

The politics of negative expansion

The Left's turn to fiscal welfare for low-income groups in Britain and France in the 2000s

Chloé Touzet

New College



Thesis submitted for the degree of Doctor of Philosophy in Social Policy

79586 words

Trinity Term 2019

Abstract

This thesis analyses a particular social policy episode: that of the turn to tax credits (instead of benefits) to support low-income groups in France and Britain in the 2000s. It asks about the rationale that led left-wing governments in both countries to deviate from institutional traditions in matters of income-support, and to instead use policy instruments pertaining to a seldom-studied domain of social policy: fiscal welfare, or tax provisions serving a social policy purpose.

Drawing on original archival sources and interviews with policymakers, the thesis reconstructs the genesis of the change of instrument in both contexts. It advances a novel explanation for the turn to fiscal welfare for income-support purposes: namely, that it was driven by left-wing governments' adoption, at that time, of a logic of *negative* welfare expansion. While welfare expansion is often synonymous with spending increases, negative expansion entails decreasing taxes instead. It involves *taking less* from low-income individuals instead of *giving more* to them.

In both countries, policymakers saw negative expansion through fiscal welfare as functionally equivalent to positive expansion through benefit increases, which allowed bypassing constraints on traditional income-support. Tax cuts were economically respectable instruments, at a time when concerns with economic credibility led politicians to avoid spending increases. Tax credits could also be used as a means of unifying different constituencies, at a time when governments aimed to assemble cross-class coalitions centred around middle-class voters.

As well as building a novel argument about the origins of the policies, this thesis also puts forward and investigates the notion that this turn had unanticipated political consequences. In particular, it argues that taking less is not the same as giving more when it comes to the formation of policy preferences and attitudes to redistribution. Using a mix of regression analyses and quasi-experimental designs, this thesis shows that the change of instrument failed to alter attitudes to redistribution towards low-income groups in the UK. Further, despite their generosity the British tax credits failed to generate lasting support among beneficiaries of the policy themselves. These findings suggest that the turn to tax credits led to an erosion of the overall support for policies benefiting low-income groups. Over time, policies implementing a negative expansion risk shifting the balance of preferences away from income-support.

This thesis also sheds light on the understudied phenomenon of fiscal welfare for low-income groups. Using microsimulation, it produces original estimates of the budgetary incidence and actual redistributive effect of fiscal welfare for low-income groups in six countries. The budgetary costs involved are in the same order of magnitude as amounts spent on family benefits. Looking at the redistributive incidence of these schemes reveals an important pattern: often times, schemes ostensibly designed to benefit low-income groups actually have a regressive impact.

Acknowledgements

Many people supported me in writing this thesis. Most heartfelt thanks are due to my supervisor Brian Nolan, for his kind support, astute guidance, and great intellectual contributions. Brian's calm reassurance that I could make it, in the last year of juggling a full-time job and a PhD, was instrumental in bringing me to the finish line. My second supervisor Bernhard Ebbinghaus gracefully took up the task of supervising me mid-way through the PhD, and always provided relevant and helpful feedback. I sincerely thank both of them.

Special thanks are due to my great mentor, Waltraud Schelkle, without whom I would still be dreaming about doing research. Waltraud introduced me to political economy in the first place, and then told me that I could contribute something to it. She provided continuous feedback before and during the process, for which I am eternally grateful.

Nathalie Morel and Michaël Zemmour, my co-authors from the fabulous "Transpo" team at Sciences Po Paris, got me excited about fiscal welfare. They enthusiastically supported my PhD project from the start, and commented at various stages. Bruno Palier tried to warn me about the risks to ones' sanity inherent in such an enterprise, and when I didn't listen he wholeheartedly supported me as well. Many thanks to all three of you.

Fran Bennett very kindly opened her personal archives to me and commented on my work at various stages. Julia Lynch, Jacquelyn Pleiss, Linus Mattauch, Jonathan Hopkins, Margarita Gelepithis, Niccolo Durazzi and Thees Spreckelsen commented on various chapters. Comments and encouragements from Jane Gingrich and Marek Naczyk were also of tremendous help.

This thesis would not exist if my interviewees had not taken the time to answer my obsessive questions about tax credits. I am also very thankful to the archivists who assisted me in my searches, and to members of the EUROMOD team in ISER who answered my questions. Finally, I would like to thank the Clarendon Fund, the Economic and Social Research Council and New College, Oxford, for their generous support. The Institute for New Economic Thinking at Oxford also provided material support.

My friends and colleagues at INET and DSPI brought joy to my daily PhD-ing. Special thanks are due to Stefan, Marii, Max, Andrea, Roosa and Tahnee. In the last year, I could also count on the support and understanding of colleagues at the OECD. Andrea Garnero, read and carefully commented several chapters, and more generally helped me to get through this year. I cannot thank him enough for that.

At times when I wondered why I had embarked on that journey, I reminded myself of the beautiful friendships that have blossomed during my time in Oxford. Meeting Cristina, Pepita, Tine, Alice and Peanut made it all worthwhile. I am also very grateful that I crossed paths with Thais Roque and Christopher Smart, my accomplices at Oxford Students Refugee Campaign.

I am extremely thankful to my parents, Catherine and Philippe, and my two sisters, Roxane and Emma for their constant encouragements, and for their indefectible love. I look forward to not complaining about my thesis to them!

Finally, none of this would ever have happened without Edouard, my best friend and partner for the last eleven years. Edouard shares my life, and my brain - he is present in every page of this volume. He followed me on this adventure, through the good times and the bad, with unwavering love. I am grateful to him in a way that cannot be properly told.

In the time that I took to write this thesis, loved ones have passed, and have been born. This thesis is dedicated to Simone, Tamaris and Eloïs - his mischievous smile is a wonderful reminder of all that's beautiful in life.

Table of contents

Chapter 1 - Introduction: understanding the ins and outs of the turn to fiscal welfare for low-income groups in the 2000s.....	11
1. Exploring uncharted territory: the Left's use of fiscal welfare to expand support for low-income groups is an unexplained phenomenon.....	13
2. What drove left-wing governments in France and Britain to use fiscal welfare to support low-income groups in the early 2000s?.....	22
3. Understanding the "outs": is taking less the same as giving more? Effects of the turn to fiscal welfare on attitudes to redistribution and social policy preferences.....	37
4. Outline of the thesis and narrative preview.....	41
Chapter 2 - Fiscal welfare for low-income groups in Europe: sizing up the phenomenon.....	51
1. Fiscal welfare for low-income groups: concepts and definitions.....	52
2. Measuring and comparing fiscal welfare: methodological challenges.....	60
3. Generating comparable data using micro-simulation.....	67
4. Fiscal welfare for low-income groups in France and the UK: a focus on the Prime Pour l'Emploi, Working Tax Credit and Child Tax Credit.....	93
5. Conclusion.....	108
Chapter 3 - Supporting modest incomes at the turn of the 21st century: the Left's experiment with negative expansion.....	113
1. The Left's turn to fiscal welfare for low-income groups in the 2000s cannot be satisfactorily explained by explanations in the literature.....	114
2. Taking less rather than giving more: fiscal welfare and the Left's experiment with negative welfare expansion in the 2000s.....	137
Chapter 4 - Making welfare respectable in the UK: fiscal welfare as blame-avoiding negative expansion.....	145
1. The British tax credits: a new means of supporting low-income groups.....	146
2. New Labour's main electoral goal: rallying middle-class and "aspirational" voters.....	149
3. Electoral strategy meets policymaking: constraints driving New Labour's actions.....	154
4. A respectable form of income support: negative expansion through fiscal welfare allowed the reconciliation of strategic constraints with substantive goals.....	160

5. Accommodating changing preferences? Locating the source of the change of welfare expansion logic.....	173
6. Back to benefits: making sense of the downfall of the tax credits.....	180
7. Conclusion: The British tax credits as a product of New Labour's strategy of blame-avoiding negative expansion.....	192
Chapter 5 - Supporting modest workers through fiscal welfare in France: a case of credit-claiming negative expansion.....	197
1. The Prime pour l'Emploi: a policy to support "modest workers".....	200
2. Socialist policymaking in France at the turn of the century: a tale of three main constraints.....	208
3. Credit-claiming negative expansion: how the French Left came to embrace negative expansion through fiscal welfare.....	221
4. Back to benefits: the waning attractiveness of negative expansion.....	238
5. Conclusion: credit-claiming negative expansion as an oxymoron?.....	252
Chapter 6 - Is taking less the same as giving more? The British tax credits, welfare attitudes, and social policy preferences.....	257
1. The link between policies, attitudes and policy preferences: a literature review.....	259
2. How might the turn to fiscal welfare in the UK have affected welfare attitudes and preferences for social policy?.....	262
3. Effect of the change of instrument on distributive welfare attitudes.....	265
4. Effect of the change of instrument on recipients' policy preferences.....	285
5. Conclusion.....	293
Chapter 7 - Negative expansion through fiscal welfare: implications for the political economy of (social) policymaking.....	297
1. Fiscal welfare for low-income groups: what is it, why was it used in France and the UK, and how did it affect attitudes to redistribution in Britain?...	301
2. Negative expansion: a new perspective on what's left of the Left since the 2000s.....	313
3. Understanding the construction of man-made policies: lessons from the turn to fiscal welfare for low-income groups in France and the UK.....	319
Bibliography.....	327
Appendices.....	352

List of Tables

Table 1.1: Case selection logic: maximising diversity of usual political economy determinants

Table 1.2: Case selection logic: maximising diversity with regards to drivers in the American case

Table 1.3: Summary list of interview partners

Table 6.1: Expected effect of the turn to tax credits on distributive welfare attitudes

Table 6.2: Effect of the change of instrument on distributive attitudes: "Many people receive welfare who don't really deserve any help"

Table 6.3: Effect of receiving tax credits on support for the tax credits: "Should the government top-up the wages of couples with children working on low wages?"

Table 6.4: Effect of receiving tax credits on support for the tax credits: "Should the government top-up the wages of couples with no children working on low wages?"

Table 6.5: Effect of receiving tax credits on support for the tax credits - results by year: "Should the government top-up the wages of couples with children working on low wages?"

Table 6.6: Effect of receiving Child Benefit on support for additional spending on Child Benefit

Table 6.7: Effects of receiving tax credits on support for an equivalent benefit: "Are you in favour of more or less government spending than now on benefits for parents who work on very low incomes?"

List of Figures

Figure 2.1: Social tax expenditures in OECD countries in 2011 (% of gross social spending)

Figure 2.2: Spending on tax expenditures in six OECD countries (% of GDP)

Figure 2.3: Fiscal welfare for low-income groups in Belgium: some cost estimations

Figure 2.4: Fiscal welfare for low-income groups in Finland: some cost estimations

Figure 2.5: Fiscal welfare for low-income groups in France: some cost estimations

Figure 2.6: Fiscal welfare for low-income groups in the Netherlands: some cost estimations

Figure 2.7: Fiscal welfare for low-income groups in Spain: some cost estimations

Figure 2.8: Fiscal welfare for low-income groups in the United Kingdom: some cost estimations

Figure 2.9: Who really benefits from fiscal welfare "for low-income groups"? The Belgian case

Figure 2.10: Who really benefits from fiscal welfare "for low-income groups"? The Finnish case

Figure 2.11: Who really benefits from fiscal welfare "for low-income groups"? The French case

Figure 2.12: Who really benefits from fiscal welfare "for low-income groups"? The Dutch case

Figure 2.13: Who really benefits from fiscal welfare "for low-income groups"? The British case

Figure 2.14: Who really benefits from fiscal welfare "for low-income groups"? The Spanish case

Figure 2.15: The turn to fiscal welfare (and back) in the United Kingdom

Figure 2.16: The British tax credits, evolution of cost, number of recipients, and generosity

Figure 2.17: WTC entitlements (%) by deciles of disposable household income (2008)

Figure 2.18: CTC entitlements (%) by deciles of disposable household income (2008)

Figure 2.19: The *Prime Pour l'Emploi*: evolution of cost, number of recipients, and generosity

Figure 2.20: Entitlements to PPE by income deciles (2007)

Figure 4.1: Perceived deservingness of welfare recipients, by occupation and income groups

Figure 4.2: Support for spending and taxation, by occupation and income groups

Figure 4.3: Perception of personal tax burden, by occupation and income groups

Figure 6.1: Selecting a synthetic treatment group based on the distribution of probabilities of receipt

Figure 6.2: Distribution of press articles containing tax credits keywords, 1995-2007

Figure 6.3: Evolution of average distributive attitudes in the treatment and control groups around the policy change

Figure 6.4: Evolution of distributive attitudes to welfare in the treatment and two sub- control groups around the policy change

Figure 6.5: Evolution of distributive attitudes to welfare (1987-2016)

List of Appendices

Appendix A: archival references

Appendix B: precise list of archives visited

Appendix C: interview references

Appendix D: full list of interviews conducted

Appendix E: template interview script

Appendix F: Fiscal welfare for low-income groups in a selection of countries covered by Euromod

Appendix G: Evolution of Tax Credit Rates, 2003-2015

Appendix H: The EITC: legislative history and evolution of cost

Appendix I: control variables coding in Chapter 6

Appendix J: description of benefits used in coding the variable "receive at least on benefit" in Chapter 6

Chapter 1 - Introduction:

understanding the ins and outs of the turn to fiscal welfare for low-income groups in the 2000s

This thesis studies a particular instance of social policy change: the introduction, by several left-wing governments in Europe, of fiscal welfare to support low-income groups in the early 2000s.

Fiscal welfare consists of the various provisions of the tax code that are fulfilling a welfare policy goal. It encompasses a variety of instruments, including tax credits, tax deductions or allowances, or reduced rates of taxation for certain groups of taxpayers. In the literature, these are often described as inherently regressive, and "hidden". By contrast, this thesis finds that neither regressivity nor invisibility are inherent characteristics of fiscal welfare. The true distinctive feature of fiscal welfare compared to traditional welfare is the *higher degree of presentational freedom* attached to it¹. Fiscal welfare can be designed to generate a progressive impact, and it can be made highly visible. The one thing that truly sets it apart from traditional forms of welfare is that by contrast with the latter, which have clear budgetary lines and dedicated administrations, fiscal welfare *can* be, among other things, hidden. In other words, fiscal welfare can be *presented* in different ways, while the presentational freedom of traditional welfare is limited.

Within the realm of fiscal welfare, one sub-group of policies is particularly understudied: fiscal welfare designed to benefit low-income groups. Tax-based

¹ See section 1.4 in Chapter 2 for a more detailed discussion. The distinction between visibility and presentational freedom is further discussed in section 4.1.1 in Chapter 4.

schemes targeting low-income groups were introduced in several European countries in the late 1990s / early 2000s. This was in contrast to traditional forms of income-support, usually in the form of social policy *benefits*. The politics of these traditional means of income-support are well-covered in the literature. By contrast, the use of the tax system as an income-support device has not been the object of much research. In other words, fiscal welfare for low-income groups is a policy instrument that is both unusual in the realm of low-income support, and understudied.

This thesis analyses the ins and outs of a particular episode of social policy, namely the introduction of fiscal welfare by left-wing governments in France and the United Kingdom. In France, the Prime Pour l'Emploi (PPE) benefiting modest workers was introduced in 2001, while the Working Families Tax Credit, targeting low-income workers and families was introduced in 2000. This thesis aims to uncover the drivers of the Left's turn to fiscal welfare to support low-income groups in France and the UK at the turn of the 21st century. It also aims to assess whether and how the change of instrument triggered a different politics than that attached to traditional income-support benefits. A summary of the thesis's narrative is included in section 4 of the present chapter.

These particular episodes of social policy innovation are worth-studying in themselves: the French and British tax credits were important tools of redistribution, which haven't received the academic interest that they deserve. Studying these cases addresses issues of general public significance, as it allows gaining insights about the constraints and incentives that hinder and favour redistribution towards low-income groups. Further, these cases are also useful in probing broader mechanisms of social policy change. Understanding the

drivers behind these policies and the way they played out helps adding to knowledge about the dynamics and feedbacks through which social policy evolves.

This thesis argues that the introduction of fiscal welfare for low-income groups by left-wing governments in the 2000s corresponded to the latter's adoption of a logic of *negative expansion*. The Left in the 2000s established a functional equivalence between traditional forms of income-support, *giving more* to low-income individuals, and policies designed to *take less* from them. Negative expansion was considered helpful in bypassing some of the constraints perceived as preventing the use of traditional income-support schemes at the time. However, this thesis shows that taking less was not the same as giving more when it comes to the formation of policy preferences and attitudes to redistribution. Over time, policies implementing a negative expansion risk shifting the balance of preferences away from income-support.

1. Exploring uncharted territory: the Left's use of fiscal welfare to expand support for low-income groups is an unexplained phenomenon

The literature on fiscal welfare in general is scarce. When it comes to fiscal welfare for low-income groups, it is almost non-existent. The data available to quantify the extent of the phenomenon is similarly very limited. The rare studies of fiscal welfare for low-income groups are almost exclusively of the American case. They focus on a tax credit called the Earned Income Tax Credit (EITC), which targets low-income workers in the United States. Only a few studies focus on the British tax credits with the aim of explaining the drivers of the change of instruments, and none look at the French PPE. Existing studies concentrate on the effect, either on poverty or on work incentives, of these

schemes. In other words, this episode of social policy in Europe remains relatively unexplored: there are no obvious theories about why a government would resort to fiscal welfare for low-income groups, beyond those developed for the American case and potentially idiosyncratic to it.

Some existing literature can nonetheless be helpful to the analysis. For starters, the literature on fiscal welfare in general, and in particular the few existing studies considering fiscal welfare from a welfare development perspective, can be mobilised. We can also review the American scholarship on the EITC to look for the drivers identified there. In addition, the literature on the transformation of left-wing parties in the 2000s, as well as studies of trends in income-support policies at that time, might also contain helpful insights. Below we briefly review these literatures to identify existing potential explanations of the phenomenon under study. The ability of these explanations to account for policy developments in France and the UK will be assessed systematically in Chapter 3.

1.1 Fiscal welfare in the welfare development literature

The social policy literature on fiscal welfare in general is largely descriptive². It tends to characterise fiscal welfare instruments as benefiting mostly middle- and high-income groups. In addition, fiscal welfare is often described as an instrument favoured by conservatives, or by advocates of small-government approaches.

Within this literature, a subset of authors does analyse fiscal welfare in a welfare development perspective. In particular, authors have considered the role of

² This descriptive literature is reviewed in more detail in Chapter 2, which discusses conceptual and measurement issues around fiscal welfare.

fiscal welfare in the development of American social policy (Hacker, 2002, 2004; Howard, 2007, 1997; Mettler, 2011). Authors in this literature tend to consider the use of fiscal welfare as a long-standing, path-dependent idiosyncrasy of the American welfare state. This specificity is explained as the product of two main factors.

First, the "conservative public philosophy" prevalent in the US (Mettler, 2011, p. 16; Hacker, 2002) is identified as preventing the development of traditional forms of welfare. This argument is sometimes extended beyond the US case to explain the recourse to tax instruments in "liberal welfare states" (Esping-Andersen, 1990) characterised by welfare residualism and an anti-spending philosophy (Adema et al., 2014; Castles, 1989; Faricy, 2011; King, 1984; Mann, 2009; Martin, 2015; McCabe, 2018; Sinfield, 1978; Stebbing and Spies-Butcher, 2010). Tax instruments are identified as less contentious than direct spending instruments in these contexts. They are also described as useful to bypass rules of budgetary surveillance (McCabe, 2016; Stebbing and Spies-Butcher, 2010, p. 593; Toder, 1999, p. 5). In that sense fiscal welfare is seen as characteristic of social policymaking at times where public spending is tightly controlled (Morel et al., 2018a).

Second, fiscal welfare is also described as resulting from strategies of "hidden retrenchment". According to these theories, conservative politicians, faced with the popularity of existing welfare programs, which prevents outright cuts, would opt for hidden retrenchment, i.e. the progressive replacement of "embedded policy commitments" that cannot be suppressed upfront with policies more aligned with their programmatic preferences (Hacker, 2004, p. 243). Among those policies serving a long-term retrenchment goal, authors identify *tax*

expenditures with social welfare purposes", and "regulatory and tax policies governing privately provided social welfare benefits" (Hacker, 2004, p. 245). These policy instruments, once they have replaced traditional social policy benefits, would be easier to quietly reduce in the long term because they are less transparent and widely understood.

According to those narratives, therefore, fiscal welfare develops either in environments that are hostile to traditional social welfare, or as a way for conservatives to curb the development of the latter. Studies of fiscal welfare instruments introduced by left-wing actors, outside of liberal welfare contexts, are largely missing from that literature.

1.2 Drivers behind the recourse to fiscal welfare in the case of the American Earned Income Tax Credit

Although the scholarship on fiscal welfare *for low-income groups* is even more limited than that on fiscal welfare generally, the case of the American Earned Income Tax Credit (EITC) stands out as an exception that has been the object of some studies. The EITC is a refundable tax credit for low-paid workers, with the amount varying with family structure and earnings level (a more detailed description is given in Chapter 3). Different drivers of the recourse to fiscal welfare in the case of the EITC are identified in the literature. Some are institutional determinants. The recourse to fiscal welfare is linked to the historical strength of welfare residualism in the United States. It is also linked to the presence of institutional gridlocks - for instance to the fact that the rules of law-making in Congress mean that passing a tax law is easier than passing a social policy law, because the number of veto powers involved is lower (Dharmapala, 1999; Howard, 1997; Mettler, 2011). Finally, it is described as

resulting from political gridlocks - when cross-partisan consensus is necessary to pass legislations (Faricy, 2011; Weisbach and Nussim, 2004).

Other determinants of the use of fiscal welfare identified in the literature on the EITC leave a larger role to the agency of partisan actors. In particular, the EITC is seen as electorally relevant from the perspective of both left-wing and right-wing actors, as a way of "uniting the interests" of voters from different income brackets. Stebbing and Spies-Butcher (2010, p. 599) see it as a way of building a coalition of "middle and higher income earners", while Faricy (2016, p. 116) argues that using fiscal welfare is a way for both the Right and the Left to channel resources towards particular subgroups of voters (either the very rich or the very poor) in a discrete manner. Increases in the EITC in the 1990s are notably analysed as New Democrats' means of channelling money towards low-income workers at a time when their official electoral strategy consisted rather in attracting "mainstream voters" (Hacker, 2002, p. 275; Howard, 1997, p. 151).

These explanations are exclusively built on studies of the American case.

While some of them could potentially travel to other contexts, and their potential influence elsewhere has sometimes been noted - see for example Clegg (2015) on the UK - their relevance outside of the US has not been systematically tested. While there are explanations for why the Democrats used fiscal welfare to benefit low-income groups in the US, the issue of why the French socialists and New Labour also did remains largely unexplored.

1.3 The transformation of social-democratic parties in the 1990s

The policy episode at the heart of this thesis saw the French and British Left turn to fiscal welfare to support low-income groups at the turn of the century. While the scholarship on fiscal welfare itself is limited, our understanding of

this phenomenon could also be enhanced by studies of the transformation of the Left at that time.

This issue is the object of a much larger literature. The common denominator between most existing studies is the acknowledgement of a movement of the Left away from redistributive issues, towards more post-materialist concerns. Independently of the analytical approach adopted, authors in this literature overwhelmingly agree that the Left in the late 1990s renounced their traditional policy goal of supporting low-income groups through the welfare state. Social-democratic parties at that time are seen as having evolved from parties primarily catering to a working-class, low-income constituency, to parties centred on the needs of middle-class voters, as demographic evolution translated into the increasing influence of the middle-class as a reservoir of votes.

Some authors argue that this evolution was the unavoidable consequence of a series of exogenous socio-economic transformations, and in particular of globalisation (Mishra, 1999). According to this view, increasing competitive pressures led the Left to abandon expansionary welfare policies, and to move away from "passive" policies "compensating" poverty towards *activation* policies, aimed at preventing its cause, mainly through fighting unemployment (Glyn, 2001; Bonoli, 2010). In terms of social policy reform, globalisation is described as having generated a "race to the bottom of welfare retrenchment" (Fleckenstein, 2011, p. 7).

Other authors analyse the transformation of the Left away from distributive issues as a product of politicians' rational adjustment to social and demographic transformations. In this version of the story, the programmatic transformation of social-democratic parties was a response to the declining electoral weight of

the working class compared with the rising middle-class, whose loyalty was up for grabs (Mair et al., 2004, p. 3). These demographic changes would have induced a "shift in the political economy structure faced by social democratic parties" (Bailey, 2009, p. 14), leading them to adapt their programmatic appeals to chase middle-class voters. These voters are described as more individualistic than the Left's traditional electorate and concerned with post-materialist issues (Giddens, 1998; Kitschelt, 1994; Klitgaard, 2007; Pontusson, 1995). As their growing size rendered them unavoidable to form any winning coalition, the Left "moved beyond the arena of resource distribution" to address these voters' concerns in the area of the "physical and social organisation of production and the cultural conditions of consumption" (Kitschelt, 1994, p. 3).

Yet another narrative of the Left's transformation at the turn of the century emphasises the importance of left-wing actors' progressive internalisation of "perceived international economic constraints" (Bailey, 2009, p. 14), ultimately leading to their ideational convergence with the Right. For some, this ideational convergence would be the product of intentional lobbying from ideologically-committed actors within left-wing parties (Amable and Palombarini, 2017; Hay, 1999; Watson and Hay, 2003). Other insist on the effect of learning and policy diffusion mechanisms (Fleckenstein, 2011).

Whatever the mechanism identified, a common feature emerges from the various narratives reviewed above: namely, that the Left in the 1990s decidedly moved away from redistributive policies benefiting low-income groups. In that sense, this scholarship is missing an explanation for the policy developments under study in this thesis, which are examples of substantial *expansions* of welfare towards low-income groups, albeit in the form of fiscal welfare.

1.4 Trends in income-support policies at the turn of the century

Finally, since this thesis aims to explain a particular episode in the history of low-income support, it is worth surveying accounts reviewing trends in income-support policies in the 1990s and 2000s, to check whether this particular phenomenon can be explained as part of the larger trends characterising the field at the time.

First, the end of the 1990s was characterised by growing concerns with the issue of in-work poverty. As a result, policy debates at the time resonated with calls to "make work pay". Second, debates at the time also emphasised the need for labour cost containment, to prevent the pricing out of low-skilled workers from employment. This meant that ideal solutions to the issue of in-work poverty were *non-wage* forms of income boost for low-income workers. Third, growing concerns with the cost of mature social security systems (Weishaupt, 2011) led to the development of the activation paradigm, or the idea that, rather than redistribution, *work* was the best way out of poverty. Rather than passively addressing the symptoms of poverty through redistribution, governments should *activate* the poor into employment, thereby lifting them out of poverty. Hence the period saw the multiplication of policies designed to incentivise individuals to take up work - see e.g. OECD (1999).

Combined together, these trends constitute powerful explanation for why *wage top-ups* for low-paid workers became particularly fashionable in the late 1990s and early 2000s. Such top-ups could boost the income of low-paid workers without increasing labour cost. They could be tapered away progressively to preserve incentives to work, in accordance with the activation paradigm. Such

in-work income-support schemes were ideal policy solutions in the context of the late 1990s (Marx et al., 2017; Marx and Marchal, 2017; OECD, 1997).

In-work tax credits are a sub-set of that larger group of policy instruments. The literature on trends in income-support policies at that time does contain explanations for why the larger category of in-work income-support schemes became popular in the 2000s. However, it remains unclear why government would opt for the *fiscal welfare* version of in-work income-support, rather than use existing traditional welfare instruments. There is no obvious advantage to using fiscal welfare rather than traditional welfare to top-up the wages of low-paid workers. In-work income-support was already present in many countries, notably in the form of in-work income-support benefits.

In addition, examples of fiscal welfare for low-income groups are not all conditional on employment. The shift to "work-based welfare conditionality" (Watson, 2015, p. 646) is identified by some authors as "a necessary element of the 21st-century 'active' world of welfare", "openly endorsed by politicians (...) from across the mainstream political spectrum including the centre-left" (Dwyer, 2008, p. 213). However, while fiscal welfare for low-income groups are often conditional on employment, or on the presence of children, that is not always the case (see Chapter 2). Furthermore, conditionality is ill-suited to explain a sudden change of instrument in the 2000s because it did not appear then (Clasen and Clegg, 2007) - if anything, conditionality is a continuous trait between social policy in the 1980s and in the 1990s (Dwyer, 2008). Conditionality is driven by mechanisms that do not change much over time. It finds its root in perceptions of deservingness attached to particular constituencies. The socio-psychological roots of deservingness are remarkably

constant over time and across contexts (Oorschot, 2016, p. 37). There were no sudden changes in perceptions of deservingness among voters, which could explain the sudden change of policy instrument as a means of adapting conditionality to the new deservingness ranking.

In other words, whether considering the use of wage top-ups, or conditionality, the choice of policy instruments did not correspond to the zeitgeist in income-support policy at the time in some simple and obvious way: it remains to be explained.

2. What drove left-wing governments in France and Britain to use fiscal welfare to support low-income groups in the early 2000s?

2.1 Research question

The above survey of the various scholarships that could inform our understanding of the Left's turn to fiscal welfare for low-income groups in the 2000s in France and the UK revealed that these policy episodes represent uncharted territory in the literature. Instances of fiscal welfare for low-income groups introduced by left-wing governments for expansion purposes are a blind spot in the welfare development literature and are absent in the comparative welfare literature. These policy episodes in France and the UK also do not fit comfortably within accounts of the Left's programmatic transformation at the time, which mostly emphasise social democrats' programmatic drift away from redistributive policies. Drivers of the particular choice of fiscal welfare instruments rather than traditional social welfare instruments in these two instances do not feature in the story of income-support at the turn of the century collectively written so far.

Having identified these gaps, this thesis aims to fill them by answering the following research question: **why did left-wing governments turn to fiscal welfare to support low-income groups in the 2000s?**

This is a novel question. As demonstrated above, answering it will contribute to various literatures and is therefore highly relevant from an academic perspective. Furthermore, this question is relevant beyond academic interest because it addresses issues of general public significance. Exploring the drivers behind the choice of a policy instrument benefiting low-income groups provides insights into the politics of low-income support. Through understanding why politicians decide to address this particular constituency in this particular manner, this thesis helps to map out the shifting structure of constraints and incentives that affect redistribution towards low-income groups, hindering it or instead making it possible. Going beyond macro-perspectives on variation in redistribution, emphasizing the role of institutional path-dependencies and of structural constraints, it delves into a particular instance of change in the *form* of redistribution towards low-income groups, to unveil some of the finer mechanisms underpinning the drivers and obstacles of collective support towards disadvantaged groups in society.

2.2 Research design

2.2.1 Analytical strategy: parallel case studies of France and the United Kingdom

The research question spelt out above cannot be answered using a large-N probabilistic logic of inference. There are two main reasons for this. First, since the question is related to a localised episode of social policy, the number of cases in the universe is too small to lend itself to the exercise of statistically estimating an average effect across multiple cases. Second, identifying the

determinants of the choice of a particular policy instrument implies uncovering causal mechanisms and grasping "the how of cause", beyond co-variation (Trampusch and Palier, 2016, p. 448). In other words, small-N qualitative research techniques are better suited to the task at hand.

As explained above, fiscal welfare for low-income groups has primarily been studied as an American phenomenon. However, instances of the phenomenon exist outside of the United States, in a diversity of institutional contexts. For instance, according to Organisation for Economic Cooperation and Development (OECD) data, examples of policies directly resembling the Earned Income Tax Credit were present in a variety of countries in 2005, including Belgium, Canada (Québec), France, the Netherlands, New Zealand, and the United Kingdom (OECD, 2005). Furthermore, refundable tax credits³ specifically targeting low-income workers only constitute a small subpart of fiscal welfare for low-income groups. To bring this out, Chapter 2 presents and discusses novel data on the size of fiscal welfare for low-income groups in six European countries. Beyond tax credits targeting low-income workers, it contains numerous examples of fiscal welfare benefiting low-income families with children, low-income pensioners, disabled individuals or students, as well as the unemployed, in a variety of formats (reduced tax rates, exemption of social security contributions, etc.)

Several of the schemes benefiting low-income families and workers were introduced in the 2000s by left-wing governments. These separate instances of left-wing parties turning to fiscal welfare to support low-income groups in the

³ Refundable tax credits are also called "non wastable": if the amount of the tax credit exceeds tax liability, the surplus is paid out to the taxpayer by the tax administration.

same time period could potentially be characteristic of a common cross-country phenomenon. Because of this, one might be tempted to use cross-cases comparison to identify potential common drivers across cases characterised by the common outcome of interest. However, the inference logic characteristic of comparative research - best captured in Mill's "method of differences", based on the comparison of similar cases differing only in terms of the outcome of interest manifesting or not (Lijphart, 1971, p. 687) - is not ideally suited to identifying the causes of a *common* outcome across *different* cases. Indeed, while the comparative method is well-suited to explaining variation of outcomes, when it comes to explaining the presence of a common outcome across cases, the possibility that ad hoc combinations of factors in different cases lead to a similar outcome across cases cannot be entirely eliminated. Even when most-different cases research designs (Ebbinghaus, 2005; Przeworski and Teune, 1970) are carefully conceived to maximise the variation between cases on as many potential explanatory dimensions as possible, the possibility that causal chains differ between cases can never be fully neutralised.

In other words, the research question above can neither be answered using a statistical inference logic, nor can it be adequately tackled through a comparative logic of research. Rather, the best way to address it is through individual case studies to arrive at a "causal interpretation" (Trampusch and Palier, 2016, p. 450) of the change of policy instrument in individual contexts. Process tracing through "close-up qualitative analysis within single cases" (idem, p. 439) is best adapted to the task of understanding how the choice of a particular policy design came to be made. This approach is typically mobilised in empirical analyses of decision making, "including the analysis of leaders'

perceptions, judgments, preferences, internal decision-making environment, and choices" (Levy, 2008, p. 11; Brady et al., 2004, p. 12). It is a means of explaining individual and collective decision-making processes through "uncovering the stimuli of decision-making and the 'effects of various institutional arrangements on attention, processing, and behaviour'" - George and McKeown cited in Trampusch and Palier (2016, p. 438).

In particular, process tracing in its probabilistic version (Falleti, 2016) - as opposed to the deterministic one, e.g. as a method allowing for causal interpretation under certain scope conditions, without the assumption "that the same mechanism always produces the same outcome" (Trampusch and Palier, 2016, p. 439) - is particularly well suited to answer the present research question. Indeed, as explained above, this thesis seeks to understand the drivers of a particular, localised episode of social policy. Both temporal and geographical scope conditions are likely to apply, and can certainly not be assumed away from the outset.

We therefore approach the present research question through a historical approach, with the aim of reconstituting the sequence of events that led to the change of instruments, "uncovering and specifying" (Trampusch and Palier, 2016, p. 439) the causal mechanisms that led left-wing government to turn to fiscal welfare for income-support purposes. In that sense, we make an inductive use of process tracing, aimed at building a theory accounting for an as-yet unexplained phenomenon (Falleti, 2016).

In doing so, looking at several cases in which the outcome of interest manifested itself is a helpful exercise. Conducting several case studies in parallel will also allow us to test the external validity of explanations developed in the

American case in a more robust manner. More importantly, while the logic of comparison cannot be mobilised for inference purposes and to "simulate experiment", it can serve the function of "stimulating imagination" (Stretton, 1969, pp. 246-247). The parallel in-depth study of individual cases can help identify potentially relevant common combinations of factors in the mass of data collected to reconstruct the historical process of decision-making; cases can inform each other, and provide immediate tests for the external validity of causal mechanisms emerging in other contexts. In that sense, parallel case studies are a means of generating theoretical propositions which could potentially be generalised beyond the data (Levy, 2008, pp. 5-6). This approach allows one to build empirically grounded arguments answering the question in each particular case, and, if relevant, to volunteer an overarching theory potentially applicable to the phenomenon beyond those individual cases. Such theory is then amenable to being tested and challenged by other researchers in the future.

2.2.2 Case selection

Because case comparison is not used for inference purposes, the process of case selection does not have to be based on the presence or absence of particular explanatory variables. Similarly, usual concerns about "selecting on the dependent variable" (Levy, 2008, p. 8) are irrelevant in the case at hand: in order to generate explanations for why left-wing governments turned to fiscal welfare to support low-income groups at the end of the 1990s, case studies *should* be instances where the Left *did* turn to fiscal welfare for low-income groups.

However, keeping in mind the objective of building an empirically grounded argument potentially stretching beyond the cases studied, it makes sense to adopt "diverse cases" research design: indeed, such designs allow for "stronger claims to representativeness than any other small-N sample" (Seawright and Gerring, 2008, p. 301). Cases selected should also ideally represent a diversity of institutional and political settings and traditional political economy models, e.g. transcending welfare regime (Esping-Andersen, 1990) and varieties of capitalism (Hall and Soskice, 2001) differentiations.

In addition, since the only existing theories related to fiscal welfare for low-income groups are based on the American case, it also makes sense to use this literature as a guide in selecting cases. In particular, it is useful to follow a most likely / least likely case selection logic, choosing cases with extreme values on independent variables that are relevant according to that literature. Explanations for why the American Left embraced the EITC to support low-income workers in the 1990s largely revolve around the nature of the transformation of the Democratic Party into the "New Democrats" under Bill Clinton, that is typical of the movement towards the foundation of a "third-way" Left at that time (Giddens, 1998). The choice of "most likely" and "least likely" cases could therefore be based on left-wing parties' proximity to that "third-way" movement, and comparability with the New Democrats. Indeed, from the outset, American-based explanations are most likely to travel to a context where left-wing actors are similar to the New Democrats, and least likely to apply in cases where partisan actors are very different from them.

The analytical approach adopted here implies engaging in close-up, detailed analyses with enough longitudinal depth to be able to reconstruct the chain of

causality leading to the change of instruments in particular contexts. Such a fine-grained approach, while necessary to understand the finer mechanisms of a transformation as subtle as a change of policy instrument, is very time consuming. It requires amassing a large quantity of detailed information, across different sources. Considering the finite amount of time available to conduct this research - and the fact that this thesis also considers an additional, follow-up research question (see *infra*), the analysis is therefore limited to two in-depth parallel case studies.

Following these principles, we select the following two cases:

1. The United Kingdom

The British case constitutes a most likely case. There, fiscal welfare for low-income groups was introduced by the first New Labour government, initially in the form of the Working Families' Tax Credit (WFTC) in 2000, later replaced with the Working Tax Credit (WTC) and Child Tax Credit (CTC) in 2003. The WFTC replaced an existing benefit, Family Credit. It was substantially more generous, and covered a larger number of beneficiaries.

This policy episode constitutes an ideal "most likely case" as defined above, because New Labour is often described as the epitome of the third-way Left. In addition, it is similar to the New Democrats. There are numerous accounts of policy diffusion between Clinton's New Democrats and Blair's New Labour in the period of interest - see e.g. Dolowitz et al. (1999), Peck and Theodore (2001).

2. France

By contrast, the French case constitutes a least likely case. The French version of fiscal welfare for low-income groups, the "Prime pour l'Emploi" (PPE), was introduced by the socialist Jospin government in 2001. It was an addition to other already existing income-support mechanisms, which also extended the pool of income-support beneficiaries.

The French socialist party constitutes a good contrast to New Labour. It is largely portrayed as a counter-example to the wave of third-wayism that swept the Left in advanced political economies at the turn of the century - see e.g. Clasen and Clegg (2003, p. 364). It is not generally associated with Clinton's New Democrats or the third way Left in the literature, and is rather described as a beacon of "neo-Keynesianism" in the left-wing landscape in Europe (Clift, 2002; Cole, 2002).

In addition, these cases satisfy the "diversity" objective laid out above. The two cases differ in terms of welfare regime, variety of capitalism, electoral system, and partisan system (see Table 1.1 below). In addition, as shown in Table 1.2, the parallel investigation of these two cases also ensures variation on some of the relevant independent variables identified as important in case studies of the EITC (independently of the government being left- or right-wing). First, the two cases differ in terms of their association with welfare residualism. The UK is commonly associated with the US as an Anglo-liberal welfare state, characterised by a residualist philosophy of welfare. In France, by contrast, the dominant logic is one of contribution and entitlement. The probability of political gridlock also varies across cases. Because of the majoritarian two-ballot electoral system in France, parties have an incentive to regroup forces in two

separate camps in the second round of the election; this means that they might need to form cross-party alliances. By contrast, in the UK, the first-past-the-post electoral system usually translates into strong majorities, with the ruling party governing on its own without having to compromise⁴. Therefore, looking at these two countries will help in assessing the analytical bite of these explanations in other contexts.

**Table 1.1: Case selection logic:
maximising diversity of usual political economy determinants**

"Usual suspects" in the political economy literature	British case	French case
Welfare regime	"Liberal"	"Continental" or "Southern" depending on typologies
Variety of capitalism	Liberal Market Economy	Mixed Market Economy
Electoral system	First-past-the-post	2-round majoritarian
Partisan system	Bi-partisan	Bi-polar multi-partisan

Finally, an additional benefit of looking at the French and British cases together is that the turn to fiscal welfare in the early 2000s was later reversed in the 2010s, as governments moved back to using traditional benefits to support low-income groups in both contexts. This reversal, which materialises an end to the policy episode, adds a temporal dimension which can helpfully be mobilised to specify the causal mechanisms that led to the change of instrument in the first place. Indeed, knowing *when* the determinants of the original turn stopped to be decisive for the choice of instrument can help us to identify what these determinants were in the first place, and how they influenced the decision-making process.

⁴ Although there are very rare exceptions, e.g. the formation of a coalition government between the Conservatives and the Liberal-Democrats following the 2010 General Election.

Table 1.2: Case selection logic: maximising diversity with regards to drivers in the American case

Drivers of the use of the American EITC	Theoretical priors re. ability to explain:	
	British case	French case
Welfare residualism	Likely	Least likely
Political gridlock (need to reach cross-party compromise)	Least likely	Likely
Influence of partisan actors typical of the "Third way Left"	Most likely	Least likely

2.2.3 Data collection strategy

In accordance with the analytical strategy laid out above, this thesis implements a comprehensive data collection strategy. In order to ensure the rigorous triangulation of the information collected, it mobilises three different type of sources. This is done across the duration of the policy episode, from the original turn to fiscal welfare, to the turn back to benefits - albeit in a more exhaustive manner for the period of the initial change of instrument.

First, the analysis is based on a thorough document analysis. Available secondary literature on each case, across disciplinary strands (e.g. across the economics, political science, social policy, and sociology literatures) is systematically reviewed. This is accompanied by a comprehensive review of the press coverage of the policy change, its implementation, later evaluations, and finally of the reversal back to benefits. Partisan and administrative documents on the new policies available online are also reviewed. Yet another source in the document analysis is government speeches introducing the change of instrument. Finally, we also consult transcripts of parliamentary debates about the introduction of the schemes.

Second, this analysis of publically available data is complemented with the collection of primary data through archival research. Partisan archives are used to collect data on partisan strategies as well as on internal debates surrounding the design and implementation of the policies. Government archives are used to gather data on the internal processes of policy design and implementation in government cabinets and in the administration. Specifically, we exploit access for the relevant periods to the archives of the Parti Socialiste and of the Labour Party, as well as to the Treasury archive in the UK, and both the Prime Minister's cabinet and Finance Minister's cabinet archives in France (precise archival references are included in appendix A and B; archival references in the text are identified by the prefix: "arch.").

The combination of secondary and primary data collected through these two strategies allows for a first cross-check of the information. Based on the mass of data collected, we establish a sketch timeline of the sequence of events that led to the turn to fiscal welfare, and we identify the main stakeholders and important turning points.

Finally, primary data is also collected through semi-structured interviews with actors involved in the decision-making process. This includes senior and junior civil servants, economic and political advisors to elected politicians, as well as ministers and elected politicians themselves. Data collected through interviews is used to verify and consolidate the information collected through document analysis and archival research, to obtain more details on the precise functioning of causal mechanisms identified through other sources, and to shed light on some aspects of the process for which no written sources were available.

Information obtained through interviews is triangulated by cross-checking the accounts of different interview partners.

30 interviews were conducted in total. A full (anonymised) list of interviewees partners is provided in appendix C. Table 1.3 provides a summary of this list. The apparent imbalance between the number of interviews in France and the UK is explained by the fact that the reversal back to benefits spanned two different governments in France. All semi-structured interviews were conducted by the author in English and French. A template interview script is included in appendix D - this template varied slightly to take into account country and time-period specificities. Interviewees were selected based on their appearance in official documents, and using snowballing - interviewees were systematically asked about recommendations for other relevant actors to approach - until saturation was reached. References to interviews in the text are coded with reference to country-cases which they informed (e.g. FR for France and UK for the United Kingdom).

Table 1.3: Summary list of interview partners

	France	United Kingdom
Politicians and advisors	9	8
Civil servants	9	4
Total	18	12

Taken together, this mass of data is used first to evaluate the external validity of explanations developed in the American literature, and to evaluate their ability to travel to the French and British contexts (this is done in the first part of Chapter 3).

Then this wealth of data is used to re-construct the historical processes of policy change in as much detail as possible, so as to allow for the identification of determinant causal chains. Doing this in the French and British cases in parallel allows to abstract from the specificities of each case to single out causal chains that might be common to both cases, and to venture into hypothesis-building, proposing an empirically informed explanation for why the Left turned to fiscal welfare in the 2000s which could travel to cases other than the French and British ones (this is done in the second part of Chapter 3).

There are some limitations attached to this data collection strategy, which should be acknowledged from the outset. First, although the strategy was geared at ensuring the comprehensiveness of data collection, exhaustiveness in this regard is out of reach. It is not possible to guarantee that the full universe of available documents was consulted. Similarly, archival research is limited by the incompleteness of archival records themselves. In France, researchers need derogations to access government archives of the last 25 years, which are not yet public. In the present case, derogations were asked and obtained on a case by case basis, through a selection based on the available list of archival records. However, these records themselves are partial: despite legal requirements for governments to transfer documents to the national archives, this is not done in a way that guarantees the completeness of government records. The archives of particular Minister's cabinets are sometimes simply missing from the records. In the UK, the Treasury archives were only accessible through a Freedom of Information request. Namely, we requested access to "any files on tax credits, in the period 1997-2002" kept in the Treasury archives. This means that we could only access the documents selected by the Treasury archival

service as corresponding to that request, without the possibility of consulting a fully detailed list of available archives. Exhaustiveness is likely to be an even bigger issue when it comes to partisan archives, which exist out of parties' own will rather than because of legal requirements. Finally, while we are confident that key stakeholders in each case were interviewed, asserting that the full set of actors involved to any degree in the policy change were consulted is also impossible. Despite this impossibility to guarantee the exhaustiveness of the data collection, the distribution of missing information across sources indicated no sign of systematic bias. The combination of various sources was a way to remedy problems of missing information in one particular source.

Second, beyond exhaustiveness, another issue has to do with the interpretation of data collected. This issue cannot be entirely tackled, although every effort was made to guarantee objectivity in the treatment of sources, notably through the use of systematic coding systems for documents and through a rigorous triangulation of information. Process tracing is by definition a method of causal interpretation: human interpretation is essential to piece together different bits of information in a coherent fashion and to reconstitute sequences of events. Issues of interpretation and potential researcher bias are particularly acute when it comes to the interpretation of interview data. In addition, interview data is also usually submitted to the double suspicion that the researcher might induce answers in interview partners, and that the latter's recollection of past events might not be valid. None of these limitations, however, are specific to this thesis's particular research design; rather, they are inherent limitations of qualitative research. Yet, as was explained above, this thesis's research question can only be answered through small-N qualitative analysis. Therefore, while

limitations must be acknowledged and, as much as possible, addressed, they must also be accepted as inherent to the task at hand.

3. Understanding the "outs": is taking less the same as giving more? Effects of the turn to fiscal welfare on attitudes to redistribution and social policy preferences

This thesis aims to arrive at an all-round understanding of the understudied phenomenon of fiscal welfare for low-income groups, and of the politics surrounding it. The issue of the *determinants* of the turn to fiscal welfare is addressed by the main research question, discussed above. In order to get a perspective of the entire policy episode, this is complemented by an additional research question looking at the *consequences* of the Left's turn to fiscal welfare for low-income groups in the 2000s. Indeed, while small transformations such as a change of instruments often remain below the radar of researchers, these seemingly small changes are likely to bear consequences for further policymaking.

As argued by Lascoumes and Le Gales (2007), the choice of a particular policy instrument contains information about the political context of policy design: it is the result of strategic arbitrations. This aspect is investigated in the main research question. But beyond reflecting choices that *have been* made, instruments are also likely to influence further policy developments. They are bearer of particular ideas and values, and as such they are likely to have a dynamic effect. For instance, the choice of a particular instrument might generate feedbacks by changing the perception of income-support, therefore affecting prevalent welfare attitudes and policy preferences. By doing this, it could affect the conditions of future policymaking.

This dynamic aspect of the turn to fiscal welfare is investigated through an additional inquiry into the effect of the change of instrument on welfare attitudes and social policy preferences. Studies of such dynamic effects are important: they allow to understand how different societies end up locked in different redistributive equilibria. In that regard, understanding the potentially unintended ways in which seemingly small institutional transformations, such as a change of policy instrument, might contribute to shifting a society's particular redistributive equilibrium, is particularly important. This additional inquiry therefore also helps fulfilling this thesis's objective of advancing the understanding of the politics of low-income support. Indeed, understanding the evolution of the incentives and hindrances characterising redistribution towards disadvantaged groups in particular contexts implies in part getting a better idea of how policy design at time T affects that distribution at $T+1$.

3.1 Brief literature review and research question: is taking less the same as giving more in terms of attitudes and preference formation?

Following this logic, this thesis complements the thorough analysis of the "ins" of the turn to fiscal welfare in the 2000s with an analysis of some of its "outs", i.e. the consequences of the turn to fiscal welfare on attitudes and policy preferences related to income support.

As in the case of the determinants of fiscal welfare, the literature on its effects on attitudes is scarce and limited to the American context. Using an experimental study design, Ellis and Faricy compared support for tax-based and traditional social policy instruments among American citizens. They concluded that "the mechanism through which social benefits are delivered matters to how much citizens support programs designed to provide such

benefits" (Faricy and Ellis, 2014, p. 21). The effect of the delivery channel on support was mediated by partisanship: the positive effect of using a tax credit was particularly strong among Republican voters. By contrast, another study using American survey data found that social tax expenditures had either no effect or a negative effect on support for government intervention and political mobilisation, while traditional benefits positively affected the two (Mettler, 2011). These results are attributed to the fact that Americans benefiting from fiscal welfare are often unaware that they are benefiting from it at all. The author concluded that because fiscal welfare fails to elicit support for public policies, its use on a large scale in the American welfare state obscures the real extent of government intervention, biasing citizens against it as they don't realise the benefits attached to it.

In the case at hand, the turn to fiscal welfare for low-income groups might therefore have affected the way in which beneficiaries perceive income-support. Further, in implementing a shift from giving more in collectively-financed benefits to low-income individuals, to taking less from them in individual taxes, the turn to fiscal might have affected attitudes to redistribution more generally.

This thesis asks how the change of instrument might have affected welfare attitudes and social policy preferences. It asks to what extent taking less from individuals might be different from "giving more" to them in benefits, when it comes to attitude formation?

3.2 Methodology: quasi-experimental analyses of British survey data

This question could be tackled through an experimental design. However, results generated in a lab would answer the question in the abstract, rather than

informing us about how things really played out, in the particular cases under scrutiny.

Therefore, we opt for a quasi-experimental research design, using survey data. As imperfect as survey data might be, it remains our best bet to understand the links between changes in policy offer and actual reactions in the mass public, following the introduction of fiscal welfare for low-income groups.

In order to best capture the effect (or absence thereof) of the change of policy instrument on attitudes to welfare and social policy preferences, a longitudinal research design is needed. Such a design, geared at comparing attitudes before and after the change of policy instrument, between a group directly exposed to the policy change and a control group who was further removed from it, is best adapted to understanding the effect of the introduction of fiscal welfare in the realm of income-support on policy preferences and welfare attitudes.

This means that answering our question requires longitudinal survey data on welfare attitudes and social policy preferences. To the author's knowledge, such data is not available in France: while the DREES Barometer (DREES, 2017) contains data on social policy preferences, it does not have the required longitudinal depth (it only goes as far back as 2001, i.e. after the turn to fiscal welfare). And while the International Social Survey Programme (ISSP)'s module on the role of government, which covers France contains an item often used by researchers as a measure of support for government preferences, this is a relatively coarse measure, unrelated to income-support in particular, which is only available for two relatively distant data points around the policy change (in 1996 and 2006). Crucially, the information contained in the ISSP and the

DREES Barometer does not allow to identify the treatment and control group with a lot of precision.

In the UK however, the British Social Attitudes Survey (BSAS) contains a wide-range of items related to welfare attitudes and policy preferences, including some directly related to income-support, and even to the particular policy under study (the British tax credits). The survey has been conducted yearly since 1983 (National Center for Social Research, 2016), making it "unique and well-suited" (Cavaillé and Trump, 2015, p. 151) for the purpose of monitoring the evolution of attitudes around the policy change, and assessing the impact of the change of instrument. Although it is cross-sectional (and not panel) data, the BSAS data is regularly used in longitudinal analyses of policy attitudes - see e.g. Georgiadis and Manning (2012), Lee and Kang (2006).

This thesis therefore uses British attitudinal survey data to assess the effect of the turn to fiscal welfare for low-income groups on welfare attitudes and social policy preferences. We use a mix of regression analysis and quasi-experimental designs to make the most of the available data. This complementary analysis in the British case contributes to deepening our understanding of the turn to fiscal welfare for low-income groups in the 2000s, and, further, of the transformations of the politics of low-income support in that period.

4. Outline of the thesis and narrative preview

This thesis is divided in 7 chapters. Chapters 2 to 6 are substantive chapters, while Chapter 7 concludes. In what follows, we outline the content of each chapter. Doing this, we present the narrative flow for the thesis as a whole, the line of argument it will develop, and the key conclusions it will present.

Before delving into the analysis of the turn to fiscal welfare in the 2000s in France and the UK, **Chapter 2** aims to precisely define the phenomenon under study and to offer a measure of its extent in a selection of European countries. It starts by reviewing the different neighbouring concepts related to the use of tax instruments for welfare purposes employed in the literature, discussing their respective boundaries and potential limitations. It then reviews existing data on the phenomenon, and discusses the methodological trade-offs and challenges arising when attempting to measure the cost of fiscal welfare.

Chapter 2 then spells out an operational definition of fiscal welfare for low-income groups. It identifies the different schemes which fall under this operational definition and constitute the perimeter of "fiscal welfare for low income groups" used in this thesis, in six different European countries representing a variety of institutional traditions and arrangements (namely Belgium, Finland, France, the Netherlands, Spain and the United Kingdom), between 2005 and 2015⁵. To generate new data on the budgetary costs and distribution of these schemes, we develop a microsimulation procedure and apply it systematically across these schemes, using the micro-simulation model EUROMOD (Institute for Social and Economic Research, 2017). Results from this exercise show that examples of fiscal welfare for low-income groups are present in all six countries, over the period analysed. Policies mainly benefit five groups of beneficiaries: low-income families with children (including lone parents), low-income workers, unemployed working-age individuals, disabled individuals, and low-income pensioners. Cost-estimations for these policies are

⁵ This period corresponds to that for which we can use the microsimulation model EUROMOD (Institute for Social and Economic Research, 2017).

commensurate with that of family benefits. An important finding concerns the redistributive effect of these schemes, as many schemes ostensibly designed to benefit low-income groups often benefit higher-income households more, relative to income.

The last section in Chapter 2 provides a detailed description of the French *Prime Pour l'Emploi* and of the British *Working Tax Credit* and *Child Tax Credit* (including data on their budgetary cost and redistributive impact). The historical evolution of fiscal welfare in these contexts is also discussed in that section.

Having clarified the definition and estimated the size of the phenomenon in a selection of countries, **Chapter 3** delves into the main task at hand, e.g. that of uncovering the drivers of the Left's turn to fiscal welfare for low-income groups in France and the United Kingdom in the 2000s. It starts by systematically assessing the validity of existing explanations, including those developed in studies of the American Earned Income Tax Credit, confronting them to the data collected in researching the French and British cases, and assessing their ability to explain the developments observed in these cases. This exercise fosters the conclusion that the British and French Left's turn to fiscal welfare for income-support purposes cannot be satisfactorily explained by existing accounts in the literature.

Chapter 3 then goes on to present this thesis's novel alternative argument, based on the empirical material presented in detail in Chapter 4 and 5 - which look respectively at the UK and France. Namely this thesis argues that the introduction of fiscal welfare for low-income groups by left-wing governments in the 2000s corresponded to these governments' adoption of a logic of *negative*

welfare expansion. Income-support had usually followed a "positive" logic of expansion, *increasing* spending and *giving more* to low-income groups; the Left in the 2000s established a functional equivalence between such traditional forms of income-support and policies designed to *take less* from low-income individuals. In other words, they considered spending on low-income groups and *not taxing* them as functionally equivalent. Left-wing governments realised they could substitute a non-action, that of "not taking", for an action, that of redistributing. This renewed logic of welfare expansion, which we call "negative" expansion, was considered helpful in bypassing some of the constraints that the Left perceived as preventing the use of traditional income-support instruments at the time. Fiscal welfare was envisioned by its designers as an inventive alternative to traditional social spending in supporting low-income groups. This thesis further argues that this switch of expansion logic had more to do with changes in politicians' self-defined set of feasible policy alternatives, than with measurable changes in the context of policymaking. The boundaries of the Left's set of "feasible" policies were determined by their perception of the dominant conception of economic credibility, and by their re-appraisal of the strategic role of middle-class voters. Regarding the former, left-wing governments believed that traditional income-support instruments associated with increases in spending threatened their economic credibility, while using fiscal welfare could potentially reinforce it. Fiscal welfare was also envisaged as a means of unifying different constituencies behind one common instrument, which was helpful in building coalitions centred around middle-class voters.

This argument is backed up in **Chapter 4**, which presents the empirical material collected in the **British** case. This chapter weaves together data from various sources to map out the structure of incentives and constraints that New Labour politicians faced at the time. The chapter starts by identifying the substantive objectives of New Labour's reform of the income-support system. It shows that the **British** tax credits constituted a clear case of welfare expansion; they were conceived of as a new means of supporting low-income groups, which would be an alternative to traditional welfare. The chapter then goes on to discuss the incentives and constraints characterising New Labour's policymaking at the time. New Labour's decision-making was largely influenced by its electoral goal of rallying middle-class voters. In particular, convincing middle-class voters of Labour's economic credibility was seen as crucial. This was interpreted as requiring a move away from traditional welfare, and to steer clear of spending and taxation increases, to avoid accusation of profligacy and the risk of a middle-class tax scare. Negative expansion through fiscal welfare allowed for the reconciliation of New Labour's objectives and constraints. It allowed channelling money towards low-income groups, while disguising welfare as a tax break and maintaining Labour's economic credibility. It was envisaged as a means of mainstreaming income support, including middle-class voters in the pool of beneficiaries. In that sense, the turn to fiscal welfare for low-income groups in the **UK** amounted to a strategy of *blame-avoiding negative expansion*.

By contrast, **Chapter 5** shows that the introduction of the PPE in France constitutes an example of *credit-claiming negative expansion*: there the adoption of the new fiscal welfare instrument was envisaged as a way to directly win points with its beneficiaries. The new instrument served the substantive

policy goal of supporting modest workers through increasing their proceeds from work and thus boosting their "purchasing power". It was a means of wooing low-wage workers, signalling to them that the government was doing something for them. Yet this signal took the form of fiscal welfare because of the French socialists' adoption of a negative expansion logic: they aimed to expand support to low-income workers by taking less from, rather than giving more to them. The chapter identifies several drivers to this change of expansion logic. First, the choice of instrument owed to the Socialists' objective of building a new "alliance" of voters between modest workers and middle-class voters. To attract the latter, they resorted to income tax cuts; fiscal welfare was a means of catering to modest workers at the same time and in the same way as middle-class voters. Second, rules attached to membership in the European Economic and Monetary Union directly constrained policymaking choices, notably by constraining government's ability to increase spending. Finally, changes in policymaking personnel, and in particular the renewed prominence of policymakers with a background in economics, influenced the menu of available policy options. Fiscal welfare was particularly attractive to this new guard of advisors, while other policy options less aligned with their cognitive biases were not put forward.

Chapter 6 presents results from the additional inquiry on the consequences of the turn to fiscal welfare discussed above. This is addressed through quantitative analyses designed to assess the effect of the turn to fiscal welfare on attitudes to welfare and income-support preferences in the UK. Using a mix of regression and quasi-experimental analyses, it shows that the effect of fiscal welfare on attitudes substantively differs from that of traditional income-

support benefits: contrary to traditional benefits, the tax credits introduced in the UK did not generate strong support among their own beneficiaries. This might explain the ease with which they were later cut. In addition, while New Labour politicians conceived of the change of instrument as a means of mainstreaming income-support, general support for redistribution towards low-income groups kept declining over the period. Neither did the turn to fiscal welfare generate a higher support for redistribution among individual who benefited from it compared to those who didn't.

Finally, **Chapter 7** concludes by spelling out this thesis's implications for various literatures. First, this thesis expands the scholarship on fiscal welfare by exploring a particularly under-studied version of it - fiscal welfare for low-income groups - documenting its use and extent in non-American contexts, and producing new and original estimates of its budgetary incidence and redistributive impact in six countries. Further, it develops a theory explaining the use of fiscal welfare by left-wing governments, for expansion purposes: namely, it argues that these governments used fiscal welfare as a "trick" allowing them to "do more with less" for low-income groups, following a logic of negative expansion. The present analysis also furthers our understanding of the consequences of using fiscal welfare for income-support purposes, as even when it is relatively generous and designed to be properly redistributive, we find that fiscal welfare fails to generate the same support as traditional income-support schemes among beneficiaries. Whether considering effect on welfare attitudes, or on policy preferences and, therefore, policy sustainability in the face of retrenchment pressures, taking less appears to be substantively different

from giving more. Using negative expansion is likely to put in motion a set of politics that is different from that entailed by positive expansion.

Second, this thesis brings a fresh perspective to the literature on the transformation of the Left in the 2000s. Indeed, the two instances of negative expansion studied in this thesis add nuances to the widespread narrative according to which the Left in the 2000s turned its back to its traditional low-income constituencies to cater to middle-class voters. In fact, this thesis provides examples of instances where the Left did not stop catering to low-income groups - in fact it even expanded support for them - but rather started doing it in a *negative* way, taking less from them in taxes rather than giving more to them. These case studies also show, however, that although the Left might not have altogether moved away from redistribution towards post-materialist issues, in the cases at hand, it nonetheless stopped advocating and making the *positive* case for welfare expansion and redistribution. Our analysis suggest that this strategy might have been short-sighted. First, the strategy of channelling money towards low-income workers and families through the tax system proved to be an unsustainable solution: the PPE and the British tax credits were both cut by conservative governments in the 2010s. Second, because fiscal welfare did not generate support among beneficiaries, it is unlikely that the Left reaped the benefits of their increases in redistribution through fiscal welfare. Finally, by using negative expansion in order to overcome perceived constraints in the short term, the Left might have undermined its longer-term prospects of propagating their ideals and values among voters, and therefore of expanding its potential voter base.

Third, Chapter 7 draws conclusions relative to the political economy of policymaking more generally. It argues that our case-studies shed light on two shortcomings of contemporary political economy models, related to the conception of the "supply side" of policymaking, i.e. the process of decision-making among politicians themselves. Namely, these models unrealistically consider political actors to be omniscient about median voter preferences, and they ignore the contingent biases involved when politicians consider their options and determine what they can and cannot do. Chapter 7 therefore makes the case for research developing a more complex and realistic view of political actors themselves.

Further, the case studies in this thesis demonstrate that policy intentions and processes of policy decisions cannot be assumed from policy action and outcomes, following a simple revealed preferences approach. Findings make clear that similar policy developments can originate in different sets of context-specific determinants. Different actors, with different motivations, can also end up backing the same policy. More generally, policymaking is unlikely to be a straight line, from problem to solution; rather it involves trials and errors, mistakes, misjudgements, and unintended consequences. Political economy models need to better integrate the serendipity, fortuitousness and miscalculations that are characteristic of man-made policymaking. In order to capture the true intricacies of policymaking, in-depth qualitative case studies, retracing the various steps of the processes that led to the implementation of a policy, through careful triangulation of available sources, appear to be the most adapted method.

Chapter 2 - Fiscal welfare for low-income groups in Europe: sizing up the phenomenon

What, exactly is fiscal welfare, the concept at the heart of this thesis? How does it differ from traditional welfare? How extensively is it used to support low-income groups, across countries and over time? The present chapter addresses these ground-clearing questions. Its purpose is threefold: it aims i) to precisely define the phenomenon under study in this thesis, fiscal welfare for low-income groups, ii) to offer a measure of its extent in a selection of European countries, and iii) to use this exploratory exercise as a selection mechanism to identify the policies on which the rest of the thesis focuses.

Building on a thorough review of the literature⁶, this Chapter spells out an operational definition of the phenomenon. It then very concretely identifies the policies which fall under this definition in six different European countries representing a variety of institutional traditions and arrangements (namely Belgium, Finland, France, the Netherlands, Spain and the United Kingdom). Using an original micro-simulation procedure, it generates new data on the budgetary costs and distribution of entitlements to these schemes per income decile. Results from this exercise show that examples of fiscal welfare for low-income groups are present in all six countries, over the period analysed, and that many schemes ostensibly designed to benefit low-income groups often benefit higher-income households more, relative to income. Yet some policies

⁶ Some parts of the following literature review (including Figure 2.1 below) have already been published in the following article: Morel, N., Touzet, C., Zemmour, M., 2018. Fiscal welfare in Europe: Why should we care and what do we know so far? *Journal of European Social Policy* 28, 549–560. They were written by this thesis's author, and are reproduced here with the consent of Nathalie Morel and Michael Zemmour.

stand out as *actually* redistributive: this is the case of the French *Prime Pour l'Emploi* and of the British *Working Tax Credit* and *Child Tax Credit*, which are the focus in the rest of the thesis, and are described in detail in the last section of the present chapter.

We start by discussing the limitations and overlap of neighbouring concepts in the literature, before defining clearly the boundaries of this thesis' object of study: fiscal welfare for low-income groups. We then discuss the methodological issues associated with measuring the budgetary cost or redistributive effect of fiscal welfare for low-income groups. This assessment leads us to use micro-simulation to produce our own original budgetary and redistributive data on the phenomenon. We establish a clear and detailed procedure for doing so, and present simulated data for six different European countries: Belgium, Finland, France, the Netherlands, Spain, and the United Kingdom. Finally, using a combination of simulated and administrative data, Chapter 2 presents the schemes at the heart of the following chapters, the French *Prime Pour l'Emploi* and British *Child Tax Credit* and *Working Tax Credit*, detailing their functioning, their cost, their distributive properties, as well as their intellectual and legislative history.

1. Fiscal welfare for low-income groups: concepts and definitions

1.1 The literature contains a diversity of partially overlapping concepts

Broadly defined, this thesis's object of study is provisions of the tax code fulfilling a welfare policy goal and targeting low-income groups. It includes, for instance, tax rebates or credits on earned income for low-wage workers, tax deductions or allowances for childcare for low-income parents, or reduced rates of taxation for poor pensioners, or for the unemployed. Different and

imperfectly overlapping concepts have been developed by authors in various disciplinary fields to describe these policies.

In the realm of social policy, the concept of **fiscal welfare** was coined to refer to provisions of the tax code "compensating for (...) dependency in modern society" (Sinfield, 1978, p. 139). Titmuss (1958) defined fiscal welfare as integral to social policy, in the same way as *social welfare* and *occupational welfare* (the social security benefits attached to some jobs). This conceptual distinction between various types of welfare was the basis of his theory on the "social division of welfare". The latter stated that, contrary to widespread beliefs, middle and higher incomes substantially benefited from the welfare state. The common misrepresentation of the welfare state as solely redistributing from rich to poor stemmed, Titmuss argued, from a truncated understanding of welfare, focusing on *social welfare* only. By contrast, occupational and fiscal welfare were identified as welfare for the rich.

Analyses of the social division of welfare identify a correspondence between class, power, and types of welfare (Mann, 2009, 1990; Orton and Davies, 2009; Rose, 1981; Sinfield, 1978). The social division of welfare is made both of an instrumental dimension - means-tested benefits go to the most deprived, while tax breaks benefit the rich, and of a symbolic one - those on social welfare are portrayed as dependents, while the dependency of those who can access generous fiscal and occupational welfare provisions is ignored by academics, politicians and journalists (Mann, 2009). This is seen as reinforcing misleading stereotypes about the welfare state.

A related concept, that of **tax expenditures**, comes from the legal scholarship on taxation. It emerged in the late 1960s, as North-American tax scholars

noticed the increasing number of provisions in the US tax code which were disproportionately benefiting higher income households. Tax expenditures were defined as "departures from the normal tax structure (...) designed to favour a particular industry, activity or class of persons [in the form of] permanent exclusion from income, deductions, deferrals from tax liabilities, credits against tax, or special rates" (Surrey and McDaniel, 1985, p. 3). These were equivalent to "government spending for favoured activities or groups" (idem). Yet, scholars noted, while the budgetary procedures for direct spending attracted intense democratic scrutiny, this was not the case of indirect spending through tax expenditures.

Despite facing numerous criticisms at first⁷, the concept spread, both in academic and administrative circles - see e.g. International Fiscal Association (1976) - in the US (Surrey and McDaniel, 1979; Toder, 2000)⁸ as well as in other national contexts (Owens, 1983; Surrey and McDaniel, 1985)⁹. Most OECD countries now publish yearly lists of their main tax expenditures.

Not all tax expenditures fulfil a social policy purpose. This is why some authors refer more specifically to **social tax expenditures (STEs)**, defined as "social spending delivered as tax breaks" (Stebbing and Spies-Butcher, 2010, p. 586).

⁷ Bittker (1969, 1973) prominently criticised the notion as based on a biased definition of income; Le Pan (1979) highlighted the inevitable role of value judgement in defining a 'normal' baseline tax structure - see also Shaviro (2003); Wildavsky (1985) criticised the concept for attributing default ownership of all individual income to the state. Kleinbard (2008) argued that tax expenditure analysis was often "a thinly veiled agenda for a specific form of tax reform", with the "normal tax system" being "not simply an analytical tool, but (...) also an aspirational goal of the process" (Kleinbard, 2008, p. 6).

⁸ Tax expenditures are also the object of growing attention from policy-oriented research institutes - see e.g. McBride (2013), ITEP (2011).

⁹ The term has now lost its controversial power, and is routinely included in taxation textbooks - see e.g. Gravelle (2005).

STEs are the subset of tax expenditures (departures from the fiscal norm) that contribute to social policy¹⁰.

A neighbouring concept is that of the OECD's **tax breaks for social purposes**, or **TBSPs** (Adema, 1997; Adema et al., 2014, 2011). The concept of TBSPs was developed as part of the OECD's effort to produce figures on countries' *net social spending*, i.e. taking into account the effect of tax systems when calculating countries' social expenditures, and thus arriving at a "more comparable picture of social efforts" across countries (Adema, 1997, p. 154). TBSPs are benefits granted through the tax system. They can perform "the same policy function as transfer payments which, if they existed, would be classified as social expenditures" (this is the case, for instance, of tax credits for families). They can also aim "at stimulating the private provision of benefits" - e.g. tax cuts for private health insurance (Adema et al., 2011, p. 29). In practice, TBSPs are a subset of STEs that are directly targeting households; other instruments, such as the preferential taxation of social benefits, or some tax instruments designed to encourage or subsidise employment¹¹, are excluded.

Finally, US scholars have formulated the concept of the **hidden welfare state** to describe the role of "indirect tools of social policy such as loans, loan guarantees, and tax expenditures" (Howard, 1997, p. 5), and the "constellation of more indirect or 'hidden' government interventions" (Hacker, 2002, p. 12) in the American welfare state. Analyses of America's "hidden welfare state"

¹⁰ Toder offers a more precise definition in reference to the US case: "tax expenditures (...) to promote social goals (...) include provisions that promote education, health, housing, retirement security, and income security for low-income families" (Toder, 1999, p. 1).

¹¹ To be considered a TBSP, schemes have to "be intended to address one or more social purposes", and to involve either inter-personal redistribution or compulsion (Adema et al., 2011, p. 90).

typically focus on sectors like pensions, occupational and individual health insurance, housing, or health care - with fewer studies of childcare and income support. Authors in this strand of the literature argue that these schemes long constituted a blind spot in the US social policy literature¹² (Blank, 2009). The size of this "hidden welfare state", they add, is commonly underestimated while it is substantial and growing fast. In 1997, according to Howard, it was "38 to 50 percent as large as the visible welfare state" (1997, p. 27). Coherently with analyses of fiscal welfare highlighting its socially segregated nature, these authors also highlight the "heavy distributional skew" in favour of higher-income taxpayers in the American hidden welfare state (Hacker, 2002, p. 39).

1.2 Common characteristics across concepts: the use of the tax system for social policy purposes is anti-redistributive and invisible

All authors discussing the concepts presented above insist on their largely regressive nature, compared with traditional social policy instruments. By contrast to benefits going to the poor, tax-based instruments would mostly benefit the rich. Another common theme across literatures is the notion that tax-based social schemes would be ignored, submitted to "lighter scrutiny", and in general, less visible than traditional instruments.

This theme is particularly developed in the literature on the American "hidden" welfare state. There, this supposed characteristic of tax expenditures is, in fact, described as a determinant of their use. The lighter scrutiny supposedly applied to tax expenditures compared to direct expenditures (Howard, 1997, p. 30) would be a means of passing policies "that would not survive if subjected to the

¹² Research on the "hidden welfare state", like that on TBSPs, stems from the insight that traditional social policy instrument "do not exhaust the available strategies for intervention" (Hacker, 2002, p. 11). Closely-related concepts include the "divided" (Hacker, 2002), "submerged" (Mettler, 2011), or "delegated" (Morgan and Campbell, 2011) welfare state.

bright light of political scrutiny or the cold calculations of accurate budgeting” (Hacker, 2002, p. 44). Programmes based on tax expenditures are described as "submerged", and therefore invisible to the general public, and sometimes even to their own beneficiaries (Mettler, 2011). This is particularly the case for tax breaks directly benefiting households; by contrast, authors argue that the salience of tax breaks subsidising programmes involving third-party-providers (such as tax breaks for private pension or healthcare plans) or benefiting a minority of well-organised and well-informed high-income taxpayers is likely to be higher. Hacker shows that third-party providers empowered through tax expenditures are able to mobilise very large resources to then maintain these policies in place (Hacker, 2002, p. 56).

1.3 Conceptual limitations

The re-appraisal of the importance of tax-based programmes in American social policy sparked a debate on the issue of whether or not to integrate social tax expenditures into traditional analyses of the welfare state. Prasad (2011) prominently criticised scholars using the "hidden welfare" concept for assimilating tax expenditures and traditional instruments of social policy. She argued that establishing an equivalence between foregoing revenue through tax expenditures and direct spending leads to the paradoxical result that an increase in tax expenditures (e.g. a decrease in tax revenue) is measured as an increase in state intervention in social policy (Prasad, 2011, p. 254). Following this logic, some authors compare the United States to some of the most socialised European states, once fiscal welfare is taken into account (Alber, 2010). This is problematic, Prasad argues, since while "redistribution and collectivisation of risk (...) are the primary achievements of the welfare state", it

is unclear whether the hidden welfare state delivers on them (Prasad, 2011, p. 261). In fact, assuming an equivalence between the two instruments conceals "the re-privatisation of risks that had previously been met collectively, and the waning of state capacity" that are linked to the use of fiscal welfare (Prasad, 2011, p. 263).

Prasad argues that these instruments should only be analysed as part of the welfare state in very specific cases (for instance, if the foregone tax revenue does not prevent further public intervention, if the tax expenditure is refundable (i.e. if it is higher than tax liability) and if it is conditional on a mechanism of socialisation or solidarity, while generally they should be considered as tax cuts.

Prasad's is a healthy warning. Mistaking social tax expenditures for direct social spending on benefits or services would indeed generate biased analyses. On the other hand, the conclusion that fiscal welfare should not be considered as part of welfare is equally problematic. Precisely, as highlighted by Titmuss, taking fiscal welfare into account is indispensable to grasp the full extent of state intervention in the realm of social policy, and the extent of (largely upward) redistribution happening. It should also be taken into account when assessing the direction of welfare reforms - on this particular issue see Morel et al. (2018a).

This thesis contends that fiscal welfare should be included in analyses of the welfare state, but tax expenditures should not be considered equivalent to direct state spending. Precisely, the aim for researchers should be to analyse the different forms of welfare jointly, so as to better understand their differences, contradictions and interactions.

1.4 This thesis's object of study: fiscal welfare *for low-income groups*

Two distinctive characteristics of the use of the tax system for social policy purposes emerge from the above review of concepts. It is associated with regressivity (i.e. it is welfare "for the rich"), and it is described as less visible than traditional welfare. From the outset, we contend that these two characteristics are unlikely to be *inherent* features of the instrument.

First, theoretically it is possible to imagine a social tax expenditure which would be specifically designed to be progressive. As Owens (1983, p. 180), noted, "it is relatively easy to structure [refundable] credits so that they have the same resource cost and provide the same level and distribution of benefits as direct expenditures". They are not functionally different from a traditional income-support benefit that would be designed to target the same constituency: the only difference is their anchoring within the tax code, and this is where distinctive characteristics of the instrument must lie.

Second, it is also theoretically possible to imagine a tax-based scheme made highly visible through a government's efforts to publicise it. This means that the instrument cannot be *inherently* "invisible" in nature. What existing concepts pick up on, however, is the ease with which fiscal welfare can be *voluntarily made invisible* by a government. By contrast, traditional expenditures with clear budgetary lines and dedicated administrations associated with it might be harder to "hide".

Therefore, the true distinctive feature of fiscal welfare is likely to be the *higher degree of presentational freedom* attached to it (one aspect of which is the ease with which it can be hidden), compared to traditional welfare. This idea is further developed in Chapter 3, and empirically backed up in Chapters 4 and

5, which make the case that the Left's turn to fiscal welfare in France and the UK had to do with the instrument's ability to *be presented as* different than welfare, and therefore to implement a different logic of welfare expansion than that attached to traditional welfare.

From the above review of existing concepts, it appears that the respective perimeter of "social tax expenditures" and "fiscal welfare" are broadly equivalent. While precise delimitations between these concepts are loose and vary between authors, STEs and fiscal welfare have in fact already been equated by others - see e.g. Stebbing and Spies-Butcher (2010, p. 588). In the remainder of the thesis, the term "fiscal welfare" is used as a conceptual tool when referring to the whole range of social tax expenditures. "Social tax expenditures" will be used as a more empirical reference to specific, identifiable policies. In other words, fiscal welfare is made of the various STEs.

This thesis focuses on a subset of STEs, namely those designed for income-support purposes. In particular, the instruments scrutinised in the French and British case studies presented in the following chapters are refundable tax credits targeting *low-income* workers, and *low-income* families with children. These schemes clearly tick two conditions laid out by Prasad (2011, p. 264) for inclusion of a tax expenditure in the realm of welfare: they are refundable, and conditional on a mechanism of solidarity since they target low-income groups.

2. Measuring and comparing fiscal welfare: methodological challenges

Empirical knowledge on fiscal welfare - how much is spent, who benefits, how has this changed over time - is patchy. This is partly because academic and administrative interest in the issue is recent. Another reason is that measuring

the cost of STEs is a complicated enterprise, involving two types of necessary judgement calls.

First, estimating the costs of tax expenditures involves selecting an estimation method (Altshuler and Dietz, 2011; Kleinbard, 2008). Three main methods can be used, each characterised by particular shortcomings (Swift, 2006). The "revenue gain" method estimates the expected gain for public finances if a particular tax expenditure was to be abolished. The main difficulty in this case is to account for behavioural reactions to the change in tax rules, as well as interactions with other parts of the socio-fiscal system. The "outlay equivalence" method estimates the net cost of the direct spending policy which would achieve the same post-tax distribution. This might differ substantially from the cost actually incurred by a government creating a tax expenditure. Finally, the "revenue foregone" method (recommended by the OECD) measures the government's lost revenue as the difference between the tax liability of a taxpayer benefiting from the tax expenditure, and a similar taxpayer not affected. This method does not take into account chain reactions in the tax and benefit system, or behavioural change. This can lead to over or under estimations¹³.

Second, the measurement of STEs is further complicated by the necessity of defining a "normal tax benchmark" to identify tax measures "departing" from it. Doing so is already highly contentious - and is bound to involve a degree of arbitrariness - within individual countries, since definitions are likely to change

¹³ Costs could be magnified through behavioural reactions, for instance if the tax expenditure is used for tax optimisation purposes, or through interactions with the rest of the tax and benefit system, if individuals benefiting from the tax expenditure are pushed in lower tax brackets as a result (Burman et al., 2008).

over time. In a comparative context, this task is near impossible. This means that reliable longitudinal and comparative data is scarce.

The only existing comparative data comes from the OECD database on net social spending discussed above (Adema et al., 1997 and following). Since 2001, information has been collected every two years through a questionnaire sent to the relevant administrations in 33 countries. Unfortunately, this data is incomplete for our purpose, because of the restricted perimeter of TBSPs discussed above. In addition, there are problems of missing data. The latter might be due to the absence of national cost estimations, or to arbitrary decisions on reporting at the national level¹⁴. The "normal tax benchmark" adopted in each country is unclear, and inconsistent over time. This means that this data is likely plagued by mismeasurement over time: an apparent increase of spending on STEs can reflect either a change of definition, a change in the estimation method, a better accounting framework, or a real increase. Crucially, cross-country comparability is very limited, as individual countries decide what to include or not. For instance, Germany does not report the preferential taxation of families and couple as a TBSP, while France does.

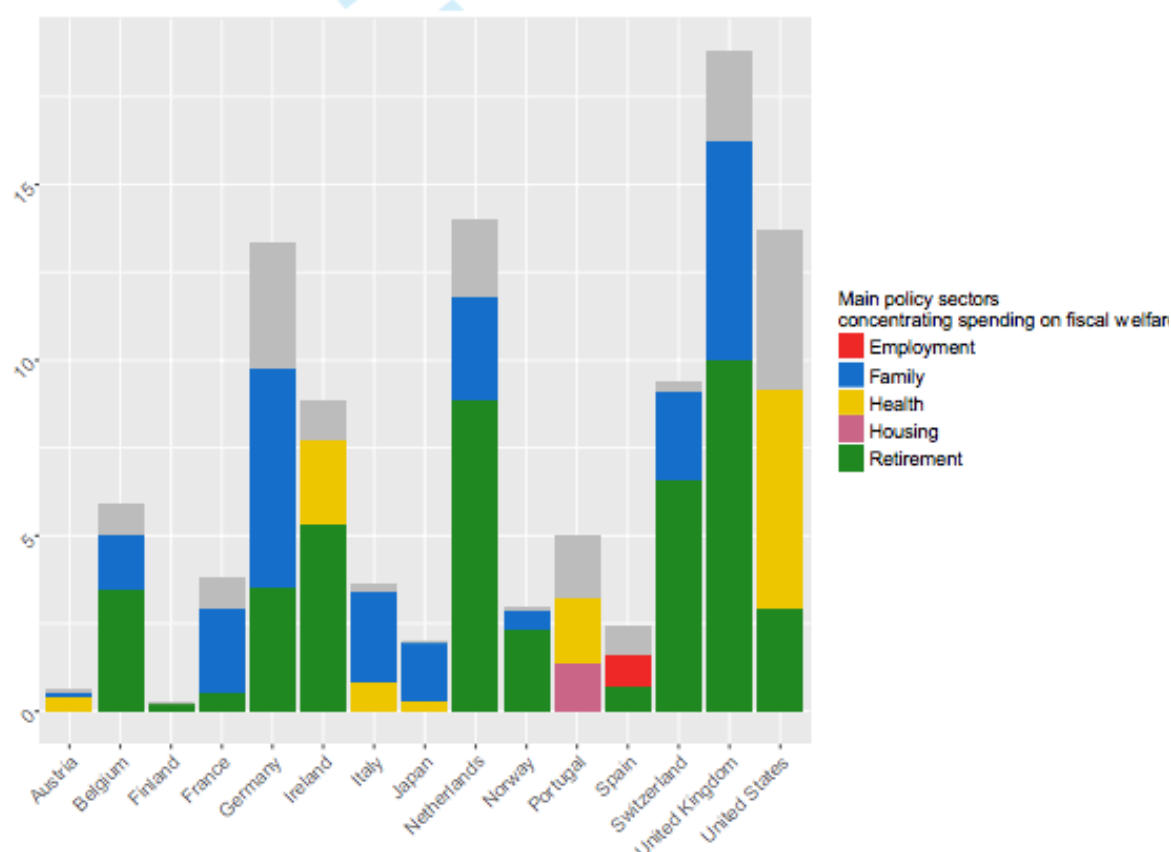
This data therefore does not provide valid measures for country comparisons or time trends. But it can be used to illustrate the fact that fiscal welfare is present in a large variety of countries, across welfare regimes. It provides a lower-bound indication¹⁵ of the extent of the phenomenon in individual

¹⁴ For instance, data on TBSPs for the UK only contains a very small portion of expenditures on tax credits, because the largest part (the refundable part) is counted as a direct expenditure (see Adema et al., 1997 and following).

¹⁵ In addition to the restrictive perimeter applied, countries are more likely to under report than to over report their spending on STEs, notably because of the difficulties in estimating their cost highlighted above.

countries. As shown in Figure 2.1, in 2011 STEs represented at least between 2 and 3% of total social spending in Spain, Italy, France, Japan and Norway, between 5 and 6% in Portugal and Belgium, close to 10% in Ireland and Switzerland, around 14% in Germany, the Netherlands and the US, and close to 20% in the UK. These amounts are significant, and likely to be underestimated: using consolidated administrative data from Zemmour and Houssoy (2016), Morel et al (2018b) found that STEs amounted to about €96 billion (almost 4% of GDP) in France in 2014 - compared to €23,6 billion, or just under 1% of GDP in the OECD data for 2011.

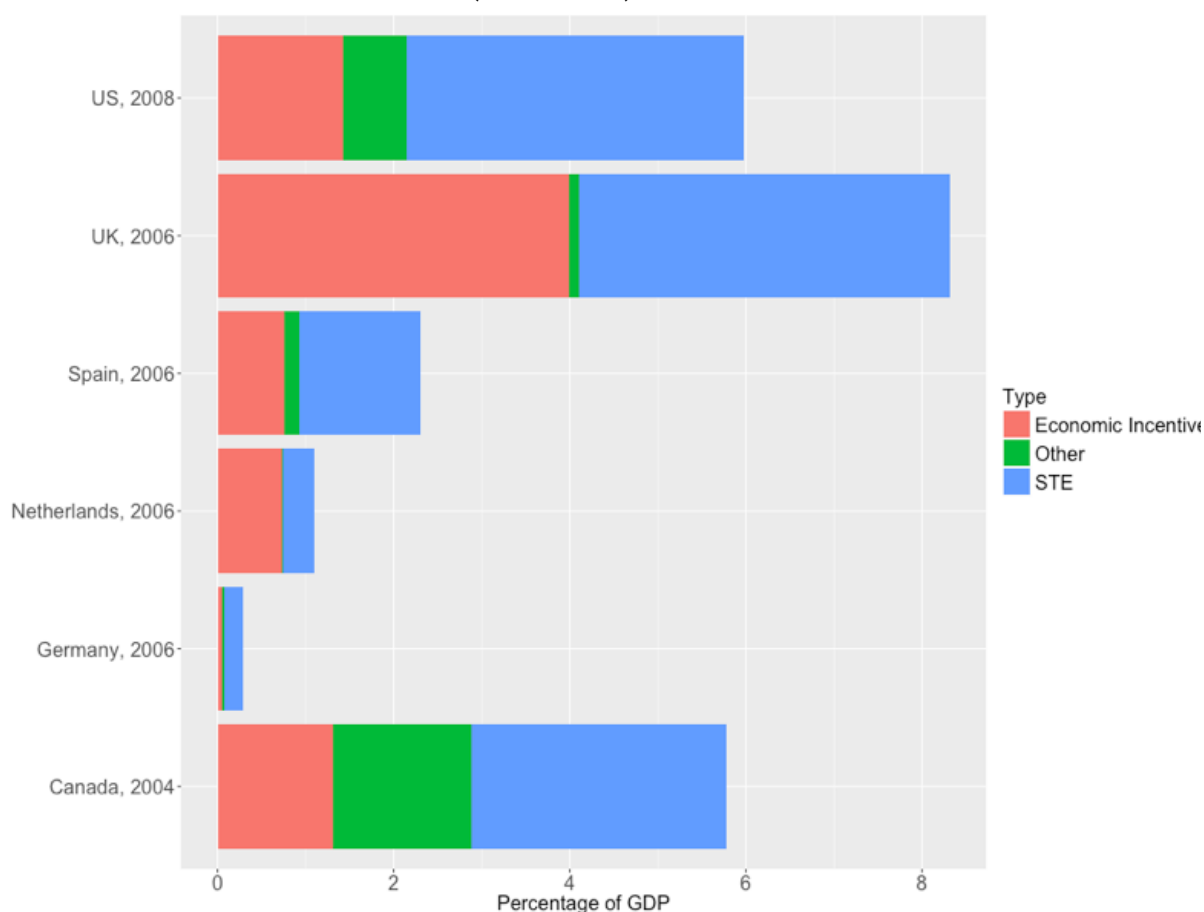
Figure 2.1: Social tax expenditures in OECD countries in 2011
(% of gross social spending)



Source: own calculations, based on Adema et al. (2014) and Socx (accessed in January 2016). Spending on retirement programmes included in the appendix of Adema et al. (2014) have been reintegrated.

The 2010 OECD study on tax expenditures (Minarik, 2010) also provides an indication of the scope of the phenomenon. It is arguably more reliable than the net social spending database, as authors attempted to harmonise definitions across countries - albeit for a limited number of them. This study concludes that “the use of tax expenditures is pervasive and growing” (2010, p. 14). It shows that STEs almost always constitute the largest part of tax expenditures (see Figure 2.2).

**Figure 2.2: Spending on tax expenditures in six OECD countries
(% of GDP)**



Source: own calculations based on data from OECD (2010).

Because of the limited availability of comparative data, most of the existing scholarship on STEs is made of national country cases using available

administrative data¹⁶. The US scholarship is the most developed: data has been collected since the early 1970s (Aaron, 1971), and yearly reports on tax expenditures are available from institutions such as the Joint Committee on Taxation and the Government Accountability Office. Grey literature on the subject as well as academic publications - e.g. Toder (1999), Howard (2007, 1997) have also flourished. By contrast, in the EU, although 18 out of 28 member states now regularly publish dedicated reports¹⁷ (Barrios et al., 2016, p. 7), empirical knowledge is less developed.

Ad hoc reports are available for some countries (Conseil des prélèvements obligatoires, 2010; Jacobsen et al., 2009; Bolander, 2009; Sverige Riksrevisionen, 2007; Thöne, 2011; Tyson, 2014). Academic literature on the issue has the longest history in the UK (Hogwood, 1989; Wilkinson, 1986; Willis and Hardwick, 1978). It is now also emerging in other countries such as Portugal (Branco and Costa, 2014), Ireland (Collins and Walsh, 2011), France (Morel et al., 2018b; Zemmour, 2013; Zemmour and Houssoy, 2016), Italy (Tyson, 2014), Spain (Noguera and Hermida, 2016), the Czech Republic (Jahoda and Godorova, 2016), Hungary (Szikra, 2018), or Poland (Polakowski and Szelewa, 2016).

¹⁶ International comparisons do exist, but most are compilations of (incomparable) national data. For the most part, such data are used in a normative stream of the public finance literature calling for better accountancy frameworks for tax expenditures (Godbout, 2006; Kvist and Sinfield, 1996; Polackova Brix et al., 2004; Surrey and McDaniel, 1985; Tokman, 2006).

¹⁷ As of 2011, Member States are mandated to produce yearly reports on tax expenditures (Council Directive 2011/85/EU of 8 November 2011). But crucial definitional issues are left to countries' discretion, which is bound to limit the comparability of estimations across countries.

However, where they exist, national estimations of the cost of STEs are also largely incomplete (Morel et al., 2018a; Sinfield, 2016). Beyond the issue of missing estimations, important limitations are linked to the restrictive and/or time-inconsistent perimeter adopted by national administrations. In some countries, researchers have attempted to build on administrative datasets to remedy these problems. For instance, Zemmour and Houssoy (2016) use French administrative data as a point of departure to create a dataset consistent with *their* definition of tax expenditures. While this approach necessarily entails a series of arbitrary choices from the researcher, at least these correspond to an identifiable rationale and can be consistently followed over time. In that sense, it is a promising avenue for future data-collection ventures.

Yet, such endeavours are still reliant on existing administrative data, which poses two limitations to the present research project. First, it does not solve the problem of estimations *not* produced by the administration - for instance, the French administration does not communicate cost estimates for about 20% of the STEs listed in Zemmour and Houssoy (2016). Second, when they exist, administrative cost estimations are often risk-specific or policy specific. While it might be possible to compile a (non-comparable) dataset of the STEs costed by the administration in various countries, doing so for the particular subset of STEs benefiting low-income groups, which does not correspond to an identified social policy "risk" such as e.g. health, or housing, is likely to be more difficult. Indeed, administrative administrations contain little to no indication about the distributive impact of STEs. Existing estimations mostly focus on the more regressive STEs. While STEs targeting lower-income groups have multiplied in several countries since the 1990s, notably in the fields of family

policy (Ferrarini et al., 2012) and "active" income support (i.e. employment-conditional transfers) (Barrios et al., 2015; Morel et al., 2018a, 2018b), the production of cost estimates has not tracked that trend.

3. Generating comparable data using micro-simulation

Acknowledging the limitations highlighted above, some scholars have started using micro-simulation based on real income data to generate estimates of the budgetary cost of STEs. A crucial advantage of using micro-simulation to produce data on STEs is that doing so allows one to see the distributional pattern of each STE in detail, which is crucial to understanding their actual impact. This real impact of fiscal welfare can only be studied very incompletely using aggregated administrative data.

These efforts often concentrate on particular policy sectors - e.g. pensions and education (Barrios et al., 2016), or on some specific policies - e.g. deductions of mortgage interest payments (Matsaganis and Flevotomou, 2007), or in-work tax benefits (Barrios et al., 2015). Adopting this reduced focus somewhat simplifies the challenge of defining an (arbitrary but) harmonised definition of the normal tax benchmark. This unified definition can then be applied across countries, ensuring comparability.

Rather than focusing on a particular policy area, this thesis uses micro-simulation to produce data on STEs benefiting a particular target, e.g. low-income groups. We estimate the size of fiscal welfare for low-income groups over time¹⁸ in a selection of six advanced political economies, which are

¹⁸ We can only simulate data over the period 2005-2015, which was the period covered by EUROMOD at the time this analysis was conducted.

representative of various welfare regimes and political economy traditions. We use the European tax-benefit micro-simulation model EUROMOD¹⁹ to produce this data (Institute for Social and Economic Research, 2017; Sutherland and Figari, 2013).

3.1 Using EUROMOD to simulate data on the cost and distribution of STEs for low-income groups in European countries: a detailed procedure

We proceed in three steps. The first one is to adopt a coherent definition of fiscal welfare for low-income groups as well as clear criteria for inclusion or exclusion of a policy in our perimeter. Then, we use the documentation attached to Euromod, which contains a detailed description of each country's socio-fiscal system over time, to identify schemes corresponding to that definition in countries of interest. Finally, wherever possible, we simulate data on the budgetary cost and distributive properties of these schemes.

3.1.1 Definition

The first unavoidable step in generating data on STEs for low income groups is to come up with a set of criteria to define what constitutes an STE benefiting low incomes, and to provide a clear rationale backing this definition. In doing this, judgement is required and some arbitrary element is hard to avoid. In this thesis, we include as an element constitutive of "fiscal welfare for low-income groups" **any policy which:**

¹⁹ The results presented here are based on EUROMOD version H1.0+. EUROMOD is maintained, developed and managed by the Institute for Social and Economic Research (ISER) at the University of Essex, in collaboration with national teams from the EU member states. We are indebted to the many people who have contributed to the development of EUROMOD. The process of extending and updating EUROMOD is financially supported by the European Union Programme for Employment and Social Innovation 'Easi' (2014-2020). The results and their interpretation are the author's responsibility.

1) takes the form of a tax provision

and

2) serves an identifiable and precise social policy objective

and either

3) a) targets low-income groups specifically, or

3) b) is more generous for lower-income groups

1) "takes the form of a tax provision":

The concept of "tax provision" in this criterion is not limited to income tax: in theory, we include in our perimeter STEs based on social security contributions and other forms of taxation such as VAT (although in practice we cannot simulate consumption taxes - see below). Tax instruments considered include rebates, credits, exemptions, and allowances. Reduced rates of social security contributions (SSC) for low-income workers, or systems of credited contributions (where the state pays social security contributions on behalf of vulnerable groups) are also included - provided they don't entail reduced rights to social security for these workers. We also consider *rate reductions* for certain types of income to be part of our perimeter, on the grounds that they are deviations from the benchmark taxation of income. For instance, we include the non-taxation or reduced taxation of some benefits and of some replacement incomes. (provided these benefits / replacement incomes benefit low-income groups, see below).

2) "serves an identifiable and precise policy objective ":

This criterion aims to differentiate STEs from arguably more "baseline" features of the tax system, that correspond to broad-based tax principles and not to precise policy objectives - e.g. tax schedules materialising the principle of tax progressivity. This is in contrast to what others have done using Euromod; for instance, Avram (2018, p. 274) includes zero rates tax bands as "tax allowances" in her analysis of the distributional effect of the "hidden welfare state". However, the reduced perimeter adopted here is considered to be a better fit with a conception of STEs as a policy instrument *deliberately mobilised* for particular policy aims.

In practice though, the line between "baseline" and "purposeful" schemes is not easy to draw. For instance, some countries have systems of "basic deductions" for low income taxpayers, which could be considered as targeted income-support, or as part of the baseline progressive income tax schedule. As a general rule, we exclude from our perimeter schemes which anyone can avail themselves of with respect to the first tranche of their income.

3) a) "targets low-income groups specifically":

This is the case when eligibility to a particular scheme is:

- i) limited to households under a particular income limit

This includes for instance tax credits targeted at low-income families, but also the non-taxation of means-tested benefits. In some cases, the threshold used for the means-test might be high. We exercise judgement in excluding near universal schemes only excluding the very rich. For instance, since 2010, the personal allowance in the UK is phased out for individuals with taxable income

over £100,000 at a rate of 50% until exhaustion. Technically, this means that access to that allowance is "means-tested". Yet considering that this threshold is equivalent to several times the British median wage, the personal allowance below £100,000 is excluded from our perimeter. Apart from "obvious" cases such as this one, we adopt an encompassing approach, by considering the presence of a means-test as enough to justify inclusion. This is considered preferable to the risky exercise of determining an arbitrary maximum threshold for inclusion²⁰.

or ii) targeted to beneficiaries that typically have low-incomes

For instance, fiscal welfare schemes targeted on single parents are systematically included in our perimeter. Similarly, the non-taxation or reduced taxation of unemployment income (including severance pay) is systematically included: although some unemployed individuals might not all live in low-income households, it is reasonable to assume that a majority of the unemployed will find themselves in the lower part of the income distribution. Finally, the available evidence converges on showing that disabled individuals in OECD countries are disproportionately poorer than individuals without disabilities (WHO, 2011, p. 38; OECD, 2009; Saunders, 2007; Buddelmeyer and Verick, 2008; Elwan, 1999). Based on this evidence, we include the non-taxation of replacement income for disabled individuals in our perimeter. By contrast, pensioners (who are the target of numerous fiscal welfare schemes) do not necessarily have low incomes. Therefore, we only include in our perimeter STEs for pensioners under a specified income limit (e.g. the non-taxation of

²⁰ This means that some of the schemes included are examples of fiscal welfare for low- and middle-income groups.

minimum pensions). We do not include the reduced or non-taxation of contributory pensions.

3) b) "is more generous for lower-income groups"

This criterion means that universal but progressive tax expenditures (that benefit everyone, but become more generous as income decreases) are included, while universal flat rate tax expenditures (e.g. lump sum tax credits associated with the presence of children, which benefit all households with children to the same extent, independently of their income, or the non-taxation of universal flat rate benefits) are not. For instance, the British Child Tax Credit, which value is tapered away with progressing income, is included, while the non-taxation of flat-rate universal family allowances are not. The general tax credit in the Netherlands, which was flat rate until 2014 and then became progressive, is only included after 2014. The Dutch old age credit is included because it is progressive with income.

3.1.2 Identification

Having established a definition of "fiscal welfare for low-income groups", we proceed to identifying the schemes corresponding to this definition in a consistent manner across selected countries. To do this, we use the Euromod documentation: beyond modelling 28 European socio-fiscal systems, Euromod provides a unique English language repository of information on these systems in the form of country reports describing in detail the tax and benefit system of each country and its evolution over time. These reports also include information on policies that cannot be simulated in the model.

This data was used to create the table in appendix E, which identifies policies pertaining to the perimeter of "fiscal welfare for low-income groups" between 2005 and 2015 in six European countries. Since the earliest Euromod country reports are from 2005, we do not capture instruments that were introduced *and repealed* before 2005 (for instance, the British Working Families Tax Credit, introduced in 1998 and repealed in 2002, is not captured). Policies not simulated in Euromod, e.g. based on forms of taxation not simulated in the model, such as VAT or capital tax, are not systematically discussed, and therefore we are missing some policies pertaining to our perimeter. In other words, the data presented in appendix E is likely to be an underestimation of the true extent of the phenomenon. Yet, this table presents a (likely underestimated) snapshot of fiscal welfare for low-income groups in a 10-year period, across 6 countries (namely Belgium, Finland, France, the Netherlands, Spain and the United Kingdom). To the best of this author's knowledge, such data has not been presented as such elsewhere.

We identified 96 STEs fitting this definition in these six countries. Fiscal welfare for low-income groups is present in all six countries. Instruments can be broadly divided into five groups, based on the beneficiaries targeted: STEs benefiting low-income families with children (including lone parents), STEs for low-income workers, STEs for unemployed working-age individuals, STEs for disabled individuals, and STEs for low-income pensioners. Low-income students constitute a residual category. STEs benefiting low-income families with children and low-income workers are particularly common across countries. In terms of type of instrument, the most common instances of STEs

are the non-taxation of benefits, followed by non-refundable tax credits, and refundable tax credits.

3.1.3 Simulation

Following this identification phase, we used Euromod to generate cost estimates and data on the distributive incidence of STEs in six European countries. The cost of STEs is estimated in two different ways. In some cases, the STE of interest is already modelled in Euromod: individual amounts corresponding to this STE are already stored in an output variable. This output variable capturing individual entitlements to the STE can be used to estimate the overall budgetary cost of the policy by summing individual entitlements, using population weights. Using information on income from EU-SILC (the input data in Euromod), we calculate shares of total entitlement by income deciles. Although we could apply a random correction for non-take-up in some cases, this option is not available in all country models. To ensure consistency, we apply no take-up corrections at all. This means that we estimate *theoretical* individual entitlements and total costs, based on a full-take-up assumption.

In other cases, the STEs is modelled, but individual values are not stored (because they are only used as a transitory step in a larger calculation, for instance when calculating an individual's total social security contribution liability). In such cases, we capture the value of this STE at the individual level by running a baseline simulation, using an unmodified modelling of a country's socio-fiscal system, and then running a second simulation without the particular STE²¹. We then calculate the difference in individual disposable income

²¹ In practice, depending on cases and convenience, we either "turn off" the line where the particular STE is simulated, or we modify its coding so that it amounts to 0.

between the baseline and the simulated outputs. We use this difference as an estimation of the value of individual entitlements for that particular STE,²² and we compute its total budgetary cost and shares of entitlements by deciles based on that estimation.

3.1.4 Limitations

While it is a way to solve many of the measurement issues discussed above, micro-simulation is not a bulletproof solution. To start with, using Euromod does not allow simulating *all* the policies that belong to the perimeter of fiscal welfare for low-income groups.

A first reason for this is that the model simulates the effect of socio-fiscal systems using real population data (rather than fictional data for "typical households", as is the case in other micro-simulation models). This use of real-world data is adapted to our objectives of simulating budgetary data. However, it means that some policies cannot be modelled because the necessary input data does not exist. For instance, it is impossible to model STEs linked to VAT (e.g. a reduced VAT on drugs) using Euromod, because data on individual consumption (of e.g. drugs) is not available. Some housing subsidies policies are also excluded because modelling them would require precise information on dwelling types, which is not available. In practice, we are only able to simulate data on STEs linked to income tax or social insurance contributions, or some other taxes dependent on income or wage only (e.g. the payroll tax "CSG" in France).

²² By looking at the difference in disposable income, we obtain the "net cost" of the STE, since we also capture potential second order effects in the amount of benefits received following to the modification of the tax liability (Avram, 2018).

Second, some STEs could theoretically be modelled, but are not included in Euromod because of their sheer complication. For instance, the earned income allowance for disabled workers in Spain, which amounts vary depending on workers' degree of disability, is not modelled. While taking up the task of modelling them might have been relevant in a PhD thesis focused entirely on micro-simulation, the latter is only one of the methods used in this thesis. The purpose of the present exercise is to illustrate the phenomenon and get a sense of its size, rather than to arrive at an exhaustive picture. For this reason, STEs requiring complex modelling have been left out of the scope of simulations.

Third, instances of non-taxation or reduced rate are not systematically simulated. Doing this implies taking a decision on the counterfactual rate to be applied. In most cases this is not a straightforward question, as there are multiple "benchmark rates" from which to choose. To avoid this additional layer of arbitrariness, instances of non-taxation or reduced rates are identified and listed, but only those for which a straightforward counterfactual rate could be derived from the Euromod documentation are simulated.

Finally, as indicated above, using Euromod allows us at best to simulate the effect of socio-fiscal systems in European countries between 2005 and 2015; for some countries, the first year available in the model is 2007. In addition, EU-SILC data, the input data for the model is only available for some years between that interval. For years in which EU-SILC data was not available, we run the model corresponding to that year on the data from the nearest year available - with the obvious limitations that we capture changes in legislation, but not demographic changes in the real population.

A note about evolution over time

Beyond limitations in the scope of the simulations, another caveat emerged when generating time-series data using the above methodology. Namely, apparent increases and decreases in the cost of fiscal welfare might be due to instruments falling in and out of the perimeter considered, rather than to real changes in cost. For instance, if a non-taxed flat-rate benefit that was previously universal is turned into a means-tested benefits (as was the case of the *Allocations Familiales* in France in 2014), this would show up as an increase of fiscal welfare for low-income groups, according to the definition presented above, as the scheme would suddenly qualify for inclusion. The same situation would arise if a flat-rate universal benefits that was previously tax-exempt for all recipients starts to be taxed for higher-income earners (as happened to Child Benefit in the UK in 2013), or if a tax credit that was previously non-means-tested, or flat rate, was restricted to lower-income individuals, or made progressive (as was the case of the Dutch General tax credit in 2014)²³. These artificial increases are problematic, because reforms introducing means-testing or progressivity might well correspond to cases where overall spending is actually reduced. In such cases, the increase in fiscal welfare for low-income groups that would show up on a graph is the mechanical consequence of a

²³ Similarly, the introduction of a new tax with an exemption for individuals under a certain income threshold (as opposed to an allowance, of which individuals above the threshold can avail themselves of for the first tranche of their income) would mechanically be captured as an increase in fiscal welfare for low-income groups. Concretely, this means that the introduction of "solidarity contributions" on higher-income earners in Greece in the bailout period would be captured as an increase in "fiscal welfare for low-income groups".

decrease in either fiscal or traditional welfare for high-income groups, rather than a *real* increase for low-income groups²⁴.

These problems are inherent to the exercise of identifying the longitudinal evolution of fiscal welfare programmes targeting certain income groups in particular. Nonetheless, in an attempt to deal with them, we systematically indicate in the table in appendix E cases of STEs entering our perimeter because of the introduction of means-testing or progressivity on previously universal / flat-rate benefits. These schemes are excluded from the graphs showing the evolution of cost over time below.

3.2 Fiscal welfare for low-income groups in six European countries

Based on these STEs which could be simulated, Figures 2.3 to 2.8 present data on the budgetary cost of STEs benefiting low-income groups over time in the six countries selected, as a percentage of total public spending on family benefits. For each policy identified in the previous section and which could be simulated, we generated a total cost per year by summing up individual entitlements generated using micro-simulation. Figures 2.3 to 2.8 present the total sum spent on fiscal welfare for low-income groups each year between 2005 and 2015, obtained by summing up the amount spent on individual policies (applying household level population weights). Since this thesis is about comparing different forms of income-support, public spending on family benefits is considered a more meaningful benchmark than total public social spending. Indeed, the latter would include spending on e.g. health and pensions, which are the result of logics very different from one of income

²⁴ Similarly, while there is a rational in qualifying a rise in taxes on high-income earners from which low-income earners are exempted as an increase in redistribution, equating this tax increase to an increase in welfare for low-income groups is a conceptual stretch.

supplementation. Data on total public spending on family policy are taken from the OECD Socx database. The total cost per year spent on fiscal welfare for low-income groups presented in those graphs is an under-estimation, since, as explained above, several schemes could not be simulated.

Figures 2.3 to 2.8 show a sustained use of fiscal welfare for low-income groups over the 2005-2015 period, across all six countries. The use of fiscal welfare schemes appears particularly developed in Belgium and Spain. Another striking point emerging from this data is the non-negligible nature of amounts involved: based on this incomplete picture, fiscal welfare for low-income groups already amounts to around 70 % of public spending on family benefits in 2015 in Spain and the UK, more than 30 % in Finland, and 15% in Belgium. Contrasting these results with the data presented in Figure 2.1 confirms that the OECD database largely underestimates the extent of the phenomenon (this is particularly visible in countries like Spain and Finland). Yet these results themselves are a clear under-estimation of the real size of the phenomenon, considering the limited number of schemes that we were able to simulate. The lack of scholarly attention to the phenomenon is therefore even more surprising and problematic.

[Source for Figures 2.3 to 2.8: own simulations using Euromod (Version G4+), and OECD SOCX (accessed July 2019).]

**Figure 2.3: Fiscal welfare for low-income groups in Belgium:
some cost estimations**

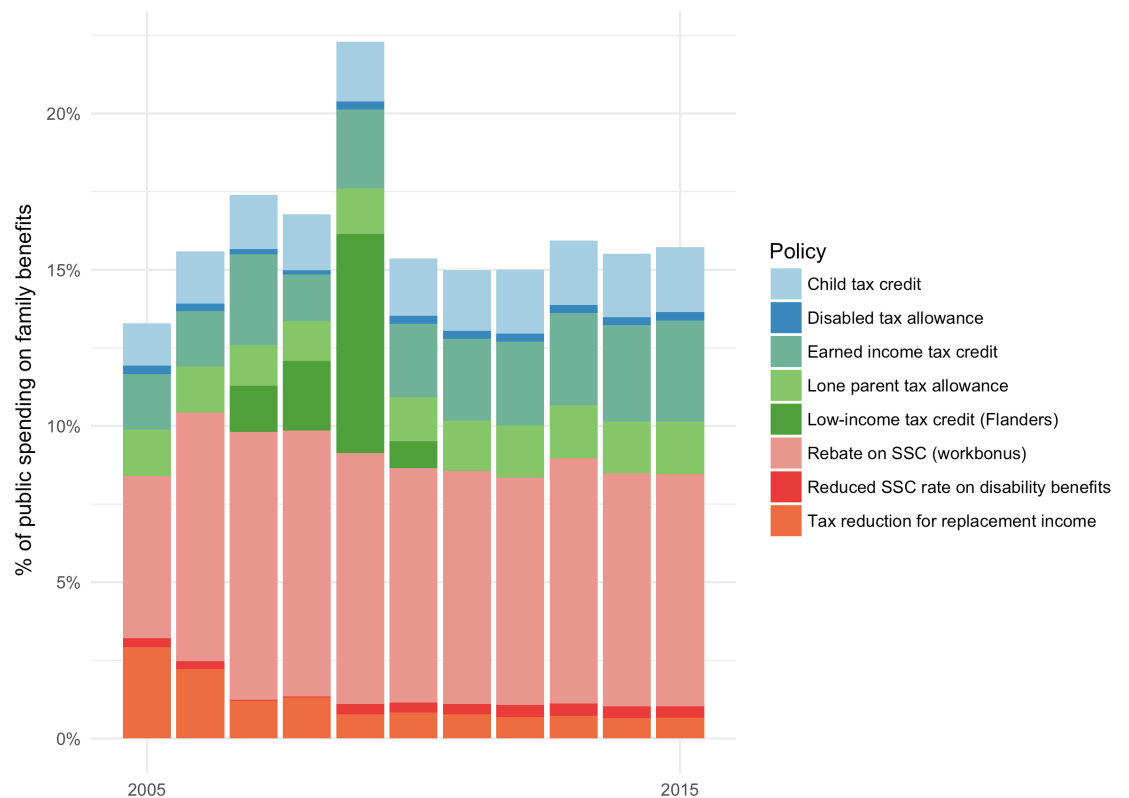


**Figure 2.4: Fiscal welfare for low-income groups in Finland:
some cost estimations**

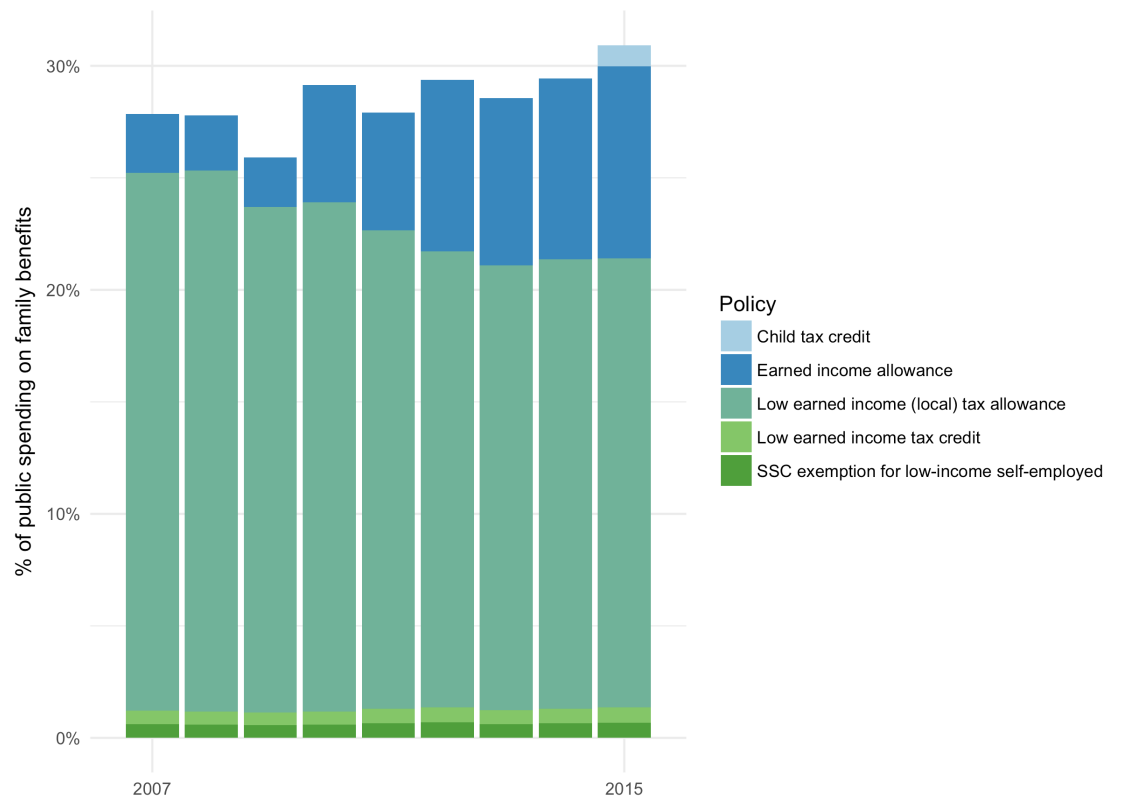


**Figure 2.5: Fiscal welfare for low-income groups in France:
some cost estimations**

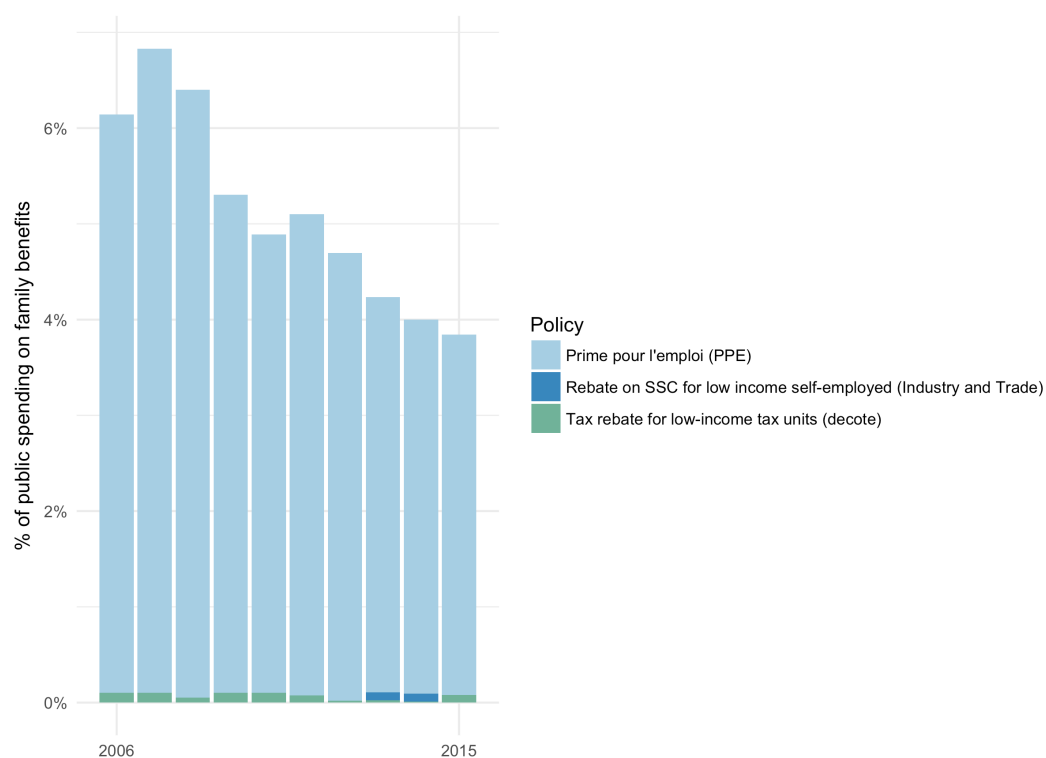


**Figure 2.6: Fiscal welfare for low-income groups in the Netherlands:
some cost estimations**

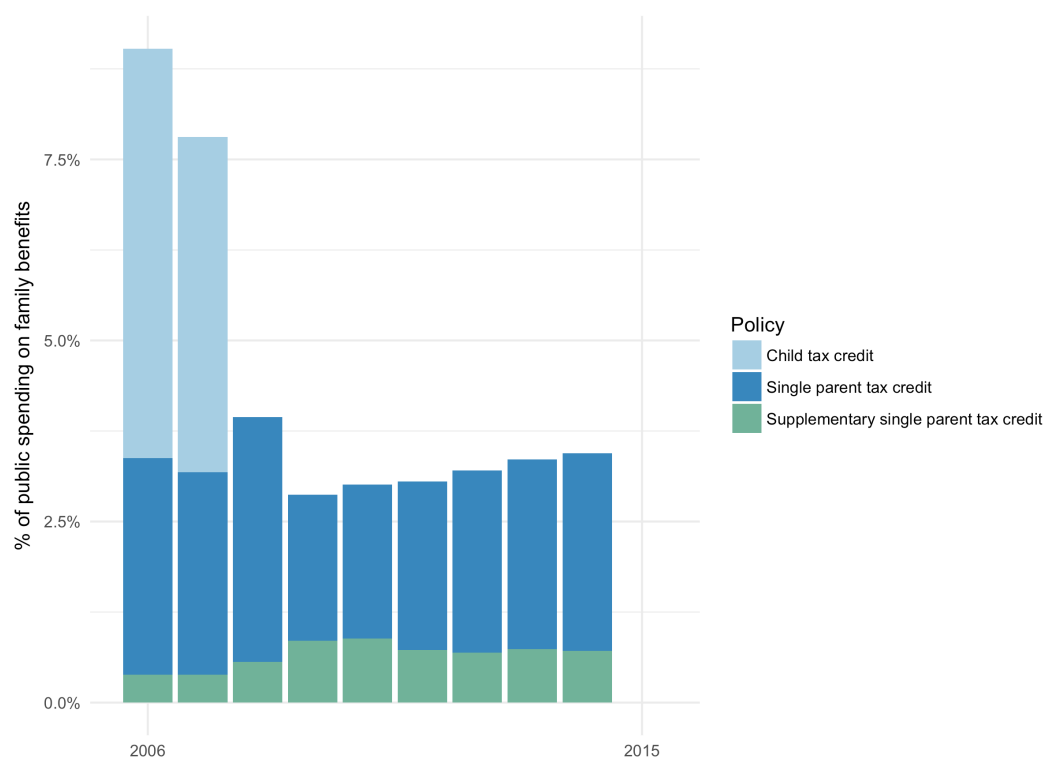


**Figure 2.7: Fiscal welfare for low-income groups in Spain:
some cost estimations**

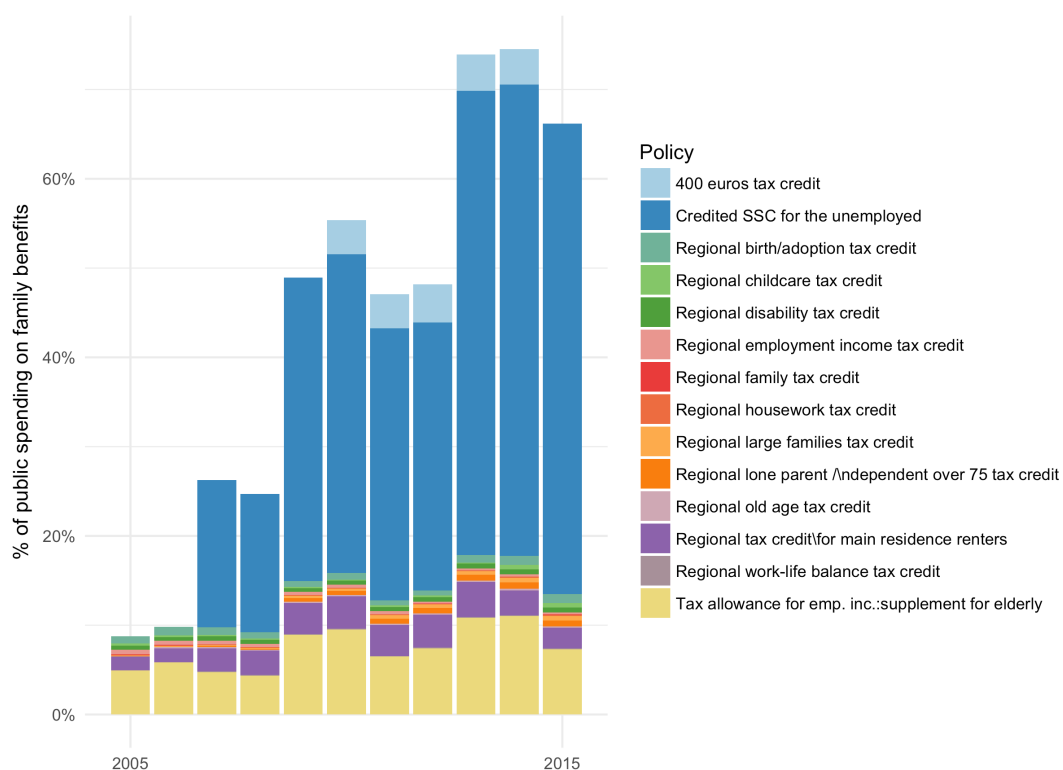
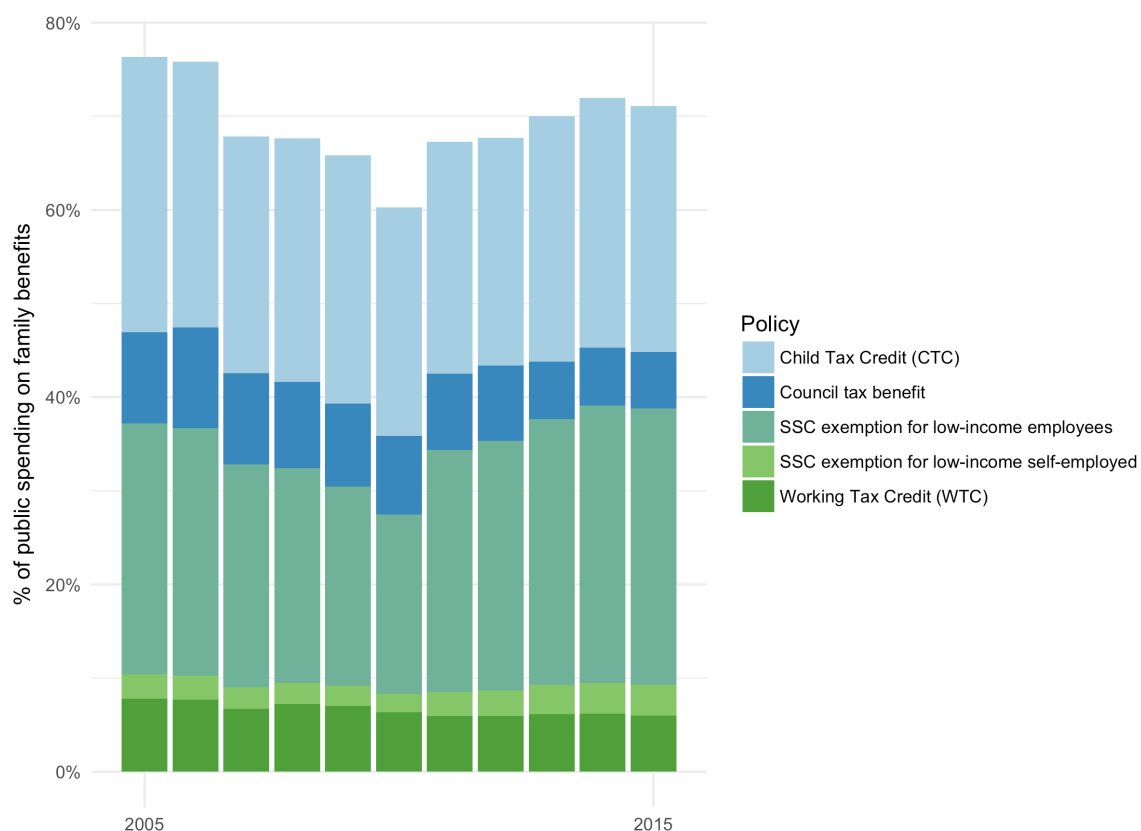


**Figure 2.8: Fiscal welfare for low-income groups in
the United Kingdom: some cost estimations**



Figures 2.9 to 2.14 represent, for each policy which could be simulated, the share of total entitlements to this policy going to each decile of equivalised household income. The distribution of entitlements per decile for each policy is simulated for three years, around 2005, around 2010 and around 2015 (depending on what Euromod input data is available for each country). Deciles are calculated based on the household disposable income variable simulated in Euromod, which corresponds to market income and public pensions after deduction of taxes and social security contributions and addition of cash benefits. This variable is calculated at the household level, over the whole population covered in the Euromod input data (based on EU-SILC). This variable does not take into account non take-up or tax evasion - each individual graph thus represents the share of the *theoretical* total spending on a policy (i.e., total *entitlements*) going to each particular decile of equivalised household income. We take the simulated household disposable income variable, we equivalise it to make it comparable across household sizes, and we calculate deciles over the distribution of this equivalised household income variable. For each decile and each policy, we then add up the simulated amount received by each family in that decile with regard to that policy, to obtain a total spending per decile for each particular policy (per year). Contrasting these variables of total spending per decile to total entitlements for each policy, we obtain a variable of "share of entitlements" going to each decile.

Figures 2.9 to 2.14 reveal an interesting stylised fact: namely, that although all schemes are theoretically designed to either benefit lower-income groups or to benefit them more, in practice we observe a striking variety of distributional profiles. While some schemes appear to be indeed distributed in a progressive

manner, a number of STEs that on paper are "for low-income groups" show flat, or even regressive distributive profiles. In fact, out of 40 simulated schemes, only 14 show a clearly progressive distributive profile.

This is an important finding: it means that even fiscal welfare schemes that are, on the face of it, designed to target specific low-income populations, that are limited to those most in needs through means-testing, or that are more generous for the least fortunate, can end up benefiting more to households higher up the distribution. This, again, reinforces the need for social policy specialists to pay a closer attention to these schemes and to integrate them systematically in distributive analyses.

Pinpointing precisely why these policies which on the face of it should benefit low-income groups often end up benefiting higher-income groups would require a dedicated case-by-case analysis beyond the remit of this thesis, but this is primarily driven by the fact that, being tax-based, they often target low-income individuals, rather than families. This means for instance that income-testing for eligibility to a scheme will often focus on e.g. individual market income, rather than household income. Yet, low-income individuals live in higher-income households. Since our distribution is calculated over household income, a low-wage worker benefiting e.g. from a low-earned income tax credit could be in the upper deciles on figures 2.9 to 2.13, if he lives in a higher-income household. This contrast between individual and household income is the reason why income-support benefits concerned with poverty alleviation are often tailored to generate a particular impact over the household distribution - not the individual one. In some cases, the distribution shifts slightly over time, too. Plausible candidates to explain these shifts span policy reforms affecting

the rules of the system, changing macro-economic performance affecting the distribution of market income, or simply inflation, in the absence of automatic uprating (which could lead the whole distribution of entitlements to just automatically slide to the Left as wage inflation takes individuals out of the perimeter of some policies.

Figure 2.9: Who really benefits from fiscal welfare "for low-income groups"? The Belgian case

(% of total entitlements to each scheme by decile of equivalised household income)

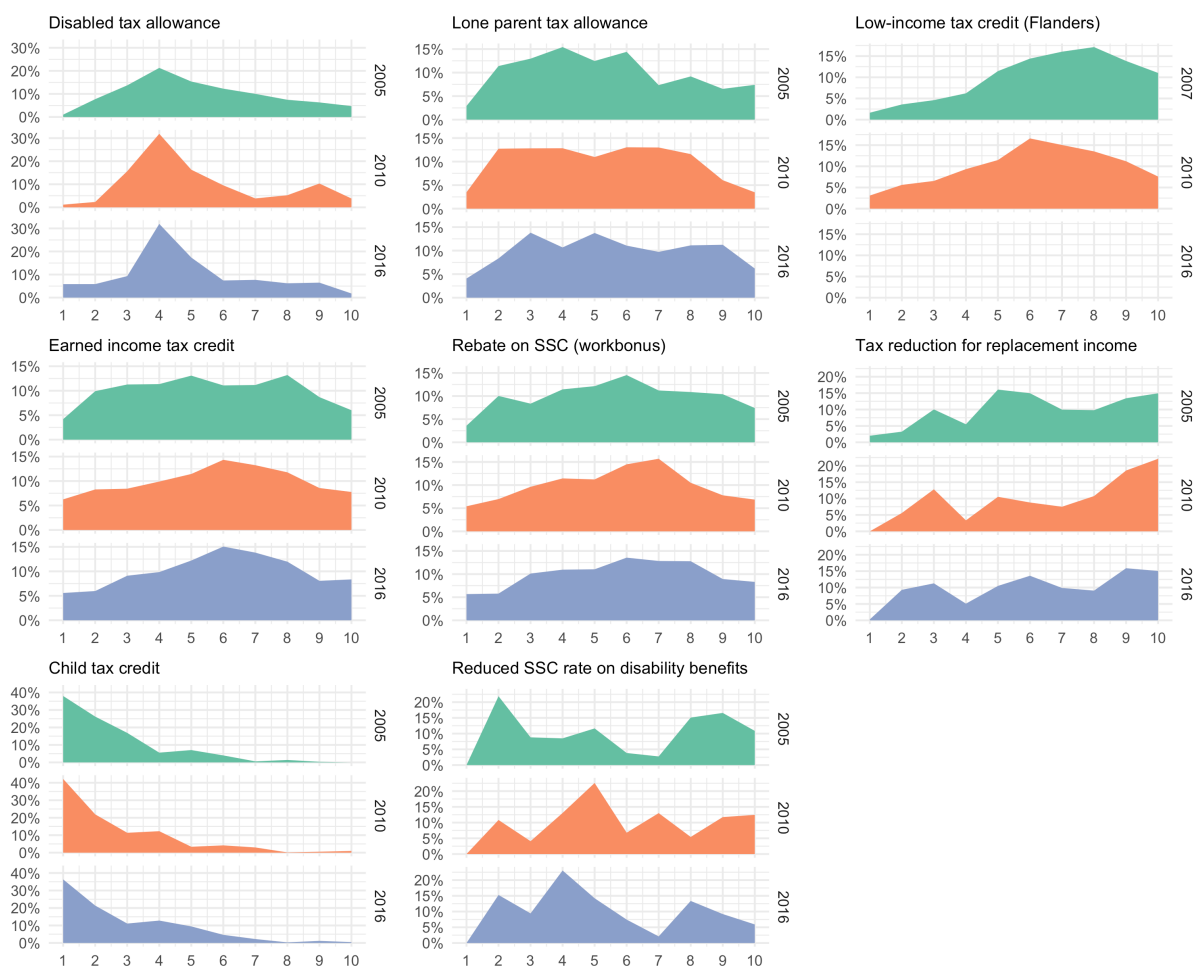


**Figure 2.10: Who really benefits from fiscal welfare
"for low-income groups"? The Finnish case**

(% of total entitlements to each scheme by decile of equivalised household income)

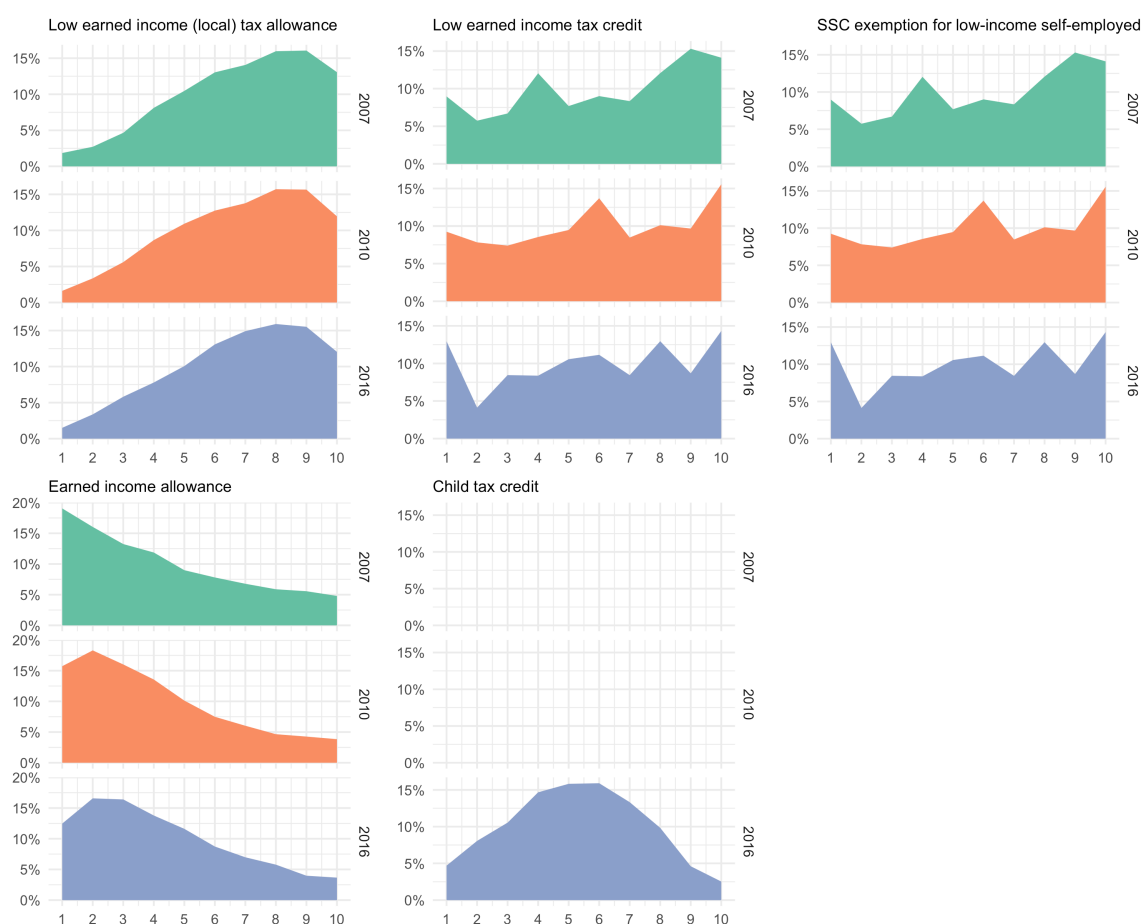


**Figure 2.11: Who really benefits from fiscal welfare
"for low-income groups"? The French case**

(% of total entitlements to each scheme by decile of equivalised household income)



Figure 2.12: Who really benefits from fiscal welfare "for low-income groups"? The Dutch case

(% of total entitlements to each scheme by decile of equivalised household income)

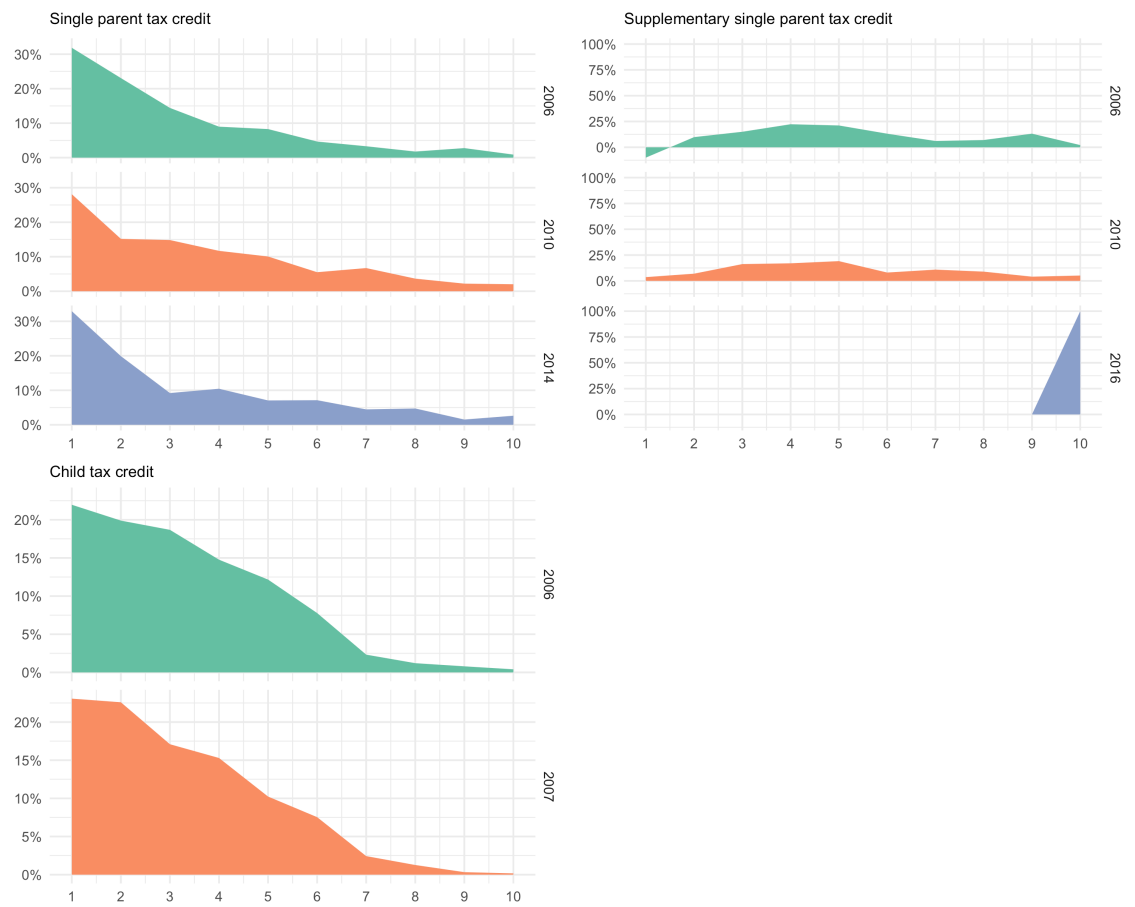


Figure 2.13: Who really benefits from fiscal welfare "for low-income groups"? The British case

(% of total entitlements to each scheme by decile of equivalised household income)

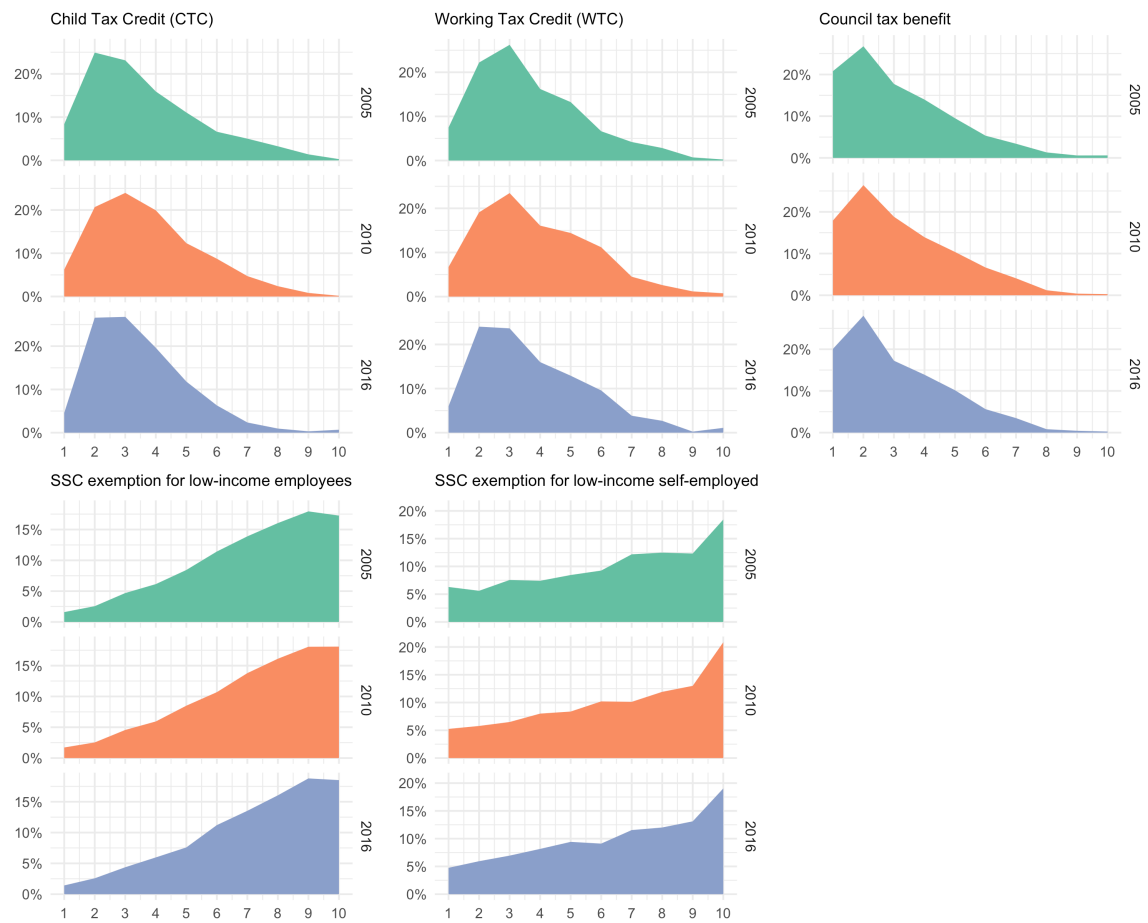
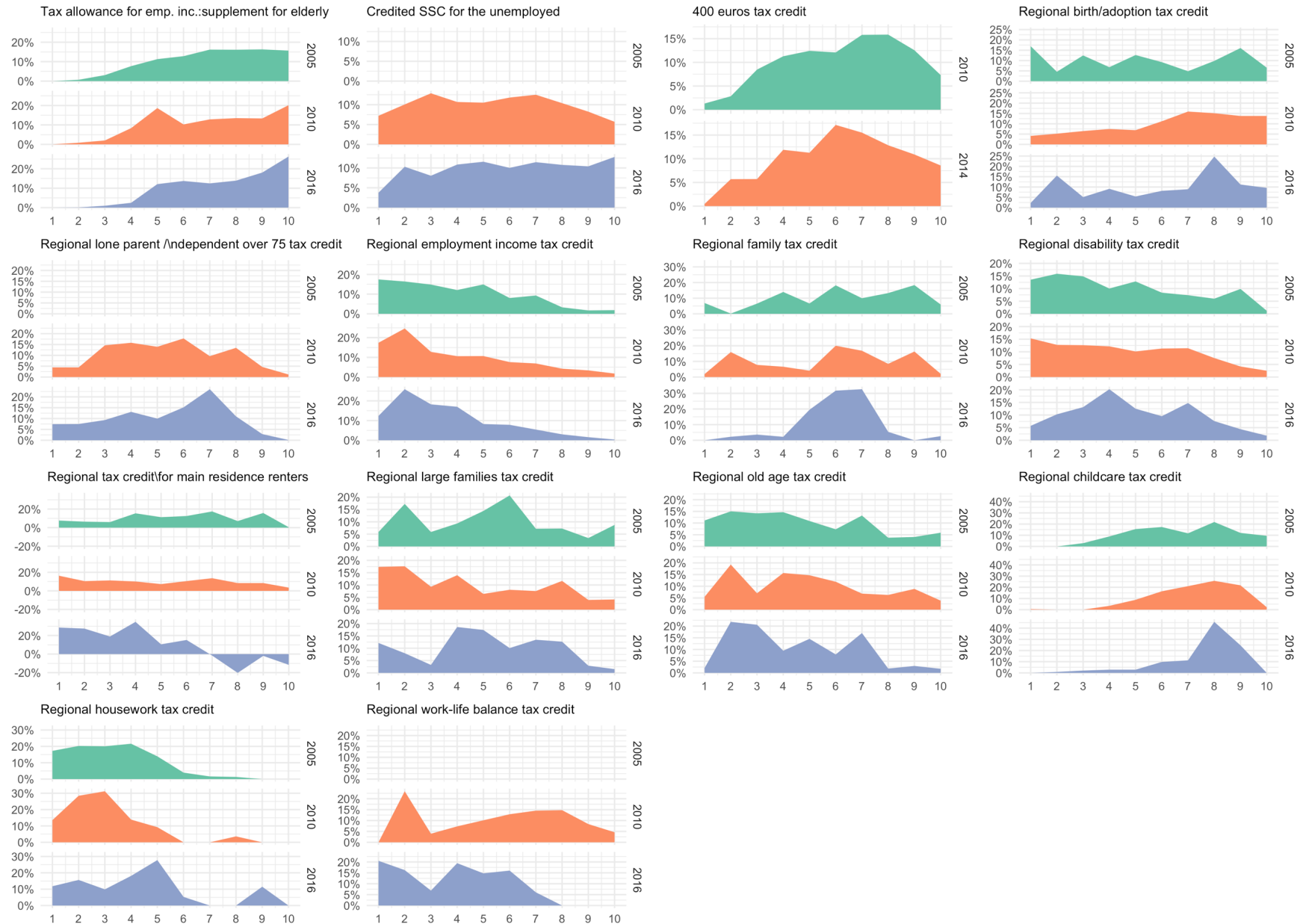


Figure 2.14: Who really benefits from fiscal welfare "for low-income groups"? The Spanish case (% of total entitlements by decile of equ. household income)



As most of the STEs simulated here show a regressive distributive profile, the few policies with a clear progressive distributive impact stand out. The French *Prime Pour l'Emploi*, and the *Child* and *Working Tax Credit(s)* in the UK, are among those STEs that actually redistribute towards low-income groups. In the next chapters, we focus on these particular instances of fiscal welfare for low-income groups.

As explained in Chapter 1, these cases were selected based on their ability to answer this thesis's research question, "why did left-wing governments turn to fiscal welfare to support low-income groups in the 2000s?". The PPE, WTC and CTC were, indeed, introduced by left-wing governments: that of New Labour in the UK and the Parti Socialiste in France. Based on existing explanations of EITC increases in the US that highlight partisan politics linked to the New Democrats, the British case constitutes a most likely case: New Labour is often compared to the American New Democrats. By contrast, the French case constitutes a least likely case - it is often portrayed as a counter-example to the wave of third-wayism that swept the Left in advanced political economies at the turn of the century. These cases also satisfy the "diversity" objective of case selection: they differ in terms of welfare regime, variety of capitalism, electoral system, and partisan system.

In the next section, we focus on these examples, discussing their intellectual and legislative history, and describing in detail their technical properties.

4. Fiscal welfare for low-income groups in France and the UK: a focus on the Prime Pour l'Emploi, Working Tax Credit and Child Tax Credit

The schemes at the heart of this thesis are three examples of refundable tax credits, i.e. tax credits which, if their amount is larger than tax liabilities, are paid out to the relevant tax units by the tax authorities. They are sometimes assimilated to the concept of "negative income tax systems", characterised by tax schedules starting with *negative* rates for those on the lowest incomes (to whom money is actually paid out) and increasing into positive rates for higher income earners. As shown in Figures 2.11 and 2.13 above, these three schemes did actually benefit low-income groups. Below we detail their precise functioning, incidence, and intellectual history.

4.1 The British tax credits

4.1.1 Using the tax system to support low-income groups: history of an idea in the British context

Until the introduction of fiscal welfare under the first New Labour government at the end of the 1990s, income-support in the United Kingdom had usually taken the form of social *benefits*. This included in-work benefits, such as Family Credit, an in-work benefit for low-income workers introduced in 1988 by the Thatcher government, which was later replaced by New Labour's tax credits.

However, although it was only introduced in the 1990s, fiscal welfare for low-income groups in the UK has a much longer intellectual history. The concept can be traced back at least to the 1970s, and the creation of a benefit called Family Income Supplement (FIS) in 1971, under the conservative government of Edward Heath. FIS was a means-tested benefit for individuals with children working at least 30 hours per week. Yet the choice of using a benefit was a

second-best: the scheme had originally been conceived by the Conservatives in opposition as a tax expenditure. When they arrived in office, however, they were warned by civil servants of the challenges of integrating the tax and benefit systems. In particular, the *Pay As You Earn* taxation system, with a limited population coverage and a limited capacity to react quickly to changes in individual situation, was ill-suited to provide income-support (Sloman, 2016, p. 8). In these conditions, a provisional version of the scheme was introduced in the form of a benefit.

In 1972, a government Green Paper reintroduced the tax credit proposal. Yet, the latter was again met with opposition, although more political than technical this time: Labour opposed the scheme as they generally favoured a "back to Beveridge" universalist approach to social policy, and saw the plan as threatening the principle of progressive taxation. In addition, they accused the Conservatives of not stating how they would compensate for the loss of revenue in the general budget, or how the refundable part of the scheme would be financed (Sloman, 2016, p. 11; Stanton, 1977). The largest opposition crystallised on the fact that the switch to a tax credit system would lead to a "purse to wallet" transfer, as benefits usually paid to the mother were replaced by an income tax credit system, which, in a Pay-As-You-Earn system, would be mostly perceived by male-breadwinners. The reform was opposed by the Child Poverty Action Group (CPAG) on that ground, and led to a "cross party assault" by female peers in the House of Lords (Sloman, 2016, p. 14). Employers also opposed the creation of a system in which they would have to administer income-support through the PAYE system (idem).

Faced with this opposition, the government backed down and implementation was delayed. A new version of the proposal was introduced in the Conservative manifesto for the 1974 election, which the Conservatives lost to Labour. The government of Harold Wilson, who had formally opposed the Conservatives' tax credit scheme while in opposition, maintained FIS in its original form, as a benefit. The proposal did not resurface for a while.

Then, in 1986, as the government of Margaret Thatcher launched a large social security reform, the tax credit plan re-emerged: FIS was to be replaced by Family Credit (FC), an in-work non-refundable tax credit more generous than FIS and with lower hour requirements (DHSS, 1985). Once again, political and administrative opposition defeated the proposal. Critics of the reform in the 1980s were the same as those in the 1970s: the CPAG, female peers, and employers all opposed the scheme (Strickland, 1998). As a result, Family Credit was introduced in 1988 in the form of a *benefit* administered by the Department of Health and Social Security.

In October 1999, the first New Labour government - more precisely, the Chancellor of the Exchequer Gordon Brown - introduced two refundable tax credits: the Disabled Person's Tax Credit (DPTC), and the Working Family Tax Credit (WFTC). The latter replaced Family Credit. Generosity was increased, and the pool of eligible beneficiaries was enlarged. In 2003, during New Labour's second term, the WFTC was split into a Working Tax Credit (WTC), directed at low-income working households, including childless households, and a Child Tax Credit (CTC), targeted at families, including workless ones. Again, the generosity of the schemes, as well as the number of beneficiaries, substantially increased. All three schemes were designed,

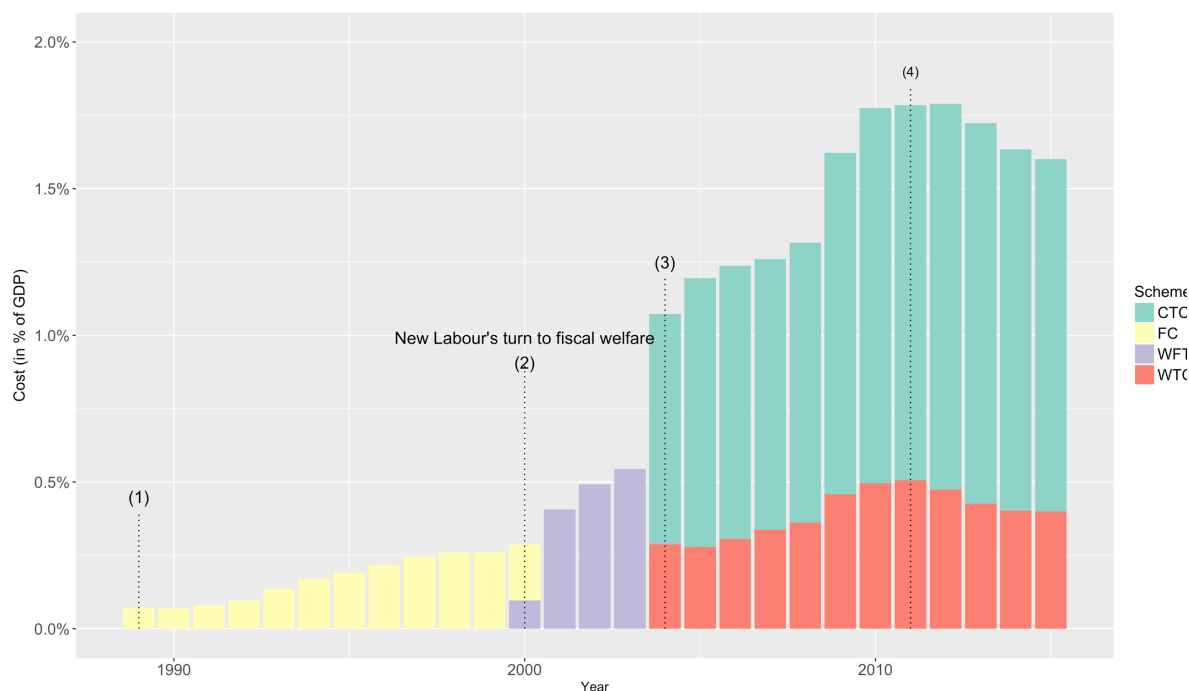
implemented and managed by the British tax administration - formerly Inland Revenue, then Her Majesty's Revenue and Customs (HMRC) from 2005 onwards.

In 2010, the conservative-led coalition government of David Cameron started cutting the tax credits (these reforms are detailed in point 4 in the legend of Figure 2.15 below, and in Chapter 4). The 2012 Welfare Reform Act introduced Universal Credit, a benefit that is scheduled to merge and replace existing benefits and tax credits by 2021. This new benefit will be handled by the Department for Work and Pensions, the traditional social policy administration. Chapter 4 presents details of the reform.

The picture emerging from this brief survey of the history of the policy idea of using the tax system to support low-income workers in the UK is therefore rather puzzling. During the 1970s and 1980s, the proposal was pushed by right-wing governments. The latter, faced with important administrative and political resistance - including from their political opponents on the Left - renounced implementing it, staying instead within the familiar boundaries of traditional income-support instruments. Then at the end of the 1990s, fiscal welfare for low-income support was finally introduced by a formally *left-wing* government - the first New Labour government. This is particularly surprising since the administrative difficulties highlighted in the 1970s and 1980s which hindered the switch to tax credits then (for instance, the limited ability of the system to react swiftly to frequent changes in circumstances) had not gone away; nor could they miraculously be solved by technological advances of the 1990s (as will be made clear in Chapter 3). Finally, in an additional plot-twist, after about a decade of existence the tax credits were replaced by a benefit, under a

conservative government. In other words, from the point of view of the history of the policy idea, the story of how fiscal welfare actually came to be introduced, and was later suppressed and replaced back with a traditional benefit, is particularly surprising.

Figure 2.15: The turn to fiscal welfare (and back) in the United Kingdom



Source: Data for expenditures for Family Credit (FC) are for the UK, extrapolated from figures for GB from DWP (2013), using an extrapolation ratio calculated from HCL (2015). Data for expenditures on the Working Families' Tax Credit is based on DWP (2013) and extrapolated using the same ratio; WFTC expenditure was disaggregated from DPTC (Disabled Person's Tax Credit) expenditure using the DPTC caseload and average amounts in (Inland Revenue, 2002a). Data for WTC until 2006 was extrapolated from data in DWP (2013) using the ratio calculated in HCL (2015), and WTC expenditure was disaggregated from CTC expenditure using a ratio calculated from HCL (2015). Data for WTC between 2006 and 2015 is from HCL (2015).

(1) Introduction of Family Credit by the Thatcher Conservative government.

(2) Introduction by New Labour of the Working Families' Tax Credit. The income threshold above which the benefit started to be withdrawn was raised (compared to FC), and the rate of withdrawal lowered; the childcare disregard was replaced by a childcare tax credit, increasing the award by up to 70% of eligible childcare costs, under a cap.

(3) Introduction of the Working Tax Credit and the Child Tax Credit. Generosity was increased and eligibility enlarged (see below for precise criteria).

(4) The Conservative-led coalition government of David Cameron cut the second income threshold from £50,000 to £40,000, before suppressing it altogether in 2012; withdrawal rates were increased; income disregards were reduced, and the *50 plus* element for people aged over 50 was suppressed. In 2012 the childcare element was cut from 80% to 70% of eligible childcare costs. Following the Welfare Reform Act of 2012 which introduced Universal Credit, the current fate of tax credits is still unclear, as Universal Credit has been implemented in some regions, but the general roll-out has been delayed several times because of administrative complications (Timmins, 2016).

4.1.2 New Labour's tax credits: eligibility, generosity, budgetary and redistributive incidence

The Working Tax Credit (WTC), targeting low-income workers, and the Child Tax Credit (CTC), targeting low-income families were both paid out to British taxpayers for the first time in 2003. Both credits are refundable and offset income tax. Any amount in excess of the tax due is paid out as a cheque to the taxpayer from the tax administration; payments are made weekly or four-weekly. They are defined as scales of increasing lump sums, and vary depending on household arrangements, number of dependents, and total household income. They are set to be replaced by a new income-support *benefit* in 2021 (see Chapter 4).

The WTC benefits individuals in low-income households who work at least 16 hours per week (or 30 hours for childless households). Maximum credit amounts vary based on income and family situation: in 2015, the maximum credit for a lone parent with one child working between 16 and 30 hours was £3970 per year (£4780 if she worked for 30 hours), plus 70% of childcare costs, up to £175 per week. The maximum credit for a childless single person working over 30 hours was £2770 per year. Maximum amounts also include additional disability payments. Until 2012, there was an add-on for workers over 50 years old taking back a job. These maximum amounts are progressively

tapered away after an income threshold - in 2015²⁵ the credit was tapered at a rate of 41% after £6420 of annual household income. Until 2010 (i.e. before the conservative government of David Cameron reformed the policy to make it less generous for those on higher incomes), this first income threshold was complemented with a second one set at £50000, after which the tax credit was tapered away at a rate of 6.67% (HMRC, 2015).

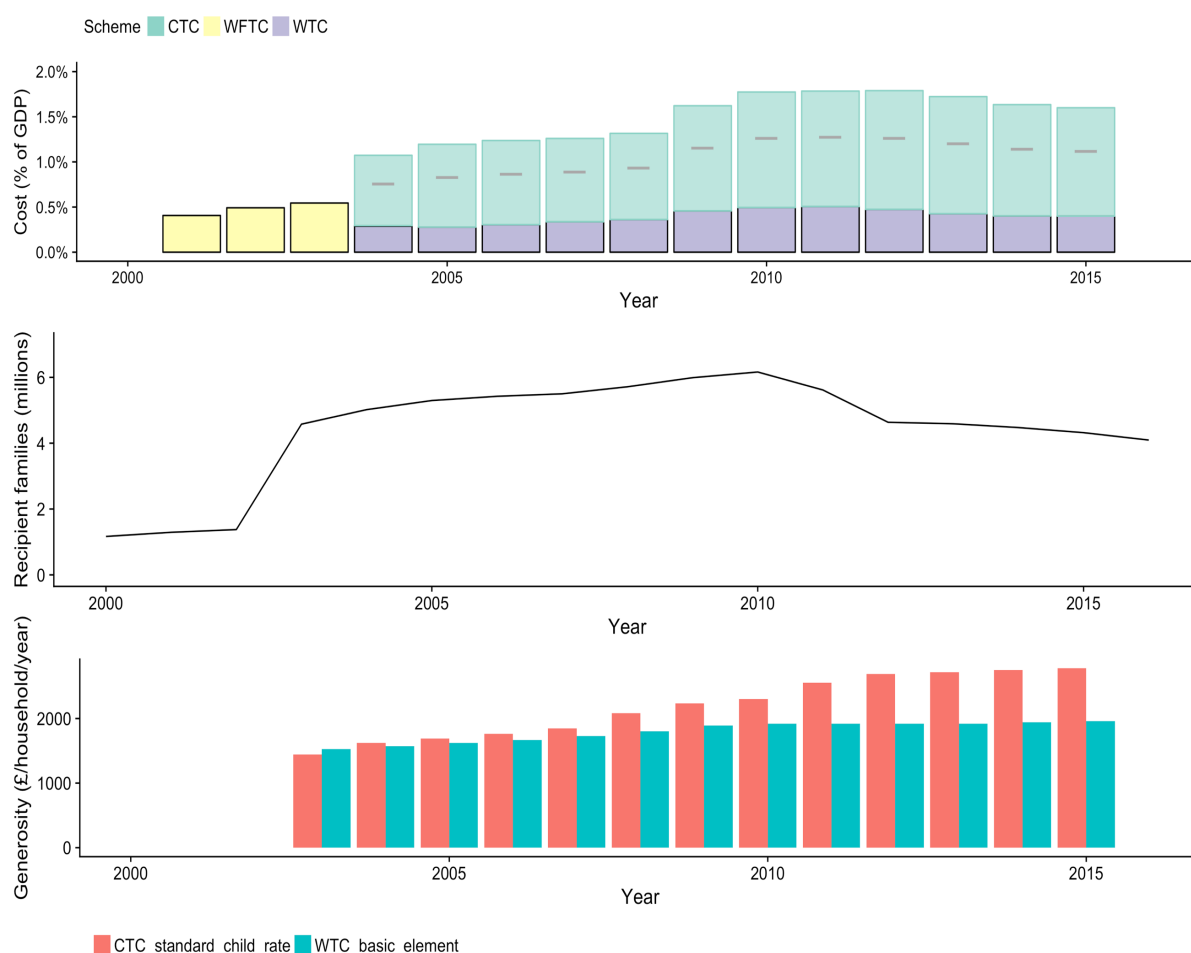
The CTC is also a refundable tax credit, targeted at families with children. In 2015, a family with one child got an annual maximum of £3325. The maximum amount for a couple with two children was £6105. Higher rates applied for disabled children, as well as, until 2010 and the first cuts, an add-on for newborn babies (see appendix F for a detailed schedule of tax credit rates and their evolution between 2003 and 2015).

As shown in Figure 2.15, both schemes were characterised by marked increases in their respective budgetary cost. The WTC amounted to about £3.5 billion in 2004, and reached £7.5 billion in 2015 (DWP, 2015). The CTC cost about £9.5 billion in 2004, and reached £22.5 billion in 2015. In addition, compared with the situation before they were introduced, the tax credits implemented substantial increases in both coverage and generosity. The total number of beneficiary families went from 782 000 in 1998/99 under Family Credit, to 1 376 000 under the WFTC in 2002 (DWP, 2019; Inland Revenue, 2002a). The switch from Family Credit to the WFTC was also characterised by a substantial increase in generosity: the average annual award went from £2964 under Family

²⁵ All amounts and rates indicated are for 2015. This year is chosen as the last one before the tax credits started to be progressively phased out to be replaced by Universal Credit in some local authorities (see below and Chapter 4 for more details).

Credit, to £4513 in 2002 under the WFTC (Dilnot and McCrae, 1999; Inland Revenue, 2002a). Generosity was further increased with the second generation of tax credits: the average annual award was £5795 in 2003/04 for families receiving both CTC and WTC (HMRC, 2005). The number of beneficiaries was also increased further, reaching 6 145 000 (or about 22% of British households) in 2010 (HMRC, 2010). In other words, the two successive reforms constitute clear cases of welfare expansion.

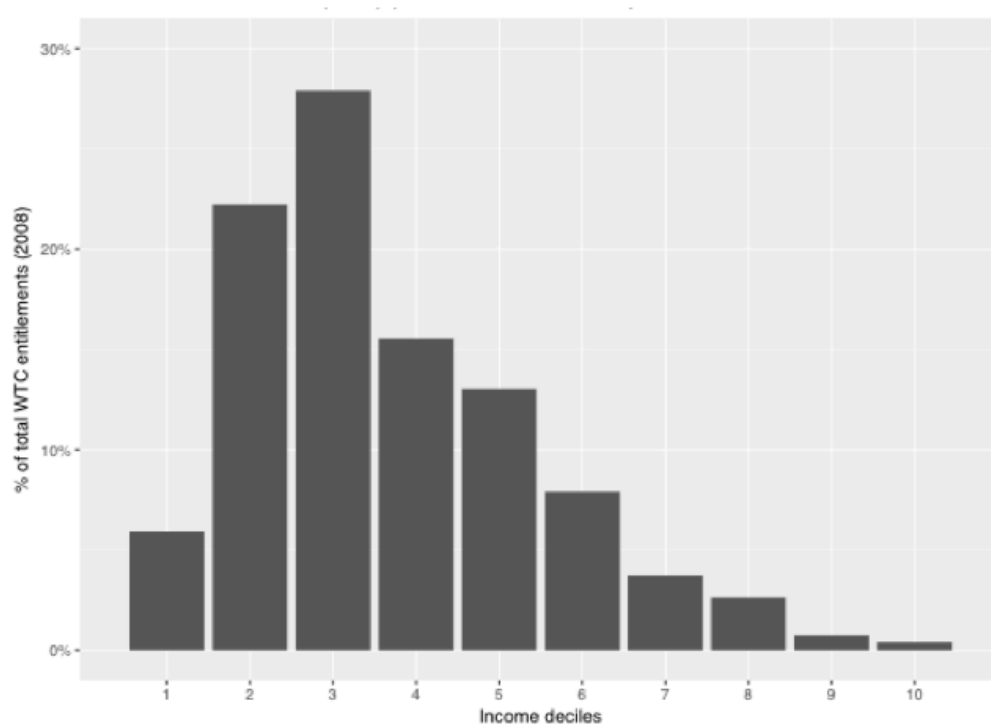
Figure 2.16: The British tax credits, evolution of cost, number of recipients, and generosity



Source: Top panel, see Figure 2.15. The parts of the bars above the grey lines in the top panel represent sums benefiting workless households, based on an estimate of the proportion from HCL (2015). Data on number of recipients from (HMRC, 2017). Generosity proxied by the yearly rates of the basic elements of CTC and WTC (see appendix F).

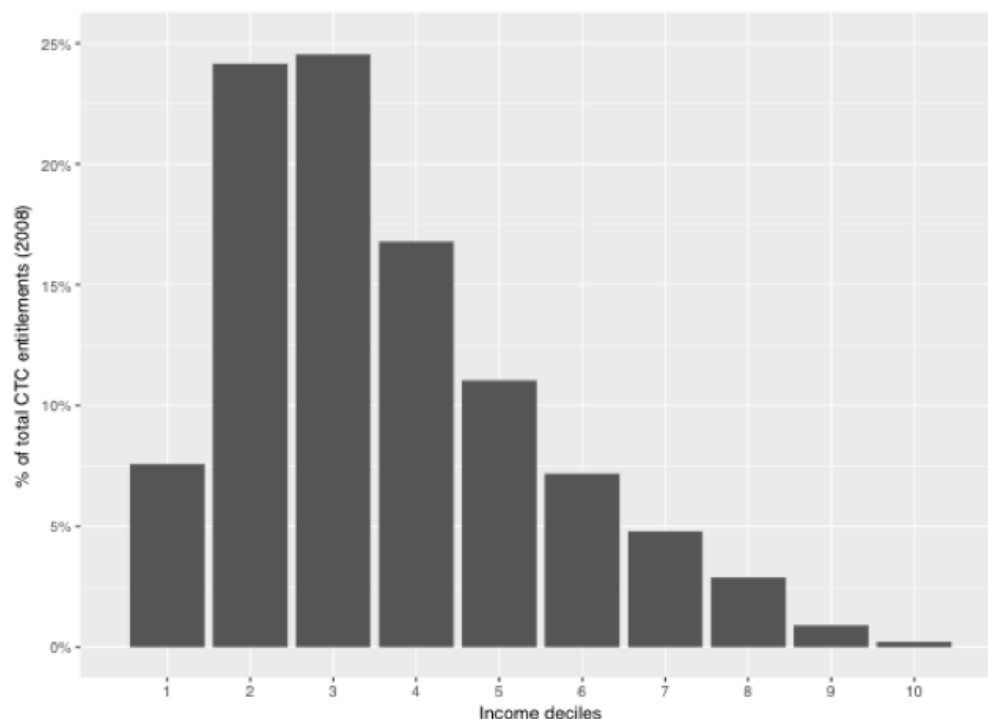
Finally, in terms of redistributive incidence, data simulated using microsimulation (see Figures 2.17 and 2.18 below) show that the tax credits extended relatively far up the income distribution. Before it was scrapped in 2012, the second income threshold after which the awards started to be reduced faster was £50 000. For that reason, although most of the expenditure went to families in the first deciles of income, families higher up the distribution scale also benefited.

Figure 2.17: WTC entitlements (%) by deciles of disposable household income (2008)



Source: own simulation using Euromod (Version G4+) on EU-SILC data

Figure 2.18: CTC entitlements (%) by deciles of disposable household income (2008)



Source: own simulation using Euromod (Version G4+) on EU-SILC data

4.2 The French Prime Pour l'Emploi

4.2.1 A tax credit to redistribute towards low-income groups: history of a policy idea in France

Although the Prime Pour l'Emploi was implemented in 2001, as in the UK, the intellectual journey of the idea of using the tax system to support the income of those at the bottom of the income scale can be traced back to the 1970s (arch: Stoffaes 1973a, 1973b, 1973c). At the same time as the Heath government's proposal was discussed in the UK - and with references to that proposal - the French *Commissariat au Plan* (the institution in charge of centralised economic planning at the time) seriously considered the possibility of introducing a negative tax system, with credits paid out to those on low-

incomes, notably in relation to the Commissariat's objective of "reducing inequalities through benefits and collective services" (arch: Stoffaes, 1975).

As in the UK, however, these proposals were met with strong institutional and political resistance. Civil servants warned of the limited population coverage of the tax system and of the lack of administrative data (arch: Stoffaes 1974). The tax system was deemed to be an inadequate income-support instrument, as it would lack the necessary reactivity to deal with claimants with frequently changing circumstances (arch: Commissariat Général au Plan 1978). In addition, one of the arguments against introducing a negative income tax system was that this would go against institutional traditions, and would in particular be disruptive with regards to the institution traditionally handling benefits covering various social risks, the French Social Security (*Sécurité Sociale*). The latter was considered "sociologically part of French institutions alongside the right to vote or the Eiffel Tower" (arch: Commissariat Général au Plan 1978).

The policy idea was confined to policymaking circles then and did not make it to the legislative stage; this means that political opposition or support for the project was not fully expressed and is hard to measure. Yet one can get an idea of the extent to which the policy idea was disruptive by looking at the initial reactions to the tax credit proposal, when it resurfaced at the end of the 1990s. The latter was greeted with a "storm of controversy" among actors on the Left (Clegg, 2014, p. 150). It was strongly opposed by the left-wing of the Socialist Party, as well as by politicians to the left of the Socialist Party. Opponents to the project pointed to its intellectual proximity with the negative income tax proposal of the American economist Milton Friedman, whose recommendations were traditionally acclaimed by conservatives (Ayrault and

Muet, 2015, p. 18). It was criticised as posing symbolic and effective threats to the logic of social solidarity (Geffroy, 2002; Kessler, 2001; Malingre et al., 2000). The debate went on for months and was extensively covered in the press.

Thus, as in the British case, while technical and principled opposition to the proposal was still well and alive, in particular in left-wing circles, a tax credit for low-income groups was nonetheless introduced in 2001 by the socialist government of Lionel Jospin.

In 2008, a competing benefit, the *Revenu de Solidarité Active* (RSA) was created under the conservative Sarkozy government; the RSA comprised an in-work component, which was deducted from the PPE amount that low income workers would get. The PPE stopped being uprated for inflation, which furthered its erosion. The policy was finally abolished in 2016 under the socialist Hollande government. It was replaced with a benefit, called *Prime d'activité*, and handled by the *Caisse d'Allocation Familiale* (see Chapter 5).

Thus, the French case is *a priori* characterised by a pattern that is reminiscent of that in the UK: proposals for the introduction of a negative tax system to support low-incomes emerged in the 1970s, but were rejected for technical reasons, and the scheme's perceived misfit with French institutional traditions. Tax credits also generated opposition on the Left as principally conservative. Yet, a tax-credit for low-income support was finally introduced, against all odds, by a left-wing government, in the beginning of the 2000s. It was handled by the tax administration rather than the traditional social policy administration. Technical limitations, including the lack of reactivity of the tax system, were still relevant by then. The PPE was progressively eroded and finally suppressed 15

years later, following a *conservative* government's decision to stop uprating it and to progressively replace it with an in-work *benefit*. Beyond and over any potential similarity with the British case, this sequence of events constitutes a surprising policy episode, which is worth analysing further.

4.2.2 Description and incidence

The PPE was an annual refundable tax credit for low-income workers earning a minimum of 0.3 times the minimum wage. It was calculated as a percentage of earned income, benefiting individuals earning below a certain income limit, and whose entire tax unit²⁶ also earned below an income ceiling. Limits varied based on household composition. For individuals above these first thresholds and below a second one, the tax credit amounted to a percentage of the difference between individual earned income and the second limit. Add-ons applied to account for the presence of children, of a low-paid second earner, or for individuals working part-time.

In 2008, a childless single worker in a full-time job paid at the minimum wage would get €980. A couple of full-time workers both paid at the minimum wage in the same tax unit would get €2040 (Bonnetfoy, Buffeteau, and Cazenave 2009:89). Independently of additional discretionary generosity increases (see Figure 2.19 below), income thresholds, rates and amounts for the add-ons were regularly updated to reflect inflation and minimum wage increases. Yet as mentioned above, starting in 2008 these stopped being uprated, which automatically led to the erosion of the scheme (Vanackere, 2013).

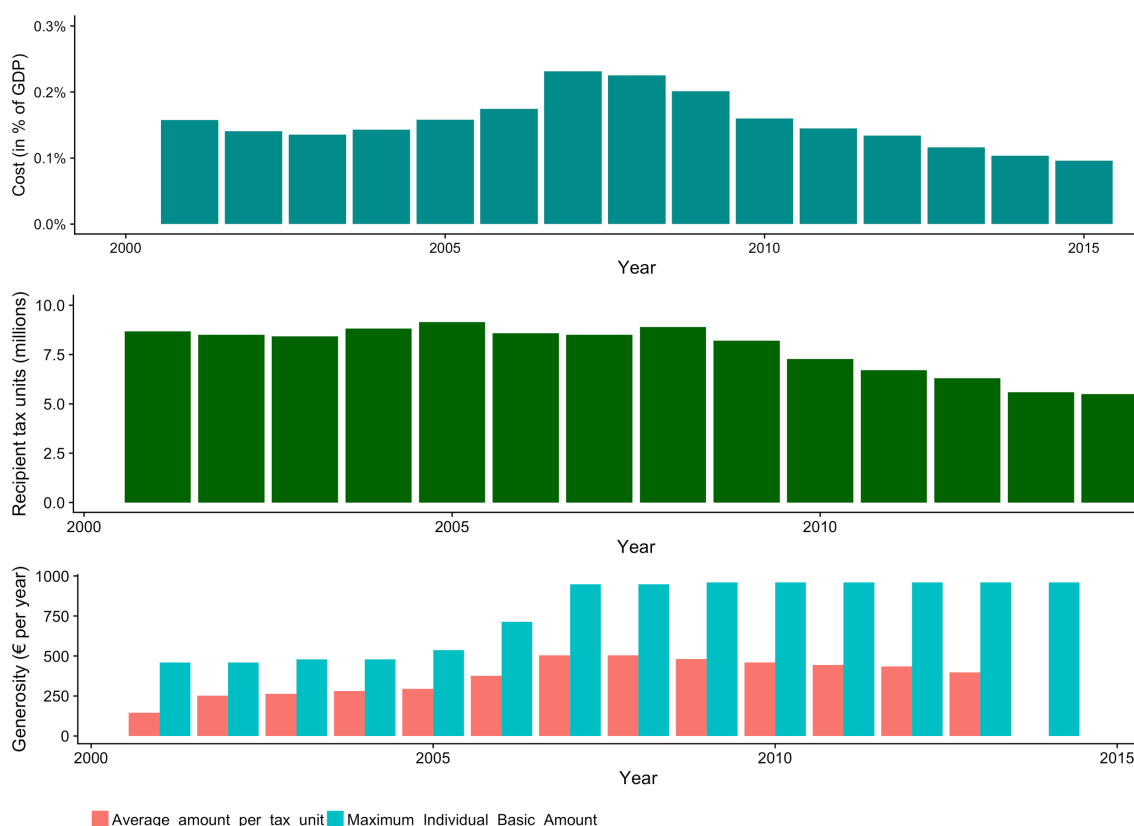
²⁶ In the French tax system, a tax unit can be a household or an individual; for instance, if an adult child residing in their parents' household files a separate income tax declaration, this will be counted as two separate tax units.

At the time of its introduction, the PPE cost a little under €2.5 billion per year. The introduction of the tax credit thus constitutes a clear case of expansion, since this additional cost was not compensated by the suppression of any existing in-work income-support scheme. In particular, the PPE came *in addition to* the Revenu Minimum d'Insertion (RMI), a benefit introduced by another socialist government in 1988, which could be partly cumulated with income from work (albeit for a limited period of time). The new scheme, however, benefited a much larger pool of beneficiaries: while the RMI benefited about 1 million individuals in 2001 (Anguis, 2007), the new tax credit was received by close to 9 million tax units (meaning that the number of *individual* beneficiaries was even larger). At its peak in 2008, the tax credit benefited 9 million tax units, for a total of €4.5 billion.

The lower and upper thresholds for eligibility were originally set at what was then equivalent to 0.3 and 1.4 times the minimum wage for a single worker. Two successive reforms in 2003 and 2006 extended thresholds further up.

As shown in Figure 2.20, like the British tax credits, the PPE benefited individuals relatively far up in the household income distribution. The different shapes observed in Figure 2.17, 2.19 and 2.20 does not mean that the French PPE was less targeted on low-income groups than the British tax credits. Rather, it largely owes to the structure of wages in France, which is relatively compressed around the minimum wage. Since the PPE was designed to reach its peak for those around the minimum wage (see Chapter 5), the targeted income segment comprised a large part of the working population.

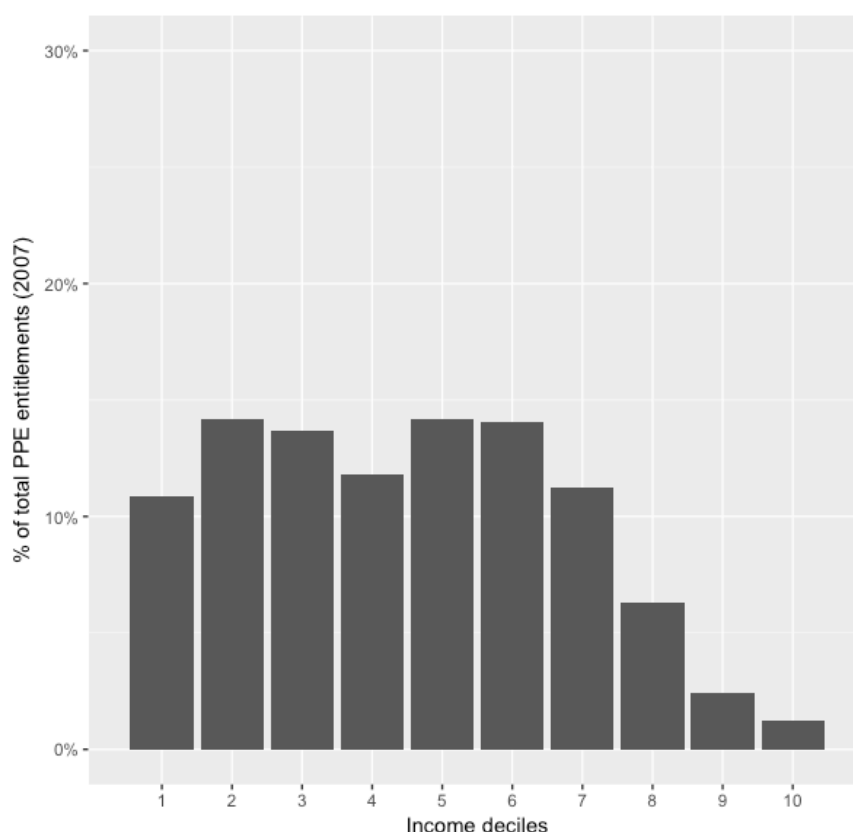
Figure 2.19: The *Prime Pour l'Emploi*: evolution of cost, number of recipients, and generosity



Source: **Data on cost** between 2001 and 2005 is from Cour des Comptes (2005), data for 2006 is from IGF (2007), data for 2007-2009 from Cour des Comptes (2011), and data for 2010-2015 is from the VMT2 annex of the Projet de Loi de Finance for each year. **Data on number of recipient tax units** between 2001 and 2006 is from IGF (2007); data for 2007 to 2013 from "Projets annuels de performance, mission 'Remboursement et Dégrèvements'", in Projet de Lois de Finance 2008-2014. Data for 2014 is from (DREES, 2016). **Data on maximum individual basic amounts** per year for 2001-2004 and 2006 to 2009 is from (Bonnetoy et al., 2009), data for 2005 is from (DREES and DARES, 2008). Data for 2014 is from (DREES, 2016). Data for 2010-2013 is extrapolated in the absence of legislative changes characterising maximum amounts during the period. **Data on average amount per tax unit per year** for 2001-2006 is from IGF (2007). Data for 2007-2013 is from "Projets annuels de performance, mission 'Remboursement et Dégrèvements'", in Projet de Lois de Finance 2008-2014.

Note: "Maximum Individual Basic Amount" refers to the maximum an individual can perceive, without any-add-ons. The blue bars on the bottom panel represent maximum *individual* amounts, not amounts per tax unit. In other words, generosity as measured by the maximum basic amounts for households would be higher. By contrast the data available regarding average amounts corresponds to the average amount per *tax unit*. The difference between the two suggest important different in amounts received by different tax units.

Figure 2.20: Entitlements to PPE by income deciles (2007)



Source: own simulation using Euromod (Version G4+) on EU-SILC data

Similarly, the difference in generosity between the French PPE and British Working Tax Credit needs to be put into perspective. At the peak of generosity, a French childless single worker in a full-time job paid at the minimum wage would get €980 per year. By contrast, the *maximum* credit for a British childless single person working over 30 hours was £2770 - yet this credit would be tapered away at the rate of 41% over 6420£ of annual income. The generosity of the two schemes is therefore generally comparable (by contrast, the CTC was clearly more generous).

5. Conclusion

This chapter aimed at clarifying the concept at the heart of this PhD thesis, fiscal welfare for low-income groups, at producing an estimation of its size, and

at presenting in detail the precise schemes which will be the object of future chapters. It has showed that the use of fiscal welfare to support low-income groups is an understudied phenomenon. There are important gaps in the literature, both in terms of understanding the particular nature of fiscal welfare, its drivers and effects, as well as in terms of measuring its incidence on social policy budgets and state's redistributive efforts.

Fiscal welfare in general remains a blind spot in social policy literature, and is under-theorised. Based on an attentive review of existing literatures coming at the issue from various disciplinary angles, this chapter offered a conceptualisation of fiscal welfare as the use of the tax system for social policy purposes, which distinctive characteristic is its *higher degree of presentational freedom*, compared to traditional welfare. Building on this initial conceptual clarification, and on two thorough case studies, future chapters aim to develop a theory behind the particular use of fiscal welfare *for low-income groups*. Indeed, the present chapter made clear that the particular sub-group of policies made of tax expenditures for income-support purposes was particularly ignored in the literature. The following chapters attempt to fill in this gap.

This exercise appears all the more important that the phenomenon is not of a negligible extent. Examples of fiscal welfare for low-income groups were found in countries with different institutional traditions, and generally classified in different broad categories of welfare states. The use of these instruments also appeared consistent over time, in the period for which we could simulate data. The total budgetary costs involved, which are very probably underestimated, since we could only simulate the cost of a reduced number of policies per country, are sizable. They are in the same order of magnitude as amounts spent

on family benefits. Importantly, the redistributive incidence of these schemes appeared to be somewhat counter-intuitive. We found that often times, schemes ostensibly designed to benefit low-income groups (an intention often reflected in the names of the policies, e.g. the "low earned income tax credit" in Finland), actually have a regressive profile: they benefit higher-income households more, relative to income.

Overall, the findings in this chapter provides a clear motivation for both the following chapters in this thesis, and future research on the issue. The methodological approach developed in this chapter, based on a thorough review of the methodological trade-offs attached to various approach in producing data on fiscal welfare, could be replicated to include other countries. In future work, it could also be perfected to allow for the simulation of a larger share of schemes theoretically included in the perimeter.

Having clarified concepts and produced an estimation of the phenomenon across countries, this chapter zoomed in to present the particular French and British schemes which are the object of future chapters. Those schemes are among the few *actually* redistributive schemes identified through the micro-simulation exercise. They also both constitute clear cases of welfare expansion: their introduction corresponded to increases in both generosity and coverage²⁷. Re-tracing a brief history of the policy idea in both contexts revealed an interesting, apparently similar pattern between the two countries. Namely, in

²⁷ At their peak, the French PPE and Working Tax Credit concerned a comparable number of beneficiaries, and had costs in the same order of magnitude. As explained above, differences in generosity or in distributive incidence need to be qualified. Yet, while the case for comparability could be made, it is somewhat irrelevant as the purpose of this thesis is *not* to pretend that the two cases are similar, or even comparable. The aim of these parallel case studies, as explained in Chapter 1, is to analyse two instances of the choice of a particular instrument, to favour broadly the same population - low-income groups.

both cases, fiscal welfare for low-income groups was finally introduced by a left-wing government in the early 2000s, after several attempts to do so under conservative ruling in previous decades had failed, partly as a result of opposition from the Left. In both cases, the return to using a benefit in the 2010s was also operated by a right-wing government. In the next chapters, we further dig into the drivers of these particularly surprising policy episodes in France and the UK.

Chapter 3 - Supporting modest incomes at the turn of the 21st century: the Left's experiment with negative expansion

As discussed in previous chapters, instances of fiscal welfare intended to benefit low-income groups and characterised by a progressive distributive profile are relatively rare. Examples of instruments introduced by left-wing governments, as was the case in France and the UK in the 2000s, stand out as particularly surprising. The present chapter turns to the literature to look for potential answers to the research question laid out in Chapter 1, namely: "what drove the French and British Left to introduce fiscal welfare instruments for low-income groups in the 2000s". We review the literature on fiscal welfare and welfare development, as well as the literature on left-wing policymaking and income-support in the 2000s. We find that existing theories fall short of providing sufficient explanations to make sense of the cases at hand. We also review the role of traditional explanatory factors in the literature on social policy change, and similarly find that usual suspects cannot on their own explain the change of policy instrument in France and the UK. Building on this review of the literature, this chapter then develops an alternative hypothesis to explain the turn to fiscal welfare for low-income groups in the two cases under scrutiny. This hypothesis is put to the test in Chapters 4 and 5, which present empirical data on the British and French cases respectively.

1. The Left's turn to fiscal welfare for low-income groups in the 2000s cannot be satisfactorily explained by explanations in the literature

1.1 The literature on fiscal welfare cannot explain its use by the Left in cases of welfare expansion towards low-income groups

As explained in Chapter 2, the concept of fiscal welfare was originally designed to cover schemes favouring middle- and high-income groups. According to Titmuss's "social division of welfare" theory, fiscal welfare is social policy for middle- and higher-income groups. The concept of tax expenditures was also originally coined to describe provisions in the US tax code disproportionately benefiting higher income households. Therefore, these theories appear ill-suited to explain the development of fiscal welfare for low-income groups.

Further, welfare development theories of fiscal welfare describe it as an instrument favoured by conservatives seeking to limit government intervention. Crucially, authors argue that fiscal welfare develops as conservative governments look for means of engaging in "hidden retrenchment". "Tax expenditures with social welfare purposes", according to Hacker, are an example of the deliberate "covert reform strategies" through which "welfare state opponents" seek to discreetly cut welfare. As the argument goes, replacing "embedded policy commitments" with fiscal welfare allows conservative governments to foster a gradual and discreet retrenchment while avoiding the blame associated with visibly cutting "popular and change-resistant policies" (Hacker, 2004, p. 243). First, using fiscal welfare reduces tax revenue, which mechanically limits the growth potential of direct spending programs in the future (Prasad, 2011, p. 263). Tax cuts increase the deficit and worsen fiscal pressure, which can be used as an argument to force additional direct spending cuts (Howard, 1997, p. 4). Such retrenchment strategies have been labelled

"starve the beast" strategies (Bartlett, 2007). Second, when public benefits are replaced by tax incentives for private programs, using fiscal welfare also amounts to a "layering strategy" (Howard, 2007, p. 89): in the long term, demand for public welfare is diverted to such tax-incentivised private programs, appeasing "those who might otherwise be vocal proponents" of public welfare expansion (Mettler, 2011, p. 18) - see also Hacker (2002, p. 51), Teles (2007).

The common denominator of these approaches is that introducing fiscal welfare is identified as the first step in a long-term conservative strategy of *retrenchment*. This literature is therefore ill-suited to explain cases of *left-wing* governments turning to fiscal welfare to *increase* transfers to low-income groups. More generally, in the literature on the *hidden* welfare state fiscal welfare is traditionally characterised as "subterranean" (Hacker, 2002), and "obfuscated" (McCabe, 2016). Scholars usually describe expenditures as less visible and therefore less scrutinised than direct spending (Owens, 1983, p. 191; Stebbing and Spies-Butcher, 2010, p. 593; Surrey, 1970, p. 726; Toder, 1999, p. 5). The use of such an invisible instrument in expansion reforms is puzzling from the point of view of the welfare development literature. In this literature, politicians are generally assumed to make expansion reforms as visible as possible in order to claim credit²⁸ for them. This is reflected in their choice of instrument: looking at data on welfare reform in Britain, Denmark, Finland and Germany between 1974 and 2014, Jensen et al (2018) find that "visible policy instruments"²⁹ are "much more likely to be used for expansionary

²⁸ The notion that politicians not only seek to "avoid blame" but also to "claim credit" for popular measures (Weaver, 1986) is well established in political science.

²⁹ To test their claim, (Jensen et al., 2018) define a continuum of policy instruments according to their visibility and compare the frequency with which these instruments are used across expansion and retrenchment cases. From most visible to least visible, they look

purposes than for retrenchment", while invisible policy instruments are "more likely to be employed for cutbacks than for expansions" (Jensen et al., 2018, p. 173). Therefore, the use of an instrument primarily qualified as "hidden" in the literature in cases of expansion reforms makes little sense from that perspectives.

Research has shown that expansion policies might be more or less conducive to credit claiming based on who benefits from the expansion, and whether they are perceived as "deserving" (Oorschot, 2000; Petersen et al., 2011; Helbling and Kriesi, 2014; Oorschot et al., 2017). For instance, support for schemes targeting unemployed workers is generally lower than for those aimed at the elderly, the disabled and the sick (van Oorschot, 2006). Yet in the cases at hand, expansion benefited low-income *workers* and families with *children*, two target groups presenting opportunities for "affordable credit claiming" (Bonoli, 2012, p. 103). While the deservingness logic might explain why politicians decided to focus on these groups rather than on able-bodied, childless unemployed workers, who are generally perceived as less deserving (van Oorschot and Roosma, 2015), it remains unclear why they would have decided to use a supposedly "hidden" instrument in doing so.

1.2 Findings from the few case studies of fiscal welfare for low-income groups in the US cannot be generalised to the French and British cases

The literature on fiscal welfare is limited. It is dominated by case studies of the American context. In fact, fiscal welfare is frequently conceived as an idiosyncratic feature of the American political economy, owing to the existence

at reforms based on changes to: benefit levels; age brackets; duration period; employability; means-test; waiting period; contribution level; rules of residence; health documentation; contribution period; qualification period; indexation rules; assessment base.

of veto players, the structure of Congress (Howard, 1997; Mettler, 2011), the rules governing congressional committees (Dharmapala, 1999), the internal politics of government agencies (Weisbach and Nussim, 2004), or the American partisan system (Faricy, 2011). Others describe fiscal welfare as a long-standing, path-dependent specificity of the American welfare state, stemming from the "conservative public philosophy" preventing the development of large direct spending programs to address certain risks (e.g. healthcare) (Mettler, 2011, p. 16; Hacker, 2002), or from the "historic power of business" and "strongly ethno-nationalist orientation in the provision of social protection" in the US (Schwartz, 2018, p. 6) - see also note 33.

When the US case is not presented as unique, the use of fiscal welfare is often associated with the "liberal" welfare regime - see e.g. McCabe (2018) King (1984), Castles (1989), Stebbing and Spies-Butcher (2010), Faricy (2011), Adema et al. (2014) - or with Liberal Market Economies (Martin, 2015). Fiscal welfare is described as aligned with ideas prevailing in such welfare states, e.g. "small government", "anti-welfare", and more generally neoliberal ideology (King, 1984). Authors link this regime specificity to the historical influence of private market welfare providers and the relative weakness of trade unions in liberal market economies - see e.g. Sinfield (1978), Mann (2009). This idea is confirmed by the few studies that enlarge the analysis to Continental and Nordic welfare states. Using available administrative data from Germany, Norway, Denmark, Finland, Sweden, the US, the UK and Australia, Ervik (2000) identified high tax progressivity, high levels of inequalities, and a residualist ideology as good predictors of a country's likelihood to use tax expenditures. His findings are consistent with those reported by Steinmo

(1989), in a comparison of the US and Sweden. Greve (1994) looks at the incidence of STEs in 17 OECD countries but does not generate clear hypotheses about drivers.

The literature on fiscal welfare benefiting low-income groups is entirely made up of analyses of the American Earned Income Tax Credit (EITC). The EITC is a refundable tax credit for low-paid workers, the amount varying with family structure and earnings level³⁰. Since its introduction in 1975, it has become one of the biggest federal budget lines, totalling \$72.7 billion in 2015. 87% of this sum is made up of refundable elements paid out in cash to beneficiaries by the tax administration, while the rest offsets tax liabilities ('Estimates of Federal Tax Expenditures' 2015) - see appendix G for more details on the evolution of EITC spending over time).

Five distinct drivers of the recourse to fiscal welfare in the case of the EITC are identified in the literature. **First**, authors argue that individual tax cuts are less frowned upon than “government handouts” in the context of American social policy, characterised by a residualist approach (Clegg, 2015, p. 494; Stebbing

³⁰ In 2014, the credit was worth 7.65 % of the first \$6,480 of earned income for low-income workers with no children, 34 % of the first \$9,720 of earned income for a family with one child, 40 % of the first \$13,650 for a family with two children, and 45 % of the first \$13,650 for a family with three or more children. Income levels and rates for the phase-out also depend on family composition and marital status. Phasing out for married couples started at incomes \$5,430 greater than for similar unmarried couples in 2014 (Falk, 2014). In 2015, the maximum credit was \$6242 for a family with three or more children, and \$503 for a single filer without children. Payments are made annually by the Internal Revenue Service (IRS). In 2014, the tax credit benefited 27.5 million tax units (families or individuals) (Internal Revenue Service, 2015). IRS SOI data analysed in Eissa and Hoynes (2008) show, for the tax year 2004, that approximately 75% of EITC returns were filed by single filers or single head of households, while only 25% were joint returns by married filers. In 2013, the most typical (modal) claimant had an adjusted gross income (AGI, equivalent to an individual's total gross income minus specific deductions) of between \$10,000 and \$14,999, while about half of claimants had an AGI below \$15,000 (Falk and Crandall-Hollick, 2016). In 2015, the largest proportion of the total expenditures went to tax units in the \$10,000 to \$20,000 income band ('Estimates of Federal Tax Expenditures' 2015).

and Spies-Butcher, 2010, p. 602). The EITC, as well as other forms of fiscal welfare such as tax credits for childcare, or tax deduction for private insurance premiums, are seen as better aligned with notions of self-reliance and individual responsibility historically prevalent in the US, compared with traditional social benefits (Hacker, 2002, p. 319).

This driver could potentially have been at play in the UK, which is commonly associated with the US as an Anglo-liberal welfare state, characterised by a residualist philosophy of welfare. However, it is unlikely to have been determining in the turn to fiscal welfare in France, where the dominant logic in the welfare system is one of contribution and entitlement. Indeed, as was explained in Chapter 2, when a project of negative income tax was debated in policymaking circles in France in the 1970s, it was deemed politically unfeasible, as it would disrupt the very entrenched institution of Social Security. Further, in *both* cases, the introduction of a fiscal welfare instrument to benefit low-income groups corresponded to a relatively isolated episode in social policy, introduced in the 2000s, and reversed in the 2010s. As such, it can hardly be conceived of as the product of a long-standing, deeply-rooted philosophy of welfare residualism.

A **second** driver identified in the EITC literature is linked to the relative ease with which fiscal welfare can allegedly be introduced in the American system, compared with traditional social policy instruments (Howard, 1997, p. 179). Authors argue that using fiscal welfare helps to overcome the numerous institutional gridlocks that plague social security legislation in the US (Surrey 1970; King 1984; Toder 2000; Weisbach and Nussim 2004; Burman and Phaup 2011). For instance, taxation bills leave less time for debate and

amendments than welfare bills - reducing the risk of opposition. The same committee in each House (the Ways and Means committee) authorises and funds STEs; compared with the procedure for social security bills, this amounts to halving the number of possible veto points. This comparative advantage of fiscal welfare is described as having been instrumental when introducing the EITC in 1975: while an equivalent benefit had been introduced and rejected twice in previous attempts, the tax credit version was passed without much debate as a small provision in the Tax Reduction Act of 1975 - in fact it was barely noticed (Howard, 1997, p. 69). The same holds true of further expansion episodes - so that the development of fiscal welfare in the US has been described as path dependent. American institutions are described as positively biased towards the development of fiscal welfare.

This is in stark contrast with the turn of events in both France and the UK, where the tax credits were introduced through dedicated laws, rather than tucked away in omnibus tax legislations, and where the enactment of a tax legislation was not particularly easier than that of a social policy. While further increases in the EITC could be justified by the convenience of simply developing a mechanism that was already in place, in France and the UK, the change of instrument was not convenient: it happened *in spite of* the many institutional difficulties it generated. Contrary to a frequent assumption in economics, a tax credit system is neither inherently simpler than a benefit one, nor is it an automatic feature of an existing tax collection system. It needs to be purposefully designed and implemented. Relevant payment channels are often absent, since many of the tax credit beneficiaries might not be paying taxes in the first place. Creating a redistributive tax credit system therefore entails

transforming the tax collection process and represents novel and additional work for the tax authorities.

In the UK, the change of instrument resulted in administrative chaos. The tax system worked on an annual basis, while the tax credits had to be paid weekly or monthly. As such, the income tax was “a relatively inflexible instrument” for the purpose of supporting low-income groups (arch: Ohnial 1998). To allow monthly payment to be processed through the Pay As Your Earn taxation system, the tax administration IT system had to be entirely revamped. Yet the new system could not cope with the high frequency with which claimants' circumstances were changing, and it generated numerous problems of overpayments and misdirected payments amounting, in 2003, to a £5.4 billion bill (Davies 2007:62). In the years following implementation, the change of instrument resulted in “a major public policy fiasco” (Clegg, 2015, p. 495). In addition, the Inland Revenue did not possess household-level information necessary to the payments of the new tax credits - in fact, the Treasury had “surprisingly little information about the circumstances of taxpayers” (arch: Ohnial 1998). This meant that information had to be collected through a dedicated claiming form, adding an administrative layer rather than simplifying the process.³¹

³¹ These difficulties were not unexpected: there had been warnings - in particular from officials in the Department of Social Security - that the new delivery mechanism was ill-adapted to a population characterised by frequent income fluctuations (arch: Kelly and Pattinson 1999; UK-E). Treasury officials themselves were expecting difficulties in a system which aimed to regularly update amounts of tax credits based on frequently changing incomes, at the risk of delaying payments (arch: Macpherson 1997a). This suggests that the change of instrument was driven by a political will strong enough to go against well anticipated administrative difficulties.

The introduction of the PPE in France was also administratively disruptive. It was a complete misfit with the culture of the tax administration, where civil servants were used to collect, rather than pay out money to individuals (FR-L, FR-I). According to former advisors in the Ministry of Finance involved in the reform, “tax technicians (...) were extremely surprised” (FR-I). The concept of a tax credit for low-income individuals did not belong to “the realm of what they thought possible to achieve” (FR-L). The hasty introduction of the new instrument was “going against the entire system, which was designed so that changes were planned a long time in advance, to avoid confusing taxpayers” (FR-I). Interviewees converge on the idea that the administrative consequences of the turn to fiscal welfare were not really thought through (FR-A, FR-B, FR-H).

Further, the turn to fiscal welfare in the 2000s in both countries is better described as path-breaking rather than path dependent. Indeed, while proposals to use fiscal welfare to benefit low-income groups had been considered in both France and the UK in the early 1970s in parallel to discussions about the EITC in the US the turn was not taken then (see Chapter 2). Instead, these proposals were met with strong institutional and political resistance: civil servants warned of the limited population coverage of the tax system and of the lack of administrative data (Sloman 2016, *arch*: Stoffaes 1974). They argued that the tax system would be unable to react swiftly enough to changes in individual situation and thus was inadequate for income-support purposes (*arch*: Commissariat Général au Plan 1978). For these reasons, while the EITC was implemented in the 1970s in the US, in France and the UK,

income-support schemes instead took the form of traditional *benefits*, handled by social policy administrations.

In other words, path-dependency in France and the UK was biasing welfare development in the direction of traditional social spending rather than fiscal welfare. Instruments targeting the working poor had historically developed in the form of benefits - Family Credit in the UK, and the *Revenu Minimum d'Insertion* (RMI) in France (which could be cumulated with a wage for a period of time - this cumulative dispositive was called the "RMI *intéressement*"). Using these existing institutions would have been easier and less costly. According to a former advisor in the Department of Work and Pensions in the UK, using Family Credit "would have saved the billions of pounds that [the tax credit system] was always bound to cost in implementation" (UK-E). To increase support for children, civil servants in the Treasury themselves identified the option of raising Child Benefit, a long-standing institution of British social policy, as "the most promising route" (*arch*: Wynn Owen 1997). In France, using the tax system instead of the existing network of Caisse d'Allocations Familiales (benefits payment agencies) to deliver the PPE also came at a cost. The law creating the PPE was voted in February, and the government wanted payments to be delivered by September. To meet that tight deadline, the tax administration had to send cheques to each beneficiary, which "would not usually be done, as it is quite costly" (FR-I). The choice of fiscal welfare was therefore made against administratively simpler and cheaper

options, which corresponded to historical approaches to income support in both countries; it was a path-breaking choice.³²

A **third** element identified as pushing politicians to resort to fiscal welfare rather than traditional benefits for income-support purposes in the US is the existence of strong *political* gridlocks in the divided American polity. In the particular American institutional setting, compromises between Republicans and Democrats are often required to pass laws. Authors argue that the "inherent ambiguity" of fiscal welfare, in contrast to an equivalent benefit, meant that the EITC could be portrayed as an income-support policy, a tax reduction, or an alternative to traditional social policy, depending on the audience. As such, it was likely to appeal to coalitions broader than those backing traditional direct spending schemes (Howard, 1997, p. 11). As a policy that was acceptable to both parties, it provided a very useful bargaining chip: Republicans used it as a way to balance reforms favouring high-income groups in their 1986 tax reform (Howard, 1997, p. 149). During negotiations of the 1989 child care legislation, Democrats used it to overcome Republican opposition in expanding support for low-income families (Howard, 1997, p. 155).

This explanation has limited purchase in the French and British cases. It could potentially apply in France, where the two-ballot electoral system creates an incentive for parties to regroup forces in two separate camps in the second round of the election. Parties therefore often need to form informal cross-party

³² This is an additional contradiction to Hacker's theory of fiscal welfare as a means of hiding reform. Indeed, in the latter, the use of fiscal welfare amounts to incremental subversion from within, and is therefore associated with overall institutional *continuity*. Politicians resort to such strategy when they have a limited reform capacity and the cost of outright reform is too high (Hacker, 2004, p. 246). By contrast, in both cases at hands, the change of instrument entailed important and costly administrative transformations, in fact suggesting rather substantial political and administrative reform capacities.

alliances. However, as will be explained in detail in Chapter 5, rather than helping to cement coalitions, the introduction of fiscal welfare in fact seriously threatened the fragile equilibrium between the different partisan components of the left-wing coalition in power at the time. Communist and Green allies of the Socialist-led government opposed the scheme and voted against it. Inside the Socialist party itself, the adoption of fiscal welfare was met with huge resistance and generated more unrest than unity (Malingre, Noblecourt, and Mauduit 2000; Dely and Raulin 2001; Emmanuelli 2001; *Libération* 2001; arch: Parti Socialiste 2001).

In the UK, this explanation is even less likely to apply, as the first-past-the-post electoral system usually translates into strong majorities, with the ruling party governing on its own without having to compromise. In addition, previous attempts at introducing fiscal welfare for low income groups in the 1970s and in the 1980s had sparked more political division than compromises (see Chapter 2). Employers opposed the added administrative burden of having to pay the tax credit through the Pay As You Earn system (Sloman, 2016, p. 14). Labour opposed the plan as a potential threat to the principle of progressive taxation (Sloman 2016:11; Stanton 1977). In other words, it is unlikely that the introduction of fiscal welfare for low-income groups in France and the UK owed to the need to reach compromises between different political factions.

Fourth, much as fiscal welfare is sometimes described as part of a conservative strategy to curb welfare development (see above), a similar logic is identified in the case of the EITC. The latter was partly used to drain support away from the Aid for Families with Dependent Children (AFDC) programme, a cash transfer which had reached \$5 million in 1975 (Howard, 1997, p. 65).

Introducing the tax credit was supposed to help reduce the number of AFDC beneficiaries³³. As explained above, because the PPE and the British tax credits were introduced by left-wing governments seeking to *expand* welfare towards low-income groups, this explanation cannot be applied to these cases.

Fifth and finally, the development of the EITC is sometimes explained by its ability to appeal to a wide range of voters from various income levels. Fiscal welfare in general is often described as providing "a political framework for uniting the interests of middle and higher income earners" (Stebbing and Spies-Butcher, 2010, p. 599). Faricy (2016, p. 116) argues that using tax expenditures allows parties on the Right and the Left to direct money towards particular groups of voters in their majority (i.e. the very rich and the very poor) without alienating middle-class voters. This argument builds on description of fiscal welfare as "invisible": mainstream voters would not notice it. A similar logic - strategic targeting in the race to get the middle-class vote - is used to explain increases in the EITC in the 1980s and 1990s (Howard, 2007, p. 91) - see also Ervik (2000, p. 253). However, in these accounts, the EITC is described as having provided "a sparkling opportunity" for the New Democrats under Bill Clinton to show that the party was "no longer in thrall to old ideas and the labour Left" (Hacker, 2002, p. 275), and "could no longer be accused of coddling the poor" (Howard, 1997, p. 149) as the Democrats sought to attract "mainstream voters" (Howard, 1997, p. 151). These different accounts,

³³ Howard (1997, p. 66) points that this focus on reducing the number of AFDC beneficiaries was at least partly driven by rampant racism. The strong focus on the working poor, "most of whom were white", was conceived as "a way to mitigate any racial antagonisms", in a context characterised by "a deepening feeling (...) among less affluent whites that they were subsidising blacks [through AFDC] to engage in any number of socially undesirable behaviours".

although they point to the same underlying logic - using fiscal welfare to support particular constituencies is compatible with attracting mainstream voters - are somewhat contradictory: fiscal welfare is at the same time supposed to be discreet and hidden, and to "show" middle-class voters that the Left has changed.

This last explanation might travel to the British case, where the tax credits were introduced by a New Labour government often compared to that of the New Democrats in the US. Both parties are often described as having followed a similar "third-way" strategy centred around middle-class voters (Bonoli and Powell, 2002; Giddens, 1998; Kitschelt, 1994). However, the French Socialist Party is often portrayed as a counter-example to the wave of third-wayism that swept the Left in advanced political economies at the turn of the century - see e.g. Clasen and Clegg (2003, p. 364). This last explanation drawn from the case of the American EITC is therefore unlikely to be a sufficient explanation for the introduction of the PPE in France.

1.3 Conventional accounts of left-wing policymaking in the 2000s do not help to make sense of the cases at hand

The transformation of left-wing policymaking in the 2000s has been the object of many inquiries. Numerous accounts of the transformation of social democracy, independently of the analytical approach adopted, describe social democracy in the 1990s and 2000s as moving away from redistribution.

For some authors, this evolution reflects demographic changes and changing preferences in the electorate at the time. Left-wing actors are described as having rationally adapted their strategy to the declining electoral weight of the working class compared to that of the rising middle-class (Mair et al., 2004, p.

3) and to the weakening of traditional partisan ties in the post-industrial era (Dalton et al., 2002; Kitschelt and Rehm, 2015). Authors argue that as a result of these demographic changes, parties on the Left adopted "preference-accommodating"³⁴ strategies catering to the increasingly individualistic (Giddens, 1998) and post-materialist (Kitschelt, 1994) preferences of the growing middle-class - see also Pontusson (1995), Klitgaard (2007). To do this, their programmes were designed to go "beyond the arena of resource distribution to address the physical and social organisation of production and the cultural conditions of consumption" (Kitschelt, 1994, p. 3)³⁵.

For others, the programmatic drift of the Left away from distributive issues results from ideational convergence, as left-wing actors progressively internalised "perceived international economic constraints" (Bailey, 2009, p. 14). This convergence is analysed either as the product of intentional ideational lobbying from ideologically-committed actors (Amable and Palombarini, 2017; Hay, 1999; Watson and Hay, 2003), or as the result of learning mechanisms through which the Left became convinced by new ideas (Fleckenstein, 2011). In both cases, the Left's programmatic transformation happens in the absence of any actually insurmountable structural pressures (Bailey, 2009, p. 15): it follows a change in ideas defining "what is 'desirable' and what is 'feasible'"

³⁴ Dunleavy (1991, p. 113) conceptualised the difference between "preference-accommodating" strategies, in which political leaders "find out what most voters want" before defining their policy offer, and "preference-shaping" strategies, whereby leaders define a policy stance and work to convince voters, bringing the median voter closer to their ideological position.

³⁵ Note that this part of the literature combines features of ex-post analyses of change with prescriptive comments about what the Left *should* do to win. For instance, Giddens and Kitschelt's analyses of the transformation of social democratic parties clearly argue in favour of this "modernisation", or "third way" strategy as the only viable one for left-wing parties in the renewed social context of the mid-1990s.

(Fleckenstein, 2011, p. 203). In that version of the story, social democratic actors did not abandon the pursuit of "preference-shaping" strategies: instead they fully adopted neoliberal policy goals as their own in an "unnecessary internalisation of the prevalent, neoliberal 'logic of no alternative'" (Watson and Hay, 2003).

Another strand in the literature argues that structural pressures, and globalisation in particular, did in fact come as serious constraints on the Left policy-making capacity. Under conditions of rising economic interdependence between states, governments' ability to pursue their preferred policies would be "extremely limited" (Boix, 1997, p. 217).

Among those who identify transformations in the world economy as a real constraint on policymaking, some argue that this new global context left governments, including left-wing ones, with no choice but to engage in a "race to the bottom of welfare retrenchment" (Fleckenstein, 2011, p. 7). Heightened competition is seen as having rendered welfare state expansion unaffordable - see e.g. (Mishra, 1999).

For others, the story is a more nuanced one: while they reject the idea of a "pervasive trend toward convergence around neoliberalism" (Garrett and Lange, 1991, p. 541), they argue that the "ever-increasing integration of and competition in the world economy" have "altered the policy instruments through which governments pursue their partisan objectives" (Idem). In particular, rising concerns with labour cost, competitiveness and labour market incentives are described as impediments to the Left's preferred strategy of expanding welfare following a Keynesian logic (Glyn, 2001).

Beyond globalisation, authors point to other elements constituting the climate of "permanent austerity" facing welfare states since the late 1990s and hindering governments' capacity to pursue welfare expansion. These include the slowdown of economic growth, population ageing and the rising cost of pension systems, as well as "the maturation of governments' commitments" (Pierson, 2002). However, continued electoral incentives in maintaining popular welfare programmes and "institutional stickiness" means that governments have not engaged in outright retrenchment of the welfare state, but have instead invested efforts in restructuring it and catering to emerging social demands (Bonoli, 2005). In contexts where social-democrats are dominant, strategies of cost-containment and recalibration (Pierson, 2002), and the move away from compensation to activation policies, including investment in human capital (Boix, 2011; Bonoli, 2012, 2010; Glyn, 2001) are particularly common.

The common denominator to these various narratives is that social-democrats are described as having moved away from welfare expansion and their traditional means of supporting low-income groups through the welfare state. To be clear, these theories differ in terms of the ultimate goal they ascribe to left-wing actors (who, for many authors, remain electorally and/or ideologically committed to low-income support). But they identify common constraints, and a common move away from expansionary policies towards activation policies. Overall, these theories are therefore at odds with policies expanding support to low-income groups, such as the ones analysed in this thesis. As was established in Chapter 2, the French and British versions of fiscal welfare for low-income groups are clear cases of expansion; they are redistributive mechanisms benefiting low-income groups.

These examples are particularly hard to reconcile with stories revolving around the *unavoidability* for the Left to abandon its redistributive objectives under irresistible exogenous pressures. Indeed, income-support through fiscal welfare was *still spending* - left-wing governments spent significant amounts of money on low-income groups during that period. These examples of how the Left kept spending are not easy to make sense of based on theories arguing that the Left *could not* spend anymore. Similarly, stories of partisan convergence away from redistributive policy, whatever the drivers, appear ill-suited to explain the cases at hand - who are clear examples of redistributive policies. Finally, large-scale expansionary policies towards low-income groups are also improbable according to theories of welfare development in a context of permanent austerity.

1.4 The literature on income-support in the 2000s offers potentially necessary but definitely not sufficient explanations

Neither can the introduction of fiscal welfare to support low-income groups in France and the UK in the 2000s be entirely explained away as a product of the trends in income-support policy characterising that period - which revolve primarily around the development of "making work pay", and "activation" policies, as well as growing concerns with containing labour costs.

In a context characterised by a decreasing demand for low-skilled workers and substantial increases of in-work poverty (Glyn, 2001), many governments in advanced political economies in the 2000s adopted policies officially designed to "make work pay". Policies topping-up the wages of low-paid workers were introduced in many countries. These policies were tapered away progressively, at rates that aimed to guarantee that workers would always have incentives to

work. In-work tax credits are frequently mentioned as an example of such policies (Marx et al., 2017; Marx and Marchal, 2017; OECD, 1997)

The concern with work incentives was in sync with another leitmotiv of income-support reform at the time, namely the idea that governments should aim to *activate* the unemployed into work to lift them out of poverty. This turn to the "activation paradigm" was largely driven by concerns with the growing cost of mature social security systems (Weishaupt, 2011). Hence policies were increasingly designed with the view of incentivising individuals to take up work, and to respond to the problem of *unemployment traps*, in which low-skilled individuals allegedly fell when they were better off unemployed than working because taking up a job would result in benefit loss and increasing taxes (OECD, 1999). Earnings top-up like the Working Tax Credit and the Prime Pour l'Emploi, are often mentioned as examples of activation policies designed to close the unemployment trap and to ease the transition into work (OECD, 2003). In other words, in-work income-support schemes were typical policy solutions in the context of the late 1990s, as they allowed governments both to top-up low-pay and to "activate" the unemployed, through increasing their financial incentives to work - see e.g. Shaw et al. (1996), OECD (2005, 1999, 1997, 1996, 1994).

In addition, in-work income support was adapted to another challenge of the time, namely the perceived need to foster wage restraint. As globalisation spurred concerns about competitiveness and relative labour cost, wage restraint was considered to be a key element to foster economic growth. As a wage top-up, in-work support schemes were means of making work pay, and thereby incentivising work, *without increasing labour cost* (OECD, 1998). As will be

shown in Chapter 4 and 5, politicians in both France and the UK did, in fact, partly conceive of the PPE and the WTC as means of boosting the incomes of low-wage workers while trumping claims for increases in the minimum wage, which were thought to be potentially detrimental to competitiveness.

However, neither the challenges identified as key at the time (the rise of in-work poverty, the development of unemployment traps, or downward competitive pressures on wages), nor the associated policy trends (policies "making work pay", activation, and wage restraint) are sufficient, in and of themselves, to explain the turn to fiscal welfare. Indeed, each of these particular challenges could have been addressed in exactly the same way through in-work *benefits*. None of these challenges mechanically justified the detour through the tax system. Refundable tax credits and benefits are functionally equivalent in their ability to top-up low incomes without increasing wage costs³⁶, and to activate benefit recipients by increasing their incentives to work. In other countries, such as Australia, Canada, Ireland or Japan, in-work support *benefits* were introduced precisely to that effect. As discussed above, there were *already existing* in-work benefits in the UK and France – Family Credit in the former, and the RMI "intéressement" in the latter - which could have been used for the same purpose, with only marginal institutional adjustments. Furthermore, in-work *benefits*, Universal Credit and the Prime d'Activité, were later introduced in the UK and France to replace the WTC/CTC and the PPE (see Chapter 4 and 5 for more details). These benefits are officially designed to "make work

³⁶ The concern with wage cost is a plausible explanation for why a wage top-up, rather than a regulatory increase in the minimum wage, was chosen in "make work pay" policies. Yet this concern with competitiveness is not a sufficient explanation for why governments chose to introduce a tax instrument, rather than a benefit, to top-up wages.

pay", increase incentives and reduce disincentives to work. In other words, those schemes are designed to address exactly the same issue that were prevalent in the early 2000s, proving the point that these could have been addressed with traditional social policy instruments, and that the choice of fiscal welfare amounted to something else than the need to face these particular policy challenges. While the context of the late 1990s is likely to have played a part in the process leading to the introduction of fiscal welfare, it is not a sufficient explanation for the change of instrument.

1.5 Traditional explanatory factors in social policy are similarly unable to explain the change of instruments on their own

1.5.1 The dog that did not bark: social partners played little to no part in the policy change

Beyond elected politicians, the relative powers of trade unions and employers' organisations are commonly discussed as determinants of social policy change. In the case of the American EITC, however, Howard actually concluded that "representatives of business or labour" didn't play "any part in proposing or passing the EITC", making it "an exception to corporate liberal models of social policy and to standard explanations of the origins of tax expenditures found in the tax policy literature" (Howard, 1997, p. 73). Similarly, McCabe and Popp Berman (2016, p. 560) conclude that business and labour groups played no strong role in the introduction of child tax credits in the US and Canada.

This conclusion holds true in the British and French cases. In investigating the origins of the PPE and British tax credits for this thesis, no evidence was found that employers' associations or trade-unions played a determinant role. According to interviewees, the role of social partners was at best peripheral (e.g.

UK-A, UK-B, UK-D; FR-A; FR-B, FR-D). The position of unions in both countries went from doubtful, to wait-and-see, to moderate support for some, once the policies had been implemented. But they were not involved in their original design (Barnett, 1997; La Croix, 2001; Le Parisien, 2001; Libération, 2001; Taylor, 1998; TUC, 2001). Employers in both cases were described as broadly supportive from a distance, to the extent that the new schemes ensured that the minimum wage would not rise too much (Le Parisien, 2001; Social Security Committee, House of Commons, 1998). However, employers in France did not particularly lobby in favour of the tax credit solution (FR-I; FR-D). In the UK, employers leveraged their approval of the policy to obtain a reduction in national insurance contributions³⁷. Despite this, they remained concerned about the administrative burden that the new policy might represent for them (arch: Primarolo 1998b). Indeed, the tax credits were originally to be paid through the pay packet. In its contribution to the debate on the tax credits in the House of Commons, the Institute for Directors' argued that "it is in principle not the job of employers to administer the benefits system" (Institute

³⁷ Employers' support (or absence of criticism) of the tax credits in the UK was traded against a policy to reduce national insurance contributions on low incomes. A former external advisor to Gordon Brown, who represented the business world, described his giving advice on the tax and benefit reforms in the following terms: "the interest for me was the ability to get other policies through, which I thought were also important (...). The work on the National Insurance Contributions was really important. The aim was to present a package, with the beloved tax credit in the centre", and other policies favoured by employers attached to it (UK-I). This is confirmed in a draft letter from Gordon Brown to that same advisor found in the Treasury archive: "we should seek to minimise burdens on employers", the letter says. "In this respect, I continue to be very much struck by your ideas on National Insurance and Income tax integration. And I am sympathetic to your view that the way to make IWTC [In-Work Tax Credit] acceptable to employers is to introduce simplifications elsewhere" (arch: Macpherson 1997b).

of Directors, 1998). Following repeated employers' complaints on this issue, payment through the pay packet had to be abandoned³⁸ (UK-A).

1.5.2 Policy diffusion is not a sufficient explanation for political action

Another frequently mentioned driver of policy change is policy diffusion between actors in different governments, facilitated by international policy networks. Applying this logic to the case at hand, one would expect to find evidence of diffusion of an EITC-style income-support policy from the US to France and the UK.

Indeed, there are numerous accounts of policy diffusion between Clinton's New Democrats and Blair's New Labour in the period of interest - see e.g. Dolowitz et al. (1999), Peck and Theodore (2001). The few existing studies of the British tax credits often describe them as being inspired by the US experience (King and Wickham-Jones 1999; McLaughlin, Trewsdale, and Mccay 2001; Clegg 2015). While the French Parti Socialiste is a less obvious candidate for policy importation from the American Democrat (Clift, 2002), there is some evidence that policymakers in France looked to the US for inspiration as well (see Chapter 5 for details). French and British policymakers themselves also had numerous exchanges during that period (FR-C; UK-D). Several French interviewees spontaneously mentioned the American EITC or British WFTC as references they would use as they were developing the PPE (FR-H, FR-J, FR-K).

³⁸ Complaints linked to the cost of administering the Pay As You Earn system were bolstered by the publication, in October 1998, of a study by the Centre for Fiscal Study of the University of Bath – which came to be known as the *Bath report* – entitled "*The tax compliance costs for employers of PAYE and National Insurance, 1995-96*" (arch: Macpherson 1997c, Ohnial 1998b).

However, the diffusion of a policy idea in policymaking networks cannot in itself constitute a sufficient explanation for the adoption of a particular policy. It does not constitute a rationale for a policymaker to seize it, and to set in motion the reform process necessary to implement it. As explained above, there were other examples of reform of in-work income support in other OECD countries at the time, which did not use fiscal welfare, and which could have been taken up as well. The availability of a policy option and its discussion in international policy circles cannot constitute a sufficient cause of path-breaking changes of instrument going against institutional traditions.

In addition, the fact that politicians were looking for inspiration abroad signals that they already had identified a policy problem to solve, and were looking for international examples based on a rough sketch of the solution needed to solve their problem. In other words, while policy diffusion might have influenced the policy change, it cannot be understood as having driven it.

2. Taking less rather than giving more: fiscal welfare and the Left's experiment with negative welfare expansion in the 2000s

As demonstrated in the previous section, existing theories in the literature on fiscal welfare, the American EITC, left-wing policymaking and income-support in the 2000s, or drivers of social policy transformations more broadly, do not provide sufficient explanations for the British and French Left's decision to introduce fiscal welfare for low-income groups in the 2000s.

Building on this probing of the plausibility and limitations of explanations in the literature, as well as on in-depth analyses of the data collected in both cases, this thesis puts forward a novel explanation. We argue that left-wing governments in the 2000s resorted to tax instruments for income-support

purposes as they adopted a logic of *negative expansion*. According to this logic, welfare could be expanded by *retrenching* state involvement (reducing taxes) instead of increasing it (through higher spending). Instead of *giving more* to low-income groups, the Left started *taking less* from them. Using fiscal welfare allowed governments to substitute a non-action, that of "not taking", for an action, that of redistributing. We use the label "negative expansion" to capture this *non-action* dimension, and by contrast with the *positive expansion* logic (whereby welfare expansion implies an increase in spending) usually associated with expansion episodes.

2.1 Doing more with less: negative expansion through fiscal welfare allowed bypassing perceived constraints on traditional welfare

Much of the scholarship on fiscal welfare insists on the fact that tax expenditures and direct expenditures are functionally equivalent. For instance, Titmuss contends that despite "differences in administrative method, the tax saving that accrues to individuals is, in effect, a transfer payment" (Titmuss, 1958, p. 44). Surrey similarly asserts that from a budgetary standpoint, "a dollar is a dollar – both for the person who receives it and the government that pays it, whether the dollar comes with a tax credit label or a direct expenditure label" (Surrey, 1970, p. 717). Owens concluded that there were no intrinsic differences between the two instruments in terms of equity, effectiveness and administrative implementation³⁹(Owens, 1983, p. 194). In particular, he noted, "the use of the tax route by way of non-wastable tax credits (i.e. refundable credits) has, in a number of respects, very similar effects to the use of direct

³⁹ For instance, while tax expenditures are sometimes described as involving less "red tape" than direct spending, he argued, this owes not to an inherent quality of tax expenditures, but to a design choice: "it is not the tax route that makes the program simple – it is a substantive decision to have a simple program" (Surrey, 1970:717).

expenditures. (...) It is relatively easy to structure these credits so that they have the same resource cost and provide the same level and distribution of benefits as direct expenditures (Owens, 1983, p. 180). In other words, a tax credit targeting low-income groups and a *benefit* targeting the same constituency can fulfil the same function.

Coherently, Chapter 1 argued that the fundamental distinction between fiscal welfare and traditional welfare was presentational rather than substantial: it owes to the presentational plasticity of fiscal welfare compared to traditional instruments. Fiscal welfare can be more easily passed off as something else than welfare, while functionally it can be used to channel money towards particular groups in the same way than direct spending through benefits.

This thesis argues that the Left's turn to fiscal welfare reflected their recognition that fiscal welfare, being both functionally equivalent to traditional welfare and more malleable in its presentation, opened up a new possibility of achieving *more* for low-income groups by doing *less* - e.g. by not taking in taxes rather than redistributing in benefits. They uncovered and adopted a new, *negative* logic of welfare expansion.

The higher presentational freedom attached to fiscal welfare was considered helpful in bypassing some of the constraints left-wing politicians perceived as characterising social policymaking, and in particular the use of traditional means of income support at the time. Fiscal welfare was an inventive way to do *more* for low-income groups, at a time when traditional instruments were increasingly seen as out-of-bounds.

Importantly, this thesis argues that this change of expansion logic (and of policy instrument) was not dictated by any clear movement of citizens' preferences on the demand side of policymaking (Beramendi et al., 2015), or by any clearly measurable change in the circumstances of policymaking. Rather than by *actual* change in constraints, the change of instrument primarily corresponded to changes in the *perceptions of constraints*, affecting the range of policy options which left-wing parties considered viable - or their "feasibility sets" of policy alternatives (Beramendi et al., 2015, p. 12). In other words, the change of instrument primarily originated in changes on the *supply-side* of policymaking. The latter is determined, according to Beramendi et al (2015, p. 12) both by path dependencies and institutional feedbacks, but also crucially by actors' strategic adaptation to the context in which they operate, or, we add, their perception of that context.

An important element that restrained left-wing parties' self-defined feasibility sets at the time was the notion that middle-class voters constituted an increasingly unavoidable constituency whose support was necessary to win an election, and whose attitudes to redistribution was assumed to be incompatible with traditional income-support through spending. In that sense, left-wing parties' turn to negative expansion was both "policy seeking" and "vote-seeking": it helped upholding an ideological commitment towards low-income support, while the change of instrument was also geared at building and sustaining an electoral coalition centred around middle-class voters and made of groups with different assumed preferences in matters of redistribution. The turn to negative expansion was Left-wing parties' attempt to combine increasing income-support

with building a functional electoral coalition, managing tensions between their policy-seeking and vote seeking objectives.

Summing up, this thesis argues that the introduction of fiscal welfare for low-income groups in France and the UK at the turn of the end of the 1990s by left-wing parties corresponded to the latter's adoption of a logic of negative expansion to bypass some of the constraints they perceived as preventing the use of traditional instruments of income-support at the time. This argument is empirically backed up in Chapters 4 and 5, which analyse the British and French cases respectively.

2.2 Is taking less really the same as giving more? The limits of negative expansion

As well as advancing a novel explanation for the turn to fiscal welfare for income-support purposes, this thesis puts forward and investigates the separate notion that the turn to fiscal welfare affected policy preferences and attitudes differently than traditional welfare, and generated unanticipated political consequences. This thesis argues that while a tax credit and a benefit might be considered *functionally* equivalent, they trigger different attitudinal reactions. The change of instrument might have served to undermine public support for explicit redistribution.

This argument is rooted in the conceptual distinction between *positive* and *negative* expansion. Positive expansion consists in giving benefits financed out of a common (often national) pot to an identified constituency⁴⁰. Therefore, positive expansion is collective in nature, and built on a rationale which at its

⁴⁰ This does necessarily imply targeting - in the case of universal benefits this constituency is made of the entire community.

core contains the notion of solidarity. The visibly redistributive nature of positive expansion means that politicians engaging with it have to own it on that basis, i.e. as an act of collective solidarity⁴¹. To sum up, this means that positive expansion cannot be dissociated from a principled approach to redistribution based on the value of solidarity. Implementing "positive expansion" policies implies making the case for taxing, social spending, and redistribution.

By contrast, negative expansion is about taking less from *individuals* - exempting them, in fact, from having to contribute to the common fund, or substantially reducing their contribution. It rests not on a collective mechanism, but on an individual one. In that sense, income-support policies following a logic of negative expansion are not instances of collectively organised redistribution - although in practice they do institute a redistributive mechanism. Income-support through fiscal welfare does not inherently rest on a notion of solidarity. Therefore, the term "negative expansion" is also chosen to reflect the idea that while expansion through traditional social spending called for politicians to make the *positive* case for collectively organised redistribution, using fiscal welfare, as a *negative* act, did not.

Building on this conceptual distinction, this thesis argues that the British and French Left's adoption of a negative expansion logic for income support purposes had unintended consequences in the realm of attitude formation. In particular, this thesis argues that as the French and British Left's turn to fiscal welfare to support low-income groups in the 2000s, they stopped *arguing in*

⁴¹ Politicians can also present some redistributive policies as "social investment"; however, such narratives can only be applied to some specific policies such as that related to education.

favour of collective solidarity. While they were still redistributing in practice, they were not making the case for redistribution as a value-based political objective central to their political platform⁴². This is likely to have had concrete political consequences: if the case for traditional left-wing ideals of redistribution and solidarity was not made, the prevalence of these values in the electorate is likely to have eroded.

The adoption of a negative expansion logic is also likely to have reduced support for income-support among beneficiaries themselves. The literature on preference formation shows that benefit recipients usually express support for redistribution. However, recipients of tax credits might not have developed similar preferences if they were unaware of the redistributive dimension of the scheme from which they were benefiting. In other words, this thesis argues that taking less might not be the same as giving more when it comes to the formation of welfare attitudes and social policy preferences. This additional argument is empirically tested in Chapter 6, which looks at the effect of the change of instrument on income-support policy preferences and attitudes to redistribution in the UK.

⁴² While the turn to tax credits meant that the Left did not make the case for redistribution, we show in future chapters that the perceived difficulty of making that case was precisely one of the motives behind the turn to tax credits for some actors. However, the direction of causality does not matter for the present argument: it remains that turning to fiscal welfare to support low-income groups participated to severing the link between the act of redistributing and pro-redistributive rhetoric and arguments.

Chapter 4 - Making welfare respectable in the UK: fiscal welfare as blame-avoiding negative expansion

Chapter 3 showed how the British Left's turn to fiscal welfare in income support policy in the 2000s went against institutional path-dependencies, and cannot be explained by existing theories in the literature. It presented an alternative argument about what drove the change of instrument in both countries studied in this thesis. Chapter 4 presents an in-depth case study of the turn to fiscal welfare in the UK supporting that argument. Results are based on a comprehensive review of the available evidence, gathered through document analysis, research in partisan and governmental archives, and interviews with key architects of the reform - civil servants, appointed advisors and elected politicians.

The empirical evidence presented here backs up the argument that the Left's turn to fiscal welfare for income support purposes in the 2000s owed to their adoption of a negative welfare expansion logic. In the particular instance of the British tax credits, the turn to fiscal welfare is an example of *blame-avoiding* negative expansion, following a reappraisal of Labour's electoral strategy.

New Labour's renewed electoral strategy revolved around attracting middle-class voters. This electoral strategy constrained their policymaking capacity, in particular, their capacity to use spending and taxation - and therefore to use traditional social policy instruments. Adopting a strategy of negative expansion through fiscal welfare, taking less from low-income groups rather than visibly redistributing from rich to poor, allowed the reconciliation of New Labour's

electoral objective of attracting middle-class voters with their substantive objective of helping low-income groups.

In that sense, the change of instrument amounted to a strategy designed to avoid the blame from middle-class voters. While the British tax credits were envisioned as means of boosting low-incomes, the distributive function of the reform was largely understated. The reform did not have the objective of claiming credit with beneficiaries. Rather, using fiscal welfare was seen as a way of avoiding what New Labour's strategists perceived to be mortal perils: being associated with the toxic issue of welfare, undermining their economic credibility by increasing spending, and upsetting middle-class voters by increasing taxation.

Looking at survey data on preferences for spending and taxation at the time, we argue that these particular constraints owed more to New Labour's strategists' *perception* of public opinion than to any hard-wired transformation of the political situation. Rather than by a change of preferences in the Left's target electorate, the change of instrument was arguably mainly driven by a change of strategy originating among policymakers themselves.

1. The British tax credits: a new means of supporting low-income groups

The British tax credits were conceived as a way to channel money towards low-income groups, and to tackle poverty. This finding emerges clearly from a variety of triangulated sources. It was repeatedly stated by interviewees: the reform was described for instance as "a principled policy to reduce income inequality", or "an instrument for tackling poverty" (UK-H), based on family needs (UK-B). Gordon Brown's team in the Treasury was concerned with

"mitigating widening wage inequality and in-work poverty at the bottom" (UK-C). Accordingly, McCabe (2018) finds that the British tax credits corresponded to a "logic of income supplementation". Although creating *individual* tax credits would have been easier in the individualised British tax system, this income-support objective entailed designing a *household*-based system of tax credits, even though this generated additional administrative difficulties. Designers of the policy wanted the latter to take into account the variation in needs between households of different sizes (UK-A).

The decision to use fiscal welfare to channel money to these recipients originated within Brown's team while in opposition, before New Labour's first term. It was later boosted by Blair's March 1999 statement setting the government the goals of ending child poverty before 2020 (Blair, 1999). Interviews with advisors in the Treasury at that time as well as documents found in the Treasury archives confirm that this statement was used by Brown's team as an opportunity to push forward their already existing tax credit plans.

Once implemented, tax credits were indeed used to "pump out a huge amount of money" to low-income groups (UK-C, UK-E). This last point can be easily confirmed by Figures 2.17 and 2.18 in Chapter 2, showing the schemes' redistributive impact. Data presented in Chapter 2 also demonstrates that although the WFTC originally replaced an existing benefit, Family Credit, it represented a substantial increase in generosity, from an average annual award of £2964 under Family Credit to £4513 under the WFTC (Dilnot and McCrae, 1999; Inland Revenue, 2002a), and £5795 in 2003/04 for families receiving both CTC and WTC (HMRC, 2005). Coverage was also increased, from 782 000 beneficiaries in 1998/99 under Family Credit, to 1 376 000 under

the WFTC in 2002 (DWP, 2019; Inland Revenue, 2002a), and to 6 145 000 (or about 22% of British households) in 2010 (HMRC, 2010) under the WTC and CTC. In other words, as argued in Chapter 2, the turn to tax credits in the UK was a clear case of welfare expansion towards low-income groups⁴³.

Much of the existing research on the British tax credits tends to describe them primarily as work incentives, aimed at activating the unemployed (see e.g. Bargain, 2008; Brewer, 2003, 2001; Connell, 2010). Such research overlooks the fact that the vast majority of the tax credit budget was spent on the Child Tax Credit, which was in fact *not* conditional on work. As explained by one advisor, "we could have just done the in-work component ... But ... Brown, Balls, Miliband, were very clear that ... what matters is getting financial resources to those families, families with kids, out of work, they need more" (UK-D).

However, this common understanding of the tax credits as merely an activation policy is not surprising given that the tax credits were presented by their designers themselves as a means of "making work pay" and of reinforcing incentives to work. While the tax credits expanded cash support to low-income groups, the policies were not branded as welfare expansion at all. This is coherent with the argument presented in Chapter 3 according to which the Left went from a logic of *positive* expansion, engaging in visible spending on income-support policy and making the case for it, to one of *negative* expansion - whereby politicians did not need to be vocal about expansion because the

⁴³ Note that the introduction of the new tax credits coincided with the suppression of tax allowances benefiting higher-income groups (in particular mortgage holders and married couples) - arguably a shift from fiscal welfare benefiting high-earners to it targeting lower-income groups.

welfare expansion objective could be achieved by cutting taxes on low-income groups instead of increasing spending on benefits for them.

This "functional equivalence" approach to policymaking is more generally a defining characteristic of New Labour policies. New Labour politicians were very clear about their pragmatic differentiation between *means* and *ends*. In their own words, the Left had to "be infinitely adaptable and imaginative in the means of applying [its] values. There are no ideological preconditions, no pre-determined veto on means. What counts is what works" (Blair 1998; see also Gould 1998, p. xix). This means vs. ends approach led New Labour to adapt the means of applying its underlying policy goal - expansion of income-support for low-income groups - by adopting a logic of *negative* expansion through fiscal welfare.

Below we explore what drove the British Left in the 2000s to replace the old means of positive welfare expansion with new fiscal welfare instruments. We start by re-constituting the architecture of objectives and constraints characterising left-wing policymaking in the UK at that time.

2. New Labour's main electoral goal: rallying middle-class and "aspirational" voters

New Labour's 1997 electoral strategy aimed at assembling a coalition of voters that stretched beyond the Left's traditional working-class supporters. The issue of the precise weight to attribute to this strategy in the 1997 victory is beyond the remit of this thesis. Regardless of how efficient it was, getting at "Middle England" voters featured prominently on the agenda of Tony Blair's Labour from 1994 onwards (Coates and Hay, 2001; Connell, 2010; Hay, 1999).

In fact, this revamping of the party's electoral strategy was key in its transition to *New Labour*. The party set up an electoral research unit, the "Shadow Communication Agency", charged with using market research techniques (e.g. focus groups) to inform the new electoral strategy. Its key recommendation was the formation of a "'middle-down' coalition, connecting the new middle class to the old working class" (Gould, 1998, p. xix).

Two particularly influential Fabian pamphlets published in 1992 and 1993 pushed in the same direction. They argued more precisely that Labour should concentrate its efforts on a relatively small number of marginal seats in southern England. Most constituencies in Scotland, Wales, the North East and the North West were considered safe seats, where traditional Labour voters would go on supporting Labour - particularly in the absence of any exit options to the left of the party. There were "not enough extra seats to be won in these areas to guarantee a Labour victory" (Radice, 1992, p. 1). Rather, the first-past-the-post voting system in the UK meant that the key to winning the election was in marginal southern constituencies.

To win seats in these constituencies meant catering to higher-income voters in the South, "by far the most prosperous part of the country, with the highest income per head, more dishwashers, telephones and video recorders", and over a third of households owning shares (Radice, 1992, p. 4). Southern constituencies were characterised by "high home ownership, and an above average population of white collar and skilled manual workers" (Radice, 1992, p. 2). These were to become Labour's prime electoral target. As the logic went, "if Labour is materially to assist the 'have nots', it has to gain power; and it can only achieve power if it obtains the support of a significant portion of the 'haves'"

(Radice 1992, p. 16). The new strategists also insisted that Labour had to "respond to the underlying shift in attitudes (...) in the South" (idem). In particular, Labour should aim to appeal to what was termed the "aspirational new middle class" (Connell, 2010; Gould, 1998). The latter was described as an "emerging social force"(Gould, 1998, p. xix) made of "ordinary people with suburban dreams who work hard to improve their homes and their lives; to get gradually better cars; washing machines and televisions; to go on holiday to Spain rather than Bournemouth". Encouraged by the Thatcherite revolution, these people had "outgrown crude collectivism and left it behind in the supermarket car-park" (idem, p. 3). Labour had to adapt its message to this new reality.

Despite the strength with which strategists asserted this necessity to adapt, and the appearance of scientific underpinning of the methods they employed to arrive at these conclusions, the central notion of "middle class" was never clearly defined. Several interpretations cohabit in the great variety of documents consulted to reconstitute New Labour's internal debates on its electoral strategy. The term sometimes refers to a concept of class based on occupation: for instance, the two Fabian reports recommend focusing on "white collar and skilled manual workers" (Radice, 1992, p. 6). At other times, an income-based definition of "middle class" is used - but it might refer to median or to average income, depending on the sources. Radice (1992, p. 20) identifies the "20 000 - 30 000 £ earners" as a key group of target voters. At other times, there is an even larger gap between the rhetorical "middle class individual" figure and the one emerging from any credible measure of the "middle" in official statistics: for instance, Tony Blair is reported to have estimated the average household

income in the UK to be around £60,000 a year, at a time when it was "closer to £20,000 a year" (Balls, 2016, p. 102).

The concept of an "aspirational" class is similarly vague, mixing references to occupation, income, and relatively obscure anecdotal lifestyle descriptions - Gould (1998, p. 396) describes the "new middle class", as "aspirational working class in manual occupations", joined with "insecure white-collar workers with middle- to low-level incomes", also known as "the people of the suburbs", who "do not lead easy lives but lives of struggle and hard work: wanting little more than a better life for themselves and for their families." This fuzziness is augmented by the fact that the term was used by New Labour strategists as a substitute *and* as an addition to that of "middle class". One possibility is that politicians' inconsistent use of an ill-defined terminology was in fact itself part of their strategy. Imprecision blurred socio-economic divides and allowed appealing to voters from potentially different backgrounds: this is the essence of statements such as Blair's "we're all middle class now" (White, 1999). New Labour was officially striving for a classless society - see e.g. Jones (2012). The concept also conveniently covered different realities for different individuals inside the party: a loosely defined "middle class" concept might have been easier to handle than hard-wired definitions at a time of partisan restructuring generating partisan divisions.

Despite this relative confusion, analysing New Labour's strategic revamping at that time clearly shows that the main strategic incentive driving the British Left's action when they implemented the tax credits was their desire to appeal to these "middle class" voters, who did not traditionally vote for the Left. These voters

were considered indispensable to form a winning coalition - to access and remain in power.

At first sight, the link between this strategic turn and the turn to fiscal welfare in income support policy is not obvious. Indeed, whichever way they are defined, Southern middle-class voters were not the primary beneficiaries of the tax credits (although many of them did in fact benefit from the Child Tax Credit, which extended high up in the income distribution.) As shown in Chapter 2, the tax credits benefited mostly households in the 2nd and 3rd deciles of the household income distribution.

Yet switching to a logic of negative expansion through fiscal welfare could help, if not scoring points with middle-class voters, at least *avoiding the loss of points* while pursuing the objective of supporting low-income groups. Indeed, turning to a negative expansion logic allowed New Labour politicians to avoid highlighting the redistributive nature of the policy they were implementing. Indeed, according to advisors in the Treasury at the time, "the phrase redistribution was not popular after [Labour's defeat in] 1992" (UK-D) - see also (Hills et al., 2016, p. 13; Jackson, 2008). Redistribution "was a dirty word. We didn't use it. At all. (...) The idea was sort of sold under the table" (UK-A). While they list the redistributive objective as the first one behind the tax credit reform, they argue that it was deliberately "smuggled in" (UK-D). This is coherent with other analyses of New Labour policy at that time: for instance Hills (1998, p. 31) highlights that while Gordon Brown's 1998 budget introducing the WFTC "clearly did redistribute income to those with relatively low incomes", "the Chancellor carefully avoided stressing (its) redistributive

effects". The tax credits were deliberately conceived of as a form of redistribution that-shall-not-be-named.

The switch of expansion logic, materialised by a change of policy instrument, allowed the British Left to reconcile their policy goal of expanding income support for low-income groups, with the necessity to avoid blame from middle-class voters. The empirical material collected in order to reconstitute the genesis of the British tax credits contains numerous evidence that New Labour's decision to use fiscal welfare was motivated by the latter's advantages over traditional benefits when it came to obtaining the approval of middle-class voters - in other words, that the British tax credits constitute an example of *blame-avoiding* negative expansion. Below we systematically review and present that evidence. We start by identifying the policy constraints deriving from New Labour's decision to wed its electoral fate to middle-class voters. We review evidence of how these constraints affected New Labour's choice of income support instrument. We find that New Labour's strategic turn towards middle-class voters led them to favour tax credits, which they saw as more acceptable to middle-class voters.

3. Electoral strategy meets policymaking: constraints driving New Labour's actions

New Labour's strategic turn was prompted by the trauma of four consecutive electoral defeats. One of the tasks of the Shadow Communication Agency was to identify what had gone wrong in previous elections, and what needed to be done to win this time. This implied getting a picture of the state of public opinion and identifying what, in Labour's image and messages, had failed to convince voters in previous elections. Three key messages emerged from this

strategic introspection: first, Labour's association with welfare and the benefit system was thought to have become counterproductive, after eighteen years of intense stigmatisation under Conservative rule. Second, strategists argued that one of Labour's key weaknesses was its association with spending allegedly perceived as irresponsible by middle-class voters. Third, these middle-class voters were also assumed to feel threatened by Labour's discourse on taxation. These three conclusions from Labour's introspection exercise constituted as many constraints on its policymaking capacity: whatever the British Left offered, it could not look like welfare or increases in social spending; voters also had to be reassured that a Labour government would not increase taxes.

3.1 Getting away from the "toxic notion" of welfare

The necessity to avoid association with the concept of welfare was a first constraint on New Labour's policymaking capacity. It was mentioned by several interviewees and spelt out in various documents found in the Treasury archives. Following eighteen years of conservative governments, policymakers felt that welfare had become "a toxic notion", and "a term of abuse" (UK-F). Labour politicians felt that means-tested welfare benefits in particular were now resented by their own beneficiaries: they had become too stigmatising. Demeaning experiences of means testing, "where people would come around to people's house and search in their cupboard to see if they had food before they allowed them any support" were seen as having left deep scars among beneficiaries (UK-C). The limited take-up of existing benefits was thought to largely derive from the strong stigmatisation attached to benefit receipt as a result (UK-A).

In this context, the British benefit system was perceived as somewhat beyond repair: "it didn't matter how hard we tried, benefits that came through the (Department for Work and Pensions) were often seen by their recipients, and nearly always by the taxpayers (...) as being somewhat charity, and that you failed", explained a former Treasury minister (UK-G). "The idea of the safety net had really started to be undermined". In that context, advisors were reluctant to resort to traditional means of income support. This was reinforced by the fact that middle-class voters were thought to resent increases in targeted benefits, as economically irresponsible policy.

3.2 New Labour's quest for economic credibility

A second element identified by strategists as a particular weakness was Labour's perceived⁴⁴ inability to "manage the economy". Marketing research with groups of voters had revealed that while "people wanted to be able to trust Labour on the economy" (Gould, 1998, p. 269), they were "scared off (...) because of their distrust of the party's general competence and its ability to manage the economy" (Radice 1992, p. 5). Floating voters believed that "the Conservatives [were] the natural managers of the economy" (idem, p. 11). To win, Labour had to show that it could "manage capitalism better than the Tories" (idem, p. 18).

Consequently, New Labour sought to boost its economic credibility by conforming to a definition of economic seriousness which could win them

⁴⁴ This nuance is important: New Labour's strategy was based on the idea that Labour was *perceived* as economically incompetent, regardless of its actual, objective and measurable economic successes and failures in its previous time in office. Further, that this was the basis of its strategy does not even mean that New Labour was *actually* perceived as economically incompetent by a majority of voters - it merely means that this is what strategists took away from their focus groups studies.

middle-class votes. To build and maintain an image of credible managers of the economy, they made a big show of abiding by assumed prevailing ideas among middle-class voters about what constituted sound economic policies. In practice, this meant embracing fiscal restraint and distancing themselves from traditional Keynesian policies based on public spending. The latter were assumed to signal profligacy and economic incompetence. Brown repeatedly stated that Labour "abhor waste and imprudence in public spending" (Brown, 1995), and promised that a Labour government would follow "an iron discipline" in that regard (Brown, 1996). As per a former economic advisor to the Chancellor, it was important that Labour stuck to "what sound public finances look like" (UK-E). Another explained, "there was sensitivity to the issue of ensuring that spending did not look too high", especially as "the Conservatives wanted to be able to argue that Labour was spending too high" (UK-B). During the 1997 campaign, Labour pledged to "set tough rules for government spending and borrowing" (quoted in Gould, 1998, p. 269), and committed to sticking to the Conservatives' spending plan in the first two years in office (Brown, 1997). Brown also fought hard to prevent his shadow cabinet colleagues from making any promises that could lead to accusations of profligacy (Routledge, 1998, p. 185). Once in office, Brown introduced a "golden rule" limiting the possibility for public borrowing; coupled with Labour's pledge not to increase income tax (see below), this rule in effect also constrained spending.

To be clear, this does not mean that New Labour stopped all forms of spending. For instance, the government increased the value of Child Benefit which had not been uprated in line with inflation under the Conservatives. The

tax credits themselves cost about £ 48.9 billion between 2000 and 2005⁴⁵. However, the fact that Labour identified visible spending as a risk to its economic credibility with middle-class voters clearly emerges from the data collected. Fiscal responsibility was a prominent issue in their campaign and New Labour in office remained very careful not to *look* profligate. This sensitivity was particularly acute when it came to spending on "passive" policies (such as out-of-work benefits or income support measures). By contrast, spending on education or health could be defended as economically sensible investments – and incidentally, benefited middle-class voters (Hills, 1998; OECD, 2005; Ward, 2001).

3.3 Steering clear of "tax bombshells": a constrained discourse on taxation

Taxation constituted a third red line constraining policymaking for New Labour. Strategists argued that middle-class voters disliked the Left because of its historical defence of progressive taxation as a legitimate institution, and its association with high taxes. In particular, "there was a general view that Labour's tax proposals had created a problem in the South", and that "most voters believed their taxes would go up under Labour" (Radice, 1992, p. 5). Previous electoral defeats were attributed to Labour's tax proposals. Gordon Brown, argued that Labour was "up-ended by tax" in 1987 (quoted in Routledge 1998, p. 140). The 1992 defeat was linked to the publication of a shadow budget that the Conservatives labelled Labour's "tax bombshell", scaring away voters in the last stretch of the campaign. Research has led to questioning the validity of this diagnosis: for instance Heath, Jowell and Curtice (1994) found only limited

⁴⁵ Calculated from Department for Work and Pensions (2013). Amounts are in 2005 £, converted using ONS "RPI All Items Index: Jan 1987=100" time series, available at <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/chaw/mm23>

evidence that tax was in fact the crucial element that caused Labour to lose the election.

Yet tax was picked up as a problematic issue for Labour in polls and focus group research (Radice, 1992). New Labour leadership integrated in its agenda, as a non-negotiable constraint, the message that Labour had to shed its image of the party of high taxation. By 1997, the idea that the next election would be won or lost on tax had become consensual (Routledge, 1998, p. 212). Labour should absolutely refrain from raising taxes. Instead it should attack the Conservatives on their ground, pounding home the message that a Labour government would not increase taxes. This new approach on tax included high incomes - "there will be no return to penal marginal tax rates at the top", Brown stated in January 1997 (Brown, 1997) - but also low-income groups: "We accept high marginal rates of tax are bad for high earners. Let them accept it for low incomes", Tony Blair declared about the Tories in a 1997 speech (Blair, 1997). During the 1997 campaign, Labour took an explicit pledge that Labour would not increase income tax.



"VATMAN. Vote Conservative and you're voting for 22% VAT".

Labour election poster, 1992

N.B.: displayed as VATMAN is the incumbent conservative Chancellor, Norman Lamont.



"Labour's five-year pledge. No increase in Income Tax Rates."
Labour election poster featuring a photo of Labour leader Tony Blair, 1997.

4. A respectable form of income support: negative expansion through fiscal welfare allowed the reconciliation of strategic constraints with substantive goals

4.1 Disguising welfare

As explained above, the substantive objective behind the tax credits reform was to support low-income groups. Yet being associated with means-tested benefits, which were assumed to have become highly contentious objects in the eyes of both net contributors and beneficiaries, would amount to political suicide. It risked driving away middle-class voters who were supposedly averse to this kind of spending. It might not even allow Labour to claim credit for the policy with its beneficiaries, since means-testing was strongly resented. In this context, turning to negative expansion through fiscal welfare appeared as an instrument which could help overcome this difficulty by disguising the real (redistributive) nature of the policy. Using fiscal welfare would guarantee the policy's acceptability by middle-class voters and avoid stigmatising beneficiaries. It could even be used as a coalition-building mechanism. The reform was also envisioned as opening a new redistributive channel through which more transfers could ultimately transit.

4.1.1 Mainstreaming income support

Since their time in opposition, the "big project" for Shadow Chancellor Gordon Brown's team had been to "make the payment of support for people on lower incomes mainstream and accepted" (UK-C). New Labour politicians precisely envisioned fiscal welfare as a means of mainstreaming income support: thanks to the change of instrument, it would come to enjoy the same non-contentious, non-welfare status as the various tax schemes benefiting middle- and higher-income voters, for instance, tax breaks on mortgages, inheritance, capital gains, etc. (UK-C). Indeed, advisors observed, the general public generally failed to notice the functional equivalence of benefits and tax reliefs: "those who object to universal child benefit", they reasoned, "do not usually object to the mortgage tax relief" (Radice and Pollard, 1993, p. 14) - see also Commission on Social Justice (1993). British officials also noted that the Clinton administration had "managed to inject more resources into the EITC at a time when the welfare budget more generally has been under relentless attack" (arch: Macpherson, 1997b). This achievement had "captured their imagination" (UK-F). The "clever trick" of substituting the language (and the look) of tax for that of welfare was identified as what had allowed the Democrats to sell income support to Middle America while avoiding the whole "feckless scroungers rhetoric" (UK-A).⁴⁶

In other words, New Labour politicians realised that fiscal welfare instruments were symbolically anchored outside of the domain of traditional social policy, and they sought to take advantage of that. Based on their assessment of the

⁴⁶ This is an example of how policy diffusion, might have precipitated the emergence of a negative expansion strategy at that particular time. However, as explained in Chapter 3, policy diffusion is not sufficient in and of itself to explain the switch of welfare expansion logic.

general hostility towards traditional welfare, they reasoned that it would be easier to secure support for low-income groups "through 'tax cuts' (...) than through discretionary social security spending" (arch: Mapcherson, 1997a). Tax credits for people on low incomes might provide a "politically acceptable way for the middle to support lower-income people" (UK-C, UK-J). In other words, politicians in the UK were conscious of the *symbolic* difference between positive and negative expansion. In addition to realising the functional equivalence between a tax credit and a benefit, they recognised that both instruments were *perceived* differently, and decided to exploit this difference in perception, in a bid to mainstream income support for low-income groups and to boost its acceptability.

In the US literature, the use of fiscal welfare is analysed as a strategy of *hidden* welfare in the face of a hostile institutional and political environment. According to these theories, various American institutional idiosyncrasies incentivise Democrats to use fiscal welfare to quietly bury income support policies in the tax code, away from the light of the media. By contrast, the British case is better described as having played the role of a social policy Trojan horse. It was not hidden: it was *disguised*. It was not quietly introduced, but rather accompanied by a carefully crafted and repeatedly pounded rhetoric – one advisor speaks of a "Spanish inquisition" attitude to the language used around tax credits (UK-F). Using tax credits allowed the substitution of a new language to that of welfare – a change of vocabulary that was consciously enforced by the policy designers. The British governments commissioned several advertisement agencies to work on the presentation of the policy, with the mandate of avoiding its association with the world of welfare and social

policy. Some proposals were rejected on the basis that they "closely resembled the rather earnest style of previous DSS benefits campaigns - something which (the Treasury was) anxious to avoid, in the presentation of the new policy" (arch: Freeman, 1998). Politicians' insistence that the payments to low-income groups had to be called "tax credits", to be administered by the Revenue, and to be designed "as closely as possible to a system of tax rebate" (UK-D) - even though it would be household-based and would have to be claimed - was a leitmotiv throughout the reform process. Far from hiding what they were doing, New Labour sought to very visibly "transfer responsibility for payments to poor working families from the benefit system to the tax system", which they hoped would help "to increase political and public support for increased resources targeted on poor working families" (arch: Lewis, 1998).

In addition, presenting a policy as part of the tax system provided "a way round the practical and psychological disadvantage of 'targeting' (Radice 1992, 21). It was based on an income test rather than a *means* test (UK-A). Reflecting on the American EITC, British Treasury officials argued that one of its attraction was that "it does not carry the threat of welfare agents 'prying' into claimants' personal circumstances to check veracity of claims" (arch: Macpherson 1997a). Therefore, it could lead to higher take-up by reducing "the stigma associated with benefits and possibly also the complexity of the claims process"⁴⁷ (arch: Macpherson 1997a; UK-J).

⁴⁷ Inland Revenue statistics published in 2002 did notice a small increase in take-up rates: "Among families that would have been entitled to Family Credit, the take-up rate [of WFTC in 2000-01] was higher, at 75 to 81 per cent. This compares to published take-up rates for FC of 66 to 70 per cent for 1998-99 (its final year), and 57 per cent for April 1988 to December 1989" (Inland Revenue, 2002b).

The turn to fiscal welfare as a means of disguising a means-test can also be made sense of in the context of the internal conflict within New Labour over its approach to social policy, and notably over the respective role of social insurance and means-tested benefits. At the time of the 1997 election, this issue divided Labour politicians in two groups: those, like Gordon Brown, who believed welfare reform should focus on "stronger welfare to work processes", and greater vertical redistribution and who accepted targeting "as a means to this end" (Connell, 2008, p. 10) and those, like Welfare Reform minister Frank Field, who opposed means-testing as inefficient because of their low take-up, but also as inefficient in tackling the inequality in power deriving from an unequal distribution of resources. For those in the latter group, the increasing reliance on means-tested benefits was seen as "a new challenge to human liberty and fulfilment" (Idem, p. 109). Since this debate was on-going at the time the tax credits were designed, an additional benefit of using fiscal welfare may have been that this would help hide means-testing from Labour MPs and activists who might be opposed in principle to it. However, this is likely to have been a bonus rather than a core driver. The real location of power when it came to welfare reform during New Labour's first two terms was the Treasury, with Frank Field and the DSS playing a largely peripheral and symbolic role, as a token of New Labour's commitment to welfare reform (Connell, 2010).

Another key element in the 'disguising' strategy was the tax credits' association with work. Government plans originally envisioned⁴⁸ payment "through the

⁴⁸ The Working Families Tax Credit was originally paid by employers through the pay packet, starting in October 1999. This link with pay was "a very important strand of the thinking" behind the tax credits (UK-A). WFTC awards were originally calculated and determined for 6 months, and paid accordingly by employers. However, because incomes and circumstances of individuals in low-income groups fluctuated more than had originally

wage packet": this was thought to be crucial in "detaching (tax credits) from the world of social security and the stigma that can be attached to in-work benefits" (arch: Papps 1998; Macpherson 1997a; Macpherson 1997b; Primarolo 1998a; UK-D; UK-A; UK-H).

4.1.2 One instrument to unite them all: fiscal welfare as a coalition-building mechanism

Further, using fiscal welfare to support low-income groups also served the strategic objective of binding together the "middle-down" coalition (Gould, 1998, p. xix). One way to build this coalition was to appeal to the "shared commitment to work and the family" (idem). More prosaically, the tax credit reform created common stakes for the various components of the middle-down coalition. Lower- and middle-income groups effectively became co-recipients of the Child Tax Credit, which was tapered away at a relatively high point in the income scale (the second taper rate started being applied above £50,000 annual household income). This was Brown's doctrine of *progressive universalism* in action: more would go to low-income groups, but people higher up the income scale would still "have a stake in it" (UK-A, UK-B). Middle-income groups might become supportive of a policy from which they were directly benefiting. A system of income support for families with children that included higher-income earners - even though it created windfall gains for them (arch: Athow 2001) - had the advantage that it would not be "something for the poor, it was for everyone, the poor just happen to benefit more" (UK-F).

been envisioned, fixed awards generated problems of over-and under-payment. Avoiding these problems meant calculating and changing awards more frequently, which generated a lot of opposition from employers as the administrative burden they shouldered would increase. The government thus abandoned the idea of payment through the pay packet when it introduced the WTC and CTC (UK-A).

Uniting the middle-down coalition through a common instrument implied rethinking the "logic of appropriateness"⁴⁹ (March and Olsen, 2009) of income support policies, and paying particular attention to the signalling effect of their design. Tax instruments were found to be more appropriate for "middle-income families", who were likely to find such policies more "appealing" than potentially stigmatising benefits (arch: Freeman 1998). Tax credits were also assumed to be more "politically acceptable" to aspirational voters because they were consistent with "a sense of right and responsibility" attached to the idea of paying taxes (UK-C).

In practice, the British tax credits arguably singled out *part of* those on low-incomes, namely low-income *workers* and those with *children*, who were to be addressed with a different instrument, also used to address middle-class voters. By contrast, childless, out-of-work individuals, generally perceived as *less deserving* than workers and those with children (Moffitt, 2015), still received traditional welfare. The turn to fiscal welfare therefore arguably singled out the deserving from the undeserving poor. This could have been seen as an additional advantage for some in the Labour party; however, based on data showing that Brown's team envisioned the WTC and CTC as only the first step in a strategy that should ultimately also include out-of-work individuals (see section 4.1.3 below), we argue that this distancing from childless out-of-work

⁴⁹ March and Olsen (2009, p. 689) describe the logic of appropriateness as "a perspective on how human action is to be interpreted. Action, policy making included, is seen as driven by rules of appropriate or exemplary behaviour, organised into institutions". Appropriateness expresses what is considered as legitimate, based on "both cognitive and normative components". In the context of policy design, "the legitimacy of a policy not only depends on who is receiving it and whether it is effective but also how they are receiving it. (...) changing perceptions of target populations can lead to a shift in which logics are most prominent" (McCabe and Popp Berman, 2016, p. 543).

individuals was most likely an unintended consequence rather than a primary objective of the policy for its main designers.

4.1.3 Fiscal welfare as the future of social policy

Brown and his team had realised the capacity of negative expansion through fiscal welfare to overcome some of the perceived difficulties of expanding income support in the UK. Fiscal welfare passed "the Daily Mail test" (UK-E): it did not automatically attract the ire of the right-wing press and higher-income taxpayers.

As such, it was a promising new channel for future developments in social policy, and the team in the Treasury was very interested in its "evolutionary potential" (arch: Macpherson 1998b; arch: Ohnial 1998). The WFTC, WTC and CTC were but the first steps in a strategy which would see the broader overhaul of British social policy (Social Security Committee, House of Commons 1998, arch: Taylor 1997). "All the steps were pre-planned. (...) The IT system was commissioned to be really flexible, so that you could add bits to it in the future, in prevision of the expansion" explains one advisor (UK-A; arch: Macpherson 1998b). "Once you conceive the idea of a tax credit being a way of disguising just a straightforward subsidy, you can get all sorts of baubles added to the Christmas tree", says another (UK-E).⁵⁰

Plans included a pension tax credit (arch: Makhlouf n.d.; Ohnial 1998), a housing tax credit (arch: Macpherson 1998b.; Harman 1998; Rowing, 1998;), a carers' tax credit (arch: HM Treasury, 1997), or a "between work tax credit"

⁵⁰ This enthusiasm is likely to have been encouraged by the development of ICT in the 1990s, as New Labour politicians misleadingly believed that the tax administration could easily shoulder the new burden of paying out the tax credits. In reality, the roll-out was a fiasco in part because of failures of the IT system behind the tax credits.

(arch: Lewis 1998; Ohnial, 1998) (arch: HM Treasury 1998a; UK-G; UK-A; UK-C; UK-B; UK-D). The general vision was that of "a reformed welfare system (...) based around a series of guaranteed incomes delivered through tax credits" (arch: Makhoul n.d.).

4.2 Using an economist-backed alternative to spending to preserve economic credibility

4.2.1 Fiscal welfare as a presentational alternative to spending

In a context where the viability of budgetary spending on income support schemes was perceived as severely limited⁵¹, fiscal welfare offered an alternative distribution channel, compatible with the objective of maintaining economic credibility. Indeed, using tax credits helped to avoid visible hikes in spending, because they could be accounted for as lower-than-expected revenue rather than as increases in spending.

This presentational advantage explains in part why designers of the British tax credits "tried to make it as fiscal as possible" (UK-A). Because of "the perceived constraints on social security spending", going the fiscal route was seen as "offering the potential to increase (...) generosity in the future" (Fabian Society 2000). Yearly fluctuations of the cost of tax credits would not have to be accounted for as stringently as those of spending items: details could be lost in the annual "tax gap" between forecasts and actual tax revenue (UK-E). This could help to avoid the negative connotation supposedly attached to spending, staying within the bounds of reasonable economic policy. Such "obfuscation"

⁵¹ This however, does not mean that New Labour completely stopped using traditional means-tested benefits notably. Early in its first term, New Labour did increase the rates of Income Support going to families with children and pensioners (Brewer et al., 2002). However, the sustainability of such a strategy was limited. A very large part of the increase at the time came from the introduction of a new fiscal welfare benefit, the Working Families Tax Credit.

strategy, converting a benefit into a tax credit, allowed the government to "substantially expand the program while appearing to cut spending (McCabe, 2018, p. 129).

This presentational advantage was short-lived: after the 2002 budget, following a dispute with the Office for National Statistics on the accounting treatment of tax credits, only the non-refundable part of tax credits was counted as negative taxation, while the refundable part (the vast majority of spending) was counted as expenditure (McCabe, 2018, p. 131).

Yet, as Brown's advisors wrote in internal notes, what mattered was that tax credits "would be *perceived* to be, and to all practical purposes would be, part of the tax system", irrespective of their actual accounting treatment. Because of this different perception, they would not fuel the Right's rhetoric on "out of control" welfare spending (arch: Macpherson 1997a). In fact, they argued, using a tax instrument was "the only way [they were] going to be able to channel serious amounts of money into in-work support", at a time when "building a consensus in favour of more welfare spending" was deemed impossible (arch: Macpherson 1997b). It provided "a solution to the problem of poverty that was different to what [they] had done before", i.e. that did not resemble traditional tax and spend policies (Gordon Brown, quoted in Routledge 1998, 147/8).

4.2.2 A policy instrument marked with economists' seal of approval

Available evidence suggests that the rationale behind the turn to tax credits in the UK was largely political. It mainly depended on Gordon Brown's political conviction that "the political virtues of the scheme (...) outweigh the practical disadvantages", which were identified as numerous early on in the process

(arch: Taylor 1997)⁵². Previous research suggests Gordon Brown's will to introduce the tax credits owed to his desire to bring social policy under his jurisdiction, which included tax policy - in other words, the turn to fiscal welfare would be a case of power grab (Clegg 2015:494).

Another argument in favour of managing income-support schemes from the Treasury was that it cloaked the latter in economic respectability, which was particularly convenient in order to reassure voters of Labour's economic seriousness. At a time when association with traditional welfare was thought to be harmful to Labour's prospect of getting middle class votes, income support schemes which could be backed by sound economic theory were highly sought after.

Tax credits for low-income workers constituted such schemes with a scent of economic righteousness about them. In fact, they were becoming very fashionable among labour market economists at the time. The latter were concerned with the issue of low pay and in-work poverty. Research in the UK was primarily driven by a concern with high child poverty levels. Analyses on the determinants of child poverty pointed notably to the role of household worklessness - see e.g. Gregg, Harkness, and Machin (1999). Worklessness, economists argued, was in turn partly caused by low-pay, since low wage prospects reduced incentives to work for low-skilled individuals. Reduced

⁵² Indeed, as explained in Chapter 3 the administrative difficulties that plagued the introduction of the tax credits were not unexpected: there had been numerous warnings that the new delivery mechanism was ill-adapted to a population characterised by frequent income fluctuations (arch: Kelly and Pattinson 1999; UK-E). Treasury officials were also expecting difficulties (arch: Macpherson 1997a). This determination to face expected administrative upheavals suggests that the change of instrument was driven by a strong political will. In previous attempts at introducing tax credits, administrative costs of the reform had led governments to renounce using the tax system.

incentives could even turn into disincentives when considering the effect of socio-fiscal systems, as taking up work meant losing means-tested benefits and paying higher taxes. Thus the "inflexible benefit system" (Gregg, 1993, p. 54) was accused of generating prohibitive 'marginal effective tax rates' for people taking up low-income jobs (Balls, 1993; Layard and Nickell, 1986). This created an "unemployment trap" for low-skilled individuals, who were better off remaining on welfare than working.

To suppress these perverse incentives, economists largely advocated for the use of wage top-ups, in-work income support schemes helping to "make work pay". These ideas were not limited to the UK but were characteristic of a larger epistemic community at the time (Carone and Salomäki, 2001; Disney, 2000; Doudeijns et al., 1999; Martin, 1998; OECD, 2005, 1999, 1997, 1996, 1994; Pearson and Scarpetta, 2000; Shaw et al., 1996). By increasing the rewards of work, wage top-ups provided answers to the challenges of low-skilled unemployment and low-paid work⁵³.

As highlighted in Chapter 3, wage top-ups could also have taken the form of traditional benefits. In economic models, tax credits and benefits are abstracted as the same thing: cash transfers from the government to individuals. The theory did not a priori favour one instrument over the other. Yet while it did not impose the use of tax credits rather than benefits, economic theory could still be used to broadly justify the policy reform. Tax credits could be defended

⁵³ Wage top-ups were also a means of ensuring wage restraint. As New Labour was introducing the first British minimum wage, they partly saw the parallel introduction of in-work income support schemes as a means of "reducing the pressure to set too high a minimum wage" (arch: HM Treasury 1998a). Increases in the minimum wage which would solve the incentive problem risked upsetting business, jeopardising Labour's image of economic seriousness, and destroying jobs. In-work income support schemes, by contrast, allowed making work pay without increasing labour cost.

as economically sound and up-to date with the discipline. They allowed for the "economicisation" of social policy.

Under the first New Labour governments, social policy in the UK was conceived in a renewed ecosystem of advisors and civil servants trained in economics. Brown is described as having transformed the culture of the Treasury from an administration holding (tight) the purse strings to "an engine of social and political renewal" (Routledge, 1998, 230) - see also McCabe (2018, p. 128), Connell (2010). The tax credit reform was led by a restrained "circle of trust" within the Treasury (UK-A); it did not come from social security administrations and ministries⁵⁴, the traditional social policy arenas. Upon arriving in the Treasury, Gordon Brown nominated Paul Gregg - one of the economists researching child poverty mentioned above - to the Council of Economic Advisers in the Treasury, to work on the tax credits reform. These moves can be read as conscious efforts to ensure the economic credibility of the reform. This much was clear to an academic economist who was brought into the Treasury as an adviser at that time, who explained that he was there to "push an intellectual argument for something (Brown's team) were already willing to do " (UK-D).

4.3 Fiscal welfare as lower taxation

Turning to fiscal welfare was also congruent with the constraint on taxation discussed above. One obvious and immediate advantage of using tax credits

⁵⁴ In fact, officials from the Department of Social Security were routinely side-lined, and their experience in handling benefits rejected as irrelevant – although their worry, that the tax system as it stood in the early 2000s would not be able to react quickly enough to beneficiaries' changes of circumstances, turned out to be justified by the administrative difficulties that plagued the introduction of the tax credits discussed in Chapter 3 (UK-E; UK-I; *arch*: HM Treasury 1999).

was that the policy could easily be portrayed as a *reduction* in taxation. The Labour government long insisted that official tax statistics should use "net tax burden" figures, deducting amounts spent on tax credits from overall tax rates. In the words of one former Treasury civil servant, this ability to "net-off" the level of taxation "was kind of a totemic thing" (UK-F). When the Office for National Statistics opposed this (Doggett, 1998), the government started publishing its own figure on the net tax burden (Hansard, 2001; Mabile, 2001). Offsetting the tax credits against tax revenues, meant that taxes could be raised elsewhere without affecting the overall tax level (McCabe, 2018, p. 130).

More generally, advisors spent time figuring out the best way of presenting the tax credits to make them appear as striking a tax cut as possible. For instance, Gordon Brown was briefed to present the policy as a change in the income threshold at which people started paying income tax. Doing this "though less attractive to the purist" than alternative solutions because it implied some simplification, allowed Labour to claim that this threshold has been doubled, and brought "back to Wilson!" in historical terms (arch: Macpherson 1998). This, it was thought, would help drive home the message that Labour was cutting taxes through the tax credits.

5. Accommodating changing preferences? Locating the source of the change of welfare expansion logic

The evidence presented above, collected from a wide-range of sources, is coherent with the argument spelt out in Chapter 3. It confirms that New Labour's tax credits were primarily envisioned as a means of increasing transfers to low-income groups, at a time when Labour's electoral objective - to form a coalition inclusive of middle-class voters - was seen as incompatible with

large increases in traditional income-support schemes. Winning the middle-class vote, New Labour thought, implied steering clear of welfare, spending and taxation. Tax credits could be presented as *not welfare*, as an instrument sanctified by economic theory, and as a tax cut rather than as an increase in spending; they allowed New Labour to reconcile its renewed electoral strategy with its objective of supporting low-income groups. The turn to negative expansion through fiscal welfare was aimed at avoiding the blame that increasing transfers to low-income groups was assumed to generate.

At this stage, there remains an ambiguity as to what caused the change of instrument. The turn to fiscal welfare can be interpreted as politicians' adaptation to a changing demographic reality: the voice of middle-class and "aspirational" voters became preponderant, the latter's changing preferences excluded the use of traditional instruments, so politicians used a new one. In this reading, politicians are the transmission belt for wider transformations - they are simply *accommodating preferences* (Dunleavy, 1991).

This interpretation is prevalent in the literature on the transformation of social democracy. The latter tends to be dominated by functionalist and rational choice approaches in which politicians' actions are determined either by unavoidable structural constraints⁵⁵, or by changes in preferences to which they rationally choose to conform (Fleckenstein, 2011). Accordingly, New Labour's

⁵⁵ For instance, globalisation and the ensuing increase in competitive pressure, constraining governments' ability to spend by running a deficit or borrowing money. However, as was argued in Chapter 2, these explanations have a limited purchase in explaining the case at hand for the simple reason that New Labour *did spend* a considerable amount of public money on the tax credit, therefore proving that whatever constraints on spending existed were not unavoidable.

1997 victory is often attributed to its accurate reading of public opinion and corresponding adaptation of its policy offer.

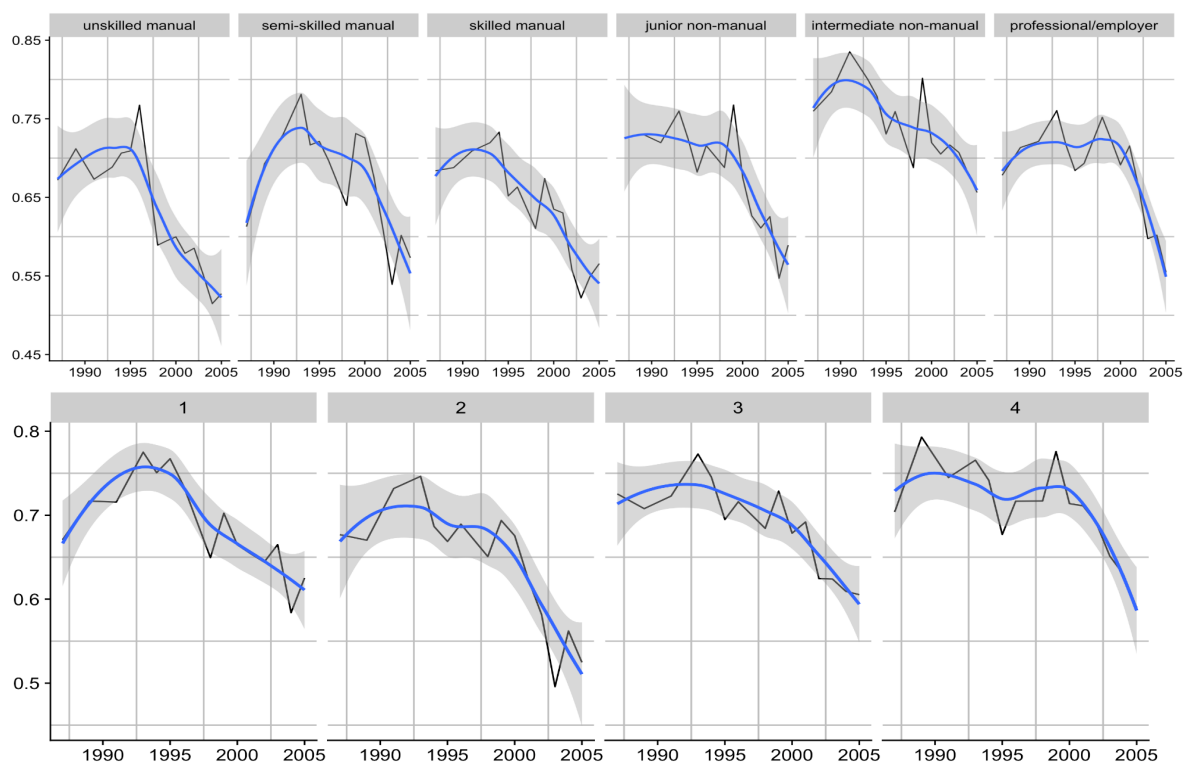
We look at longitudinal data on preferences for social spending and taxation in various social groups to assess whether the turn to negative expansion through fiscal welfare can be understood as a response to a changing electorate. Comparing the sequencing of the turn to fiscal welfare with movements in attitudinal data helps to probe the plausibility that the change of instrument was preceded and driven by a change in voters' preferences.

We use cross-sectional longitudinal data from the British Social Attitudes Survey (BSAS) (National Center for Social Research, 2016), to trace the evolution of attitudes related to welfare, spending and taxation over the period 1983-2005, in various income and occupation groups. Based on the available - arguably vague - description of New Labour's "middle-class voters" and "aspirational voters" discussed above, we consider the party's target group to broadly stretch from semi-skilled manuals to junior non-manuals in terms of occupation, and to be captured by the two central income quartiles around the mean in terms of income.

The picture emerging from the data in Figures 4.1 to 4.3 is not immediately reconcilable with what one could expect based on internal strategic discussions within New Labour in the 1990s. Between 1985 and 1995, perceptions of social security recipients' deservingness remained stable or even increased among respondents in New Labour's target groups (Figure 4.1). Crucially, perceived deservingness was high, with positive or neutral attitudes hovering around 70% of semi-skilled manuals, skilled manuals, and junior non-manuals. Support for spending and taxation in these groups was even higher, with around 95% of

respondents supporting either keeping taxes and spending as they were, or increasing both (Figure 4.2). Finally, while perceptions of an excessive tax burden were high at the beginning of the period, they sharply *declined* in the decade preceding Labour's victory in the three occupational groups and two income groups of interest (Figure 4.3). The percentage of respondents in the second income quartile (the lower-middle class) declaring that their taxes were too high dropped from about 70 percent in 1984 to around 60% in 1994; in the third income quartile (the upper-middle class) this proportion dropped below 50%, from slightly below 70% in 1984 to around 45% in 1994. While the trend seems to have picked up later in the 1990s, this was after New Labour's decision to change its message on taxation following the 1992 defeat.

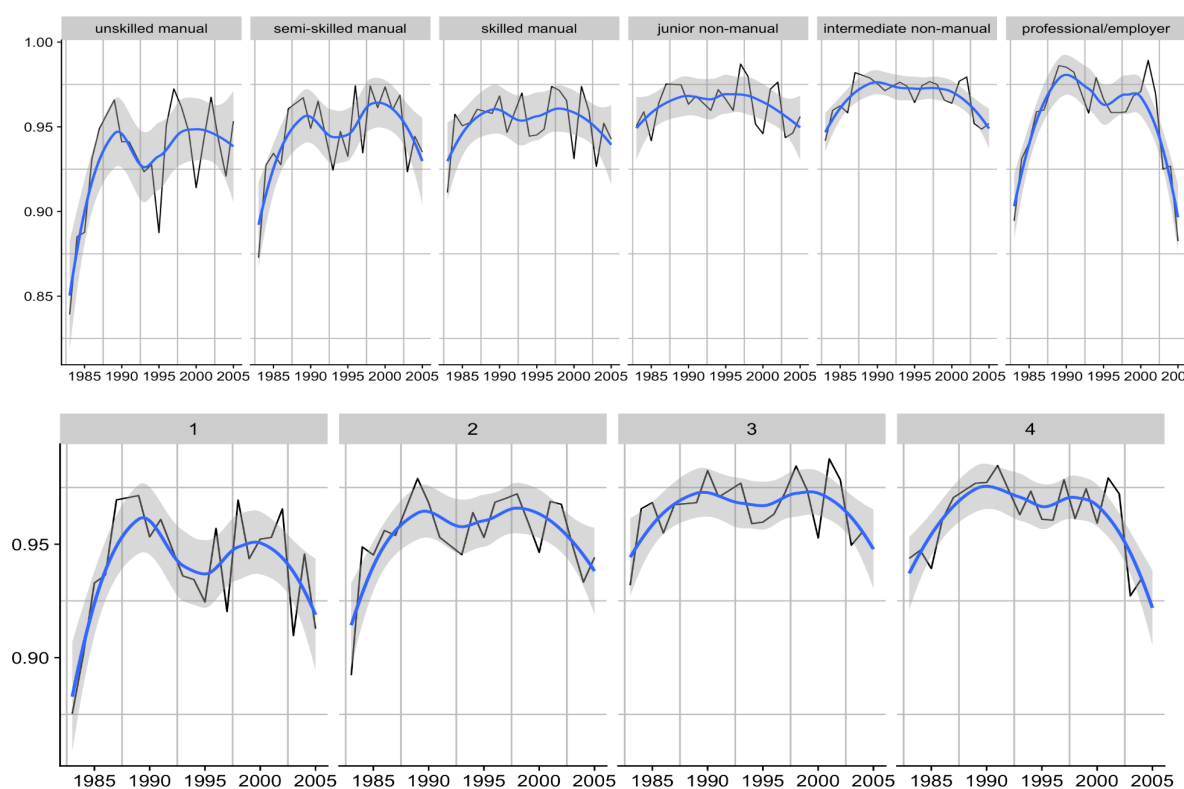
Figure 4.1: Perceived deservingness of welfare recipients, by occupation and income groups



Source: British Social Attitudes Survey. Yearly weighted means. "Many people who get social security don't really deserve any help". 0: "agree" or "agree strongly" / 1: "neither agree nor disagree", "disagree" or "disagree strongly". The bottom panel shows equivalised household income quartiles (1: bottom 25%; 4: top 25%)

These results are consistent with findings in the literature showing that negative attitudes towards the unemployed increased *after* rather than before the election of New Labour (O’Grady, 2017). Looking at BSAS data in 1998, Hills argued that "much of the overall (welfare) system remains popular", seeing in this continued popularity the sign that the Conservative government had in fact "failed to win the country’s hearts and minds in this crucial part of (their) agenda" (Hills, 1998, p. 6).

Figure 4.2: Support for spending and taxation, by occupation and income groups

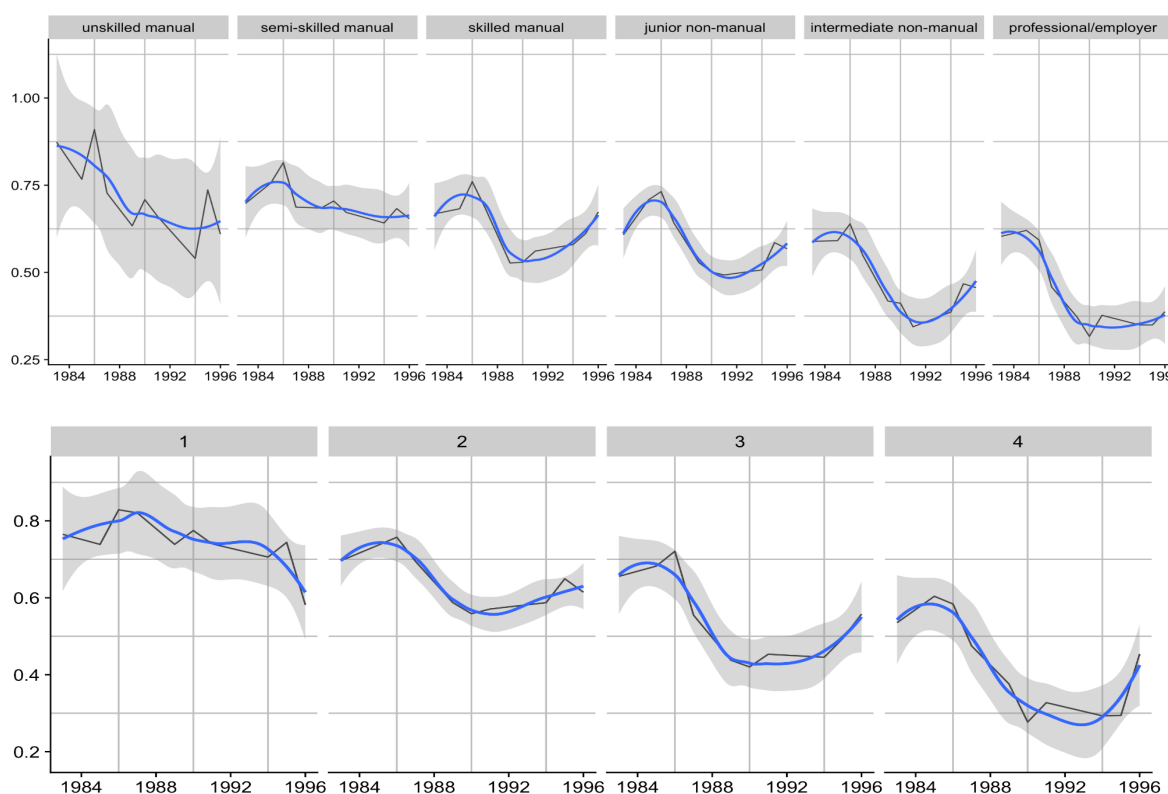


Source: British Social Attitudes Survey. Yearly weighted means. "The government should"... 0: decrease taxes and spending on health, education and social benefits / 1: "keep both at same level" of "reduce both".

This data suggests that party strategists likely overstated the risk of getting blamed for expanding traditional welfare. The proportion of New Labour's target population thinking that taxation was too high remained important; yet the downward trend observed in the data is hard to reconcile with the internal

discourse at the time, according to which the rejection of tax was *rising*, and a tax revolt imminent. The high level of support for spending and taxation and high perceived deservingness of welfare recipients does not square with New Labour politicians' description of traditional welfare as "toxic". Overall, this data does not allow identifying clear changes in preferences away from traditional forms of welfare *before* the change of instrument.

Figure 4.3: Perception of personal tax burden, by occupation and income groups



Source: British Social Attitudes Survey. Yearly weighted means. "Do you think the amount of income tax your household has to pay is: 0: "about right", "too low" or "much too low" / 1: "much too high" or "too high". This variable is calculated from two others: one asking recipients to place themselves in a low-income, middle-income or high-income group, the second asking recipients their opinion about the level of taxation in these groups.

Therefore, this data does not provide much support for stories identifying changing preferences in the electorate as *driving* social policy changes, with politicians simply accommodating these changing preferences. Rather than any

tangible movement in voter preferences, the constraints identified above seem to have primarily stemmed from New Labour's *beliefs* about middle-class voters' preferences. These beliefs informed their policymaking, preventing them from using certain instruments, and gearing them towards using others. In that sense, the turn to fiscal welfare is better interpreted as originating among politicians themselves, as they adapted their strategy based on their perception of the political terrain at that time. In other words, partisan actors were the *source* of the change, rather than simply its transmission belt.

The elements at our disposal do not allow us to arbitrate with certainty whether the change of electoral strategy resulted from genuine misperception, the influence of the media, intra-partisan power dynamics - for instance recent research links the turn to New Labour to a change in MPs' background (O'Grady, 2018) - or ideological transformation of the party. The fact, highlighted above, that a genuine concern for low-income groups was an important motivation behind the tax credit reform limits the plausibility of pure "ideological convergence to the right" explanation.

In any case, the change of instrument did not follow but rather *preceded* a change of preferences. Indeed, importantly, Figure 4.1 shows that perceptions of welfare recipients' deservingness sharply declined in the late 1990s and the beginning of the 2000s, i.e. *after* New Labour came to power. Considering Labour's own "big project" of mainstreaming income support discussed above, this poses serious questions about the effectiveness of its strategy. Beyond, it raises the question of the *effect on* preferences of the change of instrument itself - we return to that question in more detail in Chapter 6.

6. Back to benefits: making sense of the downfall of the tax credits

Labour saw the turn to negative expansion through fiscal welfare as a solution to the particular conundrum it faced in the late 1990s: that of having to avoid the blame supposedly attached to positive welfare expansion, while they were still substantively committed to supporting low-income groups. We argue that the turn to negative expansion amounted to a strategy of blame-avoidance, mainly originating from among politicians themselves.

Subsequent developments confirm that the turn to fiscal welfare was a localised episode in the history of British social policy, since it was later reversed. In 2010, the conservative-led coalition government of David Cameron started cutting tax credits - through reducing maximum income thresholds and withdrawal rates, reducing income disregards and suppressing or substantially reducing various add-ons for e.g. senior workers or for covering the costs of childcare. In 2012, the Welfare Reform Act introduced Universal Credit, a *benefit* that is scheduled to merge and replace existing benefits and tax credits by 2021- although the implementation schedule is uncertain and has already been delayed several times. This new benefit will be under the jurisdiction of the Department for Work and Pensions - the traditional social policy administration in the UK.

The "episodic" nature of the turn to fiscal welfare is compatible with our explanation for why Labour used that instrument to support low-income groups: fiscal welfare was an appropriate instrument based on Labour's interpretation of its particular conundrum at that particular time: it was a means of engaging in blame-avoiding negative expansion. In this section, we look at

the conditions under which the British government then reversed back to benefits.

We present evidence gathered through document analysis and interviews with key architects of Universal Credit (UC). A series of reports published between 2006 and 2009 is particularly useful in tracing back the origins of the UC reform. UC is in part the brainchild of a conservative think tank, the Centre for Social Justice (CSJ). The CSJ was founded in 2004 by Iain Duncan Smith, leader of the Conservative Party between 2001 and 2003 - who in 2010 became Secretary of State for Work and Pensions, and was responsible for turning the Universal Credit proposal into legislation. Back in 2005, then leader of the Conservative Party David Cameron announced the creation of a "Social Justice Policy Group" (SJPG) charged with understanding "the causes and consequences of poverty, family breakdown, drug rehabilitation and care for the elderly" and to recommend policy accordingly (Haddon, 2012, p. 4). The CSJ was commissioned to be the group's secretariat. The work of the SPJG led to the publication of three reports (Center for Social Justice, 2009; Social Justice Policy Group, 2007, 2006) laying out the CSJ's vision for a reformed welfare system, which served as blueprints for reform after 2010 (Haddon 2012).

In parallel to the CSJ's work, in 2006, then Labour Secretary of State for work and Pensions John Hutton commissioned David Freud, a former journalist turned investment banker, to write a report on welfare reform. This report, called "Reducing dependency, increasing opportunity" (Freud, 2007) was noticed by the Conservatives: it was largely congruent with the proposals being

developed in the CSJ work. The latter started referring to the Freud report, and David Freud then became the Conservatives' special advisor on welfare.

Below we present results from the analysis of a variety of sources, including these reports. We systematically look for the particular mix of objectives and constraints identified as key in the turn to tax credits. Doing this provides additional empirical backing to this thesis's argument, as we find that the elements identified above as determinants in explaining the turn to fiscal welfare had disappeared at the time of the reversal back to benefits.

6.1 Turning back to benefits: a story of welfare retrenchment

6.1.1 Conservative social policy: family, work and the privatisation of welfare

A first substantive motivation behind the reform was the implementation of what could be termed a "libertarian paternalistic" vision of social policy (Walker and Corbett, 2013). The strong moral overtone of the Conservatives' approach to welfare was reflected in the five "pathways to poverty" identified in the CSJ reports: family breakdown, educational failure, worklessness and economic dependence, addictions and indebtedness. The welfare system as it stood (in which the tax credits were included) was accused of encouraging family breakdown through what was called the "couple penalty" - in effect, the fact that lone parents received an add-on under the tax credits system, which "traditional couples" did not get (Social Justice Policy Group, 2007, p. 81). The policy recommendations that emerged from these reports contained an "emphasis on family stability and fatherhood" (Haddon, 2012, p. 9). They also heralded the notion of work as "generally good for health and well-being" (Freud, 2007, p. 1), and a virtue to be pursued for its own sake.

Poverty, the authors of these reports insisted, was not only a financial issue but also largely a moral one. While architects of the tax credits envisioned them primarily as a mechanism to distribute money to low-income groups, designers of Universal Credit criticised this financial approach as "facile" (Center for Social Justice, 2009, p. 50/51). Beyond low-income, they contended, social exclusion and family breakdown owed to "the absence of work and subsequent benefit dependency" (Social Justice Policy Group, 2006, p. 18). Simply increasing income-support would not solve these problems. On the contrary, expanding welfare would further discourage work. Therefore, a reformed welfare system should focus on rewarding "decision-making that enhances self-sufficiency" (Center for Social Justice, 2009, p. 5/6), ensure that "every working-age household capable of earning a decent living, must be both able and obliged to do so" (Social Justice Policy Group, 2007, p. 20) and that "out-of-work benefits must never become a lifestyle choice" (idem, p. 25).

While the designers of the tax credits were wary of associating with means-tested benefits partly for fear that the instrument was too stigmatising for beneficiaries, these concerns did not influence the Universal Credit proposal. On the contrary, the UC reform extended conditionality to individuals *in work*, for the first time in British social policy history (Pennycook and Whittaker, 2012). Rather than disguising welfare, the reform originally envisioned was to visibly restrict the perimeter of traditional social policy actors. Under the new system, private sector actors on pay-for-performance schemes were to be responsible for implementing tougher conditionality on claimants and monitoring both the unemployed and part-time claimants. The reports also called for the voluntary sector to play a bigger role in tackling poverty, and for

volunteering and philanthropy to be "reinvigorated": a "vibrant small voluntary and community sector", being "the sign of a robust and healthy society" (Social Justice Policy Group, 2006, p. 20).

6.1.2 Retrenching welfare

Once the Conservatives were in office, Universal Credit also came to play a more immediate and short-term role in the government's strategy for deficit reduction. While the Treasury initially opposed the UC reform as "unaffordable and impractical" (Timmins, 2016, p. 30), the Chancellor of the Exchequer George Osborne came to see its potential as a useful vehicle for budgetary cuts.

In contrast with New Labour's concern for visible public spending discussed above, the Conservative government "overriding priority" was to reduce the *overall deficit* (Haddon, 2012, p. 13). This effectively nullified the nuance between tax credits and benefits – expenditures, whatever their form, had to be cut. Cuts to the tax credits – at first targeted on higher-income recipients – started soon after the coalition government came into office (Bachelor and Collinson, 2010). As explained by a former advisor in the Department for Work and Pensions (DWP, successor to the Department for Social Security) at the time, cuts to the tax credit were presented as deliberate budget cuts, a necessary saving measure among others at a time when austerity and spending cuts were the government's official economic policy.

The fact that the retrenchment objective of the Conservatives encompassed the tax credits was reflected in their insistence that the latter was in fact ill-targeted *welfare* spending. The Conservatives de-constructed Labour's rhetoric of the tax credits being "different from welfare" and a means of "making work pay".

While New Labour, argued one of the CSJ reports, had "with justification" insisted "that 'work is the best way out of poverty'", their progress against child poverty did not in fact result from reforms to make work pay but owed to "the means-tested benefits of the tax credit system" (Social Justice Policy Group, 2006, p. 24). Conservative research called out the "'tax credit economy' - where employment offers little prospect of advancement and independence, but where the worst-paying employers receive a multi-billion-pound subsidy from the taxpayer" (idem, p. 25)⁵⁶.

Yet increasing cuts to the tax credits started generating backlash as they grew, including from Conservative and Liberal Democrats MPs (Morris, 2015; Newton Dunn, 2015). In 2015, opposition to these cuts in Parliament had grown so vocal that George Osborne, had to halt them, and to officially renounce plans for yet harsher cuts (French, 2016; Mason, 2016).

In this context, the Treasury turned instead to cutting the budget allocated to the UC reform, which was to *merge and replace* existing benefits and tax credits. The UC reform provided an alternative way of achieving the same result while disguising cuts as reform. "Universal Credit technically became a savings measure", explains a former advisor in DWP (UK-K). In other words, while New Labour's tax credits was an unusual case of blame-avoiding negative

⁵⁶ That last argument meant that the tax credits cuts were also compatible with the Conservatives' U-turn on the issue of the minimum wage, from reluctance and fears that it would destroy jobs in the 1990s, to their promotion of a "high wage, low tax, low welfare economy". While this change of discourse on the minimum wage in 2015 followed rather than preceded the turn back to benefits in 2012 and cannot thus be one of its original drivers, it helps explaining the concomitant introduction of minimum wage increases and tax credits cuts in the 2015 budget. The Conservative change of religion on the minimum wage also means that one of the elements that supported the introduction of the tax credits, namely New Labour's concern with the potentially detrimental effect of a too-high minimum wage, was not effective anymore at the time of the reversal back to benefits.

expansion, the reversal to benefits constitutes a classic case of blame-avoiding *retrenchment*.

6.2 Conservative electoral strategy: blue-collar conservatism and the big society

While New Labour's objective in creating tax credits had been to channel money towards low-income workers and families in a disguised manner, the Conservatives' electoral strategy implied, on the contrary, engaging in very visible reform and putting out a clear Conservative message on welfare. Indeed, there was "a feeling that the Conservatives lacked policy on welfare" (French 2016; Mason 2016). Poverty, in particular, was identified as having been a "difficult issue for the Conservative Party to deal with" in recent years, and one that was "too important (...) to be left to the Labour Party" (Iain Duncan-Smith in Social Justice Policy Group 2006, p. 18). The Conservative electoral strategy implied reviving the idea of "blue-collar conservatism", notably through re-investing issues of welfare and poverty from the Conservative side. The CSJ offered a clear strategy of differentiation from Labour in that regard: while the latter, in its attempt at making income-support acceptable and mainstream, had largely focused its efforts on relatively "deserving" groups - e.g. the working poor and families with children - the Conservatives could accuse them of having neglected the very poor, childless unemployed, and claim legitimacy over this constituency. "Through means testing and tax credits", the CSJ argued, "Labour has prioritised shifting those just below the poverty line to just above it. However, this policy has led to more families dropping back to below 40% of median income, widening rather than narrowing the social divide" (idem).

The nomination of a new Shadow Work and Pensions Secretary in 2007 was meant to remedy that problem. The new shadow secretary, Chris Grayling, took inspiration from the work of the CSJ and the Freud report (Haddon 2012, p. 9). As explained above, the Conservatives also launched a policy review on social justice, and nominated Freud as their special advisor on welfare reform: they multiplied the signals that welfare was now an issue about which the Conservatives had solutions to offer. Back in 2001, Iain Duncan-Smith's platform as leader of the Conservative Party had revolved around the objective of changing the Tory's "uncaring" image: "social justice" he argued, had been "monopolised by the Left for too long. "I have had a lot of people say to me, '*Conservatives don't do social justice*! (...)Why do we let the best terms go to Labour - the warm ones that people all agree with?" (Rogers, 2006). This idea stuck with its successor David Cameron, who also argued in favour of a "Modern Compassionate Conservatism" (Cameron, 2005). The key concept in the Conservative manifesto for the 2010 General Election was that of the "Big Society", a society "integrating the free market with a theory of social solidarity based on hierarchy and voluntarism" (Walker and Corbett, 2013). Emphasis on voluntarism was consistent with proposals for an increased reliance on third sector organisations in welfare policy mentioned above.

By contrast with New Labour's concern with the middle-class, "higher-earning families earning above £30,000 per year currently receiving the Family Element of Child Tax Credit (£545 per year)" and "home-owners and those with savings" were envisioned as acceptable losers of the UC reform in the CSJ reports (Center for Social Justice, 2009, p. 28). Consistently, the recipients who were first affected by cuts to the tax credits in 2010 were "middle and high earners"

earning over £30,000 (Demianyk, 2010). The Conservatives were wary of creating losers overnight - and therefore had developed the idea of a "transition protection", whereby the nominal amounts of people already receiving tax credits would be preserved for a time in the new system, but not uprated by inflation (UK-K). Yet, while New Labour's care to include middle-class workers in their electoral coalition had led them to engage in "progressive universalism", this was not a primary objective of the Coalition government.

In fact, they were principally opposed to the very concept of "progressive universalism". Deputy Prime Minister Nick Clegg "described as 'madness'" a system that was "handing taxpayers' money to people who do not really need it" (idem). "Correctly" targeting "on the very poorest and on those who need help" was seen as "legitimate" (Social Justice Policy Group, 2007, p. 95). Further, the fact that "households with twice the average income" were included in the system - which was one of the very objectives for New Labour - was described as "over-weaning" (idem, p. 26). As a former Conservative minister suggests, there was in fact a real desire in the conservative camp to overturn what had been identified as Labour's "Fabian philosophy" (UK-L), of "making benefits acceptable by giving them to middle class people, and having them spread as widely as possible". This was described as "incredibly expensive" and "absurd". Conservatives were "pretty explicitly against that Fabian philosophy", and there was "huge hostility among Conservatives towards tax credits".

In other words, Conservatives did not seek to *disguise* a welfare expansion effort, but rather to very visibly engage with welfare, to signal their handling of the issue, and their capacity to show compassion. In other words, they were interested in *positive* expansion. At the same time, they sought to rein in the

progressive universalism logic implemented by Labour, restricting the target of the welfare system to the very poorest. Thus, they did not seek to expand welfare, and they had no need to make their reform acceptable to middle-class voters. While the turn to fiscal welfare amounted to the Left's strategy to (negatively) expand welfare in a way that was acceptable to middle-class voters, the turn back to benefits corresponded to the Right's concentrating resources on the poorest, increasing conditionality and promoting a paternalistic vision of welfare compatible with the values of their electoral base.

6.3 No blame to avoid: conservative spending as non-conspicuous

As explained above, the bulk of the tax credits (the refundable part) were already counted by the ONS as spending rather than foregone revenue - although the government produced its own statistics on the net tax burden. Yet, turning back to benefits nonetheless implied losing the presentational advantages attached to tax credits discussed above, and notably the possibility to present policies as "different from social policy spending". A striking difference between the two periods is that *association with social spending* was not in itself considered problematic in the conservative camp - and thus a primary driver of the use of fiscal welfare had disappeared.

There are two distinct reasons for that. The first is that, following a "Nixon goes to China" logic, spending was not considered to be conspicuous if it came from the Right. Conservatives were not vulnerable to accusations of profligacy or coddling the poor. As a former advisor in DWP puts it, while "increasing spending for Labour was always going to be their Achilles heel", "for a conservative government, increasing spending was less of a problem politically in the outside world" (UK-K). Opinion polls conducted by the CSJ reveal a

concern with perception of the balance between rights and duties in their proposed reforms, but no fear that association with social spending would hurt the Conservatives among net payers. In other words, the Conservatives did not *need* a non-conspicuous channel of redistribution.

The second reason why association with social spending was not a concern was that a large part of the Conservative Party was animated by a genuine commitment to reducing the *deficit* more generally. As explained above, George Osborne's determination to cut the deficit figure meant that lower revenues were no better than increased spending. Reduction in the welfare bill ultimately became an objective of the UC reform, "so the accounting treatment was of pretty marginal concern. The cashflow treatment of it was of extreme concern, but the accounting treatment of whether it was more tax or less spending was never really a debate" (UK-K).

6.4 The return of path-dependency: tax credits as a policy without an administrative constituency

Finally, while actors in charge of social policy under New Labour were primarily located in the Treasury, and were both cognitively and administratively more attuned to tax credits than to benefits, the turn back to benefits was characterised by the return of traditional social policy actors. Universal Credit was designed and is being implemented from within the Department for Work and Pensions (DWP). As a former advisor recalls, "there was a sense, when we came into the Department, that it had become a satellite of the Treasury (...) and that it was delighted to be able to get its policy mojo back again" (UK-K) - see also (Timmins, 2016). Civil servants in DWP had not been in charge of the tax credits, and some had in fact been rather

sceptical of the reform (see notes 31 and 51 above). By contrast, policy advisors in George Osborne's Treasury were more focused on organising fiscal restraint and reducing the deficit than on continuing Gordon Brown's effort to use the budget as an instrument of social policy. In addition, civil servants in the Treasury had "not had a happy time running the tax credits" (UK-L). In other words, actors in charge of social policy under the Conservatives had no particular attachment to the tax credits; the policy was left without an administrative constituency to defend it against cuts and dismantling.

In addition, once the political logic sustaining the use of fiscal welfare was removed, the many practical limitations of the system became all too apparent. Tax Credits were described as "complex" and "convoluted", with two different schemes, "with different tapers, thresholds, criteria and tests", and "complex one-off bonuses" (Social Justice Policy Group, 2007, p. 84). This complexity was accused of leading to confusion for recipients and numerous payment errors. The huge problems of overpayments in the first years after the implementation of the tax credits (discussed in Chapter 3) were a perfect illustration of the system's failings⁵⁷. Repeated administrative blunders were in fact put down to HMRC's lack of experience in handling the payments of benefits (Social Justice Policy Group, 2007, p. 68).

⁵⁷ Beyond conservative research, the experience of the tax credits "blunder" led to a general emphasis on simplification as an objective of welfare reform. Under the Labour government, a "Benefit Simplification Unit" was created in 2005 within the Department for Work and Pensions (DWP), which objective was to simplify the existing system and prevent further complexification in future reforms. Benefit simplification was also the object of a 2006 DWP Green Paper, and of several reports commissioned by the Labour government (including the original Freud report - but see also (Gregg, 2008) - or emanating from researchers self-identifying as Left-of-centre (Sainsbury and Stanley, 2007).

7. Conclusion: The British tax credits as a product of New Labour's strategy of blame-avoiding negative expansion

This in-depth analysis of the British case showed that the turn to fiscal welfare corresponded to the adoption of a negative expansion logic, in the objective of avoiding the blame supposedly attached to positive expansion by middle-class voters. New Labour's introduction of tax credits in the early 2000s to support low-income groups corresponded to their attempt at reconciling a substantive policy objective - supporting low-income groups - with an electoral strategy geared towards the middle-class vote, through adopting a new logic of welfare expansion: that of taking less from low-income groups, rather than giving more to them. This, it was thought, was more acceptable to their target electorate.

The British tax credits were undoubtedly designed to benefit low-income groups, and they did: over the course of New Labour's first two terms, about £50 billion were distributed to low-income workers and families with children. As shown in Figures 2.17 and 2.18, over half of that sum went to households in the three lowest deciles of the equivalised income distribution. However, while theory predicts that politicians should claim credit with beneficiaries after a redistribution effort of this scale, the distributive function of the reform was largely understated.

This turn to negative expansion had to do with the fact that middle-class voters - New Labour's main electoral target - supposedly resented positive expansion, but approved of tax cuts; they were themselves accustomed to claiming tax returns for specific expenses, or benefiting from dedicated tax breaks. Therefore, fiscal welfare was thought to be more appealing to middle-class voters. This could mistakenly be qualified as "affordable credit claiming", a

concept used to describe cases where credit is expected not from beneficiaries but from contributors (Bonoli, 2012, p. 104)⁵⁸. However, in the case at hand, this would be a mischaracterisation, downplaying the fact that the policy's main substantive goal was in fact to support low-income groups. Similarly, while middle class voters also directly benefited from the Child Tax Credit, which could potentially be described as a more traditional example of "credit-claiming", data presented in Chapter 2 and 4 clearly show that neither in effect nor in intention were middle-class voters the *main* beneficiaries of the tax credits reform. The tax credits were very clearly aimed at supporting low-income workers and families. Yet the choice of instruments was dictated by a carefulness to appeal to middle-class voters. In that sense, the policy instrument was not aimed at claiming credit with the policy's main beneficiaries. Rather, it was aimed at avoiding the blame from those who benefited from it only marginally or not at all. The turn to a different logic of welfare expansion was mainly driven by the desire to avoid the disadvantages attached to positive expansion, rather than to reap the benefits attached to negative welfare expansion. In other words, the turn to negative expansion through fiscal welfare was part of a blame-avoidance strategy. This example fits in a seldom populated theoretical cell in the literature on the politics of welfare state development: conventional theories rarely consider the possibility of blame-avoiding *expansion*.

⁵⁸ For instance, some activation measures might be aimed at gaining credit not from those directly concerned - unemployed people - but from the employed contributing to the social security system.

Traditional income support instruments were seen as having three main disadvantages, which fiscal welfare did not have. First, they were associated with a realm of policymaking - welfare - which New Labour politicians assumed had become toxic, attracting blame from contributors and failing to generate credit from beneficiaries. Using fiscal welfare allowed disguising welfare, mainstreaming income support - including by adding middle-class voters to the pool of beneficiaries, and giving them a direct stake in the policy - and opening a new, non-stigmatising channel for redistribution. Second, using traditional instruments, which relied on budgetary spending, was assumed to pose a risk to Labour's economic credibility, which they saw as crucial to attracting middle-class voters. The latter were thought to resent spending as irresponsible. Using fiscal welfare was a solution to that second problem as well, since it could be presented as a tax cut rather than as an increase in spending, and it was aligned with dominant economic theories about welfare reform, conferring it an air of economic respectability. Finally, while middle-class voters were also thought to resent taxation, and to be fearful of Labour's tendency to raise taxes, using tax credits helped sustain the rhetoric that New Labour was renouncing taxation.

Although New Labour's strategy was justified internally as an answer to what were perceived as changing preferences in the electorate, our analysis of available attitudinal data does not reveal any large-scale shift in attitudes towards traditional social spending and taxation among middle-class voters in the decade preceding New Labour's 1997 election. On the contrary, support for social spending remained stable, while attitudes to taxation were, if anything, softening. In that sense, the constraints driving the strategy were largely driven by New Labour politicians' perception of public opinion, rather than by actual

shifts in preferences. This leads us to argue that the turn to negative expansion cannot be qualified as being demand-driven, and originated from among politicians themselves. It reflected changes in their own self-defined feasibility set of policy alternatives.

Chapter 5 - Supporting modest workers through fiscal welfare in France: a case of credit-claiming negative expansion

Chapter 3 showed how the turn to fiscal welfare in the realm of French income-support policies in the 2000s ran counter to prevailing institutional and partisan logics. The change of instrument is hard to reconcile with what we know of income-support in France, and it is not obviously explained by existing analyses of fiscal welfare in the literature. The present chapter aims to shed light on the drivers that led French socialist policymakers to deviate from their institutional and partisan paths to use a fiscal welfare instrument, in a particular episode of French social policy: the introduction of the *Prime Pour l'Emploi*.

The task of understanding this episode is complicated by the fact that the birth of this policy was not a straightforward affair. Its story is convoluted and involves a variety of actors with different perspectives on the issue. To start with, the PPE was partly the result of a legislative mishap. The policy originally introduced to Parliament by the government in its 2001 Social Security Finance Bill in the fall of 2000 took the form of an exemption and a rebate of *Contribution Sociale Généralisée* (CSG), a flat-rate payroll tax earmarked for social protection spending. People earning less than the minimum wage would be exempted from CSG, while a phasing-out rebate would be applied for those earning between 1 and 1.3 times the minimum wage. The reform would thus benefit most those earning the minimum wage, giving them an income boost of around 100 euros per month (Didier, 2014, p. 69).

The choice of using a tax rebate was the outcome of a long-winded debate within government circles in the month leading up to the presentation of the social security finance bill - the substantive elements of this debate are discussed in more detail below. In the end, the government opted for the tax rebate option out of two main proposals discussed at the time: a reform of the CSG (an exemption below the minimum wage and a rebate above) or a refundable income tax credit. In late December 2000, the CSG rebate was ruled unconstitutional by France's highest court, the Conseil Constitutionnel⁵⁹. This came as a surprise to all actors involved, and a replacement measure had to be found within days. The tax credit proposal was readily available: it became the proposal for a *Prime Pour l'Emploi*, an income tax credit targeting those earnings between 0.3 and 1.3 times the minimum wage. It was voted into law in May 2001⁶⁰.

Despite the PPE's origins as a "second-best" policy, it is important to note that in the first version of the policy, the government was already determined to use a fiscal welfare instrument. From the beginning of the process, the policy was envisioned as a tax expenditure designed to benefit low-wage workers. Chapter 3 argued that the turn to social tax expenditures to support low-income groups amounted to the Left forsaking the defence of *positive expansion* for low-

⁵⁹ The law was legally challenged by MPs from the right-wing opposition, which argued the reduction in CSG was unconstitutional. The Constitutional Council ruled accordingly, arguing that the fact that the tax reduction did not vary according to households' total income and composition was a breach of the article 13 of the 1789 Declaration of the Rights of Man and of the Citizen, which states the principle of equality in the payment of tax: tax amounts should be determined according to individuals' contributing capacity, which includes an *assessment of household need*. Because the CSG rebate did not discriminate for the presence of children, it was considered to be in breach of this principle (Conseil Constitutionnel, 2000).

⁶⁰ Loi no 2001-458 du 30 mai 2001 portant création d'une prime pour l'emploi.

income groups, and instead adopting the logic of *negative expansion*. The present chapter presents data backing this argument in the French case.

While they did not abandon their substantive policy goals of supporting low-income groups, the French socialists turned instead to the logic of negative expansion, taking less from low-income workers rather than giving more to them. This renewed approach to income support was driven by restrictions to the menu of available policy options. Rules attached to membership in the European Economic and Monetary Union directly constrained policymaking choices, while changes in policymaking personnel meant that some policy options were not put forward. Drivers common to both the British and French cases include a reluctance to increase spending, and an electoral strategy geared at middle-class voters and emphasising tax cuts.

While the turn to tax instrument in the UK corresponded to a blame-avoidance strategy, redistributing to low-income groups while not alienating middle-class voters, the French socialists' turn to fiscal welfare is an example of *credit-claiming negative expansion*: the adoption of the new fiscal welfare instrument was envisaged as a way to win points with its direct beneficiaries.

The in-depth case study of the PPE presented below is based on a wide-ranging review of the evidence available - sources include publicly available government documents and press records, as well as partisan and governmental archives, and interviews with a large pool of civil servants and advisors involved in the reform. We draw on the empirical material collected to identify the substantive policy goals attached to the PPE by its own creators (Part 1). Part 2 identifies the specific constraints with which socialist policymakers in France at the end of the 1990s had to deal. Part 3 shows how the turn to fiscal welfare and the

adoption of a logic of negative expansion helped them to bypass these constraints. In part 4, we draw on empirical material about the recent turn back to benefits to tell the end of the story and probe the validity of the chapter's argument and its coherence with regard to later developments.

1. The Prime pour l'Emploi: a policy to support "modest workers"

A particularity of the PPE - and an added difficulty in tracing its origins - is that various actors claim credit for its conception, and assign different logics to it. Concomitant stories can be subsumed into two main ones, detailed below. On the one hand, advisors to the Prime Minister and the Minister of Employment and Solidarity describe the PPE as part of a strategy to make the French tax system more progressive and to boost redistribution towards those on "modest" wages. On the other hand, actors from the Ministry of Finance describe the tax credit as the product of their research on incentives to work for low-wage workers. The common denominator in these narratives is the fact that the PPE was envisioned as a way of supporting "modest workers".

1.1 Fiscal redistribution: the PPE as a "purchasing power boost" for low-income workers

In a first version of the story, the PPE is "primarily a purchasing power measure", and the result of the government "meeting (its) duty as a left-wing government to use taxation to redistribute" (FR-G). According to advisors to Prime Minister Lionel Jospin and Minister of Employment and Solidarity Martine Aubry, the rise to prominence of issues of inequality and redistribution in the second half of the socialists' five-years mandate was key in the genesis of the PPE.

The main concern in the first years had been unemployment. To address the latter, a series of demand boosting policies had been implemented, as well as the law reducing working time to 35 hours a week; the policy of reduction of employer social security contributions for low-wage jobs introduced in the early 1990s had also been pursued. Advisors reckoned that results were starting to show. By 1999, "unemployment was not the first anxiety-inducing item in French society anymore" (FR-G). Rather, the government was preoccupied by a growing popular discontent with the stagnating purchasing power of low-wage workers. While jobs had been created, there was "an issue with purchasing power (...) because wages were not going up". Government-commissioned polls revealed that "creating jobs had not reduced people's perception of inequality" (FR-A). This context prompted a discussion inside the government, and in particular in the Prime Minister's office about the need to do more in terms of redistribution, in particular in direction of low-income *workers*, earning "modest" (i.e. minimum) wages (FR-G).

Several interviewees trace the origin of the PPE back to this particular policy challenge. Earlier in the term, the Prime Minister had commissioned a report on inequality and redistribution, with a rather open mandate: the aim was to get "an updated picture of inequality and redistribution in France compared with its European neighbours" (FR-E). François Bourguignon, an economist in the government's "Council of Economic Advisor" (see 2.3.1.2 below) had been tasked with writing a report on this subject (Bourguignon, 1998). This report concluded that there was a redistributive deficit in the French socio-fiscal system compared with the German or Belgian one (*idem*, p. 33). It suggested introducing a negative tax, to make the French tax system more redistributive

for the bottom quintile of the population. As the issue of redistribution became more prominent, so did the policy recommendations from this report, including this proposal.

The discussion about redistribution tied in with a debate about the lack of progressivity of the French tax system. The negative tax proposal appeared as a potential solution to a feature of the tax system that attracted growing criticisms from left-wing currents in the Parti Socialiste, namely the non-progressivity of the CSG. The CSG was a flat-rate payroll tax which had been introduced by another socialist government in 1991 but had been "largely increased since then (FR-C)".⁶¹ This led many, including the socialist president of the Finance committee in Parliament Henri Emmanuelli and the Minister of Employment and Solidarity Martine Aubry, to argue that it should be reformed and made progressive (FR-A; FR-C; FR-G; arch: Parti Socialiste 2000) - see also Mauduit (1999). Bourguignon's negative tax proposal seemed like an "attractive way" of achieving just that (FR-C).

In addition, research on redistribution had also revealed that poorer workers were marginally more taxed on their labour than richer ones (Bourguignon, 1998; Bourguignon and Bureau, 1999). This feature of the tax system⁶² was

⁶¹ The CSG had increased both in terms of nominal rates and tax base. Tax revenues from the CSG went from €3.7 billion in 1991 when it was introduced, to €91 billion in 2013 (Didier, 2014, p. 40).

⁶² While this issue was picked up as something to be fixed in France, it was not a French specificity. This was recognised in the Bourguignon report that alerted about the problem of high marginal tax rates. Comparing the situation in France, Germany, Belgium, Ireland and the UK, the report in fact concluded that the average marginal effective tax rates was "markedly lower" in France (Bourguignon, 1998, p. 43). The report concluded that the international comparison did not reveal a French particularity compared with its neighbours in terms of inefficiently high marginal tax rates. When adjusting for the fact that income tax was relatively lower in France, then the distribution of marginal effective tax rates in France was described as similar to the German one, and indeed characterised by higher rates on the lower part of the income distribution.

identified by many as very problematic and fundamentally unfair: it had to be fixed (FR-C; FR-B) - see also (Piketty, 2001). Jospin personally brought up the issue of the unequal distribution of marginal tax rates during one of the weekly Council of Ministers (FR-E). In other circles, these results were taken as evidence of a labour market inefficiency, which created disincentives to work (see 1.2 below). Yet, "ensuring that taxation on the work of the poor is not more penalising than taxation on the work of the rich" was also an issue of *fiscal justice* (Pisani-Ferry, 2000, p. 176). Advisors explain that high marginal tax rates (MTRs) went against "an ethical standard", according to which "efforts should be rewarded". Excessive MTRs "might be a disincentive, but they are first and foremost an injustice", argues one (FR-E).

In other words, according to a first group of advisors to the Prime Minister and the Minister of Employment and Solidarity, the main substantive drivers behind the conception of the PPE was their concern with redistribution towards low-wage workers, the progressivity of the tax system, and marginal tax (un)fairness. These issues were seen as complementary: increasing progressivity was to help increasing redistribution, because it would make taxation more acceptable (FR-G; arch: Guimbert, 2001); reducing the marginal tax rate around the minimum wage was equivalent to a boost in purchasing power (FR-G). The PPE was later described as "a redistribution tool with no equivalent", which is aligned with this first version of its origins. It helped filling "the gaping hole in a tax system designed in such a way that it did not allow redistributing income to the poorest" (Pisani-Ferry, 2001; see also Fressoz, 2000). Once implemented, economists in the Ministry of Finance also came to

see the PPE as "the first tax instrument to redistribute towards low-income taxpayers" (arch: Guimbert, 2001; arch: Cotis, 2001).

1.2 Activation: increasing incentives to work for "modest" workers

A second story emerges from interviews with former advisors and civil servants in the Ministry of Finance - who also consider the PPE as their brainchild. In particular, several interviewees trace the introduction of the tax credit back to research conducted by economists in the "Direction de la Prévision" (DP), the forecasting directorate in the Ministry of Finance. In this alternative version, the story of the PPE starts with economists' concern with work incentives at the bottom of the income distribution (FR-B; FR-K). Interviewees mention research on work incentives in the British and American contexts (and notably on the incentive effect of the EITC and WFTC) as inspirational for this research (FR-B; FR-D). Their concern around a lack of financial incentives to work at the bottom of the income distribution also echoed the research around marginal tax rates evoked above. Economists in the DP started working on these issues early on in Jospin's term, presenting then Finance Minister Dominique Strauss-Kahn with plans and simulations for a French EITC. The latter was allegedly enthusiastic, and advisors were on the lookout for political opportunities to push these plans forward (FR-B; FR-I).

Interest in work incentives for low-income workers grew even stronger after a wave of policies boosting labour demand (e.g. the reduction of working time, the creation of subsidised contracts for young workers) was implemented, in the first half of the socialists' term. At this point, potential barriers to labour

supply emerged as a prominent issue, as "the Beveridge curve⁶³ was showing signs of recruitment difficulties" (FR-J). Policies to tackle residual unemployment and achieve full-employment were the talk of the day. Academic researchers involved in the Council of Economic Advisors produced research on this issue (Anne et al., 2002; Gauthier et al., 2000; L'Horty et al., 1999). In 2000, the government commissioned Jean Pisani-Ferry, former advisor to Dominique Strauss-Kahn (who had left the government) to write a report on policies to reach full-employment. Among other things, this report recommended introducing an EITC-like tax credit system to increase incentives to work at the bottom of the wage distribution (Pisani-Ferry, 2000).

1.3 The common denominator: negative expansion for "modest" workers

Data presented in the previous two sections demonstrate that from the start, the PPE was an ambivalent object. The PPE's multiple intellectual origins were reflected in its official presentation: then Minister of Employment and Solidarity Elisabeth Guigou (who succeeded to Martine Aubry and inherited the policy in its latest stages) introduced the measure both as "a redistributive measure (...) increasing modest incomes", but also "a measure favouring employment, as it increases income from work" (Guigou, 2001). As one former advisor puts it, the PPE results from "the convergence of two things, an incentive logic, and a distributive logic" (FR-J).

This dual rationale was reflected in the saga of the policy introduction described in introduction to this chapter, and in the final policy design choices. On the one hand, while the tax credit proposal was put forward in two different

⁶³ The Beveridge curve graphs the relationship between unemployment and the job vacancy rate.

government reports and advocated for by economists in the DP, the government's first choice was, instead, a reduction of CSG. This choice was aligned with the first rationale, emphasising redistribution and tax fairness. According to various sources, it was indeed the result of lobbying from several heavyweights on the left of the Parti Socialiste, including Martine Aubry, who favoured seizing the occasion to right the wrong of a flat CSG (FR-A) - see also Malingre et al. (2000)⁶⁴. On the other hand, the fact that both instruments envisioned were *individual* instruments, as opposed to household-based schemes, is an indication of the importance of the incentive logic. Indeed, while French income tax is in fact largely familialised⁶⁵, PPE entitlements were calculated based on *individual* income. Although a household income limit on eligibility and small add-ons for children had been introduced to comply with the Constitutional Court ruling, the PPE was still received individually by workers in a household. This, advisors explained, was to guarantee that *individuals* had incentives to work, regardless of their familial situation (FR-J; FR-K; FR-E; arch: Cotis, 2001).

This particular feature of the PPE is a key distinction with the British tax credits. In the UK, while income tax is in fact individualised, the designers of the tax credit went through a lot of administrative trouble to create a system of

⁶⁴ In addition, as explained in Chapter 2, using a tax credit was conceptually opposed by some on the left of the Parti Socialiste because the instrument was too strongly associated with the negative income tax proposal of the very liberal Milton Friedman (Ayrault and Muet 2015, p. 18; FR-J; FR-E; FR-I; FR-C). The CSG option was seen as a "lighter symbol" for the Left to carry (Freyssenet, 2000).

⁶⁵ French income tax is calculated at the household level, using the concept of the "*foyer fiscal*" (tax unit, see note 26). Each *foyer fiscal* has a certain number of shares representing the estimated cost of individuals in the household. Shares are used to calculate two ratios, the *quotient familial* and the *quotient conjugal*, which reduce the amount of tax for that household, reflecting the presence of children and the marital status of the couple.

tax credits based on *household* income. This reveals a distinction in the weight of the various rationales behind the two schemes. Although the British tax credits were also branded as instruments designed to "make work pay", designers of the policy in the UK were *primarily* concerned with income-support, rather than work incentives. By contrast, both objectives were reflected in the design of the French policy.

This dual nature of the policy is reflected in all sources consulted. Despite this ambiguity, analysing the PPE's multifaceted underlying principles in combination with its actual socio-fiscal impact allows us to patch together a comprehensive picture of its overarching substantive objective. The PPE amounted to a financial transfer to workers on low to "moderate" wages, earning between 0.3 and 1.3 times the minimum wage. The scheme was most generous for those earning the minimum wage. The tax credit came *in addition* to other already existing income-support mechanisms in France, rather than as a replacement. Therefore, from a budgetary standpoint, it corresponded to a substantial increase in spending (albeit in the form of lower tax revenues). It benefited 9 million tax units for a total of €2.5 billion in the first year after its implementation. This increased to €4.5 billion in 2008, after generosity increases. In other words, as shown in Chapter 2 the introduction of the PPE in the French socio-fiscal landscape constituted a clear instance of welfare *expansion*, benefiting low-wage workers.

However, the policy was not branded as expansionary. Increases in generosity were not highlighted as such, nor was the redistributive impact of the measure. Instead, the government emphasised how the state was "giving back to minimum wage workers" (FR-F), taking *less* from individual workers - while the

reform could equally have been presented as society collectively giving *more* to low-wage workers. The government described the policy as "reducing the tax pressure on low-income workers" (FR-C). Other periphrases insisted on the individual effect of the policy, rather than its redistributive nature: the PPE was "increasing the purchasing power of low-income workers" (Brick, 2001; Libération, 2001), rather than increasing redistribution. In other words, the PPE constitutes a case of *negative expansion* not only because of the technical nature of the policy instrument on which it is based, but also because the *less is more* logic was actively reflected in the government's communication strategy around the new policy. To understand why the socialist government might have done so, we now turn to analysing the objectives and constraints it faced at the time.

2. Socialist policymaking in France at the turn of the century: a tale of three main constraints

2.1 Building a new alliance of voters: constraints deriving from the socialist electoral strategy

A first determinant of the socialist government's action was their electoral objective of assembling a new "alliance" of voters. Although the French socialists clearly wished to distance themselves from the Blair-Schroeder "third-way" branding (Jospin, 1999a, 2000), the Parti Socialiste's electoral strategy was discussed in terms that are, at times, reminiscent of the British one. In years coming up to the 2002 election, the discussion increasingly focused on the need to assemble coalitions of voters stretching beyond the Left's traditional supporters. Lionel Jospin emphasised the objective of forging a "new alliance" between "lower and middle class" voters, and more precisely between "the socially excluded, the popular classes, and the middle classes" (Jospin, 1999b).

This vocabulary corresponded to precise socio-economic categories, and referred to particular institutions structuring the French income pyramid. The term "socially excluded" was the government's way of referring to long-term unemployed individuals, on minimum incomes (e.g. the RMI). The "popular classes", were defined as "people who work hard, in a constrained environment, and do not earn much", "modest workers", earning the minimum wage. Higher in the income and wage distribution were the "middle classes", a "diversified group" made "mostly of employees" but also of executives and small business owners. These middle classes were described by Jospin as playing "an increasing role in French society". Their "preoccupations" and "legitimate aspirations", he argued, should therefore also be taken into account in the Left's policy programme (Jospin, 1999c, p. 43).

2.2.1 Cutting middle-class taxes

Taking into account this diagnosis - that the socialists needed to pay attention to the middle classes - implied that government policy should aim to answer to the middle classes' "preoccupations". According to influential figures on the right of the Parti Socialiste - most prominently former Prime Minister Laurent Fabius - this meant in particular addressing middle class voters' supposed discontent with taxation (Bazin and Gilson, 1999; Strauss-Kahn and Sautter, 1998).

As in the UK, concerns with perceptions of the "fiscal pressure" among voters infused much of the socialist's strategic debate (Cazenave 1999; Fabius 1999b). The position of the party on taxation was seen as a weak spot which the opposition could easily target. Tax was "a subject traditionally difficult for the Left" (arch: Bensaid, 1998). Public opinion on the subject was closely

monitored. Advisors noted that tax policy was "the most often spontaneously cited cause of discontent" in monthly government polls (arch: Bensaid, 1998).

The idea that the Left needed to transform its image with regard to taxation was given a boost with a particular incident in the summer of 1999. At that time, internal government data revealed that fiscal revenues for that year were in excess of what had been forecasted in the budget. Conservative President Jacques Chirac⁶⁶ launched a media storm by publicising this information, accusing the government of discreetly amassing a "jackpot" ("*une cagnotte*") with taxpayers' money (Wenz-Dumas, 1999). For months, following this, the public debate in France was dominated by discussions about the level of taxation, often described as too high (Aeschimann, 2000; Cazenave, 1999; Gilson, 1999; Jublin, 1999; Malingre et al., 1999). According to pollsters at the time, the episode generated a substantial fall in the approval rate of the government's economic policy among managers from the public and private sector alike (Sainte-Marie, 2000). "Educated middle classes and upper classes", pollsters contented, had "really strong expectation on tax": they wanted the government to reduce them (idem).

In August 1999, Laurent Fabius, then president of the National Assembly, issued a "paradigm-changing" (FR-D) declaration to the press, boldly stating that "the Left can lose the next election because of taxation" (Noblecourt, 1999).

⁶⁶ Under the regime of the 5th French Republic presidential and legislative elections are independent. This means that "cohabitations" of a President (head of state) and a Prime Minister (head of government) from two different parties are a possibility. This happened three times in the history of the 5th Republic: between 1986 and 1988, socialist president François Mitterrand cohabited with conservative Prime Minister Jacques Chirac, and then with conservative PM Edouard Balladur between 1993 and 1995. During the third one, from 1997 to 2002, President Jacques Chirac cohabited with socialist Prime Minister Lionel Jospin.

The situation, he asserted, called for a general cut in tax rates for the middle-class. This idea amounted to a historic change of the Left's approach to taxation (Aeschimann, 2001; Freyssenet, 2000; Malingre, 1999; Mauduit, 2001; Meeus, 2000; Wenz-Dumas, 2000). It went directly against the long-standing notion that it was "up to the Left to defend taxation" as "a Republican principle" (Bacquet and Besson, 2000; Libération, 2001). This intervention had profound ripple effects (FR-A; FR-D; FR-I). The idea that tax cuts were a necessity also pervaded the direction of the Parti Socialiste: First Secretary François Hollande called for a "clear message, based on a substantial and fair tax reduction" (arch: Parti Socialiste, 2000). The income tax scale, Hollande argued, was "too starkly progressive": it was "discouraging the middle classes"⁶⁷ (Claeys, 2000; "Entretien avec François Hollande," 2000).

In this context, Prime Minister Jospin announced in January 2000 a reform of direct taxation which was to "benefit a majority of French people (...) popular classes, but also middle classes" (Jospin, 2000). In March 2000, Laurent Fabius was nominated as Minister of Finance, coming in with a clear mandate for cutting taxes (FR-D, FR-A), and, allegedly, a personal ambition of "becoming the socialist Minister who cut taxes" (FR-I). Soon after taking office, he announced a large three-years programme of tax cuts worth 120-billion-franc (around 18 billion euros). In effect, because cuts were concentrated on direct

⁶⁷ Again, this perception that the French system was "too progressive" was not obvious in international comparisons. According to the Bourguignon report, the tax system redistributed 3.7 % of total household income from the 60% richest to the 40% poorest in Belgium, 2.4 % in Ireland, 1.8 % in Germany, 1.6 % in the UK, 1.4% in France and 0.8% in Italy. The discrepancy observed between France and the UK was due to a difference in average tax rates: the latter was higher in the UK, but less progressive, yielding comparable results in terms of overall redistribution. But in the case of the Franco-German comparison, the lesser redistributive performance of the French tax system was attributed to its lower progressivity and to its limited tax base. In any case, the French tax system did not stand out as particularly more progressive than that of its neighbours.

taxes (in particular, income tax), they mostly benefited the income-tax paying upper half of the population (*arch*: Duquesne, 2000).

2.2.2 Catering to "modest" workers to manage opposition from the Left

While the government paid attention to middle-class voters, the concept of the "new alliance" also implied paying attention to lower-income groups (Bazin and Gilson, 1999; Best, 1999; Mauduit and Robert-Diard, 2000). In this regard, while, advisors argue, the government had done "a lot for the 10, 20% most deprived", through a "really strong program of social policy"⁶⁸ in the first half of its term, these policies benefited "a minority, who often does not vote". By contrast, workers on minimum wage jobs were "excluded from the income support system" (FR-G), and they were not the primary beneficiaries of Laurent Fabius's income tax cuts.

In other words, advisors reckoned that the government had not been catering to these "modest workers" directly enough⁶⁹. This created "a political difficulty" for the government, because it risked losing these voters to other parties (FR-G). Indeed, while in the UK traditional Labour voters had nowhere to go in the absence of a credible alternative on the Left, in France dissatisfied left-wing voters did have exit options. This realisation prompted a reflection on ways to cater directly to low-wage workers. The concern with "modest" workers

⁶⁸ Here the interviewee was referring in particular to the "orientation law relative to the fight against exclusions" which introduced a series of measure mostly targeting individuals and families at the bottom of the income distribution, and which aimed at "guaranteeing, on the whole territory, the effective access to fundamental rights in the realms of employment, housing, healthcare, justice, education, training and culture, family protection and early childhood" (*LOI n° 98-657 du 29 juillet 1998 d'orientation relative à la lutte contre les exclusions*, 1998).

⁶⁹ Although the *Garantie Mensuelle de Remuneration*, which accompanied the 35 hours law, and guaranteed that workers kept their previous wage despite a reduction in working hours, did result in a significant *hourly* minimum wage increase. However, this left monthly wage unaffected. It did not increase workers' "purchasing power".

emerging from our data and discussed in part 1 partly stemmed from electoral realism.

In addition, the government had to manage the large plurality of opinions cohabiting in its own majority. In 1997 Jospin had run as the candidate of the "pluralist Left" (*la Gauche plurielle*), an alliance regrouping the Socialists, the Communists, the Greens, the Radicals, and the Citizens' Movement⁷⁰. The government was thus made of a coalition⁷¹ of various left-wing parties; once elected, the socialists had to manage the susceptibility of their government partners. The latter resisted the tax cut plans. Communist and Green allies protested Fabius's plan as seemingly abandoning lower-income groups (Freysenet and Roquelle, 2000; Mauduit, 2000). By contrast to previous tax cuts which had taken the form of targeted reductions in VAT - and was usually interpreted as a Keynesian policy to sustain consumption (Bazin and Gilson, 1999; Bezat, 1999) - the 120 billion tax cut plan was concentrating on income tax, and would not benefit the lower half of the population.

Furthermore, the government also faced opposition from figures on the Left of the Parti Socialiste itself. The Parti Socialiste was made of various "currents" competing over the strategic direction of the party. Representatives of various political lines within the party held roles in the government. Left-wing currents within the party principally opposed modifying the income tax scale, the only

⁷⁰ The Citizens Movement was a political party created in 1993 by dissident socialists opposing the Maastricht Treaty.

⁷¹ This was not a coalition equivalent to what would result from a proportional voting system. However, coalition can also emerge in a majoritarian two-ballots voting system such as the French one. The first round provides the space for smaller parties to emerge and stand on their own. Parties then generally regroup in informal coalitions before the second round, with the responsibility for particular portfolios often used as bargaining chips in negotiating alliances.

progressive tax in the French system (Bazin and Gilson, 1999; Freyssenet and Roquelle, 2000; Malingre, 2000; Mauduit, 2000)⁷². Martine Aubry was notably reported as being hostile to a tax cut plan making income tax less progressive (FR-A). In this context, the Prime Minister had to arbitrate between conflicting positions and to strike a balance guaranteeing party unity (FR-G, FR-A).

2.2 Thou shall not spend: European fiscal surveillance and the institutionalised constraint on spending

A second constraint on the government's action revolved around the use of spending. The French Left had been historically attached to the European project. This meant that rules of fiscal surveillance that came with membership of the emerging monetary union were taken seriously (Lordon, 2001:130, FR-B). As one advisor recalls, for Jospin, "being in power meant enhancing workers' rights, redistributing, but at the same time accepting existing constraints, and respecting our European engagements (...) it mattered to him that we were part of Europe and had agreed to rules" (FR-G).

In practice, the European rule limiting the overall deficit level to 3% of GDP materialised mostly as a spending limit⁷³. This is because yearly levels of revenue could not be estimated with much precision - indeed, the yearly revenue fluctuates with the economy. Therefore, scrutiny was concentrated on the spending side, where the government was bound by a multi-annual target: "we had to tell Brussels about our public finance trajectory for the coming years

⁷² Trade-unions leaders were also less than enthusiastic about touching the income tax scale (Validire, 1999).

⁷³ This spending limit was not specific to France, but also characterised other European countries part of the Economic and Monetary Union. Not all of these countries turned to negative expansion at the time: this points to the fact that the constraint on spending in itself is a potentially necessary but not *sufficient* determinant of the turn to fiscal welfare. Although it played a role in the introduction of the PPE - it was part of a wider combination of factors explored in this chapter.

(...) but the real subject was spending", explains a former adviser to the Prime Minister. "On spending, we were accountable, and so we were really careful about sticking to this one" (FR-A). "The spending constraint was an important determinant of economic policy at that time", explains another (FR-J). It was materialised very concretely through a spending "norm" introduced in 1996, which fixed a yearly limit on increases of public spending. The scrutiny of budget procedures was increased in 2001 through a constitutional law on the subject (the "*loi organique relative aux lois de finances*", or "LOLF").

In addition to respecting European rules, the Socialist government was, like the New Labour government, anxious to maintain an image of economic seriousness. Jospin's advisors laid out their concerns clearly in internal briefing notes: increases in spending, even when they "would not endanger public finances", would still entail "a loss of credibility" for the government (arch: Duquesne, 1998). In this context, the Left's use of "the Keynesian budget lever" was not viable anymore⁷⁴, according to some in the Parti Socialiste (Fabius, 1999b).

This rejection of spending was not the result of a measurable drop in available funds: in fact, as explained above, the French government was faced with the odd problem of having collected higher than expected revenues. But when the "tax jackpot" scandal broke, this was not interpreted as a sign of a relaxed spending constraint; rather it was seen as a means of emphasising the government's economic credibility: that the Left "(did) not empty the state's coffers any more, but (filled) them", was a good thing (Claeys, 2000). The party

⁷⁴ Note however that this position was not consensual, and demand-boosting policies remained an important part of the government's agenda (FR-C, FR-G)

had to shed its image of "spendophile" party (Fabius 2002:38). Ministers insisted that "the time when socialists identified with the continuous expansion of the public sphere (was) long gone" (Strauss-Kahn and Sautter, 1998). The Left was now conducting "sound" economic policy, steering clear of "inflationist tensions" (Migaud, 2001), and "cleansing public finances" (Strauss-Kahn and Sautter, 1998).

2.3 The "economicist" turn in socialist policymaking: a restricted menu of policy options

As the government was looking for policy measures that would benefit "modest" workers on minimum wage jobs, an obvious candidate might have been the minimum wage itself: a minimum wage increase would have sent a very direct signal to modest voters. While that option was put forward by some on the left of the government coalition, it was quickly ruled out by most advisors within the government. This points to a third determining constraint of policymaking in the Jospin years: restrictions to the menu of available policy options following a change of personnel in socialist policy spheres.

The Jospin government was characterised by a renewed emphasis on economics as a guide for policymaking. This partly owed to the disciplinary origin of members of the government themselves: Jospin originally taught economics, as did Dominique Strauss-Kahn, who was described as an "economistophile" (FR-D). Ahead of the 1997 campaign, Jospin had contacted an academic economist who was then director of the OFCE (*Observatoire Français des Conjectures Économiques*), Pierre-Alain Muet, and asked if he would be his "chief economist", a job modelled on the equivalent post in the US - which had not really existed in France up to that point. Muet helped

writing the 1997 programme and went on to become economic advisor in the Prime Minister's cabinet. Two other economists, Jean Pisani-Ferry and Jean-Marc Germain occupied similar positions in the cabinets of Strauss-Kahn and Aubry respectively.

In the words of a former advisor, "this was one of the governments - maybe with that of Blair in the UK - where the links between economic activity, economic thought, and governmental activity were the closest" (FR-C). This renewed place of economic thought in governmental action was materialised by the arrival to power of a new generation of advisors versed in economic theory and research, and by the creation of a formal "Council of Economic Advisors". Beyond the personal dispositions of ministers, this change of personnel was also a good fit with the concern for economic credibility discussed above.

But that "economicist turn" in socialist policymaking had another effect, beyond vouching for the government's economic seriousness: as the background of advisors evolved, so did the menu of policy options from which policymakers could choose, as notions about what was considered doable or not, reasonable or not, and even desirable or not, were increasingly influenced by what was then the dominant message in economic thought and research. In particular, some policy levers were now considered out of bounds: this was the case of the minimum wage.

2.3.1 Rise of the economists

2.3.1.1 A new generation of socialist advisors

In the course of researching the origin of the PPE, a striking fact emerged: almost all advisors interviewed, from the different ministries involved in the reform, self-identified as economists. Most of the actors interviewed repeatedly

and naturally referred to particular economic theories and concepts to justify their choices of policy design, describing the PPE as "the product of economist thinking" (FR-I) and "an instrument of economists" (FR-F).

For the most part, these actors were representative of a generation of advisors who were relatively young and on their first government job at the time. They had in common a formation in economics; many had gone through the same school (ENSAE, the national institute for the training of INSEE - the national statistics authority - administrators). Crucially, many advisors in different ministries had, at various and sometimes overlapping points in time, gone through the *Direction de la Prévision (DP)*, the forecasting directorate of the Finance Ministry, favoured by applied economists - in contrast to public finance specialists and tax lawyers, who favour other directorates. Many had met each other there, and several then became advisors in various Ministers' cabinet: this created an "ecosystem of advisors" (FR-D) who knew each other, talked the same language and used common references and cognitive frameworks. As a former advisor in Fabius's cabinet recalls, talking about his counterpart in the PM's cabinet: "the fact that the fiscal advisor to the PM was somebody who was out of the same mould as us, an INSEE product, who had spent time in the DP, this created a rather favourable alignment" (FR-D).

2.3.1.2 The new "Conseil d'Analyse Economique"

Beyond cabinet advisors and civil servants with a background in economics, the Jospin government also granted a large role to academic economists - some of whom, like François Bourguignon and Jean Pisani-Ferry, mentioned above, actively contributed to the debate around the design of the PPE. The role of these academic experts was institutionalised through the creation of a "Conseil

d'Analyse Économique" (CAE), a "council of economic advisors" modelled on the American one. The CAE was Jospin's project, which Muet was in charge of. It gathered about 40 economists representing various opinions and economic traditions, which regularly met to discuss the government's policy plans.

Economists in the CAE produced regular analyses on various policy proposals, which were then debated. The PM himself sometimes observed these debates, and his advisors arranged for him to get a brief on two CAE reports every two months (FR-C). In that way, the CAE "completely infused the action of the government. Advisors came to sessions and listened; it had a crucial impact on the Prime Minister and his cabinet" (FR-C). There were "links between cabinets and the CAE (...) all these people talked, and they seemed to like each other" explains a former advisor in the Finance Ministry (FR-D).

2.3.2 The minimum wage: a frowned upon policy lever

This renewed prominence of economists meant that policies were debated in an environment characterised by particular disciplinary norms and biases for what policies were considered viable, and which ones were not even on the table. Crucially, the change of personnel coincided with the desacralisation of the minimum wage in left-wing policymaking, which went from being an unavoidable institution, to not being considered as a serious and viable policy option.⁷⁵

⁷⁵ Although there were some discretionary increases to the minimum wage in 1997, 1998 and 2001, these were small, symbolic increases. More substantial increases were resisted by advisors as economically unsound.

This emerges clearly from both interview and archival material: the option of increasing the minimum wage to boost the income of "modest workers" was never seriously considered inside the government; in fact, "the idea of a general wage increase was confined to some on the far left of the Parti Socialiste. "We were cautious on wages, because we knew, in an open economy, you cannot pretend there is no impact" explains a former advisor to Martine Aubry (FR-G). While this was "not said out loud", explains a former advisor to Jospin, "we had indeed decided, for competitiveness reasons and reasons of labour cost, not to increase the minimum wage, at least not beyond what was legally required" (FR-A). There was, among government economists at the time, "a clear realisation that the minimum wage was too high" explains another, from the Finance Ministry (FR-K). "On the minimum wage, economists in cabinets all pleaded for a strong moderation, no more increase than required by the law", as they were "all convinced that around the minimum wage, labour cost was a real issue in France" (FR-A). "To preserve the employability of low-skilled individuals, we thought wage moderation was absolutely necessary" (FR-A).

Interestingly, this strong stance did not necessarily reflect the state of economics research at the time. Results were less clear-cut. While some papers were highlighting the negative effect of the minimum wage on youth unemployment (Abowd et al., 1997), and the positive effect of the reduction of labour cost through social security contribution exemption in France (Crépon and Desplatz, 2001), in international research the consensus on the detrimental effect of the minimum wage on employment was coming loose, notably since the publication, in 1994, of a seminal article by American economists David Card and Alan Krueger, which found no indication that a rise of the minimum

wage in New Jersey reduced employment (Card and Krueger, 1994). This led to important policy debates in the US; in the UK, a minimum wage was then *introduced* for the first time. This discrepancy points in part to the delay with which politicians absorb the results of academic research; it also arguably stems from the uncharacteristically high level of the French minimum wage, which, since the 1970s, was automatically up-rated with inflation. The strong political legitimacy of the minimum wage and frequent political demands for its increase might help understand the particularity of the French debate.

* * *

Summing up, the socialist government in France at the turn of the century was juggling with three main constraints. First, the government's ability to spend was constrained by its engagement in the European Monetary Union. Second, the Socialists' electoral strategy hinged on cutting taxes to attract middle-class voters, while also catering to low-wage workers. However, in doing this, they were prevented from using substantial increases in the minimum wage, which were considered anathema by most advisors in government at the time. The next section shows how fiscal welfare emerged as a tool of choice in that context.

3. Credit-claiming negative expansion: how the French Left came to embrace negative expansion through fiscal welfare

3.1 To each their own tax cut: fiscal welfare as a means of catering to all in the new "alliance"

To build its new electoral "alliance", the Socialists needed to cater to the "excluded", middle-class voters, and "modest workers". The "excluded" out of work had been covered through a specific law on the "fight against exclusion"

(see note 66 above). Middle-class voters and higher-income earners largely benefited from Fabius's March 2000 package of tax cuts (arch: Duquesne, 2000). Fiscal welfare was envisioned as a means of addressing the third group in the new "alliance", i.e. modest workers on the minimum wage (FR-F). According to some advisors, the original CSG rebate scheme served the "purely redistributive objective (...) of distributing money around the minimum wage" (FR-I). When the rebate was ruled out by the Constitutional Court, the tax credit proposal constituted a second best means of sending the same signal to low-wage workers (FR-A).

Using a tax credit, compared to traditional welfare, was less of a direct challenge to the institutional legitimacy of the minimum wage, which, for many on the Left, was still the politically and symbolically appropriate instrument to support modest workers (FR-F). Giving "additional benefits to someone earning the minimum wage" was "problematic", because it would be the equivalent of admitting that the minimum wage was not a living wage, "since a solidarity add-on was necessary" (FR-A). As a *wage* top-up, rather than as an income-support scheme⁷⁶, the PPE might generate less political opposition from those fearing that the minimum wage would be undermined⁷⁷.

⁷⁶ The notion that the minimum wage had to be complemented through public solidarity was in direct contradiction with the government's support for "a society founded on work and productive activity" rather than "a society of assistance" (Clegg, 2002, pp. 212–213). While rejection of traditional welfare did not play in the French case the crucial role it assumed in the British case, there was a "debate about dependency (*assistanat*) (...) including among socialists" (FR-G). "There were some politicians in the Ministry of Finance" recalled a former advisor to the Minister of Employment, "who thought we had too much welfare dependency, that this risked antagonising people" (FR-G).

⁷⁷ Another related debate revolved around whether the maximum amount of PPE should go to part-time minimum wage workers, or full-time minimum wage workers. The Ministry of Finance argued that the main targets should be part-time workers, who faced the highest disincentives to work. However, those on the Left, who opposed the concept of a minimum wage top-up altogether, nonetheless favoured the option of a targeting full-time workers if a wage top-up was introduced, to avoid incentivising part-time work, and to maintain the

In addition, reducing taxes on modest workers was congruent with the idea, discussed above, of making the tax system fairer and more redistributive, which was prevalent in parts of the government at that time.

Further, the PPE was a means of balancing the tax cuts benefiting higher-income taxpayers in March 2000. As Greens and Communist allies protested Fabius's plan as abandoning modest workers, the PPE benefited low-wage workers and could be presented as part of the same movement of tax cuts (Jospin, 2000; FR-J; FR-A; FR-B; FR-C). The PPE played the role of a pacifier for minimum-wage workers in that tax cut package (FR-A, FR-B). Using a tax credit "coincided well with Fabius's vision" (FR-B); it was coherent with the overall tax cut mandate of the Finance Minister⁷⁸, and it allowed including even those who did not pay income tax in the general "tax cut" narrative (FR-A).

Finally, using a tax credit permitted the putting forward of tax rates that were "more attractive". This presentational effect on the nominal tax rate was expected to be echoed positively in the media, following the logic that "cutting tax rates has a positive connotation" (FR-D). While a CSG rebate would have undoubtedly generated such a positive presentational effect, there were originally uncertainties as to whether the PPE would be counted as a tax cut or as spending in national accounts (FR-K). To settle that issue, ahead of the legislative process, Laurent Fabius personally met with the director of the

signal that full-time work was the norm (FR-A, FR-B). In the end, the scheme proposed by the government had maximal amounts for full-time minimum wage earners; to avoid incentivising very short part-time work, an inferior income eligibility condition of 0.3 SMIC was introduced.

⁷⁸ The fact that the Finance Minister "wanted something that was under his control" (FR-I), and therefore "had to be something on the revenue side of the budget" (FR-D) is also likely to have played a role. It was "a key political objective" for Laurent Fabius that the disposition for low-wage workers replacing the rebate took the form of a tax cut (FR-K, FR-D).

national statistics agency (INSEE) and forcefully "insisted that the tax credit should be counted as reduced taxation" netting off the tax burden in official statistics (FR-K; FR-D)⁷⁹.

The PPE was conceived as a means of signalling to minimum-wage earners that the government was doing something for them. It was introduced to *woo* low-wage workers. The French government deployed considerable efforts to make the PPE reform as visible as possible to its own beneficiaries (i.e. modest workers). In the first year of the PPE, each beneficiary received a *lettre-chèque*, a bankable check enclosed in a letter signed by M. Fabius - this was technically unnecessary and a costly way of distributing the PPE, but something that the Finance Minister had really insisted on⁸⁰ (FR-H). In other words, the PPE in France was introduced following a *credit-claiming* logic. The government introduced fiscal welfare as a means of *winning points* with low-wage workers. Civil servants and advisors in the Finance Ministry, saw the PPE as an opportunity to turn around their image of "ministry for the rich" (FR-B, FR-J, arch: Cotis, 2001), as tax refunds would now also benefit those on lower incomes.

This is in contrast with the British case, in which fiscal welfare was used to *avoid the blame* attached to traditional social spending by disguising it. In the UK, the political and substantive functions of the policy were dissociated: the policy

⁷⁹ Using fiscal welfare allowed pulling that trick in the first years, when this was still in accordance with Eurostat rules. But in 2010, Eurostat changed the rules of the European accounting system so that the refundable part of tax credits could not be accounted for as reduced revenue anymore (Eurostat, 2010) - see part 4.

⁸⁰ The latter had also gone against tax administration traditions in guaranteeing that beneficiaries had the option of being paid in cash in tax offices, and that tax agents could not use PPE amounts to collect outstanding tax debts.

was designed to benefit low-income families, but its form was determined by a carefulness not to alienate middle-class voters. By contrast, the two functions were aligned in the French case: the PPE was targeted at low-wage workers, and its form corresponded to the objective of sending a positive signal to that same constituency.

This positive signal from the Left to modest workers was not that the government increased spending to their benefit (which it was in effect doing), but rather that it took *less in taxes from them*. Behind the government's choice of instrument lay the idea that credit could be claimed for *taking less*, from modest workers, a departure from traditional forms of credit-claiming as *giving more*.

3.2 Fiscal welfare as a means of bypassing the spending constraint

As explained above, the socialist government's ability to spend was constrained by European fiscal surveillance rules, and the government was "really careful about sticking to the authorised [spending] limit"; for that reason, "it wasn't conceivable to use spending" to design the PPE (FR-A).

Using fiscal welfare provided a very useful way of freeing the hard spending constraint linked from membership in the monetary union, by looking for new means of action on the revenue side of the budget (FR-I). While using a benefit would result in a spending increase, a tax credit could be accounted for as lower-than-expected revenue. Of course, lowering taxation affected the overall balance of the public budget in the same way than increasing spending, but as explained above, the revenue side of the budget could not easily be monitored, as it depended on economic fluctuations. In that context where, according to Finance Minister Fabius the use of "the Keynesian budget lever" was not viable

anymore, using "a lighter and less crippling taxation" was defended as an alternative (Fabius, 1999b).

Once implemented, increases in the PPE "to support the incomes of modest households" were advocated because it was "the only available instrument which (...) would not affect the spending norm" (arch: Bensaid, German and Jekhowsky, 2001). By comparison, every time spending on the RMI (a minimum income *benefit*) went slightly above originally budgeted sums, alarms rang in the Ministry of Finance (arch: Secrétariat Général du Gouvernement, 2001). "Using a traditional benefit would have raised questions regarding the public finance strategy", explains a former advisor to the Prime Minister to justify the choice of a tax-based instrument (FR-J). "We did a lot of complicated things purely for reasons of Brussels accountancy", reflects another; "at some point we discussed the opportunity to merge all child-related benefits in one tax credit, because it would not appear as spending" (FR-G). This idea was later abandoned, as advisors "thought that social administrations remained better equipped to implement policies and deal with problems when necessary" (idem)⁸¹.

3.3 Fiscal welfare as a natural product of economist social policy

Socialist policymaking in France at the turn of the century was characterised by the increasing influence of economists and economic thought. This resulted, as was argued before, in some policies being crossed off the menu of available policy options. Conversely, the influence of advisors versed in economics also

⁸¹ Archival research also revealed that advisors at some point waved the idea of creating a "PPE for the youth" ("*PPE Jeunes*") (arch: Guimbert and Ouriet, 2001), and generally considered it a good channel for redistribution to be developed and maintained (arch: Cotis, 2001).

meant that some policy options were inherently *favoured*, either because they matched the state of the debates in economics at the time, and/or because they fitted well with advisors' disciplinary biases.

As argued in Chapter 3, the diffusion of a policy idea in expert networks does not in itself constitute a sufficient explanation for the adoption of a particular policy. That a policy idea is formulated and discussed by experts does not constitute a rationale for a policymaker to seize it, and to set in motion the reform process necessary to implement that idea. However, the diffusion of policy ideas can influence policy reforms in a *necessary if not sufficient* sense.

Indeed, the implementation of a particular policy idea at a particular moment in time can be understood as the alignment of political actors' objective with the *availability* of this particular policy. Availability is a function of the visibility and popularity of this idea among experts. Being the object of experts' discussion increases the likelihood that an idea appears on the radar of policy advisors in power, and it is an indication of its administrative and/or economic viability (Hall, 1986, p. 26) - see also (Berman, 1998; Blyth, 2002; Hall, 1993).

In the field of social policy, the influence of a new generation of advisors versed in economic theory favoured the rise to prominence of new diagnoses and policy solutions. One of the outcomes of this process was a positive bias in favour of fiscal welfare for social policy reforms.

3.3.1 Fiscal welfare was aligned with the trend in the economics debate at the turn of the century

3.3.1.1 Marginal effective tax rates, traps, and the negative income tax debate

One of the prominent topics of research in labour economics at the time, which largely motivated economists' increasing investment of the field of social policy,

was the link between welfare systems and incentives to work for people at the bottom of the income distribution. The main message emerging from this research was that welfare systems generated prohibitive ‘marginal effective tax rates’ for unemployed individuals taking up low-income jobs: indeed, as their income progressed, their effective tax rates increased while the benefits they received decreased. These high marginal tax rates were thought to create ‘unemployment traps’ for low-skilled individuals, whose incentives to work were reduced, as they could be better off remaining on welfare than working.

The existence of high effective marginal tax rates at the bottom of the income distribution was a finding emerging from the Bourguignon report mentioned above. In parallel, economists in the DP were also showing that the highest rates were at the bottom of the distribution (FR-D). These issues were largely discussed between civil servants from different directions in the Ministry of Finance, who started estimating the budgetary costs of closing these poverty traps. "During the second half of the 1990s, there was a lot of talk about 'poverty traps', 'high marginal tax rates', 'discontinuities and fiscal cliffs', recalls a civil servant from the Finance Ministry (FR-D). "The idea that (...) when arbitrating between working or not working, taking up a job could be disadvantageous, because you would lose social benefits, that was a deeply shocking discovery", explains another (FR-H). "In the 1990s, I had studied in much detail the socio-fiscal wedge, we had built a micro-simulation model which combined taxes, social security contributions, and non-contributory benefits, and we had realised that the system was generating numerous situations where there were no incentives to work" adds a former advisor to the Prime Minister, who had previously spent some time in the DP (FR-A).

In the 1990s these ideas became largely dominant among economists in the ecosystem described above: "there was a collective realisation at that time that something needed to be done (...) to correct aberrations in the bottom of the distribution of marginal effective tax rates", explains a civil servant from the Ministry of Finance (FR-K). According to a former advisor to the Prime Minister, "we could see that in spite of the improvement of the labour market situation, we had an issue with work supply in France, there were a lot of unfilled job vacancies, in particular in the low-skilled sector, so it was likely that there was an incentive problem" (FR-A). By the end of the decade, those ideas had made it into government discourse, too: Jospin highlighted the importance of removing barriers "detering benefit recipients to take up a job" (Jospin, 1999b) - see also arch: Papiers de Jean-Marc Germain, (1997-2002b).

The fact that these ideas gained ground in policymaking circles did not necessarily reflect the strength of the evidence supporting them. The importance attributed to financial incentives in determining employment behaviour was at the time, and still is, a subject of debate (FR-J; FR-G; Atkinson and Micklewright 1991; Laurent et al. 2002; Méda 2015). There was "no direct way of measuring the inefficiency generated by price distortions linked to redistribution" (Bourguignon, 1998, p. 35); instead, economists used effective marginal tax rates as a proxy, based on the assumption that these tax rates "cause agents to change their behaviours" (idem). In addition, there was "little precise estimations of the actual share of people in the unemployment trap" (Bourguignon and Bureau, 1999, p. 38). As a former civil servant in the Ministry of Finance explains, "we were analysing distribution of marginal tax rates, but we did not even know how many people were concerned with these

high marginal tax rates" (FR-F). Micro-simulation models at the time, which used "typical cases" rather than real population data, did not allow producing that information. This means that economists were relying on "intuition" and "anecdotal evidence" to estimate both the strength of the disincentive and the extent (and seriousness) of the phenomenon (Bourguignon and Bureau, 1999:38; see also Bourguignon 1998:41; arch: Direction de la Prévision, 2001). Despite these important limitations to available evidence, "this research had infused [advisors'] brains", and induced them to design reforms that would smooth the distribution of marginal tax rates. For many of the economist advisors, this was one of the key advantages of the PPE: "we thought there was an issue with work incentives", one explains, "and the PPE was a way to address this issue" (FR-A). It resembled a negative tax, which, following a "collective realisation at that time", was increasingly seen as a way to "correct aberrations in the bottom of the distribution of marginal effective tax rates" (FR-K, see also Bourguignon, 1998, p. 47).

3.3.1.2 International policy diffusion⁸²

The popularity of these ideas was reinforced by their diffusion in international policy networks. Marginal tax rates and the lack of work incentives were the object of an international policy discussion. The OECD was a particularly influential platform in structuring and diffusing these debates (FR-B). This international discussion led to particular policy recommendations, notably around the introduction of wage top-ups, in-work income-support schemes

⁸² While this factor might have played a role in the British case as well, it did not come up as particularly influential in our investigation. This is interpreted as additional evidence that while the reform was backed by economic theory in the UK, this came as a supplement to a previously existing political logic, rather than as a driving force on its own.

helping to "make work pay" (Carone and Salomäki, 2001; Disney, 2000; Doudeijns et al., 1999; Martin, 1998; OECD, 2005, 1999, 1997, 1996, 1994; Pearson and Scarpetta, 2000; Shaw et al., 1996). To address the issue of incentives at the bottom of the income distribution, the OECD suggested introducing income-supplement schemes, in the form of in-work benefits, or in-work tax credits (OECD 1998).

Such policy proposals were also the object of intergovernmental discussions, notably between the French and British governments. A former advisor to the Prime Minister recalls recurrent meetings with teams from the Blair government, including Ed Miliband, who was advising Gordon Brown at the time (FR-C). The designers of the PPE also acknowledged an American influence: one of the actors interviewed, a former advisor to Lionel Jospin, had been an economic advisor in the French embassy in Washington from 1994 to 1997, at the time when Clinton was substantially increasing the EITC; he described this experience as "very important" to explain his later engagement in the PPE project (FR-A). Another one, a former member of Fabius's cabinet, had travelled to the US as a civil servant in the Ministry of Finance in 1996 to meet with academic researchers and discuss the EITC and its efficiency to improve work incentives (FR-B). Several other interviewees spontaneously mentioned the American EITC or British WFTC as references as they were developing the PPE (FR-H, FR-J, FR-K).

3.3.2 Fiscal welfare fitted the inherent biases of advisors trained as economists

While the international policy debate recommended introducing wage top-ups for those on low-wages, this could be done with traditional social policy instruments - it did not call for fiscal welfare necessarily. By contrast with the

situation in the UK, where an in-work *benefit*, Family Credit, already existed and was in fact replaced by the WFTC, there were no in-work benefits in France outside of the time-limited RMI *intéressement*. In fact, the very principle of social policy supporting people who were *in work* still generated debates on the French Left in the late 1990s.⁸³ However, while a benefit-based alternative to the PPE did not exist in practice - but note that there was no existing in-work *tax credit* either - it did exist conceptually. Indeed, in parallel to the birth of the PPE, the government (and in particular the Ministry of Social Affairs) had launched a reflection about the reform of minimum incomes (and notably the RMI. In that context, a policy proposal for an "income compensation allowance" ("*allocation compensatrice de revenu*", or ACR) was generating a lot of attention. The rationale behind the ACR was to smooth the discontinuity introduced by the sudden loss of the RMI when recipients crossed a certain income-threshold, after the six months "intéressement" period (Godino et al., 1999). The allowance, replacing the RMI, could be cumulated with income from work, with no time limit, and it was intended to be progressively phased out with income rather than abruptly taken away. This proposal was mentioned in both reports recommending the creation of a tax credit (and it was further supported in landmark reports in the minimum income reform debate - see e.g. CGP (2000)). Most of the actors interviewed mentioned the ACR proposal as having had an important influence on the policy debate leading to the PPE.

⁸³ Although the idea of in-work support progressively gained ground, notably through the publication of reports around the shortcomings of the system of minimum incomes and its envisioned reform - see e.g. (CERC, 1997). These reports argued in favour of a better integration of social protection and employment, through the development of in-work schemes, to avoid generating work disincentives (Colomb, 2012).

In addition, when it came to finding an urgent replacement to the censored CSG rebate, in December 2000 (see introduction above), using an allowance would have had the advantage that the relevant administrative structures were already in place. Payments would affect monthly pay (as they would have with the CSG rebate). By contrast, the income tax credit would only come into force with a one year delay (since French income tax was paid each September, on income from the year before).

Yet, rather than an allowance, it is fiscal welfare that was used in the end. In fact, most actors interviewed explained that they had considered it a given from the beginning that the instrument would be tax-based. While the *logic* of the ACR was referred to, its form was not really given much consideration - it was seen as equivalent to a negative income tax system. As most interviewees recall it, the option of using a traditional benefit was not even *considered* (FR-A; FR-C; FR-D; FR-G). The new policy had to use a tax vehicle.

This choice of a tax instrument was in part a reflection of the political imperative to which the socialists were trying to answer. In addition, we argue that it also reflected the fact that economists' inherent cognitive biases led them to overlook the conceptual and practical difference between a benefit and a tax credit, and to favour fiscal welfare to traditional welfare.

3.3.2.1 From wage supplement to tax credit: the unconscious conceptual sliding to fiscal welfare

In economics reasoning, tax credits and benefits are functionally equivalent: cash transfers from the government to individuals. Theory did not a priori favour one instrument over the other. The conceptual frontier between the two

objects was fluid, the two terms often being used interchangeably in the discussion around in-work support (FR-I).

Yet, when it came to policy recommendations, in much of the technical grey literature, authors unanimously put forward policy proposals in the form of *tax credits*. This conceptual sliding, from in-work income support to in-work *tax credits*, ignoring the benefit option, was never justified. This influenced the policy debate in a way that was barely noticed by the actors involved themselves. While the change of instrument was very much a deliberate choice in the British case, which aimed at changing perceptions, in France most of the actors interviewed did not reflect on the fact that using a tax instrument might generate a different perception of the policy and of the values attached to it among recipients and net contributors. A tax credit and a benefit were seen as "substantively the same thing" (Pisani-Ferry, 2000, p. 131). "We never asked ourselves about this (...) whether it was the tax authority or the benefit agency, it did not matter" a former advisor to the Prime Minister explained (FR-E). "There are no differences in terms of objective and targeting between a tax credit and a benefit (...) I'm not sure why we focused on the tax credit option" added another (FR-J).

This is an important contrast with the British case, where fiscal welfare's political ability to be perceived as different from traditional social spending was very clearly conceptualised and deliberately wielded. This confirms that the turn to negative expansion was part of a *credit-claiming* strategy in France, while it was used as a means of *avoiding blame* in the UK. In Britain, politicians decided to capitalise on the political difference between a tax credit and benefit. This difference was not thought through in France, where politicians expected

beneficiaries to react in the same way they would have with a benefit: by crediting politicians for the introduction of a policy from which they benefited.

One of the technical report that informed the genesis of the PPE, the Bourguignon report already mentioned above, was the product of a wider government mandate to look at inequalities and redistribution in France. While this report starts out as an analysis of both non-contributory benefits and taxation, its main conclusion is about the relatively limited redistributive capacity of income tax in France compared to its neighbours - hence its title "The tax system and redistribution" (Bourguignon, 1998). The follow-up report, titled "The architecture of taxes in France: current situation and potential reforms" (Bourguignon and Bureau, 1999) ends up recommending a negative income tax system which would allow arriving at a "perfectly horizontal marginal tax rate curve" (idem, p. 48). In other words, while contributors to the intellectual discussion recognised that "tax credit" and "benefit" were synonymous, that discussion was nonetheless framed as being about tax reform. This conceptual sliding is likely to have influenced the policy design: as one former advisor to the Prime Minister explains: "because we were deeply influenced by Bourguignon's work, using a spending instrument did not fit really well" (FR-C).

3.3.2.2 Fiscal welfare fitted economists' logic of appropriateness

Not only did economists not consider the conceptual difference between a benefit and a tax credit as relevant, but we also argue that they tended to consider tax credits as inherently more *appropriate* to their purposes than traditional benefits (March and Olsen, 2009).

Such underlying bias in favour of fiscal welfare and against traditional social policy instruments is evident in interviews and from archival research. When considering administrative differences, actors involved often tended to consider tax administrations as more efficient. Economist advisors often formulated the idea that an integrated tax and benefit system (the former absorbing the latter) would make more sense, be more comprehensible and cost-efficient. Analyses based on the argument that the tax and benefit systems should be analysed in an integrated manner often resulted in both type of instruments being amalgamated, with the language of tax prevailing.

By contrast, while the PPE was "a pure product from the economists of the Ministry of Finance", administrators in the Ministry of Employment and Solidarity were rather hostile to the reform (FR-A; FR-B); the instrument was "never accepted" in traditional social policy circles (FR-F), where it was largely seen as inappropriate to support low-income groups. Further, tax and public finance administrators within the Ministry of Finance itself also considered the instrument as a bit of a misfit, which sat oddly among their set of traditional instruments (FR-F, FR-H).

Yet, in the climate described above where the influence of economic thought had risen markedly, the vision of economists in various advisors' position in the government and in the *Direction de la Prévision* prevailed.

3.3.2.3 The PPE as an alternative to raising the minimum wage

As explained above, economists in government circles were concerned about wage restraint, and the labour cost for low-skills jobs; at the same time the government felt the need to answer demands for "increases in purchasing power" at the bottom of the wage distribution.

The PPE provided a solution out of that conundrum: it was a means of increasing "rewards from work without increasing labour cost" (FR-J). As such, it might help trumping demands for increases in the minimum wage (FR-B; FR-F; FR-K). "It was a substitute to raising the SMIC" explained a former advisor to the Finance Minister (FR-B). "If we wanted to give purchasing power to (modest workers), we had to use alternative means, such as cutting taxes" added a former advisor to the Prime Minister (FR-A). Policymakers' logic was that "to solve the issue of the working poor, better use a negative income tax than a raise in the minimum wage" (FR-K), and "the preferred instrument to increase low-wages from now on could be the PPE" (FR-B). It became "the instrument *par excellence* to avoid an inflationist minimum wage policy" and a legitimate complement to the French policy of labour cost reduction through exemptions of employers' social security contributions (FR-F).

* * *

Summing up, we argued that the turn to negative expansion through fiscal welfare in France was driven by the latter's ability to cater to modest workers and to pacify them whilst middle-class voters were also getting tax cuts, by its convenience in bypassing the spending constraint, as well as by the fact that a tax credit was the instrument of choice for economists whose influence in governments circles had reached record highs in these years. To probe the validity of this argument, the next section examines the conditions of the reversal back to benefits that followed in later years. We investigate whether the return to benefits a decade and a half after the introduction of the PPE coincided with the disappearance or loss of influence of determinants identified as key in the original turn to fiscal welfare.

4. Back to benefits: the waning attractiveness of negative expansion

The heyday of the PPE, from 2001, was quite short. Plans for reform organising the turn back to benefits started flourishing as early as 2007. Under the right-wing presidency of Nicolas Sarkozy, a benefit called the *Revenu de Solidarité Active* was created to replace the RMI. It consisted of two parts, a means-tested benefit conditional on job search, for those out-of-work (the "RSA socle"), and a wage top-up for those in-work that phased out with income (the "RSA activité"). The designers of the RSA originally hoped to absorb the budget of the PPE. In fact, the two schemes coexisted, but amounts of RSA activité were deducted from PPE entitlements. The PPE was also "frozen", meaning that it stopped being uprated to account for inflation. As a result, the PPE budget eroded steadily: between 2007 and 2014, its budget was reduced by 51%, from 4.5 billion in 2007 to 2.2 billion in 2014. The number of household benefiting from it was reduced by 29 % from 8.9 million in 2007 to 6.9 million in 2014 (*Étude d'impact- Projet de loi relatif au dialogue social et à l'emploi*, 2015).

In 2014, the socialist government of Jean-Marc Ayrault (under the Hollande presidency) announced a new reform. Because the PPE was withering away, and the RSA activité was plagued by a really high rate of non-take-up of around 70%, discussions revolved around how to reform both schemes. Several options were considered: an enhanced PPE subsuming the RSA; conversely, an enhanced RSA absorbing the PPE; a new benefit replacing both schemes; and a new fiscal welfare scheme, in the form of a reduction of employees' social security contributions on low wages (Vanackere, 2013).

The government originally went for a scenario combining that last option - the social security contribution exemption - with the RSA activité. The exemption

was chosen for its simplicity and clarity: it was individualised, automatic, and visible on monthly pay slips (*Étude d'impact- Projet de loi relatif au dialogue social et à l'emploi*, 2015). This proposal was introduced to Parliament in August 2014, but was later ruled out by the Conseil Constitutionnel⁸⁴. The government finally introduced in 2016 a new *benefit* replacing the RSA activité and the PPE, called the "Prime d'Activité" (PA).

This last episode reveals that the logic of negative expansion was still in fashion in socialist policymaking. Indeed, the government's first best option was a fiscal welfare scheme. However, while using a tax instrument had been so imperative in the early 2000s that it had justified facing down sizable political opposition and administrative complexities, this was not the case 15 years later. After the exemption was ruled out, the government reverted back to using a traditional benefit, and went on to terminate the PPE.

This section retraces the story of the reversal back to benefits, by looking at evidence gathered through document analysis and interviews with key architects of the RSA and the PA.

We find a continuity of policy objectives throughout the three policy episodes of the PPE, the RSA, and the PA: namely, the three policies aimed to support "modest workers" through means other than the minimum wage. However, when designing the RSA and the PA, policymakers were conscious of the biggest political flaw of the PPE: it was invisible to its own beneficiaries, and, therefore, hard to claim credit for. In addition, while negative expansion had

⁸⁴ The scheme was ruled out on the same basis that the CSG rebate in 2001: it was seen as breaching the principle of equality in the payment of tax, introducing a discrimination between taxpayers which did not reflect differences in situation between contributors to the same social security fund (Conseil Constitutionnel, 2014).

been attractive to the Socialists in the 2000s as a means of supporting modest workers under spending constraint and the perceived pressure to cut taxes, it was less attractive to the policymakers behind the RSA and the PA, notably because constraints on spending and taxation had changed in nature. Finally, the turn back to benefits also owed a good deal to the fact that there were no entrenched political or administrative constituencies opposing the termination of the PPE.

4.1 A continuity of policy objectives: non-wage means of supporting modest workers

The RSA proposal was originally put forward by Martin Hirsch, a senior civil-servant, former advisor to the socialist health minister Bernard Kouchner in the Jospin government, and a figure of the French anti-poverty community who had become the head of Emmaüs France. In 2005, Hirsch was asked to head a government commission on poverty, which published a report titled "*La nouvelle équation sociale*" ("the new social equation"). This report contains the first recommendation for the creation of a "revenu de solidarité active"⁸⁵. During the 2007 presidential election, the RSA was included in the manifesto of both the socialist candidate Ségolène Royal and the right-wing candidate Nicolas Sarkozy. After the latter had won the election, Hirsch joined the government to implement the RSA proposal.

Although it was a minimum income scheme, the RSA was primarily marketed by the government as an activation measure encouraging work. It introduced job-search conditionality for out-of-work benefit receipt, and created an in-

⁸⁵ Hirsch went on to create an independent NGO (the "*Agence nouvelle des solidarités actives*") dedicated to implementing some of the proposals of the report, including the RSA, at the local level.

work element for low-income workers. This activation logic resonated with Sarkozy's 2007 election slogan: "Work More to Earn More". According to one interviewee prominently involved in the conception of the RSA "the central issue" was indeed "employment for people with low productivity" (FR-L). This mirrored the logic of the RMI *intéressement*, but the latter was seen as "perverse, because it was temporary" (idem).

However, income-support was a key objective for Martin Hirsch and his small team of collaborators. "Our main target, even though we did not say it out loud", explains a former member of the team, "was income-support for modest workers". "Martin sold a reform to get the RMI recipients back to work to the Right (...) Nobody understood back then that our target was the same as that of the PPE, the big mass of beneficiaries" (FR-M). In fact, interviewees mention their preoccupation with effective redistribution as one of the reasons they felt the PPE needed reforming. Compared with the PPE, "the RSA activité was more redistributive"; it was household based, and as such it was better adapted to "the objective of fighting poverty" and notably child poverty" (FR-M). Its targeting was better, as was the fact that payments would come in monthly instead of annually.

Like the PPE, another objective of the RSA was to support workers earning around the minimum wage *without increasing the minimum wage*. "One of the unstated aim of the reform" explains a former civil-servant involved in the reform, "was to find an alternative to the inexorable increase of the minimum wage" (FR-M). "We absolutely had to make it clear that it was not the role of the minimum wage to address the issue of living standards for modest workers. The labour cost for unqualified labour (...) had to stay as flat as possible, while

also answering the question of how a family could live a dignified life on the minimum wage, using redistribution but not the minimum wage itself" (FR-M). The reform, another interviewee explains, was conceived around "people with low productivity: we had to give them access to a dignified income, without increasing labour cost [beyond their productivity]" (FR-L).

The substantive logic behind the Prime d'Activité is strikingly similar. The original employee social security exemption had been conceived as a measure benefiting minimum wage earners, at a time when the government was introducing a 20 billion tax cut package for companies. When it was introduced, the PA was presented to parliamentarians as a policy "to better target lower middle classes", which was to be "centred on minimum wage earners" " (*Étude d'impact- Projet de loi relatif au dialogue social et à l'emploi*, 2015). According to a civil servant involved in the PA reform, the "political signal" which the government attached to that reform was "that [it] supported modest workers", which the *RSA activité*, with its high non-take-up rate, was failing to do (FR-O). Like the PPE, which had emerged as a means of balancing tax cuts benefiting higher-income households, the PA was intended for "workers who earn too much to benefit from most solidarity schemes", but who, because they paid little or no taxes", had not benefited from the suppression of the lowest tax bracket introduced in 2015 (*Étude d'impact*).

Finally, the "minimum-wage avoidance" logic was also characteristic of the PA reform. The latter came after a decade and a half of policies resisting the use of minimum wage increases to support modest workers. As an interviewee explained, this meant that by this point "it was easier not to use the minimum

wage, because it had been so long since there had been an increase"⁸⁶. It also meant that the quest for alternatives to minimum wage increases was stronger than ever: "structural implications were thought to be too strong. (...) Even though the effect of the minimum wage on jobs aren't clear... it was a scarecrow. We still hadn't 'inverted the unemployment curve'⁸⁷ ... The slightest thing that could be seen as jamming the job machine was banned" (FR-N). In other words, the policy option of increasing the minimum wage had been crossed off the list of possibilities for good; in the case of the PA reform, it was not even discussed.

4.2 The limits of negative expansion: on the difficulty of claiming credit for an invisible policy

In spite of this continuity of policy objectives, the RSA and PA were characterised by a change of policy instrument, and a return to the path of traditional social welfare. As emerged from our data, one key reason why policymakers chose not to build on the PPE but rather to create new benefits was linked to what they had learnt from the PPE experiment itself: namely that it was "invisible"⁸⁸ to its own beneficiaries.

⁸⁶ What is meant here is that there had not been any *substantial* increase *above* the automatic uprating to reflect inflation enshrined in the law.

⁸⁷ This refers to a TV declaration by President Hollande in September 2012, during which he pledged to "invert the unemployment curve" during his 5-years mandate.

⁸⁸ The term refers to the vocabulary used by interviewees themselves. However, there is evidence that the PPE was not, in fact, invisible to the public (DREES and DARES, 2008). Interviewees' reckoning that the PPE was *invisible* was based on the fact that its erosion and later suppression did not generate protest among beneficiaries. This thesis argues that this absence of protest might in fact be partly due to the fact that beneficiaries, although they knew about the PPE, did not recognise it as a form of redistribution (see Chapter 6), as a *benefit* to which they were entitled, which justified mobilising for, but saw it instead as an occasional repayment on their taxes. While well-resourced, informed, higher-income constituencies are likely to be fully aware of the intricacies of the tax breaks from which they are benefiting (e.g. on private pensions), and therefore to organise to defend them, larger, less resourced, lower-incomes constituencies benefiting from fiscal welfare are likely to be less cued about the functioning of the tax system (Howard, 1997, 2007).

Politicians first became conscious of this during the Sarkozy presidency. In 2008, the PPE was frozen: it stopped being uprated to account for yearly inflation. In 2009 the RSA was introduced and amounts received in RSA activité also reduced individual PPE amounts. As explained above, the reduction was sizable. Yet it did not generate any popular backlash: "there were no demonstrations with people chanting 'give me my PPE back', it went through and nobody saw it, nobody felt it", explains an interviewee involved in the design of the RSA (FR-M). The government then realised that cutting the PPE "was perfectly painless". It could be cut "without a problem, it wasn't part of anybody's political demands, trade unions were not mobilised..." (FR-M). While in the UK, nominal cuts to the tax credits between 2010 and 2015 generated political opposition from MPs, the fact that the PPE was not nominally cut but let to wither as inflation progressed could explain why such opposition did not materialise in the French case. "Nobody noticed there had been a freeze" (FR-L). In other words, politicians reckoned that "nobody knew they were getting the PPE" (FR-M, FR-L).

While this could be seen as a political quality by the conservative Sarkozy government, allowing to quietly reduce the PPE budget while not re-allocating it to the RSA and avoiding upfront retrenchment (FR-L, FR-M), the fact that the PPE was invisible to its beneficiaries was seen as problematic by the actors involved in the PA reform. Indeed, this made the PPE an inappropriate means of claiming credit for supporting modest workers. This played an important role in the decision to come up with a new mechanism, rather than to reform the PPE. Although the PPE was "more modern, and perhaps better at reaching its target" than most existing benefits, this happened "often without people

realising it. We could have increased the PPE, this would have been advantageous because it was simple, you did not need to claim it, but its relative inconvenient was precisely that it was automatic (...) people did not realise they were getting it", explained a former advisor to the President (FR-P). According to a civil servant involved in the PA reform, the PPE was "totally incomprehensible for people benefiting from it, people ticked the box [on their tax return] thinking they might have a good surprise, but they did not know why, or how much they would get, so there was a real issue with the readability of the scheme" (FR-O).

Thus, an important lesson from the PPE experience was that "people perceive what is given to them, not so much what they save in taxes. Tax savings are not really perceptible, it is too automatic" (idem). The original social security contributions exemption proposal was taking stock of this limitation of negative expansion. According to one of his formal advisors, "Hollande wanted something that would show on people's payslip (...) We called it the *'PPE feuille de paie'*" ("PPE payslip") (FR-F). Indeed, such an exemption would have materialised as a monthly increase in net wages and have been identifiable on individuals' pay slips. When this solution was ruled out, the visibility attached to a benefit was seen as a second-best way to remedy that particular shortcoming of the PPE.

4.3 Changing supply-side constraints

4.3.1 The RSA: a different political context

4.3.1.1 A conservative government's interest in *positive* expansion

One crucial difference in the political dynamics characterising the birth of the PPE and the RSA was that the latter was introduced by a right-wing

government. In doing so, one of the objectives pursued by this government was to find a scheme compatible with the conservative "work more to earn more" approach, which would not be too expensive, but would nonetheless visibly cater to low-income groups to avoid accusations of being a government for the rich only (FR-L). In the words of a former civil servant involved in the RSA reform, "Sarkozy and Fillon saw something that was not too expensive, a marginal reform of social safety nets" (FR-M). Endorsing the RSA "allowed them to have something for the poor, without spending too much" (idem).

As argued above and in Chapter 3, Left wing actors' turn to negative expansion partly stemmed from their idea that making the positive case for redistribution was not conducive to electoral successes anymore. Instead, engaging in negative expansion could allow them to reach their substantive goals of helping the disadvantaged, in a way compatible with electoral strategies based on new alliance inclusive of middle-class voters.

By contrast, the challenge of right-wing governments is often to demonstrate a credible commitment to some form of social inclusion and support. In overcoming this challenge, "minimum income protection reform offers opportunities for affordable credit claiming to parties of the right" (Clegg, 2014, p. 160). Indeed, such reforms allow "simultaneously [emphasising] both combating poverty and reducing reliance on state welfare, as well as ending the supposed anomaly of the swingeing marginal tax rates faced by minimum income claimants taking on a few hours of work" (idem). However, because a crucial objective of such reforms is to incarnate clearly and visibly the government's stance on income-support, they are better aligned with the logic of *positive* expansion (the government giving, under certain conditions), rather

than the logic of negative expansion (the government not taking). In other words, the fact that the Right reverted back to using a traditional benefit is aligned to the argument of this thesis that the Left's turn to fiscal welfare owed to its embracing of the logic of negative expansion - which should be less attractive to a right-wing government.

4.3.1.2 Cutting taxes was not an essential political objective

While cutting taxes had been a key political objective under the Jospin government, particularly with Fabius as Finance Minister, this was less of a priority for the right-wing government which introduced the RSA. While designers of the RSA could see the advantages of using a fiscal scheme, those advantages were not enough to compensate the attached drawbacks.

First, work-search conditionality was a crucial part of the reform for conservatives, and it would have been harder to implement using fiscal welfare, since the French tax administration was not equipped to monitor conditionality. By contrast, the traditional family benefit administrations (*Caisses d'Allocations Familiales*), which were used to having regular contacts with RMI beneficiaries, were more obvious candidates. Second, members of Hirsch's team wanted the scheme to be familialised, and time-responsive, to make it an effective anti-poverty scheme. This meant that the administration handling the scheme needed to have regularly updated information about beneficiaries' family situation; again, the CAF were better equipped to do so (FR-L). Finally, the RSA was a reform of the RMI, which had been financed by local authorities. As the new benefit was to use the budget of the RMI, going through the (national) tax route presented additional administrative complexities (FR-L). Faced with all these limitations, the advantage of reducing

nominal tax rate was not as attractive to a conservative government than it had been to a socialist government convinced that it could "lose the elections because of taxation".

Similarly, concerns with economic credibility related to the use of spending might have been less important for a conservative government that was more likely to face accusations of budgetary austerity than of profligacy.

4.3.2 The Prime d'Activité: how internalising the budget constraint reduced the attractiveness of negative expansion for Socialists

As explained above, one of the reasons that fiscal welfare was attractive to the Socialists in the early 2000s is that they provided a way around the hard, institutionalised constraint on spending. Fifteen years later, that advantage had largely disappeared. There are several reasons for that.

First, following a change of Eurostat rule in 2011, refundable tax credits could not be counted as decreasing revenue anymore, but had to be accounted for as increased spending (Eurostat, 2010)(FR-F) - which reduced the attractiveness of using fiscal welfare as a means of bypassing the spending constraint.

Second, as explained by former advisors to François Hollande, socialists after the financial crisis had "internalised the spending constraint" (FR-N, FR-P). "Back then, there was a real concern about putting the budget straight" (FR-N). "This was a post-crisis context, France was not in a strong position on the European scene on the issue of the deficit, so we strongly internalised that constraint. (...) We immediately said we would remain under the 3% mark (...) which had an enormous impact on what we could do on the redistribution side. All our scenarios were within a fixed budget" (idem).

The budget constraint was also largely internalised within the administration. In fact, former advisors recall that the Treasury originally wanted to use the occasion of the PA reform as a means of saving money, by not reallocating amounts spent on the PPE to the new benefit (FR-N, FR-R).

In other words, while negative expansion had been a means of still expanding the size of the welfare state under budget constraint back in the 2000s, in the mid-2010s, the socialists were engaging in *genuine* cost-containment. Policymaking was about reallocating funds within fixed budgetary envelopes, not about finding additional resources to spend. In reforming the RSA and the PPE, policymakers "hoped that it would be possible to do better for those in the first three or four deciles, for the working poor", to "redistribute better, with constant means" (FR-N).

However, advisors soon realised that this would not be possible, especially if young workers under 25 years old - who had been excluded from the RSA - were to be made eligible to the PA, as the government wished. In this situation, policymakers came up with a new technique to reconcile their policy objectives with their constrained means: underestimating take-up. Policies introduced to Parliament had to fit within a given budgetary perimeter, based on ex-ante estimations of the cost of the policy. In estimating costs ex-ante, an important parameter was the policy's predicted rate of take-up; over-estimating this rate would lead to underestimating the cost of the policy, which could help it to fit within its authorized budget.

As a former civil servant involved in the reform explains, while "the take-up rate for the RSA activité was 32%", the administration "had no visibility on what the recourse to the new policy would be" (FR-Q). In principle, the policy objective

was to reach a take-up rate of 100%. "But with scenarios based on 100% take-up, we didn't have a budget anymore. Increasing the take-up was mechanically decreasing the benefit amounts, with a fixed budgetary envelope. So, we all agreed, with the Minister's cabinet, the DREES, us... nobody had clear arguments. We settled on 50%" (FR-Q). "Once the machine was launched", adds another civil servant, "we were almost certain that we would go beyond the estimated take-up rate" (FR-O). But "once it started being paid, there was no going back. (...) The idea was, let's get the ball rolling, and when it does it will be such a social and political success that, in the end, we will pay for it" (idem).

In other words, while socialists in the 2000s had embraced *negative* expansion, socialists in the mid-2010s "inverted the reasoning: instead of saying, 'I have x billion to spend, x billion beneficiaries, what average amount does this give me', [they] said 'I have 5.3 billion, I want to give that much in average amount, what take-up rate does this correspond to?' (FR-O). This new approach was an alternative to using fiscal welfare, which time as a means of redistributing under constraint had passed.

4.4 Path dependence bites back: the PPE as a defenceless policy

While, as argued above, economists had been ubiquitous in the design and implementation of the PPE, both the episodes of the RSA and PA reforms were characterised by a return of traditional social policy actors. As already explained, the RSA was largely incarnated by a figure of the anti-poverty policy community, the former head of Emmaüs France, Martin Hirsch. His experience in that field had left him convinced that the PPE was not adapted to its purpose of helping "low-productivity individuals", notably because it was paid yearly instead of monthly (FR-M, FR-L).

Similarly, advisors and civil servants involved in the reform of the RSA and the design of the PA came from more traditional social policy administrations, such as the *Inspection des Affaires Sociales* (IGAS), or from various directions in the Ministry of Social Affairs. Some had been involved in the creation of the RMI in 1988 (FR-P). They shared a background in public policy administrations, rather than economics. The scientific input mentioned as inspirational by interviewees reveal a different disciplinary influence: rather than economics, they refer to the work of sociologists looking at the cause of non-take up, or of social policy specialists looking at unemployment and the demography of low-income groups. They also describe an ethnographic approach to understanding the reality of RSA beneficiaries, and notably the use of beneficiary focus groups, in designing the policy (FR-O, FRQ).

Finally, the PPE had no administrative constituency to defend it when the decision to terminate it was taken. As a departure from the French tradition of income-support, and a "pure product of [the Ministry of Finance], it was never accepted on the social side" (FR-E). Many civil servants in traditional social policy administrations thought that "something needed to be done further down the income scale", for those below "modest workers" (FR-E). As an interviewee from the *Bureau des Minima Sociaux* (the minimum income bureau) explained: "our job was to defend the poor, and we did fight for our beneficiaries", while "nobody was there to defend losers from the suppression of the PPE" (FR-Q), i.e. not the poor but the "modest".

Indeed, most economists in the *Direction de la Prévision* who had taken part in its creation weren't there to defend it anymore, while administrators in other departments of the Ministry of Finance such as the DGFIP (*Direction*

Générale des Finances Publiques) or the IGF (*Inspection Générale des Finances*) had never been supportive of it to start with (FR-E). As one interviewee puts it, "it wasn't the job of the DGFIP, to care for low-wage individuals" (FR-Q).

In other words, one of the explanation for the turn back to benefit boils down to path dependency: as a path-breaking policy, the PPE did not have enough entrenched policymakers ready to defend it when its budget was up for grabs.

5. Conclusion: *credit-claiming* negative expansion as an oxymoron?

This chapter aimed to uncover the drivers behind the use of fiscal welfare in a particular episode of French social policy: the introduction of the Prime Pour l'Emploi. Based on a comprehensive data collection strategy, it provided an in-depth account of the genesis of the PPE and of its demise, 15 years later. It argues that the French Socialists' use of an unconventional policy instrument, defying institutional and partisan path-dependencies, is due to the party's adoption of a logic of negative expansion. While the turn to fiscal welfare in the UK constituted a case of *blame-avoiding* negative expansion, the French example is different in that negative expansion through the PPE was thought of as a way to *win points* with low-income workers, thus constituting a case of *credit-claiming* negative expansion.

The choice of fiscal welfare was also a product of two particular constraints faced by the Socialist government at that time: the spending constraint institutionalised in the context of the European economic and monetary integration, and the Socialist party's own resolve to coalesce middle-class and modest workers around tax cuts. Negative expansion through fiscal welfare was

a means of adapting to these constraints while expanding support available to low-income workers. When it comes to low-income support, fiscal welfare was in fact the common denominator between two different logics animating policymakers at that time: a distributive logic focused on fiscal justice and an incentive logic concerned with the effect of high marginal tax rates on low-wage unemployment.

Negative expansion must also be understood in the context of the economicist turn in socialist policymaking in the late 1990s. The rise to prominence of a new guard of economist advisors influenced the menu of available policy options, emphasizing some and crossing off others - even though actors themselves might not have measured this subtle influence. Fiscal welfare was a particularly good fit with the cognitive biases of these new advisors in government.

In other words, the introduction of the PPE resulted from the alignment of an ecosystem of advisors who were favourably biased towards fiscal welfare, an electoral logic reliant on tax cuts, and an architecture of constraints on policy action that also tilted the balance towards using fiscal rather than traditional welfare.

Looking at the end of the policy episode - the turn back to benefits - corroborates the argument developed in the chapter. It reveals that the two successive reforms leading to the PPE demise were characterised by one or more of the determinants identified as important in the genesis of the PPE falling out of alignment with the others, thus reducing the appeal of negative expansion through fiscal welfare for the government in place.

In the absence of reliable data to verify the claims regarding trends in middle class voters' attitudes to taxation, we cannot fully assess the extent to which changes of preferences mattered in driving the change of instrument. However, determinants of the turn to fiscal welfare such as limits in spending deriving from European fiscal rules and the rise to prominence of policymakers with an economics background, cannot be understood as being demand-driven.

A crucial finding of the present case study concerns the effect of the change of instrument on beneficiaries' social policy attitudes. Indeed, while the French Left's embraced a negative expansion logic in order to *claim credit* for taking less from modest workers, politicians realised that the PPE was not a valid means of claiming credit, as it was largely ignored by its own beneficiaries. This is indicative of a difference in the effect on attitudes and preferences generated by traditional and fiscal welfare, as the former tends to generate constituencies of beneficiaries. In other words, it points to the fact that taking less in taxes might be perceived differently than giving more in benefits. The next chapter explores this question in more depth, looking in particular at the effect of the turn to fiscal welfare on social policy preferences and attitudes to redistribution in the UK.

Chapter 6 - Is taking less the same as giving more? The British tax credits, welfare attitudes, and social policy preferences

British politicians' decision to use fiscal welfare was partly driven by their belief that using tax credits would make support for low-income groups more acceptable. As was shown in Chapter 4, Gordon Brown and his team hypothesised that tax credits would be perceived differently than benefits by the public. The British tax credits were relentlessly portrayed as tax - not benefits, with the objective of modifying public attitudes towards income-support. At a time when garnering the necessary political support to increase redistribution was deemed impossible (arch: Macpherson, 1997a), British politicians thought that integrating income-support in the tax system would obscure the redistributive function of the policy. Net contributors would be less opposed to it, since they themselves benefited from individual tax breaks; beneficiaries would find it less stigmatising.

This hypothesis, which is key in explaining the turn to fiscal welfare in the UK, is not without backing in the literature. Political economists have long argued that institutional arrangements play an important role in the formation of individual attitudes (see e.g. Schattschneider 1935; Wildavsky 1987). Cross-country variations in, e.g., attitudes to redistribution, and prevalent conceptions of solidarity, are often traced back to cross-country variations in welfare institutions (see e.g. Esping-Andersen 1985; Bonoli 2000; Larsen 2007; Humpage 2015). Although they can be designed to carry equivalent budgetary and distributive impact, tax credits and benefits are different objects. Benefits

are collectively financed payments to identified subsections of the population, while tax credits are a reduction in the tax contribution of some individual households. Being different institutions, they could affect attitudes differently.

Most studies looking at the impact of policy on attitudes, however, focus on broad-brush institutional measures, such as social spending as a percentage of GDP), or the degree of targeting vs. universalism of a policy. Studies looking at the effect of subtler, smaller-scale institutional transformations are largely missing. In particular, we know little about how different types of instruments might create different effects on attitudes and preferences. Further, we know even less about how a *change* of policy instrument - e.g. from a benefit to a tax credit - might affect attitudes. Most studies leverage static cross-country (rather than longitudinal) variation to derive information about the effect of a particular policy. Analyses of within-country attitudinal change over time are still relatively rare.

In this chapter, we assess whether the disguising strategy described in Chapter 4 was efficient in increasing the acceptability of support towards low-income groups in the UK. We explore the effect of the change of instrument on welfare attitudes, and in particular on attitudes to redistribution towards low-income groups. Further, we ask whether and how the turn to fiscal welfare in Britain affected the social policy preferences of beneficiaries. The Left in the UK turned to fiscal welfare in the 2000s as they realised that *taking less* in taxes was functionally equivalent to *giving more* in benefits, as a means of channelling money towards low-income groups. In this chapter, we ask whether taking less was really equivalent to giving more, not just functionally but also in terms of attitudes and preference formation.

1. The link between policies, attitudes and policy preferences: a literature review

The idea that "policy creates politics" (Schattschneider, 1935), and that institutional designs influence the preferences and attitudes of those in contact with them, is not a new one. In the political economy literature, it has been particularly studied by students of "policy feedbacks" (Pierson 1993). The latter argue that policies can have a causal effect on policymaking through "influencing the preferences of political actors" (Campbell 2012, 334 - see also Kumlin and Stadelmann-Steffen 2014; Mettler 2011, 2007; Pierson 2000, 1994; Svallfors 2010; Thelen 2004, 1999).

In particular, individuals' welfare attitudes are partly shaped by the institutional context in which they evolve (Mettler and Soss 2004; Soss 1999). Social policies are described as conveying embedded notion of fairness, of deservingness, or of "civic duty" (see e.g. Mettler, 2007). These notions become dominant in particular societies, through citizens' experience of policies and institutions. For instance, frequent recourse to means-testing is associated with a lower support for social spending overall. Means-tested policies, by contrast with universal policies, target certain population, e.g. families with children, or the working poor. This contributes to "the social construction of target populations" as more or less deserving (Schneider and Ingram, 1993, p. 334). Social assistance, "separating out the needy" (Rothstein, 1998, p. 158) from the rest, can "stamp them out as socially inferior", and potentially undeserving. Because it highlights the separation between beneficiaries and net contributors, means-testing might generate resentment among the latter, leading to a decrease in support for social spending.

Pierson (1993) identified two mechanisms through which policies could affect welfare attitudes and social policy preferences. First, he argues that welfare policies "generate constituencies with *incentives* to protect their benefits" (Campbell, 2012:336). The intuition is simple: individuals benefiting from a social programme come to favour it and to defend it, provided their experience as beneficiaries is a positive one (see e.g. Gelissen, 2000). In addition, benefiting from a policy affects beneficiaries' "feelings of political engagement such as political efficacy and political interest" (Campbell, 2012, p. 346), leading them to favour the continuation of that policy.⁸⁹

Beyond generating support for itself, a policy could generate feedbacks that affect beneficiaries' preferences regarding a wider category of policies. For instance, benefiting from a child benefit might lead beneficiaries to be supportive of all child-related policies. On the contrary, Soss (1999) shows how the stigmatising experience of the Temporary Aid for Needy Families scheme in the US resulted in a downward shift in support for the policy itself, but also negatively affected attitudes to welfare and government intervention among recipients.

Second, Pierson argues, policies bear "*interpretive*" effects, impacting "the cognitive processes of social actors" (Pierson, 1993, p. 610)⁹⁰. Policies act as a

⁸⁹ It also affects beneficiaries' level of politically relevant resources, allowing them to mobilise in defence of these policies (Pierson, 1993, p. 610). According to Hacker (2005, p. 247), social policies "differ markedly in the extent to which they give rise to politically efficacious support coalitions. Social Security, for example, promotes widespread mobilisation among the American aged, who are well poised to fight cuts (Campbell, 2003). Cash assistance for the poor, by contrast, gives rise to an extremely weak, fragmented (...) and politically demobilised constituency, which was unable to present an effective and united front against the 1996 welfare reform law."

⁹⁰ The interpretive effect concept can be linked to the notion of "cultural mental models - including categories, identities, narratives, and worldviews - that [an individual] uses to process information (Hoff and Stiglitz, 2016, p. 25) - see also DiMaggio (1997).

"source of information and meaning", producing "cues that help [individuals] develop political identities, goals, and strategies" (idem, p. 619). These "interpretive" properties mediate the influence of rational self-interest maximisation on social policy preferences (Gingrich and Ansell 2012; Beramendi and Rehm 2016; Svallfors 2010). Because they "heighten the visibility of some social and political connections while obscuring others" (Pierson, 1993, p. 619), and can promote or erode "worldviews that are central to redistributive solidarity" (Hall, 2017, p. 207), policies propagate particular notions of fairness.

This interpretive effect is not limited to programme clienteles: non-beneficiaries "living in polities where given discourses on social protection prevail in the public sphere", also "have their normative views influenced by the values that underpin such discourses" (Bonoli 2000, p. 447).

Whether such interpretive effects manifest themselves or not depend on the visibility of the policies (Campbell, 2012, p. 339). This means that we might expect effects to be strongest in the short term, when policy *salience* - and citizens' *attention*) is the highest (see e.g. Chetty, Looney, and Kroft 2009; Gabaix 2017). Yet, it is also argued that feedbacks results from "slow-moving processes" (Pierson 2004), and that "attitudinal change may only come in the long term with generational replacement" (Campbell, 2012, p. 344; Svallfors, 2010, p. 120). In particular, the effect of seemingly trivial changes such as a change in policy instrument might only manifest itself over time, notably through their effects on citizens' "baseline expectations" with regard to the welfare state (Gingrich, 2015, p. 29). Over time, design changes could amount to creating "a 'new normal' (...) that new cohorts of (...) beneficiaries are

socialised into" (Campbell, 2012, p. 344). Such incremental institutional change fosters the transition between various "quasi-equilibria of redistributive solidarity" (Hall 2017). Following this logic, we might expect the effect of institutional change on attitudes to manifest in the long term.

A further complication comes from the fact that the direction of the effect can change over time. Beyond "positive" (when a policy generates its own support and leads to positive welfare attitudes) or "negative" feedback effects (when a policy undermines itself, see e.g. Fernández and Jaime-Castillo, 2013; Jacobs and Weaver, 2015; Weaver 2010), scholars also identify "thermostatic" effects (Soroka and Wlezien, 2010). In such cases, the direction of support changes over time, once a particular tipping point, or threshold (for instance, in the budgetary cost of a programme) is reached.

2. How might the turn to fiscal welfare in the UK have affected welfare attitudes and preferences for social policy?

In building hypotheses about the effect of the change of instrument on welfare attitudes, we can only rely on a very limited number of studies which have looked in particular at the differences between fiscal welfare and traditional social welfare. To make things worse, these few studies arrived at contradictory findings. Using American survey data, Ellis and Faricy analysed differences in public perceptions of functionally comparable policies administered either through the tax or through the benefit system. They concluded that the public was able to "follow and properly interpret" changes in the modality of social spending, from direct spending to tax expenditures (Ellis and Faricy, 2011, p. 13). In a later study, using an experimental design, they complemented this finding by comparing support for tax-based and traditional social policy

instruments among US citizens. They concluded that "the mechanism through which social benefits are delivered matters to how much citizens support programs designed to provide such benefits" (Faricy and Ellis, 2014, p. 21). Using the tax system as a delivery channel generated more support than using the benefit system. This effect was mediated by partisanship: the positive effect of using a tax credit was particularly strong among Republican voters.

Existing qualitative studies, based on interviews with small groups of beneficiaries, point in the same direction: tax credits were perceived as different, and notably as less stigmatising than traditional income support benefits such as Jobseeker's Allowance (JSA) and Income Support (IS) (Hall et al., 2012, p. 20) - see also Hall, McIntosh, and Burrough (2010), Baumberg, Bell, and Gaffney (2012)⁹¹. Taken together, these findings suggest that New Labour's idea of disguising income support as a tax cut could have been a winning one.

By contrast, another study by Mettler (2011) using American survey data found that social tax expenditures had either no effect or a negative effect on support for government intervention and political mobilisation, while traditional benefits positively affected the two. Mettler attributes these results to the fact that Americans benefiting from fiscal welfare are often unaware that they are benefiting from it at all. For instance, about half of the recipients of the Earned Income Tax Credit surveyed declared that they were not benefiting from any government-supported programme or policy. This leads the author to

⁹¹ According to the authors of these reports, this was indeed linked to the change of administrative delivery channel. Recipients felt that HMRC treated them with more respect than Jobcentre Plus, and for some Housing Benefit claimants, their local council" (Hall et al., 2010, p. 20).

conclude that while direct social benefits and tax breaks are comparable "from an accounting perspective", "for most beneficiaries, the *experience* is starkly different: those who receive direct benefits such as unemployment insurance or food stamps usually recognise that a government program assisted them, whereas few equate their lowered tax bills with comparable aid" (Mettler, 2011, p. 13, emphasis added). Fiscal welfare, Mettler argues, fails to elicit support for public policies. Therefore, its use on a large scale in the American welfare state obscures the real extent of government intervention, biasing citizens against it as they don't realise the benefits attached to it. Based on these findings, New Labour's strategy appears as a risky bet. It could have failed to elicit support for income-support policies among recipients - thus jeopardising their sustainability, and limiting the rewards for New Labour themselves.

This chapter aims to evaluate whether the turn to tax credits successfully increased the acceptability of support towards low-income groups. In what follows, we generate hypotheses about how "taking less" from low-income groups instead of "distributing more" to them might have been different in terms of attitudes and preference formation. First, we look at the effect of the change of instrument on attitudes to redistribution towards low-income groups. Second, we consider the effect of the turn to fiscal welfare on social policy preferences. Attitudes to redistribution are considered across the whole population. By contrast, the term "preference" is used here in reference to identifiable policies. Since we only expect individuals with enough knowledge

of a particular policy to develop clear preferences about it,⁹² we consider effects on the social policy preferences of beneficiaries.

The notion of "attitudes to redistribution towards low-income groups" considered in this chapter matches the concept of "redistribution *to*" developed in Cavaillé and Trump (2015). The latter suggest decomposing welfare attitudes in two independent⁹³ dimensions: the first one, called "redistribution from", represents the *contributive* end of the social contract, i.e. opinions about who should contribute to the common pot, and to what extent. The second dimension, which the authors call "redistribution *to*", captures the *distributive* end of the social contract underlying welfare arrangements, i.e. who should receive from the common pot, and why or why not. Attitudes on this second dimension are influenced by individuals' perception of the deservingness of welfare beneficiaries, as well as by the normative principles underpinning access to welfare (e.g. contribution, social rights, etc.). Cavaillé and Trump measure "redistribution to" using survey items such as "*Many people who get welfare don't really deserve any help*", or "*If welfare benefits weren't so generous, people would learn to stand on their own two feet*". This concept captures what British politicians were interested in changing when they sought to "mainstream income-support"; therefore, we use it in the rest of the chapter.

⁹² While we do not ignore the rich debate about the nature of preferences and the conceptual difference between preferences and attitudes (see e.g. Bergman 1998; Phillips, Johnson, and Maddala 2002), this conceptual debate lies outside the remit of this thesis. Here we choose this labelling for convenience.

⁹³ Cavaillé and Trump show that individuals' attitudes on these two dimensions vary independently of each other: for instance, an individual can be in favour of higher contributions from the rich, but lower payments to the unemployed at the same time.

Because existing theoretical arguments and empirical results point in contradictory directions, the following hypotheses are not formulated as strong theoretical claims, but should be seen as heuristic devices, designed to guide the empirical analysis. Hypotheses facilitate the exploration of the central question: "Is taking less the same as giving more in terms of attitudes and preference formation?"

2.1 How could the turn to tax credits have affected attitudes to redistribution towards low-income groups?

In order to think through the potential effects of the change of policy instrument on distributive welfare attitudes, we consider three groups of individuals who lived through that change but were affected in varying degrees and therefore might reasonably be expected to have reacted differently to it: i) tax credits recipients (who might also receive traditional benefits), who directly benefited from the increase in spending associated with the new instrument; ii) net contributors, who did not benefit from it; and iii) recipients of traditional benefits only⁹⁴, whose baseline attitudes to redistribution towards low-income group can be expected to differ from that of net contributors since although they did not benefit from the introduction of tax credits, they generally benefit from other forms of social spending and income-support.

Theoretical expectations based on the literature for all three groups considered are conflicting. Following a simple incentive logic, the introduction of the tax credits can be expected to have led to a surge in positive distributive attitudes

⁹⁴ Individuals are coded in that category if they do not receive any tax credits, but received any of the following: Jobseekers' Allowance, Income Support, Child Benefit, Housing Benefit, Incapacity Benefit/ Employment and Support Allowance, Disability Working Allowance / Personal Independence Payment, Attendance Allowance, Invalid Care Allowance / Carers' Allowance, Industrial Injury / Disablement Benefit.

to welfare among tax credit recipients. Individuals on the receiving end of an income-support policy might be more inclined to consider welfare recipients as deserving of help. By contrast, there is no clear reason why the distributive welfare attitudes of benefit recipients or net contributors would have been affected by the change of instrument through the "incentive" channel. However, if tax credits were successfully distinguished from welfare, and tax credit recipients did not perceive that they were benefiting from collective solidarity, it is unclear whether positive "incentive" effects on attitudes to redistribution among recipients would manifest themselves at all.

When it comes to the "interpretive" channel, since net contributors, benefit recipients and tax credit recipients were all exposed to the new negative expansion rhetoric, they could all have been affected. New Labour's hope was certainly that attitudes to redistribution towards low-income groups would be positively affected by the change of instruments. However, if the tax credits were not recognised as the product of collective solidarity at all, then the introduction of the tax credits might have left attitudes towards welfare recipients unaffected.

Table 6.1: Expected effect of the turn to tax credits on distributive welfare attitudes

	TC recipients	Traditional benefit recipients	Net contributors
incentive channel	Positive effect OR No effect if TC not perceived as redistribution	no effect	no effect
interpretive channel	Positive effect OR No effect if TC not perceived as redistribution	Positive effect OR No effect if TC not perceived as redistribution	Positive effect OR No effect if TC not perceived as redistribution

Based on Table 6.1, we formulate **(H1): "The turn to tax credits led to a larger increase in support for redistribution towards low-income groups among tax credit recipients"**. This hypothesis is based on two assumptions: i) that tax credits were indeed associated with redistribution, leading to a positive effect among tax credit recipients via the incentive channel, and ii) that whatever positive effect manifested through the interpretive channel was of comparable magnitude for the three groups (and should therefore not be detected when comparing changes in attitudes in these three groups).

We test (H1) using a difference-in-difference design in part 3 below. Further, in order to gauge the plausibility that a positive effect manifested through the interpretive channel in all three groups (which cannot be tested by comparing them), we analyse trends in distributive attitudes in the whole population in part 3.3.2.

2.2 How could the turn to tax credits have affected beneficiaries' preferences for income-support policy?

2.2.1 Support for the tax credits themselves

As shown in Chapter 2, the introduction of the tax credits corresponded to an increase in generosity for individuals who were already benefiting from the existing in-work benefit (Family Credit). New beneficiaries were also brought in - in especially large numbers after the second wave of tax credits was implemented in 2003. A simple hypothesis, based on an interest-based logic, is that tax credit beneficiaries express support for a policy which makes them better off. This effect could have been reinforced through the "interpretive" channel if tax credits were indeed non-stigmatising. This leads us to formulate **(H2a): *"Tax credits beneficiaries express support for the tax credits"***.

However, this hypothesis is adapted from what we know of the reaction of *benefit* recipients. If, as Mettler's findings reviewed above suggest, the experience of receiving a tax credit is "starkly different" from that of getting a benefit, this simple effect based on self-interest might not manifest itself. If getting a tax credit is not clearly recognised as benefiting from a particular government policy, support for that policy among recipients might be dimmer than expected. This leads us to formulate **(H2b): *"Support for the tax credits policy among recipients is weaker than the support generated among beneficiaries of traditional welfare"***.

2.2.2 Support for traditional forms of income-support

If British policymakers were successful in distinguishing tax credits from welfare, then tax credit recipients do not necessarily have any incentive to support traditional forms of income-support. In fact, a positive experience with tax credits might have dimmed any positive interest-based attachment they

previously had towards traditional income-support. In addition, the discursive differentiation between "respectable tax credits" and "old welfare" is likely to have been double-edged, biasing tax credit recipients' preferences away from traditional forms of income-support. Based on this logic, we should observe evidence of **(H3): *"Tax credits recipients do not express support for equivalent income-support benefits"***.

2.3 Testing hypotheses: data and approach

In what follows, we use the four hypotheses formulated above as heuristic devices to explore the effect of the change of instrument on welfare attitudes in the UK. To do this, we use repeated cross-sectional data from the British Social Attitudes survey. The BSAS has been conducted every year⁹⁵ since 1983 (NatCen Social Research 1983 to 2017). Although it is cross-sectional and not panel data, it is regularly used in longitudinal analyses (see e.g. Georgiadis and Manning 2012; Lee and Kang 2006).

The BSAS contains items about benefit and tax credit receipt which allow to identify various groups of recipients. Each year when a benefit existed, the BSAS asked respondents whether their partner or themselves received it. Separate items capture receipt of the Working Families Tax Credit, the Working Tax Credit and the Child Tax Credit. We create a variable of tax credit receipt, coded as 1 if respondents answered yes to any of these items⁹⁶,

⁹⁵ Except in 1988 and 1992.

⁹⁶ There are potential limitations attached to using a survey item to identify our independent variable (tax credit receipt). Indeed, respondents might make errors (declaring they are receiving a tax credit while they are not, and vice versa). They might also refuse to answer. In the worst scenario possible, the error / non-response pattern would not be random, because a particular group of people would systematically misreport / refuse to answer. To assess the validity of the survey item recording tax credit receipt, we compared the weighted proportion of recipients in our sample to the proportion of recipients according to administrative data. In 2015, about 22.9 % of families in Britain received a tax credit (calculated from HMRC 2015 and ONS 2015), while a weighted proportion of 22.8 % of

to be used as our independent variable. The evolution of the weighted proportion of beneficiaries in our sample reflects the tightening of eligibility under conservative governments in the 2010s described in Chapter 5 (27% of individuals in our sample received tax credits in 2005, 31% did in 2010, and 23% were recipients in 2015).

The BSAS also contains items related to the distributive dimension of welfare attitudes, as well as precise questions on policy preferences. In particular, it contains items on support for the tax credits themselves, as well as support for an equivalent income-support *benefit*. However, the latter are only available in the post-policy change period. This means that hypotheses (H2a), (H2b) and (H3) related to preferences for income-support policy among beneficiaries can only be tested by comparing groups in the post-reform period - we cannot test the effect of the *change* of instrument in a pre-post research design on support for the tax credit vs. traditional income-support schemes. Instead, this is done through regression analyses on pooled individual-level data.

By contrast (H1) can be tested in a longitudinal pre-post setting, because measures of individuals' distributive attitudes to welfare exist in both the pre- and post-reform periods. To test (H1), we use a difference-in-difference design, comparing the evolution before and after the policy change of attitudes among "treated" individuals, and individuals in a control group. Our treatment group is composed of tax credit recipients, while individuals who do not receive a tax credit form our control group.

BSAS respondents declared that they were receiving tax credits. The question therefore appears to provide a reliable measure of tax credit receipt.

This control group contains two distinct sub-groups: those who receive traditional benefits (but no tax credits), and net contributors who receive nothing. As explained above, baseline attitudes to redistribution towards low-income groups are likely to differ across these two sub-groups, since net contributors do not benefit from social spending either in its traditional form (income-support *benefits*) or in its new guise as tax credits, while individuals in the "benefits only" category do benefit from traditional social spending. This means that the overall trend in attitudes in the control group could mask heterogeneous sub-trends. However, both groups offer relevant counterfactuals to being treated, since the treatment group includes both individuals who already received benefits and now receive a tax credit, as well as individuals who did not receive traditional benefits and start receiving a tax credit. To go around this issue, we take the overall group made of "benefits only" recipients and net contributors as our control group, but we conduct additional robustness checks by comparing the evolution of the treatment group to each of the particular subgroups (benefits only recipients and net contributors).

Another challenge comes from the fact that, by definition there is no variable capturing tax credit receipt in the period *before* tax credits were implemented. In other words, identifying the treatment group before the treatment happens is problematic.

To remedy that problem, we use post-policy change data to build a predictive model of tax credit receipt. We then apply this predictive model to calculate a probability of being a beneficiary for each individual respondent in a 10 years window around the policy change. This allows us to identify a synthetic treatment group: made of individuals with a high probability of receipt in our

model, who *would have been very likely* to receive the tax credit in the pre-period, and are likely to receive it in the post-period (3.1 below contains more details about the procedure followed). This mode of selection means that the two groups are characterised by a unique error bias and uncertainty level, inherent to the predictive model. This makes us more confident in our ability to compare these groups following a quasi-experimental logic.

The BSAS contains a wealth of individual-level socio-economic data and allow us to control for many alternative determinants of social policy preferences and attitudes, beyond receipt of or exposure to a particular policy. Such alternative determinants include respondents' **household income**. The effect of the latter on attitude formation follows a relatively simple self-interest logic. Being on a low income is a good predictor of individual support for the welfare state (see e.g. Bean and Papadakis, 1998). By contrast, high-income individuals (who have to pay a higher proportion of their income in a progressive system) are less likely to support progressive taxation than individuals lower down the income scale (Barnes, 2015; Edlund, 2003; Hennighausen and Heinemann, 2015; Rueda and Stegmueller, 2016).

In the same self-interested logic, individuals' exposure to risk is found to be another determinant of attitudes to welfare: individuals who have invested in a "personal safety net", e.g. through **education**,⁹⁷ and therefore face a reduced risk, are less likely to support welfare spending (Iversen and Soskice, 2001). Similarly, individuals in **occupations** characterised by higher unemployment favour progressive taxation, while highly educated individuals (facing better job

⁹⁷ On this point see also Busemeyer and Iversen, (2014) on the "politics of opting out".

and wage prospects) are less likely to support it (Barnes, 2015; Roosma et al., 2016).

Beyond rational interest maximisation, “subjective beliefs about the nature of society” and of social solidarity matter in determining individual policy preferences and attitudes to welfare (Cavallé and Trump, 2015; Georgiadis and Manning, 2012). Characteristics such as **political affiliation** and values matter: Roosma et al. (2015) find a link between left-wing positioning and support for progressivity. Heinemann and Hennighausen (2015) show that belief in the value of individual effort is associated with a lower support for progressivity. Affinity for the poor also affect attitudes to redistribution (Finseraas, 2009; Lupu and Pontusson, 2011). Ackert et al. (2007) show that altruistic concerns do matter in determining individuals' preferred tax structure.

Taking into accounts results from the literature about the other determinants of welfare attitudes and social policy preferences we add a large range of controls to the following analyses. We include several variables susceptible of determining attitudes to welfare through a simple self-interest logic, namely equivalised household income, whether the respondent has any children, education level, the respondent and their partner's labour market status, and in a second specification occupation (instead of education level). Variables capturing value-based determinants include political orientation, age, and type of housing tenure, which can be viewed as a proxy "for the familiar class-vote linkage" (Marshall et al., 1988, p. 252) and for socio-economic position more generally.

3. Effect of the change of instrument on distributive welfare attitudes

3.1 Building a synthetic treatment group for a difference-in-difference research design

As was explained above, our treatment group (tax credit recipients) does not exist in the pre-reform period (before tax credits are introduced). We build a synthetic treatment group. We use post-policy change data to build a predictive model of receipt as follow:

$$Receipt_i = \alpha + \alpha_1 Eligibility_i + \alpha_2 TakeUp_i + \varepsilon$$

where $Eligibility_i$ is a vector of individual-level variables determining eligibility to the tax credits, namely: household income, number of children, number of hours worked per week, and partner's economic status,

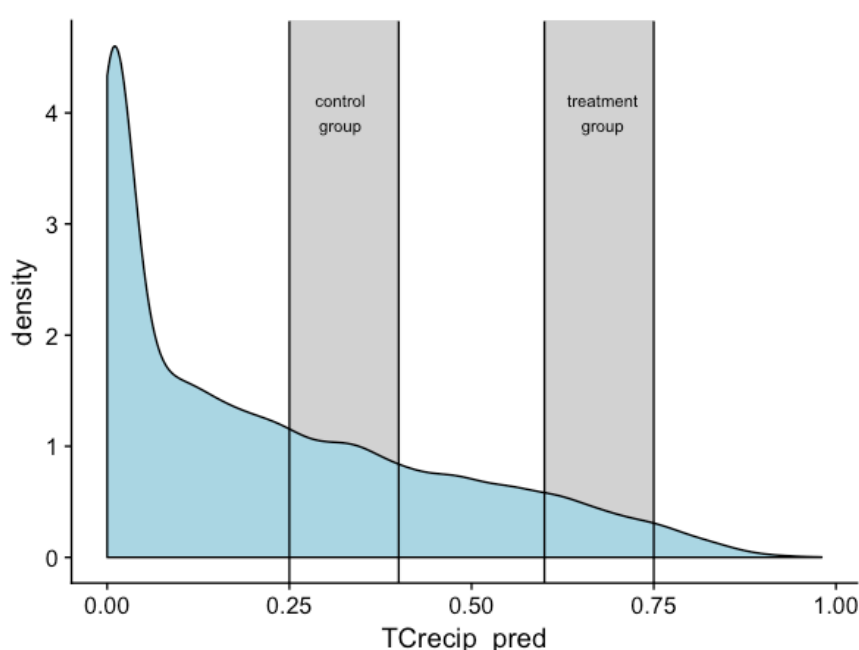
and $TakeUp_i$ is a vector of variables that are known to be good predictors of take-up, namely housing tenure, occupation, age, and labour market status - see e.g. (Blundell et al., 1986).

This model is "trained" on post-reform data, which contains information about tax credit receipt. Coefficients calculated are then used to predict the probability than an individual receives the tax credit, for all individuals in a 10 years window around the introduction of the tax credits. When checked against actual data on receipt in the post-period, the model is found to perform well, with over 83% of accurate predictions.

Based on the distribution of individual probabilities of receipt, we select two groups of individuals. The first group is made of individuals with a high-probability of receiving the tax credit based on our model ($0.6 \leq P < 0.75$). We use this group as our synthetic treatment group. The second group is made of individuals with a low-probability of receipt ($0.25 \leq P < 0.4$). Individuals in

this group are identified as non-recipients. Excluding extreme probabilities close to 1 and close to 0, ensures the comparability of both groups. Our synthetic recipient group is thus composed of individuals who *would have been likely* to receive the tax credit in the pre-period, and *are likely* to receive it in the post-period. Using predictions rather than actual receipt data for individuals in the post-change period ensures that a common error term, inherent to the model, characterises both treatment and control groups.

Figure 6.1: Selecting a synthetic treatment group based on the distribution of probabilities of receipt



Data source for training model: BSAS 2001 to 2016. Data source for teaching model: BSAS 1994 to 2003.

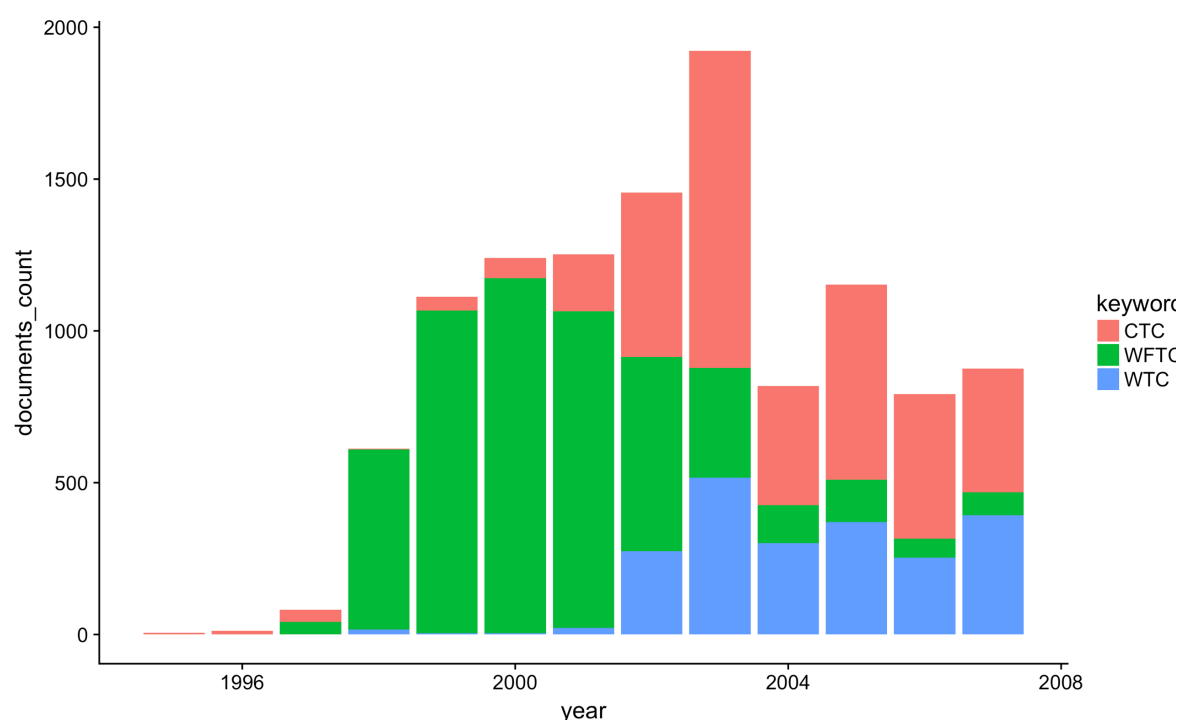
We divide our "low probability of receipt" control group into two subgroups, to distinguish between net contributors, who receive neither tax credits nor benefits, and benefits (only) recipients. Individuals in our treatment group (with a high probability of receiving tax credits) might also receive benefits.

In order to capture the effect of the change of instrument in these three groups, we create a dummy variable differentiating the "pre-change" and "post-change" periods, to be interacted with our treatment and control variables. This implies choosing a time threshold to differentiate between these two periods. This is not a straightforward affair. The introduction of the tax credit was a two-steps process: the first Tax Credit Act was passed on the 30th of June 1999, and the first payments were made in October 1999; but the more generous and more encompassing (in terms of number of beneficiaries) WTC and CTC were voted into law on the 8th of July 2002; the first payments were made in April 2003.

To further complicate the issue, as was argued above, when it comes to influencing attitudes, the normative effect of the change in policy *discourse* is likely to matter alongside the actual institutional change. In order to capture the timing of this change of discourse, we extracted data from the news database Factiva, and looked at the distribution of press articles containing tax credit-related keywords across years. As is apparent in Figure 6.2 below, according to this data, the change in discourse preceded the actual implementation of the policy. The number of press articles mentioning the tax credits doubled between 1998 and 1999.

This suggests that using an early threshold might be appropriate to capture the effect of the change in policy discourse. The first Tax Credit Act was discussed in Parliament between January and June 1999, which coincides with a spike in press coverage. The BSAS fieldwork for the year 1999 was conducted between June and September 1999, i.e. *after* the parliamentary debates. Therefore, we use 1998 as the last year in the "pre-change" period.

Figure 6.2: Distribution of press articles containing tax credits keywords, 1995-2007



Source: Factiva. Period: 1992-2007. Geographical area: "Great Britain".

3.2 Effect of the change of instrument on distributive welfare attitudes

In order to test (H1): *"The turn to tax credits led to a larger increase in support for redistribution towards low-income groups among tax credit recipients"*, we use a survey item repeated every year, which asked recipients their view on the following statement: "Many people who get social security don't really deserve any help". Respondents who "disagree strongly" or "disagree" are coded as favouring redistribution towards low-income groups (1); those who "neither agree nor disagree", "agree" or "agree strongly" are coded as opposing it (0).

3.3.1 Comparing pre- and post-change attitudes between tax credit recipients, benefit recipients, and net contributors

We test (H1) by looking at differences in the evolution of attitudes among our treatment (tax credit recipients) and control group (individuals who do not

receive a tax credit) before and after the policy change. We regress our attitudinal measure of "redistribution to" on the interaction term between treatment status (based on probability of receipt, as explained above), and the period dummy. This interaction term captures the change in attitudes from the pre-change to the post-change period for individuals in each group, compared with those in the other group.

Results are presented in Table 6.2. (H1) posited that the turn to tax credits would generate an identifiable increase in support among tax credit recipients compared to non-recipients, following an "incentive effect". We do not see evidence that such an incentive effect manifested itself. Rather than a positive effect, we find a significant *negative* effect of the policy change on attitudes to redistribution "to" among tax credit recipients compared with individuals in the control group (net contributors and benefit recipients who do not receive any tax credit). This means that the average attitudinal change of attitudes among tax credit recipients between the pre- and the post-periods was significantly more negative than the average change observed among individuals in the control group over that period. We obtain similar results when using alternative measure of distributive attitudes such as opinions regarding statements like *"People on the dole are fiddling"*, or *"If there were less benefits, people would learn to cope on their own two feet"*.

In other words, these results show that support for redistribution towards low-income groups did not increase more among tax credit recipients compared to those who did not directly benefit from the new policy. This is visible in Figure 6.3: while the two lines of blue and red dots (which respectively plot the average distributive attitudes in the treatment and control group in each year) follow

parallel trends before the change of policy, they start evolving differently after the 1998 threshold. However, the blue line does not jump above the line of red dots, meaning that the treatment (tax credit receipt) did not cause support to rise among individuals in the treatment group. The observed patterns do not correspond to the expected evolution posited in (H1), namely that following an incentive logic, support for redistribution towards low-income groups would increase more in the treatment group compared with the control group.

Table 6.2: Effect of the change of instrument on distributive attitudes
"Many people receive welfare who don't really deserve any help"

Variables	Value (SE)
(Intercept)	-0.18 (0.06)**
Tax credits recipients (Treatment)	0.17 (0.1).
Tax credits recipients x period: "post"	-0.25 (0.14).
period: "post"	-0.26(0.08)**
N	4400
R ²	0.006

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1. Standard errors in parentheses. Respondents answering "Disagree" or "Disagree strongly" are coded as 1 (= pro redistribution "to"); those answering "Agree strongly", "Agree" or "Neither agree nor disagree" are coded as 0. Period "pre": 1994-1998; period "post": 1999-2003.

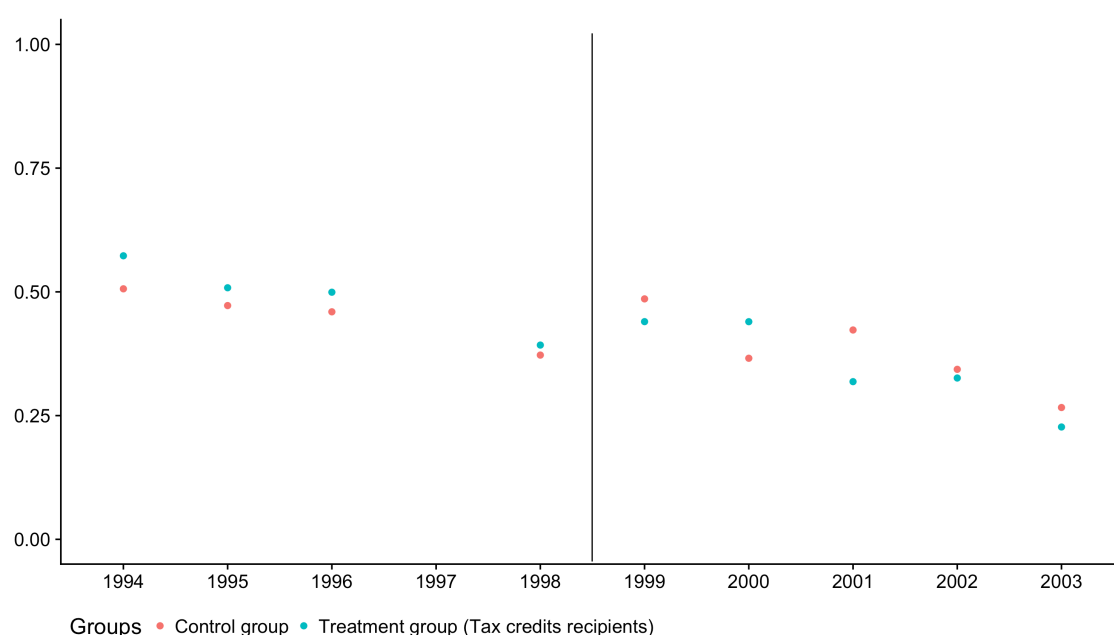
As a next step, we conduct the same analysis but using, in turn, the "net contributors" and the "recipients of traditional benefits only" as control group (instead of considering them together). When using the "net contributors" as a control group, the coefficient attached to the treated group in the post-change period remains significant and negative. When considering the group of individuals who receive benefits but no tax credits as a control group, that coefficient is slightly positive but not significant anymore⁹⁸. In any case, even when considering sub- control groups, we do not find evidence of the positive

⁹⁸ Results available on request.

effect that was posited in (H1): as shown in Figure 6.4 the line formed by the blue dots (corresponding to the average attitude among tax credit recipients in each year) does not jump above the two other lines in the post period.

Figure 6.3: Evolution of average distributive attitudes in the treatment and control groups around the policy change

Opposition to the statement that "Many people who get social security don't really deserve any help"



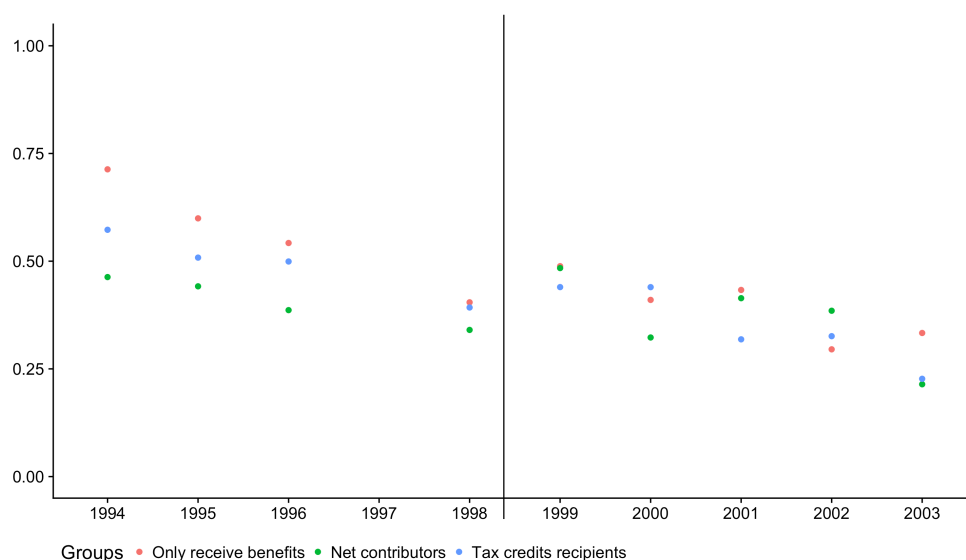
Source: BSAS. Evolution of weighted mean answer. Respondents answering "Disagree" or "Disagree strongly" are coded as 1 (= pro redistribution "to"); those answering "Agree strongly", "Agree" or "Neither agree nor disagree" are coded as 0. The break in 1998 corresponds to the threshold used in the analysis above. The group selection method detailed above allows ensuring that there is no obvious sample-related reason for the shift. The survey item "Many people who get social security don't really deserve any help" was not included in 1997.

Again, Figure 6.4 makes clear that distributive attitudes changed after 1998: while they followed clean parallel downward trends before 1998, mean attitudes in the three groups started evolving differently after that date. Crucially, both treatment and control groups were affected: this prevents us from identifying an effect of the treatment (tax credit receipt) itself. However, these results allow rejecting (H1): although they directly benefited from the new

policy, tax credits recipients did not increase their support for redistribution towards low-income groups more than people who did not receive tax credits.

Figure 6.4: Evolution of average distributive attitudes in the treatment and two sub- control groups around the policy change

Opposition to the statement that "Many people who get social security don't really deserve any help"



Source: BSAS. Evolution of weighted mean answer. Respondents answering "Disagree" or "Disagree strongly" are coded as 1 (= pro redistribution "to"); those answering "Agree strongly", "Agree" or "Neither agree nor disagree" are coded as 0. The survey item "Many people who get social security don't really deserve any help" was not included in 1997.

3.3.2 Testing the plausibility that everyone was positively affected: trends in distributive attitudes

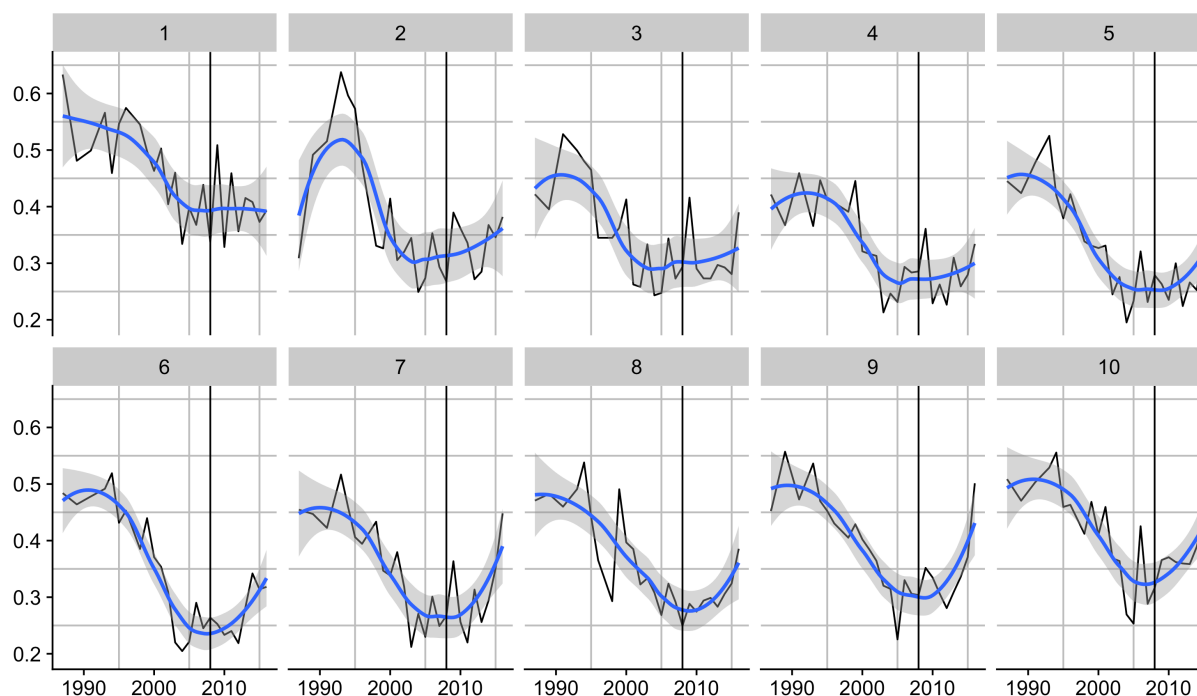
Following the logic exposed in Table 6.1 above, if the change of instruments affected attitudes to redistribution through the "interpretive channel", one possibility is that individuals in all three groups considered were positively affected. The plausibility that this happened can be gauged by looking at evolutions of attitudes over the period. Figure 6.4 shows that attitudes in all three groups did increase slightly after 1998 (although note that this increase cannot be clearly attributed to the introduction of tax credits, since all three groups are affected, and many other policy changes were introduced at that

same time). However, the overall picture when considering the whole window of time is still that of a decrease in support for redistribution across the three groups, although this decline briefly halted after 1998.

This is confirmed when considering longer-time trends. Figure 6.5 below shows the evolution of distributive attitudes to welfare by equivalised household income deciles, for the longest period available. Across household income deciles, distributive attitudes to redistribution hardened as New Labour was in power. The trend started to pick up later in the decade for all deciles, and particularly after 2008 (which could possibly be interpreted as the effect of the Great recession on attitudes). Yet between 1995 and 2008, perceptions of deservingness declined: while 55% of people in the first decile opposed the idea that many people getting benefits did not deserve any help in 1995, only 40% expressed opposition to that idea in 2008. Only 30% of individuals in the second decile opposed the idea that welfare recipients were often undeserving. The steeper decline observed on this dimension is among individuals in the 5th and 6th deciles, of whom about 55% opposed the idea that social security beneficiaries were not deserving of help in 1995, while only 25% did so in 2008. These longer-term descriptive trends are an indication that New Labour failed to shift attitudes to redistribution for low-income groups among middle-class voters towards a more favourable equilibrium, beyond short-lived bumps. More generally, the positive effect on distributive attitudes across groups that New Labour politicians hoped for did not materialise.

Figure 6.5: Evolution of distributive attitudes to welfare (1987-2016)

Opposition to the statement that "Many people who get social security don't really deserve any help"
(by equivalised household income decile)



Source: BSAS. Evolution of weighted mean answer. Respondents answering "Disagree" or "Disagree strongly" are coded as 1 (= pro redistribution "to"); those answering "Agree strongly", "Agree" or "Neither agree nor disagree" are coded as 0. Grey area represents the 95% confidence interval. The black vertical line marks the start of the financial crisis in 2008.

Two conclusions emerge from the above: first, the difference-in-difference analysis allows us to conclude that the change of instrument and accompanying increase in generosity did not generate an "incentive effect" boosting support among recipients: support for redistribution towards low-income groups did not increase more among individuals who received a tax credit than among individuals who did not. Second, while the average support for redistribution towards low-income groups fleetingly increased between 1998 and 2000 in all groups (a movement which we cannot causally attribute to the introduction of tax credits since both treatment and control groups are affected), when

considering the 1994-2003 period (and even more so when considering the 1990-2008 period), it appears that the downward trend towards a hardening of distributive attitudes to welfare, that had started before the turn to tax credits, was not reversed.

4. Effect of the change of instrument on recipients' policy preferences

4.1 Support for the tax credits themselves

In 1998, the designers of the BSAS⁹⁹ added two questions in reference to the tax credits reform that was going through Parliament at the time. These questions ask respondents their view on the governments paying "wage top-ups" to low-income workers with and without children. They consciously avoid any welfare-related language. These questions were successively asked 6 times between 1998 and 2015 (5 times after the reform). Answers are recorded in dichotomous variables - respondents are either in favour or against the tax credits. The weighted proportion of individuals expressing support in our sample is rather constant across time, with 65% expressing support for wage top-ups for low-income couples *with* children (29% for those *without* children) in 2005, 63% (30%) in 2010, and 65% (29%) in 2015.

We use these items as dependent variables to test **(H2a): "Tax credit beneficiaries express support for the tax credits"**. We regress opinions about tax credits on our variable of tax credit receipt, using a logistic model. We include a control for traditional benefit receipt, as well as the set of controls described in 2.3 above (see appendix for a detailed coding scheme). We run

⁹⁹ This information was confirmed in private correspondence with Alison Park and Caroline Bryson. A. Park and C. Bryson were researchers in charge of designing the BSAS questionnaire at the time the question was introduced.

the regression on pooled data with year fixed effects, as well as for each year separately. Results are presented in Table 6.3 and 6.4 below (coefficients for control variables are only shown if they are statistically significant).

Table 6.3: Effect of receiving tax credits on support for the tax credits:
“Should the government top-up the wages of couples with children working on low wages?”

Variables	Value (SE)
(Intercept)	1.17 (0.3)*
Receive at least one benefit: yes	0.23 (0.09)*
Equivalised household income	-0.24 (0.05)***
Education: GCSE or equivalent	-0.26 (0.12)*
Education: CSE or equivalent	-0.41 (0.15)**
Education: Foreign / other	-0.7 (0.31)*
Education: No qualification	-0.42 (0.12)***
Party identification: Conservative	-0.93 (0.08)***
No party identification	-0.48 (0.11)***
Other party identification	-0.39 (0.15)**
LM status: retired	-0.33 (0.14)*
Tax credits recipient	0.42 (0.1)***
Tenure: rented from local authority	0.73 (0.12)***
Tenure: rented (other)	0.42 (0.14)**
N	5486
R ²	0.12

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1. Answer code: 0: no, 1: yes.

Reference categories: for education: individuals with a higher education degree; for party identification: Labour; for labour market status: employed; for tenure type: owner-occupier. Pooled survey years: 2003, 2005, 2010, 2013, 2015.

Traditional predictors of social policy preferences generally behave as expected: higher income individuals are more opposed to wage top-ups for low-income workers. Individuals in social housing are more supportive of them than owner-occupiers, while Conservative supporters are less favourable to the tax credits than Labour supporters.

Results in Tables 6.3 and 6.4 lend support to H2a, which posited that tax credit beneficiaries would express support for the tax credits. In both tables, tax credit receipt indeed yields a positive and significant effect on support for the policy. Concretely, tax credits recipients are 42% more likely to support wage top-ups for low-income parents (i.e., schemes equivalent to the CTC) than non-

recipients, and they are 32% more likely to support wage top-ups for childless couples (i.e. schemes equivalent to the WTC).

Table 6.4: Effect of receiving tax credits on support for the tax credits:

“Should the government top-up the wages of couples with no children working on low wages?”

Variables	Value (SE)
(Intercept)	-0.04 (0.27)
Have kids: yes	-0.38 (0.12)**
Equivalised household income	-0.21 (0.05)***
Education: A level or equivalent	-0.3 (0.12)*
Education: GCSE or equivalent	-0.45 (0.12)***
Education: CSE or equivalent	-0.52 (0.15)***
Education: No qualification	-0.29 (0.13)*
Party identification: Conservative	-0.7 (0.09)***
No party identification	-0.39 (0.11)***
Age category: 65+	-0.6 (0.27)*
Tax credits recipient	0.32 (0.1)***
Tenure: rented from local authority	0.23 (0.11)*
Tenure: rented from a housing association / trust	0.26 (0.12)*
year: 2005	-0.28 (0.1)**
N	5519
R ²	0.058

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1. Answer code: 0: no, 1: yes. See Table 6.1 for reference categories. Pooled survey years: 2003, 2005, 2010, 2013, 2015.

However, when running separate regressions for each year, we find that the effect measured with the pooled data is entirely driven by strong positive effects in 2005 and 2015 for the question for couples with children (see Table 6.5 below), and 2005 only for childless couples. In every other year, including in 2010 and 2013, when the number of beneficiaries was at its peak and generosity was high, individuals directly benefiting from tax credits were not more likely than non-beneficiaries to express a preference in favour of that policy.

Table 6.5: Effect of receiving tax credits on support for the tax credits - results by year

“Should the government top-up the wages of couples with children working on low wages?”

Variables	2003	2005	2010	2013	2015
Receive at least one benefit: yes	-0.09 (0.21)	0.37 (0.19).	0.4 (0.21).	0.37 (0.23)	0.12 (0.24)
Equivalised household income		-0.25 (0.12)*		-0.57 (0.12)***	
Education: higher education below degree				-0.89 (0.31)**	
Education: A level or equivalent				-0.77 (0.3)**	

Education: GCSE or equivalent				-0.65 (0.29)*	-0.64 (0.27)*
Education: CSE or equivalent				-1.05 (0.37)**	
Education: No qualification	-0.64 (0.28)*			-0.82 (0.29)**	
Party identification: Conservative	-0.85 (0.17)***	-0.6 (0.17)***	-1.07 (0.19)***	-0.93 (0.22)***	-1.45 (0.21)***
Party identification: Liberal Democrats			-0.5 (0.24)*		
No party identification	-0.5 (0.23)*			-0.87 (0.25)***	-0.77 (0.27)**
Other party identification	-0.92 (0.44)*			-0.72 (0.31)*	
Age category: 55-59	-1.74 (0.62)**				
Age category: 65+	-1.64 (0.62)**				
LM status: retired				-1.15 (0.36)**	
Partner's LM status: unemployed	13.84 (0.49)***				
Tax credits recipient	-0.02 (0.23)	0.86 (0.22)***	0.24 (0.24)	0.25 (0.28)	0.63 (0.26)*
Tenure: rented from local authority	0.74 (0.26)**		1.24 (0.33)***	0.9 (0.29)**	0.98 (0.32)**
Tenure: rented (other)					0.82 (0.31)**
Tenure: rent free / squatting	-16.02 (1.03)***				-14.98 (0.69)***
N	1183	1164	1063	990	1086
R ²	0.112	0.117	0.103	0.17	0.159

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1. Answer code: 0: no, 1: yes. See Table 6.1 for reference categories. Pooled survey years: 2003, 2005, 2010, 2013, 2015.

These localised effects might reflect the importance of policy salience as a factor mediating the effect of receipt on policy preferences. The tax credits were largely discussed in the media both in 2005, following implementation hurdles (Clegg, 2015), and in 2015, when plans to cut the tax credits by the Conservative government led to a quasi-rebellion in the House of Lords, which generated publicity (The Economist, 2015). In any case, these results suggest that tax credits only generate a fleeting support among their recipients, even when they are noticeably generous by historical standards.

This finding, combined with existing results in the literature about how benefits often generate their own support, already contributes to confirming **(H2b)**: *"Support for the tax credit policy among recipients is weaker than the support generated among beneficiaries of traditional welfare"*. However, in order to formally test the latter, we regress support for additional government spending on Child Benefit on receipt of Child Benefit. Child Benefit (CB) is a

universal¹⁰⁰ benefit for families with children. It provides an appropriate traditional welfare equivalent to compare to the tax credits for the purpose of testing (H2b)¹⁰¹. Like the CTC (the most important in size), it is only conditional on the presence of children. The generosity of CB is also comparable (if slightly inferior) to that of the tax credits - in 2014, CB was £1056 for an only child / the eldest child, and £705 for any subsequent child¹⁰². While CB is universal, CTC and WTC were not. However, as shown in Chapter 2, both tax credits did extend further up the income distribution. They were designed in the spirit of "progressive universalism", according to which lower-income families should get more, but a large part of the population nonetheless benefited. Finally, Child Benefit is a long-standing iconic policy of the Labour Party. In a thesis considering the drivers and effects of the Left's choice of policy instrument, Child Benefit is a more relevant alternative to consider than other heavily means-tested schemes introduced by conservative governments.

To measure support for CB, we create a variable coded a 1 if respondents listed it as their first or second priority for extra government spending, and 0 otherwise. This means that we conduct a conservative test: we compare the effect of tax credits receipt on the probability of simply expressing support for the tax credits, with the effect of receiving Child Benefit on the probability of favouring *additional* spending on Child Benefit.

¹⁰⁰ Child Benefit became means-tested in 2013.

¹⁰¹ In previous iterations of this chapter, we considered using Housing Benefit as an example of traditional welfare to be compared to the tax credits. However, in many cases (i.e. over 90% of cases when it comes to social tenants (Neuburger and Long, 2004)), Housing Benefit is paid directly to landlords, which might limit its ability to affect the preferences of beneficiaries.

¹⁰² Source: revenuebenefits.org.uk.

Table 6.6: Effect of receiving Child Benefit on support for additional spending on Child Benefit

Variables	Value (SE)
(Intercept)	-0.65 (0.1)***
Child benefit recipient	0.58 (0.04)***
Equivalised household income	-0.12 (0.02)***
Education: Foreign / other	-0.35 (0.15)*
Party identification: Conservative	-0.19 (0.04)***
Party identification: Liberal Democrats	-0.12 (0.05)*
Age category: 25-34	-0.21 (0.06)**
Age category: 35-44	-0.69 (0.07)***
Age category: 45-54	-1.13 (0.07)***
Age category: 55-59	-1.34 (0.09)***
Age category: 60-64	-1.43 (0.09)***
Age category: 65+	-1.57 (0.1)***
No partner	-0.28 (0.04)***
Tenure: rented from local authority	0.09 (0.04)*
N	30278
R ²	0.11

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1. Reference categories are as follow: for education: individuals with a higher education degree; for party identification: Labour; for age category: 18-24 yo ; for partner's LM status: working; for tenure type: owner-occupier. Pooled survey years: 1986-1996, 2000-01, 2003, 2005, 2007, 2010, 2012, 2014, 2016). Controls for "having kids" and "receiving any benefit" are taken out because they are collinear with Child Benefit receipt.

Results in Table 6.6 show that receiving Child Benefit yields a large effect on the probability of supporting *additional* spending on Child Benefit. Child benefit recipients are 58% more likely to support *additional* spending on CB than non-recipients. Crucially, while the effect of tax credit receipt was found to be fleeting, the positive effect of CB receipt is constant and substantial over the 20 years period for which we have data¹⁰³. As explained above, this was a conservative test; this reinforces our confidence in the fact that support generated by the tax credits among their own recipients is weaker than that generated by a comparable benefit among beneficiaries.

¹⁰³ Except in 1993, 1994, and 1995, where sample sizes are too limited, we measure a substantial and significant positive effect of CB receipt on the probability to support additional spending on CB in every year.

4.2 Support for traditional forms of income-support

In order to test (H3): "*Tax credit recipients do not express support for equivalent income-support benefits*", we take advantage of a third question, introduced in the survey in parallel to the two items on wage top-ups referring to the tax credit. This question asked essentially the same thing, but using a vocabulary clearly referring to the realm of traditional income-support policy. Specifically, the respondents were asked whether they were "in favour of more or less government spending than now on *benefits* for parents who work on very low incomes".

Answers to the 'benefit question' are coded as a 5-points scale in the original data, ranging from "a lot more spending" to "a lot less spending". We recode it as a dichotomous variable: respondents answering "spend much more", "spend more" or "spend the same as now" are coded as supporting traditional income-support policy, by contrast with those answering "spend less" or "spend much less"¹⁰⁴.

Results in Table 6.7 are in accordance with (H3): when describing the *same* policy using a traditional welfare vocabulary, the positive association between tax credit receipt and support for the policy measured in Table 6.2 disappears. Tax credit recipients are *not* more supportive of income-support for low-income workers with children than non-recipients, if that support takes the form of a traditional benefit. When running separate regressions per year, we

¹⁰⁴ As a sensitivity check, we run the models with the respondents saying "spend the same as now" grouped with those opposing spending. This does not change the results regarding our independent variable of interest.

even find a significant *negative* association between tax credit receipt on the probability to support spending on low income working parents in 2013.

**Table 6.7: Effects of receiving tax credits
on support for an equivalent benefit:**

*“Are you in favour of more or less government spending than now on
benefits for parents who work on very low incomes?”*

Variables	Value (SE)
(Intercept)	6.01 (1.09)***
Education: A level or equivalent	0.49 (0.22)*
Party identification: Conservative	-0.71 (0.15)***
No party identification	-0.46 (0.2)*
Age category: 35-44	-2.24 (1.04)*
Age category: 45-54	-2.26 (1.05)*
Age category: 55-59	-2.29 (1.08)*
Age category: 60-64	-2.32 (1.06)*
Age category: 65+	-2.66 (1.05)*
Partner's LM status: unemployed	-0.98 (0.41)*
Tax credits recipient	-0.01 (0.19)
Tenure: rented from local authority	0.64 (0.24)**
year2015	-0.42 (0.21)*
N	9317
R ²	0.049

Signif. codes: 0 ‘***’ 0.001 ‘**’ 0.01 ‘*’ 0.05 ‘.’ 0.1 ‘ ’ 1. Answer code: "spend much less", "spend less" coded as 0, "spend same as now", "spend more", "spend much more" coded as 1. Reference categories are as follow: for education: individuals with a higher education degree; for party identification: Labour; for labour market status: employed; for partner's LM status: working; for tenure type: owner-occupier. Pooled survey years: 2002, 2004, 2006, 2008, 2011, 2013, 2015. The number of observations is larger than in Tables 6.2 and 6.3 because the "wage top-ups" questions were repeated 5 times after the introduction of the tax credits, while the question in Table 6.6 was repeated 7 times.

These results suggest that tax credits recipients do not associate the money they are receiving with "benefits for parents who work on very low incomes".

However, as was shown above, neither do they express a durable support for "wage top-ups". Thus, while we do not measure the causal effect of the change of instrument on changes in preferences, these results suggest that the turn to fiscal welfare might have favoured an erosion of support for any form of income-support.¹⁰⁵ We do not observe a shift in preferences towards fiscal

¹⁰⁵ One question here is whether the turn to tax credits could in fact have materialised *in response to* the erosion of support for income-support. As shown in Figure 6.4, the decline in support for "redistribution to" (which is a different but nonetheless related issue) started

welfare among income-support recipients, but rather a waning of support altogether. These findings are convergent with those in Mettler (2011). Fiscal welfare instruments do not seem to elicit support among their own beneficiaries in the long term. In that sense, taking less is indeed different from giving more in terms of preference formation. British policymakers were successful in differentiating the tax credits from traditional forms of welfare. However, in the process, they might have inadvertently severed the link between benefit receipt and support for that benefit among recipients.

5. Conclusion

This chapter set out to ask whether taking less via tax credits was really equivalent to giving more via traditional cash benefits, in terms of their effects on attitudes and preference formation. The findings presented above confirm that although tax credits and benefits were seen as functionally equivalent as means of channelling money towards low-income groups, taking less is *not* the same as giving more when it comes to preference formation.

Indeed, we found that despite their generosity, tax credits only generated a weak and fleeting support among their recipients. By contrast, beneficiaries of comparable benefits express a marked support in favour of that policy. Tax credits, in other words, do not generate their own entrenched constituencies of beneficiaries.

before 1998, which is legitimately the earliest threshold we can use to start measuring an effect of the change of instrument itself. However, as shown in Figure 4.1 in Chapter 4, support for "redistribution to" only started to plunge around 1995, at a time when the tax credit plans were already in the making in the Shadow Treasury Minister's team. In other words, according to the BSAS data, the tax credits project cannot credibly be seen as a *consequence* of decreasing support for redistribution towards low-income groups. Rather, it might have accelerated the erosion of support for income-support schemes.

Further, we showed that tax credits recipients do not associate what they receive with a social policy: they do not express support for policies which are essentially similar to the tax credits, but visibly attached to the welfare system. In other words, tax credit recipients do not develop preferences for income-support benefits. They might perceive that they are simply being given back what was owed to them.

Taken together, these findings suggest that the turn to tax credits led to an erosion of preferences for income-support in any form. Recipients do not develop strong preferences in favour of the policy for which they are benefiting, or for income-support in its traditional form. Therefore, by trying to increase the acceptability of payments to low-income groups, New Labour politicians unintentionally severed the link between one benefiting from income-support policy and expressing support for that policy.

This is an important finding in the context of the "new politics of the welfare state" literature (Pierson, 2001). It shows that, beyond cases of "hidden retrenchment" through "drift", or "layering", the balance of policy preferences in a given society can be shifted towards a more individualist equilibrium through (negative) *expansion*. Even generous and redistributive *expansionary* social policies can fail to create their own entrenched constituencies; over time, the creation of "passive publics" (Mettler, 2011) leads to a decrease in support for the policies destined to those publics.

In the case at hand, the turn to fiscal welfare might have made New Labour's substantial efforts to redistribute towards low-income families and workers more vulnerable to cuts in the longer term (Clegg, 2015). In the absence of strong entrenched constituencies, the British tax credits were relatively easy to

cut for the Conservative government that replaced the outgoing Labour government in 2010 (see Chapter 4).

Beyond beneficiaries' preferences, this Chapter also looked at the link between the change of instrument and the evolution of distributive welfare attitudes (i.e. attitudes towards the beneficiaries of welfare). We did not find evidence that the change of instrument boosted support for redistribution towards low-income groups among tax credits recipients. Further, descriptive trends suggest that the change of instrument failed to stop a general downward trend in support for redistribution towards low-income groups. In that sense, New Labour lost their bet: while their strategy of disguising support for low-income groups as tax cuts was aimed at making it more acceptable, it did not prevent attitudes towards welfare recipients to keep deteriorating under their three successive governments.

The change of instrument did mean that the new policies were perceived as different from welfare (as evidenced by the fact that tax credits beneficiaries did not associate them with equivalent benefits). However, by failing to elicit support among beneficiaries, and failing to reverse the hardening in attitudes towards welfare recipients, the turn to tax credits, which aimed to mainstream support to low-income groups, might have paradoxically led to a shift towards a more individualistic equilibrium of redistributive solidarity.

This strategy is also likely to have had political consequences. In particular, it is possible that the change of instrument made it harder for New Labour to claim credit for its achievement - which was true in the French case, see Chapter 5. While this issue was outside the remit of the present thesis, further research should look into the consequences of the turn to fiscal welfare on vote choice.

Chapter 7 - Negative expansion through fiscal welfare: implications for the political economy of (social) policymaking

This thesis is a comprehensive foray into a largely unexplored issue: that of tax policy instruments ostensibly designed to benefit low-income groups. Fiscal welfare in general remains understudied; fiscal welfare *for low-income groups* is virtually absent from the social policy literature altogether. This thesis aimed to remedy that lack of research on the issue by taking up three tasks.

First, it aimed to shed light on fiscal welfare for low-income groups, both theoretically and empirically. Neighbouring literatures were reviewed in Chapter 2, which puts forward a definition of fiscal welfare as the set of tax expenditures fulfilling a social purpose - or social tax expenditures ("STEs"). While fiscal welfare had previously been described as inherently regressive and / or invisible to the public, we argued that the true distinctive feature of fiscal welfare, compared to traditional welfare, is its higher degree of presentational freedom, e.g. its ability to be passed off as something unrelated to social policy, and to be *made* more or less salient. Chapter 2 also developed a microsimulation procedure to generate data on STEs benefiting low-income groups. This procedure was implemented in six European countries. We found that fiscal welfare for low-income groups was present across institutional contexts, over the 10 years window observed, and benefited five groups in particular: low-income workers, low-income families, low-income pensioners, disabled individuals, and the unemployed. Estimations of costs involved (which are most likely under-estimations) were commensurate to those spent on social

benefits for families. Importantly, Chapter 2 showed that while fiscal welfare schemes might be ostensibly designed to benefit low-income constituencies, they often miss their target and benefit more to households in the higher part of the equivalised income distribution.

Second, this thesis aimed to uncover the determinants of the use of fiscal welfare for low-income groups. To do so, it presented in-depth analyses of two specific policy episodes in France and the UK in the early 2000s, during which left-wing governments turned to fiscal welfare to support low-income groups. Building on a careful analysis of original archival and interview data, and of a wealth of available documents, this thesis argued that the turn to fiscal welfare in both cases was the product of a change of welfare expansion logic among left-wing governments at the time. Namely, the latter took on the idea that instead of directly increasing redistribution, they could do *more* for poor workers and families by taking *less* from them in taxes. We labelled this a "negative expansion" logic, following which welfare can be expanded by retrenching state involvement (through collecting less taxes) instead of increasing it (through distributing benefits). Following this logic, governments substituted a non-action, that of "not taking", for an action, that of redistributing.

In the UK, the change of expansion logic corresponded to a strategy of blame-avoidance, as policymakers thought that traditional means of income-support were not politically viable anymore. In France, the turn to a logic of negative expansion was more akin to credit-claiming, as left-wing politicians thought they could unite a broad constituency under the banner of a reduced taxation. The change of logic - and of instrument - in both cases was found to result primarily from changes in policymakers' self-defined set of feasible policy alternatives.

Although the two cases present many differences, common determinants include a strategic focus on whomever politicians conceived to be "middle-class voters", as well as a notion that spending increases on traditional income-support instruments were a threat to economic credibility. Fiscal welfare was perceived as an economically sound instrument which could be mobilised in coalition-building strategies centring around middle-class voters, to unify several publics behind a common instrument.

Finally, this thesis aimed to explore some of the political consequences of using fiscal welfare rather than traditional welfare for income-support purposes. It studied the effects of the turn to fiscal welfare for low-income support purposes on welfare attitudes in Britain (since the data required for such an analysis was not available for France). It found that fiscal welfare schemes, even when generous and with a large coverage, could fail to generate enduring support among beneficiaries - while receiving a comparable benefit tends to generate marked support for that benefit. Neither are British tax credits recipients more favourable to income-support for low-income working parents than non-recipients. In addition, while the change of instrument in the UK was partly envisaged by its architects as a means of improving the balance of *distributive* welfare attitudes (i.e. perception of beneficiaries' deservingness) within British society, we found no evidence that the turn to fiscal welfare increased the acceptability of redistribution to low-income groups. In fact, attitudes towards welfare beneficiaries hardened over New Labour's time in office, and the change of instrument did not counter that trend.

Therefore, using fiscal welfare to support low-income groups is likely to put in motion a different set of politics than using traditional income-support benefits.

Failing to generate durable support might endanger the growth capacity and sustainability of fiscal welfare schemes, in the absence of constituencies pushing for expansion or mobilising against cuts. Further, even when entailing large increases in generosity and coverage, fiscal welfare schemes might not favour pro-redistribution equilibria.

In wrapping up this thesis, the present chapter clearly lays out these findings and draws out their implications with regards to three different literatures. In the social policy literature, this thesis clears a trail in the largely uncharted territory of fiscal welfare for low-income groups. Within the partisan politics of welfare literature, this thesis adds nuance to the widespread narrative according to which the Left in the 2000s let go of redistribution and income-support as a policy objective. It shows that rather than altogether abandoning redistribution in itself, the British and French Left's abandoned the objective of *shaping preferences* in favour of redistribution - while in effect they still engaged in redistribution. Finally, this thesis also makes a more macro-level contribution to the scholarship on the political economy of (welfare) reforms, which has implications for our general understanding of how policies are made. Crucially, it sheds light on the important - but systematically under-estimated - role of human error, of the contingency of knowledge, and of fortuitousness and serendipity in the making of (social) policies.

1. Fiscal welfare for low-income groups: what is it, why was it used in France and the UK, and how did it affect attitudes to redistribution in Britain?

1.1 Fiscal welfare for low-income groups is an understudied social policy channel through which non-negligible amounts are distributed, often in a regressive manner

The first contribution of this thesis is to the social policy literature, and in particular to its as-of-yet small subpart concerned with fiscal welfare. Contrary to existing theories characterising fiscal welfare as inherently regressive and/or "hidden", this thesis argues that the truly distinctive nature of fiscal welfare (including fiscal welfare *for low-income groups*) resides in its higher degree of presentational freedom, compared to traditional welfare. In other words, while traditional welfare is welfare, fiscal welfare can more easily be *passed off as something else than social policy* (including as a non-descript feature of the tax system attracting no attention).

As was explained in previous chapters, the literature on fiscal welfare is underdeveloped and largely US-centric. Most studies focus on examples of fiscal welfare "for the rich" (e.g. schemes related to private healthcare or pension plans), to highlight their large regressive effects. Recent contributions have aimed to expand the perspective on fiscal welfare to include its presence in other contexts as well as its role in welfare reforms (Morel et al., 2018c). The present thesis adds to the scholarship an unprecedented exploration of a particular form of fiscal welfare, namely that ostensibly targeting low-income groups.

The latter is particularly under-studied and under-theorised, being limited mainly to a few analyses of the Earned Income Tax Credit in the United States, and to some case studies of Anglo-Saxon countries. To the best of the author's

knowledge, fiscal welfare *for low-income* groups had not been previously analysed as a domain of social policy in its own right, characterised by unique features and logics. This thesis presents new data on the use of fiscal welfare for low-income groups in six European countries. Examples of STEs for low-income groups were found in countries with very different institutional traditions, consistently over the 10-year window which we could observe. This thesis makes clear that fiscal welfare for low-income groups is a phenomenon that stretches beyond the sole American case, and defeats the idea that this phenomenon is the product of American or liberal welfare idiosyncrasies.

We adopted a definition of fiscal welfare for low-income groups as any policy which took the form of a tax provision, served an identifiable and precise social policy objective, and either targeted low-income groups specifically or was more generous for them. In the six countries scrutinised in Chapter 2 of this thesis (namely Belgium, Finland, France, the Netherlands, Spain and the United Kingdom), we identified about 100 policies fitting this definition, broadly divided into five groups of beneficiaries: low-income families with children (including lone parents), low-income workers, unemployed working-age individuals, disabled individuals, and low-income pensioners. Low-income students constituted a residual category. The most common policies were those benefiting low-income families with children and low-income workers. The non-taxation of means-tested benefits as well as non-refundable and refundable tax credits were the most common instruments across countries.

Cost-estimations for these policies reveal that their budgetary incidence is far from negligible - and these are very likely to be under-estimations. Indeed, we could only simulate a fraction of the schemes identified in all 6 countries. Yet

the budgetary incidence of these incomplete estimations of the cost of fiscal welfare for low-income groups was already commensurate with that of family benefits. Another important finding concerned the redistributive effect of these schemes. Namely, we found that schemes ostensibly designed to benefit low-income groups often benefited more to higher-income households. Among other things, this has to do with the fact that provisions of the tax code are more often than not based on individual rather than household income, and end up being poorly targeted when considering the household income distribution.

These results demonstrate the importance of fiscal welfare as an instrument of social policy, and of fiscal welfare for low-income groups as a domain of social policy which needs to be studied further. This thesis contributed to that goal by mapping out the contours of fiscal welfare for low-income groups in six countries. It also contributed a methodological approach, which could be used to extend this mapping exercise to other contexts in future research.

Further, this thesis contributed to the as-of-yet under-developed literature on fiscal welfare for low-income groups by uncovering some of the particular political economy logics associated with these policies, and in particular the determinants of their use, through two particular case studies.

1.2 Doing more with less for low-income groups: experiments with negative expansion through fiscal welfare in France and the UK in the 2000s

Fiscal welfare instruments targeting low-income groups were introduced in France and the UK in the 2000s. The French *Prime Pour l'Emploi* and the British *Child Tax Credit* and *Working Tax Credit* are among the few examples of fiscal welfare for low-income groups which actually ended up benefiting the most to low-income groups. These schemes also constitute clear cases of

welfare expansion: their introduction corresponded to marked increases in both coverage and generosity. The British tax credits were received by up to 6 million families, for a cumulated cost per year of close to £30 billion. The French PPE benefited to up to 9 million tax units, for a cost of €4.5 billion.

There are many differences between the two cases, which were highlighted in previous chapters. However, when strictly considering the logic that led politicians to recourse to one instrument (fiscal welfare) instead of another (traditional income-support benefits), some common patterns emerged from our parallel case studies. Namely, these cases revealed that left-wing politicians' self-defined "feasibility set" of policy alternatives underwent similar changes in both countries at the end of the 1990s. New Labour and the Parti Socialiste's perception of what they could or could not do evolved in a similar direction.

First, both parties underwent a re-evaluation of their electoral strategy at the time, leading them to pay a renewed attention to the preferences of "middle-class voters". Although precise definitions varied across countries and even across individuals within parties, these voters were seen as a growing constituency, which loyalty was up for grabs and whose votes were necessary to form a winning coalition. These voters were also described as characterised by distinct preferences. In particular, a common idea was that middle-class voters resented taxation. Second, both governments were convinced that engaging in large spending increases on income-support would damage their economic credibility - a potentially mortal electoral peril, as economic competence was considered a key selling point to attract middle-class voters. Governments engaged in loud pledges in favour of budgetary responsibility to ensure against the risk of loss of economic credibility. In the French case, the constraint on

spending was institutionalised in the Economic and Monetary Union fiscal surveillance rules. In both cases, traditional income-support instruments were stamped as economically unsound.

In this context, politicians on the Left established a functional equivalence between traditional forms of welfare based on spending, and fiscal welfare, which instead implied "not taxing". In other words, they established a functional equivalence between a logic of "negative" welfare expansion towards low-income groups, and the "positive" welfare expansion logic attached to traditional means of income support. The latter consisted in increasing spending on benefits for low-income groups, while the former consisted in cutting their taxes.

This functional equivalence could be helpful in bypassing the constraints highlighted above. Fiscal welfare could be presented as a tax cut rather than as an increase in spending, and as an incentive-setting mechanism, aligned with dominant economic theories about welfare reform at the time. In other words, it was an economically respectable instrument. In addition, fiscal welfare for low-income groups offered an interesting unifying mechanism between middle- and low-income constituencies. In the British case, using a system of tax credits with a large coverage was a means of targeting specific groups (low-income workers and families) via an instrument that was also cutting middle-class taxes, and which looked like the many tax provisions from which middle-class voters routinely benefited. In France, the introduction of a tax credit for low-income workers, alongside tax cuts benefiting middle- and higher-income earners helped to sustain the rhetoric that the Left was cutting taxes for all. Thus, thanks to its presentational plasticity, fiscal welfare, offered a solution to left-wing

governments on both side of the Channel, at a time when they considered traditional means of income support that implied spending increases to be out of bounds.

This thesis therefore concludes that the change of policy instrument in both countries was linked to the fact that left-wing governments were experimenting with a logic of negative welfare expansion. In the early 2000s, governments in France and the UK aimed to increase support for low-income groups by taking less rather than giving more to them. They believed that by doing less - e.g. by not taking rather than redistributing through spending - they could achieve more.

This novel account of how fiscal welfare came to be used for low-income support in France and the UK offers an interesting complement to a literature in which fiscal welfare is almost exclusively presented as the product of institutional determinants. The American literature on fiscal welfare overwhelmingly considers its use either as the path-dependent result of the historical atrophy of social spending in the US, or as stemming from the rational choice of actors confronted with particular institutional and political gridlocks. The present thesis advances a different argument, according to which the choice of using fiscal welfare does not rely primarily on *actual* institutional constraints, but rather on policymakers' *perception* of these constraints, and, therefore, of their self-defined feasibility set of policy options.

1.2.1 Two types of negative expansion: blame-avoiding vs. credit-claiming

In Britain, the introduction of the tax credits was strongly influenced by New Labour's own diagnosis of the political situation. In particular, the recourse to fiscal welfare was largely motivated by the perception that traditional income-

support instruments attracted blame from middle-class contributors. Negative expansion was a means of increasing support for low-income groups, while not antagonising middle-class voters. The latter were supposedly better disposed towards fiscal welfare, as regular recipients of various tax expenditures themselves.

Thus, beyond the convenience of a functionally equivalent instrument, in the UK, the turn to fiscal welfare was also driven by politicians' hypothesis that fiscal welfare was *politically and symbolically* different from traditional welfare, and would be perceived differently by middle-class voters. British politicians decided to exploit this difference in perception, in a bid to boost the acceptability of income-support policies. The design of the British tax credits, although they were primarily directed at low-income voters, was dictated by the desire to avoid displeasing middle-class voters. Middle-class voters with children also directly - albeit marginally - benefited from the new policy through the Child Tax Credit. Yet the change of instrument was primarily a means of *avoiding the blame* from them. It constitutes a case of blame-avoiding negative expansion.

This case comes as an important qualification to some accounts of the use of fiscal welfare in the United States, which identify it as a means of claiming credit in a discreet manner, with small particular groups of voters, e.g. the very rich, or the very poor (Faricy, 2016). In these accounts, fiscal welfare is a means of *hiding gifts to the few*. By contrast, the story of the British tax credits would be better qualified as an example of *disguising expansion for the many*. Receipt of the tax credits was clearly not limited to a "few": at its peak, the British tax credits benefited 6 million families. The goal in changing the instrument was not to

hide this transfer, but to mainstream it, *disguising* it as "not a transfer", and thus avoiding the blame supposedly attached to traditional forms of income-support. Incidentally, this theory of fiscal welfare as blame-avoiding expansion could also fit the case of the American Earned Income Tax Credit. The latter is systematically characterised as a product of institutional idiosyncrasies in the literature, but the large expansion in generosity under the New Democrats in the 1990s could potentially be explained by a similar adoption of a logic of blame-avoiding negative expansion.

By contrast with the British case, the symbolic difference between a tax credit and a benefit was not determinant in the decision to use a tax credit in the French case. In fact, that symbolic difference was largely ignored by many of the policy's designers. The political and substantive functions of the policy were aligned: the PPE was targeted at low-wage workers, and it aimed to signal to that constituency that the government was also including them in their general tax cut effort. A tax credit for low-income groups offered an opportunity for "affordable credit claiming" (Bonoli, 2012, p. 104): it was a means of directly winning points with beneficiaries by cutting their taxes, at a time when the government wanted to steer clear of spending increases and to be seen as the government that cut taxes. The French Socialists were hoping to collect points for taking less from low-income workers. In that sense, the change of instrument in France is an example of *credit claiming* negative expansion.

1.3 Taking less is *not* the same as giving more: generous fiscal welfare schemes neither generated their own support nor elicited pro-redistributive attitudes

The case study of the French *Prime Pour l'Emploi* revealed that the turn back to benefits was partly driven by politicians' realisation that they could *not*, in

fact, claim credit for the tax credit. Indeed, the latter was not recognised by its own beneficiaries as a product of social solidarity, attached to the action of a particular government. Conservative governments realised that they could save money by freezing the PPE, without this generating any public discontent. The suppression of the PPE and its replacement with a benefit in 2016, although it did generate losers, did not generate any major political unrest either. In other words, politicians in France recognised that fiscal welfare and traditional forms of welfare generated different political reactions.

Building on these insights, this thesis's final contribution to the scholarship on fiscal welfare considers its particular effects on welfare attitudes and social policy preferences, and how they might differ from that generated by traditional forms of welfare. Using a mix of quasi-experimental and regression analyses on longitudinal micro-level attitudinal data in Britain, we explored the possibility that taking less in taxes might be perceived differently than giving more in benefits, and might therefore generate different political attitudes to welfare and social policy preferences.

We found that the British Tax Credits did not generate strong and enduring support among their own beneficiaries. While a comparably generous benefit such as Child Benefit generates a strong and consistent support among beneficiaries, a generous fiscal welfare scheme such as the Child Tax Credit, which, while it was not universal, benefited a large number of families, failed to generate its own constituency. Support for the tax credits was found to be fleeting. Further, tax credits receipt does not foster any support for policies which are essentially similar to the tax credits, but visibly attached to the welfare

system. Tax credit recipients do not develop preferences for income-support, whatever its form.

This suggests that the turn to tax credits led to an erosion of preferences for income-support, as the link between one benefiting from income-support policy and expressing support for spending on that policy was severed. While authors have found evidence of a thermostatic effect in the movements of public opinion related to public spending (Wlezien, 1995), whereby large increases in spending ultimately lead the public to favour *less* spending, the present findings are surprising because we do not consider effects on public opinion *in general*, but the preferences of those who *directly benefited* from the increased generosity.

Another finding was related to the effect of the turn to fiscal welfare on changes in the perceived deservingness of welfare recipients. We found that the change of instrument did not boost support for redistribution towards low-income groups among tax credits recipients compared to those who did not receive tax credits. Further, we descriptively showed that support for redistribution towards low-income groups decreased overall over the period. In other words, Chapter 6 showed that New Labour lost their bet: while they were hoping that the change of instrument would contribute to boosting the acceptability of income-support schemes, attitudes to welfare recipients hardened during the New Labour years, moving away from supporting social spending on the poorest. While the decline in support for redistribution towards low-income groups observed over the period cannot be causally attributed to the change of instrument, the latter did not manage to prevent that decline.

These results lead us to formulate several conclusions. First, whether a policy generates support among its own beneficiaries partly depends on the *policy instrument* employed. Fiscal welfare generates substantively different effects on attitudes and preferences compared to traditional means of income-support. Instruments matter when it comes to attitude formation, and this dimension should be more systematically integrated to future research in this field.

Second, the sustainability of social spending programmes also depends on the type of instruments used. While dominant theories of welfare state development emphasise the difficulty to retrench social spending programmes once implemented, notably because policies tend to generate their own entrenched constituencies (Pierson, 2001), the present thesis shows that such feedback effects are not automatic and notably depend on the form of the policy. When using fiscal welfare for low-income groups, they might not materialise.

This finding is different from the fact that benefits targeted at low-income constituencies are often more vulnerable to retrenchment than schemes targeting higher-income groups, because low-income constituencies lack the material and political resources to mobilise in their defence (Hacker, 2005). In the case at hand, the fact that the Child Tax Credit was also received by more resourceful middle-class families limits the purchase of that "lack of resources" argument.

Rather, the findings in this thesis shed light on a different mechanism explaining the relative unsustainability of some policies. We argued that the British tax credits were vulnerable to cuts *because they were tax credits*. Because the schemes implemented a logic of negative expansion, and took the

form of fiscal welfare instruments, beneficiaries did not identify what they received as the outcome of a social policy programme. They did not develop an attachment to the institution of tax credits because they did not associate the money they received with a social spending institution to start with. Since the tax credits was deliberately presented as *not social spending*, this is understandable. Beneficiaries did not recognise themselves as such: yet this is a pre-requisite for policy receipt to influence support for that policy.

While *benefits* for low-income groups are vulnerable to cuts because their beneficiaries lack the resources to defend them, income-support *tax credits* are vulnerable to retrenchment because their beneficiaries do not identify themselves as such. Coupled with the fact that the transfer of administrative responsibility from social policy administrations to tax administrations left the policy without the backing of any strong *administrative* constituency ready to defend the means of its historical mission, this explains the ease with which the tax credits were cut. As argued by Clegg (2015) in the British case, this relative easiness was indeed an indication of the inherent unsustainability of the British tax credits.

A third conclusion is that negative expansion, even when generous, does not increase support for redistribution and social spending among those who benefited from it. We argue that this owes to the *non-action* aspect of negative expansion. In replacing *giving* with *not taking*, negative expansion biases recipients of what is, in effect, a social transfer, into missing the fact that they are benefiting from social solidarity. Therefore, receipt of a tax credit, no matter how generous it might be, is unlikely to influence beneficiaries' preferences for social spending or their attitude to redistribution. This raises

issues with regards to the long-term balance of attitudes to redistribution generated through negative welfare expansion.

Overall, whether considering effects on welfare attitudes or on policy sustainability in the face of retrenchment pressures, taking less appears to be substantively different from giving more. Using negative expansion puts in motion a set of politics that is different from that entailed by positive expansion. This finding and its dynamic implications need to be taken into account and explored further in future research.

2. Negative expansion: a new perspective on what's left of the Left since the 2000s

2.1 Adding nuances to a widespread narrative: the Left in France and the UK did not abandon low-income groups - but it did stop making the case for positive expansion

This thesis also contributes to the political science scholarship on the partisan politics of welfare. Within this literature, authors converge in saying that the Left in the 2000s let go of redistribution as a policy objective - whether as a direct consequence of increased competitive pressures (Mishra, 1999), because they internalised changes in the ideational landscape that accompanied globalisation (Fleckenstein, 2011; Watson and Hay, 2003), or as a reaction to changing preferences in the rising middle-class (Giddens, 1998; Kitschelt, 1994). As the story goes, the Left in the 1990s switched its focus from redistributive concerns towards post-materialist issues related to identity, or modes of production and consumption. This 'third-way' turn of left-wing parties saw their convergence with the Right on economic issues, while they differentiated themselves as more progressive on societal issues. The present thesis brings important qualifications to this story.

First, the case studies in Chapters 4 and 5 undermine theories explaining the transformation of social-democratic parties as being primarily *demand-driven*. As was repeatedly pointed out in these two chapters, the turn to fiscal welfare, in both contexts, primarily originated in changes in strategic and institutional constraints on the *supply-side* of policymaking, rather than as a response to demands emerging from the electorate. Although changes in partisan strategy were linked to what policymakers *perceived* of public opinion, we show that they were often misled in their assumption. In that sense, the turn to fiscal welfare was not driven by changing preferences in the electorate; partisan actors were the *source* of the change, rather than merely its transmission belt.

Second, the case studies presented in previous chapters reveal that stories of the Left abandoning redistribution are over-simplistic. These case studies are clear examples of left-wing governments pursuing redistributive objectives, albeit through non-traditional means. In France, the policy aimed to support modest workers around the minimum wage. It reflected in part a concern about tax fairness, as well as a commitment to boost the "purchasing power" of these workers. In the UK, the tax credits were primarily envisaged as means of tackling poverty, and in particular child poverty. The PPE and British tax credits are evidence that although middle-class workers featured prominently on their agenda, the British and French Left did not simply abandon working class constituencies to court middle class ones. Similarly, while the tax credits were congruent with contemporary concerns with work incentives in both cases, they fulfilled a larger purpose. Although we did find some evidence that the Left was internalising "perceived international economic constraints" (Bailey, 2009, p. 14) - this materialised for instance in governments' reluctance

to increase spending, in a period of economic growth - this does not mean that they abandoned redistribution and low-income support as policy objectives. In fact, the Left still aimed to channel money towards low-income groups.

Crucially, as was made clear in Chapter 2, the Left *did* engage in substantial expansion towards low-income groups in both cases. Admittedly, the examples of negative expansion through fiscal welfare described in this thesis did not benefit *all* of those on low-incomes. They primarily benefited publics that can be qualified as deserving - low-income *workers*, and those with *children*. Negative expansion did not benefit childless, out-of-work individuals. In that sense, the policies implemented by the Left in the 2000s did introduce a differentiation between different types of low-income groups. The introduction of fiscal welfare might have served the purpose of singling out those among low-income groups who could be integrated in a large coalition with middle-class voters - e.g. "modest workers" in France, "aspirational working-class voters" in the UK, through the use of a common, "appropriate" instrument. Nonetheless, these policies are evidence that the objective of channelling money towards at least *some* low-income groups, albeit potentially selected on the basis of their apparent deservingness, remained an important objective for the Left.

In fact, we argued that the turn to fiscal welfare amounted to a strategy that precisely aimed at expanding welfare towards particular low-income segments of the population, through cutting their taxes. Thus, rather than as a change of policy *ends*, we conclude from our case studies that the transformation of the Left in the 1990s is better characterised as a change of *means*: from traditional benefits to fiscal welfare, and from a positive expansion logic, to a logic of *negative* expansion.

This change of means, however, was not inconsequential: by adhering to the idea that they could have the same redistributive impact through taking less in taxes than through redistributing more in benefits, the French and British Left stopped making the *positive case* in favour of taxation and spending. While they did not abandon low-income workers, in adopting a negative logic of expansion they stopped arguing in favour of social spending on low-income groups. In fact, the turn to a negative logic partly stemmed from the Left's abandonment not of the goal of redistribution, but of redistribution as a viable selling point in an electoral strategy. The adoption of a negative expansion logic was driven by left-wing politicians' perception that this logic would be easier to sustain, considering the particular electoral incentives and institutional constraints that they faced. Making the positive case for redistribution, they assumed, would not get them elected - and making the case for taxation and spending would actively prevent them from accessing to power. However, we argue that their calculus might have been short-sighted.

2.2 Negative expansion as bad politics for the Left

The first reason why the negative expansion strategy might have been short-sighted is that with the benefit of hindsight, we know that it allowed the Left to achieve its substantive redistributive objective for a limited amount of time only. The strategy of channelling money towards low-income workers and families through the tax system proved to be an unsustainable solution. The British tax credits did not generate lasting support among their own beneficiaries. The

PPE and the British tax credits did not resist cuts implemented by conservative governments in the 2010s.¹⁰⁶

Second, and crucially, this strategy might have led the Left to unknowingly reduce its own voter base.

Turning to negative expansion through fiscal welfare, the Left was not purely "preference-accommodating" (Dunleavy, 1991) since parties did cling to their objectives of supporting low-income groups, even though their target electorate (middle-class voters) were supposed to resent that objective. However, the Left was not fully "preference-shaping" either, since it did not clearly argue in favour of redistribution towards low-income group. The tax credits were aligned with their substantive goals in content, but compatible with assumed middle-class voters' preferences in form.

We argue that by moving away from preference-shaping strategies in order to overcome perceived constraints in the short term, the Left might have undermined its longer-term prospects of both propagating its ideals and values among voters, and therefore of expanding its potential voter base.

Adopting a logic of negative welfare expansion meant that the Left stopped pitching the benefits of state intervention to correct inequality to voters. It stopped arguing in favour of taxation and spending, which had long been cornerstones of a left-wing political offer. It stopped making the case for redistribution. Yet the domain of political ideas and values is a crucial political

¹⁰⁶ In that sense, negative expansion was not successful in the long term in the French and British cases. This does not mean that expansion through fiscal welfare is bound to be short-lived: the long-standing American EITC is a successful counter-example. However, negative expansion contains the inherent risk that a policy without a mobilised constituency is more susceptible to retrenchment than one which generates a strong support.

battleground. Beyond access to power, true partisan control is measured in terms of dominant "policy regime" (Przeworski, 2001, p. 314): "what matters is who sets the tone: who defines the goals, who has more persuasive theories, who has better examples to demonstrate, who can reduce the space for the opponent", or, in other words "who leads and who follows" (idem, p. 315).

Following this logic, by not making the case for positive expansion, the Left relinquished its place on an important political battleground, leaving it open to discourses coined by their conservative opponents. They took the risk of letting the balance of attitudes and preferences shift further away from their partisan values. As explained above, in the UK, the turn to negative expansion through fiscal welfare was in fact accompanied by a steady erosion of support for the traditional left-wing ideals of redistribution and solidarity as measured in opinion surveys. The fact that the Left let go of preference-shaping and stopped cultivating these ideals to use them as positive selling points is likely to have precipitated that erosion. By turning to fiscal welfare and winning the battle to increase redistribution in the short-term, the Left might have lost the longer-term war over the balance of preferences.

Further, by not making the case for the desirability and feasibility of their own preferred policies, left-wing policymakers left a vacant space for their conservative opponents to sway voters towards their end of the ideational spectrum. Beyond propagating ideals, preference-shaping also has a very pragmatic objective: in a system where parties are competing over policy offers, preference-shaping aims to move the median voter closer towards a party's preferred policies in order to access to power. Following that logic, engaging in

negative welfare expansion and abandoning the positive case in favour of redistribution is likely to be self-defeating for the Left in the long-term¹⁰⁷.

Future research should look more rigorously at the effect of the change of instrument on vote choice.¹⁰⁸ Based on the results in this thesis, which reveal an absence of effect of the British tax credits on preferences and attitudes, we consider it unlikely that the Left in France and the UK reaped the benefits of their increases in redistribution. In France, the Left lost power about a year after having introduced a benefit which benefited 9 million tax units. In the UK, while they implemented policies which channelled close to £30 billion a year towards low-income groups at their peak, the New Labour governments are still regularly taunted for having abandoned income-support and redistribution altogether. On that basis, we argue that negative expansion was bad politics for the Left.

3. Understanding the construction of man-made policies: lessons from the turn to fiscal welfare for low-income groups in France and the UK

3.1 Towards a more realistic understanding of the supply side of policymaking

Policymaking can be conceptualised as the meeting of a political demand, "reflected in citizens' political preferences over different policy options", and a political *supply*, organised around political parties formulating competing propositions (Beramendi et al., 2015, p. 12). The "supply-side of policy

¹⁰⁷ Beyond electoral victory, the partisan confrontation of policy proposals also partly determines the feasibility sets of actors once they are in power. Even if a party manages to get elected by muting their preferred policies in a context where they perceive their opponents as ideationally dominating, by doing so they are limiting their ability to implement their preferred policies once in power.

¹⁰⁸ The BSAS contains data on partisan identification but not on vote choice. This analysis did not fit within the remit of the present thesis.

alternatives" corresponds to the "feasibility sets" of parties, which are themselves linked to institutional and structural constraints and to actors' choices, characterised by "some degrees of freedom". Supply and demand then meet in the electoral arena to "produce binding policy choices" (idem).

This conceptualisation of policymaking has been very helpful in the present thesis. This model has the merit of bridging old divides in the politics of policymaking literature, between rational choice theories in which purely vote-maximising politicians simply put together offers that suit the preferences of the median voter, theories that emphasize the importance of partisan ideologies and ideas in the determination of a political programme, and historical institutional approaches pointing to the importance of path dependencies. The concept of "feasibility set" allows the reconciliation of a rational, vote-maximising approach to formulating a political offer, with the fact that constraints linked to ideology and ideas, and those inherited from existing institutional settings are taken into account in determining what is "feasible".

However, the case studies in this thesis shed light on two ways in which this conceptualisation of the supply-side of policymaking might still be lacking, and could be improved. Namely, it underspecifies the way in which political supply meets demand, and therefore unrealistically entails the existence of political actors who are omniscient about median voter preferences.¹⁰⁹ The contingent

¹⁰⁹ As explained above, politicians adapting to the preferences of the median voter is only one way in which supply meets demand, another option being "preference-shaping". This section (3.1), however, largely focuses on insights from the case studies about how politicians attempt to accommodate preferences, since as argued above, in the cases at hand, governments did not attempt to convince voters about the validity of their preferred policy options. We do not, however, mean to say that the supply-side of policymaking is only structured in terms of how politicians learn about what voters want. The current political context in e.g. the UK or the US provides many examples of how politicians, in interaction with the media, can, in fact, influence the salience of particular attitudes.

biases involved in determining politicians' "feasibility sets" are also ignored. Yet politicians, although they might be vote-maximising, do not have perfect information about the best way to maximise votes and largely have to rely on their best enlightened guesses at the time of the decision.

3.1.1 Rational but not omniscient: policymakers only have a proximate knowledge of the median voter

An important finding of the case studies in this thesis is the fact that the choice of policy instrument was determined by politicians' *perceptions* of the constraints that they faced. As explained above, these perceived constraints were largely related to middle class voters' preferences regarding spending and taxation. As was shown in Chapter 4 in the British case, however, British politicians' perception of these preferences did not correspond to the reality as measured in survey data. New Labour's diagnosis of the state of attitudes to spending and taxation in the UK in general, and among their target electorate in particular, was an imperfect reflection of actual movements in preferences.

The interesting thing in this case is that what mattered in determining the form of the policy was not *actual* attitudes, but what politicians at the time *perceived* these attitudes to be like. What mattered was not actual constraints, but politicians' perception of them. While the two are correlated, they are not equivalent: politicians' rational capacity to objectively assess their own situation is limited by measurement error and imperfect information, and it is likely to be additionally muddled by ideological biases and strategic concerns. Politicians, as humans, make mistakes. They only have access to partial and imperfect information about both voters' preferences and the state of the political battlefield. In the cases at hand, British politicians' rejection of

traditional forms of income-support was influenced by their imperfect reading of the state of social policy preferences at that time.

This means that prior to determining whether politicians act in their own rational self-interest, or out of ideological motivations, the issue of how politicians determine what constitutes their own self-interest, and the non-negligible degree of error involved in the process, needs to be addressed. Because politicians do not have a perfect knowledge of the median voter's preferences, and of their and their opponents' strengths and weaknesses with regard to that median voter, they can only imperfectly determine what is in their own self-interest. These imperfect perceptions need to be understood because they are the true policy determinants.

Therefore, the issue of how politicians access their partial and limited information and form their imperfect representation of reality is a crucial one. Yet it is dramatically under-studied in the literature. In most existing models of policymaking, the mechanism through which political supply "meets demand", i.e. the channel through which policymakers get to know the preferences of the electorate, is not specified. Politicians are routinely assumed to adapt their offer to voters' preferences to maximise their chance of being elected, yet the issue of how they know what voters want is largely ignored. Based on the findings in this thesis, we argue that politicians' perception of the median voter's preferences is likely to be a product of media discourse, mixed with short-term market and opinion research, as well as intuitions and a fair amount of "wet fingers in the air". Understanding precisely how politicians build their representation of a proximate median voter and how that process influences policymaking is a crucial avenue for future research.

3.1.2 The role of contingent "zeitgeists" in determining politicians' "feasibility sets"

The cases in this thesis allow putting our finger on a second shortcoming of political economy models of policymaking. Namely, they help showing how the definition of a partisan feasibility set at one point in time depends not only on (politicians' perception of) institutional and structural constraints (which include the preferences of dominant social forces), nor on their ideological leanings, but also on the contingent set of ideas that dominate public conversation at a particular point in time. Ideas influence the definition of the supply side of policy alternatives in two ways: by helping non-omniscient actors to formulate diagnoses about the situation they are in (and therefore about what constitutes their own self-interest), and by providing them with cues to formulate policy solutions (see e.g. Berman, 1998; Blyth, 2002; Hall, 1993).

The analyses in this thesis reveal that the policy decisions that led to the introduction of fiscal welfare were much more driven by the domination of particular sets of ideas infusing both diagnosis and solution, than they were based on any form of empirical evidence. Part of these ideas were theories promoted by particular epistemic communities. The impact of such "technical" ideas has been studied the most in the literature (Hall, 1986). By contrast, the importance of "common sense" ideas that dominate public and media discourse (although they are not necessarily held by a majority of the population), and are so frequently mentioned that they end up assuming the strength of evidence, is more frequently ignored. Yet, the cases at hand reveal the importance of "common sense" as a determinant of policies. For instance, common sense ideas about what constituted economic seriousness, and the connotation of incompetence and profligacy associated with spending mattered

in the choice of instruments in both cases. The perceived strength of "common sense" ideas is also likely to influence political actors' decision to engage in preference-shaping or to renounce that goal.

This role of ideas, whether "ordinary" or "technical", precisely stems from politicians' limited knowledge of voters' preferences and opinions. In situations of imperfect information, "practical political dynamics are still understood judgementally for the most part, using 'ordinary knowledge' (Lindblom and Cohen, 1979)", informed and complemented by more sophisticated research (Dunleavy, 1991, p. 113). Taken together, such technical and common-sense ideas form what amounts to the *zeitgeist* of a particular period. Based on the findings in this thesis, we argue that policymakers' feasibility set of policy options at one point in time is determined in part by the particular *zeitgeist* of the period. Politicians' definition of what is and what isn't doable is highly time-contingent. It stems from the set of dominant ideas forming the *zeitgeist* of the time. Therefore, understanding that *zeitgeist* is fundamental pre-requisite to understanding the ins and outs of a particular policy reform.

Summing up, the findings in this thesis lead us to argue that political actors, when designing and implementing policies, can only be rational within the bounds of what they know. Their actions are predicated on what they perceive of the political situation, including voters' preferences; what they infer their self-interest to be; as well as expectations about voters' reaction to particular propositions. However, in determining all three items, actors are limited by their bounded human rationality - they are subject to misinterpretation -, by the imperfect nature of information available to them, and therefore they have to rely largely on the formal and informal knowledge of the day. This means that

the reality of policymaking is a lot more "hit and miss" than implied in the idea of a straightforward "meeting" between political demand and supply. The complexity implied by such an arguably more realistic representation of the supply side of policymaking needs to be better taken into account in future political economy research.

3.2 Understanding policymaking: the case for qualitative case studies capturing the role of serendipity and fortuitousness

The cases in this thesis illustrate the fact that policymaking is likely to be more of a "trial and error" affair than is commonly assumed. In particular, serendipity and fortuitousness constitute a non-negligible part of the stories behind the policies studied here. For instance, the French PPE was not originally meant to be an income tax credit: it was meant to be a payroll tax rebate. But debates around that rebate had given prominence to an income tax credit proposal which was being developed in one part of the Ministry of Finance, and that proposal was remembered when the tax rebate proposal was rejected by the Conseil Constitutionnel. Similarly, the final form of the British tax credits differed from that which was originally envisaged, because politicians had to react to unforeseen difficulties - for instance the policy could not be paid through the pay packet in relation with real-time income because contrary to expectations, the IT system was not able to support that.

What these cases reveal is that policymaking is not a straight line, from problem to solution: the path is more convoluted, fraught with mistakes, misjudgements, and unintended consequences. Political economy models need to better integrate the serendipitous and fortuitous elements of policymaking. To do this, analyses based on purely "revealed preferences" approach, which derive

intention backwards from policy action, and assume a straight line from political objective to political form, are not adapted.

Such approaches are also unable to untangle the different motivations involved when different actors end up backing the same policy. The French case is a good illustration of the fact that different logics can come together to underpin a coalition of support for a policy shift. In that sense, the findings in this thesis corroborate Hacker's contention that "policy design choices are not equivalent to preferences regarding states of the world simply because policies can be used to achieve multiple ends" (Hacker, 2004, p. 257). In this context, we argue that in-depth qualitative case studies, retracing the various steps of the process that led to the implementation of a policy through careful triangulation of available sources are the most adapted method to capture the true intricacies of policymaking.

Bibliography

- Aaron, H.J., 1971. Inventory of Existing Tax Incentives: Federal. Brookings Institution.
- Abowd, J., Kramarz, F., Lemieux, T., Margolis, D., 1997. Minimum Wages and Youth Employment in France and the United States (NBER Working Paper No. 6111). National Bureau of Economic Research, Inc.
- Ackert, L.F., Martinez-Vazquez, J., Rider, M., 2007. Social preferences and tax policy design: some experimental evidence. *Economic Inquiry* 45, 487–501. <https://doi.org/10.1111/j.1465-7295.2007.00048.x>
- Adema, W., 1997. What do countries really spend on social policies? A comparative note. *OECD Economic Studies* 15.
- Adema, W., Fron, P., Ladaïque, M., 2014. How much do OECD countries spend on social protection and how redistributive are their tax/benefit systems? *Int Soc Secur Rev* 67, 1–25. <https://doi.org/10.1111/issr.12028>
- Adema, W., Fron, P., Ladaïque, M., 2011. Is the European Welfare State Really More Expensive?: Indicators on Social Spending, 1980-2012; and a Manual to the OECD Social Expenditure Database (SOCX) (OECD Social, Employment and Migration Working Papers No. 124). <https://doi.org/10.1787/5kg2d2d4pbf0-en>
- Aeschimann, E., 2001. Un petit cadeau de Jospin aux petits salaires. *Libération*.
- Aeschimann, E., 2000. Jospin réduit la pression en allégeant les impôts. *Libération*.
- Alber, J., 2010. What the European and American welfare states have in common and where they differ: facts and fiction in comparisons of the European Social Model and the United States <https://doi.org/10.1177/0958928709358791>
- Altshuler, R., Dietz, R., 2011. Reconsidering Tax Expenditure Estimation. *National Tax Journal* 64, 459–489. <https://doi.org/10.17310/ntj.2011.2S.02>
- Amable, B., Palombarini, S., 2017. L'Illusion du bloc bourgeois. *Raisons d'agir*.
- Anguis, M., 2007. La population des allocataires du RMI : tendances d'évolution et disparités départementales. *Etudes et Résultats* 8.
- Anne, D., L'Horty, Y., Dollé, M., 2002. Transferts sociaux locaux et retour à l'emploi. *Économie et Statistique* 357, 49–78.
- Atkinson, A.B., Micklewright, J., 1991. Unemployment compensation and labour market transitions: a critical review. *Journal of Economic literature* 29, 1679–1727.

- Avram, S., 2018. Who benefits from the 'hidden welfare state'? The distributional effects of personal income tax expenditure in six countries. *Journal of European Social Policy* 28, 271–293.
<https://doi.org/10.1177/0958928717735061>
- Ayrault, J.-M., Muet, P.-A., 2015. Pour un impôt juste, prélevé à la source. Fondation Jean Jaurès.
- Bachelor, L., Collinson, P., 2010. 2010 Budget: Child tax credits cut and child benefit frozen. *The Guardian*.
- Bacquet, J.-P., Besson, E., 2000. “Quand la gauche diminue l’impôt, c’est au profit de l’emploi” - “Il appartient à la gauche de défendre l’impôt.” *Le Monde*.
- Bailey, D.J., 2009. *The Political Economy of European Social Democracy. A critical realist approach*. Routledge, New York.
- Balls, E., 2016. *Speaking out. Lessons in life and politics*. Hutchinson.
- Balls, E., 1993. Danger: men not at work. Unemployment and non-employment in the UK and beyond. *Work and welfare: tackling the jobs deficit*. Issue paper (Commission on Social Justice).
- Bargain, O., 2008. Optimal taxation, social contract and the four worlds of welfare capitalism, Working paper (University College, Dublin. Centre for Economic Research) ; WP08/16. University College Dublin, Department of Economics, Dublin.
- Barnes, L., 2015. The size and shape of government: preferences over redistributive tax policy. *Socioecon Rev* 13, 55–78.
<https://doi.org/10.1093/ser/mwu007>
- Barnett, A., 1997. Unions slam Brown’s plans for tax credits. *The Observer*.
- Barrios, S., Fatica, S., Martinez, D., Moure, G., 2015. The fiscal effects of work-related tax expenditures in Europe. DG ECFIN Economics Paper.
- Barrios, S., Figari, F., Gandullia, L., Riscado, S., 2016. The fiscal and equity impact of tax expenditures in the European Union. JRC Working Papers on Taxation and Structural Reforms.
- Bartlett, B., 2007. “Starve the Beast”: Origins and Development of a Budgetary Metaphor. *The Independent Review*.
- Baumberg, B., Bell, K., Gaffney, D., 2012. Benefits stigma in Britain. *Turn2us*.
- Bazin, F., Gilson, M., 1999. Baisses des impôts: pourquoi Jospin n’est pas prêt. *Le Nouvel Observateur*.
- Bean, C., Papadakis, E., 1998. A Comparison of Mass Attitudes Towards the Welfare State in Different Institutional Regimes, 1985–1990. *Int J Public*

Opin Res 10, 211–236. <https://doi.org/10.1093/ijpor/10.3.211>

Beramendi, P., Häusermann, S., Kitschelt, H., Kriesi, H. (Eds.), 2015. *The Politics of Advanced Capitalism*, Beramendi, P., Häusermann, S., Kitschelt, H., Kriesi, H. (Eds.). ed. Cambridge University Press, Cambridge.
<https://doi.org/10.1017/CBO9781316163245>

Beramendi, P., Rehm, P., 2016. Who Gives, Who Gains? Progressivity and Preferences. *Comparative Political Studies* 49, 529–563.
<https://doi.org/10.1177/0010414015617961>

Bergman, M.M., 1998. A Theoretical Note on the Differences Between Attitudes, Opinions, and Values. *Swiss Political Science Review* 4, 81–93.

Berman, S., 1998. *The Social Democratic Moment. Ideas and Politics in the Making of Interwar Europe*. Harvard University Press, Cambridge, Mass.

Best, I., 1999. Didier Migaud: “La baisse de l’impôt sur le revenu n’est pas notre priorité.” *La Tribune*.

Bezaf, J.-M., 1999. Un rapport remis à M. Jospin propose de réformer en priorité la fiscalité des personnes modestes. *Le Monde*.

Bittker, B., 1969. Accounting for federal “tax subsidies” in the national budget. *National Tax Journal* 22, 244–261.

Bittker, B.I., 1973. Income Tax “Loopholes” and Political Rhetoric. *Michigan Law Review* 71, 1099–1128. <https://doi.org/10.2307/1287748>

Blair, T., 1999. Beveridge Lecture. Toynbee Hall London. 18/03/1999.

Blair, T., 1998. Speech by the Prime Minister of Britain The Rt Hon Tony Blair To the French National Assembly.

Blair, T., 1997. Speech by the Rt Hon Tony Blair, Leader of the Labour Party to the annual conference of the Wales Labour Party.

Blank, R.M., 2009. What we know, what we don’t know and what we need to know about welfare reform, in: *Welfare Reform and Its Long-Term Consequences for America’s Poor*. Cambridge University Press.

Blundell, R., Fry, V.C., Walker, I., 1986. *Modelling the take-up of means tested benefits*. Institute for Fiscal Studies, London.

Blyth, M., 2002. *Great Transformations: Economic ideas and Institutional Change in the Twentieth Century*. Cambridge University Press, New York.

Boix, C., 2011. Redistribution policies in a globalized world, in: Bacchetta, M., Jansen, M. (Eds.), *Making Globalization Socially Sustainable*. WTO, pp. 261–295. <https://doi.org/10.30875/08905b06-en>

Boix, C., 1997. Political Parties and the Supply Side of the Economy: The Provision of Physical and Human Capital in Advanced Economies, 1960–90. *American Journal of Political Science* 41, 814–845.

- Bolander, J., 2009. Yearbook for Nordic Tax Research: The Non-fiscal Purposes of Taxation. DJOF, Copenhagen.
- Bonnefoy, V., Buffeteau, S., Cazenave, M.-C., 2009. De la prime pour l'emploi au revenu de solidarité active : un déplacement de la cible au profit des travailleurs pauvres, in: France, Portrait Social, Édition 2009.
- Bonoli, G., 2012. Blame avoidance and credit claiming revisited, in: The Politics of the New Welfare State. pp. 94-106.
- Bonoli, G., 2010. The Political Economy of Active Labor-Market Policy. *Politics & Society* 38, 435-457. <https://doi.org/10.1177/0032329210381235>
- Bonoli, G., 2005. The Politics of New Social Policies: Providing Coverage Against New Social Risks in Mature Welfare States. *Policy and Politics* 3, 431-449.
- Bonoli, G., 2000. Public attitudes to social protection and political economy traditions in western Europe. *European Societies* 2, 431-452. <https://doi.org/10.1080/713767005>
- Bonoli, G., Powell, M., 2002. Third Ways in Europe? *Social Policy and Society* 1, 59-66.
- Bourguignon, F., 1998. Fiscalité et redistribution (Rapport du CAE). Conseil d'Analyse Economique.
- Bourguignon, F., Bureau, D., 1999. L'architecture des prélèvements en France: état des lieux et voies de réforme (Rapport du CAE). Conseil d'Analyse Economique.
- Brady, H.E., Collier, D., Seawright, J., 2004. Refocusing the discussion of methodology., in: *Rethinking Social Inquiry: Diverse Tools, Shared Standards*. MD:Rowman & Littlefield, Lanham, pp. 3-21.
- Branco, R., Costa, E., 2014. Welfare state, tax expenditures and inequality: Portugal in comparative perspective, 1989-2011. Presented at the The Welfare State in Portugal in the Age of Austerity, Lisbon, ISEG.
- Brewer, M., 2003. The new tax credits (IFS Briefing note No. Briefing note 35).
- Brewer, M., 2001. Comparing in-work benefits and financial work incentives for low-income families in the US and the UK. *Fiscal Studies* 41-77.
- Brewer, M., Clark, T., Wakefield, M., 2002. Social Security in the UK under New Labour: What did the Third Way Mean for Welfare Reform. *Fiscal Studies* 23, 505-537.
- Brick, N., 2001. Discussion en séance publique 3e séance du mardi 6 février 2001 - projet de loi Prime Pour l'Emploi. Assemblée Nationale.
- Brown, G., 1997. "Responsibility in public finance". Speech to the Labour

finance and industry group. Queen elisabeth II centre.

Brown, G., 1996. Shadow Chancellor's speech, Blackpool 1996 [WWW Document]. URL (accessed 11.23.16).

Brown, G., 1995. Shadow Chancellor's speech, Brighton 1995 [WWW Document]. URL <http://www.britishpoliticalspeech.org/speech-archive.htm?speech=266> (accessed 11.23.16).

Buddelmeyer, H., Verick, S., 2008. Understanding the Drivers of Poverty Dynamics in Australian Households.

Burman, L.E., Geissler, C., Toder, E.J., 2008. How Big Are Total Individual Income Tax Expenditures, and Who Benefits from Them? *The American Economic Review* 98, 79–83.

Burman, L.E., Phaup, M., 2011. Tax Expenditures, the Size and Efficiency of Government, and Implications for Budget Reform (Working Paper No. 17268). National Bureau of Economic Research. <https://doi.org/10.3386/w17268>

Busemeyer, M., Iversen, T., 2014. The Politics of Opting Out: Explaining educational financing and popular support for public spending. *Socio-Economic Review* 12, 299–328.

Cameron, D., 2005. Speech by David Cameron, leader of the Conservative Party, in Hereford.

Campbell, A.L., 2012. Policy Makes Mass Politics. *Annu. Rev. Polit. Sci.* 15, 333–351. <https://doi.org/10.1146/annurev-polisci-012610-135202>

Campbell, A.L., 2003. *How Policies Make Citizens: Senior Political Activism and the American Welfare State*. Princeton University Press.

Card, D., Krueger, A., 1994. Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania. *The American Economic Review* 84, 772–793. <https://doi.org/10.3386/w4509>

Carone, G., Salomäki, A., 2001. Reforms in tax-benefit systems in order to increase employment incentives in the EU (DG EcoFin Economics Paper No. 160). European Commission.

Castles, F., 1989. Social protection by other means. Australia's strategy of coping with External vulnerability, in: *The Comparative History of Social Policy*, Oxford Polity Press. Oxford University Press.

Cavaillé, C., Trump, K.-S., 2015. The Two Facets of Social Policy Preferences. *The Journal of Politics* 77, 146–160. <https://doi.org/10.1086/678312>

Cazenave, H., 1999. Déficit de confiance envers Jospin. *Le Figaro*.

Center for Social Justice, 2009. Dynamic benefits: towards welfare that

works : a policy report from the Economic Dependency Working Group. Centre for Social Justice, London.

CERC, 1997. Minima sociaux : entre protection et insertion | Vie publique. Conseil supérieur de l'Emploi, des Revenus et des Coûts.

CGP, 2000. Minima sociaux, revenus d'activité, précarité. Commissariat général du plan.

Chetty, R., Looney, A., Kroft, K., 2009. Salience and Taxation: Theory and Evidence. *American Economic Review* 99, 1145-1177.
<https://doi.org/10.1257/aer.99.4.1145>

Claeys, A., 2000. Entretien: "Il faut toucher tout le monde." *Le Parisien*.

Clasen, J., Clegg, D., 2007. Levels and Levers of Conditionality: Measuring Change Within Welfare States, in: *Investigating Welfare State Change. The 'Dependent Variable Problem' in Comparative Analysis*. Edward Elgar Publishing.

Clasen, J., Clegg, D., 2003. Unemployment Protection and Labour Market Reform in France and Great Britain in the 1990s: Solidarity Versus Activation? *Journal of Social Policy* 32, 361-381.
<https://doi.org/10.1017/S0047279403007049>

Clegg, D., 2015. The Demise of Tax Credits. *The Political Quarterly* 86, 493-499.

Clegg, D., 2014. Convergence from below? The reform of minimum income protection in France and the UK. *Journal of International and Comparative Social Policy* 30, 147-164.

Clegg, D., 2002. The Political Status of Social Assistance Benefits in European Welfare States: lessons from reforms to provision for the unemployed in France and Great Britain. *European Journal of Social Security* 4, 201-26.

Clift, B., 2002. The political economy of the Jospin government. *Modern & Contemporary France* 10, 325-337.
<https://doi.org/10.1080/09639480220151154>

Coates, D., Hay, C., 2001. The internal and external face of new labour's political economy. *Government and Opposition* 36, 447-471.

Cole, A., 2002. Understanding Jospin. *Modern & Contemporary France* 10, 293-296. <https://doi.org/10.1080/09639480220151127>

Collins, M., Walsh, 2011. Tax Expenditures: Revenue and Information Forgone - The Experience of Ireland (Working Paper). Department of Economics, Trinity College Dublin.

Colomb, F., 2012. Le succès des incitations. *Gouvernement et action publique* 31-52.

- Commission on Social Justice, 1993. *Social Justice in a Changing World*. Institute for Public Policy Research, London.
- Connell, A., 2010. *Welfare Policy Under New Labour: The Politics of Social Security Reform*, International Library of Political Studies. I.B. Tauris.
- Connell, A., 2008. *Why did Frank Field fail?* Cardiff University.
- Conseil Constitutionnel, 2014. Décision n° 2014-698 DC du 6 août 2014.
- Conseil Constitutionnel, 2000. Décision n° 2000-437 DC du 19 décembre 2000.
- Conseil des prélèvements obligatoires, 2010. *Entreprises et niches fiscales et sociales - Des dispositifs dérogatoires nombreux (rapport public)*. Conseil des prélèvements obligatoires.
- Cour des Comptes, 2011. *Rapport public annuel 2011 (Rapport public annuel)*. Cour des Comptes.
- Cour des Comptes, 2005. *L'efficacité et la gestion de la prime pour l'emploi (Rapport public)*. Cour des Comptes.
- Crépon, B., Desplatz, R., 2001. Une nouvelle évaluation des effets des allègements de charges sociales sur les bas salaires. *Économie et Statistique* 1-24.
- Dalton, R.J., Wattenberg, M., McAllister, I., 2002. The Consequences of Partisan Dealignment, in: *Parties Without Partisans: Political Change in Advanced Industrial Democracies*. Oxford University Press.
- Davies, W., 2007. Tax credits: the success and failure | Prospect Magazine. Prospect Magazine. URL (accessed 1.11.16).
- Dely, R., Raulin, N., 2001. Jospin enterre la hausse du Smic. *Libération*.
- Demianyk, G., 2010. Middle-class families to lose out as tax credits cut back. *Western Morning News*.
- Dharmapala, D., 1999. Comparing Tax Expenditures and Direct Subsidies: The Role of Legislative Committee Structure. *Journal of Public Economics* 421-.
- DHSS, 1985. *Reform of social security*. Department of Health and Social Security, London.
- Didier, A.-C., 2014. *Impôt sur le revenu, contribution sociale généralisée (CSG): quelles réformes?* Conseil des prélèvements obligatoires.
- Dilnot, A., McCrae, J., 1999. *Family Credit and the Working Families tax Credit*. IFS Briefing notes.
- DiMaggio, P., 1997. Culture and Cognition. *Annual Review of Sociology* 23, 263-287. <https://doi.org/10.1146/annurev.soc.23.1.263>

- Disney, R., 2000. The Impact of Tax and Welfare Policies on Employment and Unemployment in OECD countries (IMF Working Paper No. IMF Working Paper 2000/164). IMF.
- Doggett, 1998. National Accounts Concepts and Sources and Methods.
- Dolowitz, D., Greenwold, S., Marsh, D., 1999. Policy Transfer: Something Old, Something New, Something Borrowed, But Why Red, White And Blue? *Parliamentary Affairs* 52, 729-730.
- Doudeijns, M., Einerhand, M., van de Meerendonk, A., 1999. Work Incentives for LowIncome Families with Children (InforMISEP reports), National Labour Market Policies. European Employment Observatory, Brussels.
- DREES, 2017. Baromètre d'opinion DREES, 2000-2017.
- DREES, 2016. La Prime Pour l'Emploi - Fiche 22 (No. Minima sociaux et prestations sociales). Direction de la Recherche des Etudes de l'Evaluation et de la Statistique - Ministère des Affaires Sociales.
- DREES, DARES, 2008. La Prime Pour l'Emploi, un dispositif bien connu dans son principe, peu dans ses modalités (No. 24.2), Premières synthèses. DARES - DREES.
- Dunleavy, P., 1991. Democracy, bureaucracy and public choice: economic explanations in political science. Harvester Wheatsheaf.
- DWP, 2019. Spring Statement 2019 - Expenditure and caseload forecast. Department for Work and Pensions.
- DWP, 2015. Expenditure and caseload outturn and forecast - Summer budget 2015. Department for Work and Pensions.
- DWP, 2013. Benefit and Tax Credit Expenditure in Great Britain. Department for Work and Pensions.
- Dwyer, P., 2008. The conditional welfare state, in: *Modernising the Welfare State: The Blair Legacy*. Policy Press.
- Ebbinghaus, B., 2005. When Less is More: Selection Problems in Large- N and Small- N Cross-National Comparisons. *International Sociology* 20, 133-152. <https://doi.org/10.1177/0268580905052366>
- Edlund, J., 2003. Attitudes towards Taxation: Ignorant and Incoherent? *Scandinavian Political Studies* 26, 145-167. <https://doi.org/10.1111/1467-9477.00083>
- Eissa, N., Hoynes, H., 2008. Redistribution and Tax Expenditures [electronic resource]: The Earned Income Tax Credit, Working paper series (National Bureau of Economic Research : Online) ; no. 14307. Cambridge, MassNational Bureau of Economic Research.

- Ellis, C., Faricy, C., 2011. Social Policy and Public Opinion: How the Ideological Direction of Spending Influences Public Mood. *The Journal of Politics* 73, 1095–1110. <https://doi.org/10.1017/s0022381611000806>
- Elwan, A., 1999. Poverty and disability : a survey of the literature (No. 21315). The World Bank.
- Emmanuelli, H., 2001. Non au libéralisme New Look. *Libération*.
- Entretien avec François Hollande, 2000. . *Le Nouvel économiste*.
- Ervik, R., 2000. The hidden welfare state in comparative perspective, tax expenditure and social policy in different welfare models. VDM.
- Esping-Andersen, G., 1990. The three worlds of welfare capitalism. Princeton University Press, Princeton, N.J.
- Esping-Andersen, G., 1985. Politics against Markets. Princeton University Press, Princeton, N.J.
- Estimates of Federal Tax Expenditures (Annual Reports), 1976. . Joint Committee on Taxation.
- Étude d'impact- Projet de loi relatif au dialogue social et à l'emploi, 2015.
- Eurostat, 2010. European System of Account 2010, Manuals and guidelines.
- Fabian Society - Commission on Taxation and Citizenship, 2000. Paying for progress. A new politics of tax for public spending. Fabian Society.
- Fabius, L., 2002. 2002-2007, les chantiers de la gauche moderne, Notes de la FJJ.
- Fabius, L., 1999a. Baisser les dépenses pour baisser les impôts. *Les Echos*.
- Fabius, L., 1999b. Moins prélever, bien prélever, mieux dépenser. Plaidoyer pour une fiscalité allégée. Témoin.
- Falk, G., 2014. The Earned Income Tax Credit (EITC): An Overview (CRS Report). Congressional Research Service.
- Falk, G., Crandall-Hollick, M., 2016. The Earned Income Tax Credit (EITC) - An Overview (Congressional Research Service Report). US Congress.
- Falleti, T.G., 2016. Process tracing of extensive and intensive processes. *New Political Economy* 21, 455–462. <https://doi.org/10.1080/13563467.2015.1135550>
- Faricy, C., 2016. The distributive politics of tax expenditures: how parties use policy tools to distribute federal money to the rich and the poor. *Politics, Groups, and Identities* 4, 110–125. <https://doi.org/10.1080/21565503.2015.1066688>
- Faricy, C., 2011. The Politics of Social Policy in America: The Causes and

- Effects of Indirect versus Direct Social Spending. *The Journal of Politics* 73, 74–83. <https://doi.org/10.1017/s0022381610000873>
- Faricy, C., Ellis, C., 2014. Public Attitudes Toward Social Spending in the United States: The Differences Between Direct Spending and Tax Expenditures. *Political Behavior* 53–76.
- Fernández, J.J., Jaime-Castillo, A.M., 2013. Positive or Negative Policy Feedbacks? Explaining Popular Attitudes Towards Pragmatic Pension Policy Reforms. *Eur Sociol Rev* 29, 803–815. <https://doi.org/10.1093/esr/jcs059>
- Ferrarini, T., Nelson, K., Höög, H., 2012. The fiscalization of child benefits in OECD countries. *Gini Discussion Paper*, Gini Discussion Papers.
- Finseraas, H., 2009. Income Inequality and Demand for Redistribution: A Multilevel Analysis of European Public Opinion. *Scandinavian Political Studies* 32, 94–119. <https://doi.org/10.1111/j.1467-9477.2008.00211.x>
- Fleckenstein, T., 2011. Institutions, Ideas and Learning in Welfare State Change, *New Perspectives in German Political Studies*. Palgrave Macmillan UK.
- French, A., 2016. Update: Chancellor George Osborne scraps planned cuts to tax credits. *Oxford Mail*.
- Fresso, F., 2000. Fiscalité: le PS change de doctrine. *Les Echos*.
- Freud, D., 2007. Reducing dependency, increasing opportunity: options for the future of welfare to work - An independent report to the Department for Work and Pensions.
- Freyssenet, E., 2000. Le PS résigné à la baisse du taux marginal. *Le Figaro*.
- Freyssenet, E., Roquelle, S., 2000. La gauche plurielle se résigne à la baisse des impôts. *Le Figaro*.
- Gabaix, X., 2017. Behavioral Inattention (No. w24096). National Bureau of Economic Research, Cambridge, MA. <https://doi.org/10.3386/w24096>
- Garrett, G., Lange, P., 1991. Political responses to interdependence: what's "left" for the left? *International Organization* 45, 539–564.
- Gautié, J., Gubian, A., Fouquet, A., 2000. Réforme du RMI et marché du travail. *Droit Social* 699–707.
- Geffroy, L., 2002. L'État social sélectif. Une relecture comparée du PARE et de la PPE en France. *Raisons politiques* no 6, 67–80.
- Gelissen, J., 2000. Popular support for institutionalised solidarity: a comparison between European welfare states. *International Journal of Social Welfare* 9, 285–300. <https://doi.org/10.1111/1468-2397.00140>
- Georgiadis, A., Manning, A., 2012. Spend it like Beckham? Inequality and redistribution in the UK, 1983–2004. *Public Choice* 537–563.

<https://doi.org/DOI 10.1007/s11127-010-9758-7>

Giddens, A., 1998. *The Third Way: The Renewal of Social Democracy*, Reprint edition. ed. Polity, Malden, Mass.

Gilson, M., 1999. *Le budget cagnotte de DSK*. Le Nouvel Observateur.

Gingrich, J., 2015. Do cutbacks make citizens conservative? Presented at the Workshop on preferences over redistribution - Duke University, Duke University.

Gingrich, J., Ansell, B., 2012. Preferences in Context Micro Preferences, Macro Contexts, and the Demand for Social Policy. *Comparative Political Studies* 45, 1624–1654. <https://doi.org/10.1177/0010414012463904>

Glyn, A., 2001. Aspirations, Constraints, and Outcomes, in: *Social Democracy in Neoliberal Times. The Left and Economic Policy since 1980*. Oxford University Press.

Godbout, L., 2006. *L'intervention gouvernementale par la politique fiscale: le rôle des dépenses fiscales : étude comparée: Canada, États-Unis, France*. Economica, Paris.

Godino, R., Castel, R., Jalmain, M., Piketty, T., 1999. *Pour une réforme du RMI (Notes de la Fondation Saint-Simon)*. Fondation Saint-Simon.

Gould, P., 1998. *The unfinished revolution. How the modernisers saved the Labour Party*. Abacus.

Gravelle, J., 2005. Tax expenditures, in: *Encyclopedia of Taxation and Tax Policy*. Urban Institute Press, Washington, DC, pp. 406–08.

Gregg, P., 2008. *Realising potential: a vision for personalised conditionality and support*. TSO, London.

Gregg, P., 1993. Jobs and justice: why job creation alone will not solve unemployment. *Work and welfare: tackling the jobs deficit*. Issue paper (Commission on Social Justice) 3.

Gregg, P., Harkness, S., Machin, S., 1999. *Child poverty and its consequences*. Joseph Rowntree Foundation.

Greve, B., 1994. The hidden welfare state, tax expenditure and social policy A comparative overview. *Scandinavian Journal of Social Welfare* 3, 203–211. <https://doi.org/10.1111/j.1468-2397.1994.tb00227.x>

Guigou, E., 2001. Interview de Mme Elisabeth Guigou, ministre de l'emploi et de la solidarité, à Europe 1 le 15 janvier 2001, sur les mesures en faveur des bas salaires, notamment la prime pour l'emploi et le crédit d'impôt et l'attitude du Medef sur les retraites complémentaires.

Hacker, J., S., 2002. *The divided welfare state. The battle over public and private social benefits in the United States*. Cambridge University Press.

- Hacker, J.S., 2005. Policy Drift: The Hidden Politics of US Welfare State Retrenchment, in: *Beyond Continuity. Institutional Change in Advanced Political Economies*. Oxford University Press, pp. 41–81.
- Hacker, J.S., 2004. Privatizing Risk without Privatizing the Welfare State: The Hidden Politics of Social Policy Retrenchment in the United States. *The American Political Science Review* 98, 243–260.
- Haddon, C., 2012. Making policy in opposition: the development of Universal Credit, 2005-2010 17.
- Hall, P., 2017. The political sources of social solidarity, in: *The Strains of Commitment: The Political Sources of Solidarity in Diverse Societies*. Oxford University Press, Oxford, pp. 201–232.
- Hall, P., 1986. *Governing the Economy. The Politics of State Intervention in Britain and France*. Oxford University Press, New York.
- Hall, P.A., 1993. Policy Paradigms, Social Learning, and the State: The Case of Economic Policymaking in Britain. *Comparative Politics* 25, 275–296.
- Hall, P.A., Soskice, D.W., 2001. *Varieties of capitalism: the institutional foundations of comparative advantage*. Oxford University Press, Oxford.
- Hall, S., Leary, K., Greevy, H., 2012. Qualitative research to explore the information needs of tax credits customers during their transition out of the tax credits system (HMRC Research Report No. 189). Ipsos MORI Social research Institute.
- Hall, S., McIntosh, B., Burrough, N., 2010. Tax credits: income, work and hours (HMRC Research Report No. 110). Ipsos MORI Social research Institute.
- Hansard, 2001. Written Answers - House of Commons - 3/12/2001.
- Hay, C., 1999. *The political economy of new Labour*. Manchester University Press.
- HCL, 2015. Tax Credits – key statistics (Commons Debate pack No. CDP-2015-0033). House of Commons Library.
- Heath, A.F., Jowell, R., Curtice, J., 1994. *Labour's last chance?: the 1992 election and beyond*. Dartmouth.
- Helbling, M., Kriesi, H., 2014. Why Citizens Prefer High- Over Low-Skilled Immigrants. *Labor Market Competition, Welfare State, and Deservingness*. *European Sociological Review* 30, 595–614. <https://doi.org/10.1093/esr/jcu061>
- Hennighausen, T., Heinemann, F., 2015. Don't Tax Me? Determinants of Individual Attitudes Toward Progressive Taxation. *German Econ Rev* 16, 255–289. <https://doi.org/10.1111/geer.12050>

- Hills, J., 1998. Thatcherism, new Labour and the welfare state [WWW Document]. URL (accessed 11.3.16).
- Hills, J., De Agostini, P., Sutherland, H., 2016. Benefits, pensions, tax credits and direct taxes, in: *Social Policy in a Cold Climate - Policies and Their Consequences since the Crisis*. Ruth Lupton, Tania Burchardt, John Hills, Kitty Stewart, Polly Vizard.
- HMRC, 2017. Child and Working Tax Credit statistics - Finalised annual awards.
- HMRC, 2015. Child and Working Tax Credits Statistics. HM Revenues and Customs, London.
- HMRC, 2010. Child and Working Tax Credits Statistics, April 2010. HM Revenues and Customs.
- HMRC, 2005. Child and Working Tax Credits Statistics - Finalised Annual Awards 2003-04. HM Revenues and Customs.
- Hoff, K., Stiglitz, J., 2016. Striving for balance in economics: Towards a theory of the social determination of behavior. *Journal of Economic Behavior & Organization* 126, 25–57.
- Hogwood, B., W., 1989. The Hidden Face of Public Expenditure: Trends in Tax Expenditures in Britain. *Policy and Politics* 111–30.
- Howard, C., 2007. *The welfare state nobody knows: debunking myths about US social policy*. Princeton University Press.
- Howard, C., 1997. *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton University Press.
- Humpage, L., 2015. *Policy change, public attitudes and social citizenship: Does neoliberalism matter?*, 1st ed. Policy Press at the University of Bristol.
- IGF, 2007. Rapport sur la gestion de la prime pour l'emploi (PPE) (No. n°2006-M-078-03). Inspection Générale des Finances.
- Inland Revenue, 2002a. Working Families Tax Credit Statistics, Quarterly Enquiry, November 2002. Inland Revenue.
- Inland Revenue, 2002b. WFTC - estimates of take-up rates in 2000-01. Inland Revenue.
- Institute for Social and Economic Research, 2017. *EUROMOD*. University of Essex.
- Institute of Directors, 1998. The proposed working family tax credit. Memorandum submitted by the Institute of Directors to the House of Commons social security committee. 29/01/1998.
- Internal Revenue Service, 2015. EITC Calendar Year Report. Internal Revenue Service.

- International Fiscal Association, 1976. Tax incentives as an instrument for achievement of government goals, in: *Cahiers de Droit Fiscal*. International Fiscal Association, Jerusalem.
- ITEP, 2011. Tax Expenditures: Spending By Another Name. Institute on Taxation and Economic Policy.
- Iversen, T., Soskice, D., 2001. An Asset Theory of Social Policy Preferences. *American Political Science Association* 95, 875-893.
- Jackson, B., 2008. How to talk about redistribution: a historical perspective. *History & Policy*.
- Jacobs, A.M., Weaver, R.K., 2015. When Policies Undo Themselves: Self-Undermining Feedback as a Source of Policy Change. *Governance* 28, 441-457. <https://doi.org/10.1111/gove.12101>
- Jacobsen, M.R., Gebauer, A., Mellbye, K., Pukander, F., Kari, S., Olsen, S., Lindvall, L., 2009. Tax Expenditures in the Nordic Countries - report presented at the Nordic Tax Economist Meeting 2009. Nordic Working Group, Oslo.
- Jahoda, R., Godorova, J., 2016. Distributional impacts of family policy reforms in the Czech Republic: Case study tax reliefs. Presented at the Fiscal welfare in Europe, Sciences Po Paris.
- Jensen, C., Arndt, C., Lee, S., Wenzelburger, G., 2018. Policy instruments and welfare state reform. *Journal of European Social Policy* 28, 161-176. <https://doi.org/10.1177/0958928717711974>
- Jones, O., 2012. *Chavs: The Demonization of the Working Class*, 2nd Revised edition edition. ed. Verso Books, London ; New York.
- Jospin, L., 2000. *Le socialisme français et la sociale-démocratie européenne*. (Notes de la FJJ. No. 15). Fondation Jean Jaurès.
- Jospin, L., 1999a. *Modern socialism, New lefts*. Fabian Society, London.
- Jospin, L., 1999b. Déclaration de M. Lionel Jospin, Premier ministre, sur les orientations de la politique gouvernementale de la rentrée sous le signe de “la transformation sociale et de la modernité partagée”, La Rochelle le 29 août 1999.
- Jospin, L., 1999c. Rénovation de la social-démocratie : l’expérience française. *La Revue Socialiste* 32-48.
- Jublin, J., 1999. Monsieur Strauss-Kahn, vous avez dit baisse des impôts! *Le Figaro*.
- Kessler, F., 2001. L’impôt, nouvel allié des prestations sociales. *Le Monde*.
- King, D., Wickham-Jones, M., 1999. Social capital, British social democracy and new labour. *Democratization* 6, 181-213.

<https://doi.org/10.1080/13510349908403638>

King, R., 1984. Tax Expenditures and Systematic Public Policy: An Essay on the Political Economy of the Federal Revenue Code. *Public Budgeting and Finance* 4, 14:31.

Kitschelt, H., 1994. The transformation of European social democracy, *Cambridge studies in comparative politics*. Cambridge University Press, Cambridge.

Kitschelt, H., Rehm, P., 2015. Party alignments: change and continuity, in: *The Politics of Advanced Capitalism*. Cambridge University Press.

Kleinbard, E., 2008. *Rethinking Tax Expenditures*.

Klitgaard, M.B., 2007. Why are they doing it? Social democracy and market-oriented welfare state reforms. *West European Politics* 30, 172-194.
<https://doi.org/10.1080/01402380601019753>

Kumlin, S., Stadelmann-Steffen, I., 2014. *How Welfare States Shape the Democratic Public*. Edward Elgar.

Kvist, J., Sinfield, A., 1996. Comparing tax routes to welfare in Denmark and the United Kingdom, *Socialforskningsinstituttet (Series)* ; 96:7. The Danish National Institute of Social Research, Copenhagen.

La Croix, P. le 05/09/2001 à, 2001. L'emploi et la Sécurité au coeur des priorités de la CFDT. *La Croix*.

Larsen, C.A., 2007. The Institutional Logic of Welfare Attitudes: How Welfare Regimes Influence Public Support. *Comparative Political studies* 41, 145:168.

Lascombes, P., Le Gales, P., 2007. Introduction: Understanding Public Policy through Its Instruments—From the Nature of Instruments to the Sociology of Public Policy Instrumentation. *Governance* 20, 1-21.
<https://doi.org/10.1111/j.1468-0491.2007.00342.x>

Laurent, T., L'Horty, Y., Maillé, P., Ouvrard, J.-F., 2002. Incitations et transitions sur le marché du travail. Une analyse des stratégies d'acceptation et de refus d'emploi. *Revue économique* 53, 1181-1203.

Layard, R., Nickell, S., 1986. Unemployment in Britain. *Economica* 53, S121-S169.

Le Pan, N., 1979. Some Conceptual Problems. *Can. Tax'n* 1, 15.

Le Parisien, 2001. Réactions. *Le Parisien*.

Lee, M., Kang, C., 2006. Identification for difference in differences with cross-section and panel data. *Economics Letters* 92, 270-276.
<https://doi.org/10.1016/j.econlet.2006.03.007>

Levy, J., 2008. *Case Studies: Types, Designs, and Logics of Inference*.

Conflict Management and Peace Science 25, 1-18.

L'Horty, Y., Parent, A., Berthlemy, J.-C., 1999. La revalorisation du RMI. *Revue Économique* 50, 465-478.

Libération, 2001. Opposants et partisans: les arguments. Libération.

Lijphart, A., 1971. Comparative Politics and the Comparative Method. *American Political Science Review* 65, 682-693.
<https://doi.org/10.2307/1955513>

Lindblom, C.E., Cohen, D.K., 1979. Usable Knowledge: Social Science and Social Problem Solving. Yale University Press.

LOI n° 98-657 du 29 juillet 1998 d'orientation relative à la lutte contre les exclusions, 1998. , 98-657.

Lupu, N., Pontusson, J., 2011. The Structure of Inequality and the Politics of Redistribution. *American Political Science Review* 105, 316-336.
<https://doi.org/10.1017/S0003055411000128>

Mabille, P., 2001. La baisse des prélèvements obligatoires préservée. *Les Echos*.

Mair, P., Müller, W.C., Plasser, F., 2004. Introduction: Electoral Challenges and Party Responses, in: *Political Parties and Electoral Change : Party Responses to Electoral Markets*. Sage Publications.

Malingre, V., 1999. La baisse des impôts n'est plus un tabou à gauche. *Le Monde*.

Malingre, V., Mandraud, I., Noblecourt, M., 1999. Bercy, Matignon, Solférino et les lobbies: l'histoire tumultueuse. *Le Monde*.

Malingre, V., Noblecourt, M., Mauduit, L., 2000. L'impôt négatif, la nouvelle controverse qui divise les socialistes. *Le Monde*.

Mann, K., 2009. Remembering and Rethinking the Social Divisions of Welfare: 50 Years On. *Journal of Social Policy* 38, 1.
<https://doi.org/10.1017/S0047279408002523>

Mann, K., 1990. The social division of welfare: a class struggle perspective, in: *Social Policy Review*. Harlow: Longman, pp. 243-61.

March, J., Olsen, J., 2009. The Logic of Appropriateness, in: *The Oxford Handbook of Public Policy*. Oxford University Press, Oxford, pp. 689-708.

Marshall, G., Newby, H., Rose, D., Vogler, C., 1988. *Social Class in Modern Britain*. Hutchinson, London.

Martin, C.-J., 2015. Labour market coordination and the evolution of tax regimes. *Socio-Economic Review*, 2015, Vol. 13, No. 1 33-54.

Martin, J.P., 1998. What Works Among Active Labour Market Policies

(OECD Labour Market and Social Policy Occasional Papers). Organisation for Economic Co-operation and Development, Paris.

Marx, I., Marchal, S., 2017. Stemming the tide: What have European Union countries done to support low-wage workers in an era of downward wage pressures? *Journal of European Social Policy* 1–16.
<https://doi.org/10.1177/0958928717704747>

Marx, I., Marchal, S., Verbist, G., 2017. Income Support Policies for the Working Poor. *IZA Discussion Paper Series*.

Mason, R., 2016. Tax credit cuts that escaped Osborne’s U-turn to hit 800,000 workers. *The Guardian*.

Matsaganis, M., Flevotomou, M., 2007. The impact of mortgage interest tax relief in the Netherlands, Sweden, Finland, Italy and Greece. *ISER Working Paper Series EM2*.

Mauduit, L., 2001. Confusion autour d’un changement de doctrine fiscale. *Le Monde*.

Mauduit, L., 2000. La gauche se divise sur la question de l’impôt sur le revenu. *Le Monde*.

Mauduit, L., 1999. Le PS milite pour une fiscalité plus “redistributive.” *Le Monde*.

Mauduit, L., Robert-Diard, P., 2000. Lionel Jospin s’apprête à annoncer de nouvelles baisses d’impôt. *Le Monde*.

McBride, W., 2013. A Brief History of Tax Expenditures. Tax Foundation. URL <https://taxfoundation.org/brief-history-tax-expenditures/> (accessed 7.15.18).

McCabe, J., 2018. The United Kingdom, in: *The Fiscalization of Social Policy: How Taxpayers Trumped Children in the Fight Against Child Poverty*. Oxford University Press, Oxford.

McCabe, J., 2016. Expansion in a time of austerity: fiscalization as an obfuscation strategy.

McCabe, J., Popp Berman, E., 2016. American Exceptionalism Revisited: Tax Relief, Poverty Reduction, and the Politics of Child Tax Credits. *Sociological science*.

Mclaughlin, E., Trewsdale, J., Mccay, N., 2001. The Rise and Fall of the UK’s First Tax Credit: The Working Families Tax Credit 1998–2000. *Social Policy & Administration* 35, 163–180. <https://doi.org/10.1111/1467-9515.00225>

Méda, D., 2015. *Le travail, « Que sais-je ? »*. Presses Universitaires de France.

Meeus, C., 2000. Baisse des impôts, comment Jospin s’est converti. *Le Point*.

- Mettler, S., 2011. *The Submerged State: How Invisible Government Policies Undermine American Democracy*. University Of Chicago Press, Chicago.
- Mettler, S., 2007. *Soldiers to Citizens: The G.I. Bill and the Making of the Greatest Generation*. Oxford University Press, Oxford, New York.
- Mettler, S., Soss, J., 2004. The Consequences of Public Policy for Democratic Citizenship: Bridging Policy Studies and Mass Politics. *Perspectives on Politics* 2, 55–73.
<https://doi.org/10.1017/S1537592704000623>
- Migaud, D., 2001. Sur le projet de loi (n° 2906) portant création d’une prime pour l’emploi (Rapport fait au nom de la commission des finances, de l’économie générale et du plan No. 2916). Assemblée Nationale.
- Minarik, J., J., 2010. *Tax Expenditures in OECD Countries*. OECD Publishing.
- Mishra, R., 1999. *Globalization and the Welfare State*. Edward Elgar.
- Moffitt, R.A., 2015. The Deserving Poor, the Family, and the U.S. Welfare System. *Demography* 52, 729–749. <https://doi.org/10.1007/s13524-015-0395-0>
- Morel, N., Touzet, C., Zemmour, M., 2018a. Fiscal welfare in Europe: Why should we care and what do we know so far? *Journal of European Social Policy* 28, 549–560. <https://doi.org/10.1177/0958928718802553>
- Morel, N., Touzet, C., Zemmour, M., 2018b. From the hidden welfare state to the hidden part of welfare state reform: Analyzing the uses and effects of fiscal welfare in France. *Social Policy & Administration*.
- Morel, N., Touzet, C., Zemmour, M., 2018c. Fiscal Welfare in Europe: Why Should We Care and What Do We Know So Far. *Journal of European Social Policy*.
- Morgan, K.J., Campbell, A.L., 2011. *The Delegated Welfare State: Medicare, Markets, and the Governance of Social Policy*. Oxford University Press, USA.
- Morris, N., 2015. Tory MP’s maiden speech joins attacks on tax credit cuts. *The Independent*.
- National Center for Social Research, 2016. *British Social Attitudes Survey, 1983-2016 [data collection]*.
- Neuburger, J., Long, G., 2004. Policy briefing Housing Benefit. Shelter.
- Newton Dunn, T., 2015. Boris warns Osborne over tax credits cut. *The Sun*.
- Noblecourt, M., 1999. Fabius demande une baisse des impôts. *Le Monde*.
- Noguera, J., Hermida, P., 2016. Fiscal Welfare, Progressivity, and Decentralization: The Case of Spain. Presented at the Fiscal welfare in

Europe, Sciences Po Paris.

OECD, 2009. *Sickness, Disability and Work. Keeping on Track in the Economic Downturn* (Background Paper, High-Level Forum, Stockholm, 14-15 May 2009). Organisation for Economic Co-operation and Development.

OECD, 2005. *Increasing Financial Incentives to Work: The Role of In-work Benefits*, in: *OECD Employment Outlook 2005*. Paris.

OECD, 2003. *Making Work Pay Making Work Possible*, in: *OECD Employment Outlook 2003: Towards More and Better Jobs*. Paris.

OECD, 1999. *Benefit Systems and Work Incentives 1999, Benefit Systems and Work Incentives*. OECD Publishing.

OECD, 1998. *OECD Employment Outlook 1998*. OECD Publishing.

OECD, 1997. *Making work pay: taxation, benefits, employment and unemployment*. OECD.

OECD, 1996. *The OECD Jobs Strategy - Pushing ahead with the strategy*. OECD Publishing.

OECD, 1994. *The OECD Jobs Study: facts, analysis, strategies*. OECD Publishing.

O'Grady, T., 2018. *Careerists Versus Coal-Miners: Welfare Reforms and the Substantive Representation of Social Groups in the British Labour Party*. *Comparative Political Studies* 0010414018784065. <https://doi.org/10.1177/0010414018784065>

O'Grady, T., 2017. *How politicians created, rather than reacted to, negative public opinion on benefits*. *British Politics and Policy at LSE*. URL <http://blogs.lse.ac.uk/politicsandpolicy/public-opinion-towards-welfare/> (accessed 1.29.19).

ONS, 2015. *Families and Households: 2015* (Statistical Bulletin). Office for National Statistics.

Oorschot, W. van, 2016. *Making the difference in social Europe: deservingness perceptions among citizens of European welfare states* - Wim van Oorschot, 2006. *Journal of European Social Policy*.

Oorschot, W. van, 2000. *Who should get what, and why? On deservingness criteria and the conditionality of solidarity among the public* [WWW Document]. <https://doi.org/info:doi/10.1332/0305573002500811>

Oorschot, W. van, Roosma, F., Meuleman, B., Reeskens, T., 2017. *The social legitimacy of targeted welfare: attitudes to welfare deservingness, Globalization and welfare*. Edward Elgar Publishing, Inc, Cheltenham, Glos, UK ; Northampton, Massachusetts, USA.

- Orton, M., Davies, R., 2009. Exploring Neglected Dimensions of Social Policy: The SDW, Fiscal Welfare and the Exemplar of Local Taxation in England. *Social Policy & Administration* 43, 33–53.
<https://doi.org/10.1111/j.1467-9515.2008.00657.x>
- Owens, J.P., 1983. Tax Expenditures and Direct Expenditures as Instruments of Social Policy, in: *Comparative Tax Studies - Essays in Honor of Richard Goode*. North Holland Pub. Co., Amsterdam, New York.
- Parti Socialiste, 2001. Bureau National - relevé de décision, mardi 9 janvier 2001.
- Pearson, M., Scarpetta, S., 2000. An Overview: What Do We Know About Policies To Make Work Pay? *OECD Economic Studies* 11–24.
- Peck, J., Theodore, N., 2001. Exporting workfare/importing welfare-to-work: exploring the politics of Third Way policy transfer. *Political Geography* 20, 427–460. [https://doi.org/10.1016/S0962-6298\(00\)00069-X](https://doi.org/10.1016/S0962-6298(00)00069-X)
- Pennycook, M., Whittaker, M., 2012. Assessing the implications of Universal Credit in-work conditionality. Resolution Foundation.
- Petersen, M.B., Slothuus, R., Stubager, R., Togeby, L., 2011. Deservingness versus values in public opinion on welfare: The automaticity of the deservingness heuristic. *European Journal of Political Research* 50, 24–52.
<https://doi.org/10.1111/j.1475-6765.2010.01923.x>
- Phillips, K.A., Johnson, F.R., Maddala, T., 2002. Measuring What People Value: A Comparison of “Attitude” and “Preference” Surveys. *Health Serv Res* 37, 1659–1679. <https://doi.org/10.1111/1475-6773.01116>
- Pierson, P., 2004. *Politics in Time: History, Institutions, and Social Analysis*. Princeton University Press.
- Pierson, P., 2002. Coping with permanent austerity: welfare state restructuring in affluent democracies. *Revue Française de Sociologie* 43, 369–406.
- Pierson, P. (Ed.), 2001. *The New Politics of the Welfare State*, 1 edition. ed. Oxford University Press, Oxford England ; New York.
- Pierson, P., 2000. Increasing Returns, Path Dependence, and the Study of Politics. *The American Political Science Review* 94, 251–267.
<https://doi.org/10.2307/2586011>
- Pierson, P., 1994. *Dismantling the Welfare State?: Reagan, Thatcher and the Politics of Retrenchment*. Cambridge University Press.
- Pierson, P., 1993. When Effect Becomes Cause: Policy Feedback and Political Change. *World Politics* 45, 595–628.
<https://doi.org/10.2307/2950710>
- Piketty, T., 2001. L'impôt négatif est né. *Libération*.

- Pisani-Ferry, J., 2001. On ne juge pas un impôt à son nom. *Libération*.
- Pisani-Ferry, J., 2000. *Plein-Emploi* (Rapport remis au Premier Ministre). Conseil d'Analyse Economique.
- Polackova Bixi, H., Valenduc, C., Swift, Z.L., 2004. Tax Expenditures—Shedding Light on Government Spending through the Tax System Lessons from Developed and Transition Economies (Directions in Development No. 27583). World Bank, Washington, DC.
- Polakowski, M., Szelewa, D., 2016. Hidden Welfare State in Poland? Fiscal Welfare in the context of permanent austerity. Presented at the Fiscal welfare in Europe, Sciences Po Paris.
- Pontusson, J., 1995. Explaining the decline of European Social Democracy - The Role of structural change. *World Politics* 47, 495–533.
- Prasad, M., 2011. Tax “Expenditures” and Welfare States: A Critique. *Journal of Policy History* 23, 251–266.
<https://doi.org/10.1017/S0898030611000066>
- Przeworski, A., 2001. How many ways can be third?, in: *Social Democracy in Neoliberal Times - The Left and Economic Policy since 1980*. Oxford University Press.
- Przeworski, A., Teune, H., 1970. *The logic of comparative social inquiry*. Wiley-Interscience.
- Radice, G., 1992. *Southern Discomfort*. Fabian Pamphlet 25 p.
- Radice, G., Pollard, S., 1993. *More Southern Discomfort: a year on - taxing and spending*. Fabian Pamphlet.
- Rogers, B., 2006. Iain Duncan Smith: Lessons From England’s Compassionate Conservative. *Crisis Magazine*.
- Roosma, F., van Oorschot, W., Gelissen, J., 2016. A Just Distribution of Burdens? Attitudes Toward the Social Distribution of Taxes in 26 Welfare States. *Int J Public Opin Res* 28, 376–400.
<https://doi.org/10.1093/ijpor/edv020>
- Rose, H., 1981. Re-reading Titmuss: the sexual division of welfare. *Journal of Social Policy* 10, 477–502.
- Rothstein, B., 1998. *Just Institutions Matter: The Moral and Political Logic of the Universal Welfare State*. Cambridge University Press.
- Routledge, P., 1998. *Gordon Brown, The Biography*. Simon & Schuster.
- Rueda, D., Stegmueller, D., 2016. The Externalities of Inequality: Fear of Crime and Preferences for Redistribution in Western Europe. *American Journal of Political Science* 60, 472–489. <https://doi.org/10.1111/ajps.12212>
- Sainsbury, D.R., Stanley, K., 2007. *One for all: active welfare and the single*

working-age benefit 16.

Sainte-Marie, J., 2000. Les vraies raisons du remaniement. *Le Figaro*.

Saunders, P., 2007. The Costs of Disability and the Incidence of Poverty. *Australian Journal of Social Issues* 42, 461–480.

<https://doi.org/10.1002/j.1839-4655.2007.tb00072.x>

Schattschneider, E.E., 1935. Politics, pressures and the tariff: A study of free private enterprise in pressure politics, as shown in the 1929-1930 revision of the tariff,. Prentice-Hall.

Schneider, A., Ingram, H., 1993. Social Construction of Target Populations: Implications for Politics and Policy. *The American Political Science Review* 87, 334–347. <https://doi.org/10.2307/2939044>

Schwartz, H., 2018. Size, scope and why the American welfare model remains exceptional (draft chapter). Presented at the Council of European Studies 25th annual meeting, Chicago.

Seawright, J., Gerring, J., 2008. Case Selection Techniques in Case Study Research: A Menu of Qualitative and Quantitative Options. *Political Research Quarterly* 61, 294–308. <https://doi.org/10.1177/1065912907313077>

Shaviro, D., 2003. Rethinking Tax Expenditures and Fiscal Language. NYU Law School Public Law Research Paper.

Shaw, A., Walker, R., Ashworth, K., Jenkins, S., Middleton, S., 1996. Moving Off Income Support: Barriers and Bridges (No. No. 53), Research Report. Department of Social Security, London.

Sinfield, A., 2016. Tax benefits and their impact on the social division of welfare. Presented at the Fiscal welfare in Europe, Sciences Po Paris.

Sinfield, A., 1978. Analyses in the Social Division of Welfare. *Journal of Social Policy* 7, 129. <https://doi.org/10.1017/S004727940000756X>

Sloman, P., 2016. ‘The Pragmatist’s Solution to Poverty’: The Heath Government’s Tax Credit Scheme and the Politics of Social Policy in the 1970s. *Twentieth Century British History* 27, 220–241.

Social Justice Policy Group, 2007. Breakthrough Britain - Ending the costs of social breakdown (No. 2).

Social Justice Policy Group, 2006. Breakdown Britain.

Social Security Committee, House of Commons, 1998. House of Commons - Social security committee tax and benefits minutes of evidence - Wednesday 4 February 1998 - Martin Taylor.

Soroka, S.N., Wlezien, C., 2010. Degrees of democracy: politics, public opinion, and policy. Cambridge University Press.

Soss, J., 1999. Lessons of welfare: Policy design, political learning, and

- political action. *American Political Science Review* 93, 363–380.
- Stanton, D., 1977. The Take-up Debate on the UK Family Income Supplement. *Policy and Politics* 5, 27–45.
- Stebbing, A., Spies-Butcher, B., 2010. Universal Welfare by ‘Other Means’? Social Tax Expenditures and the Australian Dual Welfare State. *Journal of Social Policy* 39, 585–606. <https://doi.org/10.1017/S0047279410000267>
- Steinmo, S., 1989. Political Institutions and Tax Policy in the United States, Sweden, and Britain. *World Politics* 41, 500–535. <https://doi.org/10.2307/2010528>
- Strauss-Kahn, D., Sautter, C., 1998. Une réforme méthodique de l’impôt. *Le Monde*.
- Stretton, H., 1969. *The political sciences: general principles of selection in social science and history*. Routledge and Kegan Paul, London.
- Strickland, P., 1998. *Working Families Tax Credit and Family Credit* (House of Commons Library Research Paper No. 98/46). House of Commons Library, London.
- Surrey, S., 1970. Tax Incentives as a Device for Implementing Government Policy: A Comparison with Direct Government Expenditures. *Harvard Law Review* 83, 705–738.
- Surrey, S., McDaniel, P., 1985. *Tax Expenditures*. Harvard University Press.
- Surrey, S.S., McDaniel, P.R., 1979. The Tax Expenditure Concept: Current Developments And Emerging Issues. *Boston College Law Review* 20, 226–369.
- Sutherland, H., Figari, F., 2013. EUROMOD: the European Union tax-benefit microsimulation model. *International Journal of Microsimulation* 6, 4–26.
- Svallfors, S., 2010. Policy feedback, generational replacement, and attitudes to state intervention: Eastern and Western Germany, 1990–2006. *European Political Science Review* 2, 119–135.
- Sverige Riksrevisionen, 2007. *The Government’s preparation and statement of tax expenditure*. Riksrevisionen, Stockholm.
- Swift, Z.L., 2006. *Managing the Effects of Tax Expenditures on National Budgets* (World Bank Policy Research Working Paper No. 3927). World Bank.
- Szikra, D., 2018. *Welfare for the wealthy. The Social Policy of the Orbán-regime, 2010-2017*. Friedrich Ebert Stiftung.
- Taylor, R., 1998. The TUC will judge Budget on how it helps poor families. *Financial Times*.

Teles, S.M., 2007. Conservative Mobilization against Entrenched Liberalism, in: *The Transformation of American Politics*. Princeton University Press., Princeton, N.J.

The Economist, 2015. Oh Lord! The Conservatives deserve little sympathy for their defeat on tax credits. The Economist.

Thelen, K., 2004. *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan*. Cambridge University Press.

Thelen, K., 1999. Historical Institutionalism in Comparative Politics. *Annual Review of Political Science* 2, 369-404.
<https://doi.org/10.1146/annurev.polisci.2.1.369>

Thöne, M., 2011. 18 Billion at One Blow - Evaluating Germany's Twenty Biggest Tax Expenditures. *Proceedings. Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association* 104, 41-51.

Timmins, N., 2016. *Universal Credit - From disaster to recovery*. Institute for Government.

Titmuss, R., 1958. The social division of welfare: some reflections on the search for equity, in: *Essays on the Welfare State*. Allen & Unwin, London.

Toder, E., J., 2000. Tax Cuts or Spending-Does It Make a Difference? *National Tax Journal* 53, 361-72.

Toder, E., J., 1999. *The Changing Composition of Tax Incentives 1980-99*. Urban Institute.

Tokman, R., with M., J. RODRÍGUEZ C. AND C. MARSHALL S., 2006. "Las excepciones tributarias como herramienta de política pública." *Estudios Públicos*.

Trampusch, C., Palier, B., 2016. Between X and Y: how process tracing contributes to opening the black box of causality. *New Political Economy* 21, 437-454. <https://doi.org/10.1080/13563467.2015.1134465>

TUC, 2001. New tax credits (No. 43), TUC welfare reform series. Trade Union Congress.

Tyson, J., 2014. Reforming Tax Expenditures in Italy: What, Why, and How? *IMF Working Papers* 14, 1.
<https://doi.org/10.5089/9781484370773.001>

Validire, J.-L., 1999. Impôts: la querelle gouvernement - syndicats. Les organisations de salarié ne souhaitent pas entonner "l'hymne" de la baisse des impôts sans savoir quelles en seraient les modalités. *Le Figaro*.

van Oorschot, W., 2006. Making the difference in social Europe: deservingness perceptions among citizens of European welfare states. *Journal of European Social Policy* 16, 23-42.

<https://doi.org/10.1177/0958928706059829>

van Oorschot, W., Roosma, F., 2015. The social legitimacy of differently targeted benefits. ImPRove Discussion Paper.

Vanackere, S., 2013. Réforme des dispositifs de soutien aux revenus d'activité modestes (Rapport à M. le Premier ministre établi par M. Christophe Sirugue).

Walker, A., Corbett, S., 2013. The 'Big Society', neoliberalism and the rediscovery of the 'social' in Britain. SPERI. URL <http://speri.dept.shef.ac.uk/2013/03/08/big-society-neoliberalism-rediscovery-social-britain/> (accessed 1.27.19).

Ward, L., 2001. Spending row deepens Blair-Brown split. the Guardian.

Watson, M., Hay, C., 2003. The discourse of globalisation and the logic of no alternative: rendering the contingent necessary in the political economy of New Labour. *Policy and Politics* Vol.31, 289-305.

Watson, S., 2015. Does Welfare Conditionality Reduce Democratic Participation? *Comparative Political Studies* 48, 645-686. <https://doi.org/10.1177/0010414014556043>

Weaver, R.K., 2010. Paths and Forks or Chutes and Ladders?: Negative Feedbacks and Policy Regime Change. *Journal of Public Policy* 30, 137-162.

Weaver, R.K., 1986. The Politics of Blame Avoidance *. *Journal of Public Policy* 6, 371-398. <https://doi.org/10.1017/S0143814X00004219>

Weisbach, D., Nussim, J., 2004. The Integration of Tax and Spending Programs.

Weishaupt, J.T., 2011. From the manpower revolution to the activation paradigm: explaining institutional continuity and change in an integrating Europe [electronic resource], *Changing welfare states*. Amsterdam University Press, Amsterdam.

Wenz-Dumas, F., 2000. La fin d'un tabou socialiste: comment Laurent Fabius a converti le PS à l'idée d'allègement. *Libération*.

Wenz-Dumas, F., 1999. La réforme fiscale sur une nouvelle piste. *Libération*.

White, M., 1999. Blair hails middle class revolution. *The Guardian*.

WHO, 2011. World Report on disability. World Health Organization.

Wildavsky, A., 1987. Choosing Preferences by Constructing Institutions: A Cultural Theory of Preference Formation. *The American Political Science Review* 81, 3. <https://doi.org/10.2307/1960776>

Wildavsky, A., 1985. Keeping Kosher: The Epistemology of Tax Expenditures. *Journal of Public Policy* 5, 413-431. <https://doi.org/10.1017/S0143814X00003196>

- Wilkinson, M., 1986. Tax Expenditure and Public Expenditure in the UK. *Journal of Social Policy* 15, 23. <https://doi.org/10.1017/S0047279400023096>
- Willis, J.R.M., Hardwick, P.J.W., 1978. Tax expenditures in the United Kingdom. Heinemann Educational Books for the Institute for Fiscal Studies, London.
- Wlezien, C., 1995. The Public as Thermostat: Dynamics of Preferences for Spending. *American Journal of Political Science* 39, 981–1000.
- Zemmour, M., 2013. Les dépenses socio-fiscales ayant trait à la protection sociale : état des lieux (report). LIEPP - Sciences Po.
- Zemmour, M., Houssoy, T., 2016. Base de données des dépenses fiscales en France.

Appendices

Appendix A: Archival references

British case

Athow, Jonathan (2001). Paper on simulation of various thresholds and tapers for the new tax credits. August 2001. Source: HM Treasury Archive.

Freeman, Kelly, (1998). Brief to the Chancellor on the choice of advertising agency to publicize WFTC and DPTC. 23 December 1998. Source: HM Treasury Archive.

Harman, Harriet (1998). Letter to the Chancellor, 25 February 1998. Source: HM Treasury Archive.

HM Treasury (1997). Notes on WFTC implementation and further developments. 4 December 1997. Source: HM Treasury Archive.

HM Treasury (1998a). "The Working Families Tax Credit, a note by Treasury officials". 22 January 1998. Source: HM Treasury Archive.

HM Treasury, (1998b). Results from focus groups conducted by Olgivy and Mather and recommendations for the name of the tax credit schemes. Source: HM Treasury Archive.

HM Treasury (1999). "A new employment tax credit", Internal Treasury paper. 26 July 1999. Source: HM Treasury Archive.

Lewis, Andrew (1998). Note to the Chancellor on the possibility of introducing a between-work tax credit. IR, Welfare to Work team, 1st October 1998. Source: HM Treasury Archive.

Macpherson, Nicholas, (1997a). "Introducing an in-work tax credit". Note to the Chancellor and Martin Taylor. 3 October 1997. Source: HM Treasury Archive.

Macpherson, Nicholas (1997b). Briefing note for the Chancellor with talking points ahead of a meeting with Martin Taylor. Source: HM Treasury Archive.

Macpherson, Nicholas (1998a). Note to the Chancellor about presentation of the WFTC. 9 February 1998. Source: HM Treasury Archive.

Macpherson, Nicholas (1998b). Note to the Chancellor on the design of WFTC. 16 January 1998. Source: HM Treasury Archive

Macpherson, Nicholas, n.d. "The Working Families Tax Credit and work incentives". Draft paper. Source: HM Treasury Archive.

Makhlouf, Gabs, n.d. Letter to J. Heywood. Source: HM Treasury Archive.

Ohrnial, Tony (1998). "Building on the WFTC". Note to the Chancellor, 23 January 1998. Source: HM Treasury Archive.

Papps, James (1998). Letter to David North, December 1998. Source: HM Treasury Archive.

Primarolo, Dawn (1998a). Note to the Chancellor, 29 October 1998. Source: HM Treasury Archive.

Primarolo, Dawn (1998b). "The emerging shape of the WFTC". Note to the Chancellor. 13 October 1998. Source: HM Treasury Archive.

Rowing, George (1998). Note on including a housing allowance in WFTC. Source: HM Treasury Archive.

Taylor, Martin (1997). Letter to the Chancellor. 6 October 1997. Source: HM Treasury Archive.

French case

Bensaid, Jean (1998). "Bilan et perspectives de la politique fiscale", Note au Premier Ministre. 1er octobre 1998. Source: Archives Nationales, site de Pierrefitte, cote: 2004/0261/1.

Bensaid, Jean (2001). *Including a manuscript annotation from Olivier Schrameck*. "Votre entretien avec Laurent Fabius du mardi 13 novembre: programmation pluriannuelle des finances publiques". Note au Premier Ministre. Source: Archives Nationales, site de Pierrefitte, cote: 2004/0261/1.

Bensaid, Jean; Germain, Jean-Jacques; De Jekhowsky, Laurent, (2001). "Mesures de soutien au revenu des ménages: versement début 2002 d'un acompte de PPE". Notes au Premier Ministre, 18 septembre 2001. Source: Archives Nationales, site de Pierrefitte, cote: 20060202/1.

Commissariat Général au Plan (CGP), 1978. Contre l'impôt négatif - CGP - Groupe IV - Contribution à la fiche n°15 sur l'élargissement de l'assiette fiscale. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/10.

Cotis, Jean-Philippe (2001). "Evolution à moyen terme de la PPE et des minima sociaux." Note pour le Ministre des Finances du Directeur de la Prévision, 5 novembre 2001. Source: Centre des Archives Economiques et Financières, Savigny-le-Temple, cote: PH 150/02-0030.

Direction de la Prévision (2001). "Note de synthèse: évolution à moyen terme de la PPE et des minima sociaux". In: Rapport de la DP au Ministre des Finances, octobre 2001. Source: Centre des Archives Economiques et Financières, Savigny-le-Temple, cote: PH 150/02-0030.

Duquesne, Pierre (1998). "La politique économique du gouvernement est-elle 'orthodoxe'. Réaction à l'article de L. Mauduit 'Retour à l'orthodoxie budgétaire' dans *Le Monde* du 13 janvier 1998. Note au Premier Ministre, 8 février 1998. Source: Archives Nationales, site de Pierrefitte, cote: 2004/0261/1.

Duquesne, Pierre (2000). "Petit argumentaire fiscal. Réponses aux multiples critiques ayant accueilli le plan de baisse des impôts." Note au Premier Ministre. Source: Archives Nationales, site de Pierrefitte, cote: 2004/0261/1.

Gorce, Gaëtan, (2000). "Le nouveau plein emploi. Projet de contribution thématique au Congrès du Parti Socialiste". Document de travail, 3 août 2000. Source: Archives socialistes, Paris.

Guiguou, Elisabeth (2002). Note de la Ministre du Travail au Premier Ministre présentant les résultats d'une enquête TNS Sofres. 2 janvier 2002. Source: Archives Nationales, site de Pierrefitte, cote: 20060202/1.

Guimbert, Stéphane (2001). "Note pour Bernard Salzmänn: conséquence de la création de la PPE sur le système de prélèvements et de redistribution". Note de la Direction de la Prévision, 26 juillet 2001. Sources: Centre des Archives Economiques et Financières, Savigny-le-Temple, cote: PH 150/02-0030.

Guimbert, Stéphane; Ouriet, Isabelle (2001). "Pertinence d'un doublement de la PPE accordée aux jeunes de moins de 25 ans." Notes de la Direction de la Prévision, 17 avril 2001. Source: Centre des Archives Economiques et Financières, Savigny-le-Temple, cote: PH 150/02-0030.

Ministère de l'Emploi et de la Solidarité (1998). Programme de prévention et de lutte contre les exclusions. Source: Archives nationales, site de Pierrefitte, cote: 20060202/9.

Papiers de Jean-March Germain, 1997-2002a. "La place du travail dans la société d'aujourd'hui". Fiche, cote: 20060202/1.

Papiers de Jean-March Germain, 1997-2002b. "Les engagements du Premier Ministre vis-à-vis des chômeurs". Fiche, cote: 20060202/1.

Parti socialiste (2000). Minutes du Bureau National du 29/02/2000. Sources: Archives Socialistes, Paris.

Parti socialiste (2001). Minutes du Bureau National du 9/01/2001. Sources: Archives Socialistes, Paris.

Secrétariat Général du Gouvernement (2001). Compte-rendu de la réunion interministérielle tenue le 16 juillet 2001 sous la présidence de Mme Jourdain-Menninger et de M. Gateau, conseillers techniques auprès du Premier Ministre. Objet: projet de décret sur le cumul des minima sociaux et des revenus d'activité. Source: Archives Nationales, site de Pierrefitte, cote: 20060202/1.

Stoffaes, C., 1989. Documents de préparation du plan 1989 - mention du projet d'impôt négatif. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/164.

Stoffaes, C., 1974. Options retenues pour un schéma d'impôt négatif applicable en France - CGP - Service du financement. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/13 - 19890617/14.

Stoffaes, C., 1973a. Note sur l'impôt négatif sur le revenu - CGP - Service du financement. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/3 - 19890617/4 ; 19890617/10 - 19890617/9.

Stoffaes, C., 1973b. Poursuite de la réflexion sur l'impôt négatif. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/3 - 19890617/4 ; 19890617/10 - 19890617/9.

Stoffaes, C., 1973c. Etat d'avancement des travaux du groupe de réflexion sur l'impôt négatif - CGP. Source: Archives Nationales, site de Pierrefitte, cote: 19890617/3 - 19890617/4 ; 19890617/10 - 19890617/9.

Stoffaes, C., 1975. L'impôt négatif dans le cadre des régimes fiscaux et sociaux français (Service du Financement). Commissariat général du plan. Source: Archives Nationales, site de Pierrefitte, cote: 19930280/179.

Appendix B: List of archives visited and record entries consulted

Country	Archive	Call numbers / record references
UK	Labour Party archive, Manchester	- NEC meetings minutes, 1992-2002 - Labour conference minutes 1992-2002 - "Road to the Manifesto" folder - "Partnerships in Power" folder
UK	HM Treasury archive, London	- Child tax credits 1997-2000 - Working families tax credits 1997-1998 - The child tax and working tax credits 2002 - Tax credits Bill (E/24) Part A 2001-2002 - Tax credits Bill (E/24) Annex 1 2002 - Tax credits Bill (E/24) Annex 2 2002 - Tax credits Bill (E/24) Annex 3 2002 - Tax credits Bill (E/24) Annex 4 2002 - Tax credits Bill (E/15) Part A 1998-1999 - Tax credits Bill (E/15) Part B 1999 - Tax credits Bill (E/15) Part C 1999-2002
France	Archives socialistes, Paris	- dossiers de Gaetan Gorce, secrétariat national à l'emploi (2001) - dossiers de travail et minutes des réunions du bureau national, 1997-2002 - dossiers de Pierre Mauroy - Bulletins du groupe socialiste à l'Assemblée Nationale - Notes de la Fondation Jean Jaurès
France	Archives Nationales, site de Pierrefitte	- 680AP/260 - 19890617/3 - 19890617/4 - 19890617/10 - 19890617/9 - 19890617/13 - 19890617/14 - 19890617/164 - 19930280/179

		- 20030511/1 - 20040261/1 - 20060140/1 - 20060140/9 - 20060202/1 - 20060202/7 - 20060202/9 - 20020570/3
France	Centre des Archives Economiques et Financières, Savigny-le- temple	- PH 024/08-0028, 2001-IG-163 - PH 024/08-0028, 2001-IG-148 - PH 150/02-0030, dossier "PLF 2002 - Prime pour l'emploi" - PH 208/09-0009 - PH 065/02-0020 - PH 154/02, cartons 5 et 6 - DP-20010116-37 (dossier de presse) - DP-20010308-130 - DP-20010827-400 - DP-20011228-671 - DOC00093641

Appendix C: Interview references

British case

UK-A: Interview with a former senior Treasury civil servant during the New Labour governments

UK-B: Interview with a former senior Treasury civil servant during the New Labour governments

UK-C: Interview with a former economic and political adviser to Gordon Brown in the Treasury

UK-D: Interview with a former economic advisor to Gordon Brown in the Treasury, member of the Council of Economic Advisers

UK-E: Interview with a former senior civil servant in the Department of Social Security during the first New Labour government

UK-F: Interview with a former junior civil servant in the Treasury during the New Labour governments

UK-G: Interview with a former Treasury Minister during the second New Labour government

UK-H: Interview with a former senior Treasury Minister during the New Labour governments

UK-I: Interview with a former ad hoc advisor to Gordon Brown in the Treasury

UK-J: Interview with a former policy advisor to Gordon Brown in the Treasury, member of the Council of Economic Advisers

UK-K: Interview with a former advisor to Iain Duncan-Smith in the CSJ and in the DWP

UK-L: Interview with a former minister in the 2010 and 2015 conservative governments

French case

PPE period (1997-2002)

FR-A: Interview with a former economic advisor to Lionel Jospin (Prime Minister)

FR-B: Interview with a former economic advisor to Laurent Fabius (Finance Minister), civil servant in the Ministry of Finance, Direction de la Prévision

FR-C: Interview with a former senior economic advisor to Lionel Jospin, member of the Conseil d'Analyse Economique

FR-D: Interview with a former social affairs advisor to Laurent Fabius

FR-E: Interview with a former ad hoc advisor to Lionel Jospin, member of the Conseil d'Analyse Economique

FR-F: Interview with a former civil servant in the Finance Ministry, former budget advisor to François Hollande

FR-G: Interview with a former advisor to Lionel Jospin and Martine Aubry (Employment and Social Affairs Minister), on employment and social affairs issues

FR-H: Interview with a former tax law advisor to Laurent Fabius

FR-I: Interview with a former economic advisor to Laurent Fabius

FR-J: Interview with a former economic advisor to Dominique Strauss-Kahn, member of the Conseil d'Analyse Economique

FR-K: Interview with a former senior civil servant in the Ministry of Finance, Direction de la Prévision

RSA and PA periods (2007-2016)

FR-L: Interview with a senior figure in the Haut Commissariat aux Solidarités Actives (during the Sarkozy presidency)

FR-M: Interview with a former advisor in the Haut Commissariat aux Solidarités Actives (during the Sarkozy presidency)

FR-N: Interview with a former advisor to the Minister in charge of the fight against exclusion and later advisor to the President (during the Hollande presidency)

FR-O: Interview with a civil servant in the General Inspectorate for Social Affairs (IGAS) (*Inspection Générale des Affaires Sociales*)

FR-P: Interview with a former advisor to the President for employment and social affairs (during the Hollande presidency)

FR-Q: Interview with a former civil servant in the Bureau of Social Minima, in the Ministry of Social Affairs (during the Hollande presidency)

FR-R: Interview with a former civil servant on the "solidarity and insertion" bureau in the Budget Directorate in the Ministry of Finance between 2012 and 2014 (Hollande presidency)

Appendix D: Template interview script

Introduction

Briefly present project.

1. You were [insert position during period of interest]. Can I start by asking you, what was your career before that, and what led you to [insert relevant]?
2. You were [insert position during period of interest]. What exactly was this role about?

[If needed, prompt: What were the responsibilities of the post?]

3. How was your role linked to the [insert name of policy] design / implementation?

Factual genealogy

4. I'd like to start by clarifying the ***factual*** genealogy of these policy proposals; in practice, from within *[insert relevant workplace]*, how they came about, when, through whose impulsion, etc. Can you tell me about that?

Prompts, if needed:

- How did the proposal come about?
 - When did you first hear about it?
 - Do you know when it was first discussed?
 - Who was behind this proposal originally? Who were the original protagonists?
 - What prompted the proposal?
- What do you know of the process of policy discussion? Was the policy proposal debated: in the Cabinet? In the government? In the Party?
- Was it a consensual policy? Or did it generate opposition?
- Question about how the collaboration between the various government departments involved, and the power structure there
- Finally, I would like to ask you about the funding and costs aspects: How was the funding envisioned? What was the debate like, on this issue?

Substantive genealogy

5. Now, I wonder if you could tell me about the more ***substantive***, genealogy of the *[insert name of policy]* proposal.

Prompts, if needed:

- In terms of research results feeding into the policy design, can you tell me a bit about it?
 - What were the directions of this research, i.e., what were the issues surrounding the *[insert name of policy]* which you researched in particular?
 - Was there any research comparing the effect of using a tax credit as opposed to a traditional benefit? What were the working hypotheses? What were the effects considered?
- Was it ever an option for the policy NOT to be a tax credit?
- Was the experience of previous (more traditional) social policy instruments considered?
- Was the experience of other countries considered?
- In terms of its likely reception, do you know if focus groups, or specific surveys, were used?
- At the time it was first discussed [or/and at the time it was implemented], what would you say were the different rationale(s) motivating the reform?
 - *If needed, prompt:* in terms of social policy?
 - *If needed:* in terms of employment policy?
 - *If needed, prompt:* in terms of economic policy? In terms of macroeconomic policy?
 - *If needed; prompt:* in terms of political philosophy more generally?

Strategic aspects

6. Now I'd like to consider the potentially **more tactical** aspects of the *[insert name of policy]*.

Prompts, if needed:

- In your opinion, who were the intended beneficiaries of the different TCs? And who did it actually benefit in your opinion?
- How would you describe the electoral strategy of the *[insert name of party]*?
- To what extent was the *[insert name of policy]* aligned with that electoral strategy?
 - *If aligned: prompt, how, why?*
- Was the accounting treatment of tax credit considered an advantage?
- How did the proposal relate to various organised interests? Employers' associations? Unions?

Other questions

- Academics have coined the concept the “fiscal welfare” to describe the use of tax instruments, and indirect spending (instead of traditional benefits and direct spending) in social and employment policy. In your opinion, was the implementation of the *[insert name of policy]* part of a larger fiscal welfare strategy?
- Was there a reflexion about the ways to use the tax system as an innovative instrument in welfare and employment policies?
- How central was *[insert name of policy]* in the governments' vision / plan?
- Did the policy have practical or symbolic value?

End

Ask if anything else the interview partner would like to share / add / anything relevant not covered.

Ask for names and contact of other potential interview partners to meet.

Appendix E: Fiscal welfare for low-income groups in a selection of countries covered by Euromod

Country	Type	STE	Ground for inclusion	Year coverage	Families	Workers	Unemployed	Pensioners	Disabled	Students	Simulated?
Belgium	tax allowance	supplementary tax allowance for disabled people	Targeting low-income groups						x		Y
Belgium	tax allowance	supplementary tax allowance for lone parents	Targeting low-income groups	2008-	x						Y
Belgium	non-refundable tax credit	regional low-income tax credit (Vlaamse jobkorting)	Means-tested and tapered away	2007-2011		x					Y
Belgium	refundable tax credit	refundable earned income tax credit	Means-tested and tapered away	2001-		x					Y
Belgium	SSC rebate	reduction of low income workers' employee social security contribution (workbonus)	Means-tested	1999-		x					Y
Belgium	refundable tax credit	additional fiscal workbonus	Means-tested	2005-		x					Y
Belgium	non-refundable tax credit	tax credit for replacement income (unemployment and disability)	Targeting low-income groups					x	x		N
Belgium	SSC exemption	non-taxation (SIC) of unemployment benefit	Targeting low-income groups				x				N
Belgium	tax deduction	additional housing deduction from cadastral taxable income for low earned incomes	Means-tested			x					N
Belgium	tax rebate	tax reduction (to 0) for low replacement incomes	Means-tested				x	x	x		Y
Belgium	refundable tax credit	refundable tax credit for children	Means-tested		x						Y
Belgium	non-taxation of benefit	non-taxation (PIT) of guaranteed child allowance	Means-tested		x						N
Belgium	non-taxation of benefit	non-taxation (PIT) of income support for the elderly	Means-tested					x			N
Belgium	non-taxation of benefit	non-taxation (PIT) of benefits in case of work-related accident or sickness for a person without any other income	Means-tested						x		N
Belgium	SSC rebate	reduced rate (possibly to 0) of SIC on disability benefits	Targeting low-income groups						x		Y
Finland	tax allowance	low earned income tax allowance (local tax)	Means-tested and tapered away			x					Y
Finland*	refundable tax credit	low earned income tax credit	Means-tested and tapered away			x					Y
Finland	SSC exemption	exemption from self-employed SIC for entrepreneurs under a threshold	Means-tested			x					Y
Finland	tax deduction	study grant deduction in taxation	Means-tested							x	N
Finland	non-taxation of benefit	non-taxation of student housing supplement	Means-tested							x	N
Finland	tax allowance	basic allowance (on earned income)	Means-tested and tapered away			x					Y
Finland**	refundable tax credit	child tax credit (including supplement for lone parents)	Means-tested and tapered away	2015-2017	x						Y
Finland	non-taxation of benefit	non-taxation of pensioner housing allowance	Means-tested					x			N
Finland	non-taxation of benefit	non-taxation of general housing allowance	Means-tested		x	x	x				N
Finland	non-taxation of benefit	non-taxation of local authority income support	Means-tested		x	x	x	x		x	N
Finland	non-taxation of benefit	non-taxation of disability allowance	Targeting low-income groups						x		N
Finland	non-taxation of benefit	non-taxation of pensioner's care allowance	Targeting low-income groups					x	x		N
Finland	non-refundable tax credit	tax credit based on invalidity	Targeting low-income groups						x		N
France	refundable tax credit	prime pour l'emploi	Means-tested and tapered away	2001-2016		x					Y
France	SSC rebate	reduction of self-employed SIC for the unemployed	Targeting low-income groups				x				N
France	SSC rebate	sickness insurance contributions: reductions for low earners (industry and trade)	Means-tested	2013-2015		x					Y
France	non-taxation of benefit	non-taxation (CSG and CRDS) of means-tested widow/widower's allowance	Means-tested		x			x			N
France	reduced tax rate	reduced rate (CSG) / exemption (CSG and CRDS) for low-income unemployed	Means-tested				x				N
France***	non-taxation of benefit	non-taxation (IR and CSG) of means-tested family benefits (PAJE, AF, Complément Familial, ASF, ARS, PN, API)	Means-tested	various dates	x						N
France	non-taxation of benefit	non-taxation (IR and /or CSG and / or CRDS) of various means-tested in-work benefits (RSA, PA, Prime de retour à l'emploi)	Means-tested		x	x					N
France	non-taxation of benefit	non-taxation (IR and /or CSG and / or CRDS) of means-tested disability benefit (AAH)	Means-tested						x		N
France	non-taxation of benefit	non-taxation (IR and /or CSG and / or CRDS) of various means-tested benefits for the unemployed (ASS, Ata)	Means-tested				x				N
France	non-taxation of benefit	non-taxation (IR and /or CSG and / or CRDS) of various means-tested benefits for the elderly (AV, ASPA)	Means-tested					x			N
France	non-taxation of benefit	non-taxation (IR and CSG) of means-tested housing benefits (ALS, ALF, APL)	Means-tested		x	x	x	x	x	x	N
France	tax exemption	non-taxation of student grants	Means-tested							x	N
France	tax rebate	tax holiday for low-income earners (2009)	Means-tested	2009	x	x	x	x	x	x	N
France	tax rebate	tax rebate for low-income tax units (décôte)	Means-tested		x	x	x	x	x	x	Y
France	tax allowance	tax allowance for disabled people in calculating <i>Quotient Familial</i>	Targeting low-income groups						x		N

France	SSC rebate	reduced rate of family SSC for artisans and self-employed workers in agriculture on low-incomes	Means-tested	2015-								N
Netherlands	non-refundable tax credit	single parent tax credit	Targeting low-income groups	-2015	x							Y
Netherlands	non-refundable tax credit	supplementary single parent tax credit	Targeting low-income groups	-2015	x							Y
Netherlands****	non-refundable tax credit	general tax credit	Means-tested and tapered away	means-tested in 2014-	x	x	x	x	x	x		N
Netherlands	non-refundable tax credit	work bonus for older workers	Means-tested and tapered away			x						Y
Netherlands	refundable tax credit	child tax credit	progressive	-2008	x							Y
Netherlands	non-taxation of benefit	non-taxation of child related budget	Means-tested and tapered away	2008-	x							N
Netherlands	non-taxation of benefit	non-taxation of care allowance	Means-tested and progressive		x	x	x	x	x	x		N
Netherlands	non-taxation of benefit	non-taxation of rent allowance	Means-tested		x	x	x		x	x		N
Netherlands	non-taxation of benefit	non-taxation of child-care allowance	Means-tested		x							N
Spain	tax allowance	employment income tax allowance	Means-tested and progressive			x						Y
Spain	tax allowance	employment income tax allowance supplement for elderly workers	Means-tested			x						N
Spain	tax allowance	employment income tax allowance for disabled workers	Targeting low-income groups						x			N
Spain	credited SSC	credited SIC for the unemployed	Targeting low-income groups				x					Y
Spain	non-taxation of benefit	non-taxation of child benefit	Means-tested		x							N
Spain	non-taxation of benefit	non-taxation of means-tested birth / adoption benefit	Means-tested		x							N
Spain****	non-refundable tax credit	400 euros annual tax credit	Means-tested	means-tested in 2010-2015	x	x	x	x	x	x		Y
Spain	tax credit	regional* birth/adoption tax credit	Means-tested		x							Y
Spain	tax credit	regional* lone parent (and dependent over 75) tax credit	Targeting low-income groups		x							Y
Spain	tax credit	regional* employment income tax credit	Means-tested			x						Y
Spain	tax credit	regional* family tax credit	Means-tested		x							Y
Spain	tax credit	regional* disability tax credit	Means-tested						x			Y
Spain	tax credit	regional* tax credit for taxpayers renting their main residence	Means-tested		x	x	x	x	x	x		Y
Spain	tax credit	regional* large families' tax credit	Means-tested		x							Y
Spain	tax credit	regional* tax credit for taxpayers 65 yo or more	Means-tested					x				Y
Spain	tax credit	regional* tax credit for educational expenses (books)	Means-tested and progressive		x							N
Spain	tax credit	regional* child care tax credit	Means-tested		x							Y
Spain	tax credit	regional* family related tax credit	Means-tested		x				x			N
Spain	tax credit	regional* unemployment tax credit	Targeting low-income groups				x					N
Spain	tax credit	regional* widower tax credit	Means-tested		x	x	x	x	x			N
Spain	tax credit	regional* housework tax credit	Means-tested		x							Y
Spain	tax credit	regional* work-life balance tax credit	Means-tested		x	x						Y
Spain	non-taxation of benefit	non-taxation of regional* child benefits	Progressive		x							N
Spain	non-taxation of benefit	non-taxation of regional* minimum income	Means-tested		x	x	x	x	x	x		N
Spain	tax exemption	tax exemption for severance payments	Targeting low-income groups				x					N
Spain	tax allowance	tax exemption for lump sum unemployment benefits up to a limit	Targeting low-income groups	2013-2016			x					N
Spain	tax exemption	tax exemption for severe disability pensions	Targeting low-income groups						x			N
United Kingdom	refundable tax credit	Child tax credit	Means-tested and tapered away	2003-	x							Y
United Kingdom	refundable tax credit	Working tax credit	Means-tested and tapered away	2003-		x			x			Y
United Kingdom	non-refundable tax credit	Council tax benefit	Means-tested		x	x	x	x	x			Y
United Kingdom	non-taxation of benefit	non-taxation of pension credit	Means-tested					x				N
United Kingdom*****	non-taxation of benefit	non-taxation of Child Benefit for taxpayers under the 40% marginal tax rate	Means-tested	means-tested in 2013-	x							N
United Kingdom	non-taxation of benefit	non-taxation of Disability Living Allowance / Personal Independence Payment	Targeting low-income groups						x			N
United Kingdom	non-taxation of benefit	non-taxation of Severe Disablement Allowance (SDA)	Targeting low-income groups						x			N
United Kingdom	non-taxation of benefit	non-taxation of Industrial Injuries Disablement Benefit	Targeting low-income groups						x			N
United Kingdom	non-taxation of benefit	non-taxation of Income Support	Means-tested		x							N
United Kingdom	non-taxation of benefit	non-taxation of income-related Employment Support Allowance (ESA)	Targeting low-income groups						x			N
United Kingdom	non-taxation of benefit	non-taxation of income-based Jobseeker's Allowance (JSA)	Targeting low-income groups									N
United Kingdom	non-taxation of benefit	non-taxation of housing benefit	Means-tested		x	x	x	x	x	x		N
United Kingdom	non-taxation of benefit	non-taxation of Universal Credit	Means-tested and tapered away	-	x	x	x		x			N
United Kingdom	tax exemption	non-taxation of training allowances	Means-tested								x	N
United Kingdom	SSC exemption	exemption from employee NIC for low incomes	Means-tested			x						Y
United Kingdom	SSC exemption	exemption from Class 2 and Class 4 NIC for low income self employed	Means-tested			x						Y
United Kingdom	Credited SSC	credited minimum contributions for registered unemployed	Targeting low-income groups				x					N

* Technically, the Finnish low earned income tax credit is a non-refundable tax credit, meaning that it cannot be reimbursed. But if the credit amount exceeds the state tax, the remaining amount is subtracted proportionally from municipal tax, medical care contribution and church tax. For that reason, it is classified as a refundable tax credit.

** Technically, the Finnish child tax credit is a non-refundable tax credit. But if the credit amount exceeds the state tax, the remaining amount is subtracted proportionally from municipal tax, medical care contribution and church tax.

*** Because of frequent changes to the family benefit system in France, the various means-tested family benefits are bunched together in this line. The non-taxation of the *Allocations Familiales* only enters the perimeter of fiscal for low-income groups from 2014 onwards, when the benefit started to be means-tested.

**** The Dutch General Credit only enters the perimeter of fiscal for low-income groups from 2014 onwards, when it started to be means-tested.

***** The Spanish "400 euros tax credit" only enters the perimeter of fiscal for low-income groups from 2010 onwards, when it started to be means-tested.

***** The non-taxation of the British Child Benefit only enters the perimeter of fiscal for low-income groups from 2013 onwards, when the benefit started to be means-tested.

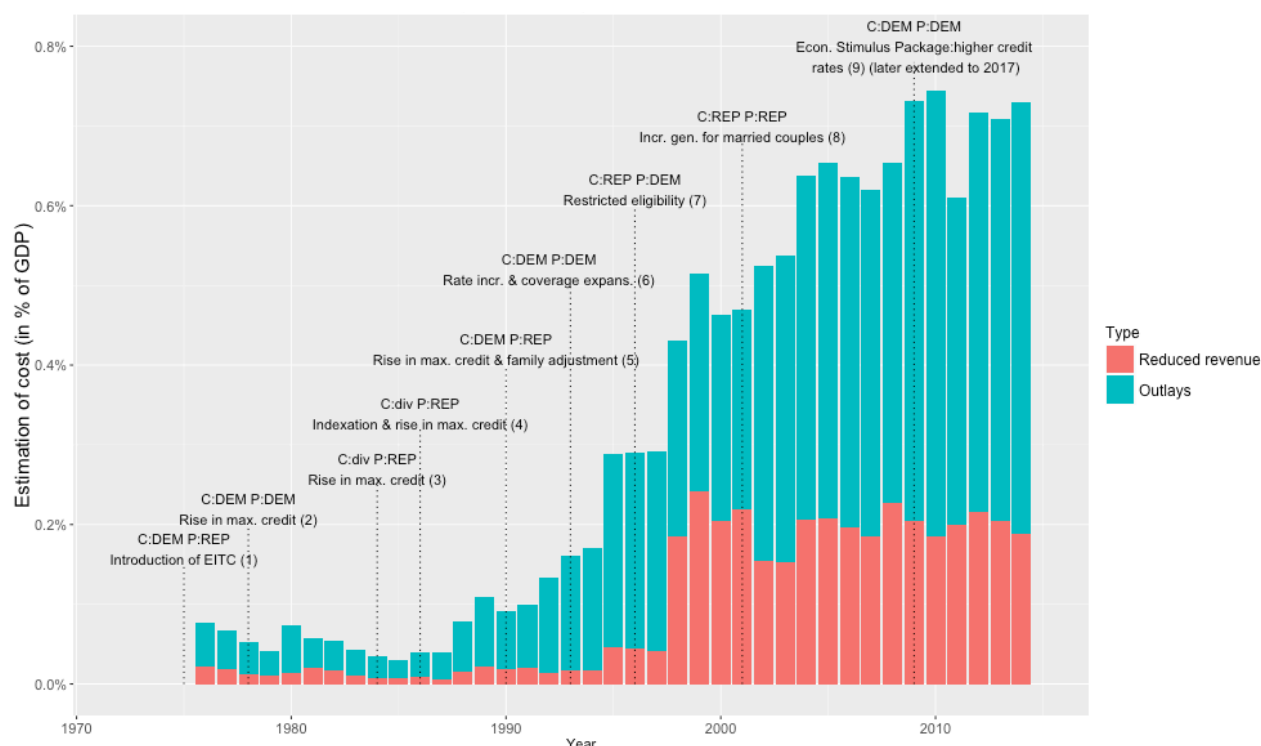
** regional": This is a generic name, but several slightly different versions of this scheme exist in different regions.

Appendix F: Evolution of Tax Credit Rates, 2003-2015

(reproduced from: https://revenuebenefits.org.uk/pdf/Tax%20_Credit_Annual_Rates_April%20_15.pdf)

Annual Amounts	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
WTC Basic Element	1,525	1,570	1,620	1,665	1,730	1,800	1,890	1,920	1,920	1,920	1,920	1,940	1,960
WTC Lone Parent/Couple	1,500	1,545	1,595	1,640	1,700	1,770	1,860	1,890	1,950	1,950	1,970	1,990	2,010
30 hour + element	620	640	660	680	705	735	775	790	790	790	790	800	810
Disabled Adult	2,040	2,100	2,165	2,225	2,310	2,405	2,530	2,570	2,650	2,790	2,855	2,935	2,970
Severely Disabled Adult	865	890	920	945	980	1,020	1,075	1,095	1,130	1,190	1,220	1,255	1,275
50+ return to work (16-29 hours)	1,045	1,075	1,110	1,140	1,185	1,235	1,300	1,320	1,365	0	0	0	0
50+ return to work (30 Hours)	1,565	1,610	1,660	1,705	1,770	1,840	1,935	1,965	2,030	0	0	0	0
CTC Family	545	545	545	545	545	545	545	545	545	545	545	545	545
CTC Baby Addition	545	545	545	545	545	545	545	545	0	0	0	0	0
Child element													
Standard rate	1,445	1,625	1,690	1,765	1,845	2,085	2,235	2,300	2,555	2,690	2,720	2,750	2,780
Disabled child rate	3,600	3,840	3,975	4,115	4,285	4,625	4,905	5,015	5,355	5,640	5,735	5,850	5,920
Severely disabled child rate	4,465	4,730	4,895	5,060	5,265	5,645	5,980	6,110	6,485	6,830	6,955	7,105	7,195
Childcare (1 child) max weekly rate	135	135	175	175	175	175	175	175	175	175	175	175	175
Childcare (2 child+) max weekly rate	200	200	300	300	300	300	300	300	300	300	300	300	300
Childcare % (of costs paid up to maximum rate)	70%	70%	70%	80%	80%	80%	80%	80%	70%	70%	70%	70%	70%
First Threshold	5,060	5,060	5,220	5,220	5,220	6,420	6,420	6,420	6,420	6,420	6,420	6,420	6,420
first threshold (CTC only cases)	13,230	13,480	13,910	14,155	14,495	15,575	16,040	16,190	15,860	15,860	15,910	16,010	16,105
Second Threshold	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	40,000	0	0	0	0
1st Taper % (above 1st threshold)	37%	37%	37%	37%	37%	39%	39%	39%	41%	41%	41%	41%	41%
2nd Taper % (above 2nd threshold)	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	6.67%	41%	0%	0%	0%	0%
Income Disregard (increase from PY to CY income)	2,500	2,500	2,500	25,000	25,000	25,000	25,000	25,000	10,000	10,000	5,000	5,000	5,000
Income Disregard (decrease from PY to CY income)	0	0	0	0	0	0	0	0	0	2,500	2,500	2,500	2,500

Appendix G: The EITC: legislative history and evolution of cost



How to read: “C” = Congress, “P” = Presidency, “DEM” = Democrat, “REP” = Republican, “div” = divided. Source: data on expenditure is from the Joint Committee on Taxation for each year, data on legislative history from Howard (1997), Meyer and Holtz-Eakin (2002), Falk (2014), Holmes and Kneebone (2015).

(1) The EITC was originally included in the Tax Reduction Act of 1975, at the time when Republicans were in the White House (Ford presidency), while the Democrats had a majority in Congress - albeit a “conservative” one, see Howard (1997, p. 65). It took the form of a refundable 10% tax credit on the first \$4000 of earned income for low-income working families with at least one dependent child, with a cut-off point at \$8000.

(2) The EITC was made permanent and expanded in the Revenue Act of 1978, when Democrats controlled both Congress and the White House (Carter presidency). The maximum tax credit was raised from \$400 to \$500, and the phase-out range was extended to \$10,000.

(3) The Deficit Reduction Act of 1984, passed by a divided Congress in the second term of the Reagan presidency, introduced a rise of the maximum credit.

(4) Two years later and in the same political conditions, the “largest single increase in the EITC since its enactment” (Howard, 1997, p. 145) was implemented in the Tax Reform Act, mainly through its indexation on inflation and another rise in maximum credit.

(5) Another increase in maximum credit and an adjustment for family size was introduced in the Omnibus Budget Reconciliation Act (OBRA) of 1990, voted by a Congress dominated by Democrats, during the Bush presidency.

(6) OBRA 1993 (voted by a Democratic Congress under Clinton) added \$20.8 billion to the scheme. Eligibility was enlarged to higher income levels and childless households; generosity was increased across income levels.

(7) In 1996, president Clinton, now dealing with a Republican majority, signed into law the Welfare Reform bill which introduced restriction in eligibility. Capital gains and passive income were included in the list of “disqualified income” which excluded earners from eligibility.

(8) Increased generosity for married couples was introduced in 2001 during the Bush presidency, with a Republican majority in Congress.

(9) The EITC was increased in 2009 (with a Democratic majority in Congress) as part of president Obama's stimulus package. Two major expansions were introduced then: the cut-off point for married couples filing jointly was raised, and a higher maximum credit for families with three or more children was introduced. These two temporary provisions were extended in subsequent years and made permanent in 2015 (P.L. 114-113), see Falk and Crandall-Hollick (2016).

Appendix H: Control variables coding in Chapter 6

Variable	Coding scheme	Reference category
Equivalised household income	Numerical variable. Based on the categorical variable <i>hhincome</i> in BSAS, a categorical variable comprising about 20 household disposable income brackets (exact number depends on years). We take the mid-point of the income bracket, and divide it by the square root of the number of individuals in the household to equivalise it. We convert all amounts in 2006 pounds, using the RPI All Items Index: Jan 1987=100 available at https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/chaw/mm23	
Age category	Categorical variable comprising 7 levels: 18-24; 25-34; 35-44; 45-54; 55-59; 60-64; 65+	18-24
Respondent receive any traditional benefit?	Logical variable, coded as "true" if the respondent declares that he/she or his/her spouse receives any of the following benefits (and "false" otherwise): jobseekers' allowance, income support, child benefit, housing benefit, incapacity benefit, disability working allowance, attendance allowance, severe disablement allowance, invalid care allowance, industrial injury disablement benefit, or any other state benefits.	
Housing tenure	Categorical variable regarding the respondent's type of accommodation, comprising 5 levels: Owned/being bought, Rented (Local Authority/New Town), Rented (Housing Association/Trust), Rented (other), Rent free /squatting.	Owned/being bought
Occupation	Categorical variable distinguishing between various occupational groups: professional/employer, intermediate non-manual, junior non-manual, skilled manual, semi-skilled manual, unskilled manual, other occupation/armed forces.	professional / employer
Economic status	Categorical variable distinguishing between various economic status: unemployed, employed, self-employed, retired, other.	employed
Partner's economic status	Categorical variable on partner's economic status, comprising 4 levels: working, unemployed, inactive, no partner.	working
Respondent has children living in the household?	Logical variable, coded as "true" if yes, and "false" if no (children are taken to be individuals under the age of 18 living in the household).	
Respondent's highest education level	Categorical variable comprising levels: Higher education degree, some higher education, A level/equivalent, O level/equivalent, CSE or equivalent, Foreign/other, No qualifications	Higher education degree
Respondent's political preference	Categorical variable distinguishing between: "Labour", "Conservative", "LibDem", "Greens", "Other party", "None"	Labour

Appendix I: Description of benefits used in coding the variable "receive at least one benefit" in Chapter 6

jobseekers' allowance	income-based (and partly contribution based) allowance for unemployed people looking for work or people working less than 16 hours per week
income support	low-income support benefit for people over 16, pregnant or caring for a young child, working less than 16 hours, under pension age, on a low income / no income, with less than £16 000 in savings
child benefit	benefit for people caring for a child under 16 (or between 16 and 20 and in full-time education / training)
housing benefit	benefit aimed at helping people on low incomes (with less than £16,000 in capital) with their rent
incapacity benefit / (progressively replaced by employment and support allowance)	benefit for people who are temporarily unable to work due to health reasons
disability working allowance (gradually replaced by Personal Independence Payment)	benefit linked to the extra costs of having a disability, such as personal care and transport
attendance allowance	benefit for people who are 65 or over, with a disability or illness that hinders their capacity to look after themselves.
severe disablement allowance (progressively replaced by employment and support allowance)	benefit for people who are permanently unable to work due to health reasons
invalid care allowance / carer's allowance	means-tested benefit for people who are giving regular and substantial care (at least 35 hrs) to disabled people in their own homes
industrial injury / disablement benefit	benefit for people who are disabled because of an accident at work, or who have certain diseases caused by their work
other state benefits	This is an open field ('write in') in the BSAS questionnaire