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Fiscal Sociology in an Age of Globalization: Comparing Tax Regimes in Advanced Capitalist Countries

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In order to advance the enterprise of economic sociology, the editors of this volume call for a comparative analysis of the institutions of capitalism, including its political institutions. This chapter does this by examining one form of property rights in the advanced capitalist economies. Property rights are the backbone of capitalist economies and of utmost importance to economic sociology. They consist of rules that define not only who owns the means of production, but also who uses them and who appropriates the benefits from their use (Bromley 1989: 187–206; Barzel 1989: 2). They constitute an essential part of the institutional membrane that connects the state and economy and are among the most important institutions in which capitalist economic activity is embedded. Economic sociologists and others have argued that through the control of property rights states influence both the behavior and organization of firms within national economies (Campbell and Lindberg 1990; Fligstein 1990; North 1990).

Taxation is one of the most important forms of property rights. States manipulate tax policy in ways that have far-reaching consequences for private property and the economy. Because tax policy determines the degree to which states take profits from firms and earnings from individuals, it impinges directly on rights of private property ownership and appropriation. Tax policy also affects firm and individual investment strategies and, thus, how people use their property. For example, shifts in tax policy, such as the provision of investment tax credits or individual retirement accounts, can influence capital investment, which affects the distribution of capital across firms and sectors and, in turn, production. It also affects savings, which

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influences consumption. As a result, cross-national and historical variation in taxation helps explain differences in national economic performance and income and capital redistribution (Martin 1991; North 1990, 1981; Steinmo 1993). In sum, taxation can facilitate or inhibit the release of economic energy and, therefore, enable or constrain capitalist activity because it influences the distribution, production, consumption, and productivity of capital—four processes that are central to an economic sociology of capitalism (Swedberg, this volume). It follows that variation in taxation should be a significant explanatory variable for economic sociology (Campbell 1993).

But capitalism is changing in ways that may reduce the international variation among tax regimes. By *tax regime* I mean a combination of taxes and tax rates that policy makers adjust in order to achieve their policy goals. Scholars have argued that the increased globalization of economic activity during the late twentieth and early twenty-first century is resulting in the homogenization of national political systems, including tax regimes, throughout the advanced capitalist world (e.g., Cerny 1997; Guéhenno 1995; Strange 1997). Why?

According to globalization theory, improvements in transportation and telecommunication technologies have vastly improved firms' knowledge of profitable international economic opportunities and have increased the speed with which these opportunities can be pursued and achieved. This is especially true for financial transactions, which now can be conducted almost instantaneously between parties around the globe. All of this has been exacerbated by increased trade liberalization and decontrol of capital flows both unilaterally and through international agreements. In short, economic activity has become far more integrated on a worldwide basis than it was thirty years ago and capital moves much more freely across borders. In turn, because capital has become so mobile internationally the threat of capital flight has become pervasive and, as a result, states must now compete more than ever to attract and retain capital investment within their borders.

Of course, globalization theorists recognize that capital investment decisions are based on a variety of considerations and that there are several ways states can seek to attract or retain capital, including further lowering tariffs, easing the regulatory burden on business, and so on. But they are clear that one of the most important competitive strategies available to states is to reduce the tax burden on individuals and corporations (McKenzie and Lee 1991). As such, "many economists argue that the competition for a mobile tax base will lead to a fiscally ruinous 'race to the bottom,' where the competing states interactively cut their taxes on capital and other mobile factors to ever lower levels" (Dehejia and Genschel 1999: 403–4). Over the long term this will lead to an eventual convergence on low tax rates and a depletion in the ability of national governments to

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control the making of tax policy (Hallerberg 1996: 324; see also Crafts 2000: 42–43; Kurzer 1993; Steinmo 1993: 29; Tanzi 1995: xxi). The OECD is so concerned about this that it warned recently that tax competition will undermine the ability of national governments to maintain their tax bases and, therefore, urged international cooperation to eliminate such harmful tax practices (OECD 2000b). In some cases, this was tried but failed. Notably, despite several attempts, members of the European Union have been unable to harmonize their tax systems (Dehejia and Genschel 1999; Hallerberg 1996).[1]

The implication of this argument for economic sociology is disturbing. If globalization theory is right, then an important explanatory variable for economic sociology is becoming irrelevant in the age of global capitalism. After all, if tax regimes (and other forms of property rights) converge cross-nationally as predicted, then differences among these regimes disappear and we lose what has proven to be a powerful analytic approach for explaining variation in national economic organization and performance.

Contrary to globalization theory, this chapter argues that there is little cause for alarm insofar as taxation is concerned. Tax regimes in the advanced capitalist countries are not converging and there is little evidence of a race to the bottom. Instead, I will suggest that nationally specific politics and political institutions limit the degree to which states reduce tax levels and the degree to which national tax regimes converge. This is ironic. Globalization theory maintains that increased capital mobility undermines the national political institutions through which states regulate economic activity within their borders (Giddens 2000; Sassen 1996). Yet these political institutions are largely responsible for the persistent differences among tax regimes and are, therefore, quite useful for demonstrating why the globalization thesis is misguided in the first place. More important, evidence that contradicts the race to the bottom hypothesis represents a major challenge to the empirical validity of globalization theory.

More specifically, I suggest that the manner in which labor and business are organized affects how they perceive their tax-related interests and thus the sorts of tax policies they are willing to support. Where labor is well organized and politically influential, unions and their political supporters are willing to support relatively high taxes because they expect that these will help finance programs from which they benefit. Similarly, where business is well organized, such as through business associations, it tends to see that relatively high taxes support programs, including health insurance, education, and research and development, that ensure social peace and help firms remain competitive internationally. Moreover, the manner in which politics is arranged institutionally affects tax policymaking. Countries with inclusive policymaking institutions, such as corporatism or electoral systems that yield coalition governments, tend to be less inclined to race toward the bottom

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than others because these institutional arrangements encourage compromises that mitigate such behavior. This line of argument is consistent with those who maintain that national political and economic institutions mediate how states manage globalization pressures (e.g., Berger and Dore 1996; Campbell and Pedersen 2001: 269–73; Garrett 1998a; Weiss 1998).

What follows, then, is an exercise in fiscal sociology—an analysis of tax regimes. It proceeds as follows. First, I present evidence that contradicts globalization theory by showing that the overall *level* of taxation among the advanced capitalist countries has not converged on lower rates of revenue extraction since 1970. Nor has there been much convergence in the *structure* of tax regimes, that is, the proportion of revenues collected through different types of taxes, in these countries. After globalization accelerated in the mid-1980s, the proportion of revenues collected through different types of taxes did not change very much. There has been surprisingly little empirical research on the interaction between globalization and taxation, especially on the period of the 1990s (Schulze and Ursprung 1999: 312, 321), so this paper helps to fill that gap. Second, I suggest that unique configurations of national politics and political institutions mediate how states cope with the pressures of globalization. As a result, cross-national variation in politics and institutions goes a long way to explain why there is not a convergent race to the bottom. Third, I address more specifically the situation in the United States, a country that at first blush seems to provide evidence in support of globalization theory to the extent that it has experienced increased trade and international capital flows as well as several big tax cuts since 1980. Finally, I discuss why the globalization thesis may also not be well suited for understanding tax reforms in countries outside the advanced capitalist world, notably postcommunist Europe.

Have There Been Convergence and a Race to the Bottom in Taxation?

Globalization theorists argue that several aspects of economic activity have taken on increasingly international proportions. To begin with, international trade expanded dramatically among the advanced capitalist countries during the last few decades. Between 1960 and 1990 the ratio of merchandise exports to Gross Domestic Product (GDP) increased worldwide from 8 to 13 percent, a significant if not dramatic rise (Crafts 2000: 20). The ratios were nearly twice as large for many advanced capitalist countries. More notable increases occurred in foreign direct investment (FDI), the investments firms make in foreign firms and production facilities, which jumped from 6.4 to 56.8 percent of GDP between 1960 and 1995, with almost all of this growth occurring after 1985 (Crafts 2000: 21; Hirst and Thompson

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1996: 55). Even more impressive was the increase in international portfolio investment, that is, investment by financial and fiduciary institutions in foreign stocks, bonds, and the like, which grew among OECD countries at rates two and sometimes three times faster than those of FDI between the mid-1980s and mid-1990s (Simmons 1999: 46). Finally, and perhaps most spectacular of all, foreign exchange turnover skyrocketed from $18 trillion in 1979 to $297 trillion in 1995 (Held et al. 1999: 209).

There is much debate about whether current levels of global economic activity are really so different from those seen in the early twentieth century prior to the contraction of international trade and investment associated with the two world wars and the Great Depression. The term "globalization" is also contested insofar as most of the change described above has been restricted primarily to the so-called triad region of North America, Western Europe, and Japan (e.g., Fligstein 2001: chap. 9; Hirst and Thompson 1996). Nevertheless, few scholars dispute the fact that economic activity has become increasingly globalized, or at least internationalized, since 1970, thanks in part to the advent of revolutionary changes in transportation and communication technologies. There is also agreement that some aspects of economic activity have become globalized more extensively and rapidly than others.

The Level of Taxation

But has the globalization of economic activity triggered a race to the bottom and convergence on generally lower levels of taxation? Apparently not. Table 1 presents total government tax revenues as a percentage of GDP between 1970 and 1998 for 18 advanced capitalist countries. An examination of the means and medians shows that over this period the average tax burden actually *increased*. The means rose from about 32 percent of GDP to nearly 40 percent of GDP. The medians rose from 33 percent of GDP to 39 percent of GDP. Furthermore, the corresponding measures of dispersion *increased*. The standard deviation, associated with the mean, rose during this period from about 6.1 to 7.2, and the interquartile range, associated with the median, increased from 8.1 to 9.9.[2] In this case, the measures of dispersion indicate how close countries tend to cluster around the average tax burden for the group as a whole. Smaller measures of dispersion indicate tighter clustering (i.e., convergence) than larger ones. Thus, not only did the tax burden increase rather than decrease, but there was no convergence toward a common level of taxation among these countries. On both counts the evidence contradicts globalization theory.

One argument that might rescue globalization theory from this evidence is that there may be convergent tendencies within smaller groups of countries. Understand that there are different types of capitalism, each with

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TABLE 1
Total Tax Revenues in 18 OECD Countries (as a percentage of GDP)

	1970	*1980*	*1990*	*1998*
Australia	22.9	27.4	29.3	29.9
Austria	34.9	39.5	40.2	44.4
Belgium	35.7	43.1	43.1	45.9
Canada	31.2	32.0	36.1	37.4
Denmark	40.4	43.9	47.1	49.8
Finland	32.5	36.2	44.7	46.2
France	35.1	40.6	43.0	45.2
Germany	32.9	33.1	32.6	37.0
Ireland	29.9	31.5	33.6	32.2
Italy	26.1	30.3	38.9	42.7
Japan	19.7	25.4	30.9	28.4
Netherlands	37.1	43.4	42.8	41.0
New Zealand	27.4	33.0	38.1	35.2
Norway	34.9	42.7	41.8	43.6
Sweden	39.8	47.1	53.7	52.0
Switzerland	22.5	28.9	30.9	35.1
United Kingdom	37.0	35.3	36.0	37.2
USA	27.7	27.0	26.7	28.9
Mean	31.54	35.58	38.31	39.56
Median	32.70	34.20	38.50	39.20
Standard deviation	6.06	6.73	6.97	7.15
Interquartile Range	8.08	11.58	10.10	9.88

Data are from OECD (2000a: Table 3, 67–68).

unique political, economic, and institutional arrangements (Hollingsworth et al. 1994; Hollingsworth and Boyer 1997). Countries of a particular type tend to share common features, such as similar tax regimes. It follows that different types of countries may tend to cope with globalization pressures in different ways. Thus, although convergent tendencies in taxation might not be apparent when all the advanced capitalist countries are examined as a single group, there may be convergent, race to the bottom effects among countries that share important features (e.g., Kitschelt et al. 1999). In other words, multiple equilibria are possible (Shepsle 1986).

One useful distinction is that made between coordinated and liberal market economies (Soskice 1999). *Coordinated market economies*, such as

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Germany and the Northern European countries, are those whose institutions facilitate strong labor unions and business associations, cooperative industrial relations between unions and managers both within and across firms, long-term corporate investment and profit horizons, inter-firm cooperation in areas like research and development, and extensive vocational training systems. In contrast, *liberal market economies*, such as the Anglo-Saxon countries, have weaker unions and business associations, deregulated labor markets and firm-level rather than sectoral or industrial bargaining between labor and management, short-term corporate investment and profit horizons, strong competition requirements that limit possible cooperation among firms, and educational systems that emphasize general rather than vocational training. Furthermore, states in coordinated market economies tend to pursue developmental and distributive goals much more vigorously and directly than their counterparts in liberal market economies, such as by providing financial support to firms or sectors for economic development projects, active labor market policies, and hefty welfare state programs to maintain a comparatively high social wage (Albert 1993; Best 1990; Hicks and Kenworthy 1998; Weiss 1998). Of course, these are policies that are expensive and require relatively high levels of taxation.

Table 2 compares the tax burdens in coordinated and liberal market economies from 1970 to 1998. Countries were classified as either coordinated or liberal market economies according to the index developed by Western (2001: 78). An analysis of the means and medians reveals, as expected, that tax burdens are consistently lower in the liberal market economies. An inspection of the means shows that in the liberal market economies the average tax burden increased from 30 to 36 percent of GDP, and in the coordinated market economies it increased from 33 to 42 percent of GDP. The medians show similar trends, rising from 29 to 36 percent of GDP in the liberal market economies and from 35 to 44 percent in the coordinated market economies. Furthermore, in the liberal market economies the standard deviations increased from 4.7 to 5.8, and in the coordinated market economies they increased from 6.8 to 7.1. The interquartile ranges rose, from 5.1 to 7.1 in the liberal economies and from 4.2 to 8.1 in the coordinated economies. So average tax burdens in both types of societies *increased* during this period, and measures of dispersion showed no tendency toward convergence. There is little support within these country types for globalization theory.

Another way that scholars often group advanced capitalist countries is according to their type of welfare state (e.g., Esping-Andersen 1999). The *social democratic* welfare states of Northern Europe have typically been the most generous to their citizens and, thus, ought to be associated with the highest tax burdens insofar as these states utilize tax revenue to finance welfare spending. In contrast, *residual* welfare states, like those in the Anglo-Saxon countries, have been more stingy historically and so should

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TABLE 2
Total Tax Revenues in Liberal and Coordinated Market Economies (as a percentage of GDP)

	1970	*1980*	*1990*	*1998*
Liberal Economies				
Australia	22.9	27.4	29.3	29.9
Canada	31.2	32.0	36.1	37.4
France	35.1	40.6	43.0	45.2
Ireland	29.9	31.5	33.6	32.2
Italy	26.1	30.3	38.9	42.7
New Zealand	27.4	33.0	38.1	35.2
United Kingdom	37.0	35.3	36.0	37.2
United States	27.7	27.0	26.7	28.9
Mean	29.66	32.14	35.21	36.09
Median	28.80	31.75	36.05	36.20
Standard deviation	4.68	4.39	5.26	5.80
Interquartile range	5.10	4.00	5.78	7.10
Coordinated Economies				
Austria	34.9	39.5	40.2	44.4
Belgium	35.7	43.1	43.1	45.9
Denmark	40.4	43.9	47.1	49.8
Finland	32.5	36.2	44.7	46.2
Germany	32.9	33.1	32.6	37.0
Japan	19.7	25.4	30.9	28.4
Netherlands	37.1	43.4	42.8	41.0
Norway	34.9	42.7	41.8	43.6
Sweden	39.8	47.1	53.7	52.0
Switzerland	22.5	28.9	30.9	35.1
Mean	33.04	38.33	40.78	42.34
Median	34.90	41.10	42.30	44.00
Standard deviation	6.83	7.19	7.42	7.14
Interquartile range	4.15	9.45	9.80	8.13

Data are from OECD (2000a: Table 3, 67–68).

be associated with lower tax burdens. Finally, because *Christian democratic* welfare states fall between these extremes, so should their tax burdens (Esping-Andersen 1999; Stephens et al. 1999).

Table 3 shows changes in total tax revenues as a percentage of GDP from 1970 to 1998 for these three types of welfare states. Countries were classified as residual, Christian democratic, or social democratic welfare states according to the index developed by Kitschelt et al. (1999: 436).

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TABLE 3
Total Tax Revenues in Residual, Christian Democratic, and Social Democratic Welfare States (as a percentage of GDP)

	1970	*1980*	*1990*	*1998*
Residual				
Australia	22.9	27.4	29.3	29.9
Canada	31.2	32.0	36.1	37.4
Ireland	29.9	31.5	33.6	32.2
Japan	19.7	25.4	30.9	28.4
New Zealand	27.4	33.0	38.1	35.2
United Kingdom	37.0	35.3	36.0	37.2
United States	27.7	27.0	26.7	28.9
Mean	27.97	30.23	32.96	32.74
Median	27.70	31.50	33.60	32.20
Standard deviation	5.63	3.65	4.14	3.86
Interquartile range	5.40	5.30	5.95	6.80
Christian Democratic				
Austria	34.9	39.5	40.2	44.4
Belgium	35.7	43.1	43.1	45.9
France	35.1	40.6	43.0	45.2
Germany	32.9	33.1	32.6	37.0
Italy	26.1	30.3	38.9	42.7
Netherlands	37.1	43.4	42.8	41.0
Switzerland	22.5	28.9	30.9	35.1
Mean	32.04	36.99	38.79	41.61
Median	34.90	39.50	40.20	42.70
Standard deviation	5.53	6.10	5.08	4.17
Interquartile range	5.90	10.15	7.15	5.80
Social Democratic				
Denmark	40.4	43.9	47.1	49.8
Finland	32.5	36.2	44.7	46.2
Norway	34.9	42.7	41.8	43.6
Sweden	39.8	47.1	53.7	52.0
Mean	36.90	42.48	46.83	47.90
Median	37.35	43.30	45.90	48.00
Standard deviation	3.83	4.58	5.07	3.73
Interquartile range	5.65	3.63	4.78	4.80

Data are from OECD (2000a: Table 3, 67–68).

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Table 3 confirms that average tax burdens are lowest in residual welfare states, followed by Christian democratic welfare states, and then social democratic welfare states, which have the highest tax burdens. Furthermore, within each group of countries tax burdens increased over time. In residual welfare states the means and medians rose from 28 to 33 percent and from 28 to 32 percent of GDP, respectively. In Christian democratic welfare states the means and medians rose from 32 to 42 percent of GDP and from 35 to 43 percent of GDP, respectively. In social democratic welfare states the means and medians both rose from about 37 to 48 percent of GDP. These upward trends do not support globalization theory. However, in all three sets of countries the standard deviations declined slightly, from 5.6 to 3.9 in residual welfare states, from 5.5 to 4.2 in Christian democratic welfare states, and from 3.8 to 3.7 in social democratic welfare states. The interquartile ranges declined from 5.9 to 5.8 in Christian democratic welfare states and from 5.7 to 4.8 in social democratic welfare states. However, they rose from 5.4 to 6.8 in the residual welfare states. Overall, this suggests a modest tendency for all three types of welfare states to adopt *higher* tax burdens, not lower ones as globalization theory predicts, and at least for Christian democratic and social democratic welfare states to converge modestly within their groups toward these higher burdens.

In sum, analyses of tax levels in the advanced capitalist countries provide no support for the notion that globalization is causing states to converge on lower tax burdens. However, there may still be a way to redeem globalization theory. It is possible that globalization may have caused changes in the *structure* of national tax regimes without affecting the overall *level* of tax burdens. After all, states may implement significant changes in their tax regimes by shifting where the tax burden falls without altering the level of taxation per se (e.g., Allen and Campbell 1994; Campbell and Allen 2001; Przeworski and Wallerstein 1988). For example, shifting from progressive income taxes to flat social consumption taxes, such as sales or value-added taxes, may move the burden of taxation from one income group to another without affecting the total amount of revenue the government collects. So it is possible that if states did not converge toward lower levels of taxation due to globalization, perhaps they tended at least to alter the structure of their tax regimes by shifting the tax burden off investors and on to others.

The Structure of Taxation

In order to investigate this possibility, Table 4 examines for 17 advanced capitalist countries the percentage of total central government revenues collected through three major taxes: income and profit taxes, social security taxes, and taxes on goods and services.[3] Together these three types of taxes comprise the vast majority of government revenues and constitute the foundation of modern tax regimes. They provided on average between

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Table 4
Central Government Revenues for 17 OECD Countries by Tax Type (as a percentage of Total Government Revenues)

	Income & Profit Taxes		*Social Security Taxes*		*Taxes on Goods & Services*	
	1990	*1998*	*1990*	*1998*	*1990*	*1998*
Australia	65	68	0	0	21	21
Austria	19	26	37	40	25	25
Belgium	35	37	35	33	24	25
Canada	51	54	16	19	17	17
Denmark	37	36	4	4	41	42
Finland	31	29	9	10	47	44
France	17	20	44	42	28	29
Germany	16	15	53	48	24	20
Ireland	37	42	15	13	38	37
Italy	37	33	29	31	29	26
Netherlands	31	25	35	41	22	23
New Zealand	53	62	0	0	27	28
Norway	16	21	24	23	34	38
Sweden	18	14	31	34	29	28
Switzerland	15	15	51	51	23	23
United Kingdom	39	39	17	17	28	31
United States	52	57	35	32	3	3
Mean	33.47	34.88	25.59	25.77	27.06	27.06
Median	35.00	33.00	29.00	31.00	27.00	26.00
Standard Deviation	15.37	16.98	16.78	16.50	9.85	9.87
Interquartile Range	21	21	20	27	6	8

Data are from World Bank (2001: Table 4.13, 242–44).

86 and 88 percent of all the revenue these governments collected during the 1990s. The rest came from taxes on international trade, miscellaneous taxes, and non-tax revenue (World Bank 2001: 242–44). The table presents data from 1990 and 1998, a relatively short period, but one that is appropriate because the sharp increases in foreign direct investment, international portfolio investment, and foreign exchange transactions with which globalization theory is so concerned occurred after 1985 so their effects, if any, would not likely begin to appear until the 1990s.

Table 4 shows that there was very little change in the percentage of revenues received from each type of tax during the 1990s. In particular, we

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might expect that taxes on income, which include individual and corporate income taxes, profit taxes, and capital gains taxes, would be the form of taxation most likely to be affected by globalization pressures if states want to shift taxes off individual and corporate investors. Yet the evidence is inconclusive. An examination of the means shows that the percentage of revenues collected through income and profit taxes increased from 34 to 35 percent of total government revenues. However, the median declined from 35 to 33 percent of total government revenues. Neither the standard deviation nor interquartile range of income taxes declined at all. The mean of the percentage of revenues collected through social security taxes was essentially stable and the median increased slightly from 29 to 31 percent of total revenues. The standard deviation declined slightly from 16.8 to 16.5, but the interquartile range increased from 20 to 27. The mean of the percentage of revenues collected through taxes on goods and services was unchanged while the median declined from 27 to 26 percent of total revenues. The standard deviation was virtually unchanged and the interquartile range increased from 6 to 8. There is little evidence here that the structure of tax regimes changed in ways that are consistent with globalization theory.

In order to determine whether there might be different results within types of countries, the liberal and coordinated market economies again were examined separately. Contrary to globalization theory, Table 5 shows that within the liberal market economies there was a slight *increase* in the amount of revenue collected through income and profit taxes between 1990 and 1998. The mean and median rose from 44 to 47 percent of total revenues collected and from 45 to 48 percent of total revenues collected, respectively. The measures of dispersion increased as well. Indeed, the increase in income and profit taxation is surprising insofar as these are the countries that tend to be most likely to favor lower income taxes, at least judging by the rhetoric of ruling politicians like Ronald Reagan, Margaret Thatcher, and other conservatives in power who have called frequently since 1980 for lower taxes on individuals and corporations. The mean for social security taxes in liberal market economies was virtually stable and the median increased from about 17 to 18 percent of total revenues collected. The standard deviation declined slightly from 15.7 to 15.1 and the interquartile range rose from 19.3 to 21.5. For taxes on goods and services, the mean, median, and standard deviation remained quite stable, but the interquartile range increased slightly from 8.3 to 9.5. Insofar as the liberal market economies are concerned, these results provide no support for globalization theory.

For the coordinated market economies Table 5 reveals that the percentage of revenues collected through income and profit taxes did not decline. The mean remained unchanged and the median rose from 19 to 25 percent of total revenues collected. Furthermore, the standard deviation and interquartile range declined very slightly from 9.1 to 8.8 and from 15 to 14,

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Table 5
Central Government Revenues by Tax Type in Liberal and Coordinated Market Economies (as a percentage of Total Government Revenues)

	Income & Profit Taxes		*Social Security Taxes*		*Taxes on Goods & Services*	
	1990	*1998*	*1990*	*1998*	*1990*	*1998*
Liberal Economies						
Australia	65	68	0	0	21	21
Canada	51	54	16	19	17	17
France	17	20	44	42	28	29
Ireland	37	42	15	13	38	37
Italy	37	33	29	31	29	26
New Zealand	53	62	0	0	27	28
United Kingdom	39	39	17	17	28	31
United States	52	57	35	32	3	3
Mean	43.88	46.88	19.50	19.25	23.88	24.00
Median	45.00	48.00	16.50	18.00	27.50	27.00
Standard deviation	14.57	16.16	15.72	15.13	10.43	10.43
Interquartile range	15.25	20.75	19.25	21.5	8.25	9.50
Coordinated Economies						
Austria	19	26	37	40	25	25
Belgium	35	37	35	33	24	25
Denmark	37	36	4	4	41	42
Finland	31	29	9	10	47	44
Germany	16	15	53	48	24	20
Netherlands	31	25	35	41	22	23
Norway	16	21	24	23	34	38
Sweden	18	14	31	34	29	28
Switzerland	15	15	51	51	23	23
Mean	24.22	24.22	31.00	31.56	29.89	29.78
Median	19.00	25.00	35.00	34.00	25.00	25.00
Standard deviation	9.07	8.76	16.64	16.26	8.92	9.05
Interquartile range	15.00	14.00	13.00	18.00	10.00	15.00

Data are from World Bank (2001: Table 4.13, 242–44).

respectively. There was virtually no change in the proportion of revenues collected either through social security taxes or taxes on goods and services. Nor did the standard deviations change much. However, the interquartile range increased from 13 to 18 for social security taxes and from 10 to 15 for taxes on goods and services. Again, these results offer virtually no support

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Table 6
Central Government Revenues by Tax Type in Residual, Christian Democratic, and Social Democratic Welfare States (as a percentage of Total Government Revenues)

	Income & Profit Taxes		*Social Security Taxes*		*Taxes on Goods & Services*	
	1990	*1998*	*1990*	*1998*	*1990*	*1998*
Residual						
Australia	65	68	0	0	21	21
Canada	51	54	16	19	17	17
Ireland	37	42	15	13	38	37
New Zealand	53	62	0	0	27	28
United Kingdom	39	39	17	17	28	31
United States	52	57	35	32	3	3
Mean	49.50	53.67	13.84	13.50	22.33	22.83
Median	51.50	55.50	15.50	15.00	24.00	24.50
Standard deviation	10.27	11.29	13.01	12.24	11.86	12.04
Interquartile range	10.75	15.75	12.99	15.24	9.75	12.25
Christian Democratic						
Austria	19	26	37	40	25	25
Belgium	35	37	35	33	24	25
France	17	20	44	42	28	29
Germany	16	15	53	48	24	20
Italy	37	33	29	31	29	26
Netherlands	31	25	35	41	22	23
Switzerland	15	15	51	51	23	23
Mean	24.29	24.43	40.57	40.86	25.00	24.43
Median	19.00	25.00	37.00	41.00	24.00	25.00
Standard deviation	9.64	8.48	8.98	7.24	2.58	2.82
Interquartile range	16.50	12.00	12.50	8.50	3.00	2.50
Social Democratic						
Denmark	37	36	4	4	41	42
Finland	31	29	9	10	47	44
Norway	16	21	24	23	34	38
Sweden	18	14	31	34	29	28
Mean	25.50	25.00	17.00	17.75	37.75	38.00
Median	24.50	25.00	16.50	16.50	37.50	40.00
Standard deviation	10.15	9.56	12.62	13.43	7.89	7.12
Interquartile range	15.00	11.50	18.00	17.25	9.75	7.00

Data are from World Bank (2001: Table 4.13, 242–44).

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for globalization theory. Table 6 examines tax shifting in different types of welfare states between 1990 and 1998. Residual welfare states experienced little tax shifting other than an *increase* in the amount of revenue generated through income and profit taxes. Contrary to globalization theory, the corresponding means and medians climbed from about 50 to 54 percent of total revenue and from 52 to 56 percent of total revenue, respectively. Both measures of dispersion increased. The mean, median, and standard deviation for social security taxes declined very slightly, but the interquartile range increased from about 13 to 15. Mean and median taxes on goods and services increased marginally as did the measures of dispersion.

Christian democratic welfare states also encountered little tax shifting in line with globalization theory. For income and profit taxes the mean was essentially unchanged and the median increased from 19 to 25 percent of total revenues collected. The standard deviation declined from 9.6 to 8.5 and the interquartile range decreased from 16.5 to 12. For social security taxes the mean and median values also increased while the measures of dispersion decreased. So for both types of taxation to the extent that any trend is evident it is one of convergence toward a *greater* reliance on income and profit taxes and social security taxes, evidence that does not square well with globalization theory. The results for taxes on goods and services are inconclusive. The mean declined slightly and the standard deviation increased. Conversely, the median increased slightly and the interquartile range decreased.

Finally, the results regarding social democratic welfare states are largely inconclusive. For income and profit taxes an examination of the means reveals a very slight decrease from 25.5 to 25 percent in the amount of total revenue collected. An examination of the medians shows a similarly small increase from 24.5 to 25 percent of total revenue collected. Both measures of dispersion declined. For social security taxes the mean increased modestly and the median remained unchanged while the standard deviation increased and the interquartile range decreased. For taxes on goods and services the mean was basically stable and the median rose from 37.5 to 40 percent of total revenue collected. The standard deviation declined from 7.9 to 7.1 and the interquartile range declined from 9.8 to 7. Thus, in the social democratic welfare states there is no consistent evidence to support globalization theory.

To summarize briefly, there is no support for the notion that globalization precipitated a convergent race to the bottom in levels of taxation. This was true for both the full group of advanced capitalist countries and the various subgroups. Nor was there much tax shifting in the direction that globalization theory would predict. Moreover, why liberal market economies and residual welfare states shifted their tax burdens toward *higher* levels of taxation and a *greater* reliance on income and profit taxes is unclear and very much at odds with globalization theory. Because these

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tend to be countries with more conservative governments and because they tend to collect a considerably larger percentage of their revenues from income and profit taxes than do others, globalization theory would imply a shift away from these taxes, not a shift toward them.

To the extent that we have been interested in how globalization affects different varieties of capitalism, it is also worth noting that within country types there was only very limited evidence of convergence as reflected by the fact that *both* measures of dispersion declined over time. For changes in tax levels (see tables 2 and 3), comparing 1970 and 1998 reveals that only the Christian democratic and social democratic welfare states experienced any convergence toward the average level of taxation for their groups. Even so, these trends were not linear. In both cases there were times between these years when these countries diverged from their average levels of taxation. For changes in the structure of tax regimes (see tables 5 and 6), comparing 1990 and 1998 shows that coordinated market economies converged toward the average for their group in terms of the percentage of total revenues collected from income and profit taxes. Christian democratic welfare states did the same for both income and profit taxes and social security taxes. Finally, social democratic welfare states converged toward the averages for their group in terms of the percentage of total revenues collected from income and profit taxes and from taxes on goods and services. As noted above, these shifts were generally modest and none involved convergence toward lower levels of taxation or away from a reliance on income and profit taxes, as globalization theory predicts. All of this suggests that in only a few instances has there been any congealing of tax regimes within types of capitalist countries. Mostly, there was no evidence for convergence and in several instances the evidence pointed toward divergence. As a result, these findings do not lend much support to those who have argued that globalization will produce further homogenization within country types and the hardening of multiple, country specific equilibria (e.g., Kitschelt et al. 1999).

One caveat is in order. Some might suspect that the evidence for convergence is likely to be greatest for countries outside of the OECD, particularly because it is in these developing countries that the influence of international organizations, such as the International Monetary Fund and World Bank, have had the most influence in pushing a neoliberal set of economic policies, including low tax rates (Wade and Veneroso 1998a, b). This is an issue that requires further analysis. However, the vast majority of international capital and trade flows are within the so-called triad region of advanced industrial economies upon which I have focused here: Japan, North America, and Western Europe (Hirst and Thompson 1996: 63–67). Thus, it is still surprising how little evidence we have seen of convergence among these countries. Indeed, given the high concentration of world trade and capital flows within this region, one would expect, following

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globalization theory, that if there should be evidence of convergence anywhere, then it should be among these countries.

In any case, the big picture remains one in which there is precious little empirical support for globalization theory (see also Swank and Steinmo forthcoming). But what accounts for the fact that states did not reduce tax levels or change their tax regimes much despite a sharp increase in the globalization of economic activity?

National Politics and Institutions

The answer seems to have much to do with national politics and political institutions. Two things are important. First, the manner in which social actors, particularly representatives of labor and business, are organized affects how they perceive their interests around issues of taxation in the first place. Second, the manner in which electoral politics are organized affects the degree to which politicians and organizations are willing to compromise on issues of taxation. Let me explain.

To begin with, countries where the labor movement is centralized and strong politically tend to have higher tax rates than countries where labor is more decentralized and weak politically. In coordinated market economies collective bargaining is often organized at the sectoral or industrial level rather than at the level of the firm, which is typically the case in liberal market economies. Additionally, workers in coordinated economies as well as social democratic welfare states tend to enjoy the benefits of works councils, state employment services, active labor market policies, and various employment guarantees (Hicks and Kenworthy 1998; Western 2001). Insofar as the state pays for these benefits, labor has an interest in supporting relatively high taxes and does so in the expectation that this will lead to a higher social wage. Labor's capacity to support these policies is often enhanced in these countries because it is integrated into the policymaking process through corporatist institutions that provide it with an important voice in policy making (Steinmo and Tolbert 1998). Moreover, when strong centralized labor unions are coupled with strong labor or social democratic governments, as is often the case in these countries, the tax burden on everyone, including business, tends to be higher than elsewhere. This is not to say, however, that leftist governments allied with well-organized labor movements have free rein to do as they please. They still exercise self-restraint recognizing that excessive demands for a very high social wage could drive away capital and, therefore, hurt the labor movement as a whole (Garrett 1998a).

However, business and investors also seem willing to bear heavier tax burdens in countries with coordinated market economies and social democratic welfare states. This is because they recognize that it actually

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may be in their own interests to do so. Corporatist countries with strong centralized business associations have higher tax rates than elsewhere because capital is willing to pay for social expenditures that protect workers from the risks associated with an increasingly global economy, thereby ensuring the social peace that business needs (Garrett 1998a). Indeed, a top priority of business is to reduce uncertainty and stabilize the business environment (Fligstein 2001; Kolko 1963). Business may also support higher taxes insofar as this enables the state to provide public goods that directly benefit firms, such as a more educated and, therefore, flexible workforce, universal pension and health benefits that reduce job shifting, and the like (Kiser and Laing 2001). In many cases, business had to learn that there were long-term benefits to be gained from this sort of social investment (Martin 2000: chap. 3, 2002; Streeck 1997). But once this lesson was learned, even in a rapidly globalizing environment where the pressure for institutional convergence may be greater than ever before, the business community's perception of its interests are still shaped by the legacies with which they have lived for decades. This is one reason, for example, why German business associations have defended co-determination practices (Thelen 2000) and why Scandinavian business associations continue to educate their members to the benefits of substantial welfare spending (Swank and Martin 2001). The point is that for institutional reasons business may be less averse to high taxes in some countries than globalization theory recognizes. Thus, perhaps surprisingly, in some cases, depending on its institutional configuration, business and labor may have common interests when it comes at least to the broad contours of taxation.

In addition to the institutional capacities of important economic organizations, electoral institutions exert important effects on tax policy. In majoritarian systems, like Britain and Japan, single parties tend to control the government. The party in power wants to keep taxes low in order not to lose voters and the next election, which would result in its removal from power. In systems that tend to result in coalition governments where one party dominates the coalition, as the Social Democratic Party has done in Sweden, the dominant party strikes long-term compromises with its coalition partners in order to keep the coalition in tack. Taxes tend to be higher in order to pay for the expenditures required to keep coalition members happy. Finally, in systems that tend to produce shifting coalition governments in which no single party dominates the coalition, all parties have incentives to defect and try to gain control of new coalition governments, so there is little incentive for long-term compromise and, thus, spending and taxes tend to be low (Steinmo and Tolbert 1998).

Overall, the point is that the institutional configuration of national politics shapes people's perceptions of their interests and political strategies when it comes to tax policy. Because these institutions are rather constant,

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they sustain and perpetuate tax regimes despite global pressures for a convergent race to the bottom. As a result, the tax regimes of the advanced capitalist countries have remained remarkably stable in the age of globalization.

What about the United States?

At first glance it seems that if any country supports the globalization thesis, it is the United States. After the Second World War, trade as a percentage of GDP increased in the United States and was associated with significant declines in effective corporate income tax rates (Campbell and Allen 1994: 660). Moreover, the outflow of FDI from the United States increased sharply after 1975 and by 1994 was the largest of any country in the world, accounting for 25 percent of total world FDI (Held et al. 1999: 247). There were also two very big globalization era tax cuts through 2000: the 1981 Economic Recovery Tax Act and the 1986 Tax Reform Act. By the end of the 1980s, the United States had some of the lowest corporate and overall tax rates in the OECD (Steinmo 1993: chap. 6).

However, despite this evidence, it would be wrong to conclude that the U.S. case supports globalization theory. To begin with, corporate income tax rates actually began declining steadily in 1954. This was long before the 1970s when globalization is said to have begun, so the U.S. trend toward lower corporate tax rates must have resulted at least in part from things unrelated to globalization. In fact, time-series analysis reveals that several other factors have been associated with declining corporate tax rates in the United States. Among the most important, the declining strength of organized labor tracks very closely with declining corporate taxes. As the organizational and political strength of labor deteriorated after the Second World War it became less able to defend against cuts in corporate tax rates. This, of course, supports my earlier claim that, globalization pressures not withstanding, national politics and political institutions have significant effects on tax policy. Furthermore, higher levels of unemployment have been associated with lower corporate tax rates while larger federal budget deficits have been associated with higher corporate tax rates. These are clear indications that tax policy has been used frequently to cope with domestic economic and fiscal problems (Campbell and Allen 1994).

I am not claiming that globalization has had no relation to tax cuts in the United States. Rather its effects have been more subtle and less determinant than globalization theory predicts. To be sure, tax reform in the 1980s was motivated in part by concerns about U.S. international competitiveness, trade deficits, and capital flight (Steinmo 1993: 165). But these reforms were also motivated in large part by domestic politics in ways that had little to do with globalization.

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For example, the Reagan administration's 1981 Economic Recovery Tax Act, the largest tax cut in U.S. history up to that point, was driven partly by concerns with trade deficits and flagging international competitiveness—problems that were viewed as contributing to the stagflation malaise then gripping the country (Martin 1991, chap. 5). These were supply-side tax cuts that were focused on wealthy individuals and business and intended to stimulate investment in a non-inflationary way (Roberts 1984). However, other factors were also at work. First, some of the administration's most ardent supporters for the tax cuts, notably David Stockman, director of the Office of Management and Budget, advocated deep tax cuts in order to force Congress to reduce spending and, therefore, reduce the size and influence of the federal government in the economy (Makin and Ornstein 1994: 30–31). This, of course, had long been a central part of the Republican Party's domestic political agenda and had nothing to do with globalization. Second, the depth of the cuts was exacerbated by a bidding war that broke out between the administration and members of Congress. Each side repeatedly sought to increase the size of the cuts in order to win political points with its constituents. Again, domestic politics rather than globalization was at work. Finally, and perhaps most important, a year later the 1982 Tax Equity and Fiscal Responsibility Act was enacted, which reduced many of the cuts associated with the 1981 legislation. This was done to counteract a skyrocketing budget deficit that the 1981 Act helped to trigger (Martin 1991, chap. 6). If globalization pressures were so powerful, then it is hard to understand how a year after the 1981 tax cuts were implemented they were suddenly rolled back. As noted above, fiscal pressures have often precipitated U.S. tax reform.

The 1986 Tax Reform Act was also initiated in part due to concerns over capital flight. However, equally if not more important were concerns about the increasing complexity of the tax code and the need to make it neutral with respect to the investment incentives it offered to different sectors of the business community. This was another effort to reduce the federal government's influence in the economy. Indeed, the legislation cut corporate and individual income tax rates and simplified the tax code. Nevertheless, because the bill also reduced or eliminated a variety of tax loopholes, such as those regarding accelerated depreciation and investment tax credits, it actually led to a $120 billion *increase* in corporate taxes paid to the federal government over the next five years (Martin 1991: chap. 7; Steinmo 1993: 165). Once again, this evidence defies globalization theory, especially to the extent that by 1986 the forces of globalization were in full swing, but corporate taxes were increased, not decreased.

In the end, evidence from the United States does not lend much support to globalization theory. The *timing* in the decline of corporate income tax rates is not consistent with globalization theory because that

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decline began nearly two decades before the onset of globalization. Moreover, the *motivation* for important tax reforms stemmed at least as much from domestic fiscal and political concerns as it did from concerns about international capital mobility. Domestic political interests were of paramount importance again early in 2001 when the Bush administration won a $1.6 trillion multiyear tax cut package and later that year sought an additional $60 billion tax cut. These initiatives were not offered in response to capital mobility problems. Instead, they were intended ostensibly to return a hefty budget surplus to the public and to stimulate an economy that was mired in recession (Pearlstein 2001). Some have speculated that they were also aimed at fulfilling promises made during the presidential campaign, including those made to influential supporters (Allen and Kessler 2001), and to restrain government spending, as occurred twenty years earlier in the Reagan administration (Toner 2001).

A Brief Note about Some Other Countries

If well-established politics and institutions mediate the effects of global pressures on national tax regimes, as I have suggested, then the effects of globalization should be strongest in countries without such well-established traditions. Arguably, postcommunist Europe is such a case. After all, since the collapse of their communist regimes these countries have been dismantling their old political institutions and creating new ones, which remain relatively fragile (Elster et al. 1998: 17) and, thus, unlikely to provide an effective buffer against global pressures. Although I do not have good comparative and historical data on tax rates per se for these countries, there is at least some evidence that tax reform in these countries has not conformed with globalization theory.

After the old regimes collapsed in 1989 most of these countries reformed their tax systems along western lines. They adopted value added taxes and individual and corporate income taxes; lowered tax rates; reduced the number of tax rates on business; and generally made the system of taxation more transparent. In part, this was done to attract capital investment (Campbell 1996). However, this was motivated largely by other considerations. First, powerful international lending agencies, notably the International Monetary Fund, demanded such reform as a quid pro quo for the release of vitally important financial aid packages to these governments. Second, the IMF, World Bank, OECD, top Western universities, and other institutions convened many conferences designed to familiarize postcommunist officials with normatively appropriate western fiscal policy. Some especially influential East European reformers, including Czechoslovakia's Vaclav Klaus, who became that country's first postcommunist

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finance minister, and Leszek Balcerowicz, chief architect of Poland's initial reform program, were exposed to these ideas both before and after 1989 during economic studies in the United States, Britain, and West Germany. Finally, these governments were eager to join western organizations, such as the OECD, GATT, and NATO, and so were quick to mimic Western practices in order to do so. In particular, immediately after the old regimes collapsed, Poland, Hungary, and Czechoslovakia aspired to European Union membership and began to harmonize their fiscal systems with those in the EU in order to accomplish this goal (Campbell 2001).

Furthermore, once tax rates had been lowered, some countries actually raised them again in order to stop the budgetary hemorrhaging and fiscal deficits that emerged as a result of revenues lost through tax evasion and the inability of new governments to reduce spending—a story that has much to do with the organization of national politics and electoral institutions (Campbell 2001). The point is that a variety of factors beside concerns with international capital mobility led to the lowering of tax rates and other transformations of postcommunist tax regimes. International considerations were important, but not so much the kind that are central to globalization theory. Rather than being driven by concerns with international capital mobility, these reforms seem to have been designed more to curry favor with the international political community and stemmed more from coercive, normative, and mimetic pressures, as some sociologists would predict (e.g., Meyer 1987), than market pressures exerted by investors.

Conclusion

Nearly a century ago, Joseph Schumpeter (1991: 101) wrote that, "public finances are one of the best starting points for an investigation of society, especially though not exclusively of its political life." The arguments presented here show that Schumpeter's claim is as relevant today as it was then. In this case, by exploring changes in tax regimes we learn much about the dynamics of global capitalism in the late twentieth century.

The analysis reported here offers very little evidence that tax regimes, a critical element of the institution of capitalist property rights, are converging in the broad set of advanced capitalist countries through some sort of race to the bottom inspired by increasing levels of international capital mobility. Nor is there much evidence that convergence in tax regimes is occurring within institutionally specific subsets of these countries. As a result, contrary to those who maintain that globalization is undermining the capacity of nation states to regulate economic activity within their borders (e.g., Giddens 2000; Guéhenno 1995; Sassen 1996), little seems to have

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changed insofar as taxation is concerned in the advanced capitalist world. Thus, globalization does not appear to be threatening the ability of economic sociologists to account for variation in national economic organization and performance by focusing on the effects of tax regimes.

But what if we wait a little longer? After all, it has only been about twenty-five years since the forces of globalization are said to have been unleashed. Perhaps convergence will still occur eventually. There are good reasons apart from those already discussed to doubt that this will happen. As suggested earlier, the behavior of firms and investors is not necessarily defined solely, or even primarily, by an interest in seeking geographical locations with the lowest production costs, including the lowest costs of taxation (Doremus et al. 1998). Of course, some firms do compete by minimizing costs, but others compete by being fast innovators, producing high quality goods, and pursuing other strategies that depend less on cost reduction than other things. The ability to innovate and compete on the basis of quality rather than price and cost is affected by the institutional environment in which firms and investors operate. For instance, liberal market economies are good for firms that want to compete by keeping costs low and moving capital quickly from sector to sector and region to region. However, organized market economies are good for firms that want to compete on the basis of high quality or the capacity for flexible specialization because they provide, for example, especially well trained workers. In other words, firms compete on the basis of *comparative institutional advantage* as well as *comparative cost advantage*. Firms and investors often understand this and this understanding affects their interests when it comes to making decisions about where to invest (Hall 1998; Soskice 1999). That is, firms may be willing to endure higher taxes in exchange for a particularly favorable institutional environment. As a result, the threat of capital flight itself may be less pronounced than globalization theory assumes (Garrett 1998b). If so, then the essential dynamic underlying globalization theory's prediction about a race to the bottom is wrong and there is no reason to expect convergence in the future, no matter how long we wait.

To be sure, I am not arguing that interests are unimportant. I agree with the editors of this volume that interests matter. But interests are more complex or multidimensional than globalization theory recognizes. They are not simply an automatic reaction to, for example, prices or transaction costs. This complexity stems from the fact that institutions shape the perception of interests. Hence, cross-national variation in the institutions of capitalism, like property rights in general and taxation in particular, leads to cross-national variation in the perception of interests. And, as I have argued, this variation of interests is one reason why we have not witnessed a convergence among tax regimes. Of course, this does not imply that globalization

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has had no transformative affects on other capitalist institutions or that economic sociology should assume that these institutions are always in equilibria. Whether they are or not is something that economic sociologists need to scrutinize much more carefully.

Notes

1. When I have discussed globalization theory with colleagues, some of them have dismissed it out of hand and argued that we should not take it seriously. I disagree. First, globalization theory is not so naive as to predict that tax rates will eventually drop to zero. Proponents of this theory recognize that states require at least some minimal level of revenues in order to survive. Second, as will become clear later in this chapter, while I believe that there has not been a race to the bottom in taxation, I believe that the argument itself is important and needs to be taken seriously. It continues to enjoy a respectable place in academic debate (e.g., Genschel 2002). Politicians frequently invoke the argument to justify a variety of policy moves (e.g., Schmidt 2002, part III). And international agencies, such as the OECD (2000b), continue to lament the threat of capital flight and urge countries to collectively address it. In short, the argument still carries weight in academic and policy-making circles.

2. I report median as well as mean values of central tendency because the median is not affected by countries with extreme values as is the mean. Similarly, I report the interquartile range because, in contrast to the standard deviation, it is a measure of dispersion that is not influenced as much by extreme values in the data. It represents the range of dispersion around the median. It is calculated by subtracting the twenty-fifth percentile of the data from the seventy-fifth percentile and, therefore, encompasses the middle 50 percent of the observations (Pagano and Gauvreau 1993: 41–43).

3. Although included in tables 1–3, Japan is omitted in the remaining tables due to missing data for some years.

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