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Taxation for and against redistribution since 1945. Gisela Hürlimann (GHI / University of Zurich / ETH Zurich); W. Elliot Brownlee (University of California, Santa Barbara), 05.12.2014—06.12.2014.

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Taxation for and against redistribution since 1945

In March 2004 the GHI hosted a conference on the history of taxation, convened by Alexander NÃ¼tzenadel and Christoph Strupp, which was followed by their 2007 publication âTaxation, State, and Civil Society in Germany and the United States from the 18th to the 20th Centuryâ. Ten years later, the GHI conference being reported on here offered international scholars another opportunity to reflect on the importance of fiscal history â this time with a time frame after 1945 and with a focus on income and wealth inequalities and fiscal redistribution. The conveners's starting point was the observation that although the welfare policies differed substantially among North America and West European nations, all these countries shared a common belief in the social and economic benefits of some redistribution mainly through progressive taxation. The fundamental question was: How have the two trends of growing inequality and globalization in the second half of the twentieth century interacted to shape tax ideas and tax policies?

The first panel aimed at drawing a âbroad pictureâ of taxation and redistribution. Accordingly, three of the five papers either tried to present a macro-view of the varieties of capitalism, relying on theoretical literature, or combined income data with institutionalist approaches. FRANCESCO BOLDIZZONIâs paper âState Capacity and the Crisis of Democratic Capitalism since the 1970sâ presented different theoretical perspectives to evaluate the statesâ welfare and redistributive capacities since the 1970s, among them the evolutionary view, institutionalist approaches, and the Frankfurt Krisentheorie (notably Wolfgang Streeck). In order to compensate for the weaknesses of each of these perspectives, Boldizzoni pleaded for combining them with a cultural approach that considered path dependencies and explained differences â for example the startling concurrence between Thatcherâs welfare austerity politics in Great Britain and the social-democratic âMitterand experimentâ in France â in a longue durÃ©e analysis. TIM HOLST CELIKâs paper on the âfiscal sociology of the post-1970s public householdâ placed James OâConnorâs 1973 book âThe Fiscal Crisis of the Stateâ at the center of his analysis, against the mainstream âvarieties of capitalismâ literature. Departing from the concept of âaccumulation expenditureâ and its linkage to welfare spending, Holst Celik observed a turn towards a generalized regime of âself-legitimating accumulation,â featuring stagnating levels of taxation, decreasing top income tax and corporate tax rates, and an increasing inequality. This led governments to facilitate a model of self-legitimating economic growth through the promotion of private household indebtedness.

The empirical foundations, which were absent in these theoretically oriented papers, were supplied in the panelâs other contributions. GISELA HÃRLLIMANNâs paper showed how notions of tax fairness and redistribution developed in Switzerland since the 1950s. She set the Swiss policy of temporary tax reductions in the context of a postwar settlement of the federal governmentâs legitimacy to raise income taxes at all. By the 1970s, unresolved conflicts over tax evasion and the growing tax competition between the Swiss cantons inspired claims for tax justice and harmonization. The 1980s saw a strong middle-class and family orientation through deductions and indexation to prevent bracket creep. In the 1990s, the regressive value added tax (VAT) helped to extend the welfare state. Data on Swiss income inequality indicates considerable variation among the cantons with a tendency towards increased inequality since the 1990s/2000s, to which intense tax competition, as the paradoxical result of formal tax harmonization, seems to have contributed. In their paper, âProgressively Worse: Social Coalitions and the Limits of Redistributive Taxation,â ALEXANDER HERTEL-FERNANDEZ and CATHIE JO MARTIN took a critical stance on Thomas Pikettyâs âCapital in the 21st Centuryâ in order to challenge the notion of tax progressivity as a vehicle for redistribution. Based on data from the Luxembourg Income Studies (LIS) and the existing literature, they showed that countries where regressive consumption taxes make up a high share of tax revenue feature more redistributive welfare regimes than the archetypes of liberal welfare capitalism, which have a high share of progressive taxation. Differing political processes in the United States, where federal tax and welfare reforms were partisan projects in times of wars and crisis, and the Scandinavian case, where employer organizations were integrated in bipartisan solutions, proved crucial for the scope and sustainability of welfare spending.

The second panel, on consumption taxes and redistribution, was opened by GUNNAR LANTZ who presented his Ph.D. project on the value added tax (VAT) and the Swedish welfare state. While the works of numerous political scientists have popularized the notion of the âsocial progressivityâ of the Swedish fiscal system, Lantzâ aim is an in-depth historical investigation of Swedenâs turn to the VAT in 1969, which was preceded by a general sales tax in 1960, in order to explain âwhy tax systems change.â Lantz emphasized the role of political coalitions and of experts in shaping the Swedish tax state. In his paper, âOn the Propensity to Tax Consumption: The Gasoline Tax in Transatlantic Comparison,â CARL-HENRY GESCHWIND explained that his studies on the gasoline tax had given rise to the question why there was no VAT in the United States. Whereas Ajay K. Mehrotra and Hiroyasu Nomura have compared the United States and Japan as the two âVAT Laggards,â Geschwind compared the United States to Great Britain. In Britain, a heavy reliance on excise taxes and the existence of a national sales tax proved decisive for the introduction of the VAT in 1973. In the United States, by contrast, the conversion of the federal income tax from a class tax to a mass tax by 1942 paved the way to relying on direct taxation for revenue as well as for economic policy. In conclusion, Geschwind suggested that the resistance to raise the gas tax translated into a reluctance to nationalize the sales tax.

The third panel was dedicated to national tax systems and inequality and featured three papers on the United States and two papers on continental European cases. Against the background that, with the exception of the years 1986-1993, capital gains have enjoyed a more beneficial tax treatment in the United States since the 1920s, AJAY K. MEHROTRA sought to relativize the seemingly ânaturalnessâ of the capital gains preference by uncovering the âforgotten originsâ of tax preferences for âearned income.â Stressing historical contingency, Mehrotra reminded the audience of early-twentieth-century tax scholars and politicians who introduced the morally charged differentiation between earned and unearned income and who argued that income from labor should be taxed at a lesser rate, before the âred scareâ, the popularization of capital investments, and an ever more influential economic discipline transformed American beliefs and attitudes towards risk and wealth. In the next paper, JOSEPH THORNDIKE placed the former Clinton advisor and Treasury Secretary Robert Rubin in the center of his study on how tax policy corresponded and responded to the changing world of the 1990s. Against the foil of recent public disappointment with Rubin, once praised as the main architect of the 1990s economic boom, Thorndike showed that âRubinomicsâ had always been a âcreativeâ effort to reconcile modern economic reality with traditional Democratic ideology. In 1993, Rubin helped shape a tax act that featured higher tax rates for upper incomes although he resisted any âsoak the richâ rhetoric. Rubin also took a more âfiscalistâ and pragmatic stance against the successful Republican project to reduce the capital gains tax in 1997. In the final paper on the United States, W. ELLIOT BROWNLEE, a long-standing scholar of fiscal history, reflected on the usefulness of the concept of âneo-liberalismâ for explaining developments in tax policy and inequality. Focusing his observations on turning points in U.S. tax policy, Brownlee showed that the first generation of neo-liberals, including Walter Lippmann and Henry C. Simons, advocated tax progression and capital gains taxes in order to avoid market distortion and to counteract interventionist New Deal politics. The disregard for inequality began with the next generation, including Milton Freedman, whom Brownlee labeled as âretro-liberalsâ for their belief in laisser faire capitalism, coming to full bloom in the era of George W. Bush.

The European contributions to the question of income taxation and inequality included MARC BUGGELNâs paper, âTaxation and Inequality in (West) Germany since the Oil Crisis.â He supported the analysis that fiscal and welfare regimes that did not exclusively rely on progressive income taxation were more resistant to radical reforms and to the increase of income inequality. Putting the German case at the center, Buggeln presented quantitative data on tax, public spending and debt ratios as well as income inequality to show that even after the climax of redistributive tax policy in 1974, the conservative-liberal coalition of the 1980s resisted major changes. Only from 1986 onwards were taxes reduced. This trend was interrupted by the costly German reunification, which the Kohl government financed mainly by raising public debt and social security contributions. After the mid-1990s, the plans for tax cuts were revived and implemented under a coalition of Social Democrats and the Greens. SARA TORREGROSA HETLANDâs paper on her Ph.D. thesis discussed Spanish fiscal policy from 1960 to 1990 by drawing on quantitative data and progressivity measurement. While Francoâs state had mainly relied on excise taxes and social security contributions, the transition government introduced a personal and a wealth tax with the declared goal of improving equity. This process was blocked during the political turmoil of the early 1980s. By the time of the socialist governments, support for progressive taxation had cooled down, easing the introduction of the VAT in 1986. As a result, the overall regressivity of Spainâs tax and duties system did not decrease. Instead, an inverse redistribution of incomes kept Spain far away from the continental pattern of welfare and equality, placing it closer to Latin America.

The final panel shifted the focus to the phenomenon of legal and illegal international practices for privileging corporations and business interests. CHRISTOPHE FARQUET presented the first results from a common study with Matthieu Leimgruber on the cycles of offshore finance and transnational tax evasion and the OEEC/OECDâs initiatives for regulation. He argued that the attempts to end banking secrecy in Switzerland and other countries as a source of tax evasion were watered down after the OECD model convention of 1963. Only since the end of the 1970s did multilateral attacks against tax havens intensify again, parallel to the growth of offshore finance following the end of the Bretton Woodsâ system and the fiscal crisis of major Western states. While his focus was on (illegal) tax evasion, PATRICK NEVELINGâs paper on international Export Processing Zones (EPZ) revealed the impact of formally legal, but equally harmful practices of tax avoidance. An analysis of the global manufacturing sector suggested that the 1970s should be understood as decade of consolidation of neoliberal patterns of accumulation, rather than as a turn towards them. Starting with Puerto Rico in the late 1940s, EPZâs were promoted by the United Nations Industrial Development Organization and the World Bank, so that by the late 2000âs EPZâs accounted for 3500 sites with over 60 million workers. According to Neveling, the mobility of such production sites in the search for tax exemption, customs holidays, and cheap labor has contributed to ever-lower corporation taxes in general.

Each paper was followed by a comment, which introduced lively and occasionally controversial plenary discussions. In the final discussion, the following issues were mentioned as worthy of further research: the âprogressiveâ history of regressive taxation (and vice versa); the connection between contemporary economic wisdom and tax reform; the reliability of tax/income data and the question how historians should work with them; the entanglements of different fields of taxation and economic policy or the importance of fiscal federalism. Of particular importance was the suggestion that âtax historiansâ and fiscal sociologists should try to reach out even more to a new audience and show how the integration of taxation and fiscal policy could enrich social, political, economic and cultural history.

Conference Overview:

Panel 1: Taxation and Redistribution after 1945: The Broad Picture

Chair: W. Elliot Brownlee

Francesco Boldizzoni (University of Turin): State Capacity and the Crisis of Democratic Capitalism since the 1970s

Gisela HÃ¼rlimann (Zurich University): Justice for Whom? Notions of Tax Fairness and Redistribution Since the 1950s

Comments: Cathie Jo Martin (Boston University)

Alexander Hertel-Fernandez (Harvard University): Progressively Worse: Social Coalitions and the Limits of Redistributive Taxation (co-authored with Cathie Jo Martin)

Tim Holst Celik (Copenhagen Business School: The Fiscal Sociology of the Post-1970s Public Household

Comments: Francesco Boldizzoni

Panel 2: Consumption Taxes and Redistribution
Chair: Uwe Spiekermann (GHI)

Gunnar Lantz (UmeÃ¥ University): VAT and the Welfare State: The Case of Sweden, 1960â2010

Carl-Henry Geschwind (Washington, DC): On the Propensity to Tax Consumption: The Gasoline Tax in Transatlantic Comparison

Comments: Ajay K. Mehrotra (Indiana University)

Keynote Lecture: Leonard E. Burman (Urban Institute and Syracuse University):Taxes and Inequality in a Changing Economy

Panel 3: National Tax Systems and Inequality
Chair: Gisela HÃ¼rlimann

Ajay K. Mehrotra: From Labor to Capital: The Forgotten History of the Tax Preference for âEarnedâ Income

Joseph L. Thorndike (Tax Analysts and the University of Virginia): Robert Rubin, the Treasury Department, and the Taxpayer Relief Act of 1997

Comments: W. Elliot Brownlee

Marc Buggeln (Humboldt University Berlin): Taxation and Inequality in (West) Germany since the Oil Crisis

Sara Torregrosa Hetland (University of Barcelona): Did Democracy Bring Redistribution? Insights from the Spanish Tax System, 1960â1990

W. Elliot Brownlee: Neoliberalism and Its Effect on Fiscal Policy: A Comparative Perspective

Comments: Joseph L. Thorndike

Panel 4: Business Interests, Tax Optimization, and Tax Evasion
Chair: Stefan HÃ¶rdler (GHI)

Christophe Farquet (University of Lausanne): The Big Leap in International Tax Competition: Financial Liberalization and the Growth of Offshore Finance, 1958â1963

Patrick Neveling (University of Utrecht and University of Hamburg): Export Processing Zones and the Global Decline of Corporate Taxation

Comments: Uwe Spiekermann

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