ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

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Meeting of providers of OECD Income Distribution Data

www.oecd.org/social/soc/inequality-meeting2013.htm

3.2 Classification of income components, in particular private/public transfers – where to draw the line?

The current OECD income accounting framework

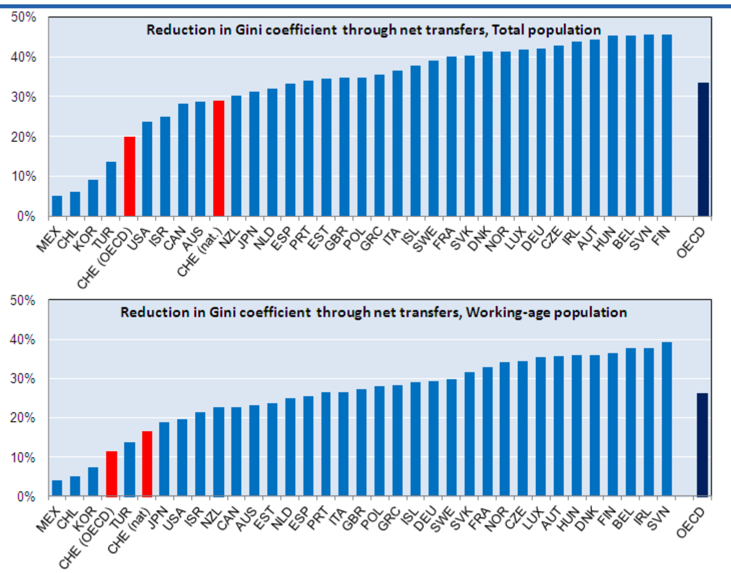
Income component
Gross wages and salaries from dependent employment **(E)**
+
Self-employment income **(SE)**
+
Capital and property income **(K)**
=
1. **Factor income**
+
Private pensions, private occupational pensions, private transfers **(K)**
=
2. **Market income**
+
Social security cash benefits from public sources (universal, income-related or contributory) **(TR)**
+
Other cash income
=
3. **Gross income**
-
Income tax and employee social security contributions **(TA)**
=
4. **Cash disposable income**

2nd pillar benefits and other "border cases"

The classification of benefits as "public" or as "private" is not trivial

- It affects, in particular, the estimate of the income aggregate "market income"
- The estimated (arithmetical) extent of public sector redistribution will be lower when 2nd-pillar and similar benefits are counted with market income rather than public transfers
- Arithmetic redistribution = Gini_{MI} - Gini_{DPI}

Example: the effect of allocating 2nd pillar pensions in Switzerland in two ways



Source: OECD Income Distribution Database, preliminary data, and Swiss national estimates from CSO.

The criterion for classification can differ according to the "lenses" of the observer

- An accountant view: who controls the relevant financial flows, public institutions (e.g. social insurance funds), or private bodies?
- A households view: is a benefit scheme "*compulsory*"?
- A social policy view: does a benefit scheme involve inter-personal *redistribution* of resources?
- Pension benefits, in particular, can also be regarded as "*deferred wages*" (such as severance payments)..
- Canberra framework: provides guidance for classification according the line of "current" transfers – but not for the "public/private" split
- Consistency: the classification should match other standardised OECD indicators, e.g. SNA, SOCX, *Taxing Wages*

Example: the categorisation of benefits in SOCX (OECD Social Expenditure Database)

Categorisation of benefits with a social purpose in SOCX [1, 2]

	Public		Private	
	Mandatory	*Voluntary*	*Mandatory*	*Voluntary*
Redistribution	Means-tested benefits, social insurance benefits	Voluntary participation in public insurance programmes. Self-employed 'opting in' to obtain insurance coverage.	Employer-provided sickness benefits, benefits accruing from mandatory contributions, to, for example, pension or disability insurance.	Tax-advantaged benefits, *e.g.,* individual retirement accounts, occupational pensions, employer-provided health plans
No redistribution	Benefits from government managed individual saving schemes		Non tax-advantaged actuarially fair pension benefits	*Exclusively private* : Benefits accruing from insurance plans bought at market prices given individual preferences.

Source: Adema et al., SEM WP 124 http://dx.doi.org/10.1787/5kg2d2d4pbf0-en

1. Definition transfers between individuals, even when of a social nature, are not considered to be within the social domain.
2. The shaded cells reflect benefits that are NOT classified as social.

For discussion

- Is the current classification of national transfer schemes – if not satisfactory – at least *consistent* across countries?
- Shall we include an additional "pre"-tax/transfer indicator: Ginis/poverty rates before *non-pension* transfers (EU solution)?
- Shall we go further and change the current classification of transfers with regard to "market income"
- As this would imply a break in series, do countries agree to collect (some) updates of historical series?