Facts and Myths in the Popular Debate about Inequality in Sweden

Anders Björklund and Daniel Waldenström

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Abstract: This paper presents a critical assessment of the public debate on income and wealth inequality in Sweden. We scrutinize ten often-heard claims in the debate by contrasting them against facts in available databases and results in the research literature. The paper also addresses specific measurement problems in the Swedish income statistics and suggests possible ways to handle them.

1.   Introduction

Questions about income and wealth differences have always been central to the Swedish economic-political debate. But it is probably no exaggeration to say that the debate on these issues has been extra intense in recent years. The governmental long-term investigation for Sweden in 2019 (SOU 2019:62) focused only on the Swedish income distribution. The government also appointed an Equality Commission, which published a comprehensive report in the summer of 2020 (SOU 2020:46). The fall of 2020 saw two books published on the same topic, and they received much media attention (Bengtsson 2020, Bengtsson and Suhonen 2020, Suhonen et al. 2021a, b).

We welcome this debate as we believe it deals with important issues. Income disparities reflect differences in consumption standards or economic well-being in the broader sense, making them anxious to analyze and incorporate into economic policy. But the image conveyed in the public debate is often misleading and sometimes downright wrong. The purpose of this article is to highlight a number of statements about the Swedish income and wealth distribution, which have gained a foothold in the Swedish debate but which we believe are at best nuanced.

Now, one might think that a review of this kind should be a fairly simple task. It would be enough to confront these dubious claims with "facts" in the form of official statistics on income and wealth. The problem, however, is that there is a lack of perfect information about income and wealth. Some central statistics are completely missing, while parts of the available official statistics suffer from such major shortcomings that they must be interpreted with caution. These shortcomings in the statistical data have contributed to the confusion that we believe prevails in the popular debate.

In section 2, we present ten common statements, which we are prepared to call "myths", about the Swedish income and wealth distribution. We critically examine these statements and formulate our own assessments of the situation and development in terms of Swedish income

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and wealth distribution. In section 3, finally, we give our own summary assessment of the Swedish income and wealth distribution.

2.   Popular claims about the Swedish income and wealth distribution

2.1 Sweden has become a mediocre country in the equality league

A common statement in the Swedish debate is that Sweden has become "a mediocre country in the equality league", see for example Bengtsson's and Suhonen's article on DN debate (Bengtsson and Suhonen, 2020). Although the term "mediocre" is not further precise, the point is that Sweden has gone from being a country with relatively low income inequality to belonging to a middle group of countries in a distribution ranking.

Cross-nationally comparable income distribution statistics are needed to assess the viability of the claim. This should be based on a representative income measure and a jointly defined income unit. Because countries collect income data in different ways, some through interviews and others through administrative records, it is not a trivial matter to create comparability.

The most common measure of income in distribution analyzes is disposable income, that is, all income from both labor and capital plus transfers minus taxes.[1] The advantage of disposable income is that it takes into account both market outcomes (salary and return on capital) as well as tax and benefit policy. It is usually the income during a calendar year that is used. However, this period of time is not entirely unproblematic because it is so short that it becomes sensitive to specific income variations. For example, one consequence is that among low-income earners there are university students and parental leave, while among high-income earners there is a significant amount of low-wage earners who have received a large one-off gain in connection with house sales.

When the final income unit is to be determined, most databases use information about the composition of the household. This is done in such a way that the disposable income of all household members is summed up and then it is divided by a measure of the household's maintenance burden (a so-called equivalence scale). All members of the household, including children, are thus statistically assigned this income level and finally the income differences in the entire population are measured by a statistical measure, usually the Gini coefficient.

We start by comparing the 15 countries that became EU members up to 1995 (i.e., including the United Kingdom) plus Norway and Switzerland. We have partly looked at the OECD's data for these countries during the period 2011-2018, and partly EU-SILC with data from the same years.[2] The OECD orders processing from national statistical offices (Statistics Sweden for Sweden) and applies definitions that are considered to provide the best possible comparability between countries. The OECD excludes realized capital gains from disposable income, while in Sweden it is more common to include these incomes (we return to this choice). The OECD also corrects for the household maintenance burden with slightly different

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[1] Note that this income definition excludes non-cash transfers such as the value of tax-financed public welfare services. We return to the significance of these transfers for the distribution in section 2.2.

[2] Neither the OECD nor the EU-SILC have complete, unbroken series for the years 2011-2018. We have therefore calculated an average for available annual values. The material is available from the authors. For further information about the data in EU-SILC, see Eurostat (2014) and https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_statistics_on_income_and_living_conditions_(EU-SILC)_methodology.

equivalence scales than Statistics Sweden.[3] EU-SILC also provides a series for disposable annual income, but with a slightly different household definition than the national series and with slightly different equivalence scales.[4]

When we look at the average of Gini coefficients for these 17 countries, we find with OECD data that Belgium in the 2010s is at roughly the same level as Denmark, Finland and Norway with a Gini around 0.26. These four countries thus form a top group in this "equality league". Sweden and Austria follow around 0.275. The next group of countries ends up at a higher level; four countries are around 0.29 while the others are clearly higher. With EU-SILC as the source, Norway has the lowest Gini (around 0.24), followed by Belgium and Finland around 0.25-0.26. Sweden is here around 0.27 together with four other countries.[5] Then comes, among others, France at clearly higher levels.

All in all, the existing international statistics thus indicate that Sweden has lost a probable top position in terms of this equality in the early 1980s. But in the 2010s, Sweden is still one of the 5-7 countries (out of 17 rich countries) with the most equal disposable annual income. The distance between Sweden and the top nations can hardly be said to be dramatic, while on the other hand it can be said that the other 10 countries still have significantly larger income differences. Since rich countries generally have a smaller income distribution than poor countries, this means that Sweden most likely belongs to the group of the most equal countries in the world.[6]

It can be tempting to say that the international figures underestimate the increase in income differences in Sweden compared with other countries when capital gains are not included. However, this is a pure guess. Housing prices and stock market values have also risen in other countries, so the question cannot be answered. What makes the question particularly difficult to answer is that the statistics that are in practice possible to use in these contexts originate from individuals' tax returns. This means that a country's tax rules affect the statistics themselves. Our assessment is that there are no internationally comparable statistics on capital gains that can be used for distribution analysis.

But what are the arguments for including such realized capital gains in a welfare-relevant measure of disposable income? The main argument is that such profits can be used for consumption. According to Haig-Simon's classic definition of income, it consists of what can be consumed during the current period without reducing future consumption opportunities and then the answer is: the period's current income plus real increases in the value of assets. This is an argument for including actual (or accrued) real value increases in income. However, data

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[3] For an overview of the database in LIS, see Ravallion (2015) and the website https://www.lisdatacenter.org/our-data/lis-database (2021-05-05). For an overview of the database at the OECD, see OECD (2015) and https://www.oecd.org/social/income-distribution-database.htm (2021-05-05).

[4] We have refrained from using two alternative data sources, WIID and SWIID, as these are based on secondary data and imputations that are difficult to interpret in comparisons with primary data from different countries. See Jenkins (2015) for a review of these data sources.

[5] We note that Belgium has the highest level of equality according to both data sources, so it is natural to ask how this country was in the early 1980s when Sweden had its most even distribution. The first LIS observation for Belgium is from 1985 and is 0.227, ie slightly higher than Sweden. Therefore, the assessment is that Belgium has passed Sweden in terms of this equality since the mid-1980s.

[6] Some former socialist countries have a relatively low income distribution according to international databases, such as the Czech Republic, Poland, Slovenia and Slovakia. But we want to emphasize that income data from these countries must be interpreted very carefully. In a study of Polish distribution estimates, Brzeziński et al. (2019) show that when you adjust the official income statistics based on interview surveys with tax data and imputations to better capture high-income earners, the Gini coefficient rises dramatically, from 0.3 to 0.4.

on such income is difficult to collect in interview surveys, while tax returns generate data on income from taxable realized capital gains during the year. An important reason why international organizations such as the LIS and the OECD have excluded these gains from their income concepts is that the data sources in several interesting countries (such as the United Kingdom, Germany and the USA) are precisely interview surveys without information on capital gains.

But the problems for Swedish data are unfortunately worse than that. The data on capital gains generated by the Swedish declarations do not even give correct measurements of real realized capital gains but imperfect ones. If we start with capital gains from home sales, there is a difference for the statistics in the tax rules for capital gains on housing between the 1980s and from the beginning of the 1990s onwards. During the 1980s, it can be said that the declared profits were real because the purchase price was allowed to be adjusted for inflation when the profit was calculated. This has not been possible since the mid-1990s. Admittedly, inflation has been fairly low since the mid-1990s.[7] But it has not been zero, plus several homes that have been sold since then have been bought much earlier with inflationary effects on the sales price as a result. For these gains, it can thus be said that they have clearly been overvalued in the statistics since the tax reform of 1990-91, while the inflation indexation during the 1980s meant a better basis for calculation.

For capital gains on the sale of securities, the conclusion is more ambiguous. Since the beginning of the 1990s, there has been a taxation of the nominal profit, which means that the real profit has been overestimated and that income should be adjusted downwards. On the other hand, it is more difficult to say how the error will be during the 1980s, and actually from 1976 when the rules were identical until 1990. This was a period of high inflation, which suggests that the real profit was overestimated. On the other hand, only 40 percent of the capital gain was taxable when the securities had been held for more than two years.[8] This suggests an underestimation of the real profit. We believe that without further investigation it is not possible to comment on the magnitude of these two errors in the statistics. At best, they take each other out and give a reasonable estimate of the real profits, but this is uncertain.

An argument for including the profits from the sale (or turnover) of securities in the income analysis is that dividend income that is otherwise not counted is then taken into account. The rules in Sweden for the increasingly popular equity funds are such that the current dividend on the included shares is not taxed directly, but is added untaxed to the fund's value. The capital gain that arises from sales is, however, taxed and is then also counted as income.[9] In other

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[7] Sweden introduced perpetual taxation of capital gains on house sales in the 1960s. In order to limit the effect of inflation on capital gains, a deduction was allowed up to and including 1980 for inflation and for a standardized wear and tear (SEK 3,000 per year). From 1981, a new tax norm applied, so that the entire nominal gain for holdings up to and including four years was taxed without allowing deductions for inflation or wear and tear, while for holdings longer than four years, the previous model was applied. In connection with the tax reform of 1990-91, the entire capital gain was made nominally taxable and a number of so-called ceiling rules were introduced to calculate the tax amount based on pre-defined value increase templates. In order to avoid major transition effects, transitional rules were introduced which gave the taxpayer the right to choose between the new nominal taxation or the previously indexed value calculation. These transitional rules applied until 1999 and since then taxation has been completely nominalist without any account being taken of inflation.

[8] Prior to 1976, capital gains on the sale of securities held over 4 years were completely tax-exempt.

[9] However, the taxation of the funds' returns is complicated. Since 2012, Sweden has had a standard fund return of 0.4%. This return can be interpreted as a form of current direct return, but it is clearly lower than the average direct return on the Stockholm Stock Exchange (in the 2010s it was just over 3%). This standard income is included in the statistics as current capital income.

countries, income from reinvested dividends is measured in different ways, often linked to their taxation, which creates comparability problems in income distribution statistics.[10]

This reasoning concerns the actual level of income from realizations. Although the level should be corrected downwards, there may well be an upward trend in profits that should be taken into account when assessing the development of the income distribution.

Overall, our assessment of this problem is that the level of income from capital gains has been clearly overestimated since the mid-1990s due to the nominalist calculation. During the 1970s and 1980s, the problems were smaller, partly because the impact of inflation was taken into account and partly because the gains on the housing and equity markets were smaller during these decades. The question eventually becomes whether it is better to include an imperfect measure of capital gains than to completely exclude them. This is a difficult question that could at best be answered with extensive research efforts.

2.2 Sweden was in 1980 the most equal country in the world

A recurring statement in the debate is that Sweden in the early 1980s was the world's most equal country. In this section, we examine the statement based on available international data sources. We then discuss how the interpretation of an income inequality around 1980 and today can be interpreted differently depending on how the inequality has arisen.

Figure 1 shows the Swedish development according to Statistics Sweden's (SCB) official series beginning in 1975. We first focus on the development up to and including 1990 when these income differences were at their lowest. It is clear that the Gini coefficient for disposable annual income was at its lowest in the early 1980s after a decline from 1975. In the years 1980-1984, Gini was very close to 0.20, with the lowest level in 1981.

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[10] In Finland and Norway, for example, the funds' returns are taxed only through capital gains taxation, while in Germany, for example, they are only taxed in the form of a flat-rate return.

Figur 1. Gini coefficient of disposable income in Sweden.
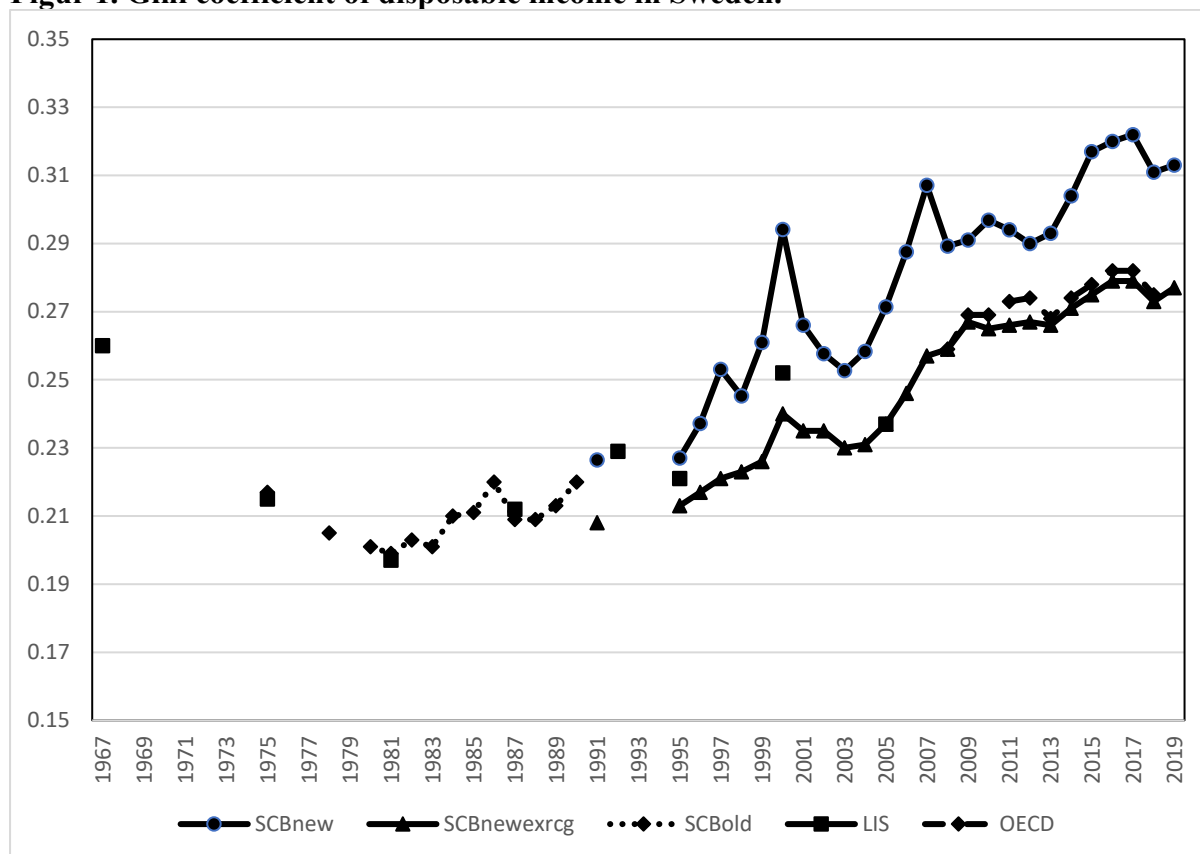
Note: SCBnew denotes the official series with the new household and income concepts. SCBnewexrcg denotes the new official series excluding realized capital gains. SCBold denotes the official series with the old household and income concepts.
Sources: Income inequality statistics from Statistics Sweden (SCB), Luxembourg Income Study (LIS) and OECD.

Was Sweden then the world's most equal country in the early 1980s? Here we have to move on to examine the internationally comparable observations from the Luxembourg Income Study (LIS) for these years to get an answer. It turns out that LIS values for Sweden for 1975, 1981 and 1987 are very close to Statistics Sweden's values.[11] LIS also has access to an observation for 1967 where data comes from the Living Standards Survey (LNU) which is carried out by the Institute for Social Research.[12] The decline from 1967 to 1975 confirms the picture of a decline in income disparities up to 1980.

However, when comparing with the other three Nordic countries, it turns out (Figure 2) that there are no observations for the years 1980-84 when the Swedish distribution was the most even. For Norway, there are observations for 1979 and 1987, while the observations for Denmark and Finland do not begin until 1987. When studying the values for all countries, it may seem like a reasonable guess that none of the other countries had as even a distribution as Sweden during the first years of 1980s. But we can not be completely sure as there is a lack of comparable information.

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[11] During these years, LIS did not exclude realized capital gains from disposable income, but did so from 1995 onwards.
[12] However, LNU's information on income, taxes and transfers comes mainly from Statistics Sweden's register, while the household definition comes from LNU's visitor interviews.

Figure 2. Gini coefficient of disposable income in Sweden.
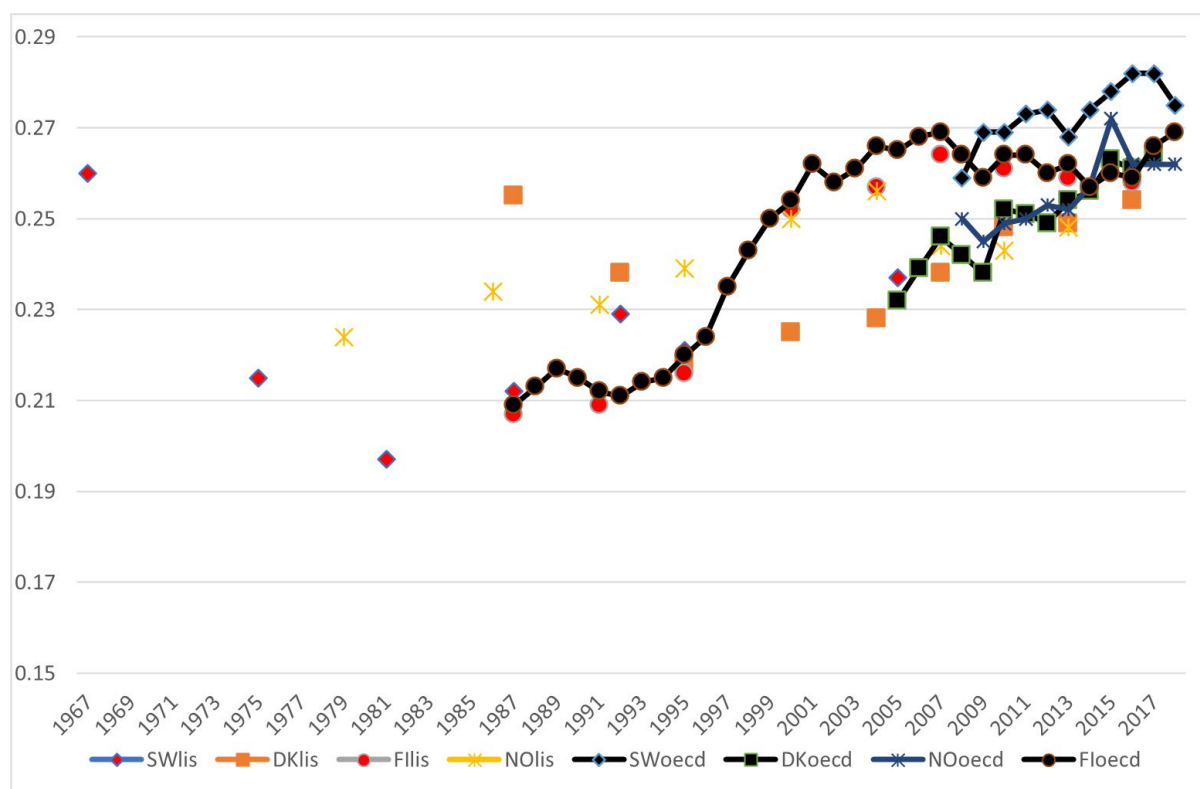
Note: In the legend, prefixes "SW", "DK", "FI" and "NO" denote the Nordic countries and suffixes denote LIS ("lis") or OECD ("oecd"). *Source*: LIS and OECD income inequality databases.

Now we mean that it is a hair-splitting to discuss whether Sweden in terms of disposable annual income was the world's most equal country in the early 1980s. These are comparisons with fragile data and there is a lack of data for our "competitors" among the other Nordic countries.

A more important question in this context is instead whether it is at all reasonable to have the first years of the 1980s as a starting point when discussing the current income distribution. After all, this was a very special period for the Swedish economy and especially for tax policy. After sharp tax increases and market regulations in the 1970s, marginal taxes on labor had become very high for broad groups. Problems with cheating and reduced labor supply increased and were also pointed out by Social Democrats.[13] Even higher were the marginal taxes for the then dominant form of savings, namely bank savings. Most of the interest on such savings was compensation for the high inflation of the time. Nevertheless, the entire return was placed on top of income and suffered a very high marginal tax. The marginal tax on real returns exceeded 100 percent for broad groups.

2.3 Income differences have grown very large

Although the debate about Sweden's income differences has most often been about trends over time, some also believe that the level of income differences has become very high. For example, Bo Rothstein (2021) writes in his report in Göteborgs-Posten by Suhonen et al. (2021) that one of his lessons from the book is that the income differences in Sweden have become so large.

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[13] Gunnar Myrdal claimed in a well-publicized article that the tax system had made the Swedes a people of tricksters (Myrdal 1978).

A good analysis of the income distribution should convey a pedagogical picture of the size of the income differences. When these differences are compressed to a statistical measure such as the Gini coefficient, it can be difficult for many readers of general interest to form a concrete idea of how large the income differences are.[14]

One way here could be to compare the level of income between those at the top of the distribution and those at the bottom. These differences can then be described in both relative and absolute terms. This comparison is also made by Suhonen et al. (2021, p. 46). When they use Statistics Sweden's data to study the 2015 disposable annual income for gainfully employed people aged 20-64, they find that this income is SEK 146,000 for the 5th percentile but as much as SEK 2,161,000 in the highest percentile group. The income at the 5th percentile thus corresponds to 6.7 percent of the top income.[15] The idea is then that these income differences also reflect differences in consumption standards or economic welfare in a broader sense. The figures that Suhonen et al. (2021) report undeniably give the impression of enormous differences in consumption standards between different people and groups in society. The authors paint the picture that "everyday life" differs radically between people at the top and bottom of the distribution. The presentation also seems to have impressed some readers.

But even if this way of giving a picture of income differences is pedagogical, it is precisely in such comparisons that the Swedish statistics on disposable annual income have perhaps their greatest weaknesses. The problems are several, and they are not marginal. A first problem is that the link between disposable income in an individual year and more basic economic welfare may be weak. A common starting point in economic analysis is that people's consumption standard is determined by average income for a longer period of time rather than by income during a given year. Income in a given year includes income that can be described as temporary or transitional. There are many sources of both high and low incomes. Various bonus payments and periods of a lot of overtime work can contribute to temporarily high incomes. Periods of study and parental leave can contribute to temporarily low incomes. Temporarily high incomes should most people be able to adapt their long-term consumption to. However, there is an argument that for some people it can be difficult to smooth temporarily low incomes and that even a year can be too long to identify livelihood problems with negative consequences for economic well-being. This applies if the income for a shorter period, say one month, is simply not enough to pay the necessary expenses for food and rent.

When the Swedish statistics are used to shed light on the differences in economic welfare between the top and the bottom of the distribution, obvious problems arise when capital gains are included in disposable income. These incomes, which more than half consist of capital gains from home sales, while the rest are capital gains from the sale or sale of financial assets, weigh heavily in the top of the distribution. But since the profits are realized during the year, it is a distinct transitory income that does not reflect the "everyday life" for those who made

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[14] However, the Gini coefficient has an interpretation that facilitates the understanding of the income differences, namely as the double expected absolute difference between randomly selected persons divided by the average income. If Gini is 0.25, it can thus be said that the relative income difference between random pairs of individuals is 50 percent. An increase in Gini to 0.30 increases this difference to 60 percent.

[15] According to the text, this must be "individual disposable income". It is unclear whether this means that the income is defined on the basis of the household's total income and then has been distributed among the household members, which would mean that the household is the income unit and the individual is the income unit, or if the individual constitutes both income and analysis unit.

these profits during the year. As we have argued above, these are also overestimated in the form of capital gains as they are not calculated in real terms but in nominal terms.

There are a series of studies for several countries that compare the income differences for individual years with the income differences for the total (or average) income over a longer period. With increased availability of panel data where the same individuals are followed over time, it is straightforward to make such calculations. The greater the mobility in income from one year to another, the lower the difference in long-term income in relation to the differences for individual years. Björklund and Jäntti (2011) have compiled a number of studies that have made such comparisons for different countries. For Sweden, it turns out that the Gini coefficient decreases by just over 15 percent or about three units when you go from annual income to average income over eleven years (1980-90).

Another problem when disposable annual income is used to characterize differences in economic welfare is that the value of public welfare services is not taken into account. It is reasonable that collective public services such as defense and justice are ignored, but that individual-oriented services such as childcare, education, health care and elderly care are not taken into account is a problem as such services have clear redistributive policy goals. The fee structure for such services also generally has a clear distributional profile.

There are some attempts to add the value of these services to the cash income and perform the distribution analysis on the (up) adjusted income.[16] The value of the services has then been estimated with the production cost because there are no market prices. A first important conclusion from available studies is that disposable income increases significantly when the value of these services is added; the adjusted disposable income is often 20-30 percent higher than the cash disposable income.

However, a distribution analysis of adjusted disposable income that includes the value of welfare services is faced with certain problems. This is due to the fact that several welfare services are distributed according to needs. The elderly's need for care is higher than the younger's, and the seriously ill's need for health care is higher than the healthy. Mechanically assigning the value of such services to those who receive such services without taking into account the underlying needs can have strange effects on the resulting distribution of economic welfare; People who have undergone expensive surgeries can then be counted as high-income earners. In recent research, Rolf Aaberge and colleagues in particular have addressed these problems. One measure is that they apply "needs-adapted equivalence scales" that take into account that, for example, the elderly have a greater need for care and nursing, and families with children of school age need schools. Another measure is that they distribute the actual consumption of childcare and education to the families receiving the services in question, while for healthcare and elderly care they apply an insurance perspective so that a person is assigned the expected value of the services for the group to which they belong.

When Aaberge et al. (2018) examine Sweden (with data from EU-SILC for the income years 2006 and 2009), they find results that are in line with previous Swedish studies. The Gini coefficient for adjusted incomes falls from 0.24 to 0.18 and relative poverty rates for some groups are halved or even dropped to zero. It is thus of great importance for the picture of differences in economic welfare whether the value of welfare services is included or not.

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[16] See Waldenström (2012) for a review of Swedish studies and Andersson et al. (2012) for a concrete application. Aaberge et al. (2018) is a fresher study.

There is also reason to believe that comparisons between countries (as we discussed in section 2.2) are affected by whether welfare services are taken into account. Some countries have more of private insurance solutions for such services while others have more of public. Aaberge et al. (2018) use data from EU-SILC for a large number of EU countries. The leveling effect of welfare services is found in all countries. For Sweden, this equalizing effect is rather stronger than for the other Nordic countries, which is why Sweden has a marginally lower Gini coefficient and relative poverty rates than Denmark and Finland when the value of welfare services is included.

Finally, there is also a possibility that the trend in the Swedish income distribution (see section 2.1) will be different if the income concept is extended to also include the value of welfare services. We do not know of any studies that provide even tentative evidence on this issue.

2.4 Income differences are growing fast

When it is claimed that income disparities have increased in our country in recent decades, this is often formulated in the present tense, that income disparities "increase". This undeniably makes a more dramatic impression and is therefore appreciated by journalists and debate editors. It is thus easy to get the impression that it is a question of an ongoing "rampant" increase in these differences which is also rapid. But this is not a reasonable assessment. The differences in disposable annual income according to the established concept above are certainly higher in 2019 than in the 1980s. However, this increase is the result of changes that have taken place over almost 40 years. And it must be considered a long period.

Our assessment is that the income differences have in fact been fairly stable in recent years. Statistics Sweden's data show that the Gini coefficient (including capital gains) during the years 2015-2019 has varied between 0.311 and 0.322 with the highest value in 2017, the relative poverty rate (here: the proportion with income below 60 percent of the median) has varied between 14.4 and 15.1 percent with the highest value in 2019, and the proportion with very high incomes (twice as high as the median) has varied between 6.4 and 7.2 percent with the highest value in 2015. Corresponding figures when capital gains are excluded are lower and show a clearly lower variation between the five years.

When considering that relative poverty has increased somewhat in recent years, it should also be borne in mind that the proportion of foreign-born increased during the same period, more specifically from 15.3 to 18.1 percent in these data. This means an increase in the population of people with low earning capacity and with a high risk of falling below the poverty line. Of course, we see increased income disparities due to increased immigration as a key redistributive policy challenge, but these increased disparities cannot be seen as a failure for traditional redistributive policies in the same way as differences between native-born.

2.5 "The bottom loses ground, the top pulls away, the middle is squeezed and shrinks"

One of the most dramatic statements in the distribution debate is when Suhonen et al. (2021a) in a debate article in the Swedish newspaper *Dagens Nyheter* describe the situation as "The bottom loses ground, the top pulls away, the middle is squeezed and shrinks". However, this is a very unfortunate way of describing the Swedish development, which should have been clear from our discussion above. To further clarify our criticism, we use Figure 3, which shows the development of the inflation-adjusted disposable annual income in different parts of the distribution. To stick to uniform household and income concepts, we are content with the

period 1995-2019. Income includes realized capital gains. In the figure, we distinguish between the entire population and between domestic and foreign-born. The curves show the income level at different points in the distribution for each group.

The overall picture is rising real income over the entire distribution. Income has thus increased even at the bottom of the distribution. If we start with the 10th percentile, it is a clear long-term upswing, even if real income fell for a couple of years in connection with the financial crisis. The average annual growth rate during the period 1995-2019 (calculated on the basis of averages for 1995-96 and 2018-19) can be calculated at 1.7 percent for the entire population and 2.0 percent for native-born people. These averages correspond to an increase in the income level by 48 percent for the entire population and 56 percent for native-born people. Note that this is a cross-section of the population, so it is thus the case that the domestic-born persons who in 2018-19 had income around the 10th percentile in the distribution of domestic-born persons had 56 percent higher real disposable than the other persons who were in the same place in the 1995-96 distribution. In other words, data do not show such a pattern as "the bottom has gone out" of the Swedish income distribution. At the same time, the difference in development between the entire population and the native-born means that the increasing proportion of foreign-born mechanically slows down the development for the entire population.

When we then move upwards in the distribution, it is clear that income has increased more in both absolute and relative terms. The distribution - for the entire population as well as for domestic-born and foreign-born - has been extended, but the level has risen in the long term for all groups. If we let the 25th, 50th (median) and 75th percentiles in the distribution represent "the middle", the increase figures over time are 2.0, 2.4 and 2.6 percent, respectively. Nor is this development well summed up by the fact that "the middle is squeezed and shrinks".

Finally, however, it is quite clear that "the top has pulled away", and this applies in both relative and absolute terms. The rates of increase for the 90th percentile and the highest decile group are 2.8 and 3.9 percent, respectively, for the entire population. At the same time, it should be emphasized that the capital gains we discussed above weigh relatively much heavier at the top of the distribution and these are during this period overvalued in Statistics Sweden's statistics. These gains lift many individuals and households for a year to an income well above their normal income.[17] However, there is no reason to believe that the relative rate of increase at the top is underestimated, even if the level is clearly lower without capital gains.[18]

The statistics we have reviewed here are based on a fundamental assumption, namely that the same consumer price index can be used for the entire distribution for the current period 1995-2019. This is not obvious. Groups in different parts of the income distribution have different consumption patterns and the price development can differ between the shopping baskets consumed at the bottom and the top of the distribution. Our assessment, however, is that it is impossible to say whether this is a serious source of error and in what direction it would strike in that case.[19]

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[17] Björklund et al. (2019) discuss how measuring annual capital gains affects the inequality outcome. Roine and Waldenström (2012) show that the top income earners' income share of income before tax falls by up to a quarter when capital gains are not included.

[18] We have let Statistics Sweden calculate the income distribution for all the years under the assumption that the real capital gains were 50 percent of the nominal gains. For domestic-born persons, income fell in 2019 from SEK 827,000 to SEK 708,000 and the average increase rate between 1995/96 and 2018/19 fell from 4.0 to 3.7 percent.

[19] We have discussed this issue with several colleagues in Sweden and other countries. The most common answer is that the question is highly relevant, but that there is a lack of studies.

Figure 3: Disposable income across the income distribution, domestic- and foreign-born, 2018 prices.
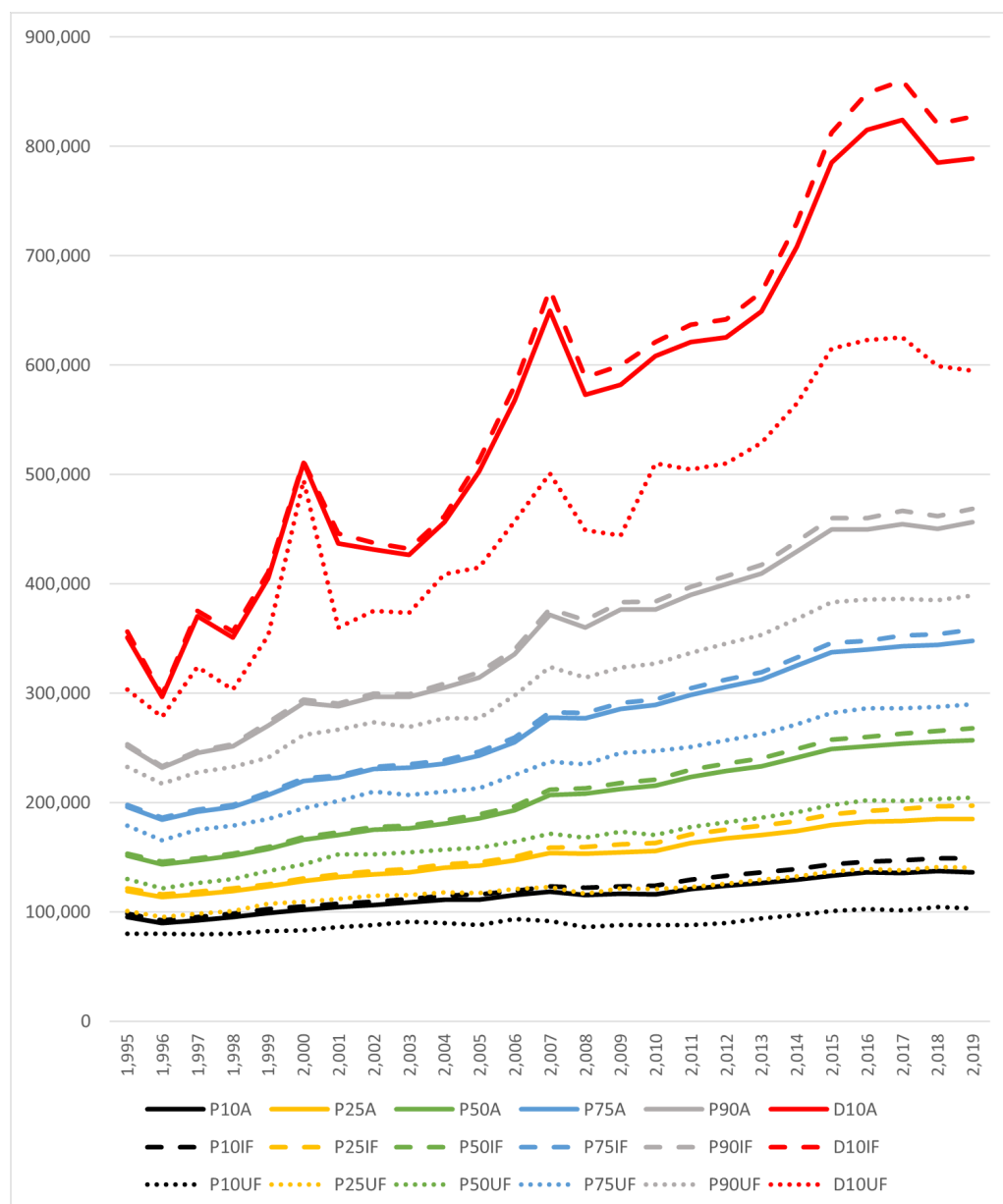
2.6 Sweden's inequality is back at 1940's levels

Historical comparisons of the level of inequality can provide valuable perspectives on the current situation. But this requires that the comparisons are based on similar data and outcome data. Suhonen et al. (2021a) write in a debate article at Dagens Nyheter that "Now Sweden is back at the level of inequality in the 1940s, half a century of equalization has been eradicated" and the same is said in the book Suhonen et al. (2021b). However, this astonishing statement rhymes poorly with the facts of socio-economic differences throughout history.

Sweden in the 1940s was both much poorer and much more unequal than in the 2000s. In his famous journey through "Shit-Sweden" in the late 1930s, the journalist Ludvig "Lubbe" Nordström described the lives of poor Swedes (Nordström 1938). The housing standard was low and Nordström referred to the 1935 census, which described over 40 percent of Swedes' homes as "miserable". Nordström's descriptions of overcrowding, draughty flats, shared outdoor toilets and vermin are fortunately far from the standard of living of our time, even in low-income areas.

There were also major differences in other areas of society. For example, only 10 percent of young people graduated from high school in the 1940s, compared to over 80 percent in the 2000s. Life expectancy was 15 years lower and infant mortality ten times higher. Although we do not have good data on how socio-economic differences affected, it is reasonable to believe that the distance between poor and rich households was greater then than now.

The income differences during the 1940s were also significantly greater than today. Data from that time are not as complete, which is why comparisons over time cannot be based on disposable income. But Statistics Sweden's statistics of taxed gross income show that both the Gini coefficient and top income shares were clearly higher in the 1940s than in the 2000s.[20] We currently lack micro-data on transfers before the 1970s. However, when looking at aggregate statistics on public sector total expenditure for these, it turns out that the share of transfers in household income has grown from between five and ten percent in the 1940s to between 30 and 45 percent in recent years. This development suggests that the differences in disposable annual income were relatively even greater in the 1940s than they are today. If we add to this the estimated income of households in the form of welfare services (care, school, care), which according to the national accounts has increased threefold in aggregate terms since 1950 in relation to other household income, the picture that income is today more evenly distributed than it was in the 1940s is further strengthened.[21]

The claim that the Swedish level of inequality today would be back to the level of the 1940s thus seems essentially unfounded.[22]

2.7 Political reforms account for most of the trends in income inequality

A popular dichotomization of the interpretation of income distribution trends is to want to divide possible explanatory factors into one of the following two categories: market influences or economic policy. In the Swedish debate, Suhonen et al. (2021a, b), Bengtsson (2020), Bengtsson and Suhonen (2020) and also the Equality Commission have claimed that it is above all the other of these, politics, that explains the bulk of the Swedish inequality increase. Their basis, however, is a fairly simple decomposition of the difference between the inequality in market income and the inequality in disposable income after taxes and transfers. When the Gini

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[20] See Johansson (2006) for an analysis of Gini and Roine and Waldenström (2008) for an analysis of top income shares, where both analyzes are based on the sum of taxed labor and capital income before taxes and transfers among adult individuals.

[21] Figures from the National Accounts (Statistics Sweden) on the household sector's aggregated social benefits (D62), social benefits in kind (D63) and disposable income (B6n).

[22] We would like to add here that Bengtsson (2020) does not claim this at all. On the contrary, he writes on page 187 that "Today's income inequality is in many ways milder, or less bad, than the one we had in the 1940s and 1950s", followed by a discussion of how the development of the education system has led us in our days compared with then have a higher social mobility, a greater equality between the sexes and a smaller cultural distance between the low and high educated.

coefficient is used to describe the income distribution, it simply becomes: Gini (market income) - Gini (disposable income).

There are problems with this approach, regarding the dichotomization in general and the decomposition calculation in particular. The most obvious objection is that wage income would change if all transfers and taxes were removed. Both quantities in the form of hours worked and different prices would most likely change. This is also the reason why the Ministry of Finance, in collaboration with Statistics Sweden, has developed the simulation model FASIT, which in a so-called dynamic version takes into account certain behavioral relationships that are affected by taxes and transfers. However, it is rare that results from this model are invoked in the public debate.

However, when this simple before-after analysis is applied over longer time periods - and especially over the longer time periods when the income differences have grown in Sweden - completely different problems arise. One type of problem arises when the very income concepts applied in the tax and transfer systems change. As we emphasized above, the taxation of capital gains on housing in Sweden has changed from being based on a real profit in the 1980s to a nominal profit today. The real profit, which is calculated after the purchase price has been calculated with inflation, will obviously be lower than the nominal profit, which does not allow such an increase. During the relatively equal 1980s, the distribution statistics thus included relatively lower real profits that were taxed at a high tax rate, while since the early 1990s the statistics include high nominal profits in the statistics and these profits have instead been taxed at a significantly lower tax rate.

Another example of changes that have occurred during the time when income differences have increased in Sweden is the employer entry into the sickness benefit. Since this employer entry was introduced in 1992, the compensation during the first two weeks of illness has been classified in the statistics as market income instead of as transfer. The equalizing effect of this transfer thus no longer appears in the statistics.

There is also reason to point to another growing phenomenon in Swedish income data, namely dividends from closely held corporations. Such income in the distribution statistics is regarded as a market income from capital and is taxed at the relatively low tax rate of 20 percent. But the surplus in the business behind the dividends is taxed in a first step with corporation tax, something that the individual-based distribution statistics do not take into account.

All in all, we thus believe that the evidence relied on for this statement is weak and, above all, does not have the precision that is often suggested when presented in popular debate. Now it is probably still probable that several changes in tax and benefit policy have had effects on income distribution in the direction of increasing differences. But such a debate will be most constructive if it aims at comparisons between concrete alternatives for economic policy.

2.8 Capital has become stronger and labor weaker

The fact that capital income has become more important for income differences in Sweden has been emphasized in many reports and passed on in the popular debate. The Long-Term Inquiry in particular emphasized the increasing importance of capital income. For many debaters, it is easy to interpret such messages in traditional class terms, that capitalists have become stronger and the workforce weaker. This can undeniably be interpreted in several formulations in Suhonen et al. (2021). They write, among other things: "The growing inequality has resulted in wage earners gaining less and less democratic influence in the economy and working life, a

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reduced share of capital growth and profits and an increase in polarization in society" (p. 638). In the same vein, they claim that "While the wage share increased trend-wise under Keynesianism, the neoliberal globalization policy of the 1990s has gradually declined and is now at historically low levels" (p. 492).

We would like to begin by pointing out that a sharp dichotomization between labor and capital, which the debaters here are trying to portray, is problematic. Wages and capital income are held by the vast majority of Swedes. There are also poor landowners, wage earners who earn more than entrepreneurs, capital owners who also have a salary, and a significant number of wage earners who both own properties and hold financial capital.

In order to assess these perceptions, it is important to consider which capital income has driven the income at the top of the distribution. This includes the difficult-to-interpret capital gains, which more than half consist of gains from the sale of homes. Such gains are reasonably dependent on the functioning of the housing market and the demand and supply factors in this market. Of course, demand and supply are in turn affected by interest rates, taxes and housing policy, but this is not primarily about the power of capital over the work in the production process. This is instead about profits that went to broad groups who owned their homes and were lucky that housing prices have risen historically a lot for a number of years.

The parts of capital gains that consist of the sale of securities have more connection to the production capital in that it is a return on assets and investments.

Furthermore, one should look at the capital income that consists of interest and dividends. The importance of interest rates has decreased steadily in recent years and today constitutes a small part of capital income. Dividends as a form of equity return have also decreased in terms of stock market investments, while dividends from closely held corporations have grown in importance during the 2000s. However, several studies indicate that these dividends, which from a tax point of view are capital income, are to a significant extent to be regarded as earned income which, for tax reasons, have been shifted into dividends (Alstadsaeter and Jacob, 2016).

A more direct way of studying the power of capital and labor in the production process is to start from the national income and examine the shares that go to the capital owners and the labor force, respectively. This means that one starts from a different data source and a different income concept than the declaration-based distribution statistics. National income also does not include capital gains, since such gains are not part of the national product and thus not in national income either.

Figure 4 shows the development of the Swedish wage share since 1960, calculated as the sum of the economy's labor costs divided by (net) national income.[23] As can be seen, this share has

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[23] We would like to point out that some compilations express wage shares as a share of gross national income instead of net national income, ie that capital consumption is included in the concept of income (it constitutes the difference between gross and net). Capital wear and tear is the reduction in the capital stock in the form of, for example, machines that rust or, which has become increasingly important, the reduction in value that follows from technological development and that causes technological aging. Recently, the rate of capital depreciation has increased markedly throughout the Western world as a result of accelerating technological development, which means that the share of wage income in gross income has become less than the share of net income in net wage income. When capital consumption is included, a mechanical effect is thus created in terms of a lower wage share, and thus a higher capital share. But most assessors (regardless of political affiliation) agree that one should not use gross salary and capital shares because one would then count the consumption of capital as a direct income to the capital owners, which it can not be considered. In the case of Sweden, however, this has no major significance for the empirical result. The Swedish wage share has been at almost the same level since the early 1980s and has

varied somewhat during the period, between 70 and 83 percent. But it is not possible to discern any clear trend since the 1960s. The level was just under 80 percent in the 1960s, varied between 73 and 83 percent in the 1970s and 80s, was around 75 percent in the 1990s and 2000s, and in the 2010s slowly increased slightly up to 80 percent again. If one would like to define the closely held corporations' dividend income as a compensation for the work that the company owners have taken out as a return on capital instead of salary for tax reasons (which we discussed above that one might want to do), the wage share has risen even more and is today over 80 percent, that is, the same level as the peak from the 1970s.

In other words, we find nothing to suggest that employees' share of the sum of all the country's income would have decreased since the 1960s, when the Keynesian view of fiscal policy was most dominant in Sweden and the rest of the Western world.

Figure 4: Wage share in Sweden
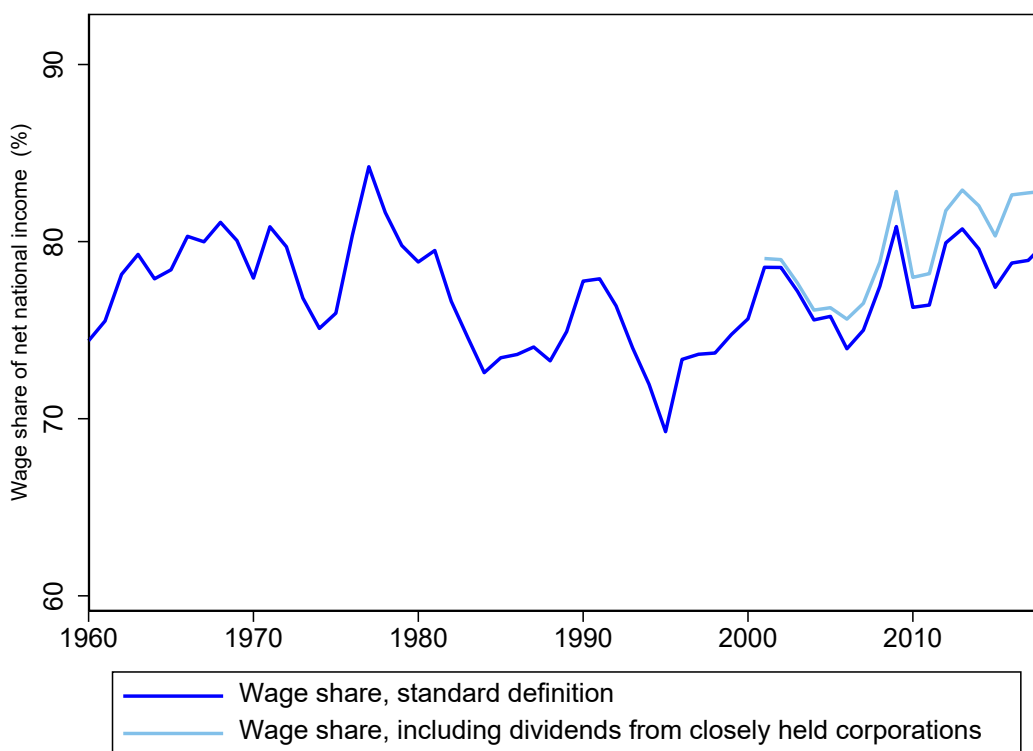
Source: Wage share data from Ameco (EU commission) and dividends from closely held corporations from Sweden's Ministry of Finance.

2.9 Capital incomes are extensively underestimated in the official statistics

Capital income is difficult to measure, but there are still many who suggest that it is underestimated in the official income statistics. The statement has been justified with quotes for research by the world-leading researchers Piketty, Saez and Zucman (2018). However, here it becomes important to define capital income, since there are different types of capital returns that are realized in different ways that that can have diverse distributional impacts.

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risen since the mid-1990s, regardless of whether you use net national income or gross national income as an income denominator.

As far as we can judge, the public debate is often not clear exactly which type of capital income that is referred to. For example, when the Equality Commission (SOU 2020_46, p. 175) and Bengtsson (2020, p. 184) make claims about the underestimation of capital incomes, they refer to a well-known study that estimates how one year's national income is distributed in the adult population. By contrast, the traditional income distribution statistics is based on individuals' taxed-assessed income during the year, that is, income that ends up in people's bank accounts. When such income concepts are compared, deviations naturally occur. A deviation applies to the year's return on capital in pension funds, which is usually included in the year's gross national income. But the returns will remain in these funds until it is time to pay out pensions. However, such payments are not included in the gross national income for the years in which the payment is made. Pension payments in a given year are instead the result of historical capital income, while the return on pension funds in a given year will generate future pension income.

Here it is our opinion that both approaches to describing the income distribution have great value, but they have different purposes. Our presentation here is not sufficient to justify this view further.

Now it is conceivable that there are other reasons why capital income is underestimated in the traditional distribution statistics. The return on capital invested abroad is a candidate. But it is not self-evident that such income is more common for Swedish than for foreign citizens. Country comparisons of the kind we discussed above and which have been part of the Swedish debate therefore do not necessarily have to be affected by this lack of data.

Another form of savings that leads to underestimation of capital income in the traditional distribution statistics is endowment insurance (*kapitalförsäkring*). The tax structure for such savings is that the insurance company that administers the savings pays tax on the current return. When it then becomes time to pay out the savings and its return to the saving individual, the payment is tax-free. Neither return nor tax is therefore included in statistics based on individuals' declared income, even though the tax burden (largely) is the same as on other savings.

There is also reason to believe that this form of saving has decreased over time and has especially been replaced by saving in ISK accounts. The latter, however, have the construction that it is the individual who pays the tax on the current return. This tax, which is based on a standard calculated income, is largely identical to the tax that insurance companies must pay for endowment insurance. There is much to suggest that capital income that is invisible in the distribution statistics has been replaced by capital income that is visible in these statistics. Whether this change in the structure of savings has had major effects on the credibility of distribution statistics is, however, a question that has not been investigated. To the extent that there is a change in this direction, however, it has contributed to making capital income more (and not less) visible in the statistics over time. [24]

2.10 Wealth inequality is very high in Sweden

The size of capital and the distribution of private wealth attract a well-motivated special interest in the distribution debate. Suhonen et al. (2021a) write that "Since 1980, the richest

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[24] For more discussion about this and related shifts in saving, see Björklund (2020).

percentage's share of total assets has increased from 20 to 40 percent." and similar statements are presented in the book Suhonen et al. (2021b).

Measuring the wealth of households and their distribution is well known to be difficult. Exactly which assets are included in the concept of wealth can vary between data sources depending on how data is collected (taxation, household survey, estate register, etc.). Valuation is often difficult because many assets are not sold regularly and sometimes the owners do not even know the value of their assets and liabilities. You can also define wealth in slightly different ways depending on the classification of certain assets. Durable consumer goods such as cars, boats and electronics, for example, are not included in the national accounts' official definition of wealth because they are not seen as assets but as goods that are consumed. But for many households, the value of a car, boat, furniture or consumer electronics can be relatively high in relation to their bank or housing assets. Fund savings can also take place in many forms. In addition to direct fund-saving private pension savings and savings in funded contractual pensions. Since some of these forms of savings are linked to people having reached a certain age before their funds can be opened for use, they are less economically viable, and therefore not quite as valuable as the corresponding completely free funds such as money in a salary account. Despite this, funded pension assets are included in the official definitions of wealth that social institutions and also the research community have come to use in recent years.

Since the abolition of the wealth tax in 2007, Sweden has no reliable data on households' net financial assets, which also creates problems. Some researchers have tried to deal with this by estimating both the level and time trends in the development of wealth concentration based on data on other assets and also the distribution of capital income (Roine and Waldenström 2009, Lundberg and Waldenström 2018).

When we study existing research results, it seems as if Suhonen and others have got the Swedish wealth statistics on their backs. For example, they write that "the richest hundredths' share of the total private wealth has increased from 20.5 percent in 1978 to 39.6 percent in 2006" (Suhonen et al. 2021b, p. 635). But this is not true. According to Roine and Waldenström, the richest hundredth owned 16.6 percent of the assets in 1978 and 18.5 percent in 2006, and Lundberg and Waldenström estimate the share in 2012 at 21.5 percent, which is significantly lower than what Suhonen et al. claimed. However, data are uncertain, especially regarding the valuation of larger unlisted companies, long-term savings and hidden foreign assets. If these other assets are taken into account (the size of which has actually been estimated in some studies), it is possible, or even probable, that the top percentage share is one or a few percent higher than that measured by official statistics. But then we need a number of fairly strong assumptions about the value of these assets and their distribution, which is usually that they mainly go to the richest Swedes in Sweden.[25] But even when these additions are made, it is still far below the figures that Suhonen et al. highlight.

How then does this stability in wealth concentration match all the talk in recent years about rising wealth gaps? One answer to this is that the concept of "gap" is genuinely unclear and that there are examples of gaps between groups that have not developed in the same way as the

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[25] The calculations that suggest that the top percentage share may be a little over 20 percent are based on estimates in Bach, Calvet, Sodini (2019), where special attention is paid to the valuation of unlisted companies. Estimates of hidden foreign assets in tax havens are subject to great uncertainty, but are discussed in Waldenström (2016). It should also be noted that there are estimates of Sweden's wealth distribution in the Global Wealth Report from the bank Credit Suisse, but these calculations include model-based, and very uncertain, extrapolations of the richest fortunes based on journalists' rich lists published in Forbes magazine. The figures generated by these estimates differ from the calculations made by Roine and Waldenström (2009) and Bach et al. (2019).

most common statistical measures of inequality. For example, the wealth gap has increased between households that own their homes and households that do not do so in line with rising housing prices. But within the group of homeowners (just over 60 percent of all households in Sweden), the differences have not increased as much. The number of billionaires seems to have increased according to the journalists' lists of rich people, but in relation to all households in the population, the super-rich are a very small proportion, and the rise in housing and pension savings owned by broad populations has meant that wealth inequality measured by peak shares or Gini coefficient has not increased markedly in the population as a whole.

In an international comparison, the stable Swedish wealth concentration does not seem to stand out either. Some recently published studies of wealth inequality in Denmark, the United Kingdom and France show that even in these countries the richest hundredths of the share of total wealth is at an almost constant level since the 1980s. Increased housing values in broad sections of the population seem to be the most important explanation.[26]

Another misunderstanding about wealth in Suhonen et al. (2021b) concerns the specific significance of pension assets for distribution. These assets consist of occupational pensions that have been invested in funds, long-term savings in private pension funds and other insurance and their values today correspond to just over a third of all households' financial assets.[27] The book describes these pension assets as a source of increased wealth concentration in Sweden (Chapter 26, Figure 15), but in reality it is just the opposite: households' assets become more evenly distributed when pension assets are included. The reason is that while certain assets, in particular listed shares, are owned by a few and therefore contribute to greater inequality, the number of people with pension assets is very large and the large value of the assets is distributed among these groups. If one were to expand the concept of wealth further and also include the capital value of the pension system's unfunded assets, that is, people's drawing rights on future income pensions or guarantee pensions, the equalizing effect of pensions in the distribution of wealth would be even greater.

3. Conclusion

The media debate about the Swedish income and wealth distribution is often dressed in dramatic terms. This drama can probably be explained by the strong ideological charge of the question. But there is a risk then that the picture that emerges will not be nuanced and in some respects directly incorrect.

The purpose of this text was to examine a number of common statements in the debate to see if they can be anchored in facts and research results. A main result of the review is that the shortcomings in the underlying distribution statistics are often so great that certain conclusions can seldom be drawn. This is in stark contrast to the often cross-cutting statements that characterize the debate.

In the early 1980s, Sweden may has been "the most equal country in the world", but this was also a peculiar period when Sweden went further than almost all other countries in the degree of high taxes and market regulations. There is reason to question whether the marginal taxes

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[26] See Waldenström (2020) for a more detailed discussion of the studies.
[27] In Statistics Sweden's national accounts for 2019, households' total insurance savings and funded pensions (AFA.6) amount to approximately SEK 6,000 billion, while their total financial assets (AFA) amount to approximately SEK 16,000 billion.

for labor and especially for the return on savings were sustainable in the long term during these years.

We would therefore like to warn against the strong emphasis on the end years in the early 1980s and discuss developments over other time periods. Both absolute and relative income differences have increased since the 1980s in Sweden, but the rate of increase began from an extremely low starting point and has also varied. During certain periods, there has been no increase at all and the last five years have been fairly stable income differences despite the sharp increase in refugee immigration that Sweden has experienced during this period.

We note that most households have at the same time received sharp increases in income. Even the bottom of the distribution has received increased disposable annual income, on average around two percent annually between 1995 and 2019.

The importance of capital income has been emphasized in the debate as an important driving force behind the rising income disparities. This is true of the declared capital gains, but when you consider the total share of capital in national income, it has actually fallen over the past 25 years, while the share of wages, that is, the share of total labor costs in national income, has risen during the same period. There is thus no support for the fact that the power of capital in the production process has become stronger in relation to that of labor.

Unfortunately, the distribution of wealth is more difficult to study than the distribution of income due to large deficiencies in data. Despite this, existing estimates in research suggest that inequality in household wealth has not increased in the vicinity as much as is often claimed. This is because rising house and share prices have actually benefited the majority of all households. On the other hand, the distance has increased between those who own their home and those who do not, as well as between those who have job-related savings in pension funds and those who do not have a job. There is both a generational and an immigration-oriented gradient in ownership, which we believe should be discussed more.

An independent conclusion of our review is that it would be desirable for research to contribute with more elaborate analyzes of concrete distribution policy proposals and that this analysis is based on relevant income concepts. Inequality is a multifaceted societal outcome that requires thorough and nuanced analysis and discussion. Specifically, we believe that more researchers should use simulation analyzes based on structural models to study income distribution outcomes under different political and economic conditions.

Finally, we would like to repeat what we wrote in the introduction, namely that we welcome today's redistributive policy debate. We have criticized some initiatives that have been based on an unnuanced and sometimes incorrect picture of reality. The debate must, of course, be based on a reasonable interpretation of the existing statistics, which, however, will never be completely perfect. Some of the problems in the debate are due to shortcomings in the statistics. We hope that this review can contribute to a more accurate use of existing data and a more critical approach to various proposals in the distribution debate.

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