Project Description


The reduction of income inequalities has been one of the major socio-political achievements associated with the emergence of the modern welfare state. Progressive income taxation and transfer payments are regarded as effective political instruments for income redistribution. I suggest that the causal relations between fiscal policy instruments and socio-political effects are anything but trivial. Most of the literature on this subject suffers from weaknesses in empirical evidence and therefore draws hypothetical conclusions based on questionable assumptions. A rigorous application of existing concepts for measuring progressivity and redistribution leads to some counterintuitive results. More and more empirical studies show that tax systems in social democratic states are less progressive than commonly believed and that the tax systems of some liberal welfare states have the strongest progressive effects. These weakly supported arguments and these unexpected phenomena are a strong motivation to reexamine political-institutional explanations of fiscal redistribution and modify current theories.

My analysis will use micro data to capture residual effects of redistribution and tax incidence that are well suited for evaluating fiscal policies. Redistributive effects of income taxation might be ruled out by other elements of the tax system, especially by the effects of regressive expenditure taxes. In addition to this descriptive cross-section perspective, I am interested in dynamic developments. I expect significant changes in the generosity of the tax and transfer system over time. The argument I intend to work out is that, due to external and internal pressures, the redistributive effects of fiscal policy have shifted from the revenue to the expenditure side during the last two decades. My “thesis of substitution” proposes that welfare states will use redistributive elements of tax and transfer policies as substitutes rather than as complementary tools. I thus expect to identify empirical cases of generous welfare states that are financed through relatively regressive tax structures and progressive tax systems in stingy welfare states.

The main aim of my dissertation project, which is guided by my thesis of substitution, is to describe and explain spatial and temporal variations in fiscal redistribution. The leading research questions are: Why are certain tax systems (and transfer systems) more redistributive than others? How are tax and transfer systems related? Why do trajectories of change differ internationally?

My project has three phases: (1) I start with an empirical analysis to obtain reliable evidence of the explanandum. (2) I then incorporate patterns identified in the first phase into a regression model to
estimate the effects of political institutions on fiscal redistribution. (3) The main explanatory work will finally be carried out in comparative case studies of national decision making in tax and transfer policies.

My dissertation project begins with a descriptive empirical analysis of indices of fiscal redistribution. While the phenomena at hand - fiscal redistribution and progressive taxation - are extensively discussed in political economic literature, the concepts are ambivalent. A reassessment of the terminology is necessary. In my work, empirical measurements of redistribution are calculated from the interaction of the distribution of primary incomes on the one hand and the distribution of the tax bases and benefits on the other. The data used contains information about individuals’ incomes as well as their tax burden and their benefits from public transfers payments. As a result, one finds indicators that can map the redistributive effects of the entire tax and transfer system, measured as relative changes in income inequality. At the same time I will be able to distinguish the redistributive effects that result from taxation and transfer payments. I suggest that the redistributive effects of taxation are increasingly substituted by redistribution through the transfer system. The descriptive analysis will concentrate on many welfare states in the OECD; it cannot include all of them because of limited data availability.

The results derived in the first phase will constitute the dependent variable in the second phase. In a macro-comparative panel regression, I intend to specify systematic covariance between fiscal redistribution and political institutions, partisan politics and socio-economic factors. Possible explanations will be deduced from the excellent academic literature that already exists in that field. Thereafter, in phase three, I will be able to select typical cases for comparative case studies. Based on pre-existing theoretical concepts and today’s sketchy evidence, tax and transfer policies in Sweden, Germany and the US are likely to be chosen as typical cases for the small-N research.

Project duration: October 2008 to September 2011.