Taxation and Left-wing Redistribution: the Politics of Consumption Tax in Britain and Sweden

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Abstract

This paper is concerned with the impact of ideology on taxation. Recent research has found that the link between partisanship and policy is surprisingly weak, and some even find that left-wing governments are associated with heavier taxation of the poor. In this paper I argue that whether the left taxes regressively or progressively depends on the institutional context, not – as has been the common explanation – constraints from unions or expansion of government spending. Using novel datasets on government tax revenue and tax introductions I show that the left tax more regressively in countries using proportional electoral systems, and more progressively in majoritarian countries. The political mechanism linking electoral systems and policy outcomes is evaluated in a comparison of Swedish and British tax policy during the decades following the Second World War, focusing on reforms to consumption taxation. I find that although different strategies were considered, the combination of consumption taxes and progressive spending prevailed in Sweden whereas Labour in Britain chose the safer path of progressive income taxes. Uncertainty over future influence and distributive effects made the left in Britain wary of broad-based consumption tax, while the left in Sweden managed to combine a new consumption tax (later transformed into value-added tax) with expanded social programs. Political risk shaped the strategies of key actors and help explain the divergent paths of indirect taxation in Sweden and Britain during this period.

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Comparative welfare state research has traditionally focused on the size and shape of social spending (e.g., Esping-Andersen 1990; Hicks and Swank 1992; Heclo 2010; Hicks 2013), and has had surprisingly little to say about taxation.[1] In this paper I investigate the origins of the taxes that came to finance the modern welfare state: broad-based consumption taxes. Interestingly, these taxes – which harm the poor – were often associated with left-wing governments.

Like most left-wing parties, Labour in Britain and the Social Democratic Party (SAP) in Sweden had traditionally been strong opponents of taxes on consumption. The reason was simple: these taxes hurt the working class more than taxes on income and wealth. However, following the Second World War, SAP in Sweden made a complete U-turn and introduced a broad-based consumption tax (later turned into a value-added tax, VAT). While Labour in Britain faced similar challenges and also recognized the advantages with this type of tax, they chose not to introduce one. Why did these two left-wing governments, both determined to fight inequality, choose such widely different tax policies?

In this paper I argue that variation in left-wing tax policy is the result of different strategies for redistribution. One strategy is to use progressive taxation to reduce inequality, another is to focus on revenue maximization and redistribute mainly through generous transfers. Which one of these strategies the left chooses depends on the political risks involved. These risks are affected by political institutions through their impact on opposition influence. In countries where political power is concentrated in the winning party, the risks associated with losing power are greater, and the left chooses an ineffective but safe combination of progressive taxes and lower overall revenues. In contrast, where the left operates in a system with greater opposition influence – such as in proportional representation systems – the risk of combining high yield regressive taxes with progressive spending is lower. Both strategies seek to reduce inequality, but the methods of reaching this goal are different.

Far from being constrained by factors such as unions or budgetary pressure, the left acts

[1] An exception is Steinmo (1993).

strategically to reduce inequality, and does so in a way that is consistent with expectations of future access to power. Thus, the Swedish SAP introduced an efficient new broad-based consumption tax, confident that they were able to ensure increases in welfare spending to compensate for its regressive effects. In Britain, the insecurity and volatility associated with the winner-take-all system made Labour prefer a safer – but less efficient – tax strategy.

In the next section I summarize earlier research on ideology and taxation and present new macro evidence questioning the earlier explanations. After that follows my theoretical argument and the comparative case study. The final section concludes.

1 Taxation and Redistribution: Historical Roots and Recent Evidence

The traditional view is that parties to the left act in the interest of the poor by advocating for progressive taxes on income and wealth (e.g., Cameron 1978 and Hibbs 1977). This position has been challenged by empirical work demonstrating that countries with strong left-wing parties actually tax more regressively.

Since this association coincides with the rapid growth of welfare spending, it has been suggested that regressive taxation allowed left-wing parties to expand government (Kato 2003). However, the direction of causality is debated; a growing welfare state needs financing, and even an income tax has a limit in terms of yield. A shift towards consumption taxation can thus be a function of increasing spending pressure (Ganghof 2006).

An alternative explanation comes from the fiscal contract theory, which suggests that the party in power is more likely to tax its own voters since tax payers engage in less tax avoidance/evasion if their preferred party is ruling. Empirical findings suggest left-wing governments tax consumption more, but only when there is low partisan turnover (Timmons 2010).

The argument in section 2 is related to the idea that when a government implements a policy considered to be in the opposite direction of its ideological bias – e.g., a left-wing government introducing a regressive tax (such as VAT) – the public is more likely to believe that the policy is objectively good and less prone to punish the government in the next election (Cukierman and Tommasi 1998). It is harder for a right-wing government to implement regressive taxes since this would be seen as a purely ideological move and be more intensively opposed. This effect is amplified by more veto players since the credibility of the policy becomes more important when an ideological opponent needs to be convinced (Cowen and Sutter 1998).[2] A key feature of this argument is that the policy is *objectively good* (in the sense that it increases overall welfare), and not a strategy for redistribution.

Another explanation for why the left would tax regressively is that corporatism restricts the range of policies available. The left is forced to expand consumption taxes since taxing labor or capital income would result in increased wage demands and lower investments, thus threatening to terminate the corporatist agreement. Since capital can credibly threaten to exit through global capital markets, labor ends up paying for the welfare state with consumption taxes. In the absence of strong corporatist ties, the unconstrained left can tax how it pleases and then chooses to tax income and capital rather than consumption (Beramendi and Rueda 2007).

A related argument adds a constitutional dimension, emphasizing institutional complementarities between corporatism, electoral systems, and partisanship (Cusack and Beramendi 2006). Interestingly, empirical work contradicts the central assumptions made by Cusack and Beramendi (2006) regarding electoral systems and the median voter: majoritarian systems are associated with larger swings in policy, and proportional representation (PR) systems produce policy closer to the preferences of the median voter (Powell 2000, ch. 9).

My argument has much in common with Steinmo (1988; 1989; 1993); I hold that tax policymaking is affected by the institutional context. However, while Steinmo contends that

[2] A related argument is that objectively good policies can be implemented in systems with many veto players as long as it is possible to compensate the losing veto player (Lindvall 2010).

the institutional context changes the preferences of actors, and leads to different policymaking styles, I argue that it is the methods actors use to obtain their goals that change, not the goals themselves. Moreover, my argument does not rely on policymaking styles, but on strategic calculation shaped by electoral institutions.

My approach is similar to that in Hicks (2013), which investigates the divergence in Swedish and British health care policy. He emphasizes how the majoritarian system in Britain was associated with high policy volatility while Sweden (thanks to PR) was more stable. Moreover, this meant that Labour "could expect unconstrained conservative rule in the near future", whereas the Swedish Social Democratic Party (SAP) "had far less to fear from a right-wing government" (ibid. p.213, see also Heclo 2010, ch.1). Although this hints at the importance of opposition influence, Hicks does not elaborate on the issue. Moreover, explaining how spending programs are implemented is very different from tax reform. For instance, while bureaucratic policy insulation (de Figueiredo 2002) influence the design of health care systems, it might be less important for taxation.

In sum, earlier research highlights several mechanisms linking left-wing governments and tax policy. From spending pressure, credible commitments, tax avoidance, and ideological biases to institutional factors such as union influence and constitutions.

I argue, however, that previous research has asked the wrong question: instead of asking *why* the left taxes regressively (assuming it always does), we should ask *when* or under what conditions the left taxes regressively. A preliminary evaluation of the argument that the left taxes differently in different institutional contexts is provided in Figure **??**, in the appendix. Based on a novel dataset over government tax revenues covering 31 countries ([author] and [coauthor] 2019) and newly available information on government ideology (Brambor, Lindvall and Stjernquist 2014), the figure shows the average change in share of government revenue from taxes on consumption and income in democracies with a left-wing head of government during the twentieth century. The counter-intuitive pattern of left-wing governments taxing regressively emerges only in countries using a proportional electoral system . In majoritarian countries, left-wing governments increase reliance on income tax more.[3]

Not only are the patterns of tax *revenue* different, but also the pattern of tax *adoptions*. Historically, there were only five instances of a personal income tax (which is generally progressive) being introduced by a left-wing head of government, and all of those occurred in majoritarian countries. In contrast, among the six left-wing introductions of a general sales tax (the precursor of VAT), four were in PR systems. The pattern is the same for VAT, where six out of the eight left-wing introductions occurred under PR.[4] These results lead to the question of why left-wing governments tax differently from expected in proportional representation systems.

My answer, as I explain in the next section, is that political institutions affect opposition influence, which in turn affects the risk-taking behavior of left-wing governments. Previous research focuses either on macro correlations among a large number of countries, presenting similar findings as support for different theoretical claims, or provides detailed case-studies presenting broader claims of diverging tax policies. In this paper I combine insights from a novel quantitative dataset on government tax revenue with detailed comparative case studies (using archival sources) in order to both validate the proposed mechanism and demonstrate its potential generalizability.

2 Why and When the Left Taxes Consumption

Why would a left-wing government introduce a regressive tax on consumption?[5] While scholars often associated a preference for equality with a preference for progressive taxation, this is not a given (Buchanan 1949). Instead, I start from the more general assumption that left parties prefer lower economic inequality; how this goal is achieved is another matter.[6]

[3]The pattern is the same when considering levels (see figure 2 in appendix).

[4]Using data from the Tax Introduction Dataset, TID (Seelkopf and Genschel 2017)

[5]Following established conventions in the literature (e.g., Timmons 2010), I assume taxes on consumption (e.g., excises and general sales taxes) to be regressive and taxes on income to be progressive. Empirical research on tax incidence supports this convention (Joumard, Pisu and Bloch 2012; Prasad and Deng 2009).

[6]This distinction is related to what Kemmerling (2009) means by the difference between "underlying" and "induced" preferences.

Key to understanding left-wing tax policy is that redistribution is not only about taxation, it also concerns spending.

A less progressive but higher yielding tax system, combined with redistributive transfers, is a more effective way of reducing inequality than a highly progressive but low yielding tax system (Engel, Galetovic and Raddatz 1999).[7] Moreover, taxes on consumption are cheaper to collect (Aizenman and Jinjarak 2008; Bird and Zolt 2005), lead to less tax evasion (Gordon and Nielsen 1997), and are more conducive to economic growth than progressive taxes (Auerbach 2006; Lee and Gordon 2005; Widmalm 2001). Thus, it is not irrational for the left to support an efficient pro-growth tax as long as the added revenue is used to compensate the losers (Lindert 2004, p. 305). The point about efficiency is particularly relevant when income taxes are already high enough that further increases in rates risk reducing revenues due to lower tax morale.

But this type of reform also involves risks. Introducing a new tax means an additional revenue instrument available in the future, an instrument that will not necessarily be used to the benefit of the party introducing it.[8] The party in government needs to take the possibility of losing power into account when making decisions regarding taxation. In addition, short-term start-up costs associated with a new tax (such as new administration) shifts the benefits of the policy from the near to the far term, aggravating the temporal uncertainty associated with the strategy of regressive taxation and progressive spending.

Which strategy for redistribution the left chooses depends on the institutional environment through its impact on re-election probability and opposition influence, that is, the future distribution of power. The key challenge is the ability to ensure that the compensatory spending remains even in the future.

Compensating for the regressive effects of consumption taxation in practice means ex-

[7] This sets my argument apart from related studies such as Steinmo (1989) and (1993), which assume tax policy decisions are taken without reference to what the revenue is spent on.

[8] This is a risk that politicians are very aware of. For example, Steinmo (1993, p. 199-200) reports this comment from a United States Senate staff member when asked why there is not VAT in the US: "This is not Sweden. How can we be sure that that extra money won't just be used to cut the taxes of the rich even more, or to buy more B-1 bombers?"

panded social programs such as pensions, unemployment benefits, and support for families. For many voters, these programs are only valuable under certain circumstances (in the case of unemployment benefits) or in the future (pensions). Thus, while the increase in taxes is felt immediately, the compensation is not realized until later. Losing power in a system with low opposition influence means that the incoming government is free to cut the promised compensation, while keeping the regressive tax.

The incoming right-wing government could do three things: keep both the tax and the spending, abolish the tax and cut the spending, or – which is the worst case for the left – keep the regressive tax and cut welfare spending

Given that the right is generally more concerned about the incentive effects of income tax and welfare spending, the third (worst) case is also a very likely case. A broad-based consumption tax would provide the right with an opportunity to rely less on income tax and to cut welfare spending. Empirically, the third option is also the most commonly observed: In the TID dataset, only one country exists which introduced a VAT but does no longer have it (Iran), and as Allan and Scruggs (2004) has shown, retrenchment of welfare spending is not only possible but also associated with right-wing rule.

Given these expectations in the case of a right-wing government, in the absence of opposition influence it is safer for the left to never introduce a regressive consumption tax in the first place. In countries where elections are more predictable and opposition parties more influential, the combination of regressive taxation and progressive spending becomes more attractive since it is possible for the left – if in opposition – to protect parts of the compensatory spending.[9]

Powell (2000) identifies two factors explaining opposition influence: parliamentary committees and the bargaining position of the government. The bargaining position of the government vis-à-vis the opposition is affected by the level of support the government has in the legislature: a minority government frequently needs to negotiate with other parties in

[9]Data on welfare replacement rates also supports this. From the 1970s and onwards, retrenchment was much more radical in the United Kingdom than in Sweden (Allan and Scruggs 2004).

parliament to legislate, while a majority government is free to ignore the opposition.

Both opposition influence and electoral predictability are linked to the electoral system. Proportional representation is associated with a higher frequency of minority governments, more collective veto points (in the form of coalition partners), influential parliamentary committees, and more predictable election outcomes.[10] Majoritarian systems, in contrast, are more volatile since a small change in voter preferences can have a substantial impact on the outcome of the election and ultimately on policy (Gabel, Hix and Malecki 2008). Majoritarian systems also manufacture strong single-party majorities with little or no influence for the opposition. PR systems do not exclude opposition parties to the same extent. Rather, post-election bargaining and opposition influence between elections reduce policy volatility in these systems (Powell 2000).[11]

The other main arena of opposition influence is the legislative committee system. While Strøm (1990) argues that this influence in fact causes minority governments, and not the other way around, Martin and Vanberg (2011) downplay the importance of committee systems as a source of opposition influence, and instead argue that committees are mostly used by government coalition partners to "police" their bargains. Important for my argument is that committees in PR systems allow for more opposition influence than committees in majoritarian systems (Powell 2000, ch. 2).[12]

In sum, taxing consumption can be a step towards more effective redistribution and thus not a departure from the core values of the left. The decision to shift taxation in a regressive direction is a strategic one that depends on political risks, risks that are driven by electoral volatility and opposition influence. These factors are in turn strongly related to political

[10] On the distinction between collective and competititive veto points, see Birchfield and Crepaz (1998).

[11] Among the 22 countries covered by the Seki and Williams (2014) dataset that are also in the Government Revenue database (on which Figure 1 is based), 46% of governments in majoritarian countries were single party majorities. In PR systems, single-party majority governments are rare (6%), and only 64% were majorities (coalitions and single-party), compared to 76% in majoritarian countries.

[12] These effects of the electoral systems are important because they influence the temporal distribution of costs and benefits of different strategies for redistribution. Importantly, risk is not only influenced by what happens when out of power, it is also related to expectations of losing power. A strong majority in the legislature, favorable opinion polls, and a long period to the next election all lower the electoral risks associated with tax reform.

institutions, in particular to the electoral system.

In low-risk environments left-wing governments implement broad-based consumption taxes in conjunction with progressive spending. In high-risk environments left-wing governments instead opt for a heavier reliance on progressive taxes on income.

3 Empirical Strategy

Because constitutional features such as regime type and electoral system rarely change within a country, and since it takes time before a constitutional change affects party strategy, a comparative approach is preferable. By examining two cases, I can investigate the conditional impact of ideology on taxation by comparing left-wing tax policy in two different strategic environments.

In many of today's developed countries, the years after the Second World War mark the beginning of a period of accelerated welfare state development with several major reforms to taxation and spending, the most important being the introduction and spread of VAT as well as General Sales Taxes (GST), the predecessors to VAT. These new taxes made it possible to greatly increase tax revenues, and had a profound impact on the future tax structure. Figure 3 in the appendix shows how tax revenues as a share of GDP increased after countries introduced GSTs and VATs. In many countries, the VAT was just a minor change to an existing GST, which means that the introduction of the GST had a greater impact on government revenue in those countries.

The case studies are concerned with broad-based consumption taxes with few exemptions. The rates are also comparable: the British 1967 report on VAT used a 10 percent standard rate as an example.[13] The Swedish rate in 1967 was identical (Kleerup 2018). Moreover, it was acknowledged in both countries that the new tax would require compensatory spending (e.g., pensions, education, welfare programs) in order to counteract increases in inequality.[14]

[13] PRO T 328/100, 'Report of the Chief Secretary's Committee on Value-Added Tax Questions', 1967, p. 10, para. 35.

[14] See for example the British report cited above, and the Swedish 1957 report on indirect taxation (1957).

After the Second World War, Sweden and the United Kingdom were both ruled by strong left-wing governments and, more importantly, Labour and the Swedish Social Democrats (SAP) had similar preferences with regards to taxation as both advocated for heavier taxation of the rich to fight economic inequality (SAP election manifesto 1944, *Labour Party General Election Manifesto 1918* 2000, p.49f). Income inequality was also similar in the two countries: the pre-tax Gini coefficient in Sweden was 38.4 in 1951 (Björklund and Palme 2000), and in Britain estimates are between 34.2 and 40.3 in 1954 (Lindert 1998). Moreover, trade unions were very influential in both countries.[15]

Another advantage of comparing Britain and Sweden is their similarity on a number of other variables that could mediate the impact of ideology on tax policy. First, many potential cases of left-wing tax reform in majoritarian democracies are also presidential and federal states, which could affect how ideology and tax policy are related. Both Britain and Sweden are unitary constitutional monarchies. Second, since Britain was victorious and Sweden neutral during the Second World War, there was political continuity and the left did not come to power as a result of a radical reshaping of the political system.

The key intervening variables are electoral institutions affecting political risk. The left is hypothesized to employ different strategies for redistribution depending on the level of electoral volatility and opposition influence. During the post-war era, Sweden used PR, which led to frequent minority governments and coalitions, granting the opposition significant influence. The 19 Swedish elections between 1920 and 1980 produced only one single-party majority government (after the 1968 election). The period is otherwise dominated by single-party minority governments and coalitions (Hadenius 2003). Another effect of PR was that the SAP were facing a right-wing divided between three parties (Conservatives, Agrarians, and the Liberals).

[15] As a reviewer pointed out, there is a strong correlation between PR and corporatism. It is very difficult to find comparable countries during this period with PR and low levels of corporatism. Potential cases – for example in Latin America – exhibit important differences on other variables that adding such a case would not improve the analysis. Therefore, I prefer within-case process tracing in order to probe the causal mechanisms.

In contrast, British institutions were characterized by a strong concentration of power and low opposition influence. The majoritarian electoral system regularly generated strong one-party majority governments. If Labour lost, they knew the incoming government would be an unconstrained Conservative one with minimal opportunity for Labour to influence policy. Of the 17 British elections between 1920 and 1980, 14 resulted in single party majorities, but in only two cases did the winning party receive a majority of the popular vote (Butler and Butler 2010).

Sweden and the United Kingdom fit the quantitative pattern in Figure 1 well. Both had strong left-wing governments during the post-war period but proportional Sweden relied more on regressive taxation than majoritarian Britain. Between 1945 and 1975 (when both countries had implemented VAT), the share of revenue from income taxes in Sweden was 47.8, and the share from excise and consumption taxes 38.6. In Britain, the shares were 48.9 and 26.6, respectively ([author] and [coauthor] 2019).

Although the macro patterns are consistent with the argument, it is not possible to trace the mechanism at play using quantitative data. The case studies aim to complement the large-N correlation with a closer look at the actors, their motivations, and how their actions were affected by the institutional context. It is important to stress that the purpose of the study is to evaluate the causal *mechanism*, not the causal *effect*.[16]

The political party/coalition making up the government is the most important actor to consider since it is effectively setting tax policy. Although the focus is on left-wing parties, the preferences of parties to the right are also important as they affect the risk assessment of the left. I also pay special attention to trade unions and employers' organizations since, as earlier research has shown, they are crucial in explaining tax policy change (see e.g., Martin 2015, Beramendi and Rueda 2007). With that said, it is important to remember that parliament sets tax policy, not unions (Bradley et al. 2003).

[16] In this sense, my cases could be seen as what Gerring and Seawright (2006) call "pathway" cases. I follow the recommendations in Bates et al.(1998, p.14-18) and pay particular attention to whether the assumptions fit the facts, if the theoretical implications are supported by the data, and how well my argument stands up compared to other explanations.

4 Labour Post-war Tax Policy

The Labour party had traditionally advocated for a heavier reliance on taxes on income relative to taxes on consumption, but the first Labour government after the war reduced the income tax rate – which had been increased because of the war – by 5 % (Thorpe 2008, p. 123), while increasing excises, compensating its voters by raising food subsidies (Whiting 2000, p. 90-100). During the Attlee era, the overall tax pattern shows a fairly regressive development, as shown by Table 1 and Figure 5 in the appendix. Although the reduced income taxes benefited the electorally important middle class, the failure to introduce a tax on capital gains and/or wealth was cited later as a main contributor to rising inequality and shaped the debate during the following years in opposition.

The 1951 election resulted in the greatest vote share in Labour history, 48.8 %, but the 13 948 883 votes only resulted in 295 seats, while the Conservatives' 48 % of the votes produced 321. Thus, despite being rewarded in the polls, Labour lost the election (Thorpe 2008, p. 140).[17] During the time in opposition, Labour reevaluated its tax policies and shifted focus towards inequality and fairness and how to achieve redistribution through taxation rather than nationalization. Ideas concerning the effectiveness of taxation and its impact on revenue started to emerge. The prominent Labour politician Anthony Crosland stated that what he called "socialist" taxes "should therefore enable us to consider [...] certain elastic and high yielding indirect taxes – a general turnover tax, a differential payroll tax, or a graduated and much higher employers' national insurance contribution [...] For what matters is the total progressiveness of the tax system – and, if we want to redress its total imbalance, its total yield" (quoted in Whiting 2000, p.151).

Hugh Gaitskell, shadow Chancellor from 1951 until 1955 (when he became Leader of the Opposition), also acknowledged that increasing redistribution through income tax alone was no longer possible and turned his attention towards property as the main culprit of inequality

[17] These dramatic results caused by the electoral system are not uncommon in Britain and, as mentioned previously, this is an important difference between British and Swedish politics (e.g., Heclo 2010, p.37).

(Ellison 2002, p.86). While broad-based consumption taxes were discussed within the party during this time, momentum shifted in favor of taxes on capital. After winning the election in 1964, the new Labour government employed the Cambridge economist Nicholas Kaldor as special adviser to the Chancellor (NK/10/1/2 1964), which proved to be of great importance for future Labour tax policy.

According to Whiting, the 1965 Labour budget was mainly an attempt to legitimize income tax and it did not seek "to redistribute wealth in the traditions of some of Labour's earlier tax ideas" (2000. p.171.). During the years following the budget, VAT rose to the top of the agenda (ibid. p.171). The Confederation of British Industry (CBI) was concerned about government spending and the level of direct taxes, which it argued was detrimental for incentives. Instead, the CBI pushed for lower spending and a shift to indirect taxes (ibid. p.193).

VAT or SET? Early in its 1964 term, the government was in dire need of a solution to Britain's balance of payments problem (CAB/129/121 1965). Since it did not want to devalue the pound sterling, other measures – such as changes to the tax system – were considered. VAT was proposed as a way of offering export incentives without violating the rules of the General Agreement on Tariffs and Trade (GATT). However, critics pointed out that the existing purchase tax did not fall on exports, so replacing it with VAT would not be an improvement.

Irrespective of the impact of exports, there were other advantages to VAT. First, to squeeze more revenue out of income tax, the government would be forced to increase the tax burden on the less well-off, which would lead to demands for wage increases. There were also concerns that the fairness of income tax was undermined by avoidance (Whiting 2000, p.152). In addition, Labour had publicly ruled out income tax increases before the 1966 election (Thirlwall 1987, p.242). VAT would solve the revenue issue without these problems. Second, by subjecting more goods to the existing purchase tax, the government would need to motivate and fight for every additional good included in the scheme. Introducing a new consumption tax, covering most goods *and* services (which were not covered by the purchase tax) would be more expedient politically (Daunton 2002, p.294).

However, Labour had traditionally been hesitant towards broad-based consumption taxes because of their regressiveness and had made sure that the purchase tax contained progressive elements (e.g., higher rates on luxury goods) (Whiting 2000, p.197). In 1963 when the National Economic Development Council (NEDC) had suggested introducing VAT combined with the abolition of the profits tax in order to boost economic growth, Labour fiercely criticized the proposal's negative effects on equality (Daunton 2002, p.289).

As an alternative, the adviser on tax matters, Kaldor, proposed softening the regressive blow of VAT by abolishing social contributions. Replacing the current system of indirect taxes and social insurance contributions with VAT would be more progressive, even though VAT in itself was less progressive than income tax. Kaldor also pointed out that VAT would raise considerable revenue with less distortions to production and consumption.

Kaldor's proposal was met with heavy resistance from the Treasury, Customs and Excise, the Board of Trade, and the Department of Economic affairs. The main issue was the fact that contributions fell on labor, while VAT would also hurt groups outside of the labor force, such as married women and pensioners, and this was considered politically dangerous. Moreover, Customs and Excise were concerned about the administrative costs associated with the new tax (Daunton 2002, p.295f).

Kaldor quickly returned with a new proposal: the Selective Employment Tax (SET). SET, introduced in 1966, was paid by the employer based on the number of employees, with tax rebates to the manufacturing sector. SET would encourage reallocation of labor from the service sector to manufacturing as well as raise revenues (which would partly be used to subsidize exports) (Whiting 2000, p. 198). Crucially, it would be more politically palatable than VAT (Daunton 2002, p.297f).

Although Labour Chancellor Callaghan was pleased with SET, the Trade Union Confederation (TUC) was not. A memorandum from the TUC sent to the Chancellor on July 29, 1970 identifies a long list of complaints about SET, the most important of which was that its impact was generally regressive. This was partly because SET was in some sense a head tax on employees in the service sector with no differentiation and few exemptions. Importantly, one of the few exemptions was for the self-employed, which led to evasion according to the report (NK 11/17 1970). The report explicitly discussed the relative merits of SET and VAT. If VAT was to be introduced, the TUC expressly called for compensating measures by changing other taxes or by using selective exemptions.[18] But selective exemptions – the feature that used to mitigate the regressive impact of the old purchase tax – would not be possible with the type of VAT discussed. A VAT selective enough to be acceptable to the TUC would be prohibitively expensive to collect, and these additional collection costs were one of the reasons the TUC preferred SET over VAT (NK 11/17/8-12 1970).

The VAT question was also linked to the European Economic Community (EEC) since membership required its introduction. The CBI advocated for an introduction of VAT and a lowering of income taxes before a possible entry into the EEC to enhance the competitiveness of British firms (Rollings 2003, p. 235). Likewise, the Conservatives supported both membership and VAT adoption (Lynch 2003, p.59).

In connection with Britain's second application to the EEC, a report was commissioned to investigate the impact of VAT.[19] Despite the expectations of Prime Minister Wilson, the report recommended *not* introducing VAT. Although the report acknowledged that VAT would solve the revenue problem, it did not recommend introduction. The report cited three main reasons for why: 1) Britain did not have a cascading turnover tax, a problem that made other European countries consider VAT; 2) introducing VAT would mean sharply increased administrative costs; and 3) VAT would not enhance industrial efficiency the way SET did. But since the second application was also vetoed by de Gaulle, the report was never even

[18]This is different from the Swedish unions who demanded compensation on the spending side.

[19]The first application was submitted by the Macmillan ministry, but was vetoed by Charles de Gaulle in 1963.

discussed in the committee (Whiting 2000, p. 204).

Importantly, the failed application to the EEC was not the only reason for Labour being reluctant to introduce VAT: the TUC was strongly opposed to the tax. In negotiations with the CBI in the NEDC, the TUC demanded a number of compensatory measures for accepting VAT, one of which was a wealth tax. This demand effectively halted negotiations since the CBI was firmly opposed to any taxes on wealth. The lack of a clear plan of compensation made the TUC apprehensive toward VAT. This insecurity regarding compensation was acknowledged by the director of the NEDC (Fred Catherwood) who wrote the following to the TUC representative: "What would happen would very much depend on the mixture of taxes and social benefits at the time and I still think it possible that a non-regressive, non-inflationary mix could be devised. However, I can well understand your lack of enthusiasm for the risks of a major change like this" (quoted in Whiting 2000, p.204). So, while it was clearly possible to compensate for its regressive effects, VAT was opposed because the uncertainties were deemed too severe for the TUC to be willing to take the risk.

Similar sentiments were also expressed by key Labour officials. Nicholas Kaldor – who throughout the 1960s had vast influence over tax policy – put it like this in 1968: "The strong advocacy of the value added tax by the Tory Party and business circles is really an attempt to shift the balance of taxation from direct to indirect taxes. This of course would not be acceptable from a socialist point of view" (quoted in Daunton (2002) p. 299). These fears expressed by TUC and Kaldor turned out to be well-founded: when the Tories took power in 1970 they shifted the tax and transfer program in a clearly regressive direction, among other things introducing VAT without any compensatory spending (Daunton (2002)).

Conclusion. Although it was acknowledged that the regressive effects of VAT could be compensated for, introducing the tax was deemed too risky. These risks were especially salient for the TUC, which did not trust that Labour would be able to compensate its members for the costs associated with VAT. This is hardly surprising given that Labour would have been left with minimal influence had they lost the next election. It is plausible that the anticipation of future low opposition influence affected the risk-taking behavior of the TUC and the Labour party.

In contrast to previous studies emphasizing the British administrative culture (Steinmo 1989, p. 530), the particular British policymaking style (Steinmo 1993), and that tax decisions should be analyzed separate from spending (Steinmo 1989), I find that the TUC's resistance to VAT stemmed from the uncertainty regarding future compensation, compensation which included social spending.[20] Moreover, individual tax experts with considerable influence over Labour policy expressed similar concerns.[21]

5 Swedish Post-war Tax Policy

During the Second World War, all parties in the Swedish parliament (the *Riksdag*), except for the Communists, were represented in government. The Social Democrats (SAP) were victorious in the 1944 election, but the war-time government remained in office until the end of the war. When SAP Prime Minister Per Albin Hansson died in 1946 he was succeeded by Tage Erlander, who went on to lead the country for the next twenty-three years.[22] As in Britain, a return to peacetime taxation meant removing temporary taxes and lowering others.

Post-war Tax Reform. The need for sharply increased spending during the war led to the introduction of a temporary turnover tax (the "Oms").[23] This universally disliked tax –

[20]Compare with Steinmo's claim that "The incidence, effect, and distribution of taxes in a society rarely affect, or are affected by, discussions of the distributional effects of public spending programs." Steinmo (1989), p. 508.

[21]See also Andersson (2017) on the role of experts in tax reform.

[22]Of course, this was not something the SAP knew at the time. In fact, the risk of losing power was always present and the party could only form a majority government once (in 1968).

[23]The tax is usually called the "oms", short for *omsättningsskatt*, meaning "turnover tax". However, some scholars, such as Steinmo (1993) (p.126), refer to this tax as a "sales tax". Confusingly, a tax referred to as *försäljningsskatt*, literally meaning "sales tax" was introduced in 1948, but this tax concerned only a few goods: precious metals, pearls, certain carpets, and phonograph records and related equipment (*The* 1957 *Committee on Indirect Taxation*, p.60.). In order to avoid confusion I will use the closer translation "turnover tax" when referring to the "oms".

especially among the left-wing parties who criticized its regressivity – was abolished in 1947. This was in line with the 1944 party program (in effect until 1960), which explicitly called for progressive taxation, redistribution, and taxes on wealth. Interestingly, the finance minister overseeing its removal, Ernst Wigforss, later described the abolition of the tax as a mistake driven by political necessity. In his memoirs, he states that because the party was already committed to lowering income taxes, it ruled out keeping the oms since it would not be possible to lower a progressive tax like the income tax and at the same time keep a regressive consumption tax, especially not since the government had a very narrow majority in the parliament (Wigforss 1954, p. 336ff.).[24]

However, income tax as an ideal tax for the left was increasingly being questioned. In an economic environment with stable prices and high brackets for income tax, shifting from indirect to direct taxes generally meant that the better off paid more. However, inflation led to bracket creep, pushing more and more low-income taxpayers into the income tax system. And when reports came of evasion at the top – which would further erode the progressivity of the tax – the labor movement started to reevaluate its stance on indirect and direct taxation.

It was not only politicians within the SAP such as Ernst Wigforss that mourned the demise of the turnover tax. As early as 1946, Gösta Rehn and Rudolf Meidner, prominent economists in the trade union confederation (the LO), started to campaign for the benefits of taxes on consumption (e.g., Rehn 1946). This was followed by similar articles in the LO outlet *Fackföreningsrörelsen* (Meidner 1946) and in the SAP magazine *Tiden* (Rehn 1948). Rehn (together with the future governor of the central bank Per Åsbrink) argued that removing the tax had been a mistake and that judging indirect taxes only on its incidence and not on what the revenue was used for was like throwing the baby out with the bathwater (Åsbrink and Rehn 1951). Although taxes on consumption hurt the poor, if the revenues were spent

[24] This caution on the part of the SAP with respect to the weak hold on power goes against other research emphasizing the almost hegemonic position of the SAP during the post-war period. The statements from Wigforss suggest that the picture of an all powerful SAP is an after-the-fact interpretation that did not affect the actors' behavior during these events. In order to understand the decision at the time we should focus on the information and perception of the actors at the time, and not assume that they had perfect foresight. This leads us to caution against ex post facto explanations from today to the time when it happened.

disproportionally on these groups, there should be no quarrel with the tax on distributional grounds.

Taxation of consumption had two additional advantages: it was harder to avoid than income tax, and in a time of rising prices and full employment, a tax on consumption was seen as a formidable tool for balancing the economy. Aware of the political difficulties of such a reform, Rehn cited a recent survey in which respondents were asked whether they preferred removing the tax or keeping it if it financed certain social policies. Despite the widespread belief that the turnover tax was heavily disliked, 39 % of the working class respondents wanted to keep the tax and only 50 % wanted to abolish it (compared to 29 and 63 % respectively for the upper classes) (Rehn 1946). Rehn's point was that the electoral risks associated with a reintroduction of a turnover tax were exaggerated, especially if respondents were asked to consider what the revenue was spent on.

It was not just Rehn's articles in the labor press that advocated for a changed perspective on taxation. As early as 1951, Rehn, Åsbrink and Meidner also met regularly with Prime Minister Erlander to discuss indirect taxation and inflation. Although these ideas later became central to SAP economic policy, they were politically impossible to implement at the time according to Erlander (Erlander 1974, p.235f and Erlander 1976, p.39).

Another source of information regarding the preferences and strategies of the main actors at the time comes from two influential public reports on direct (1951) and indirect (1957) taxation. The 1951 report, supposedly focusing only on direct taxation, spent a considerable amount of ink on the balance between indirect and direct taxation, and led to a serious debate on the issue. It also allowed Gösta Rehn, an official member of the commission, to fully express his views on the matter.[25] In his opinion he stated that taxation of consumption was not detrimental for social progress since its yield could be used to compensate the poor. Moreover, Rehn argued (as did the main report) that indirect taxes on consumption were harder to evade.

[25] However, since his opinion deviated from that of the LO, he could not use his own name. The dissenting opinion attributed to E. Oskar Åkerström is in fact the opinion of Rehn (Elvander 1972).

In its official opinion on the 1951 report, the LO agreed with the main points, including the conclusion that income tax rates were high enough to depress tax morale as well as production, and recommended an inquiry into a shift from direct to indirect taxation, but only on the condition that compensation was paid out to the less well-off through social programs (Konseljakt 1952).[26] In contrast, The Federation of Swedish Industries (*Sveriges industriförbund*, SI) advocated for an immediate decrease in public spending. It also expressed concern about the negative effects of direct taxes on employment, business, and savings. That the report (SOU 1951:51) found evidence of tax evasion was seen as a clear indication that the rates were too high. To finance a reduction in direct taxes, the Federation recommended a permanent broad-based consumption tax (*Konseljakt 31 mars* 1952).

1951-1957: Deliberations. Notwithstanding the recommendations of the 1951 report and the support from the unions and the industry, the government made no major changes to indirect taxation during the following years. Fighting inflation was prioritized, and among the various measures to do so (a reintroduced turnover tax was, as mentioned above, one of these) the government chose excises and raised interest rates.

During this period, Rehn and Meidner met repeatedly with Erlander to discuss the issue of indirect taxation. But when Meidner suggested a reintroduction of the tax in 1955, the Finance Minister Per Edvin Sköld was outright hostile to the idea (Erlander 1976, p. 265).

Reintroducing the Turnover Tax. The ultimate reintroduction of the turnover tax was preceded by the second major tax inquiry of the decade: The 1952 Committee on Indirect Taxation (of which Rudolf Meidner was a member). Published in 1957, the report concluded that indirect taxation had three major advantages over direct taxation. First, indirect taxes have lower administrative costs, especially compared with the rates of current direct taxes. Second, a move to indirect taxes on consumption would reduce tax evasion and have a

[26] At one point, the LO disagreed with the report – on the general level of taxation, where the report recommended a lower level.

positive effect on work incentives and savings. Third, indirect taxes would provide a more effective and flexible tool for fighting inflation.

The report recommended that the new tax should be broad-based with uniform rates (with very few exemptions). Importantly, the committee acknowledged the fact that these types of taxes hit some groups, such as families and pensioners, particularly hard. It recommended compensating specific groups using government spending rather than providing exemptions or lower rates for certain goods (*The 1952 Committee for Indirect Taxes* 1957).

The LO's general view of indirect taxes had not changed since 1951; they still believed that the distributional effects of indirect taxes could be neutralized by social programs. But this time, the LO was more specific concerning the political risks and the more technical forms of compensation involved. Fearing that compensation might be temporary, it demanded clear regulations regarding which groups have the right to compensation and that benefit rates should be tied to the tax rate. Although the LO agreed with some of the advantages with indirect taxation, such as lower evasion and its usefulness in fighting inflation, it advised *against* the tax. The LO concluded that because of the way the proposed tax was constructed it would fall heavily on consumers, and it would be difficult to abstain from pushing for higher wages as compensation. Surprisingly, even though the LO was opposed to a reintroduced turnover tax, it stated that a value-added tax could be plausible as a future replacement for the profit tax (*Konseljakt 9 oktober* 1959, p.21).

The SI criticized that the possible shift towards indirect taxation was framed in terms of increased spending and not lower taxes. It strongly advised against introducing consumption taxes as a way of expanding government, but recommended an immediate shift towards a general consumption tax if it meant maintained or lower overall tax levels (ibid.). Thus, both interest groups discussed the pros and cons of the new tax with reference to how the revenue would be spent.

The Decision. Despite union opposition, the government decided to reintroduce the turnover tax. Erlander framed the decision as follows: "We wanted to continue our policy of reform. But then we have to get money" (Erlander 1976, p. 264, my translation). Given the limits of income tax, the solution was to bring back the turnover tax.

The proposal was put forth during the fall of 1959 and the government first thought it would be able to get support from the conservatives and the liberals, but negotiations failed. The one thing the right-wing parties seemed to be able to agree on was their opposition to the turnover tax. The government also tried (unsuccessfully) to convince the Farmer's League to support the bill by threatening to raise direct taxes. In the end, Erlander claimed that the LO was warming up to the idea and decided to push the bill through with the possible help of the Communist party (Erlander 1976, p.267ff).

In the parliamentary debates, the conservatives (*Högerpartiet*), the liberals (*Folkpartiet*), the farmers (*Bondeförbundet*) as well as the Communists were strongly opposed to a reintroduction of the turnover tax, albeit for very different reasons. The right, primarily the liberals and the conservatives, feared that a return of the tax would increase the size of government. For the Communists, the tax was unacceptable because it fell heavily on the poorest workers (Parliamentary minutes 1959).

In the end, the Communists had to choose between accepting the tax or in effect terminating the SAP (minority) government. According to Erlander, the Communists used the parliamentary voting system to save face as it allowed them both to vote against reintroduction, but also to abstain and save the government in the subsequent joint-sessions' vote.[27]

Finally passing the parliament in December 1959, the tax went into effect on the first of January 1960. It had a uniform rate of 4 percent and very few exemptions. In order to compensate for the regressive impact, the lower brackets of the income tax were reduced and child subsidies increased (Norr 1961).

[27] The reason this was possible was that tax bills needed to pass both chambers, if a bill passed only one, a new vote would take place with both chambers voting together. The Communists voted against the tax in the second chamber and abstained in the following vote.

Aftermath. According to a poll, before the 1960 general election, most SAP voters opposed the tax, but after the election, a majority *supported* the tax. Särlvik (1967) presents data suggesting this was an effect of the SAP appealing to attitudes toward welfare expenditure and party loyalty during the election campaign. Thus, it seems like the compensatory spending helped sway public opinion. Moreover, the SAP gained three seats in the election (Nohlen and Stöver 2010, p. 1872).

The reintroduction of the tax led to a significant increase of revenues from consumption taxes (tripled from 1959 to 1969), less dependence on income tax, as well as sharply increased social spending (both as a share of GDP and as a share of total expenditure). Crucially, the rise in social spending only occurred a couple of years *after* the reintroduced tax started to bring in more revenue (see Table 2 in the appendix). The reforms had the intended effect: the poverty rate – which had actually been increasing since 1947 – fell after 1958 (Lingärde and Rauhut 2019). In the same period income inequality also decreased (Björklund and Palme 2000). The reintroduced turnover tax was turned into VAT in 1968 (Rodriguez 1981, p.49).

Conclusion. The aggregated economic data, as well as the election outcome and the polls, suggest that the SAP managed to reintroduce the turnover tax, compensate the poor, and avoid electoral backlash. While the SAP was working closely with the LO, their choices were not constrained by it in the way suggested by Beramendi and Rueda (2007). In fact, the SAP reintroduced the tax against the explicit wishes of the LO. Both actors were aware of the corporatist agreement and the problem of wage increases and inflation, but eventually found a solution to the dilemma.

Interestingly, in 1959 the SAP stance was more in line with the business peak organization than with the unions and the right-wing parties in parliament, who both opposed a reintroduction of the tax. In 1951, the LO appeared to be willing to accept a move towards a heavier reliance on consumption tax as long as there was compensation, but in 1959, it explicitly advised against a reintroduced turnover tax. It acknowledged that compensation is important and that it might work, but judged the political problems to be too hard to overcome, especially considering that higher prices meant workers would demand higher wages. Curiously, in the same document, the LO comes out in favor of VAT, suggesting that the technical implementation of the tax was the issue, not the general shift towards consumption taxation.

My findings differ markedly from those of Steinmo (1988), who argues that "the original goals of the Social Democrats have changed as they governed capitalist Sweden" (p. 405).[28] My examination of SAP tax policy suggests that they changed their methods, not their minds. The goal was always redistribution, but (partly because of evasion among the top income tax payers) a move to consumption taxes coupled with progressive spending was seen as a more effective (and efficient) way of reaching this goal.[29]

In contrast to earlier work arguing that the switch to consumption taxes occurred because of rising spending needs (Ganghof 2006; Steinmo 1988), I found that another important concern of both the unions and the Social Democrats was that evasion had undermined the progressive nature of the income tax and that increasing rates further would lower tax morale even more. These concerns added to the efficiency argument in support of consumption tax, and made this alternative even more attractive relative to income tax.

Another issue with the interpretation in Steinmo (1988) is that the SAP is portrayed as weak because of its minority position and need of support from parties outside of government, "Coalition meant compromise" (p. 416). However, when the tax was reintroduced, the SAP was not in a coalition, but in a minority government. Moreover, the party supporting them introducing it was on the left – the Communists – and not on the right. In contrast, Steinmo

[28]Curiously, Steinmo states at a later point that the leaders of the SAP had not "betrayed the ideals or goals of their party. Rather, the Socialist elite's understanding of how to best champion the interest of the working class was changing." (p. 415), implying that his stance on this issue is somewhat ambiguous.

[29]Steinmo indeed agrees that the Swedish system is redistributive despite the regressive taxes, but he does not link this to the reform of indirect taxation in the 1950's.

sees the reintroduction of the turnover tax as a move towards the middle to appease the right. In my reading of the evidence, the idea to reintroduce the general sales tax came from inside the LO, and was pushed through against the will of the right-wing parties in the Riksdag (to the surprise of Erlander who counted on their support).

An interesting difference between my account and that in Steinmo (1989) is the behavior of unions. According to Steinmo (1989) the oms was "vehemently opposed by the labor unions and a majority of Social Democratic voters" (p. 522). However, this conclusion ignores the LO opinion on the 1957 report on direct taxation, as well as the public opinion evidence from Rehn and Särlvik demonstrating that SAP voters were actually convinced by the compensatory spending. Moreover, my study suggests that the lobbying efforts made by LO economists Åsbrink, Rehn, and Meidner (beginning in the late 1940s) are key to understanding the reintroduction of the tax.[30]

6 Discussion

In an important study of tax politics in the United Kingdom and Sweden, Steinmo (1989) concludes that "In both Britain and Sweden central government authorities have enacted consumption tax legislation *over clear public opposition* because the government felt that this tax was necessary for future revenue commitments". My findings are different. For instance, in Sweden the motive was making the tax system more efficient, which meant moving from an income tax which was not as progressive as once believed and did not have further revenue potential, to a broad-based consumption tax that would not only generate revenue more efficiently, but also assist in demand management. Moreover, it was shown as early as 1948 that hesitant voters could be convinced by compensatory spending, which is also what happened after the tax was introduced (in which the SAP expanded social

[30]It is important to differentiate between LO as an interest organization representing labor and the activities of the LO economists Rehn and Meidner (who advocated for the re-introduction of the tax). The latter in their discussions with Erlander were part of a broader policy-making context in which also spending was discussed.

spending, reduced poverty, and was rewarded in the following general election).

A striking difference between the cases is the behavior of the trade unions. In Britain, the TUC demanded massive exemptions and differentiated rates – or a wealth tax – to support the introduction of VAT. These demands did not compensate the people being affected by VAT, but were rather adjustments of the distributive profile of the tax system itself. In contrast, the LO identified groups particularly exposed to the proposed tax and suggested targeted compensation using government spending (e.g., raised child benefits to compensate families). Moreover, and in line with the theoretical argument, the LO (and later the SAP) adopted the view that a high yielding indirect tax coupled with social spending would be a more effective way of achieving equality than raising income tax rates.

Both the TUC and the LO were concerned that while the new tax would be more or less permanent, the compensation for its regressive effects would be temporary. This concern was more acute in the TUC, and the considerable influence it had over the Labour party was important in explaining why the government abandoned its plans for VAT. In Sweden, the LO gave somewhat mixed signals during the 1950s. On the one hand, they approved of indirect taxation in their opinion on the 1951 report, and prominent economists within the organization advocated for a reintroduction of the turnover tax both in the press and in private meetings with key government ministers. On the other hand, the LO officially opposed a reintroduction of the tax in its response to the 1957 report on indirect taxation. The electoral effect of the compensatory spending was key in how Rehn and Meidner used opinion polls to show that the tax would be more palatable for voters if combined with social spending.

However, probably more important in the Swedish case is the fact that there was no unified strong opposition at the time (see also Hicks 2013). The SAP had been in coalition with the Farmer's League from 1951 to 1957, and more often than not, the right disagreed within themselves on economic policy. When the right-wing parties were unified on an issue, the SAP needed to rely on the Communists. The situation in Britain was completely different;

there was no moderate right-wing party with which to strike deals, and the governments by design had a majority in Parliament, making the consequences of losing an election more severe, as evidenced by the successful retrenchment of welfare programs in the 1980's.[31]

An alternative explanation is that the ideology of a party allows it to credibly tax its own supporters (Timmons 2010). In this view, a party to the left could credibly commit to spend the revenue from regressive taxes on the working class. We saw that this reasoning was present in trade union writings in both Britain and in Sweden. However, it cannot explain why the British TUC would not take the risk of being left uncompensated with a new regressive tax, whereas the LO in Sweden actively advocated for it (at least initially).

A related topic in the debates over income versus consumption taxes was evasion and avoidance (also emphasized by Timmons 2010). Both in Britain and in Sweden, a common view was that the high rates of income tax had eroded tax morale, especially at the top, making income tax both inefficient and less progressive in reality than on paper. However, I found no evidence for tax avoidance and credible commitments with respect to ideology being the main driver behind tax policy during this time. For example, the opposition to the turnover tax from the Swedish right was driven by a fear that this would open up the floodgates of government expenditure, whereas the Conservative Party in Britain *supported* the introduction of VAT.

Ganghof (2006) suggests that the left increased consumption tax because existing taxes could not keep up with increased spending. In both Britain and Sweden, supporters of VAT (and other broad-based consumption taxes) emphasized its potentially positive effect on government revenue, especially in comparison to existing income taxes. But, as was clear from the British case, there were other ways of raising additional revenue; a broad-based consumption tax was not the only option. And in Sweden, social spending started to increase only *after* the turnover tax was reintroduced.

[31] For example, the replacement rates for unemployment and sick pay were reduced by around thirty percentage points from 1975 to 1999. In Sweden they were reduced by merely around seven percentage points (Allan and Scruggs 2004).

Hallerberg and Basinger (1998) and Tsebelis (2002) posit that more veto players lead to policy stability and fewer tax reforms. The episodes studied in this paper do not support this idea. The political institutions in the United Kingdom produce strong majority governments without additional constitutional veto players. However, there is no uniform pattern of sweeping tax reform in Britain.[32] Moreover, the minority SAP government managed to reintroduce the turnover tax, even though it was opposed by all other parties in parliament as well as the LO. Instead, my results are more in line with comparative welfare politics scholars emphasizing the enabling effects of collective veto points (e.g., Birchfield and Crepaz 1998; Huber, Ragin and Stephens 1993).

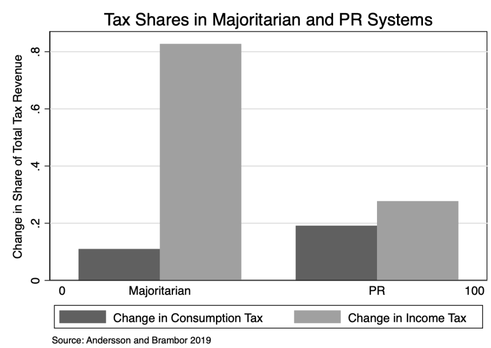
One aspect of tax policy decision making that was prominent in the cases but absent in theories seeking to explain it was the belief that consumption tax would be an effective tool of countercyclical demand management. Both parties and unions were deeply concerned about inflation and balance of payments, and saw tax policy as a natural tool for dealing with these issues. Further research should consider these multiple uses of tax policy when linking preferences for redistribution to taxation.

This paper has proposed an explanation for left-wing tax policy based on how institutions affect the risk assessment involved in tax reform and how this leads to divergent strategies for redistribution. Cross-country evidence using a novel dataset over tax revenue suggests that the left indeed taxes differently in different institutional contexts. More importantly, the qualitative evidence shows that other mechanisms fail to explain why Labour and the SAP chose different strategies. Instead, the Swedish and British cases highlight how electoral institutions affects expectations regarding compensatory spending, and its impact on union and government behavior.

[32]For example, the conservative Macmillan ministry from 1957 to 1963 achieved only incremental changes while the following Labour government under Wilson introduced truly radical reforms.

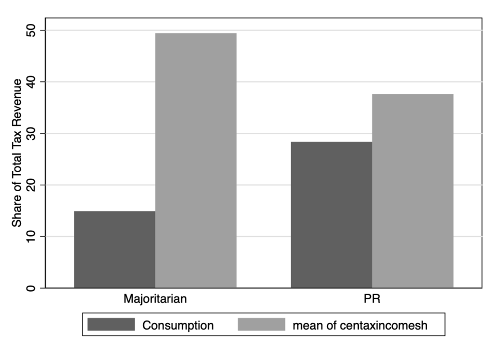
7 Appendix

Together, the datasets on taxation and ideology cover 31 countries in Europe, Latin America, North America, and the Asia-Pacific from 1870 to 2012 (for details see [author] and [coauthor] 2019). The reason why the graphs below only cover 1900-2012 is that the first country that adopted a proportional electoral system did so only in 1899 (Belgium). The definition and data over democracies are from Boix, Miller and Rosato (2012).



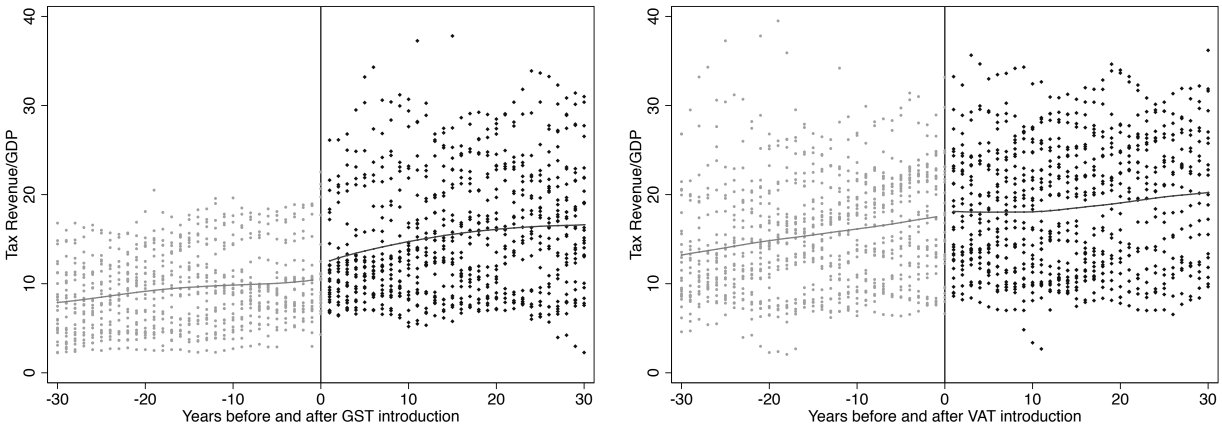
Sources: [author] and [coauthor] (2019) (taxation), Brambor, Lindvall and Stjernquist (2014) (ideology), Colomer (2004) (electoral system).

Figure 1: Taxation by the Left, 1900-2012 (changes)



Sources: [author] and [coauthor] (2019) (taxation), Brambor, Lindvall and Stjernquist (2014) (ideology), Colomer (2004) (electoral system).

Figure 2: Taxation by the Left, 1900-2012 (levels)



(a) General Sales Tax (b) Value-added Tax

Figure 3: Introduction of Consumption Taxes and Government Revenue
(Data from [author] and [coauthor] 2018 and Seelkopf and Genschel 2017.)

Table 1: The Attlee Government: 1946-1951

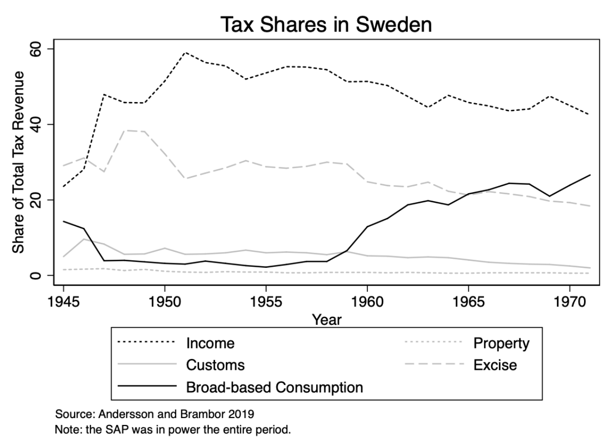
Tax share	*1946*	*1947*	*1948*	*1949*	*1950*	*1951*	*1952*
Income	56.2	48.8	44.1	45	46.6	44.2	47.3
Property	3.6	4.5	4.8	4.6	4.8	4.6	4.1
Customs	16.9	19.1	22.2	21.2	20.5	22.3	22.1
Excise	16	17.3	17.7	18.9	17.8	17.8	16.7
Consumption	5.4	7.6	8.2	7.5	7.6	8.3	7
Social Spending/GDP	.	.	.	.	10.7	9.9	9.6
Social Spending/Total Expenditure	.	.	.	.	39.6	35.6	34

Sources: Tax shares are from [author] and [coauthor] 2018 and data on social spending from Flora, Kraus and Pfenning 1983. All figures are for central government. Importantly, the consumption tax – called purchase tax – had differentiated rates and was primarily aimed at luxury goods. Thus, it was a consumption tax but with decidedly progressive elements. While keeping the tax after the war, in 1948 Labour decided not to broaden the base of the tax since it was "not politically defensible" (Whiting 2000, p. 91).

Table 2: The Third Erlander Government: 1957-1969

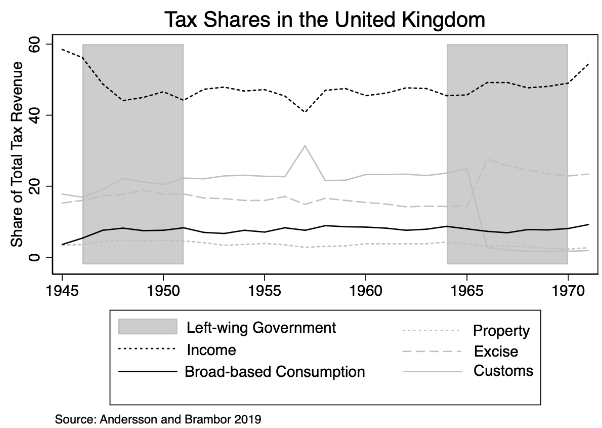
Tax share	*1957*	*1958*	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*	*1968*	*1969*
Income	55	55	51	51	50	47	45	48	46	45	44	44	48
Property	0.7	0.8	0.8	0.8	0.7	0.8	0.7	0.6	0.6	0.7	0.7	0.7	0.7
Customs	6	6	6	5	5	5	5	5	4	4	3	3	3
Excise	29	30	30	25	24	24	25	22	21	22	22	21	20
Consumption	4	4	7	13	15	19	20	19	22	23	24	24	21
Social Spending/ GDP	.	7	10	10	10	11	11	12	13	14	14	14	14
Social Spending/ Total Expenditure	.	44	48	48	48	52	52	53	54	56	57	57	56

Sources: Tax shares are from [author] and [coauthor] and data on social spending from Flora, Kraus and Pfenning 1983. All figures are for central government.



The left was in power the entire period. Sources: [author] and [coauthor] (2019) (taxation), Brambor, Lindvall and Stjernquist (2014) (ideology), Colomer (2004) (electoral system).

Figure 4: Taxation and Ideology in Sweden, 1945-1970



Labour governments are indicated by shaded areas. Sources: [author] and [coauthor] (2019) (taxation), Brambor, Lindvall and Stjernquist (2014) (ideology), Colomer (2004) (electoral system).

Figure 5: Taxation and Ideology in Britain, 1945-1970

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