

Tax competition is an old concept, but political and academic interest in it is fairly new. For a long time, taxes were simply too low and cross-national tax differential too small to trigger significant cross-border movements of taxpayers and bases. In the twentieth century, tax burdens increased dramatically but so did restriction to cross-border mobility: high tariffs, strict capital controls, limited currency convertibility and tough visa and immigration laws greatly reduced the scope for international tax avoidance and evasion. This changed with the onset of deep economic integration in the 1980s. Mobility barriers were being eroded. Trade liberalization, capital decontrol and currency convertibility at the global level, regional integration schemes such as the EU's Single Market or NAFTA, as well as new communications and transport technologies greatly reduced the transaction costs of moving goods, services, capital and jobs across national borders. Many observers feared (Sinn, 1990; Scharpf, 1991; Steinmo, 1994; Tanzi, 1995; Rodrik, 1997), while others hoped (Edwards and Keen, 1996), that this development would pull the fiscal rug out from under the welfare state. Exit, they argued, would become a viable strategy and a credible implicit threat for taxpayers, forcing national tax authorities to compete for, rather than to impose on, taxable assets and activities. International tax competition seemed to finally come into its own and started its ascent as a topic for political and academic debate.