TAXATION FOR AND AGAINST REDISTRIBUTION SINCE 1945: HISTORICAL TRAJECTORIES AND COMPARATIVE OUTCOMES

Workshop at the GHI, December 5-6, 2014. Sponsored by the GHI. Conveners: Gisela Hürlimann (GHI / University of Zurich / ETH Zurich) and W. Elliot Brownlee (University of California, Santa Barbara). Participants: Francesco Boldizzoni (University of Turin), Marc Buggeln (Humboldt University Berlin), Christophe Farquet (University of Geneva), Carl-Henry Geschwind (Washington DC), Alexander Hertel-Fernandez (Harvard University), Tim Holst Celik (Copenhagen Business School), Stefan Hördler (GHI), Gunnar Lantz (Umeå University), Cathie Jo Martin (Boston University), Ajay K. Mehrotra (Indiana University), Patrick Neveling (University of Utrecht and University of Hamburg), Uwe Spiekermann (GHI), Joseph L. Thorndike (Tax Analysts and the University of Virginia), Sara Torregrosa Hetland (University of Barcelona); Guest: George K. Yin (University of Virginia). Public Keynote Lecture by Leonard E. Burman, (Urban Institute and Syracuse University).

In March 2004 the GHI hosted an international conference on the history of taxation, convened by Alexander Nützenadel and Christoph Strupp, which was followed by their 2007 publication Taxation, State, and Civil Society in Germany and the United States from the 18th to the 20th Century. Ten years later, the GHI conference being reported on here offered international scholars another opportunity to reflect on the importance of fiscal history — this time with a time frame after 1945 and with a focus on income and wealth inequalities, fiscal redistribution, and its connection to the welfare state. The conveners’ starting point was the observation that although welfare policies differed substantially among the United States, Great Britain, Canada, Germany, Scandinavian and other Western countries since 1945, all these countries shared a common belief in the social and economic benefits of some redistribution of income and wealth through progressive taxation. With an international call for papers, the conveners invited scholars to explore how fiscal theories and tax laws concerning social redistribution developed in the second half of the twentieth century. 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 “broad picture” of taxation and redistribution after 1945. Accordingly, most of the five papers either tried to present a macro-view of the varieties of capitalism, relying heavily on theoretical literature, or combined income equality data with institutionalist approaches. Francesco Boldizzoni’s paper “State Capacity and the Crisis of Democratic Capitalism since the 1970s” presented different theoretical perspectives to evaluate the states’ 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 — for example the startling concurrence between Thatcher’s welfare austerity politics in Great Britain and the social-democratic “Mitterand experiment” in France — in a longue durée analysis. Tim Holst Celik’s paper on the “fiscal sociology of the post-1970s public household” placed James O’Connor’s 1973 book The Fiscal Crisis of the State at the center of his analysis, against the mainstream “varieties of capitalism” literature. Departing from the concept of “accumulation expenditure” and its linkage to welfare spending, Holst Celik observed a turn towards a generalized regime of “self-legitimating accumulation,” featuring stagnating levels of taxation, decreasing top income tax and corporate tax rates, and increasing inequality. This led governments to facilitate a model of self-legitimating economic growth through the promotion of household indebtedness.

The empirical foundations, which were absent in these first two, theoretically oriented papers, were supplied in the panel’s other papers. Gisela Hürlimann’s paper, “Justice for Whom? Notions of Tax Fairness and Redistribution since the 1950s,” 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 government’s 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, “Progressively Worse: Social Coalitions and the Limits of Redistributive Taxation,” Alexander Hertel-Fernandez and Cathie Jo Martin took a critical stance on Thomas Piketty’s *Capital in the 21st Century* 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 empirical literature, they showed that countries where regressive consumption taxes make up a high share of tax revenue actually feature more redistributive welfare regimes than the archetypes of liberal welfare capitalism, such as the United States, 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 “social progressivity” of the Swedish fiscal system, Lantz offered the first in-depth historical investigation of Sweden’s turn to the VAT in 1969, which was preceded by a general sales tax in 1960, in order to explain “why tax systems change.” Lantz emphasized the role of political coalitions for the “only tax possible” and the importance of examining the role that experts played in shaping the Swedish tax state. In his paper, “On the Propensity to Tax Consumption: The Gasoline Tax in Transatlantic Comparison,” 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 “VAT Laggards,” 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 second panel was followed by a public keynote on the evening of December 5, 2014. Welcomed by GHI Director Hartmut Berghoff and introduced by Gisela Hürlimann and Joseph Thorndike, the nationally recognized tax expert and economist Leonard E. Burman, Director and co-founder of the Washington-based Tax Policy Center, a joint venture of the Urban Institute and the Brookings Institution, appealed to historians and non-historians alike with his lively analysis of how dramatically socio-economic inequality in the United States had risen and what taxation had to do with it. With this event, the GHI once more created a public space for important social debate and illustrated how contemporary history can relate to current concerns.

The third panel, on Saturday morning, 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 Mehrotra sought to relativize the apparent “naturalness” of the capital gains preference by uncovering the “forgotten origins” of tax preferences for “earned income.” 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 “red scare”, 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 “Rubinomics” had always been a “creative” effort to reconcile modern economic reality with traditional Democratic ideology, which combined deficit reductions with a resistance to tax cuts. In 1993, Rubin helped shape a tax act that featured higher tax rates for upper incomes although he resisted any “soak the rich” rhetoric. Rubin also took a more “fiscalist” 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 and a
participant in the 2004 GHI conference, reflected on the usefulness of the concept of “neo-liberalism” 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 “retro-liberals” for their belief in *laissez-faire* capitalism, coming to full bloom in the era of George W. Bush. Brownlee complemented his paper with some comparative observations on Japanese fiscal policy.

The European contributions to the question of income taxation and inequality included the papers by Marc Buggeln on West Germany and by Sara Torregrosa Hetland on Spain. Marc Buggeln’s paper, “Taxation and Inequality in (West) Germany since the Oil Crisis,” 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 old plans for tax cuts were revived and — ironically — implemented under a coalition of Social Democrats and the Greens. Sara Torregrosa Hetland’s paper on her Ph.D. thesis discussed Spanish fiscal policy from 1960 to 1990 by drawing on quantitative data and progressivity measurement. While Franco’s 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 initially 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 Spain’s 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 highly politicized, but hardly historicized 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/OECD’s initiatives for regulation. Farquet and Leimgruber 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 Woods’ system and the fiscal crisis of major Western states. While their focus was on tax evasion, Patrick Neveling’s 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 a decade of consolidation of neoliberal patterns of accumulation, rather than as a turn towards them. Starting with Puerto Rico in the late 1940s, EPZ’s were promoted by the United Nations Industrial Development Organization and the World Bank, so that by the late 2000’s EPZ’s accounted for 3500 sites in 130 countries 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 (Cathie Jo Martin, Franco Boldizzoni, Ajay K. Mehrotra, Joe Thorndike, Elliot Brownlee, Uwe Spiekermann), which introduced often lively and occasionally controversial plenary discussions. In the final discussion, the following issues were mentioned as central, and in many cases, worthy of further research: the “progressive” history of regressive taxation (and vice versa) in the late twentieth century; the connection between contemporary economic wisdom and tax reform; the reliability of tax/income data and the question of how historians should work with them; the entanglements of different fields of taxation and economic policy (individual and corporate tax; monetary and investment policies, economic policies of the Cold War, etc.); the importance of fiscal federalism. Of particular importance was the suggestion that “tax historians” and fiscal sociologists should try to reach out to a new audience and show how important taxation is for social, political, economic and cultural history.
The increase in conferences and scholarship in this interdisciplinary field since the early 2000s, and the growing interest in transnational, comparative, and entangled approaches even led to the suggestion to found an international organization for fiscal history. This project and the outcomes of the workshop shall be further elaborated in a conference-panel at the World Economic History Conference 2015 in Kyoto, convened by Gisela Hürlimann, W. Elliot Brownlee and Eisaku Ide (Keio University), and will also result in a publication — plans which were met with much enthusiasm by the workshop participants who once more proved how inspiring the field of fiscal history as a “key” for understanding state, society and economy can be.

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