Parties, Electoral Systems and Taxation 1870-1945

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Abstract

In this paper I argue that the effect of ideology on tax structure depends on the electoral system. Earlier research has argued that left wing governments tax more progressively, but in light of recent empirical work, this has been challenged. The dominant approach instead posits that the left taxes regressively while spending progressively. That is, the left still redistributes more, but it taxes regressively. I show that in the time period leading up to the Second World War, the impact of having a left wing head of government is different depending on the electoral system. In majoritarian systems, left government leads to a more progressive tax system with a heavier emphasis on income tax and less on excise and consumption. In proportional representation systems, the left taxes consumption heavier and income lighter. I argue that this is the result of representation and post-electoral bargaining shaping the strategic context in which the left operates.

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Since the twentieth century, states have changed how they generated most of their revenue: from tariffs in the nineteenth century, to income tax during the First World War and inter-war years, to the modern value-added tax in the post-war era. This paper concerns the interplay between left government and electoral institutions, and its impact on tax policy.

During the post-war era, welfare states increased their use of regressive taxation to raise revenue. Surprisingly, welfare states with left-party dominance (e.g. Sweden) often tax capital and corporations at very low rates, whereas small welfare states (e.g., the United States) often progressively tax capital and corporations.

There are a number of explanations as to why the left would tax regrettably. One type of explanation focuses on welfare state expansion and argues that in order to keep expanding the size of government, the left was simply forced to tax consumption in addition to income (e.g. Ganghof 2006). Others argue that the left is constrained by corporativist interest groups or that the left taxes regrettably since it can credibly commit to progressive transfers (Beramendi and Rueda 2007, Timmons 2010b).

These explanations have failed to consider the strategic environment facing a left government. Instead, I argue, the left pursues different strategies depending on the electoral system, aiming for a progressive tax structure in winner-takes-it all systems and a much more diverse tax mix in proportional representation countries.

The mix between different types of taxes is persistent and tax systems are strongly path dependent (Morgan and Prasad 2009, Kemmerling 2009). As I will show, the era before the Second World War is characterized by more changes in taxation than the post-war era. Hence the importance of investigating the origins of divergent patterns observed during the second half of the twentieth century. Although the modern taxation system has its roots well before the Second World War, most research focuses on the post-war era. Moreover, these explanations rely on the limits on taxation caused by a large and expensive welfare state and strong unions, factors that are likely to be much weaker between 1870 and 1945. Most importantly, since electoral institutions tend to influence partisanship (at least on average...
over time, see Iversen and Soskice (2006) focusing on a time-period with variation in electoral systems provides considerable empirical leverage.

The theoretical expectations regarding the conditional effect of left government is evaluated using a novel dataset over tax revenue covering thirty-one states from 1870 to 1945. I show that left governments use a more regressive tax mix in proportional representation systems while the effect of left-wing rule in majoritarian systems is the opposite. This supports my argument that the left chooses a low-risk strategy of tax-based redistribution when the risk associated with losing power is high.

This paper makes two contributions. First, it highlights the drawbacks in analyzing institutions and societal forces separately by arguing theoretically and showing empirically, that the impact of left-wing parties is different depending on the electoral system. Second, while earlier research almost exclusively focus on the second half of the twentieth century, this paper uses new data covering a crucial period in the development of taxation and political institutions, 1870-1945. Moreover, the sample of countries is not constrained to Europe, but covers both Americas as well as Australia, New Zealand and Japan.

The next section provides an overview of earlier research followed by my theoretical argument. After that, I present the dataset and operationalizations followed by the empirical investigation. The final section concludes.

1 Earlier research

Research into the effects of partisanship on policy gives contradictory results. While some find that the left is associated with lower unemployment and more welfare spending (Hibbs 1977, Hicks and Swank 1992, Kittel and Obinger 2003), a meta study looking at 43 studies finds no correlation between partisanship and policy outputs (Imbeau, Ptry and Lamari 2001). Scholarly work on the determinants of tax structure highlights the puzzling result

\[1\text{The dataset (collected in collaboration with Thomas Brambor) is unbalanced and covers countries from 1800 or independence to 2012. See Section 3 for more details.}\]
that countries that experienced long periods of left-wing dominance are characterized by a large welfare state paid for with regressive taxation (Beramendi and Rueda 2007, Kato 2003, Steinmo 1989). This has led to the argument that revenue enhancing taxation, such as regressive consumption taxes, leads to a larger welfare state and progressive spending (Kato 2003, Steinmo 1993). However, the causality might as well run in the opposite direction, whereby preferences for increased spending, coupled with a need to keep taxes on capital low (in order to boost economic growth), leaves regressive taxation as the only option (Ganghof 2006). Others have suggested that the left do seek to redistribute using the revenue system (i.e. progressive taxation), but are constrained by corporatism (making increases in income and capital taxation difficult) (Beramendi and Rueda 2007). Another explanation for the finding that the left taxes more regressively is that partisans tax their own supporters for compliance reasons; as a left government you can credibly commit to deliver goods to your constituency and thus tax them harder without inducing widespread tax evasion. This ability to commit depends on partisan turnover, which means that in the presence of low partisan turnover, left parties should have a more regressive tax system than right parties (Timmons 2010a). Timmons does not explain why parties do not tax their opponents. Implicit in his argument is that this would not yield enough revenue because of tax evasion/avoidance. This argument is somewhat convincing for certain tax bases (e.g. capital that can easily be moved abroad) but less convincing for other (e.g. property and labor). Thus, the argument relies on a strong connection between tax evasion and partisanship and it is not clear why a taxpayer should not always try to evade taxation.²

While early contributions were interested in the pure effect of parties, few were concerned with how this effect is mediated by formal institutions (Schmidt 1996). Lately, this possibility has been explored by a number of scholars finding that the effect of left parties on the size of government is stronger in more majoritarian countries (Tavits 2004) using Lijpharts ma-

²If partisan turnover and electoral systems are highly correlated, then there is a risk that this paper measures the same underlying concept as Timmons. However, in Timmons data, PR countries such as Denmark and Norway are identified as high turnover countries, so this risk seems to be low.
The previous work most closely connected to the argument in this paper is Cusack and Beramendi (2006). They argue (theoretically) that the effect of partisanship (left and right) on taxes on labor is different in majoritarian and proportional representation systems. Following insights from the median voter theory (Black 1948, Downs 1957, Hotelling 1929), they assume that majoritarian elections lead to a two-party competition where both parties converge on the median voter. Thus, party differences should be small in these systems. In proportional representation, the authors expect a greater difference between left and right parties (following Austen-Smith and Banks 1988). Interestingly, both these assertions have been investigated empirically and results suggests that – contrary to Cusack and Beramendi’s expectations – proportional representation systems tend to generate policy closer to the median voter in comparison to majoritarian countries (Powell 2000). Moreover, case study evidence shows that the United Kingdom, using a single-member district electoral system, has been plagued by large shifts in policy as a result of shifting power between the right and left (Rogowski 1987, Steinmo 1993). Empirically, Cusack and Beramendi use Lijphart’s (1999) executive-parties index, of which the electoral system is only one out of five dimensions. They show that the left imposes a higher tax rate on labor income in systems with a weak executive compared to the left in a system with a strong executive.

While there is plenty of work done on the second half of the twentieth century, there are very few quantitative studies on the period before the Second World War. An exception is Aidt and Jensen’s (2009) study of ten countries in Western Europe from 1860 to 1938 where they find that the left-wing seat share in parliament is associated with less taxing and spending, more revenue from customs and less from market taxes. Thus, there is room for

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3 Peter H. Lindert’s two-volume exploration of social spending and (to some extent) taxation since the eighteenth century explicitly ignores parties and electoral institutions (Lindert 2004, p. 2)
improvement both theoretically and empirically through a clarification of the role of electoral system and a test based on data over a longer time span with a wide sample of countries. For example, most historical studies (both qualitative and quantitative) focus on Europe, which is problematic for a number of reasons, one of them being the impact of the two World Wars.

The next section outlines my theoretical argument connecting left-wing parties and electoral systems to tax structure.

2 Theory

In this section I will explain why the left taxes more progressively in majoritarian electoral systems and less so in countries using proportional representation. In short, the uncertainties associated with majoritarian systems means the left chooses to redistribute through the revenue system, making the state more dependent on progressive income taxes rather than regressive taxes on consumption. In proportional representation systems, the greater influence of the opposition coupled with less uncertainty makes the left invest in an efficient tax system and redistribute through transfers.

Earlier work into the interaction of partisanship and institutions has mainly focused on how the left is constrained by factors such as veto players or corporativism. The argument is that with fewer institutional constraints, the left gets more of its preferred policy. In short, variation in fiscal policy outcomes for the left is caused by different degrees of constraints on their ability to implement its preferred policy. Instead, I argue that if we focus on redistribution, then institutions shapes the way the left tries to reach this goal. That is, the left adapts to the constitutional environment and employs different strategies for redistribution depending on institutional constraints.

The argument differs in two ways from the existing literatures; first regarding the preferences of the left and second in how institutions shape the strategic environment. I argue
that the left does not necessarily want a progressive tax system, it wants redistribution and
as earlier research has shown, successful redistribution is associated with more tax revenue
and regressive taxes. Second, I do not focus on institutional checks and aspects of the con-
stitution that might hinder left in its preferred policies, instead, I focus on one part (albeit
a very important one) of the institutional structure that affects opposition influence over
policy. When influence is low, the left prefers a progressive, redistributive tax system. When
influence is high, it prefers an efficient (but less progressive) tax system and redistribution
through spending. In short, the left employs different modes of redistribution in different
electoral systems.

The next section elaborates on the preferences on the left, arguing that we should not
expect the left to prefer a progressive tax system unconditionally. After that, I explain how
the electoral system has an impact on left-wing tax policy.

2.1 The preferences of the left

As has been pointed out before, there is a tendency to conflate tax policy and redistribution
(e.g. Timmons 2010a). A common argument is that since the left wants to redistribute
from the rich to the poor, and progressive taxes are redistributive, the left should use a
progressive tax mix. This argument is incomplete since it ignores the expenditure side
of fiscal policy. Some recognize this difference and appropriately estimate redistribution
through the reduction in inequality caused by taxes and transfers (see for example Bradley
et al. 2003 and Iversen and Soskice 2006). It is entirely possible to tax relatively regressively
while spending the tax revenue in a way that sharply reduces inequality (e.g. Steinmo 1993 ch.
5). As reported above, earlier research has identified a strong association between regressive
taxation and government size (Kato 2003). This means that if we assume that the left wants
redistribution, it does not automatically follow that it prefers progressive taxation.

If the left has a number of spending projects aimed at reducing inequality it will need a
revenue system that can pay for it. Different tax systems vary in their efficiency in terms
of collection costs and distortions of the economy. For example, a high tax rate on capital might not only lead to high levels of evasion and avoidance (reducing the revenue yield from this base) it can also lead to capital flight, reducing investments and growth in the economy. Taxing income above a certain level can lead to reduced labor output and thus to a lower tax yield. Recent research suggests that a shift from income to consumption taxation increases economic output (Auerbach 2006, Lee and Gordon 2005, Widmalm 2001). Thus, a shift to a relatively more regressive tax system can have a positive impact on both government revenue and economic growth. In sum, it might be in the interest of the left to use a tax system that maximizes state revenue in order to finance progressive spending.

A highly progressive tax system will of course also lead to redistribution, but it is possible that this way of redistribution has a limit making it less effective overall compared with the combination of regressive taxation, high revenues and progressive spending. This is likely considering the tax structure in countries with an extensive welfare state. To be clear, this is about relative emphasis in the tax mix. That is, a tax mix based on both progressive and regressive elements generates more revenue than one relying only on progressive taxes.

In sum, the left can achieve some level of redistribution on the revenue side but this takes a toll on fiscal capacity and economic output. Another option is a relatively more regressive tax mix with highly redistributive transfers. The next section explains how electoral institutions affects this decision on the part of a left-wing government.

### 2.2 The impact of electoral institutions

A change of the tax system into one that generates more revenue with less collection costs and distortion will generate more and cheaper revenue tomorrow. The problem is, changes to the tax system has distributive effects; removing tariffs will hurt some while it will benefit others, the same with taxation of income and consumption. Another way of putting this is that a change in taxation might not benefit everybody equally. A simple way to balance

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4First pointed out in the fourteenth century by Ibn Khaldun (2005, p. 231) but received its more modern name from Arthur Laffer (Wanniski 1978).
tax inequalities would be to use the transfer system to compensate. But as a United States Senate staff member, quoted in Steinmo (1993, p. 199-200), puts it “This is not Sweden. How can we be sure that that extra money won’t just be used to cut the taxes of the rich even more, or to buy more B-1 bombers?” A key difference between the United States and Sweden is the electoral system, where Sweden employs a proportional system (after 1909) and the United States single-member plurality (for the House of Representatives). The main argument in this section is that electoral systems affect opposition influence and this shapes the risks associated with tax policy decisions.

I follow earlier work in distinguishing between two main types of systems: proportional (PR) and majoritarian (e.g. Colomer 2004, ch. 1, Powell 2000, Rae 1967). While there are different versions of PR and majoritarian rule (e.g. simple majority and plurality) and differences in district magnitude (e.g. multi-member districts or single-member districts) the major differences are between these two categories, not within them (Rae 1967).

In his empirical analysis of electoral systems, Powell (2000) finds a number of important effects relevant for the analysis of tax policy. First, contrary to the so-called Duverger’s Law majoritarian electoral systems do no lead to a stable two-party system. Furthermore, these parties do not convergence on the median voter (as predicted by Hotelling 1929 and Downs 1957). Thus, the party in power will matter even in majoritarian systems. Second, the majoritarian formula manufactures strong legislative majorities. Even if there are three parties with an equal share of the popular vote, the formula can translate this situation into a strong majority for one party. Third, proportional representation leads to less sharp shifts in policy as a result of changes in the underlying public opinion. Powell shows that PR systems provides a closer representation of the median voter than majoritarian systems (Powell 2000, ch. 9), which means that a small shift in the party support can lead to greater changes in

\footnote{On precise empirical operationalization and measurement see section 3.}

\footnote{After a hypothesis put forth in Duverger (1954).}

\footnote{It is important to note that this is an observed empirical regularity, not a deterministic prediction. Examples of coalition governments in majoritarian systems exist, for example the coalition between the Conservatives and Liberal Democrats after the 2010 general election in the United Kingdom.}
policy in majoritarian countries. This occurs through two processes: post-election bargaining and opposition influence. Powell presents evidence that PR systems allow a greater impact from the opposition on policy (ref to Laver-Hunt, reporting similar results). These effects are also observed by Steinmo (1993) in his discussion about the Swedish case and by Rogowski (1987) on trade policy in the United Kingdom.

In sum, a majoritarian system is more volatile since a small change in voter preferences can have a huge impact on policy. Moreover, it manufactures strong single-party majorities with little or no influence for the opposition. What should a left government do about taxes in a majoritarian system? One option would be to expand regressive taxation on consumption in order to increase revenue capacity with as little negative impact on the economy as possible and spend progressively. This is a risky option since it most likely takes time for the changes in the tax system to translate into more revenue and if the left loses power in the next election, it will have no influence on fiscal policy. This means it could have hurt its own constituents without providing any benefits. A better option is to gear the tax mix toward progressive taxes on income. While less effective in terms of fiscal capacity and effects on the economy, this option hurts the rich more than the poor and works directly toward the goal of more redistribution. This option is safer in that some redistribution is better than nothing. Building progressivity into the revenue system means it is harder remove since the government needs to compensate the loss of this revenue with additional taxes. In comparison, it is easier to reduce – or fail to increase – transfers generated by an already regressive tax system.

In a proportional representation system the risk associated with elections is lower and more predictable. If the left loses power, there will still be possibilities to influence policy. The choice over taxes here should incorporate the long-term effects on fiscal capacity and the possibilities for future redistribution. Thus, in a PR system it makes more sense for the left to choose a relatively regressive tax system since it will have some influence over how that

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8This risk associated with majoritarian electoral systems is also a factor in electoral system choice, see Colomer (2004), p. 10.
revenue is spent. Moreover, if commitments regarding redistributive spending can be made (for example through broad agreements between parties across time), then it is easier to see why one should focus on a moving to a tax system that generates the same amount of tax revenue with less negative effects on the economy (see Martin 2015 for qualitative evidence from Denmark).

This leads to the following two hypotheses:

• **H1: Left government in PR countries increases the share of consumption taxes.**

• **H2: Left government in majoritarian countries increases the share of income taxes**

I consider income tax as the clearest example of a progressive tax in the data and excise and consumption taxes the best measure of a regressive tax. More on this in the next section, which introduces the dataset and the empirical measures used.

### 3 Data and operationalization

The dataset has been assembled in collaboration with Thomas Brambor and covers thirty-one countries from 1800 (or independence) to 2012. It contains central state tax categories measured as shares of total central tax revenue. Direct taxes consist of property and income taxation (also included as separate variables) and indirect taxes consist of customs, consumption and excise taxes. The dataset also contains the total central tax revenue as a share of GDP. To my knowledge, no other dataset provides the same coverage over time and across countries.

Since property taxation includes taxes on land, its distributive effect is not entirely straightforward. A recent analysis of the regressive/progressive impact of taxes concludes

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9The countries included are: Argentina, Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Colombia, Denmark, Ecuador, Finland, France, Germany, Ireland, Italy, Japan, Mexico, the Netherlands, New Zealand, Norway, Paraguay, Peru, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States, Uruguay, and Venezuela.
that consumption taxation is a consistent measure of regressivity (Prasad and Deng 2009). I therefore focus on income and excise and consumption taxes in the following section.

My measure of electoral systems focus on the formula translating votes to seats. Thus, the main distinction between the systems is whether majority rule or proportional representation is used. According to Rae (1967), even though there is variation within PR-systems, these differences are much smaller than those between PR and majoritarian systems. I have collapsed open and closed list PR into the same category. Since a larger district magnitude is associated with greater proportionality (ibid.), majoritarian countries are defined as single-member districts with majority rule. There are countries that during some time used multi-member districts with majority rule, but since the theoretical expectations regarding this combination is unclear, I have chosen to not include them in the majoritarian category. This means that the two categories PR and majoritarian are not exhaustive, there is a third category of mixed and indirect systems. The data is from Colomer (2004).

My theoretical expectation regarding the conditional effect of partisanship presupposes that the state is democratic. In the empirical section below, I use the dichotomous definition in Boix, Miller and Rosato (2013) to separate democracies from non-democracies.

Data on partisanship is from the Heads of Government dataset that codes the ideological orientation of the head of government (left, right or center) in 33 countries from 1870-2012 (Brambor, Lindvall and Stjernquist 2014). The variable “left” is dichotomous, taking the value one if there is a left head of government and zero otherwise.

The next section provides descriptive evidence shedding light on the development of regressive/progressive taxation 1870-1945 and a preliminary evaluation of the hypotheses.

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10While the majority of democracies use some kind of PR or majoritarian system, there are exceptions. For example, Switzerland used an indirect electoral system between 1848 and 1918 and Japan, Italy and Mexico uses a mixed system from 1994, 1993 and 2000 respectively.
4  Descriptive evidence

Figure 1 shows the mean share of income and excise and consumption taxes in proportional representation countries grouped by left and non-left head of government. The left portion of the figure compares the share of excise and consumption taxes and income tax in non-left, PR democracies. On the right side, the same comparison is made in countries with a left head of government. There is hardly a difference between non-left governments but the difference between income and excise and consumption taxes within left governments is clear: they rely much more on the latter. This is in line with the first hypothesis that left governments rely more on regressive taxes in PR systems.

Figure 2 makes the same comparisons as figure 1, but in countries using a majoritarian electoral system. It is clear that the difference in non-majoritarian systems is very small while the difference between left and non-left governments in majoritarian governments is both clear and in line with hypothesis 2; the share of tax revenue from income tax is almost
twice the share coming from excise and consumption taxes.

It is important to note that democratic countries with PR were almost nonexistent before the early nineteenth century. The first country to introduce PR was Belgium in 1899 and in 1915 only four countries in the dataset were democratic and used PR. However, by 1930 this number had increased to eleven (compared with only six democracies using a majoritarian system). Similarly, left governments did not appear until the early twentieth century. The first left head of government was Jos Batlle Ordonez in Uruguay 1903, and the first left-wing head of governments in *democracies* were Andrew Fisher and Aristide Briand in Australia and France respectively (both in 1910) (Brambor, Lindvall and Stjernquist 2014).

The next section contains a brief note on the methods used, followed by regression results controlling for possible confounders such as war and size of government.
5 Methods

The results are preliminary and comments on the empirical set-up are most welcome.

A potential problem with fitting a model using times-series cross-section data (countries over time, with more years than countries) is unobserved heterogeneity across units. If there exist a property specific to country $i$ that is correlated with one of the explanatory variables the ordinary least squares estimate is both biased and inconsistent. A common solution for this problem (and the one employed here) is to let unit-specific intercepts control for unobserved country heterogeneity.

Another common problem with this type of data is that the errors often violate the Gauss-Markov assumption of uncorrelated errors, causing OLS to be inefficient. A Lagrange multiplier (LM) test confirms correlated errors. As recommended by Beck and Katz (2011) I include a lagged dependent variable to alleviate this problem. A second LM-test shows that one lag is enough to remove autocorrelation.

The potential bias induced by using country fixed effects and a lagged dependent variable (Nickell 1981) should not be a problem since $T$ is greater than 20 (Beck and Katz 2011).

As Beck and Katz (1995) have shown, there are specific issues with the error structures when analyzing this type of data. The estimations below use their recommended approach and reports panel corrected standard errors.

Since the dependent variables are bounded (the share can only take values between 0 and 1) I need not be concerned about non-stationarity.

Earlier research has pointed out the relationship between war and taxation (Hintze 1970, Tilly 1992, Scheve and Stasavage 2010). War pressure induces states, not only to increase existing taxes, but also to invest in new modes of taxation. I have included a dummy variable indicating the presence of war using the Correlates of War dataset (Singer, Bremer, and Stuckey 1972).

To control for the possible confounding effect of overall tax capacity I include total tax revenue as a share of GDP. I also include a linear time trend to capture common time trend
effects.

The following two equations are estimated:

\[ Y_{it} = \alpha_i + \beta_1 Y_{it-1} + \beta_2 Left_{it} + \beta_3 PR_{it} + \beta_4 Left_{it} \ast PR_{it} + \beta_5 Controls_{it} + \epsilon_{it} \]

and

\[ Y_{it} = \alpha_i + \beta_1 Y_{it-1} + \beta_2 Left_{it} + \beta_3 Maj_{it} + \beta_4 Left_{it} \ast Maj_{it} + \beta_5 Controls_{it} + \epsilon_{it} \]

Where \( Y \) is either income tax or excise and consumption taxes, \( \alpha \) country fixed effects and \( \beta_4 \) the interaction effect. To be clear, PR and Maj are not exhaustive categories. As pointed out above, there are countries with mixed and indirect electoral systems that are not included in either category.

The next section presents the results of the analysis.

6 Results

This section presents very preliminary results estimating the conditional impact of partisanship on taxation. Two models per dependent variable are evaluated; the first only includes the variables of interest while the second adds controls and a lagged dependent variable. All models include country fixed effects. To aid interpretation a graphical display of the interaction effects is added (Brambor, Clark and Golder 2006). Table 1 shows the results.

The first hypothesis is that left governments rely more on excise and consumption taxes in PR countries. The interaction effect is statistically significant and positive in both models, albeit considerably weaker when control variables are included. Figure 3 shows that the effect of a left head of government is positive in PR systems and negative (but insignificant) in non-PR democracies. A left head of government in a PR system is associated with a 1.2 percentage greater share of tax revenue from excise and consumption taxes. This is in line with the hypothesis. However, the effect is only significant at the ten percent level.

Neither war nor taxes as a share of GDP seems to have any impact.

The second hypothesis states that left governments in majoritarian systems should rely
Table 1: Results

<table>
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<th>(1) Excise and Consumption</th>
<th>(2) Excise and Consumption</th>
<th>(3) Income</th>
<th>(4) Income</th>
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<td>11.58***</td>
<td>2.710**</td>
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<td></td>
<td>(2.888)</td>
<td>(1.361)</td>
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<td></td>
<td>(2.063)</td>
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<td>Average obs per country</td>
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<tr>
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Panel corrected standard errors in parentheses
* p < 0.10, ** p < 0.05, *** p < 0.01

more on income tax. Model 3 shows the simple model with only the variables of interest and country fixed effects. In model 4, the interaction effect is still significant and positive but weaker. As expected, the time trend and war-dummy both have a positive and statistically significant impact on the income tax share. Figure 4 shows the interaction effect graphically and reveals that the impact of left government in majoritarian countries is of the expected sign and statistically significant at the ten percent level.
In sum, the data supports both the hypothesis that the left taxes regressively in PR systems and that left governments have a positive impact on income taxes in majoritarian systems.

7 Conclusion

This paper has evaluated the claim that the impact of left government on taxes is different depending on the electoral system. Data from the period from 1870 up until the end of the Second World War shows that, on average, left governments tax more progressively in majoritarian systems than in PR. A statistical analysis of the interaction effect revealed a positive and significant impact of left government on excise and consumption taxes in PR democracies. The same analysis also suggests a positive effect of left government on income taxation in majoritarian countries.

These results show that many of the puzzles associated with the left and taxation might
be better understood if we take the institutional environment into account. They also help explain conflicting results regarding the impact of partisanship and the relationship between taxation and redistribution. The reason scholars have found a connection between left rule, size of the state and redistribution might be that PR is more strongly associated with left rule than majoritarian systems (Iversen and Soskice 2006). My results are completely compatible with this finding and does not conflict with the higher redistribution found in countries governed by the left (ibid. and Bradley et al. 2003). At the same time, my explanation is based on the different strategies employed by the left as a result of the electoral system, not constraining factors such as unions (Beramendi and Rueda 2007) or mounting spending pressure (Ganghof 2006).
References


