



ECONOMIC POLITICS



The Power Elite – Always More, Never Enough

*A study of income trends
for the power elite, 1950–2009*

The Swedish Trade Union Confederation

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This report compares income development between the power elite and industrial workers from 1950 to 2009.

Summary

Historically wide income gaps

In the 59 years this study covers, the incomes of the power elite were at their highest, compared with industrial workers' incomes, in 2007 and 2008. The average income for a person in the power elite – all the 197 elite positions investigated and included in the report – for these years were, respectively, 18 and 17 times higher than the industrial worker wage. In 2009 this income fell slightly to just over 15 times the industrial worker wage, largely as a reflection of the effects of the global financial crisis for the sub-group the economic elite.

The income measured for the power elite is both earned income and income from capital and from business enterprise. In 2009 the average total income before tax among the power elite was SEK 4.6 million, against the average industrial worker wage of approximately SEK 298,600.

In 1950 the average power elite income was 11 industrial worker wages. When the difference in incomes between the power elite and the industrial worker was smallest – 1980 – the average power elite income was 5 industrial worker wages.

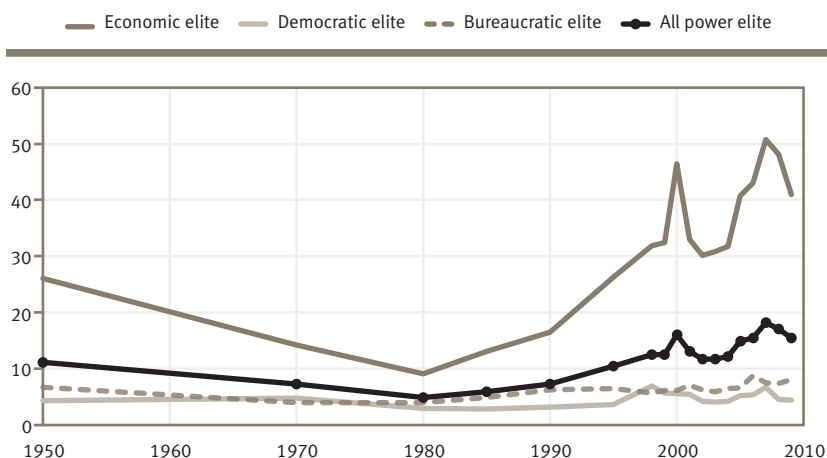
The crisis – a blip in the curve for the economic elite?

The differences in income between the three separate elite groups covered in the report – the economic, the democratic and the bureaucratic elite – are large. Of these three groups it is primarily the economic elite, which comprises 50 managing directors from the business sector, whose incomes have increased in relation to the industrial worker wage in recent decades.

The differences between an ordinary wage earner and the economic elite peaked in 2007 and 2008. In these years the average income in this group was equivalent to, respectively, 51 and 48 industrial worker wages. In 2009 the 50 directors' incomes fell to an average of 41 industrial worker wages. The financial crisis caused a fall in the incomes of the economic elite against the industrial worker wage, but this fall is expected to be only temporary.

Income trends for the main power elite groups 1950–2009

Number of industrial worker wages



Source: Swedish National Tax Board

The total income for the economic elite in 2007 consisted of 28 per cent income from capital, but in the crisis year of 2008, this figure fell to 19 per cent. As early as 2009, however, it began to rise and accounted for 22 per cent of total income for that year.

The other two elite groups had, relatively speaking, substantially lower incomes. The democratic elite – by which we mean elected representatives and people holding popularly-elected positions – had an income corresponding to just over 4 industrial worker wages in 2009. 2007 was a peak year at close to 7 industrial worker wages, while in 2006 income fell to 4.5. In 1950, the first year of the survey, income was just over 4 industrial worker wages. The bureaucratic elite group – mainly senior public sector employees – had average incomes close to 8 industrial worker wages in 2009 and approximately the same in the two previous years. In 1950 their income was barely 7 industrial worker wages, and remained at about the same amount until 2005.

A small number of women – and with lower incomes

The advance of gender equality is very slow in the economic power elite. Before 2000 there were no women in this group, and in 2009 only two of the leading managing directors were women.

The percentage of women in the democratic elite has grown during the greater part of the period. In 2005, 38 per cent of this group was women. Since then, the trend appears to have reversed and in 2009 the percentage of women was down to 30 per cent.

The bureaucratic elite has seen a relatively steady increase in the percentage of women. In the past 10 years, the percentage of women has more than doubled, from 14 to 30 per cent.

The average income for women in the power elite in 2009 was about 32 per cent of the average income for men in this group. This figure has been falling since 2004, when it was 45 per cent.

Top incomes

In pace with the widening income differences in the OECD nations in recent decades, interest has grown in investigating different aspects of the income distribution. During the 2000s a new literature emerged in economic research that focuses on so-called top incomes.

A strong concentration of incomes at the top end of income distribution impact the way incomes are distributed in society. A small group with a high percentage of a country's incomes have considerable opportunities to coordinate and exercise powerful political influence. The top income percentage is also important information as a supplement to GDP and other basic macroeconomic measurements.

In many countries top incomes remained relatively stable from about 1940 to 1980. They then rose steeply up to the time of the financial crisis. The increase in top incomes is mainly attributable to a dramatic change in incomes for the percentage of the population with the highest incomes. Sweden has also seen a sharp rise in top incomes in recent decades, mostly due to increases in incomes from capital.

A range of factors determine the development of income differences and top incomes: they include the functioning of the economy, the structure of the tax system, power relationships in the labour market and so-

cial norms. Changes introduced in the Swedish tax system in the 2000s will in all probability result in further growth in top incomes.

Systems of remuneration in the financial sector

The financial system is known for its high salary levels. Remunerations paid to senior executives in the financial sector are one reason for the increase in top incomes in many countries in recent decades. In addition to high salary levels, a high proportion of variable remuneration is common in the financial sector.

The system of variable remunerations in the financial market probably contributed to the global financial crisis. The financial crisis then spread to the real economy, resulting in a steep fall in GDP and employment in many countries, and not least in Sweden. In the years running up to the financial crisis a situation was created – thanks to the faulty remunerations structure – in which many financial sector employees were strongly motivated to take more and more risks in their investments in order to increase yield.

Even though the problems may have been more serious in other countries, we know from a number of surveys that in Sweden too a large part of the variable remunerations paid out were not adjusted for the risk exposure that accompanied these investments. The new regulations introduced in response to the crisis in the financial sector may, with proper compliance, help to reduce risks that are potentially harmful to the economy.

PEOPLE WHO HOLD the highest positions in business, politics, finance and local and national institutions do not appear as a separate group in the wage statistics in Sweden. To date, there has been no systematic record of how the power elite's income has developed over time. This report corrects this omission.

This is LOs' eleventh report in the "The Power Elite" series and is the second extract to be published in English.