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Income distribution in Sweden

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1. Introduction

The purpose of this article is to examine income distribution and redistribution in Sweden in the beginning of the 21st century. First, the article outlines the strategy of redistribution developed in Sweden. Secondly, the trends with regard to average income, poverty and inequality are outlined. Thirdly, the structure of income inequality in 2003 is examined with regard to: (i) the distribution of income among percentiles, (ii) the income levels for different household types, (iii) the redistributive effects of the tax/transfer system, and (iv) the contribution to inequality by different income sources. Finally, the article outlines changes in public policy with implications for the income distribution and discusses them in relation to the underlying redistributive strategy.

2. Background: Sweden's strategy of equality

There are several reasons why the Swedish case is of interest to the discussion of income distribution and redistribution. One reason is simply that the country has been successful in promoting social policy goals; reducing poverty and inequality. This theme needs to be qualified in different ways. There is no Swedish 'miracle', neither in the sense that poverty and inequality is eradicated altogether, nor in the sense that there is something incomprehensible in the policy design. Quite the contrary, the policy principles are quite straightforward. Another reason for the relevance of Sweden is that the country is facing dilemmas, which are similar to the situation in most other industrial nations, and the discussion and resolution of these dilemmas can benefit from being discussed in a comparative context.

Sweden has established a universal model of social protection, where benefits and services based on residence are combined with earnings-related social insurance programmes (Palme 2005). In addition, there are programs targeted at vulnerable groups. The universalism emerged as a response to the different needs of the rural and urban populations, as well as to the political mobilisation of these interests. Similarly, in the post-war period, earnings-related social insurance has been a strategy to include workers and salaried employees, and both public and private sectors, within the same system of protection. The expansion of services has partly been a response to ageing populations but is also intrinsically connected to the growth in female labour force participation, as well as by political participation by women. In the transfer system, there are hence three basic components of the Swedish social policy programs. Citizenship benefits: These include old-age pension systems and family support. Earnings-related social insurance: This type of social insurance is managed in universal schemes which are the same for different sectors of society. Targeted benefits: Income-tested housing benefits for families with children and the elderly, as well as social assistance.

Given the size and scope of the Swedish systems of social protection programmes, it seems fair to hypothesise that they have had important repercussions on the distribution of income. The question is then how the strategy has performed in terms of pursuing classical social policy goals. The goal of the welfare state is often defined in terms of poverty reduction but Sweden appears to have gone further and they have also included the ambition of reducing overall inequalities (Erikson 1993). Moreover, modern welfare states have additional goals like providing social insurance and services of different kinds. However, all social policy boils down to redistribution. Some of that redistribution is vertical - that is, from rich to poor through systems of taxation and benefits. A great deal of redistribution is horizontal, over the life cycle. This is the case with pensions, child allowances and parents' allowances. Another type of redistribution accompanies the distribution of risk by means of health and work injury insurance and by unemployment insurance. These risks are unevenly distributed throughout the population. Their redistribution also implies a certain degree of vertical redistribution, because the risks of illness, work injury and unemployment are greatest among people in the lowest income brackets. Consequently, most parts of the social insurance system also have an important bearing on the fight against poverty. We should also be open to examining the idea that perverse redistribution can occur, whereby the welfare state actually takes more from the poor and gives to the rich. For example, a health care system that does not give poor people the same access to services due to poor public transportation or user fees that scare low income people, might end up providing services predominantly to rich people while they are financed by taxes paid by all income groups (cf. Le Grand 1982).

Thus the following kinds of redistribution may occur in all social policy systems: (i) Horizontal redistribution: Spreading income over the life-cycle; (ii) Vertical redistribution: Taking from rich people and giving to the poor; (iii) Risk redistribution: This is associated with social insurance, and (iv) Perverse redistribution: Unintended redistribution from the poor to the rich.

Even if systems of social protection have other goals than just fighting poverty, I would still argue that the situation of the worst-off in society is a powerful indicator of how successful the entire system of social protection is. This is really following the philosopher John Rawls' (1971) principles, that we should judge societies on the basis of how we treat those who are worst-off. If then, in the end, the welfare state programs should prove to be most important for those who lack resources derived from the family or the market, the situation of children provides a special rationale for the welfare state. Children do not choose to be born and brought up by poor parents. It can therefore be argued that governments have a responsibility to ensure that children in their countries have equal rights to participate in education, health care etc., and that they should be entitled to the necessary resources in terms of nutrition and housing so that they can take full advantage of these rights. If children cannot be blamed for being poor, the reason why they are to be found in poverty is irrelevant. Whether it is unemployment, sickness, divorce, or simply indolence and/or negligence on the part of their parents, in no case should children be deprived of the opportunity of becoming full citizens.

It should of course not be denied that the design and reforms of systems of social protection sometimes involves real goal-conflicts: The goal of reducing inequalities might simply come into conflict with efficiency considerations. But judgements about how these two kinds of goals are balanced must depend on values. This means that there are always alternative solutions and we, following our values, can choose more or less equality/efficiency. Arguments implying that there is no choice are usually false. Notwithstanding that social policies often can enable people to make choices they would otherwise not have been able to make: individual choice is always, in some sense, circumscribed by state intervention in the form of taxation and social protection. This suggests that state intervention should focus on dealing with social issues that are relevant for all of us and that it is important to promote individual choice, even in areas that have become subject to state intervention.

The distribution of disposable incomes among households is a result of a complicated income formation process. In Sweden, one factor behind the low degree of inequality is a fairly even distribution of earnings. Another factor is the welfare state institutions in terms of taxes and transfer systems. Yet there are, as will become evident below, a number of paradoxes in the relationship between welfare programmes and the outcomes in terms of redistribution and income inequality. We will start by discussing the classical notion of life-cycle poverty and then outline different strategies of redistribution.

In a life-cycle perspective on welfare, the system of social protection could be seen as supporting individuals during various critical phases over the life-cycle. In his classical studies of poverty in York at the turn and beginning of this century, Seebohm Rowntree (1901) identified phases in the life cycles of inhabitants of York that appeared to be particularly poverty-prone. The problematic phases occurred when there was an unfavourable balance between work-capacity and consumption-needs in the household. Thus, families with small children faced high poverty risks. When the children grew up and started to contribute to the household income, and when they subsequently moved away from home, poverty went down. But poverty was also high among the elderly, not primarily as a result of high consumption-needs but rather as a consequence of decreasing work-capacity. How efficient, then, has the expansion of social protection been in terms of reducing this kind of life-cycle poverty?

The results from a study by Kangas and Palme (2000), based on the Luxembourg Income Study, give some indications. The analysis was based on data from different points in time, the first around 1970 and the second around 1990, and different countries representing different social traditions. Major differences were found both over time and among countries. A central tendency was that poverty rates showed a more cyclical pattern at the earlier point in time. The cyclical pattern was similar to that Rowntree had observed, i.e. poverty was higher among families with children and among the elderly. In the 1990s, this pattern had vanished in the Scandinavian countries included in the study (Finland and Sweden). In Canada, where old-age poverty had become very low, families with children still faced clearly higher poverty risks. The cyclical component was still strong in the United

States. Even if old-age poverty had gone down a little compared to the situation in the 1970s, poverty had gone up among families with children.

What is interesting is that the observed variation from country to country can be linked to the design of the social policy programme. In Finland and Sweden, the combination of more generous child benefits and wide coverage of subsidised child care - enabling second earners to contribute to the household income - appears to have paid off in terms of low poverty among families with children (Ferrarini 2003; Ferrarini and Forssén 2005). What in comparison to Japan is important to underline here is that in Sweden, incomes of spouses are nowadays taxed separately. This means that Sweden is avoiding the high marginal tax rates on the second earner of a system that is assessing the incomes of spouses jointly (Montanari 2004; Mira d'Ercole in this volume). Similarly, the generosity of the public pension programmes correlates with poverty rates among the elderly. Here, of course, the universal basic pension in the Scandinavian countries and Canada is the most important factor. The results show how the potential of horizontal redistribution may be explored in a successful way. However, a warning sign here is that poverty rates are high among young persons without children - even though there are severe measurement problems that should deter us from drawing very firm conclusions.

Several other comparative studies (e.g., Kangas and Riitakallio 2000) have shown poverty among children to be a relatively unusual phenomenon in Sweden and the other Scandinavian countries. In both single and two-parent families, only a small proportion of children can be classed as poor. The relatively favourable position of women in the Sweden compared to other countries has been attained in spite of many of them being single. This is due, not to transfers to this group being particularly heavy, but mainly to women, not least single women, having a much higher labour force participation rate in the Sweden than elsewhere. This in turn can be put down to gainful employment being economically feasible for mothers in the Sweden, as a result of the existence of subsidised child-care and universal benefits, rather than targeted ones. These various factors have prevented single parents from becoming an economically marginalised group in Sweden societies, even though, on average, they are worse off than two-parent families.

The various social policy models follow different redistributive strategies (Korpi and Palme 1998). The targeted model follows the same principles as Robin Hood applied by following the means-testing principle, and only taking from the rich and giving to the poor by financing benefit payments from general taxation. The basic security model follows a simple egalitarian strategy by paying flat-rate benefits, i.e. providing the same benefit levels to both rich and poor. The state corporatist model, in its classical form, redistributes resources primarily within different corporations. The encompassing model, by relying on universal earnings-related social insurance benefits gives in fact more to those who already have, following the preaching of Matthew rather than that of Robin Hood. However, in reality, most countries apply combinations of different kinds of programme and the relevance of different principles varies between different sectors. Even if the earnings-related principle might be central to social insurance it is less applicable in, for example, the provision of social services.

The core issue is whether there are trade-offs between the provision of different kinds of benefits. In reality, and contrary to the expectations of many, it seems to be the case that the more the middle class is involved in the welfare state, the better the situation will be for vulnerable groups and the more social inequalities will actually be reduced by tax/ transfer programmes. The reason might be found in the way interests are organised in different kinds of social policy models. Here, a vital distinction has to be made between the distributive profile of benefits (and taxes) and the size of the sums that become subject to redistribution. Moreover, there appears to be a correlation between the distributive profile and the size of sums for redistribution - the more benefits are targeted, the smaller the sums will become. This gives rise to a strongly positive correlation between the size of sums and the size of inequality reduction. Hence, paradoxically, the more benefits are targeted to the poor in a country, the smaller is the reduction in inequality achieved by the welfare state (Korpi and Palme 1998).

The relationship between old-age pensions and income inequality also involves two kinds of paradoxes (Korpi and Palme 1998). Firstly, the highest degree of inequality in public pensions among the countries we had data for is found in Finland, Sweden, Germany and Norway. The most equal pensions are found in Australia, with Canada, the UK, the Netherlands and the US falling slightly behind. Yet, when we examine the distribution of gross income (with all sources of income taken into consideration), the ranking of the countries is largely reversed. This is due to the fact that private pensions and capital income are much more important in countries like Australia and other countries where benefits only provide for basic security. Since private pensions tend to be much more unequally distributed, suggesting that the more private pensions are 'crowded out' by earnings-related public programmes, the less inequality there will be. Finland, a country with no income ceiling in its earnings-related programme, is a good case in point.

Secondly, countries which have basic pensions that also benefit the rich are more successful in combating poverty among the elderly than countries that target their basic pensions to the poor. Two different factors are probably contributing to that. The first is that universal provisions have a better take-up, the second that universal design has been successful in creating broad coalitions for maintaining high benefit levels. It turns out that countries with a clear middle class inclusion in their systems of social protection are providing more generous minimum income safety nets also for the non-elderly population (Nelson 2003).

We have so far considered the relationship between the welfare state, redistribution and inequality. However, there are other facts, which we can bring to bear on the hypothesis that the poorest will be harmed if welfare programmes include the middle class. When we consider the situation for not only the elderly but also lone mothers, we get another indication whether this holds true or not. Contrary to what some expect, poverty rates among these 'target groups' are lowest in countries with extensive welfare states. The poorest segments of society appear to be best helped in those welfare states where state support is not exclusively directed towards these groups, even if it at the cost of redistributing large sums of money (Mitchell, Harding and Gruen 1994; Korpi and Palme 2004). Thus, one must look at both the tax side and the transfer side and it is not enough to look only at the redistributive profile of the benefits, or the progressiveness of taxation. One must also take into account the size of the sums redistributed.

Finally, the alternatives to general loss of income insurance all have implications in terms of interest mobilisation. The consequences for social integration are also important to consider in this context. If compulsory insurance is separately organised for different professional operations, different groups in society will be segregated according to social class, religion, ethnic background and/or sector identity. If the compulsory insurance is limited to the provision of basic security, large groups will come to depend on professionally-based and/or corporate insurance schemes, which will lead to an indirect stratification through private insurance. Targeted models not only drive a wedge between the poor and non-poor, they are also connected to problems of stigmatisation and poverty traps. Recognizing this context will help us to understand the Swedish case.

3. Data and definitions

The analyses in the paper are based on data from SCB (Statistics Sweden); Inkomstfordelningsundersokningen (Income distribution survey). This is a survey of the welfare of the adult population combines interview data with register data. It contains information on both household characteristics and the various income components. The households have been identified by using information from both the tax registers and personal interviews. The household definition applied in this study includes all children living at home irrespective of their age and own income situation.

Income definition:

Income:
+ earnings
+ self-employment income
+ interest on capital etc.
+ capital gains (not losses)
+ imputed income from owner-occupancy
+ social security benefits
+ non-taxable transfers including student loans from the national student support authority
- taxes and social security contributions paid by the insured person as well as adjustment for tax allowances for interest payments for housing purposes
- paid advance maintenance allowances, repaid student loans, private pension contributions and periodical support payments
=disposable income.

Some differences compared to the official statistics should be recognised:

Self-employment income: We have coded negative incomes as 100.

Income of owner-occupancy: Is calculated as a fictitious interest of 2.5 % of the market value of the house minus the size of the mortgage.

Disability allowance: Is included in the official statistics but excluded here because it only covers the same size of disability related expenditures on behalf of the recipient.

Real estate tax: The official statistics includes the real estate tax, i.e. the tax deducted from household income in order to reach the disposable income. We have chosen to see the tax as a housing cost not affecting the disposable income.

Interest payments on mortgages: The same asymmetry occurs with regard to interest payments on mortgages. The official statistics considers this tax following the assessment made by the tax authorities. However, the interest payment as such is not a negative income in distribution analyses. On the other hand, interest expenditures will result in a tax deduction in the taxation of the incomes each year, thus giving the household a higher disposable income. By re-imputing the tax deduction for interest payments for housing purposes and treating it like a tax we achieve a neutral comparison between different housing forms.

Private pension contributions: Are treated as a negative income.

The constant prices computation: Incomes are computed into constant 2000 prices by applying the yearly averages for the consumer price index.

Resident households: The analysis is based on register data. In order to get an accurate assessment of the yearly incomes of these household we only include households that have been registered as residing in Sweden the entire year in question. We have excluded households with income from the military draftees since their economic situation is largely affected by the economic resources they get while doing their military service.

The unit of analysis is the individual: First we measure the income of the household. We then adjust the household income by applying an equivalence scale (se below). Finally we apply a weighting system so that each individual in the household is included in the analysis as a separate unit.

Equivalence scale: This study applies an equivalence scale that lends its logic from Swedish social policy goals in the sense that it applies the same kinds of norms that is used in the social assistance system for what persons of different age 'cost' a household. In addition to these norms we have also taken the housing costs of different family-sizes into account (since housing costs are covered separately for social assistance recipients. We have also made small adjustments for some other costs that are not part of the so called social assistance norm but which are reimbursed by the municipalities. The scale is giving the weight of 1.0 to a household with one adult person. The table below compares this scale with other scales applied by statistics Sweden. The scale applied in this study is close to what the OECD have used (old scale). They are similar since many countries have used similar strategies for computing their equivalence scales in their social assistance systems. This makes the applied equivalence scale meaningful also for comparative purposes.

	Statistics Sweden scale Official	This study
Adult person 1	1,16	1,00
Cohabiting person 2	0,76	0,55
Children 0-3 years	0,56	0,47
Children 4-10 years	0,66	0,47
Children 11-17 years	0,76	0,47
Others 18 year and above	0,96	0,55

4. Income inequality and poverty in Sweden

Recent trends

Before we go into the details of the income distribution in Sweden it may be useful to first reflect on the trends with regard to over time development of income inequality and poverty. We will follow the development since 1991, which covers the years of the deep economic crisis (Palme et al 2003). GDP growth was negative for three years in a row and open unemployment went up from below two percent to above eight percent. In addition, the share of the labour force engaged in active labour market policies went up from two to almost six percent. This triggered a crisis for the public finances which was then responses by a combination of tax increases and benefits cut, which was putting additional pressures on the income situation of households.

Table 1 describes the average income development over the period 1991-2003. The drop in income levels during the employment crisis is

Table 1. The development of average disposable income, Gini coefficient and poverty rates (income below 50 % of median). Equivalised disposable income, with capital gains included.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Average disposable Income	138	135	131	136	126	128	134	136	145	160	157	163	162
Gini coefficient	0.219	0.217	0.214	0.242	0.216	0.225	0.246	0.238	0.251	0.279	0.25	0.25	0.247
Poverty rate	2.7	2.8	2.6	2.7	2.7	3	3	3.1	3.5	4.1	4.4	4.4	4.2

Note: Figures for 1992 have been estimated from surveys with other household definitions (cf. Fritzell 2001).

remarkable. The average levels are recovered only towards the end of the decade. The vast majority of the households was affected by the both the downturn and the upturn. In decile terms, the lower nine deciles were affected by the downturn and all deciles have been included in the upturn. There are two forces behind the increase in average income levels. One is the increase in capital gains, affecting only the top income decile and showing large yearly fluctuations during the observation period. The other is the increase in hourly earnings, which has been recorded for all occupational groups. The latter effect has however been dampened by the continued high unemployment (by Swedish standards) and the modest improvements in hours worked.

Table 1 also shows the development of the Gini coefficient from 1991 to 2003 for the definition of disposable income with capital gains included. We can see that inequality has grown over time. The yearly fluctuations are strong with peaks in 1994 and 2000. This is partly driven by changes in the tax system affecting the timing of when household realise their capital gains. It should also be noted that in the comparative studies capital gains are usually not included, which is relevant for any judgement about the level and increases of income inequality in Sweden. Income inequality as measured by the Gini coefficient peaked in the year 2000 when it reached 0.279, where after it has decrease and stabilised around 0.250. 1 This is still a low level by international comparison which few countries can match. The Gini coefficient recorded for the household income distribution in Japan has evidently reached substantially higher levels (cf. Mira d'Ercole in this volume).

The second aspect of income inequality that we will study over time is labelled as the 'poverty rate' as in most comparative studies and here we have used that standard procedure of a head count ratio of the individual with incomes below 50 percent of the median income. Table 1 thus reports the poverty rates with the 50 percent limit. There is really very small change overtime, which is surprising given the deep economic crisis and high unemployment. It is only in 1999 that we see an increase in this poverty indicator, which is also somewhat surprising since the increase in employment also among vulnerable groups starts to improve in that year. In an international perspective, poverty rates in Sweden remain among the lowest and much lower than in Japan (Mira d'Ercole in this volume).

The conclusion for the subsequent analysis is thus that the income inequalities tend to be higher in 2003 than in the early 1990s. The increase is substantial even if levels of poverty and inequality have stabilised over the most recent years. By international standards income differences are still modest.2 Here the Swedish experience is different from that of Japan where inequalities have increased to such an extent that it has become more unequal than the OECD average (Mira d'Ercole in this volume).

Structure of income distribution and redistribution in 2003

In this section we will turn to more specific aspects of the Swedish income distribution for the most recent year we have data for, i.e. 2003. Table 2 gives the income levels for different percentiles and also some indicators about the differences in incomes levels. It is obvious from these simple statistics that the differences in income levels are substantial. The lowest decile has less than two thirds the median income level, for example, and the top decile has disposable income levels that are almost 275 percent higher than the bottom decile and as much as 170 percent of the median income. Nevertheless, the differences are modest by international comparison also when we use these indicators.

Table 3 gives us information about income

Table 2. Income for different percentiles

	Including capital gains
P05	78.3
P10	91.2
P25	113.0
P50	145.8
P75	193.6
P90	249.1
P95	295.4
Average	161.9
P10/P50	62.5
P90/P50	170.8
P90/P10	273.1

Table 3. Income by life cycle category. Including capital gains.

		2003
Single without children	18-29	118.0
Single without children	30-49	155.0
Single without children	50-64	154.0
Single without children	65-75	119.7
Single without children	75-	105.4
Single without children	18-64	142.3
Single without children	65-	109.4
Single without children	18-	127.8
Single with children		
Children aged 0-19 years	107.7	
Single with other adult	0 children 0-19 years	135.7
Couples without children	18-29 years	171.4
Couples without children	30-49	212.8
Couples without children	50-64	216.0

levels for different household categories. From these results, it is clear that single headed households tend to have lower disposable (equivalised) incomes than couples. This is true for all age groups and whether or not there are children in the household. Young and old households have lower incomes than middle-aged household. The lowest income levels are found among single parent families and singles aged 75 and above, and both these household types are mostly headed by women. The highest average income levels are found among couples in the age group 50-64 that have no children. Table 3 illustrates that the higher the number of dependent children the lower the income levels will be on average. Over time, the youngest age-group has had a problematic development insofar as average income and poverty levels are concerned. The poor income development is partly a result of the strongly increased enrolment in tertiary education but is also a consequence of a long-term trend signified by increased difficulties for young persons to get established on the labour market. This development is common to Japan and Sweden. This is also true for the declining poverty rates among old people (Mira d'Ercole in this volume).

Turning now to the redistributive effects of the taxes and transfers, we can observe in Table 4 that the 'original' income distribution is much more unequally distributed than that of the disposable income. We can follow how the Gini coefficient declines as we take social insurance benefits, taxes paid, and other (non-taxable) transfers into account. In relative terms the redistributive effect is large when it comes to social insurance benefits, while the redistributive effect of other transfers is more modest. Taxes accounts for a further decline in the Gini coefficient. Especially the latter two effects stand in contrast to the Japanese development (Mira d'Ercole in this volume). The stepwise procedure applied in this table and next is to some extent dependent on the order in which order we account for the various income sources and on what income concept we sort household. I would argue that there are good arguments for following the approach taken in this article and that the results are not particularly sensitive to the kind of method applied.

Table 4. Absolute and percentage changes in the Gini coefficient: stepwise changes by addition of different transfers and taxes in 2003.

	2003
Gini-coefficient	
A = Factor income	0.468
B = A + Social insurance etc.	0.309
C = B - Tax etc.	0.288
D= C + Non-taxable transfers etc.	0.247
Reduction in percent	
Social insurance etc.	32.5
Tax etc.	7.5
Transfers etc.	15.0
Total	46.9

Notes:
A = Factor income = income of earnings and capital
B = A + social insurance and other taxable transfers
C = B - taxes and other negative transfers
D = C + non-taxable benefits = disposable income

Table 5 provides further information about the distributive profile of different income sources and how they stepwise are affecting the overall distribution of income. The Gini coefficient for earnings is 0.465 which is fairly similar to the one reported for factor income in Table 4. Capital income is evenly more unequally distributed and thus contributes to an increased variation in factor income, what is sometimes labelled as 'market income'. When we turn to the various redistributive elements, Table 5 illustrates that pensions are not only more evenly distributed than earnings but also important for reducing overall inequality. Other social insurance benefits are also distributed more equally but do not reduce inequalities as much pensions due to the smaller volume of the former kind of benefits. The results with regard to taxes is roughly the same as in Table 4, the small difference following from the more fine grained analysis and separation of 'other negative transfers' from taxes in general (see below). It is interesting to note that the universal transfers are more important than selective benefits for reducing income inequalities in Sweden. This is relevant for understanding the merits of the Swedish strategy of redistribution with little emphasis on targeted benefits but strong reliance on social insurance and universal benefits. Finally, other negative transfers (primarily pension contributions) favour higher income households and thus increase the Gini coefficient a little.

Table 5. Decomposition of income inequality (incl. capital gains) by income source in 2003.

	2003	
	Gini for different income sources analysis	Contribution to Gini-coefficient, stepwise
Earnings	0.465	
Capital	0.468	-0.6
Pensions	0.343	26.7
Other social insurance	0.309	9.9
Taxes etc	0.288	6.8
Universal transfers	0.257	10.8
Selective benefits	0.245	4.7
Other negative transfers	0.247	-0.8

In this context, we can observe that the benefits aimed at horizontal redistribution, pensions and universal transfers (mainly child benefit), play an important role for reducing overall inequality. Moreover, social insurance benefits play an important role for lowering inequality in Sweden via 'risk redistribution'.

Here it also appears warranted to point to some important differences between Japan and Sweden in terms of the distribution of earnings. Whereas the Japanese labour market is strongly segmented, or even dual, with large differences between sectors, the Swedish labour market is less segmented and strongly unionized. Even if there is no official minimum wage, the unions have negotiated high levels for the lowest paid, which mean that a full time employed person will earn incomes above the poverty line used in the present study. The changes in the distribution of hourly earnings have by and large been restricted to two features (Palme et al 2003). One is that the public sector is lagging behind the private sector. The other is that the wage premium paid to those in management positions have increased sharply in both public and private sectors. Japan appears to have more of a 'low-earnings problem' contributing to increased poverty, whereas Sweden's poverty problem is linked to a 'no-earnings problems' for an increased number of households (cf. Mira d'Ercole in this volume).

5. Discussion: policy changes

We have in this article outlined the Swedish strategy of redistribution and some of the basic features of income distribution and redistribution among Swedish households. The redistributive strategy is based on a combination of social insurance and universal benefits complemented by targeted benefits. This is implying a strong middle class inclusion in the system of social protection and a majority of the population being both contributors and benefactors of the system of social protection. The system is also implying high levels of taxation. For this and other reasons, it appears warranted to examine changes in the system in order to clarify the sustainability of the system, both politically and economically.

With regard to income redistribution policy, the 1990s were divided into three phases: (i) the big tax reform, (ii) crisis management and (iii) recovery (Palme et al 2003). The first phase meant a shift in terms of redistribution from the tax system to the transfer system, with less progressivity in the tax systems and higher volumes of benefit spending. With regard to the total redistributive effect it remained by and large the same. The second phase meant both benefit cuts and tax increases. Since there were a little more of cuts the redistributive effect of the rules was decreased somewhat. The third phase meant tax cuts and benefit increases, which meant only small changes in terms of increased redistribution.

When we turn to the changes in the first years of the 2000s, we can see that the developments of the 'recovery period' of the 1990s have continued (Ministry of Finance 2001, 2005). This has included some increased tax deductions as well as stepwise improvements of the unemployment benefit system and increased child benefits. In should also be pointed out that 2003 is the first year for the reformed old-age pension system. No pensioner will get a lower benefit or disposable income (the first year). The minimum pension, now labelled the guaranteed pension, is increased but also made taxable. In municipalities with lower tax levels than the top level this implies improved basic benefits.

When we go beyond the observation period for the present article we can note tax allowances were extended in 2005 by an increase in the allowance for pension contributions to the statutory system as well as an increase of the basic allowance for low and middle income earners (Ministry of Finance 2005). The indexing of the income level when central state income tax starting to be paid was only 1 % in 2005. In 2005, the level at which wealth tax was levied also increased substantially. In addition to that, the inheritance and gift taxes have been abolished starting in 2005. Increases in minimum parental leave benefits included two steps and the income ceiling for benefit purposes has been increased. In 2006, there was also a subsequent increase of the ceiling for benefit purposes in the sickness cash benefit program. In the budget of 2006, the government further increased public spending on families with children in the form of higher child supplements for students, higher housing allowances, higher advance maintenance allowance, and an introduction of a supplement the second child.

Even if it is somehow outside the focus of the present article, there are changes in the social services that deserve to be mentioned. They illustrate how Sweden has dealt with the dilemmas of middle class inclusion in the redistributive social policy system, but also because the social service sector indirectly affects the income distribution. We have in recent years seen the introduction of maximum ceilings for user charges in child care services as well as for user fees in elderly care. The designs of the ceilings are different, however. When it comes to these ceilings it can be helpful to put this into context. The aim of introducing maximum ceilings for child-care costs was not driven by a concern about the incomes of high-income families with children but rather about the situation for low-income families. One concern was that the size of the fees threatened to deter low-income families to use this heavily subsidised service or to exclude them from too costly child care service centres. Another concern was about the high and increasing marginal effects (poverty traps) facing especially lone-parent families by the combined effect of income-related fees to child-care and incomes-tested housing allowances. The deterioration of the economic situation of lone-parent families in the 1990ies had been a result of decreased earnings (not benefits). The motive in elderly care was slightly different. The concern was partly with the fact that the relatives of institutionalised elderly persons could be undermined by very high user charges. Also, the threat of high user charges had triggered preventive strategies on the behalf of household who were likely to face high fees (they passed on wealth to relatives etc.).

Another important area is active labour market policy where the new policies towards long-term unemployed are likely to have had positive effects for this category. Moreover, special programs in the active labour market policy, targeted at youth unemployment significantly lowered open youth unemployment in 2003 and 2004. Yet in the election year of 2006, continued high youth unemployment, the failure of the government to reach the defined goal of lowering long term social assistance recipiency, the low labour force participation of immigrant groups and the high marginal effects on labour supply for single parents, to some extent undermine the political sustainability of the system.

We may hence conclude that the various policy changes that have taken place since 1990 have not changed the Swedish redistributive strategy fundamentally. We can, on the contrary, find several examples of changes that have been aimed at reinforcing the strategy. This is not least true when it comes to the post-crisis development and includes increased spending on universal benefits for families with children as well as various measures aimed at including the middle class in both social insurance and social services. Yet we can also observe difficulties connected to the use of the tax system for redistributive purposes which are linked to the fact that the overall level of taxation is linked to problems of high marginal tax rates (Sjoberg 2005). There has thus been a shift from taxes to transfers in terms of redistributive effects. The overall redistributive impact of the tax/transfer system has remained largely intact, however.

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1 If we would have considered the development of income inequality excluding capital gains we would have confirmed that the there is a trends towards increased inequality after 1995. Even if this increase is not very dramatic and stagnates after 1997, it should be recognised that it is significant and that the Gini coefficient is most sensitive to what happens in the middle of the distribution.

2 The increase is primarily driven by the increased importance and distribution of the capital gains income.

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