C How does Australia compare internationally?

The dispersion of measured income and levels of estimated income inequality have been found to vary greatly across countries. This appendix summarises recent OECD reports on measured income inequality. It outlines the OECD’s findings on the proximate factors that help explain variations in income distributions among OECD countries — including its results for Australia. More details can be found in OECD (2008, 2011, 2012b) and the OECD Economics Working Paper series *Less Income Inequality and More Growth – Are they Compatible?*[[1]](#footnote-1).

It should be noted that there are difficulties in comparing country incomes and interpreting inequality measures based on such comparisons. Difficulties exist in consistently estimating the distribution of income within just one country, as a result ensuring consistent approaches across countries is even more problematic. Nevertheless, investigating the sources of apparent differences in summary measures can provide a starting point for further analysis of distributional differences within and between countries.

## C.1 Australia in an OECD context

According to the OECD (2012a), Australia’s dispersion of equivalised household disposable income as measured by the Gini coefficient was 0.34 in 2008, placing it slightly above the OECD average of 0.31 (figure C.1). By contrast, the lowest measured income inequality estimates are for countries concentrated in parts of Europe, particularly the north — Denmark, for example, has an equivalised household disposable income Gini coefficient of 0.25 (OECD 2012a). At the other end of the spectrum, developing countries have some of the highest levels of measured income with relatively high rates for countries in Latin America and Africa — for example, Chile has a Gini coefficient of 0.49 (OECD 2012a) and Rwanda has a Gini coefficient of 0.51 (World Bank 2012).

At the household level, differences in the distribution of income between countries are determined by differences in the dispersion of:

* labour income — employee earnings
* other market income — income from returns to invested capital and from other non-government sources
* government taxes and transfers — direct taxes and transfers measured by disposable income along with income from service provided ‘in-kind’
* family formation — household size, composition and partnering behaviour.

Figure C.1 Equivalised household disposable income inequality, late-2000s

Gini coefficient

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*Data source*: OECD (2012a).

### Labour income

There are a number of factors which influence the distribution of labour income, including differences in wage rates among full time workers, income dispersion among worker sub-groups (full- and part-time workers) and income dispersion among all persons of working age, including the jobless (which captures rates of inactivity) (Hoeller et al. 2012).

Hoeller et al. (2012) found that, among OECD countries, North and South American countries tend to have the widest income distribution for full-time workers, whereas Australia and New Zealand lay below the average Gini coefficient estimates for full-time workers in 2008 (figure C.2).

When part-time workers were included in the analysis, Hoeller et al.’s estimates of the Gini coefficients increased as income from part-time work tends to be much lower than for full-time work. The impact of the inclusion of part-time workers on the Gini coefficient will tend to be largest in countries where the ratio of part-time work to full-time work is highest. Australia’s Gini coefficient is increased substantially with the inclusion of part-time workers compared to other OECD countries (figure C.2) due to its relatively high rates of part-time work (Hoeller et al. 2012).

Figure C.2 Labour income inequality, 2008

Gini coefficient, 15- to 64-year olds

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*Data source*: OECD (2012b).

The inclusion of unemployed and working aged people not in the labour force increases Hoeller et al.’s estimates of the Gini coefficient as the low income end of the market income distribution extends down to zero. The countries with the highest unemployment and lowest participation rates tend to have their Gini coefficient most affected by the inclusion of this group. Israel, Korea and Chile fall in to this group while Australia’s Gini coefficient is less affected compared to the OECD average (figure C.2).

At the household level, the story is more complex. Countries where joblessness is concentrated within particular households (‘jobless households’) will see a disproportionate impact on household income inequality when the entire population is considered compared to countries where joblessness is more spread (that is, where rates of jobless households are lower). Whiteford (2012) finds that a significant component of the difference in Australia’s measured household income inequality compared to other OECD countries is due to higher rates of jobless households than seen in some other countries. For example, when comparing Australia’s labour income distributions to Denmark (which has low household disposable income inequality) and the USA (which has high household disposable income inequality) Whiteford (2012) found Australia’s labour income inequality to be lower than both when only the employed are considered. When people not in paid employment are included in the calculation Australia’s labour income Gini coefficient jumps above both Denmark and the USA (figure C.3).

Figure C.3 Working-age household earnings inequality in Australia, Denmark and the United States, 2005

Gini coefficient

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*Source*: Whiteford (2012).

### Market income

Total market income includes labour income, capital income, income from self-employment along with income from other private sources. OECD comparisons focus on the first three of these.

Across OECD countries, OECD (2012b) estimates indicate that the distribution of market income is mainly determined by the distribution of labour income. The analysis also suggests that capital income tends to increase estimates of market inequality, but only to a small degree for most countries.

The distribution of capital income tends to be much less equally distributed compared to other forms of income (Hoeller et al. 2012). Consequently, countries with higher estimated Gini coefficients (such as Australia) also tend to have capital income contributing more to their Gini coefficient compared to countries with lower Gini coefficients (figure C.4). However there are some outliers in the OECD analysis. For example Iceland has the largest contribution of capital income to its Gini coefficient (0.09) compared to the average (0.03), yet has a below OECD-average measured market income inequality (0.30 versus 0.37) (OECD 2012b). Similarly, Portugal has one of the highest estimated market income Gini coefficients in the OECD (0.40), yet capital income is estimated to contribute little to this (0.01).

Figure C.4 Market income inequality, late 2000s

Gini coefficient, working age population

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*Data source*: OECD (2012b).

#### Distribution of wealth

One problem with measures of income inequality is that they can overstate or understate the distribution of consumption possibilities by ignoring household wealth, as both income and wealth contribute to households’ capacity to purchase goods and services. For many, wealth is accumulated over time and higher levels may be held by those in retirement who have relatively low incomes (for example, in Australia many of those on the aged pension own their own homes and so have significant wealth but lower income). On the other hand, the distribution of wealth tends to be much more concentrated than the distribution of income, with significant amounts held by those who also have high incomes (and therefore the capacity to save and own assets). This suggests that any inequality measures that incorporated wealth would tend to report higher levels of inequality compared to income alone, and that this effect would be amplified the more unequal the distribution of income.

Unfortunately the small quantity of available data and lack of consistency across countries makes international comparisons difficult. Yet available data suggests that countries with low inequality in their income distributions do not necessarily have low inequality in the distribution of wealth and vice versa. For example, Credit Suisse (2011) estimated that Sweden, which has a very low income Gini coefficient of 0.26, had a high wealth Gini coefficient of 0.82 in 2011. Conversely, Italy and Australia, which have relatively high income Gini coefficients of 0.34, were estimated to have relatively low wealth Gini coefficients of 0.61 and 0.63 respectively (Credit Suisse 2011).

According to Davies et al. (2008) the lowest 50 per cent of households in the wealth distribution hold only a tiny fraction of total wealth in most countries, between -18 (Denmark) and 21 per cent (Japan). By contrast, the top 10 per cent hold between 39 (Japan) and 76 per cent (Denmark) of total wealth. Australia lies in between these extremes with the bottom 50 per cent of households holding nine per cent of total wealth and the top ten per cent holding 45 per cent (Davies et al. 2008).

### Including taxes and transfers: household disposable income

The distribution of disposable income (market income less direct taxes plus government cash transfers) is narrower than market income due to the typically progressive effect of taxes and transfers. The impact of taxes and cash transfers on the income distribution depends on size, mix and progressivity of the system, which vary across OECD countries. On average the distribution of income after taxes and transfers, as measured by the Gini coefficient, has been found to be about 25 per cent lower than that for market income in the late 2000s (Joumard et al. 2012).

Joumard et al. (2012) found that in all OECD countries, cash transfers have a larger redistributive impact than taxes. The cross-country variation in the redistributive impact of cash transfers reflects differences in the size of transfers — countries with higher rates of cash transfers tend to reduce income dispersion the greatest — but the progressivity of these transfers is also important. For example, Australia was estimated to have attained a much larger reduction in inequality from cash transfers than France despite Australia having one of the lowest levels of cash transfers as a proportion of household disposable income in the OECD while France has one of the highest (figure C.5). The study suggests that this is a result of Australia having one of the most progressively targeted cash transfers systems in the OECD, driven by a greater reliance on income taxes, which are more progressive than other taxes, and on means-tested cash transfers. On average, Joumard et al. (2012) found that countries which have large cash transfers tend to be less progressively targeted, as the bulk of these transfers are aimed at redistributing income across life-cycles, mainly funding old-age pensions, rather than from high to low-income earners.

Figure C.5 Effectiveness of public cash transfers in reducing inequality

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*Data source*: OECD (2008).

#### In-kind transfers

The OECD (2011) observed that in-kind transfers were larger than cash transfers in Australia and most other OECD countries in the mid‑2000s. With healthcare and education consuming most of those funds. The analysis found that these in–kind transfers reduce measured inequality in all countries by a similar amount — around 20 per cent. This reduction had the effect of reducing the estimated average OECD Gini coefficient for final income from 0.30 to 0.24 (a smaller reduction than from the inclusion of cash-transfers) (figure C.6). Consequently, the inclusion of in-kind transfers had little impact on the OECD’s *relative* inequality estimates between countries, although important from the perspective of income inequality levels.

Figure C.6 Impact of in-kind transfers on income inequality

Gini coefficient

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*Data source*: OECD (2011).

### Family formation

Inequality in household income can also be affected by changes in household demographics, such as increases in assortative mating rates and shifts in household structures. The OECD (2011) found assortative mating rates, the proportion of couples with incomes in the same decile and quintile, to have increased from six to eight per cent and 34 to 39 per cent respectively between the mid-1980s and the mid-2000s. The largest convergence of incomes occurred in Luxembourg, the United Kingdom and the Netherlands with two to three fold increases in marital income homogeny. However, assortative mating rates in Australia were found to have remained relatively steady, with the proportion of couples in the same income decile increasing from 5.8 to 6.3 per cent over the same period of time (OECD 2011).

Changing household structures can also contribute to greater dispersion in the distribution of household income, particularly if increases occur in the number of single headed households. The OECD (2011) found the share of single headed households had increased across the board in all OECD countries under study, on average by almost five percentage points. In Australia the proportion of single headed households was found to have increased from 17 to 22 per cent between 1985 and 2003 (OECD 2011).

While these demographic measures were found to increase the income distribution, the OECD (2011) estimated the impact to be very small for all countries analysed. For Australia, the OECD (2011) estimated that assortative mating and the increase in the proportion of single headed households each increased the Gini coefficient by 0.006 between the mid‑1980s and mid‑2000s (the total increase in the Gini coefficient was 0.032 over this period).

1. More information is available at: http://www.oecd.org/eco/publicfinanceandfiscalpolicy/  
   lessincomeinequalityandmoregrowth-aretheycompatible.htm [↑](#footnote-ref-1)