The political economy of peripheral tax reform: the Spanish fiscal transition

Sara Torregrosa Hetland  (Universitat de Barcelona)

Abstract: The Spanish fiscal system underwent profound reforms between 1977 and 1986, in close connection to the transition from dictatorship to democracy. These were meant to bring the country towards the welfare state model of its European neighbours. Some practical results in terms of progressivity and redistribution, however, were not outstanding, and inequality did not significantly decrease after democratization. In recent times, the system has shown its incapacity to sustain European-level welfare services. Can a historical analysis help us understand the constraints faced by this young welfare state in the periphery? This paper looks at two factors in the political economy of tax reform: social preferences and the decision-making institutions. Perhaps the general citizen – or the decisive voter – was not very keen on redistribution. Alternatively, the new political system might not have translated effectively the public stances onto policies. Furthermore, at this time of the transition, international developments were changing the emphasis from equity to efficiency in tax system design, and increasing capital mobility provided an enhanced capacity to escape from taxation.

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