Barrington Lecture 2020

Understanding income inequality in Ireland

DATE
23rd January 2020

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Outline

How is household income distributed in Ireland today, how does this compare to the past & our EU neighbours


- Draw on household survey data collected by the ESRI, CSO & EU statistical agencies: **NB under-coverage of very highest incomes**

What implications does this have for policy?
How is income distributed in Ireland today?

Most recent SILC data show half of households have more than €40k disposable income pa.
How is income distributed in Ireland today?

... while top 10% have more than €85k and bottom 10% less than €14k
How is income distributed in Ireland today?

Adjusting for household size reduces degree of inequality substantially.
How is income distributed in Ireland today?

... but total share of top 10% is still more than that of bottom 40% combined.
How has this changed over time?

Shares quite similar to 1987 but real disposable income much higher across the board.
How has this changed over time?

... reflecting strong, balanced growth right across the distribution since 1987
How has this changed over time?

... the product of 3 distinct phases of growth (1987-1997;
How has this changed over time?

... the product of 3 distinct phases of growth (1987-1997; 1997-2007;
How has this changed over time?

How has this changed over time?

... which on most measures has left income inequality lower in 2017 than in 1987

With exception of top-sensitive GE(2) measure
How has this changed over time?

Market income inequality, however, has risen except at the very bottom.
How has this changed over time?

... which is in part explained by pattern of real weekly earnings growth.
How has this changed over time?

... driven by growth in hourly wages rather than hours of work
How has this changed over time?

And although there has been a huge rise in the share of women in paid work

Source: Eurostat LFS database, lfsa_ergaed
How has this changed over time?

... this has been concentrated in households with a higher-earning man.
How does this compare to our neighbours?

In 2017, market income inequality highest in EU-28 as measured by the Gini coefficient
How does this compare to our neighbours?

... although around mid-table if look just at those with positive amounts
How does this compare to our neighbours? 

... as where we really stand out is % of working-age adults with no market income.
How does this compare to our neighbours?

Comparatively low rates of employment among single parent households in particular.
How does this compare to our neighbours?

... who make up a larger share of total households than in other countries
How does this compare to our neighbours?

... while 19% of working-age adults living alone say permanently disabled/unfit for work
How does this compare to our neighbours?

Adding pensions & benefits does much to reduce inequality, though still near top of table.
How does this compare to our neighbours?

... but drop mid-table once deduct taxes to get (equivalised) disposable income
How does this compare to our neighbours?

... with the Irish tax system doing the most of any EU country to reduce inequality
How does this compare to our neighbours?

Certain features of the tax system particularly progressive
- Early starting point to the higher rate of income tax (SRB)
- 5-rate Universal Social Charge levied on broad income base

Simulate effect of eliminating these using EUROMOD
- Increasing SRB to €50k/€59k (single/married) would raise Gini to 0.321 (into top 10 of EU-28 & to near British levels)
- ... while abolishing USC would raise Gini to 0.325 (same effect)
- Both at a substantial cost to the exchequer: Revenue/Department of Finance estimate at c.€2.5 and €3.5bn per year respectively
Distributional effect of raising SRB & abolishing USC

Gain as a % of disposable income vs Decile of equivalised disposable income

- SRB increase
- Abolition USC
Implications for policy

Progressivity of tax system may limit its scope to reduce household disposable income inequality much further

- Reducing tax credits or the SRB effective, but politically difficult
- ... as is raising rates on higher earners, which at some point (unknown for Ireland) could also lead to lower revenues

But other options exist to address inequality at the top

- Many tax reliefs without strong policy rationale benefit mostly higher-income households (e.g. Help-to-Buy, Entrepreneurs Relief, tax-free lump sum on retirement, CAT exemptions, etc.)
- Greater competition in protected professions could reduce inequality at the same time as lowering prices for consumers: e.g. NCC (2019) highlighted slow pace of reforms in legal sector
Implications for policy

Similarly, high % of households with no market income blunts effectiveness of min wage in reducing inequality

- Logue & Callan (2016) found most of gains from an increase go to households in top half of the income distribution
- Redmond et al. (2019) show 12% of minimum wage workers live in households with incomes of more than €100k per year

Suggests those wanting to reduce HH income inequality may want to focus on other policy options, for example:

- Increasing generosity of Working Families Payment (aka FIS) & expanding eligibility to low-income working adults without kids
- Linking annual benefit payment increases to earnings growth: not doing so from 2016-20 acted to raise Gini by almost 2%
Implications for policy

Also a need for closer monitoring of work incentives
- Research suggests these are generally quite strong in Ireland
- ... but Making Work Pay report highlighted level of Disability Allowance earnings disregard & loss of secondary benefits
- ... and proliferation of new schemes creates potential for means-tests to interact e.g: HAP, NCS and mooted social-care support

... and – of course – to collect better data
- Know little about intergenerational inequality & mobility
- ... or the joint distribution of income, consumption & wealth
- ... or the composition & extent of incomes at the very top
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