Preface

The World economy has undergone considerable change since the late 1970s and economic integration has dramatically increased, generating interdependence of economic activities. The events of the last several decades that later came to be known as globalization have challenged the contemporary neo-classical synthesis in all branches of economics, especially in public finance. As capital has become much more mobile than labor and can flow to where taxes are the lowest, increased economic integration and the mobility of capital have made international considerations a central component of tax policy making around the world. National tax policy makers are increasingly involved in a game with one another that called as “international tax competition” in which sovereign countries aim to attract both portfolio and direct investment by lowering their tax rates on income earned by foreigners. Tax competition, tax evasion, and tax havens have become part of our lives.

Genschel et al. (2015) highlight that international tax competition “triggers a race-to-the-bottom, in which states undercut each other leading to no or at best, lower capital taxes than ever before. According to the baseline model, capital tax competition has one of two potential welfare effects. Either it decreases government revenue, which could be used for redistribution to the poor, or the tax burden is shifted to less mobile bases such as labor income. In any case, the overall welfare effect on income inequality is negative.” Countries have responded international tax competition in two ways: “first, by shifting the tax burden from (mobile) capital to (less mobile) labor, and second, when increased taxation of labor has become politically and economically problematic, by reducing the social safety net” (Avi-Yonah, 2000, p. 1575). As Vito Tanzi explains in the introductory chapter, “[b]ecause of the growing globalization of economic activities and the increasing facility with which financial capital was able to move across countries … and to the pressures exercised by investors and their lobbyists, the laws were changed and income received by individuals from capital sources started to get preferential treatment. This made it possible for some individuals to receive very large incomes while paying very low taxes on them.” The end result was that globalization has contributed to the growing unevenness of the income distribution now observed in many countries, both developed and developing.

Tax competition and taxation have broader implications for the fiscal responses of countries to globalization and their redistribution efforts. Given that tax competition affects countries differently1, governments will choose diverse strategies to cope with these international pressures. Competition will more negatively affect income inequality in countries that predominantly redistribute via the tax system than in those that historically set up a welfare state by redistributing via social transfers (Troeger, 2013). Competition among countries has contributed to greater need for redistributive programs, but at the same time has reduced the scope for redistributive programs (Stiglitz, 2007).
Over the past decade, the world economy has seen overall economic growth weaken due to the worldwide financial crisis and associated reduction in economic activity. The global financial and Eurozone crises have awakened the world to the importance of the linkages between public financial and macro-fiscal management. Improving our understanding that public financial management is crucial following the introduction of large stimulus packages to promote economic growth after the 2008-2009 financial and economic crises has become very important. Given that budget deficits have been increasing, many governments have been searching for possible ways of increasing tax revenues to finance public expenditures and narrow the budget deficit while minimizing distortions to economic activity. The challenge is to be prepared for the next generation of public financial management reforms. Effective tax systems are as essential for developing countries as they are for developed ones.

Taxation is imperative first and foremost because it determines the development status of countries by financing the system of public goods. Moreover, as Bayraktar, Moreno-Dodson, and Le put forward clearly in Chapter 8, “[t]axation is considered to be the least distortive way to finance public expenditures, when compared to money printing and borrowing, and, overtime, can be conducive to lower aid dependency and state building. However, many countries, developed and developing, experience a gap between their actual and potential levels of tax revenues, based on their economic, demographic and institutional architecture. Taxation reforms, both policy and administration, can contribute to close this gap, and must be designed and implemented according to the reality and feasibility in every country.” Taxation ultimately is a function of politics, institutions, economics and technologies. The design of tax policy reforms must be constructed after comprehensive analysis of the country’s taxable capacity, revenue performance, efficiency and equity considerations, as well as the political economy of tax reforms.

As an authoritative reference source, this publication assembled some of topmost scholars and experts with some of them a background in the World Bank and the International Monetary Fund (IMF) who can write clearly and accessibly. These authors cover a wide variety of public finance topics with great clarity and precision, illustrating them with a wealth of carefully-chosen examples and problems. Most of the chapter authors consider public finance from a comparative perspective and combine discussion of theory, empirical work, and policy objectives in compact form. The chapters are generally very balanced overview of market failures and government failures and thereby gain mature insight into desirable interactions between the market and the state.

The purpose of the volume is to provide an accessible introduction to the use of public finance and public policy to improve on market outcomes. It gives a balanced and insightful analysis of the scope and limits of what government can and should do. The chapters provide a rich, thought-provoking, and comprehensive overview of academic thinking about the role of government in the economy, emphasizing the role of political economy of institutional change in shaping how governments behave, and the resulting trade-offs between private and public provision. Some of the chapters would thus be of interest to researchers working in the relatively new area of institutional change and governance. There is an emphasis on the importance of the institutional context, drawing on examples from European, Middle Eastern and North African (MENA) countries. The authors use rigorous but accessible formalism. The mathematics has been kept to a minimum without sacrificing intellectual rigor. While the information presented is cutting edge, the approach makes the chapters accessible to not only academics but also government officials, development agencies, practitioners, and undergraduates whose only prior exposure to economics is at the introductory level.
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This handbook is unique not only in its broad scope but also in its balance between theory and practice. It brings alive theory with relevant empirical evidence combining history and theoretical approaches with cutting-edge issues and debates. Authors write from the ground up to reflect current realities of public finance, enhancing the survey of traditional topics with an emphasis on empirical work. Some of the chapters offer useful insights into how policy makers should design taxes. Some others produce significant cross-fertilization and yield solutions to previously intractable problems. The volume covers topics such as different tax systems, fiscal transparency, shadow economy, attitudes toward tax evasion, tax compliance, international tax competition, tax reforms, public spending, tax expenditures, political economy aspects of budgeting, governance performance, privatization, distributional effects of fiscal policies, fiscal decentralization and local borrowing, the management of fiscal risks, monetary and fiscal policy interactions, effects of taxes and natural resource endowment on the supply of labor. The book provides numerous examples and case studies describing good practice in public financial management, and is highly relevant for use in both advanced and developing countries.

The introductory chapter Public Finance in Developing Countries is written by Vito Tanzi, who is the honorary president of the International Institute of Public Finance. His chapter presents a historical and theoretical overview of the public finance in general and for developing countries in particular. Tanzi indicates that modern governments need revenue and often a lot more revenue than they needed in the past, to provide the levels of assistance and public services that modern societies expect governments to provide. He warns, however, that because of the various potential problems before raising the countries’ tax levels with tax reforms, it is important that there must be a clear understanding of how that fiscal space will be used and how the additional tax burden will be distributed. He adds that the necessary public institutions capable of enforcing the adopted policies competently and efficiently must exist. Otherwise, poor choices are likely to be made and the public investments undertaken tend to be not as productive as they had been expected.

In Chapter 2, Richard Bird focuses on core issues of taxes and taxation. His review offers a timely assessment of transparency and technology in taxation. Taxation that is widely perceived to be unfair and administered capriciously and corruptly may not only bring the tax system into disrepute but weaken trust in government and even the legitimacy of the state. This chapter first discusses some possible interpretations of ‘transparency’ in taxation and then briefly reviews the increasing role of IT in tax administration before concluding with some reflections about the interplay of transparency and technology in developing a ‘smart’ tax system. Bird emphasized that balancing the use of technology in taxation with the appropriate degree of public transparency about what is being done and why is an essential ingredient in the mix if how states collect and spend revenues is to be considered acceptably fair by a majority of the politically relevant population.

In Chapter 3, Simon James discusses the issues that should be considered in developing successful tax reforms. The purpose of the chapter is to examine the range of issues involved in the nature, context and process of tax reform. The author begins by introducing the context of European and MENA countries in general terms. Then, he examines economic criteria for assessing the merits of a particular tax or tax reform, primarily economic efficiency and equity and goes on to other theoretical contributions to the development of tax reform which are less frequently taken into account, namely optimal tax theory, the theory of the second best, and public choice theory. Later, the author raises significant issues regarding tax administration and compliance and examines the context of tax reform and the process of tax reform itself to establish a comprehensive and systematic approach to dealing with the entire range of relevant
focusing government for local on hindering and constraints revenue empirical the that demonstrates data, that are stagnant countries that stimulate growth. It is most objective to investigate if government spending and is robust to the inclusion of a wide range of controls. Unlike the existing empirical literature, which focuses on the ‘compensation effect’ of openness on government growth, this study supports the ‘competition effect’ of openness drawn from the literature on local public finance.

In Chapter 7, Lodovico Santoro and Salvatore Capasso examine public spending and governance performance from a comparative perspective. The study involves a descriptive and a simple econometric analysis. The main objective of the authors is to investigate if government expenditure are purposefully inflated and manipulated in order to increase rent-extraction and bribes. The analysis of the interplay between governance performance and corruption, on one side, and public expenditure, on the other focusing on European and MENA countries has delivered one interesting result: institutional and social
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factors such as the judicial system, the form of the government and the stability of the system all play an important role. This implies that corruption may be more or less detrimental, and correspondingly government may be more or less efficient, depending on the general economic and institutional context. Results are enlightening and point out that total government expenditure appears to be positively correlated to poorer governance performance, and hence to more corruption, only when the volumes of public expenditure is already high. A surprising finding of the chapter is that European countries rather than in MENA region are more associated with public expenditure and more inefficiency in the working of government.

In Chapter 8, Savaş Çevik examines tax structure and its relation to good governance and economic development in the MENA region. The author discusses first how different tax systems and tax structures in the region compared with other countries. He identifies that the problems in which the MENA countries suffer are substantially common to those of other developing countries such as the low level of income taxes, inefficiencies of tax administration, informal structure of economy and weak data to consider policy options. However, some of them are especially heavy in the region because of idi-syncratic features of the MENA countries. Second, the author deals with the role of taxation to build well-functioning institutions and qualified governance as well as a fiscal system that extract revenue to finance development and public services in the MENA region. He suggests that a legitimate tax system can help to establish a legitimate political interaction through the nation by establishing parties’ effective participation in decision making process.

There is an undergoing debate about whether or not tax competition is detrimental to countries which export capital. In Chapter 9, Semih N. Öz considers this issue and analyzes how the Turkish tax system is affected by international tax competition, services submitted by tax havens and facilities used by multinationals. The aim of the study is to discover whether there are change in tax rates, tax structure, and tax revenue; and how the government responds to it, as a beneficiary; or, a loser. The author first gives the general principles of international taxation that are related to residence and source principles. Then, he presents theories and an analytical framework for tax competition. Later, Öz evaluates the governments’ response to international tax competition as a single country or as a part of international cooperation work and criticizes the OECD work on harmful tax competition. The author shows that Turkey has experienced a steady increase in tax revenue, while tax rates are declined. But, the distributional effect of this change it is not clear. Therefore, Öz suggests that additional work is needed to find out whether or not tax burden is shifted from high level income individuals to low level income individuals.

Knowledge about the size of the shadow economy is an important concern for fiscal policy makers in developing economies, particularly, in conducting effective revenue policies. The shadow economy is heavily related with tax evasion, and sometimes they are perceived as the same. In Chapter 10, Tarkan Çavuşoğlu and Debi Konukçu Önal analyze empirically the potential dynamics of the relationship among the size of the shadow economy, fiscal burden and the official economy. The empirical analysis is based on the size estimates of the shadow economy in 17 developed and 11 transition economies of Europe for the period 1999-2013, and in 16 MENA economies for the period 1999-2007. The direction of causal relations among shadow and official economies and the fiscal burden is investigated by exploiting the panel vector auto-regression approach and the associated impulse response analysis, which directly account for the potential endogeneity of the variables of interest. The findings mostly confirm the view that shadow and official economies are substitutes, and the dynamic effects of fiscal burden on the shadow economy are not as strong and clear as expected in the regions in question.
Chapter 11 by Hale Akbulut also investigates the shadow economy. But this time the aim is to investigate shadow economy on an EU-27 and Turkey basis. For this purpose, first the definition, causes and consequences of shadow economy together with its relationship with tax evasion are discussed. Second, the causes of shadow economy are examined for the EU-27 during the period 2003-2012. It was done both statistically and empirically by employing scatter plot diagrams and the random effects model. Both statistical and empirical findings confirm that there are a number of economic and governance related factors that cause shadow economy. Nevertheless, governance related indicators (such as: government effectiveness, accountability, rule of law and control of corruption) seem more effective statistically on the size of shadow economy as compared to economic indicators such as taxes and spending. Therefore, Akbulut suggests that governments have to improve particularly their governance indicators to achieve a decrease in shadow economy.

Delving into the primary topic of tax compliance from an economic-psychological perspective, Chapter 12 by Larissa Batrancea, Anca Nichita, Ioan Batrancea, and Erich Kirchler avail researchers, practitioners and laypersons the ability to grasp the importance of trust in authorities and power of authorities for raising compliance across Europe and the MENA region. Understanding the nature of tax compliance determinants is crucial to increase tax compliance and recent tax literature features new catalysts for compliance. The empirical investigation of this chapter is grounded on the “slippery slope framework” that attempts to solve the “riddle of tax compliance” via trust in and power of authorities. A two-step cluster analysis was run on the continuous proxies of trust in authorities and power of authorities, corresponding to 215 countries and territories worldwide, out of which 35 from Europe and 12 from the MENA region. The analyses yielded a four-cluster miscellanea of tax climates, i.e., trust high – power high (T+P+), trust low – power low (T-P-), trust high – power low (T+P-), trust low – power high (T-P+). As overall results, both European and MENA countries fall into three of the four clusters considered. While the majority of European countries are spread between two categories, almost all MENA countries register low levels of trust and power, these results suggesting the imperative need for stability and efficiency in every major area of these societies.

In Chapter 13, M. Mustafa Erdoğdu, Binhan E. Yılmaz, Murat Aydin, and Inci User engage with political economy of tax evasion and tax compliance issues focusing on deficiencies and problems within property taxation system in Turkey. First, the authors review political economy of taxation by elaborating social and political interactions between different groups in society. Then, they question if there are any political preferences, legal arrangements or cultural issues facilitating tax evasion and tax loss in Turkey. The authors identify the degenerating effects of frequent application of tax amnesties, having a lax tax reconciliation institution, and less than logical way tax information confidentiality principle is applied in Turkey. Later, they investigate peculiarities and specific difficulties of real estate sector in relation to taxation. Finally, to reduce tax loss in this sector they propose a comprehensive and original property tax reform based on a semi-public valuation system. The authors underlines that “fighting with tax evasion and tax loss is not only important to raise revenues but probably more so to safeguard fairness.” They suggest that increased use of property taxes could not only help ease problems with taxes levied on mobile bases but also make the tax system fairer since the system becomes less distorting and less vulnerable to tax evasion.

In Chapter 14, Robert W. McGee and Serkan Bengk summarize and analyze the latest World Values Survey data on attitudes toward tax evasion in Turkey. In addition to examining the overall viewpoints of the 1601-person sample, the authors examine ethical attitudes from the perspective of the following
demographic variables: gender, age, marital status, education level, employment status, occupation, social class, income level, happiness, position on the political spectrum, sector of employment, and confidence in government. Comparisons with other studies are made to determine the similarities and differences between Turkish attitudes and the attitudes of people in other countries. According to findings, significant differences were related to employment status. Part-time workers, housewives and the self-employed were more opposed to tax evasion, whereas the retired and unemployed were least opposed. Those working in the private, nonprofit sector were somewhat more opposed (at the 10 percent level) to tax evasion, whereas those working for government were somewhat less opposed to tax evasion. The most important finding seems that “[t]he more confidence in government one had, the more opposed one was to tax evasion.”

In Chapter 15, Sarah Mansour, Vjollca Sadiraj, and Sally Wallace focus on the future of public finances in Egypt, which is one of the most important countries in the Middle East. Like many countries, Egypt suffers from substantial tax non-compliance. It is well-known that tax compliance directly affects the ability to raise own source revenues and this ability is critical to the long term fiscal sustainability of a country. Non-compliance undermines the entire system of public finance in Egypt, yet there has been relatively little focus on addressing this issue in the country. According to authors, Egypt’s public finances are in a state of transition as the country grapples with myriad state-building issues. The authors developed and implemented a unique public finance experiment in this chapter that aims to better understand the potential for political institutions to affect tax compliance when citizens and officials interact (in a lab setting) and citizens can recall officials. Their data suggest that recall elections give citizens’ “voice” and they use it to express their distaste to government. They also find that when citizens see corruption (proxied in their experiment as an official choosing the greedy good), they reduce compliance.

In Chapter 16, James Alm explains Egypt’s public finances which are in a state of transition as the country grapples with myriad state-building issues. The author indicates that Tunisia’s tax system has undergone significant structural reforms over the last several decades. Even so, its structure exhibits some major flaws, shortcomings that spill over to and affect the performance of the overall Tunisian economy. Furthermore, the tax system continues to underperform in some fundamental ways that also affect the rest of the economy. There is also a widespread belief that the tax system is both unfair and distorting to individuals and firm, although precise quantitative assessments of these inequities and inefficiencies are seldom provided. Overall, it is clear that the current system is an outdated and an ad hoc system, designed for a world that no longer exists. James Alm first describes several main features of Tunisian tax system in some detail and then compares Tunisian tax practice to international practices and analyze some of the main effects of these taxes. Later, he presents some issues that need to be considered in any possible reform of the tax system and suggests various specific tax reforms that can be introduced both in the short term and in the longer term.

The goal of Chapter 17 is to provide a better understanding of the current distribution of taxes in Jordan and to estimate the effective rate of taxation on households. In this chapter, Sally Wallace and Andrey Timofeev focus on the incidence of taxes in Jordan and provide an analysis of the incidence of Jordan’s main taxes: personal income, corporate income, real property and property transfer taxes, customs, general consumption tax, excises, and taxes on capital. The authors point out that all taxes must ultimately be paid by someone, and one of the most fundamental questions asked by economists is: “Who bears the final burden of a tax?” Equity is a real concern in Jordan, because while it is an upper-middle income country, more than 14 percent of the population is below the poverty line. An analysis of the
incidence and distributional implications of the tax system in Jordan can provide useful information with respect to the equity of the system and provide input into tax reform discussions throughout the region.

In Chapter 18, Ömer Faruk Batrel discusses the Turkish tax policy performance for the period of 2004-2013 in terms of equitable distribution of tax burdens and examines tax expenditures in terms of equity and fiscal transparency grounds. Batrel first presents a brief history of the Turkish tax system and continues with an overview of the contemporary Turkish tax System. Then, the author evaluates the Turkish tax policy performance in terms of equitable distribution of tax burdens. Later, he estimates tax expenditure figures using very limited data because of unavailability. Under this serious constrain, both the policy performance and the tax expenditure analysis are made for the period of 2004-2013. It is claimed in the chapter that “Turkey introduced very generous tax breaks that would never fit economic and social purposes.” It is indicated that the sharp increase of tax expenditures observed in recent years is mainly due to personal income tax reliefs since nearly two-thirds of the tax expenditures resulted from income taxes. One of the main findings of the chapter is that “because fiscal transparency and non-discrimination principles of taxation are violated in Turkey, there are considerable amount of hidden tax reliefs that are not counted as tax expenditures in the Turkish tax system.”

Public utilities have been at the very center of economic and social development of countries. Until the last decades of the century, they were almost exclusively undertaken by public authorities. From the 1980s, they have been subject to liberalization in many countries. In Chapter 19, Mustafa Kahveci and Hulya Kirmanoğlu explore the structure and function of the electricity markets, the market failures they pose and the market reforms designed to correct them by national and international decision-makers from a political-economy point of view focusing on the Turkish case. Their research poses two questions: ‘How compatible with the directives of the European Union is the market reform of the electricity sector in Turkey?’ and ‘who are the beneficiaries of the reform?’ The authors explain that liberalization of electricity means the segments which are vertically integrated are unbundled and opened to private sector through privatizations. However, since the transmission and distribution segments are networks that exhibit severe natural monopoly characteristics, Kahveci and Kirmanoğlu suggest that they should be either owned and operated by public bodies or regulated by independent regulatory authorities to protect consumer interest. With this perspective the authors argue that liberalization in the energy sector does not serve to enhance the public interest, instead it promotes special interests. It follows that benefits reaped by special interest groups and costs borne by the people.

Due to the serious consequences in terms of economic growth and welfare, price stability is one of the most researched topics in economics. The conventional monetarist view that inflation is always a monetary phenomenon has a long tradition based on the quantity theory of money (QTM). The “unpleasant monetarist arithmetic” of Sargent-Wallace (1981), however, unveiled the fiscal roots of inflation and it became increasingly clear that the effectiveness of monetary policy in controlling inflation depends critically on its coordination with fiscal policy (Buti, 2003). Since Turkey has experienced both high inflation rates a very high public debt to GDP ratio but recently came close to solve these two problems, it present a good example for analysis. In Chapter 20, Asuman Oktayer and Nagihan Oktayer İşiklar empirically analyze the monetary and fiscal policy coordination in Turkey by applying autoregressive distributed lag (ARDL) cointegration procedure over the period January, 1989 to February, 2012 and the sub-periods of January, 1989 to January, 2001 and February, 2001 to February 2012. First, the Turkish economy is briefly discussed for the analyzed period in terms of fiscal balances. This is followed by the discussion of the empirical specifications of the chapter and then the empirical analysis and results are
presented. While the empirical test results related to the entire period of January, 1989 to February, 2012 and sub-period of January, 1989 to January, 2001 indicate fiscal policy dominant regime, the findings regarding February, 2001 to February, 2012 imply monetary policy dominant regime in Turkey.

Starting with late 2007, the world economy was faced with the worst financial crisis since the Great Depression of the 1930s. This Global Financial Crisis or the Great Financial Crisis (GFC) has hit developed and developing countries through a number of transmission channel. Some impacts are already disappearing while others are still to strike. In Chapter 21, İsmail Şiriner and Keremet Shaiymbetova analyze MENA region developing countries’ monetary regimes and policies, including: monetary policy expansion of the monetary policy framework in promoting financial stability alongside the primary price stability objective. The authors first analyze financialization of the world economy and then summarize the changes in monetary policy caused by GFC from inflation targeting to financial stability, from financial stability to macroprudential polices which is named generally as unconventional monetary policy measures. Şiriner and Shaiymbetova indicate that MENA region developing countries to experience the crisis were those with the most globally integrated financial sectors. The authors suggest that post-crisis spillovers and heightened capital flows have triggered a search for alternative monetary policy frameworks in the countries like Turkey and Israel. According to authors, an alternative to the current neoliberal monetary policy, macroprudential policy instruments can be used to create and sustain the stability in the economy and central banks must take into account not only inflation but also employment and growth.

There have been important developments in the decentralization of the government structure in Turkey since the early 1980s. In Chapter 22, Mehmet Serkan Tosun, Dilek Uz, and Serdar Yılmaz examine the link between fiscal decentralization and local borrowing within Turkish provinces. They first discuss local government reforms throughout the history of the Turkish Republic with the focus on recent reform efforts and current local government structure. Then, the authors provide an empirical analysis of the effects of decentralization in Turkish provinces using cross-sectional and panel data approaches, and spatial econometrics. The dataset consists of 67 provinces from 1980 to 2000, and separately cross-sectional data on all 81 provinces for the year 2000. Using decentralization measures such as number of local governments per capita and ratio of own-source municipal revenue to total provincial tax revenue, and specific characteristics of the municipalities the analysis examines whether variations in local decentralization across these provinces and across time have had a significant impact municipal borrowing in those provinces. According to the authors, there is a need for investment in local infrastructure for Turkey to meet EU standards of service delivery. They suggest that a good case can be made for permitting municipal governments to borrow as long as the “golden rule” of debt finance is followed: that they borrow only for financing capital (investment) expenditures such as those for infrastructure improvements, which provide a flow of benefits over time.

In Chapter 23, Weshah Razzak and Belkacem Laabas use the work-leisure choice model to compute equilibrium weekly hours worked for a number of Arab countries and compare them to the G7 countries. The purpose of the chapter is to measure hours worked, which allows the authors to compute the Frisch elasticity of labor supply, and labor productivity in a number of Arab countries for which no data have been published previously. Razzak and Laabas summarize first the main features of the Arab economies which have implications for the estimation of hours worked. Then, they present the model and calibrate the model for the G-7 countries and the Arab countries, estimate hours worked, compute the elasticity of labor supply, and labor productivity. Later, they engage with policy simulations, and present their findings. Their main contribution is to provide model-consistent estimates of hours worked. The authors
show that the labor supply curve is elastic in all Arab countries, and provide a new measure of labor productivity. This finding confirms previous research that workers respond to incentives, which has serious implications for tax and social security policies. The authors also provide some policy simulations pertinent to the effects of taxation on welfare and poverty.

We believe these chapters will generate ideas for future research efforts as well as for the development of policies that will influence both global and national prosperity, not only in developing countries but also advance countries.

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REFERENCES


ENDNOTES

1 Genschele et al. (2015) show that “the rich and the poor of the small country can achieve a higher net income when engaging in international tax competition. This explains why tax competition is politically robust even in a model where the rich have no power over the tax rate.”

2 He was a former Professor and Chairman of the Economics Department, American University, Washington D.C. He also served as Head of the Tax Policy Division (1974-1981) and later as Director of the Fiscal Affairs Department (1981-2000) at the IMF. Vito Tanzi served as President of the International Institute of Public Finance (1990-94) and Undersecretary of State for Economy and Finance in the Italian Government (2001-2003). An economic effect (the Tanzi effect) named after him.

3 Tax havens are countries that impose little or no taxes or other forms of taxes. By offering sophisticated banking and communications facilities and stable political and business climate, they provide a wide range of tax avoidance advantages for enterprises (Öz, chapter nine in this handbook).