Economic History

An indirect route to equality

Taxing consumers to build the Swedish welfare state

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Akademisk avhandling

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Abstract
The question of who paid for the welfare state in postwar Sweden has been subject to extensive debate. Many have focused on the comparatively high, and steeply progressive, taxes on income. Others have claimed that low and middle earners paid disproportionately more, pointing to the comparatively high revenue share of value added tax (VAT) for instance. No convincing assessment has been made of the extent to which consumption taxes counteracted the progressivity of income taxes. The thesis presents new estimates based on tax assessments and household surveys, which show that consumption taxes did offset tax progressivity considerably. Moreover, they were important even before the VAT. There was not a sharp break, but a gradual transition from excise and customs duties to general sales tax to VAT. The VAT meant a shifting of the weight more towards the lower end of the income distribution.

This insight begs the question of what caused such a fiscal arrangement. What made postwar Sweden’s labour governments favour a tax that fell disproportionately on low earners, a core part of their constituency? Through an analysis of policy documents, the author shows that the governing Social Democrats were well aware of the dilemma. The party leaders used general consumption taxes explicitly as a ‘lesser evil’ component in a strategy for expanding the public sector and welfare systems. That aspect has previously been neglected when telling the story of this formative era. The thesis demonstrates that it deserves to be brought into a central place in that story.

Corporatism remains a valid explanatory factor. The business community had an influence on determining the details of the general sales tax, albeit not the overall level. Tax reliefs on certain important inputs such as building materials and were granted after a series of appeals. The author argues that the transition from sales tax to VAT can be seen as a final solution to these protests about business inputs being unfairly taxed. The will of the domestic business community was of a more immediate importance for the switch to VAT than any potential tendency of compliance towards supranational organisations such as the EEC pushing the government to follow their edicts concerning VAT, as has otherwise been suggested.

The political left in Sweden was initially against the general sales tax because of its burden on low earners. The political right opposed the general sales tax because it would increase the overall tax take, and risked becoming an all too convenient revenue machine for the government. The left changed position and began framing it as a tool for realising welfare state expansion. The right reframed it as a tool for keeping the progressivity of taxation down.

Keywords
Taxation, progressivity, economic history, consumption taxes, VAT, tax incidence, regressive taxation, inequality, income distribution, equity, distributive justice, fairness, household budget surveys, tax policy, welfare state, postwar era, institutions, corporatism, EEC, EFTA.