

## **Left without Choice?**

### **Economic Ideas, Frames and the Party Politics of Value-Added Taxation**

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**Abstract:** This article investigates how different ideas about Value-Added Taxation (VAT) frame the partisan politics of the welfare state. It employs a content analysis of German and British politicians' motives in parliamentary debates on whether and why to increase VAT rates. A qualitative comparison reveals that there are remarkable differences between the two countries. In Germany there is a clear and consistent shift in the efficiency frame from macroeconomic condemnation to microeconomic appraisal even among left politicians. This is not visible in British debates, where traditional partisan contestation prevails. The difference in efficiency frames is closely related to unemployment becoming a much more salient issue in Germany than in the UK. The quantitative analysis shows that speakers are indeed more likely to mention the efficiency frame when they are concerned about the labour market.

**Keywords:** taxation, Germany, unemployment, political economy, public finance, United Kingdom, ideas, frames

**JEL Keywords:** H20 General, H21 Efficiency, Optimal Taxation, J38 Public Policy

#### **Introduction: (The) Left without a Choice?**

The financing of the welfare state has become a crucial topic in the literature of comparative political economy. If welfare states face new demands (e.g. Kitschelt and Rehm, 2006), but also more financing constraints (e.g. Genschel, 2002; Swank and Steinmo, 2002), the crucial question becomes how to raise money. In this respect, Value-Added Taxation (VAT) has arguably become the single most successful policy innovation of the last 50 years (e.g. Beramendi and Rueda, 2007; Kato, 2003; Timmons, 2005). Its global diffusion is remarkable and its growth has outpaced most other forms of state revenue.

Since its introduction German VAT rates have been raised seven times, by both right- and left-wing governments. This stands in contrast to the United Kingdom (UK) where Conservative governments have raised VAT rates four times, whereas Labour governments cut back on them on three occasions. The third time a Labour government did so was in reaction to the financial crises of 2007. Justifying a temporary cut in VAT rates from 17.5 to 15 percent, Alistair Darling, Chancellor of the Exchequer, defended the measure as a means to stimulate a stagnant economy while giving money (back) to the poorest members of society (debate, 24/11/2008). In Germany, at the same time, left politicians uttered no such ideas. Even when arguments about Keynesian-style stimulus resurfaced in German debates, cutting VAT was never an issue.

The British-German comparison leads to an often-heard question: why do (left) parties accept VAT in some countries, but not in others? The recent shift towards indirect taxation is remarkable, since left parties have traditionally opposed regressive forms of taxation (Marx, 1989 [1848]). Under what circumstances do left parties argue for a raise in a tax which is feared to be both macro-economically imprudent and socially unfair? Most scholarly approaches to this question deal with 'constraints'-based explanations grounded mainly on the need to finance the welfare state (Beramendi and Rueda, 2007; Ganghof, 2006a; Kato, 2003; Martin, 2015; Timmons, 2005). Relative to other fields of political economy, ideas have figured less prominently in the politics of taxation (but see Steinmo, 2003). When they are brought to bear, they often come in a functionalist form: VAT is said to be less harmful to international competition, more efficient, or less visible than other forms of taxation (Kato, 2003; Wilensky, 2002; Kemmerling 2010). Otherwise, ideas often reflect the dominant political ideology of the time (Hay and Rosamond, 2002; Swank, 2006).

If you rather see ideas as frames it is easier to establish when politicians are more likely to use certain ideas than others. Following the literature on political frames (e.g. Baumgartner et al. 2008; or Druckman, 2011) I investigate the salience, consistency and, above all, resonance of different frames in VAT politics. We will see that the crumbling resistance against VAT among the German left coincides with the rise of microeconomic arguments about efficiency. In the UK, where we still see a more traditional partisan contestation, old arguments about macroeconomic efficiency prevail. The deeper structural context shows that the (micro) efficiency frame has more resonance in Germany where politicians see high levels of unemployment as a key concern.

This article makes three contributions to the general literature on frames and ideas in political economy. First, whereas most scholarly articles on ideas in comparative political economy are of

qualitative nature and often focus on historical or contingent causes of ideas, I will use a novel quantitative content analysis showing the structural causes for why individual speakers use some frames more than others. Second, the article shows that revenues are not always considered the dominant and unequivocal motive for raising VAT, a fact hard to explain from an institutional-constraints perspective. Third, the article illustrates that learning is context specific and depends on the resonance and legitimacy of the claims, especially if evidence for these claims is controversial.

The argument proceeds as follows: in the next section I conceptualize ideas about VAT as competing frames and discuss what makes some frames more successful than others. Section three introduces the major types of frames in the field of VAT politics. Section four qualitatively compares frame *consistency* in Germany and the UK: in Germany even left politicians consistently share the idea of VAT as a relatively employment-friendly tax, whereas macroeconomic arguments prevail and left politicians oppose VAT in the UK. Section five gives quantitative evidence on frame salience: it describes the methodology and the data, which are based on human codings of parliamentary debates in the two countries over time. Section six employs a multinomial regression analysis to investigate the *resonance* of the differing frames. It shows that the frame of microeconomic efficiency was much more successful in Germany, because it fell on fertile grounds for those who believed that the tax system was a key reason for high levels of unemployment. Section seven concludes the study.

### **Conceptualization: Which type of ideas?**

The shift towards VAT in financing the welfare state poses a problem for left parties that have traditionally opposed VAT as a regressive tax and as ‘poison’ for aggregate demand. Under what circumstances do left parties support VAT? Most major contributions have argued that left parties still prefer other forms of taxation, but justify the need for raising VAT by some sort of necessity in the form of revenues and constraint: financing the welfare state (Ganghof, 2006a; Pontusson and Kenworthy, 2005; Timmons, 2005); taxability of people (Kato, 2003; Wilensky, 2002); international tax competition (Genschel, 2002; Hallerberg and Basinger, 1998).

One reason VAT might be particularly attractive is its relative invisibility (Kato, 2003; Wilensky, 2002), but this begs the new question when and why politicians make VAT visible. Timmons (2005) sees a political deal of left and right for raising regressive taxation in return for higher welfare state expenditure. Kato (2003) reverts causality and argues that early introduction of VAT allowed welfare

states to grow more (but see Ganghof, 2006b), but she does not distinguish between cases in which countries raised VAT to increase social expenditure, and those in which governments shifted from one form of taxation to another. We will see, for instance, that in Germany the later type of reforms became more and more important, taking issue with the idea that the revenue motive is the only reason for expanding VAT. Some authors explain these shifts in the tax mix with the idea that VAT is less vulnerable to international competition (for a survey of the literature see e.g. Genschel and Schwarz, 2011). However, political economists have also shown that the forces of competition only go some way in explaining the politics of taxation (Boix, 1998; Garrett, 1998; Ganghof, 2006a; Basinger and Hallerberg, 2004).

A second variant of these necessity arguments highlights the role of political institutions such as federalism in constraining and influencing policy making (e.g. Steinmo, 1993). Most prominently, Beramendi and Rueda (2007) argue that the regressivity-for-revenue deal is only feasible in corporatist countries, in which unions fight for more social expenditure. For Martin (2015) it is the employers' organizations that shape in the formation of the tax regime and the role of indirect taxation in particular. Other authors also have argued for a bargain between representatives of capital and labour on the size and financing of the welfare state (Mares, 2006; Swank and Steinmo, 2002). While the historical and quantitative evidence for this argument is strong, it still holds some crucial questions. First, corporatist institutions change over time, but the difference in taxation between corporatist and other countries does not follow these changes. Second, the way in which this deal is constructed and renewed over time is hard to understand, looking at aggregate statistics or the early periods only. For these reasons, some authors (e.g. Genschel 2002; Kato 2003; Kemmerling 2010) look at the role of supranational institutions such as the European Union (EU) in VAT reforms. Nonetheless, we will see below that the EU plays a surprisingly inconsistent role in national tax policy debates.

The explanations based on ideas shed a different light on these issues. By focussing on 'micro' motives of politicians they reveal what actors themselves define as legitimate arguments in the field of taxation. Unfortunately, whereas the general literature on the role of ideas in comparative and international political economy is large (Blyth, 1997; Hall, P. A., 1993; Schmidt, 2002; Walsh, 2000), ideas play somewhat less of a role in tax politics (but see Bell and Entman, 2011; Hay and Rosamond, 2002; Steinmo, 2003). Moreover, most of these contributions are of a qualitative nature. Yet, a quantitative analysis can not only give evidence about which ideas are more frequent than others, but also allows a more systematic investigation into the roots of these ideas.

To make a quantitative analysis viable, I will use a relatively lean notion of ideas as *cause-and-effect relationships* (Goldstein and Keohane, 1993). The next section elaborates the set of ideas in more detail, but practical examples claim that VAT increases inflation or inequality. Such a narrow conception of ‘ideas’ also limits the following analysis to primarily studying political instruments rather than fundamental policy goals of tax politics (Hall, 1993). To make matters more specific I will rely on an important strand in the literature on ideas, which borrows from the literature on frames in political science (Chong and Druckman, 2007; Polletta and Kai Ho, 2006; Scheufele and Iyengar, fc.).

In this literature one can find different notions of frames such as a ‘set of cognitive or moral maps’ (Bleich, 2002, p. 1063; Jacobs, 2009) or ‘normative concepts that elites use to legitimize’ policies (Campbell, 1998). Easier to quantify is a notion that comes from political psychology, which focuses on the ‘process by which people develop a particular conceptualization of an issue or reorient their thinking about an issue’ (Chong and Druckman, 2007, p. 104; also Entman, 1993). In this literature, there is a difference between equivalence frames, in which the same content is uttered differently (Kahneman, 2003), and value or issue frames, in which different dimensions compete with each other for attention and people form their opinion by focussing on a particular subset of these dimensions (Jones and Baumgartner, 2005; Nelson and Oxley, 1999).<sup>1</sup> Different arguments about the causal (dis-)advantages of VAT fit this latter version of a frame definition well. All major arguments for or against VAT/ general consumption taxes have been known since the 1960s, yet the use of each *value frame* varies over time and space.

A *framing effect* often alludes to the idea that the political elite (or the media) can effectively steer public opinion, and ultimately a political outcome by the choice of words or arguments. In this sense frames are often referred to as ‘rhetorical weapons’ (Druckman, 2011). Such an analysis, from the use of a frame to its political impact, would go beyond the scope of this paper. However, what the present analysis can do is the reverse, that is, try to understand which frames are easier to establish and defend than others. This is sometimes called the ‘second face of frames’ (Baumgartner and Mahoney, 2008; Entman, 1993) and puts emphasis on the limits and conditions of framing (Druckman, 2001).

There are many factors that characterise the power of frames, but in the following I will focus on three key components: salience, resonance and consistency. *Salience* mainly refers to the frequency and numeric importance of a frame (Entman, 1993). As many studies have shown this dimension is not enough to conclude that a frame is successful (e.g. Nelson and Oxley, 1999). Decisive frames also need *resonance* in the audience and in public opinion at large (e.g. Baumgartner *et al.*, 2008; Sniderman and

Levendusky, 2007). For instance, a frame using the idea of VAT as detrimental to growth may be more successful in years when the state of the economy is weak. Politicians will need to revert to frames that have a certain resonance with the audience, to legitimize their choices and to avoid blame for negative choices. This frame resonance would be expected to depend on structural or institutional context (Druckman, 2001 & 2011; Polletta and Ho, 2006).

Frame consistency, finally, alludes to the fact that successful frames are not controversial and accepted by all (major sides) involved. In the words of Dardis *et al.* (2008) a frame is persuasive if it 'displaces' rather than 'reinforces' a political conflict. A reinforcing frame evokes strong negative reactions from the opposition. In contrast, a displacing frame gives 'new' pieces of information, illuminates 'new' dimensions of a policy problem, and allows opponents to change arguments without conceding defeat. For instance, a frame is consistently applied if politicians of all major parties as well as both government and opposition use it.

### **Ideas about VAT: From Macro- to Micro-efficiency**

Let us now define an initial set of frames. What are the major types of ideas in VAT politics that could be inserted into the logic of issue frames? Borrowing from the literature on VAT, I will use three major types of frames, each based on a different set of ideas: regressivity, necessity, and efficiency.

Arguments about *regressivity* focus on the idea that VAT is a tax purely based on consumption and independent of income. VAT does not need to be regressive, for instance, if it exempts basic commodities (Caspersen and Metcalf, 1994; Keen, 2009), but in general VAT is clearly much less progressive and hence less redistributive than other forms of taxation (Prasad and Deng, 2009; Decoster *et al.*, 2010; Warren, 2008).

Second, VAT can be thought of as a *necessity* in the way the political economy literature (see previous section) talks about constraints: VAT can be a necessary source of revenue. This is even more so if politicians believe that political institutions or economic pressure impedes the use of other taxes. Hence, there are two variants of the necessity frame: those based directly on problems of public finance and revenue need; and those arguing that VAT is the only available political choice given institutional constraints such as federal vetoes (in the German case), or the role of the EU.

Arguments of the third type, addressing economic *efficiency*, also come in two major variants. On the one hand, VAT is feared to have a negative impact on macroeconomic efficiency as it may stimulate inflation and decrease growth. For instance, firms could roll over VAT to consumers creating inflation and reducing demand. There is quite some debate among economists about how strong these effects really are (e.g. Barrell and Weale, 2009; Carare and Danninger, 2008). It is also unclear how visible VAT is compared to other tax forms (Heyndels and Smolders, 1995), and in how far it stimulates inflation (Hamermesh, 1993). And yet we will see that most politicians agree with the idea that VAT hurts a country's macro-economy.

On the other hand, VAT is said to have microeconomic advantages. Many economists share the belief that VAT is close to an optimal form of taxation (e.g. Mankiw *et al.*, 2009). In the form this argument generally takes, VAT is said to be production-efficient, in the sense that it 'only' distorts the decision to consume. In a more specific form of this argument—compared to other taxes—VAT is said to be less harmful for employment: VAT is paid by all people, employed and non-employed alike. Therefore it does not distort the decision on whether, and on how much to work as against doing nothing and should have less negative effects on employment than, for example, payroll taxation. The theoretical and empirical evidence for this type of advantages is mixed (Kenworthy, 2008). Much of this debate depends on whether one treats VAT as a tax on labour or not. If one does, it will also have an effect on the level of employment (Kemmerling 2005). Despite the ongoing debates among economists, we will see that German politicians especially seem to have adopted the view that VAT is relatively 'employment friendly'.

The lack of unequivocal evidence on crucial matters such as efficiency shows that functionalist arguments such as 'VAT increases because it is good for employment' are too simple. If experts disagree on the efficiency aspects of VAT, politicians will be exposed to ambivalent signals. However, the arguments about micro- and macroeconomic efficiency will still differ in their resonance in the audience—fellow politicians, voters, the public opinion. This is especially true for the arguments about labour-market friendliness. In labour markets with persistently high unemployment it will be more tempting to positively select arguments for an 'employment-friendly' tax mix with a high proportion of VAT. Hence the resonance of this frame might be time dependent, and especially driven by the business cycle or the level of unemployment. But it may also differ systematically across countries with different labour-market regimes.

For this reason the following analysis compares Germany and the UK over some forty years. It is well understood that the two countries increasingly differ in terms of the regulation and the performance of their labour markets. Germany represents a type of coordinated market economy, in which labour market institutions play a much larger role (Hall and Soskice, 2001; Mares, 2006; Beramendi and Rueda, 2007). The UK represents a flexible labour market, in which the salience of unemployment is less than in Germany. Hence, we would expect that the resonance of the (micro) efficiency frame is much stronger in the German context, where the labour market is less flexible and unemployment is a much more salient and persistent concern. The next section illustrates these claims with some qualitative evidence for the key role of frame consistency in the German and British parliamentary debates.

### **Qualitative Comparison of Frame Consistency**

Let us begin with a qualitative analysis of the frames in the two countries. This is useful for two reasons: first, even if an analysis of causal effects on tax policy outcomes would go too far, the comparison can reveal some anecdotal evidence for the power of frames on outcomes, that is, actual changes in tax rates. Second, by comparing major frames with each other, we see that variants of the necessity frame play an important, but somewhat ambivalent role, whereas the two efficiency frames are consistently applied.

The differences in the efficiency frame observed between Germany and the UK make sense on the basis of the backgrounds: in the UK, labour-market issues only played some role in the beginning and later on these issues faded out; in Germany, the question of the impact of VAT on the labour market came later, but has been more persistent. The efficiency frame became established even among left politicians in Germany, and the traditional left-vs.-right politicization of VAT debates was severely reduced. Hence, the efficiency frame seems to play the role of a conflict-displacing frame in Germany, which allows those formerly against a policy to adjust their opinions to new data and additional dimensions (Baumgartner et al., 2008).

Germany: Micro efficiency as Common Ground across Parties

The German Social Democratic Party (SPD) implemented a broad turnover tax as early as 1919 (Heilmann, 1975, p. 80). With the existence of this turnover tax, the introduction of VAT in the 1960s became a question of reforming the system, rather than a complete break with the past. There was a good deal of talk about macroeconomic efficiency, mainly focussed on the comparison of VAT to the previous turnover tax (Heilmann, 1975). Apart from this, necessity prevailed: the SPD called VAT an abominable tax (Westphal, debate, 5/2/1965) that was only good for revenue purposes. The liberal party (FDP) called all taxes abominable (Opitz, debate, 5/2/1965), and fought for 'customized' exceptions in the VAT base. Although European integration was mentioned in the debates, as a frame it played an ambivalent role. Finance minister Dahlgrün (debate, 5/2/1965), for instance, argued that the reform of turnover tax 'was and is primarily a concern of domestic politics'.

After its introduction in January 1968, it only took half a year to raise VAT rates for the first time. There was little partisan divide in the grand coalition over the issue. However, there was significant internal discussion within the SPD about the usefulness of VAT compared to other forms of government revenue (Scharpf, 1987). The consensus broke down once VAT became a tax at both the federal and state levels. When the SPD government tried to increase VAT by two percentage points in 1977, the second chamber, the Bundesrat, vetoed. Yet, federalism became a prominent, but inconsistent aspect of the 'VAT-as-necessity' frame: the government used it in support of raising VAT, the opposition against it. In 1978 the government managed to increase VAT in exchange for the abolition of a municipal payroll tax. In both debates SPD argued for higher public revenues, and was attacked by the opposition on grounds of an excessive tax burden and its bad macroeconomic consequences.

The early 1980s saw a rise in the talk about microeconomic efficiency. The Christian-Democratic Union (CDU) used 19<sup>th</sup> century SPD icon, Ferdinand Lasalle against the SPD proposal to raise the VAT rate. The SPD replied (Westphal, debate, 26/3/1982) that back then Lasalle was right, but now even ordinary workers pay all types of direct taxes. Social Democrats came to face a dilemma: with increasing welfare state demands they had to recur to taxing their own clientele (Cusack and Beramendi, 2006; Kemmerling 2014). VAT only became acceptable once unemployment was a salient topic even in the general public discourse: microeconomic arguments about the incentive-effects of VAT for labour became more frequent (several speakers, debate, 26/3/1982) at a time when 'structural' unemployment became a dominant political problem for voters (Forschungsgruppe Wahlen, 2011). In this context, VAT was increasingly seen as a tool to relieve the tax burden on labour.

Throughout the 1980s and 1990s, the necessity of increasing revenues remained a salient, but inconsistent frame: parties in opposition rejected raising VAT, but raised it when in government. For example, the CDU declared a raise in VAT unacceptable in early 1982, when it was still in opposition, only to call it unavoidable once it was elected few months later (*Der Spiegel*, 4.10.1982). Equally, political constraints proved to be powerful, but not insurmountable obstacles, as the raise in VAT in 1993 shows: a SPD-led opposition in the Bundesrat broke down, once the CDU promised special favours to SPD state-level governments.

In contrast, microeconomic efficiency became a consistent concern for both major parties: the basic compromise was to tax all people rather than only those who work. Take the example of the grand coalition between CDU and SPD, which raised VAT rates by three percentage points in 2006. The SPD had to violate the promise of its electoral campaign not to raise VAT if elected (*Der Spiegel*, 19.05.2006). Arguments about necessity were insufficient under such circumstances. The leitmotif of the debates was to reduce non-wage labour costs by shifting towards VAT. This made sense in a difficult economic context in which the salience of unemployment reached an all-time peak in early 2006 (ForschungsgruppeWahlen, 2011). Left and right parties agreed on this motif, with some exceptions. For instance, the socialist party, Partei des demokratischen Sozialismus (PDS), condemned the reform on grounds of social justice. However, the PDS (Loetsch, debate, 28/03/2006) also feared the expansion of the low-wage sector with the increase of VAT. Since the governing parties used work incentives as major lines of defence (various speakers SPD, debate, 28/03/2006), effectively all parties invoked a frame of labour-market efficiency, and could no longer simply ignore the issue.

#### UK: The ongoing partisan divide in VAT politics

In the UK the trend over time has been, if anything, the reverse. The predicament of left parties having to choose between regressivity and (labour-market) efficiency was visible at the introduction of VAT in 1973, but disappeared later on. The reason for this early prominence of labour issues was that VAT was not only the successor of very narrow purchase taxes, but also of the Selective Employment Tax (SET, e.g. Daunton, 2002). SET had been an attempt by the Labour government to introduce a new source of revenues, while at the same time discouraging certain jobs that were deemed to be of low productivity, especially in the service sector. The SET proved to be an economic and political failure, but Labour's attempts to turn SET into a general payroll tax came too late. Among others, the new

conservative Chancellor of the Exchequer, Barber, seized the opportunity to justify the introduction of VAT with a condemnation of SET (debate, 9/5/1972): 'Selective employment tax, born of planning delusions in 1966, attempted to bring in the service industries as well, and attempted to force what was, in some mysterious way, supposed to be a desirable reshuffle of the country's labour force.'

Labour, in turn, tried to frame the Conservatives as a party that follows orders from Brussels, linking VAT to imminent EEC accession. But similarly to the German case, this version of a necessity frame was not consistent. Defending his government, Barber replied: 'I came to the conclusion that it would be right to move over to VAT whether or not we joined the EEC' (debate, 9/5/1972), and was supported by his party fellow Sir Nabarro: 'I am an opponent to Europe, but a proponent of VAT' (see also several other speakers). Europe was an ambivalent frame even within Labour: the soon-to-be Chancellor of the Exchequer, Healey, argued that Labour had always been against VAT, and would have only accepted it as a condition of entry to EEC (debate, 9/5/1972). His partisan fellow Duffy argued that VAT would come with or without EEC (debate, 9/5/1972).

Labour forced the Conservatives to make concessions (Genschel, 2002), so that the initial tax base of VAT remained relatively small, and its rate system complicated. Once in office, Labour governments cut VAT rates between 1974 and 1979, defending the cuts with arguments about redistribution and macroeconomic efficiency. Eventually, the Thatcher government raised the standard VAT rate and consolidated the rate structure. Conservatives occasionally claimed that a Labour government would also have had to increase VAT (debate, 27/06/1979 and *The Guardian*, 20/06/1979), but many observers agree that both major parties had very different political stances on the issue of VAT (Rhodes, 2000).

The continuity in partisan politics of British VAT is related to the relative weakness of the micro-efficiency frame. Except for the beginning and a brief spark at the end of the 1970s, the labour market never featured prominently in the British debates. In this it followed the salience of unemployment as a political issue, which also peaked around the same time and then declined quickly (Jennings and John, 2009). Unemployment and growth were seen far more as a problem of macroeconomic distortions than of microeconomic ones (several speakers, debate, 27/06/1979).

The dominance of old forms of contestation also enabled the left to capitalize on the regressivity frame. This became obvious during the poll tax disaster of the late Thatcher government. The 'Community Charge' was meant to replace the old rating system, a move backed by many economic

experts. The poll tax proved to be enormously unpopular, made Thatcher resign, and led the new Major government to abolish it quickly (Pierson, 1994; Rhodes, 2000). To balance the revenue loss, the Conservatives raised the VAT rate by 2.5 percentage points. The frame of microeconomic efficiency did not have a lot of resonance, and Labour had ample opportunities to attack the Conservatives. For instance, Labour MP Cunningham (debate, 26/3/1991), argued that the socially unfair poll tax was 'decapitated to come back with three heads' in the form of VAT.

On few occasions, Conservatives tried to defend the raise in VAT arguing that the tax burden shifted away from work (e.g. Grant, debate, 19/3/1991), but this line of defence proved to be much less fruitful than in Germany. Instead 'old-style' macroeconomic arguments prevailed. This became evident during the recent global financial crisis, when Labour implemented a temporary cut of VAT rates in 2008. The entire debate focused on the question of whether the tax rebate would or would not give an effective macroeconomic stimulus. And many members of the parliament observed in a rather puzzled manner that the German government rejected a cut in VAT, even though the EU had previously endorsed it (several speakers, debate, 17/12/2008).

In summary, the qualitative evidence reveals that efficiency frames consistently played a role in the diverging discussions about VAT. In the 'liberal' UK the labour-market effects were only discussed at the very beginning of British VAT. Somewhat ironically, Keynesian macroeconomics survived the Thatcher government. In 'coordinated' Germany, microeconomic efficiency became an increasingly acceptable and consistent frame for all parties. Arguments about necessity clearly played an important role, but many of these frames were inconsistent. For instance, the debates showed that speakers would not necessarily share scholarly opinion about the influence of European integration on introducing VAT. Equally, arguments about public finance are clearly relevant, but are easily contested in parliamentary debates. All in all, the case studies suggest that there is a consistent and increasing difference in frame use between the two countries, and that this is related to concerns about the labour market. The following quantitative content analysis investigates these claims more systematically.

### **Content Analysis: The Shift in Salience between Macro- to Microeconomic Efficiency**

This section describes the methodology and presents some descriptive results of the quantitative content analysis. I look only at changes in the statutory rates and exclude reforms of the tax base and of special rates, since the latter are very different for the two countries.<sup>2</sup> The statutory rate was increased

in Germany seven times; in the UK it was increased four times, and cut three times.<sup>3</sup> Because of their importance, I also included the debates on the introduction of VAT. Similarly to other studies (Jacobs, 2009; Quinn *et al.*, 2010) I chose plenary debates in the parliaments, as these debates directly deal with the issue at stake and are roughly comparable across countries. The immediate audience of these debates is fellow politicians, but the debates are open to the general public. Moreover, unlike media content, parliamentary debates are much more specific to the issue at stake and often show a higher diversity in the arguments (Roggeband and Vliegenthart, 2007).

For the total of 30 debates I designed a codebook containing six main categories (see Table A-1, web appendix). As explained above, the main categories are arguments on two types of efficiency (micro- and macroeconomics), two types of necessity (public finance and political institutions), regressivity (redistributive impact and social justice), as well as a category for other arguments (mainly about exceptions in the tax base).<sup>4</sup> The codebook is the result of pre-testing with some debates and exchange with experts on VAT. Two coders used the codebook to code the debates. As units of analysis, they used sentences in which either 'VAT' or 'value-added taxation' was explicitly mentioned or in which the reference to VAT was sufficiently clear. The total number of observations is above 900.<sup>5</sup>

The two coders used the codebook to code each observation with one of the categories. For instance, a speaker in a British debate in 1974 argued: 'This reduction in VAT will enable manufacturers and retailers to reduce prices of a very wide range of goods and services.' The coder would code this as an instance of the macroeconomic efficiency frame ('inflation, costs of living'). In cases where the coders were in doubt, or where there were several arguments in one sentence, the coder could also give 2<sup>nd</sup> and 3<sup>rd</sup> choices. Having up to three codes per sentence allows us to judge coding errors and disagreements.

The degree of overlap between the two coders is reasonably high as the inter-coder reliability of Table 1 shows (calculated using Freelon, 2010). The table is based on some 15 percent of all the text that was coded by both coders. The first metric of reliability is the percentage of all cases in which the first-choice codes of both coders coincided for the six categories. For the first-choice codes, reliability is only moderate: some 62 percent in terms of simple agreement. The values go up to almost 89 percent once we replace the first by the second choice in those cases where the two coders disagreed. Given these results, we will use the first-choice codes to run main tests, but include second-choice codes as a check for robustness.

**Insert Table 1 about here**

Table 2 shows the salience, as measured by the relative frequency, of each frame for both countries over time and the six major categories (five frames, plus 'all other'). As many scholars would expect, arguments about necessity are most frequent. However, the concerns about public finance peaked in the 1970s and they were never the only consideration of politicians. Together with domestic political considerations such as fiscal federalism, these concerns were more frequent in Germany.<sup>6</sup> Compared to necessity, arguments about social justice and regressivity play a much smaller role and there is no clear trend over time. Most importantly, the efficiency frames confirm the case studies' pattern across countries and time. In the UK, microeconomic efficiency only plays a role in the beginning, and macroeconomic arguments are still dominant in the 2000s. German debates show a trend from macro- to microeconomic arguments over time.

**Insert Table 2 about here**

To investigate the reasons why individual speakers chose one frame over the others, I collected information on the speakers and the countries for the given years. With this additional information, we can now investigate what types of frames have more resonance for what type of speakers under what types of circumstances.

### **Regression Results: What Determines Frame Resonance?**

The descriptive statistics imply that the efficiency frames are clearly different in Germany and the UK. To understand the reasons for this shift over time in Germany, we want to know when speakers are more likely to use one argument than another. Since each unit of analysis reveals a speaker's decision to use one type of argument instead of another, I use a multinomial-logit analysis with the six major categories (five frames plus 'all other') as the dependent variable. The econometric specification includes a battery of independent variables on the level of speakers and the aggregate level. Since

regression outputs of multinomial models are difficult to interpret, table 3 shows the marginal effects for each variable on the predicted probability of each outcome.<sup>7</sup>

**Insert Table 3 about here**

Let us begin with the effects of the first variable partisanship. This variable corresponds to expert assessments of the colour of the speaker's party ranging from left to right and is based on a five-point scale (Caramani, 2000).<sup>8</sup> We see that left parties are somewhat more likely to use arguments about micro efficiency than right parties. Around the mean moving by one point on the five point scale towards the right decreases the predicted probability by three percentage points. As expected, this effect is not very large, though it would be considerably larger if we only looked at the German debates. Moreover, left parties are clearly more likely to invoke the regressivity frame. The effect is both statistically and substantively stronger than for the frame on micro efficiency.

The next individual-level variable in table 3 is 'valence'. It measures the overall position of a speaker regarding the proposed tax reform. It is coded as being against (1), neutral (2), or in favour (3) of a rate increase.<sup>9</sup> We see that valence mainly matters for the two efficiency frames: the predicted probability for valence decreases by some six percentage points for macroeconomic efficiency and increases by some four percentage points for microeconomic efficiency. This means macro efficiency is usually invoked to disagree with VAT raises, whereas those arguing for it invoke micro efficiency. The only other case where valence matters is when advocates of VAT invoke public finance considerations to defend raising tax rates.

The third and final individual-level variable is 'government', a dummy whether or not a speaker belongs to the government. This variable should indicate a government-opposition divide, which is typical in tax politics as the government usually needs to legitimize larger revenues much more than the opposition. Table 3 shows that government-opposition divide clearly relates to the micro efficiency and political constraints. In both cases a speaker related to the government party is more likely (by some 6 percentage points) to mention the two frames than a speaker of the opposition.

The table also shows the results for the included macro-level variables. Most importantly, I include information on national unemployment rates to test their effects on the efficiency frame.<sup>10</sup> We see that, around the mean, higher unemployment makes microeconomic arguments more likely by some four percentage points and macroeconomic arguments less likely by some three to four percentage points. This implies that moving from a year like 1968 with a German rate of unemployment

at 1.5% to a year like 1977 with it at 11.4% would increase the likelihood of the micro frame being mentioned by almost 40 percentage points. Moreover, unemployment also makes invoking the regressivity frame more likely, which hints at an interesting trade-off between labour market and social justice.

Other structural characteristics play less of a role. I include a variable on inequality (the national Gini coefficient). It is obvious that inequality has a visible and positive impact on the regressivity frame. There is also some effect for microeconomic arguments, but only with borderline significance. I also included data on national budget deficits economic growth since they could make references to public-finance arguments more likely. Yet, somewhat surprisingly, budget deficits don't seem to be systematically related to any of the frames in particular.

The role of politics as a necessity constraint may depend on the saliency of European issues in the public opinion. For this purpose I include the national share of those who agree that being a member of EU is a good thing. The source is Eurobarometer. As table 3 shows, public opinion on EU integration only affects macroeconomic frames, but the effect is only borderline significant. Finally, the model includes a time trend and a dummy variable for the UK. We see that there is a positive trend in time for macroeconomic arguments, but as further inspection reveals, this is mainly due to the UK debates.

These findings are robust to changes in the model specification (see web appendix A-3). For instance, there is little difference if I cluster standard errors to control for debate effects. I also ran a model excluding the debates on VAT introduction, but the effects for the frames are remarkably similar. Next, I replaced the first-choice codings by the coders' second choices to allow for coding errors, but again there is little difference to the results in table 3. Another problem is the use of national aggregate data which conceals sub-national variation. For this reason, I replaced national aggregate data for unemployment and inequality by constituency-level data for a shorter time period from the 1990s onwards.<sup>11</sup> Again, I get very similar results to those of table 3. Finally, statistical tests show that the assumption of the independence of irrelevant alternative holds in all models (Long and Freese, 2003).

The findings are pooled effects for the two countries. To understand the differences between the two countries and the different effects of party politics I re-ran the multinomial regressions for subsamples: Germany before and after 1990 and the UK before and after 1990.<sup>12</sup> This analysis shows that

the partisan contestation is much clearer in the UK, whereas in Germany, the left-right divide has diminished mainly due to the increasing use of micro-economic arguments.<sup>13</sup>

All in all, this section corroborates the findings of the case studies: Using one frame over the other depends on several factors, but economic conditions, especially unemployment, are an important determinant of the shift between micro- and macroeconomic efficiency. Resonance of this efficiency frame seems to be stronger in those regions and time periods when unemployment is more of a concern. This explains why the shift has happened less in the UK, and why it also has barely affected the left's resistance to VAT.

### **Conclusion: The Left's Choices**

The empirical analysis of German and British parliamentary debates has shown three things. First, VAT politics equals partisan politics only in the UK, whereas in Germany the partisan effect has waned. Thus the inquiry into politicians' official motivations complements findings using aggregate or case study data (e.g. Beramendi and Rueda, 2007; Martin, 2015). Second, and in contrast to this literature, the clearest difference between arguments in the two countries is the German shift in efficiency frames, showing that revenue need is only one consideration motivating raises in VAT. Third, the inferential evidence shows that this shift is in part driven by structural context, especially unemployment. Arguments hence seem to depend on politicians' experience, and ultimately on the structural context that makes some arguments more plausible than others. Taken together, we see that the efficiency frame had enough salience, resonance and consistency to make left politicians change their arguments and reduce the partisan divide of indirect taxation in Germany.

One may ask whether this ultimately makes a difference. Can shifting frames explain the outcomes of tax reforms? As argued above, a final answer is beyond the scope of this article. But the existence of a framing effect is not implausible, as seen in the qualitative case studies. Governments need to justify their choices, and if they fail to convince members of parliament and, eventually voters, they will lose elections. Framing is an important part of blame avoidance. This has been visible in the few qualitative episodes where framing failed, such as the SET or the Poll Tax. Similarly, the findings

show that some of the causal stories explaining the rise of VAT, the role of European integration among them, need to be rethought in the light of what politicians at the time argued.

Another issue is external validity. Do the findings reveal something beyond the British and German experience? A thorough answer would require further research, but two shadow cases show that the relevance of frames is also visible in other countries. In the USA, VAT has never been implemented. When VAT was debated, frames other than micro-economics seemed pivotal. When, for instance, the Nixon administration explored the possibilities of VAT in the 1970s, an expert commission rejected VAT on grounds of the complexities of fiscal federalism and high transition costs (ACIR, 1973; Schenk, 2011). During the Bush junior and Obama administrations the dominant frames on VAT seemed to be competitiveness vs. regressivity (e.g. Mack *et al.*, 2005; Volcker *et al.*, 2010). In this sense the USA experience of a liberal labour market, in which employment-friendliness of taxation does not play a huge role, is similar, if not more radical, to the British experience. In contrast, Spanish VAT came relatively late, but since then it has rapidly converged to European levels. Especially since the global financial crisis, and the return of high unemployment, Spain expanded VAT, even in its most regressive parts, and a major justification of this switch to indirect taxation was the labour market (Lagares *et al.*, 2014). In this respect the Spanish experience resembles, if not surpasses, the German case.

However, the main contribution of this article goes beyond the narrow field of VAT politics. Firstly, it shows that the comparative political economy of ideas would benefit enormously from quantification. What types of ideas or frames out-compete others? Which ideas seem more decisive than others? Resonance, in particular, is an important field of future studies for the analysis of frames. Quantification of ideas helps to identify structural determinants of ideas, in addition to historical and contingency-based explanations for why a particular idea matters. The paper has shown a novel approach by relating arguments chosen by speakers to their attributes and structural context.

Finally, systematic inquiry into the determinants of frames has larger implications for the comparative political economy of ideas. In recent years, the literature on policy learning seemed to swing between Bayesian learning (e.g. Meseguer 2005), cognitive models about different forms of bias (e.g. Jacobs 2009) and constructivist approaches (e.g. Blyth 2013). This article suggests a combination of different types of learning. The shifts in frames can be triggered by 'objective' pieces of information such as rates of unemployment. In this sense, learning follows a process of rational updating. However, in many instances the 'real' causal impact of different taxes on labour market outcomes is far from

obvious. In this sense the power of ideas as frames plays a huge role, since frames favour some rationalizations over others, even when the scientific evidence for the choice is not necessarily strong.

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<sup>1</sup> Some scholars criticize this second notion of framing for blurring the lines of persuasion and other forms of learning (e.g. Scheufele and Iyengar, *fc.*), but shifts in attention from one dimension of a problem to another are context-specific forms of learning for which ‘mental frames’ play a huge role (e.g. Jones and Baumgartner, 2005).

<sup>2</sup> For instance, the UK had a ‘luxury’ rate in the 1970s, which changed several times. Moreover, the list of products and services exempted from VAT or in the zero-rate bracket differ across the two cases.

<sup>3</sup> Two German and two British debates had to be excluded as they were overshadowed by idiosyncratic topics such as German reunification.

<sup>4</sup> I ran Wald tests for inductively combining the 16 sub-categories of the dependent variable into the six main ones (Long and Freese, 2003, p. 203), which showed that the grouping also makes sense from a statistical point of view.

<sup>5</sup> Using natural sentences instead of quasi- or core sentences, reduces problems of unitization significantly (Daeubler *et al.*, 2013). Data sources are the protocols of the Deutsche Bundestag (both online, <http://dip.bundestag.de/>, and archival research) and the Hansard archive of the House of Commons (<http://www.publications.parliament.uk/pa/cm/cmhansrd.htm>).

<sup>6</sup> If we differentiate between domestic political constraints and those coming from European integration, we see that European integration only played some quantitative role at the time of introduction.

<sup>7</sup> Table A-3 in the (web) appendix shows the complete results.

<sup>8</sup> The results did not depend on the measurement. Using data from the Comparative Party Manifestos Project for a smaller time span led to essentially similar results.

<sup>9</sup> We can briefly check whether being against VAT raises is related to partisan cleavages in these two countries. Indeed, the partisan contestation is much stronger in the UK case, where the majority of left interventions was against raising VAT, and the majority of right interventions in its favour. In Germany, the majority of left interventions was in favour of raising VAT rates, with right politicians being more or less balanced (see Appendix A-2 for details).

<sup>10</sup> Data sources for unemployment rates, growth, and net lending (deficits) are quarterly data from the OECD. Inequality data is measured as Gini coefficients from the Luxembourg Income Study. Public opinion on whether membership in the EEC/EU is good or bad comes from the Eurobarometer trendfile (v2.0.1) and various standard Eurobarometer reports.

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<sup>11</sup> The sources are the national statistical offices. Unemployment is the constituency-level unemployment rate; inequality is the difference between mean and median income according to tax offices. I use Länder data for those members of the parliament who are voted in on a proportional basis in the German case.

<sup>12</sup> The models only include individual-level variables to respect the smaller sample size. See appendix table A-5 for the results.

<sup>13</sup> To summarize the logic of partisanship, Figure A-6 (appendix) shows predicted probabilities for each category over the whole range of the left-right scale with 0 representing ‘radical left’ and 4 representing ‘right’ for the four subsamples. The two upper panels show the change in the UK over time, in which case there is no ‘radical left’ party. Partisan contestation on the micro efficiency frame was visible before 1990, but became much weaker thereafter. The macroeconomics frame decreased, but is still important. Arguments about social justice clearly differ from left to right. When we now compare this to Germany, we see a dramatic decrease in the macroeconomics frame. In part, it was replaced by political considerations and public finance. But more importantly, the micro frame came to replace macroeconomic concerns, especially among left politicians. In contrast, social justice decreases over time, and gets more concentrated on the ‘radical left’ (PDS), whereas centrist politicians hardly mention it anymore.