OECD Income inequality data update: Sweden
(January 2015)

Sweden still belongs to the group of most equal OECD countries, despite a rapid surge of income inequality since the early 1990s. The growth in inequality between 1985 and the early 2010s was the largest among all OECD countries, increasing by one third. In 2012, the average income of the top 10% of income earners was 6.3 times higher than that of the bottom 10%. This is up from a ratio of around 5.75 to 1 in the 2007 and a ratio of around 4 to 1 during much of the 1990s.

Income taxes and cash benefits traditionally play an important role in redistributing income in Sweden, reducing inequality among the working-age population by about 28% – the OECD average is 25%. This redistributive effect however weakened overtime as it used to range between 35% and 40% prior to the mid-2000s.

Sweden's richest 1% of earners saw their share of total pre-tax income nearly double, from 4% in 1980 to 7% in 2012. Including capital gains, income shares of the top percentile reached 9% in 2012. During the same time, the top marginal income tax rate dropped from 87% in 1979 to 57% in 2013.

A considerable fall of the redistributive effect of Sweden's tax and benefit system has been observed recently, despite it remains above the OECD average. In Sweden, like in most other Nordic countries, tax reforms over the 1990s have decreased the tax burden also and sometimes particularly for wealthier households, e.g. by decreasing capital taxation and lowering or abandoning wealth taxation. At the same time, benefit reforms, while making the cash transfer system more targeted in general lessened its generosity.

However, public social in-kind benefits, especially in the areas of education and care continue to be an important pillar of overall redistribution in Sweden, and more important than in most other European countries.

Source and References:
OECD work on Income inequality and poverty via www.oecd.org/social/inequality-and-poverty.htm
OECD Income Distribution Database via www.oecd.org/social/income-distribution-database.htm
OECD.Stat Inequality and Poverty data cube via http://stats.oecd.org/Index.aspx?DataSetCode=IDD
OECD data visualization for Sweden via www.compareyourcountry.org/inequality?cr=swe&lg=en

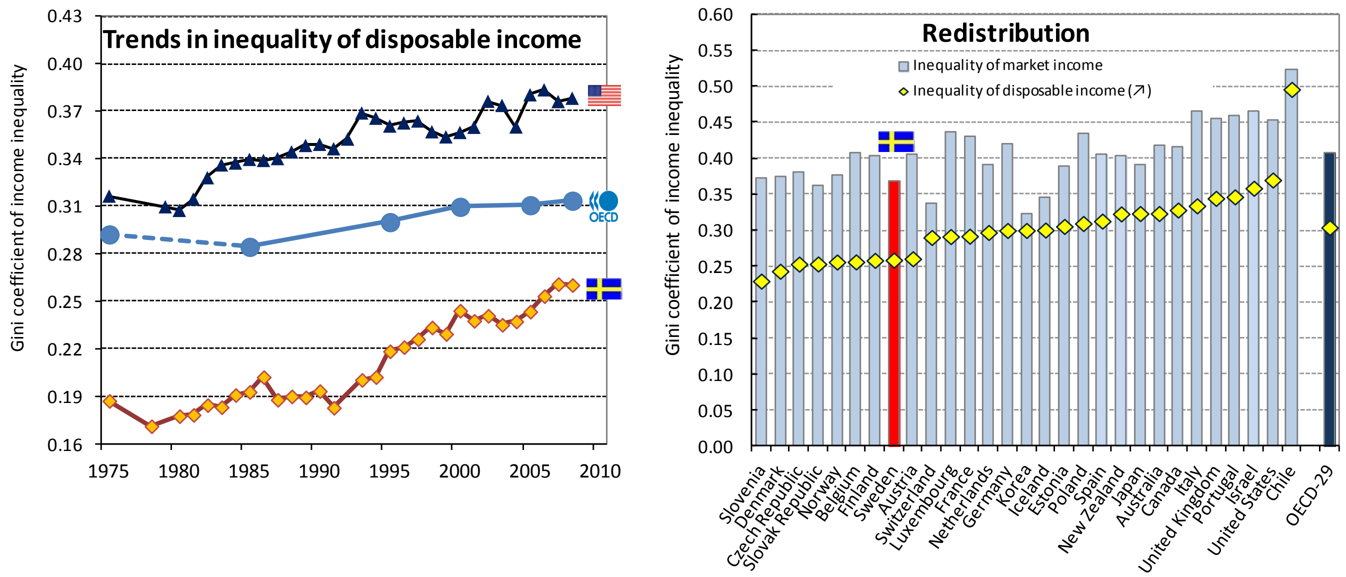
OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

www.oecd.org/social/inequality-and-poverty.htm

COUNTRY NOTE: SWEDEN (DEC. 2011)

Sweden still belongs to the group of nine most equal OECD countries, despite a rapid surge of income inequality since the early 1990s. The growth in inequality between 1985 and the late 2000s was the largest among all OECD countries, increasing by one third. In 2008, the average income of the top 10% of income earners was 513 000 SEK, more than 6 times higher than that of the bottom 10%, who had an average income of 81 000 SEK. This is up from a ratio of around 5 to 1 in the early 2000s and a ratio of around 4 to 1 during much of the 1990s.

Income taxes and cash benefits play an important role in redistributing income in Sweden, reducing inequality by nearly 30% – in a typical OECD country, it is 25%[Figure6.1].



Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labor earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data refer to the working-age population. Information on data for Israel: http://dx.doi.org/10.1787/888932315602.

Key findings:

- Sweden's richest 1% of earners saw their share of total pre-tax income nearly double, from 4% in 1980 to 7% in 2008 [Table9.1]. When capital gains were included, income shares of the top percentile reached 9% in 2008. During the same time, the top marginal income tax rate dropped from 87% in 1979 to 56% in 2008.
- The rise in inequality was driven first and foremost by widening gaps in market income sources: gross earnings, self-employment income as well as capital income all became more unequally distributed. The earnings gap between the 10% best and least paid full-time workers has increased by nearly a fifth since 1980.
- As in other Nordic countries, capital income played a larger part in increasing inequality as it has become more concentrated over time. Since the mid 1980s the share of capital income increased by some 2% for the population as a whole. It actually decreased by 1% for the poorer 20% but the share increased by 10% for the richest 20% of Swedes. Capital income explains more than 13% of total income inequality, up from 8% in the mid 1980s.

  Societal change — more single and single-parent households, more people with a partner in the same earning group — accounts for a rather moderate part of the increase in household earnings inequality (about a quarter). The widening dispersion of men's earnings was more important. At the same time, higher employment rates for women helped reduce household earnings inequality by around the same amount.

- Income taxes and cash transfers in Sweden are very effective in reducing inequality. The redistributive effect, however, declined sharply in the recent decade: from close to 40% in the 1980s and 1990s to some 30% in 2008.
- The downward trend in redistribution was largely driven by the reduced role of benefits: transfers as a share of household income dropped from 27% in 1995 to 16% in 2008. At the same time, the redistributive effect through taxes remained stable as a result of two opposing trends: somewhat reduced income-tax rates and a higher progressivity.
- At around 20% of GDP, Sweden is the highest spender on public services such as education, health or care among the OECD (average 13%) [Figure8.1]. These services help reduce inequality by 23% which is more than in most other countries.

Key policy recommendations for OECD countries from Divided We Stand

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

The roles of globalisation, technological progress and regulatory reforms

Divided we Stand also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se- play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labor market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labor force also had a significant positive impact on employment growth.