CCE-039 ｜ How Should Inequality in a Market Economy Be Eased Through Institutional Design?

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How should inequality in a market economy be eased through institutional design?

Abstract: A market economy produces income gaps — the natural result of competition and differences in compensation; the problem is not whether gaps exist, but how large they are, whether they become entrenched, and whether those at the bottom have a way up. This article's answer is that easing inequality has no single instrument: as a rule, three kinds of institutions must be used together — redistribution (taxation and social transfers), equal opportunity (education, employment, and housing), and constraints on market power and rent-seeking (competition rules, transparency, and accountability). It uses the official statistics of the Directorate-General of Budget, Accounting and Statistics (DGBAS) of the Executive Yuan of the Republic of China (Taiwan), Legislative Yuan budget assessments, and audit reports as its main cases, supplemented by cross-national research from the Organisation for Economic Co-operation and Development (OECD), to explain what each of these tools can and cannot do, and to answer the objection that "redistribution drags down efficiency." The conclusion: institutional design can change outcomes markedly, but its effects are limited and require continuous review — it cannot be settled once and for all.

I. First, Get the Question Right: What Does "Inequality" Mean?

When discussing "inequality," three things must first be distinguished. The first is the gap in market income — income before taxes and transfers. The second is the gap in disposable income — the result after deducting tax burdens and adding government and private transfers. The third is the wealth gap — accumulated assets. The three are not the same: institutions can most directly change the second, while the third and gaps in opportunity require longer-term arrangements.

The measuring tools also need explanation. The Gini coefficient ranges from 0 to 1 — the closer to 1, the more unequal. The quintile income gap ratio divides households into five groups by disposable income from lowest to highest, dividing the income of the top 20% by that of the bottom 20%. The DGBAS of the Executive Yuan of the Republic of China (Taiwan) conducts the annual "Survey of Family Income and Expenditure" and publishes these indicators.[1]

DGBAS itself has cautioned about the limits of these indicators: gaps measured on a "per household" basis are easily affected by changes in household size. Low birth rates, population aging, and young people moving out to form small households make the "per household" gap look larger; measured by "per capita" disposable income instead, the gap ratio has historically hovered around 4 times.[1][2] So when discussing easing inequality, the measurement basis must be stated, or people will end up talking past each other.

II. A Verifiable Case: Taiwan's Gap and the Official Account

First, the numbers. The 2025 (ROC year 114) Survey of Family Income and Expenditure released by DGBAS shows that average disposable income per household was NT\$1.21 million, up 3.9% from 2024; the top income group's increase (3.9%) exceeded the bottom group's (3.5%), and the per-household income gap ratio stood at 6.17 times, up 0.03 from 2024.[1]

A *World Journal* report of August 15, 2026, called this the widest gap in 14 years, with a Gini coefficient of 0.341, about the same as in 2024.[3]
Looking at a longer timeline: a Legislative Yuan budget assessment report, citing DGBAS data, shows that from 2011 to 2014 the Gini coefficient fell from 0.342 to 0.336 and the gap ratio from 6.17 to 6.05 times; from 2015 to 2021 both roughly rose again, the Gini from 0.338 to 0.341 and the ratio from 6.06 to 6.15 times.[4]
An explanatory note DGBAS submitted to the Legislative Yuan also pointed out that from 2014 to 2024, the per-household gap ratio widened from 6.05 to 6.14 times and the Gini coefficient edged up from 0.336 to 0.341; but over the same period, the per-capita gap ratio fell from 3.98 to 3.92 times and the Gini from 0.282 to 0.277.[2]
The two sets of numbers do not contradict each other — they simply answer different questions: one looks at households, the other at individuals. More important for readers is what they jointly show: Taiwan's gap has not spiraled out of control over the past decade, but it has not narrowed noticeably either; and in the most recent year, market forces such as "AI-driven semiconductor profits" lifted the top income group's earnings faster. DGBAS Counselor Li Jiahang (李佳航) explained in the report that the top income group grew faster, whereas the previous year's universal cash payment had benefited low-income households more and had once eased the gap ratio.[3]
This is the official explanation for a single year's phenomenon, not a long-term law.

III. Toolbox One: Taxation and Social Transfers (Redistribution)

The most direct tool is to transfer part of market income to low-income earners through taxation and social welfare. An article in the National Development Council's journal *Economic Research* summarizes the policy tools available to the government into two broad categories: "tax transfers" and "social welfare measures."[5]

Cross-national comparison by the OECD provides an important reference point: measured by disposable income (after deducting taxes and adding social cash transfers, adjusted for household size), inequality is lowest in the Nordic countries and some central European countries, and highest in Latin American countries, Türkiye, and the United States.[6]

Another OECD policy study notes that the extent to which countries' taxes and transfers "flatten" the gap varies greatly, even among countries with similar levels of economic development, GDP per capita, and pre-tax inequality — which means most countries have room to make their tax systems and transfers more redistributive without necessarily harming economic efficiency.[7]

But the same study also cautions that redistribution has weakened in some OECD countries, mainly because of social-transfer reforms (for example, less generous unemployment benefits) and tax cuts on capital income and high earners.[7]

Taiwan's case has a thought-provoking detail. The Legislative Yuan's assessment report on the Ministry of Finance's 2021 final accounts points out: between 2011 and 2021, the "social welfare effect" of government income redistribution fluctuated but stayed above 1 times throughout, while the "tax effect" was relatively limited; the report recommends reviewing the current tax system and collection techniques to improve tax fairness.[4]

In other words, in Taiwan the main force narrowing the gap comes from social welfare, not the tax system; this is the national budget oversight body's own assessment, not outside criticism.

The same *World Journal* report also quotes Xin Binglong (辛炳隆), adjunct associate professor at National Central University: the most common methods across countries are social welfare transfers and tax policy, but research shows the tax effect is weaker than the social welfare effect.[3] This is a scholar's opinion, consistent with the direction of the Legislative Yuan's assessment, but readers should not take it as the only answer.

IV. Toolbox Two: Equal Opportunity (Education, Employment, and Housing)

Relying only on after-the-fact redistribution treats the symptoms, not the root cause. If birth determines one's entire life, gaps will replicate across generations. Taiwan's National Audit Office wrote in its audit report on the government's measures to improve income distribution: unequal distribution of economic gains, underperforming tax and social-adjustment functions, plus unequal opportunity in social resources such as education, further restrict social mobility and deepen income gaps.[8]

The report also notes that after years of government measures to improve income distribution, the income gap has eased slightly, but unequal distribution persists; among the Sustainable Development Goal indicators tied to improving distribution, some have missed their targets for two to four consecutive years, lack data, or have targets that are not challenging.[8]

That sentence carries a lot of information: even the government's own audit body considers some indicators' targets "not challenging." This suggests that institutional design is not only about legislation, but also about setting verifiable targets and monitoring them publicly.

On concrete targets, the media reported an example: the "National Development Plan (ROC years 114–117)" adopted by the Executive Yuan set the goal of "keeping the per-household disposable-income Gini coefficient at or below 0.35"; since the latest published 2023 Gini was 0.339, already below 0.35, a Central News Agency report called the target rather conservative. National Development Council Chair Liu Jingqing (劉鏡清), for his part, said that in a free-economy social environment the government cannot stop the rich from making money — what it must strive for is to hold the current line and not let things keep deteriorating.[9]

This is a government official's public statement, and it directly reveals a policy stance: taking "no further deterioration" as the bottom line, rather than pursuing a clear narrowing.

V. Toolbox Three: Constraining Market Power and Rent-Seeking

The third type of institution is less conspicuous: antitrust and fair competition, information disclosure, rules on political donations and lobbying, and transparency requirements for public procurement. Their function is to reduce "income obtained through power rather than through contribution." This type of instrument is difficult to measure with a single number, and this article has not checked Taiwan's relevant institutions item by item — it offers only an analytical framework: when inequality comes from innovation and competition, society can usually accept it; when it comes from monopoly, privilege, and rent-seeking, it erodes trust in institutions. It should be noted that this framework is this article's own synthesis, not a quotation from any official document.

VI. The Objection: Will Redistribution Drag Down Efficiency?

This is the most common objection and deserves to be taken seriously. Its argument: high taxes and generous welfare weaken the incentive to work and invest, and in the end "the pie shrinks" and everyone loses.

This concern is not groundless — there are indeed cases in various countries where poorly designed taxes and welfare created distortions instead. But based on the evidence this article found, at least two points can be offered in response. First, OECD research holds that, at the same level of economic development and pre-tax inequality, countries' levels of redistribution vary greatly, meaning many countries can increase redistribution without sacrificing efficiency and productivity.[7]

Second, the OECD also points out that welfare states, besides narrowing disposable-income gaps, can improve equality of opportunity, which may benefit productivity and growth.[7] It must be added: this is only one institution's policy conclusion; economists still debate the relationship between "redistribution and growth," and no settled verdict can be claimed here.

Another objection comes from the opposite direction: that Taiwan's gap is not high by international standards and needs no forceful intervention. DGBAS's response to this is quite cautious: the Survey of Family Income and Expenditure is a sample survey that cannot capture all high earners, so academics switch to fiscal and tax data to look at the income shares of groups like the top 5% or top 1%; but fiscal data also excludes non-filing households and tax-exempt income — the two sources cover different populations and should be chosen according to the purpose of observation.[10]

This amounts to acknowledging that the Gini coefficient from the household survey alone may understate the concentration at the top.

VII. Three Quick Tests: How to Judge When You Read an "Inequality" Report

– Is it talking about market income, disposable income, or wealth? The three can move in opposite directions.

– Does it use "per household" or "per capita"? Taiwan's "per household" 6.17 times and "per capita" about 3.9 times do not contradict each other — they just use different bases.

– Is it describing a one-year change or a long-term trend? The 2025 figure of 6.17 times was affected by AI-industry profits and the previous year's universal cash payment — single-year numbers should not be over-interpreted.

VIII. The Limits of This Article

First, this article relies mainly on Taiwan's official statistics and public reporting, and makes no same-basis comparison with the People's Republic of China (mainland China) or other countries — so it cannot be used to judge which political system is more effective at easing inequality. Second, the two OECD sources were read only at the excerpt level; their charts were not checked page by page. Third, the framework in Section V on "constraining rent-seeking" is this article's own synthesis, with no corresponding official document. Fourth, the words of Xin

Binglong (辛炳隆) and Li Jiahang (李佳航) come via media reports; the original statements were not verified. Fifth, all figures follow the bases published by the cited sources; the 2025 figures come from statistics and media reports released in August 2026 — if revised, DGBAS's latest release prevails.

IX. Conclusion

Inequality in a market economy can be eased through institutions, but no once-and-for-all fix should be expected. Taiwan's official data show: the gap has been broadly stable with slight fluctuations over a decade; narrowing the gap relies mainly on social welfare rather than the tax system; and both the audit and legislative oversight bodies see room for review in target-setting and the tax system. The safer approach is to use all three tools together — redistribution, equal opportunity, and constraining market power — state the measurement basis clearly, set verifiable targets, and review them publicly each year. As for how far to go, that involves value judgments, which citizens need to discuss on the basis of public information — not for this article to decide on the reader's behalf.

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