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Changing Work–Life Inequality in Sweden: Globalization and Other Causes

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Introduction: Economic ups and downs

In the three decades following World War II, macroeconomic conditions were generally favourable throughout the Western world. Economic growth was high, and unemployment and inflation low. At the same time, economic inequality was decreasing. This long period of positive change came to a halt in the early 1970s with the first oil crisis in 1973 and the advent of stagflation. After 10–15 years of poor macroeconomic performance, including a second oil crisis in 1979, a new trend pattern emerged in the 1980s. In many Organisation for Economic Co-operation and Development (OECD) countries, economic growth picked up and inflation went down. Rates of unemployment and wage inequality, however, continued to be problematic.

This chapter traces the evolution of macroeconomic conditions and labour market inequality in Sweden for the period 1970–2005, with the specific purpose of discussing the role played by globalization in the processes observed. Globalization is a word that carries many different connotations: there is cultural globalization, involving the worldwide diffusion of a homogeneous culture; political globalization, focusing on the importance of various supranational organizations; and legal globalization, relating to an expansion of supranational law as well as courts and police forces extending beyond their traditional national boundaries and forming new global entities. And then there is economic globalization, generally conceived as the increasing cross-border mobility of goods and services, of capital, and of labour. The different forms of globalization can, in turn, be associated with other synchronous developments, such as the proliferation of new

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communication technologies and the rise of New Public Management as a paradigm for the governance of 'public' affairs (see the definition of 'globalization' in Chapter 1 of this book). It may be difficult to disentangle precisely how these parallel developments are interrelated, for example to what extent new information and communication technologies (ICT) have spurred economic globalization. For our purposes, it is sufficient to note that the economic core consists of the internationalization of goods, services, capital, and labour, and that this, therefore, is where we should start when examining the impact of globalization on national labour markets.

To obtain a comprehensive picture, we summarize findings from a variety of sources, including our own original work. We thus provide information on potential causes such as trends in trade openness, migration, and the skill structure of employment (combining information on worker education and job skill requirements), as well as on core inequality outcomes, for example unemployment and non-employment (by age, gender, and education), wage dispersion, wage returns to education and experience, and immigrants' labour market position relative to natives.

Regarding inequality in labour market conditions, we document the following changes: (a) Overall wage inequality fell from the late 1960s to 1975, then stabilized until 1980 before resuming growth. (b) For educational categories, we find that the low-skill groups have lost slightly in wages and more in employment rates relative to high-skill groups. (c) For sector, public employees have lost much in wages relative to the privately employed. (d) For gender, women first gained in both wages and employment rates relative to men, and the remaining gaps then stabilized. (e) For age, 16–24-year-olds made some gains followed by losses in wages, and some gains followed by major losses in employment rates relative to the 25–54-year-olds; in contrast, the relative wage and employment conditions of 55–64-year-olds have been stable or improving. (f) Finally, the gap between the labour market positions of immigrants and natives had broadened in recent decades, especially with regard to employment rates.

What accounts for these changes? And what might the role of globalization have been? In the next section, we review policy developments in Sweden from the 1970s to the present in order to situate the evolution of the Swedish labour market in a modern historical–institutional context. We chronicle the breathtaking shifts that have taken place in macroeconomic policy, in public policy more generally, as well as in key labour market institutions. In the subsequent section we describe changes in labour market inequality in Sweden and review three broad types of explanations: economic globalization, skill-biased technological change, and changes in labour market institutions. Our review indicates that economic globalization has been of limited importance for the Swedish development of inequality relative to the impact of technological and institutional change. In the final section we conclude by outlining some alternative scenarios for the future development of work–life inequality in Sweden.

A brief modern history of economics and politics in Sweden

Economic development in Western labour markets has gone from being equality-biased to being inequality-biased, as discussed above. Before the 1970s, good macroeconomic performance – high growth, low inflation – was accompanied by low unemployment and falling wage inequality. In the 1970s, a period of transition began with mounting problems on all fronts: low economic growth, high inflation, high unemployment, and a stalled reduction of wage inequality. From the 1980s to the 1990s, a new pattern emerged in which macroeconomic performance improved in some respects, yet was accompanied by a relatively high level of unemployment in large parts of Europe and widespread tendencies towards growing rather than falling wage inequality on both sides of the Atlantic. Whereas the rushing river of economic progress in the first three post-war decades carried nearly everyone along with it, the swift stream of the new economy tends to wash significant fractions of the population ashore or leave them in a backwater. Although the living conditions of the less fortunate may still improve in an absolute sense, the association between growth and distribution has changed decisively.

Sweden in the 1970s: Public sector expansion and currency devaluations

Sweden was long at least a partial exception to the economic developments described above. As in other countries, economic growth fell and inflation rose in the 1970s. But in contrast to most other countries, as shown in Figure 7.1 unemployment was kept at very low levels until the 1990s. Further, the wage structure, more compressed than almost anywhere else, resisted change for a long time. Arguably, two institutional traits were decisive for the ability to postpone a rise in unemployment and inequality. The first was a strong expansion of public sector service employment. Reforms in the fields of childcare, elderly care, health

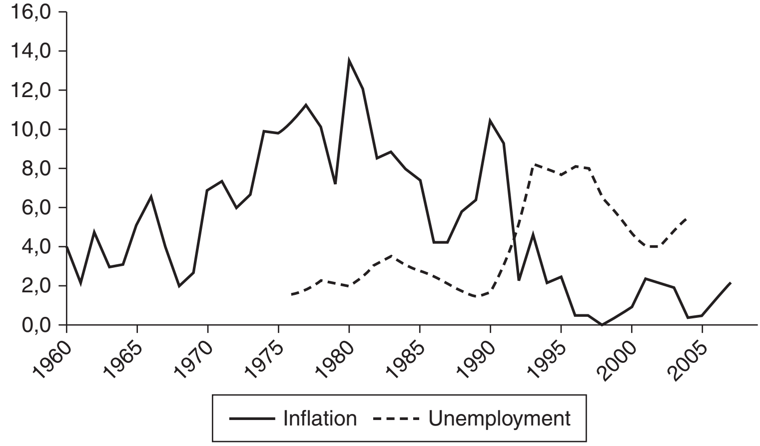

Figure 7.1 Unemployment and inflation, 1960–2007
Sources: Statistics Sweden.

care, and education involved a spectacular expansion of public day care, public senior housing, and home help, public primary, and specialist care, as well as public secondary and tertiary education. What is noteworthy here is that these publicly provided and financed services were often delivered at either the municipal or the provincial level, and that they opened up significant employment opportunities for women. The public share of all employment increased until the second half of the 1980s when it peaked at roughly 40 per cent. Female labour force participation rose in tandem, reaching its maximum at around 80 per cent in 1990. Another aspect of this exceptional expansion, and with particular importance for the evolution of inequality, was the growth in educational enrolment. The extension of compulsory education into a nine-year comprehensive programme in the 1960s was followed in 1971 by a structural reform of upper secondary education. Previously separate educational institutions were united, now providing two-year vocational programmes as well as three-year programmes preparing for tertiary education. Both secondary and tertiary education also expanded drastically.

Secondly, the 'solidaristic' wage policy practised by the leading blue-collar trade union confederation, *Landsorganisationen* (LO), led to relatively large wage increases at the low end of the wage structure. This compression of the wage structure was in part achieved through centralized wage bargaining between the LO and the main confederation of private sector employers *Svenska arbetsgivareföreningen* (SAF) and between the LO and the employer organizations for central, provincial, and local government. Similar bargaining also occurred between white-collar unions and the various employer organizations, yet, although still centralized, they were generally limited to industrial agreements. High union as well as employer organization density (e.g., around 80 per cent on the union side) combined with extensions to non-members assured that the agreements covered almost the whole labour market (90 per cent).

Alongside wage determination, collective bargaining in Sweden also encompasses employment negotiations. In part as a response to rapid job turnover, and especially the high layoff rates among older workers, employment protection was strengthened in 1974 by a new Employment Protection Act (*Lagen om anställningsskydd,* LAS) that limited employers' discretion in layoff decisions. While explicitly allowing reductions of personnel in the face of losses in output demand, thus retaining a positive view on structural change, the law stipulates strict seniority rules in decisions on who must leave first. Consistent with Sweden's long-standing institutional tradition of collective bargaining in preference to legislation, the principle of seniority (last in–first out) may be overruled by local agreements between employers and unions. Taken as a whole, this system of employment protection is commonly regarded as being close to the average strength in OECD countries: stronger than in the Anglo-Saxon labour markets, for example, but clearly weaker than in the Catholic European countries (see, for a more detailed discussion, Skedinger, 2008).

Neither of these institutional features was unproblematic or uncontested. The expansion of the public sector required rapidly rising tax rates, in particular high income taxes, that were seen as objectionable. In 1976, a centre-right coalition of parties won the election and formed a majority government, pushing the social democrats into opposition for the first time since the early 1930s. The new government lowered taxes, thus reducing public income, but without significant cost reductions to compensate for lost revenues. In part, the failure to curb public expenditure was due to the government's organizational structure: a coalition of three parties of which none was prepared to lose popularity by suggesting welfare state cutbacks. Even more important was a steep, internationally driven economic downturn soon after the 1976 election. As in all recessions, a significant fall in employment led to both declining public income and rising public costs. This particular downturn became especially expensive, because the government decided to subsidize several large firms to help avoid their closure. Industrial policy of this kind, with its conservation of existing jobs, was essentially alien to the traditional Swedish model based on rapid structural change.

In addition, wage–wage spirals, as well as local wage drift, led to wage settlements that frequently exceeded productivity growth. As a consequence, Swedish export firms faced recurring cost crises that jeopardized their international competitiveness. From 1975 to 1982, the Swedish government repeatedly devaluated the currency (the *krona*) in order to restore export firms' market position. The currency devaluation strategy temporarily helped to avoid a trade-off between nominal wage increases, especially for low-wage workers, and employment rates. However, the price to be paid was high, since the devaluations put strong upward pressure on inflation (via rising import prices), so that the large wage growth in nominal terms translated to essentially zero wage growth in real terms for many years.

The 1980s: Deregulation, profit–wage spirals, and economic overheating

By the early 1980s, these political and economic factors in combination had produced a destructively large budget deficit. Interest on the loans to finance the deficit was rapidly turning into one of the largest items in the entire national budget. As a consequence of the failure in debt management and the handling of the incoming recession, and – linked to this – severe internal strife (*inter alia* over energy policy), the centre-right coalition lost public support and was decisively voted out of power in the 1982 election.

Immediately after returning to power in 1982, the newly elected social democratic government devalued the *krona* by a record-high 16 per cent. The purpose was to boost exports in order to achieve a quick economic recovery. As expected, this measure soon led to a large rise in firm profits, leading in turn to strong pressure from trade unions to raise wages. Meanwhile, the government introduced a much tighter fiscal discipline than the defeated centre-right coalition had been able to achieve. The explicit goal was to eliminate, or at least drastically reduce, the budget deficit within a few years. This disciplinary goal interacted with the specification of the existence of upper tax limits, and these together led to a reluctance to introduce social reforms requiring welfare state expansion. In combination, the devaluation and the limits on public spending led to an internal battle within the social democratic party and within the labour movement in general between those aiming to increase economic growth and restore public finances and those demanding wage increases in response to rising firm profitability and criticizing the restraints set on public spending for going too far.

Three further developments with important future consequences began and gained momentum during the course of the 1980s. One was the first attempts to break up public monopolies such as telecommunications, postal services, railways, and radio and television broadcasting on the more technical side, and health, child, and elderly care on the welfare services side. These attempts at decentralization and privatization were triggered by several technological, economic, and political developments. Even if some of them had international rather than domestic sources, they took on a particular significance in Sweden both because of its comparatively large public sector and – related to this – its long-standing preference for political rather than market-based solutions. Technologically, advances in ICT had opened new possibilities for decentralization and flexible organizational forms. Economically, the rising costs of many welfare services and other social infrastructure, in combination with increased public debt, had made efforts at increasing organizational efficiency in all publicly financed activities more urgent. Politically, decentralization was an important trend in the 1980s, partly because the political pendulum had swung from its previous emphasis on centralized solutions, and partly due to growing consumer preferences for less standardized, more customer-oriented services.

The second development was a gradual break-up of the system of nationally centralized and coordinated wage bargaining. The move towards a service society and the concomitant growth of white-collar employment and unionism, not least within the public sector, had led to increasingly turbulent rounds of wage bargaining. As already mentioned, leapfrogging, often initiated by the public white-collar unions, had produced substantial nominal wage increases. In 1980, SAF decided to put an end to this, and as LO declined their no-hikes offer, they called a mass lockout. LO retaliated by calling on select groups of workers to strike, and soon almost a million workers were engaged in Sweden's greatest post-war labour market conflict. After government intervention, the conflict ended with a 7 per cent nominal wage increase. However, the main long-term result was that SAF decided to abandon the system of centralized bargaining and pursue more decentralized wage setting instead. The leading employer organization in the manufacturing industry, *Verkstadsföreningen* (VF), decided to break with the system, additionally influenced by a perceived need for localized wage setting in the wake of new, less standardized modes of production. The trade unions initially resisted, but in 1983, VF managed to get their manual worker union counterpart, *Metallarbetareförbundet,* to sign a contract covering the manufacturing sector. This eventually paved the way for less centralization, particularly after 1990 when SAF withdrew from the bargaining table altogether, even though the desired firm-based bargaining never materialized completely.

The third development was the liberalization of international capital mobility as well as of domestic economic borrowing. The flows of money across and within national borders increased markedly during the 1980s. It is debatable how much of this increase was caused by the easing of mobility restrictions; the shift in rules was probably in part the result of a growth in money flows driven by other causes. For instance, rising public debt in many OECD countries had created a demand for international capital that, in turn, was supplied by several OPEC (oil-producing) countries as a way of making further profits on oil revenues (revenues that had been brought about by a cartel-driven rise in oil prices that, to come full circle, was an important cause of OECD public debt; see Eklund, 1999). In any case, both domestic and international capital markets were liberalized during the course of the 1980s, a process that, at least in Sweden, was accompanied by a strong rise in private consumption largely financed by borrowing.

The deregulation of large infrastructures and capital markets, in conjunction with rising profits among the leading export firms, provided powerful fuel for the general economy that began to show signs of overheating towards the end of the 1980s. A major tax reform taking effect in 1990, jointly designed by the government and parts of the centre-right opposition, contributed further to the economic boom by significantly lowering marginal tax rates. While initially motivated by structural concerns related to labour supply, the reform was implemented at a time when the business cycle was approaching its peak. Unemployment fell to very low levels, below 2 per cent, while inflation rose rapidly. The government tried to cool down economic activity by raising interest rates and the consumption tax rate as well as suggesting several other contractionary measures. The political climate was not favourable for that kind of measure, however, due to the accumulated and widespread discontent over wages being held back relative to profits and over welfare state stagnation. 'The workers don't need to be cooled down, they're already freezing' was a typical statement from the leader of the LO. After having been delayed by this resistance, the government proceeded with strong contractionary attempts in a close to desperate attempt to avoid an economic crash, including direct interference with the normally autonomous procedures of wage determination. As a consequence, the social democrats lost much of their public support and were forced into opposition at the general election in 1991.

The 1990s: Rising unemployment, falling inflation, and real wage growth

In October 1991, a centre-right government, with the conservative ('moderate') party leader Carl Bildt as prime minister, took office. Very soon it turned out that the economic problems that had brought the new government into power would not pass quickly. In contrast to the rather mild and short-lived international economic downturn, Sweden headed for its deepest recession since the 1930s. During the fall of 1992, interest rates were raised to dramatically high levels, reaching an almost unbelievable 500 per cent for a few days in order to defend the currency against devaluation speculations. When the central bank finally gave up and set the *krona* free, the international market instantly lowered its value by around 25 per cent. This *de facto* devaluation was thus even stronger than the previous record set a decade earlier. But general demand in the economy had already begun to fall rapidly, and the currency depreciation could only partially compensate for this escalating loss. From late 1992 to early 1994, unemployment rose from 2 to 8 per cent, since when it has never returned to pre-crisis levels. Economic growth turned negative, and did not exceed zero until the middle of the decade. After difficult negotiations with the social democratic opposition, invited to participate in multi-party talks during what was generally perceived as a national emergency situation, the government put together a large package of reforms. Two elements were especially important: one was strong measures to reduce the mounting budget deficit, including severe cutbacks of welfare entitlements such as unemployment and sick-leave compensation. The other was an application to join the European Union (EU), in order to attract foreign investment, to retain domestic investment, and to convince international markets of Sweden's economic discipline. Both these features of the crisis reforms were hard to swallow for the social democratic party, but the exceptional circumstances motivated a broad agreement.

Meanwhile, the government introduced reforms in other areas, most notably concerning the organization of welfare services. Private alternatives in primary and secondary education were encouraged through a voucher system: public funds for schooling costs were distributed on a per-student basis, with the money attached to each person and thereby awarded to whatever school the student attended – be it public, private, or cooperative. This system is actually one of the most liberal in Europe with regard to public–private neutrality. Nonetheless, public regulation remains a vital part of the organization. School fees are not allowed, admission is publicly regulated, and all schools must be approved by a public inspection board. Apart from decentralizing the school system, the centre-right government continued the deregulation of other welfare services and infrastructures, motivated by efficiency arguments that grew stronger with the need to reduce public debt as well as an ideological preference for private alternatives.

A major reform of upper secondary education began in 1991 and was completed around 1995. The reform, prepared in the late 1980s during the social democratic government, had two main ingredients building on the reforms of the 1960s and early 1970s. First, all upper secondary education – academically oriented as well as vocational – was to be of equal length: three years. Secondly, all upper secondary programme diplomas were made sufficient to qualify for tertiary level education. The most important practical change resulting from the reform was that the vocational secondary education programmes increased in length from two to three years, with most of the added requirements being of an academic and general rather than vocationally specific character. The reform was motivated by considerations related to both growth and distribution. The growth-related argument was that the labour market was believed to be changing in the direction of strongly increasing mobility across employers as well as across occupations. This change required reform towards a broader and more general educational content, with an emphasis on skills that could be used in a variety of settings and as a basis for continuing learning and training throughout the course of working life. The line of reasoning was strongly connected to the international policy discussions of the era, with ‘lifelong learning’ as a dominant theme. The main distribution-related argument was that career opportunities, inter- as well as intragenerational, should be equalized across social classes. In the intergenerational case, social selectivity into higher education would be weakened by broadening college access from academic secondary school programmes alone to all secondary education. Intragenerationally, the reasoning was based on the assumption that a de-emphasis on vocational specificity would reduce class inequality in work–life career chances.

In the 1994 election, the social democrats won easily, due to a general perception that the government had failed to manage the economic crisis successfully. This time, the government would stay in power for three full periods until 2006. The EU application was also put before the general public in a referendum in 1994, a referendum that took place two months after the parliamentary election and was won by the 'yes' side. The strong support from the leadership of the social democratic party, despite a fair amount of internal resistance, was decisive for the outcome, leading to Sweden's entry to the EU in January 1995.

Important changes also took place in the macroeconomic policy setting. This involved, on the one hand, monetary policy, with Sweden abandoning its previous prime commitment to full employment and replacing this with a goal of low inflation. The decision to move to a low inflation regime was officially made in 1993, with the new goal of 2 per cent annual inflation taking effect in 1995. During this period, substantial changes in the area of fiscal policy also came into effect. For central government, this, in particular, involved a rule that the financial savings of the public sector should equal 1 per cent of GDP over the business cycle, and a rule that set a nominal ceiling for public sector spending (including pensions but not interest on the public debt). These rules took effect in 2000, the same year in which an additional rule stipulating that municipalities balance their budgets was also introduced.

Wage bargaining, as discussed above, had been gradually decentralized since the 1980s. Yet, one check to this trend was the creation of the negotiating agreement for the manufacturing industries (*Industriavtalet*) in 1997. After government calls for new bargaining arrangements, unions from the three central confederations and their employer counterparts agreed to a set of rules regulating bargaining procedures. While the agreement basically is procedural, and does not in itself cover wages, it is often said that it has had a major impact on the level of wages both within and beyond the manufacturing sector.

In essence, the agreement stipulated that the scope for average wage increases in the manufacturing industries was to be determined by measured productivity growth, and stated that this sector should act as a wage leader due to its exposure to foreign markets.

The social democratic government was re-elected in 1998, but by a narrow margin. Many voters were critical of the large savings in welfare state expenditures that had been undertaken in order to stabilize the national budget, and punished the government so that it could only stay in power on the basis of organized cooperation with the greens and the left (former communist) party. Nonetheless, the general economy had been improving markedly towards the end of the 1990s. The public budget had largely been restored, employment had been growing significantly in the private sector and was stable in the public sector, and, due to low inflation, nominal wage increases had led to real wage growth in sharp contrast to the 1980s. The government, and in particular the new party leader (from 1996), Göran Persson, who had been finance minister during the most difficult part of the budget restoration process, was eventually given much credit for the macroeconomic improvement. Thanks to improved public finances, welfare state cutbacks came to a halt. On the basis of rising support, the social democrats made large gains in the election of 2002, facing only weak competition from the centre-right opposition that had made large tax cuts their main election issue, a proposal clearly disfavoured by the electorate.

The 2000s: Insider–outsider divisions, employment stagnation and tax and welfare state reform

By the early years of the new millennium, however, clouds had again appeared on the macroeconomic horizon. Employment growth stagnated. Unemployment stopped falling at a level well above the rate that had prevailed before the deep recession a decade earlier. A political discussion of insider–outsider issues gradually gained momentum. The division between the established part of the labour force – prime-age workers with stable employment and good working conditions – and the less well established – the young, the foreign-born, and those nearing retirement with accumulated health problems – was increasingly perceived as sharp and difficult to overcome.

Meanwhile, the major party of the centre-right opposition, the 'moderates', was licking its wounds after its severe losses in the 2002 election. A new party leader, Fredrik Reinfeldt, was elected, who quickly replaced a large fraction of the former leadership segment. Reinfeldt reframed the party as centrist and began to describe it as the 'new worker party'. An obvious influence behind this shift was the move towards the centre by Britain's Labour Party under Blair and Brown in the 1990s. The new leadership spent the years leading up to the 2006 election on two tasks: first, refining the formulation of the main social and economic problem of the era as 'outsiderness', alluding to persons receiving benefits due to weak labour market attachment; and, secondly, fine-tuning the image of the 'new moderates' as the party able to solve the outsider problem.

The social democratic government instead claimed that the stagnant employment rates and the problems of marginal groups were mainly a cyclical rather than structural problem, and that labour market reforms were therefore not needed. This stance was perceived by many as passive and unrealistic. In the election of 2006, the centre-right opposition won on the basis of their message of improving the general employment rate by removing labour market barriers. The victory was remarkable in that it was the first time since the 1920s that the social democrats had lost at a high point of the business cycle. The centre-right governments that had taken office in 1976 and 1991 were both elected in the early phase of a deep macroeconomic downturn that, in both cases, became highly consequential for the policies they came to pursue, and made both of them fairly short-lived.

The Reinfeldt government, formed in October 2006, was thus able to take advantage of good economic times when introducing its policies. Of course, the macroeconomic situation was soon to change dramatically as the worldwide financial crisis set in less than two years later. But at the time when the centre-right government took office, the level of general labour demand was rising. This provided part of the motivation for a focus on supply-side measures to increase employment rates. There were three main ingredients in the new policies: first, unemployment insurance fees were raised significantly and their level tied to the unemployment rate of each insurance association (in turn affiliated to specific trade unions). The purpose was to provide incentives for wage moderation among the trade unions. Secondly, rules regarding long-term sickness absence and early retirement were tightened to force faster returns to the labour market. Thirdly, an earned-income tax credit (EITC; *jobbskatteavdrag*) was introduced, which lowered the tax rate for all employed workers. In absolute terms the tax cut increased slightly with income, while in percentage terms it was larger for low-income workers. Again, the main motive was to improve work incentives. The EITC was expanded several times in the following years, and by 2010 had reached the level of an approximate monthly salary for a low-income worker. A fourth reform, a return to greater differentiation between academic and vocational tracks in upper secondary school motivated by rising dropout rates following upon the reforms of the 1990s, was also initiated and due to take effect in 2011.

It is difficult to judge whether the reforms have had the intended impact on employment rates, because the global financial crisis arrived in late 2008/early 2009. Due to the ensuing fall in labour demand, total unemployment in 2010 was higher than at the time of the 2006 election. As usual in a recession, the young, the foreign-born, and the low-educated were hit especially hard. The September 2010 election was dominated by the jobs issue. For the first time ever the social democrats allied themselves formally with other parties – the greens and the left party – aspiring to form a coalition government. The red–green election manifesto included plans to restore the pre-2006 rules regarding unemployment insurance, to at least partly restore the previous sickness insurance rules, and at least partly withdraw the earned-income tax credit. In general, the three-party left alliance criticized the centre-right government for doing too little to raise labour demand, for increasing inequality too much by its supply-side reforms, and for undermining welfare state programmes through deficit-generating tax reductions.

Despite the rhetoric on both sides of the left–right political spectrum, however, it is clear that the differences between them have diminished in important respects. The battleground of the 2010 election, that left the incumbent centre-right government in power, was located in a fairly limited area in the political centre. The major left and right parties tend to agree on the current macroeconomic policy regime as well as on the main elements of a comprehensive welfare state, although there are clear differences with respect to exactly how comprehensive the welfare state should be. The main point of contention is how to view the situation of marginal groups in the labour market. How are they best integrated, and how much inequality of various kinds is acceptable within the labour force, outside it, and between the labour force and those outside? This is the most burning issue of the day, and not only in Sweden.

Economic globalization in Sweden

Sweden's politico-economic history since 1975 is thus in many ways a history of dramatic swings. In contrast, economic integration has displayed a steady upward trend. Sweden is a small country engaged in extensive international trade, something illustrated by the fact that its level of foreign trade is close to the OECD average unweighted for population size and considerably higher than the weighted average (Heston et al., 2002). Large by tradition, trade flows have increased further over recent decades. Figure 7.2 shows that the rate of trade openness (imports and exports to GDP) was essentially stable during the 1950s and 1960s, but that a process of globalization (foreign trade growing faster than GDP) began in the early 1970s. Although the trade-to-GDP ratio fell from the mid-1980s to the early 1990s, partly due to the booming domestic economy during those years ending with overheating and an economic crash, globalization has since continued at a rapid pace. This also marked a turning point in the sense that exports now increased faster than imports, in contrast to the earlier period when the value of imports and exports was roughly equal. Since the early 1970s, international trade has roughly doubled as a share of GDP, a pace close to the OECD average.

Figure 7.2 also shows the development of Sweden's financial openness (here defined as total foreign assets and liabilities in per cent of

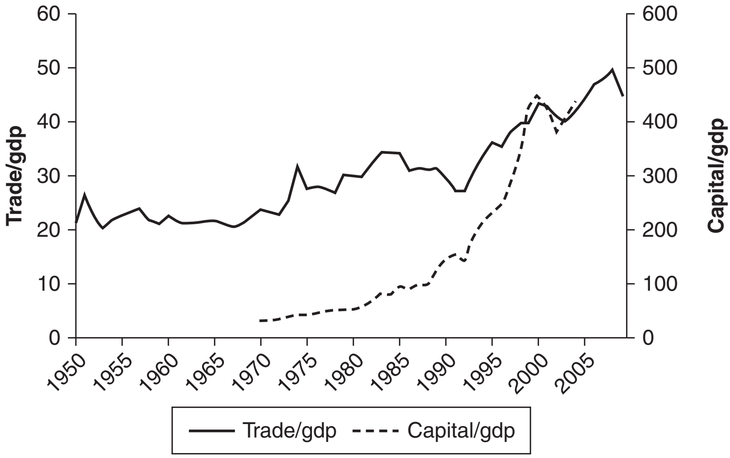

Figure 7.2 Trade and financial openness, 1950–2009
Sources: Statistics Sweden, National Accounts; Lane and Milesi-Ferretti (2007).

GDP), and it is evident that financial integration initially increased in tandem with the growth in international trade. It thus rose at a steady but rather measured pace between 1970 and roughly 1990. However, the series of deregulation initiated towards the end of the 1980s allowed financial integration to accelerate extremely rapidly, quadrupling by the year 2000.

The final aspect of economic globalization, migration, has displayed a much more varied pattern. Rather than the trend-wise increase evident in the other two areas (trade and capital mobility), migration has fluctuated substantially. Nevertheless, throughout these migratory ups and downs, immigration almost invariably exceeded emigration. The positive net migration consequently resulted in a steady increase in the percentage of foreign-born, almost doubling it from 7 per cent in 1970 to 12 per cent in 2005 (SCB, 2010).

Nevertheless, whether this increase in immigration should be regarded as an indication of an increasing economic globalization is debatable. The early 1970s did not just mark a sea change with regard to Swedish trade openness; it was also the time when migration changed character. In the face of an increasingly slack labour market, the substantial recruitment of foreign labour that had characterized much of the 1950s and 1960s was reduced drastically. Immigration instead came to involve refugees and their families to a much greater extent (Hedberg and Malmberg, 2008). Between 1980 and 2005, refugees and their families received at least around 20 per cent of the granted residence permits;

and in the peak year 1994, refugees accounted for 75 per cent of permits (Migrationsverket, 2010). The fact that only part of Sweden's immigration is work related suggests that labour migration is the least important aspect of economic globalization. Still, irrespective of whether they came as part of economic globalization or not, refugees settling in a country clearly will have an impact on the receiving labour market.

To summarize, the past 40 years have involved a dramatic escalation in Sweden's international integration. Although starting at a relatively high level, trade openness increased notably after the first oil crisis in the early 1970s. After a brief lull during the latter half of the 1980s, a new surge occurred in the aftermath of the dramatic economic downturn in the early 1990s. At the same time, financial openness became a real issue. The change in migration has also been striking – in extent but even more so in character. Successive waves of refugees from South America, Eastern Europe, and the Middle East have also transformed the Swedish labour force, even if their arrival was largely unrelated to economic globalization.

Globalization and other explanations of growing inequality

As outlined above, the period of increasing globalization has been dramatic both economically and politically. The economic drama obviously includes the strong swings in unemployment, but as we shall see in a moment it also encompasses a highly significant increase in earnings and wage inequality. What could explain the remarkable swings in the inequality of work and pay, and how much, if any, of this could be said to be due to globalization? To approach these questions, we shall first provide some additional detail on unemployment and on wage inequality. We then turn to explanations, focusing initially on the various forms of economic globalization, and reviewing the current evidence on these. We subsequently examine some alternative explanations, such as skill-biased technical change, a shift in bargaining systems, and new public management.

As was shown in Figure 7.1, the rate of unemployment was low and fairly stable until the recession in the early 1990s. It then rose dramatically to levels not seen since the 1930s, and, despite some reductions, has since remained clearly above pre-crisis levels. The rise in unemployment has affected all groups, but youth and the foreign-born have been hit particularly hard.

As for wage inequality, the first three groups of bars in Figure 7.3 show the evolution of three different inequality measures (CoV, SD log, and

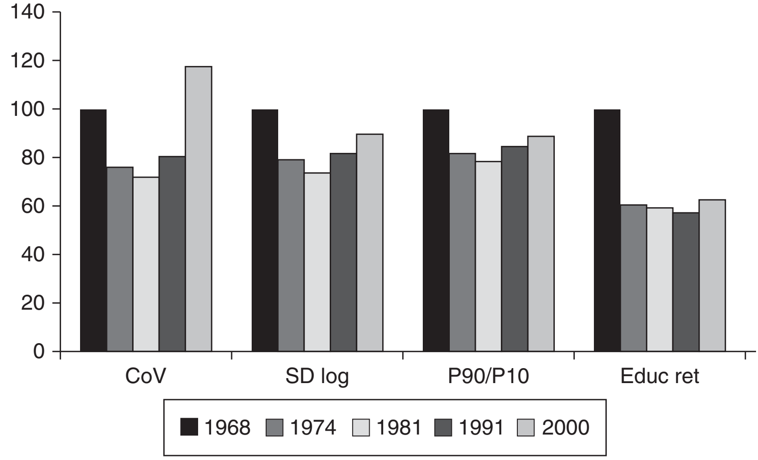

Figure 7.3 Wage inequality and educational wage premium, men, 1968–2000
Sources: Level of Living Survey (own calculations).

P90/P10) among men for the period 1968–2000, indexed with 1968 set to 100. All three measures display a markedly U-shaped pattern. Regardless of the specific measure used, the degree of inequality reached a low point in the early 1980s and has increased since then. The coefficient of variation (CoV) in 2000 even exceeded that in 1968, and because it is relatively sensitive to changes at both ends of the distribution, it illustrates the fact that wages have increased most at the upper end. More recent figures show that the increase in wage inequality has continued after 2000 (Konjunkturinstitutet, 2007).

Explanation I: Economic globalization

In what follows, we review the available evidence on the relative employment and wage effects in Sweden of international trade, international capital mobility, and international migration. The focus is thus on inequality, and not on total employment or on levels of earnings.

Up until the early 1990s, the steady increase in trade derived mainly from an increase in trade with other OECD countries (Edin et al., 2000). Trade with low-income countries has since grown, but at a relatively moderate pace. Between 1990 and 2004, imports from low-income countries thus expanded from 8.3 per cent of all imports to 11.9 per cent (EEAG, 2008).

This modest growth has had modest effects. Hansson (2000) examined the period between 1970 and 1993, and found relative demand effects that were judged to be small in relation to the effects of technological change (and largely limited to the textile industry). Bandick and Hansson (2009) studied the period 1986–2000, and although the basic results were very similar, the effects were somewhat larger and also more widespread. On the basis of these two analyses, one might conclude that trade has become increasingly important for relative labour demand, yet, as we shall see below, this growth applies to a shrinking part of the economy.

It has also often been assumed that the macroeconomic gains from increased international trade have come at the price of growing economic volatility. This does not seem to be true, at least not for Sweden in the years 1985–2003. Whereas the rate of short-term earnings fluctuations tended to increase somewhat over this period, the rise in volatility was not stronger in manufacturing than in private and public services; this was equally true for a number of subcategories of the employed, defined by gender, age and education (Hällsten et al., 2010). This strongly indicates that economic globalization has not played a prominent causal role, because employment sectors that vary widely in their exposure to international competition display highly similar change patterns.

While international capital mobility can take many different forms, most of the interest in relation to labour market developments has focused on foreign direct investments (FDI). Swedish inward and outward FDI both increased between 1970 and the early 1990s, with outgoing investments exceeding incoming by an increasing amount (Andersson, 1994; OECD, 1994). Again, as with trade, most of the growing outward investments during this period were directed towards other European countries (Andersson, 1994). However, when outgoing investments picked up in the latter half of the 1990s, expansion also took place in Central and Eastern European countries (Hansson, 2001).

Regarding the consequences of the changes for employment in Sweden, Blomström et al. (1997) found that foreign investments in the period 1970–1994 were associated with greater labour demand in Sweden. There were some indications that the foreign investments favoured domestic blue-collar employment more than white-collar. A later study (Hansson, 2001) suggested that this effect on relative labour demand may have changed. Employment among high-skilled workers thus remained constant during the period of rapid investment growth in Central and Eastern Europe in the 1990s, whereas employment among the less skilled declined.

Even if migration may be the least important part of economic globalization, it is the one in which the connection to increased work–life inequality has been the most obvious. The rise in refugee immigration in the early 1990s thus coincided with the national and international economic downturn. The immigrants arriving from the disintegrating former Yugoslavia entered a labour market in which around one-tenth of the domestic labour force was looking for work. Under these circumstances, it is not surprising that they had difficulties finding employment, and things had only improved somewhat when refugees from other parts of the world started arriving. As a result, rather than the below-average unemployment characterizing the decades of labour migration, unemployment among foreign-born has since been substantially higher than among those born in Sweden.

Nevertheless, immigration's impact on the wage and earnings distribution seems to have been relatively limited. In what appears to be the only more recent study on this topic, Korpi (2009) found that immigration in the period 1993–2003 had no clearly discernible effect on regional earnings inequality.

This all suggests that the impact of international trade, investment, and labour mobility on the Swedish labour market has been relatively limited. This is not to say that there have been no effects; FDI does, for instance, seem to have affected the relative demand for less-educated labour, and migration has clearly contributed to the rise in unemployment. Nevertheless, neither of these seems to be able to provide the main explanation for the dramatic changes in Swedish work–life inequality that have taken place.

Explanation II: Technological change

So if it is not economic globalization that is driving the changes in labour market inequality, what is then? One prime candidate is skill-biased technological change (SBTC), or the replacement of jobs requiring little skill with jobs requiring more skill as a result of technological development (broadly defined and also including changes in the organization of work). This is a modern-day version of the classical upskilling thesis, in which technological innovation was said to lead to the eradication of routine work tasks (see for example Blauner, 1964; Fuchs 1968) and the concomitant rise of the post-industrial (or service) society (see Bell, 1973; Clark [1940] (1951); Kern and Schumann, 1984; Kerr et al., 1960; Piore and Sabel, 1984). The basic thesis is that SBTC has initiated a shift in labour demand away from low skill towards high skill work, generating the increased variation in pay that frequently has been observed (Atkinson, 2007).

That substantial deindustrialization has taken place is unquestionable. As shown by Figure 7.4, the service sector has grown from below 60 to around 75 per cent of all employment since the mid-1970s. During the same period, the employment share of manufacturing has declined from almost 30 to around 15 per cent. These trends would appear to be highly relevant in the context of globalization: manufacturing is the industrial sector that is most exposed to foreign competition. As this sector declines, so does the share of all employees who are directly facing global markets. In fact, since the 1970s international trade relative to GDP has roughly doubled in size (see above), while the manufacturing share of all employment has been roughly halved. These two trends in combination have apparently cancelled each other out numerically. Although there are countervailing aspects such as a significant part of the service sector expansion consisting of services directed towards manufacturing firms, the direct exposure of workers to foreign markets has probably not changed much in recent decades, because the globalization of trade has been counteracted by technologically driven employment declines in manufacturing.

The service society has, in other words, arrived. This is frequently believed to have changed the structure of labour demand, favouring the highly educated and driving up employment, wage, and earnings inequality. The prime indicator for this shift has often been the change in educational wage differentials, which in many countries increased after the mid-1980s following some years of decline. The last group of bars in Figure 7.3 show the wage returns to education in Sweden, more specifically the estimated coefficient for education in a standard wage equation again indexed with 1968 set to 100. Here too there is an increase since the early 1990s. However, although the measures are not directly comparable, it is notable that general wage inequality displays a substantial increase in recent years whereas the increase in the wage returns to schooling is relatively slight. This suggests that the growth in wage inequality is related to compositional changes in the labour market. The high-skill category of employment is relatively heterogeneous with a wider internal wage distribution than the low-skill employment category. As the former category grows and the latter declines, overall wage inequality increases even if the wage premium for

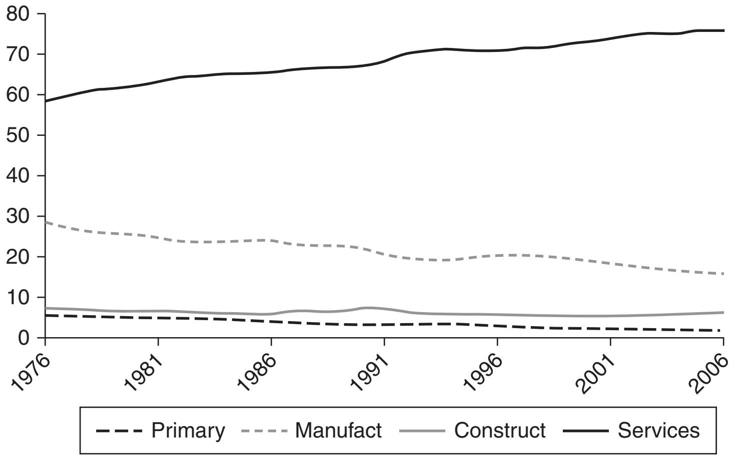

Figure 7.4 Sectoral distribution of employment, 1976–2000
Sources: Statistics Sweden.

education remains stable (see Lemieux, 2006 for a discussion of such compositional effects).

Part of this heterogeneity is related to hierarchical differences, and the wage premium to authority has grown strongly (see le Grand et al., 2001). It is not clear what has caused the manager wage premium to rise, but rising management premiums will obviously increase general wage inequality. Among factors that have been discussed is for instance a decline in importance of fair-pay norms, an increasing salience of top managers in globalized enterprises, or a reduction in the application of fixed salary scales (see Atkinson, 2007).

The changing structure of labour demand towards more high-skill work has been more consequential for employment patterns by skill than for the wage structure among the employed. This distribution of employment and wage effects is in accordance with the expectations for a country with a fairly regulated – and therefore relatively rigid – wage structure (see Krugman, 1994). In Figure 7.5, the labour market among employees is divided into four categories according to skill supply and demand. The high-skill category – workers with at least a high-school education in jobs requiring at least that educational level – has grown strongly since the mid-1970s and now dominates the labour market. In contrast, the low-skill category – with both workers' education and job requirements being below the secondary level – dominated working life in the 1970s but now encompasses only around one-tenth of the

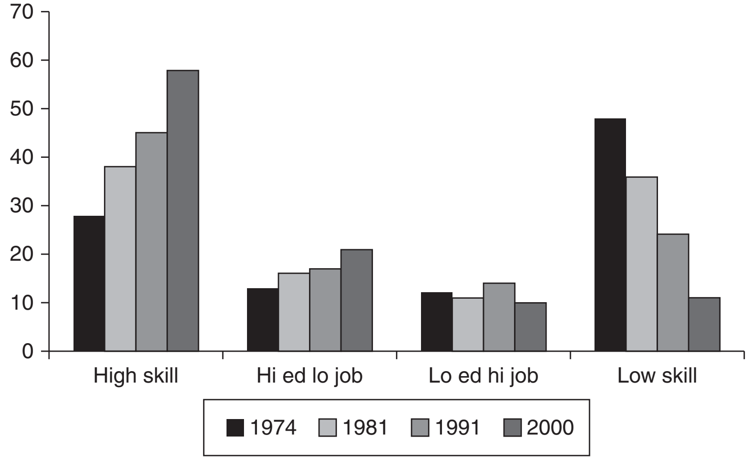

Figure 7.5 Educational supply and demand, 1974–2000
Sources: Level of Living Survey.

labour market. In between the high-skill and low-skill categories are two segments characterized by mismatch, of which the over-education category has grown significantly while the under-education category has fluctuated in size.

Overall, the picture is one of clear skill upgrading in the labour market, with both increasing skill supply and demand, but with supply ahead in the race. One explanation for the lack of a substantial increase in educational wage differences is thus simply that the edge of skill supply over demand during the period puts a downward pressure on educational wage returns (see Atkinson, 2007). However, upgrading may still play a role in that it is associated with compositional changes, changes that in turn impact on overall wage inequality. Upgrading will also have made it increasingly difficult for individuals with low educational qualifications, as they may be bumped by more educated individuals unable to find highly qualified jobs.

Explanation II: Institutional change

Inflation targeting

As described in the historical panorama, Sweden underwent a dramatic shift in political stance in the early 1990s. Throughout the post-war period, full employment had been the primary economic and political goal. When unemployment started rising following OPEC I and II, fiscal activism was assigned a major role in the attempts to keep it down. A subsequent unemployment increase in the early 1980s, to the historic heights of 3 per cent, resulted in a public outcry, a new government, and large-scale monetary intervention. In this light, the declaration by the social democratic government in late 1990 that the fight against inflation must be prioritized and the subsequent announcement by the central bank that a low and stable inflation rate would be the pre-eminent economic goal was an extraordinary break with the past.

Despite its clear-cut appearance, targeting involves a number of policy decisions of which two should be mentioned here. The first involves the formulation of the target. The Swedish central bank, the Riksbank, set a target at an annual inflation rate of 2 per cent, with an acceptable deviation of one percentage point above and below. The official motivation is that this happened to be the level of inflation at the time of the introduction of the target, and that it was in line with the targets in other industrialized countries. Although the official stance seems to be that the level of the target does not influence the long-run level of unemployment, an argument has been made in favour of raising the target level (Lundborg and Sacklén, 2002).

Another issue regards the implementation of the target. Whereas the central bank should be equally concerned with inflation being too low as with it being too high, in practice, the former seems to be regarded as a lesser evil. Inflation has thus routinely ended up below the 2 per cent target, and the consistency with which this has occurred has caused some anxiety. Indeed, annual inflation was at times below even the lower bound of the inflation target. The central bank thus seems to have 'overachieved', at the cost of unnecessarily high unemployment.

Whether this should be ascribed to a relatively flat learning curve, overzealous policy making or some other factor is unclear. What is clear, however, is that the eradication of inflationary expectations, the reason for the introduction of the target, has been associated with an exceptional increase in unemployment (see Holmlund, 2009 for a discussion of the importance of anti-inflationary policy for the development of unemployment). This shift is clearly evident in Figure 7.1. However, this has not resulted in the wished-for 'recalibration' of the labour market and the return to full employment. Precisely how much of the rise in unemployment should or could be attributed to the switch to a low inflation regime is of course difficult to determine, and although policy mistakes have been acknowledged, supporters claim they have been minor. Nevertheless, the focus on keeping inflation in check, a result of inflationary problems in the old regime, has downplayed high labour demand, a level of demand that previously *inter alia* benefited marginal groups such as youth.

Wage setting

In order to understand the increase in earnings inequality in Sweden, both between and within groups, other institutional changes also need to be considered. As noted above, up until the early 1980s, wages were determined to a large extent through centralized collective bargaining at the national level. A 'solidaristic' wage policy aiming at equal pay for equal work, regardless of the profitability and productivity of the firm or industry, was widely pursued, with the explicit purpose of minimizing variation in wages between similar jobs across firms and sectors. These agreements did not completely determine wages, and local wage setting was for instance evident in wage hikes beyond those required by the central agreements. However, in the view of employers this flexibility was insufficient, and the various employers' federations strove to move wage determination to the firm level. The attitudes among the trade unions to this new strategy have been mixed, with some reacting more favourably than others. The result has been a general decentralization of wage negotiations, but to varying extent. Firm-level bargaining has thus spread, but industry-level bargaining in many cases still plays an important role.

An important aspect of this decentralization is the increased scope for individual bargaining in several (mainly high-skill and/or white-collar) employment categories, with only a small fraction of collectively settled average wage growth distributed uniformly across workers. Hence, the scope for variation in earnings, both between and within groups, has increased markedly in Sweden during the last decades. This is also visible in differences and trends in wage dispersion within and across sectoral bargaining agreements. Sectors with a high degree of local wage setting display greater wage variation than sectors with more centralized wage setting, and sectors with increasing decentralization of bargaining also evince increasing wage dispersion (Konjunkturinstitutet, 2007). The importance of this decentralization of bargaining is underscored by the fact that it coincides with, and is perhaps partly dependent on, the increase in employment in white-collar sections of the economy described above. Although centralized wage bargaining still plays a role, what decentralization there is has come to apply to increasing portions of the labour force.

Another important development related to wage setting has been the changes occurring within the public sector. Long a bastion of wage equality, the introduction of New Public Management (NPM) has had a considerable impact on the Swedish labour market. Partly, this is a compositional effect, as one of the core NPM ideas had been to privatize parts of the public sector. As noted above, this initially involved the large public enterprises, but has since expanded to include services such as education and health care. This could be expected to lead to an increase in overall inequality, as the previous public entities adapt to the increasingly unequal business practices of their new context. Moreover, even in what remains of the public sector, things have changed. The individual level bargaining mentioned above has not been limited to the private sector, but has also become common among upper level white-collar workers in the public sector. This should also have generated increased wage dispersion; and wage inequality in central and regional government has also increased noticeably and almost as sharply as among private sector white-collar workers (Konjunkturinstitutet, 2007).

The drastically reduced overall labour demand has hit some groups harder than others, and in particular youth and immigrants experience serious problems. Their relative precariousness can potentially also be linked to another aspect of wage setting: bargained minimum wages. These have recently risen in some key sectors of the economy, something which may have aggravated the position of labour market entrants further. Industry-specific minimum wages are set in collective agreements, and these may include clauses relating them to occupation, age, or experience. It has been observed that in both the retail and the hotel and restaurant sectors, minimum wages have risen continuously in relation to average wages since the mid-1990s after a period of decline or stagnation. Given that private services is the one sector displaying strong employment growth, the increased wages in retail and restaurants could well have contributed to the deterioration in youth employment prospects, because these are two sectors that traditionally employ a large number of youths. This could, of course, also have affected immigrants' employment opportunities, as they are also entrants to the labour market. Exactly how important this development has been is difficult to judge. Wages in retail and restaurants are not representative, and in construction, manufacturing, and the municipal sector, relative minimum wages have decreased (Konjunkturinstitutet, 2007; Skedinger, 2007, 2008). It should also be noted that minimum wages may differ from actual wages, and that the decline in the minimum wage in relation to average wage prior to the 1990s coincided with a long-term increase in relative youth wages. As pointed out earlier, this had only limited impact on youth unemployment.

Looking to the future

Sweden's post-war development reveals two major turning points: the early 1970s and the early 1990s. In the 'golden age' of the post-war period, 1945–70, it was possible to pursue the twin goals of raising the mean and reducing the dispersion of employment and wages both jointly and successfully. The four decades since the end of that era have witnessed the establishment of a more trade-off-like situation in the labour market. In the first two of these decades, the 1970s and 1980s, equality in employment and wages remained intact, but real wage growth suffered heavily. In the two most recent decades, in contrast, real wage growth has been restored, but equality – especially in employment but also in wages – has suffered.

It seems that the two major assets of an equality-producing labour market regime and strong economic and real wage growth have become difficult to achieve in combination. After the 1970s recession, an expansionary monetary policy and wage settlements at high nominal levels produced a high-inflation, low-unemployment environment. This worked fairly well for a while, but at the cost of stagnant real wages. This regime came to an abrupt end in the early 1990s, with a mirror image set of problems and successes following in the wake of the recession: strong growth in real wages, in large part thanks to low inflation, but high rates of unemployment and non-employment in large fractions of the population and rising wage inequality among the employed.

It is tempting to explain retrospectively any chain of economic and political events, such as the one we have described above, with explicit strategies or hidden agendas of major interest groups or public actors. But in reality, much or even most of what goes on may be the unintended and long-run outcomes of short-sighted micro-level behaviour. In general, the changing character of micro-level actions have unintended macro-level consequences that shape the context of purposive collective action. This does not mean that the course of events cannot be rationally explained, only that rationality operates in many forms – at different levels, from micro to macro, and with different time frames – with tensions and inconsistencies between them.

The most important issue for the future is whether the two goals of growth and equality will continue to be traded off against each other, or whether the golden age situation of joint goal fulfilment can somehow be recreated. On the basis of the current public discussion of broader policy issues, we envisage three main scenarios for the future: the first and presumably most likely scenario is that the current situation will continue. This is a variant of 'jobless growth', with the twist that employment may grow significantly but will still remain clearly below the level of the 1980s. Wage inequality would remain higher than in the 1980s, yet not grow significantly beyond current levels. This scenario seems most likely, because it is based on a continuation of current policies, that is, it involves no changes in parliamentary politics or in power relations on the labour market.

The second possible development is that real wage growth and high employment rates are obtained at the cost of a further increase in wage inequality. This, in principle, need not imply increasing general economic inequality, at least not in the short run. If employment expands significantly, and future low-wage jobs tend to pay more than current non-employment, the overall rate of economic inequality may fall rather than increase. Suppose that large proportions of the young, the low-educated, and the foreign-born can move from non-employment to employment via starting wages that lie below current starting wages but above the income level of current non-employment. In that case, the overall employment rate will rise without overall economic inequality increasing. The long-term outlook for overall inequality in this scenario is however uncertain, the main restraint on a change in this direction being the fear among labour unions that a reduction in starting wages will put downward pressure on the entire wage structure. Whether such a transformation of the wage structure will materialize would appear to depend mainly on the balance of power between labour unions and employer organizations and on the character of the relations between them. Despite obvious differences in opinion between the two parties, the relationship has been characterized, from an international perspective, by peacefulness, *inter alia* due to the relatively strong position of Swedish unions. The recent plunge in union membership may therefore foreshadow both an upsurge in labour strife and a drop in low-level wages. Such a development could also be amplified by the much-debated changes in labour law and bargaining regulations introduced by rulings of the European Court of Justice (ECJ) and reductions in income taxation introduced by the centre-right government that took office in 2006. Several factors thus point in the direction of this second scenario, yet how it will affect both long-term growth and equality remains to be seen.

Here we may in passing note that the ECJ rulings probably represent the consequence of Sweden's EU accession with the most immediate relevance to the labour market and labour market inequality. While accession has had a clear impact on for instance governance (Tallberg et al., 2010), its impact on macroeconomic and labour market policy and the like seems in Sweden's case to be mainly indirect and then by accentuating or consolidating pre-existing domestic policy trends (e.g. Calmfors, 2005).

A third, and least likely, scenario is a return to the high employment–low inequality situation of the 1970s and 1980s. Whether this is practically feasible may be doubted, because the economic, political, and social context has been radically transformed since the earlier era. To begin with, Sweden would have to pursue macroeconomic policies distinctly different from those of other OECD countries without being punished by international markets. Even if this were possible, it presupposes that slow growth in real wages – as a consequence of higher inflation – is accepted as a price worth paying for high employment rates and limited wage inequality. The scenario is made even less likely by the lack of actors striving for macroeconomic policy change; none of the major parties or partners is currently pursuing any radical alterations to the existing regime. Further, the old regime of the so-called golden age operated in an environment that was distinctly different from today's context in the sense that the composition of the population has changed in several fundamental ways. One example here is educational upgrading and the associated shift in individual preferences and increased tensions between the different roles that each individual plays – as citizen, worker, and consumer. The outcomes of consumer choice and worker preferences may be undesired by many citizens, yet be produced by the same individuals, and vice versa.

The inequality shifts documented above thus emanate from a set of causes with technology, education, preference transformation, macroeconomic policy making, public finance, and labour market regulation as central factors. All these causes obviously have international elements; crucial developments in these areas occurred more or less simultaneously in many countries. For instance, the start of the process of educational expansion and political radicalization was in the 1960s, and this was common to most OECD countries at the time, although their effects were filtered through nation-specific institutions of various kinds and therefore cross-nationally variable. Nevertheless, they tended, broadly speaking, to promote welfare state expansion and labour market regulation with both, in the short term, reducing economic inequality.

Similar synchronized developments may also be outlined with respect to the other causes.

The international dimension of the major causes involved may justify describing them as tied to 'globalization', but we think that such a label is rather misleading, at least as long as an explicit discussion of mechanisms is left out. In our reading of the globalization literature, the main chain of mechanisms believed to transform the structure of labour market inequality is that (a) increased competition in international markets leads to (b) rising uncertainty and thus volatility in labour demand, and this, in turn, leads to (c) deteriorating living conditions for vulnerable groups such as youth, women, immigrants, and low-educated workers, thereby increasing inequality rates along a variety of dimensions.

This chain of events starts with the rise in economic globalization in the early 1980s, although with some variation across countries. In contrast, the causal scenario we sketch begins earlier, and the international factors of interest are not so much economic as political and perhaps cultural. Educational expansion is a worldwide phenomenon, and typically exceeds, or at least significantly deviates from, the labour market demand for education. In the view of sociological institutionalism (see, for example, Schofer and Meyer, 2005), the strong rise in educational attainment from the early 1960s is tied to general modernization factors such as democratization and scientization rather than a mechanical response to technological change. They claim that the secular educational expansion far exceeds any rise in work–life skill requirements. A more traditional economic view sees education and technology not as fundamentally decoupled from each other, but as engaged in an internal race (Goldin and Katz, 2008; cf. Tinbergen, 1975), and with the temporary outcome of that race determining the direction of trends in earnings inequality. Likewise for political climate: the anti-establishment revolt in many countries in the 1960s was clearly more political and cultural rather than narrowly economic in character. Yet, both rising education and political and cultural radicalization were, to a large measure, economically driven phenomena as well as interdependent. Human capital theory was developed around 1960 and was based on the empirically grounded belief that economic growth was strongly and positively affected by the rising educational attainment of the population. This became one important – but far from the only – motivation for the large educational expansion in the following decades. Further, the protest movements among young people in the 1960s emerged at the peak of post-war economic affluence. Still, it is important to note that the mechanisms involved here, while clearly associated with economic factors, are not tied primarily to economic globalization. Although international features were no doubt involved, these appear to have been more political and cultural than economic.

The influence of the political and economic climate of the 1960s had stronger effects in Sweden than elsewhere, because Sweden's labour movement was exceptionally strong. For related reasons, the climate of the 1980s, which was radically different from the 1960s, had a relatively large impact on Sweden, because of the exceptionally strong tension between the institutions that had been put in place in the 1970s and the new model of market deregulation combined with Ulysses-type policy constraints. As documented by Bergh and Erlingsson (2009), market deregulation since the 1980s has been more dramatic in Sweden than in any other OECD country. The exception is the labour market, where changes in labour law have been limited to liberalizing rules for temporary employment. The resulting clash between changing and stable structures almost invariably creates tensions – tensions that will continue to work themselves out in the coming years. Institutional change is therefore likely to occur, but its direction and consequences for growth and distribution are currently open questions.

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