

# Revenue, Redistribution, and the Rise and Fall of Inheritance

## Taxation

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### Abstract

Why do countries repeal the inheritance tax? We use a novel dataset on inheritance tax introductions and repeals worldwide to investigate this question. We conjecture that revenue requirements are the main determinant of repeal risks: the inheritance tax is resilient as long as it is central to the national revenue system; it becomes vulnerable to attack once the rise of more efficient tax instruments marginalizes its revenue contribution. Devoid of fiscal purpose, its survival comes to depend mainly on its redistributive features. Redistribution, however, is essentially contested. The evidence is in line with our conjecture: the likelihood of inheritance tax repeal increases as other more buoyant taxes rise; non-democracies are more likely to repeal the tax than democracies.

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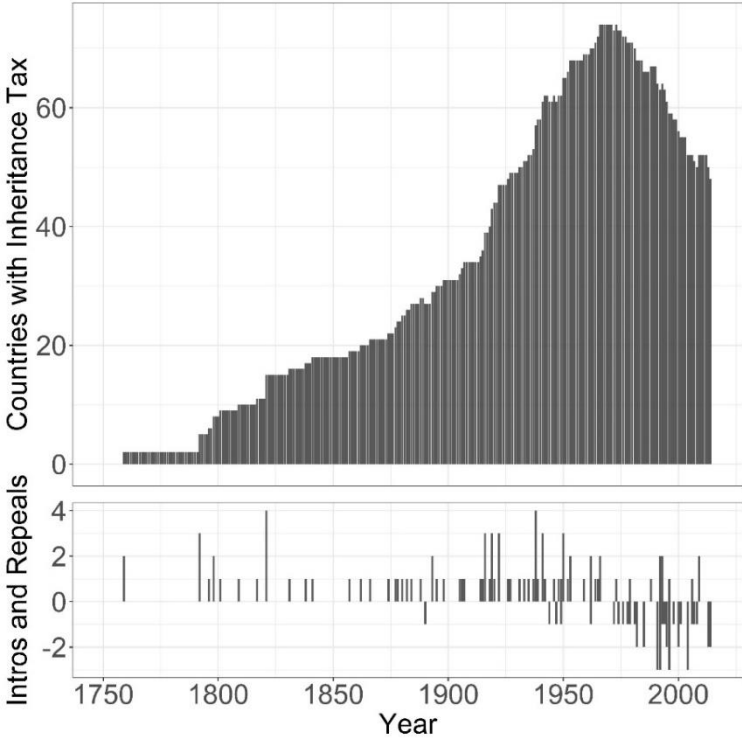
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### The Rise and Fall of the Inheritance Tax

Wealth inequality is high and rising. The inheritance tax<sup>4</sup> is an obvious instrument to mitigate it. Experts praise the tax for its redistributive potential and incentive-compatibility and call for its expansion (OECD 2018; Piketty 2020). Yet, many governments take the opposite approach and repeal the tax. After a steep increase in the number of countries levying the inheritance tax in the 19<sup>th</sup> and early 20<sup>th</sup> century, the number has declined rapidly since the 1960s (Figure 1). Repeals now outnumber introductions by a considerable margin. Why?

Figure 1: The Global Rise and Fall of the Inheritance Tax



Sources: Seelkopf et al. (2021), own coding.

<sup>4</sup> Technically, there are two different taxes on bequests: inheritance taxes and estate taxes. Inheritance taxes fall on the amount of wealth received by the individual heir. Estate taxes, by contrast, are levied on the value of the estate of the deceased before distribution to the heirs. For reasons of simplicity, we use the term inheritance tax to denote all taxes on bequests including estate taxes. The term 'death tax' was coined by its political opponents in the 1940s in the United States (Bryan 2010).

The demise of the inheritance tax is surprising given the stability of other signature taxes of the modern state. All relevant states worldwide have personal income taxes, corporate income taxes, and social security contributions, and very few, if any consider abolishing them (Seelkopf et al. 2021, Genschel and Seelkopf 2022). General sales taxes, it is true, have been rescinded at a fast clip since the 1970s but only to be replaced by another tax on general consumption, the value added tax (VAT) (Ganderson and Limberg 2022). Repeals of the inheritance tax, by contrast, are not usually followed by the introduction of new taxes on wealth. They are part of a general downward trend in wealth taxation (Hope and Limberg 2021).

The demise of the inheritance tax is also surprising for theoretical reasons. The conventional wisdom in public policy analysis holds that policies are rarely ever terminated (Adam and Bauer 2018; Bardach 1976; Behn 1978; Frantz 1997; Krause et al 2015; Zhang 2009): Even dysfunctional and obsolete policies survive because their constituents are well placed to fend for their survival. Their interests are entrenched in the status quo while the proponents of repeal must fight in the open. As a result, policies cumulate, layer by layer, onto an ever-higher pile that burdens the administrative capacity of governments and undermines effectiveness and efficiency (Adam et al. 2019).

The work horse theory in political economy, the median-voter theorem (Downs 1957; Meltzer and Richard 1981) likewise predicts stability and resilience: since the repeal of the inheritance tax would mainly benefit an asset-rich minority (Piketty 2020, 556), the asset-light majority should have strong incentives to block it. In a democracy, where numbers count, it should also have the power to effectively prevent repeal.

Various explanations have been offered why the inheritance tax is less resilient to repeal than either the public policy or the political economy perspective suggest. Some authors highlight

information asymmetries: low- and medium-income voters often overrate their position in the wealth distribution, underrate the redistributive effect of the inheritance tax and therefore are indifferent to, or even supportive of, inheritance tax repeal (Bartels 2005; Campbell 2010; Erikson 2015). Others emphasize fairness concerns: the poor consider the wealth of the rich as the well-deserved fruit of intelligence, hard labor, and bold risk taking and therefore oppose redistributive taxation (Durante, Putterman, and van der Weele 2014; Fong 2001). Yet others highlight representational biases in the policy process: tax policy making is dominated by the structural and instrumental power of capital. Capital owners have a material stake in the abolition of the inheritance tax and have the means to further it. They can threaten, for instance, to move their mobile assets abroad, leaving the domestic economy with fewer investments, fewer jobs, and less economic growth. In this view, governments repeal the inheritance tax to keep capital onshore (Bakija and Slemrod 2004; Birney, Graetz, and Shapiro 2006; Culpepper 2010; Emmenegger and Marx 2019; Gilens and Page 2014). The short of all these explanations is that imperfections in the political process allow economic elites to capture tax policy making and bias it against the distributive interests of lower and middle classes.

Yet, if information asymmetries, fairness concerns and representational biases fueled inheritance tax repeals since the 1960s, as the various elite-capture theories argue, why didn't they block inheritance introductions before? Roughly 30 percent of all inheritance tax introductions in our dataset happened before the end of the 19<sup>th</sup> century (figure 1). It is hard to believe that lower income strata were better informed, that governments were more responsive to the poor, or that normative deference to the rich was less widespread at that time. To be sure, the globalization of markets may have fueled capital flight and international tax competition in recent decades, thus increasing the structural power of capital and undercutting political support for inheritance taxation. But then barriers to cross-border capital movements were also low during

the 19<sup>th</sup> century, and the levels of capital accumulation and wealth inequality were high (Our World in Data 2022). Something else must have changed in the politics of inheritance taxation.

The empirical scope of the extant literature is too limited to tell because it just focuses on the demise of the tax in a few advanced Western democracies – the United States, Sweden, Austria, Switzerland, etc. – in recent decades. In this paper, by contrast, we use a global sample of 90 countries and a period of observation of roughly two centuries to study the recent fall of the tax in light of its earlier rise. In the next section, we probe the historical conditions of the introduction and consolidation of the tax in order to develop hypotheses about its repeal. In the following sections, we test the hypotheses against novel data on inheritance tax repeals world-wide, and check the robustness of our findings. The analysis suggest that what has changed in the politics of inheritance taxation is the interaction of two factors, first: the redistributive function of the tax, which is the central focus of recent analyses of inheritance taxation, and the revenue function of the tax, which is often strangely absent from the analysis.

The redistributive function explains why inheritance taxation is often politically contested: the tax divides taxpayers into – actual or perceived – winners and losers (Beramendi and Rehm 2016). The revenue function explains why the distributive conflict does not always dominate tax policy making: To the extent the government depends on inheritance tax revenues to fund mandatory spending requirements, the conflict over the distribution of the revenue burden is a secondary concern. The government is likely to stand by the tax regardless of the distributive preferences of its supporters (e.g. Steuerle 2010; Wildavsky 1986, 6). To the extent alternative revenue instruments are available, distributive considerations gain salience. “Political uncertainty” (Moe 1990) increases. Political attacks on the tax become more likely. The risk of repeal rises. Whether the risk materializes then depends crucially on the distributive preferences of the government.

In the rest of the paper, we substantiate three claims. First, the introduction and diffusion of the inheritance tax was mainly driven by revenue requirements. Redistributive considerations played an important but secondary role. Second, the rise of alternative revenue instruments, most importantly income taxes and general consumption taxes, dwarfed the revenue function of the inheritance tax in the 20<sup>th</sup> century. This raised the salience of distributive conflicts and increased the risk of tax repeal. Third, the risk of repeal is lower in democratic than in non-democratic countries. Democratic institutions increase the likelihood that the tax policy preferences of the government will reflect the distributive interests of the poor and the middle classes.

### **Revenue, Redistribution, and the Introduction of the Inheritance Tax**

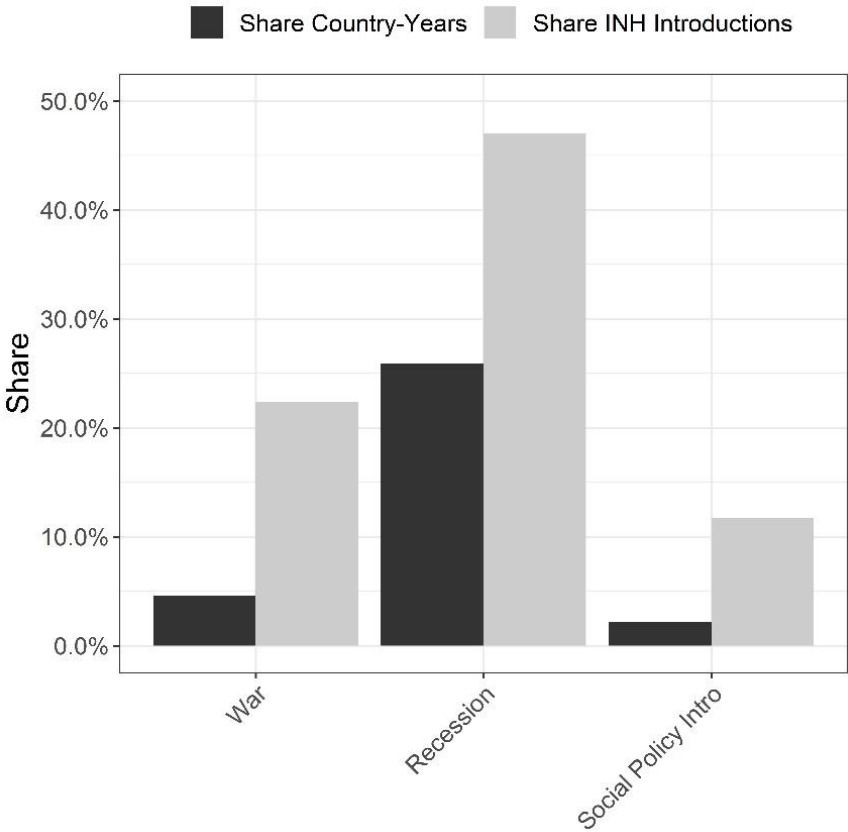
In this section we explore the historical conditions of the rise of the inheritance tax. We show that the decision to introduce the tax was closely associated with pressing revenue needs of the government and a lack of revenue capacity to meet them. We analyze the role played by redistributive concerns in legitimizing the tax. In conclusion, we derive hypotheses about how considerations of revenue and redistribution condition the likelihood of inheritance tax repeal.

#### *Revenue*

The introduction of a new tax is usually ‘a quite public event, accompanied by a high degree of negotiation from a wide range of potential taxpayers’ (Levi 1988, 49). Political risks are high. Governments have good reasons to avoid them unless there is no other choice. How much choice there is depends crucially on fiscal conditions. The historical record suggests two fiscal conditions of inheritance tax introduction in particular: high public revenue requirements and weak revenue capacity. Figure 2 provides evidence of the first condition. It shows that the majority of inheritance tax introductions was associated with three triggers of mandatory spending: war, recession, and social security programs. While only five percent of the country-years in

the data are years at war (dark grey column), more than 20 percent of all inheritance taxes were introduced during these years (light grey column). The pattern for recessions or the introduction of new social policy programs is similar: both events account for a minor share of country-years but a major share of inheritance tax introductions. There is extensive qualitative evidence to suggest that the temporal association of new revenue requirements and inheritance tax introductions is not spurious.

**Figure 2: Spending-Intensive Events and Inheritance Tax Introductions**



Sources: Genschel & Seelkopf (2019), Seelkopf et al. (2021), Sarkees and Wayman (2010), Gapminder (2020), Schmitt et al. (2015)

Austria, for instance, adopted the first inheritance tax in the dataset in 1759 to help cover the costs of the Seven Years war (Schanz 1901, 62). Britain introduced an estate tax in 1796 to pay

for the Napoleonic wars (Shultz 1926, 20–21). New Zealand did so in 1866 to fund the war with the Maori (Littlewood 2014, 6). Various British Colonies including Jamaica (1916), Kenya (1918)<sup>5</sup>, Sri Lanka (Ceylon - 1919), and Tanzania (Tanganyika – 1919) introduced the tax during or immediately after WWI (Seelkopf et al. 2021). China followed in 1939 while under attack from Japan (Li 1991, 9).

Recessions have also triggered inheritance tax introductions . Boxed in between high spending needs for social and economic support, declining tax revenues from existing sources, and escalating borrowing costs, governments often resort to tax innovation. Greater Colombia (current day Colombia, Ecuador, Panama, and Venezuela) adopted the tax in 1821 to help compensate the end of colonial economic privileges including the trade monopoly with Spain and inter-colonial transfers from Mexico and Peru (Zuluaga 2021). Chile, Mexico, Russia, Sweden, and Tunisia introduced inheritance taxes during the Long Depression, 1873 – 1896 (Papadia and Truchlewski 2022). Greece did so in 1898 after its GDP per capita had contracted by 15 percent the previous year (Morys 2016).

The introduction of social policy programs can also accelerate inheritance introductions. Social commitments entered in the past are difficult to par back in the present. To a large extent, governments are forced to fund them whether they like them or not (Pierson 1996; Steuerle 2010). The inheritance tax can help them do so. Examples include Peru (introduction of work injury insurance in 1911 and of the inheritance tax in 1916), Finland (unemployment insurance in 1917; inheritance tax in 1919) and India (old age pension insurance in 1952; inheritance tax in 1953) (Seelkopf et al. 2021; Schmitt et al. 2015). Yet, as Figure 3 also shows, the number of

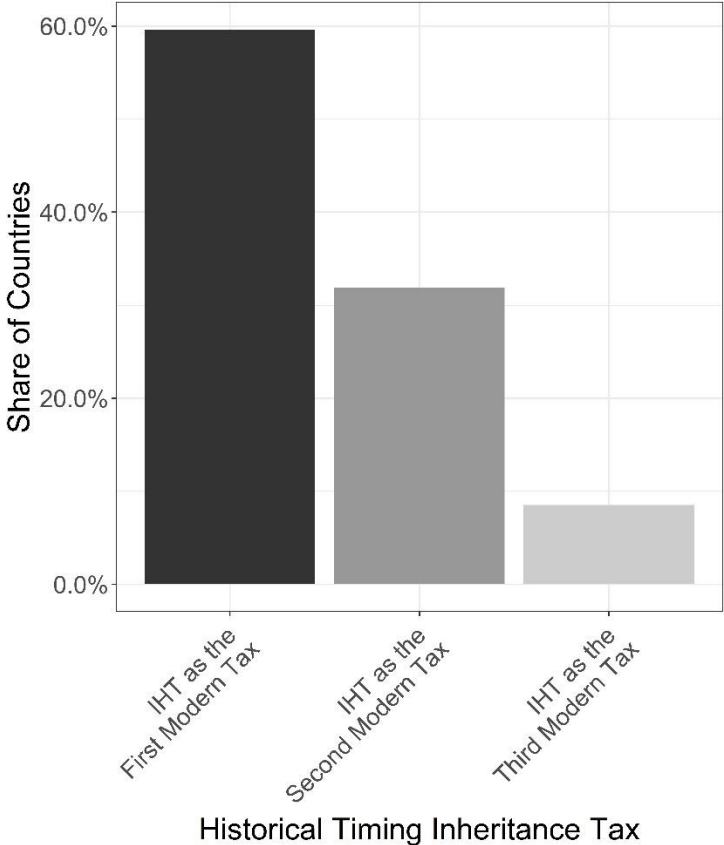
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<sup>5</sup> Kenya repealed the tax in 1958/9 while still under British rule.



tax introductions after social policy innovation is fairly low. Arguably this has to do with the other fiscal condition of inheritance tax introductions: weak revenue capacity.

**Figure 3: The Timing of Tax Introductions - Inheritance Tax (IHT) Versus Other Modern Taxes (Income and Consumption Tax)**



Sources: Genschel & Seelkopf (2019), Seelkopf et al. (2021)

The likelihood that rising revenue requirements trigger the introduction of the inheritance tax varies in the availability of other, potentially more revenue-efficient tax instruments. The absence (presence) of alternative revenue instruments increases (decreases) the likelihood of inheritance tax introductions. The two most important revenue instruments today are the (corporate and personal) income tax and a general consumption tax (usually of the VAT type). When social policy programs began to spread in the 20<sup>th</sup> century, these broad-based taxes were often

already in place or at least ready for adoption. This reduced the revenue-argument for inheritance taxation. As Figure 3 shows, 60 percent of the countries in the sample introduced the inheritance tax before income and consumption taxes. Less than 10 percent introduced it thereafter.

During the 18<sup>th</sup> and 19<sup>th</sup> century, the revenue argument for inheritance taxation was strong. Even in advanced Western economies, governments still depended on an assortment of traditional taxes with limited revenue potential, including direct monetary and in-kind charges on people (forced labor, poll taxes, etc.), land and its produce (e.g. the tithe), features of real assets (e.g. the number of windows or chimneys), or stamp duties on legal transactions (e.g. marriage licenses, or military commissions) (Cardoso and Lains 2010; Kiser and Karceski 2017; Kiser 2021; Peters 1991; Seelkopf et al. 2021; Webber and Wildavsky 1986). Indirect taxes included trade taxes (at internal and external borders), and excises on specific goods (salt, beer, matches, etc.). The direct taxes were narrow-based and only loosely connected to economic activity. Revenues did not rise with nominal growth, and rich elites (the church, the nobility) were often exempted by traditional privilege. The revenue-potential of excises was limited by regressivity: they fell mainly on the poor who had little taxable income to begin with. Trade taxes were more buoyant but highly distorting. Internal tolls hindered national economic unification. External customs and duties became increasingly unpopular over the liberal 19<sup>th</sup> century.

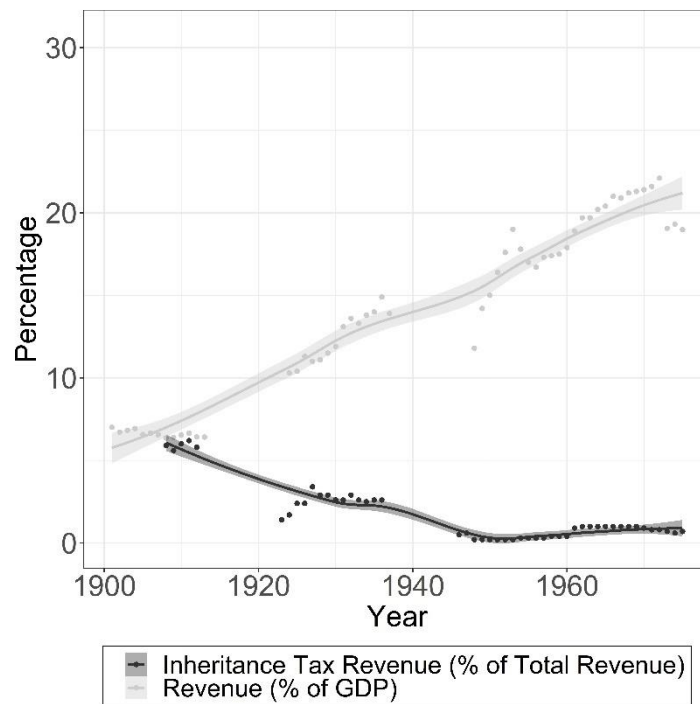
The inheritance tax promised to lift these revenue-constraints. In contrast to traditional direct taxes, it drew on potentially all income-bearing assets (land, real and financial capital), and taxed them at their assessed value rather than just by a lump sum (like stamp duties) or a rough proxy (like window taxes). It was administratively convenient because the taxable event (death) was easy to observe and the taxpayer (the heir) had a self-interest in reporting taxable assets so as to gain legal title of them (Scheve and Stasavage 2012, 88). In contrast to excises, it fell on

taxpayers who could afford to pay it: rich heirs (West 1893). In contrast to trade taxes, it did not constrain domestic or international trade.

While historical revenue data are sketchy, there are various examples of high-yield inheritance taxation. They include the Cape Colony, one of the predecessors of modern South Africa, where the tax raised roughly 15 percent of public revenues in the 1850s (Gwaindepi and Siebrits 2020, 176), Chile where inheritance and property taxes constituted the third most important source of revenue in the 1880s (Sater 1976, 328), Britain where the tax accounted for 12 percent of total revenues in 1900, Austria (6 percent of revenues in 1910) (Flora 1983, 339), New Zealand (13.5 percent of revenues in 1915) (Duff 2005a, 87), and the United States (up to 10 percent of revenues in the 1930s) (Jacobson, Raub, and Johnson 2007, 125).

The expansion of first personal and corporate income taxes and then general consumption taxes during the 20<sup>th</sup> century weakened the revenue argument for inheritance taxation. Income and consumption taxes had vastly superior revenue capacity because they drew on much broader tax bases (Genschel and Seelkopf 2022; Keen and Lockwood 2010; Kiser and Karceski 2017; Popitz 1926; Seligman 1914). They were administratively convenient because they tapped directly into monetary flows (income and consumption). The inheritance tax, by contrast, fell on assets which had to be valued before taxation: straight forward for financial assets (e.g. savings, shares and bonds) but difficult for real assets (e.g. family companies, real estate, or farm land) (Eisenstein 1955; Gale and Slemrod 2000). Also, if the heirs could not pay the inheritance tax out of their own income or savings, they had to liquidate the inherited assets: again, easy with financial but difficult with real assets (Messere, de Kam, and Heady 2003). According to the United States' Internal Revenue Service (IRS), public and private compliance costs combined amounted to seven percent of estate tax revenues – double the costs of sales tax collection (Huang and Cho 2017, 8).

*Figure 4: Revenue Development in Austria, 1900-1975*



Sources: Flora (1983), Andersson and Brambor (2018)

Governments fiscal dependence on the inheritance tax is now often low. Austria, one of the very few countries for which historical data on inheritance tax revenue is available, illustrates the trend well (Figure 4). The share of inheritance taxation in total revenue declines roughly six-fold over the 20<sup>th</sup> century while the share of total taxation in GDP increases more than two-fold. In 2021, the inheritance tax accounted for only roughly 0.5 percent of total tax revenues, on average, in OECD countries (OECD 2021).

### *Redistribution*

While the normative critique of intergenerational wealth transfers is centuries old (Beckert 2008), it didn't fuel inheritance tax adoptions in any major way. Some research suggests that democratic countries (in which the distributive interests of the masses should count) were not more likely to levy the tax than non-democratic ones (in which distributive fairness should

count less) (Scheve and Stasavage 2012). Others claim that democracy did matter for inheritance tax introductions (Seelkopf et al. 2021; Seelkopf and Lierse 2020). Yet, even democratic governments did not usually engage in inheritance taxation without a clear revenue requirement.<sup>6</sup>

There are several examples of failed attempts to introduce inheritances taxes on purely redistributive grounds. For instance, US President Theodore Roosevelt proposed an inheritance tax in the 1900s to fight capital accumulation and wealth inequality. The proposal came to naught until the spending requirements of the first world war provided a clear revenue rationale for introduction in 1916. “[B]efore the 1930s, the [US] estate tax existed merely for revenue generation” (Metrejean and Metrejean 2009, 37). Likewise, notionally Communist China has failed to (re-)introduce an inheritance tax on fairness grounds even though wealth inequality had grown massively since the 1980s (Piketty 2020, 621). From a revenue perspective, there simply was no need for the tax. A Swiss popular initiative to introduce a federal inheritance tax on fairness grounds failed miserably in 2015 (Emmenegger and Marx 2019).

The examples do not imply, however, that redistributive arguments were irrelevant. Even if they failed to trigger inheritance tax introductions on their own, they facilitated the introduction (or increase) of the tax on revenue grounds during periods of crisis. The “noisy” (Culpepper 2010) politics of fiscal crisis focus mass attention on issues of revenue need and taxation. This helps to clarify distributive interests and facilitates mass mobilization. It increases the likeli-

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<sup>6</sup> The recent (re-)introduction of the inheritance tax in Italy constitutes a border line case: the centre-left government of Romano Prodi reinstated the tax in 2006 after the rightist government of Silvio Berlusconi had repealed it five years earlier. The reintroduction happened even though the tax was almost completely irrelevant for Italian public finance. In 2021 it accounted for less than 0.2 percent of total tax revenues (OECD 2021). It is also unclear whether the introduction of inheritance taxes in post-communist countries including the Czech Republic (1992) and Croatia (1993) had a clear revenue rationale or were mainly driven by the mimicking of Western tax structures.

hood that mass preferences factor into political decisions just as the median-voter model suggests and decreases the likelihood that capital interests can use their structural and instrumental power to impose their preferences on the government: “mass politics trumps interest group politics when both come into play” (Hooghe and Marks 2009, 18). To the extent that a broad public consensus favors a redistributive tax for crisis fighting, it becomes difficult for a rich minority to oppose the tax on fairness grounds.

The justificatory role of redistributive arguments is illustrated most clearly by non-democratic governments engaging in equity discourses to legitimate their choice of inheritance taxation for emergency finance. The Hapsburg monarchy, for instance, used ability-to-pay arguments as early as 1759 to defend its adoption of the tax (Schanz 1901, 62). Likewise, the imperial government in Germany used fairness arguments to justify its choice of the inheritance tax to meet military spending requirements in 1906. This pleased Social Democrats but antagonized conservative landowners (Schanz and Manicke 1906). Equity arguments also played a major role in justifying massive increases in inheritance taxation during the two world wars. The US and the UK, for instance, taxed bequests to direct descendants at close to 80 percent around the second world war (Scheve and Stasavage 2012, 2016).

Absent a revenue crisis, the political power of pro-redistribution arguments is much reduced. The “quite” politics of fiscal normalcy tend to demobilize mass politics and enhance the structural and instrumental power of capital. Mass politicization is low because most people don’t pay the tax and no vital spending programs depend on it. Rational ignorance is widespread, leaving ample scope for rich elites to lobby policy makers, threaten the government with capital flight, and manipulate public opinion against inheritance taxation (Emmenegger and Marx 2019; Graetz and Shapiro 2005; Klitgaard and Paster 2021).

The main line of attack is usually the alleged inefficiencies of inheritance taxation (see already West 1893): the disincentives it sets for savings and investment; the survival risks it poses to family farms and small businesses; the distortions it introduces through different valuation rules for different asset classes (financial assets at market price, real estate often at assessed and highly deflated values); the cross-border evasion it triggers. With the globalization of markets, tax competition has become a prominent argument for inheritance tax repeal. Vladimir Putin, for instance, remarked about the Russian inheritance tax: “billion-dollar fortunes are all hidden away in off-shore zones anyway and are not handed down here. Meanwhile, people have to pay sums they often cannot even afford just for some little garden shack.” (Putin [April 2005] 2013). The Russian inheritance tax was duly repealed in 2006.

In conclusion, the most favourable conditions for the introduction of the inheritance tax include a pressing revenue-need of the government, the absence of more efficient revenue-alternatives, and strong mass mobilization along class lines. The least favourable conditions obtain when public revenue-needs are largely satisfied, more efficient revenue instruments are at hand, and an apathic mass public cedes tax policy making to elites and interest groups. Incidentally, this last set of conditions should also facilitate the repeal of the inheritance tax.

### *Repeal: Two Hypotheses*

We summarize our historical findings about inheritance tax introduction in two hypotheses about inheritance tax repeal. As we have argued, the primary driver of introductions has been the fiscal dependence of the government. If the dependence on the inheritance tax is high because the government has few plausible revenue alternatives, the risk of repeal is low. If, by contrast, the dependence is low because better revenue alternatives exist, the risk of repeal is high.

*Revenue Hypothesis:* the likelihood of inheritance tax repeal increases as governments adopt and expand more efficient revenue instruments including income taxes and general consumption taxes.

Whether the risk of repeal materializes depends crucially on distributive preferences. Even if redistribution was only a secondary factor in inheritance tax introduction, it may be the primary factor for inheritance tax retention. A tax instrument that was adopted for revenue reasons may be kept for equity reasons. We conjecture that this repurposing of the inheritance tax from revenue to redistribution is more likely in democratic countries than in non-democratic ones. Absent consistent mass attention and mobilization, the survival of the inheritance tax depends crucially on institutional protections of the distributive interests of lower income strata. Non-democratic systems often exclude lower income groups from political participation, de jure or de facto. Democratic systems, by contrast, operate under the normative expectation of inclusion. They have larger “selectorates” and “winning coalitions” that are more likely to include lower-income groups (Mesquita et al. 2005). The parties representing these groups often take a long-term and comprehensive view on the distributive interests of their voters (Bardi, Bartolini, and Trechsel 2014; Mair 2009). This may lead them to resist the abolition of the inheritance tax even if their voters do not really care.

*Redistribution Hypothesis:* At any level of revenue capacity, non-democratic governments are more likely to repeal the inheritance tax than democracies.

### **Explaining Inheritance Tax Repeals**

To test our two hypotheses, we collected a novel dataset of inheritance taxes worldwide. We used the Tax Introduction Database (Seelkopf et al. 2021) to isolate the group of countries which ever levied an inheritance tax on a permanent basis and to identify the precise historical



date of first permanent introduction for each country. To code the effective year of inheritance tax repeal, we relied mainly on IMF country reports, Ernst & Young Worldwide Personal Tax and Immigration Guides, and Schoenblum (2008). We have full information for a global sample of 90 countries. All 90 countries have introduced the tax in the past. 36 countries then repealed the tax later (see Table A1 and Table A2 in the Appendix for an overview).

Inheritance tax repeal refers to any authoritatively “determined, premeditated action to end or conclude” (Daniels 2001, 252) the imposition of taxes on bequests. In the large majority of cases, the repeal is decided by a formal act of the government. Chile, for instance, formally abolished the inheritance tax in 1890 after the end of the War of the Pacific and the onset of the nitrate boom had purportedly made the revenues of the tax redundant (Sater 1976). India repealed the tax in 1985 purportedly because it yielded little revenue but lots of litigation (Amarendu and Abhisek 2019). In Sweden, the Social Democratic government terminated the tax in 2004 ostensibly because of low revenues, high enforcement costs, and intense resistance of the business community (Klitgaard and Paster 2021, 100).

In one case, Austria, the constitutional court rather than the government repealed the inheritance tax by declaring it unconstitutional in 2007. The problem was that the Austrian (as almost any) inheritance tax applied different valuation rules to real and financial assets, thus creating inequitable tax burdens (Stefaner 2007). Since the government couldn’t agree on a reform to bring the tax in line with the jurisprudence, the application of the tax was discontinued in 2008 (Klitgaard and Paster 2021, 101). In Canada and El Salvador, the repeal of the inheritance tax remained partial. While both countries fully abolished the tax (in 1972 and 1992 respectively), they partially compensated this move by extending the scope of the capital gains tax (Canada) and the property transfer tax (El Salvador) to cover bequests (Corte Suprema De Justicia De El Salvador 1992; Duff 2005b). While we coded both cases as full repeals, our results remain

similar when running additional models excluding these two countries (Table A12 in the Online Appendix).

Based on these data, we created a binary time-series-cross-section (BTSCS) dataset of countries at risk of repealing the inheritance tax. Theoretically, the risk emerged immediately with the introduction of the first inheritance tax in Austria in 1759. Yet, empirically nothing happened until the first inheritance tax repeal in Chile in 1890. We set the start date of our analysis to 10 years prior of this first factual repeal, i.e. to 1880. For countries which introduced the inheritance tax after 1880, the national introduction date marks the start date. For countries which gained independence after 1880 but kept the inheritance tax introduced by their former colonial master, the date of independence is the start date. Once a country has introduced the inheritance tax, it remains in the dataset until it repeals the tax. Then, it drops from the sample. The end year of our study is 2015. Countries that had not abolished the tax by 2015 are right censored.

We analyse our data by logit models with a maximum likelihood estimation technique. The observations in our BTSCS dataset are temporally dependent. The longer a country is at risk of repealing the inheritance tax, the higher the likelihood of repeal. Since ignoring this temporal dependence would bias our results (Beck, Katz, and Tucker 1998), we follow Carter and Signorino (2010) and use a cubic polynomial approximation ( $t$ ,  $t^2$ , and  $t^3$ ) to model it.

Our *revenue hypothesis* suggests that countries become more likely to repeal the inheritance tax as they adopt other, more revenue-efficient tax instruments including, most prominently taxes on income and general consumption. Based on the Tax Introduction Dataset we create a variable (*major modern taxes*) that measures whether and when a country has introduced taxes on income and consumption. The indicator is coded as '0' if a country has neither introduced a tax on income (corporate or personal income tax) nor a tax on consumption (general sales tax or

VAT); ‘1’ if a country has introduced either a tax on income or a tax on consumption; and ‘2’ if it has introduced both. In the next section, we follow up with more nuanced measures of revenue capacity to check the robustness of our results.

The *redistribution hypothesis* holds that democracies are less likely to repeal the inheritance tax than autocracies. To test this proposition, we include a dichotomous measurement for *democracy* in our models. We use the indicator developed by Boix, Miller, and Rosato (2013) which takes the value ‘1’ if a country has a high level of participatory access (suffrage) as well as meaningful electoral contestation. In the next section, we use alternative and more continuous measures of democracy to check for the robustness of our results.

As we have argued in section 2, the rise of the inheritance tax was driven by increasing *spending requirements* caused, perhaps most importantly, by war, recession, or social policy programs. By implication, the demise of the inheritance tax may simply reflect the absence of these drivers of expenditure. We control for warfare, recession, and welfare state expansion to control for this possibility. *War* is operationalised by a dummy variable taking the value ‘1’ when a country has experienced a major interstate war with more than 1000 battle deaths in the previous 5 years, and ‘0’ otherwise (Sarkees and Wayman 2010). Our variable for *recession* takes the value ‘1’ when a country’s GDP has contracted in at least one of the previous 5 years (Gapminder 2020). Finally, we include a variable that turns ‘1’ when a country has introduced a major *social policy* program (pension, unemployment, sickness, family, work injury) in the previous 5 years. Data come from Schmitt et al. (2015).

In addition to these covariates, we control for further factors that potentially affect inheritance tax repeals. As indicated in section 2, *tax competition* is often considered a major driver (Brühlhart and Parchet 2014, 63). Arguably, the economic advantages associated with capital

inflows incentivize governments to cut the tax burden on capital, including through the abolition of taxes on bequests. These cuts then trigger a race to the bottom in capital taxation. Small countries are more sensitive to competitive pressure because they have little domestic tax base to lose but a lot of international tax base to win. Hence, the incentive to cut or abolish taxes is particularly strong. Tax havens are typically very small jurisdictions (Bucovetsky 1991; Kanbur and Keen 1993; Keen and Konrad 2013; Wilson 1999). As is standard practise in the tax competition literature, we proxy competitive pressure by country size in terms of the natural logarithm of the national population (Dharmapala and Hines 2009).<sup>7</sup>

We also control for *life expectancy* (Coppedge et al. 2019). Arguably, ageing societies accord a higher value to inheritance, which, in turn, may accelerate the repeal of the inheritance tax (Profeta, Scabrosetti, and Winer 2014). Historical path dependency is often considered an important stabilizer of policies in general (see Pierson 1996, 2001) and of fiscal policy in particular (Peacock and Wiseman 1961). This suggests that countries with a long historical tradition of inheritance taxation may be less likely to repeal the tax. We account for this effect by controlling for *time since the first permanent introduction* of the inheritance tax (logged values).<sup>8</sup> Finally, inheritance tax repeal could be a by-product of economic modernisation. We include a country's overall *GDP per capita* (logged values) into our models to control for this possibility. Table 1 presents the results. Model 1 only includes the variable measuring the (non-)adoption of income and consumption taxes and the democracy dummy.

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<sup>7</sup> Population size is a proxy of a country's labor endowment. In a small country with a limited labor endowment even a moderate inflow or outflow of capital can change the capital-to-labor ratio significantly. This increases the competitive pressure to cut taxes on capital. Arguably, however, the size-effect is subject to diminishing returns which is why country size is usually measured by the natural logarithm of the national population.

<sup>8</sup> Note that the measure of time since first introduction is substantially different from our measure of time at risk ( $t$ ) since many countries had an inheritance tax before entering our risk set (i.e. before 1880 or before becoming independent). However, our results are robust when excluding the time-since-first-introduction variable from our models (Table A11).

**Table 1: Determinants of Inheritance Tax Repeals**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	1.697*** (0.509)		1.678*** (0.510)	1.260** (0.548)
Democracy	-0.866** (0.419)		-0.864** (0.420)	-0.986** (0.463)
War		0.883 (1.039)	0.329 (1.042)	0.674 (1.104)
Recession		0.414 (0.405)	0.222 (0.413)	0.218 (0.416)
Social Policy Intro		-15.483 (644.962)	-16.397 (1011.558)	-16.159 (994.224)
Tax Competition (Population log)				0.238 (0.147)
Time Since Intro (log)				-0.312 (0.452)
Life Expectancy				0.057* (0.029)
GDP pc (log)				-0.427 (0.346)
AIC	345.381	357.302	342.401	341.443
BIC	384.669	403.148	401.332	426.535
Log Likelihood	-166.691	-171.651	-162.201	-157.721
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> suppressed to conserve space.

In line with the *revenue hypothesis*, the adoption of these *major modern taxes* is positively and statistically significantly associated with inheritance tax repeal: the inheritance tax becomes

fiscally expendable. The coefficient for the *democracy* dummy is negative and statistically significant. This is in line with our *redistribution hypothesis*: democracies are less likely to repeal the inheritance tax than autocracies, all else equal.

As Model 2 shows, the coefficients for *wars*, *recessions*, and *social policy introductions* are statistically indistinguishable from zero. While changes in revenue requirements may have driven inheritance tax introductions, as suggested in Section 2 above, they have no obvious effect on the demise of the tax. The results of Models 1 and 2 also hold in the expanded Models 3 and 4: major modern taxes (i.e. income and consumption taxes) are positively related, democracy is negatively related, and the spending requirements of war, recession and social policy are essentially unrelated to inheritance tax repeal. Also, *tax competition*, proxied by population size, has no significant effect on repeals. This is broadly in line with recent research on subnational tax competition in federal states which finds either no (Brühlhart and Parchet 2014) or weak evidence (Bakija and Slemrod 2004) of a competitive race to the bottom in inheritance taxation. Path-dependency in terms of *time since introduction* and economic modernization in terms of *GDP per capita* are not significantly related to inheritance tax repeals. Yet, *life expectancy* is significantly and positively associated with inheritance tax repeal as sometimes suggested in the literature (Profeta, Scabrosetti, and Winer 2014).

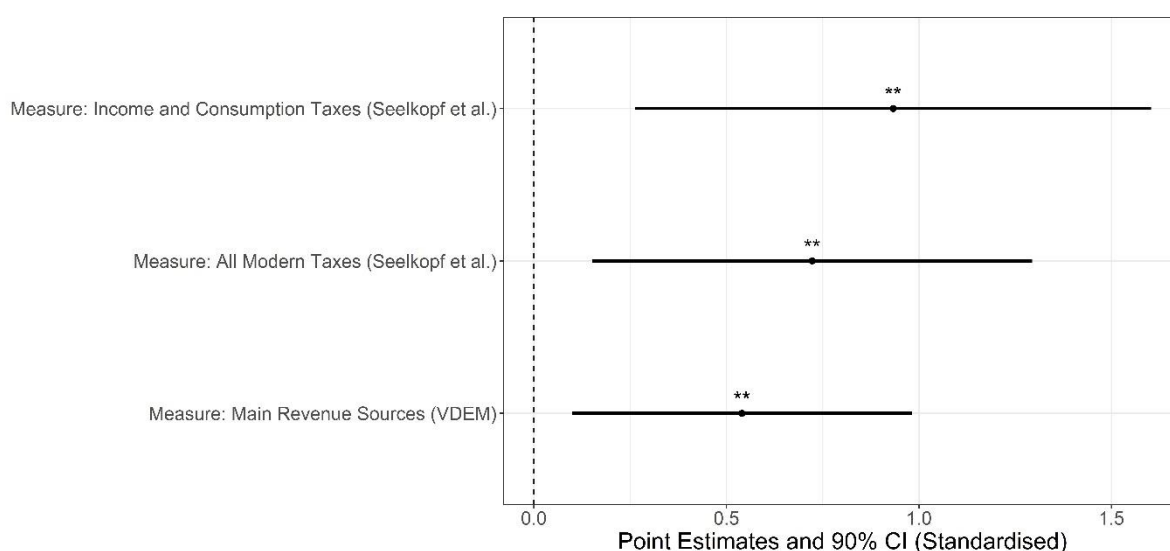
### **Robustness Checks**

To check the robustness of our results, we test whether our revenue and redistribution hypotheses hold when using other operationalisations for the two main independent variables. Does it make a difference whether we use more continuous measures for either the availability of more efficient revenue tools or for democracy? Next, we check whether our results hold for a range of alternative econometric specifications.

### *Revenue Hypothesis: Alternative Measures*

According to the *revenue hypothesis*, the emergence of new, efficient taxes on consumption and income has fuelled the decline of the inheritance tax. In the previous models (Table 1), we have used an index of major modern taxes ranging from 0 (no tax on income or consumption) to 2 (taxes on both income and consumption) to check this conjecture. Here we use two alternative measures. First, instead of accounting for revenue alternatives only in terms of whether a country has a tax on income and/or consumption, we create a more nuanced indicator that accounts for revenue capacity in terms of different forms of income and consumption taxation.

**Figure 5: Other Measurements for Availability of Alternative Revenue Instruments**



\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ . All estimates are based on models with a full set of covariates and a cubic polynomial approximation. Point estimates and confidence intervals were standardised by multiplying them with the standard deviation of the independent variable. Full, unstandardised results are presented in Table A13.

It ranges from '0' for a country which has never adopted either a general sales tax, or a VAT, or a corporate or a personal income tax to '4' for a country which has adopted all these taxes during its fiscal history. Second, we use a variable from VDEM which measures a country's

main source of revenue based on expert coding (Coppedge et al. 2019). Expert codes range from ‘0’ (‘The state is not capable of raising revenue to finance itself’) to 4 (‘The state primarily relies on taxes on economic transactions (such as sales taxes) and/or taxes on income, corporate profits and capital’). Responses were aggregated via item response theory models. Figure 5 plots point estimates and confidence intervals for the different measures of the availability of alternative revenue instruments. While the standardised coefficient is largest for our original measure (Income and Consumption Taxes), the findings stay robust with the two alternative measures (All Taxes and Main Revenue Source): countries with efficient taxes on consumption and income taxes are more likely to repeal the inheritance tax.

In addition, we analysed the effect of having adopted either an income tax or a consumption tax on inheritance tax repeal separately (Table A9 in the Appendix). Comparing the effect of consumption taxation (A9 Models 1 & 3) and of income taxation (A9 Models 2 & 4), we see that only the coefficient of the former is statistically significant: the rise of modern consumption taxes seems to have fuelled inheritance tax repeals in particular. This finding is consistent with the *revenue hypothesis* because consumption taxes are often considered as the most powerful revenue-tool currently available (Ganderson and Limberg 2022; Helgason 2017; Shoup and Haimoff 1934). The revenue-capacity of income taxes, by contrast, varies greatly across countries (Aidt and Jensen 2009; Liebermann 2001).

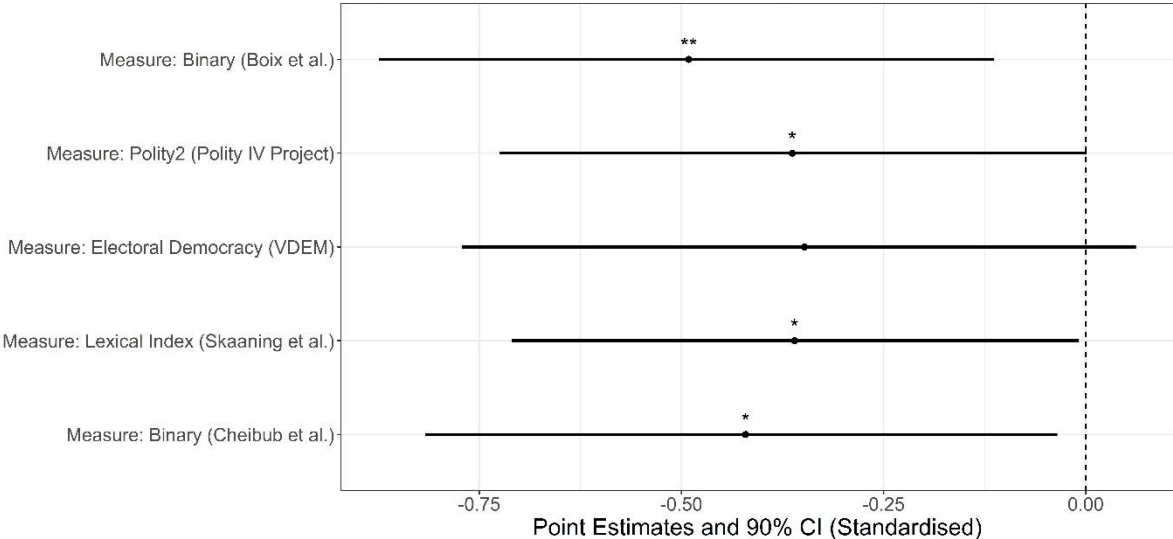
#### *Redistribution Hypothesis: Alternative Measures*

According to the *redistribution hypothesis*, democracies are less likely to repeal the inheritance tax, on average. In the main models (Table 1), we used the dichotomous measure of democracy by Boix et al. (2013) to test this hypothesis. Here we rerun the analysis with four alternative measures. First, we use the Polity2 index (Marshall, Jaggers, and Gurr 2011), ranging from -10



(total autocracy) to 10 (total democracy). Second, we use VDEM’s electoral democracy indicator which ranges from 0 to 1 and classifies countries as “Autocratic” (0.0), “Electoral Authoritarian” (0.33), “Minimally Democratic” (0.67), and “Democratic” (1.0) (Coppedge et al. 2019). Third, we use a lexical index of electoral democracy developed by Skaaning, Gerring, and Bartusevičius (2015) which ranges from 0 (“No elections”) to 6 (“Universal Suffrage”). Finally, we include a different binary democracy measure which was developed by Cheibub, Gandhi, and Vreeland (2010). Note that this measurement is only available from 1945 onwards. It provides a crucial robustness check because it reduces our sample size substantially.

**Figure 6: Other Measurements for Democracy**



\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.10$ . All estimates are based on models with a full set of covariates and a cubic polynomial approximation. Point estimates and confidence intervals were standardised by multiplying them with the standard deviation of the independent variable. Full, unstandardised results are presented in Table A14.

Figure 6 shows the results. Again, the plot shows standardised coefficients. In three out of the four alternative democracy measurements, the coefficient is negative and statistically signifi-

cant at the 90% level. The only measure which does not have a statistically significant coefficient is the VDEM measure. Although the standardised point estimate is negative and similar to the other coefficient, the confidence interval is slightly larger than for the other measures. Crucially, the coefficients for the measure by Cheibub et al. (2010) is negative and statistically significant on the 90% level: our results are robust even when excluding all observations prior to 1945.

### *Alternative Econometric Specifications*

To check whether our main results are robust to econometric choices, we run a range of alternative models. First, we include a range of additional covariates (Table A3). Namely, we control for a state's independence from other states, the existence of regional governments, the political power of rural regions, and the annual inflation rate. Data come from Coppedge et al. (2019). Our main findings hold throughout all models. Second, we control for regional heterogeneity by including region fixed effects (Table A4). Again, results hold. Third, we use different models to account for the time dependency of our data. We calculate Cox Proportional Hazard models instead of logit regressions with a cubic time approximation (Table A5). Furthermore, we run models that include year fixed effects instead of a cubic approximation (Table A6). Our findings remain robust. Fourth, we calculate linear probability models (LPMs) instead of logit regressions. LPMs have the advantage of being easier to interpret. Hence, we can gauge the substantive significance of our results. Table A7 shows the results. On average, each year a country has an additional modern tax on income or consumption increases the chance of inheritance tax repeal by 0.6 percentage points. In contrast, each year a country is a democracy reduces the probability of repeal to roughly the same extent. We conclude that our results are also substantially significant. The findings also hold when using rare event logit regressions (Table A8).

Finally, we run models that account for tax competition by a temporally lagged spatial lag of regional repeals rather than by country size. The spatial lag measures the number of inheritance tax repeals in the same world region while a country is at risk of repealing its inheritance tax. If tax competition is driving the demise of inheritance taxation, we would expect countries to repeal their inheritance tax as a reaction to other countries' repeal. The coefficients for the temporally lagged spatial lag are insignificant (Table A10). In other words, we find no support for tax competition driving inheritance tax repeals. In contrast, the coefficients for the existence of more efficient alternative tax tools as well as democratic structures remain statistically significant.

The strength of our analysis is to analyze the fall of the inheritance tax for a large global sample over a very long period of time. Yet, this strength comes at a price: the analysis has to rely on simple and easily accessible measures of its main variables. Obviously, tax repeal is a crude indicator of the general fall of the inheritance tax because it ignores more subtle forms of cut-back for instance through rate reductions, base narrowing or lax enforcement. Likewise, the availability of income and consumption taxes is a very crude measure of revenue capacity. Even if we accept that these taxes are generally more revenue-efficient than taxes on bequests, they are clearly more efficient in some specific countries during some periods than in other countries at other times. Democracy, finally, is a crude indicator of redistributive preferences because the ability of lower and middle classes to prod the government into redistribution varies not only between democracies and non-democracies but also within these groups. Yet, precisely because the measures are simple and crude, it is remarkable that they yield significant and robust results. Short of a major data-collection effort or a sharp reduction of the geographical and temporal scope of the analysis, there is little that can be done to increase nuance and sophistication.

## **Revenue, Redistribution, and Democracy**

The rise and fall of the inheritance tax reflect the rise and fall of its revenue function. In most countries, the tax was introduced to enhance revenue. It remained stable as long as it generated revenue. It became vulnerable to political challenge once more efficient revenue instruments including, most prominently, the income tax and the VAT made its revenue contribution all but redundant. As the fiscal purpose of the inheritance tax weakened, its retention became more dependent on the redistributive preferences of voters and governments. These preferences are fickle, subject to the vicissitudes of information problems, fairness considerations, and representational biases that various critics have blamed for the empirical failures of the median-voter model (see Limberg 2021 for a review). Yet, as our findings also show, democratic governments are less likely to repeal the inheritance tax than non-democratic ones. Democracy may provide less protection for the distributive interests of low- and medium-income groups than the median-voter model suggests. But it offers more protection than any of its alternatives. Our findings have important implications for theories of public policy and political economy as well as for the politics of taxation.

From a public policy perspective, our findings are interesting because they show that policy terminations do in fact happen and can actually be quite frequent. A tax that loses its original revenue purpose is at risk of repeal. Since no vital spending programs depend on it, few vested interests will come to its defence leaving the tax vulnerable to attack. Vested interests tend to attach to spending programs which create beneficiaries but not to tax or other cost-imposing policies, which create payers. Vested interests defend spending programs even if these no longer serve a useful policy purpose (Moe 2015). Payers, by contrast, tend to mobilize against taxes unless an overriding need for revenue keeps them at bay. The strong focus of the public policy literature on spending programs may lead it to overrate the probability of policy survival.

Tellingly, tax systems show no tendency towards the policy accumulation that students of public policy see as a main consequence of endemic policy survival (Adam et al. 2019). To the contrary, national tax systems have recently tended towards simplicity, relying on fewer taxes today than one hundred years ago (Peters 1991; Steinmo 1993).

From a political economy perspective, the findings are interesting because they show that the redistributive politics of taxation are contingent on revenue needs and revenue instruments. As long as revenue needs are imperative and few revenue alternatives exist, the redistributive effects of a tax are incidental to its revenue function. The distributive conflict remains mute, and neither the median-voter model nor its critics from the various elite-capture theories contribute much to understanding tax policy choices. The distributive conflict comes centre stage, however, once revenue needs relax and alternative revenue instruments become available. This increases the “political uncertainty” (Moe 1990) of the tax but does not automatically spell its repeal. After all, many inheritance taxes have survived so far. Rather the outcome depends on the institutional setting in which the conflict unfolds. Democracies are more likely to retain the inheritance tax for redistributive purposes than autocracies because they accord relatively more protections for the distributive interests of the less well-to-do. Within each setting, the outcome depends on the contingencies of the political situation, including the information problems, fairness concerns and representational biases highlighted in the literature on elite capture. We do not question the insights of this literature but narrow down the scope conditions – revenue capacity and political regime type – under which they are more or less likely to hold.

From a political perspective, our findings have implications beyond the redistributive taxation of wealth and income to redistribution more generally. Take recent proposals to introduce or to raise climate taxes. The primary purpose of these taxes is to redistribute costs from harmful, high-emission to less harmful, low-emission activities and sources of energy supply. It is not to

generate revenue for public spending needs. Our findings suggests that this makes climate taxes vulnerable to political attack. The power of the gilets jaune movement in France derived precisely from the fact that the French government did not vitally depend on the revenues from the fuel tax increase that had given rise to the protest. The increase was purely redistributive. Yet, as the example the inheritance tax shows, the best way to make a redistributive tax increase politically viable is to make it fiscally indispensable.

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## Online Appendix

*Table A1: Inheritance Tax Repealers. Sorted by Year of Repeal.*

Country	Year INH Intro	Year INH Repeal
Chile	1878	1890
Romania	1877	1947
China	1939	1949
Mexico	1893	1962
Canada	1941	1971
Argentina	1801	1976
Australia	1914	1978
Pakistan	1950	1979
Israel	1949	1981
Bangladesh	1950	1982
Kenya	1964	1982
India	1953	1985
Panama	1821	1985
Belize	1927	1991
Malaysia	1941	1991
Paraguay	1953	1991
El Salvador	1841	1992
Fiji	1966	1992
New Zealand	1866	1992
Barbados	1895	1995
Tanzania	1919	1995
Egypt	1938	1996
Iraq	1959	1996
Zambia	1938	1996
Honduras	1938	1998
Cyprus	1942	2000
Trinidad and Tobago	1888	2000
Italy	1862	2001
Slovak Republic	1992	2004
Sweden	1884	2004
Russian Federation	1882	2006
Austria	1759	2007
Singapore	1907	2008
Liechtenstein	1884	2011
Brunei Darussalam	1950	2013
Sri Lanka	1919	2013
Norway	1792	2014

**Table A2: Inheritance Tax Non-Repealers. Sorted by Year of Introduction.**

Country	Year INH Intro	Country	Year INH Intro
Hungary	1759	Poland	1920
Denmark	1792	Ireland	1922
Spain	1792	South Africa	1922
United Kingdom	1796	Zimbabwe	1922
France	1798	Turkey	1926
Luxembourg	1798	Angola	1931
Brazil	1809	Thailand	1933
Belgium	1817	Lesotho	1935
Netherlands	1817	Iran	1937
Colombia	1821	Dominican Republic	1938
Ecuador	1821	Botswana	1941
Venezuela	1821	Malawi	1946
Cuba	1831	Rep. Korea	1948
Portugal	1838	Syria	1952
Uruguay	1857	Morocco	1958
Guatemala	1874	Iceland	1962
Bolivia	1880	Nicaragua	1962
Antigua & Barbuda	1887	Ghana	1965
Tunisia	1893	Equatorial Guinea	1966
Greece	1898	Taiwan	1973
Japan	1905	Slovenia	1988
Germany	1906	Czech Republic	1992
Jamaica	1916	Croatia	1993
Philippines	1916	Macedonia	1993
United States	1916	Lithuania	1996
Malta	1918	Italy	2006
San Marino	1918	Vietnam	2009
Finland	1919		

**Table A3: Robustness Check I, Additional Covariates**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	1.263** (0.548)	1.239** (0.543)	1.366** (0.629)	1.391** (0.624)
Democracy	-1.006** (0.475)	-1.012** (0.467)	-0.967** (0.481)	-0.982** (0.492)
War	0.743 (1.163)	0.683 (1.102)	0.797 (1.124)	0.728 (1.120)
Recession	0.224 (0.417)	0.213 (0.417)	0.199 (0.423)	0.084 (0.441)
Social Policy Intro	-16.169 (993.835)	-16.175 (989.565)	-16.109 (1023.738)	-16.105 (1019.667)
Tax Competition (Population log)	0.233 (0.150)	0.185 (0.161)	0.294* (0.159)	0.201 (0.164)
Time Since Intro (log)	-0.318 (0.455)	-0.303 (0.452)	-0.282 (0.498)	-0.811 (0.603)
Life Expectancy	0.056* (0.029)	0.060** (0.030)	0.074** (0.033)	0.046 (0.031)
GDP pc (log)	-0.432 (0.347)	-0.453 (0.352)	-0.553 (0.380)	-0.476 (0.368)
State Autonomy	0.053 (0.289)			
Regional Government		0.511 (0.583)		
Rural Political Power			-0.003 (0.203)	
Inflation				-0.000 (0.000)
AIC	343.408	342.606	328.770	296.559
BIC	435.046	434.244	418.899	386.387
Log Likelihood	-157.704	-157.303	-150.385	-134.280
Num. obs.	5144	5144	4618	4520

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> suppressed to conserve space.

**Table A4: Robustness Check II, Region Fixed Effects**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	1.568*** (0.532)		1.577*** (0.535)	1.243** (0.603)
Democracy	-0.868* (0.468)		-0.846* (0.474)	-1.202** (0.517)
War		1.170 (1.064)	0.641 (1.076)	1.188 (1.139)
Recession		0.258 (0.413)	0.219 (0.416)	0.245 (0.418)
Social Policy Intro		-16.453 (1022.827)	-16.412 (982.877)	-16.249 (961.700)
Tax Competition (Population log)				0.023 (0.175)
Time Since Intro (log)				-0.496 (0.501)
Life Expectancy				0.045 (0.033)
GDP pc (log)				-0.075 (0.463)
AIC	345.274	353.620	341.794	345.303
BIC	423.849	438.763	440.012	469.669
Log Likelihood	-160.637	-163.810	-155.897	-153.652
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> as well as region FE suppressed to conserve space.

**Table A5: Robustness Check III, Year Fixed Effects**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	1.143*		1.104*	1.175*
	(0.633)		(0.644)	(0.642)
Democracy	-1.350***		-1.317***	-0.934*
	(0.429)		(0.432)	(0.493)
War		1.519	1.237	1.019
		(1.714)	(1.691)	(1.788)
Recession		0.289	0.228	0.071
		(0.440)	(0.444)	(0.451)
Social Policy Intro		-17.505	-17.361	-17.385
		(2369.847)	(2324.122)	(2318.608)
Tax Competition (Population log)				0.170
				(0.147)
Time Since Intro (log)				-0.203
				(0.208)
Life Expectancy				0.004
				(0.042)
GDP pc (log)				-0.278
				(0.342)
AIC	518.752	527.268	519.605	523.319
BIC	1422.365	1437.644	1442.861	1472.429
Log Likelihood	-121.376	-124.634	-118.803	-116.660
Num. obs.	5156	5164	5156	5144

\*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$ . Year FE suppressed to conserve space.

**Table A6: Robustness Check IV, Cox PH Models**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	1.143*		1.104*	1.175*
	(0.633)		(0.644)	(0.642)
Democracy	-1.350***		-1.317***	-0.934*
	(0.429)		(0.432)	(0.493)
War		1.519	1.237	1.019
		(1.714)	(1.691)	(1.788)
Recession		0.289	0.228	0.071
		(0.440)	(0.444)	(0.451)
Social Policy Intro		-17.505	-17.361	-17.385
		(2369.847)	(2324.122)	(2318.608)
Tax Competition (Population log)				0.170
				(0.147)
Time Since Intro (log)				-0.203
				(0.208)
Life Expectancy				0.004
				(0.042)
GDP pc (log)				-0.278
				(0.342)
AIC	518.752	527.268	519.605	523.319
BIC	1422.365	1437.644	1442.861	1472.429
Log Likelihood	-121.376	-124.634	-118.803	-116.660
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1



**Table A7: Robustness Check V, LPM**

	Model 1	Model 2	Model 3	Model 4
Major Modern Taxes	0.006*** (0.002)		0.006*** (0.002)	0.004** (0.002)
Democracy	-0.005** (0.002)		-0.005** (0.002)	-0.006** (0.003)
War		0.006 (0.008)	0.004 (0.008)	0.006 (0.008)
Recession		0.002 (0.002)	0.001 (0.002)	0.001 (0.002)
Social Policy Intro		-0.006** (0.003)	-0.006** (0.003)	-0.006* (0.003)
Tax Competition (Population log)				0.001 (0.001)
Time Since Intro (log)				-0.000 (0.002)
Life Expectancy				0.000** (0.000)
GDP pc (log)				-0.003 (0.002)
AIC	-12118.047	-12132.482	-12116.855	-12077.464
BIC	-12072.211	-12080.087	-12051.376	-11985.826
Log Likelihood	6066.023	6074.241	6068.427	6052.732
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> suppressed to conserve space.

**Table A8: Robustness Check VI, Rare Events Logit**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Major Modern Taxes	1.580*** (0.509)		1.559*** (0.510)	1.115** (0.548)
Democracy	-0.858** (0.419)		-0.856** (0.420)	-0.956** (0.463)
War		1.344 (1.039)	0.790 (1.042)	1.110 (1.104)
Recession		0.386 (0.405)	0.197 (0.413)	0.190 (0.416)
Social Policy Intro		565354.312*** (644.962)	1390723.477*** (1011.558)	1343468.980*** (994.224)
Tax Competition (Population log)				0.225 (0.147)
Time Since Intro (log)				-0.286 (0.452)
Life Expectancy				0.053* (0.029)
GDP pc (log)				-0.409 (0.346)
AIC	345.381	357.302	342.401	341.443
BIC	384.669	403.148	401.332	426.535
Log Likelihood	-166.691	-171.651	-162.201	-157.721
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> suppressed to conserve space.

**Table A9: Robustness Check VII, Consumption/Income Tax Introduction**

	Model 1	Model 2	Model 3	Model 4	Model 5
Consumption Tax	1.924*** (0.576)		1.289** (0.589)		1.103* (0.586)
Income Tax		15.766 (615.664)		15.495 (955.188)	14.871 (965.742)
Democracy	-0.830** (0.423)	-0.706* (0.420)	-0.994** (0.462)	-0.934** (0.448)	-0.980** (0.462)
War			0.730 (1.104)	1.101 (1.078)	0.686 (1.104)
Recession			0.250 (0.415)	0.139 (0.416)	0.197 (0.418)
Social Policy Intro			-16.145 (999.014)	-16.164 (1004.078)	-16.168 (993.667)
Tax Competition (Population log)			0.251* (0.148)	0.193 (0.142)	0.228 (0.147)
Time Since Intro (log)			-0.342 (0.444)	-0.246 (0.449)	-0.291 (0.456)
Life Expectancy			0.062** (0.029)	0.073*** (0.028)	0.056* (0.029)
GDP pc (log)			-0.448 (0.345)	-0.569* (0.333)	-0.430 (0.346)
AIC	348.957	352.218	342.705	345.012	342.812
BIC	388.244	391.506	427.797	430.105	434.450
Log Likelihood	-168.478	-170.109	-158.352	-159.506	-157.406
Num. obs.	5156	5156	5144	5144	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1. t<sup>1</sup>, t<sup>2</sup>, and t<sup>3</sup> suppressed to conserve space.

**Table A10: Robustness Check VIII, Temporally Lagged Spatial Lag**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Major Modern Taxes	1.685*** (0.509)		1.671*** (0.511)	1.242** (0.554)
Democracy	-0.878** (0.423)		-0.873** (0.423)	-0.941** (0.465)
War		0.893 (1.043)	0.331 (1.048)	0.633 (1.104)
Recession		0.417 (0.405)	0.220 (0.413)	0.216 (0.418)
Social Policy Intro		-15.486 (644.975)	-16.404 (1010.940)	-16.178 (988.396)
Tax Competition (Population log)				0.227 (0.147)
Time Since Intro (log)				-0.486 (0.515)
Life Expectancy				0.066** (0.032)
GDP pc (log)				-0.542 (0.376)
Spatial Lag Region	0.020 (0.108)	0.009 (0.100)	0.007 (0.110)	-0.106 (0.126)
AIC	346.874	358.675	343.840	341.968
BIC	392.628	410.974	409.203	433.442
Log Likelihood	-166.437	-171.337	-161.920	-156.984
Num. obs.	5096	5102	5096	5084

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

**Table A11: Robustness Check IX, Models Without Variable “Time Since Intro (log)”**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Major Modern Taxes	1.697*** (0.509)		1.678*** (0.510)	1.271** (0.549)
Democracy	-0.866** (0.419)		-0.864** (0.420)	-0.964** (0.464)
War		0.883 (1.039)	0.329 (1.042)	0.668 (1.102)
Recession		0.414 (0.405)	0.222 (0.413)	0.230 (0.416)
Social Policy Intro		-15.483 (644.962)	-16.397 (1011.558)	-16.184 (996.938)
Tax Competition (Population log)				0.254* (0.147)
Life Expectancy				0.059** (0.029)
GDP pc (log)				-0.430 (0.349)
AIC	345.381	357.302	342.401	339.946
BIC	384.669	403.148	401.332	418.493
Log Likelihood	-166.691	-171.651	-162.201	-157.973
Num. obs.	5156	5164	5156	5144

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

*Table A12: Robustness Check X, Models Without Canada and El Salvador*

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>
Major Modern Taxes	1.691*** (0.513)		1.670*** (0.514)	1.247** (0.555)
Democracy	-1.077** (0.443)		-1.073** (0.442)	-1.161** (0.483)
War		0.915 (1.041)	0.318 (1.045)	0.689 (1.112)
Recession		0.464 (0.426)	0.284 (0.434)	0.268 (0.437)
Social Policy Intro		-15.450 (650.511)	-16.360 (1015.565)	-16.114 (1000.456)
Tax Competition (Population log)				0.239 (0.154)
Time Since Intro (log)				-0.313 (0.458)
Life Expectancy				0.054* (0.030)
GDP pc (log)				-0.370 (0.363)
AIC	323.073	335.794	320.328	320.679
BIC	362.190	381.441	379.003	405.400
Log Likelihood	-155.537	-160.897	-151.164	-147.339
Num. obs.	5011	5019	5011	4999

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

**Table A13: Robustness Check XI, Models With Different Measures For Alternative Fiscal Instruments**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Revenue Instruments: Income and Consumption Taxes	1.260** (0.548)		
Revenue Instruments: All Modern Taxes		0.537** (0.258)	
Revenue Instruments: Main Revenue Sources			0.473** (0.234)
Democracy	-0.986** (0.463)	-1.128** (0.469)	-1.467*** (0.523)
War	0.674 (1.104)	1.112 (1.089)	1.148 (1.073)
Recession	0.218 (0.416)	0.234 (0.415)	0.253 (0.414)
Social Policy Intro	-16.159 (994.224)	-16.126 (997.474)	-16.154 (1018.408)
Tax Competition (Population log)	0.238 (0.147)	0.220 (0.146)	0.172 (0.148)
Time Since Intro (log)	-0.312 (0.452)	-0.312 (0.444)	-0.541 (0.443)
Life Expectancy	0.057* (0.029)	0.055* (0.030)	0.088*** (0.027)
GDP pc (log)	-0.427 (0.346)	-0.480 (0.335)	-0.810** (0.364)
AIC	341.443	343.668	342.192
BIC	426.535	428.760	426.822
Log Likelihood	-157.721	-158.834	-158.096
Num. obs.	5144	5144	4964

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

**Table A14: Robustness Check XII, Models With Different Measures For Democracy**

	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>	<b>Model 4</b>	<b>Model 5</b>
Major Modern Taxes	1.260** (0.548)	1.298** (0.548)	1.255** (0.549)	1.251** (0.546)	1.736** (0.768)
Democracy: Binary (Boix et al.)	-0.986** (0.463)				
Democracy: Polity2		-0.052* (0.032)			
Democracy: Electoral Democracy			-0.751 (0.543)		
Democracy: Lexical Index				-0.166* (0.098)	
Democracy: Binary (Cheibub et al.)					-0.889* (0.498)
War	0.674 (1.104)	0.959 (1.089)	0.539 (1.090)	0.641 (1.110)	2.345* (1.211)
Binary	0.218 (0.416)	0.239 (0.416)	0.201 (0.418)	0.226 (0.417)	0.274 (0.460)
Social Policy Intro	-16.159 (994.224)	-16.191 (1009.357)	-16.209 (1007.223)	-16.168 (1018.381)	-15.698 (897.837)
Tax Competition (Population log)	0.238 (0.147)	0.249 (0.152)	0.267* (0.146)	0.231 (0.146)	0.362** (0.174)
Time Since Intro (log)	-0.312 (0.452)	-0.293 (0.458)	-0.247 (0.451)	-0.282 (0.458)	-0.618 (0.655)
Life Expectancy	0.057* (0.029)	0.049* (0.028)	0.052* (0.029)	0.054* (0.029)	0.056 (0.044)
GDP pc (log)	-0.427 (0.346)	-0.407 (0.345)	-0.404 (0.353)	-0.440 (0.344)	-0.456 (0.405)
AIC	341.443	341.622	344.044	342.714	275.143
BIC	426.535	426.449	428.956	427.551	352.776
Log Likelihood	-157.721	-157.811	-159.022	-158.357	-124.572
Num. obs.	5144	5040	5073	5044	2898

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1