

The Welfare State, Taxation and Economic Performance: Comments

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Fores

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Figure 1: PPP-adjusted GDP per capita, 2012

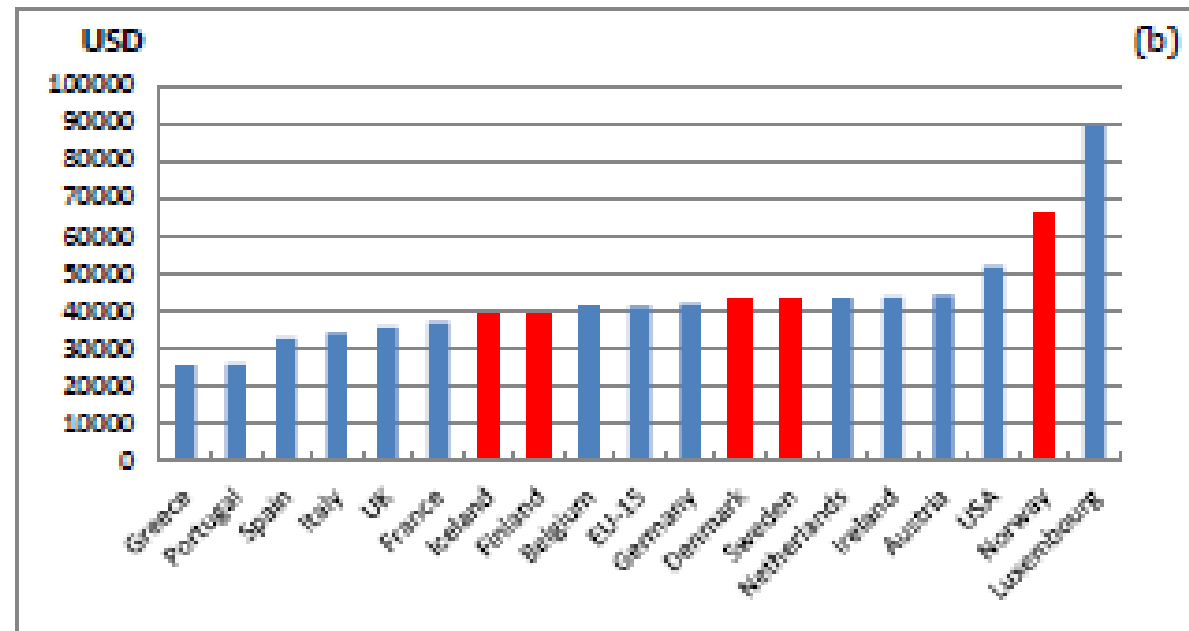
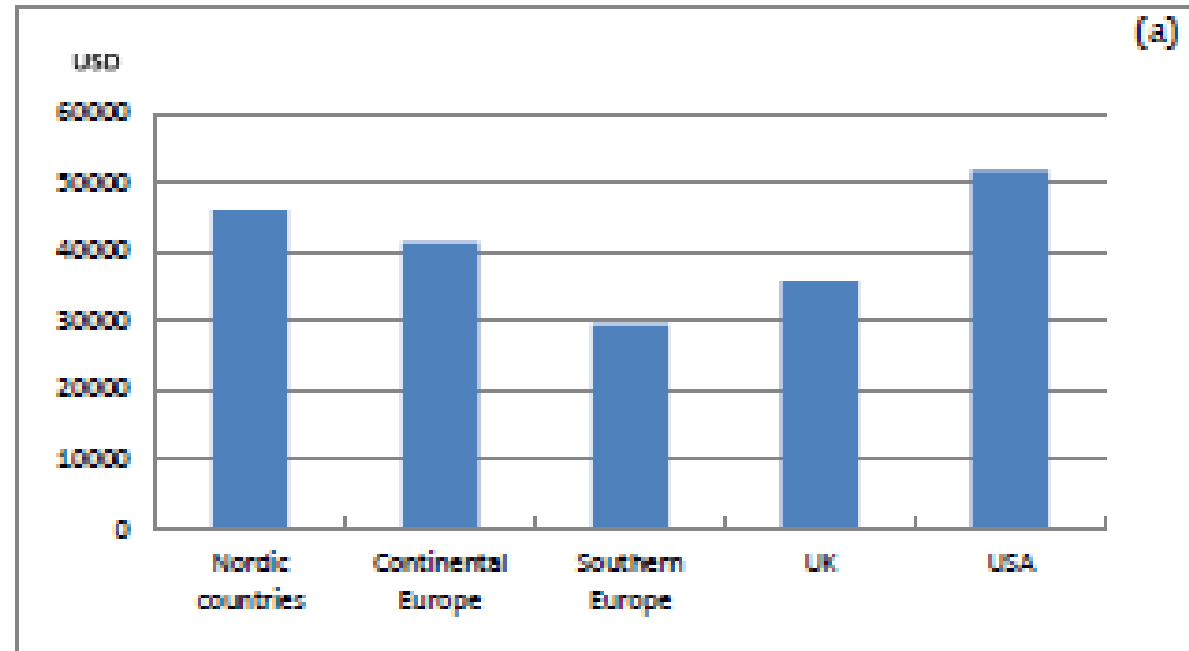
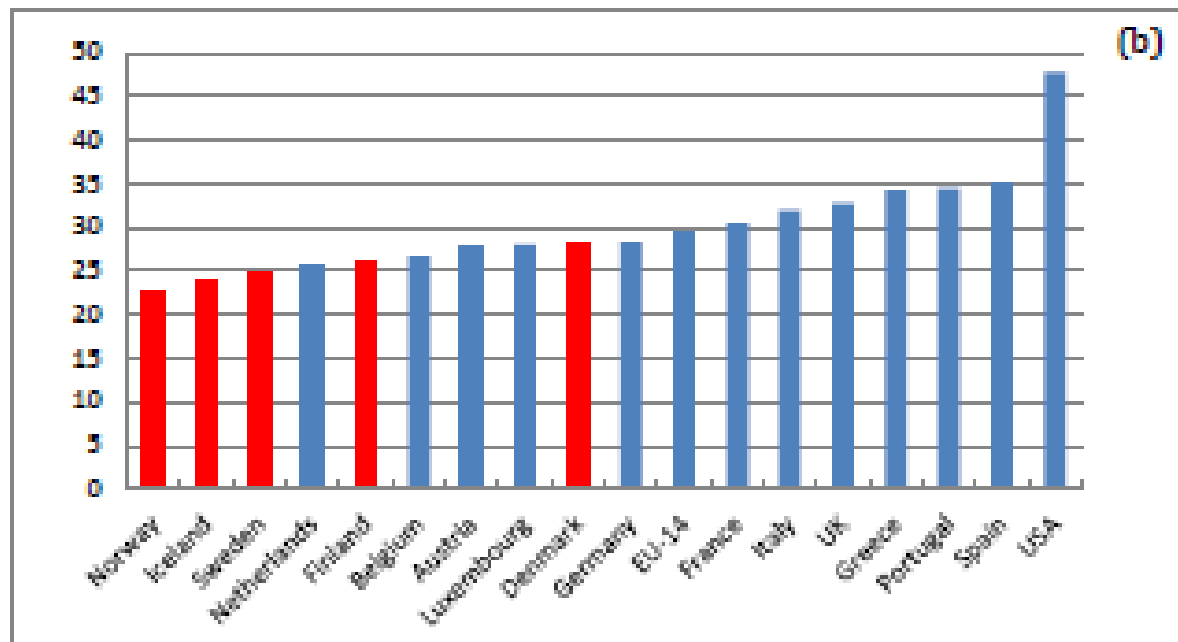
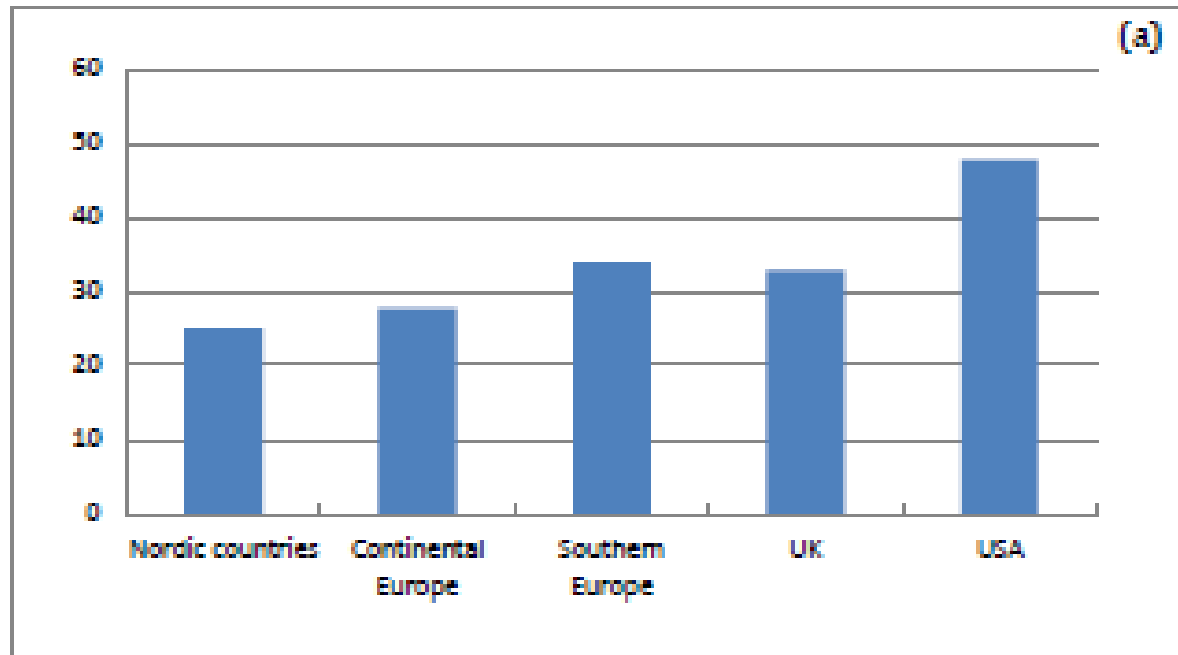


Figure 2: Gini coefficient, disposable income of households, 2012

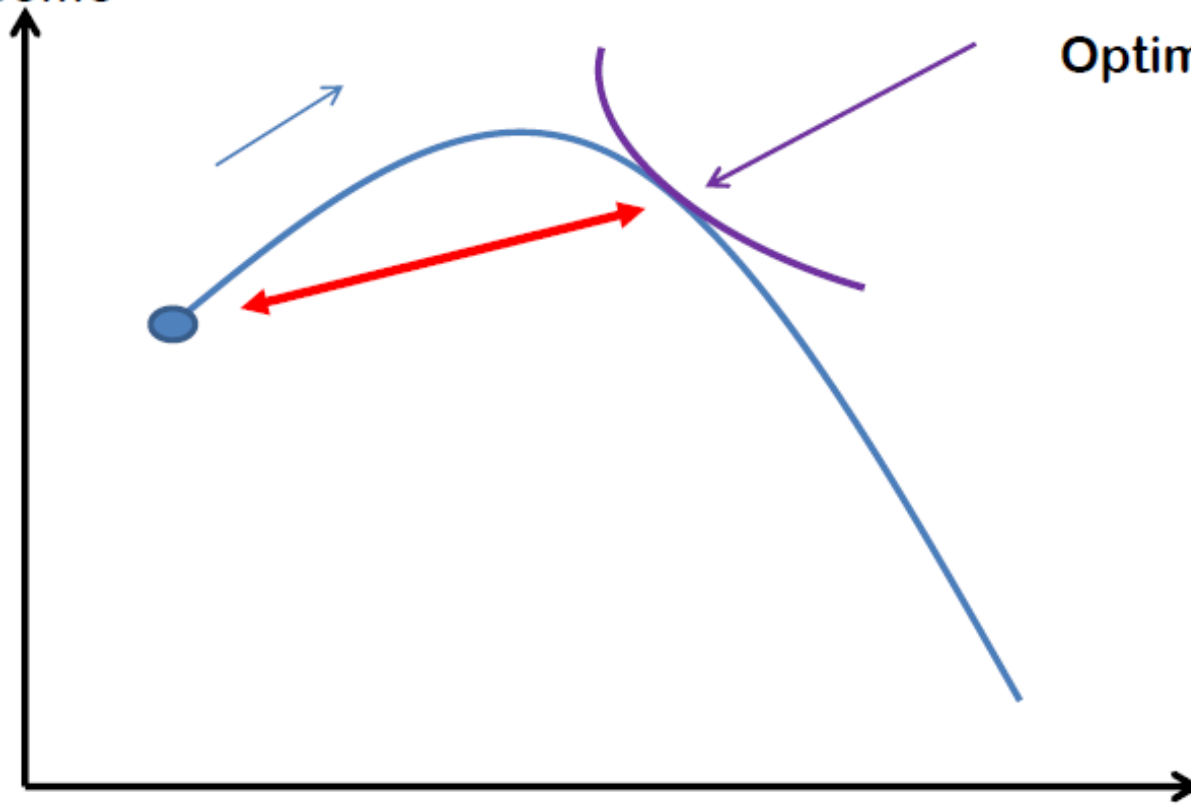


Arguments about the welfare state

- Simplistic argument: Generous welfare state with large public sector and high taxation is not compatible with high income per capita
- Composition of government expenditures and taxes matter
 - active and passive government expenditures
 - more or less distortionary taxes
- Difficult in practice to distinguish between active and passive expenditures
 - education
 - labour market training
 - infrastructure

The efficiency-equity trade-off

Efficiency/
per capita income



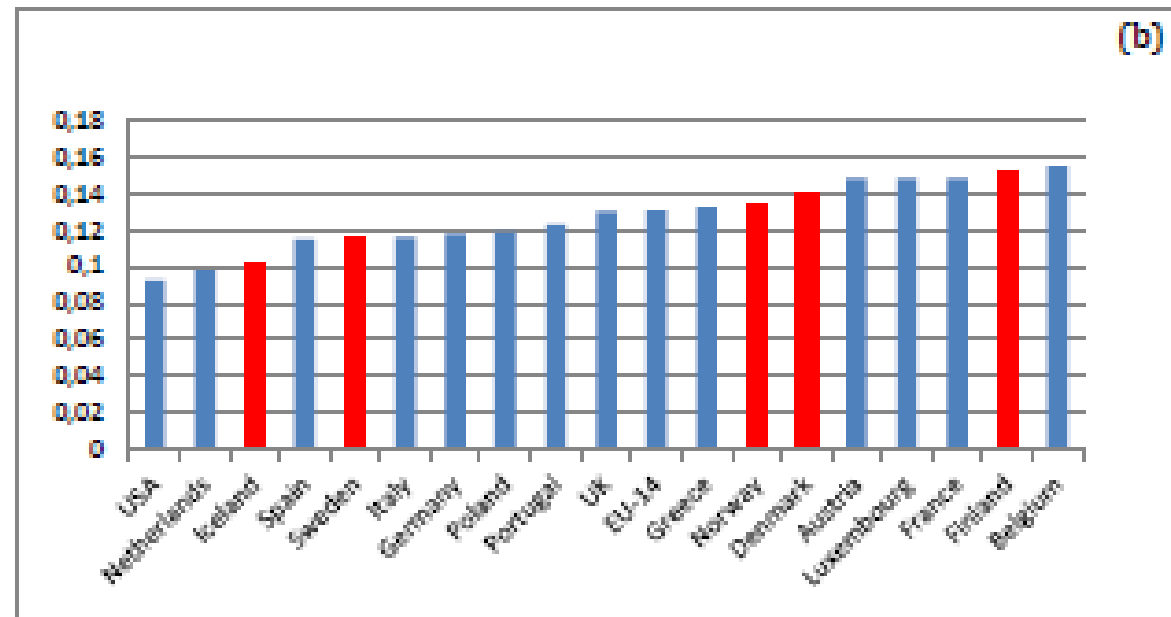
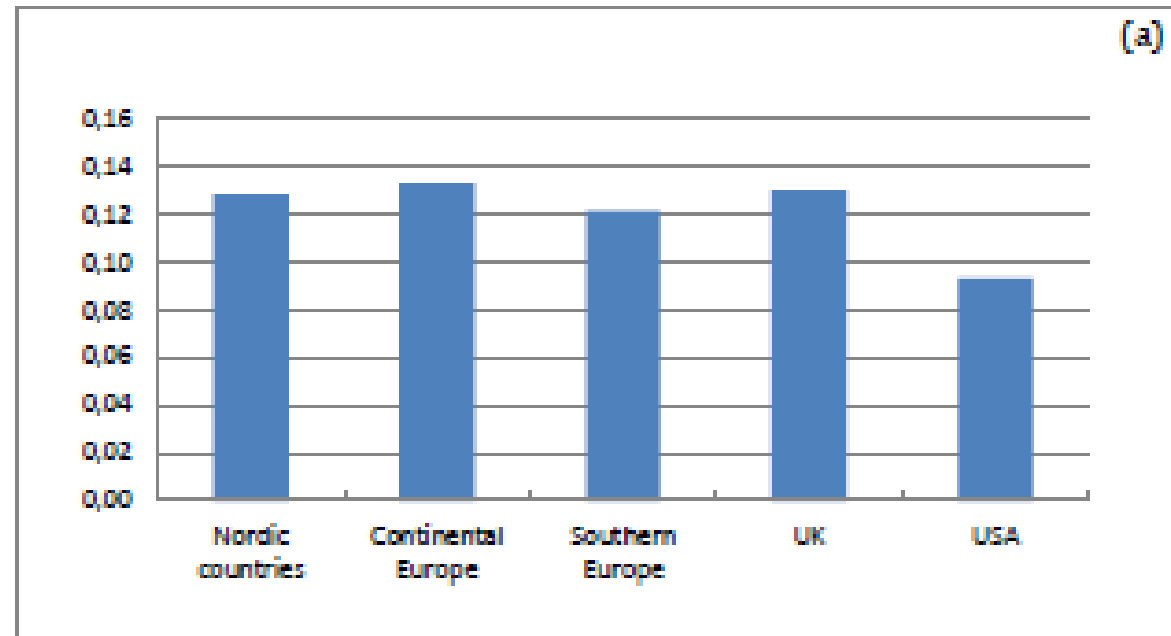
Optimal politicity

Equity

Income distribution

- Strong positive correlation between distribution of market incomes and distribution of disposable incomes
- An even distribution of skills is crucial
- This requires an even distribution of education

Figure 18: Redistribution through taxes and transfers, 2010



Torben's main message

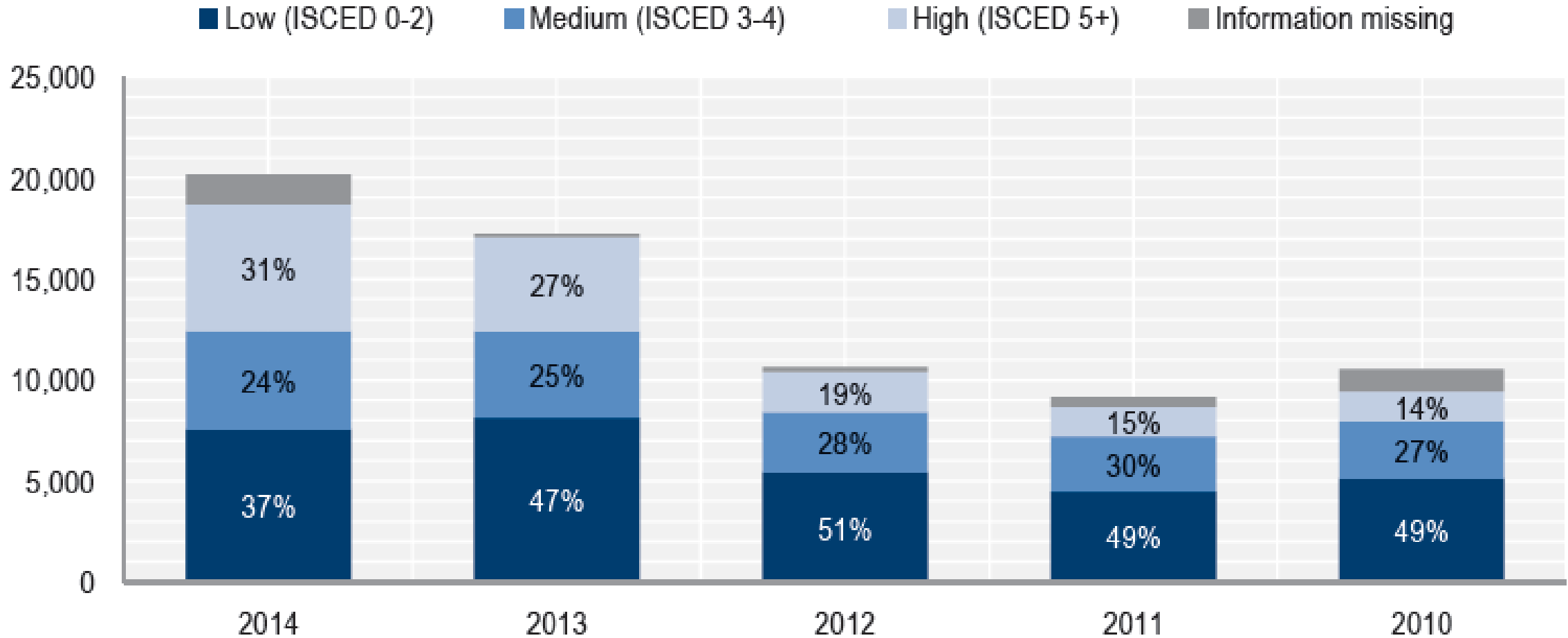
- Focus on education as the main lever for promoting equality
- Good for both equity and efficiency
 - or at least minimises the conflict
- Caveat: Redistribution through the education system and redistribution through the tax/transfers system are not perfect substitutes
 - Redistribution through the education system benefits the most talented
 - It could even increase inequality between more and less talented

Challenges to the welfare state

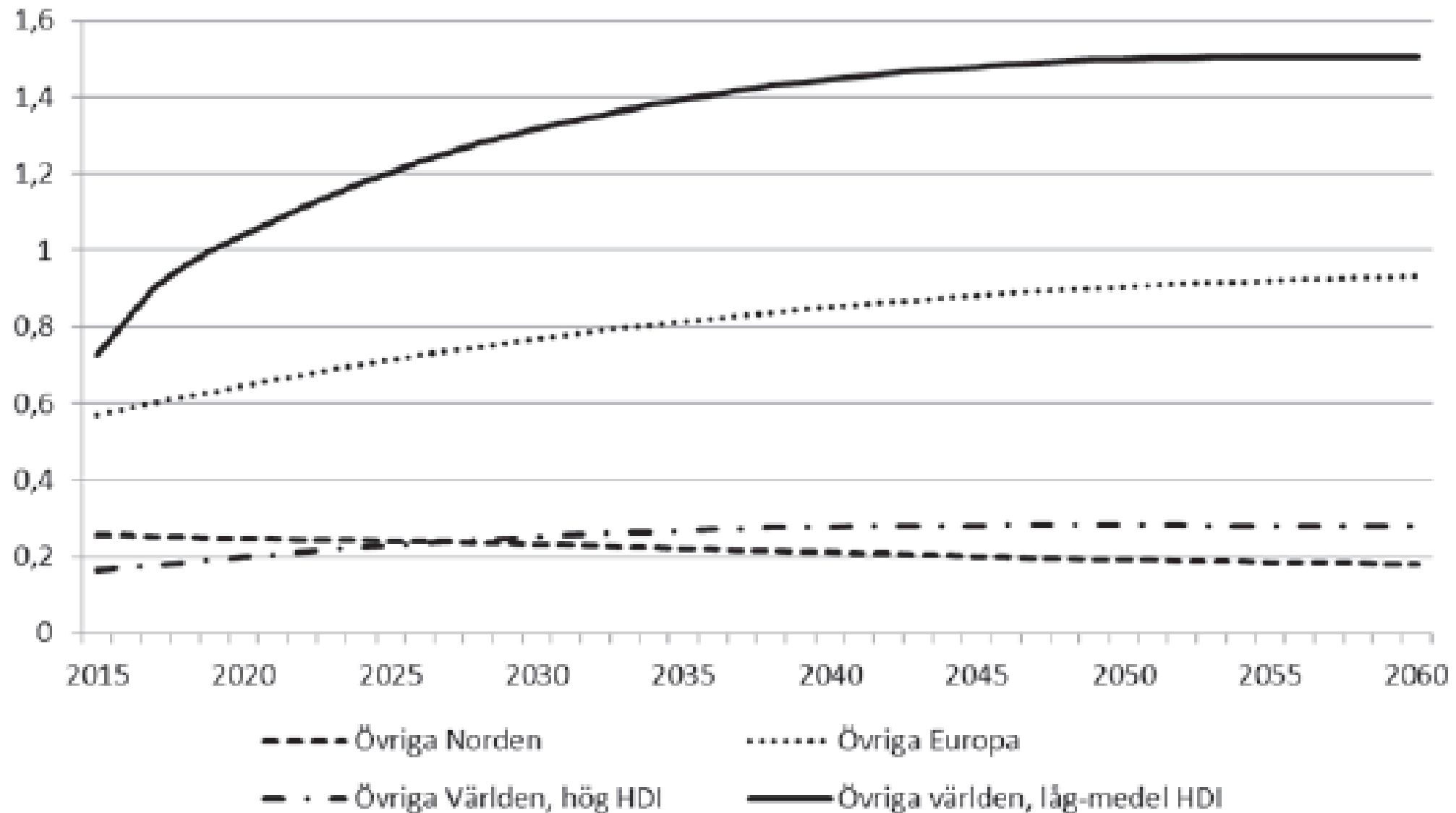
- Skill-biased technological change
- Ageing population
- Large-scale immigration of low-skilled

Figure 3.10. The education levels of recently arrived refugees and their families, by year of arrival

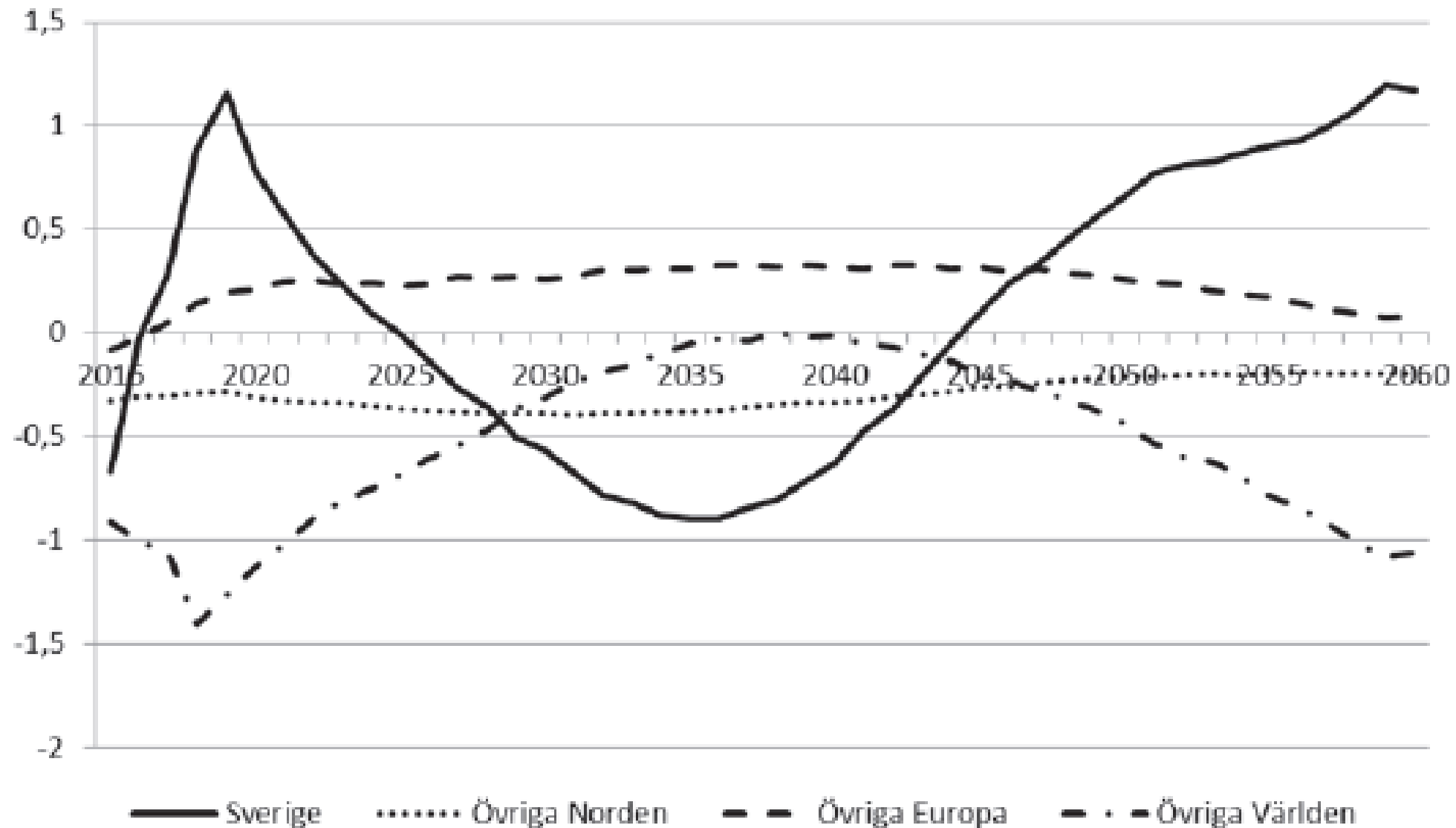
Total number of arrivals, aged 20-64 (percent of total shown in data label)



Figur 5.2 Utrikes födda 2015–2060, uppdelat på olika ländergrupper, miljoner



Figur 5.6 Primärt offentligfinansiellt sparande som procent av BNP fördelat efter födelseregion (fyra ländergrupper)



Future migration

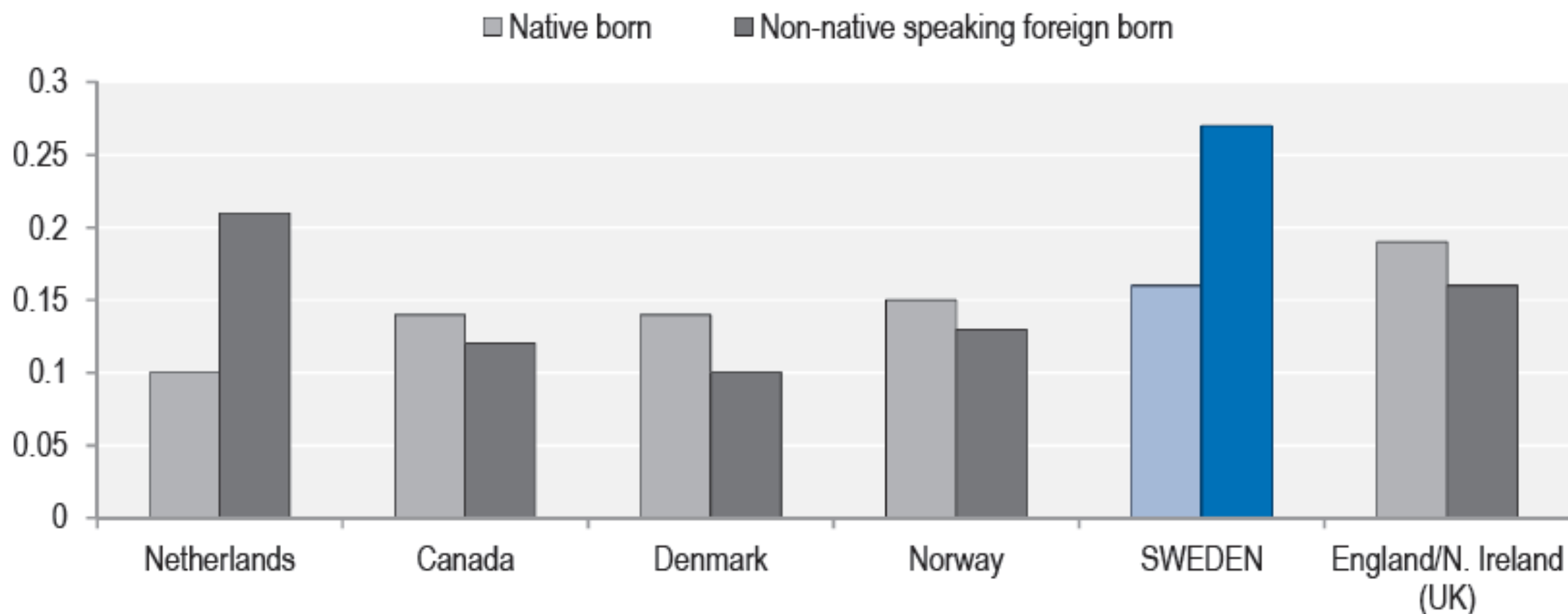
- Extreme uncertainty regarding flows
 - could become much larger than according to forecasts
- Uncertainty regarding employment outcomes
 - better employment outcomes change the calculations
- But better employment outcomes likely to require costly investment in education

Tabell 3.6 Skillnad i resultat mellan personer med inhemsk och personer med utländsk bakgrund i IALS och PIAAC, antal poäng

Land	IALS 1994–1998	PIAAC 2012
Belgien	24	37
Danmark	27	38
Finland	32	51
Irland	-2	5
Italien	48	25
Nederländerna	30	43
Norge	31	38
Polen	28	1
Sverige	37	54
Tjeckien	22	6
Tyskland	27	34
USA	69	36

Figure 3.13. Return on literacy for employment rates of native-born and non-native speaker foreign-born, 2012

Percentage point increase in employment probability resulting from one additional literacy score point as measured by the OECD Survey of Adult Skills (PIAAC)



Problems with the education solution

- Education is not a free lunch
 - after-tax per-capita income for today's tax payers likely to fall even if per-capita income for population including immigrants is affected positively
 - need for financing through the least distortionary taxes: real estate tax and consumption taxes (VAT)
- Can the education sector deliver?
 - the expansion of labour-market training in the 1990s is a disappointing parallel
- Successful education programmes can be self-defeating
 - stronger incentives for immigration of low-skilled

Other options

- Differentiation of benefits
 - Denmark
 - Moderates
 - moral justification: need to qualify for benefits by contributing to financing
 - but violates the universality principle
 - reduction of income equality in Sweden (though it could still rise – marginally – at the global level)
- General contraction of the welfare state