

Financing Social Policy
Lecture – Dr Michal Koreh
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Social policy stands as a fundamental cornerstone in shaping contemporary public policy, addressing the diverse ways societies worldwide fulfill human needs for security, education, work, health, and overall well-being. Within the landscape of public spending, social policy takes center stage, emerging as the predominant allocation of resources in affluent democracies. The profound impact of social spending on fiscal policy highlights the intricate relationship between taxation and the modern welfare state, playing a pivotal role in shaping the foundation of contemporary public policy.

Acknowledging the pivotal role of social policy financing, this course embarks on a comprehensive exploration of the intricate connection between taxation and social policy through a comparative and historical lens. The units within the course cover scholarship on taxation and welfare state development, social policy change, research on welfare and tax regimes, investigation into public opinion and preferences, and exploration of specific policy instruments such as payroll contributions and tax expenditures. Drawing on foundational concepts from the interdisciplinary field of policy studies, including institutions, policy instruments, policy regimes, and policy dynamics, this course aims to provide a comprehensive understanding of the interplay between taxation and social policy.

Learning Objectives

- Develop a comprehensive understanding of key taxation concepts relevant to social policy.
- Understand the relationship between welfare finance and different forms of eligibility, coverage, and benefit structures.
- Explore the intricacies of payroll contributions as a dedicated tax and the implications for welfare state financing.
- Analyze the role of tax expenditures in shaping the hidden aspects of the welfare state.
- Explore the fiscal and economic drivers that contribute to the development of welfare states.
- Analyze how reforming finance policy influences the restructuring of the welfare state.
- Map tax regimes and their connection to various welfare state regimes.
- Evaluate the redistributive effects of tax and welfare regimes, considering levels and progressivity of taxes and expenditures.
- Examine public opinion on taxation, considering the factors influencing public perceptions.
- Apply interdisciplinary concepts from policy studies to analyze and interpret the dynamics between taxation and social policy.

Assessment:

- Biweekly Reading Reflections and assignments: 40%
- Midterm Exam: 30%
- Final Exam: 30%

Unit One: Taxation Concepts and Policy Instruments

In this unit we map key taxation concepts related to social policy and highlight the institutional connections between the policy design of welfare finance and the policy design of social protection, i.e. the different forms of eligibility, coverage and benefit structures. The unit also addresses the relations between tax structures (progressivity/proportionality/regressivity) and the redistributive effects of different modes of taxation.

- Key Taxation Concepts Relevant for Social Policy
- Welfare finance and the different forms of eligibility, coverage, and benefit structures
- Redistributive effects of taxes and spending

Kiser, E., & Karceski, S. M. (2017). Political Economy of Taxation. *Annual Review of Political Science*, 20(1), 75–92. <https://doi.org/10.1146/annurev-polisci-052615-025442>

Martin, I. W., Mehrotra, A. K., & Prasad, M. (2009). The Thunder of History: The Origins and Development of the New Fiscal Sociology. In I. W. Martin, A. K. Mehrotra, & M. Prasad (Eds.), *The New Fiscal Sociology: Taxation in Comparative and Historical Perspective*. Cambridge University Press.

Morel, N., & Palme, J. (2018). Financing the welfare state and the politics of taxation. In *Routledge handbook of the welfare state* (pp. 467–476). Routledge.

Ruane, S., Collins, M. L., & Sinfield, A. (2020). The centrality of taxation to social policy. *Social Policy and Society*, 19(3), 437–453.

Required Texts:

Unit Two: Taxation Instruments

In this unit we address central theories of fiscal development and then delve into two major tax policy instruments that are central to the modern welfare state: payroll contributions and tax expenditures. The unit explains what we know about the nature of these specific policy instruments, as well as their political characteristics in terms of credit claiming and blame avoidance, and the potential for self-reinforcing policy feedback

- Central Theories Explaining Fiscal Development
- Payroll Contributions as a Dedicated Tax
- Tax Expenditures and the Hidden Welfare State
- The Negative Income Tax

Required Texts:

Clasen, J. (2001) Social Insurance and the Contributory Principle: A Paradox in Contemporary British Social Policy. *Social Policy & Administration*, 35(6), 641–657.

Genschel, P., & Seelkopf, L. (2021). *Global Taxation: How Modern Taxes Conquered the World*. Oxford University Press.

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(2): 243-260.

Howard, C. (1997) *The Hidden Welfare State: Tax Expenditures and Social Policy in the United States*. Princeton: Princeton University Press.

Koreh, M. (2017) The political economy of social insurance: Towards a fiscal-centre framework, *Social Policy and Administration*, 51(1): 114-132.

Campbell, L. A., & Morgan, K. J. (2005) Financing the welfare state: Elite politics and the decline of the social insurance model in America. *Studies in American Political Development*, 19(2), 173–195.

Schmitt, C., Lierse, H., & Obinger, H. (2020). Funding social protection: Mapping and explaining welfare state financing in a global perspective. *Global Social Policy*, 20(2), 143–164.

Unit Three: Welfare finance and social policies

This unit discusses the distinctive role of welfare finance in driving welfare state development and influencing the specific characteristics of social programs. Drawing on the welfare finance literature we present the two sides of welfare finance and flesh out its role not only for social protection but also for the broader political economy. We then examine how interests concerning the mobilization of capital and the steering of the economy affect welfare state politics and play a role in the development of major social programs in various countries. The unit ends with the restructuring potential of potential welfare finance reforms

- Two sides of welfare finance: social protection and the economy
- The fiscal and economic drivers of welfare state development
- How reforming finance policy restructures the welfare state

Required Texts:

- Estevez-Abe, M. (2001) The forgotten link: The financial regulation of Japanese pension funds in comparative perspective. In B. Ebbinghaus & P. Manow (Eds.), *Comparing Welfare Capitalism: Social Policy and Political Economy in Europe, Japan and the USA* (pp. 190–216) Routledge
- Bartlett, B. (2007) "Starve the Beast": Origins and Development of a Budgetary Metaphor. *The Independent Review*, 12(1), 5–26.
- Béland, D., & Koreh, M. (2019) Social insurance as fiscal policy and state-building tool: The development and politics of payroll contributions in Israel and Canada. *Journal of Social Policy*, 48(1), 1–20.
- Koreh, M. (2017a) The fiscal politics of welfare state expansion: The case of social insurance in Israel. *Journal of European Social Policy*, 27(2), 158–172.
- Koreh, M., & Shalev, M. (2017) Pathways to Neoliberalism. *Neoliberalism as a State Project: Changing the Political Economy of Israel*, 93.

Unit Four: Tax regimes: causes and outcomes.

This unit maps the different tax regimes, which represent the fiscal side of welfare state regimes. Although the comparative welfare state literature has focused on the spending side, welfare state regimes are also characterized by distinct levels of taxation and tax mixes that are leading to crucial political and redistributive outcomes. We review cross-national differences and international complementarities between tax and expenditure regimes. The second part of the unit addresses the paradox of redistribution and the redistributive outcomes of tax and welfare regimes.

- Mapping tax regimes and how they relate to welfare state regimes.
- A typology of tax regimes: tax policy mixes and levels of taxation.
- The tax bargain: the role of electoral systems and interest group representation in shaping tax regimes.
- The Paradox of Redistribution - Redistributive effects of tax and welfare regimes

Required Texts:

- Ganghof, S. (2006b) Tax Mixes and the Size of the Welfare State: Causal Mechanisms and Policy Implications. *Journal of European Social Policy* 16(4): 360-373.
- Jacques, O., & Noël, A. (2018) The case for welfare state universalism, or the lasting relevance of the paradox of redistribution. *Journal of European Social Policy*, 28(1), 70-85.
- Prasad, M. and Deng, Y. (2009) Taxation and the worlds of welfare, *Socioeconomic Review* 7 (3): 431-457.

Unit Five: Public opinion, coalitions and the politics of taxation

This unit turns to public opinion on tax policy. We review research on how the public reason about taxation, what determines tax policy preferences and how tax mixes shape the public's view of taxation.

- Public opinion on taxation
- How tax mixes feedback into public opinion

Required Texts:

Barnes, L. (2022) Taxing the rich: public preferences and public understanding. *Journal of European Public Policy*, 29(5), 787-804.

Beramendi, P., & Rehm, P. (2016) Who gives, who gains? Progressivity and Preferences. *Comparative Political Studies*, 49(4), 529-563.

Berens, S. and M. Gelepithis. 2019. Welfare state structure, inequality, and public attitudes towards progressive taxation. *Socio-Economic Review* 17 (4):823-850.