

Tax system and redistribution: The Spanish fiscal transition (1960-90)

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Motivation

This work studies the fiscal consequences of a transition to democracy in the second half of the 20th century. Along with regime change, the period 1977-86 in Spain witnessed a profound tax reform that opened the way for welfare state development, bringing the country closer again to its European neighbours. These changes enjoyed a broad initial political consensus.

Our research question is how effective was the reform at introducing progressivity and redistribution, and therefore at reducing inequality. The topic is connected to the debate over the distributive consequences of regime change, in the spirit of Meltzer and Richard (1981), Acemoglu and Robinson (2001) and subsequent literature.

Sources

- Household Budget Surveys
- Household National Accounts
- General Government tax revenue
- Personal income tax micro-data
- Sociological surveys and press
- Parliament debates and documents

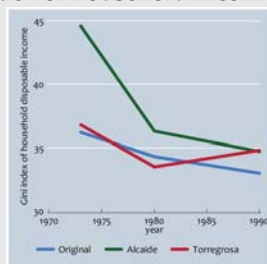
Methodology

- 1 Up-scaling of Household Budget Surveys by income source (à la Pissarides and Weber, 1989 + adjusting to NA)
- 2 Imputation of annual tax revenue
- 3 Tax evasion and other income sheltering estimated following Feldman and Slemrod (2007) and discrepancy with NA
- 4 Analysis of public opinion and tax policy formation

Persistent inequality

Figure 1: Gini index of household income

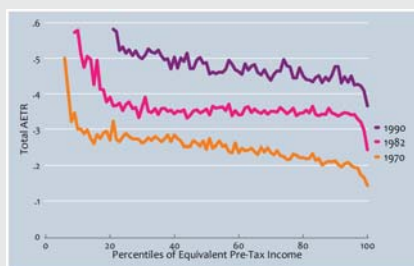
Disposable income inequality did not reduce itself impressively – as it had been established by previous scholars.



Source: Alcaide (2000) and author's calculations with Household Budget Surveys and NA.

Still regressive taxation

Figure 2: Higher tax rates on poor households

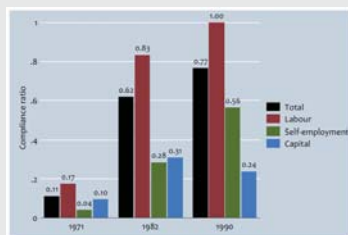


Source: author's calculations. Average Effective Tax Rates on households, sorted by their pre-tax equivalent income. Sum of direct and indirect taxes, and social contributions.

The introduction of a progressive income tax was counteracted by consumption taxation and heavy social contributions. Tax-and-transfer rates (not shown here) display a very meagre progression at the top of the income scale.

Capital incomes escaping taxation

Figure 3: Aggregate compliance, 1971-1990



Sources: author's calculations.

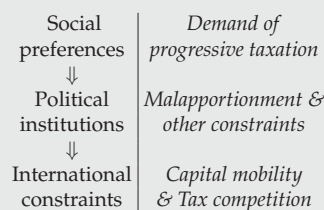
Table 1: Filers' compliance, 1982-2001

Movable capital	44%	38%
Fixed capital	41%	56%
Self-employment	46%	72%

Source: author's calculations.

Out of legal base-voiding and differential rates of evasion, the tax system kept discriminating against labour incomes.

Political Economy



Nature of the transition (legal reform under elite's control) + external context no longer favourable to tax progressivity.

References

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