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Eliminating the secondary earner bias. Policy lessons from the introduction of partial individual taxation in Sweden in 1971**

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Abstract: This paper examines the different elements included in the Swedish partial individual taxation reform in 1971. The purpose is to identify what policy lessons this reform holds for contemporary tax policy in the European Union member states that currently apply joint tax and benefit provisions. Even though contemporary circumstances have changed in relation to the historical context for Swedish reform, the common strand is that the provisions create both inactivity incentives on the labor market and low income traps for secondary earners. We suggest that a shift to individual taxation should be a part of family and social policies that promote gender equality, and that in turn should be consolidated within a sustainable idea about tax fairness.

Keywords: Sweden, secondary earner bias, tax reform, individual/joint taxation, tax design

1 Introduction

In a statement on future sustainability policy, the European Commission has identified gender equality as one of the core issues. Among other things, active policies are considered necessary to better utilize female talent and to improve the participation of women in the labor market, their economic independence as well as their pay and pensions (European Commission 2016a, 11). However, any

such ambition needs to be linked to the overall design of the tax system and especially the position of the secondary earner.

On a continuous basis, the European Commission has expressed concerns about the relation between taxation and the labor market participation of secondary earners in the member states (European Commission 2011, 2013, 2014, 2016b). In general, secondary earners are working women in married or cohabiting couples that earn less than their partner. The degrees of progressivity and definition of tax unit and tax subject are central elements in tax law which have impact on the incentives for the labor market participation for the secondary earner. It is clear that a family tax unit applying for joint taxation of spouses creates disincentives for the labor supply of the secondary earner, and the problem escalates with a more progressive structure of the income tax system. Transferable tax credits, tax credits based on the family unit, and eligibility and means-testing of social benefits based on household income, are also part of the negative incentives for secondary earners' labor market participation (Rastrigina and Verashchagina 2015, 9). Even if exemptions and deductions that are meant to improve the conditions for women's work have been incorporated into tax systems where the family is the tax unit, they still do not offer the same degree of fairness that is produced by an individual taxation system.

Against this background, the Swedish introduction of partial individual income tax in 1971 has been identified as a prominent example of how a tax reform may deal with the secondary earner bias in an efficient way.¹ In this paper, we will study the different elements included in the Swedish partial individual taxation reform in 1971 to identify the policy lessons this reform has for contemporary tax policy in the European Union member states.

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¹ One example of this is that during the Luxembourgish Presidency of the European Council 2015, the Labour Ministry, MTEESS, organized a conference on 'Individual taxation and employment' where this issue was discussed (MTEESS 2016).

We will argue that one of the most important policy lessons from the Swedish experience is that a shift to individual taxation cannot be limited to technical changes in the tax system. It also needs to be elaborated within a family and social policy context that recognizes the correlation between women's larger share of unpaid domestic work, particularly in families with small children, and the gender income and wealth gap. Fiscal and social policies have to be coherent in the ambition to promote women's paid work in the labor market.

2 Analytical Framework

One of the oldest debates on tax principles deals with the question of what constitutes the ability to pay taxes. It is a position of strong general validity that the concept of ability-to-pay principle is the best expression of the ethical idea of distributive equity in income tax law. The basic theoretical statement behind the ability-to-pay principle is that the measurement of individual taxpaying capacity should be equal to the amount or degree of a person's opportunities for the satisfaction of private needs. It is also generally accepted that income represents the best indicator of a person's capacity for the satisfaction of private needs. Consequently, the principle points out the individual as the preferred unit for measuring observed income representing the capacity to pay taxes (Gunnarsson 1995, 115–124).

However, a majority of the legal systems rest on a normative base where the family or the marriage is the unit of assessment for social entitlements and taxation. This model is representative for the traditional male breadwinner regime that is distinctively sexually segregated. The earner has, with very few exceptions, been the husband and the carer has been the wife. Against this background, much feminist revenue research has repeatedly questioned that the spousal or cohabiting couple is the appropriate tax unit from an ability-to-pay perspective. A gender-equality view of joint taxation maintains that the marital tax unit is both a defective indicator of the ability-to-pay and a disincentive for women's economic autonomy and their opportunity to participate in the labor market (Gunnarsson 2013, 305).

Joint taxation involves several dimensions which are related to both the tax system and the gendered division of labor within the family and the household. As noted by Sainsbury (1999), tax systems represent a crucial nexus of the State, the family and the market. In this paper, we intend to demonstrate how the 1971 tax reform in Swe-

den, with its comprehensive approach to the complexities of family taxation, addressed many of the crucial aspects which have been highlighted in the previous research on family taxation.

In this respect, the allocation of time of family members between the market and the household has been recognized as one of the most important economic issues in research on family taxation (Boskin and Sheshinski 1983). It has been noted that the household's time consumption is not limited to market work (paid work on the labor market) and leisure (defined as time used directly for one's own consumption). It also includes time spent in household production, that is, in producing goods and services within the household for consumption by the members in the household (Apps and Rees 2009).

In contrast to the Swedish experience, it might be argued that household production has been insufficiently treated in some of the high-profile tax policy reviews that have taken place in recent years. For instance, in a recent policy paper Apps (2016) criticizes both the Mirrlees Review (Mirrlees *et al.* 2011) and the Henry Review (Australia's Future Tax System Review Panel 2009), which analyzed the tax systems in Great Britain and Australia, respectively, for understating the impact of home production in the design of family taxation. This analysis reflects a general criticism of the assumption that the households' time choices are limited to rational choices between labor and leisure on the basis of economic self-interest, and that time not spent on market work should be viewed as productive leisure (Apps 2016; Apps and Rees 2009).

From a household production perspective, it must be recognized that the economics of a two-parent family differs fundamentally from that of a single-person household. The presence of a dependent child, and especially a preschool-aged child, creates an additional work choice. One partner can work at home providing child care and domestic services as an alternative to working in the market and buying in care and related services (Apps and Rees 2009). From this perspective, the family may be viewed as a small economy engaged to varying degrees in untaxed household production and exchange, where the latter creates an implicit wage within the household.² It can therefore be expected that the labor supply decision of the part-

² This means that home child care and domestic work in the two-parent family should not be regarded as unpaid. For a model of the household as a small economy with intra-household production and exchange/trade, see Apps (1982). In the household, there may also be lump-sum transfers as in any small or large economy in which there is centralized decision-making and a concern for equity (see Apps and Rees 1988).

ner with the option of working at home is more responsive to marginal tax rates, and to the hourly cost of child care as an additional tax on her wage, than that of her partner (Apps 2016; Apps and Rees 2009).

In this study, we focus on how these dimensions were dealt with during the decision-making process leading up to the 1971 tax reform in Sweden. Here, we consider results from previous Danish gender history research on government commissions and legislation processes related to gender and taxation. The Danish scholars have noted that government commissions functioned as knowledge-producing institutions as well as instruments for policy planning and legislation. In this regard, a number of different actors – for instance, representatives of political parties, interest groups (including women’s organizations), civil servants from relevant ministries, and academic experts – contributed to the commission reports (Ravn 2008; Ravn and Rosenbeck 2010). As for Sweden, it has been noted in previous research that government commissions dealing with family taxation seldom reached conclusions that were uniform and simple to the extent that Parliament could enact legislation based upon them. Instead, government commissions often produced a partly new agenda in relation to the commission guidelines (*kommittédirektiven*) by introducing new issues and perspectives. Since the results in the reports were often considered too complex and controversial from a political perspective, the Finance Ministry chose to refer the issue to an existing commission or even appointed a new commission. The legislation finally enacted was thereby the outcome of a longer process which had taken place on several arenas and where the dominating actors, solutions and perspectives had shifted over time (Bergström 2006; Bersbo 2012).

3 The Tax System Review Commission

It might be argued that the process leading up to the 1971 tax reform had already begun in 1960, when the Tax System Review Commission (*Skattesystemutredningen*) was appointed. One of the tasks given to the Commission by the Finance Minister was to review the joint taxation elements within family taxation.³ In this respect, it should be noted that the joint taxation elements in the tax system had been reviewed several times since 1945. During

³ Statens Offentliga Utredningar [SOU] 1964:25 Nytt skattesystem [government commission report] (Swed.) p. 17.

the 1950s, a majority position that supported the joint taxation had emerged. This position reflected a traditional view about how the ability-to-pay principle should be applied within income taxation. The family/household was still considered the natural tax unit. Because both spouses within a marriage had the right to the same standard, regardless of to which proportion each spouse brought income to the household community; this also determined the right to expenses and consumption for each spouse. The same applied for savings, which were credited to and could be disposed by both spouses. As the ability to pay tax thereby was based on the family/household as the tax unit, this meant that it was inevitable that the tax of one spouse would be related to the income and wealth of the other spouse.⁴

In 1952, the government reformed the joint taxation system by introducing income splitting. The underlying idea behind splitting of a taxable income between two jointly taxed spouses is that this in many cases leads to a lower tax than if the income of these spouses would have been jointly taxed, since the split income is taxed in brackets with lower rates than the combined, joint income. The 1952 tax reform had initially limited the income splitting up to a taxable income of 10 000 kronor. This meant that the income splitting rules embraced about 90 per cent of the marriages.⁵ In 1961, the limit for income splitting was increased to a taxable income of 16 000 kronor (equivalent to an annual income of 24 500 kronor). It was estimated that after this reform, very few marriages would experience the negative effects of joint taxation.⁶

However, as has been noted by economic historian Viktoria Bergström, the post-war policy discussions on family taxation coincided with a general debate on women’s work and the role of married women in the economy. This meant that even if there was a strong political majority behind joint taxation during the 1950s, there also existed a critical debate about the negative impact of the joint tax system and how alternative solutions such as in-

⁴ Statens Offentliga Utredningar [SOU] 1949:47 Betänkande med förslag till ändrade bestämmelser rörande beskattningen av äkta makar [government commission report] (Swed.) pp. 131-132; Statens Offentliga Utredningar [SOU] 1951:51 Betänkande angående den statliga direkta beskattningen [government commission report] (Swed.) p. 117.

⁵ Proposition [Prop.] 213/1952 Kungl Maj:ts proposition till Riksdagen med förslag om ändring i Kommunalskattelagen den 28 september 1928 (nr 370) m.m. [government bill] (Swed.).

⁶ Proposition [Prop.] 188/1961 Kungl Maj:ts proposition till Riksdagen med förslag om ändring i Kommunalskattelagen den 28 september 1928 (nr 370) m.m. [government bill] (Swed.) pp. 22-24.

dividual taxation could promote the conditions for working married women (Bergström 2006). This debate intensified during the first part of 1960s, as women's organizations and individual women professionals began to question joint taxation. Gradually, they could raise the issue to the political agenda by using feminist arguments related to women's work, motherhood, the gendered division of labor and the general position of women in the modern society (Karlsson Sjögren 2016).

In this respect, the proposal from the Tax System Review Commission reflected the traditional position. The Commission recommended an extension of income splitting between spouses' incomes to the degree that only a few per mille of all marriages within the highest income brackets would be affected by the negative tax effects of joint taxation.⁷ The Tax System Review Commission argued that this impact of income splitting would produce sufficient incentives for working women. In this regard, it is obvious that the Tax System Review Commission was dominated by the traditional view of the household, the family and the role of working women. For instance, the Tax System Review Commission noted that since it was not realistic for mothers and the majority of housewives to take up salaried work, any change in the joint tax system did not concern those groups. Broadly perceived, it was as if a change in the income tax system would only affect the working women as a small minority, almost as an exception, who needed to be treated as a special interest group.⁸

However, when the Tax System Review Commission published its report in 1964, some of the organizations who previously had been the most active supporters of income splitting had changed their positions. Most significantly, the labor unions who were represented within the Tax System Review Commission had now begun to support the idea of individual taxation and raised these arguments in a reservation against the majority proposal. This reservation was signed by two of the largest white-collar unions, namely, the Central Organization of Swedish Professional Workers (*Sveriges Akademikers Centralorganisation* – the federation for publicly and privately university-educated salaried members) and the Central Salaried Employees Organization (*Tjänstemännens Centralorganisation* – representing salaried employees in the lower and middle grades in both public and private sectors) as well as the blue-collar Swedish Trade Union Federation (*Landsorganisationen*).

In the reservation, these unions argued that the existing tax system was built on social ideas and labor market conditions that existed during the past, when women had been tied to the household. The fact that women's labor market participation had only been temporary under such conditions and had produced a perception within the tax system that the housewife was a norm and the working woman an exception. However, the unions noted that as increasingly more women were entering and were expected to enter the labor force, the tax system needed to change. Within the modern society, women and men should be treated equal. Discriminatory elements with origins in a traditional gendered division of labor, which prevented the complete legal and civil equality between the genders as well as their mutual responsibility for child care, should be repealed. The tax system should be designed in a way that did not prevent the wish to participate on the salaried labor market. This could not be guaranteed in a joint taxation system which included traps in the form of threshold effects for working women. However, the unions also noted that a transition towards individual taxation could be complex and difficult. Here, it was noted that under the existing tax rates, an introduction of individual taxation would lead to tax increases for both households with working women and households with housewives, who for different reasons could not be expected to enter the labor market. To deal with these problems, the labor unions expected that the introduction of individual taxation would be a long-term goal to be preceded by a transition period with measures for gradual adaptation.⁹

In the budget bill for the fiscal year 1965, the government acknowledged this criticism against the proposals on family taxation from Tax System Review Commission. In contrast to the proposals from the Commission, the Finance Minister noted that there existed strong arguments in favor of individual taxation from both a labor market/labor supply perspective and from a gender equality perspective. One result of this positive attitude was that he announced that voluntary individual taxation would be available from the fiscal year 1966. In turn, this meant that the Finance Minister was not ready to implement the proposals from the Tax System Review Commission or take any other permanent position on family taxation for the time being. Instead, he announced that the family taxation

⁷ SOU 1964:25 (Swed.) pp. 303-304.

⁸ *Ibid.* pp. 575-576.

⁹ *Ibid.* pp. 679-680 and p. 683.

issue needed further investigation, which would be undertaken within the Finance Ministry.¹⁰

4 The Family Taxation Committee

Between 1965 and 1969, the Family Taxation Committee (*Familjeskatteberedningen*) prepared its proposals. The Family Taxation Committee had one principal investigator, Erik Reuterswård, who was a Justice of the Supreme Administrative Court. Six experts were appointed to assist Reuterswård. These included three civil servants. Two of those, Gunnar Björne and Bertil Edlund worked in the Finance Ministry; while the third, Maj-Britt Sandlund, worked in the Ministry of Interior, which was the ministry responsible for labor market issues at that point in time. Two Members of Parliament, Cecilia Nettelbrandt from the Liberal Party (*Folkpartiet*) and Nancy Eriksson from the Social Democratic Party, also served as experts along with an academic, Leif Mutén, Professor of Financial Law at Uppsala University.¹¹

At its appointment, the Finance Minister declared that the Committee should not take any position whether individual taxation should be introduced or not. Its task was limited to produce alternatives for a transition to individual taxation, which could be applied in case a political decision to introduce individual taxation was made.¹² Despite this cautionary note, the Family Taxation Committee took a more radical approach in its interpretation of the family as a tax unit than previous tax commissions. As one of its central starting points, the Family Taxation Committee noted that an assessment of ability to pay should not be made dependent on sex or civil status. Such a dependency could have an impact on the expected increase in demand for labor supply in the future, as joint taxation was seen as an obstacle to married women entering the work force. Thus, it would obstruct the aim of equality between men and women. Another argument made by the commission was that joint taxation was not in line with the ability to pay-principle, which follows from the fact that income tax should be related to the individual tax subjects.¹³ This ar-

gument has later been reiterated by Swedish tax scholars (Lindencrona 1984, 346–348; Gunnarsson 1995, 178–179).

Based on the condition that a transition to individual taxation needed to be revenue-neutral, the Family Taxation Committee discussed three different options. The first option was a direct transition to individual taxation. However, the Committee doubted that such a complete shift would be possible to implement. Many households with housewives would not be able to adapt to the new conditions since they would not always find work in the place where they lived.¹⁴ The second option therefore included transition rules for women who had difficulties to find work due to their age. This proposal would benefit established marriages with an older housewife. For other groups, it was noted that while the tax for singles and married with two working spouses whose tax would be unchanged, it would mean a tax increase for married couples without children. But also, this proposal was rejected since it was considered improper and contrary to the existing labor market policy to connect age with the ability to find work.¹⁵ The majority in the Committee therefore recommended a third option, which was a modified form of individual taxation. As a rule, spouses would be taxed individually. However, to modify the tax consequences for those households with a single breadwinner that no longer could use the basic deduction for his housewife, a tax reduction was proposed. It would operate as a full compensation for the loss of the double basic deduction and phase out in relation to the gap between the wife's earnings and the basic deduction. When the earnings of wife would equalize with the basic deduction, the husband would also lose the right to a tax reduction.¹⁶ This solution was mostly aimed to protect the existence minimum for low income, single breadwinner families that basically had limited options to change the livelihood patterns, and should not be regarded as a so-called housewife premium.

Further alternatives were presented by Cecilia Nettelbrandt and Leif Mutén in their respective reservations against the committee majority. The reservations from Nettelbrandt and Mutén included much more elaborate proposals concerning the tax design than proposed by the Committee majority. As for Mutén, he questioned the way the Family Taxation Committee had framed certain policy options in terms of winners and losers within the income tax system. According to Mutén, it was necessary to take a wider perspective on the funding of the reform. Politically

¹⁰ Proposition [Prop.] 1/1965 Kungl Maj:ts proposition till Riksdagen angående Statsverkets tillstånd och behov under budgetåret 1965/66. Bilaga 1: Finansplanen [government bill] (Swed.) p. 25.

¹¹ Ministry of Finance [Fi.] 1969:4 Individuell beskattning: betänkande. D. 1. Motiv och förslag [ministry committee report] (Swed.) p. II.

¹² *Ibid.* p. IV.

¹³ *Ibid.* pp. 60-67.

¹⁴ *Ibid.* pp. 103-105.

¹⁵ *Ibid.* pp. 126-129.

¹⁶ *Ibid.* pp. 136, 136 and 142.

unacceptable negative effects could be softened if a shift to individual taxation also involved changes in other parts of the tax system.¹⁷

Nettelbrandt pointed out that any future individual income tax reform would have to place the issue of family taxation within a comprehensive family policy perspective. Her view was that the public family support in the welfare state should be regarded as one, unified system, irrespective if it was distributed as a tax expenditure over the income side of the budget or as a social benefit, transferred over the expenditure side of the public budget. She also pointed out that there had been a parallel process in the two Government Committees, the Family Taxation Committee and the Family Policy Committee (*Familjepolitiska kommittén*), which was dealing with family support in the benefits and social transfer system and submitted its report in 1967. In this regard, Nettelbrandt noted that an integrated and systematic coordination of the work in the two committees would have given a more sustainable reform on the taxation of spouses. Nettelbrandt argued that the introduction of individual taxation should take place within a comprehensive tax reform that eased the tax burden and marginal taxation for low-income earners and increased the VAT share of total tax revenue in a way which would not affect low-income earners.¹⁸

5 The Political Background to the Reform

It is important to consider the fact that the Social Democrats had gained an absolute majority in the Parliament after the general election in 1968 and the party could thereby single-handedly influence the design of the 1971 tax reform (Bersbo 2012, 156). The Social Democratic position on individual taxation as it emerged during the latter part of the 1960s was the result of an interaction between different elements. One element was related to labor market policy. In 1966, a Long-Term Survey of the Swedish Economy, which had been prepared to provide a basis for economic policy, had raised concerns about labor supply in the future. To prevent a future labor shortage, it was recommended that the government should encourage more

married women to enter paid work.¹⁹ It would therefore be necessary to adapt a number of policies, including the tax system, which included elements that provided obstacles to the entry of married women into the labor market.²⁰ After a few years of instability, an economic boom occurred in 1969, with clear indications of labor shortage in most counties in Sweden. These developments in the labor market convinced the Finance Minister that it was necessary to introduce individual taxation as part of a larger tax reform (Elvander 1972, 272).

Another, related element was gender equality and family policy. Since the interwar period, there had been a strong women's activist lobby inside the Social Democrat Party. Many influential women within the Social Democratic party, for instance Alva Myrdal and Karin Kock, were well-educated and participated in the institutionalization, politicization and expansion of gender equality during the post-war period (Florin and Nilsson 1999). During the last years of 1960s, the Social Democratic party developed a new gender equality program, which was adopted at the 1969 party congress (Lundqvist 2011). In this program, the Social Democrats introduced proposals that would support the emergence of a reformed nuclear family – the dual-breadwinner nuclear family (Sveriges Socialdemokratiska Arbetareparti 1969a, 104).

The method to promote equality was to treat family members as individuals. Individuals should be treated equally, regardless if they were living alone or in some form of cohabitation relationship and all relevant legislation should reinforce the economic independence of the individual as the cornerstone of equality. This made it necessary to reform the family-related legislation, which encompassed not only inheritance, marriage and marriage rights, but also tax and the social transfer system (Sveriges Socialdemokratiska Arbetareparti 1969a, 97).

However, it was also noted in the Social Democratic family policy program that planned changes would be a long-term project. This also applied to the tax policy proposals. In the equality program, it was proposed that the tax rates for single individuals and married couples should be aligned gradually. This would soften the threshold effect for women entering the labor market at the same time as it facilitated the transition for older families and people living in towns with unemployment or a dominantly male labor market (Sveriges Socialdemokratiska Arbetareparti

¹⁷ *Ibid.* p. 203.

¹⁸ *Ibid.* pp. 198-202.

¹⁹ Statens Offentliga Utredningar [SOU] 1966:1 Svensk ekonomi 1966–1970 med utblick mot 1980 [government commission report] (Swed.) pp. 33-36.

²⁰ *Ibid.* pp. 123.

1969a, 39). The proposal presented by the Finance Minister at the party congress was, however, more radical. He stated that he was going to introduce individual taxation with a single rate, but also compensate those single breadwinner families who would be affected by the shift from income splitting to individual taxation (Sveriges Socialdemokratiska Parti 1969b, 84–85). This was probably a measure to gain acceptance for the introduction of individual taxation from older party members, including those housewives who were influential within the Social Democratic women's league. It was probably necessary to reach a compromise in a debate that had been going on during the 1960s between educated professional women on one hand and established housewives on the other hand (cf. Florin 1999).

It should also be noted that two prominent issues with strong impact on women's work were settled in parallel with the planning of future tax reform. These were the introduction of gender-neutral parental insurance and the development of public day care for children. Maternity insurance had been discussed extensively during the latter part of the 1960s. These discussions were initially shaped by political divisions concerning women's work. However, the Family Policy Committee, which was in session during 1965–1972, later became the main vehicle for the consensus-building around a gender-neutral parental insurance (its proposal was backed by all political parties). Within the gender-neutral parental insurance, support was no longer aimed at women only. Instead, it gave both parents the opportunity to take responsibility for taking care of their children (Lundqvist 2011, 71–72).

As for public day care for children, the government realized in 1963 that it needed to increase the number of day care places as a response to a growing number of women in the labor market. During the latter part of the 1960s, state funding for public day care was increased substantially. These measures were framed as offering women the liberty of not having to choose between children and employment (Lundqvist 2011, 64). From 1970, the expansion of public child day care was substantially intensified (Hirdman ed. 2005, 49).

6 The 1971 Tax Reform

6.1 The Overall Design of the Reform

Improving gender equality was not the only goal that the Social Democrats wished to achieve through the 1971 tax reform. The reform also had strong redistributive motives.

For the Social Democrats, it was desirable to curtail the economic power and social status that wealthy groups enjoyed, and improve economic and social equity in a way that benefitted low-income groups.²¹

As a part of this ambition, the 1971 tax reform changed the progressive profile of the income tax schedule. A large group of full-time, low-income earners received an income tax reduction by an increase of the municipal, basic deduction and the introduction of a basic deduction on the state income tax to make the tax schedule more neutral between single households without children and households with children. Until the reform, the tax scheme had been lower for households with children, but the neutralization of income tax between different types of households produced a relative effect of an increase of income tax for married couples.²²

To compensate those married single-breadwinner couples who would be negatively affected by the shift to individual taxation, a tax reduction of maximum 1800 Swedish kronor was introduced. In principle, this deduction replaced the previous right for a single breadwinner to utilize the basic deduction of the housewife to lower his taxable income. As mentioned earlier, the tax reduction phased out if the non-working spouse would receive the earned income, as she would then start to utilize her own basic deduction.²³

The income tax cuts in the 1971 tax reform were funded not only by shifts in the income tax base between the lower and the highest tax brackets, but also by shifting other tax bases. The value-added tax was increased by 5 per cent, from 10 to 15 per cent.²⁴ The regressive effects of this increase for lower income groups were compensated with increased social transfers such as child allowances and other family-related social benefits. This reflected a general ambition expressed in the reform to integrate the transfer and benefit system for families with the tax system.²⁵ The tax reform was also funded by increases in the inheritance and gift tax and the wealth tax. In line with the redistributive ambition of the reform, large wealth and es-

21 Proposition [Prop.] 70/1970 Kungl. Maj:ts proposition till riksdagen med förslag till lag om ändring i kommunalskattelagen (1928:370), m.m. [government bill] (Swed.) pp. 68-70; Proposition [Prop.] 71/1970 Kungl. Maj:ts proposition till riksdagen med förslag till förordning om ändring i förordningen (1947:577) om statlig förmögenhetsskatt m.m. [government bill] (Swed.) p. 43.

22 Prop. 70/1970 (Swed.) pp. 74-75.

23 *Ibid.* pp. 76-77.

24 *Ibid.* p. 101.

25 *Ibid.* p. 70 and pp. 73-74.

tates were singled out as a prioritized target for increased taxation (Government bill 71/1970).²⁶

6.2 The Limits to Individual Taxation

There is no doubt that the 1971 tax reform was part of a genuine ambition to align the tax system with the overarching ideas of gender equality promoted by the Social Democrats. Already in 1960, Gunnar Sträng, who was the Social Democratic finance minister during the period 1955–1976, had announced that the existing tax system had been designed in a different society and was becoming outdated.²⁷ In the government bill where the 1971 tax reform was introduced, the Finance Minister reiterated this position. He noted that joint taxation had been introduced in a context with limited possibilities for women to work for their livelihood. As such, the joint taxation had made women dependent in a manner that no longer could be accepted. Within the contemporary society, the Finance Minister argued, it was only natural that a tax system which in its essential respect was independent of gender and marital status was introduced.²⁸

However, in the 1971 tax reform, individual taxation was not extended to all parts of the income tax system. In contrast to the so-called 'A-income', which represented earned income and income in place of earned income such as pension, so called "B-income", represented by capital income and other forms of unearned income, continued to be jointly taxed for spouses. If both spouses had A-income, the B-income was jointly taxed on top of the highest A-income of the spouses. If the spouses only had B-incomes, the tax was calculated on the sum of the total B-income and the sum was divided between the spouses in relation to their individual B-incomes. If one of the spouses had no taxable income at all, no income or tax was split between the spouses. Other remaining forms of joint taxation were the right to transfer deficit and losses of income between spouses.²⁹ The basic objective for keeping the joint taxation of B-income was the idea that the position of wealth and the return from wealth in the form of dividend on capital and alike, would benefit the living stan-

dard of all members of the family, irrespective of formal ownership over the possessions.³⁰

7 Transition Problems Related to Family Businesses

After the introduction of individual income taxation, some problems related to tax units where actual joint taxation (faktisk sambeskattnng) remained to be solved. It was noted that actual joint taxation was applied on family-based economic units such as family businesses and/or farms where the husband was the owner, but where the wife also worked. Such units were taxed in a way that resulted in full taxation of the entire income for the owning spouse, that is, an actual joint taxation situation. This problem was partly solved by a reform in 1976 that made it possible to attribute part of the business income to an assisting spouse under certain conditions.³¹

Yet another problem related to family firms that appeared after the 1971 tax reform was the increased incentives for tax evasion through family transactions. This was particularly the case with small and medium family businesses that had livelihood purpose. With the purpose to protect conversion of wage income to capital income and to draw a limit between production and private consumption inside the business in SME's structured as close companies, special rules for taxing owners were introduced in 1976. The main objective was to restrict the income transfer inside the family.³²

8 The Abolishment of the Remaining Joint Elements in the Tax System

Gradually, the remaining joint elements of the income tax system were removed in the decades after 1971. One signif-

²⁶ Prop. 71/1970 (Swed.).

²⁷ SOU 1964:25 (Swed.) p. 15.

²⁸ Prop. 70/1970 (Swed.) p. 71.

²⁹ *Ibid.* pp. 89-92.

³⁰ Statens Offentliga Utredningar [SOU] 1977:91 Översyn av skattesystemet. Slutbetänkande av 1972 års skatteutredning [government commission report] (Swed.), pp. 117-118.

³¹ Statens Offentliga Utredningar [SOU] 1975:77 Allmän skatteflyktsklausul [government commission report] (Swed.).

³² Statens Offentliga Utredningar [SOU] 1975:54 Fåmansbolag [government commission report] (Swed.) p. 81 and p. 88; Proposition [Prop.] 1975/76:77, Om avveckling av s.k. faktisk sambeskattnng [government bill] (Swed.).

icant event in this regard was the tax reform related to the so called “Wonderful Night” in 1981. The large, general reduction of the progressivity of the national (state) income tax that resulted from this reform also reduced the joint taxation of the B-incomes. As the B-incomes were jointly taxed on top of the A-incomes, the effective marginal tax rates were very high before 1982. However, the generally lowered progressive profile of the national tax rate schedule cut these rates. The joint taxation of B-incomes was also limited to a smaller part of the income, the so called *tilläggsbeloppet*.³³

In 1986, a reform completed the long process to introduce full independent income taxation of spouses as the joint taxation of B-incomes and the right to transfer deduction for deficit and the losses of income between spouses were finally abolished.³⁴ However, the final stage of completion was lacking a statement on principles from the legislators. Gustaf Lindencrona, who followed the Swedish process of transforming the income tax unit from joint to individual closely, was quite critical about this fact. He had hoped that such an important reform should have expressed objectives on gender equality, equality of treatment and that tax law should not interfere in the choice of forms of cohabitation (Lindencrona 1989).

The last remnants of household income based family taxation was thereafter abolished in two steps. The 1991 tax reform removed the remaining deductions related to family taxation from the tax system.³⁵ Joint taxation of wealth, which was the last remaining element of the joint taxation, was finally abolished in 2007 when the wealth tax was repealed.³⁶

9 Summary

During the first years of the 1960s, income splitting was still considered to be appropriate for the taxation of spouses in Sweden. However, as we have described in this paper, the previous almost unison support for income splitting diminished in the middle of 1960s. Instead, the secondary earner bias related to joint taxation was identi-

fied as a problem, not only by influential organized interests such as the labor unions, but also by the Finance minister. As joint taxation was an obstacle for married women to participate in the labor market, this was framed as obstructing the aim of equality between men and women.

As a response to this, the Family Taxation Committee was appointed to prepare alternatives for a transition to individual taxation which could be applied in case there was a political decision to introduce individual taxation. However, as the 1971 tax reform was prepared, the issue of individual taxation became integrated in a much more comprehensive reform package. As a result, the 1971 tax reform changed the progressive profile of the income tax schedule. A large group of full-time, low-income earners received an income tax reduction by an increase of the municipal, basic deduction and the introduction of a basic deduction on the state income tax to make the tax schedule more neutral between single households without children and households with children.

In this respect, the 1971 tax reform was strongly influenced by the Social Democrats’ gender equality and family policy program, where the idea of dual-breadwinner nuclear family was one of the foundations. The introduction of partial individual income taxation was thereby combined with other measures and instruments, not least within the social transfer system and welfare state services, which were designed with the aim to improve the conditions for women’s paid work on the labor market.

9.1 Policy Implications

As with all comparisons between history and the present time, there are strong reasons to be careful of drawing very strong policy-related conclusions from one single case. Some fiscal policies may not be available as the contemporary circumstances have changed in relation to history (cf. Crafts 2013, 277–78). It is therefore necessary to recognize that some political and economic structures in Sweden during the examined time period were rather unique. It is quite rare that one party enjoys such electoral support that it single-handedly can dictate domestic policy as the Social Democrats could in 1970. In this regard, it should also be noted that in 1970, Sweden was the fourth richest country in the OECD based on the GDP/capita indicator, which meant that this government could be quite expansive in its budgets (Eklund 1999, 396). Furthermore, there existed a much larger scope to pursue an active economic policy and expand the public sector than what is possible in Europe today under fiscal frameworks such as the Stability and Growth Pact and the Maastricht criteria.

³³ Proposition [Prop.] 1981/82:197 Om reformerad inkomstbeskattnig [government bill] (Swed.).

³⁴ Proposition [Prop.] 1985/86:130, Om inkomstskatten för åren 1987 och 1988 [government bill] (Swed.).

³⁵ Proposition [Prop.] 1989/90:110 Om reformerad inkomst- och företagsbeskattnig [government bill] (Swed.) pp. 364–367.

³⁶ Proposition [Prop.] 2007/08:26 Slopåd förmögenhetsskatt m.m. [government bill] (Swed.).

Despite such historical differences, it is nevertheless notable that the Swedish policy choices related to the 1971 tax reform resemble the contemporary solutions that two OECD economists put forward in a report published in December 2016. This report notes that, irrespective of the underlying method of taxation (joint/individual), one policy option is to lower statutory tax rates that will reduce disincentives for all workers. Reflecting the Swedish experience, it is acknowledged that this would come at a significant fiscal cost as well as reducing the redistributive impact of the personal income tax. From this perspective, the OECD economists also presented an alternative in the form of a rate reduction at the lower end of the income distribution (where a significant proportion of second earners will be situated). As in Sweden, the shift could be funded as part of a broader revenue neutral tax reform by increasing rates further up the income distribution or by a shift toward other tax bases (Thomas and Reilly 2016, 26).³⁷

As a final echo of the Swedish tax policy trajectory during the 1960s, the OECD economists noted that whatever the reform option, it is important to consider its design in the context of the entire tax-benefit system. They recommend that on occasions where reform is not possible in the short run due to fiscal and/or political economy considerations, second earner disincentives should be taken into account in any major tax reform in the future, so as to better reconcile the equity and efficiency objectives in the tax system as a whole (Thomas and Reilly 2016, 26).

It may thereby be argued with a certain degree of confidence that the Swedish experience of introducing partial individual income taxation in 1971 still has relevance for the tax policy debate in today's Europe. To eliminate the tax-related disincentives to female employment and promote incentives for a more equal intra-household distribution of paid and unpaid work remains as one of the most important tax objectives (Gunnarsson *et al.* 2017). Indeed, there are several policy lessons that may be learned for contemporary EU member states. These include, but need not be limited to, the points below:

- A majority of tax payers need to gain from such a reform.
- In turn, this requires that the funding and redistribution ambition within an individual taxation reform must include not only several different tax bases but also relate to economic parts of family policies and the social service and transfer system.

- If a reform should be revenue-neutral, it is inevitable that some groups must pay more tax than they paid before the reform. Given the tax cuts for wealthy taxpayers with high incomes during the last decades, there exists a case to assess to what extent not only inheritance and wealth taxes, but also increased income tax for top earners, might contribute to the funding of such a reform.
- Even if a reform may need to include transition rules for single breadwinners, such rules need to be clearly defined and have a set end date.
- A reform of that scope and scale takes time to prepare and implement, not least due to all the elements that it needs to be integrated with.
- The tax reform needs to be accompanied by family policy reforms in legal areas connected with female participation in the labor market. It is necessary that the core of family policy linked to women's work becomes gender-neutral and that women's work does not continue to be discriminated due to lags in those areas.
- The introduction of public day care and general services for children's welfare together with a program for the promotion of children's interests in a dual breadwinner society must be integrated in this process.

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³⁷ This discussion was influenced by another OECD report prepared by Brys *et al.* (2016).

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