Starving the Beast?
Tax Policy and Welfare State Reform

Michael Baggesen Klitgaard & Christian Elmelund-Præstekær
Department of Political Science
University of Southern Denmark
mbk@sam.sdu.dk
cel@sam.sdu.dk

Prepared for presentation at the 6th ECPR General Conference
Reykjavik, August 25-27, 2011
Abstract
We hypothesize political decisions that constrain government revenues may constitute a viable and attractive strategy to governments attempting to contract electorally popular welfare programs. Whereas direct cutbacks in social policy programs are a process of imposing concentrated losses in return for diffuse benefits, the distributive profile of tax cuts can be designed to take the form of concentrated benefits in return for diffuse losses. The electorate may consequently deem tax cuts and associated initiatives to curb government incomes as much more popular than cutbacks on the benefit side of welfare states. We test this hypothesis in a comparative analysis of four Danish governments’ policy intentions in tax policy and two contrasting cases in the period 1975-2008. We find that retrenchment policies across varying partisan constellations of government are pursued more frequently in tax policy compared to health care and labor market policy, but also that governments constituted by right-of-centre parties are especially prone to pursue welfare state retrenchment on the basis of tax policy decisions.

Introduction
The literature on welfare state retrenchment has previously been criticized for its narrow definition of the dependent variable as direct cutbacks in social services and transfer arrangements (Green-Pedersen 2004). Parts of the literature acknowledge that retrenchment also may occur as indirect institutional changes (Hacker 2004; Hacker & Pierson 2010; Elmelund-Præstekær & Klitgaard 2011), but this particular mode of welfare state contraction remains relatively unexplored theoretically and empirically. This is not least true if we recognize that modern welfare states, besides from complex arrangements of service provision, consist of equally complex arrangements to create the required financial basis for welfare benefits, namely tax policies. Tax policy and political efforts to create government revenues have, as noticed by Steinmo, more than any other single issue figured recurrently at the centre stage of political conflict (1993: 1). Contemporary political analyses of welfare state retrenchment, have, nevertheless, more or less neglected that welfare states can be changed by political intervention also on the revenue side.
We find this scholarly neglect remarkable. Especially because Pierson, already in the mid 1990s, argued that welfare state constraints can be obtained by curbing “future spending decisions” (Pierson 1994: 15). Political decisions to constrain welfare state revenues may, furthermore, constitute an attractive retrenchment strategy to any government faced with the challenge of implementing a range of unpopular welfare state decisions that most likely is associated with electoral repercussions (Brooks & Manza 2006; Boeri et al. 2001; Pierson 1996: 177-178; Vis & van Kersbergen 2007; Vis 2010). We propose, theoretically, that insofar governments can associate decisions to dwindle tax revenues with popular tax reliefs, tax policy reform may pave the way for vote-seeking governments pursuing an intention of welfare state retrenchment. Especially governments composed by right-of-centre parties may find this a viable and attractive strategy as it allows such governments to pursue two policy goals often preferred by these parties at the same time.

In the present study we elaborate this proposition theoretically and formulate a set of hypotheses to be tested in a comparative analysis of four Danish governments’ tax policy strategies in the period 1975-2008. We engage in a mixed-method design comprising a quantitative content analysis of government bills, and a qualitative in-depth analysis of the most recent right-wing government’s policy-making strategies. The quantitative analysis allows us to analyze the strategies of shifting governments across a stretched period of time. With the qualitative analysis we wish to analyze and test the causality of the proposed theoretical argument in order to present a more convincing form of empirical analysis (cf. Hacker & Pierson 2010).

In the following theoretical section of the paper, we briefly review the traditional arguments and perspectives of the literature on welfare state retrenchment, followed by a detailed elaboration of the theoretical proposition introduced above. The third section presents the design of
the empirical study and the hypotheses to be researched in the fourth empirical section of the paper. In the fifth section of the paper, we present the main conclusions to be drawn from the study.

**The Unpopular Politics of Welfare State Retrenchment**

Welfare state reform in advanced democracies is predominantly analyzed through the lenses of the “new politics of the welfare state” perspective, which was launched and developed by Pierson in a series of works from the mid-1990s (Pierson 1994; 1996; 2001b). The core idea is that political decisions to constrain the welfare state occur in processes fundamentally different from those through which the welfare state was expanded. The “old” politics of welfare state expansion was electorally popular because it provided electoral constituencies with public goods and benefits. In contrast, the “new” politics of welfare state retrenchment renders the same programs less generous, which obviously is less popular among the voters and normally associated with electoral punishments of the responsible decision makers (Vis 2010).

The core argument of the new politics perspective takes its cue from standard political science wisdom about the difficulties of imposing concentrated losses on specific groups in return for diffuse benefits that most probably appear only in the long run (Pierson 1996: 144; Klitgaard 2008: 482). Such policy measures provoke sharp opposition and are difficult to implement because of the mobilizing potential of the very same interest groups and policy advocates that welfare state expansion helped to create (Anderson 2001; Pierson 2001a). Since concentrated interests usually are better organized than diffuse ones, welfare state retrenchment by default does more harm than good to politicians with electoral ambitions (Wilson 1980; Olson 1965).
The modern literature on welfare state retrenchment has contributed enormously to increase our understanding of the political economy of social policy. But it also tends to portray the processes of welfare state expansion in the first two or three post-war decades as relatively uncomplicated efforts to provide constituencies with popular welfare services, rights, and benefits (Korpi & Palme 2003). The politics of retrenchment in the era of permanent austerity beginning in the early 1970s is, by the same token, furnished with an image of extreme conflict due to the unpopularity of welfare cutbacks.

This stylized image of the periods is problematic, however, for at least two reasons. First, welfare state expansion was, as argued by Korpi and Palme (2003: 430), never an exclusively popular policy-making process for which decision makers easily could claim credit. Expansionary reforms required either increasing tax revenues or public debt issuing, which right-wing parties and employer organizations fiercely opposed. The new politics perspective simply fails to recognize the severity of conflict on tax-levels during the phase of expansion, and especially the political and public unpopularity of rising taxes. Second, the stereotypical understanding of welfare state retrenchment as notoriously unpopular is too simple (Giger & Nelson 2011; Giger 2010). As we shall discuss in the next section, welfare state contraction might be popular since it reduces the need for tax revenues. Thus, what we basically do in this paper is to turn the argument of Korpi & Palme (2003) upside-down to argue that diffuse welfare state constraints, disguised as tax reliefs, may not cause public outcry – at least not to the same degree as direct social policy cutbacks. As such, political decisions to constrain government revenue may prove to be a viable strategic option for governments pursuing welfare state retrenchment.
Tax Relief as Popular Retrenchment

The assumption that welfare state retrenchment is electorally troublesome is theoretically well-motivated as long as retrenchment is pursued by contraction of services, rights, and benefits. It might, however, be a different matter when retrenchment is pursued by delimiting the financial basis of the welfare state. Shrinking tax revenues might not automatically reduce welfare benefits – the government may instead choose to cut back on, e.g., the military or the infrastructure. Nevertheless, “welfare states require revenues: Where there is no money there can be no programs” (Pierson 1994: 15). In the analysis of especially Regan’s efforts to dismantle the welfare state, Pierson (1994: 149-150) concludes that “[o]ne of the most effective strategies for welfare state retrenchment over the long run is defunding, that is, a curtailment of the flow of revenues on which social programs rely”. Tax reliefs constitute a mode of systemic retrenchment that does not affect welfare programs in any immediate or direct fashion, but delimit future possibilities to invent new or improve existing programs. Declining revenues might even entail a need for downward adjustment or complete dismantling of existing programs. But such genuine and unpopular cutbacks are more or less detached from initial decisions to cut government revenues.

Pursuing goals of welfare state retrenchment by intervention at the revenue side thus provides democratic governments with a popular retrenchment strategy because tax reliefs are characterized by the complete opposite distributive profile than regular programmatic retrenchment. Abolishment of specific duties, tax cuts, and tax deductions can be used to increase the amount of money people can spent on private consumption, but it rarely affects a specific welfare program right away. Hence, where direct cutbacks impose concentrated losses in return for diffuse benefits, a strategically well-developed retrenchment strategy based upon tax policy decisions may instead distribute concentrated benefits to a larger group of voters financed by diffuse welfare losses somewhere down the road. This resembles the Korpi &
Palme argument about the tense political conflicts on the need to raise taxes during the phase of welfare state expansion. Popular protests were frequently activated when voters were asked to give up money for private consumption in return for some diffuse welfare benefits (Korpi & Palme 2003: 430).

The pure vote-seeking governments might be tempted to pursue tax cuts and welfare expansion at the same time. This mixture of popular political enterprises is probably feasible, but only in the short run and only by allowing budgetary deficits. Since the macroeconomic viability of a country also is an important factor when people cast their votes on election day (Fiorina 1981; Lewis-Beck 1988), the vote- and office-seeking government needs, in the long run, to balance the national budget. In sum, the government needs to choose between lowering taxes and expanding the welfare state when campaigning for (re)election.

Governments pursuing welfare state retrenchment by opting for the strategy to “starve the beast” need, however, to be aware that voters might not be as short-sighted and myopic as the literature encourages us to believe. Voters – or even more likely – the political opposition might realize the real intention of seemingly benevolent tax cuts and expose them as contractions of the popular welfare state. If that happens, the tax-based systemic retrenchment strategy may result in electoral backlash. Especially because the ground is fertile for electoral mobilization campaigning against tax reliefs – at least in Europe where survey studies often conclude that voters prefer to sustain or even increase levels of social protection to cutting taxes (Goul Andersen 2003). Other survey studies demonstrate, however, that electoral support toward continued welfare state progress is not consistently associated with acceptance of higher taxes (Mouritzen & Winter 2001). Thus, attempts to survey voters’ preferences indicate that voters suffer from “fiscal illusions” in the sense that they want something for nothing (Citrin 1979; Mouritzen & Winter 2001). On this basis, we suggest that while a tax-based
retrenchment strategy has its pitfalls; it also provides governments with an opportunity to frame an initially unpopular enterprise of retrenchment as something more popular.

As mentioned in the introduction, tax reliefs of various sorts are probably especially attractive to governments composed by right-of-centre parties. We believe so for two reasons. First, right-wing governments have a harder time than left-wing governments convincing the electorate that welfare state reform is necessary to modernize or secure the economic and political sustainability of the welfare state in the long run (cf. Green-Pedersen 2001). Even if this really is the intention, a right-wing government is constantly in risk of being accused of attacking the welfare state for ideological reasons. Hence, a tax-based retrenchment strategy may be more attractive to right- than left-wing governments. Second, right-wing governments could pursue a secondary ideological goal through tax policy decisions. Right-of-centre parties traditionally oppose to rising taxes, expansion of the public economy, and collective social protection. Assuming that the electorate are well-informed about this core distinction between left-of-centre and right-of-centre parties, proposals of tax reliefs are probably seen as most credible if they are tabled by right-wing governments. In sum, a right-wing government has stronger strategic as well as ideological reasons to pursue welfare state retrenchment through tax policy than left-wing governments.

**Design of the Empirical Study**

We adopt a comparative mixed-method design to empirically test the advanced theoretical propositions on shifting Danish governments’ tax policy strategies in the period 1975-2008 – governments of varying partisan composition. The advantage of a within-country comparative analysis is that a range of candidate explanatory variables can be treated as irrelevant for developments in the dependent variable. For the purpose of this paper, Denmark constitutes
an excellent test case. It is one of the most heavily taxed countries in the world; it operates a universal welfare state comprising a variety of encompassing benefit and service programs; and the issue of welfare state reform has figured prominently on the policy agenda since the 1970s (Cox 2001).

The mixed-method design comprises, first, a quantitative content analysis of four Danish governments’ policy intentions in tax policy, and two contrasting cases during the entire period of investigation. Thus, we are able to study if retrenchment is more widespread in tax legislation than legislation on central policy areas of welfare provision. As the researched governments vary in partisan composition, the quantitative analysis also allows us to study if tax-based retrenchment is pursued more often by governments composed of right-of-centre parties. Second, we conduct a qualitative analysis of the retrenchment strategies of a single government. Here, we study the preferences and activities of a government in details to understand how the political processes and government activities are causally related to the phenomenon of empirical interest, welfare state retrenchment by tax policy decisions (cf. Hacker & Pierson 2010: 153).

We compare, as mentioned, tax policy with two contrasting cases. We argue that tax-based retrenchment operates according to a different political logic than retrenchment on the benefit side of the welfare state. To test this proposition, we first compare retrenchment in tax policy with retrenchment in public healthcare policy. Public healthcare is selected as a contrasting case because we theoretically expect to observe a considerable different empirical pattern between these two policy areas. Healthcare policies are designed to absorb social risks that are democratically distributed across social strata; everybody faces the risk of illness (Jensen 2011; Esping-Andersen 1999: 41). For this reason, healthcare provision is universally popular and in high demand among all segments of the voters. For this reason, governments are, in-
dependent of partisan composition, expected to be especially hesitant to pursue welfare state retrenchment in healthcare policy.

Next, we compare government intentions to pursue welfare state retrenchment in tax policy to labor market policy. Whereas healthcare policy is expected to be highly different from tax policy, we expect labor market policy to be similar to tax policy in one aspect but different in another. Retrenchment of labor market-related programs is also contracting the welfare state at the benefit side and therefore expected to inflict electoral repercussions. Retrenchment in labor market policy is, for this reason, probably not pursued as frequently in labor market policy compared to tax policy. Since labor market programs protect against so-called class risks, i.e., social risks that are unevenly distributed to the disadvantage of the lower social strata, social protection offered by labor market programs is, in difference from health protection, not in equally high demand among all groups of voters. Unskilled workers, for example, are especially vulnerable to unemployment and loss of income (Jensen 2011; Esping-Andersen 1999: 41). Since the primary beneficiaries of labor market programs also comprise the traditional core constituency of left-of-centre parties (Kwon & Pontusson 2010), we expect left-wing government to be more reluctant to pursue retrenchment in labor market policy than right-wing governments (Jensen 2011; Elmelund-Præstekær & Klitgaard 2011). In terms of a supposed partisan effect in welfare state retrenchment we expect, in other words, labor market policy to be similar to tax policy. Against this background, we derive the following hypotheses to be tested in the empirical analysis:
Table 1. Hypotheses

H1: Governments pursue, independent of partisan composition, welfare state retrenchment more often in tax policy than in healthcare and labor market policy

H2: Governments that include right-of-centre parties pursue welfare state retrenchment more often in tax policy compared to governments that include left-of-centre parties

H3: There is no partisan effect on welfare state retrenchment in healthcare policy

H4: Governments that include right-of-centre parties pursue welfare state retrenchment more often in labor market policy compared to governments that include left-of-centre parties

To investigate these propositions we need to compare political intentions of governments of different partisan composition. From 1975 to 2008 we find ample variation in this respect in the Danish case. During this period, Denmark was governed by four governments ranging from a pure left-wing government to a pure right-wing government and with a centre-left and centre-right government in between. Table 2 provides an overview of the partisan composition of these as well as the parliamentary base of support keeping them in office.

Table 2. Danish Governments and supporting parties 1975-2008

<table>
<thead>
<tr>
<th>Period</th>
<th>Government</th>
<th>Parties in government</th>
<th>Parliamentary base of support</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1982*</td>
<td>Left</td>
<td>Social Democrats</td>
<td>Socialist Peoples’ Party &amp; Social Liberals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Social Democrats, Social Liberals</td>
<td>Socialist Peoples’ Party, Red-Green</td>
</tr>
</tbody>
</table>
Centre Democrats (only 1994-1996)  
Social Democrats & Social Liberals (1996-2001)

Alliance  
Socialist Peoples’ Party, Red-Green Alliance & Centre Democrats (until 1998)

|-----------|--------------------------------|-----------------------------------------------------|

Notes: * For a short period in 1978-1979, Denmark was ruled by a coalition of the Social Democrats and the Liberals. Due to the exceptional status of this government, we exclude it from the analysis. ** Between December 1990 and January 1993 Denmark had a right-wing government consisting of the Conservatives and the Liberals. Since it enjoyed parliamentary support from the centre parties, while the right-wing government of 2001-2008 primarily was supported by the right-of-centre, we exclude this government from the analysis to be able to compare four distinct types of governments.

Next, we need a measure of the dependent variable – welfare state retrenchment – applicable and comparable across as different policy areas as tax policy, healthcare policy, and labor market policy. The vast majority of existing studies resort to different kinds of output data; the amount of money spent on social programs or the replacement rates offered by welfare state programs (Allan & Scruggs 2004; Huber & Stephens 2001; Korpi & Palme 2003). The nature of our policy areas renders output data incomparable across fields. The output from tax policy decisions is government revenues, whereas output indicators of labor market and healthcare policy could be government outlays, length of waiting lists, levels of unemployment, or durability of unemployment benefits. To ensure comparable measures we instead compile a dataset measuring the policy intentions of governments.

This is done by analysing the content of the official comments associating each individual piece of legislation adopted within tax policy, healthcare policy, and labor market policy in the period between 1975 and 2008. We focus on individual bills – not entire reform complexes consisting of several bills. Reform packages are clearly important to governments engaging in compensation strategies in order to moderate public outcry and electoral repercussions of unpopular retrenchment (Pierson 1994: 23). However, not all legislation is adopted
in package deals and such deals can be difficult to identify and unambiguously delimit. Moreover, parliamentary practice might not be identical across different policy areas or time.

We distinguish between bills that intent to expand and retrench the welfare state. Bills are coded as retrenchments if they intent to reduce the extent and/or quality of the welfare program, the financial viability and/or political and administrative capacity to pursue policies of expansion in the future. On the benefit side, retrenchments thus most often materialize as reductions in welfare state generosity, while retrenchments in tax policy materialize as initiatives to constrain welfare state revenues. Bills are coded as expansions if they intent to increase the extent and/or quality of the program, the financial viability and/or political and administrative capacity to pursue expansion in the future. Some bills provide no information about the political intentions and are excluded from the analysis (see methodology appendix for coding examples and test of inter coder reliability).

We choose to analyze the intended direction of bills – not the degree to which they may affect the welfare state. We choose this analytical strategy for two reasons. First, it is difficult to graduate the severity of the analyzed bills even though we acknowledge that some expand or retrench more than others. Estimated budgetary consequences are sometimes provided in the legislative proposals, but certainly not always, and often budgetary effects are not the only or the main effect. Retrenchment frequently comes in the form of program restructuring without direct economic consequences (Pierson 1994: 15; Elmelund-Præstekær & Klitgaard 2011). Second, we are not interested in the degree of retrenchment per se, but in the political intentions of different governments. Some bills may be more important to a government than others, but we are tracking each government’s activities over almost a decade, and we assume that “minor” and “major” initiatives are spread equally over the years and the four govern-
ments, so the average bill should be illustrative of the overall intentions of the individual governments.

In the qualitative part of the analysis, we are not interested in the amount of retrenchment as we investigate the retrenchment strategies of only one government, i.e., the right-wing government of 2001-2008. To provide a richer empirical foundation of the analysis of how this government pursue welfare state retrenchment we turn away from the legislative material used in the quantitative analysis. Instead, we consult the official election manifestos of the two incumbent parties, the official government programs, and the Prime Minister’s yearly opening address in the parliament. This material is supposed to reflect the main political aspirations of both the individual parties and the government once in office.

**Patterns of Welfare State Retrenchment in Denmark, 1975-2008**

The first part of the empirical analysis is based on a total of 1,387 bills adopted under four governments in the period 1975-2008. Out of this total, 535 bills were indented to retrench the welfare state, whereas 852 were initiatives to expand it. The fact that 39 per cent of all the analyzed bills pursued welfare state retrenchment is quite surprising given the conventional wisdom of ‘new politics’ literature claiming that retrenchment is an extremely unpopular activity.

As it appears from the totals in Table 3, the high level of retrenchment is mainly due to tax policy where almost half of all bills indented to retrench the welfare state. In the contrasting policy areas, the pattern is significantly different (ANOVA, .05-level) as only 21 and 27 per cent of the adopted legislation in labor market policy and healthcare policy pursued retrenchment. These empirical observations are highly consistent with the core theoretical argument advanced in the present paper. In contrast to welfare cutbacks on the benefit side,
Retrenchment strategies based on delimiting tax revenues are popular and more frequently pursued by governments. We find no statistical difference (ANOVA, .05-level) in the tendency to pursue retrenchment in labor market policy and healthcare policy.

Analyzing the individual governments included in the study we find a similar empirical pattern. Retrenchment is, as predicted in H1, consistently more often pursued in tax policy compared to the contrasting cases across different governments. The differences between tax policy and the contrasting areas are only statistically insignificant in two instances, namely between healthcare policy and tax policy for the pure left-wing government, and between labor market policy and tax policy for the centre-right government (ANOVA, .05-level).

Table 3. Welfare state retrenchment in tax, labor market and healthcare policy 1975-2008, percentages (absolute numbers)

<table>
<thead>
<tr>
<th></th>
<th>Left-wing average</th>
<th>Left</th>
<th>Centre Left</th>
<th>Centre</th>
<th>Right</th>
<th>Right-wing average</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation</td>
<td>42 (212)</td>
<td>40 (63)</td>
<td>43 (149)</td>
<td>45 (81)</td>
<td>65 (109)</td>
<td>55 (190)</td>
<td>47 (402)</td>
</tr>
<tr>
<td>Labor market</td>
<td>23 (44)</td>
<td>18 (9)</td>
<td>25 (35)</td>
<td>30 (14)</td>
<td>32 (36)</td>
<td>31 (50)</td>
<td>27 (94)</td>
</tr>
<tr>
<td>Healthcare</td>
<td>19 (19)</td>
<td>25 (4)</td>
<td>18 (15)</td>
<td>19 (4)</td>
<td>26 (16)</td>
<td>24 (20)</td>
<td>21 (39)</td>
</tr>
</tbody>
</table>

Note: Absolute number of retrenchments is reported in parentheses. The average values on specific issues and the average difference between left- and right-wing governments are weighted to account for different numbers within different areas and under different governments.

Focusing on tax policy specifically, a partisan bias is evident. Consistent with H2 we find that right-wing governments pursue retrenchment in tax policy significantly more often than left-wing governments. 55 per cent of all bills adopted during right-wing incumbency in tax policy intended to retrench the welfare state. The corresponding figure for left-wing governments is 42 per cent, and the difference is statistically significant (t=-3.67, p<.001, two-tailed). We
observe, furthermore, an increasing tendency to pursue welfare state retrenchment in tax policy as we move from the left to the right; the difference between the pure left-wing government and the pure right-wing government is 25 per cent points (statistically significant, ANOVA, p<.01). In between the two ideological most distant governments, the two centre-based coalitions do not differ much from each other. Nor do these centre governments differ much from the pure left-wing government. On this basis we conclude that the partisan bias in the tendency to pursue retrenchment within tax policy is mainly due to the pure right-wing government’s strong tendency to do so.

Consistent with H3 we find no partisan effect on welfare state retrenchment in healthcare policy. The pure left- and the pure right-wing governments retrench equally little (25 and 26 per cent, respectively). Centre-based governments tend to retrench a little less (18-19 percent), but none of these differences are statistically significant. It seems, indeed, to be the case that all types of governments are prone to cater the demands of the median voter in this extremely popular policy area.

As expected in H4 we find, by contrast, a partisan bias in the frequency of retrenchment when turning to labor market policy. Here, we find the same increasing tendency to enact retrenchment when moving from the left towards the right as we did on tax policy. The pattern is not as pronounced, however, as the most ideologically extreme governments only differ 14 per cent points. The difference is, nonetheless, statistically significant (ANOVA, .1-level), but neither one of the pure wing governments differ significantly from the centre-based governments.

In sum, the quantitative analysis supports our theoretical propositions. In order to better understand whether not only our hypothetical propositions but also the proposed causal mechanism is correct, we turn to the qualitative analysis in the next section. Here, we take advantage
of the insights from the quantitative analysis and choose to study how the government most keen on welfare state retrenchment, i.e. the right-wing government of 2001-2008, pursued its policy preferences in the three policy fields.

**How did the Right-Wing Government Retrench the Welfare State?**

*Tax Policy*

In the 2001 election manifesto, the Liberal Party formulated the most central policy of the Liberal-Conservative government installed in office in 2001 and one of the most persistent campaign pledges in contemporary Danish politics; the tax stop (Venstre 2001). Since the electoral defeat in 1998, the liberal party had adopted more welfare state friendly policies and abandoned traditional demand of massive tax cuts financed by cuts in various welfare state benefits. Instead, the Liberal Party pledged to freeze all direct and indirect taxes so that no citizen should pay a larger proportion of his or her income in taxes and duties. Most taxes and duties were fixed at their current rate, but, for example, the real estate tax was fixed at its current value in real prices and would consequently hollow out as a source of government revenue over time (Venstre 2001). According to the tax stop principle, tax increases could only be tolerated if they were countered by equivalent tax reliefs. In later election manifestos, the Liberal Party consistently emphasized the tax stop principle and informed the electorate that tax reliefs were not to be expected (Venstre 2005; 2007).

While the Liberal Party tried to win over electoral support from centre and left-wing parties with welfare state friendly policies, it simultaneously tried not to abandon traditional right-wing constituencies by emphasizing the tax stop principle. The Conservative Party, by contrast, campaigned more aggressively for regular tax cuts. In the 2001 manifesto, the party pledged for lowering the incomes taxes – especially for people in the middle and higher in-
come brackets (Konservative 2001). Prior to the 2001 election, the party also called for a re-
structuring of the extremely high Danish taxes on cars, and sided with the Liberal Party on
the pledge to relief real estate taxes. Compared to the Liberal Party, the Conservative Party
was less disciplined by the tax stop – in the election manifestos of 2005 and 2007, it was de-
scribed as a major achievement of the Liberal-Conservative government that took office in
2001, but it was merely seen as a necessary first step towards real tax reliefs. The Conserva-
tive Party maintained that generous welfare benefits and high income taxes lower the work
incentives for certain unemployed groups (Konservative 2005; 2007).

When the Liberal and Conservative Parties joined forces and moved into office in late 2001,
they had to balance their common government program according to their slightly different
campaign messages. In the short run, the new government would only commit itself to the tax
stop principle, but the need for tax reliefs in the long run was also stressed. The government
did in fact formulate a promise to lower income taxes by 2004, if such a measure was com-
patible with the policy of a balanced national budget (Regeringen 2001). A tax cut was ac-
tually realized in 2004, and it was followed by yet another cut four years later as introduced
in the fourth government program (Regeringen 2007).

Besides maintaining the tax stop principle, the programs produced by the government pro-
posed a wide range of minor tax reductions, such as deductions for private companies’ pur-
chase of art, deduction for expenses associated with leadership of civil society organizations
as, for example, sport clubs, tax exception of grants to artists, reduced VAT on fruit and
vegetables (Regeringen 2001; 2003; 2005; 2007). On top of this, the government proposed to
appoint a commission to formulate plans for restructuring the entire system of collecting rev-
enues – including a reduction of direct income taxes. Such a reform should adhere to the tax
stop principle (Regeringen 2007).
In the entire material, we only found one suggestion to increase tax revenues; in the most recent program, the government promised to fight moonlighting and tax evasion more efficiently (Regeringen 2007). The initiative to constrain government revenue and the complete absence of initiatives to invent new sources of government incomes yield support to the argument proposed in this paper.

*Healthcare Policy*

The Liberal-Conservative government installed in 2001 took office on the basis of three main campaign pledges; the tax stop principle, restriction in Danish immigration policies, and a friendlier attitude toward the welfare state including policies of welfare state expansion – especially in healthcare. In the 2001 election manifestos both parties promised to combat waiting lists for surgery at public hospitals (Konservative 2001; Venstre 2001). The Conservative Party merely acknowledged a need to increase spending on public healthcare, while the Liberal Party offered a concrete diagnosis; investment of some 200 million Euros in hospitals. Four years later, the parties promised to spend an additional 270 million Euros on hospitals (Konservative 2005; Venstre 2005).

In 2007, the election manifestos of neither the Liberal nor the Conservative Party campaigned for further increases of public funding for the hospitals. Instead, they proposed to develop and implement a plan to intensify the fight against cancer. The government also appointed a commission to strengthen the preventive measures of the public healthcare system, it presented a detailed plan to strengthen a range of aspects in the public healthcare, and perhaps most remarkably it launched a major initiative to replace half of the existing Danish public hospitals with new, modern large-scale hospitals over the next decades (Regeringen 2007: 19).
It is clear that the campaign messages and program initiatives of the right-wing government mainly perused welfare state expansion in healthcare policy. As it appears from the quantitative analysis, the government also took steps to retrench within this policy area, but it is important to recognize the type of retrenchment that was implemented. While there were very few programmatic retrenchments, the government did engage in a series of systemic retrenchments (cf. Pierson 1994). Thus, the government did not introduce, e.g., user fees, but from the very beginning, the Liberal Party was keen to introduce a freedom for patients to choose between public and private hospitals. The party also pledged for a tax deduction for treatment in private hospitals paid by one’s employer (Venstre 2001). The Conservative Party (Konservative 2001) took it a step further and proposed that patients who had waited more than two months for surgery at a public hospital should have the right to make use of a publicly financed but private (later extended to also include foreign) alternative. This proposal became official policy later on – but now, patients should only wait for one month before it was possible to opt out of the public system. All of these initiatives may be perceived as genuine welfare expansions by the individual patient, but they all increase competition between public and private healthcare providers to the advantage of the latter. Thus, we understand the initiatives as systemic retrenchments that in the long run undermine the welfare model. Thereby, the governments’ actual healthcare reforms fit nicely with our central theoretical argument regarding this type of welfare state programs; not only are expansions substantial, retrenchments are only indirect and in some instances easily confused as expansions at a first glance.

*Labor Market Policy*

In the late 1990s, Denmark was frequently mentioned as one of the economic miracles where the unemployment rate had decreased significantly, economic policies had been restored, and where a relatively generous welfare state was sustained (Cox 1998; Benner & Vad 2000;
Green-Pedersen & Klitgaard 2009). The low level of unemployment kept labor market policy out of the political agenda during the campaign prior to the 2001 election – the Conservative Party (2001) did not even mention labor policy in its election manifesto. Because labor market policies primarily protect against social risks to which the lower social strata are especially exposed, the Conservative Party may also have realized that labor market policies were of little interest to its core constituency.

The Liberal Party called, however, explicitly for retrenchments in labor market policy. As in healthcare, some proposals took shape as systemic retrenchments as they challenged established institutions; the party suggested, for example, to allow for cross-trade union membership and the establishment of cross-trade unemployment funds (Venstre 2001). In the first government program it was also proposed to establish a public unemployment fund. Although such an initiative in principle could be seen as a welfare state expansion, the main goal was to weaken the Ghent model of unemployment funds controlled by labor unions with tight connections to the Social Democratic party (cf. Rothstein 1992). The close connection between profession and unemployment fund also ensures that members of an unemployment fund are organized under the auspices of labor union organizations. Cross-trade unions and unemployment funds were later adopted by official bills, while the proposal to establish a public unemployment fund was rejected by the legislators. Nevertheless, the right-wing government managed to reduce the political power of the labor unions – and since unions are keen supporters and central agents to push for more generous welfare policies (cf. Korpi & Palme 2003), we understand this achievement as an institutional or systemic retrenchment.

While the indirect retrenchments in healthcare policy were accompanied by genuine welfare state expansions, no expansions were realized within labor market policy. In fact, the government adopted direct programmatic retrenchments in labor market policy by cutting back
certain benefits. Thus, in his 2008 opening address in the parliament, the Prime Minister proposed to shorten the duration of unemployment benefits and increase the weekly working hours for public servants. It was also proposed to integrate immigrants better in the labor force by introducing job training on salaries below minimum wages and reduced social benefits to especially this group. Some of these propositions were later adopted as official policy, others were not, but the main point to be made here is that in contrast to healthcare policy, the right-wing government openly suggests to cut back on labor market related policies that affect people in a very direct fashion. Thus, the qualitative study once more support our fundamental theoretical argument that governments – at least the right-wing government studied here – pursue different strategies of retrenchment in welfare policies that protect against different kinds of social risks.

**Conclusion**

The present study research a neglected aspect of welfare state retrenchment, namely government decisions to contract revenues and the financial basis of social policy. While reforms at the benefit side of the welfare state are thoroughly theorized and studied, very few studies discuss the matter of reform at the revenue side. We take a few steps toward reaching greater understanding of this particular aspect of modern welfare state reform and conclude that welfare state retrenchment based upon tax policy reform, i.e. tax relief, opens the road toward substantial reform for vote-seeking governments.

We conclude, specifically, that delimiting the tax revenue of the welfare state seems to be associated with less electoral risk than direct retrenchment on the benefit side. We also conclude that the detailed study of different policy programs revealed that partisan politics also matter to processes of welfare state retrenchment (cf. Korpi & Palme 2003; Allan & Scruggs...
Consistent with the theoretical propositions, especially governments comprising right-wing parties find retrenchment through tax policy an attractive strategy. The qualitative study of the latest right-wing government in Denmark reveals that the tax-based retrenchment strategy was obviously not obfuscated; rather the government openly campaigned on the basis of the tax stop principle as well as it advertised a series of genuine tax cuts. These highly visible attacks on the economic basis of the welfare state are sharply contrasted by the substantial efforts to expand the welfare state in the realm of healthcare policy, and to a lesser degree labor market policies as it is evident from the quantitative analysis. The qualitative analysis reveals, moreover, that not only is retrenchment less often pursued in these policy fields compared to tax policy, the enacted type of retrenchment policies also tends to be less visible. While the economic basis of the welfare state obviously suffers from tax cuts, the consequences of increased private competition in healthcare and the disempowerment of labor unions are only indirectly recognizable and only experienced in the long run.

Finally, our study supports recent studies as we conclude that retrenchment strategies seem to be developed and undertaken according to the nature of respective policy areas. While we find intentions to retrench in healthcare policy to be invariant across different partisan constellations of government, right-wing governments retrench labor market policies more often than left-wing governments (Jensen 2011). In the qualitative analysis we show that the right-wing government did little to obfuscate or compensate labor market retrenchment. When reforming healthcare policy, the right-wing government was more cautious and retrenchment was pursued by means of indirect institutional retrenchments and often accompanied by significant policy expansions.

The design of the present study allows us to compare tax policy with the more traditional objects of analysis in the retrenchment literature, health care policy and labor market policy.
We believe that comparing the intentions of adopted legislation within the different policy fields opens a promising new path of welfare state research. Although systematic content analysis of legislative material is a time-consuming enterprise, future studies of this type are needed to verify and further develop the ideas and conclusions of the present study. Such studies could include more policy fields, such as, e.g., housing, social security, and education policies. More important, though, future studies should also include a cross-country comparative dimension. While we have no reason to suspect that the fundamental arguments of the present study would not apply in welfare regimes similar to the Danish one, cross-country studies are needed to understand just how universally applicable our propositions are. We suggest, however, that the central theoretical argument has been put to a tough test in the present paper because of the wide acceptance of the high level of taxes paid by Danish citizens in return for extremely popular welfare services. Hence, to the extent governments and elected decision makers can modify the electoral retribution associated with welfare state retrenchment by hollowing out the financial basis of social policies in this context, such a strategy can most likely be successfully applied everywhere.

Appendix – Coding Procedure and Reliability Tests

After two rounds of intensive training, the quantitative data set was hand coded by four student assistants on the basis of parliamentary records. The first task was to identify the relevant bills, and the students reviewed all bills adopted within the portfolio of the relevant ministers, i.e., the ministers of healthcare, labour market, and taxation. Some areas did not have dedicated portfolio ministers during the entire period. We therefore also reviewed all bills enacted by the ministers of finance and the interior because it previously had jurisdiction of taxation and healthcare, respectively. Whereas we include all bills passed under the dedicated ministers, we instructed student coders to include only bills relating to the studied policy areas from the two latter ministers. The
next step in the coding process was to code the bills included on the variables of interest to the present study.

To ensure inter-coder reliability, the coders adhered to a detailed coding manual explaining which bills to include and how to code them. When the data set was finally compiled, we randomly picked four years (9.2 per cent of all bills) for recoding (also done by the student assistants, ensuring that the same coder did not code the same data twice). We reached a satisfactory level of reliability (using Holsti’s method); agreement on which bills to include in or exclude from the data set = .86 (no individual coder below .78), and agreement on whether a bill retrenched or expanded the welfare state or was non-codable = .80 (no individual coder below .77).

References


