Income redistribution

Income inequality has a profound impact not only on individuals' and families' living conditions and their health status, but also on societies as a whole by threatening social cohesion, curbing economic growth and weakening trust in institutions. Most OECD member countries have adopted a mixture of public policies to reduce income inequality in society and its long-term effect on economic progress. These include social protection and insurance systems financed through a combination of cash transfers and progressive income taxes. They have also used specific fiscal stimulus packages to boost demand and cushion poorer households from the impact of crises such as the COVID-19 pandemic. These measures, aimed at addressing income inequality by redistributing income between rich and poor, but also between generations, could also provide support to age groups in greater need. Finally, other elements, such as wealth taxation, could also increase the effectiveness of redistributive policies (Kuypers et al., 2021).

In 2018, average income inequality among the working-age population of OECD countries, as measured by the Gini coefficient, was 0.41 before taxes and transfers, and 0.31 after government intervention in the form of taxes and transfers (on a scale where 0 represents perfect equality and 1 perfect inequality). Redistribution levels are the highest in countries with consolidated welfare states, such as Ireland (39% difference in Gini before and after taxes and transfers), Belgium (38%) and Finland (36%). At the other end of the spectrum, Chile (5%) has the lowest level of income redistribution after government intervention (Figure 13.7).

Among OECD countries with available information, the Gini coefficient after taxes and transfers remained practically unchanged between 2012 and 2018. However, the average hides significant changes in some countries. For example, inequality fell significantly in Estonia (6.5 points), Greece (3.2) and Portugal (2.8), while it increased slightly in Switzerland (1.7 points), Denmark (1.6) and Finland (1.5) (Figure 13.8).

In 2018, 11.2% of the population in OECD countries could be considered poor in terms of relative income poverty after taxes and transfers. The figures range from over 17% in the United States and Latvia to less than 6% in Iceland. Between 2012 and 2018 relative income poverty increased the most in Latvia (4.2 p.p.) Germany (2 p.p.) and the Netherlands (1.4 p.p.) while it decreased most significantly in Greece (2.8 p.p.), Portugal (2.6 p.p.) and Mexico (2.30 p.p.) (Figure 13.9).

Methodology and definitions

Data are drawn from the OECD Income Distribution Database (*oe.cd/idd*) consulted on 1 March 2021. The Gini coefficient is a standard measure of inequality representing the income distribution of the population within a given country. It takes the value of 0 when all households have identical income and 1 when one household has all the income. Redistribution of income is measured by comparing Gini coefficients for household market income (i.e. total income from market sources not adjusted for public cash transfers and household taxes) and for household disposable income (i.e. net of direct government transfers and direct taxes) of the working-age population. The poverty rate after taxes and transfers is the share of people whose income falls below the poverty line, taken to be 50% of the current median equivalised disposable income of the entire population.

Further reading

Kuypers, S., F. Figari and G. Verbist (2021), "Redistribution from a joint income-wealth perspective: Results from 16 European OECD countries", *OECD Social, Employment and Migration Working Papers*, No. 257, OECD Publishing, Paris, *https://doi.org/10.1787/22103c5e-en*.

Causa, O., J. Browne and A. Vindics (2019), "Income redistribution across OECD countries: Main findings and policy implications", *OECD Economic Policy Papers*, No. 23, OECD Publishing, Paris, *https://doi.org/10.1787/3b63e61c-en*.

OECD (2016), "Income inequality remains high in the face of weak recovery", *Income Inequality Update*, November 2016, *www.oecd.org/social/OECD2016-Income-Inequality-Update.pdf*.

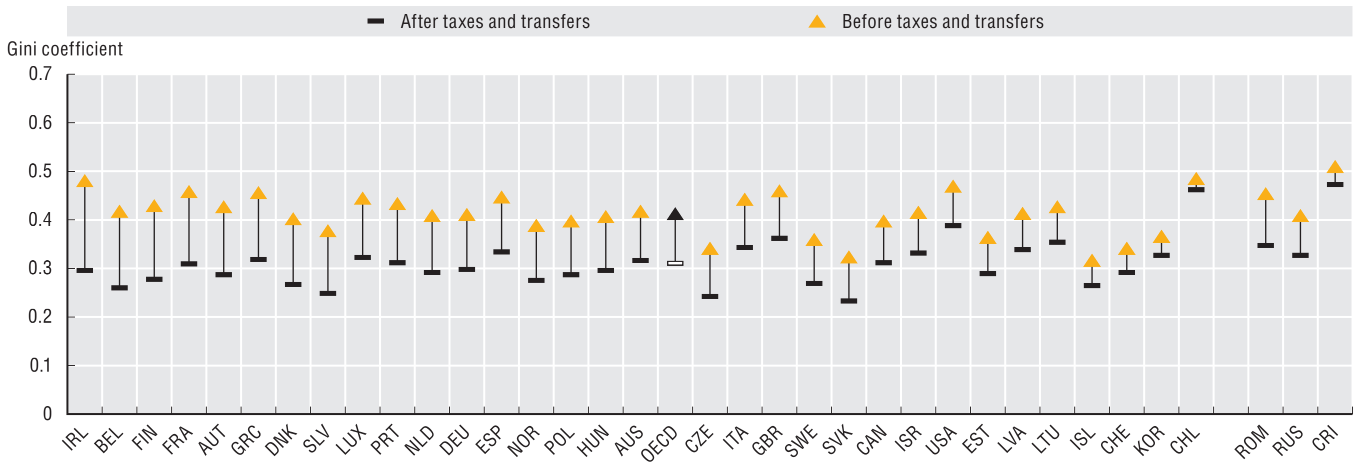
Figure notes

13.7. Countries are ranked from the highest to the lowest difference before and after taxes. All Gini coefficients are based on the 2012 new income definition and are for the working-age population, disregarding the effect of public pension schemes. Data for Chile, Denmark, Germany, Hungary, Ireland, Iceland, Switzerland and the United States are for 2017 rather than 2018. Data for the Netherlands and Russia are for 2016 rather than 2018. Data for Costa Rica are for 2019 rather than 2018.

13.8. Data for Chile, Estonia, Sweden and the United States are for 2013 rather than 2012. Data for Russia are for 2011 rather than 2012.

13.9. Data for Chile, Denmark, Germany, Hungary, Iceland, Ireland, Italy, Switzerland and the United States are for 2017 rather than 2018. Data for Mexico, the Netherlands and Romania are for 2016 rather than 2018.

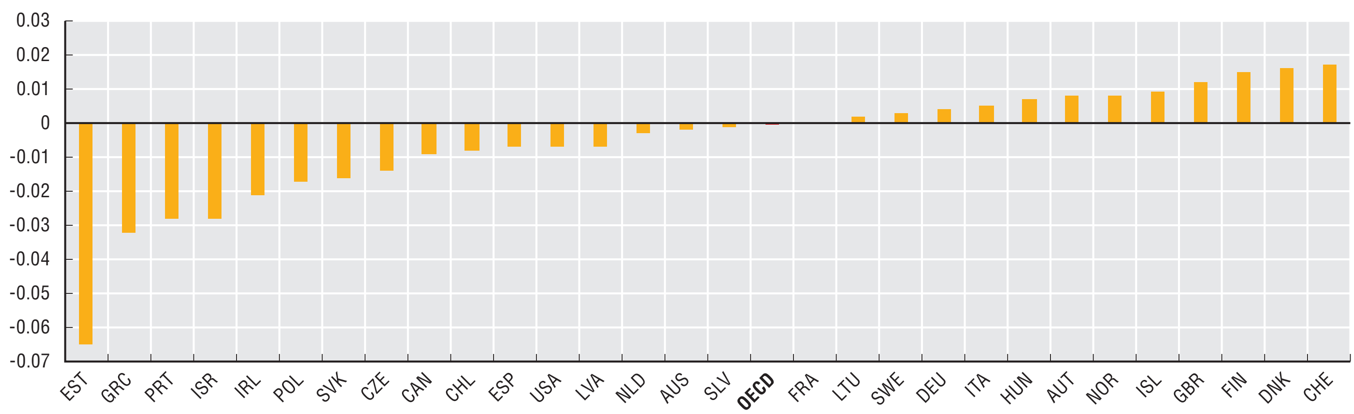
13.7. Differences in household income inequality among the working-age population pre and post-tax and government transfers, 2018



Source: *OECD Income Distribution* (database).

StatLink https://doi.org/10.1787/888934259237

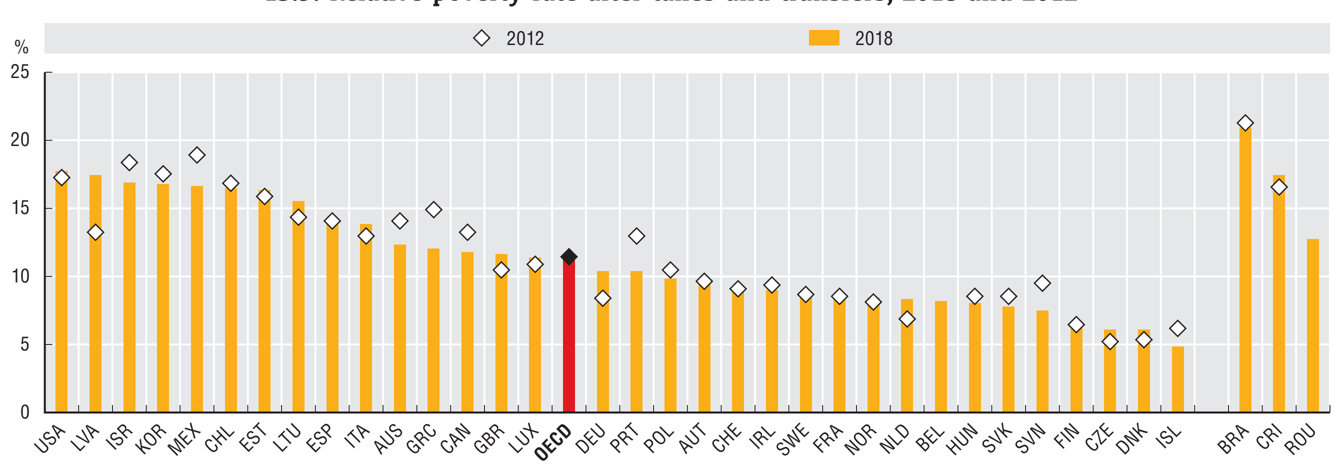
13.8. Difference after taxes and transfers in the Gini coefficient score for the working-age population, between 2012 and 2018



Source: *OECD Income Distribution* (database).

StatLink https://doi.org/10.1787/888934259256

13.9. Relative poverty rate after taxes and transfers, 2018 and 2012



Source: *OECD Income Distribution* (database).

StatLink https://doi.org/10.1787/888934259275