1. Income inequality

Definition and measurement

Measures of income inequality are based on data on people's household disposable income (see "Definition and measurement" in GE1 for more detail). The main indicator of income distribution used is the Gini coefficient. Values of the Gini coefficient range between 0 in the case of "perfect equality" (each person gets the same income) and 1 in the case of "perfect inequality" (all income goes to the share of the population with the highest income). Life expectancy data is discussed in "Definition and measurement" of indicator HE1.

Income inequality is an indicator of how material resources are distributed across society. Some people consider high levels of income inequality are morally undesirable. Others focus on income inequality as bad for instrumental reasons – seeing it as causing conflict, limiting co-operation or creating psychological and physical health stresses (Wilkinson and Pickett, 2009). Often the policy concern is more focussed on the direction of change of inequality, rather than its level.

Income inequality varied considerably across the OECD countries in the late 2000s (EQ1.1, Panel A). Chile, Mexico and Turkey had the highest income inequality. OECD Anglophone countries had levels of inequality around or above the OECD average. Southern European and Mediterranean countries also tended to have higher than average inequality. Inequality was lower than average amongst the Nordic countries and continental European countries.

Since the mid-1980s, income inequality grew moderately across the OECD (EQ1.1, Panel B). However, the overall range concealed a diversity of experiences across countries and across the time period. Income inequality rose most strongly in the Czech Republic, Finland, New Zealand and Sweden. But the pattern of increasing inequality was not general. Income inequality actually fell considerably in Greece, Ireland, Spain and Chile.

Poorer countries have tended to have higher income inequality (EQ1.2). The most unequal countries in the OECD included the several of the least rich: Chile, Mexico and Turkey. Luxembourg, Iceland and Norway were all relatively rich and relatively equal, but more unequal than expected given their high incomes (above the line in EQ1.2). The United States was quite unequal, given its riches (above the line in EQ1.2), while the Czech Republic, the Slovak Republic, Hungary and Poland managed to be quite equal, given their relatively low income (below the line in EQ1.2).

There was no strong tendency for countries that grew richer faster to have rising inequality (EQ1.3). Sometimes it is argued that rapid income growth requires paying a price – growing inequality. Alternatively, some suggest that rapid income growth brings a further gain in its wake: a more equal society. Neither of these two stylised facts is supported by the OECD income inequality data.

Further reading

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

OECD (2011), *Causes of Growing Income Inequality in OECD Countries*, OECD Publishing, Paris, forthcoming.

Wilkinson, R. and K. Pickett (2009), *The Spirit Level: Why Equality is Better for Everyone*, Penguin Books, London.

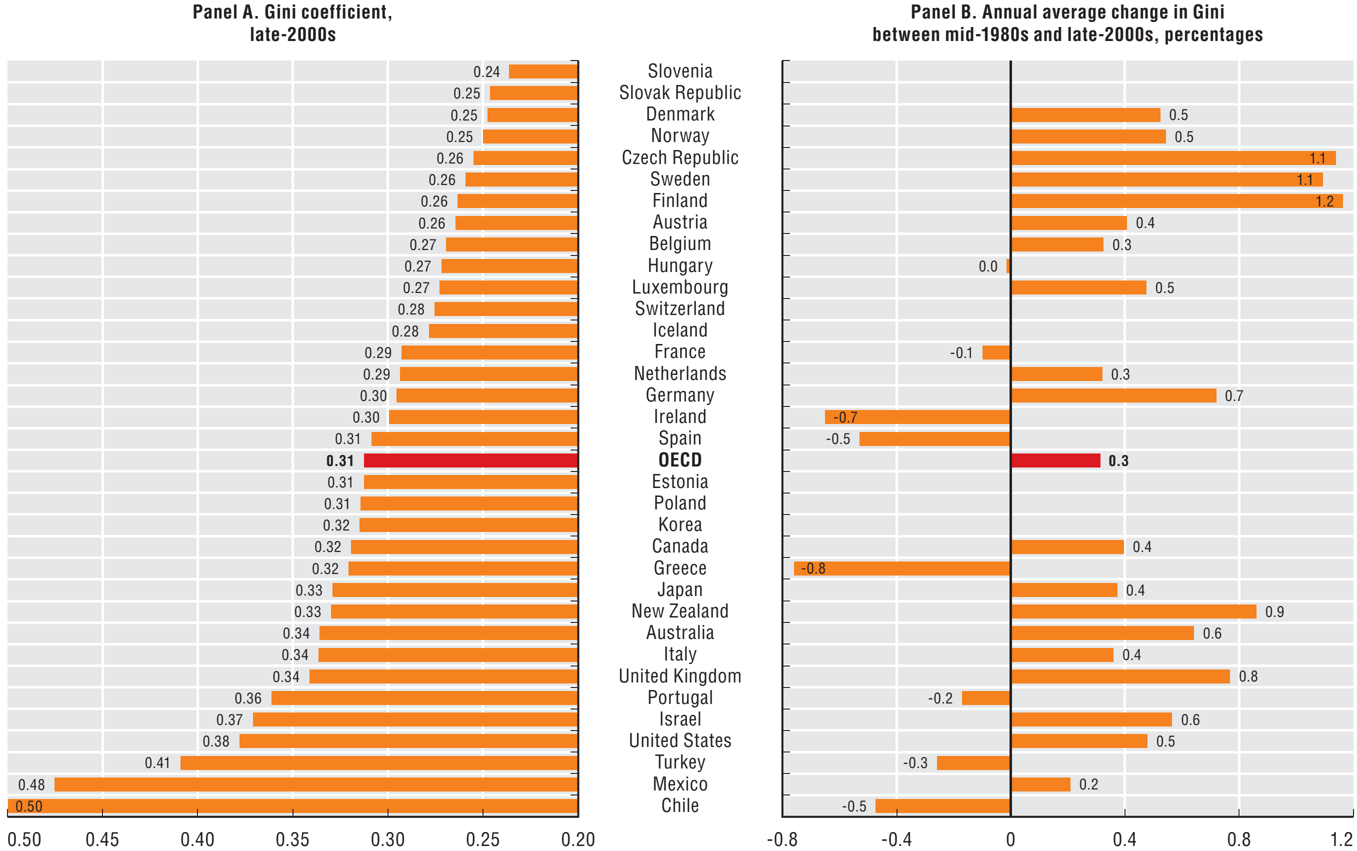
Figure notes

Figure EQ1.1, Panel A: Gini coefficients refer to mid-2000s for Greece and Switzerland.

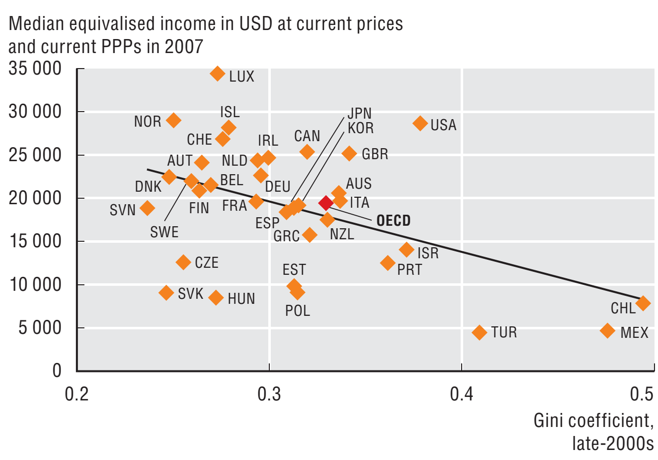
Figures EQ1.1, Panel B and EQ1.3: No changes available for Estonia, Iceland, Korea, Poland, the Slovak Republic, Slovenia and Switzerland. Changes are available from mid-1990s for Australia, Chile, Israel and Portugal. Changes are available until 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain, as current data from EU-SILC are not comparable with earlier years for these countries.

Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

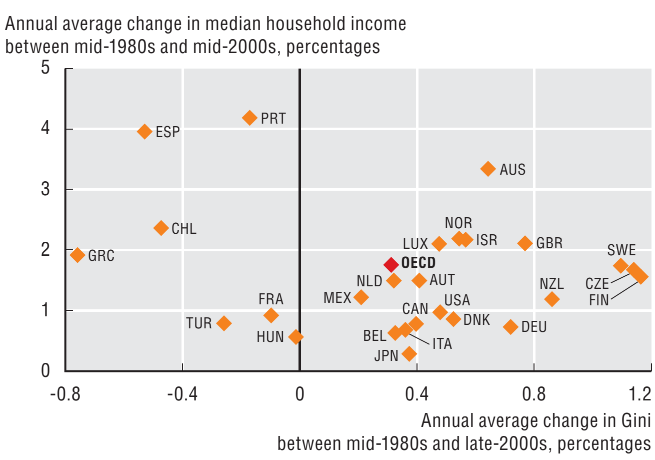
EQ1.1. Income inequality has been rising



EQ1.2. Richer countries have lower income inequality



EQ1.3. Rapid income growth does not reduce inequality



Source: Provisional data from OECD *Income distribution and Poverty Database* (*www.oecd.org/els/social/inequality*).

StatLink http://dx.doi.org/10.1787/888932381874

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