INCOME INEQUALITY IN THE NORDICS FROM AN OECD PERSPECTIVE

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• Introduction
• Income inequality developments since 1990s
• Sources of changing income inequality:
  1. Market trends
  2. Demographic trends
  3. Tax and transfer reforms
• Summary and policy relevance
INTRODUCTION
TODAY: PUBLIC EXECUTIONS
INTRODUCTION

CAPITALISM MUST DIE!

A basic introduction to capitalism: what it is, why it sucks, and how to crush it.

Comics & text by:

STEPHANIE MCMILLAN
The Nordics combine low inequality with impressive economic outcomes

Gini coefficient for household disposable incomes and employment rates, 2014

Source: OECD Income Distribution Database; OECD Labour Force Statistics
Multiple sources influence income inequality (and economic efficiency)

INCOME INEQUALITY
DEVELOPMENTS SINCE 1990s
Inequality has developed differently in the Nordics...

**Gini coefficient for household disposable incomes**

Source: OECD Income Distribution Database
...but the biggest increases in the OECD are observed here

Change in Gini coefficient for household disposable incomes, Mid-1990s to 2014 or latest available year

Source: OECD Income Distribution Database
Incomes increased across the distribution in the Nordics: bottom lagged behind, top pulled away

*Average annual growth of household disposable incomes, mid-1990s to 2014*

Source: OECD Income Distribution Database
SOURCES OF CHANGING INCOME INEQUALITY
THE MARKET INCOME DISTRIBUTION: EARNINGS, EMPLOYMENT AND EDUCATION
Earnings inequality has also risen in the Nordics – but from very low levels.

_D9/D1 decile earnings ratio,
Gross earnings of full-time employees_

Source: OECD Earnings Database
Union density remains high in the Nordics despite declines

Union members in percentage of employees

Note: OECD is a weighted average of the 35 OECD countries.
Tertiary education has increased.

*Share of cohort with tertiary education, 2016*

Source: OECD Education at a Glance Database.
DEMOGRAPHIC FACTORS: AGEING, HOUSEHOLD STRUCTURE AND IMMIGRATION
More single-adult households tend to increase inequality

Share of working-age population (age 18-65) living in single-adult households

Source: OECD Income Distribution Database.
Ageing has been relatively modest with limited effects on inequality – so far

*Old-age (65+) relative to working-age (20-64), Change since 1990*

High inflow of asylum seekers has tended to increase inequality

Cumulative number of asylum seekers 1990-2015 as a share of the total population

Source: International Migration Database.
POLICY CHANGES: TAX AND TRANSFER REFORMS
Taxes and transfer systems have become less redistributive in some Nordic countries.

The redistribution of taxes and transfers for the working-age population

Note: The redistributive effect is measured by the difference between the Gini coefficient before personal income taxes and transfers (market income) and the Gini coefficient after taxes and transfers (disposable incomes) in per cent of the Gini coefficient before taxes and transfers.

Source: OECD Income Distribution Database.
The decline in redistribution was mainly driven by less redistributive cash transfers.

*Working-age population,*

*Change from mid-1990s to 2013 or latest available year*

1) Sweden only available for 1995-2005
2) Social security contributions not available for France

Source: Causa and Hermansen (forthcoming) based on the Luxembourg Income Study.
Unemployment insurance systems have become less generous in the Nordics (1)

*Initial net UI replacement rate,
Single, 100% of average earnings, no children*

Source: OECD Tax-Benefit Models.
Unemployment insurance systems have become less generous in the Nordics (2)

*Average net UI replacement rate over 5 years, Single, 67% of average earnings, no children*

Source: OECD Tax-Benefit Models.
But adding means-tested benefits shows still high minimum social safety nets

Average net UI replacement rate
plus social assistance and housing allowances over 5 years,
Single, 67% of average earnings, no children

Source: OECD Tax-Benefit Models.
SUMMARY AND CHALLENGES AHEAD FOR THE NORDICS?
Summary

• The Nordics experienced the largest increases in after tax and transfer Gini coefficients.

• Open economies, at technological frontier and exposed to globalisation. Why did not market inequality increase more?
  – Coherent institutions like wage formation, ALMP and education.
  – Employment gains.

• Demographics increased inequalities.
  – Household structure, ageing, students and immigration.

• Larger declines in the redistributive effect of taxes and transfers...but from very high levels.
Policy relevance

- Social dialogue important to tackle challenges.
- Continue to improve education.
- Welfare transfers can be improved, but risk sharing, opportunity and fairness important.
- Demographic trends will likely intensify some policy challenges going forward.
- Equal opportunities: taxation of wealth and capital income, housing and inheritance.
THANK YOU!


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