

REDISTRIBUTION VIA TAXES AND SOCIAL BENEFITS IN SWITZERLAND

OLIVER HÜMBELIN & LUKAS HOBI

SCHOOL OF SOCIAL WORK, BERN UNIVERSITY OF APPLIED SCIENCES

RUDOLF FARYS

INSTITUTE OF SOCIOLOGY, UNIVERSITY OF BERNE



INTRODUCTION

We study the redistributive effects of taxes and other welfare state instruments in Switzerland. Measuring these effects is not an easy task as the necessary data is spread across numerous institutions and also due to the federal organization of the country, i.e. Cantons and municipalities have leeway in the design of taxes and means-tested benefits. However, the increasing availability of administrative data and their linkage allows for an increasingly detailed examination of the role of the welfare state.

DATA

For distributional analyses, data requirements are very high and the type of data source used can have a substantial impact on the results (Hümbelin & Farys, 2016; Kuhn & Suter, 2015). We use a comprehensive data set (WiSiER) from the Federal Social Insurance Office (BSV, 2021) which is based on ...

- **Tax data** linked with additional administrative data like the
- **Federal Register of Buildings and Dwellings,**
- **Demographics of the Swiss population,**
- **Social assistance information,** and the
- **Swiss "Structural Survey",** which provides information on e.g. households, families, housing, employment or education.

... which we further enriched with information on means-tested benefits, namely ...

- **Individual premium reductions** on paid health insurance premiums,
- **Scholarships,** and
- **Other canton-specific means-tested benefits.**

This lets us reliably depict the financial situation of households, even in the low-income range.

We can use data of six Swiss cantons: Aargau, Bern, Lucerne, St. Gallen, Valais and Geneva) which allows an analysis of 3.4 million persons or about 40% of the Swiss population (for more information see the project website: inequalities.ch).

The unit of observation for the analyses is the individual and his or her **equivalence-scaled income situation.**

METHOD

A descriptive analysis of the composition of incomes gives first insights into the importance of several welfare instruments. We then quantify redistributive contributions for these instruments using a simple measure of redistribution (Reynolds & Smolensky, 1977) where the effect for each instrument is the difference between the Gini coefficient before and after each instrument was applied to the income distribution.

$$Effect = Gini_{after} - Gini_{before} \quad (1)$$

Each effect is calculated while all other instruments already apply (added last) and effects are rescaled to the total effect.

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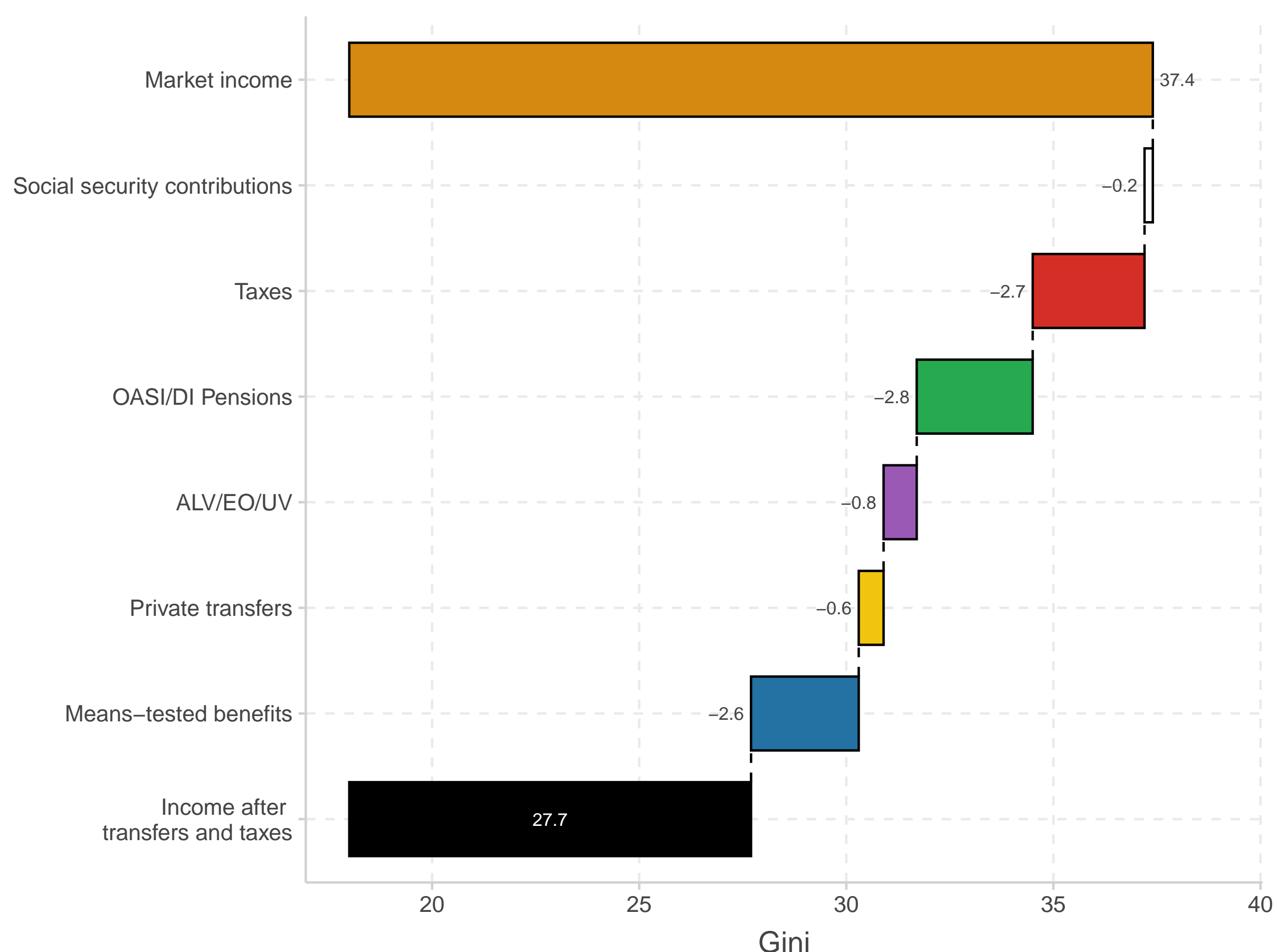
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COMPOSITION OF INCOMES



- For the poorest 5%, 71% of income comes from means-tested benefits, particularly social assistance.
- Income from property is hardly relevant for working-age population.
- Pensions most importantly stem from old age and survivors' insurance (OASI) / disability insurance (DI).
- Pensions from occupational plans (BVG) are hardly present in the lower income brackets (2-4% in the lower 15%) but become important for the (upper) middle class.
- As the pensions are not sufficient in the lower range, people receive a significant amount of supplementary benefits (EL).
- Market income is also still relevant among retirees, especially among the highest 10% where it accounts for 73% of income.
- For the richest 5%, it is especially income from property, i.e. this source of income appears to be heavily skewed.

REDISTRIBUTIVE EFFECTS WITHIN WORKING-AGE POPULATION



- Taxes and social benefits significantly reduce income inequality, i.e., they reduce the Gini coefficient by about a quarter (9.7 Gini points), which is nevertheless low by international standards (Caminada, 2019a, 2019b).
- Social benefits account for about three quarters of this redistributive effect (6.8 points), while taxes account for one quarter (2.7 points).
- Compared to other countries, Switzerland is a country with both below-average inequality and redistribution.
- Old-age and survivors insurance makes an important contribution to economic equalization (for 70% of the retired population, this is the largest share of income).

For more information, you can find the article at: <https://www.socialchangeswitzerland.ch/>.