

Center for European Studies
Working Paper No. 120

The Spread of Neoliberalism: U.S. Economic Power and the Diffusion of Market-Oriented Tax Policy

by

Duane Swank*

Department of Political Science
Marquette University
PO Box 1881
Milwaukee, WI 53201-1881
duane.swank@marquette.edu
(December 2004)

Abstract

I offer an explanation for the widespread diffusion of neoliberal tax policies in the developed democracies. Specifically, I argue that the highly visible 1980s market-conforming tax reform in the United States, the late twentieth century's dominant political economy, creates significant incentives for adoption of neoliberal tax policies by decision makers in other polities. As such, I stress a dominant actor model of the diffusion of neoliberalism that is grounded in asymmetric competition for mobile assets and policy learning. However, while the incentives to follow U.S. tax policy are substantial, the relative weight assigned the costs and benefits of reform and, in turn, the pace and degree of neoliberal policy adoption by other nations is fundamentally contingent on features of domestic political and economic environments. I assess these arguments with empirical models of 1981-to-1998 tax rates on capital in sixteen nations. I find that changes in U.S. tax policy influence subsequent reforms in other polities; in the long-term, all nations move toward the U.S. neoliberal tax structure. Analysis also shows, however, that the responsiveness to US tax reforms is notably greater where linkages with U.S. markets are stronger, where domestic economic stress is deeper, and where uncoordinated market institutions are dominant. I conclude with a discussion of the implications of the present analysis for the volume's central questions: what are the central mechanisms driving the cross-national diffusion of neoliberalism and what is the relative importance of international policy interdependence and domestic political economic forces in shaping policy change?

* Earlier versions of this paper were presented at the Conferences on "International Diffusion of Political and Economic Liberalization," Weatherhead Center for International Affairs, Harvard University, October 3-4, 2003; "International Diffusion of Neoliberalism," Center for International Studies, UCLA, March 6-8, 2003; "Interdependence, Diffusion, and Sovereignty," Yale University, May 10-11, 2002; and the Annual Meetings of the American Political Science Association, August 29 to September 1, 2002, Boston MA. I thank Alex Hicks, Rob Franzese, Torben Iversen, Cathie Jo Martin, and the participants in the Yale, UCLA, and Harvard conferences, especially Geoffrey Garrett, Helen Milner, Dennis Quinn, and Beth Simmons for helpful comments. I also gratefully acknowledge the important contribution of Sven Steinmo that comes by way of our past collaborative work on globalization and tax policy.

Neoliberal reforms in public policies and economic institutions have proliferated across the developed democracies and the globe in the latter decades of the twentieth century.¹ National structures of taxation have not been immune to neoliberalism. Beginning in the early 1980s, policymakers throughout the OECD significantly altered the content of tax policies. The relative priority accorded equity and growth goals, the use of investment and behavioral incentives, and the level of tax rates were all notably changed: marginal income and corporate profits tax rates were scaled back, the number of brackets were cut and inflation-indexed, and tax-based investment incentives were eliminated or reduced to broaden the tax base. Why have nearly all developed nations enacted this set of market-conforming tax policies?

To answer this question, I build on my recent work on the determinants of change in tax policy in the developed democracies and explore the dynamics of diffusion of the neoliberal tax policy paradigm.² I advance the case that the highly visible 1986 market-conforming tax policy reform by the United States creates a set of costs and benefits surrounding adoption and non-adoption of these tax policy reforms by policymakers in other polities. As I detail below, asymmetric competition for mobile assets and the substantial demonstration effects and information externalities associated with U.S. reforms significantly influence national policymakers in other polities in their assessments of how to achieve their efficiency, revenue, and political goals. My central argument is, however, that while the incentives to adopt U.S. tax reform are substantial, the relative weight assigned the costs and benefits of reform and, in turn, the pace and degree of adoption by individual nations of the market-conforming tax paradigm is fundamentally dependent on features of the domestic political economy. Economics should matter: levels of general international openness, linkage with U.S. markets, and the magnitude of domestic economic stress should significantly influence policy maker assessments of reform. Domestic politics should also be important: the degrees to which the median voter has shifted right and right-of-center parties have governed in recent years should be consequential for the pace and depth of tax policy change. The character of a nation's production regime is also crucially important: the extent to which the domestic political economy is composed of coordinated or uncoordinated market institutions should shape the assessment by national policymakers of the benefits and costs of adoption and non-adoption of the new tax policy regime.

I organize my analysis of these hypotheses as follows. First, I briefly discuss recent trends in taxation, review theories about contemporary tax policy change, and elaborate my arguments about why tax policy reform is likely to be an interdependent process where innovations are diffused—subject to domestic political economic factors—across the developed democratic world. I then develop empirical models of statutory and effective tax rates on capital and assess these with 1981 to 1998 data from sixteen nations. I conclude with a summary of what we know about the forces driving tax policy change and a discussion of the implications of the present research for understanding of the diffusion of neoliberal policies in an era of globalization.

Tax Policy Change in the Developed Democracies

Beginning in the early 1980s, incumbent governments significantly altered national policies on the taxation of corporate profits and capital income. The near universal system of relatively high marginal statutory tax rates and extensive use of tax instruments to target investment (and otherwise shape the behavior of economic agents in accord with national policy goals) was significantly reformed in nearly all nations. Table 1 summarizes the most significant features of changes in corporate and capital taxation. Policymakers reduced statutory corporate tax rates on average from 45 percent in 1981 to 34 percent in 1998. They also commonly eliminated or reduced various investment credits, exemptions, and grants that

¹See, among others, Campbell and Pedersen 2001 and the introduction to this volume.

²Swank 1998; Swank and Steinmo 2002.

had significantly lowered effective corporate tax rates on reinvested profits. As Table 1 illustrates, the general investment tax credit was eliminated by 1992 in all nations that had employed it.³

Table 1: The Taxation of Corporate and Capital Income, 1981-1998

Nation	Top Marginal Rate Corporate Income*			Rates of General Investment Incentives**		EffectiveRate of Tax on Capital***		
	1981	1989	1998	1980	1992	1981	1989	1996
Australia	46	39	36	18	0	47	48	47
Austria	n/a	n/a	34	na	na	23	21	26
Belgium	48	43	40	5	0	39	34	36
Canada	48	39	38	7	0	39	43	51
Denmark	40	50	34	0	0	43	46	52
Finland	na	na	28	na	na	34	41	38
France	50	39	42	10	0	28	26	29
Germany	56	56	48	0	0	32	29	24
Ireland	45	43	32	0	0	na	na	na
Italy	36	46	41	0	0	23	28	33
Japan	42	40	34	0	0	37	51	43
Netherlands	48	35	35	12	0	32	29	31
New Zealand	42	33	33	0	0	36	40	35
Norway	51	51	28	0	0	44	30	29
Sweden	58	52	28	10	0	54	64	53
Switzerland	10	10	8	0	0	na	na	na
United Kingdom	52	35	31	0	0	63	61	47
United States	46	34	35	10	0	45	43	37
Mean	45	40	34	5	0	39	40	38

*Highest statutory corporate tax rate. Source: for 1981 to 1992, Cummins, Hassett, and Hubbard (1995); for 1993-1998, Coopers and Lybrand, *International Tax Summaries* (New York: Wiley, selected years).

**Rate for general statutory investment incentives. Investment incentives for specific regions and industries, certain forms of fixed business investment, and special investment programs (e.g., Denmark and Sweden's investment reserve fund) are not included. Source: Cummins, Hassett, and Hubbard (1995).

***The total tax burden on capital income equals taxes on property income and immovable property plus taxes on unincorporated and corporate enterprise profits plus taxes on capital and financial transactions all as a percentage of operating surplus, as suggested by Mendoza, Razin, and Tesar (1994). Also see Appendix: Data Sources.

These notable changes in the substantive content of tax policy reflect, in part, a long-term shift in economist and national policy maker thinking about optimal tax structure. While the system of high marginal statutory rates, targeted investment incentives, and other tax expenditures was once viewed as a means to foster both equity and growth, the extant structure of taxation had by the early 1980s become emblematic of unfairness, undue complexity, and inefficiency. By the mid-1980s, significant numbers of OECD finance ministers and their economic advisers viewed the existing tax structure as the source of inefficient allocation of productive investment and lost tax collections; tax rate cuts and base-broadening were commonly viewed as mechanisms to bolster both economic efficiency and maintain government

³See, among others, Boskin and McClure 1990, Ganghof 2000, Genshel 1999, and Pechman 1988 for more complete surveys of contemporary tax policy change. In addition, two points need to be clarified. First, the clear exception to the trend of reduction of investment incentives is the maintenance of depreciation for investments in equipment and plant. Moreover, some countries have maintained non-trivial tax-based investment incentives beyond basic depreciation. Second, personal income tax structure, which determines the tax burden on unincorporated enterprise and household capital income, has been similarly changed. For instance, top marginal central government rates declined from 63 to 42 percent between 1976 and 1997 in the typical OECD economy (Steinmo 2002 Table 3).

revenues.⁴ Generally, statutory rate cuts coupled with base-broadening elimination of tax expenditures have become part and parcel of neoliberal economic orthodoxy (e.g., the “Washington consensus”).

Two departures from the trend toward market-oriented taxation, however, stand out. First, despite the near universal movement toward the neoliberal tax model by the late 1990s, the pace and depth of policy reform varies across nations. As Table 1 data illustrate, some nations cut statutory rates relatively quickly (and concomitantly reduced or eliminated tax-based investment incentives). Tax reforms enacted by 1989 lowered statutory corporate rates from the range of 45 to 55 percent to below 40 percent in the Anglo democracies, France, and the Netherlands. On the other hand, tax rates remained constant or increased in several other political economies; significant market-oriented tax reforms did not occur until the late 1990s in Italy and statutory rates in some nations (e.g., Germany) remained moderately high in 1998. Second, despite notable cuts in statutory income tax rates in the large majority of nations, the effective capital tax rate in the typical developed democracy has actually remained relatively stable: governments collected on average 39 percent of capital income in revenue in 1981 and 38 percent in 1996. This tendency toward stability largely reflects the joint effects of rate cuts and substantial base broadening as well as moderate to strong general economic and capital income growth from the mid-1980s.

With these central features of corporate and capital tax reform in mind, central questions for analysts are as follows: What political economic forces have promoted the general shift to market-conforming tax policy? Is the process of tax policy change an interdependent one where reforms in leading nations affect the probability of reform in other political economies? And, if diffusion occurs, what factors shape the actual pace and depth of adoption of neoliberal tax policy reforms across countries and time?

Theories of Tax Policy Change

In a recent paper, Steinmo and I assessed the widely debated “globalization thesis” of tax policy change.⁵ As an alternative to the conventional thesis, we argued that domestic economic changes as well as internationalization of markets have promoted the shift in the content of tax policy toward the market-oriented model. As we discussed, the combined effects of international and domestic structural economic changes, coupled with domestic budgetary and political forces, also produce relative stability in effective tax burdens on capital. In our theoretical and empirical models, we assumed that nations are independent in that tax policy change, largely shaped by individual national responses to exogenous shocks and domestic factors, is not influenced directly by specific policy reform in other nations. That is, we assumed that the shift to a market-conforming tax regime is a response, undergirded by the aforementioned ideational shift in thinking in the tax policy community, to common domestic and international pressures. I succinctly review our arguments here; I then build on this work and develop models of corporate and capital taxation which assume that tax policy reforms are, in fact, interdependent.

The common globalization thesis of tax policy reform suggests that the capacity of mobile asset holders to move investment across national borders forces incumbent governments (regardless of ideology or constituency) to compete for investment. Taxes on capital (and generally mobile, high income earners) are progressively lowered while tax burdens on relatively immobile factors and activities (i.e., most labor and consumption) are raised. The empirical record of tax policy change discussed above, however, does not match globalization theory very well.⁶ Indeed, the story is more complex. Steinmo and I argued that, as the globalization thesis suggests, economic pressures on governments from international

⁴See Steinmo 2002 and Swank 1998, and the literature cited there in.

⁵Swank and Steinmo 2002.

⁶Extant research on the globalization theory of taxation suggests, on balance, that internationalization has not generated a “run to the bottom” in capital tax burdens or a shift of taxation to labor and consumption. See Garrett 1998a; 1998b; Garrett and Mitchell 2001; Hayes 2003; Quinn 1997; Swank 1998; c.f. Rodrik 1997.

capital mobility contribute to the reduction of tax rates on mobile asset holders. Policymakers must, however, maintain revenues in the context of rising needs, the downward stickiness of public expenditure, and substantial public debt (see below for elaboration). A practical solution to these contradictory pressures is simultaneously to cut statutory tax rates and significantly broaden tax bases. Reduced rates retain taxable income that might be shifted through transfer-pricing to low tax nations while cuts in investment credits and allowances might also sustain revenue collections: governments can retain foreign investment and collect taxes from it if the investment comes from nations that provide credits for foreign tax payments and that tax reinvested profits themselves.⁷ In addition, reductions in statutory marginal tax rates send important signals about domestic investment environments to transnationally mobile capital.⁸

Steinmo and I argued that domestic economic stress and budgetary dynamics also shape tax policy reform. Post-1970 declines in investment rates as well as the secular rise in general and structural unemployment are likely to prompt efficiency-enhancing reforms in tax policy (i.e., statutory and effective capital tax rate cuts). Cuts in effective tax burdens on capital are, however, circumscribed by budget dynamics: increases in needs and demands for income maintenance, political limits on retrenchment in social spending, and the consequent specter or reality of rises in public debt constrain the reductions in capital tax burdens and even prompt tax increases. Reductions in effective tax rates on capital are also constrained by difficulties in shifting tax burdens to labor. Capital mobility, itself, pressures policymakers to lower non-wage labor costs. Moreover, since the mid-1980s, policymakers have increasingly focused on reductions in labor taxes that create “tax-wedge” effects on employment.⁹

Tax Policy Reform as an Interdependent Process

Internationalization, adverse domestic economic change, and budgetary dynamics exert varying levels of direct pressure on incumbent government policymakers. There are, however, theoretical and substantive reasons to expect that post-1980 tax policy reforms across the developed democracies were not wholly independent responses of national policymakers to these common forces. The linchpin of contemporary tax policy reform is arguably the United States’ 1986 Tax Reform Act. The act embodied the fundamentals of the new tax policy paradigm: top statutory corporate rates were reduced over multiple years from 46 to 34 percent, the investment tax credit was abolished, and accelerated depreciation and a variety of other allowances were significantly scaled back. (Top marginal personal rates were reduced from 50 to 28 percent, the number of brackets cut from 15 to 2, and a variety of tax expenditures limited and eliminated.)

The cross-national implications of 1986 Act were immediately clear. Vito Tanzi notes that the 1986 reforms, enacted in the context of substantial cross-national convergence in academic and policymaker thinking about tax policy and motivated by common concerns over slow economic growth and rising unemployment, “sent shock waves to other countries.”¹⁰ As Tanzi suggests, U.S. policy change offers other nations “a challenge and an opportunity” to reform tax policy. Specifically, Tanzi cites a variety of OECD, IMF, and country-specific sources to illustrate that in the wake of the U.S. reforms, policymakers in most advanced industrial democracies became intensely interested in the new U.S. tax structure. The general interest among OECD policymakers stemmed from the fear that lower marginal rates may result in a “capital drain” of mobile investment and a “brain drain” of mobile high-income earners to the United States. Ultimately, Tanzi argues that the U.S. tax reform did not initiate the process of cross-national adoption of the market-conforming tax model: common economic challenges and the widespread accep-

⁷Slemrod 1990.

⁸Ganghof 2000.

⁹See, among others, the OECD *Jobs Study* 1994.

¹⁰Tanzi 1987, p. 335.

tance of the new market-oriented tax policy structure had generated moderate reforms in some nations.¹¹ Mid-1980s tax policy reform in the U.S., however, significantly accelerated the process.

Generally, we should expect the U.S. 1986 Tax Reform Act to increase the likelihood of adoption of market-conforming tax policy in other nations because of the weight of the U.S. economy in international trade and capital markets makes U.S. tax policy reform politically and economically consequential for policymakers in other nations. For instance, in 1997, the U.S. accounted for 39 percent of all foreign direct investment inflows in the twenty-two largest industrialized economies; American markets attracted 49 percent of all industrialized nations' portfolio capital inflows in the same year. Moreover, U.S. merchandise trade (inflows and outflows of goods) held a 22 percent share of total 1997 industrialized nations' merchandise trade; the U.S. attracted 25 percent of total inflows of goods in the industrialized world.¹² At the same time, the process of diffusion of U.S. market-oriented reforms is likely to be complex; significant differences in political and economic conditions and variations in political and economic institutions suggest a variegated pattern of response.

Conditional Diffusion of Neoliberal Reforms. More systematically, reductions in marginal corporate (and personal) tax rates and general efficiency-enhancing reforms in the U.S. create potential costs for policymakers in the largely interdependent industrialized democracies who do not adopt reform and potential benefits for those that do; as discussed below, there may be benefits of non-adoption and costs of adoption of market-conforming tax policies as well. These potential economic and political costs and benefits of adoption and non-adoption of the U.S. model are distilled in Table 2. Generally, I assume that all policymakers seek to maximize economic performance and political support. In the short term, incumbent governments will also strive to maintain extant revenue levels to fund favorite programs, support politically popular policies, and limit public deficits and debt. Left and Christian Democratic governments, however, have different intermediate and long-term targets for the level and distribution of taxes than center and right parties.

Table 2. Economic and Political Benefits and Costs to Policymakers from Adoption and Non-Adoption to Market-Conforming Tax Policy Reform

	Adoption	Non-Adoption
Potential Economic and Political Benefits	<ul style="list-style-type: none"> –Economic Efficiency –Maintenance or Increase in Revenues –Increased Political Support from Innovation and Expected Future Efficiency 	<ul style="list-style-type: none"> –Maintenance of Ability to Target Investment –Tax Policy Complements to Interventionist Economic Policy –Political Support from Maintenance of Taxes on Rich and General Redistribution
Potential Economic and Political Costs	<ul style="list-style-type: none"> –Economic Uncertainty –Deleterious Economic Impacts –Political Resistance from Beneficiaries of Extant System 	<ul style="list-style-type: none"> –Loss of Mobile Capital and High-Income Earners –Maintenance of Complex and Increasingly Inefficient Tax Structure –Political Costs of Maintenance of Unfair Tax Structure

With respect to the costs of doing nothing, the mid-1980s U.S. tax reforms increase—all else equal—the (real and perceived) probability of lost capital investment and mobile assets in other nations

¹¹Britain reduced marginal personal income tax rates in 1979 and corporate rates in 1984; several other nations had enacted modest reforms in the direction of lower marginal rates and a larger tax base. See Tanzi 1987; Boskin and McClure 1990; Peckman 1988. However, the large majority of nations had yet to execute significant reforms in 1986.

¹²Data are from IMF 1998.

where the structure of capital taxation remains unchanged.¹³ These potential adverse outcomes are overlaid (as discussed above) on increasing mass and elite dissatisfaction with the perceived complexity, inefficiency, and unfairness of the extant tax structure. At the same time, adoption of U.S. tax reforms creates potential benefits for reformers in that the shift to the market-conforming tax structure not only offers the potential of an increase of efficiency in the allocation of capital, but maintains or even boosts revenue intake from capital. As Minarik points out in the case of the U.S. itself, substantial segments of American business and the Reagan administration were pleased with the substantial rate reductions and efficiency enhancing aspects of the 1986 legislation.¹⁴ The bipartisan Congressional coalition that supported the Act were pleased with the prospect of increased revenues from capital to offset tax shortfalls from early 1980s reductions in capital taxation (e.g., through generous depreciation and investment credits). Policymakers in other nations, many of whom faced rising deficits and debt and expanding needs for social protection and public goods, could reduce rates, shift to market-oriented tax structure, and, simultaneously, maintain or increase revenues.

To expand, as Mukand and Rodrik have argued for the general case of global diffusion of neoliberal economic reforms, 1986 U.S. tax policy change and its aftermath constituted, in effect, a process where a “successful leader” generates “information externalities” for similar nations.¹⁵ Specifically, politically successful 1986 tax reform by the U.S., a nation that had just experienced a revival of investment and growth in the wake of a battery of structurally similar neoliberal reforms, demonstrates to policymakers of other developed democracies the political feasibility and potential economic advantages of adoption of the market-conforming tax policy model. Economic growth and government revenues might both be immediately enhanced (and concomitant political rewards obtained) by significant tax policy reform.

At the same time, it is important to note that policymakers in some nations may also obtain economic and political benefits (and avoid costs) by maintenance of the extant tax structure. The post-WWII tax structure of significant marginal statutory rates on capital and high-income earners, coupled with substantial investment and related incentives, served as a central mechanism for achieving growth and equity in contemporary democratic capitalism.¹⁶ As I detail below, the active use of tax policy in the form of general and targeted investment credits also complemented other elements of macro- and microeconomic management in many political economies. Significant and rapid reform of the post-war tax structure thus generates economic uncertainty and the risk of political resistance for policymakers in these nations.

The likelihood of adoption of the policy of a “successful leader” in the case of taxation, or in the general case of policy reform, should be a function of the relative weights assigned the political and economic costs and benefits by policymakers. By “relative weights,” I refer to the assessment by policymakers of the concrete costs and benefits of reforms in the context of their basic policy priorities (growth, revenues, support) and assessment of the probability that these costs and benefits will materialize. These assessments are shaped by existing domestic political economic institutions, structures, and performances. First, international and domestic economic structures should significantly influence policymaker assessments of costs and benefits. While virtually all industrialized democracies have significant interdependencies with American markets, costs of non-adoption should vary across nations and time by the interna-

¹³The bulk of the research on the impact of tax policies on capital flows suggests that tax rates (or overall tax burdens) on capital are one of a multifaceted set of determinants of the allocation of investment (e.g. IMF 1991). I assume here that real costs of non-emulation of U.S. tax reform are non-trivial. As Tanzi’s (1987) analysis suggests, policy maker perceptions of the future costs of doing nothing in the wake of policy reform in the dominant economy are likely to entail even greater costs estimates.

¹⁴Minarik 1989.

¹⁵Mukand and Rodrik 2002.

¹⁶See, among others, Steinmo 1993; Swank 1992.

tional economic position of individual nations: the specific magnitude of costs to other nations' policymakers of not enacting U.S. reforms should increase with the level of general international openness of the other economy and its specific degree of linkage with U.S. markets.¹⁷ In addition, the weight accorded enhanced economic efficiency—a central potential benefit of adoption of U.S.-like tax structure—should notably increase where and when recent trends in capital investment have been very low. In other words, the severity of the policy problem will, all else equal, increase the likelihood of policy adoption.

Second, domestic political conditions should influence the pace and depth of a nation's tax policy response to U.S. tax reform. Recent levels of success by right-of-center political parties should matter. Specifically, frequent government control by right-of-center parties in years preceding the introduction of market-conforming tax policy reform by an innovator should facilitate adoption of those reforms. Extended right-party government will bolster mass and elite support for liberalization and market-oriented policies generally, and produce incremental (if not dramatic) enactments of a variety of neoliberal economic and social policy reforms that lay the groundwork for a shift in tax policy paradigm. Second, from the perspective of a substantial body of political economy theory, the position of the median voter ultimately determines policy: electoral support for notable reductions in marginal capital tax rates is requisite for adoption of focal reforms. As scholars have noted, a rise in mass dissatisfaction with abuses of extant tax loopholes by corporations and "the rich" accompanied the shift in tax policy thinking at the elite level.¹⁸ Substantial reductions in marginal tax rates on capital, however, imply potential economic gains for upper economic income strata as well, and raise the specter of reductions in social protection and public goods provision. Thus, a recent and general shift to the right by the median voter suggests increased demands for less government intervention and generally augers well for the success of significant neoliberal reforms. Overall, a shift to the right at the mass and elite level should significantly increase the weight assigned potential benefits of adoption and diminish the costs associated with adoption of the U.S. model and the benefits of non-adoption.¹⁹

Third, the nature of the production regime should also be important to the pace and depth of emulation of the neoliberal tax policy model. As Soskice has argued, countries may be classified by the extent of national coordination through economy-wide collective bargaining among relatively centralized national employer and union associations.²⁰ Second, nations will vary according to the degree of sector (or business group) coordination of the economy, or the level of cooperation by enterprises in organizing product, financial, and labor markets. With regard to national coordination, supply-side oriented economic policies place a strong emphasis on employment. Active labor market policies generously fund training, placement, relocation, and general employment services (and the income maintenance system contains relatively strong work incentives). Macroeconomic and supply-side policies have sought full or near-full employment, and extensive public control of banking and credit has allowed governments to channel resources to employment-enhancing investments. Corporatist institutions, where labor has regu-

¹⁷Simmons 2001 makes a similar argument for the general role of the U.S. (and UK) in the case of financial market deregulation. Simmons argues that there may be incentives for specific nations to emulate, pursue opposing policies, or do nothing in response to U.S. policy reform; here I argue that nations will generally have incentives to follow U.S. reforms subject to the degree of international interdependencies and (as I outline below) the degree domestic institutions and political conditions permit (i.e., where domestic institutional and political conditions do not create even larger costs than non-adoption of reforms for incumbent governments pursuing tax policy change).

¹⁸Steinmo 2002.

¹⁹An additional argument is that irrespective of the relative balance of costs and benefits of reform to national policymakers, the pace and depth of tax policy change is conditioned by the extent of "veto points" in the focal political system. See Hallerberg and Basinger 1998. Multiparty legislatures and cabinets and horizontally and vertically fragmented political authority create opportunities for opponents of policy change to slow or block reform. I systematically assess this argument and report a variety of tests below.

²⁰Soskice 1990; 1999. Also see Hall and Soskice 2001; contributions to Kitschelt et al 1999.

larly exchanged wage restraint for full employment commitments and improvements in social protection, undergird macroeconomic and supply-side policies. In the 1970s and 1980s, wage restraint and currency devaluations have further promoted growth and employment in core export-oriented industries in nationally coordinated economies.²¹ The role of tax policy in the model is important: high marginal rates on uninvested profits coupled with general investment reserves, investment tax credits, and other incentives for saving complement other supply-side policies in promoting long-run economic growth and employment.

Sector-coordinated market economies typically exhibit moderate to high levels of centralization of collective bargaining; relatively centralized wage bargaining is supported by works councils and other cooperative arrangements between business and labor at the firm level. In addition, as Soskice and collaborators has demonstrated, the sector-coordinated economy is structured by high levels of organization of economic activity within industrial sectors oriented to the long-term development and production of high-quality, diversified consumer and industrial goods.²² Trade associations, holding companies, industry-financial networks, and informal cooperative business groups typically organize research and development and technology transfer, export and marketing strategy, vocational training, some aspects of competition and pricing, and other activities. Coordination of economic activity by business is supported stable long-run labor-business relations and by state regulatory frameworks. Traditionally interventionist tax policy has played two key roles in sector-coordinated economies. First, it has generally facilitated state promotion of long-run growth (e.g., regional and sector targeting of investment during periods of economic modernization and restructuring). Second, tax policies of high marginal capital tax rates (and high employer social insurance contributions) have been instrumental to the maintenance of social solidarity and long-term stability in labor and industrial relations.²³

The significance to tax policy change of national or sector coordination should be clear. As Hall and Gingerich have argued, elements of national economic models are functionally interdependent.²⁴ Fundamental reforms in one area have significant implications for the performance of other aspects of the model. More concretely, business, labor, and the state have interests in the preservation of the basic elements of the extant model.²⁵ For instance, as Thelen demonstrates for the case of Germany, employers in sector-coordinated market economies may not embrace (or they may even oppose) significant neoliberal reforms when faced with the uncertainty those reforms generate.²⁶ In fact, German employer support for maintenance of basic features of the generous welfare state (and its funding arrangements) was arguably rooted in business' interests in promoting long-term stability in the labor and industrial relations system.²⁷ Generally, the greater the national or sector coordination of the economy, the higher the costs (e.g., economic uncertainty, political resistance) to policymakers from emulation of market-conforming tax policy reforms; benefits from maintenance of extant tax structure or incremental reforms to it (e.g., maintenance of the capacity to intervene and to facilitate private cooperation) will also be higher in nationally and sector-coordinated market economies.

In sum, my theory of the conditional diffusion of dominant actor policy innovation argues that the spread of neoliberal tax policy is driven by asymmetric competition between a specific political economy and the dominant actor, the U.S., and generalized competition between the focal polity and other nations, for mobile assets. The economic, revenue, and political goals of incumbent policymakers are significantly affected by the outcome of this competition. Furthermore, whereas policymakers face inherent uncertainty

²¹Katzenstein 1985; Huber and Stephens 1998.

²²Soskice 1999 and Hall Soskice 2001.

²³See Swank 2002, Ch. 5 and the literature cited therein.

²⁴Hall and Gingerich 2001.

²⁵Soskice 1999.

²⁶Thelen 1999.

²⁷Swank 2002, Ch. 5.

about the efficiency, revenue, and political impacts of new policy reforms, the highly visible U.S. innovations entailed substantial demonstration effects and information externalities as far as achievement of efficiency, revenue, and political goals are concerned. Yet, the assessments of the costs and benefits of adoption and non-adoption of the new U.S. reforms are fundamentally shaped by domestic political and economic conditions and institutional frameworks. Policymaking is indeed interdependent, but it certainly is not removed from national political and economic environments.

Empirical Models of Tax Policy Reform

I evaluate hypotheses about conditional diffusion of mid-1980s U.S. tax policy reforms by building on the empirical models of corporate and capital taxation developed in Swank and Steinmo.²⁸ In that paper, we modeled marginal corporate and effective average capital tax rates as functions of internationalization (international capital mobility and trade openness), domestic economic pressures (the rise of long-term unemployment), and domestic budgetary dynamics (need and public sector debt effects on spending). Our general model included controls for economic growth, profits, and investment—themselves measures of important aspects of domestic economic performance—as well as partisan control of government and prior levels of tax rates. We estimated the models with 1981-1995 data for fourteen developed democracies.

In the present paper, I extend the sample to 1981-1998 data from sixteen advanced nations.²⁹ With minor exceptions, I utilize the same general models as Swank-Steinmo as a framework to assess the impact of changes in U.S. corporate and general capital taxation on tax policy reforms in other developed democracies. (See Appendix I and II on specific operationalizations and data sources for all measures.) The basic linear model of corporate and capital tax rates is given by:

$$\begin{aligned}
 \text{[Eq. 1] Tax Rate}_{i,t} = & + \Phi(\text{Tax Rate})_{i,t-1} + \beta_1(\text{International Capital Mobility})_{i,t-1} + \\
 & \beta_2(\text{Trade Openness})_{i,t-1} + \beta_3(\text{Structural Unemployment})_{i,t-1} + \\
 & \beta_4(\text{Needs})_{i,t-1} + \beta_5(\text{Public Debt})_{i,t} + \beta_6(\text{Growth})_{i,t-1} + \\
 & \beta_7(\text{Profits})_{i,t-1} + \beta_8(\text{Investment})_{i,t-1} + \beta_9(\text{Right Party Government})_{i,t-1} + \varepsilon_{i,t}.
 \end{aligned}$$

Again, this model assumes independence in national responses, or that the shift to a market-conforming tax model is a national response to common domestic and international political economic forces.

Tests of the direct impacts of reforms in U.S. corporate and capital tax rates on other nations' tax policies are made by adding lagged changes in U.S. statutory corporate and effective average capital tax rates to the models.³⁰ Tests of the conditional effects of U.S. tax reforms on tax policy change in other

²⁸Swank and Steinmo 2002.

²⁹Models of corporate taxes are generally estimated with 1982 to 1998 data for 14 nations while those for capital tax burdens are estimated with 1981 to 1996 data from sixteen countries. Models of conditional diffusion of U.S. reforms exclude the United States. The sixteen nations are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, New Zealand, Norway, Sweden, the UK, and the US; Austria and Finland are excluded from the corporate rate models. Sample composition is dictated by data availability.

³⁰Lagged levels and changes in U.S. tax rates are both positively and (in the case of statutory rates) significantly related to tax rates in other nations. Change measures of U.S. reforms are particularly appropriate for Eq. 1 models as the control for the lagged tax rate effectively makes the dependent variable a change variable, or equivalent to $\text{Tax Rate}_{i,t} - \text{Tax Rate}_{i,t-1}$ in Eq. 1. When we substitute, $\text{Tax Rate}_{i,t} - \text{Tax Rate}_{i,t-1}$, for $\text{Tax Rate}_{i,t}$, only the coefficient for the lagged tax rate, Φ , changes; it is equal to $\Phi - 1$ when the dependent variable is a change measure. Effects of

democracies are made through interaction analysis.³¹ Following the theoretical predictions of preceding sections, changes in U.S. corporate and capital tax rates are interacted with cross-nationally and temporally varying measures of three sets of variables: (1) international capital mobility (operationalized as liberalization of capital controls), trade openness to the U.S., and domestic capital investment (operationalized as three-year moving averages of the percentage change in machinery and equipment investment); (2) measures of the ideological position of the median voter and average levels of government control by Right parties over the last ten years; and (3) indices of nationally and sector-coordinated market economies. A full discussion of the development of the indices for coordination of market economies is given in Appendix III. In summary models below, I follow leads in Blanchard and Wolfers' analysis of the determinants of unemployment and estimate the tax policy effects of exogenous shocks (e.g., energy prices and real interest rates) and their impact on the results presented so far.³²

The models are estimated by OLS regression analysis with panel correct standard errors.³³ A lagged dependent variable is included to explicitly model temporal dynamics and to minimize serial correlation of errors. Overall, this estimator will typically address common problems of contemporaneously correlated, cross-nationally heteroskedastic, and serially correlated errors present in pooled time series, cross-sectional data.³⁴ I also estimate and discuss two alternative estimators: fixed effects OLS with a lagged dependent variable and panel correct standard errors and with error correction models. Generally, coefficients in dynamic panel models (i.e., those with a lagged dependent variable) will tend to be inconsistent in the presence of fixed effects (e.g., Kvist 1995). Given the widespread use of fixed effect estimators and their salutary effect on unmodeled unit (and time) effects, I present it as an alternative below.

I also estimate final empirical models of statutory corporate rates with a generalized error correction method. The estimating equation is:

$$[\text{Eq. 2}] \quad \text{Tax Rate}_{i,t} - \text{Tax Rate}_{i,t-1} = + \Phi(\text{Tax Rate})_{i,t-1} + \beta_1(\text{U.S. Tax Rate})_{i,t-1} + \beta_2(\Delta \text{U.S. Tax Rate})_{i,t-1} + \beta_j(X)_{i,t-1} + \beta_k(\Delta X)_{i,t-1} + \varepsilon_{i,t},$$

where X is a vector of variables that consists of exogenous factors from Eq. 1. This estimator allows one to assess both the dynamic short-term responsiveness of tax rates in the developed democracies to changes in U.S. tax rates (2) and the long-term structural relationship between U.S. rates and tax policies in other nations (1).³⁵

causal variables are mathematically equivalent across the two equations. I estimate effects of levels and changes in U.S. tax rates in the context of error correction models; these are presented below.

³¹Interaction analysis is well suited for examining the conditional effects of external forces on domestic political or policy outcomes. In short, the interaction of, let's say, X_1 (the level of sector coordination of the economy, for instance) and X_2 , (lagged U.S. tax policy change) when the dependent variable is Y (current tax rates in other developed democracies), will tell us whether the effect of X_2 on Y varies with levels of X_1 . The significance test for the interaction term indicates whether differences in the effect of X_2 at different levels of X_1 are significantly different from zero. The interaction term itself, when multiplied by a value of X_1 and added to the coefficient of X_2 , becomes the slope for the effect of X_2 at that level of X_1 . Standard errors for computing the significance of the effects of X_2 at some level of X_1 are easily calculated (e.g., Friedrich, 1982).

³²Blanchard and Wolfers 1999.

³³An alternative approach is event history analysis. However, the occurrence of multiple points of reform in some nations, no clear single reform event during the sample period in a few others, and the presence of several common problems of event history analysis in the current modeling context suggest OLS regression is a more tractable strategy. New event history estimators such as Cox hazard models for multiple events. Work presented in Box-Steffensmeier and Zorn 2002 suggest that this technique might be used in extensions of the present research.

³⁴Beck and Katz 1996.

³⁵See Beck and Katz 1996 and Beck 2001. I extend the error correction models only to statutory rates to simplify analysis and to explore the relatively rich findings on the mediation of the impact of U.S. policy change on statutory

Findings

Results of the expanded sample estimation of the Swank-Steinmo models are presented in the first two columns of Table 3. These findings largely reproduce those reported in the original paper. With regard to direct effects of internationalization of markets, liberalization of international capital controls in prior years is associated with reductions in statutory corporate rates (but not with actual capital tax burdens).³⁶ Trade openness, while correctly signed is not systematically related to corporate and capital tax rate cuts in these “baseline” models; we found a significant, negative association between trade and corporate tax rates in the earlier paper. In terms of the general model, the most notable findings are as follows: low GDP growth, profits, and domestic investment as well as high structural unemployment are associated with cuts in capital tax burdens. High public sector debt (but not needs for public spending) is positively and significantly related to effective capital tax rates.

Tests for the direct effects of changes in statutory corporate and effective capital tax rates in the U.S. are presented in the third and fourth columns of Table 3. These estimates allow assessments of whether or not (one-year) lagged changes in U.S. rates influence current tax policy reform in other advanced democracies. As the table indicates, changes in U.S. statutory corporate rates are significantly related to tax rate change in other nations. A cut of one point in the U.S. corporate rate is systematically associated with a reduction of .2 percent in the typical OECD nation. Changes in U.S. effective capital tax burdens, however, are not related systematically to effective capital tax rates in other democracies (but see below).

Results reported in Table 3 are near perfectly reproduced when moving to the fixed effects estimator discussed above. All findings on the direct and conditional impacts of U.S. tax policy presented in Tables 3 through 7 are reproduced in the presence of fixed effects. I also reestimated Table 3 models with British statutory and effective tax rates (recall the 1984 British reforms) as well as an average of British and U.S. tax rates. Lagged British rates were not significantly related to tax policy change across the developed democracies; average UK/U.S. rate measures were marginally but not robustly related to subsequent tax policy change in other nations.

Table 4 presents tests of the conditional diffusion of U.S. tax reforms where the conditioning factors are the general level of capital mobility, trade linkages with the U.S., and domestic investment rates. For parsimony in presentation, I do not report estimates of the general model factors in Tables 3 to 6; they are virtually identical to estimates reported in Table 3. As Table 4 illustrates, the impact of U.S. tax reforms on tax policy change in other nations is not, as theorized, conditional on general openness to international capital movements. The interaction terms reported in the first two columns of the table are insignificant.³⁷ However, there is evidence that changes in both U.S. corporate and effective capital tax rates have larger effects in nations with high trade linkages with the U.S. Coefficients for both tax-U.S. trade interactions are correctly signed and significant. For instance, using the mechanisms of interaction analysis (see Note 10), one can estimate that in a nation which trades extensively with the U.S. (e.g., U.S.

tax rates in other nations. I do not adopt the general error correction method as the principal estimation technique because of the greater flexibility of OLS regression of simple dynamic models. Error correction models serve as a check on the robustness of the simple dynamic models.

³⁶Liberalization is associated with tax reform at lags of 1 through 4 years (but not contemporaneously related to tax policy). In the original paper, we argued that liberalization and consequent growth in actual capital flows pressured policymakers, for reasons discussed above, to initiate tax policy reform. Increases in formal-legal and actual capital mobility also reinforce calls from center-right partisans and business for general neoliberal reforms of social and economic policies. We documented these mechanisms with evidence from the case study literature and our own interviews with policymakers.

³⁷I substituted measures of capital flows (e.g., foreign direct investment, borrowing on international capital markets) for the liberalization measure of capital mobility. These alternative measures also result in null findings.

trade is equivalent to 20 percent of GDP), a one percentage point cut in U.S. corporate rates will result in a .5 point reduction in the focal nation's corporate taxes (.07+[.021 x 20]). In nations that trade minimally with the U.S., U.S. tax reform has little impact on tax policy change.

Table 3. The Impact of International Factors on Statutory Marginal Corporate Tax Rates and Effective Average Tax Rates on Capital, 1981-1998

	Statutory Corporate Rate	Effective Tax Rate on Capital	Statutory Corporate Rate	Effective Tax Rate on Capital
International Factors				
Liberalization of Capital Controls _{t-1}	-1.0064** (.3770)	-.1232 (.4304)	-1.1096** (.4164)	.0561 (.4694)
Trade _{t-1}	-.0050 (.0090)	-.0050 (.0063)	-.0044 (.0097)	-.0089 (.0071)
Change in US Top Statutory Corporate Tax Rate _{t-1}	—	—	.2077** (.1191)	—
Change in US Effective Tax Rate on Capital	—	—	—	.1156 (.0966)
General Model				
Structural Unemployment	.1252 (.1138)	-.2171** (.1051)	.1412 (.1149)	-.2437** (.1060)
Public Sector Debt _{t-1}	.0100 (.0090)	.0167** (.0095)	.0094 (.0091)	.0190** (.0090)
Needs—Elderly Population	-.0362 (.1396)	.0003 (.1387)	-.0348 (.1402)	-.0195 (.1396)
Tax Rate _{t-1}	.8944** (.0351)	.9479** (.0265)	.9064** (.0354)	.9492** (.0266)
Growth _{t-1}	-.0196 (.1402)	.2120* (.1324)	-.0410 (.1414)	.2425** (.1357)
Percent Change Real Profits _{t-1}	-.0258 (.0654)	.1731** (.0668)	-.0274 (.0652)	.1722** (.0676)
Domestic Investment _{t-1}	.0276 (.0476)	.0610* (.0481)	.0453 (.0590)	.0621 (.0496)
Right Government _{t-1}	.0038 (.0043)	-.0014 (.0055)	.0050 (.0047)	-.0034 (.0059)
Constant	6.9076	1.1815	6.7509	1.1303
Observation	238	256	227	240
R ²	.8464	.9059	.8458	.9092

Corporate tax models are estimated with 1982-1998 data by OLS; capital tax models are estimated with 1981-1996 data. The table reports OLS unstandardized regression coefficients and panel correct standard errors (see Beck and Katz 1996).

*Indicates significance at the .10 level or below

**Indicates significance at the .05 level or below

Table 4 presents tests of the conditional diffusion of U.S. tax reforms where the conditioning factors are the general level of capital mobility, trade linkages with the U.S., and domestic investment rates. For parsimony in presentation, I do not report estimates of the general model factors in Tables 3 to 6; they are virtually identical to estimates reported in Table 3. As Table 4 illustrates, the impact of U.S. tax reforms on tax policy change in other nations is not, as theorized, conditional on general openness to international capital movements. The interaction terms reported in the first two columns of the table are insignificant.

nificant.³⁸ However, there is evidence that changes in both U.S. corporate and effective capital tax rates have larger effects in nations with high trade linkages with the U.S. Coefficients for both tax-U.S. trade interactions are correctly signed and significant. For instance, using the mechanisms of interaction analysis (see Note 10), one can estimate that in a nation which trades extensively with the U.S. (e.g., U.S. trade is equivalent to 20 percent of GDP), a one percentage point cut in U.S. corporate rates will result in a .5 point reduction in the focal nation's corporate taxes (.07+ [.021 x 20]). In nations that trade minimally with the U.S., U.S. tax reform has little impact on tax policy change.

Table 4. The Diffusion of U.S. Tax Policy Change: The Role of Liberalization of Capital Markets, U.S. Trade and Domestic Economic Stress, 1981-1998

	Statutory Rate	Tax Rate on Capital	Statutory Rate	Tax Rate on Capital	Statutory Rate	Tax Rate on Capital
Change in U.S. Corporate Tax Rate _{t-1}	.2149 (.6485)	–	.0701 (.1279)	–	.6146** (.2125)	–
Change in U.S. Tax Rate on Capital _{t-1}	–	.4692 (.4878)	–	.0307 (.1405)	–	.1520 (.1030)
U.S. Corporate Rate x Liberalization	-.0022 (.1890)	–	–	–	–	–
U.S. Capital Rate x Liberalization	–	-.1161 (.1577)	–	–	–	–
Trade with U.S. (percentage of GDP) _{t-1}	–	–	.0190 (.0201)	.0273 (.0342)	–	–
U.S. Corporate Rate x Trade with U.S.	–	–	.0210** (.0061)	–	–	–
U.S. Capital Rate Trade x with U.S.	–	–	–	–	–	–
Domestic Investment _{t-1}	–	–	–	–	.0286 (.0498)	.0537 (.0502)
U.S. Corporate Rate x Domestic Investment	–	–	–	–	-.0673** (.0284)	–
U.S. Capital Rate x Domestic Investment	–	–	–	–	–	-.0136 (.0214)

Corporate tax models are estimated with 1982-1998 data by OLS; capital tax models are estimated with 1981-1996 data. The table reports OLS unstandardized regression coefficients and panel correct standard errors (see Beck and Katz 1996). All estimates presented in the table are obtained by adding interactions between U.S. corporate and capital tax rates and mediating factors to the full models presented in Table 3. Estimates for variables in general model are not reported to conserve space (and complete results are available from the author).

* indicates significance at the .10 level or below.

** indicates significance at the .05 level or below.

The bottom panel of Table 4 reports the results for analyses of the role of domestic investment rates in conditioning the adoption of the market-conforming tax model. As the table illustrates, high rates of domestic investment lower the responsiveness of policymakers to changes in U.S. tax policy. Again, using the mechanics of interactions, one can see that where investment has declined in recent years (say one percent a year), a one point cut in U.S. rates is associated roughly with a .7 point rate cut in other nations ($b = .6146 + [-.0673 \times -1.0]$). On the other hand, strong recent investment growth (say 10 percent a year) completely eliminates the association between changes in U.S. rates and other nations' tax rates ($b = .6146 + [-.0673 \times 10.0]$). In the case of effective tax rates on capital, domestic investment does not appear

³⁸I substituted measures of capital flows (e.g., foreign direct investment, borrowing on international capital markets) for the liberalization measure of capital mobility. These alternative measures also result in null findings.

to mediate the relationship between U.S. rate change and effective tax rates in the other democracies. In sum, the significant mediating roles of linkages with U.S. markets and domestic investment performance constitute further support for the argument that competition for mobile assets undergirds the general relationship between U.S. policy reform and policy change in other nations.

The tests for the hypotheses that cross-national effects of U.S. tax reforms are conditioned by the extent of government control by Right parties and the ideological position of the median voter are presented in Table 5. As the table illustrates, only one of four possible interactions between U.S. tax reforms and domestic political conditions in the responding countries is significant. This occurs for the case of the interaction between U.S. corporate tax rates and Right party government. Where right-of-center parties have governed extensively in recent years, tax policy responsiveness to U.S. tax reforms is significantly greater than elsewhere. A one point cut in U.S. rates is associated with a decline of .3 percentage points in rates where right-of-center parties have held 75 percent of the cabinet portfolios over the last 10 years. There is no support, however, for the notion that adoption of U.S. tax policy change is stronger in polities where, net of other forces, the median voter is more ideologically supportive of neoliberal reforms.³⁹

**Table 5. The Conditional Diffusion of U.S. Tax Policy Change:
The Role of Party Governments and Median Voters, 1981-1998**

	Statutory Corporate Rate	Effective Tax Rate on Capital	Statutory Corporate Rate	Effective Tax Rate on Capital
Change in U.S. Top Statutory Corporate Tax Rate _{t-1}	-.0197 (.1825)	–	.2192** (.1107)	–
Change in U.S. Effective Tax Rate on Capital _{t-1}	–	.0575 (.1716)	–	.1104 (.0983)
Right Party Government (Ten- Year Average Party Control)	-.0030 (.0064)	-.0039 (.0096)	–	–
U.S. Corporate Rate x Right Party Government	.0048** (.0026)	–	–	–
U.S. Capital Rate x Right Party Government	–	.0018 (.0035)	–	–
Ideological Position of the Median Voter	–	–	.0200 (.0227)	.0057 (.0298)
U.S. Corporate Rate x Median Voter	–	–	.0029 (.0126)	–
U.S. Capital Rate x Median Voter	–	–	–	-.0007 (.0133)

Corporate tax models are estimated with 1982-1998 data by OLS; capital tax models are estimated with 1981-1996 data. The table reports OLS unstandardized regression coefficients and panel correct standard errors (see Beck and Katz 1996). All estimates presented in the table are obtained by adding interactions between U.S. corporate and capital tax rates and mediating factors to the full models presented in Table 3. Estimates for variables in general model are not reported to conserve space (and complete results are available from the author).

* indicates significance at the .10 level or below.

** indicates significance at the .05 level or below.

A Note on Veto Points and Social Emulation. I also assessed the possibility that adoption of U.S. tax reforms would be muted in nations with extensive veto points and greater in those nations that share language, culture, and historical linkages with the U.S.(i.e., the Anglo nations). Specifically, in the con-

³⁹In unpublished extensions of Swank-Steinmo models of labor, consumption, and total taxes, one finds pervasive effects of the ideological position of the median voter. These results and the findings of an absence of median voter impacts in corporate and capital tax models suggest that the importance of democratic electoral politics in the median-voter literature may not extend directly into the realm business taxation.

text of Table 3 models, I interacted US. policy change with indices of “inclusive electoral institutions” and the dispersion of decision making authority, or what Crepaz and Birchfield call collective veto points and institutional veto points, respectively.⁴⁰ These measures were developed in Swank and consist of an index of proportional representation and the number of effective legislative parties, and an index of federalism, bicameralism, and the use of referendums, respectively.⁴¹ I also examined features of fragmentation of policymaking power (e.g., Presidentialism, bicameralism) separately as well as other measures of veto points such as those developed by Huber, Ragin, and Stephens.⁴² I found that only the U.S. tax rate-inclusive electoral institutions interaction was significant (e.g., slower responsiveness to U.S. change in nations with multiparty legislatures); this effect, however, was not robust (e.g., it disappeared when controlling for the interaction of U.S. tax rates and sector coordination of the economy). An identical result occurred when exploring the interaction of U.S. tax reform and a dichotomous variable for Anglo nations; the otherwise significant interaction disappears when one controls for the U.S. tax change-U.S. trade linkage and U.S. tax change-sector coordination interactions.

Tax Policy Change and Production Regimes. Table 6 presents tests of the hypotheses that general effects of U.S. tax policy change will be conditional on the organizational structure of the domestic political economy. As displayed in the first and second columns of Table 6, analyses indicate that where national coordination is strong (1.00 on the index), U.S. corporate tax rate cuts have a trivial effect on policy reform in other polities ($b = .2418 + [-.3247 \times 1.00]$); where national coordination is weak (-1.00 on the index), as in the typical liberal market economy, U.S. corporate tax change has a large effect on tax reform in the focal nation ($b = .2418 + [-.3247 \times -1.00]$). There is no significant mediation of the impact of U.S. effective capital rate cuts by national coordination.

Results for tests for the role of sector coordination in mediating the effect of U.S. tax reforms are stronger. In the case of both U.S. corporate and general capital tax policy change, the degree of sector coordination conditions the effect of U.S. reform on tax policy change in other nations. To highlight the role of uncoordinated market economies, one can compute the impact of U.S. corporate and effective capital tax rate cuts when sector coordination is very low (-1.00). In the case of corporate taxation, a one point cut in U.S. statutory rates will be associated with a .55 cut in the focal liberal market economy ($b = .1503 + [-.4022 \times -1.00]$). For effective capital tax rates, a cut of one point would be associated on average with a .4 point reduction in the other liberal market economies ($b = .1020 + [-.2956 \times -1.00]$).⁴³

I also assessed the joint impacts of mediation of U.S. tax policy change by national and sector-coordination of the economy; the results of this analysis are displayed in the last two columns of Table 6. As indicated in the table, sector coordination appears to be the most salient feature of the organization of the economy: in the presence of both sets of interactions, the U.S. tax rate-national coordination interaction becomes insignificant for statutory corporate taxes and it remains so in the effective capital tax rate models.

Combined Models, Robustness, and Exogenous Shocks. As a last step in the analysis, I assessed the simultaneous effects of interactions between U.S. tax policy reforms on the one hand, and levels of U.S. trade, Right party government, domestic investment, and sector-coordinated capitalism on the other. I also examined the (direct and mediated) dynamic versus structural impacts of U.S. tax policy change through error correction models. Finally, I explored the impact of exogenous shocks—especially, energy prices, inflation, and real interest rates—on tax reform and on the pattern of results presented heretofore.

⁴⁰Crepaz and Birchfield 1998.

⁴¹Swank 2002.

⁴²Huber, Regan, and Stephens 1993.

⁴³Effects of U.S. rate cuts in uncoordinated market economies are in each case statistically significant; coefficients for the effects of U.S. rate cuts in coordinated market economies are systematically insignificant.

These results are displayed in Table 7. As to the simultaneous effects of the interactions between U.S. policy changes and domestic political economic factors, all four focal interactions reported above are significant in the column I model. The substantive magnitude of most of the interactions declines somewhat and the U.S. tax rate-Right party government interaction is just significant at the .10 level. Yet, these results provide additional confidence in the conclusions drawn above: several features of domestic political economy condition the likelihood that policymakers adopt the U.S. market-conforming model.

**Table 6: The Diffusion of U.S. Tax Policy Change:
The Role of Nationally and Sector-Coordinated Capitalism, 1981-1998**

	Statutory Rate	Tax Rate on Capital	Statutory Rate	Tax Rate on Capital	Statutory Rate	Tax Rate on Capital
Change in U.S. Corporate Tax Rate _{t-1}	.2418** (.1137)	—	.1503 (.1217)	—	.1581* (.1132)	
Change in US Tax Rate on Capital _{t-1}	—	.1148* (.0825)	—	.1020 (.0972)	—	.0512 (.0756)
National Coordination	.2288 (.4545)	.1165 (.1164)	—	—	-.0552 (.4859)	.2861 (.4915)
U.S. Corporate Rate x National Coordination	-.3247** (.1552)	—	—	—	-.1238 (.1697)	—
U.S. Capital Rate x National Coordination	—	.0006 (.2205)	—	—	—	.2105 (.2311)
Sector Coordination	—	—	-.0112 (.4066)	-.2764 (.3558)	.0566 (.4249)	-.3820 (.3453)
U.S. Corporate Rate x Sector Coordination	—	—	-.4022** (.1507)	—	-.3598** (.1628)	—
U.S. Capital Rate x Sector Coordination	—	—	—	-.2956** (.1033)	—	-.3776** (.0872)

Corporate tax models are estimated with 1982-1998 data by OLS; capital tax models are estimated with 1981-1996 data. The table reports OLS unstandardized regression coefficients and panel correct standard errors (see Beck and Katz 1996). All estimates presented in the table are obtained by adding interactions between U.S. corporate and capital tax rates and mediating factors to the full models presented in table 3. Estimates for variables in general model are not reported to conserve space (and complete results are available from the author).

*indicates significance at the .10 level or below

**indicates significance at the .05 level or below

The second through fourth columns of Table 7 report the results of the error correction models. As indicated in the second column equation, both levels (long-term effects) and changes (short-term impacts) of U.S. rates are consequential: lagged levels and changes in US statutory rates are positively associated with tax rate changes in other democracies. In addition, as column II (and the reduced combined model of column III) indicates, trade linkages with the U.S., domestic investment rates, and sector coordination of the economy (but not Right party government) are important determinants of the short-term re-

sponsiveness of policymakers to U.S. tax reform. The significant positive association between levels of U.S. rates and tax policy change in other nations—the prime indicator of long-term structural relationships—is not conditional on particular domestic political economic conditions (as the absence of significant interactions between levels of U.S. rates and U.S. trade, investment, and sector coordination indicate). These results suggest that while there is significant variability in national policy responsiveness to U.S. neoliberal reform in the short-term, tax rates in the typical developed democracy move toward the position of U.S. tax policy over the long-term. This interpretation of Table 7 findings is certainly consistent with the descriptive data and country experiences presented above: while the pace and depth of neoliberal reform is variable, all nations had moved toward the market-conforming tax regime by the late 1990s or early 2000s.

The final column of Table 7 presents the results of one of the several aforementioned tests of exogenous shocks that should effect capital accumulation and, in turn, policymakers' efforts to encourage it. Specifically, I added year dummies to the column III equation to account for general, unspecified common shocks that may affect tax policy reforms. I also estimated the direct and institutionally mediated effects of specific common shocks that should influence capital investment and policies designed to influence it: energy prices, inflation rates, and real interest rates.⁴⁴ Time dummies were universally insignificant (t-statistics were consistently in the range of 1.00). Estimates of the direct and institutionally mediated effects of energy price shocks and inflation were largely insignificant with the exception of a positive and marginally significant direct tax effect of inflation (see below). Similar to these results, the estimation of the column IV equation with real interest rates suggests that the inclusion or exclusion of these exogenous shocks does not alter our reported pattern of results. The positive relationship between real interest rates (and inflation) and marginal corporate tax rates also suggests that the principal fiscal response to these forces has been to maintain or modestly increase taxes to mitigate deficits and debt and, in turn, price instability. Neoliberal tax reform ensued in the wake of the decline of price levels.

⁴⁴See Blanchard and Wolfers 1999 and the literature cited therein on both the effect of exogenous shocks on capital accumulation and on the importance of modeling their direct and institutionally mediated effects. I thank Torben Iversen for suggestion this analysis.

**Table 7. Final Models for Statutory Corporate Tax Rates, 1982-1998:
Combined Contingencies and Exogenous Shocks**

	Combined Model	Error Correct 1 Combined Model	Error Correct 2 Final Combined	Error Correct 3 Exogenous Shocks
Change in U.S. Corporate Tax Rate _{t-1}	.3242* (.2452)	.2382** (.0828)	.4781** (.1914)	.4503** (.1838)
Level Of U.S. Tax Corporate Tax Rate _{t-1}	–	.3710* (.2328)	.1830** (.0704)	.1677** (.0697)
Trade with U.S. (percentage of GDP) _{t-1}	.0138 (.0286)	.1266 (.1214)	.1028 (.1170)	.0949 (.1164)
Change U.S. Corporate Rate x Trade with U.S.	.0114** (.0056)	.0113** (.0068)	.0123** (.0060)	.0113** (.0061)
Level U.S. Corporate Rate x Trade with U.S.	–	-.0034 (.0029)	-.0024 (.0027)	-.1019 (.0027)
Change U.S. Corporate Rate x Investment	-.0598** (.0280)	-.0503** (.0304)	-.0530** (.0302)	-.0507** (.0304)
Level of U.S. Corporate Rate x Investment	–	-.0020 (.0080)	-.0038 (.0082)	-.0036 (.0083)
Change U.S. Corporate Rate x Right Government	.0027* (.00220)	.0019 (.0024)	–	–
Level U.S. Corporate Rate x Right Government	–	-.1380 (.0951)	–	–
Sector Coordination _{t-1}	.0895 (.913)	1.6472 (2.7900)	1.2717 (2.7280)	1.1169 (2.7560)
Change U.S. Cor- porate Rate x Sec- tor Coordination	-.2922** (.1444)	-.2922 (.1465)	-.2983** (.1496)	-.2832** (.1500)
Level U.S. Cor- porate Rate x Sec- tor Coordination	–	-.0353 (.0616)	-.0244 (.0631)	-.0298 (.0636)
Real Interest Rates _{t-1}	–	–	–	.0303 (.1473)
Change Real Interest Rates _{t-1}	–	–	–	.2185* (.1515)
Real Interest Rates x Sector Coordination	–	–	–	.1155 (.1174)
Change Interest Rates x Sector Coordination	–	–	–	.0152 (.1885)

Liberalization _{t-1}	-.8298**	-.2829	-.2719	-.2402
Trade _{t-1}	-.0051	-.0091	-.0078	-.0064
Structural	.1403	.1118	.1228	.1475
Unemployment _{t-1}				
Public Sector	.0027	.0054	.2951	-.0004
Debt _{t-1}				
Elderly	-.1299	-.1326	-.0973	-.1025
Population _{t-1}				
Growth _{t-1}	-.0005	.0898	.4928	.0560
% Change	-.0320	-.0829	-.0809	-.0747
Profits _{t-1}				
Domestic	.0120	.0590	.1271	.1189
Investment _{t-1}				
Right	-.0041	.0446	-.0075	-.0061
Government _{t-1}				
Δ Liberalization	–	-.0216	-.0167	.0328
Δ Trade	–	-.0407	-.0451	-.0424
Δ Strucural	–	-.0720	-.5662*	-.6060*
Unemployment				
Δ Public Sector	–	.0477	.0496	.0459
Debt				
Δ Elderly	–	-.3890	-.1871	-.0984
Population				
Δ Growth	–	-.0720	-.0588	-.1016
Δ % Change Profits	–	.0173	.0116	.0171
Δ Domestic	–			
Investments				
Δ Right	–	.0580	.0615	.0539
Government				
Tax Rate _{t-1}	.0043**	-.1500**	-.1474**	-.1508**
Constant	7.9501	-.2376	1.2723	1.6456
Observations	221	221	221	221
R ²	.8564	.2435	.2376	.2510

Corporate Tax models are estimated with 1982 data by OLS. The dependent variable is Tax Rate_t in the column I equation and Tax Rate_t–Tax Rate_{t-1} in the second through fourth columns. The table reports OLS unstandardized regression coefficients and panel correct standard errors for estimates of direct and conditional effects of U.S. tax rates; to conserve space, only regression coefficients (and significance levels) are reported for other exogenous variables.

*indicates significance at the .10 level or below

**indicates significance at the .05 level or below

Conclusions

The preceding analyses offer several generalizations about the shift to market-conforming tax policies in the developed democracies over the last 20 years, and the spread of neoliberalism generally. Models of statutory and effective tax rates indicate that internationalization, domestic economic change, and budgetary dynamics shape contemporary tax reform. As Steinmo and I concluded in earlier work, structural economic change militates toward a shift in the content of tax policy while the confluence of international and domestic political and economic forces limit policymakers' room to alter the actual levels and distribution of tax burdens.⁴⁵ Most central to the current questions, tax policy change in one nation is not independent of policy reform in other polities. The results presented here suggest that the adoption of

⁴⁵Swank and Steinmo (2002).

market-conforming tax policies by the United States creates significant competitive pressures and policy learning effects and in turn influences the likelihood of adoption of similar tax reform in other democracies. This interdependency is most pronounced in the case of statutory tax provisions, and less so in the case of effective average capital tax rates.

Central to the present analysis, the adoption of U.S. tax policy is conditional on political economic features of the nation in question; while policymakers face significant benefits of adoption (and costs of non-adoption) of the neoliberal model, domestic political economic factors shape assessments of costs and benefits and, in turn, the pace and degree of adoption/non-adoption. Where trade with the U.S. is extensive and where domestic investment is low, a nation's tax policymakers will be more responsive to cues from U.S. tax reformers. In addition, the degree to which a market economy is coordinated or uncoordinated significantly influences the reaction of incumbent governments to U.S. tax policy change: policymakers in liberal market economies readily follow the lead of the U.S; those in coordinated political economies appear to drag their feet.⁴⁶

From a slightly broader perspective, the preceding analysis sheds light on the general cross-national diffusion of neoliberal policies and institutions. First, theory and empirical findings highlight the importance of neoliberal reforms in the world's dominant political economy. The weight of the U.S. in international markets, the prevalence of effects of U.S. reforms, and the absence of the effects of immediately preceding British tax reforms together underscore the role of competitive pressures generated by innovations by the dominant actor in the international economy. Second, at the same time, mid-1980s tax policy reforms in the U.S. constituted political and economically successful innovations that generate substantial "experimental" information for policymakers in the capitalist democracies. The degree to which policymakers in other polities learned from the successful leader, however, is fundamentally contingent on the presence of a configuration of similar political and economic conditions and institutions.

Finally, the arguments and findings presented above indicate that additional convergence in domestic public policies across the developed democratic world may well occur. In the case of taxation, although policymakers in coordinated market economies (and other specific spatial and temporal contexts discussed above) were not very responsive to U.S. tax policy change, the long-term tendency for developed democracies has been to move toward the U.S. position. Late 1990s and early 2000s reforms in Germany, Italy, and Japan, for instance, signal that even in political economies where policymakers have incentives to move slowly, adoption of neoliberal tax structure has occurred. More generally, the finding that trade linkages and persistent domestic economic problems foster adoption of the policies of a "successful leader" suggests that as internationalization proceeds and as economic stagnation persists in varying degrees, diffusion of neoliberal reforms may intensify. The central question, for perhaps both developed and developing nations, seems to be whether or not the political economic incentives to slowly or selectively adopt neoliberal reforms, or to follow successful policy innovations that depart from the mainstream neoliberal model, will offset this trend.

⁴⁶The absence of an effect of Right party government on tax policy in the extended analyses of Table 7 should not be read to mean that partisan policy impacts are unimportant. There is strong correlation between sectoral coordination on the one hand, and tenure of social democratic and Christian Democratic governments on the other (Swank 2003). In other words, mediation by sectoral coordination entails in all likelihood a role for the political factors that support coordinated market institutions.

Appendix I: Operationalization of Core Variables
(all variables lagged one year unless noted otherwise in text)

Statutory Marginal Corporate and Effective Average Capital Tax Rates: See notes to Table 1.

International Capital Mobility: Index of the liberalization of capital controls developed by Quinn (1997) where liberalization is a 0.0 to 4.0 scale of the removal of capital controls.

Trade Openness: exports and imports as percentages of GDP.

Structural Unemployment: the percentage of the civilian labor force unemployed for one year or more.

Profits: Percentage change in real operating surplus.

Investment: Percentage change in real machinery and equipment outlays.

Growth: percentage change in real per capita GDP.

Public Sector Debt: gross public debt as a percent of GDP.

Needs/Old: percent of the population 65 and older.

Right Government: percentage of cabinet portfolios held by Right parties (one-year lags; 10-year means).

U.S. Trade: merchandise imports and exports as a percent of GDP.

Nationally Coordinated and Sector-Coordinated Economy: See Appendix III below for the derivation of these two indices.

Median Voter: Ideological position of median voters as developed by HeeMin Kim (see data sources), where median voter position is computed from vote shares for ideologically ranked parties (26-item index of a parties' positions on traditional left-right continuum) through the application of the formula for the median in grouped data.

Appendix II: Data Sources

Data for internationalization variables:

Exports and Imports to and from the U.S.: International Monetary Fund (hereafter IMF), *Direction of Trade Statistics*. Washington, DC: IMF, selected years.

Indexes of restrictions on capital and financial flows: Dennis Quinn, School of Business, Georgetown University. See Dennis Quinn and Carla Inclan (1997).

Exports and Imports of goods and services in national currency units: OECD, *National Accounts of OECD Member Countries*. Paris: OECD, various years.

Gross domestic product in current U.S. dollars: OECD, *National Accounts*. Paris: OECD, selected years.

Policy/Government/Politics (and see below on socioeconomic data for some data on standardizations):

Data for top statutory corporate tax rate: see notes to Table 1.

General government debt as a percentage of GDP: OECD, *Economic Outlook, National Accounts*. Both Paris: OECD, selected years.

Total and categorical tax revenues for computation of capital taxation (national currency units): OECD, *Revenue Statistics of Member Countries*. Paris: OECD, various years.

Right party cabinet portfolios as a percent of all cabinet portfolios. Sources for party portfolios: Eric Browne and John Dreijmanis, *Government Coalitions in Western Democracies*, Longman, 1982; *Keesings Contemporary Archives* (selected years). Sources for classification of parties: (1) Francis Castles and Peter Mair, "Left-Right Political Scales: Some 'Expert' Judgments," *European Journal of Political Research* 12: 73-88. (2) *Political Handbook of the World*. NY: Simon and Schuster, selected years. (3) Country sources.

Political Economic Institutions: *Union membership*: Jelle Visser, "Trade Union Membership Database," Unionization Trends Revisited," Typescripts, Department of Sociology, University of Amsterdam, 1992 and 1996, and Ebbinghaus and Visser; *Confederal power, level of wage bargaining, and related union and employer measures*: Miriam Golden, Michael Wallerstein, and Peter Lange, "Union Centralization Among Advanced Industrial Societies: Update," Department of Political Science, UCLA, 2002. *Political institutions data*: Huber, Ragin, and Stephens (1993) and country-specific sources. *Components of Sector-Coordinated Economic model*: Hicks and Kenworthy data base (see Hicks and Kenworthy 1998). Values of the components from the Hicks-Kenworthy data base for 1995 to 1997 have been extrapolated from 1960-1994 time series for those dimensions of the organization of capitalist economies.

Median Voter: data supplied by HeeMin Kim, Department of Political Science, Florida State University, and published with CD version of the Parties Manifestos Data Set. (See Ian Budge et al, *Mapping Party Preferences: Estimated for Parties, Electors, and Governments, 1945-1998*).

Socioeconomic Data:

Consumer price index: IMF, *International Financial Statistics*. Washington, D.C.: IMF, various years.

Percent of the civilian labor force unemployed, wage and salary employees, civilian labor force, population, population 65 and older: OECD, *Labor Force Statistics*. Paris: OECD, various years.

Percent of civilian labor force unemployed one year or more (based on percent of unemployed out of work one year or more): OECD, *Employment Outlook*. Paris: OECD, various numbers.

Gross fixed capital formation, investment deflator, GDP deflator, Gross Domestic Product, net operating surplus of domestic producers, national income, machinery and equipment expenditures (including transport equipment), compensation of employees by resident producers, private consumption expenditure, compensation of producers of government services, operating surplus of unincorporated enterprises, household property and entrepreneurial income, wages and salaries paid, and operating surplus for nonfinancial and financial corporate and quasi-corporate enterprises where national account aggregates other than deflators are in national currency units: OECD, *National Accounts*. Paris: OECD, various years.

Appendix III: National Political Economic Institutions

To measure the degree to which a nation's economy is nationally and sector-coordinated, I replicated factor analysis in Swank 2003 of dimensions of economic coordination for the expanded sample of nation years used in the present study. Specifically, I factor analyzed measures of seven dimensions of economic coordination of market economies for the years 1979 to 1997 using new and updated temporally and cross-nationally varying measures of coordination. The seven dimensions are discussed in Swank 2003 and listed below along with the results of the factor analysis.

**Appendix III, Table 1:
National Political Economic Institutions, 1979-97:
Principal Components Analysis**

	I	II
Level of Collective Bargaining	.7883	.1476
Union Organization	.9410	-.0477
Employer Organization	.6774	.3644
Labor-Management Cooperation	.5697	.6620
Investor-Production Enterprise Linkages	.4558	.7336
Purchaser-Supplier Relationships	.0314	.9081
Cooperative Arrangements - Competitive Firms	.0608	.9246

Note. Principal Components is executed with varimax rotation. The exact measurement of the seven dimensions are (and see Appendix I on data sources and Appendix Table 2 on country scores on the two factors):

Level of Bargaining: scale of the level of collective bargaining where 1 is plant level, 2 is industry level without constraints, 3 is industry level with constraints, 4 is sectoral level without sanctions, and 5 is sectoral level with sanctions.

Union Organization: Index (standard score) of union density (i.e., the percentage of employed wage and salary workers who are members of unions) and centralization of union confederation power, or power of appointment, veto over wage agreements, veto over strikes, and maintenance of strike of funds by the largest union confederation.

Employer Organization: Index (standard score) of the presence of a national association of employers and powers of that association (i.e., power of appointment, power over industrial actions and collective bargains, and industrial conflict funds).

Labor Management Cooperation: Hicks-Kenworthy measure of management and labor cooperation on issues of employment security.

Investor-Productive Enterprise Linkage: Hicks-Kenworthy measure of the strength of long-term cooperative relations between financial institutions and the enterprises they lend to.

Purchaser-Supplier Relations: Hicks-Kenworthy measure of the strength of long-term supplier-purchaser relationships.

Cooperative Arrangements-Competitive Firms: Hicks-Kenworthy measure of cooperation between competitive firms in research and development and technology sharing, export promotion, standard setting, training, and related firm cooperative activities.

The results of the factor analysis are used to generate two variables - factor-score weighted, standard score indices of national coordination and sector coordination. The country values on these two variables are given below in Appendix III, Table 2.

Appendix III, Table 2: Nation Scores on Nationally and Sector-Coordinated Capitalism

Nation	Nationally Coordinated	Sector-Coordinated	Nation	Nationally Coordinated	Sector-Coordinated
Australia	.14	-.82	Italy	.22	.74
Austria	.48	.41	Japan	-.37	1.19
Belgium	.36	.20	Netherlands	-.05	-.47
Canada	-.94	-.82	New Zealand	-.27	-.82
Denmark	.90	.20	Norway	1.12	.32
Finland	.82	.69	Sweden	1.38	.34
France	-.74	-.27	Switzerland	-.36	.20
Germany	.09	.53	United Kingdom	-.50	-.72
Ireland	.24	-.82	United States	-1.26	-.69

REFERENCES

- Beck, Nathaniel. 2001. "Time-Series—Cross-Section Data: What We Have Learned in the Past Few Years." *American Review of Political Science* 4: 271-93.
- Beck, Nathaniel and Jonathan Katz. 1996. "Nuisance versus Substance: Specifying and Estimating Time-Series-Cross-Section Models." *Political Analysis* 6: 1-36.
- Blanchard, Oliver and Justin Wolfers. 1999. "The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence." Unpublished manuscript, Department of Economics, MIT.
- Boskin, Michael. and Charles McLure Jr, Eds. 1990. *World Tax Reform: Case Studies of Developed and Developing Countries*. San Francisco: ICS Press.
- Box-Steffensmeier, Janet and Christopher Zorn. 2002. "Duration Models for Repeated Events." *Journal of Politics* forthcoming.
- Campbell, John L. and Ove K. Pedersen. 2001. *The Rise of Neoliberalism and Institutional Analysis*. Princeton NJ: Princeton University Press.
- Cummins, Jason G., Kevin A. Hassett, and R. Glenn Hubbard. 1995. "Tax Reforms and Investment: A Cross-Country Comparison," NBER Working Paper 5232. Cambridge MA: National Bureau of Economic Research.
- Ganghof, Steffen. 2000. "Adjusting National Tax Policy to Economic Internationalization: Strategies and Outcomes." In *From Vulnerability to Competitiveness: Welfare and Work in the Open Economy*, ed. Fritz Scharpf and Vivien Schmidt. Oxford: Oxford University Press.
- Garrett, Geoffrey. 1998a. *Partisan Politics in the Global Economy*. New York: Cambridge University Press.
- Garrett, Geoffrey 1998b. "Global Markets and National Policies: Collision Course or Virtuous Circle" *International Organization* 52: 787-824.
- Garrett, Geoffrey and Deborah Mitchell. 2001. "Globalization, Government Spending, and Taxation in the OECD." *European Journal of Political Research* 39:145-77.
- Genschel, Philipp. 1999. "Tax Competition and the Welfare State." Typescript, Max Planck Institute for the Study of Societies, Cologne, Germany.
- Giovannini, Alberto, R. Glen Hubbard, and Joel Slemrod, eds. 1993. *Studies in International Taxation*. Chicago: University of Chicago Press.
- Gordon, Roger H. and Jeffrey K. Mackie-Mason. 1995. "Why is There Corporate Taxation in a Small Open Economy?" In *The Effects of Taxation on Multinational Corporations*, ed. Martin Feldstein *et al.* Chicago: University of Chicago Press.
- Hall, Peter. 1993. "Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain." *Comparative Politics* 25: 275-296.
- Hallerberg, Mark and Scott Basinger. 1998. "Internationalization and Changes in Tax Policy in OECD Countries: The Importance of Domestic Veto Players." *Comparative Political Studies* 31: 321-353.
- Hayes, Jude. 2003. "Globalization and Capital Taxation in Consensus and Majoritarian Democracies." *World Politics* 56 (1): 79-113.
- International Monetary Fund. 1991. *Determinants and Consequences of International Capital Flows*. Washington DC: IMF.
- International Monetary Fund. 1998. *Balance of Trade Statistics, 1998*. Washington DC: IMF.
- Kvist, Jan F. 1995. "On Bias, Inconsistency, and Efficiency of Various Estimators in Dynamic Panel Models." *Journal of Econometrics* 68: 53-78.
- Martin, Cathie Jo. 1991. *Shifting the Burden: The Struggle Over Growth and Corporate Taxation*. Chicago: University of Chicago Press.
- Mendoza, E.G., A. Razin, and L.L. Tesar. 1994. "Effective Tax Rates in Macroeconomics: Cross-country Estimates of Tax Rates in Factor Incomes and Consumption." *Journal of Monetary Economics* 34: 297-323.

- Mukand, Sharun and Dani Rodrik. 2002. "In Search of the Holy Grail: Policy Convergence, Experimentation, and Economic Performance." Typescript, Department of Economics, Tufts University, John F. Kennedy School of Government, Harvard University.
- Organization for Economic Cooperation and Development. 1991. *Taxing Profits in a Global Economy: Domestic and International Issues*. Paris: OECD.
- Organization for Economic Cooperation and Development. 1993. *Taxation in OECD Countries*. Paris: OECD.
- Organization for Economic Cooperation and Development. 1994. *The Jobs Study*, Volumes I and II. Paris: OECD.
- Organization for Economic Cooperation and Development. 1995. *The Jobs Study: Taxation, Employment, and Unemployment*. Paris: OECD.
- Pechman, Joseph A., ed. 1988. *World tax reform: A progress report*. Washington, D.C., The Brookings Institution.
- Quinn, Dennis. 1997. "The Correlates of Change in International Financial Regulation." *American Political Science Review* 91: 531-552.
- Quinn, Dennis and Carla Inclan. 1997. "The Origins of Financial Openness: A Study of Current and Capital Account Liberalization." *American Journal of Political Science* 41: 771-813.
- Razin, Assaf and Efraim Sadka. 1991. "International Tax Competition and Gains from Tax Harmonization." *Economic Letters* 37: 69-76.
- Rodrik, Dani. 1997. *Has Globalization Gone to Far?* Washington DC: Institute for International Economics.
- Schulze, Günther G. and Heinrich W. Ursprung. 1999. "Globalization of the Economy and the Nation State." *World Economy* 22: 295-352.
- Simmons, Beth. 2001. "The International Politics of Harmonization: The Case of Capital Market Regulation." *International Organization* 55 (3): 589-620.
- Slemrod, Joel. 1990. "Tax Principles in an International Economy." In *World Tax Reform: Case Studies of Developed and Developing Countries*, ed. Michael Boskin and Charles McClure, Jr.. San Francisco: ICS Press.
- Steinmo, Sven. 1993. *Taxation and Democracy: Swedish, British and American Approaches to Financing the Modern State*. New Haven, Yale University Press.
- Steinmo, Sven. 1994. "The End of Redistribution: International Pressures and Domestic Policy Choices." *Challenge* 37: 9-17.
- Steinmo, Sven. 2002. "A Political Economy of Economic Ideas: Tax Policy in the 20th Century." Typescript, Department of Political Science, University of Colorado, Boulder.
- Swank, Duane. 1992. "Politics and the Structural Dependence of the State in Democratic Capitalist Nations." *American Political Science Review* 86: 38-54.
- Swank, Duane. 1998. "Funding the Welfare State: Globalization and the Taxation of Business in Advanced Market Economies." *Political Studies* 46: 671-92.
- Swank, Duane. 2002. *Global Capital, Political Institutions, and Policy Change in Developed Welfare States*. New York: Cambridge University Press.
- Swank, Duane. 2003. "Withering Welfare? Globalisation, Political Economic Institutions, and Contemporary Welfare States." In Linda Weiss, ed., *States in the Global Economy: Bringing Domestic Institutions Back In*. Cambridge: Cambridge University Press.
- Swank, Duane and Sven Steinmo. 2002. "The New Political Economy of Taxation in Advanced Capitalist Democracies." *American Journal of Political Science* 46 (3): 642-55.
- Tanzi, Vito. 1987. "The Response of Other Industrial Countries to the U.S. Tax Reform Act." *National Tax Journal* 40 (3): 339-355.
- Tanzi, Vito. 1995. *Taxation in an Integrating World*. Washington, D.C., The Brookings Institution.
- Wallerstein, Michael and Adam Przeworski. 1995. "Capital Taxation with Open Borders." *Review of International Political Economy* 2: 425-45.