SPECIFIC CHALLENGES IN INTERNATIONAL TAX GOVERNANCE CALL FOR REFORMS

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REASONS FOR TAX REFORMS

All tax policy should revolve around four essential values and needs namely; revenue, efficiency, equity and effectiveness. Tax policy is complicated because it needs to achieve multiple goals, some of which conflict, requiring policymakers to make tradeoffs. No tax policy is ideal for all times and circumstances, but successful tax policy optimizes tradeoffs in a way that is acceptable to most taxpayers. Of course, there are many, many different approaches to tax policy and reforming our tax code. The first requirement of any tax system is raising revenue, and the amount of revenue to be raised should always be considered relative to expenditures. If expenditures exceed revenues the government runs a deficit, which is covered by issuing debt. If revenues exceed expenditures, the government runs a surplus, and unless the surplus comes from Social Security or other retirement funds, the surplus reduces the national debt.

Effect of politics in the Economy

The concept of economic efficiency in tax policy when taxes have the least distortionary effect possible is more complicated than the idea that we should balance revenue and spending. Broadly speaking, taxes change prices the companies charge include the taxes they pay in the and the price of your the is affected by how much income tax you must pay. That difference in price, in turn, distorts market decisions, leading to a misallocation of resources that in turn reduces economic growth and prosperity. A broad tax base helps minimize economic distortions, because a broad base makes it possible to raise necessary revenue with lower tax rates. Lower rates create a smaller wedge between before-tax and after-tax prices. Dietsch, P., & Rixen, T. (Eds,(2016)

Efficient taxation alone cannot promote economic growth; government expenditures, other policies, and innovation also play pivotal roles. But an inefficient tax system is a major barrier to healthy economic growth. We must also recognize that there are some cases where before-tax prices do not reflect total economic costs or benefits for example the cost of pollution from fuel burning. These are products or services that have market externalities. In these cases, increasing a tax to cover a cost for example pollution or decreasing a tax or adding a subsidy to promote a benefit for example mass transit that achieves better allocation of economic resources and therefore more economic growth and prosperity. Fairfield, T. (2015).

The idea of tax equity often produces the greatest controversies, in part because of the many different ways the word "equity" itself is used. What economists mean when they discuss equity is how tax burdens are distributed among taxpayers, which is just as important as how much revenue is collected. There are two types of equity in the context of tax policy: horizontal and vertical. Horizontal equity requires that taxpayers with the same amount of taxable income pay the same tax. If two people make the same amount of money, they pay the same taxes. Houses in the same town with the same assessment pay the same property tax. Although this is generally not controversial in principle, there are examples in the current federal system where the tax system provides unequal treatment for essentially similar taxpayers. Harrington, B. (2016).

Vertical equity addresses fairness across taxpayers with different incomes (or levels of wealth). The personal income tax system is based on the principle that richer people should pay tax at a higher rate than poorer people, which is the definition of a progressive tax. But this is not always the case, and that can make taxpayers frustrated and angry. Think of Warren Buffet pointing out that he pays a lower tax rate than his secretary, because of the exclusions and deductions available to him that are not available to his secretary, whose income comes almost exclusively from wages. And even after eliminating unfair exclusions and deductions, there is still the essential question of what rate should be applied to high-income earners and what rate applied to low-income earners. Tax equity must be examined in terms of who bears the burden of a tax, not who pays a tax. This goes back to the idea that taxes change prices. Jogarajan, S. (2018).

The next goal is all tax systems should be effective in the sense that the system should make it difficult to cheat outright or use gamesmanship to avoid paying tax owed. Tax evasion, or cheating, is by definition illegal, but some tax policies make it easier to cheat than others, so reducing tax cheats is about more than enforcing current laws. Tax avoidance or legal gamesmanship that twists laws into pretzel shape to avoid paying taxes or reduce taxes is legal. So tax policies should be designed to make it difficult to bend laws into pretzels. The more taxes people and companies can evade and avoid, the lower the revenues and the more other taxpayers need to pick up the slack. And that makes honest taxpayers distrust the tax system and feel (correctly) that the system is unfair. Designing a tax system to minimize evasion and avoidance imposes administrative costs on government and compliance costs on taxpayers. The goal is to balance administrative and compliance costs against the rewards of higher revenue collection and higher confidence in the system. In general, simpler is better, but many tax problems are highly complex, and call for complex solutions. Paraphrasing Einstein, tax law and administration should be as simple as possible, but no simpler Harrington, B. (2016).

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 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.

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. Catalyzed 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).

We view the crisis as a structural break that destabilized 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).

Shifts in the global political economy and global tax governance.

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 globalization and the state into sharper relief than international taxation, which has always been at the forefront of the chasm between globalization 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.

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 delegitimizing 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 digitalization 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. 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:

The politicization of tax avoidance and evasion is not merely a by-product of the politics of austerity, since the wealth'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 globalization. Post-crisis literature, we contend, should now tell us something new about the evolving relationship between the state and globalization. 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.

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