

PART I

Chapter 1

The Distribution of Household Income in OECD Countries: What Are its Main Features?*

Income inequality has increased moderately but significantly over the past two decades, although with differences in the timing, intensity and even direction of these changes across countries. The wide cross-country differences in the overall shape of the income distribution at a point in time imply similarly large differences in income levels for people at similar points of the distribution – with some of the OECD countries topping the OECD league at one end of the distribution falling further behind when considering the other end.

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Introduction

Policy debates in all OECD countries are increasingly marked by concerns about widening economic disparities between those who are well placed to thrive in more open and knowledge-intensive economies and those who are not. A good perspective from which to assess such concerns is provided by information on the distribution of household income. Income disparities are of course only a partial measure of economic inequalities, and only one element for the comparison of economic well-being within and across countries. Further, income disparities may reflect differences in individual preferences, and they are based on an imperfect measure of economic resources. Despite these limitations, they can be compared more reliably across countries than other measures of economic resources and such comparisons highlight patterns that are of interest to the general public and to policy makers.

This chapter provides an overview of income distribution in OECD countries over the period from the mid-1980s until the mid-2000s based on data collected through a network of national consultants. These consultants periodically provide the OECD with detailed tabulations that are based on micro-data from nationally-representative sources and employ a common methodology and assumptions. The basic income concept used in much of this report can be characterised as follows:

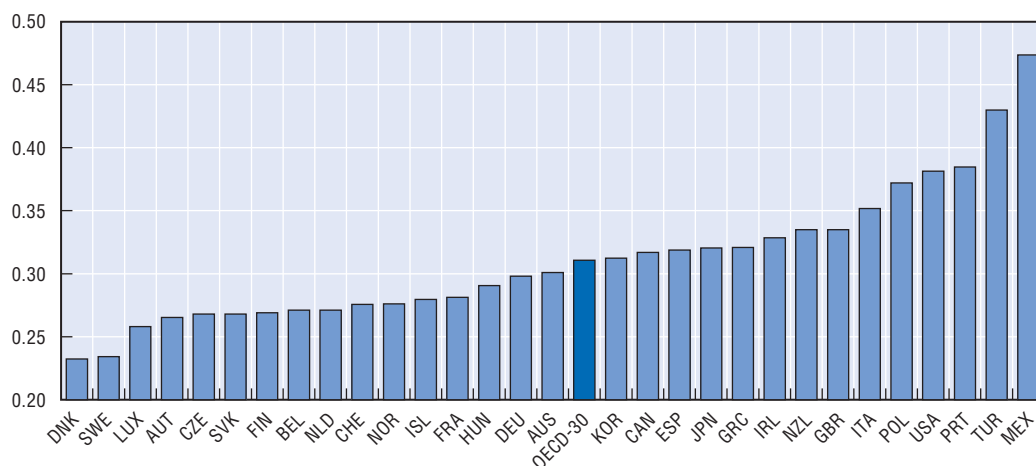
- it refers to the distribution of household disposable income net of household taxes in cash (i.e. excluding items such as the imputed rents of home-owners);
- it refers to the distribution among people living in private households, where each individual is attributed the income of the household where they live; and
- household income is “adjusted” to reflect differences in household needs with a common but arbitrary parameter.


The main features of the data used in this report are described in Annex 1.A1, with further details on the data sources used for each country provided in Table 1.A1.1.

This chapter first compares OECD countries in terms of the overall shape of their income distribution at a point in time. It then describes changes in these distributions over time, and finally it looks at how people at similar points in the income distribution within a country compare across nations.

How does the distribution of household income compare across countries?

The overall shape of the distribution of household disposable income differs significantly across OECD countries. Such differences may be highlighted through summary indexes of the underlying distribution. Figure 1.1 shows levels of the best known of these indexes (the Gini coefficient) in the mid-2000s, with countries ranked in increasing order of this coefficient (with increasing values denoting a wider distributions of disposable income).¹ Cross-country differences are large, with income inequality in the country at the top of the league (Mexico) twice as large as in the country at the bottom (Denmark).

Figure 1.1. **Gini coefficients of income inequality in OECD countries, mid-2000s**

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Note: Countries are ranked, from left to right, in increasing order in the Gini coefficient. The income concept used is that of disposable household income in cash, adjusted for household size with an elasticity of 0.5.

Source: OECD income distribution questionnaire.

While all groupings of countries into more homogeneous clusters have a degree of arbitrariness, Figure 1.1 allows distinguishing among five groups of countries.

- At the left end of the chart are Denmark and Sweden, with Gini coefficient values of around 0.23, i.e. below the OECD average by more than 0.07 point (25%). This group of countries is characterised by “very low” income disparities.
- A second group includes countries with Gini coefficients that fall below the OECD average by a lesser extent. These are (in increasing order of the Gini coefficient) Luxembourg, Austria, the Czech and Slovak republics, Finland, the Netherlands, Belgium, Switzerland, Norway, Iceland, France, Hungary, Germany and Australia, all countries with Gini coefficients between 0.26 and around 0.30, i.e. falling below the OECD average by between 17% and 3%.
- A third group includes countries with Gini coefficients that are above the OECD average, although not much higher than those in the second group. These include Korea, Canada, Spain, Japan, Greece, Ireland, New Zealand and the United Kingdom – all countries with Gini coefficients between 0.31 and 0.34, i.e. exceeding the OECD average by up to 0.25 point (between 1% and 8%).
- A fourth group includes Italy, Poland, the United States and Portugal, with Gini coefficients exceeding the OECD average by between 0.04 and 0.07 point (from 13% to 24%).
- At the upper end of the figure are Turkey and Mexico, which stand out for their very high level of income inequality (38% and 52% above the OECD average), although this is true today to a lesser extent than in the past.

The Gini coefficient is only one among many summary indexes of the underlying distribution. Because different summary indexes are especially sensitive to different parts of the Lorenz curve, the country-ranking may partly depend on the specific inequality measure used. Table 1.A2.2 shows how four other summary measures of income inequality compare to the Gini coefficient. Overall, these different measures tell a consistent story: cross-country correlations between different inequality measures and the Gini coefficient

are above 0.95 for the Mean Log Deviation and the P90/P10 inter-decile ratio, and around 0.80 for the Square Coefficient of Variation and the P50/P10 inter-decile ratio.² Depending on the measure used, some countries improve their ranking based on some summary measure while others worsen their own based on some other, but overall the different measures tell a consistent story.

Beyond their sensitivity to the specific summary measure used, country rankings of levels of income inequality are potentially ambiguous for other reasons. The first is that different statistical sources for the same country may provide different pictures of the underlying income distribution, even when they rely on identical assumptions and computation methods; in these circumstances, it is sometimes difficult to establish, based on *a priori* arguments, which statistical source should be preferred.³ Table 1.A2.3 compares Gini coefficients of household income in OECD countries drawn from three different data sources. Differences are relatively small in most cases but larger for some countries – although not large enough to radically modify their ranking.⁴

The second reason to suggest caution when comparing summary inequality measures across countries is that income inequality may be higher in one country than in another over one portion of the entire distribution, while the reverse occurs over a different portion.⁵ In practice, this occurs only in a few cases.⁶ While both factors – differences between data sources for the same country and the possibility that the assessment of inequality will vary depending on which part of the distribution is considered – suggest that cross-country comparisons of income distribution need to be taken with some caution, neither of these factors seems important enough to obscure the conclusion that the large cross-country differences in income inequalities highlighted in this section are “real” and not the product of statistical “noise”.

Has the distribution of household income widened over time?

From a policy perspective, comparisons of *changes* in income distribution across countries are often more significant than comparisons of levels. In this respect the OECD data have significant advantages relative to other data sources, as they rely on series that are temporarily consistent or that (in most cases) allow correcting for discontinuities when these occur.⁷ Figure 1.4, which shows point changes in the Gini coefficient for equivalised household disposable income over different time periods, highlights significant differences in income distribution across both countries and periods.

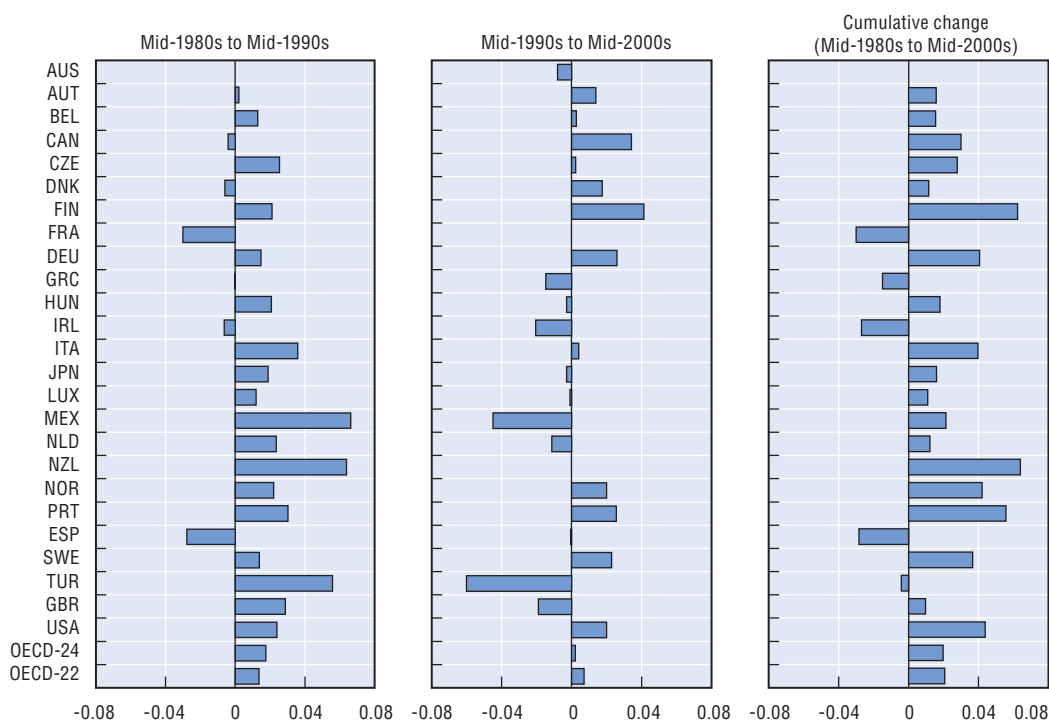
- In the decade from the mid-1980s to the mid-1990s, the dominant pattern is that of a widening of the distribution. This is especially evident in Mexico, New Zealand and Turkey but also in Italy, Portugal, the United Kingdom and the United States, as well as in the Czech Republic and Hungary (where data start in 1990). Income inequality fell in this decade in only a few countries (Canada, Denmark, France, Ireland and Spain). When averaged across the 24 OECD countries for which time-series data are available, income distribution widened by 0.018 point, i.e. by around 6%, and by slightly less (0.014 point, i.e. 5%) when excluding Mexico and Turkey.
- There is more diversity in patterns in the decade from the mid-1990s to the mid-2000s. Income distribution widened again in several countries – especially in Canada, Finland, Germany, Norway, Portugal, Sweden and the United States – but it narrowed in 10, with large declines in Mexico and Turkey and smaller ones in Australia, Greece, Ireland, the Netherlands and the United Kingdom. Statements about “average” changes of inequality


in this period crucially depend on developments in Mexico and Turkey: when including them, the average increase in income inequality is only 0.002 point, while it is higher – but still below that recorded in the previous decade – when excluding them (0.07 point, i.e. 2%). Since 2000, income inequality increased strongly in Canada, Germany, Norway and the United States (and, to a lesser degree, in Italy, and Finland), while it fell in the United Kingdom, Mexico, Greece and Australia (and, to a smaller extent, in Sweden and the Netherlands).

- Overall, over the entire period from the mid-1980s to the mid-2000s, the dominant pattern is one of a fairly widespread increase in inequality (in two-thirds of all countries), with declines in France, Greece, Ireland, Spain and Turkey (but the data are limited to 2000 for Ireland and Spain). The rises are stronger in Finland, Norway and Sweden (from a low base), as well as in Germany, Italy, New Zealand and the United States (from a higher base). Across the 24 OECD countries for which data are available, the cumulative increase is of around 0.02 point, i.e. around 7%, with most of the rise experienced in the first decade, with a similar change holding when excluding Mexico and Turkey from the OECD average.⁸

Figure 1.2. **Trends in income inequality**

Point changes in the Gini coefficient over different time periods



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Note: In the first panel, data refer to changes from around 1990 to the mid-1990s for the Czech Republic, Hungary and Portugal and to the western Länder of Germany (no data are available for Australia, Poland and Switzerland). In the second panel, data refer to changes from the mid-1990s to around 2000 for Austria, the Czech Republic, Belgium, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not deemed to be comparable with those for earlier years). OECD-24 refers to the simple average of OECD countries with data spanning the entire period (all countries shown above except Australia); OECD-22 refers to the same countries except Mexico and Turkey.

Source: Computations from OECD income distribution questionnaire.

How “large” is this observed increase in income inequality? It is difficult to provide a simple answer to this (simple) question.

- First, because qualitative assessments of this type depend on the *a priori* judgments of different people: a “small” increase in the Gini coefficient for people that do not care much about inequality will appear as much larger to someone committed to a strong egalitarian agenda.
- Second, because different inequality measures have different boundaries, they will display changes of different size: for example, across the 22 OECD countries with data spanning the two decades to the mid-2000s, the inter-decile (P90/P10) ratio recorded an average increase of 0.3 point, *i.e.* 7%, while the inter-quintile share ratio (S80/S20), the MLD and the SCV increased by 10%, 9% and 30% respectively – *i.e.* larger rises than for the Gini coefficient (Table 1.A2.4).
- Third, because summary measures of income inequalities differ in their sensitivity to developments in various parts of the distribution.⁹

An intuitive metric for comparing changes in the Gini coefficient of income inequality is provided by Blackburn (1989), who argues that the difference in the Gini coefficients for two distributions is one-half the percentage value of a lump-sum transfer of average income from each individual below (above) the median to each individual above (below) the median income. On this basis, an increase in the Gini coefficient of 2 percentage points is equivalent to a (hypothetical) lump-sum transfer of 4% of average income from all those below the median to all those above it. Of course, people at the top half of the distribution have higher incomes than those at the bottom (about 2.5 times bigger, on average, in OECD countries). This means that to change the Gini coefficient by 2 points is equivalent to each person below the median transferring 7% of their own income to those above the median, whose income rises by nearly 3%. Overall, these considerations suggest that the widening of the income distribution in OECD countries recorded over the past 20 years is *moderate but significant*.

These aggregate changes in income distribution are themselves the result of differences in the pace of income growth for people at different points of the income distribution. Changes in real income by income grouping are significant for several reasons. First, if economic growth is important for the well-being of individuals in different countries, “how” the economy grows (*i.e.* which income groups benefit the most) matters for income inequalities. Second, a widening of inequalities in a country experiencing *higher* income growth throughout the distribution has different welfare implications from one occurring in a context of income declines for all. Table 1.1 shows average annual changes in real disposable income over the two decades (mid-1980s to mid-1990s and mid-1990s to mid-2000s), for people at different points in the income distribution. Patterns differ across the two time periods. In general, differences in the pace of income growth across the distribution are significant. The higher absolute pace of income growth over the past decade has generally benefitted people across the entire distribution, although with important differences across countries – *i.e.* the real income of people in the bottom quintile of the distribution fell in Belgium, Germany, Japan, Turkey and – to a lesser extent – in Mexico and the United States. On average, across all OECD countries considered, people in the top quintile recorded larger income gains than those in the bottom in both decades, but the differences were smaller in the second decade.¹⁰

These differences in the growth rates of equivalised income across income quintiles have impacted on income distribution in various ways. The main effect is that the “middle

Table 1.1. Trends in real household income by quintiles

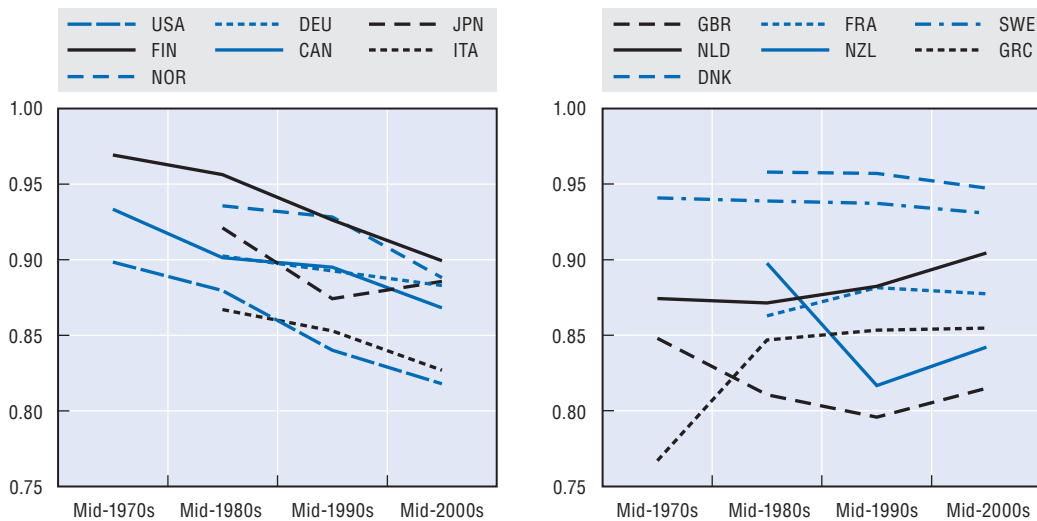
	Average annual change mid-1980s to mid-1990s					Average annual change mid-1990s to mid-2000s				
	Bottom quintile	Middle three quintiles	Top quintile	Median	Mean	Bottom quintile	Middle three quintiles	Top quintile	Median	Mean
Australia	..	..	..	..	..	2.4	2.0	1.9	2.2	2.0
Austria ¹	2.5	2.7	2.8	2.8	2.7	-2.1	-0.5	-0.4	-0.6	-0.6
Belgium ¹	1.2	0.5	1.2	0.4	0.8	1.4	1.3	1.7	1.2	1.5
Canada	0.3	-0.2	-0.1	-0.2	-0.1	0.2	1.2	2.1	1.1	1.4
Czech Republic	..	..	..	..	..	0.4	0.6	0.7	0.5	0.6
Denmark	1.3	0.9	0.8	0.9	0.9	0.6	0.9	1.5	0.9	1.1
Finland	0.9	0.9	1.0	0.8	1.2	1.6	2.5	4.6	2.5	2.9
France	1.0	0.5	-0.1	0.5	0.3	0.9	0.7	1.0	0.8	0.8
Germany	0.4	1.4	1.6	1.2	1.4	-0.3	0.5	1.3	0.6	0.7
Greece	0.3	0.1	0.1	0.3	0.1	3.6	3.0	2.7	2.9	2.9
Hungary	..	..	..	..	..	0.9	1.2	1.0	1.1	1.1
Ireland ¹	4.0	3.0	2.9	3.2	3.1	5.2	7.7	5.4	8.2	6.6
Italy	-1.3	0.5	1.5	0.6	0.8	2.2	1.0	1.6	1.0	1.3
Japan	0.8	1.8	2.1	1.8	1.9	-1.4	-1.0	-1.3	-1.0	-1.1
Luxembourg	2.3	2.5	3.0	2.4	2.7	1.5	1.5	1.7	1.5	1.6
Mexico	0.7	1.2	3.8	1.1	2.6	-0.1	-0.1	-0.6	-0.2	-0.4
Netherlands	1.1	2.7	3.9	2.8	3.0	1.8	2.0	1.4	2.0	1.8
New Zealand	-1.1	-0.5	1.6	-0.6	0.3	1.1	2.2	1.6	2.3	1.9
Norway	-0.3	0.3	1.0	0.4	0.5	4.4	3.9	5.1	3.8	4.3
Portugal ¹	5.7	6.5	8.7	6.2	7.3	5.0	4.1	4.4	4.2	4.3
Spain ¹	4.4	3.2	2.4	3.2	3.0	5.2	5.1	5.0	5.5	5.1
Sweden	0.5	0.9	1.2	0.9	0.9	1.4	2.2	2.8	2.2	2.3
Turkey	-0.6	-0.7	1.4	-0.8	0.4	-1.1	-0.5	-3.2	-0.3	-1.9
United Kingdom	0.7	2.0	4.3	1.9	2.8	2.4	2.1	1.5	2.1	1.9
United States	1.2	1.0	1.9	1.0	1.4	-0.2	0.5	1.1	0.4	0.7
OECD-22 ²	1.2	1.4	2.1	1.4	1.7	1.5	1.8	1.9	1.9	1.8
OECD-20 ³	1.3	1.5	2.1	1.5	1.7	1.7	2.0	2.2	2.1	2.1


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- Changes over the period mid-1990s to around 2000 for Austria, the Czech Republic, Belgium, Ireland, Portugal and Spain (where 2005 data, based on EU-SILC, are not deemed to be comparable with those for earlier years).
- OECD-22 refers to the simple average for all countries with data spanning the entire period (i.e. excluding Australia, the Czech Republic and Hungary, as well as Iceland, Korea, Poland, the Slovak Republic and Switzerland).
- OECD-20 refers to all countries mentioned above except Mexico and Turkey.

Source: Computations from OECD income distribution questionnaire.

class” has lost ground relative to the economy-wide average in several countries. This “relative” decline may be described by looking at changes in the ratio of the “median” income (i.e. the income of the person standing exactly in the middle of the distribution) to the “mean” income of each country (Figure 1.3): the more this ratio falls below 1, the more the income of the middle class falls relative to that of other people in society, in particular those in the upper tail of the distribution. The ratio of median to mean income fell since the mid-1980s (or earlier) in most countries, with the main exceptions being the Netherlands and Greece (where it increased throughout the period) and Australia, New Zealand and Turkey (where it increased since the mid-1990s). The decline in the ratio of median-to-mean income was especially sharp in New Zealand with the decade from the mid-1980s to the mid-1990s, as well as in Canada, Finland and the United States, with a decline of around 10% over the entire period.

Figure 1.3. **Changes in the ratio of median to mean household disposable income**

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Source: Computations from OECD income distribution questionnaire.

Differences in the pace of income growth across quintiles have changed the share of total income accruing to each. Over the past decade, the income share of people in the bottom quintile was broadly constant in a majority of countries, with moderate rises in Italy and Mexico and moderate declines in Austria, Canada, Finland, Germany, Ireland, Sweden and the United States (Table 1.2). There is more diversity across countries when looking at developments in the middle and top of the income distribution. The income share of the three middle quintiles increased strongly (*i.e.* by more than 2 points) in Ireland, Mexico and Turkey (countries where income disparities are wide but narrowing rapidly) and, to a lesser extent (*i.e.* between 0.5 and 2 points), in Japan, the Netherlands and New Zealand, while it fell strongly in Norway and, to a lesser extent, Canada, Denmark, Finland, France, Germany, Italy, Sweden and the United States. Strong gains in the income share of the top quintile drove rising disparities in Canada, Finland and Norway, as well as (to a lesser extent) in Austria, Denmark, Germany, Italy, Sweden and the United States; while, conversely, strong declines in the income share of the very rich contributed to lower inequalities in Ireland, Mexico and Turkey. Income gains at the top of the distribution are likely to be under-reported in the general population surveys used in this report (Box 1.1). This is indicated by the fact that gains in the income share of the top 1% of the population, as available in the OECD income distribution questionnaire, fall short of the much larger gains (since the mid-1980s) reported in the tax records for the United States, the United Kingdom and Canada.

While the changes in income distribution described above reflect the operation of different factors (described in more detail in later chapters), a key distinction is that between inequality of *disposable income* (*i.e.* income after taxes and government transfers) and of *market income* (the sum of earnings, self-employment and capital income, all measured on a pre-tax basis). Changes in inequality for these two income concepts allow distinguishing (to a first approximation) between the effect of market forces and that of government policies. This distinction is important, as governments can generally counter a rise in the inequality of market income through the tax and benefit system, but not for long: there are limits to the redistribution that government can achieve, especially when

Table 1.2. **Gains and losses of income shares by income quintiles**
Point changes, mid-1990s to mid-2000s

	Bottom quintile	Middle three quintiles	Top quintile
Strong increase	..	Ireland, Mexico, Turkey	Canada, Finland, Norway
Moderate increase	Italy, Mexico	Japan, Netherlands, New Zealand, United Kingdom	Austria, Denmark, Germany, Italy, Sweden, United States
Stability	Australia, Belgium, Czech Rep., Denmark, France, Greece, Hungary, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Turkey, United Kingdom	Australia, Austria, Belgium, Czech Rep., Greece, Hungary, Luxembourg, Portugal, Spain	Australia, Belgium, Czech Rep., France, Hungary, Japan, Luxembourg, Portugal, Spain
Moderate decline	Austria, Canada, Finland, Germany, Ireland, Sweden, United States	Canada, Denmark, France, Finland, Germany, Italy, Sweden, United States	Greece, Netherlands, New Zealand, United Kingdom
Strong decline	..	Norway	Ireland, Mexico, Turkey

Note: "Strong" increases and declines in income share are those above and below 2 percentage points, respectively; "moderate" increases and declines are those between $\frac{1}{2}$ and 2 points; "stability" denotes changes in income shares between $+\frac{1}{2}$ point. For Austria, Belgium, Czech Republic, Denmark, France, Ireland, Japan, Poland, Portugal and Spain data refer to changes over the period from the mid-1990s to around 2000.

Source: OECD income distribution questionnaire.

other pressures on public spending (*e.g.* those due to population ageing) are also rising. Figure 1.4 shows changes in the Gini coefficients for these two income concepts, with both series indexed to the first observation available for each country. In the decade from the mid-1980s to the mid-1990s, greater income inequality was mainly driven by the widening distribution of market income, which affected all countries except France. In this period, governments offset this widening through household taxes and public cash benefits either in full (*e.g.* Canada and Sweden) or in part (in all others, Figure 1.4). Cross-country differences are much more significant since 1995. In this period, market income inequality fell markedly in the Netherlands and, to a lesser extent, in Australia, New Zealand, the United Kingdom and Sweden, while it stabilised in Denmark, Finland and France, and increased in other countries (rapidly in the case of Germany, Italy, Japan and Luxembourg). While the increase of disposable-income inequality was generally lower than in the previous period, a larger part of this rise reflected lower redistribution through the tax and transfers system, especially in Canada, the Netherlands, Sweden and, to a lesser extent, the United States.

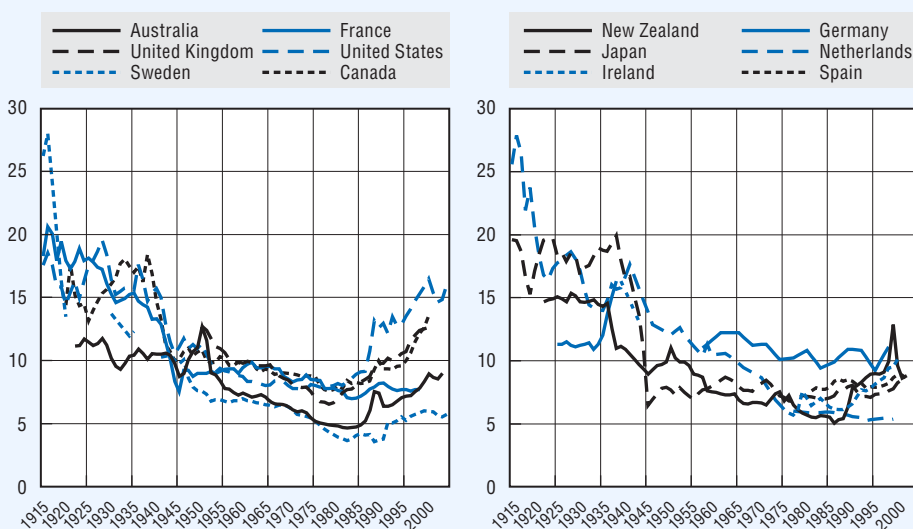
Figure 1.5 plots the average trends in the dispersion of disposable and market income across the 15 OECD countries with observation spanning the entire period from the mid-1980s to the mid-2000s. The figure highlights, in a more parsimonious way than Figure 1.4, some significant differences across periods. On average, across the 15 countries here considered (the same one shown in Figure 1.4 except Australia), the widening of income inequality observed in the decade from the mid-1980s to the mid-1990s mainly reflected greater inequality in the distribution of market-income, which was partly offset by public cash transfers and household taxes. Conversely, from the mid-1990s up to around 2000, the growth of market-income inequality ebbed, and the increase in disposable income inequality mainly reflected the effect of public transfers and household taxes. The stabilisation in market-income inequality testified to the success of the welfare reforms introduced by several OECD countries in "activating" former benefit recipients, and in moving them into work (OECD, 2005). The most recent period, however, features a reversion to the older pattern of wider market-income inequality partially offset by redistribution through taxes and transfers, although at a pace lower than in the past. This

Box 1.1. Changes at the top of the income distribution

The survey measures of household income used in this report are not well-suited to measure income at the top of the distribution. This is due to the narrow income definition used, to confidentiality norms applied to top income and to the high non-response rates among people at the top end of the distribution. With respect to the first element, the main feature is the exclusion from the (cash) income concept used in this report of those income sources (capital and withholding gains, non-wage components of the remuneration package of managers such as stock options, and imputed rents) that disproportionately accrue to the very rich. With regard to the second element, the main feature is whether survey data cap (“top code”) income or earnings beyond a given threshold. Top coding affects most analysis of income distribution in the United States, based on the “public use” data from the “Annual Social and Economic Supplement” to the *Current Population Survey*, which are affected by changes in the confidentiality limits applied by the Census Bureau on to top-income (which will dampen the recorded rise in income inequality over time); the US data presented in this report are less affected by this problem as they are based on the Census Bureau “internal” files.

An alternative to survey data for capturing changes at the top of the income distribution is provided by tax records (adjusted to take account of the income of the non-filers). Data on the share of *pre-tax income* earned by people in the top 1% of the distribution show large increases (of 70% or more) since the mid-1970s in Australia, Canada, Ireland, the United Kingdom, the United States and Canada, and smaller ones (between 10% and 25%) in Germany, Japan, New Zealand, Spain and Sweden), and declines (of around 10%) in France and the Netherlands (Leigh, 2007). With few exceptions, changes in the income share of the richest 1% of the population account for most of the increase in the income share of the top decile of the distribution. While these tax data are better at capturing what happens at the top end of the distribution – while also providing a long-term context for assessing recent trends – they are affected by changes in provisions that alter tax payers’ incentives to report capital (and other) income in their tax declarations (Reynolds, 2007). In the case of the United States, however, the strong rise in the income share of the top 1% is confirmed by other administrative sources (*e.g.* the tabulations of the US Social Security Administration of personal earnings) and by studies that take into account payments of both personal and corporate taxes (Burtless, 2007).

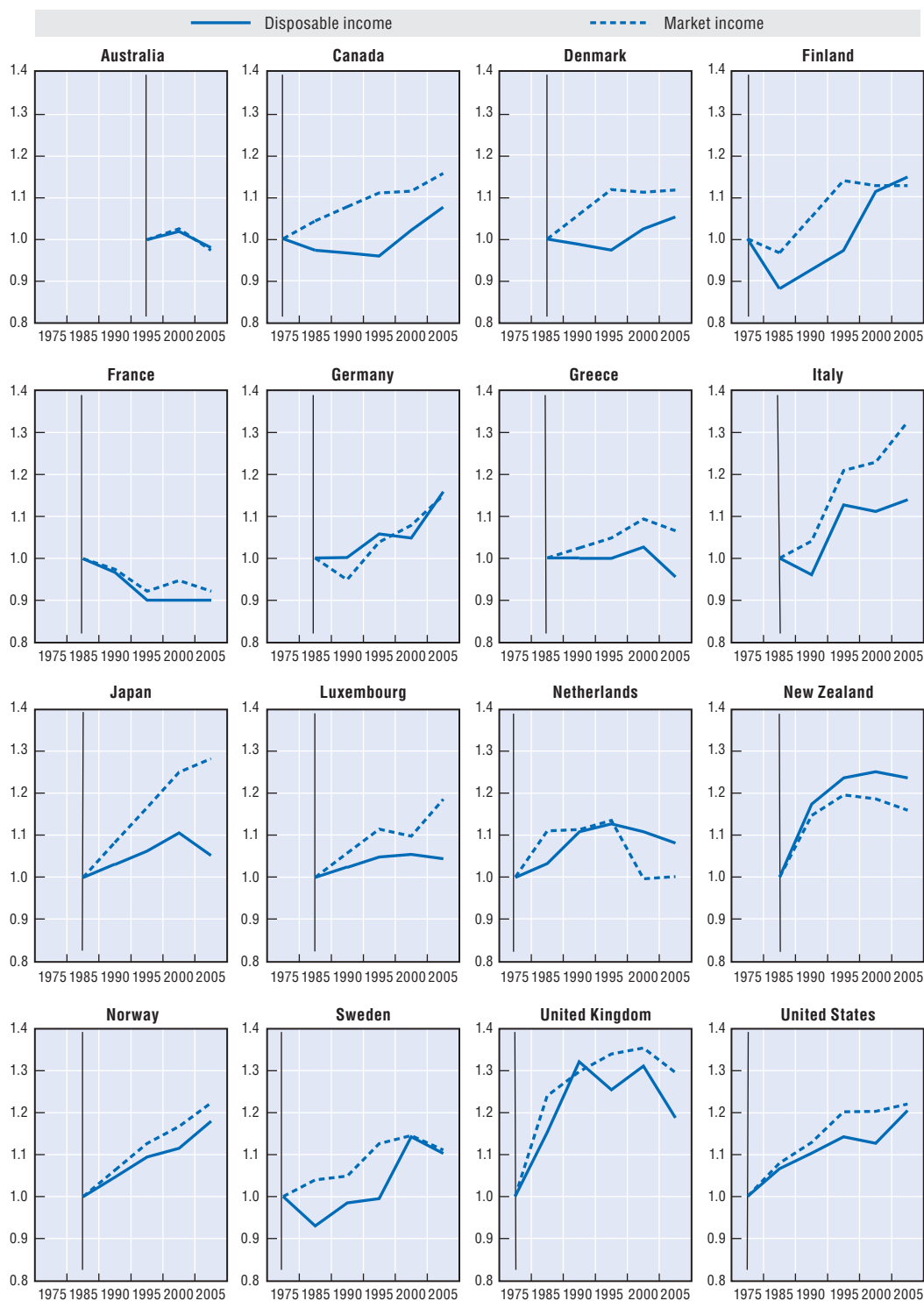
Shares of pre-tax income of the richest 1% of population




StatLink  <http://dx.doi.org/10.1787/420757184562>

Source: Leigh (2007), dataset downloaded from <http://econrsss.anu.edu.au/~aleigh/>.

Figure 1.4. **Inequality trends for market and disposable income**
Gini coefficients, indexed to the value in the first available year



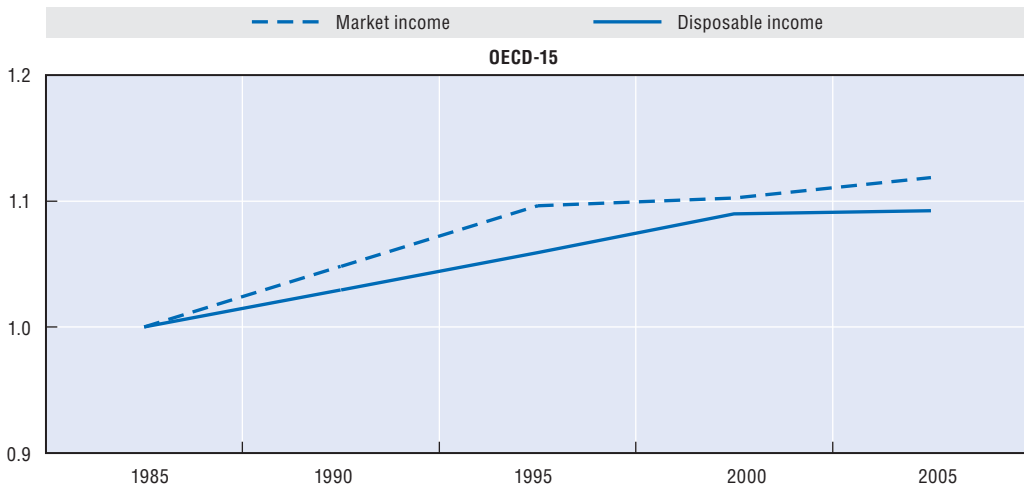

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Note: Dots in each country-panel refer to the available observations. Lines are obtained as linear interpolations between these observations. Gini coefficients for market- and disposable-income are based on people ranked based on each of the two income concepts.

Source: OECD income distribution questionnaire.

Figure 1.5. **Trends in market and disposable income inequality, OECD average**

Gini coefficients, mid-1980s = 1.0

StatLink  <http://dx.doi.org/10.1787/420718178732>

Note: OECD-15 is the average of countries for which information is available over the entire period from the mid-1980s to the mid-2000s (Canada, Denmark, Finland, France, Germany, Greece, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Sweden, the United Kingdom and the United States). Gini coefficients for market and disposable income are based on people ranked based on each of the two income concepts.

Source: OECD income distribution questionnaire.

development suggests that some of the earlier narrowing in market-income inequality may have been short-lived, and that stronger reforms will be required to assure a more equal distribution of market income. While these changes in market-income inequality are often related to shifts in factor shares, the relation between the two is complex, suggesting that other factors have also been at work (Box 1.2).

Moving beyond summary measures of income distribution: income levels across deciles

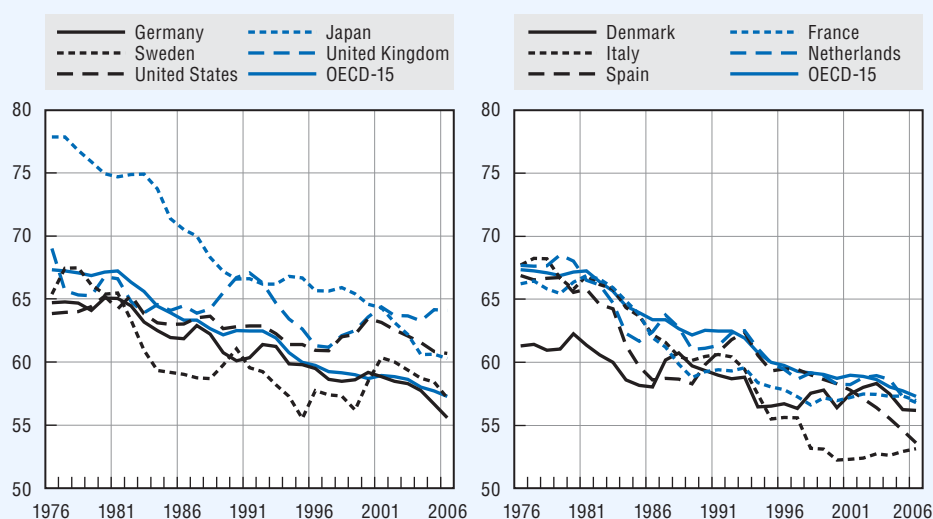
While income inequality is only one element involved in comparisons of social and economic conditions across OECD countries, the data presented in this report also shed light on other aspects that are relevant to that assessment. One of these is the *absolute level* of household disposable income of people at different points of the distribution. Figure 1.6 plots the mean income (averaged across people belonging to different deciles of the distribution) of various OECD countries, as well as the average income of people belonging to each decile of the income distribution.¹¹ Mean disposable income per consumption unit is above USD 22 000 on average, with Luxembourg leading the league (at above USD 40 000) followed by the United States (USD 33 000) and Norway (USD 30 000). At the other extreme are Turkey and Mexico, with values of around USD 7 000. Values of mean disposable income per consumption unit are lower than conventional measures of income per capita (NNI), but the two series are highly correlated with each other.¹² The overall width of the income distribution – as measured by the difference in average income of the top and bottom income deciles, in USD at PPP rates – is also significantly different across countries, with a gap in average income between top and bottom of less than USD 20 000 in the Slovak Republic and more than USD 85 000 in the United States.

The same set of data can also be presented in a format more suited to highlight cross-country differences in the income levels of people at comparable points in the

Box 1.2. Income inequality and wage shares: are they related?

The moderate but significant rise in income inequality recorded in most OECD countries since the mid-1980s has occurred alongside significant declines in the share of wages in value added. Across 15 OECD countries with data spanning the entire period since 1976, this share has declined by around 10 points (i.e. 15%), with larger declines (of 15 points or more) in Ireland, Italy and Japan, and smaller ones (5 points or less) in Denmark, Greece, the United Kingdom and the United States (see figure below).

The share of wages in value added



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Note: Total wages are measured as total compensation of employees and the self-employed (valued at the business sector compensation rate). Total wages are expressed as a share of the Gross Domestic Product. OECD-15 is the average of the ten countries shown plus Austria, Belgium, Finland, Greece and Ireland.

Source: OECD (2007).

While there are large differences in the level of the wage share across industries, this decline has affected – to different degrees – most industrial sectors, suggesting that this downward trend reflects more than just changes in the structure of GDP (i.e. from industries with a higher wage share towards those with a lower one).¹ Empirical analysis of the determinants of the decline in the wage share at the industry level highlights the influence of higher capital-output ratios, higher real price of oil, stronger (non-labour augmenting) technological progress, as well as (in a less clear-cut way) greater adjustment costs for labour (as measured by higher employment growth) and lower bargaining power of workers (as measured by industrial conflicts, Bentolila and Saint-Paul, 2003). Other factors not explicitly included in these empirical estimates may also have contributed to the observed decline in the wage share.

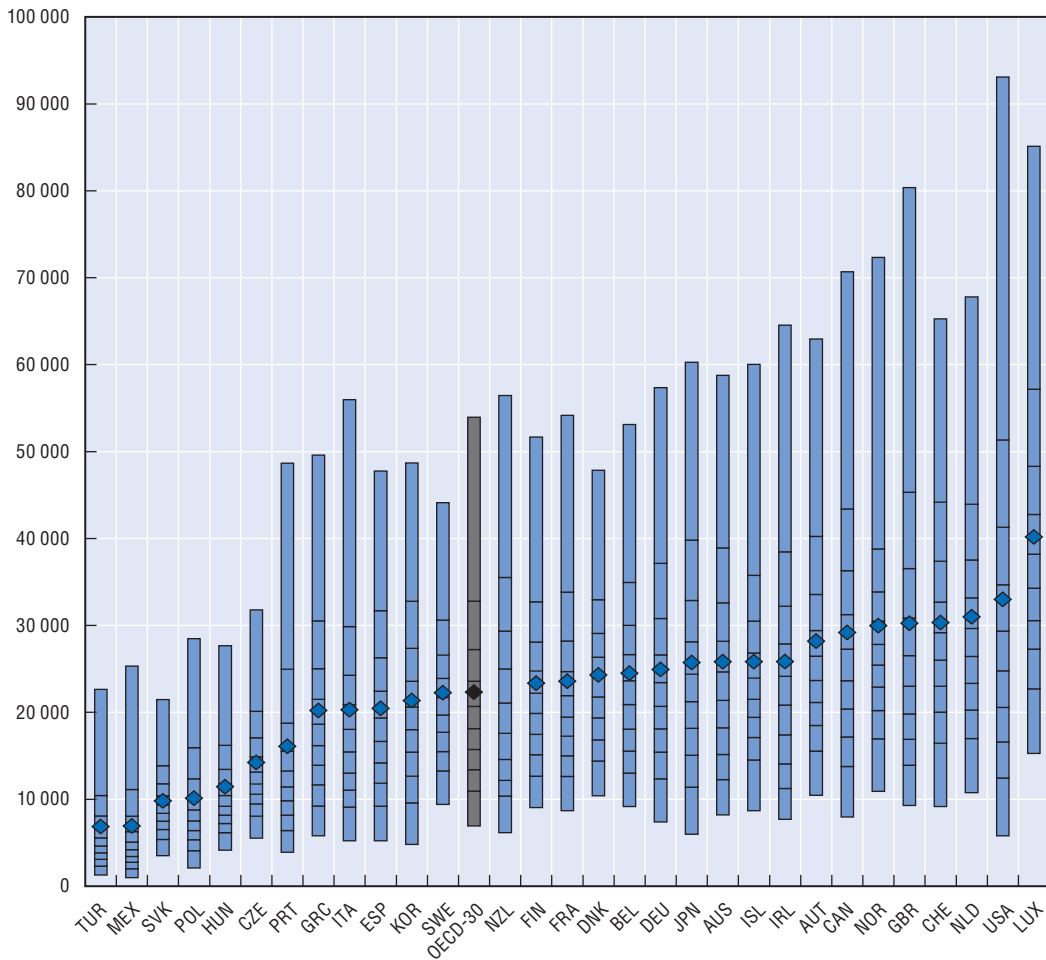

As wages constitute a larger share of income for people at the bottom than at the top of the income distribution, a lower wage share is often taken to imply a decline in the share of household income going to people with lower income. In reality, there is no necessary connection between the share of value added paid as wages and the share of household disposable income going to low-income groups.² However, as described in later chapters, capital income is generally much more unequally distributed than wages: this implies that an increase in the share of capital income within households' economic resources will widen income inequality through a compositional effect.

1. De Serres *et al.* (2002) show that changes in the industrial composition of business sector output account for between 25% and 10% of the decline in the aggregate wage share from the mid-1970s to the mid-1990s in Italy, France, Belgium and the United States, with a larger influence in Germany (where a wage share adjusted for changes in the industrial composition of output rises) and a negligible one in the Netherlands.

2. Lam (1997) describes a simple model with two groups of people: low-paid workers, whose income includes only wages, and higher-income workers, who receive both wages and capital income. In this model, when assuming an elasticity of substitution between labour and capital equal to 1, an increase in the number of low-income workers will lead to an increase in their income share and to a decline in that of higher-income workers (for an unchanged share of capital income).

Figure 1.6. **Income levels across the distribution, mid-2000s**

US dollars at PPP rates

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Note: The data refer to equivalised household disposable income of people at different points of the distribution. For each country, the bar starts at the average income of the first decile and ends at the average income of the 10th decile. The figure also shows the mean income over the entire population (shown as a diamond). Income data for each country are adjusted for inflation (when they refer to a year different from 2005) and then converted into US dollars based on PPP rates for actual consumption in 2005. This exchange rate expresses the costs of a standard basket of consumer goods and services purchased on the market or provided for free (or at subsidised rates) by the public sector in different countries. Countries are ranked, from left to right, in increasing order of mean equivalised income.

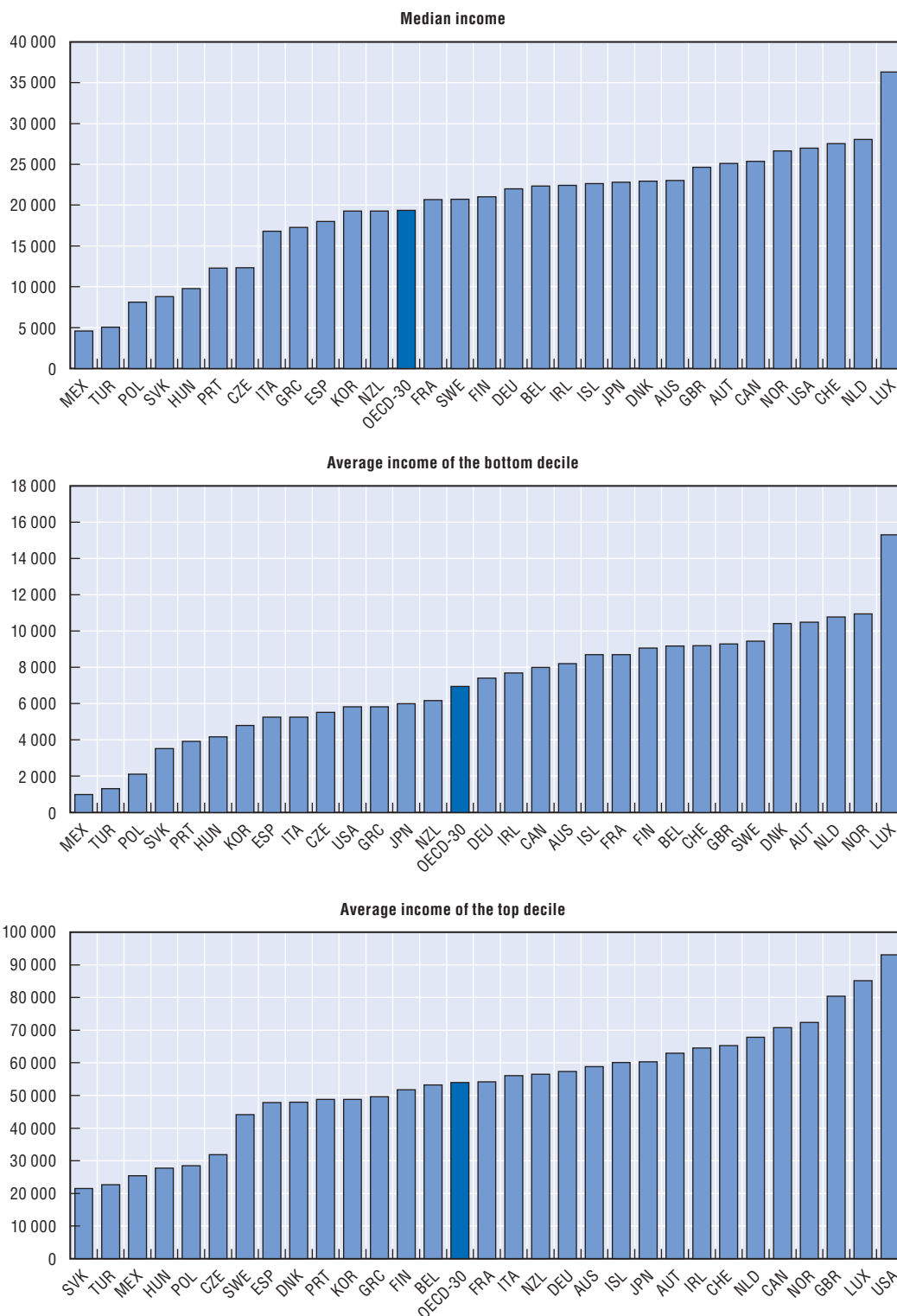
Source: OECD income distribution questionnaire and other OECD databases.

income distribution in different countries. Figure 1.7 presents information for middle-class people (top panel), as well for people in the bottom decile (middle panel) and top decile (bottom panel), with countries ranked in each panel in increasing order of equivalised household disposable income. Figure 1.7 highlights several patterns:

- Median income per consumption unit is marginally less than USD 20 000 on average, ranging from USD 36 000 in Luxembourg to around USD 5 000 in Mexico and Turkey. Dispersion in median income across countries is 10% higher than for mean income. Changes in country ranking (relative to that based on mean income) are small, although the Netherlands rises by two ranks (to the second-highest levels) and the United Kingdom falls by two.

Figure 1.7. **Income levels for people at different points in the distribution, mid-2000s**

US dollars at PPP rates



StatLink <http://dx.doi.org/10.1787/420757110442>

Source: OECD income distribution questionnaire and other OECD databases.

- Cross-country differences are much larger for people at the bottom of the distribution. The average income of people in the first decile is a little less than USD 7 000, ranging from 15 000 in Luxembourg to less than 1 000 in Mexico. The country-ranking for household income of those at the bottom of the distribution differs significantly from that based on mean income – *e.g.* the United States (with the second-highest mean income) falls by 11 positions while Sweden (ranked 14 in terms of mean income) rises by eight.
- At the top of the distribution, average income across countries is USD 37 000, with the United States now topping the league (ahead of Luxembourg) at more than USD 93 000 and Turkey closing it at USD 23 000. Differences across countries are larger in absolute terms than in all previous cases, but lower when assessed relative to the average income of all people at the top of income distribution. Among the countries included in the figure, Italy rises by eight positions (to the eighth-highest) while Sweden falls by four.

Conclusion

This chapter has highlighted four main patterns.

- First, the distribution of household income differs significantly across countries, and these differences persist over time – even if their exact size depends on which statistical sources are used for each country. Different measures provide a broadly consistent assessment of country differences in income inequality, as the Lorenz curves for different countries “cross” each other only in a minority of cases.
- Second, income inequality widened in the two decades since the mid-1980s. This widening is fairly widespread (affecting around two-thirds of all OECD countries), with a moderate but significant increase in most inequality measures. This widening was, however, stronger in the first decade than in the second, and has differed across countries – with several countries experiencing lower inequality in the most recent period.
- Third, the widening of the income distribution has been mainly driven by greater inequality in market income from the mid-1980s to the mid-1990s. Market-income inequality stopped rising from the mid-1990s to around 2000, followed by a renewed moderate increase in later years.
- Lastly, there are large differences across countries in terms of how people at similar points of the income distribution in different countries compare – differences that are “hidden” when countries are compared in terms of their mean income. Percentage differences in income levels across countries are larger at the bottom of the distribution than at the middle, while the top of the distribution features differences in living standards across countries that are wide in absolute terms, but smaller in percentage terms.

Notes

1. The Gini coefficient is defined as the area between the Lorenz curve (which plots cumulative shares of the population, from the poorest to the richest, against the cumulative share of income that they receive) and the 45° line, taken as a ratio of the whole triangle. The values of the Gini coefficient range between 0, in the case of “perfect equality” (*i.e.* each share of the population gets the same share of income), and 1, in the case of “perfect inequality” (*i.e.* all income goes to the individual with the highest income).
2. Relative to other indices, the Mean Log Deviation is more sensitive to changes at the bottom of the distribution, and the Squared Coefficient of Variation is more sensitive to changes at the top, while the Gini coefficient is less sensitive to changes at the two extremes of the distribution.

3. The choice of the statistical sources to use for the OECD income distribution questionnaire is made in consultation with national authorities and consultants. A key criterion for that choice is that of temporal consistency between years.
4. The OECD data show significantly higher inequality than either LIS or Eurostat in several countries (Iceland, Germany and Italy, when compared to Eurostat; Finland, Germany, Ireland, Italy, the Netherlands, Norway and Poland, when compared to LIS). Differences exist even when the three data sources rely on the same underlying survey. While these differences may partly reflect differences in the years considered (i.e. OECD estimates are generally more up-to-date than the LIS) and in the equivalence scale used (in the case of Eurostat), other factors also matter. In the case of Germany, Eurostat data are based on EU-SILC, which is affected by significant biases, while the OECD relies on the survey (the *German Socio-Economic Panel*) that is used by most official national reports on the subject (as well as by LIS). In the case of Italy, OECD results are based on a micro-simulation model run by the central statistical office (ISTAT), which provides estimates of household taxes for the micro-records of the Bank of Italy's *Survey of Household Income and Wealth*, which is the same household survey used by LIS. While the LIS and OECD data provide a consistent picture in terms of structural characteristics of the Italian population, the OECD data show a rise in inequality since 2000, which contrasts with the broad stability of inequality in the Bank of Italy datafiles. In the case of Japan (not covered by LIS), different sources provide significantly different estimates of inequality levels (but broadly consistent information about trends). The OECD data rely on the *Comprehensive Survey on Living Conditions* – a survey characterised by a large sample size and high response rate, which collects information based on retrospective questions and allows tracking changes in income inequality and poverty over time. The Gini coefficient from this survey is, however, significantly higher than the one computed (based on similar definitions) from the *National Survey of Family Income and Expenditure* (0.28) – the basic source of information on household spending. This second survey, which relies on diaries filled by respondents, has a larger sample but it excludes some types of households; as a result, this survey allows monitoring trends in income inequality and poverty only for a narrower population group.
5. Income inequality is unambiguously greater (lower) in one country than in another when its Lorenz curve lies strictly above (or below) that of the comparison country. Conversely, when the Lorenz curves for two countries “cross” each other, assessments of inequality based on summary measures of the entire distribution are somewhat arbitrary.
6. Table 1.A2.1 in the annex compares Lorenz curves between pairs of countries, classifying results with different colours (dark grey and dark blue in cases of “strict” dominance of the Lorenz curve of one country relative to that of another; light grey and light blue in cases where Lorenz curves of two countries cross each other at one of the two extremes; white in indeterminate cases). The table shows that, in around three quarters of all cases, binary comparisons of income distribution between countries lead to unambiguous conclusions (i.e. the Lorenz curve of one country lies either strictly above or strictly below than that of another). However, in 18% of all cases, Lorenz curves cross each other (cells shaded in white) and in a further 8% of all countries the crossing occurs either at the top or bottom decile (cells shaded in light blue or light grey).
7. Discontinuities, due to either changes in the statistical source used (as in the cases of Canada in 1995 and the United Kingdom in 2001) or to changes in survey design or weighting (as in the case of the Netherlands in 2000 and Sweden in 1985) are addressed by collecting data for the same year both on a “new” and “old” basis, and then “splicing” the various indicators. Statistical breaks also affect series for Belgium, Germany, Italy, Japan, Spain and Turkey (in 1995). For France, the source used for describing trends in income distribution (*Enquête Revenus Fiscaux*) differs from the one used to compare levels of the various indicators in the most recent year (EU-SILC).
8. Data spanning the period from the mid-1970s to the mid-1980s are available for seven OECD countries. These data point to a sharp increase of income inequality in the United Kingdom and, to a lesser extent, in the Netherlands and the United States, and to declines in Canada, Finland, Greece, Portugal and Sweden.
9. For example, focusing on the lower part of the distribution, it has been estimated that, for the EU15 as a whole, removing all means-tested benefits would increase the Gini coefficient (computed for the entire EU15 population) from 0.300 to 0.327 (Immervoll et al., 2006, Table 5.3).
10. Data in Table 1.1 are shaped by the specific features of the data and definitions used. First, the income concept used in household surveys differs in important respects from that embodied in the national-accounts measures conventionally used in the analysis of living standards, and changes in the “coverage” of the survey data may distort trends over time (Siminski et al., 2003). Second, changes in equivalised disposable income are affected by both the overall trends in

household income and by changes in household size across different income deciles; as average household size fell in all OECD countries over this period, the gains in equivalised income shown in Table 1.2 are lower than those for per capita income based on national accounts aggregates.

11. For the purpose of this comparison, survey-based estimate of equivalised household disposable income are first adjusted for price changes (because of differences in the years to which the data refer) to a common 2005-base, and then converted into “purchasing power” equivalents through exchange rates that express how many units of a standard basket of consumer goods residents of different countries can either purchase on the market or receive for free, or at subsidised rates, from governments (i.e. PPP rates for “actual” consumption).
12. The correlation coefficient between levels of NNI per capita and mean equivalised household disposable income in cash is around 0.95, and slightly lower when looking at rank correlations.

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ANNEX 1.A1

OECD Data on Income Distribution: Key Features

Comparable data on the distribution of household income provide both a point of reference for judging the performance of any country and an opportunity to assess the role of common drivers as well as drivers that are country-specific. They also allow governments to draw on the experience of different countries in order to learn “what works best” in narrowing income disparities and poverty. But achieving comparability in this field is also difficult, as national practices differ widely in terms of concepts, measures, and statistical sources.¹ The OECD has a long association with research on the distribution of household income, which this report pursues based on a new set of data.² The data are collected through a network of national experts, who apply common conventions and definitions to unit record data from different national data sources and supply detailed cross-tabulations to the OECD (Table 1.A1.1 provides country details on the statistical sources used). This method of data collection allows covering a broader range of OECD countries (30, in the present volume), based on information that is both more up-to-date relative to that available through other statistical sources and better suited for assessing changes in income distribution over time. Its disadvantage is that it does not allow accessing the original micro-data, which constrains the analysis that can be performed. For this reason, data from the OECD income distribution questionnaire presented in this report are complemented, when needed, by results based on micro-records of the *Luxembourg Income Study* project (www.lisproject.org).

The data on income distribution presented in this volume have three key features:

- *First*, they refer to cash income – excluding imputed components such as home production and imputed rents – regularly received over the year. Data refer to disposable (i.e. after tax) income and its components: earnings (broken down into those of the household head, of the spouse and of other household members); self-employment income; capital income (rents, dividends and interest); public transfers; and household taxes. Information is presented for various breakdowns: by age of the individual, age of the household head (below and above 65), presence of children (persons aged below 18), presence of other adults, and work status of household members.
- *Second*, the analysis refers to the distribution among individuals, while keeping the household as the unit within which income sources are pooled and equally shared. This implies that the income of the household is attributed to each of its members, irrespectively of who in the household receives that income. The income attributed to each person is “adjusted” for household size based on a common but arbitrary equivalence elasticity (the square root of household size) that does not distinguish

between adults and children and which implies that a household's economic needs increase less than proportionally with its size.³

- *Third*, data for most countries are drawn from household surveys, but in the case of several Nordic countries they come from comprehensive population registers integrated with survey data. The use of household surveys implies that data are affected by various sampling and non-sampling errors, whose importance can vary from country to country. It also implies that the data exclude some people at the bottom of the income distribution, such as those without a regular address (e.g. homeless), irregular residents and people living in institutions. Survey results may also be affected by under-reporting, which may be especially significant at the top and bottom of the distribution.

The data used in this paper, however, differ in certain aspects that escape “standardisation”, and this may affect cross-country comparisons. Some of these features include the following:

- *Differences in the definition of households.* For most countries, a household refers to a group of people living in the same dwelling, but, in some others, having a common provision for essential items is an additional requirement. Countries using more restrictive definitions of households will feature lower household size and equivalised income (and higher poverty rates) relative to other countries. In Sweden until the mid-1990s, children above a given age were considered as a separate household, even if living in their parents' home, and special adjustments (described below) have been used to account for this change in the definition of households.
- *Period over which income is assessed.* Income refers to what is earned in the year preceding the interview, with most countries referring to the previous calendar year, while a few refer to the 12 months preceding the interview. In some countries, however, income or some of its components are assessed over a shorter reference period and then converted to an annual basis.⁴ Countries using shorter reference periods will generally display greater income volatility and are more likely to record periods of temporary income shortfalls.
- *Availability of tax data.* All income components are reported before deduction of direct and payroll taxes (social security contributions) paid by households, but there are some exceptions.⁵ Even for countries where household taxes are separately identified, there may be differences in the way these are computed, with some countries relying on self-reported data (e.g. Japan), others on tax records (e.g. Denmark and several other Nordic countries), and others on values “imputed” through microsimulation models applied to individual records (e.g. Italy, New Zealand, the United States). In the case of estimates based on micro-simulation models, differences in the details and assumptions used (e.g. with respect to tax evasion) may affect the comparability of results.
- *Temporal consistency of the data.* When statistical breaks occur – due to changes in survey methods (Japan in 1995, the Netherlands in 2000), income or household definitions (Italy in 1995, Sweden in 1985), or adoption of different surveys (Belgium, Canada and Spain in 1995; the United Kingdom in 2001) – data are collected on both the “old” and “new” bases so as to allow chain-linking various indicators. However, with the introduction of EU-SILC in 2004, several European countries (Austria, Belgium, the Czech Republic, Ireland, Portugal, Poland and Spain) discontinued the surveys used in this paper for previous years: for these countries, data for the mid-2000s are therefore not comparable with those for earlier years.

Table 1.A1.1. National sources and data adjustments

	Source	Income year	Period over which income is assessed	Sample size and response rate in most recent year	Definition of household and household head	Recorded income	Other data features
Australia	<i>Survey of income and housing</i>	1994/1995, 1999/2000, 2003/2004 June to June	<ul style="list-style-type: none"> • Current weekly income times 52.14 • Usual income in last payment period for earnings and public transfers • Payment period is previous week, fortnight or month for wages, normally fortnight for benefits) 	About 11 000 households and 78% response rate	<ul style="list-style-type: none"> • One or more persons usually resident in the same private dwelling • Household reference chosen by applying to all household members aged 15 years and over different selection criteria • Change in definition of household head in 2003/04 	• Regular and recurring cash receipts	<ul style="list-style-type: none"> • Changes to improve survey quality in 2003-04 may impact on the comparability with earlier data • Capital and self-employment income imputed from previous year for 1994-95 and 1999-2000, based on self-assessment of expected gross income for 2003/04
Austria	<i>Micro census</i> <i>EU survey of income and living conditions</i>	1983, 1993, 1999 2004		67% for income questions		Monthly averages Income data exclude capital and self-employment incomes (if the self-employed person is the household head)	<ul style="list-style-type: none"> • 2004 data not comparable with data for previous years • No data on taxes for all years (<i>i.e.</i> all data for income components recorded net of income and payroll taxes) • Data on income components refer to individuals, with imputation for non-response in 1993 and 1999
Belgium	<i>Tax records</i> <i>European Community household panel</i> <i>EU survey of income and living conditions</i>	1985, 1995 1995, 2000 2004					<ul style="list-style-type: none"> • 2004 data not comparable with data for previous years • Change in source in 2000 (dealt through splicing) • No data on taxes before 2004
Canada	<i>Survey of consumer finances</i> <i>Survey of labour and income dynamics</i>	1975, 1985, 1995 1995, 2000, 2005	Income over calendar year	About 30 000 households and 85% response rate	A person, or group of persons, residing in a dwelling	Market income and government benefits, net of income taxes	<ul style="list-style-type: none"> • Change in source in 2000 (dealt through splicing) • Income items which were coded as non-response in SLID were set to zero • Amounts received through some government transfers derived from other sources. Survey data on taxes are complete and do not require imputation
Czech Republic	<i>Micro census</i> <i>EU survey of income and living conditions</i>	1992, 1996, 2002 2004		About 38 000 dwellings and 76% response rate	Private households	Annual disposable income in each year	<ul style="list-style-type: none"> • Taxes exclude social security contributions • No data on taxes for 1992 • No imputation, no negative incomes
Denmark	<i>Danish law model system</i>	1983, 1994, 2000, 2005	Annual income	About 170 000 persons. For all these persons, income data are based on registers	Couples include both married and cohabitating partners. Children above 17 living at home are considered as separate households	Disposable income net of personal taxes and contributions to private pension schemes	<ul style="list-style-type: none"> • Data based on several tax and benefits registers • Negative incomes set to zero • Private pensions included in capital income

Table 1.A1.1. National sources and data adjustments (cont.)

	Source	Income year	Period over which income is assessed	Sample size and response rate in most recent year	Definition of household and household head	Recorded income	Other data features
Finland	<i>Household budget survey</i> <i>Income distribution survey</i>	1976 1986, 1995, 2000, 2004		Around 13 000 households and 75% response rate	Persons living in private households		
France	<i>Enquête revenus fiscaux</i> <i>EU survey of income and living conditions</i>	1984, 1989, 1994, 2000, 2005 2004	Annual income in the 12 months preceding the survey (March to March) Annual income	Around 10 000 households and 70% response rate	Persons living in the same housing unit	Values for individual income components are aggregated into total income	• Data from EU-SILC are used for cross-country comparison in mid-2000s; those from ERF for assessing trends
Germany	<i>German Socio Economic Panel</i>	1985, 1990, 1995 (old <i>länder</i>) 1995, 2000, 2004 (all <i>länder</i>)	Annual income in the year preceding the survey	Around 13 000 households, initial response rate over 50%, cross-sectional response rate over 95%	People living together and sharing their income	Self-employment income is included in "earnings", occupational pensions in "current transfers", private pensions in "capital income"	• Income below the social minimum of DM 5 000 per year is excluded • Taxes and social-security contributions paid by workers imputed from micro-simulation models • Only standard tax deductions considered by the micro-simulation model used to generate tax data
Greece	<i>Household budget survey</i>	1974, 1988, 1994, 1999, 2004		84%	Private households	All incomes in cash, net of taxes and social insurance contributions	• No data on taxes for all years • Households not providing income information excluded from the sample
Hungary	<i>Hungarian household panel</i> <i>Household monitor survey</i>	1991, 1995 2000, 2005	From April of the year in question to following March May 2000-April 2001; October 2004-September 2005	About 2 000 households and 67% response rate About 2 000 households and 49% response rate	Persons living together and sharing living expenses	Incomes in cash, net of taxes and social insurance contributions	• No data on taxes for all years • No negative incomes. Missing incomes excluded in 1991, partly replaced by imputed values in subsequent years
Iceland	<i>EU survey of income and living conditions</i>	2004	Annual income in the year preceding the interview	About 3 000 households	Private households	Income excluding non-monetary components	
Ireland	<i>Living in Ireland survey</i> <i>EU survey of income and living conditions</i>	1987, 1994, 2000 2005	Current weekly income Annual income in the year preceding the interview; continuous survey	About 3 500 households and 69% response rate About 6 000 households and 72% response rate	• Persons living together, sharing budget and meeting at least once per week for meals • Persons temporarily absent and living in collective households included	Income excluding non-monetary components	• 2005 data not comparable with data for previous years
Italy	<i>ITAXMOD95</i> <i>MASTRIC (microsimulation models based on Bank of Italy survey of household income and wealth)</i>	1984, 1991, 1993 1995, 2000, 2004	Annual income in the preceding calendar year	About 8 000 households and 36% response rate	• Persons living in the same dwelling and contributing part of their income to the household	Income excluding irregular and non-monetary components	• Income and payroll taxes estimated through microsimulation models • Break in series between 1993 and 1995 (due to change in model and income definition) dealt through splicing • Since 1995 data include income from financial assets and (imputed values of) family cash benefits (<i>assegni familiari</i>)

Table 1.A1.1. National sources and data adjustments (cont.)

	Source	Income year	Period over which income is assessed	Sample size and response rate in most recent year	Definition of household and household head	Recorded income	Other data features
Japan	<i>Comprehensive survey of living condition of the people on health and welfare</i>	1985, 1995, 2000, 2003	Annual income in the year preceding the survey	About 25 000 households and 70% response rate	Persons sharing the same housing unit and livelihood Data exclude households headed by a person aged less than 17, and all individuals whose age is not recorded	All income items as reported in the survey	<ul style="list-style-type: none"> • Break in series in 1995 (persons with income 3 times larger than the standard deviation were excluded before that date) dealt through splicing
Korea	<i>Household income and expenditure survey (combined with farm household economy survey)</i>	2006	Monthly income times 12	About 14 500 households and 83% response rate	Persons sharing the same house and having a common budget Students living away from parental home counted as separate households Data on farm households (not covered by the HIES) based on Farm Household Economy Survey	Gross income All income items as reported in the survey	<ul style="list-style-type: none"> • Household data from the HIES and FHES integrated into a single file • All labour incomes of farm households classified as self-employment income • Data on self-employment income refer to withdrawals made by the self-employed from (net) enterprise income
Luxembourg	<i>Panel socio-economique Liewen zu Lëtzebuerg</i>	1986/87, 1996, 2001, 2004	Annual income	About 2 300 households and 57% response rate		All types of incomes in cash, net of taxes and social insurance contributions	Include all private households in which at least one person belongs to national social security system (around 97% of the population). Negative incomes set to zero
Mexico	<i>Survey of household income and expenditure</i>	1984, 1994, 2000, 2004	Income in the 3rd quarter of each year	About 20 000 households and 85% response rate	Persons normally sharing a housing unit and having common expenditure for food	Quarterly cash income net of direct taxes and soc. security contributions Income items as reported in the survey	<ul style="list-style-type: none"> • No data on taxes for all years (<i>i.e.</i> all data for income components recorded net of income and payroll taxes) • Private pensions (not separately identified) included in public transfers
Netherlands	<i>Income panel survey</i>	1977, 1985, 1990, 1995, 2000, 2004	Annual income in reference year	About 82 000 households and 100% response rate (register data)	<ul style="list-style-type: none"> • Persons living at the same dwelling and with common provisions for food and other essentials of living • Person with self-employed income, or with the higher income, or the eldest person (change in definition since 2004) 	Gross annual income Taxes calculated on income in reference year	<ul style="list-style-type: none"> • Register data with imputation in case of incomplete information • Change in survey weighting and design in 2000 (deal through splicing)
New Zealand	<i>Household economic survey</i>	1986, 1991, 1996, 2001, 2004	April to March in 1986, 1991 and 1996 June to June in 2001 and 2004	About 2 800 households and 73% response rate	Persons sharing a private house and normally spending 4 or more nights a week in it	All receipts received regularly or of a recurring nature	<ul style="list-style-type: none"> • Income and payroll taxes imputed through microsimulation models • Missing incomes are treated as zeros
Norway	<i>Income distribution survey</i>	1986, 1995, 2000, 2004	Calendar year	About 13 000 households and 75% response rate	All individuals in the same dwelling having common housekeeping	Annual disposable income. All income data collected from registers	<ul style="list-style-type: none"> • Survey non-respondents included in sample through register data • Breakdown of earnings (into those of heads, spouse and others) not available

Table 1.A1.1. National sources and data adjustments (cont.)

	Source	Income year	Period over which income is assessed	Sample size and response rate in most recent year	Definition of household and household head	Recorded income	Other data features
Poland	<i>Household budget survey</i> <i>EU survey of income and living conditions</i>	2004, 2000	Monthly income times 12	About 36 000 households and 55% response rate before substitution	Persons having a common budget for essential items	Annual disposable income	<ul style="list-style-type: none"> • 2004 data not comparable with earlier year • No tax data in 2000 (<i>i.e.</i> all income components recorded net of taxes) • Negative income values set to zero
Portugal	<i>Household budget survey</i> <i>EU survey of income and living conditions</i>	1980, 1990, 1995, 2000, 2004	Income in the year preceding the interview	About 10 000 households and response rate close to 100% in all years	Persons living in the same dwelling	Gross income, excluding all non-monetary components	<ul style="list-style-type: none"> • 2004 data not comparable with previous years • Data on taxes not available in 2004
Slovak Republic	<i>EU survey of income and living conditions</i>	2004	Income in previous year	6 016 households and 85.6% response rate	Persons in private dwellings who share basic household costs	Annual disposable income	<ul style="list-style-type: none"> • Deterministic group mean imputation for missing values • Negative income values set at zero
Spain	<i>Continuous survey of household budgets</i> <i>European community household panel</i> <i>EU survey of income and living conditions</i>	1985, 1990, 1995, 1995, 2000, 2004	Income in the 2nd quarter of each year	About 3 200 households and 90% response rate in 1995	Persons sharing a common budget	Quarterly disposable income	<ul style="list-style-type: none"> • 2004 data not comparable with those for previous years • Change in source in 2000 (dealt through splicing) • No data on taxes in all years • Values of other income components recorded net of taxes
Sweden	<i>Income distribution survey</i>	1975, 1983, 1991, 1995, 2000, 2004	Calendar year	About 14 500 households and 75% response rate Data from tax registers integrated with survey data	All individuals living together and sharing household resources	Annual disposable income. All income data collected from tax records	<ul style="list-style-type: none"> • No missing incomes, negative incomes included, households with negative disposable incomes deleted • Changes in the household definition in 1995 (dealt through splicing)
Switzerland	<i>Income and consumption survey</i>	2000-2001, 2004-2005	Monthly (converted into an annual basis)	About 7 000 households and 30% response rate	Persons living in the same dwelling and sharing part of their budget	Monthly gross and net income	<ul style="list-style-type: none"> • No negative incomes, missing incomes (about 1%) imputed • Data refer to averages of two consecutive years
Turkey	<i>Household income and consumption survey</i>	1984, 1994, 2004		About 8 600	People living in the same house, sharing expenditures and participating in household management and services		<ul style="list-style-type: none"> • No data on taxes for all years (<i>i.e.</i> all data for income components recorded net of income and payroll taxes) • Change in survey weighting in 1994 (dealt through splicing)
United Kingdom	<i>Family expenditure survey</i> <i>Family resources survey</i>	1975, 1985, 1991, 1995, 2000, 2004, 2004	Income at the time of the interview for most items (over the previous 12 months for capital and self-employment income)	About 10 000 households and 60% response rate	Persons living in the same dwelling	Weekly gross income	<ul style="list-style-type: none"> • Data from FRS used for cross-country comparison in mid-2000s; data from FES for assessing trends • Change in source in 2000 (dealt through splicing) • Missing values excluded, negative values included
United States	<i>Annual social and economic supplement to the current population survey</i>	1974, 1984, 1995, 2000, 2005	Year preceding the March interview	About 50 000 households and 95% response rate	Persons occupying a housing unit	Gross annual income	<ul style="list-style-type: none"> • Tabulations based on Census Bureau internal files • Model-based estimates of taxes paid and in-kind public benefits added to survey data of gross annual income • Negative income allowed when below \$10

Notes

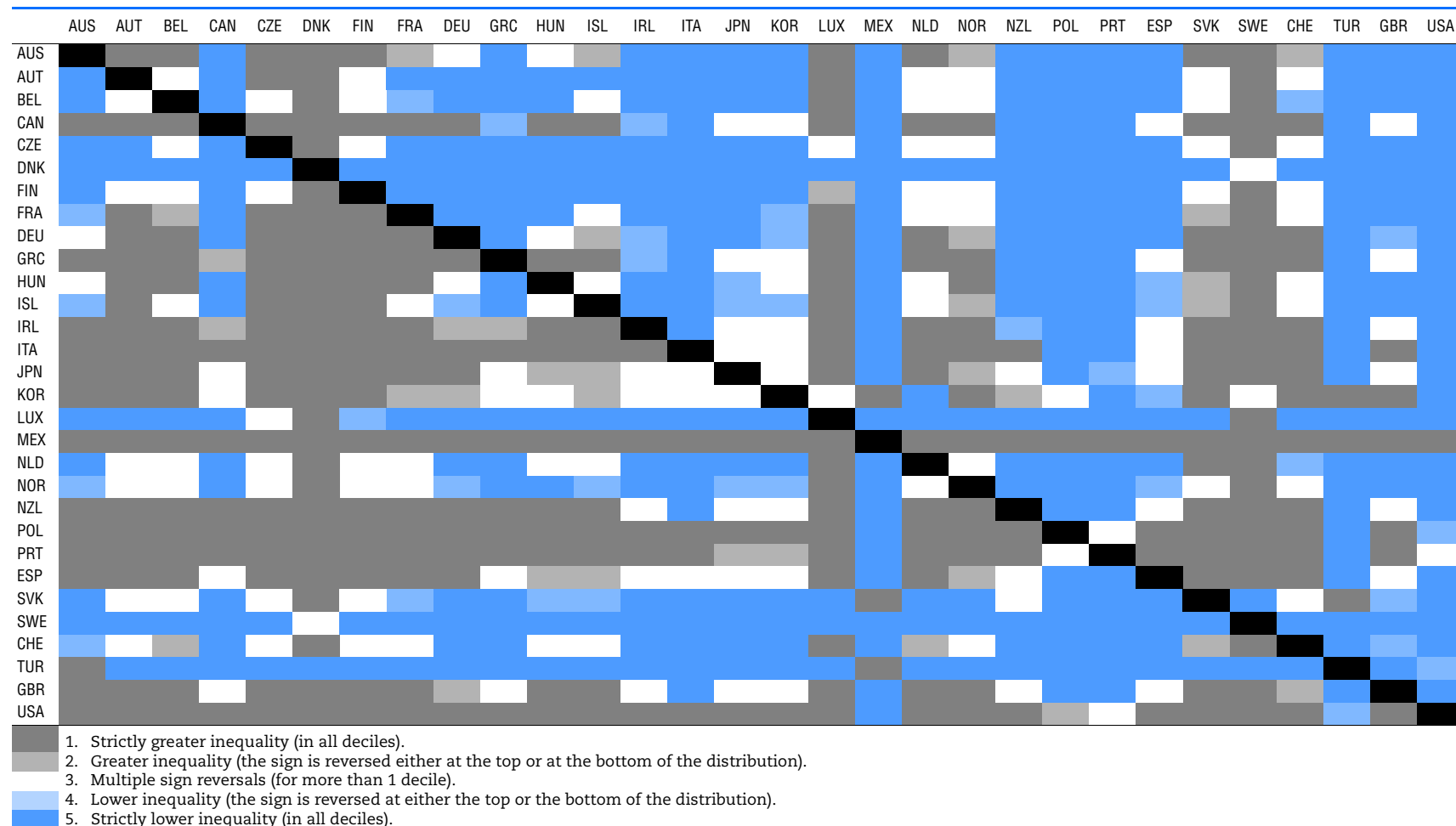
1. The most important differences are the income concept and unit of analysis used: most European research has traditionally looked at the distribution of disposable income (i.e. after taxes and transfers) among individuals, while keeping the household (and more rarely the family) as the unit within which income is pooled and shared among its members; conversely, most analyses in the United States have focused on the distribution of pre-tax income among families (and, more rarely, households). For a detailed description of methodological features affecting income distribution statistics, see the report of the Expert Group on Household Income Statistics (2001).
2. The first milestone in OECD work on income distribution is represented by Sawyer (1976) who, in an article for *OECD Economic Outlook*, reviewed the performance of 12 OECD countries in the late 1960s and early 1970s based on the measures that were most commonly used in each country. A second milestone is represented by Atkinson, Rainwater and Smeeding (1995), who presented results referring to 12 OECD countries in the second half of the 1980s based on unit-record data from the *Luxembourg Income Study* (LIS) database, a standardised data environment that allows analysts to apply common definitions to micro records from different national surveys. A third phase began with the regular data collection undertaken by the OECD (at around five-year intervals) through a network of national consultants. The data in the present wave, covering a year as close as possible to 2005, also include revisions (for some countries) relative to the data used by Förster and Mira d'Ercole (2005).
3. The “square root elasticity” implies that the needs of a household composed of four people are twice as large as those of a single (1.4 and 1.7 times those of a single in the case of a childless couple and of a couple with one child). For further details, see www.oecd.org/dataoecd/61/52/35411111.pdf.
4. This is the case of Australia and the United Kingdom (where earnings data refer to the week), Austria (where data before the mid-2000s relate to monthly income) and Spain (where data until mid-1995 relate to quarterly income).
5. Data on household taxes are not available for Austria, Luxembourg and Poland (except in the mid-2000s), Greece, Hungary, Mexico, Poland, Spain and Turkey. In all these cases, data on individual components of household income are recorded on a “net” (i.e. post-tax) basis.

ANNEX 1.A2

Additional Tables and Figures

Table 1.A2.1. Lorenz curves' dominance across OECD countries

Mid-2000s




Note: The table shows how the Lorenz curve of each OECD country (which plots the cumulative share of income received by people in each decile of the distribution) compares to that of another. It allows distinguishing among five cases: i) strictly greater inequality, when the entire curve of one country lies below that of another (denoted in dark grey); ii) greater inequality, when the curve for one country lies below that of another except at the top or bottom of the distribution denoted in light grey); iii) indeterminate situations, when the Lorenz curves of two countries intersect each other in the middle of the distribution (denoted in white); iv) lower inequality, when the curve for one country is above that of another except at the top or bottom of the distribution (denoted in light blue); and v) strictly lower inequality, when the entire curve of one country lies above that of another (denoted in blue). For example, the last row of the table suggests that income distribution in the United States is strictly wider than in all other OECD countries with the exceptions of Mexico (where it is strictly lower), Italy (where the two curves cross each other at the top of the distribution), Turkey (where the two curves cross each other at the bottom), as well as Poland and Portugal (where the two curves cross each other in the middle).

Source: Computations from OECD income distribution questionnaire.

Table 1.A2.2. **Levels of income inequality based on different summary measures in mid-2000s**

	Gini coefficient		Mean log deviation		Standard coefficient of variation		Interdecile ratio P90/P10		Interdecile ratio P50/P10	
	Level	Rank	Level	Rank	Level	Rank	Level	Rank	Level	Rank
Australia	0.30	16	0.17	15	0.39	9	3.95	15	2.09	18
Austria	0.27	4	0.13	8	0.33	3	3.27	10	1.82	7
Belgium	0.27	9	0.13	6	0.30	1	3.43	14	1.97	14
Canada	0.32	18	0.18	17	0.59	17	4.12	17	2.14	20
Czech Republic	0.27	5	0.12	4	0.38	8	3.20	5	1.74	2
Denmark	0.23	1	0.10	2	0.60	18	2.72	1	1.75	3
Finland	0.27	7	0.13	7	0.81	24	3.21	6	1.86	11
France	0.28	13	0.14	9	0.37	7	3.39	13	1.82	8
Germany	0.30	15	0.16	14	0.45	13	3.98	16	2.08	17
Greece	0.32	21	0.18	16	0.43	12	4.39	21	2.18	21
Hungary	0.29	14	0.14	10	0.48	15	3.36	12	1.78	6
Iceland	0.28	12	0.16	13	0.54	16	3.10	4	1.76	4
Ireland	0.33	22	0.19	18	0.79	22	4.41	22	2.29	22
Italy	0.35	25	0.24	23	1.10	25	4.31	20	2.11	19
Japan	0.32	20	0.20	20	0.41	11	4.77	25	2.43	26
Korea	0.31	17	0.20	22	0.35	5	4.73	24	2.50	27
Luxembourg	0.26	3	0.12	3	0.30	2	3.25	8	1.86	10
Mexico	0.47	30	0.41	28	2.70	28	8.53	30	2.86	30
Netherlands	0.27	8	..	..	..	..	3.23	7	1.86	12
New Zealand	0.34	23	..	..	..	..	4.27	19	2.06	16
Norway	0.28	11	0.16	12	0.46	14	2.83	3	1.77	5
Poland	0.37	26	0.26	24	0.71	20	5.63	26	2.42	25
Portugal	0.42	28	0.31	26	1.13	26	6.05	28	2.35	24
Slovak Republic	0.27	5	0.13	5	0.37	6	3.26	9	1.86	13
Spain	0.32	19	0.20	21	0.41	10	4.59	23	2.32	23
Sweden	0.23	2	0.10	1	0.65	19	2.79	2	1.72	1
Switzerland	0.28	10	0.15	11	0.34	4	3.29	11	1.83	9
Turkey	0.43	29	0.32	27	1.45	27	6.49	29	2.67	28
United Kingdom	0.34	23	0.20	19	0.71	21	4.21	18	1.99	15
United States	0.38	27	0.29	25	0.81	23	5.91	27	2.69	29
Average OECD	0.31	..	0.19	..	0.66	..	4.16	..	2.09	..
Corr. with Gini coeff.	..	..	0.99	..	0.80	..	0.96	..	0.88	..


StatLink  <http://dx.doi.org/10.1787/420888675468>

Note: The mean log deviation is the average value of the natural logarithm of the ratio of mean income to the income of each decile. The squared coefficient of variation is the variance of average income of each decile, divided by the square of the average income of the entire population. The P90/P10 inter-decile ratio is the ratio of the upper bound value of the ninth decile to that of the first. The P50/P10 inter-decile ratio is the ratio of median income to the upper bound value of the first decile. All these summary indicators have different upper and lower bounds: the mean log deviation and inter-decile ratios have a lower value of 1 and no upper bound, while the squared coefficient of variation has a lower bound of 0 and upper bound of infinity.

Source: OECD income distribution questionnaire.

Table 1.A2.3. **Gini coefficients from different sources**
Most recent year

	Reference years (incomes)			Gini coefficient			Difference in Gini coefficients rel. to OECD questionnaire	
	OECD questionnaire	Eurostat	LIS	OECD questionnaire	Eurostat	LIS	Eurostat	LIS
Australia	2004	2004	2003	0.301	..	0.312	..	-0.01
Austria	2004	2004	2000	0.265	0.260	0.257	0.01	0.01
Belgium	2004	2004	2000	0.271	0.280	0.279	-0.01	-0.01
Canada	2005	..	2000	0.317	..	0.315	..	0.00
Czech Republic	2004	2004	..	0.268	0.260	..	0.01	..
Denmark	2004	2004	2004	0.232	0.240	0.228	-0.01	0.00
Finland	2004	2004	2004	0.269	0.260	0.252	0.01	0.02
France	2004	2004	2000	0.281	0.280	0.278	0.00	0.00
Germany	2004	2004	2000	0.298	0.260	0.275	0.04	0.02
Greece	2004	2004	2000	0.321	0.330	0.333	-0.01	-0.01
Hungary	2005	2004	1999	0.291	0.280	0.295	0.01	0.00
Iceland	2004	2004	..	0.280	0.250	..	0.03	..
Ireland	2004	2004	2000	0.328	0.320	0.313	0.01	0.02
Italy	2004	2004	2000	0.352	0.330	0.333	0.02	0.02
Japan	2003	..	..	0.321	..	..	..	..
Korea	2005	..	..	0.312	..	..	..	..
Luxembourg	2004	2004	2000	0.258	0.260	0.260	0.00	0.00
Mexico	2004	..	2002	0.474	..	0.471	..	0.00
Netherlands	2004	2004	2000	0.271	0.270	0.231	0.00	0.04
New Zealand	2003	..	..	0.335	..	..	..	..
Norway	2004	2004	2000	0.276	0.280	0.251	0.00	0.03
Poland	2004	2004	1999	0.372	0.360	0.313	0.01	0.06
Portugal	2004	2004	..	0.385	0.380	..	..	..
Slovak Republic	2004	2004	..	0.268	0.260	..	0.01	..
Spain	2004	2004	2000	0.319	0.320	0.336	0.00	-0.02
Sweden	2004	2004	2000	0.234	0.230	0.252	0.00	-0.02
Switzerland	2004	..	2002	0.276	..	0.274	..	0.00
Turkey	2004	2002	..	0.430	0.450	..	-0.02	..
United Kingdom	2005	2004	1999	0.335	0.340	0.343	-0.01	-0.01
United States	2005	..	2004	0.381	..	0.372	..	0.01

StatLink  <http://dx.doi.org/10.1787/421057754822>

Note: Both the OECD and LIS refer to household disposable income equalised with the square root elasticity; Eurostat estimates rely on the so-called "modified OECD scale".

Source: OECD income distribution questionnaire, Eurostat (as at 6 February 2008); LIS key figures (as of 31 December 2007).

Table 1.A2.4. Trends in different inequality measures

	Levels in mid-2000s					Percentage point change									
	Gini coefficient	Interquintile share ratio (S80/S20)	Interdecile ratio (P90/P10)	Squared coefficient of variation (SCV)	Mean log deviation (MLD)	Gini		S80/S20		P90/P10		SCV		MLD	
						Mid-80s to mid-90s	Mid-90s to mid-2000s	Mid-80s to mid-90s	Mid-90s to mid-2000s	Mid-80s to mid-90s	Mid-90s to mid-2000s	Mid-80s to mid-90s	Mid-90s to mid-2000s	Mid-80s to mid-90s	Mid-90s to mid-2000s
Australia	0.301	4.8	4.0	0.387	0.170	..	-0.8	..	-0.2	..	-0.1	..	0.4	..	-1.9
Austria	0.265	4.0	3.3	0.325	0.129	0.2	1.4	0.1	0.4	0.1	0.3	1.4	1.2	-0.2	2.9
Belgium	0.271	4.0	3.4	0.332	0.130	1.4	0.3	0.3	0.1	0.2	0.2	0.0	-1.4	2.3	-1.6
Canada	0.317	5.2	4.1	0.588	0.185	-0.4	3.4	-0.2	0.9	-0.2	0.5	0.6	25.5	-1.0	3.9
Czech Rep.	0.268	3.8	3.2	0.375	0.122	2.6	0.2	0.4	0.1	0.3	0.1	5.3	0.2	1.9	0.2
Denmark	0.232	3.3	2.7	0.599	0.103	-0.6	1.1	-0.1	0.2	-0.2	0.1	3.0	49.4	-0.7	1.1
Finland	0.269	3.9	3.2	0.814	0.127	2.1	4.1	0.0	0.9	0.1	0.5	7.8	57.1	1.2	3.7
France	0.281	4.1	3.4	0.370	0.135	-3.1	0.0	-0.6	0.0	-0.2	0.0	-57.3	4.2	-4.2	1.0
Germany	0.298	4.8	4.0	0.452	0.155	1.5	2.6	0.5	0.6	0.5	0.5	-1.4	14.0	2.1	2.3
Greece	0.321	5.3	4.4	0.428	0.178	0.0	-1.5	-0.1	-0.5	-0.2	-0.3	1.1	-13.8	-0.4	-2.2
Hungary	0.291	4.3	3.4	0.482	0.143	2.1	-0.3	0.4	-0.1	0.3	-0.2	12.1	1.8	1.7	-0.2
Iceland	0.280	4.1	3.1	0.542	0.155	..	..	..	..	..	..	..	..	..	..
Ireland	0.328	5.4	4.4	0.789	0.194	-0.6	-2.1	-0.4	0.1	-0.1	0.3	32.0	-60.0	-3.0	-1.0
Italy	0.352	6.0	4.3	1.095	0.235	3.9	0.4	1.4	-0.3	0.9	-0.5	24.0	44.8	6.7	-0.3
Japan	0.321	5.8	4.8	0.412	0.199	1.9	-0.3	0.8	0.1	0.3	0.2	22.4	-10.5	4.1	-0.2
Korea	0.312	5.7	4.7	0.354	0.201	..	..	..	..	..	..	..	..	..	..
Luxembourg	0.258	3.7	3.3	0.302	0.116	1.2	-0.1	0.2	0.1	0.2	0.1	2.6	2.9	1.0	0.4
Mexico	0.474	12.1	8.5	2.703	0.409	6.6	-4.5	4.1	-3.4	2.1	-2.3	150.2	7.8	11.3	-8.0
Netherlands	0.271	4.0	3.2	..	..	2.4	-1.1	0.6	-0.1	0.4	-0.1	..	..	..	..
New Zealand	0.335	5.6	4.3	..	..	6.4	0.0	1.3	0.2	0.7	0.2	..	..	..	..
Norway	0.276	4.0	2.8	0.456	0.155	2.2	2.0	0.4	0.2	0.1	-0.2	2.3	15.1	3.1	2.4
Poland	0.372	7.2	5.6	0.710	0.261	..	..	..	..	..	..	..	..	..	..
Portugal	0.385	7.1	5.5	0.802	0.256	3.0	-0.3	0.8	-0.2	0.4	-0.1	14.5	-3.1	3.6	-0.9
Slovak Rep.	0.268	4.0	3.3	0.367	0.125	..	..	..	..	..	..	..	..	..	..
Spain	0.319	5.5	4.6	0.410	0.200	-2.8	0.0	-1.3	0.0	-0.9	0.2	-65.6	-3.0	-6.0	0.0
Sweden	0.234	3.3	2.8	0.650	0.007	1.4	2.3	0.2	0.4	0.1	0.3	7.9	44.7	-6.2	0.1
Switzerland	0.276	4.3	3.4	0.337	0.009	..	..	..	..	..	..	..	..	..	..
Turkey	0.430	9.1	6.5	1.450	0.320	5.5	-6.0	2.1	-2.2	0.3	-0.4	..	..	..	..
United Kingdom	0.335	5.4	4.2	0.714	0.195	2.9	-1.9	0.8	-0.5	0.6	-0.2	9.5	24.3	3.7	-1.3
United States	0.381	7.9	5.9	0.813	0.291	2.4	2.0	0.5	0.9	0.0	0.4	30.5	8.6	2.5	5.3
OECD-22	0.300	4.8	3.9	0.560	0.163	1.4	0.6	0.3	0.2	0.2	0.1	2.6	10.1	0.6	0.8
OECD-24	0.313	5.3	4.2	0.698	0.181	1.7	0.1	0.5	-0.1	0.2	0.0	9.7	10.0	1.1	0.4
OECD-30	0.311	5.3	4.1	0.645	0.175	..	..	..	..	..	..	..	..	..	..

StatLink  <http://dx.doi.org/10.1787/421061637532>

Note: Data for the Czech Republic, Hungary and Portugal for the mid-1980s refer to 1990. Data for Austria, Belgium, the Czech Rep., Denmark, France, Ireland, Japan, Portugal and Spain for the mid-2000s refer to around 2000. OECD-22 excludes Australia, Iceland, Korea, Mexico, Poland, Slovak Republic, Switzerland and Turkey. OECD-24 excludes Australia, Iceland, Korea, Poland, the Slovak Republic and Switzerland.

Source: OECD income distribution questionnaire.

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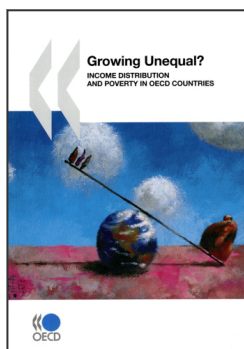


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