Sebastian Escobar, Olle Hammar, Daniel Waldenström and Gabriel Zucman

January 2019

Extended abstract for IIPF 2019

This paper presents new evidence on the evolution of income and wealth inequality in Sweden since 1930. The basis for the analysis is the distributional national accounts (DINA) methodology and to match individual register data with macroeconomic totals from the national accounts and thereby compute new estimates of pre- and post-tax/transfer distributions of income and wealth in Sweden.

The paper makes several contributions to the literature on income and wealth distribution. It is first paper to apply the recent DINA methodology using full-population administrative registers that cover multi-decadal panels. This allows for an extensive scrutiny of a range of the assumptions and method approaches used in past DINA-studies of, e.g., inequality in the US and France. Furthermore, the paper will be the first one that studies the DINA series for a Scandinavian welfare state, Sweden, over its entire evolution since 1930.

Our analysis of the matched individual register-national accounts data shows that only about 60 percent of all pre-tax labor income and 30 percent of all pre-tax capital income are covered in the official distributional statistics. The rest of these incomes, e.g., payroll taxes and reinvested corporate profits, is not reported on individual tax returns and therefore omitted from the income variables used to construct distribution estimates. We create new individual pre-tax income variables for each of the items that is missing in the individual statistics. Different rules are used, some using direct observations and others using statutory schedules or imputation techniques. Ultimately, we are able to construct an extended register database for the Swedish population, which covers the distribution of the entire national income in all years. For the period before 1968, we will use a newly created simulated individual register that builds on an empirical register covering a 3% nationally representative sample and older population, tax and census data.

The post-tax and transfer distribution is also re-assessed. While all cash-based taxes and transfers are well identified in the existing registers, non-cash transfers associated with public expenditures, primarily welfare-related, are not covered at all. In effect, this means that more than half of all public consumption of welfare, much of which deals with the provision of subsidized in-kind benefits concerning childcare, health care and elderly care, is not accounted for in the calculations of household disposable income. We distribute all of these expenditures at the individual level, linking the budget totals with individual accounts using a collection of approaches. For example, childcare-related expenditures accrue to children in the respective age (pre-school to children 0-6 years, primary school to children aged 7-15 years etc.). Public investments in infrastructure accrue on a per capita basis. Ultimately, we combine these non-cash transfers with the rest of the tax and transfer system to get a more complete view of the extent and effects of the total redistribution in Sweden.
Wealth inequality statistics in Sweden has been poor for most of the past 50 years. In most years, we have no data at all for most households. During the early 2000s, when a specific wealth register was created and most household assets were observed with a high degree of accuracy, there were still large gaps in the data. In particular, neither non-listed corporate equity nor funded pension assets, together comprising around 40 percent of total private wealth, were part of that register that formed the basis for the official wealth distribution statistics. We extend the database to cover all assets that are in the official national wealth definition. For all years, we observe real estate values from the property tax register (the data for the 1970 and 1980s had to be collected from magnetic tapes, stored in the National Archives). Financial assets and liabilities are observed directly during some years, but for others we have to estimate it using capitalization techniques that combine information about national aggregates and microdata records on various kinds of capital income and outlays. Corporate shares are directly observed for all years since 2000, and for the other years we will use in part for direct observations and capitalization estimates. Pension assets are estimated using information about pension earnings and estimated pension contributions.

Altogether, the paper will offer a new view of Swedish income and wealth inequality over the past decades. Not only will a new level of inequality be estimated; given the scope of the extensions, substantial level shifts can be expected. But we will also be able to depict the trends in income and wealth inequality in a more complete and comparable manner.

In a second stage of the project, we also wish to examine the distributional consequences of some of Sweden’s most notable macroeconomic and political events over this period. In the 1990s, Sweden experienced a profound economic and financial crisis, which there is a need to re-examine using the new database. In the 2000s, a series of tax policy reforms were carried out: capital taxes were abolished or substantially reduced (inheritance tax in 2004, wealth tax in 2007, real estate tax in 2008) and labor income taxes were cut in several steps between 2007 and 2011. The impact of these reforms have not been studied excessively. In part, this is due to the nature of the reforms, but in the case of the wealth taxes, this is also due to a general lack of adequate data. We hope to be able to offer some evidence about these important questions using our new database.