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Paying for the Welfare State in the European Periphery

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Abstract: This exploratory paper outlines an approach to the evolution of the tax state in four countries: Ireland, Spain, Portugal, and Greece. It is motivated by our interest in a cluster of countries that are all too often excluded from comparative studies in political economy. Both the volume and the composition of tax revenues in these four countries display somewhat different patterns from those of the wealthier European countries. Their systematic exclusion may distort comparative generalizations in important ways. We focus here on three analytical themes that merit further exploration. Each of them helps us challenge the conventional understanding of the dynamics of tax policy. The first is that of timing. These four countries were late welfare developers, which meant that the demands placed on the tax capacity of the state is at variance with trends elsewhere, with implications for the constraints and opportunities available to their governments. The second concerns the specific domestic political economy mechanisms involved in these countries' tax choices, which can be opened out using perspectives drawn from fiscal sociology. The third theme concerns the international political economy, and suggests that the economic and financial vulnerability of countries on the 'periphery' may influence many aspects of their policy choices, including the size of their tax state and the composition of their revenues.

This preliminary version of our work focuses on the experiences of Spain and Ireland; further work on Portugal and Greece will follow.

Keywords: politics of taxation, European periphery, economic sociology, fiscal sociology, Spain, Ireland

JEL codes: E62, H20, Z13, Z180

1. Introduction

Just as the 19th century ‘liberal’ state required a stronger tax base, so the evolution of modern welfare provisions put new demands on the taxing capacity of the state. For most developed countries, the broad profile of welfare state development shows a common trend toward increased taxation in parallel with increased spending over most of the 20th century. By the 1980s, it was possible to argue that the welfare state had grown to its limits, and that the ‘new politics’ of the welfare state involved managing retrenchment in an age of ‘permanent austerity’ (Giger and Nelson, 2011, Pierson, 2001).

However, the trajectory of tax and spending in the less-developed economies of the European periphery was different. In Spain, Portugal, Greece, and Ireland, welfare expansion started much later: it was delayed until the 1970s by the overhang of authoritarian regimes in the first three of these countries, and by late economic development in all of them. Pressure for rapid welfare catch-up translated into the need to generate more revenues. This ran counter to the trend prevailing elsewhere, since the wealthier countries were becoming increasingly concerned about the size of the public debt, and – influenced by a new set of ideas disseminated through the OECD and other international organizations – were keener on cutting spending than on increasing taxes to deal with deficits.

Building up their ability to raise significant volumes of taxation under these conditions posed problems in countries that were coming late to the business of designing and implementing new tax schemes, particularly where administrative capacity was not strong. This paper examines the domestic political economy conditions, and the international opportunities and constraints that shaped the peripheral European countries’ commitments to expand their revenue capacities in parallel with their welfare expenditures.

The motivation for this work stems from a number of considerations. The focus on Ireland, Spain, Portugal, and Greece stems from a wider research interest in the experiences of countries that have been grouped as the ‘Cohesion Four’ (Barry, 2003) – that is, the poorest countries in the EU during the 1970s and 1980s, whose varying experiences with converging toward the EU mean suffered grave setback as a consequence of the global financial crisis since 2008. These four countries are unlike in a

number of ways – in the structure of their economies, in their geopolitical location, in the duration and stability of democracy in the 20th century. But the experience of late development, late transition from agriculture, and late initiatives in developing welfare states, mean that they have shared common experiences in some of the core challenges associated with building the tax capacity of the state. Furthermore, we might simply note that the countries in question have been under-studied. Much of the comparative political economy literature has focused on countries that are large (for example, Germany, France, Britain, Italy), or that have garnered international attention in virtue of having particularly distinctive models (Scandinavian countries, especially Sweden, and more recently, Denmark; Netherlands) (Beremendi and Rueda, 2007, Swank, 2006). Ireland is included in Colin Hay and Daniel Wincott’s comparative study, but the southern European countries are not (Hay and Wincott, 2012). Other literature on the politics of welfare and taxation in middle-income developing countries has tended to focus exclusively on non-European experiences. It could be instructive to consider late-developing European countries within the same framework (Brautigam et al., 2008). The range of countries included in comparative modelling can shape the conclusions reached in sometimes decisive ways (Castles, 2004).

Approach

The core research questions in this study centre on the implications of late economic development and late welfare state expansion for the politics of taxation. These four countries had considerably smaller tax take than the European average until the 1970s. During that decade, profound changes in their respective political economies gave rise to new popular demands for an expansion in state transfer payments and in the range and quality of public services. In Ireland, welfare development had lagged partly on account of poverty, and partly because of the control over key social services exercised by the Roman Catholic Church. A spurt of growth in the 1960s and social modernization in the 1970s, combined with EEC membership in 1973, brought fresh demands for welfare provisions analogous to those provided in Britain, with whose social policy experiences Irish people and indeed Irish policy-makers were most familiar. In the southern European countries, the collapse of dictatorships in the mid-1970s, and the rapid institutionalization of democracy thereafter, unleashed long-suppressed demands for welfare protection, intensified by EU membership in the first half of the 1980s. In all

four cases, the surge in popular expectations about the scale and breadth of state activity presented significant new challenges for the development of state capacity in the area of taxation. These countries were also prone to new kinds of fiscal challenges when deficits opened up between revenues and spending, forcing a choice between increasing taxation and cutting expenditure.

We wish to analyse the volume of taxation collected on the one hand, and the composition of taxation on the other. The upward pressure on tax requirements of these states from the 1970s onwards is at odds with trends in the more established welfare states, where it had become commonplace to speak of the fiscal crisis of the state, and the 'growth to limits' of the welfare state (O'Connor, 1973/2001, Flora, 1987). The contrasting trends apparent in the late-developing states, relative to established welfare states, present an explanatory challenge. We draw on analytical perspectives drawn from fiscal sociology and comparative political economy. Our second set of questions has to do with the composition of taxation in the context of late state expansion. Expectations point in somewhat different directions here. States with limited fiscal capacity typically cannot quickly put in place the broad-based income and social insurance revenue schemes that are so central to the most generous welfare states. But it has also been argued that the political durability of welfare states may depend more firmly on indirect and indeed regressive taxation, of the sort that is more accessible to states with limited tax 'reach' (Kato, 2003).

Methodologically, we adopt a case-study approach, focusing in the first instance on Ireland and Spain, with a view to extending our analysis to include Portugal and Greece in due course. Our interest in identifying the causal complexity underlying policy choices prompts us to engage in comparative qualitative analysis. We make the case for viewing Ireland and Spain as contrasting instances of the development of new tax capabilities in countries coming late to sustained growth. Our cross-national comparison is complemented by tracing within-country variation over time, from which we anticipate deriving additional explanatory leverage (Collier et al., 2010, Bennett and Elman, 2006). We note, for example, the payoffs yielded by analytically informed, carefully designed qualitative research demonstrated by the work of Steffen Ganghof. His in-depth case studies of tax reforms in seven countries illustrate the power of well-designed analysis of causal complexity, where actors, institutions and ideas interact (Ganghof, 2007).

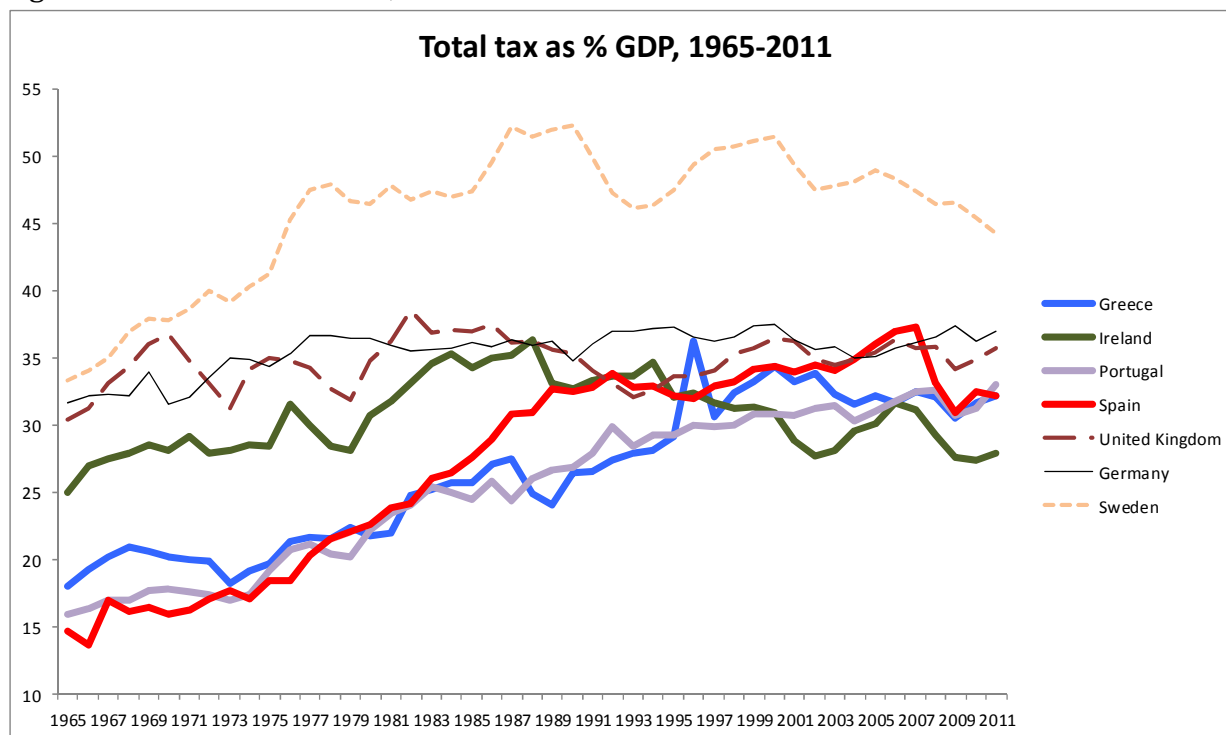
We adopt an approach based on analysing ‘politics in time’ (Pierson, 2004, Dellepiane-Avellaneda and Hardiman, 2015) which makes it possible to analyse the political and economic considerations bearing upon particular turning-points in policy. We are interested in the politics of choice under conditions of constraint, noting in particular that policy is strongly path-dependent and that the decision-set facing policy-makers at any one moment is conditioned by the sum of policy choices made in the past.

We expect this work to make contributions not only to the substantive understanding of the politics of taxation in under-analysed countries but also to building theoretical and analytical bridges between literatures that will enable us to understand better a set of country cases that can be difficult to categorize. The analytical classification of the southern European countries of Spain, Portugal, and Greece seems to present a particular difficulty for comparative political economy, or at least for those strands of analysis that are grounded in ‘varieties of capitalism’. The typological features of ‘mixed market economy’ do not readily capture all three of these countries. The degree to which they face common constraints and incentives in their tax policy remains to be explored. Ireland is more readily classified as a ‘liberal market economy’. But while its strong economic and political connections with the Anglo-American world certainly set it apart from the southern European countries, Ireland is also a small and very open economy, facing strategic decisions about tax and spending that look very different from those facing its large neighbours. What our four countries share in common, then, is not any obviously shared characteristics in terms of varieties of capitalism, nor indeed any direct similarities in the way they resolved the challenges of taxing and spending that they faced. The puzzle of interest to us is their contrasting responses to the shared challenge of building up their fiscal competences at a later stage than the rest of Western Europe.

2. Tax States in the EU Cohesion Four

In this section, we profile the principal outcomes of interest in the size of the tax state. We return to the composition of taxation in the course of our descriptive narrative. The level of taxation, that is, total tax as a proportion of GDP, is profiled in Figure 1.

Figure 1: Total tax as % GDP, 1965-2011



Source: OECD

This diagram shows that in 1965, the richer European states already had a well-developed revenue-gathering capacity. Taking three countries that are often taken as representative of different models of political economy and welfare state provision, we note that Britain took in 30% of GDP in taxation, Germany (that is, West Germany until 1990) 32%, and Sweden 34%. Ireland's total tax take, at just under 25% of GDP, was larger than that of the three southern European states, which raised between 14% and 18% of GDP in revenues. In Spain, Portugal, and Greece, we note a rising trend in tax revenues from the mid-1970s onward, right through to the early 1990s, a trend that is mirrored at a somewhat slower rate in Ireland. At this point though, the total tax take in Britain and Germany, notwithstanding some fluctuation, stayed fairly steady. Sweden's total tax take rose sharply in the mid-1970s and again in the mid-1980s. Its total tax volume fluctuated until the mid-1990s, but around a mean that stood at a much higher level than Britain or Germany.

During the 1990s, the tax take of the Cohesion Four converged significantly with the total volume of taxation raised by the richer states of Britain on the one hand and

Germany on the other. In Spain, Greece, and Portugal – but not in Ireland – the upward trend in total tax revenue continued to increase, albeit at a slower rate.

In order to get a full understanding of trends though, we need to refer to real numbers as well as percentages of GDP. What appears to be a downward trend in the size of the Irish tax state from the late 1980s is misleading, for two reasons that will be explored in greater detail later. Firstly, GDP ceases to be the best denominator of national wealth available for distribution and redistribution. In most countries, there is relatively little difference between GDP and GNP. Ireland's tax-incentivized reliance on FDI to lead economic development led to a growing phenomenon of profit repatriation. Secondly, the so-called Celtic Tiger period of growth, from the late 1980s until 2008, meant that GDP (and GNP) grew at super-normal rates. A rapidly rising tax take appears as a falling share of a very rapidly growing economy. Ireland did indeed stall in the development of the tax state, and its approach to the composition, incidence, and consistency of tax policy was very patchy, but not quite to the extent that these aggregate trends would indicate.

3. Theoretical Perspectives

The analytical perspectives we draw on to inform and guide our empirical analysis are grounded in comparative fiscal sociology and political economy. The evolution of the tax state in the Cohesion Four group of countries was shaped by two sets of factors: firstly, the constraints and opportunities that were present in their domestic political economy; and secondly by their situation in the wider international set of relationships between states, the most important of which in this case is their engagement with European integration, first through EU membership, then through participation in EMU.

We seek to analyse the ways in which tax policy decision-making is shaped by the structured context within which decisions are made. The institutional framework influences the opportunities available to various actors to gain access to the decision-making process. Our approach is strongly influenced by the historical institutionalist framework developed by Sven Steinmo in his classic works on comparative tax policy. This emphasis on actors in institutional context also recognizes the importance of the framework of ideas within which decisions are made; moreover, ideas may be contested by organized interests with unequal power (Steinmo, 1993, Swank and Steinmo, 2002,

Steinmo, 2003). Developing this approach leads us into a fuller examination of the competing sources of power and influence that have shaped tax policy, in determinate institutional settings, in each of our four countries.

We are also attentive to the possibility that these institutions are also subject to change over time. Among the 'external' factors that can put pressure on institutional as well as policy adaptation is the direct and indirect influence exerted by European authorities, and the incentives to change their behaviour that domestic decision-makers experience as a consequence of closer integration into the European market.

Our analytical framework means that we seek to integrate three theoretical perspectives in our analysis: firstly, the importance of timing and sequencing; secondly, the insights to be gained from a fiscal sociology perspective; and thirdly, the challenges of adjusting to the demands of European integration that face less-developed economies.

1. Timing and sequencing

The politics of taxation in the Cohesion Four countries should be considered as a process (Mahoney and Rueschemeyer, 2003, Pierson, 2004). The historical context in which these countries began to expand their tax states seems to be crucial in many respects. The timing and subsequent trajectory of the tax state deviates from the standard narrative regarding the evolution of modern tax politics in the core industrial democracies (Steinmo, 1993, Steinmo, 2010). Most importantly, these countries faced the mounting political challenge of building tax capacity precisely at the time when core economies were moving in the opposite direction. In Spain, Portugal, and Greece, the principal driver of an expansion of tax capacity was the enormous political demand, set off by sudden democratization, for an expansion of welfare effort. Ireland lacked that jolt of regime transition to shake up its tax politics. But the 1970s in Ireland was also a period of rising political expectations and expanding demands on delivery of state transfers and services.

The late 1970s and early 1980s represent a moment of crisis in the international political economy. The fallout from the oil-price crisis resulted not only in seemingly intractable stagflation but also in the accumulation of very large public debt overhangs, as governments tried to deal with the crisis using conventional Keynesian techniques. This

was a period during which a shift in economic paradigm was under way. Politically, the Conservative electoral victory in Britain in 1979 showed that it was possible to embrace an alternative set of priorities, focused on targeting inflation rather than controlling unemployment. The demonstration effect rippled throughout European politics over the following decade. Intellectually, the groundwork had been laid for the diffusion of a new wave of neo-classical economics, prioritizing market efficiency and international capital mobility. In tax policy, the idea of creating a 'level playing field' gained traction, undermining the normative power of the previous commitment to taxation as an instrument of redistribution in its own right (Hall, 1993, Swank, 2006, Steinmo, 2003).

The scholarly as well as the political discourse about state capacity and specifically fiscal capacity also began to shift during this period. Analysts worried about the 'fiscal crisis of the state' (O'Connor, 1973/2001), about the capacity of 'overloaded governments' to manage the scale of the demands made upon them, and about the dangers of the potential 'ungovernability' of modern societies (King, 1975, Rose, 1979). The new policy paradigm prescribed reductions in tax rates and the broadening of tax bases as mechanisms to both bolster economic efficiency and maintain government revenues (Swank, 2006). The neo-liberal turn in tax policy reshaped government priorities in favour of efficiency and away from equity.

The diffusion of market-conforming tax policies has been uneven across OECD countries, depending on underlying domestic conditions (Swank and Steinmo, 2002, Ganghof, 2007). Widespread cuts in statutory tax rates did not necessarily translate into lower overall levels of taxation and reduced effective tax rates. The Cohesion Four were far from immune from the problems generated by the oil-price crisis, and the pressures to address accumulating debt. Nevertheless, they were starting from a different point, with economies that did not have very large traditional industries that were laid low by high commodity prices; nor did they have the sort of established welfare spending commitments that caused the developed economies to run up large public debts quickly. So there is a contrast between the debates that were taking place in the developed economies and the trajectory on which the Cohesion Four had embarked. These latter countries had to try to build and consolidate their tax states in the face of rapidly changing conditions in the international political economy and a massive shift in the underlying fiscal policy paradigm. As we shall see, some were more successful than

others in building up both the political commitment and the administrative capacity to create enduring tax capacity. To understand this variation, we have to turn to the literature on domestic political economy and the role of power in shaping tax policy choices.

2. Fiscal sociology

An established literature on the comparative political economy of taxation has identified key determinants of tax policy changes, such as the role of institutions and veto players (Hallerberg and Basiger, 1998, Steinmo and Tolbert, 1998, Swank and Steinmo, 2002, Swank, 2006). Among the most important actors and potential veto players are political parties: partisan preferences have been shown to play an important role in shaping tax policy priorities. But the quest for the ‘most important’ explanatory variable can be misleading. Ganghof shows how the interaction of party ideology, veto institutions and socio-economic constraints shapes the politics of income taxation. He demonstrates that adequate explanatory strategy has to deal with causal complexity, in which the variables are not readily separable in their effects (Ganghof, 2007).

Income tax is vitally important as a means of funding state effort. But the connection between partisanship and preference for particular tax policy instruments has been shown to be complicated. Denmark may have built up an enormous reliance on income tax, but it was something of an outlier (Ganghof, 2005). Kato argued that since the 1980s, regressive taxes that were built up in the good times proved harder to roll back in a downturn, and that governments that want to build up a durable fiscal base for welfare spending would, do well to use regressive taxation effectively (Kato, 2003). This is a rather paradoxical finding, since it is typically governments of the left that wish to expand welfare entitlements, and they have tended to be wary of regressive tax measures for electoral reasons. Beramendi and Rueda develop the analysis further, and argue that the extent to which social democratic parties rely on indirect taxation is contingent on the presence or absence of strong coordinating institutions (Beremendi and Rueda, 2007).

Without neglecting the importance of the insights produced by the comparative political economy literature, we also wish to approach the issue from the perspective of fiscal sociology. Joseph Schumpeter said that ‘The fiscal history of a people is above all an

essential part of its general history. An enormous influence on the fate of nations emanates from the economic bleeding which the needs of the state necessitates, and from the use to which the results are put' (Schumpeter, 1917/1954). Rudolf Goldscheid was even blunter about the power dynamics implicit in taxation, saying that 'the budget is the skeleton of the state stripped of all misleading ideologies' (Goldscheid, 1925/1958). The revival of the focus on the state by political scientists in the 1980s was led, among others, by Theda Skocpol, who was working with the intellectual legacy of these earlier theorists. For her, 'a state's means of raising and deploying financial resources tells us more than could any other single factor about its capacities to create or strengthen state organizations, to employ personnel, to co-opt political support, to subsidize economic enterprise, and to fund social programmes' (Skocpol, 1985, p.17). Campbell explicitly takes up Goldscheid's interest in the class politics underlying tax policy, mediated by structures of interest representation and electoral competition; he is also attentive to classic political economy elements of explanation such as the structures of the state itself, the organization of the economy, and the dominant ideas that shape people's expectations (Campbell, 1993). Isaac Martin, Ajay Mehrotra, and Monica Prasad developed these insights in their seminal comparative analysis of the social bases of the American tax state, work on which they have been building ever since through the Social Science History Association (Martin et al., 2009).

All these authors share a common concern with two core themes. The first is the recognition that tax is not just a technical instrument through which to extract resources, the deployment of which is then subject to political and indeed partisan contestation. They recognize the necessarily political nature of tax itself. Tax is deeply political, for it has distributive consequences that are experienced by those affected, even after the total redistributive effects of spending-based redistribution are put into effect. As Martin and his collaborators have pointed out, the fiscal contract at the heart of states' capacity to tax is itself founded on a normative expectation of fairness, and tax compliance depends on taxpayers' acceptance of the legitimacy of the principles of taxation. Secondly, taxation interacts with the distribution of power in society – Goldscheid was one of the earliest and most trenchant analysts of this. It is not possible to understand who is taxed and who is not, who pays how much, without considering who controls socially and economically valuable assets, who is able to influence the competition for

votes and who is able to shape the terms of debate and the prevailing discourses about taxation.

The macropolitical changes going on in the Cohesion Four during the 1970s – the dramatic transition to democracy in the southern countries, and the economic growth and social modernization taking place in Ireland – shifted the terms of political debate about taxation. The ability to raise more in taxes required a broadening of the tax base, and an extension of the powers of the state into social groups that had previously thought themselves to be beyond the reach of the revenue authorities. But the broadening of the tax base and the diversification of sources of revenue did not proceed smoothly or evenly. Governments' push in some directions and not others, and the resistance, whether overt or covert, offered by powerful interests to their greater entanglement in tax liabilities, tell us much about the distribution of power. Furthermore, the extent to which the revenue authorities were permitted to become independent of partisan influence and the scale of the resources – both administrative and legal – committed to building up the competences of the revenue authorities themselves also reveals a good deal about the differentiated exercise of power.

While democratization should be credited with some of the impetus toward expansion of tax capacity in the southern European countries, economic development also gives a powerful stimulus to a state's taxing capacity. The diversification of economic activity and the emergence of new sources of wealth-creation enabled states to move into expanding existing sources of revenue as well as into devising new tax powers. The creation and consolidation of revenue-raising capacities is strongly influenced by the twin forces of democratization and economic development (Gould and Baker, 2002, Tarschys, 1988).

The principal contemporary theoretical framework for analysing variation in political economies is that of 'varieties of capitalism'. Spain, Portugal, and Greece represent different varieties of 'mixed' market economy. Molina and Rhodes have made a convincing case that the political economy of adjustment in mixed-market economies entails a distinctive set of constraints (Molina and Rhodes, 2007). The theoretical expectations we might have about the way the state might approach the task of funding itself have not been fully explored, and deserve further consideration. Ireland is usually

classified as a liberal market economy with ties to the Anglo-American capitalist world. We would perhaps anticipate that the tax state would be relatively small and that the upward pressure on welfare spending would reach a politically tolerable ceiling sooner than might be the case in southern Europe. But we need more insight into the specific mechanisms whereby tax decisions were made and the distinctive profile of the tax system took shape.

In our four countries, the combined influences of markets and democracy on taxation were also given an additional impetus by their engagement with European integration. Ireland joined the EEC (as it then was) in 1973; Greece in 1981; Spain and Portugal in 1986. Although taxation (and spending) lies outside the EU's competences, EU membership has had a range of effects, both direct and indirect, on the tax regimes of its member states. Ganghof and Genschel inquire in the influence of the EU on member states' tax policy-making through its commitment to tax harmonization and the creation of the Single European market. They argue that the prioritization of market-making and competition policy has increased domestic pressure on corporation tax, resulting in a trend in both rates and revenues. But in addition, they suggest that indirect effects can be seen on the politics of income taxation, further constraining redistribution through taxation (Ganghof and Genschel, 2008). We may also note a wider consequence of growing EU integration, which is that the EU mediates the way globalization is experienced in its member states, and particularly the way pressures for international capital mobility are felt, which forms part of the framework of economic policy-making in the member states.

3. A 'periphery' perspective on tax policy

As we have noted at the outset, the Cohesion Four have tended to be neglected by mainstream comparative political economy. This is true in general and in relation to taxation in particular. This omission, which cannot be explained simply by lack of data, may hide an important analytical point. The political economy trajectory of these countries does not fit neatly into the dominant narrative underlying the development of tax states in advanced countries.

The countries of the EU periphery are not normally considered to be 'developing' countries – they are wealthier, they are culturally assimilated to a long European history,

and they are geopolitically better networked than middle-income countries in a global context. Nonetheless, the less-developed status of the Cohesion Four, their late transition from extensive reliance on agriculture, and the relative weakness of their experience of industrialization are features that give them some commonalities with 'emerging' countries. While fully recognizing that the four European countries in question are different in important respects, there may be insights to be gained from analysis of the political economy of taxation in poorer countries (Brautigam et al., 2008, Moore, 2004, Tanzi and Zee, 2000, DiJohn, 2006, Lieberman, 2003).

Among the problems that middle-income countries often experience is a weak institutional inheritance of administrative skills and a poorly-developed infrastructure for effective and efficient revenue collection. A consequence of weak state capacity is a poor ability to generate consent to the tax regime on the part of the citizens – especially if the public administration is seen as corrupt or partisan in the way it functions. Tax collection under these conditions cannot depend on widespread voluntary compliance, and may rely more heavily on coercive tactics of surveillance and punishment – which in turn generate incentives to escape the weight of state intrusion into private finances. Margaret Levi and others remind us that the evolution of the tax systems of today's advanced democracies can be traced back to an earlier reliance on forcible extraction of resources from unwilling subjects (Levi, 1988, Tarschys, 1988). Tilly has argued that tax capacity often developed in the service of war and coercive state-building (Tilly, 1992). Indeed, Britain itself has been shown to have gone through the whole cycle from extractive state, to coercive taxation, to more or less voluntary compliance (Daunton, 2007a, Daunton, 2007b). Resistance to tax compliance under conditions of perceived political oppression can have enduring consequences. Indeed, withholding tax compliance had been an instrument of political protest in pre-Independence Ireland, and the newly independent state in the 1920s made much of its commitment to reduce the (already very low) incidence of taxation, not least because of the poor legitimation of these aspects of state capacity (Maguire, 2008, Garvin, 1996).

The literature on emerging economies counsels against too easy an expectation that building an effective tax state is only a matter of biding one's time. Michelle D'Arcy has profiled the deep, pre-modern roots of the contemporary capacities of a highly-developed tax state such Sweden's (D'Arcy, 2012). The development of state capacity,

including the quality of the public administration, and of political consent, cannot be taken for granted. The composition of tax revenues has a history that can be traced through the contested processes of state formation. Political compromises struck with powerful social and economic interests in the interests of social stabilization may not be readily reversible at a later stage. The tax treatment of wealth, property, and inheritance may well fall into this category. The choice of tax instruments can also intersect with the problems arising from the timing of the expansion of the tax state in the less-developed European countries. As we have already noted, the Cohesion Four were building up their ability to generate public revenues at the very moment when neoliberal ideas about how states and markets should function were coming into the ascendant. Their admission to the EU and their engagement with the Single Market required them to adopt the same policies of capital liberalization as the other countries. The difficulties this presented are in some respects not unlike the problems of developing countries required to implement 'Washington Consensus' policies, where the obligation to open domestic markets to global trade and to align domestic policy with international norms deprived these countries of the very protections that had nurtured the now-rich countries when they were at comparable levels of development (Chang, 2008, Chang, 2002). Countries in the semi-periphery may be differentially exposed to the so-called structural dependence on capital (Przeworski and Wallerstein, 1988, Wallerstein and Przeworski, 1995). They may find it more difficult to impose taxes on relatively mobile capital; they may be constrained from creating highly progressive income tax systems. The timing of the start of their journey toward building tax capacity may make some tax policy paths more likely than others.

4. Country Narratives

The perspectives outlined here serve to inform and guide the empirical investigations required by this project. As noted earlier, the objective is not to build a variable-centred research design, but to make sense of the causal complexity underpinning outcomes in four cases. The aim is to develop an analytically-informed comparative analysis of patterns in the 'causes of outcomes' (Goertz and Mahoney, 2012). As a starting point in this endeavour, we now profile key points in tax policy developments in two of our four countries, Spain and Ireland.

4.1. Spain

In the last few decades, the Spanish tax system experienced a profound transformation – in the volume of tax revenues, in the composition of taxation, and in tax administration. One of the most remarkable developments is the consistent increase in the tax-to-GDP ratio (Martinez-Vazquez, 2007). The size of the tax state doubled in the space of thirty years, from 18.4% of GDP in 1975 to 36% in 2005. This was a consequence of the sustained modernization of the tax system, which followed from the combined pressures of the institutionalization of democracy and the requirements of EC membership.

The Spanish case shows the limitations of purely economic explanations of tax policy change. The period of strong economic growth experienced by Spain between 1960 and 1973 did not bring about a modern tax system. The demand was certainly there: in 1972 and 1973, a group of experts affiliated with the *Instituto de Estudios Fiscales*, and led by Professor Fuentes Quintana, produced a comprehensive analysis of the deficiencies of the tax system and a blueprint for reform of both tax policy and tax administration. The idea was to redesign the tax system according to modern criteria of efficiency and equity and along the lines already implemented by OECD/EC countries – tax harmonization with Europe was a key driver of reform well before Spanish accession in 1986. In the mid-1970s, Spain lacked a modern system of direct and indirect taxation: revenues were largely based on social security contributions, and highly distorting taxes on specific mass-consumption products.

The nature and timing of democratization was crucial for the shape and substance of tax system design. Spain, in common with the other newly-established democracies in Southern Europe, faced the challenge of accommodating an explosion of newly articulated social demands in the face of a mounting economic crisis (Maravall and Przeworski, 2003).

The key to understanding Spain's reform of its tax system lies in the Moncloa Pact, the negotiated agreement on a wide range of political and economic reforms that emerged from the 'constitutional moment' of 1977 and 1978. Moncloa involved not only the main political parties but also the principal economic actors (that is, business and trade union interests). Tax reform was a key component of the Moncloa economic settlement – these

reforms brought about the first modern scheme of progressive income taxation in Spanish history, as Table 1 shows.

Table 1: The composition of taxation as % GDP in Spain

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 3.5 | 4 | 6.7 | 9.1 | 10.4 |
| 1100 Tax on individuals | 2 | 2.6 | 5.2 | 7.4 | 6.3 |
| 1200 Corporate | 1.3 | 1.2 | 1.4 | 1.7 | 3.8 |
| 2000 Social security | 4 | 8.5 | 10.9 | 11.3 | 11.7 |
| 3000 Payroll and workforce | 0 | 0 | 0 | 0 | 0 |
| 4000 Property | 0.9 | 1.1 | 1.6 | 1.7 | 3 |
| 5000 Goods and services | 5.8 | 4.3 | 7.6 | 9 | 9.9 |

Source: OECD Tax Statistics

The 1977/1978 tax reform aimed at improving efficiency and enhancing income distribution. That being said, the incentive to increase the volume of tax revenue was also critically important, in the light of the state's new aspirations. Both policy experts and politicians were fully aware that substantive increases in revenue-raising capacities were critical in order both close the existing fiscal gap and to provide sustainable funding for the anticipated expansion of the social state. In the words of one prominent expert: 'the reform of the tax system was essential to improve the distribution of income and wealth, but also to fund the new levels of public services that the Spanish society would demand once they would be able to express those demands freely' (Lagares-Calvo, 2004).

Consensus was the trademark of the Moncloa pacts and hence also the political basis of tax reform. But this consensus should not be overstated and broad-based agreement on economic reform in general and fiscal policy in particular only lasted a few years. Indeed, the early resignation of Fuentes-Quintana, one the brains of the economic strategy of Moncloa, and the intellectual father of the tax reform proposals of the 1970s, exemplified the point that political consensus around economic reforms was not easily

forthcoming. The fragmentation of political agreement about tax reform had serious consequences in that it delayed elements of the reform plans. Indeed, a modern VAT system was only implemented in 1986, and the only because it was required under the terms of binding EC conditionality.

A key weakness of the Franco-era tax regime related to the capacity to control and punish tax fraud. According to Pan-Montojo, economic elites accepted a more comprehensive and progressive system of income and corporate taxation – but only reluctantly (Pan-Montojo, 1996). The lobbying efforts of privileged groups concentrated on getting concessions within the system which all too often undermined implementation, enforcement and control. For example, business elites successfully vetoed the implementation of the net worth tax known as *impuesto patrimonio neto* which tax experts had argued would be critical for effective control over collection of income and corporate tax.

In the decade from 1983 to 1992, the politics of taxation stabilized, and this facilitated the emergence of a political and electoral coalition prepared to accept rising levels of taxation in exchange for higher levels of public goods provision. The ‘social democratic tax strategy’ both strengthened the overall progressivity of the tax system and generated a stronger stream of taxation. As Boix argues, ‘raising tax revenues was a necessary condition to hold together the Gonzalez economic strategy of combining a stable macroeconomic policy and the state’s direct intervention in capital formation and economic growth’ (Boix, 1998, p.113). He added (p.3) that: ‘A socialist government increased Spanish taxes by a third and employed the public sector to develop the most extensive capital formation plans in Europe’.

However, the tax effort halted in 1992/1993, which in hindsight may be seen as a turning point marking the end of the golden age of Spanish social democracy, and the erosion of the electoral and political bases of PSOE’s supply-side social democratic strategy (Solchaga, 1997). But among the factors leading to a shift in policy emphasis was growing popular awareness that increased revenues had come to rely too heavily on an unreformed fiscal drag. More and more people were drawn ever-deeper into the tax net at what were now relatively lower rates of income (Boix, 2004). Research on Spanish ‘tax morale’ suggest that, by the mid-1990s, equity concerns were growing over

the incidence of income taxation, such that it was increasingly difficult to mobilize consent around further increases in levels of tax. The growth in the Spanish tax state seemed to have reached its political limits (Martinez-Vazquez, 2007).

Aznar's economic strategy, during his time as leader of the Partido Popular governments between 1996 and 2004, consolidated the change in the political mood around taxation. The objective was to reduce the burden of the public sector in the economy, leaving the private sector as the key driver of economic growth. In this light, the aim was to stabilize the tax-to-GDP ratio below 40%. Hence the consistent choice of expenditure-based fiscal consolidation in the run-up to Spain's accession to the single currency in 1999 (Mulas-Granados, 2006).

The savings made by the substantive spending cuts, the extensive privatization scheme, and decreasing interest rates (the politics of cheap money) created space for the Partido Popular's market-conforming income tax reforms of 1998 and 2002. Unlike 1977-78, the goal of tax reform was not to build tax capacity to fund growing levels of public spending. It was all about supporting a growth model based on private investment and private consumption. In line with the spirit of tax reforms previously implemented in other developed countries, achieving efficiency and neutrality was key. But the government also insisted that it was concerned about social 'equity': consistent with the government's tax-constraining strategy, this took the form of introducing broad tax cuts for middle and low income families.

In the period 2004-2008, the PSOE government led by Zapatero took a different tack, and oversaw a gradual expansion of tax revenues to fund growing social commitments. The extension of social rights and citizenship was a hallmark of this government: for example, the so-called Ley de Dependencia implied a substantive extension of the social state. Higher tax and spending policies did not involve substantive tax reform. Both revenue and expenditure could grow on the basis of existing arrangements because Spain was experiencing super-high levels of economic growth. But – as in Ireland – the bases of growth were fragile and depended too heavily on an unsustainable property bubble. The attempt to bring the Spanish tax and spending to a higher plateau was abruptly and dramatically interrupted by the Great Recession.

In summary, the major tax reforms in Spain can be seen as a series of critical junctures. Modern direct taxation came about with Moncloa, and indirect taxation with EU membership. A social democratic tax strategy worked effectively under Felipe Gonzalez but seemed to reach its limits in the early 1990s. From then onwards, tax policy became subordinated to the need to conform to Maastricht fiscal rules. It would appear that significant changes in tax policy could only be implemented during economic crises – for example, VAT rates were increased during the recession of 1992-1993 and again during the Great Recession. We may nonetheless note that tax politics is rarely a prominent feature of political discourse in Spain, unlike Ireland or the UK. Tax policy tends to be delegated to ‘insider’ groups and technical elites – even the most significant tax changes, such as those introduced by the Moncloa Pacts – featured very little in the news media.

4.2. Ireland

The Irish tax state, like that of Spain, underwent significant changes since the 1960s under pressure of both increasing social demands for public spending and membership of the EU in 1973. Policy decisions were also influenced by the diffusion of changing international norms about tax administration. But unlike Spain, the demands for increased public transfers and services were not fuelled by a mass mobilization of the sort unleashed by democratization. The centre-left has long been weak in Ireland. The principal parties forming successive governments could be characterized as being on the right or on the centre-right, and even when the Labour Party was in government, it was as a junior partner. This means that Irish governments need to appeal to quite a broad cross-class base of support, but it also means that a more individual-centred way of thinking about the tax and spending has a strong resonance. Furthermore, the very open nature of the economy and the long-established policy of promoting growth through tax-incentivized investment by MNCs meant that a preference for low taxes came more readily to Irish policy-makers than was perhaps the case in Spain.

The Irish tax system evolved with little consistent design. The ‘pay as you earn’ income tax (PAYE) was introduced in 1960, in the early days of relaxation of protection. But most employees were not in the income tax net at all at that point, and the tax system continued to rely heavily on indirect, expenditure-based taxation. Entry to the EEC in 1973 resulted in the consolidation of several of these taxes into a Value-Added Tax.

Between 1960 and 1987 though, the system developed an increasing and highly lopsided reliance on employee income tax and social security contributions. With some economic growth during the 1960s, and particularly after the inflation associated with the oil-price crisis during the 1970s, larger numbers of employees into the revenue net through a failure to fully adjust tax exemptions and tax bands for inflation. Fiscal drag may be seen, in effect, as the politics of inertia. The numbers at work grew minimally between 1960 and 1975, while the number of individual taxpayers more than tripled (Hardiman, 2004).

This was also a time when demand began to grow for better welfare supports, particularly in the form of transfer payments for categories of vulnerable people who had few resources such as widows and lone parents. (At first only 'abandoned wives' were eligible – victims of divorce Irish-style, in which husbands emigrated to work in England and failed to return. Allowances for 'unmarried mothers' came later) (O'Connell and Rottman, 1992). But rather than expanding the tax base, reliance on employee income increased even further. Fianna Fáil, the largest party, desperate to return to government in 1977, ramped up its pre-electoral promises in a form of populist auction-politics. It took power committed to rely even more heavily on employee income tax, as a consequence of its promises to abolish a variety of existing sources of revenue such as wealth tax, rates on domestic property, and vehicle registration tax.

Fianna Fáil's excessive and pro-cyclical spending surge in the late 1970s, unmatched by appropriate taxation, left the Irish public finances dangerously exposed in the wake of the second oil-price crisis of 1979-80. Already by 1979 and 1980, an employee tax revolt had broken out in protest at the perceived injustices of the distribution of the tax burden, occasioning the largest street protests ever seen in Ireland. A Commission on Taxation, established in 1980, anatomized the inconsistent and imbalanced profile of the tax system. Its principal recommendations were to move toward a dramatically different approach to taxation. Influenced by the market-based thinking fashionable at the time, the Commission favoured a radical shift toward a single flat rate of tax on expenditure. In the midst of the severe fiscal crisis of the mid-1980s, its proposals gained no traction at all (O'Toole, 1994).

And yet it was clear that the tax system was severely distorted. The large tax wedge had damaging labour market effects. It discouraging employment creation on the one hand, and while the disincentivizing effects of high marginal tax rates left many people in welfare and poverty traps (Hardiman, 2002).

Attempts to reform the tax system by broadening the tax base had run into difficulties that compounded the effects of the Fianna Fáil-led tax give-away of the late 1970s. Income-gathering from farmers and the self-employed was highly inefficient. It depended on a regime of time-lagged self-assessment that was lax in its administration and weakly monitored. Efforts to reform farm were vigorously opposed in 1979, and indeed farmers won a Constitutional appeal on the matter in the early 1980s.

The Fine Gael-Labour government was desperate for new sources of taxation¹. Tax-based fiscal adjustment was politically less contentious than securing political support within the coalition for spending cuts (Hardiman, 2014). So, even heavier reliance was placed upon employee income tax increases, as Table 2 reveals.

The turning-point in both the profile of the tax system and in the reform of tax administration came in 1987/1988. A new centre-right Fianna Fáil government used its mandate to tackle the seemingly intractable fiscal crisis to drive reform of the tax administration, including major reform of the taxation of the self-employed and of farm income. The Revenue Commissioners acquired strong powers of investigation and enforcement. A tax amnesty in 1988 signalled a new chapter in tax enforcement, though it took some time to play out in practice.

¹ One Fine Gael-Labour coalition government, led by Garret FitzGerald, notoriously lost power in 1982 over the introduction of a tax on children's shoes. Children's clothing had been tax-exempt (at a time of large families and very high youth dependency), but the Taoiseach or prime minister, in an ill-advised aside, wondered whether they might not also fit adult women with small feet.

Table 2: Composition of taxation as % GDP in Ireland

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 6.3 | 8.4 | 11.6 | 12.8 | 11.9 |
| 1100 Tax on individuals | 4.1 | 7 | 10.5 | 10.2 | 8.6 |
| 1200 Corporate | 2.2 | 1.3 | 1.1 | 2.7 | 3.3 |
| 2000 Social security | 1.6 | 3.8 | 5 | 4.3 | 3.8 |
| 3000 Payroll and workforce | 0 | 0 | 0.8 | 0.4 | 0.2 |
| 4000 Property | 3.7 | 2.7 | 1.3 | 1.4 | 2.2 |
| 5000 Goods and services | 12.9 | 13 | 14.9 | 12.9 | 11.2 |

Source: OECD Tax Statistics

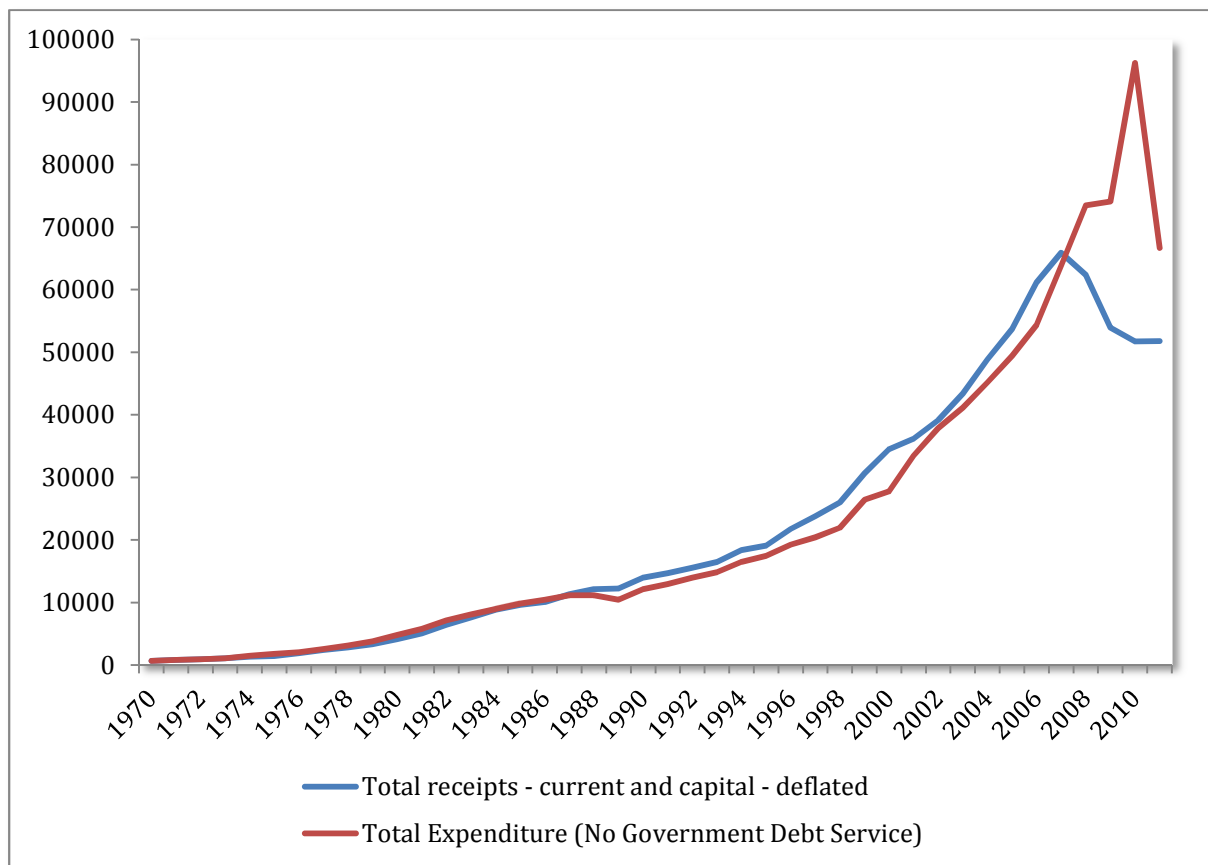
The late 1980s is also the moment from which a new approach to taxing employee incomes can be dated too. Initially, what the government sought was a comprehensive approach to tackling the public debt crisis. It facilitated an agreement known as the Programme for National Recovery, which was negotiated between government, trade unions, and private sector employers (though the mainly US-based foreign sector of industry was never party to these agreements). The key concession provided by government was a cut in employee income tax in order to increase disposable income, in exchange for moderation in pay increases. Reform of income tax was in any case long overdue. The government's thinking about tax reform was also influenced by the international tax reform movement, widely disseminated by the OECD, and by the demonstration effect of Britain's approach to creating a low-tax 'level playing field'. Coinciding as it did with an international upturn, the social partnership process gained in popularity, and pay-tax deals became the linchpin of social partnership for the next twenty years.

The pay-related approach to reducing employee income tax was part of a broader approach to macroeconomic stabilization, and it changed in emphasis and content over time, to respond to changing economic conditions. The key to the deals was the regular

commitment to reducing employee income tax burden. By the mid-2000s, Irish employees were among the most lightly taxed in the OECD.

Irish governments' tax-cutting strategy was not aimed at reducing the tax state, contrary to the trend apparently shown by Figure 1. As Figure 2 shows, real revenue as well as real spending were on a steady upward trajectory throughout this period. The super-normal growth of the so-called Celtic Tiger phase, from 1994 to 2008, made it possible for governments to cut the incidence of personal income taxation, while still benefiting from a rising revenue take.

Figure 2: Ireland – total real revenue receipts and total real government expenditure, €'000s



Source: Department of Finance and CSO

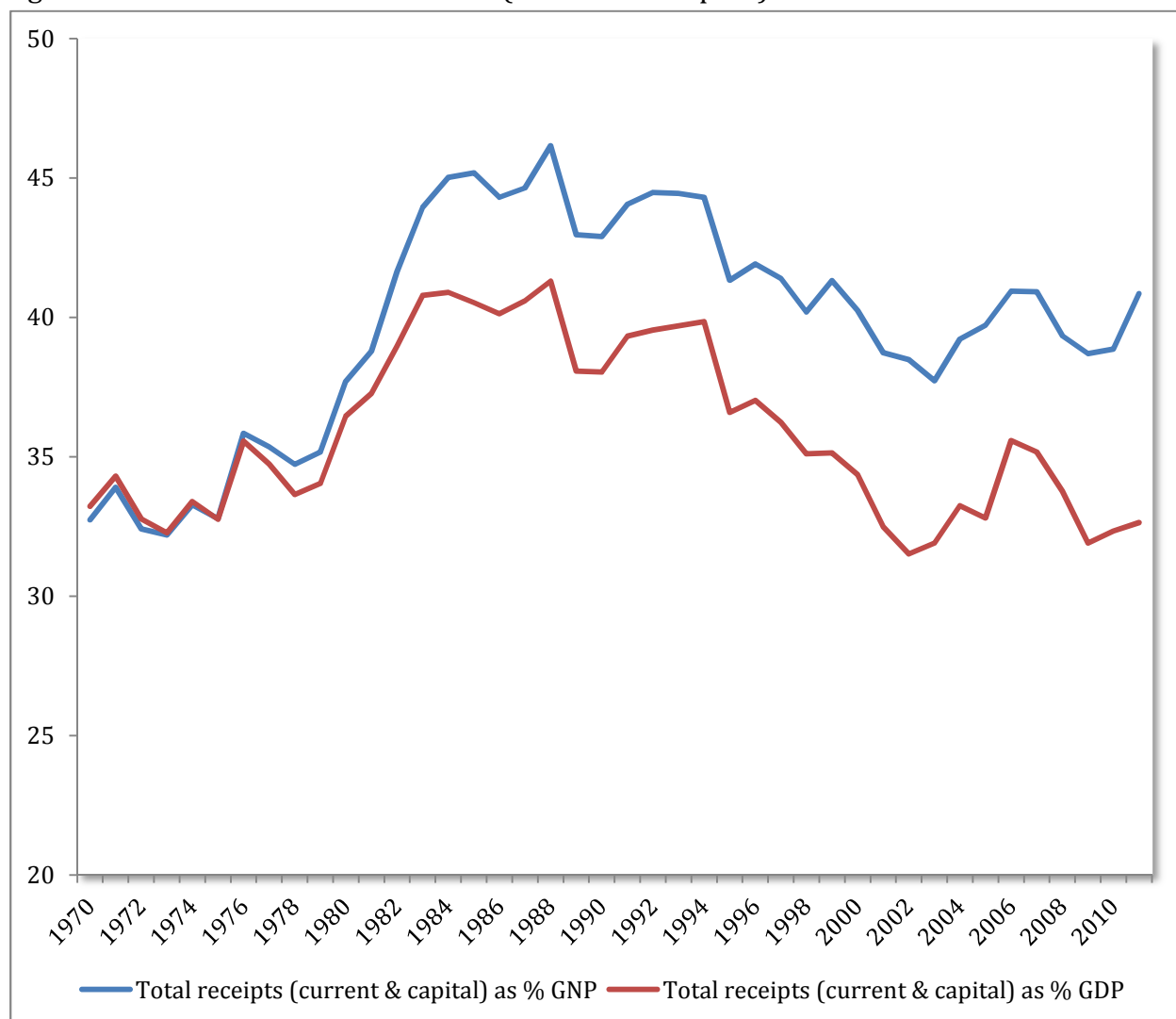
While the income tax cuts were motivated by key ministers' acceptance of the merits of the OECD philosophy of tax reform, there was still no consistency or thought-out rationale for the overall design of the tax system. Alongside base broadening and rate

reduction, new allowances and incentives were also created – indeed, a ‘proliferation of new tax reliefs without any obvious guiding principle’, which even in 1999 the government advisory body NESC called ‘a cause for concern’ (Hardiman, 2002). From 1997 on, indeed, the lowest-paid employees were removed from tax net entirely, so that ‘in 2007 Ireland had the lowest effective tax rate on labour in Western Europe and half of all income earners were not paying personal income tax at all’ (Christensen, 2010). During the 2000s, fiscal incentives for construction fuelled what was already a credit-led housing bubble. Increasingly, long-term public spending commitments were based on short-term revenues from the housing boom, greatly worsening the fiscal crisis from 2008 on (TASC, 2010, Dellepiane-Avellaneda and Hardiman, 2012).

The presence of the multinational sector has had a palpable effect on the public finances since the 1970s, when Ireland joined the EEC and became increasingly attractive as a base to facilitate access to the wider European market. Until that time, GNP and GDP were about the same – indeed, GNP slightly exceeded GDP because of the importance of emigrant remittances coming into the country. Thereafter though, the two measures increasingly diverge, as Figure 2 shows. At some points, GDP exceeded GNP by 20 percentage points, because of the scale of the MNC sector’s profits that were filed in Ireland, taxed lightly, and repatriated abroad. This makes direct comparison between trends in tax ratios between Ireland and other countries somewhat problematic.

The extreme reliance of the Irish state on multinational corporations to generate growth and to support the balance of payments certainly conditioned political thinking about tax preferences, both directly and indirectly. Corporation tax in Ireland has been central to the long-established priority, shared by all governments, of promoting growth through FDI-led investment. The standard rate of corporation tax had been about 50% for most firms until the end-1980s; in parallel with rate reduction elsewhere, the Irish rate was reduced to 24% by 2000.

Figure 3: Ireland – Total real revenues (current and capital) as % of both GNP and GDP



Source: Department of Finance and CSO

The EU played a role in the further downward pressure on corporation tax rates when it ruled in the late 1990s that the preferential rates of 0% and 10%, in place since the 1950s for various categories of manufacturing and exporting companies, were no longer deemed to be consistent with the rules of the Single Market. The Irish government then opted for a single very low rate of 12.5%, to apply to most corporations, which would take effect by 2003. But persistent questions were raised about the real effective rate of taxation applied to multinationals. A thicket of elaborate arrangements had grown up during the 1990s and 2000s that, in effect, facilitated the centrality of Ireland to an international network of tax avoidance schemes for large multinationals. Some analysts see Ireland as having many of the classic features of a tax haven (Shaxson, 2012, Shaxson

and Christensen, 2013), while others would query the label because the rules are systematic rather than discretionary (Stewart, 2013). And yet Irish revenue from corporation tax was comparable to that of countries with higher rates of tax, during the years of the boom.

Tax administration in Ireland had been put on a new footing in the late 1980s, but effective administration and good tax compliance took a long time to bed down. Tax evasion was widespread throughout the 1990s and 2000s, including schemes devised and used by prominent politicians themselves, and schemes invented and promoted by high-street banks. A series of public inquiries (known by their short-hand abbreviations such as Beef, Ansbacher, Moriarty, Mahon, DIRT, etc.) revealed systemic problem with tax compliance, and considerable evidence of corruption involving fraudulent dealings with the tax authorities (Byrne, 2012). The Finance Act 1999 gave the Revenue Commissioners stronger legal powers and personnel resources. By 2012, compliance was held to be greatly improved (Murphy, 2012).

Overall, the Irish tax state can be seen to have started from an immature base, to have developed a much-improved revenue-raising capacity, but to have suffered from a persistent bias toward unbalanced design and perverse effects. The tax reform moment in the late 1980s was supposed to start the move toward a better-balanced tax regime. The one fixed commitment, shared by all governments, was to supporting low corporation tax as the basis of FDI-led economic growth. The pro-business emphasis is also reflected in very lower employer social insurance. But a recurring feature was the electoral vulnerability of governments to selective protest over proposals to broaden the tax base, summarized by Rafter as ‘responsiveness to middle class voters to the detriment of the wider community’ (Rafter, 2000, p.63). The weaknesses of the revenue system at the onset of the crisis in 2008 were all too painfully exposed. The efforts to broaden the tax base during the long recession have been even more painful than should have been necessary.

5. Implications

Thus far we have surveyed tax developments in Spain and Ireland. Summary data on the composition of taxation in Portugal and Greece are set out in Tables 3 and 4. An overview of tax policy developments in these two countries awaits.

Our narrative overview of tax policy choices in Spain and Ireland reveals some commonalities in the late development of modern tax regimes and the ongoing problems of effective tax administration and tax compliance. But it also exposes important contrasts in the cluster of variables shaping tax policy choices. In Spain, democratic mobilization, and especially the availability of a clear partisan alternative, decisively shaped the contours of employee tax and of the uses of VAT. In Ireland, a highly pragmatic approach and a high tolerance for policy drift coexisted with political sensitivity to lobbying, and especially to the preferences of relatively privileged middle-class voters.

In the light of the long practice of tax cuts in exchange for pay moderation in Ireland (dramatically reversed by the crisis after 2008), it might be thought that underlying attitudes toward taxes and spending might be very different in Ireland and Spain. However, aggregate results from the European Social Survey 2008 would seem to give the lie to this expectation, as Table 5 shows.

Table 5: Tax and social preferences, European Social Survey 2008

| Attitudes on | Portugal | Ireland | Greece | Spain | UK | Sweden |
|------------------------------------|----------|---------|--------|-------|------|--------|
| More taxes & social spending | 29.7 | 38.7 | 36.9 | 36.1 | 38.4 | 42.4 |
| Support to progressive taxation | 36.6 | 66.1 | 49.1 | 57.5 | 46.4 | 43.9 |
| Income differences should be small | 85.5 | 62.6 | 89.7 | 82.5 | 51.3 | 56.6 |
| Tax administration is fair | 21.2 | 39.0 | 12.8 | 41.3 | 48.4 | 72.5 |

In both countries we find comparable levels of support for ‘more taxes and social spending’. Indeed, support for progressive taxation appears to be somewhat stronger in Ireland, at a time just prior to the crisis when personal income taxes were still low but public services were still poorly developed. In both countries – and in sharp contrast with both Portugal and Greece, which have much lower rates of agreement – about two-fifths of respondents believe that tax administration is fair.

However, we see a marked contrast between Ireland and Spain in the tolerance accorded to income inequality. While about three-fifths of Irish respondents agree that 'income differences should be small', over four-fifths of Spanish respondents indicate their assent. Indeed, the Spanish profile is very similar to those found in Portugal and Greece, while Ireland's is not dissimilar to that of Britain, prompting further questions about the behavioural and attitudinal orientations that may be associated with different varieties of capitalism.

Finally, these exploratory thoughts are intended to lay the foundations for a more systematic approach to causal explanation. We hope to explore the extent to which political economy variables function as 'cluster concepts', and to identify and account for instances where there is a breach in path-dependent policy choices.

Tables

Table 1: Composition of taxation as % GDP Spain

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 3.5 | 4 | 6.7 | 9.1 | 10.4 |
| 1100 Tax on individuals | 2 | 2.6 | 5.2 | 7.4 | 6.3 |
| 1200 Corporate | 1.3 | 1.2 | 1.4 | 1.7 | 3.8 |
| 2000 Social security | 4 | 8.5 | 10.9 | 11.3 | 11.7 |
| 3000 Payroll and workforce | 0 | 0 | 0 | 0 | 0 |
| 4000 Property | 0.9 | 1.1 | 1.6 | 1.7 | 3 |
| 5000 Goods and services | 5.8 | 4.3 | 7.6 | 9 | 9.9 |

Source: OECD Tax Statistics

Table 2: Composition of taxation as % GDP Ireland

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 6.3 | 8.4 | 11.6 | 12.8 | 11.9 |
| 1100 Tax on individuals | 4.1 | 7 | 10.5 | 10.2 | 8.6 |
| 1200 Corporate | 2.2 | 1.3 | 1.1 | 2.7 | 3.3 |
| 2000 Social security | 1.6 | 3.8 | 5 | 4.3 | 3.8 |
| 3000 Payroll and workforce | 0 | 0 | 0.8 | 0.4 | 0.2 |
| 4000 Property | 3.7 | 2.7 | 1.3 | 1.4 | 2.2 |
| 5000 Goods and services | 12.9 | 13 | 14.9 | 12.9 | 11.2 |

Source: OECD Tax Statistics

Table 3: Composition of taxation as % GDP Portugal

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 3.9 | 3.3 | 6.2 | 7.6 | 7.7 |
| 1100 Tax on individuals | n/a | n/a | n/a | 5.3 | 5.1 |
| 1200 Corporate | n/a | n/a | n/a | 2.3 | 2.6 |
| 2000 Social security | 3.4 | 6.5 | 6.2 | 7.7 | 8.2 |
| 3000 Payroll and workforce | 0.1 | 0.5 | 0.6 | 0.1 | 0 |
| 4000 Property | 0.8 | 0.5 | 0.5 | 0.9 | 1.2 |
| 5000 Goods and services | 7.5 | 8 | 11.2 | 12.5 | 13 |

Source: OECD Tax Statistics

Table 4: Composition of taxes, % GDP Greece

| | 1965 | 1975 | 1985 | 1995 | 2005 |
|----------------------------------|------|------|------|------|------|
| 1000 Income, profits and capital | 1.6 | 2.5 | 4.3 | 6.2 | 7.9 |
| 1100 Tax on individuals | 1.2 | 1.7 | 3.4 | 3.3 | 4.6 |
| 1200 Corporate | 0.3 | 0.6 | 0.7 | 1.7 | 3.2 |
| 2000 Social security | 3.4 | 6.5 | 6.2 | 7.7 | 8.2 |
| 3000 Payroll and workforce | 0.1 | 0.1 | 0.4 | 0 | 0 |
| 4000 Property | 1.6 | 1.8 | 0.7 | 1.1 | 1.3 |
| 5000 Goods and services | 8.3 | 8.7 | 10.4 | 11.4 | 10.9 |

Source: OECD Tax Statistics

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