



The Power Elite – They All Want More

*A study of income trends
from 1950 to 2007*

This is an excerpt

The Swedish Trade Union Confederation

This report compares income development between the power elite and industrial workers from 1950 to 2007. The report also focuses on the income and bonuses for venture capitalists.

On the cover:

Annie Jäderlund, 25 year, The Swedish Paper Workers' Union
Production operator at Södra Cell Mönsterås

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Contents

The Swedish power elite, incomes 1950–2007	4
Incomes of venture capitalists	14

The Swedish power elite, incomes 1950–2007

Introduction

People in the top positions in industry and commerce, politics, finance, and in other important public sector areas are not reported as a separate group in the official wage statistics. Our purpose here is to offer insight into the evolution of differences in pay between the average worker and the elite. Our point of departure is the significance of the power elite receiving far higher incomes than the people affected by their decisions. Variations in trends in these earnings gaps also tell us something about our society.

This chapter presents an account of income evolution for the power elite from 1950 to 2007 in comparison with the trend for an industrial worker's income over the same period. This method allows us to follow changes in the relationship between industrial workers and the group we define as the power elite for a period of just over 50 years.

The study covers a total of 198 positions in industry and commerce, politics and different areas of the public sector. No report was published last year, and both 2006 and 2007 income years are therefore covered here. As from Report 3, we also make a separate study of chief executive officers of the fund companies that manage Swedish shares in the premium pensions system.

Who are the power elite?

We have selected 200 positions in Sweden that we consider representative of the positions with the greatest power and influence in Swedish society. These positions can be divided into eleven power groups.

- chief executive officers in industry and commerce
- politicians and officials in government and parliament
- representatives of the social partners
- general directors and chief executive officers in public authorities and state-owned companies
- politicians and officials in the ten biggest municipalities
- managers in municipal companies in the three biggest cities

- representatives of the traditional “powered classes”
- media directors/editors and journalists
- representatives of the university and research world
- chief economists
- representatives of the popular movement organisations

Income – not salary

Many top positions also entail external commitments such as directorships and committee assignments that provide additional income. Thus, the total income amount gives a better picture of the actual financial level associated with the position than does the salary alone. It is also this income that we can collect information about from the Swedish Tax Agency. The figures reported in this chapter therefore refer to the total income of a person in a given position during the audit year, and not the basic salary for the position.

Two measures of income are presented for all positions – earned income and total income. The latter also includes returns on equity and income from/deduction for business. Comparisons with industrial worker wages are based solely on total income. Over time, people in highly-paid positions can often amass enough wealth to generate income from capital or income from business. It is therefore reasonable to base the comparisons on total income.

The business community continues to have the highest incomes

The average income for the entire power elite as we define it was equivalent to 18.2 industrial worker wages in 2007. This means that the entire total income for this group was SEK 5.1 million, (0.55 million EUR) as against industrial worker earnings of SEK 280,000 (30,270 EUR).

Our study includes a chief executive officer with an income equivalent to 1,400 industrial worker wages in 2007. The figure added for this income was maximized to 200 industrial worker wages. The industry and commerce group, which consists of 50 chief executive officers in the biggest Swedish companies, have the top incomes, with an average income of SEK 14.2 million (1.54 million EUR).

Next comes the group of general directors and CEOs in the public sector, with an average income close to 17 industrial worker wages. The

group's average is raised by the high incomes of the CEOs of Telia and Vattenfall. With those excluded, the average income drops to 11 industrial worker wages.

The economist group consists of chief economists at the three big banks and the social partners, as well as the chief of the Stockholm Stock Exchange, now OMX, as well as the Swedish Financial Supervisory Authority. The average income of this group is more than 12 industrial worker wages. The average is brought up by the OMX CEO, and with this position excluded the average of the economist group is 7.6.

The incomes of the social partners' representatives are an average of 9 industrial worker wages. The Directors General of the Confederation of Swedish Enterprise and the Association of Swedish Engineering Industries, as well as the Chairman of the Board of the Confederation of Swedish Enterprise have considerably higher incomes (over 20 industrial worker wages) than the others. If the latter are excluded, the average will be 4.7. For other groups in our study, the average income lies between 3.4 and 6.9 industrial worker wages.

The government/parliament group's incomes went up from 3.5 to 6.9 industrial worker wages in 2007. This boost reflects the considerable rise in the average due to the right-wing government and parliamentary majority, and is largely attributable to the capital incomes of a few individuals.

A division into three elite groups

Each of these eleven elite groups has too few people to allow any important conclusions to be drawn on income trends. Many of the groups consist of only 10 people. To enable us to make broader comparisons we created three larger groups: industry and commerce (50 people, which we call the economic elite; popularly elected and elected representatives (52 people) – the democratic elite, and others (96 people) – the bureaucratic elite. This last group is, however, very mixed and includes, for example, the King.

The average income of the economic elite in 2007 was equivalent to 51 industrial worker wages. The incomes of the two other groups were considerably lower. The average for the bureaucratic elite was 7.5 industrial worker wages, and the democratic elite 6.7 industrial worker wages.

Five positions stand out in the bureaucratic elite by having incomes

Incomes of the power groups and the Prime Minister 2005–2007

Number of industrial worker wages

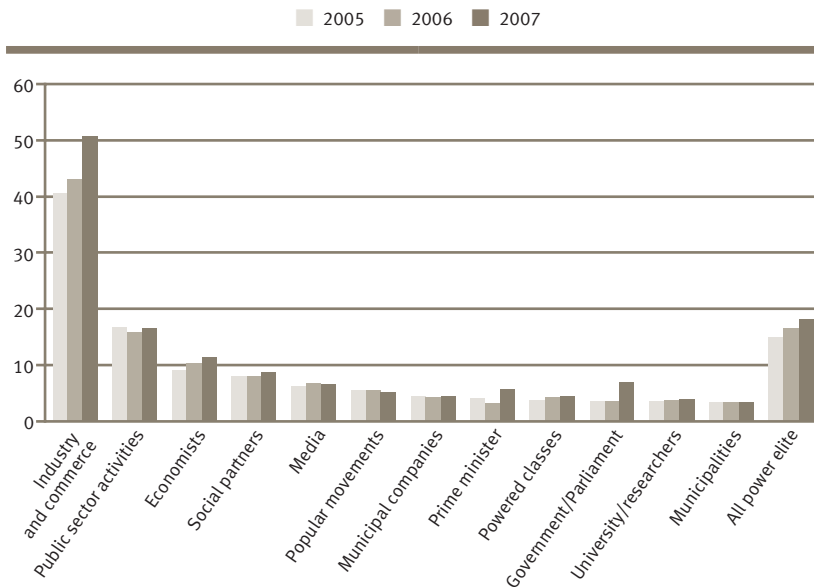


Figure 1.1

Source: Swedish National Tax Board

equivalent to over 20 industrial worker wages. These are the Vattenfall CEO (36), the Telia CEO (41), the Posten CEO (21), the Director General of the Association of Swedish Engineering Industries (23) and the CEO of OMX (49). If these five incomes are excluded from the bureaucratic elite, the group's average falls from 7.5 industrial worker wages to 6. The King is among those with an unusually high income from capital in recent years, making his total income for 2007 equivalent to the earnings of 39 industrial workers.

One position stands out in the group we call the democratic elite. This is the Director General of the Confederation of Swedish Enterprise, whose total income is equivalent to 79 industrial worker wages. With this position excluded, the average for the group in 2007 was 5.3 industrial worker wages.

Evolution from 1950 to 2007

In the period studied there are considerable variations in the differences between the incomes of people in the power elite and the average industrial worker's earnings. Figure 1.2 shows the trends for the three groups between 1950 and 2007. For the 198 positions we call the power elite, the average total net income was equivalent to 11 industrial worker wages in 1950. In 1980 the same average was only five times the earnings of an industrial worker. In 1995 the power elite had returned to approximately the same level as in 1950, and in 2007 the incomes of the power elite were an average of 18 industrial worker wages.

In 1950 the economic elite group's incomes were equivalent to 26 industrial worker wages. In 1980, their incomes were "only" nine times the earnings of an industrial worker. During this period in the early 1980s, income diversification was at its lowest in Sweden. Total unemployment was very low at under 4 per cent, while the inflation rate was slightly above 4 per cent. A real interest rate of less than two per cent combined with the low unemployment rate meant that the profit share was very low. In the late 1980s the gap began to grow again, returning to the 1950 level in 1995.

In the last report we noted that the gap between the average wage earner and the economic elite reached its peak in 2000, when the average income in this group was equivalent to no less than 46 industrial worker wages. Total incomes in that year were made up of an unusually high proportion of income from capital at over 30 per cent of total income from capital and operating profit. In 2007 a new record was set at almost 51 industrial worker wages, 33 per cent of which was income from capital. Figure 1.2 does not include 2000 and 2001, as only parts of the sample were examined for these years.

In 1950 the democratic elite's incomes were "only" just over four times that of the average industrial worker. This figure fell to barely 3 industrial worker wages in 1980. At some point after 1985 incomes for this group also began to increase faster than industrial workers' and in 1998 the ratio was approximately 1 to 7. Since then, their incomes fell by almost 2 industrial worker wages to approximately 5 in 2005, after which they rose to almost seven times the average industrial worker wage in 2007.

In 1950 in the bureaucratic elite's income was equivalent to 7 industrial worker wages. The trend follows the same pattern as other elite groups;

Income trends for the three main power elite groups 1950–2007

Number of industrial worker wages

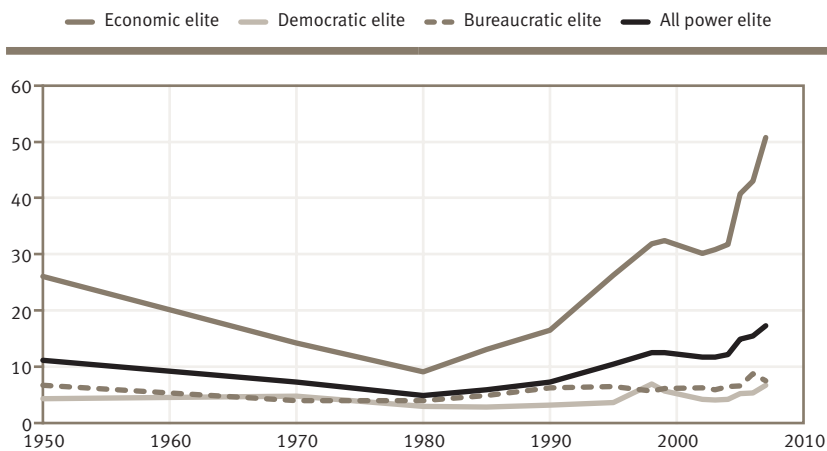


Figure 1.2

Source: Swedish National Tax Board

thus the differences were smallest in the early 1980s (equivalent to four industrial worker wages), and then turned upwards. During the 1990s the relation between the average income for this group and the industrial worker varies very little. Since 1990 it has fluctuated around six industrial worker wages. In the last two years the gap increased and in 2007 the group's average income was equivalent to 7.5 industrial worker wages.

The elite and equality

The power elite is, and will continue to be, a group with a strong male domination. Only 21 per cent, or 42 people, of the holders of the 198 positions are women. However, the number of women has increased fairly steadily since 1950. Both in 1950 and again in 1970 there was only one woman in the study material. They were the journalists Barbro Alving in 1950, and Liz Asklund in 1970. In 1980 six women held positions in the power elite. This figure had doubled by 1990. Between 1999 and 2007 there was a relatively rapid increase in the percentage of women, from about 14 to 21 per cent.

In 2007 the power elite consisted of 156 men and 42 women, that is to say, there are very few women in the sample for each group. Women are greatly underrepresented in the economic elite throughout the entire period of our study. In 2007 only two positions were held by women. The second lowest group is the so-called powered class, which never included more than one woman in all the years covered by this study. Even in the public sector and university/research groups, women are seriously underrepresented. In 2007 there was only one woman (10 per cent) in the public sector activities group and two (20 per cent) in the university/research group.

In 2007 the average income for women was 35 per cent of income for men, a fall from the 45 per cent in 2004. Thus, very few women have incomes higher than those of men. In the last two years of the study there was one very highly-paid woman in industry and commerce whose income exceeded that of the average man. In the media group, 16 positions, six of which are held by women, three women have incomes that are substantially higher than the average for men.

The incomes of the 2 women in the university and research world are somewhat higher than the average for the 8 men. The incomes of the 2 women in the municipal companies group are higher than the average for the 10 men in the group.

In the municipalities group, which includes leading municipal politicians and officials, there are also women whose incomes are somewhat higher than those of men. In 2006 average incomes for men and women were equal, but in 2007 women's incomes exceeded those of men, and were equivalent to four industrial worker wages, compared to three for men.

Only one of the groups comes close to achieving what by today's standards can be called an equitable gender composition (40/60), and that is the group of municipal politicians and officials, where women held 40 per cent of the positions in 2006. However, this percentage dropped back to 35 per cent in 2007.

In the large group called the democratic elite, 31 per cent (16 of a total of 52 positions) are women. This figure has fallen by two women since 2005. Gender composition is even less equitable in the bureaucratic group. Only 24 of 96 positions are held by women, which is a mere 25 per cent.

The 11 power groups broken down by gender, 2007

Number of industrial worker wages

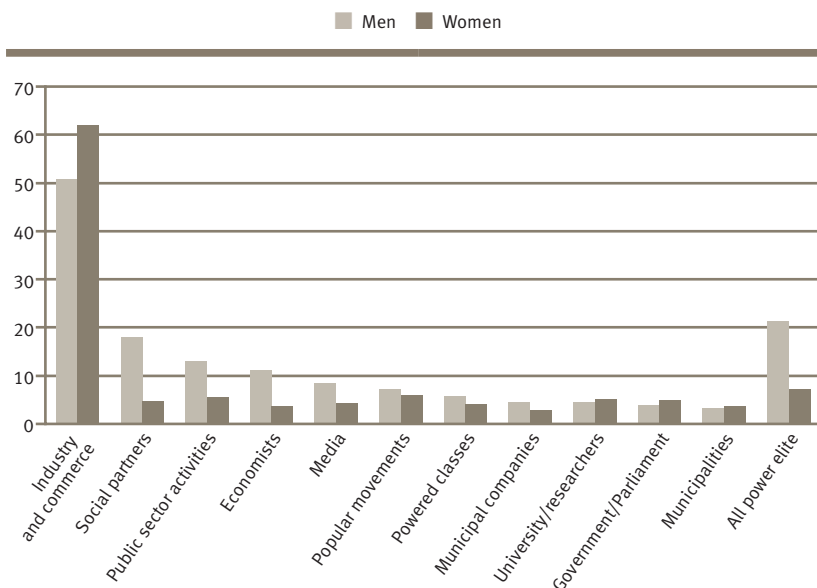


Figure 1.3

Source: Swedish National Tax Board

The social partners

For this year we have also conducted a separate review of the positions held by the social partners. How have the incomes of the segment of this elite that consists of the social partners evolved in comparison with the rest of the sample?

The trade unions

We have extracted figures for all the presidents of the 15 LO (TUC, The Swedish Trade Union Confederation) affiliates; just four in the sample since 1950. The average income for the eleven presidents of the LO-affiliated trade unions not included in the sample was the equivalent of 2.7 industrial worker wages in 2007.

Figure 1.4 shows the evolution of the trade union representatives' income in relation to the industrial worker wage. The pattern is not at all

Employee and employer representatives' incomes in comparison with the power elite as a whole. Number of industrial worker wages

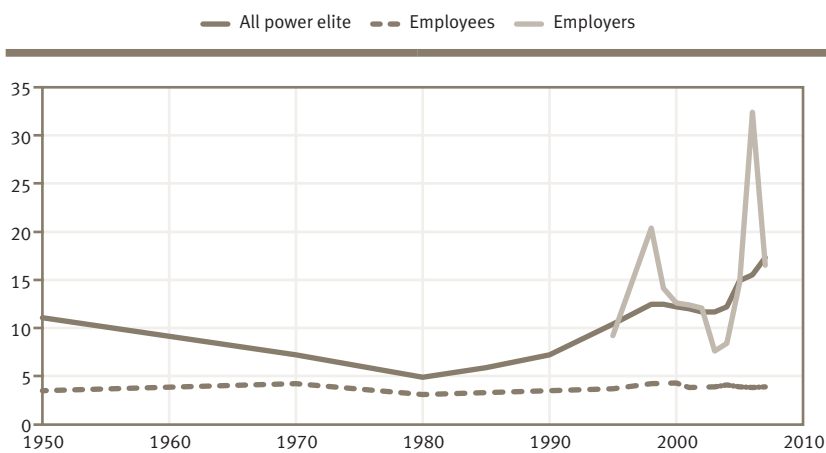


Figure 1.4

Source: Swedish National Tax Board

as clear for this group compared to the entire elite, because the variation is smaller. The biggest difference was in 2000, at more than 4 industrial worker wages. It then fell to less than 4 industrial worker wages in 2002, which was somewhat higher than the 1950 level. In 2007 the average income for this group is 4 times higher than the industrial worker. Over the entire review period the relation between the trade union representatives' income and the industrial worker wage fluctuated between 3.1 and 4.3. Thus the average income for this elite group varied by slightly more than 1 industrial worker wage from 1950 to 2007.

The employers

During the entire period, employers' representatives, who initially had 12 positions but now have only 10, had considerably higher incomes than employee representatives. Between 1995 and 2007 they earned between 2 and 8 times more than employee representatives. In 2006 this group's income varied from 8 to 32 times that of the average industrial worker. In 2007 the average income of employer representatives was equivalent

The President of the Swedish Trade Union Confederation and Director General of the Confederation of Swedish Enterprise, 1950–2007

Number of industrial worker wages

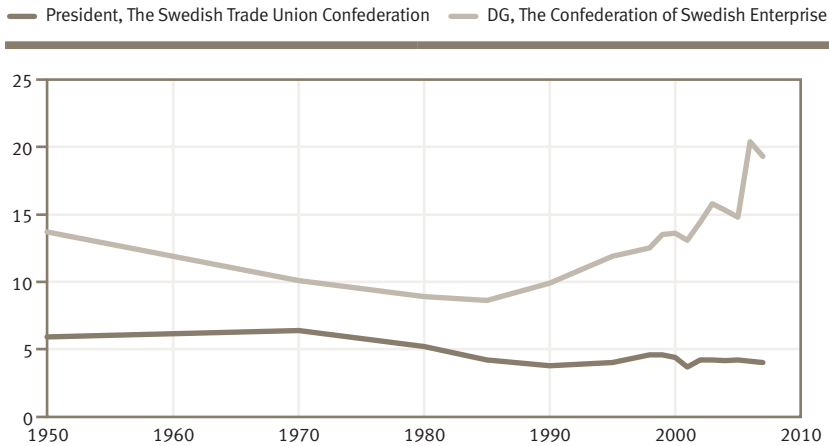


Figure 1.5

Source: Swedish National Tax Board

to 16 industrial worker wages. If we exclude the income of the Director General of the Confederation of Swedish Enterprise, the average drops to 10 industrial worker wages. The latter has often held an additional well-paid CEO position, as well as a large income from capital.

The LO President

As in previous reports, this report also specifically illustrates the income development for the LO President. Figure 1.5 shows the income development between 1950 and 2007, measured in number of industrial worker wages. In 1985 the gap between LO President and the industrial worker was approximately the same as in 2007, i.e. a factor of four. At the beginning of the period of the study the income for this position was considerably higher, which was due to the fact that the LO President formerly had a seat in Parliament and received a salary as a Member of Parliament. This figure also shows the income figures for the Director General of the Confederation of Swedish Enterprise, which is the position most comparable to the LO President.

Incomes of venture capitalists

Income

In industry and commerce, top managers from venture capital enterprises are among those with the highest incomes. High returns combined with generous forms of profit distribution and management fees, have given venture capitalists very high incomes for a number of years. According to the LO survey, top executives in Swedish buyout companies are without doubt among the highest paid in Swedish business.

There appears to be a strong connection between the capital held in trust and incomes. Top executives in Nordic Capital, IK Investment Partners, Altor and EQT have the highest taxed incomes. For several years, these incomes have exceeded several hundred industrial worker wages. For instance, between 2003 and 2007 the income of the chairman of Nordic Capital was equivalent to 762 industrial worker wages.

Incomes in buyout companies 2003–2007

SEK

Company	Position	2003	2004	2005	2006	2007	Totalt
3i Nordic	CEO	3 865 911	5 126 782	12 325 132	11 709 445	27 515 777	60 543 047
Accent	CEO	3 750 551	3 142 219	3 308 431	4 526 595	11 435	14 739 231
Altor	Founder	69 013 767	5 122 235	4 113 808	6 388 915	22 603 425	107 242 150
CapMan	Senior Partner	2 412 130	3 177 402	2 669 908	3 401 422	1 874 380	13 535 242
EQT Partners	CEO	4 825 798	4 081 105	4 271 272	4 825 798	59 161 751	77 165 724
IK Inv Partners	Chairman	12 463 086	14 825 639	78 164 424	32 050 268	33 725 532	171 228 949
Nordic Capital	Founder	62 183 164	4 889 470	18 010 929	29 607 138	87 212 785	201 903 486
Priveq	CEO	9 175 771	1 275 566	1 303 616	2 247 674	1 920 308	15 922 935
Procuritas	Founder	2 274 026	2 314 559	4 815 247	1 701 077	1 108 112	12 213 021
Ratos	CEO	5 828 356	11 590 265	10 649 097	30 481 679	49 572 211	108 121 608
Segulah	Chairman	6 663 063	1 545 960	2 005 579	9 885 616	8 754 418	28 854 636
Average		16 586 875	5 190 109	12 876 131	12 438 693	26 678 194	

Figure 2.1a

Source: The Swedish Tax Agency

The average for this group in 2007 was equivalent to 95 industrial worker wages.

Due to a lack of transparency (see the section entitled ‘Proficient in avoiding taxes’), it is difficult to know how reliable these income figures are. It is reasonable to assume that in recent years, the greater part of these incomes have been generated from the distribution of gains on disposals. Reviews carried out by the Swedish business magazines *Affärsvärlden* and *Veckans Affärer* have shown that in some cases the taxed incomes correspond to only a limited part of the assets controlled by venture capitalists. According to some estimates, the four largest buyout companies have made profits of around 30 billion SEK, by far the greatest part of which is not reported as taxable income.

Venture capital and buyout companies

Large Swedish venture companies most often act by way of buyout transactions. This term means that a company listed on the stock exchange is bought out of the stock exchange and delisted, or that an unlisted company is acquired. Buyout funds’ most common strategy is to restructure

Incomes in buyout companies 2003–2007

Number of industrial worker wages

Company	Position	2003	2004	2005	2006	2007	Total
3i Nordic	CEO	16	20	47	44	98	225
Accent	CEO	15	12	13	17	0	57
Altor	Founder	279	20	16	24	81	420
CapMan	Senior Partner	10	13	10	13	7	52
EQT Partners	CEO	20	16	16	18	211	281
IK Inv Partners	Chairman	50	58	299	119	121	647
Nordic Capital	Founder	252	19	69	110	312	762
Priveq	CEO	37	5	5	8	7	62
Procuritas	Founder	9	9	18	6	4	47
Ratos	CEO	24	46	41	113	177	400
Segulah	Chairman	27	6	8	37	31	109
Average		67	20	49	46	95	

Tabell 2.1b

Source: The Swedish Tax Agency

mature companies. This means that there is a well-established product and a business idea as well as established customer relations.

A common type of buyout is a leveraged buyout, i.e. an acquisition of a company financed by loans. A leveraged buyout occurs when a venture capital fund acquires a larger stake in a company (or the whole company) by means of borrowed capital. The acquired company is thus used as collateral for the loan. The purpose is to be able to make big acquisitions with a limited input from the fund's own capital.

Buyout companies are responsible for an absolute majority of the capital held in trust. The field is dominated by a few big actors. The ten biggest buyout companies in Sweden control approximately 90 per cent of the market. A large part of the capital is held in trust by three big buyout companies: EQT, IK Investment Partners and Nordic Capital.

Where does the money come from?

Most of the investments in Swedish venture capital funds are from various types of pension funds, both in case of venture capital and buyout companies. The most predominant financial source for buyout companies is however the so-called funds of funds that assist the pension funds to identify investment alternatives.

In 2007 only 23 per cent out of the buyout funds' capital came from Sweden. 13 per cent came from other Nordic countries, 16 per cent from North America and nearly 50 per cent from Europe, excluding the Nordic countries.

Investments

In 2007, nearly 49 billion SEK, i.e. slightly over 1.5 per cent of GDP, was invested in unlisted companies through the Swedish venture capital companies. For the past two years the services sector has been the most attractive one to make investments in. As sectors are being divided into sector segments, life science takes the lead as the biggest segment, followed by services. The life science segment includes health care, medical technology, biotechnology and medicines.

The Swedish venture capital companies make most of their investments in Sweden. In 2007 over half (53 per cent) of the total amount of investments via the Swedish venture capital companies were made in

Sweden. Approximately 30 per cent were invested in other Nordic countries and 13 per cent in other European countries. A very small part of investments were made in North America and Russia.

Returns

Measured by their returns, the Swedish buyout funds have been successful in an international comparison as well. From 1995 to 2005, Swedish buyout funds showed an average return of 28 per cent, which is higher than average in the Nordic countries as well as in Europe and North America.

A favourable market situation, including low interest rates, cheap loans and rising stock exchange values, has made it easier to obtain a good return. A clear sign that the situation has been exceptionally advantageous is the fact that in 2006 and 2007 a number of American venture capital companies tried to have their funds listed, and thus, in practice, in advance realise the return on their investments.

Proficient in avoiding taxes

Most venture capital companies are incorporated as limited partnerships. Their return on share capital is not tax-exempt. This, along with the fact that the Swedish fiscal legislation is not clear on how foreign partners in a limited partnership company located in Sweden are to be taxed, has led to nearly all venture capital funds being located outside Sweden. The most common location is the British Channel Islands.

Many management companies – venture capitalists’ “consulting companies” – are located in tax havens. It is there the annual administrative fees as well as excess returns are transferred. It is common that ownership passes through a chain of companies to confuse tax authorities and to hinder transparency. The chain often ends in a joint-stock company in countries such as Luxemburg and Switzerland, where returns are parked while waiting to be consumed by venture capitalists. Another way to minimize taxes is to let these holding companies buy assets, for instance houses and properties, which are later on utilized by venture capitalists.

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' tenth report in the "The Power Elite" series and is the first extract to be published in English.

The report also highlights the income of venture capitalists. The bonuses paid by Sweden's listed larger companies are shown in another section of the Swedish report.