

THE DISTRIBUTION OF EARNINGS 1987-1994

The results of this study show that dispersion in the Irish earnings distribution was relatively high by international standards in 1994, and that it increased between 1987 and 1994 more than in almost any other OECD country for which data are available. Between 1994 and 1997, when economic growth accelerated rapidly, the increase in earnings inequality slowed although the top of the distribution did continue to move away from the middle. **TABLE 5** shows the increase in earnings inequality to have been greater than in any other country identified from 1987 to 1994. Earnings inequality continued to increase up to 1998, although at a slower pace than from 1987 to 1994.

TABLE 5

Trends in Earnings Dispersion, Ireland and Other OECD Countries, 1987-1994			
	Top Decile/Bottom Decile		
	1987	1994	Change
Canada**	4.44	4.20	-0.24
Germany*	2.54	2.32	-0.22
Belgium*	2.44	2.24	-0.20
Finland	2.52	2.38	-0.14
Japan	3.15	3.02	-0.13
Sweden	2.09	2.13	0.04
Australia	2.81	2.87	0.06
Netherlands	2.53	2.59	0.06
France	3.19	3.28	0.09
UK	3.20	3.31	0.11
New Zealand**	2.92	3.05	0.13
Austria	3.47	3.66	0.19
Italy*	2.42	2.80	0.38
Ireland	3.67	4.06	0.39

* = 1993 not 1994

** = 1988 not 1987

POLICY IMPLICATIONS

While Ireland has become increasingly wealthy in recent years, it still has one of the highest levels of income inequality in the EU. It is clear that our unprecedented economic growth is not lifting all boats to the same extent. Better-off households are gaining more from the boom than those who are less well off. The growing gap between rich and poor is damaging to society in a number of ways – it is linked to higher levels of relative income poverty, it is unjust or unfair, it leads to poor social cohesion and alienation and it

limits choice, diversity and the ability of those on low incomes to participate in society. In economic research there is now a view that income inequality is bad for economic growth³, and in health research there is much evidence to show that healthier nations are not the richest, but those with the smallest gap between rich and poor⁴. The social costs of a divided society are high, and the rationale for a greater redistribution of resources is clear.

This interest in a fairer distribution of income is apparent throughout a variety of public policies at national and international level, e.g. in government programmes, social partnership agreements, the National Anti-Poverty Strategy (NAPS) and in UN and EU commitments to tackling poverty and social exclusion. The following public policy interventions should be considered in order to narrow widening income inequalities:

- an explicit policy emphasis on the redistributive impact of the annual budget
- an explicit focus on income distribution in the NAPS through consideration of a relative income poverty reduction target and an income inequality reduction target
- a focus on an adequate and appropriately indexed welfare system
- an integrated system of child income support so as to eliminate unemployment traps
- a more progressive and redistributive taxation system
- a fair tax system that maintains tax revenue to fund adequate public services and limits the potential for tax evasion
- a focus on the problem of low pay, through reducing the tax burden on the low paid, indexation of the minimum wage and an emphasis on the needs of the low paid in centralised wage bargaining.

FURTHER RESEARCH

This study will be complemented by further studies from the Combat Poverty Agency. A major collection of essays on different aspects of inequality was published in Spring 2001. *Rich and Poor* (published by CPA in association with Oak Tree Press) examines how increased fiscal spending and a greater emphasis on redistribution in public policy could help reduce the widening gap between rich and poor. Meanwhile two other studies, on intra-household income and on wealth and social spending, are underway.

3. Persson, T. and Tabellini, G. (2000) *Is Inequality Harmful for Growth?*, *The American Economic Review*, Vol. 84, No. 3.

4. Wilkinson, R. (1996) *Unhealthy Societies: The Affliction of Inequality*. London: Routledge

Combat Poverty Agency

Bridgewater Centre
Conyngnam Road
Islandbridge
Dublin 8

Tel. 01 6706746

Fax. 01 6706760

E-mail: info@cpa.ie

Website: www.cpa.ie

Richer but More Unequal: The Distribution of Income in Ireland

While Ireland has become increasingly wealthy over the past decade, it has also become more unequal. The latest research findings from the Agency on income distribution¹ show that Ireland has one of the highest levels of income inequality in the European Union. Our economic boom has benefited those who are better off to a greater extent than those who are less well off and, despite improvements in income equality in the 1970s and 1980s, the gap between rich and poor actually grew in the 1990s. This poverty briefing summarises the key findings of recent research on the issue, carried out by a team of researchers from the ESRI and NUI Maynooth, for the Combat Poverty Agency. It also identifies how public policy can intervene to create a more equal and inclusive society and why this should be an important policy objective for the future.

KEY FINDINGS

- In 1998 the bottom 10 per cent of Irish households had just under 2 per cent of total disposable income compared to 26 per cent held by the top 10 per cent of households.
- The top 50 per cent of households held 77 per cent of total disposable income compared to 23 per cent held by those in the bottom half of the income ladder.
- Income inequality increased between 1994 and 1998 because of a shift in income from the bottom half of the income distribution to the top half.
- Ireland has one of the highest levels of income inequality in the EU, and along with Spain, Portugal and the UK is one of a group of countries in the EU with the highest rates of income inequality.
- This group of countries with high levels of income inequality also has high levels of child poverty.
- Older households moved down the income ladder while younger ones moved up between 1994 and 1997, and in both years larger households were concentrated at the bottom.
- The equalising effects of social welfare transfers on income distribution diminished between 1994 and 1997.
- Looking back over a longer period, inequality in household income in Ireland has fallen since 1973. Most of the decline in income inequality took place between 1973 and 1987, although income inequality continued to decline until 1994 but at a slower pace.
- Earnings inequality increased dramatically from 1987 to 1994, continuing to increase up to 1998 although more slowly.

WHY A STUDY ON INCOME DISTRIBUTION?

Income inequality and inequality in the distribution of earnings rose sharply during the 1980s and the 1990s in a number of industrialised countries, giving rise to widespread concern about the factors influencing this change and the implications for society.

This pattern highlighted the need for an examination of income distribution changes in Ireland. The findings of this report are timely, as they reveal important patterns and changes in the distribution of income in Ireland during a period when the levels of consistent poverty fell, but the numbers of people falling under income poverty lines increased. The issue was an important one for the Combat Poverty Agency because of the link between relative income poverty and income inequality, and the extensive costs of a divided society.

AIMS OF THE STUDY

This study looked primarily at changes in the distribution of income in Irish society between 1994 and 1998. In doing so it specifically

- traced the changes since 1973, through to 1987, and up to 1998 so that longer-term trends could be identified;
- assessed how Ireland fared on the issue of income distribution relative to other EU and industrialised OECD countries;
- examined the nature of these changes and the factors influencing emerging trends, e.g. inequality between particular types of households, the position of those households on the income ladder and how earnings, social welfare payments, taxation and women's participation in the workforce effected these changes.

HOW WAS INCOME DEFINED?

The study looked at household income using household survey data rather than tax or administrative data. Household income surveys collect information on income from the following sources: employee earnings, self-employment, farming, secondary jobs, casual employment, state training or work experience schemes, social welfare transfers, child benefit, the renting of land or property, interest or dividends, retirement pensions, pensions from abroad, annuities, covenants or trusts, sick pay, maintenance from outside the household and educational grants.

Three types of income are separated for analysis:

- direct or market income
- gross income which includes both market income and social welfare transfers
- disposable income, i.e. after income tax and social insurance contributions are deducted.

WHAT IS MEANT BY 'THE INCOME DISTRIBUTION'?

Imagine the income distribution as a vertical ladder, with households on the lowest incomes at the bottom of the ladder, and households with the highest incomes at the top of the ladder. The ladder has ten rungs, each part representing 10 per cent of households. In the study these are called 'income deciles', and the research identifies what share of total income is held by each decile, or each 10 per cent of households along the income distribution.

It is useful to state here the amount of income a household required in order to be at the top or bottom of the distribution. In 1997 terms the middle of the distribution was about £290 (€368.22) per week, or £15,100 (€19,173) per annum net income (i.e. total gross income from any source less tax deductions and employee contributions). Households moved into the top decile at about £630 (€799.93) per week or £32,700 (€41,520.40) net income per year. Households in the bottom decile had less than £84 (€106.66) per week or £4,400 (€5,586.85) per year.

The study looked specifically at income held by households, but it did not examine how income was shared among individuals in those households. It is also important to note that this study did not examine wealth held by individuals or households, e.g. the accumulation of profits, savings, shares or assets. (This is regarded as a very difficult area to obtain information on and will be the subject of a separate forthcoming work from the Combat Poverty Agency.)

INCOME INEQUALITY 1994-98

TABLE 1 sets out the share in disposable income for households in each income decile for the years 1994, 1997 and 1998. Disposable income has the most direct relevance for a household's ability to spend. The bottom 10 per cent of households had around 2 per cent of disposable income in 1994, 1997 and 1998, and the top 10 per cent had around 26 per cent.

TABLE 1

Decile Shares and Summary Inequality Measures, Disposable Income among Irish Households, 1994, 1997 and 1998 Living in Ireland Surveys

Households	Share in Total Disposable Income (%)		
	1994 LII	1997 LII	1998 LII
Decile			
Bottom	2.3	2.1	1.8
2	3.3	3.3	3.0
3	4.6	4.5	4.4
4	6.0	6.0	6.0
5	7.5	7.7	7.7
6	9.1	9.5	9.5
7	11.1	11.2	11.3
8	13.5	13.4	13.5
9	16.5	16.5	16.7
Top	26.4	25.8	26.1
All	100.0	100.0	100.0

All tables in this briefing have been reproduced from tables in *The Distribution of Income in Ireland*

This suggests a fairly stable income distribution over these years – even if the ratio of top to bottom decile share represents a relatively high level of income inequality. However, a closer look at the figures along the distribution shows a shift of over 1 per cent of total income away from the bottom three deciles over the period, a significant shift over a relatively short period of time.

The decline in the share of the bottom 30 per cent was in fact more pronounced from 1997 to 1998, than from 1994 to 1997. It is also worth noting that in 1998 the share of the top decile rose slightly, which it had not done between 1994 and 1997.

When these household incomes were adjusted for household size and composition, then a more equal distribution was produced. This reflects the fact that larger households tend to have higher incomes. Finally the share in income coming directly from the market did not become more unequal over the period, but instead the equalising effect of social welfare transfers diminished.

POSITION OF HOUSEHOLD TYPES ON THE INCOME DISTRIBUTION

There were some changes in the location of different types of household on the income distribution. Those in households headed by someone aged between 35 and 64 were spread evenly over the distribution in both 1994 and 1997 but there were considerable shifts for both older and younger households. In general older households moved down the distribution while younger ones moved up.

TABLE 2 shows that those headed by someone under 35 were more concentrated in the top quintile (25 per cent) while for older households the proportion at the top declined and the numbers at the bottom rose markedly.

TABLE 2

Position in the Income Distribution of Persons Categorised by Age of Household Head, 1994 and 1997 LII Surveys			
Position in Equivalised (1/0.66/0.33) Disposable Income Distribution (%)			
Quintile	Head aged under 35	Head aged 35-64	Head aged 65 or over
A: 1994			
Bottom	26.5	20.4	9.9
2	11.3	18.0	41.3
3	14.9	20.6	22.0
4	21.0	21.4	13.2
Top	26.2	19.7	13.6
All	100.0	100.0	100.0
B: 1997			
Bottom	18.4	19.9	22.0
2	12.2	19.2	33.7
3	18.6	21.0	16.9
4	19.4	20.6	18.8
Top	31.5	19.3	8.6
All	100.0	100.0	100.0

Larger households were also concentrated at the bottom of the income ladder. Households of one adult with children were very heavily concentrated right at the bottom of the distribution, though less so in 1997 than in 1994. While couples with one or two children were towards the top of the distribution in both years, it is striking that those with four or more children on the other hand were very heavily concentrated at the bottom.

When classified by labour force status of the household head, the survey showed that households headed by an employee were mostly located in the top three quintiles (quarters). Those headed by a self-employed person were relatively heavily concentrated both at the bottom and the top of the income ladder, while retired, unemployed and households headed by someone working full-time in the home were largely concentrated in the bottom range of the ladder. The number of retired households in the very bottom quintile increased from 1994 to 1997 while farmers were fairly evenly spread across the income distribution in both years.

INEQUALITY BETWEEN HOUSEHOLD TYPES

When classified by age of household head, the level of within-group inequality was much lower among those headed by someone aged 65 or over than among the two younger groups (i.e. under 35 years, and 35-65 years).

When classified by labour force status of the household head there was a greater variation in inequality within the groups. The level of

inequality was much higher among households headed by a self-employed person than among households headed by an employee.

There was relatively little inequality among households headed by someone who was ill or unemployed, or working full-time in the home.

TRENDS SINCE 1973 AND 1987

The study focused on data from the Living In Ireland Survey for the 1990s. However, to examine longer-term trends the researchers revisited other household surveys going back to 1973. TABLE 3 shows that over the period 1973-87 inequality in the distribution of disposable household income fell, with the share of the top decile down by 1.4 per cent of total income and that of the bottom quintile up by 0.9 per cent. An important factor at work during this period was the increasingly redistributive impact of welfare, income tax and employees' social insurance contributions, reflecting both increasing progressivity and a very substantial increase in the average tax rate.

TABLE 3

Decile Shares in Disposable Income among Irish Households, 1973, 1980, 1987 and 1994-5 HBS				
Share in Total Disposable Income (%)				
Decile	1973	1980	1987	1994-95
Bottom	1.7	1.7	2.2	2.1
2	3.3	3.5	3.7	3.5
3	5.0	5.1	5.0	4.8
4	6.5	6.6	6.3	6.0
5	7.8	7.9	7.6	7.6
6	9.2	9.3	9.2	9.2
7	10.9	11.0	11.0	11.3
8	13.0	13.0	13.4	13.6
9	16.2	16.2	16.6	16.7
Top	26.4	25.7	25.0	25.1
All	100.0	100.0	100.0	100.0

The decline in inequality in the distribution of disposable income between 1973 and 1987 however was not sustained after 1987. Before looking at what lay behind these changes, it is worth noting how incomes were changing during these periods. From 1973 to 1980 real incomes grew rapidly. From 1980 to 1987 real incomes actually fell, while between 1987 and 1994 real incomes increased very substantially. Finally from 1994 to 1997 there was also acceleration in real income growth.

Why then did income inequality increase from 1987 to 1994? Essentially there was less variation in incomes across the groups when classified by labour force status of household

head in 1987 and a higher level of inequality within certain groups, notably the self-employed, the unemployed or ill and households headed by someone working full-time in the home in that year. By 1994 there was less inequality within these groups, but the difference in the incomes of the various groups had widened, with households headed by someone who was unemployed or ill or working full-time in the home, falling further behind the average.

HOW DID IRELAND FARE INTERNATIONALLY?

Using data from the European Community Household panel survey, the study showed that Ireland ranked as one of the more unequal states in the EU, along with Greece and the UK, but doing slightly better than Portugal in the mid-1990s. Similarly in an earlier study from the 1980s by a group of British researchers, Ireland ranked one of the most unequal in the OECD countries.²

TABLE 4 shows these international comparisons, based on one of the most commonly used summary income inequality measures, the Gini Coefficient – where a measure of 0.0 indicates complete equality and 1 indicates maximum inequality.

A fairly widespread though not universal trend towards increased inequality occurred in the period from the mid-1980s to the mid-1990s. The most common underlying feature was that the share of earnings going to the lower income groups among those who work decreased in all the countries concerned – although in some cases this decrease was off-set by the redistributive effects of taxes and state transfers.

TABLE 4

Gini Coefficient, Equivalised Income among Persons, Wave 1 ECHP and Atkinson, Rainwater and Smeeding (ARS) Study (Equivalence scale square root of household size)

	Gini Coefficient	
	ECHP (1993)	ARS
Germany	0.29	0.25 (1984)
Netherlands	0.27	0.27 (1987)
Belgium	0.29	0.24 (1988)
Luxembourg	0.31	0.24 (1985)
France	0.31	0.30 (1984)
UK	0.35	0.30 (1986)
Ireland	0.34	0.33 (1987)
Italy	0.32	0.31 (1986)
Spain	0.34	0.31 (1990/91)
Portugal	0.39	0.31 (1989/90)