

## CO7: Trends in income inequality and income position of different household types

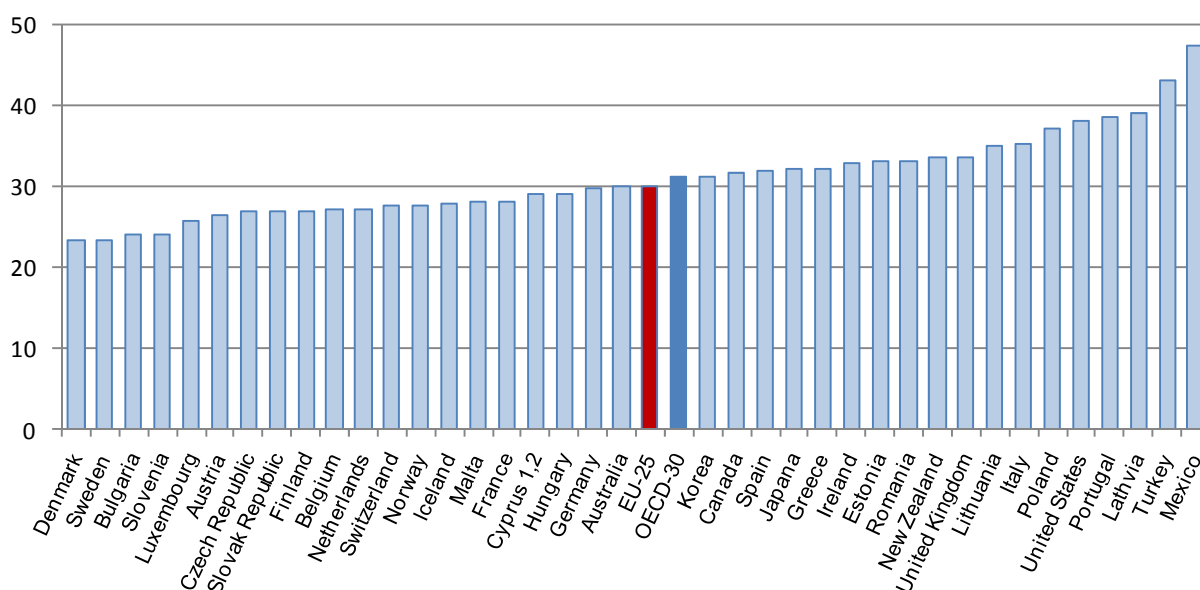
### Definitions and methodology

Income inequality is measured here in terms of the distribution of household disposable income after taxes and transfers. To facilitate comparisons across households, disposable household income in cash is adjusted for household size with an elasticity of 0.5 (the square root scale). Indicators of income distribution used here include the Gini coefficient, the quintile share ratio (S80/S20) and the inter-decile income ratio (P90/P10). Values of the Gini coefficient range between 0 in the case of “perfect equality” and 100 in the case of “perfect inequality”; the quintile share ratio is the ratio between the top quintile and the lowest quintile; and, the inter-decile income ratio concerns the ratio of the top and bottom deciles.

### Key findings

There is much variation in levels of income inequality across OECD countries. In the mid-2000s, the Gini coefficient of income inequality was lowest in Denmark and Sweden and highest in Mexico and Turkey (Chart CO7.1). Other measures of income inequality also show large differences across countries (Table CO7.1). For example, the quintile share ratio shows that people with incomes in the top quintile had incomes around 3 times higher than those of people in the bottom quintile in Denmark, Slovenia and Sweden; around 8 times higher in the United States, Poland and Turkey; and, more than 11 times higher in Mexico. Regardless of the measures used, cross-country differences are significant and hardly affect country rankings.

**Chart CO7.1 Gini coefficients of income inequality, mid-2000s**



Source: OECD (2008); non-OECD EU countries Eurostat.

1) Footnote by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of United Nations, Turkey shall preserve its position concerning the “Cyprus issue”.

2) Footnote by all the European Union Member States of the OECD and the European Commission: The Republic of Cyprus is recognized by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

**Other relevant indicators:** CO8: Child poverty; SF2: Children in sole-parent families; LMF3: Maternal employment by family status; PF3: Family cash benefits; and, PF12 Childcare support.

Income inequality has risen over the past 20 years. This increase has been moderate but significant and it has affected two-thirds of OECD countries. Overall inequality measures have increased by 7% over the period (Table CO7.1). Increases have been most pronounced in Finland, Norway and Sweden (from a low base), and in Germany, Italy, New Zealand and the United States.

**Table CO7.1 Inequality measures, mid-1980s to mid-2000s**

Country	Gini coefficients				S80/S20 Quintile share ratios			P90/P10 Decile ratios		
	mid80s	mid 90s	2000	2005	mid 90s	2000	2005	mid 90s	2000	2005
Australia	-	0.30	0.29	0.31	5.0	5.2	4.8	4.1	4.3	4.1
Austria	0.23	0.23	0.25	0.27	3.4	3.8	4.1	3.0	3.3	3.3
Belgium	-	0.28	0.28	0.27	4.6	4.7	4.0	3.5	3.8	3.3
Bulgaria	-	-	0.29	0.24	-	3.7	3.7	-	-	-
Canada	0.29	0.29	0.31	0.32	4.6	5.1	5.6	3.7	4.0	4.4
Cyprus <sup>1,2</sup>	-	-	-	0.29	-	-	4.3	-	-	-
Czech Republic	-	0.25	0.26	0.27	3.4	3.7	3.9	2.8	3.1	3.2
Denmark	0.21	0.21	0.22	0.23	2.9	3.1	3.3	2.5	2.6	2.7
Estonia	-	-	0.36	0.33	-	6.3	5.9	-	-	-
Finland	0.20	0.23	0.26	0.27	3.4	3.8	4.0	2.8	3.2	3.3
France	-	0.28	0.29	0.28	4.2	4.2	4.1	3.5	3.5	3.4
Germany	0.26	0.27	0.27	0.30	4.1	4.1	4.9	3.4	3.4	4.1
Greece	0.33	0.32	0.34	0.31	5.3	5.7	5.1	4.3	4.6	4.1
Hungary	-	0.30	0.30	0.30	4.4	4.5	4.5	3.7	3.8	3.6
Iceland	-	-	-	0.29	-	-	4.3	-	-	3.2
Ireland	0.34	0.32	0.29	0.32	5.1	4.8	5.4	4.3	4.4	4.3
Italy	0.31	0.35	0.34	0.35	6.4	6.1	6.1	4.8	4.5	4.2
Japan	0.28	0.32	0.33	0.31	5.5	6.3	5.5	4.5	5.0	4.6
Korea	-	-	-	0.30	-	-	5.2	-	-	4.2
Lathvia	-	-	0.34	0.39	-	5.5	6.7	-	-	-
Lituania	-	-	0.31	0.35	-	5.0	6.9	-	-	-
Luxembourg	0.24	0.26	0.26	0.26	3.7	3.8	3.8	3.2	3.2	3.3
Malta	-	-	0.30	0.28	-	4.6	4.1	-	-	-
Mexico	0.45	0.52	0.50	0.47	15.6	14.3	11.6	10.6	10.2	8.1
Netherlands	0.23	0.25	0.28	0.27	3.8	4.2	4.2	3.2	3.3	3.3
New Zealand	0.26	0.33	0.33	0.33	5.4	5.6	5.9	4.3	4.4	4.6
Norway	0.22	0.25	0.26	0.28	3.7	3.8	4.2	2.9	2.8	2.9
Poland	-	-	0.32	0.38	-	5.2	7.6	-	4.1	5.9
Portugal	-	0.34	0.35	0.38	5.9	5.9	7.0	4.7	4.8	5.5
Romania	-	-	0.29	0.33	-	4.5	4.9	-	-	-
Slovakia	-	-	-	0.27	-	-	4.0	-	-	3.3
Slovenia	-	-	0.24	0.24	-	3.2	3.4	-	-	-
Spain	0.33	0.28	0.27	0.31	6.1	6.0	5.3	4.7	4.6	4.4
Sweden	0.22	0.22	0.24	0.24	3.1	3.5	3.4	2.6	2.9	2.9
Switzerland	-	-	0.28	0.27	-	4.2	4.2	-	3.2	3.3
Turkey	0.43	0.51	-	0.42	11.8	-	8.6	6.7	-	6.2
United Kingdom	0.28	0.30	0.37	0.34	4.8	6.5	5.6	4.1	4.6	4.4
United States	0.33	0.35	0.35	0.37	6.7	6.6	7.7	5.3	5.1	5.8
<b>OECD-30</b>	<b>0.28</b>	<b>0.30</b>	<b>0.30</b>	<b>0.31</b>	<b>5.3</b>	<b>5.2</b>	<b>5.3</b>	<b>4.1</b>	<b>4.1</b>	<b>4.2</b>
<b>EU-27</b>	<b>0.26</b>	<b>0.28</b>	<b>0.29</b>	<b>0.30</b>	<b>4.4</b>	<b>4.6</b>	<b>4.7</b>	<b>3.6</b>	<b>3.8</b>	<b>3.8</b>

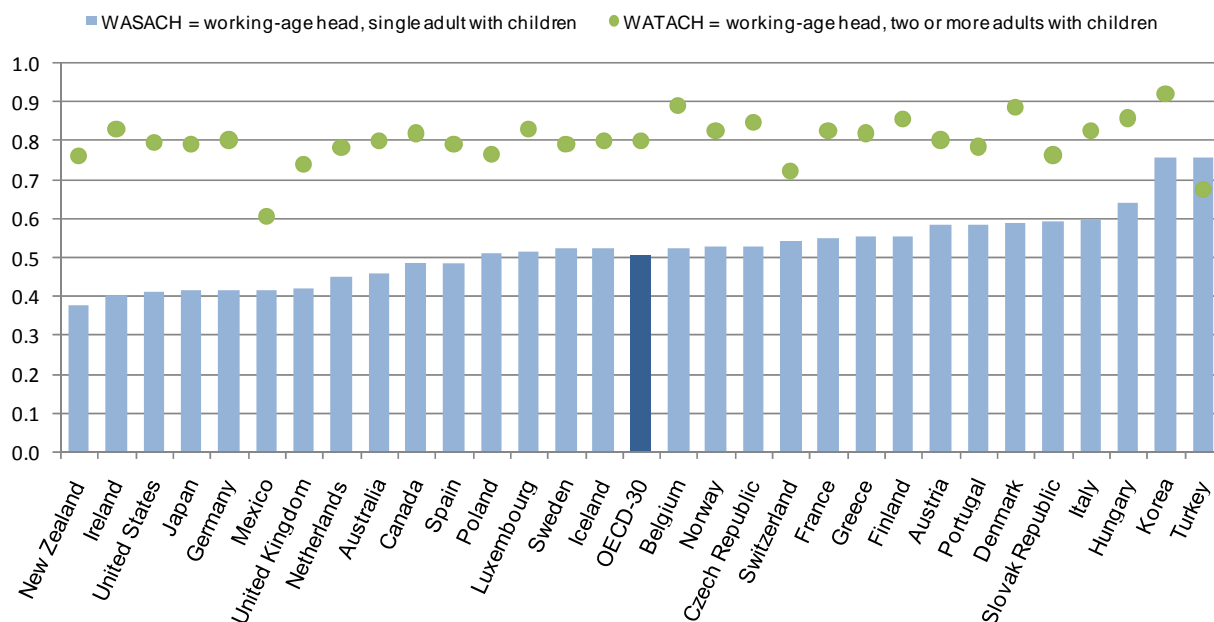
Notes: 1, 2 See notes 1 and 2 to Chart CO7.1

Source: OECD (2008); non-OECD EU countries Eurostat.

The household type in which one lives has a bearing on the place in the income distribution (Chart CO7.2). In general, average disposable income is lowest among sole-parent families, followed by that of two adult couple families with children (with a head of household of working age) and highest among couples with no children. On average, sole-parent families in OECD countries have incomes that are less than half that of couple families without children, and this income gap is most significant in Germany, Ireland, Japan, Mexico, New Zealand, the United Kingdom and the United States. Incomes of couple families with children are about 20% lower than incomes of couple families without children; the income difference between couple families with and without children is 33% in Turkey and 40% in Mexico.

**Chart CO7.2 Relative income by household type, mid-2000s**

*Household disposable income relative to couples with a working-age head without children*



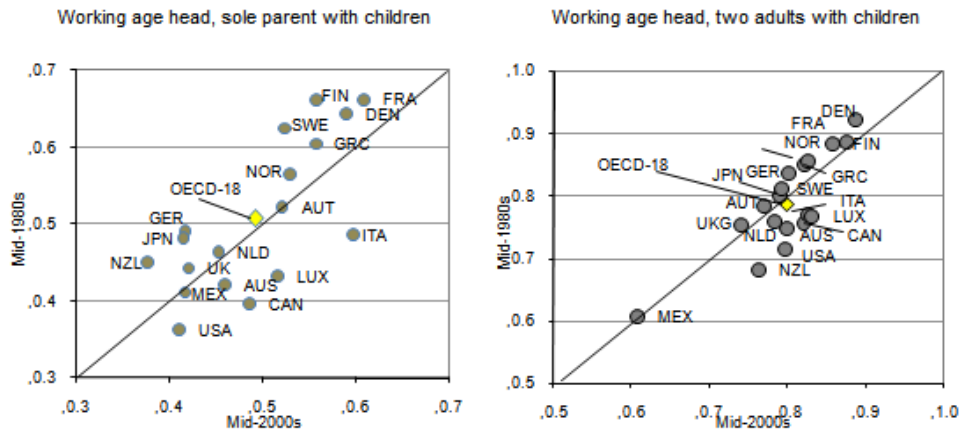
Source: OECD (2008)

Trends in income inequality reflect changes in income within and between demographic groups. Chart CO7.3 plots the income of various household types at two points in time (the most recent year, on the horizontal axis; and the mid-1980s, on the vertical one) relative to that of couple households with children whose head is of working age. Countries with outcomes above the diagonal are those in which relative income for the group considered has fallen.

In general, countries are evenly distributed on the two sides of the diagonal. In comparison to other countries, the income position of sole parents has weakened over time in Finland, Germany, Japan, New Zealand and Sweden, whereas it improved in Canada, Italy and Luxembourg. In Canada, New Zealand and the US, the relative income position of couples with children improved most significantly, while the on average across the OECD, the relative income position of these households changed little.

### Chart CO7.3 Relative income by household type, mid-1980s and mid-2000s

Household disposable income relative to couples with a working-age head of household without children



Source: OECD (2008)

#### Comparability and data issues

Household disposable income is measured as income after the deduction of direct taxes and social security contributions paid by households, and does not account for non-cash income components such as in-kind services provided to households by governments and private entities, consumption taxes, and imputed income flows linked to ownership of housing and other types of assets.

Tabulations on the distribution of household income are provided to the OECD by national experts using common assumptions and definitions across countries. For some countries, however, these data may differ in some aspects that escape standardisation, such as the definition of households and the period over which income is assessed. Finally, these survey data may be affected by different types of sampling and non-sampling errors.

Data on the Gini coefficient and the quintile share ratios for non-OECD countries was derived from Eurostat Tables on Living Conditions and Welfare, data refers to 2005.

*Sources and further reading:* OECD (2008), *Growing Unequal – Income Distribution and Poverty in OECD Countries*, OECD, Paris ([www.oecd.org/els/social/inequality](http://www.oecd.org/els/social/inequality)); and, *Income poverty and social exclusion in the EU25, 2005*; Eurostat *Living conditions in Europe, 2007 edition, data 2002-2005*; 2007, Eurostat.