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# Powering ideas through expertise: professionals in global tax battles

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## ABSTRACT

This contribution discusses how ideas are powered through expertise and moral authority. Professionals compete with each other to power ideas by linking claims to

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# INTRODUCTION

Let us begin with a dog-eared yet overlooked quotation from Max Weber on ideas and interests:

Not ideas, but material and ideal interests directly govern men's conduct. Yet, very frequently the 'world images' that have been created by 'ideas' have, like switchmen, determined the tracks along which action has been pushed by the dynamic of interest. (Weber [1946](#): 280)

This conception of ideas provides an important reminder for the treatment of ideas and power in the social sciences. Ideas are projections of collective being that do not belong to particular actors but guide interests. It is also important to recognize that ideas and interests are linked to notions of virtue and moral authority. This contribution discusses how ideas and power are linked to expertise and moral authority. Our focus is on how ideas are powered through expertise, noting that the persuasiveness of ideas has little value if not conveyed with moral force. Knowing how things work best is more compelling when fused to a notion of how things should be. We suggest that ideas can be identified in contests over how to treat certain issues and problems. Such battles are important in framing the policy space, delimiting options and channelling interests through particular ideational switchmen.

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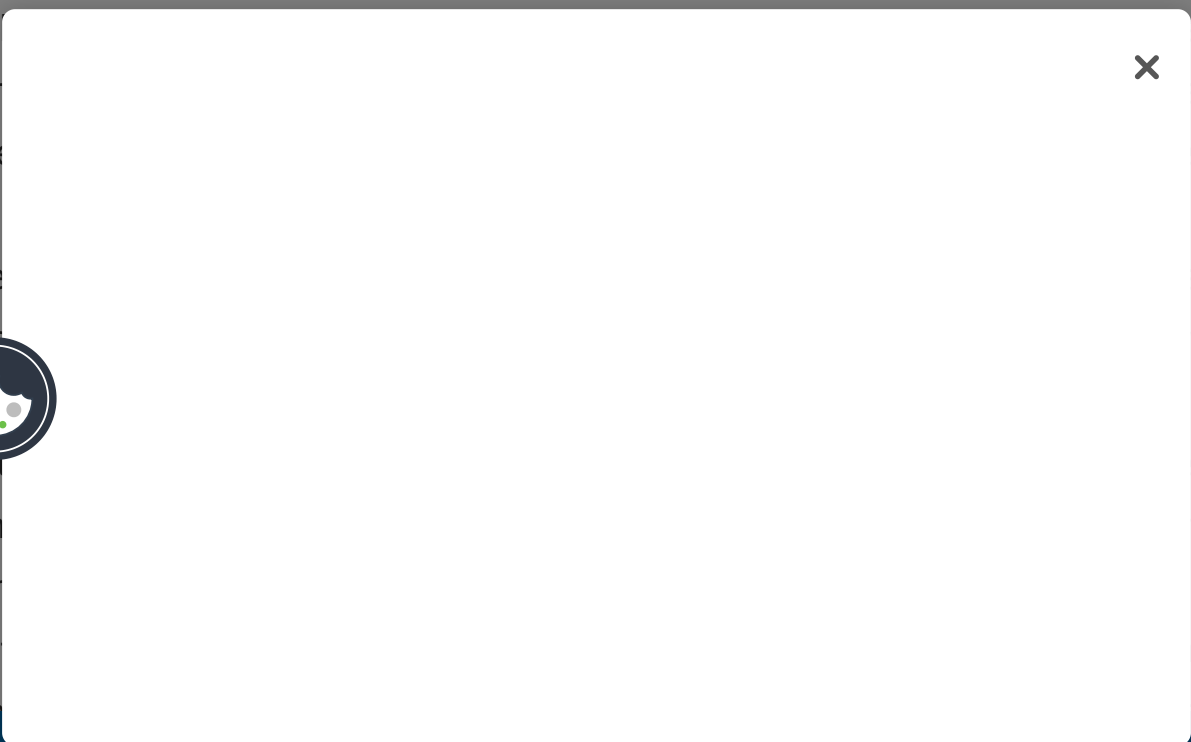


note a permanent schism between the location of value creation and the geographical allocation of profits (Morgan [2014](#); Picciotto [2011](#)).

The distributional and market implications of tax-motivated corporate practices have led to calls from the NGO community for a new accounting standard for geographical reporting, called 'country-by-country reporting' (CBCR). A company's disclosure of tax and financial data in each country of operation would shed light on tax avoidance schemes and the source of many fiscal leaks. By increasing transparency CBCR promises to systematically reduce opportunities for tax-motivated corporate profit shifting. CBCR has been pushed by a group of professionals strongly associated with global tax activism, especially through the Tax Justice Network (TJN) (Seabrooke and Wigan [2013](#)). They have been able draw attention to CBCR from the EU, the G8 and the G20.

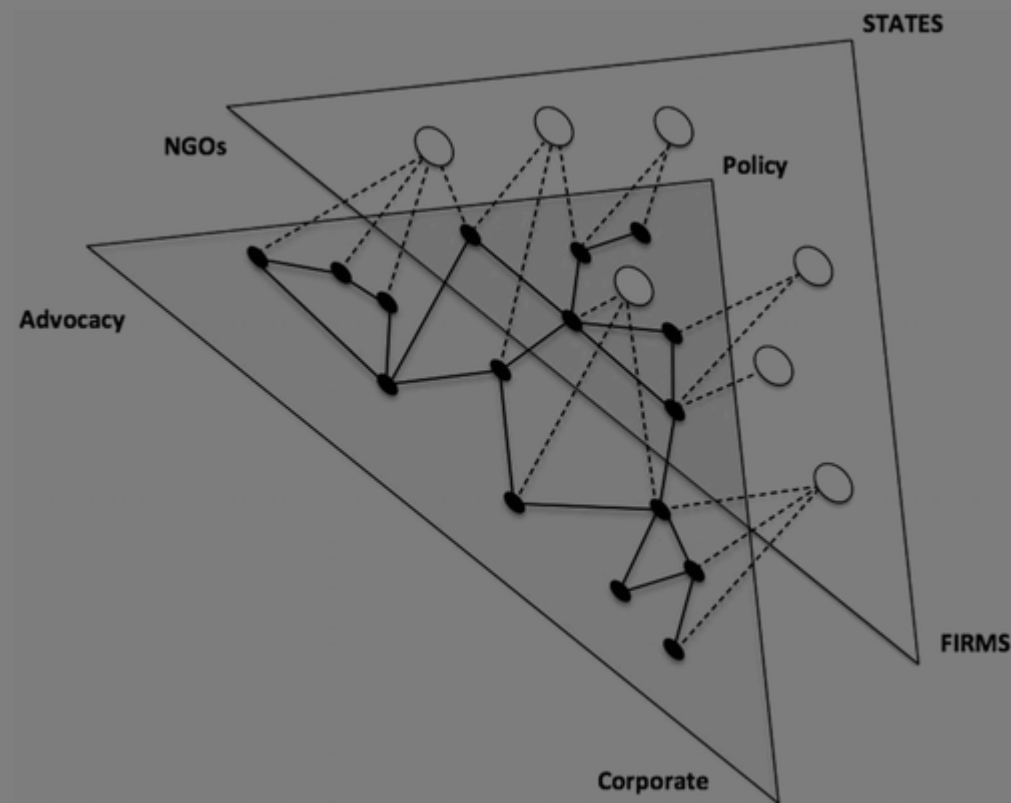
Powering ideas through expertise includes both knowledge about the issues at hand and also the capacity to network among regulators, practitioners and activists. [Figure 1](#) captures how professionals can network among themselves and also connect to organizations. Recent scholarship on transnational governance has focused on how organizations representing states, NGOs and firms occupy regulatory space as actors in a 'governance triangle' (notably from Abbott and Snidal [2009]). This is the upper surface depicted in [Figure 1](#), with organizational units depicted as white discs. Positions within the governance triangle differ for organizations that represent state, firms and NGO forms, and mixes thereof. This organizational surface can be complemented with a professional surface to locate how professionals interact with organizations (Henriksen and Sea

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interactions are required to foster more creative governance solutions in such areas (Campbell-Verduyn and Porter [2014](#); Seabrooke and Tsingou [2014](#)).

Figure 1 Professional and organizational networks



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Our discussion of global tax policy follows the logic of interaction in [Figure 1](#). On the issue of MNCs' financial reporting, the OECD, UN, Big Four accountancy firms and NGOs have been active, but they do not 'own' the debate. As we detail, networks of professional contestation over CBCR has changed policy discussions about corporate

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Martin Carstensen and Vivien Schmidt ([2015](#)) usefully delineate three types of ideational power. The first is power through ideas, which is persuasion with ideational elements. The second is power over ideas, which refers to agenda setting and protection, to the exclusion of alternative ideas from the table. The third is power in ideas. Here, hegemonic conceptions of what ideas are appropriate and thinkable 'govern' action. Our focus is on power through ideas, where professionals attempt to fuse expertise with moral claims. Previous literature on ideas helps us to identify how they do so. For example, John L. Campbell's ([1998](#)) distinction between cognitive (causal means-end relationships) and normative (how things should be) ideas links expertise to beliefs, as well as distinguishing how they can operate in the foreground (in debate) or background (broader social change). Campbell notes how these kinds of ideas inform policy programmes, form paradigms, mark public sentiments and create frames (cf. Carstensen [2011](#)). Mark Blyth ([2002](#)) hypothesizes that ideas are important for institutional change because: they reduce uncertainty; provide coalition building resources; empower agents to contest existing institutions; can attract resources to build new ones; and are important in co-ordinating agents' expectations. Those putting forward ideas need to legitimate their activity by drawing on causal and principled beliefs. Blyth's and Campbell's keystone work is important because it speaks to what structures exist in constraining ideas and the agents who can create change. From this view experts are important not only for shared causal beliefs, which can be exploited by politicians (Lindvall [2009](#)), but also for putting forward principled beliefs that can empower agents to change the foreground debate (Béland [2009](#)).

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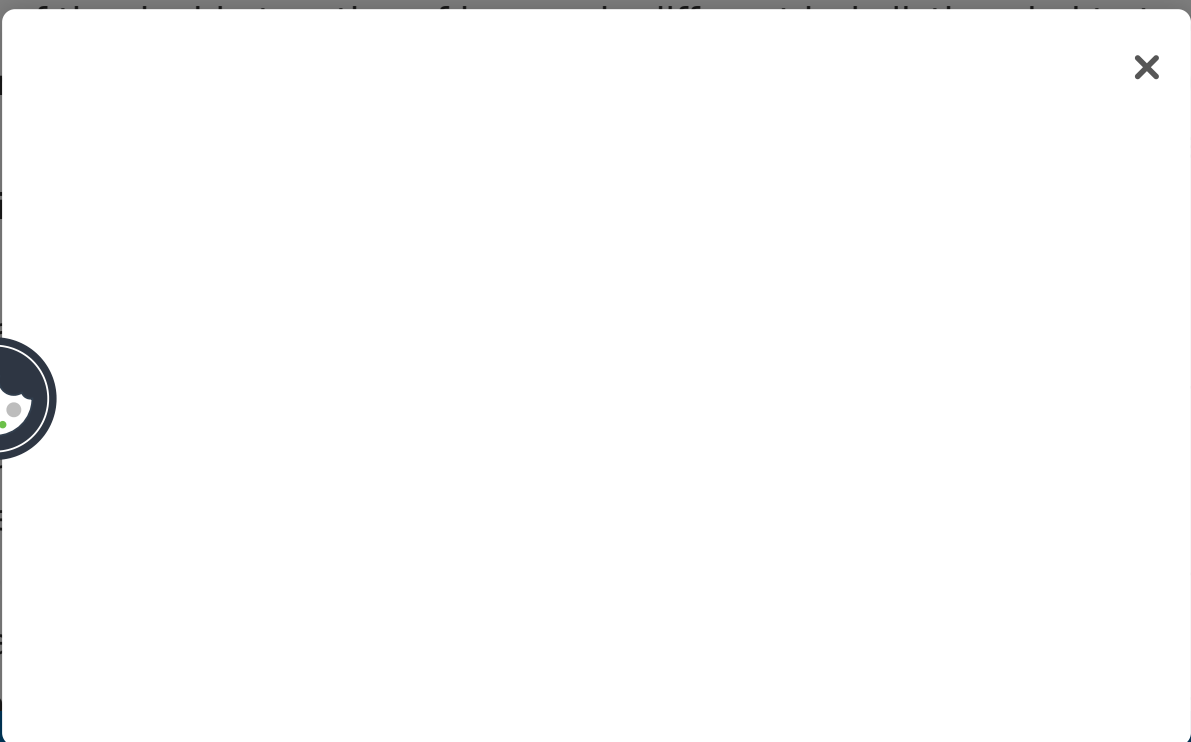


corporate sector, noting mechanisms for tax avoidance. Such experiences can inform how persuasive ideas are and whether they can get political and public support. For example, it is common to talk of issue salience, which suggests public recognition and political traction. Crises typically augment salience. Robert Henry Cox and Daniel Béland (2013) have recently discussed how we can also talk of 'valence', the emotional quality conveyed in an idea. While the general population may be split on positional issues, such as tax, a crisis can create a window of opportunity for ideas to have both salience and valence. Cox and Béland note that post-financial crisis sustainability policies garnered valence, and skilled entrepreneurs could put that to use. During the financial crisis the notion that MNCs, such as Starbucks or Apple, were not paying their fair share in taxation and using 'offshore' to avoid taxes had high valence that grounds claims to moral authority. Those seeking to persuade others of the importance of CBCR had an opportunity to power their ideas through expertise and experience.

## IDEAS FOR GLOBAL TAX JUSTICE

The fiscal and socioeconomic impact of corporate reporting has, over recent years, attracted considerable attention. Such concerns have a rich lineage. By the 1920s and 1930s, jurisdictions such as the Channel Islands, Panama and the Bahamas were used to conceal the personal wealth of rich families and register holding companies (Picciotto 2011: 238). Formal arrangements for the international co-ordination of income taxation were developed by the League of Nations during the inter-war period. Dealing with the problem of tax avoidance in the 1950s and 1960s, the OECD developed the concept of 'arm's length' pricing.

developed between the investor and the company. An emphasis on 'arm's length' pricing, a regime, an MNC following the means to optimize within an MNC are price the arm's length pricing related parties and information on the



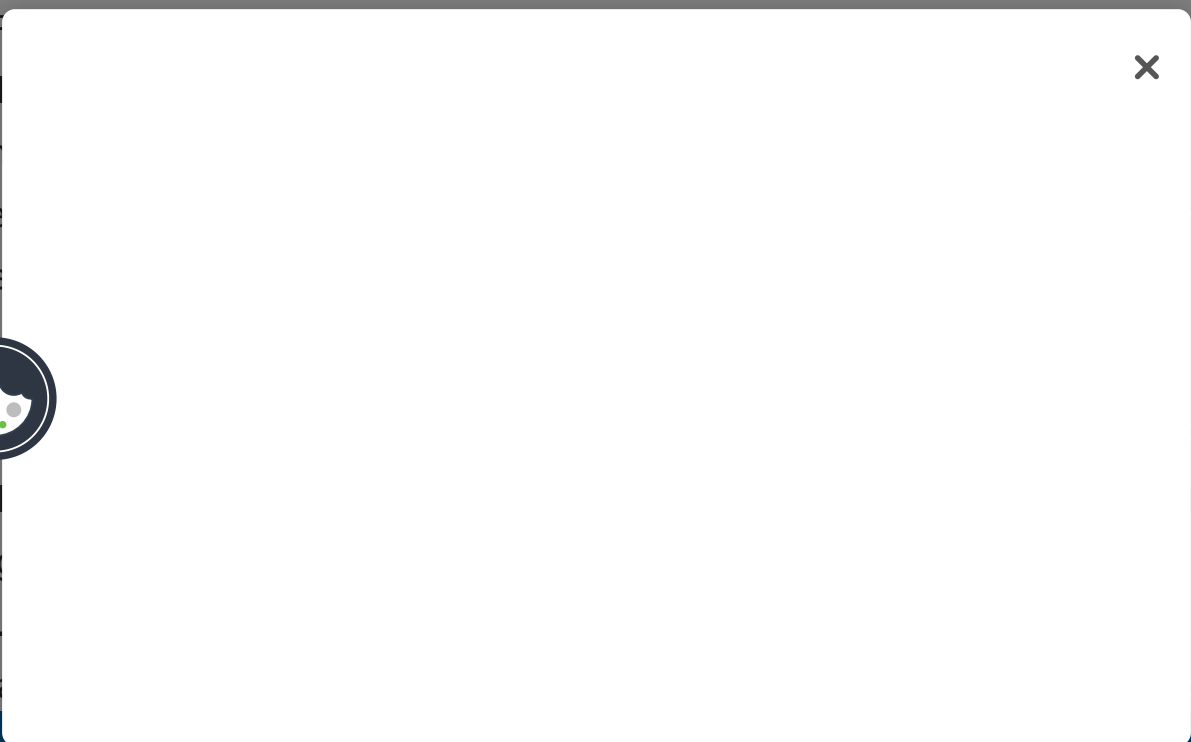
market, the problem of arriving at arm's length prices for goods traded within an integrated MNC are acute.

While the international tax governance architecture encourages tax competition between states, it is not a level playing field for all. Most notably, the OECD's Committee on Fiscal Affairs launched its report, 'Harmful Tax Competition - An Emerging Global Issue' in 1998 (OECD [1998](#)), which led to a blacklist of offending 'tax haven' jurisdictions (Sharman [2006](#)). Similarly, the development of tax information exchange agreements (TIEAs) was based on providing information only on request and in circumstances where the requesting authority had considerable information beforehand (McIntyre [2009](#)). The Bush administration's withdrawal of support for the OECD process in May 2002, on the principle of non-interference in tax jurisdictions, signalled the end of the first round in multilateral approaches to tax governance. Activity for global tax reform shifted from the organizational policy surface to the professional policy surface, as we discuss below.

This changed with the recent financial crisis. On tax evasion, the United States (US) acted unilaterally with the extraterritorial Foreign Account Tax Compliance Act requiring foreign financial intermediaries to report on US accounts to the Internal Revenue Service on pain of exclusion from US capital markets. In 2009, prompted by the G20, the OECD revamped its peer review process and bolstered tax information sharing agreements against a background of 'fiscal leaks' and austerity policies. Further reforms were made. The 2011 Directive on Administrative Cooperation in the Field of Taxation, the 2013 update to the Accounting and Transparency Directives, the 2013 revision of the

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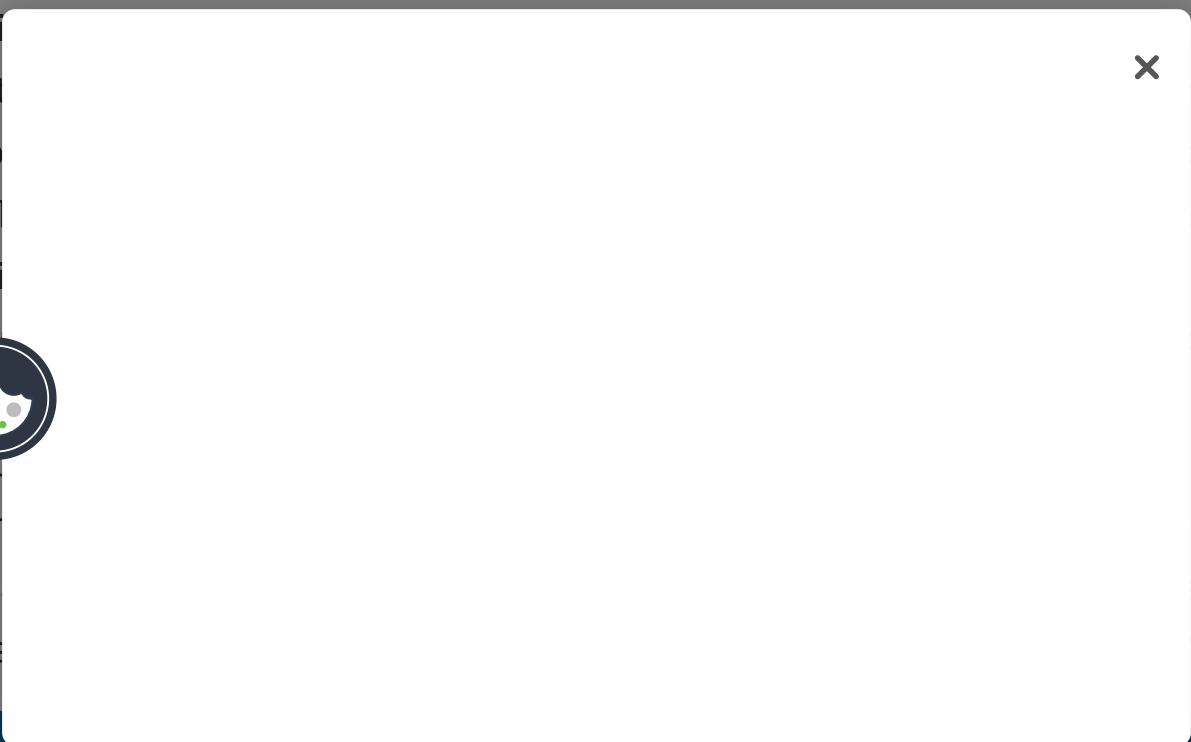


Consolidated accounts provide a performance overview that, for MNCs, amalgamates the contributions of multiple entities within a group and across jurisdictions. CBCR requires firms to provide separate reports for each jurisdiction, providing the potential to redress tax base erosion and profit shifting. As one would assume there are many professionals and organizations that have a clear interest in blocking such reforms.

CBCR was first introduced to reduce corruption in the extractives sector and redress symptoms of the resource curse. It was aggressively pursued by the advocacy community, where expertise on corporate financial reporting are thin on the ground. NGOs are well positioned to campaign on issues that have clear moral claims, such as human rights abuses, but less well positioned to deploy technical prowess in areas like accounting (Seabrooke and Wigan [2015](#)).

A number of NGOs have engaged with issues of international taxation. Amidst the rush to promote the issue of tax fairness, one organization has emerged as the clear leader: - the Tax Justice Network (TJN). The Tax Justice Network is a small NGO founded in 2003. Established as a vehicle for research and high-level advocacy work, TJN is now a central player in both the organizational and professional networks around tax justice issues. To do so, TJN relies on a specific set of professional skills mirroring the cross-disciplinary content of international taxation. Those core to the organization possess skills spanning economics, accounting, political economy, law and government (Seabrooke and Wigan [2013](#)). The director, John Christensen, and sole employee until 2007, served for 10 years as chief economic advisor to Jersey and worked as a trust and estate planner for a major United Kingdom (UK) financial institution on the island. He is a trained

economist at a UK university. He is the author of *International Taxation, Capital Flows and Economic Justice*. He was a chief advisor to the government of law, Sol Picciotto, and author of *The fifth core*. He is a member of the ICG, has been financially active in several ventures and has been a frequent speaker at meetings.





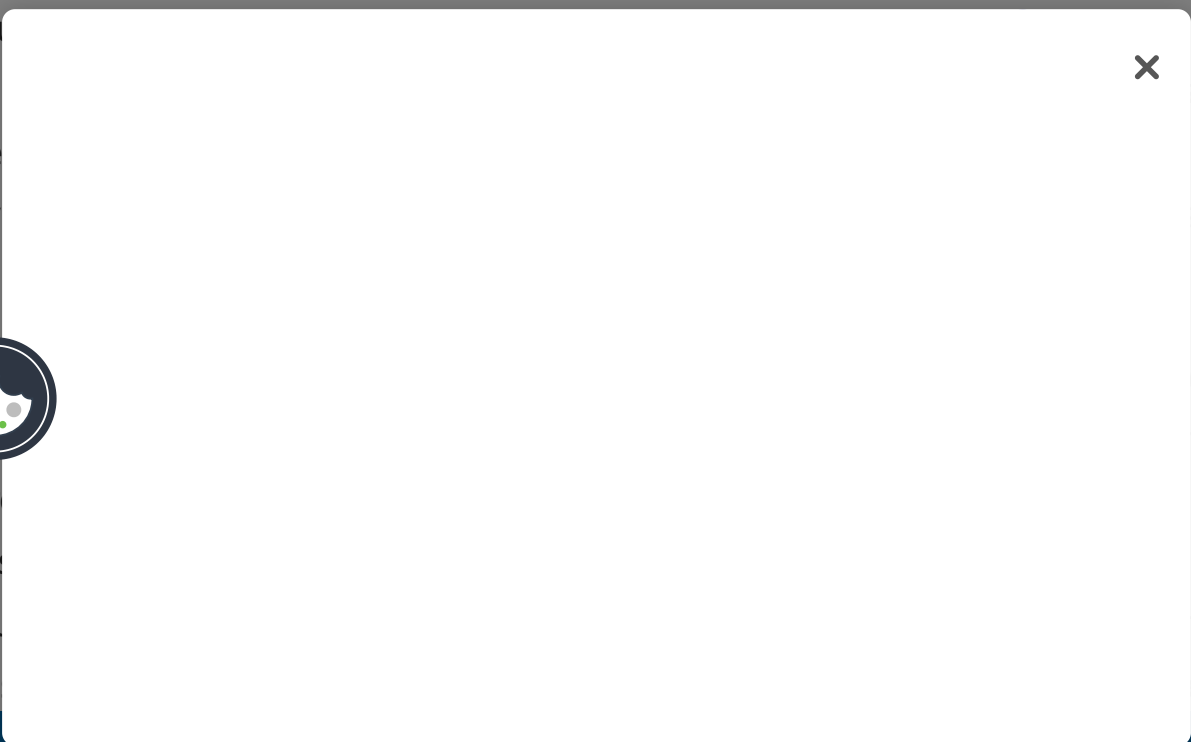
published CBCR in the form of a template for an international accounting standard (Murphy [2003](#)).

TJN's combined expertise is crucial for their interventions on the highly complex issue of international taxation. The professionals associated with TJN seek to persuade those in the policy, corporate and advocacy worlds of how CBCR is technically possible, politically desirable and morally just. The proposal for CBCR confronts large MNCs, global professional advisory firms and international organizations pursuing agendas aligned with the status quo in international taxation.

The technical and moral changes CBCR requires would change the current legitimization of the state's relationship to international capital. Professional competition and coordination contains not only proposals for best practice on dealing with thorny policy issues, but also interests about the political economy of taxation. Regulators, activists and practitioners are engaged in competition over the role of the state in dealing with corporate tax avoidance. There are three basic positions that can be described as maximalist, minimalist and mediatory. Activists want a redistributive and maximalist state harnessing capital for the provision of public services. CBCR would assist the renewal of the welfare state and address inequality. Practitioners seek a minimalist risk-mitigating state; that commercial sensitivity is protected, uncertainty minimized and that the state's relation to capital is primarily that of a night watchman supporting a market based conception of efficiency. European practitioners involved in corporate tax planning counter claims to CBCR on the grounds that double taxation still imposes significant burdens on MNCs, and that eliminating tax optimization strategies would be

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The maximalist agenda is more systemic. It requires data on corporate profit rates that includes information about liabilities, debts due and cash flows. With this known, taxes paid can be evaluated against statutory rates. Maximalist CBCR demands MNCs publicly disclose, in each operational jurisdiction, labour costs, invested capital, payroll, employment, tax payments, and sales and purchases, divided between intra-group transactions and external transactions. Such information would expose transfer pricing arrangements and identify 'fiscal leaks' that the EU, G8 and G20 seek to plug.

The financial crisis has increased both the salience and valence of CBCR, bringing the background features of more/less welfare state and economic competitiveness into the foreground of global tax policy debates in both organizational and professional networks.

## PROFESSIONAL COMPETITION ON CORPORATE FINANCIAL REPORTING

The international financial reporting regime is conventionally explained as an extraordinary example of power over ideas in transnational issue management. The regime is almost exclusively controlled by the private standard-setting body, the International Accounting Standards Board (IASB) (Perry and Nölke [2006](#)). This was not always so. In 1975, UN efforts to develop a regulatory framework for MNCs resulted in the formation of the United Nations Centre on Transnational Corporations (UNCTC). The UNCTC established a Group of Experts on International Standards of Accounting and Reporting (GEAR) to develop international standards of accounting and reporting that would serve the interests of developing countries and the public interest. The demand for such standards was reaching a fever pitch in the 1970s, but was largely ignored by the GEAR. It was not until the late 1980s that the IASB was established (Rahman [2015](#)). The International Accounting Standards Board (IASB) was established in 1973 by an agreement between the International Federation of Accountants (IFAC) and the International Accounting Standards Board (IASB).



The IASB closely aligns its organizational tasks with the expertise of its professionals, who are mainly accountants, economists and other capital market actors (Leblond [2011](#): 449). This combination of professionals permits the IASB to have a ‘semi-open approach’ in permitting, in particular, expertise and skills that conform to the organizational agenda, while excluding others (Botzem [2012](#); Campbell-Verduyn and Porter [2014](#): 420). The IASB is known in the literature for its expert consensus and unaccountability. The IASB develops international rules for accounting in the form of International Financial Reporting Standards (IFRS). IFRS are required in 116 jurisdictions worldwide, including the EU, which transposes IFRS into EU hard law through an institutionalized endorsement process. The EU has a long history of acting as a ‘hardening agent’ for accounting standards (Newman and Bach [2014](#)), even if they differ in practical national implementation (Thiemann [2013](#)).

The accounting standard addressing geographical disclosures by corporations is IFRS 8 on ‘operating segments’. It allows corporations to choose between two methods of defining an operational segment. While the ‘line of business’ method allows a corporation, like Apple, to report financial information according to product lines, such as tablets, phones and laptops, the ‘geographical segment’ method deploys geographically disaggregated performance as its ordering principle. The rub here is that geographical segments are not defined at the country level but, for instance, as ‘North America’ or ‘Asia-Pacific’. Even if a company chooses financial information by geographical segment, the IFRS 8 framework does not require a breakdown by country. The formally mandated international accounting standard for geographical disclosures provides information to capital market participants in terms of segment or region, but

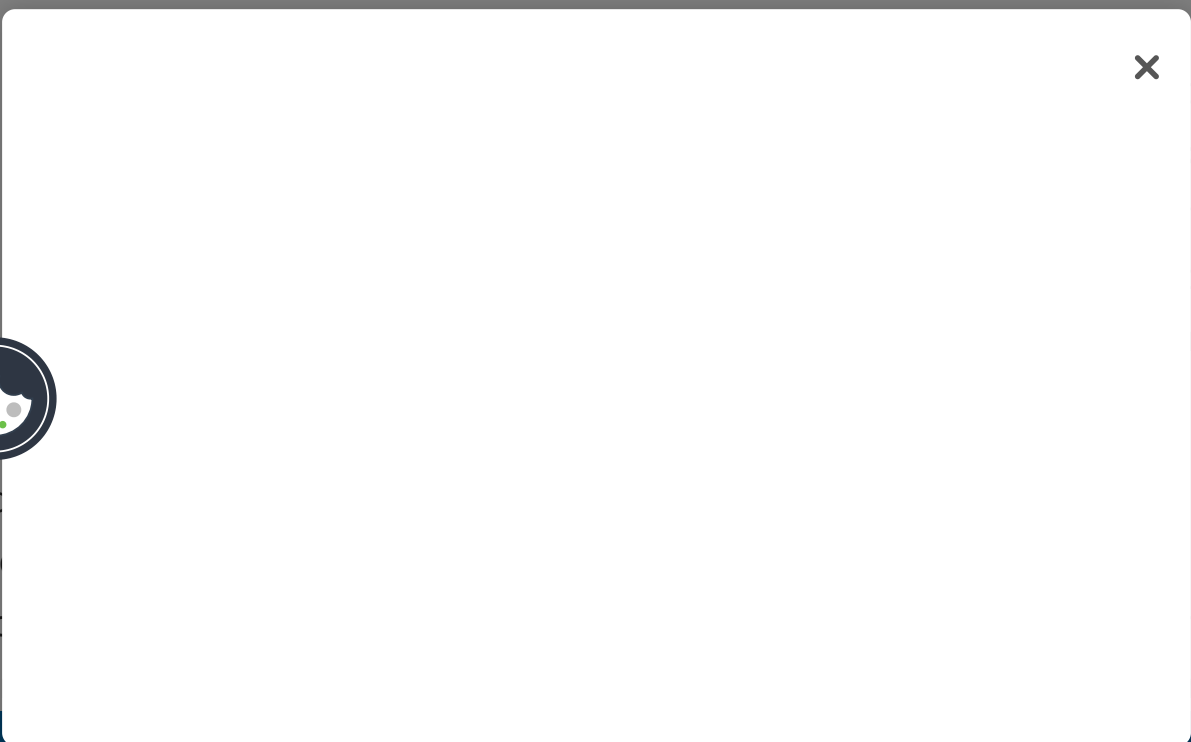
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payments made to governments. Evaluation is based on the level of congruence between declared company payments and declared government receipts. The EITI does not provide information on intra-firm and external transfers, making it a minimalist form of CBCR.

Since the launch of the EITI, policy debates around CBCR have blossomed into professional competition and co-ordination over the benefits of minimalist and maximalist forms, as well as over the technical practicalities and political desirability of such corporate financial reporting. CBCR has manifested in legislative initiatives in the US and the EU. It is now an active policy debate within the OECD, World Bank, International Monetary Fund and the UN. The 2010 US Dodd Frank Act contained Section 1504, which requires MNCs in the extractives sector to report all payments made to governments in each country in which they operate. In the second half of 2013 the European Council passed into law two pieces of legislation, the Accountancy and Transparency Directives, which requires large non-listed and all EU listed firms within the extractives and logging sectors to generate financial reports on a country-by-country basis. This requirement, in maximalist form, has also been incorporated in the Capital Requirements Directives (2013/36/EU) for European banks, credit institutions and certain investment firms, with support voiced by PriceWaterhouseCoopers (Euractiv [2014](#)). CBCR has been raised as a solution to a range of issues addressed in the OECD's Base Erosion and Profit Shifting report (BEPS; OECD [2013a](#); [2013b](#)). The key sections of BEPS on transfer pricing, Action 13, provides a model for CBCR (OECD [2014](#)). The Lough Erne G8 Leaders' Communique placed CBCR at the centre of the unfolding policy process:



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compliance mechanism. Following campaigning from professionals associated with TJN and other NGOs engaged with tax justice, PWYP adopted CBCR in 2005. Global Witness, a leading NGO in the network, released 'Extracting transparency - the need for an IFRS for the extractive industries' that was penned by Murphy.<sup>5</sup> PWYP reporting demands now included information on commercial performance on top of existing requirements for absolute payments and reserves (Global Witness 2005: 1).

By 2005, with support from professionals associated with TJN, PWYP were campaigning for CBCR to be introduced in IFRS 6 for the extractive sectors, and subsequently pushed for its inclusion in IFRS 8. Although establishing a working subgroup on CBCR, the IASB were resistant and proved reluctant to act on, or enact, the changes PWYP demanded.<sup>6</sup> This position has not changed. The reaction from the IASB has been to reject CBCR outright:

The IASB has also been asked to consider adding 'country-by-country' reporting requirements to its agenda. Feedback from the 2011 Agenda Consultation strongly and consistently highlighted that this should not be a priority for the IASB. (IASB 2013: 22)

Frustrated with the EU endorsement of IFRS 8, which maintained segment reporting, the PWYP coalition and TJN pushed their agenda at the European Parliament. Sven Giegold, a member of the European Parliament (MEP) in the Greens and European Free Alliance, provided a link between TJN, PWYP and the Parliament. In 2005, Giegold invited Murphy to visit the Parliament and deliver a talk on CBCR. In 2007, these efforts and the broader campaign led to a European Parliament resolution in support of CBCR

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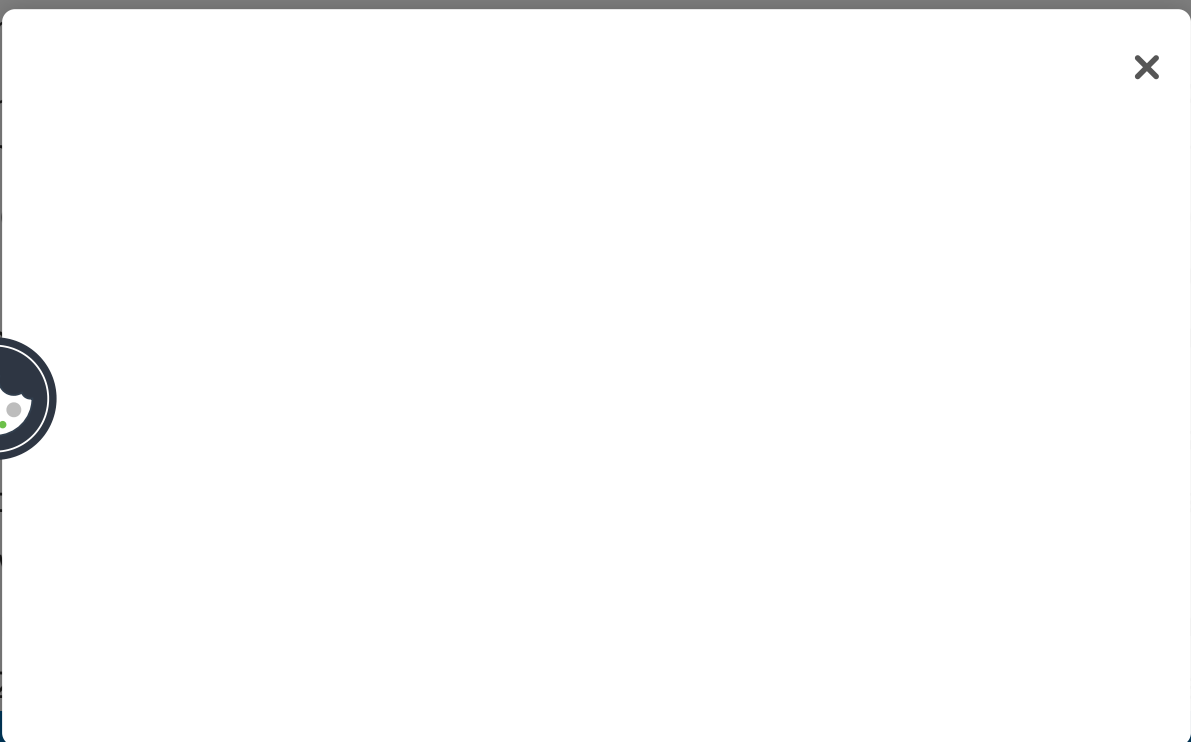
basis. A second minimalist option reflected the narrower agenda of the EITI initiative and would be restricted to the extractives sector. Murphy discussed his idea for CBCR at the Commission several times prior to the launch of the consultation which, with assistance from the Greens, led to the incorporation of maximalist CBCR on the consultation agenda.<sup>7</sup> Notably, the consultation process surrounding the legislation bears witness to TJN's agenda setting role. PWYP explicitly defers to TJN on conceptual authority; 'For all sectors, including extractives, we concur with the analysis of the rationale for such disclosure as proposed by the Tax Justice Network' (PWYP [2010](#)). PriceWaterhouseCoopers also acknowledged the foundational role of TJN as the source of CBCR in a 2013 report on regulatory initiatives in taxation, using the TJN template as a benchmark to assess changes in the European, US and global policy landscapes (PWC [2013](#)).

Professionals working with TJN pushed further in arguing for a maximalist CBCR where MNCs would provide comprehensive accounting data to governments. In public consultations, professionals associated with corporate financial reporting argued that a maximalist CBCR would expose commercially sensitive material and impose heavy costs for an unspecified and uncertain return.<sup>8</sup>

The European Commission's impact assessment report concluded that the target was to support the EITI and provide regulatory equivalence in relation to US initiatives on CBCR via the Dodd-Frank reforms. The Commission considered that a maximalist CBCR should have less priority than stamping out government corruption via a minimalist CBCR. As such, the instruments chosen, the amended Accounting Directive and

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European firms. The recent revival of the long-dormant project of a European Common Consolidated Corporate Tax Base (CCCTB) rests on unfolding comprehensive CBCR across the EU. In May 2015, the competition commissioner, Margrethe Vestager, stated that 'we need at least the automatic exchange of information on tax rulings and a common consolidated corporate tax base'. The Commission has also established a public consultation on whether all MNCs should have to publicly disclose certain tax information, as a barometer to assess shifts in public opinion and the grounds for moral claims (European Commission [EC] [2015](#)). Murphy participated in debates at the OECD on the role of CBCR in ameliorating profit shifting and, in July 2015, gave testimony on corporate secrecy and CBCR at the European Union's Special Committee on Tax Rulings and Other Measures Similar in Nature or Effect and Committee on Economic and Monetary Affairs.<sup>9</sup>

There is a new emphasis on CBCR as technology that can ease the rift between the state and international capital. As a form of corporate financial reporting, CBCR fuses technical expertise with claims to how firms should pay taxes. Prior to the emergence of CBCR, accounting standards served a constituency perceived solely in terms of investors. That has changed, with NGOs providing an active voice on accounting issues, provided they have the right professionals to power their ideas with expertise. Crucially, what was at first promoted as a limited purpose technology, combatting corruption, has been inflated to become an all-purpose technology available for policy-makers. The European commissioner for internal market and services made this clear in promoting maximalist CBCR across the European corporate sphere:



As matters currently stand, CBCR has gone from an idea to a new international standard with the potential to address issues of corporate transparency and tax compliance. The OECD has adopted a version of CBCR closely resembling Murphy's original maximalist proposal and invited Picciotto, a key member of TJN, to share his ideas for a unitary taxation system.<sup>10</sup> Unitary taxation would require MNCs to provide combined worldwide reports, to which an agreed formula for the apportionment of the tax base to fiscal authorities on a country-by-country would be applied. CBCR is a necessary component of this revolutionary proposal, since unitary taxation requires firms to provide global accounts with maximalist data from country-by-country-reports feeding into a formula for apportioning profits according to a series of real economy criteria.

## CONCLUSION: SWITCHMEN IN GLOBAL TAX BATTLES

The case we presented above maps how ideas are powered through expertise. The main battle here is between professionals from the advocacy world who seek to persuade regulators and practitioners that corporate financial reporting should be fairer. On the face of it, this is a fight between Tax Justice Network and International Accounting Standards Board. The former is a tiny NGO, the latter is the policy guardian over reporting standards that represents a long-term alliance between corporations and advanced capitalist states. As [Figure 1](#) suggests, a more complex picture is that persuasion happens through networks as professionals seek to convince others in the activist, lobby or policy circles.

David vs Goliath is often assumed to be won by the underdog. The underdog's power and expertise often establish a coherent post-crisis policy coherence. The Goliath's might is not a clear rise, but a fall.





make significant advances in their David vs Goliath struggles. These professionals link claims to technical know-how, how things work best, to moral claims about how things should be.

In the CBCR case, the professionals associated with TJN were able to place this corporate financial reporting technology into policy debates with success. Whether or not CBCR is an actionable idea is no longer a point of contention in professional battles. Rather, the form of CBCR, be it minimalist or maximalist, is the concern. As an idea, CBCR has become a switchmen pushing along the dynamics of interest. While TJN may be seen superficially as a garden variety NGO, it is a loose organizational form through which particular professionals with specific skills co-ordinate to push forward an activist agenda on global tax policy (Seabrooke and Wigan [2013](#)). In our case, this capacity rests to a large extent on professional expertise. The professionals associated with TJN were able to engage a broader NGO network, notably PWYP, and substantially push forward their idea on financial reporting to others on how this issue should be treated. They grafted their agenda into the political sphere by circumventing the traditional transnational authority, the IASB, and by instilling CBCR as an alternative and preferred form of corporate financial reporting. TJN were able to draw upon a skill set scarce among the wider NGO community and commensurate with the skills of those traditionally tasked with crafting accountancy standards. In doing so, CBCR is now part of our regulatory landscape within Europe and globally. As CBCR has both issue salience and valence, those propagating it can make linked technical and moral claims about its necessity and superiority.

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Exploratory work for this piece was supported by the European Commission FP7 project, 2011 -2015, 'GREEN - Global Reordering: Evolution through European Networks' [#266809-GR:EEN]. Extensive research was funded by the European Commission Horizon 2020 Framework Program 2015-2018 [#649456-ENLIGHTEN].

## Notes on contributors

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## Notes

1 This information was collected by the authors during multiple interviews with those named between 2011 and 2014, primarily in London, but also in Copenhagen, Chesham and Dowry. The data from these interviews is used in this article. The contribution of Leonard Seabrooke to this article is primarily in the design of the meeting and the data analysis. The contribution of Duncan Wigan is primarily in the data analysis and the writing of the article. Leonard Seabrooke draws on his experience of conducting interviews and his knowledge of the relationship between the UK and Denmark.

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4 Richard Murphy's primary authorship of the CBCR template has been confirmed by multiple interviews with regulators, practitioners and activists during the interview period noted above.

5 Interview with Richard Murphy, Downham Market, January 2013.

6 Interviews with John Christensen and Richard Murphy, separately, London, March 2013.

7 Interviews with Richard Murphy, Downham Market, January 2013, and Sven Giegold, Brussels, March 2013.

8 Submissions to the consultation are available at:

<https://circabc.europa.eu/faces/jsp/extension/wai/navigation/container.jsp> (accessed 26 November 2015).

9 The hearing can be viewed at: <http://www.europarl.europa.eu/news/en/news-room/content/20150624IPR70439/html/TAXEECON-Committees> (accessed 26 November 2015).

10 Sol Picciotto now leads the BEPS Monitoring Group and is actively pushing for CBCR and unitary taxation at the OECD.

11 <http://www.finance-watch.org/> (accessed 26 November 2015).

12 Interview with John Christensen, Skype, May 2015.



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Source: SAGE Publications

How shared ideas may hinder lobbying success: British preference formation in the G20

Source: Informa UK Limited

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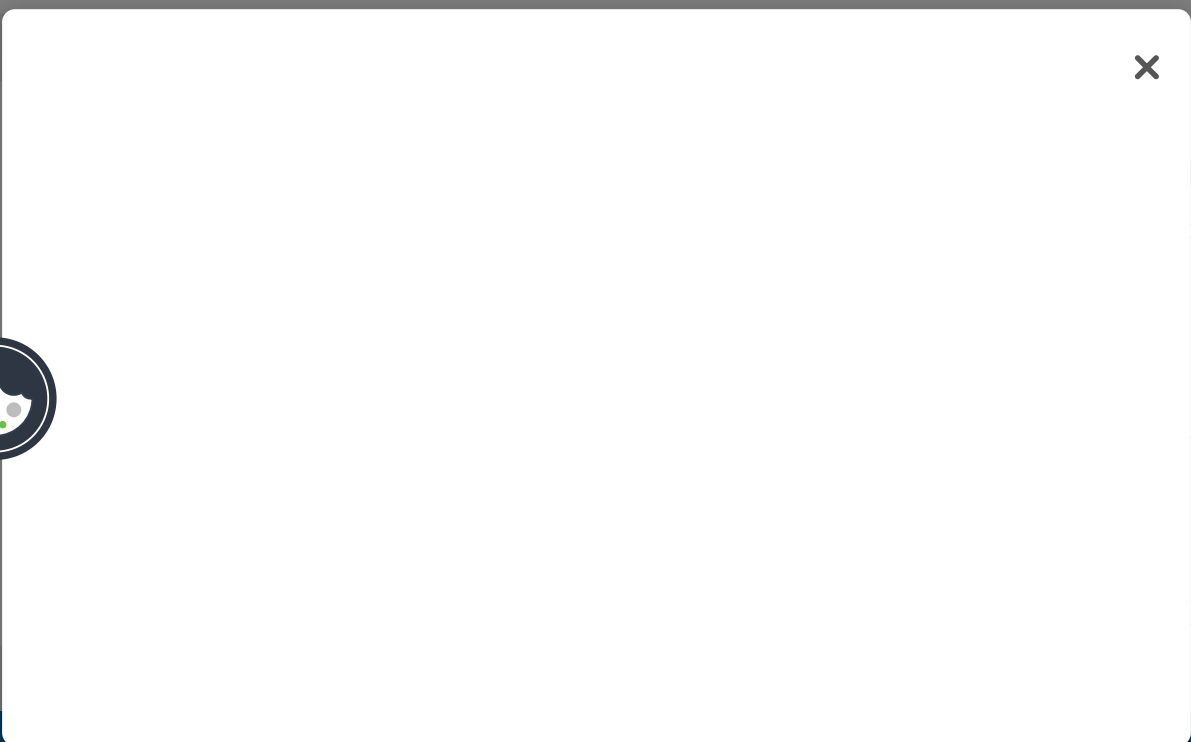
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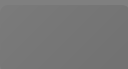
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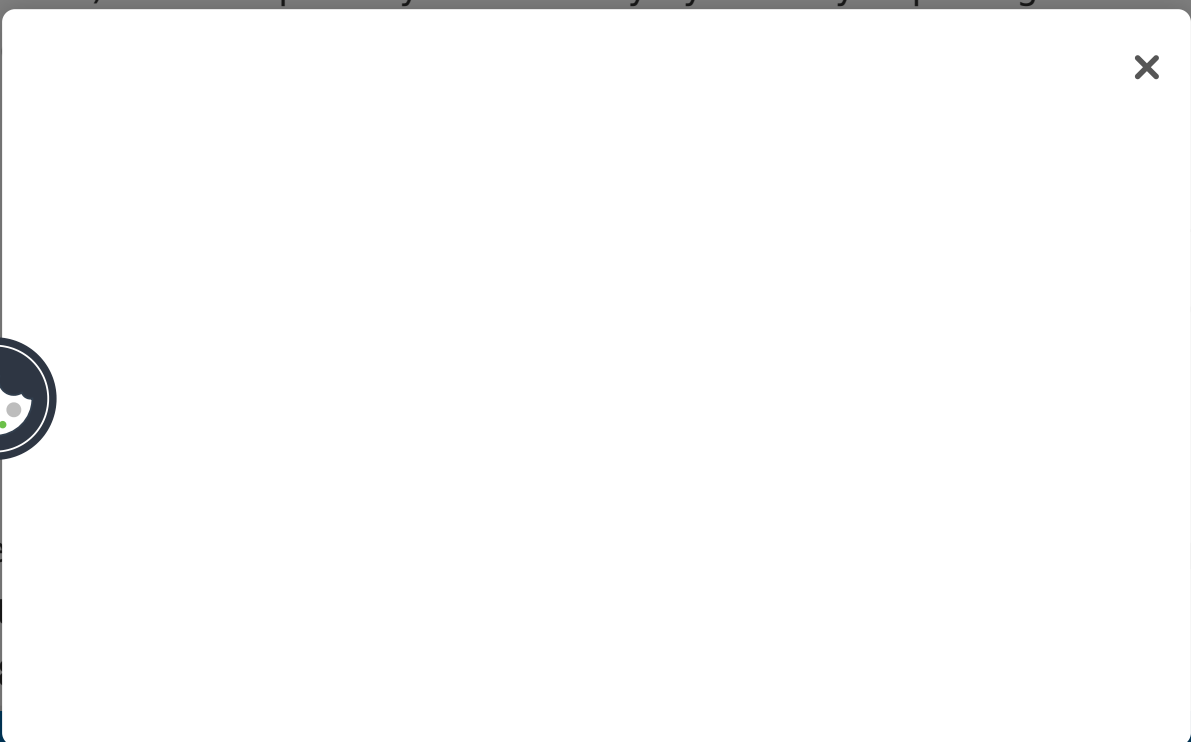
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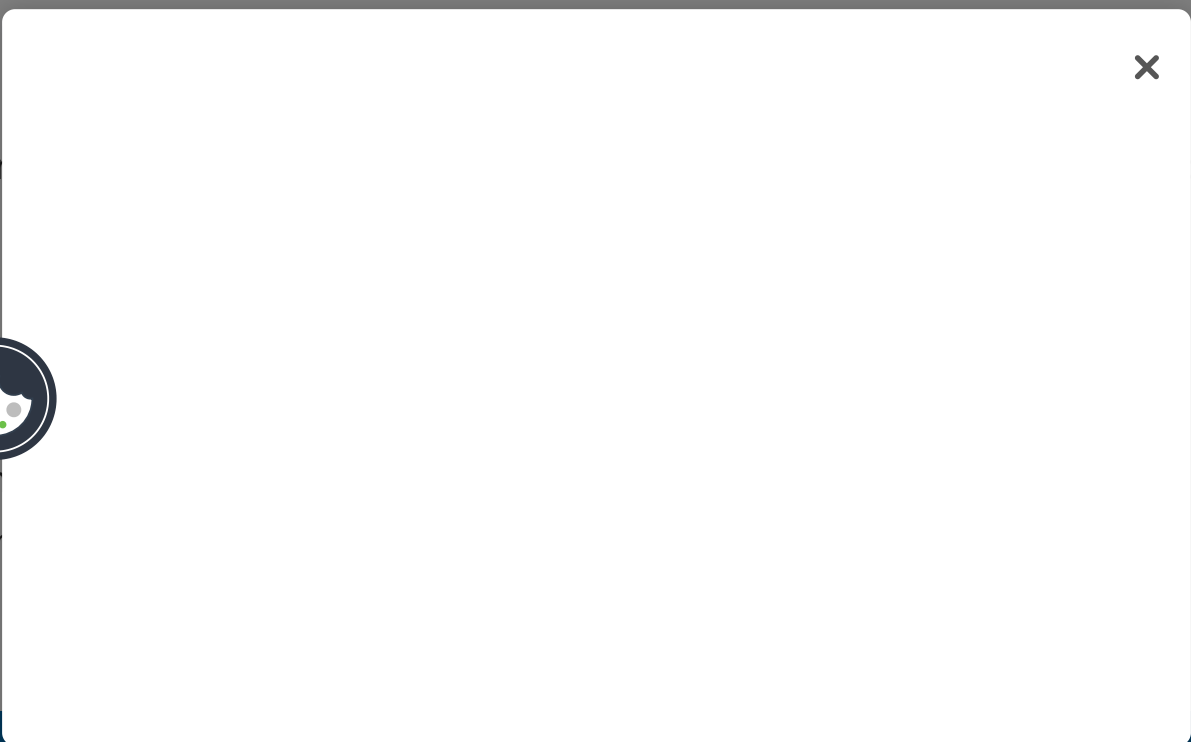
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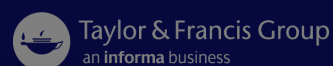
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