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Abstract

This paper questions whether late twentieth century immigration patterns may have contributed to retreat from progressive taxation in Sweden (and elsewhere). The paper applies critical methodology to ask whether the societal generosity reflected in development of Sweden's welfare state yielded to greater parsimony as Sweden opened its borders to ethnically and racially diverse groups of immigrants. The paper explores whether Sweden's loss of societal homogeneity facilitated the development of a political climate in which protecting traditional Scandinavian-owned capital from taxation became acceptable. Social science literature already has detected various unintentional ethnic and gender biases in delivery of welfare services and benefits in Sweden.

The Swedish (Scandinavian) welfare state model developed under taxation systems that redistributed wealth from the wealthy and well-to-do to the less wealthy and poor. Those systems included steeply progressive income tax rate structures under Sweden's schedular income tax and graduated taxes on wealth and the transmission of wealth at death (inheritance tax). Today Sweden has neither an estate tax nor a wealth tax. Its current, internationally lauded income tax is dual, but only moderately progressive. The Swedish income tax imposes substantially lower rates on income from capital than it imposes on income from labor. Other regressive taxes on labor and consumption carry much more of the overall Swedish tax burden than they did in earlier decades.

Sweden may be representative of international tax distribution trends that coincide with ever increasing wealth disparities in developed economies in the early decades of the 21st century. Loss of progressivity in taxation during the latter part of the twentieth century was common in much of the economically developed world. It was obvious from the early days of the welfare state that even the most steeply progressive income taxes could not generate sufficient tax revenues to fund ever growing national budgets. While Sweden was not alone in turning to regressive consumption taxes to generate revenue (and simplify collection) and capped taxes on wages earmarked for national retirement systems (even though money is fungible), Sweden insisted on a redistribution model for many years. Taxpayers and their representatives opposed such "confiscatory" taxes and threatened to move their resources and themselves to low tax jurisdictions even when that meant relinquishing national citizenship. Yet, those shifts in tax burdens have not staunched the expatriation trend or the flow of investment to low tax jurisdictions.

Keywords: Income taxation, regressivity, progressivity, redistribution, welfare state

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