Inequalities

Inequalities of outcomes such as income and wealth and inequalities of opportunities go hand in hand, largely because higher inequality curbs social mobility and opportunities for the poor and people from disadvantaged backgrounds.

Income inequality varies considerably across the OECD countries. **In 2016, the Gini coefficient ranged from around 0.25 in the Czech Republic, Slovak Republic and Slovenia to almost twice that value in Chile and Mexico** (Figure 6.1). The Nordic and some central and continental European countries have the lowest inequality levels of disposable income, while inequality is high in South American countries, Turkey and the United States. Alternative indicators of income inequality suggest similar rankings. The gap between the average income of the richest 10% and the poorest 10% of the population was 9.3 to 1 on average across OECD countries in 2016. The gap ranged from 5.2 to 1 in the Czech Republic and Slovenia to almost four times larger in Chile and Mexico (20 to 1). Over the past three decades, the gap between the rich and poor has widened in the large majority of OECD countries. During that period, the Gini coefficient increased by three points to an OECD average level of 0.32.

Emerging economies have higher levels of income inequality than most OECD countries, particularly China and South Africa. Inequality also increased in many emerging economies, but there are encouraging signs of stabilisation in China and even declines in Brazil and several other Latin American countries.

Household wealth is much more unequally distributed than income. **On average, households in the top 10% of the wealth distribution own more than half (52%) of all total household wealth, and as much as 79% in the United States** (Figure 6.2). In comparison, the richest 10% of income earners get on average around a quarter (24%) of all cash income, ranging from 20% in the Slovak Republic to 36% in Chile. While wealth inequality is higher that income inequality in all countries reviewed, countries with lower income inequality levels are not necessarily those with low wealth concentration, as witnessed by the examples of Denmark, Germany and the Netherlands.

High and increasing levels of inequality of outcomes tend to be an obstacle to income and social mobility. **It could take on average four to five generations for the offspring of a family in the bottom 10% of the income distribution to reach the average income** (Figure 6.3). In low-inequality and high-mobility countries, such as the Nordic countries, it would take two to three generations – 50 to 100 years – for those born in low-income families to approach the mean income in their society. But in high-inequality and low-mobility countries, such as the emerging countries Brazil, Colombia and South Africa, this shift would take even nine generations or more, if these probabilities of earnings mobility are not to change. In Colombia, where persistence is the highest, it would take at least 300 years for the offspring of low-income families to reach the mean.

To tackle inequality and promote opportunities for all, countries should adopt a comprehensive policy package, centred around four main areas: promoting greater participation of women into the labour market; fostering employment opportunities and good quality jobs; strengthening quality education and skills development, and adaptation during the working life; and a better design of tax and benefits systems for efficient redistribution. The OECD's Inclusive Growth Initiative outlines a comprehensive approach to tackling inequality in all dimensions and promoting higher living standards.

Definition and measurement

The main indicator of income distribution used is the Gini coefficient. Values of the Gini coefficient range from 0 in the case of "perfect equality" (each person receives the same income) and 1 in the case of "perfect inequality" (all income goes to the person with the highest income). Gini coefficients are based on disposable equivalised household incomes – i.e. post-taxes and social transfers and 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. An alternative indicator is the S90/S10 income decile share, corresponding to the gap between the average incomes of the richest and the poorest 10% of the population, also based on equivalised disposable income. Income data are from the *OECD Income Distribution Database*, *http://oe.cd/idd*.

Wealth data refers to net private household wealth, that is the value of all assets owned by a household less the value of all its liabilities at a particular point in time, around 2015 here. Data are from the *OECD Wealth Distribution database, http://stats.oecd.org/Index.aspx?DataSetCode=WEALTH*.

The estimated numbers of generations are based on earnings persistence (elasticities) between fathers and sons and the current level of household incomes of the bottom decile and the mean, assuming constant elasticities, following Bowles and Gintis (2002). Low-income family is defined as the first income decile, i.e. the bottom 10% of the population. These estimates are simulation-based and intended to be illustrative; they should not be interpreted as giving the precise time that a person from a low-income household will need to reach the average income.

Further reading

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

Balestra, C. and R. Tonkin (2018), "Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database", OECD Statistics Working Papers, No. 2018/01, OECD Publishing, Paris, *https://doi.org/10.1787/7e1bf673-en*.

Figure notes

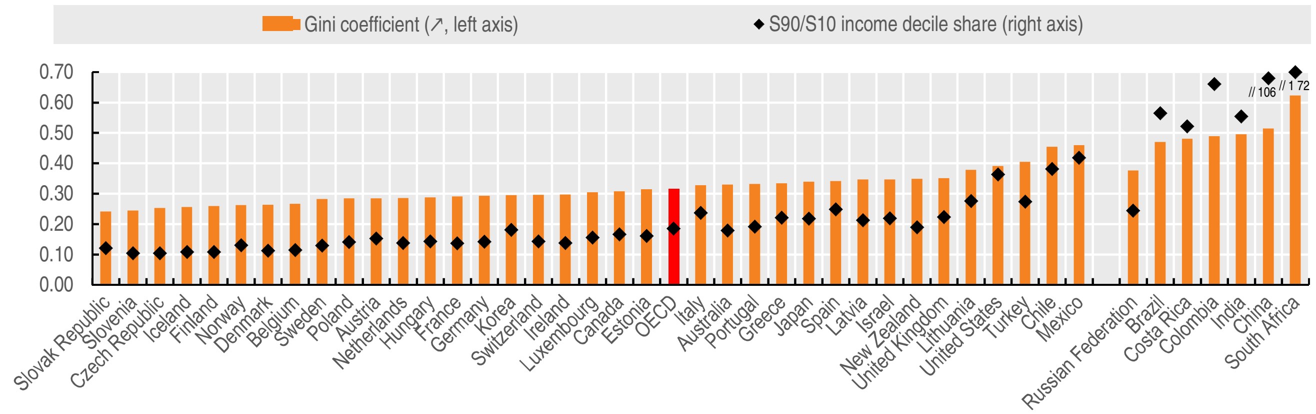
Figure 6.1: Data refer to 2016 for all countries except Costa Rica (2017); Chile, Denmark, Germany, Iceland, Ireland, Japan, Korea, Switzerland, Turkey (2015); Hungary, Mexico and New Zealand (2014); Brazil (2013); China, India and the Russian Federation (2011). Data for Colombia are provisional data and disposable income is not after personal income taxes, although they are after worker's social insurance contributions.

Figure 6.2: Data refer to the share held by the richest 10% of households in the case of wealth and by the richest 10% of individuals in the case of income.

Figure 6.3: See above "Definition and measurement".

6.1. There are large differences in levels of income inequality across the OECD

Gini coefficient of household disposable income and gap between richest and poorest 10%, in 2016 (or nearest year)

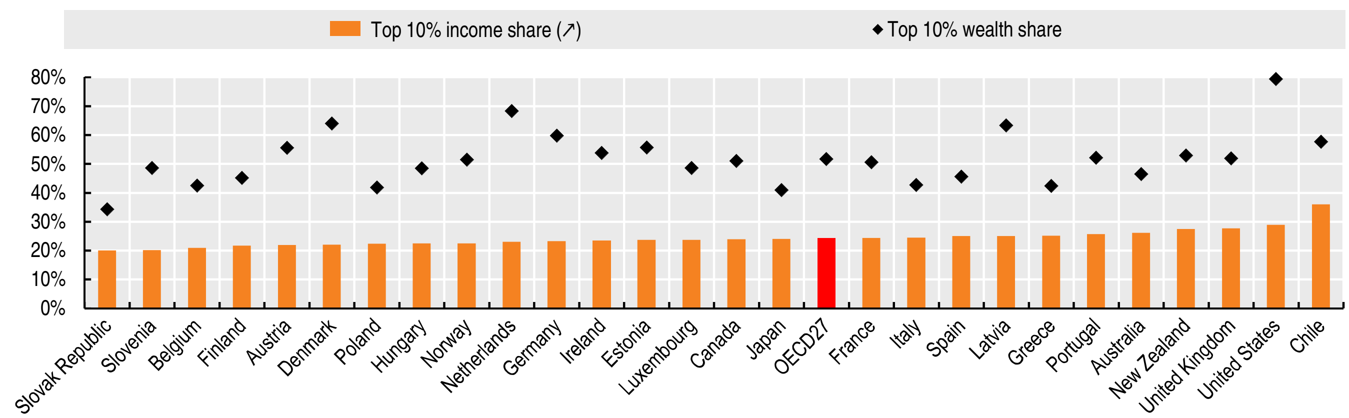


Source: OECD Income Distribution Database, http://oe.cd/idd.

StatLink http://dx.doi.org/10.1787/888933939009

6.2. Wealth is more concentrated at the top than income

Share of top 10% of household disposable income and top 10% of household net wealth, 2015 (or nearest year)

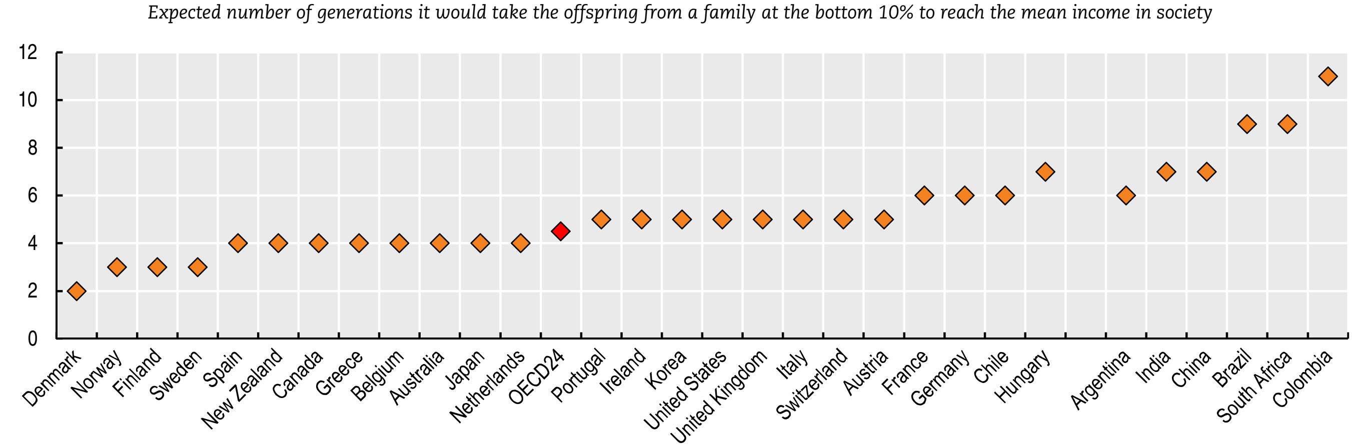


Source: OECD Wealth Distribution Database, http://stats.oecd.org/Index.aspx?DataSetCode=WEALTH.

StatLink http://dx.doi.org/10.1787/888933939028

6.3. At current levels of intergenerational mobility, it takes on average four to five generations for the offspring of a low-income family to reach the average income

Expected number of generations it would take the offspring from a family at the bottom 10% to reach the mean income in society



Source: OECD (2018), *A Broken Social Elevator? How to Promote Social Mobility* – Figure 1.5.

StatLink http://dx.doi.org/10.1787/888933939047

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