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

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

Still regressive taxation

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.

Political Economy

Social preferences ↓ Demand of progressive taxation
↓ Malapportionment & other constraints
↓ International constraints Capital mobility & Tax competition

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

References


