

### Redistribution of income

Among the main tasks of governments are guaranteeing that citizens have equality of opportunity and even access to basic public services. Governments should also assist those experiencing poverty by ensuring the attainment of a minimum standard of living. Based on the societal agreement, governments could play a more or a less important role in income redistribution through taxes and transfers. For many OECD member countries, the gap between the richest and the poorest is at its highest in 30 years (OECD, 2014c). Additionally, recent evidence suggests that inequality has a negative effect on economic growth (OECD, 2014a). By having fewer resources available people from disadvantaged social backgrounds underinvest in education, lowering social mobility and hampering skills development that are crucial for economic growth (OECD, 2014c).

The Gini coefficient is the most commonly used measure of inequality; it is aimed at representing the income distribution of the population within a given country. It ranges from zero where everybody has identical incomes to 1 where all the income goes to only one person. The effects of the income redistribution policy of a government can be measured by comparing the Gini coefficient before and after taxes and transfers. Between 2007 and 2011, on average, income inequality before taxes in OECD countries increased by 1 percentage point (p.p.) from 0.46 to 0.47. Following government intervention, the after taxes and transfers Gini coefficient fell to 0.31 in 2011, compared to 0.30 in 2007, a stable decrease of around 16 p.p. for both years. In 2011 the largest reductions that could be attributed to government intervention by taxes and transfers took place in Ireland (26 p.p.) and Greece (22 p.p.), both countries severely affected by the global financial and economic crisis. Chile (2.9 p.p.) and Korea (3.1 p.p.) were the countries achieving the least income redistribution through government intervention. However, in the case of Korea the level of inequality was already low (0.34 before taxes and transfers).

Between 2007 and 2011 public transfers increased in all but four countries; they declined in Greece, Hungary and Italy and remained stable in Sweden (OECD 2014b). On average, between 2007 and 2011, disposable income decreased by an annual average of 0.53%. However, while the average annual pace of decrease for the top 10% income group was 0.78%, the decline pace more than doubled for the bottom 10% reaching on average 1.61% per year. Spain (11.4 p.p.) and Greece (3.7 p.p.) countries severely hit by the crisis experienced the highest gaps in the pace of decrease between the incomes of the top 10% and the bottom 10%. In France, Austria, the United States, Denmark and Germany the disposable income of the bottom 10% decreased while it actually increased for the top 10%. It is possible to conclude that on average lower income households suffered more during the crisis or have benefitted less from the recovery.

#### Methodology and definitions

Redistribution is measured by comparing Gini coefficient for market income (i.e. gross income not adjusted for public cash transfers and household taxes) and for disposable market income (i.e. net of transfers and taxes). Household disposable income is the total market income received by all household members; gross earning, self-employment income, capital income plus the current transfers they receive less the taxes and social security contributions they pay. 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. It does not take into account in-kind transfers. 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 internationally 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.

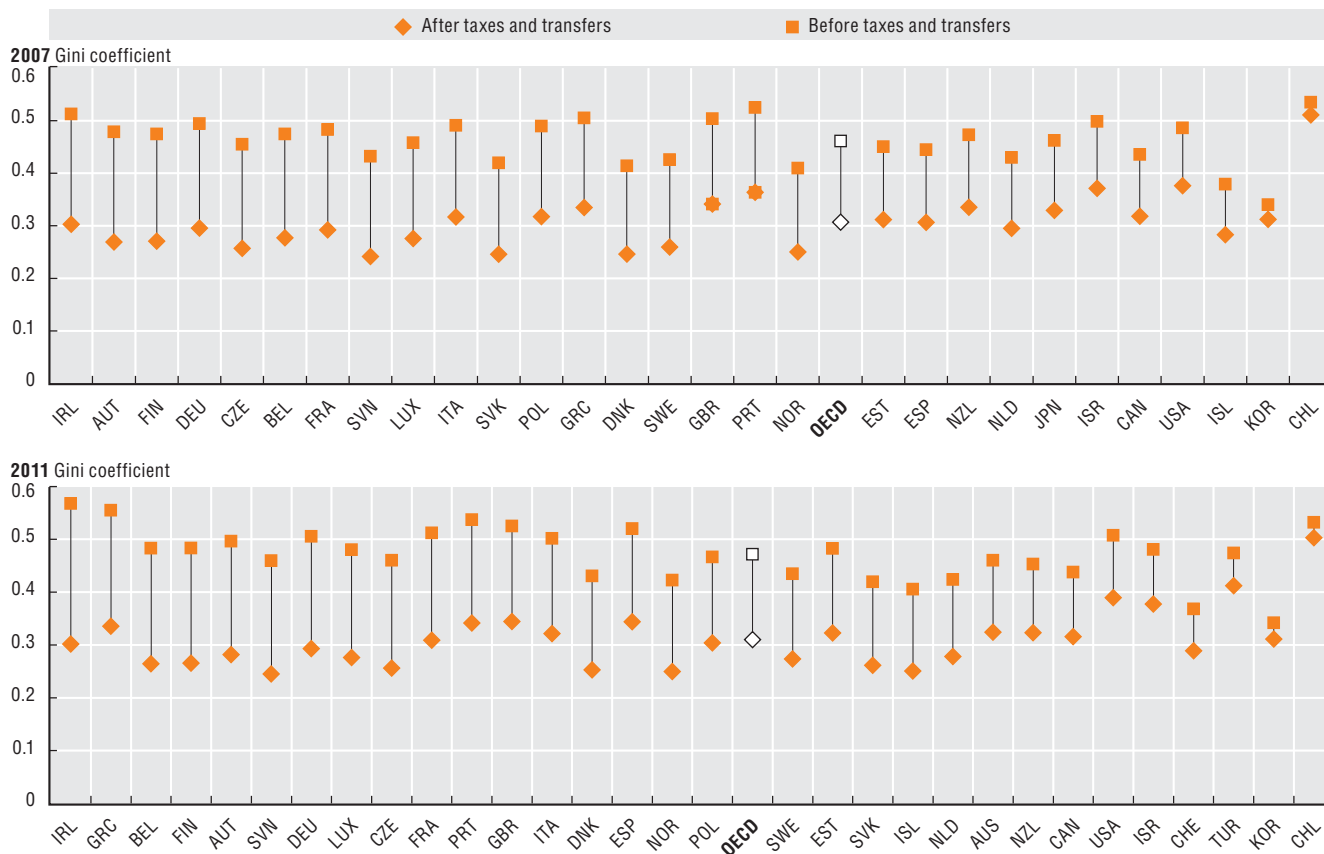
#### Further reading

- OECD (2014a), "Focus on Inequality and Growth – December 2014", OECD, Paris.
- OECD (2014b), "Rising Inequality: Youth and Poor Fall Further Behind – Income Inequality Update – June 2014", OECD, Paris.
- OECD (2014c), "Focus on Top Incomes and Taxation in OECD Countries: Was the Crisis a Game Changer?", OECD, Paris.

#### Figure notes

- Data for Chile and Japan are 2006 rather than 2007. Data for France, Germany, Israel, Italy, Norway, Sweden and the United States are for 2008 rather than 2007. Data for Belgium are 2010 rather than 2011. Data for Australia and The Netherlands are 2012 rather than 2011.
  - 11.4: Data for Hungary and Mexico are not available. Data for Switzerland and Turkey are not available for 2007.
  - 11.5: Data for Australia and New Zealand are 2007 rather than 2008. Data for Japan are 2009 rather than 2011. Data for Austria are 2011 rather than 2010. Data for Finland, Hungary, Korea, Mexico and the United States are 2012 rather than 2011. There is a break in the series in 2011 for the United Kingdom, and results are not strictly comparable. 2011 data for Ireland and the United Kingdom are provisional. Data for Switzerland are not available.
- Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

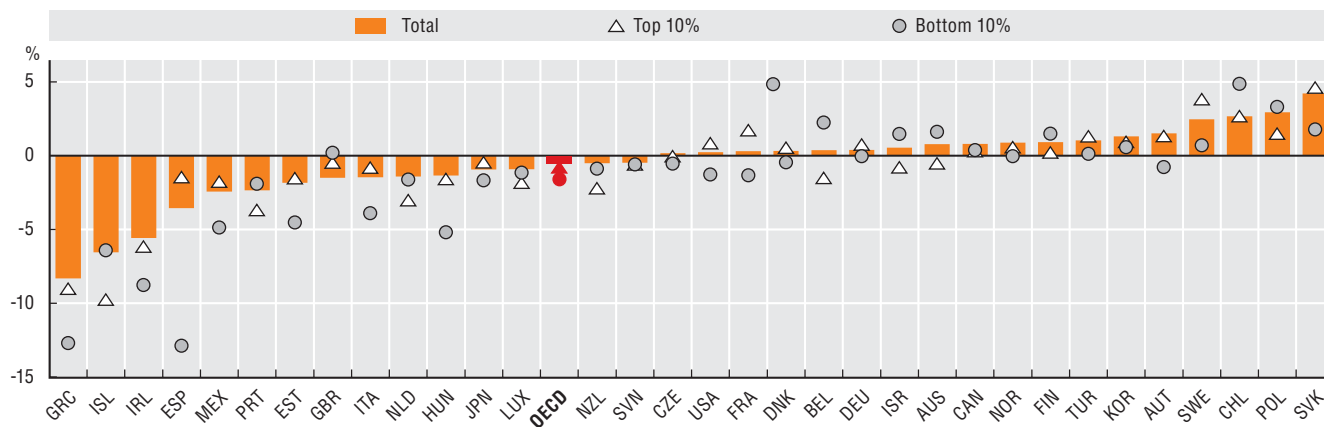
11.4. Differences in income inequality pre and post-tax and government transfers



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933249258>

11.5. Annual percentage changes in household disposable income between 2007 and 2011 by income group



Source: OECD Income Distribution Database.

StatLink <http://dx.doi.org/10.1787/888933249269>



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