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REVIEWS

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Catching Capital: The Ethics of Tax Competition, Peter Dietsch. Oxford University Press, 2015, xiv + 263 pages.

In a speech delivered at the 2014 conference of the Conservative Party, Britain's Chancellor of the Exchequer expressed a clear view about the difficulty of taxing globally mobile capital:

> In a modern global economy where people can move their investment from one country to another at the touch of a button and companies can relocate jobs overnight – the economics of high taxation are a thing of the past.[1]

The Chancellor's words instantiate a narrative for fiscal policy that is becoming increasingly familiar and unquestioned. It provides the subject matter for Peter Dietsch's excellent and timely book. Specifically, Dietsch seeks to examine 'tax competition', which takes place between states seeking to attract and retain capital that would otherwise base itself overseas. In large part, the states most successful in this game are those most able to construct fiscal policies granting substantial concessions to companies and capital-owning individuals. Tax competition of this sort has thus given rise to widespread lowering of corporation and capital gains taxes, along with associated elements of deregulation generally aimed at making life easier for capital. Dietsch's book explores the moral significance of this trend.

It is often taken for granted that attracting capital to a country will be good for the citizens of that country. The presence of capital

[1] The speech was made at the annual conference of the Conservative Party. For the speech in full, see http://press.conservatives.com/post/98719492085/george-osborne-speech-to-conservative-party (accessed 17.3.2016).

will often create opportunities for employment and various positive externalities. Fiscal policy reforms that aim to create conditions attractive to capital nevertheless run a high risk of sacrificing benefits to labour (i.e. the larger fraction of almost any state's population). States that play at tax competition pay a cost that must be absorbed by their citizens, principally through erosion of the tax base and/or a shift of this base towards labour. Accordingly, it is worth asking whether concessions to tax competition are simply the hard truths that political narratives make them out to be, or whether some avoidable injustice is afoot. Are the Chancellor's claims wise words, or merely a refusal to acknowledge a problem that governments have a collective duty to solve? Dietsch takes the latter position, and he makes no bones about it, describing tax competition as 'one of the most blatant injustices of modern economic society' (223). His book is an attempt to develop a normative treatment of tax competition that vindicates this assessment while supplying proposals that aim at a solution. Many readers will find themselves persuaded. Those who are not will still be impressed by the book's achievements and informed by Dietsch's handling of this difficult topic.

I suspect that a number of readers will come to the book 'cold'. There probably exists no treatment this subject that is comparable in length to Dietsch's, at least not one that takes a moralized angle. This reflects the way in which Dietsch's project is part of a partial shift in political philosophy away from the highly idealized, abstract debates about distributive justice that became dominant in the late 20th century, and back towards the political economy that was more salient beforehand. Dietsch's book is a model for any political philosopher seeking to work in this mode. This general assessment aside, I'll use this review to provide a synopsis of the book's main arguments, followed by some criticisms.

The book is divided into two parts. The first, preceded by a substantive introduction, provides a detailed diagnosis of the injustice associated with tax competition, followed by a detailed proposal for addressing it. The second is more defensive, containing three chapters that each addresses a set of complications, objections, or questions prompted by the work done in part one.

The introduction accounts for the emergence of tax competition in terms of the increased mobility of capital, and how states attempt to respond to this by competing with each other on fiscal policy. Tax competition thus consists in 'interactive tax setting by independent governments in a noncooperative, strategic way' (2). Further motivation for the book's project is provided by a brief account of the role played by tax competition in 'aggravating' the social harms of the recent global financial crisis.

Chapter 1 expands on the structure of tax competition itself. This begins with a taxonomy of the major mechanisms through which tax competition has expanded since the 1980s. These include the abolition of withholding taxes, cuts to corporation taxes, and the creation of loopholes allowing companies to artificially shift profits to other jurisdictions through such techniques as transfer pricing and loans between different subsidiaries of a single company. While these are complex phenomena, they are all explained very accessibly. The chapter's main philosophical contribution is in explaining how such practices amount to an injustice. Broadly speaking, the moral problem with tax competition is the wedge it drives between a state's fiscal policy and the fulfilment of its obligations to its own citizens. By participating in tax competition, states are forced to surrender a substantial part of their tax base, namely that provided by the capital that they are in competition with other states to catch and retain. Consequently, states must either cope with revenue loss by making cuts to public spending, or recover revenue through increases to taxes on income or consumption. Either way, such measures tend to hurt citizens who are not capital owners. The effect is especially pronounced in developing countries that struggle to broaden their tax base. Indeed, one of the most important achievements of this chapter is the clarity with which it conveys 'the asymmetric effect tax competition has on the developed versus the developing world' (50). While readers may be unsurprised to be told that tax competition is a collective action problem between uncoordinated states as players, there is a risk here of conceptual oversimplification. The global mixture of wealthy and poor states means that tax competition is a significantly asymmetric game. Dietsch helpfully shows why tax competition should not become another casualty of the scholarly tendency to subsume all such cases under the category of a prisoner's dilemma. Ultimately the chapter nicely explains the twofold nature of the injustice of tax competition: it both 'undermines fiscal self-determination' (31) in states taken individually, and contributes to global inequality when states are viewed collectively.

Dietsch's main positive proposals are then developed in Chapter 2. According to Dietsch, successful response to tax competition will involve inter-state cooperation on fiscal policy. This requires a balance to be drawn between fiscal autonomy and fiscal interdependence – in other words, cooperation requires some binding agreements between states, but shouldn't be so extensive as to threaten states' independence from whatever global institution is set up to take care of things. With this in mind, Dietsch presents two principles of global tax justice. The first of these, the 'membership principle', states that natural and legal persons (which includes all capital owners) must be liable to pay tax in every state of which they are a member. Individuals and companies count as 'members' in the relevant sense when they benefit from the public services and infrastructure of the country in question (83). As one might expect, membership in this sense can be held in multiple countries at once, befitting the fact that plenty of large companies (and some individuals) engage in economic activities in more than just one state. Membership also requires the removal of many secrecy provisions that have been granted to individuals and companies as part of states' efforts to compete for their capital. The second principle, which Dietsch calls the 'fiscal policy constraint' specifies that fiscal policies are unjust when they are strategically motivated *and* undermine the fiscal self-determination of other states. These two principles work together in the following way. The point of the membership principle is to prohibit 'poaching' of capital, since this principle renders it considerably more difficult for individuals and companies to move their capital around or to present it as being based in a location where it is not really active. The point of the fiscal policy constraint is to allow that there are some cases in which states might attract capital without any injustice having occurred even when such attraction may entail negative externalities for other states. Dietsch considers that by making strategic intention and negative outcomes for others independently necessary and jointly sufficient, we gain a means of demarcating the cases in an attractive way. The latter parts of the chapter focus on proposals for implementation: Dietsch recommends the establishment of an International Tax Organization whose role is to act as a forum in which states draw up more precise rules through which the global order can implement the two principles of global tax justice. Dietsch makes several suggestions as to which reforms his principles recommend, including greater penalties for corporate executives involved in tax fraud and for some judicial body capable of assessing the intentions behind fiscal policy reforms.

Chapter 3 – somewhat more technical than the others – reviews various models on which tax competition may appear to qualify as efficient, something that would seriously undermine Chapter 1's claim that tax competition is detrimental to self-determination. Dietsch's response focuses largely on the methodology associated with measuring efficiency. In short, he argues that we need to think in terms of the big picture. While tax competition may secure local efficiencies for the states that practice it (against a baseline of *losing* the game to other states), this may prove a rather trivial point when held against the global inefficiency of tax competition (against a baseline of *changing* the game by securing international tax cooperation). This point is a natural extension of Chapter 1's emphasis on the way in which tax competition is a collective action problem. Second, a model for calculating efficiency is flawed if it treats certain aspects of the institutional order as fixed and given, when they might in fact be reformed.

Chapter 4 grapples more fully with the question of how state sovereignty should be understood, and whether there is any substance to the worry that greater international cooperation compromises the autonomy of individual states. The chapter's central claim is that sovereignty-based opposition draws most of its intuitive force from an absolutist and largely 'anachronistic' construal of sovereignty in broadly Westphalian terms (175). Echoing criticisms that have been made of the Westphalian view in connection with other topics, it remains plausible that sovereignty is valuable only if the state is doing its job so far as its obligations to its own citizens are concerned. Surrendering control by way of adhering to rules drawn up through international cooperation is hardly a moral violation of sovereignty if it allows precisely these obligations to be more successfully pursued. The chapter closes with some apt suggestions as to why the decision of EU member states to proceed with monetary union without a parallel fiscal union, something often blamed for the recent sovereign debt crises affecting poorer member states, may be a symptom of a failure to question the Westphalian paradigm.

Chapter 5 asks who should bear the costs and reap the benefits of moving towards greater inter-state cooperation on fiscal policy. Dietsch defends the presumption that states who have benefited from tax competition owe some form of compensation to those who have lost out. But this presumption proves defeasible: some states benefit from tax-haven status while remaining rather poor, in part because of a global economic order biased in favour of wealthier states (202). Dietsch concludes that there is a case for being somewhat permissive towards poor countries seeking to better their economic position by engaging in tax competition. He is also right to point out that even the tax havens most associated with great wealth may have large fractions of their populations who derive their livelihoods from other industries that might be hurt by an aggressive shutdown of the host state's participation in tax competition.

The amount I have learned from Dietsch's book considerably exceeds what I can come up with by way of criticism, but I'll close with some misgivings. One is that Dietsch's book is written as if the individuals who make decisions about where capital goes are wholly separate from the individuals making decisions about the creation and enforcement of fiscal policy. While the conflict is no doubt sharp enough, identification of its participants is complicated by a certain amount of switching of sides. Here I have in mind the so-called 'revolving door' between government departments and elements of the private sector, such as large accountancy firms, that play an important role in helping capital owners develop effective tax-avoidance strategies. Similar colonization occurs at the level of elected members of the legislature and executive, as witnessed by the common complaints about the presence of members of parliament on the executive boards of major companies. So far, these considerations merely advance Dietsch's broad diagnostic claim that tax competition is part of the 'de-democratization of capitalism' (20). If the financial industry is effectively colonizing what are supposed to be the democratic institutions that design and enact legislation, then the rule of the people has been subverted. The presence of this revolving door may, however suggest reforms restricting who gets to make fiscal policy rather than anything directly about such policy's content. Such reforms will not make the collective action problem go away. Still, changing the players may help change the game. In part, the problem here is about not idealizing governments too much. Dietsch makes the idealizing assumption that governments generally 'track their citizens' preferences' (34). Dietsch relaxes his idealizations for patently anti-democratic societies in Chapter 4, but some degree of de-idealization is also appropriate for states that fall less far short of the democratic ideal.

I also think more might have been said about the injustice that occurs when states attempt to make up the revenue shortfall that results from their participation in tax competition. While there is undoubtedly a shift towards relying heavily on alternative tax bases such as consumption and payroll income, the shift does not stop here. Spending cuts often force state institutions to get revenue through other means. Some methods, such as increases in user fees and fines for minor violations, might prove defensible. More extreme ways of extracting revenue from common people, such as the predatory policing now apparently being practiced by poorly funded precincts in the United States, represent a more heinous injustice that might be instructively linked, albeit indirectly, to tax competition at the federal level.[2]

Cooperation is a nice thing when we can get it. But, as Dietsch realizes, it will take patience and hard work to bring about the sort of cooperation he proposes in Chapter 2. In the meantime, states might find ways to act unilaterally in ways that mitigate the unjust effects of tax competition. A simple way to catch capital is to simply seize it. Yet Dietsch makes no mention of nationalization, which I found surprising. Nationalization has its problems but it is not utopian in the manner that Dietsch rightly attributes to proposals about world government. Indeed, some nationalization of capital actually occurred in some jurisdictions as a response to the global financial crisis, although many governments moved to privatize soon afterwards, leading to understandable complaints about bailouts as a means of socializing the costs of what was supposed to be private enterprise, though the accuracy of these complaints is

[2] The US Department of Justice recently reported on the police department of Ferguson, Missouri, following a fatal police shooting that led to civil unrest during 2014. One of the report's conclusions was that law enforcement in Ferguson had become focused on generating revenue, in ways that grossly exceeded the legitimate pursuit of law enforcement. The report can be viewed online at https://www.justice.gov/sites/default/files/opa/press-releases/attachments/2015/03/04/ferguson_police_department_report.pdf (accessed 2/4/2016).

likely to vary from case to case. Nationalization sometimes works well even if there is no financial crisis motivating it: The example of Boeing (18–19) compares interestingly with the example of its main competitor, the European Airbus, owned by a variety of states and yet comparably successful in recent decades. If nationalization can work under certain conditions, then why not practice it as an alternative to extracting tax revenues from private capital?

Seizing capital might seem like too much for some. But what about simply purchasing it? Sovereign wealth funds offer one means of pursuing a similar result. If the state owns shares, then no matter where it goes, some part of its revenues will come back to the state and might then be allocated to support state spending otherwise dependent on revenues from taxation. Again, there is nothing utopian about a practice that has in fact been successfully utilized by a number of states. Granted, sovereign wealth funds cannot be procured overnight, and may be best established at times when capital can be purchased cheaply. But should another global crisis occur, then proposals of this sort may again have something to recommend them.

These criticisms may do little more than indicate that there is more than one way to skin a fat cat. The metaphor of 'catching' capital may prove to have multiple instantiations in political reality, besides cooperation on tax and proximate fiscal policy. I have aimed to make some claims about where the conversation might go next, rather than express any deep misgivings about the route Dietsch has taken in doing so much to advance it. Dietsch has produced the best philosophical book on the important topic of tax competition, and should be read carefully by anybody interested in gaining a better understanding of this subject.

I would like to emphasize that the high quality of the book's argument is matched by Dietsch's ability to come good on his aim of providing an 'accessible read for nonacademics' (25). This is important, because political philosophy isn't just for philosophers, or even for academics. The force of concessive political narratives has created a need for consciousness raising as to what else might be done apart from allowing things to simply go unchanged. The Chancellor may not get round to reading much political philosophy. But if Dietsch's book were to have the influence it deserves, then politicians in charge of states' fiscal policies would have to work harder to get their citizens to accept their decisions. That can only be a good thing.

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Risky Curves: On the empirical failure of expected utility theory, Daniel Friedman, R. Mark Isaac, Duncan James and Shyam Sunder. Routledge, 2014, xiii + 137 pages.

Expected utility theory (EUT) is the dominant theory of decision making under uncertainty in economics, despite decades of research that fails to confirm its predictions. In their fascinating new book, *Risky Curves: On the empirical failure of expected utility*, Daniel Friedman, R. Mark Isaac, Duncan James and Shyam Sunder compile and examine systematically the research on EUT, and outline the failure of the theory with respect to both individual decision making and aggregate behaviour. Importantly, they also dig deeper into the evidence to draw conclusions about why the theory fails, and to suggest fruitful directions for future research.

Chapter 1 provides a brief introduction. Here the authors contrast the layman's definition of risk with economists' version. The dictionary definition focuses on the possibility and magnitude of harm, injury or loss, while economists think of risk as the variability of payoffs associated with a particular decision. If you ask someone what risk means to them, the dictionary version is a good approximation of what they are likely to tell you; variability, especially at the high end of the distribution of payoffs, does not immediately come to mind as 'risky'. The distance between the intuitive, vernacular definition of risk and economists' measure is a theme that recurs throughout the book.

This chapter also introduces the EUT model, which is the source of the risk-as-variance definition, and notes its pervasiveness in the economics of decision making under uncertainty. Scientists judge a model by its predictive ability, and the authors promise to lay out the evidence that EUT has not been a big success empirically. The belief in EUT is very strong among economists, and the authors contend that this belief can act as a kind of brainwashing, blinding researchers to its flaws and to the possibility of developing better alternatives. The authors note three main worries about the consequences of maintaining an incorrect model of decision making: It can mislead a young researcher into asking the wrong questions, and therefore can lead to a failed initial research programme