BOOK REVIEWS


Has Sweden been historically an egalitarian society, or is low inequality the outcome of an early introduction of the welfare state? This is the question that drives this important research monograph. In his thesis, Waldenström applies the top income and wealth shares approach promoted by Thomas Piketty, Anthony Atkinson, Emmanuel Saez, to the case of Sweden (Atkinson and Piketty, 2007; Piketty and Saez, 2006). This approach draws from the work of Simon Kuznets (1953) who used personal tax returns as tabulated distributions, available in most countries for long periods, and which was developed as an attempt to elaborate methods to analyse inequality trends. Initially, these methods applied to OECD countries during the twentieth century, but have gradually been extended to a growing number of developing countries. By providing homogeneous and (largely) comparable measures in the absence of aggregate inequality estimates it represents a significant contribution to the study of long-run inequality. In his thesis, Daniel Waldenström explores this topic by using all the available archival and library records in a very efficient and imaginative way. The outcome is a collection of seven papers, some of them co-authored, dealing with Swedish inequality in a comparative perspective, which are held together by an introductory chapter. The time span considered covers the last quarter of the nineteenth century and the whole twentieth century.

The literature on top income shares provides a set of explicit hypotheses that can be confronted with evidence for the case of Sweden. (1) A drop in income concentration took place in the first half of the twentieth century as a result of a fall in top capital incomes due to destruction, inflation, bankruptcy, and fiscal and monetary policies to finance war debts. (2) The drop in top shares was larger in war-hit countries. (3) Progressive income and estate taxation impeded a recovery of top income shares during the second half of the twentieth century (or, at least, until the 1970s). (4) A discrepancy is found between continental European and Anglo-Saxon countries for the late twentieth century. While in the former, relative stability followed a period of falling top income shares in the 1960s and 1970s, in the latter a substantial increase in top income shares emerged since the 1980s, mainly driven by large increases in top wages.

Since Sweden did not participate in the First World War and was non-belligerent in the Second World War, she provides a good test to the general hypotheses from the Atkinson-Piketty project. Waldenström’s findings exhibit coincidences but also interesting discrepancies with Atkinson and Piketty (2007). For example, the income share of the Swedish top decile (and even more the top 1%) dropped sharply over the first 80 years of the twentieth century, and more intensively than in most
developed countries – even though Sweden was not engaged in the Second World War and, hence, did not experience its devastating effects on top income shares. Moreover, most of this top income share decrease occurred prior to the expansion of the welfare state so, by 1950, top income shares were lower in Sweden than in other countries studied. Most of this early decrease in inequality seems to have been driven by a fall in capital income, although, since the mid-1930s, wage compression also contributed to explaining the decreasing top shares.

As regards the late twentieth century behaviour, Waldenström points out that the evolution of top income shares was very different depending on whether capital gains are included or not. When included, Sweden’s experience resembles that of the US and the UK with sharp increases in top incomes. Excluding capital gains, Sweden looks more like the continental European countries, where top income shares have remained relatively unaltered.

A most interesting contribution of the volume is the analysis of the determinants of inequality, explored on the basis of a panel of 16 countries during the twentieth century. It comes out that inequality increases as growth accelerates and financial development deepens, while it declines as progressive taxation is introduced.

In the classical economists’ view, personal wealth was an important component of a person’s well-being. Interestingly, Waldenström also looks at top wealth shares. In Sweden, pre-industrial wealth concentration was high and it did not change much during early industrialization. In the post-war period, the top decile lost out relative to the rest of the population. Around 1980, wealth compression stopped and inequality increased. For Sweden, as for other western countries, our author finds a sustained decline in wealth shares of the top percentiles over the twentieth century, although a large variance is found for the nineteenth century.

The resilience of inequality, so often neglected in the historical literature, is also addressed by our author, who tries to find out whether it resulted from either inequality of outcomes or inequality of opportunities. From an innovative investigation about intergenerational mobility in Swedish earnings and income distribution, he concludes that the higher up in the distribution, the lower the mobility.

Some shortcomings are, nonetheless, observed in what otherwise is a model monograph. For example, although Chapter 1 and the common list of references provide some sense of unity, the reader wishes the author would have gone the extra mile to avoid duplications by properly cross-referencing each chapter to others and not to already-published papers. The repetition of methods, procedures, sources’ description, etc, is certainly annoying. Furthermore, the results from different chapters are not cross-checked. Why are trends in income and wealth inequality not compared? Much could be learnt from this. In fact, the results obtained through the top income (wealth) share approach are hardly compared with those resulting from more conventional or historical approaches (household surveys for the late twentieth century or short cut methods for the nineteenth and early twentieth century, i.e. wage/land rent ratios, the Williamson index) (Williamson 1997, 2002). In other words, there is no attempt to assess critically the significance of the top incomes share approach in terms of inequality description. Further, a concluding chapter, wrapping up the findings and suggesting a research agenda, is missing in the dissertation. Finally, the reader misses an exploration of the connections between income and wealth inequality in, and long-term economic development in, Sweden, as the author promises in the title.
All in all, this volume represents a substantial contribution to the knowledge of long-run inequality in a successful national experience and provides a model for further country studies.

Notes

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