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‘Taxing Reforms: The complex dynamics of tax policy change in Australia, Japan  
Canada and the United States’

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Tax policy is highly contested and proposals for policy change invariably meet fierce political resistance. Given these constraints conventional explanations of tax reform have followed a punctuated equilibrium model in which periodic economic and political crises result in rapid policy change among protracted periods of relative stability. This paper challenges the stability versus change dualism implicit in such and accounts and, using recent consumption tax reforms in Australia, Canada, Japan and the United States as a reference, argues that the dynamics of tax policy change are more complex. The paper argues that while exogenous shocks central to historical institutionalist theories of policy change influence the timing of reform proposals, they provide few insights into direction and magnitude of policy change. To this end it is necessary to focus on the micro level and nature of societal resistance to policy change and the role of policy entrepreneurs in this process.

Taxation has always been something of a necessary evil. Revenue may well be the lifeblood of the state, but rising taxes and reforming tax policy always creates resistance and controversy. Reflecting this dynamic traditional accounts of tax policy change generally conform to a punctuated equilibrium model with occasional moments of crisis induced change divided by long periods of policy stability. At first blush aspects of the global tax reform agenda of the last quarter of a century may seem to confirm with this model as economic pressures associated with globalisation and the influence of neo-liberalism have undermined the viability of post-war tax and welfare systems forcing radical policy change. The reality however has been far more complex.

This paper attempts to capture something of that complexity by reporting the key findings of a recently published book-length study of the politics of consumption tax reform in Australia, Canada, The United States and Japan. The study focused on the politics of consumption tax reform in these countries in part because the consumption tax debate in each of them was both hard fought and protracted. At a theoretical level the fact that tax reform has been highly contested provides an ideal opportunity to assess the efficacy of contemporary theories of policy change. Indeed the political and technical complexity of taxation issues demands a fine-grained analysis of the tax policy process, the intellectual and material foundations of the policy conflict and the way in which the institutional structure of the policy environment mediates competing political interests both within and beyond the state. The fact that political debate concerning consumption tax reform has persisted for decades in each of these countries provides an ideal opportunity to evaluate the relative significance of gradual and slow-moving drivers of policy change (Pierson 2004; Streek and Thelen 2005). The paper is divided in two parts. Firstly the paper provides a brief sketch of the politics of consumption tax in each of the countries by describing the origins of the reform agenda as well as the institutional and societal barriers to policy change. Having provided this context the second half of the paper focuses on the 'problem of change' by reflecting on the processes and mechanisms that resulted in and shaped the dynamics of tax reform.

#### *The politics of taxation: An overview*

Politically raising taxes is something of a necessary evil and proposals for new taxes in particular tend to evoke strong political reactions, perhaps more so than other areas of public policy (Peters 1991: 4). In part this political sensitivity is because tax policy has the potential to hit the 'hip pocket' of voters on an unprecedented scale. In part this aversity to taxation stems from the fact that voters tend to separate the taxes they pay from the public services these taxes fund and, as a result, governments tend to prefer established and less visible taxes which operate through elaborate withholding systems or are concealed in final prices (Peters 1991: 160; Rose 1985). In more recent years claims of government largess, inefficiency and corruption have further undermined the legitimacy of taxation in the eyes of many citizens which when combined with the influence supply-side ideas and associated claims that lower tax rates and more neutral tax systems would enhance economic growth bolstered the case for tax cuts and more market conforming tax systems (Sandford 1993; Browning 1978). The result has been for

political leaders from George Bush senior to Japanese Prime Minister Nakasone and John Howard to make public pledges not to introduce new taxes, despite being aware that the existing tax system is unsustainable.

Even subtle tax policy changes which involve replacing old and inefficient taxes with new alternatives without increasing overall tax burden have encountered political resistance because introducing a new tax, or even changing tax rates will tend to redistribute the tax burden creating winners and losers. Yet the benefits of such policy changes, such as improving national economic competitiveness, or the adequacy of the tax base, tend to be more diffuse and realised over the longer term. Secondly, there are collective action problems associated with building political support for reforms that are aimed at restructuring the tax base to further the national interest over sectional concerns (Olson 1965: 9-16; Peters 1991: 271; Polsky 2000). Finally, as the growing literature on path dependency notes, with time, actors tend to adapt to an established tax system despite its shortcomings and develop a vested interest in its preservation (Pierson 2000; 2004: 147-150). In combination, these political barriers have prompted scholars to describe comprehensive tax reform as 'perhaps the most difficult exercise in public policy in a democratic context' (Radaelli 1997: 58).

Given such constraints it is little wonder that governments the world over have generally opted for political pragmatism by tinkering at the margins and making incremental changes to tax systems. While the four case studies considered in this paper (Japan, Australia, US and Canada) clearly highlight the political resistance which reformist governments encounter when advocating significant tax policy change, in stark contrast to incremental models of tax policy influential in the 1980s (Witte 1985; Rose and Kurran 1986), fundamental tax reform has been achieved despite the political constraints confronted. Indeed in each of the four cases under examination governments invested significant political capital in trying to achieve policy change. Given the fundamental tax reform experienced in recent decades it is necessary to not only to highlight the constraints on tax policy change but to better understand when and why governments attempt to reform their tax systems and the circumstances under which reform proposals are likely to be successful. Reflecting this goal the first section of this paper very briefly describes circumstances which drive policy change before noting the institutional and political barriers to reform. Having established these patterns and puzzles the remainder of the chapter will assess their significance in terms of the broader theoretical debate concerning how best to conceptualise and analyse policy change.

#### *The need for change – the politics of problem definition*

A common theme in each of the case studies was a growing awareness of the inadequacies of the tax policy status quo which in turn acted as a catalyst for tax reform. Yet it is also important to recognize that both perceptions of what constituted a policy problem and the responses that were regarded as appropriate were shaped by prevailing ideas and interests (Stone 1989). For example, in Japan the tax reform agenda was a product of the growing budget deficit in the 1970s combined with the Ministry of Finance's (MoF) historical reluctance to fund public expenditure through deficit financing. This

combination of a slowing economy combined with an aversion to public debt resulted in a 'declaration of fiscal crisis' in mid-1975 (Wright 2002, p. 54). The deficit also prompted the Mulroney government in Canada to promote the consumption tax reform agenda, although equally important was the mounting evidence in relation to the inadequacies of the federal Manufacturers Sales Tax (MST) and the need to ensure that the national tax system did not compromise the competitiveness of Canadian industry. While fiscal retrenchment was also a significant policy issue in Australia over the period consumption taxes were primarily promoted in the 1970s as means to alter the tax mix and reduce a high dependence on personal income taxes, which combined with the high inflation of the period left middle income earners shouldering a disproportionately high share of the tax burden. By the late 1990s, when the Howard government secured a mandate for reform, the case for a broad-based GST was motivated more by a growing acceptance of the need for a tax which would be sustainable in the context of an open service orientated economy with an aging population.

In terms of the politics of problem definition the United States experience was somewhat different to that of the other three countries. While the US economy was afflicted by significant budget deficits from the early 1980s through to the mid-1990s and then again post-2002, in many ways the American response to these pressures has been relatively unique. Both the Reagan and the second Bush administration attempted to address the deficit by using supply-side tax cuts to grow the national economy demonstrating that policy responses to economic problems are very much a product of dominant policy ideas and political interests. Beyond this aversion to introducing new taxes the most significant problem identified with the US tax system over the period was the crippling impact of tax exemptions within the income tax base and, as a consequence, removing tax expenditures was rightly the central objective of the major reform initiative of the period – the historic 1986 Tax Reform Act.

The distinctive nature of the US response to the fiscal challenges of the late 20th century highlights the importance of agenda setting and the politics which surrounds the formation and promotion of policy solutions to prevailing fiscal problems. Generally speaking a process of elite policy transfer played a significant role in promoting VAT-style consumption taxes as the most appropriate policy solution to the fiscal challenges facing developed economies in the late 20th century (Eccleston 2007, ch2). Key international economic organizations such as the OECD and IMF played a particularly important role in the dissemination of policy knowledge in relation to tax reform. Yet it is important to note that this transfer process was not uniform and was heavily mediated by domestic institutions and actors. For example, the influence of elite policy transfer was much stronger in Japan, Canada and Australia because central state economic agencies enjoyed a degree of institutional autonomy and a near monopoly over the provision of economic advice. Once influential members of the Finance Departments in Canada and Japan and the Treasury in Australia were committed to the promotion of VATs they were consistently advocated as the most appropriate policy solutions to restoring the adequacy and competitiveness of their respective tax systems. In contrast the provision of policy advice is more fragmented in the United States with the Federal Treasury and the Congressional Budget Office, as well as a host of partisan and independent think tanks, all exerting influence on policy formation.

When combined with the influence of supply-side economic theory noted above, these diverse sources of policy expertise meant it was harder to build a consensus in terms of the appropriate policy solutions to prevailing tax policy problems.

### *The institutional terrain*

In contrast to the majority of policy arenas in which decision making is relatively technocratic and dominated by epistemic communities insulated from the cut and thrust of electoral politics, tax reform is inherently a politicized ‘high voltage’ affair. Given this context an elite consensus in terms of the merits of introducing a VAT-style consumption tax is a necessary but insufficient condition for wholesale policy change. As Campbell (2004, p. 82) argues, ‘the degree to which diffusing ideas are translated or not into local practice, and therefore, the extent to which they precipitate change depends on local institutional contexts, power struggles, leadership support and implementation strategies’. In many ways this resonates with Kingdon’s influential work on agenda setting and his claim that for a reform proposal to become part of a government’s ‘decision agenda’, or the small number of issues which the political executive will actively promote, then a policy proposal needs to be both technically appropriate *and* politically viable. The empirical case studies support claims that policy change is associated with the opening of ‘policy windows’ when policy problems, solutions and favourable political circumstances all intersect (Kingdon 1984). Despite the utility of this basic framework we clearly need to go beyond it to understand the politics of tax reform and explore the domestic factors which influence the political viability of reform proposals. As Paul Pierson has argued (2004, 142), in order to analyse policy change we need an appreciation of *both* the forces driving the reform agenda and nature of political resistance it will encounter (see also Linder 2003). So to appreciate the viability of consumption tax reform proposals in each of the four study countries it is important to first sketch the institutional barriers to policy change in each jurisdiction.

The way in which reform proposals have been frustrated by aspects of the institutional structure of the policy making system in each of our case study countries is consistent with the central thesis of Sven Steinmo’s (1993) *Taxation and Democracy* and subsequent institutionalist accounts of taxation policy. In terms of the architecture of state structures, the viability of tax reform proposals was clearly influenced by variables such the nature of intergovernmental financial relation in the three federal states, the nature of the party system and the level of executive control over the legislature. In the Japanese case, with its unitary system of government, advocates of reform did not have to counter organized political opposition from sub-national governments.<sup>1</sup> Australia, Canada and the United States are, of course, all federal states in which regional governments enjoy political sovereignty and varying degrees of financial independence from the federal administration. While inter-governmental financial relations are often fraught, this was especially the case in relation to proposals to expand the national consumption tax base in both Canada and the United States because in each of these countries sub-national governments had pre-existing consumption taxes which were important elements in their established tax systems. Whereas Australian proposals to introduce a federal GST faced opposition from State governments on the basis of partisan rivalries or specific regional economic impacts, in

Canada and the United States such proposals threatened the financial viability of regional governments as well as posing significant administrative issues associated with harmonization.

Equally as significant in shaping the prospects of achieving tax reform is the political executive's control over the legislature and the nature of the party system in a given country. Clearly tax reform proposals are vulnerable to opportunistic political attacks and as a consequence it is often difficult to achieve a partisan consensus in relation to tax reform. In Australia the consumption tax debate was characterized as partisan conflict and opportunism, with the Australian Labor Party notably opposing consumption tax reform in the 1990s for electoral reasons despite having advocated it up until the late 1980s. In Canada there was a similar dynamic with a bipartisan consensus on the need to replace MST up until the mid-1980s giving way to the Liberal Party's extremely effective scare campaign against the Mulroney government's GST in 1989–90. While the United States' more fragmented political system and less disciplined political parties create opportunities for building cross-party coalitions in support of important policy agendas, with the Tax Reform Act 1986 being an important example. However it is important to note that since the early 1990s there has been a growing partisan divide between Republicans and Democrats which shows few signs of narrowing. This dynamic has led long-time observer of American tax politics Eugene Steuerle (2004, pp. 250–51) to lament 'things have simply gotten out of hand as both major political parties have essentially abandoned traditional tax reform principles ... they continually put forward internally inconsistent choices, trying in vain to please all constituencies'. Finally, Japan represents an interesting contrast with the other three case studies in the volume because of the Liberal Democratic Party's domination of post-war politics up until the late 1980s. While the Japan Socialist Party opposition consistently opposed the introduction of a national consumption tax, the main sources of political resistance over this period were electorally vulnerable LDP backbenchers and sectional business interests. The 1993 formation of a non-LDP coalition government heralded a new era of more competitive party politics in which political leaders on all sides of Japanese politics have, if anything, become more reluctant to promote ambitious tax reforms for fear of an electoral backlash.

Partisan opposition to tax reform is especially significant if the institutional structure of the state is such that the executive government has limited control of the national legislature. Of all of our cases this is most true of the United States where it is unusual for one party to control both executive and legislative branches of government. Clearly an obstructive house was a major constraint on the Clinton Administration's economic and social policy agenda although the Republican domination of Washington under George W. Bush has resulted in radical changes in capital taxation in recent years. In Australia the relatively powerful Australian Senate was used in the late 1990s to force the Howard government to make significant amendments to its original GST package. In contrast the Canadian Senate is appointed rather than elected and historically has been reluctant to amend or veto significant government legislation. Even though by 1990 the Canadian GST was so unpopular that Liberal Senators felt it was appropriate to block the Mulroney government's legislation, the Constitution

allowed Mulroney to manipulate the Senate by appointing senators to ensure his majority. Clearly without this control over the legislature the Canadian GST would never have been passed into law.

### *Societal Resistance*

Thus far we have focused on the institutional basis of what Katzenstein (1977) defined as state capacity or the state's 'ability to formulate and pursue goals which are not simply reflective of the demands or interests of social groups, classes or society'. While state capacity so defined is fundamental to understanding the prospects of reform when there is broadly based societal opposition to policy change, as was the case when the Mulroney government implemented the Canadian GST, a narrow focus on the state's insulation from civil society downplays the social basis of state power and the related claim that state embeddedness in and engagement with civil society can enhance the legitimacy of the state and its prospects for achieving policy change (Migdal 2001). Yet changing patterns of state-society relations in the tax policy arena as well as broader shifts in public sentiments towards reform proposals had a significant impact on patterns of policy change and as such it is necessary to give appropriate consideration to the causes and consequences of these important political processes. Indeed if a significant coalition mobilizes behind a reform agenda, or the electorate reassesses its opposition to the introduction of a consumption tax over time, then this will negate the need for the type of 'capacity' described in the statist literature of the late 1970s and 1980s.<sup>ii</sup>

Given that electoral resistance is a key determinant of tax policy change it is necessary to assess how and why public sentiments, or the normative background assumptions which underpin the legitimacy of policy proposals in the eyes of both political elites and the broader electorate (Campbell 2004), vary over time. One unifying characteristic of all four of our case studies is that by OECD standards they are all relatively low-tax countries in which there had historically been less acceptance of 'big government' and expansive welfare provision. Perhaps more significant is that there has also been an established tradition of using taxation as an instrument of redistribution which in part explains the prominence of progressing income taxes in Australia, Canada, Japan and the United States. Given this normative support for progressive income taxation there was a degree of entrenched opposition to proposals to change the tax mix and increase the reliance on inherently regressive consumption taxes. Yet the relationship between entrenched norms and popular support for specific proposals for policy change is mediated by a number of factors including prevailing institutions, material conditions and policy entrepreneurs which 'frame' particular policies within a legitimizing discourse (Campbell 2004, p. 99). So while entrenched public sentiments tend to be the historical legacies of past political settlements and policy frameworks and act as constraints on policy change, the ultimate impact of such norms on the popular support for specific policy proposals can change over time with significant implications for the prospects of reform. Given the relevance of such processes to the case studies presented in this volume we will return to this important theme when discussing the 'problem of change' below.

The final characteristic of the four policy systems studies which had a significant impact on the political viability of tax reform were patterns of state-economy relations. At an empirical level the legitimacy of tax reform proposals is enhanced and the prospect of implementation improved if there is

a broad, and preferably a cross-class coalition which supports reform. Such observations are broadly consistent with the 'embedded autonomy' literature and its claim that the state's ability to achieve its policy goals is enhanced when governments were able to combine Weberian bureaucratic independence with a rich web of connections with key actors in civil society (Evans 1995; Weiss 1998). Typically this type of embeddedness takes the form of broadly based policy networks in which key actors in a policy arena (both public and private) deliberate and compromise enhancing the legitimacy of policy goals. It is argued this type of state-society engagement not only increases democratic participation in the policy process, but it actually has the potential to enhance the political power of stakeholders involved. While effective consultation and communication between government and stakeholders through effective policy networks greatly enhances the chances of successful tax reform (Eccleston 2000; Hale 2002), these networks tend to depend on high levels of interest group mobilization and discipline as well as institutions capable of enhancing state-society intermediation (Atkinson and Coleman 1989).

The fragmentation of interest group responses was a significant barrier to reform in the three 'anglo' countries studied. In each of these countries a combination of a liberal political culture, fragmented associational structures and a pluralistic policy-making system meant that dissident interest groups from both the business and communities sectors were vocal in their opposition to reform proposals and willing to form anti-reform coalitions. At the level of interest group politics the Japanese case contrasts with the other studies with its highly embedded pattern of state-economy relations. However in contrast to the literature which highlights the capacity of the Japanese state to govern and achieve policy change at a sectoral level, this study revealed that the polymorphous nature of the Japanese state combined with the factionalized nature of the executive government and the associated pattern of *zoku* politics actively hindered the prospects of achieving a class-wide consensus in relation to contested policy issues such as tax reform. While this pattern of factionalized *zoku* politics seems to have intensified during the 'lost decade' perhaps the most important legacy of Junichiro Koizumi's Prime Ministership may have been his recent attempts to reduce the power of factional leaders within the LDP.

Clearly the case studies demonstrate that institutional variables have a significant impact on reformist governments' prospects of achieving tax reform. In short, the institutional context in which politics is conducted will influence but not determine the trajectory of policy. While it can be credibly argued that institutions can account for broad policy differences across nations, once we move from the analysis of comparative statics and attempt to provide a *diachronic* account of policy change across time we need to assess the full range of processes which influence policy (Hay 2002, p. 148). At this level the case studies also highlighted important adaptive changes over time, especially in terms of the legitimacy of reform proposals and the role and impact of interest groups in the policy process. Indeed change in these dimensions was an important factor in the consolidation of consumption tax reform in Australia and Japan and the growing acceptance of the GST in Canada once the Liberal government assumed office in 1993.

### *The Problem of Change*

Despite its many merits a significant weakness of institutional analysis is its inability to explain policy change. As Thelen and Steinmo (1992, p. 16) noted in their influential critique this as a 'critical inadequacy of institutional analysis' while Rothstein (1998) has been critical of historical institutionalism because of a 'tendency towards mechanical and static accounts that ... sometimes lapse inadvertently to institutional determinism'. This 'problem of change' has subsequently become a touchstone issue within institutional theory with recent scholarship attempting to move from the study of comparative statics to systematically focus on the process of institutional formation and change (Campbell 2004, ch. 2; Pierson 2004, ch. 4; Kay 2006, ch. 2). Of particular relevance to the study at hand, especially given the protracted nature of political debate in relation to consumption tax reform, is the growing awareness of the cumulative significance of relatively slow-moving processes of social learning, adaption and ideational change. Whilst many accounts of tax policy change highlight the significance of fiscal crises and critical junctures in undermining the policy status quo (Mann 1988, Webber and Wildavsky 1986), as Blyth (2002, p. 266) has argued, exogenous models of change provide few insights into the subsequent direction of policy change and the political resistance which rival policy solutions are likely to encounter. Indeed the longitudinal research in relation to consumption tax reform reveals a good deal of institutional continuity through moments of crisis and change which implies that institutional artefacts and embedded norms have the potential to mediate the change process (Pierson 2004, ch. 4).

What then do the four case studies central this article contribute to theoretical debate concerning the processes which influence the timing, direction and extent of policy change? At the broadest level the empirical evidence supports Pierson's (2004, p. 142) and Lindner's (2003) recent call for scholars to pay greater attention to how sources of political resistance and constraints on policy change abate over time. Given that the nature and extent of political resistance has had such a dramatic impact on the contours of taxation policy in each of the case study countries it is only appropriate to conclude this study with a more detailed assessment of the endogenous processes which have been central in alleviating political opposition to reform. Central in this process have been variations in patterns of state-economy relations in the tax reform arena as well as changing popular support for consumption taxes. I would argue that these processes can be described as a form adaptive policy learning, or the process in which 'self-reflexive actors gradually adjust their institutions in ways that are constrained by already given institutional practices, rules, routines and cognitive schema' (Campbell 2004, p. 34). However this learning process should not be regarded as being functional or with policy entrepreneurs and politically skilled leaders performing the vital function of mobilizing actors and framing policy problems with a view to altering the institutional status quo.

While such claims are intuitive enough, there is an active debate in the literature regarding the processes through which learning takes place and its implications for institutional change. Writers such as Paul Pierson (1993, 2004) bring an interpretivist perspective to the learning process and regard it as being heavily mediated by prevailing ideas and institutions. During 'normal' times outcomes of an

established policy framework will often be regarded as being 'appropriate' because the very objectives of policy are influenced by established practices and norms. In this context active 'learning' and associated dissatisfaction with the status quo is usually symptomatic of broader changes in the policy system, such as the influence of new policy ideas, rather than being a rational process. In contrast scholars such as Lindner (2003); Clemens and Cook (1999) and Blyth (2002, p. 270) argue that institutions are vulnerable to agent-driven change when they fail to deliver anticipated outcomes, or when they create clearly defined losers who have strong incentives to displace the existing regime. In particular, Lindner's claim in relation to losing coalitions is of direct relevance to redistributive policy arenas, such as taxation, where disaffected groups are likely to suffer materially from unfavourable policy outcomes.

The empirical analysis of the politics of consumption tax reform can make a contribution to this debate with strong evidence of what Oliver and Pemberton (2004, p. 418) have described as an 'iterative evolutionary cycle' or what Steeck and Thelen (2005) define as 'adaptive change' with interest groups reassessing their opposition to consumption taxes when confronted with evidence that there were either no other viable policy alternatives to such taxes, or it became clear that the alternatives were more deleterious in their impact. In short, with the passage of time many opponents of a national consumption tax came to accept that it was in fact the least-worst reform option. In Japan business initially supported initiatives aimed at reducing the deficit through expenditure restraint rather than through the introduction of a national consumption tax, yet by 1983, when it had become apparent that savings achieved by the Administrative Reform Commission would not make a meaningful impact on the deficit, peak business associations such as the Keidanren lent their support to a consumption tax in preference to increasing capital and corporate income taxes which would have a greater impact on member firms. An even more significant example was the Australian welfare sector's reassessment of the GST in the mid-1990s. While influential groups such as the Australian Council of Social Service had historically opposed the GST on the basis of its regressive impact, when confronted with declining funding for social services the welfare sector accepted that a broad-based consumption tax was necessary to put Australian public finances on a more sustainable footing.

Despite these examples it is important to emphasize that the learning process is neither automatic nor rational and is mediated by a host of domestic factors. In Canada for example business support for a GST waned over the course of the 1980s as a result of concerns that the compliance costs of separate provincial and federal consumption taxes would exceed any economic benefits. Theoretically perhaps the most significant finding from the study was the importance of policy entrepreneurs in the process of collective learning and interest groups mobilization. In Australia interest group leaders such as Graeme Samuel and Robert Fitzgerald played a catalytic role in the formation of a broad-based coalition for tax reform. Similarly in the United States the success of the 1986 Tax Reform Act was very much a product of the coalition-building efforts of the likes of Don Regan, James Baker and Senator Bill Bradley. In contrast, when it came to proposals to introduce a broad-based consumption tax in the mid to late 1990s there were no such brokers, as the tax politics arena came to be dominated by high profile

Republicans such as Newt Gingrich and Senator Bill Archer prompting their own exotic tax reform proposals which, as argued above, served to erode a consensus in relation to the appropriate direction of tax reform.

In the Japanese case it is slightly more difficult to identify specific entrepreneurs responsible for interest group mobilization behind the Takeshita government's reform proposal of the late 1980s although there is clear evidence of collective learning on the part of both state and societal actors. Especially significant were unprecedented state strategies to bolster interest group support for reform through improved consultation via forums such as the People's Forum on Tax Reform and the provision of generous compensation for interests who had historically opposed a consumption tax. In contrast, in Canada the Mulroney government was widely regarded as being too autocratic and devoting insufficient energy and resources to consolidating business support for tax reform in the period when it was negotiating with the provinces between 1987 and 1989. As a result support for the GST quickly waned even among groups which had been among Mulroney's strongest supporters during the 1980s.

Overall the evidence supports the claim that learning within groups and the mobilization of reform coalitions cannot be understood through actor-based functionalism alone but depends on both a shared understanding of and an interest in a policy position. Arguably the prospects for achieving this type of consensus are greatly enhanced if powerful policy entrepreneurs (either state, partisan or societal) are dedicated to the cause of reform, and are willing to absorb the transaction costs of coalition building and frame policy solutions in innovative ways which will resonate with a broad range of stakeholders. In summary, this study highlights the role of policy entrepreneurs as key agents in interest group action and learning and who, while limited by prevailing institutional and resource constraints, have made a significant contribution to the process of tax policy change (Clemens and Cook 1999; Thelen 2003; Pemberton 2003; Pierson 2004, p. 135).

Broad-based interest group support for reform clearly enhances the prospects of achieving tax policy change, yet even with the support of key stakeholders governments are reluctant to implement taxes which are electorally unpopular. This focus on prevailing public sentiments and the normative support for policy change highlights the importance of legitimacy and the social basis of state power. The evidence presented in the preceding chapters supports Seabrooke's (2006, p. 46) claim that governments which are unable to claim legitimacy for their policies and institutions by framing them within social 'maxims' are likely to suffer electoral consequences. This was obviously the case with the Mulroney government's attempt to introduce a GST in Canada but was also evident in Australia during the 1993 federal election campaign. Similarly in Japan there was a tension between elite support and popular opposition to consumption taxes which came to the fore in 1979, 1986 and as recently as the Hosokawa consumption tax increase in the mid-1990s. Finally, in the US, consumption tax proposals were dismissed out of hand by senior officials such as President Clinton's Treasury Secretary Lloyd Bentsen on the basis of the political resistance they would encounter. In these terms the lack of

electoral support for consumption tax reform is a major source of what Paul Pierson has described as *institutional resilience* or the prevailing constraints on institutional and policy change. While Pierson identifies a number of positive feedback mechanisms which contribute to resilience and 'lock in' existing institutional regimes he also acknowledges that a much broader range of factors can potentially impede institutional change and that research into these processes awaits systematic investigation (Pierson 2004, p. 150).

One conclusion which can be drawn from the analysis is that embedded norms concerning the appropriate structure and function of national tax systems are one important source of institutional resilience. Such public sentiments are significant not only because they influence the legitimacy or otherwise of proposed reforms but because they are socially constructed and tend to be the product of past policy frameworks and political settlements. Reflecting this dynamic the case studies demonstrated that while policy paradigms and elite opinion in relation to tax reform responded relatively rapidly to changing economic conditions and political circumstances and generally enable change, in contrast public sentiments were much less responsive and constrained change. This supports Lewis's (2003, p. 4) claim that policy norms often persist well after the socio-economic conditions that supported them have retreated. Yet despite the 'stickiness' of norms there is clear evidence that change did occur over the study period with popular opposition to consumption tax reform abating in Australia, Canada and Japan (although perhaps not the United States) by the late 20th century. Such observations are significant because they provide insights into the mechanisms through which ideas change and influence the institutional status quo (Campbell 2004, p. 92).

The process through which public sentiments change is clearly contingent and complex. Yet the empirical evidence gathered for this study lends weight to the claim that policy entrepreneurs and interest group dynamics can play a pivotal role in the process of ideational change generally and bolstering the legitimacy of reform proposals more specifically. Whereas broad-based consumption taxes were advanced in the 1970s as an elite project without any serious attempt to justify reforms to the broader electorate, by the 1980s and 1990s there were conscious attempts to locate the agenda within a discourse of improving national competitiveness and the viability of the welfare state. This represents an example of what Campbell (2004, p. 69) describes as *symbolic bricolage*, because presenting a broad-based consumption tax as a means to improving the fairness of national tax systems and the sustainability of the welfare state amounts to a clear attempt to locate policy reform within a socially legitimate frame. However it is important to note that this type of strategic framing is the product of skilled political interventions of entrepreneurs; the success of such initiatives is also dependent on historical experience and material conditions. For example, the welfare movement in Australia would never have supported the introduction of a GST in late 1990s without unequivocal evidence that public investment in welfare services had declined in previous years.

I have already argued that interest group learning and mobilization enhances the prospects for achieving tax reform because disaffected groups and marginalized coalitions can veto reform proposals

and undermine the political authority of the state. Beyond this influence on elite opinion there is also clear evidence from the study that interest group activity also has a significant impact on public sentiments and the legitimacy of reform proposals because in Japan and Australia in particular popular support for consumption tax reform increased as interest group opposition to policy change waned. This finding supports Oliver and Pemberton's (2004, p. 419) claim that for the successful consolidation of a new policy idea it not only has to 'trump' the policy status quo and win the support of policy elites it 'also depends on the preparedness of interest groups to adopt it and on their ability to promote the new ideas and secure their endorsement by those in power'.

### US Exceptionalism

Thus far I have summarized the learning and feedback processes which led to a gradual erosion of political resistance to consumption tax reform in Australia and Japan and the growing acceptance of the GST in Canada over the 1990s. A final issue for consideration is the relevance of these processes for our fiscal exception – the United States. In contrast to the other case studies in the book it can be argued that a combination of institutional fragmentation, political culture and the key political actors which have dominated American tax politics since the 1990s in particular have actively hindered the feedback and learning processes described above, preventing the formation of reform-oriented coalitions and a nascent public consensus on the best policy solution to America's fiscal challenges. Despite these constraints it is important to acknowledge that quite fundamental tax policy changes have occurred under the Presidency of George W. Bush. While introducing a national consumption tax has not been a goal of these reforms the policy changes which have been implemented achieve some of the ends of a national consumption tax by different means. One clear tax policy priority of the Bush administration has been to cut income taxes on savings and provide immediate deductibility on all capital investment, policies which public finance economists argue act like a de facto consumption tax, at least from a business perspective. Indeed given the formidable obstacles to the introduction of a national consumption tax in the United States, Bush's attempts to modify the income tax base so that in practice it has many of the characteristics of a consumption tax may have been politically shrewd. As Schickler (2001, p. 15) observes, reformers 'may design novel institutional arrangements but through lack of political support, or perhaps inclination, decide to put pre-existing institutions to the pursuit of their new policy ends'. So while policy change is possible it tends to be heavily mediated by entrenched institutions and structures. However, as this chapter has demonstrated, with the passage of time the political problems and the actors engaging with them change, leading to the possibility of gradual yet cumulatively significant institutional renewal and transformation. This arguably amounts to an example of what Streek and Thelen (2005, p. 22) describe as institutional layering in which existing institutions (in this case the national income tax system) are put to new and quite radically different ends. Indeed it can be argued that this represents a deft political strategy under circumstances where there is entrenched opposition to formal institution change and when similar policy goals could be achieved by putting an existing and accepted institution to pursuing new policy goals.

*Beyond the stability-change dualism: Methodological implications*

This article has highlighted the highly politicized and complex nature of taxation policy and the equally diverse literature on the politics of taxation and the dynamics of policy change. This complexity was also borne out in the case studies presented because despite common elements of the reform agenda in each of the study countries, the circumstances and processes which resulted in (or constrained) policy change were extremely varied. Perhaps the best example of this complexity was the impact of policy learning on subsequent patterns of policy change. Broadly speaking in Japan, Australia and Canada learning and adaptive change led to greater interest group mobilization and broader societal support for reform whereas in the US the political climate was such that reform orientated coalitions fragmented after the mid-1990s. Such evidence adds weight to claims that policy change is the product of the complex interaction of institutions, ideas and actors as well as the broader structural context in which they are situated. At a methodological level this necessitates a grounded or ideographic approach which is richly contextualized and sensitive to the full range of temporal processes which drive policy change.

Despite the methodological challenges associated with analysing policy change this study has demonstrated the utility of a structured narrative approach in which complex events can be interpreted through the lens of a 'greater interpretive scheme' (Kay 2006, ch. 5). While the case studies presented in this book could have assumed any number of forms they were consciously shaped by recent developments in policy analysis and institutional theory. At the broadest level the narratives were structured by a basic heuristic which differentiated between the problem definition, agenda setting and the political consolidation phase of the policy process. Given the specific nature of tax reform the analysis focused on the political consolidation of reform and the changing role of structural factors, institutions, ideas and agents over time. Ultimately the key to achieving policy change was developing a politically viable and technically credible solution to a prevailing policy problem. As we have argued above, there is no general process to ensure the political viability of reform proposals and, as such, there will be no one 'menu of change'. However this does not mean that theory is unimportant. On the contrary, theory plays a vital role in making sense of the veritable smorgasbord of processes which can give rise to policy change. In this study of the politics of tax reform the extant literature, from John Kingdon's conceptual model of the policy process to the more recent theories of endogenous institutional and policy change, serve an important function in guiding empirical research and providing an analytical framework for enhancing our understanding of the policy process. Indeed it is only through reference to theory that we will further our cumulative knowledge of the political world and avoid retracing the steps of our intellectual forebears and putting old wine into new bottles.

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NOTES

1. It is important to acknowledge that regional political considerations and economic interests remain extremely important in Japanese politics, especially for the LDP. Indeed half of the revenue from the 1994 consumption tax increase was allocated to local governments.

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2. Nordlinger (1981) described the convergence of state and societal preferences as resulting in 'type three' autonomy. See also Gourevitch (1986), p. 238.

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