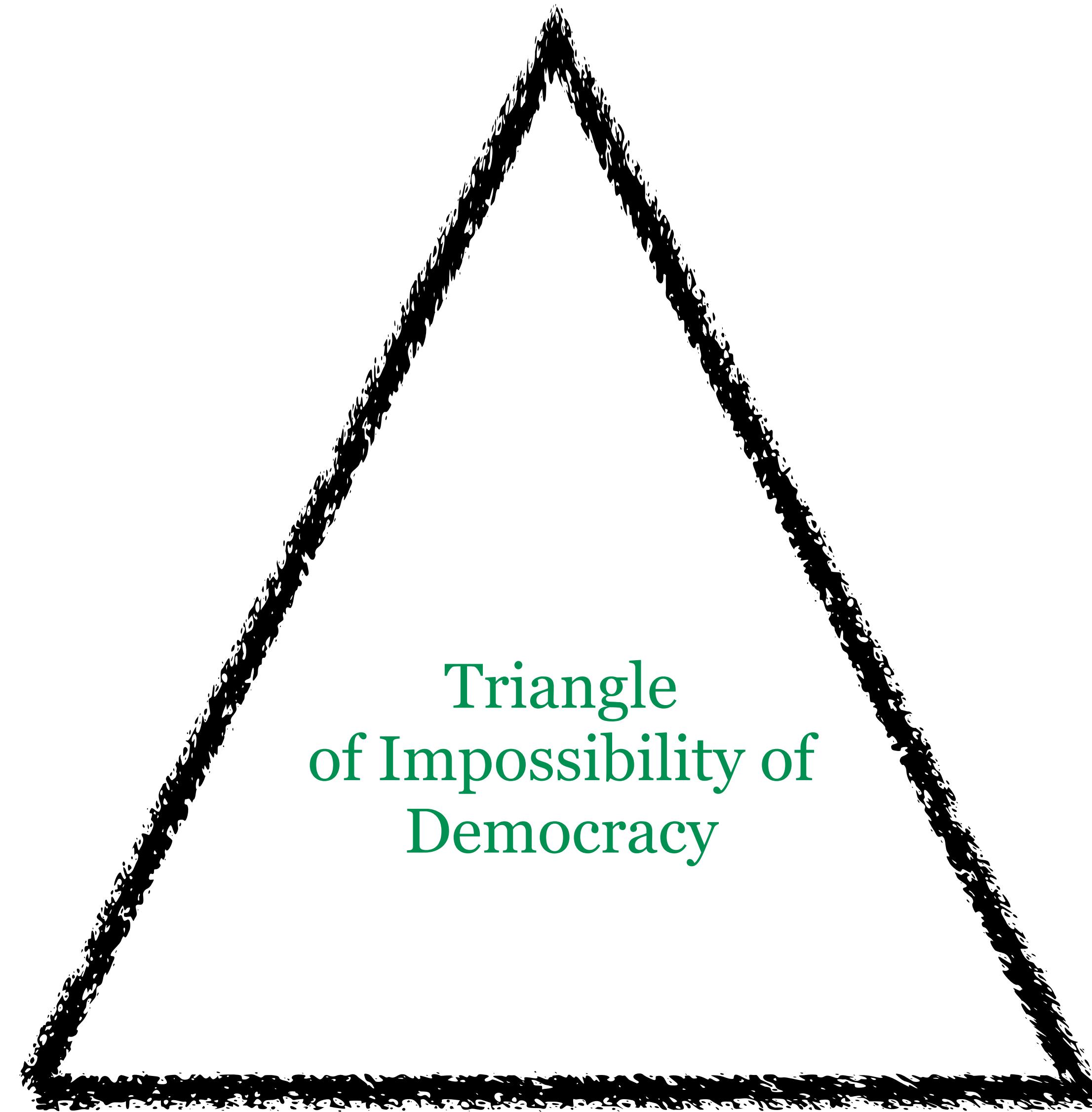


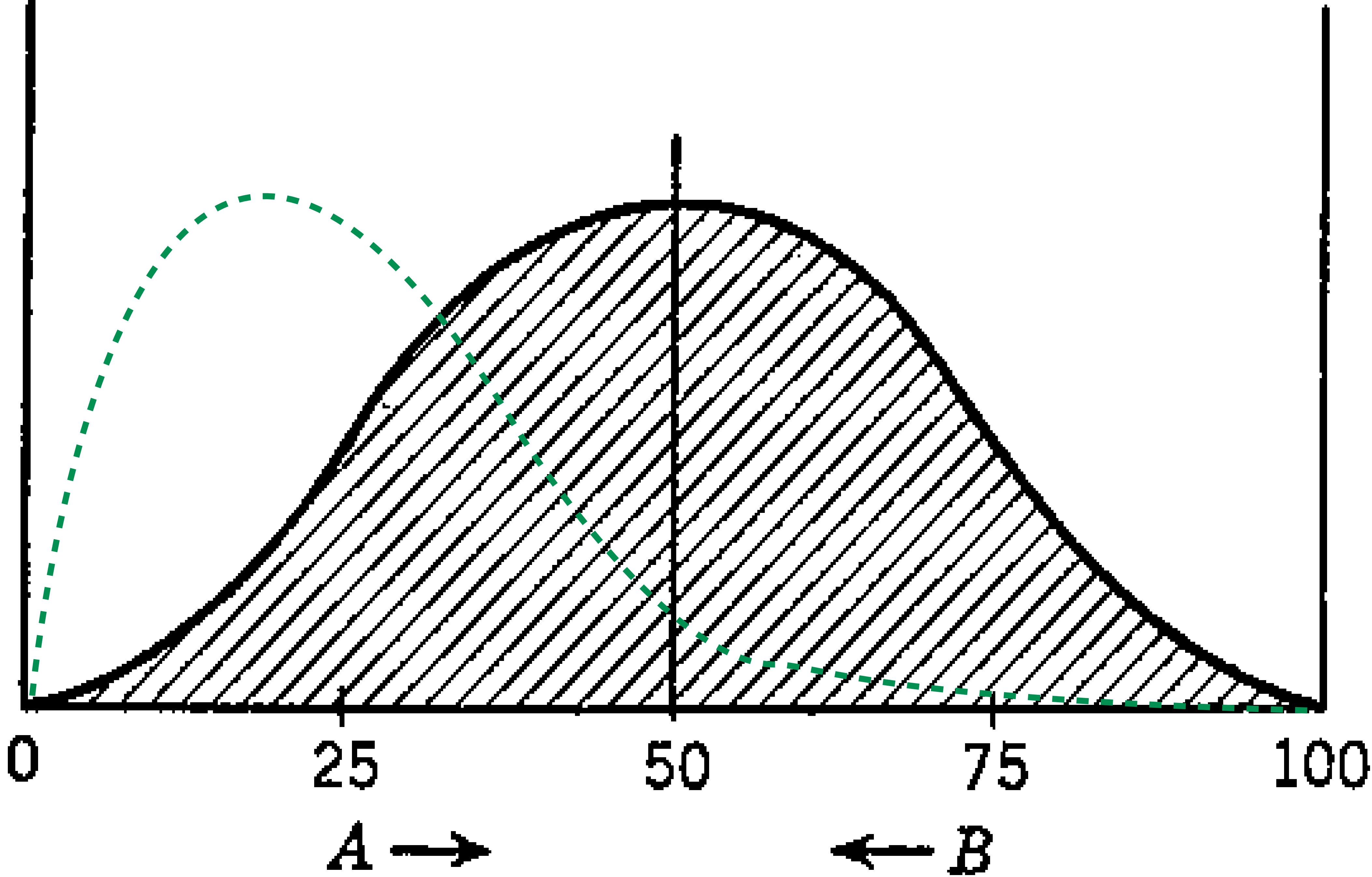
Democracy

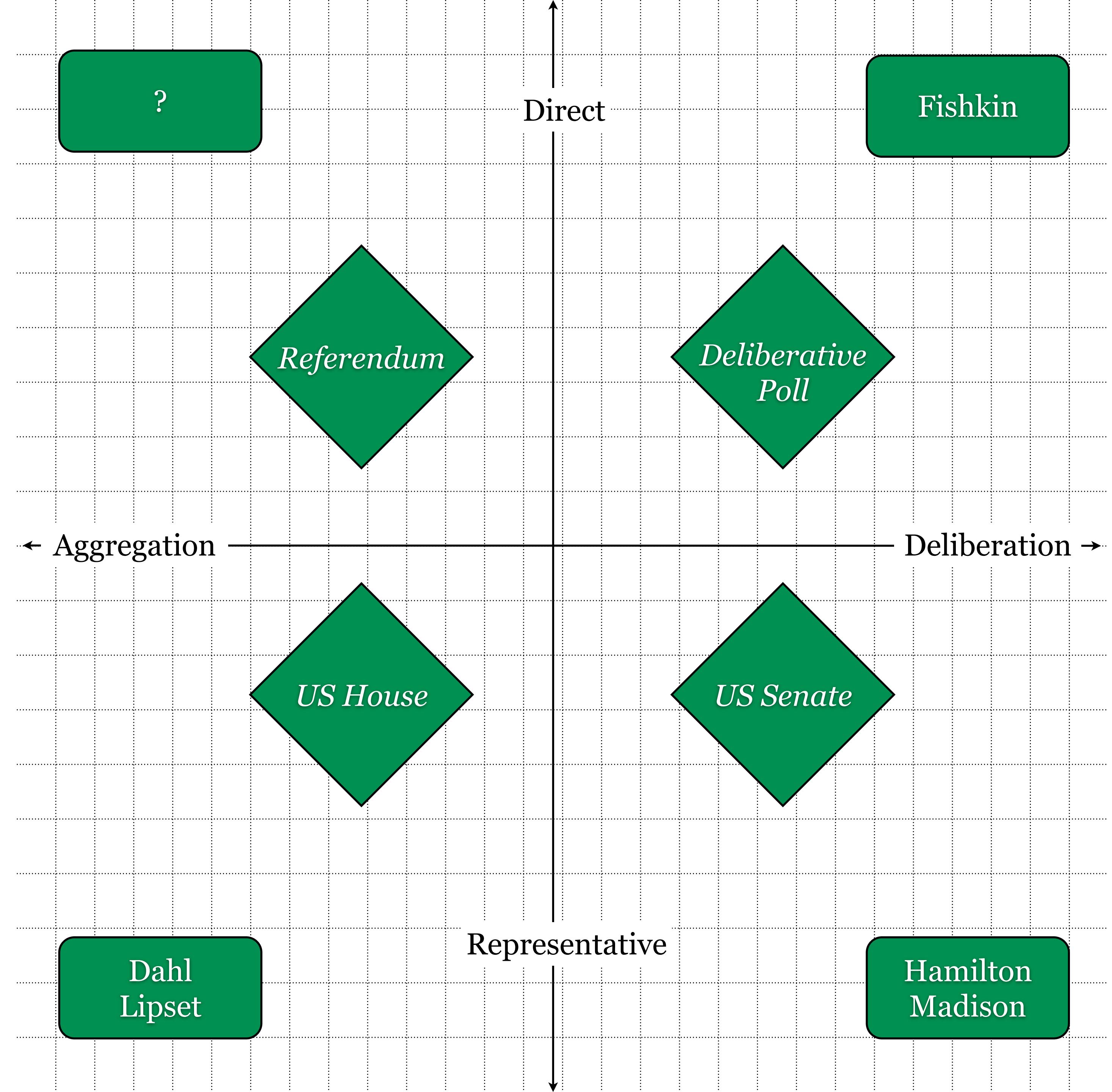
Participation

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.

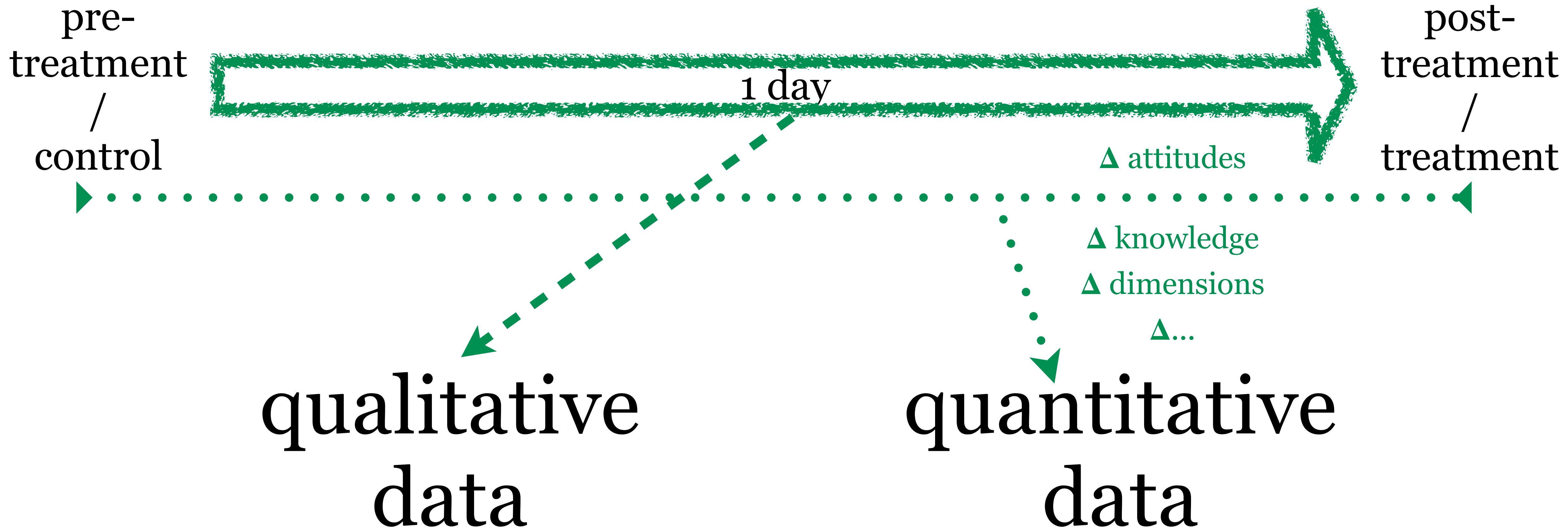
Balanced and unbiased study guide.

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)

Hypothesis 1b)i: greater *individual* vNM-consistency

Completeness:

For any A and B, we either $A > B$, $A < B$ or $A = B$.

- complete preferences (PCT, LVT, ...)
- preferences independent of wording (SIC = Payroll) [**flypaper theory**]
- preferences only on relevant choices [**ordoliberal mess**]

Transitivity:

If $A > B > C$, then $A > C$

If someone VAT $>$ Payroll, Payroll $>$ PIT,
then VAT $>$ PIT (!)

Continuity:

There is a $p(A,C) = B$

- There is a $p(PIT, Payroll) = VAT$ [**false omnipotence**]
- There is a $p(WT, WT') = \cancel{WT}$ [**false omniscience**]

Independence:

If $A > B$, and there is a new (irrelevant) choice C, still $A > B$.

If PIT $>$ Payroll, given FTT, still PIT $>$ Payroll [**flypaper theory**]

Aggregate Deviations from vNM-Consistency

Completeness:

For any A and B, we either $A > B$, $A < B$ or $A = B$.

! Arrow's Impossibility theorem: violate 1 out of **complete**, **transitive**, **independent**, non-dictatorship, pareto-optimal (monotonicity + non-imposition).

Transitivity:

If $A > B > C$, then $A > C$

! Condorcet's Paradox violates transitivity: between >2 alternatives, choice can **cycle**, when the aggregate preference distribution is flat.

Continuity:

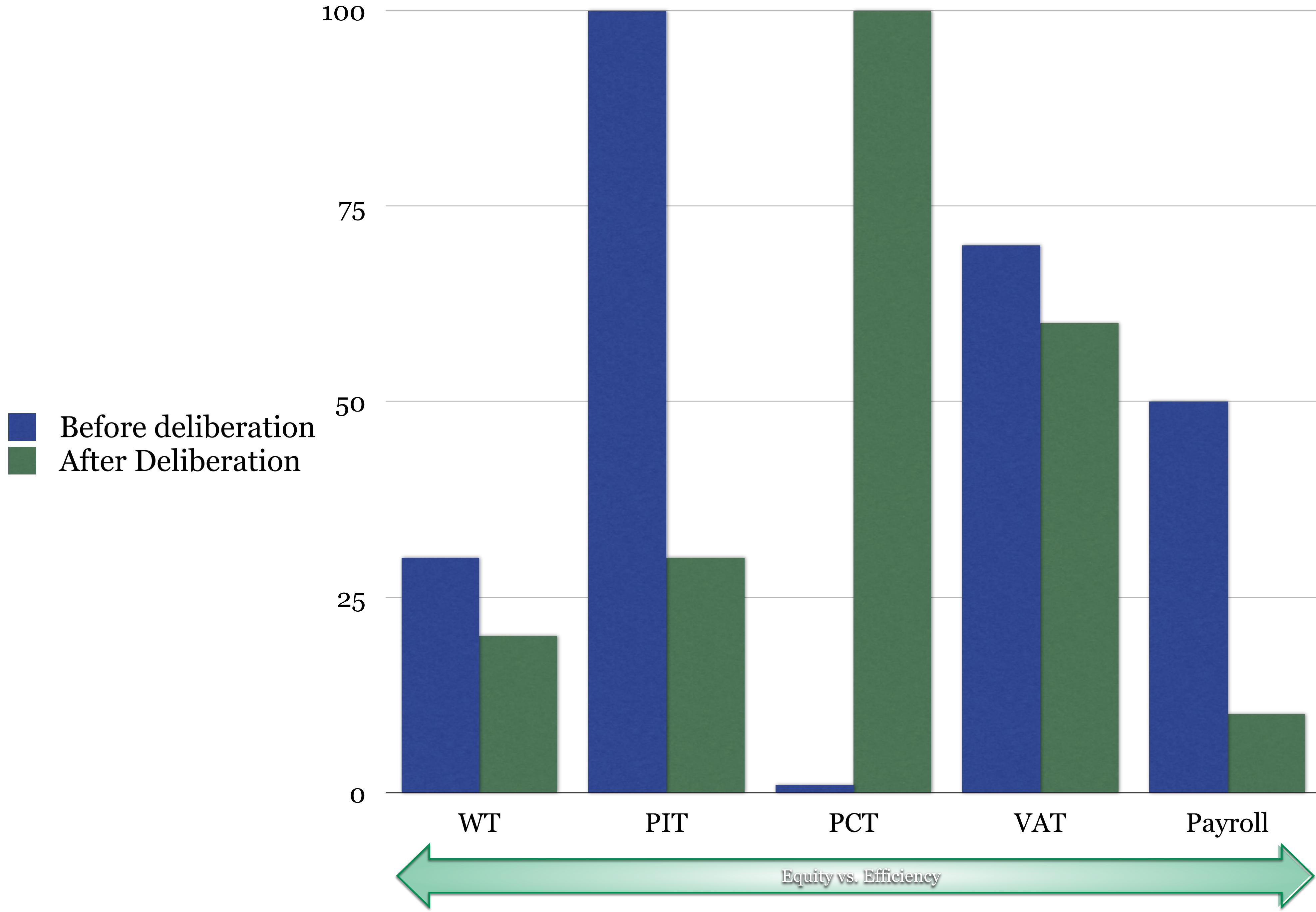
There is a $p(A,C) = B$

?

Independence:

If $A > B$, and there is a new (irrelevant) choice C, still $A > B$.

! Arrow (above)



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

-- Blühdorn (2007: 313)

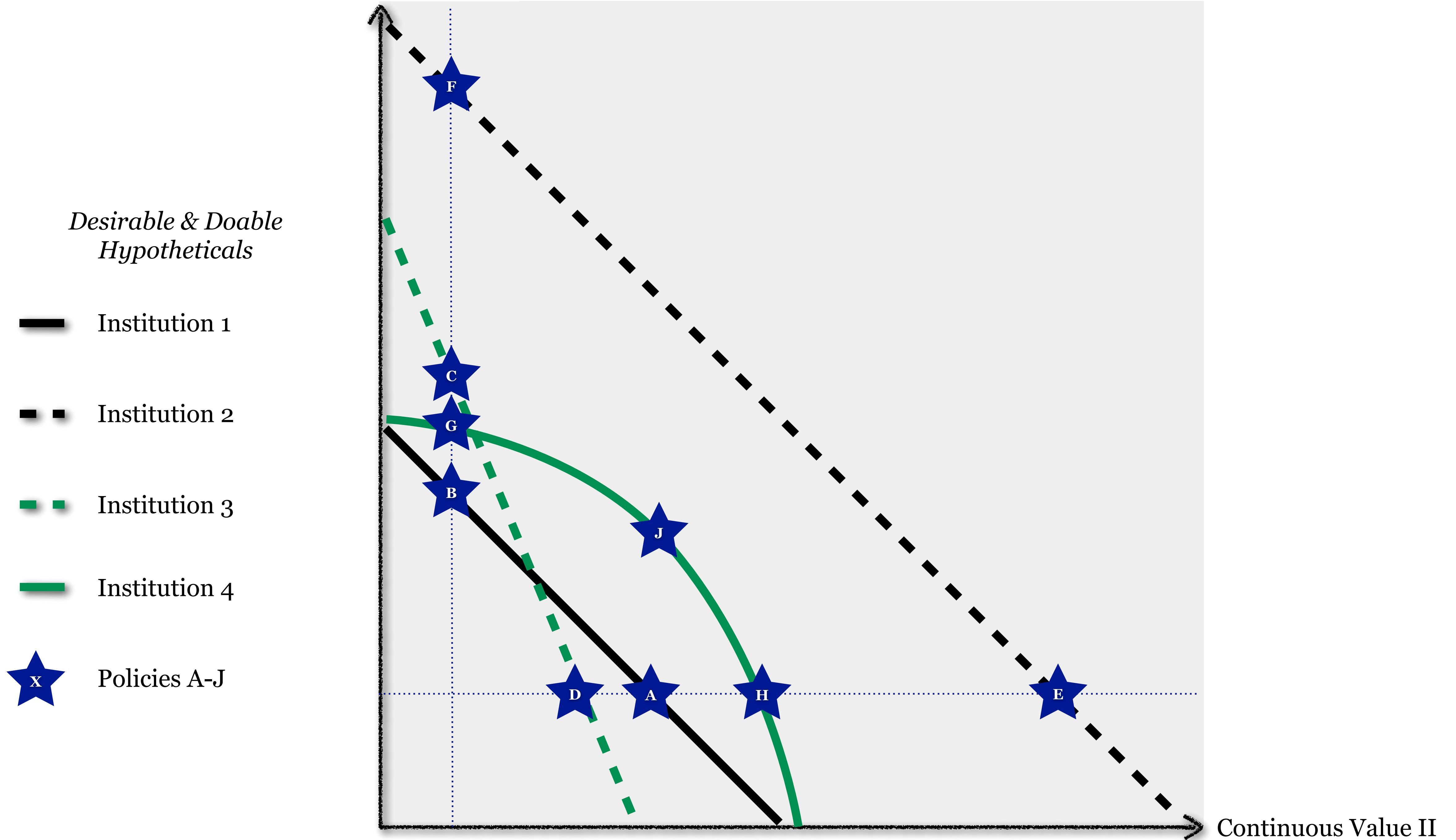
*“The spirit of a people, its cultural level, its social structure, the deeds of its policy may prepare -- all this and more is written in its fiscal history, stripped of all phrases. He who knows how to listen to its message here discerns **the thunder of world history** more clearly than anywhere else.”*

-- 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



—

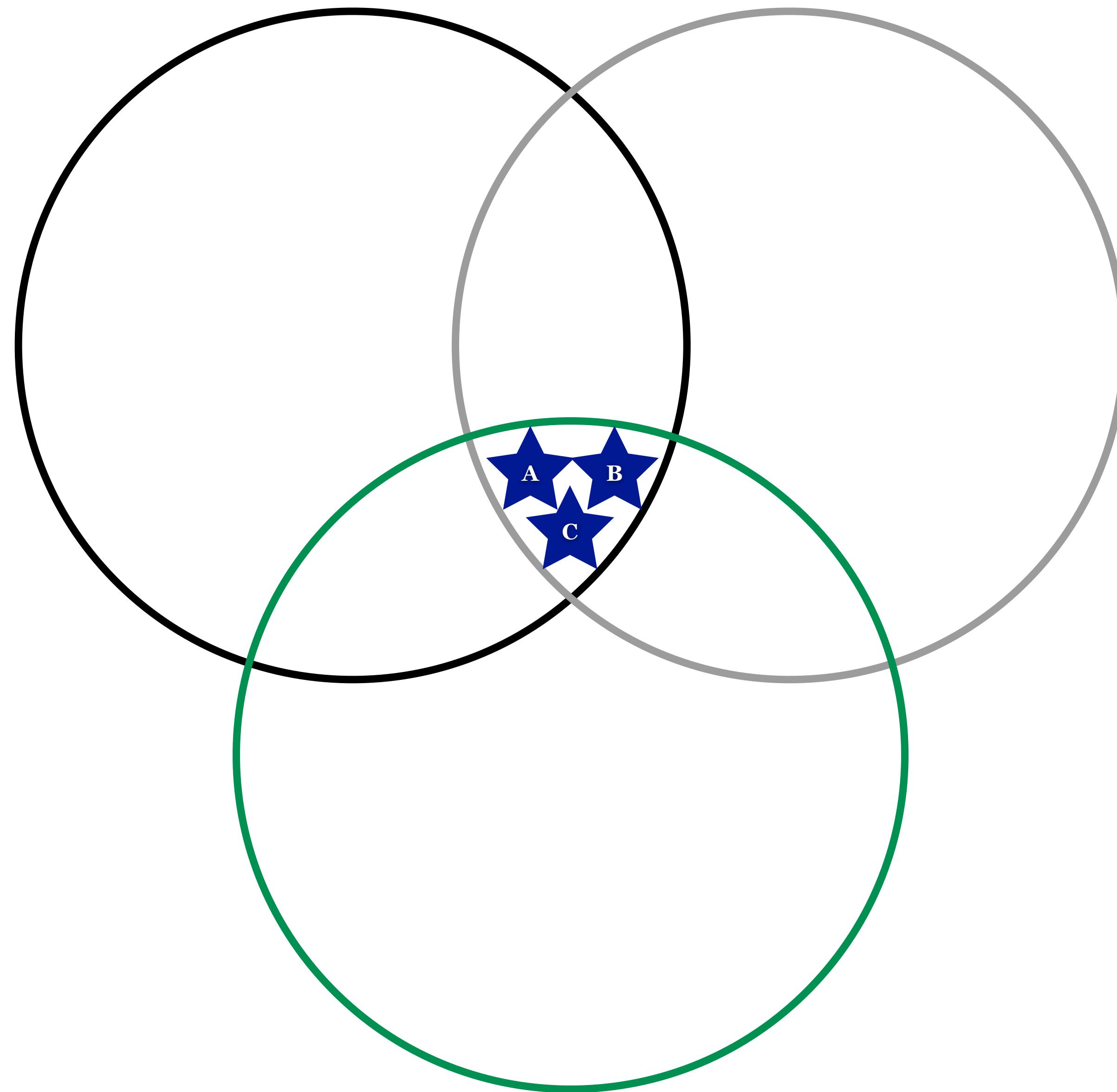
Categorical Value I

—

Categorical Value II

—

Categorical Value III



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 ...

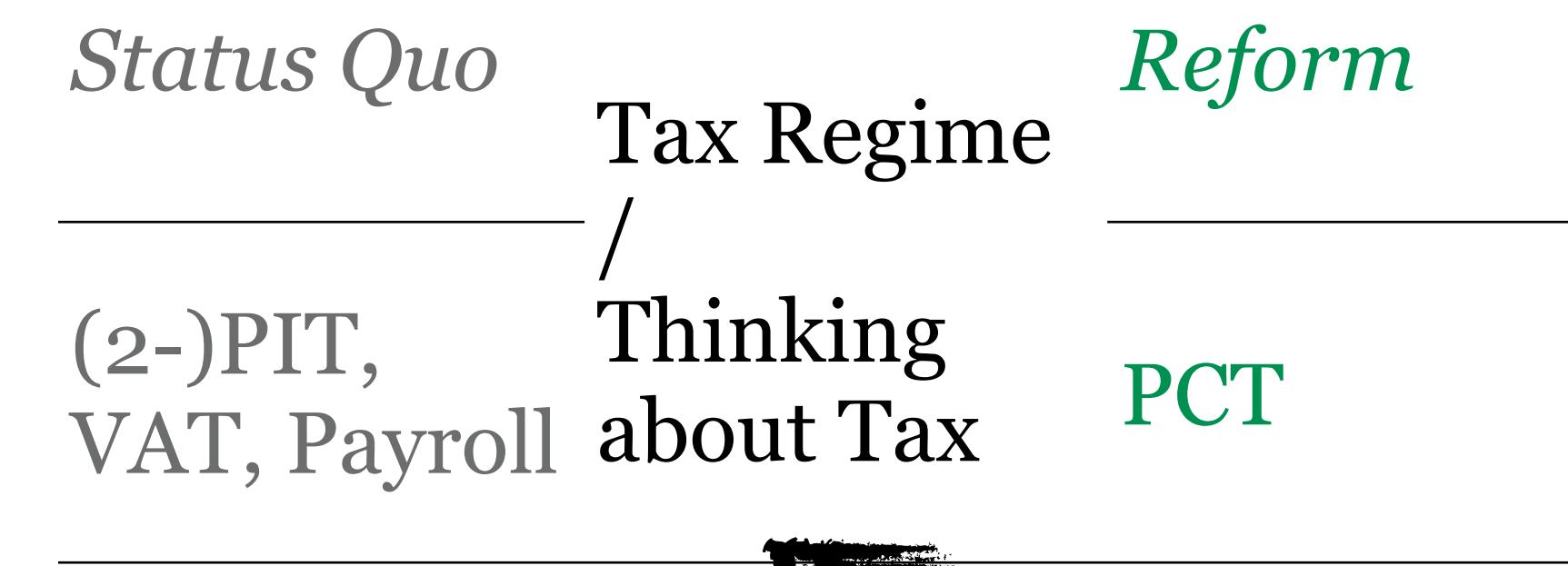
<i>Non-Cultural Species</i>	<i>Cultural Species</i>
Genes / “Nature”	
Little capacity for learning / “Hardware”	Great capacity for learning

Co-evolution

<i>Non-Cultural Species</i>	<i>Cultural Species</i>
“Memes” / Culture	
- / “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)*



Taxation & 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)



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)

Mixed
Economy
(Ganssmann?)

Social
Theory of
Democracy
(Bogaards)

Political
Psychology
(Rosenberg)

?

Deliberative
Poll
(Fishkin)

Tax Biases
(McCaffery &
Baron)

?

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

Equity Norms

Efficiency Norms

Equality of
Opportunity

Maximin
Difference Principle

Egalitarianism
(in Outcomes)

Social Welfare
Optimum

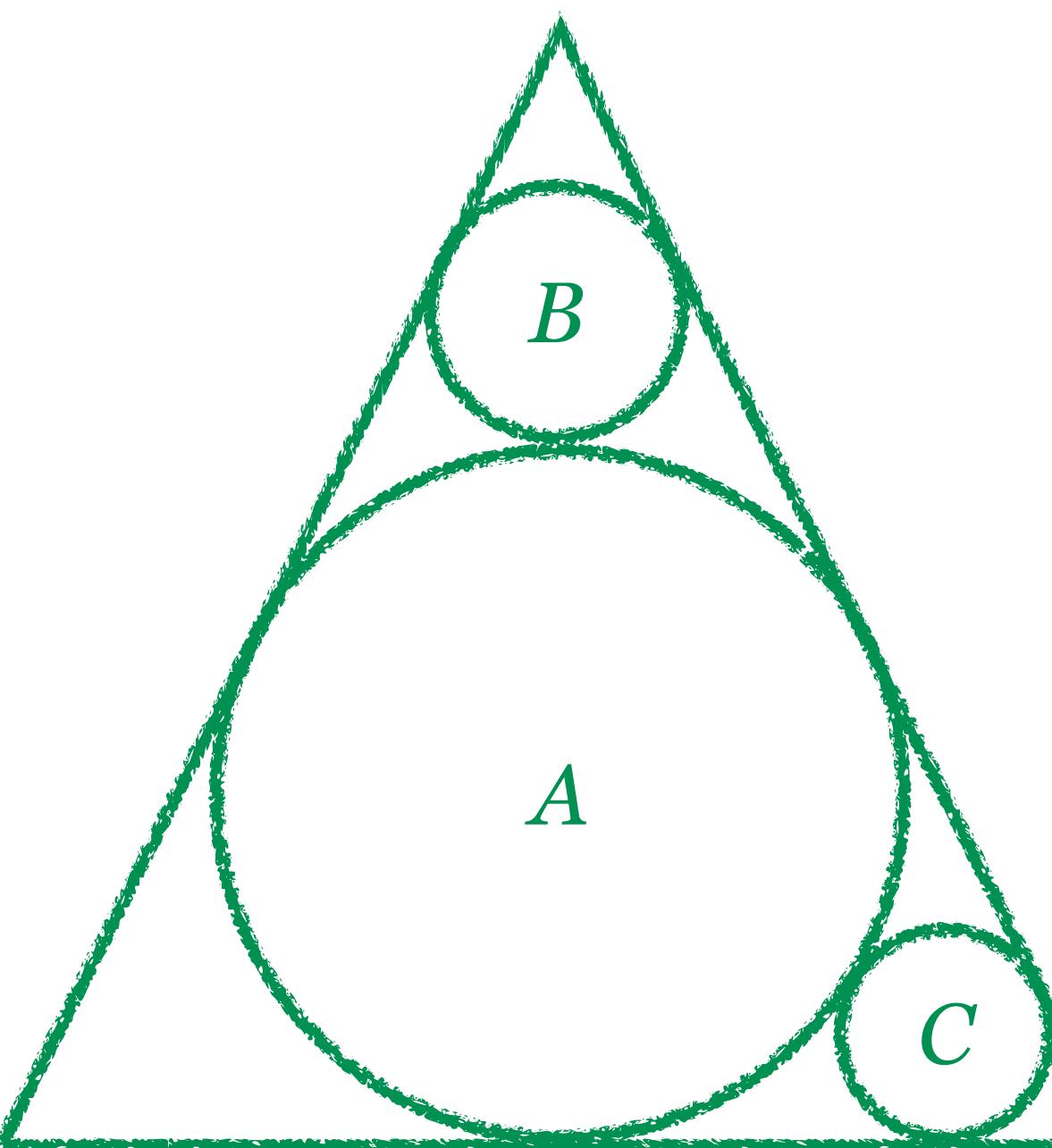
Weak Pareto
Optimum

Strong Pareto
Optimum

Utilitarianism

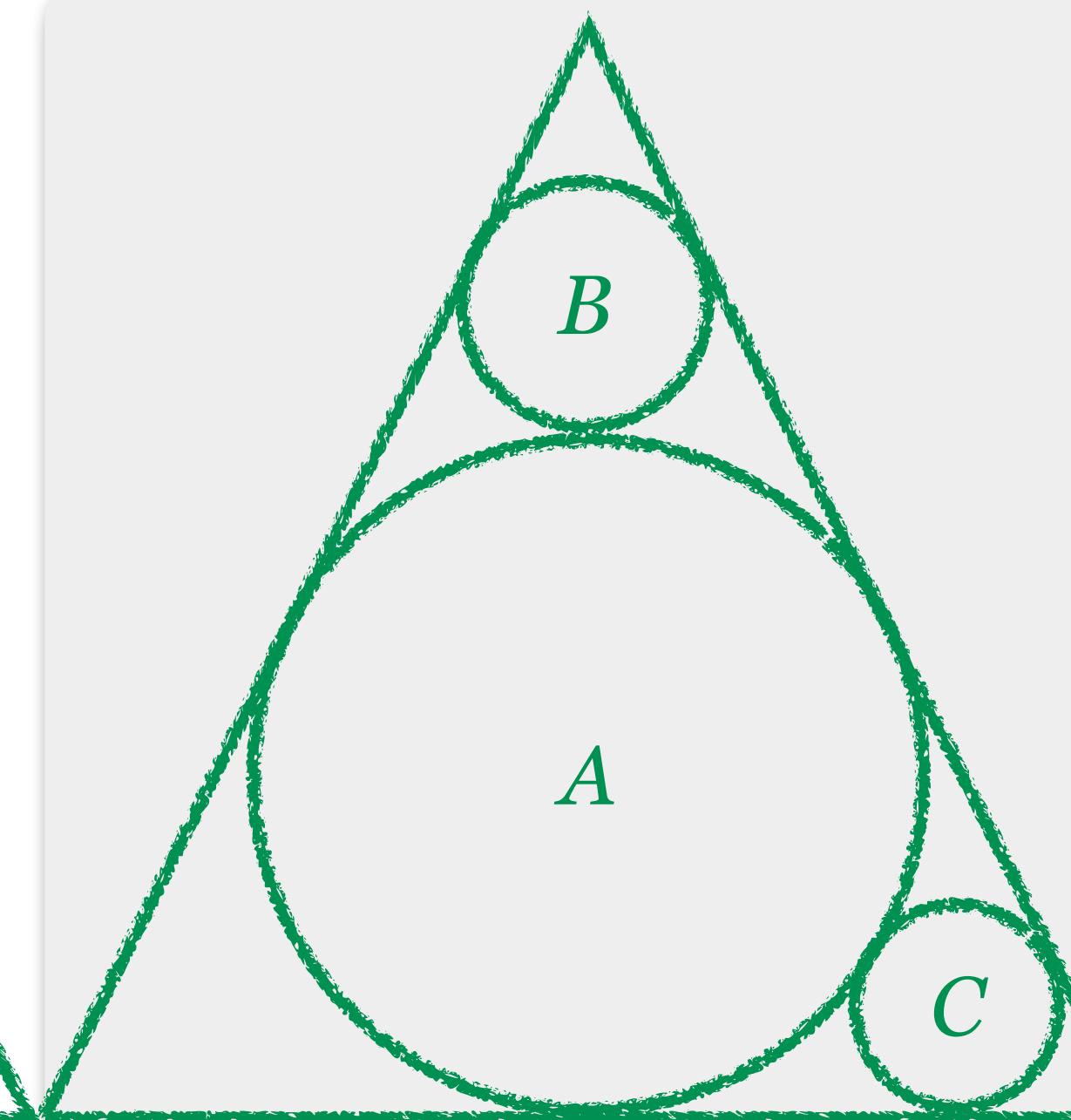
Efficiency/Equity Norm

Pure Efficiency Norms



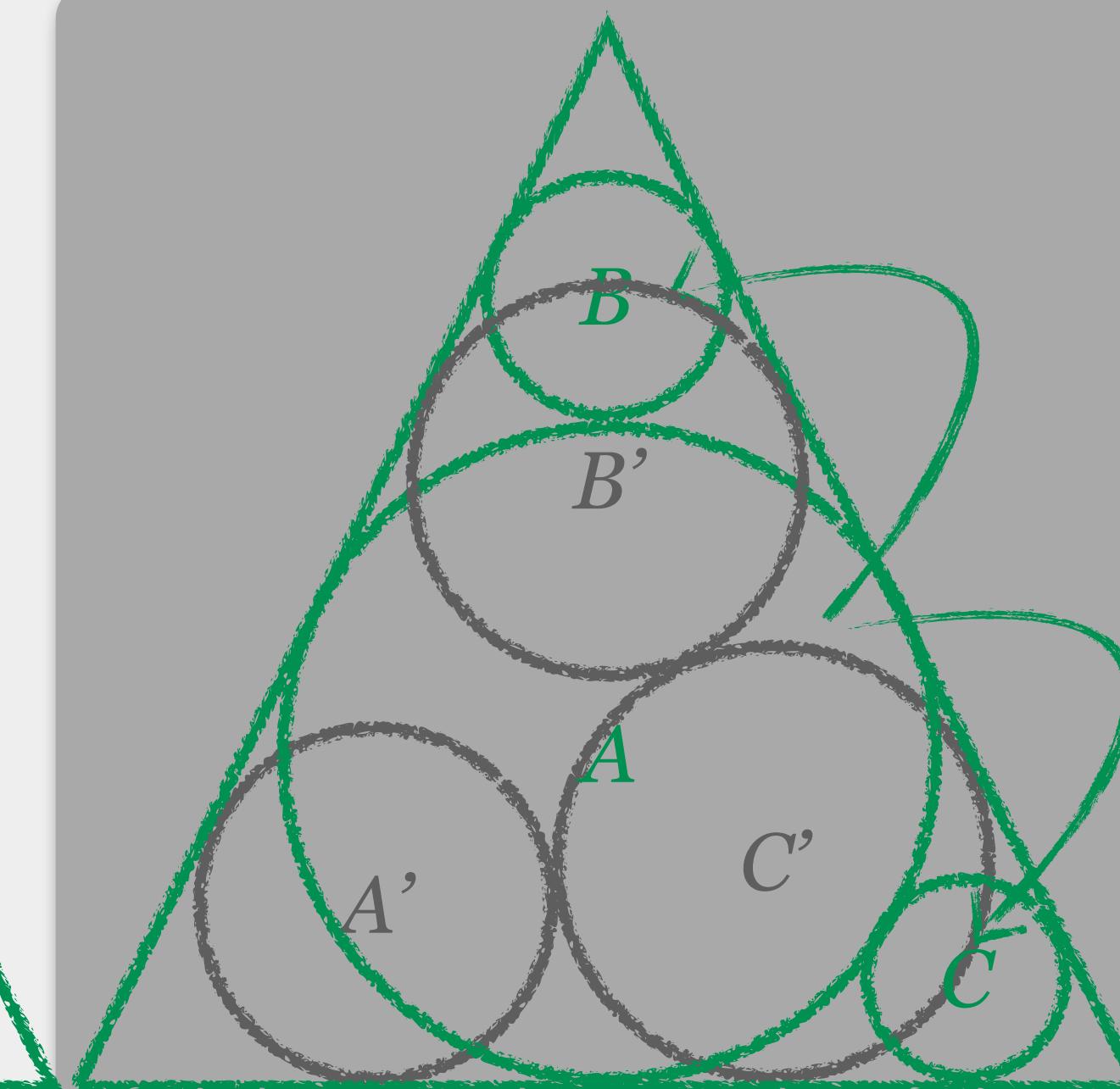
Not Pareto Optimal

(B could grow to B' with no losses for anyone else)



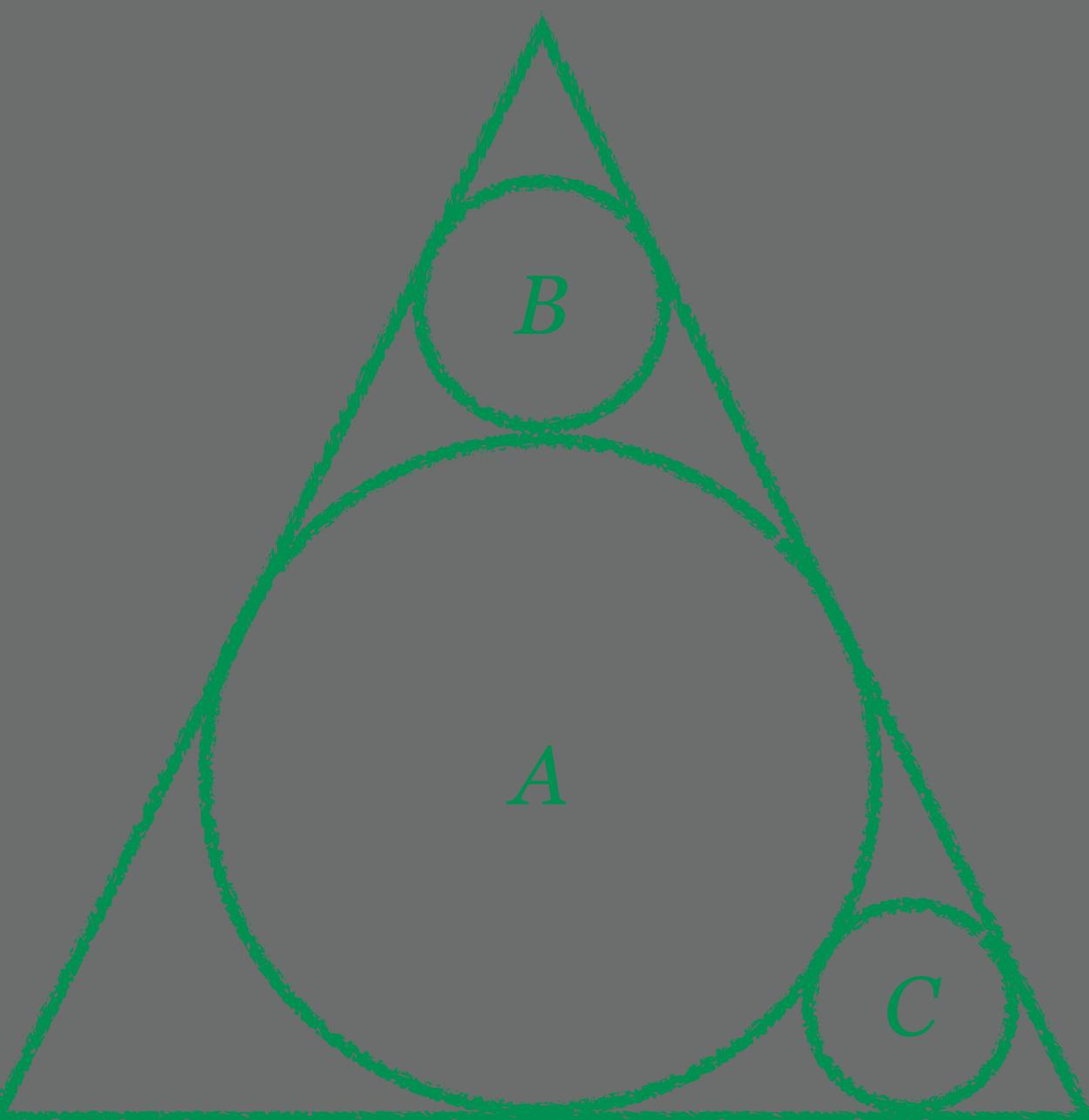
Pareto Optimal

(No one can grow without someone else loosing)



Kaldor-Hicks Efficient

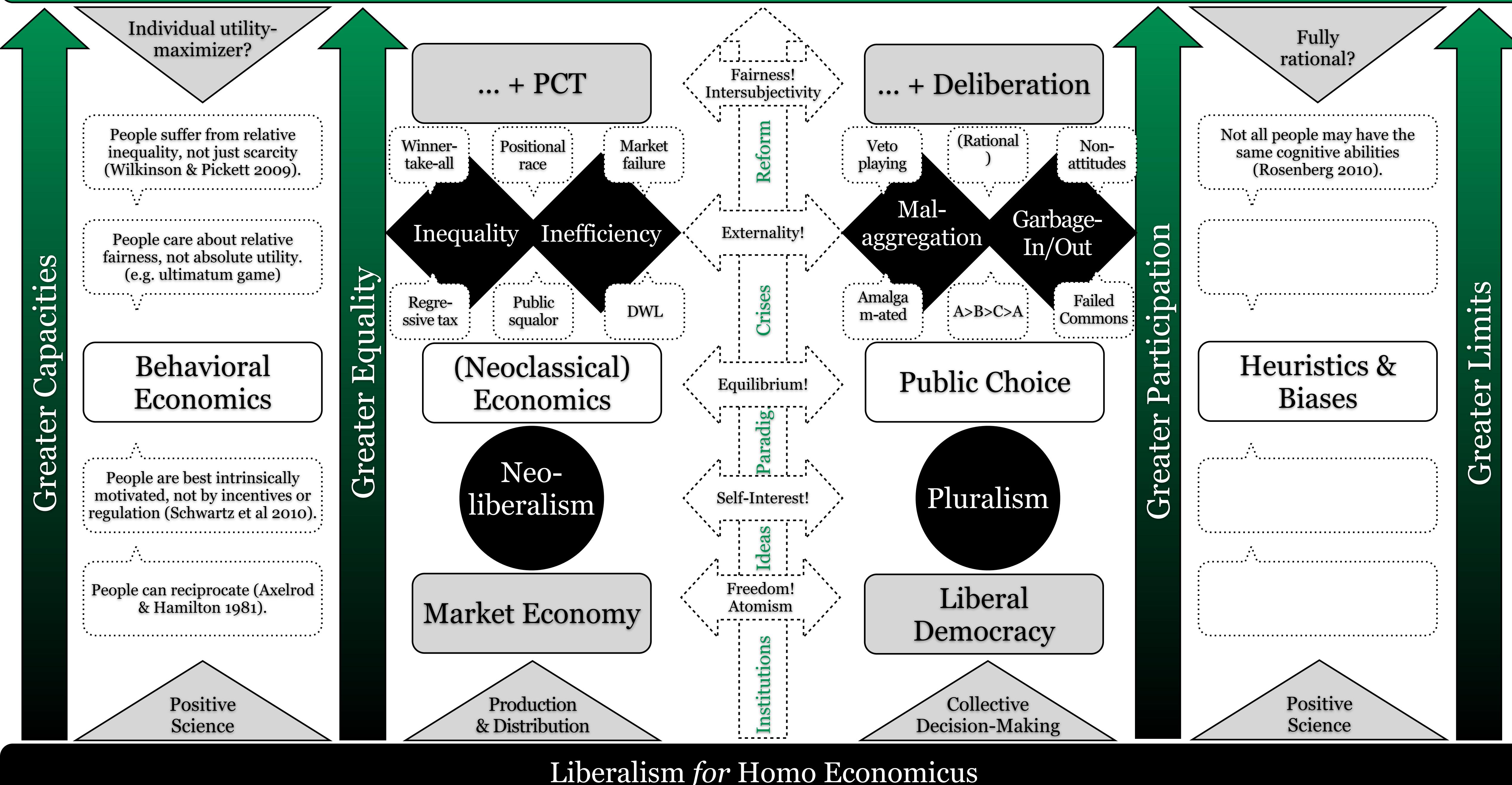
*(A' can grow to A and distribute part of the gains to smaller C and B.
Arrows are sidepayments.)*



Utilitarianism /
Social Welfare Optimum

*(Maximum area is covered.
Out of geometric necessity,
same as Kaldor-Hicks.)*

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

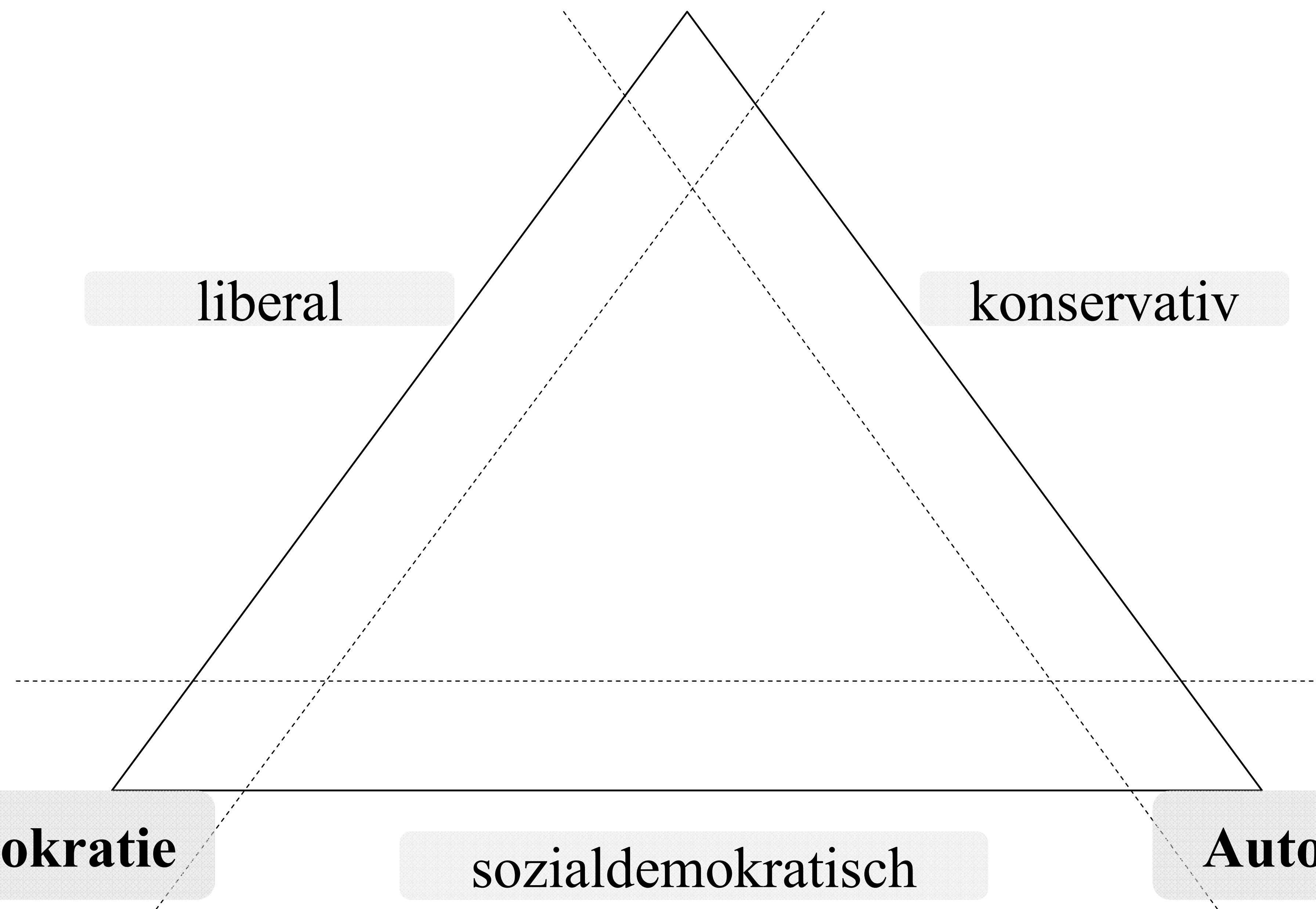
liberal

konservativ

Demokratie

sozialdemokratisch

Autokratie

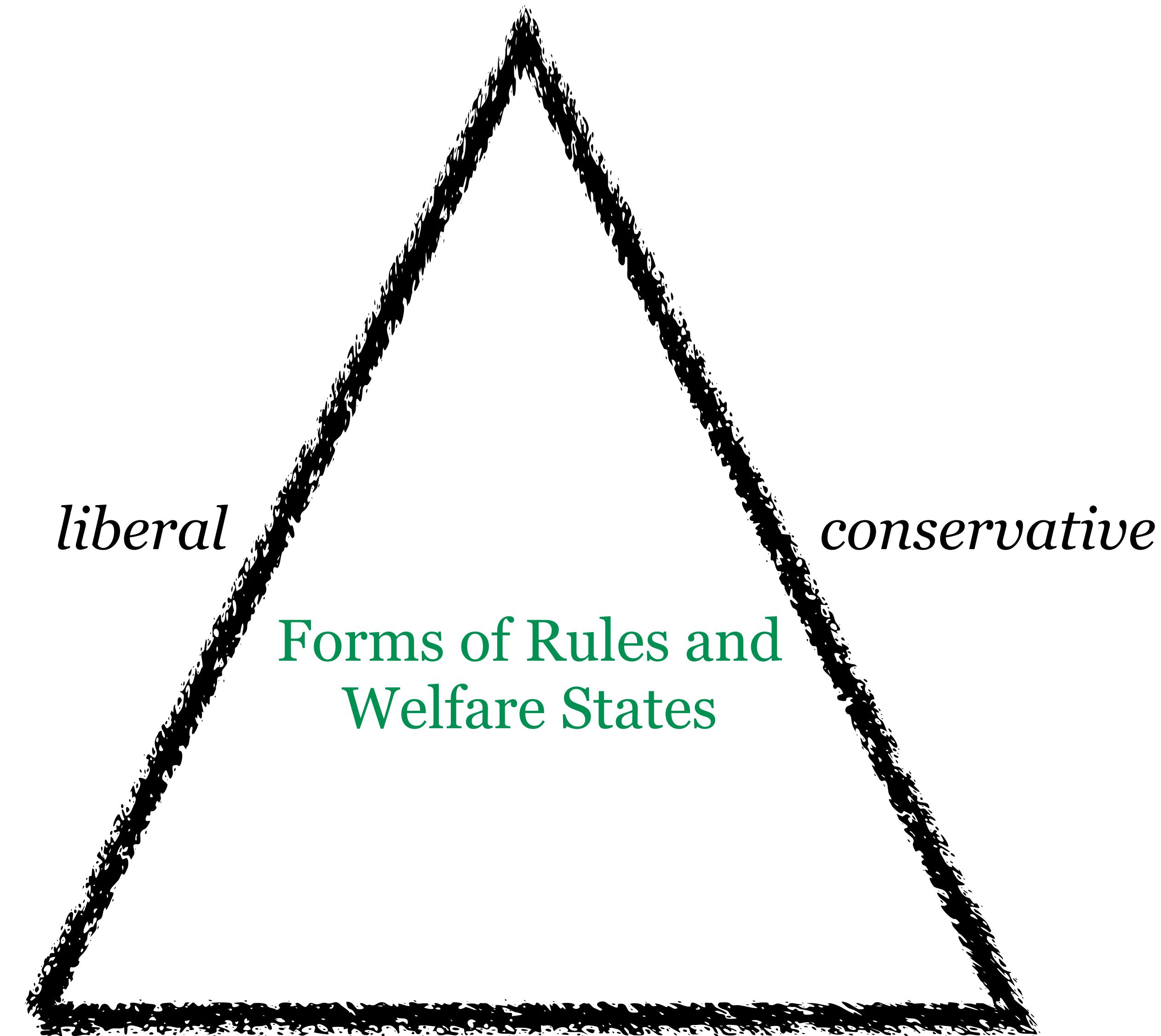


Plutocracy

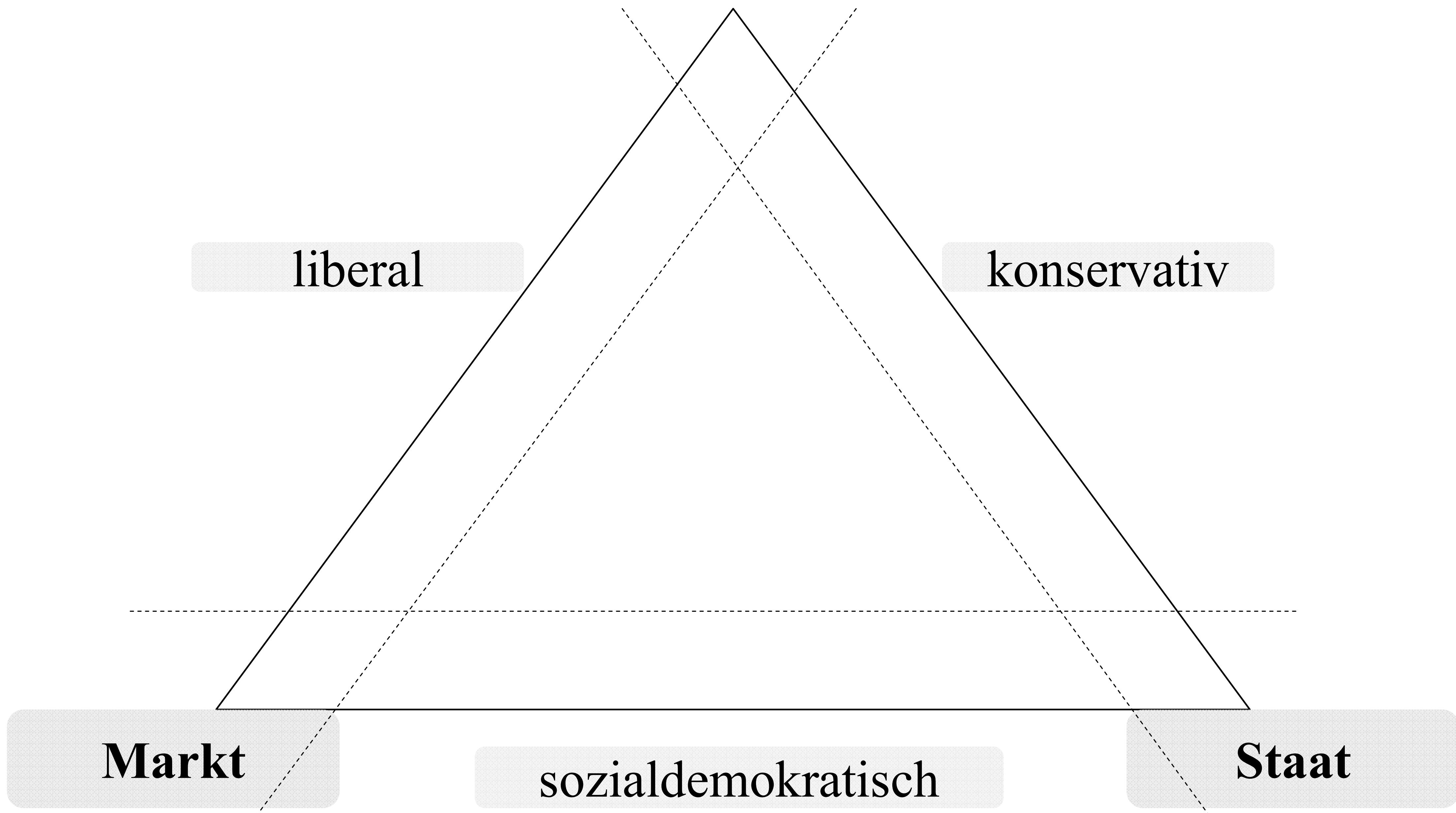
Democracy

social-democratic

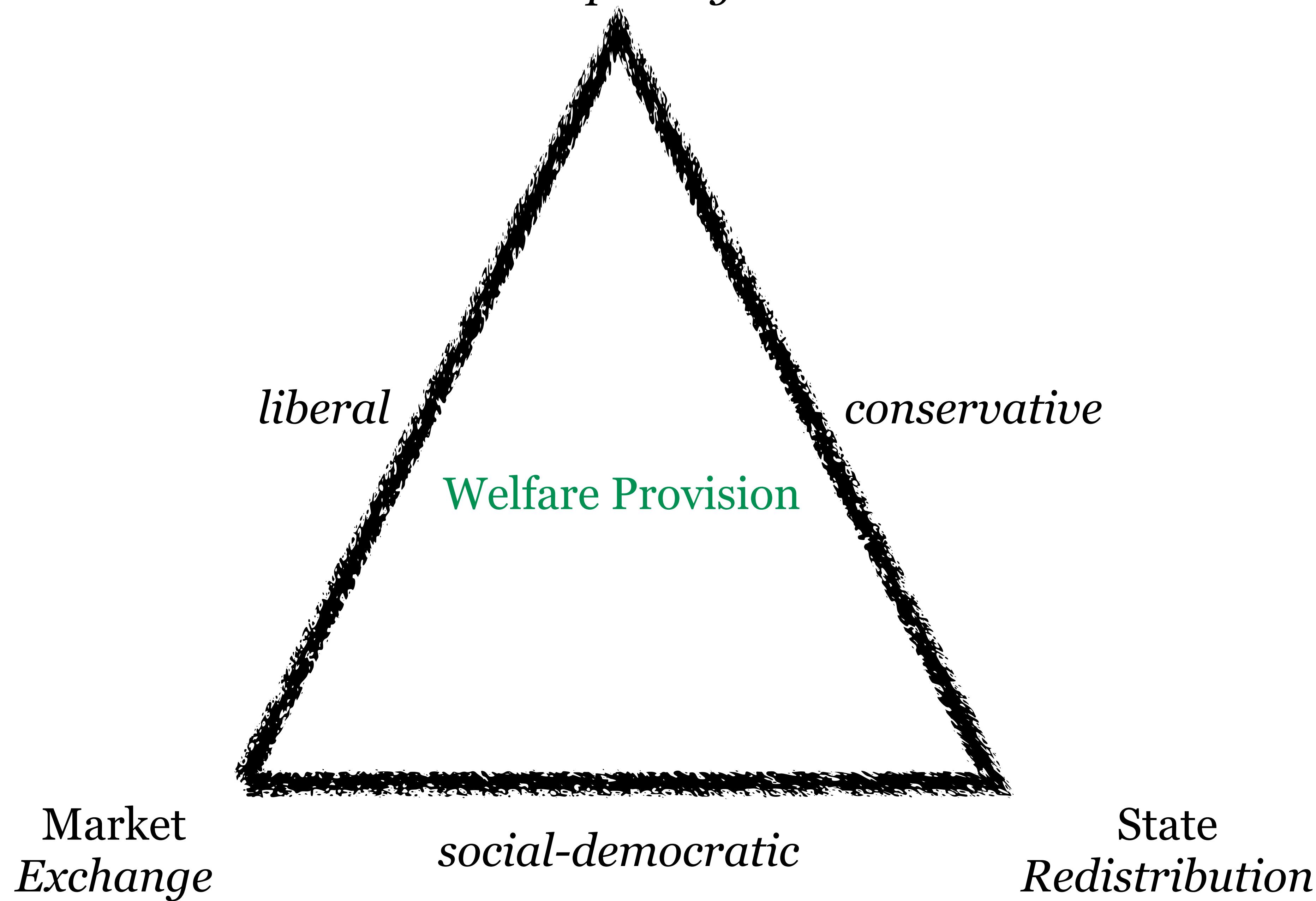
Autocracy



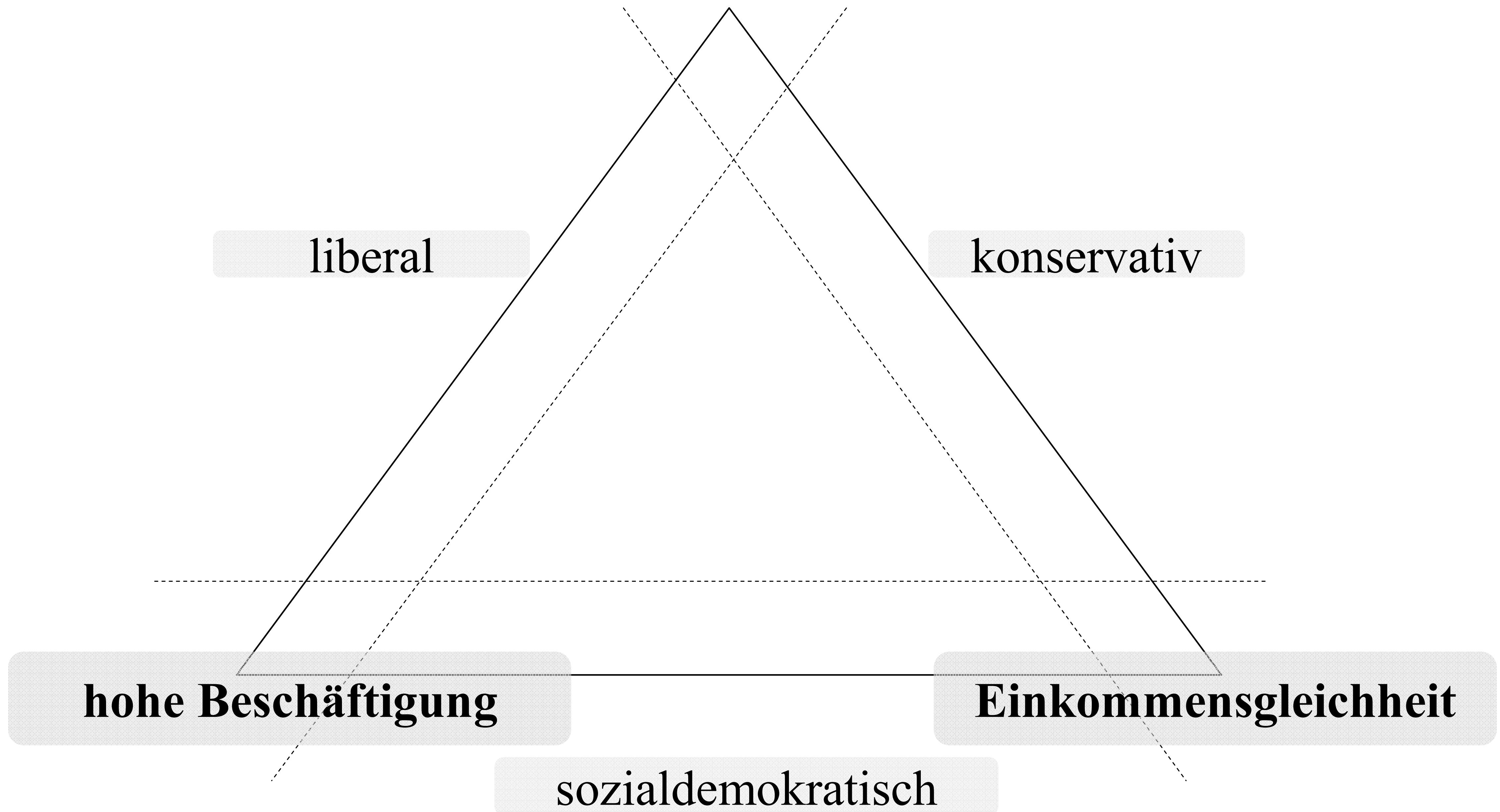
Familie/Gemeinschaft



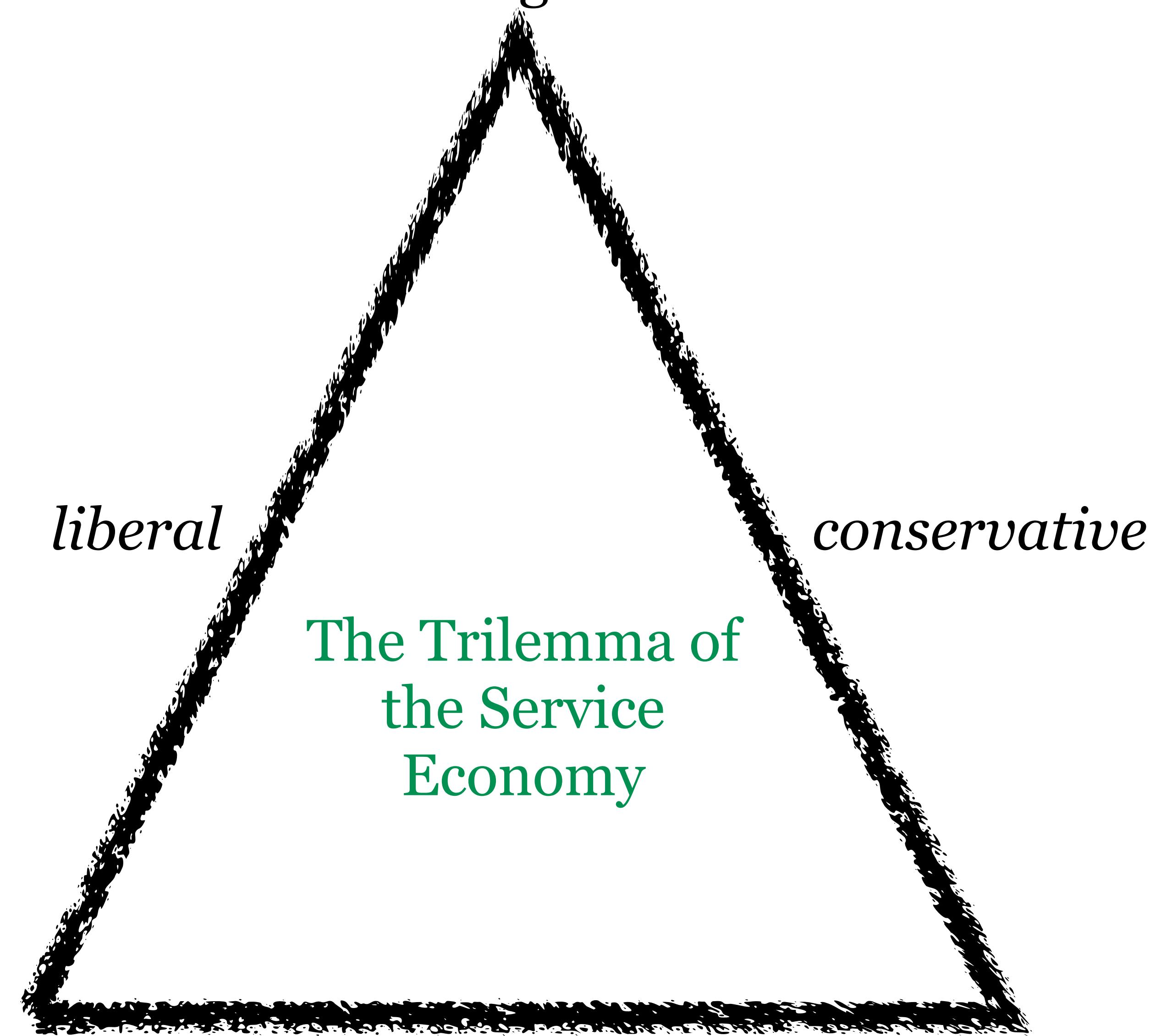
Family & Community
Reciprocity



Budgetausgleich



Balanced
Budgets

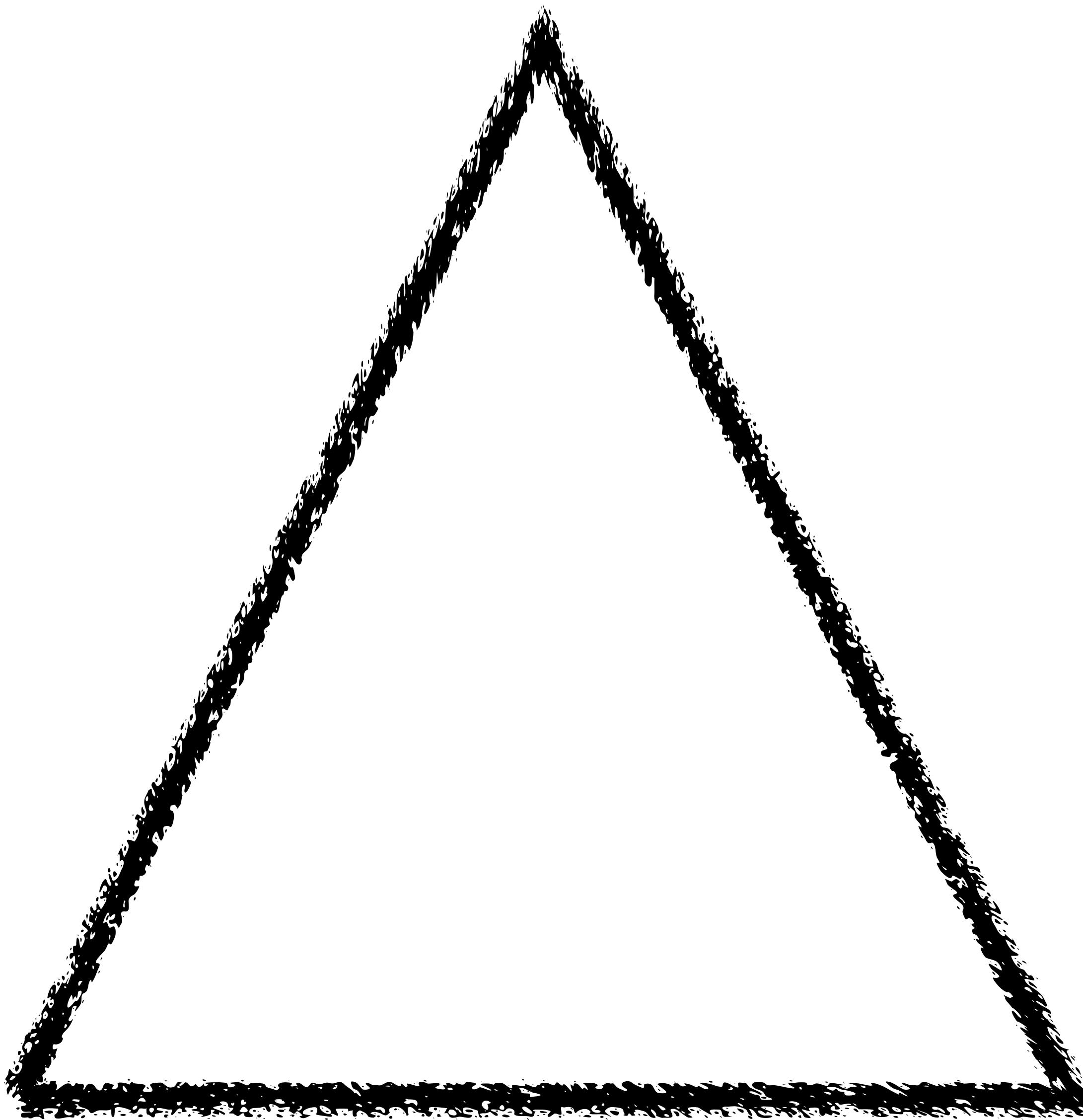


High
Employment

social-democratic

Income
Equality

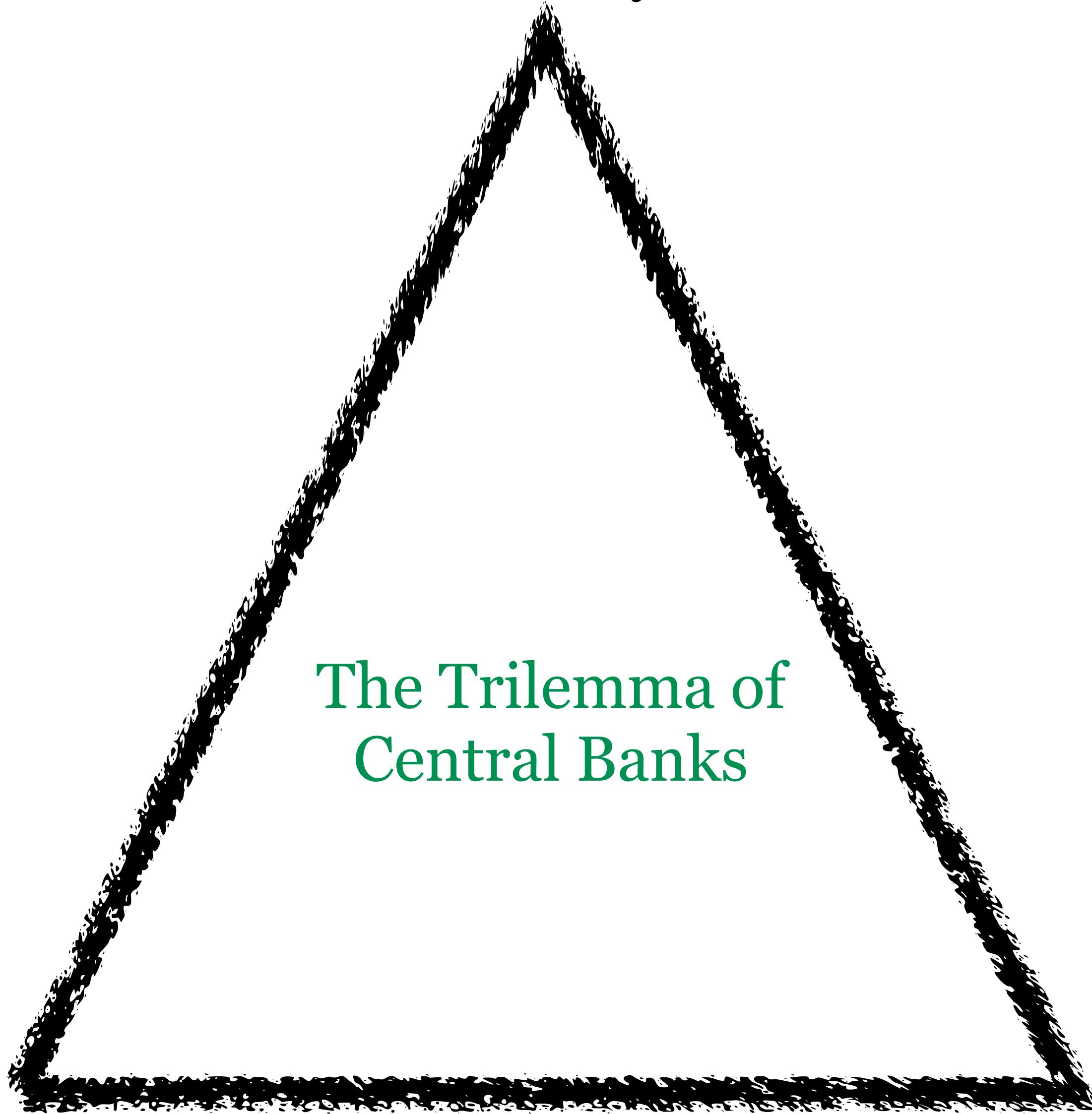
Growth



Debt or
Inflation

Factor
clearing

Exchange Rate Stability

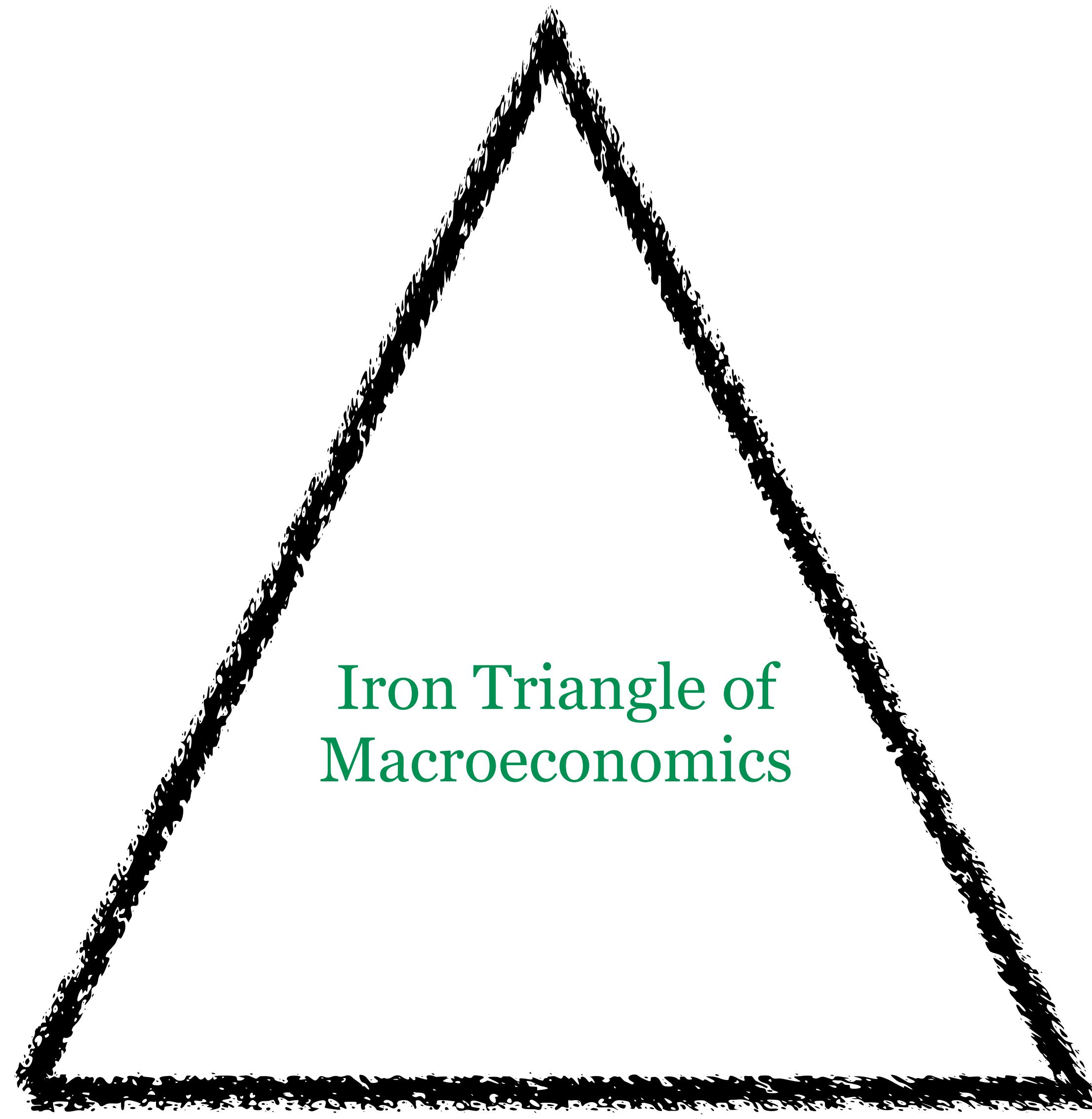


Price
Stability

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

**Structural
Underfunding**

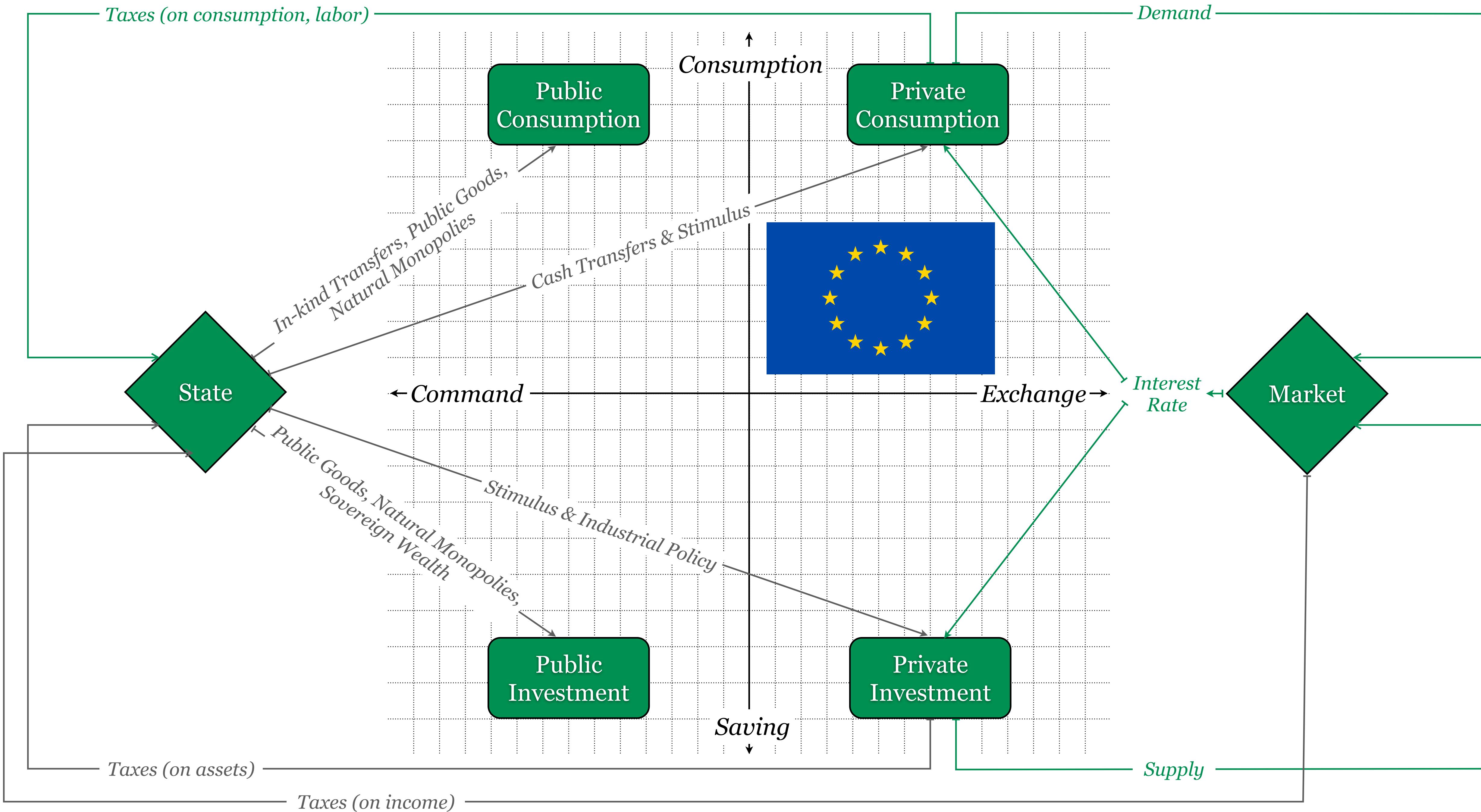
real dissavings
underprovision of public goods
low productivities
constrained redistribution
high effective labor price floors

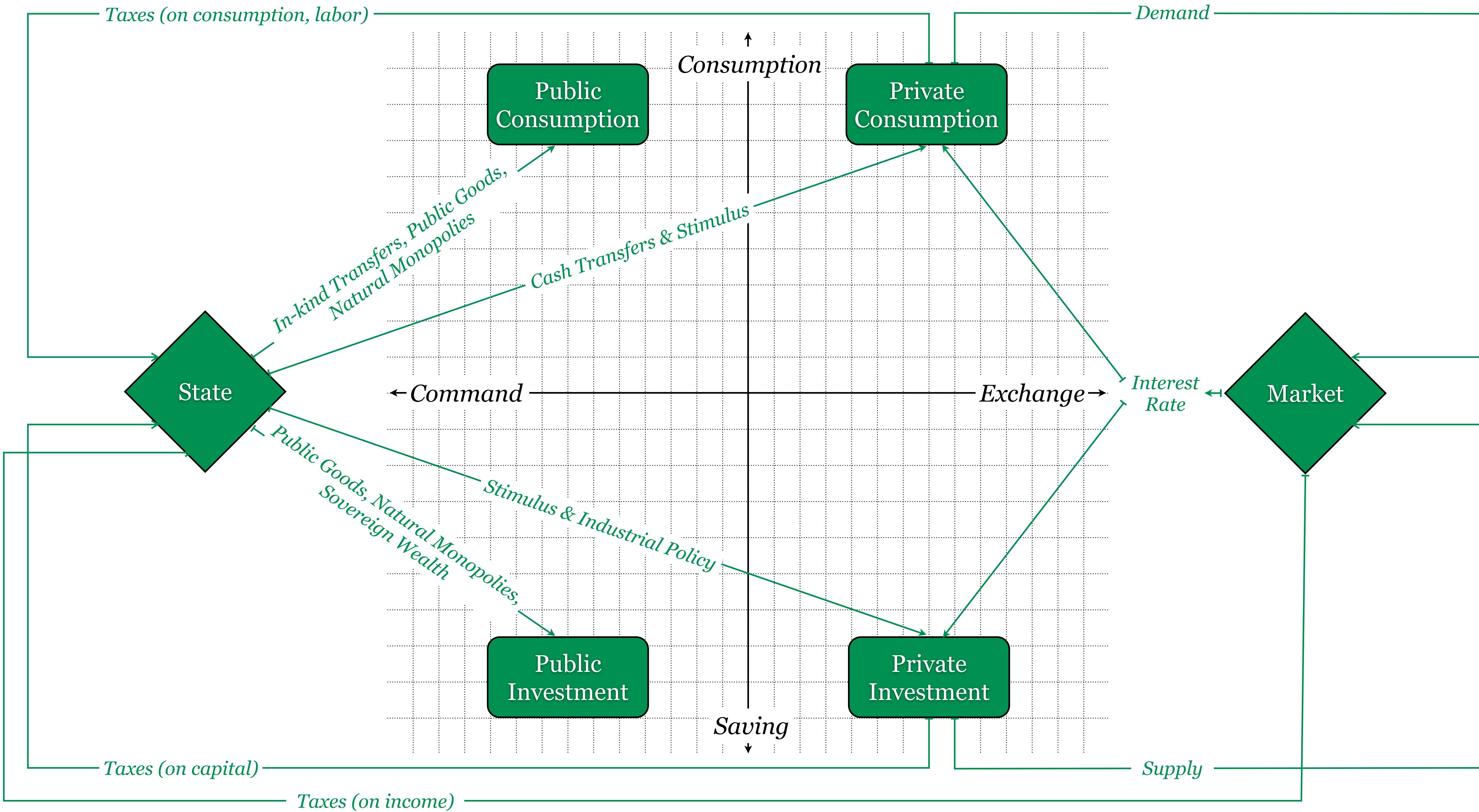
The Dual Crisis of the Late Welfare State

**Structural
Unemployment**

poor growth
great needs for transfers

		Who Should Manage it?			
When to Save?	What to Invest in?	Public (State)	Private (Market, Family)	Incidence	Policy
		Sovereign Wealth	Private pension Life insurance (etc.)		
Post-funded	Productivity	PAYGO	Family, Corporate Pension Plans	Future workers	Productivism
	Physical Capital	Education	Quality Children		
Workforce	Human Capital	Sovereign Wealth	Private Investment	Nativism	Macro-Economy
	Abroad and at Home (under open economy)	Family Policy	Having Children		
Where to Invest?	At Home (under autarky)	Sovereign Wealth Fund	International Financial Markets	Now: Trade Surplus	Future: Trade Deficit
		Capital Deepening	Domestic Financial Markets	Now: Positive Savings Rate	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

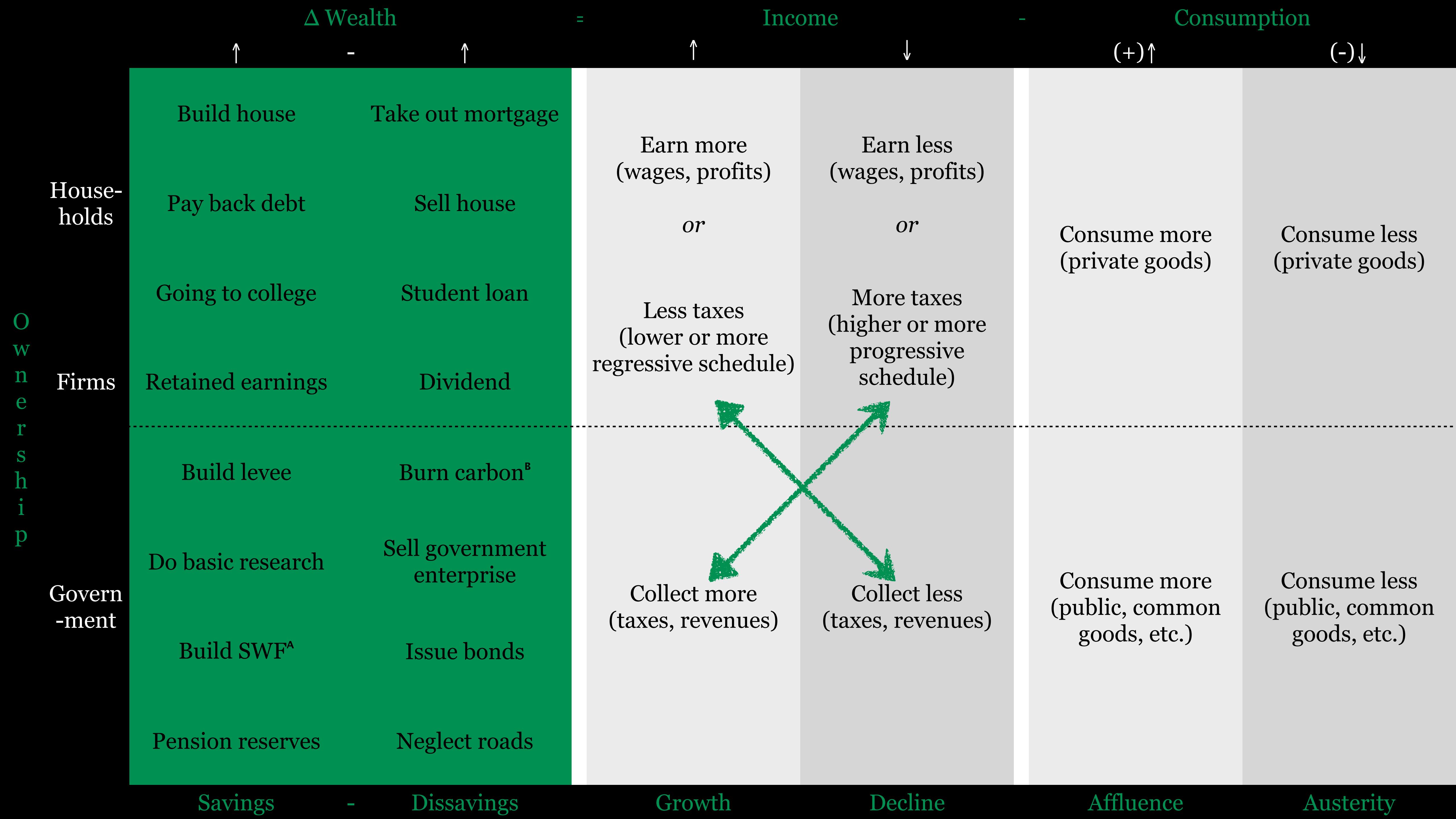
Inflation

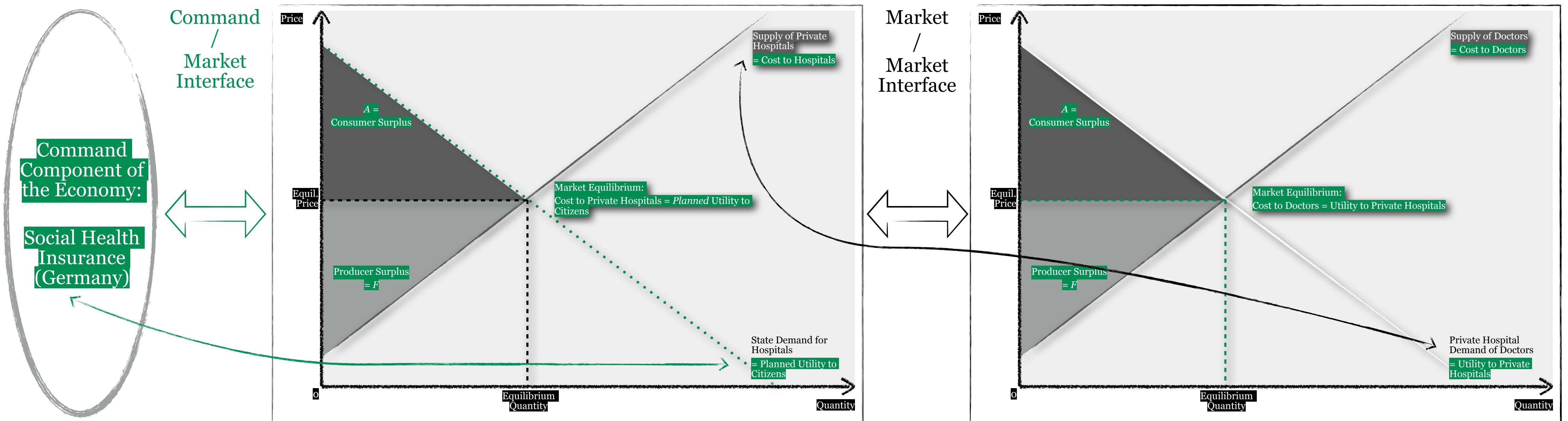
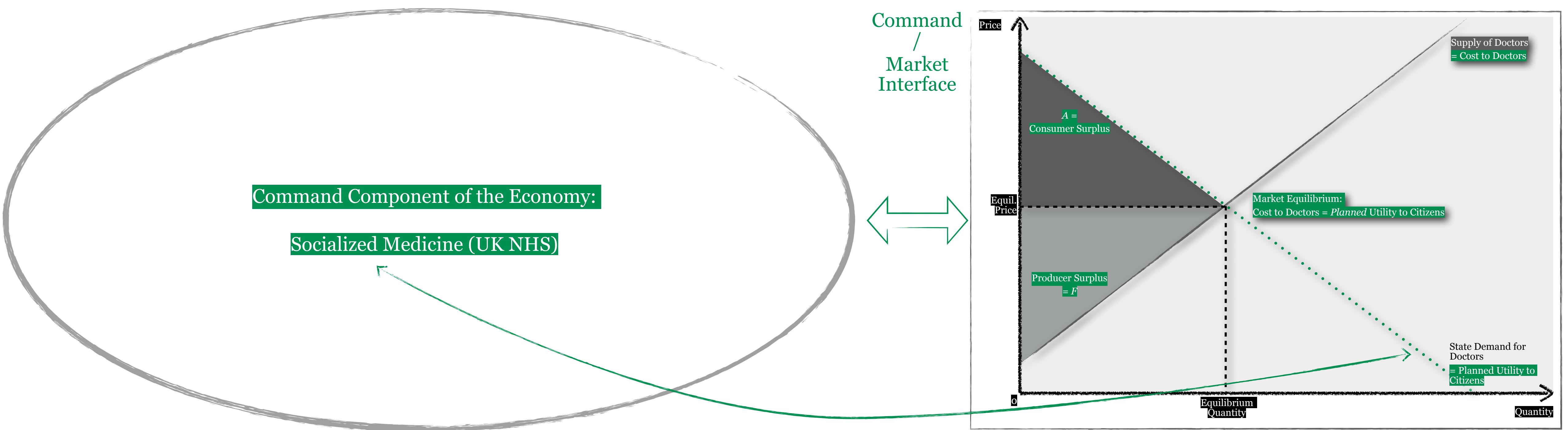
Short Sellers

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 Gini 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 Current Accounts (Medium-term) Balanced Capital Accounts (Medium-term)</p> <p><i>Free-Floating Currencies (?)</i></p>

Capital Account		=	Current Account	
Ownership	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)
	Buying shares in French agribusiness	Taking out mortgage from Icelandic bank	Dividends on French agribusiness shares	Interest payment to Icelandic mortgage bank
	Foreign Direct Investment (FDI) in Romanian plant	US-owned corporate paper in German firm	Returns from foreign subsidiaries	Dividends to foreign owners
Capital Outflow		Capital Inflow		Recipient
Households	-			Cuckoo clocks to USA
Firms	-			Capacitative touchscreens to USA
Government	-			Used tanks to Turkey
				Olive oil from Greece
				Diesel engine particle filters from France
				Commuter trains from Italy

Dimensions of Material Human Need													
	Production		Risk		Distribution (vertically)				Time		Space (horizontal)		
Human f unctions	Frailty Crisis	Disorganization		Ignorance	Dominance strategies				Myopia, herding		Parochialism		
		Subsistence			Dominance hierarchies				Time inconsistency		Autarky		
		Maximum output for minimal inputs			Affiliative strategies				Golden rule savings rate		Cosmopolitanism		
	Moderation Fit	Competitive equilibrium		Insurance	Pareto optimality				Interest		Trade		
		Externalities			Winner-take-all				Absolute advantage w		Comparative advantage		
		Information asymmetry			Baumol's Cost Disease	Differential budget constraints c	Diminishing marginal utility	(Employer) market power	Positional externality e	Factor price equalization y		Economies of scale	
	Failure	Public good	Common good	(Natural) market power		Adverse selection	Efficiency wages	business cycle, bubbles & panics, de- & inflation		No trade for some		Different terms of trade	
		Principal-Agent problem		Moral hazard		Mandatory insurance	Quotas (e.g. affirmative action)	under-saving (CPR)		Brain drain		Agglomeration	
		Regulated private provision, antitrust		-		Price controls	Antitrust, right 2 strike, EPL, codetermination	EPL (employment protection legislation)		Or: balance of payments crises (in the long run)		+ adjustment costs + within-party distributive effects - factor mobility	
Command h	Regulatory	Property rights	Regulated private provision, antitrust	-	-	Progressive taxation spending & transfers	Fiscal stimulus	mandatory pensions	factor price flexibility	-	-	-	State h
		Public provision r	Pigou-vian tax	Public provision for fee	Redistribution	Public benefits	Monetary stimulus	public investment, encourage saving	transfers	industrial policy	structural policy		
	Mone- tary k	[Price stability]		[Price stability]	[Price stability]	[Price stability]	Monetary stimulus	[Price stability]	-	-	-	-	
Efficiency ^b				Risk Pool ^j				Equity				Convergence	

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

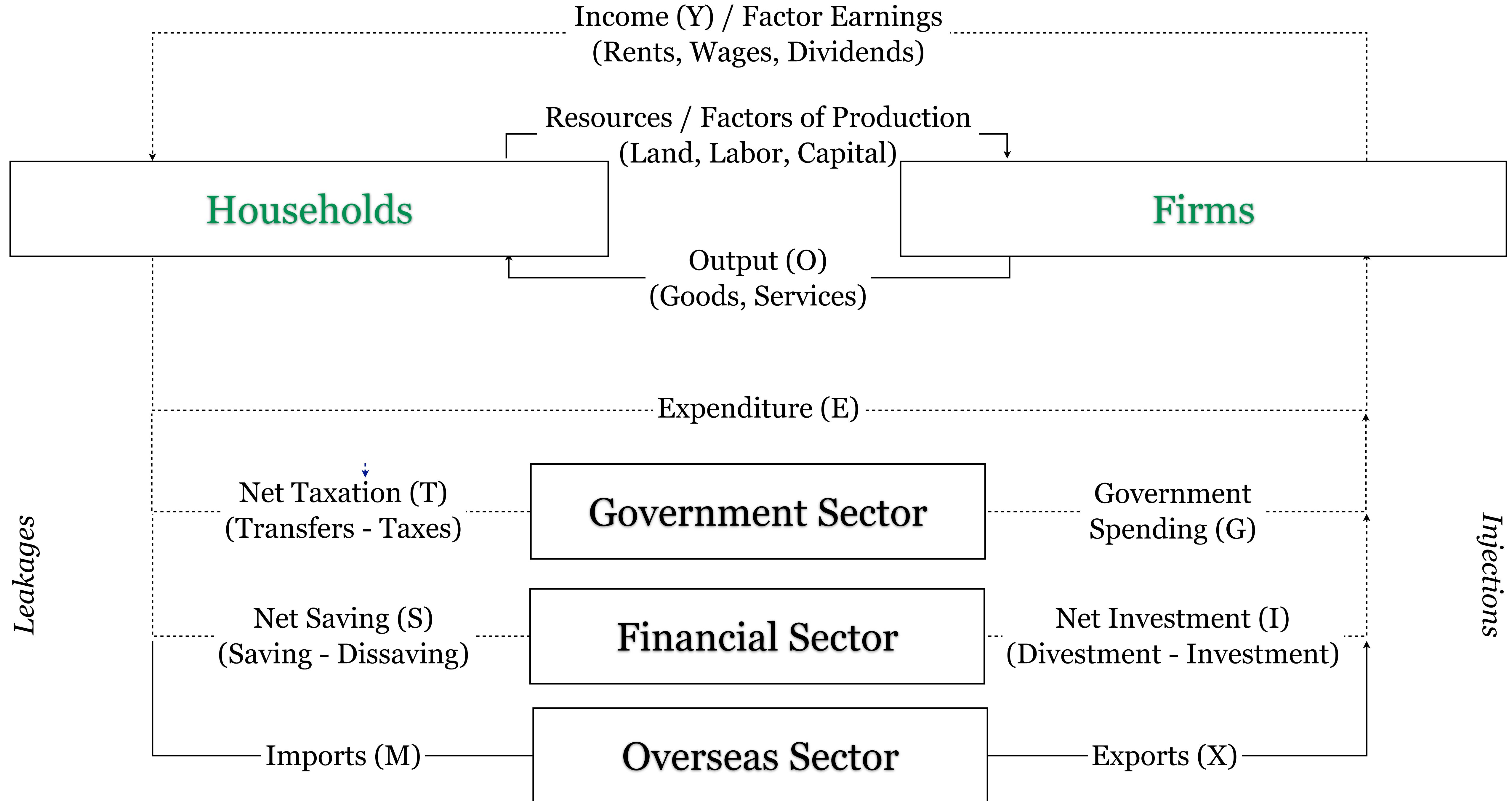
Inflation

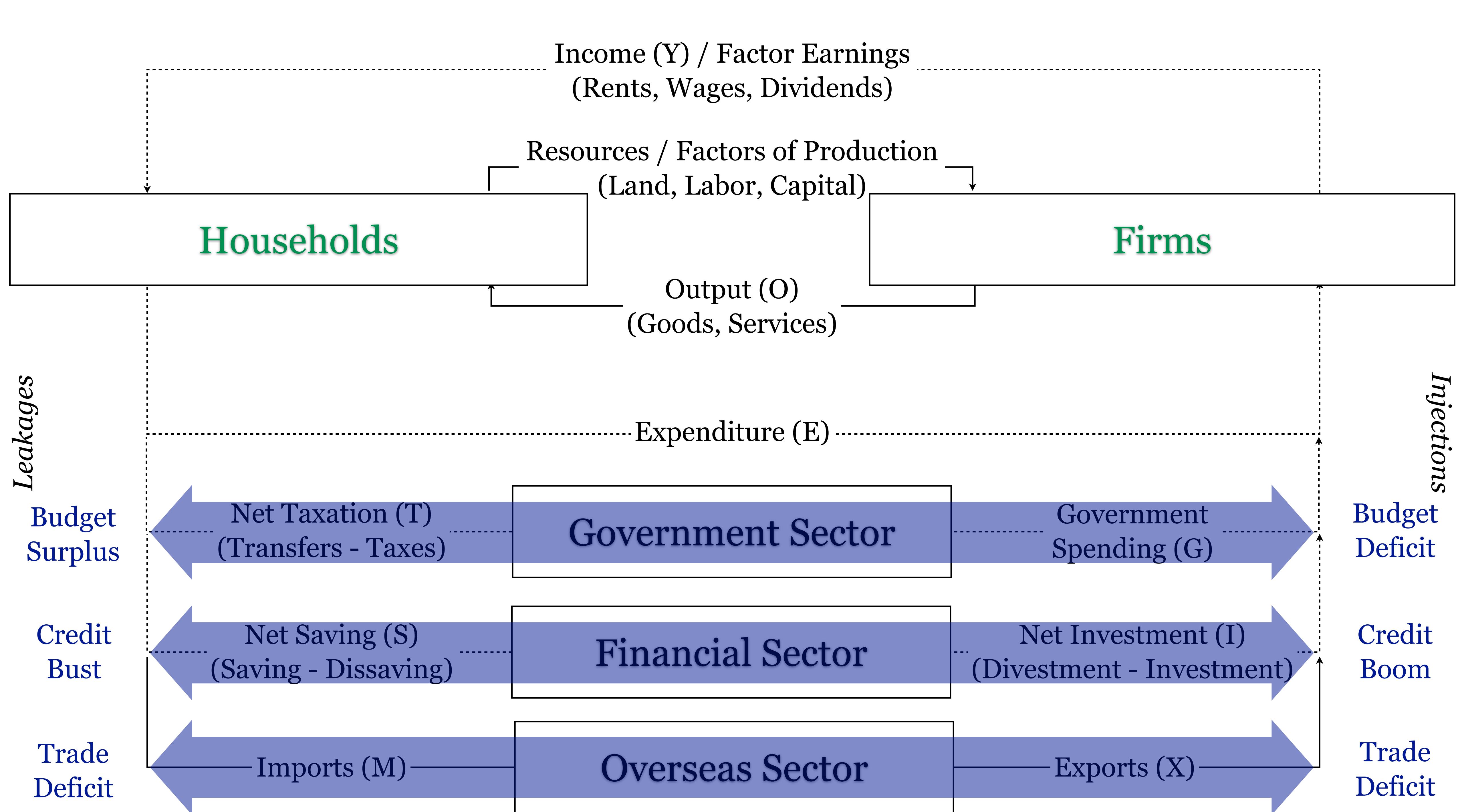


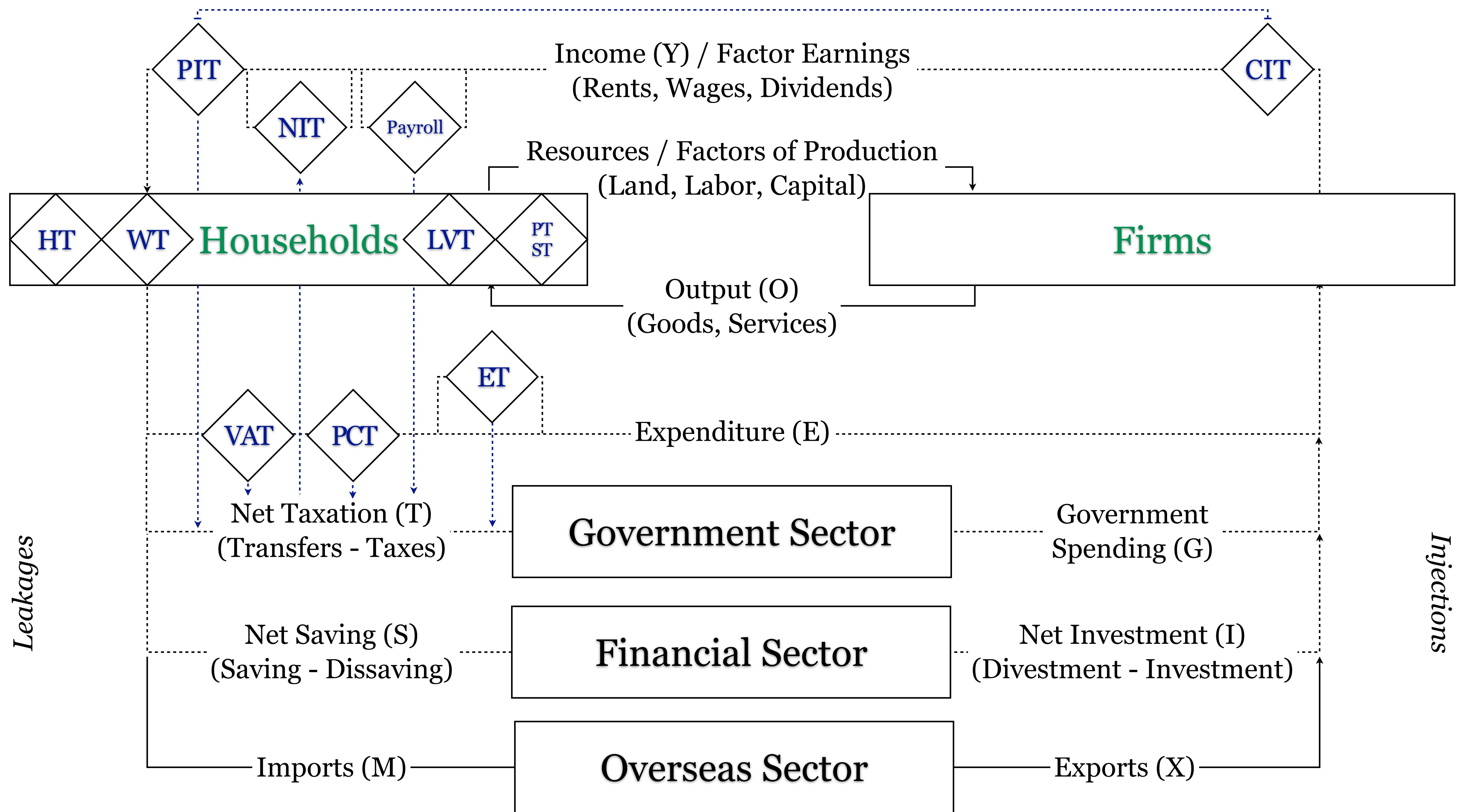
Inflation



Mortgage Takers

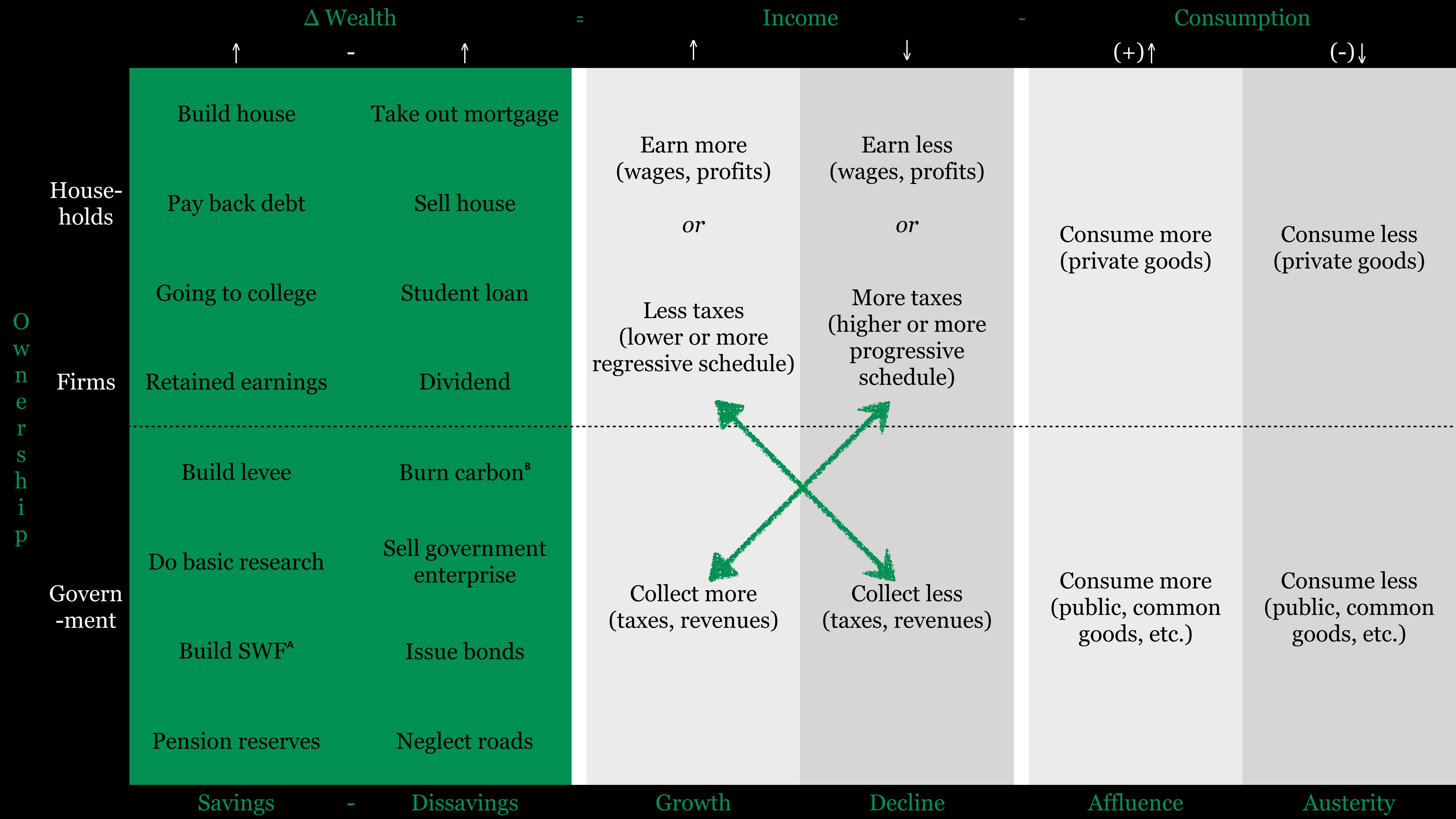






Tax

Dimensions of Material Human Need																
	Production		Risk		Distribution (vertically)				Time			Space (horizontal)				
<p>Human f</p> <p>Crisis</p> <p>Moder n Fit</p> <p>Exch a nge</p> <p>Failur e</p> <p>Regul atory</p> <p>Com mand h</p> <p>Fiscal j</p> <p>Mone tary k</p>	Frailt	Disorganization		<p>Ignorance</p> <p>Black swans</p> <p>Downside risk aversion</p>	Dominance strategies				Myopia , herding			Parochialism			Condition	
	Crisis	Subsistence			Dominance hierarchies				Time inconsistency			Autarky				
	Moder n Fit	Maximum output for minimal inputs			Affiliative strategies				Golden rule savings rate			Cosmopolitanism				
	Succes s	Competitive equilibrium		<p>Insurance</p> <p>Information asymmetry</p> <p>Efficiency wages</p>	Pareto optimality				Interest			Trade			Market g	
	Failur e	Externalities			Winner-take-all				Short-term			Long-term				
		Public good			Baumol's Cost Disease	Differential budget constraints	Diminishing marginal utility	(Employer) market power	Positional externality	business cycle, bubbles & panics, de- & inflation			under-saving (CPR)			
		Common good		<p>(Natural) market power</p> <p>Principal-Agent problem</p> <p>Adverse selection</p> <p>Moral hazard</p>								No trade for some				
		(Natural) market power										Different terms of trade				
		Principal-Agent problem										Brain drain				
		Adverse selection										Agglo-meration				
		Moral hazard										Or: balance of payments crises (in the long run)				
		Efficiency wages										+ adjustment costs				
		Adverse selection										+ within-party distributive effects				
		Moral hazard										- factor mobility				
		Efficiency wages														
		Adverse selection														
		Moral hazard														
		Efficiency wages														
		Adverse selection														
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		Adverse selection														
		Moral hazard														
		Efficiency wages														



Efficiency

Tax Regime

International Political Economy Regime

PCT and/or LVT

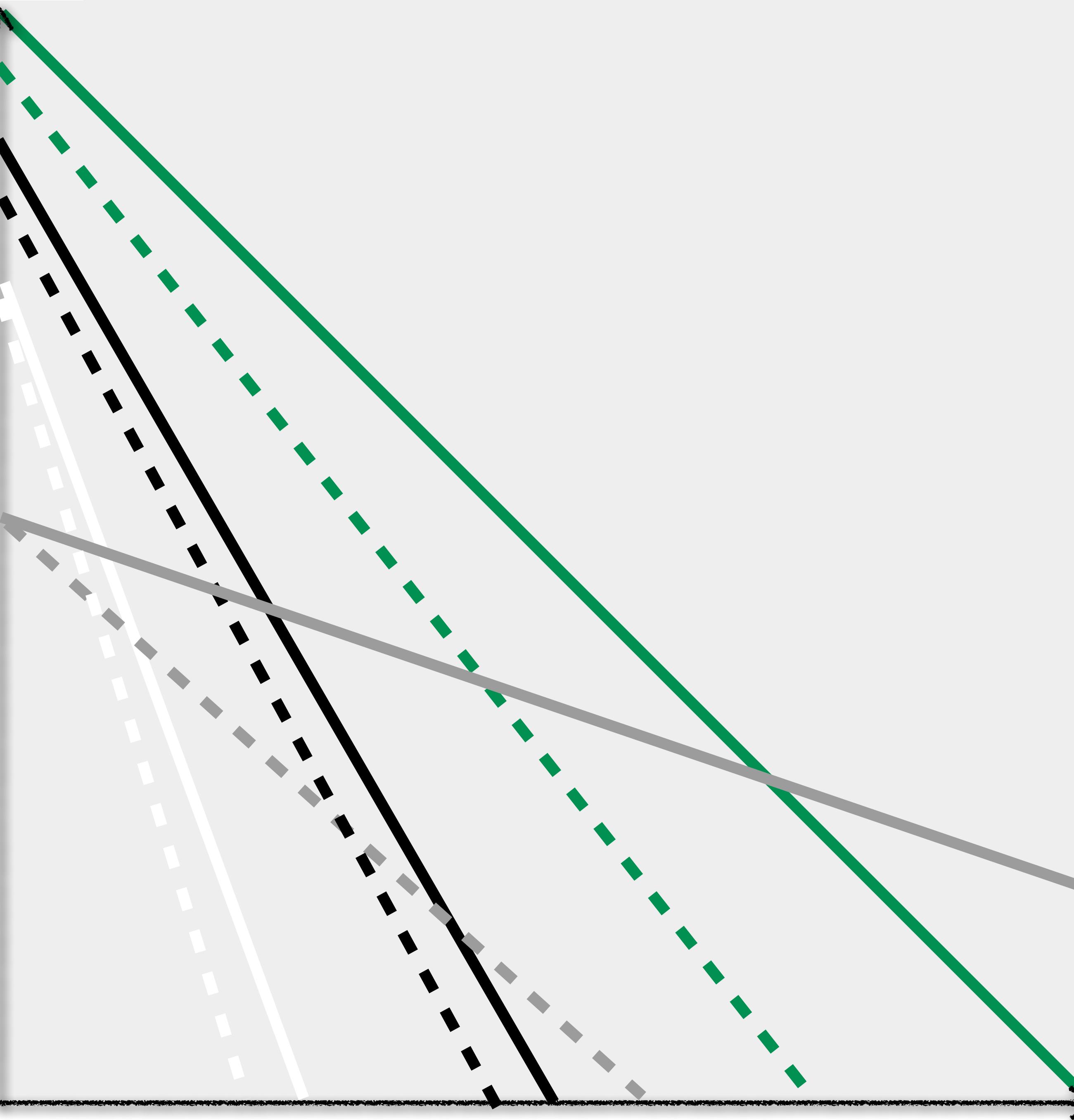
Tax Cooperation

PIT

Tax Competition

VAT

Payroll



Equity

Efficiency

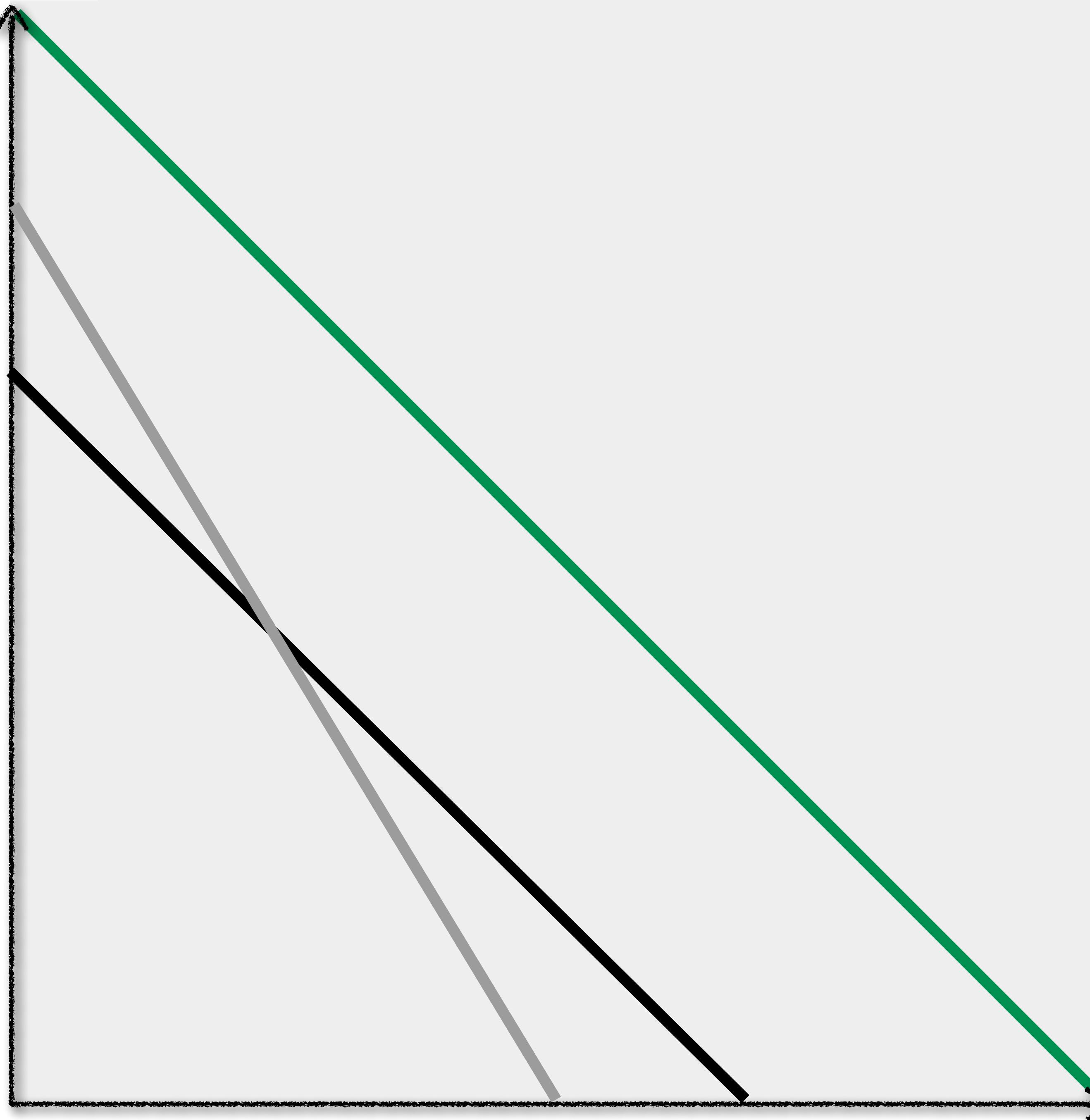
Mode of Integration

Equity

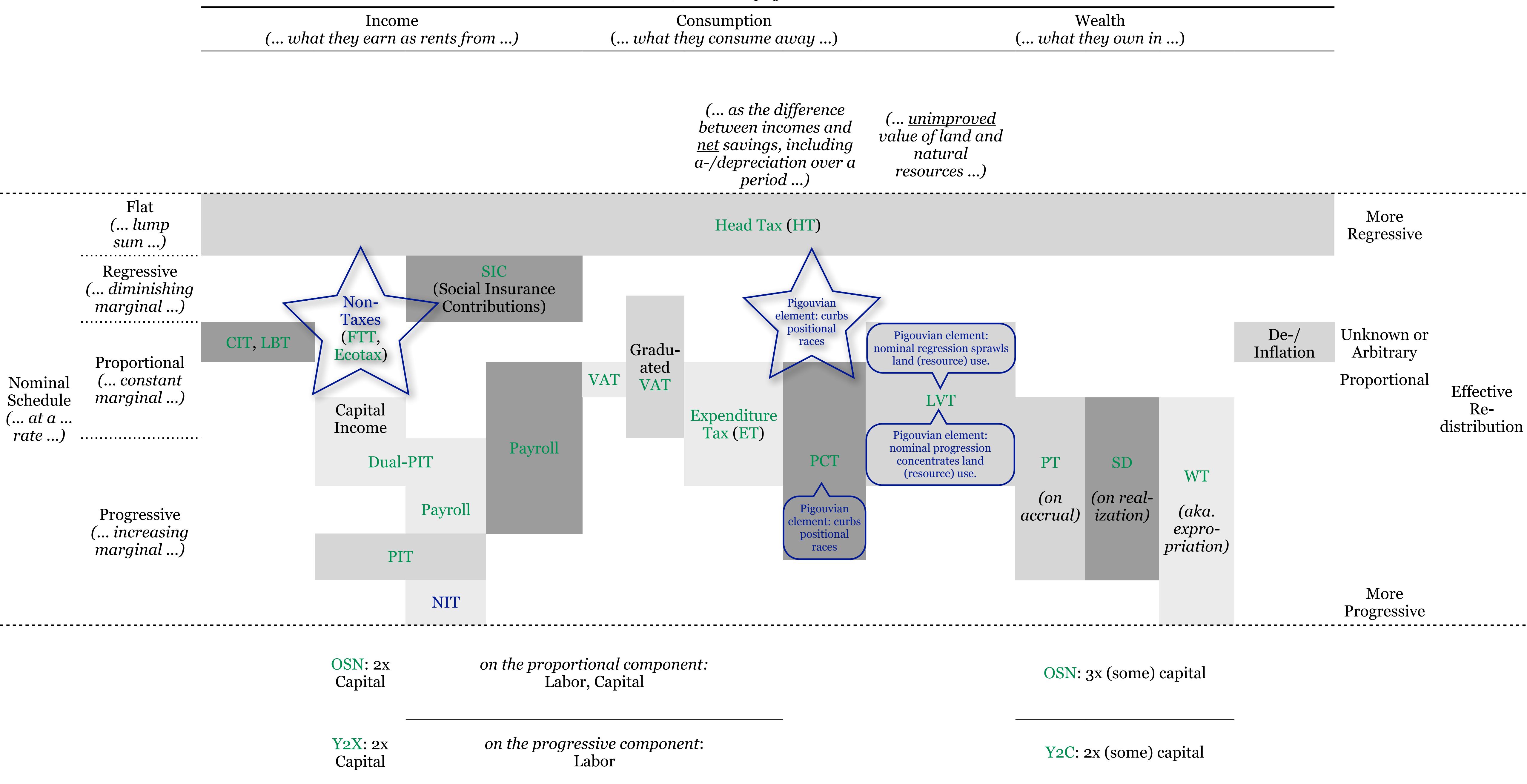
Positive Integration

Negative Integration

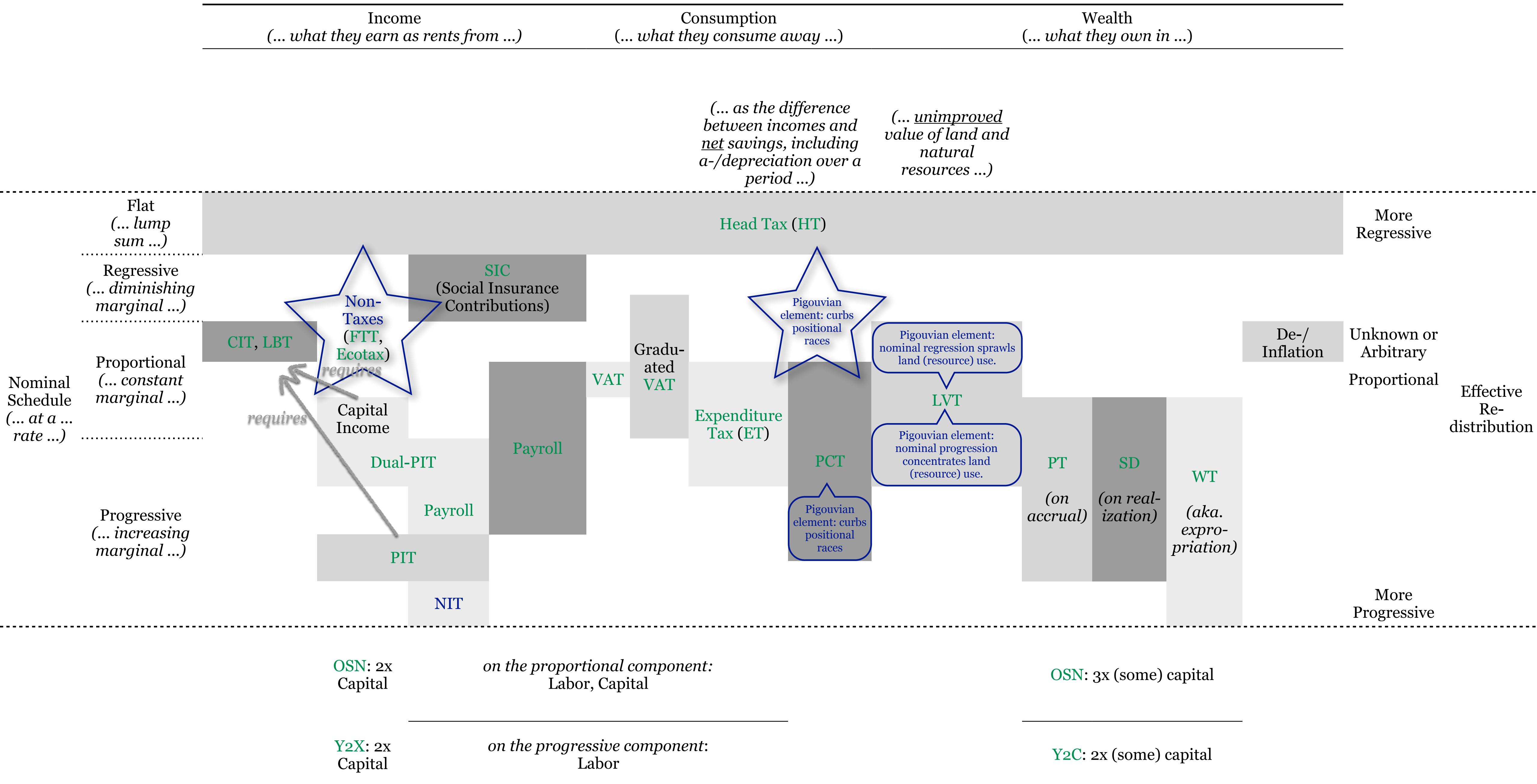
Autarky



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



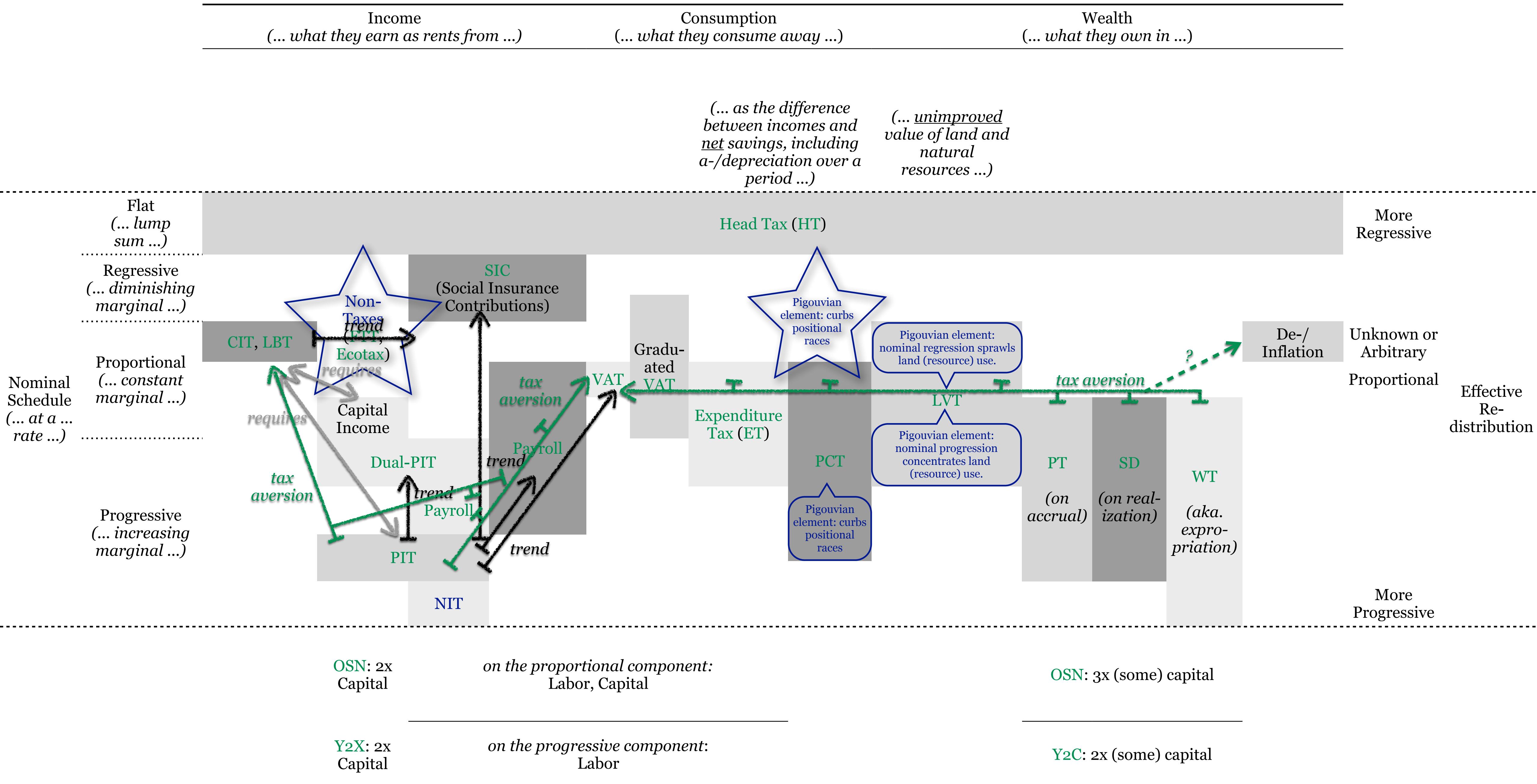
Nominal Base
(All citizens pay taxes on ...)



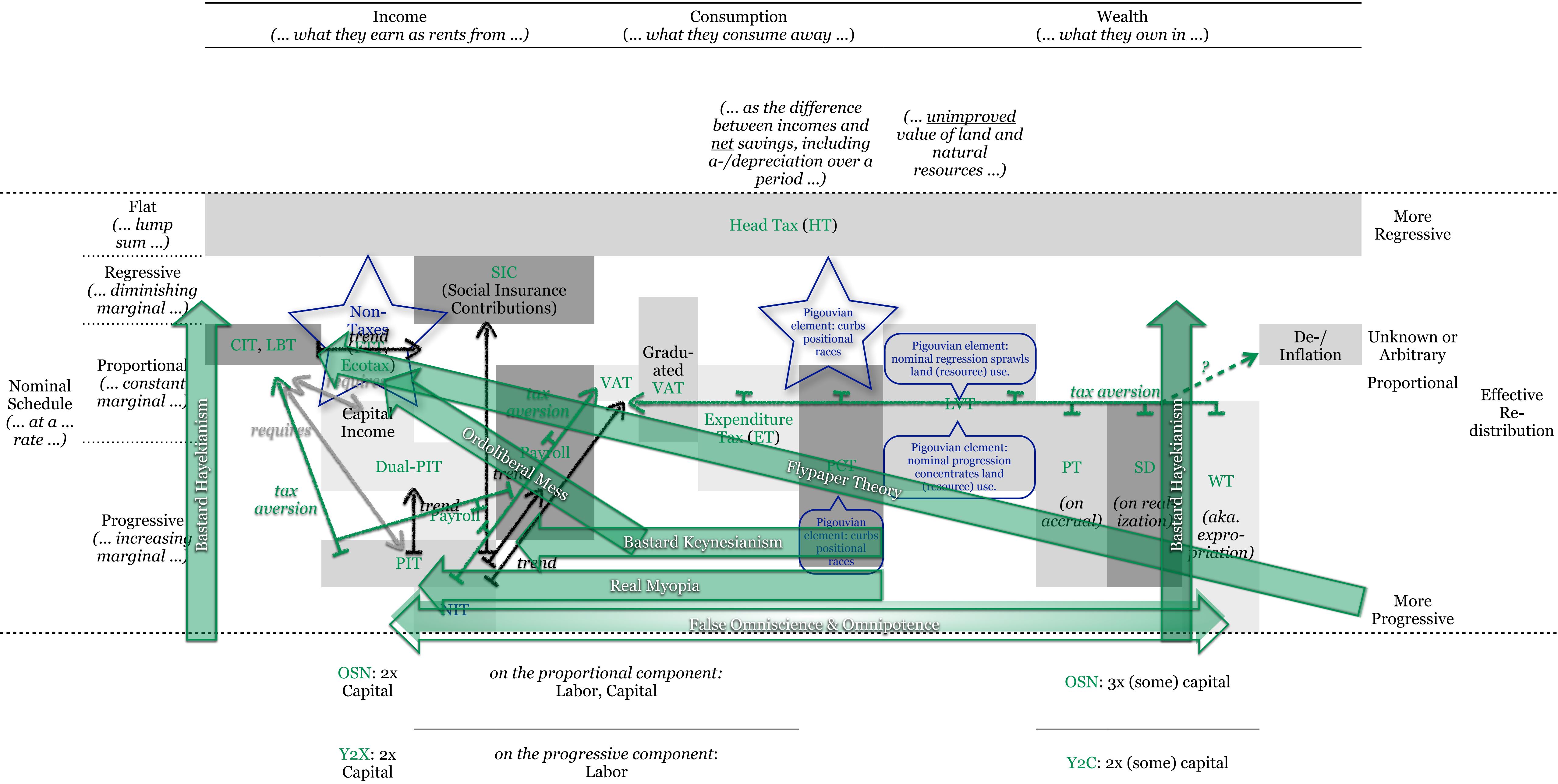
Nominal Base *(All citizens pay taxes on ...)*

Income (... what they earn as rents from ...)	Consumption (... what they consume away ...)	Wealth (... what they own in ...)
	(... as the difference between incomes and <u>net</u> savings, including a-/depreciation over a period ...)	(... unimproved value of land and natural resources ...)
<p>Flat (... lump sum ...)</p> <p>Regressive (... diminishing marginal ...)</p> <p>Nominal Schedule (... at a ... rate ...)</p> <p>Progressive (... increasing marginal ...)</p>	<p>SIC (Social Insurance Contributions)</p> <p>CIT, LBT</p> <p>Non-Taxes trend (FTT, Ecotax)</p> <p>Capital Income</p> <p>Dual-PIT</p> <p>PIT</p> <p>VAT</p> <p>Payroll</p> <p>NIT</p>	<p>Head Tax (HT)</p> <p>Graduated VAT</p> <p>Expenditure Tax (ET)</p> <p>PCT</p> <p>LVT</p>
		<p>More Regressive</p> <p>Unknown or Arbitrary</p> <p>De-/Inflation</p> <p>WT (aka. expropriation)</p> <p>More Progressive</p>
<p>OSN: 2x Capital</p> <p>Y2X: 2x Capital</p>	<p>on the proportional component: Labor, Capital</p> <p>on the progressive component: Labor</p>	<p>OSN: 3x (some) capital</p> <p>Y2C: 2x (some) capital</p>

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



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



Personal and Corporate Income Taxes

Social Security
& Payroll Taxes

Domestic
Indirect

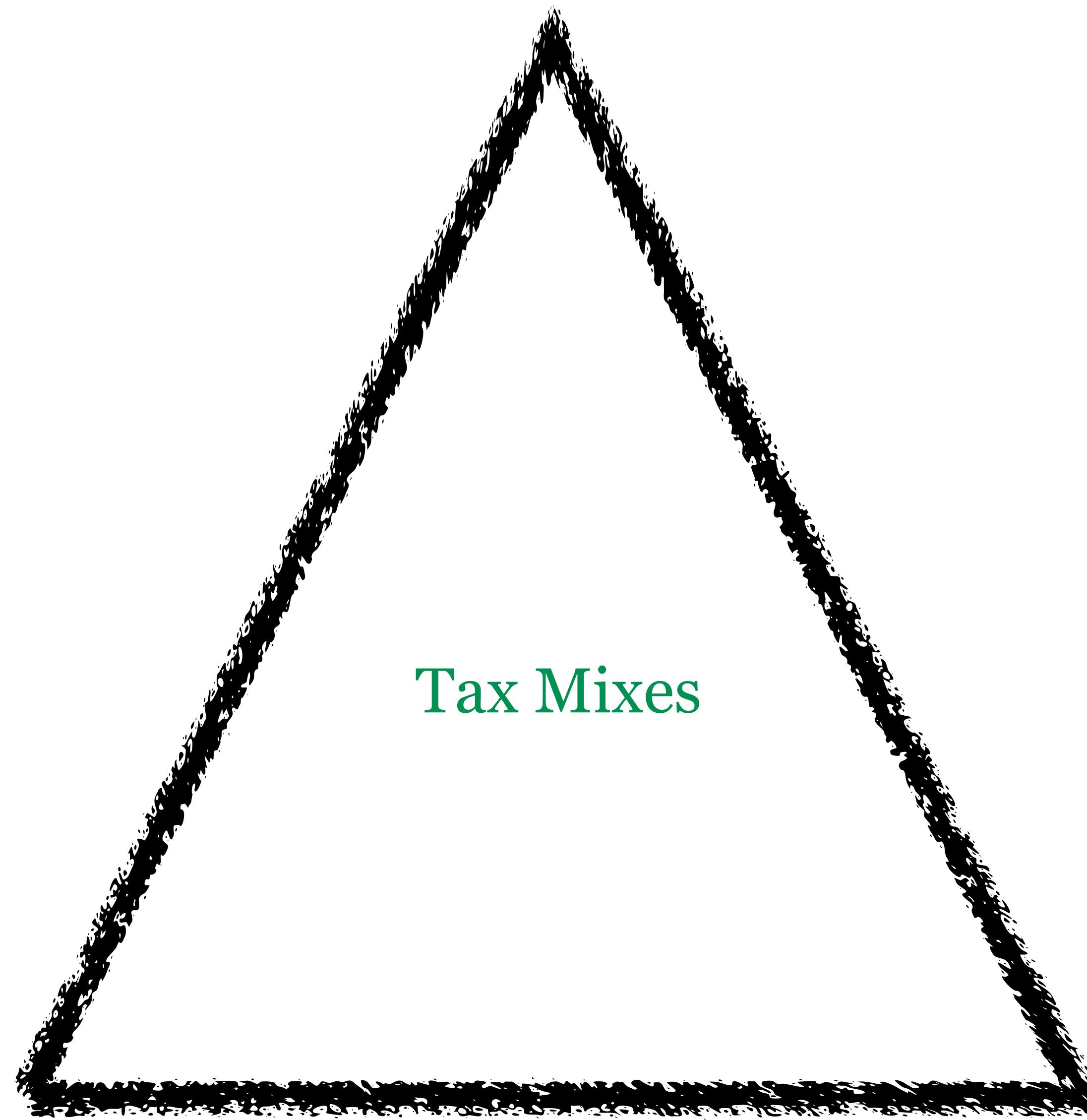
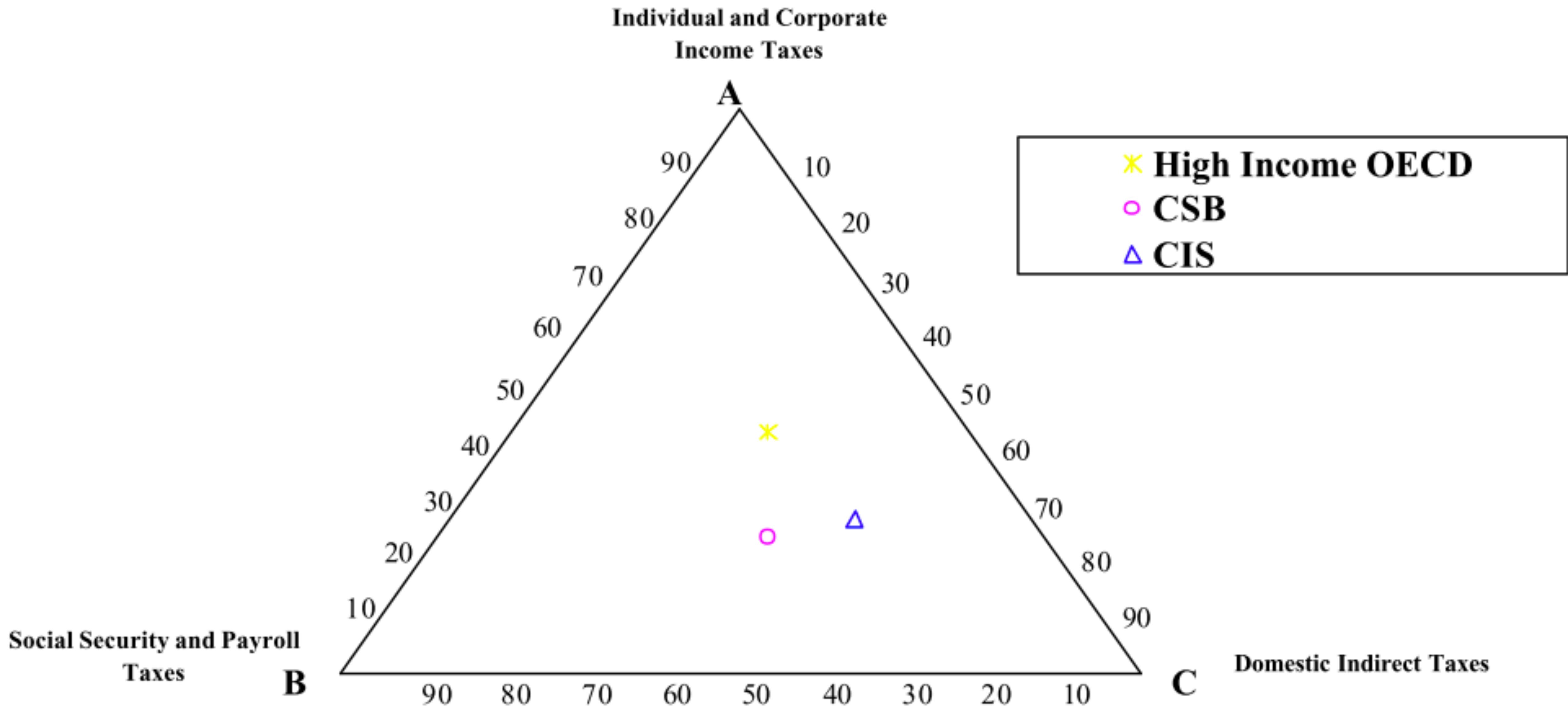


Figure 6: Breakdown of Non-trade Tax Revenue by Type: High Income OECD, CSB, and CIS Economies (unweighted group averages)



		<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.

