

# **Barrington Lecture 2020**

# Understanding income inequality in Ireland

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#### Outline

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

- Build on O'Connell (1982), O'Neill & Sweetman (1999), Callan & Nolan (1993), Madden (1996), Nolan & Maitre (2000), Nolan et al. (2000), Nolan (2009), Calvert et al. (2013), Callan et al. (2016)
- Draw on household survey data collected by the ESRI, CSO & EU statistical agencies: <u>NB under-coverage of very highest incomes</u>

#### What implications does this have for policy?

Most recent SILC data show half of households have more than €40k disposable income pa



... while top 10% have more than €85k and bottom 10% less than €14k



#### Adjusting for household size reduces degree of inequality substantially



... but total share of top 10% is still more than that of bottom 40% combined



Shares quite similar to 1987 but real disposable income much higher across the board



... reflecting strong, balanced growth right across the distribution since 1987



... the product of 3 distinct phases of growth (1987-1997;



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



#### Market income inequality, however, has risen except at the very bottom



... which is in part explained by pattern of real weekly earnings growth



... driven by growth in hourly wages rather than hours of work



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



Source: Eurostat LFS database, Ifsa\_ergaed

... this has been concentrated in households with a higher-earning man



In 2017, market income inequality highest in EU-28 as measured by the Gini coefficient



#### ... although around mid-table if look just at those with positive amounts



... as where we really stand out is % of working-age adults with no market income



Comparatively low rates of employment among single parent households in particular



... who make up a larger share of total households than in other countries



... while 19% of working-age adults living alone say permanently disabled/unfit for work



Adding pensions & benefits does much to reduce inequality, though still near top of table



... but drop mid-table once deduct taxes to get (equivalised) disposable income



... with the Irish tax system doing the most of any EU country to reduce inequality

Difference between disposable and gross income Gini coefficients



#### **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**



## **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 meanstests 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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