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0521824524 - Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion

Junko Kato

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## *Regressive Taxation and the Welfare State*

Government size has attracted much scholarly attention. Political economists have considered large public expenditures a product of leftist rule and an expression of a stronger representation of labor interest. Although the size of the government has become the most important policy difference between the left and the right in postwar politics, the formation of the government's funding base has not been explored. Junko Kato finds that the differentiation of tax revenue structure is path-dependent upon the shift to regressive taxation. Since the 1980s, the institutionalization of effective revenue raising by regressive taxes during periods of high growth has ensured resistance to welfare state backlash during budget deficits and consolidated the diversification of state funding capacity among industrial democracies. The book challenges the conventional wisdom that progressive taxation goes hand in hand with large public expenditures in mature welfare states and qualifies the partisan-centered explanation that dominates the welfare state literature.

Junko Kato is Professor in Political Science at the University of Tokyo. She is the author of *The Problem of Bureaucratic Rationality* (1994).

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POLICY DIFFUSION

**JUNKO KATO**

*University of Tokyo*



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## *Preface*

Twelve years have passed since the question of the financial foundation of contemporary welfare states first occurred to me while I was doing dissertation research on Japanese tax reform. In 1989, the consumption tax in Japan faced formidable opposition: in the public's mind, the new tax meant increasing already heavy taxes and damaging income equality. Despite its politicization, however, the total Japanese tax revenue as a proportion of the national economy has been lower than that of most other industrial democracies. Moreover, revenues from regressive taxes on consumption as well as a progressive income tax have financed high public expenditures in the Scandinavian countries, which have achieved the highest income equality among industrial democracies. I was amused by this discrepancy between the politicization of tax issues in Japan and the Japanese tax revenue structure compared with other countries. There seemed to be a completely different criterion from one country to another about "high" and "low" tax levels that was very likely related to how much revenue a country would raise from what kind of taxation. Politics matters in the public's tolerance for and its expectation of taxation. How does politics define the tax level and formulate the public's expectation about tax policies? To answer this question, I have compared the financial base of welfare states.

In the development of postwar tax policies, the introduction of general consumption taxes embodies a major shift – a revenue reliance shift from income to consumption. In this book, I review eight cases that illustrate the distinct timing of the shift from one country to another. The research began in the mid-1990s when the cross-national variation of welfare states was apparently preserved despite a welfare state backlash and globalization. More mature welfare states with a larger public sector appear to have resisted the welfare retrenchment more successfully than welfare states with a

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relatively modest size. Globalization and chronic budget debt have commonly influenced all welfare states but have not produced less convergence among them than expected. The book clarifies the path-dependent development of the state funding capacity that is compatible with but still distinct from the influence of the government's partisanship about the welfare state.

Without financial and institutional support, it would have been impossible to complete this book. Funding from the Abe Fellowship Program launched the research in North America and Europe in 1996 and 1997. A Matsushita International Foundation fellowship in 1998 financed the research on the development of tax and welfare policies in Australia and New Zealand. Writing and additional research on new developments were supported partly by a Suntory Foundation fellowship and a fellowship from the Ministry of Education of Japan. The Program on U.S.-Japan Relations, Center for International Affairs at Harvard University, provided an excellent environment from 1996 to 1997 to prepare for the field research in Europe and Oceania and to study the North American cases. In Europe, the European Institute of Japanese Studies of the Stockholm School of Economics, *Fondation Nationale des Sciences Politiques*, and London School of Economics extended superb institutional support for the research. The Research School of Social Sciences at the Australian National University also arranged a research visit in 1998, and the visiting program of the East-West Center in Hawaii hosted me during the most difficult process of revising the manuscript in summer 2000. Christina Davis, Kosuke Imai, Lee Jeong Man, Lim Sung Geun, Ritsuko Saotome, Edith Serotte, Okiyoshi Takeda, and Takako Torisu helped research each country's case. Yusaku Horiuchi provided superb expertise in assisting with the quantitative analysis. Chen-wei Lin, Terue Okada, Hikaru Hayashi, and Masahiro Kurosaki worked as research assistants at the University of Tokyo. Without their assistance, I could not have completed this project while teaching and working. Throughout the period, the Graduate Division of Advanced Social and International Studies and a broader academic community of the University of Tokyo provided an excellent academic environment.

Many policy makers of governments in the eight countries and international organizations granted me interviews. I am greatly indebted to these anonymous people. In addition to participants in seminars at the department of government at Harvard University (in 1988), the department of political science at Yale University (in 1998), the East-West Center (in 2000), and the University of Tokyo (in 2001), many political economists



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advised and influenced my research and writing. I would like to acknowledge especially Jim Alt, Robert Bates, Geoffrey Garrett, Jack Nagel, Oliver Oldman, Susan Pharr, Paul Pierson, Dani Rodrik, Frances Rosenbluth, Frank Schwartz, Sidney Tarrow, and Kathleen Thelen in the United States; Rune Åberg, Jonas Agell, Magnus Blomstrom, Nils Elvander, Åsa Gunnarsson, Nils Mattsson, Peter Melz, Leif Mutén, Stefan Svallfors, Torsten Svensson, and Björn Westberg in Sweden; Jean-Marie Bouissou, Eli Cohen, and Jean-Pierre Jallade in France; Ian Crawford, Patrick Dunleavy, Chris Giles, Jack Hayward, John Hills, Rudolf Klein, Cedric Sandford, and Albert Weal in the United Kingdom; Ellen Immergut in Germany; Brian Andrew, Chris Evans, Abe Greenbaum, and Deborah Mitchell in Australia; Jonathan Boston, Brian Easton, Palmer Matthew, and John Pebble in New Zealand; and Kenji Hirashima, Nobuhiro Hiwatari, Ikuo Kabashima, Ikuo Kume, Hiroshi Kurata, Masaru Mabuchi, Kazumitsu Nawata, Kaku Sechiyama, Toshimitsu Shinkawa, Naoki Takahashi, Kuniaki Tanabe, Keiichi Tsunekawa, and Yu Uchiyama in Japan. Francis Castles, Taro Miyamoto, Naoto Nonaka, Bruno Palier, Susan Rose-Ackerman, Bo Rothstein, and Hiroya Sugita read an earlier version of the draft, and Margaret Levi and Sven Steinmo the final draft. I greatly appreciate their advice and comments. I also wish to thank Lewis Bateman and Janis Bolster, editors at Cambridge University Press, for helpful advice, and anonymous referees for useful comments on the draft. Kay Mansfield carefully read and checked the draft at each stage of writing to completion. I appreciate her encouragement and friendship as well as excellent editing.

During the long process of research and writing, I came to enjoy finding new facts about the interaction of politics and economics in contemporary welfare states. I hope that you will share my excitement in exploring this curious phenomenon by reading this book.

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