

## Redistribution of income

Income inequality has been growing over the past decades in many OECD countries and remains at a historical high in a number of OECD economies. The redistribution of incomes through taxes and public transfers helps to reduce poverty and inequality, thereby strengthening the economy and fostering social well-being. Income inequality has profound impacts not only on individuals' and families' living conditions but also their health status, as well as the equality of life chances, social cohesion and trust in institutions. It also hampers long-term economic growth, as it restricts in particular the opportunities of lower-income households to invest in their education and skills. This in turn hampers their employability, less during economic booms but more so during and in the aftermath of economic crises (OECD, 2015).

The Gini coefficient is the standard measure of inequality representing the income distribution of the population within a given country. It takes the value of 0 when everybody has the same income and 1 when one person has all the income. The effects of income redistribution policies can be measured by comparing the Gini coefficient before and after taxes and transfers. Income inequalities are reduced through taxes and transfers in all OECD countries, with an average level of redistribution of 16% of the mean income before taxes and transfers. In about a third of OECD economies, inequality is cut by more than 20% through public transfers and tax systems. Redistribution levels are highest in Ireland and Finland. In a few OECD countries, income redistribution amounts to changes in inequality of less than 5%, including in Chile, Korea, Mexico and Turkey.

On average, the level of income inequality in OECD countries is largely the same in 2013 as before the onset of the crisis in 2007. The greatest decrease of inequality of disposable household income between 2007 and 2013 occurred in Iceland and Latvia, while the highest inequality growth is observed in Estonia, the Slovak Republic, Spain and Sweden. In these countries labour income, which is usually the largest part of market income, sank in particular for the bottom 10% of the working population. Losses in labour incomes for the top 10% were minimal or even grew. This reflects broader developments across the OECD membership, where labour incomes decreased especially for the bottom 10%, whereas mean labour incomes and incomes of the top 10% stagnated or increased. Chile is the front-runner for increased labour income growth, which has also reached lower-income households. Mean labour incomes decreased most notably in countries that were strongly affected by the crisis and consequently faced high unemployment and falling wages, such as Greece and Spain (OECD, 2016).

### Methodology and definitions

Redistribution is measured by comparing Gini coefficients for household market income (i.e. total income from market sources such as wages, dividends, etc., not adjusted for public cash transfers and household taxes) and for household disposable income (i.e. net of direct government transfers and direct taxes) of the total population. It is adjusted for differences in the needs of households of different sizes with an equivalence scale that divides household income by the square root of the household size. Real labour incomes correspond to wages and self-employment incomes adjusted for inflation.

The data have been drawn from the OECD *Income Distribution Database* (IDD) based on national sources (household surveys and administrative records) and on common definitions, classifications and data treatments. The method of data collection used for the OECD IDD aims to maximise international comparability as well as inter-temporal consistency of data. This is achieved by a common set of protocols and statistical conventions to derive comparable estimates.

### Further reading

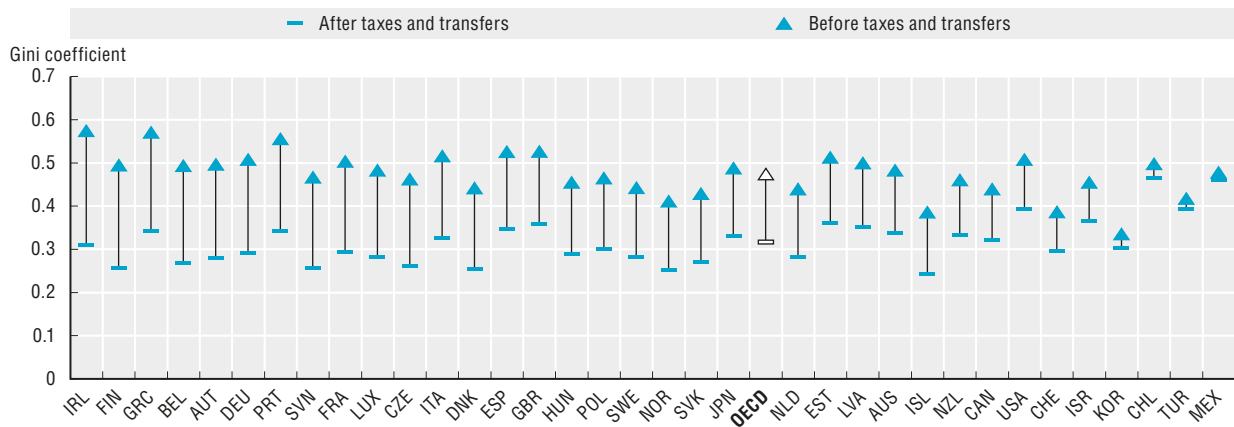
- OECD (2016), "Income inequality remains high in the face of weak recovery", *Inequality Update*, November 2016, OECD, Paris.
- OECD (2015), "In It Together: Why Less Inequality Benefits All", OECD Publishing, Paris.

### Figure notes

- 13.2: Data for Australia, Finland, Hungary, Israel, Mexico, the Netherlands and the United States are for 2014 rather than 2013. Data for Japan and New Zealand are for 2012 rather than 2013. Market income is post taxes and before transfers for Hungary, Mexico and Turkey, so data are not strictly comparable.
- 13.3: Data for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States are for 2008 rather than 2007. Data for Japan are for 2006 rather than 2007. Data for Chile and Switzerland are for 2009 rather than 2007. There is a break in the series for Switzerland, and results are not strictly comparable. Values for the OECD average do not include Switzerland.
- 13.4: Data for Switzerland are not available. Data for Australia, France, Germany, Israel, Mexico, New Zealand, Norway, Sweden and the United States are for 2008 rather than 2007. Data for Chile and Japan are for 2006 rather than 2007. Data for Australia, Finland, Hungary, Israel, Korea, Mexico, the Netherlands and the United States are for 2014 rather than 2013. Data for Japan and New Zealand are for 2012 rather than 2013.

Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

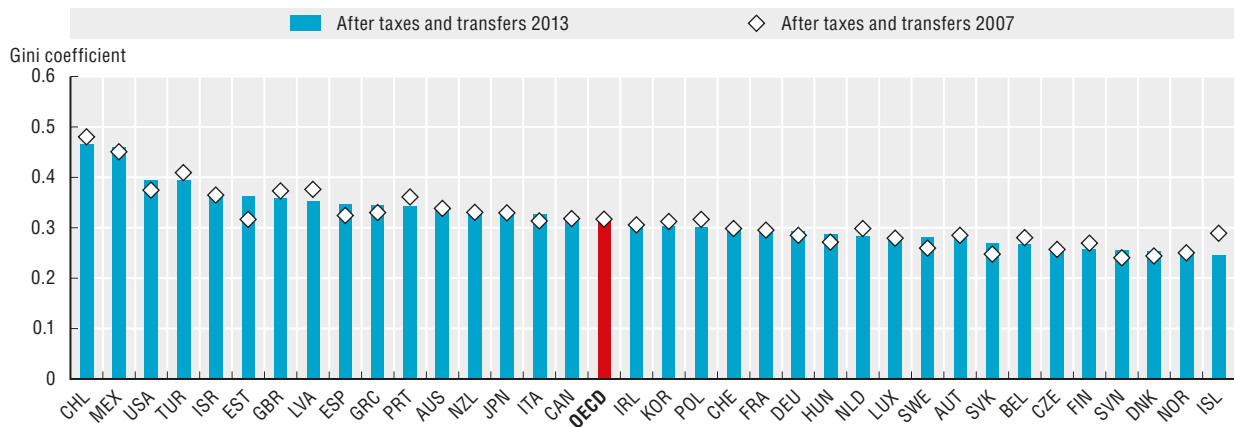
13.2. Differences in income inequality pre and post-tax and government transfers, 2013



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933533625>

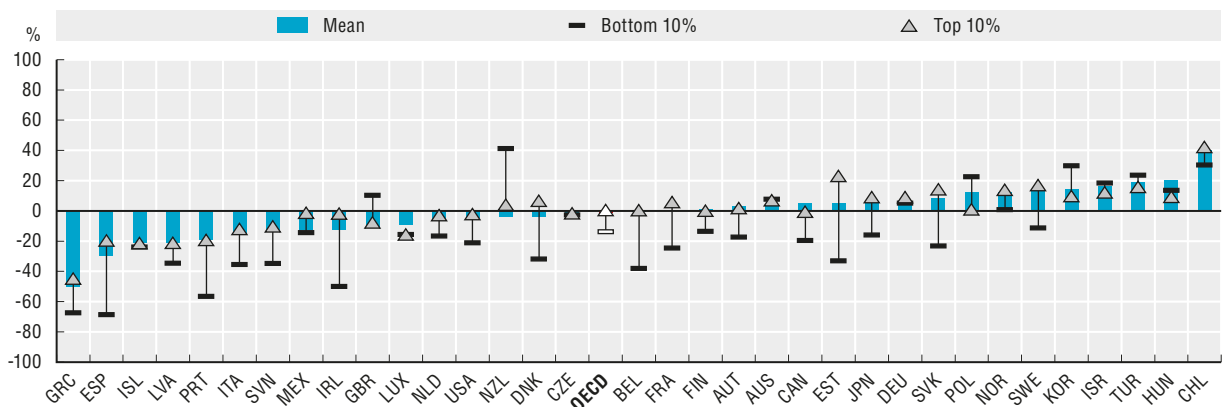
13.3. Differences in income inequality post-tax and government transfers between 2007 and 2013



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933533644>

13.4. Change in real labour income growth between 2007 and 2013 by income group, working-age population



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933533663>

