

# **Economic inequality**

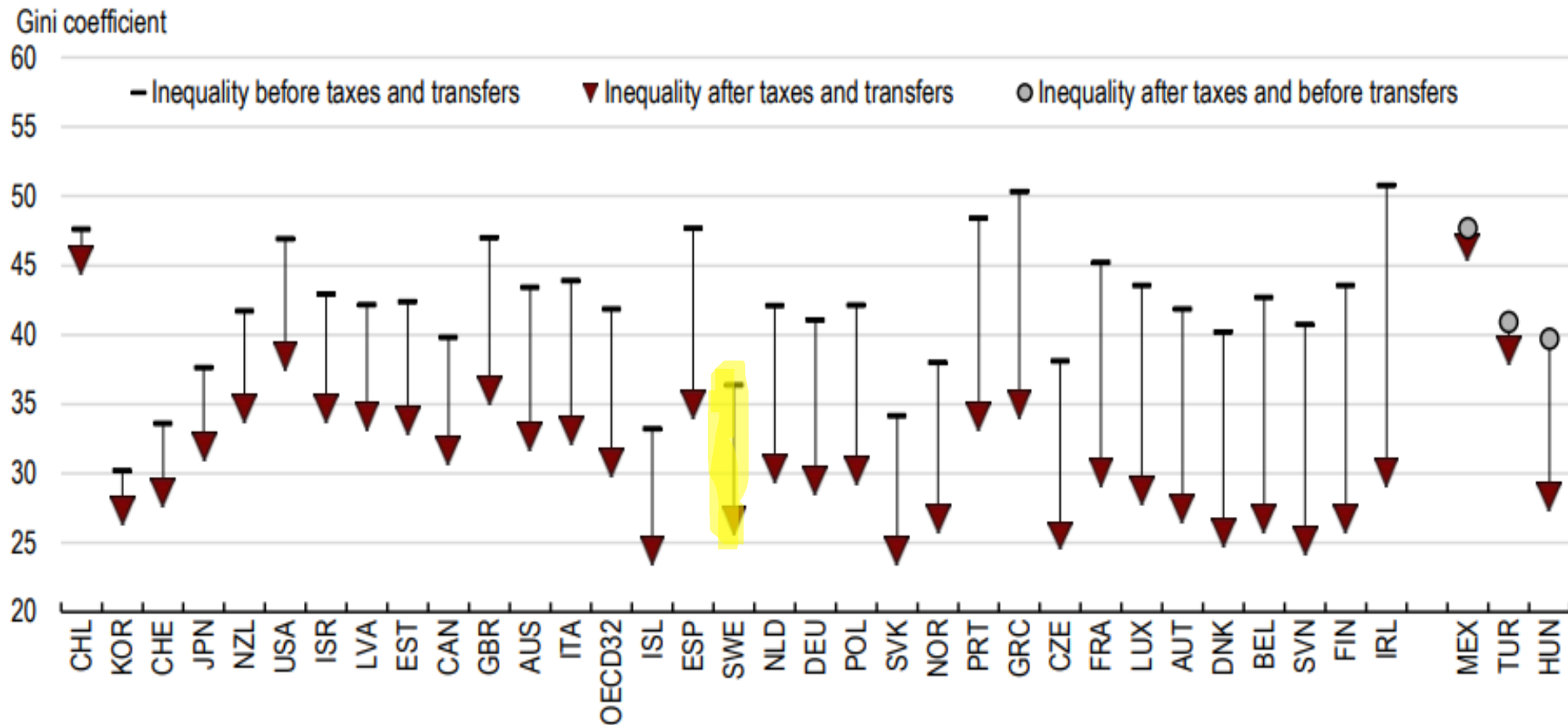
## **The role of taxes and transfers**

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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

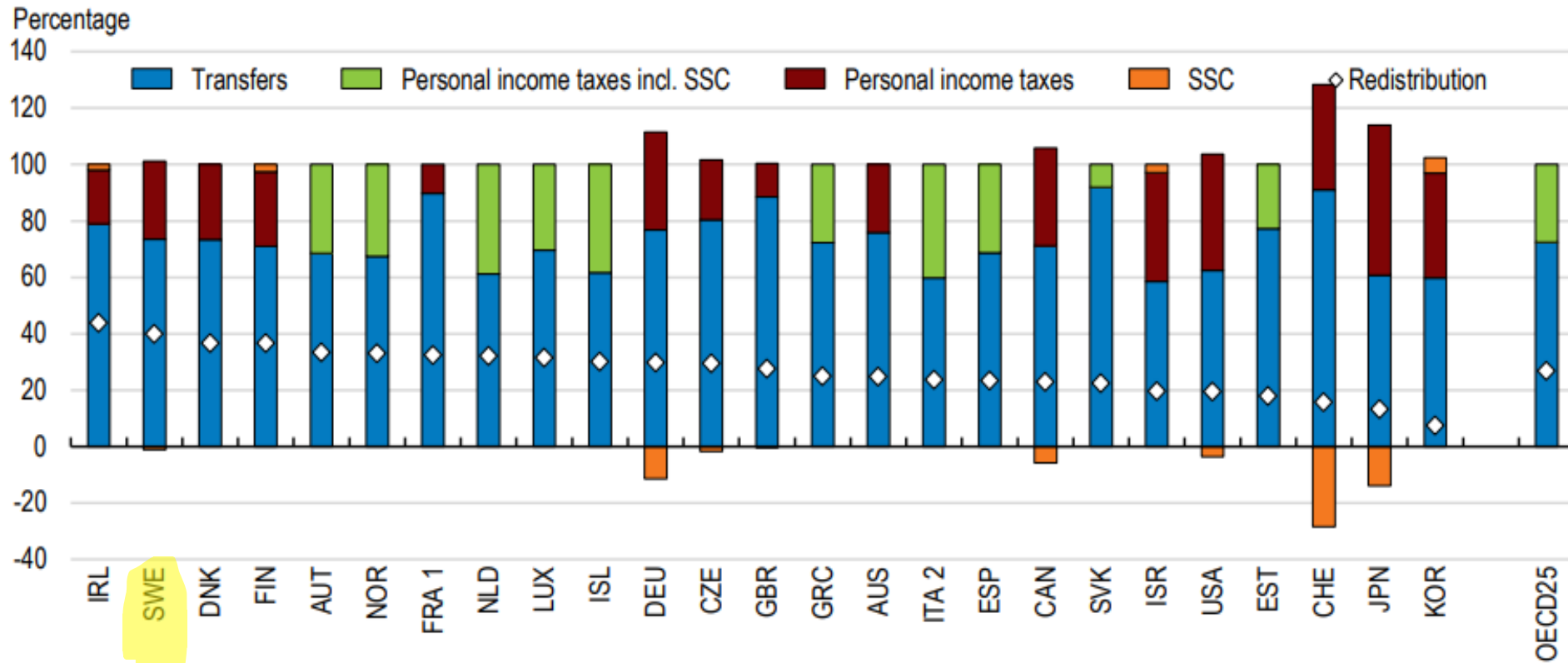
# Gini coefficients before and after taxes and transfers, 2014



Source: OECD Income Distribution Database

# Transfers and taxes role in redistribution

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

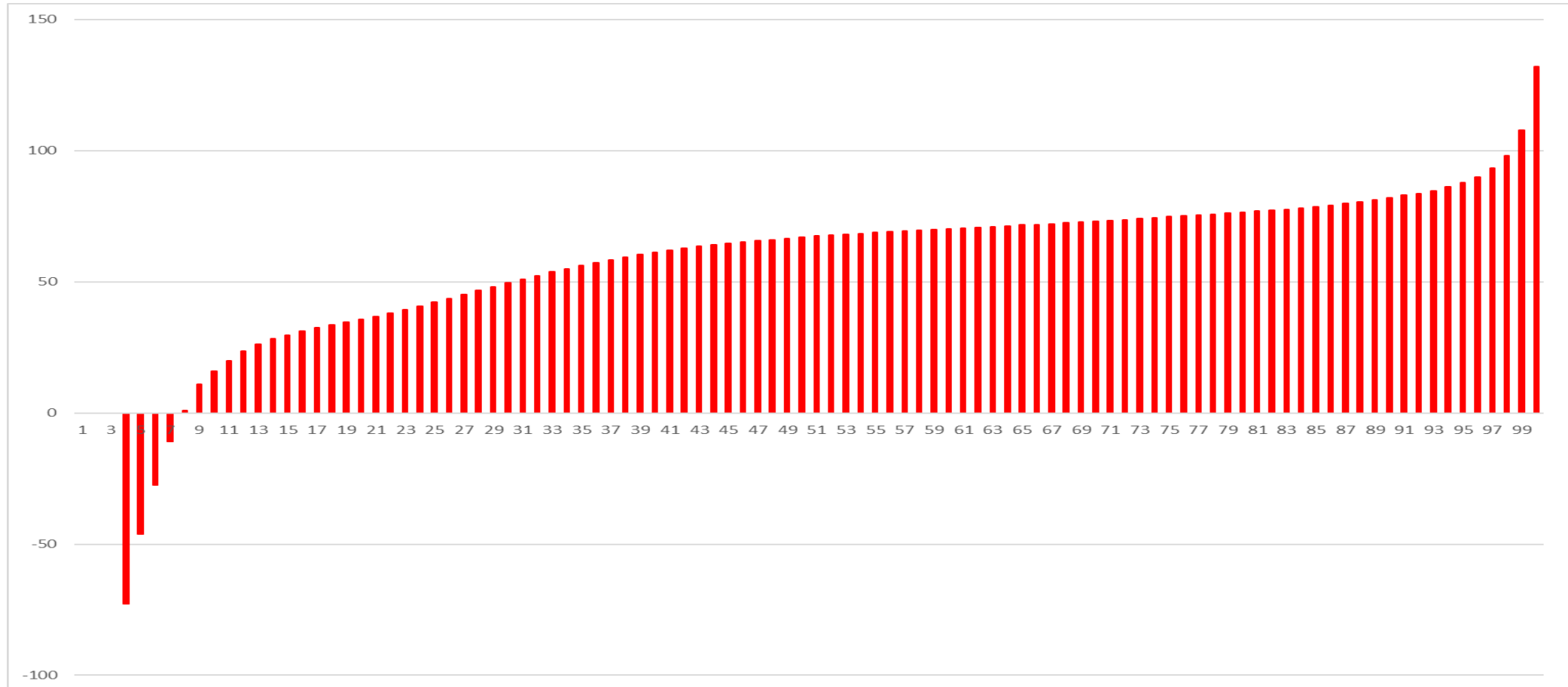


Source: OECD (2019)

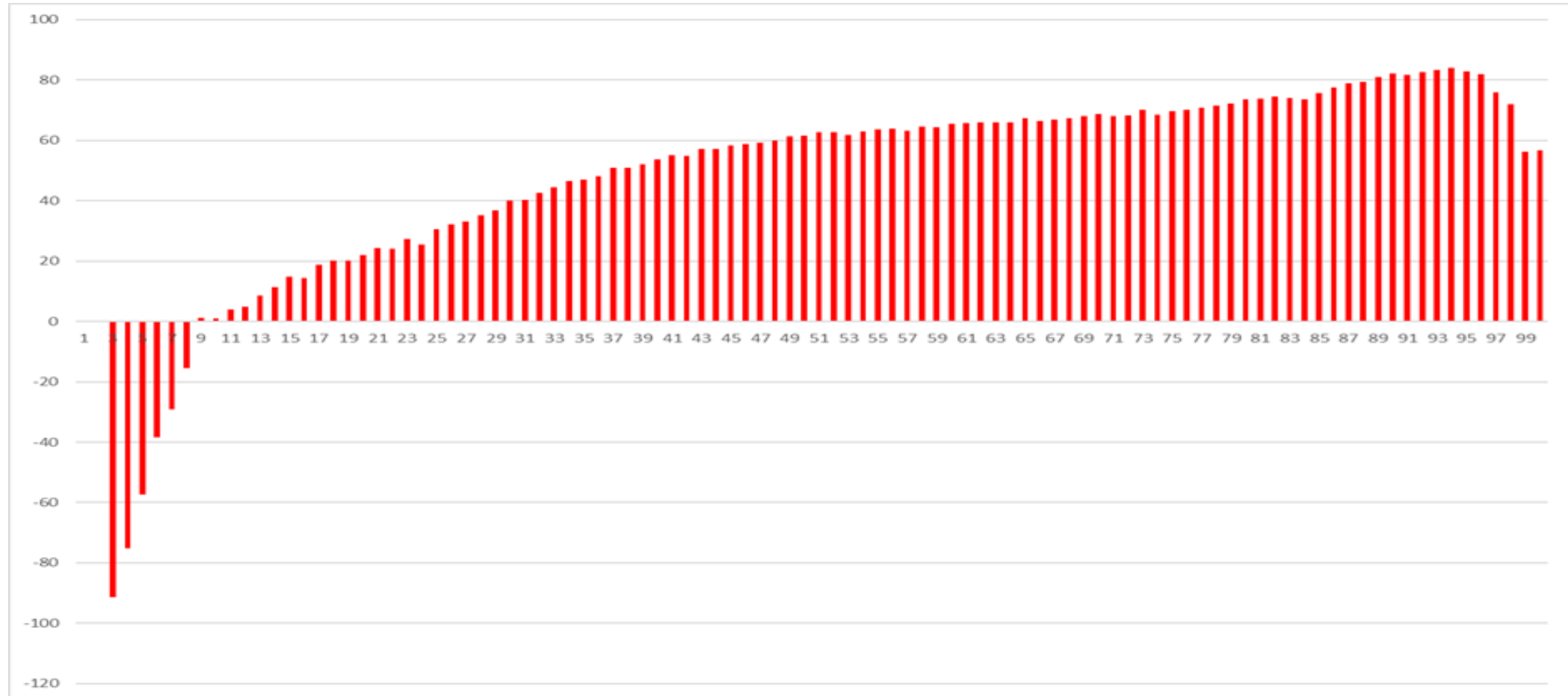
# Let's focus on Sweden

Swedish micro data

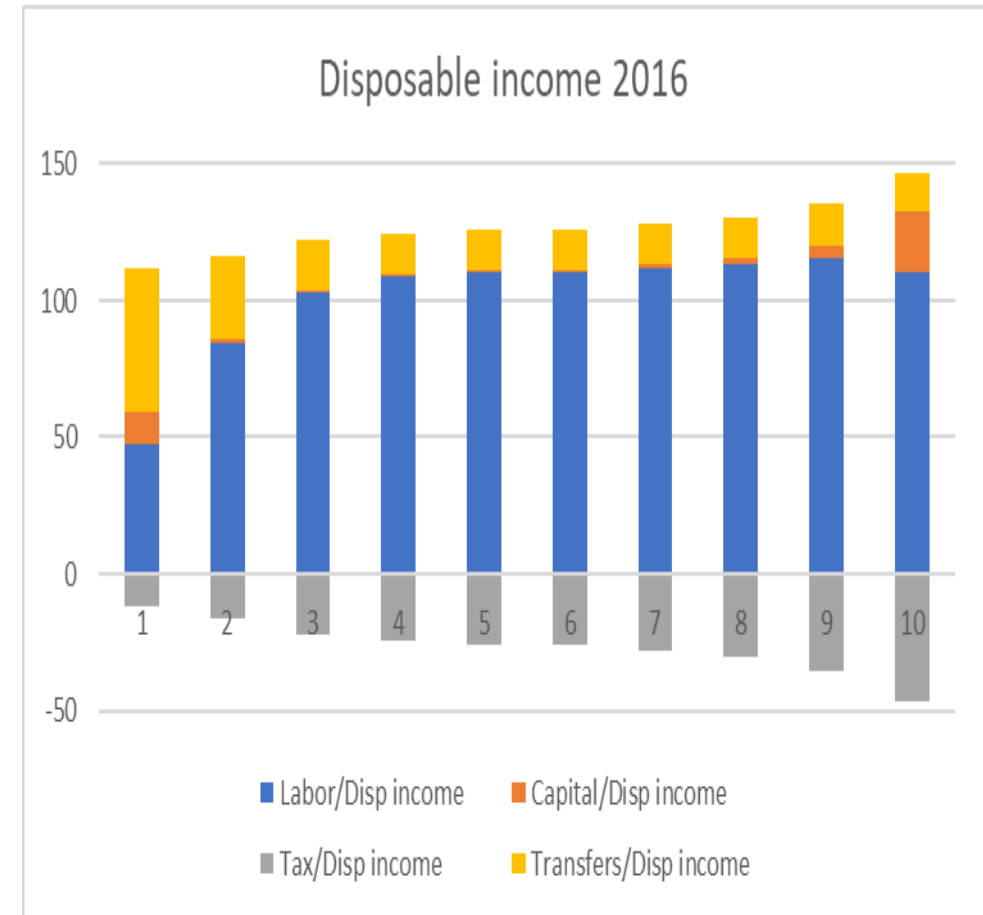
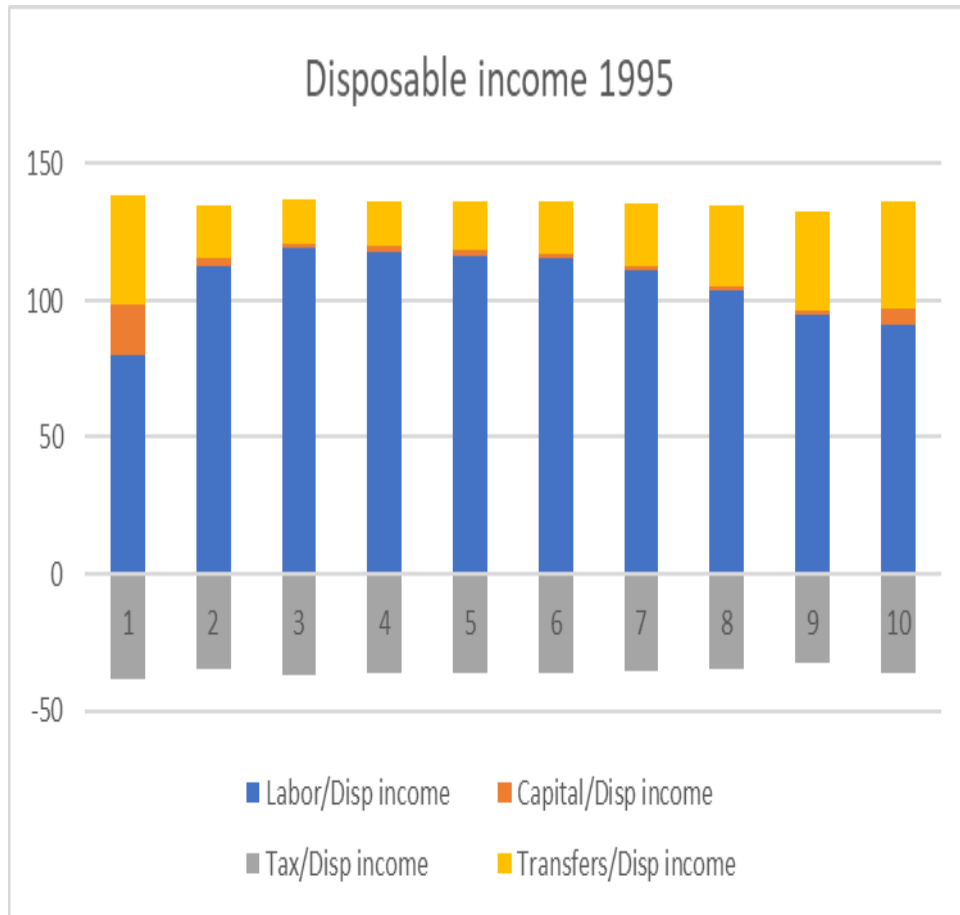
# Percentage change in disposable income from 1995 to 2016 (percentiles)



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

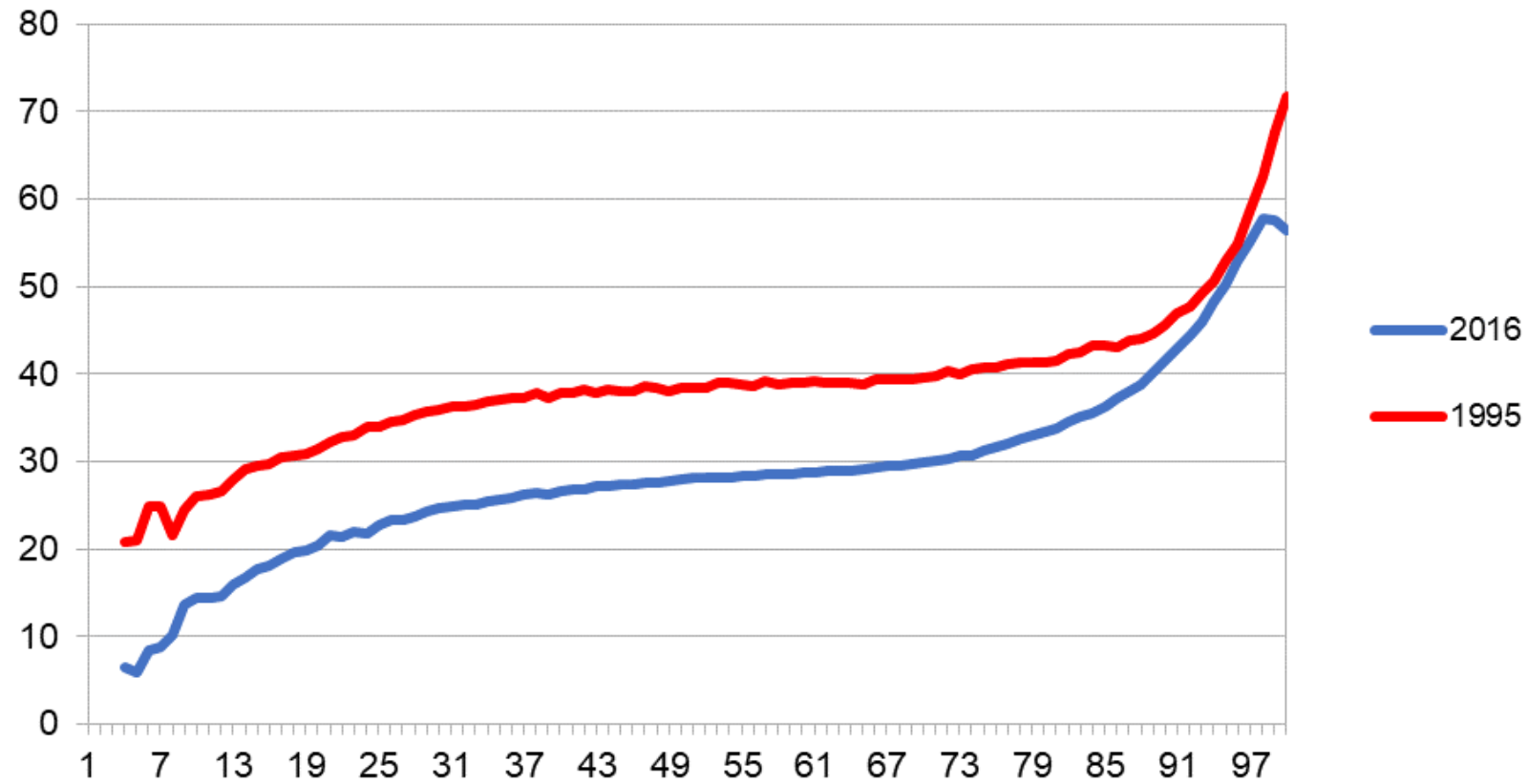


# Composition of disposable income, deciles

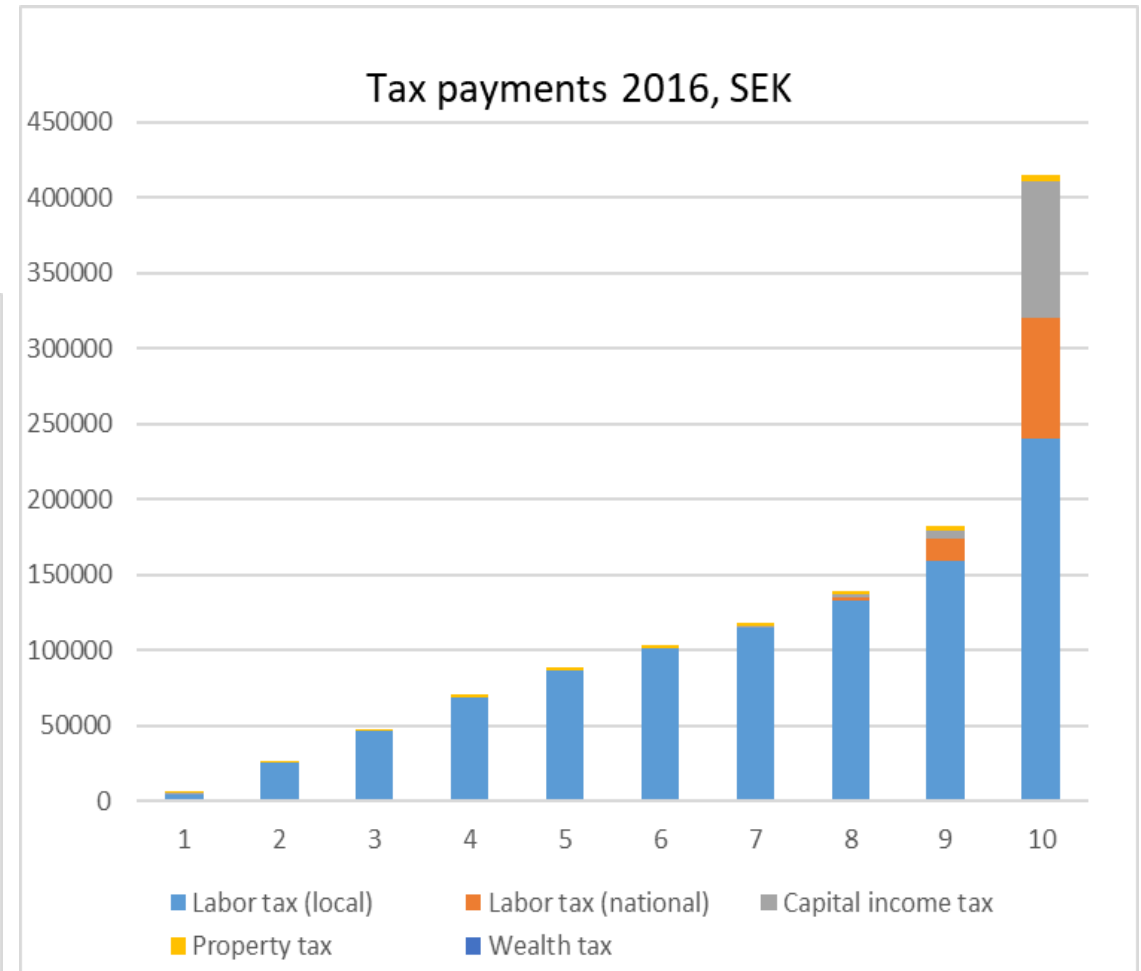
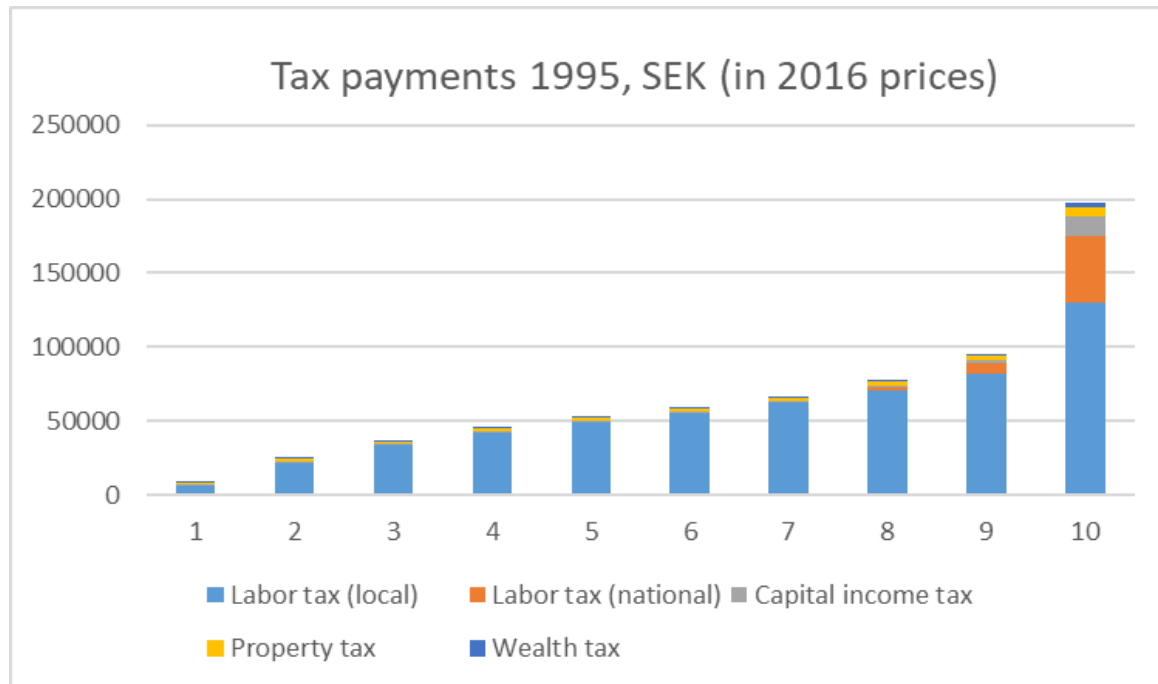




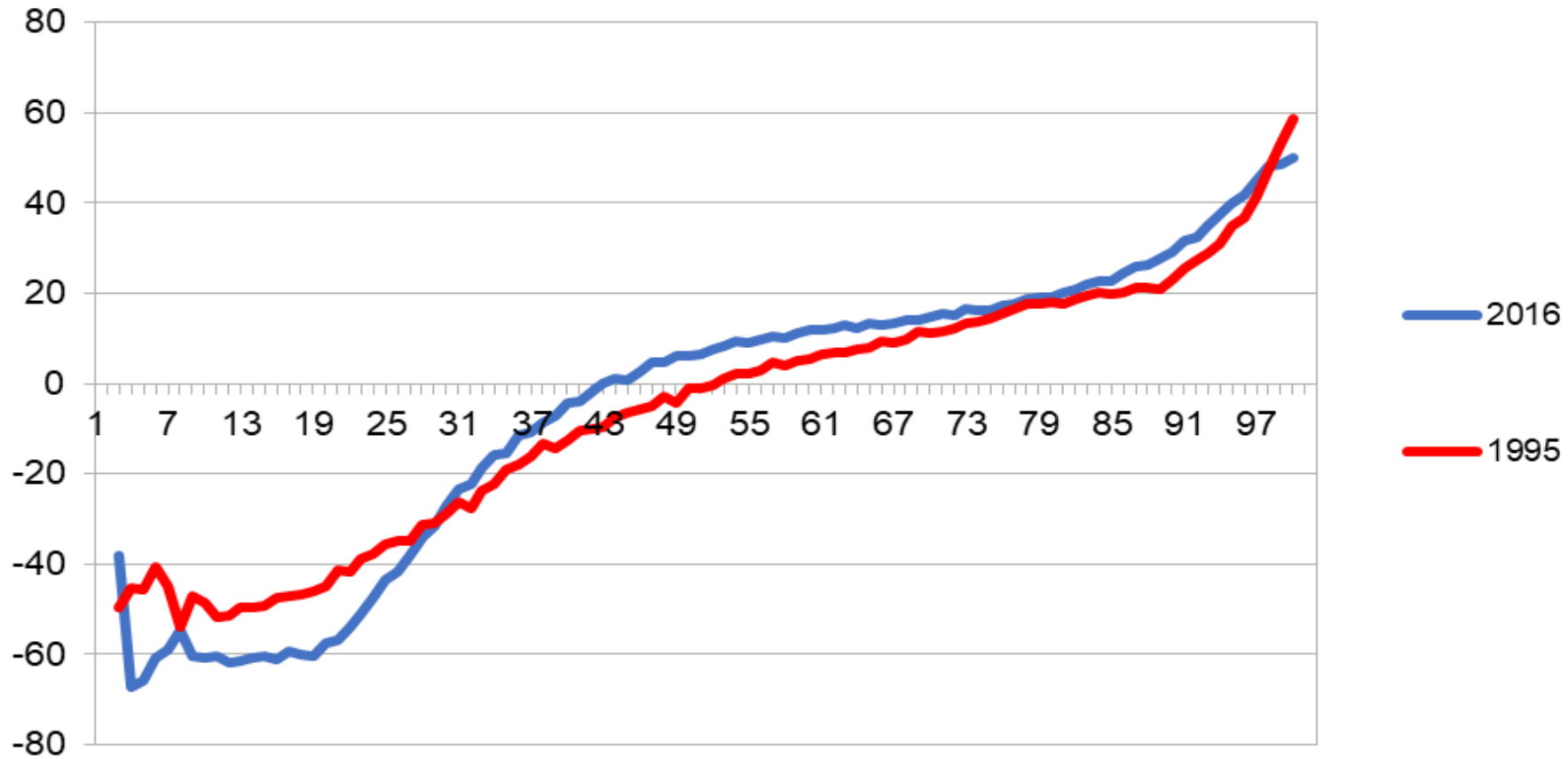
# Total income tax payments as share of disposable income in 1995 and 2016 (percentiles)



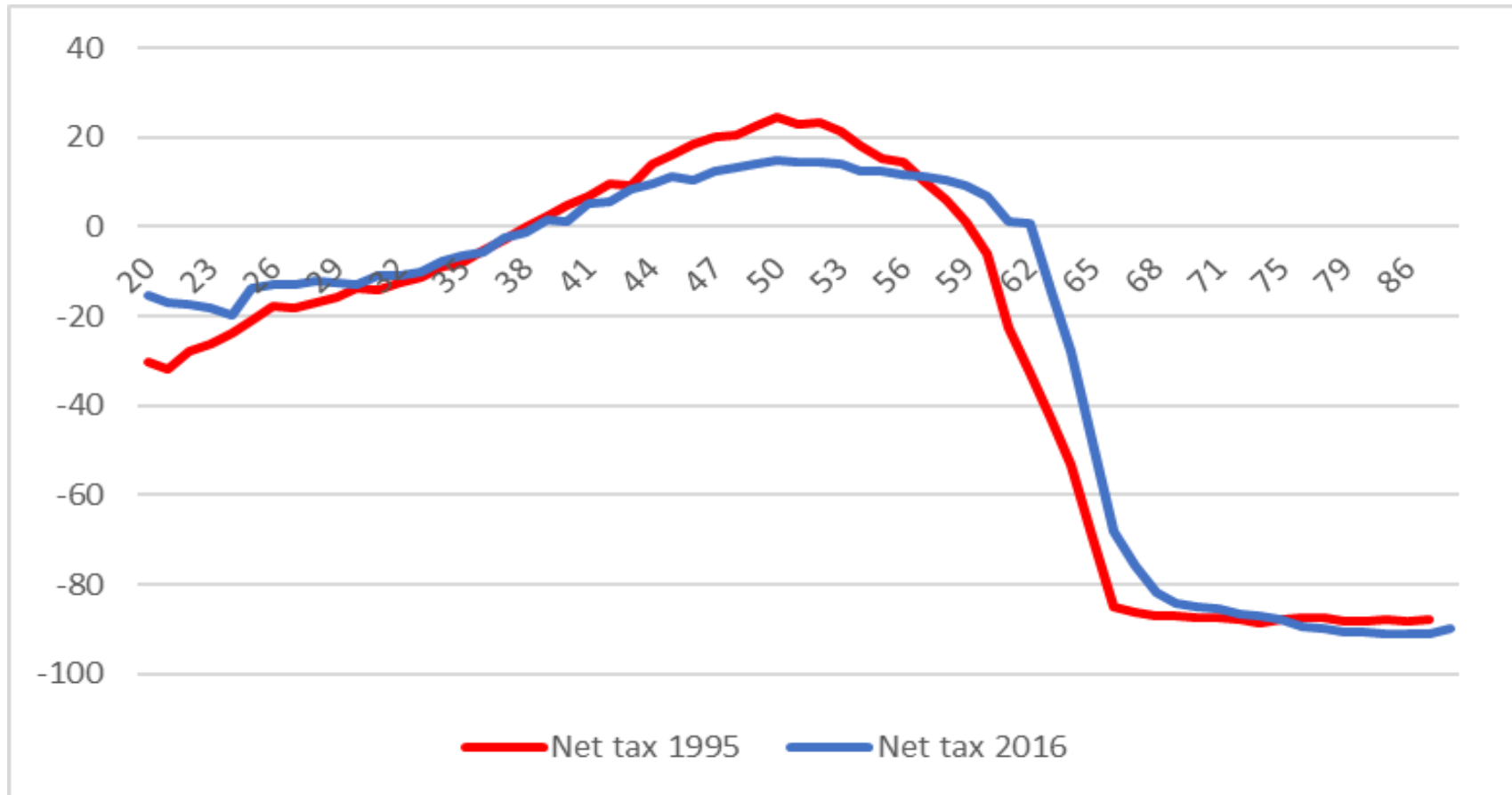
# Composition of tax payments in 1995 and 2016, deciles



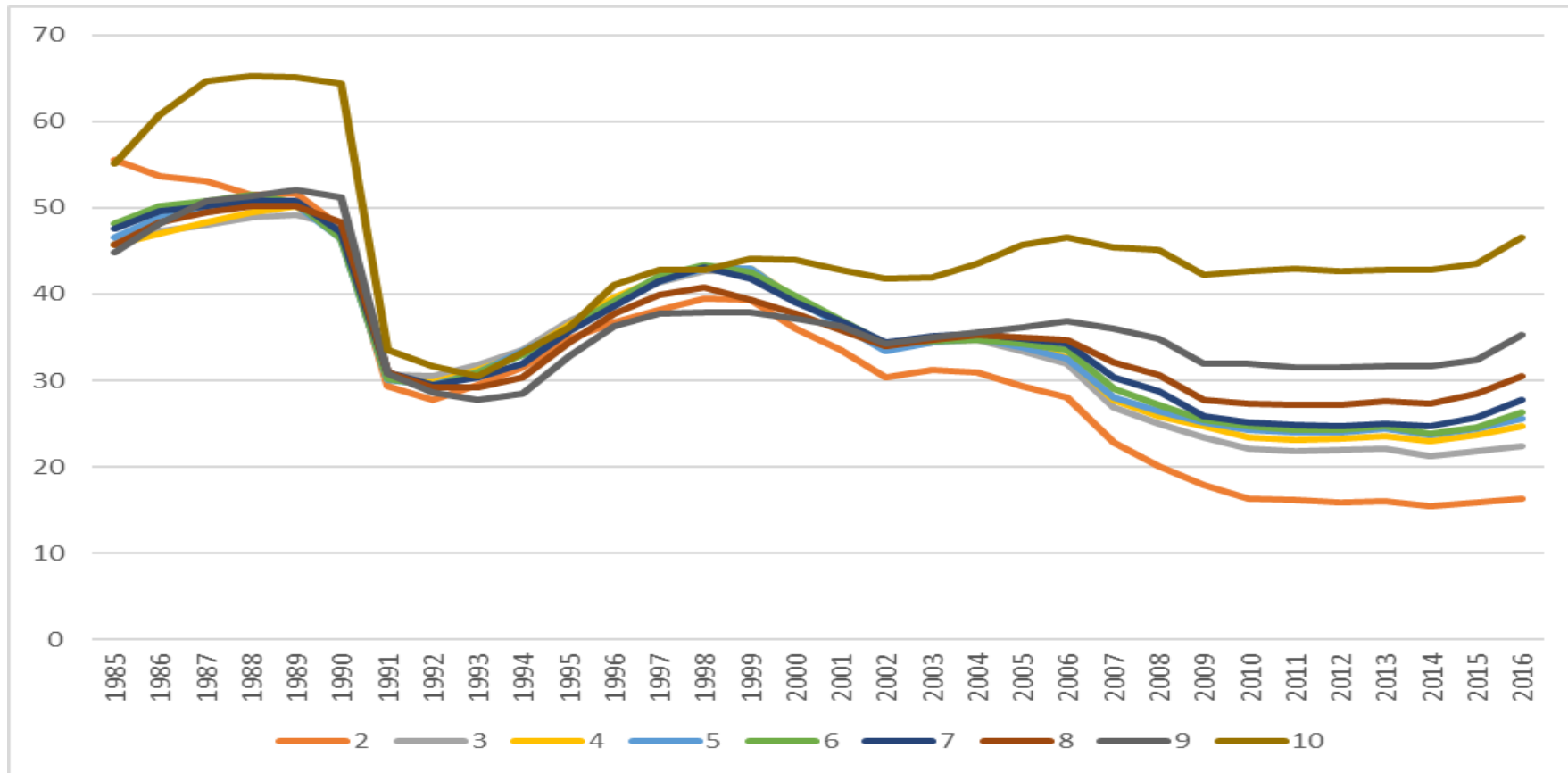
# Net contribution over income distribution in 1995 and 2016



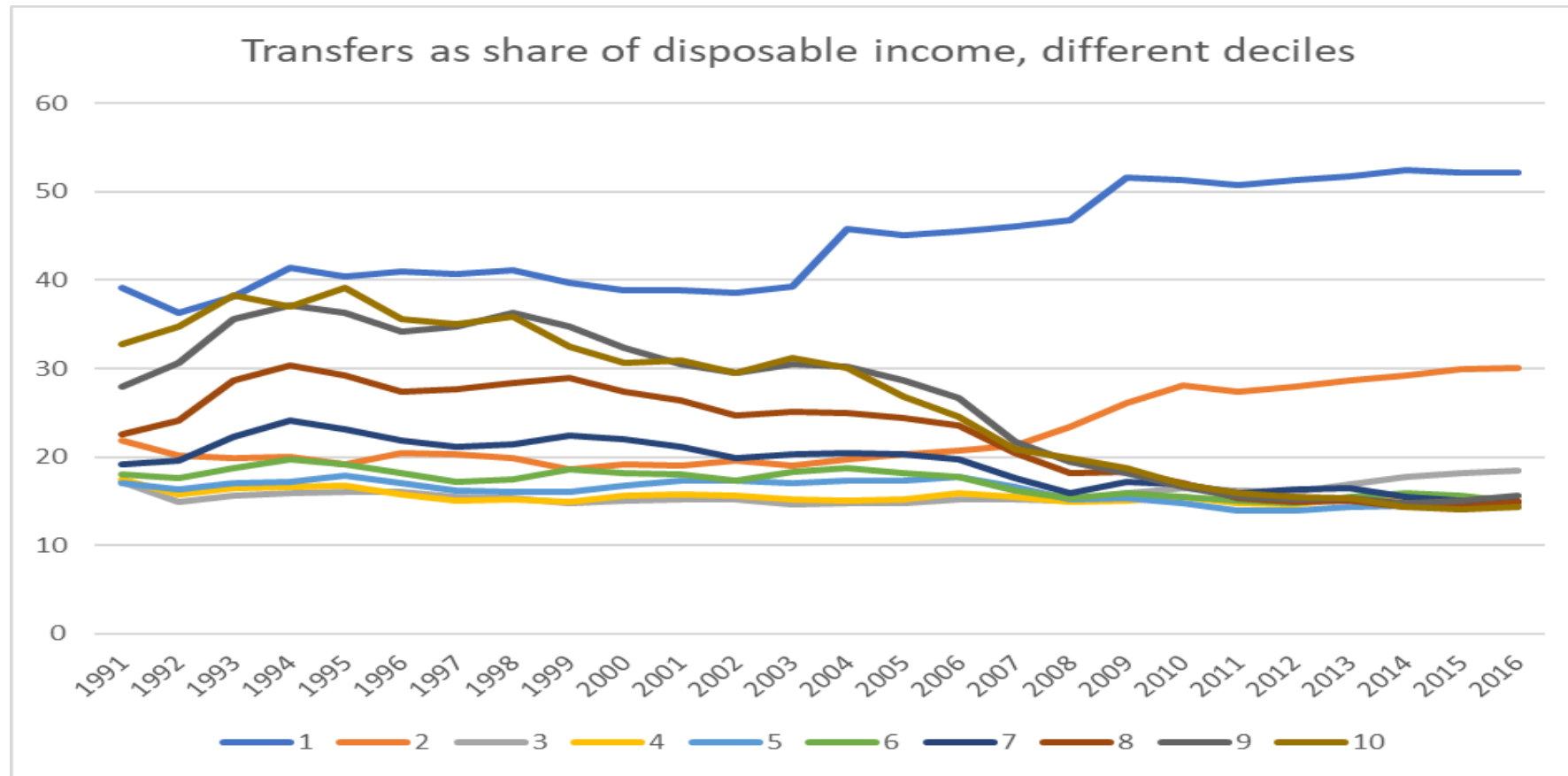
# Net contribution over life-cycle in 1995 and 2016



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



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



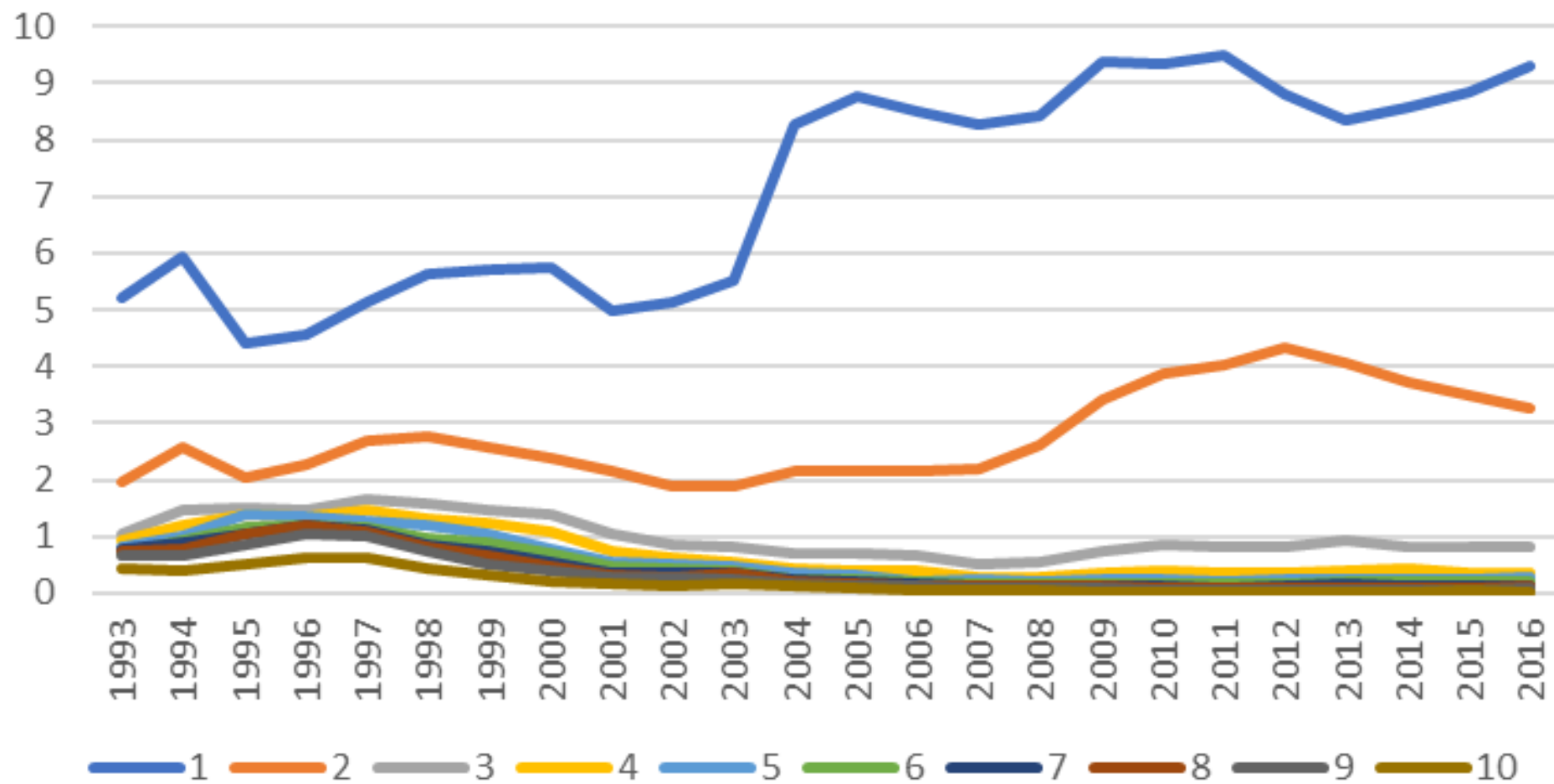
# Final remarks

- 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

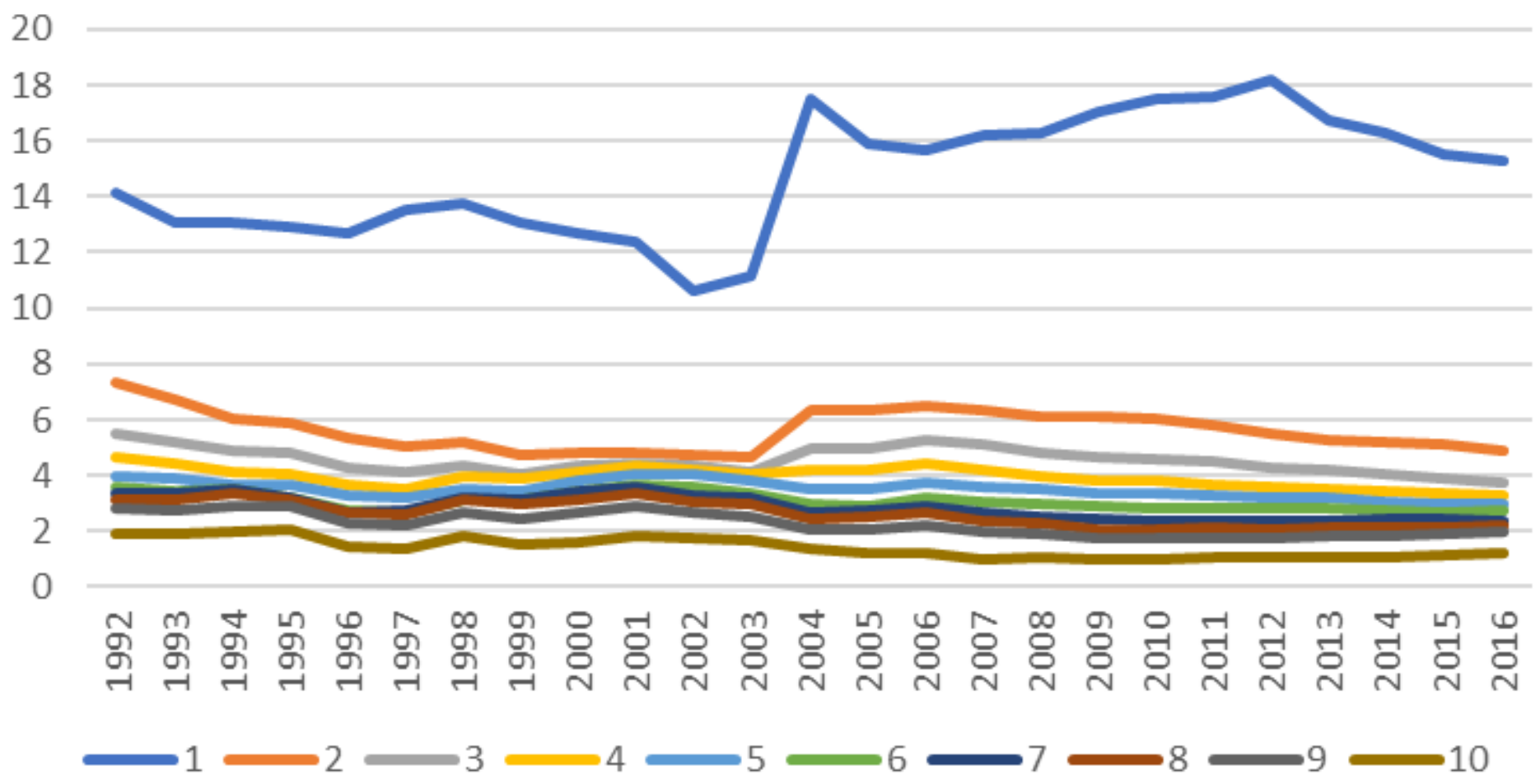
Extra material



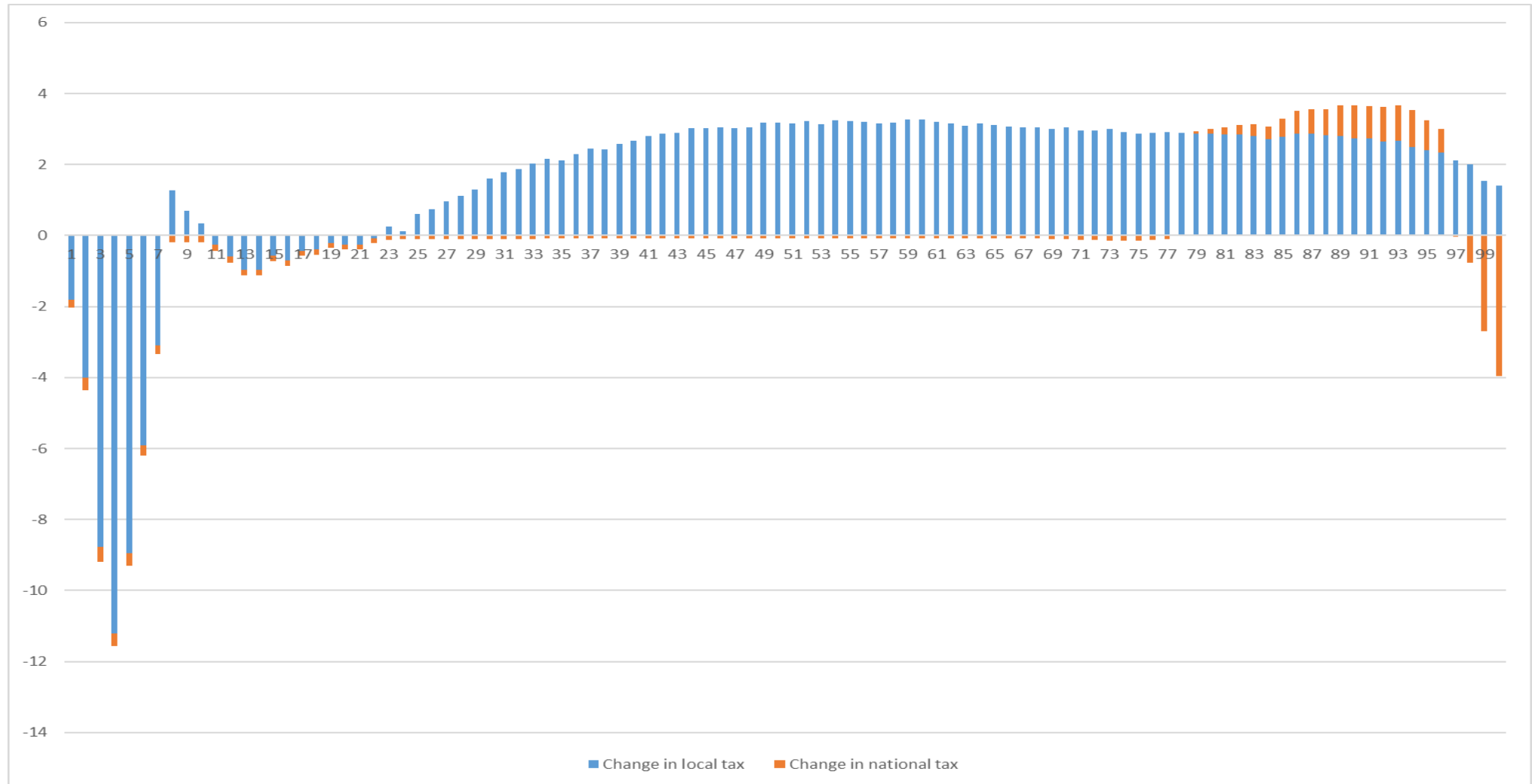
## Social support/Disp income



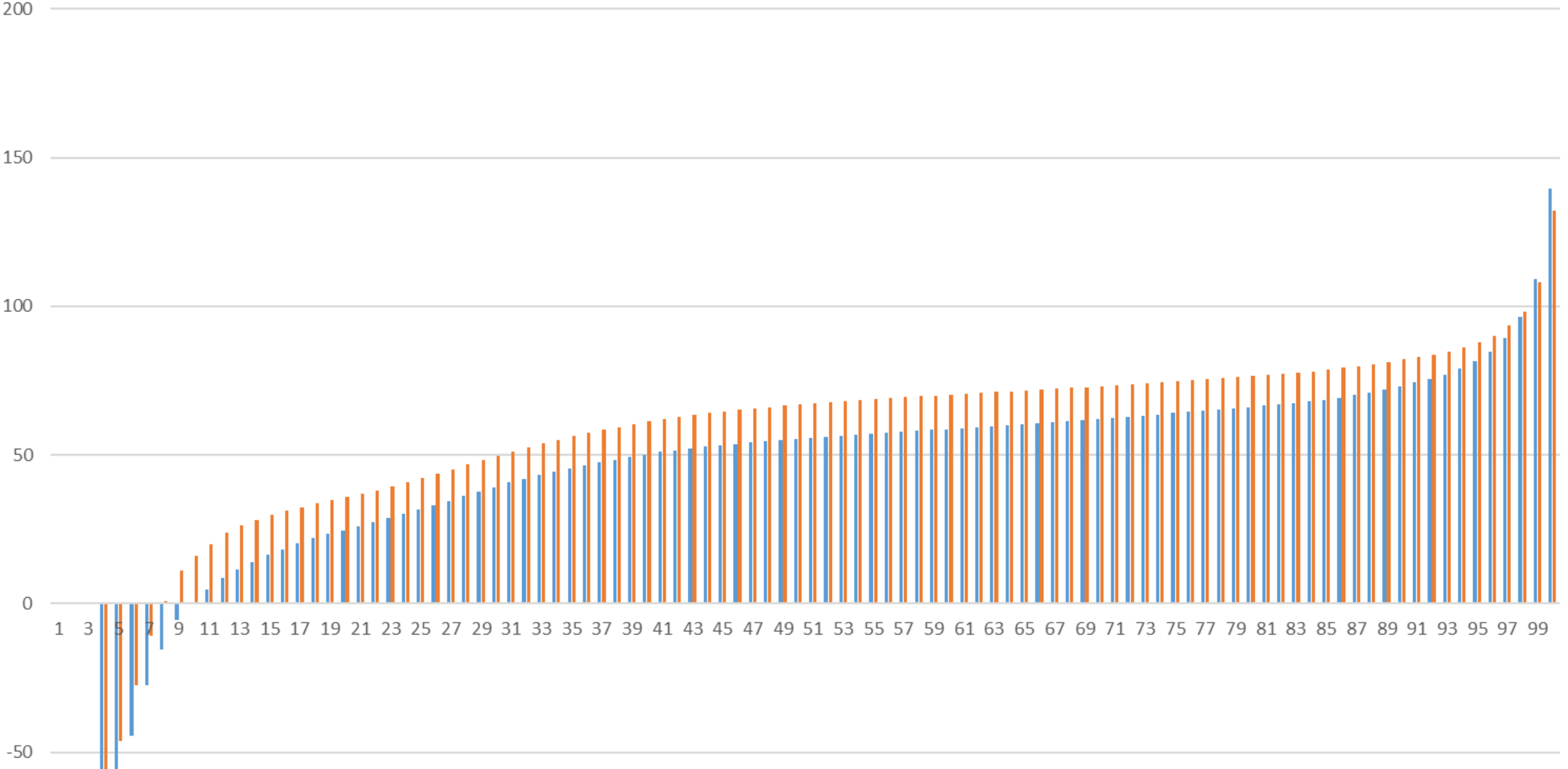
# Child aid/Disp income



# National and local tax



Percentage change in disposable income



## Change between 2000 and 2016

