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The political economy of the abolition of wealth taxes in the OECD

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Abstract

This article seeks to bring together the existing literature on theories of political power and empirical evidence surrounding wealth tax abolition to develop an analytical framework to better understand the political challenges that the implementation of a net wealth tax may face. In doing so, we find that drift models, business structural power models and theories on ideas hold significant merit in the wealth tax sphere. In contrast, we find limited support for median voter theories within the realm of wealth tax implementation and abolition.

1. Introduction

Wealth taxes have been abolished in many OECD countries during the last three decades. Of the twelve countries enforcing this levy in 1990, only five of them currently have some form of wealth tax. Recent literature suggests that redistribution levels are driven by a range of factors beyond income, such as perceptions of inequality and normative views of justice. Despite this, the evidence underpinning this literature continues to emphasise the substantial role of economic elites in shaping tax policy. However, while literature on the political economy of tax policy generally has been extensively developed, there has been limited focus on the political economy of net wealth taxes specifically. It is pertinent to consider how the implementation of net wealth taxes could be politically obstructed and what resources elites possess to prevent reform in order to understand the political environment faced by those advocating for the introduction of wealth taxes in other jurisdictions.

This article has two main objectives. The first is to provide a comprehensive overview of existing literature on three theoretical traditions. First, the median voter theorem, which predicts that policy outcomes will be determined by the median voter preferences. Secondly, theories conceptualising the political power of elites and organised interests, mainly through the analysis of the concept of drift, and the sources of instrumental and structural power. Thirdly, theories highlighting ideational processes in policy making.

The second objective of this paper is to develop an analytical framework through which to assess and apply these theoretical traditions in the context of political decision making concerning wealth tax abolition. This analysis finds theories of structural power, policy drift, ideas, and the use of media resources are important explanatory factors for the abolition of wealth taxes.

The structure of the paper is separated by these twin objectives. Section 2 provides the literature overview. We do not seek here to offer critique to these traditions, but instead provide a comprehensive examination of their bases and the ways in which they have evolved. Section 3 turns to the empirical evidence used as the basis of our analysis, outlining first a methodology, before turning to data on public opinion on wealth taxes and redistribution across the OECD. Section 3 also provides evidence on the political justifications and rationales for wealth tax abolition in the OECD to identify common bases on which these policies were implemented. The main arguments that we identified include the difficulties of the administration and rates of non-compliance of these taxes, the impact and expansion of exemptions, and concerns about capital flight and prioritisation of investment. While providing a broad overview of reasons, we offer more in depth analysis of Austria, France and Sweden. Section 4 draws upon Sections 2 and 3 to analyse the empirical evidence in the context of theoretical traditions. This analysis indicates that theories emphasising the role of structural power are offered the most support by the case studies identified, while the median voter theory does not find significant ground in the evidence. However, we also note the limitations of this evidence, and see this as an area of potential for future research.

2. Theoretical models

This section offers an overview and discussion of the relevant political science literature concerning median voter theorem, special interest groups, sources of power models and ideational models. Although the literature does not analyse the specific case of wealth taxes, it helps us to conceptualise the bases of abolition in the OECD, as discussed in Sections 3 and 4.

2.1. Median voter theorem and special interest group power

The median voter model predicts that in a democracy, higher levels of inequality should induce redistributive policies (Meltzer and Richard, 1981). Given an assumption that people make rational calculations of their self-interest, it should be anticipated that in circumstances of gross inequality, the median voter would support redistribution, and, in turn, politicians would propose and implement redistributive policies. This is because in a democracy, government policies are expected to be shaped by the majority, and politicians are thought to be driven by the wish to attract votes (Gilens and Page, 2014; Moury, Cardoso and Gago, 2019).

Indeed, recent research has found support for the median voter hypothesis in relation to tax issues. Flores-Macías (2018, p.14) explains that policymakers do pay attention to voters' demands on tax issues, due to the high political costs faced if their demands are not met. Moreover, Colagrossi, Karagiannis and Raab (2019, p.10) have found that in European Union countries, preferences for redistribution are positively related to observed inequality.

A burgeoning body of research states that median income is not the only determinant in voters' preferred tax policies. Perceptions of inequality may be more important than actual inequality levels in explaining redistributive preferences (Alesina, Stancheva and Teso, 2018; Alesina, Cozzi and Mantovan, 2012). For instance, Georgiadis and Manning (2007, p.28) have found that when 'controlling for preferences on desired pay differentials, one is more likely to be in favour of redistribution if one perceives a great deal of inequality'.

Normative beliefs also play a role in explaining preferred redistributive policies. García-Sánchez et al. (2020, p.112) have found that 'the relationship between perceptions of inequality and support for redistribution is moderated by the endorsement of two sets of beliefs that justify inequality: meritocracy and equality of opportunities'; the link being lower or non-existent in the former and higher in the latter case. Similarly, Jiménez-Jiménez, Molis and Solano-García (2018) argue that as the median voter increases his or her beliefs in meritocratic values, societies become simultaneously less redistributive and more efficient. These results are consistent with those of Karadja, Mollerstrom and Seim (2017), who found that only those in high wealth brackets who are self-identifying as right-wing voters will adopt anti-redistributive attitudes when shown their relative position to others. The same treatment does not affect left-wing voters, who normally associate themselves with the belief that social structure is the leading cause of success, as opposed to merit.

Some median voter studies show however that voters sometimes do not demand more redistribution, even in situations of rising inequality (Hacker and Pierson, 2010; Luebker, 2014). This paradox is evident across a number of surveys on redistribution conducted in the US. A rise in income inequality is not matched with an increase in demand for redistributive policies, even where survey participants are presented with detailed information on inequality in the country (Kuziemko et al., 2015).

This points towards the puzzle this article seeks to address: how is it that redistributive policies – such as wealth taxes – are often blocked or even reversed despite growing levels of inequality?

Hacker and Pierson (2010) criticise the median voter model, considering the focus on the voter-politician relationship as inadequate to accurately describe how political processes contribute to inequality. They emphasise that the median voter model does not take into account power relationships and interest group influence (see also Gilens and Page 2014, pp.565f.). Questioning Bartels' research, Hacker and Pierson indicate that median voter models cannot answer the question of who exercises political power to prevent more egalitarian policies (2010, p.165).

Thus, Hacker and Pierson (2010) and Hacker, Pierson, and Thelen (2015) suggest analysis should instead focus on how special interest groups affect the outcome of policies. Gilens and Page (2014) found that elite and average citizens' preferences are aligned on several issues while the preferences of business interest groups and average citizens have little in common. Their study found that ordinary citizens have 'little or no independent influence on policy at all' (2014, p.572). In contrast, economic elites and business interest groups have a significant independent influence on policy, and wealthy individuals tend to oppose redistribution policies (see Dawtry, Sutton and Sibley, 2015). This could explain why even when there are high redistributive preferences among the general population, they do not translate into redistributive policies (Choi, 2019).

Olson's (1982) seminal paper on special interest groups describes the importance of knowledge asymmetries. He highlights that it is almost impossible for all citizens to obtain and digest all the information necessary to completely understand a topic, particularly when the issue is highly technical. Thus, lobbyists and other special interest groups appear to provide a collective good, 'so their effectiveness is explained by the imperfect knowledge of citizens' (Olson 1982, p.26). Similarly, Achen and Bartels (2017) have shown that voters' perceptions of economic questions tend to be guided less by rational choice than by partisan 'rationalising' based on incomplete understandings of the material context.

Hacker and Pierson (2005) illustrate the exploitation of knowledge asymmetries in describing the 2001 tax cuts passed by the Bush administration. The authors highlight how policy elites manipulated voters' understanding and perception of the policies in a particularly effective manner due to the extent to which voters were uninformed and unengaged on matters of tax policy. Although voters accurately understood the rich to be the beneficiaries of the tax cuts, suppression of accurate government information probably lessened their concern about the overall impact and nature of the cuts.

Similarly, Culpepper (2011) criticises the median voter models as they misrepresent the dynamics of conflicts and fail to acknowledge the importance of political salience in determining to what extent special interest groups can influence policies. He establishes that low salience topics are off the political agenda and are usually very technical. These technicalities allow managers and their advisors to push their preferences in the political realm on the understanding that they hold the most relevant and accurate knowledge of how specific policy changes will affect their businesses. Different aspects of tax policy can be considered part of what Culpepper (2011) calls 'quiet politics', where interest groups can use their expertise and lobbying powers to obtain benefits or prevent higher levels of taxation. In the following section, we discuss some of the strategies that elites use to shape different policies to match their preferences.

2.2 Theories of special interest groups

The concept of policy drift is useful to understand the way in which elites utilise their resources and power to prevent redistributive policies. The concept describes how interest groups promote the status quo of legislation in a quiet politics environment. Hacker, Pierson and Thelen

(2015) understand policy drift as a situation in which 'policies are deliberately held in place while their context shifts in ways that alter their effects' (Hacker, Pierson and Thelen, 2015, p.180). A change in context can generate benefits for specific actors, such as interest groups, which will therefore promote maintenance of the status quo within the shifted context. Organised interests exercise their influence on drift through participation in committees or expert commissions, or through their strong relationships with political parties. Politicians in democracies find drift to be a minimal-risk approach to serving organised interests, as it is a process that is less likely to attract attention from voters (Hacker, Pierson and Thelen, 2015, p.188, pp.199f.).

Several authors have discussed how businesses (not particularly the wealthy) shape legislation towards their preferences, by promoting changes in legislation or defending the status quo. Their strategies and resources can be divided according to two concepts: instrumental and structural power.

Fairfield (2015a, p.28) defines instrumental power as being related to political power and resources of the elites, involving 'capacity for deliberate and often collective action in the political arena'. On the other hand, structural power derives from the privileged position that businesses have in capitalist societies which assumes that they perform crucial public functions in the market system (Lindblom, 1977). On these grounds, companies have power over policy because of what 'policymakers perceived as credible (implicit) threat that a reform would lead to reduced investment with consequential aggregate economic impacts' (Fairfield 2015b, p.417).

The typical resources of instrumental power that the literature identifies are lobbying, the participation in working groups, partisan linkages, technical expertise, media coverage, and money (Bell and Hindmoor, 2014; Culpepper, 2011, 2015; Fairfield, 2015a, 2015b). Elites and businesses use these strategies in different ways depending on the circumstances. Sometimes they are employed separately (e.g. they only lobby), and in other cases they are used simultaneously. In examining and defining structural power Fairfield (2015a, pp.43–47) differentiates the exit threat (of removing capital) from the withholding threat (of cancelling or postponing investment).

Culpepper (2011, pp.181–83) develops a scheme of four different modes of policy making depending on the formality of institutions and the political salience of a policy issue. First, when institutions are formal and salience is high, we find that partisan contestation, the fight between political parties, is the primary mode of policymaking. Second, when the institutions are informal and salience is low, private interests in the form of business organisations prevail, and expertise is an important source of power. Third, when institutions are formal, but salience is low, policies are negotiated in bureaucratic networks and through law. Expertise is also an important source of power in this context, and the capacity to lobby is crucial for exercising influence. Finally, when institutions are informal and salience is high, employers' associations and labour unions bargain for influence while at the same time trying to keep state intervention low.

Klüver (2013) focused his analysis on the lobbying of interest groups in the European Union and developed a framework based on a preference attainment approach. His method aims to compare policy preferences of interest groups with the output of policies for understanding how and when interest groups influence the results of policies. Like others (Hall and Deardorff, 2006), Klüver understands lobbying as an exchange relationship between political actors and interest groups. Similarly, in his study on the role of EU-based financial industry groups in shaping global financial rules, Young (2014) analysed the lobbying strategies and arguments of those groups and looked at how beneficial the adopted policies were for them. He asked industry groups in interviews whether they considered those policy changes as lobbying successes, and inferred influence on that basis.

Klüver (2013) and Culpepper (2011) agree that the results of lobbying depend on the salience of the issue, the degree of conflict and the scope of the topic discussed. When the salience of a subject is high, lobbying as a mechanism of elite instrumental power has a low probability of success because more actors demand results on a particular issue; the public is more observant. The opposite happens under quiet politics environments, where technical experts can influence the work of small working groups to obtain policies that resemble their preferences (Culpepper, 2011).

Kastner's (2018) analysis of the unsuccessful proposal to implement a financial transaction tax in the European Union is an example of the above. She finds that the lobbying strategies of the financial industry failed during the agenda-setting stage of the proposal. When the topic was of high political salience, the financial sector knew that their lobbying would not work. Therefore, they used an 'expertise-based' framing strategy that included a 'noisy' structural power argument of economic growth (using media coverage for this purpose), waiting until a drop in the public's attention occurred, and then applied quiet politics strategies. Once the topic had a low political salience environment (negotiations were happening at the indirect taxation working party of the EU Commission), the financial interest groups used their technical expertise lobbying tactics in formal and informal meetings (working groups) and obtained several exemptions. In parallel, they used their structural power arguments in the media, highlighting how the tax will impact the economic growth of the EU. Also Kalaitzake (2017) found that the active deployment of structural dependence arguments was the predominant strategy of financial sector associations against the European financial transaction tax. Lobbyists argued that the tax will harm the economy and thereby consumers, playing to the fears of policymakers. In order to support their arguments, the sector associations commissioned external studies and gained allies in non-financial business associations and central banks.

Using a noisy politics strategy, the death tax movement in the US obtained the repeal of the inheritance tax during the tax reform of 2001. The death tax movement, which included economic elites, used the media to highlight the benefits of repealing an 'unfair' tax. Although they did not use structural power arguments, they relied on arguments of fairness, and claims relating to the benefits of repeal to families in the US (Graetz and Shapiro, 2006).

In terms of the media, Culpepper (2011), Kastner (2018), Kalaitzake (2017), Fairfield (2015a, 2015b) and Graetz and Shapiro (2006) show that interest groups use the media as part of a strategy, either a structural power defence of the status quo or to obtain a benefit from a particular reform (tax cuts in the case of the death tax movement). In line with this, Cagé (2020) questions how media companies owned by the wealthiest people can argue in favour of an agenda that could have a detrimental impact on those people's businesses. Although it is difficult to establish a causal relationship between the use of media and policy outcomes in the case of media controlled by the wealthy, one can argue that the salience of the topic will be vital for understanding how and when the elite will use this weapon as a way of maintaining the status quo, or as a manner to obtaining a specific benefit (using noisy tactics).

Political donations are another mechanism used by the wealthy to influence the outcomes of policies. Cagé (2020) shows that contributions to political parties and campaigns are highly concentrated among the wealthiest deciles of the income distribution. According to her research, transfers are mainly provided to right-wing political parties, which receive considerably more donations relative to their left-wing counterparts. As established by Carnes (2016), conservative parties in the US are more likely to have a political programme linked to the elites' concerns. This argument is consistent with Bartels (2008), who found that political parties have differentiated agendas when it comes to redistribution and that declines in inequality are more likely to happen when the Democratic Party holds office. Financial resources are essential for political parties because they can determine the course of an election: Cagé (2020) has found a correlation between campaign spending, partly composed of donations, and the votes obtained by candidates in France and the United Kingdom. This adds to the evidence found in the US (Bartels, 2008), according to which Senators are particularly responsive to wealthy citizens given their heavy campaign contributions.

2.3. The role of ideas in policy making processes

Linked to the concept of structural power and the importance of knowledge and expertise, political scientists have highlighted the role of ideas in policymaking processes. Campbell (1998, p.377) suggests that ideas such as certain economic assumptions and values have an important influence on policymaking. According to Béland (2009, pp.702–705), ideas impact policy making by defining which issues come onto the agenda and by influencing the assumptions that shape policies. Campbell (1998) distinguishes four types of ideas. First, paradigms are cognitive and theoretical assumptions about the world which limit the policy alternatives that policymakers would consider. Second, public sentiments limit policymaking as they constrain the range of options that elites consider as being acceptable to the population. Third, programmes are the cognitive theories that determine how a problem is to be solved through policy, with those that are simple and concise being preferred by policymakers. And fourth, frames are the normative concepts that elites deliberately employ to justify policy programmes, including through press releases and public statements (Campbell, 1998, pp.385–394).

Carstensen and Schmidt (2016) add another useful breakdown of ideas, by distinguishing power through ideas from power over ideas and power in ideas. Power through ideas describes the capacity of certain actors to convince others of their opinion through cognitive and normative ideas. Power over ideas is the power to produce meaning and dominate the meaning of certain ideas, as well as defend the ideas from alternatives. Finally, power in ideas is the hegemony or institutions that define which ideas are being considered (Carstensen and Schmidt, 2016, pp.318–329). Ideas often become influential in the policy process when they are actively used by powerful actors such as interest groups or political parties (Béland, 2009, pp. 707f.). Some scholarship goes so far as to say that there are no material interests, as such, only actors' perceptions of their interest. These perceptions are shaped by the institutional context and by ideas and paradigms (Hay, 2011).

Using the concept of ideas, Campbell (1998) showed how the rise of neoclassical supply-side economics – with its strong belief in small government and a free market – played a crucial role in promoting and justifying the 1981 Economic Recovery Tax Act, the largest tax cut in US history. Very much using structural arguments, namely that tax cuts would be good for investment, supply-side economists won the battle on various fronts. They presented their ideas in simple and easy-to-understand terms, they invested in marketing their ideas to the public, they were closely related to prestigious departments and research institutes, and they framed their ideas in ways that resonated with the public's sentiment, for example appealing to a widespread concern in the US population about budget deficits (Campbell, 1998). These findings are highly relevant to understand other tax cuts such as the wealth tax abolition. Going one step further, Achen and Bartels (2017) suggest that voters' preferences and ideologies are heavily influenced by partisan affiliation. This suggests that interest groups or policymakers do not simply respond to voters' perceptions and public sentiment, but very much shape them.

Also drawing on the concept of ideas, Hopkin and Shaw (2016) have shown that the financialisation of the British economy and the related rise of inequality since the late 1970s were less a result of interest groups exercising instrumental power and more a result of the 'ideational dominance of market liberalism' in combination with the finance sector's structural power (Hopkin and Shaw, 2016, p.346). Political elites promoted business-friendly policies in the absence of an active lobbying strategy of the corporate sector, because they believed in a neoliberal view on economic policymaking and because of the growing structural importance of the financial sector.

This Section sought to identify factors that can explain why in a democratic system with high levels of inequality, voters do not necessarily demand redistributive policies such as wealth taxes, and why – even if they do – policymakers do not necessarily deliver on such demands. The political science literature presented above identifies a number of key barriers: the power of interest groups who are opposed to wealth taxes, knowledge asymmetries that limit public pressure for redistribution, and the power of political ideas to determine what will land on the political agenda and what policy options are considered. We now turn to an empirical analysis of the withdrawal of wealth taxes in the OECD, as a means of examining how these various factors influence the policymaking process.

3. Empirical discussion

3.1. Methodology

In the following paragraphs we discuss our findings regarding public attitudes towards wealth taxes and redistribution, and public statements of politicians for the abolition of net wealth taxes in the OECD, focusing our analysis on three countries; Austria, Sweden and France.

Firstly, to determine the role of public attitudes to redistribution in the development of wealth tax policies, we used data from the International Social Survey Program (ISSP) 'government' and 'inequality' questionnaires in their 1990, 1996, 2006 and 2016 editions. We only considered OECD countries where the wealth tax has been active. These findings are provided at 2.2, below.

Despite its broad coverage of a diversity of social science topics, there are some important caveats surrounding this source of data. Firstly, observations are not equally spaced, meaning that standard time-series analysis cannot be properly performed, which limits our capacity to make broad inferences. A second limitation we face is the limited number of countries through time where surveys are carried out. For instance, some countries were not included until recently, preventing us from drawing overall conclusions based on early stages of the ISSP.

Following Choi (2019, p.224) and García-Sánchez et al. (2020, p.112), an individual's support for redistribution is operationalised through different measures such as their view on the government's responsibility in reducing income inequality (Figure 1) and their personal stand on progressive taxation (Figure 2).

More specifically, we also sought information on public support for wealth taxes across developed democracies including Austria, France and Sweden; the study cases analysed in Section 3.4. Possibly due to increased consideration of wealth taxes, a number of national surveys have been carried out in recent years to gauge the public's support for such a tax. Although questions differ between national surveys, we looked for questions directly engaging with the topic of net wealth taxation. The criteria to include a given poll in our analysis was that it has been conducted in a OECD country not currently enforcing the wealth tax and by an institution following standard statistical methods allowing for regional population representativity. This information is synthesised in Table 1.

While this evidence helps understand preferences relating to redistributive policies among the general public, elites and policymakers, there is far less evidence surrounding causation in specific political decisions. We have chosen to analyse decisions to abolish wealth taxes across the OECD as critical moments through which the political economy of wealth taxes may be better understood. However, this remains an area in which there has been minimal research and little reliable, contemporary evidence. While we have relied on existing sources of evidence, there is scope for primary qualitative research into this area, especially through interviews with relevant decision makers, stakeholders and political observers.

Nonetheless, for each of the countries identified by the OECD as having had a net wealth tax in place, which had since been abolished, we examined a multitude of sources. As we were not conducting primary research, we were limited by the scope of existing evidence, leading to variation in both the amount and type of evidence identified across jurisdictions. First and foremost, we identified contemporaneous sources in which political leaders expressly provided justification for the abolition, predominantly official government records, such as parliamentary speeches or budget announcements. Alternatively, these statements were identified in media reports of the abolition, or the proposal of the abolition, in which political leaders were quoted. Where available, this also included retrospective commentary, primarily provided in media interviews or publications in which political leaders offered post hoc rationalisation for the decisions.

Secondly, we considered contemporaneous media publications, both local to the relevant country and international publications, concerning the abolition of the wealth tax. These were chosen as they frequently included reaction from interest groups, public opinion or provided context and commentary to the abolition. Furthermore, identifying media reaction in and of itself is a crucial element in understanding the dynamics involved in the decision.

Thirdly, we turned to more removed and peer-reviewed literature which considered the abolition decisions and provided additional analysis and explanation. This was of particular importance as, of the sources identified, it was the least likely to reiterate the political justifications verbatim. Of particular interest were sources which considered the prospect of wealth taxes in other jurisdictions, which, similarly to this paper, addressed the reasons wealth taxes had been abandoned elsewhere.

The use of multiple sources was done in an effort to mitigate against the knowledge that public statements made by decision makers cannot be relied upon as an accurate analysis of the factors leading to abolition. While highly pertinent, they are not objective, and are themselves tools of political persuasion. Consequently, they are taken as indicia of political thought, but not necessarily as a true representation of powers of influence leading to abolition.

3.2. Empirical findings on public attitudes and redistribution preferences

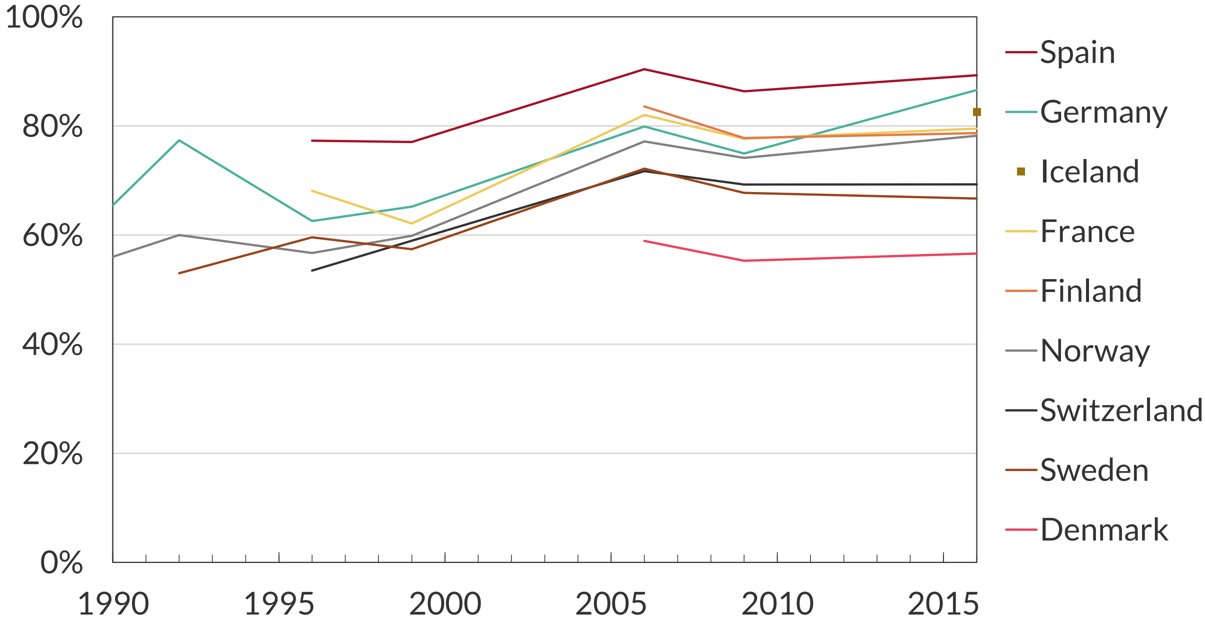
Figure 1 shows strong support for the proposition that it should 'definitely' or 'probably' be the government's responsibility to reduce income differences. A majority of respondents in all countries surveyed, ranging from 56.6% in the case of Denmark to 86.6% for Germany in the latest survey, agree to this proposition. Although support for government redistribution has been level since 2009, this trend is still positive in most countries. Sweden is the only exception as this value marginally decreased between 2009 and 2016 (by 1.03%), a difference that we could consider falling within the survey's margin of error. However, a belief that inequality reduction is the responsibility of government does not, in and of itself, provide evidence of the nature of interventions respondents would be likely to support. Figure 2 points towards support for fiscal interventions.

Figure 2 depicts the percentage of respondents considering that taxes paid by high income earners are 'much too high' or 'too high' along the years. It is necessary to note that this question captures individuals' assessment on the overall tax system, which includes levies on wealth and income.

From it we can see that in most surveyed countries, there is an increasingly higher perception of the wealthy being disproportionately favoured by the tax system. It could be argued that this rising discernment is partially driven by lowered taxes on wealth. This tendency is present in most countries, irrespective of their historical link with the wealth tax.[1]

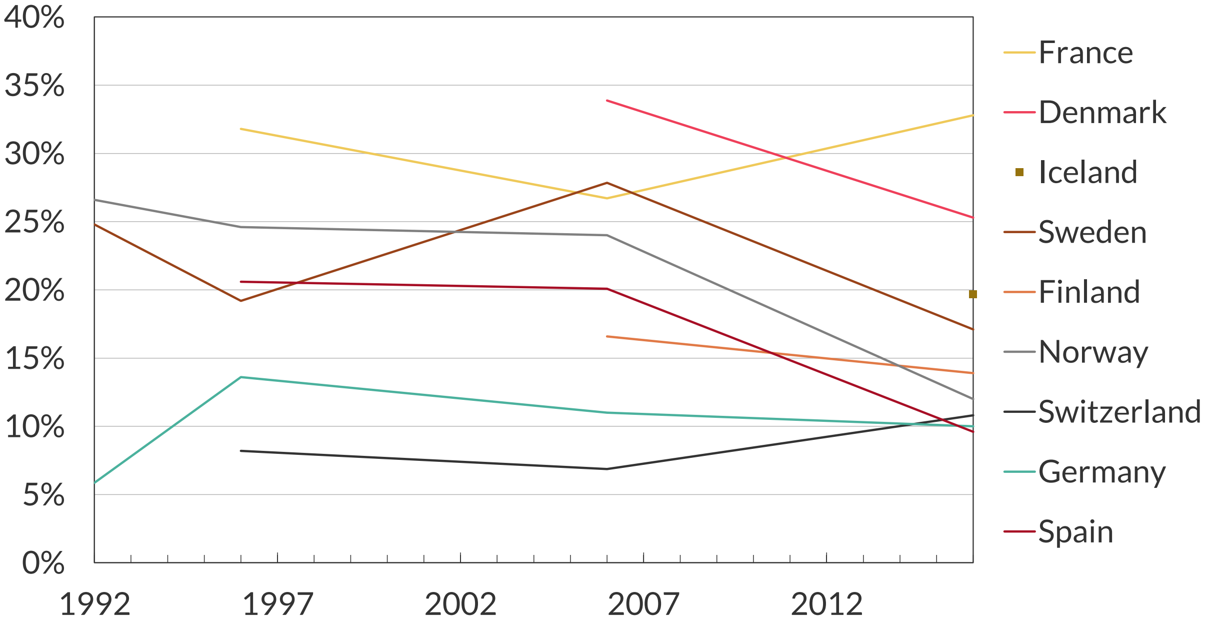
[1] Of the countries considered in Figures 1 and 2, six have abolished their wealth taxes – Denmark (1997), Germany (1997), Finland (2006), Iceland (2006), Sweden (2007) and France (2017); Spain, Norway and Switzerland maintain a form of wealth tax (OECD, 2018, p.16).

FIGURE 1: PERCENTAGE OF RESPONDENTS WHO THINK THAT IT IS 'DEFINITELY' OR 'PROBABLY' THE GOVERNMENT'S RESPONSIBILITY TO REDUCE INCOME DIFFERENCES



Source: Authors' model based on ISSP data

FIGURE 2: PERCENTAGE OF RESPONDENTS WHO THINK THAT TAXES PAID BY HIGH INCOME EARNERS ARE 'MUCH TOO HIGH' OR 'TOO HIGH'



Source: Authors' model based on ISSP data

Notably, the only exceptions to this trend are France and Switzerland. France abolished this levy in 2017, one year after the latest ISSP survey was carried out, suggesting that the impact of abolition was not factored into responses by survey participants. In contrast, Switzerland still enforces a wealth tax.

Given this pair of results, it may be tempting to reason that there may be an inherent feeling of injustice surrounding this levy and translating this to the overall tax system. However, the cases of Spain and Norway contradict this insight, since they currently collect this levy and at the same time have an increasing trend in the way voters perceive that taxes operate in favour of the wealthiest.

Albeit being useful to observe overall trends in the demand for redistribution, the ISSP survey lacks the elements to study specific forms of taxation. Thus, we have gathered information on public opinion polls on support for a wealth tax in Table 1.

TABLE 1. DIFFERENT LEVELS OF SUPPORT FOR A WEALTH TAX AMONG WESTERN DEMOCRACIES.

Country	Poll conducted by	Question	% Support	Poll date
Austria[2]	IFES – Institute for Empirical Social Research	Do you think it is justified that in order to cope with future challenges in our society such as care, climate protection, health or education, personal wealth worth over a million euros should be taxed?	73%	Jan 2020
Canada[3]	Ekos Research	Wealth tax of 2% on personal assets above $50 million and 3% on assets above $1 billion.	69%	Feb 2019
France[4]	L'enquête Profet	To qualify the net wealth tax as fair or unfair.	67%	Jan 2017
UK[5]	YouGov	Support level for net wealth tax on assets above £750,000 after excluding pensions and the value of the main home.	61%	May 2020
US[6]	1. Business Insider 2. Quinnipiac University Poll	'Warren's proposal': a tax rate of 2% per year on wealth in excess of a $50 million exemption amount, with a surcharge of 1% per year on wealth in excess of $1 billion.	1. 54% 2. 60%	1. Feb 2019 2. Apr 2019
Germany[7]	Instituts Civey	Whether or not a 1 to 1.5% wealth tax on society's richest individuals should be re-enacted.	58%	Aug 2019
Sweden[8]	Statistics Sweden	Support for the introduction of the wealth tax among the 50th income centile respondents.	Around 40%	May, 2017

[2] https://bit.ly/33sLxo8
[3] https://bit.ly/2EgzJv5
[4] Bernard and Spire, 2019, p.25
[5] https://bit.ly/3kig0en
[6] https://bit.ly/2Runkal
[7] https://bit.ly/2RvMgOU
[8] Waldenström, Bastani and Hansson, 2018, p.76

The selection of advanced democracies allows us to take into account income level and political regime in explaining the link between public support and wealth tax enactment. It is also possible to break down our analysis in terms of each country's relationship to the wealth tax into countries which never had it and countries which abolished it in the past. Nonetheless, this variable does not seem to account for differences in support levels.

Enacting or re-enacting a wealth tax is favoured by a majority of voters from different developed democracies irrespective of their historical relationship to this levy. Canada, the US, and the UK exhibit majoritarian support for this source of revenue; citizens of Austria, France and Germany currently see this tax as favourable. Sweden remains an exception among this set of countries, as only around 40% of its middle-income population support a wealth tax.

France and Sweden are two seemingly contradictory cases based on the information displayed in Figure 2 and Table 1. The former shows that from 2006, French respondents consider that the wealthy pay a high amount of taxes; whereas from the same year of observation, Swedish respondents believe high income taxpayers are increasingly favoured. On the other hand, Table 1 shows that most French respondents see the wealth tax as fair; Swedish respondents exhibit an opposite trend, with less than half its middle-income households supporting such a levy.

This suggests that citizens may agree on the convenience of achieving redistribution through taxation, but not necessarily on the specific levy. We could advance that each country values concrete forms of taxation dissimilarly. This argument matches the findings of Rowlingson and Connor (2011, p.439) and Bernard and Spire (2019, p.20), who have documented that taxes are not homogeneously considered by their payers; that is to say, support for specific taxes varies according to the type of wealth or income under consideration. Finding out more about this public assessment in different countries is pending for future work.

As explained above, one theory offered within literature to understand and explain tax policy outcomes arises from the median voter theorem. According to this theory, higher levels of inequality will correspond to a higher demand for redistribution, which will lead voters to choose political programmes with an increasingly progressive tax mix.

As documented by Alvaredo et al. (2018, p.10), inequality has been rising in Europe and the US and Canada over the last decades. This escalating maldistribution in wealth and income corresponds with a higher demand for government intervention through various forms of taxation, as depicted in Figures 1 and 2, and Table 1. For instance, the US and the UK, two traditionally unequal countries among developed economies, show wide support for this measure with levels of over 60%. This evidence speaks in favour of the relationship proposed by the median voter theorem between inequality and preferences for redistribution.

However, as outlined further below, global policy trends have moved away from net wealth taxes to their abolition or reduction, indicating an inconsistency between voter preferences and policy outcomes. France is a landmark case, as the French wealth tax was abolished in 2018 even when almost 70% of the national population considered it as fair (Table 1). Based on the Profet survey, conducted in 2017 by a French national statistics agency, Bernard and Spire (2019, p.29) found no support for the median voter theorem in the specific case of the French wealth tax (*impôt sûr la fortune*, ISF). These authors have found that several other variables besides income, such as family situation, years of education, sex and political opinion explain feelings on fiscal injustice. However, they also found that households whose income is above 40,000 euros were 47% more likely to consider the ISF as unfair than those below this income threshold. This fact indicates that policymakers' decisions are more aligned with a high-income population's feelings than they are with median voters', whose opinions are favourable to this tax.

3.3. Justification of wealth tax abolition

To understand what factors contribute to wealth tax policy and abolition it is necessary to examine the reasoning offered when critical decisions are made. While the justifications of wealth tax abolition by policymakers are unique to each country, there are clear commonalities within the explanations provided. Further, as one would expect, many political statements identified multiple different justifications for abolition. Common arguments for the justification of wealth taxes include:

i) A need to counter capital flight and attract investment. Structural power arguments concerning capital flight and the presumption that significant wealth was being held offshore as a result of the wealth tax was a recurring concern identified in numerous political statements across the OECD at the time of abolition.

In Sweden, the speech to parliament proposing the relevant Spring Budget Bill in 2007, which abolished the existing wealth tax, estimated approximately 500 billion Swedish krona (approx. $55 billion) was being held offshore in 2007. The underlying implication within the statement was that such wealth was being held offshore in part due to the wealth tax, the abolition of which would consequently result in an inflow of capital and investment.

Lawmakers in France also highlighted the expectation of investment and growth in entrepreneurship following the abolition of the wealth tax. In this country, the move was reported as being correlated with President Macron's economic policies to encourage investment, both foreign and local, as a mechanism to drive economic growth (Chassany, 2017).

While not explicitly focused on attracting investment, Icelandic political leaders concentrated their arguments on the potential benefits of growing individual wealth, which could, in turn, lead to broader economic growth (Iceland Budget Proposal, 2005).

This coherence of views on the impacts of taxes on investment and economic growth across countries suggests the dominance of certain ideas, or better, a certain paradigm regarding economic policy making. As Campbell (1998) described, the rise of neoclassical economics was supported by a strong apparatus of academics and research institutes. Their efforts led to assumptions on the benefits of low taxes and limited government intervention to become commonplace.

ii) Concerns over the impact of exemptions. It is not uncommon for a wealth tax, over an extended period, to be subject to a growing list of exemptions, which themselves prompted two different bases for abolition.

In Finland it was suggested, in proposing the bill to parliament, that the numerous exemptions meant the wealth tax now only effectively taxed real estate assets. Given these assets were already subject to specific property taxes, it was suggested that the wealth tax no longer served a clear purpose (The Government's Proposal to Parliament for a Law Repealing the Wealth Tax Act, Finland, 2005).

Danish legislators have been more explicit about the impact of exemptions on rates of compliance, with the Finance Minister at the time of abolition, Mogens Lykketoft, later reflecting in an interview 'It was as pierced as a Swiss cheese. In reality, only very stupid or very nationalist capitalists paid for it. It was very easy to avoid, and that was the problem' (Lehmann, 2009).

iii) The **challenges of administering a wealth tax** were also cited in evidence from Sweden, Finland and Austria. While not offered as a primary motivation in these instances, this tended to be a more pragmatic justification for the wealth tax abolition.

The basis of such rationale tended to be that the low rates of revenue and the administrative hurdles in terms of collection and enforcement, especially when coupled with growing exemptions, means that abolition was unlikely to have a detrimental impact on revenue. To put it more colloquially, this justification can essentially be summarised as the wealth tax being 'more trouble than it's worth'.

3.4. Key examples of wealth tax abolition

Drawing on these justifications, we have chosen to focus our analysis more specifically on the abolition of wealth taxes in Sweden, Austria and France. These countries have been selected because they are the most representative of the varying bases on which decisions are said to have been taken.

3.4.1. Austria

Austria's wealth tax, or *Vermögenssteuer,* was in place from 1954 to 1994 and was one of the most comprehensive of historical or existing wealth taxes across the OECD. According to the OECD survey of wealth taxes, Austria was the only country not to distinguish between different types of assets – all asset classes were fully taxed at a flat rate of 1% with no exemptions or preferential treatment (OECD, 2018). Revenue derived from the wealth tax was relatively stable, despite growing wealth (OECD, 2018), sitting at approximately 1% of total tax revenue (Goldberg, 2008).

The primary motivation presented by decision makers for the abolition of the wealth tax was that, by 1993, the primary entities affected by the tax were businesses, rather than private, wealth-holding individuals. In the final year the tax was in force, approximately 80% of revenue came from business entities, rather than natural persons (Meicheinitsch, 2006).

The Finance Minister of the time, Ferdinand Lacina, has since noted that this meant the capital-intensive industries bore the bulk of the tax burden, which he considered to be inconsistent with the intent of the tax (Pink, 2014). This supports the hypothesis that the dominant paradigm of market liberalism and low regulation played a role in policymakers' decision to abolish the wealth tax. However, another rationale for the abolition of the tax has also been the administrative complexities of its enforcement and collection (Ristea and Trandafir, 2010), indicating that decisions concerning wealth taxes are rarely based solely on ideology, but can also be grounded in pragmatism.

3.4.2. Sweden

The public statements regarding the abolition of the Swedish wealth tax or *Förmögenhetsskatten* were consistent with structural power arguments. The decision was attributed to a need to reduce capital flight and promote investment and entrepreneurship within Sweden (see, for example, Spring Budget Bill, 2007; Ibison, 2007). This shows a belief of Swedish policymakers in the prominent paradigm of a liberal market economy which sees tax cuts as benefitting investment and the wider economy.

In presenting the bill to parliament, the government noted that the Swedish Tax Agency estimated approximately 500 billion krona (approx. $55 billion) was being held outside of

Sweden, with an implicit presumption that the wealth tax was a primary motivator for this capital flight. Attention was drawn to the shift away from wealth taxes globally – the assertion was made that, in a globalised economy, standing alone with a wealth tax put Sweden in a disadvantaged position when it came to entrepreneurial investment (AFP, 2007).

How the abolition of wealth taxes is reported in the media is also a notable form of empirical evidence in itself. Within the reporting on the Swedish wealth tax, it was remarkable that both local and independent news sources appeared to uncritically accept the proposition that the act would have a net positive impact on investment and growth. In the *Financial Times* (FT), *Wall Street Journal* and *The Local* in Sweden, the majority of articles were pretty much representing the statements of political leaders verbatim. There was minimal, if any, critical evaluation of whether the economic expectations regarding job growth or increased investment were reasonable and realistic.

Rather, the language used portrayed the positions and stated expectations of political figures as reality. While the FT seemingly simply reported Finance Minister Borg's own statements, the decision not to offer a critical evaluation of the statements or whether his assumptions are reasonable is indicative of the media being utilised as a mechanism through which lawmakers' commitments to those holding structural power are uncritically reiterated as a net benefit for all. This could be amongst others due to the role of ideas and the dominant economic paradigm which highlights the positive effects of free markets and small government, limiting the alternative ideas that actors, including the media, think about. The media helped to frame the idea of a wealth tax cut being beneficial for the wider economy.

Perhaps more significant than the decision around abolition is a reform decision in 1997 during a period of reform. Following economic downturn, the Social Democratic government proposed a substantially expanded wealth tax. Palm and Alsgren (2019) document how this reform was strongly opposed by CEO of H&M, Stefan Persson. This opposition manifested in the form of a public campaign, during which he moved H&M's public listing to the O-list for smaller companies, and threatened to leave Sweden and move H&M operations offshore if the proposed reform was carried out. This active campaigning through media appearances was of particular note given how media-shy Persson had previously shown himself to be. The risk of entrepreneurs leaving Sweden due to tax rates had already been of political concern following the departure of several high profile businesspeople, including the Rausing family (1980s) and Ikea's Ingvar Kampard (1970s). Eventually, the reform was implemented with a provision through which Persson, his family and a small handful of other business owners would be able to avoid paying tax on the shares held in their own companies (Palm and Alsgren, 2019), in a clear concession to the active influence of Persson over policymakers.

3.4.3. France

Similarly, the public statements concerning the 2017 abolition of France's wealth tax by President Macron focused heavily on the apparent positive implications this would have on businesses, in what was presented as an agenda focused on economic growth. Again, this corresponded to the dominant economic paradigm which upholds a belief in the positive effects of tax cuts on investment and the economy. It was viewed as the fulfilment of demands from investors and entrepreneurs, which points towards instrumental power having been exercised by certain interest groups. The abolition, coupled with the simultaneous introduction of a flat rate on dividends, was estimated to result in 44% of tax breaks being enjoyed by 1% of French families (Chassany, 2017).

Indeed, the abolition, amongst other tax reforms, was welcomed by those promoting investment opportunities in France (Dias, 2018), and Macron highlighted the apparent departure of the wealthy during the presidency of Hollande in defence of the abolition (Chassany, 2017). However, unlike in Sweden and Austria, where the repeal of the wealth tax was broadly uncontentious, evidence from opinion polls at the time indicates broad popular support of the wealth tax in France, and significant disapproval of tax reforms, including wealth tax abolition (Table 1). Its removal, with other economic policies, has continued to be a source of protest. This discards the median voter model as a valid explanatory framework to understand wealth tax abolition in France. Furthermore, median voter theory, as outlined above, suggests that demands for redistribution will correlate with actual or perceived inequality. Certainly, France has seen a trend of growing wealth inequality since the 1980s (Garbinti and Goupille-Lebret, 2019), and this does appear to be reflected in public support for redistributive policies. However, the decision to proceed with abolition despite this political landscape suggests that the median voter theory cannot be upheld as an accurate framework to understand decision making in this instance.

4. Analysis and discussion

Testing theories of political decision making based on this evidence is limited by both the absence of evidence and the lack of consistency within the evidence produced in Section 3. There is scope for further work to be done in conducting novel research, including qualitative data collected through interviews, to ensure consistency of evidence across jurisdictions. While such data will undoubtedly be subjective, it will nonetheless provide a more holistic understanding of the key issues at play than contemporaneous commentary and statements produced for political purposes.

Despite this, existing evidence can provide some ground on which the literature and theoretical models of Section 2 may be tested. This section considers the principal assumptions within each model and compares them with the evidence on the reasons behind wealth tax abolition.

In doing so, the evidence offers no support for the median voter theory, not only because voter preferences are not closely aligned with policy outcomes, but also because public opinion is not identified as a contributing factor in any contemporary or post hoc rationalisations in the instances of abolition identified.

Broadly, we identify structural power as the most compelling force influencing policy outcomes in relation to wealth tax abolition, with this influence being primarily exercised through perceptions of potential behavioural responses, rather than explicit lobbying and political donations. We also consider the role of the media in upholding this structural power and find that, while not the primary driver of influence, it nonetheless may have a heightened capacity for influence. Of course, in cross-jurisdictional analyses with imperfect datasets, it should not be anticipated that a singular theory could be consistently supported across the evidence. This analysis serves, therefore, as an indicator of where future evidence may lead.

The median voter theory is perhaps the simplest to assess, in part due to the identification of public polling as a source of evidence from which the policy positions of median voters may be derived. The median voter theory cannot be considered an accurate model in this case simply because policy preferences of the median voters align with the policy decisions that are made. The correlation between median voter preferences and policy outcomes does not provide evidence of causation. Of the empirical evidence outlined above, the median voter theory is most comprehensively challenged by the example of France.

Further, the political justifications for abolition set out in Section 3.3 also present a challenge to median voter theory as none of the public statements addressed voter preferences or public opinion directly. Of course, these omissions cannot be taken as proof in themselves that median voter theory is insufficient in explaining decisions of abolition – as noted above, political statements cannot be expected to be an accurate and holistic explanation of all factors and influences contributing to a political outcome. However, such a finding would be consistent with the data analysis provided at 2.2, demonstrating the lack of correlation between public opinion and policy positions on abolition.

Theories focusing on structural power find more support within the evidence identified, given the extent to which numerous policymakers identified business and entrepreneurial growth as key considerations for announcing abolition. The strength of structural power is that such influence does not have to be wielded explicitly, through lobbying or political donations, but that it is exercised indirectly and automatically through businesses' economic importance and the wish of politicians to attract or retain investment (Hacker and Pierson, 2002, pp.280f.).

Moreover, the predominant concern of capital flight across political statements supports theoretical models which identify how businesses, simply by their perceived behavioural responses, can affect policy outcomes. Indeed, the example of Stefan Persson in Sweden represents a far more explicit act and is a clear-cut example of the capacity of elites to exercise direct (instrumental) influence over policy outcomes. However, even without such direct action, the prioritisation of businesses, investment and the prevention of capital flight in political justifications for wealth tax abolition are indicative of the structural power held by the corporate sector and wealthy elites.

Abolition in both Austria and Sweden can be seen not as a result of drift, but as a reaction to it. That is, shifting circumstances were presented as instrumentally altering the application and consequences of the wealth tax, often in ways that were disadvantageous to those with structural power. As a result, the continuation of the status quo could no longer be preferred, and the taxes were abolished. In Austria, the shift was the increase of the proportion of businesses paying the wealth tax, in contrast to natural persons, rendering it ineffective in achieving its intended aims. In Sweden, the reference to the trend of abolition among other OECD nations and an unwillingness to be the only nation maintaining a wealth tax indicates that shifting externalities altered the perceived impact of the wealth tax, contributing to its abolition.

The role of the media in preserving and compounding structural power, whether purposely or inadvertently, is also evident here. Many of the sources of evidence relied upon for identifying political statements concerning abolition were from contemporaneous media reports in the relevant jurisdiction. As observed above, it was noticeable the extent to which political statements on the detrimental economic impacts of the wealth tax were reported as real and inevitable truths.

The decision not to offer a critical evaluation of political statements is indicative of the media being utilised as a mechanism through which lawmakers' commitments to those holding structural power are reiterated as having a net benefit without critical analysis. Perhaps unsurprisingly, this uncritical observation was less prevalent where there was an extensive dispute about the value of abolition, such as in France, where the media appeared more inclined to report on the differing viewpoints offered in the dispute. This points to the impact of a political issue having high political salience.

The use of structural power arguments, namely that wealth taxes lead to capital flight and hamper investment, also relates to ideational processes as described by Campbell (1998) and Hopkin and Shaw (2016). The rise of neoliberal ideologies in the 1970s and 80s led to the paradigm of free markets and small government to gain dominance, which included a belief in tax cuts being beneficial for the economy, which then became the dominant programmatic approach to fiscal policy making. Political actors were able to dominate the sphere of ideas and largely exclude alternative modes of thinking about the economy. The media played an important role in this ideational process, helping to spread a certain framing of the issue to the public. Political elites were exercising power *over* ideas and power *through* ideas, to use Carstensen and Schmidt's (2016) terms. They managed to dominate the content of the ideas about the impact of taxes on investment and economic growth and to fend off alternatives, and they used these ideas to justify the abolition of wealth taxes towards the public. As Hopkin and Shaw (2016) found in their article on the financialisation of the UK economy, policy change was initiated by a government strongly believing in free market ideology and not by lobbying economic elites. The belief in this ideology could also be an explanation for governments in Austria, Sweden and France advocating for the wealth tax abolition without much lobbying and overt pressure by interest groups and wealthy elites, and despite the fact that this policy change didn't respond to voter preferences.

The prioritisation of business power and attracting investment is evident in the justifications given for wealth tax abolition across the OECD, in clear evidence of the role of structural power. This influence appears to be exercised in an implicit, rather than explicit, fashion, through perceived behavioural responses and the assumptions of policymakers about the impact of wealth taxes. It is not evident from the evidence outlined in this paper that instrumental power has been exercised directly through lobbying or other active mechanisms of power. However, this certainly does not imply the non-existence of such occurrences. As noted, there is a significant lack of literature and evidence surrounding abolition decisions, leaving them under-scrutinised. It would, for example, be interesting to assess whether there were any notable written contributions by interest groups at the time arguing for low taxes to incentivise investment. This would point towards a process of instrumental power and indicate that interest groups are active in the framing of ideas on the economic impacts of taxes.

5. Conclusions

The analytical framework provided in this article helps to advance the academic knowledge and literature on the political economy of net wealth taxes. In analysing specific instances of wealth tax abolition through the lens of theoretical traditions, we have been able to identify the substantial role of structural power and ideational processes in shaping such decisions. In contrast, we found only limited support for theories of instrumental power. However, we note that this may result from the challenge of identifying more discreet forms of instrumental power, such as lobbying or donations, in political statements, public documents and the other evidence relied upon here. There is scope for novel, qualitative research in this area. Among the theoretical traditions considered, median voter theories were offered the least by the evidence considered.

More research will be needed to fully understand which are the primary political power sources that explain the elimination of net wealth taxes in OECD countries. This agenda of research will contribute to the debate in terms of separating the evidence that shows real problems of the implementation of a net wealth tax (low revenue, cost/benefit), from political biases that could be related to representing the preferences of specific interest groups. A better empirical understanding of instrumental power mechanisms in this area would help to shed light on whether and how interest groups actively influence the ideas and arguments for wealth tax abolition. Equally, future research could look at those few countries that still have a wealth tax to understand how structural power did not lead to an elimination of the tax in those contexts. And following Fairfield (2015a), one could add an analysis of the actual investment and economic impacts following the abolition of the wealth taxes in different contexts, to understand how structural power arguments actually played out in reality and whether there was indeed a reversal of capital flight following the elimination of the tax.

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