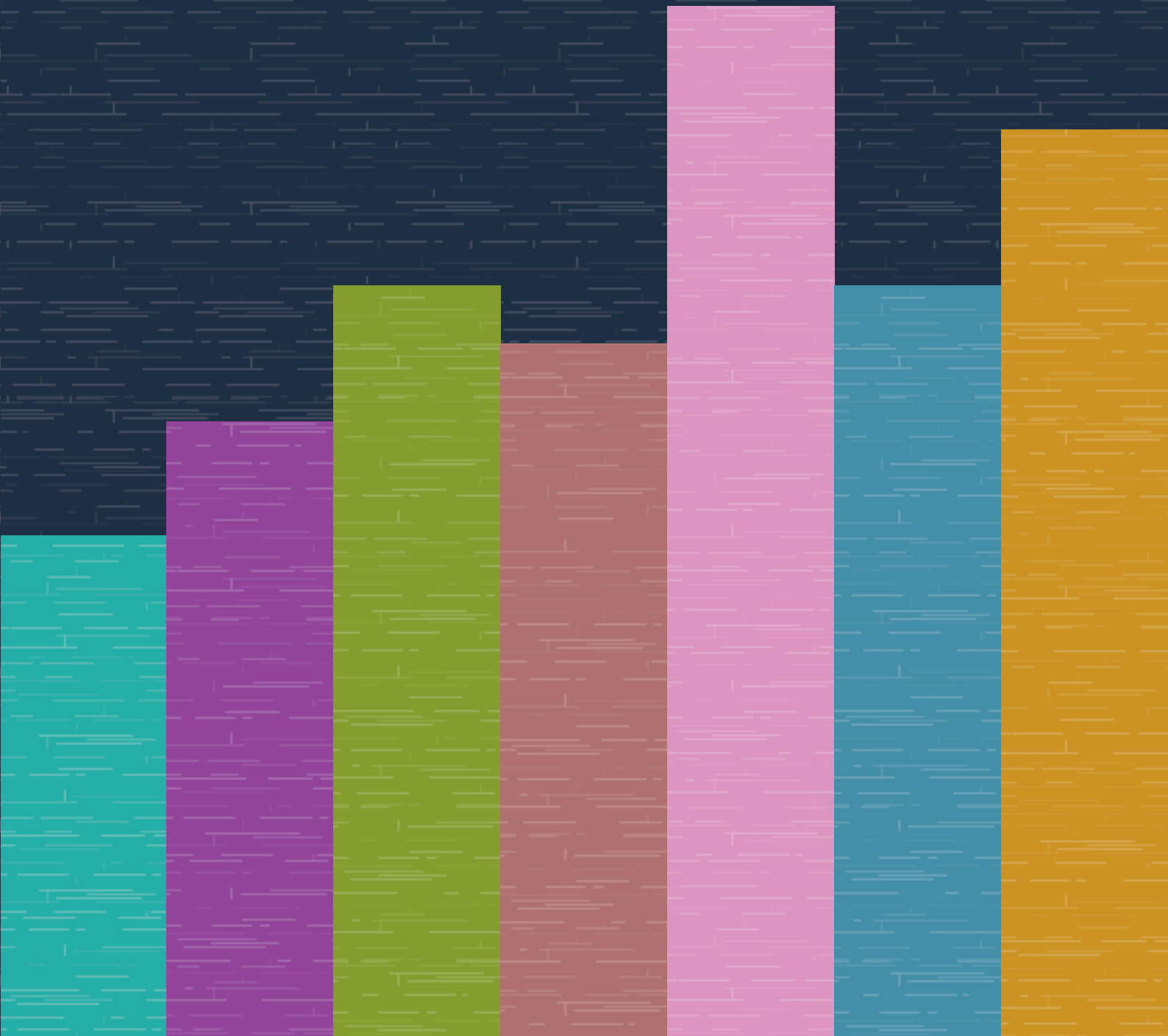


# Cherishing All Equally: **Economic Inequality in Ireland**

Nat O'Connor and Cormac Staunton



**Economic inequality affects everyone, and is a real and growing threat to Ireland's prosperity. We need to examine taxes and public services alongside the inequality of income and wealth. Families, people's capacities and the cost of living also help to explain the society we live in.**

**A better understanding challenges us to seek new ideas to reduce economic inequality.**

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All remaining errors and omissions are the sole responsibility of the authors.

# Preface

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This report is TASC's inaugural annual report on economic inequality. It explains what economic inequality is, and why it is a problem in modern Ireland. It brings together some of the key data that we have available to us, and along the way it highlights where the information gaps are that would allow us to better understand our society and our economy, thereby allowing us to make better choices.

Given the complexities involved, economic inequality cannot be reduced to a single measure or a simple answer. Moreover there is no silver bullet that will quickly reduce economic inequality. It requires a policy approach that is sensitive to how the issue cuts across incomes, taxation, public services and the cost of living, one that understands the effects of family structures and of personal capacities.

To begin with we know that growing income disparities are part of a global trend that can in part be accounted for by changes in technology and the increased financialisation of the economy. To date, the policy response has been to encourage a widening of wage disparities and a race to the bottom in terms of conditions of work, while undermining the social support structures built up over generations as a means of mitigating the negative features deriving from a market economy when left to its own devices.

We also know from research that more equal societies do better on a range of social indicators, such as better social cohesion and even lower crime levels. There is a growing body of evidence that more equal societies also produce stronger and more sustainable economies. The belief that there is a trade-off between equality and efficiency, that interfering with the 'free market' will stall economic growth, has been convincingly challenged by the latest research conducted by a range of international research bodies including the OECD and World Bank, all of which highlights the need to reduce economic inequality to safeguard economic prosperity.

This report demonstrates that Ireland is not immune from the phenomenon of growing inequality. We have a highly unequal distribution of income from the market (e.g. wages, salaries and profits), which is masked by social transfers and taxation. Net income inequality in Ireland sits around the average for EU countries, but gross market income inequality is the worst of all members of the OECD, which is hardly where we want to be. The Top 10% in Ireland receive 34% of all taxable income today, which is up from 27% in the late 1970s. We need to ask at what point it is unacceptable for the minority at the top to have an ever greater share and what implications this would have for the great majority of the population.

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The belief that there is a trade-off between equality and efficiency, that interfering with the 'free market' will stall economic growth, has been convincingly challenged by the latest research.

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Creating decent jobs with decent incomes is essential to reducing economic inequality, but it is only part of the story. Focusing exclusively on increasing money in people's pockets as a way of solving social problems is equivalent to 'one hand clapping'. Putting more money in the hands of those who will spend it, namely those on lower incomes and those who are currently going without, will of course drive demand and create jobs, but only providing they are not hit by ever increasing costs for life's essentials.

In a market economy, public services are an important form of social solidarity and social cohesion. They play a huge part in how a person or family get by. While in Ireland we provide some universal services, and even some 'free' services, too often we require people to purchase services that would be subsidised or free of charge in other countries that have achieved better levels of economic equality and a higher quality of life that everyone enjoys.

Reduced investment in public services increases economic inequality in a society, regardless of how income is distributed.

It has been demonstrated that reduced investment in public services increases economic inequality in a society, regardless of how income is distributed. The need to buy essential public services puts a burden on people and drives up their cost of living; Ireland's cost of living is 20% more expensive than the EU average. This is a particular problem for those on low incomes and exacerbates economic inequality. One example of the vicious cycle this can create is the impact of the lack of affordable care services, particularly childcare, resulting in unpaid care duties taking precedence over paid employment for many, especially for women.

As one would expect, Ireland's current system of taxes and social protection payments goes some way towards reducing income inequality, but with only 65% of Irish adults in work, with one in five workers on low pay, and with a low overall tax take, the system is stretched to breaking point for lack of resources. For that reason, calls from all sides of the political spectrum in Ireland to cut taxes instead of proposing significant investment in public services, if acted upon, will entrench economic inequality and is to mislead the public about the negative consequences of such an approach. 'Tax-cutting' should not be confused with 'tax equity' or with delivering a better society, whatever about the perceived electoral value of cutting tax.

Cutting taxes leads inexorably to a 'low-tax triangle', where a low level of taxes results in a lack of investment in public services.

TASC's analysis demonstrates that cutting taxes leads inexorably to a 'low-tax triangle', where a low level of taxes results in a lack of investment in public services, thereby undermining the value or usefulness of these services for people. This policy has reduced Ireland's overall taxes to less than 30% of GDP, one of the lowest in the EU, and has delivered weak public social services, most visible in the lack of child care and preschool education as well as weaknesses in the health system.

This is not to argue that income tax is equitably applied at present. TASC has already produced rigorously researched proposals for making that element of taxes more equitable and for re-balancing the mixture of taxes that fund public services.

The holistic approach taken in this report pays appropriate attention to the fact that people's circumstances are affected by many factors other than whether or not they are in paid employment. A person's ability to flourish depends on the support they receive from others, and is affected by the support they give to others, most frequently children or older people. Some people can rely on family for support, while others cannot. People with dependants or care responsibilities clearly need more support. These differences cannot be addressed in the wage structure, but must be addressed in a public policy that ensures that the necessary additional supports are accessible as and when needed. Policies that do not take this into consideration make society more unequal.

When societies and economies are highly unequal, people's personal capacities can be either a barrier or a springboard to economic achievement and personal wellbeing, depending on the chance of where one is born, or on one's health or on one's care responsibilities. Addressing inequality means removing luck as the basis for achieving a full life. It cannot be that we acquiesce to a system that enables the few to advance while the many languish for lack of resources and opportunities. In particular, it is important that those who are unable to participate in the workplace, due to disability, illness or care duties are still enabled to attain a decent and dignified life and standard of living.

This report shows that economic inequality is not only a real and growing problem in Ireland but is also a complex issue requiring a multifaceted public policy response. It is our hope that its publication will lead to a greater understanding of the breadth and depth of the challenges we face, and facilitate an informed and rigorous evaluation of the options available to us to eliminate the circumstances that blight so many of the lives of our citizens.

As stated earlier, economic inequality is global and if we are to address it seriously we as a small country must seek the support of others to help reduce it. In seeking to address this phenomenon in a comprehensive way, we will not be alone. In many ways we are fortunate that we are members of the European Union, which is committed to a fairer, more equal society. We have work to do at that level to ensure that Europe lives up to its objectives and its citizens' expectations, abandons its current disastrous austerity agenda, and takes on the task of reducing economic inequality as one of its core objectives.

As a means of helping to further this discussion on reducing economic inequality, TASC will over time publish further research papers on the core principles involved in this issue and the policy options which derive from them.

What we need most of all in the aftermath of the economic crisis is a new sense of direction for our society rather than a return to the unsustainable past. Our wish is that the work of our dedicated research staff helps point in a new direction and will engender hope in place of despair and help displace anger with positive action.

We are grateful for the core financial support given to TASC by The Atlantic Philanthropies and Joseph Rowntree Charitable Trust. We are equally grateful for the donations and other assistance given by the many individuals and organisations who support TASC's mission.

We welcome all contributions to this debate.

**Proinsias De Rossa**  
**Chair of the Board**  
**TASC**

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Economic inequality is not only a real and growing problem in Ireland but is also a complex issue requiring a multifaceted public policy response.

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# 1. The Problem of Economic Inequality in Ireland

An economic model for Ireland that promotes equality would seek to attain high living standards for everyone, achieve full employment, provide quality public services and reduce income and wealth inequality.

More equal societies have stronger and more sustainable economies.

This report describes and analyses economic inequality in Ireland, to provide the basis for a new approach to economic policy. An economic model for Ireland that promotes equality would seek to attain high living standards for everyone, achieve full employment, provide quality public services and reduce income and wealth inequality.

Such a new approach to economics, rooted in promoting human flourishing and the wellbeing of all, echoes President Michael D Higgins's call for an ethical economy to be fostered in Ireland.<sup>1</sup>

Addressing economic inequality is important because we know that more equal societies perform better on a whole range of social indicators such as crime, health and educational attainment. More equal societies are also more stable and have better chances of stronger and more sustained economic growth. High concentrations of wealth and income can lead to disproportionate political power, and so more equal societies are better able to promote democracy and ensure the public interest is safeguarded in public policies.

All advanced economies are experiencing the same pressures that lead to growing inequality, including widening wage disparities, technological change, changes in household structure and increased international financial flows.<sup>2</sup> However, inequality should not be seen as inevitable. Levels of inequality are not the same in every developed country. Economic and social policy choices, including taxation and the provision of public services, produce different outcomes. Nor is there a trade-off between reducing inequality and achieving economic growth. Indeed there are strong arguments to show that more equal societies have stronger and more sustainable economies.

There is a view that welfare, health and pensions are no longer affordable and will have to be greatly reduced because of ageing populations, rapid health inflation, etc. Yet societies are richer than ever and can afford to provide good social, health and education programmes, provided governments have the will and interest to do so.

Understanding economic inequality involves moving beyond the distribution of income and wealth. Economic inequality means inequality of people's material circumstances, relative to their needs. It recognises that people's material conditions are also determined by the taxes they pay, the public services they receive, the unpaid work they do and the costs they face.

People's need for goods and services changes over time, due to age, family composition, illness and other circumstances. Men and women may have different needs or face different costs because of the roles they typically take on or are ascribed in society.

Much of what determines people's earnings is a product of their social background and parental assets. Capacities such as intelligence, creativity, physical and social skills, motivation, persistence, confidence and inherited wealth are not distributed fairly. Therefore institutions and policies that reduce inequality are a necessary part of an ethical economy.<sup>3</sup>

There are varieties of capitalism and Ireland has achieved a social and economic system which, while imperfect in several respects, has achieved much progress in the past 50 years. There is no reason why Ireland cannot develop further.

Economic inequality is a holistic concept that moves the debate beyond narrow measurements like the Gini coefficient of income inequality to a robust sense of the impact on people's lives of the social and economic system that they live in. This report is the first attempt to provide such an analysis for Ireland.

## Economic Inequality

Economic inequality is complex. Broadly speaking, economic inequality refers to the unequal distribution of 'material resources' — that is the resources people need to attain goods and services to satisfy their diverse needs and to flourish as individuals.

Although the discussion of economic inequality focuses on incomes, not least due to the greater availability of data, economic inequality is about more than income, since it is only one of the material factors that affect people's ability to flourish. Income disparities may matter less in a society with strong universal public services than in a society without them.

Reducing economic inequality goes beyond ensuring that people can reach a minimum standard of living. Economic inequality also exists when disparities mean that some people can meet their material needs to a much higher quality standard than others.

The two poles of economic inequality are the concentration of income and wealth on the one hand, and the number of people unable to meet their material needs on the other. A flourishing society based on a low level of economic inequality would avoid both of these extremes.

People's material circumstances can be measured in relation to the following: food, clothing, housing, personal and household goods, water, sanitation, energy, transport, healthcare, childcare, social care, education, telecommunications, the costs associated with social interaction, and savings/contingencies. The costs and methods involved in producing these goods and services are central to economic and social policies.

Focusing on the production costs associated with meeting people's material needs allows us to consider the best way to organise the economy to meet these needs efficiently and effectively, and to engage in a process of continual improvement in the quality of life achieved across the domains of people's essential material needs.

When considering economic inequality, the distribution of resources and the extent of people's needs, family composition is also a decisive factor. The same income goes further for a single person than for someone with several dependents. Society recognises this through the provision of some services and social transfers specifically for children and older people, but notwithstanding such supports, households with multiple dependents are more likely to have difficulty meeting their needs compared to single people or dual-earner couples. Dual-earner households are often in a much better position than single-earner households, although Ireland's high childcare costs may negate this advantage for some cohorts of parents (see Section 9).

A range of less tangible factors, termed 'capacities', are decisive to understanding economic inequality. Not all human beings are born equal in terms of their attributes. People have different abilities, including differing ability to develop the competencies needed to succeed in the modern economy.

Capacities such as intelligence, creativity, physical and social skills, motivation, persistence, confidence and inherited wealth are not distributed fairly.

The two poles of economic inequality are the concentration of income and wealth on the one hand, and the number of people unable to meet their material needs on the other. A flourishing society based on a low level of economic inequality would avoid both of these extremes.

### **Material Inequality versus Subjective Wellbeing**

The focus of *economic* inequality is on inequality in people's material circumstances. However, access to material resources is only part of what people need for their personal development or psychological wellbeing.

People's ability to meet their needs and, more generally, to flourish, is affected by a wide range of other factors, including their social status, their political power, their affective relationships and their working conditions. Someone could meet all of their material needs but fail to flourish for other reasons. Conversely, people living in material deprivation often flourish in many other respects.

This report is focused on the current distribution of material resources (including personal capacities to the extent that they affect people's ability to meet their material needs) and proposes changes that are viable in the context of ultimately finite resources.

While reducing economic inequality will not automatically lead to an increase in wellbeing, the provision of adequate resources to meet people's material needs, and reducing the concentration of resources at the top of society, provides for a more equal opportunity for everyone to engage in leisure, culture, sports, social interaction, and intellectual activities, sufficient to satisfy their mental and emotional needs.

While not the solution to every social problem, a more equal distribution is undeniably likely to alleviate a great deal of suffering and to contribute to people's wellbeing.

Other personal circumstances can have a decisive effect on economic inequality. One in ten people will develop a disability during their working years, which can have a catastrophic impact on their ability to keep their homes and meet all of their needs – including the significant additional costs that can be associated with disability. Those who cannot work due to disability, illness, care duties or lack of suitable jobs should still have the ability to meet their material needs.

## **Measuring Economic Inequality**

Given the complex factors involved, it is unsurprising that there are serious challenges to reaching widespread agreement about how to measure economic inequality.

Many of the existing tools to measure inequality are inadequate. In Ireland, lack of detailed statistics on income distribution, wealth, or the use of public services hampers the development of policies to reduce economic inequality. The most readily available data in Ireland, in common with other countries, relates to incomes, although even this data is incomplete.

In order to get a more rounded picture of economic inequality in Ireland, this report analyses economic inequality through seven distinct yet interrelated factors:

1. Income
2. Wealth
3. Public Services
4. Tax
5. Capacities
6. Family Composition
7. Costs of Goods and Services

In addition to measuring economic inequality, it is also essential to understand the processes and policies that cause it, if we are to be successful in reducing it. Policies for reducing economic inequality involve addressing the complexities of how goods and services are

produced and whether they are accessed privately or as public services. Some essential services — like health and education — may be most cost-effectively delivered as tax-funded universal public services, whereas some goods and services might be better provided through a well-regulated private market. See Section 2 for further explanation of the structure of the report and the analysis of the ‘dashboard’ of data that describe economic inequality in Ireland. The question for each society, including Ireland, is which combination of policies will bring about the greatest reduction in economic inequality in that society.

## **Economic Inequality and Economic Policy**

Real economic development has occurred in Ireland in the last three decades. Technological advancements have helped bring a higher standard of living across society and some living costs are lower now than in the past, such as telecommunications or household goods. Nonetheless, economic growth over recent decades did leave some people behind. In addition, some essential costs, notably housing, are much more expensive than in the past. The economic collapse of recent years has devastated the economic position of many people in Ireland.

Economic growth has long been presented as a panacea for Ireland. However, both the instability of Ireland’s property-based growth and the increasingly unequal distribution of the benefits of prosperity suggest that growth alone will not reduce inequality without policies to ensure it is more widely shared across society.

Economic policy is sometimes oversimplified. Discussions are presented as if there was a simple divide between those who want more state action to regulate the economy and deliver public services, and those who want less (or none). Yet many who argue most strongly against state action in one aspect of the economy often also argue for subsidies or state intervention in another area. Likewise some proponents of lower taxes also call for better public services or more subsidies.

The reality is that in Ireland, like all advanced economies, there is a complex interaction between public, private and non-profit bodies. Few people seriously reject the core institutions that are required for a thriving economy, including for example: law and order, education, contract law, health and safety, accounting standards, healthcare, transport infrastructure, anti-discrimination measures, rules for public procurement, environmental protection, planning and zoning, and much more.

It is also important to note that in a functioning market economy, not all ‘work’ is paid work. Essential activities such as care work (childcare, eldercare and social care) are not captured in conventional measures of economic activity, and are distributed very differently between men and women. Understanding economic inequality requires us to look beyond the distribution of paid work.

Financial incentives and rewards are one part (among others) of the organisation of the labour market, and a well-regulated market economy (or social market economy) will always have a spectrum of income and wealth distribution. Likewise incentives leading to a high level of labour force participation are required if a functioning economy is to generate sufficient resources to meet everyone’s needs. But this needs to be balanced by taxation and quality public services to reduce overall economic inequality.

Determining the optimum level of regulation and the best balance between the degrees of state and private activity required to maintain a dynamic, well-regulated and equitable economy requires much more rigorous analysis and evidence-based debate. Moreover, in seeking to make policy choices that create both a functioning economy and a flourishing society, equality should be used as a fundamental guiding principle for public policy. While not every policy decision can necessarily lower inequality, at the very least the effect of policy choices on economic inequality should be understood and evaluated. Economic inequality can then be addressed through policies relating to health, education, social protection, tax, job creation, trade, investment and public services working together to create an economy that works for everyone. This report is a first step towards a more programmatic approach to reducing economic inequality in Ireland.

In seeking to make policy choices that create both a functioning economy and a flourishing society, equality should be used as a fundamental guiding principle for public policy.



# Global Growth of Economic Inequality

Concern with economic inequality is not new. It features centrally in much of modern history and it underpins the political divisions within most democratic countries. But at the beginning of the 21st century, there is a growing international literature in mainstream academic economics concerned with the problems caused by growing economic inequality, as well as substantial public concern and political debate about the issue.

Economic inequality has also been identified by many political and economic leaders as among the most pressing problems facing advanced economies. Not only does it represent injustice and an erosion of social cohesion, but there is growing awareness that inequality undermines economic performance.

Leading mainstream academic economists have accepted that inequality is a problem. For example, Yale Professor Robert Shiller used his 2013 Nobel Memorial Prize in Economics acceptance speech to state that ‘the most important problem that we are facing now today, I think, is rising inequality in the United States and elsewhere in the world.’<sup>4</sup>

Nobel laureate Joseph Stiglitz argues ‘Ensuring that those at the top pay their fair share of taxes — ending the special privileges of speculators, corporations and the rich — is both pragmatic and fair. We are not embracing a politics of envy if we reverse a politics of greed. [...] If we spent more on education, health and infrastructure, we would strengthen our economy, now and in the future. Just because you’ve heard it before doesn’t mean we shouldn’t try it again.’<sup>5</sup>

Reducing economic inequality is associated with new thinking in economics that is focused more on the distribution of resources, and less on measurements of economic output like Gross Domestic Product (GDP). The Organisation for Economic Co-operation and Development (OECD), World Bank, International Monetary Fund (IMF), International Labour Organization (ILO), World Economic Forum (WEF) and other international bodies have all recognised the rise of economic inequality as a challenge to be addressed.

We now know that nations with a widening gap between those who can and cannot access opportunities in life have difficulty sustaining economic growth and social stability over time.

Several recent OECD reports summarise the growing trend of income inequality across developed countries: *Growing Unequal? Income Distribution and Poverty in OECD Countries* (2008)<sup>6</sup>, *Divided We Stand: Why Inequality Keeps Rising* (2011)<sup>7</sup> and *Trends in Income Inequality and its Impact on Economic Growth* (2014)<sup>8</sup>. In its outline of policy challenges for the next 50 years, the OECD predicts that ‘by 2060 average market earnings inequality (before tax and transfers) in the OECD area will reach the level of today’s [July 2014] most unequal OECD countries.’<sup>9</sup>

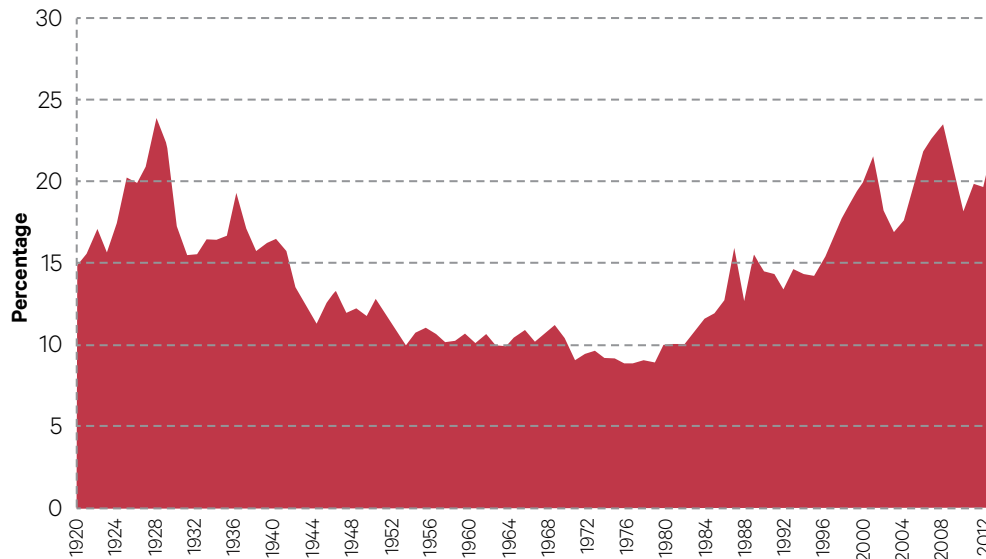
It is noteworthy that the World Bank — an institution with considerable experience in studying poverty and welfare internationally — has stated ‘we now know that nations with a widening gap between those who can and cannot access opportunities in life have difficulty sustaining economic growth and social stability over time. To date, no country has managed to transition beyond a middle-income status while maintaining high levels of inequality.’<sup>10</sup>

Most recently, the global economic challenge of inequality has been highlighted by global leaders, including US President Barack Obama and Pope Francis.

# The Great Prosperity

Robert Reich, Berkeley professor and former US Secretary of Labor under President Clinton, has raised public understanding of economic inequality through his 2013 documentary *Inequality for All*.<sup>11</sup> The iconic image used in the documentary is the income share of the Top 1% in the USA (see Chart 1 below). Based on the concentration of incomes at the very top of society, the USA is today experiencing similar levels of income inequality to the 1920s era, which preceded the Great Depression.

**Chart 1: The Income Share of the Top 1% in the USA (Source: World Top Incomes Database/ WTID). *Inequality in the United States has returned to 1920s levels after a period of greater equality from the 1950s to 1970s.***

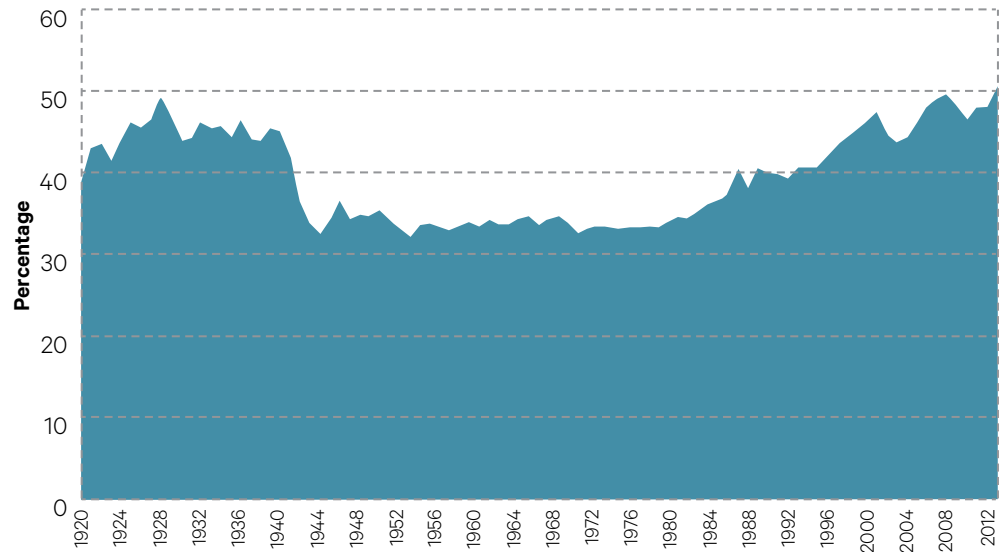


The Top 1% in the USA now take over a fifth of all income (22.5%), leaving less for everyone else. Similarly, the Top 10% income share has grown to nearly half of all income (48%), but the income share of the Bottom 90% in the USA has declined significantly, from nearly 70% of all income in the 1950s to 1970s period, to just over 52% today.

Recent research also shows that the Top 0.1% of US households holds the same level of wealth as that held by the Bottom 90%; 22% of all wealth in each case.<sup>12</sup>

The stark picture of rising income inequality across the developed world is based on the work of an international network of academic scholars who created and maintain the World Top Incomes Database (WTID) to provide data for the developed economies.<sup>13</sup> Drawing on administrative data from tax authorities, among other sources, they have provided fresh insights into the income share of the Top 1% and Top 10%, which to date has been missing from conventional measurements of income inequality.<sup>14</sup>

**Chart 2: Top 10% Income Share (including Capital Gains) in the USA (Source: WTID). As the share held by the top 10% has grown, the income share held by the Bottom 90% has shrunk.**



Among these scholars is Thomas Piketty, professor at the Paris School of Economics and author of the best-selling *Capital in the Twenty-First Century*.<sup>15</sup> This 700+ page book has been a popular success, demonstrating the broad public interest in this topic.

One of Professor Piketty’s core concerns is the concentration of wealth at the top of society, with potentially dire social and economic consequences. In Dublin, addressing the TASC Annual Conference 2014, Piketty argued that a ‘patrimonial capitalism’ may develop, with inheritance and prior ownership of wealth becoming the decisive factor in economic success. According to Piketty’s theory, as long as the return on capital outpaces economic growth there will be a concentration of wealth at the top at the expense of the rest of society. Piketty argues that the relative equality of the post-war, mid-20th-century period was unusual, when compared to long-term historical trends going back to previous centuries, and that it was a particular set of economic rules and social relations put in place after the Great Depression and Second World War that inhibited the growth of inequality for a period of around three decades.

## Economic Arguments for Reducing Inequality

Reich too focuses on this period, which he calls the ‘Great Prosperity’ from 1947 to 1977. Reich demonstrates that in this period there was a virtuous cycle where wages increased, workers bought more, companies hired more, tax revenues increased, government invested more, workers became better educated, the economy expanded and productivity grew — all of which in turn permitted higher wages. Reich argues for a return to this strategy.

In contrast, he characterises the current Western economy as one where wages stagnate, workers buy less, companies downsize, tax revenues decrease, government cuts programmes, workers are less educated, unemployment rises and deficits grow. Reich focuses attention on the central role of domestic consumption as the driver of economic growth and job creation in advanced economies.

Many scholars have also highlighted the fall in the share of economic growth that goes to workers (the 'declining labour share of economic growth' which is the consequence of the growing capital share that Piketty highlights in his work). Not only are those in the Top 10% taking a greater share of labour income, but the overall amount of labour income being distributed is in decline compared to the returns to capital.

This trend of a declining share of national income going to labour is also occurring in Ireland. In his presidential address to the Statistical and Social Inquiry Society of Ireland,<sup>16</sup> Paul Sweeney used OECD data to show that between 1990 and 2009, Ireland had the third largest decline in the labour share of economic growth, from 65.1% of national income in 1990 to just 55.6% in 2009.<sup>17</sup> The logical response is to promote policies that increase the labour share of economic growth.

The ILO published an extensive study in January 2014 entitled *Wage-led Growth: An equitable strategy for economic recovery*.<sup>18</sup> The study proposes an alternative to the unsustainable debt-led and export-led growth model pursued in many countries in favour of a strategy based on wage-led recovery that would reduce household debt and allow for equitable and sustainable growth.

While addressing the declining labour share of income and the weakening of household purchasing power, the new ethical economics that is needed must also take account of the global impact of excessive material consumption, climate change, pollution and resource depletion. In that context, raising the 'labour share' might involve increasing the provision of public services as much as increasing disposable incomes. With all of these global problems demanding urgent action, and the failures of the global financial system very apparent from the latest crash, the world is at a juncture, as it was in the early 1980s, which calls for significant policy changes.

While some of the measures to reduce economic inequality in a sustainable way can be implemented on a national level by a country like Ireland, the scale of these challenges also calls for closer international co-operation, including shared sovereignty through the European Union.

## **The Excessive Concentration of Income and Wealth**

One dimension of economic inequality is the excessive concentration of economic resources in the hands of a relatively small number of people.

In January 2014, Oxfam reported that the 85 richest people in the world have as much wealth as the 3.5 billion poorest.<sup>19</sup>

Some of the issues that arise with respect to high incomes and wealth are inevitably political. The progressive taxation of high incomes and wealth is essential to fund public services and social transfers. But excessive wealth also confers power, and curtailing excessive wealth is therefore necessary to protect and maintain the democratic system that underpins a well-regulated economic and social model.

The threat of 'capital flight' or withdrawal of investment gives the Top 1% (or more accurately a few people in the Top 0.1% or 0.01%) the power not just to avoid taxes, but to fight against economic policies that will require them to pay more. The disproportionate political power of the few can forestall attempts to increase the level of tax they pay or to reduce their income share, which threatens democracy itself.

In addition, there is also a persuasive argument that society is best served by everyone using the same services in contrast to allowing separate services for a wealthy minority. If those on the highest incomes do not use public services this may lessen their willingness to pay taxes to fund them, and physical segregation of exclusive housing from the rest of society can lead to a breakdown in social cohesion and social solidarity.

## **Economic Inequality and Models of Social Welfare**

Economic and social policies, including taxation and the provision of public services, are vital to curtail and reduce economic inequality.

While globalisation has led to rising inequality of gross market incomes in all advanced economies, inequality does not manifest in the same way in every developed country. This reinforces the point that economic and social policies, including taxation and the provision of public services, are vital to curtail and reduce economic inequality.

Most countries inside the European Union have a strong tradition of a welfare state, though the features of welfare in each country vary significantly. There is a relationship between higher levels of income inequality and weaker levels of social protection and public services. Countries with stronger and more universal welfare systems (and more robust and progressive taxation systems) also have lower income inequality.

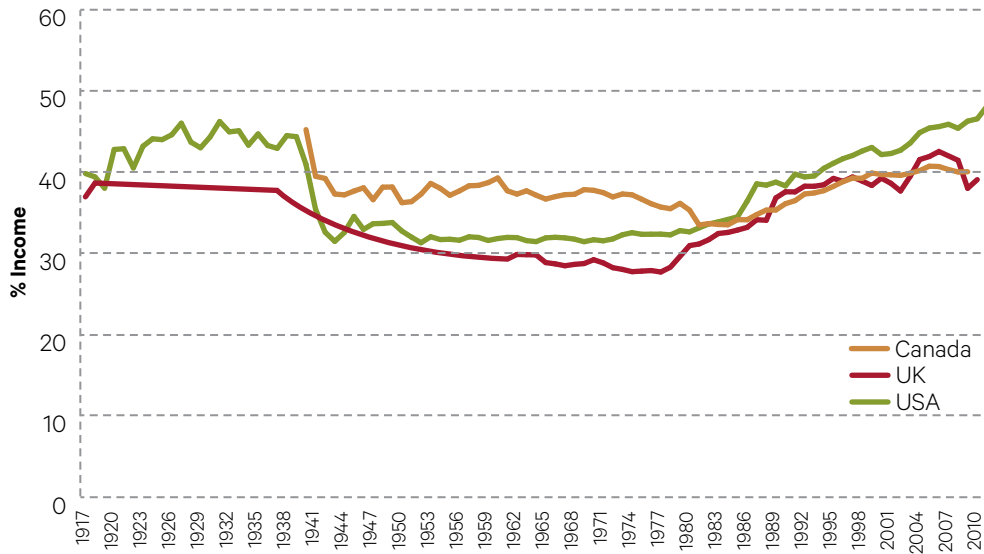
## **The Top 10% Income Share Across Europe**

The income share of the Top 10% is widely used as an indicator of income inequality as it shows whether or not there is polarisation occurring in market incomes. While this is only a partial measure of the broader concept of economic inequality, it is useful to illustrate the very different trends occurring across different welfare systems.

While the effects of gross income inequality can be mitigated by taxation and social transfers, there is likely to be a point where growing inequality of market incomes cannot be contained by current, conventional policies.

In Chart 3, the rise of income inequality in liberal welfare models (Canada, the UK and the USA) is illustrated in terms of the income share of the Top 10%. In Chart 4, the Top 10% for continental/conservative welfare models (France, Germany and the Netherlands) is shown to be more moderated than in the liberal regimes. In Chart 5, the income share of the Top 10% in the social democratic welfare models (Denmark, Norway and Sweden) is significantly lower than in the 'continental' European countries, although there too it is growing.

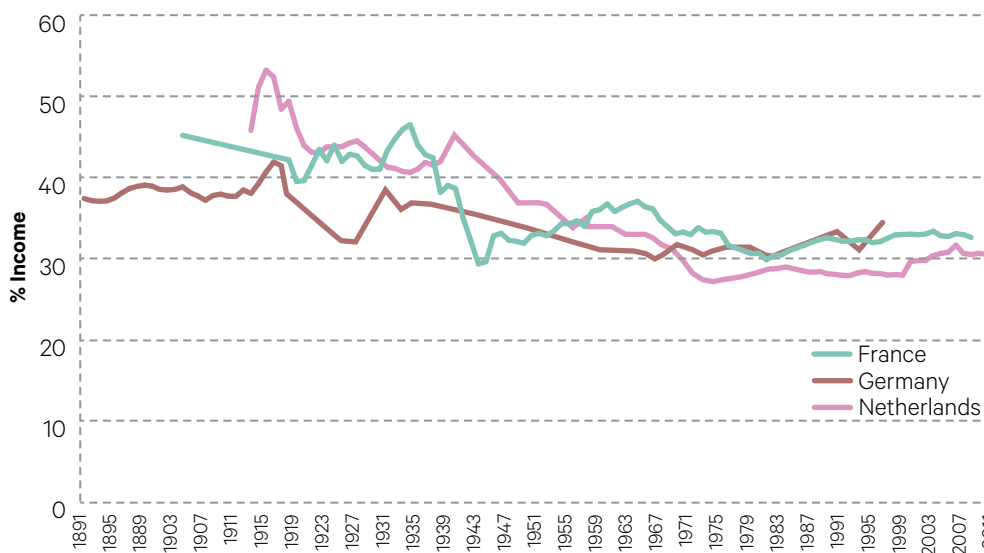
**Chart 3: Top 10% Income Share in USA, UK and Canada (Source: WTID). Income inequality has grown in Canada, the UK and the USA, with the Top 10% holding the same share of income now as they did in the early part of the 20th century.**



Note: Canada, technical change in data source from 1982; UK change in data in 1990 from tax units to adults.

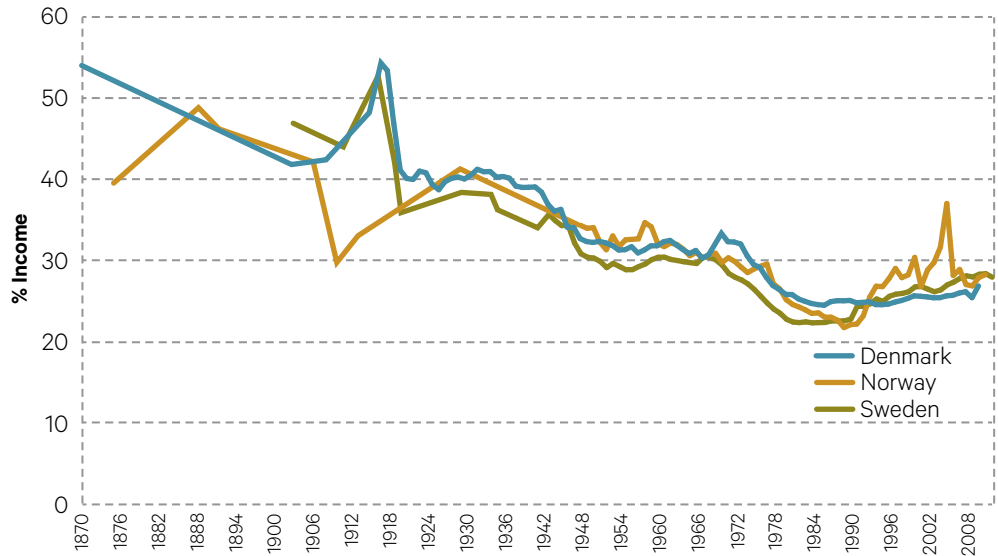
Among countries with liberal welfare regimes, income inequality has grown since the late 1970s/early 1980s by 7 or 8 percentage points in Canada and the UK, respectively, and by 13 percentage points in the USA. The latest data shows that the income share of the Top 10% ranged from 39% in the UK and 40% in Canada to 48% in the USA.

**Chart 4: Top 10% Share in France, Germany and the Netherlands (Source: WTID). Income inequality declined in France, Germany and the Netherlands post-WW2 and the income share of the Top 10% continues to be moderated – although there is growth in income inequality in the 21st century.**



In countries with continental/conservative welfare regimes, the rise of income inequality has been slower, but nonetheless the income share of the Top 10% has grown by 2–3 percentage points since the early 1980s in each case. Today, the share of the Top 10% ranges from 31% in the Netherlands to 33% in France and 35% in Germany.

**Chart 5: Top 10% Income Share in Denmark, Norway and Sweden (Source: WTID). The share of the Top 10% fell significantly in the Nordic countries throughout the second half of the 20th century.**



The specific choices that each society has made about tax and social insurance, and about social transfers and public services, has led to different outcomes in the present day.

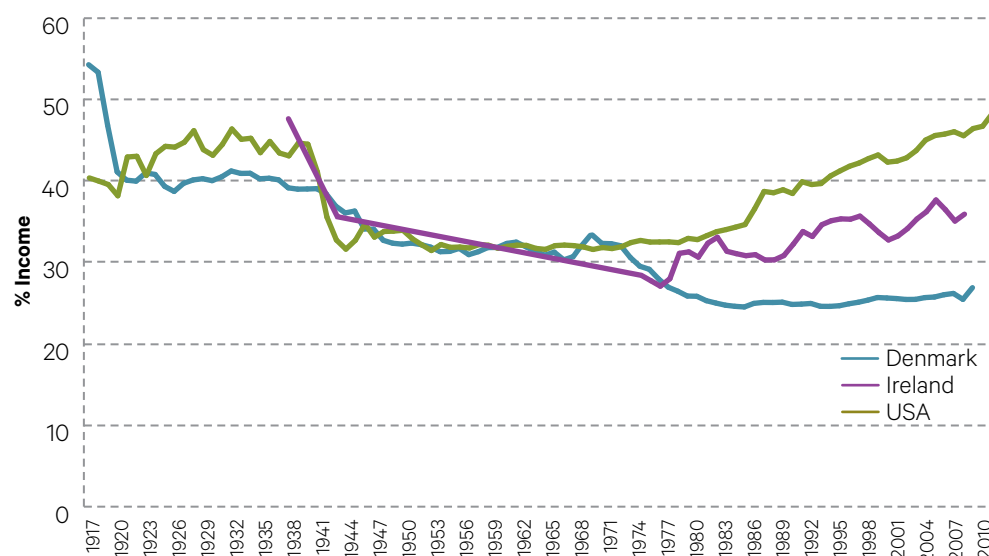
Countries with social democratic welfare regimes have recently seen a fast growth in income inequality, with the share of the Top 10% growing by 2 to 6 percentage points since the early 1980s, but this is from a lower starting point than in other European countries. Today, the Top 10% share of income ranges from 27% in Denmark to 28% in both Norway and Sweden.

It is important to observe that, taking the long-term view, all of these countries had similarly high income inequality in the early part of the 20th century. The specific choices that each society has made about tax and social insurance, and about social transfers and public services, has led to different outcomes in the present day. These choices create both direct incentives and societal norms which permit or impede the rise in market incomes among the Top 10%. Countries with corporatist/conservative or social democratic models have not seen the same rise in pre-tax, pre-transfer market incomes that have been seen in the countries more closely associated with neo-liberal economic policies. While all countries have been subject to the same influences from globalisation, arguably de-industrialisation and financialisation has been greatest in the economies closest to the Anglo-American sphere, whereas labour protection and trade unionism has remained stronger across northern Europe.

## The Top 10% Income Share in Ireland

Ireland's welfare model does not fit neatly into any of the above types. It is arguably closest to the Anglo-American liberal model but with higher reliance on families (similarly to Mediterranean countries). Income inequality trends in Ireland also share the trajectory of the other liberal welfare regimes.

**Chart 6: The Top 10% in the USA, Ireland and Denmark (Source: WTID). Income inequality in Ireland is growing. Ireland is following a similar trajectory to other liberal countries like the USA, but does not at present have the same level of income inequality. However, it is rising in comparison with more equal countries like Denmark.**



The two extremes of the USA and Denmark are also included in Chart 6 with Ireland. This helps illustrate that while Ireland is following a similar trajectory to other liberal countries, it does not at present have the same level of income inequality as the USA. However, the gap between inequality levels in Ireland and Denmark (as an example of a social democratic welfare regime) is widening.

**Table 1: Inequality in Different Welfare Regimes (Sources: WTID, OECD, Eurostat).**

Welfare Regime	Example Countries	Top 10% Income Share Growth since 1982	Income Share of Top 10%	Income inequality (Gini before tax and transfers)	Income inequality (Gini after tax and transfers)
<b>Liberal</b>	Canada, USA, UK	7-13%	39-48%	44-53	32-39
<b>Corporatist/Conservative</b>	France, Germany, Netherlands	2-3%	31-35%	42-51	28-31
<b>Social Democratic</b>	Denmark, Norway, Sweden	2-6%	27-28%	42-43	25-27
	<b>Ireland</b>	<b>3%</b>	<b>36%</b>	<b>57</b>	<b>30</b>

The last two columns in Table 1 illustrate the Gini co-efficient (a measurement of overall income inequality – see Section 3), before and after the effect of taxes and social transfers. In every country, taxes and transfers play an important role in levelling out raw income inequalities, but the extent to which they do so is lower in the liberal countries and greater in the social democratic countries. Ireland begins with an extremely high level of income inequality but taxes and social transfers reduce this significantly.



The contrasting trends in relation to income inequality suggest that Ireland's level of income inequality is poised between the American and European experience, but will continue to move closer to US levels of inequality unless major changes occur in economic and social policy, including taxation, to stop the rise of income inequality.

In an Irish public opinion poll conducted by Behaviour & Attitudes in October 2014, 82% of respondents felt that income was 'quite unfairly' (36%) or 'very unfairly' (46%) distributed. The survey also found that 90% agreed the government should take active steps to reduce the gap between high and low earners (including 64% who agreed strongly). As to what those steps might be, 84% agreed with increasing the minimum wage, and 55% agreed to establishing a maximum wage to cap the amount of money earned by high earners. When asked about a top marginal tax rate (including income tax, PRSI and USC) of 60% on incomes in excess of €100,000, 63% of respondents were in favour.<sup>20</sup>

These results show that there is the potential for substantial public support for policies which move Ireland closer to the social welfare models of northern Europe.

## **Ireland as part of a Global Trend towards Inequality**

As a small, open economy in an increasingly globalised world, Ireland's fortunes can grow and decline rapidly, and we are vulnerable to global trends that could have deeply negative social consequences. Nonetheless, other small open economies have achieved a great level of economic equality.

Decisions made from now on will determine the kind of society that will develop over the coming decades. From a phase of genuinely strong economic growth in the 1990s, to an artificially inflated property boom in the 2000s, through economic crisis in 2008 and prolonged deep recession and austerity to the present day, the question that emerges is: what next for Irish society?

Since the late 1970s, economic inequality has grown enormously across the developed world. This trend is identified by the rise of income inequality, such as the escalating income share of the Top 10% and Top 1%. While income inequality alone is insufficient to understand the full extent of economic inequality, it remains the best available benchmark.

The distribution of income and wealth is important, and the stark inequality of this distribution has once again become a mainstream concern for policymakers. Having been dismissed during periods of economic growth as irrelevant, or at best a necessary evil, income inequality and the loss of spending power across society are now being seen as major threats to the sustainability of developed economies.

Beyond income inequality, this report takes a holistic approach to measuring economic inequality. Section 2 describes the 'dashboard' of indicators that provide a more nuanced view of overall economic inequality, across the seven factors described in more detail in later sections.

Data on income distribution in Ireland is incomplete, but Section 3 pieces together a picture of overall income distribution by looking at a mixture of Revenue data on taxable incomes, surveys on household incomes and information about social protection payments. When measured as the Top 10% income share of pre-tax market incomes, income inequality in Ireland is growing in line with international trends, while at the same time many workers in Ireland are classified as 'low paid'. Nonetheless, social protection spending plays an essential role in reducing income inequality to below the European Union (EU) average level.

As discussed in Section 4, data on wealth in Ireland is limited, and while home ownership is widespread across society, estimates tell us that other forms of wealth are likely to be highly concentrated among a relatively small number of people at the top. Roughly half of wealth is

likely to be held by the Top 10% in society, whereas many people – perhaps a majority – do not have any substantial savings or other *financial* assets.

The importance of the distribution of income and wealth is influenced by the extent of public services that meet people’s material needs on the basis of need, rather than ability to pay. Section 5 examines the many public services in Ireland that are universal and available for everyone on the same basis. In addition, the section examines the mixed results from targeted public services that are provided as a supplement to mainstream public or private services. Lack of investment in public services can leave gaps and weaknesses in the overall system and can exacerbate economic inequality and fail to uphold the dignity of the people on the lowest incomes if lower quality outcome are delivered for them compared to the rest of society.

Taxation and social security contributions not only fund public services and social protection payments, but they also redistribute resources. Section 6 describes how Ireland’s tax system limits market income inequality, while also noting the weakness of social insurance in Ireland.

The individualistic focus of economics often fails to deal sufficiently with the dynamics of family composition and dependencies between people – as well as unpaid work. Section 7 looks at the demographics of household composition in Ireland and points to some of the ways that current policy is inadequate or badly targeted when it comes to addressing the material needs of families.

Social background and even luck determines a person’s capacities, and how successful he or she can be in the economy. Section 8 examines some of the diverse capacities that can give people advantages or disadvantages in a competitive market economy, including educational attainment, disability and other factors. While Ireland leads the EU for the number of younger people who complete some form of third-level qualification, not everyone is suited for the type of education that is provided, and many essential and important roles in the economy do not require high skill levels.

The policies adopted to date mean that Ireland’s experience mimics the international trends. People in high skills jobs enjoy greater remuneration, whereas the wages and working conditions of people in less skilled jobs fall behind, with many seeing increasing precariousness in their employment. There is a need for a radical shift in economic policy to ensure decent work is available for everyone in society. When a full and accurate picture of human beings is considered it becomes clear that there is something wrong with the assumption that society is best served by an economic model based on ruthless competition.

The final consideration for economic inequality is the shifting costs of goods and services required to meet people’s material needs. The provision of essential goods and services involves a mixture of tax-funded universal public services and provision through well-regulated private market activity, as well as the role played by not-for-profit bodies. As shown in Section 9, the relatively high cost of living, including user costs for public services, means that many welfare recipients and those on low incomes often cannot meet their essential needs, including housing, energy costs and, in some cases, adequate food.

Based on the analysis in Sections 2 to 9, the need for a new social and economic model for Ireland is discussed in Section 10. Any serious attempt to reduce economic inequality must be programmatic in nature. All public policies must be sensitive to the issue of economic inequality. Moreover, reducing economic inequality is a societal issue, not just a matter for Government or public agencies. Society has to address the issue of growing inequality of market incomes while recognising the unsustainable nature of material consumerism.

This report shows that preventing the rise in economic inequality in Ireland, and reducing it, will require major changes to occur in order to address the causes of persistent inequality and bring about a truly flourishing society. A vibrant democratic debate is needed now to ensure that Ireland succeeds in meeting the challenge of reducing economic inequality.

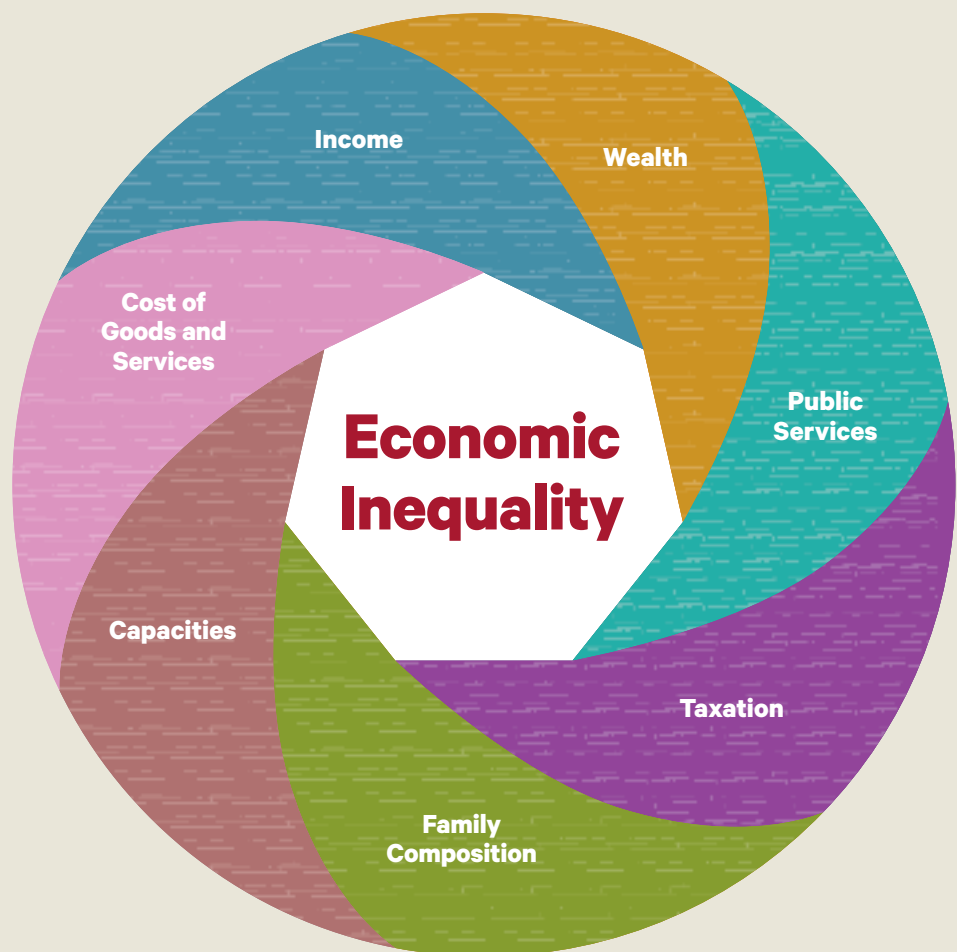
People in high skills jobs enjoy greater remuneration, whereas the wages and working conditions of people in less skilled jobs fall behind, with many seeing increasing precariousness in their employment.

## 2. Economic Inequality ‘Dashboard’

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A holistic assessment of economic inequality requires an analysis of seven distinct factors. These provide the main sections of this report:

1. Income
2. Wealth
3. Public Services
4. Taxation
5. Family Composition
6. Capacities
7. Cost of Goods and Services



# Key Indicators of Economic Inequality

It is not possible to reduce economic inequality to any one measurement. Instead it is necessary to read across a 'dashboard' of different information, each of which needs to be interpreted in context.

The core of this document is built around the seven elements of economic inequality, providing statistics and indicators under each heading, with references to guide the reader to the original data sources for further reading. This report is not intended to be a compendium of statistics, as these already exist.

While each of the next seven sections provides an overview of facts and analysis of the relevant factor, highlighting the complex dynamics involved in economic inequality, the following data illustrate key indicators that are especially useful for monitoring economic inequality. The purpose here is to present key indicators of economic inequality that represent the current status quo in Ireland, based on data that is renewed on a regular basis to allow trends to be monitored about whether or not economic inequality is improving or worsening.

- 1. The Top 10% of income earners have 34% of gross income, averaging €130,400 per tax case (Revenue, 2011)**  
**The Top 1% have 9% of gross income, averaging €373,300 per tax case (Revenue, 2011)**  
**The Bottom 90% have 66% of gross income, averaging €27,400 per tax case (Revenue, 2011)**

The Top 10% have

**34%**

of gross income

- 2. Gross income inequality in Ireland is the highest in the EU (Gini coefficient 46.0, EU average 36.0; Eurostat 2012)**  
**Net income inequality in Ireland is close to the EU28 average, demonstrating the importance of progressive taxation and social protection (Gini coefficient 29.9, EU28 average 30.4; Eurostat 2012)**

- 3. 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)**

**17.7%**

of households are jobless

- 4. 17.7% of Irish working-age households are 'jobless' compared to an EU28 average of 11.2% (Eurostat 2013)**

- 5. 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.ie, 2014)**

- 6. 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)**

The Top 10% hold up to

**58%**

of wealth

- 7. 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)**

### Format of Sections 3 to 9

Each section opens with Core Facts and Analysis, which gives the headline indicators that have been selected to illustrate the current level of economic inequality in Ireland.

Each section also has a further discussion of Data and Sources, referring the reader to the original sources of the data and pointing out technical issues or limitations with the available data. In some cases, such as the measurement of wealth, there is a lack of hard data. In other cases, although official statistics exist, they may be several years old by the time they are published.

Due to the presence of technical terms and some unavoidable jargon, a Glossary of Terms is provided at the end of the document.

A tax-to-GDP ratio of

**28.7%**

makes Ireland a low tax country

Typical childcare fees are

**27.4%**

of family income

Cost of living is

**20%**

higher than the EU average

**8. 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)

**9. 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)

**10. 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)

**11. 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)

**12. 52.6% of 30-34 year-olds have a third-level qualification** (rank 1st in EU, EU average 36%; see Section 8)

**13. 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)

**14. 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)

**15. 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)

**16. 968,000 adults (27%) experience at least two forms of material deprivation** (see Section 9)

# 3. Income

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## Core Facts and Analysis

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The most commonly available international data on economic inequality relates specifically to income inequality. The purpose of this section is to present some of the major indicators of income inequality, to explain when they should be correctly used and to point out their limitations when analysing the broader concept of economic inequality.

The income inequality data for Ireland is also examined in comparison to other EU and OECD countries. The 34 members of the OECD are among the richest countries in the world and Ireland ranks highly among them based on GDP per capita income.

Most flows of money into a household can be considered 'income'. Market income includes pay from employment, pensions, other employment-related payments (such as redundancy or lump sum payments or employer pension contributions), rents collected by landlords, capital gain from investments and interest gained on savings. Social protection payments provide the main alternative source of income, including near-universal payments like Child Benefit and State Pensions.

The major exceptions to this definition of income are gifts and inheritance of money, which are generally seen as transfers of wealth rather than income and are dealt with in Section 4.

Three main sources of data on income are addressed in this section:

- Revenue data
- Household survey data
- Social Protection data

An important consideration to bear in mind is the difference between pre-tax gross income and post-tax net income. Also, individuals and households can have income from multiples sources.

## Revenue Data on Income

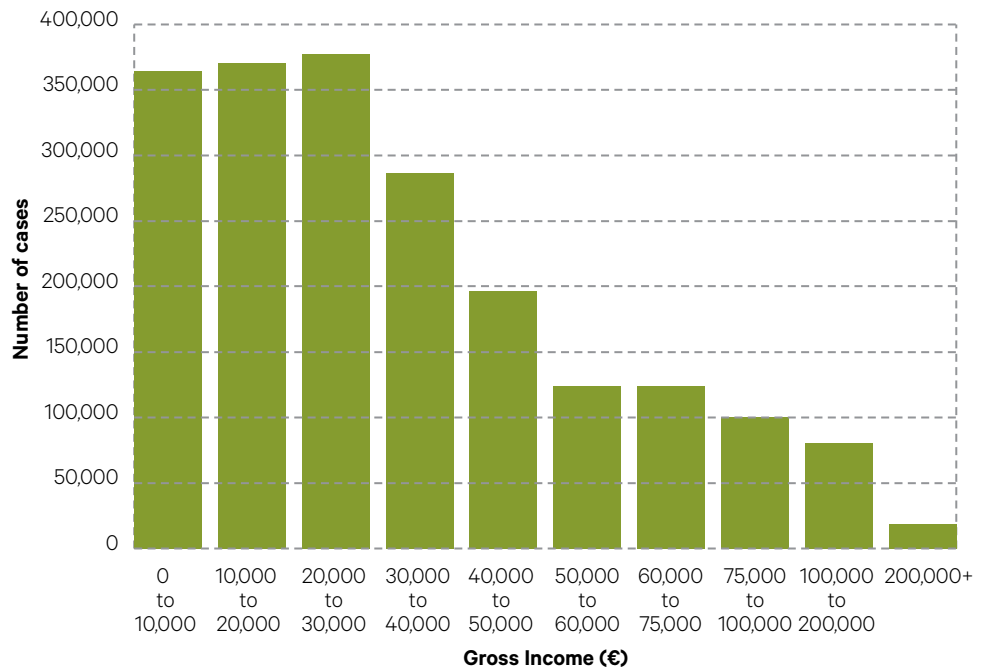
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Tax authorities are important sources of data about income because they have a record of the taxable incomes of the entire population. Revenue data gives a more complete picture of income distribution than other sources.

One weakness of the Revenue data is that the data is presented as 'tax units', which can be a single person or a married couple and as such could represent one or two incomes. This makes it hard to know the household income for cohabiting adults who are not married/civil partners.

The distribution of gross taxable incomes is shown in Chart 7, using data from Revenue on reported gross incomes.<sup>21</sup>

**Chart 7: Distribution of Gross Income by Tax Unit in Ireland in 2011 (Source: Revenue).  
The majority of tax units in Ireland report gross incomes of less than €30,000.**



This data represents the gross incomes of just over 2 million tax cases, which in turn represent 2.85 million adults. As such, this distribution of income measurement represents nearly 80% of Ireland's population of 3.6 million adults (those aged 15+).

Those excluded from the data include full-time students, people reliant on welfare payments that are not taxed and people with no income (except for married spouses /civil partners in one-earner couples, as they can share tax credits).

The most striking finding is that of the 2 million tax units, around two-thirds report household gross annual income of less than €35,000. Conversely, around 200,000 tax units, representing the top 10% of tax cases, report incomes above €75,000.

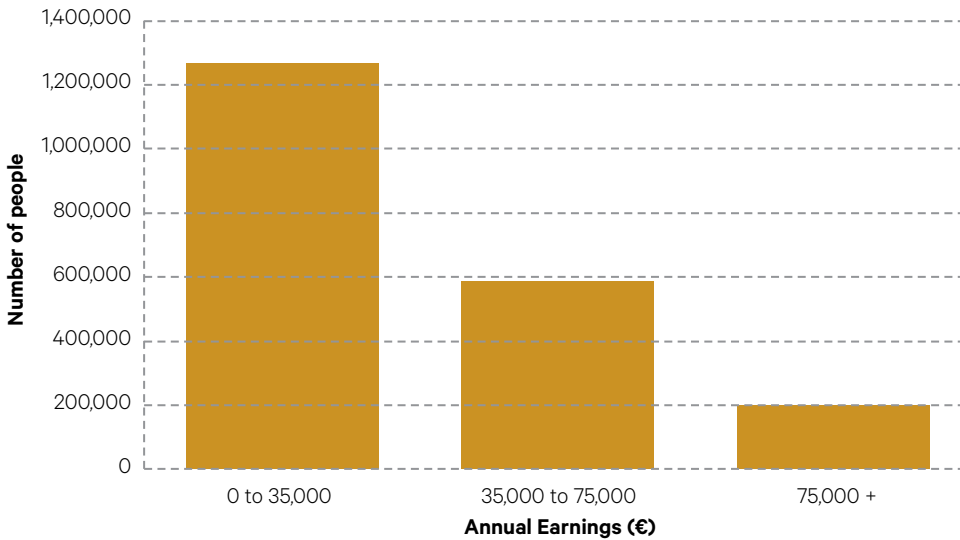
Because it is close to the often-cited 'average earnings' for the whole economy, €35,000 is a particularly salient annual income level. However, as shown here, the large majority of tax cases have gross incomes far lower than this amount. There is a misperception perpetuated in Irish economic discourse that 'average earnings' are €35,000 per annum per person in full-time employment. The reality is that the large majority of incomes are lower. The Bottom 90% of Revenue tax cases has an average taxable income of €27,400.

Individuals or couples earning €75,000 or more are in the Top 10% of tax cases in Revenue data. Therefore, if a couple each earn slightly more than the 'average', at €37,500 each, they would be in the Top 10% of tax cases.

Of those tax cases that make up the Top 10%, two-thirds are dual-earner couples; i.e. with two incomes contributing to a household income above €75,000. The remaining third have above €75,000 from a single income. What this data makes clear is that very few individuals have incomes over €75,000, which is a benchmark for defining what is meant by 'high pay'. Of those with incomes below €35,000, 7.5% are dual-earner couples, 16.5% are single-earner married couples and the remaining 76% are single earners.

Chart 8 summarises the data into the three income groups: those with gross incomes less than €35,000, those in the middle range (€35,000 to €75,000), and those with gross incomes of more than €75,000.

**Chart 8: Distribution of Income by Tax Unit in Ireland (Source: Revenue). Grouping the tax data shows that most tax units are below €35,000.**

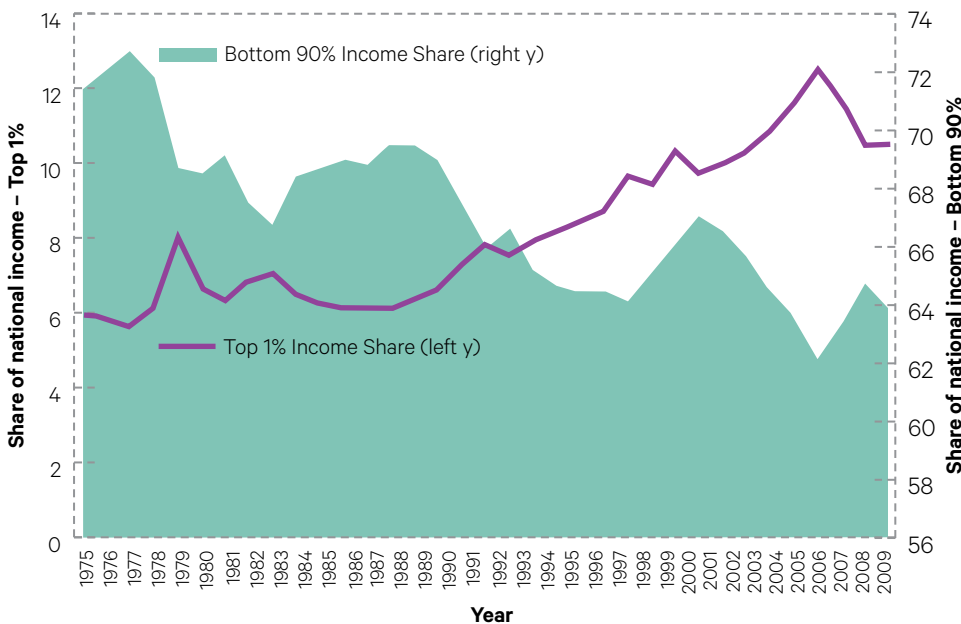


## Changing Income Share

Another way of looking at the distribution of gross incomes is to show how income share has changed over time. During the period of economic growth from the early 1990s, the share of income earned by the Top 1% rose very quickly in Ireland.

At the same time, the proportion of income earned by the Top 10% also rose, meaning that the vast majority of people, the 'Bottom 90%' of the population, lost a proportional share of the national income, which fell from 71.4% in 1975 to 63.9% in 2009 (see Chart 9). This loss is linked to the declining wage share of economic output (see Section 1).

**Chart 9: Top 1% Income and Bottom 90% Income in Ireland 1975-2010 (Source: WTID). Since the 1970s, the Top 1% has had a rising share of gross income, while the share of the Bottom 90% has fallen in that time.**

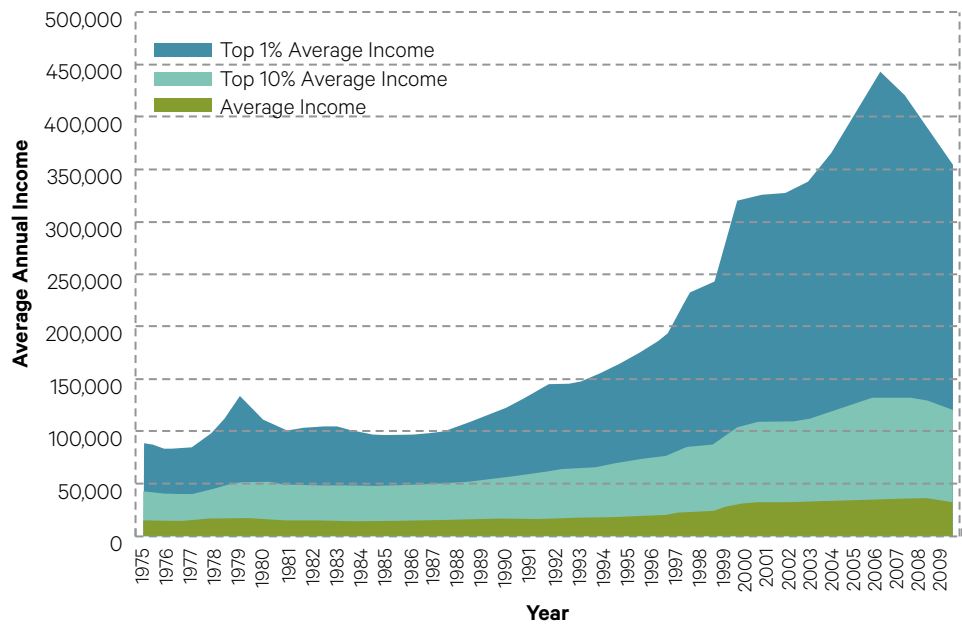




The actual income (in 2010 Euro terms) of the Top 1% in Ireland has risen dramatically since the late 1980s, while average earnings have risen much more slowly.

From 1975 to the height of the boom in 2006, average gross income (adjusted for inflation) more than doubled; however, the average income of the Top 10% more than tripled, while average income of the Top 1% increased almost fivefold (see Chart 10 and Table 2).

**Chart 10: Rising Average Incomes by Tax Unit (Source: WTID). Top 10% average incomes and Top 1% average incomes Ireland 1975–2009. While average incomes doubled in Ireland from 1975 to 2009, the average for the Top 10% more than tripled and the average for the Top 1% went up five-fold.**



**Table 2: Average Incomes in Ireland 1975 to 2006 (Source: WTID).**

Year	Average Income (€ 2010)		
	Average	Top 10%	Top 1%
1975	€15,188	€43,467	€90,518
2006	€35,490	€134,384	€444,109

Table 2 shows the growth of gross income inequality in Ireland to its peak in 2006. The income share of the Top 1% subsequently fell to €373,288 in 2011 (latest Revenue data).

# Top 1% Incomes

Even in a small population such as Ireland's, 1% still represents a significant number of people. Counting the married couples as two adults, there were 35,015 adults in the Top 1% of tax cases in 2010; i.e. those with incomes over €200,000. Based on Revenue data, the Top 1% represents 18,741 tax cases — including 10,303 dual-earner married couples, 5,971 single-earner married couples, and 2,467 single earners.

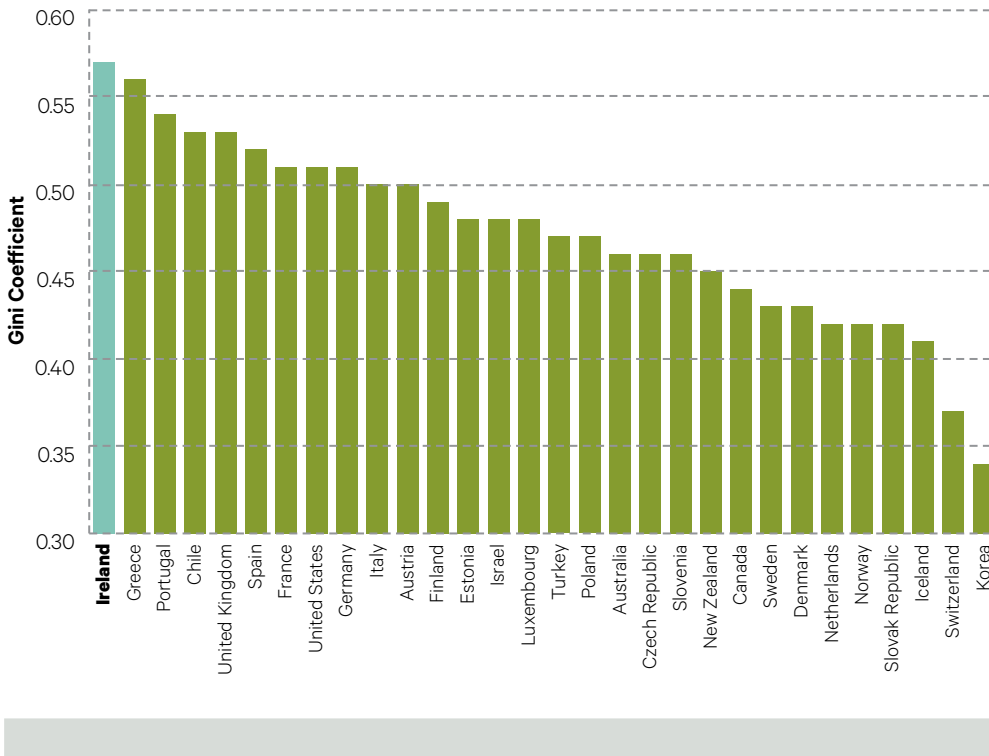
According to the World Top Incomes Database, the Top 1% of people in Ireland take more than 10% of all income, down from a high of 12.5% prior to the crash. While this is lower than the UK and the USA, this figure is higher than most of our European neighbours.

The share of all income of the Top 1% has been rising steadily since the late 1980s: it doubled between 1989 and 2006. The actual income in money terms of the Top 1% has also risen significantly. With the Top 1% receiving over 10% of income this places Ireland firmly among the more unequal of the 'developed' countries, although still less unequal than the USA and the UK.

# Pre-Tax, Pre-Transfer Income Inequality

Another measure of income inequality is the distribution of market incomes before the effects of taxation or social transfers are calculated. According to this measure, Ireland is the most unequal country with respect to gross (or market) incomes in the OECD — see Chart 11.

**Chart 11: Gross Income Inequality (Source: OECD). Ireland has the highest level of 'market' inequality in the OECD, that is to say it is the most unequal country before taxes and transfers are counted.**



# Survey Data on Income

One limitation of only measuring gross income is that it ignores the effect of taxes — especially progressive taxes — in reducing the disparity between high and low incomes. Section 6 addresses taxation in more detail.

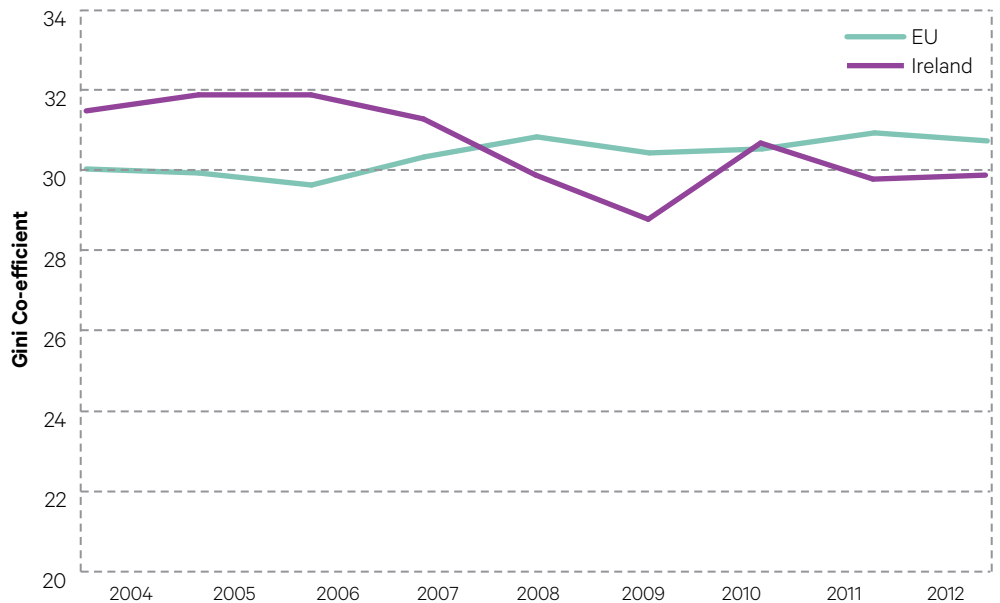
The CSO conducts an annual Survey on Income and Living Conditions (SILC).<sup>22</sup> This survey is the primary source of information about the distribution of income across society, regardless of whether that income comes from market sources or social transfers. SILC is the source of the annual statistics on poverty rates and deprivation. It is also the source of income data used to calculate standard income distribution measures such as the Gini coefficient and income decile ratios (see below).

## The Gini Coefficient

The Gini coefficient is the most commonly used measure of income inequality, and is often used to represent overall economic inequality (though it only measures income). Gini coefficient produces a single number from 0 to 1, which represents the overall level of income inequality in a country, with higher numbers closer to 1 representing greater inequality.

Since the 1980s, Ireland's Gini coefficient has remained relatively stable, even falling slightly over time. In the immediate aftermath of the crash of 2008, the Gini level fell dramatically, which was likely as a result of many medium and high earners losing their jobs, while social protection payments remained relatively stable.

**Chart 12: Gini Coefficient in Ireland and the EU 2004–2012 (Source: CSO). Levels of income inequality in Ireland, as represented by the Gini Coefficient (after taxes and transfers) are close to the EU average.**



Since 2009, the Gini coefficient has risen once again. This reflects the fact that those on low wages have had stagnating incomes, while those on welfare payments have suffered reductions. At the same time, higher incomes have risen.

Ireland's Gini coefficient is around the average for the EU. More unequal countries are those in Southern Europe (Italy, Spain, Portugal, Greece), Eastern Europe (Romania, Poland, Croatia), the Baltic States (Latvia, Lithuania, Estonia) and the UK. More equal countries tend to be those from Western Europe (Netherlands, France, Germany) and the Nordic States (Denmark, Sweden).

The Gini coefficient is useful for gauging the overall level of income inequality in a country, and when comparing Ireland with other countries. Its greatest value is in showing trends over a number of years. But it cannot be used to measure one aspect of the economy in isolation (such as the national budget) as the household income data it uses is affected by simultaneous changes to taxation, market incomes, welfare rates and other factors.

There are further limitations to using the Gini coefficient in isolation to make judgements about the levels of inequality in Ireland. The Gini coefficient does not show the relationships between those on high, low and middle income. An economy with low levels of inequality between those on middle incomes and those on high incomes, but much greater gap between those on middle incomes and those on low incomes, might have the same Gini coefficient as an economy where there is more equality between those on low and middle incomes, but high levels of inequality between the middle and the very richest. In this instance, their income distributions would be very different, but they could have the same 'level of inequality' as measured by the Gini coefficient, despite being very different economies with different dynamics.

Also, because it is based on survey data, it suffers from the same limitations as all income surveys, particularly because it is likely to under-sample households with high incomes. It is also based on equivalised disposable income (see Data and Sources).

## Income Ratios

A more fine-tuned measurement of income inequality is to examine the distribution of income when the whole population has been divided into groups, typically ten groups ('deciles') or five groups ('quintiles'), or even occasionally 100 groups ('percentiles').

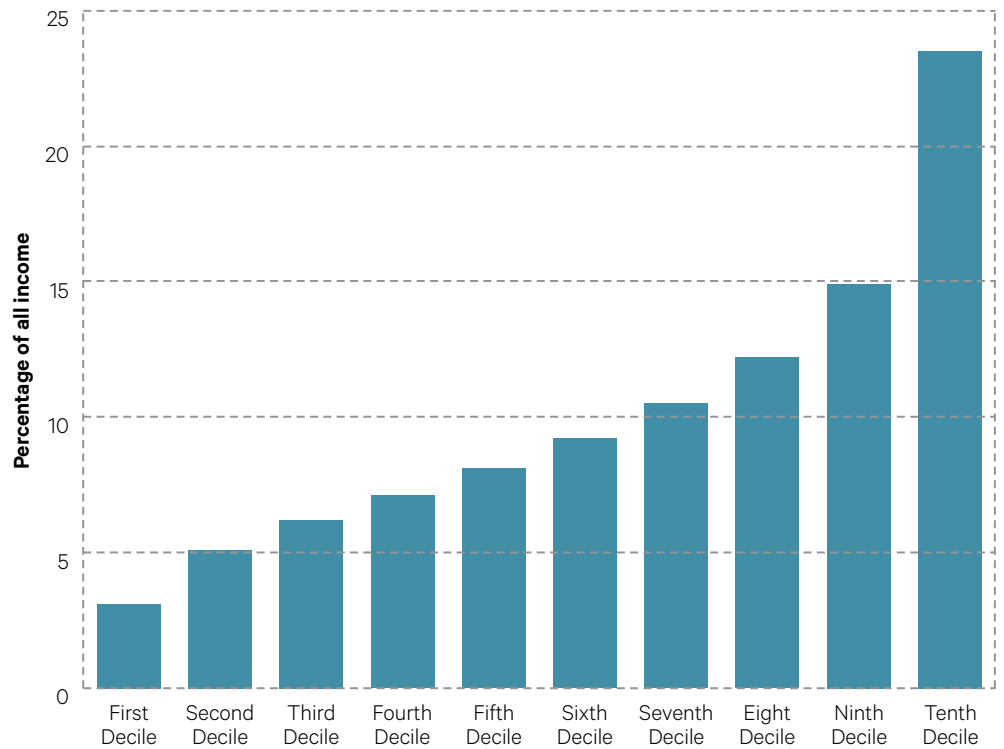
Deciles involve ranking all households by income, and then dividing them into ten equal groups, ranked from lowest to highest earners. It is possible to show what proportion of income is earned by each group, each of which represents 10% of households.

In Ireland, the survey data indicates the Top 10% of households (the tenth decile) have 23.5% of all net income, and the Bottom 10% of earners (first decile) has only 3.1% of all income (2012 data). Together the Top 20% (ninth and tenth deciles, also known as the top quintile) has 38.4% of all net income.<sup>23</sup>

According to this data, the Top 1% (or one hundredth 'percentile') in Ireland had 4.7% of all net (after tax) income in 2012.

However, note that these figures are from survey data on net incomes – whereas Revenue data examined earlier suggests a significantly higher concentration of gross income at the top. These important differences are discussed below under Data and Sources.

**Chart 13: Income Share by Decile in Ireland (Source: CSO). The Top 10% in Ireland has almost a quarter of all income, while the bottom 10% has just over 3%.**



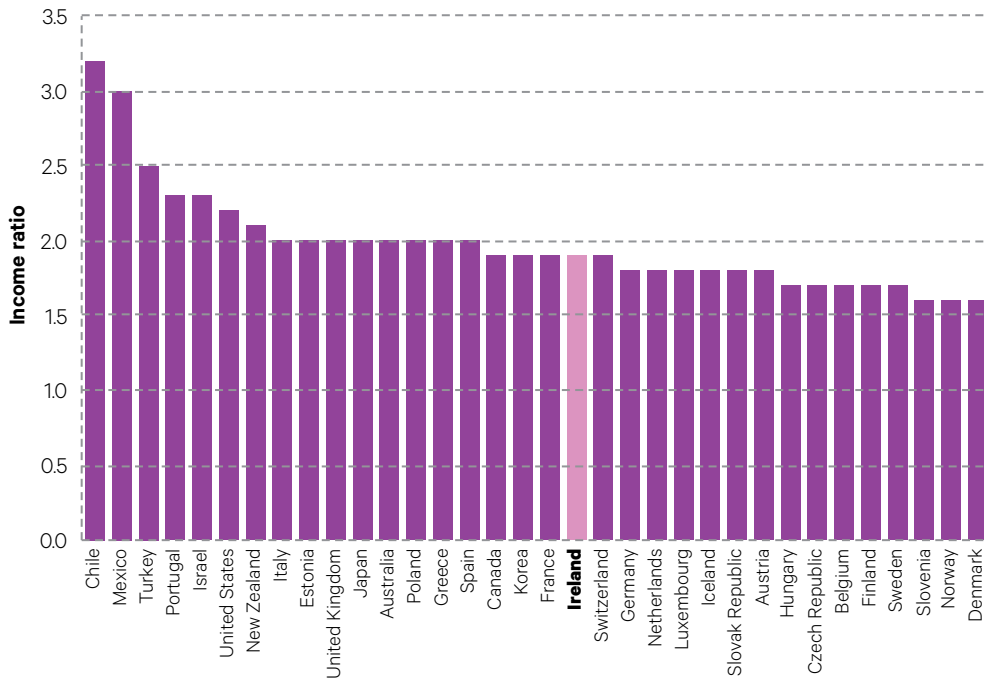
## Inter-Decile Ratios

Inter-decile ratios can be used to show how different parts of the income distribution relate to each other. The ratio of high incomes to low incomes shows the range of income distribution between countries. As with the Gini coefficient, Ireland ranks close to the EU average on these ratios.

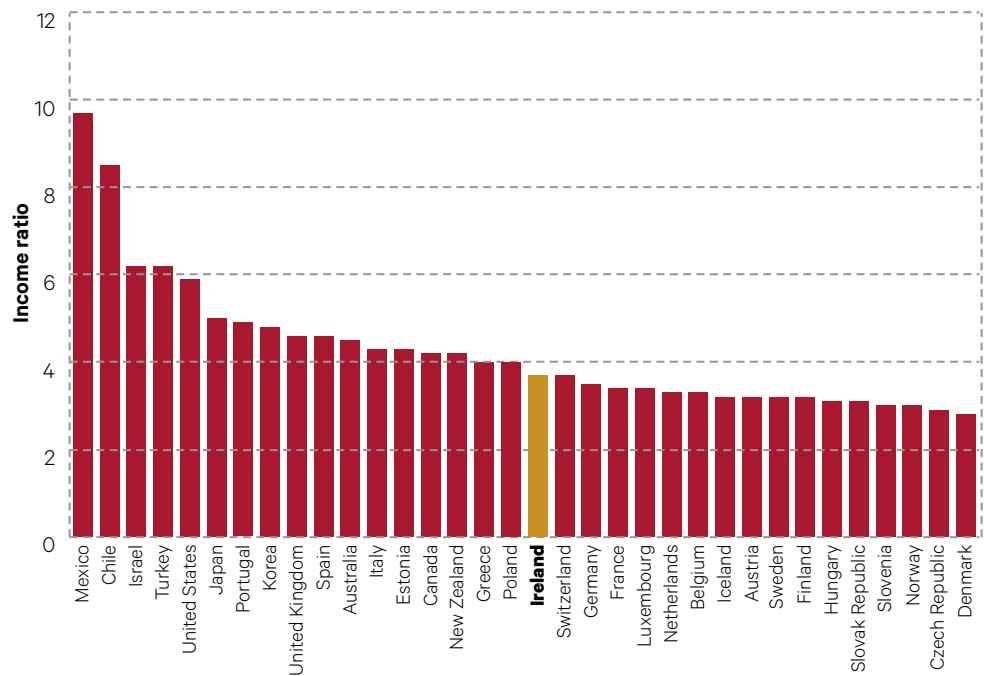
The P90/P10 ratio is the ratio of the upper-bound value of the ninth decile (the income of those at 90% of all people when ranked by income) to that of the first decile (the income of those at 10%). The P90/P50 ratio is the ratio of the upper-bound value of the ninth decile to the median income, and the P50/P10 ratio is the ratio of median income to the upper-bound value of the first decile.<sup>24</sup>

Ireland scores in and around the OECD average for the first two scores. In Chart 14, Ireland is around the average in terms of the inequality between our highest earners and our middle earners, and in Chart 15 Ireland is again around average in the OECD for the inequality between our highest earners and our lowest earners.<sup>25</sup> However, Ireland is significantly more unequal when we measure the gap between our middle (median) income level and the bottom 10%, which is illustrated in Chart 16.

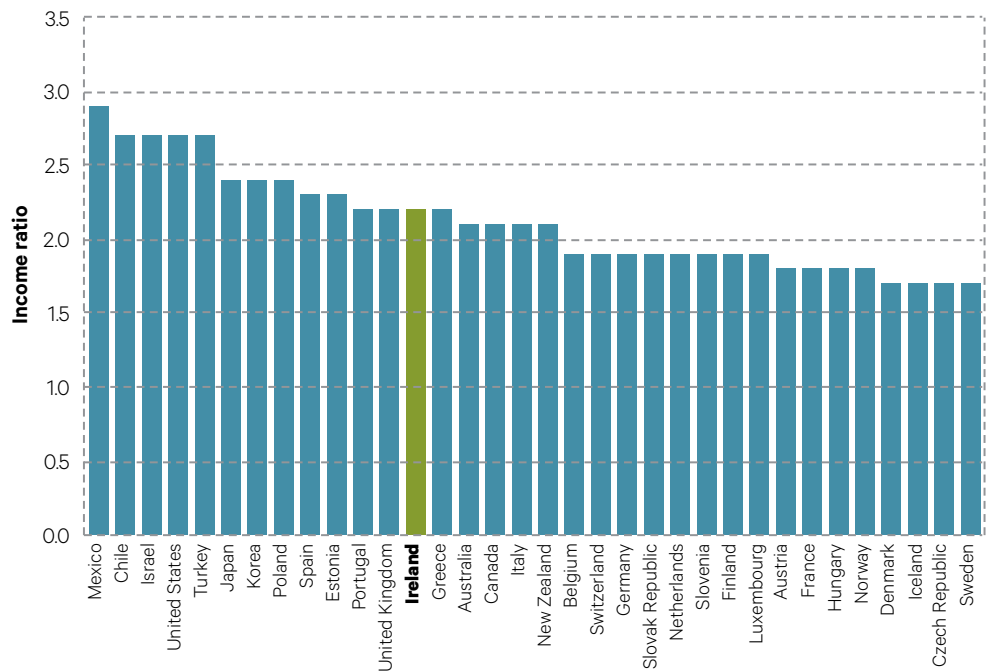
**Chart 14: Inter-decile Ratio P90/P50 (Source: OECD). This shows the relationship between the 90th percentile (P90, the bottom of the Top 10%) and the middle (P50). In Ireland the income at the 90% is twice that of the middle.**



**Chart 15: The P90/P10 ratio (Source: OECD). This shows the relationship between the 90th percentile (P90, or the bottom of the Top 10%) and the 10th percentile (the top of the Bottom 10%). In Ireland, the P90 has almost four times as much income as the P10.**



**Chart 16: The P50/P10 ratio (Source: OECD). This shows the relationship between the middle (P50) and the 10th percentile (P10, the top of the Bottom 10%). In Ireland, the P50 has more than twice the income of the P10, which is higher than the OECD average.**



The relative importance of income inequality depends on whether social protection is focused more on providing public services or more focused on cash incomes through social transfers.

Another one of the standard measurements of income inequality is the ‘quintile income ratio’, which compares the income share of the top 20% of society with the bottom 20%.<sup>26</sup> In 2012, Ireland’s quintile income ratio was 4.4, compared to an EU average of 4.0. This means that in Ireland, the top 20% had on average 4.4 times the income share of the households in the bottom 20% of society.

Income quantile ratios give more detail than the Gini coefficient about the distribution of income between different groups in society. Additionally, the standardised measures presented by Eurostat and the OECD allow for the accurate comparison of countries.

However, some of the explanation of the differences requires one to examine some basic features of the economy and social policy, such as what proportion of working age adults (especially women) are engaged in paid employment. Likewise, the relative importance of income inequality depends on whether social protection is focused more on providing public services or more focused on cash incomes through social transfers.

Another limitation of comparing countries in terms of the distribution of income is the different cost of living in each country. Not only do prices for goods and services vary, but the contents of the typical household ‘basket’ of goods and services will vary too, as one country may provide a service as a public service paid from taxation, whereas another country may provide it through the market. Households in Ireland often have additional out-of-pocket expenses compared to other Europeans who can avail of more comprehensive public services. These services can have a considerable effect in reducing inequality; Section 5 discusses public services and Section 9 discusses costs.

# Income from Employment

It is sometimes argued that ‘the best social program is a good job’. This is correct but it is only true if the job pays sufficient wages to enable a person to afford a decent standard of living.

Quality employment is a key economic equaliser for many people, but there are insufficient good jobs to go around and both full-time work and pay are unequally distributed. Many people remain in poorly paid, part-time or insecure employment, including some self-employed people or small business owners who struggle to earn a decent income. Moreover, full-time paid employment is not an option for many people in society who, for a variety of reasons, cannot work and yet who are nonetheless entitled to a decent standard of living.

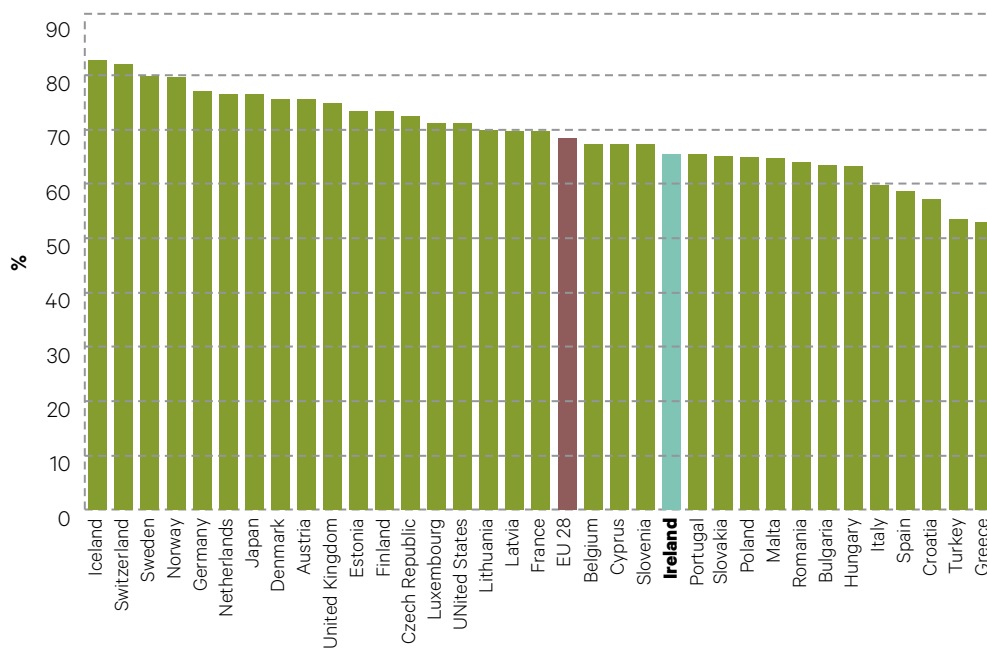
The purpose of this next section is to dig beneath some of the headline statistics about employment and unemployment to see to what extent paid work provides people in Ireland with a fair share of economic benefits. This section challenges some of the commonly used statistics on employment that distort public understanding of the reality of paid work.

## Employment

There are 1.9 million people in employment in Ireland. However, only 1.4 million people have full-time employment, which represent less than half (47.1%) of working-age adults. If all the hours worked by the 1.9 million people in employment were converted into full-time work that would allow for 1.65 million full-time posts (sometimes referred to as Full-Time Equivalent or FTE jobs). While some people obviously desire part-time work, there are also 185,000 people who report being involuntarily part-time (Eurostat).<sup>27</sup>

Government economic policy rightly has a significant focus on job creation, but in order to address economic inequality, more attention is needed on the barriers to work and the quality of jobs created in terms of pay, duration of employment, and availability of full-time hours.

**Chart 17: Employment Rate in EU and Other Selected Countries 2013 (Source: Eurostat). Ireland’s employment rate is below average for the EU 28.**





The EU target for employment levels is 75% of 20- to 64 -year-olds by 2020.<sup>28</sup> The current EU average is 68.4%, while the highest EU member is in Sweden at 79.8%. Even with 1.9 million people in employment, Ireland's employment level (65.5%) is relatively low. Ireland's employment target for 2020 is the range 69–71%.

There are also gender differences in employment rates. Ireland's employment rate is 70.9% for men, but only 60.3% for women. This is lower than the EU averages which are 74.3% for men and 62.6% for women.<sup>29</sup>

## Unemployment and Inactivity

In September 2014, 370,050 people (11.1% of the working-age population) were officially on the Live Register.<sup>30</sup> The Live Register includes part-time workers (those who work up to three days a week), seasonal and casual workers entitled to Jobseeker's Benefit (JB) or Jobseeker's Allowance (JA). Unemployment is measured by the Quarterly National Household Survey (QNHS) and the latest estimated number of persons unemployed as of the second quarter of 2014 was 254,500.

This relatively low employment rate indicates structural weaknesses in the economy, such as the lack of high quality, affordable childcare.

However, an additional 22.8% of the working age population are 'inactive', arising from disability or illness, care duties, full-time education, full-time parenting or early retirement.<sup>31</sup> In order to sign on to the Live Register, a person has to be available for full-time employment, an eligibility criteria that discriminates against those who cannot be available full-time, particularly women.

This relatively low employment rate indicates structural weaknesses in the economy, such as the lack of high quality, affordable childcare. Due to the prohibitive cost of childcare, many people (mostly women) do not have the choice of working outside the home (see Section 7).

Therefore focusing only on official unemployment statistics could present the misleading view that only one in nine adults of working age cannot find paid work. There are in fact an additional 110,400 people who want to work but are not currently listed as seeking employment because they are not 'available' for work due to particular circumstances and a further 18,300 people who are listed as seeking work but are not eligible to be counted in the unemployment statistics for technical reasons.<sup>32</sup>

When both these cohorts are added to the 370,050 people on the Live Register,<sup>33</sup> the total number of people seeking work rises to 498,750 or 16.6% (one sixth) of adults of working age. Of these cases, 116,550 are people on the Live Register with part-time work who are seeking additional work. These numbers should also be considered in the context of the net emigration of 21,400 people in 2014 (which adds to a cumulative total net emigration of 142,200 in the period 2009 to 2014).<sup>34</sup> The overwhelming majority of emigrants are people of working age, especially those in the 15–24 and 25–44 age groups.

**370,050 people on Live Register (11.1%)**  
**+ 110,400 people want to work but unavailable**  
**+ 18,300 people seeking work but not eligible to be counted**  
**= 498,750 people seeking work (i.e. 16.6% of the working age population)**

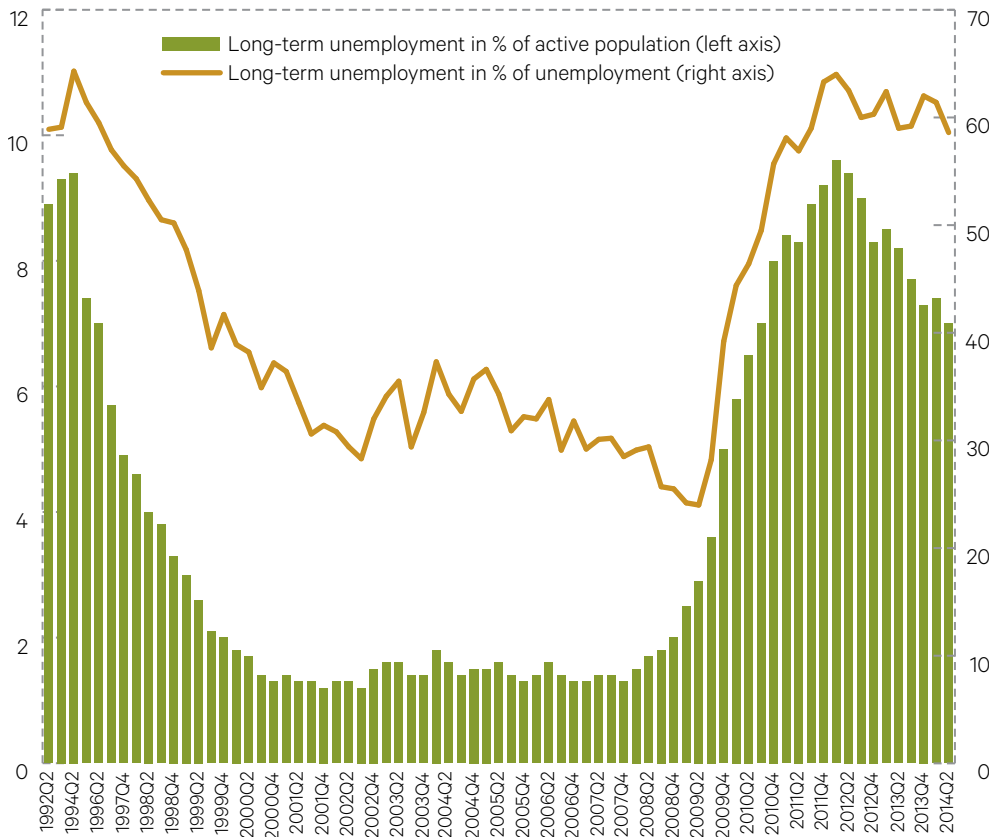
Parenthood is particularly significant for employment rates and shows significant gender differences. Women's employment rates in households with young children falls markedly in Ireland, while men's employment rates tend to rise. The gender impact of parenthood is significantly negative on women, as indicated by the effect on the rate of employment of women and men aged 20–49 years with and without a child under 6 years.

There has been an increase in the rate of inactivity and part-time work due to personal and family responsibilities among women aged 15–64 years. It stood at 4.5% in 2011, stabilised at 4.6% in 2012, increased to 5.2% in 2013. This trend is likely linked to the cost of childcare.<sup>35</sup>

# Long-term Unemployment

Long-term unemployment currently accounts for more than half (58.6%) of total unemployment. While the long-term unemployed as a percentage of the active population is falling, the long-term unemployed as a percentage of the unemployed remains high (see Chart 18). This brings additional challenges in terms of getting people back to full-time work.

**Chart 18: Long-Term Unemployment as % of Active Population and % of Total Unemployed (Source: Eurostat). As unemployment in Ireland is falling, long-term unemployment is falling as a % of labour force, but not as a % of all unemployed.**



# Distribution of Income from Employment

Employment does not guarantee someone that they will have a minimum decent standard of living. For example, the Living Wage in Ireland has been calculated at €11.45 per hour for 2014, based on a 39-hour working week. However, with a statutory Minimum Wage of €8.65 and an average of 32.3 working hours/week per worker (2009 data),<sup>36</sup> potentially hundreds of thousands of people in employment do not attain a minimum decent standard of living from full-time employment (see below on low pay).

The oft-quoted average earnings figure of around €35,000<sup>37</sup> is misleading, and it does not represent most people's actual incomes.

Firstly, average earnings are skewed by high earners. Approximately 700,000 people on managerial and professional annual salaries have an average income of €59,557, whereas one million workers in clerical/services and production/manual earn average annual salaries of less than €25,000.<sup>38</sup> There is obviously a spectrum of higher and lower pay around even these averages, but for example it should be clear that one person on a very high salary of €100,000 requires six workers on €25,000 for the average earnings of all seven of them to be €35,000.

Secondly, the average earnings data is skewed by part-time employment. In reality, many workers are not given full-time hours or overtime.

## Gender Pay Gap

The Gender Pay Gap measures the relative difference in the average gross hourly earnings of men and women. It is one of the indicators used to monitor the European Strategy for Growth and Jobs. Data on the gender pay gap shows a widening gap between 2009 and 2012. Since 2009 the level changed from 12.6% to a provisional figure of 14.4% in 2012, meaning that, on average, women's incomes are 14.4% lower than men's.<sup>39</sup>

There was a narrowing of the gender pay gap during the first period of the crisis, as a result of men's deteriorating employment and pay position. However, rising employment levels among men in particular has begun to re-establish a wider gender pay gap.<sup>40</sup>

## Low Pay

A fifth (20.7%) of Irish jobs are classified as 'low pay' by the EU, which is significantly higher than the EU average of 16.9% and a Euro area average of 14.7%.<sup>41</sup>

Ireland's statutory minimum wage is €8.65, which provides a potential full-time gross income of €17,542 (39 hours/week). This provides a legal minimum wage floor that falls far short of allowing someone to meet the cost of living.

The cost of living calculations in the work on Minimum Essential Standard of Living by the Vincentian Partnership for Social Justice demonstrate that a 'Living Wage' for a single person based on a very modest lifestyle and including rented accommodation is €23,247 per year (gross).<sup>42</sup> Effectively, the minimum wage, even if earned for a 39-hour week for a full year, does not allow for a basic minimum standard of living.

The hourly Living Wage, also based on a 39-hour working week, is €11.45. Similar to other countries, this is presented as a voluntary quality standard that employers should meet. In other jurisdictions, notably the UK, USA and Canada, a Living Wage has been widely endorsed across the political spectrum and adopted voluntarily by some public bodies and businesses.

## Working Time

Irish law does not require employers to pay employees for work completed in overtime. Unpaid overtime is a further driver of income inequality; both directly if workers are working more hours for the same money, and indirectly, as unpaid work reduces the time available for someone to engage in paid work or self-employment elsewhere.

Unpaid overtime also impacts on employment levels. Unemployment leads to precarious work environments and insecurity, so workers will take on more unpaid hours to avoid losing their job. Research demonstrates that where companies can get more work from employees without compensation, they have less incentive to hire more workers.<sup>43</sup>

## Job Creation

The CSO reported (as of Q2 2014) that 31,600 additional people were in employment in 2014 compared to 2013.<sup>44</sup> This is a welcome recovery in job creation. Nonetheless, even if the same number of jobs continue to be created every year, it would take eight years to provide a job for everyone who is currently unemployed (254,500), or over fifteen years for everyone seeking work (498,750). Moreover, this does not take population growth into account: more young people are leaving education than older people are retiring, while continuing improvements in the job market may lead to changes in the migration numbers. The return of Irish emigrants and the continued movement of workers around the EU are to be welcomed, but it is also important that those who are long-term unemployed receive sufficient support and opportunities to find work.

Based on the current size of the working age population, Ireland will need to generate between approximately 173,000 and 234,000 jobs in six years to meet its EU 2020 target of 69–71% employment, up to 39,000 per annum.<sup>45</sup> This is plausible, but will require sustained growth in creating quality jobs.

## Unpaid work

Alongside paid employment, many people — mostly women — engage in unwaged work in the home or as carers. To receive a Carers Allowance payment, the person being cared for must have a relatively serious level of incapacity. Many care duties are not covered by this scheme; for example, where siblings share care duties for elderly parents.

The basic Carers Allowance for someone under 66 caring for one person full-time is €204 per week (€10,608 per year) which is €16 per week (€832 per year) more than the typical social welfare payment of €188 per week (€9,776 per year).

A further manifestation of inequality is through unpaid work experience and unpaid internships. While these can provide valuable work experience, they reinforce inequality as only those with the necessary support can afford to take up such unpaid posts. The increasing amount of time spent in unpaid work also lowers a person's lifetime earnings. While some forms of work experience may be acceptable — such as a work placement as part of attaining a qualification — the use of unpaid internships reinforces economic inequality.

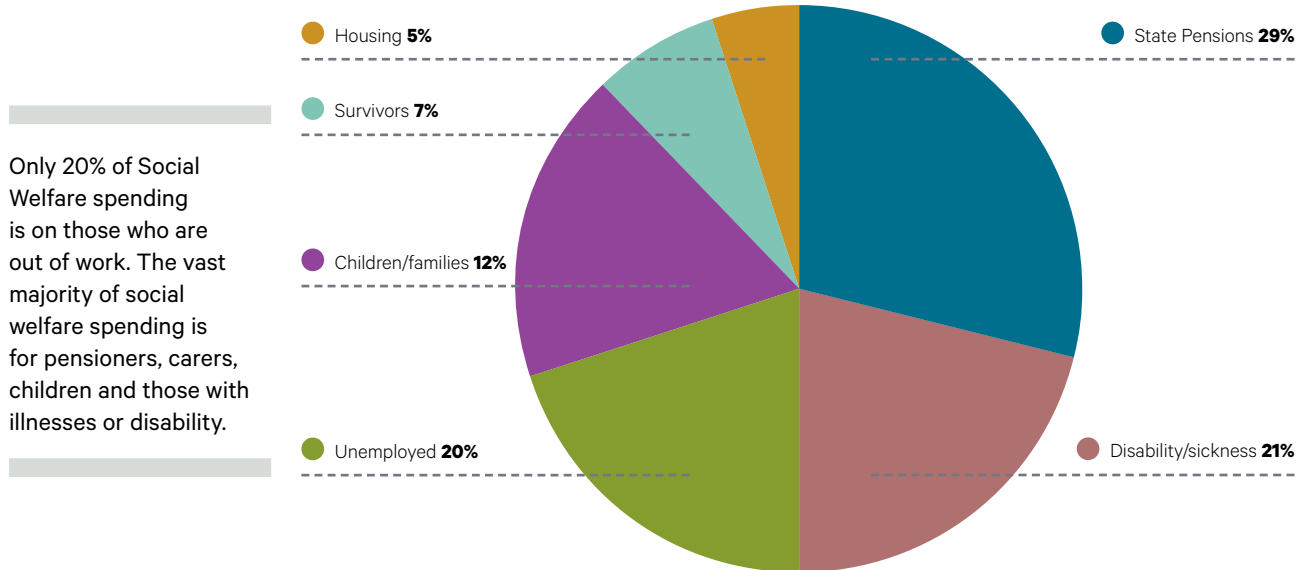
## Income from Social Protection Payments

To reduce economic inequality, the goal of social transfers in a democratic society must be to ensure that every person can meet their essential material needs to an acceptable quality standard.

The largest single area of public spending is social protection, at €26.8 billion in 2012 (the latest figures available in the format used here).

Most of this spending goes on providing income support to individuals and families through a range of different schemes. Income from social protection plays a major role in reducing economic inequality.

**Chart 19: Breakdown of Social Protection Spending by Type in Ireland (Source: Eurostat). State Pensions are the largest portion of the social protection spending. Only 20% of social protection spending goes to the unemployed.**



Only 20% of Social Welfare spending is on those who are out of work. The vast majority of social welfare spending is for pensioners, carers, children and those with illnesses or disability.

## Diversity of Social Transfer Payments

Social protection payments (also called ‘social transfers’) can be grouped into three types: entitlements, social assistance and universal payments.

Entitlements are welfare payments that individuals have obtained for themselves through their social insurance contributions. Assistance payments are given when people demonstrate that they lack the means to supply themselves with an adequate income. Additionally, Ireland has some near-universal social transfer payments, like Child Benefit, that are paid to anyone who meets the qualifying criteria.

The largest single item of spending is €7.6 billion on the state pensions, mainly comprising the Contributory State Pension (based on social insurance contributions) and the Non-Contributory State Pension (based on a means-test and funded from taxation), as well as some other additional pension schemes.

The next largest areas are €5.5 billion of social transfers based on sickness or disability, €5.2 billion on income supports to people who are unemployed and €4.6 billion in payments related to children and families. The remaining spending is €1.9 billion on survivors (such as payments for widows, widowers and orphans) and €1.2 billion on housing supports (such as Rent Supplement).

Nearly 560,000 adults of working age benefited from a weekly welfare payment in 2013 due to inability to work due to disability, illness, or full-time care duties (i.e. caring for someone who is incapacitated), in addition to 370,099 who received jobseekers’ payments.<sup>46</sup> Only 20% of Social Welfare spending is on those who are out of work. The vast majority of social welfare spending is for pensioners, carers, children and those with illnesses or disability.

In total, including people of retirement age, there are nearly 1.5 million adult recipients<sup>47</sup> of a weekly social welfare payment, which constitutes over two-fifths (42%) of all adults. When children and adult dependents are included, over 2.25 million people<sup>48</sup> benefit from weekly social welfare payments, representing nearly half (49%) of Ireland’s population.

# Ireland's Level of Social Protection Spending

Irish social protection spending of €26.8 billion in 2012 represented 16.4% of GDP.<sup>49</sup> The EU28 average is 19.9% GDP, ranging from 11.2% of GDP in Latvia to 25.2% of GDP in Denmark.

Ireland ranks 12th out of 28 EU states for the level of spending on social protection, but has the lowest spending on social protection of all North West European countries. This can be explained by a range of factors, including Ireland's relatively young population profile, the low level of social insurance charged in Ireland (effectively the lowest in the EU) and the relatively weak level of income replacement provided by social transfers. Irish social welfare rates are set at a single level from the outset, in contrast to countries where social insurance guarantees to pay a proportion of someone's previous salary, before dropping down to a lower level over time

## Social Protection and Income Inequality

Two indicators can be used to gauge the level of economic inequality: the extent to which the welfare system reduces income inequality; and the extent to which people reliant on welfare experience deprivation.

In terms of income inequality, before the effect of transfers and pensions, income inequality in Ireland is the fifth worst in the EU. But after transfers and pensions, income inequality in Ireland is slightly better than the EU average.

Income inequality here is measured by the Gini coefficient. Before transfers and pensions, Ireland's Gini level is 53.5 versus an EU average of 51.3. After transfers and pensions, Ireland's level is 29.9, below the EU average of 30.6.

As the figures show, the norm across the EU is for social transfers to play a significant role in reducing income inequality. In many cases, this effectively means that many people with practically no other source of income are receiving a transfer.

## Social Protection and Material Deprivation

According to the annual SILC survey for 2012, the national average material deprivation level was 26.9%. However, nearly half (49.4%) of households with the principal economic status of 'unemployed' experience deprivation, compared to 11.3% for those who are 'retired' and 16.4% for those 'at work'.

Similarly, just under half (48.5%) of those 'unable to work due to permanent sickness/disability' experience deprivation. Based on these figures, those who cannot work due to illness/disability or who cannot find work are over four times more likely to experience deprivation than those who are retired, and three times more likely to experience deprivation than the average household at work.

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Pension levels appear to allow a large majority (88.7%) of people who are retired to meet their needs without experiencing material deprivation. However, only half of those experiencing unemployment (50.6%) or disability (51.5%) live without ongoing material deprivation. Lone parents (85% of whom are women), renters and households with lower educational attainment or a greater than average number of children are all more likely to be experiencing deprivation.

## Coverage of the State Pension

The vast majority of people of retirement age have some form of state pension if they live to the age of entitlement. Social Protection pays pensions to more than 700,000 beneficiaries, including 72,000 Invalidity Pensions. Some pensions are paid to people under the age of 66; the total number of pension recipients is much greater than the 535,000 people aged 65 or older in the state.<sup>50</sup>

For some people, their first interaction with social welfare may be when they draw down a State Pension. A common misperception about welfare income is that it only goes to the poorest in society. However, analysis of welfare statistics shows that 80% of welfare pensions are based on social insurance contributions, meaning that these recipients have a sufficient work record and social insurance contributions to be entitled to a Contributory State Pension. Other benefits, such as sick pay and maternity benefit, are also welfare income.

Unfortunately, there is no data available to confirm whether or not all people older than working age have an income, but there are known gaps in the system. The most vulnerable group in this respect are widows who were reliant on their husband's pension for income because they did not have sufficient cash incomes in their own right. Only 16% of those who receive the full contributory pension are women due to lower labour force participation, including the time lag effects of the marriage bar which was in place until 1973.

It is also plausible that a small number of older people have no entitlement to a pension. Some may have sufficient assets (e.g. savings) for them not to pass a means test for a weekly social assistance payment, and others may not comply with the Habitual Residency Condition (i.e. are not eligible for a State Pension because they do not have full residency).

## Social Protection Income Levels

Welfare statistics, published annually, clearly demonstrate that cases of high incomes from welfare are extremely rare.

A common misperception about welfare income is that welfare recipients receive relatively high net incomes when extra payments or non-cash benefits like Rent Supplement are included. Welfare statistics,<sup>51</sup> published annually, clearly demonstrate that cases of high incomes from welfare are extremely rare and, where they exist, go to households that might warrant a nominally high income to meet correspondingly high costs (for example where there are multiple people in a household experiencing disability and/or a large number of dependents).

Total spending by the Department of Social Welfare in 2013 was €20.3 billion.<sup>52</sup> Of this, €15.1 billion was spent on weekly welfare payments in 2013. These went to 1,467,918 recipients and an additional 805,085 beneficiaries — i.e. 'qualified adult dependents', mainly spouses, and children. Dividing €15.1 billion among 1.5 million recipients gives an average of €10,224 per recipient. This is €6,643 per person when adult and child dependents are included.

# Weekly Social Transfer Rates

Current (2014), income levels from social transfers delivered by the Department of Social Welfare are quite clear. The typical annual income from a weekly social welfare payment is €9,776 for a single person. A couple with two children would receive €19,365. Annual income from a full Contributory Pension for a single person is €11,976 and €19,958 for a couple.

Using a small number of sample households, the Table 3 illustrates the gap between welfare incomes and minimum expenditure requirements.

**Table 3: Minimum Essential Standard of Living (Source: MESL). Social welfare payments are not adequate to meet a minimum basic standard of living, except for retired urban couples.**

Household	Social Welfare Income	MESL* Expenditure Requirement (Urban 2014)	MESL* Expenditure Requirement (Rural 2014)
Single working age adult	€9,776	€12,578	€14,999
Couple with 2 children	€22,485**	€25,321 to €29,566***	€27,990 to €32,149***
Single retired person	€11,976	€13,469	€17,271
Retired couple	€19,958	€17,108	€21,370

Note: Does not include housing costs in either case. Assumes 52 weeks/year. \*Minimum Essential Standard of Living. \*\*Includes Child Benefit. \*\*\*Household costs change depending on the age of the children.

In simple cash terms, only one of these income levels (pensioner couples in urban areas) is adequate relative to the cost of living in Ireland calculated by Minimum Essential Standard of Living (MESL) studies.<sup>53</sup>

## Income Adequacy

It is impossible with existing data to answer the crucial question of whether or not a given household has sufficient private assets, extra welfare payments and/or non-cash public services to allow it to meet its essential material needs.

Supplementary or extra welfare payments aim to provide additional assistance to people most in need. The two most significant extra payments are Fuel Allowance and the Household Benefits Package. The recipients of these payments tend to be either pensioners or people with disabilities.

What is clear from the available data is that a person reliant on a weekly welfare income who neither benefits from housing supports nor is a homeowner almost certainly has an inadequate income. Moreover, those who are reliant on welfare who have a high mortgage from the housing bubble era are also highly likely to have inadequate income. Those reliant on Rent Supplement are also finding it increasingly difficult to secure adequate housing under the capped maximum rent levels, and standards in private rented accommodation have repeatedly been shown to be poor. Thus, even those with housing support may have an inadequate income.

A person reliant on a weekly welfare income who neither benefits from housing supports nor is a homeowner almost certainly has an inadequate income.



# Children and Families

Ireland provides major universal social transfers in the form of Child Benefit, Maternity Benefit and Adoptive Benefit. The latter two are entitlements for anyone who has paid sufficient social insurance contributions. These three benefit payments do not change the distribution of income between the top and bottom, because they are received regardless of means, but they do redistribute from all of society to those who have children, recognising the additional costs associated with bringing up a family (see Section 7).

Social assistance payments aimed at helping families with children include Family Income Supplement (FIS) and the Back to School Clothing and Footwear Allowance (BTSCFA). These are means-tested, and transfer resources from all of society to lower-income families to assist with the costs associated with children.

While social transfers are significant in reducing income inequality between households, the question of who controls the income is critical, especially within low income households.

## Household Welfare Model

Ireland operates a model of welfare that is based on households, rather than individuals, where payments are made to the head of the household, often the male. This creates economic dependence for significant numbers of women: for example women are categorised as dependents under State pension schemes in the majority of households.

While social transfers are significant in reducing income inequality between households, the question of who controls the income is critical, especially within low income households.

## Automatic Stabilisers

Social transfers play a vital role in the economy by ensuring a steady flow of consumer spending, even in times of recession.

Unemployment benefits in particular are seen as an ‘automatic stabiliser’, as they tend to increase (or decrease) in line with unemployment, feeding through to consumer spending and eventually helping to boost the job market. This helps to counteract the effects of recessions in the economic cycle. The stabilising effect occurs ‘automatically’ as there is no need for the government of the day to change the system to achieve this effect on the economy.

A proportion of welfare spending is also returned to the state through Value Added Tax (VAT) and excise paid on goods and services. Likewise, some social welfare payments — including the Contributory State Pension — are liable for income tax.<sup>54</sup> A person reliant on a single payment will normally have sufficient tax credits to avoid paying any income tax but someone with sufficient other income sources — such as an occupational pension — may have a tax liability.

## Data and Sources

The overall picture of how incomes are distributed in Ireland is complex. There is no one source that provides a definitive picture of income and different sources are not always directly comparable.

The two main sources of data used in this section are Revenue administrative data gathered in relation to income tax and the CSO’s Survey on Income and Living Conditions. As discussed above, both of these sources have limitations when it comes to presenting an overall picture of how income is shared across Irish society. The lack of a regular official report on the overall distribution of income in Ireland is a major gap in the information available to analyse economic inequality.

## Revenue Data

While tax evasion does affect the data, Revenue data is still superior to survey data that relies on a sample of individuals or households due to problems of sampling and non-response, especially by higher income households. Likewise Revenue data gives a more complete picture of income distribution than the description of typical rates of payment under different social insurance and social welfare schemes. Nonetheless, the other two sources of income data are still very valuable and cover aspects of income distribution not available in the Revenue data.

Revenue administrative data is the most reliable source of data with respect to gross household incomes and overall income distribution. Nonetheless, there are technical limitations to using the data, leading to uncertainty around what income is or is not included in the 'gross income' data,<sup>55</sup> and a lack of clarity around cohabiting couples and the exclusion of those on non-taxable welfare incomes. In addition, it is not possible to directly compare pre-tax and post-tax income levels because Revenue does not publish equivalent data for the latter. However, it is possible to examine the average level of tax paid per income group.

## Survey Data

The SILC survey has a number of strengths. A representative sample of people is surveyed, so the results of the survey can be reliably applied to the population as a whole. Also, a comparable survey is conducted in every EU state, so comparisons can be made with trends in income distribution and poverty across the EU. As a result, SILC data is widely used in Irish official statistics and by the EU.

However, like all survey data, the SILC dataset, and consequently any analysis drawn from it, must be treated with caution. Income surveys tend to experience lower response rates from high-income households. Given that these are few in number, under-sampling can lead to significant variation in the data. Sampling can also be challenging from households with very low incomes.

Another issue is that SILC data is 'equivalised' to allow comparison between different household compositions, which can make it difficult to compare SILC data with real world pay and social protection payments.

## Equivalised Income

In the SILC data, household composition is very important to understanding the purchasing power of household income. The same amount of disposable income allows households of different sizes to enjoy notably different lifestyles (see Section 7 for detail on family composition). Therefore, the SILC data is adjusted for household size to calculate 'equivalised disposable income' for the household, by weighting each member differently. Equivalised income calculations make it possible to make a more realistic comparison between different family compositions.

Converting household income into equivalised disposable income is done by counting the first adult as 1 person, and by counting any subsequent adult in the house (14 years or over) as 0.66 and any child (under 14 years) as 0.33.

### For example:

If a household had total income of €40,000, made up of two adults and one child, each person would be considered to have the living conditions of a single person with an income of €20,100 (i.e. €40,000 divided by 1.99 [1 + 0.66 + 0.33]). If the same household had two children, each person would be considered to have the same living conditions as a single person with an income of €17,241 (i.e. €40,000 divided by 2.32 [1 + 0.66 + 0.33 + 0.33]).

One of the problems of using equivalised income as a calculation is that it makes income levels abstract and not directly comparable to actual salary levels or actual social welfare payment rates, which people are more familiar with. This can distort people's understanding of income inequality.

For example, a household made up of three or more adult incomes, such as when adult children live at home, may have a high 'equivalised' income. This may occur despite the fact that all the adults are on low incomes. If those adult children lived in separate households, the equivalised incomes of both households and the individuals would be lower.

**For example:**

Three adults, each earning €25,000 who each lived alone would be shown as having an equivalised income of €25,000 (i.e. €25,000 divided by 1). However, when sharing accommodation as a single household, their total income of €75,000 is divided by 1 for the first adult and by 0.66 for the second and third. This gives each of them an equivalised income of €32,328 (i.e. €75,000 divided by 2.32 [1 + 0.66 + 0.66]). This accurately reflects the fact that the cost savings from sharing accommodation gives them more purchasing power and therefore the equivalent of a higher income. However, such equivalised individual incomes are nonetheless not directly comparable with real wage or social protection incomes and caution is required when making such comparisons.

The limitations of equivalised income mean that calculations based on the poverty threshold or 'average' earnings derived from this data must be treated with caution when analysing income inequality. SILC survey data is used to report a median average income per individual, which was €17,702 in 2012. The poverty threshold is set at 60% of the median, which was €10,621 in 2012.<sup>56</sup> However, both of these are based on equivalised disposable incomes and cannot directly be compared to wages or welfare incomes without also equivalising these.

**For example:**

Three adults on social welfare incomes of €9,776 who share accommodation would be deemed to have equivalised incomes of €12,641 each. That is, total household income of €29,328 divided by 2.32 (1 + 0.66 + 0.66). This would bring them above the threshold of €10,621 so they would not be deemed to be at risk of poverty.

However, a single adult living alone on the standard welfare income of €9,776 would also have an equivalised income of €9,776 (i.e. €9,776 divided by 1). In this case, he or she would be below the risk of poverty threshold.

Adults who are sharing accommodation for financial reasons could appear to be above the poverty threshold but this would disguise their inability to afford their own housing. While this might be appropriate in some situations such as for younger single adults, it is not adequate for a young couple with children living involuntarily with one of their parents, or for two ex-partners who are 'living as separated' in the same dwelling because they cannot afford to move to separate housing. It is arguably also not adequate that middle aged or older adults should be required to share accommodation involuntarily for financial reasons.

## The Gini Coefficient

Due to minor differences in the data and methods used, the Gini coefficients of overall income inequality calculated by the CSO, Eurostat and OECD vary somewhat, as illustrated in Table 4. It is also important to note that different Gini coefficients can be calculated before and after the effects of tax and/or social transfer payments.

The OECD provides a Gini coefficient for market income inequality (i.e. the distribution of gross incomes before tax or social transfers redistribute income). However, Eurostat provides a Gini coefficient for after-tax incomes before and after social transfers are included in the calculation. This is done with pensions included and excluded from the calculation of social transfers.

All three agencies provide a Gini coefficient of net income distribution (i.e. post-tax, post-transfers), which is the most commonly used version. In all three of these cases, Ireland's score is close to the EU average.

**Table 4: Gini Coefficient (Sources: CSO, Eurostat, OECD).**

	Source	Value (Ireland)	Year
<b>Gini before taxes and transfers</b>	OECD	56.8	2011
<b>Gini coefficient before social transfers (pensions included)</b>	Eurostat	53.5	2012
<b>Gini coefficient before social transfers (pensions excluded)</b>	Eurostat	46.0	2012
<b>Gini Coefficient (post taxes and transfers)</b>	CSO	31.2	2012
<b>Gini Coefficient (post taxes and transfers)</b>	OECD	30.2	2011
<b>Gini Coefficient (post taxes and transfers)</b>	Eurostat	29.9	2012

## Top 10% and Top 1% Income Share

There is a stark difference between the Revenue data and SILC survey data when it comes to calculating the income share of the Top 10% and Top 1%. According to the latest Revenue data cited from the World Top Incomes Database above, these shares are 36.1% and 10.5% (2009) respectively. The latest Revenue figures are from 2011, and gross income distribution is shown in IDS1 in Revenue's statistics.<sup>57</sup> These figures confirm the Top 10% had a combined gross income of €26 billion, which was 33.9% of the total income of €76.8 billion. The Top 1% had a combined gross income of €7 billion, which is 9.1% of the total.

In contrast, the survey data suggests the Top 10% and Top 1% shares are 23.5% and 4.7%, respectively (2012).

The difference is due to the different nature of the data used in each case. The survey data is of net incomes (after taxes and transfers) whereas the revenue data is on gross incomes (before taxes and transfers). The survey data also represents households, whereas the Revenue data represents tax cases, with cohabiting couples potentially represented by two tax cases in some instances, which may disguise total household income. While cohabitation might suggest a reduced concentration of income, it should also be remembered that the Revenue data ignores over 750,000 adults who do not make a tax return (e.g. students, people reliant on social protection payments and some pensioners). When the typically low incomes of these adults are taken into account, the Revenue data suggests an even greater concentration of income at the top of society. Likewise, survey data always risks under-sampling very high income households, as they are few in the population. It is beyond the scope of this report to align these two different sources of data. This case shows the need for investment in official statistics to improve the availability of data on the overall distribution of income in society.

# Employment Income

The main sources of data on market incomes come from survey data reported by the CSO. The Quarterly National Household Survey provides regular data on employment status; however it does not include household incomes. Eurostat and OECD provide standardised data for comparing Ireland with other countries.

Data	Measurement	Source
Adults of working age	3,007,200	Eurostat, Q2, 2014 <sup>58</sup>
Adults of working age in the active labour force	2,156,100	CSO, QNHS, Q2 2014 <sup>59</sup>
Number of people in employment	1,901,600	CSO, QNHS, Q2 2014
Percentage of working age adults in employment	63.2%	Authors' calculation
Number of people unemployed	254,500	CSO, QNHS, Q2 2014
Percentage unemployed	11.8%	CSO, QNHS, Q2 2014
Number of people long-term unemployed	146,500	CSO, QNHS, Q2 2014
Percentage long-term unemployed	6.8%	CSO, QNHS, Q2 2014
Number of full-time jobs	1,417,700	Eurostat, Q2, 2014 <sup>60</sup>
Percentage of employees in full-time work	74.6%	Authors' calculation
Percentage of working age adults employed full-time	47.1%	Authors' calculation
Number of part-time jobs	425,800	Eurostat, Q2, 2014 <sup>61</sup>
	452,200	CSO, QNHS, Q3 2014 <sup>62</sup>
Percentage of working age adults employed part-time	22.4%	Authors' calculation
Percentage involuntary part-time (Eurostat)	43.1%	Eurostat, 2013 <sup>63</sup>
Percentage involuntary part-time (CSO)	31.3%	CSO, QNHS, Q4 2013 <sup>64</sup>
Estimated number involuntary part-time	185,190	Eurostat, figure for 2013 <sup>65</sup>
Full-Time Equivalent (FTE) Employment	1,645,600	CSO, 2013 <sup>66</sup>
FTE Employment as % Working Age Adults	54.7%	Authors' calculation
Average Earnings (all sectors and types of employee)	€35,830	CSO ELCA 2013 <sup>67</sup>
Average Earnings (management, professionals)	€59,557	Based on CSO EHQ13 2014, Q1 <sup>68</sup>
Average Earnings (clerical, sales and service employees)	€24,446	Based on CSO EHQ13 2014, Q1
Average Earnings (all sectors and types of employee)	€24,814	Based on CSO EHQ13 2014, Q1
Living Wage (for single full-time worker)	€23,247	livingwage.ie, 2014 <sup>69</sup>
Number of people on the live register	370,050	
Number of people unemployed	254,500	
Number of 'inactive' people who would like to work	128,700	
Total number of people seeking work	498,750	
Number of jobs required for Ireland to achieve its 2020 target of 69–71% employment	173,000 to 234,000	
GDP/capita	€36,400 <sup>70</sup>	
Gross wages and salaries/capita	€14,222 <sup>71</sup>	

# 4. Wealth

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## Core Facts and Analysis

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Wealth inequality is a core aspect of economic inequality. Highly unequal societies are typified by high levels of wealth concentration, where wealth is held by very few people.

Wealth tends to be distributed more unequally than income and a highly unequal distribution of wealth causes problems for both the economy and society.

This section describes some of the causes of rising wealth inequality and some of the problems associated with rising wealth inequality and the concentration of wealth. It also outlines some of the challenges to measuring wealth inequality in Ireland.

## What is Wealth?

Wealth differs from income in that it is a 'stock', whereas income is a 'flow'. Wealth is the result of past earnings and income, but it is also affected by inheritance and decisions relating to investment, saving and consumption.

Wealth is made up of assets and can be divided into real assets or financial assets. The Central Bank of Ireland defines 'total net worth' as the difference between a stock of total assets and liabilities. Assets include land, real estate, business equity, agricultural assets, vehicles, cash savings, life assurance reserves, pension fund equity, and personal property. Liabilities are debts.

Assets give value to the person who holds that asset. Often this value will be an income such as interest, dividends, rents and royalties. However there can be other benefits to holding assets. Housing and cars provide use value. Most assets can appreciate in value which can give financial security. Assets can lead to participation in society, status, access to power and influence, economic freedom, and psychological benefits.

In other words, wealth provides substantial benefits to the holder of wealth above and beyond the monetary income generated from that wealth.<sup>72</sup> Therefore understanding the distribution of wealth, and thus of these benefits, is extremely important to understanding economic inequality.

The Euro Systems Household Finance and Consumption Survey (HFCS) has found that across Europe the top 20% of households hold more than two-thirds (67.6%) of all wealth, while the bottom 60% only have 12% of the total.<sup>73</sup>

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Across Europe the top 20% of households hold more than two-thirds (67.6%) of all wealth, while the bottom 60% only have 12% of the total.

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# Wealth Inequality across the World

In *Capital in the Twenty-First Century*, Piketty uses available data from tax returns to make a number of conclusions about wealth inequality across the world, including:

- In Europe, wealth inequality was extremely high and rising during the 19th century and up until 1914 (the Top 10% wealth share was at around 90% of total wealth in 1910). It then declined until the 1960/70s (down to about 50-60% for the Top 10% wealth share), and it has increased moderately since the 1980s.
- In the United States, wealth inequality was less extreme than in Europe until 1914, but it was less strongly affected by the 20th-century shocks, and in recent decades it rose more strongly than in Europe.
- Both in Europe and in the United States, wealth inequality is less extreme now than it was in Europe in 1914.

The ability to measure the most recent trends in wealth inequality is limited, partly due to the huge rise in cross-border financial assets and offshore wealth. According to Piketty, wealth rankings such as those conducted by *Forbes Magazine* show that the concentration of wealth at the very top has been increasing.<sup>74</sup>

## Wealth Inequality in Ireland

Figures from the Central Bank show that the 'total' net worth of individuals in Ireland was €508.5 billion or €110,312 per capita in 2014,<sup>75</sup> although the total is still down from the mid-2007 peak of €719 billion.<sup>76</sup> However, there is a lack of data on how this wealth is distributed.

The last major analysis of survey data on the distribution of wealth in Ireland was published over twenty years ago by Brian Nolan in 1991.<sup>77</sup> Nolan used 1987 data from an Economic and Social Research Institute (ESRI) survey, *'Income Distribution, Poverty and Usage of State Services'*, to estimate the wealth of Irish households.

Nolan estimated that in 1987:

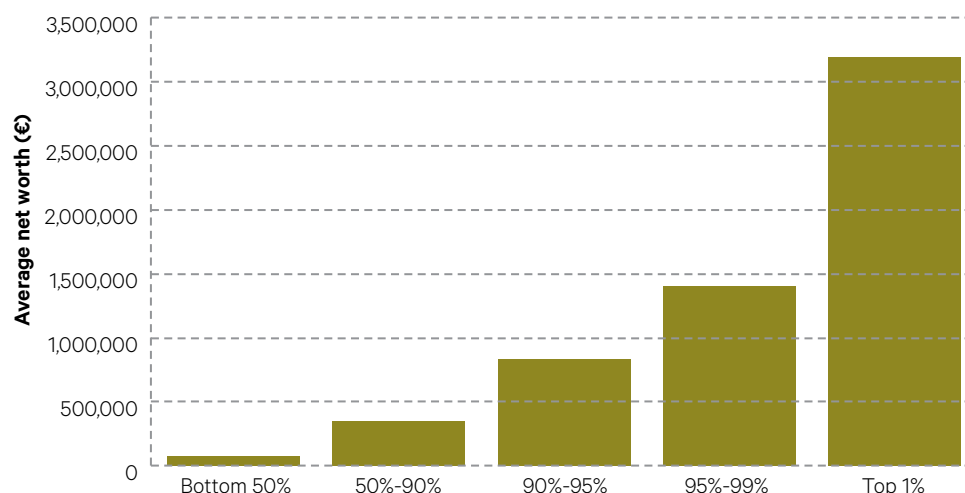
- The Top 10% of households in Ireland held 42.3% of net household wealth.
- The Top 5% held 28.7% of net household wealth.
- The Top 1% held 10.4% of net household wealth.
- The Bottom 50% of households held just 12.2% of net household wealth.

Applying the 1987 ratios (assuming 1,658,243 households in Ireland<sup>78</sup>) to the latest aggregate figures on net wealth from the Central Bank (2014) would give us these averages for selected groups as shown in Table 5 and Chart 20:

**Table 5: Wealth Distribution in Ireland (Authors' Calculations). It is possible to estimate of the distribution of wealth in Ireland based on a 1991 study, updated with recent figures of total wealth in Ireland from the Central Bank.**

Group	Total Net Wealth (€ million)	% Share of Total Wealth	Number of Households	Average Household Net Worth
Bottom 50%	€62,037	12.2%	829,122	€74,823
50%-90%	€231,367	45.5%	663,297	€348,814
90% - 95%	€69,156	13.6%	82,912	€834,088
95% - 99%	€93,055	18.3%	66,330	€1,402,923
Top 1%	€52, 884	10.4%	16,582	€3,189,159

**Chart 20: Estimate of the Distribution of Wealth in Ireland (Authors' Calculations). Using Nolan's estimate of wealth distribution with current Central Bank Data on total wealth, it's clear that the Top 10%, and in particular the Top 1%, hold the vast majority of wealth in Ireland.**



What the figures do not show is the distribution of wealth within these groups, especially the Bottom 50%. Although average wealth for the bottom half of society is €74,823, this is likely to be very unevenly distributed, with some in the Bottom 50% having much more than this (e.g. due to home ownership), but many others having close to zero or even negative net wealth.

### Other Estimates

Credit Suisse has published more recent estimates of wealth and wealth distribution in Ireland. They estimate wealth inequality on the basis of income inequality. In 2011, the Credit Suisse Wealth Report estimated that the Top 1% of the population held 28.1% of household net wealth, and that the Top 5% held 46.8% of household net wealth, which is well above the figures for these groups' share of annual income.

The most recent Credit Suisse Wealth Report in 2014 gives estimates for wealth in all deciles (as shown in Chart 21). It estimates that the Top 10% has 58.5% of household net wealth, with the Top 5% having 46.4% and the Top 1% having 27.3%. These estimates are derived using the distribution of income as a guide to wealth inequality. They point to far greater wealth inequality in Ireland than those given by Nolan in 1991.

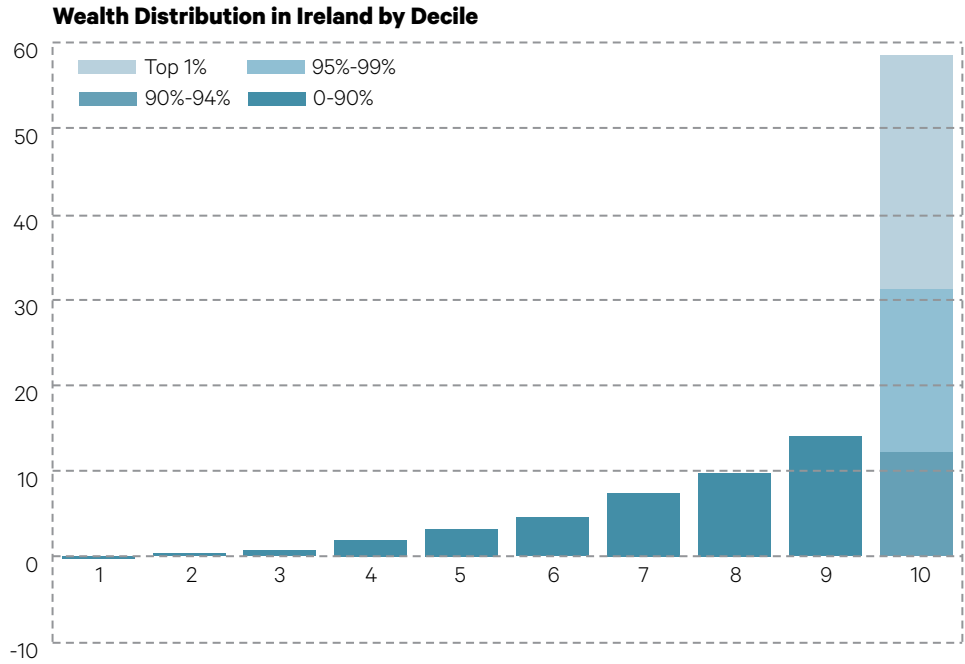
The Gini coefficient is explained in Section 3. When applied to wealth, rather than to income, the Credit Suisse report finds a Gini in Ireland of 0.71, compared to an income inequality of 0.31, which reinforces the highly concentrated nature of wealth compared to income. In comparison with other advanced countries it is a marginally below average figure (see Chart 22).

**Table 6: Studies of Wealth Distribution in Ireland (Sources: Nolan and Credit Suisse). Estimates of wealth distribution give the Top 10% between 42% and 58% of all wealth, and the Top 1% between 10% and 27% of all wealth.**

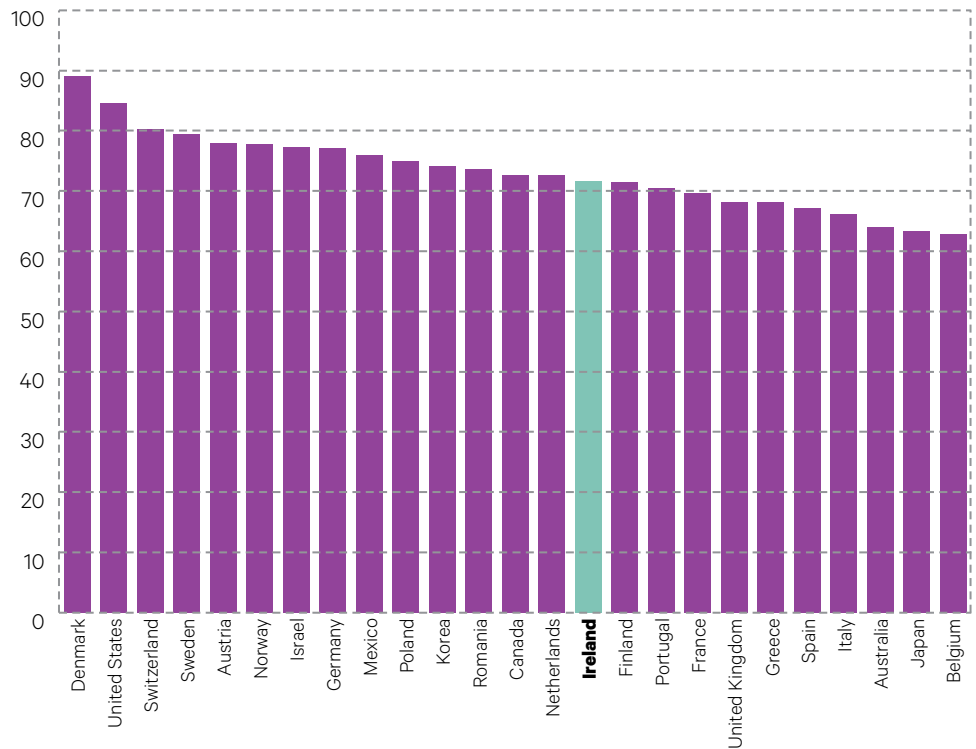
Author	Year Studied	Top 10%	Top 5%	Top 1%
Brian Nolan	1987	42.3%	28.7%	10.4%
Credit Suisse	2011	-	46.8%	28.1%
Credit Suisse <sup>79</sup>	2014	58.5%	46.4%	27.3%



**Chart 21: Estimate of Wealth Distribution in Ireland (Source: Credit Suisse). This is based on the 2014 Credit Suisse Study, and it is clear how much of the wealth is held by the Top 1%.**



**Chart 22: Wealth Gini in Selected Countries (Source: Credit Suisse). This shows Ireland to be roughly average with other developed countries.**



# Causes of Wealth Inequality

Many factors affect wealth inequality, but their precise impact and relative importance are not well understood. The distribution of wealth in a country will depend on the growth rate of the economy, demographic trends, savings behaviour, inheritance arrangements, land and property ownership, general macroeconomic trends (such as globalisation) and government policies affecting, for example, taxation and pension provision.

## Financial Assets

For those at the higher end of the wealth distribution scale, a larger proportion of their wealth is made up from equity in private businesses and listed companies. Because of this, rising stock market values tend to favour wealthier individuals and to cause the overall wealth shares of the top wealth groups to increase. Wealth inequality will tend to rise when the overall share of financial assets relative to real assets is increasing, as happened after the financial crisis.

## Home Ownership

For middle wealth groups, equity in the form of a 'family home' makes up the largest component of their assets, while at lower wealth levels, savings accounts are more prominent. When house prices rise, property owners benefit disproportionately over those who do not own property, and because second homes and investment properties form a significant part of the portfolios of wealthier individuals, these portfolios will also rise in value, increasing wealth inequality.

Prior to the financial crash, home ownership in Ireland stood at 76% (2006), down from a high of 81% in 1991, according to Census data. The high level of home ownership in Ireland in the early 1990s was a consequence of a longstanding policy to sell local authority housing to tenants as well as various tax reliefs that supported home ownership. More recently, home ownership rates have fallen to 69%, according to Census 2011.

As of 2014, the average residential property price in Ireland is €234,098 (new house/apartment) and €253,128 (second-hand). For Dublin, the figures are €308,645 (new) and €348,165 (second hand).<sup>80</sup> According to the Census, approximately half of all homeowners have no mortgage or loan secured against their property. According to the Central Bank, in March 2014, the average size of a mortgage debt was €139,680.<sup>81</sup>

Clearly most households with outright home ownership in Ireland have an asset nominally worth a six-figure sum. Similarly, many homeowners with a mortgage are likely to have significant net wealth.

## Debt

Debt is a form of negative wealth and must be considered alongside any discussion of wealth inequality. A high degree of indebtedness reduces wealth levels. In Ireland, overall household indebtedness per capita is lower than household assets (see Chart 23). Only the lowest decile show total net wealth to be negative (see Chart 21). Individuals in any income group can have debt that is greater than their assets. Inequality will be exacerbated by the fact that some households may have high incomes and low debt, and others will have low incomes and high debt.

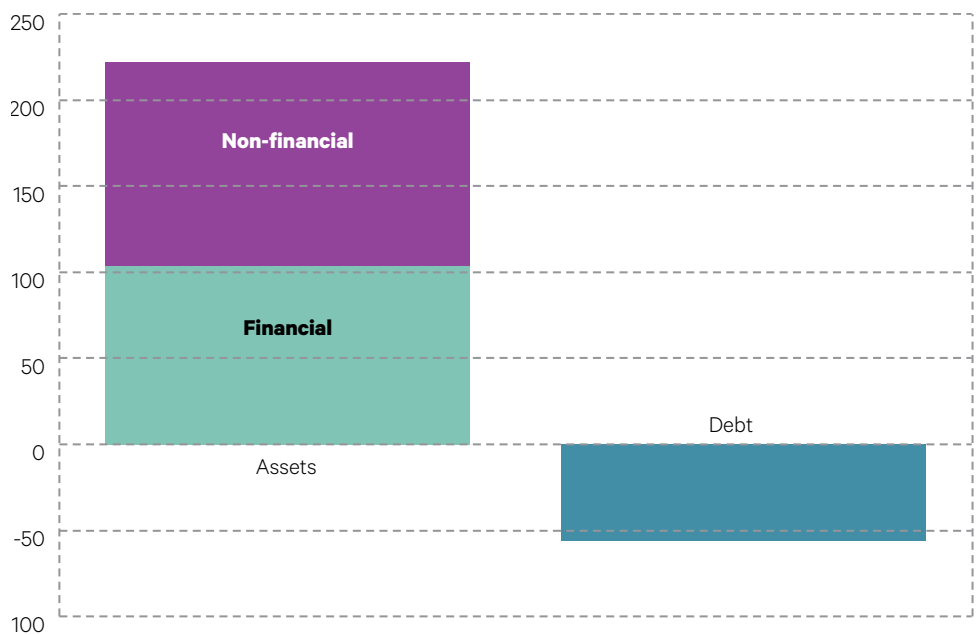
A minority of homeowners, who purchased in recent years, may have 'negative equity' (i.e. the value of the outstanding debt is larger than the value of the asset). Negative equity is a concern if the owner of the asset is unable to make repayments or wishes to sell. In this context the problem of wealth inequality can be exacerbated by inequalities related to income and employment (see Section 3).

The number of mortgages in negative equity in Ireland reached a peak of over 314,000 in 2012. The recovery in house prices by the end of 2013 reduced that number by approximately 45,000<sup>82</sup>. As house prices continue to rise in Ireland at the end of 2014, the numbers in negative equity will fall.

In mid-2014, 126,005 (16.5% of the total) private-dwelling mortgage accounts were in arrears (i.e. the borrower had not made a payment in accordance with the mortgage contract). Of those, 90,343 (11.8% of the total) were in arrears over 90 days, while 4.9% of the total private dwelling mortgage accounts were in arrears for 720 days or more.<sup>83</sup>

Where household income is sufficient to make repayment that household, even when in negative equity, is making an investment in a wealth asset that they will ultimately be able to sell or bequeath. However, those on low incomes who cannot afford their repayments may ultimately lose their homes and incur an overall loss (e.g. loss of deposit and of money invested in the property). Unemployment obviously plays a major factor in this.

**Chart 23: Financial and Non-Financial Assets and Debt per capita in Ireland (Source: Credit Suisse).**



# Inheritance

Inheritance is an important route to wealth ownership and inherited wealth is highly unequally distributed. Lower income families do not bequeath much, so children of the wealthy benefit disproportionately. Inheritance tends to raise the level of wealth inequality and to ensure that wealth inequality persists over time, especially in slower growth economies.

In Ireland, gifts given in inheritance are taxed at 33%, although this is only on gifts above a threshold of €225,000 for children (and €30,150 for parents, siblings, nieces/nephews and grandchildren, and €15,075 for all other persons). In 2012, €254 million was paid in inheritance tax. However, the very wealthy have the resources to use family trusts, offshore accounts, assets and other mechanisms to avoid paying CAT on inheritances.

Inheritance taxes are subject to a number of exemptions, including where the dwelling is the family home, or where the relationship of the beneficiaries is the surviving spouse or civil partner, child, etc. It is also possible to set up trust funds for children as a means of passing on wealth while avoiding tax.<sup>84</sup>

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Inheritance is an important route to wealth ownership and inherited wealth is highly unequally distributed.

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## Taxes on Wealth

Governments can have large impacts on wealth inequality in a range of ways. Progressive income or estate taxes, as well as taxes on wealth or capital income, reduce rates of return from holding assets and therefore lead to less asset growth. High taxation on large estates appears to be one of the reasons why wealth inequality declined during most of the 20th century.<sup>85</sup> Today, taxes are not levied on estates but on beneficiaries, although if there was a comprehensive wealth tax it would be an annual tax on estates/assets.

Strong social security such as good public pensions, free higher education or generous student loans, unemployment and health insurance, can greatly reduce the need for people to hold personal financial assets. Public housing programmes can do the same for real assets. However these policies can increase wealth inequality because strong public services may mean that middle and lower income groups have less pressing needs for personal saving, while top groups continue to accumulate for business and investment purposes. This can explain high levels of wealth inequality in Denmark, Norway and Sweden.<sup>86</sup> See also Section 5 on Taxation.

## Data and Sources

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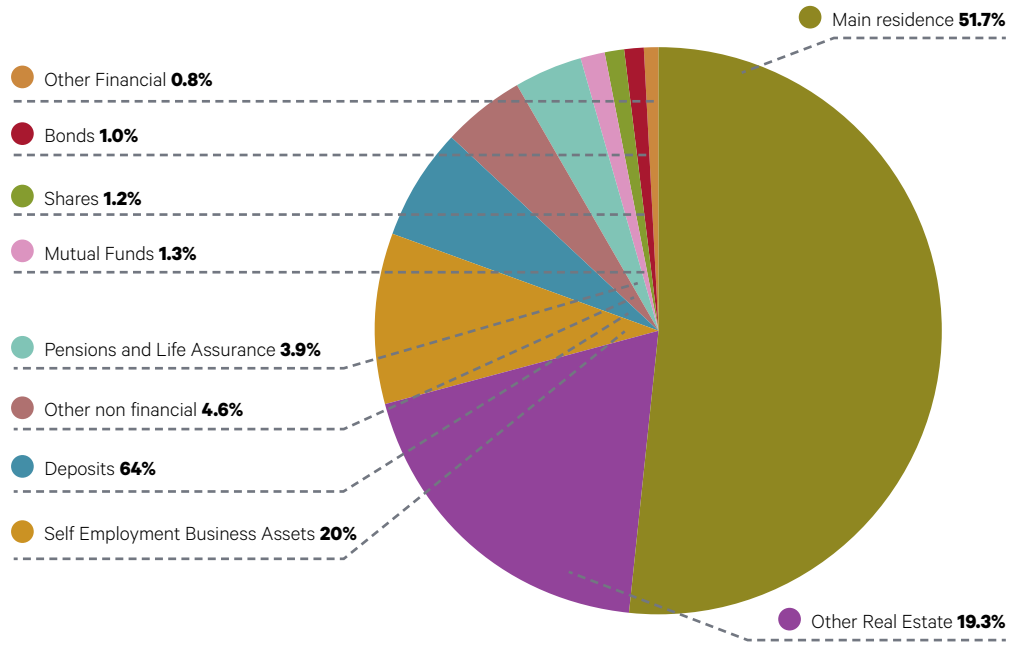
Globally, data on the distribution of wealth is very sparse. 47 countries have Household Balance Sheet (HBS) data which give only average levels of household wealth. And even with this, 30 countries cover only financial assets and debts (therefore omitting non-financial assets such as houses).<sup>87</sup>

### Wealth Surveys

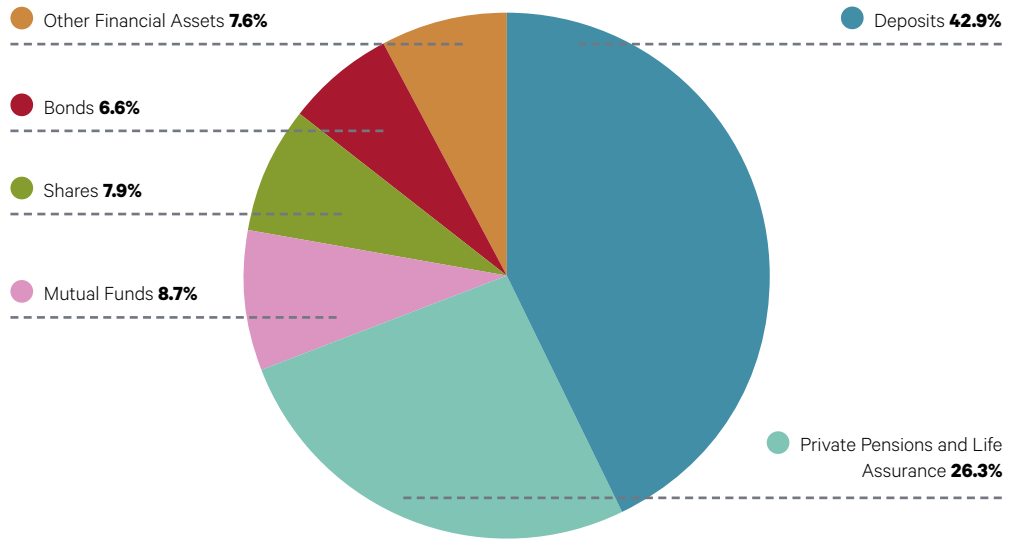
Household surveys can provide a better understanding of the distribution of wealth within countries. Yet only 30 countries have up to date surveys, mainly through the Euro Systems Household Finance and Consumption Survey (HFCS).

As illustrated below, the European HFC Survey provides some detail on the breakdown of assets held in Europe, although it should be noted that this distribution will vary. Many households' sole asset may be their main residence, whereas high net worth individuals may have a greater proportion of wealth in the form of financial assets.

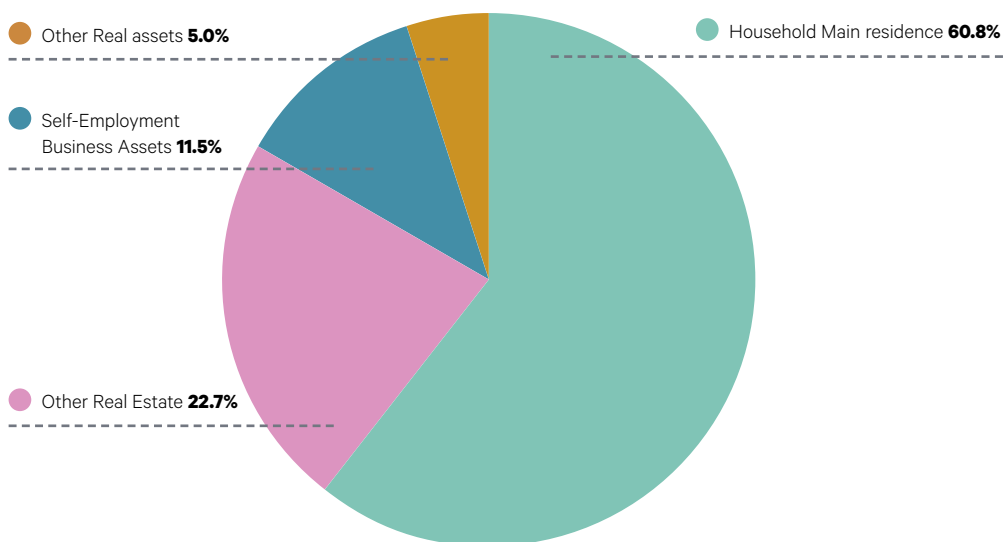
**Chart 24: Asset Types in European Countries (Source: EHFCS). Details from the European Household Finance and Consumption Survey.** <sup>88</sup>



**Chart 25: Financial Assets in European Countries (Source: EHFCS).**



**Chart 26: Real Assets in European Countries (Source: EFHCS).**



### Wealth Inequality in Europe<sup>89</sup>

The results of the first Euro system Household Finance and Consumption Survey (HFCS, 2013), published by the European Central Bank (ECB) in 2013, indicate that real assets (physical assets) make up almost 85% of the value of total gross assets of euro area households. Financial assets make up the remaining 15%.

A household's main residence is by far the most important asset, making up 51.7% of the total value of gross assets. Other real estate property makes up 19.3%, while self-employment business assets make up 9.8%. Deposits make up 6.4% of gross household assets making them the most important financial asset, while voluntary private pensions and whole life assurance when added together make up 3.9% of total household assets.

Mutual funds (1.3%), shares (1.2%), bonds (1.0%) and other financial assets (0.8%) are, on average, of limited importance to euro area household portfolios. Wealthier cohorts tend to hold a relatively higher proportion of financial assets. The principal private residence makes up a relatively smaller proportion of the net wealth of the wealthiest households. See Charts 24, 25 and 26.

The ECB estimates that across Europe, households at 10% on the distribution of wealth own €1,200 in net wealth while households at 90% on the distribution of wealth own on average €506,000 in net wealth. This means they have 422 times the net wealth of those at 10%.

In Ireland, the Household Finance and Consumption Survey (HFCS) was conducted for the first time in 2013, but its findings have not yet been published. The inclusion of Ireland in this survey is very welcome and will give an indication of the dynamics of wealth, assets and debt. It will add to our knowledge of the composition and distribution of household wealth and give a broader understanding of the extent of economic inequality in Ireland. However, the survey will only represent a snapshot in time and so will not give information about the changing nature of wealth inequality in Ireland over the boom-and-bust period.

Survey data can also underestimate the extent of wealth inequality. In particular, surveys are likely to underestimate the wealth of the very highest earners, because high net-worth individuals are less likely to feature and more likely to under-report.

Credit Suisse, for example, has reported that it does ‘not expect to generate accurate predictions of the number and value of holdings of high net worth individuals’ because of ‘well-known statistical regularities in the top wealth tail’.<sup>90</sup> In their data they use statistical models to account for this variation and they augment their data with information on the wealth holdings of individuals from the rich list data reported by *Forbes Magazine* and other publications.<sup>91</sup>

Net wealth is also strongly correlated with income, for instance because high earners tend to save more and consequently accumulate more wealth.<sup>92</sup> Wealth inequality and income inequality are related, even though wealth tends to be more unequally distributed than income. It is however possible to use data on income inequality to estimate wealth inequality for countries lacking direct wealth distribution data.<sup>93</sup>

Data	Measurement	Source
Total net worth in Ireland	€508.5 billion	Central Bank, 2014 <sup>93</sup>
Net worth per capita	€110,312	Central Bank, 2014
Share of wealth held by Top 10% of households	42.3%	Brian Nolan, 1991
Share of net household wealth held by the Top 5%	28.7%	Brian Nolan, 1991
Share of net household wealth held by the Top 1%	10.4%	Brian Nolan, 1991
Share of net household wealth held by Bottom 50% of households	12.2%	Brian Nolan, 1991
Wealth Gini coefficient	0.71	Credit Suisse, 2014

# 5. Public Services

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## Core Facts and Analysis

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Public services, many of which are universal, play a major role in addressing economic inequality in its various forms. Services reduce the burden of risk on people for major costs that most would be unable to afford on their own without social solidarity. This is most obvious in relation to old age, job loss, disability, illness and the costs associated with raising children.

Public services also represent a series of collective investments that benefit all of society and are central to Ireland's economic prosperity, including roads, electricity networks and education services.

In order to reduce economic inequality, public services must be of high quality, respond to public needs and be affordable for present and future generations, and they must be sustainable and capable of change in the face of future issues like the ageing of the population.

However, as currently funded, organised and delivered there are serious deficiencies with the ability of Ireland's public services to reduce economic inequality and provide quality outcomes for all.

Central to the role of public services in reducing economic inequality is the part taxation plays in pooling a proportion of society's resources to deliver 'public goods'. Taxation makes collective investments possible — like in roads and rail, and education and health — but it also provides for social solidarity, so that some supports and services are available for those who most need them, such as those who are ill or who have a disability. The pooling of costs by society also allows people to pursue expensive technical education (such as medicine) that would be prohibitively expensive for most if the full cost was incurred. This benefits society too, by insuring sufficient numbers of people train in the range of specialist areas needed in a modern economy.

## The Value of Public Services

Many people are keenly aware of the amount of tax they pay (at least in the form of direct taxes), but they do not have an equivalent awareness of the material benefits that flow back to them through the 'public value' of public services.<sup>95</sup>

In addition to the significant direct value for those who use them, public services also have value as a form of insurance as they equalise risk and reduce uncertainty. For example, when a person's taxes are spent on ensuring that there is quality public healthcare services, this provides

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Public services, many of which are universal, play a major role in addressing economic inequality in its various forms.

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a valuable safety net for whenever a person or a member of their family falls ill, or if they have a long-term illness or disability. Healthcare services like hospitals are the obvious example, as practically everyone will use them at some point in their lives. Other examples include, for example, fire services and the degree of income replacement guaranteed by social insurance.

There are three main ways in which public services give people material benefits.

Public spending provides cash incomes for people in the form of social transfers, such as pensions, disability supports and jobseekers' payments.

Firstly, public spending provides cash incomes for people in the form of social transfers, such as pensions, disability supports and jobseekers' payments (see Section 3). These can be provided over the long term, but they can also cover short-term periods when a person cannot work due to circumstance such as childbirth or illness. These payments include both entitlements based on a record of paying sufficient social insurance contributions and means-tested payments to those who demonstrate their need for income support. They also include tax-funded, near-universal payments, such as payments for children.

Universal public services benefit everyone by meeting a range of material needs (including healthcare and education) and providing people with resources for their non-material needs, such as recreation or culture.

Secondly, universal public services benefit everyone by meeting a range of material needs (including healthcare and education) and providing people with resources for their non-material needs, such as recreation or culture. Some key material needs are addressed either exclusively or mainly via public services, for example water, sanitation, healthcare, personal care for people with disabilities, social care, and education.

Thirdly, some public services are explicitly targeted at people with lower incomes or at people facing unaffordable costs arising from, for example, serious illness, disability, or fees charged for specialised third-level education. These services are made available to anyone who meets the corresponding eligibility criteria, which may include proof of illness or a financial means test.

In addition, public services provide over 288,000 full-time equivalent jobs (i.e. when the hours of people working part-time are added together), which is a sixth of all full-time equivalent employment in Ireland. Pay levels and employment practice in the public sector positively influence economic equality. For example, a greater proportion of women achieve senior rank and higher pay in public services than in private companies.

Some public services are explicitly targeted at people with lower incomes or at people facing unaffordable costs arising from, for example, serious illness, disability, or fees charged for specialised third-level education.

Apart from addressing economic inequality, some public services provide the basis for Ireland's political, social and economic stability, such as the Gardaí Síochána, the Courts Service of Ireland and the civil service, which performs an essential role in the day-to-day operation of our democratic system of government. Public spending also funds subsidies and direct supports to the enterprise, as well as tax reliefs (see Section 3). In addition, public spending includes servicing the national debt.

Some public spending can increase economic inequality. Many tax reliefs are effectively another form of social transfer targeted at those with higher incomes and are of greatest benefit to those on the highest incomes, which worsen income inequality if the economic benefit of those tax reliefs is not widely distributed. State subsidies or tax reliefs that support exclusive private services can also increase economic inequality.

While questions about value for money or the best use of available resources will always surround public spending, the overall level of spending provides a useful benchmark to understand the scale of material benefits to society through public services. These material benefits are essential to reducing economic inequality.

An indicator of the value of universal services and other public spending is the amount of spending on health and education services, which was €12,191 per household in 2012.

# Public Spending

As illustrated in Tables 7 to 17, spending on different functions of government can be shown as a value per household or per capita.

A simple illustration of the value of public services is as a form of insurance given to society through the existence of fire protection services. Total spending of €270.7 million on ensuring such services are available equates to €163 per household in Ireland. While the vast majority of people will not need to call fire services during any given year, having these services available provides real value and reassurance. Public fire services are also part of the essential infrastructure for business activity.

Public spending provides a useful baseline to indicate the level of investment in providing everyone in society with different services. While not all spending equates to service delivery this broad generalisation provides a baseline that can then be used to inform more detailed analysis of service quality and the outcomes achieved for people using the services.

It should be noted that public services are often provided by community and voluntary organisations who receive some state funding, but will augment this with charitable fundraising (which is not included in the data on public spending). Likewise, unpaid care work and unpaid work at the household and community level – often by women – can be due to a lack of public services or affordable alternatives (such as affordable childcare), and also provides equivalent value to public spending by providing vital services that meet many of society's essential needs.

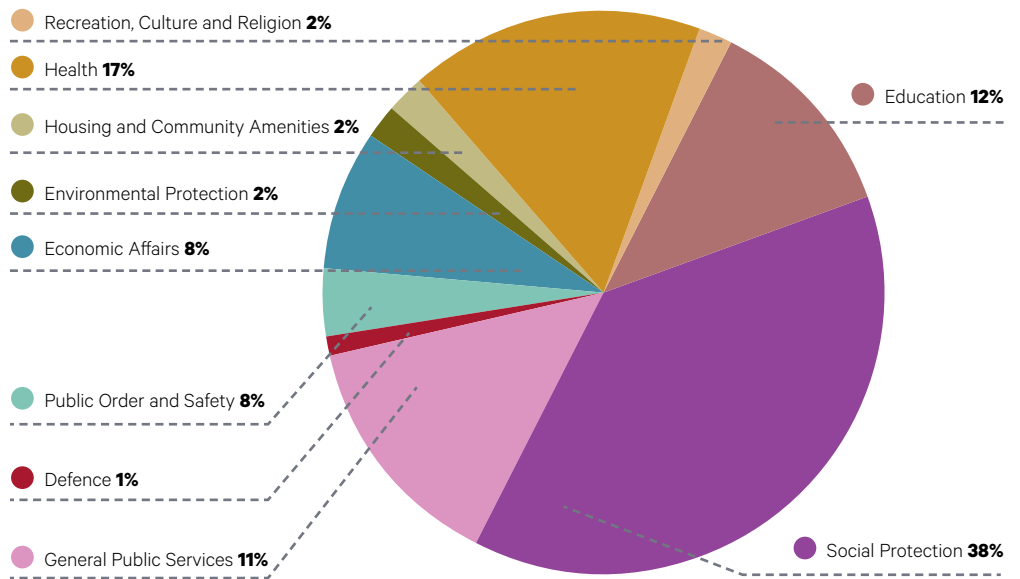
**Table 7: Public Spending by Function of Government (Source: Eurostat, 2012 data).<sup>96</sup>**  
*Public Spending can be presented as a value to every household.*

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

*Third column based on 1,658,243 households (Census 2011)*

Chart 27 gives the breakdown of public spending according to the UN classification of the functions of government (COFOG), which is a standard way to compare public spending in a country over time or in comparison with other countries. COFOG has the advantage that even if Government Departments change or merge, or if duties pass from one Minister to another, the level of public spending under each of the ten COFOG headings does not change.

**Chart 27: Spending on the Ten 'Functions of Government' in Ireland (Source: Eurostat, 2012).**



In this section, each of the ten main COFOG headings is broken down, with an illustrative value per household figure shown for each sub-heading. Under each heading, one or more illustrative examples are given of public services and how these relate to economic inequality.

What these examples show is the day-to-day relevance of some universal public services is practically invisible for many people, despite their fundamental importance and value through meeting people’s material needs.

The majority of public services are universal, meaning that they are funded from tax revenue and provided for everyone to use. In fact, many public services can only be provided on a universal basis, for example, the justice system that provides rule of law, or basic infrastructure such as roads and street lighting.

In a small number of cases, universal services are supplemented by additional targeted measures – for example, Ireland’s health services are available to all at highly subsidised prices, but those on very low incomes who receive a Medical Card can access some of these services at even lower prices or free-of-charge.

# General Public Services, Defence and Public Order and Safety

Table 8: Public Spending on General Public Services (Source: Eurostat, 2012 data).<sup>97</sup>

General Public Services	Public Spending	Spending per Household
<b>Executive and legislative organs, financial and fiscal affairs, external affairs</b>	€2,458.3 million	€1,482
<b>Foreign economic aid</b>	€590.9 million	€356
<b>Public debt transactions</b>	€5,911.7 million	€3,565
<b>Other</b>	€594.9 million	€359
<b>TOTAL</b>	<b>€9,555.7 million</b>	<b>€5,763</b>

Table 9: Public Spending on Defence (Source: Eurostat, 2012 data).<sup>98</sup>

Defence	Public Spending	Spending per Household
<b>Military defence</b>	€456.9 million	€276
<b>Foreign military aid</b>	€164.9 million	€99
<b>Other</b>	€45.3 million	€27
<b>TOTAL</b>	<b>€667.1 million</b>	<b>€402</b>

Table 10: Public Spending on Public Order and Safety (Source: Eurostat, 2012 data).<sup>99</sup>

Public Order and Safety	Public Spending	Spending per Household
<b>Police services</b>	€1,679.9 million	€1,013
<b>Fire-protection services</b>	€270.7 million	€163
<b>Law courts</b>	€392.3 million	€237
<b>Prisons</b>	€325.9 million	€197
<b>Other</b>	€47.2 million	€29
<b>TOTAL</b>	<b>€2,715.9 million</b>	<b>€1,638</b>

Public spending shown in Tables 8 to 10 can be taken together, as they have less direct relevance to economic inequality, although these categories indicate spending on the basic structures of the state, which provide essential universal services.

For example, spending on the Gardaí, courts, prisons and probation services provides Ireland's stable rule of law, which is a basic prerequisite for a well-functioning society, as well as legitimate and societally beneficial economic activity. The Worldwide Governance Indicators<sup>100</sup> rank Ireland as 13th out of 211 countries for the strength of rule of law. The Sustainable Governance Indicators rank Ireland as 18th out of 41 OECD and EU countries.<sup>101</sup> These rankings indicate that Ireland's laws are published and applied evenly, and that the administration of law is independent, fair and efficient.<sup>102</sup>

Rule of law in a democratic society is also a prerequisite for economic equality. It is incontrovertible that countries with corrupt legal systems are biased in favour of wealthy elites. A test of any legal system is whether or not it is sufficiently robust to conduct trials charging the most economically powerful in the same way as everyone else. In that regard, Ireland's judicial system scores well according to the international indices, though it is still evident that those with wealth have an unfair capacity to access greater legal expertise, to litigate to defend their business interests and to repeatedly appeal judgements. Since the economic crisis hit, there are also questions around the resources available to some justice bodies (including the Gardaí and Criminal Assets Bureau) to enforce the law, especially on individuals or institutions involved in so-called white collar crime.

# Economic Affairs

Table 11: Public Spending on Economic Affairs (Source: Eurostat, 2012 data).<sup>103</sup>

Economic Affairs	Public Spending	Spending per Household
<b>General economic, commercial and labour affairs</b>	€622.2 million	€375
<b>Agriculture, forestry, fishing and hunting</b>	€882.1 million	€532
<b>Fuel and energy</b>	€243.9 million	€147
<b>Mining, manufacturing and construction</b>	€158.2 million	€95
<b>Transport</b>	€2,741.0 million	€1,653
<b>Communication</b>	€22.6 million	€14
<b>R&amp;D Economic affairs</b>	€772.2 million	€466
<b>Other</b>	€403.9 million	€244
<b>TOTAL</b>	<b>€5,846.1 million</b>	<b>€3,525</b>

Much of the €5.8 billion Ireland spends on economic affairs involves payments or provision of services to support businesses.

## Public Supports to Enterprise

Public services are available to all enterprises, both public and private. The services that support private businesses are seen as an indirect public benefit if they lead to more job creation and higher tax revenue in Ireland. But the effect on economic inequality is complex, as business owners usually benefit more than workers or customers.

Much of the €5.8 billion Ireland spends on economic affairs involves payments or provision of services to support businesses, from payments to farmers (including CAP, the Common Agricultural Policy) to the work of Enterprise Ireland, the Industrial Development Authority (IDA) and Local Enterprise Offices. Some public services with direct value to households as well as businesses, such as spending on roads and public transport, are also included under this heading.

A more detailed analysis of the amount of public money spent on supports to business, excluding services to households, concluded that between €4.7 billion and €6.2 billion was spent in 2011. This estimate includes the value of some tax reliefs, the purchase of legal services and the cost of over 10,000 civil and public servants in government departments or public bodies whose remit is to support business/the economy.<sup>104</sup>

It is clear therefore that business and industry benefit directly from public spending that enables them to function effectively and profitably. For example, some major expenditure such as upgrading roads is directly intended to support the development of enterprises in the regions affected.

Enterprises partly or fully owned by the state are also part of public spending on economic affairs. Well-run public enterprises have the dual role of providing goods and services required in the economy, while also paying a dividend to the state. For example, ESB paid a dividend of €68.9 million for 2011 and Bord Gáis Energy paid a dividend of €23.8 million.<sup>105</sup> ESB have paid a total of €1.2 billion in dividends in the last decade.

## Infrastructure

Much basic infrastructure is delivered publicly and paid for collectively, including roads, street lighting, water services, electricity distribution networks and ports. Many public services are less visible, but still have a major impact on people's lives, from local authorities' planning departments, to the work of public health experts monitoring the incidence of disease and disability. Even one-off services such as inoculation of children against disease or registration of car ownership have personal, societal and economic benefits.

Infrastructure, from quality roads and rail infrastructure to rural electrification, provides a minimum standard of living that is widely shared across society. These are public investments that provide the foundation for all services using them to be available at generally affordable standard prices, with provision for those who may have financial difficulty accessing them. In this respect, developed economies like Ireland are qualitatively different from developing countries, where access to water, energy and even roads is not guaranteed or affordable to everyone. Yet even developed countries can experience gaps in that basic infrastructure if public investment is not maintained as a matter of public policy.

## Public Transport

Public transport is an example of a public service that delivers many benefits to society, including less stressful travel, environmental benefits, and means for everyone to travel regardless of income.

Public transport provides a transport option for everyone in their catchment areas. Many people choose to use public transport for convenience, cost reasons and out of concern for the environment. Regulated taxis and licenced private bus operators are also part of the public transport system. The existence of a universal transport service is of particular importance to people who do not have the option of private transport, including some older people, people with disabilities and those on lower incomes.

Some expenditure on transport can be categorised as a social transfer. For example, the Free Travel scheme cost €75.5 million in 2013<sup>106</sup> and had 782,529 recipients, most of whom qualify on the basis of age or disability, rather than a means test based on income. However, public transport provides an example of a universal service where lack of capital investment and a weak level of public spending can result in significant economic inequalities being experienced in transport generally. As a consequence, public transport ticket prices can represent a significant cost for people on low incomes. Also, public transport services are not evenly distributed. Only the major urban areas (Dublin, Cork, Limerick and Galway) have a more developed transport network involving suburban rail and buses. As such, there is significant inequality in access to transport between urban and rural dwellers, resulting in car dependency, and therefore added cost, for a cohort that includes many people on low incomes.

The potential lack of access via public transport to services and work represents a major economic disadvantage to a sizeable cohort of people (on transport costs, see also Section 9). According to Census 2011, nearly 1.3 million adults (75.3%) drive to work, school or college on a regular basis, compared to 144,000 commuters who take a bus or train, and fewer than 40,000 who cycle. But the Census data does not count public transport users who are not commuting because they are working in the home, retired, ill, with disability, or unable to find work. Over 143 million passenger bus journeys<sup>107</sup> and 36.9 million train journeys<sup>108</sup> were taken on public transport in 2012, more than half of which are likely to be additional to those commuting to work or education.

Another example of inequality in public transport is the Tax Saver scheme. This is a tax break for commuters who purchase a monthly or annual ticket via their employer.<sup>109</sup> In common with other tax breaks on the marginal rate, there is a much greater benefit given to the minority of people who pay the higher rate of income tax. The majority of workers, who only pay the standard rate of income tax, gain a 31% reduction from using the scheme, but the minority who pay the higher rate of income tax, gain a 52% reduction in the price of a travel pass. People who are unemployed or in low income employment, as well as those whose employers decline to participate in the scheme, do not benefit.

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The existence of a universal transport service is of particular importance to people who do not have the option of private transport.

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Public transport provides an example of a universal service where lack of capital investment and a weak level of public spending can result in significant economic inequalities being experienced.

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# Environmental Protection

Table 12: Public Spending on Environmental Protection (Source: Eurostat, 2012 data).<sup>110</sup>

Environmental Protection	Public Spending	Spending per Household
Waste management	€84.9 million	€51
Waste water management	€960.6 million	€579
Pollution abatement	€112.1 million	€68
Protection of biodiversity and landscape	€98.0 million	€59
Other	€55.7 million	€34
<b>TOTAL</b>	<b>€1,311.3 million</b>	<b>€791</b>

Whereas clean water delivery is included under Housing and Community Amenities, spending under Environmental Protection includes waste water/sewage treatments as well as waste collection and recycling, alongside protection to the natural environment and pollution control.

As discussed in Section 9, where economic inequality is most acutely affected by public policy in this area is where household charges for water or waste services have not been adequately designed or equality-proofed to safeguard low income households who may be unable to afford them.

# Housing and Community Amenities

Table 13: Public Spending on Housing and Community Amenities (Source: Eurostat, 2012 data).<sup>111</sup>

Housing and Community Amenities	Public Spending	Spending per Household
Housing development	€501.8 million	€303
Community development	€314.7 million	€190
Water supply	€552.9 million	€333
Other	€1.7 million	€1
<b>TOTAL</b>	<b>€1,371.0 million</b>	<b>€827</b>

## Housing (Social Housing)

As housing is a basic need and right, the state intervenes in housing provision in many targeted ways. The first of these is the direct provision of 'social housing', low-cost rental accommodation provided by local authorities to those on low incomes. Local authorities also provide services for people who are homeless. (State housing supports for private renting and home ownership are addressed below.)

What makes social housing so important to reducing economic inequality is that rents are linked to household incomes.

Only households below a maximum net income threshold are eligible to apply for social housing — for example, ranging from €25,000 to €35,000 maximum for a single person or €30,000 to €42,000 for a large family.<sup>112</sup>

Social housing undoubtedly plays a major role in ensuring that people on low incomes can meet their basic needs. Ireland's stock of 128,192 social housing units (2012)<sup>113</sup> represents 7.8% of all housing units in Ireland. In addition, voluntary housing associations provide approximately 15,000 units. What makes social housing so important to reducing economic inequality is that rents are linked to household incomes.

The differential rent scheme in social housing means that rents are based on the household's ability to pay, which is a significant economic benefit for low income households,<sup>114</sup> although in some cases families in difficult situations can still fall into arrears. Details of the differential rent vary for each local authority. For example, in Dublin, social housing rents are set at 15% of assessable income. Social housing can also offer the benefit of reduced heating costs where there is a collective heating system, and reduced waste charges (e.g. €2/week) where there is a collective bin.

There is significant demand for access to social housing. In 2013, 89,872 households were assessed as qualified for housing support and were on waiting lists for social housing, up 60% from the 2008 figure of 56,249.<sup>115</sup>

Social housing in Ireland has become widely perceived as a targeted service for disadvantaged people, which was not the case originally. From the foundation of the state, house building by public bodies and local authorities was a mainstream way for many people to rent (and subsequently purchase) their homes. Semi-state enterprises were also involved in helping to build homes for their workers, such as for railway workers.

Various tenant purchase schemes permitted generations of social housing tenants to purchase their homes at discounted prices.<sup>116</sup> The increase in home ownership across society reflected a broader distribution of wealth (see Section 4), but the consequent loss of social housing stock meant that later social housing developments were pushed into more peripheral locations, with poorer infrastructure and less access to services or jobs. Social tenants with good jobs were also given cash incentives to move out during some periods in order to free up stock. This has led to the present day situation that areas retaining a high concentration of social housing are disadvantaged. Some local authorities have implemented policies to create more socially mixed areas to counteract these negative social and economic outcomes.

### **Housing (Renting)**

Initially introduced as a short-term measure, the Rent Supplement welfare payment has also become a major part of public spending on housing, with €373 million spent in 2013.

Rent Supplement is a means-tested welfare payment to households on low incomes who are not at work. However, there is concern that Rent Supplement levels are significantly below market rents in many areas, with the result that tenants in receipt of Rent Supplement are concentrated in areas with the worst quality private rented accommodation, with market rents that can still be unaffordable. Replacement schemes for Rent Supplement are being developed so that recipients moving into employment will not automatically disqualify themselves from receiving assistance with housing payments. For example, the new Housing Assistance Payment (HAP), which also has the benefit of giving tenants a differential rent based on their income.<sup>117</sup> Increased emphasis on inspections and enforcement of standards in the private rented sector is also occurring. Nonetheless, major problems of affordability and poor quality standards remain.

Ireland continues to use tax reliefs to encourage the development of the private rented sector, as landlords can claim tax relief on loan interest. Ultimately, in the long term, tax reliefs to landlords are subsidies to a relatively wealthy minority and the money involved might be better used for direct investment in social housing, but there are short-term trade-offs to be considered. For example, if tax relief to landlords are necessary for sufficient investment in rental accommodation to occur in the market, then the cost of rents might rise in the absence of that tax relief (by reducing supply), which would have a particularly negative effect on people on low incomes who rent their homes.

In the private rental sector, there are no rent caps, few regulations and weak tenancy rights. Rental prices are based purely on what the market can command. Where supply is low or demand high (or both) prices are determined by ability to pay and can force people to pay higher proportions of their income on housing costs (see Section 9).

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## Housing (Home Ownership)

An example of a targeted public service that has had at best mixed effects on economic inequality is supports for home ownership in the private sector. It is also an example of targeting middle to higher income groups over lower income groups.

Up until very recently, public support for home ownership took the form of large tax reliefs for residential mortgages and for various construction activities. The cost of these policies to the public finances continues to be felt in the wake of the housing market crash. For example, although mortgage interest tax relief is closed to new entrants, the tax break still cost €357 million in 2011, giving an average value of €708 to 504,700 recipients. As these represent people on relatively higher incomes, many of whom are able to afford home ownership without this assistance, the policy worsened economic inequality.

More recent policy (June 2011) articulates a vision for ‘equity across tenures’ and explicitly reverses the previous policy preference for home ownership that created an unequal hierarchy of housing.<sup>118</sup>

Tax reliefs generally have an inherently negative effect on income inequality because those on higher incomes have a greater capacity to avail of tax reliefs.

Tax reliefs for the construction of housing represent a strongly regressive tax relief, as they provided extraordinarily generous subsidies to building companies, individual developers and consortiums to build housing during a boom period when no such incentive was required.

Budget 2014 introduced a Home Renovation Initiative, giving tax relief on home repairs.

Tax reliefs generally have an inherently negative effect on income inequality because those on higher incomes have a greater capacity to avail of tax reliefs, and the lost tax revenue from higher earners reduces the progressivity of Ireland’s tax system. While the scheme was introduced in an attempt to stimulate employment in the construction industry and to promote tax compliance by builders, the continued existence of preferential tax treatment of homeowners benefits the wealthier 70% of society who own their own homes.

## Health

Table 14: Public Spending on Health (Source: Eurostat, 2012 data).<sup>119</sup>

Health	Public Spending	Spending per Household
<b>Medical products, appliances and equipment</b>	€1,945.4 million	€1,173
<b>Outpatient services</b>	€5,444.7 million	€3,283
<b>Hospital services</b>	€3,432.8 million	€2,070
<b>Other</b>	€844.0 million	€509
<b>TOTAL</b>	<b>€11,666.9 million</b>	<b>€7,036</b>

### Universal Health Services

Health is another of Ireland’s major collective investments in an essential public service. Ireland spent €11.7 billion on health services in 2012, which gives a value of €2,538 per person, or €7,036 per household. As health is funded from progressive taxation, where those on higher incomes pay more, public spending on health represents a redistribution of economic benefits across society. As with education, most people could not afford health services (or even health insurance) in the absence of funding from progressive taxation.

Public spending on health also represents a form of social solidarity, as it involves redistribution from society as a whole to anyone who is experiencing ill health. There is a strong element of inter-generational solidarity too, as older people use health services more frequently, which are largely funded by those of working-age.

It is important to note that everyone benefits from public health services and everyone is entitled to avail of them. Public primary care networks, hospitals and ambulance services, as well as public funding to train medical staff, provide the core of the system. While some people may elect to purchase private insurance to have individual rooms or faster access to some tests or procedures, public health services provide a full service that is either free-of-charge or subsidised for everyone who wishes to avail of it. And in some cases, like casualty and specialised surgery, public health services provide the only comprehensive service that all patients use, whether nominally 'public' or 'private'.

While user charges exist for some public services, these are highly subsidised compared to the full economic cost of providing those services. For example, charges for overnight stays in hospitals are €75 per night and capped at a maximum of €750 in any 12-month period; insurance companies, on the other hand, are charged up to €1,000 per night for individual hospital rooms.

### Medical Cards

Medical Cards are an example of a targeted support to help some people access universal health services. They are designed to assist those on low incomes who find visits to a doctor and drug costs unaffordable. Medical Cards enhance access to the largely public system of healthcare services for people on lower incomes as well as giving them free-of-charge or reduced cost access to the largely private market of GP services. However, Medical Card holders must part-pay for prescriptions and some healthcare services.

At the end of 2012, over 1.8 million people — representing 40.4% of the population — had a Medical Card.<sup>120</sup> The Medical Card is provided to individuals and families who pass a means-test of income and assets. Family size affects eligibility, and reasonable expenses to cover childcare, rent/mortgage payments and travel to work are excluded from the calculation of means. Less stringent rules apply to people aged over 70, with the result that the large majority of older people receive a Medical Card. There are hardship rules that allow flexibility in the means test where a person's medical expenses are particularly high. Also, a system of GP Visit Cards extends one of the core benefits of Medical Cards to a further group of people on low incomes, in order to overcome some of the anomalies caused by means-testing.

Medical Cards also illustrate the risk of unintended consequences arising from the ad hoc development of policies to address economic inequality. Some other services targeted at people on low incomes (such as exemptions for school transport costs and subsidies for buying schoolbooks) are granted to those who hold a Medical Card. From an administrative perspective, possession of a Medical Card shows that a person probably already passed a means-test to demonstrate a lack of financial resources, making it unnecessary to repeat the test. Even tax policy treats Medical Card holders differently, as the rate of Universal Social Charge (USC) they pay is capped at 4%.

However, some people have Medical Cards primarily for health conditions that incur high costs for treatments rather than because they have the lowest incomes in society. This can mean that access to some of these supports is less well-targeted than should be the case. Another negative consequence of the Medical Card system is that the loss of non-medical public services granted to those with Medical Cards could unfairly impact upon someone taking up work opportunities.

### Public Subsidies for Private Medicine

Some private healthcare services exist solely in the market as alternatives to public facilities; however public money is sometimes allocated to these private bodies, which can contribute to economic inequality. For example, Ireland has a growing number of commercially run private hospitals, clinics and care homes for the elderly, which are only available to those who can afford to pay directly or through health insurance for expensive medical costs, even though in many cases 100% tax relief was granted for their construction (a public subsidy). Private hospitals also benefit from the publicly funded/subsidised training of many of the doctors and nurses they employ.

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Public health services provide a full service that is either free-of-charge or subsidised for everyone who wishes to avail of it.

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Medical Cards also illustrate the risk of unintended consequences arising from the ad hoc development of policies to address economic inequality.

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# Recreation, Culture and Religion

Table 15: Public Spending on Recreation, Culture and Religion (Source: Eurostat, 2012 data).<sup>121</sup>

Recreation, Culture and Religion	Public Spending	Spending per Household
Recreational and sporting services	€208.2 million	€126
Cultural services	€638.7 million	€385
Broadcasting and publishing services	€425.3 million	€256
Other	€20.7 million	€13
<b>TOTAL</b>	<b>€1,292.9 million</b>	<b>€780</b>

## Cultural and Recreational Amenities

Cultural and recreational amenities are often provided free-of-charge because they are funded as universal public services. Public spending of €208 million on recreational and sporting services, combined with €639 million on cultural services, provides a generalised value of €511 to every household.

Public ownership of land and buildings is one form of public wealth and provides a valuable shared amenity. Public benefits of this expenditure include public forests and parkland, beaches, cycle and walking paths, playgrounds and libraries, museums and galleries. However, access to cultural and recreational amenities is not equally distributed across the country, and arts events that charge entry — such as musical or theatrical events — may discourage people on lower incomes from attending.

# Education

Table 16: Public Spending on Education (Source: Eurostat, 2012 data).<sup>122</sup>

Education	Public Spending	Spending per Household
Pre-primary and primary education	€3,037.7 million	€1,832
Secondary education	€2,692.7 million	€1,624
Tertiary education	€2,234.6 million	€1,348
Other	€583.7 million	€352.0
<b>TOTAL</b>	<b>€8,548.8 million</b>	<b>€5,155</b>

Primary education in national schools is an example of where a universal public service enhances economic equality in Ireland. The specific example of primary-level, rather than secondary- or third-level, is an example of a near-universal service funded from tax revenue, whereas education at the other levels involves a greater mix of public and private funding.

Given that children typically spend eight years passing through primary school, the investment represented by primary education can be valued at approximately €47,000 per pupil.

Based on spending of €3.0 billion in 2012 and 516,460 primary schools students, primary education represented an average investment of €5,882 in each pupil each year. The vast majority of primary school pupils attend a publicly funded school. Given that children typically spend eight years passing through primary school, the investment represented by primary education can be valued at approximately €47,000 per pupil. As education is funded from a progressive tax system, where those on higher incomes pay more, public spending on primary education redistributes economic benefits across all of society. Most people could not afford individually what is achieved collectively through public spending on education.

Further public investment in children and young people is made through secondary- and third-level education (including grants and tax relief to private paying educational institutions). The positive social and economic outcomes of this investment can be seen in the improvement over time in rates of literacy and other measures of educational attainment (see Section 8).

This collective investment in education is crucial to the wellbeing of our society and to Ireland's economic development, because an increasing proportion of the labour force is enabled to complete higher levels of specialist education and training, and, in turn, can work in higher 'added value' jobs that secure a greater level of remuneration. Public investment in education is also an essential part of the economic strategy of repositioning Ireland as a high-skills economy in the global market.

Public spending on education at all levels also represents inter-generational solidarity, as it redistributes tax money from working age and older adults to children and young people. Nonetheless, general education spending is not enough on its own to secure equality of outcome. Targeted interventions from preschool education to Ireland's Action Plan for Delivering Equality of Opportunity in Schools (DEIS)<sup>123</sup> play an important role in counteracting poverty and the disadvantages faced by some children's parents. In so far as such interventions target a higher level of resources at those who are most disadvantaged, they go further towards rebalancing economic inequality.

Conversely, some public spending reinforces inequality. A small number (25,305 students, 6.9%) of Ireland's 368,462 secondary school students attended fee-paying private schools in the 2013–14 school year.<sup>124</sup> Most teachers in fee-paying secondary schools are paid out of public money. As discussed in Section 8, this can reinforce social inequality, as students from fee-paying secondary schools are disproportionately likely to access university places and professional occupations.

Public spending on education at all levels represents inter-generational solidarity, as it redistributes tax money from working age and older adults to children and young people.

## Social Protection

Table 17: Public Spending on Social Protection (Source: Eurostat, 2012 data).<sup>125</sup>

Social Protection	Public Spending	Spending per Household
Sickness and disability	€5,452.7	€3,288
Old age	€7,610.6	€4,590
Survivors	€1,894.9	€1,143
Family and children	€4,620.2	€2,786
Unemployment	€5,201.6	€3,137
Housing	€1,206.3	€727
Other	€848.6	€512
<b>TOTAL</b>	<b>€26,834.9</b>	<b>€16,183</b>

Social protection payments are absolutely vital to maintaining Ireland's economic model, as well as to avoid widespread destitution and social disintegration.

These payments are essential for those who are retired or whose circumstances mean they cannot access paid work, as well as payments for jobseekers (which represents just under 20% of all spending in this area). Without social protection payments, a large proportion of Ireland's population could not meet their basic material needs. Moreover, unless people have adequate incomes to purchase the basic goods and services they need, a market economy cannot function.

International statistics show that social protection reduces income inequality in Ireland from the worst in the OECD to below the EU average level (as measured by the Gini coefficient). The Gini coefficient and social protection payments are dealt with in detail in Section 3.

Without social protection payments, a large proportion of Ireland's population could not meet their basic material needs. Moreover, unless people have adequate incomes to purchase the basic goods and services they need, a market economy cannot function.

## Data and Sources

Public spending by each EU member state is presented in the COFOG format by Eurostat: [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov\\_a\\_exp&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_a_exp&lang=en)

# 6. Taxation

## Core Facts and Analysis

The purpose of this section is not to make a comprehensive review of tax policy, but to focus on the role of taxation and social security contributions in reducing economic inequality.

Tax revenue funds social protection payments and public services (see Sections 3 and 5, respectively). Social security contributions – called PRSI (Pay-Related Social Insurance) in Ireland – give people legal entitlements to social insurance benefit payments, such as the Contributory State Pension.

A well-designed tax system can pursue redistribution through taxation and boost job creation

When tax revenue is limited, services will be weaker and the incomes of people who rely on social solidarity will be lower. If people want more extensive or higher quality public services to be provided in Ireland, greater levels of tax revenue are likely to be required.

As well as having these direct effects, taxes have other effects on the wider economy and can influence business decision making. There are complex trade-offs between pursuing redistribution through taxation and other priorities, such as boosting job creation, which can also reduce economic inequality. These are not incompatible and a well-designed tax system can achieve both of these successfully.

The goal of tax policy should be to favour progressive and proportional taxes that reduce inequality. The overall progressivity of tax revenue should be gauged not only in relation to income tax, but also by looking at the effect of all taxes, charges and tax reliefs that make up the whole tax system. Tax systems are constantly evolving, but across the developed world they have not kept pace with growing income and wealth inequality, and they may even have exacerbated that inequality in some cases.

Ireland's future tax system will need to be radically changed if it is to take on the challenge of counteracting income and wealth inequality, especially the growing inequality represented by the Top 10% income share, while also supporting socially beneficial economic activity. Such changes could include the development of new taxes on wealth, or changes to existing inheritance taxes and taxes on income. Such taxes have an important role to play in avoiding any further deepening of social divisions and in reversing the steady rise in income inequality and the concentration of wealth at the top of society.

# A Framework for Tax Reform

A major UK report, *Tax by Design*,<sup>126</sup> suggests the following guidelines for tax reform:

*The tax system must be thought of as just that — a system. The way that different taxes fit together matters, as does being clear about the role of each tax within the system.*

*Redistribution is a central role of the tax and benefit system. The extent of that redistribution will be determined by society's preferences and the impact of the system on efficiency. The trade-off between redistribution and efficiency is at the centre of very many debates about tax policy.*

*A tax system must be seen to be fair and efficient. 'In some ways, it is remarkable that governments in rich countries manage to raise such substantial tax revenues from a largely compliant population. If they want to continue to do so, they will need to take account of these principles and ensure that the tax system is seen to be efficient and fair as part of the bargain between citizens and government. [...] there are real opportunities to improve the current [UK] system — to make it more coherent and efficient and often, as a result, more equitable. In some cases, this involves getting rid of obvious anomalies; in some cases, it means fundamentally rethinking the tax base; in some cases, it means taking proper account of the system as a whole; and in some cases, it just means making better use of our understanding of different groups' responses to incentives in designing the system.'<sup>127</sup>*

Although this report is focused on the UK, there are number of similarities between the Irish and British tax systems, and these guidelines provide a useful framework here.

## Total Tax Revenue

At 28.7% in 2012, the total tax-to-GDP ratio in Ireland is the sixth lowest in the Union and the second lowest in the Euro area (after Latvia). It was three quarters of the EU average of 39.4%<sup>128</sup> and much lower than Nordic countries (44–48%) or France (45%).<sup>129</sup> When it comes to comparing tax levels, percentage of GDP, not Gross National Product (GNP), is the correct reference point as all economic activity in a country is liable for taxation.

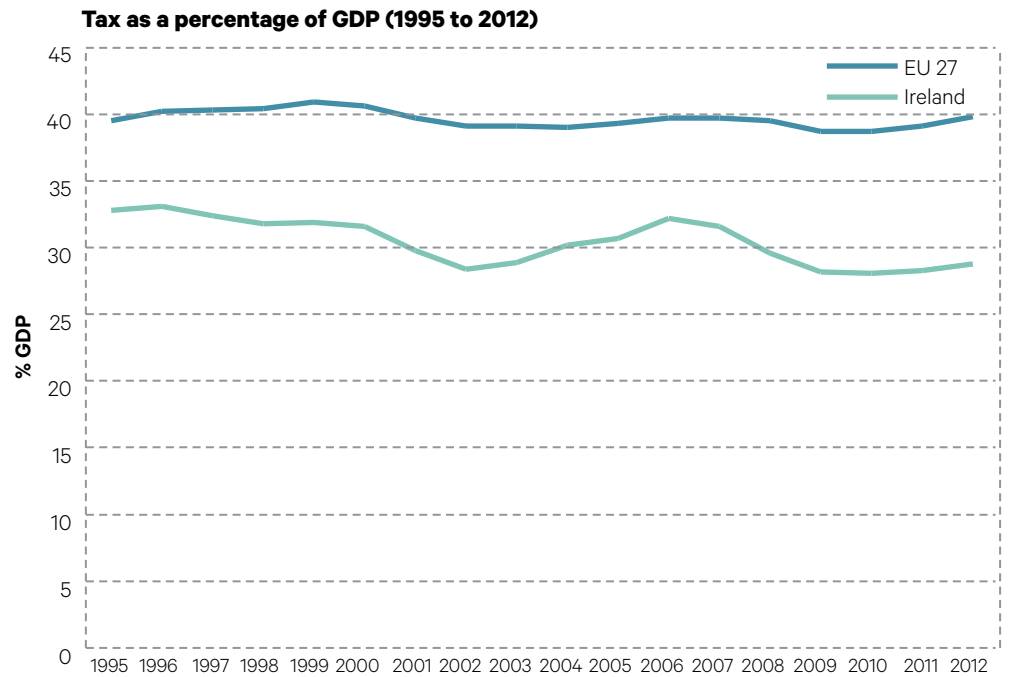
As a direct consequence, lower levels of income replacement through social insurance and fewer public services are provided in Ireland than in many other European countries. This has a negative impact on economic inequality (see Sections 3 and 5). Ireland has maintained this position throughout the period of growth and collapse in the last decade.

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The tax system must be thought of as just that — a system. The way that different taxes fit together matters, as does being clear about the role of each tax within the system.

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**Chart 28: Tax as a % of GDP in Ireland and the EU (Source: Eurostat). Ireland's total tax revenue has been consistently much lower than EU average levels (% GDP)**



While property-based activity caused a surge in revenue, the tax 'base' was hollowed out through tax cuts and property-based tax breaks.

During the Celtic Tiger 'boom' years, Ireland experienced significant increases in tax revenue, averaging a very striking 10% a year between 1996 and 2007, inclusive.<sup>130</sup> The result was a large surplus of tax revenue.

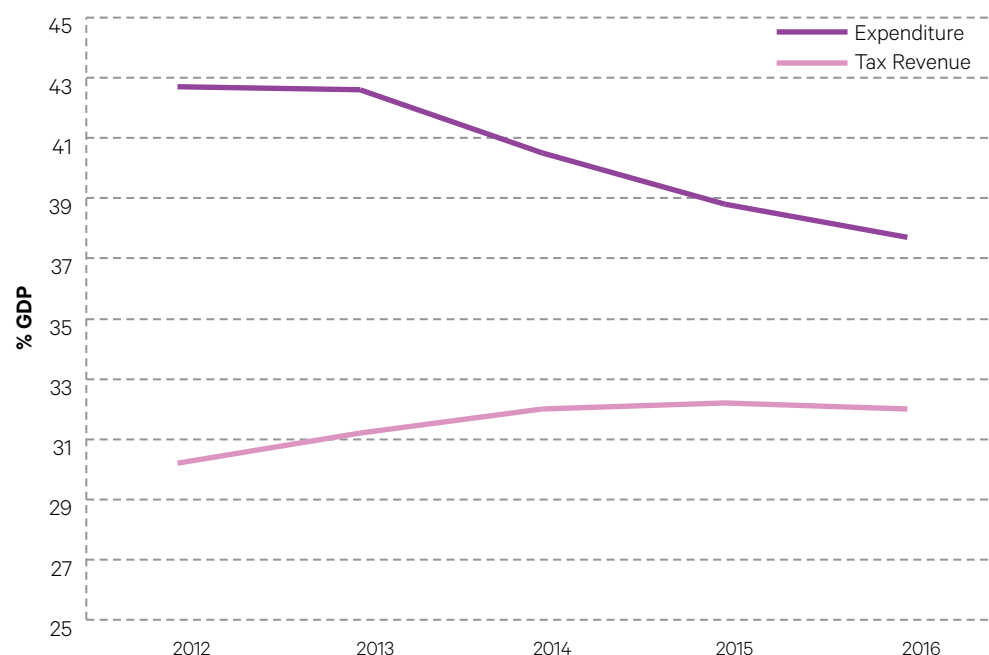
However, particularly in later years, these increases were based on increases in VAT, income tax and stamp duty that were largely associated with the construction boom. This meant that much of the tax revenue was funded by borrowings rather than real economic growth. Tax revenue was artificially swollen by decisions made by the then Minister for Finance to shift the tax base to consumption rather than to profits. In turn, consumption taxes were based in part on the inflated value of property, which people could only afford by taking on high levels of personal debt. These decisions made Ireland's tax system less stable and much more vulnerable to the economic downturn.

While property-based activity caused a surge in revenue, the tax 'base' was hollowed out through tax cuts and property-based tax breaks. When the boom abruptly ended, tax revenue dropped by nearly one third, from over €47 billion in 2007 to less than €32 billion in 2010.

Since the economic collapse in 2008, successive governments have prioritised spending cuts over raising revenue. Total tax revenue, as a percentage of GDP, has remained constant, notwithstanding the fact that the composition of the tax system has changed and new taxes, such as the Universal Social Charge (USC) and Local Property Tax (LPT) have been introduced. Ireland is still far from EU norms in relation to taxes and social insurance. This can be partially explained by Ireland's lower level of employment among the working age population, but additionally by the fact that the actual amount of income tax paid by workers below or close to average earnings in Ireland is significantly less than in many other countries.

Moreover, as debt interest repayments now make up a large component of public expenditure, there is less tax revenue available for public spending on services and social protection.

**Chart 29: Projected Tax Revenue and Government Expenditure as % of GDP in Ireland (Source: Government of Ireland). Since 2008, successive governments have prioritised spending cuts over raising taxes. This will continue, according to official projections for tax and spending to 2016.**



## Lower Taxes, but Higher Charges and Out-of-Pocket Expenses

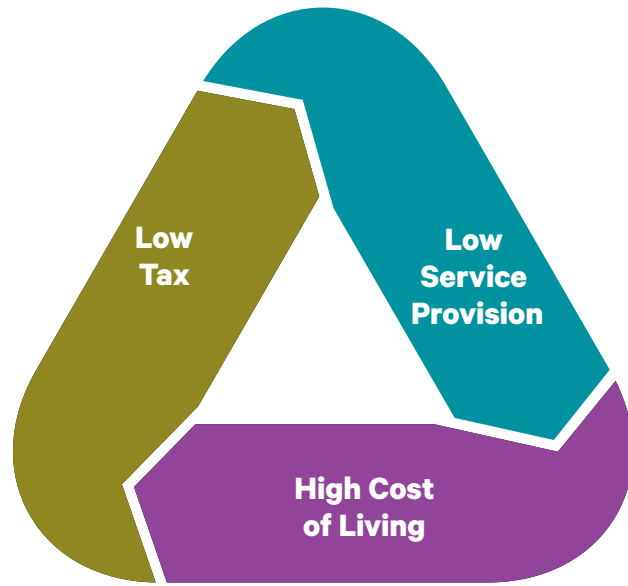
Lower taxes and higher disposable incomes do not necessarily make people better off, as a greater number of goods and services have to be paid for as out-of-pocket costs rather than provided as public services. Unlike public services, the prices of private goods and services are rarely subsidised, which can make them more expensive. In addition, lower tax revenue for public services leads to a wide range of costs and fees being imposed in addition to taxation, such as GP fees, schoolbook costs, road tolls, waste charges and water charges. While there are arguments in favour of some charges (especially if kept to a low level), the overall system in Ireland is too heavily weighted in favour of fees and charges, which makes it regressive for people on low incomes who often cannot afford them.

Although people on low to average income levels pay relatively less tax and social insurance than most of their European counterparts, the combination of fees for public services and the range of goods and services that have to be purchased privately takes a greater proportion of people's disposable income. In many cases, this system takes all of people's incomes without meeting all of their basic material needs.

A populist 'solution' to this is to call for lower taxes, but this only worsens the situation. Although people may then have more disposable income, they will also have to pay for more goods and services out of their own pockets. This is a vicious cycle: lower taxes lead to lower service provision, raising the cost of living to be paid out of people's disposable incomes. This feeds a culture where people do not see the real value of public services and are unwilling, or unable, to afford new taxes. Reversing this trend and moving to a more mature discussion of tax reform requires giving people transparent information about the value and efficiency of public services, especially universal services that exist for everyone (see Section 5).



**Chart 30: Low Tax Vicious Cycle. A vicious cycle occurs in low tax countries: they provide fewer public services, which increases the out-of-pocket expenses of citizens, who in turn are unwilling or unable to pay higher taxes.**

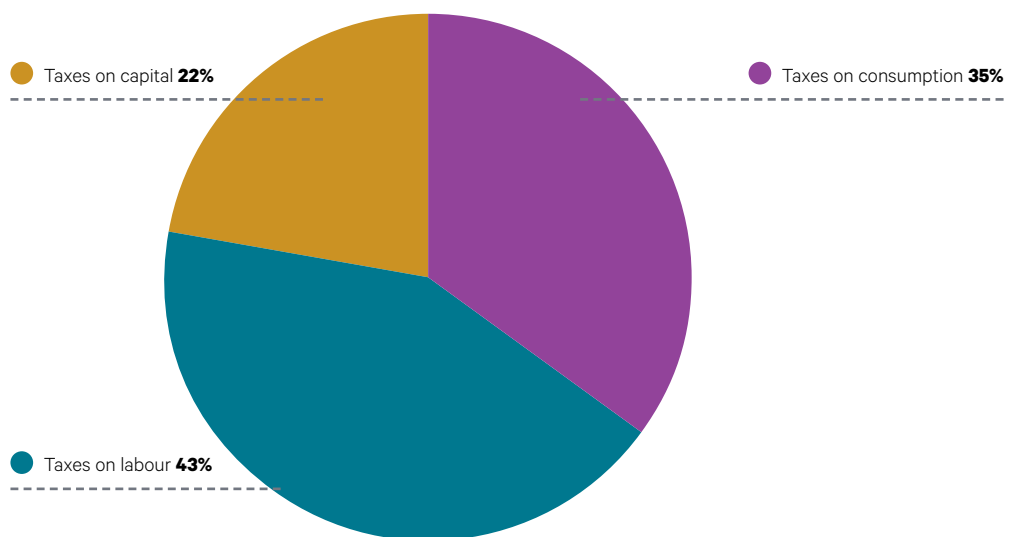


## Composition of Taxation

The composition of the tax system can influence the level of economic inequality, depending on whether the focus is on progressive or regressive taxes. The breakdown of taxes in Ireland is shown in Chart 31 from Eurostat.

Table 18 and Chart 32 give the latest confirmed data from Revenue on tax receipts.

**Chart 31: Tax Types as a Percentage of total in Ireland (Source: Eurostat). Eurostat classifies Irish taxes as weighted towards labour and consumption, rather than capital.**



**Table 18: Major Tax Groups 2013 (Source: Revenue Net Receipts). Income Tax and VAT are the two greatest sources of income for the Irish Government.**

Tax	Euro (millions)
Income Tax	11,823
VAT	10,325
Excise	4,986
Corporation Tax	4,270
Universal Social Charge (USC)	3,930
Stamp Duties	1,333
Local Property Tax (LPT)	316
Capital Gains Tax (CGT)	367
Capital Acquisitions Tax (CAT) (inheritance tax, gift tax)	279
Customs	248

Social Insurance	Euro (m)
Social Insurance (PRSI)	7,099 <sup>131</sup>

**Chart 32: Major Tax Groups 2013 (Source: Revenue Net Receipts).**

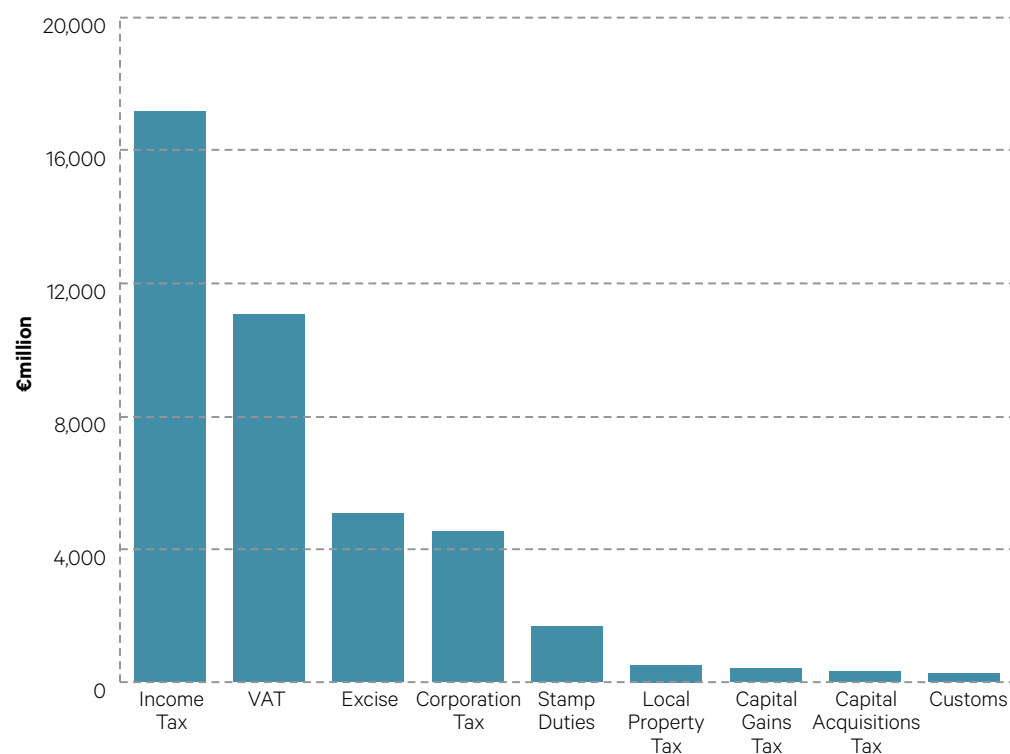


Table 18 and Chart 32 illustrate a selection of taxes, showing the largest sources of tax revenue. Social insurance (PRSI) is paid directly into the Social Insurance Fund and is not a tax. The Government estimated that €7.1 billion was raised in employer and employee PRSI contributions in 2013, which is around 60% of the amount of income tax and makes it the third largest income source after income tax and VAT.<sup>132</sup>

# Regressive Taxes

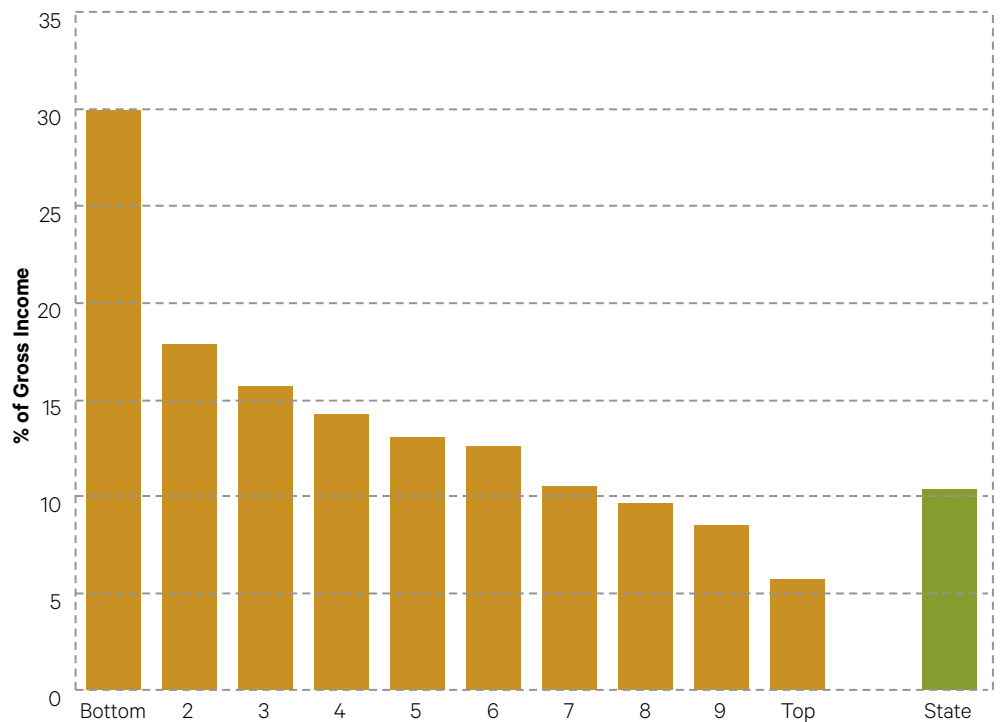
Indirect taxes, such as consumption taxes, are a major feature of the Irish tax system. People on low incomes pay a much higher percentage of their income on consumption taxes. Chart 33 shows that those at the bottom income groups (shown in groups of 10%, or deciles) pay more of their income in indirect taxes, making this a regressive form of taxation.

Irish tax rates on labour income and capital income are well below the EU average. In Ireland, the standard rate of VAT (23%) is one of the highest in the world. Greece, Finland, Portugal and Poland are also at 23%, while only Denmark, Iceland, Sweden and the Netherlands have a higher rate. At the same time, Ireland has a range of lower VAT rates on certain goods and services, including a zero VAT rate for basic foodstuffs, which is aimed at lowering the cost of living. This gives Ireland a narrower VAT base than exists in some other countries.

A heavy reliance on consumption taxes as opposed to other taxes such as capital taxes (as is the case in Ireland) will lead to greater wealth inequality over time because it increases the real value of wealth assets and shifts taxation onto those with lower incomes.

A heavy reliance on consumption taxes as opposed to other taxes such as capital taxes (as is the case in Ireland) will lead to greater wealth inequality over time because it increases the real value of wealth assets and shifts taxation onto those with lower incomes.

**Chart 33: Indirect Tax as a Percentage of Gross income by Decile (Source: NERI).  
Indirect taxes take a greater proportion of lower incomes than higher incomes.**



There are two broad meanings to the term ‘progressive taxes’. Technically, a tax such as income tax is progressive because the rate progresses upwards with someone on a higher income paying some of their taxes at a higher rate meaning that they pay proportionately more. Such taxes are also ‘progressive’ in a normative sense.

Wealth taxes in Ireland like CAT are technically flat taxes because they only have one rate. But they are progressive in a normative sense because they take from those who have resources and redistribute to those who have less.

# Taxes on Wealth

Taxes on wealth and capital are generally redistributive. However, trusts, combined with offshore companies, are used to facilitate aggressive tax avoidance and potentially tax evasion by the very wealthy.

In Ireland, there are some important taxes on wealth although a person's total net wealth is not systematically taxed.

Capital Acquisitions Tax (CAT) is a tax on wealth transfers and Capital Gains Tax (CGT) is a tax on the appreciation of an asset's value.

CAT includes inheritance tax, gift tax and Discretionary Trust tax. The rate of CAT is 33%. An important feature of this tax is the amount of money that can be transferred tax-free. CAT has a tax-free threshold which is determined by the relationship between the person making the gift or leaving the inheritance and the recipient. CAT also has a number of generous exemptions and reliefs, including an exemption for gifts and inheritances made between spouses/civil partners (discussed further in Section 7). However, the CAT rules have been significantly tightened by recent governments, strengthening the ability of the tax system to reduce economic inequality.

Capital Gains Tax (CGT) is charged on the value of the capital gain made on the disposal of an asset, and the tax rate is also a single rate of 33%. An equitable option would be to tax capital gains in the same way as income, using progressive rates of tax.

There are other taxes related to asset stocks and asset transfers. For example, the deposit interest paid to the accounts of Irish residents is taxed at 41% as Deposit Interest Retention Tax (DIRT), with some exemptions for older people and people on low incomes.

The temporary levy on the value of pension funds is a rare example of a tax directly charged on wealth rather than on gains from wealth. This however, has had the effect of reducing pensions of those with very modest pension benefits and pensions as well as those on high pensions. It has had no regard to a people's ability to pay or to any other wealth or income sources they may have.

The Local Property Tax (LPT) is an annual charge on the value of residential property, which can also be seen as a tax on the gross value of wealth. The rate of LPT is 0.18% for properties up to a market value of €1 million. Residential properties valued over €1 million are assessed at 0.18% on the first €1 million in value and at 0.25% on the portion of the value above €1 million. Some local authorities have reduced the LPT rate for 2015 by up to 15% — i.e. effectively lowering the base rate from 0.18% to as low as 0.153%.

A criticism of the LPT in Ireland is that it is a tax on the total value of the asset that does not take into account the debt associated with it (the outstanding mortgage). Hence it is a tax on the gross wealth rather than the net wealth of the owner. Conversely, LPT is explicitly designed to fund local government, and therefore it can also be argued that charging all homeowners uniformly is a fair method of paying for the many universal services provided by local government, such as roads and street lighting.

Taxes on immovable property and taxes on land are generally seen as the least distorting to economic activity and least likely to dampen economic growth. These taxes are also very difficult to avoid because the underlying asset lacks mobility and is impossible to hide.<sup>133</sup> The absence of any form of residential property taxes from 1977 until the introduction of the property tax probably encouraged investment in such property instead of in productive assets.

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Taxes on immovable property and taxes on land are generally seen as the least distorting to economic activity and least likely to dampen economic growth.

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# Social Insurance

Not only are Irish social security contribution levels therefore less than half of EU average levels, but also they are significantly lower than social security levels in the USA.

Pay-related social Insurance (PRSI) is technically not a tax, though it is often counted alongside income tax as total taxes paid on labour to allow for international comparison of tax systems and the overall costs associated with employing someone ('labour costs'). PRSI is paid into the Social Insurance Fund, from where Contributory State Pensions and other welfare benefits are paid out. In theory, such payments are linked to the amount of social insurance paid in. In practice, they are related to the average number of contributions paid in a period and, other than for a short period in the 1970s, the benefits are not in any way related to pay.

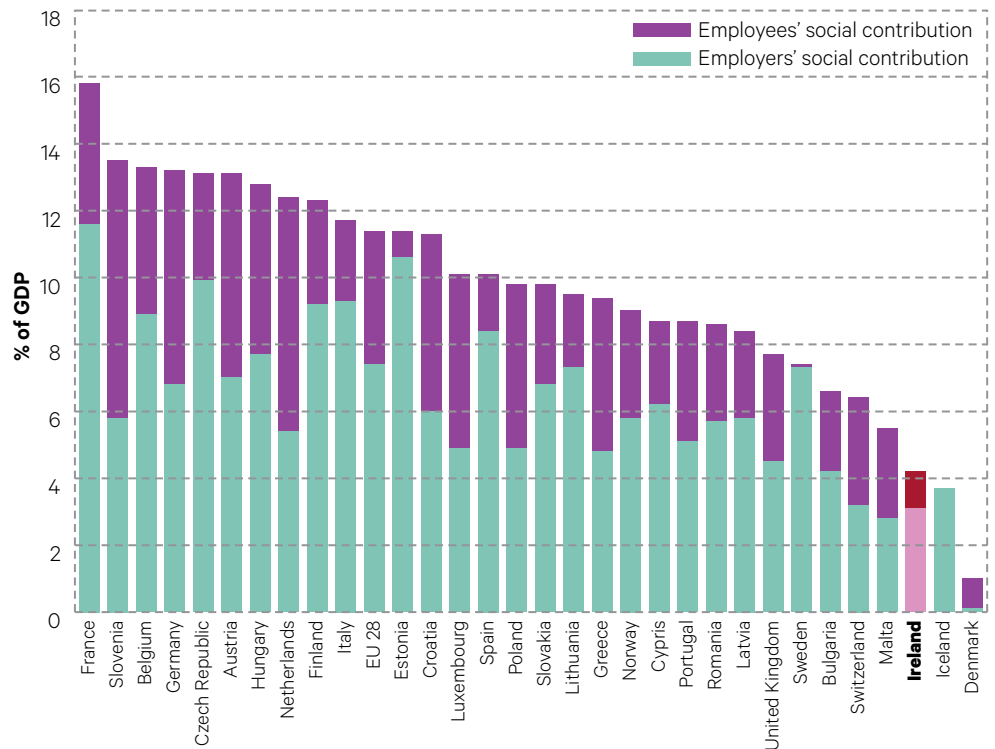
Ireland has low levels of both employer and employee PRSI. Most employees pay a 4% flat rate; there is no liability for those on low incomes. Employers pay 8.5% for workers on low pay and 10.75% for all other employees.

Social contributions in Ireland are the second lowest in the EU at just 4.4% of GDP compared to an EU average of 11.1%. They are also second lowest at 15.3% of total taxation compared to an EU average of 30.9%.<sup>134</sup> Comparable OECD data shows that social security in the USA represents 5.4% of GDP and 22.3% of all taxation.<sup>135</sup> Not only are Irish social security contribution levels therefore less than half of EU average levels, but also they are significantly lower than social security levels in the USA.

Low social insurance levels reduce the taxes on low incomes, but this means that the level of social transfers that can be provided as income supports to reduce inequality is also lower. For example, when someone becomes unemployed in countries with higher levels of social insurance, he or she typically receives income replacement based on his or her former earnings, which drops off over time to a baseline level. But in Ireland, income replacement is always at the baseline level, which, as shown in Section 3, is often inadequate for people to meet their most basic needs, let alone maintain existing financial commitments, such as a mortgage.

Social insurance contributions in Ireland are effectively the lowest in the EU.

**Chart 34: Employers and Employees Social Insurance as a % of GDP in the EU and selected other countries (Source: Eurostat). Social insurance contributions in Ireland are effectively the lowest in the EU as Denmark relies on taxation.**



# Income tax

Out of €37.9 billion net tax revenue in 2013, income tax and USC raised €15.75 billion or 41.6% of the total.

Income tax and USC interact with a number of key elements of the economy: employment, wages and consumption. For international comparison, social insurance contributions are often added to compare 'labour costs' or the total 'tax wedge' on labour earnings.

The total of taxes and PRSI on average wages in Ireland is low. Data from the OECD shows that the 'tax wedge'<sup>136</sup> on a typical family in Ireland (at 6.8% of labour costs) is the second lowest in the OECD, after Chile and before New Zealand. The tax wedge on a single person is higher (at 26.6% of labour costs), but this is still the seventh lowest in the OECD and the lowest among the OECD's EU members.<sup>137</sup>

As shown in Section 3, Ireland's level of market inequality (that is, before taxes or transfers are considered) gives a Gini coefficient value of 56.8.<sup>138</sup> Once taxes are taken into account (but prior to social transfers) the Gini level falls to 53.6. This implies that taxes in Ireland only modestly reduce levels of overall inequality.

It is sometimes claimed that Ireland has a very progressive income tax system. This claim is based on just one technical measurement of progressivity: The OECD compares the tax liability of a single person earning two-thirds of average earnings with that of someone with a gross income of one-and-two-thirds of average earnings. Where the difference between these two tax liabilities is high, the tax system is considered progressive as those with higher earnings pay more as a percentage of their income than those on lower incomes. In Ireland, the person on higher earnings pays 19.3% more of his or her income on tax than the person on lower earnings, whereas this difference is 9.6% on average across the OECD.<sup>139</sup>

It is also important to note that Ireland's high progressivity score (as measured by the OECD) is a result of having low taxes on low incomes rather than particularly high taxes on high incomes.

The OECD's measurement of progressivity does not take account of many tax credits and reliefs available in Ireland (other than the basic personal credits) and, as such, they represent nominal and not real tax levels. An examination of the reports published by the Revenue Commissioners in respect of the high income restriction shows the actual rates paid by many with high incomes are often well below many of those with incomes of only a fraction of the higher income group. For example, Revenue found that those with gross incomes of €350,000 to €400,000 had an average effective income tax rate of 28%, despite paying most of their income tax at the 41% rate (which is 40% as of January 2015).<sup>140</sup>

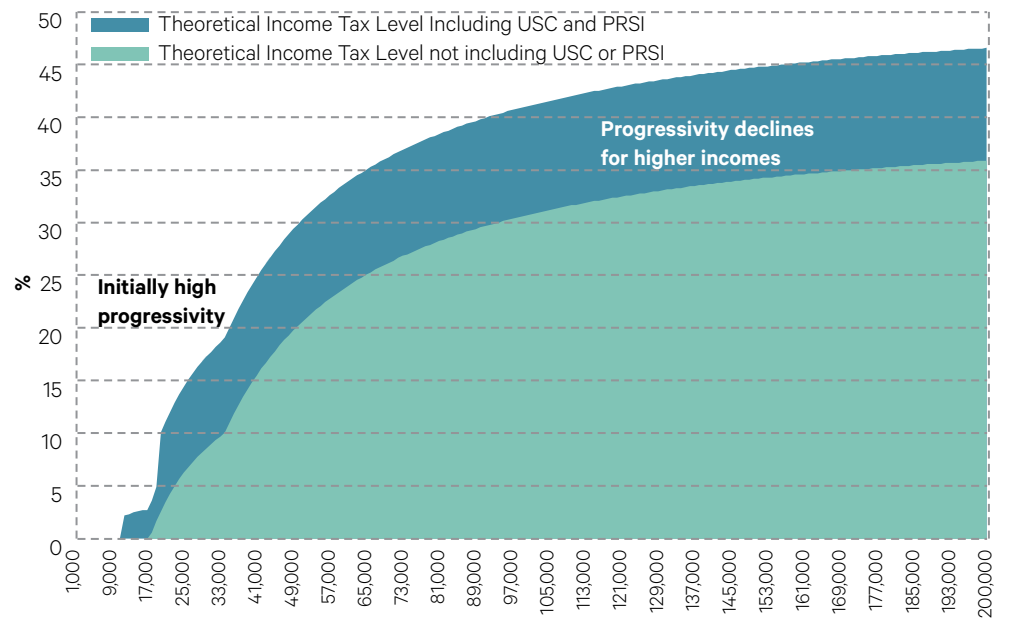
While the amount of tax paid increases as incomes rise, the 'progressivity' declines as incomes increase beyond twice average wages (roughly above €75,000). This can be seen in the curves in Chart 35 representing actual tax paid on gross income.

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Ireland's high progressivity score (as measured by the OECD) is a result of having low taxes on low incomes rather than particularly high taxes on high incomes.

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**Chart 35: Effective Rate of Income Tax/USC/PRSI by Gross Income in Ireland (Source: Authors' Calculations from Revenue Data). The curve shows the initially high progressivity but then much lower level of progressivity, based on the maximum theoretical effective tax rate (with or without USC + PRSI).**



Ireland's income tax system is unusual in the EU because of the very high level of tax credits, tax reliefs and tax breaks available. Ireland's income tax system has also the relatively uncommon feature of only having two rates (20% and 40%).

As a result, the theoretical maximum tax liability illustrated above (based on the basic rules and rates) is often higher than the actual amount of tax paid. The chart uses Revenue data to illustrate how much tax, on average, is actually paid by different income groups.

For example, whereas someone on €55,000 would have a theoretical liability to pay 22.5% income tax (not including USC and PRSI) (as illustrated by the red line in the graph), the income group averaging €55,000 pays an actual rate of 14.1%, as illustrated in the next graph .

**Chart 36: Actual Income Tax Paid as a Percentage of Gross Income (Source: Revenue IDS1). Actual tax rates paid are much lower than headline rates due to tax credits and reliefs.**



# Tax Expenditures

Tax expenditures (tax credits, tax reliefs and tax breaks) play a very prominent role in the Irish tax system. Because tax breaks take money away from public finances, tax breaks should be seen in the same way as government spending programmes. Tax expenditures reduce the progressivity of the tax system because they deliver larger benefits to higher income households.

For example, reliefs that allow a tax deduction at the individual's marginal rate of income tax are more valuable to, and will disproportionately benefit, those with the highest incomes. The ESRI has shown that 80% of the benefit of pension tax reliefs goes to those in the Top 20% of the income distribution cohorts.<sup>141</sup>

The OECD's *Economic Survey of Ireland 2009* showed that the average EU level of tax breaks in the income tax system (not including basic credits and allowances) was equivalent to 5.6% of total taxation, whereas the equivalent number for Ireland was over three times greater at 18.3%, based on 2005 Revenue data.<sup>142</sup> When replicated for 2010 data, tax breaks (not including basic credits) came to 27.9% of the value of total tax revenue.<sup>143</sup>

Tax forgone through tax expenditure also affects inequality because it is money lost that the state could have spent elsewhere. The cost of tax expenditure is difficult to calculate and is often underestimated, and excessive tax expenditure could potentially erode revenue to an unsustainably low level. Decisions to extend or expand tax breaks, tax credits or other tax expenditure, including the details of how they operate, are not fully integrated into the annual Budget process — their creation or extension are often not subject to rigorous cost-benefit analysis. However, Budget 2015 published a Report on Tax Expenditure with guidelines for their future evaluation on a more routine basis.<sup>144</sup>

The high level of tax expenditures explains why effective income tax actually paid is significantly lower than theoretical effective tax levels.

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Reliefs that allow a tax deduction at the individual's marginal rate of income tax are more valuable to, and will disproportionately benefit, those with the highest incomes.

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# Universal Social Charge (USC)

The Universal Social Charge (USC) is an unpopular tax, but it has a broadly progressive effect on direct taxation. Following Budget 2015, USC is charged at four rates: 1.5%, 3.5%, 7% and 8%. The 8% rate is 11% for the self-employed. USC is unpopular because it is charged on incomes as low as €12,012 and the 7% rate is payable on that part of incomes above €17,576.

In addition, the standard rate of income tax is 20%, which gives a theoretical marginal tax rate of 21.5% to 27% for most workers, when this is combined with USC. However, when tax credits are taken into account, the actual tax rate is much lower. In fact, tax credits mean that PAYE workers do not begin to pay any income tax until they earn over €16,500. For example, someone on €16,500 will pay 2.0% USC but no income tax. At higher income levels, someone on €22,500 pays 9.1% income tax and USC combined, someone on €37,500 pays 15.7% and a person on €55,000 pays 21.1%.

The advantage of USC from a progressive perspective is that, unlike income tax, there is an absence of tax credits and reliefs, which means that it is a very effective tax — and higher earners pay proportionally more. For this reason, a one percentage point cut to the rate of USC would reduce progressivity in Ireland's direct tax system far more than a one percentage point cut to the rate of income tax.

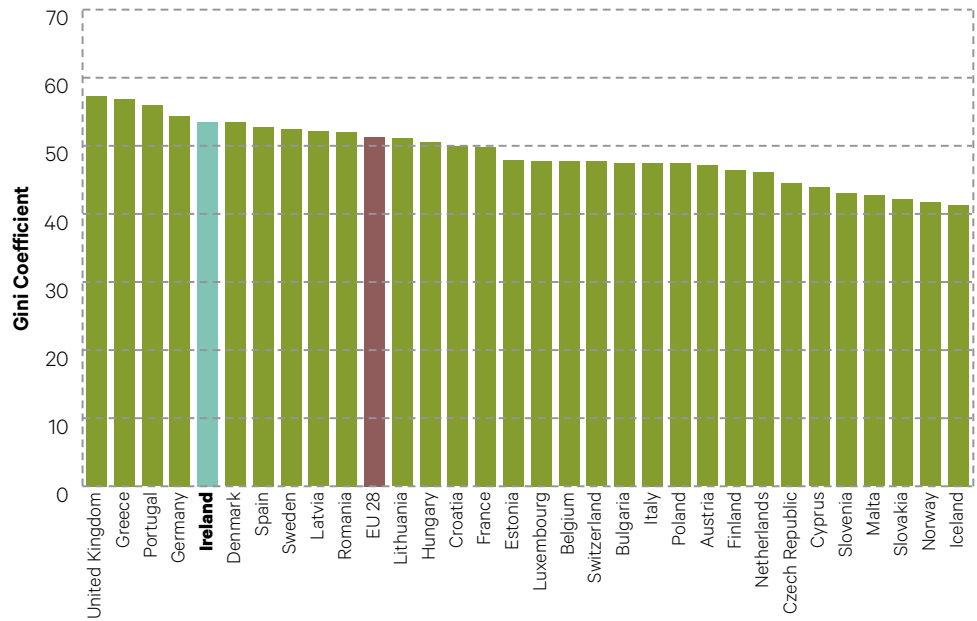
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Tax forgone through tax expenditure also affects inequality because it is money lost that the state could have spent elsewhere.

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**Chart 37: Income Inequality (Gini Coefficient) After Tax and Before Social Transfers (Source: Eurostat). Ireland has high levels of income inequality after tax (before social transfers are counted).**



## Redistribution

The effect of the tax system on inequality is not just dependent on overall tax revenue. Inequality will also be impacted by the composition of the tax system and the relative importance of income taxes (and their progressivity), indirect taxes, wealth and capital taxes, as well as other payments such as user charges and social insurance.

Taxes can also lead to a reduction in economic inequality through redistribution. In the first instance, taxes are a contribution paid from people's income or consumption, and therefore taxes on high income, wealth and 'luxury' consumption can act as a brake on spiralling income and wealth inequality (see Sections 3 and 4).

Taxes also reduce inequality by funding social transfers and services (see Sections 5). In this way, they do not simply transfer from rich to poor, but they also transfer from those who are active in the economy either working (paying income tax), running a business (paying corporation or capital gains tax), or consuming (paying VAT), to those who require support, including children, carers and pensioners. It is part of a system of social solidarity that also supports those who are sick or disabled, or who face either particularly high costs or low incomes.

Taxes can also be a more efficient way than user charges to pay for services. Street-lighting is a classic example of a 'public good' that is more efficiently funded by taxation.

# Data and Sources

Valuable data on the distribution of taxable incomes is published annually by Revenue and can be found on the Revenue website here: <http://www.revenue.ie/en/about/publications/statistical-reports.html>. In particular the statistics on Income Distribution, (Tables IDS1-IDS20) provide details on gross incomes, taxable incomes and the amount of tax paid within income groups.

Eurostat provides a range of data on tax rates and taxes received in all EU countries, which is useful for both comparing countries and comparisons over time. A compendium of data is published annually as *Tax Trends in the European Union*, available from the Eurostat website: <http://ec.europa.eu/eurostat>.

The OECD produces numerous reports on tax across OECD countries and provides a range of comparative data. One of their major annual publications on labour taxes and social insurance is *Taxing Wages*: <http://www.oecd.org/tax/tax-policy/taxing-wages.htm>.

Despite the availability of significant data on tax, analysing taxation from the point of view of inequality is complex. Comparing of tax systems requires holistic examination not just of individual tax rates or tax revenues. Nor is it sufficient to merely look at the tax system as a whole. The economic and social policies of a country also need to be considered.

In particular, countries with higher taxes may provide more comprehensive public services, so that while taxes may leave people with less cash (net income), they may have more subsidised services and lower living costs. Similarly countries with higher levels of market inequality may require higher levels of tax (and more progressive taxes) in order to reduce inequality to average levels.

# 7. Family Composition

## Core Facts and Analysis

This section examines the impact of family and household composition on economic inequality in Ireland.

Policies to reduce economic inequality, and to ensure everyone's needs are adequately met, must take account of the fact that people's basic material needs vary greatly depending on household composition and whether or not a person has adult and child dependants, or support from their own family. People's commitments to support extended family can also stretch their economic resources.

For example, a single-person household with income of €40,000 is in a very different position to a couple with two children with the same income. Some official statistics attempt to take account of this (see for example the discussion of equivalised income in Section 3).

While some social protection payments and public services are explicitly targeted at children (such as Child Benefit and schooling) the net economic benefit of these measures may fall far short of the actual costs associated with children.

Public policy needs to apply a more scientific analysis of the economic impact of family and other household relationships if it is to ensure that household composition does not exacerbate economic inequality. It is crucially important that quality public services and sufficient social transfers for households that need them are informed by such analysis.

## Family

Defining 'family' can be contentious. The United Nations recognises the family as the basic unit of society, but it also recognises the diversity of the family 'in its various forms', especially in developed societies.<sup>145</sup> At its broadest, this definition allows for any household to be viewed as a family unit if that is the intention of the people living together, regardless of marital status or blood relationship.

In Ireland, definitions of what constitutes a family vary under the constitution, in law, in relation to taxation, in social welfare and in official statistics. In particular there are differences in the treatment of marriage, civil partnerships and cohabiting couples, and men and women can be differently affected. The overall treatment of people across these systems and institutions is not always consistent, coherent, or equitable, and this can have a direct bearing on economic inequality.

In this section, the basic demographics of families in Ireland are described, followed by some examinations of the economic costs and benefits encountered by families, including the major issue of care duties. Observations are made on family incomes, on public administration, and on how the rules governing tax, welfare schemes and public services seek (or fail) to address the material needs of families. Inconsistencies and remaining inequalities in those rules are highlighted.

## Demographics

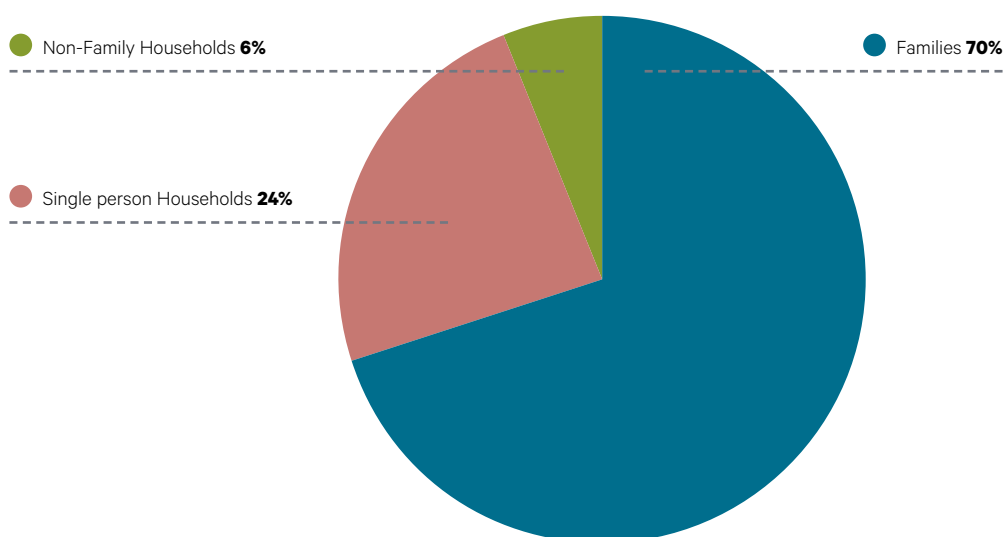
The most reliable and recent data on family and household composition in Ireland is Census 2011.<sup>146</sup>

There were 1.6 million 'private households' in Ireland in 2011 (i.e. the vast majority of households are considered 'private households', the main exception is people in communal establishments on Census night). Of all private households, 392,000 were one-person households and 102,219 were 'non-family households' (i.e. people sharing accommodation but not living as a family unit). Of the 'non-family households', 65.3% were headed by someone in employment, while 14.8% were students.

The remainder are classified by the CSO as families, which is the focus here.

70% of households in Ireland are families.

**Chart 38: Household Types in Ireland (Source: CSO Census 2011). 70% of Households in Ireland are families.**



There were 1,179,210 families in the State on Census Night. (There were slightly more families than households made up of families. This is because a number of households are made up of two or three family units). For Census purposes, a family is defined as

- a couple (either married, civil partners, or cohabiting) with one or more children
- a couple (either married, civil partners, or cohabiting) without children
- a lone parent with one or more children.

Out of all the families in the state, 82% (963,895 families) included couples and 18% included lone parents.

Of the people comprising couples, 85% were married, 13% of them had a marital status of 'single' (i.e. not married and not previously married), 2% were separated or divorced, and a small number were widowed. Of lone parents, 38% were single, 32% were separated or divorced, 26% were widowed and 4% were married.

### Families with Children

As of Census 2011, there are 979,590 children in Ireland (under the age of 16) and 834,266 families have child dependents. The average number of children per household was just below 1.4 (including adult children living at home).

### Lone Parent Families

The number of lone-parent families stood at 215,315 (18% of families) in 2011, of which 186,284 (85%) were mothers and 29,031 were fathers. Of these, 124,765 (58%) had just one child.

According to the Census, 'homemakers' are prevalent among lone parents, accounting for 21.9% of the total, although this was unevenly spread between men and women. Only 4.7% of lone fathers were homemakers compared with 24.6% of lone mothers, whereas 25% of lone fathers are retired compared with 9.5% of lone mothers.<sup>147</sup>

### Families without Children

There were 344,944 couples without children (of which 261,652 were married and 83,292 were cohabiting couples), which is 30% of all families. Of these couples, 53% were at work and 31% were retired.

## Families and Inequality

### Family Costs and Care Duties

Being part of a family brings responsibilities and costs associated with caring for dependants, either directly caring for them or supporting them financially. Someone may choose not to work in order to care for a family member (or may not have any other choice). For people in paid employment, employers do not pay them based on their costs or their family circumstances. They pay them the 'market wage' based on the job they do, because when two people carry out the same job, they are rightly entitled to the same pay. But this still has an impact on economic inequality.

Couples have economic advantages over single people. They can generate economies of scale by sharing a single housing unit, and can pool their resources through a shared car, shared bills, etc. All other things being equal, couples without children are economically advantaged over couples with children, assuming they have no other dependants.

Child dependants impact on the costs facing a household. The Minimum Essential Standards of Living<sup>148</sup> research estimates the minimum costs associated with a child in Ireland as follows:

**Table 19: Costs Associated with Children in Ireland (Source: MESL). Younger Children have a higher cost, due to the higher cost of childcare.**

	Infant	Pre-School	Primary	Secondary
<b>Per week (€)</b>	80.60	45.41	78.37	127.00
<b>Per year (€)</b>	4,191.2	2,361.32	4,075.24	6,604.00
<b>Per week, including childcare (€)</b>	298.72	233.22	139.25	135.05
<b>Per year, including childcare (€)</b>	15,533.44	12,127.44	7,241.00	7,022.60

As shown in the table, the cost of childcare is particularly high, especially for lone parents and when both adults are in full-time employment. While the decision is a personal one, it impacts on society and the economy. High costs may lead people to choose not to have children, or to have fewer children. Or the costs may force one parent to stay at home because childcare is prohibitively expensive (though this choice can of course be made independently of costs).

Current high childcare costs are out of reach for many lower income households. This has the effect of exacerbating economic inequality because if only those with relatively high paying jobs can afford childcare, those on middle or lower incomes are more likely to sacrifice career development and future earnings in order to work in the home for a period of years. A recent report found that 25% of parents have been prevented from accessing paid employment by the high costs of childcare, including 56% of parents in low income households. The report estimates the cost of full-time childcare at €16,500 per annum in a two-child household, putting the cost of childcare in Ireland, as a percentage of average wages, second highest in the OECD. This has a particularly negative impact on women's earnings and careers, as they are far more likely to be the primary carer for children.<sup>149</sup>

## Lone Parents and Cost

Lone parents face additional costs, either from trying to pay for childcare with just one income, or as a full-time parent reliant on savings, maintenance payments or social welfare payments. Compared to single people, lone parents have higher housing (and other associated) costs in order to meet the accommodation needs of their children. 85% of lone parents are women.

Despite these costs, the rules around social protection payments to lone parents are sometimes more restrictive than for couples. For example, lone parents have significantly lower income thresholds to qualify for the Back to School Clothing and Footwear Allowance compared to couples.<sup>150</sup>

## Adults Living at Home

There were 439,478 adults aged 18 and over living with parents at the time of Census 2011, of whom 60% were men. Of these adults, 41% of them (180,703) were at work while 22.5% (98,739) were unemployed. A further 31% (137,967) were students. The tendency to be working and still living with a parent declines with age. Of those over 18 living with their parents, 57.2% were in towns and 42.8% were in rural areas.

Adults working and living at home challenge our perceptions of household level income inequality. If they are living at home because they cannot afford rent or housing due to low incomes, they may skew household income distribution statistics in a way that disguises the problem (see below under Household Income).

## Care Duties

According to the Census, the principal economic status of 14% of adults was 'looking after home/family'. This does not include those who record their status as 'retired' (12%) or 'unable to work due to permanent sickness or disability' (4%), some of whom may also be involved in looking after a family.

Members of extended families can and do provide care for children, the elderly and people with disabilities. Where care duties exist, it is generally on a voluntary basis and represents a 'saving' of resources to the state or wider society.

Census 2011 asked whether people ‘provide regular unpaid personal help for a friend or family member with a long-term illness, health problem or disability’, and over 187,000 people (4.1%) answered ‘yes’. Over half of them (56.8%) provided over 15 hours of unpaid care per week. Women were twice as likely as men to answer ‘yes’ to this question.<sup>151</sup>

Similarly, some people provide support (at their own expense) for elderly neighbours, close friends or other people who do not have their own support networks. As well as people who work in the home bringing up a family, many people provide care for an incapacitated family member. In practically all cases, a carer is providing a service that the state would otherwise have to provide, which represents a net saving to society, as it is generally much less costly in financial terms for care to be provided in people’s homes rather than in nursing homes or hospitals.

However, not all families are in a position to provide care and not all individuals who need support will have available family members to care for them.

While such altruistic and socially positive actions are to be encouraged on a normative basis, public policy to support altruism may also be required, such as adjusting the rules governing public services, taxation, etc.

## Household Incomes

### Families and Work

Significant numbers of families do not have paid work as their principal source of income. Of the 1,179,210 families in Ireland, 60% (704,589 families) report their principal economic status as being ‘at work’. That leaves 40% (474,621 families) without work in Ireland. Of these, only 129,285 families (10% of the total) have their principal economic status as ‘unemployed’, with 171,452 families (15% of the total) having retired status and 15% having another status, e.g. disability.

42.5% of lone parents in Census 2011 were at work, compared with 69.3% of two-parent families with either one or both adults working. 14.4% of lone parents were officially unemployed, compared to 11.8% of couples.

The 2014 calculation of a Family Living Income for different types of family showed that their minimum essential costs vary from €20,540 to €26,620 per adult for a family of two parents and two children, depending on the ages of the children and the geographical location of the home. Single parents with one child in primary school are calculated to need between €17,590 and €31,010 if working full-time.<sup>152</sup>

The Family Living Income is distinguished from a Living Wage (see Section 3) due to the additional costs associated with children. It takes into account the important role that public services and social transfers play in helping people to meet those costs.

### Income for Carers

Social welfare payments to full-time carers are intended to reflect the benefit of care work to the public finances, even though these payments often fall far short of providing adequate compensation and do not come close to the actual economic cost of employing someone to do the same care professionally. Carer’s Benefit is a social insurance payment made to someone who gives up work to care for an incapacitated person. Carer’s Allowance is a means-tested payment to people on low incomes who are caring for an incapacitated person. Ireland also provides a Respite Care Grant and Domiciliary Care Allowance. The latter is a monthly payment made to the carer of a child with a severe disability who lives at home.

The main payment, received by 57,136 people, is Carer's Allowance. Its rate is marginally higher than other welfare payments (see Section 3). At €204 per week, or €10,608 annually, it is the equivalent income to working 24 hours per week on the Minimum Wage of €8.65 per hour (net of tax and PRSI). It does not take into account that care duties may be necessary seven days a week for most of the day for some people. In Census 2011, nearly 40,000 people reported giving more than 43 hours of unpaid help per week, and more than 14,000 others reported giving 29–42 hours per week.

Someone caring for two people gets 50% more, and while there is no allowance for 'qualified adults' there is the standard allowance for children. A carer can also receive PRSI credits while in receipt of Carer's Allowance, in recognition of the fact that he or she has given up work to care full-time.

## Tax and Welfare Rules

In European social models, it is accepted to a greater or lesser extent that the tax system and social insurance system will take the cost of dependants into account. In the current Irish system, where employment income is not adequate to cover the cost of dependants, children and people of retirement age have their needs met by public services and social transfers, such as State Pensions and Family Income Supplements (see Section 3). In addition, universal public services, like education and healthcare, provide a common support to all families (see Section 5).

Ireland's model, through the tax system and social welfare system, mixes individualisation with recognition of people as part of a family or household. The overall treatment of people across these systems is not always consistent, coherent, or equitable. What follows are some examples to highlight the issues of inequality that can result from these rules.

### Intra-family Income Distribution

In most cases, the state's default assumption is that income is distributed equitably within households, and families are often treated as a single unit for tax, welfare and certain public services such as housing supports. However, this is not necessarily the case and real poverty experienced within families can be masked by a theoretically adequate household income.

For example, if a person's adult partner is not eligible for welfare in his or her own right, that person can claim additional income as an 'Increase for a Qualified Adult'. However, the partner does not directly receive the income. Conversely, Child Benefit payments are mostly paid directly to the primary caregiver, often the mother, regardless of the household's other tax and welfare arrangements.

Where income is not being shared within a household, provision does exist for welfare incomes to be paid directly to an adult dependent, such as where there are difficulties in the family home due to gambling or alcohol abuse.<sup>153</sup> But no such provisions exist for market incomes and the default rules of tax and welfare are biased in favour of granting control over household finances to just one adult in a family.

### Loss of Income due to Child Care Duties

One concession to the lost income and career opportunities due to minding children in the home is the welfare Homemaker's Scheme. This is designed to make it easier for homemakers to qualify for the Contributory State Pension by modifying the social insurance rules for calculating a person's eligibility by disregarding up to 20 years spent as a full-time homemaker. Nonetheless, the value of this scheme is far less than the lost income or career opportunities of someone who cannot afford childcare and the option of paid employment.



## **Married or Cohabiting**

Despite the fact that the tax system is individualised, married couples (and civil partners) have a tax advantage over cohabiting couples in that they can share some (but not all) of their personal tax credits. Married couples (and civil partners) can also share financial gifts without incurring gift taxes (up to a threshold), whereas cohabiting couples are treated as two unrelated individuals. Paradoxically, although they do not enjoy the same tax benefits as married couples, cohabiting couples are treated as a family unit for welfare payments means-testing purposes.

## **Reliance on Parents**

Adult children of families continue to be treated as dependents in some cases until the age of 24. For example, the means-testing of an individual seeking Jobseeker's Allowance or a third-level grant may exclude them based on their family income, regardless of whether or not their family is actually willing to financially support them.<sup>154</sup>

## **Complex Family Circumstances**

Tax law and social welfare often rely on relatively rigid definitions of what constitutes a family, which ignore the complex reality of family circumstances. With divorce, remarriage or the formation of new relationships between the adults involved, additional children, stepchildren and other former partners may also enter the equation. Furthermore, some biological parents may continue to have a relationship (including an economic relationship) with their children, despite not having joint custody of them and yet appear in the statistics as 'single'.

Another challenge to public administration is that families sometimes live across multiple households. For example, a divorced couple may have joint custody of their children. Each former partner is the head of a separate household, but the children may alternate living with each parent.

Some family units may exist that are not recognised under the laws governing marriage/civil partnership. For example, elderly siblings may share the same housing and essentially live as a family unit to an extent that is different from two unrelated adults merely sharing accommodation for financial reasons.

## **Data and Sources**

The Census conducted every five years provides Ireland with a regularly updated and detailed picture of society and household composition. Census 2011 included some innovation on the form to try to more accurately establish the relationships between people living in the same housing. Nonetheless, the complexity of the modern family means that the Census may not be able to record the full picture of these relationships. Further studies are needed to supplement the Census data.

The Census 2011 question on marital status is also limited. While people may mark their relationship with another person in the household as 'partner (including same-sex partner)' the question on marital status does not allow for 'cohabiting' as a status, only 'married' or 'single (never married)'. While the Census is technically accurate with respect to the marital status types that exist in Irish law, the questions asked are less suitable for generating the most accurate picture possible of cohabiting relationships.

# 8. Capacities

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## Core Facts and Analysis

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The purpose of this section is to widen the analysis of economic inequality by including some of the main additional factors that play an important role in causing and addressing economic inequality in Ireland. These are loosely referred to here as capacities. While some of these are personal factors, it is important to recognise that they affect economic inequality through everyday social practices and structures.

Capacities operate at several levels: they affect people's potential market incomes, their access to material goods, and the types and levels of material goods that they need for flourishing. They include differences in people's education and skills, in their ability to access to financial services, in their likelihood to be discriminated against, in their access to social networks, and in their disabilities (including mental health disabilities). Properly designed public policies can help to promote economic inequality by addressing these differences.

It is important to avoid an overly reductionist or mechanistic approach to the topic of capacities. Not every advantage or disadvantage can be measured, and it is not appropriate for public policy to have a specific response to every factor that helps or hinders people economically. Instead, applying broad principles — such as meeting everyone's essential material needs through universal public services and ensuring adequacy of incomes, or ensuring that capacities cannot be used to confer excessive material goods on one group at the expense of another — can be more effective than trying to target resources or services to diverse groups.

Nonetheless, it is useful to examine a selection of available data under the following general headings in order to illustrate the relationship between diverse capacities and economic inequality.

- Education and skills
- Barriers to Financial Services
- Discrimination
- Access to privileged networks
- Disability, including mental health disabilities

# Education and skills

Ireland is leading the EU in terms of the high rate of third-level education attained by its young people. This in turn supports the transformation of the economy towards high-skill employment. However, the work that needs to be done, even in a modern economy, ranges from unskilled to highly skilled.

While there is a healthy focus on re-orientating the economy through increasing the number and proportion of the high-skill jobs that command high incomes, there also needs to be reflection about the overall composition of society and the quality of life that is offered to those who continue to fill other, no less vital, roles in the economy, including unpaid work.

Classical economics has been criticised for making assumptions about human nature based solely on monetary value. Similarly, overly simplistic ideas have also taken root in discussion of the jobs market, with the assumption that everyone should aspire to third-level education and that everyone will be able to retrain throughout their life as part of an ever more competitive struggle to find good employment.

In order to reduce economic inequality, the economy should be based on co-operation and solidarity, including intergenerational solidarity. The unequal distribution of marketable skills requires that solidarity be shown with those who have not been in a position to acquire those skills, or whose other commitments prevent them from participating in the labour market.

Part of the challenge of the contemporary economy is the fast pace of technological change and globalisation, with whole areas of traditional work being outsourced, or replaced by technology. Many workers are now expected to change career during their working lives,<sup>155</sup> and to repeatedly refresh their skills and qualifications as part of 'lifelong learning'.

At the same time, there is a limit to how fast people living in a society can change.

Older people — especially those with low levels of education or who have remained in the same type of work for a long period — may find it more difficult to adjust. While building up education and skills in the economy is laudable, it is socially unacceptable if older workers are dispensed with as no longer a 'resource' and of no more value to the economy, or if many people are expected to live with ongoing insecurity because only precarious employment contracts are available to them. It is of fundamental importance that economic inequality is not exacerbated by the exclusion or exploitation of the labour of people whose skills have been overtaken by technological change.

As citizens and as consumers, there is a rapid push towards Internet-use, which has become essential to avail of price competition and even compulsory to access some basic public services. Yet, for the next one or two generations, the issue of a 'digital divide' between those who can and those who cannot access the Internet will continue to be a cause of economic inequality, as will other literacy inequalities.

Taking all of this into account, a central goal for reducing economic inequality should be to reduce the degree to which both net income and access to material goods reflects inequalities of education and success in the labour market.

## Educational Attainment

One of the great success stories for Ireland is the growth of educational attainment.

In 1996, 27.9% of Irish 30–34 year-olds had completed third-level education (compared to 24.6% in the UK). Seventeen years later, in 2013, 52.6% of Irish 30–34 year-olds had completed third-level education (compared to 47.6% in the UK).<sup>156</sup>

Ireland has the second most ambitious 2020 target for third-level education of all EU countries, aiming for 60% of 30–34 year-olds to have completed third-level education.<sup>157</sup> The general EU target is 40%. Ireland is currently ranked first in the EU on this indicator, far above the EU28 average of 36% of 30–34 year olds having a third-level qualification.<sup>158</sup>

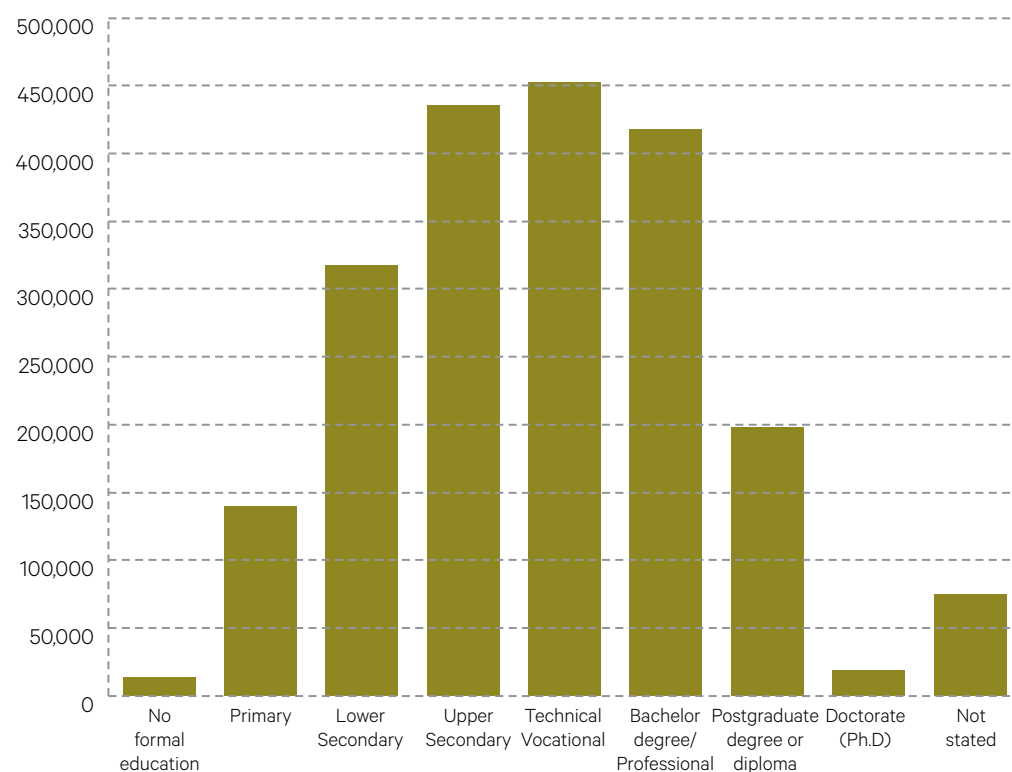
The extent of qualifications among younger people has also raised the overall attainment of third-level qualifications within the 15–64 year-old population to 36.3%, the highest in the EU and well above the EU28 average of 25.3%, although the UK is similar on 35.7%. In Ireland, this result is greatly skewed by younger people’s education level.

In this context, it is important to note that the emigration of young, well-educated people from Ireland represents a major loss to the economy as well as society.

A culture of high regard for education and the imbuing of education by parents are highly valuable to society as well as to children. Higher educational attainment in society is linked with greater economic output and employment at higher occupational levels and with higher incomes for those with qualifications. There is every reason for Ireland to support young people to complete as much quality education as possible, and also for all working-age adults to be encouraged to avail of second chance education and re-training opportunities.

Nonetheless, based on a forty-year working life, it will take another one or two generations before the full effects of this greater access to education are fully realised across all age groups.

**Chart 39: Number and Percentage of People by Educational Attainment in Ireland (Source: CSO, 2011). 44% of the labour force have up to secondary education, 22% have technical/vocational training or a certificate, 31% have a third-level degree.**



Currently, educational attainment in the Irish workforce is a mixed picture. As shown in the chart above, 23% of the current labour force has relatively low educational attainment (lower secondary or less); 21% has upper secondary education; 22% has technical/vocational training, an apprenticeship or a third-level certificate; and 31% has a third-level degree, of whom a third (10.5%) also have a postgraduate qualification. There is a strong age dimension to this picture, with younger people much more likely to have had a longer experience of education and higher qualifications.

While the accuracy of 'league tables' of secondary schools is disputed, there is clearly a high correlation between fee-paying schools and higher Leaving Certificate results, which in turn gives greater access to third-level education, and, by extension, to professions such as law or medicine. Nationally, 13 of the best-performing 20 boys' schools and 10 of the best-performing 20 girls' schools are fee-paying.<sup>159</sup> In the relatively wealthy suburbs of South Dublin, 17 of the best-performing 20 secondary schools are fee-paying. Access to higher education is also reinforced by expensive 'grinds' that most people cannot afford to buy for their children.

Educational attainment helps to explain the deep division in Ireland between high-paying managerial and professional jobs and low-paying other work (as described in Section 3).

According to Eurostat, the attainment of upper secondary education 'aims to measure the share of the population that is likely to have the minimum necessary qualifications to actively participate in social and economic life.' Unemployment among those without upper secondary education is 20.3% in Ireland, compared to unemployment of 6.7% among those with third-level education.<sup>160</sup>

This is not just a problem stemming from the lack of educational opportunities in the past. Ireland currently has a relatively high number of young people who are neither in employment nor in any education or training course: 18.6% of those aged 15–29 years old.<sup>161</sup> The EU28 average is 15.9% and the lowest level is 7.1% in the Netherlands. With roughly 50% of the same age group in Ireland likely to go on to third-level education, this educational inequality is liable to be reflected in economic inequality for the rest of these young people's lives.<sup>162</sup>

Ireland is below the EU average for early school leavers (as measured by the number of persons aged 18 to 24 whose highest level of education attained is lower secondary or below). The rate is 9.7% in Ireland which is lower than the EU average of 12.7%. However, there is a gender gap with 8.2% of females leaving school early but 11.2% of males.<sup>163</sup>

There are obviously jobs that do not require high levels of education or skill. Moreover, many people have talents, life skills and work experience that compensate for any lack of formal qualifications. However, the risk remains of a deeply divided labour force, with older and less well-educated people left behind, while a proportion of people with third-level and specialised qualifications gain good quality employment and significantly higher remuneration, which in turn undermines social cohesion.

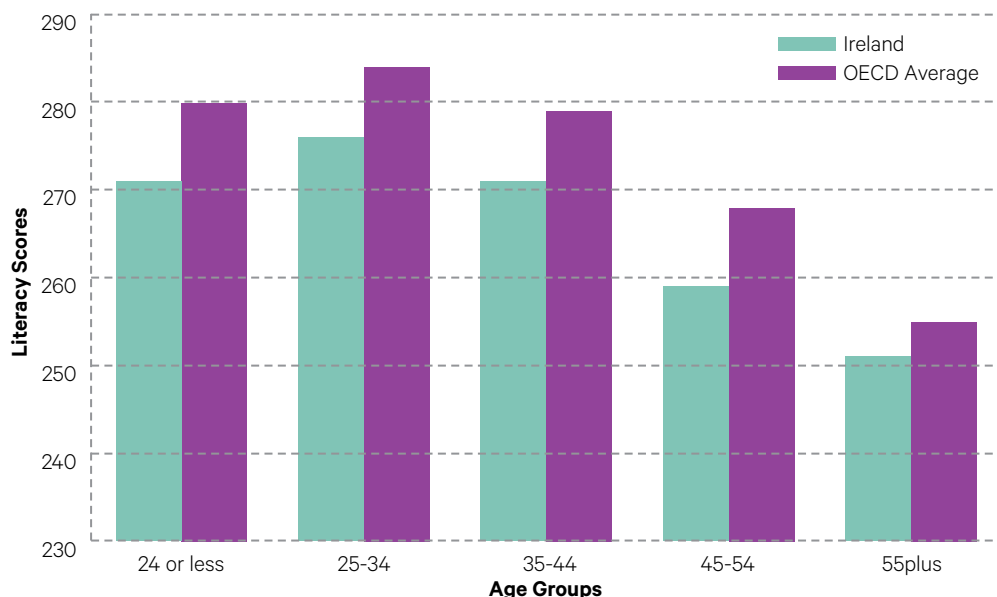
### **Literacy, numeracy and technology use**

Evidence of deep inequality of economically relevant skills within Ireland's working-age population is shown by the high level of illiteracy and innumeracy.

One in six (17.9%) of Irish adults of working age (16–65) has a high level of difficulty reading and writing. One in four (25%) of Irish adults of working age has a high level of difficulty with numeracy. And two in five (42%) of Irish adults of working age have great difficulty using technology to find information.<sup>164</sup>

Chart 40 shows one of the results, published by the CSO and National Adult Literacy Agency (NALA),<sup>165</sup> of a 2012 OECD report of an international assessment of adult competencies.<sup>166</sup> Ireland's rankings are relatively poor: 17th out of 24 participating OECD countries for literacy and 19th out of 24 for numeracy, but close to average for problem-solving in technology-rich environments.

**Chart 40: Literacy Scores by Age Profile: Ireland and OECD. (Source: CSO ).<sup>167</sup> Ireland is below OECD average for all age groups.**



Investment in improving primary and secondary school education in recent decades has led to a dividend in terms of literacy and numeracy. As shown in the chart, in common with other countries, Ireland’s younger age cohorts scored significantly better than older people; but even so Ireland’s younger cohorts have below average scores.

Such results reflect generational differences and wide gaps in the educational provision, exacerbated in many cases by poverty and other disadvantages. Even among young people, the combination of lower than average literacy scores on one side and high third-level education on the other indicates very unequal education outcomes in Ireland.

The combination of lower than average literacy scores on one side and high third-level education on the other indicates very unequal education outcomes in Ireland.

## Barriers to Financial Services

Some of the most significant economic benefits people obtain derive from buying a home, purchasing life insurance, or making savings for a private pension. These activities require reasonably sophisticated knowledge of the detail and risks involved in the financial products involved. However, some people are effectively unable to access financial services, due to either a lack of knowledge about financial products and how they operate or due to financial institutions being unwilling to cater for everyone in society.

### Financial literacy

There is no annual source of official data on people’s knowledge of financial matters, but taking the above figures on basic literacy and numeracy as a baseline, it is likely that only a minority of people have the requisite skills for choosing and managing financial products, despite such products being an integral and growing part of the economy. NALA argues that ‘[f]inancial jargon such as APR, equity and compound interest are difficult at the best of times to understand, but for somebody with low literacy levels it is a real barrier to money matters.’<sup>168</sup>

The Red C polling company published a survey in 2012 that identified ‘clear gaps in the Irish public’s understanding of basic personal finance issues.’<sup>169</sup> It found that just 30% of Irish consumers understood basic personal finance concepts such as interest rates or inflation.

This means that a lack of understanding of financial issues is not restricted to those with low levels of formal education. Respondents to similar surveys in Germany and the Netherlands demonstrated a much higher knowledge than their Irish counterparts, whereas people in the USA scored more poorly.

During the housing boom, it is clear that many people, from all social backgrounds, were badly advised or misled on matters such as financing home purchases or 'releasing equity' from housing they already owned. Combined with the loss of employment during the economic crisis, the excessively high level of debt taken on by households worsened mortgage sustainability. Today, over 90,000 Irish households have major arrears on the mortgage covering their principal residences.<sup>170</sup>

According to the 2014 Edelman Trust Barometer survey, only 20% of Irish people trust financial services, and just 15% trust banks. Just 9% of respondents feel government is doing enough to regulate the financial services industry, with 81% saying they are not doing enough.<sup>171</sup>

### **Access to banking and credit**

Unequal access to banking and credit facilities is an important cause of economic inequality. Many household purchases — from houses and cars, to holidays and weddings — are financed through credit rather than savings. Likewise, many routine purchases require direct debit facilities or credit cards. Even public services can require citizens to have access to banking facilities. Yet around 149,000 households in Ireland (9% of the total) do not have a current bank account.

9% of respondents feel government is doing enough to regulate the financial services industry.

The Money Advice and Budgeting Service (MABS) indicates that most people on low incomes are expert at managing their scarce resources, but they are highly vulnerable to problems relating to debt and to unexpected one-off expenses.<sup>172</sup>

When people cannot make ends meet, they often turn to expensive forms of credit that further undermine their economic position. Licenced moneylenders in Ireland have some 360,000 customers, with total loans outstanding of €200 million and annual charges of up to 287% on loans.<sup>173</sup> There are 38 moneylending businesses in operation in Ireland, many of which operate doorstep collections.

Personal indebtedness is addressed in Section 4. An additional factor relevant here is credit rating, as people with a problematic debt history, even of a small scale, can find themselves unable to access credit on favourable terms later in life, which can perpetuate disadvantage even when people's incomes improve.

Whereas some people cannot access regular credit, those with higher incomes or assets can often avail of better credit terms, which in turn reinforces their economically advantaged position.

Many major purchases in Ireland are based on credit. By far the largest item for many people is a home purchase loan, but home repairs or renovation, cars, furniture and holidays can also be financed through credit. Depending on interest rates, borrowing can save or cost someone more in the long run. However, people who cannot access credit facilities — or who are reliant on high-cost alternatives, such as moneylenders — are at a significant disadvantage in Ireland's economic system.

Access to financial products plays an important role in helping people to meet their material needs. Not only do people need to understand financial products, but also they need to access to banking and credit, which is often denied to those with a disadvantaged background. This exclusion can be exacerbated by a consequent reliance on moneylenders that makes credit far more expensive for those who can least afford it.

Thus, a central goal for reducing economic inequality should be to reduce inequality in access to financial services.

# Discrimination

People can be the target of economic discrimination on many grounds, including social class. This discrimination generates and reinforces economic inequality by preventing some people from accessing the material goods and services they need for a good life.

While Ireland has legislation to prevent discrimination in economic affairs, a range of additional policies are required to reduce economic inequality due to discrimination, and to compensate those affected.

Economic inequality is not covered by Ireland's equality legislation. Nonetheless, discrimination under the nine grounds of the Employment Equality Act 1998, Equal Status Act 2002 and Equality Act 2004 often has economic underpinnings or implications for economic equality. The grounds are: gender, marital status, family status, age, disability, race, sexual orientation, religious belief and membership of the Traveller community.<sup>174</sup>

The nine grounds relate to personal attributes, most of which are immutable. Everyone is potentially vulnerable to discrimination under these grounds — women and men, single people and married, etc. Outside of the nine grounds in the equality legislation, many people are discriminated against in the economy due to their socio-economic background, which can be based on the occupations of their parents, their postal address, or even their accents.

Economic discrimination relevant to the nine grounds includes discrimination in accessing jobs, unfair dismissal, unequal pay, lack of parental leave or maternity pay, refusal to provide goods or services, the unequal treatment of qualified adults and women pensioners under the social welfare code, etc.

A 2010 report on the experience of discrimination in Ireland, found that 12.5% of the Irish adult population said that they had been discriminated against in the preceding two years.<sup>175</sup>

The Equality Authority reported 1,779 queries under the Employment Equality Acts during 2012, and a further 1,815 queries under the Equal Status Acts.<sup>176</sup> Typical queries included working conditions, access to employment, dismissal, provision of services and issues of discrimination arising in educational establishments.

## Access to privileged networks

Some people have access to social networks that give them advantages in the economy at many levels, including career guidance, access to employment, job promotions, market access, and direct access to material goods.

Some of these are financial, such as the ability of parents to afford extra-curricular activities or 'grinds' to boost their children's skills and qualifications, whereas others are less tangible but no less important, such as access to other people with power and privilege.

These advantages do not just undermine equality of opportunity, but exacerbate economic inequality by protecting privilege itself. It is therefore an important part of reducing economic inequality to reduce the role of privileged networks in the economy and to provide alternative means for accessing the benefits that these networks provide.

A specific and important privileged network arises from Ireland's educational model.<sup>177</sup> As pointed out above, unequal access to fee-paying schools plays an important role in perpetuating inequality of educational attainment. It also provides people with life-long connections to people who will come to occupy privileged positions in Irish society.



More generally, opportunities to meet and speak with influential people in business and politics are valuable, and restricted access to certain networks plays a role in perpetuating economic inequality.

In principle, business networking is beneficial to the economy and it is underpinned by the fundamental human right of freedom of association. A number of organisations exist with the explicit aim of providing an environment where people can meet to discuss and conduct business. These include professional associations, trade unions and industry-specific associations — some of which also operate as lobbyists on behalf of their members. In addition, many nominally social organisations also double as places where people can make valuable contacts in pursuit of their business interests, such as sports clubs. Most of these networks have a potentially valuable role to play in supporting business activity by filtering information and helping people find reliable contacts.

Consequently, one of the barriers to reducing economic inequality — and especially a barrier to increasing the opportunities for self-employed or new entrepreneurs — is exclusive or privileged access to networks, whether these are based on prior membership of exclusive schools, membership of political parties, expensive membership fees for associations, or even outright discrimination against women or others becoming members of a given society or organisation.

Such ‘barriers to entry’ effectively exclude large numbers of people from full participation in the economy, as they do not gain the opportunity to contribute their skills or ideas.

Some occupations have additional restrictions, such as monopolies over training or accreditation, or restrictions on the number of people qualified per annum (e.g. law, medicine). Also, situations where employers only permit existing employees to compete for new positions lower the number of genuine opportunities in the economy. In such a case, an employer may be genuinely motivated by the desire to provide adequate promotion opportunities to retain their existing staff, nonetheless this practice disadvantages equally competent people who do not have the good fortune to already be ‘insiders’.

Moreover, appointments to the most powerful and highly remunerated posts such as CEO or membership of the Board of Directors of private companies or public bodies are too often influenced by access to privileged networks.<sup>178</sup> Processes such as appointments to boards require more formal systems to encourage diversity of membership.<sup>179</sup>

## **Disability including mental health disabilities**

Disability can severely restrict a person’s ability to generate an income to meet their needs, often because of unjustified barriers to their participation in the economy. Mental health disability, both short- and long-term, is an increasingly recognised aspect of disability that affects people of all backgrounds. Disability also affects the range and level of goods and services people need to flourish.

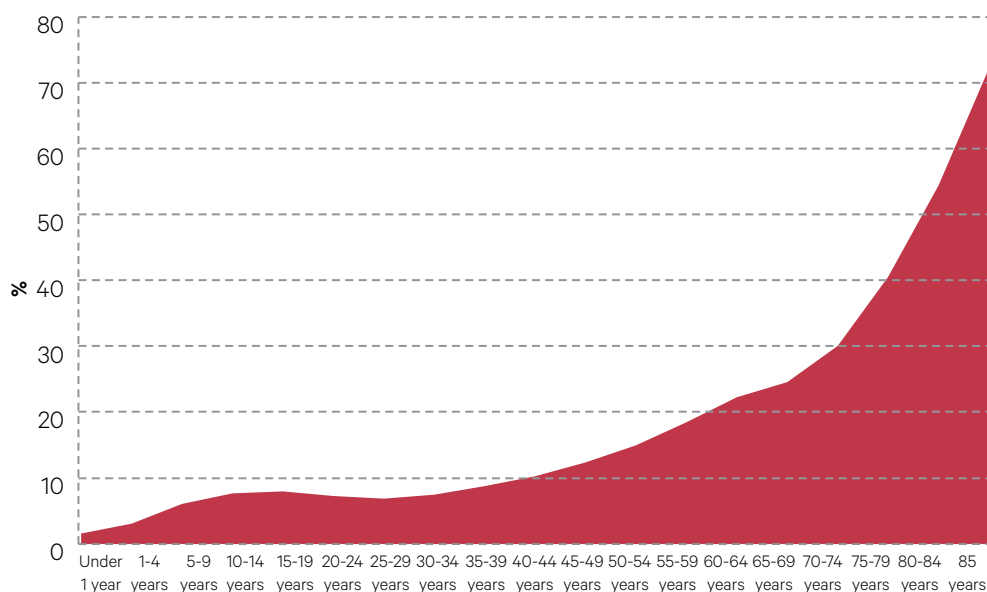
Support within employment, access to high-quality public services, and direct financial support to deal with the extra costs of disability are therefore required to reduce the economic disadvantages associated with disability.

### **Disability**

Having a major disability — or the occurrence of disability in a person’s spouse or child — can have serious implications for economic inequality at many levels.

The incidence of disability triples across working life, with disability arising for one in ten people during their working age years. As the chart below illustrates, while some people are born with a disability, the great majority of disability manifests later in life. A total of 1.6% of those aged under one year were reported to have a disability in Census 2011 (that is, 1 in 62 infants). Some 7.3% of people in their early 20s report a disability, but this figure is more than doubled to 15% for people in their early 50s and three times higher, at 22.3%, for people in their early 60s. For people of retirement age, the incidence of disability rises dramatically, with 72.3% of those aged 85 or older reporting a disability. This may represent the effects of illness, underlying medical conditions, work-related accidents and injury, and/or non-work related accidents.

**Chart 41: Percentage of Age Cohort with a Disability (Source: CSO Census 2011).<sup>180</sup>**  
***The incidence of disability rises with age, and rises dramatically for older people.***



The National Disability Survey (NDS) is considered to be the best estimate of the number of people with a disability in Ireland.<sup>181</sup> The NDS found that between 16.8% (one in six) and 20.4% (one in five) of the population has a long-term disability.<sup>182</sup> Taking the severity of the disability into consideration it was estimated that 8.1% of the population (one in twelve) experience more severe limitations.<sup>183</sup>

Some disabilities reduce the occupational opportunities available to a person. A relatively minor disability such as colour vision deficiency nonetheless rules out a career as a dental surgeon or an airplane pilot, physical impairment can rule out various forms of manual work, and so on. Conversely, many people with disabilities are fully capable of working in diverse areas, particularly if employers make reasonable accommodations as required by the Employment Equality Acts, such as improved physical access to working spaces or flexible working hours.

According to Census 2011, 6% of people at work aged 15–64 had a disability, which represents 105,000 people in employment. This also represents nearly one in five of all persons reporting a disability. Nevertheless, people with disabilities are far more likely than average to be unemployed and are more likely to have experienced discrimination.<sup>184</sup>

It is also well-established that people with disabilities face a higher cost of living, due to direct costs associated with their disability. There are no annual statistics demonstrating this cost, but one recent estimate is an additional cost of €207 per week, which represents 35.4% of average disposable income.<sup>185</sup>

According to the National Disability Authority (NDA), 'The cost of living for people with disabilities is generally higher than for the rest of the community — higher medical costs, paying for disability aids and home adaptations, the cost of transport, help with care and higher costs on day to day living. So the Commission on the Status of People with Disabilities in 1996 recommended a Cost of Disability Payment.'<sup>186</sup>

In light of the widespread risk of disability, another important aspect of disability from the point of view of economic inequality is how this risk should be allocated. Expecting individuals to carry the risk of disability is a recipe for increased inequality. By contrast, social insurance combined with high-quality public services is a collective response that shares the costs of disability across all of society.

### **Mental health disabilities**

A more difficult category of disability to measure is mental health disabilities, as these can include short-term illnesses as well as long-term conditions. The WHO estimates that neuropsychiatric disorders are 29.6% of all diseases in Ireland.<sup>187</sup>

In 2010, 5% of the population reported a mental health diagnosis (4% anxiety/depression and 1% 'other mental health').<sup>188</sup> However, this only includes formal diagnosis. Given the continued social stigma associated with mental health issues, there are likely to be many more people who experience mental health issues without a formal diagnosis.

Even the term 'mental health' is not sufficiently broad to encompass the full spectrum of relevant issues, which include excessive stress or fear in people's lives, addiction to alcohol or drugs, acquired brain injury, or so-called 'personality disorders'. Around 500 people per year in Ireland die by suicide. While this is close to EU average trends, youth suicide is among the highest in Europe.<sup>189</sup>

One important consideration here is that many people suffering from mental health disabilities are in employment. A common misconception of Ireland's economic model is that everyone is in perfect health, except for periods of clearly defined 'illness', which is covered by short-term leave of absence or long-term invalidity cover. However, the reality for many people is that their ability to function in society and the economy is constrained by periodic or chronic mental health issues. The current drive toward an ever more demanding economic system (with weaker job security, lower incomes for many and weaker public services) in the name of 'competitiveness' is incompatible with supporting people experiencing mental health issues and enabling them to participate fully in society and in the workplace.

From the perspective of economic inequality, mental health disabilities challenge public policy; firstly, to ensure that there are appropriate supports so that people can remain in employment without discrimination and attain a decent standard of living and, secondly, to take account of the fact that some people, through no fault of their own, are unable to work in an open commercial environment (although other forms of employment may be an option). Paid employment is not a cure-all for reducing economic inequality, and it is incumbent on a civilised society to ensure that the economic system provides people who cannot compete for work on the open market with a decent standard of living and with quality public services specific to their needs.

## Data and Sources

The CSO and Eurostat provide detailed analysis of educational attainment. The Census and the work of the NDA provide detail about the number of people with a disability. Other data on personal resources and personal attributes is less frequent or absent. For example, data on literacy is not gathered annually, and data on financial literacy or capacity to use the Internet are practically non-existent, even though, in many cases, financial products or public services are available only through the Internet. There is a lack of data on the number of people who cannot access banking services (as opposed to those who simply do not have a bank account) and on the links between economic inequality and the grounds for discrimination in the equality legislation.

Data	Measurement	Source
Number of households	1,658,243	CSO, Census 2011
Number of adults	3.6 million	CSO, Census 2011
Adults with low level of literacy	17.9% 644,000 adults	OECD, NALA
Adults with low level of numeracy	25.0% 900,000 adults	OECD, NALA
Adults with low proficiency in technology use	42.0% 1,512,000 adults	OECD, NALA

# 9. Cost of Goods and Services

## Core Facts and Analysis

The cost of living – relative to means – is the basic substantive test of income adequacy. ‘High’ and ‘low’ incomes are not only relative to each other, but also they relate to the cost of essential goods and services.

Poverty and deprivation are indicators of economic inequality, but only part a larger issue. The focus on overall economic inequality remains important, as the goal is to envisage an economic and social model for Ireland that equally enables everyone to flourish, not merely to achieve the minimum necessary for a decent life.

Nonetheless, an important indicator of economic inequality is the extent to which people are able to meet their basic material needs; i.e. the goods and services they need for a decent life. Cost of living is also an indicator of how well the economy is being regulated and governed to serve society as a whole.

Ireland does not have official statistics on the cost of living, and data on the affordability of basic economic goods and services is both incomplete and scattered across multiple sources. Even so, a range of cost of living indicators can be assembled using the categories identified in Section 1 about what constitutes material needs to be met for all households. While most households in Ireland can and do meet their essential material needs, many do not. The goal of this section is to show evidence of affordability problems and excessive costs, which effectively worsen economic inequality.

This section is structured around the following illustrative set of goods and services. People living in 21st-century Ireland need to have these material needs met to an adequate quality level. The extent to which some of these material needs are inadequately or inequitably addressed provides a tangible measurement of economic inequality:

- Food
- Housing
- Water
- Energy
- Healthcare
- Social care
- Telecommunications<sup>190</sup>
- Savings and contingencies
- Clothing
- Personal and household goods
- Sanitation
- Transport
- Childcare
- Education
- The costs associated with social interaction<sup>191</sup>

It should be obvious, based on the diversity of human circumstances, that what counts as an adequate level of provision varies among individuals. In particular, someone experiencing illness or disability may need a much higher level of provision of some goods and services than average. People also have different levels of need at different phases of their lives, from childhood to older age. The focus is on inequality in the fulfilment of people's material needs, not an open list of wants or desires.

For everyone to meet all of their basic material needs would represent a significant achievement, essentially equivalent to eradicating poverty and deprivation. There are obviously major challenges to doing this, but focusing on the specifics of what constitutes material needs, alongside a quality standard for the 'adequacy' of minimum standards, provides a foundation for doing so. Likewise, recognising that household composition, disability and other factors need to be more scientifically accounted for in determining minimum standards is essential to meet everyone's basic needs.

Article 25 of the Universal Declaration of Human Rights states: 'Everyone has the right to a standard of living adequate for the health and well-being of himself [herself] and of his [her] family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his [her] control.'<sup>192</sup>

Similarly, the Council of Europe's summary of the International Covenant on Economic, Social and Cultural Rights (ICESCR),<sup>193</sup> identifies the following rights:

- The right to freely chosen work;
- Just conditions of work, including fair wages ensuring a decent living, equal pay for equal work, safe and healthy working conditions, rest, and equal opportunity for promotion;
- The right to form and join trade unions and to strike;
- The right to social security, including social insurance;
- Protection for the family and special measures for children, such as protection from economic exploitation;
- An adequate standard of living, including adequate food, clothing and housing;
- The right to the enjoyment of the highest attainable standard of physical and mental health;
- The right to education;
- The right to take part in cultural life and to enjoy the benefits of scientific progress.

The material needs of different people may be met in different ways. One person might meet all his or her needs through having a sufficient level of cash income, whereas another person's needs may be met through a range of direct services in addition to income. An employee might gain most of his or her income from paid employment, but someone else (such as someone who cannot work due to disability, illness or old age) might receive income in the form of a social transfer.

In terms of the quality of goods and services required to meet people's essential material needs, Article 25 uses the term 'adequate', which is taken to mean a basic level sufficient to allow someone to live in dignity (i.e. neither in poverty nor in luxury, although the adequate level might fall short of what is popularly seen as a comfortable lifestyle in Western countries). What is included in the idea of adequate provision depends on prevailing technological standards and societal norms, and will change over time through changing social consensus. For example, the Minimum Essential Standard of Living research in Ireland and elsewhere describes a relatively frugal set of goods and services identified through consensual focus groups to represent the minimum that a person requires to live life in dignity.<sup>194</sup>

Everyone has the right to a standard of living adequate for the health and well-being of himself [herself] and of his [her] family, including food, clothing, housing and medical care and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his [her] control.

The Minimum Essential Standard of Living research in Ireland and elsewhere describes a relatively frugal set of goods and services identified through consensual focus groups to represent the minimum that a person requires to live life in dignity.

# Ireland's Social and Economic Policies to Address Material Needs

Any state of affairs in which some people are unable to meet their basic material needs is an instance of economic inequality.

The following sub-sections summarise how people's material needs are expected to be met in Ireland's current social and economic model, as these have evolved over time. The historical development of these policies has combined regulated market activity, public services, tax reliefs, and targeted interventions for low-income households. This provides important contextual information for the assessment of economic inequality in each case.

Any state of affairs in which some people are unable to meet their basic material needs is an instance of economic inequality. But economic inequality also exists when income and wealth disparities allow some people to attain much higher quality and quantity of healthcare, education, housing and other goods and services than other people. These matters can be related. For example, excessive waiting times may be the reason why some people's access to healthcare services can be deemed inadequate, but accelerated access to the same services for people who can afford health insurance may also worsen delays in the public system.

Economic inequality also exists when income and wealth disparities allow some people to attain much higher quality and quantity of healthcare, education, housing and other goods and services than other people.

## Food

Farming is subsidised via the EU's Common Agricultural Policy (CAP). Foodstuffs are provided via the private market, with a wide range of competing retailers. A policy of zero-rated VAT on basic foodstuffs is intended to reduce the cost of food.

According to Eurostat, food costs in Ireland are 15.8% more expensive than the EU average (based on purchasing power parity). Food prices are also above EU levels across all seven categories of food compiled by the CSO.<sup>195</sup> This means that all households, especially those on low to middle incomes, expend a significantly larger proportion of their incomes on food than in other EU countries. This is despite the fact that a 'zero' rate of VAT is applied to some basic foodstuffs in Ireland, though not all. For example, fruit has a zero rate, but fruit juice is charged at the standard rate. It should also be noted that expenditure on food as an overall proportion of household spending has declined over time.

In Ireland, food deprivation affects up to one in thirteen people. Some 179,400 individuals (3.9%) report inability to afford a meal with meat or fish every second day, and 349,600 people (7.6%) report inability to afford a weekly 'roast dinner' or equivalent.

In Ireland, food deprivation affects up to one in thirteen people.

Ireland no longer faces the problems of insufficient nutrition experienced in the least developed countries; however, excessive consumption of unhealthy, high-calorie foods has led to excess body weight and obesity becoming indicators of malnutrition in developed countries. Ireland has one of the highest rates of overweight adults in Europe (60.9%), which represents 2.2 million adults whose food and drink consumption patterns are unhealthy. Income inequality has been shown to be related to the incidence of obesity because unhealthy processed and sugar-sweetened foods are often cheaper than healthy foods.

## Clothing

Clothing is provided via the private market, with diverse competing retailers. VAT on younger children's clothing and shoes is zero-rated to reduce the cost. A targeted Back to School Clothing and Footwear Allowance welfare supplement is paid to support low-income households with the additional cost of school clothing for children.

Based on Consumer Price Index (CPI) data, prices for clothing and footwear were significantly lower in July 2014 (84.9) than they were in December 2011 (index = 100), as part of a trend towards cheaper clothing prices since the 1990s. However this does not indicate whether clothing and footwear are affordable in comparison to other countries.

Deprivation indicators from 2012 show that 10.4% of individuals could not afford new (as opposed to second-hand) clothes, 4.9% could not afford two pairs of strong shoes and 3.7% could not afford a warm, waterproof coat. Assuming overlap between these categories, at least 374,400 adults (10.4%) experienced some form of clothing/footwear deprivation.

## Housing

Housing is currently largely provided via the private market, although historically public and non-profit construction of housing was more important. Circa 70% of households are homeowners and around 30% are tenants. Until recently, home ownership was the state's preferred policy, with various state subsidies for construction and tax reliefs in support of home ownership. Lower-cost options permitting tenant purchase of local authority housing units has historically been an important route to home ownership. The state continues to provide tax relief to private landlords, as well as for private home repairs.

70% of households are homeowners.

The majority of Ireland's 1,658,243 households are securely housed. About one half of home owners own their home outright and the other half have a loan or mortgage (with an average loan value of €140,000). Some 18.5% of households rent from a private landlord, approximately a third of whom receive Rent Supplement or equivalent from the state. A further 7.8% rent from a local authority and 0.9% rent from a voluntary body, as well as 1.5% who occupy a property rent-free.

18.5% of households rent from a private landlord.

Most housing is detached (42.3%), semi-detached (27.6%), or terraced houses (17%). A minority live in apartments or flats (10.8%). Small numbers of households live in bedsits (0.3%) or caravans/temporary structures (0.3%). Over a quarter (26.2%) of households live in rural one-off houses.

Housing costs for more than one in five tenants (21.7%) in the private rented sector are too high. This is defined by Eurostat as housing costs exceeding 40% of their net incomes.<sup>196</sup> That represents approximately 67,000 tenants with excessively high housing costs.

7.8% rent from a local authority.

According to Eurostat, 'the housing cost overburden rate is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40% of disposable income ('net' of housing allowances).<sup>197</sup> In Ireland, housing affordability is defined in the Housing (Miscellaneous Provisions) Act 2009 as housing costs exceeding 35% of net income.<sup>198</sup>

As of December 2013, 89,872 households were on waiting lists for social housing.<sup>199</sup>

Reported cost overburden is much lower for owners with mortgages (3.9%).<sup>200</sup> However, 16.5% of mortgages for principal dwellings are in arrears. This represents approximately 126,000 households (one in every thirteen households) in Ireland. Of these, 37,000 (2.2% of all households) are in 'very long-term arrears' (over 720 days).

Rental costs continue to rise above affordable levels in the larger urban areas. For example, in Dublin average rents are €1,061 (ranging from €783 for one-bed to €1,129 for three-bed properties). In contrast, Rent Supplement levels for Dublin range from €520 for a single person to €1,000 for families with three or more children. The gap between Rent Supplement and average rents is generally higher in urban areas, and lower in rural areas. However, there is a lack of one-person accommodation in many rural areas, which can make single-person Rent Supplement rates near meaningless.



Rural housing costs are significantly lower than for the main urban areas, especially Dublin.

Tenants in local authority social housing pay a 'differential rent'. Each local authority has its own differential rent scheme for calculating a rent based on income, household size and composition, with those on lower incomes generally pay a lower rent. This has historically provided a mechanism to lower the cost of living for some households. The tenant-purchase scheme<sup>201</sup> provided many Irish families with relatively inexpensive home ownership, however this policy is unsustainable for various reasons, not least the lack of housing stock and the increasingly peripheral location of newer social housing away from urban centres.

## Personal and household goods

One in four individuals (24.5%) was unable to afford to replace worn-out furniture.

Personal goods include toiletries and other necessities. These and basic household goods and furnishings are provided via the private market with multiple competing retailers and a large second-hand market. Private rented accommodation in Ireland is traditionally supplied furnished.

Based on CPI data, prices for furnishings and household equipment were significantly lower in July 2014 (90.7) than they were in December 2011 (index = 100). However this does not indicate affordability of these items in comparison to other countries.

In 2012, one in four individuals (24.5%) was unable to afford to replace worn-out furniture.

Private rented accommodation is usually supplied furnished, although furnishings may be of low quality in some cases.

## Water

At the time of writing (January 2015), this policy area is in flux.

The provision of clean water has been transferred to a single national publicly owned utility, Irish Water, with the reintroduction of domestic water charges. The cost of operating the utility is subsidised by general taxation, which pays for a basic free-of-charge allocation of water to all households. Taxation will also fund a Water Conservation Grant of €100 per adult to defray water costs.

Clean water and waste water service charges should not cost more than 1% or 2% of the net income of the poorest 10% of households.

Domestic water charges for people on low incomes and some people with disabilities are also subsidised from general taxation, and a tax-funded extra water allowance will be granted to each child in a household. Prices are set by the energy regulator. Water charging is set to begin at some time in 2015.

Water affordability for residential (especially urban) consumers is a new issue for this generation. Previously, domestic water charges existed in all areas until 1977 and continued in some areas up until they were scrapped in 1997. Some rural households have long paid for water through group schemes or the maintenance of a private well.

One indicator of water affordability used by the OECD is water supply and sanitation bills as a percentage of the disposable income of the lowest income decile of the population. As a rule of thumb both clean water and waste water service charges should not cost more than 1% or 2% of the net income of the poorest 10% of households.<sup>202</sup>

Currently, the price of water seems likely to be €76 for a single person and €178 for a household of two adults or more. This is a subsidised price, with the initial bill in each case being €176 and €278, respectively, reduced by the €100 grant. There will be extra supports for people with special water use needs.

Eurostat reports that the income of the bottom decile in Ireland is €9,911,<sup>203</sup> which is very close to an annual individual income based on social welfare, which is €9,776. An affordability threshold of 1–2% is therefore approximately €98–198 per year. The proposed net water charges seem likely to come under this affordability threshold, with €76 representing 0.8% of an annual income of €9,911, and €178 representing 1.8%.

Nonetheless, the introduction of the new charge will be difficult for any household already in poverty and unable to afford its other material needs.<sup>204</sup>

## Sanitation

Waste water and sewerage treatment services have also been transferred to Irish Water, and are funded by domestic charges and general taxation in the same way as clean water.

Domestic waste collection is largely provided via the private market, with households paying fixed charges and/or payments by weight or per collection. Larger urban areas have multiple competing waste services. Landfill, recycling and waste exportation are handled by both private companies and local authorities.

There is a lack of data available on domestic waste charges, which appear to vary significantly from area to area and can cost hundreds of euro per annum. A major concern from the point of view of people on low incomes meeting this need is that fee waivers formerly granted by local authorities have been abandoned by many private waste collection services.

## Energy

Energy for heating is largely provided via the private market, and the main sources are oil, gas and electricity, as well as coal, peat and wood in open fires. Most fuels used domestically and for electricity generation are imported.

Energy distribution infrastructure ('the grid') and much of electricity generation is delivered by state-owned enterprises. Private operators also engage in electricity generation and the supply of electricity and gas to end-consumers is a regulated market with a range of competing firms. Prices are regulated by an independent Commission for Energy Regulation.

A Fuel Allowance welfare supplement is paid to some groups who are deemed vulnerable to fuel poverty. A subsidised Home Insulation Scheme also exists, as well as tax relief for residential renovation.

Energy prices in Ireland are high, with the fourth highest residential electricity prices and the tenth highest residential gas prices in the EU.

Energy poverty (or energy affordability) is defined in Ireland as a situation where a household spends more than 10% of its disposable income on energy services in the home. 'Severe' energy poverty involves spending 15% and 'extreme' energy poverty involves spending 20%.<sup>205</sup>

In 2009 (latest data), one in five households in Ireland (20.5%) experienced 'energy poverty'. Of this group, a quarter (5.4% of the population) experienced 'extreme' levels of energy poverty. Even this may be an under-estimate. The report is based on spending on energy and states that households may under-heat their homes due to affordability concerns, and so the data on actual expenditure as a proportion of income may under-estimate the true extent of energy poverty.

In 2012 SILC data on deprivation, 593,400 people (12.9%) reported going without heating at some point in the year and 391,000 (8.5%) reported being unable to afford to keep their house adequately warm.<sup>206</sup>

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# Transport

The road and rail network is publicly owned, with private contractors involved in road construction. Some motorway construction has involved private finances and is part-funded through road tolling.

Motor vehicles are almost all imported and are subject to registration taxes and annual motor taxation. Motor fuels are heavily taxed via excise, but farmers receive subsidised diesel fuel. The car sales industry has been assisted by tax reliefs. There is a large private market in second-hand vehicles and repairs.

A rail network connects major towns and cities. Public and private bus operators serve most localities, but only the major urban areas have a developed public transport network. Irish Rail and Dublin Bus are subsidised services and fares are regulated by the National Transport Authority. The state subsidises a Rural Transport Programme. A tax-funded Free Travel pass is given to older people and to people with disabilities.

Pensioners and people with disabilities may have a Free Transport pass, but jobseekers and other people on low incomes do not.

Almost everyone has the need to travel in order to work, to study, to shop and to access services. More than quarter of Irish households (26.2%) live in rural one-off housing, and overall population density is 65 persons per km<sup>2</sup>, which is lower than many other EU countries. 62% of Ireland's population lives in aggregate town areas, compared to 38% in aggregate rural areas (Census 2011).

Many people in Ireland are car dependent and a large majority of people drive to work or study. Ireland has 2.65 million licensed drivers and 2.4 million currently taxed, registered vehicles.<sup>207</sup> A total of 1.36 million households have at least one motor car, whereas 290,000 households have no motor car (Census 2011).

Pensioners and people with disabilities may have a Free Transport pass, but jobseekers and other people on low incomes do not. Minimum essential transport needs for a single adult living alone cost €1,788 in an urban area and €2,544 (including insurance) per year in a rural area, according to the MESL data for 2014.<sup>208</sup> This represents 18% to 26% of a jobseeker's annual welfare payment of €9,776.

Only the largest urban areas have a public transport network, although most towns have bus services connecting to major towns and cities. There is a rural bus scheme. Many people on low incomes are reliant on public transport or transport provided by friends or family. For some people, especially older people or people with disabilities in rural areas, taxis may be the only available form of public transport for shopping or accessing services. Excluding households in all of County Dublin and the cities of Cork, Limerick, Waterford and Galway, over 117,000 households have no motor car.<sup>209</sup> It seems likely that a significant number of people on low incomes in rural areas (and some urban areas) are unable to meet their basic transport needs.

# Healthcare

As described in Section 5, a core healthcare service is funded from tax revenue and from part of social insurance. Patients have access to a wide range of subsidised healthcare services. Hospitals are typically owned and run by private not-for-profit organisations, although some for-profit hospitals exist. General practitioner (GP) services are provided by a largely private market, but prices and services are regulated.

Roughly a third of the population has private health insurance. Around 40% of the population (including most people aged 70+) receives a Medical Card that gives tax-funded access to free-of-charge or subsidised healthcare services. The government has announced plans to extend free GP care to all children under six years old.

Basic health care needs are arguably met for most of the 40% of those who have a Medical Card and most of those with health insurance. However, prescription charges and other up-front fees may cause affordability problems for some people with Medical Cards. Likewise, health insurance may not cover all costs and people may be required to pay an 'excess' (i.e. an amount of money payable before the rest can be claimed from the insurer). Moreover, waiting times are not improved for those with Medical Cards compared to those with insurance.

The cost of health insurance itself has risen greatly, with the CPI recording a rise of over a third to 135.4 in July 2014 from the index level of 100 in December 2011.

Nearly one quarter (23%) of adults have neither a Medical Card nor health insurance to help them meet health costs. This includes 30% of adults in employment, which suggests that a cohort of people on low incomes is poorly served by Ireland's current health system and is vulnerable to the costs associated with health emergencies. The problem of being uninsured for health costs is more likely to affect middle income households, rather than those on the lowest incomes as the latter will typically qualify for a means-tested Medical Card.

Out-of-pocket expenditure on health as a percentage of spending on health is a 'core indicator of health financing systems' according to the WHO. 'It contributes to understanding the relative weight of direct payments by households in total health expenditures. High out-of-pocket payments are strongly associated with catastrophic and impoverishing spending. Thus it represents a key support for equity and planning processes.'<sup>210</sup>

Out-of-pocket expenditure on health accounted for 42.2% of all private health spending in Ireland (26th/28 EU) and 15.0% of total health spending (19th/28 EU). According to these statistics, Ireland ranks reasonably well. However, the split between insured and uninsured suggests that a much larger proportion of the out-of-pocket costs of health are carried by the fifth of the population who are uninsured for health costs.

## Childcare

Childcare costs are largely carried privately in Ireland, either by one parent working in the home or by paying for private childcare services. Many parents (mostly women) work in the home bringing up young children. Childcare and preschool facilities are provided through the private market, with quality standards regulated by the state.

The state provides a tax-funded Early Childhood Care and Education (ECCE) Scheme of payments to fund some hours of preschool education for each child for one year. The ECCE service is purchased from the private market.

Approximately 340,000 people (95% of them women) reported their primary activity to be looking after home/family in Census 2011. Over 230,000 households with children reported an adult whose primary activity was looking after home/family.

Typical fees for childcare in Ireland cost over half (53.5%) of a family's net income, which is 2.2 times the EU average and 1.9 times OECD average levels. Ireland has no state spending on provision of childcare (versus an OECD average of 0.3% GDP) and average expenditure (0.4% GDP) on pre-primary education. As a result, even including benefits and rebates such as Child Benefit, Ireland's typical childcare costs represent 27.4% of a family income, which is 2.4 times the EU average (11.2%) and 2.2 times the OECD average (12.6%).

This helps explain why Ireland's employment rate (70.9% of men, 60.3% of women) is lower than the EU average (74.3% men, 62.6% women),<sup>211</sup> as many parents (especially women) with young children do not have a realistic option of working full-time.

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## Social care

The state provides a range of social care public services to people who need them, from special needs assistants in schools to disability services and nursing homes. Ireland's not-for-profit community and voluntary sector has a major role in providing social care services, including mainstream services and specialised services.

One recent estimate is that disability increases a person's weekly costs by €207, which represents 35.4% of average disposable income.

Residential nursing home care is provided by a mixture of direct state delivery and private market operators. Funding for residential nursing home care is a mixture of tax-funded (for people who pass a means-test) and private funding. The government's Fair Deal Scheme involves people funding their own nursing home care based on the state recouping costs from the sale of their home upon decease.

The state provides social transfer payments to people with disability and long-term illness, and to people who are full-time carers for those who cannot meet their own needs. Support services, often provided by community and voluntary organisations, receive public funding while also raising charitable donations (for which tax relief is granted).

One recent estimate is that disability increases a person's weekly costs by €207, which represents 35.4% of average disposable income.<sup>212</sup> This is explored more in Section 8 on Capacities.

## Education

Primary education is almost entirely tax-funded, although most primary schools are privately owned and run by not-for-profit organisations (mainly religious). Secondary- and third-level education is provided in a mixture of private for-profit, private non-profit and state-owned institutions.

Secondary- and third-level education is also tax-funded, but some secondary and all third-level education providers charge fees. Tax revenue is used to subsidise most fee-paying secondary schools.

According to the OECD, the share of private expenditure on educational institutions for Ireland was 4.06% for primary and secondary education and 18.75% for third-level education, compared to OECD averages of 8.48% and 31.63%, respectively.<sup>213</sup>

Although primary education and much of secondary education is tax-funded, voluntary contributions are often sought, as well as charges for children to participate in certain activities. School books and uniforms are a significant annual cost for parents, although book rental schemes and an annual welfare payment for children's school clothing and footwear are designed to alleviate this pressure for households on low incomes. Transport to school is another significant cost. The MESL research found that lack of access to school transport contributes to car(s) being a household necessity for rural households.

Private secondary schools typically charge high fees making them exclusive to only the well off. Third-level institutions also charge registration fees that can be prohibitively expensive for people on low incomes or whose parents are on low incomes. A student grant scheme is available and targeted at those with a low level of personal and family financial means to support their studies.

# Telecommunications

Access to telecommunications (e.g. phone, television and Internet) is provided via the private markets for both equipment and the relevant services, with a range of competing providers in most areas. Public subsidies exist to extend telecommunications (such as broadband Internet) to isolated or low-density population areas that are not commercially viable for telecommunication providers to service.

Telecommunications prices are regulated by the Commission for Communications Regulation, and there are Universal Service Obligations on providers.

Some level of access to a telephone, television and the Internet can be considered a baseline for a dignified life in contemporary Ireland, although this does not necessarily mean everybody has an automatic right to a smart phone, cable TV or high speed broadband.

According to Eurostat, Irish telephone costs are the sixth most expensive in the EU for local calls (€0.58 for 10 minutes; EU average €0.41) and 14th/27 for international calls to the USA (€1.96 for 10 minutes; EU average €1.71).

In 2013, of Irish households with no Internet access at home and someone aged 16-74 living there, 17% did not have Internet because access costs were too high; this compares to an EU average of 26%. This equates to 3% of all households (c. 49,750) not having Internet access due to cost.

Public service broadcasting is part-funded by the TV licence, which costs €160 per housing unit with a television. This charge is regressive in terms of income distribution. Households can opt out of paying the charge by not having a television. The social welfare Household Benefits payment included the cost of the TV licence for 413,214 low income households in 2013 (mostly pensioners); however many people on low incomes (such as jobseekers) are not eligible for any assistance with the TV licence, which represents 1.6% of a jobseeker's annual income of €9,776.

## Costs associated with social interaction

While much of social interaction is outside the focus of this report on material needs, it should be recognised that many opportunities to interact socially or to feel part of a community may have a material cost, from a membership fee or a modest charitable donation, to meeting someone for a tea or coffee.

Opportunities for social interaction outside of households are largely provided via the private market (e.g. cafes, cinemas), with a wide variety of catering and leisure services in most areas.

The state subsidises various arts organisations and cultural activities, as well as local sporting amenities and access to public land, although some of these also charge people for entry or membership. Local authorities provide community centres for the social inclusion of people in disadvantaged areas, and community and voluntary organisations also play an important role in ensuring social inclusion.

Using the deprivation indicators as a measure of social exclusion, at least 838,800 adults experienced some form of social exclusion in terms of ability to interact with others outside of the household. Deprivation included inability to afford a morning, afternoon or evening out in the last fortnight (23.3% of all adults), inability to afford family or friends for a drink or meal once a month (16.1%) or inability to afford presents for family or friends once a year (6.0%). Social isolation is linked to problems of mental ill health such as depression. It seems likely that people in isolated rural areas are more vulnerable to such isolation due to the additional transport costs associated with meeting friends or family.

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Many opportunities to interact socially or to feel part of a community may have a material cost

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# Savings and Contingencies

Unequal access to banking and credit facilities is an important cause of economic inequality. Many household purchases — from houses and cars, to holidays and weddings — are financed through credit rather than savings. Likewise, many routine purchases require direct debit facilities or credit cards. Even public services can require citizens to have access to banking facilities. Yet around 149,000 households in Ireland (9% of the total) do not have a current bank account.

A flourishing society should aim for everyone to have at least a modest level of savings to deal with irregularities in their annual income and expenses.

Meeting people's material needs includes ensuring that people have the resilience in their household finances to withstand an emergency or unexpected cost. A flourishing society should aim for everyone to have at least a modest level of savings to deal with irregularities in their annual income and expenses (e.g. some costs are annual lump sums rather than weekly costs).

The Money Advice and Budgeting Service (MABS) states that 'people often seek the help of MABS when: There are extra bills to pay because something has happened, such as being made redundant, an illness in the family, relationship difficulties or a bereavement; they have no money left over to pay everyday bills; the money coming into the household is less than it used to be, causing them to fall behind on loan repayments; they have been living on a low income for a long time and are getting further and further behind because of the cost of mortgage, rent, medicines, childcare, travel, etc.'

The implication is that for most people using MABS's services, the problem is one of insufficient income or sudden loss of income, rather than personal inability to manage money.

Personal indebtedness and a downward spiral into debt, especially for people on low fixed incomes, can be both socially and economically damaging.

## Data and Sources

The CSO makes it clear that the CPI is not a cost of living index and should not be interpreted as such. The lack of a detailed cost of living index in Ireland is a major gap in the official information available to guide policymakers. Similarly, the EU's HICP (Harmonised Index of Consumer Prices) monitors price movements, not cost of living.

The Vincentian Partnership for Social Justice (VPSJ) reports that the core cost of a Minimum Essential Standard of Living (MESL) basket of goods and services increased by 0.32% from March 2013 to March 2014, well ahead of the CPI rate rise of 0.2%. It also reports that 199 out of 213 sample household types could not meet the MESL costs in an urban area if reliant on social welfare.

Household composition and family size is another obvious factor in assessing living costs; this is addressed separately in Section 7. Also, as discussed in more detail in Section 7, children and people of retirement age have needs that are more frequently met by public services, whereas people of working age have many of their needs met through spending their income on either public or private services, with that income arising from a combination of paid employment and social transfers. Nonetheless, public services continue to play a vital role for all, and the topic of services is explored in more detail in Section 5.

Key Indicator	N	Source
Number of households	1,658,243	Central Statistics Office (CSO), Census 2011
Number of adults	3.6 million	CSO, Census 2011
Housing cost overburden among tenants in private rented housing	21.7%	Eurostat, <i>Statistics on Income and Living Conditions (SILC)</i> , 2012 <sup>214</sup>
Housing cost overburden among homeowners with mortgage or loan	3.9%	CSO, <i>SILC</i> , 2012
Food deprivation (unable to afford a weekly 'roast dinner')	7.6% 273,600 individuals	CSO, <i>Survey on Income and Living Conditions (SILC)</i> , 2012 <sup>215</sup>
Food deprivation (unable to afford meat/fish/equivalent every second day)	3.9% 140,400 individuals	CSO, <i>SILC</i> , 2012
Overweight adults (as an indicator of malnutrition)	60.9% 2.2 million adults	World Health Organization (WHO), 2008
Clothing deprivation (cannot afford two pairs of shoes)	4.9% 176,400 individuals	CSO, <i>SILC</i> , 2012
Clothing deprivation (cannot afford new clothing)	10.4% 374,400 individuals	CSO, <i>SILC</i> , 2012
Clothing deprivation (cannot afford warm waterproof coat)	3.7% 133,200 individuals	CSO, <i>SILC</i> , 2012
Household deprivation (unable to replace worn-out furniture)	24.5% 882,000 individuals	CSO, <i>SILC</i> , 2012
Energy deprivation (without heating at some stage last year)	12.9% 464,400 individuals	CSO, <i>SILC</i> , 2012
Energy deprivation (unable to keep house adequately warm)	8.5% 306,000 individuals	CSO, <i>SILC</i> , 2012
Social exclusion (unable to afford a morning, afternoon or evening out in the last fortnight)	23.3% 838,800 individuals	CSO, <i>SILC</i> , 2012
Social exclusion (unable to afford family or friends for a drink or meal once a month)	16.1% 216,000 individuals	CSO, <i>SILC</i> , 2012
Social exclusion (unable to afford presents for family or friends once a year)	6.0% 216,000 individuals	CSO, <i>SILC</i> , 2012
2+ items of material deprivation (official deprivation indicator)	26.9% 968,400 individuals	CSO, <i>SILC</i> , 2012
1+ items of material deprivation	43.0% 1.5 million adults	CSO, <i>SILC</i> , 2012
Adults (all) with neither a medical card nor health insurance	23%	CSO, <i>Quarterly National Household Survey (QNHS) Special Module</i> , 2010 <sup>216</sup>
Adults (employed) with neither a medical card nor health insurance	30%	CSO, <i>QNHS Special Module</i> , 2010
Adults (unemployed) with neither a medical card nor health insurance	26%	CSO, <i>QNHS Special Module</i> , 2010
Adults (inactive) with neither a medical card nor health insurance	12%	CSO, <i>QNHS Special Module</i> , 2010
Out-of-pocket expenditure as % private expenditure on health	42.2%	WHO, 2012 <sup>217</sup>



Key Indicator	N	Source
Out-of-pocket expenditure as % total expenditure on health	15.0%	WHO, 2012
Rent Supplement (single person, Dublin)	€520	Citizens Information, June 2013 <sup>218</sup>
Rent Supplement (family 3+ children, Dublin)	€1,000	Citizens Information, June 2013
Rent Supplement (single person, Longford)	€290	Citizens Information, June 2013
Rent Supplement (family 3+ children, Longford)	€350	Citizens Information, June 2013
Average rent (all one-bed properties, Dublin)	€782.59	Private Residential Tenancies Board (PRTB) Data, 2013 <sup>219</sup>
Average rent (all three-bed properties, Dublin)	€1,128.80	PRTB Data, 2013
Average rent (all properties, Dublin)	€1,061.10	PRTB Data, 2013
Average rent (all one-bed properties, Longford)	€299.64	PRTB Data, 2013
Average rent (all three-bed properties, Longford)	€406.13	PRTB Data, 2013
Average rent (all properties, Longford)	€394.69	PRTB Data, 2013
Mortgage arrears for principal dwellings	126,005 (16.5%)	Central Bank, Data for Q2 2014 <sup>220</sup>
Basic price of residential electricity (Ireland)	24.05 4th highest in EU	Sustainable Energy Authority of Ireland (SEAI), 2013 <sup>221</sup>
Basic price of residential electricity (Euro area)	21.34	SEAI, 2013
Basic price of residential electricity (EU-28)	20.09	SEAI, 2013
Basic price of residential gas (Ireland)	7.22 10th highest in EU	SEAI, 2013
Basic price of residential gas (Euro area)	7.89	SEAI, 2013
Basic price of residential gas (EU-28)	7.07	SEAI, 2013
Cost increase of core Minimum Essential Standard of Living basket of goods and services	0.32%	Vincentian Partnership for Social Justice <sup>222</sup>
Childcare spending as % GDP (Ireland) 2009	Nil	OECD Family Database, 2014 <sup>223</sup>
Childcare spending as % GDP (OECD) 2009	0.3%	OECD Family Database, 2014
Pre-primary spending as % GDP (Ireland) 2009	0.4%	OECD Family Database, 2014
Pre-primary spending as % GDP (OECD) 2009	0.4%	OECD Family Database, 2014
Childcare fee (Ireland) 2012	53.5% of family income	OECD Family Database, 2014
Childcare fee (OECD Average) 2012	27.6% of family income	OECD Family Database, 2014
Childcare fee (EU Average) 2012	23.8% of family income	OECD Family Database, 2014
Out-of-pocket childcare costs (net of benefits, rebates or tax reductions) (Ireland) 2012	27.4% of family income	OECD Family Database, 2014

Key Indicator	N	Source
Out-of-pocket childcare costs (net of benefits, rebates or tax reductions) (OECD Average) 2012	12.6% of family income	OECD Family Database, 2014
Out-of-pocket childcare costs (net of benefits, rebates or tax reductions) (EU Average) 2012	11.2% of family income	OECD Family Database, 2014
Purchasing power parity for actual individual consumption (EU28=100)	120.9	Eurostat, 2013 <sup>224</sup>
Purchasing power parity for food (EU28=100)	115.8	Eurostat, 2013 <sup>225</sup>
Households without a current bank account	9.0%	CSO, Household Budget Survey, 2010 (Table 9) <sup>226</sup>
Customers of moneylenders in 2013	360,000	Central Bank, <i>Moneylender News</i> , Sept 2014 <sup>227</sup>
Loans outstanding to moneylenders in 2013	€200 million	Central Bank, <i>Moneylender News</i> , Sept 2014
Average loan outstanding to moneylenders	€556	
Number of registered moneylenders in operation	38	Register of Moneylenders, Sept 2014
Maximum interest (APR) charged by moneylenders, including collection charge	287.72%	Register of Moneylenders, Sept 2014

# 10. Reducing Economic Inequality

Economic inequality in Ireland is significant.

In 2015, Ireland is beginning to see growth of economic output, measured in terms of GDP. But both immediate and long-term risks exist, from the sustainability and probity of Ireland's approach to corporation tax and reliance on foreign direct investment, to the environmental limits to untrammelled economic growth in the context of climate change and resource depletion. And GDP growth is not a cure-all. Many people were left behind – or financially ruined – by the Celtic Tiger years. And despite years of growth, many people remain deprived of their most basic needs.

There is no simple solution to reduce economic inequality.

Tighter economic co-operation at EU level and globally is undoubtedly necessary to meet many of the challenges that Ireland will face in the coming decades. Nonetheless, many decisions can be taken at national level to reduce economic inequality, while also improving economic performance.

Any serious attempt to reduce economic inequality must be programmatic in nature.

The project of meeting everyone's material needs involves democratically choosing the social and economic model and policies that will best deliver for Ireland, with different policies suitable for different areas of the economy and social policy.

This report has demonstrated the need to take a broader, more holistic view of economic inequality, and the previous sections have shown the need to take account of the seven factors relevant to economic inequality: Income, Wealth, Public Services, Taxation, Family Composition, Capacities and the Cost of Goods and Services.

This holistic treatment is designed to move beyond one-dimensional measurements of inequality, such as the Gini coefficient of overall income distribution. While useful for specific purposes, such indicators are unable to describe the complex dynamic processes that generate economic inequality in society.

From the analysis of Sections 3 to 9, three conclusions are made.

Firstly, there is good reason to believe that economic inequality in Ireland is significant, and that its growth has potentially devastating social and economic effects.

Secondly, there is no simple solution to reduce economic inequality or to counteract its causes. There is a complex social and economic dynamic at work, with many causes and influences to be addressed. Economic inequality can be both positively and negatively influenced by economic activity, taxation and public services. Economic inequality is either more or less prevalent in otherwise similar countries, depending on the choice of policies in each case.

Thirdly, which is the focus of this section, any serious attempt to reduce economic inequality must be programmatic in nature. That is, it requires all public policies to be sensitive to the issue of economic inequality and to be equality-proofed and monitored with respect to their impact on inequality. Moreover, reducing economic inequality is a societal issue, not just a matter for Government or public agencies. Society has to address the issue of growing inequality of market incomes while recognising the unsustainable nature of material consumerism.

It is beyond the scope of this section to do more than suggest the nature of the holistic programme required to reduce economic inequality in Ireland. The following actions indicate the kind of policy framework required:

1. Make reducing economic inequality a **core principle** of public policy
2. Agree **quality standards** for a set of material needs that people require
3. Replace the focus on economic growth with **economic development** based on meeting people's needs
4. Agree the best **production models** for the goods and services society requires
5. Determine the best **funding model** for each type of good or service
6. **Redefine work** and rewards for work
7. Ensure **income adequacy**
8. Ensure democratic **oversight and accountability**, not least through better data

## Core Principle

Few policymakers in Ireland actively support economic inequality, but that is not the same thing as proposing to reduce it and to maintain the level of inequality within some kind of tolerable limits, which is what is needed.

Political leadership is required to argue for a more equal society and to curtail the excesses of unregulated business activity, such as in the financial sector.

Deregulation of the economy in recent decades was accompanied by a number of myths, including the idea that a 'rising tide would lift all boats', that wealth would 'trickle down' and that 'inequality is necessary for economic growth to occur'. These myths have been dispelled. For example, speaking at the launch in 2011 of the report *Divided We Stand: Why Inequality Keeps Rising*, OECD Secretary-General Angel Gurría said 'The social contract is starting to unravel in many countries. This study dispels the assumptions that the benefits of economic growth will automatically trickle down to the disadvantaged and that greater inequality fosters greater social mobility. Without a comprehensive strategy for inclusive growth, inequality will continue to rise.'<sup>228</sup>

Reducing economic inequality must be a core guiding principle of a comprehensive economic strategy for Ireland.

## Quality Standards

Human beings have a well-defined set of material needs, which this report has analysed, from food and housing, to energy and telecommunications. Rather than only focusing on abstract concepts like GDP growth or even unemployment statistics (which systematically exclude many people who wish to work or who engage in unpaid work), the focus of economic policy should be on whether people can attain their material needs.

Specifically, there needs to be a focus on quality standards for these goods and services. These will be determined by available resources and current technology, as well as societal norms and democratic decision making. Quality standards need to be at the forefront in public discussion of what is considered to be decent quality for people living in 21st-century Ireland.

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Political leadership is required to argue for a more equal society and to curtail the excesses of unregulated business activity.

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Reducing economic inequality must be a core guiding principle of a comprehensive economic strategy for Ireland.

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There is a risk that higher income households may withdraw their support for public services if they are perceived as ‘poor services’ or ‘services for the poor’. The reality is that currently many public services across a wide range of domains are universally available to all, of high quality and are often the only available services. However, lack of sustained investment in public services risks eroding their value and quality.

## Economic Development

Economic policy is fixated on GDP growth, not least because it correlates with job creation and tax revenue to fund public services. Nonetheless, GDP growth alone will not reduce economic inequality or guarantee quality of life for everyone in society.

A return to an economic development focus would seek to recapture the vitality of the state’s earlier economic successes,

The focus needs to be on economic development, in the sense of methodically meeting everyone’s material needs. This focus rightly predominated for much of Ireland’s economic history. For example early censuses asked whether or not households were overcrowded or had indoor plumbing or heating. In the same way, contemporary surveys investigate whether or not houses are insulated and whether people have access to the Internet. Yet, somewhere along the way, public policy stopped trying to ensure that economic development is universal and that modern quality standards in relation to material goods and services are met for everyone.

A return to an economic development focus would seek to recapture the vitality of the state’s earlier economic successes, from major house-building programmes (which may return) to rural electrification (which may now manifest as rural broadband).

This includes a requirement for a strategy of regional development, designed to build on the different strengths in each region and to respond appropriately to the different needs of rural versus urban areas. Along similar lines, there is a need for a more developed industrial policy for Ireland that builds on local strengths and provides employment opportunities that are realistic given the available resources in the area.

## Production Models

A strategy for economic development to meet everyone’s material needs to an acceptable, decent quality standard requires a discussion of how different goods and services can be optimally produced.

Strong public services and infrastructure provide the cornerstone for a successful economy.

Some services will be more efficiently and effectively provided as universal public services, whereas a regulated private market will be more appropriate for others, and non-profit bodies will have a role delivering a further set of goods and services. All modern economies have this mixture, and the divisions between public, private and non-profit sectors are often blurred, with interdependencies between them.

Given the importance of quality employment to reducing economic inequality, this production approach should also apply to job creation. Jobs are created by the interaction of the private, public and voluntary sectors and are affected by many forces including education, taxes, subsidies, wages, consumer demand, investment and international trade. Strong public services and infrastructure provide the cornerstone for a successful economy. A job creation strategy that addresses economic inequality needs to take all of these factors into account.

# Funding Models

Just as different production models will apply to different goods and services, different funding models will co-exist. Some goods and services will be tax-funded or based on social insurance, whereas others will be delivered on the basis of ability to pay. Tax reliefs, subsidies and regulation of prices all potentially have a role to play. All of these elements are already part of Ireland's economic model, but they need to be re-examined and realigned with the goal of reducing economic inequality.

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Some goods and services will be tax-funded or based on social insurance, whereas others will be delivered on the basis of ability to pay.

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# Redefine Work

Calls for individuals to take greater personal responsibility, or to be more self-reliant, need to be challenged. This is particularly important in light of the many socially created barriers that make achieving self-reliance impossible. Social policy should be premised on interdependence, not self-reliance. In any case, the best way to facilitate a greater degree of self-reliance is by having a genuinely more equal society.

Simply providing formal equality of opportunity is insufficient, as the resources to enable a person to succeed in the modern economy are not evenly distributed. There is a strong correlation between people's background privilege and their level of education, and similarly, people's capacity for 'self-reliance' is likely to be contingent on a range of factors outside of their individual control.

In this context, society needs to place limits on excessive pay and capital gains taken by a minority, in order to ensure everyone who works receives at least a Living Wage. At the same time, many people are unable to work – and society relies on much socially beneficial work, such as care work, that is unpaid or inadequately rewarded.

Many people are not in a position to compete for paid employment, due to disability (including mental health disability), illness or care duties. Yet all human beings have an inherent right to a dignified, decent standard of living based on meeting their material needs to an acceptable quality standard.

# Income Adequacy

While many of people's material needs can be met through universal public services, people still require adequate cash incomes to meet those needs that are best delivered via a regulated market economy.

As the analysis in this report shows, Ireland's social and economic model is highly focused on cash, with a wide range of out-of-pocket expenses and user charges for many goods and services, including some that would be subsidised or free-of-charge in other European countries.

Ireland has a number of official affordability thresholds or poverty thresholds, such as the 35% of net income for housing costs and 10% of net income for energy costs. Further research is needed to see whether a comprehensive set of thresholds for affordability/income adequacy can be compiled covering all of the basic material needs, in order to provide a more precise calculation of income adequacy.

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Ireland's social and economic model is highly focused on cash.

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# Oversight and Accountability

Ireland needs a new direction for economic policy, based on meeting everyone's material needs to an acceptable quality standard and reducing economic inequality through inclusive, sustainable economic development.

Reducing economic inequality requires much stronger official statistics, on topics including income and wealth distribution, use of public services and time use by men and women (including time engaged in unpaid work).

A full analysis is required to understand whether or not people in Ireland can attain their basic material needs across the set of goods and services identified in this report.

Democratic oversight and accountability for economic policy would be empowered by such data and analysis.

# Glossary of Terms

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**Additional welfare payments:** Payments provided for someone with particular needs. Examples of additional payments include the Living Alone Increase for people on social welfare pensions living alone and the Fuel Allowance for low-income households unable to meet heating needs.

**Automatic stabiliser effect:** The role social welfare system plays in the economy by ensuring that households continue to have cash incomes during economic recessions when job loss or reduced pay is more likely to occur. By continuing to provide households with income to purchase goods and services (i.e. demand in the economy), welfare systems reduce the severity of economic downturns.

**COFOG (Classification of the Functions of Government):** The UN statistical method for counting public spending in a standardised way, across ten major functions and numerous sub-functions. This is useful for accurate comparison of public spending between different countries.

**Decile:** A unit of measurement when the population is divided into ten equal sized groups.

**Deprivation:** A household is considered to be experiencing material deprivation in Ireland if they cannot afford two or more common items from a list published in the annual CSO Survey on Income and Living Conditions.

**Dividend:** A payment made by a company to its shareholders, usually as a distribution of profits.

**Equivalent income:** An income assigned to a household or individual that takes their household circumstances into account. The total income of all members of a household is divided by the number of adults and children to give a standardised (but somewhat artificial) measurement of individual income. In Ireland (e.g. in the CSO's Survey on Income and Living Conditions) household income is divided by X number of persons — where the first adult is counted as 1 person, other adults (aged 14 and over) are counted as 0.66 persons and all children (aged under 14) are counted as 0.33 persons. However, Eurostat and the OECD use different scales. See Section 3 for a further discussion of this topic.

**Financial assets:** Includes cash, current accounts and deposits, life assurance reserves, pension fund equity and securities (e.g. bonds, stocks).

**Flat taxes:** Those that charge an equal percentage of gross income for all, such as a flat rate income tax. Flat taxes are undesirable from an equality perspective as those on lower incomes have less disposable income. Flat taxes are often regressive because they take a greater proportion of the disposable income of those on lower incomes, even if they nominally take the same proportion of gross income.



**Gini coefficient:** This is a measurement of income inequality across all of society. It is a single number that summarises overall income inequality, but does not give detail about the distribution of income. It ranges from 0 to 100 with higher values corresponding to greater levels of income inequality. See Section 3 for a further discussion of this topic.

**Gross income:** income received from all sources, without any deductions.

**Household income:** The sum of all income for all members of a household.

**Inter-decile ratios:** Comparisons of different decile groups. Typically, comparison is made between incomes near the top (90%) and near the bottom (10%) in the P90/P10 ratio. Other common comparisons are the P90/P50 between the top (90%) and middle (50%), and the P50/P10 between the middle (50%) and the bottom (10%).

**Market income:** all income received from 'the market'. This includes wages from employment, but also income from self-employment, rent, dividends from shares, private pensions, etc.

**Means test:** An administrative procedure, governed by a set of rules, where someone makes a declaration of their financial situation — including income, savings and assets — as part of the application for a targeted social transfer or a targeted public service. Social welfare assistance payments typically involve means tests, as do third-level student grants, applications for social housing, etc.

**Negative equity:** Where the outstanding loan on a property (mortgage) exceeds the current market value of that property.

**Net income:** Gross income less any income taxes, levies and social insurance contributions. This is the amount of income someone has to spend. Sometimes referred to as disposable income.

**Net wealth/Net worth:** A household's total real assets and financial assets minus its liabilities (debt).

**Progressive taxes:** Those that increase as a percentage of gross income as incomes rise. With unequal distributions of income, progressive taxes are required for redistribution. The funding of quality public services and adequate social transfers requires progressivity in the tax system.

**Proportionality principle:** The key to analysing taxes from the perspective of economic inequality is to look at the proportion of income that people spend on taxes. Individuals should pay taxes based on their ability to pay, but in order to address economic inequality, those on high incomes should pay more as a proportion of their income than those on low incomes.

**Public spending:** Spending by government departments or agencies, using tax, social insurance and other forms of public revenue. This does not include private household spending on health, education and other services. It also does not include tax reliefs given to households and businesses to create an incentive for certain purchases or investments. Likewise, it does not count private contributions to public-private partnership spending.

**Quantile income ratios:** Ratios between one group of household incomes and another. The typical measurements involve dividing the population into ten groups ('deciles'), five groups ('quintiles'), or, occasionally, 100 groups ('percentiles').

**Quintile income ratio:** This is the comparison between the top 20% and the bottom 20% of households in terms of their income share.

**Real assets:** Physical assets owned by a person, such as land, buildings and vehicles.

**Regressive taxes:** Those that take a greater proportion of income from those on low incomes as opposed to high incomes.

**Social assistance payments:** Payments given only to people who can demonstrate their lack of income or assets via a means test. Examples include Jobseeker's Allowance, Disability Allowance and the Non-Contributory State Pension.

**Social insurance benefits:** Payments to which someone is entitled based on payment of social security contributions by employees and employers — called PRSI (pay related social insurance). People who meet the criteria (e.g. unemployment, retirement age) are entitled to receive these payments regardless of any other income or assets. Examples include Jobseeker's Benefit, Disability Benefit and the Contributory State Pension. People who have made insufficient PRSI contributions may receive partial payments.

**Social transfers:** Goods and services provided to households by government bodies (including social insurance funds) and by some non-profit institutions. Two major social transfers — in the form of cash benefits — are social insurance benefits and social assistance payments.

**Social transfer income:** Income received from the State and/or from social insurance funds. These include State pensions, payments for people who have a disability or illness, maternity benefit, payments to carers, and payments to people who are seeking employment.

**Tax cases/Tax units:** Basic units used in Irish Revenue data. A tax case/unit might be an individual making a tax declaration, or it might be a married or civil partner couple. Married and civil partner couples may be single-earner or dual-earner couples. It is important to note that cohabiting couples, as well as married couples who choose to do so, may appear as 'single persons' in the Revenue data, which disguises the fact that they may be cohabiting.

**Taxable income:** Sometimes different from gross income, because some part of a person's income may be exempt from tax.

**Universal public services:** Services that are available to everyone, as opposed to targeted public services which may only be available to some categories of people — such as those who pass a means test or who suffer from a particular illness or disability.

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