

PART II
Chapter 3

Earnings and Income Inequality: Understanding the Links*

Wage disparities among full-time workers have increased over the past two decades. These disparities are much wider when looking at personal earnings of all workers, reflecting differences in the amount of work performed over the year. When looking at the distribution across the entire working-age population – whether working or not – the concentration of household earnings has remained broadly stable over the past decade, while that of capital and self-employment income has increased markedly.

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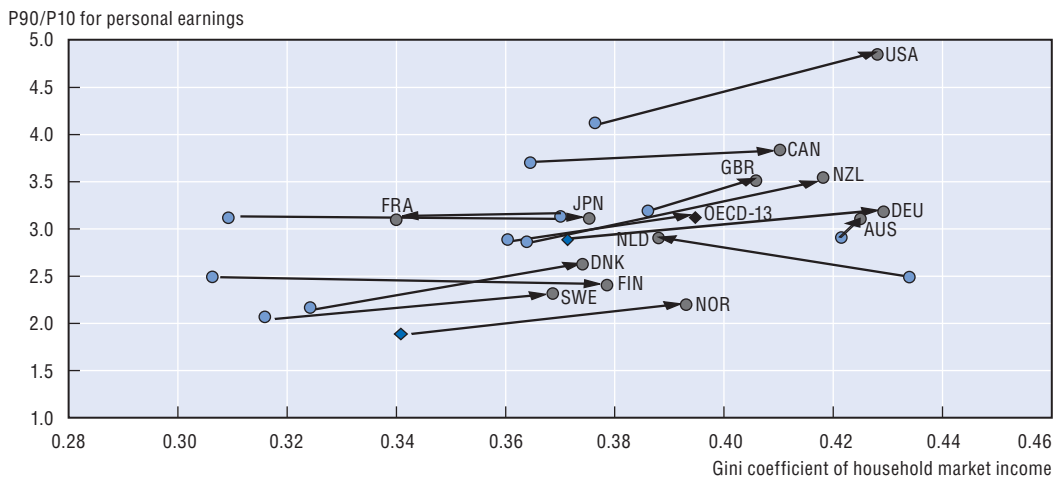
Introduction


Much of the discussion on the drivers of income inequality has focused on the distribution of earnings, and on the impact of technological development, trade with low-wage countries and institutional changes on earnings.¹ This discussion is critical to any assessment of what has happened to income inequality: earnings are the largest component of household income and, as a result, they play a key role in shaping changes in income inequality. Yet the relation between earnings and income inequality is complex: many factors are at work that can either offset the impact of earnings inequality on the distribution of household income or reinforce it.² Because of the variety of factors involved and differences in concepts, measures and statistical sources used to describe them, changes in the distribution of personal earnings among workers and changes in market income (the sum of earnings, self-employment and capital income) among people may sometimes move in different directions. While for most of the countries included in Figure 3.1, changes in the distribution of earnings and of market income over the past decade have moved in sympathy, there have been exceptions, and even when both distributions move consistently, there are differences in the strength of their association.³

This chapter focuses on the links between the distribution of personal earnings and the distribution of market income to highlight the role of labour markets in driving changes in income inequality among people of working age. Because of its focus, the chapter ignores the redistribution of income that is achieved through taxes and public transfers (these issues are considered in Chapter 4) and abstracts from the qualitatively different factors

Figure 3.1. **Changes in the distribution of personal earnings and of household market income**

Mid-1990s to mid-2000s



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Note: Market income inequality among persons of working age and earnings inequality among full-time workers. Data refer to the mid-1990s and mid-2000s for all countries.

Source: OECD Earnings database and income distribution questionnaire.

that affect income distribution among the elderly. After describing some of the main features of OECD earnings statistics (Box 3.1), this chapter reviews trends in earnings inequality among full-time workers and then discusses how the growth of non-standard jobs has shaped earnings inequality among all workers. It then describes some of the factors that come into play when moving from personal earnings to household earnings and from household earnings to market income.

Box 3.1. Conceptual features of OECD statistics on the distribution of personal earnings

The comparative earnings statistics collected by the OECD in its Earnings database (see Table 3.A1.1 available at <http://dx.doi.org/10.1787/424402577838>) are drawn from different sources: surveys of individuals and firms, administrative registers and tax records. The data refer to individuals of working age holding a full-time job. While full-time jobs account for the largest share of total employment in all OECD countries, the definition of full-time work used by these sources may differ from that used in labour-force surveys. These earnings data are generally reported before taxes and refer to the whole economy, although there are exceptions (i.e. in some countries they may exclude some sectors of employment such as general government or agriculture). The data also refer to different earnings concepts (hourly and weekly earnings in most cases, annual and monthly earnings for some countries) and include different elements of the employee remuneration packages. Because of these differences, earnings data such as those collected by the OECD are more suited for assessing *changes* in earnings distributions over time than for comparing *levels* of earnings inequality across countries (Atkinson, 2007).*

Beyond these methodological features, the relation between earnings and income distribution is affected by deeper conceptual differences. The most important of these relates to the unit of analysis used in each case (Saunders, 2005). Measures of earnings inequality refer to the distribution of personal earnings among *workers*. Conversely, measures of income inequality – even when using the individual as the unit of analysis – refer to the *household* as the basic unit within which income is pooled and shared by its members. This implies considering all individuals, whatever their age and employment status, and attributing to each of them the (equivalised) income of the household where they live. This difference has important implications for understanding the relationship between earnings distribution and income distribution, as the latter will be affected by how workers pool their earnings within households and by the distribution of employment opportunities among households with different characteristics.

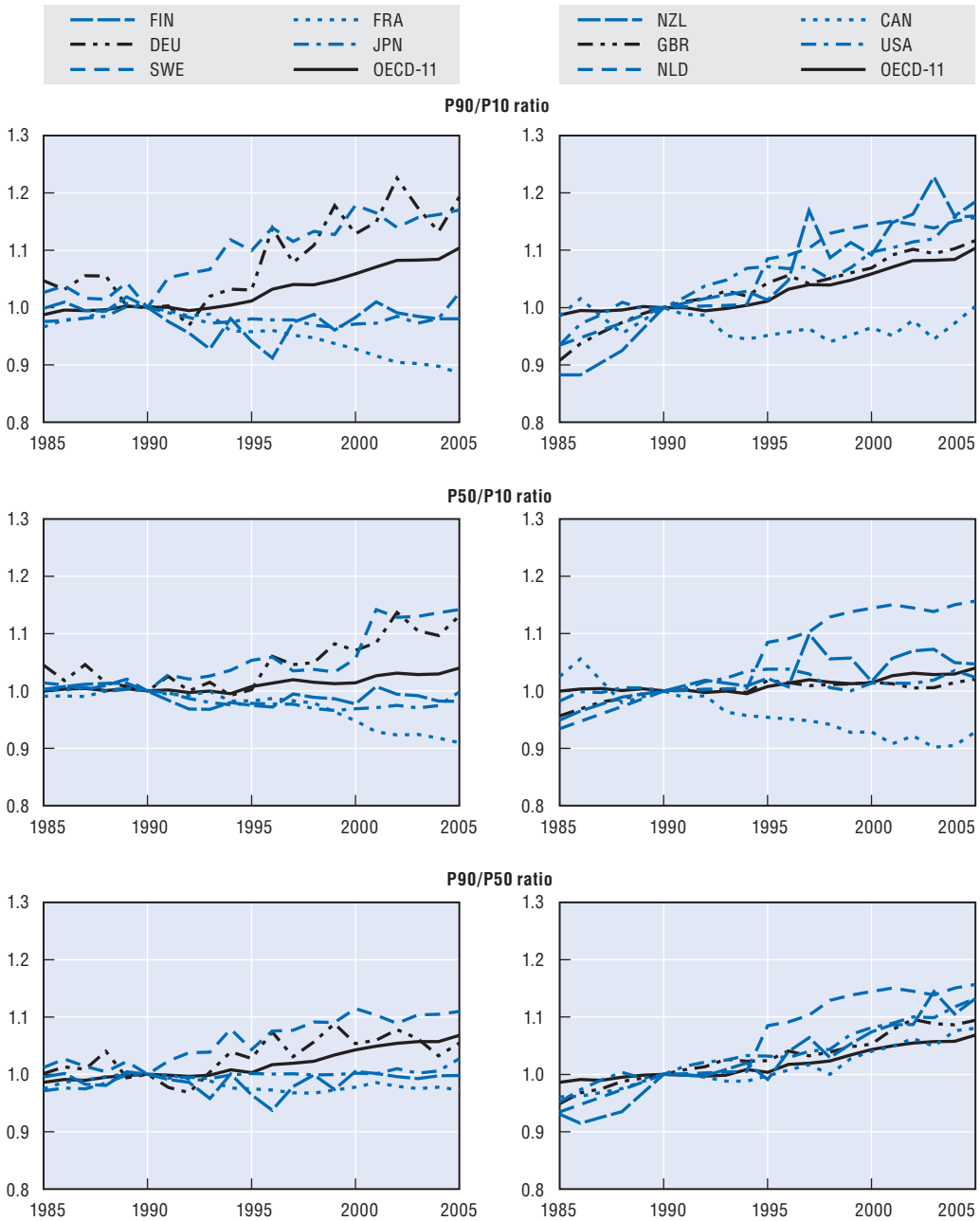
* While comparability problems also affect information on the distribution of household income, they are less severe than in the case of earnings. For a description of these problems see Annex 1.A1 in Chapter 1.


Main patterns in the distribution of personal earnings among full time-workers

Changes in labour-market conditions over the past few decades have significantly affected the distribution of personal earnings in all OECD countries. The large literature that has attempted to explain these patterns has typically focused on men working full time, as they account for the largest share of total employment (Gottschalk and Danziger, 2005). Figure 3.2 highlights a sharp widening in the distribution of personal earnings – as measured by inter-decile ratios – among men working full time in most OECD countries. On average, across the 11 OECD countries for which information is available since 1985, earnings dispersion increased by around 10% since 1990, with most of this rise occurring

Figure 3.2. Trends in earnings dispersion among men working full time

Index 1990 = 1.0



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Note: Three measures of earnings dispersion are shown: the top panel refers to the entire distribution (i.e. the ratio between the upper limit of the 9th decile and that of the 1st decile); the middle panel to the lower half of the distribution (the ratio of median earnings to the upper limit of the 1st decile); and the bottom panel to the upper half (the ratio of the upper limit of the 9th decile to median earnings). Wages and salaries of full-time employees are reported gross of taxes and social security contributions in all countries except France, where they exclude social security contributions paid by workers. Data for some countries have been interpolated for missing observations. OECD-11 includes Canada, Finland, France, Germany, Japan, the Netherlands, New Zealand, Sweden, the United Kingdom and the United States, as well as Korea (not shown above).

Source: OECD Earnings database.

since 1995. While this widening has affected both halves of the distribution, it is larger at the top (with an increase in P90/P50 of 7% since 1990) than at the bottom (with an increase in P50/P10 of 4% since 1990).

This average increase in earnings dispersion hides, however, significant differences across countries. In Germany, New Zealand, the Netherlands, Sweden and the United States, the increase in earnings dispersion among men working full time was large and sustained, while in Canada, France, Finland and Japan the earnings distribution was rather stable or narrowing.⁴ These large cross-country differences in how the overall distribution of personal earnings changed over time mainly reflect a greater variation in the trends in the bottom half of the distribution than in the top half: the P50/P10 ratio fell in Canada, Finland, France and Japan, while it increased moderately in the United Kingdom and the United States and more sharply (exceeding 15%) in Germany. Conversely, the widening in the upper half of the distribution was common to all countries except France and Finland, and it exceeded 13% in New Zealand and the United States. Even this increase is likely to understate the widening of the earnings distribution at the very top, as OECD earnings statistics omit a large and rising share of the remuneration package of better-paid workers.⁵

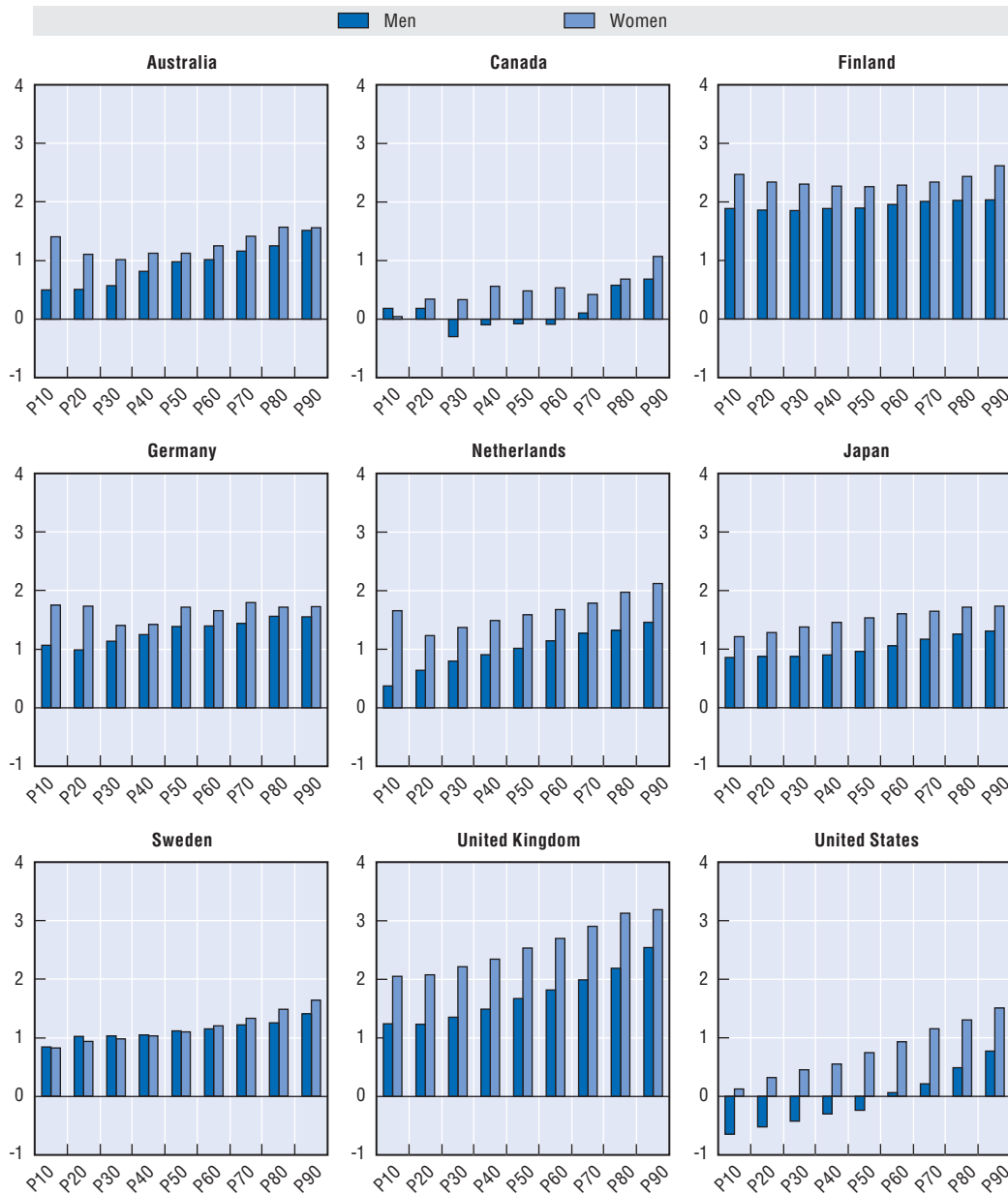
Trends in earnings inequality for women working full time are generally more volatile than for men. Across the 11 OECD countries with earnings data available since 1985, the P90/P10 ratio rose by 11% since 1990, as compared to 10% for men, with most of the rise in the upper half of the distribution (an increase in P90/P50 of 8% since 1990, compared to one of 3% for P50/P10).⁶ Across countries, the earnings distribution of women working full time widened in Sweden, the United States and United Kingdom, while it remained broadly stable or narrowed in France and Finland.


Additional factors come into play when looking at changes in the earnings distribution for *all full-time workers*, irrespectively of their gender. In general, these changes are significantly smaller than those experienced by men and women separately. Across the 11 OECD countries for which earnings data by gender are available since 1985, the increase in the P90/P10 ratio recorded since 1990 is 7%, i.e. around two-thirds that men and women separately.⁷ This mainly reflected the decline in the gender wage gap (the difference in median earnings between men and women working full time), which narrowed the “distance” between the two distributions and more than offset the rise in the share of women among all full-time workers, which – had the gender wage gap stayed constant – would have “fattened” the lower tail in the total distribution.⁸ As in the case of men and women separately, the widening of the earnings distribution for full-time workers was driven by a widening in the upper half.

The higher earnings dispersion is the result of differences in the pace of earnings growth for workers at various points of the distribution. However, it also matters whether these differences reflect real earnings *gains* for better-paid workers that exceed those of their lower-paid counterparts or, conversely, real earnings *losses* for workers at the bottom of the distribution. Figure 3.3 shows some significant differences in real earnings growth for full-time workers across deciles, both between men and women and across countries. In all countries, women at the lower end of the distribution have recorded stronger earnings growth than men, while differences by gender are smaller at the upper end. In the United States over the period 1980 to 2005, men working full time in the lower half of the distribution experienced real earnings losses, while workers in the middle of the distribution also experienced real declines in Canada since 1997.

Figure 3.3. **Real earnings growth for men and women working full time by decile, 1980 to 2005**

Average growth rate per year, in percentage



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Note: Annual growth rates over the period 1980 to 2005 for Australia, Japan and the United States; 1980 to 2004 for Finland, Germany and Sweden; 1980 to 2003 for the United Kingdom; 1985 to 2005 in the Netherlands; and 1997 to 2005 for Canada. Nominal earnings data are deflated with the CPI.

Source: OECD Earnings database.

Earnings distribution among all workers: the importance of non-standard employment

Changes in the distribution of personal earnings among *all employees* reflect the influence of a range of additional factors beyond those affecting the distribution among full-time workers. These include differences in working hours and in wage rates of other

groups of workers, such as those working part time and in non-standard employment, that are omitted from the OECD earnings data used above.

The importance of non-standard jobs has increased in recent years, although with different intensity across countries. For example, the incidence of part-time work in total employment since the mid-1990s has been broadly stable (at 16% in 2006) for the OECD area as a whole, but it increased sharply in Germany, Spain and Korea (OECD, 2007a). Similarly, the incidence of temporary workers (temporary help agency workers, on-call workers, seasonal workers, workers on fixed-term contracts of one year or less) has risen only marginally on average (from a little more than 10% in 1985 to around 12% in 2000) but by much more in Spain, Italy and Ireland (OECD, 2002).⁹ Beyond these two categories of workers, some workers holding non-standard jobs are likely to be classified as self-employed and hence excluded from earnings statistics.

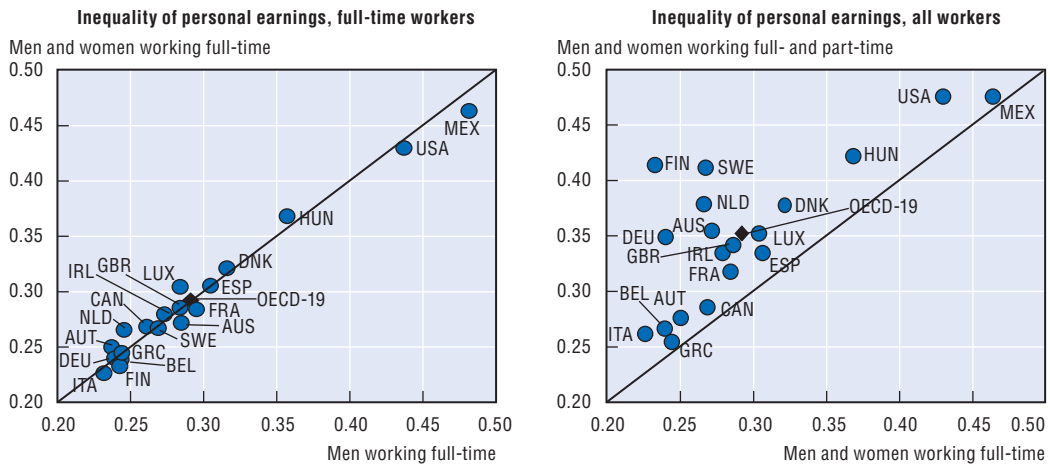
Because part-time employees work fewer hours each week and many categories of temporary employees work fewer weeks each year, the inclusion of non-standard workers significantly widens the distribution of annual earnings among all employees. This suggests that workers at the bottom of the distribution of annual earnings are typically those working a low number of hours per year, either because they work part time or because they work full time but only for part of the year (see also Burniaux, 1997).¹⁰ This is not a cause of concern when part-time or intermittent work is “chosen”: non-regular jobs often provide opportunities for people to work in flexible ways that better match their diverse lifestyles. However, surveys also suggest that many part-time workers would prefer to work more hours if suitable jobs were available, and the share of these involuntary part-timers (at 16% of part-time employment in 2005 for the OECD area as a whole) is today around three times larger than in 1985 (OECD, 2007a).¹¹


Beyond differences in hours worked, workers in non-standard jobs are also typically paid less per hour. In the mid-1990s, the hourly pay of part-time workers was around 25% less than for workers in full-time jobs (OECD, 1999), and the gap between temporary workers and permanent workers was similar in a sample of European countries in the late 1990s (OECD, 2002). While part of these wage differences reflect the different characteristics of the individuals (*e.g.* age, tenure and qualification) and of the firms where they work (*e.g.* size and industrial sectors), controlling for these different characteristics does not eliminate the wage penalty associated with holding a temporary or part-time job (OECD, 1999 and 2002).¹² Further, in some countries such as Japan and Korea, earnings statistics for full-time workers exclude all those holding irregular jobs, even when their working hours are comparable to those of regular workers. In these two countries, workers holding irregular jobs are paid between 40 and 60% less per hour than regular workers, a gap that is too large to be explained by productivity differences (OECD, 2006 and 2007b). Beyond differences in pay rates, a large share of these workers are also not entitled to additional benefits and guarantees, which would imply higher gaps in actual remuneration.

One way to illustrate the importance of non-standard jobs for the distribution of personal earnings is to see how a typical measure of inequality changes when the coverage of the earnings data is broadened from full-time workers to all employees. Figure 3.4 shows estimates of the Gini coefficient for personal earnings based on micro-data for 19 OECD countries in around 2000 drawn from the *Luxembourg Income Study* project. The first panel shows how inequality in *personal earnings* changes, for each country, when moving from men working full time (on the horizontal axis) to all full-time workers, irrespectively of

Figure 3.4. **Inequality in the distribution of personal earnings when moving from full-time workers to all workers**

Gini coefficients in around 2000



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Note: Gini coefficients refer to individuals belonging to households with a head aged between 18 and 65. Data refer to the year 2000, except for Australia (2001), Hungary, Netherlands and the United Kingdom (1999).

Source: Luxembourg Income Study.

their gender (on the vertical axis); the second panel shows how inequality in personal earnings changes when moving from all full-time workers (on the horizontal axis) to all employees, whether working full or part time (on the vertical axis). Two main patterns stand out from Figure 3.4:

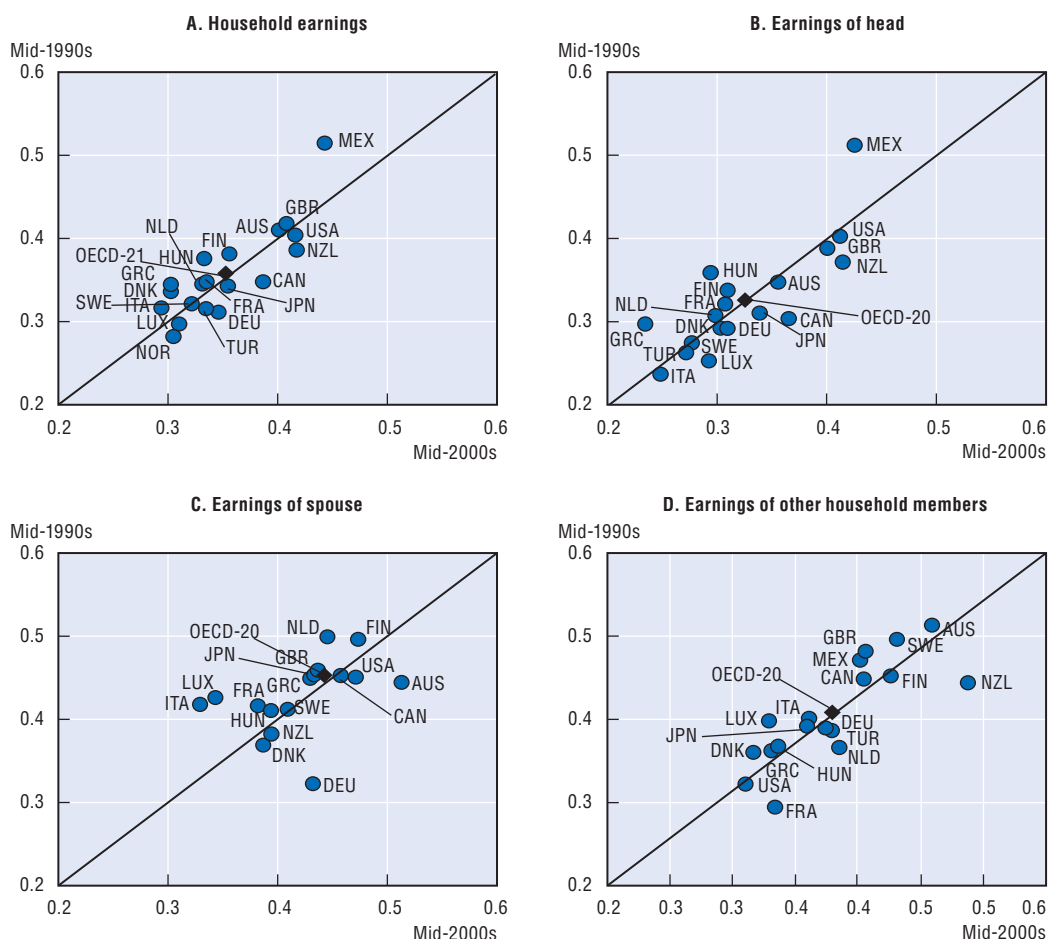
- First, there are large cross-country differences in the width of the distribution of personal earnings among men working full time, with Gini coefficients ranging from around 0.45 in Mexico and the United States to values below 0.25 in Italy, Austria, Germany, Finland, Belgium and Greece. Conversely, including women working full time has only a small effect on the distribution of personal earnings among all full-time employees, with a small widening in most countries and a small narrowing in Mexico, Australia, Finland and the United States.¹³
- Second, the distribution of personal earnings widens significantly when including part-time workers. On average, the Gini coefficient for personal earnings among all employees exceeds that for full-timers by 0.06 point (i.e. a 20% increase), with larger rises in Finland, Sweden, Germany and the Netherlands and negligible ones in Greece and Mexico. Also, across countries, the widening of the earnings distribution when including part-time workers is larger in countries where the earnings distribution of full-time workers is narrower, which suggests that the narrower distribution may have encouraged the diffusion of part-time work in several countries.

From personal to household earnings: which factors come into play?

Moving from personal to household earnings requires broadening the analysis across individuals, considering how they pool and share their earnings with other household members, and how jobs are distributed among people. While both of these factors matter, the assessment of their role depends on how households with no earnings are included in the analysis and on how people are “ranked” (i.e. whether based on household gross earnings or on their “final” disposable income).

One summary measure of household earnings inequality is the concentration coefficient of household earnings across all people – whether working or not (as computed based on grouped data in the OECD income distribution questionnaire).¹⁴ For most OECD countries, this measure of household earnings inequality (in Panel A of Figure 3.5) was quite stable over the decade to the mid-2000s, with significant rises in Canada, Germany, New Zealand and Norway and falls in Mexico and, to a lesser extent, Greece, Hungary, Denmark, Finland and Italy. The large differences across countries in this measure of household earnings inequality shown in Figure 3.5 partly reflect differences in the earnings measure (*i.e.* whether earnings are measured before or after taxes). Cross-country differences remain important, however, even when restricting the analysis to countries reporting pre-tax earnings data, ranging from values of 0.40 or more – in the United States, New Zealand, the United Kingdom and Australia – to around 0.30 – in Denmark, Sweden, Norway, Greece, Italy and Luxembourg.

Figure 3.5. **Concentration of household earnings by type of wage earner**



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Note: The concentration coefficient is computed in the same way as the Gini coefficient, with the only difference being that individuals are not ranked by the value of the earnings they receive but rather by their equivalised disposable incomes. Concentration coefficients are computed based on grouped data for average household earnings in each income decile. Data refer to gross (*i.e.* pre-tax) earnings in all countries except Greece, Hungary, Mexico, Poland and Turkey, where they are measured post-tax.

Source: OECD income distribution questionnaire.

Cross-country differences in the distribution of household earnings are also evident when looking separately at the earnings of the household head, of spouses and of other household members (in Panels B, C and D of Figure 3.5). In the mid-2000s, earnings of spouses were significantly more concentrated than those of household heads (with a concentration coefficient that was, on average, one-third higher), and the same pattern applied, to a lesser extent, to the earnings of other household members (with inequality around one-fifth higher). While the greater inequality of spouse earnings reflects a range of factors described in Box 3.2, cross-country differences in the size of these inequalities partly reflect how prevalent two-earner households are in each country. This is highlighted by the much larger gap between the Gini coefficient of spouse earnings and that of household heads in those countries (such as Turkey and Greece) where the share of people in two-earner households is smaller. Cross-country differences are also significant when looking at *changes* in earnings inequality among these various types of earnings: in Germany, for example, earnings of spouses became much more concentrated than those of heads, while in the United Kingdom lower inequality in the earnings of spouses and other household members was accompanied by a slight increase in that of household heads. As a result, there is only a weak correlation between changes in earnings inequality of household heads, on one side, and of spouses and other household members, on the other.

What accounts for the broad stability in the distribution of household earnings among people in a context of greater inequality in personal earnings among workers? One factor is the change in employment and in its distribution among households. In the ten years to the mid-2000s, non-employment rates fell on average and in most OECD countries, especially in Spain, Ireland and Finland, while they increased in several eastern European countries and in Turkey (Table 3.1). The decline in the share of people not in paid work, however, mainly benefited people with intermediate education, while those with lower educational attainment experienced a fall in their employment levels.¹⁵ Further, the average decline recorded in non-employment rates has not been matched by a similar fall in the share of people living in jobless households; countries that have recorded the largest fall in non-employment rates tend to experience larger inroads into household joblessness, but the association between the two variables is not strong, and there are several exceptions.¹⁶ In the ten years to 2005, countries that have experienced a larger decline in household joblessness have also recorded a lower concentration in household earnings (Figure 3.6, left-hand panel). Similarly, countries where the share of people living in two-earner households has increased the most have also experienced a sharper fall in the inequality of spouse-earnings. The large dispersion in countries' experiences suggests however that other factors beyond access to jobs have been at work.¹⁷

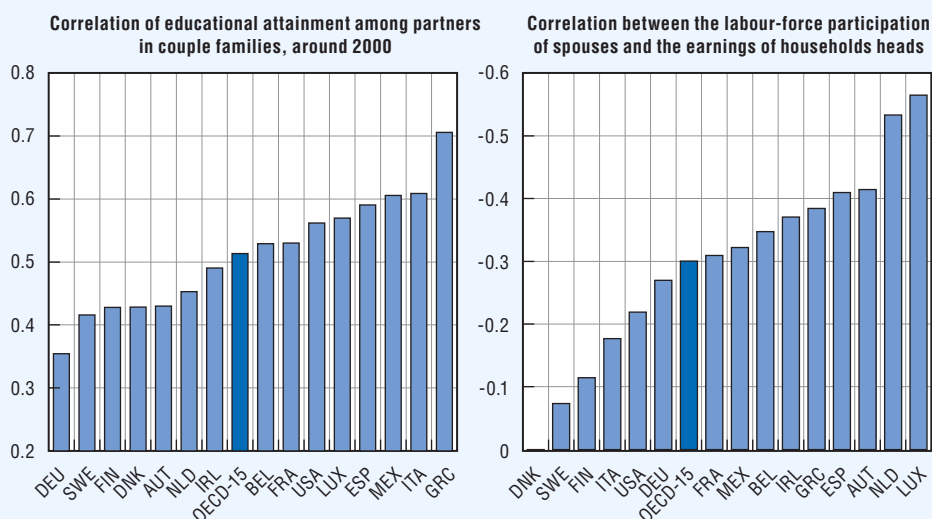
One way to highlight the significance of the various factors shaping the distribution of household earnings is to look at how inequality changes as the coverage of earnings data is extended, step by step, from individual workers to all people, whether working or not. Figure 3.7 shows values of the Gini coefficient for household earnings (among people living in a household with a head of working age) with people ranked by their (equivalised) household earnings (rather than income). The first panel compares the inequality in personal earnings among workers to that in household earnings among the same individuals (*i.e.* after allowing for partnership formation between them), with household earnings "equivalised" by the number of workers in each household. The second panel compares the inequality in household earnings as defined previously with the inequality obtained after including in the analysis non-working spouses and their children. The third

Box 3.2. What accounts for the greater inequality of spouse earnings compared to those of household heads?

Two factors that partly offset each other have contributed to shape the distribution of spouse earnings compared to that of household heads:

- The first reflects the characteristics of the marriage market, in particular the extent to which better-educated spouses (with a higher earnings potential) “match” with heads with similar characteristics (a phenomenon also called “assortative mating”). Much research has documented the importance of marital mating for the United States (e.g. Juhn and Murphy, 1997), where the growing tendency for better-educated individuals to marry each other is occurring alongside the increasing difficulty faced by less-educated women (particularly from ethnic minorities) to find suitable partners (Mare, 2000). The consequences of assortative mating are not limited to income distribution, and this phenomenon is not unique to the United States: the left-hand panel of the figure below shows a positive correlation (of 50% on average) between the educational attainment of partners within couples (with a head aged between 18 and 65), with higher values in the United States, Mexico and the southern European countries (where income inequality is above-average) and lower ones in the Nordic countries and continental Europe (with below-average income inequality).
- The second factor is the likelihood that spouses who are married to higher-earning heads (for a given level of educational attainment) will enter the labour market. For couples with an employed head, the right-hand panel of the figure below suggests that, in all countries except Denmark, spouses are more likely to enter the paid labour force when the earnings of the head are low rather than high. This result holds after controlling for the level of education of spouses as, *ceteris paribus*, labour-force participation rises with educational attainment. This suggests that many households with lower “earnings potential” offset this by having both partners participating in the paid labour market.

While these factors work in opposite directions, the evidence presented above suggests that, because of assortative mating and the higher educational levels of spouses, their earnings contribute to widening the distribution of household income.




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Note: Calculations based on individuals belonging to households with a head aged between 18 and 65. Data refer to the year 2000, except for Hungary and the Netherlands (1999). Values shown in the right-hand panel are partial correlation coefficients, i.e. computed after controlling for the educational attainment of both spouses.

Source: Luxembourg Income Study.

Table 3.1. **Non-employment rates and share of people living in jobless households**

	Non-employment rate								Share of population living in jobless households	
	Total		Less educated		Medium educated		Highly educated		Level, around 2005	Point change since 1995
	Level, 2005	Point change since 1995	Level, 2005	Point change since 1997	Level, 2005	Point change since 1997	Level, 2005	Point change since 1997		
Australia	28.4	-5.6	40.6	-3.2	21.6	-4.3	15.9	-0.9	14.2	-1.8
Austria	31.4	-0.4	52.8	1.8	26.6	1.0	15.8	0.9	11.0	-1.8
Belgium ¹	39.0	-5.2	59.6	-0.1	34.5	-2.3	17.2	-0.2	18.6	-2.2
Canada	27.5	-5.4	49.8	-3.5	25.9	-2.6	18.5	-1.0	6.2	-0.5
Czech Republic ¹	35.2	4.5	78.2	10.9	28.2	4.9	15.4	4.2	10.1	4.0
Denmark	24.5	-3.1	41.4	..	21.4	..	13.8	..	9.2	-0.5
Finland	32.0	-8.0	54.2	0.1	28.0	-6.1	15.8	-2.6	7.3	0.3
France ¹	37.7	-3.9	52.6	-3.0	31.9	-0.7	23.4	0.1	11.6	-3.1
Germany	34.5	-1.0	57.7	-2.2	30.7	-1.3	17.3	-1.1	19.4	4.2
Greece	39.7	-6.2	49.5	-0.8	39.2	-6.9	18.9	-2.3	6.5	-3.1
Hungary	43.1	-3.4	72.0	1.0	35.1	0.8	17.5	-1.1	19.1	11.2
Iceland	..	..	..	..	..	..	..	..	2.1	2.1
Ireland ¹	32.9	-15.3	50.5	-7.0	26.9	-10.9	14.5	-6.8	11.7	..
Italy	42.5	-5.9	54.1	..	33.4	..	21.5	..	9.6	-2.3
Japan	30.7	0.0	..	..	33.8	1.5	26.1	0.0	5.1	1.1
Korea	36.3	-0.9	49.9	4.8	36.2	1.7	23.6	3.2	5.5	..
Luxembourg	36.4	-3.4	49.5	..	37.0	..	17.5	..	7.1	-2.2
Mexico	40.4	-0.9	42.6	1.5	36.2	-0.4	29.2	2.4	3.8	0.4
Netherlands	28.9	-7.2	41.6	..	22.6	..	14.6	..	9.1	-1.7
New Zealand	25.4	-6.6	40.0	-5.1	23.0	-1.2	16.2	-3.4	9.3	-3.5
Norway	24.8	-3.0	42.8	3.8	19.8	-2.0	12.9	-0.1	13.1	1.8
Poland	47.0	5.3	76.9	12.4	43.1	10.0	18.7	5.2	14.0	..
Portugal ¹	32.5	-3.4	34.3	..	36.9	..	14.4	..	5.9	-1.0
Slovak Republic	42.3	2.1	86.7	12.0	33.6	5.0	16.7	5.5	10.6	..
Spain ¹	35.7	-16.9	44.4	-10.0	34.2	-23.2	19.9	-12.2	5.8	-3.6
Sweden	26.1	-2.4	47.5	4.3	21.5	-3.6	14.0	-3.4	6.2	-0.8
Switzerland	22.8	-1.6	57.8	20.3	22.8	2.3	10.3	-0.8	5.9	..
Turkey	54.1	6.5	55.4	7.9	50.1	-0.1	27.6	5.2	10.4	5.6
United Kingdom	27.4	-4.0	52.1	3.8	24.7	-1.0	12.8	-0.5	16.3	-1.1
United States	28.5	0.5	58.1	2.0	29.2	3.2	17.8	3.1	6.3	0.1
OECD	34.1	-3.3	53.3	2.3	30.6	-1.5	17.9	-0.3	9.7	0.1

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Note: Non-employment rates relative to the population of working age; share of total population living in jobless households with a head of working age.

1. Changes in the share of people in jobless households refer to the period 1995 to 2000 in the case of Austria, Belgium, the Czech Republic, Portugal and Spain; in the case of France, data on changes in household joblessness are based on a source (the *Enquête Revenus Fiscaux*) that differs from the one used to show levels of the same variable (EU-SILC).

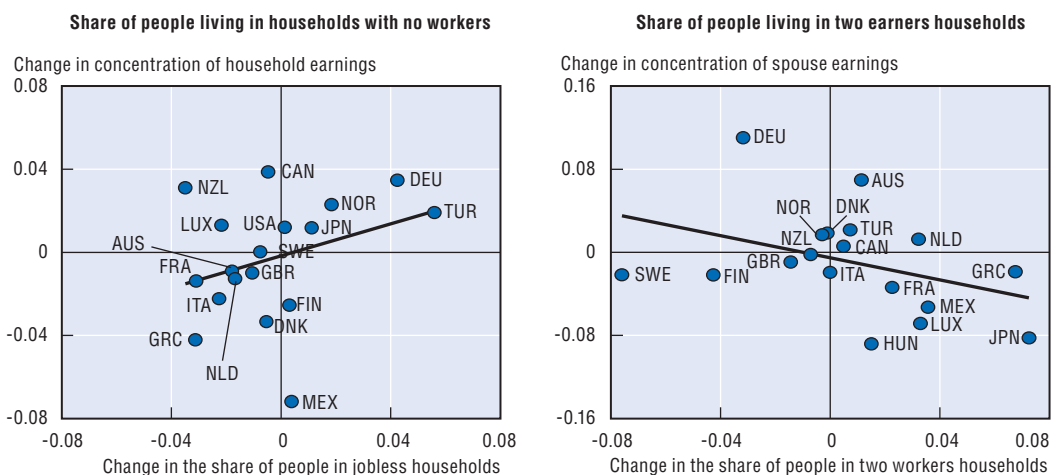
Source: OECD Education database and income distribution questionnaire.

panel compares the dispersion of household earnings among all people living in households with positive wage income (as defined above) with that among all households (i.e. including those with zero earnings).¹⁸ Inequality measures vary across countries, but to different extents:

- First, partnership formation among employees, and the economies of scale in consumption that this allows, narrows the distribution of *household earnings among all workers* relative to that for personal earnings. On average, inequality of household

Figure 3.6. Changes in the share of the population living in households with different numbers of workers and changes in earning inequality

Mid-1990s to mid-2000s



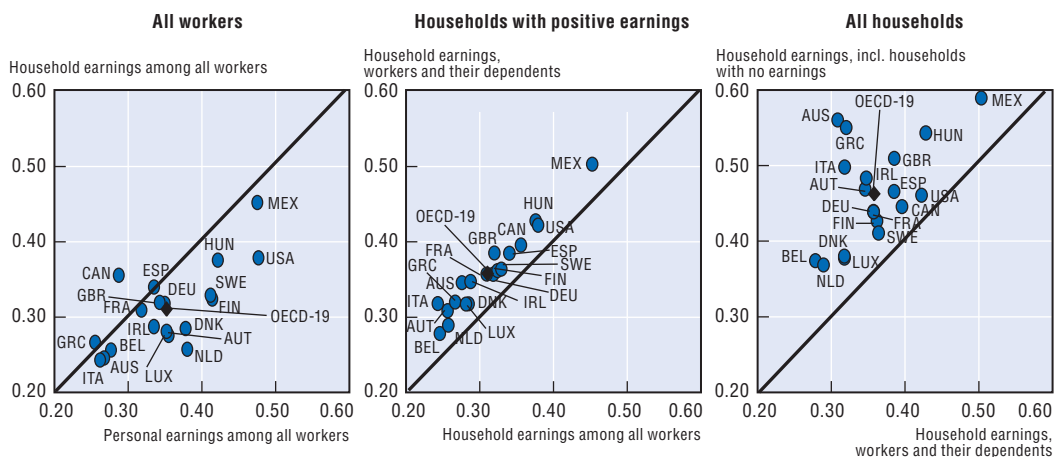
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Note: The first panel plots changes in the share of people in jobless households against changes in the Gini coefficient of household earnings; the second plots changes in the share of people living in two-earner households against changes in the Gini coefficient of spouse earnings.

Source: OECD income distribution questionnaire.

Figure 3.7. Inequality in the distribution of household earnings when moving from households with positive earnings to all households

Around 2000



StatLink <http://dx.doi.org/10.1787/421482623283>

Note: Gini coefficients calculated based on individuals belonging to households with a head aged between 18 and 65. Data refer to the year 2000, except for Australia (2001), Hungary, Netherlands and the United Kingdom (1999).

Source: Luxembourg Income Study.

earnings is around 0.04 point lower than for personal earnings (i.e. a 12% decline), with larger declines in the Netherlands, the United States, Denmark and Finland, with the exception of only Canada.

- Second, including dependents (children, the elderly and non-working spouses) in households of workers widens the distribution of household earnings. When each

member of these households is considered as benefiting from these earnings, the distribution of *household earnings among all people in working households* widens on average, relative to the case when only workers are considered, by 0.05 point (i.e. a 15% increase), with only minor differences across countries.

- Third, including households with no wage income significantly widens the distribution of household earnings.¹⁹ *The inequality in household earnings among people* rises by 0.10 point on average (i.e. a 30% increase) with large differences across countries – from around 0.2 point in Austria, Greece and Italy to less than 0.05 in the United States, where the share of people living in households with no earners is small.

As the importance of each of the factors involved in the distributions of household earnings may change over time, it is difficult to say *a priori* how they will play out in the aggregate.

From household earnings to market income

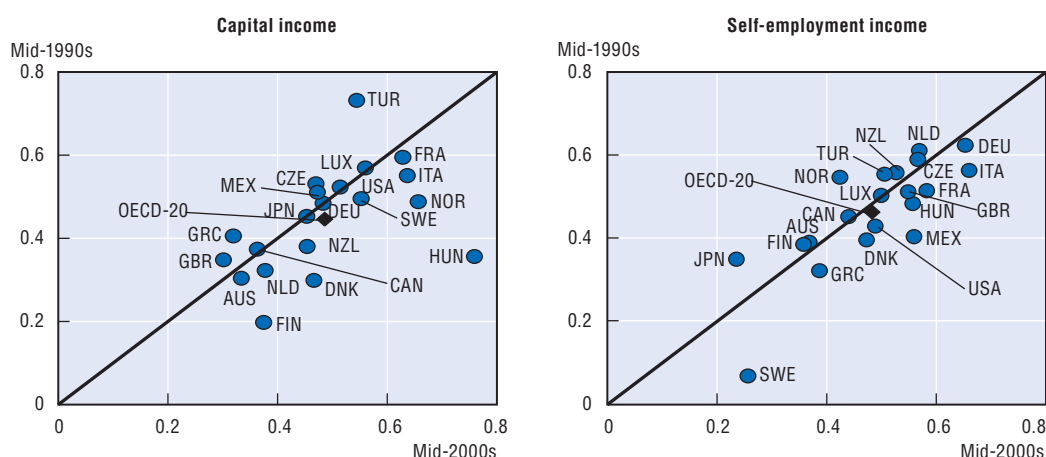
Moving from household earnings to market income requires broadening the analysis to include self-employment and capital income. While measurement problems for these two income sources are much larger than for earnings, both have played a significant role in shaping recent trends in the distribution of market income.


The concentration of capital and self-employment income among individuals of working age, when people are ranked by their equivalised disposable income, is in general significantly higher than that of household earnings. This reflects both greater inequality in capital and self-employment income among the households reporting them, and differences in the share of people receiving them in each decile of the income distribution. On average, the Gini coefficient for capital income exceeds that for household earnings by around one-fourth, and a similar gap is recorded for self-employment income.²⁰ This pattern of greater concentration holds in most countries, with the exceptions of Australia, Korea, Poland and Switzerland (where both self-employment and capital income are more equally distributed than earnings) and a few other countries (for one of the two income streams).

There have been significant changes in the concentration of capital and self-employment income in the ten years since 1995 in several OECD countries, which have contributed to greater inequality in the distribution of market income. On average, across the countries included in Figure 3.8, the concentration of capital income increased by 0.04 point, i.e. around 9%, while that of self-employment income increased by around 4%. Inequality in capital income has risen sharply in the Nordic countries as well as in Italy and Hungary, while it declined in Turkey, the Czech Republic and (to a lesser extent) in a few other countries. Concentration of self-employment income also increased sharply in Sweden (from a low base) as well as in Italy and Mexico. In Hungary and Norway, the increase in market-income inequality was further strengthened by the large increase in the weight of capital income within household disposable income.

There are also significant differences in the degree of concentration of the different components of capital income. While the quality of information is inevitably affected by the small number of observations for individual categories, the estimates in Table 3.2 suggest that concentration is highest for other capital income (mainly interest and returns on financial assets) and private pensions, but significantly lower for occupational pensions and private transfers.

Figure 3.8. **Concentration of capital and self-employment income, mid-2000s**
Among people of working age




StatLink  <http://dx.doi.org/10.1787/421540540222>

Note: The concentration coefficient is computed in the same way as the Gini coefficient, with the only difference being that individuals are not ranked by the value of the earnings they receive but rather by their equalised disposable incomes. Concentration coefficients are computed based on grouped data for average income streams in each decile. Data refer to gross (i.e. pre-tax) income in all countries except Greece, Hungary, Mexico, Poland and Turkey, where they are measured post-tax.

Source: OECD income distribution questionnaire.

Table 3.2. **Size and concentration of different elements of capital income, mid-2000s**
Among people of working age

	Private Pensions		Occupational pensions		Private transfers		Other capital income		Total capital income	
	Concentration coefficient	Share in household disp. income (%)	Concentration coefficient	Share in household disp. income (%)	Concentration coefficient	Share in household disp. income (%)	Concentration coefficient	Share in household disp. income (%)	Concentration coefficient	Share in household disp. income (%)
Australia	..	..	0.15	2.1	0.00	1.2	0.50	4.8	0.33	8.1
Belgium	0.73	0.0	..	..	-0.12	0.7	0.54	4.1	0.44	4.8
Canada	0.32	5.5	..	..	0.31	2.9	0.48	3.6	0.36	12.0
Finland	0.49	0.6	-0.02	8.6	-0.08	1.0	0.78	9.2	0.37	19.5
Germany	0.35	0.2	0.42	0.4	-0.23	0.6	0.61	5.4	0.48	6.8
Greece	0.38	0.0	..	..	-0.20	1.7	0.55	3.8	0.32	5.5
Hungary	..	..	..	..	0.54	1.2	0.80	6.3	0.76	7.7
Italy	..	..	..	..	..	..	0.64	4.1	0.64	4.1
New Zealand	0.51	0.8	..	..	0.29	4.3	0.59	4.8	0.45	10.4
Norway	0.23	0.1	0.18	2.6	-0.25	0.3	0.81	10.7	0.66	13.8
Slovakia	0.16	0.1	..	..	-0.45	0.1	..	..	-0.05	3.0
Sweden	0.46	0.8	0.48	2.9	..	..	0.63	3.7	0.55	7.4
Turkey	0.59	0.1	..	..	0.31	2.0	0.64	5.0	0.54	7.2
United Kingdom	0.30	0.5	0.24	4.5	0.20	2.9	0.51	2.3	0.30	10.2
United States	0.51	0.1	0.16	0.7	0.45	0.5	0.65	7.8	0.61	9.2
OECD-16	0.42	0.7	0.23	3.1	0.06	1.5	0.62	5.4	0.45	8.6

StatLink  <http://dx.doi.org/10.1787/421602824576>

Note: The concentration coefficient is computed in the same way as the Gini coefficient, with the only difference being that individuals are not ranked by the value of the capital income they receive but rather by their equalised disposable incomes. Concentration coefficients are computed based on grouped data expressing the value of capital income for people in each income decile.

Source: OECD income distribution questionnaire.

Conclusion

Analyses of earnings and income distribution typically develop along parallel tracks, using different methodologies to address different questions. Research on earnings inequality typically looks at individual workers, paying little attention to household dynamics and non-wage income sources, while research on income distribution focuses on households, but may miss the importance of labour-market developments. Better integrating these two perspectives is important for understanding how labour markets affect the distribution of household income. When the two perspectives are considered jointly, the following patterns emerge:

- The distribution of personal earnings among men working full time has widened significantly in most OECD countries since 1990, mainly reflecting developments in the upper half of the distribution. The widening is smaller for all full-time workers, due to the simultaneous narrowing in the wage gap between men and women working full time. The growing incidence of non-standard employment in some OECD countries has further contributed to widening the distribution of personal earnings among all employees.
- The distribution of household earnings among all people, whether working or not, has been stable since the mid-1990s, both on average and in most countries, as the widening distribution of earnings was offset by higher employment rates. Changes in the distribution of earnings of household heads, of spouses and of other household members have evolved in different directions in various countries, due to a range of factors.
- Both capital income and self-employment income are more concentrated than household earnings, and they have become increasingly so in the last ten years, widening the distribution of market income in several OECD countries.

Overall, these patterns suggest that there are both consistencies and differences in how earnings inequality among workers and market-income inequality among people evolve over time. While both distributions have widened in most OECD countries, there are exceptions and differences in both the direction and the strength of the association between the two.²¹ These differences reflect the importance of income sharing within households, the labour supply decision of spouses and the incidence of household joblessness and dual-earner households. These factors suggest that there is more than one way of countering a wider distribution of market income. As governments can only marginally affect individual decisions about household formation and living arrangements, and as the scale of redistribution is limited by the amount of tax revenues, policies to narrow income inequalities need to consider how best to improve labour-market conditions, reduce joblessness and ensure that earnings inequality does not become too large (Kenworthy, 2007).

Notes

1. Gottschalk and Smeeding (1997) and Katz and Autor (1999) discuss how trends in earnings dispersion in OECD countries are related to technological change, foreign trade and labour-market institutions. Lemieux, MacLeod and Parent (2007) discuss the importance of additional factors, such as the influence of performance pay systems; Black and Spitz-Oener (2007) relate changes in the gender wage gap to the effect of differential changes in the skill content of male and female work.
2. Atkinson and Brandolini (2005) develop a simple model to illustrate the links between different labour-market conditions, personal earnings and income inequality. Checchi and García Peñalosa

- (2005) build a more complex model to explain how labour-market institutions affect the distribution of household income.
3. In Japan and Finland, for example, a widening of the distribution of market income occurred alongside stable or declining earnings dispersion among full-time workers while, conversely, the distribution of market income narrowed in the Netherlands despite a wider distribution of personal earnings.
 4. The increase was also strong in Australia and Korea, where OECD earnings data are available since 1990.
 5. For example, in France non-wage components of earnings (such as various incentive plans, including *intéressement*, *participation*, *abondements par les entreprises aux versements des salaires aux plans d'épargne entreprise*) account for around 3% of the wage bill, with 60% of these received by the 10% of employees with the highest earnings (CERC, 2006). Non-wage components of earnings are especially important for managers, and they account for much of the sharp rise in their remuneration. In the United States, the average remuneration of CEOs (excluding the value of "stock options") increased from 85 times average earnings in 1990 to 525 times in 2000 before declining to 410 in 2005 (www.faireconomy.org).
 6. The P90/P10 ratio among full-time employees is generally smaller for women than for men in most OECD countries, with the exceptions of Canada and Germany.
 7. From 1990 onwards consistent data on earnings inequality are available for a larger sample of 19 OECD countries (i.e. the same countries included in Figure 3.1, as well as Australia, the Czech Republic, Denmark, Hungary, Ireland and Poland). The cumulative increase in the interdeciles ratio since 1990 recorded by this larger set of countries is significantly higher than that recorded by the OECD-11 over the same period (a rise in the P90/P10 ratio of 18% compared to 10%), reflecting a more rapid increase in earnings inequality in the upper part of the distribution (11% rather than 7%) and, to a lesser extent, in the lower part (6% relative to 4%).
 8. In 2005, the gender pay gap was highest in Japan (at 32%) and Korea (40%) and lowest in New Zealand (9%) and Poland (11%). Over the past two decades, the difference in median earnings between men and women working full time declined by between 7 and 17 points in most OECD countries, but only marginally in Australia, Germany and Sweden.
 9. The two groups of workers partially overlap, as a large proportion of temporary workers hold part-time jobs (OECD, 2002).
 10. Differences in the number of hours worked during the year result in the much larger disparities in annual earnings than in wage rates. In France, for example, the P90/P10 inter-decile ratio was around 3 in 2004 when looking at full-time equivalent earnings but of 13 when considering annual earnings. Employees in the first decile worked only 13 weeks during the year, as compared to 51 weeks for those in the top decile; similarly, their weekly hours of work were around 22 hours, as compared to 38 for those in the top decile (CERC, 2006).
 11. Involuntary part-time employment is much higher in some countries and when using national (rather than OECD) definitions of full-time work.
 12. A negative wage gap is systematically observed for women working part time even after controlling for these different characteristics, but its magnitude differs among countries and studies. In the case of men, O'Dorchai *et al.* (2007) conclude that different controls account for between 50% and 100% of the wage gap between men working full time and part time observed in the mid-1990s in European countries.
 13. These earnings data, which are based on household surveys representative of the entire population, match quite closely those from the OECD Earnings database, with a correlation coefficient for P90/P10 from the two sources of over 0.9 across ten countries. The main exceptions are Denmark and the United States, where the inter-decile ratios based on the LIS are much higher than those in the OECD earnings database.
 14. The concentration coefficient is computed in the same way as the Gini coefficient of household income, so that a value of zero would mean that all income groups receive an equal share of household earnings. The only difference relative to the Gini coefficient is that individuals are not ranked by the value of the earnings they receive but rather by that of their equivalised household disposable incomes.
 15. Over this period, changes in employment rates have been in general more favourable for women than for men. Even in countries where total employment rates fell, those for women either increased or fell by less than for men.

16. In Germany, for example, higher employment rates have been associated with higher household joblessness; also, while employment rates increased strongly in both New Zealand and the United Kingdom, the decline in household joblessness was much stronger in the first than in the second. The correlation between changes in employment rates and changes in the share of people in jobless households as shown in Table 3.1 is less than -0.60 .
17. As in the previous cases, these measures are based on data on the distribution of each earnings component among individuals ranked by their equivalised household disposable income; hence they reflect differences across deciles in both the pay workers receive and in the numbers employed.
18. Saunders (2005) conducts a similar analysis for Australia based on a somewhat different sequence of distributions. As elsewhere in this chapter, the unit of analysis used in Figure 3.7 is the individual, with household earnings equivalised by the square root elasticity to account for economies of scale in consumption.
19. Zero worker households are defined as households with zero earnings, i.e. they may include those with positive self-employment income. The inclusion of households with no earnings in measures of household earnings inequality highlights the effect of employment (and the way it is distributed) for cross-country differences in income inequality. However, this procedure effectively extends the analysis to households with no earnings while excluding their income sources other than earnings.
20. These comparisons refer to people of working age. For the population as a whole, the difference in the Gini coefficients of self-employment and capital income are slightly less.
21. Daly and Valletta (2006) and Gottschalk and Danziger (2005) show that, while the dispersion of male wages and family income evolved similarly during the last 30 years in the United States, men's earnings have not been the only driving factor in family income inequality.

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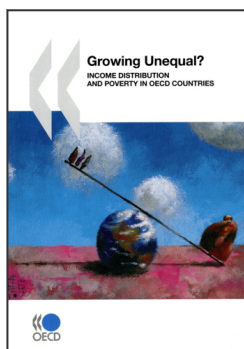


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