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Implications of the global financial crisis (2008-2009) for equity in the welfare State. Comparative analysis between the four types of welfare regimes

Implicaciones de la crisis financiera mundial (2008-2009) para la equidad en el Estado del bienestar. Análisis comparado entre los cuatro tipos de regímenes del bienestar.

Andreas Christian Hangartner* y Rafael Gustavo Miranda Delgado**

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Abstract

The aim of this research is to compare the compatibility between fiscal policy and the normative principles of equity in the different welfare regimes, in the aftermath of the financial and economic crisis (2008-2009). In this research, we propose a comprehensive two-part approach: tax equity and expenditure equity. We argue that the relationship between crisis and transformation of the welfare state in the fiscal policy dimension is neither direct nor automatic, and that different types of welfare regimes opted for divergent policy responses to try to mitigate the negative effects of the market.
Key words: Welfare state; financial crisis; equity, tax.

Resumen

El objetivo de esta investigación es comparar la compatibilidad entre la política fiscal y los principios normativos de la equidad en los distintos regímenes del bienestar tras la crisis financiera y económica (2008-2009). En esta investigación proponemos una aproximación integral en dos partes, equidad de impuestos y equidad de gastos. Afirmamos que la relación entre crisis y transformación del Estado del bienestar en la dimensión de la política fiscal no es directa ni automática, y que los distintos tipos de regímenes del bienestar optaron por respuestas políticas divergentes para tratar de mitigar los efectos negativos del mercado.
Palabras claves: Estado de bienestar, crisis financiera, equidad, impuesto.

* Doctor en Ciencias Humanas por la Universidad de Los Andes Venezuela. Facultad de Humanidades y Educación de la Universidad de Los Andes. Mérida, Venezuela. Correo electrónico: a.plaschy@gmail.com. ORCID: https://orcid.org/0000-0001-5185-1364
** Doctor en Ciencia Política y Relaciones Internacionales por la Universidad Ricardo Palma de Perú. Facultad de Ciencias Económicas y Sociales de la Universidad de Los Andes. Mérida, Venezuela. Correo electrónico: rafaelgustavomd@gmail.com. ORCID: https://orcid.org/0000-0002-4590-5431

1. Introduction

The debate on the transformations of the welfare state is part of a global scenario characterized by increasing levels of inequality and distributive conflicts. The possibility of re-mercantilization of the welfare state with a trend to prioritize economic efficiency at the expense of equity generates significant negative economic effects, such as the inability to attract investment and difficulties in long-term growth. Likewise, negative effects can be found at the socio-political level both on citizen coexistence and on the legitimacy of democratic institutions.

Considering the aforementioned aspects, our research objective is to compare the compatibility between fiscal policy and normative principles of equity in different welfare regimes in the aftermath of the financial and economic crisis (2008-2009). For this research we delimited the space following the welfare state typology proposed by Esping-Andersen. This was complemented with the Mediterranean model. Four welfare regimes were chosen as a sample for the research: Great Britain as a representative of the liberal type, Germany of the conservative type, Sweden of the social democratic type and Spain of the Mediterranean type. For the time frame (2008-2014), we followed the thesis of Vis, Kersbergen and Hylands (2011) who argue that with the financial crisis the pressures of globalization on the fiscal system are immediately intensified.

The International Monetary Fund (2014) suggests that the evaluation of fiscal policy requires a comprehensive analysis of tax and transfer systems in general, and not merely of its individual components. That is why we propose a more comprehensive approach presented in two parts, the first referring to tax equity and the second to expenditure equity.

2. Evolution of the welfare state

The welfare state is the result of a complex evolution of historical events, political and philosophical ideas, as well as social and economic conditions that led to the formation of a social pact of balance between the basic rules of the economy (private property, free enterprise, free competition) and certain social guarantees and benefits. The philosophy behind the welfare state is based on a distrust towards the results of the free play of market forces. The premises of the Keynesian economic theory, as well as the social-democratic thought and the Christian-social doctrine laid the intellectual foundations to legitimize a more active intervention of the State in the economic spheres to mitigate the social effects of market fluctuations and guarantee an acceptable level of quality of life and equity.

The concept of "welfare regime" refers to the large constellation of socio-economic institutions, policies and programs in a country that promote the quality of life of its population. These include public transfers, as well as the tax system and the productive sector of the economy (Esping-Andersen, 1998; Goodin, Headey, Muffels, and Dirven, 2004). There are different welfare regimes, each with its own logic of organization, stratification, and social integration. They are the product of particular historical forces and qualitatively different developments. The typology of welfare regimes proposed by Esping-Andersen (1998) distinguishes between a liberal type (residual, economic efficiency), a social democratic type (universal welfare schemes, equality of opportunities), and a corporatist type (union-based social security scheme, social stability). This typology was later complemented by a fourth type, called the Mediterranean welfare state (semi-peripheral, family related redistribution) for the countries of Southern Europe.

As Piketty (2014, p. 346) points out, taxation, far from being

a merely technical matter, can have philosophical and political implications. Taxation is not just a technical issue. Rather, it is a political and philosophical issue, perhaps the most important of political issues. Without taxation, societies lack a shared destiny, and collective action is impossible.

Nevertheless, the historic progress made in the post-war era in terms of greater equity, social mobility, and reasonable standards of quality of life in Western European societies did not prevent the crisis of the welfare state at the end of the 1970s. The effectiveness of traditional Keynesian policies was conditioned by the rise of a new world economic context, where economic policies have resulted in policies of rationalization, privatization, and control of public expenditure (Calderón, 2004).

There is now a sort of consensus regarding the origin of the greatest pressures on the welfare state, agreeing that they come from the economic forces of financial globalization and post-industrial developments. The acceleration of these global economic dynamics and technological transformations led to the triumph of the service sector. These global forces altered the social structure of risk, resulting in a new social fabric of winners and losers.

The financial and economic crisis (2008-2009) intensified skepticism about the prospects of the welfare state. The dominant approaches in the research on welfare state transformation agree that financial and economic crises have a theoretically decisive role in triggering radical structural reforms. It is argued that pressures to reform the welfare state have been building up for decades, but that due to different institutional and political forces, they failed to materialize into drastic changes. However, the crises, which are conceived as an indisputable threat of collapse, causes these pressures to be released, and consequently, trigger radical reforms in economic and social policies (Vis, van Kersbergen and Hylands, 2011).

In this context, the so-called "studies of openness" that examine the extent to which the economic forces of globalization have determined the recent processes of change in the welfare state

are gaining importance. Fiscal policy becomes one of the central aspects of the "studies of openness", which can be divided into three theoretical approaches: 1) the competitive approach, 2) the compensatory approach and 3) the curvilinear approach. The first one argues that globalization increases competition among economies to attract capital. The consequence is the decline in the capacity and fiscal position of the state and, therefore, the erosion of the post-war welfare state. The compensatory approach, on the other hand, argues that economic globalization induces increased public expenditures to protect citizens from the fluctuations of global markets. Finally, the curvilinear approach is a combination of the previous two. Thus, according to the latter, globalization first leads to increases in public transfer programs, although after a certain level of openness meant to international capital, cuts in public transfers are applied to reduce the tax burden on mobile factors of production. If the tax burden is not reduced, these factors will leave the country. Consequently, the fiscal situation (or fiscal policy) of the State is eroded. Each of these approaches will be discussed in more detail below.

The competitive approach. This approach proposes that the forces of globalization imply the decline of the autonomy of the national state, which means that national policies are subordinated to the borderless global economy (Strange, 1996; Ohmae 1995, 2005). Under the logic of globalization, the mobility of industry, investment, individuals and information, which cross national borders relatively freely, has increased considerably.

Strange (1988, 1996) refers to the decline of State authority. In the global economy, the national territories of states do not coincide with the extent or limits of political authority over economy and society. The focus on the structuring of power is based on the key question "Who gets what from the structure of society?". This makes it possible to identify that nation states only maintain security (at the expense of the other three types of power structures: financial structure, production, and knowledge). Even

in these matters, there is an erosion of their autonomy, as they often depend on the collaboration of other states.

Globalization has increased the international mobility of capital, technology, and highly skilled workers. As a result, different countries compete with each other for these mobile factors of production, weakening the sovereignty of the national state and national economic policy.

According to Scharpf (2000), globalization causes a considerable reduction in the power of the national state by influencing the conditions of transnational economic transactions. In particular, there are changes in the cost-benefit calculations of domestic policy, creating a new vulnerability in national systems of taxation, regulation and industrial relations. Under the logic of globalization, these systems reduce the attractiveness of the domestic economy for mobile capital, and its competitiveness for domestic goods and services in the international markets.

Razin and Sadka (2005) argue that the global economy pressures contemporary welfare states to reduce taxes on mobile factors. Among the main affected by this measure are high-tax countries, which will have to deal with the forces of tax competition that will in turn put pressure to lower the corporate tax rate. According to Tanzi (2002), as tax revenue is reduced (due to pressure on the welfare state tax system), the state will lose its role as a direct provider of social protection.

The compensatory approach. According to the compensatory approach, the process of international economic integration leads to increasing public expenditures and the expansion of welfare programs. The main theorists of this approach, such as Cameron (1978), Katzenstein (1985) and Ruggie (1982), are based on Karl Polanyi's "The Great Transformation" (2001 [1944]). In this work, Polanyi introduces the concept of "embedded liberalism" to refer to a sort of contract between society and the state regarding trade openness. In this contract, society accepts the liberalization of markets expecting in return that the state will fulfill its promise to

mitigate the negative effects of the market through new measures of domestic economy and social policy (Ruggie, 1982).

Cameron (1978) and Katzenstein (1985) find a positive correlation between the degree of trade openness and the size of the public sector in open and small economies. Hicks and Zorn (2005) empirically show that trade openness has a positive effect on total social welfare expenditures in eighteen OECD countries. Rodrik (1998) found empirical evidence from nineteen OECD countries on the positive correlation between exposure to external risks (defined as trade openness in combination with terms of trade variability) on the one hand, and public social expenditures and social security on the other hand. According to Alesina and Wacziarg (1998) trade openness tends to have a positive effect on public transfer programs. Hicks (1999) confirms the results of Alesina and Wacziarg (1998).

Brady, Beckfield and Seeleib-Kaiser (2005) point out that, unlike domestic factors, globalization has a minor effect on the economic and social policies of the welfare state. The authors are highly skeptical of the thesis on the impact of globalization on the welfare state, since the influence of globalization is not systematic between European and non-European countries, liberal and non-liberal welfare states. While there is an intensification of global market forces, and a slight convergence of welfare states, any claim of a relationship between globalization and the expansion, crisis, reduction, or convergence of the welfare state is not well founded. Hicks and Zorn (2005) focus on determinants of budget constraints and demonstrate empirically that trade openness and financial liberalization inhibit cuts in state benefits. Foreign direct investments, on the other hand, seem to promote welfare cuts, but they do not turn out to be significant.

The curvilinear approach. This approach constitutes the third perspective in the "openness" literature. Originally developed by Rodrik (1997), this approach argues that there is an inverse U-shaped relationship between globalization and the welfare state. Rodrik (1997) explains that the process of economic integration

first leads to a gradual increase in government income transfer programs aimed at compensating workers for the increasing risks associated with the opening of the economy (e.g., real income fluctuations). Governments are expected to finance these welfare programs through increased capital taxation. This strategy is successful until international capital mobility reaches a certain level. After this threshold, there will be cuts in public social expenditures aimed at reducing the tax burden (fiscal pressure) on the mobile factors of production that would otherwise leave the country. As a consequence, the fiscal position (or fiscal policy) of the welfare state is further weakened (Rodrik, 1997). Hicks (1999) on the other hand, based on empirical evidence, points out that openness to investment exerts an inverse U-shaped influence on government payments to households.

Brady, Beckfield, and Seeleib-Kaiser (2005) point out that the representatives of this approach expect welfare states to converge on a common welfare state model. This model lies in the middle between the residual welfare state model of the less globalized Anglo-Saxon countries, on the one hand; and the universal welfare state model of the highly globalized Scandinavian countries, on the other.

Within the framework of this debate and in the contemporary context of the international financial crisis, we present the study of tax equity and expenditure equity in countries representing the four welfare states.

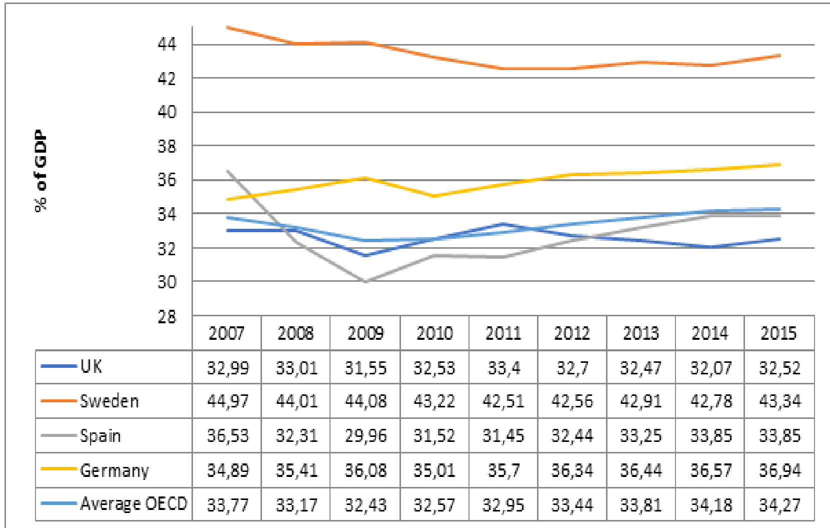
3. Tax Equity

The development of the welfare state in Western European countries during the second half of the 20th century required a considerable increase in their tax collection capacity. This fact can be seen in the evolution of the ratio of tax revenues to GDP, which shows a progressive and permanent increase in the European region from 1965 to the end of the 1990s.

In the countries included in our sample, the decline of the tax burden in the Spanish economy stands out. Since the global financial crisis (2008), Spain has seen a reduction in its tax collection capacity, falling below the OECD average. Between 2007 and 2009 there was a downward trend from 36.5% to 30.0%.

In contrast to Spain, tax collection in Germany has stabilized since 2007 at around 36%, which is above the OECD average. Sweden is part of the group with the highest tax collection levels. In 2015, the tax-to-GDP ratio was recorded at 43.3%, i.e., 9 percentage points above the OECD average. However, since 2000 there has been a decreasing trend in the tax-to-GDP ratio from 49% (2000) to 43.3% (2015). In the case of the British economy, a tax collection lower than the OECD average is observed for the period 2007-2015. In 2015, this collection stood at 32.5% of GDP, while the OECD average was at 34.3%.

This divergence in tax collection levels among the four economies above coincides in some respects with the ethical principles and values underlying each type of welfare regime. The high revenue raising capacity in Sweden represents the nature of the social democratic regime, where the state's commitment to the social welfare of its citizens requires raising revenue capacity in order to provide fiscal sustainability to the various welfare programs and social benefits. At the other extreme is Great Britain, an economy based on the principles and values of liberalism, including individual responsibility, the primacy of negative liberty, targeted social policies, and liberal skepticism of an interventionist and paternalistic state. This liberal fear towards the excesses of the State in economic and social spheres becomes a powerful explanatory tool to understand the low levels of revenue-raising capacity of the welfare State in Great Britain, an economy that belongs to the category of OECD countries with the lowest revenue-raising capacity.

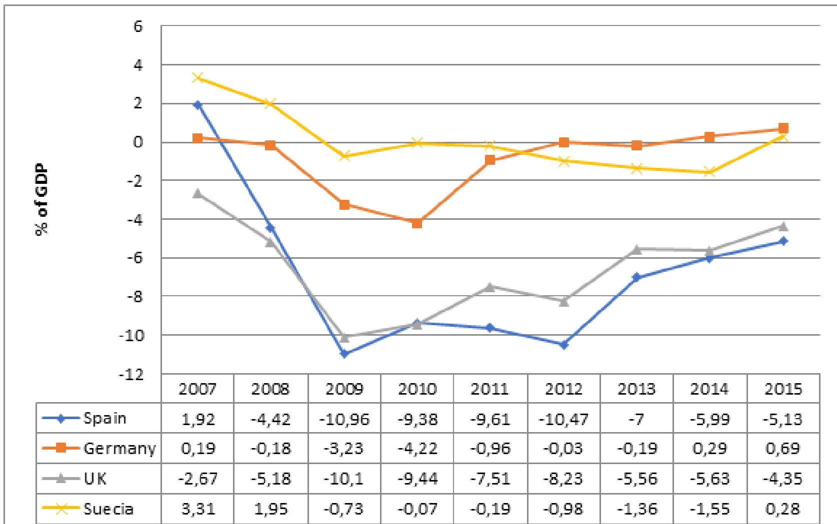


	2007	2008	2009	2010	2011	2012	2013	2014	2015
UK	32,99	33,01	31,55	32,53	33,4	32,7	32,47	32,07	32,52
Sweden	44,97	44,01	44,08	43,22	42,51	42,56	42,91	42,78	43,34
Spain	36,53	32,31	29,96	31,52	31,45	32,44	33,25	33,85	33,85
Germany	34,89	35,41	36,08	35,01	35,7	36,34	36,44	36,57	36,94
Average OECD	33,77	33,17	32,43	32,57	32,95	33,44	33,81	34,18	34,27

Figure 1. Tax collection in relation to GDP (%)
Source: OECD (2017d)

In the context of the global financial crisis, all four welfare regimes experienced a growth in fiscal deficits. In Germany, the fiscal deficit grew from -0.18% of the GDP (2008) to -4.22% of the GDP (2010). Since then, a recovery has been noticeable. The largest declines in the fiscal deficit were observed in the economies of Spain and Great Britain, with falls from -4.42 (2008) to -10.96 (2009), and from -5.18 (2008) to -10.1 (2009) respectively. In contrast, in Sweden, the fiscal deficit has not fallen as dramatically as in the other economies.

In those countries heavily affected by public deficits, fiscal consolidation programs were implemented that changed the structure of the tax and public spending system. Measures to reduce high deficits included raising the VAT rate and broadening VAT bases, as well as reducing public spending on active labor market policies.



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Spain	1,92	-4,42	-10,96	-9,38	-9,61	-10,47	-7	-5,99	-5,13
Germany	0,19	-0,18	-3,23	-4,22	-0,96	-0,03	-0,19	0,29	0,69
UK	-2,67	-5,18	-10,1	-9,44	-7,51	-8,23	-5,56	-5,63	-4,35
Suecia	3,31	1,95	-0,73	-0,07	-0,19	-0,98	-1,36	-1,55	0,28

Figure 2. Deficit/GDP (%) in Germany, Spain, Sweden and Great Britain
Source: OECD (2017a)

There are notable differences in the tax system structures among the four welfare regimes. Compared to the OECD average, Germany has higher levels of collection through social security contributions tax and personal income tax. Collection through corporate income tax (5%), property tax (3%), VAT (19%) and goods and services tax (excluding VAT) (9%) is much lower and less significant. The tax structure in Spain is characterized by higher levels of collection through social contribution tax and property tax. On the other hand, there is a lower proportion of collection through personal income tax, corporate income tax, VAT and goods and services tax (excluding VAT).

Tax structure in Sweden is characterized by higher levels of collection through personal income tax and VAT. A much smaller share is collected through corporate income tax, social security contributions tax, property tax and tax on goods and services

(excluding VAT). The tax structure in Great Britain is characterized by higher levels of collection through personal income tax and property tax. The significance of the property tax is a quality of the tax structure in Anglo-Saxon countries, while in the other countries the potential of this tax category has not yet been sufficiently recognized (Rogoff, 2013). A much smaller proportion of revenue collection is seen in corporate income tax, social contribution tax, and goods and services tax (less VAT).

Table 1. Structure of the tax system in Germany, Spain, Sweden, Great Britain and the OECD average.

	Germany	Spain	Sweden	Britain	OECD
Personal income taxes	26	22	29	27	23
Corporation tax	5	6	6	7	9
Social security contributions	38	34	23	19	26
Property tax	3	7	3	13	6
VAT	19	18	21	21	20
Tax on goods and services (without VAT)	9	10	7	12	13
Others	0	1	0	1	1

Source: OECD (2016)

Personal income taxes. The justification of the personal income tax is not based exclusively on its revenue-raising capacity, but also on the valuation of income as a good index of the taxpayers' ability to pay. Consequently, the earning of income becomes an appropriate taxable event to comply with the tax principle of tax justice (Albi, González-Páramo and Zubiri, 2000).

According to Piketty (2014), taxes on high incomes should increase significantly, considering that the most recent research proves that progressive taxes lead to considerably lower efficiency costs than previously thought.

To add support to their argument, Piketty, Sáez and Stantcheva (2014) deconstructed three narratives or myths about the relationship between the progressivity of the tax structure and high incomes. These myths exerted a considerable influence on economic theories on taxation and legitimized the reduction of tax rates on high incomes. The first myth is identified with the work of Lindsey (1987) and Feldstein (1995) who proposed a standardized approach for the supply side. These authors argued that a reduction in the tax rate stimulated economic activity in the high-income sectors (labor, entrepreneurship, and savings). The second myth, originally articulated in Slemrod's (1996) research, indicates that many of the dramatic responses to progressivity in the tax structure are due primarily to tax evasion, rather than actual economic behavior. While this myth was primarily presented as a critique to the supply side of the scheme, in more recent years it has been used to deny any recent increase in income concentration. In the structure of argumentation of this second myth, it is argued that the share of high incomes in overall U.S. income has not actually undergone significant changes between the 1970s and today, but that unlike today, in the 1970s it was reported as a smaller fraction of tax revenues. Therefore, it has been suggested that an increase in the tax rate on high incomes creates large incentives for tax evasion because the income is either not reported or is shifted to forms subject to lower tax rates. Finally, the third myth associates high income taxation with a reduction in bargaining power.

However, as a response to these three myths, Piketty, Sáez and Stantcheva (2014) point out that the empirical value of the first myth is close to 0, while the second myth should not be addressed with lower tax rates, but with strategies to directly prevent tax evasion. Finally, the third myth is interpreted rather as an incitement to raise tax rates on high incomes, considering the inefficiencies arising from income conflicts. Piketty, Sáez and Stantcheva (2014) argue that the inexistence of a correlation between the increasing trend of higher incomes and economic growth

indicates that increases in high incomes rather reflect rent seeking behaviors. That is, the increase in income of one group is achieved at the expense of other income groups, and not necessarily because of rises in productivity.

Among the countries we have considered for this research, we found that in Germany the personal income tax is progressive in nature and has the highest redistributive impact within the tax system. As of 2001, the richest 10% of taxpayers in Germany have generated through the personal income tax more than half (54.6%) of the revenue within this tax category (Bräuninger, 2012). In January 2007, the Grand Coalition decided to increase the tax rate on the highest incomes from 42% to 45%, reaching 47.5% if the solidarity tax is included. Since then, Germany has not changed the top income tax rate and has since assumed an intermediate position in the European area.

In Spain, the personal income tax (in Spanish *Renta de Personas Físicas or IRPF*), is progressive in nature and has the greatest redistributive impact. According to estimates by López Laborda and Onrubia (2016), personal income tax reduces inequality in the distribution of the gross income of Spanish households by 7.47%. It is precisely because of its redistributive capacity that the IRPF offsets the regressivity of the other tax instruments, with the exception of the wealth tax. In this way, personal income tax ensures that the Spanish tax system as a whole has an inequality-reducing effect.

In the context of the global financial crisis, there were some changes in the tax rate on higher incomes. A first modification occurred between 2011 and 2012 when this tax rate was increased from 43% to 45%. Then, within the framework of the tax reform in Spain, a considerable modification was made to the personal income tax. With this tax reform, the government led by Mariano Rajoy of the Partido Popular increased the tax rate on the highest incomes from 45% to 52% (Bräuninger, 2012). Originally conceived as a transitional measure for the years 2012 and 2013 (Bräuninger, 2012), the 52% tax rate was prolonged until 2014, and was only reduced

in 2015 to 45%.

In Sweden, personal income tax is characterized by very high levels of collection compared to the OECD average. In 2007, this tax stood at 13.88% in relation to GDP, while the OECD average was 8.23%. During the first years of the financial crisis, the personal income tax showed a decreasing trend, from 13.1% (2008), 12.69% (2009), 12.04% (2010) and 11.7% (2011), and then stabilized at 11.93% (2012), 12.18% (2013), 12.24% (2014) and 12.47% (2015). Personal income tax in Sweden has considerable progressivity. In fact, Sweden leads the OECD group for having the highest tax rate for taxing high incomes. Between 2014 and 2015, the rate of this tax experienced a further increase from 56.9% to 60.1%.

In Great Britain, personal income tax plays a key role in fiscal redistribution and is progressive in nature. Between 2009 and 2010, in the context of the global financial crisis, the tax rate on the highest incomes was increased from 40% to 50%. In April 2013, the British government decided to reduce this tax rate again from 50% to 45%. Chancellor of the Exchequer George Osborne explained, among other reasons for reducing this rate, that the increase from 40% to 50% between 2009/2010 did not actually lead to a significant increase in tax revenue (Bräuninger, 2012). Hence, it is possible to appreciate the criterion of economic efficiency in the British case, which has predominated in determining the policy response, above normative criteria of equity.

The divergence of tax policy responses is shown in Figure 3, which shows the evolution of the high-income tax rate at three different points in time (2007, 2012 and 2016). Particularly interesting is the rise in the high-income tax rate in Spain and Great Britain between 2007 and 2012, which is indicative of a compensatory policy response to the financial crisis, while this variable remains constant in Germany and Sweden. Now, between 2012 and 2016, a reduction of this tax rate is observed in Spain and Great Britain, so that the compensatory effect leads to a competitive effect. The sequence of compensatory effect and competitive effect shows that

the policy measures in the area of the high-income tax rate in these two countries, in the medium term, have experienced a curvilinear behavior. In Germany the high-income tax rate remained stable between 2012 and 2016, while in Sweden it experienced a rise to 60%. Thus, in the field of taxation to privileged sectors, a relationship between welfare regime type and tax structure can be found. At one extreme is the liberal regime (Great Britain), with a low rate for taxes on high incomes, and at the other extreme, the social democratic regime (Sweden), with a very high rate for this type of tax. Furthermore, in the continental regime (Germany) the primacy of social stability, i.e., the historical disdain for abrupt changes, also determines the tax structure, since during the period considered (2007-2016) this variable remains constant.

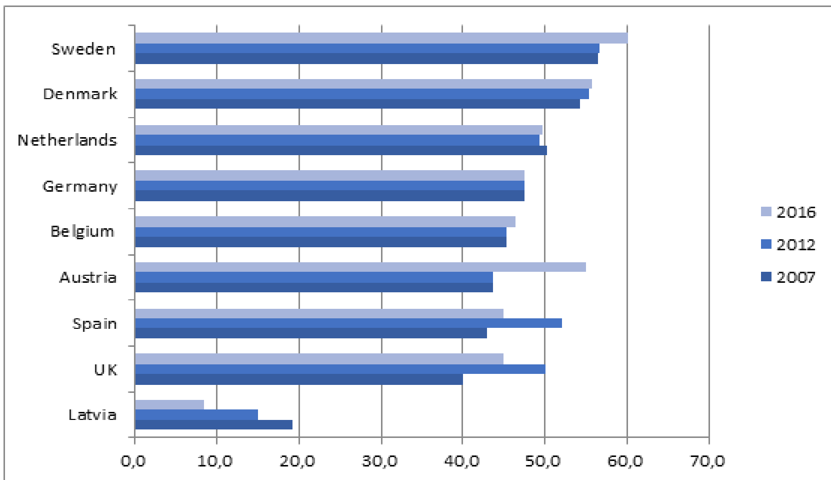


Figure 3. The tax rate on high income
Source: OECD (2017e)

Wealth tax. The wealth tax has the great advantage of targeting the sector of society that enjoys the highest income. Wealth is easier to identify than income, and historically, wealth taxation preceded income taxation. Thus, wealth taxes can be seen as a

complementary measure to underpin a more equitable tax system, particularly when taxes on capital income are low, or suffer from limitations due to tax evasion. Within the tax code, the wealth tax stands out for its redistributive and progressive potential (Atkinson, 1971).

The wealth of an individual at a point in time is the value of all assets (whether goods or rights) owned by this individual that can generate income in cash or in kind. This includes the most common forms of wealth such as, for example, shares in companies, investments in fixed income assets (public debt or time deposits) or bank balances. It also includes the values of other property, such as one's own home, household goods and automobiles, because all these assets produce income in kind for their owners.

The property tax is characterized as having little significant collection in Germany (2.5% 2007-2015) and Sweden (2.4% 2007-2015), where it reaches levels well below the OECD average (5.5% 2007-2015). In Spain there was a decreasing trend between 2007 and 2011 from 8.03% to 5.99%, and then stabilized around 7%. In Great Britain, the property tax stabilized at around 12.2%, i.e., well above the OECD average. The considerable level of tax collection observed in the British case is very typical for Anglo-Saxon countries, where the property tax has become a powerful instrument in a category whose redistributive potential has not been recognized. The inheritance and gift tax were eliminated in Sweden (2004), while in Great Britain, Germany and Spain it is still in force, but its collection is not very significant. In terms of percentage of GDP, Germany collects just 0.165% (2012) through inheritance tax, and consequently belongs to the lower third of comparable countries such as France 0.4%, the Netherlands 0.29%, Spain 0.23%, Great Britain 0.19%, (Bräuninger, 2012).

A general wealth tax existed in Germany until 1996. Since then, and more strongly since the international financial crisis (2008-2009), proposals have emerged to reintroduce a wealth tax. In Germany, the left-wing party, the Social Democrats, and the Green Party are in favor of implementing a wealth tax to reduce

the concentration of wealth. In several opportunities, the political parties of the left (SPD, DGB, Grüne, Linkspartei) created initiatives to implement a wealth tax, but never achieved concrete results (Bräuninger, 2012). In this sense, a resistance of the political system to drastic changes in tax matters is observed, which coincides with the expectations of the corporatist regime that assumes stability as a priority, before any measure in favor of tax justice that could alter the social order. The property tax, meanwhile, records an insignificant collection in the German economy. According to the OECD (2016), it is a proportion of about 2.5% of total revenue between the years 2007 and 2015. In the context of the global financial crisis, the opposition parties SPD and Grüne opened the discussion to a reform of the inheritance tax, aiming to increase taxes on large inheritances (Bräuninger, 2012), but failed to achieve concrete results.

In Spain, in 2011 the socialist government led by Rodríguez Zapatero of the *Partido Socialista Obrero Español* reintroduced, if only for a limited time, the general wealth tax that had been suspended since 2008 (Bräuninger, 2012). Property taxation in Spain is higher than the OECD average. In the context of the global financial crisis, there was a decline from 8.03% (2007) to 5.99% (2011), with a recovery to 7.01% and 7.07% in 2014 and 2015 respectively. Despite being above the OECD average, the redistributive impact of property tax in Spain is very small, if not " anecdotic" (López Laborda and Onrubia, 2016).

In Sweden, the inheritance tax and wealth tax were eliminated in 2004 and 2007 respectively. Property tax has an insignificant share in the overall collection. During the period under study (2007-2015) the property tax oscillated around a rate of 2.4% of the total collection. So, this rate is even below the OECD average, which oscillates around 5.4% in this same period. In 2004, the socialist government of Sweden decided to eliminate the inheritance and gift tax, but to continue with the wealth tax. Interestingly, this decision was not so much influenced by redistributive criteria, but rather by political reflections on the symbolic weight of each type of tax, and the repercussions

on public opinion. Among economists and political actors, it was considered that the elimination of the inheritance and gift tax would have less impact on public opinion than the wealth tax. Just two years later, however, the wealth tax was eliminated. The decision to eliminate the wealth tax altogether, rather than reform it, was due to the low levels of collection, and in particular, the problems of tax evasion. Financial market deregulation in the 1980s led to increasing levels of wealth in the Swedish economy. The implementation of high tax rates, however, did not lead to higher tax revenues, which is indicative of considerable tax evasion (Henrekson and Du Rietz, 2014).

Corporate taxes. The incidence of the corporate taxes is a fundamental aspect for the distributional analysis of taxation. The so-called "standard model", which is based on the premise of the mobility of capital and the immobility of labor in an open economy, points out that a capital tax focused on the source of such capital creates tax shifts to labor. Thus, the tax should rather be focused directly on labor, which would increase welfare. Auerbach (2006) points out that an increase in the corporate taxes implies a long-run wage reduction. In other words, tax competition in the globalized world stimulates tax shifts from corporate taxes to consumption taxes. Comparing corporate taxes across countries is, nevertheless, difficult, not only because of the complexity of the tax itself, but also because its revenue-raising capacity is strongly affected by the impact of the economic cycle on corporate profits. A current challenge consists in the taxation of multilateral companies. The International Monetary Fund (2014) recommends identifying policy responses and creating unilateral and multilateral initiatives aimed at making the taxation of multilateral companies more effective.

In Germany, corporate tax collection is not very significant. In the context of the global financial crisis, it declined between 2007 and 2009 from 2.18% to 1.32% of total revenue, and then stabilized at around 1.7% of GDP. In Sweden, corporate taxes have an insignificant share of total revenue. The average corporate tax rate since 2007 is 2.9% of GDP. In Great Britain, corporate taxes have had a downward

trend since the global financial crisis from 3.3% (2008) to 2.55% (2009). And in Spain, the cuts in the personal income tax rate were much more significant than in corporate tax rates.

Table 2. Corporate taxes (% of GDP)

	Germany	Spain	Britain	Sweden
2007	2,18	4,72	3,12	3,52
2008	1,89	2,85	3,3	2,82
2009	1,32	2,32	2,55	2,83
2010	1,49	1,94	2,84	3,29
2011	1,68	1,86	2,87	3,09
2012	1,72	2,2	2,66	2,57
2013	1,79	2,15	2,51	2,65
2014	1,74	2,07	2,4	2,71
2015	1,74	2,42	2,45	2,99

Source: OECD (2017c)

Indirect taxes. Indirect taxation has the characteristic of generating public revenue without taking into consideration the overall economic and financial situation of the individual or legal entity. In this sense, its implementation is proportional and not progressive, since progressivity requires knowledge of the total level of income, consumption, or wealth of the taxpayer in order to modulate the redistributive effects that it implies. The redistributive impact of the indirect tax depends on the level of socioeconomic development of a given country. Thus, indirect taxation tends to be regressive in developed economies, but not so in emerging economies.

The regressivity of indirect taxation in developed economies has been empirically proven in more recent research. O'Donoghue, Baldini and Mantovani (2004), analyzed twelve economies of the European Union. The authors found that the effective indirect tax rate (calculated as the proportion of consumption taxes with respect to the total household income) is three times higher for the lowest income decile than for the top decile.

Likewise, Bastagli, Coady, and Gupta (2012) insist on the regressivity of the indirect tax, pointing out that its share in total income is four times higher for the lowest income decile than for the decile at the upper end of the distribution. Decoster, Loughrey, O'Donoghue and Verwerft, (2010), in turn, try to determine the reasons for the regressivity of the indirect tax. According to these authors, regressivity is not essentially due to the phenomenon of the indirect tax itself. In other words, different consumption patterns among income deciles do not have the level of impact on regressivity as commonly explained in the academic literature. Rather, a key issue is the regressivity of savings. The top deciles save much more, so that they spend less of their income on indirect taxes.

In Germany, VAT (19%) and the tax on goods and services (excluding VAT) (9%) is much lower and less significant in tax collection. Spain has been one of the countries with the largest increases in VAT rates, both general (from 16% in 2009 to 21% at present) and reduced rates (from 7% to 10%). At the same time, the VAT base has been broadened. As previously stated, despite these measures, the VAT collection capacity in Spain remains at the lowest levels in the EU (5.5% of GDP in 2012 and 6% of GDP in 2013) (Hernández de Cos, López Rodríguez, 2014). In Sweden, VAT has a significant share in total revenue, and is above the OECD average. However, the potential regressivity of this type of tax is complemented by other more progressive taxes.

Finally, in Great Britain, VAT plays a significant role in tax revenues. Since 2009, there has been a trend of growth in the share of indirect tax in total revenue from 29.1% (2009) to 33% (2012). The British economy is a representative case for the general trend of offsetting reductions in revenue through income and corporate taxes with increases in indirect tax. Indeed, the British case shows a reduction in the share of income and corporate taxes in total revenue, from 30.0 (2008) to 27.4 (2014) and 10 (2008) to 7.5 (2014) respectively.

4. Expenditure Equity

In most developed countries, social expenditures (social security, education, health) are the most powerful instrument for reducing inequality and creating a more equitable society, guaranteeing central aspects of equity such as equal opportunities and intergenerational social mobility.

Health and education are the key elements of human capabilities and development. Health care coverage can be defined as the population's access to a basic set of health care goods and services through public programs and private health insurance. And in the field of education, equitable access to higher or tertiary education has become a fundamental requirement for the contemporary labor market, which is undergoing a process of considerable transformation in our post-industrial times.

Among the countries we have analyzed, the rate of entry to type A tertiary education (characterized by programs with a high theoretical content and designed to provide the qualifications required to enter advanced research programs and professions requiring high levels of training) experiences considerable increases in Germany (from 30.20 to 53.18) and Great Britain (from 47.12 to 67.4), while Spain (from 46.85 to 52.01) shows a lower growth below the OECD average rate (58.34), and Sweden shows a decline from 67.18 to 60.25. It is important to note that the entry rate includes international students. The proportion of students entering a type B tertiary education program (characterized by a stronger orientation towards jobs and the provision of direct access to the labor market) is much lower, as this type of program is less developed in most OECD countries. The largest increase in this type of program is observed in Spain, where the entry rate rose from 14.95 to 31.55.

Table 3. Entry rate to tertiary education type A and B

	TA 2000	TA 2012	TB 2000	TB 2012
Germany	30.20	53.18	14.56	21.77
Spain	46.85	52.01	14.95	31.55
Britain	47,12	67,44	28,82	19,74
Sweden	67,18	60,25	6,55	10,41
OECD Average	47.56	58.34	15.65	18.14

Source: OECD (2014)

In 2012, an average of 28% of young adults aged 20-29 in OECD countries participated in some educational program in public and private institutions. In the case of the four countries analyzed, in 2012 Germany and Sweden exceeded the OECD average. In Spain, there was a growth in the participation rate between 2005 and 2012 from 22.1 to 27.92, so that in 2012 it was close to the OECD average. Great Britain, on the other hand, with a participation rate of 19.41 is well below the OECD average (OECD, 2014).

In Germany, the socioeconomic status of parents strongly determines the academic prospects of students. German students with a blue-collar background are only half as likely (0.4) to have access to tertiary education. In Spain, on the other hand, socioeconomic status has a smaller influence on academic outcomes. Spanish students with a working-class background still have a probability (0.8) of accessing tertiary education, so that access to education in Spain is more equitable than in Germany (OECD, 2007). Similar to Germany, in Great Britain, there are structures of inequality in access to higher education. The gap between socioeconomic groups has not yet been reduced in the context of the expansion of education; social class remains the main obstacle to access higher education in England. While loans are universal, among students of lower socioeconomic status there are factors that make it difficult to acquire them, such as debt aversion, opportunity costs and the perception of not belonging to the academic world. In this context, the university landscape is highly stratified, i.e., students from more privileged sectors go to prestigious universities, while students from more humble sectors go to new and less prestigious universities. In conclusion, England meets two of the three criteria, availability and accessibility, but not the horizontality criterion due to pronounced stratification (McCowan, 2016).

Equity in access to and participation in health care. In Germany, the rate of growth of social health expenditure has not experienced major variations, standing at 2.5% between 2005 and 2009, and at 1.6% between 2010 and 2013/14. A similar behavior is seen in Sweden, with a rate of 2.6% and 1.9% respectively. In Spain, on the other hand, the

growth rate of social expenditures on health between 2005 and 2009 stands at 6.3%, while a contraction is observed (-2.8%) between 2010 and 2013/2014; similarly to Great Britain, albeit to a lesser extent, with 5.2% and a slight contraction of -0.1% in the respective intervals (OECD, 2016).

In terms of coverage, the public sector in Germany retains a considerable share in the coverage of basic health services (88.8% in 2013), while private insurance accounts for only 11.0%. In Spain, coverage of basic health services is almost entirely assumed by the public sector (99.0% in 2013), as in Sweden (100.0% in 2013) and Great Britain (100.0% in 2013) (OECD, 2015). However, between 2000 and 2013, an increasing share of private insurance in the coverage for health services can be seen in Germany: 9.1% (2000), 24.3% (2005), 31.1% (2010) and 33.0% (2015). In Great Britain, on the other hand, no changes are observed in the share of private insurance in the coverage for health services 11.0% (2000), 12.3% (2005), 11.1% (2010) and 10.6% (2015). The increasing participation of the private sector in the coverage of health services could be interpreted as an orientation towards the fiscal sustainability of health welfare programs. This is a measure that coincides with the recommendations of the International Monetary Fund (2014) seeking a balance between equity and economic efficiency in health care.

Regarding the unmet need for medical care, it should be noted that in the first years of the global financial crisis, an increasing inequality in the accessibility to medical care in Germany can be observed. In the above-average income group, the rate of unmet need for medical care decreases from 18 (2007) to 17 (2010), while in the low-income group, this rate increases from 24 (2007) to 27 (2010). In the later period (2010-2013), the rate decreased in both groups, from 17 (2010) to 9 (2013) and 27 (2010) to 21 (2013) respectively. Compared to Germany, a lower rate of unmet needs is observed in Sweden, with a decreasing trend, from 5 (2010) to 3 (2013) in the high-income group, and from 14 (2010) to 11 (2013). Finally, in Great Britain, a decreasing trend is observed. In 2007 (prior to the financial crisis),

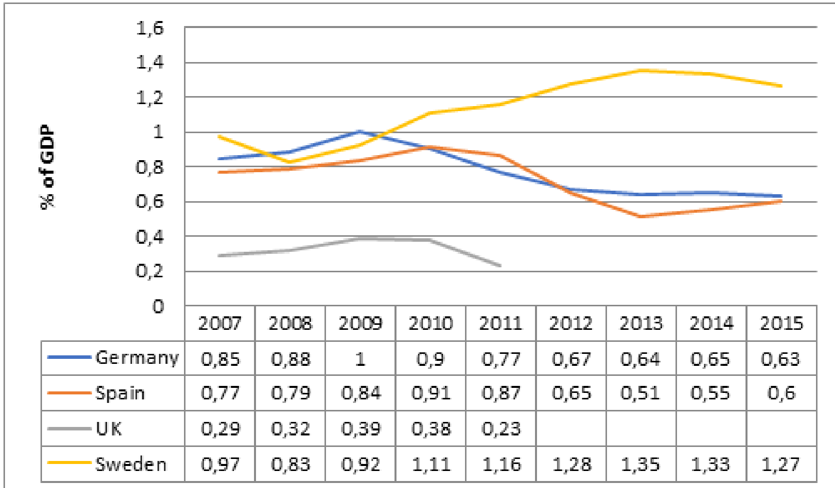
8.0% of people with above-average income and 9.0% of people with below-average income were unable to meet their health care needs for financial reasons (OECD, 2009). In 2010, 4.0% of people with above-average incomes and 4.0% of people with below-average incomes were unable to meet their health care needs for economic reasons. In 2013, 5% of people with above-average incomes and 4% of people with below-average incomes were unable to meet their health care needs for the same reasons (OECD, 2015).

Active employment policies. Active employment policies are intended to generate incentives for individuals to return to the labor market. These measures are aimed at reducing the potential negative effects of unemployment. To achieve these objectives, the State creates conditions that the unemployed individual must fulfill, such as the active search for work, participation in training programs to improve their employability, among other measures, so as to effectively promote the process of reintegration into the labor market.

The financial crisis (2007-2008) brought to an end a cycle characterized by economic growth and significant reductions in unemployment. This was followed by a considerable increase in unemployment and even the rise of the phenomenon of long-term unemployment.

In Germany, public spending on active labor market policies increased during the first years of the crisis to 0.88% (2008), 1% (2009) and 0.9% (2010). After 2012 it stabilized at around 0.65% of GDP. Spain experienced growth during the first years of the financial crisis of 0.79% (2009), 0.84% (2010) and 0.91% (2011), with a subsequent reduction to 0.65% (2012) and 0.51% (2013). Thus, public spending on active labor market policies in both Germany and Spain experienced a curvilinear behavior. In Sweden, growth is observed in the first years of the financial crisis: 0.83% (2008), 0.92% (2009), 1.11% (2010), 1.16% (2011), 1.28% (2012), to stabilize at 1.35% (2013), 1.33 (2014) and 1.27 (2015). The ratio of spending on active labor market policies relative to GDP is higher than in the three other countries considered in this research, reflecting the responsibility assumed by the social

democratic regime in empowering citizens. In Great Britain, on the other hand, the rate is very low in comparison with the other countries, which indicates the validity of the liberal axiological system in the British welfare regime. Based on the liberal premises of negative liberty and individual responsibility, the State should only intervene in critical situations of poverty through targeted policies; otherwise, the individual should develop and find happiness independently of the community and the State. Liberal skepticism of state intervention and the historical fears towards the authoritarian risks of the collective promotion of positive liberties (liberal theory) suggest that any interference in the spheres of individual liberty could be perceived as a form of State paternalism.



	2007	2008	2009	2010	2011	2012	2013	2014	2015
Germany	0,85	0,88	1	0,9	0,77	0,67	0,64	0,65	0,63
Spain	0,77	0,79	0,84	0,91	0,87	0,65	0,51	0,55	0,6
UK	0,29	0,32	0,39	0,38	0,23				
Sweden	0,97	0,83	0,92	1,11	1,16	1,28	1,35	1,33	1,27

Figure 4. Public expenditures on active labor market policies (% of GDP)
Source: OECD (2017b)

5. Conclusions

The relationship between the crisis and the transformation of the welfare state in the fiscal policy dimension is neither direct nor automatic. There is no strong empirical evidence to support the

pessimistic thesis that the different welfare regimes are converging into a single residual model where equity is subordinated to economic efficiency. It has been shown that different types of welfare regimes have adopted divergent policy responses in an attempt to mitigate the negative effects of the market. However, even if the financial crisis has provoked different reactions among the different welfare regimes, there is a set of patterns in the fiscal system that is shared by the different types of regimes, which could compromise equity.

In the first place, contrary to the recommendations of specialists and international organizations, the redistributive potential of the wealth tax continues to be ignored. In the case of Germany, in particular, where the concentration of wealth is notable, the initiatives of left-wing parties to reintroduce a general wealth tax have been unsuccessful. Second, in all four regimes there is a downward trend in the corporate tax rate, and it is not foreseen that this trend could eventually be reversed. Third, despite the diversity of tax policy responses and some efforts to create greater progressivity in some tax instruments, there is evidence of tax shifts from mobile to immobile factors. In the four welfare regimes, reductions in corporate and personal income tax rates are offset by increasing indirect taxes (VAT), which by their regressive nature are incompatible with the normative principles of equity.

Therefore, in this research, the incidence of domestic factors in the tax and public expenditure system has been proven. Thus, the type of welfare regime has implications for the commitment to equity, the type of policy responses, and the use of fiscal instruments to deal with the global financial crisis (2008-2009). Contrary to the thesis of the convergence of the welfare state into a competitive and residual type, the policy responses according to the fiscal category or instrument have been competitive, compensatory, or curvilinear in nature. In this sense, the choice of the time frame (2007-2015) has allowed us to consider the evolution of measures during the financial crisis (2008-2009), i.e., to go beyond the initial reactions.

Moreover, we evidenced fiscal trends such as tax transfers from mobile to immobile factors, which could be indicative of a gradual displacement of the fiscal autonomy of the welfare state in a globalized economy.

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