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The Income Equivalence System Advantages and Drawbacks

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Introduction

Norway has implemented a plan known as the income equalization system among municipalities with the intention of reducing income disparities between municipalities and stabilizing the revenue of individual municipalities over time. The plan helps to maintain similar welfare services in all municipalities by transferring revenue to poor municipalities. We demonstrate the model using data from all Norwegian municipalities. Additionally, we demonstrate how the plan aids in the long-term stabilization of tax revenue across municipalities. In addition, we demonstrate how the plan can reduce incentives for low-income municipalities to raise taxes. Globally, scholars and policymakers have always paid a lot of attention to equality of wealth, income and opportunities. As a result, egalitarian policies are pursued in many nations. Norway has been implementing a program known as the income equalization system (IES) among municipalities for decades as part of its egalitarian policies. Its goal is to maintain comparable welfare services in all municipalities regardless of their revenues. As part of the IES, some tax revenue will be transferred from wealthier municipalities to poorer ones. On the other hand, economists generally assume that equality and efficiency cannot coexist because equality-obtaining measures essentially result in a loss of efficiency especially economic efficiency [1].

Description

Researchers have paid little attention to the social cost of inequality, the benefits of income equality, opportunity in the long run and measures to minimize costs and increase benefits, despite the extensive literature on the efficiency costs of efforts and measures of income transfers from the rich to the poor; This is because economic efficiency is sacrificed for social efficiency. It is generally acknowledged that we should not hesitate to transfer a small portion of our income to someone who requires it more than we do. The IES shares the same fundamental philosophy. In addition to economics, political philosophy is inevitably a component of this IES issue. Our normative judgment as well as our social and political values is unavoidable components of any discussion of inequality. Scholars of public policy must comprehend this. When making a policy decision, equality and effectiveness are crucial considerations. In addition, they are equally important in an economic analysis. It is a common assumption among economists that the two require a trade-off. Financial specialists are additionally faulted for stressing effectiveness, monetary productivity specifically, at the expense of balance. Adam Smith, on the other hand, is of the opinion that "No society can surely be flourishing and happy, of which the greater part of the numbers are poor and miserable." In addition, it is only fair that those who feed, clothe and house the entire population should receive a portion of the product of their own labor so that they can sustainably feed, clothe and house themselves [2].

Highly acclaimed and influential book "Equality and Efficiency: The trade-offs between equality and efficiency is discussed in detail in the Big Trade-off. The conflict between equality and economic efficiency cannot be avoided with his well-known "leaky bucket experiment," in which he asserts that a dollar transferred from rich to poor people will result in less than a dollar increase in the recipient's income. Okun claims that redistribution results in changes in attitude (e.g., motivation to acquire human capital, motivation to work), changes in savings and investment behavior and administrative costs associated with transfer. In the end, efforts to achieve equality always result in a lower overall income level and a less effective use of resources. A general economic equilibrium analysis of the total welfare cost of the United States tax system done by labor supply response to earned income tax credit tax avoidance and the deadweight loss of the income tax the impact of the potential duration of unemployment benefits on the duration of unemployment welfare, the earned income tax credit and the labor supply of single mothers are examples of the literature that investigates the trade-off between equality and efficiency [3].

Since the world is actually full of trade-offs, the fundamental economic models fail without them. We must give up other things if we want more of something. In his book "Principles of Economics," Harvard economist and former White House economic adviser Gregory Mankiw comes to the conclusion that economic principles alone cannot resolve the conflict between efficiency and equity. He asserts that political philosophy also plays a significant role in achieving a balance between these two objectives. Sadly, very little research has been done in this area. Berg and Ostry recently discovered that the trade-off between efficiency and equality may not exist when growth is looked at over the long term. They actually assert that equality appears to be a significant factor in sustaining and promoting economic growth. According to their findings, the level of inequality is the primary factor that contributes to the disparity between nations that are capable of experiencing rapid growth for a number of years or even decades and a great number of nations that experience rapid growth spurts. As a result, increasing equality may also increase efficiency in the long run to achieve rapid growth. More importantly, the issue is examined on an individual level in the literature. However, we focus on the transfer issue from one municipality to another, which is a more comprehensive level. The administrative costs and disincentive effects of transfer might be less severe in such a scenario. This crucial facet of the problem is the focus of our investigation [4,5].

Conclusion

The IES helps to stabilize revenues across municipalities over time by significantly reducing inequality in municipal tax revenue over time and space. It lessens the effect that changes in gross tax revenue have on municipal revenues. Welfare programs and services can continue to be provided by poorer municipalities because they are protected from having their tax revenue significantly reduced. This, in turn, helps to maintain comparable welfare standards across municipalities and stabilize the well-being of citizens in a municipality over time. As a result, the country's overall welfare rises. However, poor municipalities may find that the IES reduces their incentives to increase tax revenue and/or accommodate business development on their own, indicating that the plan involves a trade-off between equality and efficiency in general and economic efficiency in particular. Therefore it is crucial to implement measures that would increase equality while minimizing efficiency losses.

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