

Increasing Income Inequality in the Nordic Region

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Lars Calmfors
Jesper Roine
Introduction

Jon Pareliussen
Mikkel Hermansen
Christophe André
Causa Orsetta
Income Inequality in the Nordics
from an OECD Perspective

Jakob Egholt Søgård
Top Incomes in Scandinavia –
Recent Developments and
the Role of Capital Income

Anne Boschini
Kristin Gunnarsson
Gendered Trends in Income Inequality

Jon Pareliussen
P-O Robling
Demographic Change and Inequality
Trends in the Nordic Countries

Rolf Aaberge
Audun Langørgen
Petter Lindgren
Accounting for Public In-Kind Transfers
in Comparisons of Income Inequality
between the Nordic Countries

The Nordic welfare model

Input

- Generous welfare state
- Large public sector
- High taxation
- Collective agreements
- Strong trade unions and employers' associations

Output

- High living standards
- High employment
- Low income dispersion

Measures of income and of inequality

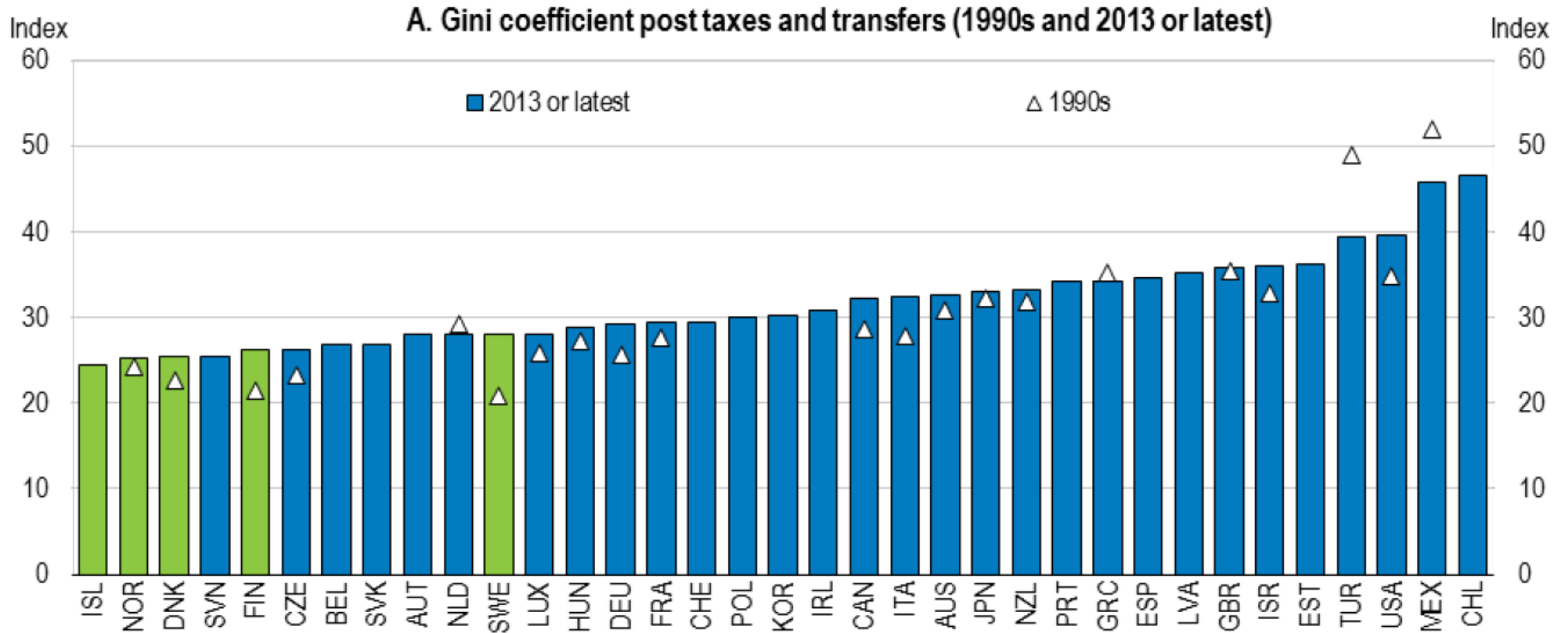
Income

- Equivalised disposable income =
Income after taxes and transfers
per (adjusted) household
member

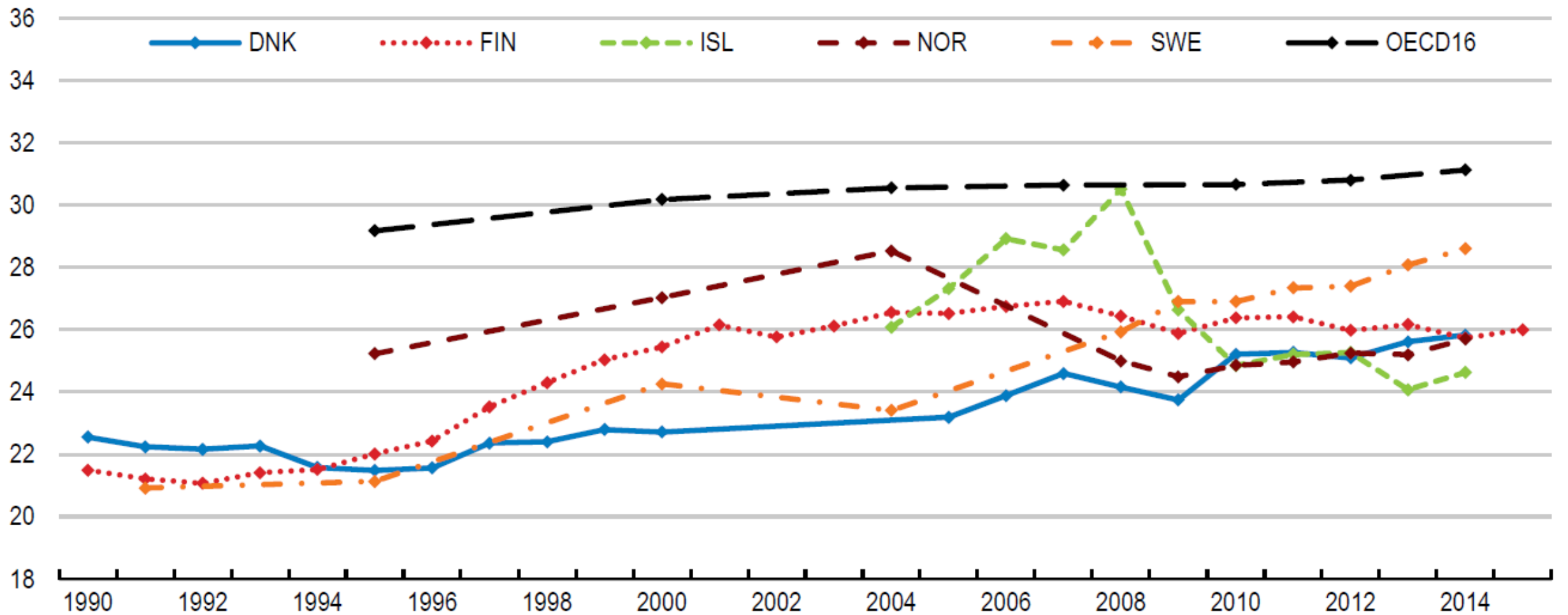
Inequality

- Gini coefficient
- Relative poverty
- Top income shares

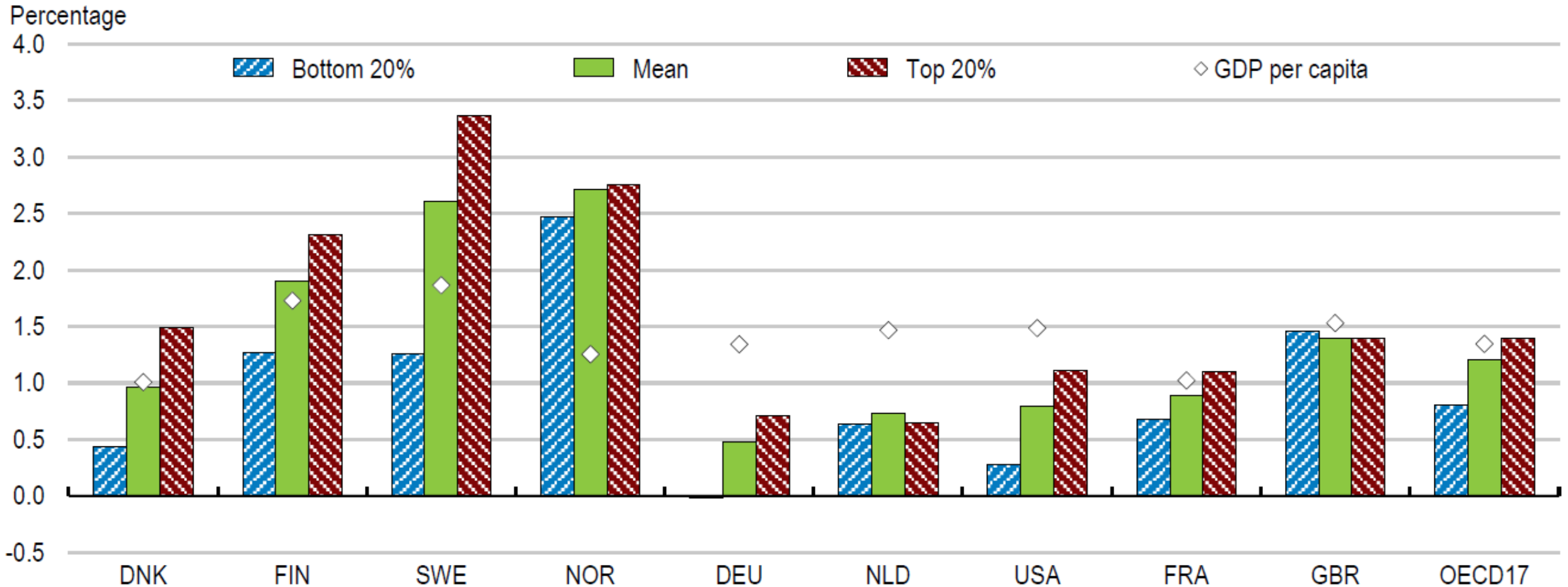
Gini coefficients 2013 (and 1995)



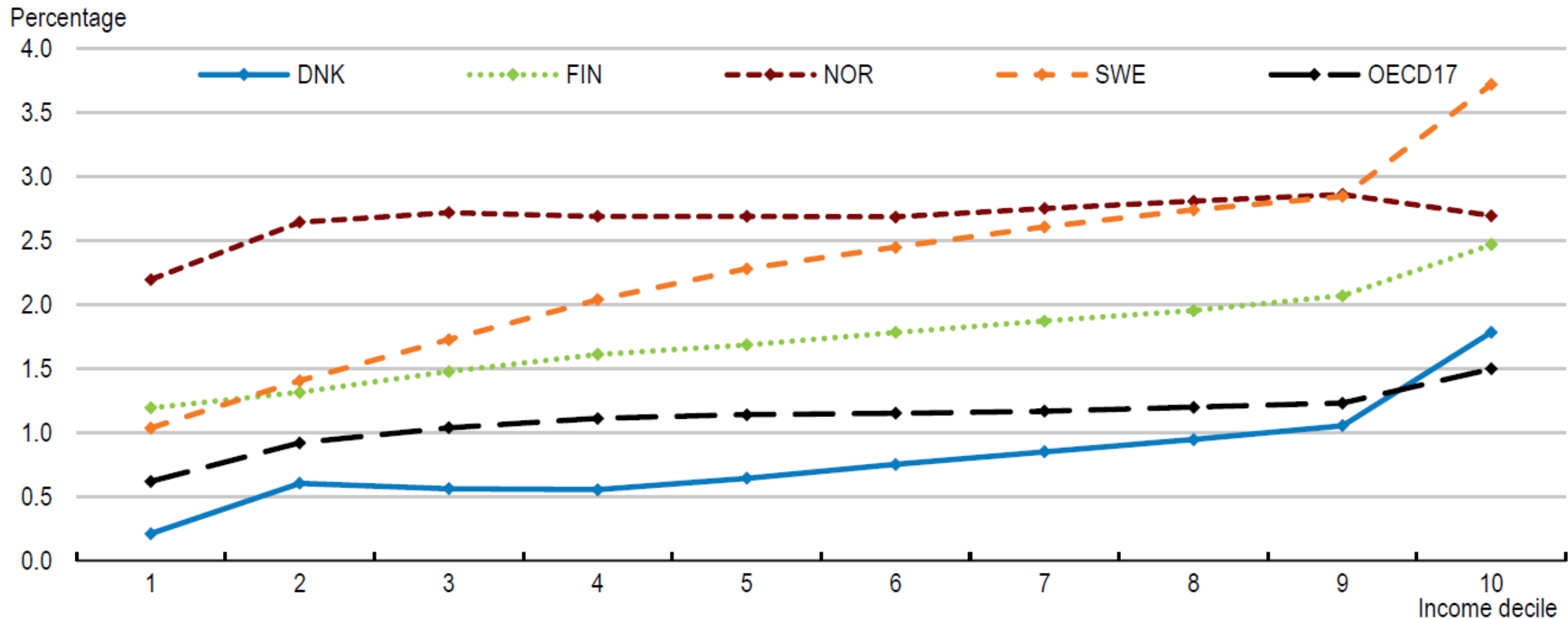
Gini coefficients in the Nordics



Average annual growth in household real disposable income, mid-1990s to 2014



Growth incidence curves



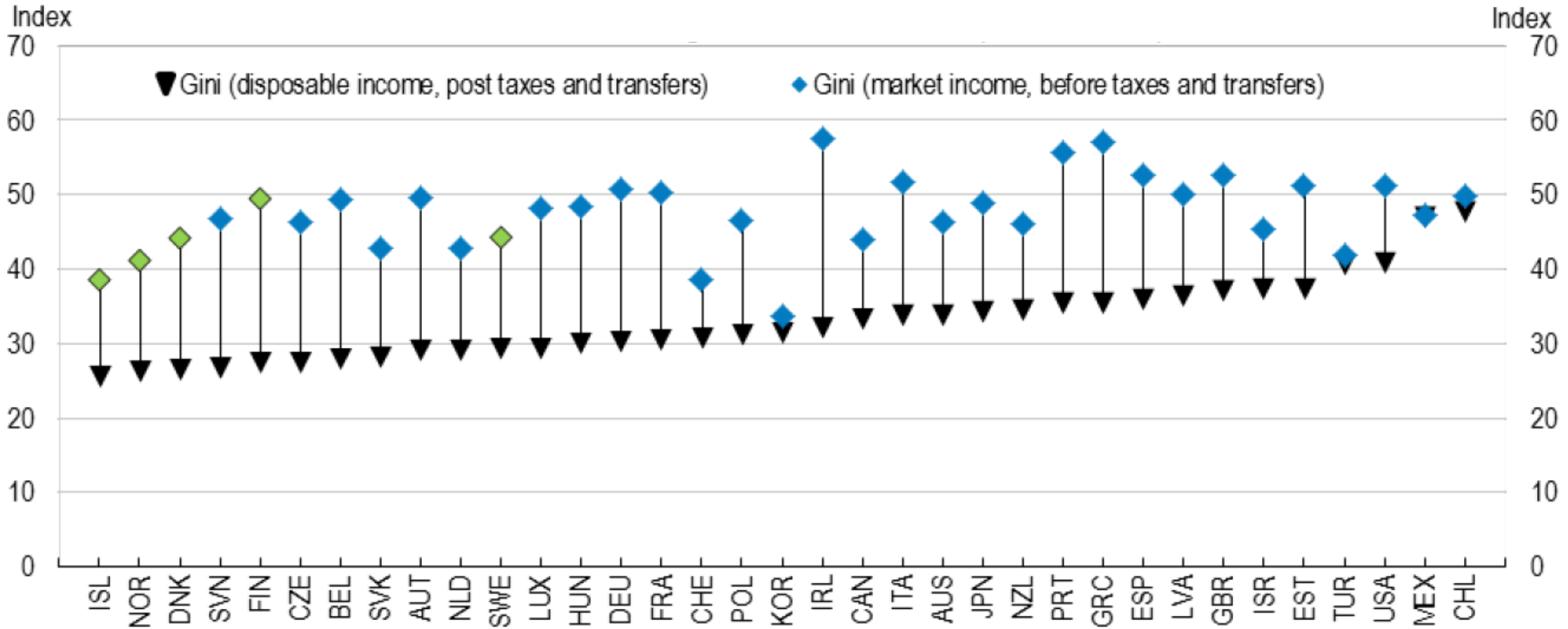
Demographic factors behind increased income inequality

- More elderly people
- More single-person households
- More refugee immigrants

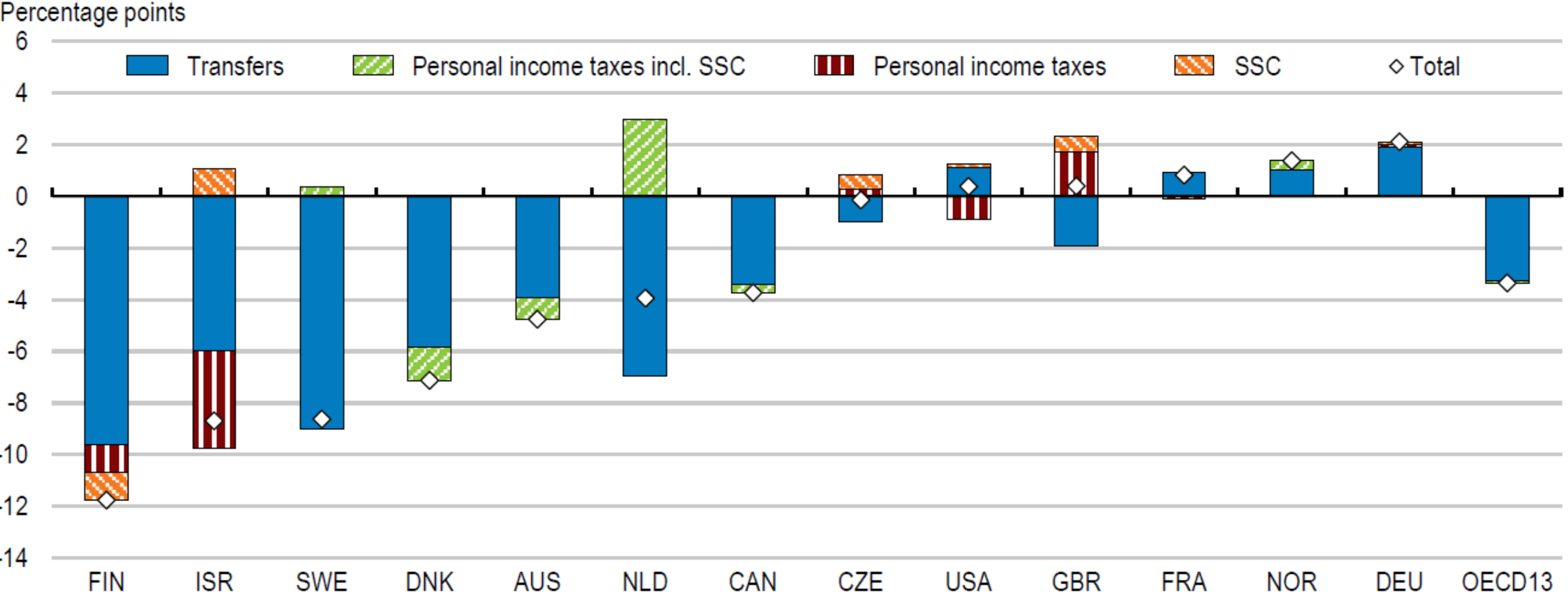
Increased inequality of disposable income in Anglo-Saxon countries

- It has been driven by increased inequality in **market incomes** (incomes before taxes and transfers)
- Causes:
 - Skill-biased technological progress
 - Globalisation: offshoring
 - Weaker trade unions

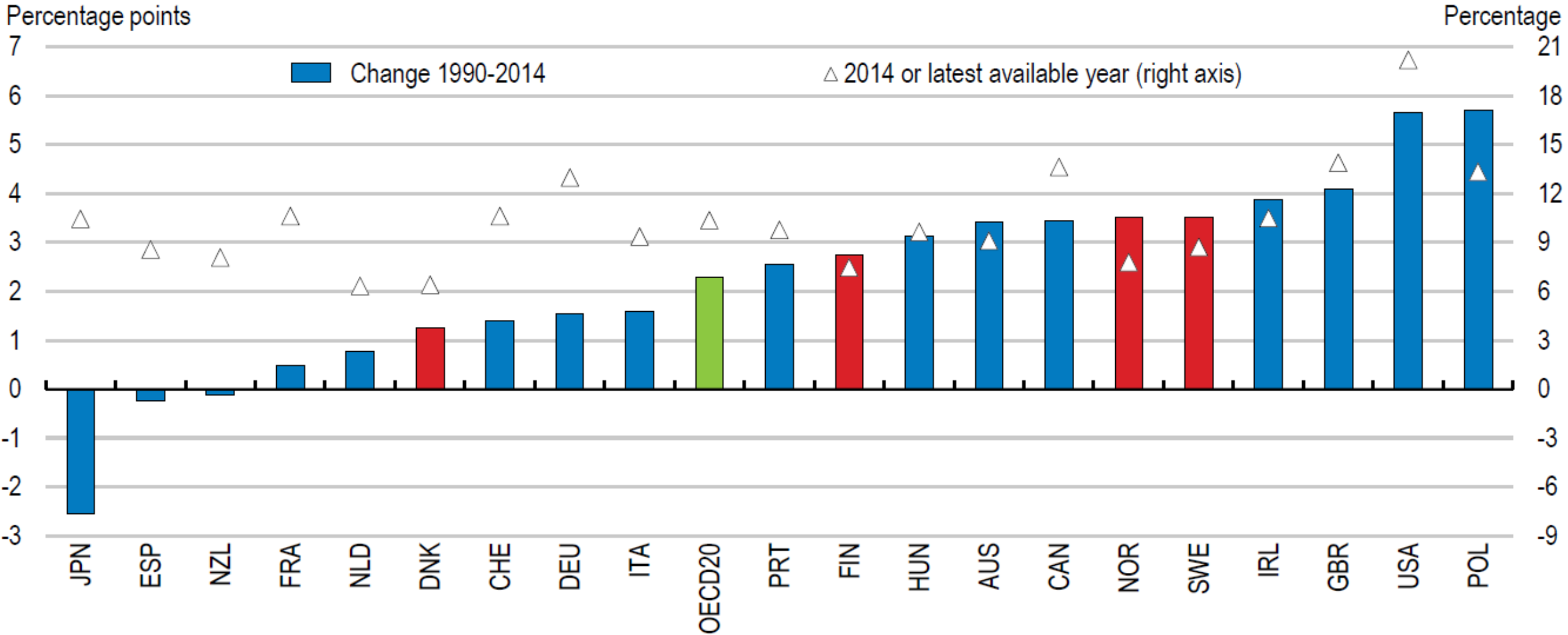
Amount of redistribution, 2013



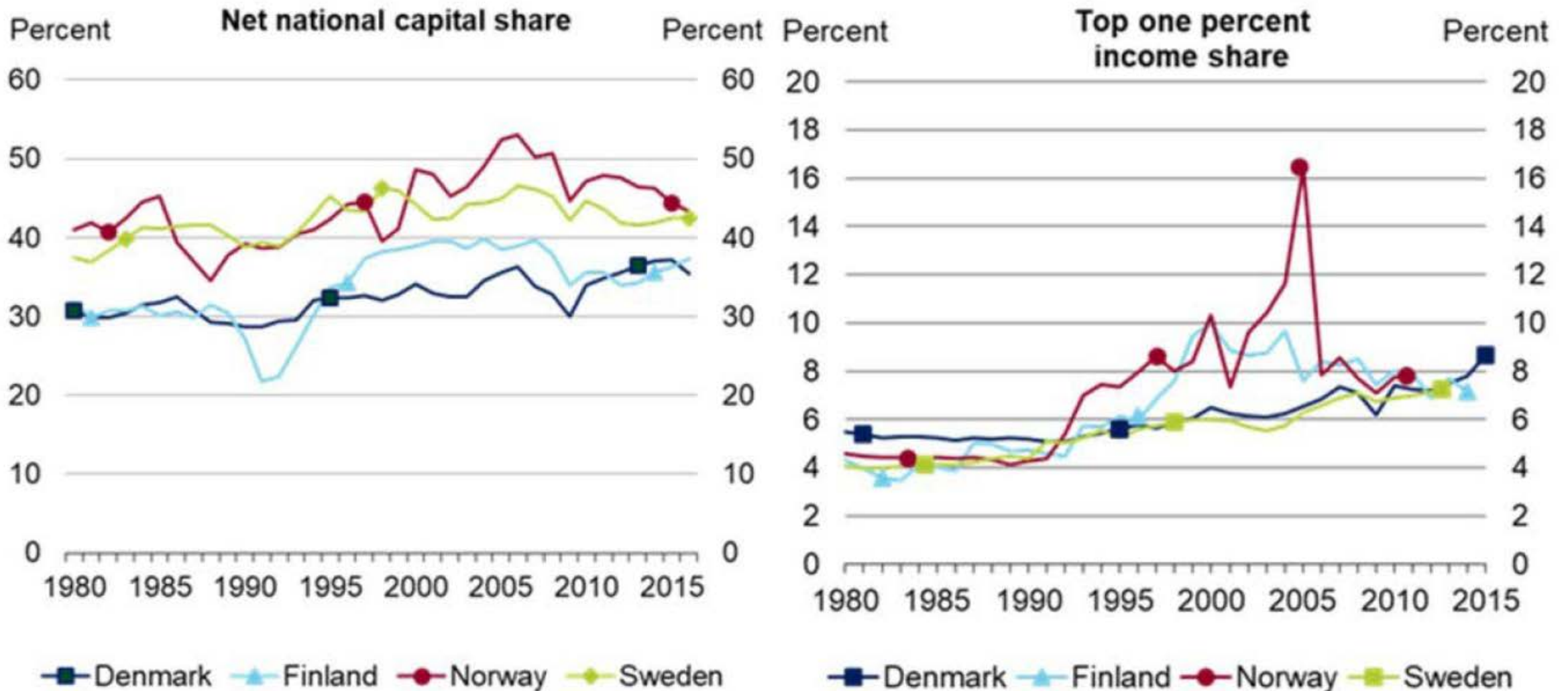
Decline in redistribution, mid-1990's to 2013



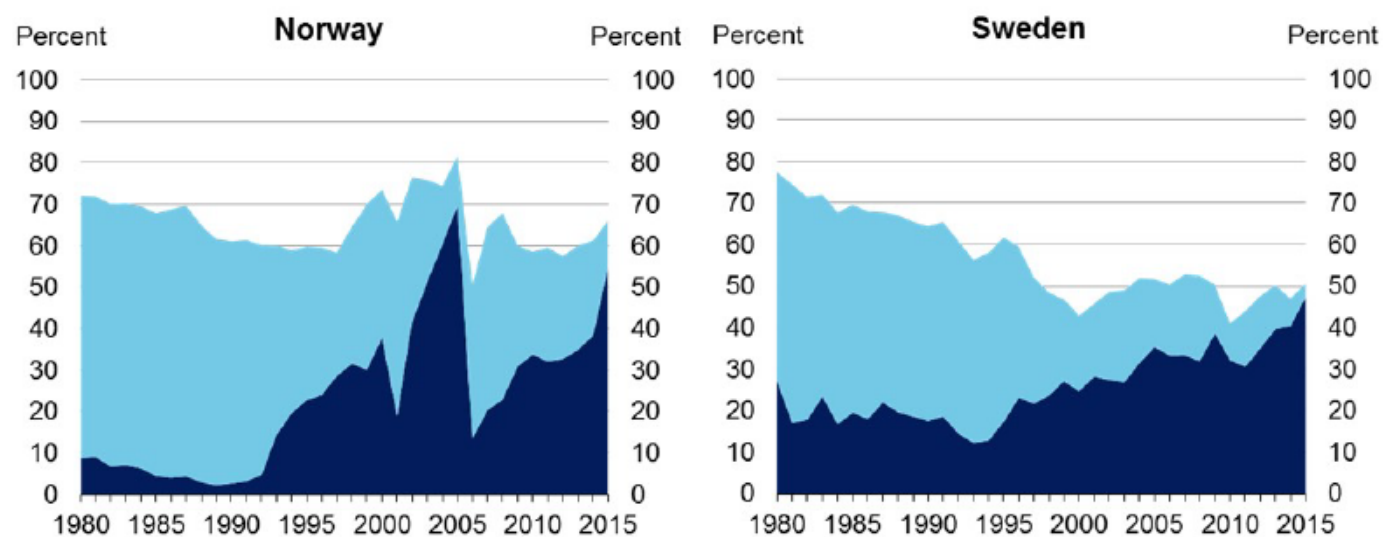
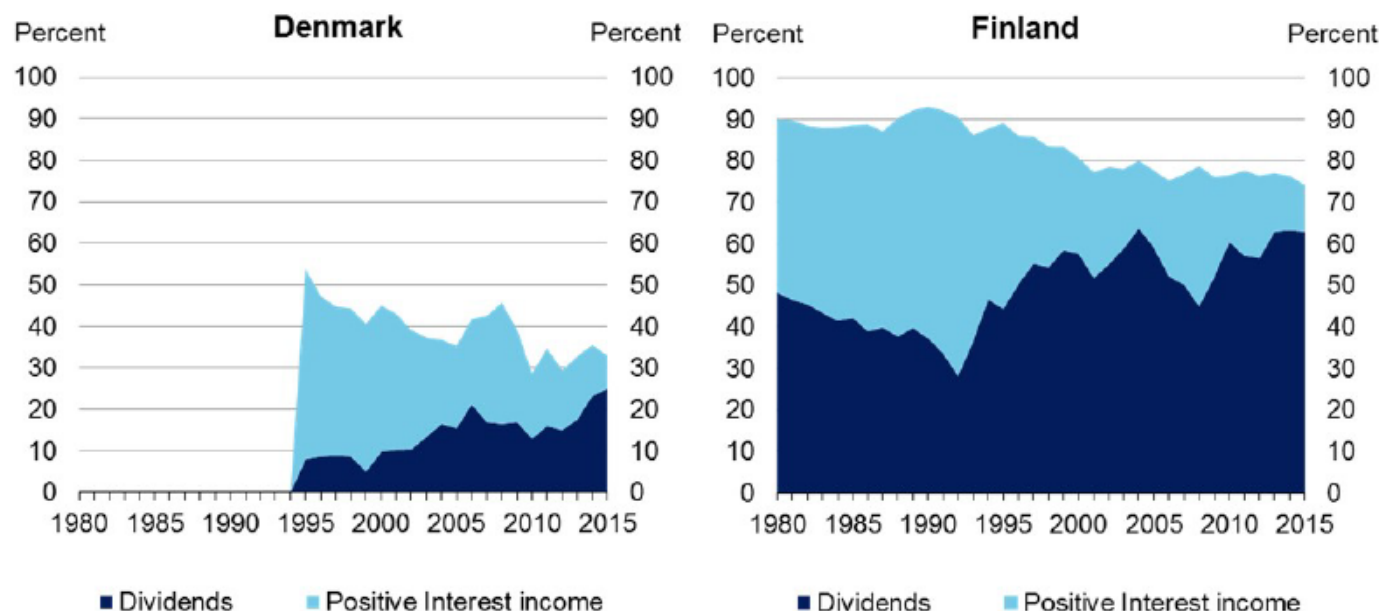
Increases in pre-tax top income shares



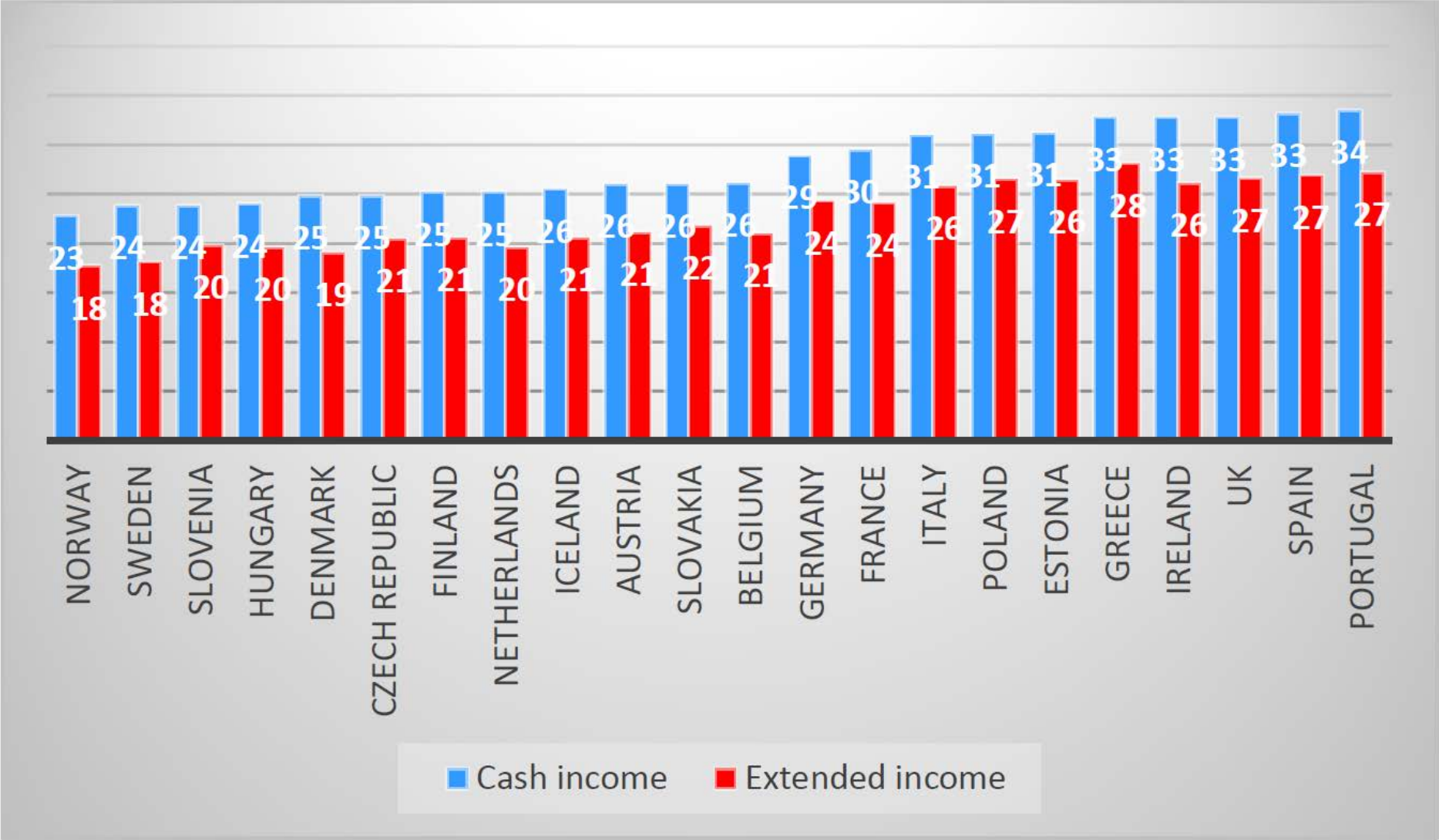
Capital shares and top-one-percent income shares



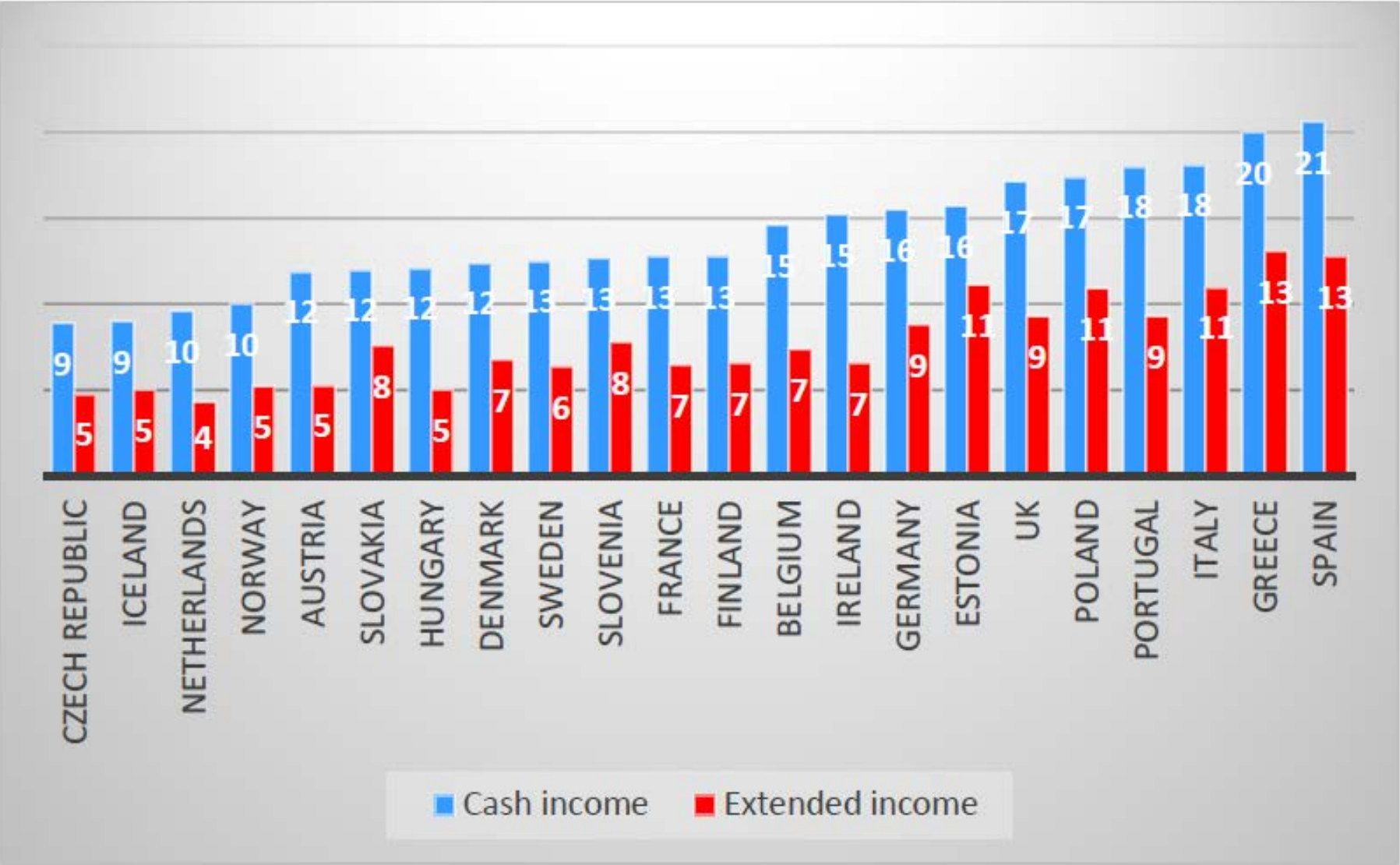
Composition of positive capital income in the household sector



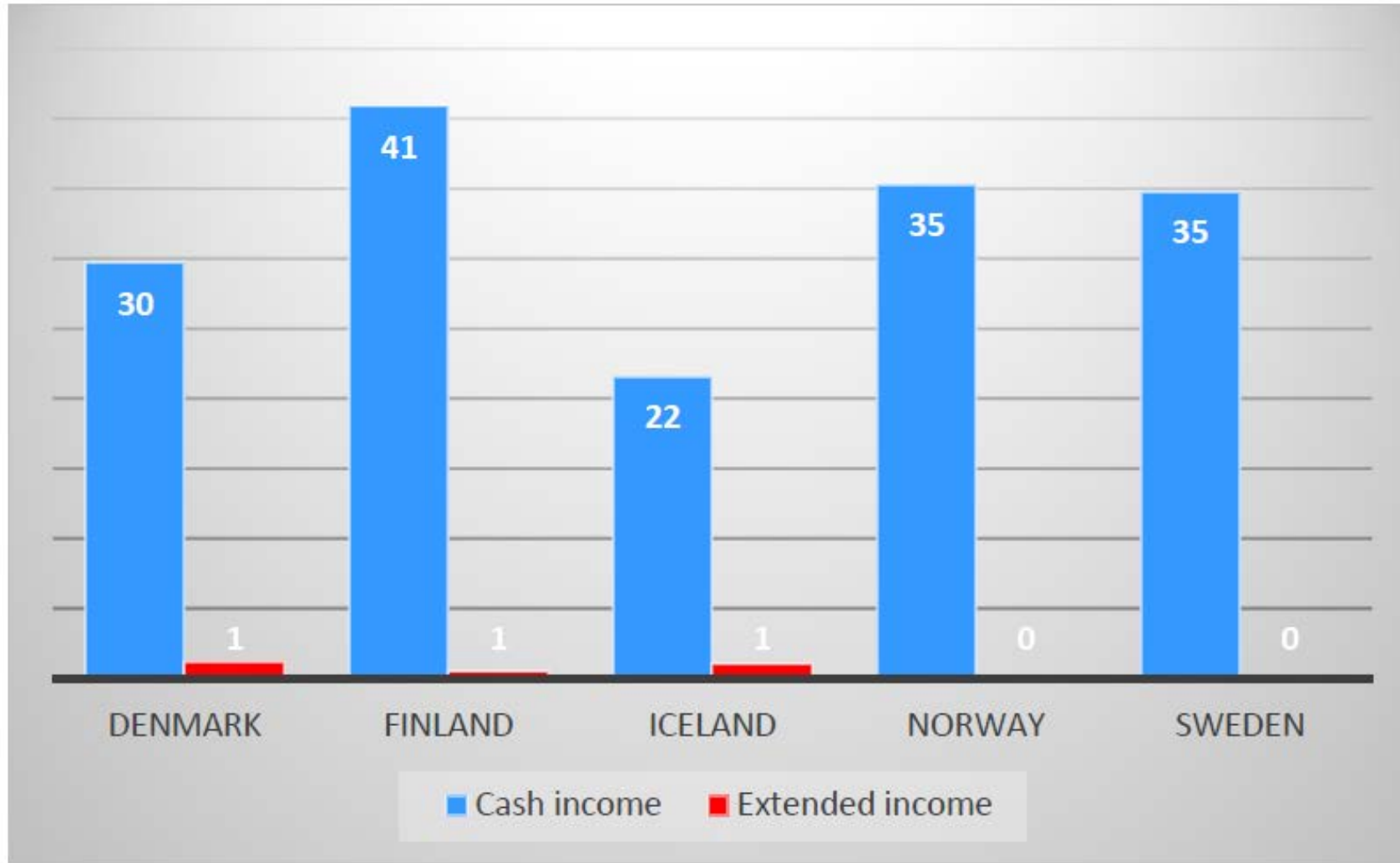
Gini coefficient by income definition, percent, 2009



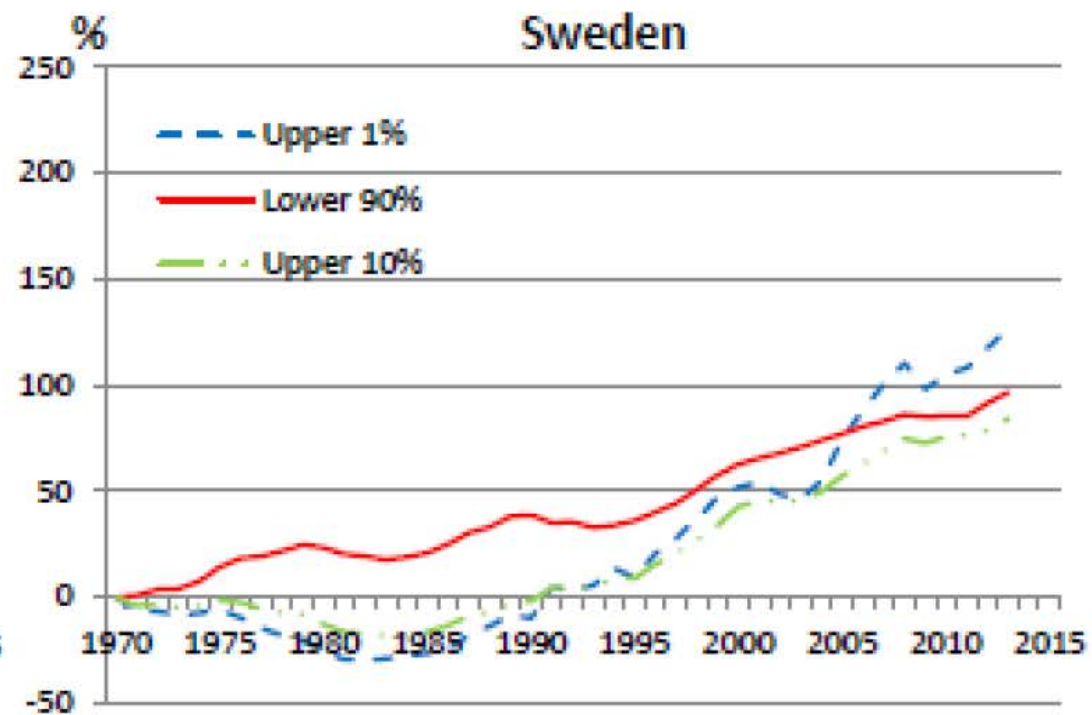
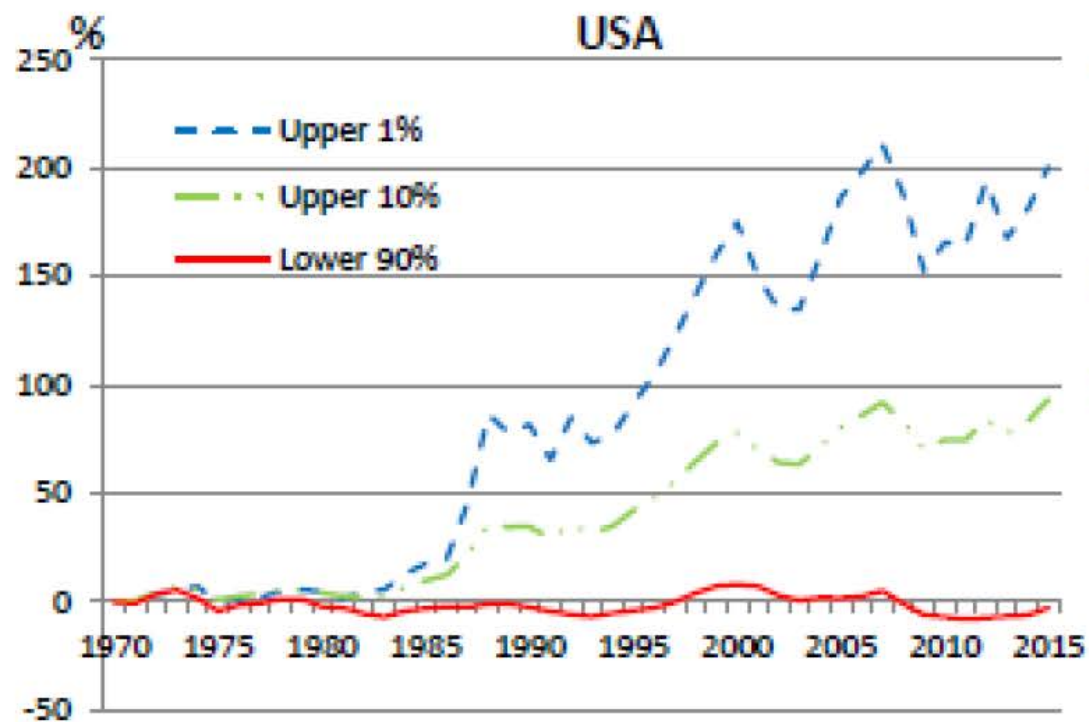
Relative poverty rate, percent, 2009



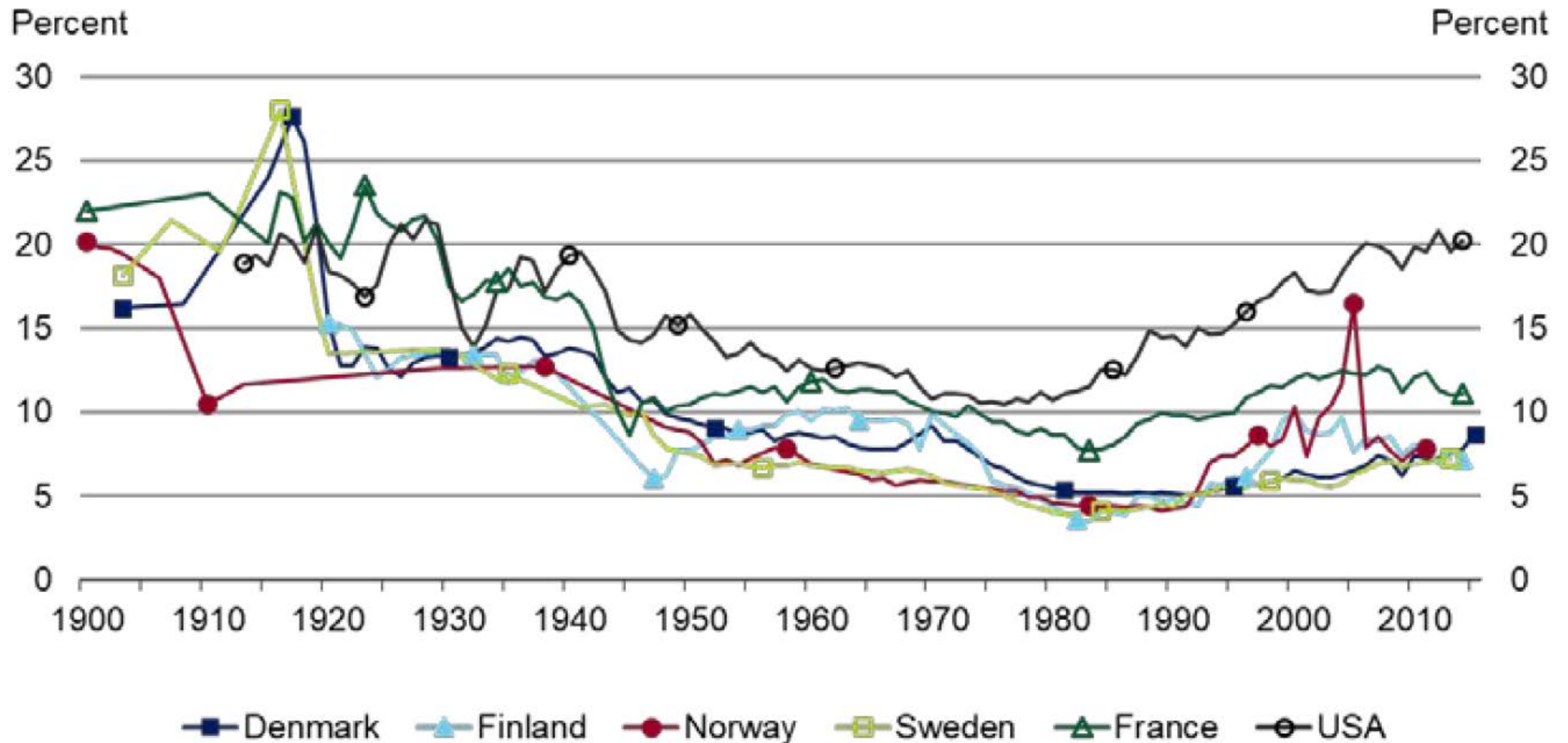
Relative poverty rate among single elderly, percent, 2009



Accumulated real income changes, 1970-2015



Long-term income-shares for the top-one percent



How to judge recent inequality increases

- Evaluations of the trade-off between equity and efficiency
- Value judgements on equity versus efficiency

Conditional policy conclusions if one sees widening income distribution as a problem

1. Continuous uprating of cash transfers – automatic indexation to wages
2. Avoid financing increased public provision of welfare services by user charges
3. Indexation of retirement age to longevity
4. More taxation of wealth (inheritance) and capital income
 - limitations on the conversion of labour income to lower taxed capital income in closely held companies
 - (progressive) real estate tax
5. Education and training efforts for low-skilled in general and foreign-born low-skilled in particular