

Impact Factor: **0.9**

5-Year Impact Factor:

By clicking "Accept Non-Essential Cookies", you agree to the storing of cookies on your device to enhance site navigation, analyze site usage, and assist in our marketing efforts. [Privacy Policy](#) [Cookie Policy](#)

Manage Cookies

Accept Non-Essential Cookies

Reject Non-Essential Cookies

Contents

... More

## Abstract

This article compares two competing models of income taxation, one of which was in many ways more successful than the other. While the taxation of capital income is constrained by high costs, the high overall tax burden on labour makes it difficult to reduce tax rates on labour incomes. These conflicting pressures point towards separate tax rate schedules for capital and labour, as is characteristic of dual income taxes. The analysis has implications for the role of income taxation in achieving social policy outcomes. Most importantly, while progressive taxation of capital income is constrained by high costs, policy makers willing to separate capital and labour income taxation can use the income tax to reduce the tax burden on low wages.



## Get full access to this article

View all access and purchase options for this article.

Get Access 

1.

1. For a more complete and detailed conceptual discussion of different models of income taxation see Ganghof (2004; forthcoming-a).

2.

2. Unweighted average for 21 advanced OECD countries. See notes to Figure 1 for data definitions and sources.

3.

3. In fact, the cut in tax subsidies created severe strains in the housing markets of the Nordic countries, which also added to macroeconomic problems. The cut was capitalized in prices and thus led to a drop in the value of real estate. A considerable number of homeowners could no longer cover their mortgage with the market value of their real estate and went bankrupt (e.g. Huber and Stephens, 1998; Nannestad and Green-Pedersen, forthcoming).
- 4.
4. This view, though far from new, has recently been highlighted and elaborated in the political science literature on ideas in foreign policy (e.g. Brooks and Wohlforth, 2000, 2002; Goldstein and Keohane, 1993).
- 5.
5. This section draws on Ganghof (2004; forthcoming-a).
- 6.
6. Policy makers may of course deliberately reject *both* models of income tax reform as too radical, as they did in Denmark in the 1990s. If they do, however, they have to sacrifice the goal of market-conforming capital income taxation. See Ganghof (forthcoming-a) for a more detailed exploration of the resulting 'trilemma' of income taxation.
- 7.
7. The following draws on Ganghof (forthcoming-b).
- 8.
8. Structural reforms of income taxes are perhaps easiest when relatively few people are paying it, as there are fewer vested interests in the system (Heady, 2002: 7).
- 9.
9. In line with my theoretical argument and the pattern visible in Figure 2, the Slovak Republic has one of the lowest total tax burdens of the new European Union member states (33% in 2002), Slovenia one of the highest (39.8%) (Eurostat, 2004: 210, 213).

## References

BMF (Bundesministerium der Finanzen [German Ministry of Finance]) (2003) *Die wichtigsten Steuern im internationalen Vergleich*. Bonn: BMF.

[Google Scholar](#)

Bordignon, M., Giannini, S. and Panteghini, P. (2001) 'Reforming Business Taxation: Lessons from Italy?', *International Tax and Public Finance* 8(2): 191-210 .

[Crossref](#)

[Google Scholar](#)

Boskin, M. J. and McLure, C. J. (eds) (1990) *World Tax Reform: Case Studies of Developed and Developing Countries*. San Francisco, CA: ICS Press .

[Google Scholar](#)

Brooks, S. G. and Wohlforth, W. C. (2000) 'Power, Globalization and the End of the Cold War: Reevaluation a Landmark Case for Ideas', *International Security* 25(3): 5-53 .

[Crossref](#)

[Google Scholar](#)

Brooks, S. G. and Wohlforth, W. C. (2002) 'From Old Thinking to New Thinking in Qualitative Research', *International Security* 26(4): 93-111 .

[Crossref](#)

[Google Scholar](#)

Bucovetsky, S. (1991) 'Asymmetric Tax Competition', *Journal of Urban Economics* 30(2): 167-181 .

[Crossref](#)

[Google Scholar](#)

Chapman, R. (1992) 'A Political Culture Under Pressure: The Struggle to Preserve a Progressive Tax Base for Welfare and the Positive State', *Political Science* 44(1): 1-27 .

[Crossref](#)

[Google Scholar](#)

Cnossen, S. (1988) 'Overview', in J. A. Pechman (ed.) *World Tax Reform: A Progress Report* (pp. 261-268). Washington, DC: The Brookings Institution .

[Google Scholar](#)

Cnossen, S. (1999) 'Taxing Capital Income in the Nordic Countries: A Model for the European Union?', *Finanzarchiv* 56(1): 18-50 .

[Google Scholar](#)

Cnossen, S. and Bovenberg, L. (2001) 'Fundamental Tax Reform in the Netherlands', *International Tax and Public Finance* 8(4): 467-480 .

[Crossref](#)

[Google Scholar](#)

Conlan, T. J., Wrightson, M. T. and Beam, D. R. (1990) *Taxing Choices: The Politics of Tax Reform*. Washington, DC: CQ Press .

[Google Scholar](#)

Dalsgaard, T. and Kawagoe, M. (2000) '*The Tax System in Japan: A Need for Comprehensive Reform*', Economics Department Working Papers No. 231, OECD, Paris .

[Crossref](#)

[Google Scholar](#)

De Long, J. B. and Summers, L. H. (1991) 'Equipment Investment and Economic Growth', *Quarterly Journal of Economics* 106(2): 445-502 .

[Crossref](#)

[Google Scholar](#)

Det Økonomiske Råd (2001) '*Danish Economy: Spring 2001 (English Summary)*', accessed 12 October 2002: <http://www.dors.dk/rapp/dors086.htm>

[Google Scholar](#)

Devereux, M. P. and Griffith, R. (1998) 'Taxes and the Location of Production: Evidence from a Panel of US Multinationals', *Journal of Public Economics* 68(2): 335-367 .

[Crossref](#)

[Google Scholar](#)

Devereux, M. P. and Griffith, R. (2003) 'Evaluating Tax Policy for Location Decisions', *International Tax and Public Finance* 20(1): 107-126 .

[Crossref](#)

[Google Scholar](#)

Ervik, R. (2000) 'The Hidden Welfare State in Comparative Perspective: Tax Expenditures and Social Policy in Eight Countries', PhD thesis, Department of Comparative Politics, University of Bergen, Norway.

[Google Scholar](#)

Eurostat (2004) *Structures of the Taxation System in the European Union: Data 1995-2002*. Luxembourg: Eurostat .

[Google Scholar](#)

Faria, A. G.A. (1995) 'Reform in Market Economies and Economies in Transition: Principles and Experience', in P. Shome (ed.) *Tax Policy Handbook* (pp. 275-278). Washington, DC: International Monetary Fund .

[Google Scholar](#)

Fullerton, D. (1994) 'Tax Policy', in M. Feldstein (ed.) *American Economic Policy in the 1980s* (pp. 165-208). Chicago, IL: University of Chicago Press .

[Google Scholar](#)

Ganghof, S. (2000) 'Adjusting National Tax Policy to Economic Internationalization: Strategies and Outcomes', in F. W. Scharpf and V. A. Schmidt (eds) *Welfare and Work in the Open Economy. Volume II: Diverse Responses to Common Challenges* (pp. 597-645). Oxford: Oxford University Press .

[Crossref](#)

[Google Scholar](#)

Ganghof, S. (2004) 'Progressive Income Taxation in Advanced OECD Countries. Revisiting the Structural Dependence of the State on Capital', paper presented at the Annual Meeting of the American Political Science Association Chicago, 1-5 September.

[Google Scholar](#)

Ganghof, S. (forthcoming-a) *Parties, Power and Progressivity: The Political Economy of Income Taxation in Open States*. Colchester: ECPR Press .

[Google Scholar](#)

Ganghof, S. (forthcoming-b) '*Tax Mixes and the Welfare State: The Danish Puzzle in Comparative Perspective*', Discussion Paper, Max Planck Institute for the Study of Societies, Cologne .

[Google Scholar](#)

Ganghof, S. and Eccleston, R. (2004) 'Globalization and the Dilemmas of Income Taxation in Australia', *Australian Journal of Political Science* 39(4): 519-534 .

[Crossref](#)

[Google Scholar](#)

Garrett, G. (1998) 'Shrinking States? Globalization and National Autonomy in the OECD', *Oxford Development Studies* 26(1): 71-97 .

[Crossref](#)

[Google Scholar](#)

Genser, B. (1996) 'Austria's Steps towards a Dual Income Tax', in L. Mutén, P. B. Sørensen, K. P. Hagen and B. Genser (eds) *Towards a Dual Income Tax?* (pp. 69-89). London: Kluwer Lax International .

[Google Scholar](#)

Goldstein, J. and Keohane, R. O. (1993) 'Ideas and Foreign Policy: An Analytical Framework', in J. Goldstein and R. O. Keohane (eds) *Ideas and Foreign Policy. Beliefs, Institutions, and Political Change* (pp. 3-30). Ithaca, NY: Cornell University Press .

[Crossref](#)

[Google Scholar](#)

Hagen, K. P. and Sørensen, P. B. (1998) 'Taxation of Income from Small Businesses: Taxation Principles and Tax Reforms in the Nordic Countries', in P. B. Sørensen (ed.) *Tax Policy in the Nordic Countries* (pp. 28-71). Houndmills: Macmillan .

[Crossref](#)

[Google Scholar](#)

Hall, P. A. (1993) 'Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain', *Comparative Politics* 25(3): 275-296 .

[Crossref](#)

[Web of Science](#)

[Google Scholar](#)

Hardiman, N. (2001) 'Taxing the Poor: The Politics of Income Taxation in Ireland', *Policy Studies Journal* 28(4): 815-842 .

[Crossref](#)

[Google Scholar](#)

Head, J. G. (1997) 'Company Tax Structure and Company Tax Incidence', *International Tax and Public Finance* 4(1): 61-100 .

[Crossref](#)

[Google Scholar](#)

Heady, C. (2002) 'Tax Policy in Developing Countries: What Can Be Learned from OECD Experience?', paper presented at the Seminar for Taxing Perspectives: A Democratic Approach to Public Finance in Developing Countries at the Institute of Development Studies, University of Sussex, 28-9 October.

[Google Scholar](#)

Hettich, W. and Winer, S. L. (1999) *Democratic Choice and Taxation: A Theoretical and Empirical Analysis*. Cambridge: Cambridge University Press .

[Crossref](#)

[Google Scholar](#)

Hines, J. R., Jr (1999) 'Lessons form Behavioral Responses to International Taxation', *National Tax Journal* 52(2): 305-322 .

[Google Scholar](#)

Holmøy, E. and Vennemo, H. (1995) 'A General Equilibrium Assessment of a Suggested Reform in Capital Income Taxation', *Journal of Policy Modeling* 17(6): 531-556 .

[Crossref](#)

[Google Scholar](#)

Howard, C. (1997) *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton, NJ: Princeton University Press .

[Crossref](#)

[Google Scholar](#)

Huber, E. and Stephens, J. D. (1998) 'Internationalization and the Social Democratic Model: Crisis and Future Prospects', *Comparative Political Studies* 31(3): 353-397 .

[Crossref](#)

[Google Scholar](#)

Kato, J. (2003) *Regressive Taxation and the Welfare State: Path Dependence and Policy Diffusion*. Cambridge: Cambridge University Press .

[Crossref](#)

[Google Scholar](#)

KPMG (2003) '*KPMG's Corporate Tax Rate Survey - January 2003*', accessed 13 February 2004, <http://www.in.kpmg.com/ctrs.html>

[Google Scholar](#)

Lindert, P. H. (2004) *Growing Public. Volume One: The Story*. Cambridge: Cambridge University Press .

[Google Scholar](#)

Messere, K. (1993) *Tax Policy Choices in OECD Countries*. Amsterdam: IBFD Publications BV .

[Google Scholar](#)

Messere, K., De Kam, F. and Heady, C. (2003) *Tax Policy: Theory and Practice in OECD Countries*. Oxford: Oxford University Press .

[Google Scholar](#)

Morinobu, S. (2004) '*Capital Income Taxation and the Dual Income Tax*', accessed 30 August 2004: <http://www.mof.go.jp/jouhou/soken/kenkyu/ron097.pdf>

[Google Scholar](#)

Mutén, L. (1996) 'Dual Income Taxation: Swedish Experience', in L. Mutén, B. P. Sørensen, K. P. Hagen and B. Genser (eds) *Towards a Dual Income Tax?* (pp. 7-21). London: Kluwer Law International .

[Google Scholar](#)

Nannestad, P. and Green-Pedersen, C. (forthcoming) 'Keeping the Bumblebee Flying: Economic Policy in the Welfare State of Denmark, 1973-99', in E. Albæk, P. Eliason and A. S. Norgaard (eds) *Managing the Danish Welfare State under Pressure: Towards a Theory of the Dilemmas of the Welfare State*. Aarhus: Aarhus University Press .

[Google Scholar](#)

NOU (Norges Offentlige Utredninger) (1984) *Personbeskatning. Skattekommisjonens Vurderinger av og Forslag til System for Personbeskatning [Reports of the Government Commissions]*. Oslo .

[Google Scholar](#)

OECD (2000) *OECD Economic Surveys: New Zealand*. Paris: OECD .

[Google Scholar](#)

OECD (2001) *Tax and the Economy: A Comparative Assessment of OECD Countries*. Paris: OECD .

[Crossref](#)

[Google Scholar](#)

OECD (2004) *Statistical Compendium*. Paris: OECD .

[Google Scholar](#)

Pechman, J. A. (ed.) (1988) *World Tax Reform: A Progress Report*. Washington, DC: Brookings .

[Google Scholar](#)

Sandford, C. (1993) *Successful Tax Reform: Lessons from an Analysis of Tax Reform in Six Countries*. Fersfield, UK: Fiscal Publications .

[Google Scholar](#)

Schwartz, H. (1991) 'Can Orthodox Stabilization and Adjustment Work? Lessons from New Zealand 1984-90', *International Organization* 45(2): 221-256 .

[Crossref](#)

[Google Scholar](#)

Schwartz, H. (2000) 'Internationalization and Two Liberal Welfare States: Australia and New Zealand', in F. W. Scharpf and V. A. Schmidt (eds) *Welfare and Work in the Open Economy. Diverse Responses to Common Challenges* (pp. 69-130). Oxford: Oxford University Press .

[Crossref](#)

[Google Scholar](#)

Shome, P. (1999) '*Taxation in Latin America: Structural Trends and Impact of Administration*', IMF Working Paper WP/99/19, IMF, Washington, DC .

[Google Scholar](#)

Slemrod, J. (1990) 'Optimal Taxation and Optimal Tax Systems', *Journal of Economic Perspectives* 4(1): 157-178 .

[Crossref](#)

[Google Scholar](#)

Slemrod, J. (2000) 'The Labyrinth of Capital Gains Tax Policy: A Guide for the Perplexed', *Journal of Economic Literature* 38(3): 657-659 .

[Google Scholar](#)

Sørensen, P. B. (1988) 'Wealth Taxation, Income Taxation, and Saving', *Blue Mimeo 163*, University of Copenhagen, Institute of Economics .

[Google Scholar](#)

Sørensen, P. B. (1993) 'Recent Tax Reform Experiments in Scandinavia', in L. Stetting, K. E. Svendsen and E. Yngaard (eds) *Global Change and Transformation* (pp. 357-376). Copenhagen: Munksgaard International Publishers .

[Google Scholar](#)

Sørensen, P. B. (1998a) 'Recent Innovations in Nordic Tax Policy: From the Global Income Tax to the Dual Income Tax', in P. B. Sørensen (ed.) *Tax Policy in the Nordic Countries* (pp. 1-27). London: Macmillan .

[Crossref](#)

[Google Scholar](#)

Sørensen, P. B. (ed.) (1998b) *Tax Policy in Nordic Countries*. Basingstoke: Macmillan .

[Crossref](#)

[Google Scholar](#)



Steinmo, S. (2003) 'The Evolution of Policy Ideas: Tax Policy in the 20th Century', *British Journal of Politics and International Relations* 5(2): 206-236 .

[Crossref](#)

[Google Scholar](#)

Stephens, R. (1993) 'Radical Tax Reform in New Zealand', *Fiscal Studies* 14(3): 45-63 .

[Crossref](#)

[Google Scholar](#)

Stotsky, J. (1995) 'Summary of IMF Policy Advice', in P. Shome (ed.) *Tax Policy Handbook* (pp. 279-284). Washington, DC: International Monetary Fund .

[Google Scholar](#)

Summers, L., Gruber, J. and Vergara, R. (1993) 'Taxation and the Structure of Labor Markets: The Case of Corporatism', *The Quarterly Journal of Economics* 108(2): 385-411 .

[Crossref](#)

[Google Scholar](#)

Swank, D. (1998) 'Funding the Welfare State: Globalization and the Taxation of Business in Advanced Market Economies', *Political Studies* 46(4): 671-692 .

[Crossref](#)

[Web of Science](#)

[Google Scholar](#)

Swank, D. (2003) 'Tax Policy in an Era of Internationalization: An Assessment of a Conditional Diffusion Model of the Spread of Neoliberalism', paper presented at the International Diffusion of Political and Economic Liberalization Conference, Weatherhead Center for International Affairs, Harvard University, 3-4 October.

[Google Scholar](#)

Swank, D. and Steinmo, S. (2002) 'The New Political Economy of Taxation in Advanced Capitalist Democracies', *American Journal of Political Science* 46(3): 642-655 .

[Crossref](#)

[Google Scholar](#)

Tanzi, V. and Zee, H. (2000) 'Tax Policy for Emerging Markets: Developing Countries', *National Tax Journal* 53(2): 299-322 .

[Crossref](#)

[Google Scholar](#)

Van den Noord, P. (2000) *'The Tax System in Norway: Past Reforms and Future Challenges'*, OECD Economics Department Working Papers No. 244, OECD, Paris .

[Crossref](#)

[Google Scholar](#)

Wilensky, H. (2002) *Rich Democracies: Political Economy, Public Policy, and Performance*. Berkeley: University of California Press .

[Crossref](#)

[Google Scholar](#)

World Bank (2003) *World Development Indicators*. Washington, DC: World Bank .

[Google Scholar](#)

#### Similar articles:

---



Restricted access

[The Political Economy of High Income Taxation: Capital Taxation, Path Dependence, and Political Institutions in Denmark](#)

Show Details ▾



Restricted access

[Tax mixes and the size of the welfare state: causal mechanisms and policy implications](#)

Show Details ▾



Restricted access

[Book Review: World Tax Reform: A Progress Report](#)

Show Details ▾

---

[View More](#)

#### Sage recommends:

---

**SAGE Knowledge**

Entry

[Tax Competition](#)

Show Details ▾

**CQ Researcher**

Report

[How Fair Is the Nation's Tax Burden?](#)

Show Details ▾

**SAGE Knowledge**

Book chapter

[The Politics of Welfare in Europe](#)

Show Details ▾

[View More](#)

You currently have no access to this content. Visit the [access options](#) page to authenticate.

[Download PDF](#)

Also from Sage

CQ Library

Elevating debate

Sage Data

Uncovering insight

Sage Business Cases

Shaping futures

Sage Campus

Unleashing potential

Sage Knowledge

Multimedia learning resources

Sage Research Methods

Supercharging research

Sage Video

Technology from Sage

Streaming knowledge

Library digital services