Between Distribution and Allocation: Growth Models, Sectoral Coalitions and the Politics of Taxation Revisited

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Abstract

Comparative political economists typically analyze taxation as a matter of distribution. This paper, by contrast, develops an allocational explanation of tax policy choices: As taxes channel resources into some economic activities and restrain others, they become subject to the allocational concerns of different sectors of the economy. We argue that sectoral coalitions straddling the class divide have a substantial influence on the development of tax systems, and that the power of these coalitions is associated with differences in growth models. Employing a mixed methods approach, we first demonstrate a systematic association between growth models and consumption taxes across OECD countries. Afterwards, we study debates about the Value Added Tax in the paradigmatically opposed growth models of the United States and Germany to illustrate the political mechanism behind this result. While a domestic sector coalition dominated these debates in the U.S., an export sector coalition prevailed in Germany. We conclude by laying out the results' wider implications for the political study of taxation and comparative capitalism.

Keywords: Fiscal Sociology, Growth Models, Organized Interests, Taxation, Varieties of Capitalism
Word count: 11520

Introduction

When comparative political economists think taxation, they usually think distribution. After all, tax policies are pivotal levers in shaping economic inequality in modern societies. However, this is hardly the full story. Different taxes do not just distribute an economic burden between rich and poor or capital and labor, but also affect the allocation of resources – and fortune – between various sectors of the economy. Tax policy may favor savings and investments over borrowing and consumption, services over manufacturing, capital outflows over inflows – or the other way around. To convincingly explain the politics of taxation, we therefore need to consider the role of these allocational issues and of differing sectoral interests.

In this paper, we develop an allocational approach to taxation. Specifically, we argue that the allocational consequences of different taxes give rise to political coalitions that differ from mere distributional ones: For example, economic sectors which depend on a high level of consumption will be less inclined to support consumption taxes than economic sectors which benefit from suppressed consumption and high levels of savings. Different countries' choice of different tax mixes, therefore, should be linked to the relative weight of different sectors in the economy. By and large, existing accounts of tax policies disregard such allocational matters and thereby miss the impact of sectoral coalitions that run across traditional class cleavages.[1]

If it is true that the political strength of different sectors shapes the politics of taxation, we need to explain differences in the strength of sectors between countries. To do so, we link the politics of taxation with debates about the diversity of contemporary capitalism. So far, these debates have paid relatively little attention to the (allocational) politics of taxation.[2] While the idea that specific production regimes have corresponding fiscal arrangements is not completely new[3], the question how exactly they are linked, and which political mechanisms lie behind this linkage remain largely absent from scholarship.

[1] But see Mares and Queralt 2015

[2] This statement holds true for much of the literature in the Varieties of Capitalism-vein that has followed the influential work of Hall and Soskice (2001), but does less apply to Shonfield's (1965) milestone *Modern Capitalism* which noted the crucial role of tax concessions to specific industries.

[3] Therét 2002; Amable and Azizi 2011

However, this is changing. Recent endeavors to conceptualize advanced capitalist countries in terms of their growth models[4] open a theoretical link to the politics of taxation through their focus on the political-institutional foundations of aggregate demand composition. Indeed, differences between specific tax mixes and differences between growth models are a coin with two causal sides: The distinctive institutions and the corresponding political coalitions of a given growth model shape tax policies; but tax policies also retroact on the institutional foundations and working mechanisms of that model.

Our paper thus aims to demonstrate the close affinities between the politics of taxation and the politics of growth models. In doing so, we proceed as follows. We first typologize the main strands of the literature on tax mixes, which focus on the distributional effects of different taxes. Secondly, we sketch an alternative framework which introduces the allocational dimension of taxation. Thirdly, we analyze the link between growth regimes, sectoral coalitions and tax mixes within the OECD from a longitudinal and from a cross-sectional perspective. We then move on, fourthly, to explore the mechanisms behind the quantitative results with illustrative case studies of consumption tax debates in the two paradigmatically opposed growth models of Germany and the United States. Fifth and finally, we conclude and discuss what our allocational perspective has to offer for the analysis of taxation and how the study of capitalist diversity would benefit from paying greater attention to matters of public finance.

Revisiting the dominant view on taxation

Public finance theory traditionally acknowledges three separate, but interrelated, objectives of fiscal policy: allocation, distribution, and stabilization.[5] While *allocation* refers to channeling resources into different activities, including different economic sectors, *distribution* refers to the transfer of income from one individual to another through taxes and transfers. Finally, s*tabilization* encompasses goals such as price stability, economic growth and full employment, particularly in downturns. While there is no natural hierarchy between these objectives, most analyses of taxation in comparative political economy focus on the distributional dimension: Direct taxes are generally regarded as progressive while indirect taxes are seen as regressive. By framing the issue this way, the analytical goal becomes to explain why

[4] Baccaro and Pontusson 2016; Hall 2017; Johnston and Regan 2017
[5] Musgrave 1959, 5

some countries rely more heavily on regressive taxes than others. In answering this question, researchers have mostly focused on explaining the role of indirect taxation.

In its simplest version (what we call the *simple redistribution approach*), this literature comes with an essentially class-based perspective which pits the net-beneficiaries of public redistribution against the net-contributors.[6] It suggests that high income earners and conservative parties as their political representatives favor regressive taxes whereas low income groups and social democratic parties favor progressive taxes. Within the group of developed democracies, however, this simple class-based approach is at odds with the empirics. In fact, welfare states with more egalitarian social policies also tend to have more regressive tax systems.[7] To tackle this puzzling observation, the literature has developed two main explanatory approaches within a distributional framework.

The *contextualist approach* argues that different tax policy choices can be understood by looking at what the revenue is spent for[8]: the distributive effects of fiscal policy arise from a combination of taxing and spending; hence, indirect taxes can still be net redistributive if their revenue is used to fund highly redistributive spending programs. For labor, taxation is thus not an end in itself but a means to finance progressive government expenditure. This approach keeps a class-based perspective but provides a more refined explanation of how labor uses taxation to bring about redistribution.

Whereas the contextualist approach sees the availability of revenue as necessary precondition for increased expenditure, its close cousin, the *functionalist approach*, reverses this causal ordering of revenue and expenditure.[9] In this perspective, expenditure decisions come first and generate revenue needs, which drive the adoption and expansion of taxes. The tax mix is then selected based on the macroeconomic effects of different taxes; i.e. distributional goals face constraints from economic efficiency considerations. Here, the literature has focused on two related trends: the decline of corporate taxation and capital taxation[10] and the parallel rise of indirect taxation, which have both been diagnosed as reactions to the rising mobility of production factors.[11] In short, bigger welfare states' reliance on indirect taxes

[6] Meltzer and Richard 1981
[7] Steinmo 1993; Kato 2003; Beramendi and Rueda 2007; Prasad and Deng 2009; Martin 2015
[8] Timmons 2005; Kato 2003; Cusack and Beramendi 2006; Beramendi and Rueda 2007
[9] Ganghof 2006, 2007; Lindert 2004
[10] Hays 2003; Swank 2016
[11] Swank and Steinmo 2002; Genschel and Schwarz 2011

is less a discretionary political choice than a functional imperative: After the decision for a large welfare state has been made, indirect taxes are the only option for financing it without inflicting too much damage on the economy.

Both the *contextualist* and the *functionalist approach* constitute important improvements of the *simple redistribution approach*. However, they remain fundamentally committed to a class-based perspective in which the main conflict about taxation sparks off between capital and labor. They see class-based organized interests predominantly as beneficiaries or victims of public redistribution and derive tax policy preferences from this characteristic.[12] Even the *functionalist* account, which recognizes resource allocation and economic stabilization as restrictions on distributional issues, does not acknowledge them as political issues in their own right. Rather, economic efficiency appears to be an objective and uncontested goal of fiscal policy.

However, it is not immediately clear that, for example, export capital should support a tax policy that fosters domestic consumption, even if it increases the overall growth rate of the economy. Rather, it might benefit from a raise in consumption taxes that generates changes of relative prices which lower the real exchange rate as the literature on 'fiscal devaluations' suggests.[13] Additionally, the fact that real world taxes contain all kinds of exemptions that have not only distributional but also sectoral allocational consequences[14], complicates matters even more. Why, for instance, would labor's representatives undermine the effectiveness of the Value Added Tax as a "money machine" through costly exemptions? After all, exemptions are a highly ineffective instrument for redistribution.[15]

Therefore, we find the conventional approaches to the politics of taxation wanting. The political coalitions that underlie instances of tax reform are more complex than the distributional view suggests. Most importantly, sectoral coalitions based on 'consumer' and 'producer' groups should figure more prominently in comparative analyses of tax policy conflict. Table 1 offers a stylized representation of the mentioned approaches, from which we can delve into the discussion of our *allocational approach.*

[12] Micro-level research on tax preferences has managed to complicate these issues without, however, broadening the distributional lens, see e.g. Barnes 2015.
[13] Farhi, Gopinath, and Itskhoki 2011; Mooij and Keen 2012
[14] James 2015
[15] Howard 1997; Mettler 2011

Table 1: Three models of tax policy conflict

Support for direct taxes on production	*Support for indirect taxes on consumption*
Simple redistribution approach	
"Labor"	*"Capital"*
Left Parties	Right Parties (opposing redistribution)
Low income earners	High income earners
Contextualist approach and functionalist approach	
"Small Government"	*"Big Government"*
Right Parties (opposing government growth)	Left parties in corporatist systems
Opponents of welfare spending	Supporters of welfare spending
Allocational approach	
"Domestic orientation"	*"Outward orientation"*
Capital and labor in sectors that depend on consumption and domestic demand	Capital and labor in sectors that depend on investment and external demand

Source: author's own

Towards an allocational approach to the politics of taxation

At the heart of our allocational approach is the argument that political struggles over taxation are not solely shaped by distributional conflict between capital and labor but also by an allocational conflict between cross-class coalitions that have made specific investments into different sectors of the economy. Indeed, allocation has long been understood as a core function of fiscal policy and, thus, as a potential site of political conflict.[16] Focusing on the 'proper' allotment of resources, the allocation function entails the correction of 'market imperfections' and the provision of public goods. Fundamentally, by channeling resources into different branches of the economy, it also influences industrial organization as well as economic output on the firm and sectoral level.[17] Tax policy raises or lowers the cost of specific economic actions, thereby taking on a 'steering function' in the economy. In fact, taxation is "the major

[16] Musgrave 1959; Gruber 2016; Wildavsky 1964
[17] Musgrave 1959, 7

instrument, through which governments try to affect the private sector”.[18] To be sure, allocational and distributional goals are closely intertwined and the fiscal instruments applied in their pursuit sometimes one and the same. An illustrative example is the widespread practice of tax breaks on debt-financed home ownership. While it serves several social policy objectives such as housing and social security, it also is an economic policy tool that nurtures specific domestically oriented industries; notably finance, real estate, and construction.[19]

As our allocational approach emphasizes the latter effect, it finds its paragons in several magisterial studies in international and comparative political economy, which have emphasized the importance of sectoral coalitions. Such sectoral (producer) coalitions have influenced the development of the welfare state, labor market policies and many other areas of (foreign) economic policy, especially in the face of crisis or international competition.[20] Authors in this tradition have pointed out that many middle-class members of modern political economies have become workers-cum-capitalists that have high stakes in the success of the sectors in which they are employed. Jeffrey Frieden, for instance, has argued that political behavior towards economic policy is “less commonly factoral (laborers as a class, capitalists as a class) than sectoral (the steel industry, the dairy farming industry)”.[21] We therefore assume that when evaluating tax policy choices, collective actors will look not only at their distributional consequences but also at how they affect the fortunes of their sector.

Nevertheless, there have been few attempts to apply this allocational perspective to the study of taxation. In his influential study of different tax regimes, Sven Steinmo indicated only as an aside that in Britain and the U.S. „the tax system encourages conspicuous consumption by the rich”, whereas the Swedish tax system „historically discouraged consumption and encouraged reinvestment”.[22] More recently, Monica Prasad has underscored the close connection between taxation, sectoral power, and different pathways of economic growth.[23] The political power of agrarians in 19th century United States, she argues, helped to give birth to a tax and regulatory regime uniquely geared to supporting consumption and credit

[18] Steinmo 1993, 3
[19] Krippner 2011; Howard 1997
[20] Katzenstein 1985; Gourevitch 1986; Rogowski 1989; Milner 1999; Martin and Swank 2012; Thelen 2014
[21] Frieden 1991, 436
[22] Steinmo 1993, 43
[23] Prasad 2012

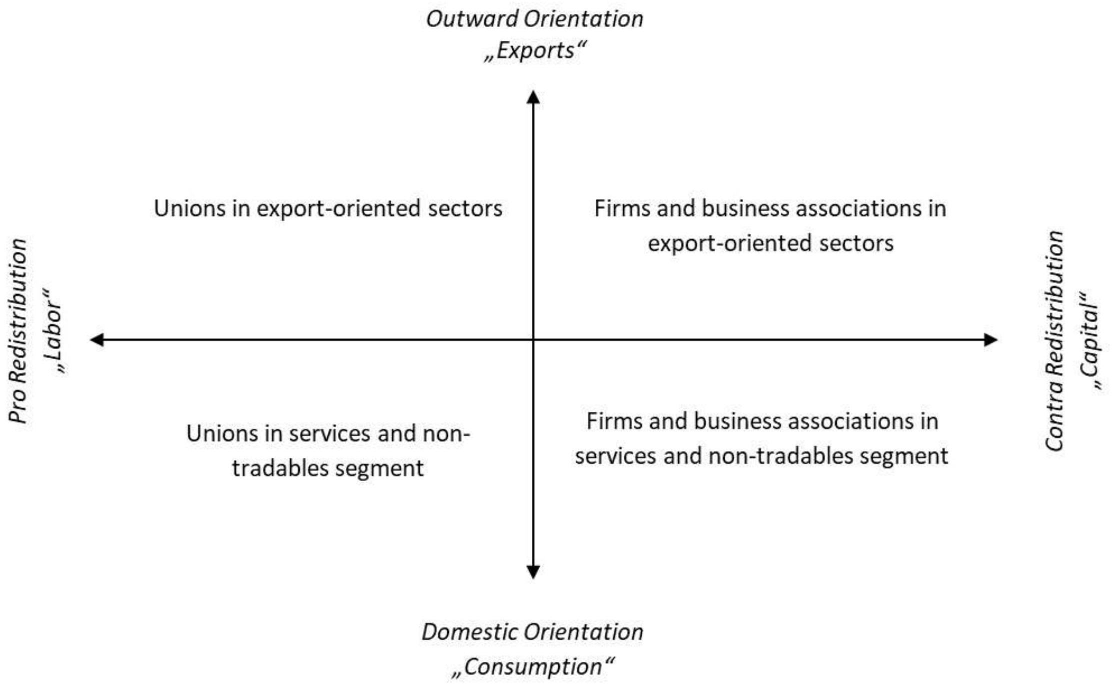
access, whereas continental European governments actively repressed consumption after World War II, and fostered export-led growth.[24]

The most important predecessor of our own approach, however, is Cathie Jo Martin's study of corporate tax reforms in the United States. She identifies "[t]hree groups of industrial sectors [that] emerge as major actors in the tax policy debates": a finance/housing group, a small business/service group, and a manufacturing group.[25] These groups have diverging objectives regarding tax reform and paths to economic growth, but allow policy-makers to forge unusual coalitions through compensation.

Following these diverse strands of the political economy literature, we conceptualize contemporary sectoral coalitions regarding taxation along the lines illustrated in Figure 1. We focus here on the position of organized sectoral interests, which form the basis of the "producer group coalitions" at the heart of a sectoral approach to political economy.[26] As in the conventional approaches discussed above, there is a distributional axis that runs along class positions. The politics of taxation in this perspective divide positions along class cleavages and schematically pit labor against capital, which usually translates into unions versus business (associations). Our contribution is the addition of an allocational axis. This axis reflects the contemporary bifurcation in export- and consumption-credit-led growth models that recent endeavors in comparative political economy have emphasized.[27] It suggests that sectoral coalitions form based on an inward vs. an outward orientation in economic strategies and possess political clout that varies – among other things – with the growth model whose institutions foster specific accumulation strategies.

[24] She thus articulates a powerful critique of distributive approaches by emphasizing the role of different economic sectors. Oddly enough, in terms of tax policy she repeatedly gravitates back to a distributive perspective (e.g. p. 90, p. 109).
[25] Martin 1991, 37
[26] Thelen 2014
[27] See footnote 4.

Figure 1: Between distribution and allocation: societal actors along two dimensions of taxation



We do not suggest that allocational goals necessarily override distributional goals or are ultimately more important in political processes. We rather conceive of the allocational perspective as more complementary than oppositional to a distributional analysis. For instance, imagine a tax policy proposal that is regressive and promotes exports. It will find natural support in the upper right corner from firms and business associations in export-oriented sectors. In the distributional view, other (domestically oriented) businesses are likely coalition partners while labor can only be won over with public spending. In the allocational approach, however, different sectoral positions forge different coalitions. Unions in the export sector are much more likely to give up their class-based resistance, while businesses in the non-tradable segment might also ask for compensation and are less a natural supporter. Both theories agree, finally, that unions in the lower left corner are highly unlikely to support the tax proposal.

The two-dimensional model thus creates possibilities for “coalitional engineering”[28] through compensation policies and multi-dimensional bargaining. This is also where political parties and governments

[28] Häusermann 2010

enter the picture. Political actors can skillfully design reform proposals that bring diverse interests together by aligning the distributional goals of some groups with the allocational goals of other groups. In other words, whether workers in the automotive industry ally with retail employees or rather with their own employers will depend on the design of reform proposals.

Obviously, the conditions for engineering a successful coalition behind a specific reform proposal differ from country to country. While it may be possible to bring together the same set of actors in every country, the political strength of these coalitions can vary tremendously, depending on the political clout of coalition members. To take the example above, a potential coalition of export interests in business and labor may exist everywhere. However, it will only be able to overcome the resistance of a domestically oriented coalition in those countries where exports interests are politically dominant.

This, of course, raises the question which sectors are dominant in which countries. Our answer sides with the growth model approach by focusing on the various ways different countries achieve economic growth. This recently growing literature shifts attention to the role of demand factors to identify national growth models. It argues that the erosion of the wage-led "Fordist" growth model since the late 1970s pushed countries to seek new sources of economic demand, leading to a somewhat symbiotic differentiation in the weight of aggregate demand components as drivers of economic growth. As our allocational axis reflects, Baccaro and Pontusson identify a growth model based on consumption and credit (exemplified by the UK) on the one hand, and a model based on exports (Germany) on the other, with mixed cases being possible. While investment- and state-led modes of growth are conceivable alternatives, they maintain that the mutually dependent export-driven and consumption-driven growth trajectories are the ones that have empirically shaped the workings of (Western) contemporary capitalism.[29]

Politically, these growth models are assumed to "rest on and [be] supported by clearly identifiable 'social blocs', i.e. coalitions of social forces, typically straddling the class divide, which can legitimately claim to represent the 'national interest'".[30] In this sense, these social blocs should indicate the underlying coalitions that account for differences in tax reform processes.[31] This means that in a consumption-

[29] Baccaro and Pontusson 2016, 186
[30] Baccaro and Pontusson 2016, 200
[31] cf. Amable and Palombarini 2009

credit-led growth model, opposition to the hypothetical tax policy proposal should be particularly pronounced. Here, labor and businesses in domestically oriented sectors are more powerful than their counterparts in the tradables segment of the economy. Hence, a coalition of labor and capital in sectors depending on domestic demand will, supposedly, successfully block the reform attempt. In an export-led growth model, by contrast, the proposal should gain momentum when coalitional engineers convince unions in the export-sector to give up their class-based opposition and join a producer group coalition. This coalition may even be empowered further when business interests in the non-tradables segment give up their opposition for distributional reasons.

Naturally, the actual outcomes of such coalitional dynamics are more contingent than can be represented in a schematic model. Fiscal sociology has long recognized that the impact of organized interests on taxation hinges on several factors such as organizational capacities and the structure of the state (bureaucracies); an insight well established within the distributional approach to taxation.[32] Furthermore, tax policy choices do not precisely map on pre-strategic preferences, but evolve within a specific political process that produces constraints and opportunities for labor and capital, producers and consumers. Such constraints affect both tax preference formation and intensity as well as collective actors' weight in policy formulation, leaving the framework open for context-specific factors. However, such explanatory limits are almost general and not intrinsic to an allocational approach. In turn, we expect this basic framework to be applicable to a variety of policy contexts and fundamentally to most areas of taxation. The allocational axis will not necessarily always run along the export/consumption divide, and political salience will vary according to the subject matter, but the link between sectoral preferences, political organization and a given growth model should remain evident.

Empirics: the allocational approach and the politics of taxing consumption

Our theoretical argument predicts that a coalition protecting the interests of the domestically oriented sectors shapes tax policies in consumption-led growth models, whereas a coalition focused on the interests of the export sector dominates tax policies in export-led growth models.

[32] Campbell 1993; Beramendi and Rueda 2007

To show the empirical validity of this argument, we revisit the classic question why countries with bigger welfare states have higher indirect taxes, i.e., why they tax consumption more heavily.[33] As we explain above, this question has been mainly discussed in a distributional framework because of the regressive effects of consumption taxes. However, consumption taxes also have allocational consequences by putting a burden on the consumption sector. This double-barreled character makes them an ideal case to illustrate the explanatory power of our theory.

We hypothesize, first, that export-led economies will tax consumption more heavily than consumption-led economies. Second, we suggest that this is because the political power of the sectors most affected by these taxes varies with the growth model. To empirically analyze these predictions, we proceed in three steps that employ a mixed method strategy allowing us to present different pieces of evidence in an explanatory sequential manner.[34] Using a brief secondary analysis, we first demonstrate that consumption taxes indeed affect different sectors of the economy very differently. This is a precondition for different sectoral preferences and thus for the formation of cross-class coalitions. Subsequently, we show quantitatively that consumption-led economies indeed tax consumption more lightly than countries with an export-driven growth model. Here, a multivariate framework confirms that our allocational account works as a useful complement to existing distributional accounts over time and across countries. Finally, we investigate the coalitional dynamics behind this association by looking at political struggles about the most important consumption tax, the Value Added Tax (VAT), in Germany (the epitome of an export-led growth model) and the US (embodying a consumption-led growth model based on household borrowing). These case studies allow us to show that actor positions indeed conform to our theoretical predictions and thus shed light on the political mechanism behind the quantitative results.[35]

The premise: consumption taxes as allocational taxes

Before presenting our own analysis, we need to show that consumption taxes indeed have relevant allocational consequences. This seems obvious for specific consumption taxes (like “green taxes” on energy or “sin taxes” on tobacco)– after all, these effects are the main rationale for their introduction. However,

[33] Kato 2003; Lindert 2004; Ganghof 2006; Beramendi and Rueda 2007
[34] Creswell and Plano Clark 2011
[35] Lieberman 2005

the bulk of consumption tax revenue in OECD countries comes from general consumption taxes, and predominantly from the VAT, which is supposed to be neutral between consumption and saving. From an economics perspective, the VAT also is export neutral and does not improve the trade balance.[36] A uniform and broad-based VAT would thus be a prime example of a tax with few (or no) allocational effects. This conclusion, however, is based on looking at the VAT in isolation. In practice, the VAT is usually an alternative to other, less neutral taxes. Even if it was uniform and broad-based (which is nowhere the case[37]), alternative taxes are decidedly non-neutral. Thus, the allocational effects of the VAT heavily depend on which taxes its replaces or complements. If the alternative tax is non-neutral, there is still an allocational effect.[38]

Empirical analyses for Germany and the US support this interpretation. In Germany, the Centre for European Economic Research found that the allocational effects of the differentiated VAT rate are much bigger than the distributional effects.[39] According to a more recent study, a revenue-neutral shift to a uniform (i.e. non-distorting) VAT rate would create a net total of 14.000 jobs, but would cost 22.000 jobs in food production alone.[40] Thus, the effect on individual sectors would be much bigger than the effect on the total economy. Similar results can be obtained for the U.S. Raboy and Massa analyzed how a revenue neutral shift from corporate taxes and payroll taxes to a VAT would affect different sectors. As "winners" they counted 16 of the 39 industries under investigation, most of them classical export industries like "Chemicals and allied products", "Industrial machinery and computer equipment", or "Instruments". By contrast, 11 industries would lose, among them the dominant domestic sectors of "Construction", "Retail trade", and "Real estate services".[41] Based on these results, we conclude that consumption tax changes indeed have allocational consequences that create a second axis of political conflict. We will now analyze how this allocational axis influences tax policy choices.

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[36] E.g. Auerbach 2006. A product sold in a VAT country carries VAT, whether imported or not. And a product sold in a non-VAT country does not carry VAT, no matter where it was produced (because the tax is rebated to exports).
[37] Cf. James 2015
[38] This is the reason why economists advocate a shift from (distorting) income taxes to (neutral) consumption taxes such as Arnold 2008. Such a shift is supposed to encourage savings and repress consumption – and thus to have beneficial allocational consequences.
[39] Boeters et al. 2006
[40] Böhringer and Wiegard 2013
[41] Raboy and Massa 1989

Consumption taxes in comparative perspective

In this section, we analyze the link between growth models and consumption taxes in a systematic comparative perspective. Our theory predicts the tax burden on consumption to be higher in countries where consumption is less important in the growth model.

To test this hypothesis, we need to operationalize our dependent variable, the tax burden on consumption, as well as our independent variable, the growth model. We measure the tax burden on consumption as the average effective tax rate on consumption, defined as the total revenue from consumption taxes divided by the size of the tax base – that is the size of consumption in the economy.[42] We have data for average effective tax rates for 19 countries between 1970 and 2009.

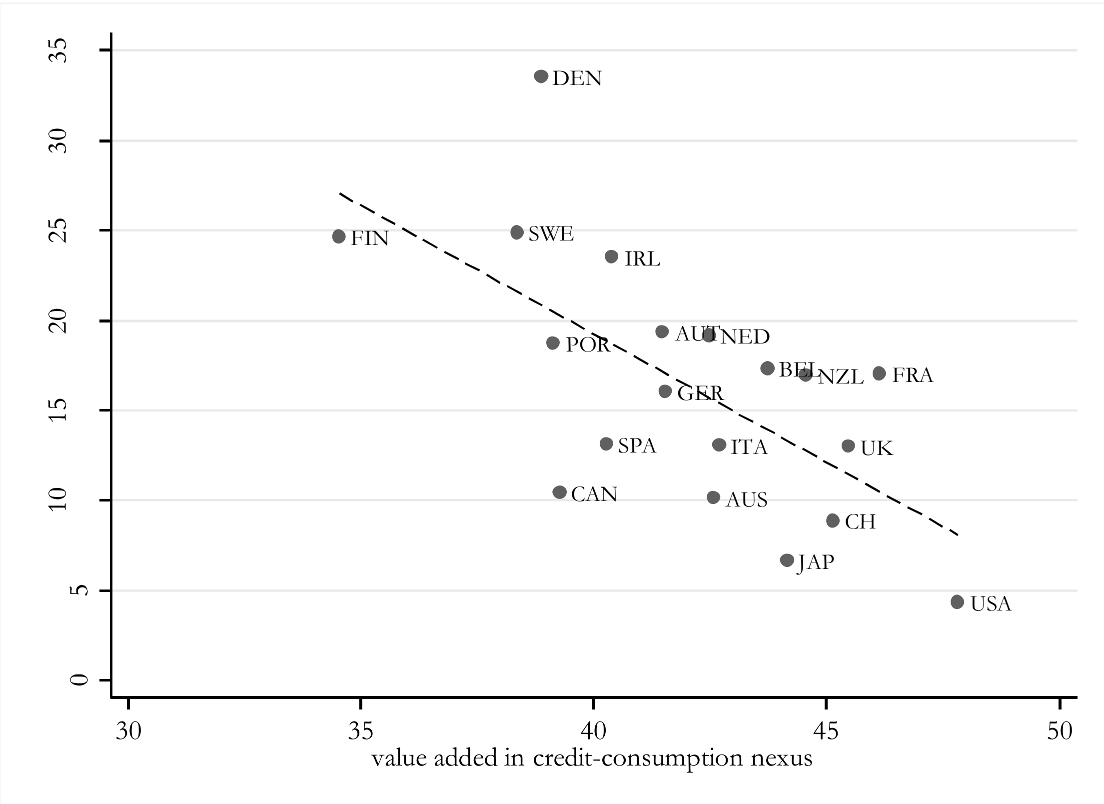
In terms of the growth model, we want to measure whether it is driven by consumption (and credit) or by exports (and, usually, savings). However, the literature has not yet developed a standard approach for operationalizing growth models. Most analyses take an economic approach and focus on different elements of economic demand in the composition of economic growth.[43] Since we are more interested in the political dimensions of different growth models and want to capture the political influence that competing interest groups can bring to bear in struggles about taxation, we assume this political power to be approximated by the economic importance of the sector.[44]

Given that the negative effects of taxing consumption for domestic sectors should be much more visible and immediate than the positive effects for export sectors, we focus on the strength of the credit-consumption nexus in the economy. This, however, does not yet tell us which sectors we should look at. The "consumption" sector is a relatively elusive concept. Therefore, we use several different definitions of this sector. Our main measure is the sum of economic value added in the two most important domestically oriented sectors, "wholesale and retail trade – restaurants and hotels" and "finance, insurance, real estate and business services", as share of total value added in the economy. Raboy and Massa identify these sectors as the main potential losers of higher consumption taxes. However, we also look at a

[42] See Carey and Tchilinguirian 2000; Carey and Rabesona 2002; Üngör 2014. To define the tax base, we use the definition of Mendoza, Razin, and Tesar 1994, which is also used by Beramendi and Rueda 2007. For data sources, and descriptive statistics, see the appendix.
[43] Baccaro and Pontusson 2016
[44] This notion is compatible with related concepts of structural power in the analysis of political processes. See Culpepper 2015.

more expansive measure of the credit-consumption nexus, in which we add the value added in the construction sector. As a third measure, we use the share of household consumption in GDP. Finally, we also look at net exports (exports minus imports) as a share of GDP. This is Baccaro and Pontusson's preferred measure, as changes in net exports measure the contribution of the export sector to GDP growth. It does thus not capture the strength of the credit-consumption nexus but rather the strength of the export sector. While we do not assume that this sector actively favors higher taxes on consumption, our framework suggest that it should still be less determined in its opposition than the consumption sector. As Figure 2 shows, there is a strong bivariate correlation between our main measure of the credit-consumption nexus and the average effective tax rate on consumption (r = -0.65). To explore this association further, we now look at it in a multivariate framework.

Figure 2: Value added in credit-consumption nexus and average effective tax rates, late 2000s



In doing so, we follow the literature and average our observations over five year-periods.[45] This also makes sense from a substantive perspective. Tax reforms take time and are usually multiyear projects.

[45] See Beramendi and Rueda 2007. We report robustness checks with annual data.

Our case study below reports the case of the German VAT increase, which was in principle agreed upon in October 2005 but only came into effect 15 months later, in January 2007.

Averaging the data gives us eight observations per country. In accordance with Baccaro and Pontusson, we assume that the current divide in export-led and consumption-credit-led growth models started to develop in the late 1970s and has hardened since then. In fact, all 19 countries have experienced rapid de-industrialization since the 1970s and the credit-consumption nexus has become more important everywhere. On average, its share of value-added grew from 30% in the early 1970s to 42% in the late 2000s. However, there was enormous variation between countries: the increase was strongest in the UK (18 percentage points) and weakest in Denmark (four percentage points). At the same time, the average tax burden on consumption also increased from about 14% to about 16%.

Our theory tries to capture this increasing divergence of the two growth models. It implies that countries that saw the strongest growth of the credit-consumption nexus (and thus the strongest move towards the respective growth model) should have seen the smallest increase in consumption taxes. Accordingly, we focus not at levels but at changes of both variables and estimate a specification in first differences. This specification is best suited to capture how an increasing divergence of growth models also led to an increasing divergence of consumption taxation. However, we also test specifications in levels and specifications with annual data to test the robustness of our results (see appendix).

Our main independent variable is the strength of the credit-consumption-nexus. The main competing hypotheses come from the functionalist approach (the size of the welfare state) and from the contextualist approach (the strength of “Social Democratic Corporatism”). Accordingly, we include the size of social transfers as well as the cabinet shares of left parties, an index of corporatism, and the interaction between the two. As control variables, we include GDP per capita growth (to control for denominator effects), the change in the debt-to-GDP ratio (to control for fiscal pressure), an index of capital openness (to control for financial globalization), the number of institutional veto points (to control for institutional rigidity), and a dummy for EU membership (as the EU requires its members to have a VAT of at least 15%). We also add country- and time-fixed effects to account for unobserved heterogeneity and report standard errors clustered on the country-level.

Table 2 presents the regression results. Model (1) only adds the strength of the credit-consumption nexus to the time- and country-fixed effects. As we can see, a change in the credit-consumption nexus negatively correlates with a change in the consumption tax burden. Model (2) tests for the functionalist mechanism by adding the size of social transfers. Model (3) tests for the contextualist mechanism and adds the three measures of the strength of social democratic corporatism. Both additions leave the estimate for the effect of the credit-consumption-nexus almost completely unaffected. In addition, there is some evidence for the contextualist mechanism but very little evidence for the functionalist mechanism. Model (4) finally adds the full set of control variables. In these specifications, we still find a strong effect for the credit-consumption nexus, but also some weak evidence for the functionalist and the contextualist approaches. This confirms the plausibility of our two-dimensional model. An allocational explanation is not a substitute but a complement to the distributional approach.

Table 2: Regression results for five-year averages

	(1) AETR, fixed	(2) AETR, sstran	(3) AETR, corp	(4) AETR, full
Consumptionness	-0.303* (0.126)	-0.317* (0.111)	-0.326* (0.115)	-0.274* (0.125)
Social Spending		0.056 (0.081)		0.128 (0.091)
Left Cabinet			-0.002 (0.003)	-0.003 (0.003)
Corporatism			-1.721+ (0.893)	-1.497* (0.683)
Left Cabinet x Cor~m			0.008+ (0.005)	0.005 (0.005)
Capital Openness				-0.239 (1.219)
Debt to GDP				-0.026 (0.039)
Veto Points				0.617 (0.553)
EU Membership				1.073+ (0.587)
Growth				0.155 (0.197)
Constant	-0.978*** (0.234)	-0.995*** (0.245)	-0.976*** (0.224)	-1.029** (0.346)
N	115	115	115	112
r2	0.509	0.512	0.562	0.611

All models contain time- and country-fixed effects, country-clustered standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

All models thus agree that countries that moved strongly towards a credit-consumption growth model raised their consumption taxes much less than countries that did not develop such a growth model. To make sure that these results are not driven by our operationalization of the growth model or by our choices for the regression specification, we performed a set of robustness checks. Table 3 presents the results of regressions for our three alternative specifications of the growth model. Here results are very similar for the share of household consumption and (though somewhat weaker) for the expansive definition of the credit-consumption sector. By contrast, there is no discernible effect for the size of net exports. This confirms our intuition that a strong export sector in itself is not a driver of a high tax burden on consumption.

Table 3: Regression results for different operationalizations of the growth model

	(1) Growth Model	(2) Consumption C~n	(3) Household Cons	(4) Net Exports
Consumptionness	-0.274*			
	(0.125)			
Left Cabinet	-0.003	-0.003	-0.001	-0.002
	(0.003)	(0.003)	(0.004)	(0.004)
Corporatism	-1.497*	-1.536*	-1.896*	-1.893*
	(0.683)	(0.680)	(0.770)	(0.871)
Left Gov x Corporatism	0.005	0.005	0.004	0.004
	(0.005)	(0.005)	(0.005)	(0.005)
Capital Openness	-0.239	-0.187	-0.522	-0.084
	(1.219)	(1.223)	(1.150)	(1.290)
Debt to GDP	-0.026	-0.030	-0.036	-0.037
	(0.039)	(0.047)	(0.035)	(0.044)
Veto Points	0.617	0.554	0.635	0.582
	(0.553)	(0.534)	(0.626)	(0.572)
EU Membership	1.073+	0.892	0.562	0.752
	(0.587)	(0.527)	(0.598)	(0.529)
Growth	0.155	0.206	0.095	0.185
	(0.197)	(0.187)	(0.150)	(0.172)
Social Spending	0.128	0.127	0.157	0.125
	(0.091)	(0.094)	(0.092)	(0.100)
Consumption+Construc~n		-0.201+		
		(0.098)		
Household Consumption			-0.265**	
			(0.083)	
Net Exports				0.077
				(0.066)
Constant	-1.029**	-1.018**	-1.174**	-1.205**
	(0.346)	(0.318)	(0.316)	(0.358)
N	112	112	117	117
r2	0.611	0.606	0.610	0.588

All models contain time- and country-fixed effects, country-clustered standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

As additional robustness checks, we also estimated specifications in levels instead of changes (see appendix). In these specifications, results are generally very similar to the models presented above. We find strong effects for the narrow and the expansive growth-model specification as well as for the share of household consumption but not for net exports.

Moreover, we repeated all the specifications presented so far with annual data instead of five-year averages. Results are again very similar, with strong and robust effects for the narrow definition of the credit-consumption nexus as well as for the share of household consumption, and slightly weaker results for the broad definition of the credit-consumption nexus. In addition, there is also slightly more evidence for an independent role of the export sector, mainly because of the smaller standard errors in a model with 600 observations.

Finally, while the specification in first differences is well suited to deal with the time trends in the dependent and our main independent variable, it has the obvious disadvantage that it only captures short-term effects. To check whether our results also hold in the long term, we use a second, very different estimation strategy.

Today's tax system is the cumulative result of many individual policy changes. Hence, we regress the tax burden in the late 2000s on the historical average for our independent variables between 1980 and the late 2000s (Table 4).[46] Again, we use the functionalist and the contextualist approach as alternative explanations. However, adding them separately or together does not affect the results very much. If a country had a growth model that relied on average one percentage point more on the credit-consumption nexus since the early 1980s, it is predicted to have roughly a one-percentage point lower tax burden on consumption in the late 2000s.

[46] We drop the 1970s from this regression because of a lack of available data for some countries.

Table 4: Regression results for the effect of historical averages

	(1) AETR	(2) AETR	(3) AETR	(4) AETR
Consumptionness	-1.521**	-1.193**	-1.080*	-1.099*
	(0.404)	(0.378)	(0.420)	(0.419)
Social Transfers		0.973*		0.605
		(0.394)		(0.575)
Left Cabinet			-0.007	-0.021
			(0.069)	(0.070)
Corporatism			8.826*	6.367
			(3.538)	(4.227)
Left Cabinet x Corporat~m			-0.161	-0.141
			(0.092)	(0.094)
Constant	74.813**	49.041*	59.438**	52.271*
	(15.379)	(17.061)	(16.246)	(17.556)
N	19	19	19	19
r2	0.455	0.605	0.643	0.671

Standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01

Again, we also performed these regressions with alternative measures of a country´s growth model (see appendix). Here, we find even stronger results for the broad definition of the credit-consumption nexus, slightly weaker results for the share of household consumption, and again no results for the export sector.

In summary then, our analysis confirms that the strength of the credit-consumption nexus is clearly correlated to the taxation of consumption, even after controlling for a range of potential other explanations and for different operationalizations of the growth model. This association holds in the short-term as well as in the long-term. However, it is difficult to claim that this correlation is in fact causal. After all, our argument about the link between growth models and tax regimes suggests a high amount of policy feedback between the two. Growth models are supposed to affect tax regimes, but tax regimes should also shape growth models. We can thus not simply assume that growth models are exogenous to the choice of tax policies. It is difficult to deal with this reverse causation in a quantitative framework, as we will hardly find clearly exogenous variation in the sectoral composition of the economy. For this reason, we now turn to the underlying political mechanism by studying two cases of consumption tax policy.

Tax Reform in Germany and the U.S.: the VAT

The two selected cases are Germany and the United States. Both are big, highly diversified economies with a huge variety of sectoral interests. Both institutional contexts offer organized interests an impact in (tax) policy making: in Germany through a lasting consensual, neo-corporatist approach to policy making enabling strong associational capacities; in the U.S. through various entry points for (potentially weaker) interests through the structure of state bureaucracies and political representation. However, while the U.S. has the strongest credit-consumption sector of all OECD countries, Germany traditionally has one of the least consumption-driven economies and is known for its reliance on exports.

Although we have so far analyzed the total tax burden on consumption, we cannot look at all forms of consumption taxes in these case studies. Instead, we investigate a single specific tax, the VAT, which is the most important and thus also most contested type of consumption tax. Whereas Germany raises more than seven percent of GDP from the VAT, the United States are the only OECD member not having such a tax.[47] For Germany, we will focus on one specific event – the most recent VAT increase debated after 2005. In the US, by contrast, there is no single comparable event. Therefore, we take a broader view and lump together several occasions in which the introduction of a VAT was politically salient, and defeated, – together generating one big "non-event", which is the repeated failure to introduce this tax.[48] To identify the position of the relevant interest groups in VAT reform debates, we mainly rely on their public statements – press releases, interviews, statements in parliamentary hearings, and the like. We also systematically analyzed newspaper reports from the *Frankfurter Allgemeine Zeitung* and the *New York Times*. Our aim is to show that there were rifts both among business interests and among labor interests, and that political parties could use these rifts as a basis for coalitional engineering. If these rifts showed publicly, it is highly likely that they also occurred behind closed doors. These rifts constitute a puzzle for the distributional approach but are in line with the allocational perspective.

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[47] While most states have a sales tax instead, Figure 2 above shows that the USA have the lowest tax burden on consumption of all long-term OECD members.

[48] Cf. Gerring 2008. Comparing non-events over an extended period of time (U.S.) with a specific policy event (Germany) bears some methodological difficulties. For instance, gradual tax reform can be a very different game from enacting a whole new tax. However, the current purpose of our case studies is to confirm and illustrate the existence of an allocational axis with different outcomes attributed to their underlying growth models. Identifying the precise conditions for each reform path has to remain subject for less space-constrained future research.

The allocational politics of the VAT in Germany

Germany has a long history of using its tax system to suppress consumption and to encourage saving and investment.[49] Thus, when the government increased the VAT from 16 percent to 19 percent in 2007, this mirrored a fundamental allocational current of German tax policies. The VAT increase had already been one of the dominant issues in the election campaign of 2005. The oppositional Christian Democrats (CDU), heavily favored to win the election, announced plans to increase the VAT by two percentage points to finance a reduction of social security contributions. The governing Social Democrats (SPD) vehemently opposed this as unfair and detrimental to growth. After the election, however, the two parties formed a "grand coalition" and increased the VAT not just by two but by three percentage points.

The main purpose of this massive increase was to reduce the public deficit, as Germany had breached the European Stability and Growth Pact in 2003 and 2004. At the same time, reducing social security contributions to improve German competitiveness remained high on the agenda. Hence, the coalition announced to use one percentage point of the VAT increase for financing a two-percentage point reduction of unemployment contributions – from 6.5% to 4.5%. The government thus combined consolidation measures with a tax shift from production to consumption. This attempt at coalitional engineering allows us to trace the allocational dimension of the reform debate.

While almost all economic actors agreed that consolidation measures were necessary, raising the VAT met nearly universal resistance. Asked for an alternative, interest groups split almost exactly along distributional lines: Business organizations favored expenditure cuts, whereas trade unions called for higher taxes on wealthy individuals and corporations. We are thus unlikely to find any actor openly supporting a VAT increase. Instead, the dividing line between domestic-service interests and export-industrial interests showed on a more nuanced level: Some interest groups were willing to trade reductions of social security contributions for the VAT increase, whereas others opposed this. We thus use this position towards a tax shift as an indicator how strongly an interest group opposed the reform and how open it was to coalitional engineering.

[49] Poterba 1994; Prasad 2012

The tax reform indeed had clear allocational consequences. A survey by the German chambers of commerce found that retailers, producers of consumer goods, personal services and construction companies were most negatively affected by the VAT increase, whereas companies of the machinery and investment good industries did not experience negative consequences.[50] Concerning the shift from labor taxes to consumption taxes, 25% of all surveyed companies reported a negative effect, whereas only 11% viewed the shift as favorable. However, these numbers differed substantially by sector. Among retailers, a whopping 47% thought the shift was bad for them. By contrast, only 18% of industrial companies subscribed to that view.

These economic differences were mirrored in political struggles. Domestic sectors' interest groups strongly opposed the tax reform. Joint statements by the trade union peak organization *DGB* and the confederation of skilled crafts *ZDH*, as well as by the associations of retailers *HDE*, hotels and restaurants *DEHOGA*, and the local chambers of commerce *DIHK* criticized that the VAT increase would lead to higher prices in the crafts sector and thus destroy jobs and increase black market transactions.[51] These interest groups also used the parliamentary hearings to express fervent opposition to the reform. Explicitly asked whether a decrease of social security contributions could compensate them for a VAT increase, retail representatives denied that these two measures should be seen as related.[52] In their opposition to a tax shift, they were joined by the construction trade union *IG BAU* which declared that a cut of non-wage labor costs could not make a higher VAT palatable.[53]

Unions and employers in export industries, by contrast, took a much more ambiguous stance. In the early stages of the reform debate, they were rather supportive of the *CDU*'s proposal. The industry's peak organization *BDI* and the peak employers' organization *BDA* signaled that they were willing to consider a VAT increase if revenues were used for a reduction of social security contributions.[54] The same sentiment was also echoed by the trade union of the chemical industry *IG BCE*.[55] The head of the

[50] DIHK 2008. All case study sources and the complete list of the sources for the coding of individual actor positions are available in the appendix.
[51] DGB 2005; DEHOGA et al. 2006
[52] Deutscher Bundestag 2006
[53] IG BAU 2005
[54] Hundt 2005; BDI 2005
[55] Roth 2005

association of the chemical industry *BAVC* even argued that the two-percentage point increase demanded by the *CDU* should constitute just "a lower limit".[56] Export industries thus signaled that they could be bought off with an adequate compensation, something that was out of the question for domestic sectors.

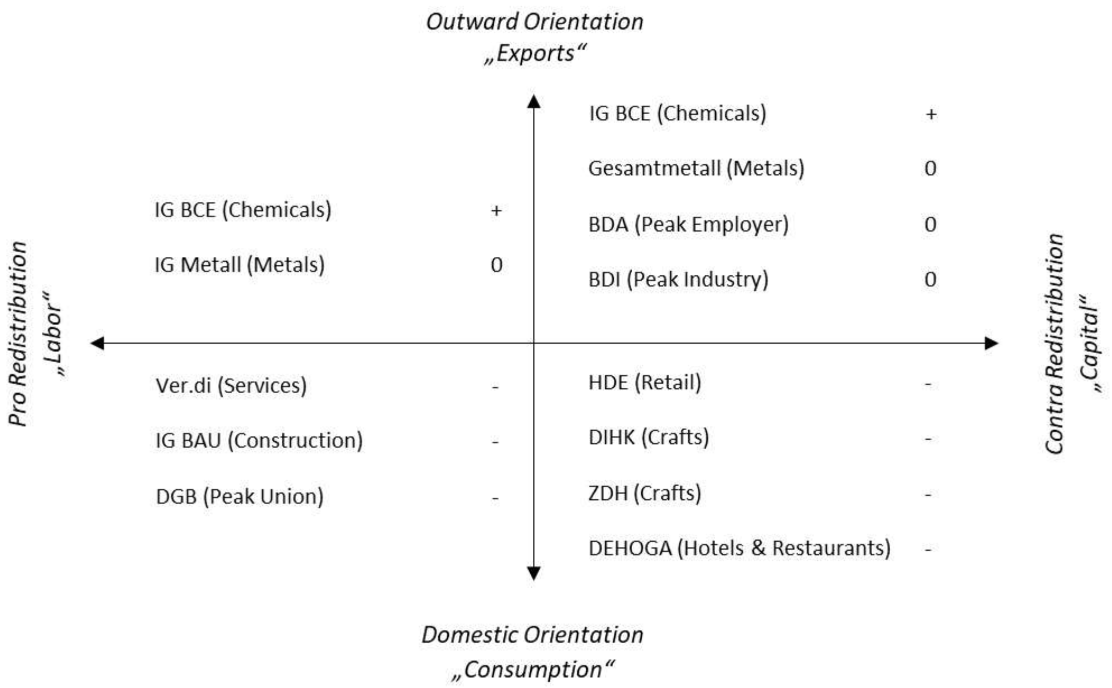
In the later stages of the reform debate, however, export interests became more critical and many ended up opposing the VAT increase. While they were supportive of a tax shift, they still opposed a higher tax burden. Therefore, they regarded a two-percent cut of social security contributions as insufficient compensation for the three-percentage point increase in the VAT. However, when a joint statement of domestic and export sector industries criticized the VAT, it still did so in a rather conciliatory fashion.[57] Other members of the export sector avoided to take a clear stance or remained on the sidelines. The interest organization of the mechanical engineering sector *VDMA* did not come out in favor of the reform but also did not expect it to harm the economic recovery.[58] The metal sector union *IG Metall* sent mixed signals. While it repeatedly criticized the distributional effects of the tax increase, it also announced not to seek a VAT-compensation in the upcoming bargaining round.[59] Thus, while the pre-strategic preferences of business and labor in these sectors were probably opposed to the tax reform, their strategic preferences were based on the understanding that this was the best available reform option.

Figure 3 summarizes the positions taken by the main representatives of capital and labor in the core domestic and export sectors. While there was strong resistance from domestic sectors, export interests grudgingly accepted the VAT increase as the least bad option for fighting deficits and improving competitiveness. Thus, neither business nor labor presented a unified front against the reform. As both unions and employer organizations have much bigger organizational capacities in the export sector, the lack of their support was a decisive blow to domestic sector interests. On January 1st, 2007, the VAT rate rose from 16% to 19% and has stayed there ever since. Several domestic sectors have since lobbied for applying the reduced rate to their respective sectors. However, given the backlash against a rate

[56] Voscherau 2005
[57] BDA 2006
[58] Loke 2006
[59] FAZ 12/02/2005

reduction for hotels in 2010, it is unlikely that any other sector will find political support for this request in the foreseeable future.

Figure 3: Actor positions in the German VAT debate



The allocational politics of the VAT in the US

The United States hold a key position in many analyses of consumption taxation because they are the only OECD member not having a VAT.[60] The most prominent explanation for this is well summarized by the quip that “Liberals think it’s regressive and conservatives think it’s a money machine. If they reverse their positions, the VAT may happen”. In other words: liberals apply the simple distributional view, whereas conservatives apply the contextualist view. Because they cannot guarantee (or rule-out) a specific use of VAT revenues, both sides resist its introduction. Thus, several attempts to introduce a VAT – by the Nixon administration in the early 1970s, by democratic representative Al Ullman in 1979, by the Reagan Treasury in 1984, by the Clinton administration in 1993 and by the Bush administration’s

[60] Eccleston 2007; James 2015

Advisory Panel on Tax Reform in 2005 already collapsed in their early stages.[61] This interpretation, of course, has neglected the allocational angle. Whereas the German tax system tends to suppress consumption, the US tax system has traditionally encouraged it[62]; and indeed, this consumption-friendly orientation of the US tax system was at display in all debates about the VAT.

Whenever the VAT came onto the agenda, business interests predictably fell into two camps based on its allocational consequences. As Eccleston explains, calls for the introduction of a VAT in 2005 were supported by "some business associations, especially those involved in export orientated sectors of the economy such as the Manufacturers Alliance. Yet […] such calls were countered by fierce opposition from representatives of the retailing and housing construction sectors".[63] The most prominent exponents of this sectoral cleavage were the National Association of Manufacturers (*NAM*), the biggest manufacturing association in the US, and the National Retail Federation (*NRF*), its counterpart in the retail sector. The *NAM* consistently supported a VAT whenever it was discussed in Washington. In doing so, it mainly put forward two arguments: Firstly, consumption taxes would increase economic growth by raising the savings rate. Secondly, they would increase US competitiveness and help to improve the balance of trade. As *NAM* president Jerry Jasinowski argued in 1993, "it will be a much more efficient way to collect revenue, encourage savings and investment, and expand U.S. exports than anything that's on the books now".[64] Twenty years later, very similar arguments were made by representatives of Caterpillar and United Technologies in testimony before congress.[65] This position was not just taken by employers, but found cross-class support within the sector, for example by the "Alliance for American Manufacturing", an interest group sponsored by US steel companies and the United Steelworkers Union.[66]

Resistance against the VAT was led by the retail sector.[67] The *NRF* argued that a VAT would not improve competitiveness at all, but would have strong detrimental effects for the domestic economy. To support this argument, in 2010 it commissioned a study by Ernst&Young, which found that an "add-on

[61] For an overview see Schenk 2011
[62] Logemann 2012; Kalinowski 2013
[63] Eccleston 2007, 161
[64] Jasinowski 1993
[65] Committee on Ways and Means 2011
[66] Paul 2011
[67] Sullivan 2011

VAT would cause GDP to fall for several years. The economy would lose 850,000 jobs in the first year, and there would be 700,000 fewer jobs ten years later".[68] The study thus confirmed and updated a very similar *NRF*-commissioned study by PriceWaterhouseCoopers from a decade earlier.[69]

We do not have to evaluate the economic validity of these arguments. What matters to our analysis is that they were repeatedly made in political debates. But whereas the retailer's arguments apparently succeeded, manufacturing's claims always fell on deaf ears. Thus, domestic service interests successfully resisted the introduction of a VAT at several points. In this, they certainly benefitted from the distributional concerns cited by the existing literature. At the same time, these distributional concerns did not stop highly regressive reforms of income taxes and corporate taxes. The US tax code has become much less progressive since the 1980s. What was different about these reforms, and in particular about the reform of 1986, was not their distributional but their allocational effect. Regarding the VAT, three of the four biggest sectors of the US economy had reasons to be concerned about the introduction of such a tax. As James points out:

> *"In 2010, the top four industry sectors in the US, when measured as a percentage of value added to GDP, were real estate; professional and business services; manufacturing; and the finance and insurance sector. [...] the treatment of two of these sectors, real property and financial services, is a frontier issue that is problematic for a good VAT. [...] This in turn would impact the second largest industry sector – the professional and business services sector that commonly provides services to these sectors."*[70]

By contrast, these sectors gladly supported the reforms of income and corporate taxes. The common theme of these reforms was a decrease in marginal rates combined with a broadening of the tax base. Manufacturing, however, opposed the reforms as base-broadening meant ending exemptions that mainly benefitted their interests such as the investment tax credit.[71] Where a regressive reform found the support of the core sectors of the US growth model, it succeeded. Where it was supported by peripheral sectors only, however, distributional concerns could not be overcome.

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[68] Ernst&Young 2010
[69] National Retail Federation 2005
[70] James 2015, 397
[71] Martin 1991

Figure 4: Actor positions in US VAT debates

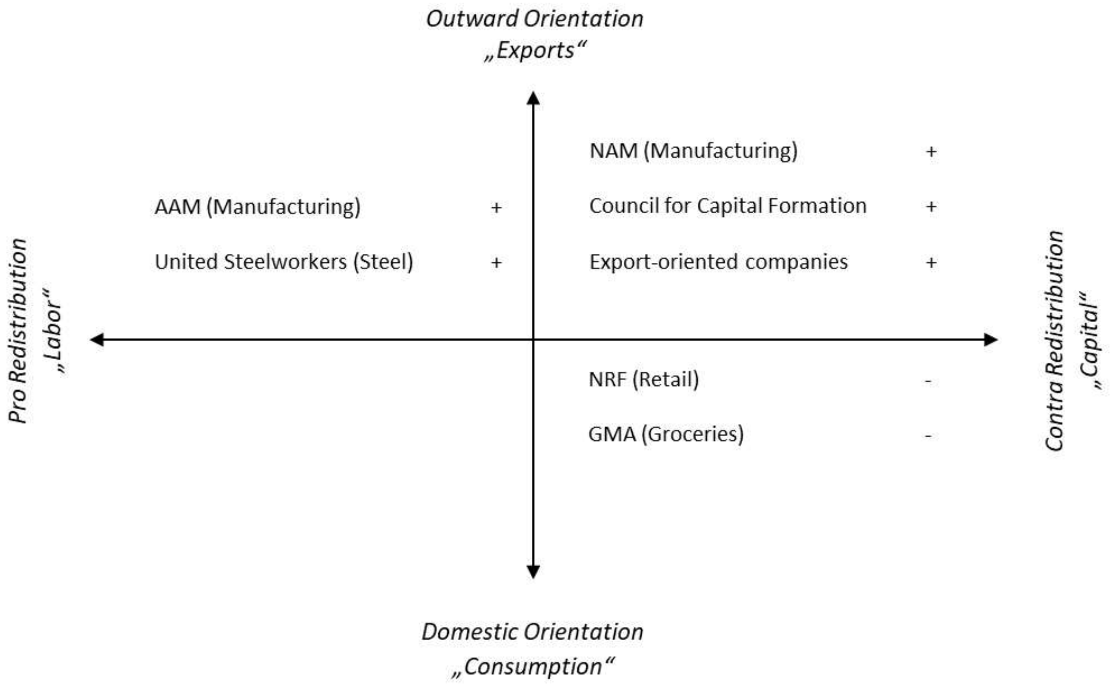

Figure 4 summarizes the positions that several important actors in the core domestic and export sectors consistently took in the recurrent debates about a VAT. It clearly shows how coalitions formed along the allocational axis when it came to debating VAT introduction. Importantly, we did not find specific statements by labor representatives in consumption-credit oriented sectors that would support either the distributional or the allocational approach. However, both theoretical approaches would expect them to oppose a VAT, which is why such statements would give us little analytical leverage for distinguishing the two perspectives.

Discussion

Sectoral conflict lines about the VAT were surprisingly similar in Germany and the US. Organized interests in both cases did not support higher taxes as such. However, when forced to choose between value-added taxes and other types of taxes, manufacturers in both countries were willing to support the VAT. Retail, hotels, restaurants and other services by contrast remained strictly opposed. Battle lines are thus very similar. And they are not particularly surprising: Sectors position themselves pretty much according to economic textbook expectations. What differs is the outcome of political struggles.

In the U.S., service sectors have repeatedly prevailed over manufacturing interests and successfully blocked attempts to introduce the VAT. In other words, coalitional engineers were not able to break up the distributional anti-VAT coalition and convince other actors to accept a distributionally suboptimal outcome for allocational reasons. In Germany, by contrast, coalitional engineers managed to do exactly that. Labor representatives like *IG Metall* shared the distributional concerns of the American left and repeatedly criticized the VAT for its regressive effects. Business interests like *BDA* similarly shared the republican concern that the VAT would fuel a bloated public sector. However, both groups acquiesced to an increase when this was successfully linked to measures that were likely to improve the competitiveness of the German export industry.

Coalitional engineers in Germany surely had an easier task as they were only concerned with changes at the margins of an existing tax system. They tried to affect which existing taxes would be raised and which would be lowered. Coalitional engineers in the U.S., by contrast, advocated for a fundamental change in the tax system and the introduction of a completely new tax that would additionally intermingle with tax legislation on the state level. Still, given that the VAT has now been discussed for more than 40 years in Washington, it is worth asking why they never succeeded. The repeated defeat of the VAT suggests that outward oriented interests have a fundamental disadvantage in struggles about the future of the U.S. tax system.

A purely distributional analysis thus misses an important coalitional dimension of tax reform efforts. The German VAT increase was not enacted by a left-labor coalition which could reassure its members that VAT revenues would be used to finance the welfare state. Instead, it was supported by a selective cross-class coalition built around a shared allocational interest. Similarly, in the US, the VAT was not defeated by just one class, but by a cross-class alliance in the dominant sectors of the American economy.

Conclusion

Different tax mixes in different countries are not solely the result of distributive considerations; and their underlying politics are not merely anchored in the class divide, as the bulk of the political economy literature suggests. Rather, the allocational effects of different taxes are crucial for understanding the politics of taxation. Taxes affect the performance of different sectors in the economy by promoting or disincentivizing specific activities, such as consumption or investment and borrowing or saving. We have introduced a framework that considers both distributional and allocational cleavages and sketches different possibilities for coalitional engineering. In this framework, labor is not uniformly pitted against capital. Instead, labor and capital may form cross-cutting coalitions if this serves their sectoral interest. By examining actor positions in VAT debates in Germany and the U.S., we have shown how sectoral considerations figure in different growth models and affect tax policy choices.

The framework we propose must be understood as a first step in complicating the dominant approaches and ultimately begs for a greater appreciation of the scope conditions for collective action in tax policy making, especially since it is both time- and context-dependent. Nevertheless, we contend that it has implications for the literature on taxation as well as for the emerging growth model approach. Regarding the first, we have highlighted that even when issues of tax progressivity figure prominently in reform debates, there are other aspects that might either underlie distributive claims or help to explain certain concessions in tax negotiations. This should not be a surprise for scholars coming from a welfare state perspective. The new politics literature in particular has opened the debate on how manifold interests are grouped around specific policies that do not simply reflect class positions.[72] There is no reason why this should be different in debates about consumption taxes, as our case studies have illustrated.

We therefore maintain that our framework has explanatory value for a variety of tax issues, in line with the IPE literature on other domains of economic policy making. Political conflicts around various sorts of taxes, including social contributions, as well as subsidies and their respective outcomes can be better explained if one includes allocational effects and sectoral interests. Moreover, this reasoning might illuminate government positions in negotiations in international politics of taxation. For instance, recent European attempts to pass a Financial Transaction Tax have, not surprisingly, faced opposition from the UK and Luxembourg. Although this tax has major distributional consequences, it has been mainly discussed in allocational terms.

[72] Pierson 1996; Howard 1997

This brings us to the literature on growth models and comparative capitalism. As we have demonstrated, there is a striking association between the trajectories of consumption tax rates and growth models across the OECD over the past decades. Against this background, and given this literature's fundamentally allocational perspective on political economy, its relative neglect of fiscal policy, and taxation in particular, is startling. As the growth model perspective wants to shift attention to the demand side of the economy and associated inequalities, it will have to pay much more attention to questions of fiscal policy.[73]

We would like to add that taxation should be a core field of inquiry precisely because it links allocational with distributional concerns. Moreover, this paper has presented a political mechanism that undergirds different pathways of economic organization by pointing to sectoral alliances whose power depends on the very growth model. This allocational approach, we should concede, appears to be more suitable for understanding institutional reproduction rather than uncoordinated shifts in growth trajectories, especially since it rests on assumptions about strategic action to dominate the politics of taxation.

This, in turn, leads us to the reason why VoC scholars should be interested in an allocational theory of taxation. For different production regimes to retain their comparative advantage they require investments in specific economic sectors as well as government policies that reinforce the regime's institutional complementarities. Tax policies affect these goals in two ways – by affecting who receives income and by affecting how income is used. As an example, to increase the level of savings, which among other things can be used to guarantee long-term financing for incremental innovators, politicians can either distribute more money to people with a high propensity to save, or they can incentivize people to increase their propensity to save. A cleverly designed tax system may be able to achieve both things at the same time and it might be due to the interaction of class-based and sectoral concerns. In line with this reasoning there are clear indications that tax policies in CMEs are geared towards supporting investment whereas they are geared towards consumption in LMEs.[74] Our study substantiates these indications both theoretically and empirically. We thereby endorse the claim that tax policies are an essential, but so far neglected part of the policy toolkit in the economic management in different varieties of

[73] Hope and Soskice 2016
[74] Prasad 2012

capitalism. Paying greater attention to this blind spot is a promising avenue for future research in comparative political economy.

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