

1. Income inequality

Definition and measurement

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

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

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

Since the mid-1980s, income inequality grew moderately across the OECD (EQ1.1, Panel B). However, the overall range concealed a diversity of experiences across countries and across the time period. Income inequality rose most strongly in the Czech Republic, Finland, New Zealand and Sweden. But the pattern of increasing inequality was

not general. Income inequality actually fell considerably in Greece, Ireland, Spain and Chile.

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

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

Further reading

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

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

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

Figure notes

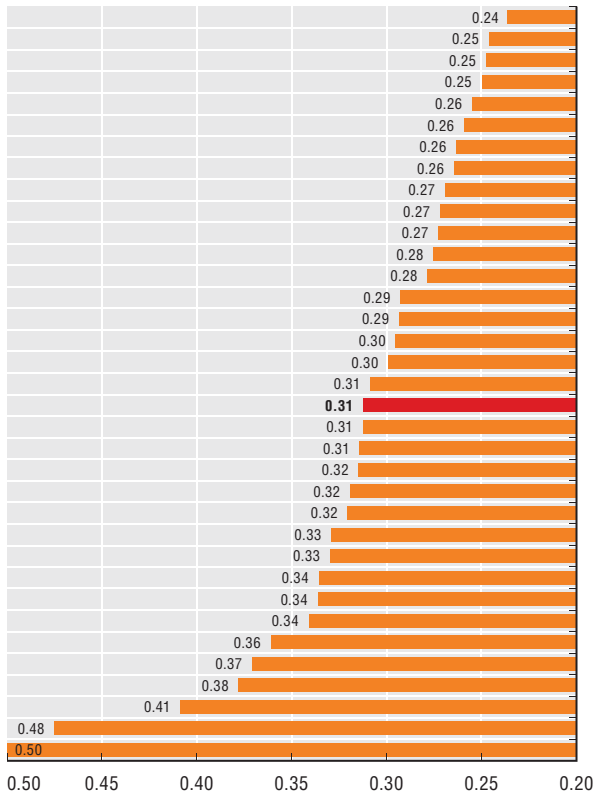
Figure EQ1.1, Panel A: Gini coefficients refer to mid-2000s for Greece and Switzerland.

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

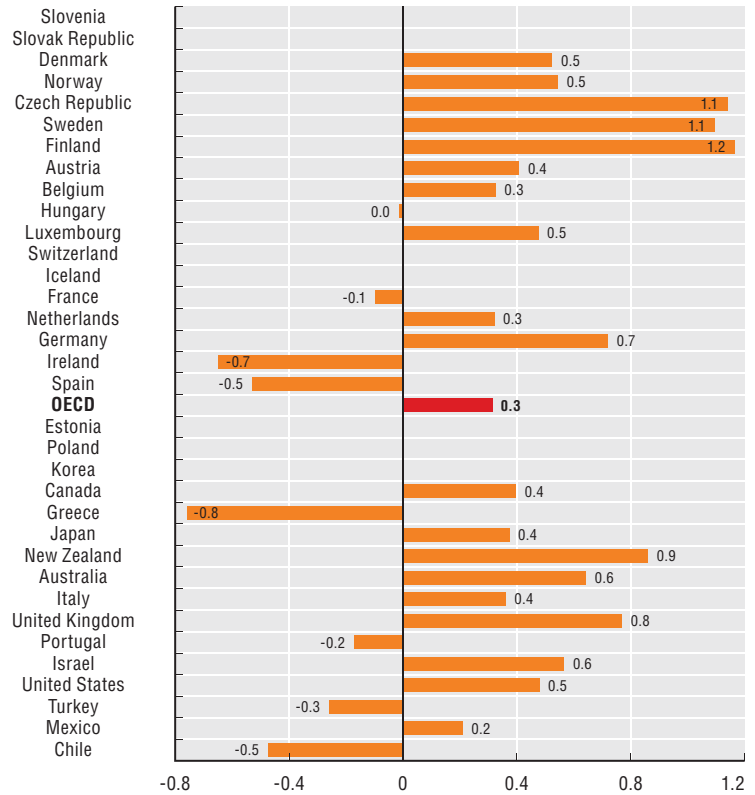
Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

EQ1.1. Income inequality has been rising

Panel A. Gini coefficient, late-2000s

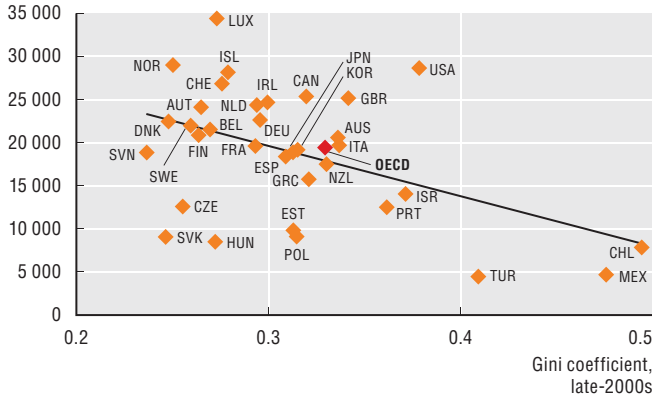


Panel B. Annual average change in Gini between mid-1980s and late-2000s, percentages



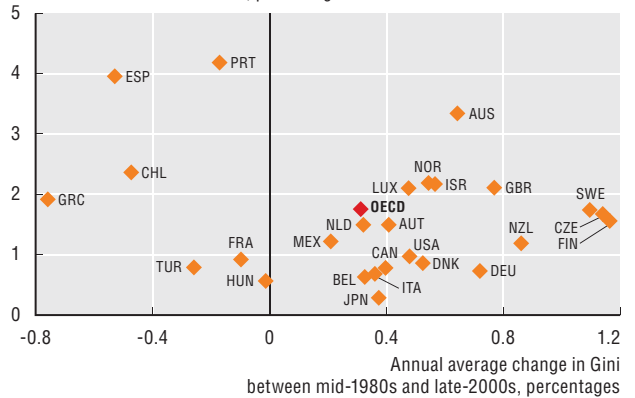
EQ1.2. Richer countries have lower income inequality

Median equivalised income in USD at current prices and current PPPs in 2007



EQ1.3. Rapid income growth does not reduce inequality

Annual average change in median household income between mid-1980s and mid-2000s, percentages



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

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

2. Poverty

Definition and measurement

Perceptions of a decent standard of living vary across countries and over time. Thus no commonly agreed measure of poverty exists across OECD countries. As with income inequality, the starting point for poverty measurement is equivalised household disposable income provided by national consultants (see “Definition and measurement” under EQ1. Income inequality). People are classified as poor when their equivalised household income is less than half of the median prevailing in each country. The use of a relative income-threshold means that richer countries have the higher poverty thresholds. Higher poverty thresholds in richer countries capture the notion that avoiding poverty means an ability to access to the goods and services that are regarded as customary or the norm in any given county. The poverty rate is a headcount of how many people fall below the poverty line.

Poverty measures the relative numbers of people at the bottom end of the income distribution. Often a society’s equity concerns are greater for the relatively disadvantaged. Thus poverty measures often receive more attention than income inequality measures. Poverty concerns are often greater for certain groups like older people and for children, since they have no or limited options for working their way out of poverty.

The average OECD country poverty rate was 11% for the OECD (Panel A, EQ2.1). Poverty rates were particularly high in Chile, Israel and Mexico. Czech and Danish poverty rates, in contrast, were about one in twenty people. Other Nordic and European countries also had low poverty. The bottom part of the table is dominated by Anglophone countries, Mediterranean countries and the two OECD-Asia countries.

Poverty rates generally increased moderately over the period from mid-1980s to mid-2000s for the OECD (Panel B, EQ2.1). Large rises occurred in the Netherlands and Sweden. On the other hand Belgium, Greece, Chile and Portugal were most successful in reducing their poverty rate.

In some countries older people were more likely to be poor, while in other countries child poverty was a greater issue (EQ2.2). While Korea had a very high poverty rate for the elderly and low child poverty, Turkey had much higher child poverty than pensioner poverty. The United States, Chile and Mexico, sharing quite high overall poverty rates, had relatively equally high poverty rates amongst the two dependent age groups. The Nordic countries combined low poverty rates for both the young and the old.

Faster economic growth is often seen as the solution to poverty problems (EQ2.3). However, economic growth and poverty have not been strongly related within the OECD in the past generation. There is little evidence of a relationship between poverty and household income growth in either a positive or negative direction. For example, Ireland has had very rapid income growth over the period and a large rise in poverty, while income growth has stagnated in Belgium in combination with a considerable reduction in poverty.

Further reading

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

Figure notes

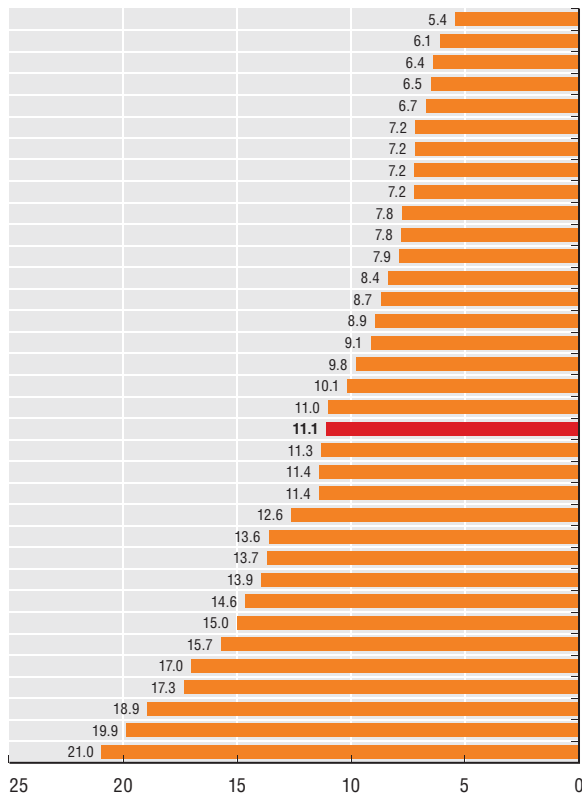
Figure EQ2.1, Panel A: Poverty rates coefficients refer to mid-2000s for Greece and Switzerland.

Figures EQ2.1, Panel B and EQ2.3: No changes available for Estonia, Iceland, Korea, Poland, the Slovak Republic, Slovenia and Switzerland. Changes are available from mid-1990s for Australia, Chile, Israel and Portugal. Changes are available until 2000 for Austria, Belgium, the Czech Republic, Ireland, Portugal and Spain, as current data from EU-SILC are not comparable with earlier years for these countries.

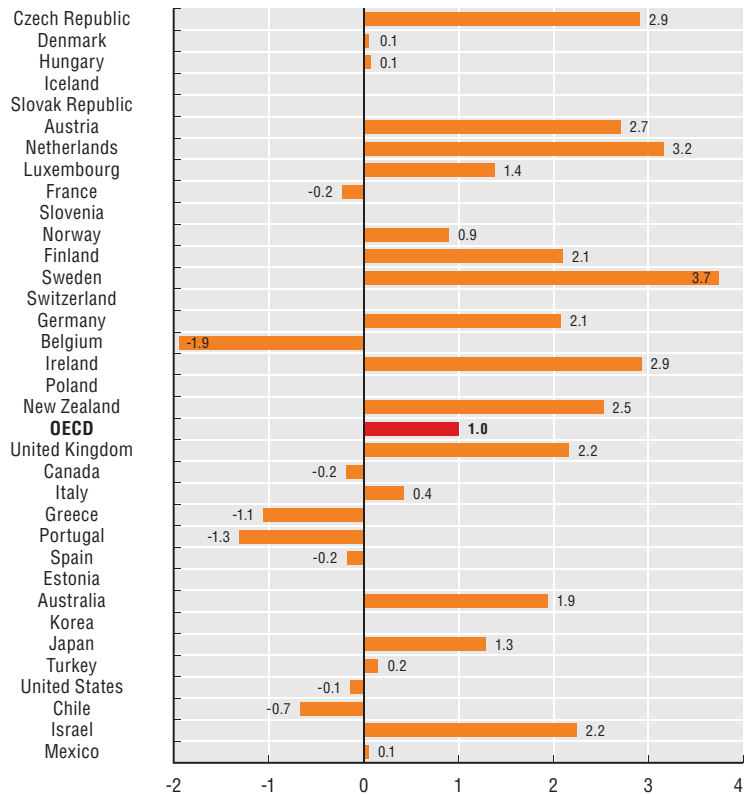
Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

EQ2.1. Poverty has been rising

Panel A. Percentage of persons living with less than 50% of median equivalised household income, late-2000s

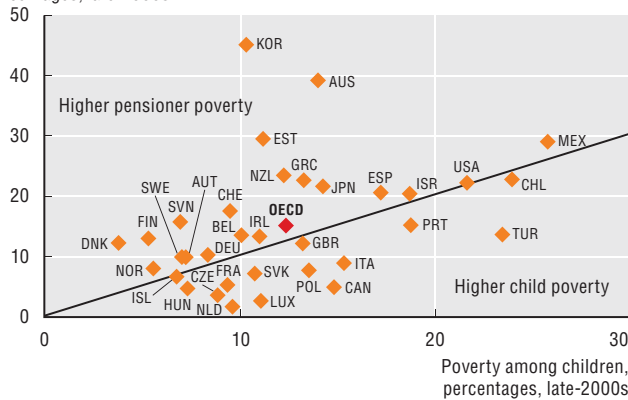


Panel B. Annual average change in poverty rate between mid-1980s and late-2000s, percentages



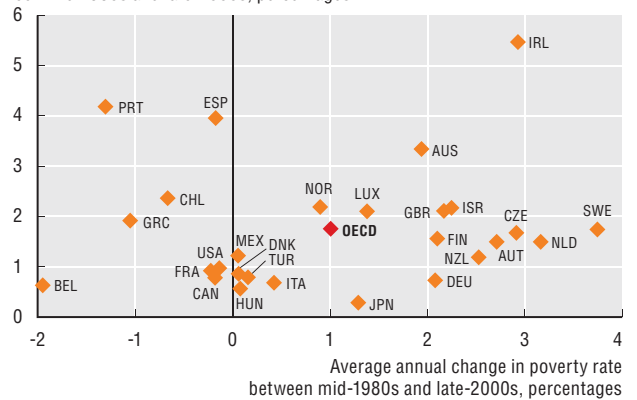
EQ2.2. Poorer pensioners or poorer children?

Poverty among people of retirement age, percentages, late-2000s



EQ2.3. Income growth is no poverty solution

Real average annual change in median household income, between mid-1980s and late-2000s, percentages



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

StatLink <http://dx.doi.org/10.1787/888932381893>