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Nothing is certain except death and taxes: taxing inherited wealth in comparative perspective

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Abstract

Throughout history, the question of how to tax bequests illustrates some of the most fundamental controversies between major political and philosophical traditions and schools of. In this paper, we ask the question whether these different views are mirrored in party politics: over the last 30 years, is it possible to discern any significant effects of party politics when it comes to the design of inheritance tax systems? Analyzing a completely new and unique data-set for 17 OECD countries over the period 1975-2005, the answer to this question must be yes, although the results may not always be what we anticipated. Left party strength is associated with a relatively larger tax burden on especially large estates, whereas right party strength is associated with smaller tax burden on small- and medium-sized bequests. However, contrary to out expectations, the strength of Christian Democratic parties seems not to be associated with a lower tax burden, but rather a larger tax burden on large inheritances.

Inherited wealth has vital implications for the intergenerational reproduction of social inequality. The question of who should pay how much in inheritance taxes therefore touches upon basic normative principles such as to what degree status reproduction should be meritocratic, the importance of equality of opportunity vs. individual property rights, and the importance of family bonds that stretches over generations. Consequently, how states taxes bequests involves a clash between fundamental political principles and different views on social justice and equality. The political constituency in favour of inheritance taxes is potentially broad, since it is a tax that chiefly affects the more affluent in society while revenue may be used to finance expenditure directed to those with lower incomes. Historically, inheritance taxes have also generated substantial revenue in many countries. In the USA, the estate and gift tax generated between two and five percent of total tax revenue in the 1920s, and in the later part of the 1930s this share increased to between seven and eleven percent (Beckert, 2008: 192), and the UK inheritance taxes generated almost 20 percent of total tax revenue in the early 20th century (Bracewell-Milnes 2002) Moreover, even though the role of wealth transfer taxes as a source of revenue for governments has declined since the Second World War, their contributions – currently between one and three percent of total tax revenue in most OECD countries - is nevertheless significant for budgets hard pressed by unemployment and increasing demographic burden (Mumford, 2007). For example, in the United Kingdom and the USA, revenue from inheritance and gift taxes equalled 98 and 82 percent respectively of the costs of unemployment cash benefits in 2005.[1]

The purpose of this paper is to analyze cross-national and temporal variations in how bequests to children have been taxed in a sample of 17 OECD countries in the period 1975-2005. The declining importance of inheritance taxes over time, and the complete abolition of such taxes in countries such as Australia, Canada, New Zealand, Sweden and the steps taken to possibly abolish them in the USA, has been interpreted as a sign of declining public support for egalitarian policies overall (Bird 1991, Banting 1991); as a consequence of the middle class acting according to their objective self interest as they have become increasingly wealthy due to rising property prices (Duff 2005); as a result of successful lobbying by interest groups such as the corporate sector, small business, and family farmers (Mumford 2007; Rowlingson 2008); and as a consequence of globalization where there is global pressure reduce tax rates overall. This paper will address the relative importance of these different explanations, with

[1] Own calculations based on OECD Social Expenditure Database and OECD revenue Statistics. Data extracted from http://stats.oecd.org.

special theoretical as well as empirical attention directed towards the relative importance party politics.

This paper contributes to the existing literature on the politics of taxation in several ways. Firstly, the use of a new and specially designed data set will allow us to analyze different dimensions of inheritance tax systems, such as average tax burden according to different sizes of the inheritance, deductions and statutory tax rates. This data has been constructed so that for each country and year, the inheritance tax for different bequest (2, 5 10, 25, 100 and 200 times an average annual wage) has been calculated and then expressed as proportion of the bequest in question. The data used here has several advantages as compared to revenue data that commonly is used in comparative analyses of tax systems, which does not permit analyses of how progressive tax systems are and where it is virtually impossible to relate changes in revenue to changes in tax rates and the tax base respectively. Secondly and perhaps most importantly, this paper is the first to address changes in inheritance taxation and relate these changes to structural and political factors for a relatively large number of countries over a long period of time. This paper is therefore a valuable contribution to the rich and growing literature on the politics of taxation.

1. Wealth transfer taxes: its forms and significance

Inheritance taxes are intended to tax transfers of wealth because of death, and typically come in either one of two forms: as an estate tax where the tax base and the tax rate are governed by the amount transferred by the deceased (donor), or as an inheritance tax where the tax base and the tax rate are governed by the amount received by the beneficiary (donee) from any one estate. For the sake of simplicity, both these forms of taxes (i.e. inheritance and estate taxes) will henceforth be subsumed under the heading of inheritance taxes. For these types of inheritance taxes, the donor (in the case of an estate tax) or the donee (as in the case of an inheritance tax) pay taxes according to specified tax rates on the estate or inheritance over a specified threshold level. Tax rates are often progressive. In most cases it is the individual, and not a wider family unit that is the taxation unit. A common feature of many inheritance tax systems is that both tax taxes and thresholds are related to the beneficiary's relation to the deceased. For example, special relief is often provided for transfers at death to a surviving spouse. To differentiate the burden of taxation according to the closeness of relationship to the deceased is consistent with a civil code which gives members of the immediate family a legal right to a prescribed share of the estate of a deceased member. However, we will in this paper only analyze inheritance taxes on bequests to children.

Most OECD-countries have inheritance taxes – of the countries which currently tax transfers at death only United Kingdom and United States have an estate tax, and Denmark and Italy (up to 2001) have mixed forms where an estate duty is imposed on the value of estate and additional inheritance taxes are levied on the heirs (*Table 1*). Canada and Australia, both with estate taxes, abolished their taxes in the 1970s, and although New Zealand, also with an estate tax, never formally has abolished its estate tax, tax rates were reduced to zero in 1993. When the estate tax was abolished in Canada, a Federal capital gains tax, whereby realized capital gains at death are taxed at the applicable capital gains tax rates was introduced. A similar form of tax was introduced in Australia in 1986. Switzerland has only wealth transfer taxes are at the Cantonal level with considerable variation among the different Cantons. Switzerland will therefore not be analyzed in this paper. In the mid 2000s, Sweden and Portugal, both with inheritance-type taxes, and Italy, with a mixed system, abolished their wealth transfer taxes. As part of the tax cuts implemented by George W. Bush in 2002, the estate tax in the USA was gradually decreased and repealed altogether for 2010, but the plan is to reinstate some form of estate tax again in 2011.

Table 1 here

Whereas the tax burden has decreases markedly for very large inheritances in the last twenty years, the corresponding burden has been much more stable for more moderate bequests (*Figure 1*). In 1975, an inheritance 200 times the size of an average workers annual wage was on average taxed at a rate of around 27 percent, a rate that had increased to almost 30 percent in the mid 1980s. The tax burden on very large inheritances decreased markedly in the late 1980s and early 2000s, and in 2005 an estate of this size was taxed at around 17 percent. The decrease in the tax burden for an inheritance 100 times the size of an average workers annual wage also decreased distinctly between the mid 1980s and 2005, but slightly less so than for an inheritance twice as large. In fact, judging from this data the average progressiveness among these OECD countries has decreased since 1975, and for more moderate bequests (2 or 5 times an average annual wage) the tax burden was more or less the same in 2005 as it was 30 years earlier. These trends are clearly present, albeit somewhat less marked, if we restrict the sample to only those countries that have had an inheritance tax during the whole period in question (i.e. excluding Australia, Italy, New Zealand, Sweden and Portugal).

Figure 1 here

Figure 2, which depicts minimum and maximum tax rates, provides further support to the notion that the average inheritance tax progressivity in this sample of countries has decreased since the mid 1970s. Whereas the average minimum tax rate increased somewhat – from 5.5 percent in 1975 to close to 10 percent in 2005, maximum tax rates has decreased, from 35.5 to 23.6 percent during the same period of time.

Figure 2 here

2. The Politics of Inheritance Taxation

Assuming that politicians are primarily concerned with winning the next election, they naturally seek to minimize the political costs entailed in taxation. As the burden of inheritance taxes mainly fall on a relatively small segment of the more affluent in society it could perhaps be expected that inheritance taxes would enjoy a relatively broad political support among voters. However, according to the public choice school of thought, most voters have only limited understanding about the complex world of taxation and whether one-self will benefit from a specific reform proposal (Downs 1957; Banting 1991). With knowledge about the tax system being to a significant extent a function of economic position, those who may gain from a decrease in inheritance taxes are also capable of bringing considerable resources to the debate and waging large-scale campaigns to advance their interest (Banting 1991: 353-54). In addition, it can also be argued that those directly affected by reforms to inheritance taxes have much stronger incentives to organize in their pursuit of their political interests (Olson 1965). In Australia, the abolition of the wealth transfer tax has largely been attributed to a popular protest movement lead by a carpenter and building contractor named Sydney Negus (Pedrick 1981-82; Duff 2005). After learning that the estate tax would have a significant effect on the bequest left to his wife, Negus became the leader of a campaign calling for the abolition of this tax, and was elected to the Federal Senate in 1971. Although the estate tax was not abolished during his three years in Senate, his campaign has been seen as the ultimate expression of poplar resentment against inheritance taxes. In 1977, Queensland was the first state in Australia to abolish the estate tax, and against the treat of massive capital flight other states soon followed suit.

Diverse but powerful interests, united by their possession of wealth, have much to gain from a reduction or abolishment of inheritance taxes (Rowlingson 2008). Moreover, the rise of home ownership and more widespread ownership of stocks and other valuables have created a mass of voters who hope to inherit modest estates, also among the middle classes and even the poor (Duff 2005). In the campaign before the presidential election of 1972 in the United States, George McGovern launched a proposal for transforming the estate tax to an inheritance tax with very high marginal tax rates. This proposal however met with fierce opposition also among middle and working class voters. McGovern himself attributed this opposition to a "lottery effect", the dream of one day inheriting a large fortune (Weil 1973). Farmers and owners of small enterprises have in many countries also been important pressure groups lobbying for the abolition of inheritance taxes. In Australia, the fact that exemptions did not keep pace with inflation meant that also modest estates had to pay inheritance taxes, which arguable increased popular resentment against the tax (Duff 2005). In Canada, where inheritance taxes were abolished in 1972, farmers were initially in favour of, or at least not opposed to, inheritance taxes, but as the mechanization of agriculture increased the value of farms the interest of farmers in tax policy shifted (Banting 1991). Graetz and Shapiro (2005) argues that the success by the conservatives in repealing the estate tax in USA was due to the success in developing narratives illustrating how the tax affected especially small family farms and businesses. Overall, a change in discourse seems to have taken place in many countries in the 1980s and 1990s when it comes to the taxation of bequests, from a concern with redistribution and egalitarianism to the question of protecting family business and the need to get rid of what is believed to be excessive governmental interference with entrepreneurial activity. Contributing to the unpopularity of inheritance taxes is also the argument that it is a form of double taxation, as most assets subject to inheritance tax have been subject to tax during the testator's lifetime (Bracewell-Milnes, 2002). The use of trusts and other loopholes has fuelled the suspicion that inheritance taxes can easily be avoided by the most affluent and sophisticated taxpayers, shifting the burden of these taxes primary to small- and medium-sized estates (Steinmo 2003; Duff 2005: 109). A comparison of the arguments put forward in the parliamentary debates in connection with the decrease in the inheritance tax proposed by the centre-right government in Sweden in 1992 and the complete abolishment of this tax in 2005 by a Social Democratic government is here illuminating:

whereas distributive justice arguments and the argument that a decrease in tax rates would benefit the rich and the expense of the middle classes and the poor and thereby alter the balance between labour and capital were at the forefront of the debate in 1992, such arguments were nonexistent thirteen years later, when instead facilitating the transfer of family-owned firms between generations and the effect on savings, investments and the macro–economy totally dominated the parliamentary debate (Tofvesson, 2007).

Whereas it can be argued that while the political costs of maintaining or even increasing inheritance taxes have increased over time; the perceived benefits of these taxes have also decreased since governments increasingly have come rely on income and consumption taxes. Attitude surveys are often cited as a showing a marked dissatisfaction of wealth transfer taxes among the general public (Cremer and Pestieau 2009, Prabhakar 2009). However, the first thing to note about such attitude surveys is that, as remarked by Steinmo and Tolbert (1998: 167) “there does seem to be a rather remarkable consistency in public attitudes toward taxation in all advanced democracies: People hate taxes”. If taxes are put in a wider societal context, for example by linking tax reforms to retrenchment in social expenses, a significantly different picture often emerges (Fatemi et. al 2008, Lewis and White 2007). Thus, in 2001 almost two-thirds of the respondents in a nationally representative sample in Germany supported an increase of the inheritance tax to support an educational reform (Infratest dimap 2002). In many countries there also appear to be important political and ideological cleavages when it comes to attitudes towards wealth transfer taxation. Opinions about the 2001 tax cut in the USA, where one centrepiece was the gradual elimination of the federal estate tax, was significantly shaped by both partisanship and ideology (Bartels 2005: 23), and Hammar et al. (2008) shows that although half of the respondents in a nationally representative sample from Sweden in 2005 said that they want to decrease or completely remove inheritance taxes, there are marked differences between different socio-economic classes, with those defining themselves as left politically in favour of increasing inheritance taxes.

Indeed, research has indicated that “politics matter” not only for public policies such as welfare state spending and entitlements but also for how the state attracts revenue (see, e.g., Banting 1991, Rodrik 1997, Cusack 1999, Dreher 2006). With the overarching hypothesis that left parties will promote the interests of labour while right and conservative ones will satisfy the demands of capital and the more affluent segments of the middle class, several scholars have found support for the hypothesis that leftist party control of government explain variations in tax burdens (for an recent overview, see Osterloh and Debus 2009). However, others have shown that the story may be more complicated than simply left parties taxing capital and the wealthy. Social Democratic and other left parties are facing a basic dilemma in that promoting redistribution on the expenditure side necessitates not only high taxation but also the reliance upon regressive taxation such as consumption taxes (Kato 2003). It has also been argued that in countries characterized by a high degree of corporatism, unions, left parties and capital enters into an agreement where unions commit to wage moderation and social peace in return for welfare state expansion, and where capital commits to investments and long-term economic growth in return for low or modest taxes on their returns (Beramendi and Rueda 2007). The bargaining position of capital has according to this line of argument also increased over time as globalization has provided them with an exit option. This implies that union's and their members and left parties and their traditional constituency has no choice but to accept bearing the lion's share of the cost of the welfare state. In the context of inheritance taxation, this would imply that social democratic governments will have to rely on less progressive inheritance taxation in an environment of strong corporatism, whereas they are more unconstrained to tax bequests progressively in a non-corporatism setting.

A review of the literature clearly indicates that ideology and party politics indeed has mattered when it comes to the introduction and subsequent reforms of modern inheritance tax systems as well as for the process leading up the abolition of such taxes in countries such as Australia, Canada, Italy, New Zealand and Sweden (Beckert 2008). In Canada, only members of the social democratic New Democratic Party opposed the abolition of the inheritance tax, and in Australia the Labour Party opposed the abolition of the commonwealth inheritance tax until an alternative form of capital tax was introduced (Duff 2005). Beckert (2008), in his comprehensive account of the history of inheritance taxation in Germany, France and USA, provides additional support for the thesis that party politics has played an important role for the development of inheritance taxation. Whereas early Social Democracy in many countries was divided over the issue of inheritance taxation, with more radical elements arguing that not redistributing wealth would contribute to the collapse of the capitalist system, the more reformist segments of the movement had inheritance taxation high on the reform agenda (for a similar argument on the division in the labour movement with regard to early welfare state expansion, see Esping-Andersen 1990). In the debate before the introduction of an inheritance tax in Germany, the conflict ran between on the one hand the Social democrats, the liberal parties and the center parties, and the conservative parties on the other side. Of the parties in favour of an inheritance tax it was the Social Democrats who wanted to attract the greatest possible share of revenues in order to cut (regressive) consumption taxes. After the Second World War, the Social Democratic Party in Germany continued to argue for increased progressiveness and heavier taxation of large fortunes (Beckert 2008). In France, there was political consensus among every party expect the Socialists not to use tax policy as a way of redistributing wealth, and socialist parties has consistently demanded higher inheritance taxes (Beckert 2008). In the USA increasing popular demands for taxing transfer of property at death were voiced in the late 19th and early 20th century (Beckert 2008; Bittker et al. 2005). Inheritance taxation was seen as essential for creating equality of opportunity as well as limiting the concentration and transmission of wealth that could be a potential threat to democracy. These demands were above all voiced by the social reform movement and progressive politicians such as President Theodore Roosevelt, who naturally wished to tap into additional tax revenue, especially in light of the emerging threat of war in Europe. However, as important motive was a deep mistrust of concentration of power and preventing the rise of an American plutocracy. The decision in 2004 to abolish inheritance taxes by the Social Democratic government in Sweden might in this context seem like an anomaly. However, according to the budget proposal from red-green coalition in opposition, some kind of wealth tax will be re-introduced if they win the election in 2010 (the annual wealth tax in Sweden was abolished in 2007). If such a reform also would include some kind of inheritance tax is however not clear. That distributive justice arguments in relation to inheritance taxation once again is seen as important by the labour movement is shown by a tax proposal by the "Swedish Labour Movement Think Tank" (Lindgren 2009: 25). In this proposal, it is argued that a fair tax system is difficult to reconcile with the fact that large inheritances, created by someone else, is left untaxed whereas labour income is not. Other contemporary reforms and initiatives, such as the steps towards abolishment taken by the Berlusconi administration in Italy and the Bush administration in the United States, as well as growing pressure from Social Democrats in Germany to raise the inheritance tax, are other examples of a clear political left - right cleavage with regard to inheritance taxation (Schupp and Szydlik 2004).

A number of scholars have also pointed to the importance of Christian Democracy for the development of a distinct welfare state model, found primarily on the continent of Europe, with an emphasis upon market conforming and status reproducing social spending, anchored in a Catholic social doctrine that emphasizes the subsidiarity principle and the importance of family ties (van Kersbergen 1995; Huber et al. 1993; Esping-Andersen 1990; Korpi 2000).

Besides a lesser willingness to expand taxation in general (Huber et al. 1993), this model has been based on a family-oriented conception of private property with arguably important implications for the development of inheritance taxation (van Kersbergen 1995, Becker, 2008). Wealth is believed to have an important function of providing for surviving family members, and inheritance taxation therefore threatens to destroy families: if wealth is dissolved in every generation, the sense of permanence, which is essential for the preservation of families, would also be destroyed. It has also been argued that inheritance taxation is these countries are a natural extension of a family law that emphasizes age integration and relations and transfers among generations. The family links together lives far beyond the existing nuclear unit, most prominently along the generational lineage (Kohli 2004). Thus, institutional regimes such as inheritance taxation create different legal and normative obligations for families, such as the legal obligations of economic support between generations that exist in the family-centered pattern of Germany (and to a lesser extent, of France) but not in the individual-centered pattern of the United States (Kohli 2004). The fact that the general trend towards a prolongation of the adolescence period has been especially marked in many countries with this welfare state model might have amplified these patterns (González-Lopez, 2005).

Table 2 suggests that inheritance taxation differs in important respects between countries, and that partisan politics indeed are related to differences.[2] The Nordic countries, with strong left parties and rather insignificant Christian Catholic parties throughout the period 1975-2005 are characterized by laying a large tax burden on medium-sized inheritances (corresponding to an inheritance equal to two and five times an average workers annual wage) whereas the tax burden on large inheritances (equal to 100 times an average wage) is of average magnitude. The tax burden on large inheritances has also declined markedly in these countries between 1975-90 and 1991-05. In contrast, the Anglo-Saxon or liberal countries are all characterized by a strongly progressive inheritance taxation, where the tax burden is nil for medium-sized inheritances but comparatively large for large inheritances. This is not an effect of low tax rates for average inheritances, quite the contrary, but of the fact that the thresholds (below which bequest are not taxed) are comparatively high in these countries. However, inheritance taxation in the Anglo-Saxon countries has become less progressive over the years, a development that is attributable to higher minimum as well as lower maximum tax rates.

[2] The grouping of countries in Table 2 corresponds closely to several ideal-typical categorizations of welfare states, the perhaps most well-known one being Esping-Andersen's (1990) "three worlds of welfare capitalism" - the liberal, Christian democratic, and social democratic.

Countries on the continent of Europe with a tradition of having comparatively strong Christian Democratic parties are characterized by having placed a comparatively low tax burden on both medium-sized and large inheritances throughout the period 1975-2005. Interesting to note is that the tax burden on large inheritances has increased significantly in this group of countries. This pattern also largely applies to the Southern-European countries Greece, Portugal and Spain.

Table 2 here

Hypotheses, Data and Modelling Strategy

The main purpose of this paper is to analyze the effect of party politics on inheritance taxation. Left, Christian democratic and Right cabinet is measured in terms of government seats held by respective party as a proportion of seats held by all government parties. The categorization of political parties is based on Huber et al. (2004). It has been argued that political institutions and the welfare state have mutually feedback effects on each other. This pertains perhaps especially to the political strength of social democracy and left parties, where policy legacies may have important effects on left political mobilization (Esping-Andersen, 1990; Huber and Stephens 2001; Brady et al. 2005). To capture this effect, all political variables are measured as cumulative seats held by the different political parties since 1946.[3] To properly evaluate the importance of party politics, we also need to control for potentially confounding factors (a full description of these variables can be found in the Appendix).[4] GDP per capita and inflation may affect the proportion of the population that sees themselves as being potentially affected by inheritance taxation, thereby increasing popular resistance against this form of taxation. As we have seen, small business and farmers have been important pressure groups for the abolition of inheritance taxation in countries such as Canada and Australia, and the proportion self-employed and gross value added per employed in agriculture will serve as proxies for the importance of these groups. We will also control for voting turnout, as wealthier people are more likely to vote. Social spending may be viewed as compensatory with regard to intergenerational transfers through bequests, in that public spending on e.g. families with children lessens the need for, or crowds out, intergenerational private transfers, which in turn might decrease public resistance towards inheritance taxation. Moreover, high levels of social

[3] All cumulative political variables for Greece, Spain and Portugal are measured since 1977.
[4] All independent variables are lagged one year in the analyses.

spending will also increase the demand for revenue, accomplished for example by taxing bequests. The multivariate models will also contain controls for globalization, based on arguments derived from the standard model of tax competition (Wilson 1999). Following Dreher (2006), we will separate between economic, political and social globalization.

A number of scholars have shown that there are important institutional constrains placed partisan politics when it comes to tax policy. The argument put forward by Beramendi and Rueda (2007), that left governments are forced to rely upon regressive taxation of labour in an environment high corporatism, are in the multivariate models operationalized by including an interaction effect between corporatism and left cabinet. It has also been argued that the relative size of political parties will have an effect on political cooperation and as a consequence also on taxation (Gould 2001; Steinmo and Tolbert 1998). When a single party by itself commands a majority it can push for taxes that favour their own constituents over against the constituents of other parties. When no party commands majority, a compromise that constrains the possibilities for discriminatory taxation is needed. Moreover, in a dominant-party coalition the willingness to compromise on taxation is higher as opposed to a situation where the largest party commands a modest seat share, since in the latter situation minor exogenous shocks may bring down the government and there are therefore fewer incentives to attempt a compromise over taxation that may involve bargains extended over time. This line of argument therefore implies an inverse curve-linear relationship between the size of the largest party and inheritance taxation. Steinmo (1993) has shown that fragmentation of political authority, due to federalism or the division of authority within national political institutions, may lead actors to endorse policies that are their short-term self-interest; to resist any tax increases, even in the form of hidden taxes, and to seek out specific exemptions and loopholes, even if these same actors demand expansion of public programs. In a similar vein, Huber and Stephens (1993) argues that constitutional structures that disperse political power and offer multiple points of influence on the making and implementation of policy, such as federalism, single-member-district electoral systems and provisions for referenda, may impeded policy reform, especially reforms that might benefit the underprivileged majority. As discussed above, in both Australia and Canada tax competition between jurisdictions at the sub-national level was an important factor behind the abolition of estate taxes.

The dependent variables in the analyses are the tax burden placed on different sizes of inheritances expressed as a percentage of this particular inheritance. The data set includes data for 0.5, 1, 2, 5, 10, 25, 100 and 200 times an average annual wage, but for the sake of simplicity we will concentrate on a subset of these dependent variables and important deviations from the presented results will be commented upon in the text. Moreover, we will also analyze deductions as well as minimum and maximum rates separately, although this information is included in the variables for how the different inheritances are taxed. This data, covering 17 countries over a period of 30 years, can naturally only include stylized facts about countries inheritance taxation systems, and a number of important features are therefore purposely ignored. One such feature relates to what degree inheritance and gift taxes are integrated and whether gifts are treated as if they formed part of the deceased's estate at time of death. In many countries, transfers in the form of gifts made within a certain period before death will not be taxed. Therefore, if gifts are taxed more favourably than bequests, an advantage may be gained by making transfers of property during life. Another issue that we cannot deal explicitly with in this paper is how the estate or inheritance is valued. In general, property is valued at its market value at the date of transfer. The exemption to this general rule is however common: some exemption for household and personal effects is fairly common; works of art of immovable property may also be exempt from tax; several countries grant special relief for agricultural property; and the taxation of pension rights and life assurance varies considerably between countries. Moreover, in many countries setting up trusts has been an important way of decreasing or even avoiding inheritance/estate taxes. However, to find reliable information about this for over 500 data points is impossible.

A central problem in analyzing panel data over a period of 30 years for 17 countries is that errors are unlikely to be independent across observations. To deal with serial error correlation and heteroskedasticity, I estimate an OLS fixed effect regression model with panel-corrected standard errors specification (PCSE) and autocorrelation (AR1) adjustment, as proposed by a Beck and Katz (1995). An alternative would have been to specify a generalized least-squares random effects and fixed effect model, but the Hausman test indicated a preference for the fixed-effect specification. However, both these estimation procedures give very similar result and any important differences between will commented upon in the text.

Results

Figures 3 and 4 depicts the year-by-year cross-national correlations between, on the one hand, the cumulative strength of Left, Christian democratic and secular Right parties and, on the other, the tax burden placed on inheritances five and 100 times the size of an average annual wage.

Figure 3 and 4 here

There is a consistent positive correlation, oscillating between 0.50 and 0.75, between the cumulative strength of left parties and the tax burden placed on inheritances five times the size of an average annual wage for the whole period 1975-2005 (*Figure 3*). This relationship is slightly curve-linear over time, as the correlations become smaller up until the end of the 1980s, where after they become larger again. The corresponding correlation for the cumulative strength of right parties lies between -0.39 and -0.55 during the same period. There is also a negative correlation between the cumulative strength of Christian democratic parties and the taxation of a medium-sized inheritance, but the size of the coefficients are much smaller than the corresponding ones for Right parties (roughly half the size), and they also appears to become smaller over time.

For inheritances equal to 100 times an average yearly wage the correlations between the strength of different political parties and tax burden changes rather dramatically over time (*Figure 4*). The correlations for Left cabinet display a U-shaped pattern: while there was a strong and highly significant correlation (above 0.60) between Left cabinet and the tax burden on large inheritances in the mid 1970s, this correlation decreased steadily until it was completely absent in the mid 1990s. In the late 1990s, however, this correlation appears to become larger again. The negative correlation between Christian democratic cabinet and the taxation of large bequests has decreased markedly over time: in the mid 1970s, this correlation was minus 0.45 and significant (on the 5-percent level), but then it declined markedly until the mid 1990s and was more or less absent during the remainder of the period. Finally, the correlation between Right secular parties and the taxation of large inheritances has been almost negligible during the whole period.

These results indicate that there may be important differences in the causal dynamics governing the effects of partisan politics on inheritance taxation. To allow for such dynamic effects, we will include an interaction term between year (where 1975=1) and our measures of political party strength in our multivariate models.

Table 4 here

The results from the pooled time-series regressions indicate that there is a positive and highly significant main effect of left cabinet on the tax burden levied on larger bequests, an effect that however becomes smaller as the size of the inheritances become smaller (*Table 4*). As seen in the penultimate column, this has been accomplished by higher maximum rates (as opposed to lower thresholds). For more modest bequests, corresponding to two times an average annual wage, the effect of left cabinet is however negative. Moreover, as indicated by the significant negative interaction effect between Left cabinet and year, the effect of Left cabinet on the tax burden on large bequests has become less marked over time. Thus, the effect of Left cabinet on the tax levied on bequests 10 times an annual average wage and larger reflects a positive main effect and a subsequent reduction in that effect with each successive time point since 1975. For relatively small bequest (corresponding to two times an annual average wage), the pattern is the opposite: a negative main effect but an increase in that effect over time. An alternative specification, where Left cabinet is interacted with year dummies, produces the same result: a positive main effect but a reduction in the effect of Left cabinet over time.

There is a negative main effect of Right cabinet on the tax burden on medium-sized bequests (2, 5 and 10 times an average annual wage), but not on larger ones. The interaction term between Right cabinet and year is not significant, except for the tax burden on five times an average annual wage. Thus, for this size of inheritances, although the main effect is negative, Right cabinet is associated with an increased tax burden over time. Also this effect is present in an alternative specification where Right cabinet is interacted with year dummies. Interesting to note is that Right cabinet have a significant positive main effect on minimum tax rates, but that the interaction with year is significantly negative, indicating that the positive effect of Right cabinet on minimum rates has become less pronounced over time. As there is a negative effect of Right cabinet on maximum rates, this could be interpreted as inheritance tax systems becoming less progressive in countries with strong right parties.

Finally, there is a highly significant main effect of Christian Democratic cabinet on the tax levied on relatively large bequests, something that seems to have been accomplished mainly by higher maximum tax rates. In contrast to the effect of Left cabinet, the positive effect associated with Christian Democratic cabinet on the tax burden levied on larger bequests does not seem to become less marked over time. On the contrary, for medium-sized inheritances (five and 10 times an average annual wage) the positive effect of Christian Democratic cabinet has become more pronounced over time.

Of the other variables included in the analysis, there are significant effects of all three measures of globalization. They however seem to affect the dependent variables in slightly different ways: whereas there is a significant negative effect of economic globalization on the tax burden on large bequests (10 times an average annual wage and larger), the effect of political globalization is on both minimum and maximum tax rates, and the effect of social globalization is mainly on medium-sized bequests. There is also a negative effect of corporatism on the tax burden on medium-sized bequests, whereas there is a negative effect of the interaction term between Left cabinet and corporatism on minimum rates and thresholds. Especially the first effect seems to be at odds with the hypothesis that strong left governments will have to rely on regressive taxation in an environment of high corporatism. The analyses provide some evidence of that small business and farmers might be important for explaining cross-national and temporal trends in inheritance taxation. Particularly the strong and highly significant positive effect of gross value added in agriculture on thresholds points in this direction, indicating that a larger proportion of an inheritance is exempt from tax. There are also negative effects of the proportion of self-employed on large bequests as well as a negative effect of gross value added in agriculture on medium-sized bequests. At odds with this hypothesis is the positive effect of the proportion self-employed on minimum inheritance tax rates. Finally, there is also a strong positive and highly significant effect of public social expenditure on thresholds, possibly indicating that such expenditure crowds out the need for private intergenerational transfers.

Concluding discussion (very preliminary)

Throughout history, the question of how to tax bequests illustrates some of the most fundamental controversies between major political and philosophical traditions and schools of though (Erreygers and Vandevelde 1997). In this paper, we have asked the question whether these different views are mirrored in party politics: over the last 30 years, is it possible to discern any significant effects of party politics when it comes to the design of inheritance tax systems? The answer to this question must be yes, although the results may not always be what we anticipated. Left party strength is associated with a relatively larger tax burden on especially large estates, whereas right party strength is associated with smaller tax burden on small- and medium-sized bequests. However, contrary to out expectations, the strength of Christian Democratic parties seems not to be associated with a lower tax burden, but rather a larger tax burden on large inheritances.

There are some indications that countries have converged somewhat and that party politics perhaps have become somewhat less important to explain cross-national and temporal variations in inheritance taxation up until the mid 1990s, but that these differences might have started to increase again. The time period studied here coincides with the "tax reform movement", when the public grew increasingly discontent of what was believed to be an inefficient tax system full of loopholes policy makers started to abandon the idea that taxes could be used effectively for redistributive policy goals (Steinmo 1993). The possible reversal of this trend in the late 1990s and early 2000s might signal that inheritance taxation once again will be seen as an important tool for the redistribution of wealth, income and life chances.

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Appendix.

Cumulative Left, Right and Christian Democratic Cabinet: Based on the variables LEFTCAB, RTCAB and CDEMCAB from Huber et al. (2004). This data ends in 2000, data for 2001-2005 as well as for all years for Greece, Portugal and Spain is based on electoral results reported in the annual issues of the *European Journal of Political Research*.

GDP: Real GDP per capita, $ in 2005 constant prices. Source: Penn World Tables.

Centralization: Summary measure of centralization and coordination of union wage bargaining, taking into account both union authority and union concentration at multiple levels. Source: Visser (2009).

Party size: Share of seats in parliament for the largest party. Source: Armingeon et al. 2009.

Inflation: Annual change in consumer prices. Source: OECD Main Economic Indicators.

Social Expenditures: Total public and mandatory private cash benefits, in percentage of GDP. Source: OECD Social Expenditure Database (SOCX).

Economic, political and social globalization: Based on 23 variables that relate to different dimensions of globalization. Source: Dreher (2006) and Teorell et al. (2009).

Institutional constraints: Index of institutional constraints of central state government, composed of six dummy variables ('1' = constraints, '0'=else): (i) EU membership, (ii) degree of centralization of state structure/federalism, (iii) difficulty of amending constitutions (iv) strong bicameralism (v) central bank autonomy, and (vi) frequent referenda. Source: Schmidt (1996) and Armingeon et al. 2009.

Voter turnout: Voter turnout in election. Source: Mackie and Rose (1991), Armingeon et al. (2009).

Employment: Civilian employment as percentage of population 15-64. Source: OECD Population and labour force statistics.

Table 1. Type of wealth transfer tax (at the national/federal level) and year of introduction and abolition in a selection of OECD countries

	Introduction	Abolition	Type of tax
AUS	1914	1979	Estate
AUT	1914		Inheritance
BEL	1936		Inheritance
CAN	1892	1972	Estate
DEN	1903		Inheritance/Estate
FIN	1920		Inheritance
FRA	1798		Inheritance
GER	1906		Inheritance
GRE	1919		Inheritance
IRE	1894		Inheritance
ITA	1972	2001	Inheritance/Estate
NETH	1917		Inheritance
NOR	1864		Inheritance
NZ	1866	(1993)	Estate
PORT	1858	2004	Inheritance
SPA	1964		Inheritance
SWE	1914	2005	Inheritance
SWI[1]	-	-	-
UK	1894		Estate
USA	1916		Estate

Figure 1. Tax burdens on different inheritances. Average for 17 countries 1975-2005

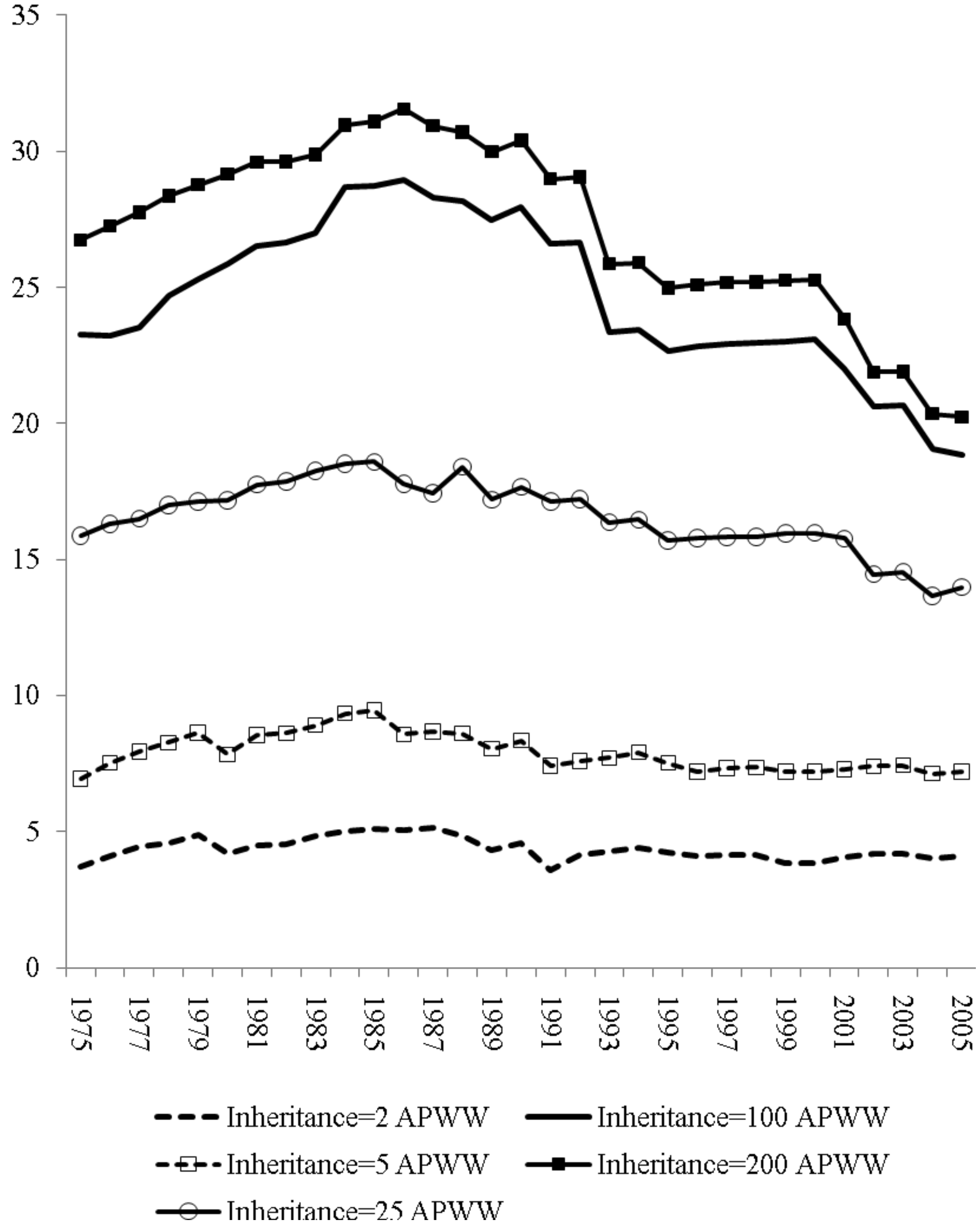

Figure 2. Minimum and maximum inheritance tax rates.
Average for 17 countries 1975-2005

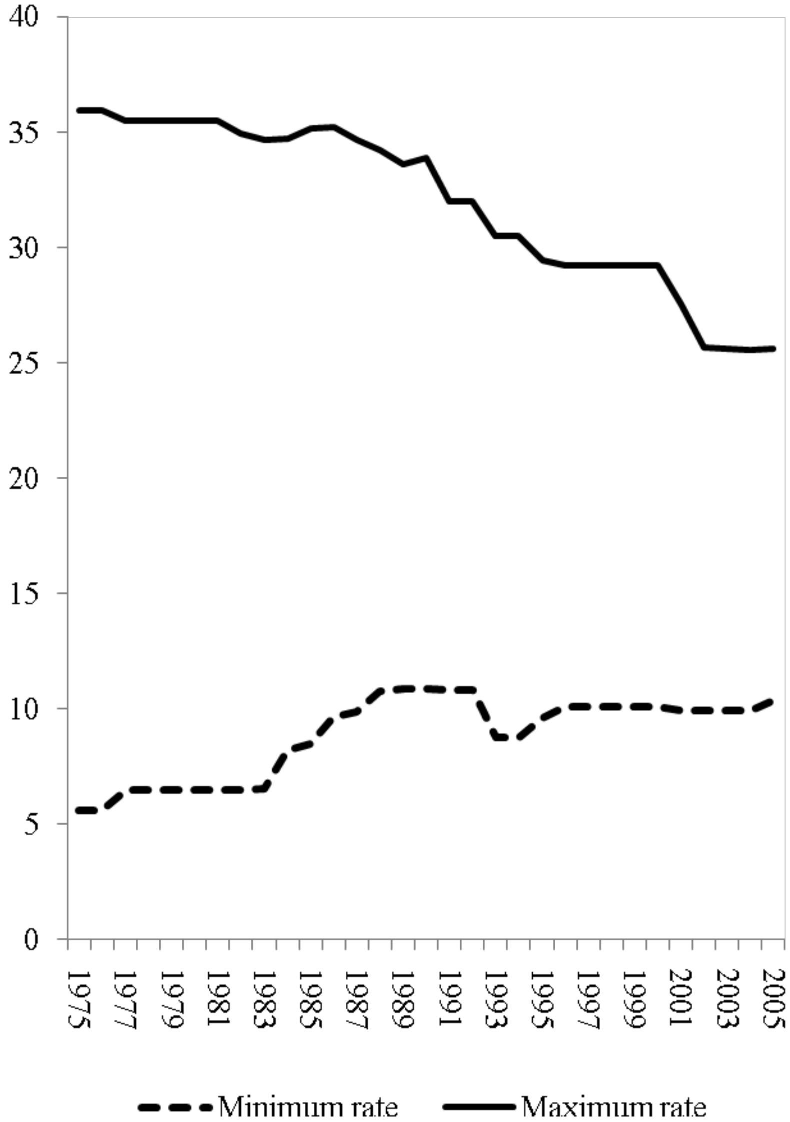

Table 2. Tax burdens for different inheritances, minimum and maximum rates, and threshholds. Averages for two periods (1975-1990 and 1991-2005)

	Tax as percentage of inheritance/estate left						Tax rates				Threshhold	
	2 APWW		5 APWW		100 APWW		Minimum		Maximum		Threshhold	
	75-90	91-05	75-90	91-05	75-90	91-05	75-90	91-05	75-90	91-05	75-90	91-05
DEN	10	11	16	15	31	19	2	12	32	20	0	1
FIN	9	10	10	13	12	15	4	9	12	15	0	0
NOR	7	8	18	15	27	20	8	8	28	20	1	1
SWE	12	10	25	19	57	28	7	10	65	30	0	0
Mean	*9*	*10*	*17*	*16*	*32*	*20*	*5*	*10*	*34*	*21*	*0*	*0*
AUT	3	4	5	7	12	13	2	2	15	15	0	0
BEL	2	3	4	6	22	28	3	3	25	30	1	0
FRA	2	0	10	11	23	32	5	5	26	40	2	2
GER	0	0	2	1	13	17	3	6	35	32	3	4
ITA	0	0	1	0	15	11	3	2	30	18	4	4
NETH	7	7	10	11	19	25	4	5	21	27	0	0
Mean	*2*	*3*	*6*	*6*	*17*	*21*	*3*	*4*	*25*	*27*	*2*	*2*
GRE	9	7	12	10	25	23	6	5	27	24	0	1
PORT	9	4	13	6	26	18	4	3	34	24	1	0
SPA	8	4	10	9	19	29	4	8	23	34	0	1
Mean	*9*	*5*	*12*	*8*	*23*	*23*	*5*	*5*	*28*	*27*	*0*	*1*
IRE	0	0	0	0	39	33	23	20	52	37	28	12
NZ	0	0	0	0	30	4	21	5	40	5	15	2
UK	1	0	6	0	52	37	18	40	67	40	5	9
USA	0	0	0	0	30	30	16	18	63	53	15	26
Mean	*0*	*0*	*2*	*0*	*38*	*26*	*20*	*21*	*56*	*34*	*16*	*12*
Grand Mean	5	4	8	7	27	22	8	9	35	27	4	4

Figure 3. Year-by-year correlations between Left-, Right-, and Christian Democratic cabinet and the tax burden on an inheritance equal to five times an average annual wage.

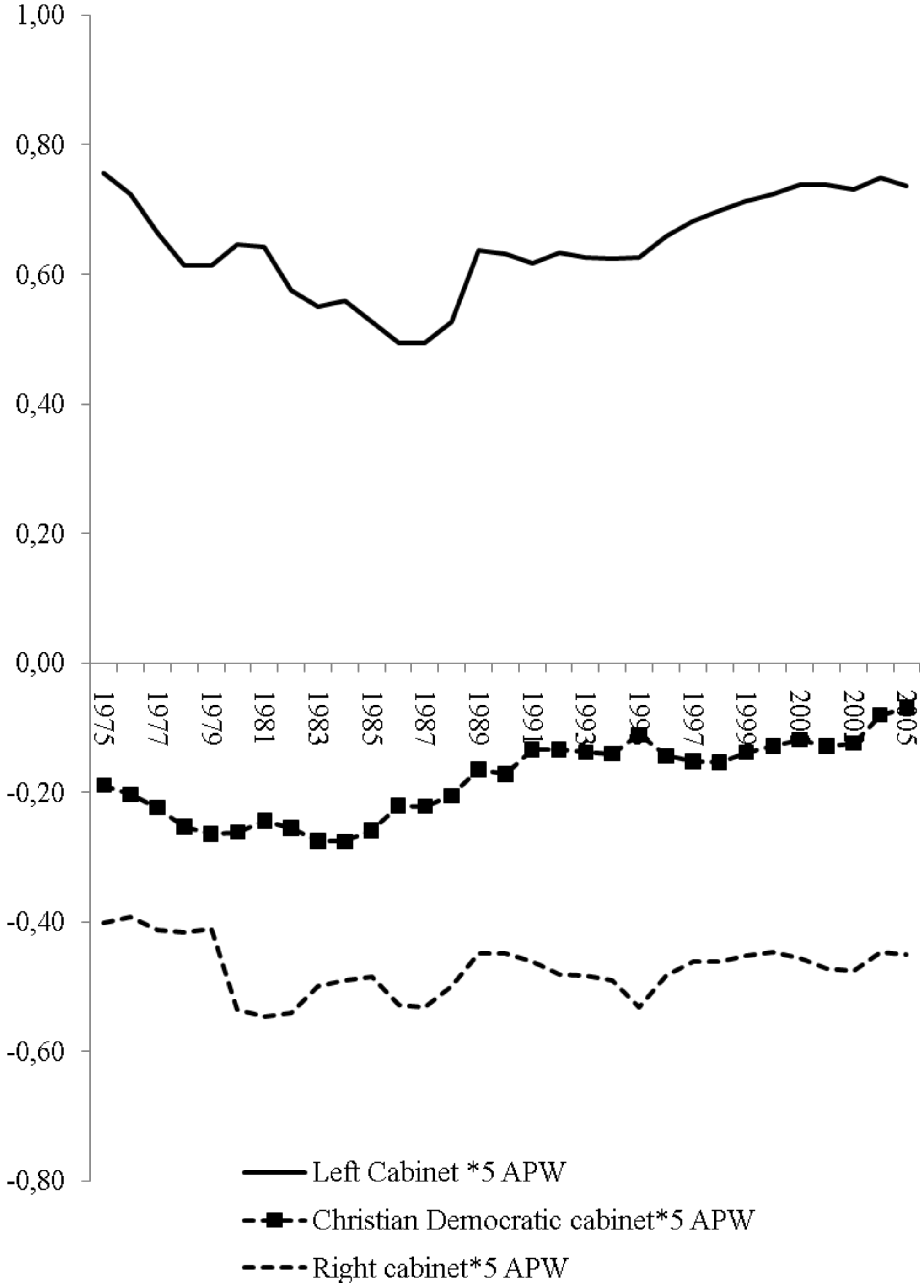

Figure 4. Year-by-year correlations between Left-, Right-, and Christian Democratic cabinet and the tax burden on an inheritance equal to 100 times an average annual wage.

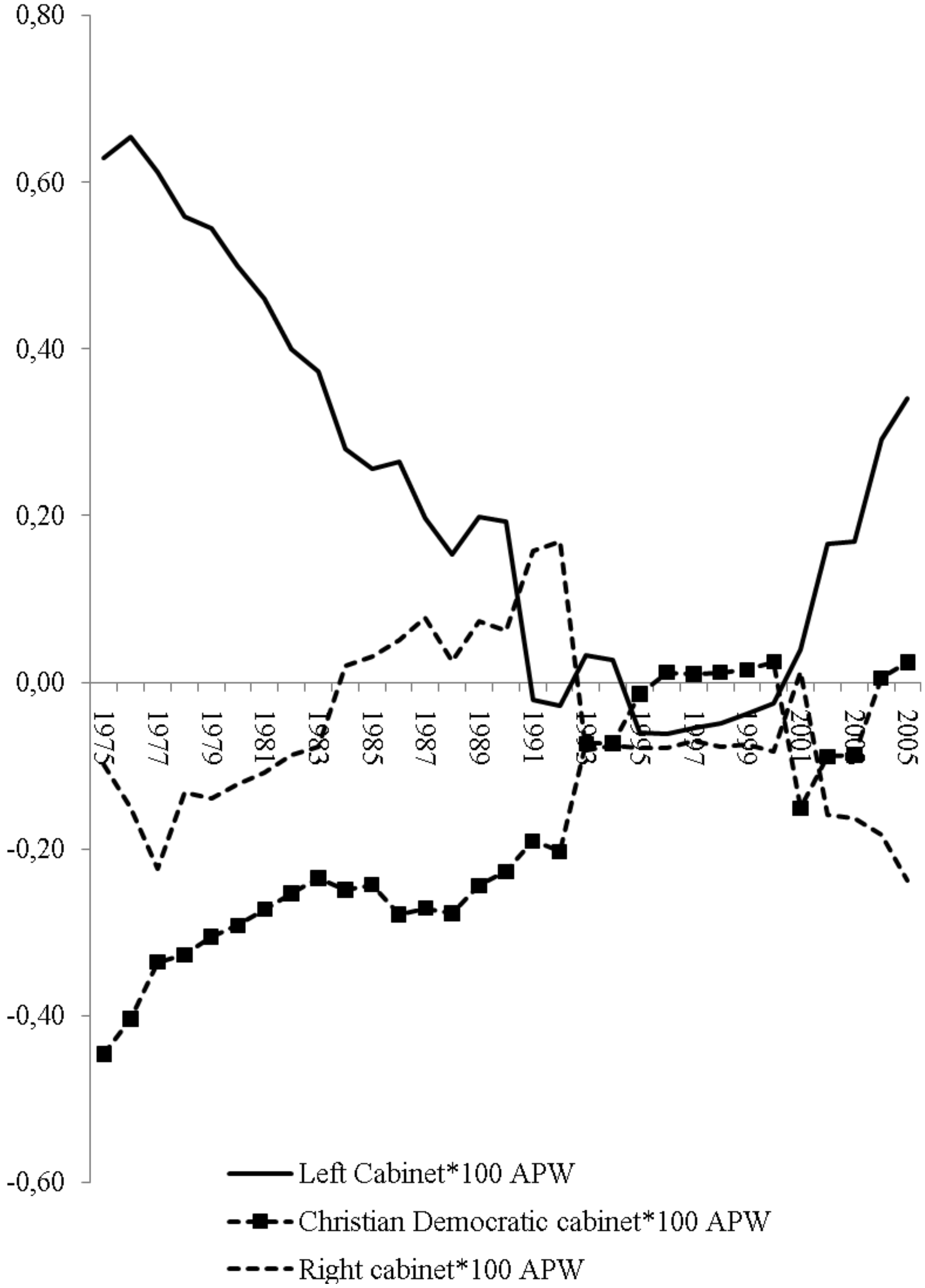

Table 3. Fixed-effect models with panel-corrected standard errors. Dependent variables: Tax burden for different inheritances, minimum and maximum rates, and threshholds (standard errors in parenthesis)

	APW*2	APW*5	APW*10	APW*25	APW*100	Minimum rate	Maximum rate	Deductions
Left cabinet	-0.390** (0.175)	0.064 (0.156)	0.444** (0.208)	0.821** (0.327)	1.526*** (0.438)	0.207 (0.316)	1.363*** (0.490)	0.039 (0.161)
Christian Democratic cabinet	-0.148 (0.160)	0.203 (0.139)	0.693*** (0.156)	1.377*** (0.343)	2.017*** (0.467)	0.310 (0.294)	1.500** (0.590)	0.189 (0.228)
Right cabinet	-0.295* (0.159)	-0.551*** (0.172)	-0.453* (0.236)	-0.471 (0.369)	0.366 (0.521)	1.024*** (0.297)	-1.006* (0.537)	-0.0730 (0.205)
Left Cabinet*Year	0.865*** (0.292)	-0.101 (0.255)	-1.031*** (0.339)	-1.956*** (0.561)	-3.234*** (0.747)	0.359 (0.440)	-3.054*** (0.808)	0.066 (0.244)
Right cabinet*Year	0.258 (0.207)	0.307* (0.170)	0.064 (0.204)	-0.658 (0.487)	-0.931 (0.670)	-1.031*** (0.400)	-0.668 (0.901)	-0.371 (0.311)
Christian Democratic cabinet*Year	0.382 (0.248)	1.065*** (0.262)	0.981*** (0.349)	0.789 (0.589)	-0.534 (0.839)	-1.907*** (0.541)	0.440 (0.887)	-0.072 (0.351)
Wage coordination	-0.061 (0.040)	-0.067* (0.034)	-0.086* (0.046)	-0.034 (0.079)	0.0579 (0.118)	0.281*** (0.073)	0.157 (0.124)	0.276*** (0.064)
Left cabinet * Wage coordination	0.141 (0.103)	0.118 (0.080)	0.128 (0.104)	0.088 (0.140)	0.031 (0.199)	-0.331*** (0.086)	-0.097 (0.218)	-0.329*** (0.088)
Voter turnout	0.006 (0.016)	0.009 (0.018)	-0.017 (0.022)	-0.021 (0.035)	-0.028 (0.046)	0.140*** (0.041)	-0.025 (0.049)	0.140** (0.063)
Seats won by largest party	-0.018 (0.057)	0.017 (0.072)	-0.004 (0.093)	-0.138 (0.154)	0.053 (0.268)	-0.181 (0.250)	0.084 (0.296)	0.171 (0.131)
Seats won by largest party squared	0.262 (0.601)	-0.045 (0.791)	0.068 (1.026)	1.895 (1.740)	0.610 (3.170)	3.594 (3.311)	0.260 (3.586)	-0.859 (1.583)
Economic globalization	-0.012 (0.033)	-0.010 (0.031)	-0.073* (0.044)	-0.094* (0.055)	-0.180** (0.083)	-0.017 (0.068)	-0.122 (0.097)	-0.046 (0.037)
Political globalization	0.033 (0.026)	-0.036 (0.026)	-0.052 (0.033)	-0.033 (0.039)	-0.089 (0.057)	-0.094*** (0.032)	-0.165*** (0.060)	-0.021 (0.021)
Social globalization	-0.083** (0.042)	-0.102** (0.042)	-0.011 (0.064)	-0.017 (0.075)	-0.104 (0.112)	0.0269 (0.077)	-0.084 (0.125)	0.033 (0.048)
Institutional constraints	-0.217 (0.385)	0.077 (0.363)	0.044 (0.483)	0.647 (0.610)	0.392 (0.867)	-0.064 (0.595)	0.761 (0.988)	-0.100 (0.336)
GDP per capita	0.159* (0.093)	-0.078 (0.090)	-0.214 (0.143)	-0.149 (0.254)	-0.225 (0.363)	0.529* (0.292)	-0.081 (0.373)	0.520*** (0.175)
Inflation	-0.051 (0.040)	-0.032 (0.045)	0.083 (0.058)	0.024 (0.073)	-0.045 (0.119)	-0.043 (0.101)	0.004 (0.129)	0.022 (0.060)
Labour force participation	-0.109** (0.052)	-0.105** (0.051)	-0.111 (0.070)	-0.106 (0.117)	-0.222 (0.193)	-0.027 (0.169)	-0.241 (0.209)	0.102 (0.083)
Social expenditures	-0.135 (0.094)	-0.142 (0.092)	-0.134 (0.123)	-0.140 (0.198)	-0.221 (0.319)	0.221 (0.223)	-0.056 (0.341)	0.364*** (0.125)

Selfemployed	0.164*	-0.008	0.0132	0.072	-0.506*	0.513**	-0.840***	0.430***
	(0.092)	(0.116)	(0.153)	(0.198)	(0.287)	(0.238)	(0.316)	(0.105)
Gross value added	-0.009	-0.206	-0.532**	-0.917	0.208	0.868	0.471	2.617***
agriculture/employed	(0.130)	(0.146)	(0.219)	(0.570)	(1.106)	(1.039)	(1.118)	(0.584)
Observations	480	480	480	480	480	480	480	480
Number of countries	17	17	17	17	17	17	17	17
R-square	0.730	0.863	0.872	0.816	0.823	0.733	0.889	0.684
Rho	0.672	0.653	0.653	0.767	0 .744	0.603	0.717	0.616

*** p<0.01, ** p<0.05, * p<0.1