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Breaking Down Ideas and Institutions: The Politics of Tax Policy in the U.S. and the U.K

Introduction

In the current debate on the sources of policy change, much has been written recently about the respective role of ideas (i.e., the causal and normative beliefs of actors) and institutions (i.e., the embedded rules of the political game), two broad types of political explanation distinct from both structural and psychological factors. According to Craig Parsons (2007), compared to structural and psychological factors, both ideas and institutions point to the agency of political actors and the historically-constructed nature of the environment in which they operate. Yet, ideas differ from institutions mainly because the former are about the “logic of perception,” according to which actors make sense of their environment, while institutions are about the “logic of position,” according to which that environment is regulated (Parsons, 2007). As the existing social science literature suggests, both ideational and institutional analyses have clear analytical value in their own terms but, under many circumstances, it is the combination of the two factors that allows for a full understanding of policy trajectories (e.g., Béland and Cox, 2011; Campbell, 2004; Parsons, 2007). In this article we suggest that, to improve our understanding of how ideas and institutions interact to produce change, it is important to break down these two overly broad concepts. This is because beyond general arguments about how “ideas” and “institutions” interact, students of public policy should itemize ideas and institutions into more focused, and empirically

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1 In this article, due to the limited space available, considering the theoretical task at stake, we focus almost exclusively on ideas and institutions. This does not mean that structural and psychological factors are irrelevant to study the cases at hand. Simply, our goal is to better grasp the ideas-institutions nexus rather than solving a concrete empirical puzzle and examining all the possible explanations available in the literature.
traceable, sub-categories while recognizing the changing and contingent nature of their interaction, over time. The paper illustrates how breaking down ideas and institutions into more particular sub-categories when analysing how those factors interact over time provides a richer understanding of policy decisions than an analytical treatment that leaves ideas and institutions as broad, underspecified, concepts.

To illustrate this argument about complex interactions among specific types of institutions and ideas over time, we turn to the politics of tax policy in the United States (U.S.) and the United Kingdom (U.K.), tracking developments from the rise of the New Right and an aggressive income tax cutting agenda, personified by President Reagan and Prime Minister Thatcher, through to the revived debate about the legitimacy of increasing taxes on those earning the highest incomes that emerged in the era of austerity that followed the Great Recession of 2008. Our analysis covers a lot of policy and temporal ground because our goal is to trace the complex interaction between specific ideas and institutions over time, and the use of a comparative approach highlights the intricacies of those interactions. This is the case because each country’s institutional structures help frame the extent to which ideas can gain traction amongst key political actors and also how far those actors, who promote a particular set of ideas, can put those ideas into action.

The revived public contest over tax policy in the wake of the 2008 recession, with argument over the merits of increasing marginal income tax rates on the highest earning households, differed from that following the economic downturn of the late 1970s. At that time conservatives successfully promoted the idea that high taxes on individuals had undermined incentive structures thus contributing to the economic troubles of that time. Yet, while this anti-tax ideology, broadly prevailed for three decades the story of how tax policy at the national level differed in the two countries is as revealing as the headline similarities. Both countries did witness significant cuts in marginal income tax rates, especially at the
higher end of the income scale, but in the U.S. there were episodes when income taxes were increased, notably in the early 1990s, when deficit reduction emerged strongly onto the political agenda. In the U.K., on the other hand, marginal income tax rates were consistently reduced, but other taxes affecting individuals were regularly increased over the period.²

In the section below we draw on historical institutionalism and recent ideational policy research to introduce our key concepts and the analytical framework we will use to examine distinct aspects of the politics of tax policy in both countries, since the Thatcher and Reagan years. The extended analysis that follows reveals the importance of investigating how distinct factors come to the fore in different contexts leading to different, and contingent, interaction patterns among distinct types of ideas and of institutions.

**Ideas and Institutions**

One of the most central issues for contemporary tax research is to identify and trace factors that may help account for important policy differences with regard to taxation between countries (Martin, Mehrotra, & Prasad, 2009). One such factor is the role of ideas, which is increasingly central in social science research in general (Béland & Cox, 2011). The starting point of this broad perspective is that experts and academic economists formulate the relevant ideas before think tanks, journalists, and politicians reframe and diffuse them within the political domain. Just like the actors promoting them, such ideas compete for space in the political arena, as they define distinct political positions and shape the policy agenda by making some policy alternatives look more legitimate than others (Kingdon, 1995). Following an emerging stream of literature, we claim that the role of ideas is best understood

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² We concentrate on national government taxes directly affecting households. Thus, the article centers on national income tax, social insurance contributions (that is, Social Security payroll taxes in the U.S. and National Insurance Contributions in the U.K.), and consumption taxes imposed by central government.
in terms of how those ideas interact with political institutions (Campbell, 2004; Lieberman, 2002; Padamesee, 2009; Parsons, 2007; Schmidt, 2011; Walsh, 2000). This explicit focus on institutions is consistent with historical institutionalism, a theoretical approach that has long stressed their role in shaping the behaviour and policy choices of political actors (Lecours, 2005; Pierson, 1994; Skocpol, 1992; Steinmo, Thelen and Longstreth, 1992; Weaver and Rockman, 1993).

When adopting such a hybrid approach that combines different analytical factors, it is important to define each of the factors before showing how they might interact at particular points in time (Parsons, 2007), and the definitions are especially important in this instance, because we include different types of institutions in our analysis, and also think about ideas in terms of both core beliefs and the framing of those beliefs at different political moments in time. For the purpose of our analysis, drawing on insight from historical institutionalism, we broadly define political institutions as the embedded written and unwritten rules that shape political behaviour (Campbell, 2004; Pierson, 1992; Skocpol, 1992; on institutions and tax policy, see Steinmo, 1996). But this broad categorization needs to be refined, something we can do partly by taking into account the rich historical institutionalist literature, which has mapped different forms of institutions and the ways in which they might impact both political behaviour and policy development (Lecours, 2005; Steinmo, Thelen and Longstreth, 1992; Weaver and Rockman, 1993). First, we have formal institutional mechanisms that are relatively rigid and stable over time; for example, parliamentary or congressional rules about the legislative process, which seldom change dramatically, at least in contemporary, developed liberal democracies. Second, there are norms or expectations about how policymakers and legislators will act in the context of these rigid boundaries. These norms are not absolute but do strongly affect behaviour. Third, there are government agencies and the state bureaucracies with an interest in particular policy domains – most notably on tax
policy the respective Treasury departments. Fourth, following historical institutionalist scholarship (Béland, 2010; Pierson, 1994; Skocpol, 1992), we include policy legacies and feedback effects from existing programs as institutions that shape behaviour. In doing so, drawing once again on the historical institutionalist tradition, we claim that, in each country, the range of existing policy instruments, in this case types of taxation, provide more or fewer options for policymakers looking for policy alternatives such as revenue sources. Finally, in line with historical institutionalist scholars such as Antonia Maioni (1998), we think of political parties as particular, and crucial, types of institution with their own formal and informal norms.

Alongside this discussion about institutions, we define ideas as the normative and cognitive beliefs of actors as expressed in their discourse and preferences (Béland & Cox, 2011). Here again, however, it is important to be more precise, as far as the types of ideas at the centre of our analysis are concerned. Although ideas can take many different forms (Campbell, 2004; Padamsee, 2009; Parsons, 2007), our analysis concentrates on two related, yet distinct, categories of ideas. First, ideas can take the form of core beliefs. In the context of this study, a central core belief amongst conservatives in both the U.S. and U.K. is that lowering marginal income tax rates is, in itself, a desirable policy goal. Second, core beliefs can be expressed by public statements, which we call framing processes (Béland, 2009; Campbell, 2004). These framing devices maybe less consistent over time in terms of their short-term articulation but their purpose is to underpin the fundamental core beliefs.

In order to illustrate how combining ideational and institutional approaches in a truly systematic way, while drawing a clear line among different types of ideas and institutions to explore their changing patterns of interaction over time, can improve our understanding of key policy developments, we now turn to our examination of tax policy in the U.S. and U.K. First, we examine how marginal income tax rates were cut in the two countries between 1979
and 2008. Second, in contrast, we look at the ways in which taxes affecting households were increased over the same period. Finally, we consider the debate about taxation that followed the 2008 recession. Each section is divided into two sub-sections: the first one tells the basic policy “story” at hand and the second (“discussion”) focuses more systematically on the interaction among key factors shaping each “story.” It is important to note that our commentary focuses on developments at the national (or federal) level.3


The Story

In the three decades following the Second World War economic growth meant that people were still better off even as the state garnered more tax revenues. By the late 1970s this situation had changed as the slowing economies in the two countries and real income stagnation pushed tax to the fore of public debate. Furthermore, the political leaders at the helms of the Conservative Party in the U.K. and the Republican Party in the U.S. rejected their respective parties’ post-war compromise with tax rises and welfare state expansion. In the U.S., the passage of Proposition 13 in California in 1978 was seen by many Republicans operating at the federal level as signalling a broad “tax revolt” across the entire country (Martin, 2008). There was not a similar defining moment in the U.K., but cutting taxes was at the heart of the Conservative campaign in the 1979 general election, with the party manifesto promising, “We shall cut income tax at all levels” with it being “especially important to cut

3 The focus on national level politics means that the article does not address the highly controversial effort to introduce what became known as “the poll tax” in the U.K. in the late 1980s. Although this was legislated at the national level, the tax itself concerned the funding of local government (for the story of the rise and fall of the poll tax see Butler, Adonis, & Travers, 1994). Also, while the rise of anti-property tax movements in some states in the U.S. in the late 1970s is relevant to the politics of our story we do not seek to explain the origins of those movements.
the absurdly high marginal rates of tax both at the bottom and top of the income scale” (Conservative Party, 1979). In the U.S. in 1980, Ronald Reagan used the promise of significant tax cuts as a means of both attacking President Carter and of distinguishing himself from George H.W. Bush, his main rival for the Republican presidential nomination.

Both Thatcher and Reagan quickly fulfilled their promises with regard to income tax cuts. The U.K. ’s 1979 budget, orchestrated by Thatcher and her Chancellor of the Exchequer, Geoffrey Howe, was a “radical turning point” in fiscal policy (Evans & Williams, 2009, p. 20). The standard, or basic, income tax rate was reduced from 33% to 30%, and the top rate was lowered from 83% to 60%. In addition, that budget abridged the overall system from eleven tax bands to only seven. By the end of the decade there were only two income tax bands with a basic rate of 25% and a top rate of 40%. In the last budget before the Conservatives left office in 1997, the former was reduced to 23%. By that time, after 18 years out of power, the Labour Party, if not sharing the Conservative core belief in the overriding value of marginal income tax cuts had substantively acquiesced to the prevailing framing of arguments about income tax. In 1992, opinion polls had predicted a very close election, but the Conservatives in fact finished seven points ahead of Labour. One popular interpretation of events was that Conservative attacks on Labour’s tax proposals throughout the election campaign had swayed voters. The actual evidence did not clearly support that theory but it nevertheless emerged as part of the conventional political wisdom (Heath, Jowell, & Curtice, 1994). Partially, at least, in order to pre-empt similar attacks, the 1997 Labour manifesto promised, “There will be no return to the penal tax rates that existed … in the 1970s. To encourage work and reward effort, we are pledged not to raise the basic or top rates of income tax throughout the next Parliament” (Labour Party, 1997). In government, Labour not only technically kept this promise through two parliaments, but also in fact implemented the Conservative ambition to reduce the basic tax rate to 20% in the 2007 budget.
Through the late 1970s in the U.S., a group of conservatives led by Jude Wanniski from the *Wall Street Journal* aggressively pushed a controversial set of supply-side economic ideas, which served as a coherent framing device for promoting dramatic income tax cuts. One prominent political advocate of these ideas was the Republican Representative from New York, Jack Kemp, who was also close to Ronald Reagan (Johnson, 1991). At the heart of supply-side theory, as promoted by Wanniski and Kemp, was the concept of the Laffer Curve that proposed that income tax cuts could generate higher federal revenues over time by stimulating economic prosperity (Laffer, 2004; Mitchell, 2012; on conservative tax ideas, see also Block, 2009). According to Wanniski, when Reagan was told of the Laffer Curve, “He [Reagan] knew instantly that it was true” (quoted in Johnson, 1991, p. 105). In his acceptance speech to the Republican convention in 1980 Reagan declared: “When I talk of tax cuts, I am reminded that every major tax cut in this century has strengthened the economy, generated renewed productivity and ended up yielding new revenues for the government by creating new investment, new jobs and more commerce among our people” (Reagan, 1980). In terms of framing processes, this optimistic rhetoric about fiscal policy legitimized massive federal tax cuts embodied in the Economic Recovery Tax Act (ERTA), which was signed into law in August 1981 (Brownlee, 2004, p. 150). This legislation cut the marginal federal income tax

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4 The idea behind the Laffer Curve is not that tax cuts will always generate more revenue, but that there comes a point where too high marginal rates become such a strong disincentive that revenue falls. The subtleties of where that point might be were not always properly debated in the political sphere. Bruce Bartlett, who worked in the Reagan White House, notes that the Republican Party was looking for new ideas in the wake of the 1976 elections that left them out of the White House and very much in minority status in both chambers of Congress. The passage of Proposition 13 convinced many Republicans that a tax cutting agenda was a road to recovery and so they “jumped aboard the tax-cut bandwagon” being driven by Kemp and other true believers in the idea that tax cuts would lead to dramatic economic expansion (Bartlett, 2006, p. 160).
“rates by 23 percent within each bracket over a period of three years” (Eissa, 1996, p. 11), with the top federal marginal tax rate dropping by even more from 70% to 50%.

Importantly, to end the phenomenon of the tax bracket creep, the law also index-linked tax brackets to adjustments in the cost of living. This change had “truly revolutionary effects” (Pierson, 1994, p. 153), as no longer would tax revenues effectively be increased through legislative inertia. From this point on, Congress would have to vote explicitly to raise taxes, leaving a trail of blame for anti-tax watchdogs to highlight to voters. Interestingly, while the Thatcher government enjoyed a comfortable majority in the House of Commons—meaning that the tax cuts in the U.K., once decided by the cabinet, would be enacted by the Conservative majority regardless of other parties’ opposition—ERTA in the U.S. had to pass through the Democrat-controlled House of Representatives. In the U.S. case the lack of parliamentary style party discipline was critical as the Reagan administration was able to persuade enough of the more conservative-minded Democrats (who might be afraid to lose their seats to Republican challengers at the next election) to help the new President to pass the law (Brownlee & Steuerle, 2003: 160-161). The 1986 Tax Reform Act further reduced personal income taxes for lower- and upper-income households, including a cut in the top marginal tax rate to 28%. This was in fact a revenue-neutral piece of legislation that involved a major reorganization of the overall tax code (Morgan, 2009, pp. 113–114). The fact that the Reagan administration needed to win votes from congressional Democrats highlights the typically more complex interaction between formal political institutions and policy making in the U.S. than the U.K., but the fact that the Reagan administration did manage to pursue much of its tax-cutting agenda illustrates the growing influence of supply-side economic ideas through the 1980s as well as the perception amongst some Democrats that they should not be on the “wrong side” of public sentiment on tax policy.
As will be described in the next section of the article, in the early 1990s, there was collision between tax policy and deficit reduction efforts, but by the end of that decade, the context of economic prosperity saw the federal budget balanced. The apparent end to deficits reinforced the anti-tax discourse within Republican circles, leading to more radical policy prescriptions. This culminated, early in the George W. Bush presidency, with the enactment of the 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA). At the time of its enactment, the Joint Committee on Taxation predicted that the legislation would “cost the federal treasury more than $1.3 trillion (plus interest) through 2010” (Bartels, 2005, p. 19), when tax rates were due to return to their pre-EGTRRA levels unless Congress voted to extend the cuts. Importantly, in spite the pro-middle class rhetoric surrounding it, the law overwhelmingly favoured the top 1% of households, who, over time, gained far more from the legislation (as a group and individually) than the bottom 60% (Bartels, 2005, p. 19).

Further tax cuts were enacted in 2003 (Jobs and Growth Tax Relief, and the Tax Relief Reconciliation Act), which again lowered marginal income tax rates and featured the same type of sunset provisions, as they were also due to “expire” at the end of 2010. By 2003, the fiscal optimism used to justify the 2001 tax cuts had dissipated and large federal deficits were again projected. Now, however, in terms of framing processes, President Bush and his allies returned to the logic of the Laffer Curve and insisted that, by stimulating economic growth and therefore boosting federal revenues, the tax cuts would pay for themselves in the long run. Although there remained only limited evidence of the economic efficacy of the idea that deep tax cuts were self-funding in the long-run (Gale, Orszag, & Shapiro, 2004), this principle remained a key framing (ideational) tool for Republicans. The shift in the public rationale for tax cuts between 2001 and 2003 shows how framing devices can be amended in an effort to promote the underlying, and constant, core belief in the virtue of tax reduction.
It is important to note that the institutional context was not overwhelmingly favourable for the Bush administration to push through its tax cuts, especially in 2001, when the Senate was evenly divided. Yet, when the bill first passed Senate, it did so by a 62–38 margin, reflecting that centrist Democrats, and especially those facing re-election battles in 2002, were willing to side with conservatives on the tax issue (Bartels, 2008, pp. 165–166). Interestingly, as early as January 2001, conservative groups started running advertisements in support of major tax cuts in Montana and North Dakota, two states that Bush had easily won in the November 2000 election but which had Democratic Senators who were members of the Senate Finance Committee. In Montana, for example, where Senator Max Baucus had a potentially difficult re-election campaign in 2002, the advertisement said, “Tax cuts will create new jobs and keep the economy moving. But some Washington politicians oppose the Bush tax cuts” (Schmitt, 2001). As it was, Baucus was the first Democrat on SFC to support the Bush package. Nevertheless, the institutional context did mean that the administration did not get all it wanted. David Brooks (2001), a prominent conservative commentator, reflected that the “ambitious” nature of the original Bush plan had been “chewed up in Congress.” This exaggerates the significance of the compromises that were made by the administration but the need to negotiate with Senate Democrats did scale down the size of the tax cuts somewhat (Rosenbaum, 2001). More specifically, the decision to enact the cuts through the budget reconciliation process, which negated the possibility of a filibuster and provided other procedural protections for the bill, meant that the cuts could only be put in place for ten years and hence the sunset clauses had to be included (Bartels, 2008: 164-5). As will be seen in our third narrative section below, this had mixed consequences for tax policy and politics in the longer-term.

Discussion
This last tax-cutting episode illustrates the importance of the interplay between ideas and institutions. As far as ideas are concerned, in terms of core beliefs, the ideological weight of supporting tax cuts had, for Republicans, become further entrenched since the 1980s. In addition, at the institutional level, developments within Republican congressional ranks throughout this period reflect two different, but self-reinforcing, dynamics with regard to tax policy. On one hand, increasing partisan polarization (Sinclair, 2006), which had been evident since the early 1990s, meant that there was greater unity amongst congressional Republicans (Hacker & Pierson, 2005). As far as formal institutions are concerned, however, this does not mean that unity among Republicans translated into the party discipline seen in parliamentary systems, as evidenced by the vulnerability and precariousness of individual Congress members to external pressures.

While these might appear to be potentially contradictory dynamics, in the context of tax policy, by the early 2000s, these ideational and institutional features worked to bolster each other. An existing ideational preference to support tax cuts and vehemently oppose tax increases was institutionally buttressed by the growing prominence of anti-tax organizations that were prepared to fund advertisements not only against Democrats but also against Republicans wavering on the tax question. In particular, Grover Norquist’s Americans for Tax Reform and the Club for Growth mobilized strong conservative activist support for the 2001 and 2003 tax cuts. By the end of 2003, 42 Senators and 216 House Republicans had signed the ATR’s anti-tax pledge (Hacker & Pierson, 2007, p. 268). Hence the ideational tax cutting agenda (core beliefs) within the GOP was exacerbated by an externally enforced institutional discipline (formal institutions), with the “discipline” administered by the threat of a primary challenge to Republicans who wavered on tax issues.

Furthermore, in contrast to developments on the Republican side, where institutional and ideational factors both pushed in the same direction to reinforce the anti-tax agenda,
Democrats had neither an internal nor externally imposed ideological unity (core beliefs) about the best policy on tax cuts. Some conservative Democrats did genuinely support limited tax cuts and, even if the scale of cuts proposed by the Bush administration went beyond their wishes, they were not opposed to cuts as a matter of principle. And, for those Democrats who were inclined to vote for the tax cuts, at the ideational level, there was no equivalent organization to the ATR urging them to oppose the cuts. Institutionally, the threat of an internal party challenge from the left was not negligible but for some, the threat of defeat in the general election was much more real. In this ideational and institutional context, it is unsurprising that nine of the twelve Senate Democrats who voted for the 2001 tax cuts came from states that Bush had won in 2000.

In terms of understanding how effectively conservatives in the US were able to pursue a tax cutting agenda and how their political opponents reacted to that agenda it is instructive to reflect on the contrast with the institutional framework of U.K. government and party politics. First, the Conservative governments through the 1980s and early 1990s, enjoying parliamentary majorities, were able to enact their tax policy preferences without having to negotiate with any of their political opponents. In the US, even though the enactment of the EGTRRA in 2001 was a significant triumph for the Bush administration, it was still a little compromised and time-limited because of the delicate balance of partisan power in Senate. Second, just as the Democrats came under fire from Republicans as being the pro-tax party so too the Conservatives attacked Labour for their tax “bombshells”: And, through the 1990s, Labour did struggle to devise tax policy that was consistent with the party’s core spending principles and perceived to be electorally viable. Yet, whatever the internal arguments, unlike the Democrats in Congress Labour M.P.s remained united in terms of parliamentary votes and their campaigning at elections. This reflects how U.K. formal political institutions offer
little opportunity and mostly little incentive for individual legislators or candidates at election
time to challenge the official party position.

This discussion illustrates how the idea of income tax cuts as a desirable goal in their
own right became embedded in conservative thinking on both sides of the Atlantic. It also
shows that the strength of conviction on one side of the argument does not necessarily result
in an equal and opposite reaction on the other side, as Labour and Democratic leaders
struggled to maintain some sort of political space on tax issues. These similar ideational
patterns, however, were moderated by specific institutional factors leading to differences in
political behaviour and outcomes. Most clearly, majority Conservative governments in the
UK had the capacity to act with an authority denied to Republicans in the US where the
institutional framework almost always requires a negotiated settlement. The analysis also
emphasizes the importance of how behaviour is shaped by the institutional incentives that
individual legislators face in terms of the level of internal party discipline or alternatively,
extra party pressures.

**Raising Taxes: 1979–2008**

*The Story*

Despite the headline cuts in income tax rates between 1979 and 2010 there was not a simple
parallel trajectory with regard to tax policy in the U.S. and U.K. In the U.K., political actors
were in fact consistently willing and able to increase taxes that impacted individual
households, just not income taxes. In the U.S. on the other hand, where there was only
limited room to manoeuvre the revenue-raising burden from one tax to another, there were
two episodes where federal personal income tax rates were increased. To understand these
differences, it is again important to combine ideas and institutions (including policy legacies:
Pierson, 1994).
In the U.K., the monetarist ideas embraced by Prime Minister Thatcher and Chancellor Howe prioritized reducing government borrowing, preferably through spending cuts, but if necessary through revenue increases. In 1979, this meant that the income tax cuts needed to be balanced by a sharp rise in the Value Added Tax (VAT). This meant almost doubling the standard rate of 8% to 15% in the 1979 budget, although the zero rating on food and some other basic goods remained. Thatcher (1993, pp. 41–42) justified the switch from direct income tax to consumption tax as part of a strategy to deliver economic growth by changing behaviour: “Cuts in public expenditure and borrowing were needed to lift the burden on the wealth-creating private sector. Lower income tax, combined with a shift from taxation on earning to taxation on spending, would increase incentives.” In 1992, the VAT was further increased to 17.5%. In addition to the VAT increases, National Insurance contributions (NICs) were increased in a series of small movements, from a basic rate of 6.5% in 1978–1979 to 10% in 1997–1998 (Evans & Williams, 2009, p. 86). This was driven by budgetary necessity and the need to control the deficit (Thatcher, 1993, p. 128).

Having made its own version of an anti-tax pledge by promising not to raise income tax through the lifetime of a parliament, Blair’s Labour governments sought revenues from other tax sources. This included raising NICs by 1% on employers and employees in the 2002 budget. In addition, a variety of indirect taxes were increased. Rather than VAT, the focus was on “sin taxes,” such as duties on alcohol, tobacco and gas (a source of “sin” from an environmental standpoint), as well as so-called “invisible” taxes (White & Giaimo, 2001, p. 215), such as a windfall tax on the utility companies that had been privatized during the Conservative years, and an increase in Stamp Duty on properties bought for over £250,000.5 These tax rises did sometimes provoke a popular backlash, most notably when in 2000 truck drivers blockaded gas distribution centres leading to severe gas shortages across the country’s

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5 Stamp Duty (now Stamp Duty Land Tax) is paid by the buyers of a property.
petrol stations (Busby, 2000). Nevertheless, what is clear is that, in the U.K., governments consistently increased taxes that impacted on domestic households despite the over-arching dominance of an anti-tax discourse. The respective governments were able to do this, without paying too high a political price, by raising already existing taxes, which, while hardly popular, did have an established institutional legitimacy. Importantly for the Conservative governments led by Prime Ministers Thatcher and Major increasing these taxes did not violate their core aversion to raising marginal income tax rates.

In the U.S., the revenue losses to the federal government due to the tax cuts contained in the ERTA amounted to $750 billion over the first five years (Steinmo, 2003, p. 217). Through the rest of the Reagan presidency, starting in 1982, there were some tax increases enacted through less visible measures, like the closing of specific income tax loopholes (Brownlee, 2004, p. 153). This logic of fiscal reform, based on cuts in tax expenditures, culminated with revenue-neutral Tax Reform Act of 1986, which simultaneously cut income tax rates and closed hundreds of tax loopholes (Brownlee, 2004, p. 174). One clear episode of a tax increase came after Congress rejected the administration’s initial efforts to solve an emerging shortfall in the Social Security trust fund by effectively cutting benefits. In a classic act of blame avoidance, the administration and Congress agreed to establish a commission that would devise a solution to the shortfall. The resulting Greenspan Commission ultimately recommended increasing the payroll tax to help bring the fund’s finances back into balance (Light, 1995; on blame avoidance, see Weaver, 1986). Importantly, however, while this hike in the Social Security tax increased aggregate government revenues, it was a very explicit remedy for a specific ill afflicting a popular program and was not a device that could be used time and again to shore up all government spending in the manner that governments in the U.K. raised NICs. So although Social Security contributions and NICs are both payroll taxes levied in addition to income tax their development over time created quite divergent policy
legacies that, in turn, significantly affected the extent to which they could be used as general revenue raising tools.

The most significant and controversial tax raising episodes occurred after Reagan left office, but they were a response to a legacy of spiralling federal deficit from the 1980s. Initially, as Reagan prepared to leave office, the conservative anti-tax agenda appeared to be on track in the 1988 presidential election campaign, with Republican presidential nominee and Vice President George H. W. Bush’s infamous campaign pledge that he would rebut any congressional efforts to raise taxes with the retort, “Read my Lips: No New Taxes.” But during Bush’s presidency (1989–1993), the U.S. appeared to be approaching a fiscal breaking point. In addition to the general concern about the sheer size of the deficit, President Bush and Congress had to deal with the potential impact of the so-called Gramm–Rudman–Hollings Act. This law, which had been signed by President Reagan even as deficits rose, set a series of deficit reduction targets; if these were not met, then automatic spending cuts would be triggered (Congressional Research Service, 2011). As the GRH targets and cuts loomed, President Bush negotiated with the Democratic-controlled Congress, saying “tough decisions” were needed to avoid potentially “Draconian cuts in defense, student grants and a wide array of other domestic services” (quoted in Rosenthal, 1990). The anticipation that this meant he would backtrack on his campaign promise of no new taxes was reinforced by the fact that the Democratic leadership demanded revenue increases, including a hike in the top income tax rate, with a further surcharge on millionaires to go with any cuts to their favoured programs. In the end Bush fought off the surcharge, but did agree to raise the top tax rate from 28% to 31%, as part of the Omnibus Budget and Reconciliation Act of 1990. This deal was a product of divided government, and majorities of Republicans voted against the package in both chambers of Congress. The episode fuelled Patrick Buchanan’s challenge to Bush for the party’s presidential nomination in 1992, which gained unexpected momentum,
partially as a consequence of a television commercial mocking Bush’s 1988 “no new taxes” pledge. In the end, on the framing front, Bush tried to deflect blame onto the Democratic Congress and said of his decision to sign the tax increase: “I did it and I regret it and I regret it” (quoted in Rosenthal, 1992). In the long-term, therefore, this episode reinforced anti-tax forces and ideas within the Republican Party: conservatives not only disliked the substance of OBRA, but they interpreted the politics as having been disastrous for their party.

Whatever the merits of the OBRA of 1990, it did not resolve the country’s fiscal problems; “deficit fever” was high in Washington as Bill Clinton entered the White House in 1993. This was especially the case as Ross Perot’s bid for the presidency had pushed the issue to the fore. Moreover, as with Tony Blair and the emerging New Labour in the U.K., part of Clinton’s “New” agenda was a promise to not engage in the fiscal profligacy popularly associated with “old” Democrats (and “old” Labour). During the campaign, Clinton had promised a middle-class tax cut but he had said that there would need to be increases in the top rate of income tax. Once in power, President Clinton abandoned the former commitment but, to frame the need for tax increases, he did argue that taxing “the rich” would not hurt the economy but rather would generate new revenues to help fight the federal deficits (Graetz, 1993, p. 566). In the end, the 1993 Omnibus Budget Reconciliation Act did sharply increase taxes on the wealthy, from 31% to 36%, with a further surcharge on higher income earners that effectively left a top marginal rate of 39.6% (Steuerle, 2008, p. 165). The law also meant that seniors with higher incomes were taxed on a greater portion of their Social Security benefits, and a gas tax of 4.3 cents a gallon was introduced.

Clinton’s budget package received no Republican support, which was the first time since the Second World War that such a significant bill had passed Congress without any votes from the minority party. Senate Minority Leader, Senator Bob Dole, commented, “This plan is not just the largest tax increase in American history. It’s the largest tax increase in
world history” (quoted in Morgan, 2009, p. 174). This was untrue, but the general attempt to frame Clinton as a tax raiser had ideational resonance. In his memoirs, Clinton (2004, p. 538) reflected that his economic and fiscal plans “brought arithmetic back into the budget” but that “my fellow Democrats and I bore the brunt of the public’s withdrawal pains.”

**Discussion**

So how do we make sense of the different policy developments in the U.S. and U.K., given the conventional wisdom that similar anti-tax ideas broadly influenced both countries? The answer again lies in an examination of the interaction between ideas and institutions. First, with particular respect to the role of ideas, it is important to distinguish between features of the New Right belief systems that guided the Thatcher government and Reagan administration. Both Reagan and Thatcher saw cutting taxes and spending as critical, but Reagan relied on a supply-side interpretation that saw economic growth, brought about by deregulation and cutting taxes, as the priority, with budget balance following from this. Reagan never retreated from his public commitment to deficit reduction but, reflecting the idea underpinning the Laffer Curve, “he believed that the imbalances would disappear once his economic program had a chance to work” (Morgan, 2009, p. 92). Thatcher’s adherence to monetarism, on the other hand, prioritized balancing the budget from the start (Gamble, 1988, pp. 39–48). Interestingly, Prime Minister David Cameron recalled Thatcher in early 2013 when rebuking members of his own Conservative Party who were demanding that his government introduce immediate tax cuts. When emphasizing his prioritization of deficit reduction, he noted, “Margaret Thatcher understood that a tax cut paid for by borrowed money is no tax cut at all” (quoted in Hutton & Donaldson, 2013).

In aggregate, according to Paul Pierson (1994, p. 38), the “Reagan and Thatcher governments diverged more radically on tax policy than on any other major domestic issue.” As we suggest, ideational differences (core beliefs) were reinforced by the institutional
constraints and opportunities in the two countries. Here, however, it is important to be careful to identify the specific institutions involved. This is because these episodes of tax increases highlight the role of different institutions that were discussed in the previous section analysing tax cuts. First, with regard to constraints, it is important to acknowledge the role of the Treasury departments in the two countries. Fundamentally, the U.K. Treasury is a more powerful institution than its U.S. counterpart. This is most obvious in terms of the U.K. Treasury’s determination and capacity to control overall government spending with its long-established authority over other government departments’ budgets (Glennerster, 2009; Lipsey, 2000; Thain, 2004). The U.S. Treasury has no corresponding institutional role in determining aggregate spending, as Congress does not defer to the executive the way Parliament defers to the executive in the U.K. Similarly, the U.K. Treasury has clear lines of responsibility for the state of the national finances, meaning that it is a much stronger deficit enforcement hawk than is the case in the U.S. The Chancellor of the Exchequer in the U.K. is a much more high profile and institutionally powerful actor within domestic government than the U.S. Secretary of the Treasury. In this context it is worth noting how Secretary Paul O’Neill’s reservations about the scale of the 2001 and 2003 tax cuts, once the fiscal surpluses of the late 1990s had been replaced by deficits, were downplayed in the White House (Suskind, 2004). Hence, in the U.K., there was always a stronger voice reminding political actors that revenues lost through income tax cuts needed to be accounted for somewhere else. This factor illustrates the differential role of government agencies, one of the institutional aspects identified in the first section of this article.

Second, at the institutional level, the policy legacies in the U.K. provided more opportunities for revenue-raising for the Thatcher and subsequent U.K. governments than were available to U.S. policymakers. In the U.S., presidents and Congress could not compensate for lost income tax revenue by increasing VAT or similar national consumption
tax. Nor could political leaders in the U.S. increase social insurance payroll taxes in the way that U.K. governments did. As described, in the U.K. NICs were incrementally raised by both Conservative and Labour governments. In the U.S., the 1983 reforms to Social Security, which did increase the Social Security payroll tax, were the exception that proves the rule in the U.S. context. That payroll tax increase in the U.S. had a specific purpose, which was to reinforce the existing trust-fund making this distinct from other areas of federal tax policy. Furthermore, the 1986 Tax Reform Act in the U.S., through numerous changes to tax regulation, did raise tax revenues and decrease tax expenditures, but this was not a course of action that could be regularly repeated. The tax loopholes that were ended at that time represented the low hanging fruit and any further tax loophole closures such as reducing the mortgage interest deduction, whatever any possible policy merits, would be much more difficult politically as they would inflict real pain on important constituencies (Fleischer, 2012). Overall, therefore, because of specific policy ideas and existing (institutional) policy legacies, governments in the U.K. were able to shift the tax burden in a manner that could not be replicated in the U.S.


The Story

As 2008 drew to an end and the scale of financial crisis was revealed, policymakers in the U.S. and the U.K. were faced with a radically changed economic and fiscal environment. What was unclear was whether this new context would lead to a change in the common wisdom about the role of taxation. Would the shift in the economic and political climate mean that ideas about raising taxes, including income taxes, might feature more prominently on the agenda? And how would ideas about how to tackle the fiscal crisis interact with the
differing institutional factors in the U.K. and U.S. to structure tax politics and policy in this time of extreme uncertainty?

At the end of 2008, the two countries were at different points in the political cycle. In the U.S., the height of the crisis coincided with the presidential and congressional elections. In the U.K., on the other hand, the Labour government of Gordon Brown was in the position of responding to the crisis with an eye on an election eighteen months away. In an attempt to balance political, economic, and fiscal priorities, that government chose to lower the rate of VAT to 15% as part of an economic stimulus package (Finch, 2008), but to raise revenue by increasing the top marginal rate of income tax on people earning over £150,000 to 50%, as government borrowing reached its highest level since the Second World War (Grice, 2009). Against this background the 2010 general election campaign saw the parties place great emphasis on the different plans for reducing the budget deficit. All the main parties prioritized spending cuts over tax increases, but by quite different margins. For Labour, the plan was a spending-cut to tax-increase ratio of 2:1. For the Liberal Democrats, it was 2.5:1, and for the Conservatives, it was 4:1 (Chote, Crawford, Emerson, & Tetlow, 2010, p. 2). The election result was indecisive and led, in an unusual fashion for U.K. politics, to the formation of a formal Coalition government but with the Conservatives as the dominant force in partnership with the Liberal Democrats. Once in office, as part of its revenue-raising effort, the Coalition raised the rate of VAT to 20% from January 2011. But reflecting Conservative suspicion of the efficacy of high marginal income tax rates, the new 50% rate was reduced to 45%. When announcing the decision, Chancellor George Osborne insisted, “no Chancellor can justify a tax rate that damages our economy and raises next to nothing” (quoted in House of Commons Library, 2012, p. 2). In sum, these moves, by the Conservative-led Coalition government, repeated the patterns of the 1980s: Conservatives, in line with their core beliefs, denounced high top marginal income tax rates as economically damaging, but, reflecting the
need to raise some revenues in a manner consistent with the existing policy framework, increasing consumption tax was an acceptable option.

In the U.S., President Obama came to office with a fresh mandate but faced extreme fiscal pressures. In 2009, the federal deficit reached over 10% of GDP, higher than any year since 1945 (Office of Management and Budget, n.d.). Yet, the first priority was economic stimulus rather than deficit reduction, and so there was not an immediate move to increase revenues through tax policy. One consequence of this was that the fate of the Bush tax cuts, which were set to “expire” on December 31, 2010, remained unresolved through almost the first two years of Obama’s presidency, when Democrats controlled Congress. Through his election campaign Obama had promised to lower the tax burden for the majority of Americans but raise it on those households earning over $250,000; but, while some congressional Democrats thought this might be a winning strategy, others remained anxious that raising any taxes would leave Democrats susceptible to attacks in the 2010 mid-term elections (Campbell, 2011: 407). In the end, in the aftermath of those elections, and in an atmosphere reflecting the fall-out from the Republican gains, the lame-duck Congress voted to extend the Bush tax cuts for a further two years. Despite not acting on this issue when his political capital was at its highest level, Obama did maintain that this was only a short-term compromise and he insisted that the cuts for those earning more than $250,000 a year should be ended. This did mean that arguments about the “fair” burden of taxation were at the forefront of the 2012 election cycle.

Overall, the aftermath of the financial crisis and Great Recession found the left-leaning parties in the U.S. and U.K. more willing than they had been in decades to explicitly talk about increasing the tax burden on high income households in the name of fairness. For example, in the U.K., Chancellor Osborne’s decision to cut the 50% tax rate was mocked by Labour leader Ed Miliband as “a millionaire’s budget” (Woodcock & Gordon, 2012).
was a similar pattern in the U.S. during the 2012 presidential election campaign, as the question of what to do about the Bush tax cuts, with their new “expiry” date set for the end of 2012, took centre stage. A clear division between the two presidential candidates emerged on tax policy, with President Obama willing to openly make the case for income tax rates to revert from 35% to 39.6% for those with incomes above $250,000 a year (Cohen & Yellin, 2012). Republican candidate Mitt Romney stuck with the conservative theme that raising marginal rates would damage the economy by dis-incentivizing “job creators.” In his campaign, Romney proposed to reduce all marginal rates by 20%, meaning, for example, that the top rate would drop to 28%. He also claimed that his plan was revenue neutral as he would also cut loopholes and tax deductions, although he offered few specific means of achieving this (Lowrey & Kosieniewski, 2012). The conservative commitment to income tax cuts, even in the face of huge deficits, was reinforced by the 2012 Republican budget proposal designed by House Budget Committee chair, Paul Ryan from Wisconsin. The so-called “Ryan Budget,” which passed in the House of Representatives but made no further legislative progress, included huge budget cuts as well as a reduction in the top tax rate to 25% (Weisman, 2012). In this context, Romney’s choice of Ryan as his Vice-Presidential candidate represented a doubling down on the conservative position on taxation. As the 2012 election left control of government still divided, neither side was able to impose its preferred version of tax change, but as the deadline for the expiry of the 2001 tax reductions neared, there was pressure for compromise. In the end, agreement was reached that left all the tax cuts permanently in place for individuals earning less than $400,000 and couples less than $450,000. Yet, reflecting the hard line stance of many conservatives in opposition to any tax increases, Republicans in the House voted by 151 to 85 against this package despite the fact that it left in place the cuts for the vast majority of American taxpayers (Steinhauer, 2013).
Overall, this episode suggests the importance of two different institutional dynamics. On one hand, although temporary, the Bush tax cuts created powerful legacies and constituencies that, in turn, made it difficult for opponents of the cuts to attack them as a whole. On the other hand, the use of the budget reconciliation process in 2001 to get the tax cuts enacted required the inclusion of the sunset clauses meaning that all those rate cuts would be reversed unless there was action to re-authorize them. Importantly, at the end of 2012 this meant that the Obama administration could bargain about how much of the 2001 law to renew rather than passing a law explicitly increasing taxes on Americans with the highest incomes. Republican control of the House would have made the latter option impossible.

In the light of these events, it is particularly instructive to compare developments within the two conservative groupings. The U.K. Conservative party was hardly converted to the idea of raising taxes, but consistent with previous policy, it was willing to increase consumption taxes. In the U.S., however, the anti-tax mood in Republican ranks was as intense as ever. Again, it is helpful to look at the interaction of ideas and institutional settings to understand the different dynamics at play.

Discussion
A key factor helping to account for the hard line anti-tax position of Republican legislators compared to their Conservative counterparts in the U.K. is the manner in which the promotion of anti-tax ideas in the U.S. has been intensified by organizations like Grover Norquist’s ATR and its anti-tax pledge. The ideational and political influence of the ATR and the Club for Growth is exacerbated by the primary system, a key feature of U.S. party institutions not present in the U.K. This returns us to a theme discussed in the first empirical section of this paper, which is the interaction of core beliefs and the institutional role of party
discipline and party organization. Republican incumbents, especially in the House, are often more fearful of a challenge mounted from within their own party in the primary than of Democratic opposition in the general election. Any such internal challenge is much more likely to be effective if it has the support of a group such as ATR, angered by incumbents who have violated their anti-tax pledge. This type of mobilization at the primary stage is a powerful source of *ideological* discipline in the U.S. (Hacker & Pierson, 2005). Even if only a limited number of incumbent Republican legislators are challenged in primaries, the threat of being labelled a RINO (“Republican in Name Only”) by the ATR or the Club for Growth could deter Republicans from straying from the tax cutting commitment (Hacker & Pierson, 2010, p. 210). Certainly there is evidence that the multiplication of tax pledges, which is the product of a combination of ideational (core beliefs) and institutional (primary system) factors, is “significantly increasing the electoral cost of advocating higher taxes” (Tomz & Van Houweling, 2012).

At the presidential level, from an institutional standpoint, the pressures induced by the primary system were witnessed at an early debate amongst contenders for the 2012 Republican nomination, when all the candidates declared that they would reject any deficit reduction deal that was based on spending reductions to revenue raising, at a rate of 10 to 1. That is, when appealing to the Republican primary electorate the candidates all agreed that deficit reduction had to come entirely from spending cuts with no revenues included as part of the package (James, 2011). This reflected a particular electoral dynamic when the candidates were far from exercising any power, but it does indicate the institutional pressure on Republicans to be fundamentalist, at least in public, on tax issues.

This situation contrasts with the traditional U.K. institutional *party* discipline, which can allow the ruling party and its Prime Minister to adopt more pragmatic stances on taxation and other policy issues, when they are seen as politically and electorally expedient or fiscally
necessary. So in the 2010 election, the Conservatives based their deficit reduction plan on spending cuts to a greater extent than their partisan rivals, but tax revenues were acknowledged as a necessary part of any overall package (Chote et al., 2010). Furthermore, in the absence of an equivalent primary system, MPs can focus on loyalty to the party and its policy creed rather than worrying about extra-parliamentary ideological watch-dogs; in the U.K., institutionalized party discipline trumps ideological purity. Hence Conservative MPs voted for increasing the VAT in 2010 because they were told to do so by the Prime Minister and were not concerned that, at least as individuals, they would come under attack from the party’s base. That is, the institutional setting shifted blame away from them as individuals. In fact, MPs are more likely to suffer career damage through internal party discipline if they vote against the party leadership, even if such a vote might be more ideologically “pure.” This institutional logic makes it somewhat easier for U.K. Conservatives to increase taxes than their U.S. counterparts, who face constant pressures from conservative media and civil society actors who help propagate and radicalize anti-tax ideas. And in the particular institutional setting of the Republican Party, this means that potential shifts in mood in the wider political environment on tax policy are in fact secondary to the influence exerted by single issue anti-tax groups within the party’s activist base.

Conclusion

The evidence from the three case studies outlined in this article lead us to some general conclusions and suggestions for further research. First, in terms of the role of ideas, it is important to distinguish between the relatively stable core beliefs of political actors and the less settled, malleable, framing processes sometimes used to sustain political argument. Our evidence shows the impact of core beliefs, interacting with specific institutional factors, on tax policy outcomes over a sustained period. Second, just because one side of the political
debate has strong core beliefs on a public policy issue that drives policy outcomes does not mean that the opposing side will have equally coherent, and alternative, core beliefs on the issue. The fact that conservatives in both the U.S. and U.K. strongly advocated marginal cuts in income tax rates whenever possible and used that idea as a political weapon provoked an uncertain rather than resilient response from their political opponents. Third, our analysis suggests that, when studying how ideas such as core beliefs interact with institutions, it is important to be specific about the types of institution being discussed. And, in this context, the most influential type of institution, in terms of policy impact and interaction with concrete policy ideas, varies from one episode or policy issue to the other. For instance, our second “story” (Raising Taxes: 1979-2008) emphasized the role of policy legacies and of government agencies, while the two others (Cutting Taxes: 1979-2008; The Great Recession: 2008-2012) stressed the interaction between ideas as core beliefs and the institutional role of party discipline and, in the case of the U.S., the primary system. Considering these findings, our complex analysis points to a crucial lesson for future research on public policy focused on the relationship between ideas and institutions: scholars must not only clearly define “ideas” and “institutions” at the outset but, when the time comes to undertake systematic empirical analysis, they must break down these two broad concepts into more specific sub-categories, which allow them to trace the potential impact, and the interaction patterns, of such particular types of ideas and of institutions, over time.

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