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Top incomes in Sweden during three-quarters of a century – a micro data approach.

Abstract

In this paper we introduce two new perspectives on the development of the Swedish income distribution. The long-run development and the top of the income distribution have been studied. Household data for the entire country for almost all years from 1975 to 2004 is used. The data was linked backwards by investigating the situation in the city of Göteborg for selected years.

Since the beginning of the 1980s, top-income earners have experienced positive income development, more positive than for others in the population, although the development for the top centile has been notably bumpy. This period is in sharp contrast to what occurred during the beginning and middle of the 1990s, a period where the welfare state appeared and grew. During that epoch income growth took place at the lower and middle parts of the income distribution, while real income for top-income earners remained stable.

An important reason for the changing income share for top-income earners is the development of capital income. For later years we found that the boom and subsequent burst on the stock exchange clearly affected the income share earned at the top of the income distribution. However, reasons for the changed share accrued to the top of the income distribution are not limited to the changing role of capital income. Changes in the tax system are of importance as well. Increased taxes lie behind the compression that occurred when the welfare state developed. However, since the beginning of the 1990s, Sweden has a tax system in which
marginal tax rates over the highest break-point are constant. In addition, different types of capital income, often concentrated to high-income earners, are taxed at a relatively low rate. The introduction of such a system indicates changed distributional norms and increased tolerance for top incomes.

A third channel for increased income shares for top-income earners since the first half of the 1980s comes from the labour market. During the years of high economic activity in the 1980s and 1990s, top wages increased more rapidly than other wages. We note that the gender wage gap in Sweden is highest at the top of the earnings distributions, and could not find a trend for a change since 1975. Since the end of the deep recession at the beginning of the 90s, salaries for members of parliament have increased much more rapidly than for the typical worker. Once again this indicates an increased tolerance for top incomes.

Until now, new research has pointed towards the first part of the last century as being a period of decreasing shares for top-income earners in almost all countries investigated. The long period of compression in Sweden is in no sense unique. However, research also shows that the development during the 1980s and 1990s differs across countries. Sweden, together with Canada and Finland, retains a middle position. On one hand, the advancement of top-income earners in Sweden has not been as rapid as in the United States and Great Britain, for example. On the other hand, it has been difficult to show increases in the Netherlands, France and Germany. To find reasons for the development varying so greatly across countries should be an important task for future research.