

11. PUBLIC SPENDING

Inequality reduction and poverty

Increases in income inequality have been associated with worsening political polarisation and disenchantment with political systems (Winkler, 2019). The global economic situation following the COVID-19 pandemic and Russia's war of aggression against Ukraine has resulted in high inflation and sharp increases in energy and food prices, which disproportionately affect low-income and vulnerable households and could have long-lasting impacts on people's wellbeing and living standards. OECD countries are implementing a range of policies to address rising prices and redistribute income between richer and poorer households, such as targeted and non-targeted cash transfers, vouchers and subsidies to households and firms, price control measures, and tax reductions (OECD, 2022). Monitoring changes in income inequality will be key to assessing the effectiveness of such measures.

Even before the current crises, reducing income inequality has been a long-standing objective of OECD countries. The average Gini coefficient of income inequality in 2019 was 0.41 before taxes and transfers (market income) and 0.31 after taxes and transfers (disposable income), where 0 represents perfect equality and 1 perfect inequality. A large difference between market and disposable income inequality implies greater government redistribution. Countries with the largest differences include Finland (0.26 points), Ireland (0.17) and Belgium (0.15). Chile (0.025), Korea (0.04) and Switzerland (0.05) have among the smallest differences (Figure 11.23).

Societies with high levels of income inequality often also have high levels of relative poverty. Income redistribution and inequality reduction measures may also reduce poverty. In 2019, across OECD countries, the relative poverty rate after taxes and transfers was around 12% of the population, although with large variations among countries. In Costa Rica, 20% of the population were below the poverty line in 2019, compared to only 5% in Iceland. Between 2012 and 2019, the relative poverty rate after taxes and transfers remained stable or fell in 70% of OECD countries. Lithuania and Germany reported the largest increases of about 3 percentage points (Figure 11.24).

Perceptions of fair treatment may affect people's demand for inequality reduction and could influence government action towards redistributive policies (Ciani, Fréget and Manfredi, 2021). On average, people in OECD countries are sceptical that public employees would treat the rich and poor equally, with only 40% believing this was likely. Denmark and the Netherlands do best on this measure, with 52% of respondents in both countries confident that this would happen (Figure 11.25).

Methodology and definitions

Data are drawn from the OECD Income Distribution Database ([oe.cd/idd](https://data.oecd.org/idd/)). The Gini coefficient is a standard measure of inequality within a given country. Income

redistribution is measured by comparing Gini coefficients for households' market income (i.e. total income from market sources) and disposable income (i.e. total income from market sources plus current government transfers and direct taxes on income and wealth taxes and social security contributions) of the working-age population (18-65 years). The relative poverty rate after taxes and transfers is the share of people whose income is below the poverty line (50% of the current median equivalised disposable income of the entire population). Trends are calculated compared to 2012, which is the first year in which the new income definition was implemented.

The OECD explores perceptions of public governance using nationally representative survey data from the OECD Trust Survey conducted across 22 countries. Most countries were surveyed in November-December 2021, with a few surveys taking place in 2020 and January-March 2022.

Further reading

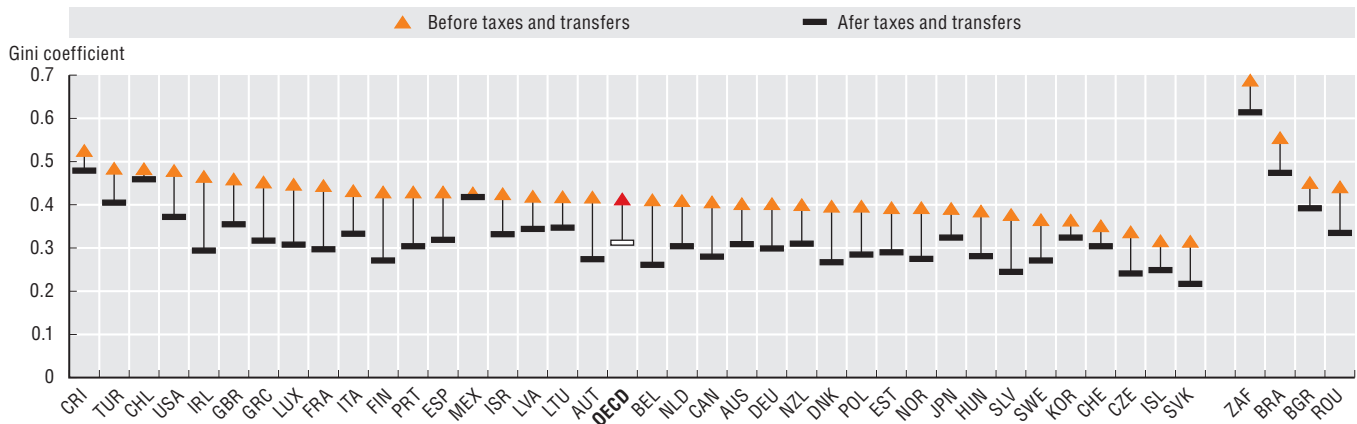
- OECD (2022), *Tax Policy Reforms 2022: OECD and Selected Partner Economies*, OECD Publishing, Paris, <https://doi.org/10.1787/067c593d-en>.
- Ciani, E., L. Fréget and T. Manfredi (2021), "Learning about inequality and demand for redistribution: A meta-analysis of in-survey informational experiments", *OECD Papers on Well-being and Inequalities*, No. 02, OECD Publishing, Paris, <https://doi.org/10.1787/8876ec48-en>.
- Winkler, H. (2019), "The effect of income inequality on political polarization: Evidence from European regions, 2002-2014", *Economics & Politics*, Vol. 31/2, pp. 137-162, <https://doi.org/10.1111/ecpo.12129>.

Figure notes

- 11.23 and 11.24. The latest data refer to 2019 for all countries except Costa Rica and the United States (2021); Australia, Canada, Latvia, Korea, Mexico, the Netherlands, New Zealand, Norway, Sweden and the United Kingdom (2020); Ireland, Italy, Japan and Poland (2018); Chile, Iceland and South Africa (2017). No data available before 2018 for Belgium and Japan or before 2015 for Luxembourg and South Africa. Earlier data for Brazil, Chile, Estonia, Sweden and the United States are from 2013.
- 11.23. Before taxes and transfers data for Mexico are post taxes but before transfers.
- 11.25. The question displayed is "If a public employee has contact with the public in the area where you live, how likely or unlikely is it that they would treat both rich and poor people equally? Likely corresponds to responses of 6-10 on a 0-10 scale, neutral to 5 and unlikely to 0-4. "OECD" presents the unweighted average across countries. Data for Finland are not available.

11.23. Differences in household income inequality pre- and post-tax and government transfers, 2019

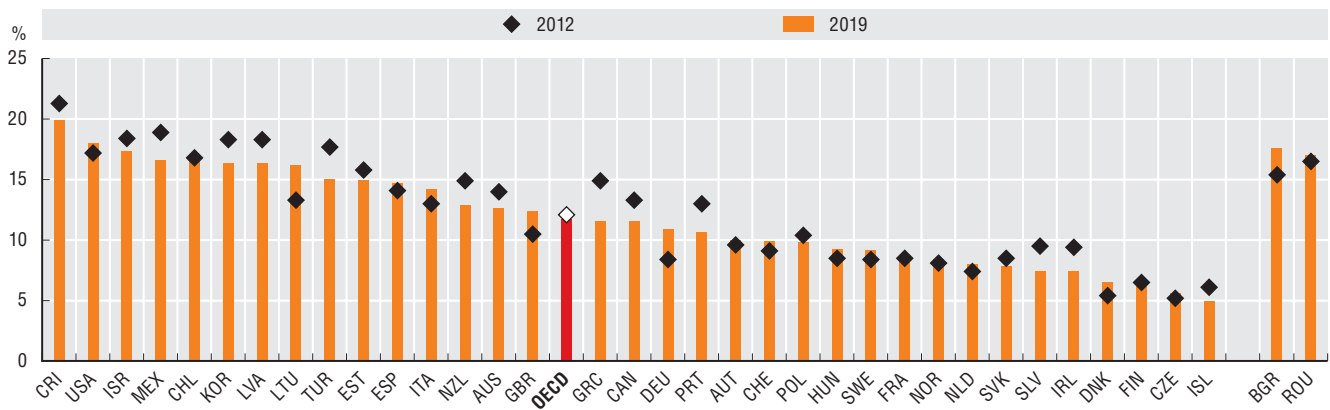
Household income inequality of the working-age population (18-65)



Source: OECD Income Distribution (database).

StatLink <https://stat.link/v14sn3>

11.24. Relative poverty rate after taxes and transfers, 2019 and 2012

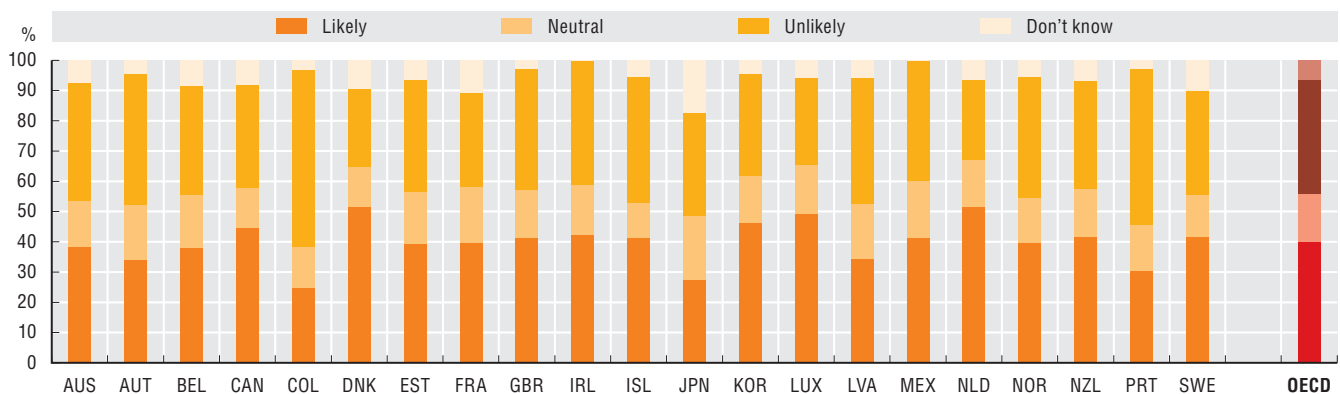


Source: OECD Income Distribution (database).

StatLink <https://stat.link/p5zjwo>

11.25. Perceptions of equal treatment of the rich and poor, 2021

Share of respondents reporting different levels of perceived likelihood that a public employee would treat both rich and poor people equally (on a 0-10 scale), 2021



Source: OECD Trust Survey (<http://oe.cd/trust>).

StatLink <https://stat.link/ei7og6>



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