INCOME INEQUALITY AND REDISTRIBUTION

OVERVIEW

INCOME INEQUALITY AND REDISTRIBUTION

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CHAPTER 1 (LPD 6): INCOME INEQUALITY

6. WEALTH INEQUALITY

1. BASICS: WHAT IS INCOME?

1.1 CASE-STUDY

Read the following news headlines

(1) INTEREST RATES ON THE RISE

(2) AVERAGE GROSS SALARY IN FLANDERS APPROXIMATELY €2.900

(3) BELGIAN FARMERS PAY €343 PER HECTARE IN RENT EACH YEAR

Question: Which factors of production can we recognize in the examples?

HEADLINE NUMBER	PRODUCTION FACTOR

1.2 INCOME

Income is the remuneration made available to the owners of the factors of production.

Capital: rent, interest, dividend, …

Labour: wage/salary

Nature: rent

Remark 1: “Entrepreneurship” is a fourth production factor and is considered part of the production factor “labour”. The remuneration for entrepreneurship is profit.
In this theme, we focus solely on the incomes of natural persons.

Remark 2: Although the agricultural sector is shrinking, rent remains a source of income for many landowners. In 2023, Belgian farmers paid an average of €343 per hectare per year to rent arable land and €294 per hectare for grassland.

The saying 'data is the new gold' means that, in our digital economy, data has become the most valuable and sought-after resource, and that the current technological revolution in the economy is driven by information.

That is why more and more economists regard data as a new factor of production.

1.3 WEALTH

The terms ‘income’ and ‘wealth’ are often used interchangeably. However, they are two different concepts.

Wealth is the sum of possessions of a person (or company).

Net wealth is the difference between assets and liabilities.

Examples of assets include savings, shares, property, antiques, etc.

The link between the two concepts is that assets generate income. And that income in turn causes the assets to grow.
For example, a savings account earns interest. If the interest earned is saved, the savings increase.

Note: in this theme, we will focus primarily on the concept of income.

1.4 TAX DECLARATION

Where can we find data on Belgian incomes?

Belgian incomes are declared in the annual tax declaration.

Every family is obliged to declare their income to the tax authorities each year.

declaration on paper

TAXonWEB

digital declaration

The tax declaration distinguishes between:

Type of income	Examples
Income from property	Rent
Income from movable goods	Interest, dividend
Income from employment	Wage/salary
Miscellaneous income	Gift, inheritance

NATURE AND CAPITAL

LABOUR

We recognize the various factors of production in the table above.

The sum of all incomes earned is the national income.

There are two types of income distribution

CATEGORICAL INCOME DISTRIBUTION	PERSONAL INCOME DISTRIBUTION
How is national income distributed across the factors of production?	How is national income distributed across the population?

The categorical income distribution reflects the share of the various factors of production in the national income.

Labour income is crucial and is used for spending more than other types of income.
Low labour income can lead to a decline in consumption and vice versa.

The labour income quote is the proportion of labour income in national income.

The labour income quote has declined in recent decades.

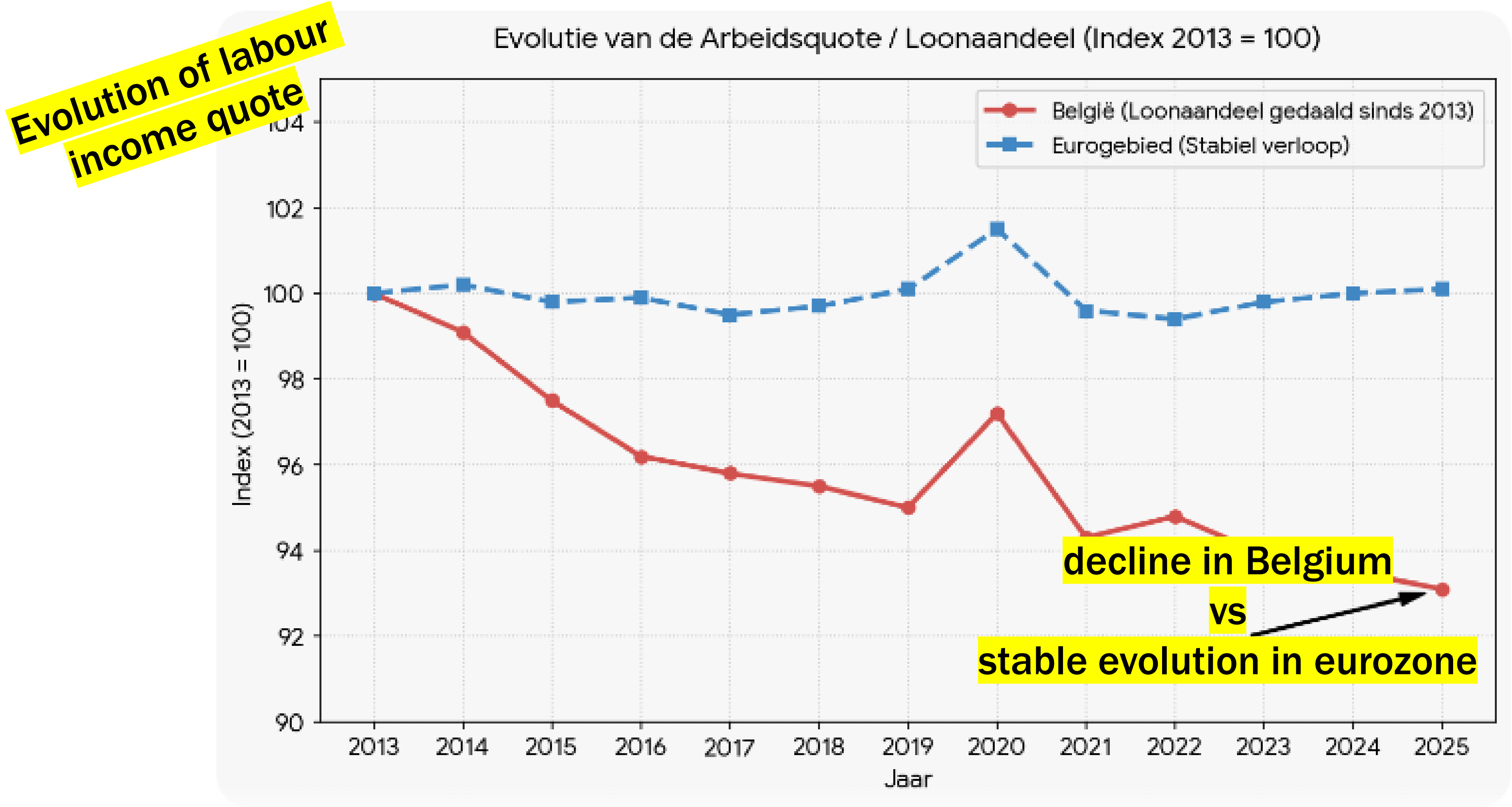
>>> mainly benefited capital gains (profits)

>>> indicates that companies are spending an increasingly smaller proportion on labour

>>> may mean that production is becoming increasingly capital-intensive

>>> results in a decline in employment, the rejection of labour and an increase in structural unemployment

One explanation for the decline in Belgium can be attributed to structural evolutions in certain sectors.



The Belgian economy has become heavily dependent on extremely capital-intensive sectors such as the pharmaceutical and chemical industries.

Other explanations for the declining labour income quote:

- Tax shift : government reduced labour costs for businesses (lower social security contribution)

  >>> the total amount that employers spent on 'labour' fell which pushed down the Belgian labour share

- Loonnorm (-Law): strict cap on wage increases on top of automatic indexation

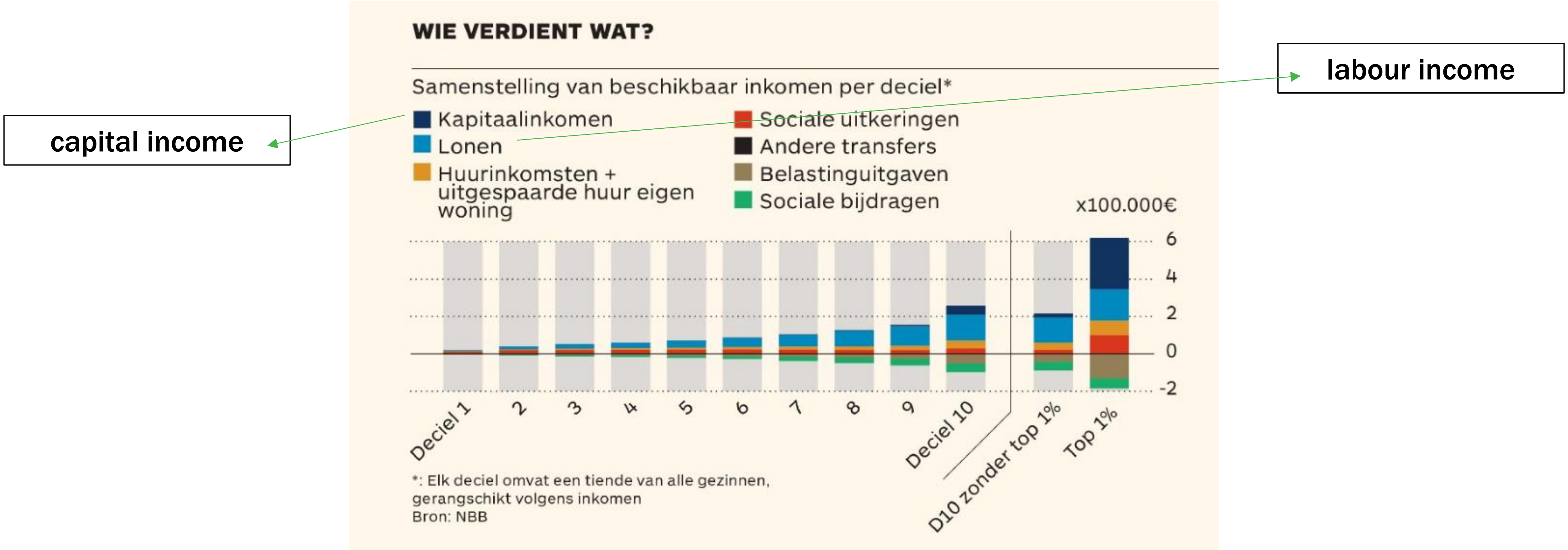
  >>> real wages were unable to keep pace with productivity

  >>> larger share of the economic pie went to profits (capital) rather than to wages (labour)

2020: rise!
economic activity and profits during Covid pandemic fell more sharply as a result of lockdowns than labour income, which was partly protected by temporary unemployment benefits and government support

Jaar	Loonaandeel België (% toegevoegde waarde)
2013	57,7%
2014	57,2%
2015	56,3%
2016	55,5%
2017	55,3%
2018	55,1%
2019	54,8%
2020	56,1%
2021	54,4%
2022	54,7%
2023	54,2%
2024	54,2%

The proportion of labour income versus capital income also varies according to income class.



Capital income rises systematically across income classes, and among the top 1% of earners, capital income occupies the most important place.

2. INCOME DISTRIBUTION

>>> PERSONAL INCOME DISTRIBUTION

The personal income distribution indicates how a country's income is distributed among its population.

The most common way to do this is to divide household incomes into income classes.

Such an income class is called a decile.
A decile is one tenth of all households classified according to income.

Note: all statistics use net income. This is the taxable income remaining after deducting the costs of earning that income (e.g. costs of travel to work, specific work clothing, etc.).

Below is an example of personal income distribution.
The deciles are ranked from low income to high income.

DECILES	% DECLAR.	TOTAL NET INCOME		
		UPPER LIMIT (€)	TOTAL AMOUNT (€)	% INCOME
TOTAL	*100,00%*		*254.676.934.997*	*100,00%*
1	10,00%	4.613	1.170.892.418	0,46%
2	10,00%	15.949	7.487.698.856	2,94%
3	10,00%	19.787	12.317.940.808	4,84%
4	10,00%	23.620	14.684.323.310	5,77%
5	10,00%	28.145	17.499.297.463	6,87%
6	10,00%	34.033	20.960.769.234	8,23%
7	10,00%	41.628	25.551.078.057	10,03%
8	10,00%	53.188	31.786.733.944	12,48%
9	10,00%	75.010	42.561.060.061	16,71%
10	10,00%		80.657.140.846	31,67%

lowest incomes

highest incomes

3. NUMERICAL MEASUREMENT OF INCOME INEQUALITY

3.1 WHAT IS INCOME INEQUALITY?

Income equality means that everyone has the same income.

If incomes are not distributed equally among the population, there is income inequality.

This is measured on the basis of the distribution of personal income (see previous slide).

If income were equal, each decile (10% of tax declarations) would also earn 10% of the national income.
The example shows that this is not the case: the lowest 10% of tax declarations earn 0.46% of income, the lowest 20% earn 3.40%, the lowest 30% earn 8.24%, etc.
The highest 20% of tax declarations earn 48.38%, which is almost half of the national income!

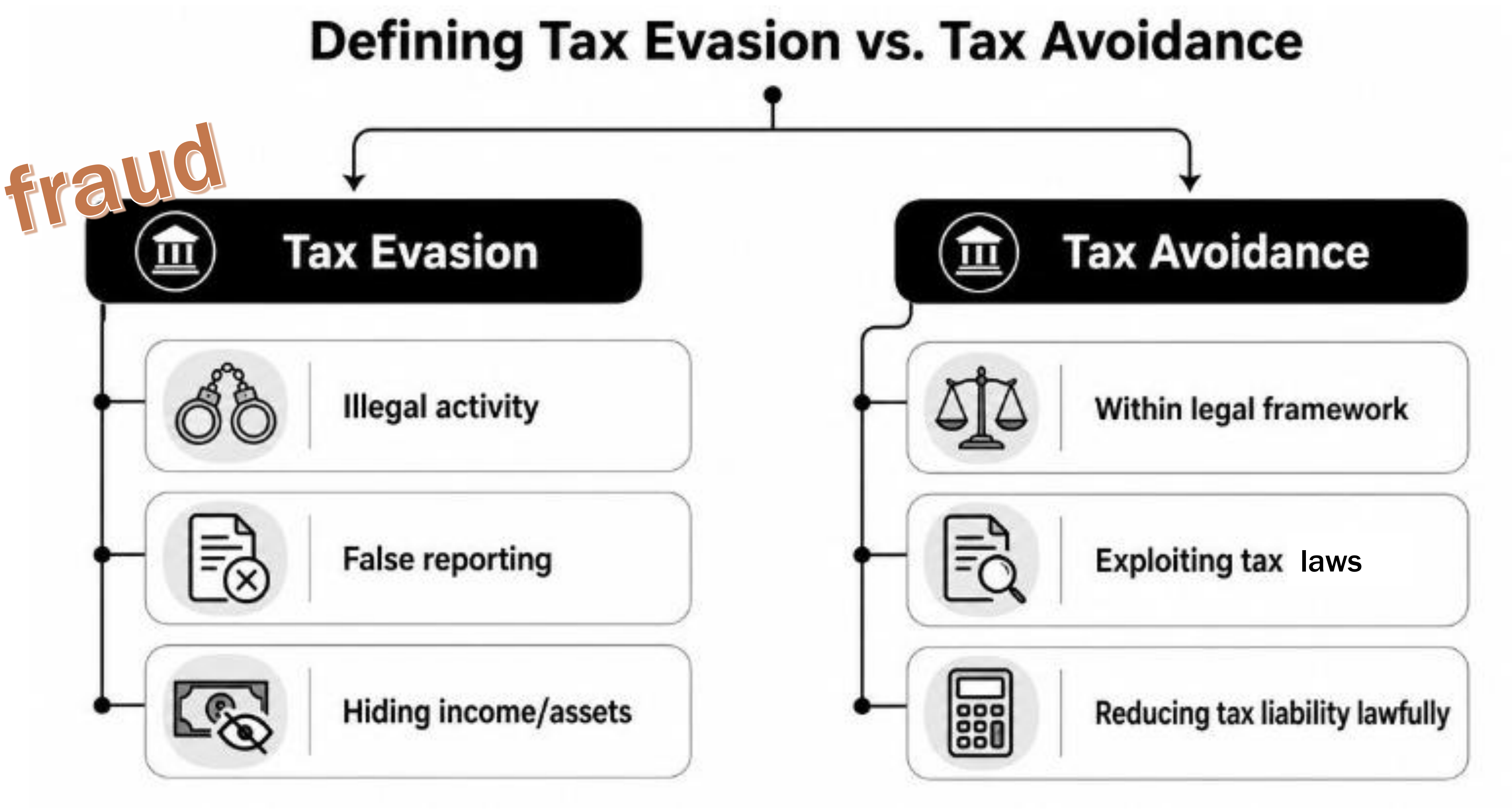
Incomes are therefore unevenly distributed across the population.

Because income distribution is based on tax declarations, we can assume that actual income inequality is even greater...:

- People with no income or with an income that is too low (e.g. student jobs) are tax-exempt.
- Capital income on which withholding tax has already been deducted no longer needs to be declared.
- Tax avoidance and/or tax evasion distort the picture.

Tax avoidance is intended to pay as little tax as possible without breaking the law.

Tax evasion involves fraud and breaking the law.


Defining Tax Evasion vs. Tax Avoidance
fraud
Tax Evasion
Illegal activity
False reporting
Hiding income/assets
Tax Avoidance
Within legal framework
Exploiting tax laws
Reducing tax liability lawfully

Government tackles the proliferation of management companies

tax avoidance

tax evasion

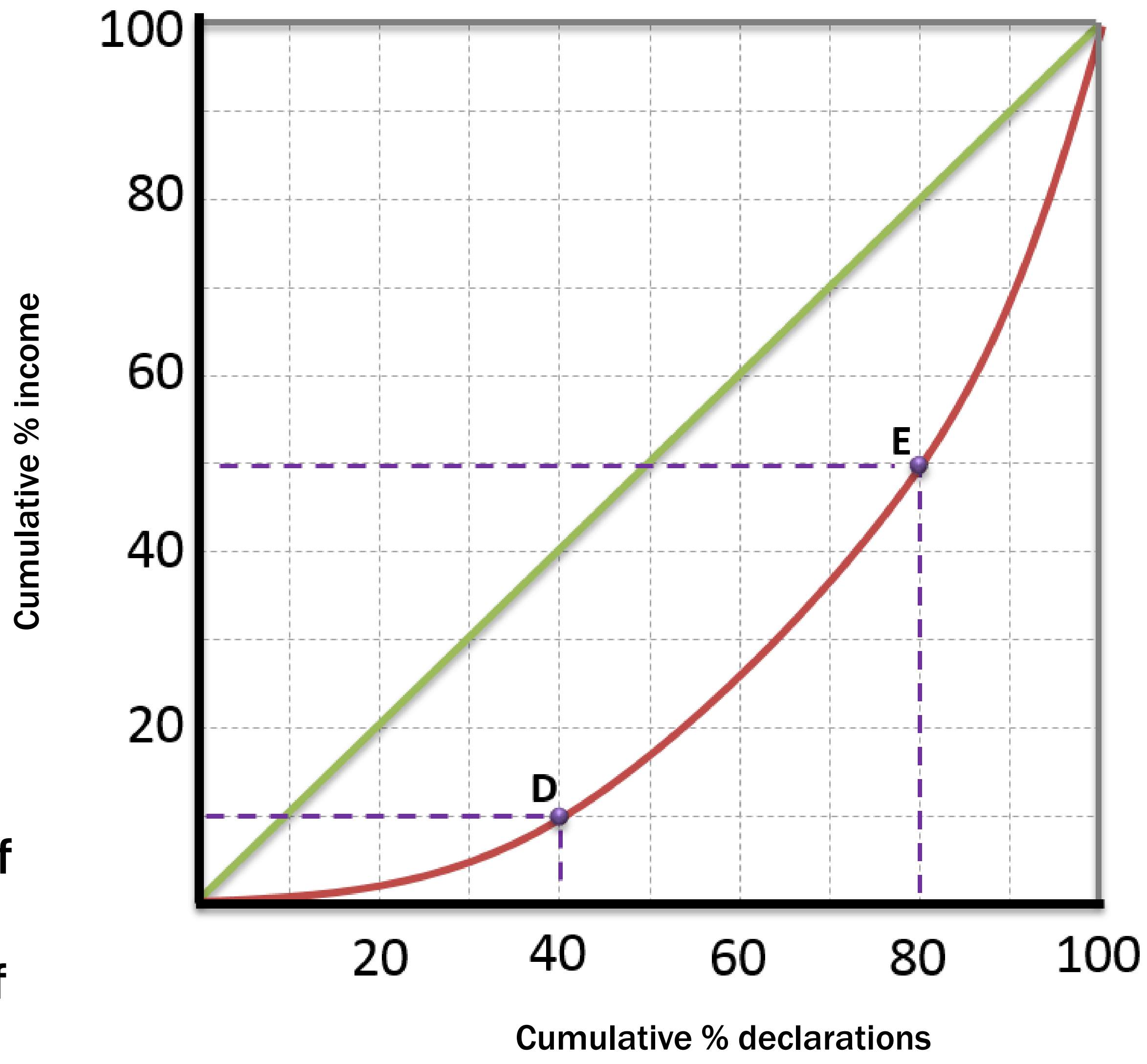
Jean-Marie Pfaff has admitted to tax fraud for failing to declare certain income

4. GRAPHICAL VISUALIZATION OF INCOME INEQUALITY

4.1 LORENZ CURVE

The Lorenz curve shows a country's income inequality.

- The green line indicates that all incomes are distributed equally (theory)
- The red line or Lorenz curve indicates the actual income distribution:
  - D: 40% of tax declarations earn 10% of income
  - E: 80% of tax declarations earn 50% of income (i.e. the richest 20% of tax declarations earn 50% of income)

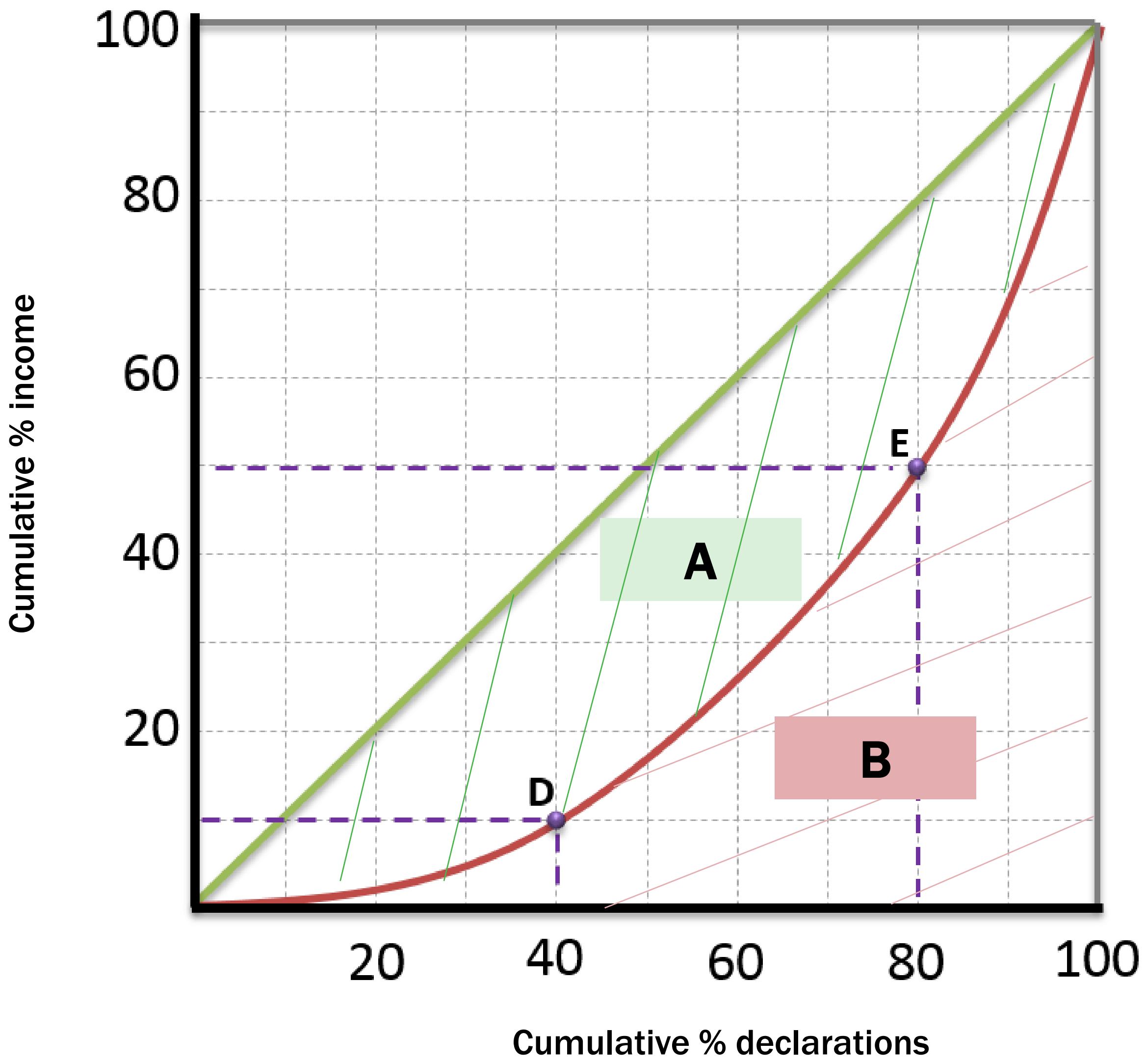


4.2 GINI COEFFICIENT

The GINI coefficient reflects a country's income inequality.

**The GINI coefficient (GC) is determined by the area between the green line and the Lorenz curve
in relation to the entire area under the green line.**

$$GC = \frac{\text{surface A}}{\text{surface A + B}}$$

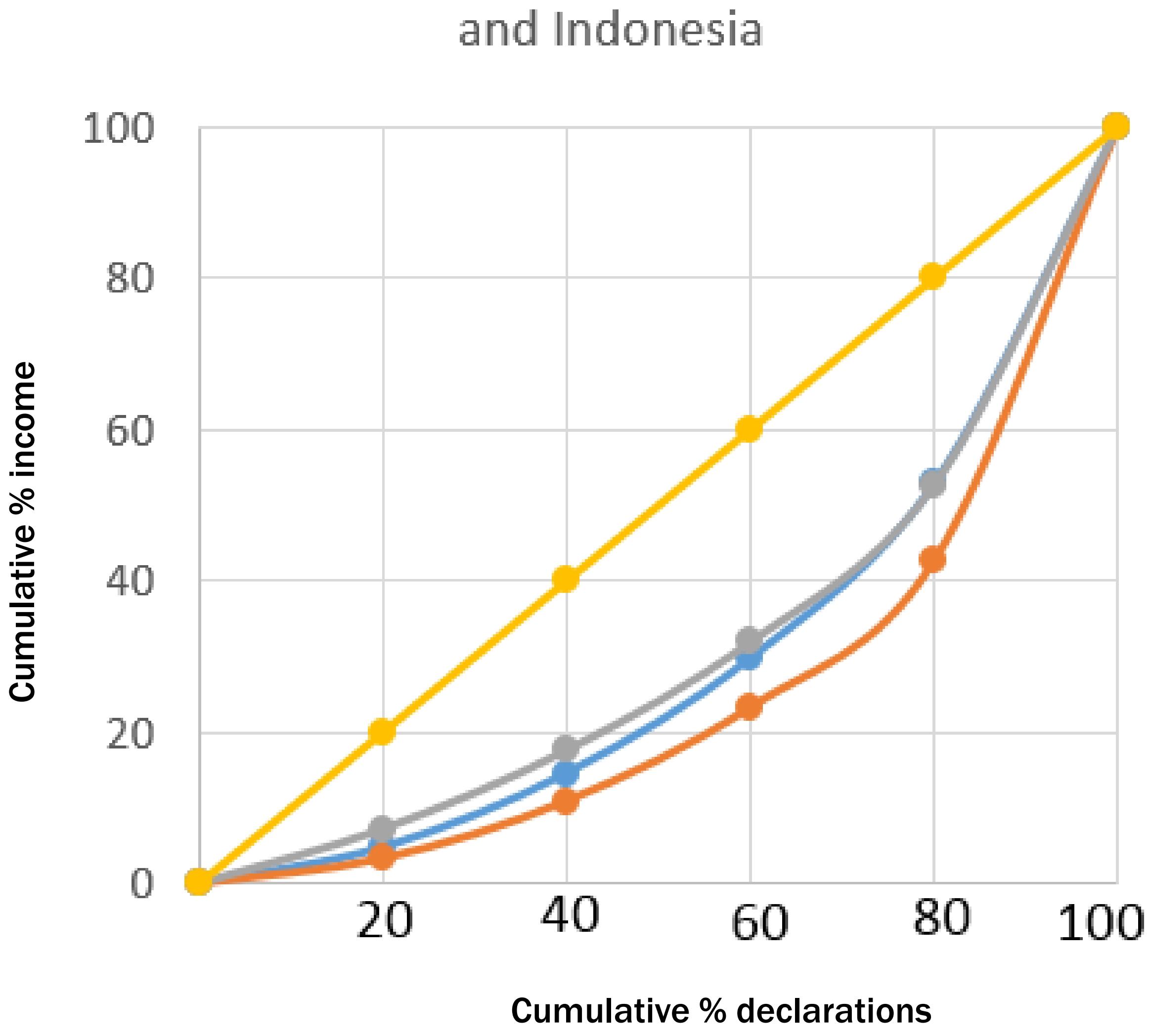


Four scenarios are possible:

VALUE GC	EXPLANATION
GC = 0	Incomes are distributed completely equally (green line coincides with Lorenz curve)
GC close to 0	Relatively low income inequality (small deviation between green line and Lorenz curve)
GC close to 1	Relatively high income inequality (large deviation between green line and Lorenz curve)
GC = 1	Total income inequality (one family has all the income)

Examples of Lorenz curves and GCs for countries with high income inequality:

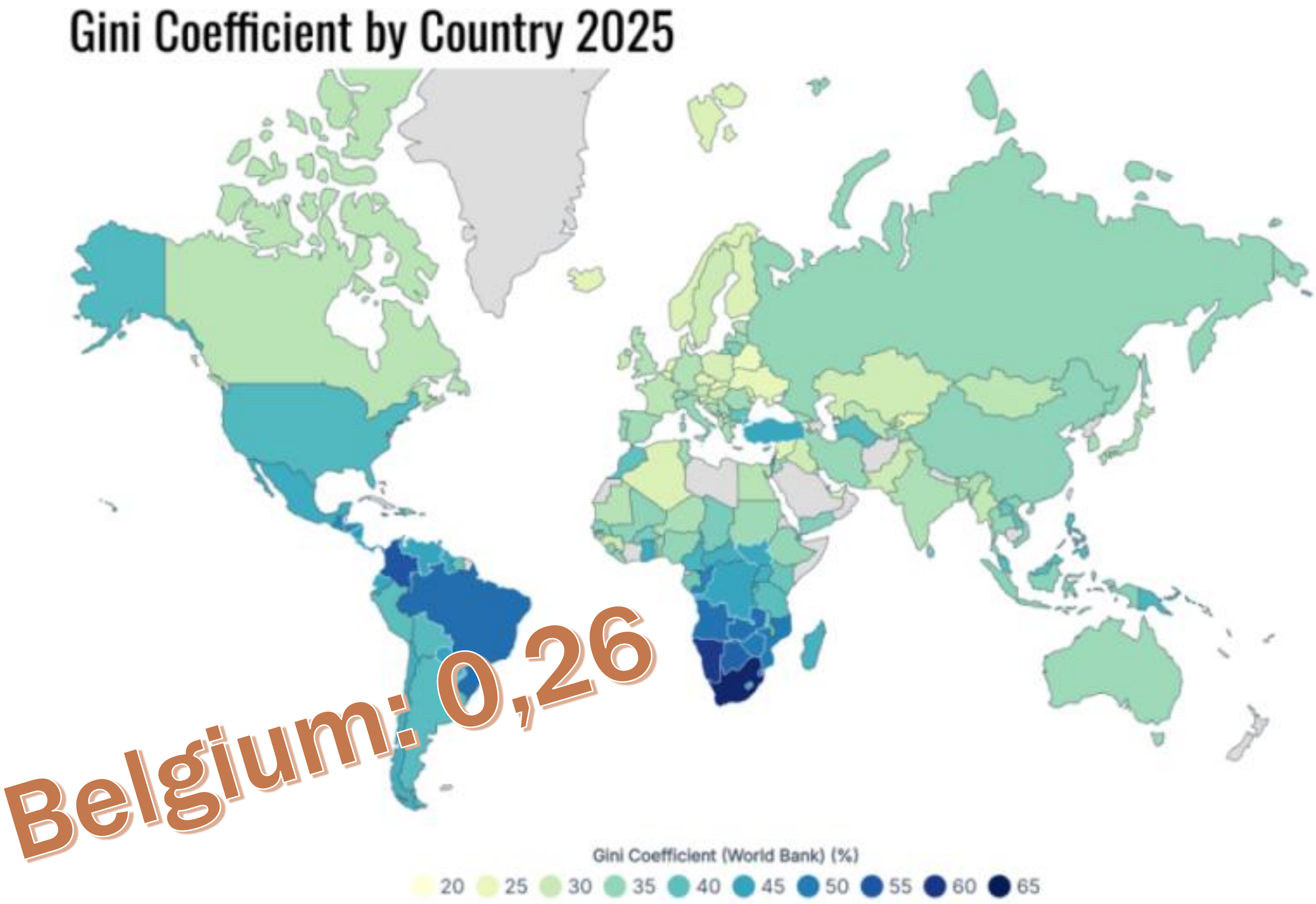
Grey: Indonesia
GC 0,35
Blue: Argentina
GC 0,42
Red: Brazil
GC 0,52



Explanations

INDONESIA	ARGENTINA	BRAZIL
Colonial legacy: concentration of land and wealth among a small elite Regional differences: wealthier Java and poorer rural areas Unequal access to education and healthcare Informal labour market: low incomes and no security Little redistribution through taxation or social security	Historical large-scale land ownership → concentrated wealth Export business: profits flow to a small elite Economic instability, inflation and crises affect the poor Informal labour market without protection Limited redistribution through taxation or social security	Historical inequality: slavery, colonisation and racism laid an uneven foundation. Land concentration: few people own most of the land. Unequal access to education. Informal labour market: many precarious, poorly paid jobs. Little redistribution through taxation or social security.

Map of the GC on a global scale:



South Africa tops the list with a staggering Gini Coefficient of 0,63, while Slovakia sits at the other end with just 0,24.

For comparison, the United States clocks in at 0,41 and China at 0,36.

Countries with high income inequality have no or poorly functioning instruments for redistributing wealth, such as taxation, social security and education!

See chapter 2

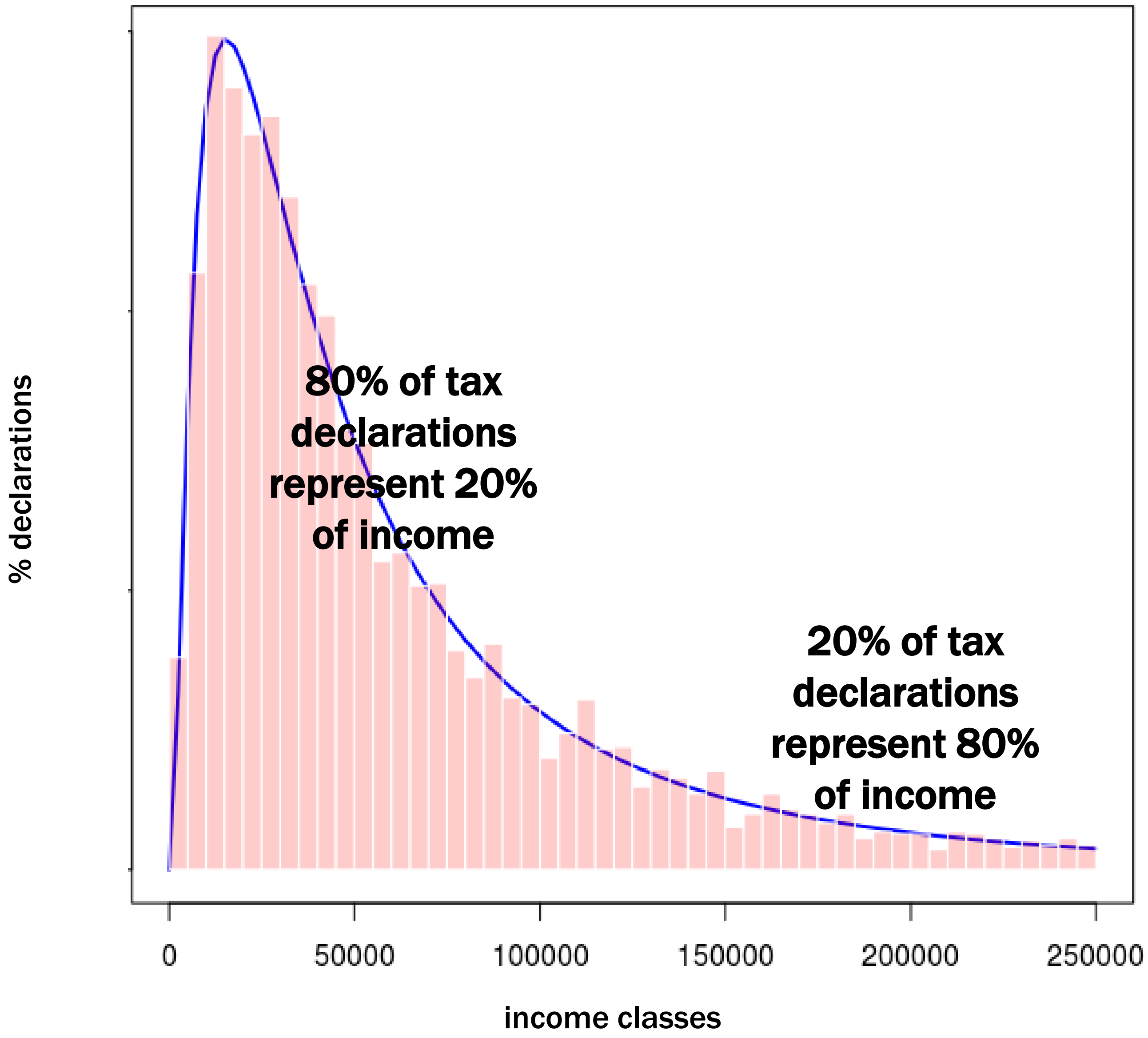
4.3 PARETO CURVE

Another graphical representation of income distribution is the Pareto curve.

The Pareto curve shows a "skewed" or unequal income distribution:

- on the left side of the graph are the lowest incomes, which represent the majority of tax declarations

- on the right side of the graph are the highest incomes, which represent the minority of tax declarations



It was the Italian economist Vilfredo Pareto who first observed in 1906 that 80% of the land in Italy was owned by just 20% of the population.

This concept was later applied more broadly.

Examples:

Business: 80% of turnover often comes from 20% of customers.

Productivity: 20% of your daily tasks account for 80% of your key results.

5. CAUSES OF INCOME INEQUALITY

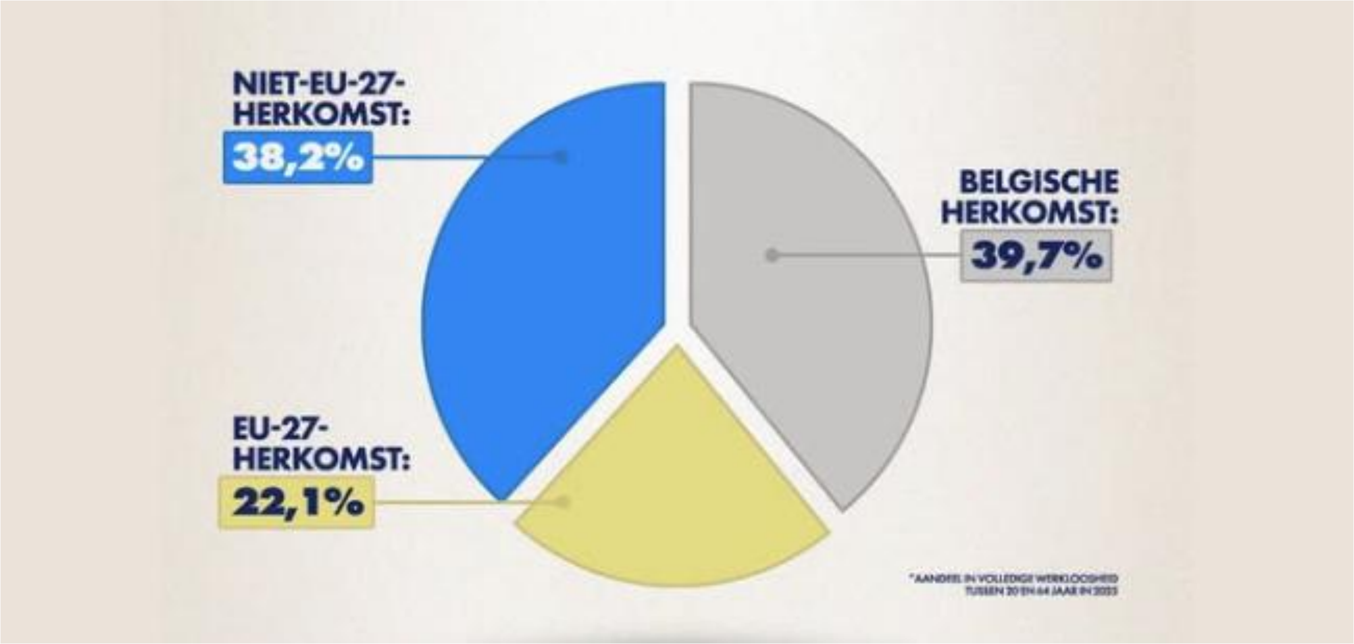
There are income differences between people who work, the incomes are unevenly distributed. This can be explained by the following factors:

Gender: There remains a gap between men and women, although it is narrowing.

Origin: a worker born in Belgium has a higher income than a worker from another country of the European Union, and the difference is even greater with workers who come from outside the EU.

Education: workers with a higher education diploma have a higher income than people with a lower diploma or no diploma.

The relatively high unemployment rate amongst non-EU migrants is one of the causes of income inequality in our country.



Non-EU migrants face significant barriers in Belgium due to strict language requirements, complex procedures for the recognition of foreign qualifications, and structural discrimination in the labour market.

5. CAUSES OF INCOME INEQUALITY

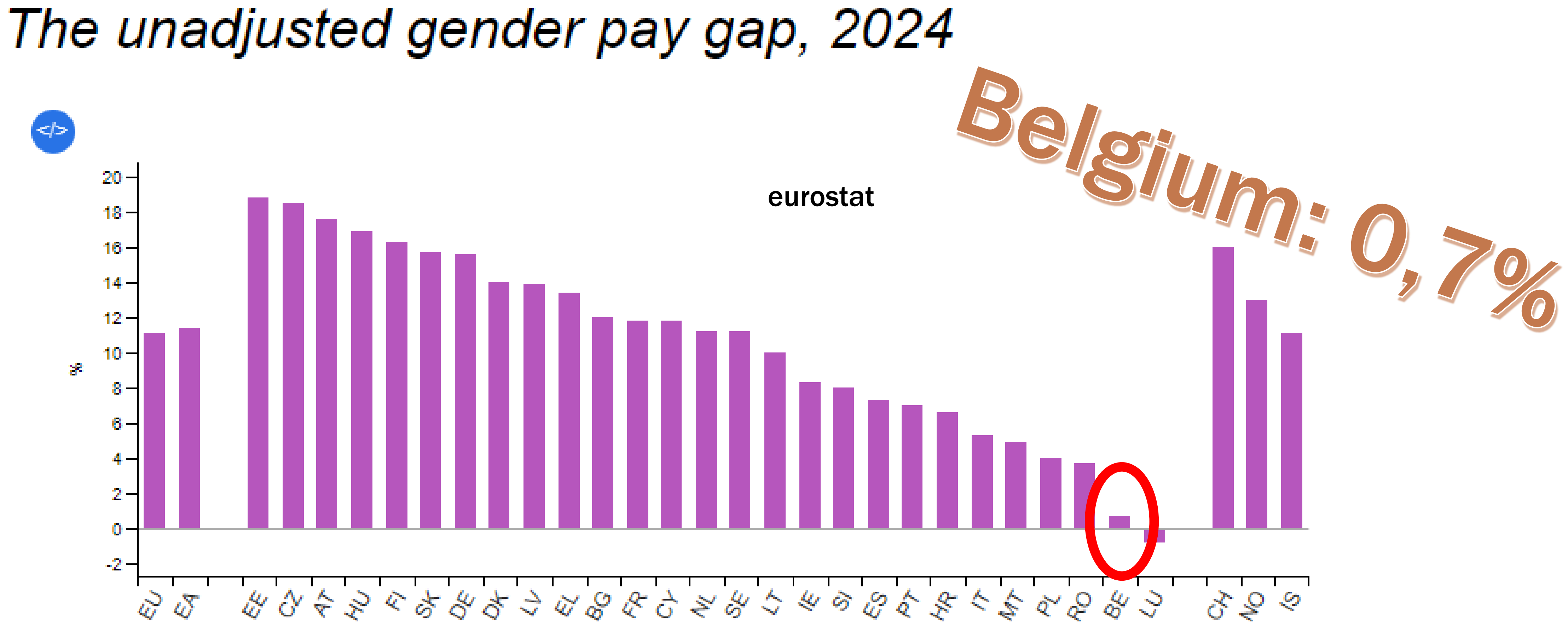
Labour market: there are horizontal income differences between workers from different sectors and vertical income differences between workers with different ages, responsibilities and seniority.

Moreover, the work rhythm plays a role: people who work full-time earn more than part-time workers.

Wealth: workers who have a large capital have a higher income than workers with lower or no assets. Wealth is also a source of income.

Personal factors: differences in talent, perseverance, etc., can also explain income differences between people.

In 2024 the average unadjusted gender pay gap in the EU was 11.1%.



In 2024 in the EU, Estonia and Luxembourg recorded the highest (18.8%) and lowest (-0.8%) gender pay gaps respectively, before accounting for factors that affect final pay.

The 10 highest-paying sectors in the Belgian economy:

De 10 best betalende sectoren	Gemiddeld bruto maandloon	Tov het nationale gemiddelde
Chemie & farma	5.262 euro	+ 19,05%
Overheid	4.938 euro	+ 11,72%
Energie & milieu	4.866 euro	+ 10,09%
Overige industriële sectoren	4.812 euro	+ 8,87%
Elektronica & technologische industrie	4.795 euro	+ 8,48%
Onderwijs, vorming & wetenschappelijk onderzoek	4.788 euro	+ 8,33%
Bank & verzekeringen	4.734 euro	+ 7,10%
Productie van voeding en andere consumptiegoederen	4.688 euro	+ 6,06%
Telecom, ICT & internet	4.459 euro	+ 0,88%
Zorgsector	4.437 euro	+ 0,38 %

The 10 lowest-paying sectors in the Belgian economy:

De 10 minst betalende sectoren	Gemiddeld bruto maandloon	Tov het nationale gemiddelde
Horeca	3.538 euro	- 19,95%
Toerisme, sport & recreatie	3.543 euro	- 19,84%
Media, marketing & communicatie	3.631 euro	- 17,85%
Klein- en groothandel	3.844 euro	- 13,03%
Land- en tuinbouw, veeteelt & visserij	3.898 euro	- 11,81%
Human resources	3.939 euro	- 10,88%
Diensten aan ondernemingen en particulieren	4.028 euro	- 8,87%
Textielindustrie & mode	4.151 euro	- 6,09%
Bouw	4.167 euro	- 5,72%
Studiebureaus & engineering	4.205 euro	- 4,86%

5. CAUSES OF INCOME INEQUALITY

Luck or bad luck: some people have the wind at their backs and have a higher income because, for example, they receive an inheritance or win the lottery; for others, setbacks (e.g. due to illness or accident) can lead to a lower income.

If we look at the picture more broadly, there are of course the income differences between working and non-working people, namely people who live on social benefits.

An economy with high income inequality is confronted with high poverty.

6. WEALTH INEQUALITY

National Bank: income inequality is greater than previously thought

Read the following text

Income inequality in our country is greater than previously thought, a consequence of top incomes more often consisting of lower-taxed capital income. This is according to a study by the National Bank, which provides a more accurate picture of the overall economic situation.

After academic research in the autumn of 2024 had already pointed to greater than expected and rising income inequality in our country, the National Bank of Belgium (NBB) has now come to the same conclusion.

According to new calculations, the Gini coefficient – which measures inequality in a country on a scale of 0 (perfect equality) to 1 – is not 0.25 but 0.3. This refers to disposable income after taxes and social benefits (see the part on “income redistribution” for more info).

CONCLUSION 1:

A significant skew is particularly evident among the top 1 per cent of incomes. This group is dominated by capital income (dividends, interest), which is typically taxed at a lower rate than earned income.

This also means that the effective tax rate for the top 1 per cent – approximately 29 per cent – is lower than that of a large proportion of Belgian households.

CONCLUSION 2:

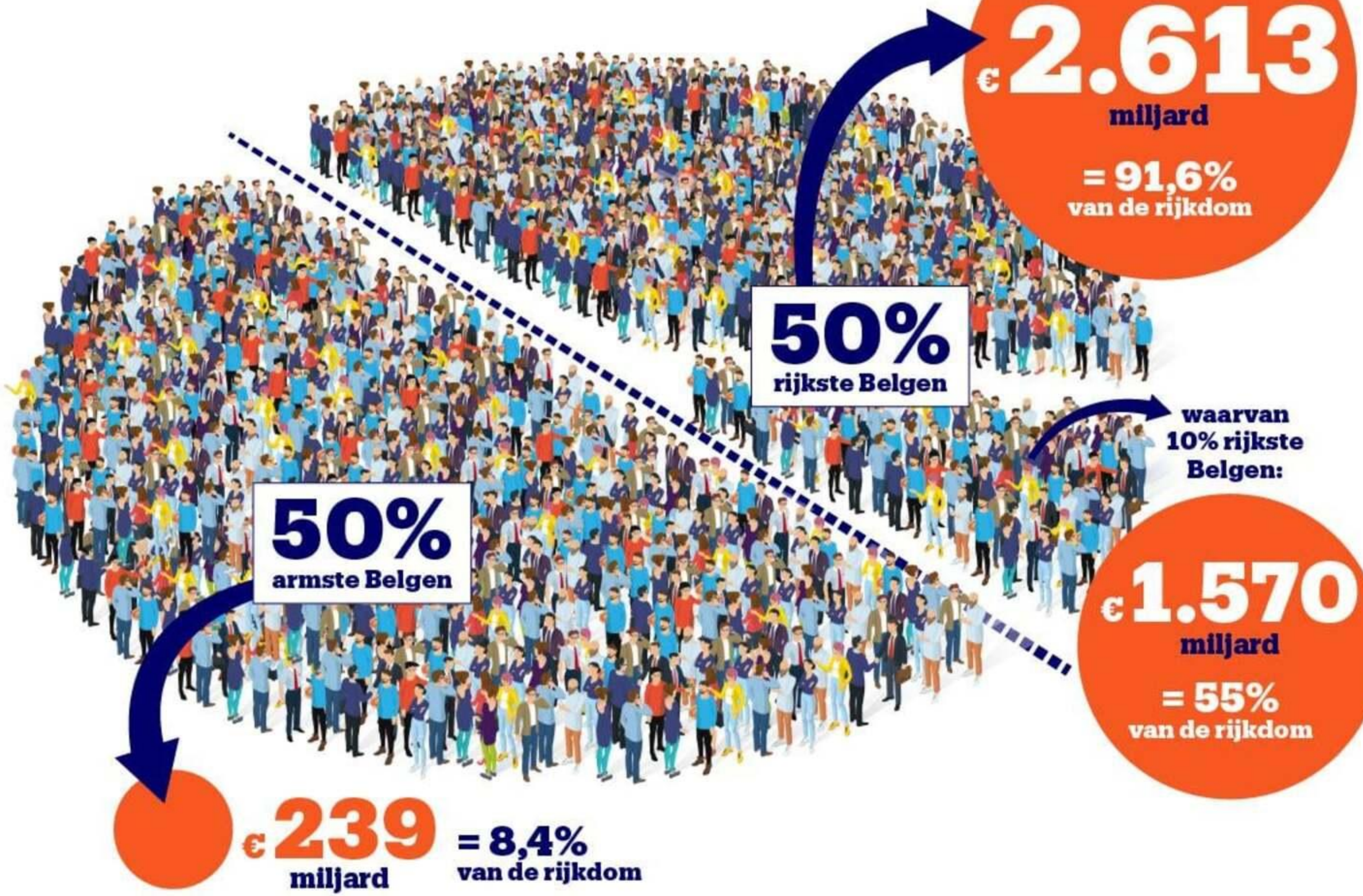
The study reveals another shortcoming in the way in which income inequality has been analyzed to date, based solely on information from tax declarations.

The NBB also maps wealth and investment income on the basis of household surveys.

But the problem is that wealthy households have a tendency to underestimate their wealth.

This method is therefore good for capturing earned income, but less reliable for wealth.

The 50% of people with the lowest wealth in our country hold barely 8.4% of total net wealth.



The 50% of people with the highest wealth in our country hold 91,6% of total net wealth.

The top-10% of people with the highest wealth in our country hold 55% of total net wealth.