

4. GENERAL CONTEXT INDICATORS

Household income

Disposable household income provides an indication of the goods and services families can purchase on the market. It is thus an objective indication of material quality of life, and it is used to measure poverty and inequality. Converting national currencies into US dollars using the purchasing power parity allows for a meaningful comparison across countries.

In 2016, the median disposable household income in Luxembourg was eight times higher than in Mexico and about two times higher than in Spain (Figure 4.1). Countries with low levels of median household income include Chile, Mexico, Turkey and many Eastern and Southern European countries. Luxembourg, Norway and Switzerland are the top-3 countries with the highest median disposable household income. Median incomes are generally lower in emerging economies than in OECD countries.

In most OECD countries for which long-term data are available, **median income has been growing faster than income at the bottom of the distribution and slower than at the top since the 1980s** (Figure 4.2). Income growth has been considerably slower across the distribution since the 2008 global financial crisis than in previous decades, despite the redistributive effect of public cash transfers and personal income taxes during this period. These general trends hide strong differences across countries. For instance, as a result of the financial crisis, median income in Greece was still 10% lower in 2016 than in 1985. By contrast during the same period, median income increased significantly in Israel, Luxembourg, Norway, Sweden and the United Kingdom.

The middle class plays an essential role for the economy as well as for social and political stability. **On average 61% of the population across the OECD lives in the middle-income class, defined here as households earning between 75% and two times the median national income** (Figure 4.3). This share ranges from around half in Chile, Israel, Mexico and the United States to around 70% in Nordic and some Continental European countries. On average across the OECD, the lower income group makes up to 30% of the population and the upper income group accounts for 9% of the population. In emerging economies except the Russian Federation, the upper income group accounts for 20-25% of the population.

Definition and measurement

Data on annual median equivalised household disposable income come from the *OECD Income Distribution Database*. Disposable income is market income (income from work and capital) after taking into account public cash transfers received and direct taxes and social security contributions paid. It excludes in-kind services provided to households by governments and private entities, consumption taxes, and imputed income flows due to home ownership. After subtracting taxes and adding cash transfers, household income provides an indication of the goods and services families can purchase on the market. Household income 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 household size. The adjusted income is then attributed to every person in the household.

For cross-country comparison, national currency measures of income were converted into US dollars (USD) using purchasing power parity (PPP) for private consumption exchange rates. These PPPs reflect the amount of a national currency required in each country to buy the same basket of goods and services as a dollar does in the United States. Both income and PPP estimates are affected by statistical errors, so differences between countries of 5% or less are not considered significant.

Middle class is defined here as households with incomes between 75% and two times the national median income.

Further reading

OECD Income Distribution database, <http://oe.cd/idd>.

OECD (2018), *A Broken Social Elevator? How to Promote Social Mobility*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264301085-en>.

OECD (2019, forthcoming), *Under Pressure: The Squeezed Middle Class*, OECD Publishing, Paris.

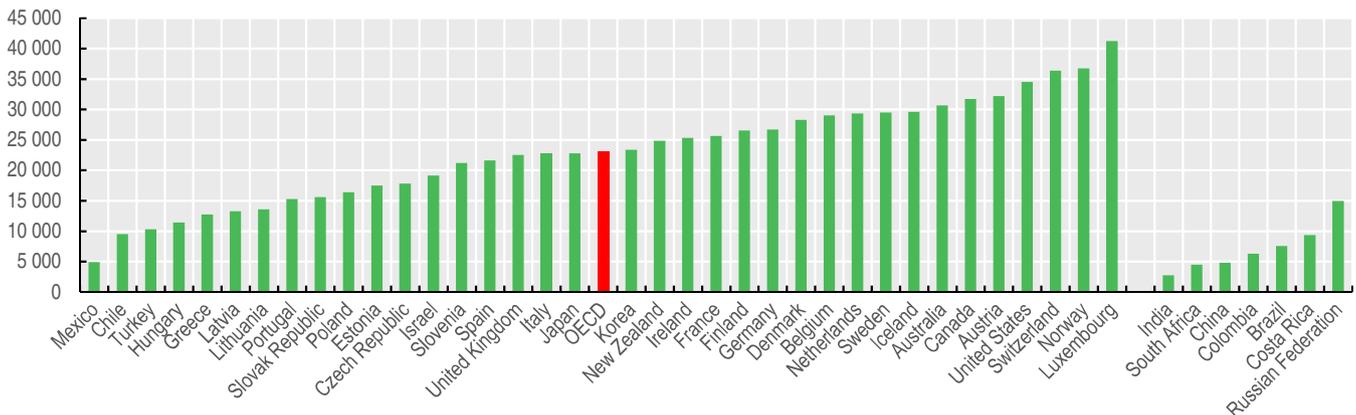
Figure notes

Figure 4.1: Data for Colombia are provisional data and disposable income is not after personal income taxes, although they are after worker's social insurance contributions.

Figure 4.2: OECD-17 refers to 17 OECD countries for which long-term income data are available: Canada, Denmark, Finland, France, Germany, Greece, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Norway, New Zealand, Sweden, United Kingdom and United States; income data were adjusted in most countries due to a change in the standard methodology of household income as from 2012.

4.1. Median income varies by a factor of eight from USD 4 900 to USD 41 200

Annual median equivalised disposable income, in 2016, US dollars at PPP rates

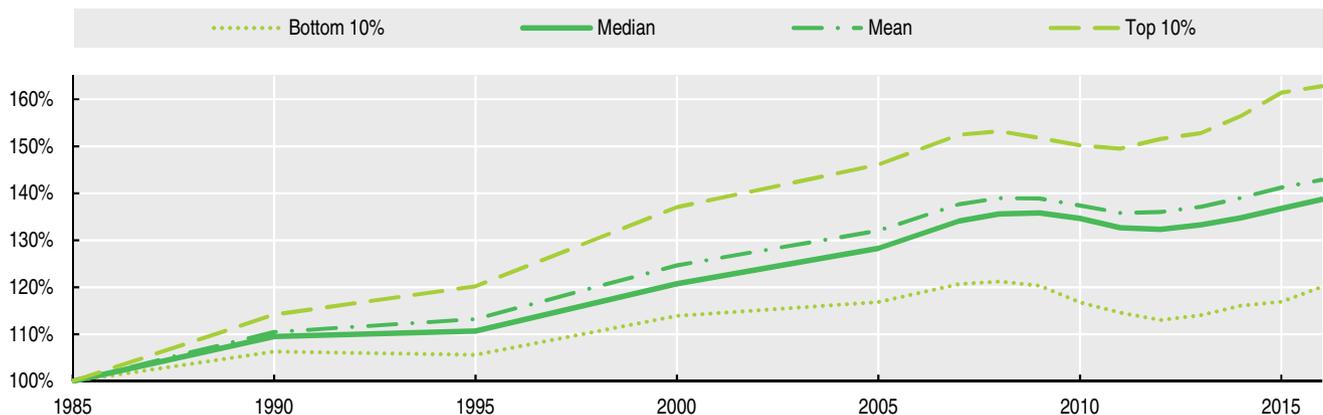


Source: Calculations based on OECD Income Distribution Database (<http://oe.cd/idd>).

StatLink <http://dx.doi.org/10.1787/888933938458>

4.2. Median incomes grew slower than top incomes

Real income growth by income position, OECD 17 average (1985 = 100%)

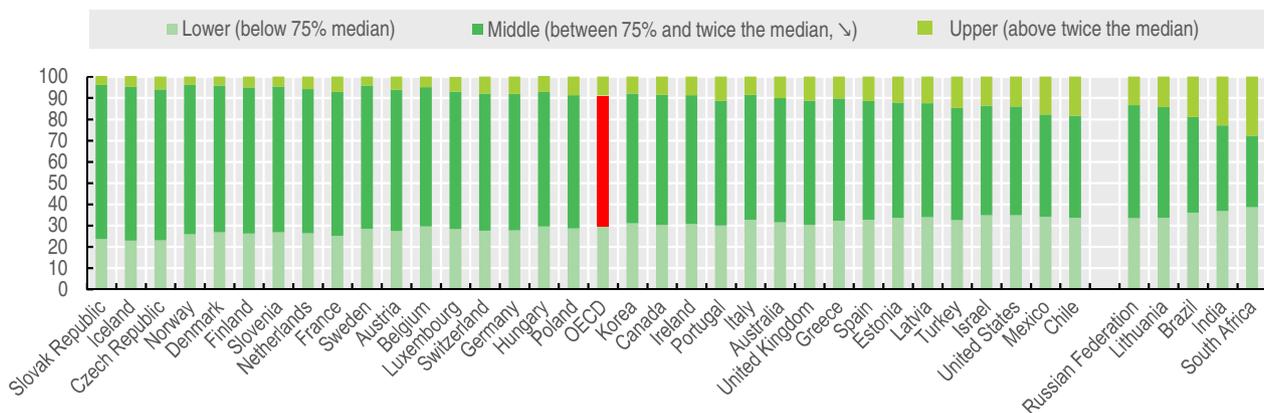


Source: Calculations based on OECD Income Distribution Database (<http://oe.cd/idd>).

StatLink <http://dx.doi.org/10.1787/888933938477>

4.3. Most people live in the middle class

Population share by income group, 2014 or nearest year



Source: Calculations based on OECD Income Distribution Database (<http://oe.cd/idd>).

StatLink <http://dx.doi.org/10.1787/888933938496>



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