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# Cost of living and its relevance for economic inequality – an admin-data approach studying the Swiss case

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# Introduction: why study cost of living from a perspective of inequality?

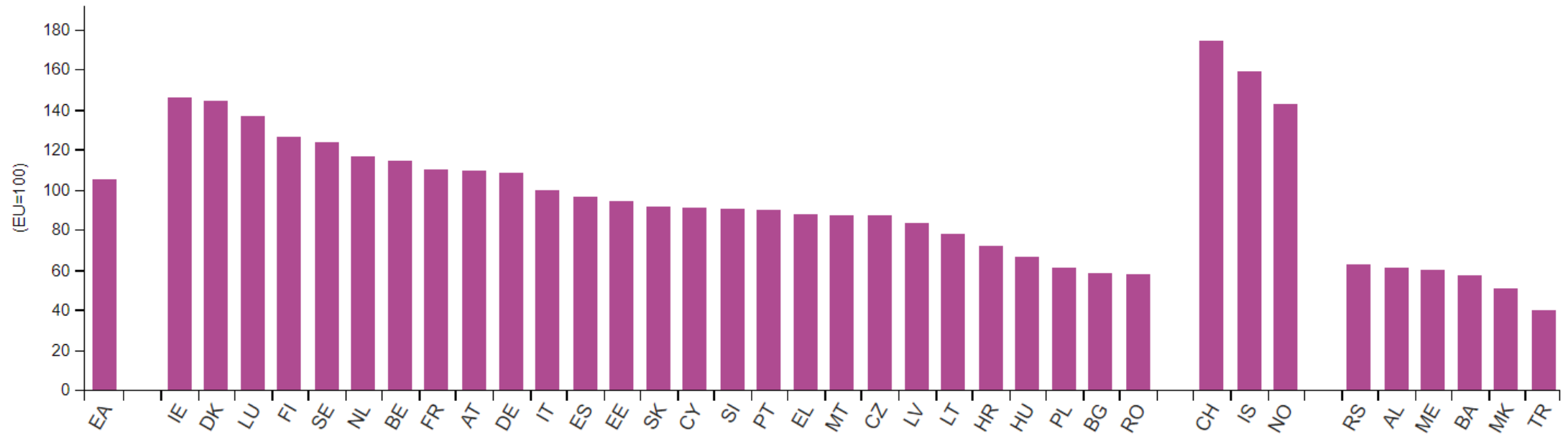
- Inequality studies usually focus on the distribution of income or wealth (Chancel et al., 2021).
- The cost of living is not taken into account, although ultimately it is not incomes but consumption possibilities that are the relevant benchmark of an economic welfare analysis (OECD, 2013; UNECE, 2011).
- Changes in prices (Argente & Lee, 2021; Handrich, 2022) and housing cost (Albouy et al. 2016) affect income classes differently.
- Furthermore, national estimates of economic inequality most often neglect subnational differences of cost of living, which potentially leads to biased results (Hillringhaus & Peichl, 2010)

## Research Questions

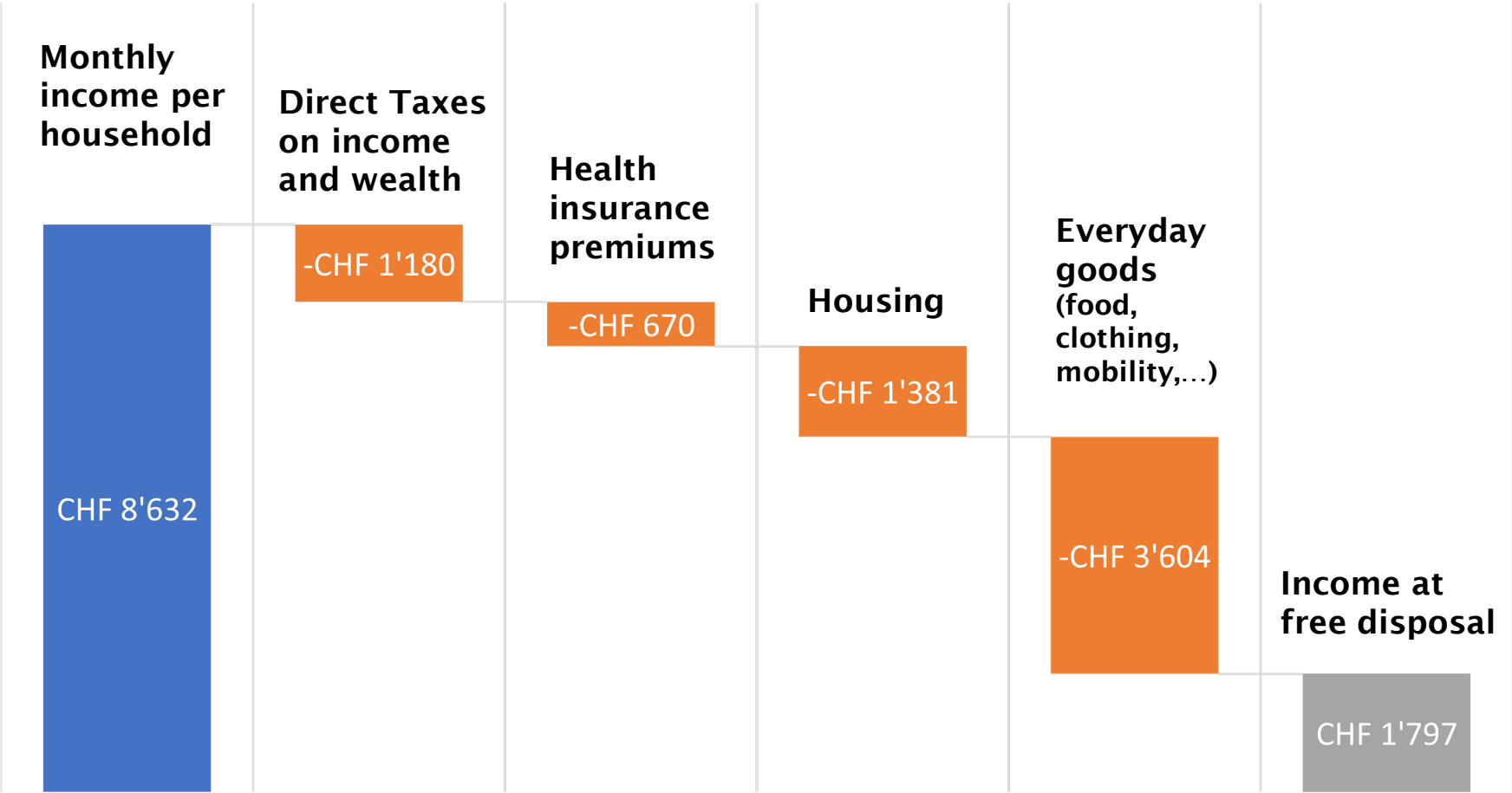
- How relevant are cost of living from a perspective of economic inequality?
- How important are regional differences in Switzerland for the assessment of economic inequality? (see working paper)

# Cost of Living in Switzerland

*Price level index for final household expenditure (HFCE), 2022*



# What makes Switzerland so expensive?



Source: Household Budget Survey Switzerland, averages across all households

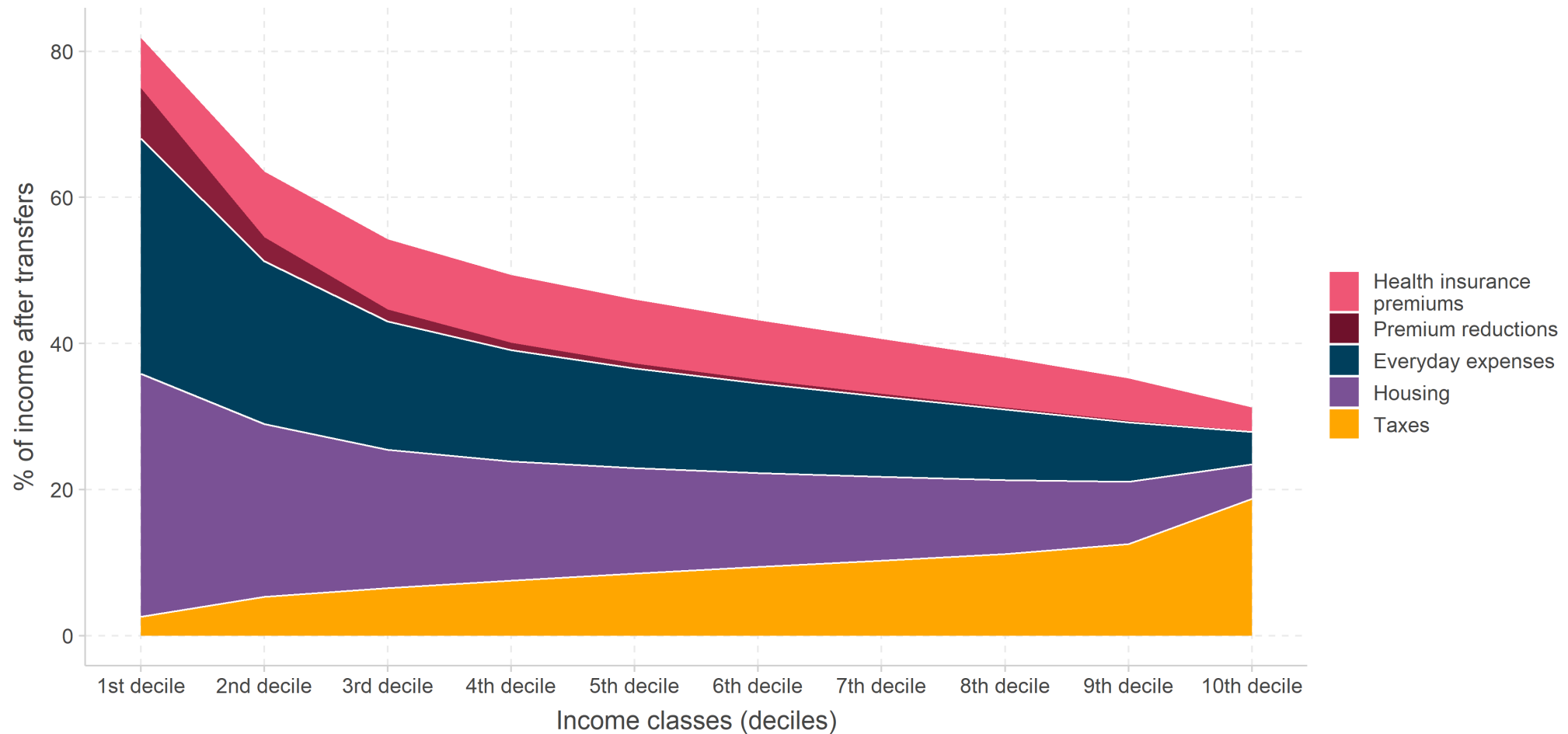
# Methods: Our data and strategy of analysis

- For the empirical assessment we use a combination of administrative data and imputations from official sources.
- Administrative data (linked tax data for about 3.8 Million inhabitants, ~40% of Swiss population)
  - Comprehensive data to estimate income inequality (Hümbelin&Farys, 2016)
  - Direct taxes and health insurances premium reductions
  - Housing cost (register survey data-based imputation using a statistical model).
- Imputed values from external sources
  - Health care insurances: national statistics with differentiation according to age and region
  - Everyday goods
    - Basic need according to the poverty line which is used to assess eligibility of social assistance (It's 960 CHF for 1 Person household)
    - Average for 1 Person < 65 according to the household budget survey (2'057 CHF)
- For final analysis we use two scenarios: (a) minimum (poverty line) and (b) average cost of living

# Methods: Our approach to assess the importance of cost of living from an inequality perspective

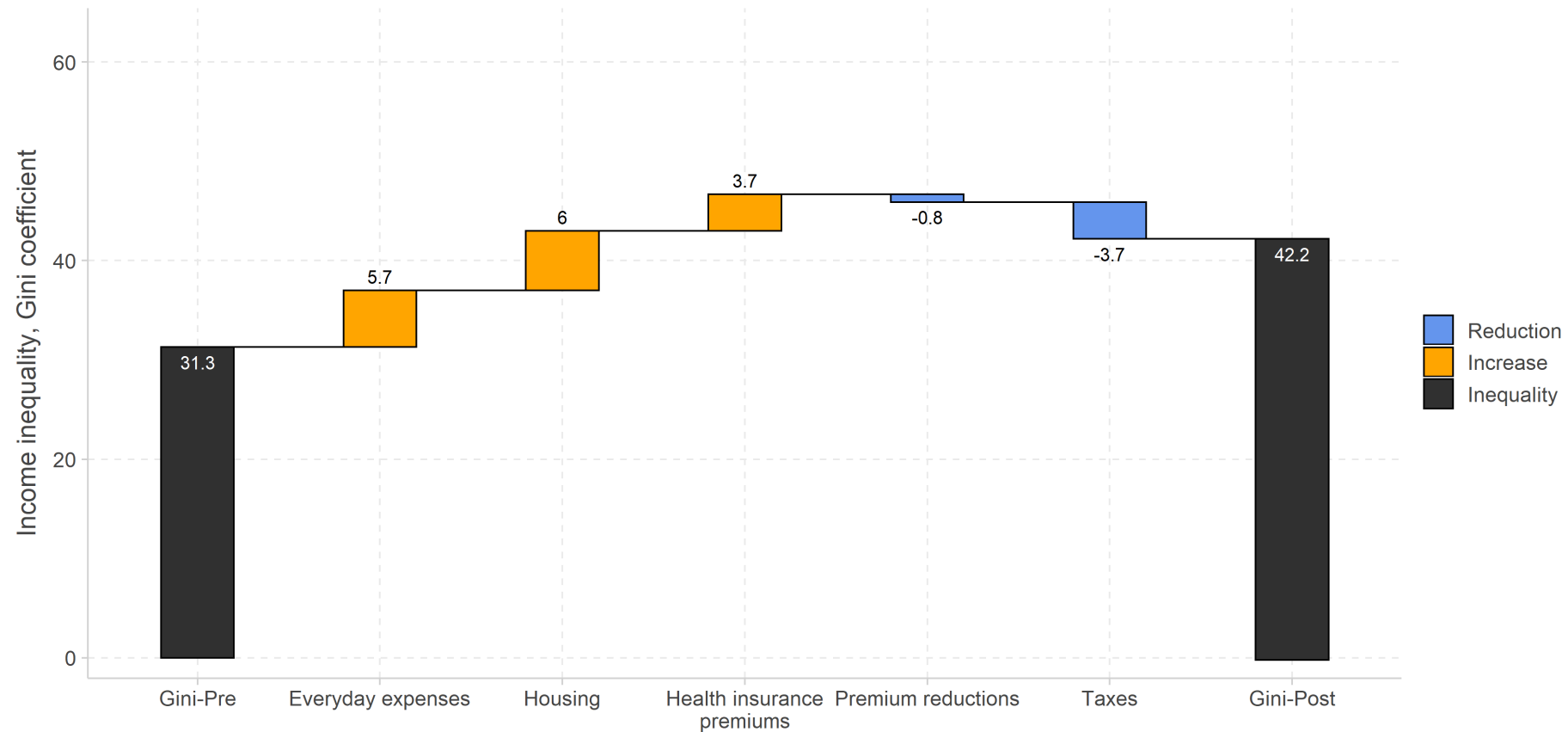
- We use techniques suggested by Reynolds & Smolensky (1977), that are widely used in distributional studies (Caminada et al., 2019a; Causa & Hermansen, 2020).
- It is a Gini-based assessment of change in inequality with  $G_x$  being inequality of income before cost of living.
- Importance of cost of living =  $G_x - G_{x-cost\ of\ living}$
- Costs of living are mandatory payments one cannot avoid:
  - taxes,
  - health care premiums,
  - housing cost
  - everyday goods

# Results: Burden of cost of living by income class - minimum cost of living



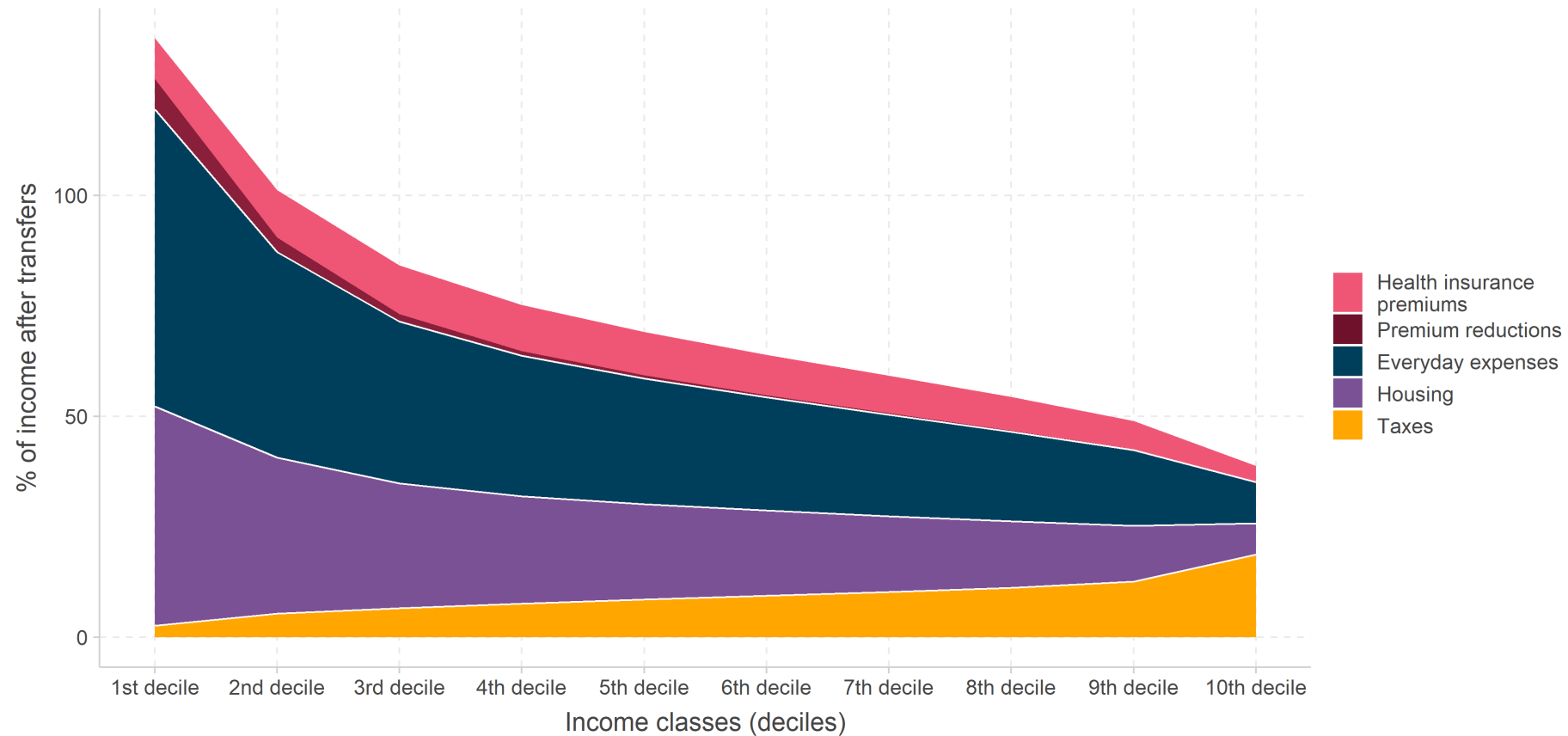
Scenario - Minimal

# Results: Income Inequality before and after cost of living - minimum cost of living





# Results: Nearly 20% with the lowest income can not afford basic goods as the average citizen



Scenario - Average

# Conclusion: Cost of living are a relevant component of an inequality analysis and should get more attention

- Mandatory payments do increase inequality of disposable incomes drastically. If neglected, an assessment of inequality in economic wellbeing seems incomplete.
- What role should the welfare state play in reducing inequality?
  - Cost of living stemming from financing common goods like taxes (infrastructure) and the financing of the health care system are (partly) designed progressively.
  - Housing cost and cost for everyday goods cannot be avoided either. Yet they are the two largest contributors to inequality in our analysis. Need for new policies?
- How much is needed? What are the basics? These are questions that are not easily defined.

Thank you for your attention!

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