Power in International Tax Policy: The Preconditions and Redistributive Consequences of Credible Sanction Threats

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Abstract

International cooperation against tax evasion has had a long history of failure. Tax havens protecting the income and identities of their foreign clients through financial secrecy have persistently resisted requests from major developed economies for administrative assistance. Since 2014, however, more than 100 countries, including all major offshore centers, have agreed to automatically exchange information (AEI) on capital income earned by non-residents. Why did tax havens adopt AEI after decades of firm resistance against greater financial transparency? Conventional theories of tax cooperation do not provide an answer. Contractualist approaches expect international agreements to produce joint gains. Yet, countries substituting financial secrecy for the routine reporting of account information lose relative to the status quo ante, as hidden capital flows out, and wage levels and employment decline. Constructivist approaches expect shared regulative norms of sovereignty and nonintervention to prevent major economies from using coercion against noncooperative tax havens. In contrast, I trace tax haven cooperation in multilateral AEI back to a credible threat of economic sanctions from the United States (US). The US – the only great power in tax matters for the time being – linked access to its financial market to tax haven participation in bilateral AEI. This, in turn, provided the rest of the world with an opportunity to request cooperation in multilateral AEI from them. By comparing three anti-tax haven initiatives of the Organisation for Economic Co-operation and Development (OECD), I show, moreover, that the US only issues such a sanctions threat when it can shift the costs of regulation to foreign actors, and domestic constraints prevent regressive tax reform. Finally, a nested differences-in-differences analysis reveals that a credible sanctions threat reduces the value of foreign asset holdings in tax havens relative to non-havens.
Jury: Philipp Genschel (EUI/RSCAS) (Co-Supervisor), Thomas Rixen (Univ. Bamberg), Lukas Hakelberg (Ph.D. candidate), Adrienne Héritier (Emeritus EUI) (Supervisor), and Eric Helleiner in videolink

Bio

Lukas Hakelberg joined the SPS Department’s doctoral programme in 2012. Before that he was a trainee with the European External Action Service in Brussels, and obtained a double master’s degree in European Affairs and Political Science from Sciences Po Paris and FU Berlin. His work is situated within the subfield of International Political Economy, focuses on international tax policy, and has been published in the Review of International Political Economy, the Journal of European Public Policy, and Global Environmental Politics.