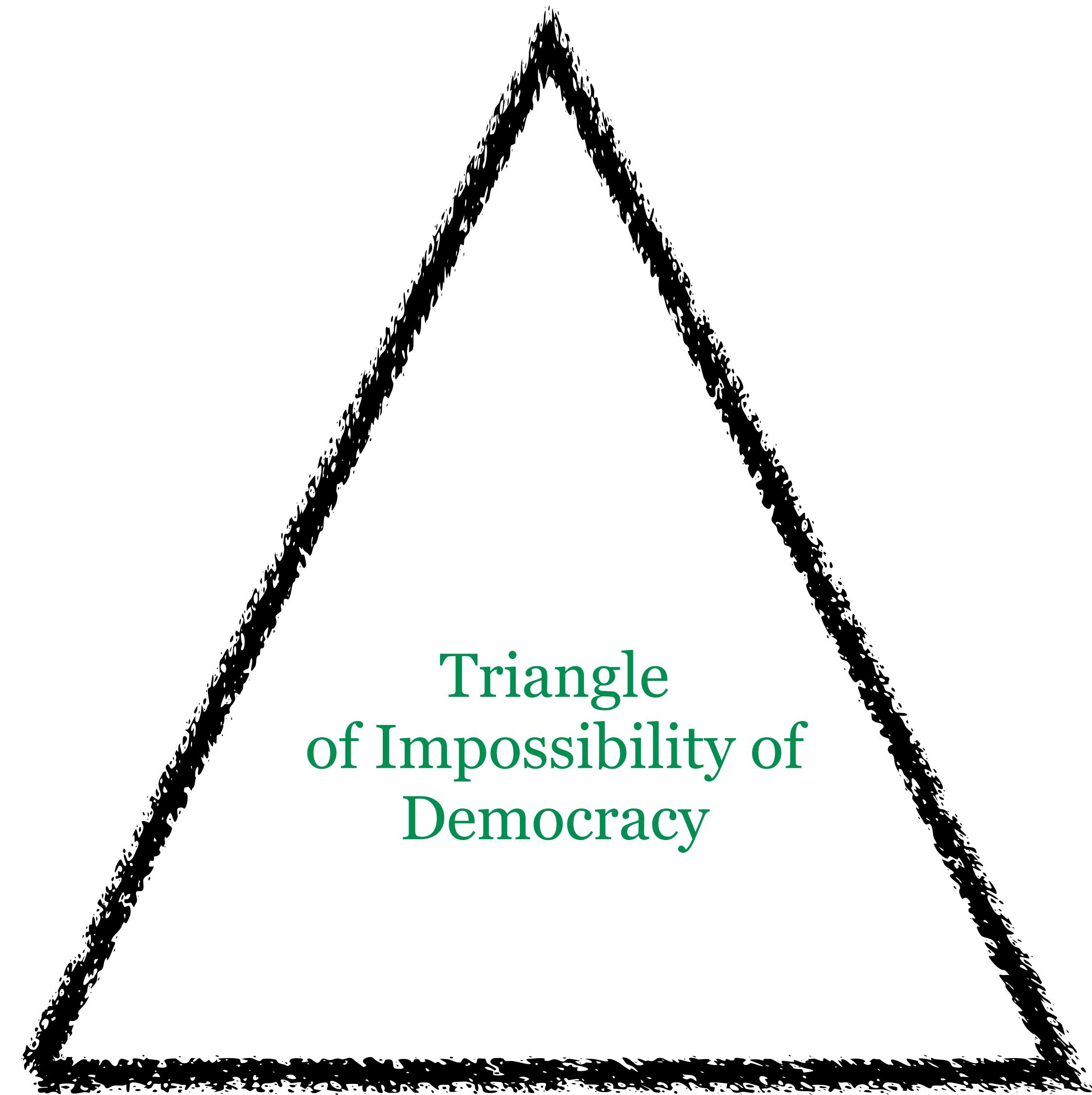


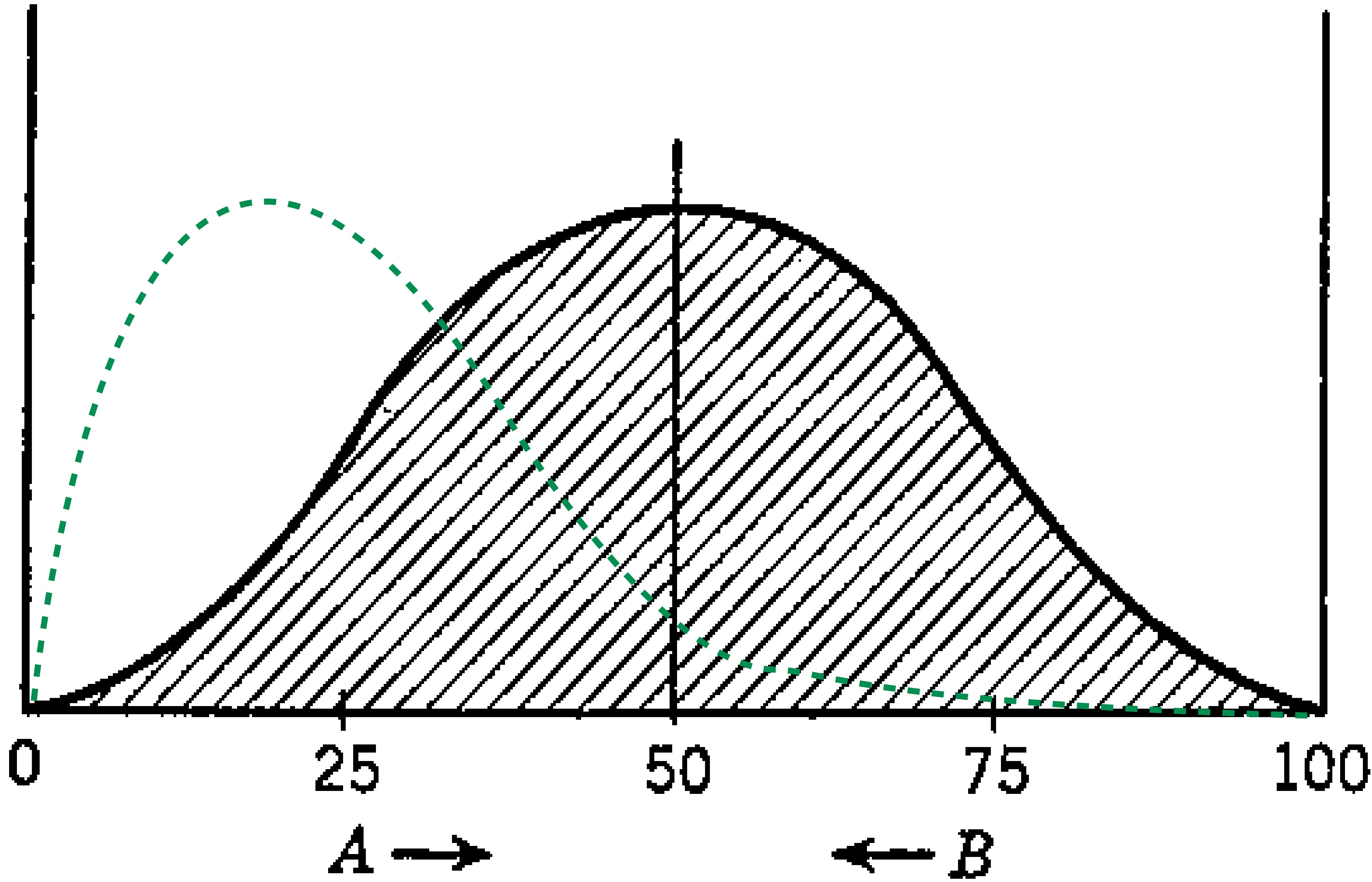
Democracy

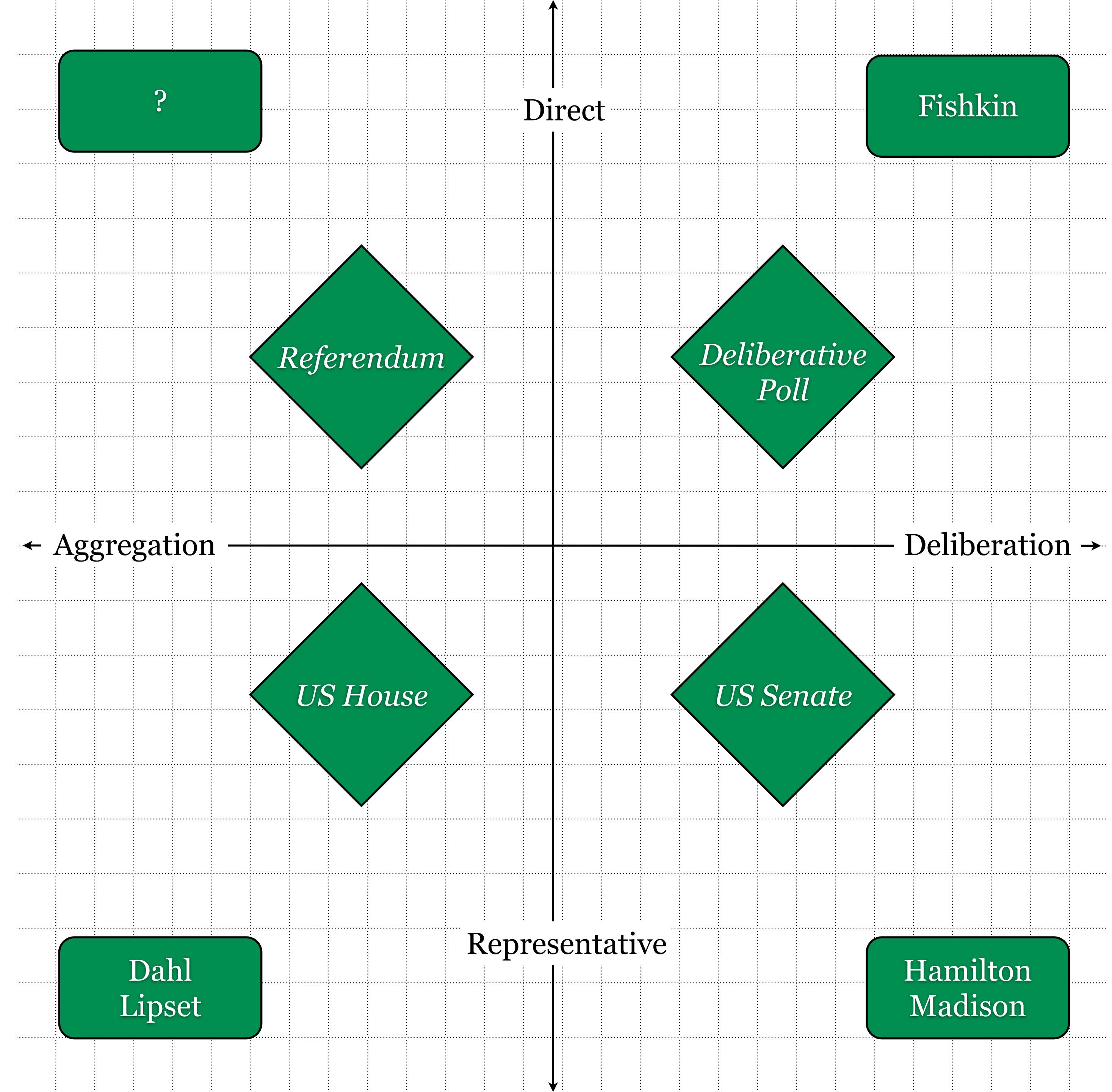
Participation



Deliberation

Political
Equality





Bargaining

Voting

Arguing

Bargaining

Ultimatum Game

Collective Wage
Bargaining

?

Voting

x

Rousseau
Secret Vote

University tenure
decision (if good
department without
logrolling)

Arguing

x

x

Juries

Research Design

(Mis)understanding Tax

--

The Pluralist and Deliberative
Politics of Tax

Research Questions

&

Hypotheses

- What are the payoffs of high, perfect taxation?
- What are the international redistributive consequences?
- If high, perfect taxation is a social welfare optimum, why don't we have it?
- High, perfect taxation is a social optimum.
- Universal high taxation redistributes from developing to developed world. (sidepayments?)
- In a multilevel game, the dual crisis is a Nash equilibrium. (critical mass?)

Mismatch between relevance and understanding.

It's a
good case!

High complexity, non-local -- can deliberative democracy do that?

Why tax?

“*last best hope* for progressivity”
(McCaffery 2002: 197)
& the Welfare State

*It's more
than a case!*

Systematic biases in tax
(McCaffery & Baron 2005)

It controls for other
reasons.

(Path dependency, veto playing,
cooperation problems ...)

It's a
good method!

It makes the PCT
falsifiable.

(maybe, people don't like it)

There is a deep link
between deliberative and
PCT normative theory
(Rawls 1970)

Why deliberation?

*It's more
than a
method!*

Politicizes the
status quo

May alleviate the
public choice
problems

(Miller 2002)

Cooperation problems

(in complex systems, e.g. Hardin 1968,
Scharpf 1997)

Veto-playing violates equality

(in consociational designs, Tsebelis 2002)

Rational ignorance

(e.g. Surowiecki 2008, Taleb 2008)

What's (wrong with) pluralist democracy?

(group interest representation, aggregative democracy, competition of ideas, e.g. Dahl 1989)

Non-attitudes

(Converse 1970)

Heuristics & biases

(Tversky & Kahnemann 1982)

Cognitive limits

(Rosenberg 2003)

Amalgamated preferences

(Condorcet 1785, Arrow 1950)

... because it may not be ‘better’

- requires general equilibrium **modeling**
- depends on **axioms**

... how would it be configured, implemented?

- requires general equilibrium **modeling**
- grunt work

Why don’t we have it?

(it= a different, better tax, such as post-paid, cashflow-based progressive consumption tax)

... because there is an international cooperation problem

- requires general equilibrium **modeling, utility functions, game theory**

... because domestic political dysfunctions prevent it

- maybe: path dependency, veto playing, principal-agent ...

... because **people don’t want it!**

- vignette research, survey research, experimentation

Vetted expert panel.

Plenary and small group interaction.

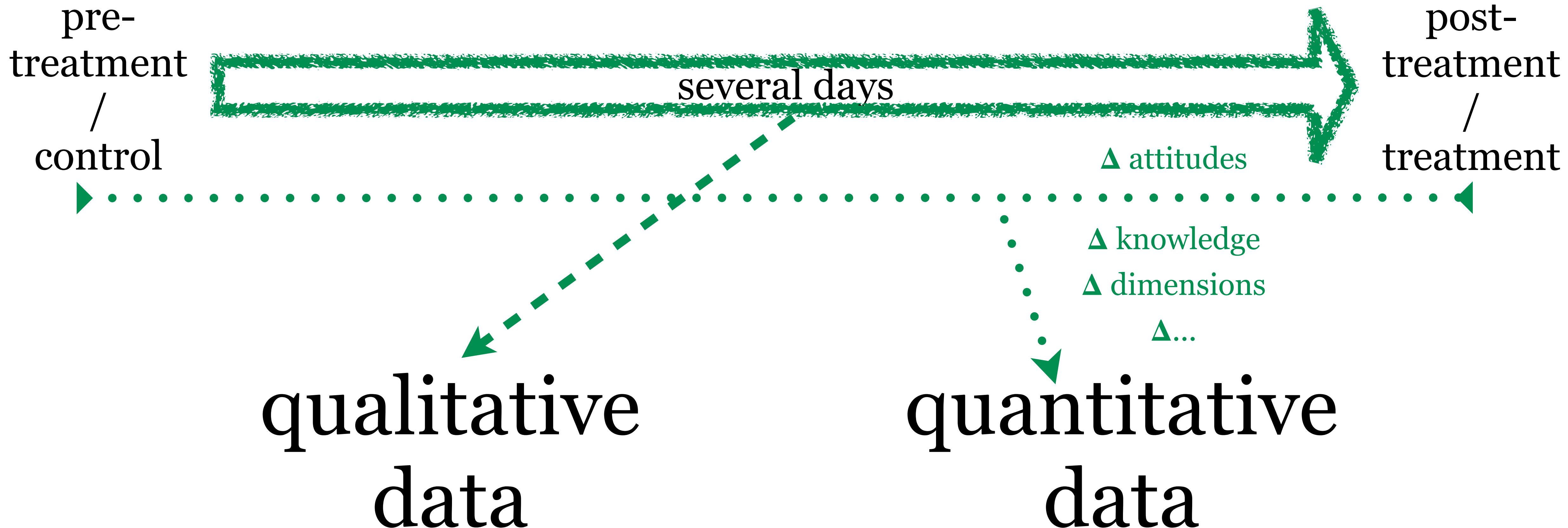
Balanced and unbiased study guide.

Trained moderators.

Random sample of citizens.

Deliberative Poll ®

(Fishkin 2002, University of Stanford: Center for the Study of Deliberative Democracy)



- Bastard Keynesianism:
 - People think ~~saving destroys the economy~~.
- Negative-Sum Bias:
 - People think ~~government harms the economy~~ (it does).
- Corporations-as-People:
 - People want to ~~tax non-natural persons~~.
- Flypaper-Theory:
 - People think the ~~nominal incidence is the same as the burden of taxation~~.

- **Tax aversion effect:**
People react negatively to the label “tax”.
People prefer indirect taxes.
- **Metric effect:**
People want more progressivity in % than in absolute terms.
- **Schelling effect:**
People prefer bonuses over penalties.
- **Disaggregation bias:**
People do not integrate different taxes on the same base.

(McCaffery & Baron 2003: 12ff)

“[...] *that things could also be different* [...]”

-- Blühdorn (2007: 313)

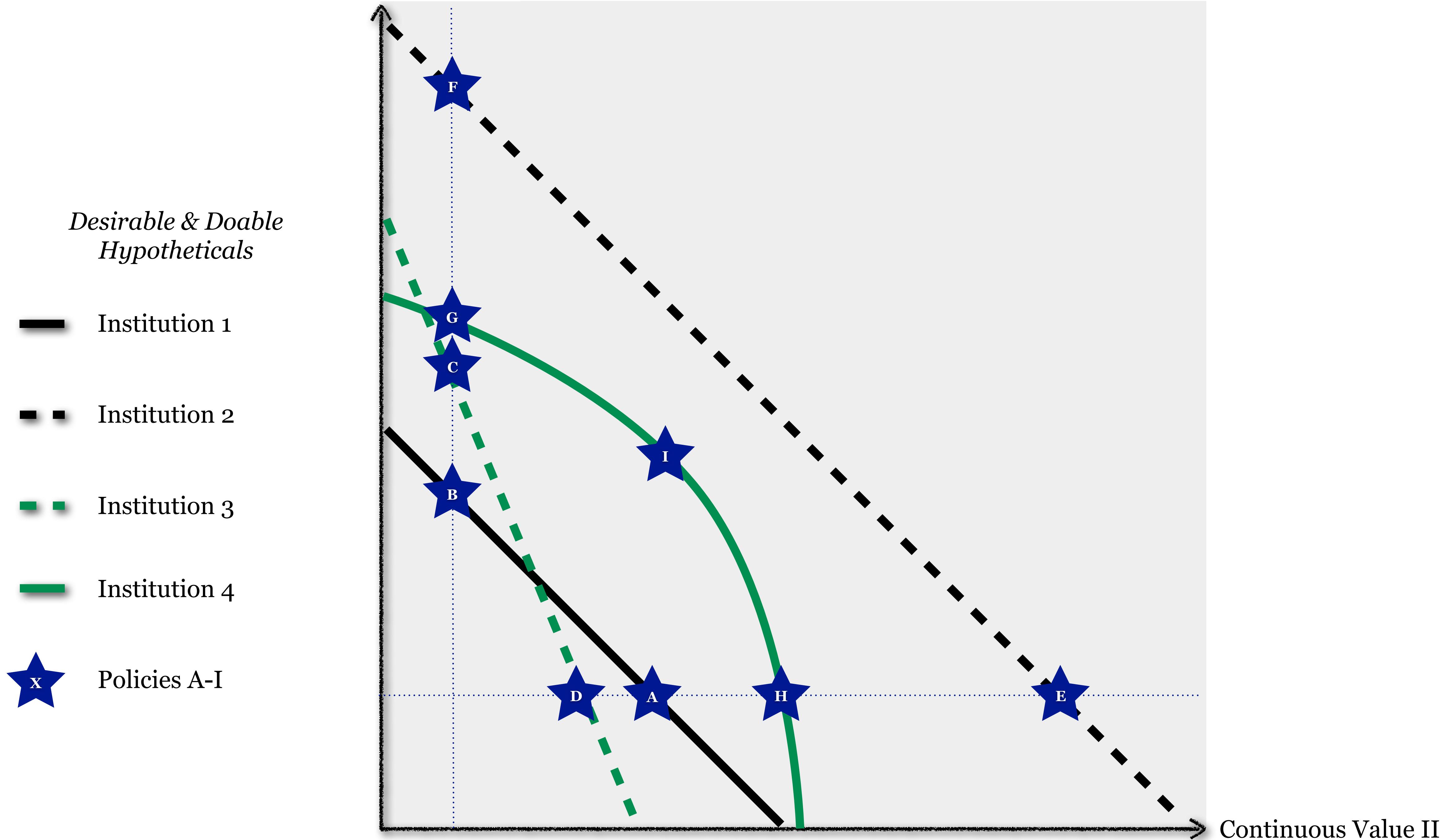
*“The spirit of a people, its cultural level, its social structure, the deeds of its policy may prepare -- all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns **the thunder of world history** more clearly than anywhere else.”*

-- Joseph Schumpeter (1918 / 1991)

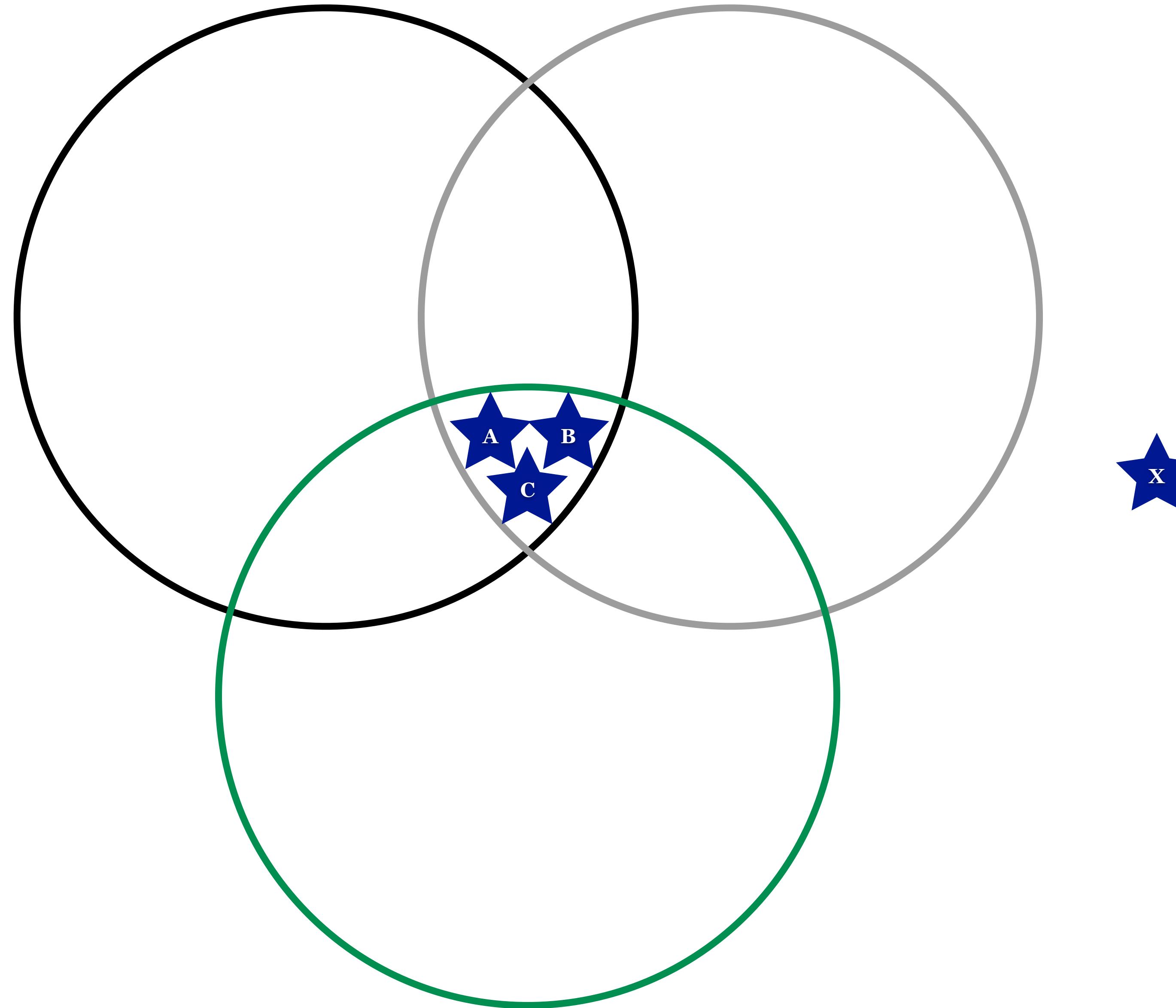
Big Picture

| | First-Order Questions | Second-Order Questions |
|---------------------|---|---|
| Normative Questions | <p><i>What <u>should</u> (not) be?</i></p> <p>Subject: Last Reasons Disciplines: Philosophy, Morality, (...)</p> | <p><i>Who/what <u>should</u> (not) decide first-order answers?</i></p> <p>Subject: Ideology Disciplines: Postcolonialism, Critical Theory, (...)</p> |
| Positive Questions | <p><i>What <u>could</u> (not) be?</i></p> <p>Subject: Formal Models Disciplines: Equilibrium Economics, Evolutionary Theory (...)</p> | <p><i>Who/what <u>could</u> (not) decide first-order answers?</i></p> <p>Subject: (Formal) Models Disciplines: Public Choice, Structuralism, Historical Materialism (...)</p> |
| Empirics | <p><i>What <u>is</u> (not)?</i></p> <p>Subject: Observations of the Physical World Disciplines: Behavioral Economics (...)</p> | <p><i>Who/what <u>does</u> (not) decide first-order answers?</i></p> <p>Subject: Observations of the Social World Disciplines: Empirical Political Science, (...)</p> |

Continuous Value I



- Categorical Value I
- Categorical Value II
- Categorical Value III



★ X Desirable Policies/
Institutions A-C

| | <i>View of Human Nature</i> | <i>Mode of Production</i> | <i>Mode of Distribution</i> |
|----------------------|------------------------------|---------------------------|-----------------------------|
| <i>State</i> | Individual Utility Maximizer | Command & Plan | Command & Plan |
| <i>Market</i> | Individual Utility Maximizer | Exchange / Price System | |
| <i>Kinship</i> | Inclusive Fitness | Genetic Nepotism | |
| <i>Community</i> | Group Selection | Identity | |
| <i>Civil Society</i> | ? | ? | ? |

... short digestive tract
requires cooked protein ...

| <i>Non-Cultural Species</i> | <i>Genes / “Nature”</i> | <i>Cultural Species</i> |
|------------------------------|-------------------------|-----------------------------|
| Little capacity for learning | “Hardware” | Great capacity for learning |

Co-evolution

| <i>Non-Cultural Species</i> | <i>“Memes” / Culture</i> | <i>Cultural Species</i> |
|-----------------------------|--------------------------|-------------------------|
| - | “Software” | Institutions |

... powerful brain *enables*
fire-making ...

*Does support for a PCT
and/or the sophistication
of thinking about tax
depend on the political
process?
(c.f. Rawls 1971:49, Offe 2009)*

Status Quo Tax Regime *Reform*

(2-)PIT,
VAT, Payroll /
Thinking
about Tax PCT

Taxation & Democracy

Status Quo *Reform*

Pluralist
Democracy Deliberative
Democracy

*Can Deliberative
Democracy rule
abstract, non-local
issues?
(de Sousa-Santos 1998; Hendrickson &
Tucker 2005: 84)*

Deliberation can only succeed if dominance hierarchies are curbed ex-ante.

(e.g. Wilkinson & Pickett 2009)

| <i>Status Quo</i> | <i>Reform</i> |
|-------------------|-------------------------|
| Positional Race | Tax Regime / Inequality |

Inequality & Democracy

| <i>Status Quo</i> | <i>Reform</i> |
|-------------------|-------------------|
| Exclusive Fitness | Political Process |

Deliberative democracy implies and allows freedom from need, ‘vita activa’.

(Arendt 1958)

My Dissertation

Relative
Inequality
(Wilkinson &
Pickett)

Positional Race
(Frank)

Progressive
Consumption
Tax
(McCaffery)

Fiscal
Sociology
(Prasad)

Social
Theory of
Democracy
(Bogaards)

Political
Psychology
(Rosenberg)

?

Deliberative
Poll
(Fishkin)

Tax Biases
(McCaffery &
Baron)

?

Social
Theory of the
Welfare State
(Offe, G-S)

Mixed
Economy
(Ganssmann?)

Equity Norms

Efficiency Norms

Equality of
Opportunity

Maximin
Difference Principle

Egalitarianism
(in Outcomes)

Weak Pareto
Optimum

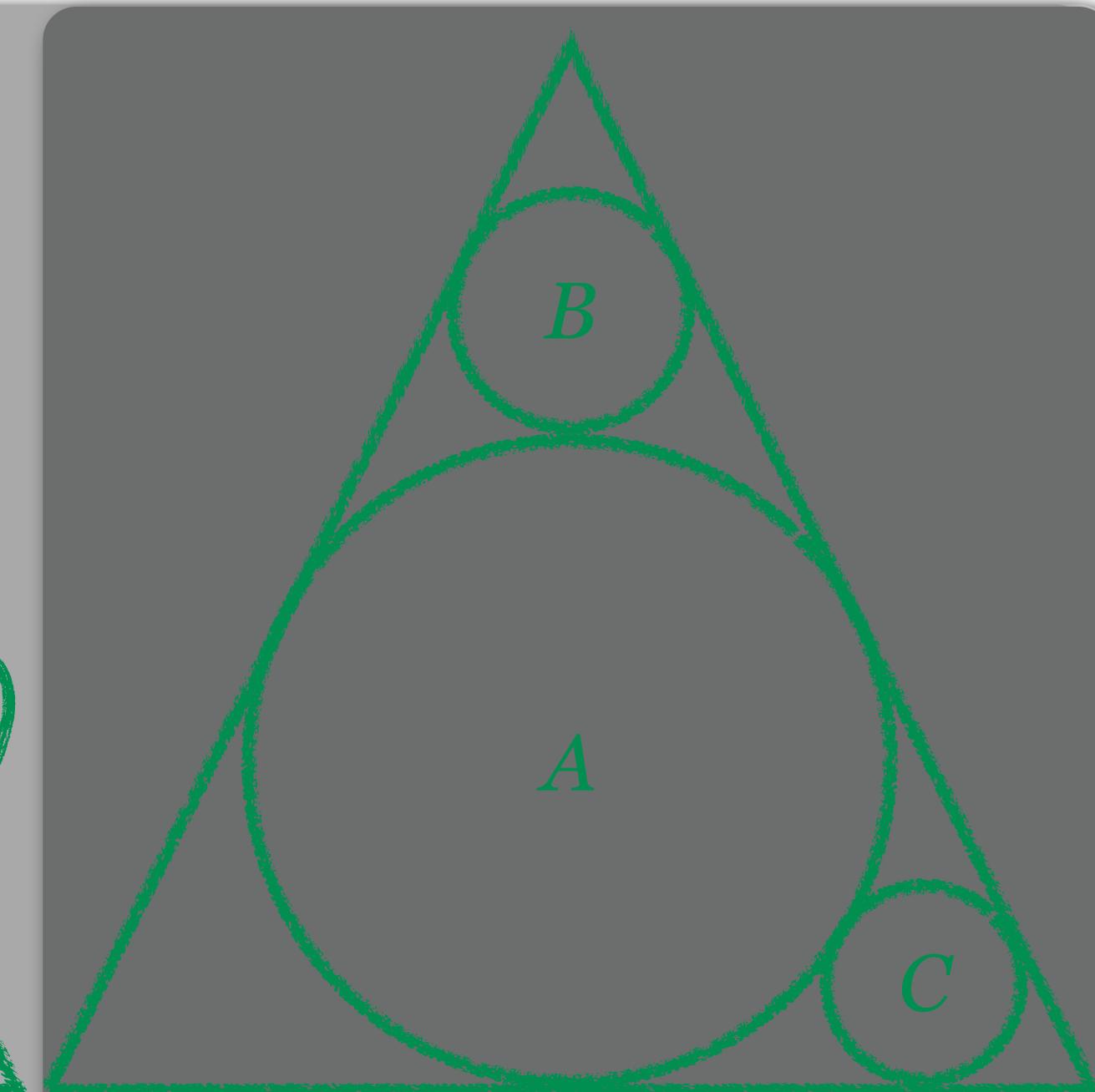
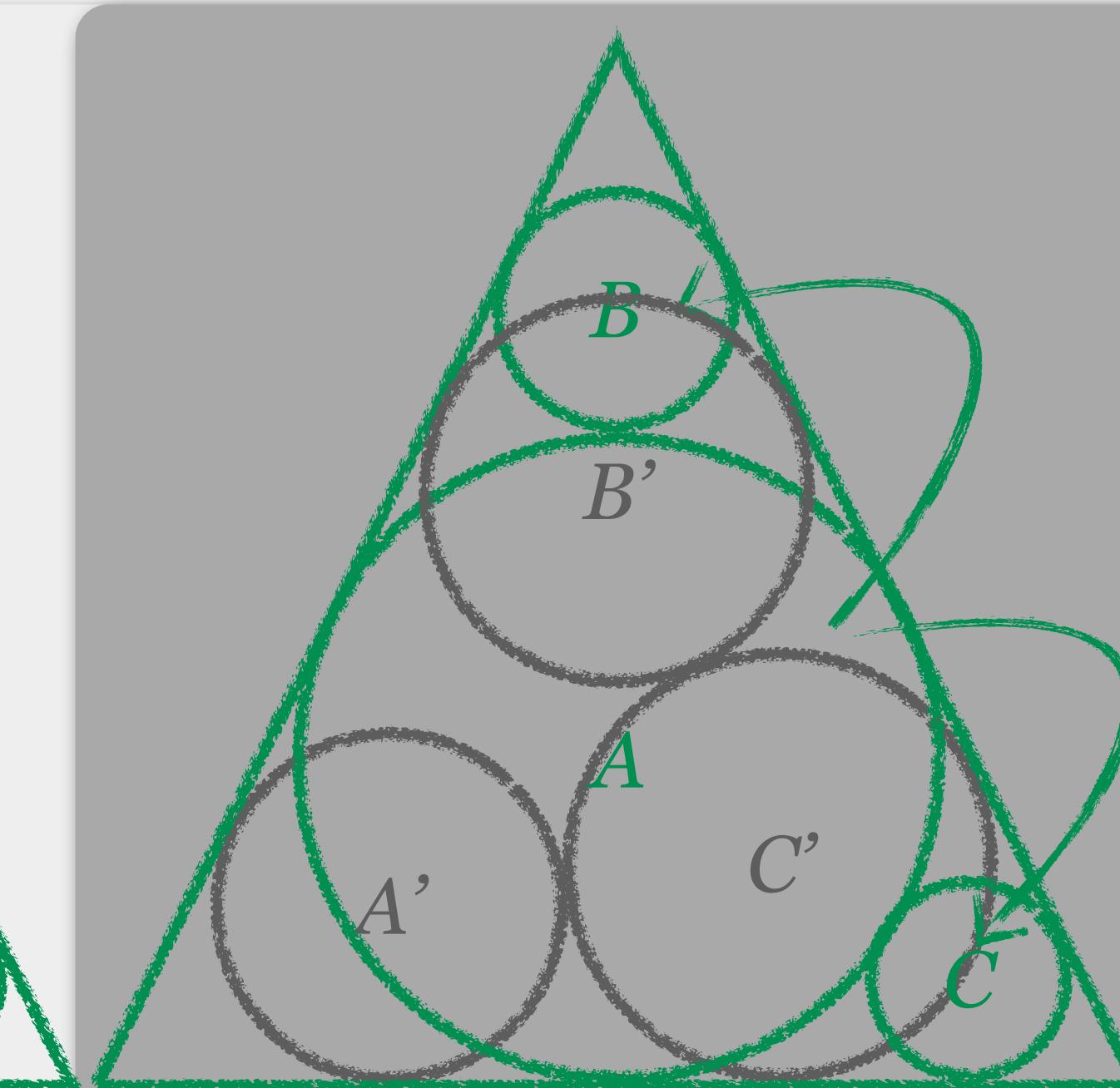
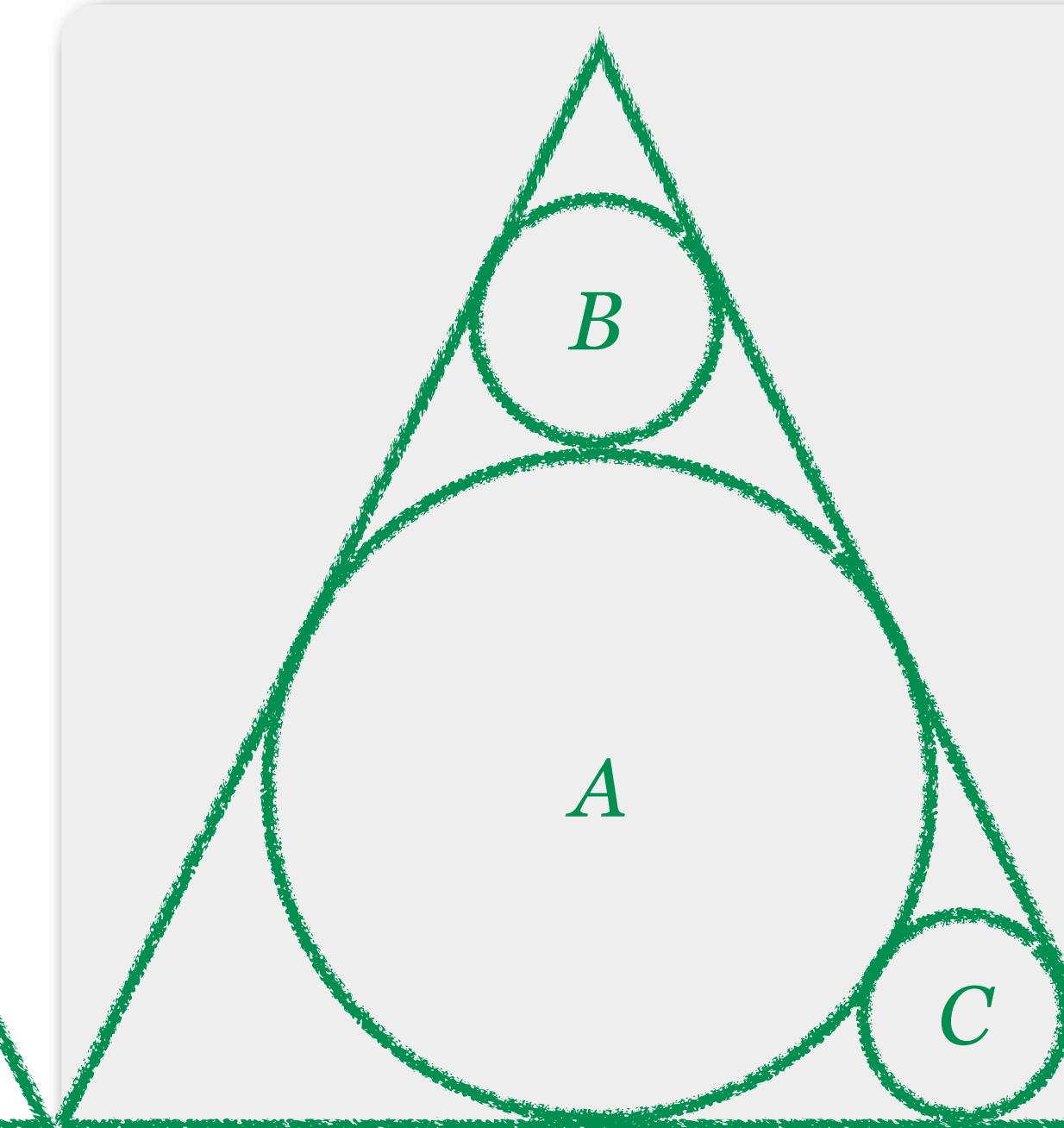
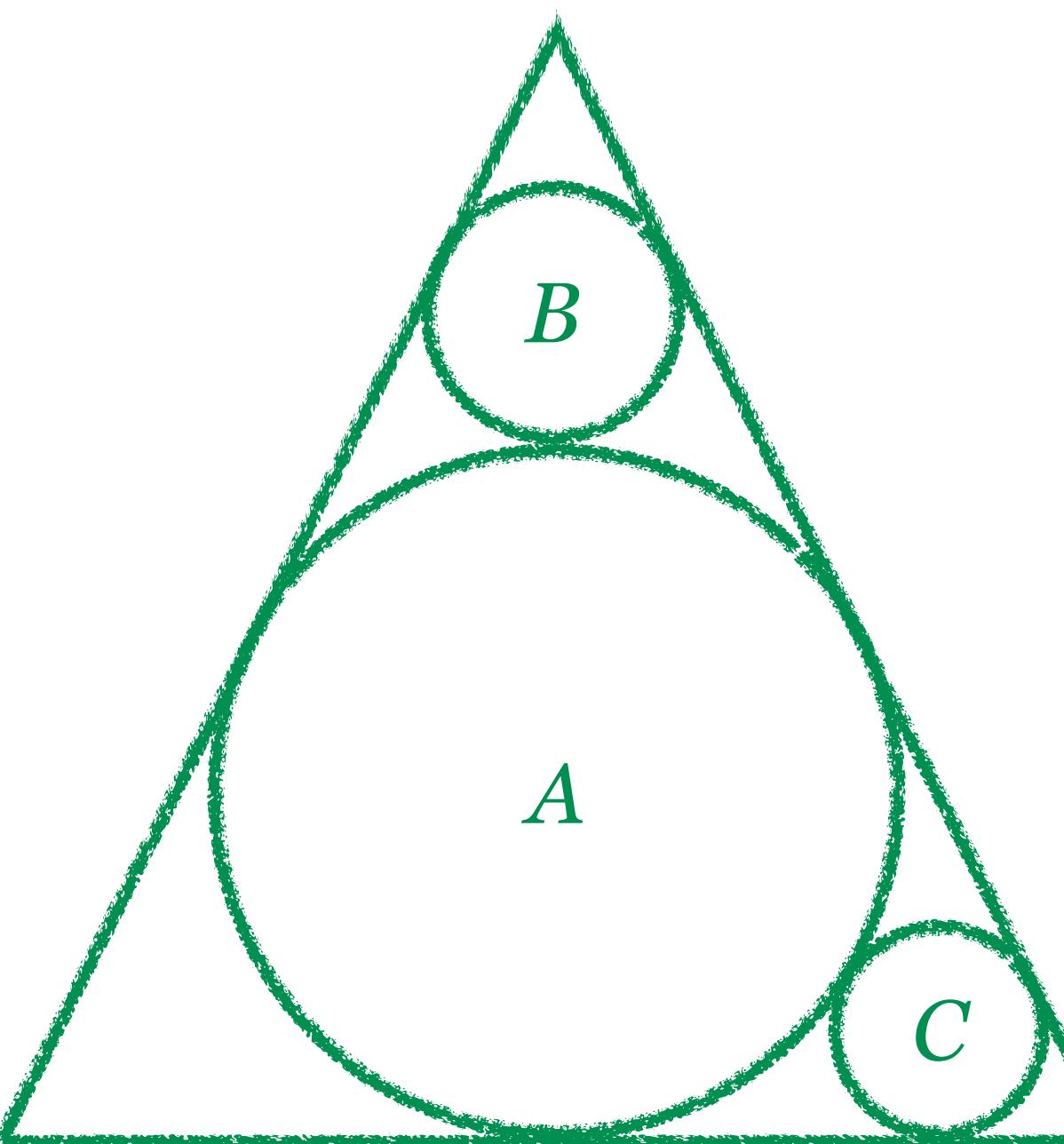
Strong Pareto
Optimum

Social Welfare
Optimum

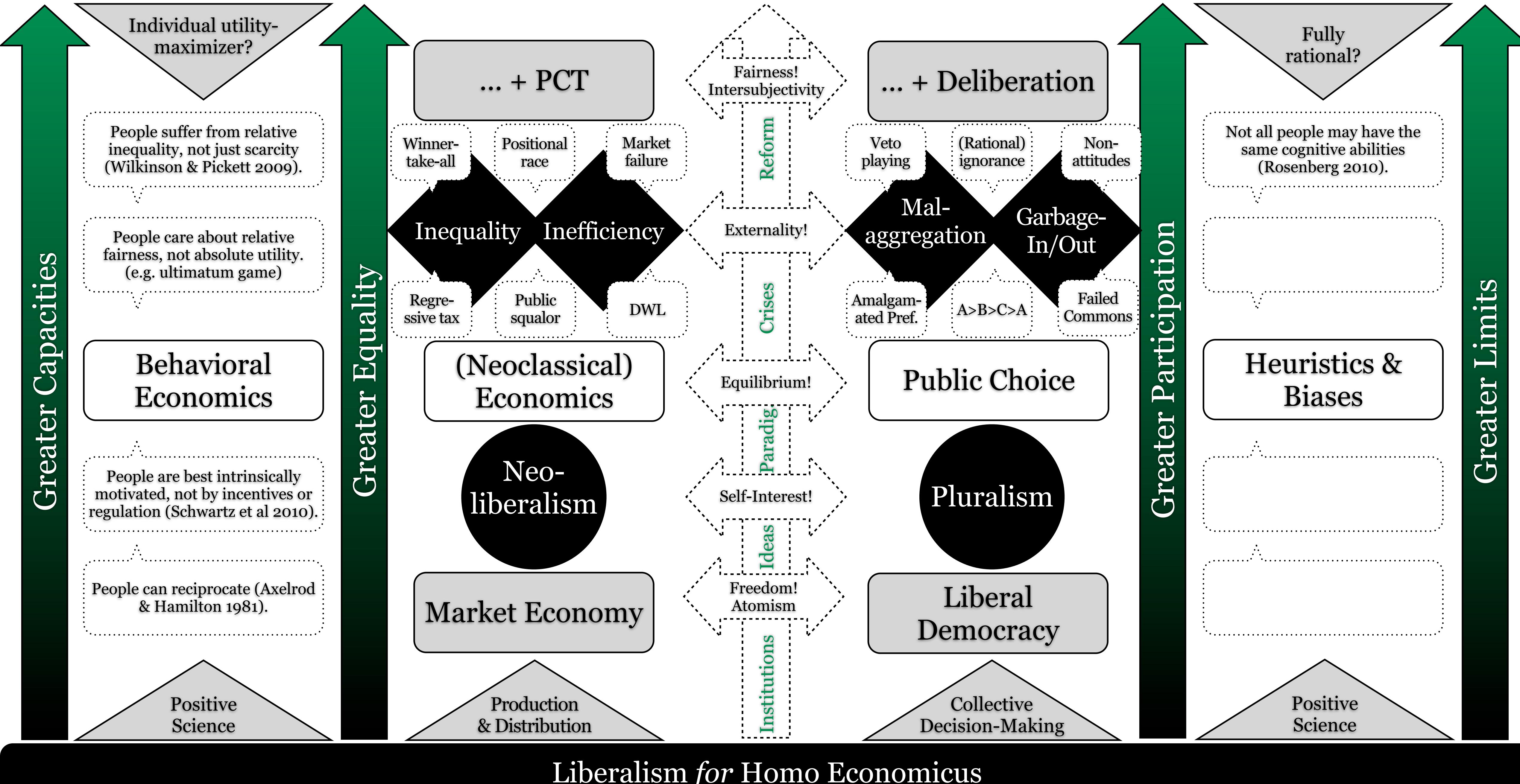
Utilitarianism

Efficiency/Equity Norm

Pure Efficiency Norms



Vita Activa for Homo Reciprocans



Social Mobility

Within Country

Between Country

Social Mobility / Wealth, Inheritance Tax vs.
Incentives

Growth / Infant Industry Protection

Outcome Equity

Gini / Progressive Taxation & Incentives

GDP, Productivity per capita / Same labor and capital
rent by that productivity

| | Sweden | Germany | Bulgaria | EU-25 |
|-----------------------|---------------------|---------------------|-----------------------|-------|
| Gini | 0.23 0.25 (1992) | 0.27 0.30 (1994) | 0.307 0.264 (2001) | |
| GDP per capita in PPP | \$38.300 | \$35.100 | \$12.100 | |
| Real GDP growth | 2.7% | 2.6% | 6,2% | |

Mixed Economy

Plutokratie

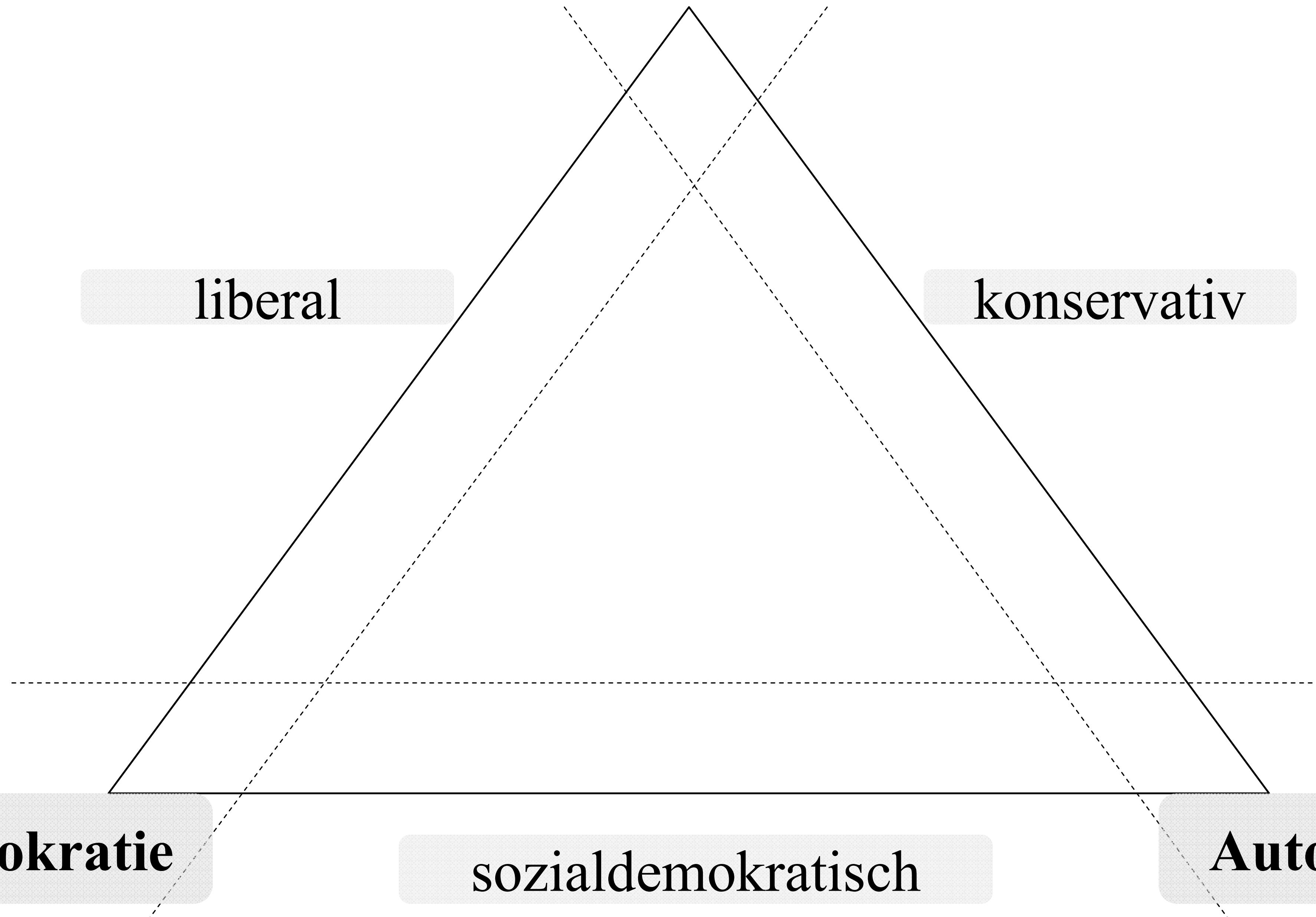
liberal

konservativ

Demokratie

sozialdemokratisch

Autokratie

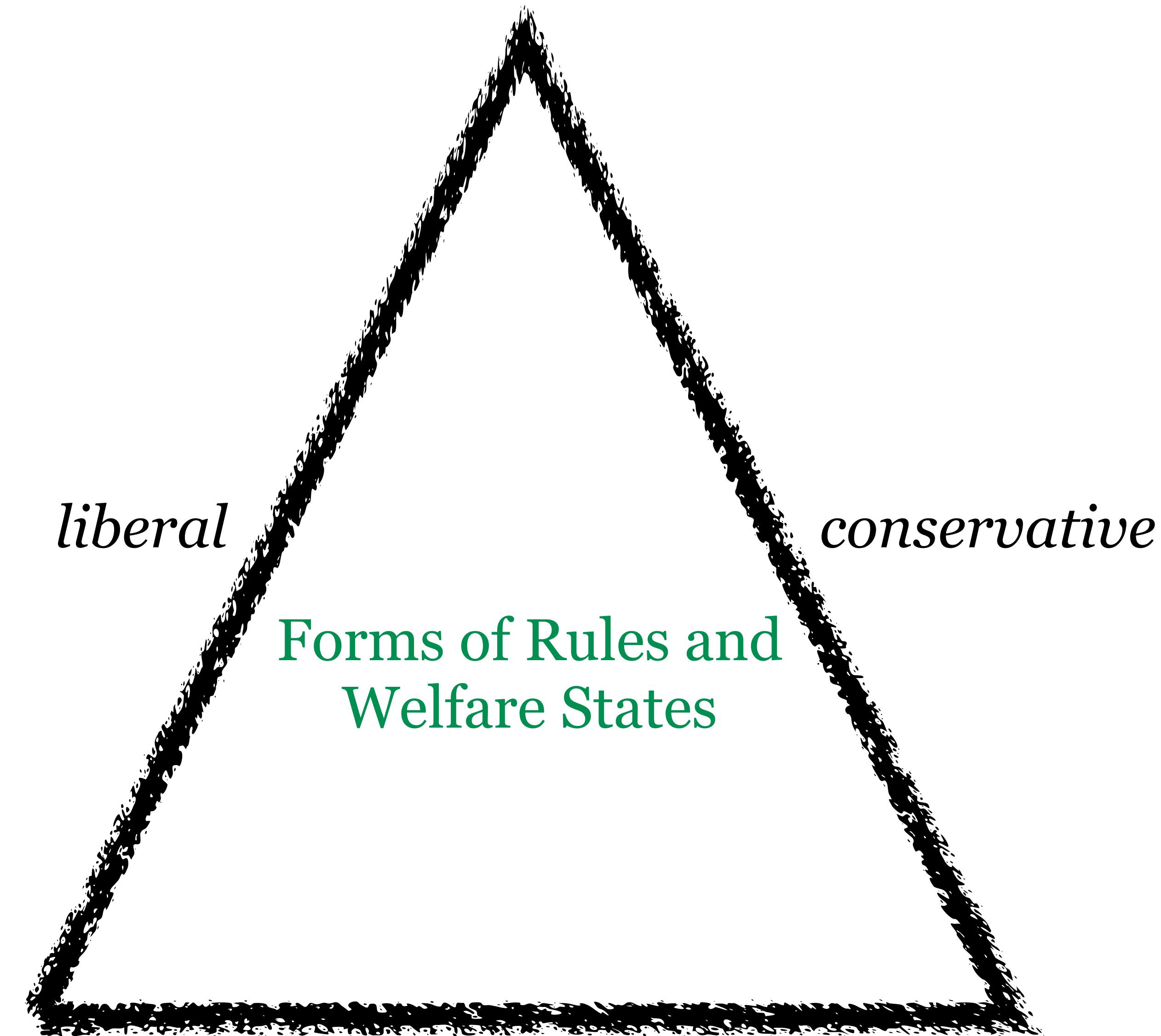


Plutocracy

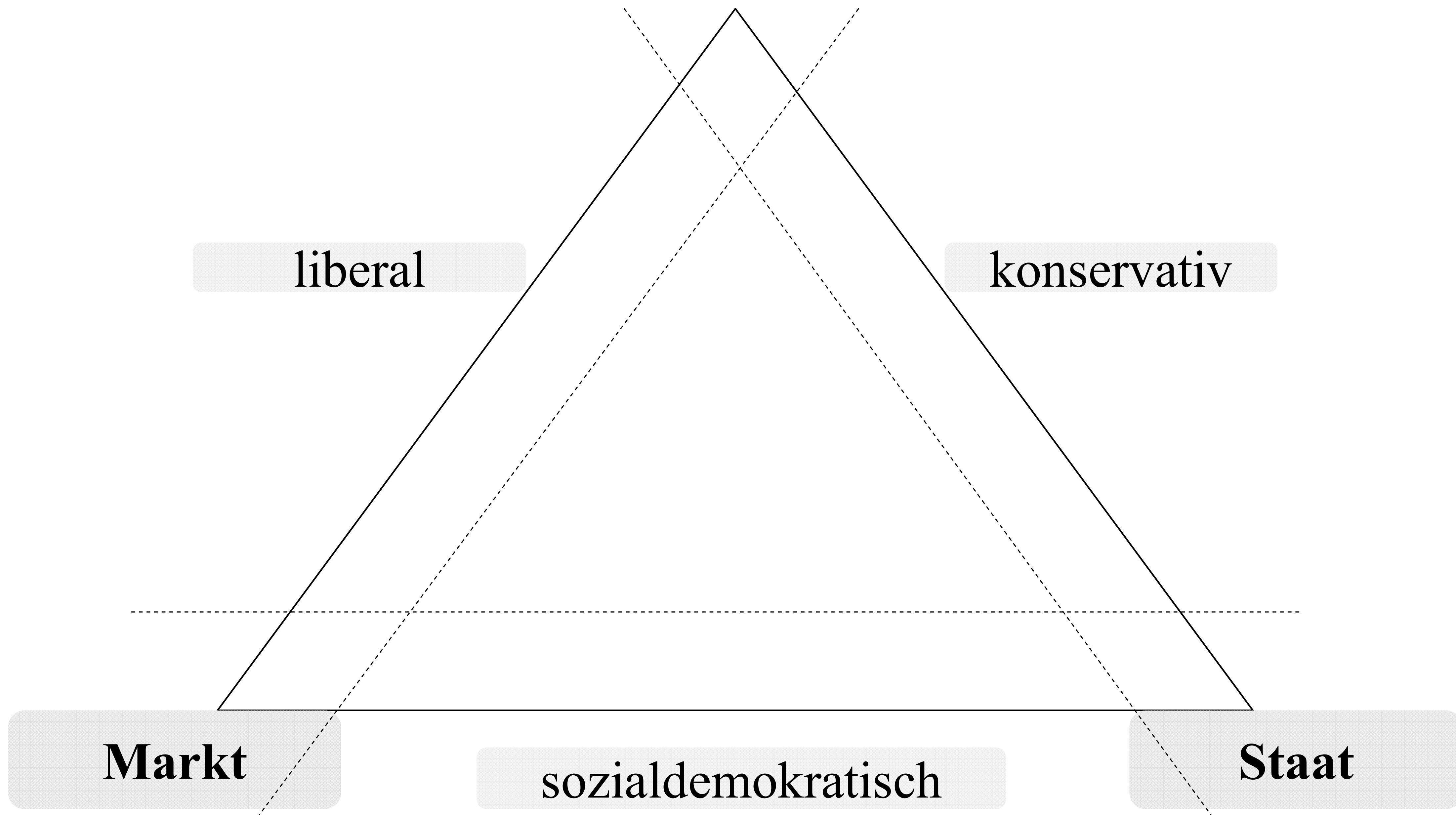
Democracy

social-democratic

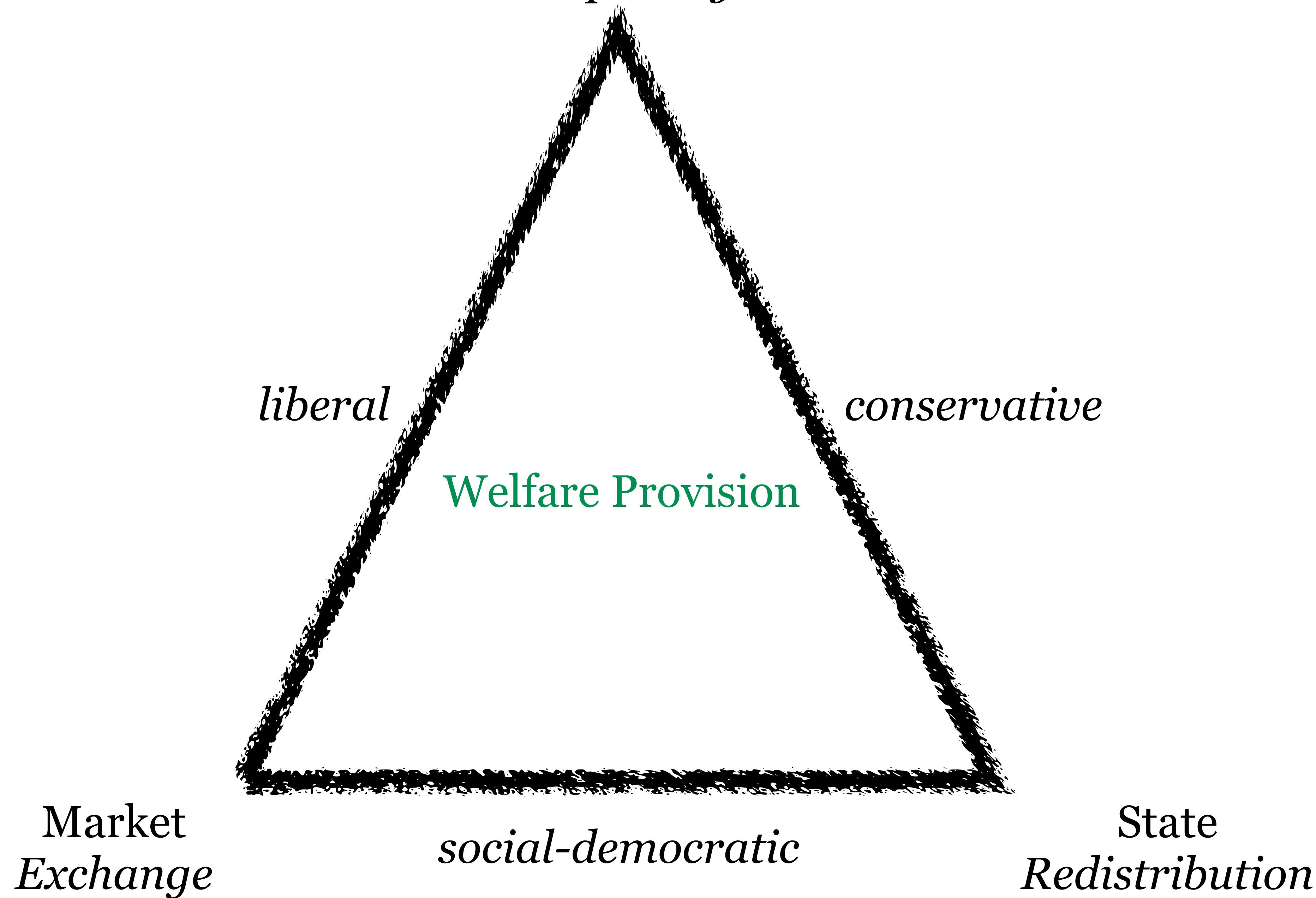
Autocracy



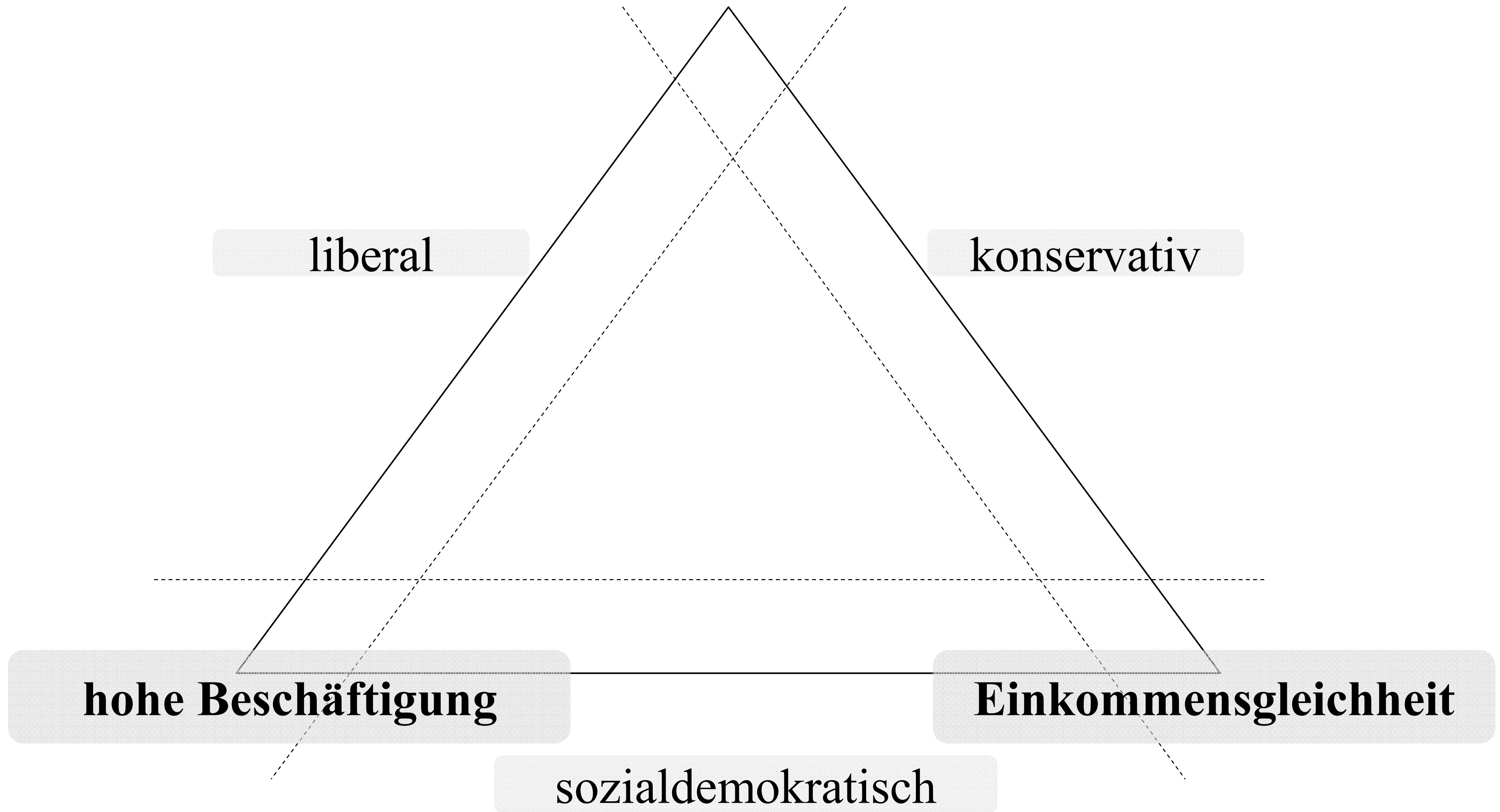
Familie/Gemeinschaft



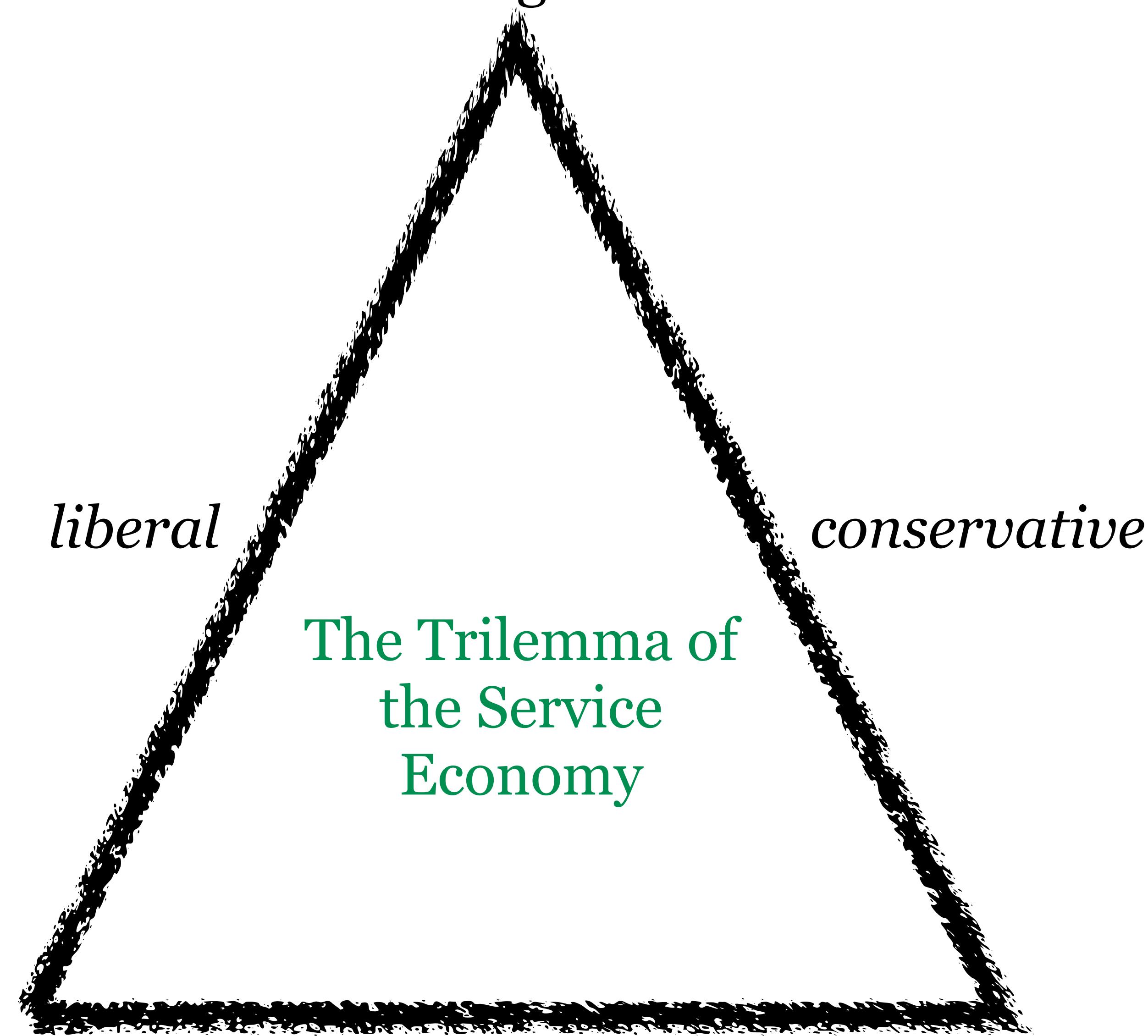
Family & Community
Reciprocity



Budgetausgleich



Balanced
Budgets

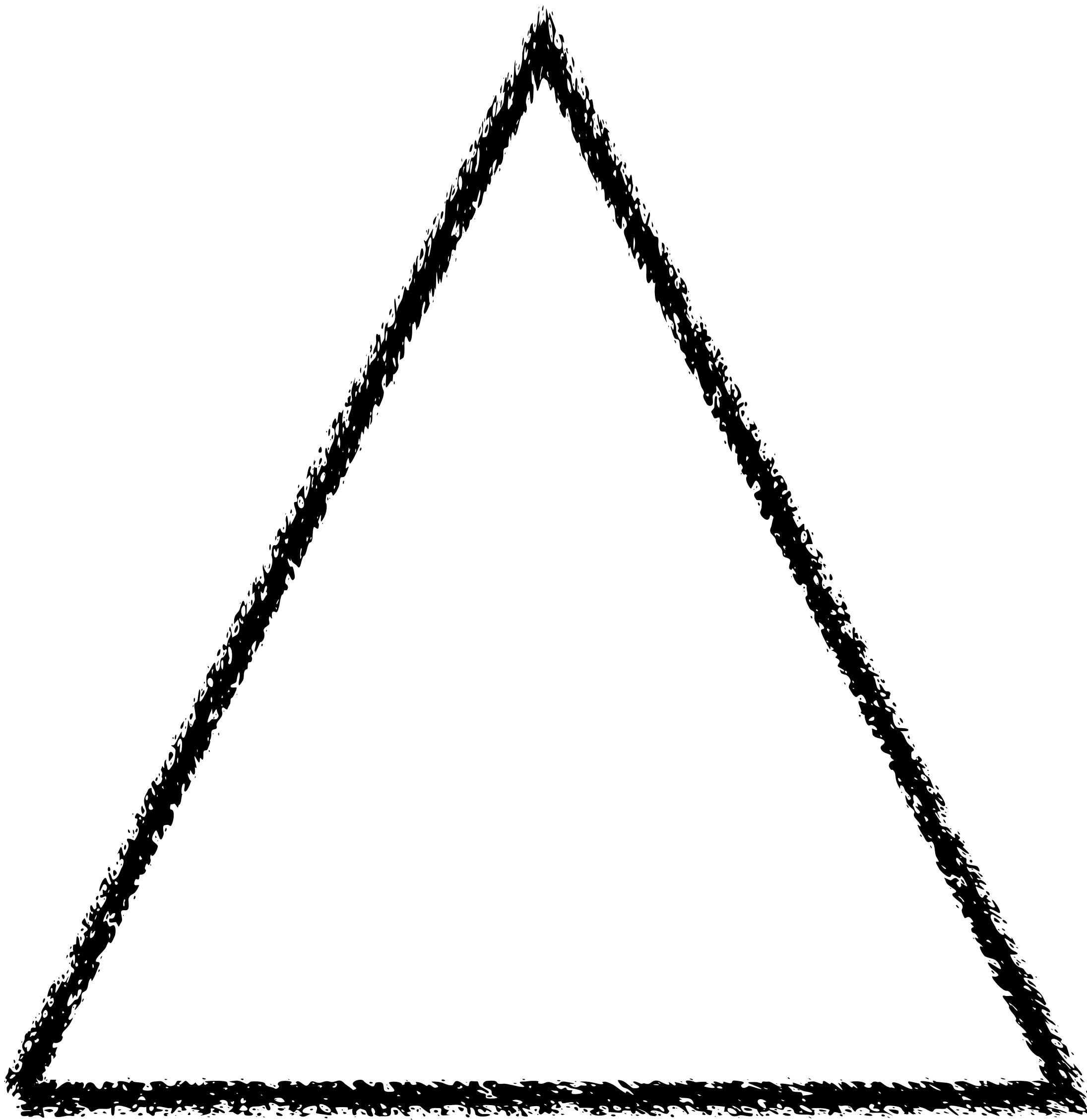


High
Employment

social-democratic

Income
Equality

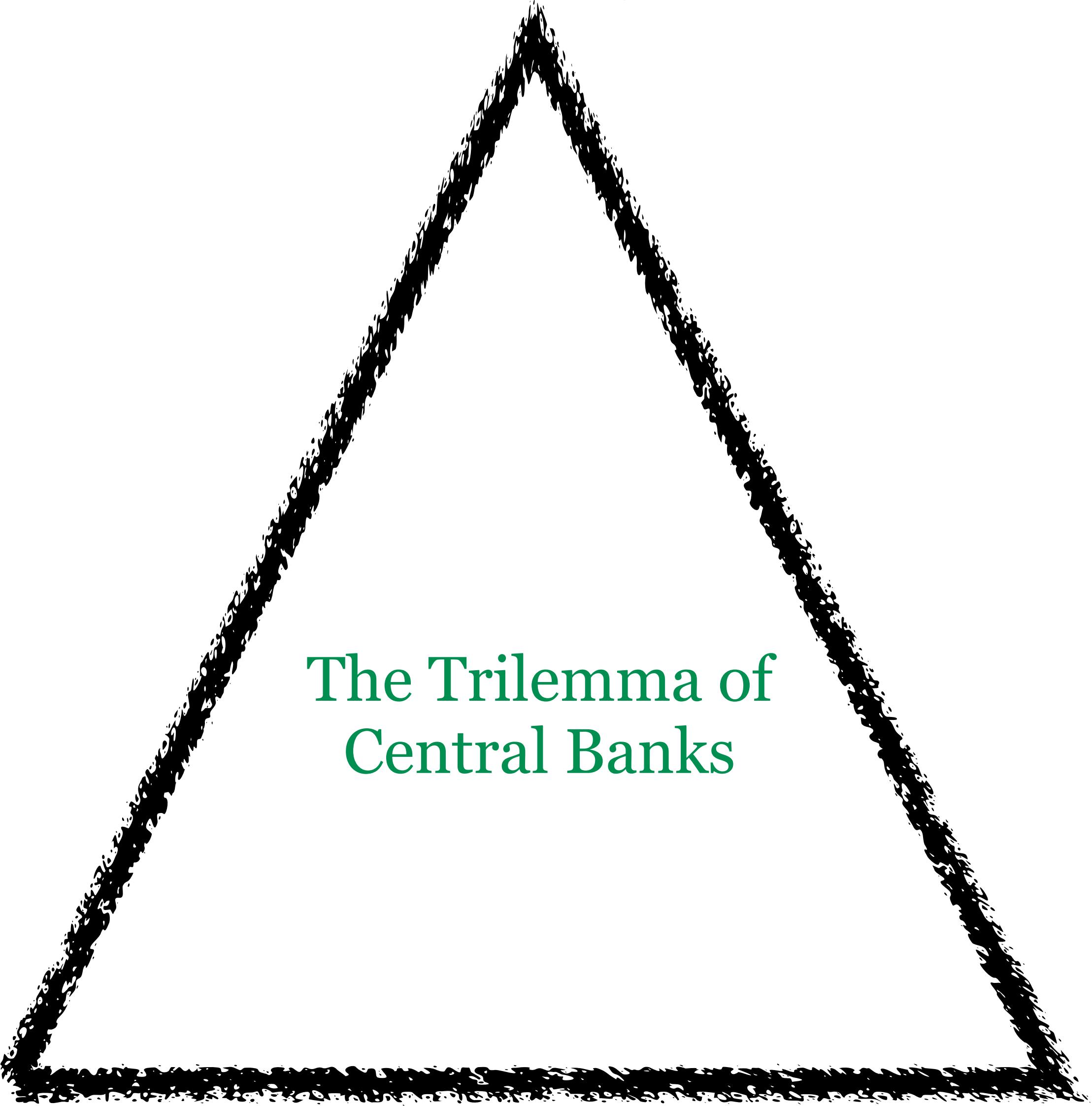
Growth



Debt or
Inflation

Factor
clearing

Exchange Rate Stability

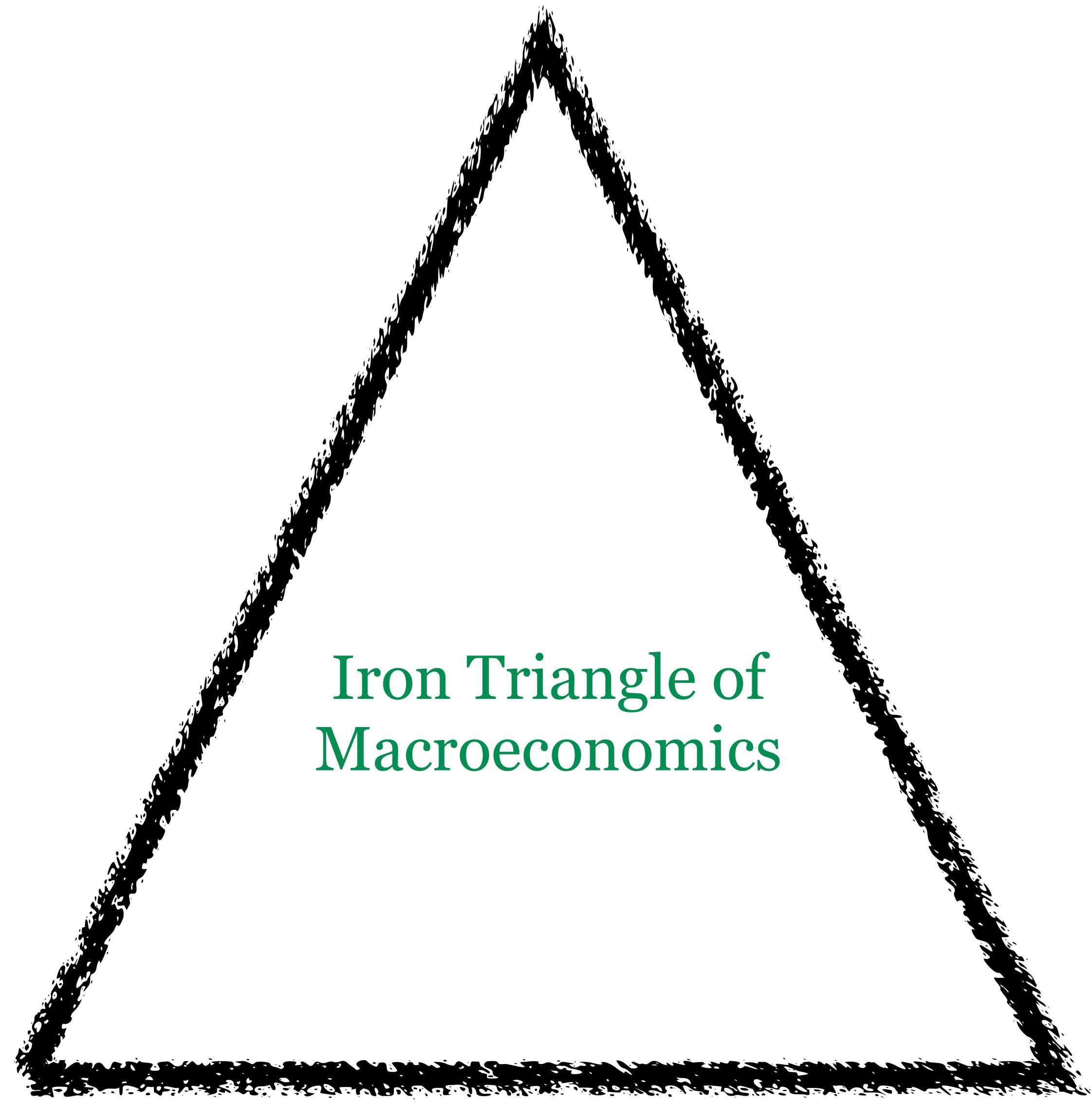


Price
Stability

Growth

The Trilemma of
Central Banks

Independent
Central Bank



Flexible
Exchange Rate

Capital
Mobility

Iron Triangle of
Macroeconomics

deep integration

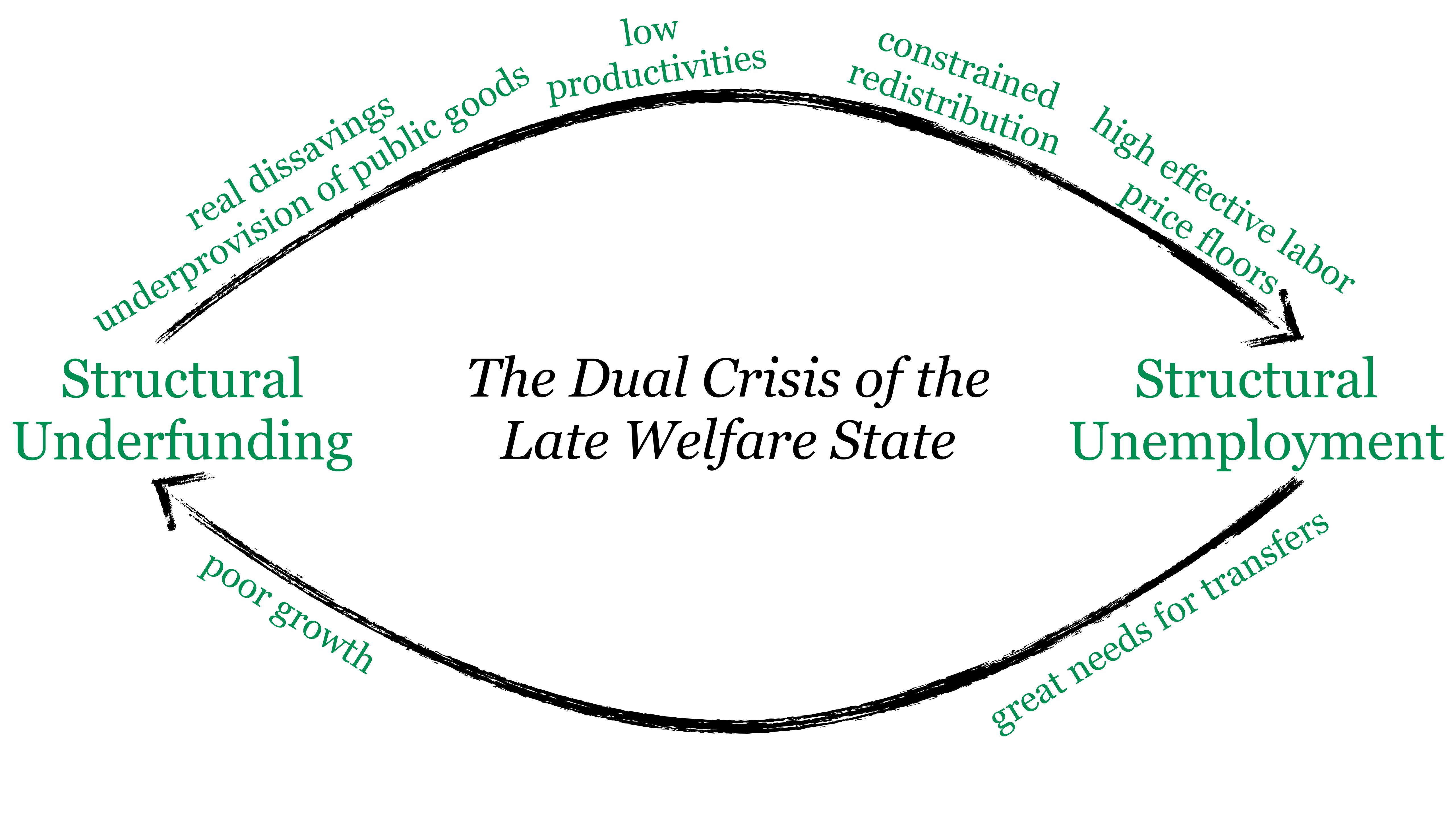
golden straitjacket

global federalism

national sovereignty

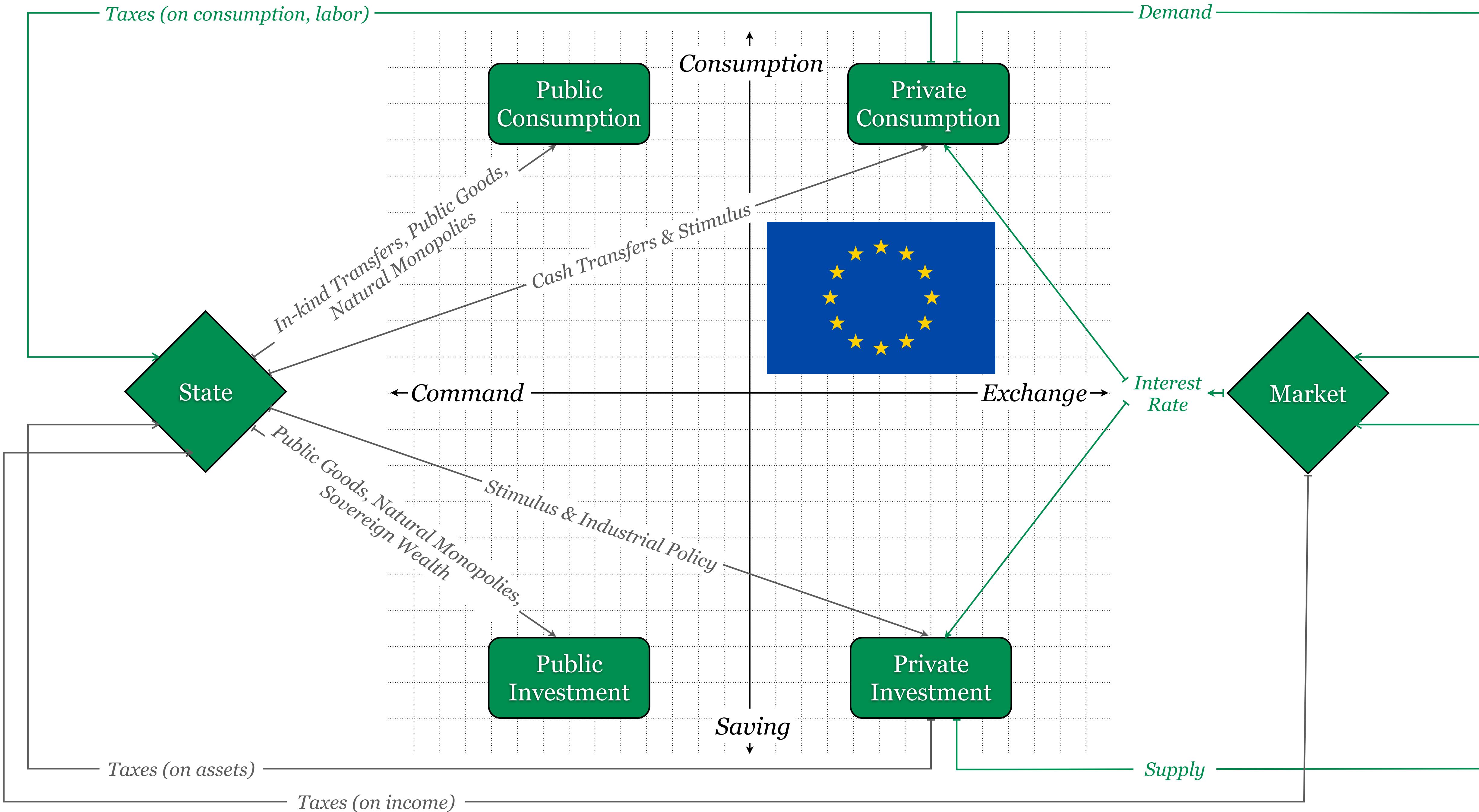
democratic politics

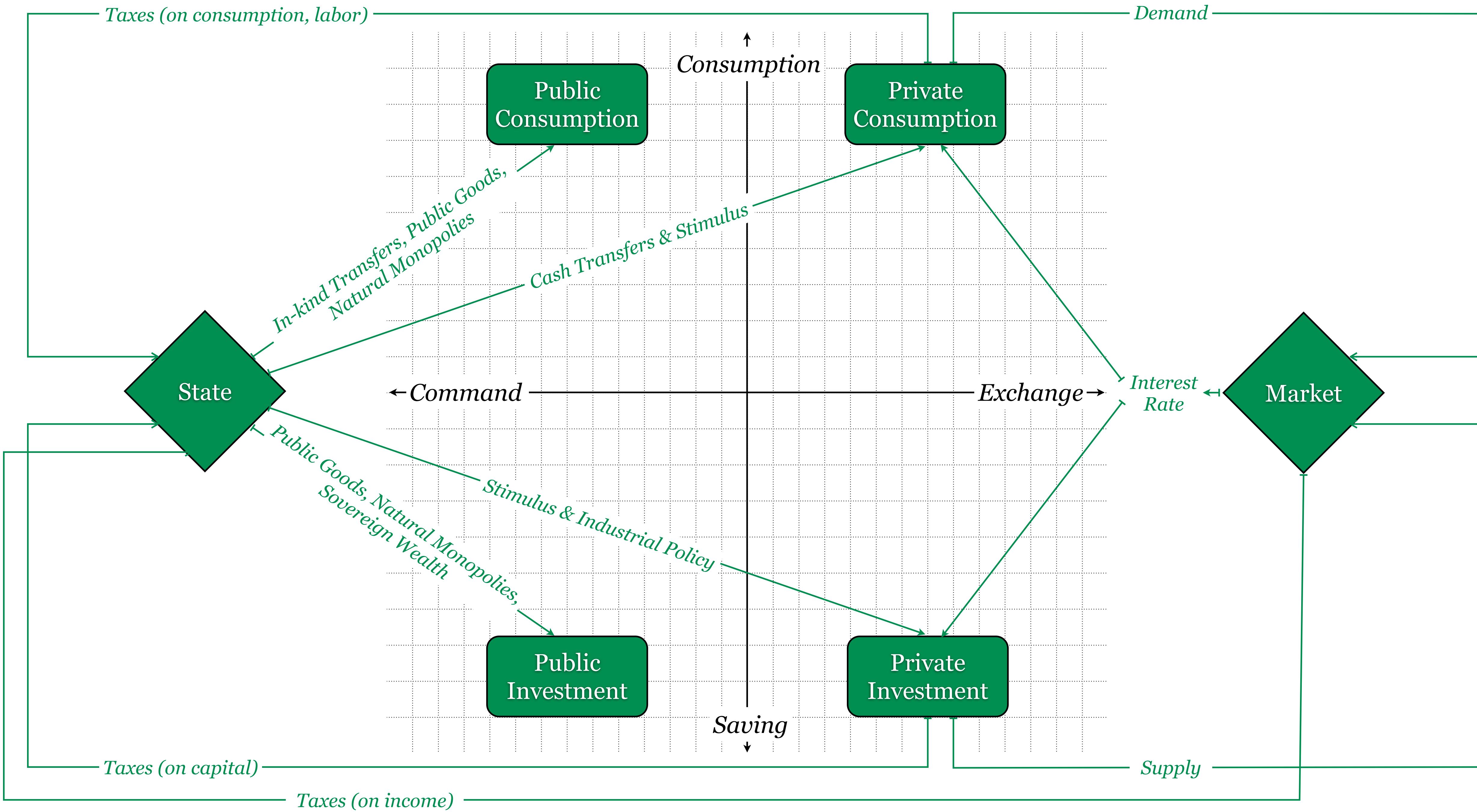
Bretton Woods



Who Should Manage it?

| | Public (State) | Private (Market, Family) | |
|-------------------------|--------------------------------------|--|-------------------------------|
| When to Save? | Pre-funded Sovereign Wealth | Private pension Life insurance (etc.) | Current workers |
| What to Invest in? | Post-funded PAYGO | Family, Corporate Pension Plans | Future workers |
| Productivity | Human Capital Education | Quality Children | Productivism |
| What to Invest in? | Physical Capital Sovereign Wealth | Private Investment | Policy |
| Workforce | Family Policy | Having Children | Nativism |
| Where to Invest? | Sovereign Wealth Fund | International Financial Markets | Now: Trade Surplus |
| Where to Invest? | Capital Deepening | Domestic Financial Markets | Future: Trade Deficit |
| At Home (under autarky) | | | Now: Positive Savings Rate |
| At Home (under autarky) | | | Future: Negative Savings Rate |





| | Equity | Asymmetric Information | Public Goods | Common Goods | Natural Monopolies | Easy Market Entry |
|-----------------------|---|---|---|--|--|---|
| Challenge: Example | Urban Poor | Lemons' Market in Health Insurance (Akerlof 1970) | Defense | Clean Air | Sewage System | MS Windows bundled with IE |
| Market: Response | Comparative Advantage | a)Signalling b)Screening | a)Shadow of the Future: Infinitely Repeated Game b)Self-Binding, Credible Commitment | a)Shadow of the Future: Repeated Game b)Self-Binding, Credible Commitment (Ostrom 1990) | Common Ownership | - |
| Market: Example | Service Economy Entrepreneurship | a)Branding, Warranties b)Experts, Testing | - | - | SCHUFA, Standard-Setting Associations | - |
| State: Response | a)Regulatory Policy b)Redistribution | Risk Pooling | a)Public Provision b)Issuing Property Rights, Where Possible | a)Regulatory Policy b)Repricing c)Issuing Property Rights, Where Possible | a)Regulating b)Outsourcing c)Common Carriage d)Public Provision | a)Regulatory Policy b)Domestic Infant Industry Protection |
| State: Example | a)Affirmative Action b)Public Spending | Compulsory Health, Unemployment, Disability Insurance | a)Military b)Intellectual Property Protection | a)Minimum Standards b)Ecotax (Pigouvian Tax) c)Emission Trading | a)Motorways b)Airbus & Boeing | a)Anti-trust, Anti-discrimination b)Industrial Policy (Company Car Subsidy in Germany) |
| Fiscal Sources | Proportional, Progressive Taxation | General Revenue | General Revenue | Pigouvian Taxes | Fees | General Revenue |

Real
Denomination

Nominal
Denomination

Creditors

Debtors

Asset Holders

Inflation



Fixed Incomes
Cash Holders

Inflation



Short Sellers

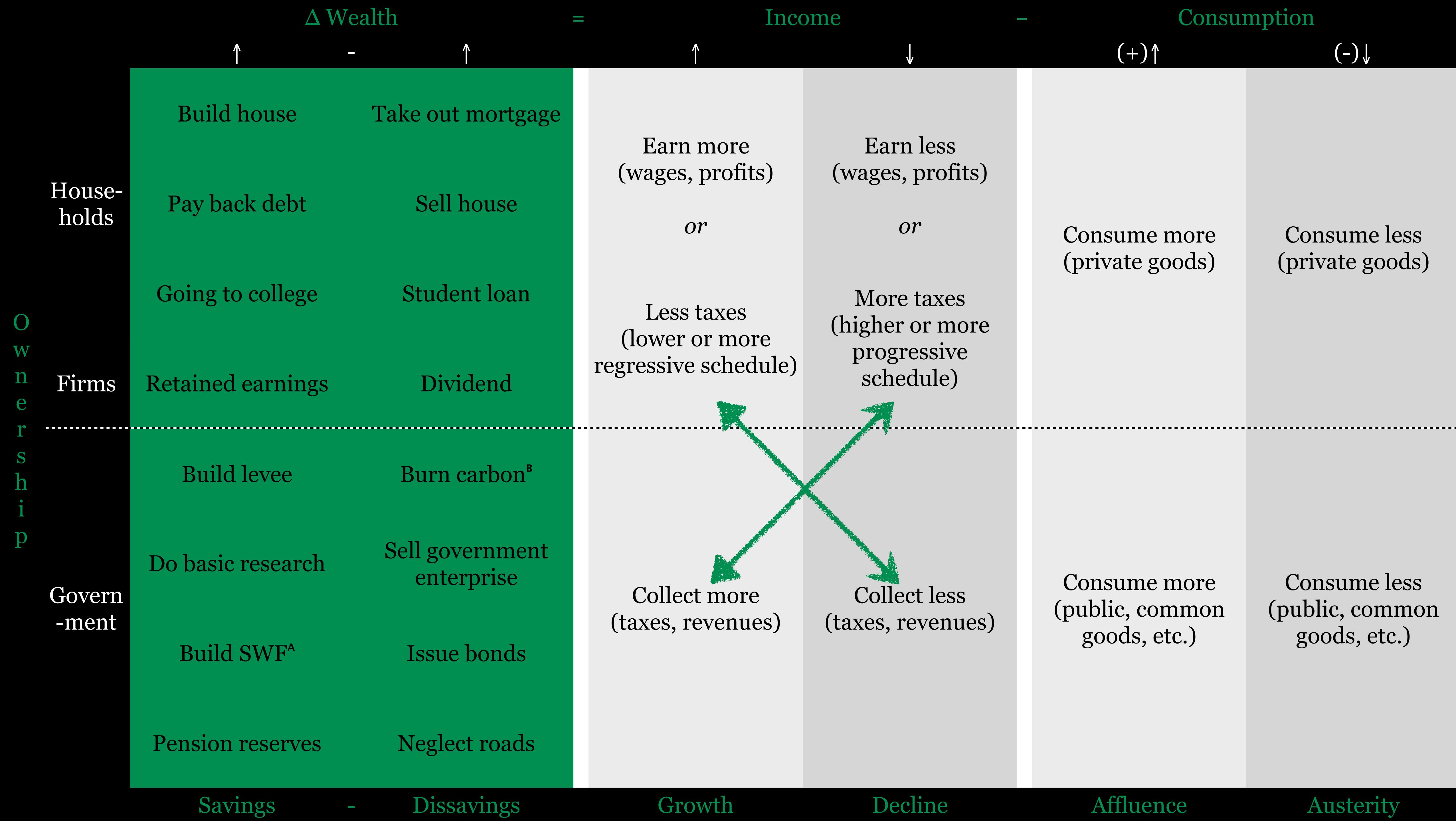
Inflation

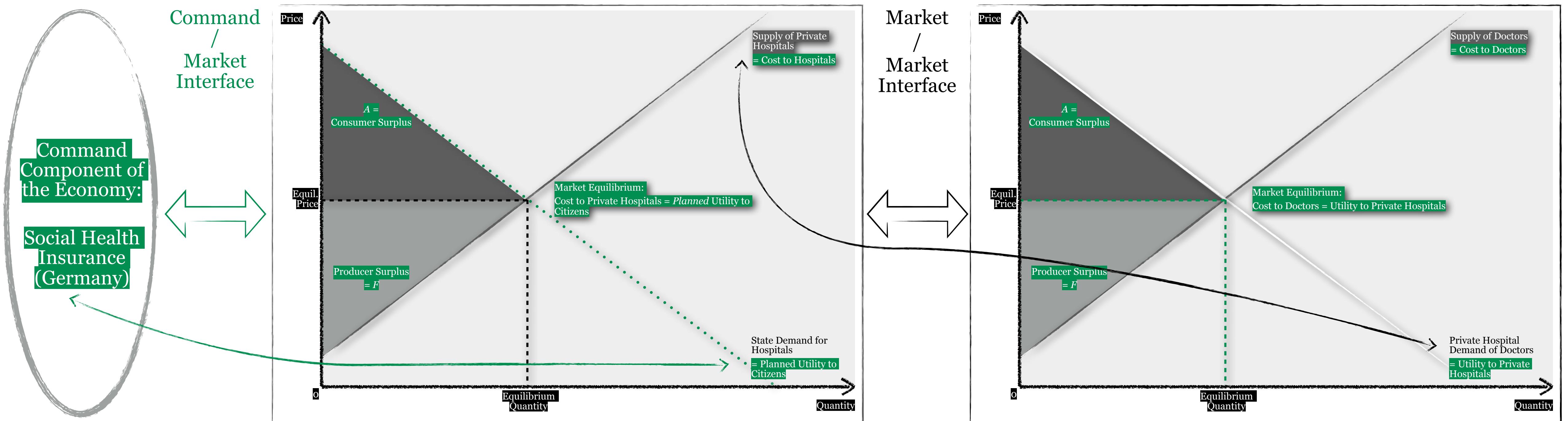
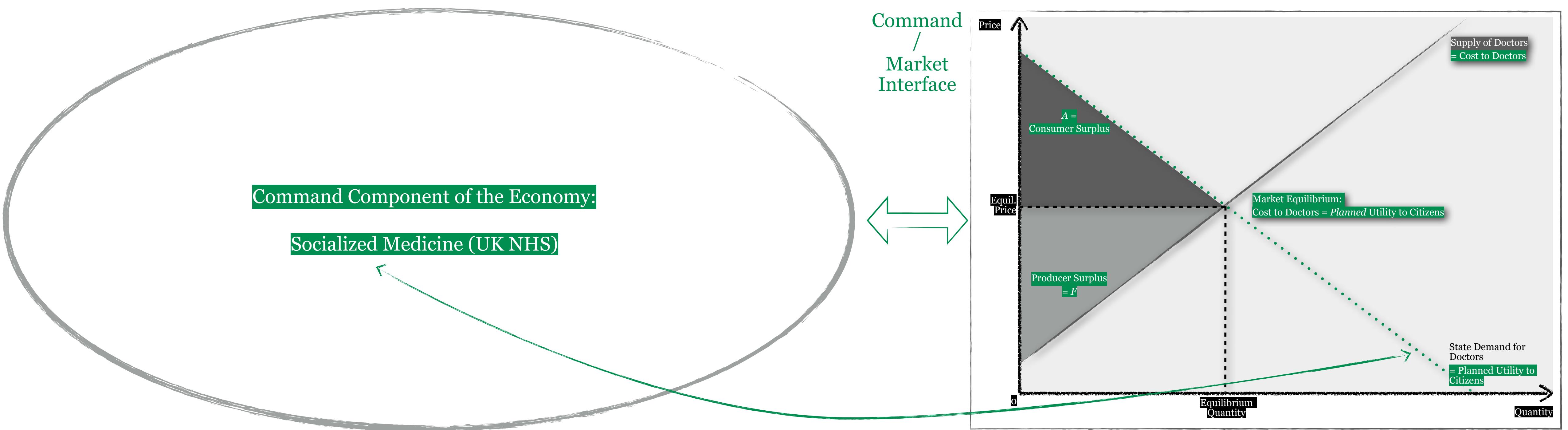


Inflation



Mortgage Takers





| | Within Country | Conditions for International Political Economy |
|------------------------|--|--|
| Fairness in Inputs | <p>Equal Opportunity (Policy Paradigm)</p> <p>Maximizing Social Mobility (Policy Goal)</p> <p><i>Quality Public Education, Affirmative Action (?) (Policy Proposals)</i></p> | <p>Fair Trade / Asymmetric Liberalization</p> <p>Converging Productivities, Converging Factor Endowments</p> <p><i>Infant Industry Protection (?) Special and Differential Treatment (WTO)</i></p> |
| Efficiency of Outcomes | <p>Growth</p> <p>Full Factor Employment, Productivity Increases</p> <p><i>Incentivizing Work, Investment, Productivity Countercyclical Policy</i></p> | <p>Comparative Advantage</p> <p>Maximizing World GDP</p> <p><i>Complete Mobility of Factors and Goods</i></p> |
| Equity of Outcomes | <p>“Difference Principle” (Rawls 1971)</p> <p>Greater equality (lower <u>Gini</u> coefficients) over time, increasing GDP</p> <p><i>Progressive Taxation of Wealth, Consumption</i></p> | <p>Coordinated Redistribution</p> <p>(Slowly) Converging Post-Tax Rents on Capital, later Labor for given levels of Factor Productivity</p> <p><i>EU-, OECD-, Worldwide (?) Tax Regime</i></p> |
| Sustainability | <p>Limited Discounting of the Future</p> <p>Demographic Stability Preservation of Environment Net Capital Accumulation</p> <p><i>(Public) Deficits < Investments</i></p> | <p>Global Financial Stability</p> <p>Moderated Financial Market / Exchange Rate Volatility Balanced <u>Current Accounts</u> (Medium-term) Balanced <u>Capital Accounts</u> (Medium-term)</p> <p><i>Free-Floating Currencies (?)</i></p> |

| Capital Account | | | = | Current Account | | |
|----------------------------------|-----------------------------------|---|---|--|--|---|
| Central Bank Foreign Reserves | + Net Ownership of Foreign Assets | = | Factor Incomes | + Balance of Trade | | |
| | Investments Abroad | - Loans from Abroad | = (Foreign Earnings) | - Foreign Payments) | + (Exports) - Imports) | |
| Own ership | Households | Buying shares in French agribusiness | Taking out mortgage from Icelandic bank | Dividends on French agribusiness shares | Interest payment to Icelandic mortgage bank | Cuckoo clocks to USA Olive oil from Greece |
| | Firms | Foreign Direct Investment (FDI) in Romanian plant | US-owned corporate paper in German firm | Returns from foreign subsidiaries | Dividends to foreign owners | Capacitative touchscreens to USA Diesel engine particle filters from France |
| | Government | Buy Zimbabwean bond | Sell German bond to British holders | Interest payments on German-owned Zimbabwean bonds | Interest payments to British holders of German bonds | Used tanks to Turkey Commuter trains from Italy |
| Capital Outflow | | | Recipient | | Trade Surplus | Trade Deficit |

Visualization to illustrate PAYGO vs funded.

**With little people over different time points who either invest in factories (symbol)
or other people.**

Real
Denomination

Nominal
Denomination

Creditors

Debtors

Asset Holders

Inflation



Fixed Incomes
Cash Holders

Inflation



Short Sellers

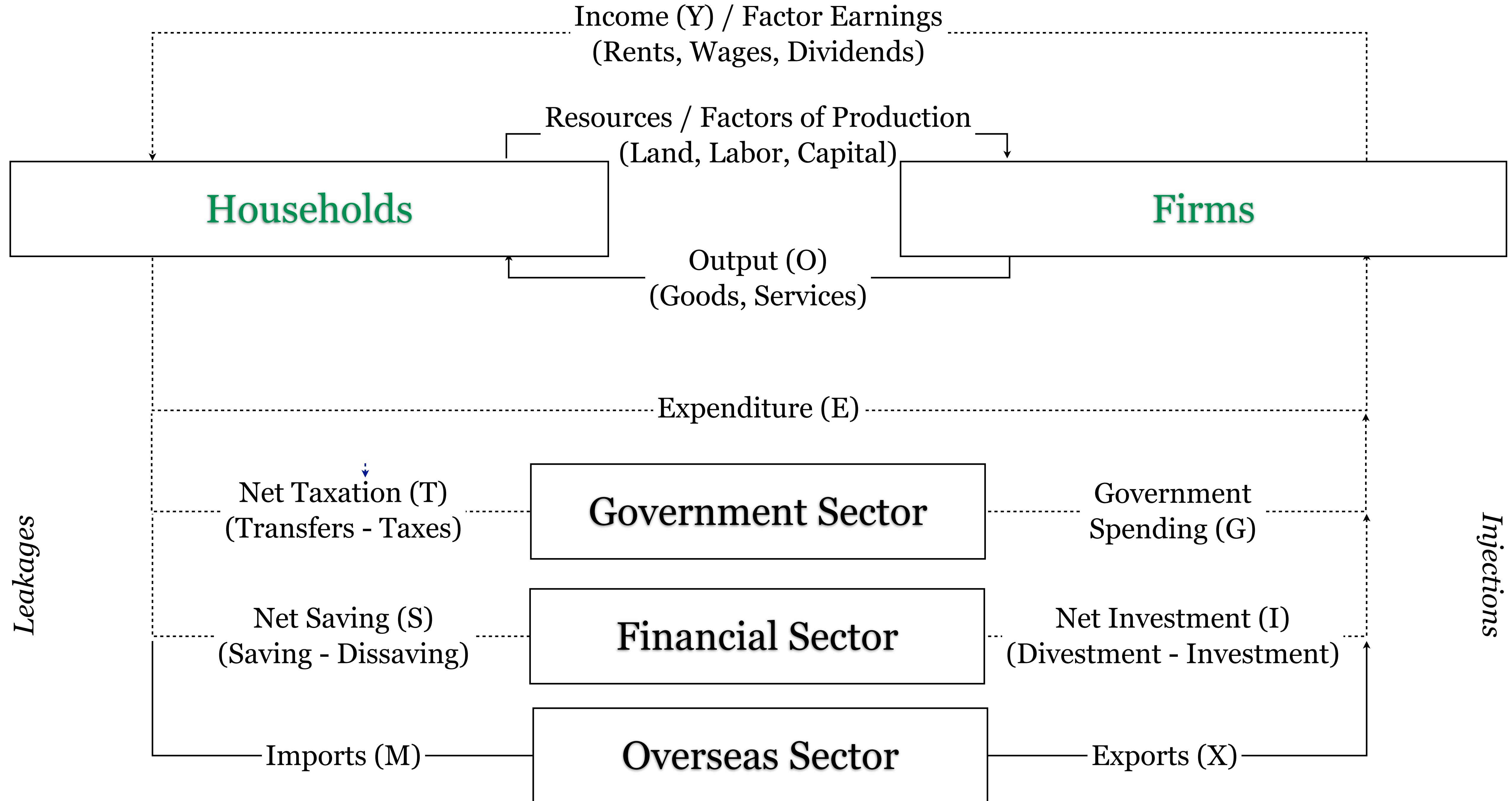
Inflation

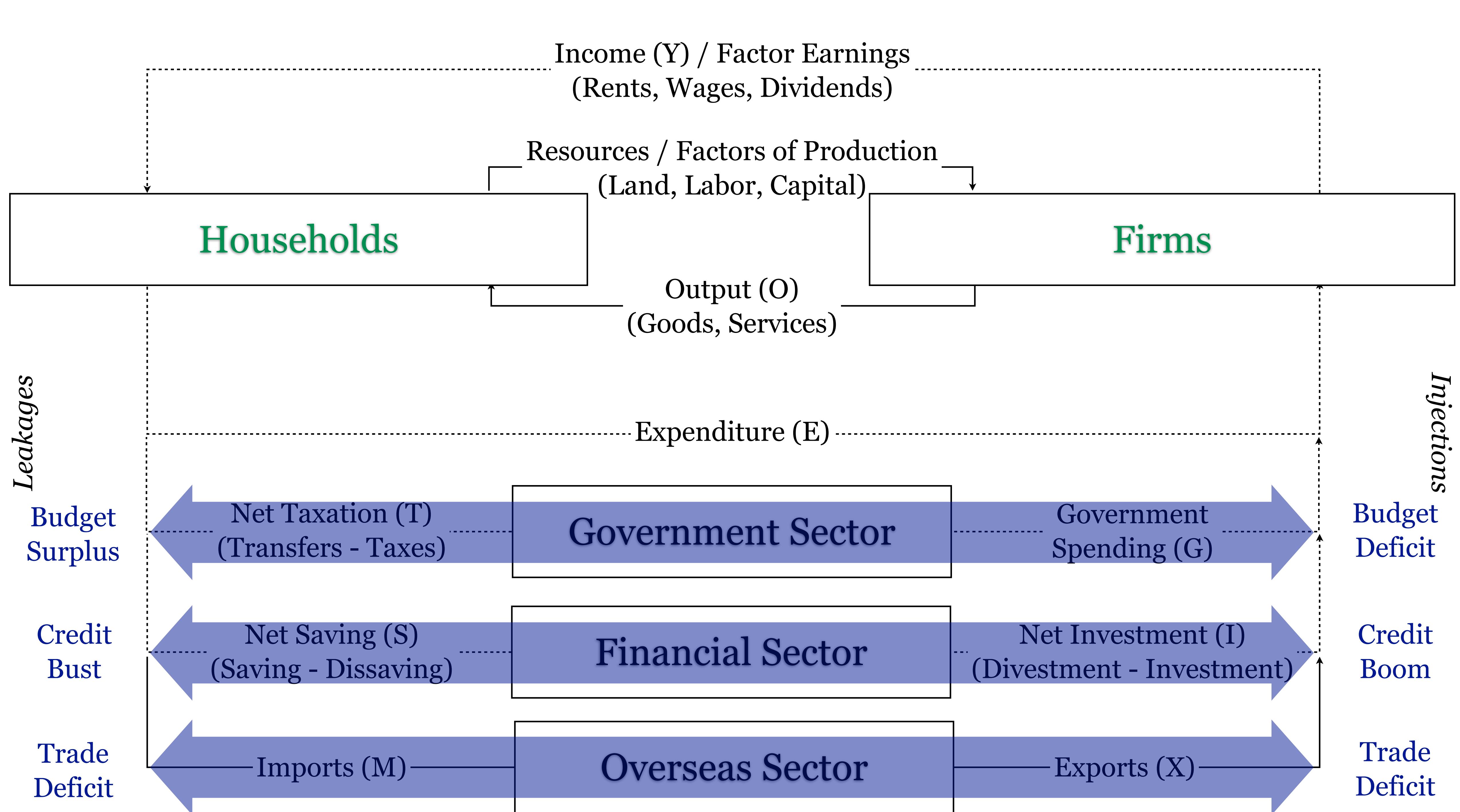


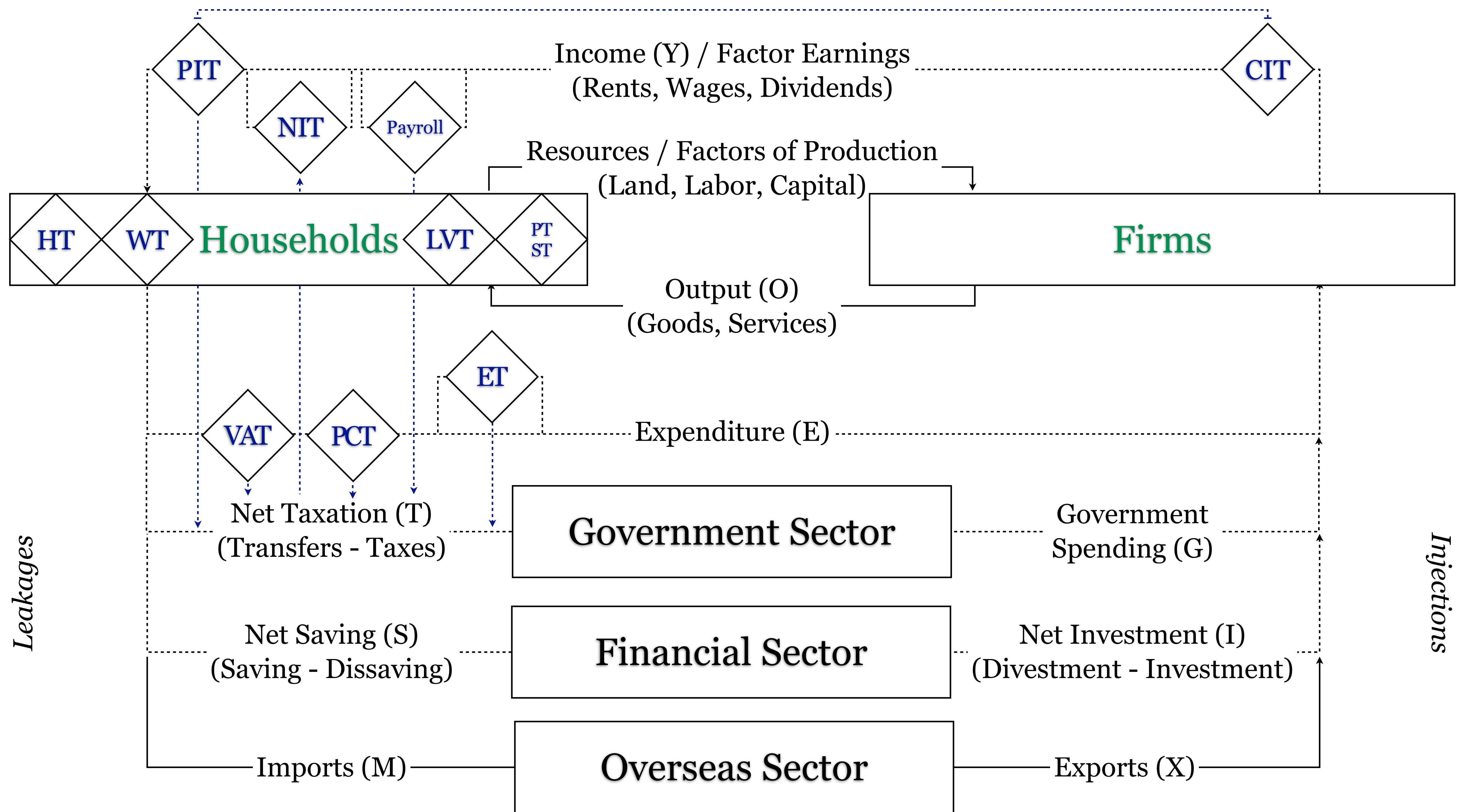
Inflation



Mortgage Takers

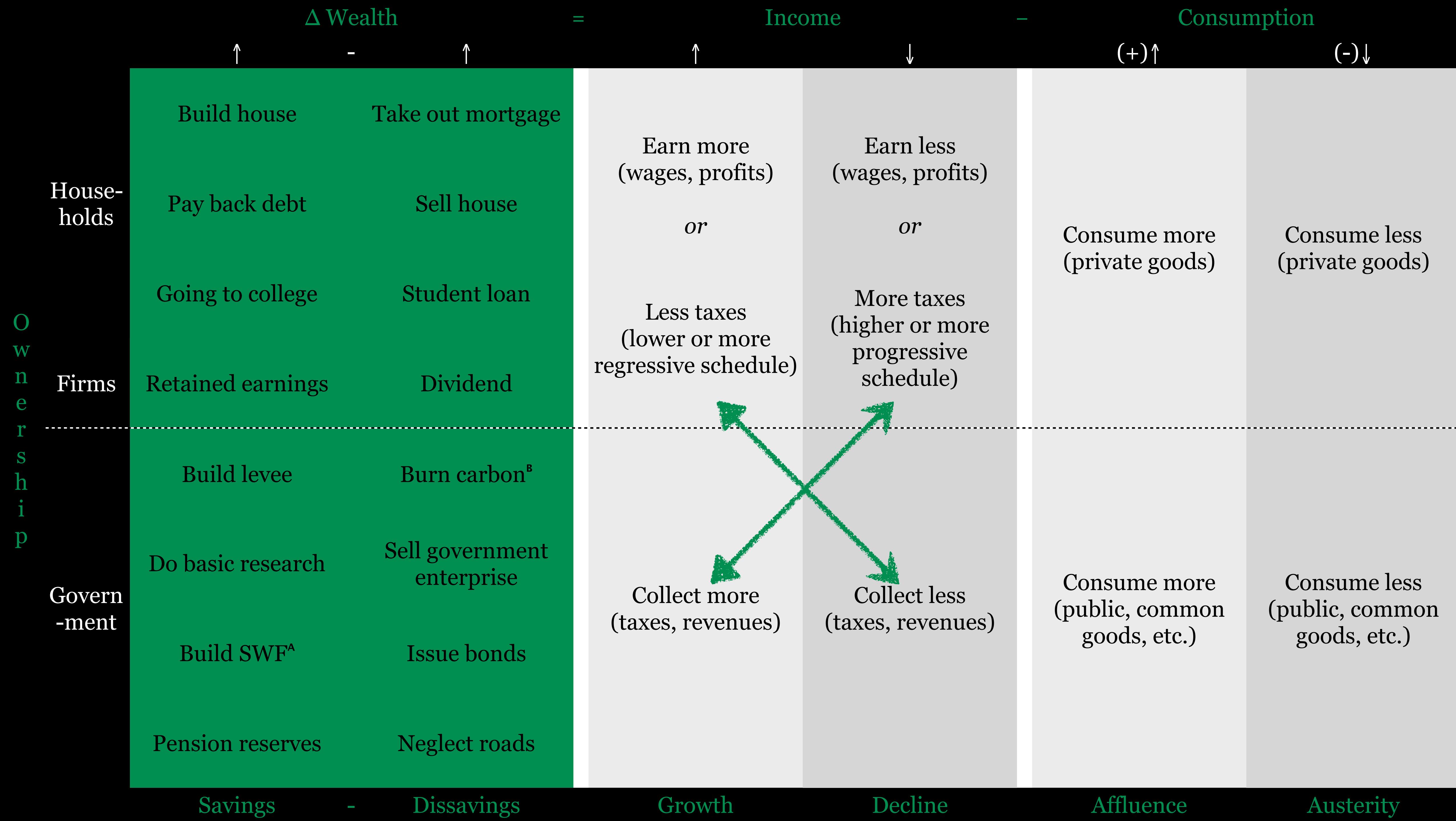




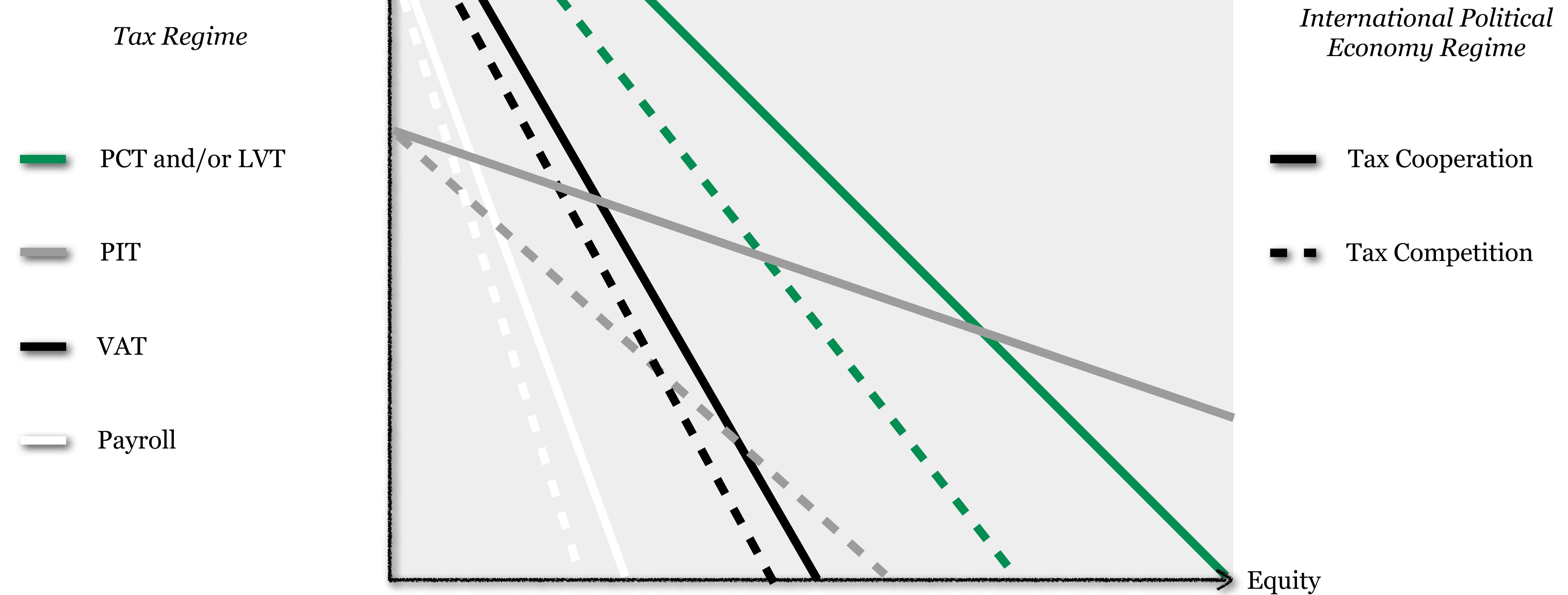


Tax

| Dimensions of Material Human Need | | | | | | | | | | | | | | | | | |
|-----------------------------------|--------------|--|--|--------------------------|--|--|--|--|--|---|--|---------------------------------|--|--|--|--|--|
| | | Production ^a | | Risk ^b | | Distribution (vertically) ^c | | | | Time ^d | | Space (horizontal) ^e | | | | | |
| Human f | Frailty | Disorganization ^l | | Ignorance ^v | | Dominance strategies ^z | | | | Myopia , herding ^J | | Parochialism ^c | | | | | |
| | Crisis | Subsistence ^l | | Black swans ^v | | Dominance hierarchies ^z | | | | Time inconsistency ^J | | Autarky | | | | | |
| | Modern Fit | Maximum output for minimal inputs ^l | | | | Downside risk aversion ^v | | | | Affiliative strategies ^z / Reciprocal altruism ^z | | | | Cosmopolitanism | | | |
| | Success | Competitive equilibrium ^m | | | | Insurance ^w | | | | Pareto optimality ^A | | | | Trade ^V | | | |
| | Failure | Externalities ⁿ | | | | Information asymmetry | | | | Short-term ^L Long-term ^M | | | | Market g | | | |
| | Regulatory i | Public good ^o Common good ^p (Natural market power ^q) | | | | Principal-Agent problem | | | | Adverse selection ^x , Moral hazard ^x | | | | Different terms of trade | | | |
| | Fiscal j | Property rights ^s Regulated private provision, antitrust ^t | | | | Efficiency wages ^A | | | | Winner-take-all ^B Differential budget constraints ^c | | | | Brain drain | | | |
| | Mone- tary k | Public pro- vision ^r Pigou- vian tax ^s | | | | Baumol's Cost Disease ^B | | | | Diminishing marginal utility ^D | | | | Agglo- meration | | | |
| | | Redistribu- tion | | | | Employer market power ^F | | | | Positional externality ^E | | | | Or: balance of payments crises (in the long run) | | | |
| | | [Price stability ^u] | | | | Mandatory insurance ^y | | | | business cycle, bubbles & panics, de- & inflation | | | | + adjustment costs + within-party distributive effects - factor mobility | | | |
| Com- mand h | Regulatory i | Price controls ^G | | | | Antitrust, right 2 strike, EPL, codetermination ^G | | | | EPL (employment protection legislation) ^G | | | | factor price flexibility | | | |
| | Fiscal j | Quotas (e.g. affirmative action) ^H | | | | Progressive taxation ^I spending & transfers | | | | mandatory pensions ^O | | | | transfers | | | |
| Monetary k | Regulatory i | Fiscal stimulus ^P | | | | Fiscal investment, encourage saving ^R | | | | Industrial policy | | | | state h | | | |
| | Fiscal j | Monetary stimulus ^Q | | | | [Price stability ^u] | | | | [Price stability ^u] | | | | structural policy | | | |
| Human f | Regulatory i | Consistency ^d | | | | Convergence ^e | | | | Equity ^c | | | | Ends of Enlightened Human Institutions | | | |
| | Fiscal j | Efficiency ^b | | | | Risk Pool ^l | | | | Consistency ^d | | | | | | | |

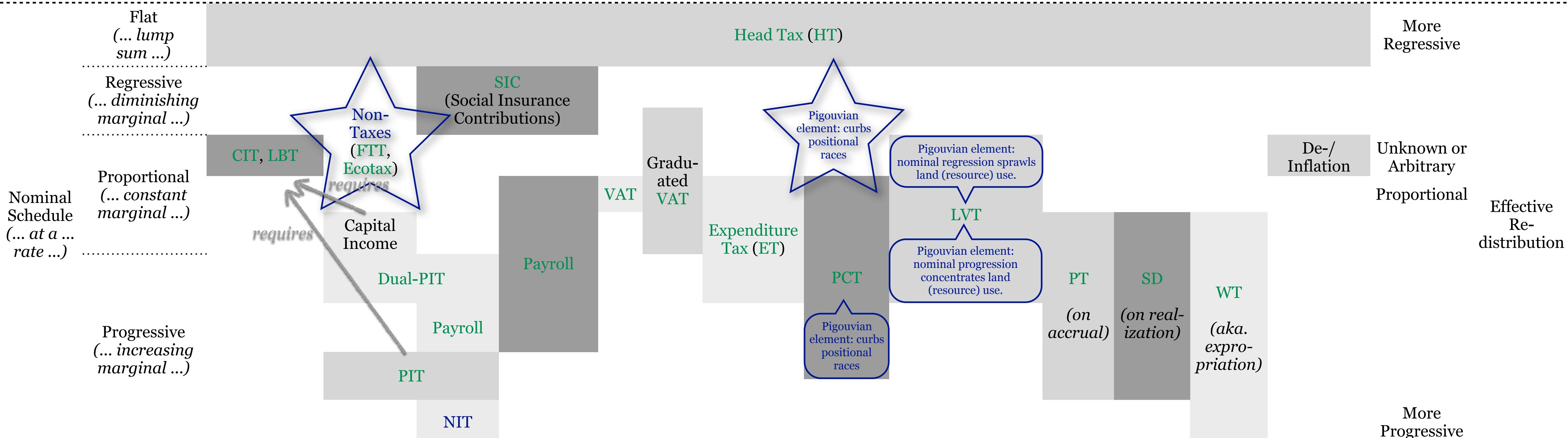


Efficiency



| Nominal Base (All <u>citizens</u> pay taxes on ...) | | | | | | | | |
|---|---|--|--|--|--|--|--|--|
| Income (... what they earn as rents from ...) | | Consumption (... what they consume away ...) | | | Wealth (... what they own in ...) | | | |
| Capital | Labor | Prepaid | Postpaid & Cashflow | Land (& Natural Resources) | Property | Net Worth | | |
| ... interest, dividends, often capital gains, ideally gifts, inheritance, imputed rents ... | ... in wages, salaries, sometimes self-employment and ideally imputed income from leisure ... | ... at the point of sale ... | ... as the difference between incomes and net savings, including a-/depreciation over a period ... | ... unimproved value of land and natural resources ... | ... improved value of land, including buildings ... | ... net of all assets & liabilities ... | | |
| Flat (... lump sum ...) | | | | | | | | |
| Regressive (... diminishing marginal ...) | | | | | | | | |
| Proportional (... constant marginal ...) | | | | | | | | |
| Nominal Schedule (... at a ... rate ...) | | | | | | | | |
| Progressive (... increasing marginal ...) | | | | | | | | |
| 1/? Owners 1/? Labor 1/? Consumers ... | OSN: 2x Capital Y2X: 2x Capital | on the proportional component: Labor, Capital | | 1x Labor 1x Capital, when it enhances lifestyle (Y2C applies). | OSN: 3x (some) capital Y2C: 2x (some) capital | burden depends on real- or nominal denomination of debt and credit | | |
| More Regressive | | | | | | | | |
| Unknown or Arbitrary Proportional | | | | | | | | |
| Effective Re-distribution | | | | | | | | |
| More Progressive | | | | | | | | |

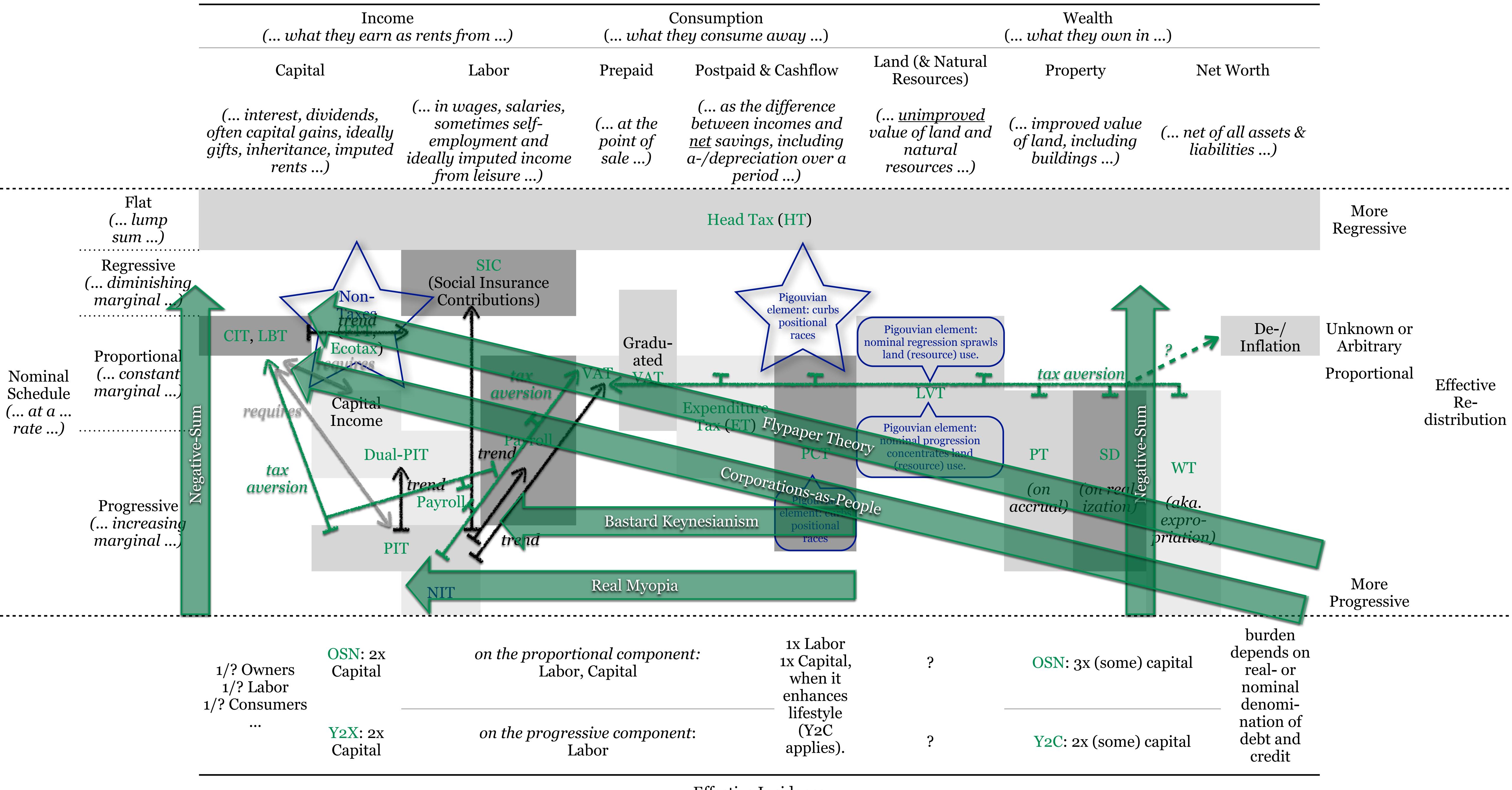
| Nominal Base (All <u>citizens</u> pay taxes on ...) | | | | | | | | |
|---|---|--|--|--|--|--|--|--|
| Income (... what they earn as rents from ...) | | Consumption (... what they consume away ...) | | | Wealth (... what they own in ...) | | | |
| Capital | Labor | Prepaid | Postpaid & Cashflow | Land (& Natural Resources) | Property | Net Worth | | |
| ... interest, dividends, often capital gains, ideally gifts, inheritance, imputed rents ... | ... in wages, salaries, sometimes self-employment and ideally imputed income from leisure ... | ... at the point of sale ... | ... as the difference between incomes and net savings, including a-/depreciation over a period ... | ... unimproved value of land and natural resources ... | ... improved value of land, including buildings ... | ... net of all assets & liabilities ... | | |
| Flat (... lump sum ...) | | | | | | | | |
| Regressive (... diminishing marginal ...) | | | | | | | | |
| Proportional (... constant marginal ...) | | | | | | | | |
| Nominal Schedule (... at a ... rate ...) | | | | | | | | |
| Progressive (... increasing marginal ...) | | | | | | | | |
| 1/? Owners 1/? Labor 1/? Consumers ... | OSN: 2x Capital Y2X: 2x Capital | on the proportional component: Labor, Capital | | 1x Labor 1x Capital, when it enhances lifestyle (Y2C applies). | OSN: 3x (some) capital Y2C: 2x (some) capital | burden depends on real- or nominal denomination of debt and credit | | |
| More Regressive | | | | | | | | |
| Unknown or Arbitrary Proportional | | | | | | | | |
| Effective Re-distribution | | | | | | | | |
| More Progressive | | | | | | | | |



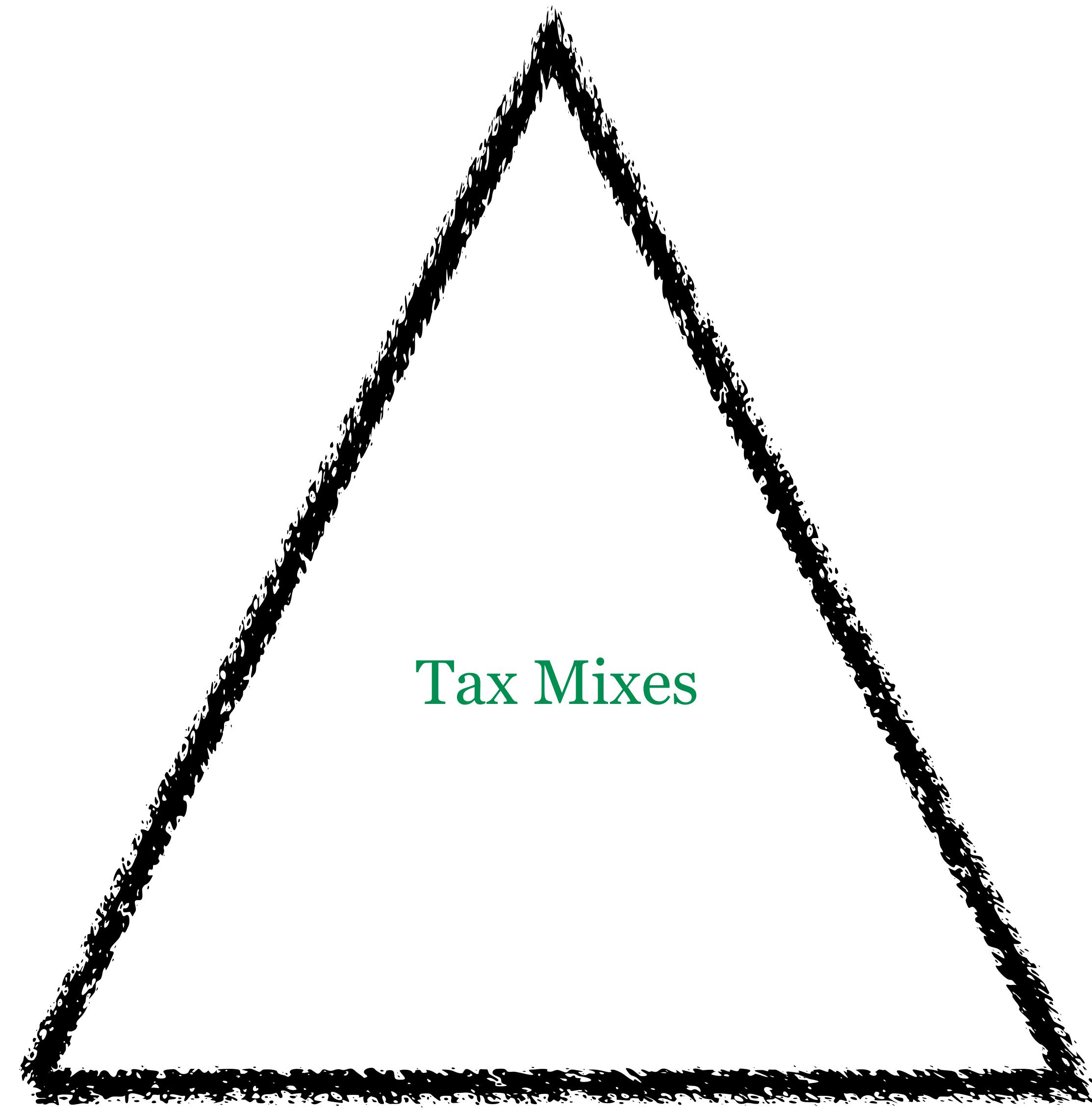
| Nominal Base (All <u>citizens</u> pay taxes on ...) | | | | | | | | |
|---|---|---|--|--|---|--|--|--|
| Income (... what they earn as rents from ...) | | Consumption (... what they consume away ...) | | | Wealth (... what they own in ...) | | | |
| Capital | Labor | Prepaid | Postpaid & Cashflow | Land (& Natural Resources) | Property | Net Worth | | |
| ... interest, dividends, often capital gains, ideally gifts, inheritance, imputed rents ... | ... in wages, salaries, sometimes self-employment and ideally imputed income from leisure ... | ... at the point of sale ... | ... as the difference between incomes and net savings, including a-/depreciation over a period ... | ... unimproved value of land and natural resources ... | ... improved value of land, including buildings ... | ... net of all assets & liabilities ... | | |
| Flat (... lump sum ...) | | | | | | | | |
| Regressive (... diminishing marginal ...) | | | | | | | | |
| Proportional (... constant marginal ...) | | | | | | | | |
| Nominal Schedule (... at a ... rate ...) | | | | | | | | |
| Progressive (... increasing marginal ...) | | | | | | | | |
| | | | | | | | | |
| 1/? Owners 1/? Labor 1/? Consumers ... | OSN: 2x Capital Y2X: 2x Capital | <p>on the proportional component: Labor, Capital</p> <p>on the progressive component: Labor</p> | | 1x Labor 1x Capital, when it enhances lifestyle (Y2C applies). | ? | OSN: 3x (some) capital Y2C: 2x (some) capital | | |
| | | | | | | | | |
| <p>More Regressive</p> <p>Unknown or Arbitrary</p> <p>Proportional</p> <p>Effective Re-distribution</p> <p>More Progressive</p> | | | | | | | | |

Nominal Base *(All citizens pay taxes on ...)*

Nominal Base
(All citizens pay taxes on ...)



Personal and Corporate Income Taxes

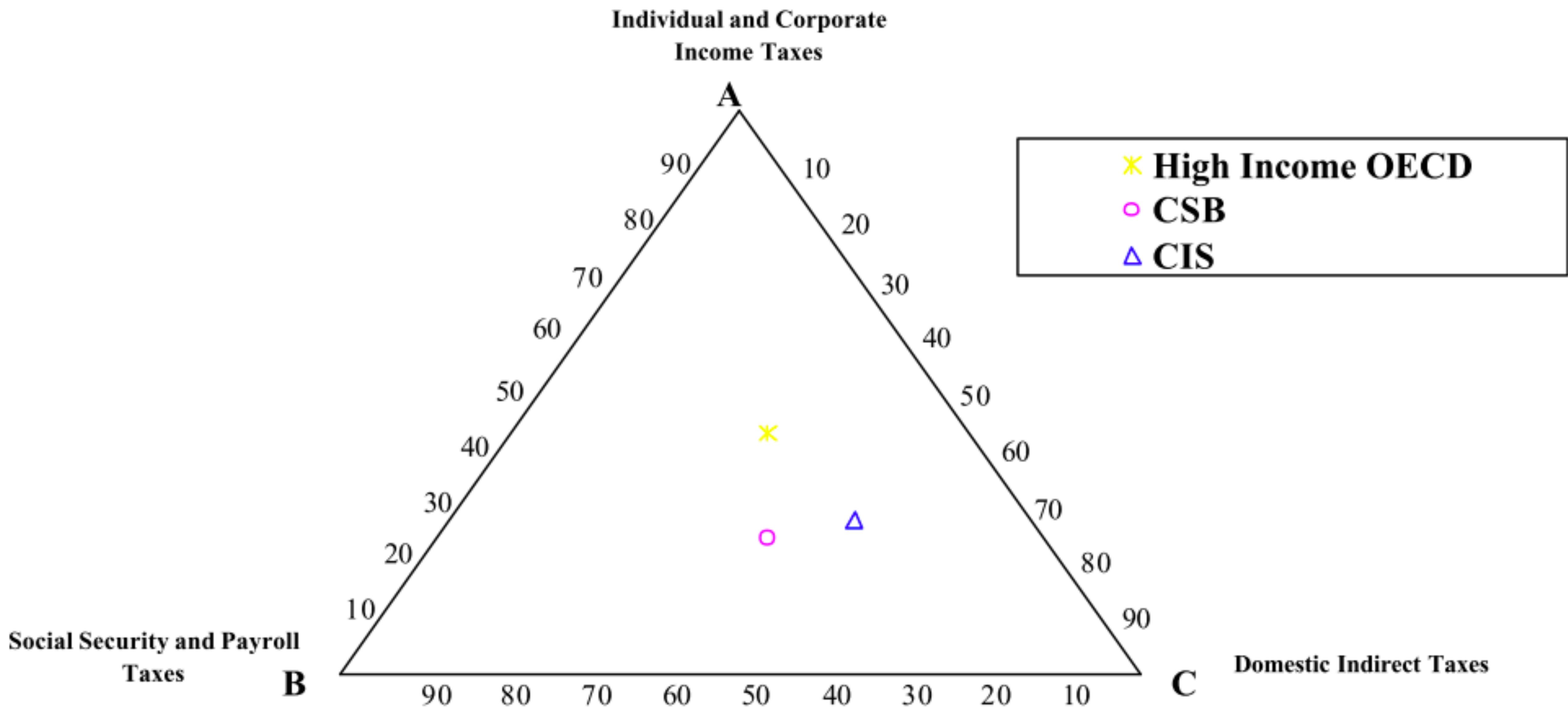


Tax Mixes

Social Security
& Payroll Taxes

Domestic
Indirect

Figure 6: Breakdown of Non-trade Tax Revenue by Type: High Income OECD, CSB, and CIS Economies (unweighted group averages)



| | | <i>Rest of World</i> | | | |
|------|---------------------|----------------------|--------------------|---------|----------|
| | | Open Markets | Open Markets | Autarky | \wedge |
| | | \wedge High Taxes | \wedge Low Taxes | Any Tax | |
| Home | Open Markets | ? | $x \geq 2$ | | 0 |
| | \wedge High Taxes | ? | $x \leq 2$ | 0 | |
| | Open Markets | $x \leq 2$ | 2 | | 0 |
| | \wedge Low Taxes | $x \geq 2$ | 2 | 0 | |
| | Autarky \wedge | $0 < x \geq ?$ | $0 < x \geq 2$ | | 0 |
| | Any Tax | 0 | 0 | 0 | |

The above payoff matrix is not a well-defined, sufficiently formalized game. To adequately model the international political economy, *Rest of World*, ROW, would have to be disaggregated into at least two more players, making a two-dimensional representation of the game impossible. Liberalization and taxation are impossible to be adequately modeled with only two players, for then, autarky of one player would by definition imply autarky of the other player. In real life, at least theoretically, countries could exit from international trade and finance with other countries still continuing on the road to liberalization.

Table 1: A Schematic Payoff Matrix for the International Political Economy of Taxation and Liberalization.

Misc.

