Flash Economics

N° 40
November 12th, 2024

It is better to reduce inequality by increasing the employment rate than increasing public transfers

We compare two models:

- The French model, where inequalities are reduced by the scale of public transfers and not by a high level of employment or by modernisation of the economy;

- The Swedish model, where inequalities are reduced by the high level of employment and where the reduction in public spending has enabled more resources to be devoted to research, resulting in rapid modernisation of the economy and the maintenance of significant productivity gains.

We believe that, in the long term, the Swedish model is superior to the French model, with the decline in productivity gains in the French model due to the weight of public spending on social protection, which prevents public money from being used to support growth in the long term.

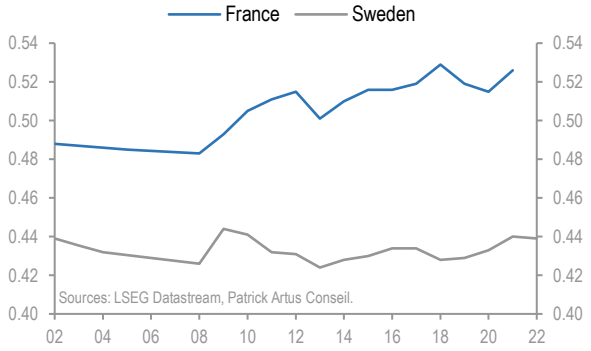
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Reducing inequality through public transfers in the French model

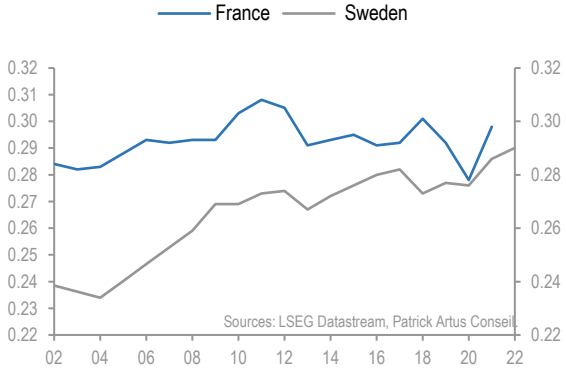
We compare the Gini index of income inequality, before and after redistributive policies, in France and Sweden (Charts 1A/B).

Chart 1A
Gini index of income inequalities, before redistribution*



*Gini index: 0 = complete equality; 1 = complete inequality

Chart 1B
Gini index of income inequalities, after redistribution*



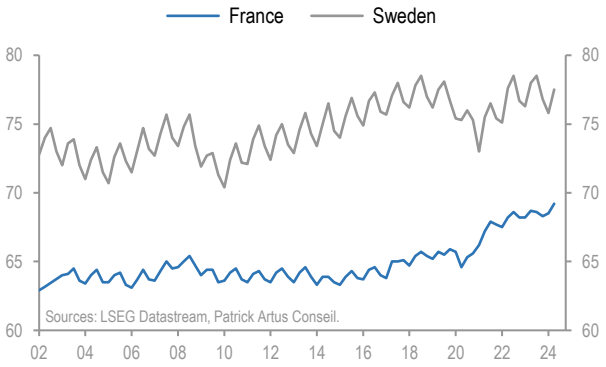
*Gini index: 0 = complete equality; 1 = complete inequality

One can see that it is redistribution that brings income inequality in France down to the same level as in Sweden.

The role of the employment rate in reducing inequality in Sweden

Chart 2 compares the employment rate in France and Sweden.

Chart 2
Employment rate of population aged 15 to 64 (as %)

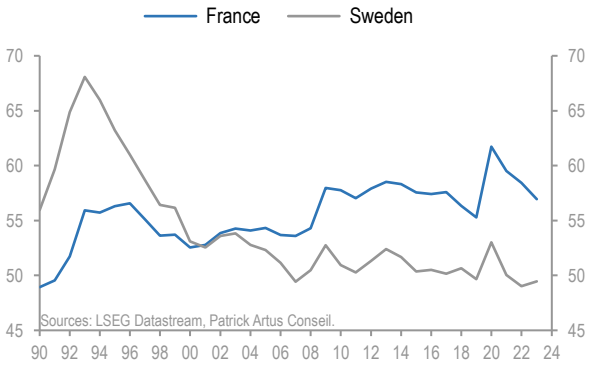


One can see that **the employment rate is much higher** (by 6 to 7 points in 2024) in **Sweden than in France**. This high employment rate means that income inequalities can be reduced, unlike in France where we rely on the scale of public transfers to reduce inequalities.

Sweden, a culture of thrifty public spending

Since the 1990s, Sweden has made a major effort to reduce public spending by making unemployment benefits conditional on an effort by the unemployed to train and find a job, by reforming the pension system, and by introducing a reform of the State, with the Agency system where employees are under private law and efficiency is measured continuously. **Chart 3 shows changes in public spending as a proportion of GDP in France and Sweden since 1990.**

Chart 3
Public spending (as % of nominal GDP)



One can see **an upward trend in the weight of public spending in France, and a downward trend in Sweden**, particularly strong between 1993 and 2007.

The culture of the Nordic countries has become thrifty with public spending, which has enabled Sweden, for example, **to increase R&D spending (Chart 4) and maintain substantial productivity gains (Charts 5A/B).**

Chart 4
Total R&D spending (as % of nominal GDP)

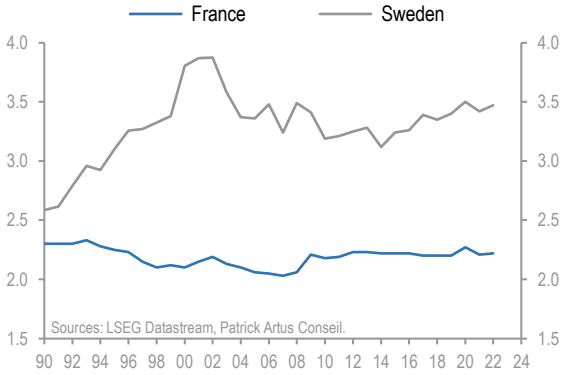


Chart 5A
Productivity per head (1990 = 100)

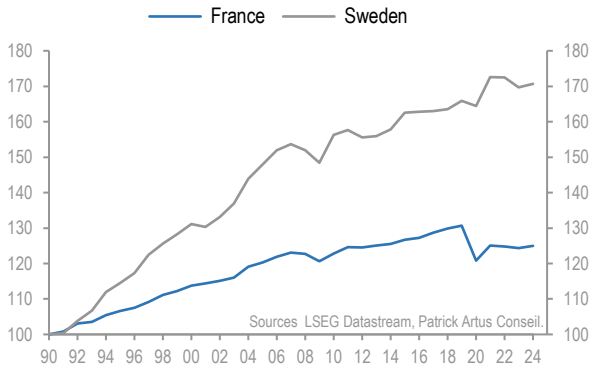
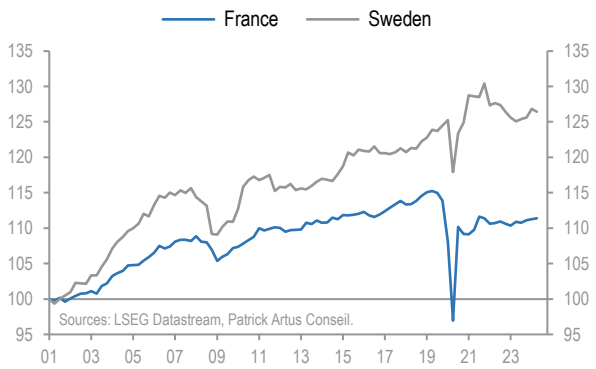


Chart 5B
Productivity per head (2001.Q1 = 100)



Summary: the long-term superiority of the Swedish model over the French model

The fact that:

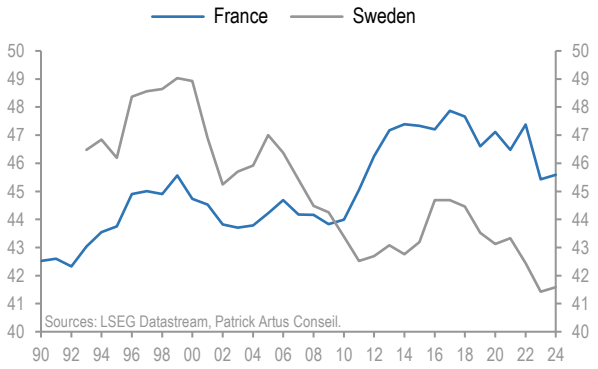
- A certain amount of public spending (unemployment benefits) is contingent;

- Reforming the State so that it spends less;

- Reforming the pension system so that it is always balanced;

Has enabled Sweden to reduce the burden of public spending and lower the tax burden (Chart 6), which is very different from the situation in France.

Chart 6
Tax burden (as % of nominal GDP)



This has enabled Sweden to increase its R&D spending (both public and corporate) and maintain strong potential growth.

In contrast, France has preferred to reduce inequalities through transfer spending, which has concentrated public spending on transfers and not on future spending.

These economic policy choices have proved favourable to Sweden: low inequality, high employment rate, steady growth, whereas in France, while inequality after redistribution is low, the employment rate is low and productivity growth has been negative since 2019.

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