INCOME AND WEALTH INEQUALITY

KALEVI SORSA FOUNDATION

- Contributors
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- Researchers have named the period between 1966 and 1990 as the era of welfare state construction and the period between 1990 and 2017 as the era of the global competition state.
  - In 1966–1990, leftist and centre coalition governments carried out broad reforms in education, healthcare, social services, taxation and financial markets. Also the 1970s oil crisis took place during this period.
  - In 1990–2017, Finland joined the EU (in 1995) and the European Economic and Monetary Union. The taxation of capital income and earned income were separated in the beginning of the 1990s. There was a depression in the early 1990s, and 2008 brought along the international financial crisis.

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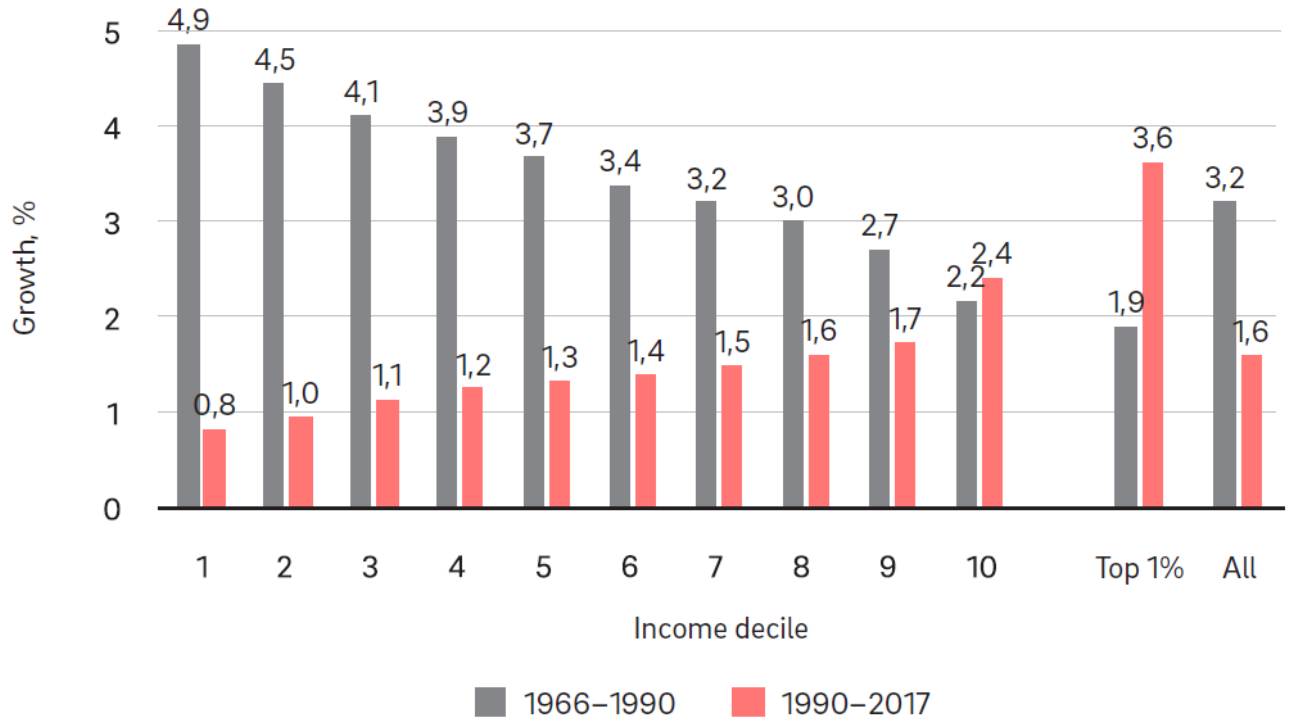
- When comparing the periods of 1966–1990 and 1990–2017, it can be seen that income development has been opposite at different points in the income distribution.

Figure 1.1a Annual increase of disposable income in 1966–1990 and 1990–2017 by income bracket.

Data source: Household Expenditure Surveys 1966–1990 and Income Distribution service data 1990–2017, Statistics Finland; Riihelä, Sullström & Tuomala (2016), updated.



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- In 1966–1990, the average annual growth differences in factor income between different deciles were quite small, but in the latter period the rapidity of the development is in a class of its own.
- In 1990–2017, the annual increases were somewhat modest compared to the previous period but they were the greater the higher the income decile.
- The average increase in factor income was clearly (about 2.5 times) greater in 1966–1990 than in the latter period.

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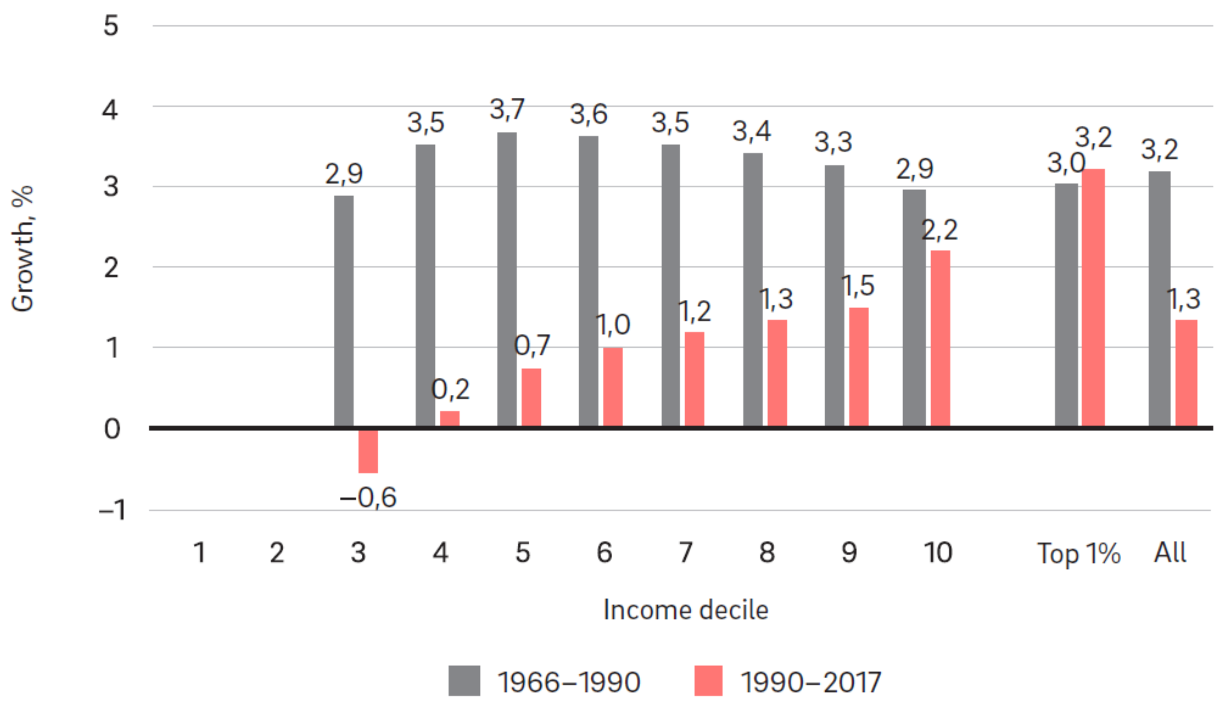
Figure 1.1b Annual increase of factor income in 1966–1990 and 1990–2017 by income bracket.

Data source: Household Expenditure Surveys 1966–1990 and Income Distribution service data 1990–2017, Statistics Finland; Riihelä, Sullström & Tuomala (2016), updated.



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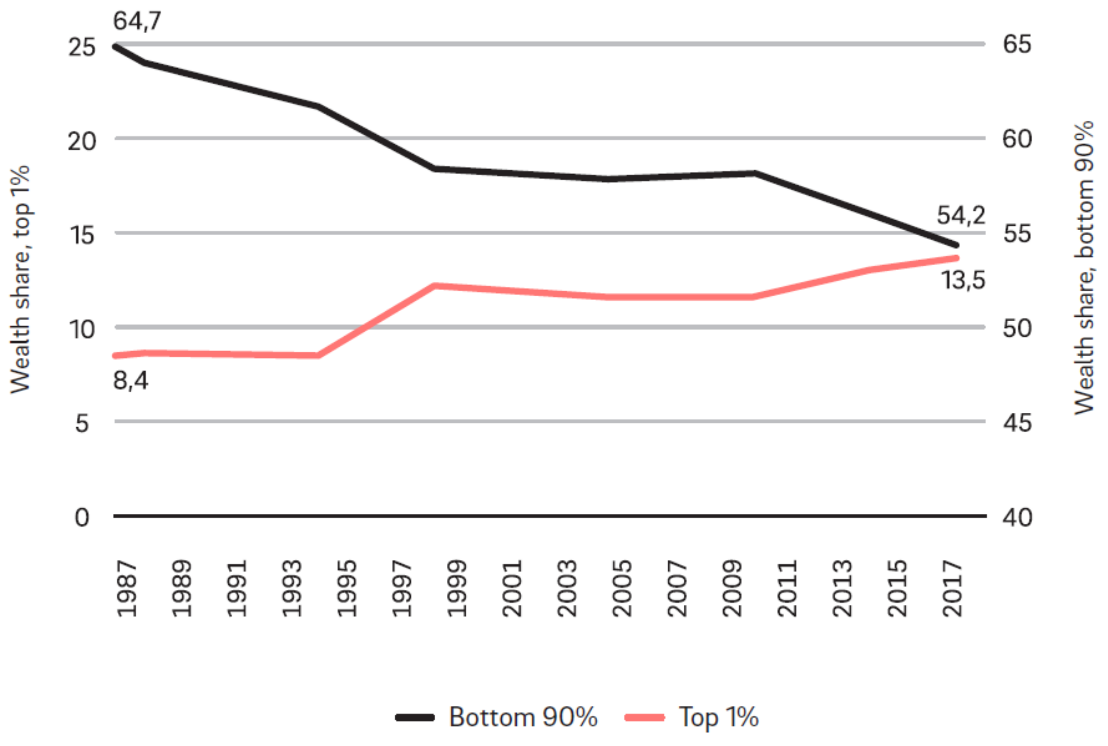
- The top income shares have continued to grow even after the financial crisis that began in 2008.

Figure 1.8 Net wealth shares of the top one percent and the bottom 90 percent.

Data source: Household Wealth Surveys 1987–2016, Statistics Finland; Riihelä et al. (2015) updated.



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- Based on wealth data, the growth in net worth has clearly been more rapid in the wealthiest one percent than in the four percent preceding it (96–99%).
- The average wealth in the top one percent group increased 4.5 times and in the four percent group below it, it increased 3.5 times from 1987 to 2016.
- In the lowest 90 percent, growth was very modest during this period.
- In 2009–2016, annual growth in the top one percent was 4.1%. The figure for the entire population was 1.7%.

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- Conclusions and recommendations
  - The dominant role of the Gini coefficient should be dismantled in measuring and discussing income inequalities. The Gini coefficient underestimates changes at the top and bottom ends of income distribution.
  - It should be noted that data concerning income and wealth disparities based on statistical sources are underestimations of the reality.
  - Studies show that increases in income inequality and large income disparities do not promote economic growth but rather hinder it. For example in Finland, factor income grew during the era of welfare state construction in 1966–1990 more rapidly than during the era of the global competition state in 1990–2017, when income inequality increased.
  - From the point of view of narrowing income and wealth inequalities, it would be justified to end the separation of earned income and capital taxation and move to a fully progressive taxation system.
  - This would also remove the possibility of protecting from taxes through investment and holding companies. Also, an income and assets disclosure requirement should be implemented. This would bring out information about assets and income in insurance wrappers.