The future of the welfare state: paths of social policy innovation between constraints and opportunities
Urbino, 17-19 September 2009

Taxation and the politics of work and family reconciliation: The case of tax reduction for household services in Sweden

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A presented paper at the 7th ESPAnet conference 2009
Stream nr. 8b – Financing the Welfare State

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Work in progress, references not completed – please do not quote.

Summary
The aim of the study here presented, is to put contemporary Swedish reconciling policies into a tax policy context through a case study of the enactment of a tax-reduction on household services brought about by the centre-right government in 2006. Empirically, the study follows the policy process in the Swedish parliament and utilises parliamentary documents, especially parliamentary motions. They are used as a source to the contentious dimension of the reform. I identify two different and contesting approaches to the design of consumption taxes, and elaborate on the differences between the two in ideological terms. The 2006 tax-reduction on household services is regarded within this context.

Introduction

The relative size and robustness of tax-bases such as labour, consumption and capital are crucial for the capabilities among states to raise revenue on a long-term basis. Against this backdrop, a future challenge for European political decision makers and policy experts is raised by the ongoing demographic transition. It can be described in terms of a trend of a rising proportion of elderly in combination with falling birth-rates and – in relative terms – a decreasing amount of persons in labour-active ages. During the last two decades or so, it has become increasingly recognised that this trend of a relatively reduced tax base eventually will bring about additional financial pressure on the European welfare states as public expenditures for welfare services will increase. This trend will also be reinforced also by raising wealth among the population. This political challenge is further deepened as globalisation tends to increase the mobility of certain tax-bases such as capital and consumption, and subsequently make taxation more costly. Altogether, the situation has caught policy makers between a rock and a hard place and left with them the challenge of "squaring the welfare circle".[1]

An answer to this challenge has been the attempt to broaden the tax base by raising employment levels. In Europe this ambition coincides with a profound changeover concerning how female employment and fertility rates are related. As nativity has decreased, employment rates among women seem to be more important for the development of the birth-rates than earlier. This trend of a positive correlation between female employment and birth rates has been described in terms of a "decline of the male bread-winner model".[2] In itself, this development constitutes a challenge to the traditional division of paid and unpaid work between men and women in the household and on the labour market. In the wake of this changeover a situation has emerged in Europe which is described in terms of a "crisis of care"[3] or of a "care-deficit".[4] In essence, it is emphasised that from the ongoing development has emerged a new need and demand for reconciling policies in Europe, making it possible for both parents to combine work and family life in along new lines.

In this paper, the political and ideological dimensions of such policy measures are recognised with respect to the governmental bill for tax reductions on household services

[1] Bonoli, George and Taylor-Gooby, *European welfare futures: Towards a theory of retrenchment*. Cambridge: Polity press: 2000.
[2] Lewis, J "The decline of the male breadwinner model: Implications for work and care". *Social Politics* [2000]
[3] Hoschild, "Social politics and the commodification of care". *Social Politics*, [1995]
[4] Daly, M and J Lewis, "The concept of social care and the analysis of contemporary welfare states". *British Journal of Sociology*, 2002, vol. 51 no. 2.

presented in Sweden 2006. The aim is to study the policy debate leading up to the government bill from a tax-policy point of view, to elaborate on the contested rationality it represents in order to gain deeper understanding of the proposal in ideological terms. Hereby I also wish to point out and elaborate on what might be perceived as a third challenge of raising revenue for the future Swedish welfare state, the divergent ideas among contesting political parties on the possibilities and the feasibility to tax the economy in general, and the service economy in particular.

Background

For Swedish policy makers the challenge raised by falling birth-rates and the need to enhance employment levels among women is not new. As of the beginning of the 1980´s, Sweden became the "oldest nation" in the world and immigration and increased female employment where utilised in order to expand the economy and, hence, broaden the tax bases. Over the decades, Sweden and the other Nordic countries have developed reconciling policies by providing the public sector far-reaching responsibilities for matters traditionally managed within the family in terms of unpaid work performed by women.[5] In particular the establishment of public day-care facilities, the introduction of school meals and the care for the elderly are measures that have moved traditionally unpaid work from the family sphere to paid work within the public sector.[6] In international comparison this development has not only paved way for rather high female labour market participation but also relatively high birth-rates. Parents in the Nordic countries also to a lesser degree report work and family life conflict in a European comparison.[7]

It thus seems clear that the Swedish case of tax reduction for the purchase of household services enacted in 2006 has merged in an institutional context that is different from many other countries. In addition, the reform also represents a somewhat new approach to reconciling policies in Sweden as it aims to create a formal market for household services. In so doing, the reform paves way for actors on the market rather than increases the role of the public sector in the Swedish society. This market for household services is characterised by low skilled job opportunities, conducted mostly by women and immigrants.[8] In this manner,

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[5] Esping-Andersen, G *Social Foundations of Postindustrial Economies*. Oxford: Oxford University Press: 1996.
[6] For comparative studies on care services see Anttonen and Sipilä "European social care services: Is it possible to identify models?" *Journal of European Social Policy*: 1996; Bettio and Plantenga "Comparing care regimes in Europe" *Feminist Economics*: 2004.
[7] Crompton and Lyonette "Work-Life `Balance` in Europe" *Acta Sociologica*, 2006, vol. 49: no.4
[8] Williams, F. and A Gavanas "The intersection of childcare regimes and migration regimes: A three-country study" in H Lutz *Migration and domestic work: A European perspective on a global theme*. Ashgate: 2008.

the reform bill also provides an example as to how tax policy might me utilised as a certain policy response to the problems faced by low-skilled workers on the labour market.

For this reason, the 2006 bill might be viewed with respect to contemporary trends in Europe of market-making of domestic services in order to meet the challenge of new demands for reconciling policies and to enhance employment among the low-skilled. This ambition has been formulated in a number of policy documents brought forward by international organisations such as the EU or the OECD. Higher employment has been emphasised and put forward as of great concern and underlined as a reason as to why member states should promote employment friendly policy measures that reconcile work and family life.[9]

One illustration of this "quest" for employment is the White Paper presented by the European Commission in 1993. In the report, the Commission discusses several strategies on how to enhance economic growth and to improve the competitiveness of the common market. A multitude of measures for job-creation were discussed, all with the ambition to set the field for what was called an "employment intensive pattern of growth". According to the writing of the report, this ambition had its background in the experiences of increased unemployment during the recession of the early 1990s as well as a long trend of economic growth without successively raised employment rates. The Commission concluded that "the Community has failed to match the substantial increase in generated wealth with parallel improvements in job opportunities." It is significant for the discussion of job-creating measures that a special concern was the situation for the low-skilled labour force which seemed to have increasingly difficult to adapt to the developing labour markets.

In retrospect, the White Paper of 1993 seems to have been a new starting point for emphasising employment policy in the European Union. Eventually this ambition has been made manifest in the enactment of a new Title in the EC treaty in Amsterdam 1996, asking for a coordinated strategy among member-states in order to enhance employment. This was further established by the Luxembourg Jobs Summit and the enactment of the European Employment Strategy (EES) in 1997 and in following meetings – most notable the Lisbon summit. In this attempt to increase employment, female labour force participation was set out as one of the major concerns and so was the aim of reducing the costs for the unanswered need for care and measures for job creation in the service sector.

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[9] Mahon, R "The OECD and the work/family reconciliation agenda: competing frames", in Lewis (ed.) *Children, changing families and welfare states*. Edward Elgar: Cheltenham: 2006.

Household services from a tax-policy point of view

The search for reconciling policies and measures for job-creation for the low skilled labour force on the EU-level both mirrors and have been a source of influence for different policy measures on national level over time. Comparative research on the outsourcing of household services in Europe in this context is, to the best of my knowledge, scarce. However, Cancedda reports a growing and unmet demand for household services and an expansion of the household service sector in most countries. She illustrates how a central objective for countries launching such policies, have been to raise employment in groups "of low employment."[10] In this respect, France stands out as a forerunner as the country introduced as service check system for household services already in 1993. The *Chèque Emploi Service* represents an attempt to encourage people to purchase help to perform domestic work. Anyone buying a service check – a voucher – can claim a 50 percent tax reduction on their income tax on the prices paid for the checks.[11] France has been followed by countries such as the Netherlands, Portugal, and among the Nordic countries in Finland and Denmark. Reconciling policies has also been subject for the organised distribution of knowledge between countries within the European Employment Strategy when Belgium introduced a new version of a service voucher scheme in 2004.[12]

Although they vary in form and character, these policy measures seem to have in common that they are tax-reductions for the purchase of labour doing household services. As such they are interesting from a tax policy point of view, as they represent a specific approach to the provision of social goods within society. They might be interpreted as part of the "hidden welfare state".[13] This strategy – it is here argued - goes together with a specific approach to taxation of the formal service market, saying that this sector cannot be taxed in the same manner as other sectors: From a tax-policy point of view it is for example notable that in the 1993 White Paper, the costs for employment due to taxes and social contributions were regarded as one of the hampering factors for raising employment rates. In the words of the Commission:

> In broad terms, the way in which taxes, and social contributions, are raised seems to take little or no account of their potential effects on the level of employment, still less of the

[10] Cancedda (2001), *Employment in household services.* European Foundation for the Improvement of Living and working conditions, p. 26
[11] Windebank, "Outsourcing women´s domestic labour: the Cheque Emploi-Service Universel in France" *Journal of European Social Policy*: 2007: 17.
[12] Summary Report: "The service voucher. Brussels, 26-27 October 2006. Summary of Peer review"
[13] Howard, C "The hidden side of the American welfare state" *Political Science Quarterly*: 1993: vol. 108, no 3

> potential effects they may have in, for example, discouraging firms from offering jobs to less skilled and lower paid workers. [14]

This line of reasoning suggests that labour costs raised by the financing of the welfare states are part of the problem of raising the employment level – for the service sector in general but in particular for "personal services" which are close to what families and households usually perform themselves (for example laundry making and cleaning).[15] This view on the conditions for the expansion of the service sector and the role played by taxes also becomes evident with respect to the VAT-policy pursued by the EU through the Sixth VAT Directive. In 1999, the European Council decided to make it possible for member-states to reduce tax rates on household services. This constituted a deviation from the intentions of the directive with respect to the possibilities to reduce tax-rates on specific services. However, with reference to high unemployment it was now decided that member-states - on an experimental basis - should be able to reduce tax rates on "labour intense" services, among them minor reparations, hair dressing services, cleaning in households and care services such as care for children, elderly or disabled persons.[16]

This trend of reducing tax-rates in order to enhance employment in the service sector and the ambition to reconcile work and family life are both manifested in the 2006 reform by the centre-right government. According to the wording of the reform bill, the purposes of the reform were to expand the formal market for household services, and in so doing also provide new employment opportunities for low-skilled labourers, to make it possible for men and women to increase their time in paid labour and to combine work and family life on equal conditions.[17] The reform also rested on the assumption that labour costs for the service sector were to high, a tax reduction was considered necessary in order to make the market for household services bloom. This view had also been promoted since the beginning of the 1990s in investigations made by individual economists and in public inquiry commission.[18] The reform bill was, however, disputed by the Social Democratic party, the Left Party end the Green Party on grounds such as the distributional effects of the reform and the possible consequences for the long term public supply of home services for the elderly. They also

[14] COM (93)700, quotation on p. 16, 8.
[15] Esping Andersen 1999, p. 105-106.
[16] European Council 1999/85/EG, p. 1-3.
[17] Eligible for the tax reduction are Swedish citizens living in the European Union who has purchased household services performed in his/her household or in the household of his/her parents (as long as the parents live in Sweden). The tax reduction amounts to fifty percent of the sum paid by the consumer, but there is a ceiling on about almost 5000 €. See Proposition 2006/07:94.
[18] see Påhlsson och Norrman (1993) *Finns det en marknad för hemarbete*. SNS: Stockholm; SOU1994:43 *Uppskattad sysselsättning – om skatternas betydelse*; SOU 1997:17, *Skatter, tjänster och sysselsättning*.

claimed that tax reductions would be the wrong way to make the service sector expand.[19] How can we understand such diverging ideas on the necessity and feasibility to deduct taxes on certain personal services?

Approach

In order to put the debate on household services into context for a deeper understanding, the aim here is to interpret the Swedish decision of 2006 from a tax-policy perspective. The point of departure is institutional, suggesting that a study of the political debate on how to design "contentious institutions"[20] is a way of understanding diverging ideas on the organisation of the society held by different actors in parliament. In designing a tax system, tax experts and policy makers must decide not only on the tax rates in general but also on the design of the taxes and contributions. In essence, such decisions have repercussions on profound issues such as to what role should be played by the public sector in society, the principles for its financing and the redistribution of resources among tax-payers. In brief, the establishment of taxes or contributions can be viewed as an integrated part of the building of welfare state institutions which matters to the way in which resources, opportunities and responsibilities are distributed within the society. As such they are most likely to become contested and subject for intense discussion and scrutiny among citizens, interest organisations and political parties.

It is here emphasised that the 2006 reform is a tax reduction for a specific are of the economy. In this way, the 2006 enactment of a law permitting tax reductions on specific services such as household services also fits well into a pattern of differentiation of consumption tax rates for specific services and goods in Sweden during the 1990s. Together they now amount to a yearly cost on about 3 billion € (gross value).[21] These changes have been contested politically since they constitute a deviation from the principles of taxation that were previously emphasised in Swedish tax policy, above all manifested in the profound tax reform of 1990/91, when both taxes on consumption, on income and on capital was reformed.[22] It is in this context I would like to understand the tax reduction on household services. A reasonable point of departure for doing so would be that the tax policy debate during the 1990s on these matters can be described in terms of a tension between two

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[19] 2006/2007:SkU15, p. 7-9.

[20] Korpi. W "Contentious institutions: An augmented rational-choice analysis of the origins and path dependency of welfare state institutions in Western countries" *Rationality and Society*, 2001:2.

[21] Johansson, P "Europe and Swedish tax policy: A historical survey of the parliamentary debate on VAT during the 1990´s". Unpublished manuscript: Institute for Futures Studies: 2009.

[22] Agell, Englund and Södersten, *Incentives and redistribution in the welfare state: the Swedish tax reform*. Basingstoke: McMillan: 1995.

different approaches to the questions as to how optimal taxation should be designed: The promotion of the *principle of neutrality* and the emphasis *of price sensitivity*.

Below, I will elaborate on possible ideological differences that are attached to the two ways of approaching the question of optimal taxation, beginning with the comprehensive tax reform in Sweden 1990/91. By that time, most tax experts and the majority of the members of the parliament agreed on a norm for taxation saying that taxes on consumption should be uniform and comprehensive. The ideal model of taxation was regarded a tax system resting on broad tax bases and designed with uniform tax rates. This approach can be labelled the *principle of neutrality* and followed suit a traditional economical line of reasoning on optimal taxation.[23] From an economic point of view such design can be motivated on many grounds: For efficiency reasons taxes are held to be designed neutrally in order to cause as little damage to the economy as possible. This way of reasoning can be interpreted as a way to adapt the theory of societal efficiency on the issue as to how to design taxes. When adapted on the issue of designing taxes, it was transformed into a question as to how the price effects caused by taxation distorted the choices made by producers and consumers on the market. Neutrality was considered a good strategy to reduce such costs. Besides, uniform taxes also served the purpose to reduce the "excessive costs" of taxation in terms of administrative inconveniences raising costs eventually paid for by both tax payers and authorities.

The other approach to taxation is congruent with the above mentioned to the extent that both emphasise that welfare losses caused by taxation designed in a way which distorts the choices made by consumers and producers on the market. However, the conclusions made from emphasising *the cost sensitivity* as to how taxes should be designed, seem to differ from the above mentioned. Advocates of the latter perspective have promoted differential tax rates rather than uniform tax rates. The guiding principle appears to be, that tax rates should be decided with respect to the price sensitivity of each and every item in question. According to this approach, services and goods for which the demand is less sensitive to price increases should be taxed at a higher rate than items where demand is sensitive to increased prices. As with the 2006 reform bill, this approach has been crucial for the advocates of a reduced tax rate on household services. Opponents of the reform have rather argued from a neutrality approach to taxation.

By appearances, differences between the two somewhat congruent principles for the design of taxes such as the income tax or taxes on consumption seem to be rather technical.

[23] Musgrave and Musgrave, *Public finance in theory and practice* (5 th edition). New York: McGraw-Hill: 1989.

However, it is here argued that ideological and political differences are attached to the two approaches to the design of tax-institutions – or rather, that they are compatible with different approaches to the organisation of the society. This is held to be especially true with respect to the role of the public sector, and with respect to the connected question on the feasible relationship between the state and individuals in society. To clarify this, it would be fruitful to dig deeper into the question as to how taxes should be designed and how that question has been debated theoretically and empirically over time. The aim is to illustrate the normative content of what seems to be technical matters.

Besides, in order to understanding the quest for differentiation of tax rates on the consumption of different goods and services we also must reflect on what the principle of neutrality means for politicians who wants to reduce taxes. From an institutional point of view, a tax system designed along the principles of neutrality with broad bases and uniform tax rates seems to be in favour of a policy aiming to raise revenue, since relatively small increases of the tax rate would make quite large revenues. On the contrary, an attempt to reduce the taxes on consumption to the extent that it really makes a difference for consumers or producers while sticking to the principle of neutrality would run the danger of being extremely costly. For this reason, it is here supposed that anyone wanting to reduce taxes on consumption would prefer a targeted reduction directed towards a specific sector of the economy.[24] However, in so doing actors need reliable and convincing arguments on which they can build a good case as to why taxes should deviate from the principle of neutrality. And further below, it is the purpose to investigate what these arguments has been with respect to the tax reform on household services.

The principle of neutrality in the 1990 tax policy debate in Sweden

As an answer to the question on how to design taxes, the idea of comprehensive and neutral taxes did develop internationally during the 1970s and 1980s eventually making their mark on the tax reforms during that period of time.[25] By its advocates, it has been regarded a norm tax system. It is crucial for the understanding of the contentious dimension of this approach that

[24] Empirical proof for this would be found in parliamentary debate concerning the tax reduction of the tourism sector brought forward by the centre-right government in 1991, see Johansson 2009.

[25] Witte, J. F. *The politics and development of the federal income tax*: The university of Wisconsin Press: Madison: 1985; Steinmo, S. “The evolution of policy ideas: Tax policy in the 20th century”, *The British Journal of Politics and International Relations*. 2003: vol. 5: no. 2.

deviations from the norm tax system in the form of tax reductions or exemptions on specific goods or services are considered to be “tax subsidies” or “tax expenditures”.[26]

This idea seems to have been first developed by the American professor in law, Stanley S Surrey. It was used by him in order to describe and to evaluate deviations from the norm of comprehensive and neutral taxation. The concept of “tax subsidy” or “tax expenditure” thus necessitates a comparison between a normative tax system and practise as to how taxes actually are designed. The crucial point in his argumentation suggests that deviations from the norm tax system in terms of reduced tax levels are to be considered costs for the state and that such costs were equal to the costs on budgetary expenditure side. He concludes that

> Any financial program may be written either as a tax-expenditure or as a direct program. Legislative draftsmen are able to formulate either forms of assistance at the direction of policymakers. Thus existing tax expenditures can be translated into direct programs, and direct programs can be rewritten as tax expenditures. A similar alternative is available for new programs. The choice rests with the policymakers /…/.[27]

Following Surrey, in order to strengthen the budgetary process and to increase the control over costs it was important to minimise the tax expenditures or to fit them into the budgetary process and to treat them in the same manner as subsidies on the budgetary expenditure side.

This approach has been contested: First of all, it has been questioned as to whether it really is possible and desirable to agree upon a norm on taxation.[28] Secondly, there have been objections to the assumptions laying the ground for this perspective. For example Aaron Wildawsky, in his critical review of a book by Surrey, objected to the idea that a tax relief would be considered a cost by asking to whom the money belonged in the first place.

> Speaking of tax expenditures prejudges the question of exactly who owns the money /…/ The view that income belongs to the individual who gives it to the government when required is a far cry from that of government as owner who allows individuals to spend a portion only for approved purposes.[29]

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[26] For a comprehensive discussion on the history of the concept of “tax expenditure”, see Ervik, R. *The hidden welfare state in comparative perspective: Tax expenditures and social policy in eight countries*. University of Bergen: 2000.
[27] Surrey, S and P. R. McDaniel *Tax Expenditures*. Harvard University Press: Cambridge, Mass: 1985, pp. 99-100.
[28] Bittker ”A ´comprehensive tax base´ as a goal of income tax reform” *Harvard Law Review*: vol. 80: no. 5: 1967.
[29] A. Wildavsky ”Keeping kosher. The epistemology of tax expenditures” *Journal of Public Policy*: vol. 5: no. 3: 1985. pp. 414-415.

The quest for neutral taxation thus has its theoretical roots in a discussion as to how taxes should be designed optimally with respect to the efficiency losses caused by taxes. From that, it has emerged an idea of neutral taxation in order to minimise distortions on the market. This has developed into an idea of a norm tax system of neutrality, where deviations from that system are tax subsidies. This is however contested. The idea of the very existence of a norm taxation system has been questioned, and so has the foundations of this belief as to whom the money actually belongs in the first place: In essence, from a political point of view costs on the income side and the expenditures side of budget is certainly not the same thing.

This conclusion also seems to be true with respect to the Swedish parliamentary debate on taxation. Taking the 1990 reform on the VAT brought about by the Social Democratic government with support from the Liberal Party as point of departure, it seems clear that advocates of the reform argued in line with Surreys´ perspective on taxation. To begin with, the public inquiry committee that was launched by the Social Democratic government in the midst of the 1980s for the purpose of investigating and presenting a proposal for the design of the indirect taxes followed this line of arguing. The norm established in their report was neutrality and comprehensive taxation on consumption, and the commission argued that differentiated tax rates would distort the choices made by consumers and it also suggested that existing "tax expenditures" would be abolished. The commission further argued along Surreys lines and claimed that tax subsidies were problematic as they were not subject to the same parliamentary scrutiny as regular subsidies appearing on the expenditure side of the budget. For example, such expenditures were not accounted for in the budget.[30]

Thus, "tax expenditure" was not a contested concept for the members of the committee. On the contrary, they were referred to as something problematic due to administrative reasons, and equal to cost on the budgetary expenditure side. Consequently, the committee also argued that tax subsidies in many cases could be replaced by subsidies on the budgetary expenditure side. By regarding them as equal to other costs for the state or the public sector in general, the committee gave theoretical support to the reform strategy eventually used by the government.

The strategy conducted by the government was to compensate categories of people or market sectors as the indirect taxes were raised, the tax-bases were broadened and previous subsidies were abolished. In essence, this represented a way to deal with issues of equity that would rise as the tax base was broadened and tax rates increased, and the government

[30] SOU 1989:35, p 146. Also see prop 1989/90:111, p. 87, and 1989/90:SkU31.

deprived itself the possibility to govern or to redistribute resources by the design of taxes.[31] For example, in connection to the VAT reform bill the government put forward a reform bill suggesting that the child allowances would be increased in two steps as of 1991 and 1992 with the purpose of compensating families with children for the increase of indirect taxes.[32] In addition, the government also wanted to decrease the building costs in order to compensate the removal of the tax subsidies to the building sector.[33]

The strategy of compensation on the expenditure side of the budget rested essentially on the premises that such subsidies, were a better way of redistribution than partial tax reductions and helped reform advocates to defend the reform in the parliamentary debate as well as publicly. Raised child allowances were brought forward as a defence as to why consumption taxes on foodstuff would not be reduced. Instead of tax reductions for specific sectors the government underlined the possibilities to direct benefits to the restaurant sector or to the building sector or the tourism industry.[34]

As an illustrative example of an alternative strategy, it would be useful to highlight the critique raised by the Conservative Party and by the Centre Party who did not support the reform bill and it did not approve with reform strategy.[35] One crucial point of departure for the Conservatives critique concerned the role played by the public sector and especially the relationship between the state and individuals: In the parliamentary debate on the tax reform, the spokesman on taxation matters, the future party leader Bo Lundgren, claimed that:

> The development of taxation mirrors a socialistic policy where collective solutions are prioritised /…/ The government raises the taxes to the degree that people must receive benefits in order to be able to pay them. [36]

This approach to the reform strategy illustrates how expenditures on the budgetary expenditure side were by no means equal to tax subsidies, in political terms. From a conservative point of view, the changeover from tax subsidies to state expenditures in the form of benefits made all the difference since the role of the state, or the public sector was quite different in the latter case. According to the Conservative Party, taxes reduced peoples´ freedom by partly removing their ability to freely dispose their income. And the tax reform

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[31] Johansson, P ”Rättvisa och konsumtion i svensk skattdebatt efter andra världskriget” i red. Florin, Elgán och Hagemann *Den självstyrande medborgaren: Ny historia om rättvisa, demokrati och välfärd*. Institutet för Framtidsstudier: 2007.
[32] Proposition 1989/90:140, p. 5; SoU:27, p. XX.
[33] Proposition 1990/91:34
[34] 1989/90:SkU31, s 104, 108-109.
[35] Motion 1989/90:Sk108, s 3.
[36] Motion 1989/90:Sk108, p. 2. Riksdagens protokoll 1989/90:140, p. 5- 7.

contributed to transfer the boundaries between what was considered to be private and public matters in an undesired direction. According to the wording of the motion from the Conservative Party, people were left in the hands of politicians and subject to political decision-making. This way of reasoning echoed the implicit criticism of Aaron Wildawsky as Lundgren further argued that:

> The foundation of this view rests on the respect of ownership and the fact that the income belongs to the individual, not the state.[37]

From this point of view, taxation policies with respect to the norm of neutrality, the idea of broad bases and of uniform tax rates had clear bearing upon the relationship between state and individuals. In essence, the party rejected the idea of a norm tax system, and crucial for its positions was that they did not regard a partial reduction of the tax rate for certain goods or service as a cost for the state, but a way for individuals to keep more of their income. Along this line of reasoning, expenditures on the income side and the expenditure side of the budget were in no way equal.

This way of reasoning was not limited to the Conservative Party, but also the Centre Party formulated its rejection of the reform bill along these lines of arguing. According to the party motion of 1989, the party opposed the reform on grounds that increased indirect taxes would raise the demands for public benefits, the party claimed that the reform would make people with “normal incomes” dependent upon contributions from the state. Instead, party representatives wanted to differentiate the tax rates and reduce the rate for certain goods and services such as housing services, food, restaurant services and in addition they also wanted to exempt transportation and culture, leisure and sports from taxation.[38]

Tax policy is here placed in the midst of a discussion on the relations between the state and individuals. The ambition was to reduce peoples´ dependency on state contributions, to reduce the size of the public sector. In critical contrast to governmental reform strategy, the two parties took on an alternative strategy aiming to reduce tax rates for different parts of the economy. This became even more evident as both parties also rejected the governmental proposal to increase the child allowances and to launch an investment contribution in order to limit the costs in the building sector, as a way to reduce the redistributive effects of the tax

[37] Motion 1989/90:Sk59, p. 1-5, quotation on p. 4. Also see a remark made by conservative representatives in the Standing Committee of Taxation, 1995/96:SkU12y, p. 17.
[38] Motion 1989/90:Sk113, p. 1.

reform.[39] In order to avoid "dependency of the state" the Conservative Party suggested deductions in the income tax.[40] The Centre Party, who traditionally represents Swedish agrarian interests, suggested reduced tax rates on foodstuff.[41]

Against this backdrop, it is possible to argue that the critical response to the 1990 reform and the ideas on neutrality then brought forward has an ideological bearing (to the extent that the relationship between the state and the individual is accepted as an ideological matter). This critical view has also been expressed in the general tax debate during the 1990´s and thereafter and it is possible to regard the tax reduction on household services in this context.

If we, again, turn to the leading party in the centre-right coalition – the Conservative Party- this becomes evident. There are at least two or three recurrent themes in their criticism of the Swedish tax system which connects with the criticism of the 1990 reform: Taxes are a menace to economic growth, they are also a threat to the individual freedom as they increase peoples dependency on political decision-making, this is especially illustrated by the limited "right to choose" private health care services, education, or childcare services. According to the Conservative Party, the Swedish society had "socialised" the family through its high taxes which financed far-reaching responsibilities by the public sector for matters traditionally dealt with within the family.[42] These themes have also become important for their tax policy with respect to the families and households. The party has propagated the "right to choose" and for more market making of services performed by the public sector: Tax-wise, the party has suggested a long-term transformation from child allowances to tax deductions in the income tax and propagated a right to make deductions with respect privately paid child-care cost. It is this context the party also eventually brought forward demands for a tax rebate for the purchase of household services.[43]

The tax debate on household services in Sweden 1994-2006

The Swedish debate on tax reductions for household services goes back as long as to the summer of 1993 when such a proposal was brought forward by an economist, today a representative for the Conservative Party in Parliament. This proposal immediately triggered off what has been called the "maid-debate" in Sweden.[44] As of 1994, the centre-right government was replaced by a Social Democratic minority government which was in power

[39] Motion 1989/90:Sk108, p. 5-6; 1989/90:Sk113, p. 1, 9-10.
[40] Motion 1989/90:So58, p. 1.
[41] Motion 1989/90:So60, p. 7.
[42] 1990/91:Sk424, pp. 6-7, quotation on p. 6.
[43] See for example 1999/2000:Sk318, p. 19-20; 26-27; 2001/2002:Sk474, p. 9.
[44] "Maid" has a negative connotation in this context, reminding us of the class division in the Swedish society in historical times.

until the election of 2006. Over time, it has (off and on) been supported by the Left Party and the Green Party, and for a time in the middle of the 1990´s also the Centre Party. While the social democratic government rejected claims for a tax reduction on household services during that period of time, the centre-right government had before the 1994 defeat launched a public inquiry commission investigating the issue of taxation and the service sector with special reference to the question of tax reduction of household services. The commission report was, however, not presented until 1994, thus giving limited room for the introduction of a bill from the government before the election defeat the same year. The report, however, gave new ammunition for the debate.[45]

In the beginning of the period the discussion concerned the VAT and the necessity of reducing VAT on household services. As Sweden entered the EU such claims were reduced in favour of demands on a tax reduction on the income tax. This change had to do with the EU-rule then in charge, not permitting such differentiation of the VAT. When this rule eventually was changed in 1999 and it was permitted for member-countries to reduce tax rates on household services on an experimental basis, the Social Democratic government never applied to do so. This is also why the proposal for a tax reduction on the consumption of household services was brought about in the form of an income tax reform rather than on the VAT.

Empirically, the development of this issue is here studied through the parliamentary motions raised in the parliament during 1993/1994 to 2005/06.[46] In table 1 below, is presented the result from an attempt to identify all claims for tax reductions for household services made in motions by individual members of parliament as well as in party-motions, to the parliament answered by the Standing Committee of Taxation and the Standing Committee of Finance

[45] For a recent survey of the Swedish debate, see Platzer, E *Från folkhem till karriärhushåll: Den nya husliga aretsdelningen*. Arkiv förlag: Lund: 2007.

[46] Parliamentary motions are an essential part of the policy process. Any MP is entitled to put forward motions to the parliament, and they must be regarded as the foremost way of the political parties in opposition and their representatives to present their own policies in critical contrast to the governmental policy. There are different sorts of motions, and they are presented to the parliament in different contexts. Motions might be put forward to the parliament in response to a specific governmental bill or they can be presented during a certain time after the budget proposal (the so called *allmänna motionsperioden*). Other claims (or demands) are made in parliamentary motions raised by the political parties signed by the party leader, while others are raised in motions put forward by single members of the parliament. Motions can be put forward also jointly by single members from different political parties. Every parliamentary motion, but also every claim in a motion is distributed by the parliamentary bureaucracy to one or more of the Standing Committees for a formal verdict. Verdicts are presented in so called reports to the parliament (for example party motions usually consists of a whole range of demands). The Standing committees are covering policy areas such as finance, labour market, taxation, social insurance, culture, industry. All motions with a claim regarding tax policy will be elaborated upon by the Standing Committee of Taxation or by the Standing Committee of Finance. The committees consist of members of the parliament, and the composition of the committee reflects the power relationship in the parliament. Eventually, it is the formal verdicts presented by the committees that are subject for voting in the parliament.

between the parliamentary working year 1993/1994 and 2005/2006. The study shows that in total 272 motions/claims has been made in parliamentary motions. However, below the claims are distributed with respect to party affiliation by the claimant/s. Thus, the table reports 320 cases since some motions have been signed by representatives from more than one political party. This approach is aimed to emphasise the party affiliation among the members of the parliament signing these claims.

Table 1) Claims for tax reductions on household services in parliamentary motions 1993/4 to 2005/6 distributed by year and party affiliation

	93/4	94/5	95/6	96/7	97/8	98/9	99/0	00/1	01/2	02/3	03/4	04/5	05/6	
CoP	1	6	4	5	9	11	8	12	13	12	10	14	18	**123**
CDP	1	5	4	5	5	7	6	5	8	8	12	13	16	**95**
LP	1	3	3	4	5	4	6	6	6	4	4	8	13	**67**
CeP				1	2	2	4	5	4	2	2	5	8	**35**
	3	**14**	**11**	**15**	**21**	**24**	**24**	**28**	**31**	**26**	**28**	**39**	**55**	**320**

CoP= Conservative Party: CDP= Christian Democratic Party: LP=Liberal Party: CeP= Centre Party. *Source*: Standing Committee of Taxation and Standing Committee of Finance, reports1993/94-2005/06.

Obviously, the claims raised in the parliamentary motions are unequally distributed over time and between the political parties. It is members of the centre-right parties that have raised claims for tax reductions on household services. Their tendency to do so increases over time and it also increases during the election years of 1998 and 2002 with a clear peak the election year of 2006. This development suggests that this issue has become increasingly important as a way for the parliamentary opposition to characterise its tax policy in critical contrast to the government.

With respect to party affiliation there is a clear division between the centre-right parties on the one hand, and the left-green coalition on the other. This becomes evident as all claims for tax reductions on households are submitted by the former parties, with the members of Conservative Party and the Christian Democratic Party showing the strongest tendency to do so.[47] However, the table also illustrates that within the centre-right coalition, unity on this matter is not fully reached until around the late 1990s. As of the year 1998/99 a joint three-party motion is presented by the centre-right parties with exception of the Centre Party. In the

[47] Whether this is true also in relative terms remains to be clarified.

year 2000/2001 also the Centre Party affiliates to this strategy and signs a joint motion with the three other centre-right parties.[48]

In response to these claims for a tax reduction on household services, the left-green majorities of the Standing Committee of Taxation and of the Standing Committee of Finance have responded negatively. Their refusals have been repeatedly motivated on the grounds that such a reduction would deviate from the principle of neutrality and give rise to distortions on the market and that such a measure was not likely to have any important impact on employment. A recurrent argument has also been that it was too costly to "create service production which can compete with the households own service production."[49]

A closer look at the arguments, or motives, brought forward in the parliamentary gives more information on the importance of the perceived risks of taxing the service economy for the discussion on a tax reduction for household services. Below, is presented a still tentative investigation of a sample of the parliamentary motions (that is 51 claims presented by members of the Conservative Party and answered by the Standing Committee of Taxation).

The investigation aims to catch what hindrance the conservative MPs have identified for an expanding formal market for household services and, secondly, catches what solutions they argued that a tax reduction on household services could provide. Four categories are identified: Motives distributed under the label *UE* refers to arguments where unemployment is held forward as to why tax rates on household services should be reduced, while the label *WFL* refers to the argument of work and family life reconciliation. *EP* refers to the argument that reduced taxes on household services would provide new possibilities for elderly people too choose private home care services. *PS* refers to the argument that household services are price sensitivity and this explains why tax reductions are necessary in order to make the formal market of household services bloom.

Table 2) Motives brought forward 1993/94 to 2005/06 in 51 parliamentary motions raised by Conservative MP:s to the Standing Committee of Taxation (tentative)

UE	WFL	EP	PS
20	30	11	35

Sources: Swedish Parliament; parliamentary motions 1993/94-2005/06

Two or three conclusions can be drawn from the survey: As is shown in table 2, personal services are commonly regarded "price sensitive". This is a reflection on how advocates have defined the problems for the expansion of a formal market of household services. It is striking

[48] Motion 2000/01:sk728.
[49] See for example 1999/2000:SkU1y, p. 18.

how Swedish taxation is considered to be the main obstacle for such expansion. In 35 out of the 51 studied parliamentary motions taxes in general, specific tax regulations or simply the high costs of employment are held forward as the major obstacle for the expansion of a market for household services.

According to this line of arguing there is an unmet demand for household services among families or elderly that cannot be met on a formal market since the costs of employment are too high. Especially the “tax-wedge”, a concept which measures the pre-tax wage necessary for one person in order to hire another person to a decent post tax income, is repeatedly used for this purpose. In the motions, the expansion of an informal market for household services is regarded the ultimate evidence for this, and both estimates on the size of the black market and possible future new job opportunities, are frequently referred to. In this respect, reports from public inquiry commissions, the Swedish Tax Agency as well independent reports from interest organisations have been an important source for inspiration.

The tax reduction on household services has been frequently presented as a remedy to unemployment and to the difficulties among families to reconcile work and family life for both parents on an equal ground. To provide elderly people a possibility to organize additional home services for themselves are also fairly prevalent.

Following the debate over time, the unemployment argument has been concentrated to the beginning of the period. The work and family reconciliation argument and the possibility for elderly to buy home services are more prevalent during the later period. When discussing the creation of a formal market for household services as a way of reducing unemployment the conservative members of the parliament often referred to young people, long-term unemployed and in some cases to immigrants. In the context of high unemployment during the economic down-turn of the 1990s the creation of a market for household services was regarded a stepping stone for people on the margin of the labour market. According to the parliamentary motions investigated, the household service sector represented a way for these groups to enter or re-enter the labour market rather than a long-term career alternative.

The introduction of a tax reduction on household services has, however, mostly been presented as a solution to the difficulties for career families to combine work and family life. Since about the turn of the century work-family life reconciliation outnumbers the unemployment argument and since 2002/03 every motion but two in the sample refers to work-family life as the main problem to be solved by the introduction of a tax reduction for household services. For those families, the possibility to purchase household services represents a way of dealing with the double burden of paid labour and unpaid domestic work.

According to this line of arguing, tax reductions for household services represented a measure to increase the equity between men and women both with respect to the distribution of household work and the possibilities of making a career. In several motions it is recognised that academic research on the distribution of household work show that women spend more time than men doing household work. Such results are put forward in order to emphasise the need for a tax reduction on household services. However, it is also recognised indirectly that this opportunity do not apply equally to all women. In some parliamentary motions the reform is held to have repercussions especially on the possibilities for those women about to make successful careers and to enter leading positions in private companies and other organisations. Among conservative members of the parliament, there is a tendency to regard this reform with special reference to women making careers.

Finally, the establishment of a formal market for household services has also been presented as a remedy to the unanswered call for more personal assistance among elderly people. This is clearly a strategy to lift some responsibilities from the public sector to the market. In about one out of five parliamentary motions put forward by conservative members of the parliament this subject has been touched upon. In this context, tax reduction of household services represents a way to establish an alternative, or a supplement, to the home care services supplied by the public sector on local level.[50] Arguably, this ambition is also expressed in the actual reform, which makes it possible for adults to gain tax reductions when they pay for household services for their parents.

To sum up: the issue of household services is thus perceived a way where taxes are a menace to economic growth and to efficiency: It thus matches the common criticism raised by the Conservative Party on the Swedish tax system as whole, expressed with respect to the 1990 reform, and thereafter. It is regarded as an clear example as of how taxation makes an obstacle to the expansion of a much needed formal market for household services at the cost of the unemployed, of career families and elderly but at the profit for actors on an informal market. Following that line of argument, high taxes stand in the way of enhanced employment, of an equal distribution of household services and for elderly people in need of additional services that could not, and should not be provided by the public sector.

[50] For a recent paper on this debate in Sweden, see Meagher and Szebehely “Financing care in the peoples home: Arguments for and against vertical and horizontal contraction of public elder care services”. Paper presented at the Reassess Midterm Conference, Oslo. 18-20 May 2009.

Conclusion/discussion

The institutional design of taxation is one of the devices at hand for policy makers in order to decide on the organisation of the society of tomorrow; on how to arrange the provision of services, the over all redistribution of resources, and the relationship between citizens within the family and on the labour market.

The study presented has provided evidence suggesting that the policy of tax reduction for household services is contentious and that members of the parliament are divided on this matter. At stake has been the question as to whether taxes should be designed along the lines of the neutrality principle, to what extent deviations from that principle can be accepted and on what grounds. I argue that in practice, ideological differences are attached to the two somewhat congruent approaches to optimal taxation and that the political conflict underlying the concerns of tax subsidies for the purchase of household services might be regarded in the political context of diverging ideas as for the role of the state and the public sector in handling matters traditionally belonging to the family sphere. The wish to reduce tax rates for certain goods and services such as the purchase of household services is possible to interpret as an expression of deeper ideological content, with bearing on how political parties regard the feasible relationship between the public sector, the family and the market.

Such an ambition is basically attached to a wish to reduce taxes over all. However in practical political life the strategy to ask for differentiated tax reductions might be regarded against the backdrop of the institutional conditions in which the demands for tax reductions were raised. I would like to emphasise, that it costly to reduce taxes while hanging on to the neutrality principle: To claim for differentiated tax reduction must be interpreted against institutional settings in place, making it more rational to ask for directed rather than general tax reductions on consumption.

To conclude: In this ideological and institutional context the reduction of taxes on household services might be interpreted as a favourable way to reduce taxes, which is based on the assumption that taxes are a menace to economic growth in general and for the market of personal services in particular. This view also coincides with the long-term purpose of the Conservative Party to move boundaries between market-based and publicly distributed services in Sweden.