Promoting stronger and more sustainable growth for all people across Spain

También disponible en español

By **Bertrand Pluyaud** and **Adolfo Rodríguez-Vargas**, OECD Economics Department

Before the COVID-19 pandemic, the Spanish economy experienced a period of sustained and more balanced economic growth, less dependent on the construction sector, and with a healthier financial system. The pandemic and Russia's war of aggression against Ukraine were successive shocks that required strong government support to protect businesses and households, as noted in the 2023 Economic Survey of Spain. Output has recovered to its pre-pandemic level, and growth has held up well since the second half of 2022 and it is expected to remain solid in 2024.

The recovery from the pandemic has been steady following the large fall of GDP in 2020

Gross Domestic Product, Volume, base 2019Q4 = 100

Spain has also introduced several major reforms to address longstanding labour market issues, promote business growth and innovation, ensure pensions' sustainability, and boost vocational education. However, structural weaknesses remain that weigh down Spain's growth potential. The 2023 Economic Survey discusses policy options to tackle these issues in four areas.

Addressing fiscal challenges

Government action was decisive for the recovery, but it was costly. Public debt, which was already high before the pandemic, has increased by 13 percent points of GDP since 2019. Sustained fiscal consolidation is required to keep debt on a downward path and to make room for ageing-related spending and growth-enhancing items, like education and green transition. This consolidation should rely on both mobilising additional revenues and on enhancing spending efficiency.

Increasing the relatively low tax intake should encompass gradually broadening the value added tax base and raising environment-related taxes, but also reducing tax avoidance and enhancing tax collection. Spending reviews should continue to be used to define growth-enhancing spending priorities, and evaluation of public policies should become the norm.

Public debt remains high

Public debt, Maastricht definition, % of GDP

Made with Flourish

Source: Eurostat.

Raising productivity

Low investment in R&D, inefficient public spending on education and training, and an insufficient stock of ICT capital have dragged down productivity growth, which in the last decade has averaged 0.6% per year compared to 0.9% for the OECD. The share of innovative companies is also comparatively low. All this weighs on potential growth, which with rapid population ageing is expected to weaken even more.

Promoting collaboration and knowledge transfer between businesses and universities, fostering entrepreneurship, reducing regulatory barriers, and improving regulation can increase innovation and business growth. Continuing with an effective implementation of the investment and reforms under the national Recovery, Transformation and Resilience Plan should remain a priority, as it can help overcome structural deficiencies and boost productivity.

Promoting opportunities for all people across Spain

Despite recent improvements, income inequalities remain significant. Poverty is high compared to the OECD, and Spain has the highest child poverty rate in Western Europe, at 22%. This makes it urgent ensuring that public assistance is sufficient and reaches those who need it more. The survey recommends improving the targeting of social benefits, particularly towards poor families with children, boosting the take-up of the minimum income guarantee, and reducing administrative burdens for users.

Young people in Spain face a challenging transition to an independent, productive, and happy adult life. The risk of poverty among them is particularly high, although it has fallen. That is why the special topic of this survey is how can Spain increase opportunities for its young.

Educational and labour market outcomes have improved, but many young people still leave the education system with low education levels or skills, and youth labour-market integration remains difficult. The share of temporary contracts has decreased after the 2021 labour market reform, but it is still high. The survey recommends training teachers to identify and assist students at risk and maintaining support for students to enrol in vocational education, including by fostering the participation of SMEs to offer places. Furthermore, to ease school-to-work transitions it encourages greater employer involvement in the design of university curricula, and improving access to financing for young entrepreneurs.

Housing is a pressing concern for many people in Spain, especially the young. To increase housing supply, the survey recommends expanding the very low stock of social rental housing and relaxing stringent rent controls.

Young people face high poverty risks

Risk of poverty or social exclusion, %

Made with Flourish

Note: OECD Europe includes European OECD countries and excludes Türkiye.
Source: INE.

Addressing environmental challenges

Spain has made progress in the fight against climate change, as environmental protection expenditure has increased and renewable energies are becoming more prevalent in the energy mix. To keep reducing its dependence on fossil fuels, Spain should accelerate the shift towards greener transportation, improve storage and grid interconnections, and continue promoting renewable energies.

A more environment-friendly tax regime is also needed, as environmental tax revenue as a share of GDP is low compared to most OECD European countries. The base for environment-related taxation can be broadened, including by phasing out exemptions and gradually increasing the tax rate on emissions, while compensating partially and temporarily the most vulnerable.

Persistent drought in some regions has lowered water availability, and intense agriculture production has affected water quality. These problems could be addressed through more efficient irrigation, reuse and recycling of waters, and a more sensible use of fertilizers.

Improving water availability and quality is urgent

Groundwater stations with poor quality standards, %

Made with Flourish

Note: Groundwater stations failing to meet the drinking water standard under the EU Nitrates Directive
Source: European Environment Agency (EEA).

Government action helped Spain to overcome two major successive shocks. Evidence-based public policies can also help to solve Spain’s longstanding structural weaknesses to increase growth and raise wellbeing for all people across Spain.

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Pathways to Prosperity: Key Reforms for a Thriving Peru

También disponible en español

By ***Paula Garda*** and ***Michael Koelle***, OECD Economics Department

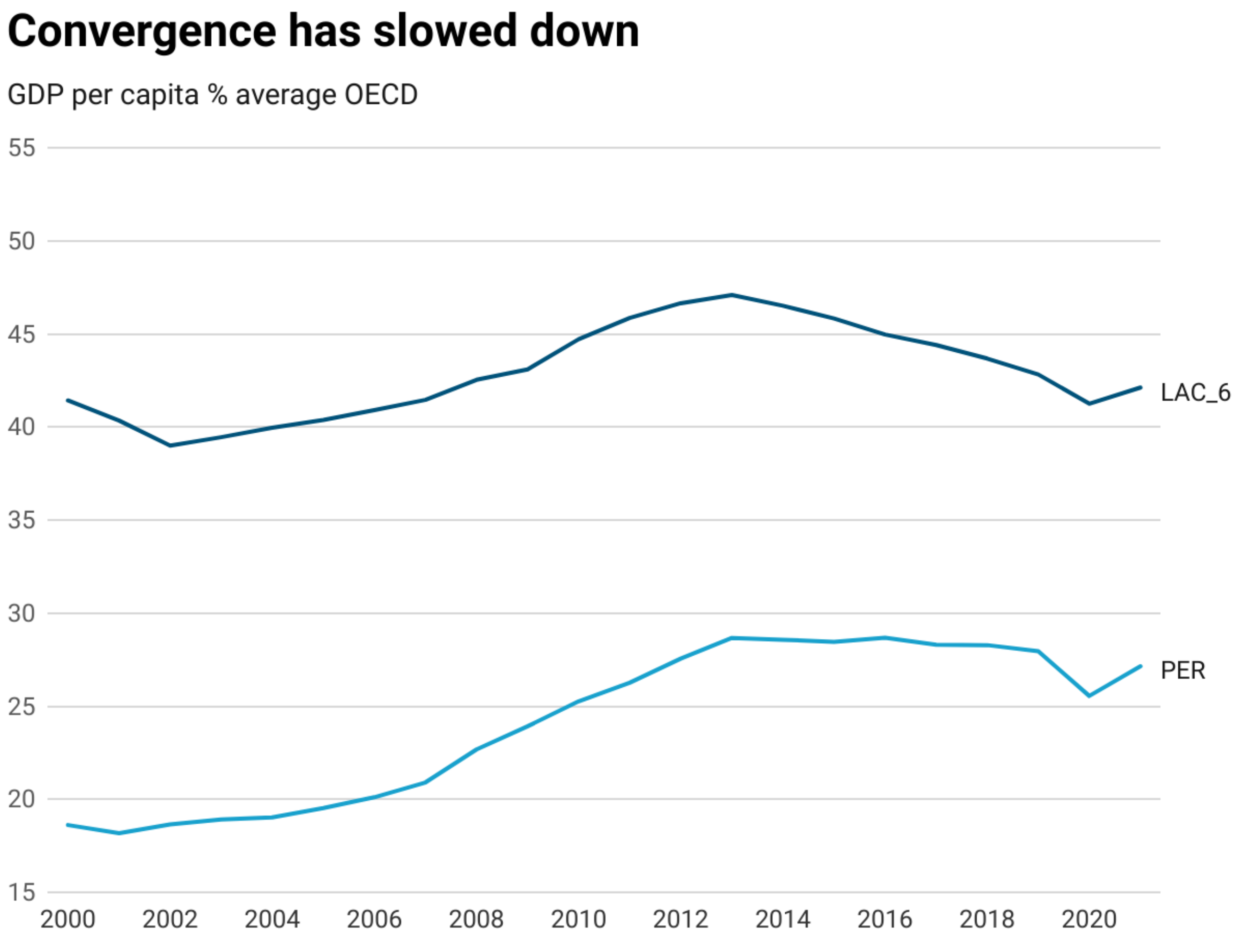
Peru has made significant strides over the past two decades in reducing poverty and improving living standards, outperforming many Latin American peer countries as highlighted in the 2023 Economic Survey of Peru. The basis for this progress was the country's robust macroeconomic framework and ambitious structural reforms implemented in 1990s. These reforms have catalysed macroeconomic stability, high economic growth, low inflation and low public debt.

The COVID-19 pandemic, however, exposed remaining challenges. Peru experienced one of the most severe economic contractions and excess mortality rates of any country. The economy bounced back in 2021, thanks to its fiscal buffers. The recovery was short-lived and a series of shocks, including Russia's war of aggression in Ukraine, social unrest and extreme weather events led to inflationary pressures and economic slowdown. The economy is projected to gradually recover with inflation returning to the target range by early 2024. However, Peru faces long-standing structural issues like a large informal sector, infrastructure gaps, and a weak rule of law. These not only magnify the impact of adverse shocks and socio-economic inequalities but also hold up Peru on its path towards better standards of living.

As Peru embarks on its journey towards OECD accession, the process represents a transformative opportunity for the country to design and implement a comprehensive reform agenda to foster convergence to higher living standards for all Peruvians. The 2023 Peru Economic Survey highlights four key priority areas of reforms:

Fostering Long-Term Growth

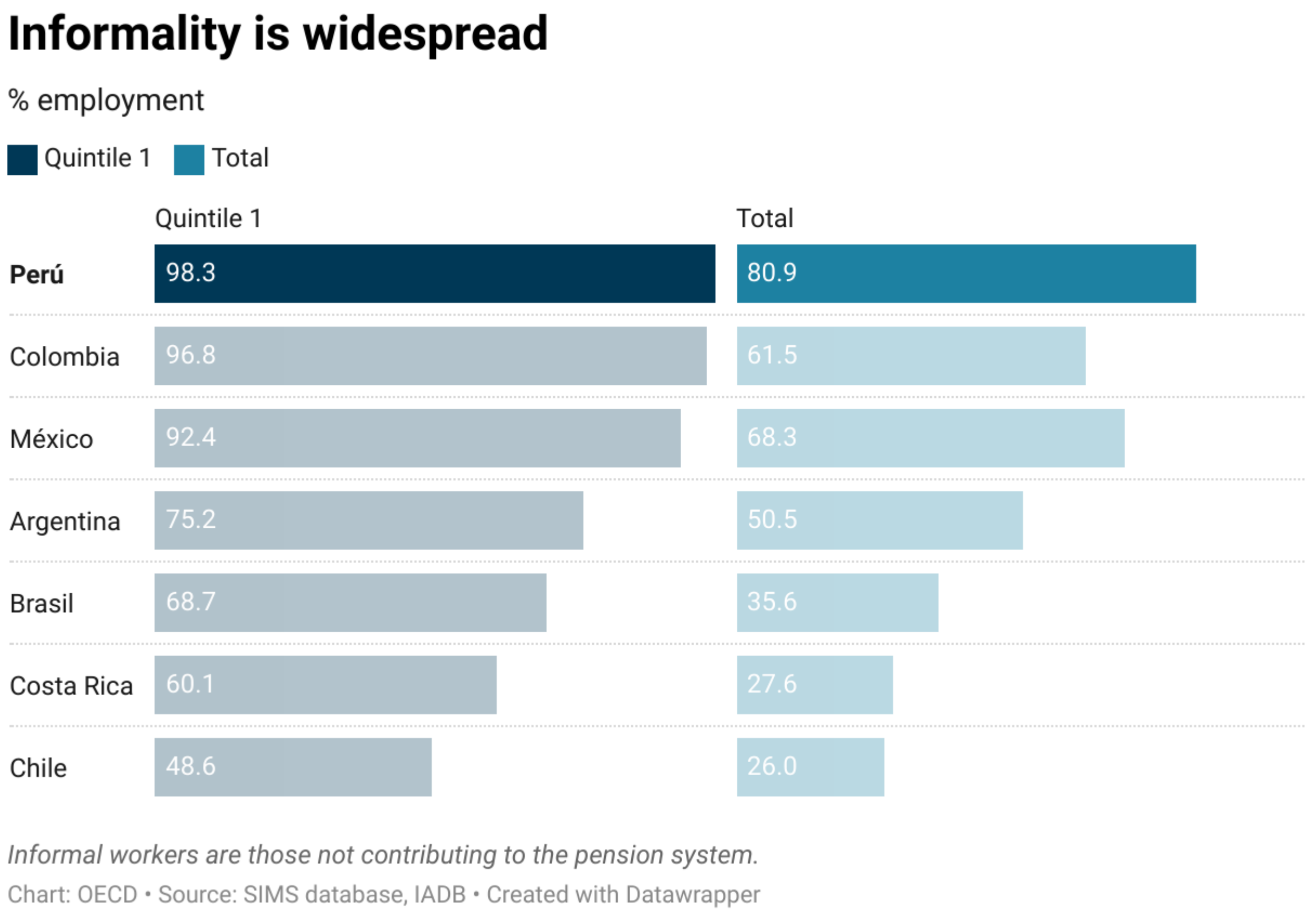
Income convergence to more advanced countries stalled in 2014 with the end of the commodity price boom, making it of utmost importance to boost productivity and investment. While commodities, particularly minerals, have fuelled past growth, there is a need to expand the economy’s productive base. High concentration of market power in a few major business groups reduces market dynamism. This calls for strengthening competition enforcement and simplifying regulations to boost productivity. Additionally, better public spending efficiency would help close infrastructure gaps and deliver essential services while boosting potential growth. This entails enhancing local government capabilities, improving infrastructure planning, and modernising the civil service to enhance overall state capacity. Strengthening the rule of law by fighting corruption and improving judicial independence and efficiency is equally important, as it not only encourages investment but also restores trust in institutions.



USD, 2017 PPPs. LAC_6 is the simple average of Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico.
Chart: OECD • Source: WDI, World Bank • Created with Datawrapper

Tackling Informality

The challenge of informality looms large in Peru, with around 80% of workers in informal jobs, without social and labour protection, and on the margin of the formal tax and benefit system. Though there is no silver bullet solution as the roots of informality are multi-dimensional, fostering formality through a comprehensive reform package is essential for reducing poverty and inequality, boosting productivity, and improving tax collection. Ensuring universal access to basic social benefits – health, pensions, and social assistance – for both formal and informal sector workers alike, could remove some distortions that incentivise informality. This requires increased social spending funded by general taxation instead of by social contributions that make formal job creation expensive incentivising informal job creation. Providing universal access to pensions and health services financed by general taxation offers the possibility of reducing social contributions for low-income workers, promoting formal employment, and boosting productivity. Improving access to high-quality education tackles another root cause of informality, low labour productivity. Closing the gap in learning outcomes, especially among disadvantaged students, requires improving teachers' training and addressing school infrastructure gaps.



Strengthening Public Finances

Peru's current tax revenues, at 17% of GDP, lag both OECD and regional peers. A key challenge for Peru is sustaining fiscal responsibility while addressing social and infrastructure needs. Addressing this gap requires a multifaceted approach: improving spending efficiency while strengthening tax administration, reducing tax expenditures, modernizing property registries, and streamlining corporate tax schemes.

Confronting Climate Change

Climate change poses another significant challenge for Peru. The country is highly vulnerable to extreme weather events and is committed to achieving carbon neutrality by 2050. To achieve this goal, the country must combat deforestation—a major contributor to greenhouse gas emissions—and accelerate the use of renewable energy sources implementing stricter regulations and consistent price signals to reduce reliance on fossil fuels, tapping the enormous potential that the country has in this area.

As Peru navigates these multifaceted challenges, its process of accession to the OECD can offer a framework for long-term reforms that address existing vulnerabilities and allow the convergence to higher living standards. This roadmap, grounded in evidence and best practices, should build on the successes of the past, such as the robust macroeconomic setup that fuelled Peru’s economic growth. Realising this transformation demands political consensus, evidence-backed policies, and collaborative efforts.

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Avanzando juntos: Reformas claves para un Perú próspero

Also available in English

Por ***Paula Garda*** y ***Michael Koelle***, Departamento de Economía de la OCDE

Perú ha logrado significativos avances en las últimas dos décadas hasta 2019 en la reducción de la pobreza y la mejora de los niveles de vida, superando a muchos países de América Latina, como se destaca en el Estudio Económico de la OCDE de Perú 2023. La base de este progreso fue un sólido marco macroeconómico y ambiciosas reformas estructurales implementadas en la década de 1990. Estas reformas han logrado darle al país estabilidad macroeconómica, alto crecimiento económico, baja inflación y una de las menores ratios de deuda pública- PIB en la región.

Sin embargo, la pandemia de COVID-19 puso de manifiesto los desafíos estructurales pendientes. Perú experimentó una de las contracciones económicas y tasas de mortalidad más altas de todos los países. La economía se recuperó en 2021, gracias a los existentes amortiguadores fiscales. Pero la recuperación fue transitoria y una serie de shocks, como la guerra de agresión de Rusia en Ucrania, conflictos sociales y el fenómeno del Niño, provocaron presiones inflacionistas y una ralentización económica. Se prevé que la economía se recupere gradualmente y que la inflación vuelva al rango objetivo a principios de 2024. Sin embargo, Perú se enfrenta a problemas estructurales de larga data, como una alta proporción de empleos informales, amplias brechas en infraestructuras básicas y un débil Estado de Derecho. Estos problemas no sólo magnifican el impacto de *shocks* adversos y las desigualdades socioeconómicas, sino que también frenan a Perú en su camino hacia mejores niveles de vida.

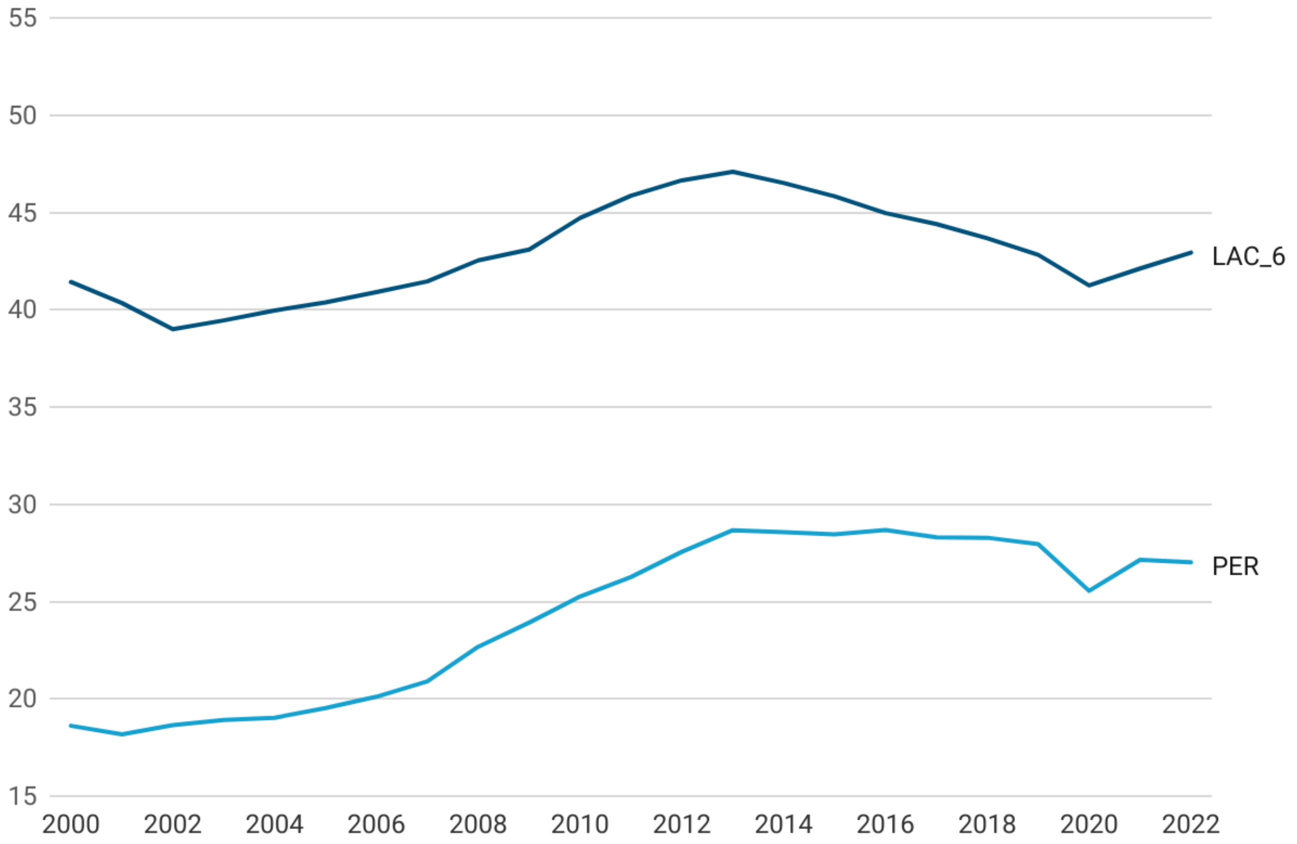
A medida que el Perú se embarca en su viaje hacia la adhesión a la OCDE, el proceso representa una oportunidad transformadora para que el país diseñe e implemente una agenda integral de reformas para fomentar la convergencia hacia mejores niveles de vida para todos los peruanos. El Estudio Económico del Perú 2023 destaca cuatro áreas prioritarias de reformas:

Fomentar el crecimiento de largo plazo

La convergencia de ingresos hacia los países más avanzados se estancó en 2014 con el fin del auge de los precios de las materias primas, por lo que es de suma importancia impulsar la productividad y la inversión. Aunque las materias primas, en particular los minerales, han impulsado el crecimiento en el pasado, es necesario ampliar la base productiva de la economía. La elevada concentración del poder de mercado en unos pocos grandes grupos empresariales reduce el dinamismo del mercado. Esto exige reforzar la aplicación de las leyes de competencia y simplificar las regulaciones y licencias para impulsar la productividad. Además, una mayor eficiencia del gasto público ayudaría a cerrar las brechas en infraestructuras y a prestar servicios públicos esenciales, impulsando al mismo tiempo el crecimiento potencial. Ello implica reforzar las capacidades de los gobiernos subnacionales, mejorar la planificación de las infraestructuras y modernizar el servicio civil para aumentar la capacidad de implementación del Estado. El fortalecimiento del Estado de Derecho mediante la lucha contra la corrupción y la mejora de la independencia y la eficiencia del sistema judicial es igualmente importante, ya que no sólo fomenta la inversión, sino que también puede restablecer la confianza en las instituciones.

La convergencia de ingresos se ha ralentizado

PIB per cápita como % del promedio de la OCDE

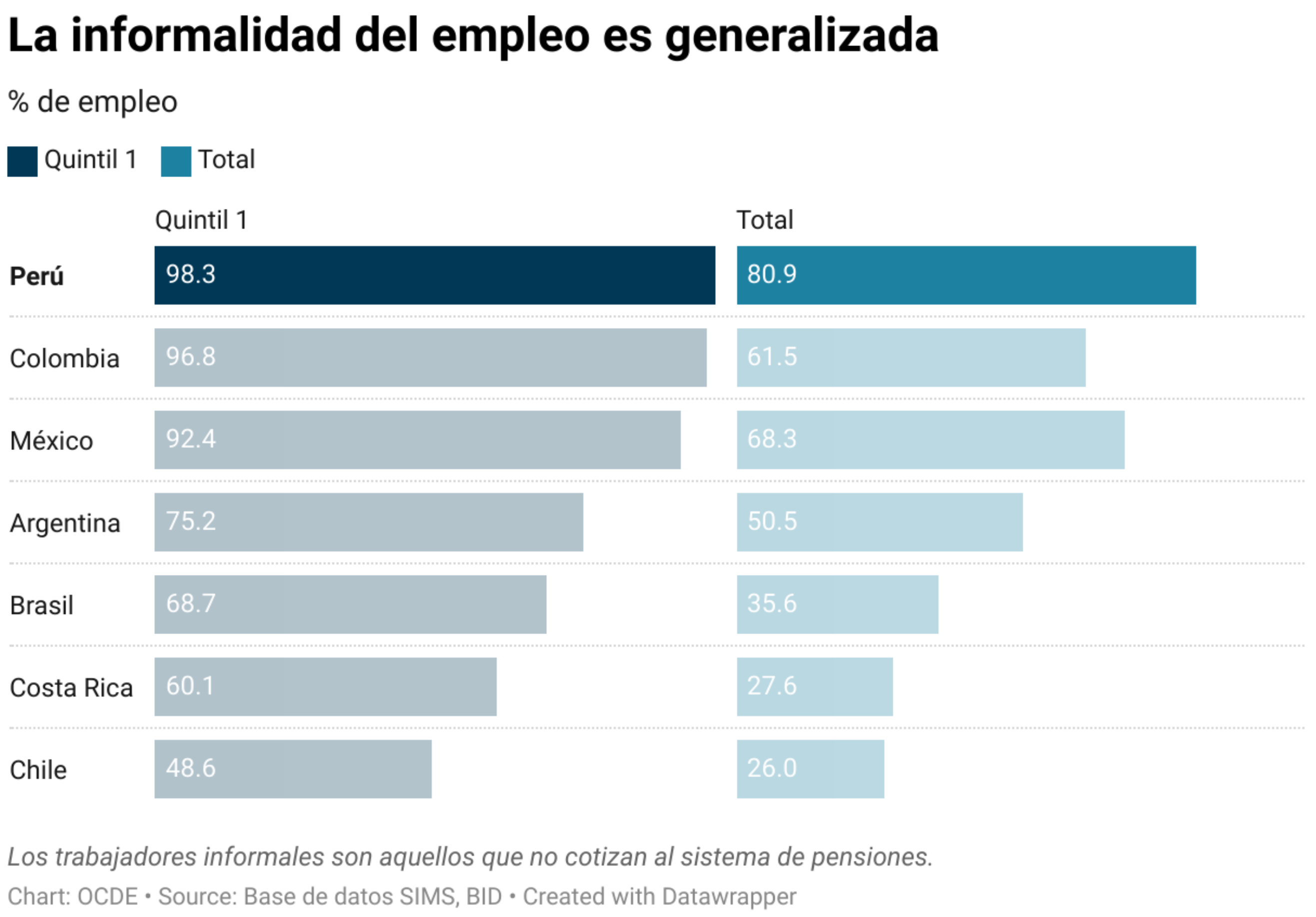


USD, PPA de 2017. LAC_6 es la media simple de Argentina, Brasil, Chile, Colombia, Costa Rica y México.

Chart: OCDE • Source: WDI, Banco Mundial • Created with Datawrapper

Luchar contra la informalidad

La informalidad representa un gran desafío para Perú, con cerca del 80% de los trabajadores en empleos informales, sin protección social o laboral, y al margen del sistema formal de impuestos y transferencias. Aunque no existe una solución milagrosa, ya que las raíces de la informalidad son multidimensionales, fomentar la formalidad a través de un paquete integral de reformas es esencial para reducir la pobreza y las desigualdades, impulsar la productividad y mejorar la recaudación tributaria. Garantizar un acceso universal a unos servicios básicos de protección social – en salud, pensiones y asistencia social – tanto para los trabajadores formales como informales, podría eliminar algunas distorsiones que incentivan la informalidad. Para ello es necesario aumentar el gasto social financiado con impuestos generales en lugar de con contribuciones sociales que encarecen la creación de empleo formal incentivando así la creación de empleo informal. Proporcionar un acceso universal a las pensiones y a los servicios de salud financiados por impuestos generales ofrece la posibilidad de reducir las contribuciones sociales de los trabajadores de bajos ingresos, promoviendo el empleo formal e impulsando la productividad. Mejorar el acceso a una educación de alta calidad aborda otra de las causas fundamentales de la informalidad, la baja productividad laboral. Cerrar la brecha en los resultados de aprendizaje, especialmente entre los estudiantes desfavorecidos, requiere mejorar la formación de los maestros y abordar las deficiencias de las infraestructuras escolares.



Fortalecer las finanzas públicas

Los ingresos tributarios del Perú, del 17% del PIB, son inferiores a los de sus pares de la OCDE y de la región. Un reto clave para Perú es mantener la responsabilidad fiscal al tiempo que se abordan las necesidades sociales y de infraestructura. Enfrentar este desafío requiere un enfoque multidimensional: mejorar la eficiencia del gasto público al tiempo que se refuerza la administración tributaria, se reducen los gastos tributarios, se moderniza el catastro y se racionalizan y simplifican los regímenes del impuesto a la renta de sociedades.

Afrontar el cambio climático

El cambio climático plantea otro desafío importante para Perú. El país es muy vulnerable a los fenómenos meteorológicos extremos y se ha comprometido a alcanzar la neutralidad de carbono para 2050. Para lograr este objetivo, el país debe combatir la deforestación -un importante contribuyente a las emisiones de gases de efecto invernadero- y acelerar el uso de fuentes de energía renovables aplicando regulaciones más estrictas y señales de precios coherentes para reducir la dependencia de los combustibles fósiles, aprovechando el enorme potencial que el país tiene en energías renovables.

Mientras Perú navega por estos desafíos multidimensionales, el proceso de adhesión a la OCDE puede ofrecer un marco para reformas que aborden las vulnerabilidades existentes y permitan la convergencia hacia niveles de vida más altos para todos los peruanos. Esta hoja de ruta, basada en evidencia y buenas prácticas, debería aprovechar lo que ha funcionado bien, como el sólido marco macroeconómica que ha impulsado el crecimiento económico de Perú. Llevar a cabo esta transformación exige consenso político, políticas basadas en evidencia y esfuerzos de todos los peruanos.

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Chile: How can growth be made more inclusive?

Improve productivity, social protection and raise more revenues for a sustainable recovery.

International corporate tax reform could support global tax revenues

By David Bradbury, Tibor Hanappi, Pierce O'Reilly, Ana Cinta Gonzalez (OECD Centre for Tax Policy and Administration), Asa Johansson, Stéphane Sorbe, Valentine Millot, Sébastien Turban (OECD Economics Department)

Recent economic analysis suggests that a proposed solution to the tax challenges arising from the digitalisation of the economy under negotiation at the OECD would have a significant positive impact on global tax revenues.

The analysis puts the combined effect of the two-pillar solution under discussion at up to 4% of global corporate income tax (CIT) revenues, or USD 100 billion annually. The revenue gains are broadly similar across high, middle and low-income economies, as a share of corporate tax revenues.

The analysis was released just weeks after the international community reaffirmed its commitment to reach a consensus-based long-term solution to the tax challenges arising from the digitalisation of the economy, and to continue working toward an agreement by the end of 2020, according to a Statement by the OECD/G20 Inclusive Framework on BEPS.

The Inclusive Framework on BEPS, which brings together 137 countries and jurisdictions on an equal footing for multilateral negotiation of international tax rules, decided during its January 29-30 meeting to move ahead with a two-pillar negotiation to address the tax challenges of digitalisation.

Participants agreed to pursue the negotiation of new rules on where tax should be paid ("nexus" rules) and on what portion of profits they should be taxed ("profit allocation" rules), on the basis of a "Unified Approach" under Pillar One. The aim is to ensure that multinational enterprises (MNEs) conducting sustained and significant business in places where they may not have a physical presence can be taxed in such jurisdictions. They also decided to continue discussions on Pillar Two, which aims to address remaining base erosion and profit shifting (BEPS) issues and ensure that international businesses pay a minimum level of tax.

The economic analysis and impact assessment of the Pillar One and Pillar Two proposals is being undertaken to inform key decisions on the design and parameters of the tax reform to be agreed by Inclusive Framework members as part of the negotiations underway at the OECD. The analysis covers data from more than 200 jurisdictions, including all members of the Inclusive Framework, and more than 27,000 MNE groups. Assumptions in the preliminary analysis are illustrative, and do not pre-judge decisions to be taken by the Inclusive Framework.

The analysis shows that the Pillar One reform – designed to re-allocate some taxing rights to market jurisdictions, regardless of physical presence – would also bring a small tax revenue gain for most jurisdictions. Under Pillar One, low and middle-income economies are expected to gain relatively more revenue than advanced economies, with investment hubs experiencing some loss in tax revenues. More than half of the profit re-allocated would come from 100 large MNE groups.

The analysis shows that Pillar Two could raise a significant amount of additional tax revenues. By reducing the tax rate differentials between jurisdictions, the reform is expected to lead to a significant reduction in profit shifting by MNEs. This will be important for developing economies as they tend to be more adversely affected by profit shifting than high-income economies.

The overall direct effect on investment costs is expected to be small in most countries, as the reforms target firms with high levels of profitability and low effective tax rates. The reforms would also reduce the influence of corporate taxes on investment location decisions. In addition, failure to reach a consensus-based solution would likely lead to further unilateral measures and greater uncertainty.

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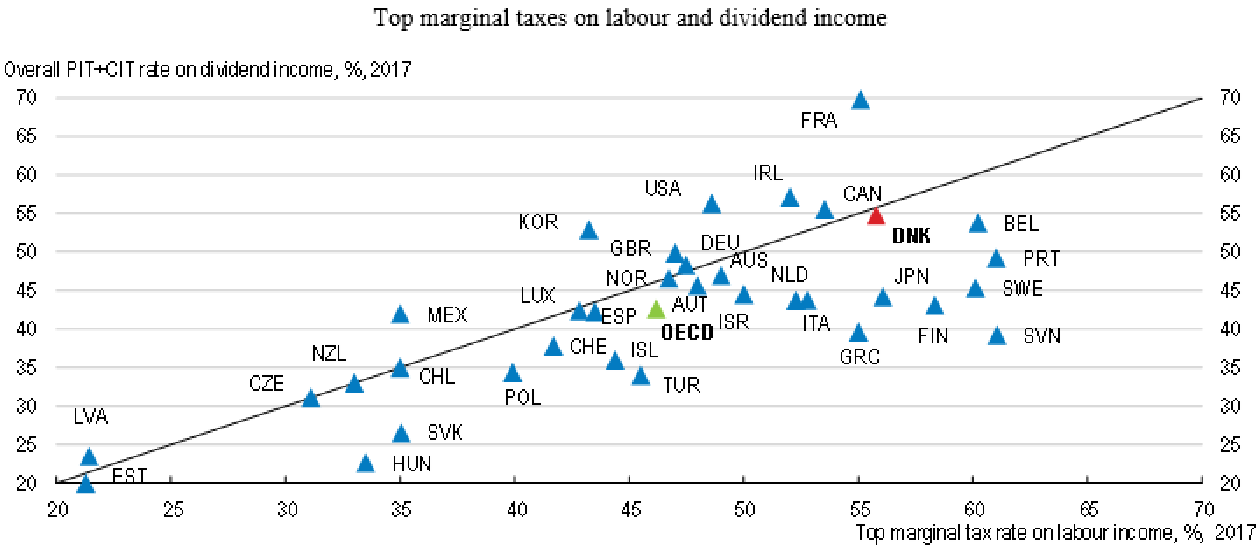
Does Denmark need yet another tax reform?

By Mikkel Hermansen and Valentine Millot, OECD Economics Department

The answer is yes according to the recent *OECD Economic Survey of Denmark*. The ratio of tax revenue to GDP in Denmark is 46%, very close to the highest country (France: 46.2%) and well above the OECD average (34.2%). Past reforms have made considerable progress in shifting taxation away from labour income to other sources such as environmental taxes. Nevertheless, Denmark should continue to reform taxes so as to promote investment in innovation, higher education and entrepreneurship, which would help to revive Denmark's slow productivity growth.

High marginal tax rates on labour and capital income are particularly harmful for productivity and should be kept at reasonable levels. At 55% these rates are among the highest in OECD countries (Figure 1). For corporate income taxation, it is recommended to introduce an allowance for corporate equity (ACE), as done in Belgium, Italy and Portugal. This would reduce the incentive to finance investment by debt, rather than equity, and would help to boost labour productivity and wages. It is also recommended to cancel the lower inheritance taxation for family-owned businesses. Evidence suggests that this is detrimental to productivity since the family successor tend to underperform compared to non-family managers.

Figure 1. Top marginal taxes are among the highest in OECD countries

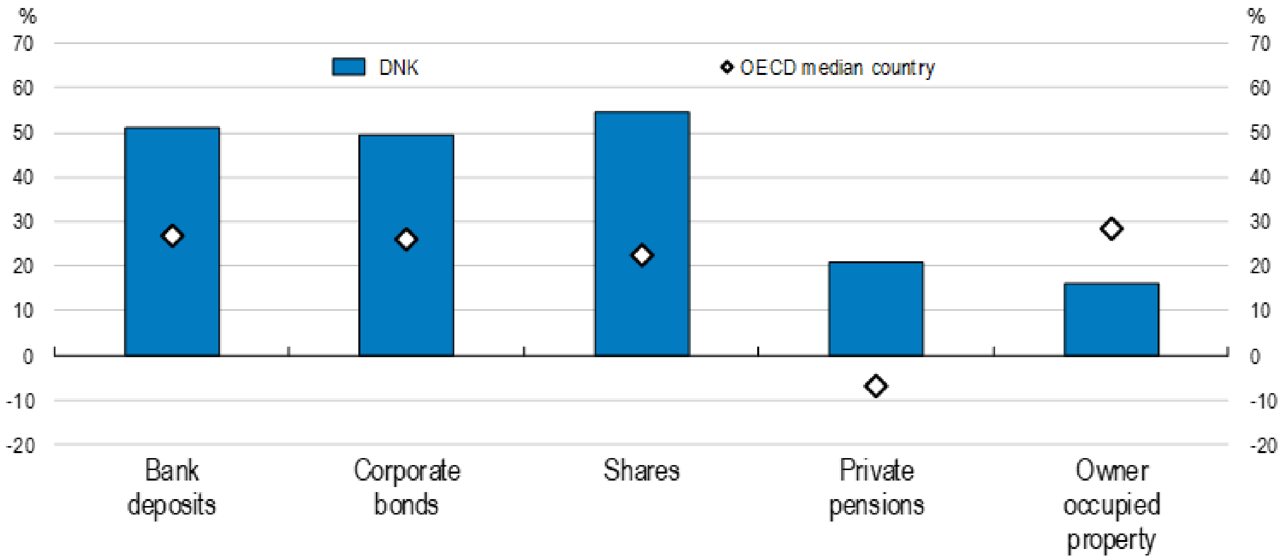


Source: OECD Tax database.

Another key reform would be to reduce the personal income tax deduction of interest expenses. Denmark has one of the most generous tax incentives for interest expenses in the OECD (OECD, 2018). It is not surprising therefore, that Danish households hold the highest gross debt to income ratio in OECD countries, which poses risks to financial stability in case of sharp rise of interest rates. By contrast, personal investment in more productive assets, such as company shares, is discouraged by the tax system (Figure 2). With interest rates at historically low levels, now would be a good time to reform.

Figure 2. Taxation of household capital income is high but favours owner-occupied housing

Marginal effective tax rates across asset types for average taxpayer, 2016



Source: OECD (2018), *Taxation of household savings*.

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Income redistribution across OECD countries: main findings and policy implications

By Orsetta Causa, OECD Economics Directorate, and Anna Vindics and James Browne, OECD Directorate for Employment, Labour and Social Affairs

Income inequality has increased in most OECD countries over the past two decades. This is both because market incomes (wages, dividends, interest income) have become more unequally distributed, and also because redistribution through taxes and transfers has fallen. New OECD work explores cross-country evidence on trends in income redistribution since the mid-1990s to shed some light on the main drivers of the general decline.

New evidence on redistribution and its policy drivers

One finding is that the decline in redistribution was primarily explained by a fall in **cash transfers**, which in the majority of OECD countries account for the bulk of redistribution (Causa and Hermansen, 2017). In turn, the decline in cash transfers was largely driven by a fall in **insurance transfers** (e.g. unemployment insurance, work-related sickness and disability benefits). In some countries, this was partly mitigated by an increase in **assistance transfers** (e.g. minimum income transfers, means- or income-tested social safety net). **Personal income taxes** also contributed, but played a less important and more heterogeneous role.

To shed light on the underlying drivers, further investigation has been conducted on the basis of both micro-model simulation analysis (Browne and Immervoll, 2019) and regression analysis (Causa et al 2018). The main finding is that *policy changes during the past two decades have contributed markedly to the decline in redistribution*. This was primarily driven by cuts to cash **income support to unemployed households**, but also by cuts to the **taxation of top incomes** and **income from capital**, as globalisation puts pressure on governments to shift away from highly mobile tax bases. *At the same time, not all policy changes went in the direction of reducing redistribution*: at lower earnings levels, income taxes have frequently been reduced for low-income working families.

This is not to say that changes in redistribution were entirely the result of changes in policy design. In several countries, structural factors such as population ageing and changes in the composition of households and unemployment rates have also had an impact. For instance, the extent of redistribution through unemployment insurance transfers fell in countries experiencing a decline in unemployment over the period under consideration. However, the precise contribution of each of these structural factors to the general decline in redistribution is difficult to assess as their impact cannot easily be disentangled from that of policy changes.

The motivation for the decline in redistribution after the mid-1990s

One objective behind the policy-induced reduction in redistribution has been to raise employment and economic efficiency in particular by strengthening work incentives (make-work-pay policies). In principle, the pursuit of policies to bring more individuals into the job market, especially among low-income households, might have succeeded in boosting growth while at the same time reducing income inequality. In

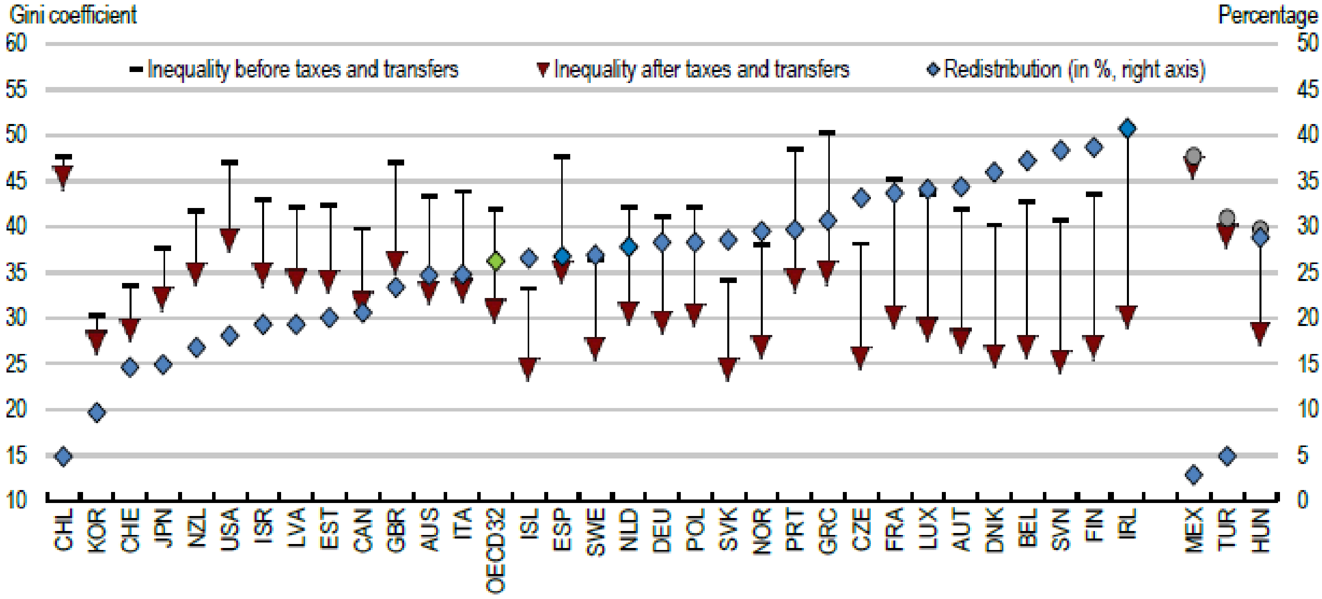
practice, the
continued rise in inequality observed in many countries since the mid-1990s suggests
that the positive employment effects of the tax and transfer policy reforms on
the income of poorer households have not been sufficient to compensate for the
reduction in redistribution.

Does this mean that in setting their redistribution policies government inevitably have to choose between more efficiency and less inequality? Not necessarily.

First, there is substantial variation in the extent of inequality reduction through taxes and transfers across the OECD area (Figure 1), including between countries that have similar GDP per capita and overall growth performance. Second, cross-country differences in income redistribution do not only reflect the levels of taxes and spending on cash transfers to the working-age population. They also reflect the extent to which personal income taxes are levied progressively with income levels and the extent to which cash transfers target less affluent households (Figure 2).

Figure 1. The equalising effect of taxes and transfers varies widely across OECD countries, even for similar levels of inequality before taxes and transfers

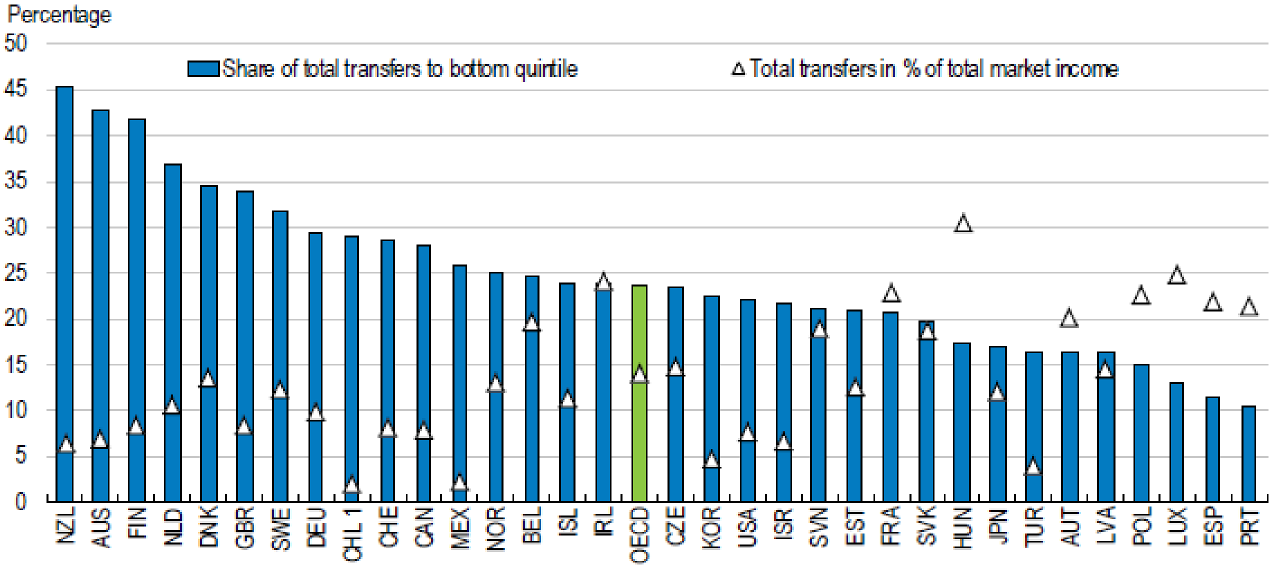
Gini coefficients, working-age population, 2014 or latest available year



Note: The Gini index measures the extent to which the distribution of incomes among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. Redistribution is measured by the difference between the Gini coefficient before personal income taxes and transfers (market incomes) and the Gini coefficient after taxes and transfers (disposable incomes) in per cent of the Gini coefficient before taxes and transfers. For Hungary, Mexico and Turkey household incomes are only available net of personal income taxes, implying that inequality can only be measured after taxes and before transfers. The three countries are not included in the OECD average. Working-age populations include all individuals aged 18-65. Data refer to 2012 for Japan; 2015 for Chile, Finland, Israel, Korea, the Netherlands, the United Kingdom and the United States; and 2014 for the rest.
Source: OECD Income Distribution Database.

Figure 2. Targeting of cash transfers to low-income households differs across OECD countries

Working-age population, 2014 or latest available year



[1]Armed forces pension and older pension system not included. Data specially provided by Chilean statistical sources.
Note: Data refer to 2012 for Japan; 2015 for Chile, Finland, Israel, Korea, the Netherlands, the United Kingdom and the United States; and 2014 for the rest.
Source: OECD Income Distribution Database.

All this suggests that many OECD countries have scope for making their tax and transfer systems more redistributive

without undermining efficiency. However, simply reversing the changes that have led to reduced redistribution is unlikely to be the most effective approach to reducing inequality.

Leveraging synergies between equity and efficiency objectives

Countries can learn from successful reform strategies that have
leveraged synergies between equity and efficiency objectives. *Such is the case of stepping-up carefully
designed in-work benefits and credits*: these programmes should be as simple
as possible to make them accessible to potential recipients, and associated income
support should not be withdrawn too quickly as earnings rise to ensure that
work incentives are maintained.

More generally, tax and transfer reforms should be forward-looking, taking into account the rapidly changing context in which policy operates, not least technological developments, changes in the nature of work as well as ageing populations and the associated pressures on government budgets. For example:

- *Social protection systems should adapt to the emergence of non-standard forms of work*. Technological change, among other factors, has led to an increase in non-standard form of work and reduced the coverage of traditional social protection systems that are often based on the model of full-time permanent work for a single employer. Alternative approaches might include designing new, tailor-made benefit schemes for non-standard workers, tying social protection entitlements to individuals rather than employment relationships or making social protection more universal.
- *Tax policy also needs to reflect rising top incomes and*

private wealth among ageing populations along with ongoing progress in international cooperation on taxation. Although top earners are very responsive to changes in income tax rates, broadening tax bases and improving compliance might be a way to increase the tax collected from this group by limiting the scope for avoidance. The equity and efficiency case for increasing the overall progressivity of tax systems is supported by recent initiatives to enhance international cooperation in tax administration (e.g. automatic information exchange).

Finally, *taxes and cash transfers are not the only policies that reduce inequality in OECD countries.* A comprehensive strategy for tackling inequality requires policies that promote greater equality in market incomes (i.e. incomes before taxes and transfers), such as providing access to high-quality educational opportunities from early childhood to adult training, healthcare and jobs, especially to those facing disadvantages.

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