

Inequality: Can Sweden reconquer utopia?

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The late Olof Palme, former Swedish prime minister, at the OECD in 1968.

Income inequality is relatively low in Sweden compared to the OECD average, but a rapid rise from the 1990s has threatened this hallmark of Swedish society and has led to calls for policies to promote equality again. What are the options and can those policies work?

“Equality is a utopia (...) that must be constantly redefined and constantly conquered anew.” These words by Sweden’s late former prime minister, Olof

Palme, in July 1965, remain pertinent today. They reflect a deeply held commitment to egalitarianism, which is shared throughout Swedish society and which has won admiration, if not the envy, of countries around the world. But the Swedish model is constantly being tested.

Today Sweden boasts a vibrant, resilient economy, but powerful forces, some which policy can control, others not, have driven wedges into the income distribution of a country that used to be the most equal in the OECD area. Policy actions can reduce those new inequalities, though it will not be easy.

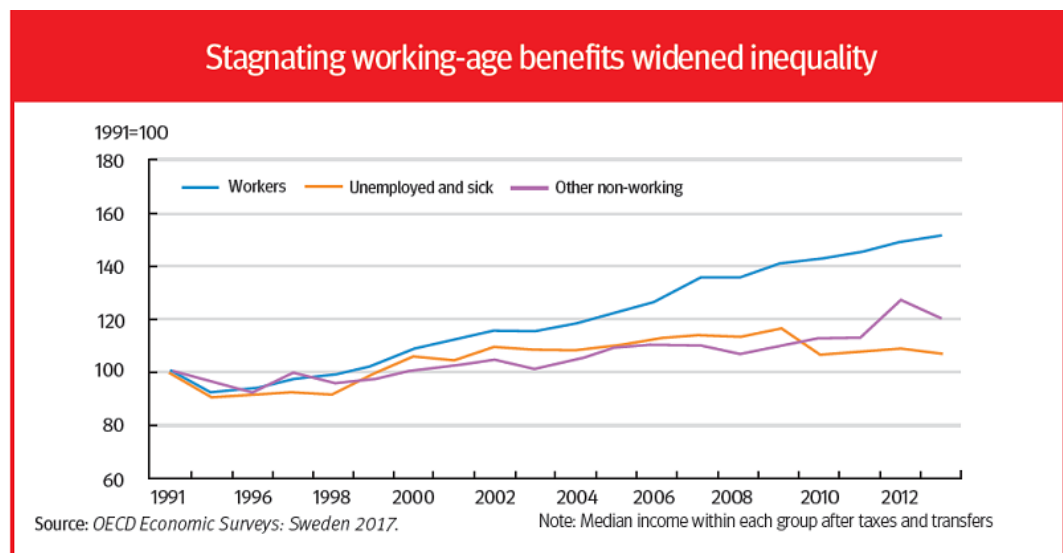
More than simply resulting from social policies of redistributing from rich to poor, the origins of Sweden's income equality is to be found in the actual labour market. Wage differences are relatively narrow, and reflect the fact that wage bargaining is centrally co-ordinated among sectors, which pivots wage deals towards equality and fairness, as well as international competitiveness. Skilled and highly qualified people might not have the wage premiums seen in some other countries, but they do enjoy a higher probability of finding steady employment than those with only basic education and low functional skills. Even in cases where people struggle to find jobs, solid activation policies are there to help them. This mix of compressed wages, high skills and high employment, with active labour market policies for the unemployed, is a cornerstone in Sweden's efforts to hold back inequality and to generate the tax revenue needed for redistribution.

So, what has caused inequality to widen? For a start, incomes at the top end of the distribution have outpaced middle-class earnings in recent years, thanks mainly to higher capital income from the likes of stocks, investments and property, rather than normal wage increases. Meanwhile, people at the bottom end of the distribution, including those on welfare, saw their incomes drift behind other earners, in large part due to the slow uprating of their benefits.

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There are demographic and structural factors that have played a role too, as our analysis highlights. Educational attainment has increased, pulling up median earnings and therefore increasing the gap with bottom earners. On the other hand, non-labour immigration has risen, and Sweden's population has been ageing, so more people than before receive a pension, which is typically lower than wages. More single, and single parent households with typically low incomes, as well as more working couples without children and typically higher incomes, have also widened the gap between those at the top of the income distribution and those at the bottom. The combination of such trends can explain more than 40% of the increase in the Gini coefficient, which is a metric of inequality, from 1987 to 2013.

What can policymakers do? Redistribution from top to bottom earners is challenging, especially as taxes on wage income are already relatively high. Taxing capital income is already not an easy task either, and has been complicated further as the collection of wealth statistics was discontinued when the wealth tax was abolished in 2007. As this makes it harder to monitor wealth concentration and capital incomes, we recommend that collecting such wealth data be resumed from other sources.



Another way to address the widening income gap between those with and without jobs is through working-age benefits, which have been lagging behind wages since the early 1990s when Sweden was in deep recession. Decades of slow uprating have led to a gradual decline of benefits relative to earnings, which should be addressed.

Particular policy attention should also be given to disadvantaged groups, notably migrants who are in Sweden for humanitarian reasons or to be with their families. These migrants usually have lower incomes and worse housing conditions than native Swedes. Segregation between poorer and wealthier neighbourhoods leads to school segregation as well. This further affects education and job prospects, adding to language and other cultural difficulties that such migrants experience. Sweden's relatively well-developed integration policies can be strengthened by learning from several successful local experiences, as well as stepping up action to promote upskilling. Other measures, such as shortening the time it takes to get residence and work permits, and simplifying wage subsidy schemes, would also help.

Another area for policy action is to improve housing conditions for the least well-off. This can be done by addressing inefficiencies in the housing market, for instance, by tightening the generous tax treatment of owner-occupied housing to improve affordability, and easing strict rental regulations while protecting

tenants against abuse, as this would enable mobility among those who cannot afford to buy. Moreover, measures to improve the supply of rental housing would lead to a better utilisation of the housing stock, while the rules governing the allocation of municipal housing could be better designed to help low-income households and limit residential segregation as well.

With Sweden facing new realities, the current government has taken steps to reverse the trend of widening inequalities, with stronger social protection and ramped-up budgets for integration and adult education, for instance. The government has also expressed its intention to consider other OECD recommendations, including more systematic benefits uprating. Olof Palme's words about redefining and conquering utopia have not been forgotten after all.

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