

# Did the Competition State Rise? Globalization, International Tax Competition, and National Welfare

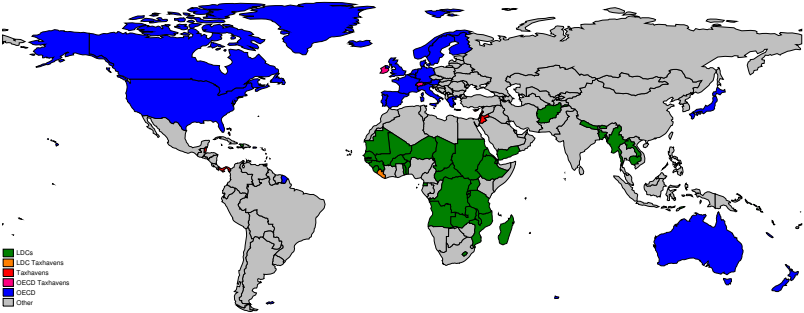
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The Political Economy of Offshore Jurisdictions  
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# Overview



# The Competition State

*The core of this raison du Monde is that goals reflecting that growing, crosscutting diversity are displacing, or at least penetrating, subsuming and confounding traditional goals of domestic social solidarity, patriotism, national welfare and the sense that 'politics stops at the water's edge'. This domestic rationale of the state is over time being supplanted by a not-so-new but increasingly crucial overarching goal maintaining and promoting competitiveness in a world marketplace and multi-level political system. (Cerny 2010)*

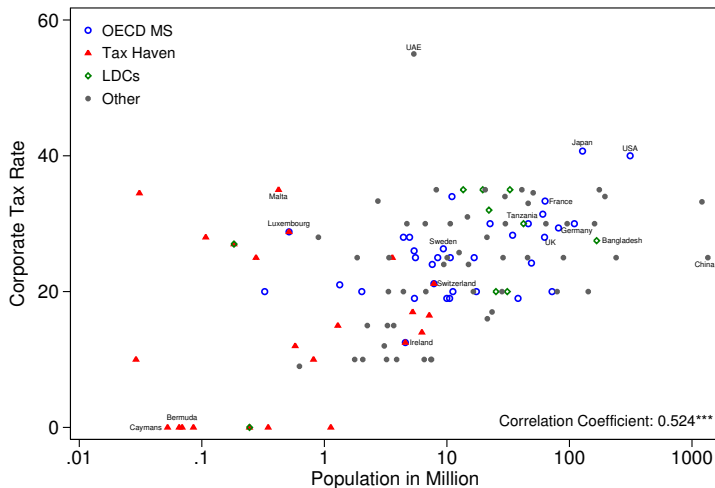
# The Globalization Debate and its Shortcomings

- ▶ Globalization / Efficiency / Competition State Thesis  
(e.g. Scharpf 1991, 2000; Kurzer 1991; Cerny 1997, 2010)
- ▶ Globalization Sceptic / Compensation Thesis  
(e.g. Garrett 1998; Huber & Stephens 2001; Castles 2004; Campbell 2004)
- ▶ Shortcomings:
  - ▶ Competition State as Embodiment of the Welfare State
  - ▶ No Race to the Bottom  $\neq$  No Competition
  - ▶ Narrow Empirical Focus on the OECD World

# Taxation and the Competition State

- ▶ Taxes and the Welfare State:
  - ▶ Major Revenue for Social Policy
  - ▶ Key Redistributive Tool
- ▶ Globalization and Tax Policy
  - ▶ Race to the Bottom
  - ▶ Asymmetric Tax Competition
- ▶ Competition and Welfare State - the Advantage of Smallness
  - ▶ Increase in Tax Revenue
  - ▶ Higher Welfare

# Asymmetric Tax Competition



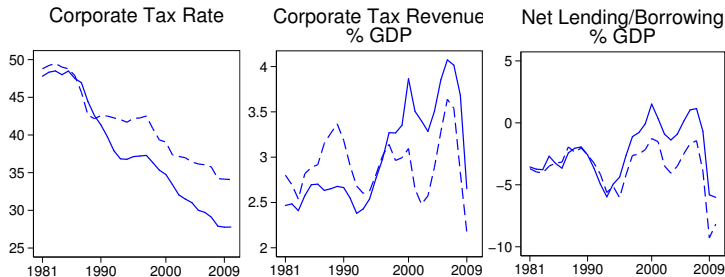
115 Countries, Source: KPMG, IMF, and CIA.

## The OECD World - Tax Rates

	1986	2006	2010	1986-2010
<b>Rates</b>				
TPITR	63.7 (0.22)	46.6 (-0.06)	47 (0.12)	16.9 (0.17)
CTR	47.5 (-0.11)	29.7 (0.71***)	27.8 (0.65***)	19.9 (-0.49**)
TPIITR	57.9 (0.05)	33.2 (0.42*)	32.5 (0.35)	25.5 (-0.22)
<b>Rate Gaps</b>				
TPITR-CTR	15.5 (0.00)	16.3 (-0.57**)	18.9 (-0.41*)	-4.1 (0.40)
TPITR-TPIITR	6.0 (0.09)	13.4 (-0.46*)	14.5 (-0.2)	-9.0 (0.34)

**Table:** Tax rates and tax rate gaps in OECD member states. Correlation with logged population size in brackets. Sources: BMF, KPMG, and World Bank.

# The OECD World - Tax Revenues



— Unweighted Average      - - - Population-weighted Average

Units: 23 long-term OECD member states. Source: OECD and IMF.

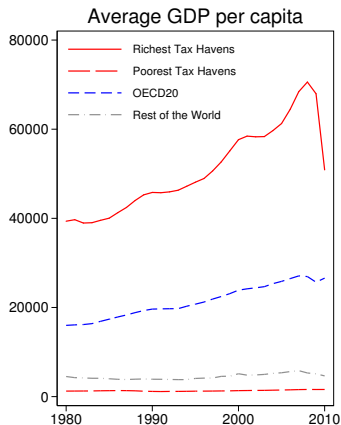
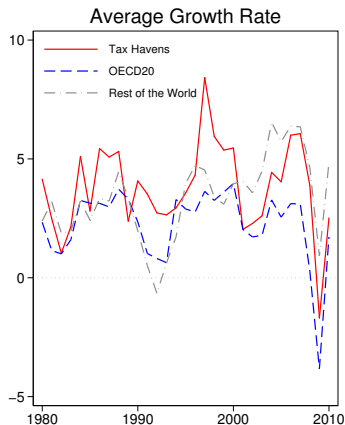


# Tax Haven Characteristics

	Tax-havens	Richest	Poorest	OECD20	LDCs	Rest of the World
CTR 2011	<b>15</b>	<b>17</b>	<b>14</b>	29	28	24
Population	<b>1.18</b>	<b>1.69</b>	<b>2.11</b>	44.82	17.40	45.96
WGI	<b>0.71</b>	<b>1.42</b>	<b>0.01</b>	1.33	-0.74	-0.12
GPDpc	<b>13496</b>	<b>50882</b>	<b>1608</b>	26590	706	4654
Govt Expenditure	<b>36</b>	<b>38</b>	<b>38</b>	48	30	33
Govt Debt 2005-07	<b>61</b>	<b>15</b>	<b>72</b>	59	57	40
Govt Debt 2008-10	<b>71</b>	<b>18</b>	<b>57</b>	70	45	37
Deficit 2005-07	<b>-0.56</b>	<b>1.01</b>	<b>-2.17</b>	0.99	0.35	0.55
Deficit 2008-10	<b>-2.49</b>	<b>0.52</b>	<b>-3.98</b>	-2.94	-1.18	-1.79

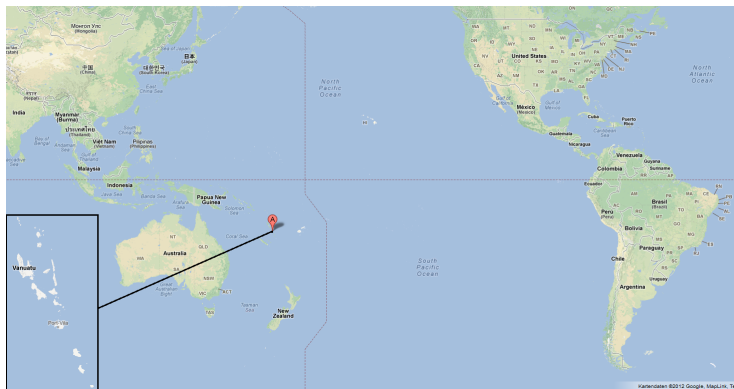
**Table:** Fiscal and Policy Characteristics of OECD20, Taxhavens, and LDCs. Sources: KPMG, World Bank, IMF. All Data for 2010, if not otherwise mentioned.

# Tax Havens - Winners and Losers



Richest Taxhavens: Switzerland, Luxembourg, Bermuda, Liechtenstein, Monaco  
Poorest Taxhavens: Liberia, Vanuatu, Samoa, Tonga, Jordan  
Ireland, Luxembourg, and Switzerland counted as Taxhavens only.  
Unweighted Averages. Source: Worldbank.

# Tax Havens - The Case of Vanuatu



*"The financial and offshore service sector (...) could be another catalyst for reversing the brain drain, and could stimulate the development of new outsourced services, which in turn will need more and more communication services and business services" (UNCTAD 2012).*

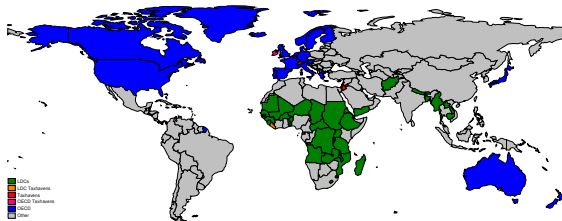
# Least Developed Countries

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# Did the Competition State Rise?

- ▶ A Tax Competition State (to Varying Degrees)
- ▶ A Fiscal Viable Welfare State
  - ▶ Well-Governed Small States Gain
  - ▶ Well-Governed Large States Cope
  - ▶ Badly-Governed States Loose



# Appendix

# List of OECD Countries

- ▶ Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, *Ireland*, Italy, Japan, *Luxembourg*, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, *Switzerland*, United Kingdom, and the United States.

# List of Tax Havens (Darmaphala/Hines 2009)

- ▶ Andorra, Anguilla, Antigua and Barbuda, Aruba, Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Channel Islands, Cook Islands, Cyprus, Dominica, Gibraltar, Grenada, Hong Kong, Ireland, Isle of Man, Jordan, Lebanon, Liberia, Liechtenstein, Luxembourg, Macao, Maldives, Malta, Marshall Islands, Mauritius, Monaco, Montserrat, Nauru, Netherlands Antilles, Niue, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, Seychelles, Singapore, Switzerland, Tonga, Turks and Caicos Islands, Vanuatu, and the Virgin Islands (U.S.).



# List of Least Developed Countries (UN 2012)

- ▶ Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Lao People's Democratic Republic, Lesotho, *Liberia*, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, *Samoa*, São Tomé and Príncipe, Senegal, Sierra Leone, Solomon Islands, Somalia, Sudan, Timor-Leste, Togo, Tuvalu, Uganda, United Republic of Tanzania, *Vanuatu*, Yemen, Zambia.