

Verbist, Gerlinde; Figari, Francesco

Working Paper

The redistributive effect and progressivity of taxes revisited: An international comparison across the European Union

EUROMOD Working Paper, No. EM6/14

Provided in Cooperation with:

Institute for Social and Economic Research (ISER), University of Essex

Suggested Citation: Verbist, Gerlinde; Figari, Francesco (2014) : The redistributive effect and progressivity of taxes revisited: An international comparison across the European Union, EUROMOD Working Paper, No. EM6/14, University of Essex, Institute for Social and Economic Research (ISER), Colchester

This Version is available at:

<https://hdl.handle.net/10419/96275>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

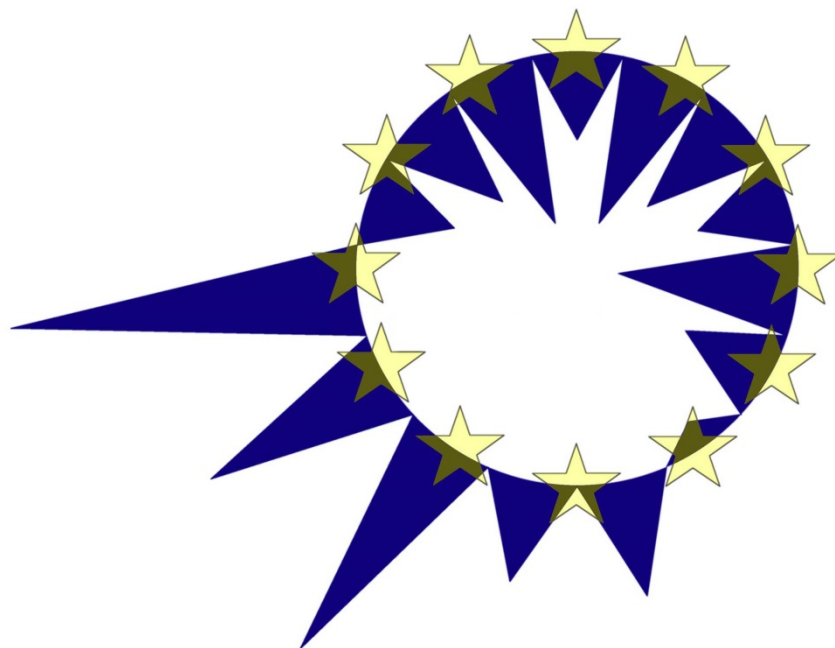
Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

EUROMOD

WORKING PAPER SERIES



EUROMOD Working Paper No. EM 6/14

The redistributive effect and progressivity of taxes
revisited: An International Comparison across the
European Union

Gerlinde Verbist
Francesco Figari

April 2014

The redistributive effect and progressivity of taxes revisited: An International Comparison across the European Union¹

Gerlinde Verbist^a

Francesco Figari^b

^a Centre for Social Policy, University of Antwerp

^b University of Insubria and ISER - University of Essex

Abstract

Over the last few years concern for income inequality in European countries has increased remarkably. In this context, taxation is an important redistributive instrument and we investigate the redistributive role of direct taxes. We focus on the EU-15 countries and the evolution over the period 1998-2008, using EUROMOD, the EU-wide tax-benefit model. The research aim of this paper is twofold. First, we investigate empirically whether there is a link between pre-tax income inequality and redistribution through taxes. Second we hereby test whether there is a relationship between progressivity and the average tax level, the two building stones of the redistributive impact of taxes.

JEL Classification: C81; D31; H23; H24

Keywords: income redistribution; income taxes; social insurance contributions; microsimulation; European Union; EUROMOD

Corresponding author:

Gerlinde Verbist

E-mail: gerlinde.verbist@uantwerpen.be

¹ We would like to thank F. Bourguignon, M. Jäntti, P. Liberati, V. Peragine, N. Pestel, the participants of the GINI Conference (June 2013), ECINEQ Conference (July 2013), and SIEP Conference (September 2013). We use EUROMOD (version D25 and F6.36) which is financially supported by PROGRESS funding. We make use of microdata from the EU Statistics on Incomes and Living Conditions (EU-SILC) made available by Eurostat, the Italian and Belgian versions of the SILC data made available by the respective statistical offices and the Family Resources Survey (FRS), made available by the UK Department of Work and Pensions (DWP) through the UK Data Archive. Additional datasets used are mentioned in the footnote 6. Material from the FRS is Crown Copyright and is used with permission. Data providers bear no responsibility for the analysis or interpretation of the data reported here.

1 Introduction

Over the last few years concern for income inequality in European countries has increased remarkably (OECD 2008a and 2011; Salverda et al. 2014). In this context, the redistributive role played by taxation is of utmost importance in shaping the distribution of disposable income across countries. Taxes have a direct effect on the disposable income given the distribution of pre-tax income but also an indirect effect because tax payers can alter their behaviour due to the taxes in place in their country. (Poterba, 2007). Consequently, changes in disposable income between two points in time result on the one hand from changes in the pre-tax income distribution and on the other hand from changes in the design of the tax system. Moreover, the two aspects are interrelated with each other, in the sense that more unequal societies might design their tax system in such a way that it is more or less progressive and hence more or less redistributive. Despite the recognised importance of the redistributive effect of income taxes, international comparative studies on the vertical equity aspects of taxation are still rather rare. Early examples include: Berglas (1971) who presents results for UK, France, US, West-Germany and Japan; Kakwani (1977a) who compares Australia, Canada, UK and US, based on official data; Zandvakili (1994) who compares 8 LIS-countries by using the measures from the generalised entropy family; Atkinson et al. (1995) for a number of LIS-countries; Wagstaff and van Doorslaer (2001) who focus on the progressivity of income taxes and on the financing of health care (Wagstaff et al. 1999b, van Doorslaer et al. 1999). Piketty and Saez (2007) present a historical perspective of progressivity in the US, France and the UK. In this paper we extend and update Wagstaff et al. (1999a) by looking at the overall redistributive effect of income taxes which depends on the one hand on their departure from proportionality, i.e. the degree of progressivity, and on the other hand on the tax level.

The research aim of this paper is twofold. First, we investigate empirically whether there is a link between pre-tax income inequality and redistribution through taxes: do unequal societies redistribute more through taxes, or is the reverse the case? Second we hereby test whether there is a relationship between progressivity of taxes and the average tax level: do countries achieve a given redistribution level through a high degree of progressivity, or rather by setting a high tax level? Can high progressivity go together with high tax rates, i.e. is it feasible that a high level of collection of tax revenues goes together with a relatively high burden on the rich? Or is there rather substitution between the two, namely that a high tax level goes together with low progressivity? We look at two points in time, as many countries in Europe have gone through major or minor personal income tax reforms over the past years, which may also change their capacity to reduce inequality. A striking example is the strong reduction in the marginal tax rates occurred in many countries.

We aim to provide a better understanding of the different drivers of the redistributive role of taxation across European countries. In doing so, we assess the extent to which direct taxes reduce income inequality, focussing on personal income taxes (PIT, levied both at national and regional or local level), social insurance contributions (SIC) and other direct taxes (i.e. mainly tax on capital income and property tax) separately. We use EUROMOD, the EU-wide microsimulation model, to compare the redistributive effect of social security contributions and direct taxes in the EU-15 countries (i.e. those countries that formed the

European Union before 1st May 2004). We provide a comparison of the redistributive effects of taxation over the past decade (1998-2008) by revisiting an earlier study on this topic, namely Verbist (2004), which presented the first international comparison of the redistributive effect of personal income taxes in the 15 countries of the EU in 1998.

Our analysis highlights the importance to go beyond any average pattern across European countries that are indeed characterised by very different income distributions and tax systems. Moreover, the overtime comparison confirms that statutory changes in the tax system (e.g. a reduction in the highest marginal income tax rates) can have counterintuitive effects on the income distribution (i.e. an increase in overall progressivity) once the overall tax system and the interactions with the income distribution are taken into account. This illustrates the complexity of how the redistributive outcomes of the tax system come about: they are not only affected by changes in statutory rules, but also by changes in the underlying income distribution following from socio-demographic changes (e.g. ageing), labour market developments, and fiscal drag (Immervoll, 2005).

The paper is structured as follows. In section 2 we briefly explain the main methodological aspects in measuring the redistributive effects of taxes, the tax-benefit model EUROMOD, as well as the underlying data. In section 3 we present the main features of personal income taxes and social insurance contributions across European countries. Next, we present the empirical findings, and then in section 5 we discuss the relationship between inequality and the redistributive effect of taxes on the one hand, and between progressivity and tax rate on the other. The last section brings the conclusions together.

2 Measuring the redistributive effect of taxes

Following common practice in the literature we use the term “redistributive effect of taxes” for the change in inequality between the before- and the after-tax income distribution. The redistributive effect of taxes depends on the one hand on the departure from proportionality, i.e. the degree of progressivity, and on the other hand on the tax level, measured by the average tax rate. A tax system is called progressive when the proportion of income that is collected as tax liability increases with income (i.e. the average tax rate increases with income). When measuring the redistributive effect of taxes, we (implicitly) compare the existing tax system with a proportional tax that yields the same revenue. This (hypothetical) proportional tax is distributionally neutral, as it preserves the relative pre-tax income differences.²

² This applies only within the framework of scale-invariant inequality measures, which are used here.

2.1 Redistributive and progressivity indexes

For measuring the redistributive and progressivity effects of tax instruments we follow the literature initiated by Musgrave and Thin (1948) and Kakwani (1977a, 1977b) that propose a number of indexes in the Lorenz curve framework.³

We measure the redistributive impact by using the Reynolds-Smolensky (1977) index, which equals the difference between the Gini coefficient of pre-tax income X and the concentration coefficient of post-tax income N :

$$RS = G_X - C_N \quad (1)$$

Following Kakwani (1977a) the progressivity is given by the difference between the concentration coefficient of taxes T and the Gini of pre-tax income⁴:

$$\Pi_T = C_T - G_X \quad (2)$$

There is a close link between the measures of progressivity and those of redistributive effect. The redistributive effect appears to be a function of progressivity (Π_T) and tax level (t):

$$RS = \frac{t}{1-t} \Pi_T \quad (3)$$

Moreover, progressivity can be decomposed over the different factors that build up a tax system. To measure the contribution of each individual tax, we decompose the Kakwani index of total taxes. Kakwani (1977a) proved that the concentration coefficient of the total tax function $T(x)$ can be written as the sum of the concentration coefficients of n individual taxes T_i :

$$C_T = \sum_{i=1}^n \frac{t_i}{t} C_{T_i} \quad (4)$$

where C_{T_i} is the concentration coefficient of the i th tax, and t_i the average tax rate (i.e. T_i/X). Using this relationship Kakwani (1977a) then shows that the index of total taxes can be written as the weighted average of progressivity of the separate taxes:

$$\Pi_T = \sum_i \frac{t_i}{t} \Pi_{T_i} \quad (5)$$

Up until now we have assumed that the tax system does not produce changes in the rank order of the income units, i.e. that it makes no difference whether income units are ranked in ascending order of their pre-tax or their post-tax income. But due to differences in tax treatment of income units it is possible that some of them swap positions in the income ranking. Reranking can be measured as the difference between the concentration

³ Other measures for progressivity and redistributive effect have been proposed in the literature. For information on measures based on e.g. distances and relative concentration curves, see Lambert (2001).

⁴ For large samples the minimum value of the Kakwani index is $-(1 + G_X)$ (i.e. when the poorest person pays all the tax, $C_T = -1$), while its maximum value is $1 - G_X$, what corresponds with maximal progressivity. More details on the derivation of these formulae can be found in e.g. Lambert (2001) and Verbist (2004).

coefficient of post-tax income, C_N , and the Gini coefficient, G_N (Atkinson, 1980; Plotnick, 1981). The Reynolds-Smolensky index is then an indicator of vertical equity VE , i.e. it measures the total reduction of inequality that would occur if there were no reranking of income units.⁵ The index $D = G_N - C_N$ measures how much of this equalising effect is ‘undone’ by reranking. Thus, the total redistributive effect is the result of a vertical equity (VE) and a reranking effect (RR):

$$RE = G_X - G_N = VE - RR = RS - D \quad (6)$$

The explanation above shows clearly that the measures of redistributive effect and progressivity are sensitive to the definition of the base income concept (i.e. X ; see e.g. Verbist 2002 for a comparison of progressivity of taxes in Belgium with gross income and market income as the base income concept). In order to guarantee cross-country comparability and to focus on the role of income taxes, in this paper we use a broad definition for the pre-tax income concept, namely gross income.

We take a broad definition of pre-tax income in the sense that gross income includes not only gross market income (salaries, wages, self-employment income), property income, other cash market income and occupational pension income, but also all gross cash benefit payments (i.e. pensions, unemployment benefits, sickness and invalidity benefits, family benefits, etc.). The broadness of this definition is motivated by the fact that in all countries cash social benefits are part of taxable income or liable to social insurance levies, be it with wide diversity in terms of types of benefits that are taxable and in the extent to which these are subject to special tax/contribution rates or relief provisions (see also Adema et al. 2011; Verbist, 2007). Given this diversity in tax treatment of cash benefits, we believe that a comprehensive definition of pre-tax income enhances cross-country comparability. To arrive at disposable post-tax or net income (N) we subtract social insurance contributions (T_{SIC})⁶, personal income taxes (T_{PII}) and other taxes (T_{OTH}) from gross income (X):

$$N = X - T_{PII} - T_{OTH} - T_{SIC}$$

2.2 EUROMOD

As most datasets commonly used to study redistributive outcomes of policies do not include detailed information on taxes, these can be simulated with a microsimulation model. The EU-SILC data, for instance, have a variable for the total amount of personal income taxes and social contributions, but not for either of them separately. Moreover, the cross-country comparability is hampered by the different ways in which such information is collected in the survey data: in some countries taxes are self-reported by the interviewed, in others taken from administrative registers or simulated.

In order to use more reliable information on taxes and to disentangle the effect of different types of taxes in a cross-country perspective, we use EUROMOD, the multi-country

⁵ Atkinson (1980) and Plotnick (1981) consider reranking as a measure of horizontal inequity of the tax system. Some authors also distinguish “pure horizontal inequity”, i.e. the unequal treatment of equals that does not automatically results in reranking (see e.g. Lambert and Aronson, 1993). As the empirical implementation is problematic (e.g. how to define “equals”, see also Wagstaff et al., 1999a), we did not follow this approach

⁶ Whenever it is relevant the social insurance contributions are deducted from personal income tax.

European wide tax-benefit model. Using the information available in the underlying datasets, EUROMOD simulates cash benefit entitlements, direct tax, social insurance contribution on the basis of the tax-benefit rules in place. Instruments which are not simulated (due to data constraints), as well as market incomes, are taken directly from the input datasets. For further information on EUROMOD, see Sutherland (2007) and Sutherland and Figari (2013).

EUROMOD is a static model in the sense that the arithmetic simulation of taxes and benefits abstract from potential behavioural reactions of individuals. As such, EUROMOD is of value in assessing the first order effects of tax-benefit policies and in providing detailed information on each component of the simulated tax-benefit systems usually not available in the underlying datasets.

The tax systems simulated in this paper refer to 1998 and 2008. In the first case the simulations are performed on income data that come from 12 different sources chosen by national experts and available at the time of implementing the 1998 policy systems in EUROMOD.⁷ The simulations of 2008 policy systems are performed on EU-SILC data in all countries but the United Kingdom where the Family Resource Survey is used because more appropriate for microsimulation purposes. If the policy year does not match the income reference period, monetary values have been updated (e.g. from 2007 to 2008) according to the appropriate price and income indices. See EUROMOD Country Reports for more details.

We assume full tax compliance and 100% of benefit take-up and our results can be interpreted as measuring the intended redistributive effects of the different components embedded in the tax systems.⁸ Moreover, we share with some previous work (e.g. Piketty and Saez 2007) some plausible and simple assumptions about the incidence of taxes that need to be taken into account in the interpretation of the results. First, we focus on the revenue side of the distributional process without explicitly looking at the contribution of cash social benefits, which are included in our measure of gross income, and of publicly provided services, which can be considered as in-kind benefits. At the same time, we do take into account the effect of taxes paid on benefits. For an analysis of the joint effect of taxes and social benefits, we refer to Immervoll et al. (2006) and Immervoll and Richardson (2011). The latter is one of the few studies that investigates the redistributive

⁷ These are the European Community Household Panel (ECHP) User Data Base made available by Eurostat; the Austrian version of the ECHP made available by the Interdisciplinary Centre for Comparative Research in Social Sciences; the Panel Survey on Belgian Households (PSBH) made available by the University of Liège and the University of Antwerp; the Income Distribution Survey made available by Statistics Finland; the Enquête sur les Budgets Familiaux (EBF) made available by INSEE; the public use version of the German Socio Economic Panel Study (GSOEP) made available by the German Institute for Economic Research (DIW), Berlin; the Living in Ireland Survey made available by the Economic and Social Research Institute; the Survey of Household Income and Wealth (SHIW95) made available by the Bank of Italy; the Socio-Economic Panel for Luxembourg (PSELL-2) made available by CEPS/INSTEAD; the Socio-Economic Panel Survey (SEP) made available by Statistics Netherlands through the mediation of the Netherlands Organisation for Scientific Research - Scientific Statistical Agency; the Income Distribution Survey made available by Statistics Sweden; and the Family Expenditure Survey (FES) made available by the UK Office for National Statistics (ONS) through the Data Archive.

⁸ However, given the incidence of the shadow economy in Italy, gross self-employed income has been calibrated in order to obtain an aggregate amount corresponding to that reported in fiscal data (Ceriani et al., 2013).

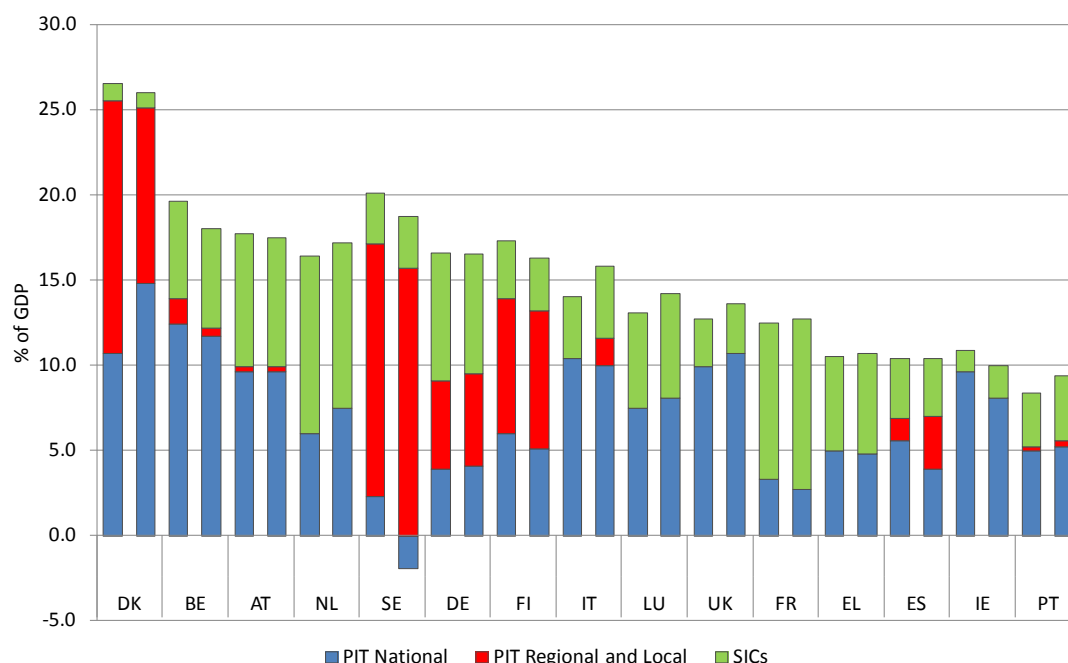
impact of taxes and benefits over time, using data from LIS, but they focus on the working-age population only. Furthermore, the redistributive impact of publicly provided services, such as education and health care, has been the object of a number of recent studies (see e.g. Paulus et al., 2010; OECD 2011; Verbist et al. 2012). Second, we consider the pre-tax income distribution as given without considering the impact of behavioural decisions or macro-economic aspects which can be affected by the tax system in place in each country (Poterba, 2007). Third, our analysis is static and we look at the redistributive impact of taxes at a given point in time, as these taxes affect disposable income of households, and thus their living standards. However, a life-cycle perspective can be relevant for the analysis of the social security contributions and according to this perspective income taxes are less progressive (Bengtsson et al., 2012).

3 Personal Income Taxes and Social Insurance Contributions across Europe

We focus on the redistributive role of income taxes which is widely acknowledged to be of primary importance in the European countries, given the impact of income taxes on the resources available to the overall population and on the efficiency of the economic system. Income taxes here include both personal income taxes (levied both at national and regional or local level) and social insurance contributions. One could argue that social security contributions should be considered as being distinct from personal income taxes. In general, personal income taxes are levied to fulfil the government revenue requirements for a specific time period (mostly a year, and can thus be considered as redistributive in a specific period), whereas social insurance contributions are part of a social insurance system, and thus redistribute over the life-cycle rather than between income groups in any given period. However, the distinction between both types of taxes has become increasingly blurred: in many countries, social security contributions are not (any more) the unique source for funding the social security system; increasingly, general means (with personal income taxes as a major source) are being used to keep the system funded.

Moreover, the relative importance of these two types differs considerably across countries: looking only at e.g. personal income taxes might give a misleading picture of the tax burden on gross incomes (see Figure 1). In addition, social insurance contributions are deductible from personal income taxes in most of the countries. Also more practical arguments (e.g. small differences in tax bases, two administrative procedures) have been put forward to consider both systems together and even merge them in order to enhance transparency and reduce compliance costs (Mirrlees et al., 2011). Hence, following Piketty and Saez (2007), we believe that it is important to consider both types together in this analysis. Moreover, the relative weight of these two types of taxes apparently is on the move. Over the 1998-2008 period, the EU-15 on average witnessed a slight reduction in personal income taxes as a % of GDP, while social insurance contributions tended to show a small increase. In most countries, personal income taxes remain more important than the social insurance contributions, with France, Greece and the Netherlands as notable exceptions.

Figure 1: Personal income taxes (Central, regional, local) and social insurance contributions as a share of GDP in the EU-15 countries, 1998 and 2008.



Note: Personal Income taxes correspond to Taxes on income and profits of individuals; SICs include employee social contributions, self-employed contributions and those on replacement incomes or other sources of income. For France CSG and CRDS have been categorised here under SICs. In 2008, in Sweden the amount of tax reductions exceeds the tax revenue at national level. First bar of each country refers to 1998, second bar to 2008. Countries are ranked from high to low GDP share of the total taxes in 2008. Source: OECD Revenue Statistics 1998-1999 and 2009-2010.

In all countries mandatory **social insurance contributions** (SIC) are levied on labour income from employees and self-employed; in Germany the self-employed pay voluntary contributions. In four countries SIC on labour income are the only contributions that are levied (Ireland, Italy, Portugal and the United Kingdom). In all other countries recipients of either pensions or unemployment allowances or sickness and disability benefits also pay contributions, though in most cases the rate is lower than on income from work. In Denmark and Luxembourg, social assistance recipients pay contributions as well. France is the only country that levies social contributions on family benefits and capital income⁹.

In most countries, the **personal income tax** (PIT), levied both at national and regional or local level) is a complex of different components, such as the rate structure and various tax advantages, that are all simulated in EUROMOD. For the Scandinavian countries local taxes are proportional, and the tax rate varies according to locality/region. In EUROMOD an average local tax rate is applied for Denmark and Finland. In case of Sweden the distinct local tax rates are simulated in 1998 and an average equal to 31.4% is simulated in

⁹ See EUROMOD country reports for more details on 2008 and Verbist (2004) for 1998.

2008 (see also Table 1 below). In case of Italy and Spain the distinct regional tax rates are simulated.

EUROMOD also includes the simulation of **other taxes**, which are direct taxes that are not part of the personal income tax system. Broadly, two groups of ‘other taxes’ can be distinguished and are included in EUROMOD: (1) taxes on wealth, more specifically on capital income from financial assets (Austria, Belgium, Finland, Greece, Italy, Portugal, Spain, Sweden) and (2) taxes on real estate property or housing services (Belgium, Denmark, Finland, France, Greece, Ireland, Italy, Portugal, Spain, Sweden and the United Kingdom). Moreover, church taxes (Austria, Denmark, Finland, Germany) and health surcharges (Denmark, Finland) are included in this category.

An empirical assessment of the redistributive role of income taxes is particularly needed in a period of continuous changes to the tax system. Sabirianova Peter et al. (2010) document that 30% of high income countries changed yearly both statutory rates and thresholds of their Personal Income Tax between 1996 and 2005. The consequences of tax reforms are less clear than it may appear at first sight. For example, a reduction of the marginal tax rate does not necessarily mean low progressivity because the final effect depends on the overall structure of the tax system and the interaction with the distribution of taxable income. Also the consequences of changes in the rate structure of social insurance contributions is not so straightforward, given the possible occurrence of provisions for low wages, social benefits and/or upper and lower income bounds.

Table 1 shows that the rates applied for employee social contributions in the 15 countries we are considering have gone through diverging evolutions: in some countries the top rates have been increased (e.g. in France, Italy and UK), while in some countries they have been reduced (e.g. in Finland, Luxembourg and the Netherlands). There is far less diversity when we look at the evolution of top personal income tax rates: they have gone down between 1998 and 2008 in most countries. On average these top rates have been reduced from 44% (1998) to 38.6% (2008)¹⁰. In many countries the reduction is five percentage points or even more. Portugal is the only country that increased its top personal income tax rate (with 2 percentage points). For the Nordic countries local taxes are important components of the personal income tax burden, as is also shown in Figure 1. For Denmark the average local tax rate has gone down considerably, while for Sweden and Finland changes are much smaller. In Spain the change in top tax rate is accompanied also by a shift from central to regional taxes, which is also apparent in Figure 1.

¹⁰ This is without average local and regional taxes; including these yields a similar picture.

Table 1: Top tax rates in the personal income tax and employee social contribution systems in the EU-15 countries, 1998 and 2008.

	Top PIT rate		Top SIC rate	
	1998	2008	1998	2008
Austria	50	50	18.2	18.2
Belgium	55 (+7)	50 (+7.4)	13.07	13.07
Denmark	15 (+32.4)	15 (+25.5)	8	8
Finland	38 (+18.8)	31.5 (+18.6)	8.05	5.65
France	54	40	26.09	26.65
Germany	53	45	21.05	20.35
Greece	45	40	15.9	16
Ireland	46	41	6.57	6.5
Italy	45.5 (+0.5)	43 (+0.9/1.4)	9.19	10.49
Luxembourg	46	38	13.05	12.2
Netherlands	60	52	35.15	31.15
Portugal	40	42	11	11
Spain	47.6 (+8.4)	27.1 (+15.9)	6.4	6.35
Sweden	25 (+30.8)	25 (+31.4)	6.95	7
UK	40	40	10	11

Notes: Top PIT rates relate to the national personal income tax systems (average local or regional taxes are added in brackets after PIT rate; in Belgium it is a surtax applied on the national tax liability; in Italy regions can vary the rate between 0.9% and 1.4%). Top SIC rates shown are those that generally apply for white collar employees. Source: OECD (1999) and OECD (2008b) and EUROMOD Country Reports.

The strong reduction in top tax rates has attracted attention in the literature on top incomes (see e.g. Atkinson et al. 2011). OECD (2011) notes that those countries that over the past 30 years made earlier and bigger cuts in their top tax rates (e.g. United States) witnessed bigger rises in the shares of top incomes. There are indications that the elasticity of taxable income is indeed larger for higher incomes (see e.g. Gruber and Saez, 2002; Saez et al. 2012), suggesting that decreasing marginal tax rates on high income individuals would increase their taxable income substantially with potential important indirect effects on the tax revenue (OECD, 2011). However, the effects on tax revenue depend on the density of the high income earners in the top band which is completely different across countries. In 2008 the share of tax payer with a taxable income subject to the top tax rates ranges from less than 5% in Finland, France, Greece, Italy, Portugal, Spain, and Sweden to more than 15% in Belgium, Denmark, Ireland, and Luxemburg.

4 The redistributive effect of taxes in the EU

As discussed above, progressivity of taxes does not only depend on the design of the tax system but also on the distribution of pre-tax incomes. Table 2 gives the evolution of gross

(before tax income) and disposable income (after tax) inequality according to the EUROMOD data in 1998 and 2008.

Table 2: Gini coefficients of income distributions in the EU-15 countries, 1998 and 2008

<i>Country</i>	<i>Gini gross income (G_X)</i>			<i>Gini net disposable income (G_N)</i>		
	1998	2008	% Δ	1998	2008	% Δ
Austria	0.285	0.310	8.8%	0.235	0.250	6.5%
Belgium	0.328	0.315	-3.9%	0.254	0.232	-8.6%
Denmark	0.300	0.278	-7.3%	0.235	0.238	1.3%
Finland	0.299	0.303	1.4%	0.246	0.254	3.3%
France	0.321	0.291	-9.3%	0.289	0.273	-5.4%
Germany	0.307	0.332	8.2%	0.251	0.267	6.3%
Greece	0.375	0.362	-3.5%	0.342	0.328	-4.1%
Ireland	0.375	0.333	-11.3%	0.320	0.268	-16.3%
Italy	0.384	0.353	-8.2%	0.352	0.307	-12.9%
Luxembourg	0.318	0.294	-7.6%	0.257	0.248	-3.4%
Netherlands	0.296	0.313	5.8%	0.250	0.265	6.2%
Portugal	0.404	0.395	-2.2%	0.356	0.349	-1.9%
Spain	0.369	0.326	-11.6%	0.331	0.292	-11.8%
Sweden	0.275	0.269	-2.1%	0.217	0.237	9.2%
UK	0.359	0.364	1.3%	0.313	0.311	-0.8%

Notes: Incomes are equivalised using the modified OECD equivalence scale. Overall population considered.
Source: Authors' analysis based on EUROMOD

In most countries inequality of gross income remained stable or even declined between 1998 and 2008; strongest decreases occurred in Ireland and Spain. The decreases follow mainly from the equalising effect of benefits which is the second largest gross income component after market income. Only in Austria, Germany and the Netherlands we find important (more than 5%) increases in gross income inequality. In these three countries we find parallel increases in disposable income inequality. In most of other countries, the evolution of net disposable income inequality is very different, indicating that the changing role of taxes in shaping the final income distribution is not uniform across countries.

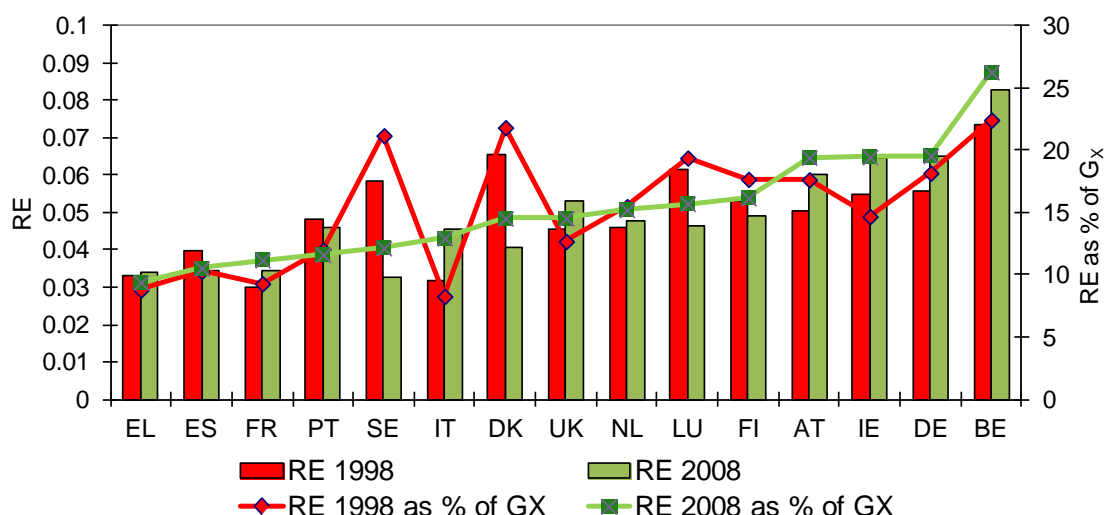
4.1 Redistributive effect of total taxes

In order to focus on the redistributive effect of taxes, we look at the transition from gross to net income by looking at the effect of personal income taxes (national, regional and local), social insurance contributions and other taxes. Considering the different types of taxes together, they reduce income inequality of an amount between 8% and 26% of inequality in gross income with large differences across countries (Figure 2 and Table 3).

In 2008, highest redistributive effects are found in Austria, Ireland, Germany and Belgium while it is low in France, Spain and Greece. The evolution across Europe has been very

different. In a first group of countries where the redistributive effect was already high in 1998 it has further increased, while in other countries it has decreased, most notably in Denmark, Finland, Luxembourg and Sweden. Overall, the empirical evidence does not show a clear trend in the redistributive effects of taxes associated to the changes in marginal tax rates.

Figure 2: Redistributive effect of total taxes in the EU-15 countries, 1998 and 2008.



Notes: Redistributive Effect (RE) of total taxes in EU countries expressed in absolute terms (histograms, on left hand axis) and as a share of Gini of pre-tax income (markers, on right hand axis). Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Incomes are equivalised using the modified OECD equivalence scale. Overall population considered. Countries are ranked according to RE as % of Gini of pre-tax income in 2008. Source: Authors' analysis based on EUROMOD

From Table 3 emerges that for most countries the redistributive effect (*RE*) is broadly the same as vertical equity (*VE*). The re-ranking counts, on average, less than 8% of the overall redistributive effect. The main exceptions are Germany and Sweden, where inequality reduction is more strongly counteracted through reranking. Thus, as vertical equity is by far the most important factor, we will look more closely at the building stones of vertical equity, i.e. progressivity and tax level, measured respectively by the Kakwani index and the average tax rate.

Table 3: Redistributive effects of total taxes in the EU-15 countries, 1998 and 2008.

	1998				2008			
	<i>RE</i>	<i>VE</i>	Π_T^K	<i>t</i>	<i>RE</i>	<i>VE</i>	Π_T^K	<i>t</i>
Austria	0.050	0.054	0.150	0.266	0.060	0.063	0.163	0.279
Belgium	0.074	0.077	0.170	0.312	0.083	0.087	0.208	0.295
Denmark	0.066	0.068	0.104	0.397	0.040	0.043	0.082	0.346
Finland	0.053	0.056	0.137	0.289	0.049	0.051	0.133	0.277
France	0.030	0.032	0.143	0.184	0.034	0.037	0.145	0.202
Germany	0.056	0.066	0.166	0.285	0.065	0.075	0.173	0.302
Greece	0.033	0.035	0.149	0.191	0.034	0.036	0.155	0.190
Ireland	0.055	0.057	0.268	0.175	0.065	0.067	0.320	0.172
Italy	0.032	0.035	0.116	0.231	0.046	0.048	0.139	0.255
Luxembourg	0.062	0.063	0.240	0.208	0.046	0.048	0.180	0.212
Netherlands	0.046	0.048	0.120	0.288	0.048	0.051	0.114	0.308
Portugal	0.048	0.050	0.210	0.192	0.046	0.048	0.212	0.184
Spain	0.040	0.040	0.179	0.182	0.034	0.036	0.202	0.151
Sweden	0.058	0.062	0.125	0.331	0.033	0.036	0.066	0.355
UK	0.046	0.047	0.188	0.201	0.053	0.056	0.178	0.238

Notes: Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Incomes are equivalised using the modified OECD equivalence scale. Overall population considered. Source: Authors' analysis based on EUROMOD

4.2 Average tax rates

The average rate of total taxes results from the sum of the three tax types considered (see Table 4). With more than 30% the average tax rate is highest in Denmark, Germany, the Netherlands and Sweden (in 2008). Levels below 20% are found in Greece, Ireland, Spain, and Portugal. Compared to 1998, some countries witnessed a substantial decrease in average tax rate (notably Belgium, Denmark and Spain), while other countries saw an increase (e.g. Austria, Italy, the Netherlands and Sweden).

In most countries the share of personal income taxes has decreased over the decade we consider, while the share of social insurance contributions has gone up. These outcomes are largely in line with the pattern shown in Figure 1. In 12 out of 15 countries personal income taxes are the major tax instrument, while in France, Greece and the Netherlands, social insurance contributions are more predominant. The share of other taxes is in general rather modest; only in Denmark and Finland (due to the health surcharges) and in the United Kingdom (due to the local Council Tax) this share is above 10%. In Denmark, since 2007 regions are not entitled to levy their own taxes and a new health surcharge replaced the existing county tax.

Table 4: Taxes as a % of gross income, and proportion of the three tax types in total taxes in the EU-15 countries, 1998 and 2008.

	<i>Total taxes</i>		<i>Personal Income Taxes</i>		<i>Social Insurance Contributions</i>		<i>Other taxes</i>	
	<i>average rate t</i>		<i>as % of t</i>		<i>as % of t</i>		<i>as % of t</i>	
	1998	2008	1998	2008	1998	2008	1998	2008
Austria	0.266	0.279	52.3	54.7	47.4	45.3	0.3	-
Belgium	0.312	0.295	70.6	62.6	29.4	34.9	-	2.5
Denmark	0.397	0.346	78.6	64.1	21.4	18.1	-	17.9
Finland	0.289	0.277	72.5	72.4	17.6	15.9	9.9	11.7
France	0.184	0.202	19.4	21.2	80.6	78.4	-	0.5
Germany	0.285	0.302	50.8	53.6	46.4	45.2	2.8	1.3
Greece	0.191	0.190	57.3	40.4	42.7	59.2	-	0.4
Ireland	0.175	0.172	82.0	74.3	18.0	25.7	-	-
Italy	0.231	0.255	66.0	64.2	28.3	28.2	5.7	7.6
Luxembourg	0.208	0.212	61.0	53.9	39.0	46.1	-	-
Netherlands	0.288	0.308	39.3	45.3	60.7	54.7	-	-
Portugal	0.192	0.184	54.7	52.9	42.3	44.0	3.0	3.1
Spain	0.182	0.151	76.8	60.1	23.2	38.2	-	1.8
Sweden	0.331	0.355	82.0	77.7	13.8	14.4	4.2	7.9
UK	0.201	0.238	66.5	60.7	22.5	26.7	11.0	12.6

Notes: Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Incomes are equivalised using the modified OECD equivalence scale. Overall population considered. Source: Authors' analysis based on EUROMOD

4.3 Progressivity of the three tax categories

The tax types do not only differ in weight, but there is also considerable diversity in structure. In this section we compare progressivity of the three tax types over the EU-15. The Kakwani indices of total taxes range from 0.07 in Sweden to 0.32 in Ireland (in 2008). This general figure results from the progressivity characteristics of the three different tax types, which can be disentangled with formula (5). We find a wide variety in Kakwani indices for tax types and countries (see Table 5). One fact is clear: PIT is in all countries the most progressive tax type. In 2008 PIT is very progressive in France and Portugal, while it is low in Denmark and Sweden. The progressivity has substantially increased over time in a number of countries: Belgium, Greece, Ireland, Portugal and Spain. Interestingly, in almost all these countries the top tax rates decreased, indicating that the interaction with the distribution of taxable income and the role of tax allowances, deductions and credits require careful consideration when assessing the progressivity of a tax system (Figari and Verbist, 2014). The number of countries where progressivity of PIT decreased is far more limited, with Luxemburg and Sweden as major examples.

Table 5: Kakwani indices of total taxes and the three tax types in the EU-15 countries, 1998 and 2008.

	1998				2008			
	<i>Total</i>	<i>Personal Income Taxes</i>	<i>Social Insurance Contributions</i>	<i>Other taxes</i>	<i>Total</i>	<i>Personal Income Taxes</i>	<i>Social Insurance Contributions</i>	<i>Other taxes</i>
Austria	0.150	0.248	0.042	0.155	0.163	0.274	0.030	.
Belgium	0.170	0.215	0.062	.	0.208	0.272	0.117	-0.124
Denmark	0.104	0.109	0.084	.	0.082	0.085	0.119	0.034
Finland	0.137	0.134	0.098	0.223	0.133	0.134	0.127	0.135
France	0.143	0.445	0.071	.	0.145	0.432	0.065	0.528
Germany	0.166	0.288	0.025	0.288	0.173	0.297	0.031	-0.017
Greece	0.149	0.293	-0.044	-	0.155	0.373	0.006	0.338
Ireland	0.268	0.292	0.158	-	0.320	0.364	0.195	.
Italy	0.116	0.151	0.040	0.089	0.139	0.190	0.041	0.064
Luxembourg	0.240	0.391	0.004	-	0.180	0.312	0.025	.
Netherlands	0.120	0.327	-0.014	-	0.114	0.325	-0.060	.
Portugal	0.210	0.325	0.056	0.285	0.212	0.392	0.014	-0.039
Spain	0.179	0.262	-0.096	-	0.202	0.359	-0.042	0.148
Sweden	0.127	0.127	0.078	0.293	0.066	0.063	0.013	0.184
UK	0.188	0.259	0.125	-0.112	0.178	0.280	0.168	-0.290

Notes: Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Incomes are equivalised using the modified OECD equivalence scale. Overall population considered. Source: Authors' analysis based on EUROMOD

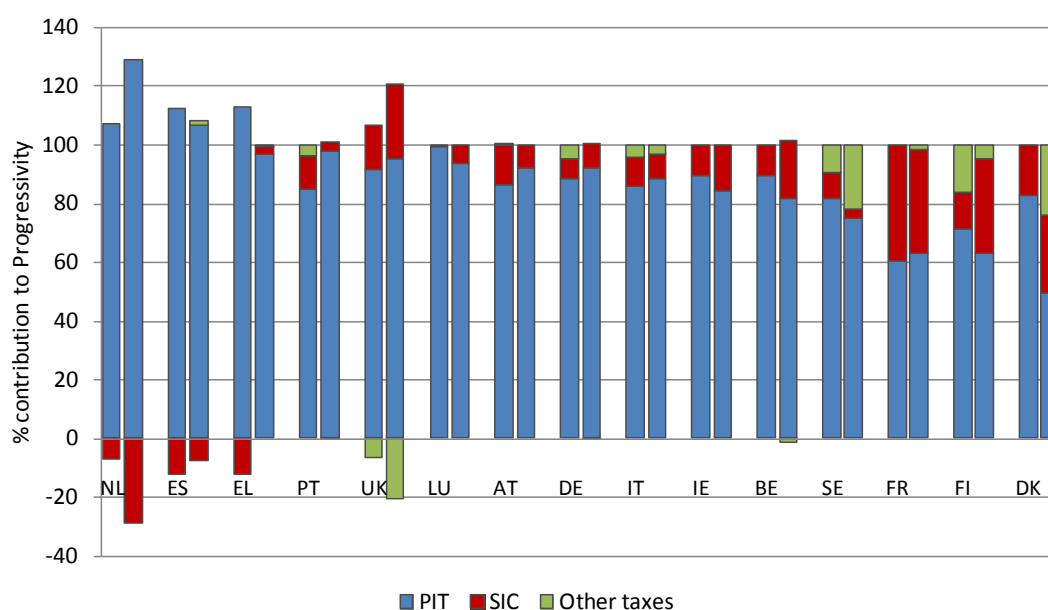
The effect of social insurance contributions depends on the structure of the system (e.g. the existence of lower and upper bounds), but also on the structure of the underlying income distribution (e.g. the weight of low- and high-income groups). In general terms, a lower bound will make social insurance contributions more progressive, whereas a ceiling will lead to regressivity. In countries where there is both a ceiling and a floor, the final effect will depend on the level of the SIC boundaries and on the weight of earnings over the income distribution. Social insurance contributions are in most countries close to proportionality. Exceptions are Ireland and the United Kingdom that apply lower and upper boundaries for these contributions; apparently the effect of the lower boundary is strongest as contributions in those countries rather tend towards progressivity. Two factors explain why SICs in Belgium and Finland incline towards progressivity: an additional SIC rate for high incomes applies in Finland, whereas in Belgium the lowest pensions do not pay SICs and a SIC reduction for low earnings was increased in the decade considered. Netherlands and Spain also apply lower and upper bounds for the calculation of SICs, but contrary to the Anglo-Saxon countries the effect of the upper bound appears to be stronger, as SICs incline towards regressivity.

Other taxes are progressive in France, Greece, Spain and Sweden in 2008, while in most other countries these taxes are close to proportionality. The regional tax on property in

Belgium and the local Council Tax in the United Kingdom make ‘Other taxes’ regressive in these two countries.

In Figure 3 we report the relative contribution of each tax type to overall progressivity.¹¹ Personal income taxes deliver in each country a positive contribution. The fact that in all countries PIT have the highest Kakwani, combined with the fact that in many countries their average tax rate is the highest of the three types leads to PIT delivering the highest contribution to overall progressivity of total taxes (more than 80% in 11 countries, even more than 100% in Spain and the Netherlands). The notable exceptions are Denmark, Finland and France. SICs are very important in France (mainly due to the high tax rate). But also in Belgium, Denmark and the United Kingdom they give an important positive contribution to inequality reduction. In Spain and the Netherlands the impact is negative, following from the negative Kakwani index; this means that total progressivity, and thus the redistributive effect, would be bigger if there were no social insurance contributions. With the exception of Denmark and Sweden other taxes have only a small, positive impact. In the United Kingdom, however, we find an important anti-equalising effect. This last result is remarkable; ignoring the Council Tax benefit, which is designed to provide relief for the lowest income groups, the local Council Tax itself in the United Kingdom is regressive.

Figure 3: Decomposition of progressivity of total taxes over the three tax types in the EU-15 countries, 1998 and 2008.



Notes: Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Income are equivalised using the modified OECD equivalence scale. Overall population considered. First bar of each country refers to 1998, second bar to 2008. Progressivity of total taxes = 100%. Source: Authors' analysis based on EUROMOD

¹¹This is equivalent to showing the contribution of each tax category to the overall redistributive effect, which can be deduced from combining formulae (3) and (5). It implies multiplying the progressivity of total taxes over the three tax types by a constant (i.e. $t/(1-t)$); hence, Figure 3 would be exactly the same.

The major differences in average tax rates and progressivity observed between 1998 and 2008 are consistent with the tax reforms that occurred in the period. For example, The Irish tax system was reformed since the 1999, moving towards a tax credit system with an increase in the level at which individuals started paying the personal income tax. Sweden is another country that experienced important tax reforms. At the beginning of the 2000's the threshold in the state income tax has been increased and the marginal tax rates reduced through tax credits for social security contributions. Moreover in 2007 a new in-work benefit has been introduced. Also in Belgium an important personal income tax reform was initiated in 2001, with the abolition of the two top tax rates and broader tax bands, the augmentation of tax-free amounts for couples (as part of making the system more individualised) and the introduction of refundable tax credits. The reforms in these three countries are consistent with a lower average tax rate and a higher progressivity.

5 Income inequality, preferences for redistribution and policy options

The relationship between income inequality and public redistribution policies is not straightforward. Early contributions in the political economy literature argued that greater inequality should lead to poorer median voters and hence a preference for more redistributive policies (see e.g. Meltzer and Richard (1981), hence further referred to as 'Meltzer-Richard model'). More recent studies, however, do not support this explanation as the more unequal societies are not necessarily the ones that redistribute most (see e.g. Perotti (1996); Benabou (2000); Moene and Wallerstein, (2001),; further referred to as 'Moene-Wallerstein model'). Looking at aggregate public expenditures, the relationship between inequality and the share of transfers in GDP tends to be negative (Pestieau, 2006). However, Benabou (2000, 97) develops the argumentation that "(...) popular support for such redistributive policies decreases with inequality, at least over some range. Intuitively, efficient redistributions meet with a wide consensus in a fairly homogeneous society but face strong opposition in an unequal one. Conversely, if agents engage in any type of investment, capital market imperfections imply that lower redistribution translates into more persistent inequality. The combination of these two mechanisms creates the potential for multiple steady states: mutually reinforcing high inequality and low redistribution, or low inequality and high redistribution." Indeed, the most recent research findings are not conclusive: focussing on wage inequality, Iversen and Soskice (2009) find that more egalitarian countries have more redistributive policies, which is in line with the 'Moene-Wallerstein model'. Lindert (2004) expressed this eloquently as a Robin Hood paradox: redistribution is less present when and where most needed. However, focussing on market income, Kenworthy and Pontusson (2005) do not find any correlation between inequality and redistribution while Milanovic (2000) finds a positive association between market income inequality and redistribution, in line with the 'Meltzer-Richard model'.

However, mainly due to lack of comparable data, the above studies do not focus on the redistributive role achieved through taxes which is one of the main channels through which public redistribution is achieved; it is particularly important because it involves the working age population that usually sees social spending not only as a way to redistribute income but also to provide insurance. Focussing on the redistributive role achieved through

taxes we do find evidence of a negative association between the redistributive effect of taxes, measured as a share of the Gini of pre-tax income, and pre-tax income inequality (see Table 6). Our evidence seems to support the view that more unequal societies demand less redistribution, in accordance with the ‘Moene-Wallerstein model’. An unequal distribution of gross income and the social choice to redistribute rather little through taxes can be based on the same underlying factors, such as a strong emphasis on individual responsibility and a big confidence in the market.

This intuition is confirmed by looking at the two components of the redistribution process and their association with pre-tax income inequality: countries with more unequal income distribution tend to have a lower average tax level while the level of progressivity is not associated with the pre-tax income inequality.

Table 6: Association between pre-tax inequality, redistributive effect, tax level and progressivity of total taxes

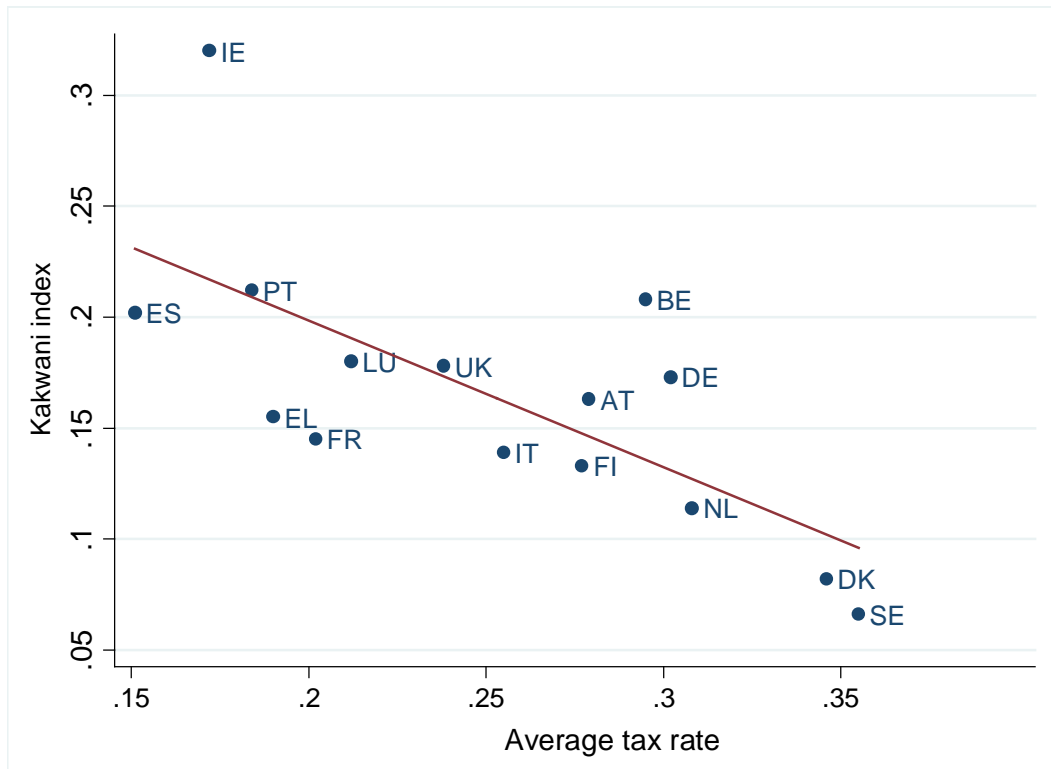
Dependent variable: Gini index of pre-tax income distribution		
Redistributive Effect (RE)	-0.004***	
Average tax level		-0.340***
Progressivity		0.056
Time	-0.011	-0.009
Constant	0.392***	0.408***
<hr/>		
Observations	30	30
R2	0.24	0.42

Notes: OLS regression.*** Significant at the 0.01 level. Redistributive Effect (RE) of total taxes in EU countries expressed as a share of Gini of pre-tax income. Progressivity of total taxes measured by Kakwani index. Time: dummy variable equal to 1 for observations related to 2008. Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Incomes are equivalised using the modified OECD equivalence scale. Source: Authors’ analysis based on EUROMOD

Looking at the relationship between progressivity of taxes and the average tax level in a cross country perspective, it emerges that these two instruments tend to substitute each other rather than being complementary: a high level of collection of tax revenues does not go together with a relatively high burden on the rich (see Figure 4). We find a highly significantly negative correlation between these two variables. This negative correlation between progressivity and tax level applies for total taxes (see Figure 4) and in particular for personal income taxes (Pearson rank correlation coefficient: - 0.93, significant at the 0.01 level), while the correlation is not significant for social insurance contributions (correlation: - 0.47) given their substantially proportional nature in most of the countries.

In 2008, considering total taxes we have at one extreme Denmark and Sweden that are “low progressivity – high tax rate” countries, and at the other Ireland which is a “high progressivity – low tax rate” country. Austria, Germany and Belgium occupy a position in between, with a relatively high degree of progressivity and tax rate. Greece and France have a combination of lower progressivity with a lower tax level.

Figure 4: Total taxes: Kakwani index and average tax rate in the EU-15 countries, 2008



Source: Pearson rank correlation coefficient: -0.70, significant at the 0.01 level. Total taxes include personal income taxes (national, regional and local), social insurance contributions and other direct taxes. Overall population considered. Authors' analysis based on EUROMOD

Such evidence confirms the different policy options adopted by governments across Europe even when the policy aim in terms of redistribution is the same: the same level of redistribution can be obtained through completely different processes, with important consequences for the extent to which tax payers with similar taxable income face a different tax burden across countries. In 2008, Greece and Spain, for instance, are characterised by a very similar redistributive effect (both in absolute and relative term with respect to inequality of gross income) but Greece shows a Kakwani index of 0.16 and an average tax rate of 19% while in Spain Kakwani index is about 0.20 and the average tax rate is about 15%. The same pattern can be observed looking at other pairs of countries with similar redistributive effect such as Italy (higher average tax rate) and United Kingdom (higher progressivity) or Germany (higher average tax rate) and Ireland (higher progressivity). Hence, it is clear that a government puts more burden on the broadest shoulders, if the tax weight is rather mild. But when the tax level is high, it appears to be more difficult to avoid that everybody pays its share of taxes, such that the tax rate increase less with income level.

6 *Conclusions*

In this paper we have presented new evidence of the redistributive role of taxes in Europe. This is a not a straightforward issue, given that redistributive outcomes of the tax system are not only affected by changes in statutory rules, but also by changes in the underlying income distribution following from socio-demographic changes (e.g. ageing), labour market developments, and fiscal drag. Our results show that statutory changes in the tax system can have counterintuitive effects on the income distribution once the overall tax system and the interactions with the income distributions are taken into account. On the one hand, the empirical analysis presented in this paper does not show a clear trend in the redistributive effects of taxes associated to the changes in marginal tax rates. On the other hand, the progressivity of personal income tax increased over the past decade 1998-2008 in almost all countries where marginal tax rates decreased.

We aimed to investigate empirically whether there is a link between pre-tax income inequality and redistribution through taxes and to analyse the relationship between progressivity of taxes and the average tax level. Two opposing models are put forward in the literature for explaining the relationship between redistributive policies and income inequality. The ‘Meltzer-Richard model’ argues that greater inequality will enhance redistributive policies through the poorer median voter, while the ‘Moene-Wallerstein model’ states the opposite. Our analysis of the redistributive effects of taxes seems to support the ‘Moene-Wallerstein model’, i.e. more unequal societies demand less redistribution. This becomes especially apparent in the level of taxation, i.e. high inequality correlates with lower tax rates. Moreover, in a cross country perspective we find a significantly negative correlation between progressivity of taxes and tax level, indicating that these two building stones of the redistributive impact of taxes are rather substitutes than complements. Apparently, a government puts more burden on the broadest shoulders, if the tax weight is rather mild. But when the tax level is high, it appears to be more difficult to avoid that everybody pays its share of taxes, reducing the overall progressivity of the tax system.

References

- Adema, W., P. Fron & Ladaïque, M. (2011), “Is the European Welfare State Really More Expensive?: Indicators on Social Spending, 1980-2012; and a Manual to the OECD Social Expenditure Database (SOCX)”, OECD Social, Employment and Migration Working Papers, No. 124, Paris, OECD.
- Atkinson, A. (1980), “Horizontal Inequity and the Distribution of the Tax Burden” in H. Aaron & M. Boskin (eds.), *The Economics of Taxation*, Washington D.C., The Brookings Institution
- Atkinson, A., Piketty T. & Saez, E. (2011), “Top incomes in the long run of history” in *Journal of Economic Literature*, 49(1): 3-71.
- Atkinson, A., Rainwater, L. & Smeeding, T. (1995), *Income Distribution in OECD Countries. Evidence from the Luxembourg Income Study*, Paris, OECD.
- Benabou, R. (2000), “Unequal Societies: Income Distribution and the Social Contract”, in *American Economic Review*, 90(1):96-129.
- Bengtsson, N., Bertil, H. & Waldenström, D. (2012), *Lifetime versus Annual Tax Progressivity: Sweden, 1968–2009*, IZA DP 6641.
- Berglas, E. (1971), “Income Tax and the Distribution of Income: an International Comparison” in *Public Finance/Finances Publiques*, 26:532-545.
- Ceriani, L. Fiorio C. & Gigliarano, C. (2013), “The importance of choosing the data set for tax-benefit analysis” in *International Journal of Microsimulation* 6(1): 86-121.
- Figari, F. & Verbist, G. (2014), “What makes personal income taxes progressive? A revisitation across European countries”, *mimeo*.
- Gruber, J. & Saez, E. (2002), “The Elasticity Of Taxable Income: Evidence And Implications”, in *Journal of Public Economics*, 84(1): 1-32.
- Immervoll, H. (2005), “Falling up the Stairs. An Exploration of the Effects of “Bracket Creep” on Household Incomes”, in *Review of Income and Wealth*, 51(1):37-62.
- Immervoll, H., Levy, H., Lietz, C., Mantovani, D., O’Donoghue, C., Sutherland, H. & Verbist, G. (2006), “Household incomes and redistribution in the European Union: quantifying the equalizing properties of taxes and benefits” in Papadimitriou, D. B. (Ed.), *The Distributional Effects of Government Spending and Taxation*. London, Palgrave Macmillan.
- Immervoll, H. & Richardson, L. (2011), “Redistribution Policy and Inequality Reduction in OECD Countries: What Has Changed in Two Decades?”, OECD Social, Employment and Migration Working Papers, No. 122, Paris, OECD.
- Iversen, T. & Soskice, D. (2009), “Distribution and redistribution: the shadow of the Nineteenth century”, in *World Politics* 61(3): 438-486
- Kakwani, N. (1977a), “Measurement of tax progressivity: an international comparison”, in *Economic Journal*, 87: 71-80.
- Kakwani, N. (1977b), “Application of Lorenz Curves in Economic Analysis”, in *Econometrica*, 45(3): 719-727.
- Kenworthy, L. & Pontusson, J. (2005), “Rising inequality and the politics of redistribution in affluent countries”, in *Perspectives on Politics* 3(3): 449-471.
- Lambert, P. (2001), *The Distribution and Redistribution of Income*, Third Edition, Manchester: Manchester University Press.

- Lambert, P. & Aronson, J. (1993), "Inequality Decomposition Analysis and the Gini Coefficient Revisited" in *Economic Journal*: 1221-1227.
- Lindert, P. (2004), *Growing Public*. Cambridge: Cambridge University Press.
- Meltzer, A. H. & Richard, S. F. (1981), "A Rational Theory of the Size of Government" in *Journal of Political Economy*, 89(5):914-27.
- Milanovic, B. (2000), "The median-voter hypothesis, income inequality and income redistribution", in *European Journal of Political Economy*, 16: 367-410.
- Mirrlees, J., S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles, & J. Poterba (Eds.) (2011), *Tax by Design: the Mirrlees Review*. Oxford: Oxford University Press.
- Moene, K., & Wallerstein, M. (2001), "Inequality, Social Insurance and Redistribution", in *American Political Review*, 95(4): 859-874.
- Musgrave, R. & Thin, T. (1948), "Progressive taxation in an inflationary economy", in *Journal of Political Economy*, 56: 498-514.
- OECD (1999), *Taxing Wages 1998-1999*, Paris, OECD.
- OECD (2008a), *Growing Unequal? Income distribution and poverty in OECD countries*, Paris, OECD.
- OECD (2008b), *Taxing Wages 2007-2008*, Paris, OECD.
- OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*, Paris, OECD.
- Paulus, A., Sutherland, H., & Tsakloglou, P. (2010), "The distributional impact of in kind public benefits in European countries", in *Journal of Policy Analysis and Management*, 29(2): 243-266.
- Perotti, R. (1996), "Growth, income distribution and democracy: What the data say", in *Journal of Economic Growth* 1(2): 149-187.
- Pestieau P., (2006), *The welfare state in the European Union: economic and social perspectives*. Oxford: Oxford University Press.
- Piketty, T. & Saez, E. (2007), "How Progressive is the U.S. Federal Tax System? A Historical and International Perspective", in *Journal of Economic Perspectives* 21(1): 3-24.
- Plotnick, R. (1981), "A Measure of Horizontal Inequity" in *Review of Economics and Statistics*, 63:283-288.
- Poterba, J. M. (2007), "Income inequality and income taxation" in *Journal of Policy Modeling* 29: 623-633.
- Reynolds, M. & Smolensky, E. (1977), *Public Expenditures, Taxes, and the Distribution of Income: The United States, 1950, 1961, 1970*, New York, Academic Press.
- Sabirianova Peter, K., Buttrick, S. & Duncan, D. (2010) "Global reform of personal income taxation 1981-2005: evidence from 189 countries", in *National Tax Journal*, 63(3):447-478.
- Saez, E., Slemrod J., & Giertz, S. H. (2012), "The Elasticity of Taxable Income with Respect to Marginal Tax Rates: A Critical Review" in *Journal of Economic Literature*, 50(1): 3-50.
- Salverda W., Nolan B., Checchi D., Marx I., McKnight A., Tóth I. G., & van de Werfhorst, H., (Eds), (2014), *Changing Inequalities in Rich Countries. Analytical and Comparative Perspectives*, Oxford, Oxford University Press.

- Sutherland, H. (2007), "EUROMOD: the tax-benefit microsimulation model for the European Union" in Gupta, A., and Harding, A., (Eds.), *Modelling Our Future: population ageing, health and aged care*, International Symposia in Economic Theory and Econometrics, Vol 16. Oxford, Elsevier.
- Sutherland, H., & Figari, F. (2013), "EUROMOD: the European Union tax-benefit microsimulation model" in *International Journal of Microsimulation*, vol. 6(1): 4-26.
- van Doorslaer, E. et al. (1999), "The Redistributive Effect of Health Care Finance in Twelve OECD-countries", in *Journal of Health Economics*, 18: 291-313.
- Verbist, G. (2002), *An Inquiry into the Redistributive Effect of Personal Income Taxes in Belgium*, Doctoral dissertation, University of Antwerp.
- Verbist, G. (2004), "Redistributive effect and progressivity of taxes: an international comparison across the EU using EUROMOD", EUROMOD Working Paper Series: EM5/04.
- Verbist, G. (2007), "The distribution effects of taxes on pensions and unemployment benefits in the EU-15" in O. Bargain (ed.), *Microsimulation in action. Policy Analysis in Europe using EUROMOD. Research in Labour Economics*, vol. 25, Oxford, Elsevier.
- Verbist, G., M. Förster & Vaalavuo, M. (2012), "The Impact of Publicly Provided Services on the Distribution of Resources: Review of New Results and Methods", OECD Social, Employment and Migration Working Papers, No. 130, Paris, OECD.
- Wagstaff, A. & van Doorslaer, E. (2001), "What Makes the Personal Income Tax Progressive? A Comparative Analysis for Fifteen OECD Countries", in *International Tax and Public Finance*, 8(3): 299-316.
- Wagstaff, A. et al. (1999a), "Redistributive effect, progressivity and differential tax treatment: Personal income taxes in twelve OECD countries", in *Journal of Public Economics*, 72(73-98).
- Wagstaff, A. et al. (1999b), "Equity in the finance of health care: some further international comparisons", in *Journal of Health Economics*, 18: 263-290.
- Zandvakili (1994), "Income Distribution and Redistribution Through Taxation: An International Comparison" in *Empirical Economics*, 19: 473-491.