


RESEARCH ARTICLE

# Making the rich pay? Social democracy and wealth taxation in Europe in the aftermath of the great financial crisis

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## Abstract

Why is taxing the rich so difficult despite rising inequality and public support for progressive taxation? Recent research has mostly focused on the ‘demand side’ of electoral tax politics, showing that economic crises can increase public demands for progressive taxation in contemporary societies. Complementing this research, we focus on the political ‘supply side’, investigating the conditions under which social democratic parties take up these calls and translate them into policy. Studying wealth taxation in the course of the global financial crisis, we argue that whether parties pushed for taxing wealth crucially depended on intra-party struggles between the (office-seeking) leadership and the (policy-seeking) left wing. Only if the leadership became convinced that redistributive tax policy was electorally promising, did the social democratic parties fight for implementing wealth taxes. We evaluate this theoretical proposition in a comparative analysis of wealth tax policies in Austria, Germany and Spain in 2008–2015.

**Keywords:** taxation; responsiveness; social democracy; party organization; financial crisis

## Introduction

Across industrialized democracies, a majority of people favors a progressive tax system (Barnes, 2015; Ballard-Rosa *et al.*, 2017), and this support has risen since the mid-2000s (Berens and Gelephitis, 2021). At the same time, the past decades witnessed policy decisions leading to a decline of progressivity in most tax systems, indicating a disconnect between public preferences and actual tax policies. In particular, the abolition of net wealth and inheritance taxes, and deep cuts in both capital and top income taxes, have led to a growing concentration of income and wealth at the very top. How can we explain this lack of policy responsiveness in the area of tax policies?

Recent research has predominantly focused on the ‘demand side’ of this puzzle, investigating the extent and conditions under which voters favor redistributive tax policies. Much less is known, however, about the ‘supply side’ of electoral tax politics (but see Fairfield and Garay, 2017; Fastenrath *et al.*, 2021 for recent exceptions). Under what conditions do policymakers take up demands to ‘make the rich pay’, and when do they fail to do so? This paper argues that political parties play a pivotal role in this process, since they are the main actors in translating public demands into policy initiatives. A better understanding of party politics and internal party dynamics is therefore necessary to answer these questions. Mainstream left parties are of

particular importance, since their core voter groups – the ideologically left-leaning and lower social classes – tend to express the strongest preferences for progressive taxation (Franko *et al.*, 2013; Dodson, 2017) and the Left has – at least historically – advocated the most vocally for combating inequality through redistributive policies. Examining the conditions under which left wing parties push for more progressive taxes thus seems crucial for understanding tax policy dynamics in contemporary societies.

Taking up these questions, we investigate the politics of wealth taxation (WT) after the great financial crisis (GFC) in three Western European countries with Social Democratic government participation. WT, as defined in this paper, comprises taxes on property, which are ‘recurrent and non-recurrent taxes on the use, ownership or transfer of property’, including for instance net wealth taxes, taxes on real estate and inheritance taxes (OECD, 2022). Taxing wealth is one of the most progressive forms of taxation, and debates on wealth tax policies have resurged in many countries. By focusing on the years after the GFC, we build on a growing influential scholarship that argues that major crises produce conducive contexts that can alter citizens’ perceptions of inequality and fairness, thus raising the demand for a ‘fair’ contribution of the rich to pay for crisis-induced damages (Scheve and Stasavage, 2016; Limberg, 2019, 2020a). Historically, wealth taxes were primarily introduced in the aftermath of major recessions (Limberg and Seelkopf, 2021), pointing to economic crises as windows of opportunity for taxing wealth. However, even though public demands for tax progressivity grew in the wake of the Great Recession (Limberg, 2020b), this push on the demand side alone was not sufficient to elicit an increase in WT across a large set of countries (OECD, 2021).

We argue that intra-party dynamics within the mainstream Left are crucial for understanding whether and how economic crises contribute to a change in the progressivity of taxation in contemporary societies. Parting from the observation that many social democratic parties turned to ‘Third Way’ policies in the 1990s or early 2000s, which often included support for a more regressive tax system (Keman, 2013), a push towards higher taxation of wealth requires a change in the prevailing party strategy. Only if the left wing is successful in altering the power balance within the party, can party leaders be convinced to put the taxation of wealth high on the party’s policy agenda, thereby signaling responsive behavior to crisis-induced demands for more redistribution. How this intra-party struggle plays out is influenced by the way the party is internally organized and embedded in the political context of the respective country: if the party is traditionally a mass organization with close ties to the unions, then unions and other party groups play a bigger role in influencing the leaderships’ position (Kitschelt, 1994: Chapter 5). Whether or not the leadership can successfully be convinced depends crucially on the party elites’ *perception* of public opinion. Since party leaders mainly pursue office-seeking goals (Kitschelt, 1994), they need to believe that pushing for WT will be electorally successful.

We evaluate this theoretical proposition empirically in comparative case studies of wealth tax policies in Austria, Germany and Spain in 2008–2015. In all three countries, center-left parties were in government during at least some of these years, so higher WT would have been theoretically possible. While Spain and Austria increased wealth taxes after the crisis, wealth in Germany remained largely untouched. Spain’s social democratic government reintroduced a net wealth tax (NWT) in 2011 when the accompanying budget constraints and austerity packages changed the balance of power within the party. After a member of the social democrats’ left wing emerged as a Prime Ministerial candidate in the 2011 national elections, he pushed his own party’s government to reintroduce the NWT in order to signal to the electorate that the party was responsive to redistributive demands. In Austria, after the crisis increased budgetary needs, an offensive campaign by the Social Democrats for a NWT allowed them to push through increases in a number of wealth taxes – albeit not a NWT itself – against their conservative anti-tax coalition partner. This stood in sharp contrast to developments in Germany (which was governed by a similar party coalition), where the issue made it formally onto the political agenda of the Social Democrats, but was never seriously embraced by the party leadership. Differences in internal party power relations and

leadership perceptions were decisive for these diverging crisis reactions. While the left wing in Austria, supported by strong unions, successfully convinced the leadership that programmatic changes towards a more redistributive policy agenda were a promising party strategy, the social democratic party elite in Germany clung to the conviction that taxing wealth was electorally a 'loser' topic. By demonstrating that intra-party dynamics play a key role in linking crisis-induced demands to policy change, this paper contributes to the political economy literature on taxation, bridging it with party research.

To develop our argument systematically, we first give a brief overview of the literature on (wealth) taxation and partisanship, before we lay out our theoretical expectations regarding left parties' responses to the crisis in terms of wealth tax policy. We then explain the methodological approach and case selection, followed by three in-depth studies of Spain, Austria and Germany. The concluding discussion compares the findings from the case studies, carefully discussing and ruling out alternative explanations for our findings.

### Literature review – partisan politics of taxing the affluent

The traditional comparative literature on partisan differences (Garrett, 1998) expects center-left parties to push more strongly for new taxes on the rich, as this caters to the policy preferences of their core constituencies – in particular during economic downturns (Dodson, 2017). Focusing on the decades up to the 1980s or early 1990s, different studies find evidence for these partisan effects, in particular with regard to capital taxation and the redistributive capacity of the tax mix (Swank and Steinmo, 2002; Bradley *et al.*, 2003; Zohlnhöfer *et al.*, 2018).

Against the background of the deepening economic globalization and the associated 'race to the bottom'-debates, however, various scholars have argued that intensified tax competition and capital mobility leads to a convergence of party positions, with the Left ceding to defend higher taxation of capital and the affluent (Osterloh and Debus, 2012, Genschel and Schwarz, 2013, Lierse, 2021). Focusing on corporate taxation in Europe from 1980 to 2006, for instance, Osterloh and Debus (2012) show that left parties push stronger for corporate taxation than right parties, but partisanship is diminishing with increasing intensity of competition in Europe. As Lierse (2021) shows for wealth taxes – one of the rare studies explicitly focusing on WT – left and right parties have converged on policy positions in favor of wealth tax cuts since the 1980s, mainly due to businesses' exit threats in the context of financial globalization.

While the literature on tax competition mainly focuses on structural constraints, other scholars have highlighted the ideological and organizational turn within the mainstream Left as the driver of shrinking partisan differences. The mainstream Left – and in particular social democratic parties – have witnessed a deep transformation over the last decades, with many parties embracing a more market-friendly policy agenda (Keman, 2013; Mudge, 2018; Manwaring and Holloway, 2022). Whereas this 'third way turn' is best documented for the area of social policy, it also implied major tax cuts – in particular for the affluent – in many countries. Klitgaard and Paster (2021) show, in a comparative case study of Austria and Sweden, that the Social Democrats supported repealing inheritance taxes due to a mix of business demands and electoral concerns. Focusing on parliamentary debates on the NWT in Germany, Hilmar and Sachweh (2022) show that the Social Democrats ceded to defend a reintroduction of this tax since the early 2000s, increasingly adopting right-wing arguments depicting the tax as 'irrational fiscal policy' or avoiding a debate about it altogether. These findings are in line with the broader argument that social democratic parties became increasingly concerned with their reputation for economic competence in contexts of growing fiscal pressure, leading them to adopt economically conservative policies for electoral concerns (Kraft, 2017; Bremer, 2018). Focusing on tax policies, Fastenrath *et al.* (2021) make a similar argument. They show that left politicians often perceive the fight for more progressive

taxation as *electorally unpromising* – mainly due to a perceived dominance of business power – shying away from putting tax increases for the rich high on the political agenda.

Whether or not raising or defending taxes for the rich is electorally rewarding, of course depends on citizens' preferences. This is reflected in the bulk of research focusing on the 'demand side' of electoral tax policies, investigating the extent and conditions under which voters favor redistributive tax policies. This literature has produced mixed results, albeit showing important consistent patterns across different tax types. While citizens are generally supportive of progressive tax systems, and this support has rather increased over the last decades (Berens and Gelepithis, 2021), not all progressive taxes are (equally) popular. Regarding different types of wealth taxes, inheritance taxes have been shown to be often unpopular among the wider public (Beckert and Arndt, 2017; Emmenegger and Marx, 2019), and preferences towards this tax are highly influenced by powerful political actors (Bartels, 2005; Emmenegger and Marx, 2019). NWTs, however, show higher and rather consistent support in surveys across countries. This pattern is also observable in the three countries investigated here (see Table 3). The emotional aspects surrounding the death of loved ones appear to be entangled with the taxation of inheritances, so that taxing (net) wealth seems to be politically more feasible than increasing inheritance taxes (Bartels, 2005; Rowlingson *et al.*, 2021).

Regarding the (macro) conditions for favorable public opinion, one important strand of the preference scholarship argues that normative *ideas about fairness* are crucial in shaping tax policy preferences towards more progressivity (Berens and Gelepithis, 2021). At the core of this literature is the assumption that progressive taxation becomes possible in situations where inequality is perceived to be unfair, triggered by exogenous shocks such as warfare or major economic crises. If the burden of the exogenous shock falls disproportionately on the poorer segments of society – often exacerbated by the state's reaction to the shock – claims to compensate for this inequality gain power (Scheve and Stasavage, 2016; Limberg, 2020a). Focusing on the GFC of 2008, for instance, Limberg (2020b) shows that the crisis-induced negative perception of economic elites and the states' role in financial deregulation and banks' bailouts have led to increased demands for tax progressivity.

Taken together, the existing literature suggests that voter preferences on taxing the affluent and left parties' policy decisions have increasingly grown apart over the last decades, but also, that severe (economic) crises have the potential to serve as windows of opportunity for a policy turn. While our knowledge on the demand side of progressive tax policies has greatly increased, however, the supply side of tax policy, that is, the processes that lead or prevent center-left parties from taking up the growing demands for higher WT, has hardly been studied so far. This requires zooming in on the parties and moving away from the assumption of parties as unitary actors.

### The left in crisis – intra-party conflicts and the taxation of the affluent

Based on the observation of changing fairness perceptions in times of crisis, several macro-level studies show that exogenous shocks (both fiscal and war-related) have historically been important drivers behind the introduction of new taxes (Scheve and Stasavage, 2016; Limberg 2020a). Wealth taxes, in particular, were predominantly introduced after economic recessions (Limberg and Seelkopf, 2021). Moreover, recent research suggests that crises did not only lead to the introduction of modern taxes, but also have the potential for shaping tax policies today (Limberg, 2019).

Has the GFC been such a window of opportunity for wealth taxes? Since wealth taxes are one of the most progressive forms of taxation targeted at the very rich – due to very high and endogenously rising wealth inequality combined with high exemptions thresholds (Ederer and Rehm, 2020) – they can credibly signal to voters that the affluent contribute to the fiscal costs of crises. As is illustrated for legislative debates around the tax type of NWTs in Figure A in the online Appendix A, left parties in Europe indeed started to increase their legislative initiatives in favor of WT in the years after the GFC. While the 1990s witnessed an active legislative period against NWTs, pushed by conservative and liberal parties, this trend reversed after the GFC. Since 2008,

mainly left parties have started to increase the introduction of legislative initiatives in favor of NWTs. However, even though the issue of WT became more salient and calls for ‘taxing the rich’ grew louder, only a few countries finally adopted legislative changes in wealth tax policies, and NWTs in particular.

The exogenous shock of the GFC thus marked a possible turning point for pre-crisis policies. Center-left parties aligned with their conservative competitors on tax policy beginning in the 1990s, implementing a series of tax breaks for the affluent while in government. This market-friendly turn, however, has always been contested within social democratic parties (Marx and Schumacher, 2013; Bremer, 2018; Ceron, 2019; Mudge, 2018), since it also alienated former core voter groups (Karreth *et al.*, 2013; Schwander and Manow, 2017). Acknowledging these internal divides is crucial for understanding the reactions of parties when confronted with exogenous shocks, such as the GFC, since crises open windows of opportunity for intra-party contestations over dominant ideologies (Berman, 1998; Mudge, 2018; Bremer and McDaniel, 2020).

We contend, however, that whether the crisis creates a context for a higher taxation of wealth depends on the outcome of intra-party power struggles in social democratic parties. The party’s left takes up the crisis-induced shifts in discourse towards tax fairness to pressure party leaders to put the topic of WT back on the party’s agenda. Since party leaders have predominantly office-seeking motives (Kitschelt, 1994; Müller and Strøm, 1999), the success of the left wing crucially depends on whether or not the party leader can be convinced that pushing for taxes on the wealthy could become an electorally successful strategy and a politically promising project in times of crisis.

Both the strength of the party’s left wing (together with allied extra-party organizations) and the party leaders’ *perceptions* of the public opinion are decisive factors in these power struggles. Only if party leaders can successfully be convinced to see vote-seeking potential in the wealth tax, the party makes the issue a policy priority and initiates an offensive campaign. While the ultimate decision on the specific policy reforms is, of course, also dependent on the power of the left party in government (e.g., whether the party is in a coalition), the successful intra-party struggle of the left wing is necessary for making a higher taxation of wealth possible. Before we empirically analyze our argument in three in-depth case studies of Spain, Austria and Germany, the next section describes the methodological approach and case selection.

## Method, theoretical objectives and case selection

Methodologically, we combine case comparisons with process tracing (Bennett and Checkel, 2015) to identify possible causal mechanisms triggering more progressive taxation in times of deep economic crisis. For this purpose, we combine a Most Different System Design (MDSD) with a Most Similar System Design (MSSD). This allows us not only to identify possible causal conditions and rule out others, but also to identify the processes through which these conditions operate.

As the data in Table 1 on wealth tax policy changes for eleven European countries show, the 2008 crisis can be understood as a watershed in WT in Europe. First, the hiatus in WT in the years before the crisis was followed by a number of reforms introducing higher WT since 2008. Second, most of these reforms were adopted under social democratic government participation, indicating that left wing parties played an important role in this process. Third, certain types of wealth tax reforms were more common than others. While inheritance taxes were not changed except in France, which reduced the deductible amount in 2012, a few countries adopted substantial reforms of NWT (marked as ‘o’ in Table 1). Other wealth taxes – such as property transfer or financial transaction taxes – witnessed more policy changes.<sup>1</sup> This evidence suggests that taxing (net) wealth was politically more feasible than taxing inheritances after the crisis.

<sup>1</sup>Bank levies are listed separately; we exclude them from our analysis since their incidence and thus distributional consequences are unclear.

**Table 1.** Introduction or increase in wealth taxes and governing party coalitions, 2000–2015

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Austria	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	center-cons./right-wing	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	social dem./center-cons.	
												*		x	*	x	
Denmark	social dem./left	social dem./left	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	x center-cons./liberal	social dem./left	social dem./left	social dem./left	liberal/liberal-cons.
Finland	social dem./liberal	social dem./liberal	social dem./liberal	social dem./liberal	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/social dem.	liberal/social dem.	liberal/social dem.	liberal/social dem.	x liberal/social dem.	* liberal/social dem.	x liberal/social dem.	liberal/social dem.
France	social dem./left	social dem./left	social dem./left	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	Christian dem./center-cons.	* Christian dem./center-cons.	x o social dem./green	social dem./green	Social/democratic	Social/democratic
Germany	social dem./green	social dem./green	social dem./green	social dem./green	social dem./green	social dem./green	center-cons./social dem.	center-cons./social dem.	center-cons./social dem.	center-cons./social dem.	center-cons./social dem.	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./social dem.	center-cons./social dem.
Iceland	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	liberal/liberal-cons.	social dem./green	social dem./green	social dem./green	social dem./green	social dem./green	liberal/liberal-cons.	liberal/liberal-cons.	
Ireland	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./liberal	center-cons./green	center-cons./green	center-cons./green	liberal/social dem.	x liberal/social dem.	x liberal/social dem.	* liberal/social dem.	liberal/social dem.	
											x		*		x		

(Continued)

**Table 1.** (Continued)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	
Netherlands	social dem./ liberal	social dem./ liberal	social dem./ liberal	Christian dem./ center-cons.	center-cons./ liberal	center-cons./ liberal	center-cons./ liberal	center-cons./ social dem.	center-cons./ social dem.	center-cons./ social dem.	center-cons./ social dem.	liberal/ center-cons.	liberal/ center-cons.	liberal/ center-cons.	liberal/social dem.	liberal/social dem.	
Norway	social dem.	social dem.	center-cons./ liberal	center-cons./ liberal	center-cons./ liberal	center-cons./ liberal	social dem./ left	social dem./ left	social dem./ left	social dem./ left	social dem./ left	social dem./ left	social dem./ left	social dem./ left	center-cons./ right-wing	center-cons./ right-wing	
Spain	Christian dem./ center-cons.	Christian dem./ center-cons.	Christian dem./ center-cons.	Christian dem./ center-cons.	Christian dem./ center-cons.	social dem.	social dem.	social dem.	social dem.	social dem.	social dem.	o	Christian dem./ center-cons.	o	*	Christian dem./ center-cons.	
Sweden	social dem.	social dem.	social dem.	social dem.	social dem.	social dem.	social dem.	liberal/ center-cons.	x liberal/ center-cons.	*	liberal/ center-cons.	liberal/ center-cons.	liberal/ center-cons.	liberal/ center-cons.	liberal/ center-cons.	liberal/center-cons.	social dem./ green

x = other increase in wealth tax.

o = net wealth tax.

\* = bank levy.

Note: For sources and data description see online Appendix B.

**Table 2.** Strategy for case selection and logic of comparison

	Most different system design		Most similar system design
	Spain	Austria	Germany
Coalition constraints	No	Yes	Yes
Corporatism	No	Yes	Yes
Deep crisis-induced economic and social consequences	Yes	No	No
Strong electoral competition from the left	No	No	No
<b>Pressure from left wing</b>	<b>Yes</b>	<b>Yes</b>	<b>(Yes)</b>
<b>Leader perception electorally promising topic</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>
<b>Outcome: Increase WT</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>

Source: Own compilation.

From this universe of cases, we examine Spain and Austria as two positive cases of higher WT. The selection and comparison of these cases follow a *most-different case comparison design*, since even though wealth was taxed more heavily in both countries, the cases differ in many important respects (see Table 2 for an overview of the logic of comparison underlying the case selection). Regarding partisanship, conservative and liberal parties can be expected to position themselves against higher WT, and can thus be seen as vital veto players. While the Spanish Social Democrats (PSOE) formed a single-party government from 2008 to 2011, the Austrian ‘Sozialdemokratische Partei Österreichs’ (SPÖ) was part of a coalition with the conservative ÖVP after the 2008 election (until 2017). As the SPÖ is subject to strong coalition constraints, it faces an additional obstacle of WT compared to the Spanish PSOE. Another important difference concerns the role of organized interests, which differ fundamentally according to their interest-group systems as pluralistic (Spain) vs. corporatist (Austria) (Lijphart, 2012). In Austria, both organized business and trade unions are strong actors and closely related to the ÖVP and SPÖ, respectively. They antagonize each other in this policy field, trying to exert corresponding influence on the affiliated political parties (Klitgaard and Paster, 2021). The strong ties between the unions and the SPÖ limit the party’s leadership autonomy (Kitschelt, 1994: 246), while the lack of those close ties makes the PSOE a party that differs fundamentally from the SPÖ in its organizational structure – especially in its strong leadership autonomy (Kitschelt, 1994; Marx and Schumacher, 2013). We can thus expect that trade unions play a bigger role in factional party struggles in the SPÖ than in the PSOE.

Furthermore, the two cases differ in terms of the economic and social repercussions of the GFC. While both countries suffered high fiscal costs due to the different crisis interventions, Spain was hit much harder in terms of, for instance, GDP growth, unemployment, and public debt (see online Appendix D). Consequently, the crisis-induced austerity measures were also much harsher in Spain, leading to influential protest movements (Los Indignados, 15-M). We can thus expect that both fiscal pressure and social demands for a stronger contribution of the rich were more prevalent in Spain than in Austria. Regarding party competition, in both countries, there was no major party competitor from the left to pressure the parties in a more progressive direction. Although the Left ‘Izquierda Unida’ (IU) in Spain and the Greens in Austria were early advocates of a wealth tax increase in the wake of the crisis, their influence must be considered minor.

As important commonalities between the cases, we identified two main conditions that decisively influenced the left governing parties to implement new wealth taxes. First, in both the PSOE and the SPÖ, the left wing of the party put the issue of WT on the agenda after the crisis broke out and caused an internal party struggle. Second, the party leaders in both cases were convinced that an offensive campaign for more wealth taxes would ultimately pay off electorally.

By comparing Spain and Austria, we use process tracing to tease out mechanistic evidence that helps to identify the mechanisms of how these conditions (‘intra-party balance of power shift’ and ‘perception of public opinion’) play out together to bring about a similar outcome (higher WT) in these otherwise different cases.



**Table 3.** Public opinion on net wealth taxes and inheritance taxes

Support for	Net wealth tax (%)	Number of surveys (years)	Inheritance tax (%)	Number of surveys (years)
Austria	70.9	12 (2009–2016)	38.4	11 (2007–2016)
Germany	62.5	11 (2006–2015)	41.8	4 (2007–2017)
Spain	57.8	1 (2020)	19.8	1 (2020)

Note: For sources and data description see Appendix C.

To increase the inferential leverage, we combine this most-different comparison with a *most-similar case comparison* in a second step. For this purpose, we select Germany and compare it with Austria. This comparison follows the MSSD, where the cases have a different outcome but are similar in potentially relevant factors. While in Austria wealth taxes increased in the wake of the financial crisis, this is not the case in Germany. In contrast to the Spanish case, the German case is much more similar to Austria's in the other relevant factors discussed above. The SPD operated under similar coalition constraints with the anti-tax conservative CDU/CSU. As in Austria, the corporate sector strongly lobbied against wealth taxes, while the unions were in favor. In similarly corporatist Germany, links between the trade unions and the SPD are also strong (Kitschelt, 1994) – although they weakened since the SPD's Third Way turn in the early 2000s. Moreover, the economic and social consequences of the GFC in Germany are very similar to those in Austria (see Appendix D for detailed numbers on GDP growth, unemployment, and public debt).

Differences between the cases can be found primarily in the factors 'pressure from the left' and 'leader perception of electorally promising topic'. Although a certain pressure from the left wing of the SPD can be observed, it is significantly lower than in Austria. Where the cases differ clearly is in the perceptions of public opinion by the party leadership. In the case of the SPD, unlike in Austria, it was not imagined that wealth taxation would be a promising election issue, but that, on the contrary, it was rather considered to be a 'loser topic'. The purpose of this second comparison is to establish that differences in the common decisive conditions identified in the first comparison ('intra-party balance of power shift' and 'perception of public opinion') explain whether or not the country increases taxes on the wealthy after the crisis.

Importantly, party leaders' perceptions of voter preferences was not a simple reflection of public opinion as expressed in surveys. Public opinion data does not appear to differ substantially across our three cases, while leaders' perceptions did.<sup>2</sup> As Table 3 shows, net wealth taxes enjoy considerable support, while inheritance taxes are less popular.

Even though public support seems to be unambiguous (at least for the NWT), this public support did not automatically lead to party leaders considering it a winning campaign issue.

We use official documents (from political parties, parliaments, etc.) and newspaper articles, as well as 17 in-depth interviews with key policy actors to explore our cases. The interviews with elites were mainly used to reconstruct decision-making processes. The selection of interviewees was based on initial research and identification of key actors involved in the processes under study (see Appendix E for an interview list and the secondary sources).

## The Spanish case: a leader changes course to reintroduce the NWT in times of crisis

### *Pre-crisis episode*

Regarding wealth tax policies, the most important change before the crisis was the abolition of the Spanish NWT, which had been in place since 1977 – first as an extraordinary and temporary measure, and since 1991 as a permanent policy. In spring 2008 – at the onset of the financial

<sup>2</sup>The data is weakest for Spain, where only one recent opinion poll on WT was conducted. This shortcoming and the subsequent uncertainty under which this tax policy was debated, was raised by a Spanish interview partner (see "The Spanish Case: A leader changes course to re-introduce the NWT in times of crisis").

crisis – the social democratic government under Zapatero abolished it, but reintroduced it only three years later in autumn 2011.

When Luis Zapatero became the new leader of the Spanish Socialist Party (PSOE) in the early 2000s, this implied a turn towards centrist ‘Third Way’ (‘Nueva Vía’) policies (Navarro 2011<sup>3</sup>). Zapatero’s economic advisors – chief among them the economist Miguél Sebastián, who became Minister of Industry from 2008 to 2011 – had close ties to banks, the private sector and (international) academic institutions (El Español 14.9.2018; Navarro 2011), and were staunchly opposed to wealth taxes (Interview\_Sebastián). They developed many of the ideas that heavily influenced the electoral program in 2004 and the governing policies of the Socialist party in subsequent years (Interview\_Sebastián; Navarro 2011), including a reform of the NWT that consisted of lower marginal rates and higher exemption thresholds (PSOE 2004). Following the Socialist victory in the 2004 elections and Zapatero’s rise to Prime Minister, his advisory circle convinced Zapatero during his first term in office to advocate not only for a reform, but for a suppression of the NWT (Interview\_Sebastián). The suppression became one of his central campaign pledges for the elections in March 2008 (PSOE 2008; El País 29.02.2008).

While the conservative Partido Popular also opposed the NWT, the small and electorally less important left party Izquierda Unida (IU) called for it to be made more progressive (El País 06.01.2008), but remained without influence. The abolition was also contested within the Socialist Party (Interview\_Gómez), but the electoral campaign illustrates that the ideological orientation favoring a more regressive tax system was dominant among the PSOE leadership at that time (El País 29.02.2008).

Immediately after his re-election in March 2008, and at the onset of the financial crisis, Zapatero fulfilled his central campaign pledge and *de facto* abolished the NWT. Legally, however, the tax was only suspended, since the new law applied a 100 per cent exemption to the full amount of the tax (BOE-A- 2008-20802). This technicality facilitated its later reintroduction. The decision to abolish the wealth tax was mainly contested by the IU and the unions, who started to link the subject of taxation to the question of a fair distribution of the costs of the economic crisis (El País, 03.06.2008); however, they had little influence at that time.

### ***Intra-party struggle***

The discourse changed when the financial and economic crisis eventually turned into a debt crisis in Spain in 2010. With both unemployment and public debt soaring, the pressure to consolidate public finances increased massively. While Spain, like the rest of the Euro zone, had initially reacted to the crisis with stimulus packages and bank bailouts in 2008 and 2009 – including Zapatero’s tax reductions – it turned to harsh austerity policies in 2010. Different from Austria and Germany, large parts of the population faced severe economic consequences of the crisis, due to the combination of high (youth) unemployment and unprecedented expenditure cuts. The latter included a pension freeze and deep cuts in civil servants’ wages, as well as a labor market reform, all of which provoked public outrage and further distanced the unions from the PSOE (El País 14.06.2010). Eventually, Zapatero stepped down as Socialist candidate for the next parliamentary election (El País 02.04.2011), amid plummeting public trust in his government.

The following contestation over the new party leadership and the next Socialist candidate was also an ideological battle between two opposing groups within the PSOE, and over its future substantive policy direction. It ended with the victory of Alfredo Rubalcaba, who belonged to the ‘traditional’ left wing faction of the PSOE, winning against Carme Chacón, who represented a continuation of Zapatero’s Nueva Vía (El País 03.04.2011; El Mundo 03.04.2011). Rubalcaba not only had powerful party networks and the pro-PSOE media behind him, but was also

<sup>3</sup>Navarro, V. (10.06.2011), El Porqué del declive de la Nueva Vía en el socialismo español. <http://web.psoe.es/izquierdasocialista/docs/579304/page/porque-del-declive-la-nueva-via-el-socialismo-espanol-i.html>.

considered a 'safe bet' in difficult times by large parts of the PSOE (El Mundo 03.04.2011), since he was seen as resonating better with the party base and its core voters (El País, 03.04.2011).

### **Wealth taxation in the electoral strategy**

Rubalcaba used the crisis to initiate a programmatic reorientation. In contrast to Zapatero, he relied on people from the 'traditional' left of the party for economic advice, such as the Minister of Labor and Immigration, Valeriano Gómez, an economist with close ties to the unions. In the run-up to the snap elections in November 2011, Rubalcaba aimed at signaling a left wing turn to the electorate, trying to distance himself from the earlier crisis policies of Zapatero's government (of which he himself had been part). Concerning tax policies, he was convinced that the public – and in particular the PSOE core electorate – was in favor of more progressive taxation in times of crisis. According to Gómez, Rubalcaba believed that re-introducing the NWT would be an important – and electorally useful – symbol in this regard:

*I think he was very convinced that it was necessary to recover this [net wealth] tax. And he was convinced that we had to signal very clearly to society as a whole the aim of a tax policy that was . . . that had greater elements of progressivity. And that it was better to introduce these elements of progressivity by focusing on wealth than on income.*

and

*Here the electoral vision for the socialist party was . . . well . . . Let the reconstruction of the tax symbolize a further element of a higher contribution of those with the largest income and wealth. (Interview\_Gómez)*

Rubalcaba thus campaigned on the reintroduction of the NWT, frequently linking wealth tax revenue to the possibility of employment creation in face of the crisis. At the same time, he pushed within the PSOE for re-introducing the NWT even before the election, in order to publicly demonstrate his commitment to the progressive agenda. Importantly, neither the unions nor employers' associations played an important role in the debates about a possible reintroduction (Interview\_Sebastián; Interview\_Gómez). Debates rather only happened inside the party, with the PSOE being divided along party faction lines over the issue. Apart from their ideological disagreement concerning the tax, they disagreed over whether public opinion, and in particular the PSOE electorate, were in favor of a reintroduction (Interview\_Sebastián).<sup>4</sup> Rubalcaba was eventually able to push through the reintroduction of the NWT in September 2011, shortly before the election, with all ministers except Sebastián supporting it. However, the leftist faction had to concede two points: a higher minimum exemption so as not to 'tax the middle', and the reintroduction as only a temporary measure for two years (Interview\_Gómez). Notably, the preamble to the law itself refers to the argument that the rich should help shoulder the crisis costs:

*Thus, the current circumstances and the effects of the economic crisis make it necessary to effectively re-establish the Wealth Tax, in a way that those who have more contribute more to the solution of the crisis, thereby fulfilling the objectives of budgetary stability assumed by Spain. (Real Decreto-ley 13/2011, own translation)*

After the reintroduction, Rubalcaba continued to promise a more progressive tax system during the campaign, including a reform to extend the wealth tax (PSOE, 2011). Although the

<sup>4</sup>No reliable survey data on wealth tax support existed in Spain at this moment in time, so decision-makers had to rely on their own perceptions.

conservative PP fiercely criticized the reintroduction, it did not campaign on abolishing it again. After the PP came to power in September 2011, it did in fact vote several times to prolong the NWT for the following year, while maintaining that they would abolish it once budgetary pressure eased. Taken together, the crisis triggered a change in leadership that strengthened a new party leader who was convinced that a higher taxation of wealth would resonate with the Spanish people in times of a severe economic crisis, thus turning away from the rather regressive tax policy agenda of his predecessor.

## The Austrian case: a pressured party leader changes the policy agenda

### *Pre-crisis episode*

In Austria, the two most important wealth taxes were abolished since the mid-1990s. The NWT was abolished in 1994 by a Social Democratic finance minister in a grand coalition with the conservative Christian Democrats (ÖVP). In 2007, the Supreme Court suspended the inheritance tax since the design of the tax discriminated between different types of wealth. Since the SPÖ did not deem the inheritance tax relevant enough to exert public pressure on its coalition partner (ÖVP) to reach an agreement on repairing the tax, the inheritance tax also expired (Klitgaard and Paster, 2021).

These developments led to growing frustration within the SPÖ's previously weakened left. Many left wingers of the party perceived the SPÖ-led government as 'giving up on the inheritance tax without even fighting for it' (Interview\_Kowall). This incident triggered different parts of the SPÖ's left wing and the unions' organizations into pushing more aggressively for a redistributive (tax) policy agenda (Der Standard 23.05.2008). In part, as a reaction to the SPÖ position in the inheritance tax debate, a group of mostly young and left-leaning party activists founded the so-called 'Sektion 8', a local organization of the Social Democratic party. In the following years, the Sektion 8 generated an outsized influence and media presence, and from its inception demanded higher taxation of wealth and a greater emphasis on redistribution (Der Standard 01.12.2008).

After snap elections in September 2008, in which the SPÖ leadership under Werner Faymann still did not perceive progressive taxation as a promising electoral topic, the SPÖ led the ÖVP into another grand coalition. Faymann himself did not belong to the left faction of his party and ruled out (wealth) tax increases at the beginning of his term (Die Presse 07.04.2009). He had, however, close connections to the director of the Austrian Chamber of Labor (AK), Werner Muhm, who became his principal economic advisor in the following years (Die Presse 16.04.2010) and who strongly supported WT.<sup>5</sup>

### *Intra-party struggle*

With the financial and economic crisis kicking in, the newly elected government reacted at first with a large stimulus package, similar to other European governments, which did not include higher taxation of the rich (Der Standard 01.12.2008). But over the course of the following year, public discourse changed. The Green party criticized Faymann 'for letting ordinary people pay for the crisis', and called instead for 'the rich to contribute' (OTS, 08.04.2009). While the rather small Greens did not pose an electoral challenge for the SPÖ, pressure on the SPÖ leadership to put WT on the party's policy agenda also grew from inside the party. A regional party leader, left wingers and sub-organizations such as the Sektion 8 publicly demanded a reintroduction of a NWT and a debate on redistributive policy (Interview\_Schieder; NZZ 06.05.2009). These voices within the SPÖ were strongly supported by the unions and the AK, with Muhm playing a decisive

<sup>5</sup>The Arbeiterkammer (Chamber of Labor) represents workers together with the Austrian Federation of Trade Unions (ÖGB) in the social partnership, acting as a think tank and offering legal services to its members.

role in pushing for a stronger emphasis on redistribution and WT (Interview\_Schieder; Interview\_Kowall; Interview\_Muhm).

Faymann eventually gave in to the pressure in spring 2010, at a time when the debate around budgetary pressure had increased and consolidation efforts came to the forefront of the political agenda (Interview\_Schieder; Interview\_Finance cabinet\_Anonymous):

*He [Faymann] was more reluctant concerning the wealth tax, while others demanded it more and more strongly, but this [disagreement] then became obsolete with the intensifying debate on budget consolidation.* (Interview\_Schieder)

Thus, the fiscal pressure to consolidate the crisis-induced deficit, coupled with the vocal demands from the party's left wing and associated actors for a stronger contribution of the rich, eventually turned the SPÖ leadership's position. Importantly, the leading circles of the SPÖ also perceived public opinion as increasingly in favor of higher WT (Interview\_Schieder; Interview\_Kowall), which helped align the policy-seeking demands of the party's left wing with the office-seeking orientation of the leadership in favor of a NWT.

### **Wealth taxation in the electoral strategy**

From April 2010 onwards, Faymann put the higher taxation of wealth at the forefront of the party's agenda (Ö1 11.06.2010) – even though he initially focused on capital gains taxes such as a banking levy or a financial transaction tax instead of a NWT proper. Formal party resolutions first included proposals for different kinds of capital gains taxes, but eventually also a NWT (Die Presse 16.09.2010). His speech at the party congress shows that he was increasingly convinced that these demands would resonate with the public:

*The wealthy, the banks and the financial markets are to be involved in financing the budgets of the future. We have now become clearer, the injustice is strongly felt by many, even by people who otherwise have nothing to do with social democracy. People say it is unfair to save money on the poor instead of preventing speculation.* (Faymann, speech on the SPÖ Federal Party Congress, 12.06.2010).

In negotiations over consolidation packages with its coalition partner ÖVP in 2010 and 2012, the SPÖ succeeded in achieving a more taxation-based deficit reduction than comparable European countries (Interview\_Kowall; Interview\_Muhm). In particular, the government adopted – among other things – a capital gains tax on real estate and on shares and other securities, a bank levy and a reform of the taxation of foundations (Der Standard 23.10.2010). Most importantly, the consolidation package in 2012 included a property tax on real estate sales, thereby directly increasing WT (Der Standard 10.02.2012). These introductions of progressive taxes led those involved to consider SPÖ's progressive taxation demands to have been a policy success (Interview\_Schieder; Interview\_Muhm; Interview\_Berka; Interview\_Finance cabinet\_Anonymous).

Yet, a NWT remained elusive, and the SPÖ continued to fuel the debate about its reintroduction. In the electoral campaign 2013, the SPÖ ran a platform including a NWT ('millionaires' levy'), touting its policies of the previous years as a 'trend reversal' towards a more redistributive tax system (SPÖ, 2013). The ÖVP, in turn, continued to oppose any form of higher taxation of the rich in its electoral program (ÖVP, 2013), hardening the political fronts with strong support from business representatives (Kurier 20.02.2013; Industriellenvereinigung 2013; Interview\_Kronberger). In the SPÖ-led grand coalition under Faymann that followed, tax policy already figured prominently in the negotiations of the new government's program. While both parties agreed to income tax reductions for middle and low incomes, the financing of such a reform was highly disputed.

Over the course of 2014, these discussions on the tax reform came to a head in a newly installed governmental Tax Reform Commission. While the ÖVP wanted to finance the planned income tax reductions mainly via expenditure cuts, the SPÖ demanded a refinancing through higher WT. By the end of 2014, the SPÖ called for both an inheritance tax and a NWT to finance the income tax reform (Steuerreformkommission, 2014), while the ÖVP reiterated its stance against NWTs.

For both parties, their view on a NWT had increasingly become an important signal to their constituencies. The ÖVP, however, was fiercely committed to block both an inheritance and the NWT, backed by organized business publicly lobbying against it (Kurier 05.06.2014). According to different interviewees, during the negotiations the SPÖ at some point turned to using their 'maximum demand' of a NWT as a bargaining chip in order to push for other wealth taxes. The reform ultimately financed income tax cuts through higher capital gains taxes and measures against tax evasion (i.e., a cash register duty), as well as through an increase in the real estate transfer tax, thus further increasing WT (Die Presse 13.03.2015). The main burden of the reform fell on the upper half of the income and wealth distribution, as well as on (small) business owners. Thus, even though the SPÖ reached the goal of financing the tax reform via WT and avoiding that its constituency paid for the income tax reductions, the ÖVP was able to claim that it had successfully blocked the 'millionaires' levy'.

Taken together, the process that had been triggered by the financial and economic crisis led to a reorientation of the SPÖ and a change in the intra-party balance of power towards its left wing, which was able to turn the position of the party leadership on WT. This eventually led to the introduction and increase of different wealth taxes, even though the party faced hard resistance from business associations and its conservative coalition partner, which ultimately managed to block the reintroduction of a NWT.

## The German case: the continuing reluctance of the party leadership

### *Pre-crisis episode*

In Germany, political debates on WT mainly centered around the NWT since its abolition in the mid-1990s. In 1995, the Federal Constitutional Court struck down the NWT due to the unequal treatment of assets. Since the CDU-led government deliberately failed to repair the tax, it is still enshrined in the constitution but has not been collected since 1997.

Within the SPD, two opposing positions emerged from the late 1990s onward, which also shaped tax policy. For the left wing of the party, redistributive tax policy remained a core issue of the party platform in order to create a more just and equal society. The so-called 'modernizers' (to which then Chancellor Schröder belonged), however, advocated that inequality is no longer a problem. Quite the contrary, they argued that deepening inequality could even be part of a 'just' tax policy agenda (SPD Basic Values Commission, quoted in Schratzenstaller, 1999<sup>6</sup>).

The deep ideological rifts within the SPD ignited in the late 1990s over the issue of re-imposing the NWT and smoldered under the surface until the crisis. The Red-Green coalition, which ran in the 1998 federal election with a call for the reintroduction of the NWT, did not pursue it after its election (Schratenstaller, 1999). Chancellor Schröder spoke out strongly against the tax because he wanted to prevent a discussion about tax increases that would then be perceived as contradicting his pro-business reform program (Interview\_Hendricks; FAZ 02.08.1999). The left wing protested vehemently, but ineffectively (e.g., FAZ 04.09.1999). The NWT was off the table, and did not appear in the party's 2002 and 2005 election manifestos (Interview\_Poß).

<sup>6</sup>Schratenstaller, M. (1999), 'Der Streit um die Vermögensteuer', *Blätter für deutsche und internationale Politik* 12: 1427–1429.

### ***Intra-party struggles***

The issue of the NWT re-surfaced before and during the 2009 federal election campaign. Following the suggestion of a working group for more progressive taxation (Interview\_Hendricks), the SPD aimed to distinguish itself from its then coalition partner, the CDU/CSU, which advocated 'no tax increases'. At the same time, critical voices within the SPD called for a departure from the 'Third Way' adopted by Schröder and the modernizers. In September 2008, for example, an alliance of leftists from the SPD parliamentary group (19 deputies), trade unions and works councils publicly called for the reintroduction of the NWT in view of the 'growing gap between rich and poor' (FR 04.09.2008). The party's split and the associated diverging policy preferences were reflected in the contrasting reactions from within its own ranks: while the new (rather left wing) party chairman, Kurt Beck, supported the position paper (Tagesspiegel 02.09.2008), the SPD's then (rather right-wing) secretary-general, Hubertus Heil, flatly rejected the proposals as 'yesterday's spirit' (DPA 03.09.2008).

The outbreak of the financial crisis in Germany at the end of 2008 made the NWT a prominent topic again in the public discourse and within the SPD (Interview\_Drohse; Interview\_Poß). In October 2008, the left wing reiterated its call for a NWT to ensure a fairer tax system, which led to some media response and heated intra-party debates (Barthel *et al.*, 2009<sup>7</sup>; FR 04.11.2008). In addition to the general argument of rising inequality, left wingers began to justify the tax on the grounds of a fairer distribution of the crisis burden, arguing that it is the responsibility of social democrats to ensure that those causing the crisis do not 'pass on the costs to the general public' (Barthel *et al.*, 2009). The trade unions joined by recalling the *Lastenausgleich* (equalization of burdens), which had contributed significantly to the reconstruction of Germany after World War II (Spiegel-Online 07.12.2008). When it became clear in spring 2009 that the costs of the crisis could turn out to be considerably higher than previously assumed, the party Left strengthened its call for a fair crisis burden sharing via higher WT (Mattheis, 2009<sup>8</sup>). Not far from the start of the election campaign, 'good talks' with the party leadership gave the left faction the impression that the leadership, too, would also support left wing demands for a NWT (FAZ 27.03. 2009). The (left wing) deputy chairwoman of the SPD, Andrea Nahles, was also convinced that the crisis would break up the old camp thinking in the party, and that the party as a whole perceived public opinion to be favorable towards a higher contribution of the wealthy:

*We are finding a new consensus on values and the foundations of our policies. There is agreement, for example, that there must be a fair sharing of the burden between the ten percent of the population who have more than 60 percent of the wealth and the less well-off rest. [...] This year, people want to know from the SPD how we will safeguard jobs during the crisis. They also want hard-working taxpayers not to pay the consequences of the crisis alone (...)* (Nahles in Tagesspiegel 12.04.2009, own translation)

Thus, contrary to the previous two elections, the NWT was seriously discussed as a possible feature of the electoral manifesto in 2009. However, as it turned out in the following months, the leadership did not share these positive views, and the left wing was not strong enough to convince it to change its mind.

<sup>7</sup>Barthel, K., H. Mattheis, O. Schreiner and S. Skarpelis-Sperk (2009), 'Finanzmärkte regulieren – Binnenwirtschaft stärken: nachhaltige Investitionen, sozialer Ausgleich', Gute Arbeit, Positionspapier, März 2009.

<sup>8</sup>Mattheis, H. (2009), Stellungnahme und Forderungen – Schuldenwachstum und Gegenfinanzierung in der Krise, März 2009.

### **Wealth taxation in the electoral strategy**

Despite intensified discussions (Spiegel-Online 17.04.2009), the wealth tax once again did not make it into the SPD's election program (SPD, 2009a). While the program included a stock market turnover tax, as well as an increase in the top income tax rate, the NWT was missing. The main reason for not including it was that the party leadership doubted the electoral chances of this demand. It was mainly the (right-wing) chancellor candidate Frank-Walter Steinmeier, still considered an advocate of the Third Way turn of his party, who spoke out against the inclusion of the tax in the election program:

*He [Steinmeier] simply didn't want to enter the election campaign as the candidate for chancellor on tax increases (. . .) Steinmeier was afraid of being seen as economically incompetent because of the inclusion of the topic in the program. (Interview\_Poß)*

This fear was fueled by the leadership's perception of powerful organized business associations, able to run effective campaigns against leftist wealth tax proposals which were given greater weight than public surveys that showed high levels of abstract popular support for the tax (Interview\_Poß, Fastenrath *et al.*, 2021). While left wingers were convinced that calling for the reintroduction of the wealth tax was an important programmatic feature to regain the party's lost credibility with the electorate, the party leadership did not share this conviction and worried about a possible counter-mobilization by political opponents, in particular organized business (Interview\_Drohse, Interview\_SPD\_MoP). The intra-SPD debates between the left wing faction of the party and the party's executive committee resulted only in a vague passage on 'fair burden sharing' in the program, without mentioning a specific tax (SPD, 2009a).

The policy-seeking motivation of the left wingers of the party, which was strengthened further by the crisis, thus did not translate into an office-seeking motivation of the party leadership, which rather saw the tax as a burden in the electoral campaign.

However, the party formally shifted its stance on this issue immediately after the election, following its landslide defeat against the CDU/CSU, which formed a coalition with the FDP until 2013. Relegated to the opposition, the left wing faction of the SPD emphasized that the party was suffering from a major credibility problem and suggested that it must return to traditional social democratic values (SPD, 2009b). In this sense, the issue of a NWT became an important symbol, as the chairwoman of the Young Socialists (Jusos) Drohse explained: 'If we say we need redistribution from top to bottom, then we must also have the courage to clearly commit ourselves to the wealth tax' (SPD, 2009b). However, it required massive pressure from the broad base of delegates at the federal party conference 2009 to successfully put a motion for a NWT to a vote – which was subsequently accepted with high approval rates (Interview\_Drohse). The left wing faction thus managed to include the NWT – at least formally – in the SPD's program.

Four years later, the wealth tax made it into the SPD's election manifesto for the federal election in 2013 for the first time in 15 years. While its inclusion was consensus, there was a lot of wrangling about its concrete formulation (Interview\_Kühl; Interview\_Hendricks), indicating that the party leadership was still not convinced of its electoral usefulness. It was primarily party chairman Sigmar Gabriel, but also the candidate for Chancellor, Peer Steinbrück, who insisted that the NWT should be designed in a business-friendly way in order to offer the conservative side as little room for attack as possible (Interview\_Kühl; Interview\_Poß). The concern for economic reputation and the fear of organized business, which publicly campaigned against increasing WT (FAZ 13.06.2013), thus continued to dominate the party leadership's perceptions. The election program correspondingly did not stress the distributive character of the tax, but rather emphasized that it would be designed in line with economic interests (SPD, 2013). For some SPD delegates, such a watering down of the demand raised the question of credibility again (Interview\_Poß;



Interview\_Kühl). In the election campaign, the party remained clearly on the defensive with this demand (SPD, anonymous interview) due to the still very skeptical leadership:

*Sigmar Gabriel has always been of the opinion that tax issues are a losing issue. (. . .) And we presented a very detailed program [on tax increases] and, to put it mildly, party chairman Sigmar Gabriel didn't have the slightest interest in it and in no way wanted to let us go too far. We then got our way anyway, but of course it didn't matter in the end. It was in the election program, but it didn't matter. So it was very clear that he didn't want that to be in the foreground. And of course there were and are others who have the same view. (Interview SPD\_MoP).*

In addition, other issues such as the minimum wage were prioritized and given much greater prominence. As a consequence, the NWT did not survive the subsequent coalition negotiations with the anti-tax CDU/CSU.

Summing up, the conviction of the party leadership that taxing wealth was electorally unpromising – or even politically dangerous for the party – remained strong throughout the years following the financial and economic crisis. Even though large parts of the left wing contested this view, they were not strong enough to win the intra-party struggle on that issue.

### Comparative discussion

Our analysis of wealth tax policies in Spain, Austria, and Germany shows that internal party politics play a key role in shaping wealth tax policies. Making the rich pay in times of crisis, we argue, requires, first, that the leadership of left parties views WT as a valuable electoral project and, thus, a potential office-seeking strategy. Against the background of the Third Way turn that dominated the economic policy programs of these parties during the decades before the crisis, WT was often regarded as an electoral 'loser topic'. Calling for higher taxation of wealth is thus a strong signal of a leftist economic policy shift, returning to traditional social democratic policy positions, since no taxes are more clearly about redistribution from top to bottom. Sending such a signal implies that the party leadership perceives public opinion in favor of such a tax policy program. For the issue to even become an option within the party, second, the left wing faction of the party must put it on the agenda, initiating an intra-party struggle over the issue. Whether or not the party leadership can be convinced to see office-seeking potential in the issue depends on the outcome of the intra-party struggle.

Comparing the existing mechanistic evidence via process tracing in the two cases of Spain and Austria, where wealth taxes were increased after the crisis, suggests that it is these two conditions that ultimately allowed crisis-related demands to result in concrete wealth tax hikes. At the same time, we can conclude from comparing these cases that neither the absence of a strong anti-tax lobby by organized business interests nor governing in a single-party government (as in Spain) is necessary for social democrats to push through higher wealth taxes. Conversely, the Austrian case illustrates that a strong business lobby and veto points due to an anti-tax coalition partner are not insurmountable barriers, at least in times of crisis. In addition, the incidence of WT seems not to fully depend on how severely a country suffers economically and socially from the crisis.

The comparison of Germany and Austria further strengthens our finding, since it helps to infer the factors that differed between the two cases and that have led to Germany's failure to raise wealth taxes. Both countries are comparatively similar in terms of the severity of the crisis, party organizational structure, business lobbying and coalition constraints. The crucial difference, we argue, was that pressure from the left of the party in Germany was insufficient compared to Austria, which led the party leadership not to make taxes a major campaign issue. The SPD leadership did not consider the tax as a potentially successful 'office-seeking' strategy, despite the

salient discussions and a fundamental advocacy of a higher burden on high wealth. This underscores that favorable public opinion alone was not sufficient for triggering a policy response: while surveys in both countries showed consistent support for NWT, the *perception* of its electoral prospects differed between the leaderships in both countries.<sup>9</sup> Since the issue already failed to become a topic high on the SPD agenda in Germany, we can rule out that veto players such as the Constitutional Court or the second chamber were decisive for the failure of the outcome.

Other aspects of political competition which are often related to party policy change (Fagerholm, 2016) seem also less convincing: all three parties were in government at the time of the crisis, so the policy shift was not related to previous severe electoral losses. Nor was it due to pressure from left wing competitors in the party system. In none of our cases did a relevant left wing party exist that could have provoked a policy shift by the social democrats (the rise of Podemos occurred a few years later).

By carving out the conditions under which left parties respond to increased demands for taxing the rich in times of economic downturns, this paper contributes to the ongoing debate on limits and possibilities of progressive taxation, as well as to more general debates on policy responsiveness. While the literature on policy responsiveness has convincingly shown that policy decisions (of both left- and right-wing parties) are tilted in favor of the preferences and demands of the affluent (see e.g., Elsässer *et al.*, 2021), it hardly analyzes the processes inside parties leading to these decisions. As this paper shows, the ‘supply side’ of electoral politics, and in particular internal party organization, is crucial to understand when and how windows of opportunity – such as economic crises – illicit a turn towards a more redistributive agenda of the mainstream Left.

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