

PUBLIC BENEFITS, TAXES AND INCOME POVERTY

The role of cash benefits and household taxes is particularly important for reducing poverty. Although the primary goal of most social programmes is not explicitly to reduce poverty, all tax/transfer systems do redistribute income towards lower income households. A critical question relates to the impact of benefits and transfers on poverty risks of particular population groups and how this impact has changed over time.

Definition

Poverty rates are headcounts of how many people, within a country or a specific population group, fall below the poverty line, in percentage of the total number of people. The poverty line used here is 50% of the median household disposable income, adjusted for household size. Children are persons with less than 18 years of age, working-age people are persons between age 18 and 65, retirement-age people are persons aged 66 and over. The poverty rate of single-parents refers to all persons living in a household with one adult and at least one child.

The poverty-reducing effect of benefits and transfers is measured as the difference between poverty rates based on disposable incomes and those based on market income. For both measures, the poverty threshold is 50% of household disposable income. Because of this definition, the effect of public cash benefits and household taxes in reducing income poverty reflects both their size and the extent to which these are targeted to the poor.

Income is defined as household disposable income in a particular year. It consists of earnings, self-employment and capital income and public cash transfers; income taxes and social security contributions paid by households are deducted. The income of the household is attributed to each

of its members, with an adjustment to reflect differences in needs for households of different sizes (i.e. the needs of a household composed of four people are assumed to be twice as large as those of a person living alone).

Comparability

Data used here were provided by national experts applying common methodologies and standardised definitions. In many cases, experts have made several adjustments to their source data to conform to standardized definitions. While this approach improves comparability, full standardisation cannot be achieved. Also, small differences between periods and across countries are usually not significant.

The size and definition of public benefits and household taxes used here may differ from that available from other administrative data, and this will influence cross-country comparisons. Small differences between periods and across countries are usually not significant. Exact years for each country are provided under the section on “Measures of income inequality”.

Overview

In all OECD countries, public cash benefits and household taxes significantly reduce poverty. The reduction ranges from less than 10 points in Korea, Switzerland and the United States to more than 23 points in Belgium and France. The percentage reduction in poverty headcounts due to household taxes and public cash transfers is about 60% on average and ranges from 12% in Korea to 80% in Sweden.

The reduction of poverty achieved through taxes and transfers differs significantly across population groups and over time. Because of the importance of public pensions, the effect is much greater for people of retirement age, ranging between 80% and 100% in most countries. The effect is smaller for people of working age and, even smaller, for children. The impact of taxes and transfers in reducing poverty among children and people of working age has declined over time in most OECD countries.

Source

- OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, Paris.

Further information

Analytical publications

- OECD (2007), *Benefits and Wages: OECD Indicators*, OECD, Paris.
- OECD (2005), *Extending Opportunities: How Active Social Policy Can Benefit Us All*, OECD, Paris.
- Smeeding, T. and L. Rainwater (2000), *United States Poverty in a Cross-National Context*, LIS Working Paper No. 244, Luxembourg.

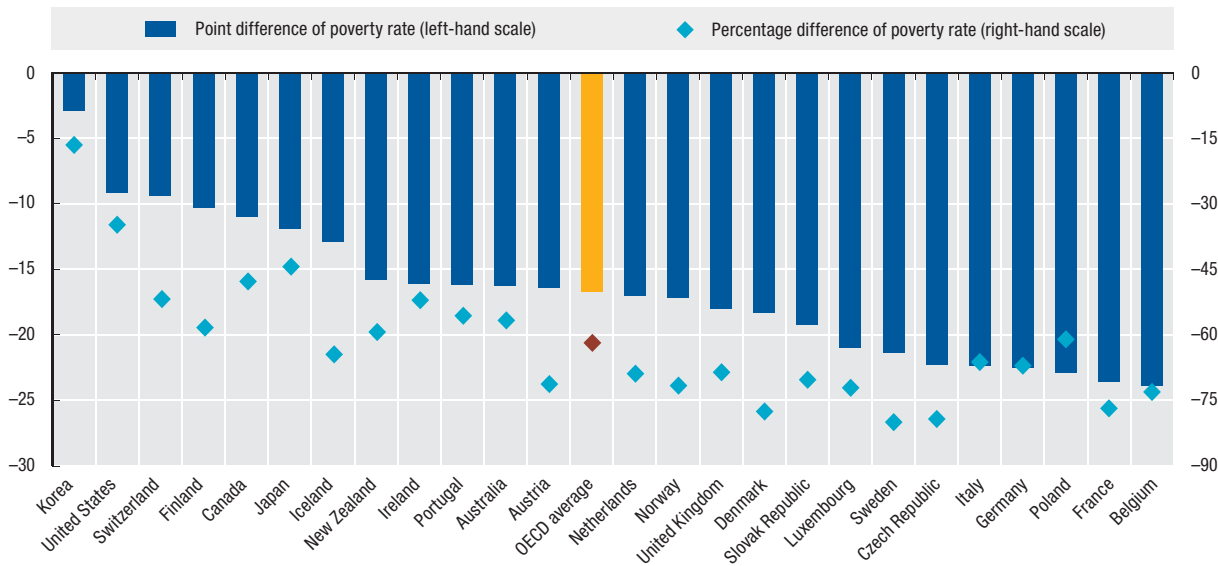
Websites

- OECD Social and Welfare Statistics, www.oecd.org/statistics/social.
- OECD work on income distribution and poverty, www.oecd.org/els/social/inequality.

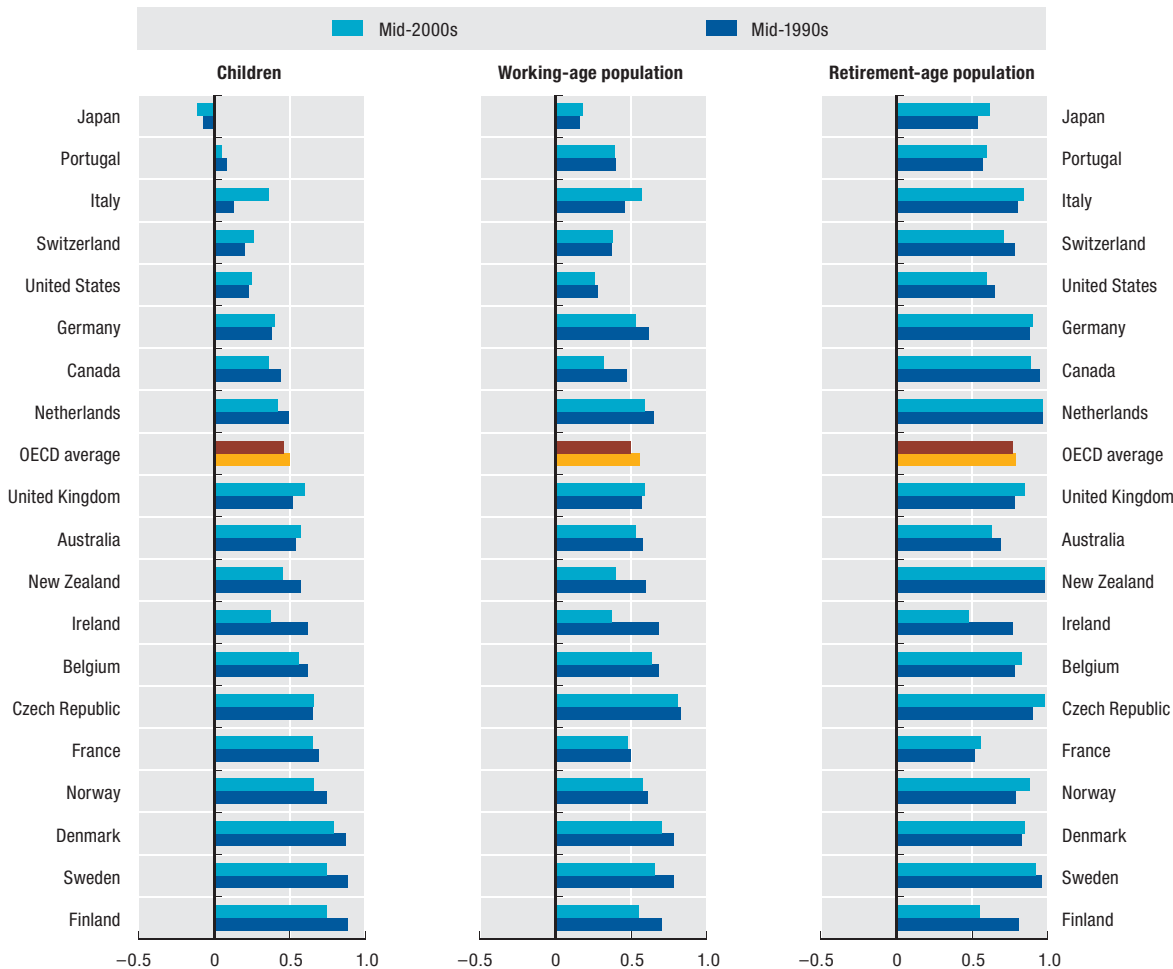


Effects of taxes and transfers in reducing poverty among the entire population

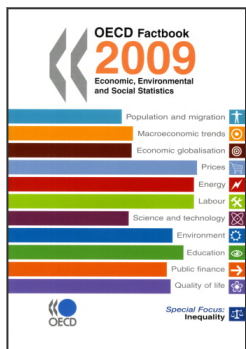
Mid-2000s



Effects of taxes and transfers in reducing poverty among children, adults and the elderly



StatLink <http://dx.doi.org/10.1787/540136147634>



From:
OECD Factbook 2009
Economic, Environmental and Social Statistics

Access the complete publication at:
<https://doi.org/10.1787/factbook-2009-en>

Please cite this chapter as:

OECD (2009), “Public benefits, taxes and income poverty”, in *OECD Factbook 2009: Economic, Environmental and Social Statistics*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/factbook-2009-103-en>

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

You can copy, download or print OECD content for your own use, and you can include excerpts from OECD publications, databases and multimedia products in your own documents, presentations, blogs, websites and teaching materials, provided that suitable acknowledgment of OECD as source and copyright owner is given. All requests for public or commercial use and translation rights should be submitted to rights@oecd.org. Requests for permission to photocopy portions of this material for public or commercial use shall be addressed directly to the Copyright Clearance Center (CCC) at info@copyright.com or the Centre français d'exploitation du droit de copie (CFC) at contact@cfcopies.com.