The Problem of Economic Inequality in Ireland

Economic Inequality ‘Dashboard’

Income
Wealth
Public Services

Taxation
Family Composition
Capacities
Cost of Goods and Services

Reducing Economic Inequality
The Problem of Inequality

Top 1% share of income in USA

The Great Prosperity
Problems of rising inequality

Social
• Evidence that more equal societies do better on a range of social indicators:
  • Health; mortality; crime, education; trust

Political
• Evidence that concentration of income and wealth lead to policies that favour wealthy
  • Those who are socially excluded disengage from political process

Economic
• ‘Trickle down’ discredited
• Concentration of income and wealth part of the cause of economic collapse
• OECD/IMF/World Bank: more equal societies have stronger and more stable economies
Income Inequality in Ireland

Net income inequality in Ireland (after taxes and welfare) is roughly average for OECD/EU

Some of the reasons:

• Rising average wages
• Decline in high wages since boom
• Welfare system that focuses on cash

End of Story?
‘Market’ Inequality in Ireland

The graph shows the Gini Coefficient for various countries, with Ireland having one of the highest values, indicating higher inequality compared to other countries on the chart. The countries are listed from highest to lowest Gini Coefficient, illustrating trends in economic inequality across different nations.
Market Income Inequality

• Piketty argument
• Declining share of national income by “Bottom 90%”
• Declining “Labour share” of national income:
  • 1990 65%
  • 2009 55%

So what?

• Lack of demand in the economy – lack of consumption (Reich)
• Structural weakness in economy
• Shows how hard the tax/welfare system has to work

Sustainability?
Where are we going?

Top 10% income share

% Income


Denmark
Ireland
USA

TASC
Wealth Inequality
More unequally distributed than income

• Estimates that Top 10% have between 40-60% of net wealth
• Recent data (CSO/CB) says Top 20% has 70% of wealth
• Expect Ireland to be more equal because of high homeownership rates (69%)
• More research needed
Public Services

- Major role in addressing economic inequality.
- Reduce major costs: education, old age, job loss, disability, illness and the costs associated with raising children
- Shared Risk
- Investments that are central to Ireland’s economic prosperity: roads, electricity networks, support to businesses and education.

<table>
<thead>
<tr>
<th>Area of Public Spending (COFOG)</th>
<th>Public Spending</th>
<th>Spending per Household</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General Public Services</td>
<td>€9,555.7 million</td>
<td>€5,763</td>
</tr>
<tr>
<td>2. Defence</td>
<td>€667.1 million</td>
<td>€402</td>
</tr>
<tr>
<td>3. Public Order and Safety</td>
<td>€2,715.9 million</td>
<td>€1,638</td>
</tr>
<tr>
<td>4. Economic Affairs</td>
<td>€5,846.1 million</td>
<td>€3,525</td>
</tr>
<tr>
<td>5. Environmental Protection</td>
<td>€1,311.3 million</td>
<td>€791</td>
</tr>
<tr>
<td>6. Housing and Community Amenities</td>
<td>€1,371.0 million</td>
<td>€827</td>
</tr>
<tr>
<td>7. Health</td>
<td>€11,666.9 million</td>
<td>€7,036</td>
</tr>
<tr>
<td>8. Recreation, Culture and Religion</td>
<td>€1,292.9 million</td>
<td>€780</td>
</tr>
<tr>
<td>9. Education</td>
<td>€8,548.8 million</td>
<td>€5,155</td>
</tr>
<tr>
<td>10. Social Protection</td>
<td>€26,834.9 million</td>
<td>€16,183</td>
</tr>
<tr>
<td>TOTAL</td>
<td>€69,810.6 million</td>
<td>€42,099</td>
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Public Services

Issues:
• When people do not receive the public services they need, they required to purchase – ‘out-of-pocket’ costs additional burden on income.

• Those with low incomes often simply go without.

• Invisible in the national statistics.

Report focuses on analysing Production Models and Funding Models for Public Services

Finding:
High charges for services are regressive
PS provision not sufficient to reduce economic inequality and to provide quality outcomes for all

Cost of Living – 20% higher the EU average
“The most Progressive Income Tax System in Europe”?  

‘Progressivity’ is:  

• Limited  

• Due to low taxes on average incomes  

• Due to high levels of market inequality  

“More unequal countries tend to redistribute more”  

IMF Staff Paper, 2014
Trade-offs between pursuing redistribution through taxation and e.g. job creation

Goals are compatible - a well-designed tax system can achieve both of these successfully.

Tax system needs to:

Counteract inequality
+ support job-creation
+ fund public services and welfare

Political limits to taxation
Public Services, Tax and the Cost of Living
## Economic Inequality Dashboard

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
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<tbody>
<tr>
<td>1.</td>
<td>The Top 10% of income earners have 34% of gross income, averaging €130,400 per tax case (Revenue, 2011)</td>
</tr>
<tr>
<td>2.</td>
<td>Gross income inequality in Ireland is the highest in the EU (Gini coefficient 48.0, EU average 36.0; Eurostat 2012)</td>
</tr>
<tr>
<td>3.</td>
<td>65.5% (70.9% male, 60.3% female) of 20-64 year-old adults are in employment, compared to an EU average of 68.4% (74.3% male, 62.6% female; Eurostat, 2013)</td>
</tr>
<tr>
<td>4.</td>
<td>17.7% of Irish working-age households are ‘jobless’ compared to an EU28 average of 11.2% (Eurostat 2013)</td>
</tr>
<tr>
<td>5.</td>
<td>The statutory Minimum Wage of €8.65 per hour/€17,562 per year is 76% of the Living Wage of €11.45 per hour/€23,347 per year, both based on 39 hours/week (LivingWage.io, 2014)</td>
</tr>
<tr>
<td>6.</td>
<td>Typical social protection incomes for a single person are €9,776 per year for a jobseeker or someone with a disability, €10,608 for a carer and €11,976 for a pensioner with a full Contributory State Pension (see Section 3)</td>
</tr>
<tr>
<td>7.</td>
<td>The Top 10% hold an estimated 42% to 58% of Ireland’s wealth, while the Bottom 50% have 12% of the wealth (see Section 4)</td>
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<td>8.</td>
<td>Public spending on health and education has an annual ‘public value’ of €12,191 per household, as an indicator of the value of universal public services (see Section 5)</td>
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<tr>
<td>9.</td>
<td>At 28.7%, Ireland’s total tax-to-GDP ratio is the sixth lowest in the EU and the second lowest in the Euro area (after Latvia). It is three quarters of the EU average of 39.4% (Eurostat, 2012)</td>
</tr>
<tr>
<td>10.</td>
<td>Total social security contributions in Ireland are the second lowest in the EU at 4.4% of GDP, and less than half of the EU average of 11.1% (Eurostat, 2012)</td>
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<tr>
<td>11.</td>
<td>Typical childcare fees are the second highest in the EU at 27.4% of family net income, compared to an EU average of 11.2% (OECD, 2012)</td>
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<td>12.</td>
<td>52.6% of 30-34 year-olds have a third-level qualification (rank 1st in EU, EU average 36%; see Section 8)</td>
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<td>13.</td>
<td>27.2% of Ireland’s labour force has lower secondary education or less, and may struggle to actively participate in social and economic life (11th lowest of 28, EU average 27.9%; Eurostat, 2013)</td>
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<tr>
<td>14.</td>
<td>18.6% of those aged 15-29 are not in employment, and not in any education or training (10th highest level in the EU, EU average 15.9%; Eurostat, 2013)</td>
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<tr>
<td>15.</td>
<td>Cost of living in Ireland is 20% higher than the EU average based on purchasing power parity (Cost of Living EU28 = 100.0, Ireland = 120.0; Eurostat, 2013)</td>
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<td>16.</td>
<td>968,000 adults (27%) experience at least two forms of material deprivation (see Section 9)</td>
</tr>
</tbody>
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Economic Inequality Dashboard

- The Top 10% have 34% of gross income.
- A tax-to-GDP ratio of 28.7% makes Ireland a low tax country.
- 17.7% of households are jobless.
- The Top 10% hold up to 58% of wealth.
- Cost of living is 20% higher than the EU average.
- Typical childcare fees are 27.4% of family income.
What is to be done?

Reducing Economic Inequality...

Core Principle
Quality Standards
Economic Development
Production Models

Funding Models
Redefine Work
Income Adequacy
Oversight and Accountability