Inheritance taxation in the U.S. and Australia: A comparative social bloc analysis

Comparative Political Economy & Philosophy of Science

BSc in International Business and Politics

Copenhagen Business School

Final Exam

Pages: 20 (22 including frontpage & bibliography)

Characters: 45.350

Reference system: APA 7th edition

Supervisor: Hubert Buch-Hansen

Student ID:

25. May 2022

Table of content

Introduction

Inheritance taxation is a topic both widely debated in the public sphere, and a major focus for many economists. It is a tax which reaches far into the private sphere and therefore is often a sensitive topic for politicians and economists. The topic is of significant difference in opinion, ranging from a complete abolishment to a progressive optimal rate.

As we dived further into the diverse field of inheritance taxes globally, we observed a significant difference between the United States (US) and Australia. These two countries have been classified together in various frameworks throughout the Comparative Political (Beramendi et al., 2015). Amongst others as “Liberal welfare states” (Esping-Andersen, 1990), “English speaking family” (Obinger & Wagschal, 2001), and a “Liberal market economy” (Hall & Soskice, 2001). Furthermore, Esping-Andersen (1985) in his paper “Power and Distributional Regimes,” argues that the Anglo-Saxon liberal market approach to the distribution of wealth, such as inheritance tax, is followed by, amongst others, the US and Australia. It is on this background we are puzzled by the choice of Australia to altogether abolish its inheritance tax (Pedrick, 1981). Meanwhile, the US has continued with a very progressive inheritance tax ranging from the lowest level of 18% to top earners with values over 5.000.000 USD having to pay up to 70% (Jacobson et al., 2015).

Intrigued by the differences observed, this paper serves to dig deeper into the main underlying reasons for these differences with the following research question:

What are the main underlying mechanisms for the policy differences on inheritance tax chosen by Australia and the United States from 1975 to 1980?

Literature Review

As we conducted the comparative study of inheritance taxation in the US and Australia, we encountered a variety of research done by other scholars on the topic. This section will present some of these sources and argue why this paper may contribute to the topic of inheritance taxation.

Pedrick (1981) examines the historical context leading to the Australian abolishment of inheritance taxation or “Death Duty” in the late 1970s. Comparisons to the tax on wealth distribution in the United Kingdom (UK) and The US are drawn throughout the text. One of such comparisons is of the revenues gained by the inheritance tax, which in all countries are argued to be relatively small. Furthermore, Pedrick discusses the possibility of Australia becoming a tax haven due to the abolishment of the inheritance tax. The article was written for the American Bar Association meeting in Sydney “in a state of shock and disbelief that a modern western country like Australia should abandon taxation of intergenerational wealth transfers as a modest but appropriate source of revenue” (Pedrick, 1981). The paper can therefore arguably be described as biased.

In the article “To Praise the Estate Tax, Not to Bury it” from 1983, (Graetz, 1983) describes the most recent trends in The US’ estate tax policies and examines the structural changes in the wealth distributional tax legislation over a short period (1976-1981). He presents an idiosyncratic historical comparison of 1969 to 1981 to form a perspective on the general development of reducing the tax burden on the fortunate. In addition, he debates possible reasons behind why the public’s attitude toward fairness in the tax system has diminished before proceeding to present his argument on progressive taxation. Graetz finishes his work by incorporating two practical barriers to his preferred course of strengthening the estate tax. First is the relatively limited revenue potential of the estate tax, and second, taxation on bequests is very unpopular politically. The main takeaways from this article are the presentation of the US’s structural decisions behind inheritance tax policy and its attempts to explain why the taxation remains, even though very hollow. Graetz briefly incorporates small businesses, farmers, and widows' objections to progressive taxation, but he does not compare it with Australia or incorporates social bloc theory.

Scheve and Stasavage (2012) present the first empirical analysis of the political economy of inherited wealth taxation by incorporating data sets from several countries, including the US and Australia. Using a difference-in-difference framework, they test two hypotheses regarding the taxation of inherited wealth. The authors find strong evidence for the connection between political decisions created by mass mobilization of war and the introduction of inheritance taxation. They also conclude that public support of progressive taxation greatly depends on political framing and the ability of politicians to form a convincing case for taxing some individuals more heavily than others. Their study can be used to comprehend the political conditions behind policies limiting wealth inequality.

Jestl (2018) examines the different inheritance tax policy structures by presenting a comparative analysis of several EU countries and the US. The analysis presents two components for a successful design of inheritance taxation; one being related to affluent individuals' higher ability to pay, and the other considers the family claim to intergenerational transfers and individual property rights. The paper argues that these two components must be considered to obtain public legitimacy for the inheritance tax policies.

Upon reviewing existing sources and research dealing with inheritance taxation policy, shortcomings in this field of study have been identified. Firstly, while there exists relatively profound research and papers on inheritance taxation in Australia, not much focus has been placed on the taxations of intergenerational transfers of wealth in the US. Second, there have only been very few comparative mentioning of the two countries in the current material, which allows for a much more comprehensive and in-depth analysis. Thirdly, no existing research has incorporated the theory of social blocs. This paper's use of social bloc theory may therefore present new perspectives and work as a valuable contribution to the study of inheritance taxation.

Theory

This paper will address the research question by implementing the theoretical framework of growth models and social blocs affiliated with Baccaro and Pontusson (2016, 2019). Specifically, we will examine the conceptualization of social blocs concerning the divergence in inheritance tax policy in Australia and The US from 1975 to 1980. While growth models could be relevant in answering the research question, we adopt the argument presented by Baccaro and Pontusson (2019) that “growth models are supported by different constellations of organized interests” and instead focus on the explanatory power of the country’s social bloc in relation to the inheritance tax policy pursued by policymakers.

Marxist Antonio Gramsci first presented the concept of social blocs in his work Theory of Hegemony. Gramsci argued that capitalist power is not only related to the coercive power of the state or the ruling class but primarily by consent formed among subordinated classes Hegemonic leadership is present, but different class interests must be incorporated for policymakers to stay in power and for political decisions to take place (Gramsci, 1971 in Baccaro and Pontusson, 2019). Drawing on the Gramscian hegemonic theory, Baccaro and Pontusson argue that social blocs shall be conceived as “enduring constellations of sectoral and class interests that are organized in hierarchical manner, with certain components of the social bloc being privileged relative to others” (Baccaro and Pontusson, 2019).

Baccaro and Pontusson explain social bloc theory as consisting of a core primarily dominated by owners and managers of large companies in key economic sectors and a periphery of groups from other industries and trade unions. Policymakers, taking the role of managers, mediate between the organized interests of the core and the periphery as they are incentivized to obtain voters. Furthermore, some groups and actors are excluded from the core and periphery, thereby not having their interests represented in the policy outcomes (Baccaro and Pontusson, 2019). There is only one social bloc within a country at a given time that forms and influences the dominant ideas and opinions held in society (Amable, 2017). The notion of the core illustrates how, due to economic centrality, corporate interests and critical sectors are highly influential in the political outcomes and the shaping of legitimizing discourse.

Legitimizing discourse refers to the discourse pursued by the social bloc on particular issues in an attempt to legitimize them and thereby influence the political outcomes. In social bloc theory, corporate interests are highly influential in electoral politics due to the concept of economic voting. Economic voting is the theoretical perspective of voters not only voting based on ideological beliefs but primarily on their rational thoughts on the current economic environment (Lewis-Beck & Nadeau, 2011). This perspective seems to be most prominent among blue-collar workers as they rely more heavily upon the state of the national economy and domestic financial decisions. White-collar workers in private sectors are often poorly organized, and they are not as attached to specific industries as blue-collar workers (Baccaro and Pontusson, 2019). However, the specialized middle-class is relevant as it entails politically active and well-informed parts of society with the resources to influence political campaigns (Baccaro and Pontusson, 2019). Following this theoretical perspective, policymakers should work to be perceived as competent managers who can navigate the economy as the theory suggests that economic stability and solid financial decisions determine elections (Duch & Stevenson, 2010).

Politicians will therefore seek to follow the interests of the economic core. The specialized middle-class also plays a major role in the social bloc theory, as they tend to have more sector-specific skills. Hence, they are likely to be more coherent with large economic sectors and the interests of the financial elites (Baccaro and Pontusson, 2019). This coherency allows economic elites and skilled middle-class alignment on interests, and coalitions may arise. Indeed, this is what we observe in our analysis of the Australian social bloc, where the workers of the dominant sectors seem to enjoy certain privileges in policy outcomes. However, within these cross-class coalitions, the diversifying amount of power and perceived importance between economic elites and skilled workforce differ, creating a hierarchical structure. Outside the coalitions of coherent interests or blocs are excluded groups whose passive consent is vital to uphold power structures and policy outcomes. Therefore, framing interests and aligning discourse becomes essential when trying to compel excluded groups and actors in society (Baccaro and Pontusson, 2019).

The implementation of the social bloc framework is useful when studying the comparative differences in the US and Australia's inheritance tax policy for several reasons. The theory allows us to analyze and identify the core of the social bloc, its agendas, and the discourse it applies to influence policy outcomes. Consequently, enabling us to uncover some of the main underlying mechanisms that determined the differentiated outcomes. Examination of cross-class coalitions provides insight into prevailing opinions on inheritance tax. It offers the opportunity to investigate the legitimizing discourse used to obtain passive content from excluded groups. The legitimizing discourse that dominated the issue in the two countries is of particular interest, as it differed immensely in our comparative analysis. Focusing on a liberal principle of equality of opportunity in the US and a pragmatic and sympathetic discourse around Australian farmers.

With the implementation of the theoretical framework of social blocs and its combination of ideational elements and hierarchical power structures, we can conclude that social blocs are highly influential in electoral politics and policy decisions. Throughout this paper, we utilize the explanatory power of theory to uncover underlying causal mechanisms that resulted in the different policy outcomes.

Methods and Sources

To comprehensively analyze the different trajectories of inheritance tax policies chosen by the US and Australia, our paper dives into both the objective and ideational structures. We have decided to utilize the social bloc theory to answer these questions, as it lends itself nicely to the two equally important objective and ideational dimensions. We believe highlighting the continuous interplay between structures and agents concerning the different inheritance tax policies is essential. Therefore, our paper will answer the research question by incorporating sources from the objective dimension, exemplified by quantitative data on tax structures in Australia and the US. Furthermore, economic quantitative data regarding major corporations measured as their market capitalization, export data measured as the % of GDP, and export data measured by industry shares will be utilized. Regarding incorporating the ideational aspect of our analysis, the social bloc theory utilizes the concept of legitimizing discourse. It focuses on how the dominant social bloc frames the discourse around a certain topic to legitimize their standpoint and obtain an acceptance from the peripheral. This can be done by framing the core's interests as national interests, thereby justifying the outcomes. In answering our research question, the legitimizing discourse will mainly be based on secondary sources that have analyzed the policy topic of inheritance taxation in the two countries. Furthermore, primary sources of news stories and public statements of prominent political actors are deemed relevant to obtain a comprehensive overview.

Elaborating on the theoretical foundation of the interplay between structures and agents in the social bloc theory, we acknowledge that the social bloc is not permanent and will continuously be a product of the structures surrounding it. Therefore, our analysis will incorporate a significant amount of structural data and research regarding the inheritance taxation regime in Australia and the US. This incorporation will allow us to better understand the motivations of the social bloc and why it seeks political outcomes.

To answer our research question, we stress the importance of selecting the social bloc as a method to identify the underlying structures and agents that affect policy outcomes in Australia and the US. As demonstrated, the theory matches our chosen sources well, but we must operationalize the core concepts to gain valuable insights. Based on the definition made by Baccaro & Pontusson (2019), we wish to identify the core social bloc, which is argued to be centered around corporate interests and critical sectors in the economy. To operationalize this core social bloc, we look to the tendencies of significant companies and sectors dominating the respective economies of the US and Australia around the 1970s. This is done by looking at the market capitalization of public companies in both countries and diving into the respective countries' dominant export sectors.

Combining the explanatory efforts of the social mechanisms, power relations, tax structure, and discourse resonates well with the moderated critical realist perspective chosen by this paper, as it argues for equal importance of the objective and ideational dimensions. Likewise, with the methods and sources described previously, this paper has attempted to restrain from any normative stance and focused entirely on explaining observed phenomena. Its methodical approach has been one of retroductive logic. In line with moderated critical realism, it acknowledges a deep level of social structures and underlying mechanisms, which this paper aims to uncover.

A general advantage of our combined sources is the diversity of knowledge it brings to the analysis. By incorporating multiple quantitative sources, we can establish a solid foundation of knowledge regarding tax structures and critical economic actors. Similarly, this paper’s other primary sources focusing on the legitimizing discourse applied to inheritance taxation create a nuanced and broad base on the topic. Concern about our primary sources regards their long-dated production. This is itself not an issue, as our paper attempts to examine that specific period. However, as we are nearing 50 years since the issue at hand, our collection of sources is limited to what was saved and stored. This inevitably means that much material from the period might not have been digitized into modern archives. Especially our legitimizing discourse analysis might be biased toward what data was deemed valuable at the time.

As with the primary sources, our secondary sources range from a wide variety, ensuring a nuanced and solid foundation of knowledge. Furthermore, the topic of inheritance tax has been widely debated and researched in many countries and applies a wide range of political-economic models and theories. This high level of development of secondary sources ensures the quality of both objective knowledge about tax structures but also of inheritance tax within the scope of political economy. However, by concentrating on this paper's chosen methods and theories, it is a relevant disadvantage that very few scholars have attempted to utilize the social bloc theory concerning the topic of inheritance tax. This raises questions about the theory's durability and its application to inheritance tax. However, we do not find this to be a significant liability as the approach is relatively young and has shown great explanatory power (Baccaro & Pontusson, 2019).

Philosophy of Science

To do a comprehensive comparative analysis, some substantial theories are required to conceptualize what to compare and how to do it. Following the idea of the three levels of abstraction, the active reflection might stop at the substantive theory level for a significant part of research. Active is emphasized because all researchers, intentionally or not, will have to take a stance on the highest level of abstraction, namely what their philosophical assumptions are about the world, people, knowledge, etc. (Buch-Hansen, 2021a). This paper recognizes the importance of taking an active stance concerning the assumptions that guide our research and thereby attempting to increase its quality. Therefore, we have made active choices on all three levels of abstraction by intentionally selecting a philosophy of science (PoS) perspective, a substantive theory, and an empirical analysis.

This paper has chosen to apply the alignment strategy (Buch-Hansen, 2021c) which shortly described means that we have selected a PoS perspective, namely moderated critical realism, that coincides with our ideas and assumptions of the world, people and knowledge. Following this position, we established a research question within a topic of interest that matches these assumptions, developed a research design, chose theories, and collected data aligned with the foundational perspectives of moderated critical realism. A further elaboration of these foundational perspectives and assumptions, specifically epistemological, ontological, and axiological matters, regarding our paper will follow.

Starting from the perspective of social reality and the fundamental nature of the world (Buch-Hansen, 2021b), we explore the ontological assumptions from moderated critical realism and how they have affected our paper. Specifically, we elaborate on the two dimensions of society and humans. From a moderated critical realist perspective, society and the social dimension occur alongside and independent of the construction built to represent them, consequently adapting ontological realism (Buch-Hansen, 2021b). Furthermore, such reality is not limited to visible social events and the accompanying social constructs. It is perceived as a deeper dimension of underlying social constellations and mechanisms that affect our world's visible social events (Buch-Hansen, 2021b). At last, the ideational perspective of society and the social world are given equal weight of importance to the material world (Buch-Hansen, 2021b). Focusing on the perception of human beings, moderated critical realism takes a middle ground between other PoS perspectives. People are recognized to have agency, personality, and thereby the ability to act in a distinctive manner. However, this is not ultimate decision freedom. Moderated critical realism argues that all such agency is embedded in social reality, history, and the pre-existing structures they are sounded by (Buch-Hansen, 2021b).

Resting on the foundation of moderated critical realism these assumptions highly influence our paper. Our research design acknowledges the deep social structures importance, by utilizing the social bloc theory that aspires to uncover many of such social and power structures in society. Furthermore, our comparative research design is well matched to the actor and structure view from moderated critical realism. We focus on how the structures in both countries influence inheritance tax decisions and the impact observed by actors. This interplay between actors and structures is key to moderated critical realism (Buch-Hansen, 2020). Lastly, this paper's essential focus is its moderated critical realist position to incorporate the ideational and discourse aspect in an equally important sense as the objective reality. This is mostly incorporated as an analysis of the legitimizing discourse used by the prominent groups of the social bloc in both countries.

Moving on by shifting focus to the explanatory and knowledge dimensions, we attempt to elaborate on the epistemological views chosen by this paper. Sayer (2012) argued that one of the most significant parts of moderated critical realism is that it does not believe causation can be explained by regularity. He argues that "…Consequently, for realists, causation is not understood on the model of regular successions of events, and hence explanation need not depend on finding them, or searching for putative social laws (Sayer, 2012)". Instead, causation should be about finding and uncovering social mechanisms and structures that have resulted in a specific outcome (Buch-Hansen, 2021b). This retroductive approach is the most utilized by moderated critical realists. Apart from the explanatory modes of operation employed by the moderated critical realists, the stance on knowledge is vital. Moderated critical realists accept that an independent social reality exists apart from humans, therefore they argue that knowledge should be attempting to uncover actual knowledge about the world and accept the Correspondence theory of truth. However, it is further recognized that the world's structures and agents are dynamic. True knowledge will inevitably change when the phenomenon it attempts to uncover evolves (Buch-Hansen, 2021b).

Our paper has recognized and incorporated these epistemological assumptions by firstly utilizing the retroductive mode of operation. We did so by designing our study to allow us to begin by finding an intriguing outcome of the inheritance tax differences in the US and Australia and then attempting to uncover what possible mechanisms might be the causes. Similarly, this design focuses on the causations between the ideational and social structures of the world and the outcomes of interest. The central theoretical perspective of this paper is the social bloc theory which lends itself nicely to the epistemological assumptions of moderated critical realism. Firstly, it is built upon the retroductive logic and can be argued to follow the logic of Sayer (2012), where structures and actors produce mechanisms, forming outcomes. In the social bloc theory, the bloc itself consists of objective and ideational structures that create the outcomes' mechanisms. Lastly, as moderated critical realists have accepted that knowledge might be actual today, but false tomorrow (Buch-Hansen, 2021b), the social bloc theory acknowledges that these blocs are never set in stone and will change at some point.

Lastly, we will clarify how this paper has adapted to the value dimension and the axiological assumptions made. Moderated critical realism recognizes that research has an inherent bias and cannot be completely value-free. However, it does not believe that the goal of research should be to push an agenda and change an “is” to an “ought to be”. It, therefore, attempts to balance itself by being open and attentive to any possible biases and refraining from taking an open normative stance but focusing on explaining outcomes by identifying causal mechanisms (Buch-Hansen, 2021b). This paper has been designed on these assumptions, striving to become as value-free as possible by reflecting critically on our own potential biases. Furthermore, the paper will not take any active normative stance on whether one inheritance tax policy is preferable to the other. Instead, it will focus solely on uncovering what causal mechanisms can explain the differences.

Comparative Analysis

Australia

The structure of the Australian inheritance tax system before its abolishment is arguably an important reason for its removal. The inheritance tax was first and foremost designed in a two-level system at the federal and state levels. This, in some cases, forced people to pay an inheritance tax multiple time. The federal bottom exemption limit for any taxation was 40.000 AUD. This was estimated to include around 12% of the Australian population. However, the state bottom exemption limits were in many places even lower, hitting 12.000 AUD, which would further increase the part of the population affected by 24%. Adding to these relatively low exemption limits is the fact that these limits were set in the early 1940s, and especially throughout the 70s, Australia was plagued by high inflation rates topping at 15%. Consequently, as the exemption limits were not adjusted accordingly, the real value plummeted (Lin et al., 2018).

Beyond the bottom exemption limits, the tax rate on estates was designed progressively, increasing as the value of the estate rose, topping at 27,9% for any value (Gans & Leigh, 2006). Furthermore, this structure incorporated a significant part of the middle working class with its low exemption limits, but it was also a system easily exploited by the rich. In 1975 the Asprey Committee stated that“[the Australian death tax] is certainly at present a tax which can be avoided by well-advised persons with ease, and which might also be said to be paid principally from the estates of those who died unexpectedly or who had failed to attend to their affairs with proper skill” (Lin et al., 2018). It was further described by Cooper (1977) as a “voluntary tax”. Consequently, the economically well-off

Australians had a greater incentive and possibility to unburden themselves from any significant inheritance taxation, thereby shifting the burden onto the lower-income classes (Lin et al., 2018).

Following Baccaro & Pontusson's (2019) ideas and their approach to the German dominant social bloc, it is argued to have significant manufacturing interests and their employees at the core. We conclude that the Australian dominant social bloc around the mid-1970s consists of a core of agriculture, natural resource interests, and their employees. Looking at the Australian Stock Exchange around the 70s, we can observe the ten largest companies measured on their market capitalization. Out of the ten largest companies, one construction and one retail company appear as the 7th and 8th largest. However, the eight remaining companies, are based around natural resources (Williamson, 2011). We observe a market dominance around blue-collar jobs in the natural resource industry. We argue that the most prominent domestic companies are an essential aspect of identifying the core of the social bloc, as their interests are considered important, and they have privileged access to policymakers (Baccaro & Pontusson, 2019).

However, we want to increase the scope of our analysis further to ensure a comprehensive view of the core social bloc. We, therefore, turn to the exporting sector of the Australian economy. Making up around 15% of GDP, the exporting sector has a considerable influence on the domestic economy (Bank, 2022). Especially as we will see, the exporting power is consolidated in a few industries. Diving into the composition of the exporting sector, an even clearer picture emerges, as two very similar industries completely dominate Australian export. The agricultural industry’s export part fluctuates around 40-50% throughout the 70s, while the natural resource industry claims 30-40% of all exports. Consequently, agriculture and natural resource industries make up 70-90% of all Australian exports (Connolly & Lewis, 2010). Thus, we suggest that by utilizing the theoretical framework of the social bloc theory, we have identified dominant sectors vital to the national economy. The cross-class alliance of these important sectors will be at the core of the social bloc and have privileged access to policymakers and be highly influential in policy outcomes.

Having established the core social bloc, we seek to explore how this privileged class-crossing alliance legitimized their objectives to the rest of the nation, to gain support or at least silent acceptance. There are multiple ways to analyze the general discourse and public support for the inheritance tax. Firstly, we start by analyzing the reasons stated by members of the Australian house of representatives on debates on inheritance tax in 1978. Then we focus on one of the dominant discourses at the time, namely the disproportionate burden on the low and middle-income working class and especially the farming industry.

Among the politicians in the house of representatives, there was a great focus on the economic liability of this tax. 67,7% of the speakers identified economic reasons for their support of abolishment (Gilding & Glezos, 2014). Diving further into the subcategories, we see that a discourse of the inheritance tax as being a punishment for initiative and hard work emerges. Furthermore, the politicians repeatedly argued the effects on small businesses were devastating. Lastly, a discourse focuses on the family's justice both as a unit of production and as a provider of private welfare. Concrete examples of families having to leave their homes in the case of a death in the family due to the taxes owed on the estates were brought up (Gilding & Glezos, 2014). This focus succeeded in acquiring a stronghold in the population throughout the year. The inheritance tax quickly became the "death duty," which to many was associated with feelings of ghoulishness, iniquitousness, and counterproductive (Pedrick, 1981).

Following roughly the same type of rhetoric and discourse, newspapers often featured articles about the inheritance tax's challenges to the farming industry. According to Pedrick (1981), these were often front-page news, and many local blue-class workers were given time and space in the papers to put forward their opinions. The farming industry quickly secured the nationwide discourse with stories of farming families having to sell their lifework was immensely powerful. So powerful that when a survey was conducted among experts, government officials, and academics at the time, the farming bloc's "perceived hardship" was the most crucial factor fueling the abolishment movement (Pedrick, 1981).

The US

Shifting the focus to the US in the period of Australian abolishment, we see a radically different inheritance taxation structure after 1976. Before 1976 the bottom exemption limit was set at 60.000

USD, resulting in 6,5 % of deaths being taxable (Graetz, 1983). However, a significant exemption was introduced in 1948, where surviving spouses could deduct the value of any property being passed on (Jacobson et al., 2015). The inheritance taxation saw a massive rework in 1976, where the bottom exemption limits were lifted to 120.000 USD in 1977 and continued rising to 175.625 USD in 1980 (Jacobson et al., 2015). The top rate was 70%, and the bottom rate increased from 3% in 1976 to 18% afterward. However, the new very high bottom exemption rates meant that it was only the wealthiest 1-3% of the population that was subject to inheritance taxation (Graetz, 1983). Lastly, as stated by Graetz (1983): “Estate tax […] role is only to break up large concentrations of wealth […] no estate tax should be imposed on smaller or moderate-sized estates”, the system had a clear goal. However, the system was full of loopholes and allowed for creative ways for those with enough wealth to unburden themselves of any estate tax. This is also evident in the share of wealth held by the wealthiest 1% of Americans. Even though they were subject to inheritance taxes, up to 70%, they steadily held 20-25% of the national wealth throughout the period (Graetz, 1983).

Following Baccaro & Pontusson's (2019) ideas and their conclusion of a Swedish core social bloc that no longer had a “dominant fraction of capital”, we see a similar pattern in the core social bloc of the US in the 70s. The period was characterized by an economic downturn and high inflation. Before the stagflation period, the political economy of the US was characterized by a significant expansion of the state and a progressive stance on labor rights, accepted mainly by businesses (Akard, 1992). However, as the “inflexible” political-economic setup of the US clashed with rapidly increasing global competition and stagflation, Akard argues that: “the decade of the 1970s was one of political and ideological realignment in the United States.” By looking at data of the largest companies in the US, we see a differentiated picture of eight different industries represented in the ten largest companies (Kauflin, 2017). However, even though we have identified a very diverse core social bloc, with no particular industry privileged, Akard (1992) argues that a common business interest arose due to the economic situation at the time and quickly united for a pro-business agenda. The two most important of such united efforts was: “the creation of a "new" lobbying organization - the Business Roundtable - composed of the chief executive officers of most large corporations in the United States” and “The Carlton Group, an informal breakfast meeting of major business lobbyists to discuss tax issues. It consisted of representatives from the Roundtable, the NAM, the USCOC, the NFIB, the American Council for Capital Formation, the Committee for Effective Capital Recovery, and the Retail Tax Committee” (Akard, 1992). Acknowledging the united pro-business front's immense influence, which dominated the core social bloc, we argue that the working class was pushed to the periphery.

Furthermore, this paper argues that the restructuring of the inheritance tax that exempted most working class could be seen as a "payoff" to gain their acceptance of a much more significant pro-business reform. Noted by Akard (1992) this is listed as several "sweeteners", which included the increase of the bottom exemption limit, incorporated into the tax bill to persuade democratic members of congress. However, as these "sweeteners" would result in a reduction of tax cuts, the Carlton Group, amongst others, fought them hard, and at last, the inheritance tax was almost the only remaining "sweetener" (Akard, 1992).

As argued above, even though the restructuring of the inheritance tax can be seen as an appeasement of the periphery by the core to push their agenda through, we believe that the discourse surrounding inheritance taxation played a prominent role in ensuring that abolishment was never on the table. Leaning on the discourse analysis done by Beckert J. (Gilding & Glezos, 2014) we find that a symbolic liberal ideology dominated the public debate, especially in higher political layers, centered around equality of opportunity and unrestricted property rights. This symbolic and value-based level of discussion resulted in a much more polarized debate, making a practical conversation about the merits of abolishment unrealistic (Gilding, 2010). We believe that the type of discourse that sounded the inheritance taxation debate continued to legitimize its existence. The business social core did not attempt to change it, as it was merely a tiny part of their agenda.

Comparison

This paper has presented a social bloc analysis, with three main aspects, the structural design of the tax, the core of the social bloc, and the legitimizing discourse surrounding the debate on the topic, for the US and Australia to answer the research question. However, to fully understand the underlying mechanisms of the different trajectories of the US and Australia, we turn to a comparison.

Firstly, to understand and uncover any underlying mechanisms, we begin with the inheritance tax structure. Here we observe a substantial difference between the two countries. As argued in the previous sections, the bottom exemption rate in the US was around 3-4 times higher than in Australia, affecting between 1-6,5% of inheritances, while it was about 24% Australia due to its lower limits and double taxation by the federal government and the states (Lin et al., 2018) (Graetz, 1983). Additionally, the Australian inheritance taxation did not allow substantial deductions or exemptions for spouses, while the US had incorporated very generous exemptions for left-behind spouses. Consequently, a much more significant fraction of the Australian population, especially the working class and small business owners, experienced hardship due to the inheritance tax than in the US.

We have established a difference in motivation and burden of the inheritance tax in the two countries. The tax structure itself was not a guarantee for abolishment. We argue that Australia's dominant and privileged cross-class alliance in the agricultural and natural resource sector emerges clearly when comparing the core social blocs. However, even though the sectorial structures were more diffused in the US, a pro-business core appeared to respond to the dire economics of stagflation and decades of state expansion (Akard, 1992).

In Australia, the core position in the social bloc attained by agricultural and natural resource sectors enabled an agenda of inheritance taxation abolishment. Besides their influential position as an important industry their discourse throughout the period is seen to have a significant effect on the acceptance from the periphery. This was mainly seen in personalized, emotional stories, printed in the newspaper and later on brought up by politicians, of small business owners and farmers having to sell their lifework due to the death of family members. The debate evolved into a fight for justice for the family and hard work, which convinced many to embrace the term “death duty”. However, in the US, the pro-business core social bloc did not prioritize the abolishment of the inheritance tax. As previously argued, even with top rates of 70%, there was no significant redistribution of wealth from the top 1% which should have been affected by this very high tax rate (Graetz, 1983). Therefore, little motivation to give the issue top priority. Furthermore, the core social bloc was not able to control the discourse, with symbolic liberal equality of opportunity arguments kept delegitimizing the idea of abolishment (Beckert J. in Gilding & Glezos, 2014).

Discussion

This paper has addressed the research question by utilizing the CPE theory of social blocs affiliated with Baccaro and Pontusson (2016, 2019) and the philosophy of science perspective of moderated critical realism. This has allowed us to study the connection between sector specificity and inheritance tax policy in the US and Australia. The social bloc theory is a relatively new and underdeveloped theory that has not been applied in the context of tax policy in much prior research. This offers some potential explanatory limitations to our findings of differing sectoral structures of the core and their influence on the chosen inheritance tax policy. Hence, further research on taxation policy with the implementation of social bloc theory would be relevant. However, there are strengths in combining the social bloc framework with moderated critical realism when working with our research question. It allows for a deeper understanding of the connection between influential groups and tax regimes. Furthermore, the moderated critical realist approach turns our focus on any potential underlying mechanisms. It explains their effects on policy outcomes rather than discussing the normative preference for one policy over the other.

Alternative use of comparative political economy theories would have offered a different comprehension of the topic of our research question. A more significant implementation of the growth model theory would have allowed us to specify further the use of sectoral divisions. However, as the social bloc framework and growth model theory are mutually dependent and develop in tandem (Baccaro and Pontusson, 2019), we decided to focus on the part of the theory that allowed for the best application to our research question.

By investigating the main underlying mechanisms of differing policy outcomes, this paper could also have incorporated Power Elite Theory as it works to explain how a small minority of economic elites influence policies (Mills, 1956). However, Power Elite Theory is limited in its ability to recognize influence from all groups of society and does not emphasize the value of legitimizing discourse as social bloc theory does. We therefore found social bloc theory more fitting to answer our research question.

This paper could also have included the use of Social Structure of Accumulation (SSA) theory as it “links theoretical analysis with concrete institutional investigation” (Wolfson & Kotz, 2010). The SSA approach is concerned with the power structure of capital and labor classes and the relative influence over the state (Wolfson and Kotz, 2010). However, the social bloc framework is more useful when working with a multitude of groups from several sectors as it allows for a more extensive and in-depth analysis of elite groups in power. Also, the period in which we have specified our research question is when the SSA approach encountered significant explanatory difficulties (Wolfson and Kotz, 2010).

The philosophy of moderated critical realism was chosen for this paper as it is useful when trying to identify some of the underlying causal mechanisms related to the choice of inheritance tax policy. The choice of moderated critical realism also worked well with a comparative case study and the theoretical choice of the social bloc framework. Other perspectives would have been gained, had the paper used the philosophy of constructivism instead. However, constructivism would have been more fitting had the research question begun with a "How" instead of a "What" as constructivists are more concentrated on conceptions, ideas, and interpretations than with the mechanisms we worked to identify.

Conclusion

In conclusion, this paper has analyzed the divergent inheritance taxation policy by utilizing the social bloc theory. It has found the main underlying mechanisms resulting in these different outcomes are the different compositions of the core social blocs, the discourse surrounding the topic and the structure of the tax regime. In Australia, the very low bottom exemption limits, lack of preferential treatment of spouses and severe effect on agriculture, motivated a coalition of blue-class workers to seek change. We argue that they succeeded in this partly due to their centrality in the economy and placement in the core of the social bloc. Furthermore, the discourse of agricultural hardship and working class families having to sell their lifework, legitimized their cause and was an important part of gaining the peripheral and excluded groups' acceptance. This was not the case in the US, as we argue that the high bottom exemption limits and preferential treatment of spouses meant that the perceived need for radical change was not present. The core social bloc was dominated by a diverse variety of business interests, which was pushing for a radical pro-business reform of the entire economy, pushing any inheritance tax agenda to the side. However, the inheritance tax did see a reform in 1976, which was dominated by a symbolic and abstract discourse of equality of opportunity and property rights. We argue that partly due to this discourse the social bloc core did not find it attractive to focus on inheritance tax, but rather the economic reform at large. Lastly, it accepted a working class preferential inheritance tax change as a way to ensure the acceptance of their larger agenda.

Bibliography

Akard, J. P. (1992). Corporate Mobilization and Political Power : The Transformation of U . S . Economic Policy in the 1970s. *American Sociological Association*, *57*(5), 597–615.

Amable, B. (2017). Introduction. In *Structural Crisis and Institutional Change in Modern Capitalism: French Capitalism in Transition* (1st ed., Vol. 15, Issue 1, pp. 1–2). Oxford scholarship Online. https://doi.org/10.1093/acprof

Baccaro, L., & Pontusson, J. (2016). Rethinking Comparative Political Economy: The Growth Model Perspective. *Politics and Society*, *44*(2), 175–207. https://doi.org/10.1177/0032329216638053

Baccaro, L., & Pontusson, J. (2019). *Social Blocs and Growth Models: An Analytical Framework with Germany and Sweden as Illustrative Cases*.

Bank, W. (2022). *Australia Exports 1962-2022 | MacroTrends*. https://www.macrotrends.net/countries/AUS/australia/exports

Beramendi, P., Häusermann, S., Kitschelt, H., & Kriesi, H. (2015). Introduction: The politics of advanced capitalism. In *The Politics of Advanced Capitalism: Vol. C* (1st ed.). Cambridge University Press. https://doi.org/10.1017/CBO9781316163245.002

Buch-Hansen, H. (2021a). Introducing philosophy of science. In *Understanding and using Philosophy of Social Science* (1st ed.).

Buch-Hansen, H. (2021b). Philosophy of Social Science: a Typology. In *Understanding and using Philosophy of Social Science*. https://doi.org/10.4324/9780203802540

Buch-Hansen, H. (2021c). Using philosophy of science in your own work. In *Undertsanding and using Philosophy of Social Science*.

Connolly, E., & Lewis, C. (2010). Structural Change in the Australian Economy. *Reserve Bank of Australia Bulletin*, 1–10.

Cooper, G. (1977). A Voluntary tax? New Perspectives on sophisticated estate tax avoidance. *Columbia Law Review*, *77*(2), 161–247.

Duch, R. M., & Stevenson, R. (2010). The global economy, competency, and the economic vote. *Journal of Politics*, *72*(1), 105–123. https://doi.org/10.1017/S0022381609990508

Esping-Andersen, G. (1985). Power and distributional regimes. *Politics & Society*, *14.2*, 223–256.

Esping-Andersen, G. (1990). The three Political Economies of the welfare state. In *The Three Worlds of Welfare Capitalism* (1st ed., pp. 20–62). Polity Press.

Gans, J. S., & Leigh, A. (2006). *Topics in Economic Analysis & Policy Did the Death of Australian Inheritance Taxes Affect Deaths ? Did the Death of Australian Inheritance Taxes Affect Deaths ? ∗*. *6*(1).

Gilding, M. (2010). *The Abolition of Death Duties in Australia : A Comparative Perspective*. https://www.tasa.org.au/wp-content/uploads/2011/01/Gilding-Michael.pdf

Gilding, M., & Glezos, L. (2014). Inheritance taxes in Australia: A matter of indifference, not taboo. *Australian Journal of Social Issues*, *49*(1), 23–43. https://doi.org/10.1002/j.1839-4655.2014.tb00298.x

Graetz, M. J. (1983). To Praise the Estate Tax, Not to Bury It. *The Yale Law Journal*, *93*(2), 259. https://doi.org/10.2307/796307

Hall, P. A., & Soskice, D. (2001). An Introduction to Varieties of Capitalism. In *Varieties of Capitalism* (1st ed., pp. 1–68). Oxford scholarship Online. https://doi.org/10.1093/0199247757.003.0001

Jacobson, D., Raub, B., & Barry, J. (2015). *The Estate Tax: Ninety Years and Counting*. *1*(1), 391–400.

Jestl, S. (2018). *Inheritance Tax Regimes : A Comparison* (Issue 152).

Kauflin, J. (2017). *America's Top 50 Companies 1917-2017*. Forbes. https://www.forbes.com/sites/jeffkauflin/2017/09/19/americas-top-50-companies-1917-2017/?sh=7dde00c81629

Lewis-Beck, M. S., & Nadeau, R. (2011). Economic voting theory: Testing new dimensions. *Electoral Studies*, *30*(2), 288–294. https://doi.org/10.1016/j.electstud.2010.09.001

Lin, J., Mangan, J., & Milosavljevic, F. (2018). *Back from the Dead: Australian Inheritance Tax* (Issue August). https://aibe.uq.edu.au/project/back-dead-australian-inheritance-tax

Mills, C. W. (1956). *The power elite* (1st ed.). Oxford University Press.

Obinger, H., & Wagschal, U. (2001). Families of nations and public policy. *West European Politics*, *24*(1), 99–114. https://doi.org/10.1080/01402380108425419

Pedrick, W. H. (1981). Oh, to Die Down Under! Abolition of Death and Gift Duties in Australia. *The Tax Lawyer - American Bar Association*, *35*(Fall), 113–141. http://heinonline.org/HOL/LandingPage?handle=hein.journals/uwatlw14&div=29&id=&page=

Sayer, A. (2012). Key Features of Critical Realism in Practice: A Brief Outline. *Realism and Social Science*, *1975*, 10–28. https://doi.org/10.4135/9781446218730.n2

Scheve, K., & Stasavage, D. (2012). Democracy, war, and wealth: Lessons from two centuries of inheritance taxation. *American Political Science Review*, *106*(1), 81–102. https://doi.org/10.1017/S0003055411000517

Williamson, R. (2011). *The ASX top 10 ? then and now - Eureka Report*. Eurekareport. https://www.eurekareport.com.au/investment-news/the-asx-top-10-then-and-now/65922

Wolfson, M., & Kotz, D. (2010). A Reconceptualization of Social Structure of Accumulation Theory. In *Contemporary Capitalism and its crises* (pp. 72–89). Cambridgne Books Online.