

Redistributive taxation in democracies: Evidence on people's satisfaction

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Abstract

Theories of political redistribution are tested using data collected in three phases of the International Social Survey Programme. Individuals categorized as having high, middle, or low incomes were asked whether they consider the overall tax burden in their countries too high, too low or about right. Very few citizens indicated that they were satisfied with tax systems; most believed that taxes on low and middle incomes are too high, while taxes on high incomes are too low. Support for tax systems is bimodal within the income classes, with the richest 5% being the most supportive, and the median in a population being second. Ideological values have a strong impact on political support for redistribution across all income classes. The results bear witness to the multidimensional nature of preferences for redistribution, and to the delicate question of the effectiveness of democracy in implementing citizens' preferences.

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1. Introduction

The literature on political redistribution interplays with different fields of the social sciences (see the surveys of Hettich and Winer, 1997; Boadway and Keen, 2000). A central idea in the literature is the median voter theorem, or the hypothesis that redistributive taxation in

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democracies is driven towards the level preferred by the pivotal or median voter, directly through majority voting or indirectly through competition among political parties (Downs 1957).

The median-voter theorem has, however, been criticized from various perspectives. A particular criticism is that the median voter approach is naïve in accepting the principle of one person-one vote, since the rich have more political power and access than the poor (see e.g., Schwabish et al., 2003, and the literature quoted therein). A further criticism (especially emphasized by the political science tradition, e.g., Hicks and Swank, 1992) points out that the median voter approach ignores the many social and ideological dimensions that, in addition to the economic, may affect preferences for redistribution and may prevent the poor speaking with a single voice. More technical aspects may also be important. It is in particular well known that that only when the political space is one-dimensional and individual preferences are single-peaked (or more generally satisfy the single-crossing condition of Gans and Smart, 1996), does majority voting always result in a stable median voter equilibrium.

The median-voter theorem has also been criticized for predicting more redistribution than that is observed.¹ Various proposals have been put forward to explain limits to real-world redistribution (see Harms and Zink, 2003, for a thorough review). In particular, it may be in the interest of the poor majority to limit political redistribution: because of incentive effects of distortionary taxation, a ‘rational’ median voter may refrain from seeking to impose too high taxation on the rich because that would reduce the overall income to be redistributed (Meltzer and Richard, 1981). Another line of reasoning highlights incentives associated with social mobility (originally proposed by Hirschman, 1973, with contributions by Piketty, 1995; Bénabou and Ok, 2001).

The empirical methods that have been used in seeking evidence on the theories include using answers from social surveys to investigate directly beliefs about redistribution policies. The studies (which include Ravallion and Lokshin, 2000; Fong, 2001; Corneo and Grüner, 2002; Alesina and La Ferrara, 2005) indicate that many factors influence attitudes on redistribution. A problem with the studies so far conducted, however, is that they focus on questions about general preferences for redistribution² but are silent on whether or not people are in fact satisfied with real-world redistributive policies. Therefore, the relevance to testing theories of redistributive political outcomes like the median voter theorem is rather indirect.³

In order to study the theories more directly, in this paper we conduct an empirical analysis using data from 22 democratic countries, from three modules of the International Social Survey Programme (ISSP). Our focus is three questions asking individuals whether they consider the

¹ This is often exemplified with reference to a very simple model, represented by a linear-tax-cum-transfer schedule, where each individual pays taxes proportional to income treated as exogenously given and receives back a lump sum transfer equal for all citizens. With such a simple scheme, the model implies that the majority would vote for a tax rate of unity, hence for complete redistribution, whenever the pre-tax median income is below the average (which is the standard case for most, if not all, real world income distributions).

² For example, Ravallion and Lokshin (2000) look to the answers to a survey question asking: ‘Do you agree or disagree that the government must restrict the income of the rich?’ And they note: ‘A natural interpretation of the ‘restrict the rich?’ question is that some form of tax is contemplated, to be levied on incomes above some level. That level, and what to be done with the revenue, are both left to the imagination of the respondent’ (p. 90).

³ See Perotti (1996), Bassett et al. (1999) and Milanovic (2000) for approaches that use cross-countries variations of macro determinants (e.g., inequality, growth, unemployment) to study models of political redistribution. These approaches are generally not friendly to the median voter hypothesis, but have problems in distinguishing between alternative models because variations in the effects of macro determinants are transversal across different theories.

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