

METHODOLOGICAL NOTE

The empirical exercise uses the seven G7 economies (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) as a proxy for mature Western economies. The selection is intended to provide a relatively homogeneous group of large, advanced economies, rather than to suggest that the G7 is representative of the entire West. 2005 is used as a common benchmark because it provides a sufficiently long period for observing structural changes, while allowing relatively broad coverage across the selected indicators. The analysis is deliberately descriptive rather than econometric. The purpose is not to establish causal relationships between the variables, but to test whether several observable developments are consistent with the institutional mechanism identified in the historical analysis. Where indicators are available only for a shorter period or a subset of countries, this limitation is stated explicitly.

Institutional complexity

Institutional complexity is approximated using three indicators:

- **Tax Complexity Index**, from the Tax Complexity project;
- **OECD ETCR indicators**, measuring regulatory restrictions in energy, transport and communications Institutional Complexity Index (normalized 0–1);
- **Administrative and professional support employment**, calculated as the share of administrative and professional occupations in the relevant workforce. This is used as a rough proxy for the organizational resources required to operate within a complex institutional environment and is available on a comparable basis only for European economies.

These variables are not intended to measure the total complexity of the state. Rather, they provide three different perspectives on the complexity faced by economic actors: the complexity of taxation, the regulatory environment and the organizational resources required to navigate it.

The resulting Institutional Complexity Index is compared with **tax revenue as a percentage of GDP**, used here as a measure of fiscal extraction, and **public debt as a percentage of GDP**, used as an indicator of the extent to which governments rely on accumulated financial claims in addition to current taxation.

The purpose of this comparison is not to argue that regulatory complexity causes public debt. Rather, it asks whether the period is characterized by an expansion of institutional complexity and fiscal extraction, or whether the latter remain relatively stable while governments increasingly rely on other mechanisms, particularly borrowing.

Economic mapping difficulty

The second group of indicators attempts to capture a different structural change: the increasing difficulty of mapping economic activity onto national territorial categories.

Three indicators are used:

- **digitally delivered services exports + imports as a percentage of GDP**, measuring the growing ability to supply services internationally without physical presence;
- **payments for the use of intellectual property as a percentage of GDP**, capturing the increasing importance and international mobility of intangible assets;
- **FDI net outflows as a percentage of GDP**, providing a proxy for the ability of domestic capital to operate across jurisdictions.

These variables should not be interpreted as direct measures of "information loss." Rather, they capture aspects of economic activity that can make the relationship between where value is created, where assets are located, where transactions occur and where taxation is ultimately collected increasingly difficult to establish.

These indicators are then compared with the **effective average corporate tax rate (EATR)** calculated by the Mannheim Tax Index. The comparison is intended to illustrate whether the increasing international mobility and intangibility of economic activity has coincided with changes in the effective taxation of corporate investment.

Again, the comparison is descriptive rather than causal. Corporate tax rates are affected by domestic policy, international tax competition, investment composition and numerous other factors. The purpose is therefore to identify a structural relationship consistent with the broader historical hypothesis, rather than to claim that economic mobility alone explains changes in taxation.