



“Summary of article by Anders Bjorklund and Richard B. Freeman: Generating Equality and Eliminating Poverty, the Swedish Way” in Frontier Issues in Economic Thought, Volume 5: The Political Economy of Inequality. Island Press: Washington DC, 2000. pp. 343-347

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Sweden is often described as a model of success in reducing income inequality and virtually eliminating poverty. This paper, co-authored by a Swedish and an American economist, analyzes the sources of Sweden’s egalitarian achievements.

The Swedish Record

By any measure, Sweden has an unusually equal distribution of income. In the mid-1980s the ratio of disposable household income in the top decile to the bottom decile, adjusted for family size, was 2.7 in Sweden compared to 5.9 in the U.S.; for most European countries the ratio was between 2.7 and 4.5. The difference between Sweden and the U.S. is particularly pronounced in the poorer half of the distribution: hourly earnings of the tenth-percentile male worker were 76% of the median in Sweden in 1991, compared to 37% of the median in the U.S. in 1989.

However, the U.S. is the outlier in this respect. The distribution of earnings in Sweden is only slightly more egalitarian than in most OECD countries, and changed very little during the 1970s and 1980s. Compared to most of Europe, Sweden stands out for its unusually high ratio of paid employment to total population (at least before the 1992-93 recession). Compared to the U.S., where employment is also high, Sweden has an extremely equal distribution of hours of work among those who are working -- in part a result of Sweden’s generous provisions for vacation time, guaranteed by law to be at least 5 weeks per year for every worker. The difference in the variance of male workers’ annual earnings between Sweden and the U.S. is due as much to the variance in annual hours as to the variance in hourly pay.

Factor incomes, i.e. pre-tax-and-transfer labor and capital incomes, are distributed far more unequally than household disposable income (after taxes and transfers). Moreover, the distribution of factor income has been growing steadily more unequal since the late 1960s, while the distribution of disposable income has, by various measures, remained roughly constant or become slightly more equal. These trends together imply that a growing share of all income is being redistributed by the Swedish system of taxes and transfers. The resulting equalization of incomes is particularly important for families with children. In the U.S., child poverty rates rose from 14% in 1973 to 20% in 1990. In Sweden, child poverty, defined as an income of less than 40% of the median, has been eliminated.

Swedish transfer programs that affect the distribution of income include:

- practically free health care for all;
- generous sick pay and work injury insurance;
- social assistance and housing allowances for low-income households;
- disability pensions and subsidies for jobs, training, and rehabilitation for the disabled;
- unemployment benefits and job retraining;
- heavily subsidized day care if both parents are employed or in school;
- the child allowance, paid to the mother of every child;
- parental leave for childbirth, benefits to parents who stay home with sick children or visit their children's school, and an allowance paid when the noncustodial parent does not meet his obligations.

These programs, excluding medical care for pensioners, total 16 percent of GNP. They are striking in terms of structure as well as size: nearly half of the expenditures are provided only to those who are employed, thus maintaining the incentive to work, while a quarter are provided to all households regardless of income or employment status. Only a quarter have a "poverty trap" component, such as means-tested benefits that are reduced if the recipient gets a job or a raise.

System or Sweden?

It is sometimes claimed that egalitarian outcomes in Sweden reflect the homogeneity of the population or its unique culture. This claim is easily refuted. Americans of Swedish ancestry have a distribution of income quite similar to the U.S. as a whole, and unlike that of Swedes in Sweden. On the other hand, children of immigrants in Sweden, who account for 15 percent of the adult population, have a distribution of hourly earnings comparable to other Swedes. The distribution of annual earnings is only slightly more unequal for the children of immigrants than for other Swedes, and far more equal than for Americans. In short, current country of residence, not ethnic origin, determines the distribution of income.

Other labor force characteristics might explain the Swedish distribution of earnings. There might be an egalitarian distribution of skills, due to the distribution of family incomes and/or public resources such as day care and schooling. It is true that both family and public resources are quite equally distributed, but this is not the principal factor shaping the distribution of income.

The simplest indicator of human capital created by public resources is years of schooling. The variance in years of schooling is greater in Sweden than in the U.S. However, the quality of schools varies more widely in America, implying that a year of schooling has a less consistent meaning. The variation in test scores is much narrower in Sweden than in the U.S. Once again, international comparisons show that the U.S. is the outlier. The distribution of science achievement test scores in Sweden is essentially identical to the average distribution for other developed countries. Thus the equalization of opportunity for Swedish children has not led to greater than average equalization in achievement, at least as measured by standardized tests.

The distribution of family resources in childhood also influences incomes for adults. The importance of this factor can be evaluated with data on the incomes of fathers and sons. There is a correlation between fathers' and sons' earnings in both countries, although it is much lower in

Sweden than in the U.S. However, this correlation does not explain most of the variation in sons' earnings in either country. Several intricate calculations show that at most 30% of the U.S.-Swedish difference in the variance of sons' earnings is attributable to differences in the contribution of family backgrounds.

Demand Side Contributions

Since labor force characteristics cannot account for most of Sweden's greater equality, patterns in the demand for labor may play a significant role. One possibility is that public sector employment creates relatively well-paid jobs for low-skilled workers, hiring people who could not obtain comparable jobs in the private sector.

To test this hypothesis, three indirect measures of low skills and abilities were used: older workers who had only elementary school education; workers in the lowest quarter of the income distribution; and those whose self-reported health status includes limits on mobility. By these definitions, the proportion of low-skilled workers employed by the public sector rose sharply from 1968 to 1991, reaching levels similar to those for all workers by 1991. In most countries, low skill workers are underrepresented in the public sector, so Sweden's approximately equal representation is a sign of unusually high public employment of less skilled workers. Moreover, the trend was toward increased public employment of these groups, at least through 1991.

Swedish labor market policies are designed to pay many low productivity groups of workers more than their marginal product. One important example is the employment of handicapped or disabled people. In many countries they are among the poorest workers, but in Sweden they have relatively normal incomes, thanks to government-subsidized employment. A high proportion of Swedes with reduced mobility work, with contracted annual hours almost as long as the average; they do, however, take many more sick days than other workers.

A typical Swedish full-time worker takes 5 weeks of vacation and 2 weeks of holidays, and, in 1981, an average of 3 weeks of paid sick time, leaving 42 weeks of work per year. (American workers average about one week of work time lost to illness annually, although they appear to be no healthier than Swedes, and are not quite as long-lived.) Men with limited mobility, however, take roughly 12 weeks of sick time, and hence work only 33 weeks in a full-time year. Yet there is almost no difference in either hourly earnings or annual earnings that is associated with mobility status. Much the same is true for women, though they are more likely to work part-time.

In the case of the disabled, it is clear that the rest of society pays by subsidizing their employers or their sickness days. Might something similar be true of other low skill workers? Does Sweden "pay" for its egalitarian wage policies and full employment through higher prices for the goods produced by the less skilled? (36-37)

One piece of evidence supporting this hypothesis is the relative cost of restaurant meals, a service produced by low-skilled workers. Adjusted for purchasing power parity, the prices charged by restaurants and hotels are 51% higher in Sweden than in the U.S.; in that sector labor

costs are 73% of value added in Sweden, but only 50% in the U.S. The difference between countries is much smaller in sectors that employ more highly skilled workers.

Finally, the reduction in hours for the most productive workers may create a demand for less productive workers, in an implicit system of work sharing. Ranking workers by annual hours of work, the top decile of Americans work 30% more than the corresponding Swedes. The refusal of the most able Swedes to work American hours might indirectly allow less capable Swedish workers to take up the slack.

Much of the data discussed here ends in 1991, just before a major round of cutbacks in the Swedish welfare state. These cuts have led to some growth in inequality, but have not unraveled the fabric of Sweden's redistributive taxes and transfers. It is too early to tell whether the cutbacks of the 1990s will be a one-time change, or the beginning of an ongoing trend toward increasing inequality.