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The politics of taxing the rich: declining tax rates in times of rising inequality

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ABSTRACT
This introduction to the special issue on "the politics of taxing the rich" discusses the puzzle that although inequality has sharply risen in recent decades, advanced democracies have not turned to new or higher taxes on the rich. Subsequently, it reviews the contributions to the special issue. In conclusion, the paper argues that the decline of taxes on the rich is no evitable process but one that is highly dependent upon politics, institutions and economics.

Joseph A. Schumpeter (1991, p. 101) famously argued that the 'thunder of world history' can best be discerned by looking at taxation. Yet if Schumpeter looked at the politics of taxing the rich today, he would certainly be puzzled. Although inequality has sharply risen in recent decades, advanced democracies have not turned to new or higher taxes on the rich. Quite the contrary, top marginal tax rates targeted at the rich, such as inheritance or wealth taxes, are on the retreat (see Figure 1). This development seems surprising as the financial burden of these taxes is borne by only a relatively small group of wealthy individuals, while the majority of society does not seem to be (directly) affected by these taxes (Piketty, 2014). Taxing the rich could generate financial revenue and reduce inequality by tapping into the incomes and wealth of groups at the upper end of the economic distribution. Moreover, in the context of the recent Global Financial Crisis, the European Sovereign Debt Crisis, and the current Covid-19 pandemic, taxes on the rich could help to pay off public debt or allow for fewer tax increases and more social transfers for the rest of society.

The trend of declining rates in times of rising inequalities seems puzzling and becomes even more so once public opinion is taken into account. Recent studies find that voters across advanced democracies favour the idea that the rich pay a greater share of their income in taxes (Barnes, 2014). Yet policy changes reducing top tax rates meet with little electoral punishment, while

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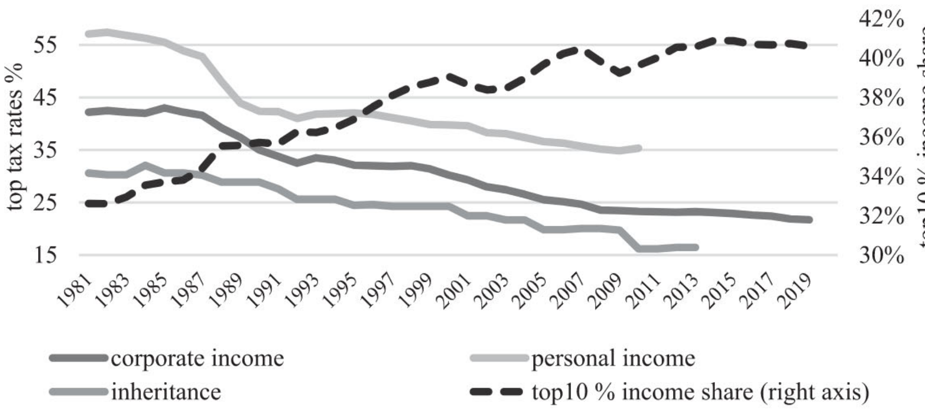

Figure 1. Developement of top tax rates and inequality (averages for rich advanced democracies) Sources: OECD, 2021; Scheve & Stasavage, 2016; WID, 2021

increases often draw lukewarm support, or even outright opposition (Martin, 2015). One possible reason is that trickle-down and leaky-bucket arguments are popular so that the public's support for taxing the rich collapses amid fears about adverse effects on economic growth and employment (Emmenegger & Marx, 2019). Yet we know comparatively little about the reasons for the rise and decline of progressive taxes. In fact, public policy scholars have in the past extensively debated the reasons for welfare state expansion and retrenchment, while only recently the politics of taxation (Hakelberg & Seelkopf, 2021; Scheve & Stasavage, 2016) have gained scholarly interest. But the revenue side of the state, of which taxation constitutes a major part, is not simply a technical detail. The question of who pays for what and how much is at the very heart of the political struggle of democracies (Campbell, 1993). Varieties in the level and the structure of taxation reflect different redistributive ambitions as well as conceptions of solidarity and legitimacy among societies.

In this special issue, we explore the politics of taxing the rich from a broader comparative perspective integrating different analytical lenses and a variety of taxes since the rise of the modern tax state. The aim is to better understand the political, institutional and economic reasons that facilitate the rise and the decline of taxes on the rich. More specifically, several contributions examine the origins and the early development of taxes on the rich in advanced democracies. The existing literature has mainly focused on the historical origins of income and inheritance taxes and the role of war in shaping the modern tax state. The contributions to this special issue push this research agenda forward in important ways. Exploring a classic issue in the politics of taxation, *Walter* and *Emmenegger* focus on the role of war. Taking advantage of a natural experiment, the accidental bombardment of Swiss cities during the Second World War, they explore the micro-foundations of the 'bellicist' hypothesis, finding that war exposure increases support for social spending but not taxation. Based on a new comprehensive dataset on the legislation of net wealth taxes since the nineteenth century, *Limberg* and *Seelkopf* contrast the influence of two types of major shocks: wars and recessions. Their findings show that the net wealth tax was mainly used as an 'emergency tax' in the aftermath of major economic recessions, whilst wars did not trigger adoption. *D'Arcy* and *Nistotskaya* explore contemporary differences in taxing real estate. They find that early state capacity, captured by historical data on cadastres, increasingly turned into a political problem, as increasing house prices made middle-class homeowners tax liable, generating political resistance and incentivizing reform.

Keeping the focus on how taxes develop, several studies of this issue turn the attention to more contemporary structural and technological challenges, such as the knowledge economy and financial globalization. *Gelepithis* and *Hearson* explore the politics of taxing multinational corporations. They trace how the emergence of digital business models helped develop a new norm of international taxation whereby states claim the right to tax corporate income based on presence in consumer markets. *Hope* and *Limberg* analyse the political processes leading to taxes on the rich in the knowledge economy. Based on a novel measurement of tax incidence on the rich for 13 OECD countries, they show that the expansion of the knowledge economy is strongly and robustly associated with lower taxes on the rich. Shifting the focus from the knowledge economy to financial globalization, *Lierse* examines the decline of wealth taxes since the 1970s in advanced democracies. She shows that in the context of financial globalisation not only right-wing but also left-wing governments cut wealth taxes, particularly under corporatist decision-making settings that facilitate reliable agreements not to tax wealth in return for long-term growth. Focusing on political decision-makers more directly, *Fastenrath et al.* explore the obstacles that vote-maximizing politicians perceive in taxing the rich. Based on 30 semi-structured interviews with relevant actors from major parties and interest groups, they tease out the subjective accounts for why the German Social Democratic Party has shied away from significant tax reform. Finally, *Barnes* explores patterns of contemporary popular resistance and support for progressive taxes. Starting from the aforementioned puzzle that voters seem to favour taxes on the rich but still disapprove of tax increases, she shows how voters' descriptive beliefs about how the political economy works systematically affect tax policy preferences.

The special issue shows how the politics of taxing the rich is an analytically distinctive field of research as the benefits of tax cuts are highly concentrated among a small elite, while general societal losses are diffuse and ambiguous. This opportunity structure makes it relatively easy to push through reforms benefitting the rich. Yet the contributions illustrate that the decline of taxes on the rich is no inevitable process, but one that is highly dependent upon politics, institutions and economics. While some factors such as the rise of the knowledge economy, financial globalization and belief systems have facilitated major tax cuts in recent decades, others highlight factors that push in the opposite direction: not only have historical event such as wars, economic crises and path dependencies placed an upward pressure on taxes on the rich, but also contemporary developments such as digitalization. This special issue is thus highly topical, as recent developments have resulted in fiscal crises in almost all advanced democracies, which now struggle with mounting deficits and rising levels of inequality. In these dire times, research on how the financial burden can be distributed more fairly seems more pressing than ever.

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Disclosure statement

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