



## Trends in Income Inequality in Ireland

Brian Nolan

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## What Happened to Income Inequality?

- Key issue: what happened to the income distribution in the economic boom
- Widely thought that inequality – including income inequality – has increased substantially during the boom
- So Ireland is now “one of the most unequal countries in the (developed) world”



## How to Lie with Statistics?

- Can actually produce statistics to show that income inequality rose, was stable or fell during the boom
- Pick the figures to suit one’s priors!
- So interesting that all the commentary has actually focused on the figures that suggest an increase in inequality



## Sources of Income Distribution Data

- Household surveys
  - Usually household as unit, reported income, combined with details on composition etc.
- Administrative statistics – tax, welfare
  - Tax data only on incomes in net
  - Welfare only for recipients
- Register data

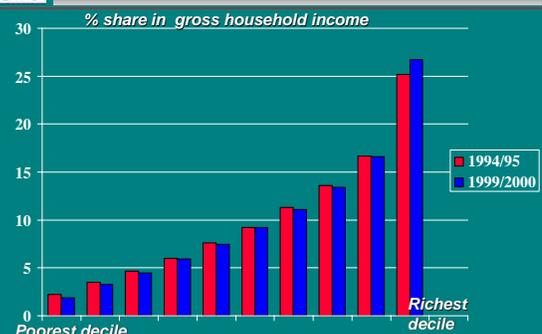


## Measuring Income Inequality

- Interest is in distribution of “welfare” among individuals not households
- Conventional to assume everyone in a household has the same standard of living
- And adjust for the fact that “two can live cheaper than one” by dividing household income by the number of “equivalent adults”
- E.g first adult is 1, second 0.5, child 0.3



## Income Inequality Rose?





### Income Inequality Rose?

- These figures from published HBS 1994-2000 suggest sharp rise in inequality
- but income is:
  - Gross (pre-tax)
  - Among households not persons
  - Take no account of household size



### Income Inequality Stable?

- Again using CSO's Household Budget Surveys 1994-95 and 1999-2000
- But now equivalised disposable income among persons
- And Gini coefficient as summary measure of inequality
- The Gini for this income measure remained unchanged at 0.32 from 1994 to 2000



### Income Inequality Fell?

- EU Report on Social Inclusion:
- Alternative summary inequality measure: Ratio of share of top 20% to bottom 20%:
  - 1995 = 5
  - 2000 = 4.5
- Largest FALL in income inequality in EU!



### Income Inequality Fell?

- These EU figures are from European Community Household Panel (ECHP)
- ECHP longitudinal survey, so subject to attrition
- No supplementation in 2000 and 2001, unlike Living in Ireland Survey
- Eurostat weights, imputation, "trimming", annual income
- Other summary measures could show different picture

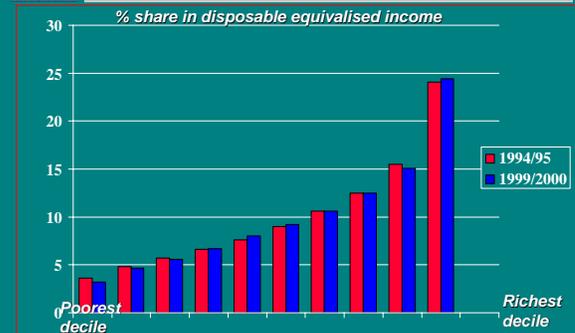


### Comparing Like With Like

- Harmonise income measure, equivalence scale, unit of analysis
- Equivalised disposable income among persons
  - From HBS 1994-95 and 1999-2000
  - From Living in Ireland Surveys 1994 and 2001
- HBS then shows Gini stable at 0.32, LII Gini falling from 0.33 to 0.31
- Compare decile shares:



### Income Shares among Persons, Equivalised, Ireland 1994-2000 HBS





- ### Conclusions 1994-2000
- EU's ECHP-based figures subject to biases
  - Annual versus current income not substantially different
  - LII: attrition effect despite supplementation but even "new" sample for 2000 does not suggest substantial increase at top
  - HBS as larger cross-section may be most reliable, but share of top very hard to capture reliably in surveys

- ### New Data from EU-SILC
- Data for 2003 and 2004 now collected by CSO using EU-SILC common framework
  - Gini coefficient for 2004 for equivalised disposable income among persons is 0.32
    - same as 1999-2000 HBS

- ### Income Inequality in Comparative Perspective
- Hard to ensure that sources, definitions, measures are harmonised across countries
  - EU, OECD have improved comparability but still can be questioned
  - Summary measures can mask important differences in shape of distribution across countries

### Gini Coefficient, Ireland versus Other EU Countries, 2004 (Eurostat)

Sweden	0.23
Belgium	0.26
Netherlands	0.27
Hungary	0.27
Poland	0.31
Spain	0.31
<b>Ireland</b>	<b>0.32</b>
Italy	0.33
UK	0.34
Portugal	0.38

- ### Income Redistribution
- Gini coefficient for market income not particularly high in Ireland
  - But reduction brought about by direct taxes (incl. Social insurance contr.) and transfers low
  - Gini falls from 0.42 to 0.32, or 24%
  - Similar to UK, greater than USA
  - But e.g. Netherlands reduction is 40%



## Widening (Income) Gaps?

- Percentage below relative income thresholds rose
- Gap between working age adults and those aged 65+ widened
- Gap between those relying on social welfare and others rose



## Key Factors 1995-2005

- share of profits has risen
- number depending on social welfare has fallen as unemployment fell
- social welfare has increased ahead of prices but lagged behind wages, so those still on social welfare have fallen behind
- Earnings towards bottom increased rapidly
- Offsetting impacts on overall distribution



## What Happened to Top Incomes?

- Particularly interested in incomes at very top
- because of their economic and social power, taxable capacity etc.
- But hard to capture reliably in surveys
  - Like any small group
  - But also more elusive and reclusive!



## Using Incomes from Tax Data

- Revenue Commissioners produce data on number of income tax payers by income range
- Not subject to response and representativeness problems of surveys
- But other forms of potential bias!



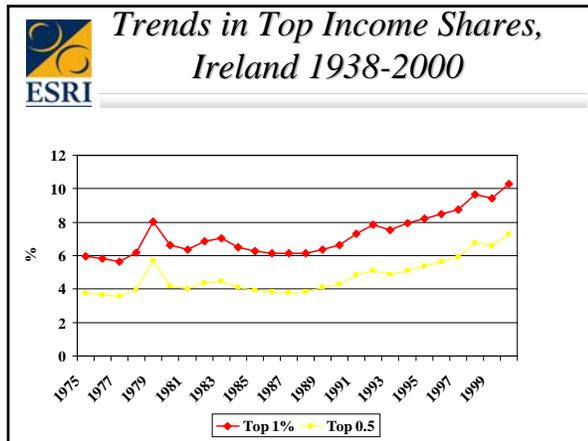
## Using Tax Data to Estimate Top Income Shares

- Three key issues need to be addressed in deriving estimates of income shares:
  - What is the total number of persons/tax units?
  - What is total income?
  - How do we interpolate to x% we want?



## Producing Top Income Estimates

- Sources of control totals
  - National Accounts personal income aggregate for total income
    - without adjustment, or
    - deduct transfers, si contributions, reduce PI by 20%
  - Census of Population:
    - total number of adults 18 or over
    - minus total number of married women
    - = total number of tax units



**ESRI** *Reliability?*

- *Plausible that very top incomes would have increased particularly rapidly during the boom*
- *But also plausible to think that reporting behaviour has changed since the 1980s*
  - *Higher proportion of income being reported?*

**ESRI** *Conclusions*

- *Income inequality was not dramatically changed by the economic boom*
- *Ireland is still in a substantial cluster of OECD countries with relatively high levels of income inequality – but not “one of the most unequal”*
- *Some gaps have widened, but real incomes have grown substantially throughout the distribution*