Of Banks and Budgets. How Financial Crises Shaped the Modern Tax State

Julian Limberg
Ph.D. thesis defence on 17 May 2019

Abstract

Have financial crises left their imprint on the modern tax state? This dissertation shows that financial meltdowns have indeed shaped tax policies. It differentiates between three mechanisms. First, financial crises are expensive. Crisis-hit countries face fiscal distress and are direly in need for additional revenues. Second, financial crises can increase demand for tax progressivity. As citizens’ fiscal fairness principles become violated, claims to compensate for these violations via progressive taxation arise. Third, crisis-induced tax policy changes are locked in via ratchet effects. As a result, financial crises can lead to long term transformations of the tax system. The thesis consists of three articles which empirically test these arguments. The first article looks at the origins of the tax state. In particular, it investigates whether financial crises have facilitated the rise of the "queen of taxation" (Popitz 1926) – namely the income tax. Using new, worldwide data on fiscal innovations, it shows that financial crises have facilitated the introduction of progressive income taxation. A case study of the US reveals that both revenue needs and fiscal fairness claims pushed for the introduction of the income tax. The second article looks at demands for progressive taxation in the wake of the financial crisis of 2008. Analysing survey data from the 2009 ISSP round, it finds that demand for tax progressivity has been higher in countries that have faced a stronger economic downturn. Intensified fiscal fairness perceptions in crisis countries can account for this effect. Finally, the third article investigates whether renewed demand for progressive income taxation has been supplied politically. The results show that countries with a financial crisis have increased top income tax rates by 4 percentage points. In sum, the dissertation shows that financial crises are crucial, yet largely overlooked events for progressive taxation. By doing so, it contributes to the broader debate on politics of inequality and redistribution in the 21st century.
Jury: Laura Seelkopf (University of Munich), Anton Hemerijck (EUI), Julian Limberg (EUI), Philipp Genschel (EUI, supervisor), Kenneth F. Scheve (Stanford University)

Bio

Julian Limberg is a political scientist with a focus on political economy and comparative public policy. His PhD thesis investigates the impact of financial crises on the development of the modern tax state. He holds an MA in Social Policy from the University of Bremen and a BA in Political Science and Economics from the University of Münster.