The Leap of Faith

The Fiscal Foundations of Successful Government in Europe and America

EDITED BY
SVEN H. STEINMO
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Creating Tax-Compliant Citizens in Sweden

The Role of Social Democracy

Jenny Jansson

As discussed by Nistotskaya and D’Arcy in Chapter 2 on Sweden, a long tradition of generally high-quality institutions has paved the way for excellent state capacity. This chapter focuses on the twentieth century, a time when Sweden developed into a high-tax-rate country with extraordinary tax compliance—a unique combination. Sweden underwent a profound transformation in the middle of the twentieth century: The Social Democratic Party (Socialdemokratiska arbetpartiet, or SAP) won the 1932 election and stayed in office for forty-four consecutive years. High union density and corporatism introduced in the postwar period gave extensive powers to the union movement and to employers’ organizations. The “golden age” of social democracy—the 1950s and 1960s—was characterized by full employment, an expanding welfare state system that included benefits such as comprehensive all-inclusive social insurance schemes, and diminishing wage inequality. It was in this context that Sweden transformed from a country with low tax rates to a country with high tax rates. Swedes are today among the most heavily taxed people in the world. Interestingly, Sweden also has the highest level of tax compliance, an unexpected combination. How was such a transition possible?

This chapter focuses on the sense-making of the tax system. More specifically, I examine how the SAP tried to create and reproduce tax morale while upholding the state’s capacity to collect taxes. In democracies, governments need the electorate’s support for their policies, regardless of the capacity of the state; of course, how citizens perceive politics is also important for winning elections. The political elite can play a crucial role by making sense of policies
and acting as mediators to raise awareness. This is particularly important when a government pursues policies that may be unpopular among its citizens, such as raising taxes.

**Perceptions of Fairness and Tax Compliance**

Taxes can be understood as a contract between the citizens and the state: Citizens pay taxes in return for security and social services (Scholz 2003). Margaret Levi calls this contract one of quasi-voluntary compliance: An individual will cooperate with the government only if he or she perceives that the government is fulfilling its part of the contract. It is quasi-voluntary because the state possesses coercive means to make people pay (Levi 1988: 52–3). This does not imply that the state can do as it pleases. In democracies, unlike authoritarian states, dissatisfaction with the government’s actions in fulfilling its part of the contract is expressed through elections. Citizens who are dissatisfied with taxation policy can vote for someone else, and thereby pursue changes in the contract. Therefore, if governments wish to raise taxes, citizens must be persuaded to approve such policies. Under these circumstances, the sense-making of the tax system becomes very important because it affects how citizens perceive taxes. For instance, if the common understanding of taxation is that it leads to free healthcare, citizens ought to be more willing to pay than if the common perception is that taxes are used to finance war.

There are two preconditions for upholding a tax contract between the state and its citizens: the state’s capacity to collect taxes, and the state’s ability to deliver something in return for the tax money (Levi 1988). These two factors—ability to collect and ability to deliver—are important for an understanding of tax compliance because they trigger ideas of fairness among the citizens. Research has demonstrated that perceived fairness is decisive for tax compliance; if citizens perceive the tax system or the government’s use of tax money as fair, it is more likely that they will comply. A perception that the fiscal contract is just and that others are fulfilling their part has been proven to be important (Roosma, van Oorschot, and Gelissen 2015; Scholz 2003).

Previous research on tax compliance indicates that fairness can take on at least two different dimensions: It can be linked either to the state’s capacity to collect taxes (i.e. does the tax-collecting process treat everyone fairly?) or to the redistribution of the taxes collected (i.e. is the state using the money in a fair and acceptable way?). The collecting process, which I refer to here as the perceived state capacity to collect taxes, refers to how the tax system and tax agencies work. In particular, two parts of the collecting process affect how citizens perceive tax collection. The first part is related to the effectiveness of
the tax system and to who pays. If citizens perceive that only parts of the population actually pay taxes due to non-functioning institutions, there is likely to be a negative impact on compliance. Likewise, if the tax rules are very complicated, with numerous deduction possibilities, there is always a risk of tax avoidance. Tax planning tends to create a sense of unfairness; some people get away with paying less because they have the economic means or knowledge to do tax planning. If citizens perceive that others are “getting away with something” and not fulfilling their part, compliance will deteriorate (Levi 1991; Scholz 2003: 196). A sense of injustice impacts citizens’ perceptions of the tax system negatively; no one wants to be the “sucker” who pays more than other citizens. The second part of the collecting process that ought to have an impact on tax compliance centers on the simplicity of the system: Is it difficult to pay taxes? If institutions are designed in a way that demands considerable effort from citizens, there is a risk that paying taxes becomes a burden to the citizens in a double sense. Making it difficult to pay taxes reminds citizens of their “sacrifice” to the state, which may well lead to a closer evaluation of how the money is spent and whether the process is fair. Hence, their experience of paying taxes will impact citizens’ willingness to pay (see Table 3.1).

The second dimension of fairness focuses on the state’s ability to deliver services in return for taxes: the perceived fairness of the redistribution of resources. Within the field of tax research, it has long been claimed that citizens who perceive that they receive good services in return for their tax money will be more compliant (Levi 1988; Levi and Kiser 2015: 8; Timmons 2005). Tax compliance depends on citizens’ perception of the output from the tax system—the redistribution of resources. If the state does not deliver sufficient services in return for tax money, its citizens will object. In the same way, if the fiscal contract is perceived to be unjust, in the sense that the state takes more than the citizens get back, this will impact compliance (Levi 1988; Roosma, van Oorschot, and Gelissen 2015; Scholz 2003: 153–4). Finally, if citizens perceive that they are paying for others but do not get much in return themselves, this perception tends to trigger a feeling of unfairness; hardly anyone wants to pay for others. Combined with efficient tax-collecting

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<th>Table 3.1. Mechanisms of compliance</th>
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<tr>
<td>Fair redistribution</td>
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<td>Unfair redistribution</td>
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<tr>
<td>Perceived state capacity: Good</td>
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<tr>
<td>“Of course I’ll pay!”</td>
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<td>(i.e. you get what you pay for)</td>
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<td>“License to retrench”</td>
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<td>(i.e. you pay for more services than you receive)</td>
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<td>Perceived state capacity: Bad</td>
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<tr>
<td>“A bit of fudging prevents you from being the sucker”</td>
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<td>(i.e. you may be paying more than others)</td>
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<td>Coercion</td>
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<td>(i.e. you may be paying more than others and receive too little in return)</td>
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institutions, perceptions of unfair redistribution ought to make it easy for politicians to make cuts in the welfare state (compare Stanley, Chapter 7 in this volume, on the UK, and David Cameron’s retrenchment politics).

I use these two dimensions—state capacity and fair redistribution—to analyze the policies of the Social Democrats in the postwar period.

The two dimensions of fairness support an understanding of why citizens comply, but how are citizens’ perceptions of the tax system formed? I argue that a perception of fairness comes from the personal experience of paying taxes and the public sense-making of taxation.

Personal experience of the tax system strongly depends on how the tax-collection process is designed. The tax return procedure is of particular interest here, since tax returns are the most obvious contact that citizens have with a tax agency. Thus, tax returns play a major role in citizens’ perceptions of the tax system and ultimately impact their perception of its fairness. Technology can improve institutions (North 1990: 131–40), so examining the technological development of the tax system in Sweden during the SAP’s time in office is one way of examining how the SAP tried to uphold state capacity.

The second factor, the sense-making of taxation, refers to how the tax policy is justified by the political elite and, in this case, the SAP. The way in which political issues are framed by the political elite impacts how citizens perceive policies. Political perception is a result of discursive struggle. Political actors can frame issues in different ways; hence, different meanings can be assigned to the same issue. For this reason, it is interesting to examine the actions of political actors in creating, maintaining, and reforming a perception of the tax system as being fair and just.

The analysis contains the following steps. I identify two time periods since World War II when the tax system was particularly debated. These two crucial periods constitute moments that could have impacted tax compliance but did not: the period of welfare state expansion, 1945–60, and the period of reform of the tax system, 1970–90. Within both these time periods, I examine the SAP’s actions to create and reproduce tax morale, both rhetorically and in terms of actual reforms that were made. The two dimensions of fairness presented above guide this analysis. This study is built upon an analysis of minutes from the party board, internal documents, newspaper articles, parliamentary debates, and documents from the public administration.

Raising Taxes and Constructing the Welfare State: 1945–70

In modern states, redistribution takes place through the welfare state. Scholars have claimed that the Swedish national identity is tightly intertwined with the Swedish welfare state (Berggren and Trägårdh 2006; Trägårdh 2010). The
modern connection between national identity and the welfare state originates from the notion of “the People’s Home” (Folkhemmet), a concept that materialized after the SAP won the election and came into power in 1932. The result was a welfare state for the people, not only for the working class. Thus, the contract between the state and its citizens became a contract of social security in return for taxes. To enable such politics, taxes had to be raised.

State capacity to collect taxes

The development of the tax system in the postwar period had roughly two characteristic features: Income taxes increased steadily, as did progressivity in the tax system (Schön 2007: 487). Households’ share of direct taxes increased during this time, whereas corporate taxes remained more or less at a steady (comparatively low) percentage throughout the 1950s and 1960s (Bergström 1969: 68–9). Progressive taxation on income was established in 1910 and this progressivity increased until the 1980s (Henrekson and Stenkula 2015: 12–16; Löwnertz 1983: 24).

Its massive electoral support in the postwar era created opportunities for the SAP to employ radical redistributive policies. Better preconditions hardly existed anywhere to construct a tax system in which the working class, and employees in general, were spared from high taxes, while capital was forced to pay a larger share of the costs of the welfare state. Yet corporate taxes were quite modest in comparison with the taxes paid by households (Bergström and Södersten 1994: 247).

One explanation for this situation is the arrangement of the labor market. Wages have always been negotiated by labor market parties without the meddling of the state. Wage negotiations were centralized in the 1950s; in other words, the umbrella organizations for employers’ organizations and trade unions negotiated wages for all occupational groups. Moreover, the collective agreements covered most Swedish employees, and created strong organizations. In addition, in order for the SAP to gain sufficient and broad support for its reforms, an institutionalized relationship between the state and the labor market parties was established in the 1950s. Implications of corporatism included, for example, that organizations had representatives on agencies’ boards, participated in investigations, and held regular meetings with the government. The system not only ensured that labor market parties could impact politics; these arrangements also had implications for the taxation policy (Steinmo 1993: 125–6). For example, the corporate tax rate was one part of this arrangement: Low corporate taxes would ensure that production costs would not impact the employment rate. Moreover, corporate taxes were designed in a way that made it very beneficial for employers to reinvest profits into their businesses in Sweden (Bergström 2007: 229–30) and thus also
ensure high employment in the future. In addition, changes in the tax rate were always taken into consideration in wage negotiation rounds, which became a problem in the 1970s and 1980s, when raised taxes led to raised wage demands and subsequently to inflation. Because of corporatism and centralized wage bargaining, taxes, welfare, and wages have been treated as a single system by labor market parties and the state (Lindberg 2016; Partistyrelsen 1973; 1974).

I now turn to the SAP’s policy to develop tax institutions and, more specifically, the procedure of paying taxes. Perhaps the most important reform in the postwar decade was the introduction of the withholding tax system in 1947. This reform made taxes preliminary: The employer would pay the taxes of an employee according to a table of wage levels (Peralta Prieto 2008: 30). If the employee had paid too much or too little, the tax agency would either make a refund or charge more after a review had been undertaken. Of course, this reform was important in preventing discontent among citizens; the simplification not only made it easier to pay taxes, but it also made the actual payment less obvious for the citizen.

The introduction of the withholding tax demanded new technology for printing tax return forms, and the so-called “citograf system” was introduced. In the citograf system, the tax authorities made one metal sheet for each taxpayer. The sheet contained his/her information and was used to print that individual’s tax return form (Å. Johansson 2003; Peralta Prieto 2008: 29–30). Social security numbers, or personnummer (Å. Johansson 2003: 99), were established at the same time. These numbers had an important impact on tax collection and were eventually used in all registers. For that time period, this system (including both the technical solution and the social security number) was at the forefront of governmental handling of information on citizens’ income and property ownership. Of course, there were limits on what sort of information could be preprinted on a tax return form.

The government made several attempts to simplify the tax return in the 1950s. However, the regulation of tax deduction remained complicated (Ekman 2003: 14), which in turn made the tax return complicated. The SAP’s party board repeatedly expressed concern about the tax return procedure: If it was too complicated, it could impact the elections.

Another feature of the Swedish tax system that might have had an impact on citizens’ perceptions of taxes was the administrative system. Control of the tax return was decentralized and held by a local committee, the taxeringsnämnd (TN). The TN was introduced in 1907 and consisted mostly of volunteers and laymen—the so-called fritidsgranskare, literally “spare-time reviewers” (SOU 1933: 27). Before 1951, Sweden had approximately 2,500 municipalities, a number that was reduced to 1,037 in 1951 through amalgamations. After the great municipal reform from 1971 to 1974, only 277 municipalities remained
(Erlingsson et al. 2015). Many of these municipalities had less than 3,000 inhabitants; consequently, local politicians or civil servants, who were often known by the local taxpayers (at least in small cities and in the countryside) monitored whether these taxpayers had filled in their tax return form correctly. This system had similarities to the scheme developed by Gustav Vasa in which local clergymen’s knowledge about taxpayers was used to control tax collection (see Nistotskaya and D’Arcy, Chapter 2 in this volume). The arguments for this system, which used laymen instead of civil servants, were legitimacy (the gap between taxpayers and the monitoring authority was small), efficiency (taxable income was partly based on contextual knowledge among tax collectors), and the low cost of having people performing tax control voluntarily in their spare time (Malmer 2003). However, this system resulted in regional differences in the control function. More importantly, due to this controlling procedure, most of the people who were convicted for cheating were ordinary people who had committed small mistakes or who were cheating a little; meanwhile, advanced tax evasion and avoidance were not detected (Malmer 2003: 38; SOU 1969.42). It became clear over time that the downside of using laymen as monitors was that they did not have sufficient knowledge to detect advanced tax planning or cheating, but were only able to identify the “small cheats.” Of course, this outcome had an impact on people’s perceptions of the tax authorities and also, eventually, on the process of tax collection. The TN system was phased out in the 1970s. In 1951, Riksskattenämnden was established as the first national authority responsible for controlling tax collection (Malmer 2003: 36) and the first step toward a centralized tax agency.

The SAP put efforts into making the institutions of the tax system work as smoothly and efficiently as possible. There seems to have been an attitude within the party that raising taxes needed to be combined with making the payments as easy as possible. The party board expressed concern about how complicated systems could impact its popularity: “If you want people to pay high taxes, do not make it hard for them to pay” was the signature feature of the SAP’s tax policy.

Justifying taxes: the precondition of the welfare state

Many of the big and costly social reforms, such as free healthcare, the pension system, free and inclusive schools, and a universal child allowance, were introduced during the 1940s and 1950s. As a result, taxes became a recurring issue that was discussed by the party board (see, for instance, Partistyrelsen 1950; 1954; 1956a). Raising taxes was perceived as a problem for the SAP. As in many other countries, taxes were increased during World War II. Once the war was over, the citizens seem to have expected the tax burden to be reset to prewar levels, but instead they were made permanent (Henrekson and
Stenkula 2015: 13; Steinmo 1993: 91–5). As a result, the 1950s became the “decade of the tax reduction debate” (Elvander 1972). There was little overall consensus among political parties on taxes, although the agendas of the right and the Liberals both promoted their reduction in election campaigns and parliamentary debates, thereby forcing the Social Democrats to develop a strategy for handling tax debates.

The party had two options when choosing a strategy for the election campaigns in the 1940s and 1950s. The first option was to meet the criticism on a detailed level and dig into the minor changes and reductions that had been made during the past term (because the tax system was often and gradually changed). However, this strategy risked focusing the election campaigns on technical taxation issues, which was probably not to the advantage of the SAP (Partistyrelsen 1950). The other option was to choose an aggressive strategy and go for social reforms and higher taxes: If the party proposed several new social reforms, the other political parties would be forced to relate their campaigns to the Social Democrats’ proposals, and not the other way around. Such a strategy was developed by the party—attention was diverted away from taxation and instead focused on new social policies (Partistyrelsen 1950).

Every time the party board discussed taxation, it expressed concern about voters’ reactions: How would voters react to increased taxes, or to the other political parties’ proposals to reduce taxes? Each time, the solution to this problem was the same: enlightenment and propaganda. The main opinion of the party board in the early 1950s was that “if we only enlighten the working class about how the government is using the taxes, the fact that we are not reducing taxes further will be accepted” and “people will come to terms with the tax levels.” As long as the party could show how taxes were being used, Social Democrat voters would not mind the tax levels. It was also important to communicate this message to voters in a way that would appeal to them. Thus, education and enlightenment became the strategy to win support for the tax policy (Partistyrelsen 1950; 1952; 1956c). Enlightenment is a recurring theme throughout the history of the Swedish labor movement. Whenever the leadership wanted to conduct policies that the rank and file disapproved of, the party board and the management of the Trade Union Confederation (Landsorganisationen or LO) used internal education and enlightenment of the members (Jansson 2012; Partistyrelsen 1942). Taxes were no different than the other issues that needed to be discussed among the members.

Another recurring theme for the party board was the importance of connecting social reform with their funding: “Enlightenment activities are needed to make clear that we have a choice between reducing taxes and more social reforms. One cannot eat the cake twice” (Erik Fast, Partistyrelsen 1952). In particular, propaganda and enlightening activities were focused on explaining to voters—especially workers—that the state and society were not
enemies: “The state is the means that enables freedom for individuals through social reforms,” Erlander stated during one meeting with the party board in 1952. Social reforms, Erlander concluded, were expensive and had to be funded (Partistyrelsen 1952).

The message conveyed in propaganda material produced by the SAP during the 1940s, 1950s, and 1960s can be summarized as “taxation is the foundation of the welfare state.”

Most of the propaganda material produced in the 1950s starts by describing recent developments of the welfare state in Sweden. Recently implemented reforms are described and the beneficiaries of these reforms are listed. The propaganda then continues by explaining that a precondition for all the reforms made by the Social Democrats is the tax system. The concepts of “taxes” and “taxation” are often used together with those of “child allowance,” “sickness insurance,” and “education” (SAP 1950a; 1950b; 1954; 1960).

The material also presents a clear connection between the state and its citizens. In a newspaper article on tax evasion, Prime Minister Erlander stated that “one must understand that the state is not an anonymous actor, we are the state. If you deceive the state, you are stealing from your neighbors and friends” (Aftonbladet 1959).

One famous election film from 1954 that was produced by the party, titled “Skattefria Andersson” (Tax Evader Andersson), clearly demonstrated the connection between paying taxes and the output of the welfare state. In the film, the main character, Andersson, tries living as a self-reliant man (står på egna ben). He does not pay taxes; instead, he has to pay for everything himself, such as schooling for the children, roads, hospital costs, and so forth. The film ends when Andersson wakes up from this nightmare and expresses how grateful he is for everything the state provides for its citizens. The message of the film is simple, and explicitly spelled out at the end: Citizens are co-dependent, and cooperation has made it possible to build a welfare state that sets the average citizen free (Socialdemokraterna 1954).

Passages in the material describing taxes very often connect taxes with the concept of “security.” Taxes are the foundation of and the guarantee for a working social security system. The party board specifically discussed the meaning of the concept “security,” and a board member concluded that the concept had been redefined during the 1950s from “security from mass poverty” to “including everyone in the improved standards of living” (Partistyrelsen 1956b). Thus, security was no longer mere survival; it also included the right to take part in the welfare state system—that is, social citizenship.

In 1960, the election campaign very explicitly stated that the welfare state costs money. In a pamphlet used in the campaign, the SAP listed the costs of different levels of education, such as high school, college, and university education. Hence, the SAP concluded, the suggested tax reductions proposed
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by the Liberals and the Right Party would endanger all the educational reforms SAP had brought in during the previous ten years (SAP 1960). The main message was that social reforms and social security were not compatible with tax reductions. Instead, taxes were described as “our common money” and the SAP stressed that taxes belonged to everyone (Aftonbladet 1959).

The SAP’s framing of taxes during the phase of welfare state construction thus focused on establishing a link between taxes and the outcome of the welfare state (i.e. if you pay taxes, you will also get free social services). The party’s attempts to impact citizens’ perceptions of the tax system used fair redistribution as their point of departure: The tax money would be used in such a way that everybody would benefit.

Defending a Challenged Tax System: The 1970s and 1980s

During the 1950s and 1960s, the expansive phase of the welfare state, the SAP discursively connected taxes to the outcome of the welfare state. This period was characterized by low unemployment, increased wages, peaceful labor market relations, the individualization of income tax in 1971 (which made it more profitable for married women to work) and, in short, a higher standard of living for the Swedish people. This period, which was successful in many ways for the SAP, came to an end in the 1970s. The SAP, and its welfare state construction, was thoroughly challenged for the first time.

Sweden went through several economic, social, and political changes in the 1970s and 1980s that impacted its tax politics. For the first time in the postwar era, unemployment rose. Moreover, the “expand-the-welfare-system” strategy employed by the party to win elections had its flaws. Erlander called the problem “the discontent of rising expectations”: Even though the social reforms had considerably improved citizens’ lives, the citizens kept expecting more. If the citizens always expected comprehensive social reforms, sooner or later the party would have problems delivering such reforms. The radicalization of the trade union movement in the 1970s should be understood in this context.

The “other” branch of the labor movement, the LO, became another challenge to the party in the 1970s. In order for Sweden to take the next step toward an equal and classless society, the LO pressured the SAP to legislate on workplace democracy (increasing employees’ influence on working conditions) and wage earners’ funds (meant to distribute the profits of Swedish industry between employers and employees). From the trade unions’ perspective, redistribution of wealth was not solely a tax issue; redistribution also took place through wage negotiations. In the 1970s, it became obvious that wages had not increased at the same pace as the profits made by businesses. Neither
were reinvestments into Swedish industry proportionate to profits (Bergström 2007: 171–5; Hedborg 2016). Thus, according to the LO, there was a “profit surplus” that was neither being taxed nor redistributed through wage negotiations. The aim of the wage earners’ funds was to seize control of this surplus. Thus, the funds can be interpreted as embodying widespread discontent regarding the redistribution of wealth in Sweden. The funds came to be very controversial, even among Social Democrats (Johansson and Magnusson 2012: ch. 6; Lewin 2002: ch. 9).

In this context, upholding the social democratic model turned out to be difficult, and the tax system quickly became a focus of criticism. Several tax reforms in the 1960s and 1970s had increased progressivity (Partistyrelsen 1971). However, the combination of rising marginal tax rates and inflation resulted in increasing numbers of middle- and working-class employees having to pay marginal taxes, which had never been the aim. Meanwhile, the innumerable, gradual changes that had been made to the tax system had turned it into a patchwork of different rules that opened up the possibility of tax planning for those who had the knowledge or the money to hire professionals to help them avoid taxes (Agell, Englund, and Södersten 1998: 8–9). This created opposition to the tax system, not only among the center and right parties but also within the left.

In 1976, the famous author Astrid Lindgren published the article ‘Pomperipossa in Monismanien’, a satirical fairy tale about the witch Pomperipossa, who was forced to pay a marginal tax rate of 102 percent because she did not have any loans that would entitle her to deductions (Lindgren 1976). Lindgren’s fairy tale was written as a response to her own marginal tax rate. The story was published in the spring of 1976, and fueled criticism toward the system. Shortly after, in 1978, Gunnar Myrdal wrote another famous article in which he claimed that the tax system had turned Swedes into a “people of cheats.” The poorly constructed tax system created incentives for everyone to try to cheat and avoid taxes. For Myrdal this was a failure for social democracy (Myrdal 1978: 500). He was not accusing rich people of evading taxes; rather, he was accusing the system of being wrongly constructed. The importance of Myrdal’s and Lindgren’s articles should not be underestimated. Until then, the Liberals and the right had been the main opponents of the system; however, their arguments could always be dismissed on ideological grounds. Astrid Lindgren’s absurd marginal tax rate clearly demonstrated that the system had unintended consequences.

After the SAP lost the elections in 1976, an internal debate began within the party. The point of departure of this debate was not to make the system less progressive—the main principle for taxation would still be the “ability to pay,” which implied that people with higher income could and consequently should pay a larger share. Taxes were an issue of solidarity (Palme 1976).
The message transmitted by the Social Democrat press in the 1970s continued to stress taxation as “justice” and “redistribution from the wealthy to the poor” (Andersson 1976; Therner 1974). At the same time, however, the media started to report on tax planning and the immorality of people who avoided and evaded taxes. Considerable attention was directed toward tax cheats and evaders; these were people who were trying to get a free ride on the welfare system, which was morally wrong (see, for instance, Aftonbladet 1979; Lindström and Nordin 1979; Nordin and Lindström 1977; Thalén 1979; a simple search in the National Library of Sweden’s database of digitalized newspapers points in the same direction).

Were the taxation problems really as big as they were made out to be? Sträng commented on that particular question in 1980. His position was that the system had problems because of inflation and the deduction regulation, but that the situation was nowhere near as bad as the media was portraying. However, the rest of the party board did not agree. Instead, they seemed to have already been convinced in 1980 that the system caused injustices (Partistyrelsen 1980).

**Questioned state capacity to collect taxes**

The government’s first reaction to the unfairness of the system was to make small adjustments to it; in the long run, this only contributed to making the tax system even more difficult to oversee and created even more possibilities for tax planning. The changes made by the center-right government that seized power in 1976 included some tax reductions at first. However, it turned out to be very difficult to reduce taxes, since this could only be done by making cuts in the welfare state system—which the party in power was reluctant to do (Blyth 2001; Steinmo 1993: 133). The center-right party’s inability to lower taxes indicates how deeply embedded the welfare state was in the minds of Swedish citizens. It also indicates that the problem with the tax system was not the redistribution dimension of fairness; rather, the problems that occurred in the 1970s came from the state capacity dimension of fairness: The system was inefficient. In 1981, during the final year of the center-right government, the Liberals, the Center Party, and the SAP agreed on a major tax reform aimed at solving the problems with the system.

The Social Democrats won the elections in 1982 as well as in 1985 and 1988, and thus governed Sweden until 1991. The 1981 tax reforms were gradually implemented during these nine years in power; however the reforms did not manage to rectify the shortcomings of the system with regard to tax deduction possibilities and subsequent tax planning (Feldt 1991: 385). Marginal income tax rates decreased at first, but were raised again in the second half of the decade (Stenkula, Johansson, and Du Rietz 2014).
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During the 1980s, concerned voices in the party stated that the system did not have the redistributing effects that its designers had intended. Swedish voters had accepted a high marginal tax rate because of the progressivity: The fairness of the system was that the richest paid most. This justice-based argument had always been very important in winning support for the redistribution policy. However, when the system did not in fact redistribute—which some claimed to be the case because the richest had ways of avoiding taxes through tax planning—then the whole foundation of the social democratic welfare state project came into question. This mobilized a segment of the party that wanted reform (see K.-O. Feldt’s speech, Partistyrelsen 1986).

Reforming the system was, however, a difficult task. Kjell-Olof Feldt, who became the Minister of Finance after the election victory in 1982, was convinced that the funding of the welfare state was not sustainable. Feldt’s first move was to suggest that cuts should be made to the welfare state immediately and that, in general, it should be scaled back. For most Social Democrats, Feldt’s suggestion was simply unthinkable (Feldt, Ahlqvist, and Engqvist 1984; Lindberg 2016). Consequently, Feldt directed his attention toward the tax system.

During the 1980s, the government conducted three investigations that eventually led to a proposal. The proposed system was a shift of logics regarding justice and taxation. Ever since Ernst Wigforss’ tax reform in 1948, the SAP had advocated a progressive tax system. The party had continually argued that “ability to pay” was the most just system because of its obvious redistributive features: Rich people pay more. Contrary to this understanding of justice, the proposed reform sharply reduced progressivity. Its main aim was to simplify the system, reduce both income and corporate taxes, and broaden the tax base (Riksrevisionen 2010: 11). The idea of a steeply progressive income tax was abandoned; instead, a proportional income tax set at 30 percent was introduced. Some progressivity remained, with incomes exceeding a certain break point paying an additional 20 percent; however, in the new system, marginal taxes could never exceed 51 percent, which was a considerable change from the old system (Agell, Englund, and Södersten 1996). This reduction of income tax and corporate tax was to be financed through a broadened tax base.

Why did the Social Democratic Minister of Finance become the main proponent for an almost flat-rate system? There are several explanations. In her book, Högervåg, Kristina Boréus analyzes how the concepts of “taxation” and “taxes” were used in the 1970s and 1980s and how Swedish public debate in the 1980s began to be entrenched in neoliberalism. With the growth of neoliberalism, these words were placed in a negative frame: taxation came to be framed in the public debate as a burden to citizens (Boréus 1994: 178, 258–69). This perspective coincides with an active neoliberal movement in
Sweden during the 1980s, directed by the Swedish Employers’ Confederation (Svenska arbetsgivareföreningen (SAF)) and by think-tanks sponsored by the SAF (Blyth 2002: ch. 7; Boréus 1994: ch. 3; Johansson 2000). Another factor that may have influenced the design of the reform is the composition of the committees. In 1980, Sträng had already shown an interest in making the tax system less progressive, albeit with a proportional 45 percent tax rate for everyone (Partistyrelsen 1980), so the idea was not completely new. The architects behind the reform seem to have consisted of a group of relatively young men who came to be known as “Feldt’s lads” (Feldts grabbar). They were well-educated economists—party members, but not people who had worked their way up through the party, which was the ordinary recruiting procedure. The group, also called the “right wing” of the party (kanslihushögern), was allowed great influence over the formulation of economic policy.

The logic of fairness and a new understanding of taxes

The tax reform required a new discourse on taxes and justice. Until the late 1980s, justice in the taxation discourse had been based on the principle of “ability to pay” (skatt efter bärkraft), which always implied progressivity; indeed, most party people would have claimed that the problem with the taxation system was too little progressivity (Steinmo 2002). This principle had its roots in the class struggle: Different classes have different economic preconditions. The goal of the labor movement was to reduce those economic cleavages, which could only be done if the rich paid more. However, since the redistributive effects of the tax system were being questioned, advocates of reform started to talk about justice as a situation where “everybody contributes.” Setting limitations on tax deductions and simplifying the system would create a fair, transparent system in which no one could escape paying taxes. In other words, the party emphasized the horizontal contract between taxpayers and the state. It was argued that the prevalent tax system had suspended horizontal justice because the same type of income could be taxed in two very different ways (Riksdagen Prot. 1989/90.47: 26–7), creating injustices. Meanwhile, vertical justice, or redistribution between different classes, was de-emphasized by the party; naturally, the reform would in fact reduce corporate and income tax for high-income earners. It was implied, however, that since everyone would contribute at least 30 percent of their income, rich people would still pay larger sums.

The strategy to explain the new principle of taxation to voters contained three steps. First, the party and, above all, the Minister of Finance had to convince the public that the prevalent system was not working (Feldt 1991: 386). During the late 1980s, several brochures with this message were produced, both for
internal party discussions and aimed toward citizens in general (see, for instance, SAP 1988a; 1988b).

Second, earlier reforms in the tax system had been pursued through extensive internal debates in the party. The ambition had been to establish reforms among the rank and file first, giving party members good insight into the politics, sometimes at the expense of quick decisions. Gunnar Sträng particularly advocated such a procedure (Partistyrelsen 1980; 1981). Feldt and Prime Minister Ingvar Carlsson chose a different strategy; they made sure they had sufficient support among the labor movement elite, trusting that the rank and file and activists would come to terms with their decision.

Finally, the reform was framed as a “whole new system.” In his memoirs, Feldt emphasizes that the reform was not an improvement of the current system; it was a new system (Feldt 1991: 386, 422–6). This was another strategically important maneuver. During most of the twentieth century, the SAP had been the party that initiated big, tough reforms. Some of these reforms were contested, such as the pension reform in the 1950s, but most eventually became popular. The party’s self-image contained a glorious past; it had enacted reforms that no other party could have made. The party “made the big reforms and took responsibility for Sweden” (Feldt 1991). Thus, the tax reform of the century restored the party’s self-image as a central political actor: When needed, the SAP still had the ability to make changes that might be unpopular but that would be beneficial in the long run, and that would improve state capacity (Feldt 1991: 386). These revisions thus went well with the party’s image as the responsible reformer.

Technical progress and improved state capacity

I now turn to the technical development of the tax system, which, in many ways, can be described as remarkable. Some important institutional reforms to simplify the system were initiated by the Minister of Finance, Gunnar Sträng, in the 1970s. Raising taxes, which the government had been doing incrementally for decades, required an effective tax administration (Peralta Prieto 2008: 35).

The tax agency was early in adopting an electronic data-processing system (EDP); in the 1970s, this technology started to have an increasing importance for tax collection. EDP facilitated preprinted tax return forms that could contain much more information than the citograf system or the punched card system, and assisted reform processes that made it easier to collect and pay taxes. However, the transition to EDP in the 1960s became a struggle between different interests: Some parties wanted an IBM solution while others claimed that the Swedish system developed by SAAB was preferable.
The government decided to buy both formats, resulting in two parallel systems being used to administer taxation in Sweden (Å. Johansson 2003). Of course, this decision created inefficiencies; however, it also forced the tax agency to invest in human capital such as programming, which became an asset for the tax agency in the long run.

Thanks to the EDP system, the tax return form could be designed with more preprinted information. This transformation to EDP was possible because the Swedish public administration had good computer knowledge and had adopted the latest technology early on. The registers that already existed were very good; however, above all, Sweden was a small country. The computer power required for similar system transformations in Germany or Britain did not exist in the 1970s, but it was sufficient for Sweden because of the limited amount of data (Peralta Prieto 2008: 28). The technological possibilities and limitations in making the tax system effective were known and discussed by the party board (Partistyrelsen 1980).

In 1971, the tax return form was simplified; the language used and the information sent to taxpayers was made more accessible to citizens (Peralta Prieto 2008: 41). Several investigations on how to simplify the tax system, including the tax return system, were conducted in the 1980s (Ds Fi 1983.16; SOU 1985.42). There seems to have been a parliamentary consensus that the system was too complicated, a factor that could annoy taxpayers and impact tax morale.

The tax agency also produced a booklet, “Dags att deklarera” (roughly, “It is Time to Do Your Taxes”), which was sent to every taxpayer along with the tax return form. The booklet still exists, and contains detailed information on how to fill out the form. According to one of the initiators, the intention was to make it easier for citizens to pay their taxes (Ekman 2003: 14–15). Information campaigns about the tax system, and about the tax return procedure in particular, continued throughout the 1970s and 1980s. This information was translated into different languages that mirrored the immigrant population. Popular educational organizations arranged study circles, and the tax agency even made seven programs about the tax return that were broadcast on one of Sweden’s two national TV channels (Thärnström 2003: 120). An evaluation of the information campaign in 1971 indicated that a majority of taxpayers perceived the information as easy to understand, and “Dags att deklarera” became a prototype for other public information booklets (Thärnström 2003: 121). Moreover, the tax agency produced free information material with exercises that were handed out to schools with the aim of teaching all children about taxes (Thärnström 2003: 122).

However, even as the tax agency tried to simplify the tax-collecting process, the myriad of rules that existed before reform in 1990 ensured that a majority
of the population needed help to do their taxes. This continued to be the case until 1987, when the first “simplified income tax return” was introduced (Riksdagen Prop. 1984/5.180: 121). With further reform in 1990, when most of the deductions were removed, the system changed even more. In 1991, the tax agency was made responsible for the census (until then it had been administered by the Church). This reform, together with increased computerization, led to the “simplified tax return form” in 1995. Under this new system, the tax agency collected information from all available sources about the income of every individual in Sweden, resulting in a very detailed preprinted tax return form. The taxpayer simply agreed or disagreed with the sum calculated by the tax agency. There was consensus among the political parties in parliament that the new tax return procedure was a natural development of previous simplifications to the tax return procedure. The less complicated procedure would not only be cheaper for the state, but citizens also appreciated its simplification. The only party that disagreed was the populist New Democracy (Riksdagen Prot. 1992/3.47). This simplification of the tax return procedure has continued ever since. In 2002, a tax return form on the Internet was introduced (Riksskatteverket 2003: 16), a service that has been supplemented with texting (the taxpayer simply approves the tax agency’s calculations of his/her income through an SMS) and an app for smartphones.

These technical developments and the transition of administration from laymen to civil servants in the tax authority facilitated a transformation to a “service agency.” The first steps were taken in the 1980s; however, the major transformation has occurred in the first decades of the twenty-first century (O. Johansson 2003; Stridh and Wittberg 2015). From the mid-1990s onward, the tax agency employed language consultants to work on improvements to instructions on the tax forms in order to make it as easy as possible for Swedes to complete returns and pay taxes (O. Johansson 2003: 117). Today, the Swedish Tax Agency is one of the most trusted authorities in Sweden (Medieakademien/Sifo 2015).

**Conclusions**

Fairness is the mechanism most commonly used to explain tax-compliant citizens. A precondition for the social contract is the perception of being treated fairly by the state. In this chapter, I have suggested that fairness can take two forms: fairness in the tax collection procedure, and fairness in the redistribution of collected taxes. The first decades after the war were a time of establishing good state capacity and framing the redistribution of taxes as
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fair. The SAP spent a great deal of time explaining the outcome of the social contract to citizens: Taxes led to free education, free healthcare, and so forth. Making sure that citizens understood how tax money was spent, combined with simplifying the tax system and making it efficient, placed Sweden in the upper left box of Table 3.1: the citizens got what they paid for. During the time period examined here, once the party had established the dimension of redistribution, it was hardly challenged in public debate. On the other hand, the dimension of state capacity was challenged.

Despite continuous work to improve and simplify the tax return procedure, the tax collection part of the social contract brought attention to the tax system during the 1970s and 1980s. The flaws of the system, which were debated in the 1970s, mainly concerned the unfair collection procedure. Perceptions within the party and, as far as I can tell, also in the public debate, asserted that the financing of the welfare state was unfairly distributed between different groups in society. The same type of income could be taxed in different ways depending on what specific deductions could be made. The vitally important dimension of fairness—that everybody was treated equally by the system—was questioned. Sweden moved into the lower left box of Table 3.1 during this period. The tax reform of the century set out to reset the fairness of the system. Whether the problems with the system were actually as severe as critics suggested, or whether the tax reform really solved all the system’s problems remains uncertain. The reform undoubtedly broadened the tax base; however, the main critique against the reform was that it lowered taxes for high-income earners.

The SAP carefully considered how taxes were framed. The first decades after the war were mainly devoted to establishing a discourse in which taxation was connected to the welfare state. Thus, the party spent a lot of time making sure that the output of the welfare system was evident to the population. The taxation contract was made clear to citizens in terms of redistribution, which did not change during this time. In fact, the strong support for the welfare state made it difficult for the center-right government in the 1970s to lower taxes. The public sector became a debated issue within neoliberal and conservative groups in the 1980s (Boréus 1994: ch. 4); however, for the SAP, redistribution was not considered to be the problem, even though some critical voices were raised within the party. The public debate did not indicate that citizens perceived redistribution as unfair either; on the contrary, most research demonstrates that support for the welfare state was very strong in the 1980s (Svallfors 1989; 1996).

It is possible, however, to discern such tendencies in recent times. In the election campaign in 2006, the center-right parties launched the concept of “the outsiders” (utanförskapet) (Dahlberg and Sahlgren 2014), those excluded
from the labor market, and claimed that this growing group constituted a major problem for Sweden. On the other hand, they pointed out, the labor force, those *included* in the labor market, should be better rewarded for their labor. Thus, after winning the election, the center-right parties implemented several tax credits for earned income (*jobbskatteavdrag*) between 2006 and 2014, and simultaneously made cutbacks in social insurance programs. Pitting one group against another in this way raised the question of fair redistribution: Why should those who work pay for those who do not? Even if support for the welfare state is still very strong, the center-right government of 2006–14 provided evidence that it is possible to win elections on tax reductions and cutbacks in the welfare state (cf. the upper right box in Table 3.1).

Within the SAP, taxes are still regarded as an act of solidarity. From a financial perspective, it is necessary to include everyone in tax payments in order to finance the welfare state; however, this principle is also a way of building solidarity in society. If everybody pays, then everybody is also entitled to the fruits of the welfare state. Research indicates that paying taxes is tightly connected to contributing to society; without the ability to pay taxes, people do not perceive themselves as fully worthy citizens (Jacobsson and Björklund Larsen 2010). From this point of view, taxes have become more than just a means to finance the welfare state.

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