Income Inequality in OECD Countries

Income inequality is an issue that is permanently under public debate. While it is often argued that high levels of inequality are morally unjust, most economists emphasize the detrimental social effects of high income inequality. The most common way to measure how material resources are distributed across society is the Gini coefficient.

Table 1

Levels and trends in the Gini Coefficient of inequality in the distribution of equivalised household disposable income mid-1980s to late-2000s

	Level late-2000s	Percentage point changes mid-1980s to late-2000s
Austria	0,26	0,407
Belgium	0,27	0,325
Czech Republic	0,26	1,139
Denmark	0,25	0,524
Estonia	0,31	
Finland	0,26	1,163
France	0,29	-0,098
Germany	0,30	0,719
Greece	0,32	-0,759
Hungary	0,27	-0,014
Ireland	0,30	-0,651
Italy	0,34	0,360
Luxembourg	0,27	0,475
Netherlands	0,29	0,320
Poland	0,31	
Portugal	0,36	-0,172
Slovak Republic	0,25	
Slovenia	0,24	
Spain	0,31	-0,530
Sweden	0,26	1,095
United Kingdom	0,34	0,768
Iceland	0,28	
Norway	0,25	0,543
Switzerland	0,28	
Turkey	0,41	-0,259
Australia	0,34	0,642
Canada	0,32	0,396
Japan	0,33	0,373
New Zealand	0,33	0,860
United States	0,38	0,478
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Source: OECD, Society at a Glance 2011: OECD Social Indicators, Paris 2011, p. 67.

Technically speaking, the Gini coefficient is a statistical measure of the degree of concentration of a variable (here: income) in a distribution of its elements. In the case of income inequalities, it compares a situation whereby each individual has the same in-come ("line of perfect equality") with distribution of the individuals ranked according to their income (the Lorenz curve). The values of the Gini coefficient range between 0, where every individual has the same income, and 1, where all income is concentrated on a single individual.

Gini coefficients refer to various kinds of income. The OECD provides Gini coefficients that measure the inequality in the distribution of equivalised household disposable in-come. Disposable income is gross household income after deduction of direct taxes and payment of social security contributions. Among others, it excludes in-kind transfers and consumption taxes. To facilitate comparison of income levels between households of differing size and composition, the total gross is adjusted by the application of an equivalence scale.

The OECD (2011a) reports levels and changes in Gini coefficients of OECD countries between mid-1980s and late 2000s. As evident from Table 1, income inequality varies considerably across OECD countries. It is highest in Turkey, followed by the United States, Portugal and the United Kingdom. Slovenia, Slovakia and most Nordic countries show the lowest levels of income inequality. Overall income inequality has grown moderately across the OECD since the mid-1980s, but individual countries experienced very different trends.[1] In formerly autocratic countries like Greece, Spain, Turkey and Portugal inequality was reduced considerably. Other countries such as Finland, the Czech Republic and Sweden experienced a considerable increase in inequality.

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References

OECD (2011a), *Society at a Glance 2011*, Paris.

OECD (2011b), *Growing Income Inequality in OECD Countries: What Drives it and How Can Policy Tackle it?*, Paris (http://www.oecd.org/dataoecd/32/20/47723414.pdf).

[1] For a detailed discussion see OECD (2011b).