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Sweden's turn to economic inequality, 1982–2019

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ABSTRACT

In 1980 Sweden was probably the least unequal country of the world, but as part of the international turn of the centres of capitalism Sweden became one of the European frontrunners of economic unequalization. How did this happen? The turn of increasing inequality and a large part of its process 1980–2019 have occurred under Social Democratic governments. How could Social Democracy become a vehicle of unequalization? This paper provides a comparative empirical overview of the rise of inequality in Sweden since 1980, and a political sociological analysis of the process of distributive change, relating crucial economic crises and emergent financialized post-industrialism to the crisis perceptions, politics and policies of the leading politicians in a context of generational change and a new ideological climate.

1. A frontrunner of the inegalitarian turn in Western Europe

Since the 1930s Sweden has enjoyed an international renown as a country of progressive reform, social security, and relative equality. However, from the early l980s Sweden has made the sharpest inegalitarian turn of all countries in continental Western Europe, indeed in the so-called Western world third only to Thatcherite Britain and to the United States, to which Sweden has often been seen as the progressive antipode. Why and how was this historical swerve made and by whom?

1980 was the trough of economic inequality in Sweden, with a Gini coefficient of 20, and 17.5% of disposable personal income, after taxes and transfers, held by the most favoured ten percent of the population (Statistics Sweden, 2015). In 1980 Sweden was the least unequal country in the world in terms of income (Alvaredo et al., 2018: ch. 2.3). If we widen the concept to include the country's relatively low existential gender inequality and vital equality of life and health, and its popularly organized democracy of power, it was arguably the least unequal country of the world tout court.

Studies of economic inequality have made an enormous stride forward with the construction of the World Inequality Data, the WID database. But the comparative numbers still have to be treated like good political opinion polls, honest, of great informative value, but always slightly diverging because of the uncertainty inherent in the task. While the income shares of WID pre-tax income (including pensions and unemployment compensation) and of Statistics Sweden measuring disposable income after tax and all transfers can differ up to three percentage points, their reported changes are quite similar. For instance, according to WID, the share of the top one percent increased by 4.6 points between 1980 and 2013, and 4.9 points according to Statistics Sweden, the increase of the top ten percent share was 7.8 and 8.6 points, respectively.

Sweden is still part of the limited inequality group of countries, according to WID data, slightly better than France and Germany. When relating the WID-Statistics to Swedish register-based calculations the differences are larger. While the share of the top 1% is rather similar – before taxes 11% in France, 13 in Germany and 9% in Sweden after tax – the share of the bottom 50% differs substantially, 22.5% in France, 17 in Germany, and 29 in Sweden. To a significant extent these differences are due to different methodology (see note to Table 1). But Sweden's comparatively radical turn in an inegalitarian direction is undeniable. As shown in Table 1, the Swedish redistribution from the poor to the rich since 1991 is almost on par with what happened in Britain in the same period since 1980.

In the survey-based Gini rankings (from 2016) of 31 countries in the European Economic Area Sweden has the tenth lowest Gini coefficient (https://ec.europa/Eurostat/statistics), and among 37 OECD countries (https://data.oecd.org/inequality), the ninth. Ahead are Belgium and the Netherlands, Czechia, Slovakia and Slovenia, and the four other Nordic countries. According to Eurostat, Austria is slightly less unequal than Sweden, in the OECD file slightly more. Both series give Sweden a considerably lower coefficient than Statistics Sweden, probably because of excluding capital gains.

What happened to the wage share in the economy also underlines the radicalism of the inegalitarian turn of Sweden.

The Swedish wage share peaked in 1977, at 80.5%, and plummeted to 63.9% in 1995. This was a more dramatic fall than in

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Table 1
The rise of inequality in western Europe 1970–2017 (a) percentage points of change from year of least inequality to latest year available.

	Income share of		
	Top 1%	Top 10%	Bottom 50%
Sweden (b)	6.5	10	−6 (−5.6)
Western Europe (c)	3	4	−2
France	3	4	−0.5
Germany	3	9	−5
UK	8	12	−7
Denmark	1	2	–
Netherlands	1	3.5	–
Norway	4	6.5	–
USA	9	13	−7.5

Notes:
[a] 1980 or nearby trough year of inequality, in France 1983, Germany 1974, UK 1978 to latest available 2013–17.
[b] The Swedish changes refer to 1980–2017 for the top shares, and to 1991–2017 for the bottom half. The income is derived from fiscal data and refer to disposable income after taxes and all transfers, whereas for the other countries calculations are based on national income as well as fiscal data and are before tax but include major cash transfers such as pensions and include estimates of tax-evaded income. The later method yields somewhat higher top shares and lower bottom shares than the former. The reasons for choosing the Swedish concept here are several, it is the recognized concept of the country in focus of this article, taxes are still significant in Sweden, it captures the 2013–2017 jump while the WID Report stops at 2013 in the Swedish case, and it makes possible a calculation of the bottom 50% share of income in Sweden which is not (yet) in the WID database.
[c] Figures refer not to the trough year but to 1980, and therefore do not capture inequality rises in the 1970s, e.g., in Germany and UK.
Sources: Sweden: Statistics Sweden (2015, 2019a,b). Other countries, Alvaredo et al. (2018: part II, fig. 2.3.2), and World Inequality Database, national tables, https//:wid.world/data.

Table 2
Wage shares in OECD countries 1960–2007. Changes from peak to bottom. Percentage points.

Austria	−19.4
Belgium	−11.5
Denmark	−9.2
Finland	−17.4
France	−11.0
Germany	−10.4
Ireland	−28.6
Italy	−13.6
Netherlands	−13.0
Norway	−19.4
Sweden	−16.6
UK	−9.2
US	−6.9

Source, Bengtsson (2014: table 1).

most countries, including Thatcherite UK, and without any significant de-unionization Table 2.

The new income distribution has also resulted in a spectacular hoarding of wealth in Sweden Table 3.

The Crédit Suisse bank team is held to be the best experts, but the comparisons of wealth distribution are even more difficult and fraught with more uncertainty than those of income. The Swedish wealth researcher Daniel Waldenström has underlined the problems of international wealth comparisons, pointing in particular to varying treatment (and data accessibility) of pensions assets (Waldenström et al., 2018:87). With that caveat, what shows is that Sweden has the heaviest concentration of wealth in Western Europe and is similar to the United States. The completely different wealth data in Table 4 do clearly point in the same direction of Swedish wealth concentration.

Whatever the precise international ranking, there is no doubt that private wealth in Sweden has been accumulated spectacularly since 1980. Then private net wealth amounted to about twice the country's national income, by 2016 it had risen to 465% of national income, the highest figure in the last two hundred years (Waldenström et al., 2018:75).

Table 3
The share of personal wealth held by the richest ten and one percent, 2017.

Country	Top 10%	Top 1%
Sweden	75	37
Danmark	66	33
Finland	66	36
Norway	64	30
France	53	21
Germany	65	30
Italy	56	24
Netherlands	55	23
Spain	55	24
Switzerland	62	28
UK	59	25
USA	76	35
Japan	49	19

Source: Crédit Suisse (2018: table 6–5).

Table 4
Dollar billionaires per 10 million population, 2017.

Switzerland	35
Sweden	32
Norway	30
USA	18
Denmark	17
Australia	17
Germany	15
UK	8
Italy	7
France	6
Japan	3

Source: Forbes (2018), author's calculation (population from World Bank).

One major factor is undoubtedly the explosive growth of stock market trading in the wake of de-regulation of the credit market and the reorganization of the Stockholm Stock Exchange (Larsson, 2016). In 1980, stock market capitalization in Sweden constituted 9% of GDP, rising to 55% in 1989, reaching a first peak in 1999 at 138%, and after several ups and down standing at 145 in 2017, 56 times its share in 1975 (https//:fred.stlouisfed.org; www.ceicdata.com). The buoyant real estate market is another wealth generator, much helped by the abolition of the property tax and the sale of much public housing. A further reason for the wealth concentration at the very top is the stock-marketed high tech boom, which has included some world triumphs out of a small country base, Skype, Spotify, Candy Crush§ and other games.

2. Sweden and the epochal turn

In retrospect we can notice around 1980 an epochal turn of developed capitalism, which was not fully clear to most actors of the time. The background of the late 1960s–1970s was a peak of industrial employment, and of labour and leftwing strength in the centres of capitalism. It was the peak of unionization and trade union power It was expressed in powerful strikes in Britain, France, Germany and Italy, in a peak of the wage share of the economy (Bengtsson, 2014), in advanced labour legislation – in Sweden the Co-Determination and the Labour Security Acts in particular – and in socialist proposals by mainstream labour, the Common Programme of the French Socialists and Communists and the wage-earners funds proposal by the Swedish trade unions. The 1960s saw the blossoming of welfare states, in Western Europe the GDP share of social expenditure more than doubled, and by the late 1970s all developed capitalist states, USA and Japan included, had become welfare states in the narrow sense of spending a majority of their outlays on social services (including education) (Therborn, 1984: table 4; Therborn, 1995: tables 4.6. and 5.1)

The de-industrialization of the core of capitalism could be discerned in OECD Labour Force statistics from 1965 and became pronounced with the mid-1970s international crisis. The rise of finance became visible in the early 1980s, with the rise of new trading markets, of Eurodollars and currencies in the wake of the costly US war in Vietnam and the breakup of the postwar Bretton Woods currency system. Neoliberal credit de-regulation stoked the fire of speculation and indebtedness.

Riding on the wave of de-industrialization and financialization, well-funded rightwing counter-attacks – in Sweden organized by the Swedish Employers Confederation, SAF – were launched, against trade union power, public regulation, and public service. Much ideological energy was invested in twisting the solidaristic individualism of "1968" into an egotistic direction. The SAF launched a youth campaign under the slogan "Invest [*Satsa på]* in yourself!" (Elmbrandt, 2019:45). A new ideological climate was heralded in the mid-1970s, when Swedish economists awarded the Nobel Prize to Friedrich von Hayek (in 1974) and Milton Friedman (in 1976).

The international economic crisis of the late 1970s and the homemade one of the early 1990s constituted a crucial ambience of Sweden's inegalitarian turn – and of economic and social policy – making change more generally. However, at least as important as the crises was their interpretation, by the political leadership and the acceleratingly neoliberal economics establishment. The international financial crash of 2007 did have a brief sharp economic impact, but was not as politically important as its local predecessor.

2.1. The path of Swedish unequalization

Official Swedish statistics make it possible to trace the process of unequlization over political time. The rise of inequality in Sweden started under a Social Democratic government, but was a bipartisan affair.

Market income inequality increased less than that of disposable income, by eleven and sixteen points, respectively. On both counts, income inequality rose more under Social Democratic than under 'Bourgeois' (a widely used term in Swedish politics) government, although the size of the differences and the non-investigated flows of incomes with possible time lags preclude any strong conclusion on this score.

First, the dramatic rise of income inequality is largely due to governmental policies. In 1991, the Gini coefficient for factor incomes was reduced by fifty percent through taxes and transfers; in 2017 it was reduced by 37% only (calculations from Statistics Sweden, 2015 and 2019b). When compared to Crouch (2019: table 3) calculations from the OECD database (not identical to the national data), the redistributive regression is larger than in any other OECD country, and the current amount of redistribution in 2016 is among the lowest in Western Europe, only Iceland, Spain, and the UK do less. According to Crouchś data, there was actually more income redistribution in Poland and Hungary than in Sweden.

Secondly, Social Democracy and the rightwing parties of Sweden are both responsible. From ll982 to 2017 there were four changes of government, while inequality kept rising, unperturbed.

Thirdly, the process started during the Social Democratic government from 1982.

Driving income inequality is first of all a surge of capital income, Table 6.

Capital income amounts to 15% of total household disposable income. Fifty-four percent of it goes to the top 1% of income earners, whereas two percent is left for the bottom half of households (Statistics Sweden, 2018b). The larger part of capital income in today's Sweden is not from interest and dividends, but from capital gains, i.e., sales of stocks and real estate. The current Swedish level of stock market capitalization (145% of GDP) is the second highest in Western Europe, after Switzerland (at 248% in 2017), and considerably higher than that of the main European economies, including UK (109, France 106, and Germany 62%, www.theglobaleconomy.com/indicators).

Income development during the last three decades makes up a pattern which can be illustrated by as class staircase, the higher you are on the income scale, the more increase you get. Apart from the acute crisis years of the 1990s and immediately after 2007, the arrangement has not pushed down the incomes of the disadvantaged. Instead it has put them into a hierarchical order of growth, at an ever increasing distance from the top.

Absolute income growth in thousands of Swedish crowns (in prices of 2016) was for the first decile 21,000, for the fifth decile 83,500, for the 10th decile 323,000, and for the top 1% 1,837,000, a range of 1:87.5.

3. The process

Unequalization occurred through a decades-long political process, of which most of the key events and decisions happened in the 1980s–1990s.

3.1. A crisis and its interpretation

The epochal transformation of advanced capitalism in the 1980s started as an international economic crisis in the l970s. This was in part endogenous, out of the development of production, of class conflict and the advances of labour, of rising East Asian competition, and rapidly expanding post-Bretton Woods speculative Atlantic finance, and in part contingent upon the destabilizing effects of the dramatic OPEC hike of the oil price. The crisis in the wake of the OPEC price rise in 1973 involved Sweden in a moderate way. There was only one year of economic decline (−1.5% in 1977). Overall Swedish economic growth in the 1970s and 1980s was similar to that of the other richest OECD countries, although somewhat slower than the OECD average, which caused a heated polemic between the sociologist Walter Korpi and the corps of business economists (Korpi et al., 1992), about whether Sweden was in decline. A structural industrial crisis was under way, hitting basic sectors of the Swedish industrial economy, such as the forest industry, iron ore mining, steel, and shipbuilding, facing rising international competition and overproduction, and losing market shares.

In one important respect, though, Sweden weathered the crisis very well, throughout the period of 1973–84 full employment (unemployment rate below 4%) was maintained, an achievement Sweden shared with only three other OECD countries, Austria, Japan, and Norway (or four, if Switzerland, which reduced its foreign labour force is included) (Therborn, 1985).

The Swedish turning around from gradually reducing (economic) inequality to increasing disparities started in 1982. It was an election year, and, hidden from most voters´view the electoral programs of both the governing rightwing coalition and of the Social Democratic opposition implied a historical change of course. The coalition government in power since 1976, led by the Centre Party, had basically continued Social Democratic economic policies and successfully defended full employment. Inequality did not budge during its reign. But welfare state maintenance had been costly. The state budget deficit for 1981–82 was 29% (of total expenditures), and the deficit of the public sector as a whole amounted to 6% of GDP. There was a foreign trade deficit for

1979–82, and gross profitability – operating surplus as a percentage of value added in all business except farm and financial sectors – was 30%, the lowest in OECD (1984: 63). A break was considered necessary, and a shrinking of the public sector and the welfare state was proposed, most substantially for social transfers.

The parties of the rightwing coalition put proposals of substantial social cuts into their electoral program. The Social Democrats were more cautious. Its program group had tested similar ideas among party opinion, which rejected them (Feldt, 1991:16). The resulting manifesto was therefore socially discrete, but did underline the severity of the crisis, focused on inflation, the budget deficit, and the endangered competitiveness and low profitability of "industry".

The Social Democratic program-makers had also reached the conclusion that the age of welfare state expansion was over, that profits were too low, and wages too high. It was all there, in the fine print of the partyś crisis program, but it was discretely packaged, while the winning upfront campaign was defence of the welfare state against the sinister attacks of the right (Carlsson, 2003:174ff; Feldt, 1991:33; Sandberg, 2014:130; Lindvall, 2004:75ff). The first major policy measure of the incoming Social Democratic government was a competitive devaluation of sixteen percent.

The key actor of the turn, and the main author of the electoral crisis program *Future for Sweden* was Kjell-Olof Feldt, Minister of Finance in 1982–90. He was very well aware of its break with the Social Democratic tradition, and the preface to the program says discretely, that it is a "program necessarily of a different kind than the other programs of the labour movement after the war". In his memoirs Feldt is more outspoken, "The decisive difference [from previous Social Democratic policy] was that the crisis program started from the idea that private business (which in the report was called 'industry' because it sounded better) should be the motor in the recovery of the Swedish economy" (Feldt, 1991:23f). His conviction that wage costs were the main problem of the Swedish economy is emphasized in his 1991 memoirs, which pay scant attention to structural issues of the Swedish economy.

It was an ideologically coloured picture. Already by 1980, it was clear that the development of unit labour costs per hour worked had not exploded in the 1970s. Their annual increase was actually lower than in the 1960s, and lower than in most Western Europe, except the UK. After a spike in 1976 they were coming down. Nor was industrial (machinery) investment particularly low, their share of GNP was actually higher in 1974–79 than in 1960–73 (Jakobsson and Jagrén, 1993:78, 81, 94). After a dip in 1977 and 1979–80 the trade deficit was about to disappear in 1981 (Statistics Sweden, 1995).

Shortly afterwards it became obvious, from the experiences of the 1982 devaluation and its medium-term aftermath, that the Swedish loss of foreign market shares was not mainly driven by wage claims and wage costs, which soon went down, but by what two economists of the domestic business world called a weakness of "underlying competitive capacity [konkurrenskraft]", which they guessed was related to the skills of the labour force, in their terminology investment in human capital (Jakobsson and Jagrén, 1993: 69ff). The political and expert discussion of different economic structural issues and industrial strategies, which developed from the second half of the 1970s (Benner, 1997: chs. 8–9) was sidelined in the market-concentrated government line of the 1980s. The historical emergence of a new post-industrial economic structure and growth pattern (Schön, 1994:74ff) stayed below the political radar. The problems arising from the new centring of Swedish capitalism around the stock exchange were too obvious to pass unnoticed, though. The stock market boom added to the inflationary pressure, indirectly by making it impossible for the unions to practice wage restraint, and directly by making business leaders more focused on raising shareholder value than on expanding international market shares (Feldt, 1991: 271, 296ff).

The core conceptions that the crisis was primarily a wage-cost problem and that the country depended above all on the well-being of private business set Sweden onto the path of inequality.

3.2. Letting capital loose: deregulation 1985, 1989

A crucial and, it turned out, fatal decision in the 1980s was the complete deregulation of the banks in 1985. It opened the floodgates, not only to a credit explosion and inflationary indebted consumption, but also to a surge of speculation on the stock market and the real estate market, and to the financialization of the Swedish economy, a core aspect of unequalization, as we noticed above. Thirty years later, a liberal economist, part of the business lobby for the decision, has given a honest retrospective comment: "Not in our wildest imagination could we envisage in 1985 that financial deregulation should open for the strong expansion of the financial system which followed. … We missed completely the *financialization* of the Swedish economy which we have experienced for the latest 30 years and which seems to continue for the foreseeable future" (Jonung, 2015:49).

Credit deregulation was followed in 1989 by an abolition of capital controls and currency regulation, which led to massive outflow of capital, largely for real estate investments, amounting to 7% of GDP in 1989 and 1990 (Elmbrant, 2019: 61).

3.3. Generating a second crisis and (mis)interpreting it

The banking and currency deregulations were decisive for the unequalization of Sweden in two ways. One was their direct effect on the generation of capital income. The other was the homemade economic crisis they spawned in the early 1990s, a credit-financed bubble of real estate speculation bursting. The crisis erupted in September 1990. The Swedish equivalent to Lehman Brothers was a financial corporation, Nyckeln (The Key), operating in the British and Swedish real estate market (Elmbrant, 2005:ch. 27). Its crash reverberated through the whole Swedish banking system, and the abolition of all capital controls added pressure on the Swedish crown.

The homemade crisis of the 1990s hit much harder than the international one of the 1970s. GDP fell for three consecutive years, by a cumulated good 4% and unemployment went up to 8% on average for the five years of 1993–97 (Statistics Sweden, 2000:223). Sweden left the small club of full employment countries. Both the crisis itself – through unemployment – and the measures coping with it and its deficits – a broad curtailment of social rights – had strong unequalizing effects, as shown in Table 5 above.

The ultimate failure of the once successfully perceived Social Democratic 1980s, characterised by devaluation and deregulation, led in 1991 to a new bourgeois coalition government, which focused on privatization of public services with the slogan of "freedom of choice". The coalition turned out to be unable to cope with the new crisis, and in 1994 the government budget deficit had reached 37% of total public expenditure and the public sector deficit reached 9% of GDP. Then Social Democracy returned in office, and as in 1982 managed to stabilize the economy without taking the country back to an egalitarian course.

Part of the explanation for the latter must be, again, the crisis perception of the Social Democratic strongman of the period, Göran Persson, Finance Minister 1994–96 and Prime Minister 1996–2006. According to him the Swedish crisis of the 1990s was due to, "a credit deregulation which the tax system could not bear, and to the fact that the country's export industry lost competitiveness because of irresponsible wage claims" (Persson, 2007:59–60).

Table 5
Income inequality changes in Sweden 1979–2017, by kind of government. Changes in Gini points.

Period and Government	Market Income	Disposable Income
1979–82 Bourgeois	+1	0
1982–91 SocDem	+4	+3
1991–94 Bourgeois	+2	+4
1994–2006 SocDem	+1	+4
2006–14 Bourgeois	+2	+3
2014–17 SocDem	+1	+2
Total Bourgeois	+5	+7
Total SocDem	+6	+9

Sources: Statistics Sweden (2015, 2019b). Additions are adjusted for breaks in the statistical series by counting changes only within the same periods of statistical methodology, e.g., changes of household definition or of data collection. The variations are not large, but could be somewhat misleading without this adjustment.
Note: Bourgeois = Bourgeois coalition government. SocDem = Social Democratic government.

Table 6
Increase of different kinds of household income, 1991–2016.

Income from work	64%
Income from entrepreneurship	62%
Capital income	229%

Source: Statistic Sweden (2018a). Calculation refers to "faktorinkomst", i.e., market income.

In Persson's interpretation there is nothing about the financial bubble, blown up by leveraged real estate speculation, which brought the banking system to the verge of collapse and bankruptcy, not even a recognition of the link between an unregulated credit expansion boom and inflation, on one side, and compensatory wage claims on the other.

Therefore the lessons drawn from the crisis were not to deal with the rampage of leveraged capital, but a set of restraints on the public budget and labour market negotiations, against budget deficits and "irresponsible" wage claims, with a continued priority attention to business or "market" demands. And to the budget balance requirements of the EU, which Sweden had joined in 1995.

3.4. A bonfire of taxes

Unequalization has been promoted by the abolition of taxes and the lowering of tax rates. It started in 1990 with two major deals between the governing Social Democrats and the Centre and Liberal parties. One concerned income taxation, whose progressivity was reduced. The other, more radical, was a reduction of corporate taxation from 56% to 30%, lowered to 28% in 1994, and thereafter subject to further cuts. Sweden was a European pioneer in corporate tax dumping. As the chief taxation expert of Swedish business pointed out with satisfaction, only by 2005 has the EU average reached the Swedish level (Lodin, 2009:123). Related to both deals was a proportional tax rate on capital income at thirty percent, i.e., much lower than that on high income from work.

The bourgeois government of 1991–94 abolished the wealth tax, but it did not go into effect before the elections of 1994, when the Social Democrats returned and blocked the implementation. After their loss of the referendum on Sweden's participation to the European Monetary Union and the Euro, Prime Minister Persson changed his mind and wanted to do away with all taxation on wealth as well as on inheritance, as a consolation to business interests. However, the governmenťs dependence on Left party support made this impossible, and only the inheritance tax was abolished, in 2005, a policy then shared only with Austria and Italy (Lodin, 2009: 243ff, 439; Sandberg, 2017).

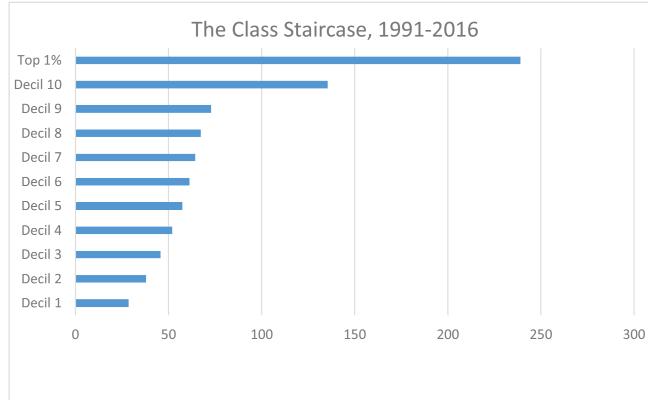

Fig. 1. Increase of disposable income 1991–2016 by deciles and for the top one percent. Percent increase.
Source: Statistics Sweden, 2018b, author's calculations.

Taxes on wealth and property were taken away by the bourgeois Alliance government in 2007 and 2008.

Nevertheless, ordinary Swedes still have substantial taxes to pay, most importantly municipal income taxes of around 33% and a VAT of 25.

3.5. Trimming the welfare state

Although the idea of cutting social rights was floated by several Social Democratic economists and politicians, from the 1980s program group onwards, this became Social Democratic government policy only as an emergency measure at the height of the 1990s crisis. Nevertheless, the period 1994–2000 was one of austerity, and the share of public expenditure in GDP went down by 12 percentage points (Öberg, 2019-150). The rightwing coalition government of 2006–2014, on the other hand, established the principle of increasing the gap of life conditions between the employed, on one hand, and all the non-employed on the other – the unemployed, the sick, the poor on social assistance, the old age pensioners – by curtailing benefits rights and by tax cuts targeted to the employed only. The outcome is visible in the staircase of Fig. 1, where the steps are steeper between deciles 1 and 5 than between 5 and 9.

However, there was one important exception to this partisan divide on social policy, the pension system. The generous two-tier pension system that emerged from extensive social struggles in the late 1950s-early 1960s – one referendum, one extraordinary parliamentary election and at least one ordinary election – was revised in the early 2000s, in order to be more insensitive to economic crises and demographic developments. It has resulted in Sweden having in 2016 a share of 65-plus people in relative poverty (below 60% of median national income) of 17%, higher than the EU average of 14% (Statistics Sweden, 2016).

As was noticed above, the combination of taxes and benefits cuts has drastically reduced the redistributive impact of the public sector.

The major transformation of Swedish social services have been their privatization – tax-financed – and the opening up of social, health care and educational services to enterprises for profit. At least in the field of education this is an unusual offer in Western Europe. It was launched by the right-wing government of 1991–94 as a "freedom of choice revolution" and expanded under the rightwing government of 2006–14, which made a law forcing municipalities to involve private firms. The strongest distributive impact of privatization, so far, has been in education, increasing the effect of parental class on pupils' results from 16% in 1998 to 23% in 2016 (Skolverket [National Board of Education], 2018.)

4. The politics

The unequalization of Sweden has been decisively due to political decisions. How has it been possible in a democratic country with strong egalitarian traditions? The answer is skilful political manoeuvring, much helped by the crisis atmosphere of the early 1980s and the nineties.

4.1. Stealth

Keeping citizens in the dark has been one important stratagem. We have noted above how the fine print of the Social Democratic program for the 1982 election was kept in the background, and foregrounded by attacks on the social cuts proposed by the outgoing rightwing government. The fatal banking deregulation was plotted by the director of the National Bank, the Chairman of the Bank Board, and the Finance minister. It was never subjected to discussion in the Social Democratic leadership, and was presented to the Cabinet only hours before officially decided by the board of the National Bank (Carlsson, 2003-214ff).

In 1994, however, riding high in the opinion polls against the background of the crisis fiasco of the outgoing bourgeois government, the Social Democrats presented a plan for budget deficit-reducing social cuts in their electoral campaign (Svenning, 2005: 209).

A key element was the dismantling in the 1990s of what had once been the pride of Social Democratic reformism and the vehicle for the party's successful inroad among white-collar employees, the universal occupational pension ATP. In the liberal crisis climate of the 1980s–1990s, leading politicians of Social Democracy as well as of the right became convinced that ATP with its defined benefits was too generous and not up to "the orientation of economic policy", as the Social Democratic government formulated it in early 1991. This idea was taken up by the new right-wing government after the September elections. Both sides were acutely aware of the political sensitiveness of the issue, and appointed a committee to negotiate a proposal, under duty of silence. After a principle agreement, an outline proposal was submitted to Parliament in 1994. Then Social Democracy had to ask party opinion, which was very critical. But the party congress of 1997 was forced into submission by leadership threats of the new Social Democratic government having to resign unless the deal was accepted. The new pension system guaranteed no benefit level; the current national economic situation would determine what the contributions of each individual would be worth in terms of pensions paid (Lundberg, 2003; Loxbo, 2007). Party opinion was circumvented but not overtly dismissed.

4.2. Lobbying

Business propaganda and lobbying was invigorated in the 1970s, when the powerful Swedish Employers Confederation started public campaigns and its own think tank. Business lobbying had two main directions, one focused on taxes, the other on privatization of social services.

The central figure of business tax lobbying, was a university professor of financial law turned, in his own self-ironic term, "business torpedo", Sven-Olof Lodin. He has written a good-humoured memoir about his exploits, including a jubilant rap at the Christmas party 1992 of the League of Industry by its taxation department, boasting of their "intriguing and infiltrating" in all the crucial ministries as well as into the Taxation Authority and legal courts (Lodin, 2009: 187f). The party was held during the rightwing Bildt government.

Originally, privatization of education and welfare had considerable popular support, as it was presented as an opportunity for personal and local initiatives. After some time, the private care and education industry has become dominated by a small set of private equity-owned corporations, sold and re-sold several times, and based in various international tax havens. This development has never had majority support, even among bourgeois voters. Here, business lobbying has been crucial to keep the right-wing parties from wavering and has also succeeded in bringing the leadership of the large xenophobic party (the Sweden Democrats) to support the newly privatised services.

4.3. Social consideration

The changes were usually made with considerable social tact. The Social Democratic party leadership was always anxious to avoid a rupture with the trade unions and to involve their leadership as much as possible. The program group writing the crisis program for 1982 included a top trade union leader, who was later persuaded to join the government. In the 1990s, the popular leader of the Metal workers union was successfully recruited to the government. The chief trade union economist, P.-O. Edin was an important intermediary in the liberalization of the 1980s (Feldt, 1991:383). The dominant export industry union leaders had always had an understanding view of the market conditions of business and tended to accept the liberal turn. However, they also had their members' interests to defend, and during the inflationary credit boom after the banking deregulation, government-union relations soured, without a rupture, on the government demands for wage moderation. This Social Democratic consideration was more than political tactic. The key leaders of the party in the 1980s and 1990s, Feldt, Carlsson, Persson, had personally deep social roots and had grown up in the party. They saw themselves as saviours and trimmers of a welfare society in crisis.

In the early 2000s, the leading rightwing party, the Moderates, launched a Blair-inspired remake as the 'New Moderates', giving special attention to working class voters and posing as a strong defender of the Swedish corporatist labour market, in which strong trade unions and union rights are central. The move was successful in the 2006 election, campaigning for full employment, which the Social Democrats had failed to restore. The tax cuts of the ensuing bourgeois Alliance government focused on broad "job tax deductions" for all employed.

4.4. Leadership change and leadership power

The switch to the path of inequality started from above, by strong and powerful party leaders, and was not driven by public opinion, nor by elections. It was crucial that Swedish Social Democracy was facing the challenges of a crisis under a new generation of leaders, open to the new ideological climate. The survivors of the previous leadership, the architects of the social reforms of the 1960s and 1970s tried to brake the enthusiasm for liberalization of the new generation on several occasions, without ever going into open confrontation.

The mastermind of the new course was the Minister of Finance in 1982–90, Kjell-Olof Feldt, the first Swedish Social Democratic finance minister who had studied academic economics, but also an MP and a party man. He was surrounded by a group of young neoliberal economists, and formed a formidable centre of power together with his second man in the ministry Erik Åsbrink, who was also chairman of the board of the National Bank, whose Director was a more technocratic ally. The ideological climate of economics was becoming decidedly neoliberal, demonstrated by the laurels to von Hayek and Friedmann given by Swedish economists. In 1981 a party official recommended that the new club of Social Democratic economists should study "the new economic doctrines from the United States" (Lindvall, 2004:67).

Olof Palme, who remained loyal to the 1960s generation, came to abdicate completely from economic policy. When Feldt presented the proposal of credit deregulation to the Prime Minister, Palme answered, according to Feldt: “Do as you want. I don ́t understand anything anyway” (Feldt, 1991:260). Palme was never a socialist in the classical sense, and his radicalism was mainly anti-imperialist and pro-Feminist, but he was a committed egalitarian social reformer with a great respect for the working class. In the crucial mid-eighties he seems to have been weakened by personal problems, before his assassination in February l986.

Palme ́s successor as party leader and Prime Minister, Ingvar Carlsson, was open to liberal influences without being a neoliberal militant, and he accepted that the time of classical Social Democratic reform policy was over (Carlsson, 2003). Carlsson’s successor, the key leader of the 1990s, Göran Persson, was like him a pragmatic Social Democrat shaped by a liberal interpretation of the economic crisis. According to Persson, the cautious but consistent social reform Prime Minister (1946–1969) Tage Erlander “went too far in the socialist direction” (Svenning, 2018: 260). Both Feldt and Persson were for a time regarded as successful crisis managers, which sustained their power, until the medium term effects of their policies became apparent.

None of the Social Democratic front rank of the 1980s–90s, with the exception of Olof Palme, who gave up on economic issues, had been touched by the radicalism of 1968, nor by the mid-level trade union radicalism of the 1970s, which was enthused by the wage-earner funds project, the Meidner Plan as it is known internationally – after the trade union economist who drafted it. As it got endorsed by the trade union congress, it could not simply be ignored by the party leadership, but by 1982 the latter saw the plan only as a burden of the past to be hived off, as soon and as tactfully as possible. Feldt was full of contempt for it, once writing a kind of poem during a parliamentary session in the early 1980s, which was captured on camera, in which he called the proposal a “fucking piece of shit” [*jävla skit*] (Feldt, 1991:153).

5. Conclusion

The international economic crisis of the 1970s and its perception by a new generation of Social Democratic leaders set Sweden on a new political and economic course leading to increasing economic inequality. The process of unequalization was reinforced and consolidated by a second, homemade financial crash of the early 1990s – and by the prevailing political perception of it. Neither interpretation saw the emerging structural change from industrial capitalism to post-industrial, finance- driven capitalism. It was crucial that the nature of the 1990s crisis as a financial crash following from the deregulations of the 1980s was never fully recognized politically.

The abrupt turns of the French Mitterand government in l983 and of the Schroeder government in Germany two decades later were also both situated in an economic crisis and its interpretation. Their inegalitarian distribnutive effects were less than the Swedish, but they were more devastating politically for Social Democracy, in France also for the Communist Party, which clung to the Mitterand government after its rightwing turnaround.

The rapid increase of economic inequality in Sweden is mainly due to a surge and concentration of capital income. In an econometric calculation of the Ministry of Finance, capital income accounts for all the increase of the Gini coefficient from 1995 to 2016 (Finansdepartementet, 2018: table 2.3). Political decisions opened the flood gates to this surge.

Social Democracy was in government in the critical periods of the turn to inequality, 1982–91 and 1994–2006, but a similar turn would almost certainly have taken place also under bourgeois governments. Social Democratic and bourgeois politicians shared the interpretation of both economic crises as caused mainly by trade union power and demands, and that the public sector had to give more space to private business. Both political blocs and their economic advisers seriously underestimated the drive and power of financial capital.

As Sweden set a continental Western European record in inequality increase, it is not very likely that right-wing governments would have been able to create even more inequality in the period up until now. Possibly less, as the Social Democratic party and trade union opinion and organizations would have mounted more resistance. Social Democratic incumbency might also contribute to explaining why Sweden became the most rapid unequalizer. Swedish Social Democracy always harboured a strong liberal, free trade streak, derived from the country’s heavy dependence on world market exports. Correspondingly, planned economy and state ownership traditions were marginal. The leadership and its advisers were strongly oriented ideologically as well as culturally to the Anglo-Saxon world of the US and the UK, who have spearheaded the turn to increasing inequality. The neoliberal West winds seem to have reached the party leadership early, and rapidly entranced their economic advisers. The Social Democratic party had strong credentials from the past in staking out a quite new course without provoking active member resistance.

Voters were less loyal. Workingclass voters cut their support for the Social Democrats, from 67% of them in 1982 to 53% in 1991. The failed bourgeois crisis management brought many back once more in 1994 (64%), but only to decline ever after. In the elections of 1998 and 2002 the Social Democratic government was saved by a substantial switch to the Left party, which turned out to be shortlived Hedberg, 2015.

Economic factors have also given particular speed to inequality. The extraordinary ascendancy of stock market capitalization, from less than three percent of GDP in the 1970s to 145% recently is certainly one major such factor, and much wealth has been created in an inventive IT sector.

The record rise of economic inequality in Sweden, from a relatively low level, is empirically undeniable, its path in time through politics and policies is clear, but a full econometric explanation remains to be developed.

The inegalitarian turn from 1982 on has wiped out the whole post-World War II income equalization in Sweden (calculated from Roine and Waldenström, 2008 and Gustafsson and Jansson, 2001), but Sweden still remains one of the countries with limited inequality in an increasingly unequal world. However, economic inequality in Sweden is on track for further increase. The complicated parliamentary situation after the 2018 election ended in a four-party deal, whereby the Social Democrats can continue as a minority government in coalition with the Environment party with the support of the two economically most rightwing parties upon conditions of, inter alia, reducing income taxes for the highest earners (by abolishing a crisis emergency tax from the 1990s), of promising not to interfere with further privatization of public services, to abolish rent controls of new housing construction, and to loosen labour rights of dismissal protection. The government agreement of January 2019 is meant to hold until the elections of 2022.

Are there lessons for other countries? There seem to be at least three. Neoliberal turns are very costly and enduring to labour parties, even if handled with tact and tactics. Economic crises have better be seen as complex phenomena, amenable to different interpretations of their pattern and context, as well as to different policy responses. Thirdly, prevailing opinion among the national economic establishment is not to be trusted without critical scrutiny, as it usually assumes a ‘capital first’ perspective, and is vulnerable to ideological trends.

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