

Sven-Olof Lodin, *The Making of Tax Law. The Development of Swedish Taxation*, (Amsterdam: IBFD/IustusFörlag, 2011) ISBN 978-90-8722-108-9, 224 pp.

Professor Lodin is an authority in taxation policies. I use the word 'policies' because he addresses the financial phenomenon in neither a strictly legal nor economic manner. He does not display any particular interest in regulatory minimalisms or in econometric models. His entire work is driven by a creative effort to present the fairest and most efficient solutions to the problem of financial coverage of public needs. His reasoning's are more often built on common sense based on the observation of people's behaviour and on the processes followed by institutions, than on purified constitutional principles or on sophisticated mathematical formulae.

This extraordinary document provides detailed insight to a professional lifetime devoted to this yearning from his Swedish lab which has come to be considered a world-class authority to which the personality of this eminent scholar, think-tank and achiever of agreements has contributed.

With a style that is both agile and incisive, and without a loss of technical sharpness, he walks the reader through recent Swedish taxation history, from 1948 to the present day, with a detailed account of its evolution through the vicissitudes of its protagonists amongst whom he has occupied a privileged position as essential member of successive commissions which marked his future and as customary representative of employers' organizations for fiscal matters.

This trajectory goes beyond an introduction to the Swedish political system (section I), to mark three stages: the period of the foundation of the system, between 1948 and 1990 (section II); what is known as 'the reform of the century' in 1991 (section III); and the epilogues of this reform (section IV). The study ends with a final reflection on his experience in the field of taxation law within the European Union (section V).

The document takes the reader beyond a mere technical level. It is studded with his own perceptions which in turn are stated in first person, as an exceptional witness of what was happening at each and every moment. History is made up of persons and personalities. So is the history of taxation. He illustrates the document with incisive profiles of tax ministers who have been their protagonists: Sträng (p. 45), Feldt (p. 107), Persson (p. 142), and Borg (p. 181). He also studs his explanations with sharp comments about the character of a specific (and decisive)

Director General of Taxes, Åsbrink, or about the changes European taxation policies underwent after the resignation of Mario Monti as head of Taxation, to whom he displays profound admiration.

His exceptional experience as regular member of study committees and representative of corporate associations in tax matters has afforded him special insight to the importance that the daring spirit of a political leader, the ideological prejudices of another, or even the electoral atmosphere of the moment, can have on the adoption of a specific tax option.

In one of the numerous anecdotes, he explains, without ceasing to be astonished, how the inheritance tax was wiped out of the Swedish tax panorama (p. 133). In the midst of a battle for the elimination of the wealth tax, the Swedish premier Persson presented Ohly, the leader of the left, on whom his government depended, with an ultimatum: choose between inheritance tax or wealth tax. Overwhelmed by the symbolic responsibility the existence of a wealth tax has on the left, somewhat atavistically, Ohly sacrificed the inheritance tax whose structural, logical, and compared reality is considerably solidier than the one of the wealth tax. This event is clearly representative of how a dialogue between political partners in a tight fix can have decisive importance in the evolution of an entire tax system in the course of the years, and the effects that this decision, clearly arbitrary, has on the domestic economy of thousands of taxpayers like in a national economy.

However, the anecdote cannot be considered as a category. The book describes in detail wide reform processes headed by careful technical studies that are debated by commissions of experts or mixed commissions, to reach, for the better or the worse, and through complex political negotiations, results which can sometimes be positive, negative, and in other instances even surprising.

All throughout the book, the Swedish idiosyncrasy stands out – *The Tax Agency is Sweden's most popular national authority* (p. 185) –, after reading the book it would be more symptomatic to assert what the Italians say *tutto il mondo è paese*, or 'the world is a village' as we would say in English. The problems the different taxation systems face are not all that different – even though we tend to think otherwise – in spite of the latitude where they may appear.

Certainly, the mentality with which they are addressed, the available resources, or the traditions on which they are based, will allow widely variable differences in the solutions and in the results. But once again, as a result of the prevailing economical and social globalization, it is quite easy to identify the taxation processes and issues described in this book, points in common with the reality present in any developed society: capital gains tax, wealth tax, taxation of close companies and their shareholders, or multinational corporate profit tax.

The first part, devoted to building the characteristic Swedish taxation system, with a considerable dose of progressivity, pays special attention to demonstrating empirically the shortages in the system in terms of efficiency and equality. Through a precise although transparent economical analysis he shows how the conjunction of excessive progression in income taxes and non-negligible inflation, systematically lead domestic economies to high rates of debt and an irreparable loss of purchasing power. In his explanations – that are within reach of a normally educated person's understanding – one feels the refined ability of argumentation of a scholar, with a formidable training, who is used to presenting his points in a digestible format to politicians and journalists for the purpose of convincing them. It is at this stage that he draws up his well-known proposal to tax expenditure. A very original new way for taxing personal earnings, followed or accompanied by studies carried out by Bradford and by Meade.

In spite of the perceptions of his reasoning, the reform of the entire system would not arrive until 1991 (section III). It is then, based on a proposal backed by the author – *quota method* (p. 99) – that the progressivity of the tax rate on income is relaxed while the taxable base is widened, and capital gains are subject to a proportional taxation rate. Also, during this same period, something similar is applied to corporate income tax by reducing the rate, which today is at 26.3%, and widening the tax base.

The later development of the system (section IV) is headed by several sectorial reforms which bring down the reform of 91 or even signify a step backwards on the path the system had begun. The financial crisis, on one hand, led once again to a tax increase through the supposedly temporary approval of an austerity tax, shattering the logic of the reform. Even more upsetting is the spasmodic evolution of the wealth tax. Sweden was one of the few countries, amongst others Spain, which included a levy on ownership by physical persons in its taxation system. Professor Lodin fought for many years against this tax which he qualified as *the single most harmful fiscal measure we have* (p. 138). After an episodic derogation within the framework of the reform of 1991, the tax was definitely derogated in 2007. Meanwhile, with no logic and very strangely, the inheritance tax was dropped in 2005, giving rise to a national fixed property tax (1987), which was finally replaced by a similar local tax in 2008. Even

though not being specialized in the matter, he devotes, also, a few lines to the consumer tax, being critical about the reform that introduced a lower VAT (the normal rate was 25%), and with the excessive tax burden, according to him, energy is subject to.

He dedicates chapter 15 to future prospects. And finally, in the last part of the book, he analyses the European dimension of the taxation system using an extremely interesting approach to the problem of global taxation on profits obtained by cross-border companies. It also includes an extraordinarily original proposal, much like many others the author has brought up throughout his professional life, to replace the deduction of financial interests from the taxable base, by a tax credit until the limit of the tax to be paid in Sweden for an equivalent income (p. 191).

Professor Lodin does not cease to impress us, with legitimate pride, with his extremely relevant contribution to the tendencies that the income and corporation tax systems have gone through in recent decades. Even though his initiative to replace the synthetic and progressive model of income taxes, which is undoubtedly out of date and whose paradigm is represented by the Carter report, the truth is that it led to reforms all over the world which have in turn led to an extension of the taxable bases, a reduction of the progressive rates, and an income taxation system with a proportional rate for the capital gains, the 'dual tax': another fiscal product from his factory, very usual today, even in Spain. Another of his proposals, the taxation system on multinational corporate profits known as 'Home State Taxation', was also the root for the common tax base, CCCTB, favoured today by the EU.

Throughout the monograph, Professor Lodin identifies universal evidence, which in spite of being undeniable and proven, turn out to be extremely difficult to be understood by the persons in charge of drawing up taxation systems. Complexity always favours the powerful, and justice moves in simplicity (p. 107). Companies need to be aware that they have to do everything within their reach for increasing profits, rather than reducing the taxes they pay (p. 90). The legitimacy and credibility of a taxation system should be the basic values in terms of its efficiency and justice (p. 93). Small-time savers are the true victims of the wealth taxation system (p. 145), and any disproportionate measure applied on the extremely small number of taxpayers at the higher end of the scale – the recent experience in France is a clear example – has barely any tax collection effect; rather, it causes a loss of income. The only effect it can ever cause is to 'kill the goose that lays the golden eggs' (p. 186).

Another set of gems and teachings deal with political processes related to decision taking. Giving in to a group of interest necessarily opens the door to giving in to successive groups (p. 118). In any process of political negotiation, the main interests are always those of the political parties (p. 131). In order to convince, we need to

carefully evaluate the foreseeable reaction of each and every part of the process of decision taking; only then can we draw up the most adequate strategy (p. 76).

As author of the prologue of the English edition, Professor Hugh Ault, another authority in international fiscal policies, states that a monograph *should be of great*

interest not only for researchers in the tax field or in political science, but for governments and all involved in tax policy matters or who are interested in how political processes function (p. 8).

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