology.

	<i>Revenue raising/redistribution are important goals</i>	<i>Positive-sum vision of the world</i>
<i>Economic Nationalism</i>	+	-
<i>Neoliberalism</i>	-	+
<i>Social-Democracy</i>	+	+

3. Historical evolution of tax policy norms

Several studies examined the role of norms in US tax policy: Probably one of the first books on the subject was written by Louis Eisenstein in 1961. Eisenstein shows that there are three types of arguments that are made about taxation: The first kind invokes the principle of “ability to pay”, the second the principle of “barriers and deterrents” and the third one the principle of “equity” (Eisenstein 1961, p. 12). The principle of “ability to pay” refers to a progressive tax system, a system which relies on redistribution. The idea of “barriers and deterrents” on the other hand refers to the idea that taxes should not take away the incentives from businessmen and investors for investing and doing business. His purpose however was to demonstrate that these justifications are vague and represent nothing else than interests of certain groups. He finally shows that “equity” is a principle that is invoked by everyone, but basically meaningless. In a broader perspective, Steinmo subsumes the history of norms that guided US tax policy throughout the 20th century. He shows that the conceptions of what a good tax system is and what tax policy should do were far from static. At the end 19th century, the tax system could not really be called “system” and was highly regressive as taxes applied mostly to quite arbitrarily chosen consumer goods. (Steinmo 2003, p. 209)

At the beginning of the 20th century progressivity was introduced into the system, due to better organization of labor and the high costs of the war which necessitated a larger contribution of those who could afford. At that time, the idea was born that taxes should be levied accordingly to the ability to pay of the people (Steinmo 2003, p. 210), so that after the Second World War the economy was managed through numerous tax incentives and very high marginal rates (91% for top incomes). Tax policy was deemed an appropriate tool to achieve specific microeconomic goals (Steinmo 2003, p. 214). This period might have been the ideal moment to develop a tax cooperation regime, but there was no need for such a regime at that moment. Tax competition

became an issue only after capital controls were widely abolished and the world economy became more integrated.

The proliferation of incentives and thus the complication of the tax code in the 1960s to the 1980s, however, had the side-effect, that resourceful people and corporations could easier avoid taxation, by employing tax professionals to take advantage of exceptions. As a consequence, it is the complexity of the tax code that made it (unintendedly) regressive. (Steinmo 2003, p. 216). Thus, after Reagan's reforms of 1981 at first further complicated the tax code, there was a widespread agreement to eliminate exceptions in 1986 and reduce rates (Steinmo 2003, pp. 219–220). Corporate tax rates, for example, were cut from 46% to 34%, and all in all the tax code became less progressive. Another study shows, that at that moment lots of other countries responded to these reforms, which contributed to the rise of the neoliberalism as principal ideology in tax policy. This shows that choices made in the USA have the particular power to influence other countries' choices by making the first move (Swank 2015).

It is also at that moment, that tax competition is used for the first time as an argument: It is argued that the 1986 reforms were a reaction to the greater mobility of capital, and thus inevitable. But to quote Steinmo: “To be sure, the bogey-man of ‘globalisation’ and the threat of capital exit in the late 1980s and 1990s provided a powerful justification for tax policies which tax economists and tax policy advisers had long wanted to make—but when one looks more closely at the timing of the reforms and the arguments laid out on their behalf, it is difficult to argue that it was international competition that ‘made us do it’” (Steinmo 2003, p. 230).

Finally, Michael Webb found in a study of the OECD Harmful Tax Practices Initiative⁵ started in 1998 that a contradiction in norms can be used by materially weaker participants in a negotiation to achieve a favorable outcome. In that way, the debate around the OECD Harmful Tax Practices initiative could be “won” by tax havens, as norms which were in the end favorable to tax competition were prevailing among policymakers of the OECD and of its major member states such as most of all the USA. Next to the principle of sovereignty in taxation, Webb explained that a *neoliberal* mindset among the policymakers prevented action against tax competition. According to Webb, the “American and British governments believed that tax havens played a valuable role in the liberalization of international capital flows”, whereas rather social-democratic oriented countries with high taxes were hoping for more international cooperation (Webb 2004, p. 797).

⁵ The OECD Harmful Tax Practices Initiative was the first multilateral tentative to combat tax competition.

This literature tells us three important things: First, tax policy in the USA has been subject to change during the last century and oscillated between rather social-democratic and rather neoliberal norm. Second, the shape of tax policy cannot solely be explained by mechanic forces. There is rather, as Steinmo argues, a "dynamic and interactive process" between ideas, interests and institutions (Steinmo 2003, p. 207). Third, the USA has influenced a great number of other countries in its tax policy choices since the reform of 1986. The result was a preeminence of neoliberal norms which contributed to the fact that tax competition was not effectively ruled out in the Harmful Tax Competition initiative at the end of the century.

In the recent decades, more knowledge about the harms of tax competition, tax evasion and tax avoidance has been collected, and there are more and more academics and NGOs like The Tax Justice Network or Oxfam calling for tax justice (Eccleston 2013, p. 119). Also, more attention has been raised towards economic inequality, especially in the USA with the Occupy Wall Street movement, which spread critique of the economic system in the wake of the financial crisis. Even prominent voices like investor Warren Buffett, which were rather expected to be on the "neoliberal side" joined the ranks (Buffett 2011).

But on the other hand, there is also a regain of other voices which for example call for more nationalism ("Make America great again") which might compromise efforts towards more international cooperation.

4. Methodology

To find out which are the dominant norms in US tax policy today and how they have evolved over the last decades I decided to analyze what policymakers in the USA say about tax policy: I wanted to know how they justify policies, what they say should be the purpose of tax policy and what the tax system in general should look like. I collected the necessary data principally from two sources: Publications of the Congress of the United States and articles from the United States' biggest news agency, Associated Press. Not all statements about tax policy in AP necessarily come from policymakers (they could also come from academics, lobby groups, commentators, etc.), but a rough check confirmed that a great majority of statements about tax policy are quotes from politicians.

The data was taken from the news database *Factiva*, where a search query was conducted, containing keywords and key-phrases that indicate a normative statement on tax policy. These phrases were all possible combinations of words like "tax policy", "fiscal reform", "tax code"⁶,

⁶ I did not use the word "tax" alone, because the quantity of text material would have been too large to process and because I wanted to focus on rather general statements and not analyze the purposes of very precise measures.

with words that often occur in statements with normative content, such as “should”, “must”, “need to”, “good”, “bad”, etc. The whole list of search terms can be consulted in *Annex 1*.

To adequately detect changes over time, all articles from January 1st 1997 to March 31st 2017 were considered. It needs to be noted, however, that Congress documents were only available from January 1st 2007.

From the search query 5153 documents with a total of 9800 sentences containing the keywords were obtained. After deleting the doubles, 7446 sentences containing one of the key phrases were left, which then constituted the material for content analysis.

Out of these, I manually read 2000 randomly selected sentences and tried to classify each normative judgment into a category. Whenever an argument occurred new to me, I created a new category, otherwise I assigned an already existing category. At the end of the process, I had developed thirteen different categories. It is important to note that out of the 7446 statements 40% were sampling errors. They could not be attributed to any category because the statement did not have any normative content, for example a sentence like “There is a strong need for tax reform”.

Of course, another reader probably would not come up with the same system of classification, but that lies in the nature of hermeneutic research.

Along the process, I searched for recurring keywords or word combinations which indicated a category, for example the word “attract” for the category “Competition” or the word “middle-class” for the category “Support of ordinary people”. I continuously improved the list, as I read more and more statements. This permits on the one hand greater transparency of my interpretation (the list of key-words can be found in *Annex 2*), and on the other hand the automatic categorization (or coding, in the jargon of content analysis) of the sentences I could not read myself.

As on average, 77% of the categories were assigned correctly like in the sentences I read manually, I am confident that most of the non-read sentences are also categorized correctly. At least it is possible to assume that errors should not be too unequally distributed over time. Consult *Annex 2* for an overview of the automatic-coding errors for each category and a description of the error calculation method.

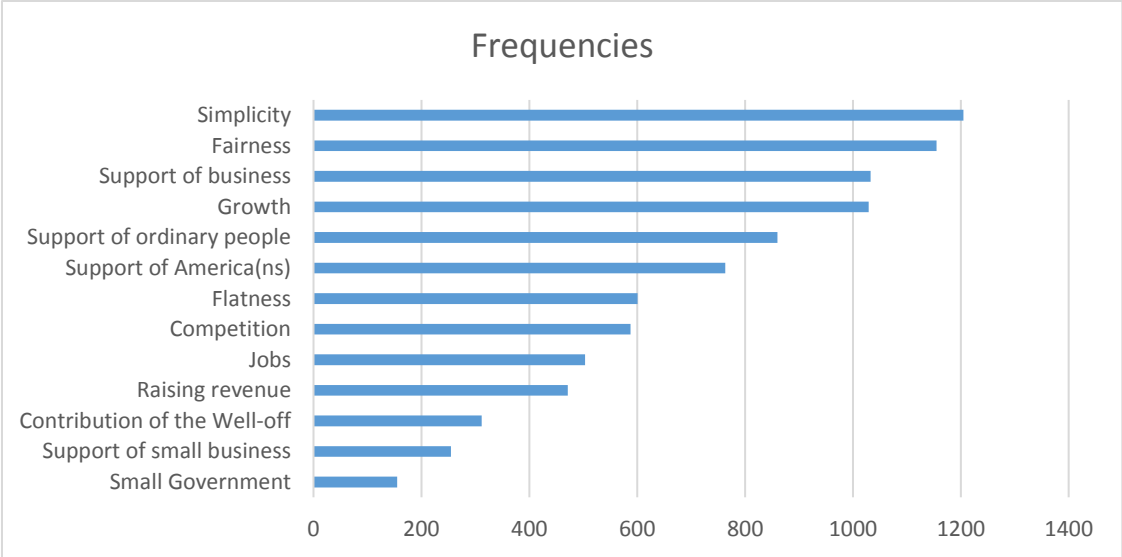
5. Results: What are the important principles of tax policy?

Thirteen themes were recurring throughout the corpus of statements, meaning thirteen different principles and justifications for tax policy.

Three are social groups whose well-being should be the goal of tax policy: “Ordinary” people (middle-class, working people etc.), business, and small business. Two are concrete shapes of the tax code: flatness and small government. The former category includes proposals for lowering of marginal tax rates and broadening the base, essentially through less special exceptions in the tax code. The latter category subsumes all kinds of proposals, which aim for taxes to be as low as possible so that the government’s influence in the economy is as low as possible. Four categories are goals which should be achieved through tax policy: growth, job creation, competitiveness and raising revenue for government.

Three categories are principles to which tax policy should obey: Fairness, simplicity and contribution of the well-off. Finally, one category was assigned to special mentioning of the United States and the Americans as the aim of tax policy, because the intention of the speaker could be different if he just talks about support for business or if he wants to highlight that it is *American* businesses *here at home* who should get support. 40% of the statements were not assigned to any category, 26% of the statements were attributed to one category, and 34% contained more than one category, a few of them even almost all of them. A list with a short description, an example and the evolution over the 20 last years of each category is provided in *Annex 3*. Figure 2 shows the absolute frequencies.

Figure 2: Frequencies of categories⁷



Indeed, only a few of these principles and justifications for tax policy are directly concerned with redistribution or raising revenue, the biggest problems that arise through tax competition

⁷ To obtain a figure as accurate as possible, the frequencies of automatically assigned categories were adjusted by the margin of error for each category, obtained via the comparison of manually coded statements with the automatic coding system.

and they do not figure among the ones that are mentioned the most often. Moreover, the category “Contribution of the well-off” rather lost than gained shares of the discourse.

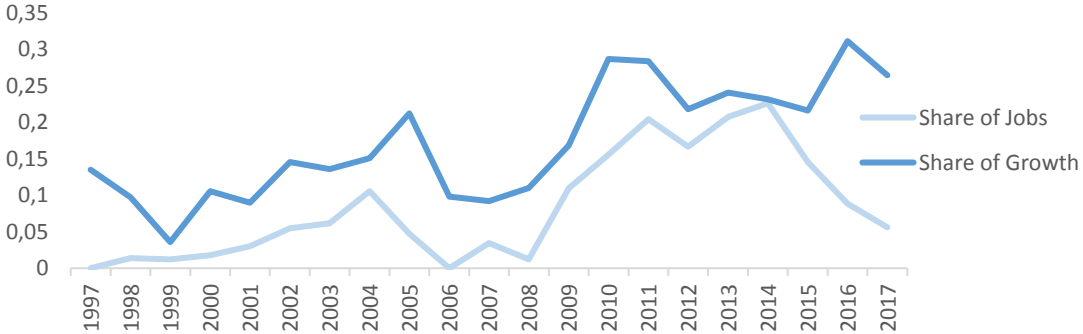
More than 1200 statements, that is every fifth of the statements containing a normative statement, invoke the principle of simplicity. Indeed, there seems to be a broad consensus that the tax code is too long and incomprehensible. It is difficult to associate the demand for simplicity with one or another ideology. Of course, a very simple tax code is probably rather a tax code without much progressivity. However, a simpler could also be a more progressive tax code because the complexity and the associated costs of tax compliance make it regressive: The Taxpayer Advocate Service which fulfills the function of an ombudsman at the U.S. Internal Revenue Service showed that the federal tax code grows steadily: They counted 3.7 million words in 2007 in the Internal Revenue Code (which only contains federal taxes), around 5 times more than in 1975. They further calculated that it takes taxpayers more than 7.6 billion hours yearly to comply which would make tax compliance, if it was an industry, the largest of the U.S. (Taxpayer Advocate Service 2008).

Fairness is the second most invoked principle. Of course, this includes statements like “Tax policy should be fair to business” or “...to the middle-class”, or “...to agriculture”, etc. and thus does not say a lot yet about the normative conception behind, even more if we recall what Louis Eisenstein already said about the use of the word “equity” back in 1961. Nevertheless, it is noteworthy that fairness is still often referred to. But it is also important to notice that it is referred to less and less as can be seen in *Annex 3*.

In terms of the evolution over the period, the categories “Growth”, “Support of America(ns)”, “Competition” and “Jobs” are becoming more important whereas “Fairness”, “Raising revenue” and (in recent years) “Contribution of the well-off” lose shares in the discourse.

The case of “Growth” and “Jobs” is particularly interesting because the evolution seems to be in connection to the financial crisis: the shares of those norms have risen significantly since 2008.

Figure 3: Shares of “Jobs” and “Growth”



This has probably something to do with one of the crisis paradoxes. Even if the crisis was interpreted as a failure of the economic system and many voices called for profound change, the absence of growth and unemployment made these objectives relatively more important as policy goals.

Is neoliberalism still dominant?

In 2004, Michael Webb said that neoliberal policy norms contributed to the prevention of effective tax cooperation. What is the state in the USA today? To answer this question, it is necessary to further reduce the information and to “reategorize” the different categories in broader categories that represent the three ideologies introduced earlier.

The categories that can be associated to economic nationalism are thus “Competitiveness”⁸ and “Support of Americans”. As neoliberalism highlights the role of the market and of private enterprise, we can assign the categories “Small government”, “Support of business” and “Flatness”. Social-democracy is rather preoccupied with correcting the deficiencies of the market and stronger state intervention we can thus attribute the categories “Support of ordinary people”, “Support of small business”, “Contribution of the well-off” and “Raising revenue”.

One difficult question is to appoint “growth” and “jobs” to one of these ideologies. Eisenstein wrote in 1961 that growth is a principle everyone can agree on and thus without ideology. However, critical authors like Davies associates growth with neoliberal ideology. According to Davies, neoliberalism tries to present itself as neutral, although the underlying goal is economic growth (Davies 2014). If we follow Gilpin’s classification of economic ideologies, growth or associated terms such as prosperity and economic development are the primary goal in every ideology, except maybe Marxism. Nevertheless, growth and economic development is most commonly measured by the output of the economy which in turn is indifferent to social equality or national interest and is thus principally a neoliberal goal. Thus, I decided to count “growth”-statements as neoliberal statements.

Associating the goal “jobs” to one ideology is even more difficult, since everybody wants to prevent unemployment. Sometimes a statement including the category “jobs” might have a more nationalist tone like in “The fiscal code should secure American jobs” or sometimes a more neoliberal tone like in “Taxes should be low to favor job creation”. In both cases, however,

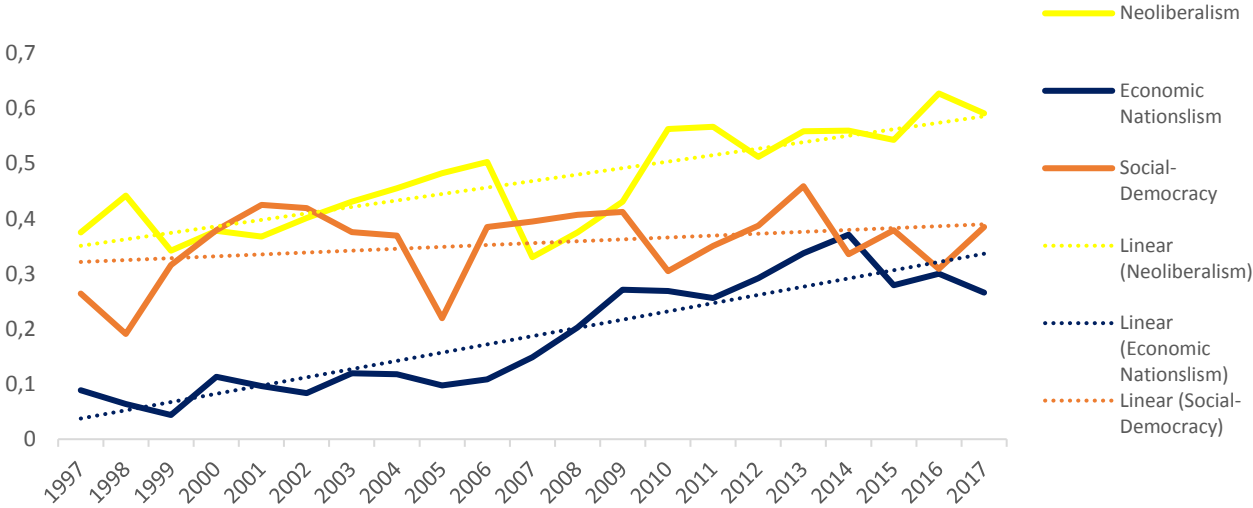
⁸ Of course, competition is a principle which is at the heart of neoliberalism. A “competitive” tax system or a tax system that favors the “competitiveness of American firms” belong to the perspective of economic nationalism, because it presupposes a zero-sum vision of the economic world, where gains of one country are at the expense of another.

the statement would include another category (“Support of Americans” in the former example and “Small government” in the latter), so that they would already be correctly associated. Thus, I decided not to attribute “jobs” to one of the categories, as well as “Fairness” and “Simplicity” for reasons pointed out above. The table below resumes which category was attributed to each ideological family:

Economic Nationalism	Neoliberalism	Social-Democracy	Not attributed
Competition	Support of business	Support of ordinary people	Simplicity
Support of America(ns)	Flatness	Support of small business	Fairness
	Small government	Contribution of the well-off	Jobs
	Growth	Raising revenue	

One can see in figure 4 that while the share of social-democratic norms remains stable in the discourse, neoliberalism becomes stronger. However, the rise is principally caused by the “growth” component which a reader might not consider as a neoliberal goal. Otherwise, the shares of neoliberalism would also remain stable. The most significant result is that economic nationalism gets more important in the tax policy discourse.

Figure 4: Shares of the three ideologies in the tax policy discourse⁹



⁹ The values are obtained by counting how many statements contain a category associated to one of the ideologies in a given year and then dividing the number by the total number of statements containing any category in that year. The values are weighted by the values of “correctness” and “completeness” calculated for each category. See Annex 2.

6. Interpretation – What is the outlook for international tax cooperation?

How can these observations be interpreted? In the USA, there seems to be a consensus that the tax system should be simple or at least simpler as the status quo. Further, whereas neoliberal norms are dominant, they cannot pretend exclusivity. A significant part of the discourse includes the middle class and working people. Policy makers often highlight that the tax system should do something for them. At the same time, explicit demands for progressive taxation and the contribution of the well-off are becoming comparatively relatively less frequent. Instead, nationalist appeals, especially the wish to restore competitiveness of American firms through the tax system, are uttered more often.

The consequence is that the normative environment for comprehensive cooperation in tax matters has not significantly improved during the last decades. If anything, the surge of nationalism rather favors unilateral measures against tax evasion such as FATCA, which might have a limited utility for the United States but probably no broad impact on the phenomenon globally. On the other hand, the will to engage in real tax competition through lowering of marginal corporate tax rates has probably become stronger.

There are reasons to presume that the same actors with the same interests have only changed their discourse. The financial crisis has led to widespread criticism of neoliberalism and globalization, but has not led to more calls for redistributive tax policy or more state intervention in the economy. “We need a tax system built for growth” is a call which is uttered more frequently, whereas the principle of fairness is becoming less important. There just seems to be a greater necessity to justify policy additionally with references to *national* welfare. Whereas this might lead to lesser acceptance of clearly illegal practices such as tax evasion by wealthy individuals, the effect on corporate tax avoidance and real tax competition is more ambiguous: Many countries lose more revenue compared to GDP from tax avoidance than the US. However, almost all the developed countries and potential “competitors” of the US are less affected (Cobham, Janský 2017, p. 26). Nevertheless, the majority of multinationals that make use of tax avoidance practices are US based¹⁰, so a defender of economic nationalist could potentially argue that it is mostly American firms that profit from multinationals. So the effect of a more nationalist

¹⁰ Cobham, Janský 2015 estimated worldwide tax revenue losses due to tax avoidance practices of US multinationals at between 133 and 200 billion \$ annually. Cobham, Janský 2017 estimated the total worldwide tax revenue losses due to practices by firms of any nationality at around 500 billion \$. The numbers are not directly comparable, because the methods and data used in both studies are different. Nevertheless, they provide some evidence to the assumption that US multinationals probably have the greatest share in global tax avoidance.

perspective on tax policy is ambiguous concerning the fight against tax avoidance of multinational corporations.

As country-against-country competition is the essence of nationalist economic policy, real tax competition certainly gets fiercer when nationalist norms get more important in tax policy.

Nevertheless, it is possible to make one more optimistic argument. If tax policy is indeed relatively more oriented by nationalist norms, one important argument in favor of tax cooperation actually gains validity in the USA: The erosion of de facto sovereignty. The argument goes that in presence of tax competition governments cannot freely decide about their tax level anymore because they have to take into account the choices of other governments (Rixen 2016, p. 329). Whether a government accepts this argument could depend on whether it actually takes into account the action of foreign states.

In the US, arguments about what the rest of the world does have until recently not dominated the debate¹¹. If the USA engaged in tax competition, they probably did not do it as a reaction to what other states were doing, but rather because policymakers believed that low taxes were good for growth, job creation or for disciplining the government. Thus, policymakers did not perceive themselves in a race-to-the-bottom and did not actually feel constrained in their choices. But the data shows that the share of competitiveness arguments is increasing. This might eventually lead to a greater consciousness among policymakers that de facto sovereignty is indeed eroding and that sovereignty-pooling in form of greater tax policy coordination could be necessary to restore it.

Conclusion

The aim of this paper was to trace the evolution of tax policy norms in the United States during the last 20 years and to evaluate if there is a favorable normative environment for a strong international cooperative regime in tax policy. It was argued that tax policy norms in the USA are particularly important for international cooperation, because the situation between different countries is an asymmetric prisoner's dilemma. To solve the dilemma, strong institutions which entail sovereignty-pooling and the will of powerful states to enforce the rules are necessary. One prerequisite is that the powerful states, and most importantly the USA, have this will – or that the norms that guide tax policy permit such a solution. It was argued that among three principal ideologies of the political economy (economic nationalism, neoliberalism and social-

¹¹ In other domains, such as trade policy, competitiveness has already been an important concept in US policy debates since the 1980s (see for example Krugman 1999).

democracy), only social-democracy clearly favors international cooperation to solve problems of tax competition.

The paper showed that there is no “neoliberal consensus” among policymakers, like it is sometimes supposed. However, the events of the last years did not strengthen social-democracy. Neoliberalist norms rather became stronger and economic nationalism (the “competitiveness” discourse), which was rather irrelevant at the beginning of the century, now is an important element of the debate on tax policy. Thus, the outlook for US-backed international cooperation is not favorable, even if a discourse which is more focused on competitiveness might eventually contribute to the perception that there actually is a prisoner’s dilemma among US policymakers. One final word needs to be said about the applied method’s limitations: Only a fraction of the tax policy discourse was analyzed, and isolated sentences were taken as indicators for the whole discourse policymakers are saying. Furthermore, every statement was counted like any other, without taking into account who is talking. Yet it surely is important which actor in the political sphere holds which conception of tax policy. If international cooperation in tax matters is engaged or not might more depend on the ideas of the President, the Secretary of the Treasury or the majority in Congress (see Hakelberg 2016 for a discussion of this kind of variables). Nevertheless, the norms among policymakers have a consequence on the conceptions of key actors and vice versa. Thus, they can reveal something about the long-run tendency: Are the ideas of the American political elite moving in a direction that is favorable to international tax cooperation? Rather not.

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Annex

Annex 1: Search terms

	fiscal code		has to		1 word
	fiscal policies		should		1 word
	fiscal policy		ought		1 word
	fiscal reform		must		1 word
	fiscal reforms		have to		1 word
	fiscal system		need*		1 word
all combinations	fiscal systems	with	purpose*	at a distance	4 words
of	tax code		principle*	of	4 words
	tax policies		goal*		4 words
	tax policy		aim*		4 words
	tax reform		favor*		4 words
	tax reforms		good		4 words
	tax system		bad		4 words
	tax systems		promot*		4 words
	taxation		make*		4 words
			ensure*		4 words

Annex 2: Keywords for categories

Category	Keywords	Correctness	Completeness
Simplicity	"simple"; "clean"; "easier"; "certainty"; "complicated"; "complex"; "streamlin"; "predictab"; "simplicity"; "simplif"	89%	94%
Fairness	"fair"; "equal"; "equitabl"; "inequit"	93%	98%
Support of business	"investor"; "private-sector"; "entrepreneur"; "employer"; "corporation"; "industry"; "industries"; "regulation"; "manufactur"; "job creator"; "investor"; "enterprise"; "innovator"; "private sector"; "business" AND NOT ("business cycle"; "tax avoidance"; "small business"); "compan" AND NOT ("tax avoidance"; "small compan")	62%	84%
Growth	"grow"; "economic development"; "GDP"; "stimulate * economy"; "boost * economy"; "economic recovery"; "improve * economy"; "expand * economy"; "economic expansion"; "boost economy"; "economic prosperity"; "expand* econom"; "productiv"; "strong* economy"; "economic opportunity"; "efficien"	73%	82%
Support of ordinary people	"family"; "families"; "middle class"; "poverty"; "workers"; "least able to pay"; "child"; "wage"; "middle-class"; "lower income"; "low income"; "lower-income"; "elderly"; "impoverished"; "the poor"; "poorest"; "middle-income"; "middle income"; "working" AND NOT ("working group")	76%	79%
Support of America(ns)	"America"; "United States"; "at home"	80%	97%
Flatness	"flat"; "special interest"; "winner"; "single out"; "consumption-based"; "special-interest"; "broaden * base"; "base-broad"; "base broad"; "broad* base"; "broad-based"	83%	46%
Competition	"compet"; "attract"; "overseas"; "middle of the pack"; "relocat"	87%	90%
Jobs	"job"; "hire"; "employment"	71%	97%
Raising revenue	"education"; "balance * budget"; "financing"; "reduc* * deficit"; "deficit reduction"; "reduc* deficit"; "revenue" AND NOT ("revenue department"; "revenue*neutral"; "Internal Revenue"; "revenue and taxation")	47%	73%
Contribution of the well-off	"wealthy"; "wealthie"; "millionaire"; "buffett"; "fair* share"; "ability to pay"; "regressiv*"; "billionaire"; "progressive"; "richest"; "sham corporation"; "tax avoidance"; "avoid taxation"; "tax evasion"; "avoid paying tax"; "privileged"	77%	76%
Support of small business	"small* business"; "small* compan"	87%	90%
Small government	"government * limit"; "tax hike"; "spending * control"; "control * spending"; "burdensome"; "avoid tax increase"; "size of the government"	67%	34%

The values of “Correctness” and “Completeness” compare the automatic assignment of categories with the help of the keywords with the manual categorizing. 70% “Correctness” means that in 70% of the cases where the computer assigned a category, the human being also did. 70% “Completeness” in turn means that in 70% of the cases, where the human being assigned

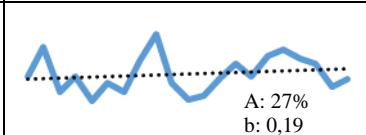
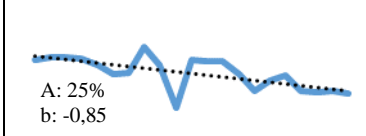
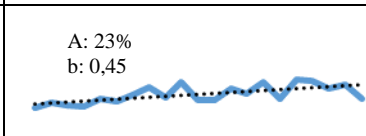
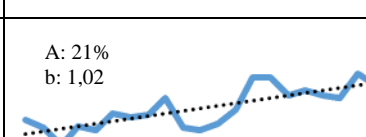
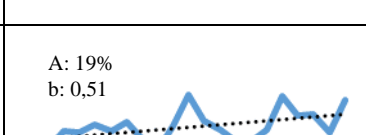
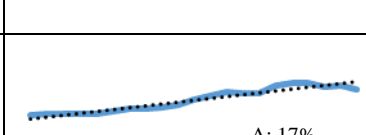
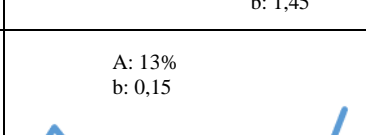
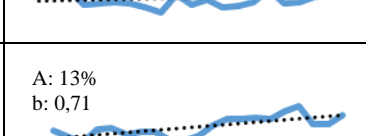
a category, the computer also did. A high value of “Correctness” and a low value of “Completeness” means that computer underestimates the total number of cases containing the category. A high value of “Completeness” and a low value of “Correctness” means that the computer probably overestimates the number of cases.

The total value of “Correctness” for all categories is 77% and the total value for completeness is 86%.

Annex 3: Description and evolution of categories

The number “A” is the average percentage of statements that contain the category.

The number “b” is the slope of the linear trend. 1 means that the share of statements that contain the category rises on average 1% each year.

Category	Description	Example	Evolution 1997-2017
Simplicity	Complexity of tax policy should be reduced	"Participants agreed that simplicity should be a guiding principle for moving forward with tax reform."	 A: 27% b: 0,19
Fairness	Fairness is mentioned as a principle	"We also should be closing many of the loopholes that make the tax code so unfair."	 A: 25% b: -0,85
Support of Business	Satisfying the needs of business is the purpose of tax policy	"Our tax code should create a pathway for innovators and entrepreneurs -and not erect barriers to their success."	 A: 23% b: 0,45
Growth	Economic growth and development is the purpose of tax policy	"The tax code should promote savings and investment, the drivers of long-term growth."	 A: 21% b: 1,02
Support of ordinary people	Tax policy should promote the well-being of the middle-class, families, working people	"It mustn't single out any one area for huge tax increases, nor should it make the tax system more of a burden on the state's poorest citizens."	 A: 19% b: 0,51
Support of America(ns)	Special emphasis that it is America or Americans that should be the aim of tax policy	"Real tax reform must encourage these corporations to bring this money back to the United States to invest in our businesses and increase wages for our workers."	 A: 17% b: 1,45
Flatness	The tax code should be flat (lower marginal rates with a broader base)	"The foundation defines a good state tax system as one that treats all taxpayers the same and levies low, flat rates on the broadest bases possible."	 A: 13% b: 0,15
Competition	Tax policy must be competitive, permit that firms can compete with foreign firms	"Baucus called for revisions to the tax code, saying it needs to support American competitiveness."	 A: 13% b: 0,71

Category	Description	Example	Evolution 1997-2017
Jobs	Tax policy has to encourage job creation	"The last thing our tax code should do is penalize people for finding jobs"	<p>A: 11% b: 0,83</p>
Raising revenue	The function of tax policy to raise enough revenue for different functions of government.	"An overhaul of the nation's tax code should raise additional revenue to reduce massive budget deficits and should help strengthen the economy, [...]."	<p>A: 11% b: -0,39</p>
Contribution of the Well-off	Tax policy should be progressive; everyone must pay his fair share in respect of what he's able to pay. Mentioning of tax evasion is included here	"Tax reform should follow the Buffett rule: If you make more than \$1 million a year, you should not pay less than 30 percent in taxes."	<p>A: 7% b: -0,09</p>
Support of small business	Well-being of small business in particular must be promoted through tax policy	"This bill will also make the tax code less of a disadvantage for our small businesses by letting them offer a range of benefits on par with their larger competitors."	<p>A: 6% b: 0,38</p>
Small Government	Size and influence of the government should be as small as possible	"The tax code needs to be simplified, and the power of the Internal Revenue Service greatly diminished."	<p>A: 3% b: -0,01</p>