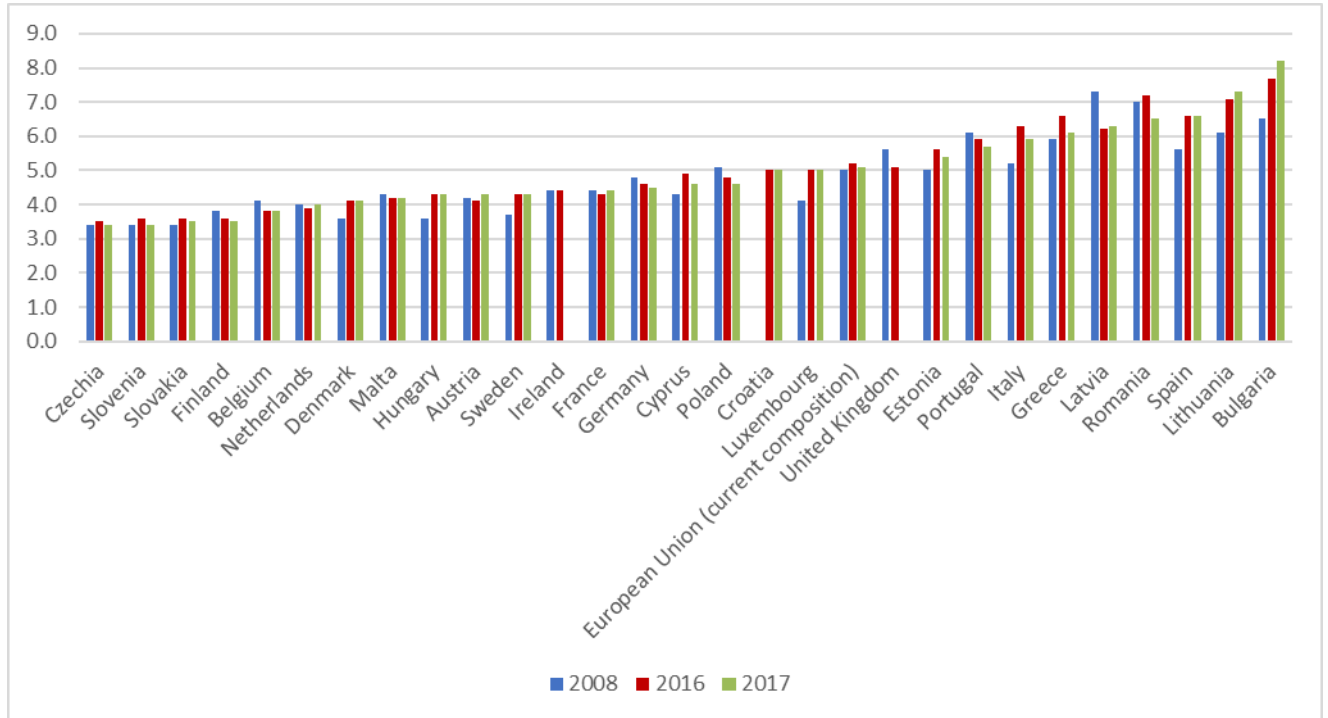


## Income Distribution

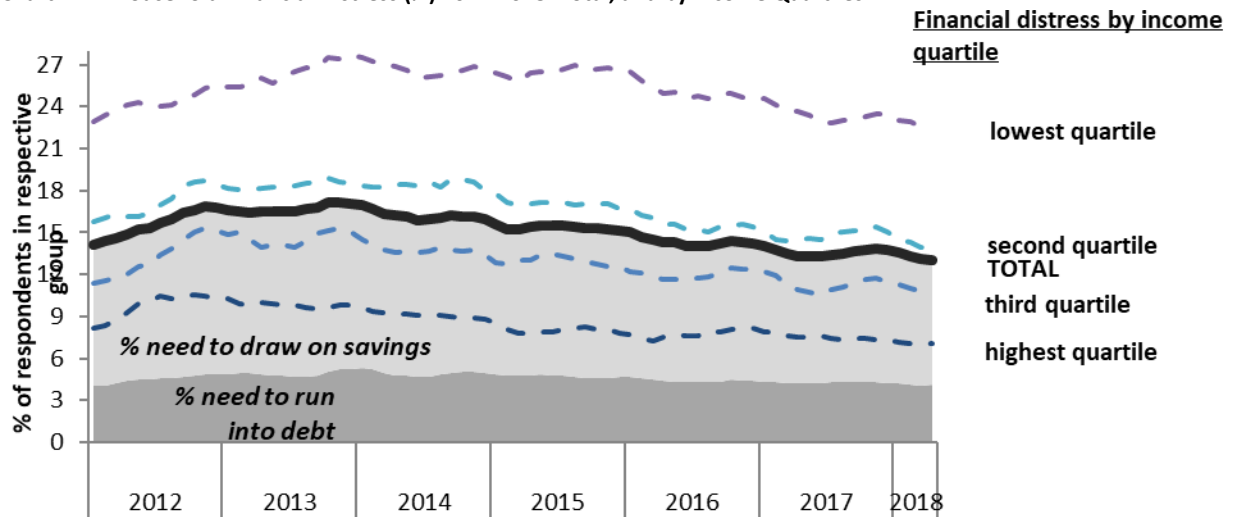
Chart 7.1: Income Inequality EU-28, Income Quintile Share Ratio (S80/S20), 2008, 2016 and 2017



Source: Eurostat, [ilc\_di11]

Note: The 2017 rate is not available for Ireland or the UK

Chart 7.2: Household Financial Distress (%) 2012-2018: Total, and by Income Quartiles



Source: European Commission (2018f Chart 31): European Commission, Business and Consumer Surveys, data not seasonally adjusted, 5-months moving average (DG EMPL calculations).

Note: Horizontal lines show the long-term averages for financial distress for the population as a whole and for households in the four income quartiles. The overall share of adults reporting having to draw on savings and having to run into debt are shown respectively by the light grey and dark grey areas, which together represent total financial distress.

## Income Distribution



High levels of income inequality are associated with a wide range of health and social problems across countries (Wilkinson and Pickett 2007). The IMF has shown that income inequality also matters in economic terms – that is, for growth and its sustainability. Income distribution itself impacts on growth. Specifically, if the income share of the top 20% increases, then GDP growth actually declines over the medium term, suggesting that the benefits do not trickle down, contrary to what has been the received wisdom. In contrast, an increase in the income share of the bottom 20% is associated with higher GDP growth.

One measure of income inequality is the income quintile share ratio or the S80/S20 ratio, which is a measure of the inequality of income distribution. It is calculated as the ratio of total income received by the 20% of the population with the highest income (the top quintile) to that received by the 20% of the population with the lowest income (the bottom quintile). The average European S80/20 ratio increased in recent years but only slightly and overall has remained relatively stable (5.0, 2008, EU-27; 5.1, 2017, EU-28). See Chart 7.1.

However, there are substantial differences between countries. In 2017, while in some Nordic and some Central European countries, the rich earned around four times as much as the poor, in Bulgaria and Lithuania the value is above 7, and in Spain, Romania, Latvia and Greece, the value is above 6. The most ‘equal’ countries were Czechia, Slovenia and Slovakia. Between 2016 and 2017, the ratio increased in 6 countries (Bulgaria, Lithuania, Austria, France, Netherlands and Latvia) (no 2017 data available for Ireland or the UK as we prepare this report).

### Financial Distress

Eurofound’s European Quality of Life Survey showed that a decrease in material hardship

and increase in satisfaction with standard of living occurred across all income quartiles between 2011 and 2016. However, the level of difficulties in making ends meet is still higher in seven countries than it was before the crisis in 2007 (Croatia, France, Greece, Ireland, Italy, Slovakia, Spain). Also on average in the EU, two people in five (39%) report difficulties in making ends meet. Even in the most affluent European countries, at least 30% of people in the lowest income quartile experience difficulties in getting by.

Financial distress of households (defined as the need to draw on savings or to run into debt to cover current expenditures and based on personal perceptions) is still running at high levels having reached an historic high in 2013. Financial distress for low-income (lowest quartile), while reducing, remained well above 20% in the first quarter of 2018. By comparison, financial distress was down to 13% for the total population and to 7% for the wealthiest quartile. In the second quarter of 2018, the overall level of financial distress for households in the lowest income quartile remained stable or decreased in the majority of Member States, compared with the same quarter of the previous year. It ranges from around 7% in Estonia, to over 30% in UK, Slovakia, Spain and France for the total population. As can be seen in Chart 7.2, where rates are shown for household distress across income quartiles, 2012-2018, the lowest and second lowest income quartiles experience the greatest financial distress.

### Policy Priorities

- Introduce policy measures (e.g. refundable tax credits) to address income inequality.
- Strengthen the capacity of national personal insolvency legislation to support those in the bottom income quartiles address financial distress.

