

Taxation, Globalization and the Welfare State

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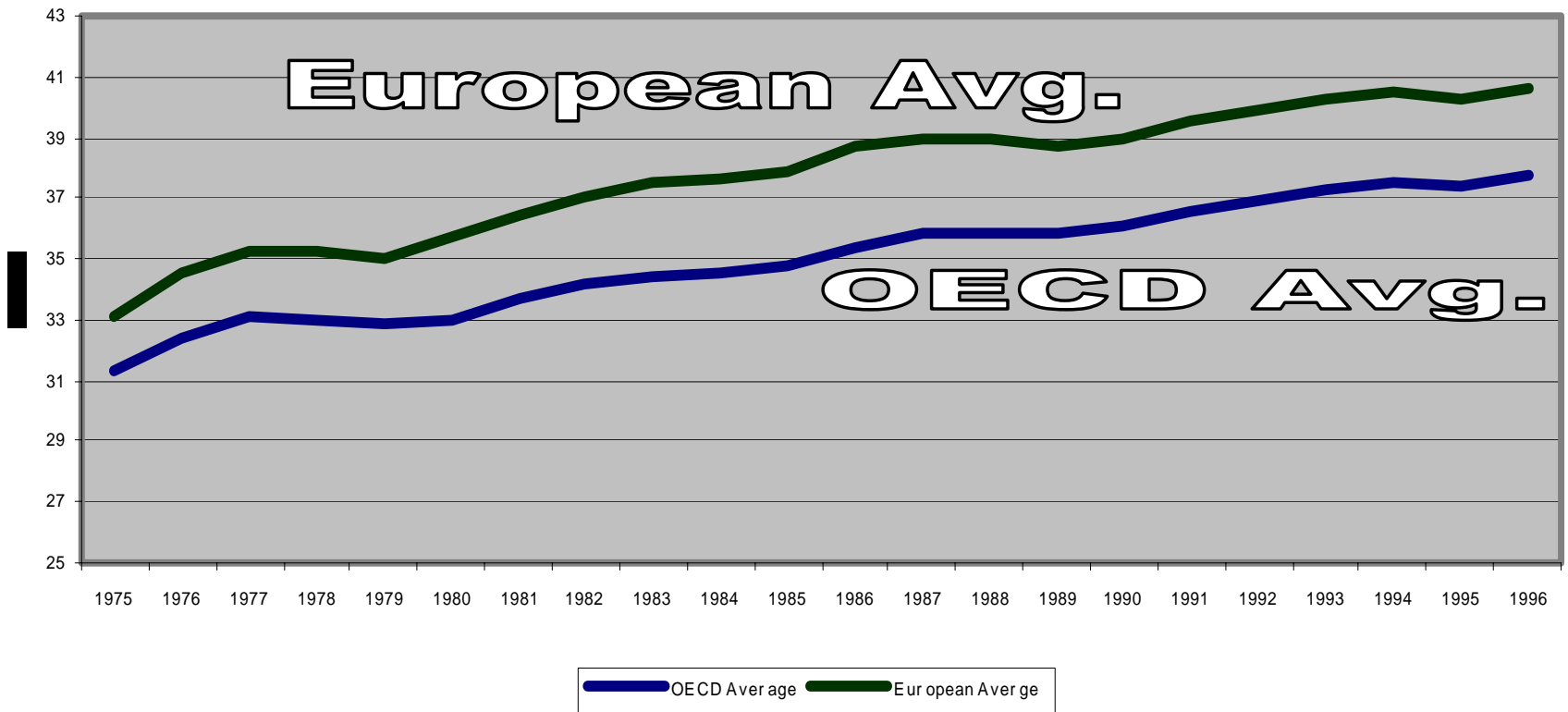
- “The welfare state is such a good idea”... (but given globalization) “there will be a need to reduce the burden of social services, reduce taxation and find new ways to be competitive in the global economy.”

Source: Yergin and Stanislaw, “The Commanding Heights”, 2001

“Race to the Bottom?”

Taxation as a percent GDP 1975-2000

Continued Tax growth



Average Growth and Tax Burdens in the OECD 1995-99

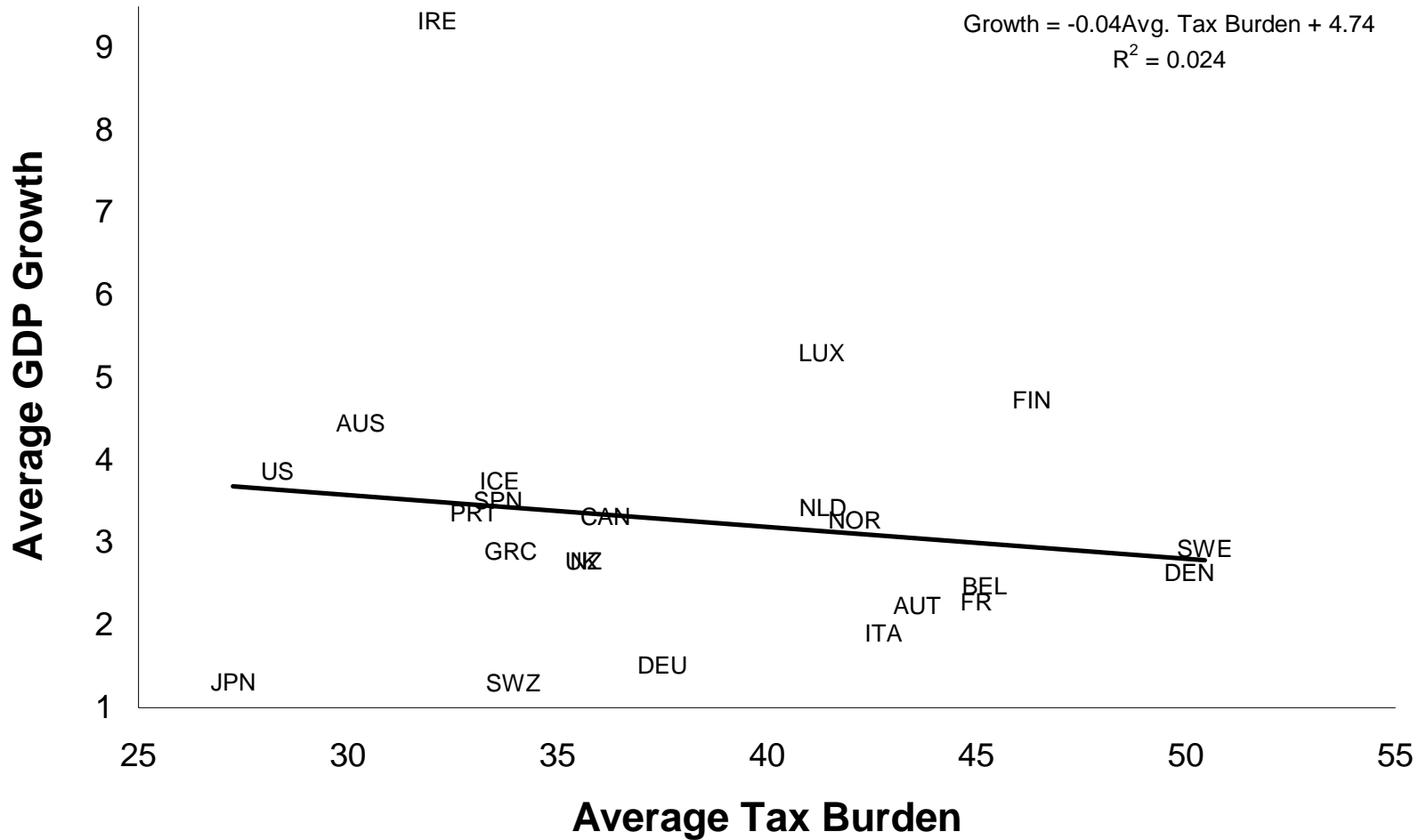


Table 2: Labor, Consumption, and Total Tax Burdens

Nation	Effective Rate of Tax on Labor¹		Effective Rates of Tax - Consumption²		Total Taxation as a % of GDP	
	1981	1995	1981	1995	1981	1995
France	43	49	22	21	42	44
Germany	39	44	16	16	38	39
Japan	24	28	5	6	26	29
Netherlands	50	51	17	18	44	44
Sweden	52	52	21	23	50	50
Switzerland	na	na	na	na	31	34
United Kingdom	29	25	15	17	36	36
United States	29	30	6	6	29	28
OECD Mean	36	40	17	17	38	40

Cutting Taxes at the Top:

Personal Income Tax Rates, 1976-1997

Country	1976	1997	reduction 1997 - 1976
Australia	65	47	-17
Austria	62	50	-12
Canada ¹	43	31	-14
Finland ¹	51	39	-12
France	60	57	-3
Germany	56	53*	-3
Ireland	77	48	-25
Italy	72	51	-22
Japan ¹	75	50	-25
Netherlands ¹	72	50*	-12
New Zealand	60	33	-27
Norway ¹	48	23	-35
Sweden ¹	57	25	-37
United Kingdom	83	40	-43
United States ¹	70	39	-39
Unweighted Average	63.4	42.4	21.7

Sweden: High Taxes and High Growth?

Tax Burdens and Growth Rates:

	Tax % GDP	GROWTH RATES (increase over previous year as % GDP)				
	2000	2000	2001	2002	2003	2004
SWEDEN	53.5	3.6	1.2	1.7	2.5	2.8
GERMANY	37.5	2.9	0.6	0.4	1.5	2.5
JAPAN	28.5	2.6	-0.3	-0.7	0.8	0.9
U.S.A.	28.5	3.8	.3	2.3	2.6	3.6

Source: OECD Economic Outlook, 2002, No.72

Why no Race to the Bottom?

- The welfare state is an insurance system (fiscal churning). All insurance is redistributive and **can be** economically efficient.
- Taxation finances public spending on infrastructure, education etc. which **can be** social investment.
- Capital flows where it will make a profit, **not to** where its costs are lowest.
- Individual mobility is in fact very limited (corporate relocation of an executive averages 1/3 million dollars today).
- Taxes are a small part of costs.
- Voters oppose cuts in public spending.

Lesson From the Swedish Case

- Knut Rexed, (special advisor to the Prime Minister):
- *“There will be increased competition between countries due to internationalization. But it won’t be the country with the lowest tax rates that wins. It will be the countries which have the most efficient use of resources that wins.”*

Looking into the future of advanced Welfare States

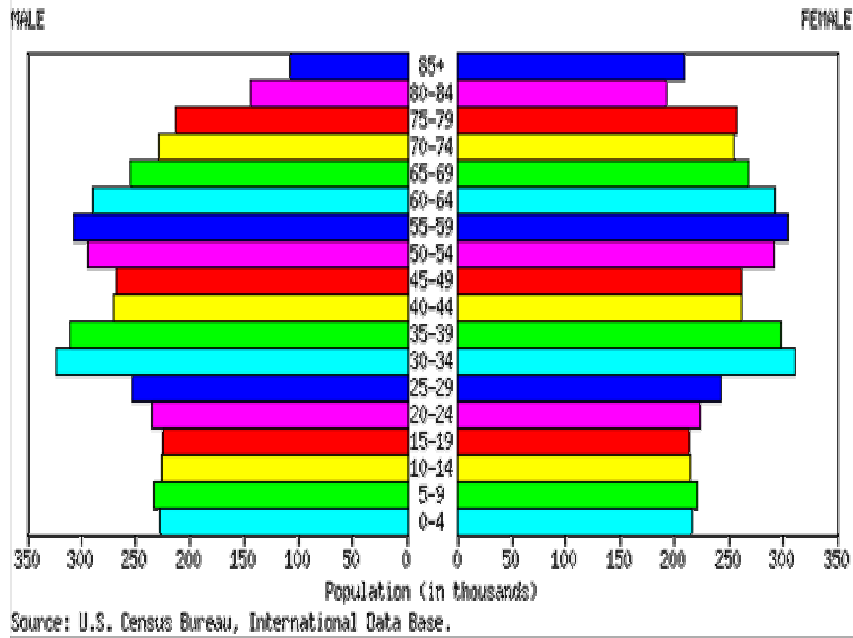
Why No Convergence?

1. Demography
2. Political Commitment
3. Public Trust

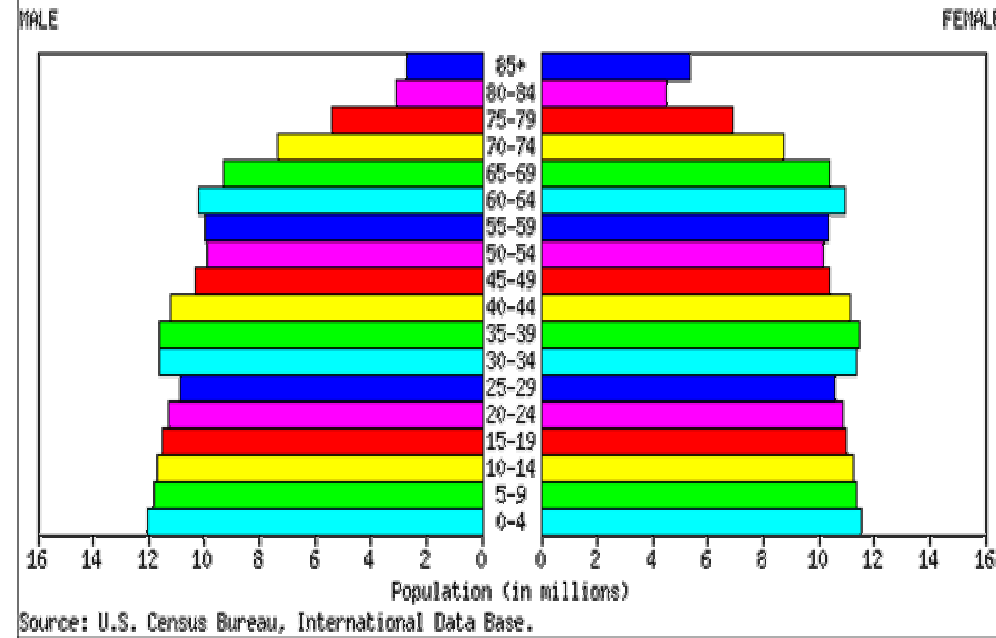
Demography



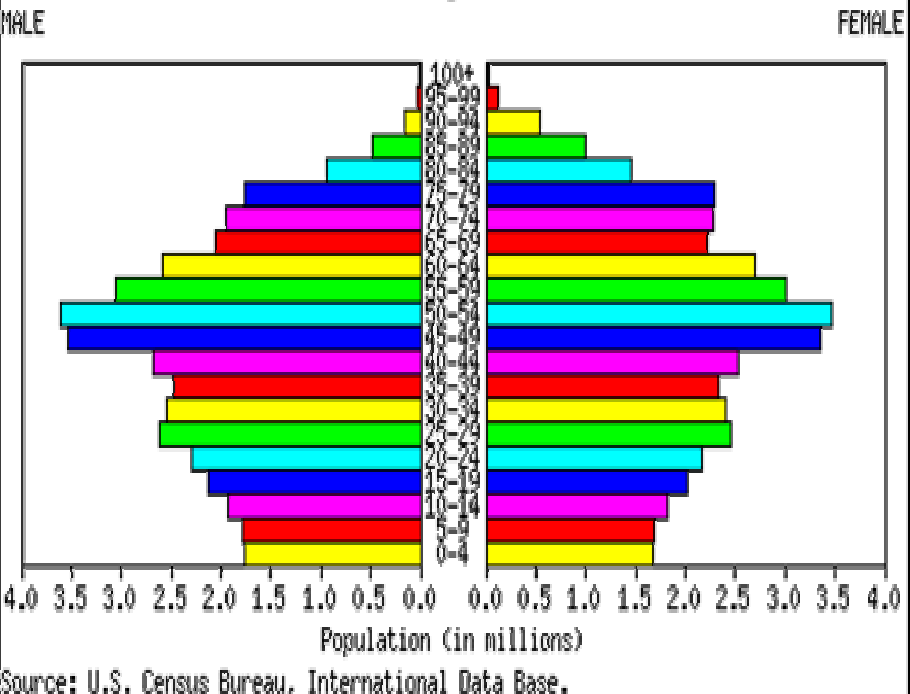
Sweden: 2025



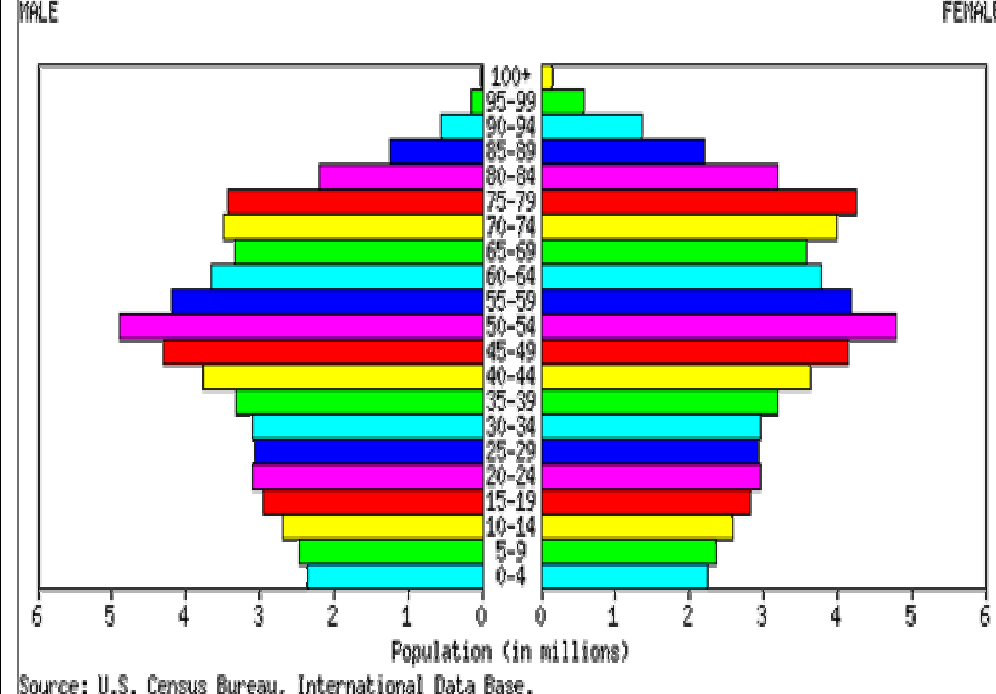
United States: 2025



Germany: 2015

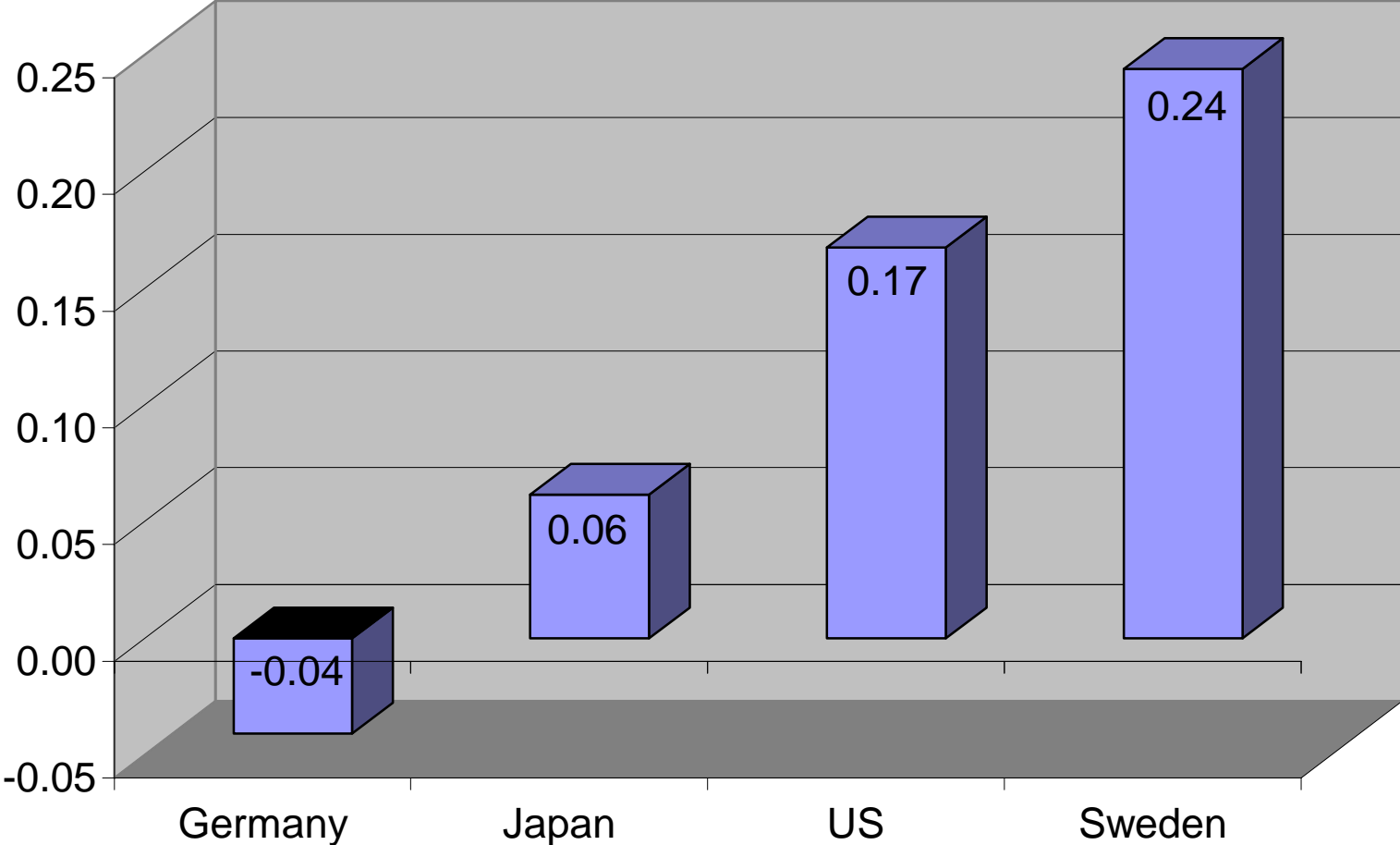


Japan: 2025



Net Migration 1998

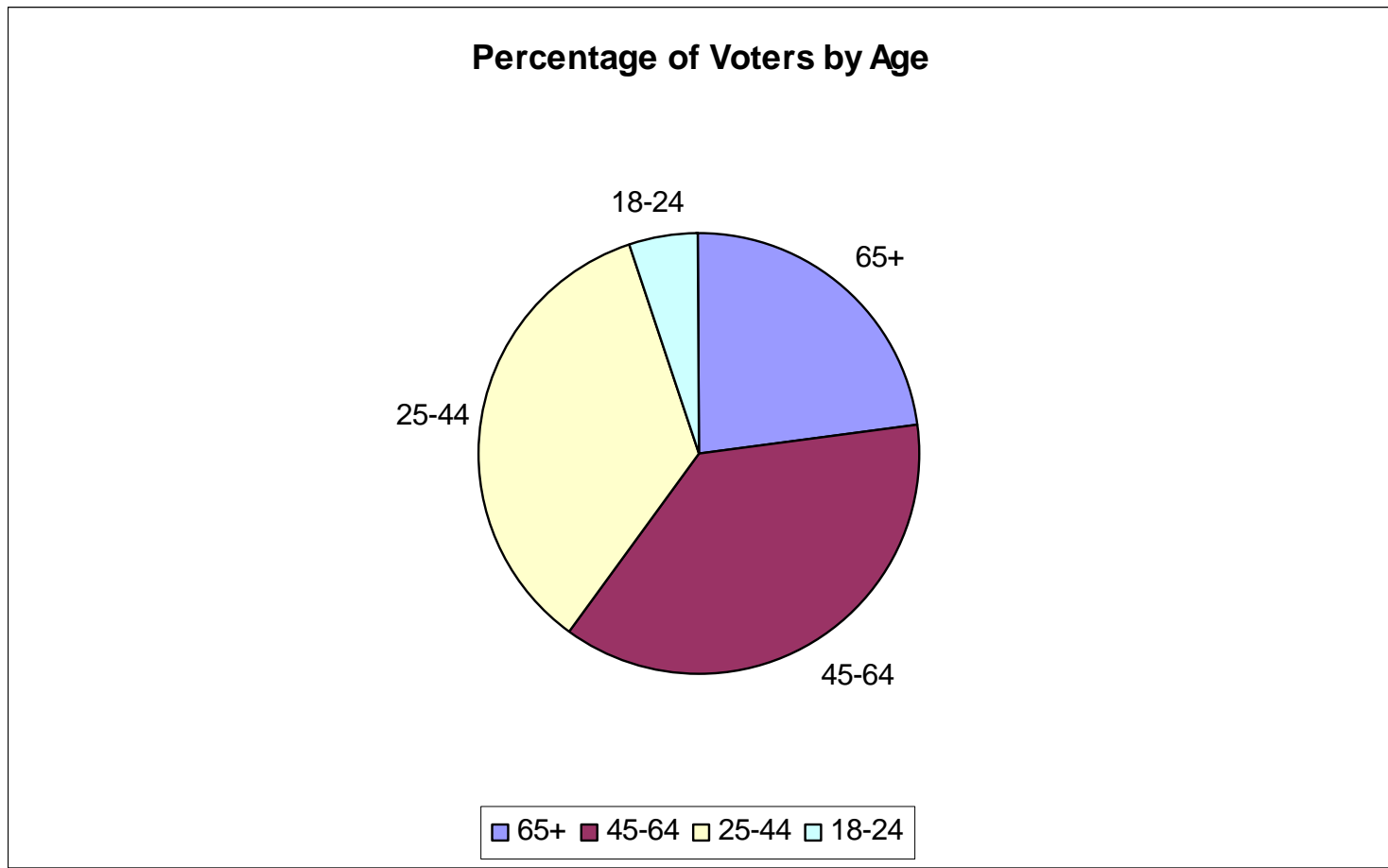
(Percent of Total Population)



Source: Trends in International Migration 2000, 2000 World Development Indicators and Statistical Yearbook of the INS 2000
Note: Data for US net migration based on emigration estimates of the UN and European Commission - see Appendix 2

Percentage Voters By Age

USA, 2002



Policy Patterns and Political Commitment

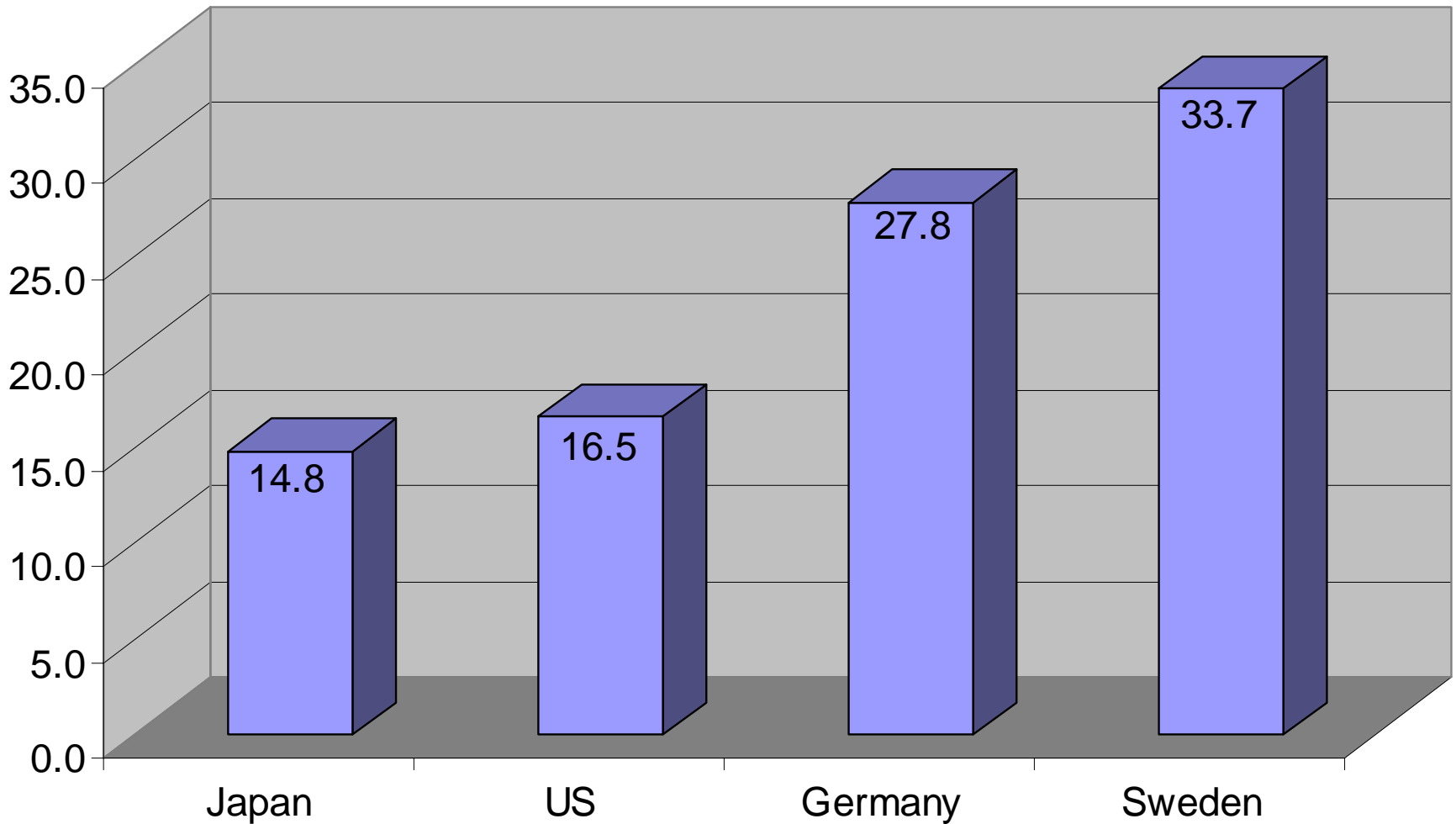
Political Choices t_1



Political Challenges t_2

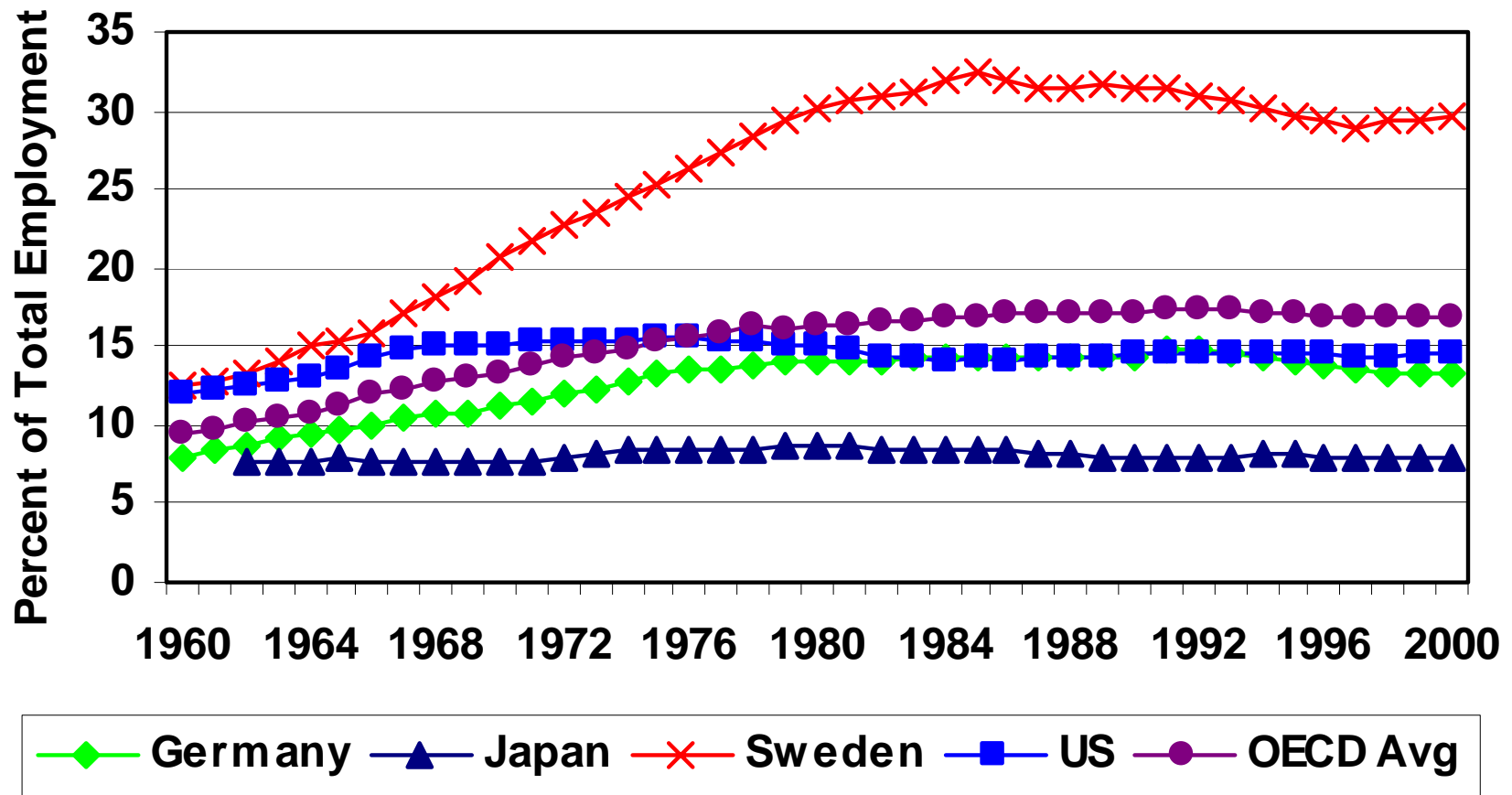
1997 Social Welfare Expenditures

(% of GDP)



Government as Employer

Government Employment

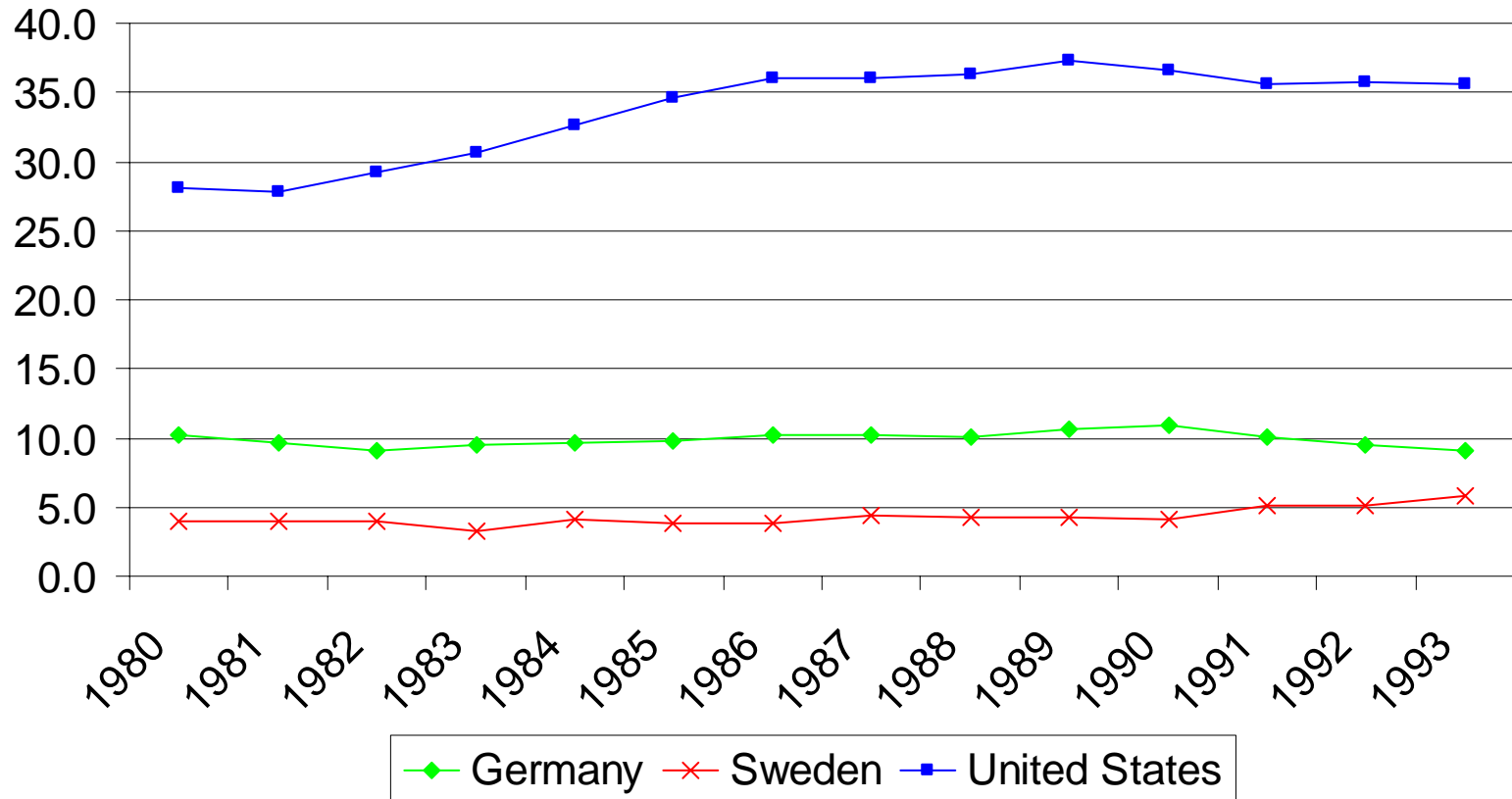


Source: Assembled from OECD Statistical Compendium 1st ed. 1999

Note: OECD Average Constructed from High-Income OECD states excluding Luxembourg.

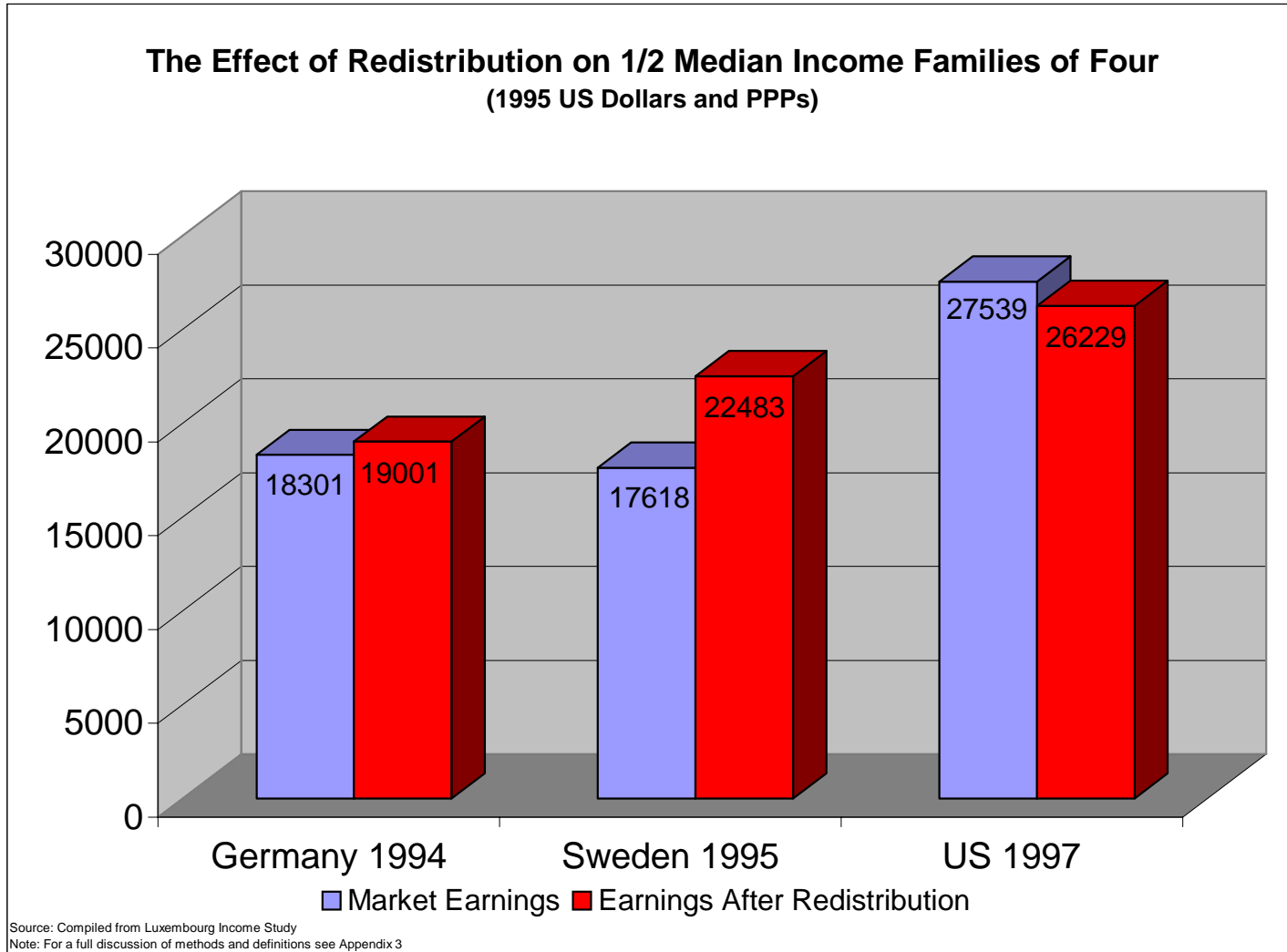
Private Social Benefits Expenditures

(% of Total Social Benefits Expenditures)



Source: "The Growing Role of Private Benefits" OECD Working Papers Vol 6 no 51

Explaining the Reagan Democrats



Political Trust?



Attitudes towards public spending in Sweden, 1981-1997

“Taxes go to different purposes. Do you think that the amount of tax money that goes to the purposes named below should be increased, held the same, or reduced?”

Percent who would increase expenditures (+)		
Percent who would reduce expenditures (-)	1992	1997
Health care	(+) 52.7 (-) 4.4	(+)76.9 (-) 2.1
Support for the elderly	(+) 60.3 (-) 1.7	(+) 69.5 (-) 1.7
Housing support	(+) 31.8 (-) 14.5	(+) 41.0 (-) 11.0
Social help (welfare)	(+) 13.2 (-) 26.3	(+) 20.9 (-) 20.9
Research and higher education	(+) 37.6 (-) 7.3	(+) 34.4 (-) 7.5
Public schools	(+) 37.6 (-) 7.3	(+) 70.4 (-) 1.0
Employment policy measures	(+) 61.7 (-) 7.0	(+) 46.7 (-) 19.5
State and local government administration	(+) 2.5 (-) 71.0	(+) 2.8 (-) 68.0
(number of respondents)	1500	1300

Source: Svallfors, S. (1999). *Mellan risk och tilltro: Opinionsstödet för kollektiv välfärdspolitik (Between risk and confidence: Opinion support for collective welfare policy)*. Umeå, Sweden, Umeå University, page 16.

Political Trust

	Japan	USA	Germany
Trust in politics*	27	31	69
Interest in politics	49	69	63

*Respondents answering “the people” rather than “big interests” run politics.

Source: Susan Pharr, in Pharr and Putnam. “Disaffected Democracies”, (2000), p. 175