

# Getting Real about Taxes: Offshore Tax Sheltering and Realism's Ethic of Responsibility

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Offshore tax sheltering presents pressing policy challenges for contemporary democracies, with hundreds of billions (or even trillions) in private assets protected in offshore trusts and shell companies. Even when technically legal, tax sheltering can harm citizens by reducing a state's capacity to respond to their needs. It can perpetuate inequality and reinforce development imbalances. In authoritarian contexts, it is a tool that enables corrupt ruling elites, while in democratic contexts its practice solidifies patterns of fiscal unfairness. Both powerful state actors and regional institutions, like the EU, have incentives to stem sheltering, and some important progress has been made in recent years. But thus far, their efforts have proven insufficient to fully address the problem.

By "tax sheltering," we are referring to two categories of activity, which can be labeled "tax evasion" and "tax avoidance," respectively. The former involves sheltering activities that break tax laws; the latter involves sheltering that takes place within the letter of the law, or at points of legal ambiguity. This distinction is

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important because it emphasizes that sheltering is an expansive process that extends beyond criminal conduct.

Tax sheltering produces distinctive challenges for the theory and practice of global governance, and in this article we examine these challenges from the perspective of contemporary political realism. Indeed, sheltering involves a number of empirical dilemmas that render it a useful case study for the “realist” program in political philosophy. This program has resonances with realist international relations theory,<sup>1</sup> but more explicitly attempts to retain the normative power to criticize reality, despite subscribing to a largely realistic view of politics and its constraints.

Specifically, realists criticize an approach that begins from an *ideal* theory of what individuals owe to one another and then applies this theory *deductively* to political problems.<sup>2</sup> Realists call this approach “moralism,”<sup>3</sup> and argue that it mistakenly views political theory as a branch of “applied ethics.”<sup>4</sup> Realists consider moralism flawed because it develops moral standards under idealized assumptions about how politics works,<sup>5</sup> and is insufficiently responsive to the real-world circumstances in which strategic<sup>6</sup> and coercive<sup>7</sup> political forces operate. The realist revival in political philosophy has largely focused on either criticizing mainstream normative liberalism or securing realism’s standpoint as a distinct approach, one not reducible to nonideal theory.<sup>8</sup> More recently, however, political realism has been applied to various substantive challenges, such as the impact of the Internet,<sup>9</sup> the EU’s legitimacy deficit,<sup>10</sup> neo-liberalism,<sup>11</sup> and populism,<sup>12</sup> offering a fresh perspective on well-known problems.

We present three advantages to tackling the issue of tax sheltering from a realist perspective, captured in the three subsequent sections of the article. First, a realist approach avoids some of the challenges facing theoretical approaches by starting from a well-informed empirical analysis. Rather than converging on a positive ideal theory of justice and then evaluating how far the real world fails to approximate it, realists begin by identifying empirical situations that appear problematic. Thus, the first section of the article offers an up-to-date analysis of how actual tax havens are functioning. This empirical analysis reveals the complex and interlocking mechanisms that reinforce tax sheltering in the context of strategic competition between states.

The second advantage of a realist approach lies in recognizing the fundamental urgency of proactively containing tax sheltering. Scholars tend to view tax sheltering as a harm because it fosters inequality among and within states, threatening “global background justice.”<sup>13</sup> Realists do not deny this problem, but they point to an even more essential one. As states need taxes to sustain their core activities,

they cannot reliably maintain order over the long term in a setting of intractable tax competition, fiscal dumping, and revenue losses.

At stake for realists is thus the vital issue of political survival.<sup>14</sup> Drawing on a Weberian notion of political responsibility, we argue that politicians who do not take meaningful action against tax sheltering are not discharging their political obligations. According to this outlook, a responsible politician cannot shy away from the use of necessary coercion and has an obligation to preserve the state's means of continued functioning.<sup>15</sup>

Third, in highlighting the urgency of this problem, a realist approach can ultimately guide policymakers toward new strategies for tackling it. Most realists accept that social and political conflicts will always be at least potentially present, and that some degree of coercion is inevitable,<sup>16</sup> especially in the field of international relations, where moral reasons are of limited capacity to influence other actors.<sup>17</sup>

As compared to other international issues like climate change, tax sheltering has a distinctive feature: comparably weaker small states are often the beneficiaries at the expense of more powerful states. In principle, then, a coalition of powerful actors might pool its resources and coerce smaller tax haven states to cease practices that facilitate sheltering. Such a coalition of the powerful could appear legitimate under a realist approach, even though it would be coercing small state actors. A coalition based on state interest is highly compatible with a realistic reading of the international arena as being the most responsive to power. Our realist argument thus enjoins responsible politicians to overcome the sway of special interests and act more decisively to stem the current tax avoidance epidemic.

## THE REALITY OF TAX SHELTERING

A hallmark of realist normative theory is its attentiveness to facts. Rather than defending an abstract definition of justice and then determining how tax sheltering undermines this ideal, the theorizing done by realists dictates that we start with a well-informed empirical analysis of how tax havens function. As Sleat argues, realists can move the global justice literature beyond dominant approaches, both statist and cosmopolitan, that deploy prepolitical moral standards.<sup>18</sup> Realists strive for a middle ground between theory and practice, avoiding a “reductionism that leads either to an entirely explanatory political science or to an abstract universal morality.”<sup>19</sup> The advantage of a so-called

“practice-dependent” approach rests precisely in encouraging theorists to develop principles that fit the specific institutional contexts those principles “are intended to regulate.”<sup>20</sup>

In this section, we identify four specific empirical features of tax sheltering, which reveal why a moralistic treatment of this phenomenon is unable to capture its serious political harm, and why this harm justifies the use of coercive measures. Both points will be scrutinized further in the following sections.

The first notable feature of tax sheltering is that it is pursued by both multinational corporations and individual super-wealthy people. But because these are two distinct sets of actors, governance efforts that target one will not always be effective against the other. Second, by incentivizing the practice of “tax competition,” tax sheltering can threaten national-level fiscal sovereignty, exacerbating competitive pressures. Third, because tax haven governments are often micro-states whose economies depend on sheltering activities, they have strong incentives to keep these activities going, incentives that often outpace the coordination capacity of other states. Moreover, wealthy states occupy different positions in the tax-sheltering chain, with some, like the Netherlands, benefitting more than others, like France. These asymmetries produce further coordination challenges. Fourth, tax sheltering intersects with preexisting corruption norms, threatening the enforcement of tax laws. Relatedly, private wealthy individuals and corporations have domestic political clout that allows them to lobby against enforcement action.

We now explore these challenges in turn. Together, they constitute the empirical justification for a more realist approach to tax enforcement.

### ***Corporations vs. Oligarchs***

As noted at the outset, the category “tax sheltering” encompasses both illegal and legal forms of tax avoidance. The particular mix of illegality and legality present in a given act of sheltering is context dependent. In principle, taxpayers would prefer to shelter without criminality, although in some cases only criminal tax evasion is effective.

With this distinction in hand, we can begin to explore the complex geography of tax sheltering, a geography that involves two distinct sheltering agents: multinational corporations and individual super-wealthy people; the latter we refer to here as “oligarchs.”<sup>21</sup> Both corporate and oligarchic sheltering is centered in offshore financial centers, or “OFCs.” These sheltering nodes range from mature

European economies such as the Netherlands and the U.K., to microstate havens such as Bermuda and the Virgin Islands, to developing Central American economies such as Panama, to Asian economies like Singapore. A substantial proportion of global assets and liabilities pass through these OFCs<sup>22</sup> by way of so-called global wealth chains—“transacted forms of capital operating multi-jurisdictionally for the purposes of wealth creation and protection.”<sup>23</sup>

Shell companies and other wealth chain products are expertly designed to shield clients from regulators, and those developed by multinationals are especially difficult for regulators to penetrate since they often involve products made internally, or through intimate cooperation between clients and suppliers, thus rendering external oversight challenging.<sup>24</sup>

Consider one popular strategy known as the “double Irish with a Dutch sandwich.” This strategy involves an American company booking profits to an Irish subsidiary that is technically managed from abroad (such as in Bermuda), thus minimizing not only Irish but also American taxes since the company is incorporated in Ireland. Dutch intermediaries are utilized throughout the sandwich, and profits are further sheltered in Caribbean subsidiaries. Companies such as Google have saved billions by employing versions of this strategy.<sup>25</sup>

Oligarchic tax avoiders, by contrast, are *private* super-rich individuals who wield political power both domestically and globally. Oligarchs may participate in corporate activities, but they also retain personal access to massive, concentrated wealth regardless of any organizational affiliation.<sup>26</sup> Crucially, the U.S. Internal Revenue Service has historically taxed foreign investors who hold U.S. securities at a *lower* rate than domestic investors.<sup>27</sup> This loophole creates incentives for U.S. citizens to stash money abroad and use foreign-registered entities to invest in U.S. equities, a strategy known as “round tripping.”<sup>28</sup> In deploying these strategies, individuals rely on low-profile but powerful law firms like Panama’s now defunct Mossack Fonseca. The *Panama Papers*’ leak of Mossack’s files, orchestrated by German-based investigative journalists, exposed the sheltering activities of numerous public officials and ruling elites from across the world. The recent *Pandora Papers* leak, the largest-ever journalistic investigation of tax sheltering, reaffirmed the sheer enormity of such practices.<sup>29</sup>

The incentives of both corporate and oligarchic tax avoiders align to a significant degree. Both tend to favor reduced enforcement action, reduced requirements for asset transparency, and the continuing ability to use common sheltering strategies like trusts and shell companies. This synergy creates some opportunities for

alliances between corporations and individual wealthy people in lobbying against enforcement actions. But their interests can also diverge: Some enforcement actions may be more damaging to corporations that deploy accounting strategies that are especially complex. For example, Apple has become notoriously adept at shifting “paper profits” to its Irish subsidiary, Apple Operations International. The accounting strategies necessary to make this reallocation work are not easily accessible to individual taxpayers. Conversely, publicly traded corporations are subject to specific legal requirements, such as fiduciary duties, that are not applicable to private individuals.<sup>30</sup>

To summarize, the fact that tax sheltering involves two functionally distinct actors adds to the complexity of enforcement because it requires regulators to navigate between two different legal frameworks. This problem is not insurmountable, but it does mean that successful enforcement will require aggressive action on two different regulatory fronts.

### ***Complex and Uneven Geopolitics***

A second enforcement challenge involves the geopolitics of tax havens, a geopolitics that does not easily map onto conventional international power blocs. Some wealthy EU nations, like the Netherlands and Luxembourg, benefit far more from these practices than others, like France. Similarly, some microstates, like Bermuda, benefit more than others, like Lesotho. Trusts and shell companies created in Switzerland might be registered in the Virgin Islands, while assets invested in Luxembourgian mutual funds may in turn be heavily invested in American equities.<sup>31</sup> Establishing trusts and shell companies can be relatively easy to do. One group of scholars contacted over 3,700 “corporate service providers,” the purveyors of shell companies, posing as customers interested in setting up these instruments; frequently, no supporting identification was requested in order to move forward.<sup>32</sup>

A further useful distinction is between “sink” and “conduit” OFCs.<sup>33</sup> Sinks are havens, like Bermuda, that attract and retain capital through favorable corporate tax rates, while conduits are intermediary destinations that facilitate the flow of capital to sinks. The Netherlands and the U.K. are popular conduits because of their highly developed legal systems, low barriers to capital transfer, and professionalized workforce.<sup>34</sup> Both sink and conduit OFCs rely on a high degree of specialization. Thus, one plausible explanation for why tax havens develop in smaller countries is because such countries lack the resources or economic scale to

dominate in other, more capital-intensive industries but can find a competitive advantage in the financial services sector.

Tax avoidance involves a complex structure of capital flows, and complexity creates enforcement difficulties. “Capital mobility” has long been identified by political scientists as a key variable in influencing global politics.<sup>35</sup> In the presence of capital mobility, it is not enough for regulators to clamp down on one aspect of the chain; often, the entire wealth chain must be targeted. Otherwise, it can reconstitute itself in other tax havens (for example, shifting from Bermuda to a more unregulated haven in Asia).

### ***Tax Competition and Threats to Fiscal Sovereignty***

A third enforcement challenge arises from so-called tax competition, which produces coordination dilemmas that can impede enforcement. Multinational corporations often derive tax benefits as a result of tax haven governments competing with one another for investments. These corporate tax-shopping activities can seem entirely legitimate as a capital allocation exercise. But often companies simply orchestrate these arrangements themselves, through subsidiary networks and profit-shifting techniques that do not create significant economic value for the host economies. Armed with highly mobile intangible assets, corporations can prey on regulatory weak spots in numerous jurisdictions. This activity creates competition between domains for corporate investment.

Intangible assets, like intellectual property, are especially prone to sheltering. With their fluid valuations, these assets are susceptible to “profit driven processes of classification” and other accounting maneuvers that allow the assets to exist simultaneously in multiple jurisdictions.<sup>36</sup> This trend threatens to turn tax policy into a form of interstate marketplace interaction in which one government’s ability to set its desired tax rate is dependent upon another government’s policy.

To be sure, countries compete for economic leadership in key industries and for primacy in key technologies, often with substantial productivity and efficiency benefits for the global economy. Not all tax competition has negative externalities, but one byproduct of tax competition is that it creates incentives for unilateral actions and other zero-sum activities. Indeed, the growth of corporate tax evasion has taken hold against a wider drop in nominal corporate tax rates among OECD countries. These tax cuts have been financed, in part, by broadening the tax base.<sup>37</sup> Tax evasion has accelerated *even as tax rates have fallen*, potentially magnifying the fiscal consequences of this activity.

### *Tax Sheltering and Corruption Norms*

A fourth reason why tax sheltering remains such a difficult policy challenge from a normative perspective<sup>38</sup> is because it perpetuates existing forms of corruption that exist in both developed and developing countries. Realists view corruption as an urgent problem insofar as it threatens to subvert the “processes through which a political order produces and reproduces itself,”<sup>39</sup> a point we will return to later.

Tax sheltering is a constant threat to good governance, contributing to the perpetuation of corruption globally. Tax haven services are attractive to drug cartels, money launderers, terrorists, human traffickers, mafia, diamond miners, and other global criminals.<sup>40</sup> Tax sheltering also perpetuates the rent seeking of entrenched elites who try to locate secure landing spots for ill-gotten gains, including those engaged in money-laundering activities. This is true in democratic contexts, but authoritarian regimes that lack robust accountability are also especially prone to tax crimes committed by corrupt government officials. One study shows that corporations more frequently evade taxes when operating abroad when their home country is corrupt.<sup>41</sup> Ordinary citizens, unable to leverage these corruption norms, suffer the consequences.

The *Paradise Papers*, a 2017 leak from the International Consortium of Investigative Journalists, highlighted the exclusive clientele of the Appleby law firm. President Donald Trump’s commerce secretary, Wilbur Ross, was shown to hold stakes in an offshore firm, Navigator Holdings, with ties to sanctioned Russian oligarchs.<sup>42</sup> The subsequent conviction of Trump’s campaign chairman, Paul Manafort, for tax crimes related to gains obtained from foreign consulting work, again, underscores how politically influential actors can use sheltering to facilitate both their interests and the interests of powerful overseas actors. Or consider cases where sheltering emanates from developing country elites. The recent *Luanda Leaks* scandal, for example, exposed the sheltering activities of billionaire Isabel dos Santos, daughter of the former president of Angola.<sup>43</sup>

To summarize, tax sheltering is a challenging issue for international governance due to the four dynamics discussed here: first, the complexity of regulating both corporate tax avoiders *and* individual oligarchic tax avoiders; second, the uneven geopolitics that renders different countries more or less vulnerable to sheltering; third, the proliferation of tax competition between domains; and fourth, the tendency for tax sheltering to reinforce corruption norms.

Taken together, these findings underscore the analytical value of realism’s focus on beginning with a complex description of a phenomenon. Precisely because the

“scale, complexity, and costs” of global policy shifts are significant, social scientists must evaluate policy reforms against “real-world failures”<sup>44</sup> of moral engagement. Conversely, moralist approaches to global justice, which evaluate tax sheltering through prepolitical standards, will be less equipped to grasp the sheer complexity of the empirical climate—how different forces (corporations, oligarchs, states, international institutions) interact in multiple strategic registers.

## POLITICAL PROBLEMS AND REALIST SOLUTIONS

With this task in mind, we now broaden the normative picture by discussing how a realist approach, inspired by Max Weber’s ethic of responsibility, provides traction against offshore tax sheltering. First, we argue that a Weberian ethic of political responsibility offers the necessary normative distance for realists to criticize the status quo. Second, we argue that tax sheltering is not simply a problem of justice or equality but a threat to the political order that responsible politicians should feel compelled to address. This analysis then sets the stage for the final section, where we revisit the empirical climate and discuss realist strategies for addressing the problem.

### *A Political Ethics of Responsibility*

Some may doubt the helpfulness of the realist paradigm in providing sharp normative criticism of the current state of affairs. Critics accuse this tradition of being “complacent” toward the status quo,<sup>45</sup> claiming that realism destroys philosophy, and philosophy destroys realism.<sup>46</sup> But such criticisms ignore the “robust brand of political ethics” endorsed by classic IR realists such as Herz, Walzer, Carr, Niebuhr, and Morgenthau.<sup>47</sup> These thinkers engaged in a “free-wheeling exchange about what they considered to be the *ultimately* desirable movement toward a new global order.”<sup>48</sup> While acknowledging the importance of coercive state apparatuses, they nonetheless supported bold proposals for reforming global politics.<sup>49</sup> Contemporary normative realism also has a radical disposition, “grounded in our best social scientific accounts of politics” but still affirming “the transformative potential of our political imagination.”<sup>50</sup>

In this context, we now turn to an exemplar of the realist canon, Max Weber.<sup>51</sup> While known largely as a social scientist, Weber’s normative arguments have informed the work of both classic IR realists<sup>52</sup> and contemporary realists.<sup>53</sup> According to Weber, political actors should be held to an “ethic of responsibility,”<sup>54</sup> which he contrasts with the “ethic of conviction.”<sup>55</sup> At its most basic, the

ethic of responsibility prescribes that individuals consider the reasonably foreseeable consequences of their actions, while the ethic of conviction takes up the outlook of the otherworldly prophet, concerned with the purity of the soul and disinterested in the consequences that action or lack of action may have.

It might seem that Weber's ethic of responsibility is simply a kind of consequentialist moral theory applied to the political sphere; that is, a theory that assesses the moral worth of a certain political action or policy based on the consequences it yields in the world. For realists, however, looking at consequences is not enough for a theory to be suitably political, and thus action guiding in political contexts.<sup>56</sup> For example, utilitarianism is the prototypical consequentialist theory, but one often rejected by realists as inappropriately moralistic.<sup>57</sup> Three other considerations further distinguish the Weberian outlook—capable of providing suitably realist political judgments—from a moralistic consequentialism.<sup>58</sup>

First, what renders the tension between conviction and responsibility so problematic is the moral irrationality of the world. Achieving good ends may necessitate terrible means, while good actions may sometimes lead to catastrophic consequences. Raymond Geuss defined this realist intuition as the rejection of a “moral cosmos”: a situation in which (1) all values are perfectly consistent among themselves; (2) they are compatible with the world as we know it; and (3) they can motivate human beings to act accordingly.<sup>59</sup> For Weber, the tragedy of the real world is that actors are constantly required to balance means and ends, even if no single ethical outlook can provide the correct assessment.

Such radical pluralism is commonly emphasized by realists who insist that politics exists precisely because radical disagreement cannot be “erased from the picture.”<sup>60</sup> Politics always involves tragic choices. This point helps to distinguish the Weberian outlook from moralist consequentialist theories, such as the utilitarianism criticized by Bernard Williams.<sup>61</sup> In the utilitarian tradition, the option whose consequences maximize global expected utility is unequivocally good, even if it involves severe sacrifices from a few individuals. For pluralistic realists, instead, even the best decision almost always brings about loss of value because not all value can be subsumed under utility; hence, there are always tradeoffs.

The second realistic side of Weber's argument is an implication of the first: coercion is a necessary evil, a distinctive means through which collective compliance can be realized. For Weber, what distinguishes *political* associations is the presence of “overseers” who are allowed to deploy physical coercion to ensure compliance with the extant system of rule.<sup>62</sup> Politics is thus intrinsically concerned

with power and violence, from which it cannot, even conceptually, be detached.<sup>63</sup> Real politics in this sense limits the demands of morality.<sup>64</sup> This is in sharp contrast to the mainstream view in normative theory, which implies that political philosophy should constrain politics, as it “sets limits to the reasonable exercise of power.”<sup>65</sup>

Coercion in politics is inescapable because physical violence is the ultimate way to settle disputes; any argument can “unilaterally escalate”<sup>66</sup> to violence, even if some parties would prefer to remain peaceful. For instance, imagine we agreed that whoever wins a peaceful game of chess gets to eat the last apple. Suppose that you win and I lose, but I flip the table, punch you in the face, and run away with the apple. You would have surely preferred the (previously agreed upon) peaceful outcome. Yet now you either accept the outcome that I unilaterally imposed through violence or you try to coerce me, either alone or in concert with others.<sup>67</sup>

The temptation to coerce is often enough to allure at least a few individual actors, unless tempered by functioning political institutions operating in the background. Once a single actor unilaterally escalates a disagreement to violence, de-escalation is difficult. In such contexts, the surest way to neutralize a coercer is by responding with coercive measures, hence making coercion itself inescapable. For Weber, this practical inevitability of violent coercion must be acknowledged by responsible politicians and turned into a realistic imperative: “You shall use force to resist evil, for otherwise you will be responsible for its running amok.”<sup>68</sup>

The third crucial qualification that makes Weber’s ethics of responsibility distinctively realist is the acknowledgment that maintaining the state’s apparatus is a precondition for the pursuit of any goals. Any society is bound to unravel by continuous conflicts, unless cooperation is secured and maintained by a political institution that assumes the “monopoly of legitimate physical violence within a particular territory.”<sup>69</sup> Williams emphasizes the necessity of political order, viewing it as the only viable response to the “first political question”—that is, the continuous demand for “order, protection, safety, trust and the condition of cooperation.”<sup>70</sup> Whatever ideal guides us—whether it be equality, freedom, or justice—implementing it requires a functioning political order. In this sense, a political order is a genuine “primary good,”<sup>71</sup> a means to achieve whatever ends one happens to have.

This third qualification can be leveraged by realists to put normative pressure on politicians to act responsibly. Weber’s conception of politics entails a

“meta-duty”<sup>72</sup> to guard the proper functioning of the “machinery of politics.”<sup>73</sup> Weber’s conception here echoes the old realist arguments about “reason of state.”<sup>74</sup> Good politicians are those that lend their reasons to the state, calculating the best course of action based on the state’s own needs as opposed to their own. Williams, among other contemporary realists, directly channels this preoccupation for political survival in Weberian terms, advocating a “more realistic view of the powers, opportunities, and limitations of political actors, where all the considerations that bear on political action” including “political survival” can “come to one focus of decision.”<sup>75</sup> The ethic that relates to this is what Weber called “*Verantwortungsethik*”,<sup>76</sup> the ethic of responsibility.

In sum, by acknowledging the presence of radical pluralism, the inevitability of violence, and the consequent need for political order, a Weberian account singles out the important obligation of polity maintenance, which politicians incur in virtue of their role. In this sense, a Weberian account grounds a specific “political responsibility rather than moral responsibility,”<sup>77</sup> and it is thus genuinely realist, and not a mere consequentialist moral outlook.

### ***What Is Really Wrong about Tax Sheltering?***

How does this Weberian perspective apply to tax sheltering? Crucially, taxation has long been a residual topic in philosophical literature.<sup>78</sup> Tax evasion, in particular, has suffered the unfortunate fate of many practical problems that seem so evidently wrong as to require no normative treatment. What Philp and Dávid-Barrett lament about corruption applies well to tax evasion: since it “does not compromise or put into question the values we advance,” it “might be seen merely as one of a number of potential failures of realization.”<sup>79</sup>

As tax evasion becomes increasingly salient, however, some political philosophers have begun to address it.<sup>80</sup> Specifically, prevailing accounts focus intently on the distributive consequences of tax evasion in generating inequality both globally and nationally. These attempts are not utopian, in the sense of being impossibly high-minded and detached from reality. Indeed, they demonstrate a remarkably productive attention to the political dynamics at play, along with carefully nuanced analytic work.<sup>81</sup>

We are quite sympathetic to this focus—the distributive consequences of tax sheltering are clearly urgent. However, from a realist perspective, a singular emphasis on global distributive justice has two problems. First, it risks neglecting the even more fundamental challenges that sheltering poses to state functioning.

The destabilization of a political order is generally a less controversial evil than are violations of specific accounts of justice and equality, and so addressing this can be done without wading into disagreements over the “correct” theory of justice. Second, mainstream global justice approaches are often, as IR realists argue, excessively consensual and thus unlikely to gain traction in existing great-power states.<sup>82</sup> A realistic take underscores that tax sheltering requires coercion in the face of strategic competition. Let us discuss both claims in turn.

First, tax sheltering is extremely problematic from a realist perspective because it leeches out the very blood of any political order: its revenue. Sheltering can interfere with a state’s fiscal sovereignty, through competition between states for investment.<sup>83</sup> Of course, tax sheltering does not threaten a state’s *de jure* fiscal sovereignty, but it may well undermine its *de facto* sovereignty. In effect, governments face a dilemma—either cede offshore inflows to rivals or further reduce taxes to attract inflows.

However, the strategy of further reducing taxes initiates a spiral in which corporate taxes dangerously approach zero. The most evident example is Amazon, which after increasing its profits to \$11.2 billion in 2018, received \$129 million back from the federal government thanks to various rebates, resulting in a tax rate of *negative* 1 percent.<sup>84</sup> Even without the exceptional rebates of 2018, between 2009 and 2018 Amazon’s average tax rate was only 3 percent.<sup>85</sup> This dilemma—letting capital flee to other countries or offering companies tax cuts to retain it—facilitates widespread fiscal dumping and a race to the bottom in effective tax rates. States are forced to compensate by reducing public goods and raising taxes for nonwealthy people—a trend already in progress.

To the extent that revenue is fundamental to maintaining the state’s internal organization and external capacity to act, offshore tax sheltering compromises its long-term ability to function. Without access to a constant stream of revenue, no political institutions can discharge the central function of providing public goods. The fiscal challenges associated with sheltering thus risk becoming a broader legitimation challenge.

For realists, this threat to the state’s very existence makes tax avoidance much more problematic than a “mere” problem of justice or equality. As previously noted, realists view political institutions as essential for securing the very conditions of cooperation that allow people to live minimally decent lives.<sup>86</sup> In this lies the “basically Hobbesian insight” of political realism.<sup>87</sup> So even before questions of justice, fairness, and equality come into play, tax sheltering is an

existential political challenge. Critics might respond that current levels of tax avoidance have not produced an existential threat to state order, but the fact that this threat has yet to manifest itself in its most severe form does not mean it will not expand if countervailing actions are not taken.

Political realism emphasizes the need for states that use coercive power to be accepted as legitimate,<sup>88</sup> even if legitimacy remains imperfect.<sup>89</sup> Because individuals have incentives to avoid payment, taxation cannot be a spontaneous focal point of coordination but needs to be coercively imposed, as Ostrom argues.<sup>90</sup> Yet without the power to tax, states cannot obtain the resources to apply coercion and function effectively. For this reason, some minimal legitimacy is required in advance of tax collection. Indeed, taxation played a central role in the weakening of absolute power in Europe, as per the famous slogan “No taxation without representation.”<sup>91</sup>

In sum, politicians should indeed worry about preserving the political order, and they should not hesitate to use coercion if necessary to prevent existential threats such as offshore tax sheltering. But if there are clearly realistic reasons for political actors to contain offshore tax sheltering, what can they—realistically—do?

## A REALISTIC WAY OUT?

Despite some progress, no successful multilateral effort has stopped tax sheltering. Why has this failure occurred and does realism recommend specific responses? Here we conclude our argument by testing realism’s potential for normative criticism and reform. First, we review the limitations of some prevailing enforcement strategies, acknowledging realist concerns about forces like corporate lobbying that can undermine reform. We conclude by advocating a more aggressively coercive approach, one that builds on existing strategies but directs them in more ambitious directions.

### *Common Answers*

To date, international tax enforcement efforts have centered on strategies such as (1) information exchange, both voluntary or mandatory; (2) asset recovery that directly targets specific individuals or multinationals; and (3) global taxation. We discuss each in turn.

First, all global tax enforcement strategies involve some degree of information exchange. Information exchange occurs both between governments and between

governments and banks; it can involve either voluntary or mandatory measures. Voluntary measures are necessarily selective and noncoercive, and thus difficult to enforce. For example, voluntary exchange was implemented by the OECD in 2009 and many tax havens agreed, in principle, to participate. But the policy required a plausible suspicion of fraud—which is often difficult to prove—before information exchange would occur.<sup>92</sup>

“Automatic” information exchange can counter some of these shortcomings, but it also can be rendered ineffective. The European Union Savings Directive imposed automatic information exchange on income earned by EU citizens in other EU countries (for instance, French citizens with German accounts). However, the directive (1) only applied to interest income, not dividends; (2) excluded Luxembourg and Austria from the most stringent requirements; and (3) only applied to the accounts of named individuals, not to corporations or shell companies. Thus, critics accused it of encouraging more Europeans to transfer funds to shell companies.<sup>93</sup>

By contrast, the Obama-era Foreign Account Tax Compliance Act (FATCA) is an especially strong attempt at automatic exchange, requiring foreign banks to identify the names and transaction histories of their American customers. Noncompliant institutions are assessed a 30 percent tax on “US-sourced payments made to them” (such as dividends or interest).<sup>94</sup> This is among the strictest enforcement policy to date, and its more aggressive qualities should be emulated. But even this stricter policy faces structural challenges. Banks might simply pivot to regions like Asia where information sharing is absent, or establish intermediaries that comply while the parent company remains noncompliant.<sup>95</sup>

A second strategy targets tax avoiders directly with threats of asset recovery. The threat of criminal sanctions can be a good negotiating tactic, with charges reduced in exchange for asset recovery and/or fines. This threat works best when illegal sheltering is suspected. For tax avoiders with no criminal liability, the strategy is less effective, though the reputational costs of exposure might still exert punitive damage, especially against brand-conscious multinationals.

But asset recovery also carries major obstacles. First, tax avoiders can engage in a cat and mouse game with authorities through the expert assistance of lawyers and accountants. Currently, many U.S. IRS enforcement actions result in negotiated settlements rather than unilaterally imposed sanctions.<sup>96</sup> Powerful actors have leverage to hold out for favorable settlements. Some banks have responded

to enforcement pressure by simply clamping down on smaller, less profitable accounts.

Second, both oligarchs and multinationals can lobby domestically against enhanced enforcement. Important empirical research underscores the connection between affluence and influence,<sup>97</sup> demonstrating that those at higher distributional strata have disproportionate influence in shaping tax and regulatory policy. The super-rich engage in various forms of “regulatory capture,”<sup>98</sup> some of which entail corruption and bribery, but many of which are legally oriented: donations, interest group lobbying, and other types of unequal access. Special-interest lobbying exacerbates the chronic underfunding of tax enforcement agencies, like the IRS, by defeating legislation aimed to increase resources for enforcement.<sup>99</sup>

In the United States, multinational corporations impact foreign policy in ways that are “strong, persistent, and perhaps lopsided” as compared to groups like organized labor.<sup>100</sup> Corporate lobbying also predominates in Western European countries such as the Netherlands.<sup>101</sup> The result is a feedback mechanism: Wealthy and powerful actors influence foreign policy, either through lobbying or outright capture of the foreign policy establishment, while simultaneously using their political influence to pursue preferential domestic tax treatment, possible because privileged actors with specialized financial knowledge can evade regulatory detection. In this climate, a government’s ability to perform asset recovery activities proves challenging.

Perhaps a scheme of global taxation could compensate for revenue losses. Some theorists have advocated for “financial transaction taxes,” levied on risky financial transactions such as derivatives,<sup>102</sup> while Thomas Piketty flirts with a global tax on capital.<sup>103</sup> Gillian Brock proposes a 1 percent global tax on multinationals.<sup>104</sup> Others suggest that natural resources be held in a public trust or even internationally administered, while proposing taxes on so-called “resource rents.”<sup>105</sup> But any regime of global taxation will continue to meet fierce resistance. The U.S. Congress once made payments to the UN conditional on it refraining from any discussion of global taxes.<sup>106</sup> From a realist perspective, the threat to national-level fiscal sovereignty and the need for a global enforcement mechanism render any proposals for global taxation highly fragile.

### ***Realist Suggestions***

A common dissatisfaction with these solutions is that they underplay the political dynamics of offshore tax sheltering, which involve a perverse overlap of interests

between competing states, corporations, and individual oligarchs. While nongovernmental organizations can contribute to enforcing international tax norms, the “principal lines of accountability” in global politics still run through powerful states.<sup>107</sup> A realistic approach would thus need to grant states opportunities to target tax haven governments directly, either unilaterally or through multilateral action and international institutions. Governments suffering disproportionate losses would harbor the greatest interest in participating in a multilateral coalition organized around coercive tax enforcement.

A standard critique of multilateral institutions is that while they are ostensibly pluralistic, they are in reality controlled by powerful countries that use them to pursue their own objectives, often at the expense of the less powerful. But tax sheltering is a domain where small states often benefit at the expense of large, powerful states: indeed, the states that benefit the most are “small, weak, and subject to coercion.”<sup>108</sup> This asymmetry presents opportunities for a realist solution. Powerful states should be able to use their clout in multinational institutions, or their informal soft power, to coercively clamp down on less powerful tax havens. These powerful states not only have a common interest in not being exploited by companies that use their infrastructure while free riding on costs but also have the resources to provide strong negative incentives.

Indeed, the U.S. enforcement initiative known as FATCA, while it has had a mixed track record, has compelled some foreign governments to adjust their behavior. Many weaker states rely on bilateral investment with powerful states, and so the carrot of access to U.S. markets was coupled with the stick of more aggressive information exchange with the IRS.<sup>109</sup> Thus, it should be “collectively preferable” for powerful countries to coordinate joint efforts against sheltering.<sup>110</sup> Such cooperative action can build upon the “powerful enzyme of unilateral policies” like FATCA, creating new opportunities for global cooperation through an “admixture of coercion, adaption and emulation.”<sup>111</sup>

The shortcomings of the G-20 “voluntary exchange” program underscore the importance of aggressive cooperation. Countries that signed more information exchange treaties lost deposits to countries signing fewer treaties.<sup>112</sup> The net result was a relocation of deposits between tax havens. As one critic pointed out, this outcome reinforces the importance of a “big bang” approach to tax enforcement, as a “comprehensive multilateral agreement” will prove more effective than patchwork measures.<sup>113</sup> If powerful countries coordinated to prevent their “resident financial actors” from using certain shadow banking devices, then it would “no

longer be profitable for OFCs to offer those services.”<sup>114</sup> Powerful countries could indeed “pressure small states into compliance.”<sup>115</sup>

Consider this: Weeks after the 2021 *Pandora Papers* document leak, representatives from more than 130 countries agreed, in principle, to a 15 percent global minimum corporate tax rate. This development, spearheaded by powerful states including the United States and France, may foreshadow a more aggressive period of tax enforcement after the economic disruptions caused by COVID-19. Small state tax havens like Ireland, while initially holdouts, eventually agreed to the proposal, underscoring how pressure from powerful states might guide more ambitious multilateral agreements.<sup>116</sup>

Coercion need not take a single form, and political realists often warn against one-size-fits-all normative prescriptions. EU rules prohibit custom duties against members such as Luxembourg. To overcome these structural dilemmas, some argue that Luxembourg’s EU membership should be reassessed. Zucman provocatively asks why an “economic colony of the international financial industry” should retain an equal partnership within the EU.<sup>117</sup> Threatening Luxembourg with expulsion from the EU would thus be one example of a more coercive approach to tax enforcement. In response, one could point out that other EU tax havens, like the Netherlands, might object. However, EU decision-making remains highly dependent on the preferences of powerful states within the bloc, particularly France and Germany,<sup>118</sup> and those countries are not generally net beneficiaries to sheltering.

Switzerland holds, by one estimate, nearly one-third of worldwide offshore wealth.<sup>119</sup> Recently, Switzerland implemented some banking secrecy reforms after a whistleblower, former UBS banker Charles Birkenfeld, helped tip off American tax authorities. This example underscores both the power of whistleblowing and the degree to which targeted international actions can pressure specific havens. Switzerland is thus a prototypical small state haven that might be vulnerable to even more coercive international action to accelerate reform. Switzerland’s exclusion from the EU makes such action politically feasible. Indeed, the coalition necessary to mount a credible threat against Switzerland is rather small, Zucman argues; however, only a handful of Western European partners may be enough to exert considerable pressure by imposing custom duties or using other coercive trade practices that impose direct costs on Swiss consumers.<sup>120</sup> Such policies, if poorly constructed, obviously would have economic downsides. But aggrieved states could construct coercive measures so as to minimize the

risks to their own economies or the livelihood of ordinary people (that is, those outside of the banking sector in the targeted country).

What about physical coercion? In the 1960s, France imposed a military blockade on Monaco to protest its tax haven activities.<sup>121</sup> Insofar as they manifest disproportionate force, such policies can be morally problematic and only appropriate in extreme situations. We are not contending that the current empirical situation justifies military action against tax havens. Still, critics might object that even nonphysical but still coercive approaches are unduly antagonistic, destabilizing cooperation on other multinational issues. This threat must be taken seriously when sanctions are designed. But tax enforcement can, in principle, be decoupled from other multilateral issues like climate change. Since most tax havens are not geopolitical threats, and do not pose significant security dilemmas for aggrieved states, the risk of an escalatory spiral seems small.

Different countries, in sum, would require different approaches. Rather than elaborating these approaches in all of their empirical complexity, our purpose here is simply to make the case for opening up the political agenda to realist strategies in which coercion plays a more prominent role. The guiding rule of this realist approach should be effective deterrence, which targets companies and countries alike.

### ***Colonial Legacies***

Some might object that this realist emphasis on coercion is morally problematic when applied to tax haven countries that were formerly subjected to colonial exploitation. In our view, it is clear that colonial legacies continue to exert influence over global wealth chains. Some countries become havens precisely because of legal, economic, and language ties that emerged from their entanglement with imperial powers such as the former British empire.<sup>122</sup> One study argues that tax havens emerged during decolonization when elites from former colonizing powers needed new places to park assets.<sup>123</sup> Critics see a “second” British empire,<sup>124</sup> with London finance at the center and microstate tax havens at the periphery, in a continued position of economic dependency. From this critical perspective, tax havens reproduce an extractive relationship between former colonizers and small former colonies. But there is a second, countervailing concern: it may be morally problematic to sanction postcolonial tax havens, insofar as these havens boost the economy of places previously disadvantaged by colonialism. Efforts to sanction microstate tax havens might then only reproduce great power

exploitation, so the worry goes, inhibiting the further economic development of former colonized territories.

Two considerations help mitigate this objection. First, because tax sheltering requires a sophisticated financial infrastructure, the most influential havens are still generally wealthy European countries. Directing enforcement most aggressively against former colonial powers, such as the U.K. and Netherlands, or other wealthy European countries such as Switzerland or Luxembourg, therefore seems appropriate. Likewise, as a condition of enhanced enforcement, European powers might bear some responsibility for helping non-European microstate tax havens diversify their economy away from sheltering activities. These considerations reinforce the importance of realism's commitment to context dependence and historical specificity. Because enforcement measures impact different stakeholders within and across tax havens, realists can be sensitive to avoiding measures that perpetuate past injustices.

Second, even in tax havens that operate in formerly colonized countries, the benefits of this industry may not filter down to the entire population. Instead, the industry often reinforces ongoing divisions between a highly trained financial elite (perhaps educated abroad) and the broader population. To be clear, colonization is an obvious harm that was inflicted on those countries and there is a powerful case for remedying these past injustices.<sup>125</sup> But this is a universal moral demand, which should apply regardless of whether a former colony is willing and/or able to act as a tax shelter. Justifying the persistence of microstate tax havens on grounds that such countries were previously oppressed seems potentially ideological, in the sense of disguising the interests of the economic elite under the appearance of humane moral truths. Ultimately, domestic tax-sheltering industries can have economic value for a small state, and thus prove beneficial to segments of the population. But we do not think that cultivating domestic tax-sheltering industries is an optimal strategy for pursuing postcolonial restorative justice.

### ***Why Are States Not Already Using Coercive Measures to Deter Tax Shelters?***

A second line of criticism asks: If more aggressive enforcement strategies are so compelling, why have powerful states not implemented them more actively? One answer is that multinational corporations headquartered in larger states are often allied with microstate tax havens against their own governments, and these companies have clout in domestic politics. The problem of elite "capture"

of public policy, discussed earlier, thus poses a constant threat to enforcement. Enforcement efforts risk being caught between top-down capture by elites, who operate as an “effective veto player” on legislators, and more bottom-up demands by electorates who desire stronger regulation.<sup>126</sup> The result is often piecemeal reform: just potent enough to pacify domestic publics but largely ineffective in practice.<sup>127</sup>

Perhaps the Bretton Woods–era state system that influenced classical realism has been supplanted by a new system driven by transnational elites. As Wolfgang Streeck argues, international capital holders still exert a significant disciplining effect on states in ways that can infringe on democratic sovereignty.<sup>128</sup> Domestically, tax avoiders are often immune to normal channels of democratic accountability. This proliferation of nonaccountable power is concerning from a critical realist perspective, which cautions against the dangers of power concentration.<sup>129</sup>

Critical realist theories of democracy have brought greater normative clarity to the problem of elite capture. The literature suggests that innovative institutional measures, including but not limited to campaign finance reform, may be necessary to constrain domestic elites. Some democratic theorists advocate citizen assemblies and other popular forums that provide space for domestic publics to hold elites accountable.<sup>130</sup> Such reforms, while seemingly radical, are still quite compatible with a realist approach to international tax enforcement. Indeed, there is empirical evidence that global collaboration can give governments “new room to maneuver”<sup>131</sup> domestically; that is, governments are more likely to commit to domestic tax reforms when there is a credible international coalition against sheltering. Thus, responsible politicians can and should work to reduce the discretionary power that nonaccountable tax-sheltering elites wield over democratic life. While these democratic theory concerns are beyond our scope, we certainly view them as compatible with the realist arguments presented here.

We also sympathize with the radical realist emphasis on identifying legitimation narratives and debunking them when they appear ideological.<sup>132</sup> One common narrative, advanced by lobbying organizations, is that enhanced tax enforcement will hurt ordinary taxpayers through higher taxes. To counter this narrative, governments might actively advance the claim that tax evasion is damaging not only to the poor but also to the middle class and “mass affluent”—individuals in the upper echelons of income distribution who nonetheless lack the vast socioeconomic power associated with massive wealth. Indeed, there is empirical evidence

that more mass-affluent citizens actually bear the brunt of oligarchic tax sheltering because they pay progressively higher tax rates but lack the resources to hire tax avoidance professionals.<sup>133</sup> Because these groups retain considerable political influence, governments that appeal to them may be more efficacious in overcoming special interest lobbying.

Ultimately, powerful domestic actors will try to undermine more aggressive tax enforcement. But rather than undercutting our argument, this problem only reinforces the value of a realist, context-dependent approach; one that remains conversant with the ongoing empirical research on state capture.<sup>134</sup> We emphasize, again, that the focus should be on politicians, who hold the keys to their state's power but often fail to act in the interest of both the institutions and the citizens they represent. As we outlined in the previous section, the normative import of a Weberian political realism lies precisely in providing a powerful political critique of this kind of irresponsible leadership.

## CONCLUSION

Tax sheltering remains among the international community's most important policy challenges. Examining this issue through the lens of political realism not only provides a fresh outlook but also secures three key advantages. First, realism starts from the gritty details of the empirical situation, paying proper attention to the complexity of this phenomenon. Our analysis has synthesized relevant empirical trends to demonstrate why tax sheltering is proliferating, and why most attempts to curb it face considerable difficulty. Second, the realist perspective views sheltering in its appropriate gravity: not merely as a matter of injustice or inequality, but as an existential threat to the state's political order. Given the gravity of the threat, there are good grounds to justify the use of coercion to curb this malady. Third, since the global tax-sheltering system often operates through minor states, realism envisions and justifies a coalition of powerful states that not only have a common interest in controlling tax flows but also have the ability to deploy influence and power through international institutions or informal channels.

The pursuit of more aggressive tax enforcement mechanisms can over time alert policymakers to new, even more effective strategies,<sup>135</sup> while opening more radical political horizons.<sup>136</sup> Realism sometimes fails to be genuinely transformative, when the desired outcome is impossible to reach within the extant distribution of powers. This is not the case for tax sheltering, as powerful states still command

sufficient power to coerce minor state havens, as well as most corporations, to pay their due. Thus, what we propose is entirely within the realm of the feasible. To the extent that politicians fail to live up to this realistic plan of action, because of lobbying and political influence by corporations and oligarchs, they are not only morally blameworthy but politically irresponsible.

#### NOTES

- <sup>1</sup> The debates about realism in political philosophy and in international relations belong to different academic disciplines, but many scholars lament this division, arguing that the two traditions not only share their classical pedigree (for example, Thucydides, Machiavelli, Hobbes, Weber) but also share core theoretical assumptions. See Alison McQueen, *Political Realism in Apocalyptic Times* (Cambridge, U.K.: Cambridge University Press, 2017); and Duncan Bell, “Political Realism and International Relations,” *Philosophy Compass* 12, no. 2 (February 2017), pp. 1–12.
- <sup>2</sup> Enzo Rossi, “Being Realistic and Demanding the Impossible,” *Constellations* 26, no. 4 (December 2019), pp. 638–52.
- <sup>3</sup> Bernard Williams, “Realism and Moralism in Political Theory,” in Geoffrey Hawthorn, ed., *In the Beginning Was the Deed: Realism and Moralism in Political Argument* (Princeton, N.J.: Princeton University Press, 2005), pp. 1–17.
- <sup>4</sup> Raymond Geuss, *Philosophy and Real Politics* (Princeton, N.J.: Princeton University Press, 2008), p. 1.
- <sup>5</sup> John Horton, “Realism, Liberal Moralism and a Political Theory of Modus Vivendi,” *European Journal of Political Theory* 9, no. 4 (October 2010), pp. 431–48.
- <sup>6</sup> David Schmidt, “A Realistic Political Ideal,” *Social Philosophy and Policy* 33, nos. 1–2 (Fall 2016), pp. 1–10.
- <sup>7</sup> Andrea Sangiovanni, “Justice and the Priority of Politics to Morality,” *Journal of Political Philosophy* 16, no. 2 (June 2008), pp. 137–64.
- <sup>8</sup> Enzo Rossi, “Can Realism Move beyond a *Methodenstreit*?” *Political Theory* 44, no. 3 (June 2016), pp. 410–20; and Matt Sleat, “Realism, Liberalism and Non-Ideal Theory or, Are There Two Ways to Do Realistic Political Theory?” *Political Studies* 64, no. 1 (March 2016), pp. 27–41.
- <sup>9</sup> David Runciman, “Political Theory and Real Politics in the Age of the Internet,” *Journal of Political Philosophy* 25, no. 1 (March 2017), pp. 3–21.
- <sup>10</sup> Jan Pieter Beetz and Enzo Rossi, “The EU’s Democratic Deficit in a Realist Key: Multilateral Governance, Popular Sovereignty and Critical Responsiveness,” *Transnational Legal Theory* 8, no. 1 (2017), pp. 22–41.
- <sup>11</sup> Andrew Norris, “Being Realistic about Neoliberalism,” *Constellations* 27, no. 1 (2020), pp. 63–78.
- <sup>12</sup> Ilaria Cozzaglio, “Can Realism Save Us from Populism? Rousseau in the Digital Age,” *European Journal of Political Theory* 21, no. 2 (April 2022), pp. 276–98.
- <sup>13</sup> Peter Dietsch and Thomas Rixen, “Tax Competition and Global Background Justice,” in “Philosophy, Politics & Society,” special issue, *Journal of Political Philosophy* 22, no. 2 (June 2014), pp. 150–77; and Miriam Ronzoni, “The Global Order: A Case of Background Injustice? A Practice-Dependent Account,” *Philosophy & Public Affairs* 37, no. 3 (Summer 2009), pp. 229–56.
- <sup>14</sup> Williams, “Realism and Moralism in Political Theory.”
- <sup>15</sup> Carlo Burrelli, “Political Normativity and the Functional Autonomy of Politics,” *European Journal of Political Theory* (May 2020). Online first publication located at [doi.org/10.1177/1474885120918500](https://doi.org/10.1177/1474885120918500).
- <sup>16</sup> Matt Sleat, “Legitimacy in Realist Thought: Between Moralism and *Realpolitik*,” *Political Theory* 42, no. 3 (June 2014), pp. 314–37.
- <sup>17</sup> Hans Joachim Morgenthau, *Politics among Nations*, ed. Kenneth W. Thompson (Beijing: Peking University Press, 2004); and John J. Mearsheimer, *The Tragedy of Great Power Politics* (New York: W. W. Norton, 2001).
- <sup>18</sup> Matt Sleat, “What Is a Political Value? Political Philosophy and Fidelity to Reality,” *Social Philosophy and Policy* 33, nos. 1–2 (Fall 2016), pp. 252–72.
- <sup>19</sup> Mark Philp, “Realism without Illusions,” *Political Theory* 40, no. 5 (October 2012), pp. 629–49, at p. 636.
- <sup>20</sup> Sangiovanni, “Justice and the Priority of Politics to Morality,” p. 140.
- <sup>21</sup> In previous work, Arlen characterizes oligarchs as agents who maintain personal access to massive wealth and deploy their wealth for public influence. See Gordon Arlen, “Aristotle and the Problem of Oligarchic Harm: Insights for Democracy,” *European Journal of Political Theory* 18, no. 3

- (July 2019), pp. 393–414. See also Jeffrey A. Winters, *Oligarchy* (Cambridge, U.K.: Cambridge University Press, 2011). Although not all wealthy tax avoiders are oligarchs, strictly speaking, we believe the label is instructive when applied to super-rich tax avoiders who also wield political power globally and domestically. For an IR perspective on the global power of billionaires, see Peter Hägel, *Billionaires in World Politics* (Oxford: Oxford University Press, 2021).
- <sup>22</sup> Javier Garcia-Bernardo, Jan Fichtner, Frank W. Takes, and Eelke M. Heemskerk, “Uncovering Offshore Financial Centers: Conduits and Sinks in the Global Corporate Ownership Network,” *Scientific Reports* 7, art. 6246 (2017), pp. 1–10, at p. 1.
- <sup>23</sup> Leonard Seabrooke and Duncan Wigan, “The Governance of Global Wealth Chains,” in “Global Wealth Chains,” special section, *Review of International Political Economy* 24, no. 1 (2017), p. 2. On the geography of sheltering, see also Ronen Palan, Richard Murphy, and Christian Chavagneux, *Tax Havens: How Globalization Really Works* (Ithaca, N.Y.: Cornell University Press, 2010).
- <sup>24</sup> Seabrooke and Wigan, “The Governance of Global Wealth Chains,” p. 18.
- <sup>25</sup> Dick Bryan, Michael Rafferty, and Duncan Wigan, “Capital Unchained: Finance, Intangible Assets and the Double Life of Capital in the Offshore World,” in “Global Wealth Chains,” special section, *Review of International Political Economy* 24, no. 1 (2017), pp. 56–86 at pp. 67–68.
- <sup>26</sup> Winters, *Oligarchy*; and Arlen, “Aristotle and the Problem of Oligarchic Harm.”
- <sup>27</sup> Michelle Hanlon, Edward L. Maydew, and Jacob R. Thornock, “Taking the Long Way Home: U.S. Tax Evasion and Offshore Investments in U.S. Equity and Debt Markets,” *The Journal of Finance* 70, no. 1 (February 2015), pp. 257–87.
- <sup>28</sup> *Ibid.*
- <sup>29</sup> Rick Gladstone, “Pandora Papers: A Money Bomb with Political Ripples,” *New York Times*, updated October 8, 2021, [www.nytimes.com/2021/10/04/world/pandora-papers.html](http://www.nytimes.com/2021/10/04/world/pandora-papers.html).
- <sup>30</sup> Of course, individual taxpayers can establish corporations, so this distinction is always fluid. But, generally, multinational corporations, given the size and scale of their operations, will have distinctive tax and regulatory opportunities.
- <sup>31</sup> Gabriel Zucman, *The Hidden Wealth of Nations: The Scourge of Tax Havens*, trans. Teresa L. Fagan (Chicago: University of Chicago Press, 2015), p. 27–28.
- <sup>32</sup> Michael G. Findley, Daniel L. Nielson, and Jason Campbell Sharman, *Global Shell Games: Experiments in Transnational Relations, Crime, and Terrorism* (Cambridge, U.K.: Cambridge University Press, 2014).
- <sup>33</sup> Garcia-Bernardo et al., “Uncovering Offshore Financial Centers.”
- <sup>34</sup> *Ibid.*
- <sup>35</sup> Daron Acemoglu and James A. Robinson, *Economic Origins of Dictatorship and Democracy* (New York: Cambridge University Press, 2006).
- <sup>36</sup> Bryan et al., “Capital Unchained,” p. 57.
- <sup>37</sup> Dietsch and Rixen, “Tax Competition and Global Background Justice.”
- <sup>38</sup> Mark Philp and Elizabeth Dávid-Barrett, “Realism about Political Corruption,” *Annual Review of Political Science* 18 (May 2015), pp. 387–402.
- <sup>39</sup> *Ibid.*, p. 392.
- <sup>40</sup> On the relationship between global finance and global crime, see J. C. Sharman, *The Money Laundry: Regulating Criminal Finance in the Global Economy* (Ithaca, N.Y.: Cornell University Press, 2011).
- <sup>41</sup> Jason M. DeBacker, Bradley T. Heim, and Anh Tran, “Importing Corruption Culture from Overseas: Evidence from Corporate Tax Evasion in the United States,” *Journal of Financial Economics* 117, no. 1 (2015), pp. 122–38.
- <sup>42</sup> Mike McIntire, Sasha Chavkin, and Martha M. Hamilton, “Commerce Secretary’s Offshore Ties to Putin ‘Cronies,’” *New York Times*, November 5, 2017, [www.nytimes.com/2017/11/05/world/wilbur-ross-russia.html](http://www.nytimes.com/2017/11/05/world/wilbur-ross-russia.html).
- <sup>43</sup> Michael Forsythe, Kyra Gurney, Scilla Alecci, and Ben Hallman, “How U.S. Firms Helped Africa’s Richest Woman Exploit Her Country’s Wealth,” *New York Times*, updated January 23, 2020, [www.nytimes.com/2020/01/19/world/africa/isabel-dos-santos-angola.html](http://www.nytimes.com/2020/01/19/world/africa/isabel-dos-santos-angola.html).
- <sup>44</sup> Shmuel Nili, “Global Justice and Global Realities,” *Journal of International Political Theory* 12, no. 2 (June 2016), pp. 200–16, at pp. 204–205.
- <sup>45</sup> See, for example, David Estlund, “Human Nature and the Limits (If Any) of Political Philosophy,” *Philosophy & Public Affairs* 39, no. 3 (Summer 2011), pp. 207–37.
- <sup>46</sup> David Runciman, “What Is Realistic Political Philosophy?,” *Metaphilosophy* 43, no. 1/2 (January 2012), pp. 58–70.
- <sup>47</sup> William E. Scheuerman, *The Realist Case for Global Reform* (Cambridge, U.K.: Polity, 2011), p. 19.
- <sup>48</sup> William E. Scheuerman, “The (Classical) Realist Vision of Global Reform,” *International Theory* 2, no. 2 (July 2010), pp. 246–82, at p. 247.

- <sup>49</sup> Ibid., pp. 272, 277.
- <sup>50</sup> Rossi, "Being Realistic and Demanding the Impossible," p. 639. See also Ben Cross, "Radicalizing Realist Legitimacy," *Philosophy & Social Criticism* 46, no. 4 (April 2020), pp. 369–89; and Enzo Rossi and Matt Sleat, "Realism in Normative Political Theory," *Philosophy Compass* 9, no. 10 (October 2014), pp. 689–701.
- <sup>51</sup> This is not the only realist strategy to provide normative conclusions. This Weberian argument broadly falls within the tradition of "ordorealism," which places a central concern on the maintenance of order and legitimacy. Another possible strategy is "radical realism," which builds on Marx's skepticism of morality and draws critical power from unmasking ideologies through genealogy critique. Rossi, "Being Realistic and Demanding the Impossible," p. 640. See also Janosch Prinz and Enzo Rossi, "Political Realism as Ideology Critique," *Critical Review of International Social and Political Philosophy* 20, no. 3 (2017), pp. 348–65.
- <sup>52</sup> John H. Herz, *Political Realism and Political Idealism: A Study in Theories and Realities* (Chicago: University of Chicago Press, 1951), p. 143; and Arnold Wolfers, *Discord and Collaboration: Essays on International Politics* (Baltimore: Johns Hopkins University Press, 1962), pp. 47–65. This Weberian strand was also criticized by other early IR realists (for example, Morgenthau) as insufficiently ambitious. For a rich reconstruction of this classic debate, see Scheuerman, *The Realist Case for Global Reform*, pp. 18–35.
- <sup>53</sup> Williams, "Realism and Moralism in Political Theory," p. 12; Amanda R. Greene, "Legitimacy without Liberalism: A Defense of Max Weber's Standard of Political Legitimacy," *Analyse & Kritik* 39, no. 2 (November 2017), pp. 295–324; and Cozzaglio, "Can Realism Save Us from Populism?"
- <sup>54</sup> Max Weber, *The Vocation Lectures: "Science as a Vocation"[/]"Politics as a Vocation,"* eds. David Owen and Tracy B. Strong, trans. Rodney Livingstone (1919; Indianapolis: Hackett., 2004), p. 83.
- <sup>55</sup> Ibid., p. 83.
- <sup>56</sup> Rossi and Sleat, "Realism in Normative Political Theory."
- <sup>57</sup> Williams, "Realism and Moralism in Political Theory."
- <sup>58</sup> As this is an applied paper, a full defense of realist methodology goes beyond its limits. One of the authors pursued such a project in Carlo Burelli and Chiara Destri, "The Sources of Political Normativity: The Case for Instrumental and Epistemic Normativity in Political Realism," *Ethical Theory and Moral Practice*, October 27, 2021, [link.springer.com/article/10.1007/s10677-021-10243-y](https://link.springer.com/article/10.1007/s10677-021-10243-y).
- <sup>59</sup> Raymond Geuss, "The Wisdom of Oidipous and the Idea of a Moral Cosmos," *Arion: A Journal of Humanities and the Classics* 20, no. 3 (Winter 2013), pp. 59–89.
- <sup>60</sup> Manon Westphal, "Theorising Modus Vivendi," in John Horton, Manon Westphal, and Ulrich Willems, eds., *The Political Theory of Modus Vivendi* (New York: Springer, 2018), pp. 1–27, at p. 6.
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Abstract: This article tackles the issue of offshore tax sheltering from the perspective of normative political realism. Tax sheltering is a pressing contemporary policy challenge, with hundreds of billions in private assets protected in offshore trusts and shell companies. Indeed, tax sheltering produces a variety of empirical dilemmas that render it a distinctive challenge for global governance. Therefore, it is crucial for normative political theorists to confront this problem. A realist approach offers three distinct advantages, elaborated in the three subsequent sections of the article. First, it relaxes the theoretical burden by starting from the real practice of tax evasion rather than from an abstract theory of equality or justice. Second, this approach recognizes that sheltering is a *political* harm: a threat to the very maintenance of order, not just a problem of inequality or injustice. If

politicians fail at such polity maintenance, realism's ethic of responsibility provides clear political reasons why they should be held accountable. Third, realism's focus on power and its acceptance of coercion open up new strategies for addressing the problem that would not be allowed by theories with a stronger emphasis on consensus.

Keywords: Tax sheltering, international ethics, political realism, coercion, responsibility, normative political economy