

Economic inequality

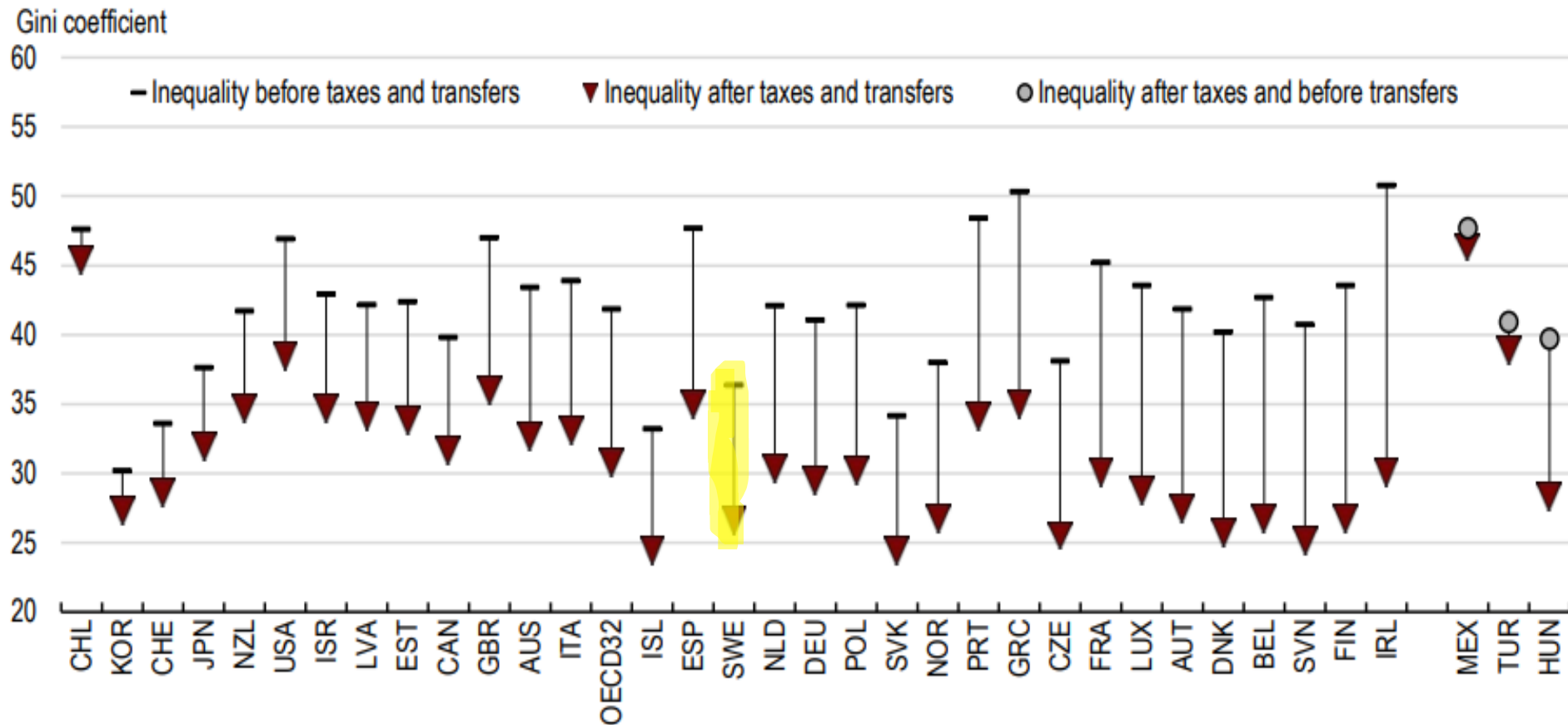
The role of taxes and transfers

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The government's role in reducing inequality

- What we are interested in is ***disposable income*** – income after taxes and transfers
- How has disposable income changed over time and across the income distribution?
- How has the government's impact on disposable income changed?
 - Redistribution across different income groups
 - Life-cycle redistribution

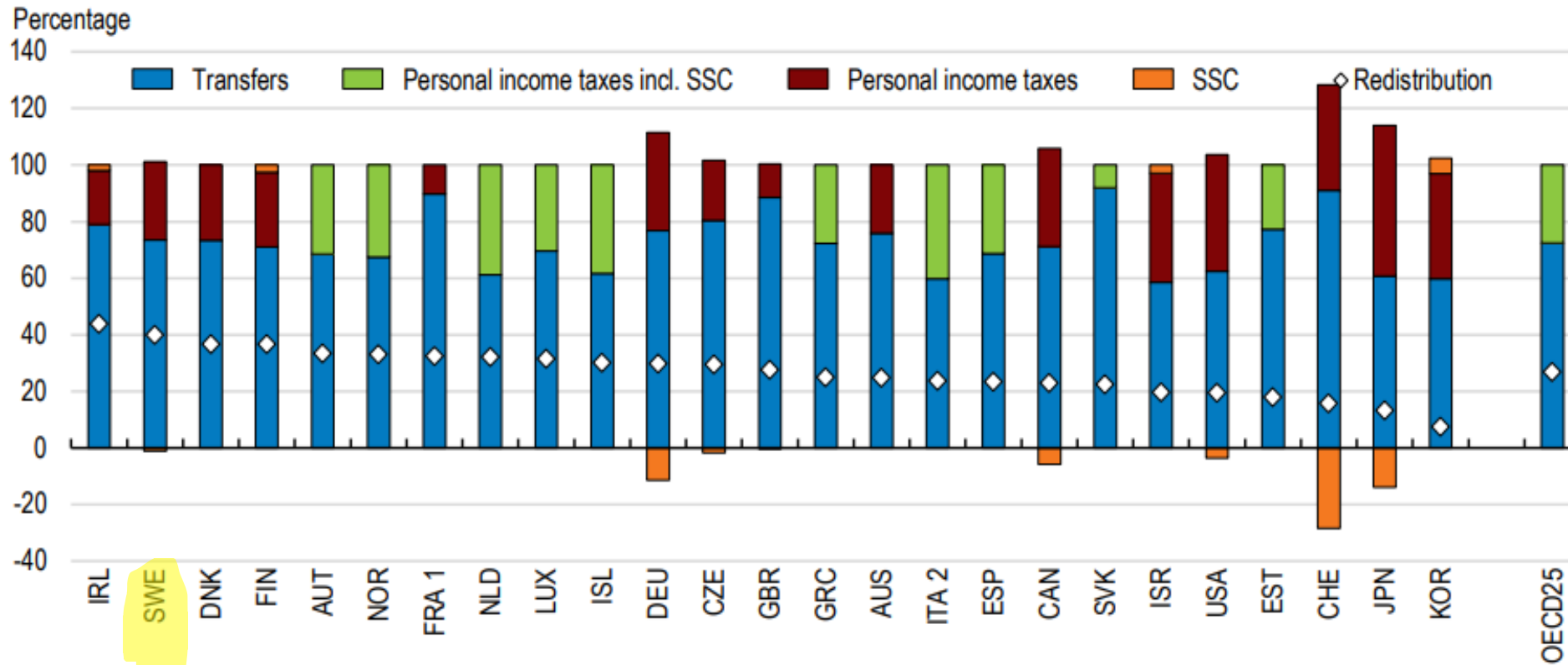
Gini coefficients before and after taxes and transfers, 2014



Source: OECD Income Distribution Database

Transfers and taxes role in redistribution

Share of total redistribution, working-age population, 2013 or latest available year

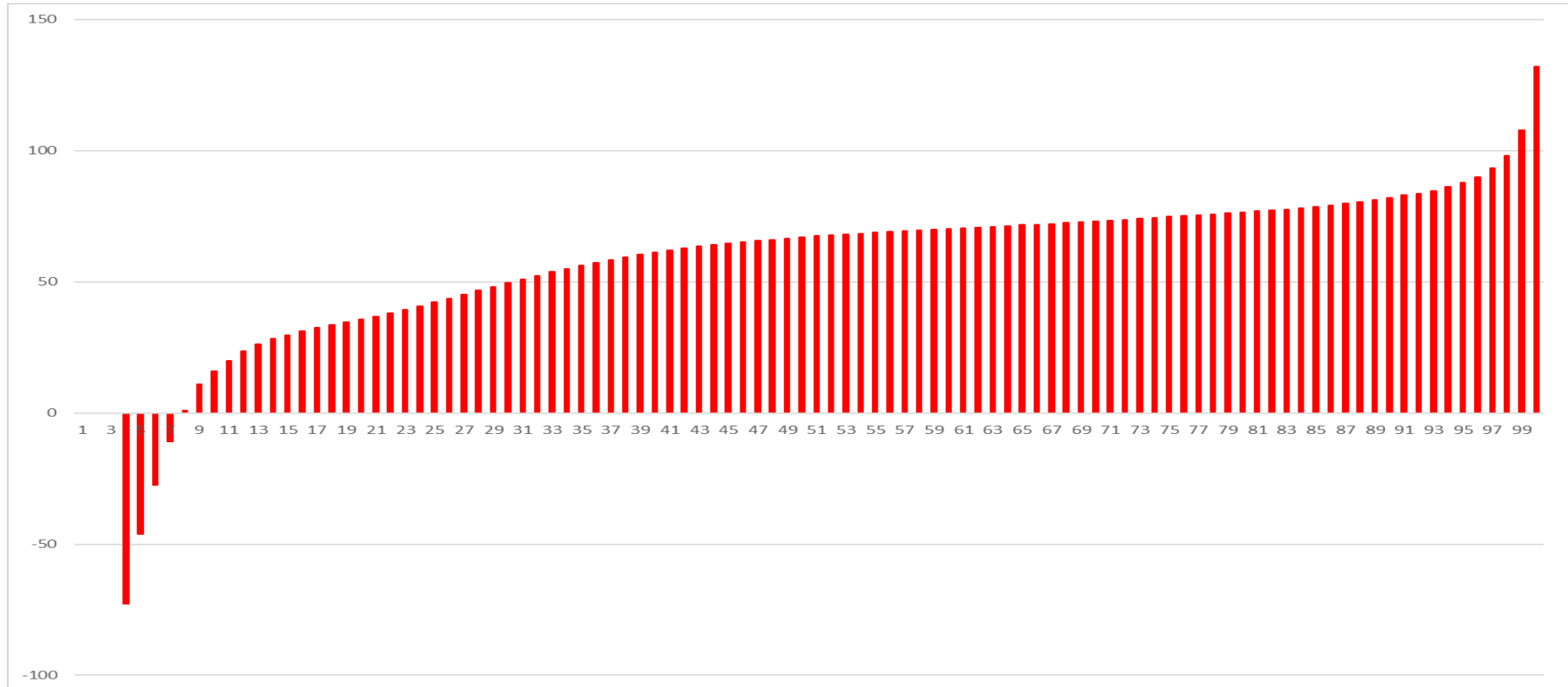


Source: OECD (2019)

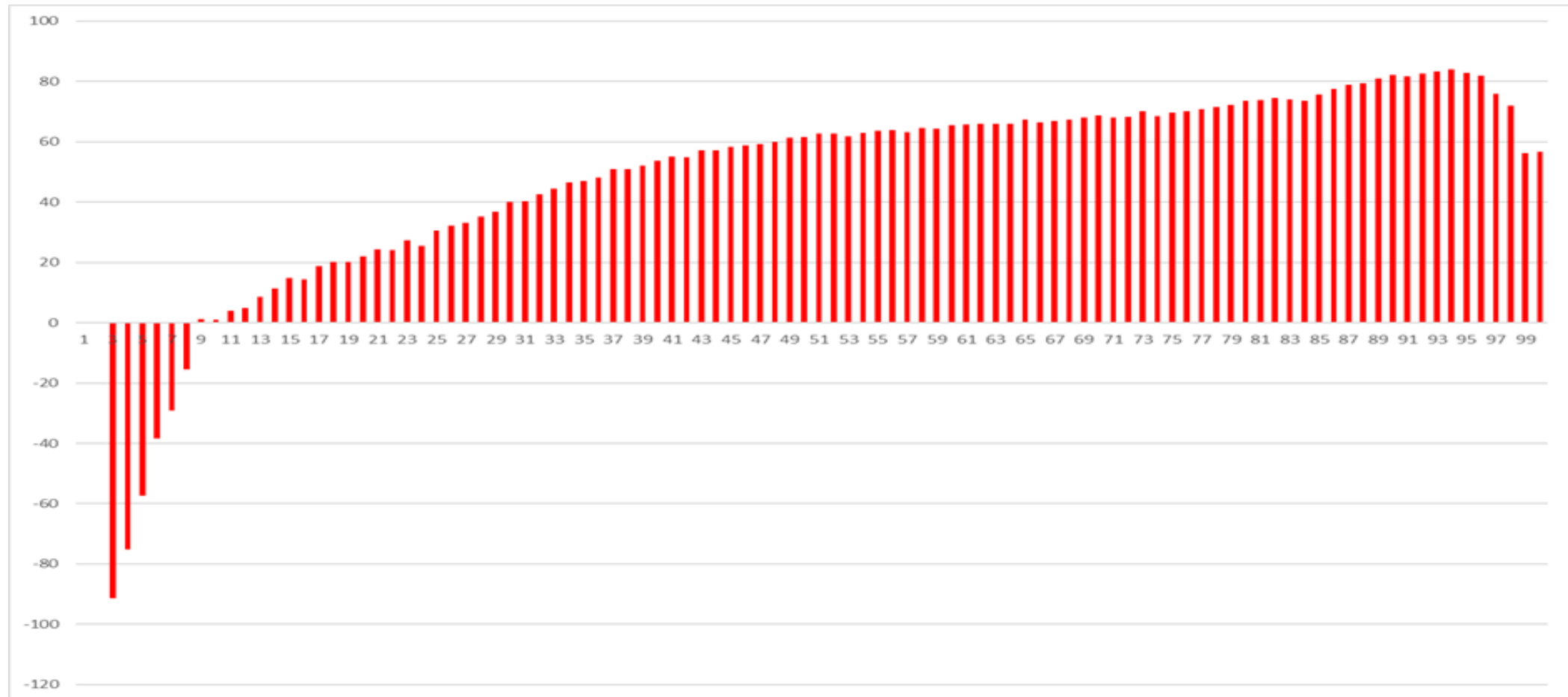
Let's focus on Sweden

Swedish micro data

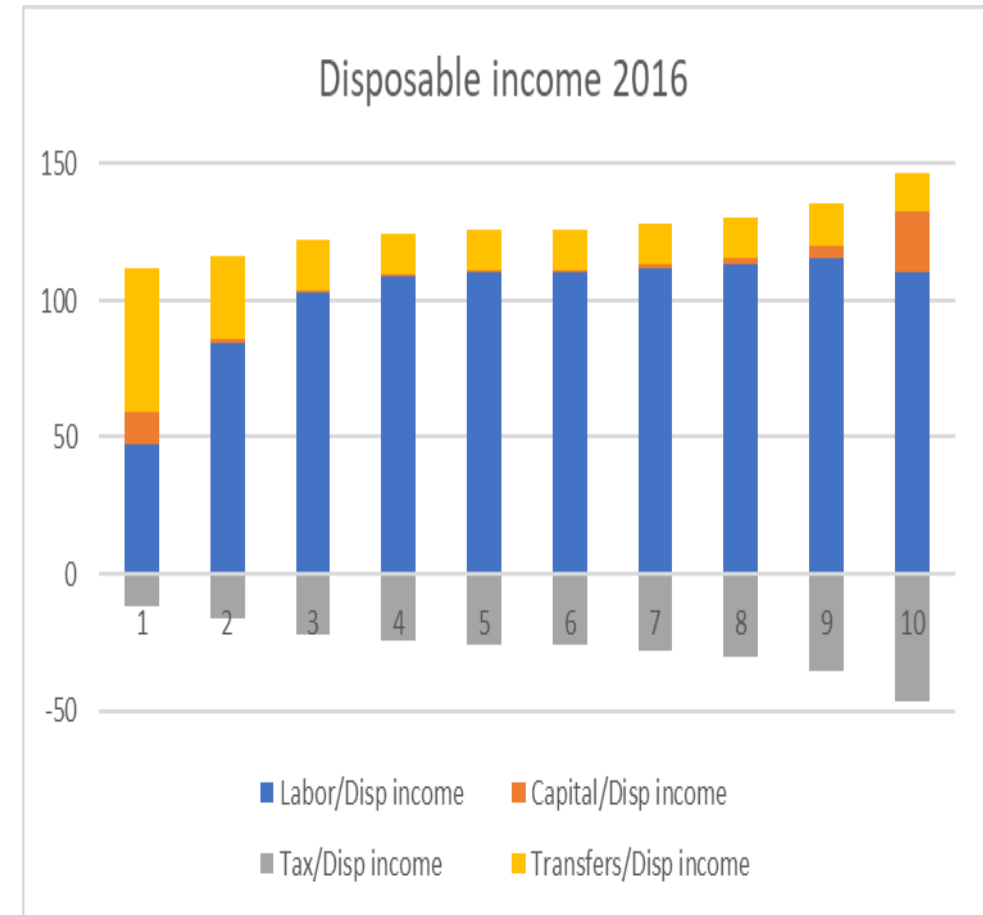
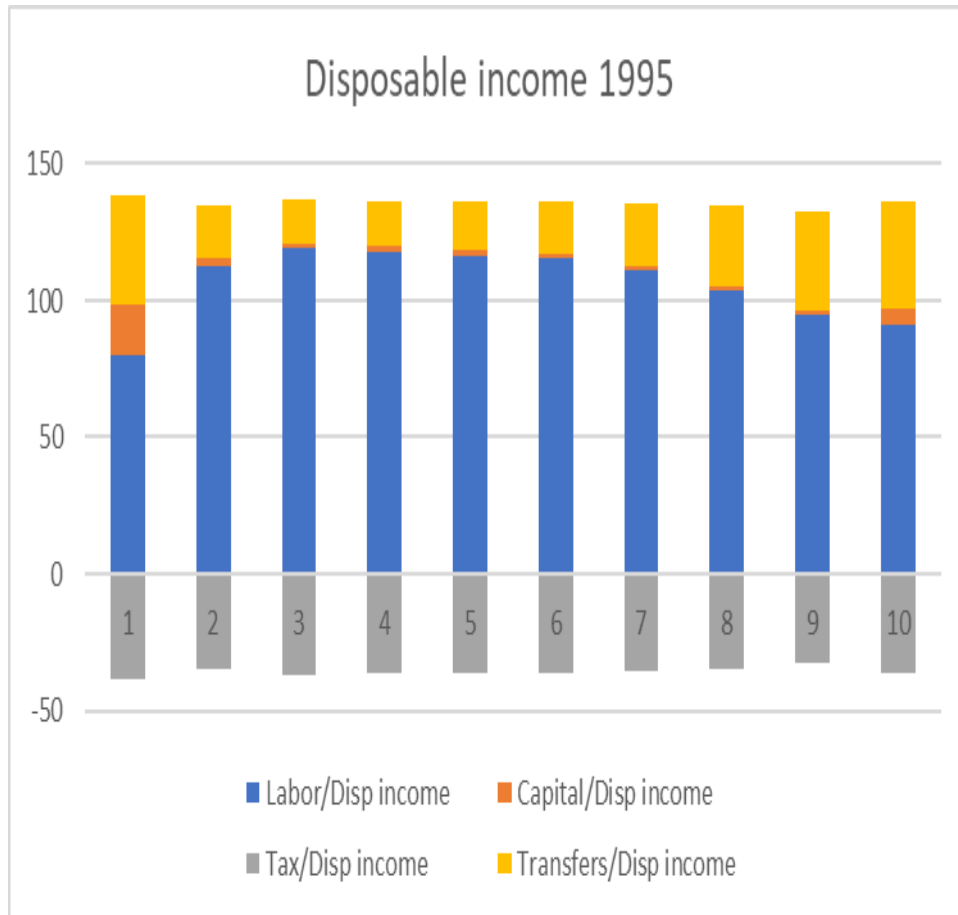
Percentage change in disposable income from 1995 to 2016 (percentiles)



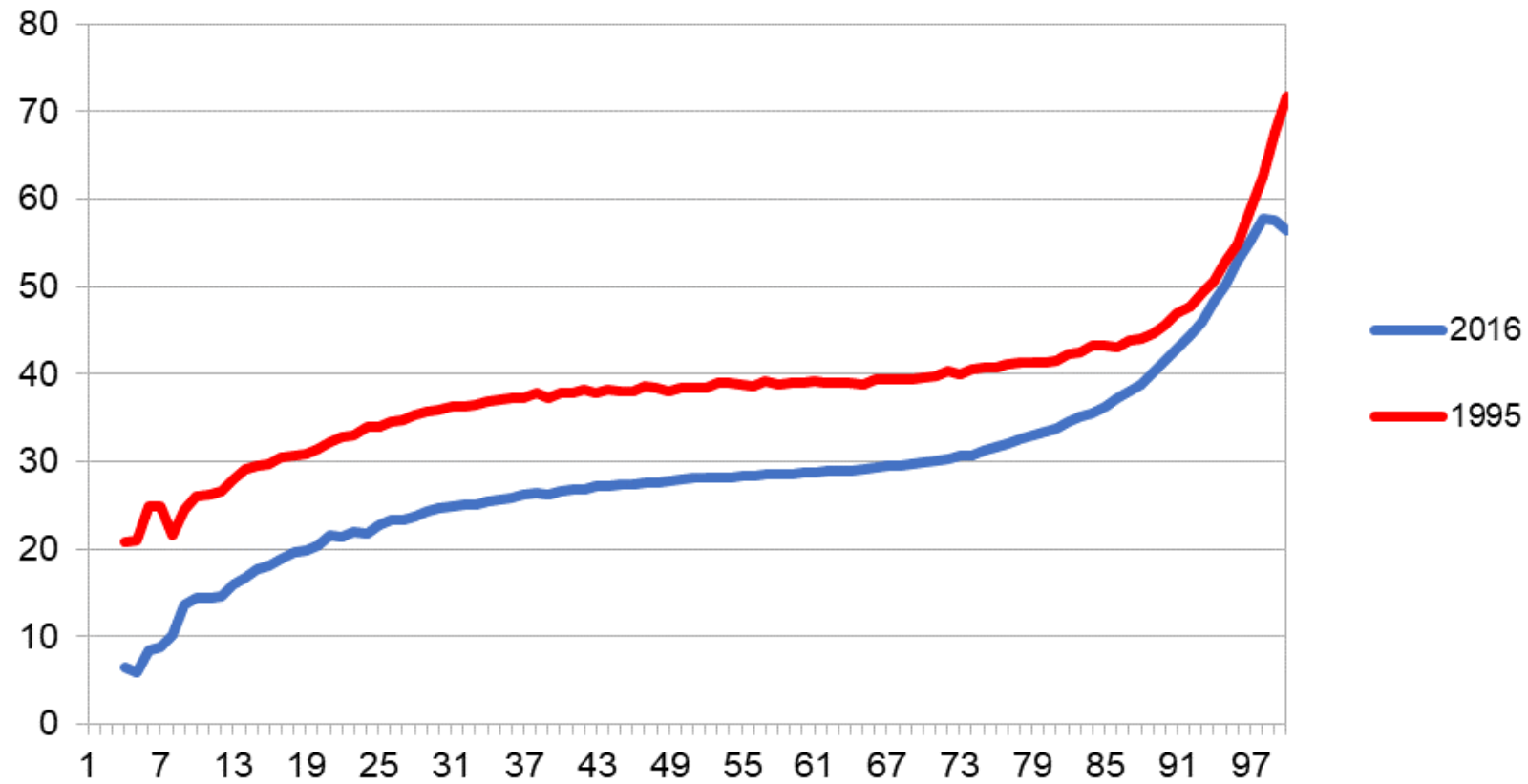
Percentage change in labor income between 1995 and 2016 (percentiles)



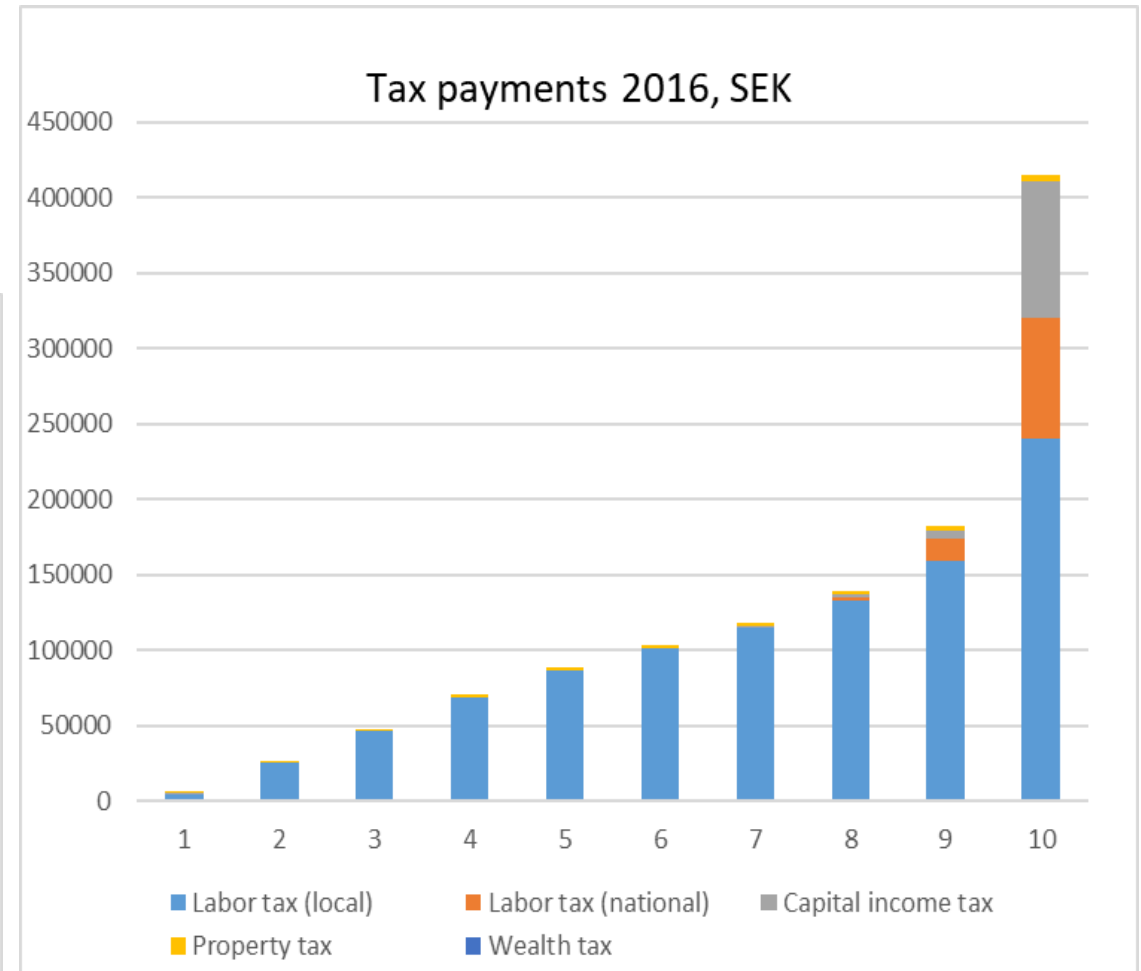
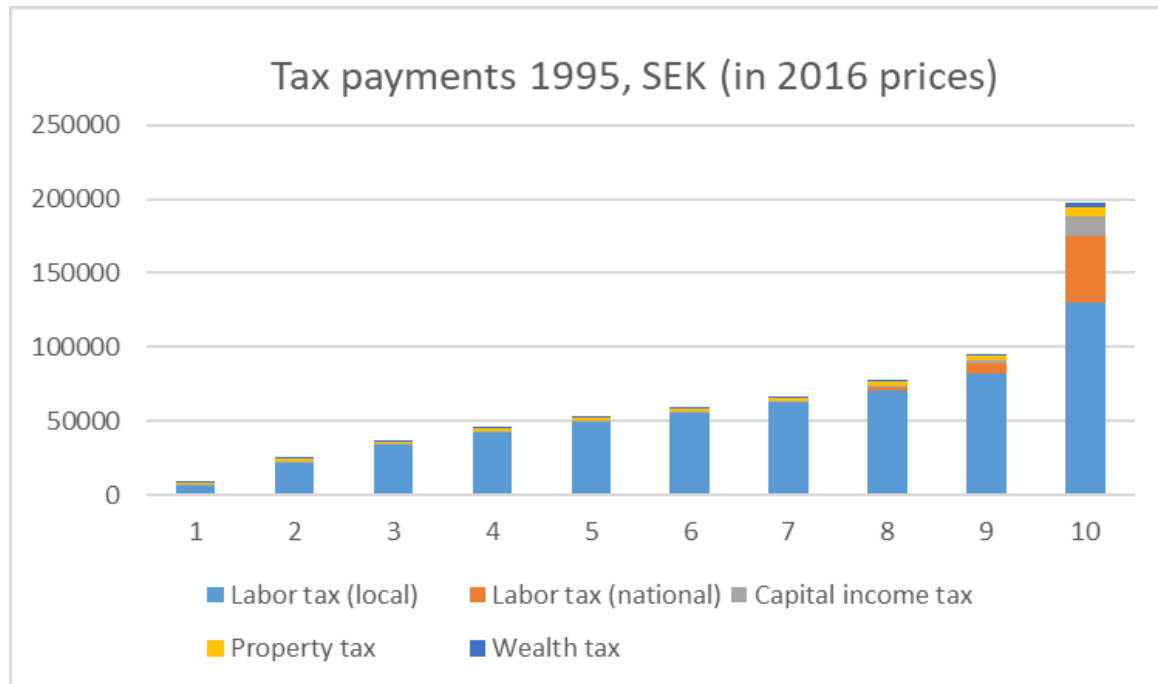
Composition of disposable income, deciles



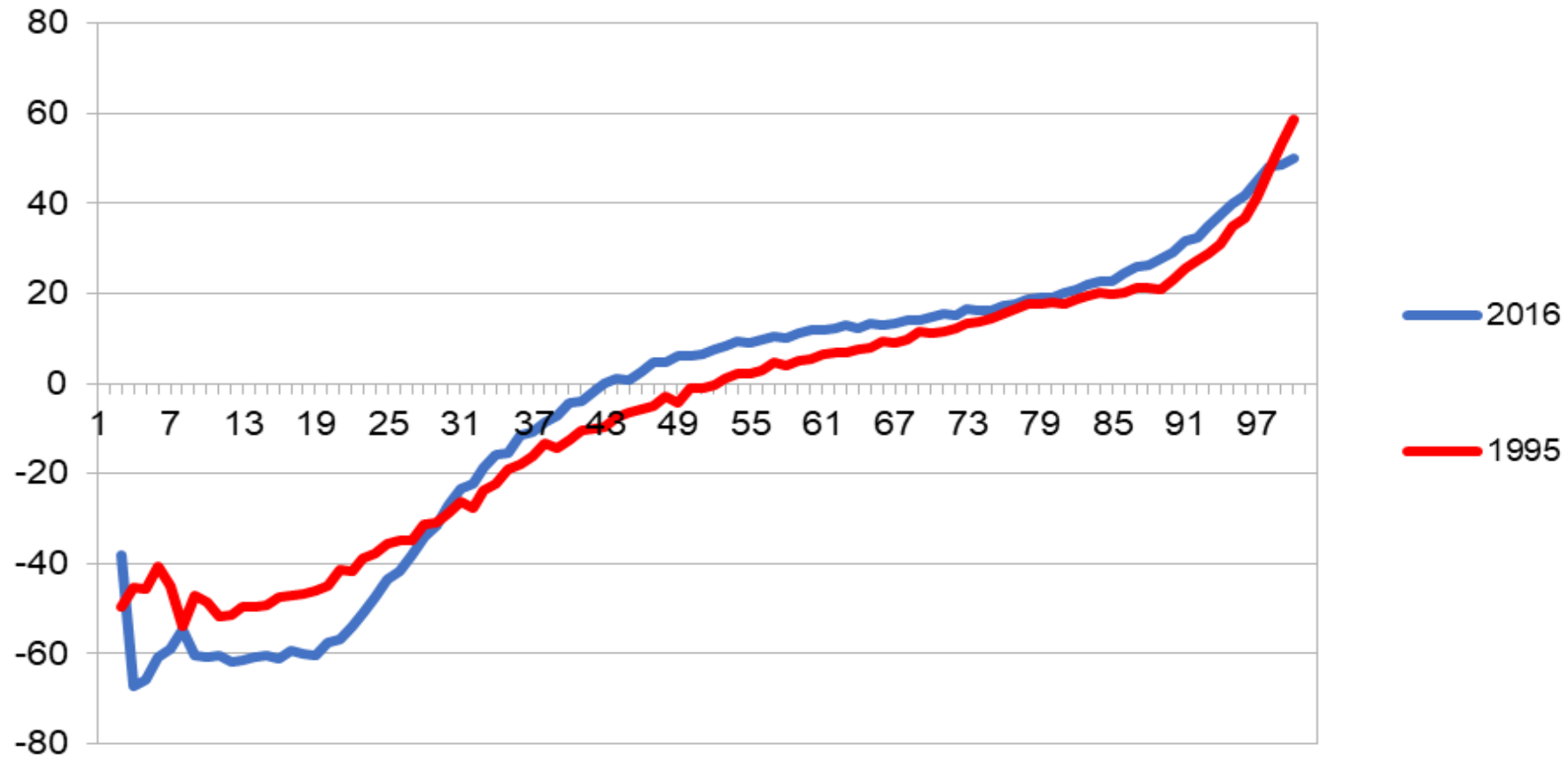
Total income tax payments as share of disposable income in 1995 and 2016 (percentiles)



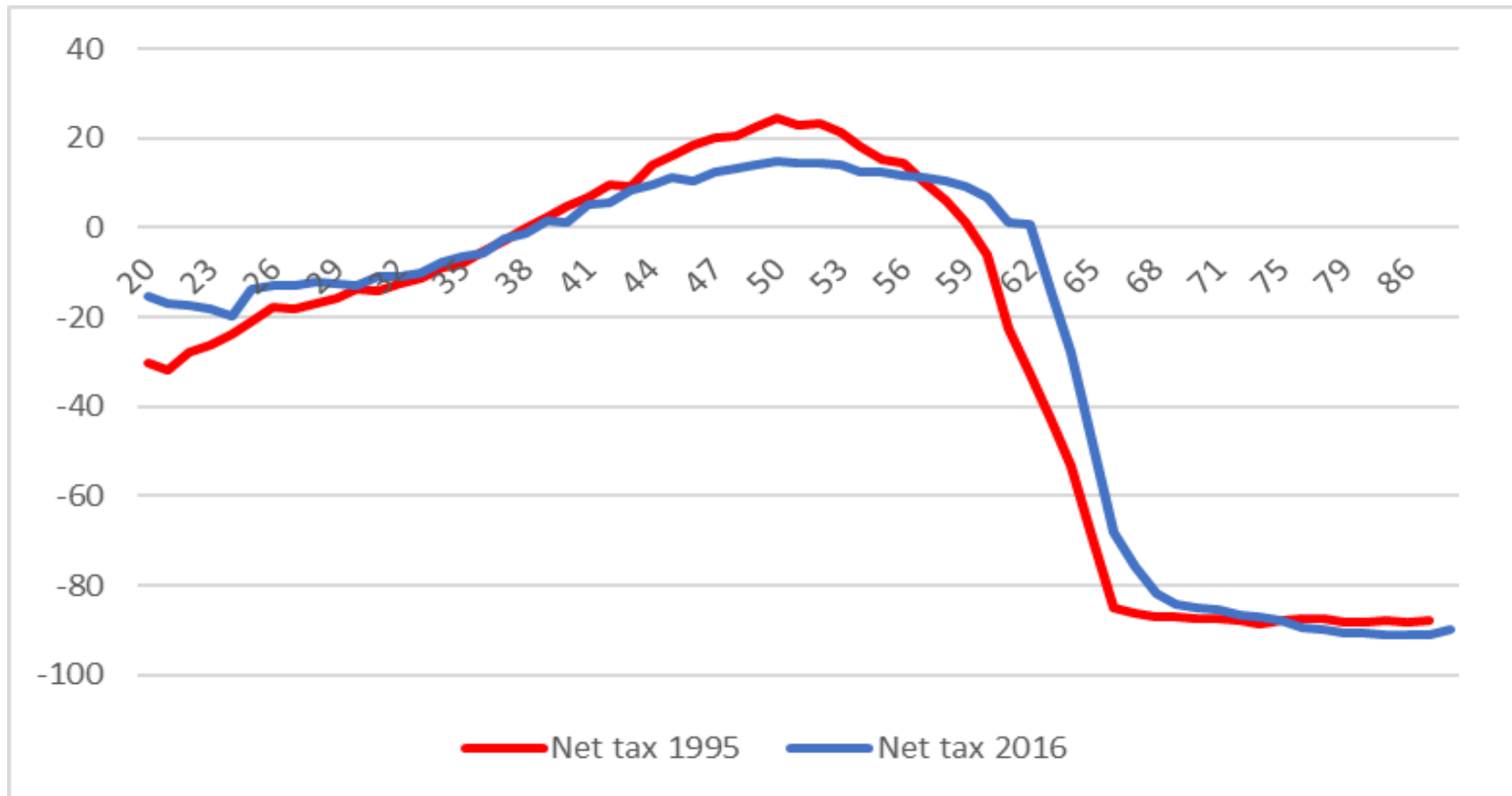
Composition of tax payments in 1995 and 2016, deciles



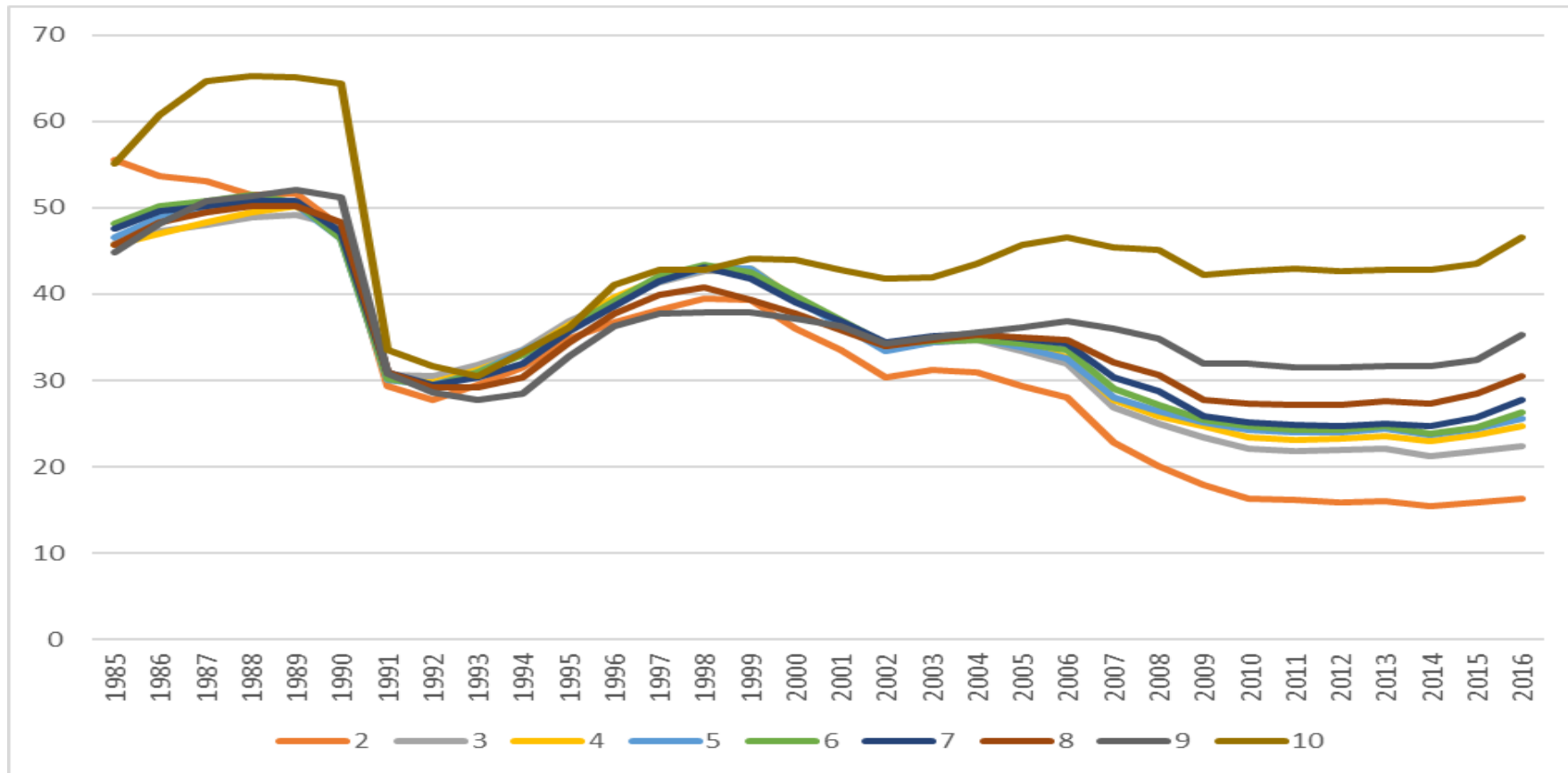
Net contribution over income distribution in 1995 and 2016



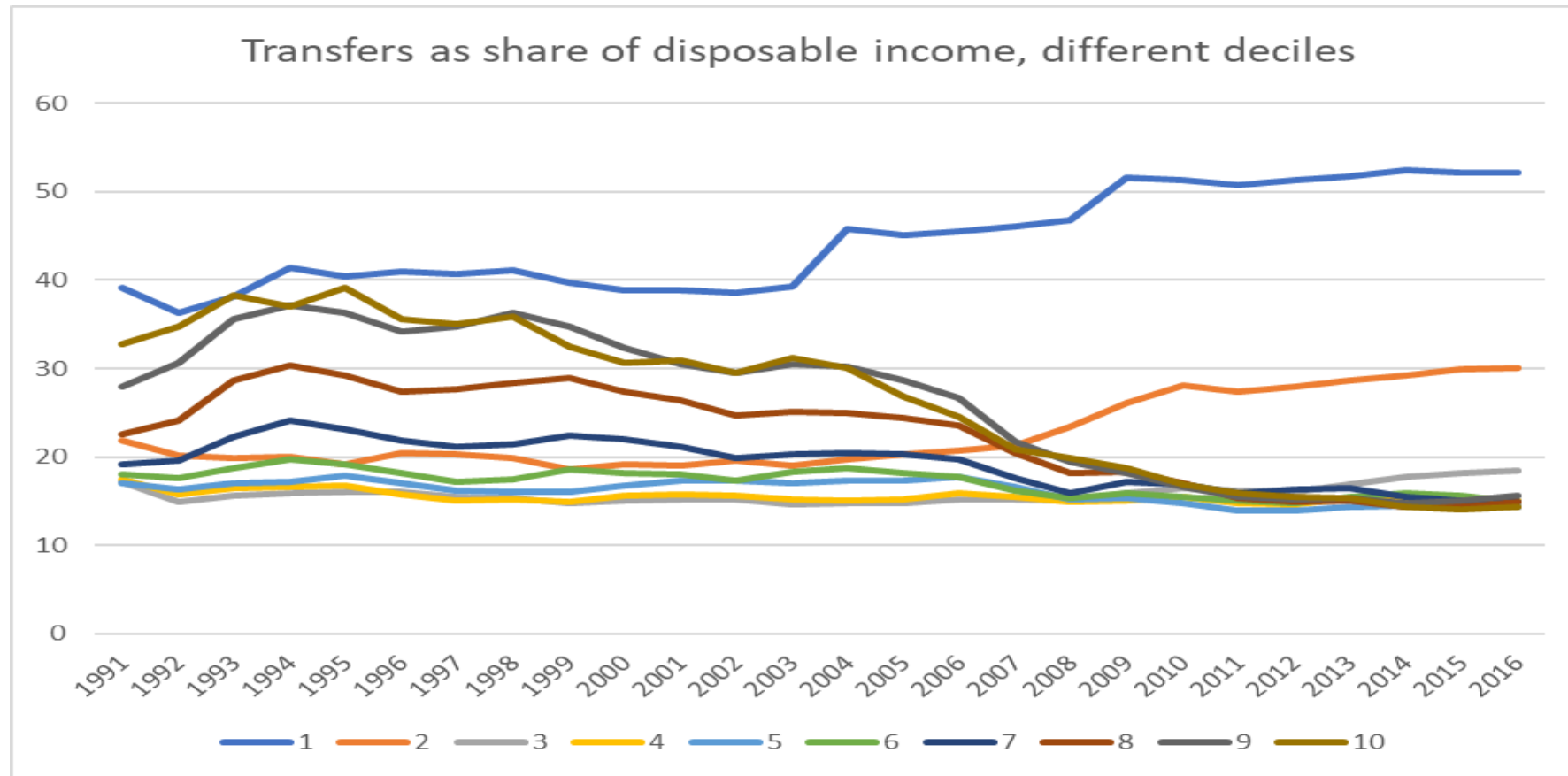
Net contribution over life-cycle in 1995 and 2016



Total income taxes as percent of disposable income, over time for different deciles



Transfers as percent of disposable income, over time for different deciles

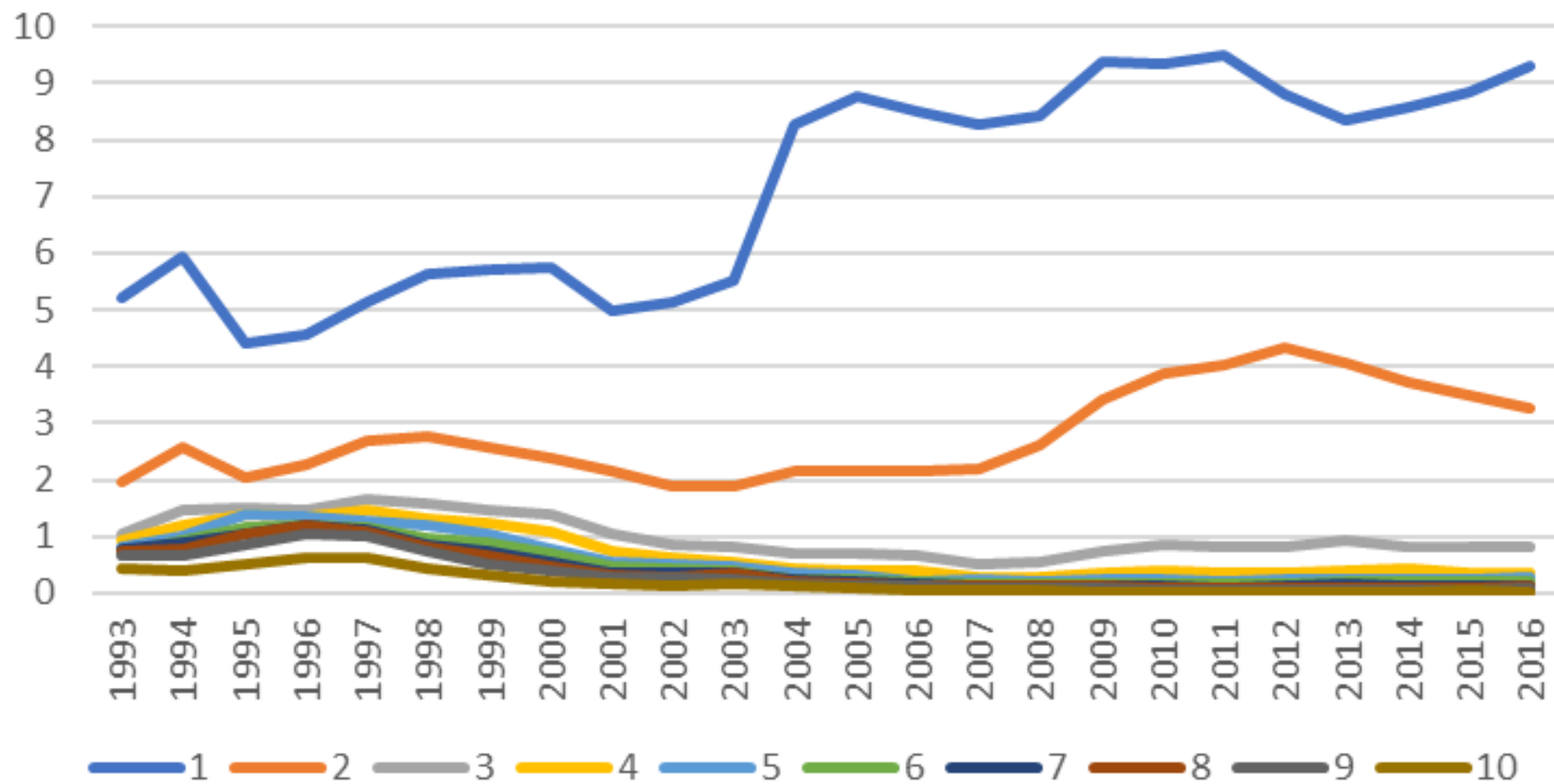


Final remarks

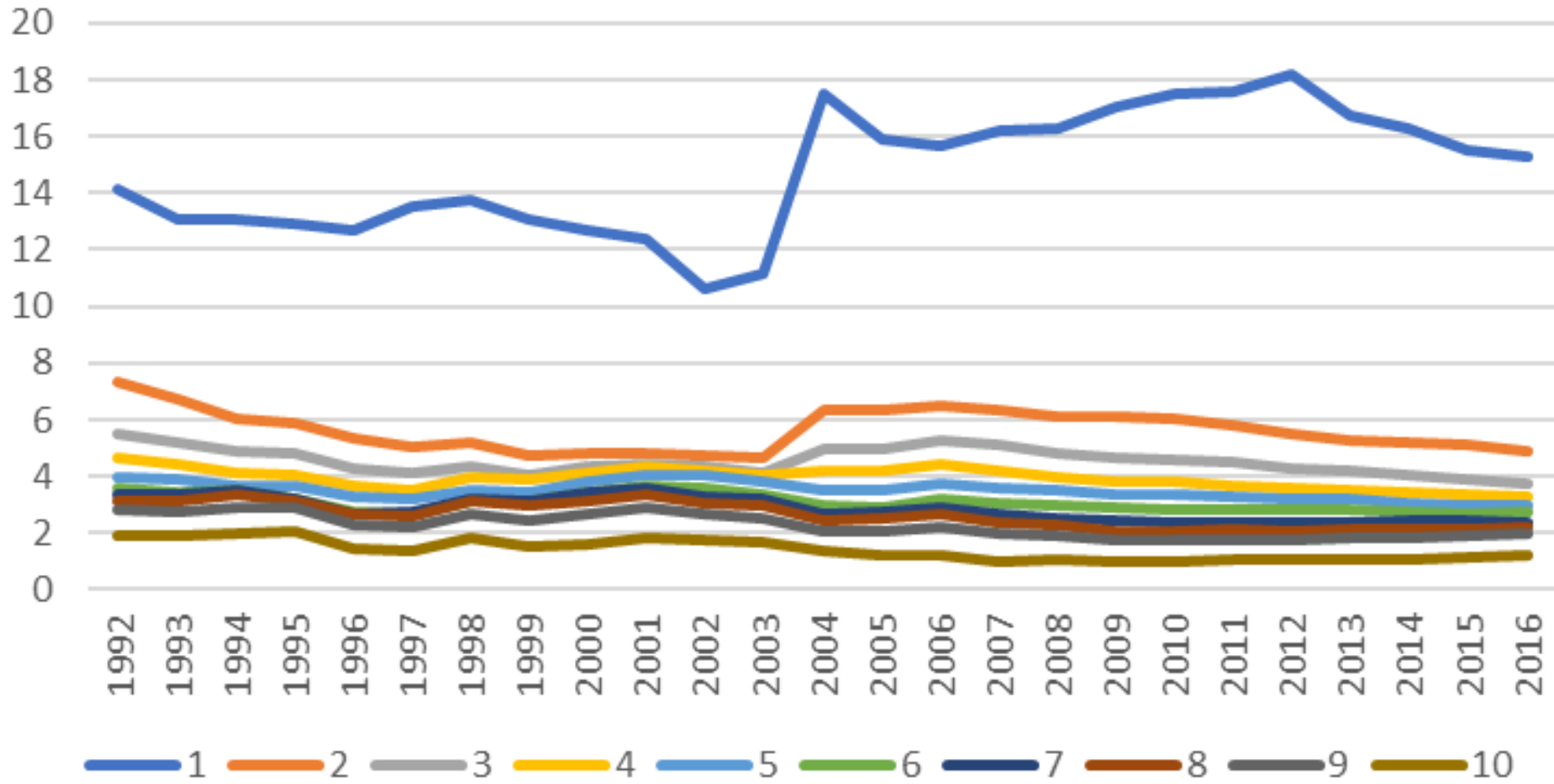
- Disposable income increased for everybody except low-income individuals. The increase in disposable income increases with income
- Low-income individuals have experienced a large drop in labor income, taxes and transfers have mitigated the decline in disposable income
- The very top end of the distribution has increased their capital share and face lower tax payments
- The Swedish welfare state has become more redistributive, taxes are more progressive, transfers are targeted more towards low-income individuals
- Having a job is important not only for the individual but also for financing a generous safety net

Extra material

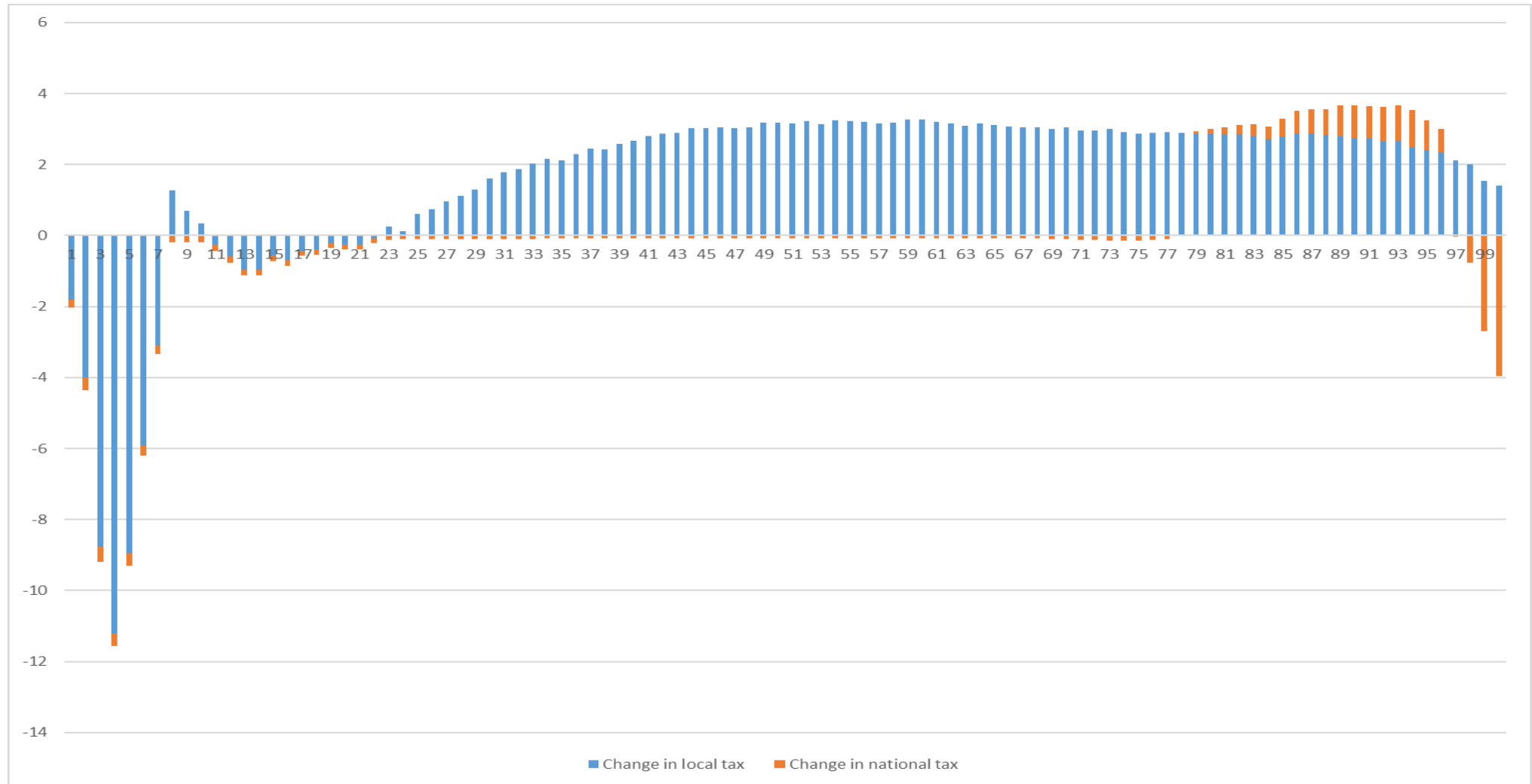
Social support/Disp income



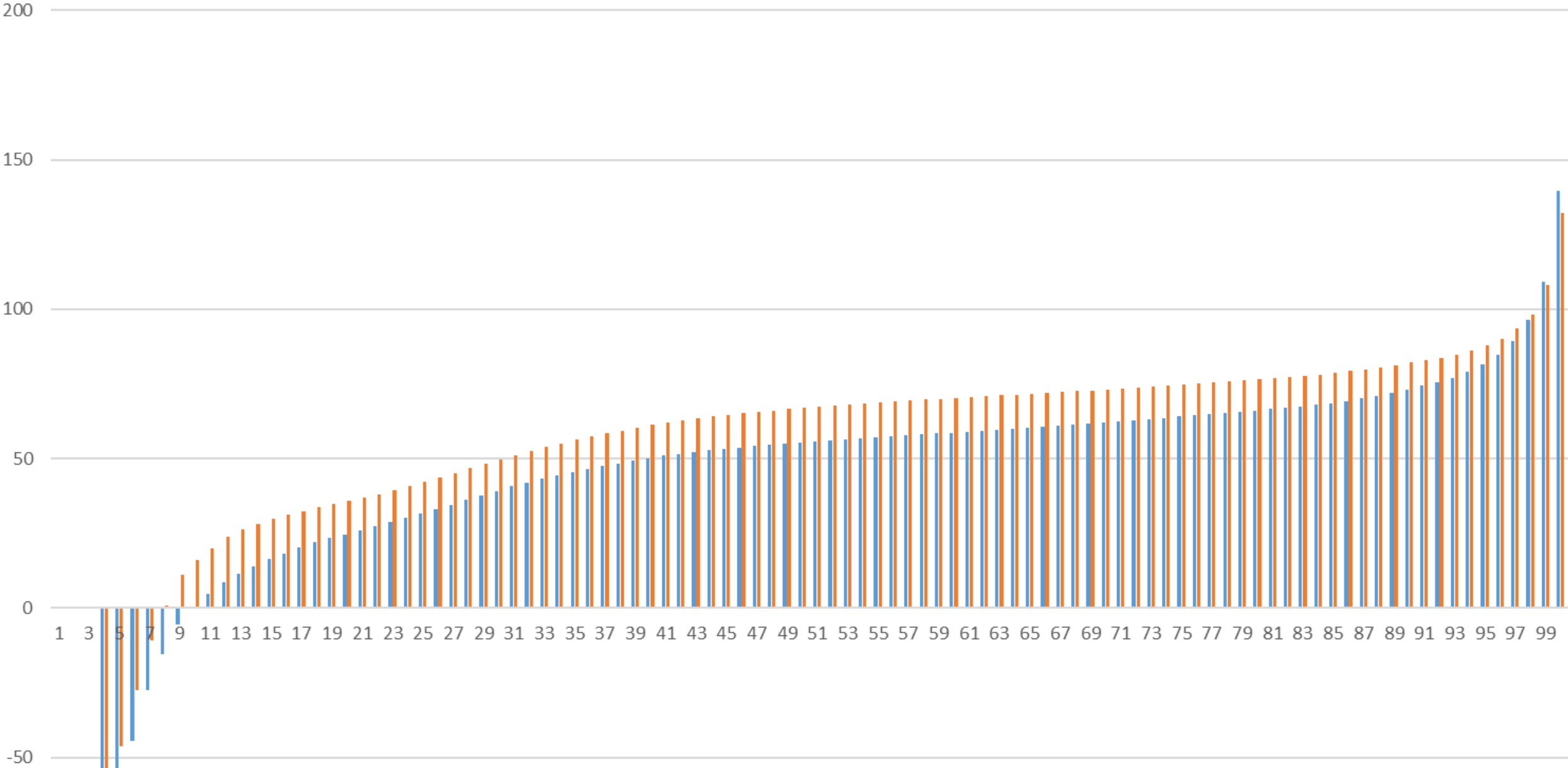
Child aid/Disp income



National and local tax



Percentage change in disposable income



Change between 2000 and 2016

