Flash Economics

N° 78
August 11th, 2026

Subscribe here.

Why large-scale redistributive policies can be counterproductive in a context of underinvestment

Redistributive policies serve to reduce inequality and poverty. They are, on that account, fully justified. However, an excessive degree of income redistribution is not desirable in a context of underinvestment.

The saving rate indeed rises steeply with the level of income, net saving being negative in the lower income brackets. Moreover, the propensity to import is high among low-income households, whose consumption is directed towards low-priced goods.

A large-scale expansion of redistributive policies would therefore:

- reduce available saving, which is unwelcome given the scale of investment needs (energy transition, digital technology, reindustrialisation) across all OECD countries;
- raise imports, owing to the increase in the purchasing power of low-income households.

The strategy to be favoured is to raise saving and investment first and, only once this additional investment has generated additional output and income, to increase the generosity of redistributive policies.

Patrick Artus
Senior Economic Advisor
patrick.artus-ext@ossiam.com
@PatrickArtus
Patrick Artus

Isabelle Gravet
Research Assistant
isabelle.gravet-ext@ossiam.com

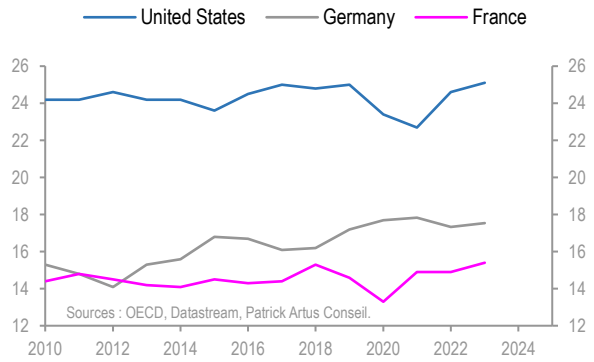
Marketing communication: this document is a marketing presentation. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research; and it is not subject to any prohibition on dealing ahead of the dissemination of investment research.

Redistributive policies are necessary

Redistributive policies aim:

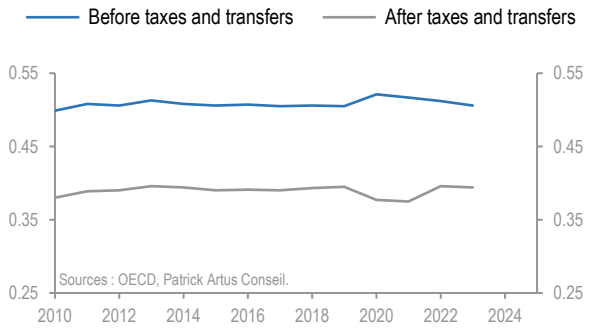
- **to reduce poverty** (**Chart 1**); the limited scale of redistributive policies in the United States is reflected in a high poverty rate;
- **to contain income inequality**; **Charts 2A, 2B** and **2C** show that redistributive policies are on a markedly larger scale in Europe than in the United States.

Chart 1
Poverty rate*



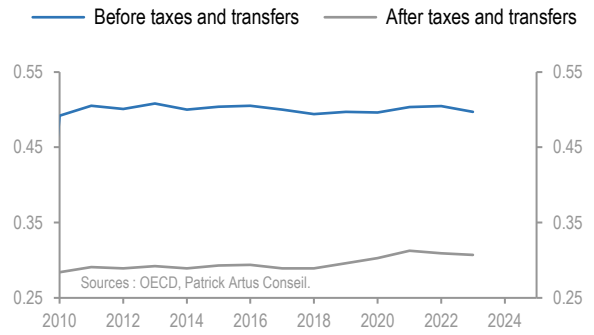
*Poverty rate based on disposable income, 60% of the national median disposable income

Chart 2A
United States: Gini coefficients* of income inequalities before and after taxes and transfers



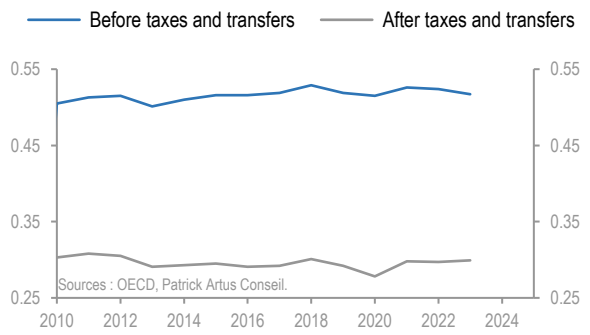
* Gini coefficient: 0 = complete equality; 1 = complete inequality

Chart 2B
Germany: Gini coefficients* of income inequalities before and after taxes and transfers



* Gini coefficient: 0 = complete equality; 1 = complete inequality

Chart 2C
France: Gini coefficients* of income inequalities before and after taxes and transfers

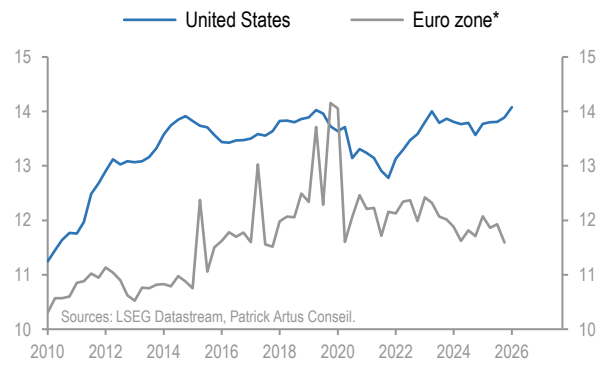


* Gini coefficient: 0 = complete equality; 1 = complete inequality

But in a context of underinvestment, a large-scale expansion of redistribution is not desirable

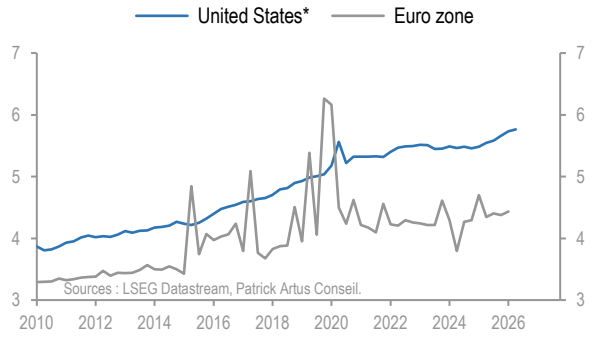
Euro zone countries clearly suffer from underinvestment (**Chart 3**), particularly as **regards investment in intellectual property products** (research and development, patents, etc.) (**Chart 4**).

Chart 3
Private non-residential fixed investment (as % of GDP)



*Euro zone : non-financial corporations' investment

Chart 4
Investment in intellectual property products
(as % of GDP, at current prices)



* United States: investment in intellectual property products

Restoring productivity gains in the euro zone (**Chart 5**) therefore requires an increase in the investment rate.

Yet **the saving rate rises sharply with the level of income**[1]. In the United States, consumption by households at the bottom of the income distribution is twice their income, whereas income in the top percentile is six times higher than its consumption (**Chart 6**). In France, the saving rate also rises with income (**Table 1**).

Table 1 – France: household net saving rate by quintile of usual standard of living (as % of net disposable income, 2022)

	Bottom quintile	Second quintile	Third quintile	Fourth quintile	Top quintile	All households
Household net saving rate (as %)	-29	0	6	10	27	11

Source : Insee

Chart 5
Labour productivity per worker (2010.Q1 = 100)

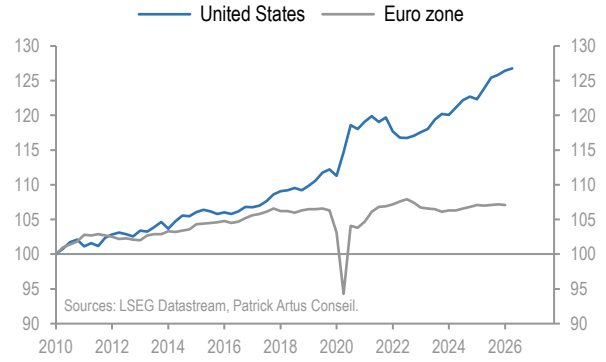
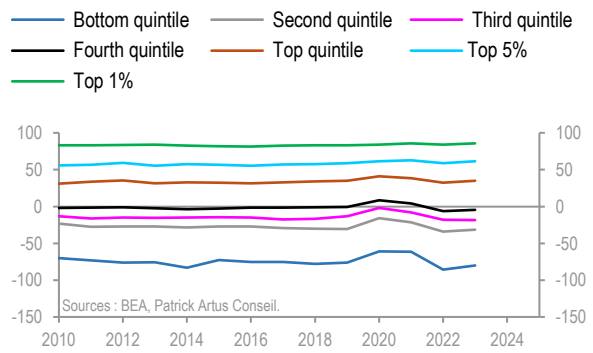


Chart 6
United States: personal saving rate by income level
(as % of disposable personal income)



Increasing the scale of redistributive policies therefore lowers the aggregate saving rate, which is detrimental in a situation of underinvestment. In the United States, an extension of redistribution would accordingly be conceivable, given the absence of underinvestment, whereas in the euro zone it would aggravate the investment shortfall.

An increase in the scale of redistributive policies would lower the aggregate saving rate and boost household consumption, and hence imports. **Charts 7A** and **7B** show the relationship between domestic demand and imports in the United States and in the euro zone. In the United States, imports are growing significantly faster than domestic demand, which is not the case in the euro zone.

[1] Marina Gindelsky and Robert Martin, "The Polarization of Personal Saving", BLS Working Paper No. 575, June 2024.

Chart 7A
United States : Domestic demand intérieure and imports of goods and services (volume, 2010 Q1 = 100)

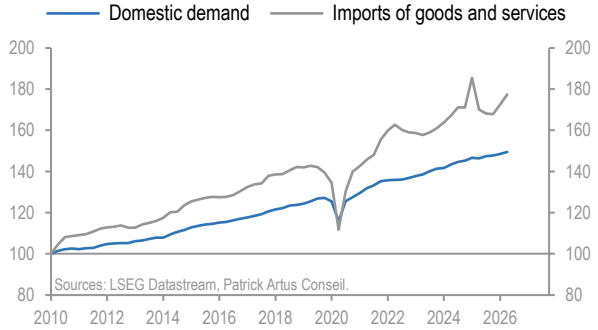
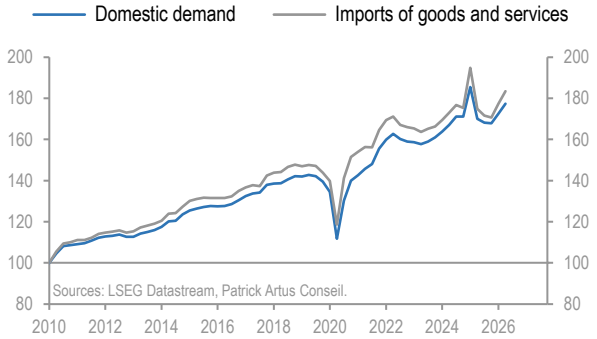


Chart 7B
Euro zone: Domestic demand intérieure and imports of goods and services (volume, 2010 Q1 = 100)



A large-scale expansion of redistributive policies therefore carries risks:

- **in a context of underinvestment**, the expansion of redistributive policies **reduces the aggregate household saving rate**;
- **where dependence on imports is strong**, the expansion of redistribution **ultimately leads to imports being substituted for investment.**

Summary: what strategy in a context of underinvestment?

The euro zone countries invest too little. An increase in the scale of redistributive policies in these countries would reduce available saving and would lead to an even sharper decline in investment.

We believe that the **strategy to be favoured** today in these countries is:

- to raise saving and investment, targeted at the energy transition, the digital transition and the development of new technologies;
- only once this additional investment has generated additional output and income, to increase the generosity of redistributive policies, so that all households, whatever their income level, benefit from the additional income.

Disclaimer

Ossiam, a subsidiary of Natixis Investment Managers, is a French asset manager authorized by the Autorité des Marchés Financiers (Agreement No. GP-10000016). Although information contained herein is from sources believed to be reliable, Ossiam makes no representation or warranty regarding the accuracy of any information of which it is not the source. The information presented in this document is based on market data at a given moment and may change from time to time. This material has been prepared solely for informational purposes only and it is not intended to be and should not be considered as an offer, or a solicitation of an offer, or an invitation or a personal recommendation to buy or sell participating shares in any Ossiam Fund, or any security or financial instrument, or to participate in any investment strategy, directly or indirectly. It is intended for use only by those recipients to whom it is made directly available by Ossiam. Ossiam will not treat recipients of this material as its clients by virtue of their receiving this material. All performance information set forth herein is based on historical data and, in some cases, hypothetical data, and may reflect certain assumptions with respect to fees, expenses, taxes, capital charges, allocations and other factors that affect the computation of the returns. Past performance does not predict future returns. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Ossiam assume no fiduciary responsibility or liability for any consequences, financial or otherwise, arising from, an investment in any security or financial instrument described herein or in any other security, or from the implementation of any investment strategy. This information contained herein is not intended for distribution to, or use by, any person or entity in any country or jurisdiction where to do so would be contrary to law or regulation or which would subject Ossiam to any registration requirements in these jurisdictions. This material may not be distributed, published, or reproduced, in whole or in part.