

Mainstreaming equality into fiscal policy

Distributional analysis in finance ministries

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Private roundtable

Our recent report on [fiscal policy and income inequality](#) highlighted the importance of considering tax and spending policy together and adopting a ‘whole-of-government’ approach to tackling income inequalities and poverty.

However, it is not clear what a ‘whole-of-government’ approach would look like, or how feasible it would be to implement. Despite the growing interest in tools like [microsimulation models](#) and processes like [gender budgeting](#), we know little about the factors that enable or constrain governments to mainstream equity into policy-making.

Can we learn from the practices in higher-income countries and identify concrete lessons and opportunities for lower-income countries? With this aim in mind, ODI is holding a series of events to gather the experience and knowledge of practitioners, researchers and stakeholders at the national and international levels. One of the first events in the series was held in February 2023 and drew on the use of microsimulation models in government and recent trends in adopting ‘wellbeing budgeting’.

This roundtable convened current and former finance ministry officials from different countries to understand how the function of distributional analysis was organised in different countries and how it influenced fiscal policy decisions in finance ministries.

Nearly 50 practitioners, researchers and advisors joined the discussion to explore a handful of cases from OECD countries, including France, the Netherlands, New Zealand and the UK.

Some interesting lessons emerged:

1. Finance ministries in the OECD have access to a range of distributional analysis tools and use these primarily to assess the overall impact of budget decisions on household income. Examples of this analysis are publicly available in [France](#) and [the UK](#).
2. Despite those core features, the distributional analysis functions in finance ministries vary significantly across countries:
 - While some maintain models in-house (using relatively small teams), others rely on analysis produced by central agencies (like the Dutch [Bureau for Economic Policy Analysis](#)).
 - The core focus of distributional analysis is usually on changes to tax and benefits, but some governments have numerous models with different features that include a wider range of public service spending.
 - Some countries keep their models confidential, while others use open-source software and cultivate professional networks that use microsimulation models inside and outside government. One example of an open-source platform for microsimulation is [OpenFisca](#).
3. Other ministries such as those concerned with welfare and social policy may have their own distributional models to help with estimating the costs and social impact of policy options under consideration. These analyses may or may not be coordinated with the evaluation of policies conducted by finance ministries.
4. Distributional analysis is politically important and publicly debated, which raises the risk that analysis will be presented in ways that are politically favourable and systems will be changed following transitions of power. Branding, standardisation, transparency and increased external scrutiny are strategies that can help to manage these risks.
5. Numerous governments, including famously in New Zealand, are targeting improvements in outcome measures of 'wellbeing'. These frameworks are being gradually integrated into public administration, data systems and budgeting to incentivise coordination across policy domains.

The roundtable discussion has generated a high level of interest in the research project and has established new links between different organisations working on distributional analysis.

Next steps:

- ODI will be continuing its series of events on understanding the opportunities for mainstreaming equality in fiscal policy. The next event will discuss recent evidence on the impacts of fiscal policy on income and gender inequality.
- We will produce a briefing paper comparing the organisation and use of distributional analysis in selected OECD countries.
- We will also host a workshop in a low-income country to share the research findings and explore practical applications for tax and spending in a specific context.