

5. Disposable income

Disposable income, as a concept, is closer to the concept of income generally understood in economics, than either national income or GDP. At the total economy level it differs from national income in that additional income items are included, mainly *other current transfers* such as *remittances*. For countries where these additional items form significant sources of income the importance of focusing on disposable income in formulating policy is clear. For OECD countries the differences between national and disposable income at the total economy level are typically insignificant. But another very important difference between national income and disposable income concerns the allocation of income across sectors. At this level significant differences arise. In the main these reflect the reallocation of national income: *from corporations and households to government*, on account of income taxes; *from households to government* to reflect social contributions; and, *from government and corporations to households* to reflect social benefits other than social transfers in kind. It is mainly this reallocation of income that brings the concept of income closer to the economic concept. Indeed, ignoring, for simplicity, changes in net worth that arise from capital transfers or holding gains say, disposable income can be seen as the maximum amount that a unit can afford to spend on consumption goods or services without having to reduce its financial or non-financial assets or by increasing its liabilities.

Definition

The description given above relates to what is known as *disposable income*, which can be shown gross or net of depreciation. However there is an important variant of this concept, described as *adjusted disposable income*, which additionally reallocates “income” from government and NPISHs to households to reflect social transfers in kind. These transfers reflect expenditures made by government or NPISHs on individual goods and services, such as health and education, on behalf of an individual household.

This variant provides an important mechanism for international comparisons of households’ “income” as it adjusts for the levels of individual goods and services indirectly “consumed” by households via taxation for example. The adjustment in effect imputes these expenditures from government/NPISHs to households (*actual consumption*) and also imputes the same values to households as if they were income (meaning that *net*

saving is unaffected by this reallocation, see Section 7). In theory some social transfers in kind may involve non-resident households or governments/NPISH but these are typically insignificant and, so, the SNA recommends, unless strong evidence to the contrary exists, that these cross border flows net out.

Comparability

Comparability is good but there are practical difficulties in the measurement of the additional income components, such as remittances, that make up the difference between GDP and disposable income (including adjusted). It is for that reason that GDP per capita is the most widely used indicator of income or welfare, even though it is theoretically inferior, in that context, to measures of disposable income.

Both measures of disposable income include the payments of pension contributions to pension schemes and to social security and the receipts of pensions from pension schemes and social security. The SNA prescribes this treatment as it aligns better with the individual’s concept of income and comes despite the fact that payments of pension contributions into the schemes and the receipts of pensions by pensioners constitute the acquisition and disposal of financial assets (see also Section 7). Not all countries however include these particular flows into and out of pension schemes as parts of disposable income and so comparability at the sectoral level is affected, albeit only marginally.

Source

- OECD (2010), *National Accounts of OECD Countries 2010, Volume II, Detailed Tables*, OECD Publishing, http://dx.doi.org/10.1787/na_vol_2-2010-en-fr.

Online database

- OECD (2010), “Detailed National Accounts: Non-financial accounts by sectors”, *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/data-00034-en>.

Further reading

- Lequiller, F. and D. Blades (2007), *Understanding National Accounts*, OECD Publishing, <http://dx.doi.org/10.1787/9789264027657-en>.
- OECD (2000), *System of National Accounts, 1993 – Glossary*, OECD Publishing, <http://dx.doi.org/10.1787/9789264180871-en>.
- UN, OECD, IMF and Eurostat (eds.) (1993), *System of National Accounts 1993*, United Nations, Geneva, <http://unstats.un.org/unsd/sna1993>.

Table 5.1. Household gross adjusted disposable income per capita

US dollars at current PPPs

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	17 698	18 423	19 163	20 077	21 511	22 404	23 354	23 789	25 309	25 857	26 926	28 204	29 197	..
Austria	18 423	18 472	19 225	20 181	22 134	22 036	23 492	24 090	25 314	24 999	27 072	28 025	29 112	28 833
Belgium	18 051	18 450	18 649	19 350	21 828	22 722	24 256	23 578	24 373	23 807	25 024	25 747	27 236	27 409
Canada	18 063	18 463	18 998	19 718	20 887	21 715	22 169	22 752	24 036	24 977	25 890	27 373	28 095	28 418 e
Chile	..	..	..	..	..	..	..	5 885	6 442	7 078	7 730	8 440	9 077	..
Czech Republic	9 909	10 260	10 113	10 493	11 227	12 016	12 628	13 186	13 798	12 984	15 069	16 430	17 249	17 171
Denmark	16 202	16 623	17 472	17 389	18 524	19 064	20 762	20 169	21 191	21 645	22 235	23 177	24 073	24 322
Finland	12 974	13 921	14 479	15 424	16 868	17 430	18 935	19 287	20 823	21 722	22 243	24 150	25 441	26 133
France	17 177	17 841	18 522	19 267	21 413	22 841	24 871	23 941	24 940	24 341	26 153	27 571	28 652	28 703
Germany	18 914	19 178	19 447	20 315	21 594	22 426	23 451	24 150	24 940	25 344	27 033	28 007	29 414	29 389
Greece	..	..	..	..	14 988	16 288	18 049	18 189	19 197	19 274	20 334	22 288	22 724	..
Hungary	8 311	8 478	8 796	9 123	9 881	10 717	12 022	12 318	13 032	12 374	13 925	13 980	14 605	..
Iceland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Ireland	..	..	..	..	..	..	20 053	20 784	22 409	23 121	23 784	24 924	25 899	26 295
Israel*	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Italy	17 619	18 043	18 454	18 894	20 323	22 084	22 079	22 104	22 397	22 862	23 672	24 731	25 439	25 036
Japan	16 782	17 118	17 248	17 574	18 567	18 656	19 794	20 330	21 253	22 491	23 216	24 175	..	..
Korea	10 887	11 204	10 984	11 320	11 660	12 024	12 654	13 271	14 230	14 749	15 488	16 330	17 004	17 289
Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Mexico	..	..	..	..	..	..	..	9 111	9 638	10 215	11 242	11 691	12 225	..
Netherlands	15 721	16 645	17 520	18 386	20 505	21 957	23 523	22 339	23 182	22 531	24 992	26 660	27 520	27 293
New Zealand	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Norway	16 861	17 656	18 599	19 136	20 842	21 267	23 735	24 955	26 343	28 655	27 141	28 808	..	..
Poland	7 106	7 699	8 155	8 593	9 282	9 788	10 368	10 403	10 967	10 731	11 845	13 180	14 270	..
Portugal	11 193	11 672	12 043	13 133	14 494	15 072	15 820	16 003	16 632	17 787	18 185	18 848	20 087	20 227
Slovak Republic	7 119	7 997	8 346	8 241	8 815	9 706	10 700	10 422	10 973	11 016	12 666	14 552	16 120	16 618
Slovenia	..	..	..	11 314	12 423	13 102	14 374	14 197	15 077	15 228	16 454	17 330	18 600	..
Spain	..	..	..	..	17 021	18 025	19 819	19 798	20 691	20 707	22 605	23 356	24 559	25 096
Sweden	15 321	15 449	15 912	17 034	18 871	20 040	21 681	21 857	22 516	22 395	23 632	25 557	26 798	27 101
Switzerland	18 654	19 443	19 973	20 462	22 068	22 875	24 153	23 430	24 438	25 345	25 748	27 937	28 806	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	16 676	17 766	18 111	18 828	21 050	22 633	24 194	24 552	25 866	25 501	27 104	27 427	28 538	..
United States	23 236	24 121	25 482	26 438	28 092	29 074	30 260	31 557	33 084	34 328	36 334	37 754	39 390	..
Euro area	..	..	..	..	..	..	..	..	..	..	..	..	..	..
OECD-Total	..	..	..	..	..	..	..	..	..	..	..	..	..	..


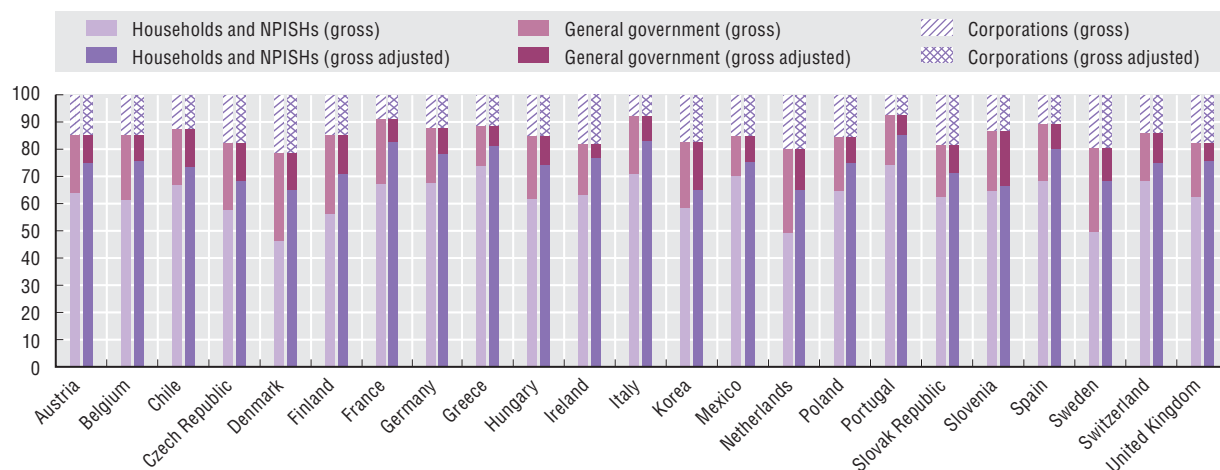

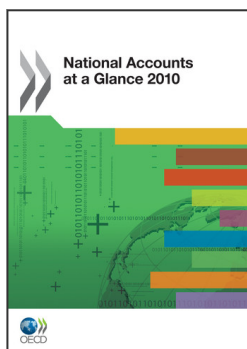
StatLink  <http://dx.doi.org/10.1787/888932351721>

Figure 5.1. Disposable income – gross and gross adjusted – by sector

Total economy = 100%, 2008

StatLink  <http://dx.doi.org/10.1787/888932351132>

* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.



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