

INCOME INEQUALITY

The distribution of incomes within a country is important for at least two reasons. Inequalities may create incentives for people to improve their situation through work, innovation or acquiring new skills. On the other hand, crime, poverty and social exclusion are often seen as linked to inequalities of income distribution.

Definition

Income is here defined as *household disposable income*, broadly following the definitions of the 1993 *System of National Accounts*. It consists of earnings from work, property income such as interest and dividends, and pensions and other social security benefits; income taxes and social security contributions paid by households are deducted.

The equality of disposable incomes among individuals is measured here by the *Gini Coefficient*. This is a common measure of equality and ranges from 0 in the case of “perfect equality” (each share of the population gets the same share of income) to 100 in the case of “perfect inequality” (all income goes to the share of the population with the highest income). Household income is adjusted to take account of household size. See Sources, below, for a detailed definition of the Gini Coefficient and of the adjustment for household size.

Long-term trends

There is considerable variation in levels of income inequality across OECD countries. For years around 2000, the Gini coefficient of income inequality is lowest in Denmark and Sweden, and highest in Mexico and Turkey – the two OECD countries with lowest per capita income. On average, across the 20 countries for which data are available since the mid-1980s, the Gini coefficient of income inequality increased from 29 to 31 but this increase may be within the margin of error for statistics on income distribution. The safest conclusion is that, for these 20 countries as a whole, there was little or no change.

There were, however, some striking changes for several countries when years around 2000 are compared with the mid-1980s. Household income distribution became markedly more equal in Spain and Ireland, and there were smaller reductions in inequality in Australia, Denmark and France.

At the other end of the scale, the Gini coefficients increased (greater inequality) by 10-20% in Norway, Japan, Italy and the United Kingdom and by over 20% in Sweden, New Zealand and Finland. Note, however, that despite the large increase in Sweden, the Gini coefficient is still one of the lowest in the OECD area.

Comparability

“2000” data refer to the year 2000 in all countries except for Australia, Austria and Greece (1999); for Germany, Luxembourg, New Zealand and Switzerland (2001); and for the Czech Republic, Mexico and Turkey (2002). “Mid-1990s” data refer to the year 1995 in all countries except for Austria (1993); for Australia, Denmark, France, Germany, Greece, Ireland, Japan, Mexico and Turkey (1994); and for the Czech Republic and New Zealand (1996). “Mid-1980s” data refer to the year 1983 in Austria, Belgium, Denmark and Sweden; 1984 in Australia, France, Italy and Mexico; 1985 in Canada, Japan, the Netherlands, Spain and the United Kingdom; 1986 in Finland, Luxembourg, New Zealand and Norway; 1987 in Ireland and Turkey; 1988 in Greece; and 1989 in the United States.

Data were provided by national experts using common definitions. In many cases, however, countries have had to make several adjustments to their source data. Small changes between periods and small differences across countries are usually not significant.

Source

- Förster, M. and M. Mira d’Ercole (2005), *Income Distribution and Poverty in OECD Countries in the Second Half of the 1990s*, OECD Social Employment and Migration Working Papers, No. 22, OECD, Paris.

Further information

Analytical publications

- Jomo, K. S. (2001), *Globalisation, Liberalisation, Poverty and Income Inequality in Southeast Asia*, OECD Development Centre Working Papers, No. 185, OECD, Paris.
- Kayizzi-Mugerwa, S. (2001), *Globalisation, Growth and Income Inequality: The African Experience*, OECD Development Centre Working Papers, No. 186, OECD, Paris.
- OECD (2004), *Income Disparities in China: An OECD Perspective*, OECD, Paris.
- OECD (2005), *Extending Opportunities: How Active Social Policy Can Benefit Us All*, OECD, Paris.
- OECD (2005), *Society at a Glance: OECD Social Indicators*, OECD, Paris.
- Uchimura, H. (2005), *Impact of Changes in Social Institutions on Income Inequality in China*, OECD Development Centre Working Papers, No. 243, OECD, Paris.

Web sites

- OECD Social and Welfare Statistics, www.oecd.org/statistics/social.



Distribution of household disposable income among individuals

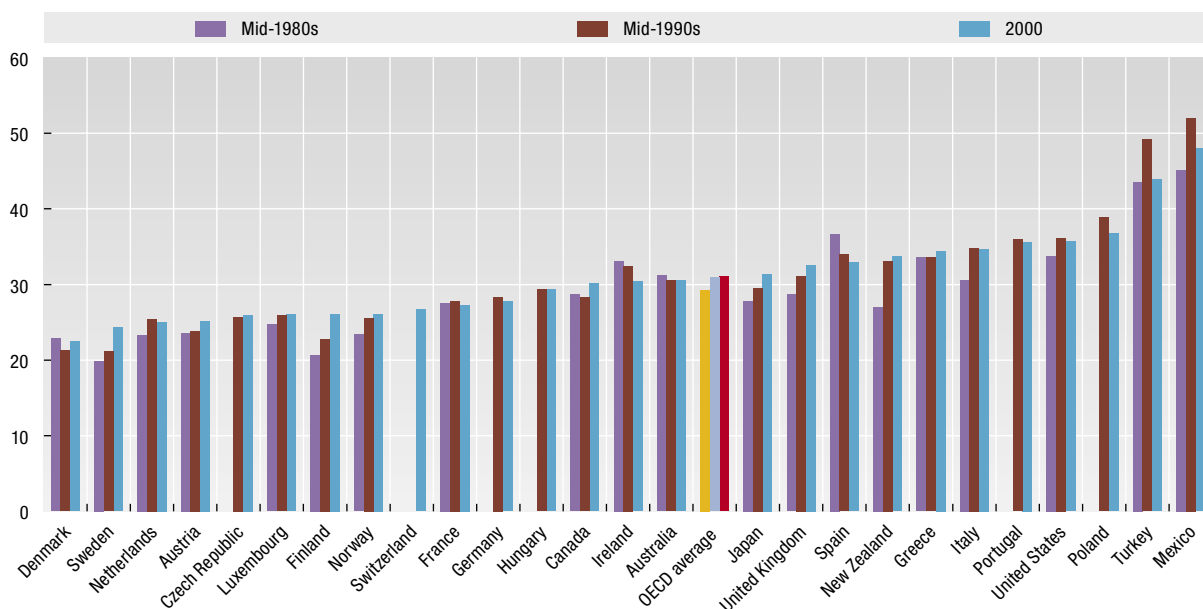
Gini coefficients, mid-1980s to years around 2000

	Mid-1980s	Mid-1990s	2000
Australia	31.2	30.5	30.5
Austria	23.6	23.8	25.2
Canada	28.7	28.3	30.1
Czech Republic	..	25.7	26.0
Denmark	22.8	21.3	22.5
Finland	20.7	22.8	26.1
France	27.6	27.8	27.3
Germany	..	28.3	27.7
Greece	33.6	33.6	34.5
Hungary	..	29.4	29.3
Ireland	33.1	32.4	30.4
Italy	30.6	34.8	34.7
Japan	27.8	29.5	31.4
Luxembourg	24.7	25.9	26.1
Mexico	45.1	52.0	48.0
Netherlands	23.4	25.5	25.1
New Zealand	27.0	33.1	33.7
Norway	23.4	25.6	26.1
Poland	..	38.9	36.7
Portugal	..	35.9	35.6
Spain	36.7	33.9	32.9
Sweden	19.9	21.1	24.3
Switzerland	26.7
Turkey	43.5	49.1	43.9
United Kingdom	28.6	31.2	32.6
United States	33.8	36.1	35.7
OECD average	29.3	30.9	31.0

StatLink: <http://dx.doi.org/10.1787/871325216167>

Distribution of household disposable income among individuals

Measured by Gini coefficients



StatLink: <http://dx.doi.org/10.1787/888760201461>