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Why is it so difficult to tax the rich? Evidence from German policy-makers

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ABSTRACT


Why are rich citizens not taxed more heavily – despite growing inequality (aversion)? The literature offers several explanations, all of which ultimately work through the minds and actions of politicians. Taking Germany as a case, we therefore ask in 25 semi-structured interviews which obstacles left-wing politicians perceive in taxing the rich. Overall, tax increases are perceived as difficult projects. Organized business is described as a major barrier, but in a way that goes beyond existing accounts: besides classical lobbying, business interests are seen to influence electoral politics through long-term communication strategies shaping tax preferences. Moreover, the interviews point to a previously unrecognized organizational barrier that we coin the ‘vicious competence cycle’: left-wing politicians are often overwhelmed by tax issues which results in consequential disadvantages when confronted with resourceful anti-tax actors. They describe how party-internal discourses shape these competence patterns by influencing motivations, feasibility perceptions, and electoral strategies.

KEYWORDS Ideas; left-wing parties; political inequality; power; representation; taxation

Introduction

The growing concentration of wealth and income is well documented for many countries. One reason is the declining progressivity of tax systems (OECD, 2015; Piketty, 2020; Saez & Zucman, 2019). This reluctance to tax a rich minority is a major puzzle in political science (Emmenegger & Marx, 2019; Scheve & Stasavage, 2016). Barriers for taxation have been identified on the level of global economic structures, meso-level politics, and individual voters (Kiser & Karceski, 2017). However, seemingly objective tax barriers are not exogenous to the political process. Their political relevance is mediated by actors’ interpretations, ideas, and expectations (Béland & Waddan, 2015; Bell & Hindmoor, 2014; Hay & Rosamond, 2002; Kingdon, 2003; Steinmo, 2003). Against this background, it is unfortunate that we know little about

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how politicians think about tax politics. Which barriers do they perceive as important? How do they rate the chances to overcome them?

To fill this gap, we conducted interviews with 25 German political actors, mostly left-wing members of the Bundestag's fiscal committee. What makes this group relevant to our research is that it has a policy-seeking motivation to increase taxes but has largely failed in recent years to do so.

Our primary goal is a descriptive account of political elites' perceived tax barriers. While the design does not provide a direct 'test' of existing arguments, it allows assessing the extent to which these arguments are reflected in politicians' subjectivity. Crucially, it also enables the discovery of additional, hitherto overlooked obstacles for taxing the rich.

To preview the main results, progressive tax reform is perceived as an unpromising political project. Pro-taxation politicians describe organized business interests as *the* major barrier, but in a way that goes beyond most existing accounts of tax politics. Resembling Lukes's (2005) 'three-dimensional' view on power, business interests are described as mobilizing enormous resources to shape public opinion. Voters are seen not only as acting out of 'unenlightened self-interest' (Bartels, 2005) but as actively led astray by a highly strategic and orchestrated long-term communication strategy of the business side.

Moreover, our interviews point to a fundamental, but previously unrecognized barrier: organizational dynamics within left-wing parties around the production of tax competence. Left-wing politicians admit being often overwhelmed by tax issues and struggling to match the tax competence of the conservative side. They describe how party-internal discourses shape these competence patterns by influencing motivations, feasibility perceptions, and electoral strategies. The practical significance is that left-wing parties tend to define social spending (rather than funding it) as their core purpose. They appear trapped in a *vicious competence cycle*: because they fail to develop competence and self-efficacy in tax matters, they lack crucial foundations to challenge business discourses of tax increases as allegedly 'incompetent' economic policy. Hence, understanding tax politics requires substantively theorizing *parties as organizations*. This insight goes beyond existing accounts of tax politics and, in our view, provides a fruitful basis for hypotheses to be tested in future research.

Why do the rich not pay higher taxes?

Prima facie, the bottom-90 per cent of any democracy should easily agree on high taxes for the rich; particularly, if inequality grows rapidly. Yet, the general trend in developed economies is declining progressivity (Lierse, 2021; Piketty, 2020; Saez & Zucman, 2019). Our inductive research is situated in an ongoing debate, which provides three sets of explanations for this puzzle.

First, organized business interests might prevent higher taxes through lobbying and thereby cause politicians to be unresponsive to the interests of democratic majorities (Hacker & Pierson, 2010). Second, global tax competition is often seen as a structural barrier for higher taxes on the rich as a particularly mobile segment (Swank, 2016). Third, political demand from the bottom-90 per cent can be more ambiguous than suggested by rationalistic accounts (Barnes, 2021). This can occur if voters view the rich as deserving or if they believe low taxes to 'trickle down' via a stronger economy (Scheve & Stasavage, 2016). Another reason could be 'tax illiteracy': if voters do not sufficiently understand the tax system and its effects on their income (Kuziemko et al., 2015) they might support tax cuts out of 'unenlightened self-interest' (Bartels, 2005).

All these arguments are plausible. Our simple point is that all of them ultimately work through the minds and actions of politicians and should not be assumed to be exogenous to the political process. Lobbying success is likely under conditions of low salience. However, inequality and taxation are sometimes high on the agenda so that politicians need to reconcile interest-group and voter demands (Bell & Hindmoor, 2014; Culpepper, 2011). How they perceive and navigate this trade-off is an open question. Crucially, salience is not necessarily exogenous to politics, so that we rather need to ask under which conditions politicians *attempt* to make taxes salient or not (Massoc, 2019). It is also often argued that effects of tax competition are really driven by politicians' expectations rather than by objective constraints (Steinmo, 2003; Young, 2017). As Hay and Rosamond (2002, p. 149) put it, the irony of the tax competition argument is that

if governments believe it to be true, or find it to their advantage to present it as true, they will act in a manner consistent with its predictions, thereby contributing to an aggregate depreciation in corporate taxation – whether they are right to do so or not.

This raises the straightforward question of how policy actors perceive tax competition.

The same applies to public opinion. Political issues, including taxation, often relate to competing values. Scheve and Stasavage (2016) emphasize how wars as exogenous drivers privilege fairness concerns that mandate progressive taxation (see also Limberg, 2019). However, a large literature on framing effects suggest that political elites can influence preferences, including tax preferences (Kneafsey & Regan, *forthcoming*). Political actors should be expected to strategically emphasize those concerns in public discourses about taxes that serve their goals (Emmenegger & Marx, 2019; Massoc, 2019). This raises the important question of how politicians perceive (contradictions in) public opinion about taxes and their own role in shaping it.

The implication of these arguments is that political actors' beliefs about the economic and electoral consequences of taxation as well as the discourses through which such beliefs transpire can have effects on policies (Béland & Waddan, 2015). This motivates our strategy to study politicians' narratives about tax barriers.

Progressivity in the German tax system

To appreciate the interview evidence, some background on German tax policy and politics is helpful. We broadly characterize Germany as a 'typical case' that mirrors the trends in many OECD countries of growing inequality, declining tax progressivity, and the spread of supply-side ideas also in left parties (Bremer & McDaniel, 2020; Piketty, 2020). Given space constraints, we demonstrate in appendices that

- income and wealth inequality in Germany have increased since the 1990s to an intermediate/high level by international comparison (Appendix A)
- the relative tax burden declines above the 85th percentile of household income (Appendix B)
- this regressivity increased markedly between 1998 and 2015 (Appendix B)
- we can plausibly attribute this trend to cuts in top-income tax rates and increases in indirect taxes (Appendix C). Generally, while there were several cuts in taxes on wealth and high incomes, increases are rare (Appendix D).

Regarding tax *politics*, a key observation is that the Social Democrats (SPD) were in office during all major cuts (Appendix C) and even held the Ministry of Finance 1998–2009. The programmatic development of the SPD in recent years can be summarized as a move from deregulation and retrenchment under Schröder (1998–2005) to a leftward shift after the Great Recession (Appendix E). This shift was accompanied and dampened by strong internal conflicts and the need to form 'Grand' coalitions (2005–2009 and 2013–present) with the more business-friendly Christian Democrats (CDU). Importantly, the SPD *was* able in these coalitions to push through 'left' economic policies, such as early retirement and a statutory minimum wage, but not more progressive taxation.

Finally, a key aspect is German federalism with almost complete joint decision-making in fiscal matters. Hence, the second chamber is an additional veto player in tax reforms (Ganghof, 2006).

Method

Besides pragmatic reasons (in-depth case knowledge and accessibility of interviewees), we select Germany as *typical* (Gerring & Cojocaru, 2016) for

the failure of the political left to tax the rich and to lower inequality, which we observe in numerous European countries (Appendix F).

Our analysis is based on 25 semi-structured interviews (Appendix G). Following an open-ended approach, we first asked respondents about perceived problem pressure regarding tax progressivity and, second, about obstacles to increase taxes on the rich.

We conducted almost half (9) of our interviews with functionaries of the particularly relevant SPD (fiscal experts, a party leader, the head of the strategic unit). The challenges of interviews with active politicians are biased, partial, or inauthentic answers. We partially remedy this problem by 'triangulating' SPD narratives with accounts of actors in different functions and political camps, some of whom have terminated their political careers. This includes fiscal experts from the Greens (4), Left Party (2), CDU (2), FDP (1) and unions (2), staff from a Federal Ministry (2), and a business association (1). To further enhance response validity we, firstly, guaranteed the respondents anonymity. Only one left-wing interviewee demanded full and one CDU politician partial anonymity. Second, we limited ourselves to questions on the politicians' general views (that minimize the incentives to lie).

As shown below, the interviews included many self-critical reflections on the left which were broadly confirmed by right-wing interviewees. This generally increases our trust in the material, although we do acknowledge that parts of the narratives should be validated with additional analyses (see Discussion).

How do policy-makers perceive taxation in Germany?

Left-wing (but not right-wing) politicians generally see a need for higher taxes as the current system has regressive elements and contributes to inequality. Although there is no consensus on which form of taxation to raise, the need and general willingness to tax high incomes and wealth are authentically expressed in ample statements. This policy-seeking motivation is emphatically shared by most of SPD's fiscal policy experts and was not questioned once by representatives of the other parties. SPD interviewees actually often expressed criticism of their own party and its tax reforms 'which ultimately also increased inequality' (SPD_NoWaBo).

Simultaneously, there is a strong sense of disillusion about the political feasibility of tax increases. What are the perceived barriers? While accounts differ in nuances and weighting, a number of obstacles was mentioned by a majority of the respondents: organized business interests, public opinion and media framing, processes within parties, German federalism, and – to a much lesser extent – international tax competition.

Out of space constraints, we can only deal in passing with the complex politics of German fiscal federalism. In short, several interviewees echoed

the analysis by Ganghof (2006) of the second chamber as a powerful veto player in tax policy-making. We simply note (as some of our interviewees did) that federalism did not prevent a series of tax *cuts* over the past decades, an asymmetry that deserves more attention than would be possible here.

Organized interests

Virtually all interviewees emphasize organized interests as a major barrier for tax reforms. The influence is portrayed as so pervasive by some that it leads to pronounced pessimism. While monetary incentives (e.g., donations) were not mentioned or even denied, business influence was described as multifaceted. Because the role of lobby groups is so deeply intertwined with the other barriers, we move some of its discussion to the relevant sub-sections below.

A direct channel is the orchestrated persuasion of individual parliamentarians and bureaucrats. Business groups invest heavily in long-term networks with decision-makers that are fuelled by exchanges of information (which was broadly confirmed by right-wing interviewees). While information always is an important aspect of lobbying, it has special relevance for tax issues because of their complexity. This complexity is *the* common thread running through the interviews. Tax legislation tends to be overwhelming which makes external expertise inevitable. 'In tax policy, lobbying mainly takes place in the detailed regulations (...) of which the layman and probably the MoPs who do not have employees with specialist knowledge don't know anything (...)' (SPD_Kühl). Even fiscal-policy experts admit being overwhelmed at times. 'It goes so much into the details and at some point you think, this is all terrible, and then you reach your limits and somehow you think we can't get it right' (Left-wing_party_Anonymous).

I sometimes could not do my job without them [the interest groups]. When I sit over an annual Tax Amendment Act (...) with about 200 changes, I cannot do this on my own (...). We have now seven, eight tax proposals to debate in parallel. And therefore, you need input from outside. (CDU_Anonymous1)

Resource-rich business associations that 'recruit staff from the spheres of the economy, science, politics, and civil service' (SPD_Peters) are well-positioned to provide this 'input', but obviously do so in a biased way. Trade unions, which could theoretically counterbalance this distortion, are organizationally incapable of doing so: 'This is of course a question of resources. They are quite limited, because tax policy is not the core area of trade union activity.' (Trade_Union_Didier). Hence, the complexity of tax legislation 'basically serves the interests of the well-informed and turns into an additional injustice' (SPD_Peters). While providing biased information might appear as a blunt

strategy, it is important to appreciate its subtleties. Crucially, information exchanges take place in long-term networks with high mutual trust, in which lobbyists carefully balance persuasion and credibility. Moreover, information is transmitted through multiple channels, which lends it credibility. Many interviewees perceive a strong media bias against higher taxes and point to the inclusion of journalists in the afore-mentioned networks, where they are 'provided with arguments' which are 'not always complete' (SPD_Peters). 'That is really orchestrated and particularly in these talk shows; they flood editorial staff with biased statements. This is what they call "argumentation aid."' (SPD_NoWaBo).

Public opinion

The alleged influence of lobbyists on media reporting already points to public opinion as a key mechanism in tax politics. Indeed, almost all left-wing politicians problematize the role of public opinion and media reporting. Taxation is portrayed by interviewees as generally 'entailing the risk of being easily scandalised' (SPD_Hendricks) or even as a 'loser topic' (SPD_Hendricks). The main reason is, again, its complexity. 20 out of 25 respondents argue that there is an enormous knowledge deficit on tax issues among citizens with important consequences for policy preferences. While most politicians acknowledge growing inequality aversion and support for redistribution *in general*, they report that support for *concrete* tax proposals is undermined by concerns about effects on voters' personal income. Reports abound about encounters with voters who support tax cuts because they confuse them with social-security contributions, who take marginal for average rates, or who have misleading perceptions of their place in the income distribution.

It is important to stress how candidly left-wing politicians see such confusion as endogenous to politics and the influence of business lobbying. Several respondents claim that 'tax illiteracy' makes voters susceptible to 'myths' deliberately spread by anti-tax actors. 'It's not easy to counter this in the public debate, because it's deliberately promoted (...) The media barrage is usually very strong' (SPD_Hendricks). The Initiative for a New Social Market Economy (INSM), a business-sponsored think tank, is seen by almost all left-wing respondents as the most aggressive and influential organization in this respect: 'Let's take a look, for example, at the INSM campaigns (...) with huge posters and the myths that are created there. (...) Whatever lies are propagated, they are accepted when they are backed up by such huge campaigns.' (SPD_Kiziltepe).

Most left-wing (but not right-wing) interview partners are convinced that these campaigns make a decisive contribution to giving people the impression that they are directly or indirectly affected by tax increases for

the rich, even if they are explicitly exempted in proposals. A common example is 'granny's house' allegedly affected by inheritance or wealth taxes. In this way, lobby groups successfully manage to redefine interests of the rich minority into majority interests: 'the tax reduction lobby for the wealthiest achieves through an enormously skillful form of communication that the middle class believes it is to their benefit' (SPD_NoWaBo). 'The few who are really affected hide behind the many whose personal interests are not negatively affected.' (SPD_Hendricks).

Another communication strategy of the business side is to emphasize adverse effects of taxes on jobs and growth. According to a business lobbyist

The most powerful argument we have is that the jobs created by industry are created by companies, not only by the very big ones, but broken down in the value chain to medium-sized companies down to the smallest repair shop (...), which also depend on the big ones. This is, so to speak, the argument that we must actually always use in order for this to be accepted. (Business_Association_Anonymous)

This lobbyist also confirms with surprising candour a frequent accusation of left-wing politicians, namely that (unpopular) big business tends to hide behind the much more popular *Mittelstand* or *Familienunternehmen* (family-run SMEs):

How can we improve the image of companies in Germany again? We try it with the family enterprises, they simply have a higher societal acceptance. When we issue press releases, we cannot always take big corporations, Siemens and BASF for example, but (...) all the medium-sized companies that are important and create jobs. (Business_Association_Anonymous)

According to a Green tax expert, the embodiment of this deceptive strategy is one specific lobby group: 'the Foundation for Family Businesses, which have chosen their name very wisely; this is actually the club of corporate billionaires in Germany' (Greens_Paus).

Why is business seen as being able to control tax discourses so strongly? Money for PR campaigns is only one aspect. A key advantage, as the interviewees see it, is the ability to coalesce around a set of simple messages repeated over time by different actors. Referring to the ad-nauseam accusation of taxes as job and competitiveness killers, one interviewee remarked that 'There are a couple of arguments that receive relevance simply by being constantly repeated' (Interview_Binding). Besides conservative media, the role of science in this strategy is sometimes lamented. 'The mainstream of German economists was clearly against taxation of high and highest incomes (...). This played a major role' (SPD_Hendricks). Asked about INSM, a business lobbyist explains that

In tax policy, there are nationally renowned economists and economic institutes' (...) who are 'believed more within politics, by the members of the

Bundestag (...). When Prof. [Anonymous] says that we have to create a balance and keep an eye on the companies here, then this will be seriously considered. (Business_Association_Anonymous)

Another important aspect is that the tax discourses of the centre right parties are closely aligned with the business narrative.

It is common for politicians, particularly from the SPD, to argue that it is impossible to overcome the power of such 'neoliberal discourses' or even 'hegemony'. The reasons are that it is

- impossible to match business's resources for PR activities
- generally harder to convey complex facts about taxes to an illiterate audience than simple accusations
- difficult to have an equally coordinate discourse across left-wing actors divided by several issues and priorities

Some actors (outside SPD) questioned whether these barriers are that intense (a criticism we take up in the *Discussion*). On the left, some emphasized that the one-sided tax discourse is difficult, but not impossible to counter. Although the interviewed business lobbyist did confirm some of the criticized discursive strategies, the political right was (probably unsurprisingly) far from confirming its ideological dominance. While the malleability of public tax preferences was broadly acknowledged, the fatalistic narrative of an anti-tax hegemony could not be validated across political camps. Our material neither allows us to confirm nor to rule out that it partly serves as a rationalization of own policy failures. We have to remain agnostic on this point.

Whatever the source, the interviews made clear that campaigning on an inequality frame or capitalizing on animosity towards the rich is a rather remote idea for the SPD. So, while the SPD emphasized business's influence on public opinion, it denied or strongly downplayed its own agency in this regard. This was expressed most clearly in the tendency to essentialise taxes as an objective 'loser topic'.

Intra-organizational aspects

An unanticipated but insightful perspective emerged from interviewees' depiction of organizational dynamics within left parties, which help to understand their reluctance to tax the rich. This includes processes of defining a motivational purpose and an attractive party brand, but also of conflict between factions.

The SPD, for example, tends to define itself as a party of social spending. As is often emphasized, taxation is simply a technicality one must deal with to fund this overarching goal. This is visible on the level of individual motivation

and party priorities. SPD politicians portray themselves as driven by the goal to improve peoples' lives through concrete expenditures. CDU and FDP MoPs are perceived, by virtue of their background as tax advisers or auditors, as intrinsically motivated to deal with taxes.

the situation is the following: we have to persuade people to go to the finance committee (...) and at the CDU they have waiting lists. (...) They have people who are extremely interested in this, because maybe they have a background in this area (...). Whoever wants to join us in the Bundestag, wants to abolish Hartz-IV in labour and social affairs. (SPD_Anonymous)

Similar trade-offs are reported for environmental issues or 'identity politics'.

On the political stage it is about social policy, environmental policy, education policy, road construction. (...) The question of how this is to be financed fairly is considered to be rather for the backstage area (...). And the problem is that even though the issue is extremely important, it is really hard to even energise your own fellow party colleagues. (SPD_NoWaBo)

It is really bitter. (...) I have not succeeded to economically alphabetise the party executive [of The Left]. (...) We debate for hours war questions, Hartz-IV and so on, but if you try to elucidate some economic aspects, then a quarter of an hour has to suffice. (Left_Troost)

The implications of these motivational biases are profound. They produce what virtually all interviewees describe as a pronounced *competence gap* between left and right parties. This gap, in turn, feeds back into a depressed self-efficacy of the left and a limited willingness to engage with tax issues:

It is certainly true that an army of tax advisers, the tax industry, has strong ties to CDU and FDP ... there is a certain imbalance in firepower. And that's why it is important, in sticking with the civil-war rhetoric, that the political left arms itself. (Left_DeMasi)

This gap is confirmed by conservatives:

The expertise is not quite advanced among the colleagues from the SPD's finance working group. It is sometimes sobering when we have to discuss with them. (...) They just come from all other directions. (...) We have three tax consultants, one auditor, we have lawyers who come from this area, (...) we have real entrepreneurs. (CDU_Anonymous1)

The competence deficit of left parties cannot be compensated by trade unions, who, in fact, face similar disincentives to prioritize taxes: 'I have not yet come across an employee who is subject to social security contributions and who has come forward to us because he has problems with his inheritance tax return' (Trade_Union_Didier). Concretely, while the German union's peak organization has sizeable departments for social and labour-market policy, only one person is regularly concerned with tax policy.

The concrete consequences of this competence gap for left parties include, according to our interviewees:

- A reluctance to address tax issues at all
- A structural dependence on external expertise, which (as discussed above) is often biased by lobby interests
- An endorsement of 'tax myths' among party comrades
- A mismatch in concrete negotiations and encounters, e.g., with coalition partners or lobbyists, that lead to an unduly defensive stance

Particularly the last point is likely to have a direct relevance for policy-making. While left politicians are often inclined to engage with taxes in abstract terms, right-wing MoPs with their professional background (and interests) are better-prepared to deal with consequential details.

But the people on the other side, they mostly represent clients (...), when we still have a naïve idea of distributive justice in our minds, then they think very specifically about their own circle and consider how their clients would pay as little inheritance tax as possible. (...) and at this level of detail they create facts for us that we can't change. (Left-wing_party_Anonymous)

As expressed in this quote, left MoPs sometimes argue that self-interest lies behind the right's deeper engagement with taxes. Besides professional interests, this is also explained by the socio-structural composition of CDU and FDP: many centre right MoPs are seen as wealthy enough to be personally affected by the very laws they debate. As one SPD politician sardonically put it: 'Is there somebody who knows a lot about inheritance because he always inherits a lot? Let him be the rapporteur [for inheritance tax]. (...) The conflict of interest is institutionalized in decision-making processes!' (SPD_Binding). Blurred lines between parliamentarians and lobbyists are perceived as significant obstacles whenever tax plans depend on fractions for majorities.

A second set of organizational aspects consists of conflicts about electoral strategies. One such conflict is about whether or not tax increases are desirable (which is often denied by 'modernizers'). A second, less visible conflict concerns the question of how salient tax policy should be made in campaigns. This latter conflict links back to the issue of identities, motivation, and competence, because these aspects create a bias in favour of parties' thematic 'comfort zones'. An additional electoral reason to downplay taxation, even if progressive proposals are included in manifestos, relates to the communication strategy of business interests discussed above. They imply a risk that emphasizing tax increases might produce the perception of lacking economic competence: 'Anyone who advocates a wealth tax risks being no longer perceived as a serious politician' (Greens_Schick). CDU and FDP are

seen to traditionally claim issue ownership for the economy. The SPD, however, always struggles to reconcile its branding in the field of social justice with projections of economic competence. 'From a politician's view, you have to think about what topics the SPD is associated with, and the SPD is actually always linked to the social question. But the social question is rarely connected with a tax curve' (Int_left-wing_party).

The whole thing touches on an actual problem of the SPD, namely the question of how do we deal with the question of economic competence. And the accusation is always from the conservative side (...) with these proposals you destroy our economy (...). The answer (...) I believe, was to not put these proposals at the top (...) we are not running any campaigns on the subject of tax increases. (SPD_Petring)

Several interviewees sketch a thin line for the tax issue: on the one hand, mobilization would benefit from candid class-struggle rhetoric. On the other hand, this would undermine competence rating on jobs and the economy. There seems to be a catch-22 situation facilitated by the business voices in public discourse: a radical campaign would fall prey to the job killer frame; a moderate campaign would be too weak to tackle precisely this and other tax myths. What aggravates the problem is that parties are usually divided over which of these strategies to follow. In any case, the prevailing lesson from failed election campaigns, according to both our left and centre-right interviewees, is that you can hardly win elections with tax increases; but one can lose them if voters feel that you take something away from them or harm the economy.

International tax competition

International tax competition is recognized as an obstructive factor for domestic tax increases, but with important qualifications. First, even right-wing respondents acknowledge that it only matters for certain taxes (especially corporate, capital gains and wealth tax) and not so much for personal income taxes. Second, the capital-flight discourse of the 1990s and 2000s is frequently challenged, because 'one can never say that decisions are made on the basis of a certain tax, but it is always a conglomerate of things that are considered' (Ministry_Official_Anonymous2). In this respect, the rich appreciate what the German state provides: 'a functioning legal system, a good education system, internal security. They don't have to afford security services in most areas to protect their villas etc., which is what they are interested in' (CDU_Anonymous1). Most left-wing interviewees emphasize tax competition is not an objective barrier, but one that is partly constructed through exaggerated business rhetoric. Business advocates are inclined to cherry pick convenient and isolated observations from abroad, but this is becoming increasingly unconvincing, as one SPD tax expert metaphorically

remarks: ‘A cake that consists only of cherries does not hold together’ (SPD_Binding). Overall, tax competition is recognized as a relevant factor for some taxes, but not seen as an insurmountable barrier to tax the rich.

Political opportunities for tax increases

Despite the widely shared pessimism on the political left, a few strategies were outlined to overcome tax barriers. Interestingly, most of them came from outside the SPD (we leave aside the popular strategy of closing tax loopholes, a related but different topic).

Some argued that there is more room for mobilization on taxation than perceived by the SPD. As an expert of The Left explained

if one really wants it, one has to come up with a good campaign and convey it so vividly that also Heinz Dampf and Erna Müller or whoever get it (...). I would totally concentrate on this segment [the 1%] so that it becomes clear to everybody that this has absolutely nothing to do with normal people. (...) Then, I am sure, it could become a no-brainer. (Left_Troost)

When we asked SPD politicians whether such a rhetoric focused on the top-1-per cent could work, this was answered evasively or dismissed as ‘populist’ (SPD_Petring) or an unattractive ‘envy debate’ (SPD_Petring).

It is noteworthy that also right-wing respondents qualified the SPD’s fatalism. Paradoxically, a business lobbyist described a rather favourable societal context for pro-tax mobilization.

But of course, we also note that this discussion about equality, inequality and redistribution is taking place (...). It is no longer possible to reject this in a generalised way, following the motto: we only want our companies to get tax reductions and contribute as little as possible to financing the state budget. We have to take a more differentiated approach. (Business_Association_Anonymous)

A CDU interviewee pointed out, as another example, that if he were the SPD’s campaign adviser, he would solve voters’ confusion about whether they would be affected by tax increases for the rich by coupling them with tax cuts for the middle class. Hence, business and CDU describe themselves as much more on the defensive and see more room for pro-tax discourses than perceived by the SPD in particular.

Discussion

The narratives in our interviews touch upon several arguments in the existing literature. Left-wing fiscal experts consistently problematize voters’ ‘tax illiteracy’. This includes lacking factual knowledge, a weak mental link between taxes and inequality (Bartels, 2005) and confusion about self-interest (Kuziemko et al., 2015). However, politicians do not portray illiteracy as an

objective barrier, but as a vulnerability that is only turned into a political advantage for business through communication strategies. The content of these campaigns is simple enough: select the most legitimate business segment (family enterprises) and narrow down tax implications to the aspect with the largest scare-potential (jobs). What makes them powerful, in the view of our interviewees, is business's ability to build networks which help to coordinate several actors around these simplified discourses *across time*. If voters hear core messages time and again from trusted politicians, journalists, and scientists, they turn into stable beliefs. At least, that is what left-wing politicians repeatedly observe in direct contact with the electorate, so that they do not receive unambiguous policy demand for progressive taxes.

This narrative might partly reflect a rationalization of own failures in convincing voters and therefore will have to be assessed by independent analyses. The ambiguity in German public opinion regarding more progressive taxation, does find confirmation in a recent survey-based analysis (Ballard-Rosa et al., 2021). Another current study substantiates a bias in German newspapers towards business-friendly positions on wealth taxes, for instance by prioritizing labour-market over distributional effects. As claimed by our interviewees, cited experts were predominantly ordoliberal, taxation-critical economists (Theine & Grisold, 2020).

The more self-critical of our interviewees nonetheless acknowledge their own agency in shaping discourses and admit that letting business narratives go unchallenged contributes to the problem. Irrespective of how promising a counter-mobilization would be, most politicians agree that, in principle, there is nothing pre-determined about the public's role in tax politics. Their statements are broadly in line with Emmenegger and Marx's (2019) portrayal of tax politics as 'organized spectacle': Lobbying clearly – and arguably most effectively – operates at the level of preference formation, which, in turn, leads to distorted electoral incentives for left-wing politicians. The same could be said about tax competition. While interviewed politicians do not dismiss it as fiction, they are keenly aware of the strategies of exaggeration and distortion that politically 'activate' such concerns (Hay & Rosamond, 2002). These themes are broadly in line with the influential argument by Scheve and Stasavage (2016) that (fairness) discourses play a fundamental role in tax policy. However, their focus is on specific legitimizing arguments following from wars as exogenous shocks. Our findings shed light on *why* assertive pro-tax discourses are so difficult to sustain in the absence of shocks. In other words, we complement Scheve and Stasavage by highlighting the importance of endogenous factors for tax reforms.

In sum, our interviews tend to portray power in tax politics as three-dimensional in Lukes's (2005) sense: decisive power processes are perceived to operate before decision-making in open political conflict. Scholars who

focus on this stage and relegate prior processes to exogenous inputs risk missing crucial explanatory factors. An example is the burgeoning literature on responsiveness (Elkjær & Iversen, 2020). In contexts where politicians experience public opinion as uninformed and biased towards business interests, representation cannot be reduced to a mechanical translation of preferences into policy. It entails an arguably consequential conflict over shaping public opinion that is absent from current accounts of responsiveness. The experiences documented here suggest, for instance, that we are likely to under-estimate the influence of organized interests if we take the political agenda and public preferences at face value. The interviewed politicians certainly don't.

This raises a thorny normative question: should politicians be responsive to 'unenlightened' or even 'manipulated' tax preferences? Or should they pursue policies that they believe 'truly' benefit their constituency? While the distinction of true and false preferences is a difficult philosophical problem, it is a quite practical concern for politicians that research should acknowledge. In our view, this implies the necessity for future research to study public opinion on taxes more systematically, but also the processes through which it is shaped.

It would be wrong to restrict the endogenization of preferences to voters. Politicians, as everybody else, have limited cognitive resources and energy. As Jones and Baumgartner (2012) remind us, their 'decisions are channelled by their cognitive and emotional architectures' (p. 3) in which 'ideology and group identifications provide strong and stable guides' (p. 8). Concretely, we need to engage with the question of what motivates politicians beyond generic 'vote seeking'. Such 'human factors', which are usually absent from political-economy accounts, were impossible to miss in our interviews. Because political motivation is generally derived from concrete interactions, it is important to incorporate in our analysis the party organizations politicians are embedded in. This is our second main insight.

Fiscal policy experts in left parties have to deal with comrades (and often party leaders) who are not so different from the general public: uninformed about, disinterested in, and sometimes intimidated by taxes. For lobbyists, this means that there are plentiful fault-lines to exploit within these parties. It is commonplace to interpret the crisis of social democracy as tied to fights between factions and programmatic electoral dilemmas. However, intra-party conflicts over taxation do not necessarily matter in the form of positional differences. Tax increases usually simply do not become priorities. While manifestos often include ambitious plans, they are also high on the list of sacrifices for the limited attention span in campaigns and for compromises in coalition agreements.

Hence, while neoliberalism's inroads into left parties' economic thinking (Bremer & McDaniel, 2020) contribute to the reluctant stance on taxation,

we believe the problem runs deeper. A more fundamental reason for the low priority of taxes relates to organizational culture. Becoming a top politician typically entails socialization in a party, which is shorthand for a chain of interactions in which members energize each other with conversations, speeches, et cetera. The result is a set of cognitions and symbols that motivate activism (Marx, 2019). They are tied together in narratives that provide a purpose. For the German left, such energizing narratives tend to be structured around social spending, labour law, identity politics, peace, and the environment – but not taxes. As a result, we argue that many left-wing politicians make career decisions that lead to lower competence and self-efficacy in the field of taxation. This, in turn, might make them reluctant to publicly engage with the subject, a weaker match for right-wing politicians in negotiations, and more susceptible to persuasion by business communication.

A complementary explanation for the left's reluctance to mount a sustained and convincing campaign on taxes comes from the issue-competition literature. It argues that parties compete by making salient those issues for which they are perceived as the most competent. The social democrats, for instance, might *rationaly* emphasize social spending over taxes, because conservatives 'own' the tax issue. This explanation is broadly consistent with our evidence of SPD worries about being portrayed by the right as 'job killers'. That said, issue-competition accounts have limitations. One is to draw artificial boundaries between issues. Even if conservatives are trusted to implement better tax policy in general, the left could discursively link specific taxes to the issue of social justice that it tends to own. Despite a tendency for resilience in competence ascriptions, issues can be re-defined and poached (Davidsson & Marx, 2013; Seeberg & Nai, *forthcoming*). If taxes are linked to the 'left' issue of social justice, which seems plausible, the left should actually benefit from increasing their salience (Massoc, 2019). The long economic boom since the mid-2000s accompanied by persistent inequality should have been a favourable context for this link. Why the SPD is so reluctant to take it up begs an explanation – particularly given its desperate need of an electoral strategy to capitalize on inequality aversion.

Also, our interviewees go beyond a simple issue-ownership explanation. Nothing would have been easier for left MoPs than to point to the rationality in their approach. Instead, as discussed above, their accounts were full of self-critical admissions of organizational failures in pursuing the strong policy-seeking motivation of raising taxes. They also point to the structural reasons that make it so hard to contest ownership of this particular issue. In short, they describe issue ownership as endogenous to the political process.

Competence, thus, has a central but complicated place in our explanation. Politicians feel compelled, for good electoral reasons, to *project* economic competence. They seem aware that competence definitions are malleable

in principle, as they are derived from ideas and discourses. Images of responsible economic policy have changed in the past (Blyth, 2002). However, actively redefining economic competence in public discourses arguably requires courage, motivation, and authority, all of which benefits from *actual* competence. It would take actors with sufficient self-efficacy and tenacity to compellingly link tax increases for the rich (in talk shows or other public arenas) to desirable policy outcomes. An example would be to portray taxes as sound economic policy to balance budgets (Béland & Waddan, 2015) or to finance much-needed public investment in education and infrastructure. One could also emphasize detrimental economic effects of highly concentrated wealth.

In other words, the left lacks what Kingdon (2003) has called ‘policy entrepreneurs’. Our interviews, in addition, point to the organizational dynamics explaining why such entrepreneurs for tax policy rarely emerge or become influential in left parties.

Combining these observations, we could speak of a *vicious competence cycle*: to mobilize on taxes, it takes entrepreneurs who challenge societal competence ideologies and perceptions. However, existing competence ideologies disincentivise the investment in the very motivations, skills, and strategies that would be the foundation for such a challenge. As long as taxes are defined as ‘job killers’ any tax discourse appears electorally risky. This makes it seem rational for left parties to stay in programmatic ‘comfort zones’ of social policy and other issues they own. The resulting tax acquiescence, in turn, contributes to a one-sided discourse that cements public competence definitions and ascriptions. Put differently, there might be electoral incentives to avoid tax issues. But these are at least partly of the left’s own making.

While these conjectures are partly speculative, the competence gap between left and right and its relevance for policy-making was consistently emphasized across parties and cannot not be ignored by future research on tax politics. A potentially generalizable argument might be that left parties with sufficient access to tax expertise (be it from within the organization or through links to unions, ministries, or think tanks) are keener on and more successful in pursuing tax increases. The main reason should be that they can be more assertive in shaping public opinion. However, an alternative way to break this cycle should be acknowledged. Some interviewees contemplated the possibility of sidestepping the intricacies of tax legislation by re-framing it in simplified anti-elite rhetoric against the rich. Such ‘Manichean’ framing stirring public anger is what Massoc (2019) identifies as important steps towards tax increases in her historical case studies. German left-wing politicians currently shy away from it as a risky, populist strategy. However, it illustrates that discursively reducing the complexity of taxes is possible and probably necessary to push them through.

Conclusions

Why is it so hard to tax the rich? Overall, our analysis of policy-makers' perspectives lends credibility to arguments emphasizing business power. However, it also underlines that we need to engage more with concrete lobbying strategies, particularly when it comes to the intersection of interest-group and electoral politics. Future research should uncover in greater detail the rhetorical strategies employed in the 'organized spectacle' of tax politics and test their effectiveness in (experimental) micro-level research.

By analysing Germany as a typical case of the political left's failure to tax the rich, we produce insights that might travel to a range of cases. This is true in particular for our novel finding that organizational dynamics in left parties create an arguably consequential bias against investing in actual and projected tax competence. A possible comparative hypothesis is that variation in organizational culture across left parties and trade unions might explain differences in tax competence (relative to the right) and reform success. In any case, the value of our material would greatly increase if supplemented by similar efforts on other cases. Ultimately, we will only be able to document the explanatory power of ideas, perceptions, and organizational dynamics if we study their variation across time and space.

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