# Income inequality

**Income inequality is an indicator of how material resources are distributed across society.** Some people consider that high levels of income inequality are morally undesirable; others regard income inequality as harmful for social cohesion. Beyond its impact on social cohesion, growing inequality can also be harmful for long-term growth and harms opportunities. Often the policy concern is focussed more on the direction of change of inequality, rather than its level.

**Income inequality varied considerably across the OECD countries in 2014** (or nearest year available) (Figure 5.1). The Gini coefficient ranges from around 0.25 in Denmark, Iceland, Norway and Slovenia to almost twice that value in Chile and Mexico. The Nordic and central European countries have the lowest inequality levels of disposable income while inequality is high in Chile, Israel, Mexico, Turkey and the United States. Alternative indicators of income inequality suggest similar rankings. The gap between the average income of the richest and the poorest 10% of the population was 9.4 to 1 on average across OECD countries in 2014, ranging from 5 to 1 in Denmark to more than four times larger (21 to 1) in Chile and Mexico. Keeping measurement-related differences in mind, emerging countries have higher levels of income inequality than most OECD countries, particularly in Brazil, Colombia and South Africa.

The distribution of income from work and capital (market income, pre-taxes and transfers) widened during the crisis. **Between 2007 and 2014, market income inequality rose by 1.6% on average** (bars in Figure 5.2). The increase was particularly large in Estonia, Greece, Ireland and Spain. On the other hand, market income inequality fell in Israel and Turkey, and to a smaller extent in Chile and Poland. The distribution of income that households "take home" (disposable income, post-taxes and transfers) remained unchanged on average, due to the effect of cash public transfers and direct taxes. Between 2007 and 2014, the Gini coefficient for disposable income remained broadly stable in most OECD countries (markers in Figure 5.2). It fell the most in Iceland, Latvia and Portugal, and increased the most in Estonia, Slovak Republic and Sweden.

Household wealth is much more unequally distributed than income. **On average, households in the top 10% of the wealth distribution own half of all total household wealth, and as much as 76% in the United States.** In comparison, the richest 10% of income earners get on average around a quarter of all cash income, ranging from 28% in the United States to 20% in Norway (Figure 5.3). But countries with lower income inequality levels are not necessarily those with low wealth concentration, as witnessed by the examples of Austria, Germany and the Netherlands.

### *Definition and measurement*

The main indicator of income distribution used is the Gini coefficient. Values of the Gini coefficient range from 0 in the case of "perfect equality" (each person receives the same income) and 1 in the case of "perfect inequality" (all income goes to the person with the highest income). Measures of income inequality can be based on people's household disposable income – post-taxes and social transfers – or on people's household market income – pre-taxes and transfers (for more details, see "Definition and measurement" in the indicator on "Household income" in Chapter 3). Gini coefficients are based on equivalised incomes for OECD and EU countries, Colombia, Lithuania and the Russian Federation – i.e. adjusted for differences in the needs of households of different sizes with an equivalence scale that divides household income by the square root of household size, on per capita incomes for all key partners (dark bar) except India and Indonesia for which per capita consumption was used (light bar) typically showing lower inequality measures.

An alternative indicator is the S90/S10 income decile share, corresponding to the gap between the average incomes of the richest and the poorest 10% of the population, also based on equivalised disposable income. Income data are from the *OECD Income Distribution Database* available at *www.oecd.org/social/income-distribution-database.htm*.

Wealth data refers to net private household wealth, that is the value of all assets owned by a household less the value of all its liabilities at a particular point in time, around 2012 here. Data are from the OECD Wealth Distribution database at *http://stats.oecd.org/Index.aspx?DataSetCode=WEALTH*.

## Further reading

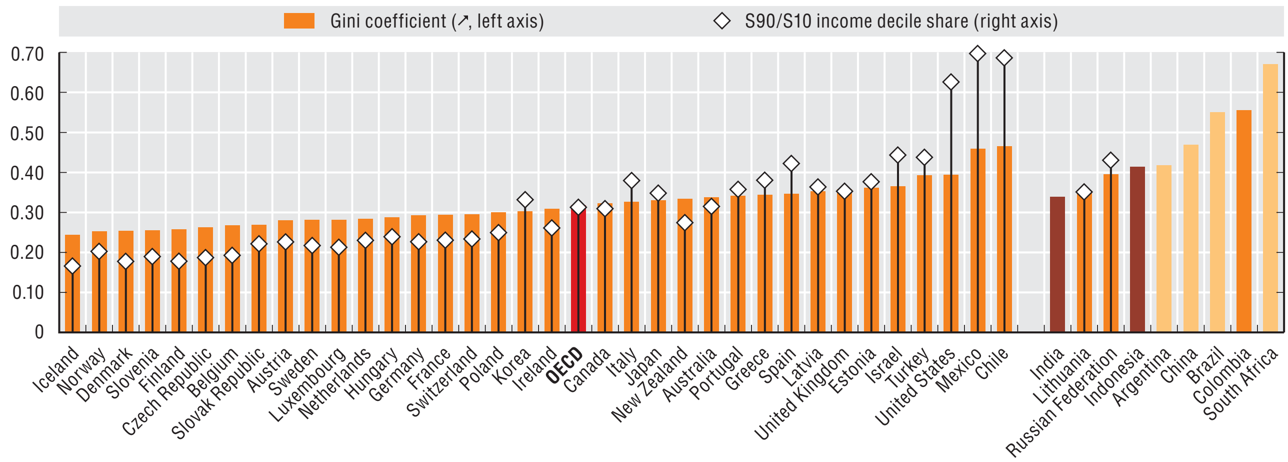
OECD (2015), *In It Together: Why Less Inequality Benefits All*, OECD Publishing, Paris, *http://oe.cd/init2015*.

## Figure notes

Figures 5.1 and 5.2: Data refer to 2014 for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands, the United States and China; to 2012 for Japan and New Zealand, Argentina, Colombia and South Africa; 2011 for Brazil; 2010 for Indonesia and the Russian Federation; and to 2013 for all other countries. Data shown for 2007 refer to 2008 for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States; to 2006 for Japan; and to 2009 for Chile. No change available for Switzerland.

**5.1. Large differences in levels of income inequality**

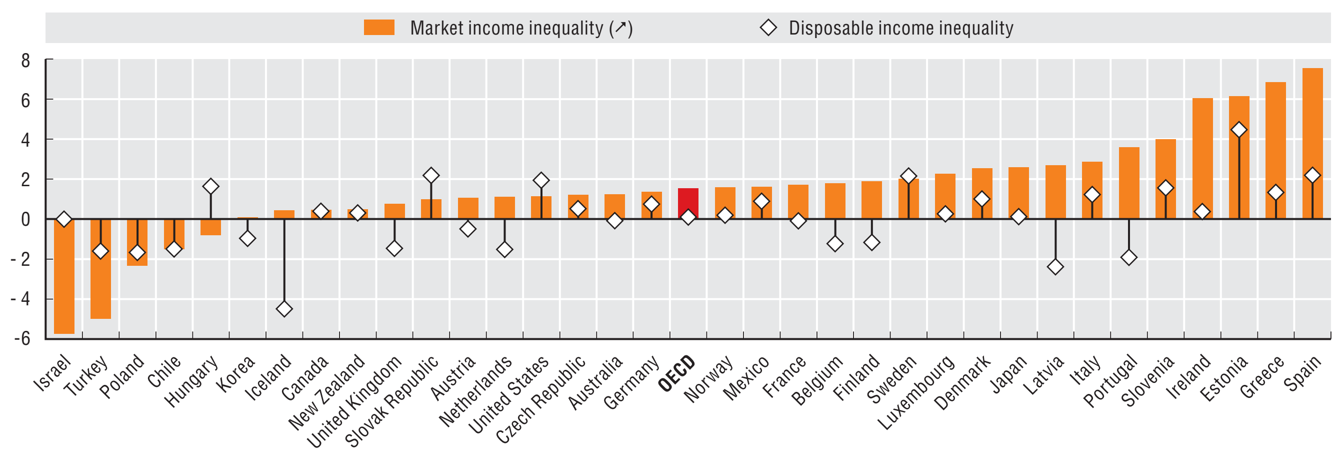
*Gini coefficient of household disposable income and gap between richest and poorest 10%, in 2014 (or nearest year)*




StatLink http://dx.doi.org/10.1787/888933405418

**5.2. Market income inequality rose between 2007 and 2014**

*Percentage point changes in the Gini coefficient of household market and disposable incomes between 2007 and 2014*



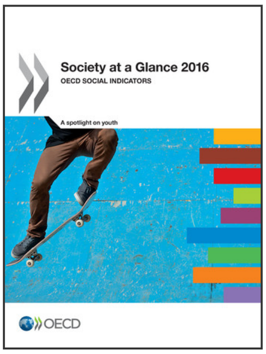

StatLink http://dx.doi.org/10.1787/888933405420

**5.3. Wealth is more concentrated at the top than income**

*Share of top 10% of household disposable income and top 10% of household net wealth, 2012 (or nearest year)*


*Source:* *OECD Income Distribution Database (http://oe.cd/odd) and OECD Wealth Distribution Database.*

StatLink http://dx.doi.org/10.1787/888933405431

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