Regulation & Governance

***Regulation & Governance* (2022) 16, 621–633** doi:10.1111/rego.12425

Taxation: A Regulatory Multilevel Governance Perspective

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Abstract

This article makes four claims: First, tax systems at the national, regional and global level are regulatory systems. They can and should be studied as that. Second, taxation is an important extension to regulatory scholars' empirical field of inquiry. It is a hard case to test prominent theories of new, softer modes of governance. Third, in the era of liberalization and globalization tax governance exhibits similar institutional changes as regulatory governance. It has changed (1) from national to multilevel governance, (2) from public and direct to indirect with increased involvement of private actors, and (3) from hierarchical and coercive to cooperative and responsive. Fourth, since the global financial crisis, the new sites of tax governance have increasingly been involved in the fight against tax evasion and avoidance and have become more politicized. These claims are substantiated by reference to the contributions to the special issue that this article introduces.

Keywords: indirect governance, multi-level governance, responsive regulation, tax evasion and avoidance taxation.

1. Introduction

Regulation and taxation literature rarely met. They should. Applying a regulation perspective to taxation is a fruitful endeavor that provides fresh insights. The contributions to this special issue address questions of responsive tax regulation, the role of tax advisors and other professional intermediaries in tax enforcement, the role of soft and hard modes of governance in the fight against tax havens, the deliberate extension of regulatory scope to include tax evasion in the money laundering combat, the role of technocracy and power in the specialized regulatory field of international taxation, and regulatory arbitrage by the wealthy to circumvent new rules against international tax evasion.

The tax system can be seen as an ecosystem, in which diverse species (actors) such as international organizations (the OECD, the EU), nation states, companies, NGOs and tax experts will react to global challenges and try to preserve their position or create new niches. As such, they all can be drivers of change (see www.coffers.eu) and initiate governance shifts. The contributions to this special issue document and analyze important governance shifts of modern tax systems at the national, regional, and global levels. Taken together, the articles show, first, that tax governance exhibits similar trends as regulatory governance. It has become multi-level, less hierarchical, more indirect and involves more private actors. Second, since the financial crisis, the new sites of tax governance increasingly address the negative side effects of neoliberal globalization in the form of tax evasion and avoidance, and, in the process, become more politicized.

Many introductory and foundational texts in the political and administrative sciences present taxation and regulation as distinct instruments of governance (e.g., Lowi 1972; Hood 1986; Knill & Tosun 2012). Regulation is understood as rules proscribing certain behaviors and sanctioning others. It is justified in terms of protecting the public interest and usually takes the form of laws, but may also include standards, principles and norms (cf. Levi-Faur 2011: pp. 4–6). In contrast, taxation works through the medium of money and shapes individual behavior

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* Conflict of Interest: There are no conflicts of interest to be reported.
Accepted for publication 19 June 2021.

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through material incentives that leave actors leeway to act according to their individual cost–benefit calculations. While this distinction certainly makes sense, it collapses if one steps back to take a broader perspective. First, like regulation, taxation is based on laws, standards, principles, and norms. Tax law is backed by sanctions threats and (ultimately) state coercion. It is legitimized by reference to the public interest. Second, while the primary objective of taxes – with the important exception of environmental and sin or health taxes – may be to raise revenues, they discourage the taxed activity and thus shape individuals' or firms' behavior, that is, they have regulatory impacts (Barnett & Yandle 2004). Likewise, while the primary purpose of regulation is to proscribe certain behaviors, they can be understood as implicit taxes (Posner 1971). "From the standpoint of the affected individual or firm, all regulations are taxes and all taxes regulate" (Barnett & Yandle 2004, p. 217). Another reason why regulation and taxation are often seen as distinct is that regulation is conceived as a dynamic process, in which regulators and regulated are engaged in a continuous, personal interchange, whereas taxation is seen as a "static, stultified, coercive, and impersonal exchange" that consists merely in handing over money (Braithwaite 2007, p. 3). As Braithwaite and her colleagues have shown (Special issue of *Law & Policy*, vol. 29, issue 1, 2007), this juxtaposition has never held empirically. In contrast, tax systems at the national, regional, and global level are dynamic regulatory systems and they can and should be studied as that.

Studying tax systems as regulatory systems, the contributions to this special issue analyze institutional changes of tax governance. Instead of contenting ourselves with showing that taxation can conceptually be understood as a form of regulation and vice versa, we show that some of the most important and widely discussed changes of regulatory governance are also present in tax governance. While traditionally taxation was characterized by national, hierarchical, direct, and public governance, it has become more international, less hierarchical, and more indirect through the inclusion of private intermediaries over the last four decades. As we will describe in more detail in the next section, national tax systems are increasingly couched in international rules promulgated by transgovernmental and transnational networks; it has become multi-level governance. National tax enforcement, facing complex international rules, relies on responsive and cooperative regulation vis-à-vis taxpayers. Due to the complexity of the international tax system, private actors such as accountants, law firms, and NGOs take an ever more active stance on issues of tax policy. Thus, in taxation we can observe the same trends as in other domains of regulation, which have often been summarized as a shift from government to governance and an increasing reliance on "new modes of governance" (e.g., Héritier & Lehmkuhl 2008).

This observation has methodological and theoretical implications for students of both regulation and taxation. Scholars of regulatory governance may rightfully point out that such parallel developments in both taxation and regulation may be expected since the main drivers of this development – globalization, liberalization, and increased complexity – are also present in the area of taxation. On the other hand, taxation, which can be considered the constitutive core of modern statehood, has always been viewed as a hard case for the emergence of these new modes of governance because states would be reluctant to share authority over taxation with other states or private actors (e.g., Genschel & Jachtenfuchs 2011). So far, the literature on new modes of governance has all too often focused on those areas where the phenomenon is very pronounced, such as in financial regulation (e.g., Büthe & Mattli 2011) internet governance (e.g., Bach 2010) or environmental regulation (e.g., Green 2013). Methodologically, this of course risks bias in explaining the emergence of such governance. Including taxation as a hard case in their empirical portfolio provides scholars of regulatory governance with an opportunity to test, refine, and improve upon existing accounts of the emergence and proliferation of new modes of governance. Tax scholars profit from combining both fields in terms of theory. They are provided with new paradigms, theories, and concepts to make sense of their field. Introducing concepts like responsive regulation, modes of governance, orchestration, hard and soft law, or regulatory arbitrage provides a fresh perspective and promises new insights on their topic. More broadly, the field of regulatory governance introduces institutionalist and organizational aspects that are often marginal in the fields of public finance, political economy, and law as the traditional disciplines for the study of taxation.

At this point, two clarifications are in order. First, the equivalence of taxation and regulation only holds from the perspective of the regulated/taxed actors. From the perspective of governments, the difference is stark. While taxes bring in revenues, regulation does not. States are loath to share this authority over revenue. This is precisely the reason why governments are loath to let go of their tax sovereignty and why, as we have argued, taxes are a hard case for the emergence of new modes of governance.[1]

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Second, the term "tax governance," as we use it in this article, comprises two distinct, but related, meanings. On the one hand, it refers to the act of taxing itself, that is, designing and implementing a tax system that governs society. For example, designing an income tax schedule to realize the politically desired degrees of efficiency and equity, respectively. We call this governance *by* taxation, which is linked to states' authority over revenue. On the other hand, tax governance also comprises rules on tax systems, that is, designing and implementing rules that provide frameworks, within which governance by taxation takes place, or that govern the interaction of different taxes or tax systems. For example, the EU neither has its own taxes, nor can it set member states' tax rates, but it does make rules that govern the interaction of member states' tax systems. For value added taxes (VAT) it requires harmonization of the systems, base definitions and rate structures. All that remains for Member States to decide is maximum rates of VAT. In this way, the EU wields regulatory control over member states' taxing power (Genschel & Jachtenfuchs 2011), that is, governance by taxation. We call this governance *of* taxation. While both meanings are alluded to in this special issue, the majority of the articles refer to governance *of* taxation. This is in large parts due to the fact that most articles in this special issue deal with international taxation. As we will briefly discuss below, there is so far no governance *by* taxation in the international arena, but ever more and increasingly stringent governance *of* taxation.

Studying taxation is not only methodologically and theoretically relevant to regulation scholars, but it is also of substantive importance to them. Taxes are located at the intersection of state and market. They are the principal instrument through which governments *regulate capitalism*, and at the same time, states depend on a prosperous capitalist development in order to collect tax revenue (Schumpeter 1991 (1918)). This double nature of taxation makes tax policy the ideal object to study modern, capitalist societies and their strengths, weaknesses, dynamics, and internal contradictions. Decisions about taxation shape societies, "determining the balance between accumulation and redistribution, between consumption and investment, between individuality and collectivity, and between coercion and consent" (Tilly 1990). In a wider perspective, "Taxes are what we pay for civilized society", as Supreme Court Judge Oliver Wendell Holmes famously observed (cited in Li 2003, p. 52). These concerns about the right balance between economic freedom and public intervention, between market and hierarchy, are also at the heart of regulation. They define the normative background of taxation and regulation – and of taxation as regulation and regulation as taxation, we may add.

This is particularly pertinent in times of globalized markets – and the backlash against them – with rising inequalities of income and wealth that threaten to undermine social welfare and democracy (e.g., Cerny 1995; Alvaredo *et al.* 2018; Rodrik 2018). The three-and-a-half decades since the 1980s saw a trend of rising income and wealth inequality as well as falling labor and rising capital income shares (Piketty 2014). In OECD countries, the trend coincides with a shift away from a relatively egalitarian postwar regime toward more neoliberal policies. The deregulation of product and labor markets (Höpner *et al.* 2011) as well as the privatization of former state-owned industries (Zohlnhöfer & Obinger 2006) significantly increased the market's role in the determination of the primary allocation of resources, income, and wealth. In a parallel movement, states lowered tax rates and flattened tax schedules, providing less redistribution. There is ample evidence that increasingly regressive tax systems are one of the main explanatory factors behind the much-discussed surge of income shares at the top of the distribution (Piketty *et al.* 2014). A common force behind these developments is globalization. Lower trade barriers and liberal financial markets as well as better communication and policy diffusion created regulatory and tax competition and enabled learning and emulation. These forces led governments and state agencies to adopt neoliberal economic and social policies (Levi-Faur & Jordana 2005; Simmons *et al.* 2006).

Achieving more economic equality necessitates policies that target both the primary distribution, sometimes referred to as "predistribution" (cf. O'Neill 2020), via regulation, and the secondary distribution via taxation (Atkinson 2015). Under conditions of globalization, effective egalitarian tax and regulatory policies will need better international cooperation. While the literature has discussed supranational regulation (e.g., Majone 1997), transgovernmental, or transnational regulatory networks (e.g., Slaughter 2004) as well as the interaction of international and national levels of governance (e.g., Bach & Newman 2014) for a considerable time, such analyses are fairly recent in the field of taxation. Policy debates on higher tax rates or the introduction of wealth or estate taxes are too often restricted to domestic arenas (but see Saez & Zucman 2019). In contrast, the contributions to this special issue put various forms of international tax cooperation center-stage. While more redistributive tax schemes would ultimately have to be adopted and implemented domestically, they will only be viable if

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international tax cooperation buttresses national tax systems against the forces of globalization (e.g., Ahrens *et al.* 2020a). Therefore, taking our cues from the regulation literature, all articles in this volume discuss various international, transnational, or transgovernmental networks of tax cooperation. At the same time, they all share a normative concern for more redistribution and a re-embedding of the globalized and liberalized economy. In one way or another, they all engage with the question of how such a rebalancing of the forces of markets and states can be implemented at the current historical conjuncture.

The rest of this article is structured as follows: In the second section, we describe the three dimensions of change and how they played out in national, regional, and global tax systems using examples from the articles in this special issue. We will also discuss how these developments are similar, but also nuanced, to other regulatory fields and how they can be evaluated in terms of their contribution to rebalancing globalization and reducing inequality. In the final section, we briefly summarize the desiderata for research on regulatory governance and summarize some of the policy recommendations that emerge from this set of articles.

2. Institutional changes in tax governance

In the era of globalization, taxes on capital are subject to fierce tax competition. Due to the international liberalization of capital since the late 1970s and 1980s, mobile factors of production could escape the national grip of taxation and choose more attractive locations. Countries, eager to maintain their tax base, undercut each other with their taxes. The visible "race to the bottom" in tax rates on capital was often accompanied by sophisticated and less visible national instruments, such as granting tax rulings and tax allowances (Genschel & Schwarz 2011). Multinational firms and wealthy individuals seize these opportunities to create complex transnational production and "wealth chains," in which they play out the various jurisdictions against each other, to lower their tax bills (Christensen *et al.* 2020).

This process of globalization and liberalization is the main driver of change in three important and interrelated dimensions of tax governance (see Table 1). First, in response to the challenges of "harmful tax competition" nation states increased their efforts at international cooperation to guard against cross-border tax evasion and avoidance. As a result, tax policy, which was mainly a domestic affair, is increasingly made in multi-level systems, that is, on the national, regional, and international levels. While transgovernmental networks and fora have been present in international taxation from very early on (e.g., Picciotto 2020 in this issue), they initially only dealt with the avoidance of double taxation. Only since the late 1990s, and especially since the global financial crisis did these fora get involved in the fight against tax evasion and avoidance. Since then, they significantly intensified their activities and their respective decisions and regulations became more influential and constraining for national tax policies (Rixen 2008; Christensen & Hearson 2019). Hence, while multi-level governance is not an entirely new phenomenon in taxation, it has become consequential in the latest era of globalization (part 2.1). Second, with financial globalization in full swing tax advisors became more and more important to explore loopholes in the international tax system for their clients. In some jurisdictions, public-private partnerships emerged, in which private tax advisers, acting as intermediaries, audit taxpayers, or even design tax regulation. Again, the inclusion of private actors in rule making is not entirely new. For example, in the 1920s the International Chamber of Commerce put the issue of international double taxation on the agenda of the League of Nations and had a significant influence on its Model Tax Convention (Picciotto 1992). Nevertheless, the move toward indirect and private governance has become more salient and significant in the latest wave of liberalization and globalization (part 2.2). Third, as a response to the increasing complexity of international and domestic tax laws, recent decades have seen a move toward incentivizing taxpayers to cooperate with tax administrations in the assessment

Table 1 Changes in tax governance

Traditional tax governance	New tax governance
National	Multi-level (national and international)
Direct with public agents	Indirect with inclusion of private actors
Hierarchical and coercive	Cooperative and responsive

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of taxes. Rather than imposing taxes in a hierarchical and coercive fashion, tax enforcement increasingly relies on communication, cooperation, and responsive regulation (part 2.3). Table 1 summarizes the three changes. The discussion has made clear that the entries in the column "traditional tax governance" may slightly exaggerate the nature of the arrangements at the specific historical time before the current era of globalization. Thus, while the may not be as binary as the entries suggest, the contrasting pairs of attributes correctly depict the main tendencies of change in a stylized way.

2.1. From national to multi-level tax governance

Taxation is *national* (or subnational) in that tax law is made by domestic policymakers and implemented and applied by state officials without interference from international organizations or other states. Nevertheless, international trade and liberalization have left their mark on the governance of taxation. As Sol Picciotto (2020) shows in his contribution, the international tax system developed since the 1920s in the form of technocratic, trans-governmental networks of finance ministries, and tax administrations. The aim of these cooperative efforts was to establish sovereignty-preserving regulations that facilitate international investment, but at the same time safeguard national tax policy as far as possible from international interference (Rixen 2008). With the advent and intensification of financial liberalization since the 1980s, this approach came under increasing pressure because it enabled international tax evasion and avoidance by (mostly wealthy) individuals and corporations (Rixen 2011). Especially since the financial crisis of 2008 ff. and scandals like LuxLeaks, the Panama and Paradise Papers public salience and politicization rose significantly. In response, the OECD and its powerful member states greatly intensified their governance efforts. The increasingly dense network of international, mostly transgovernmental, cooperation is ever more relevant not only for coordinating the interfaces of national tax systems but plays a crucial role in national tax policymaking (Christensen & Hearson 2019). Rules like the automatic exchange of taxpayer information (AEoI) or country-by-country reporting made tax enforcement increasingly subject to international regulations (Ahrens *et al.* 2020b). While the setting of the core parameters of tax systems and tax assessment remains firmly on the national level – up to this day there are no international taxes, that is, taxes raised by international organizations – the notion of taxation as a purely national affair is obsolete. Instead, a nation's power to tax is couched in international rules and regulations. Tax governance, in the sense of governance *of* taxation, has become multi-level governance.

All contributions to this special issue address the resultant synergies and tensions between international regulations and domestic tax systems in one way or another. Picciotto (2020) shows that the increased politicization and salience clashes with the technocratic nature of trans-governmental tax governance. While international taxation is a highly complex technical issue designed by tax experts, the domestic audiences understandably want simple and workable solutions. Ahrens *et al.* (2020) analyze a new form of tax competition, in which some nation states provide so-called golden visas or anonymous trusts and shell corporations that allow taxpayers to circumvent international regulations. The contributions of Rossel *et al.* (2021) show that the implementation of international regulations on the national level may vary considerably. They focus on the EU's fourth anti-money laundering Directive that criminalizes tax evasion heavily by making it a predicate crime for money laundering. They distinguish law in the books from law in practice, which can result in the same tax crime qualifying for money laundering in some countries, but not so in others. Similarly, Gerbrands *et al.* (2021) show in an agent-based simulation model that the international rule of AEoI on accounts of foreigners will have very different effects on taxpayers' tax morale, depending on how accepted the government's tax policy is when compared to what other countries are doing. Killian *et al.* (2020) as well as Christensen *et al.* (2020) focus on the role of tax professionals in transnational settings that may either subvert or stabilize the integrity of national tax systems.

Given these tensions between different national tax systems and international regulations, what can we say about the effectiveness of multi-level governance against tax evasion and avoidance? While early measures against tax evasion were perceived to be ineffective, many tax experts have put high hopes in the advent of AEoI and empirical studies corroborate a positive impact (see the overview in Ahrens *et al.* 2020b). Nevertheless, sceptics plausibly point to the possibility of regulatory arbitrage under conditions of economic globalization. Ahrens *et al.* (2020b) investigate the issue empirically and find that so far, there is little regulatory arbitrage overall. However, they also present evidence that hints at an increase of regulatory arbitrage over time pointing out that regulators

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will have to remain on their toes to preserve the positive impact of AEoI. Alm *et al.* (2020) as well as Gerbrands *et al.* (2021) come to similar conclusions on the basis of agent-based model simulations. Alm *et al.* suggest that a firm commitment to responsive regulation can help to maintain the effectiveness of anti-evasion measures even in the long run. Gerbrands *et al.* propose to tailor such measures to the specific bilateral situation of two countries. Janský *et al.* (2021) assess the effectiveness of another international instrument of regulation, black listing. Naming and shaming is considered a soft law instrument, but can cause serious economic and reputational damage to blacklisted countries (Sharman 2009; Eggenberger 2018). The authors construct a new index of financial secrecy that measures the extent of secrecy that countries provide to other countries. They critically evaluate existing blacklists and find that many of the most secretive tax jurisdictions are not on them, exposing hypocrisy on the part of powerful states and international organizations like the EU.

The findings suggest that recent policy initiatives and developments represent progress in the fight against international tax evasion and avoidance. For the first time since its beginnings in the 1920s, global tax governance addresses these problems with visible and measurable effects. Nonetheless, they are clearly not sufficient to root out these problems. Regulators will have to stay on their toes to effectively curb international tax flight. Such an outcome appears more likely if tax justice activists and the general public can successfully keep the issue on the agenda and salient (Picciotto 2020). These developments will continue to keep scholars of regulation and taxation busy for a while.

The general pattern of multi-level governance in taxation is similar to other issue areas in global economic policy making. In particular, the general approach bears strong resemblance to the regulation of financial markets. International bodies and IOs produce global soft law standards that are then transformed into hard domestic law (e.g., Rixen & Viola 2020). Depending on various domestic or global opportunity structures and actor constellations, this setup creates complex and diverse multi-level politics (Newman & Posner 2018). In both issue areas, there is a recent trend toward slightly harder modes of governance on the international levels (Jopke & Rixen 2020; Hearson & Rixen 2021). However, in taxation there is a strong disconnect between the international and domestic levels in terms of political salience. Whereas finance is in the realm of "quiet politics" (Culpepper 2010) on both levels unless there is a financial crisis, tax policy traditionally lacks salience on the international level, but is salient on the domestic level. Recently, this disconnect softens with international tax issues receiving more public attention and being politicized (Christensen & Hearson 2019; Picciotto 2020). Also, domestic policymakers pay attention to international tax policies. As Hakelberg and Rixen (2020) show, many OECD countries raised capital taxes in response to international agreement on AEoI. Since AEoI softens capital flight and tax competition, it removed the main constraint on higher capital taxes. This finding exemplifies that tax policy truly is multi-level. It also shows that the international governance *of* (domestic) taxation has an important role to play in rebalancing globalization and in the fight against global and domestic inequality (Ahrens *et al.* 2020a; Hearson 2021).

2.2. From public and direct to private and indirect governance

Indirect governance has recently received significant attention in the regulation literature (Abbott *et al.* 2017a; Abbott *et al.* 2020), but has not yet been discussed in taxation. Traditionally, taxation is *public and direct* governance in that tax policy making is a public process in which parliamentarians and government officials hold decision-making power and the rules are directly applicable to taxpayers and directly implemented by tax administrations. Today, though taxes remain, by definition, a statist and public affair, tax governance increasingly involves *private intermediaries* that mediate between rule-maker (regulator) and rule-taker (target). For example, under newer systems of tax information exchange banks are required to report on the income of their clients and thus are delegated an active role in the enforcement of tax law. While such involvement of private actors in the assessment of taxes and the implementation of tax law is not unprecedented, for example, in many countries, employers withhold income taxes of their employees on behalf of the state, such arrangements have increased in quantity and taken on a new quality as information exchange developed into a cross-border transaction. Likewise, private actors such as law and accountancy firms have always been influential in international tax policy-making, but the extent to which they marshal critical knowledge to influence public decision-makers in the current era of globalization is unprecedented (Christensen *et al.* 2020). At the same time, transnational civil society

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organizations campaigning and lobbying for tax justice, like the Tax Justice Network (TJN), have developed since the early 2000s (Seabrooke & Wigan 2016).

The role of tax professionals in this shift from public to private governance is stressed by Christensen *et al.* (2020) and by Killian *et al.* (2020) in this issue. Finding loopholes in international tax law is not an easy task, it requires specialized knowledge, in particular expertise in diverse national tax laws. This is why professional accounting firms or tax planning companies play an essential role by providing the knowledge necessary to do this. Professional service firms like the Big Four (KPMG, PwC, EY and Deloitte) are sometimes in a threefold position which creates all sorts of tensions. First, they advise their clients on how to avoid paying taxes. Second, they lobby and advise governments on how to regulate taxation. Third, sometimes they also audit companies whether they correctly paid taxes. Trying to serve these divergent interests at the same time, clearly poses many challenges. Christensen *et al.* (2020) show that, given the complexity of international tax and financial regulation, professionals experienced in accounting, financial and legal systems have opportunities to exploit information asymmetries to the benefit of the regulated. Tax professionals with knowledge of diverse tax systems develop specific action profiles to help multinational firms and wealthy, cosmopolitan individuals to arbitrage the various national rules to lower their overall tax bills. But private actors do not only exploit loopholes in existing rules. They also try to influence the rulemaking process to make sure that loopholes remain open or new ones will open up. At the same time, these actors are vulnerable to threats of their own and their clients' reputation. Public scandals like the PanamaPapers, LuxLeaks, or ParadisePapers threatened their reputation. As Christensen *et al.* (2020) show the Big Four accounting firms, as the major players in tax advising, did not oppose the wave of regulatory initiatives in response to the scandals. In that sense, the Big Four are also drivers of change in the international tax system and are willing to accept new rules as long as they do not constantly change again and again. Killian *et al.* (2020) focus on the attitudes and tax morale of tax advisors working in so-called tax havens or secrecy jurisdictions. They conducted a large international survey among 1,061 professionals in 59 countries analyzing how secrecy and the laxity of the regulatory environment impact on their beliefs. They find that professional and workplace ethics positively impact these individuals' actions in such problematic environments. While this positive effect vanishes beyond a tipping point of laxity, this finding indicates that professional bodies and firms have a role to play in tax governance.

Another form of indirect governance is benchmarking. Civil society, academics, and IOs establish performance measures, rankings, certificates scorecards, or indices to influence the behavior of regulatory targets (Davis *et al.* 2012). In taxation, non-state actors benchmark and compare country's tax and financial secrecy policies, a common yardstick for identifying secrecy jurisdictions and highlighting areas for policy reform. For example, TJN provides regular rankings of tax havens in the form of a Financial Secrecy Index (Tax Justice Network 2020). Extending this work, Janský *et al.* (2021) from TJN develop the *Bilateral* Financial Secrecy Index (BFSI) for 82 countries, by quantifying the financial secrecy supplied to them by 131 secrecy jurisdictions. This allows them to rank countries according to the financial secrecy they provide to other countries. The BFSI makes it possible to identify the most important tax havens for each country. For example, Panama – infamous through the PanamaPapers scandal – is not among the top secrecy providing countries for Germany; neighbors such as Austria are more important.

The increased reliance on private intermediaries can also be found in criminal and security policies. By making tax evasion a predicate crime for money laundering, public regulators – the Financial Action Task Force (FATF) in 2012, and the EU in 2015 – require banks and other financial agencies to report suspicious transactions to the Financial Intelligence Unit of their country (Rossel *et al.* 2021). With this, banks became actively involved in chasing the money of drug dealers, terrorism financiers, corrupt leaders of countries and also of tax evaders, and aggressive tax avoiders. The fines for not correctly fulfilling this task can be substantial. For example, ING Bank had to pay 750 million Euro for non-compliance with anti-money laundering rules.

The trend toward the inclusion of private actors in regulation is well documented for many regulatory fields ranging from finance (Büthe & Mattli 2011) to the environment (Green 2013). As the contributions to this issue show, taxation, as a hard case for such privatization, is *not* an exception to this general trend. These shifts from public to private governance bear many tensions. On the one hand, the use of private intermediaries may improve the quality of governance. Private agents possess expertise and have access to the regulatory field. This may help to improve and fine-tune regulation. On the other hand, such private intermediaries may not always act in the interest of the public principal (Abbott *et al.* 2017b). In taxation, the latter problematic appears to be very common as the

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contributions of Christensen *et al.* (2020) and Killian *et al.* (2020) exemplify. Intermediaries' conflicts of interest challenge the effectiveness, honesty, and fairness of the tax system. In particular, private intermediation strengthens the position of economically powerful actors like the Big Four. They can use their privileged position between public regulators and tax administrations on the one hand and the private economy on the other to skew the system in their favor and further amplifying power asymmetries and inequality. In that sense, and similar to assessments in global finance (e.g., Warwick Commission 2009), the involvement and influence of professionals and private business actors in global tax governance should be downsized in order to more effectively rebalance globalization. As discussed by Ahrens *et al.* (2020b) in this issue, the jury is still out on the question in how far states will be able to effectively reassert their authority vis-à-vis private tax evaders and avoiders and the professionals helping them.

Nevertheless, a core difference between taxation and other fields remains. On the national level, the core rulemaking process, that is, the making of binding domestic tax law, remains a public affair. Domestically, tax policy making is firmly in the hands of the legislative branch; it is a typical case of legislative politics (Hettich & Winer 1999). In contrast, in fields such as financial regulation even domestic rulemaking is often delegated to private actors and to independent regulatory agencies.[2] Importantly, however, saying that (democratically legitimized) public agents make domestic tax laws refers to the formal decision-making process only, it does not say anything about who is factually influential. Public lawmakers may be more or less receptive to business lobbyists and other private actors. Indeed, there is significant variation across countries (and across time) in the extent to which private actors are influential, depending on various factors ranging from public opinion and salience over parties in government to the institutional setup and the traditions of government-business relations. At one extreme end, private business actors have fully captured the state in some tax havens to ensure that tax law accommodates international tax planning and arbitrage as desired by business (see the discussion with further references in Ahrens *et al.* 2020b). On the other hand, the tax proposals by the new Biden administration in the United States (US Treasury 2021), a country that has at other times shown itself to be very responsive to the tax policy preferences of business (Hakelberg 2020), and the G7, supporting the proposed changes to the system of international corporate taxation (G7 2021), may indicate that the tide is turning. Big and powerful states appear to be willing to strike back against private corporations. At the time of writing, the outcome of negotiations of these proposals is unknown. It remains to be seen, whether a compromise can be forged among states (Christensen 2021) and in how far private actors will be able to water down the eventual outcome.

2.3. From hierarchical to cooperative and responsive regulation of taxes

Traditionally, taxation is *hierarchical* in that the state and its tax administration apply their tax law in a top-down fashion. Given the complexities of modern economies, it is often more efficient to assess, administer and enforce taxes in cooperation with taxpayers. Recent decades have thus seen a shift toward more tax payer friendly measures and services in order to increase tax compliance (e.g., OECD 2019). Today, by engaging and incentivizing taxpayers to cooperate with administrations, the implementation and application of tax law is increasingly *cooperative* and responsive.[3]

Alm *et al.* (2020) review the tax literature in economics and psychology moving from purely hierarchical to more cooperative and responsive forms of governance. Responsive regulation involves targeting multiple stakeholder groups and making deliberate and flexible (responsive) choices from a menu of regulatory strategies (Braithwaite 2009). Alm *et al.* distinguish the traditional coercive measures that aim at punishing non-compliant taxpayers and persuasive measures that aim at convincing taxpayers by informing them on the benefits of common goods and better government services they receive for their tax money. They show under which conditions tax policy aiming at increased tax revenues and fairness should move from enforcement to cooperation to foster tax morale. Gerbrands *et al.* (2021) show that taxpayers will react differently to international tax reforms, depending on how cooperative their own state and other states are, thus confirming the relevance of different compliance cultures.

In their survey and in qualitative interviews Killian *et al.* (2020) find that tax experts have to find a balance between trying to minimize tax payments for their clients and their professional ethics and tax morale. They act differently in the different environments, i.e. countries, in which they provide their services. High financial secrecy and

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lax tax regulation influence their behavior negatively but not uniformly. These findings suggest that compliance not only depends on whether enforcement is cooperative or coercive but also on the substance of the rules themselves.

Overall, taxation appears to be similar to other regulatory fields in the trend toward more cooperative regulation. Governments increasingly supplement coercive enforcement with incentivizing or "nudging" the regulated toward desired behaviors or outcomes in fields ranging from health and pension to environmental policy (Thaler & Sunstein 2008). The contributions in this special issue confirm that there is a shift from hierarchic to more cooperative forms of tax governance. Nevertheless, as Gerbrands *et al.* (2021) argue, international tax reforms may also reinforce domestic hierarchic governance. For example, AEoI across borders strengthens the power of individual countries to properly assess their taxpayers' income.[4]

3. Conclusion

Taxation has always been used to influence citizens' behavior, from the Babylonian divorce tax of 2,350 BC to taxes on gambling and prostitution, or to more modern Pigovian taxes on pollution (Prasad 2009). Though with this, taxes always "regulated" behavior, "taxation" was seen as the economically friendlier steering instrument (through monetary incentives which leave voluntary choices) compared to "regulations" (through laws and by sanctioning forbidden behavior). But, as we have shown in this article, taxation is regulation. This is especially true with respect to international taxation. Since the state's very existence hinges upon taxes, it will ensure that, in the domestic context, it keeps ultimate authority over taxation. However, at the global level, the lack of a supranational authority implies that market failures resulting from internationalization cannot easily be corrected through the selection principle, which says that the next higher authority should intervene (Sinn 2003). To compensate for this, new modes of cooperation and transnational governance emerged. These developments in the international tax system have to be studied from a broader perspective than the one limited to the market and the state. Therefore, taking our cues from the regulation literature, articles in this volume analyze important changes in international taxation. We identify shifts in governance (i) from national to multi-level; (ii) from direct and public to indirect and private regulation; and (iii) from hierarchy and coercion to cooperation and responsiveness. On the basis of these findings, we conclude that tax regulation has, with some nuances, followed a similar trend as other regulatory fields exposed to liberalization and globalization over the last four decades.

What do these three governance shifts imply for the viability of an effective and fair international tax system? First, the shift from national to more international and multi-level governance is certainly a necessary condition for the effective regulation of taxes in a globalized economy. As the contributions in this special issue make clear, new international governance mechanisms across levels of governance have led to serious initiatives to improve the international tax system. At the same time, all contributors agree that further strengthening international governance capacities and increased reliance on harder law is necessary to realize a truly effective and fair system.

Second, the shift from public to private governance appears to be the most problematic for the viability of an effective and fair international tax system. The complexities of the multi-level system leave ample opportunities for professional experts experienced in accounting, financial, legal, and regulatory systems to exploit legal distinctions and information asymmetries between different authorities and regulatory intermediaries to exercise power in the formulation of and adaptation to new policies (Kauppi & Madsen 2013; Abbott *et al.* 2017b; Christensen *et al.* 2020). In fact, recent research suggests that in the process of economic globalization transnational private actors such as tax advisors and wealth managers have acquired greater influence over the effective tax rates paid by multinational corporations and high net worth individuals than national governments (Harrington 2016; Cooley & Sharman 2017). It is especially worrisome that the market for tax professionals is extremely cartelized. The Big Four (KPMG, PriceWaterhouseCooper, Ernst and Young and Deloitte) are extremely influential. They draft tax law on behalf of offshore centers so as to enable the avoidance of tax law applicable in other jurisdictions and market strategies for the exploitation of the resulting mismatches to clients around the world. They realize enormous economic rents (Murphy *et al.* 2021). The income redistribution toward the rich through the international tax system (Alstadsæter *et al.* 2019) was made possible by the very specific way in which private intermediaries were involved in the governance of taxation. The precarious role of private intermediaries and their dominant role in many public private partnerships is not new (see e.g. Börzel & Risse 2005). However, with taxation a core function of the state (Genschel & Jachtenfuchs 2014; Unger *et al.* 2017) has partly been shifted

from the public to the private sector. The regulation literature has so far paid little attention to these hard cases of privatization, and with this special issue we begin to rectify this neglect.

However, whether this "retreat of the state" (Strange 1996) in taxation will be permanent is not certain. For one, the public and the media have woken up to the deficiencies of the international tax system. Media outlets and groups of journalists like International Investigative Journalists (ICIJ) have prominently reported on tax scandals like the PanamaPapers, ParidisePapers or LuxLeaks. As a consequence, citizens and consumers are increasingly skeptical of multinationals' tax avoidance strategies and push for political change. In response, many governments have put the issue of international tax justice higher on their agenda and have pushed for change in the international tax system. At the time of writing, the United States initiated a push for a global minimum tax rate. While it is too early to predict the future power balance between public and private actors, it is certain that the policy area will exhibit dynamism and prove an excellent field of study for regulation scholars.

Third, the shift toward more cooperative and responsive tax enforcement certainly helps to realize a fair and efficient tax system. As multiple studies and the contributions in this special issue show, cooperation and responsiveness on the part of tax administrations help to foster tax compliance, as long as the administration makes it clear that it is willing to sanction non-compliance of all taxpayers should they choose to try to cheat. In addition, in an international setting it is also important what other countries do. The co-dependence on each other in order to stop tax competition is an important extension of these considerations (Gerbrands *et al.* 2021).

All contributions in this special issue share a normative concern for more redistribution and a re-embedding of the globalized and liberalized economy. Our policy recommendations can be summarized in four points. First, the shift from national to international governance makes it necessary to create better international institutions to prevent tax abuse. For EU Member states, in order to trace unwanted tax behavior, tax intelligence centers in the Member States and at the EU Commission should be established and should have both operational capacity but also strategic orientation of how to combat tax avoidance, evasion, and money laundering. This would include identifying aggressive tax planning schemes and the protection of whistleblowers, as well as estimates of tax gaps in the EU (see www.coffers.eu, Recommendations). Ideally other regions should do the same and establish close cooperation among their tax intelligence centers.

Second, policy gaps should be regularly identified. Jurisdictions that do not participate or circumvent new tax reforms, like the automatic exchange of information, should be named and shamed. The United States should be pushed to reciprocal exchange of information. Loopholes, like golden visas and passports, should be closed. Real estate owners in tax havens and freeport users should become transparent.

Third, the shift from public to private governance should be partly corrected. State responsibilities of taxation – such as drafting tax laws and auditing – should not be left to private actors. The threefold conflicting role of intermediaries of helping to draft tax laws, of advising clients, and of auditing should be disentangled. Reforms should no longer be dominated by private interests and a closed and technocratic group of rich countries.

Fourth, more transparency is needed. Better statistics should help to identify effective tax rates paid by corporations. Registers of ultimate beneficial ownership of companies and tax rulings, tax deductions, and tax allowances should be made publicly available. They should also be regularly updated and freely accessible by everyone.

Overall, the contributions in this special issue show that taxation is a worthwhile object of study for scholars of regulatory governance. In the future, some of the questions that will warrant increased attention are: Will the state and public actors be able to maintain their authoritative role domestically? Will they be able to reclaim it internationally? Will the drive toward a fair and effective international tax system be successful? The conceptual framework provided here should prove useful in analyzing the developments to come.

Acknowledgments

Leo Ahrens, Lucinda Cadzow, Simon Linder, Daniel Mügge, and two anonymous reviewers provided helpful comments and suggestions on earlier versions of this article. The authors had constructive discussions with the contributors to this special issue. The authors thank all of them! Funding by the European Commission for the Horizon 2020-Project "Combatting Fiscal Fraud and Empowering Regulators (COFFERS)" is gratefully acknowledged. This research was funded by the European Union's Horizon 2020 research and innovation

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program 2014–2018 under grant number 727145 – 'Combatting Fiscal Fraud and Empowering Regulators' (COFFERS).

Data availability statement

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

Endnotes

[1] One reviewer suggested to us that even the equivalence from the perspective of regulated/taxed actors may be questionable. Tough regulation could be welcome by business as it helps to signal the safety of products or the sustainability of production processes to consumers. Taxes, in contrast, were always a cost to business. We disagree with this statement. First, we maintain that from the perspective of individual firms, regulations are undesirable. If all firms have to comply to regulatory standards, individual quality signals to gain an edge over competitors are not possible anymore. It remains true, however, that such regulations may be desirable for ethical businesses. If everyone has to comply with a standard, the material incentive to undercut competitors disappears. The standard solves a collective action problem of ethical businesses. The same argument can, however, be made for taxes, too. Businesses receive public goods and infrastructure in return for their taxes. The fact that they nevertheless view these contributions to public good provision as a plain cost, is simply due to the fact that they could individually consume these public goods without contributing to the government coffers, that is, free-ride on other taxpayers. In other words, just like in regulation, businesses receive collective benefits from taxation.

[2] This difference is less pronounced on the international level. Rules on double tax avoidance and tax evasion and avoidance that operate at the interfaces of national tax systems are mostly made by bureaucrats.

[3] The basic theme of "quasi-voluntary compliance" (Levi 1988) is actually an old one. Rulers at all times realized that eliciting compliance through mere coercion is doomed to fail. Indeed, it has been argued that democracy was invented for the purpose of taxation (Ross 2004). While this shows that a concern for responsiveness has always been around, it is only recently that concrete administrative procedures of cooperative responsive tax assessment have been introduced. We thank an anonymous reviewer for reminding us of Levi's quasi-voluntary compliance.

[4] In how far the increased transparency that AEoI brings can actually be interpreted as coerciveness is subject to debate. The counterargument is that it merely corrects an information asymmetry that unfairly benefitted dishonest taxpayers.

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