

The Politics of Tax Justice in Democracies: Redistribution Beyond the Median Voter Theorem

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Tax, Redistribution and Inequality: The View from Classical Political Economy

- Meltzer and Richard – iron logic of redistribution in a democracy: median voter benefits from high tax and government spending, because of inequality
- Evokes the fears of American founders and 19th century English liberals:
- Can democracy and the market coexist? Will the mob confiscate the wealth of the elite through progressive taxation? (Mill 1841, Federalists)
- Democracy gives power to the poor majority, so best curb the powers of government to prevent redistributive excesses
- Size of government grew consistently until 1990s, and only then stabilized. Inequality fell from WWII until 1980s/1990s, before rising in most countries after

Tax, Redistribution and Inequality: The View From Comparative Political Economy

- Alternative views from political economy:
- Historical institutionalists: key critical junctures shape how the political economy works, entrenching institutional patterns that become self-sustaining (eg Steinmo 1994)
- Eg Varieties of Capitalism, legacies in welfare institutions
- Elections are important, but ideas and institutions also matter: electoral politics shaped by electoral rules (hard to change) and institutionalization of party systems (again tendency to continuity)
- Subverts 'median voter' model: 'Robin Hood paradox' (Lindert 2004)

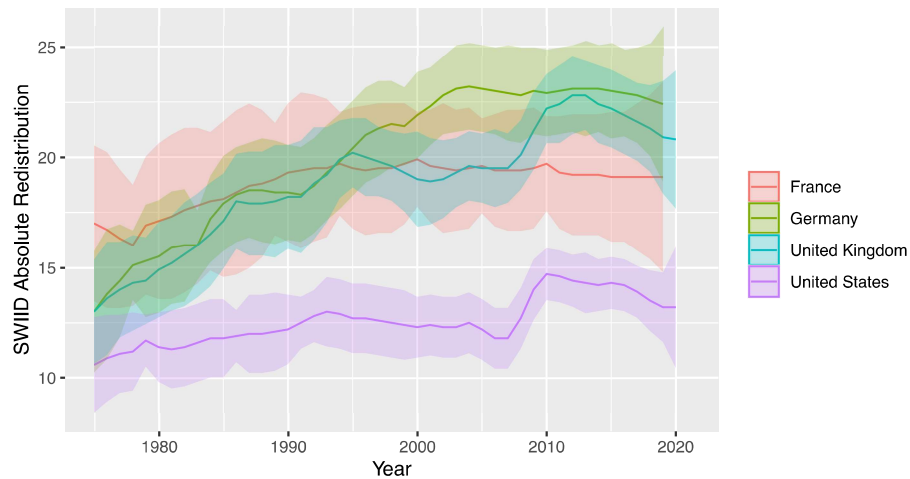
Rolling Back the State: The Neoliberal Turn and Tax Revolts

- Both perspectives challenged by tax politics of last 30-40 years
- Meltzer and Richard so influential they manage to subvert their own theory: rise of neoliberalism halts trend of government growth; median voter buys into small state discourse (tax cuts, financialization)
- Robin Hood paradox no longer holds: neoliberal transformations in labour politics increase market inequality; biggest welfare states begin to cut back, but so do smallest...
- Globalization and international tax arbitrage undermine progressive taxation, especially of wealth. So is big government dead?

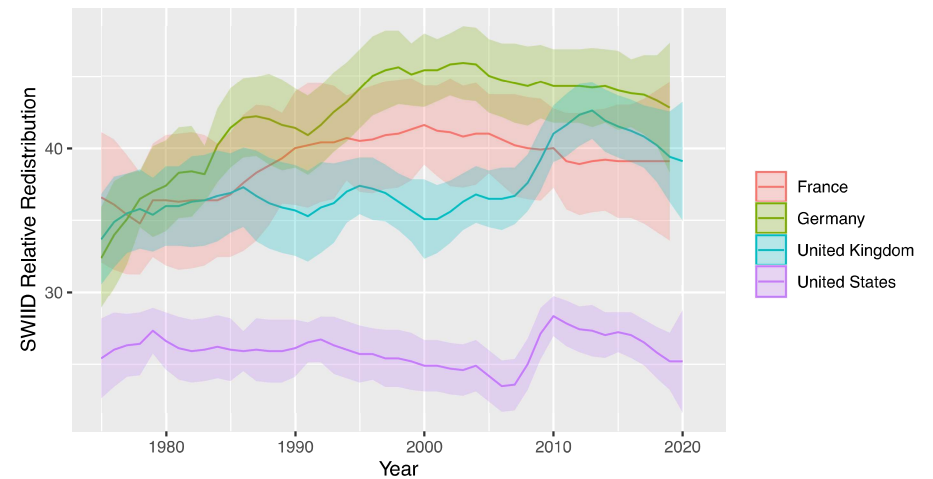
The Resilience of Big Government: The Rise of Redistribution

- Attempts to roll back the state's social responsibilities only partially successful. Voters still largely supportive of social programmes, if increasingly less willing to pay more tax for them
- Rising market inequality counteracted by social 'automatic stabilizers' – progressive taxation (at least of income) and social transfers
- Redistribution actually *increases* in most high income countries – although post-tax inequality still rises

The Resilience of Big Government: The Rise of Redistribution

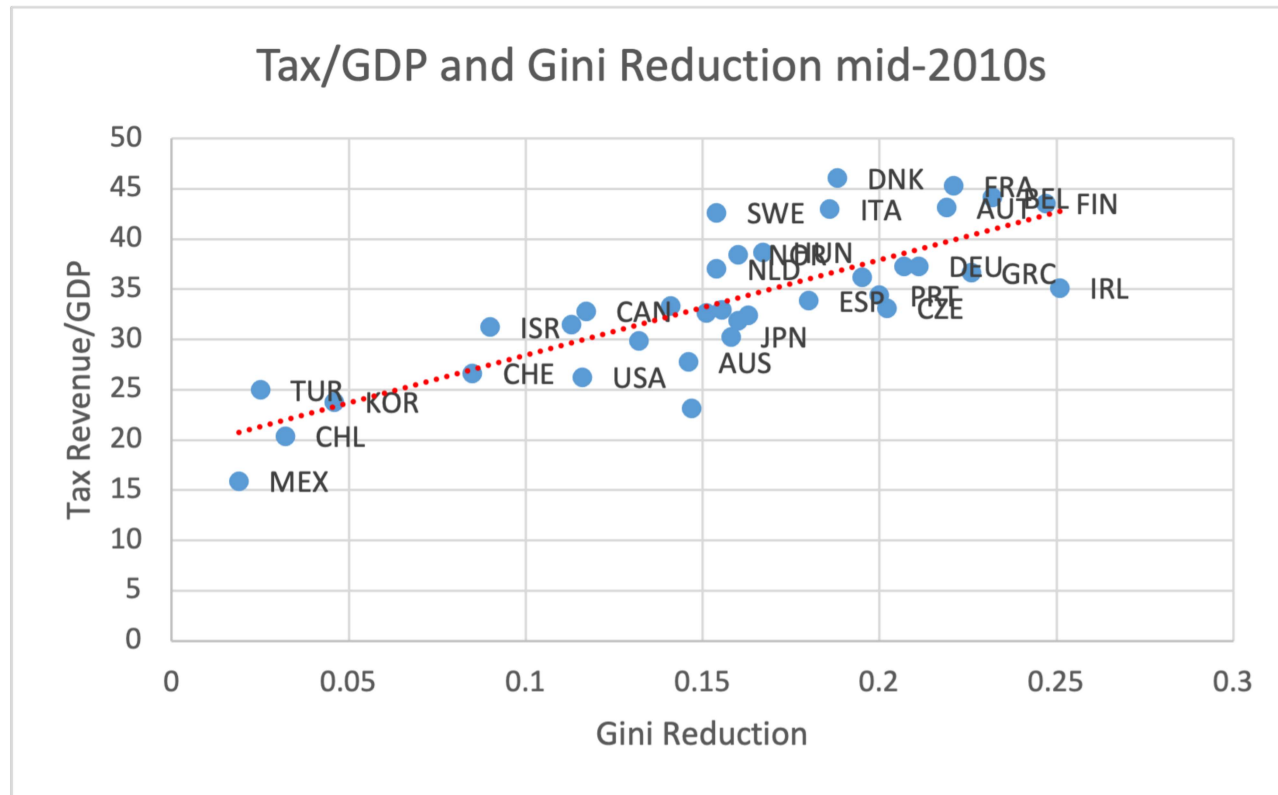


Note: Solid lines indicate mean estimates; shaded regions indicate the associated 95% uncertainty intervals.
Source: Standardized World Income Inequality Database v9.2 (SoI 2020).



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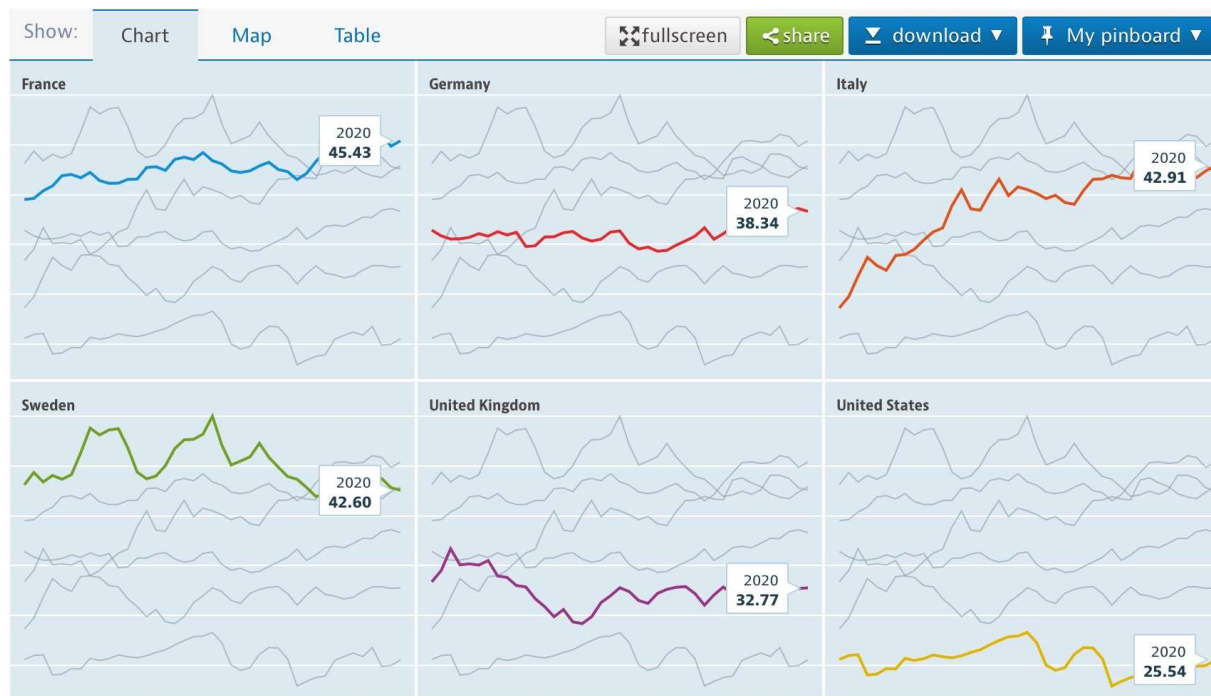
Were Meltzer and Richard right?

- Not so fast ...
- Popular social programmes survive, but tax burden increasingly skewed towards middle-high income groups
- Super-rich and multinational corporations avoid tax by using tax havens and pressuring policymakers for regulatory favours
- Small wealth holders also increasingly protected from contributing – electoral power of home owners
- As capital share grows at expense of labour, fiscal sustainability of big government under strain

Tax Revenue Trends: A Mixed Picture

Tax revenue Total, % of GDP, 1980 – 2020

Source: Revenue Statistics: Comparative tables



Tax Revenue Trends: A Mixed Picture

Tax on personal income Total, % of taxation, 1980 – 2020 Source: Revenue Statistics: Comparative tables



Tax on corporate profits Total, % of GDP, 1980 – 2020 Source: Revenue Statistics: Comparative tables



Tax Revenue Trends: A Mixed Picture

- This suggests that globalization and pressure for convergence have failed to eliminate national-level differences
- Importance of institutions and configurations of political and electoral power
- Downward pressure on total tax burdens in Anglo and Nordic countries
- Continental and Southern Europe stable or even rising
- Mix of personal and corporate shares of revenue also vary: business power vs corporatist bargaining?

Rescue Me: The Global Financial Crisis and the Pandemic

- The neoliberal programme of reducing the role of the state and 'starving the beast' of tax resources has had only limited success
- Dual shocks of early 21st century have stymied ambitions to move towards a more market-centred economy
- Global Financial Crisis of late 2000s -> period of austerity as tax take has to rise to address high levels of government borrowing
- Covid pandemic leads to state temporarily acting as backstop for corporate and household incomes, reaffirming market dependence on state and leaving once again increased government debt to deal with

Conclusion: Death and Taxes

- Tax takes of around half of GDP seem to be a stable equilibrium in most high income countries
- High levels of tax revenue do not necessarily mean low net inequality, but they do imply more redistribution
- Political institutions and relative structural power of labour /capital dictate different answers to distributional puzzle of fiscal policy
- Addressing rising inequality may require shift towards taxation of global capital for which requisite political institutions yet to be established