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The Influence of Ideas on Domestic Policy Choices: The Case of Bilateral Tax Treaties

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1. INTRODUCTION

Thispaperexaminesthe role of the Organisation for Economic Co-operation and Development ("OECD") in spreading bilateral tax treaties ("tax treaties")based on the OECD Model Tax Convention ("OECD model")in non-OECD member countries in the 1990s.It asks what conditions must be in place for an idea to influence policy decisionmaking in various national settings, how these conditions are created and by whom.It is argued that historical and sociological institutionalism enhance the contribution of constructivism by incorporating actors in the analysis to demonstrate how some actors create the conditions for diffusing an idea and setting a favourable climate for its influence.Ideas must be bridged with findings from the diffusion literature and incorporate agency to explain how ideas become influential. I argue that a policy idea leads to policy adoption when the policy is in synergy with a paradigm, a problem and public sentiment and is strategically diffused. The processes of synergy and strategic diffusion incorporate the role of specific actors in the analysis of ideas.

This paper develops a theoretical framework on the basis of the literature on ideas and diffusion and applies it to a case study about the OECD's involvement in spreading bilateral tax treatiesto non-OECD member countries in the 1990s. Thesetreaties are signed between two partner countries primarily to prevent simultaneoustaxation of income in both countries. While all tax treaties are not identical, it is important to note that each treaty is modeled on a standard form and its content is fundamentally derived from the OECD model. A tax treaty attributes taxing rights between the residence and the source country, generally favouring the residence country (more frequently an OECD-member country) and limiting the taxing rights of the source country. In this paper, the set of tax treaties signed by one country with other countries is referred to as its tax treaty network.

From 1950 to 1990, 474 tax treaties were signed by at least one non-OECD member country. This number rose to 1,315 treaties by the end of the 1990s.[1] Appendix 1 lists non-OECD member countries involved in the wave of tax treaty signatures in the 1990s. The fact that non-OECD member countries are more likely to be disadvantaged by bilateral tax treaties (Easson 2000; Figueroa 1990; Dagan 2000; Irish 1974) and the lack ofempirical evidence that these countries can benefit fromentering into such arrangements(Baistrocchi 2007)makes it hard to rationally explain this trend.

This paper makes two important and valuable contributions. On the theoretical level, it develops a framework that leads to a more systematic analysis of ideas. On the empirical level, it summarizes an in-depth analysis of the procedure developed from within the OCDE to diffuse and promote ideas.[2]

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

In an era of globalization, or more institutionalized globalization, public policy analysis must incorporate international factors (Doern et al. 1996). Concerns about the international environment in the study of public policyleads to a more systematic analysis of the factors that may have an impact on policy decision. Ideational explanation incorporates ideas that circulate nationally and internationally.

Ideas render interests "actionable" (Blyth 2002: 39). Thispaper argues that interests can be determined in part by the perception of the consequences of some material factors.Ideas alter the

[1]Each treaty is counted only once in these numbers even if both partners are non-OECD member countries.
[2]The case study is presented briefly in this paper. A detailed case study was presented in the author's PhD dissertation submitted to Concordia University in December 2010.

evaluation of the material factors. As noted by Jabko, “From this standpoint, ideas are important not so much as pure beliefs but because, in any given policy area, the parties involved must resort to ideas to articulate and advance their interests” (2008: 8). Consistent with Jabko (2008) and Best (2010), this studycontends that ideas can be used strategically, based on the notion that some actors are purposive and can use ideas to alter the perception of interest. As Ruggie (1998)asserts, interests are socially constructed and research needs to go beyond the impact of material forces.

Ideas have an even more prevalent role when uncertainty prevails (Blyth 2002). Considering that internationalization may increase uncertainty, ideas can increasingly influence the identification of national interests and the evaluation of consequences. Understanding the source of the information on which perception is based and communicating this information is necessary to ascertain the influence of ideas and actors. “Given the complexity and uncertainty of most political economic interactions, appropriate ideas may serve as pivotal mechanisms for coordinating expectations and behavior.” (Garrett and Weingast 1993: 178). Limited rationality point to the needto discover the source of the information and what alters the cognitive attributes of policy-makers (Dobbin et al. 2007).This paper argues, as do Orenstein (2008) and Blyth (2002), that it is not useful to maintain a division between ideas and incentives but rather to address their interrelation. Recent studies in political science (Béland and Cox 2011) and international political economy (Abdelal et al. 2010) also recognize that ideas shape preferences and interests.

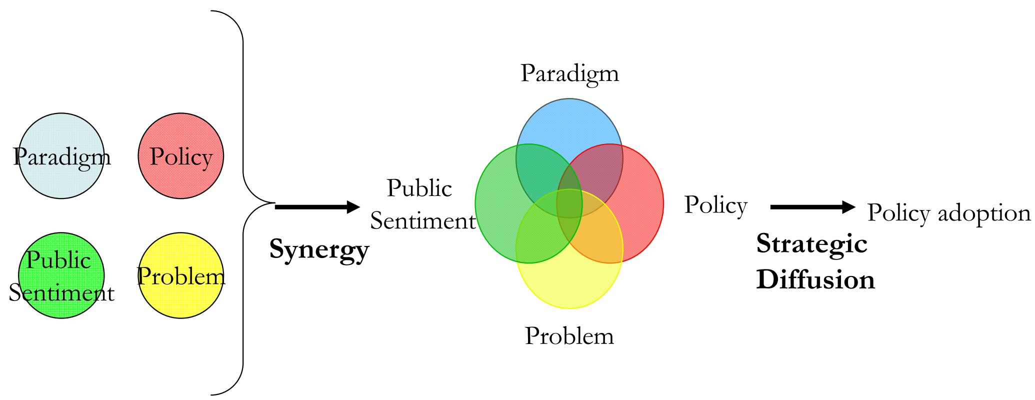
For Martin and Simmons, the question of “under what conditions are constructed focal points likely to gain international recognition and acceptance” (1998: 747) is useful for developing a research agenda on the impact of international organizations as actors involved in the construction of a focal point.Rixen (2008) refers to the OECD tax treaty model as such a focal point. Once a consensus is reached among countries that have an interest in the creation of this focal point, theseinstitutionsmay then impact other states if they can be convinced to cooperate.Rixen (2008) demonstrates that OECD member countries had an interest in the development of a focal point through the OECD, and once the OECD model had been developed and followed by OECD countries, the normimpactednon-members; as a result, “the outsiders voluntarily follow the standards adopted within the OECD” (Rixen 2008: 170).However, Rixen’s analysis does not explain why some (and not all) non-member countries adhered to this focal point at a particular point in time.Knowledge-based theories of regimes are better suited for the type of analysis used in this paper because it addresses “the origin of interest as perceived by states” and posesquestions such as “Where do convergent expectations that are the bases of regimes come from?” (Hasenclever et al. 1996: 206).

Different types of ideas, such as paradigms, problems, policies, programs, and public opinion all interact together.The theoretical framework structures the analysis of this interaction and the role of agents in the process of developing, promoting and diffusing ideas. This paper argues that a bridge must be built between ideas and diffusion in order to analyze the conditions under which ideas are influential. The diffusion literature has centered on explanations of diffusion mechanisms such as coercion, competition, learning, and socialization or emulation (Marsh and Sharman, 2009). This paper contends that these mechanisms should not be addressed structurally, and that actors, such as international organizations (Finnemore 1993), experts or epistemic communities (Haas 1992) play a fundamental rolein the diffusion of ideas.

The framework classifies ideas to explain their different levels and sources within a particular issue. Campbell’s typology (1998; 2004) of ideas is one step toward a more enlightening and systematic approach to ideas.Second, linkages created among different types of ideas are discussed through the concept of synergy to understand the role played by different ideas and the relationships among them.The framework also considers the mechanism or strategy (strategic diffusion) through which an idea reachesand influencesrelevant policy-makers. Agency is incorporated in the analysis of synergy and strategic diffusion.

It is important to note that ideas and the above processes do not evolve in stages;thefour types of ideas shown in the following chartinteractwith each other and evolve simultaneously. Synergy and strategic diffusion may also occur simultaneously.

Theoretical Framework



Synergy is defined as a harmonious combination or compatibility of different types of ideas. The creation of a synergy refers to the construction of an advantageous conjunction of different types of ideas.

Strategic diffusion is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means

Figure 1. Illustration of the theoretical framework.

2.1 Definition of Ideas

Campbell's typology (1998; 2004) distinguishes between four types of ideas: paradigm, public sentiment, frame and program.Taken one step further, this typology allows us to fully understand the dynamics of ideas.

Table 1. Typology of Ideas (Based on Campbell 1998).

	Foreground	**Background**
Outcome-oriented	Programs (or "policy")	Paradigms
Non outcome-oriented	Frames (or "problem")	Public sentiments

2.1.1. Paradigm

A "paradigm" is an elite assumption constraining the cognitive range of possibilities in policy-making.In addition to its direct reference to a policy, a paradigm also relates toproblems and public sentiments. It may therefore be defined as an elite general preconception that justifies or constrains specific choices. This definition is consistent with that put forward by Haas, i.e., a "set of normative and principled beliefs which provide a value-based rationale for the social action of community members" (1992: 3).Hall's (1993) definition of "policy paradigm" operates in the same vein but perhaps more generally.

2.1.2 Public Sentiment

According to Campbell, public sentimentrefers to public opinions, values, norms, identities, and other "collectively shared expectations" (1998:96).These "sentiments" determine which policies are seen as acceptable by the public, and can constraina policy-maker's decision(Risse-Kappen 1991; Page and Shapiro 1983; Burstein 2003).While the causal relationship between public opinion, elite or policy-makers' preferences and the policy outcome is debatable, the theoretical framework suggests that a policy is more likely to be adopted if it is in sync (or at least not in opposition to) with a dominant segment of public sentiment.

Burstein (2003) arguesthat the more salient an issueis,the more likely it isto impact onpublic opinion.Therefore, the level of saliency or the "politicization" of an issue is relevant for determining the circumstances under which public sentiment forms and may influencepolicy-making. On the other hand, very technical and complex issues may limit public scrutiny leading to no dominant public sentiment emerging on the issue (Scala, 2003).

2.1.3Problem

A problem is a question or difficulty raisedin regard to an issue that needs to be solved in order to reach objectives dependent upon perceived interests and preferences.Campbell(1998) refers to "frame" and "framing".Framing is the action of constructing a problem. However, a type of idea is more efficiently defined as a problem in the theoretical framework sinceit must first be defined along the same axes as other types of ideas.Referring to March and Olsen (1989) and Kingdon (1984),Weyland mentionsthat, "The very identification of problems is not purely objective; advocates of policy proposals commonly seek to persuade decision makers that there actually is an important difficulty to resolve" (2004: 12).It is possible that the perception of a problem differs, varies and changes. "Problems do not simply exist out there as objective facts; they are defined as problems by some actors (often an IO) through a process of social construction (Edelman, 1988)" (Barnett and Finnemore 2005: 179).

2.1.4Policy

"Policy"replaces what Campbell (1998; 2004) calls "program." For Campbell (1998; 2004),a program is an elite prescription enabling policy-makers to adopt a specific course of action. The program in itself has a better chance of being adopted when it is simple and packaged properly.The format of this type of idea influences its possible adoption. For Weyland (2004), specific policies and programs can become a model. A model "prescribes an integrated solution to a perceived problem" (Weyland 2004: 7). Therefore, policies can be an instrument (Hall 1993), a specific program or a specific set of policies such as a model.

2.2 Synergy

The typology is based on two axes (See table 1) which suggest that these types of ideas interact with each other. A paradigm is in the background because it informs and constrains decisions. Public sentiment is also in the background because it construes what is seen by the public as being credible and legitimate. These two types of ideas are filters altering the broad views of policy-makers and their evaluation of the problems and solutions. On the other hand, a policy is a proposition or a suggestionand isin the foreground of the policy-making process. Problems are also in the foreground, because they identify and circumscribe an issue that may require future action.

The second axis determines if the idea is more or less outcomeoriented. A paradigm is outcomeoriented because it includes broad views about options and alternatives.A policy or program is obviouslyeven more outcomeoriented, whereas aproblem is not. A problemdemonstratesthe need to act but does not directly determine what the action should be. Furthermore, public sentiment does not lead to a specific outcome but expresses a general perception of what is acceptable.

Connections and interrelationsamong different types of ideas are discussed in the literature, but an integrated approach based on the foregoing typology of ideas provides a better understanding of these relationships. The synergy existing or created among the four types of ideas can explain why one idea is more influential than another.This synergy is defined as a harmonious combination or compatibility of different types of ideas, while the creation of synergy refers to the construction of an advantageous conjunction of different types of ideas. Synergy can be created by either demonstrating how the idea conforms to other accepted or dominant types of ideas, or by altering different types of ideas in order to obtain some consistency. An idea thenbecomes easier to adopt.One or many actors' involvement may be necessary to develop an idea and create synergy.

Authors such as Sikkink (1991) and Hall (1993) also recognize some form of relationship among different types of ideas. For Sikkink (1991), ideas are stronger when a form of consensus is reached, especially when the idea fits with the ideological and institutional structure.Goldstein (1993) indicates that ideas vary in their fit and thus their affinity to a political environment. Moreover, the role of agency in creating that "fit" is recognized, and "if entrepreneurs do not make these connections even the most functional of ideas invariably will be ignored" (Goldstein 1993: 255-56). Hall (1993) argues that the perception of a problem and its solution depends upon the dominant paradigm.This point of view assumes that a form of hierarchy or at least an interrelation among these three types of ideas exists.The role of specific actors in the promotion of a positive relationship among the types of ideas is underestimated in the literature.

The process of coupling in Kingdon's approach (Kingdon 2003) to agendasetting is similar to the concept of synergy. However, synergy does not happen randomly, butit is a strategic process. As Béland (2005) notes, the framing can take place beyond the agenda-setting process.Therefore, synergy is created among different types of ideas throughout the policy-making process, from the definition of interest to identification of a problem, development of public sentiment, and, lastly, choice of a particular program.

The concept of synergy exists under different forms in numerousstudieson ideas and the transfer or diffusion of policy. For example, an analysis of the World Bank's role in pension privatization in many countries reveals that a document entitled "Averting the Old Age Crisis" published by the World Bankin 1994 supported such a synergy (Orenstein 2008) and helped to reshape interestsand preferences. The document defined the problem of demographic aging and furthermore criticized the relevance of existing pension policies while advocating a model of pension privatization as a viable policy option.

2.3 Strategic Diffusion

Diffusion of ideas isreferenced in international relations and comparative research agenda studies(Acharya 2004; Weyland 2005; Finnemore and Sikkink 1998; Simmons and Elkins 2004; Dobbin et al. 2007; Brooks 2005). Certain studies in these and other areas include the role of international organizations among factors that must be analyzed in a context of diffusion (Stone 2004; Haas 1992; Finnemore 1993; Dolowitz and Marsh 2000; Orenstein 2008; Barnett and Finnemore 2004).

The relationship of ideas with time and space is directly linked to the notion of agency (Ruggie 1998).Thispaper combines ideas and actors in the process of synergy and strategic diffusion in order to take a step back from other approaches and explain how an idea comes to be known as appropriate (from the standpoint of the logic of appropriatedness) or as the best alternative (from the standpoint of the logic of consequences) (March and Olsen 1984).

In the theoretical framework, "strategic diffusion" is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means. This action encompasses the strategic use of mechanisms such as learning, coercion, socialization, teaching and persuasion. By direct and indirect means, the concept of "strategic diffusion" includes activities organized around the promotion of the idea itself, networking to ensure the idea circulates, and even the promotion of the actors' characteristics to give their idea credibility. In addition, diffusion not only refers to formal transfer but also to more informal transfer of policies (Stone 2004) or to teaching norms (Finnemore and Sikkink 1998; King 2005).For ideas to be influential ("usable knowledge"), they need to be salient, credible and legitimate (Haas 2004). An idea does not have these characteristics in itself but can be perceived as such, depending on the source of the idea and how it is promoted(Mintrom and Vergari, 1998).Therefore, including specific actors such as the developer and the broker of ideas, and the incorporation of diffusion mechanisms in the analysis aids in understandingwhy an idea is perceived as having the foregoing characteristics.

This paper emphasizes the type of diffusion under which an idea can spread globally through a pivotal actor's action with regard to a specific idea. Diffusion approaches, such as a regional influence or leader-laggard influence (Berry and Berry, 1990), demonstrate how external factors such as proximity can determine the diffusion of a policy. Learning approaches also aim to highlight how policy-makers can learn from success, communication or cultural reference groups (Simmons and Elkins 2004). However, these approaches do not lead to understanding the role of a specific actor who provides learning activities and convinces targeted countries at the international level. For many diffusion approaches, the fact that an idea spreads among neighbouring states, for example, is explained by emulation among them. Bennett (1997) indicatesthat the adoption of a policy in a country can be attributable to policies adopted in other countries only if it is demonstrated, among other things, that "policy makers are aware of the policy adoptions elsewhere."

To complement the diffusion literature, the theoretical framework addresses diffusion as arising from the actions of an actor, thereby adding agency to the explanation. Many studies have clarified the role of a policy entrepreneur (Kindgon 2003; Béland 2005; Mintrom and Vergari 1998; Radaelli 1998b), but did not directly address how an actor's specific actions can be important for diffusing an idea and how the actor can act strategically. Policy entrepreneurs are the link between an idea and its diffusion and merit far greater attention, especially when the policy entrepreneur is an international organization whose influence has been overlooked, such as the OECD. Marsh and Sharman (2009) argue that insights from policy transfer literature can enlighten the diffusion literature and vice versa. They indicate that while diffusion literature is generally more structuredriven, the important question of "who transfers policy?" is overlooked. Furthermore, Mintrom and Vergari explain that the role of networks in diffusion can be better considered if the "networking activities of policy entrepreneur"(1998: 130) are analyzed. Although their study is about American state politics, the authors assert that the same reasoning may be applied to other settings: "we contend that policy entrepreneur who can manipulate the resources in policy networks will be the most able to make convincing arguments on behalf of the policy innovations they are promoting" (1998: 130). Stone also recognizes that some actors are more "visible, persuasive, or powerful than others" (2008: 21). Orenstein (2008) argues for the need to include transnational actors in explaining a domestic policy decision and maintains thatstudiesshould be inclusive and consider any transnational actors that could have influenced a policy decision. However, his study of pension reform emphasizes mainly the role of the World Bank.

The OECD is seen as an important actorin many studies (Lazer 2005; Marcussen 2005; Mahon and McBride 2008; Armigeon and Beyeler 2004). Mahon and McBride identify the OECD as "an important node in" transnational networks (2008: 83) and indicate that the organization plays an inquisitive and meditative mode of governance. Similarly, Radaelli (2005) refers to informal and formal governance by the OECD, while Webb highlights the important role played by a "large permanent secretariat of the OECD in developing consensus and mobilizing peer pressure." (2004: 792). As Djelic and Sahlin-Andersson (2006) note, these organizations' own projects and interests are reflected within the diffusion processes of their ideas which can occur through inquisitive and meditative roles in governance.

The papernow argues that agency must be included in an explanation of the influence of ideas. The concepts of synergy and strategic diffusion highlight how agency can be incorporated in an explanation bridging ideas and diffusion. While the paper's empirical analysis focuses on an international organization as an actor, it recognizes that other actors can be involved in the spread of an idea and its adoption.

3. CASE STUDY: THE OECD'S INVOLVEMENT WITH BILATERAL TAX TREATIES AND NON-OECD MEMBER COUNTRIES

A case study[3] based on the theoretical framework explains the OECD's role in the increase of tax treaties signed by non-OECD member countries in the 1990s. As per Orenstein, "…methods for studying transnational actor influences on domestic policy remain in their infancy" (2008: 7). The study of an international organization's involvement with a particular policy conducted through the theoretical framework helps clarify the internal dynamics of a transnational policy actor, its objective and the specific mechanisms of its influence (as Orenstein (2008) did for the World Bank and pension reform). Since the tax community views the OECD as a central actor in tax treaties (Avery Jones 1999), the organization is expected to have been involved in the creation of synergy and to havestrategically diffused the idea of the bilateral tax treaty.

3.1 Creating and Maintaining Synergy

Through the case study, three types of ideas were identified: market economy as the paradigm, double taxation as the problem and the bilateral tax treaty as the solution. The study also illustrates how the OECD has maintained linkages among the three types of ideas and strategically promoted its policy option to non-OECD member countries in the 1990s. The OECD's work was not concerned with any

[3]The case study was conducted through an analysis of numerous OECD documents, from public reports or papers to documentation obtained upon request from the OECD's archives, and consisting of minutes of diverse bodies that work either on BTTs or non-OECD member countries' relationships with the OECD. This paper refers to a portion of these documents; the complete list is available from the authors upon request. The information gathered from the documentary analysis was corroborated or completed by semi-structured interviews with key OECD officials who specialized in either tax treaties or relationships with non-member countries. Because of the restricted number of high OECD officials involved, the paper does not refer directly to the content of these interviews to preserve confidentiality.

public sentiment, however. The case study reveals that the organization kept the discussion on the issue at a technical level only, resulting in limited public involvement in this complex matter.

3.1.1Paradigm: Market Economy

The case study demonstrates how the OECD's mandate and work have been associated with the global market economy paradigm since the organization's inception (OECD 1960). The OECDhas been promoting the global market economy as necessaryto provide growth and development. The global market economy paradigmhas led to the identification of specific problems, particularly double taxation, as well as its solution in the form of the bilateral tax treaty. In the late 1980s and early 1990s, the OECD Council often reiterated the basic values of the organization and its members--democracy, human rights and market economy. The Council also established that the organization needed to further promote and be proactive in collaborating with non-members in establishing and maintaining the prevalence of the global system.

The OECD's work is based on the belief that freedom of capital movement, technology transfer and exchanges of goods and services are essential for economic development (CFA 1989a).The paradigm therefore points to specific problems and solutions. As early as 1988, The Committee for Fiscal Affairs' ("CFA") Working Party No.1 indicated that if the OECD was to address tax obstacles to international capital movement, it should also consider that tax treaties have a positive effect on international flows of capital (WP1 1988a).

The collapse of communism led to the adoption of a more promising market economy paradigm by former communist countries. Many countries therefore tried to develop a market economy in the early 1990s, aparadigm shift that operated a "third order change" (Hall 1993). Theoretically, these transition economies were expected to look for the implementation of alternative policies in accordance with this new paradigm. The OECD Council took note of the paradigm shift, or what was referred to as the change in the "intellectual climate"(OECD 1991b) and promoted its comparative advantage in assisting countries in their transition (Group of the Council on Non-Member Economies 1993a).

At the 1993 ministerial council meeting, it was stated that because the organization "symbolizes the market-oriented economic philosophy" (OECD 1993), it needed to develop a strong relationship with Russia; otherwise it would be sending the wrong signal at the global level. The organization was perceived as holding keys to good policymaking with regard to the market economy, but it also wanted to maintain this image and ensure it was associated with efforts to develop market economy systems.

The Group of the Council on Non-Member Economies stated that "The OECD/CCEET, in recognising the importance of foreign direct investment, has given priority to activities that facilitate and promote the flow of foreign direct investment to the CEECs and the republics of the NIS" (CCET 1994a: 36). Taxation and particularly tax treaties were a major component of this program for policy advice to transition economies. "The training courses prepare the ground for policy advice and legislative development by introducing the officials of the countries to the concepts of taxation in market economies" (CCET 1994a: 36).

3.1.2. Problem: Double Taxation

The case study reveals how the OECD focused on the fact that countries that liberalize their economy necessarily have a problem of double taxation,limiting the foreign direct investment (FDI) these countries need to attract, and that a tax treatyis the most relevant solution to this problem.

In a market economy system, countries wish to attract the most FDI possible to increase national wealth. According to the OECD's argument, not only do non-members need to ensure that there is no barrier to capital movement but they should also ensure that their policies attract FDI in order to increase their standard of living and level of development(Group of the Council on Non-Member Economies 1992). This paradigm and the argument that it supports alter the cost-benefit analysis in national policymaking.If a possible barrier to free trade is identified, a country's cost for doing nothing is perceived as high, maybe higher than the cost of adopting a policy, even if the problem is not demonstrated or quantified.The problem is further compounded if there is no counter-argument to support the view that the cost of adopting a policy could be higher than the cost of doing nothing.

In this context, identifiedbarriers to free movement of capital are problems that need to be solved. The OECD has argued that free movement of capital is restricted because of a global problem of double taxation potentially affecting international investment, which would be taxed in the source country as well as in the investor's country of residence.The problem of double taxation was identified in developed countries in the early 1900s as a result of the interaction of similar national tax systems.The OECD's work with non-member countries in the 1990s began on the premises that these countries were facing the same potential problem regardless of the particularities of their tax systems.

While the OECD has regularly acknowledged that taxation is not the only determinant factor for FDI and may be even less important than other factors, tax obstacles are often referred to in introducingdiscussions or conferences on topics such as tax incentives, tax rates and tax treaties.The OECD has identified the potential for double taxation as a major problem but has not provided any hard evidence that a problem exists or that there is a need to solve it through tax treaties, particularly as regards non-OECD member countries.

The OECD was a catalyst in identifying theproblem and promoting a solution, allowing for policy transfer to occur in many countries in the 1990s.The OECD played a major role in “anchoring” (Weyland 2005) problems within a particular context and matching a solution to them. In designing its activities, the OECD considers that the multilateral activities provided for non-member countries help identify common problems, after which the organization's in-country missions galvanize actions to solve the identified problems (CCET 1996a).

3.1.3. Public Sentiment

Interestingly, the OECD in its discussions about tax treaties never brought up political issues such as impact on national sovereignty, consequences for national tax revenues or international tax equity issues. The OECDgenerally conducted its discussions with government officials more than with politicians, which may have helped depoliticize the issue.Therefore, no political debate on tax treaties was fostered within the organization, possibly insulating the idea from public scrutiny.The case study reveals how the OECD always controlled the discussions around tax treaties and kept them at a technical level. Reconsidering the idea of bilateral tax treaties fornon-member countries was never discussed as a possibility during the course of the OECD’s work. During this period, the organization never had to address public pressures from non-OECD member countries in regard to tax treaties.

The tax treaties case is different from other more publicly known OECD projects, such as the harmful tax competition program aimed at preventing some countries from developing into tax havens.The use of offshore tax shelters has made the headlines and raised public awareness.Conversely, tax treaties have not been publicized, and even though they can create problems of non-taxation (Rixen 2008), the public is generally unaware of their impact.

Another enlightening case is the MAI (multilateral agreement on investment) failure.The OECD presented this agreement as a necessary set of rules to liberalize and govern international investment.According to Woodward (2004), civil society groups were virulently opposed to this agreement because they saw it as offering protection to investors to the detriment of consumers, workers and the environment.The anti-MAI campaign attracted many groups to Paris to disrupt an OECD meeting. This opposition has been identified as one of the factors causing the MAI’s failure in 1998.

3.1.4. Policy: Bilateral Tax Treaty

Although bilateral tax treaties are the main subject of this paper, the case study demonstrates that they are intrinsically associated with the concept of tax treaty networks. The advantages promoted by the OECD are considered to be enhanced by the development of such networks. Tax treaties have always been a priority for the OECDand part of the organization's work since its creation.The OECD also capitalizes on the fact that the OECD model was already the basis of the global bilateral tax treaty network (mainly among non-OECD member countries) before the 1990s(Owens 1993: 41).

When assistance programs were implemented in the early 1990s to help transiting economies, tax treaties were one of the most prominent topics of conferences, seminars and workshops.The documents released in that period do not allude to any official discussions within the OECD about multilateral agreements. Bilateral agreements were presented as the only relevant solution forthe many taxation issues that arisein a global market economy, most notably double taxation.The case study reveals that bilateral tax treaties as a general idea and the OECD model in particular are indistinguishable. It would probably be fair to state that the history of tax treaties can be recountedonly in connection with the OECD model.

The OECD model has been promoted as the best way to develop a tax treaty network because it is the most widely used international standard and the model most familiar to multinational enterprises.By becoming familiar with this model and its updates,application and interpretation, non-member countries could more easily consider signing tax treatieswith other countries.The analysis demonstrates that the OECD model served as the basis of the development of tax treaty networks and as the benchmark forsuch development.

The OECD model was published for the first time in 1963.At thattime, the organization's mandate was to develop a model that would facilitate the expansion of tax treaty networks in developed countries. In the 1990s, the organization saw the potential of expanding the use of the treaty and its model beyond member countries.As long as the OECD remains the principal policy entrepreneur for the idea of bilateral tax treaties and the OECD model, the evolution of this idea is path dependent, and the concept upon which the idea is based is less likely to be reconsidered.The OECD is the guardian, expert and promoter of the idea, and its role is facilitated through the model and complete tax treaty implementation package the OECD has developed.To facilitate adherence to the OECD model, the organization has developed an entire range of materials to explain how the OECD model should be applied and interpreted.The more tax treaties are signed and the OECD model is used, the more the OECD’s role as an international standard setter is supported.

The OECD itself has elevated its own model to the status of an international standard. It has indicated that itstax treatyactivities resulted in its model being considered as an acceptable standard by non-members (CFA 1995a: 5). Studies conducted outside of the OECD also support this statement: “At the heart of the institutional setup of international taxation, are the bilateral tax treaties, and the OECD MC, which was developed in a multilateral setting. Basically, all bilateral tax treaties follow this convention, with some deviations in crucial provision” (Rixen 2008: 99).

3.2 Strategic Diffusion of Bilateral Tax Treaties

The collapse of communism at the end of the1980s and the emergence of many newly independent states hasundeniably created a window of opportunity for the promotion of ideas bypolicy entrepreneurs. The OECD actively took onthis role for its market economy ideas, particularly in regard to bilateral tax treaties. During the 1990s the OECD consistently increased the number of non-members to which it offered assistance and converged and expanded its strategy to include other non-member states, creating contacts with more non-members and targeting some of them more vigorously, from Central and Eastern Europe, new independent states, economies in transition, to dynamic Asian economies and dynamic non-member economies.

Organized diffusion is the proactive and purposeful promotion of an idea and synergy among different types of ideas through direct and indirect means. The case study demonstrated that the OECD organized the diffusion of bilateral tax treaties and its outreach to non-members.

By the late 1980s, the OECD had developed a dialogue with Dynamic Asian Economies (DAE)as it recognized that they were becoming important components of the world economy. However,a major turning point occurred in 1990 when the OECD decided to further its dialogue with DAE but also to help integrate transition economies into the global economic system. One of the OECD's concerns during the following decade was to strengthen co-operation with non-members. The organization was seeking to promote the process of economic reform based on its principal strengths and expertise by hosting meetings, seminars and so forth. The OECD developed general linkages with non-members to help develop and maintain the global market economy.

Taxation became a key component of this assistance, and tax treatiesa main recurring theme in OECD taxation seminars, workshops and in-country programs. The CCEET reasoned that tax treatiestook up much of the assistance programmeby the fact that the OECD specialized in it. A large number of tax treaty activities were conducted despite the fact that there was no urgency for the countries involved to sign treaties so quickly and intensively (CCET 1996b).Among other taxation topics were the establishment of a legal and institutional framework, including reforming the tax system, implementing an efficient administrative function, and developing reliable statistical information for the market economy.

The first important events which marked the beginning of a new era for the developmentof relationships between the OECD and non-membersweretwo seminars held in June 1990,“Foreign Direct Investment in Central and Eastern Europe” and “Taxation Relationship and International Investment Flows between Member and Non-Member Countries.” These events marked the beginning of the OECD's active promotion of tax treaties with non-members in 1990.

3.2.1. Promotion through Direct Means

<u>Assistance to Central and Eastern European countries</u>

In 1990, the CCEET (Centre for Co-operation with European Economies in Transition) was created to coordinate the OECD’s efforts to help economies transition to a market economy. The CCEET was not distinct from the OECD but was a body mandated to catalyze and organize advice and technical assistance on the OECD's areas of expertise for European Economies in Transition.It was replaced by the CCET (Centre for Co-operation with Economies in Transition) in 1994 and the CCNM (Centre for Co-operation with Non-Members) in 1998. Since the OECD has argued that tax treaties are a necessary component of a market economy system and that they prevent double taxation, which hinders the flow of capital, treaties were merged into the program in the very first years of assistance to these countries.

The responsibility for taxation policy assistance within the CCEET program was assigned directly to the CFA in 1990. The CFA has beena well-organized committee very active in exchanges about international taxation issues and standard setting through many working parties specializedin different topics, such as Working Party No.1,which was responsible for tax treaties and the OECD model. Taking on a leadership role with regard to taxation policy assistance, the CFA used its expertise in specific areas and ensured that its work was diffused beyond the OECD member base. The CCEET affirmed that taxation was an area with a specific approach to assistance, reporting in 1993 that the OECD's strength in regard to international taxation in general and bilateral tax treaties in particular was widely recognized, which explained the prominence of taxation within the CCEET program. While the objective of the tax program was to assist economies in transition in developing institutions compatible with the market economy, the CFA always ensured that its domain of expertise was tied to the assistance. Its assistance was developed in accordance with the OECD's general priority to build a "treaty, legislative, administrative and statistical framework" (CCET 1996a). Tax treaties were among the organization's highest priorities,but not necessarily among the prioritiesof economies in transition at that time.

The organization's technical taxation assistance took many forms: meetings, seminars, training session and in-country assistance. The diffusion of bilateral tax treaties was strategically merged with broader taxation and foreign investment issues, and many different tax treaty activities were organized.

To provide the facilities for training andincrease networking between OECD countries and non-members, the OECD established multilateral tax centres in Vienna, Copenhagen and Budapest in 1992 and in Ankara in 1993. The centres' objective was to increase the expertise of officials dealing with taxation issues in transition economies, particularly the administration of their tax system and international taxation, including the role of tax treaties. The centres also helped countries develop national tax schools. The CFA supervised the centres' activities (topics, content, speakers and participants), including the many tax treaty courses.

In 1993, the OECD, jointly with the Russian Tax Service, the European Union and member countries, created the Moscow International Tax Centre to provide similar training on strategic management and technical tax issues. In 1997, a new multilateral tax centre was established in Korea to facilitate contact with Asian countries.

Some countries were targeted through a more intense program calledPartners in Transition. These countries, the Slovak Republic, the Czech Republic, Hungary and Poland, received special assistance from the OECD in order to implement an institutional structure geared to a market economy system and adhere to international standardsfor the purpose of eventually gaining access to OECD membership. One of the conditions for membership wasto have a tax treaty network closely aligned with the OECD model.

In 1992 assistance for Baltic countries was even more closely aligned with tax treaties. The CFA helped Latvia, Lithuania and Estonia negotiate treaties with Nordic OECD member countries.In 1994, the OECD and Russia made their co-operation relationship official (having started it with the Soviet Union). The OECD had been working with Russia to offer advice on many different topics; Russian officials participated in OECD training activities, mostly at OECD tax training centres in Copenhagen and Moscow. In 1995, a further step was taken to provide in-country advice for some countries identified as having the potential to adhere to OECD standards such as Bulgaria, Romania and Slovenia.

Each step of the assistancegenerated enthusiasm and an expectation or interest for the next step and all were certainly useful in getting non-members to transition from no treaty at all to many treaties close to the OECD model (CCET 1993b: 3-4).

Dialogue with dynamic economies

Some Asian economies had signed a fewtax treaties before 1990 to protect the efficiency of their tax incentives. The bilateral tax treaty diffusion strategy was therefore different for these countries; the relationship was developed around an exchange rather than a teacher-student association. The dialogue with Dynamic Asian Economies began at the end of the 1980s. The OECD wanted to expand its knowledge about these countries and foster a convergence of views where appropriate.

The dialogue intensified in the 1990s, and in 1993, the CFA identified three priorities for these countries: tax treaties, information exchange, and counteraction of international tax evasion and avoidance. These three topics are not unrelated, and, in fact, can all be associated with tax treaties.

The dialogue was then extended to some Latin American dynamic economies (Brazil, Argentina and Chile)in the mid-1990s. In 1995, Latin American countries were invited to a meetingin Mexico dealing exclusively with tax treaties, so that the OECD could strengthen its contacts with these countries.

Committee for Fiscal Affairs – Outreach Activities

The CFA took on a highly entrepreneurial role in the diffusion of its standards and norms. In the mid-1990s, its early experience with CCEET activities led the committee to develop its own outreach program. Under this approach, tax treaties were to remain a major theme for discussions with non-members to help them understand and share the international normspromoted by the OECD. Therefore, one objective was clearly stated as helping non-member countries to better comprehend the role of tax treaties, the OECD model and the importance of tax treaties in establishing a favourable framework for international investment and trade (CFA 1994b).

NetworkBuilding

Not only did the OECD strategically organize a diffusion of the idea and combined bilateral tax treaties in an advantageous manner with a paradigm and a problem, it also created and maintained a network of policy-makers around its idea. Networking was part of the strategy for the diffusion of the OECD's ideas to non-members. The OECD also always insured that participants from non-member countries were high-level officials involved in policymaking. Therefore, participants to be trained intax treaties and the OECD model would be officials who were to be involved in the development of a treaty policy within their country and in the negotiation of these agreements. Clearly, the OECD created linkages with pivotal domestic actors in many countries.

It is noteworthy that the tax treaty solution is bilateral but the OECD uses multilateral networking activities to ensure that the bilateral solution is followed. Networking activities foster emulation. Whennon-members know that others are going along with tax treaties, then the perceived benefit associated with getting on board is more interesting than the perceived cost of not signing a tax treaty.

3.2.2. Promotion through Indirect Means

The organized diffusion of ideas includes the indirect means used to promote ideas. The indirect means support the idea by increasing its credibility. The promotion of an international consensus around the idea and the promoter's or developer's expertise can certainly constitute additional persuasive arguments.To preserve its moral authority(Barnett and Finnemore 2004), the OECD promotedbilateral tax treaties as an internationally accepted norm. The neutral status of the organization is also necessary to support this moral authority. Furthermore, to remain an expert and ensure that the organization maintains its status as "an authority" in tax treaty matters, the diffusion strategy includedthe promotion of OECD expertise and "neutrality." The OECD's perception of its own role is important to the manner in which it organized the diffusion and promoted its own expertise. The OECD posited itself as a neutral expert andthe best policy entrepreneur in regard to tax treaties, among other areas.

The organization referred to the need to transfer knowledge outside its membership in areas where it had a comparative advantage and where it held specific and almost exclusive expertise.

Because the organization had been the developer of a model and the gatekeeper of this idea for over 30 years, tax treaties were among the issues in which the OECD unequivocally recognized itsown comparative advantage.

The organization's expertise also relies on its many sectors and cross-functional perspective. Its economic policyexpertise has been renowned for many years, and most likely explains in part why countries in transition toward a market economyhave turned to the OECD for help. The organization has elevated itsexpertise over any political or economic interest and routinely justified dispensing advice and training policy-makers from the above-referenced countries as good policy-making in the implementation of a market economy system.

Expertise can be confused with objectivity, particularly in the field of taxation. The OECD referred to the uniqueness of its expertise and history and its wealth of economic development experience to make a persuasive case that it is the one organization better positioned to help countries transition from a controlled to a market economy and become part of the global economic system. The OECD's permanent taxation staff members are recognized as experts in their field by CCET participants, who have also agreed on the superior competence of the organization's expertsand their accessibility (CCET 1996b).

Expertise and neutrality reinforceeach other.The OECD publishes reports and surveys, based on scientific information gathering and analysis methods. The documentation strives to present facts about a country's economic position as objectively as possible. This methodis probably central to feeding perceptions of the organization as a neutral actor.

The OECD affirms that it offers a neutral forum distinct from anything that may be offered by a country with specific interests and preferences and claims it has no goal other than improving the functioning of the global market economy and increasing global living standardsas a result.The OECD might present the pros and cons of many alternatives used in OECD member countries and offer a full picture that member countriesmay not have the chance to see on a purely bilateral level, but in the case of tax treaties and the OECD model, the OECD promotes its option directly and undoubtedly restricts the range of alternatives to those that fit concepts and solutionsof its own design.

To support its neutral status, the OECDdistinguishes itself from international organizations that provide financial aid.Policymakers' perception of neutrality extends to the political realm, and neutrality is useful in supportinga policy recommendation within a national political debate. In these circumstances, politicians are more likely to be convinced to follow a recommendation when it is perceived as objective and neutral.

4. CONCLUSION

This paper aimed at first, demonstrating through a literature review how some approaches focusing on ideas and diffusion are complementary and can be combined into a theoretical framework that can be used for a broader and more systematic analysis of the conditions under which an idea influences policymaking and the path to creating such conditions. The theoretical framework is based on findings from a review of earlier constructivist studies as well as from historical and sociological institutionalism, which explains how ideas lead to the adoption of policies. The paper also argues that it is necessary to bridge ideas with processes of diffusion and agency to formulate a relevant theoretical framework for studying the relationship between ideas and policy adoption.

The case study demonstrates that the OECD created the conditions under whichnon-OECD member countries in the 1990s could accept the concept of bilateral tax treaties. The organization created and maintained a synergy among the concept of bilateral tax treaties, the market economy paradigm and the obstacles to attracting FDI, such as double taxation. While the case study does not lead to establishing linkages between tax treaties and public sentiment, its details have shed light on how the OECD consistently treated tax treaties as a technical matter and insulated the concept from public scrutiny. The organization also strategically organized the direct and indirect promotion of tax treaties to non-members to convince them to sign many bilateral treaties. By focusing on the type of ideas within a specific issue and the synergy among these ideas as well as strategic diffusion, the theoretical framework helps elucidate the OECD's role in the spread of tax treaties in non-OECD member countries in the 1990s.

The case selected presents some limitations. For Dolowitz and Marsh (1996), the question, “Who are the key actors?” in policy transfer is relevant. While the paper focuseson the analysis of one key actor, a full range of possible actors was not examined. The case study confirmed that the organization took a leadership role in the promotion of tax treatiesbut probably was not the sole actor. Italso does not indicatewhether private interests were influential in certain countries signingtaxtreaties and does not address domestic factors. Case studies of individual countries might reveal how domestic actors or institutions supported or restrained the development of a tax treaty network.

Appendix 1

Two groups of countries contributed to the increase in tax treaty signatures in the 1990s.

Countries in the firstgroup have signed tax treaties at a fast pace since 1990. Thirty countries have experienced this development path; they are from every region but mostly Europe and Asia. Some of them had signed only a few prior to 1990. Their treaty partners vary from one network to another, and there is no clear trend of treatiesbeing signed with OECD members or with partners in the same region.

Albania	*Israel*	*Mongolia*
Algeria	*Jordan*	*Russia*
Argentina	*Kazakhstan*	*Serbia & Mont.*
Armenia	*Kuwait*	*Slovenia*
Azerbaijan	*Kyrgyzstan*	*South Africa*
Belarus	*Latvia*	*Taiwan*
Chile	*Lithuania*	*Un. Ar. Emirates*
Croatia	*Macedonia*	*Uzbekistan*
Estonia	*Mauritius*	*Venezuela*
Georgia	*Moldova*	*Vietnam*

Countries in the second groupstarted developing tax treaty networks prior to 1990 but have more intensively expandedtheirnetworks since that time.

Bangladesh
Bulgaria
China
Cyprus
Egypt
India
Indonesia
Malaysia
Morocco
Pakistan
Romania
Singapore
Thailand
Tunisia
Ukraine

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