The state we are in:
inequality in Ireland 2023

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- Income inequality has fallen over the long-run
- Inequality increased recently by most measures
- Redistribution fell and market inequality grew most recently
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- Inflation has impacted low-income households and renters the most
- Deprivation has increased recently, despite long-run fall
- Increases in social investment can reduce market inequality and alleviate Ireland's high cost of living

Introduction

Introduction

The last three years have been turbulent times for Irish society. The onset of Covid-19 constituted a shock to the economy and society that was unprecedented. It affected the whole of Irish society, but as is often the case with economic downturns, it affected those with the fewest means the most. The lockdown devastated the service sector, where so many low-income workers earn a living. With Covid now behind us, society is much changed with many workers now working from home on a regular basis.

But just as society has emerged from Covid, so it has happened that another shock beset the country. This time, it has been more economic in nature as opposed to a health crisis. Inflation re-emerged as a global phenomenon. Prices increased at a rate not seen in over 50 years. As with Covid and the lockdown, it affects all in society, though not all equally. With inflation now subsiding, it remains to be seen whether it too will have lasting effects.

It is therefore important to take stock and look at how these events have affected the distribution of resources in the economy. A recurrent theme in Irish political, social and economic debate has been the nature of our state. It is recognised that the state does much to redistribute income – a success story in that respect. It is also recognised that our welfare state has deficiencies, especially regarding the provision of public services. It is also believed that there are deficiencies in not just the level but in the delivery of those services. These issues emerge in this report.

This report looks at historical and recent trends in the distribution of income, and the distributional aspects of the cost of living crisis. Over the long-term inequality has fallen, though in the most recent year it has picked up by most measures. The welfare state has been central to narrowing the distribution of market income in Ireland, which remains high. Going forward, it would be best to tackle high market income inequality through social investment and a fairer distribution of market income.

As to the cost of living crisis, lower-income households have been affected more because they spend a greater share of their income on energy and food. Renters have also been very much affected, given ongoing problems in the housing system. Measures introduced to alleviate the cost of living crisis have moderated the impact, but continued supports are needed until inflation fully subsides.

This report is divided into two main parts. Section 2 deals with trends in income inequality, including recent trends. Section 3 looks at inequality and the cost of living crisis, examining distributional aspects of recent inflation across households. The final section, Section 4, offers some discussion and policy recommendations.

Income inequality and distributional trends

Income inequality and distributional trends

This section looks at trends in income distribution in Ireland and in comparative perspective. It documents the fall in inequality, the redistributive nature of Ireland's welfare state, and the stable share of labour income.

Background

It is by now well-established that distributional trends in Ireland are somewhat unique. Ireland does not have a strong social democratic tradition, at least compared to other northern and western European countries. Limited industrialisation under colonial rule bequeathed a large agrarian sector and, by implication, a small urban working class inclined to pressure the state for socioeconomic and labour rights. At the same time, most other developed countries have experienced a retrenchment of labour rights over the last three to four decades. Though that is the case in Ireland when measured by trade union membership, Ireland has also experienced significant employment expansion owing to its late development. This, it will be seen, has had significant distributional consequences.

Europe is often lauded for its strong welfare state. The strong social protections afforded to less well-off and, in a Northern European context, to all in society is a major accomplishment. Economic security and strong public services have many social, health, education, and other benefits. From a narrow income distribution perspective, what sets Europe apart from, say, the US is not its welfare state but rather the extent to which income is distributed before the welfare state does its heavy lifting – the distribution of market income (Blanchet et al., 2022). In that sense Ireland is, and has been, a poor performer for some time.

Despite the rollback of entitlements in certain areas, or greater marketisation of public services, welfare spending has generally expanded in the developed world due to societal ageing. The growth of health and pension spending is most notable in this regard. This development also applies, writ small, to Ireland, which has a younger population. What makes Ireland distinctive, at least among Europe's most developed countries, is that not just the scale, but the redistributive effect of the Irish welfare state has increased over the last few decades, albeit from a decidedly low base. For instance, on foot of the 1986 *Commission on Social Welfare* greater targeting and redistribution of welfare payments took place in the late 80s and early 90s, prior to the large expansion in employment (Callan et al., 2018: 13; Walsh, 2007).

The institutions of distribution and redistribution paint a peculiarly Irish picture. Weak 'pre-distributive' labour market institutions and weak public services tend to elevate disparities in market income. The former works by creating an uneven spread of incomes among those at work, whereas deficits in areas such as childcare create obstacles to paid work among the less well-off, leaving many with no market income. Employment expansion is likely to put downward pressure on income inequality and comparatively high and targeted transfer payments are likely to make the Irish welfare state unusually redistributive in income terms.

Distributional trends

Turning to the data, since 2003 the measurement of inequality in Ireland is based on the EU-regulated SILC dataset and collected by the CSO. Previous measurements used surveys compiled by the ESRI, first in a one-off survey in 1987 and then in the Living in Ireland survey between 1994 and 1999. These various sources have been, at least partially, harmonised in Roantree et al. (2022) up to 2021.[1] While in principle little harmonisation is required to ensure consistent measurement of inequality between 2003 and 2019, there is a significant break in the most recently available SILC data from 2020. This is due to changes in the reference period (of most importance), the definition of the household, a new sampling methodology and the termination of face-to-face interviews while the fieldwork was being conducted due to Covid-19. The most recent results from SILC, relating to the year 2021, are not strictly comparable, as we explain shortly.

Figure 1 plots three measures of income inequality in disposable income showing developments for higher earners compared to low earners (90-10 ratio), high compared to middle earners (90-50 ratio), and middle compared to low (50-10 ratio). The 90-10 ratio is the ratio of the income of the person in the 90th percentile compared to the person in the 10th percentile of the income distribution. Similarly for the 90-50 and 50-10 ratios. Disposable income refers to income after-tax and includes benefits with account taken for the size and composition of the household. Weighting households according to size and composition is called equivalisation. Equivalised disposable income refers to disposable household income per person, with different household members weighted differently depending on age and other factors.

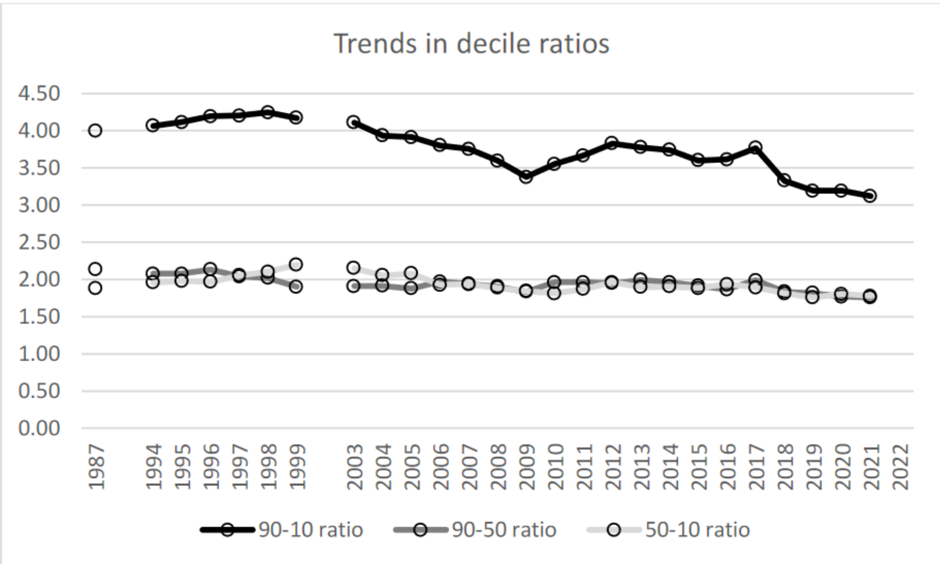

Figure 1: Trends in income inequality: decile ratios.

Sources: Poverty and Usage Survey (1987), Living in Ireland Survey (1994-1999), and SILC (2003 onwards) as compiled by Roantree et al. (2022).

1 There may be some remaining comparability issue with the SILC data related to sample attrition in the 1994 to 1999 Living in Ireland Survey and differences in the survey mode between the two pre 2003 surveys and the more recent SILC.

In 1987, those near the top of the income distribution earned four times more than those at the bottom in equivalised disposable income terms. The middle group earned just under twice that of the lower earners and the well paid just over double those at the middle. The pattern of variation over the whole period is best viewed in the top curve (the 90-10 ratio) as income trends among low-income groups will be highly sensitive to changes in employment. With the economic development and accompanying employment growth of the Celtic Tiger inequality fell up to the recession of 2008 and then increased up to 2012. While there is fluctuation of all three measures over the whole period, the overall trend is towards less inequality. This was most pronounced between 2017 and 2021, with the 2021 number being the lowest for the entire period.

While the narrowing of inequalities in income particularly in recent years per the 90-10 ratio is likely a result of Ireland's employment performance, the Irish welfare state has also done much to redistribute income. The most commonly used and comprehensive metric for measuring inequality is the Gini coefficient, and the effect of the welfare state can be seen when comparing the Gini coefficient of market and disposable income. Market income refers to income received from the market – primarily from paid work but also some capital income. As before disposable income is income after taxes and transfers so that the difference between market and disposable income shows the redistributive effect of the welfare state in through taxes and transfers. A Gini coefficient of 0 indicates perfect equality where each has equal income and a coefficient of 1 indicates perfect inequality where one person has all income.

As can be seen in Figure 2, trends in the Gini mirror that of the three partial measures of disposable income inequality from Figure 1. Market income inequality is appreciably higher and rose dramatically in the early years of the Great Recession. Despite the recent decline, indicating employment expansion as the economy recovered, there is no discernible downward trend in market income inequality over the whole period as there was for disposable income. The 2021 market income Gini coefficient is the same as in 1987, indicating that over the long term employment expansion has not been the driver of Ireland's improved distributional performance. Rather, it has been the welfare state.

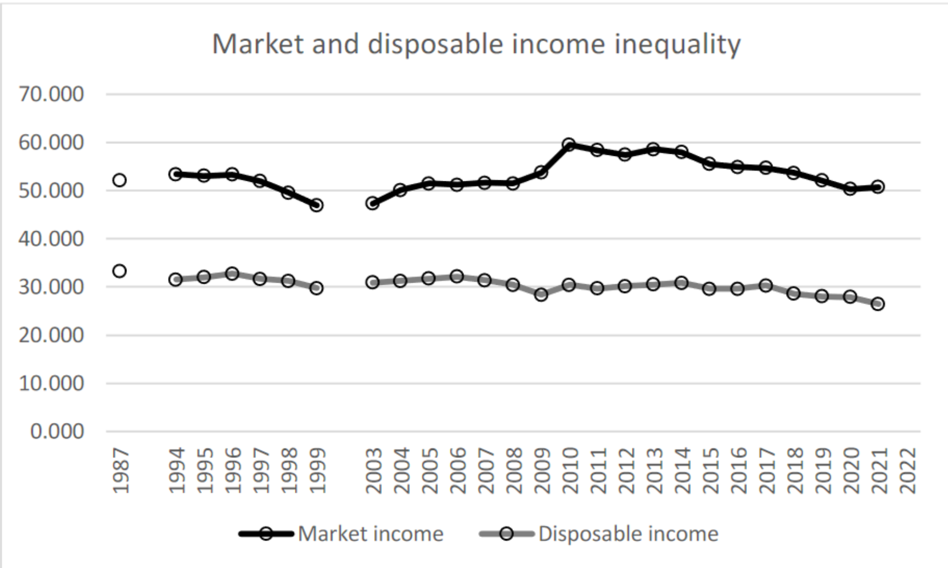

Figure 2: Trends in income inequality: Gini Coefficient of market and disposable income.

Sources: As per Figure 1.

Ireland has historically had a very large gap between market inequality and disposable income inequality, which shows the redistributive effects of taxes and transfers. In the OECD area on average taxes and transfers led to a 25% reduction in income inequality (from market to disposable income) as measured by the Gini coefficient (Causa and Harmansen, 2019: 30) In Ireland, the reduction was 40% - the highest in the OECD area. In fact, this understates redistribution in Ireland. Using 2021 figures from Figure 2, the corresponding reduction was 48%. In 1987, the reduction was 36%. Savage et al. (2015) show that most – around three quarters – of the reduction comes from transfers, and the rest from taxation which, we will see shortly, continues to be the case. Thus the current level of disposable income inequality in Ireland relies heavily upon the strong redistributive impact of taxes and especially benefits, and redistribution has grown over time.

Some caution is advised in interpreting the very latest trends in the above figures. The dataset used above was chosen as it is the best available to measure trends over an extended period of time. The latest figures released by the CSO show that income inequality increased between 2020 and 2021. The Gini coefficient in equivalised disposable income for 2021 per the CSO was 28, compared to 26.5 in Figure 2. The increase in inequality per the CSO arose because of higher market inequality but income inequality in disposable income terms grew more. In other words, the Irish state became less redistributive. While the data collated by Roantree et al. (2022) are presented for the purposes of showing trends, we take it that income inequality did, in fact, increase as the CSO is the official agency for collecting and measuring income inequality. Similarly, Eurostat also shows inequality to have increased (Eurostat, 2023). The differences between the different series may be due to how different household members are weighted.[2]

Figure 3 below shows changes in the share of income going to each decile and the change in Covid income supports between 2020 and 2021. Both use the latest CSO data. The interpretation of changes in share of income is straightforward – if a group received, say, 5% of total disposable income in 2020 but 5.5% in 2021, then that constitutes an increase of 0.5%. Changes in income shares by decile are illustrated by the line with the axis on the right-hand side. Changes in the Covid income supports are shown as a percentage of income on the left axis. So if a group received €1000 in Covid supports in 2020 and €900 in 2021 and had an overall income of €10,000 then the change is 100/10000 or 1%.[3] Both series are expressed using equivalised disposable income.

Looking at the line, all entries except for the tenth decile are negative. This means that all groups except for the top decile of the income distribution received a lower share of national income in 2021 compared to the previous year, 2020. That is, income inequality over the last year was driven by large gains going to the top 10%. That all groups aside from the top experienced a fall in share of national income is quite striking. Aside from Decile 6 which almost retained its share of income (the value or change in share of income for Decile 6 is close to 0, per the right-hand axis), the fall in share of income was evenly spread among all remaining nine groups. The top decile increased its share of national income by almost 1%.

2 That is, different equivalisation scales.

3 Covid income supports are measured in terms of equivalised disposable income.

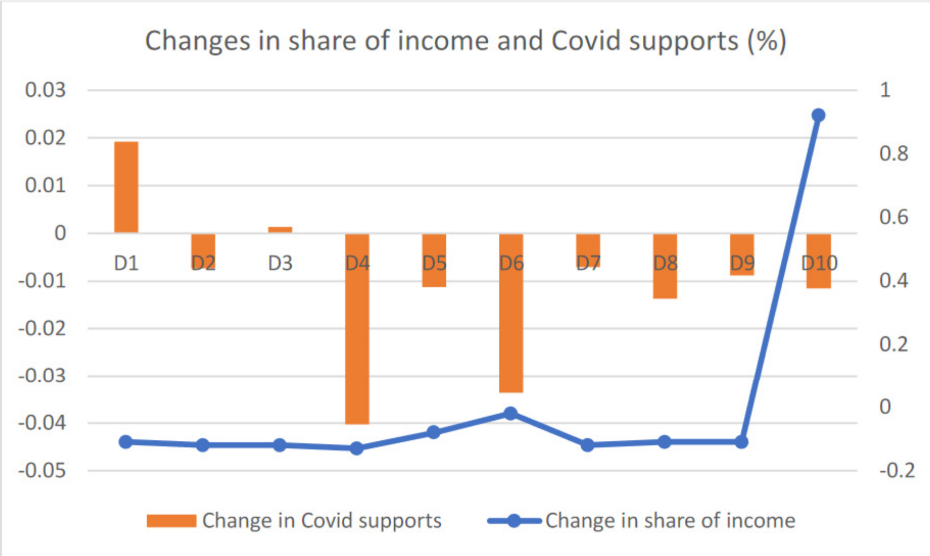

Figure 3: Change in share of equivalised disposable income (2020-2021).

Source: CSO (2023a).

Turning to Covid supports, we see that the first and third deciles saw an increase in supports, whereas all other deciles saw a fall. The withdrawal of supports was most impactful for middle-income households – the fourth and sixth deciles. The removal of Covid supports constituted an income loss of 0.4% for Decile 4. Aside from the fact that most groups lost, it is unclear from this figure that it was because of the withdrawal of Covid income supports that the Irish welfare state became less redistributive.

Table 1 below breaks down the most recent changes in the Gini coefficient. Market income, as discussed, is primarily labour income, which includes self-employment income. Market income also includes capital income. Gross income refers to pre-tax income. It is essentially the sum of market income and income from state transfers. Differences in the Gini coefficient of market and gross income show the redistributive effects of transfers. Disposable income refers to market income after both taxation and transfers, or gross income after taxation, so differences between gross and disposable income show the redistributive effect of taxes.

	2020	2021
Market income	48.3	48.9
Gross income	35.4	36.9
Disposable income	27.0	28.0

Table 1: Recent changes in inequality.

Source: CSO (2023a).

As shown by the differences in the Gini between years, market income became more unequal, but the growth in disposable income inequality between 2020 and 2021 was greater. This shows that the welfare state did less to redistribute. Note that the difference in the Gini coefficients of market and gross income fell (48.3-35.4=12.9 vs 48.9-36.9=12), showing less redistribution by transfers. The difference in the Gini coefficients of gross and disposable income grew (35.4-27.0=8.4 versus 36.9-28.0=8.9), showing taxation became more redistributive. Overall, the recent increase in inequality is a result of a less redistributive transfer system and a more unequal distribution of market income. Taxation became more redistributive but not enough to compensate.

The tendency towards greater disposable income equality is mirrored in the Irish trends relative to the EU average. Up until the recession of 2008 the Gini coefficient in Ireland (with 0 corresponding to everybody having the same income and 1 to one person having all the income) was around or just above the EU average. Since then Ireland's inequality has fallen and, as shown in Table 2, income inequality is currently well below the European average in 2021/22 (depending on country data availability). Note that despite the level of inequality being below the EU average, Ireland is ranked around the middle, as average values are pulled up by highly unequal countries such as Bulgaria. In addition to income inequality falling in Ireland, Ireland's ranking has also improved as inequality has increased elsewhere.

Country	Gini	Country	Gini
Slovakia	21.2	EU average	29.1
Slovenia	23.1	Cyprus	29.5
Czechia	24.8	Luxembourg	29.5
Belgium	24.9	France	29.8
Netherlands	26.3	Malta	31.1
Poland	26.3	Greece	31.4
Finland	26.6	Estonia	31.9
Hungary	27.4	Spain	32.0
Sweden	27.6	Portugal	32.0
Denmark	27.7	Romania	32.0
Austria	27.8	Italy	32.7
Ireland	27.9	Latvia	34.3
Croatia	28.5	Lithuania	36.2
Germany	28.8	Bulgaria	38.4

Table 2: Income inequality in the EU: Gini Coefficient.

Source: Eurostat (ILC_DI12).

Though redistribution is straightforward to understand, no single factor has been settled as the main cause of Ireland's high market inequality. Market inequality is the ninth highest among 23 EU countries, which constitutes a significant improvement (OECD, 2023). Part of the explanation for Ireland's high market inequality is a high rate of people living in households without any market income at all. Nolan and Maître (2021) identify the contribution of jobless households to market inequality compared to other countries and find that it does explain some of the gap (see also Roantree, 2021). However, it does not eliminate it and there is still a very high dispersion of labour income in both one and two-earner households that has yet to be accounted for. Aside from jobless households, Ireland has many so-called low-work-intensity households. These are households in which working-age members work less than a fifth of their paid working time. Though difficult to quantify the impact, that Ireland has one of the highest rates of low work intensity households in the EU is another contributory factor to Ireland's high level of market inequality (Nugent, 2021).

Less explored in an Irish context is the impact on market inequality of individual wage inequality, which is high in Ireland. Part of the reason stems from the fact that low-paid workers are generally not located in low-income households (Collins, 2016). Some policies that mitigate wage inequality, such as minimum wage increases, will therefore be of limited impact in reducing market inequality, at least when measured at the household level as it typically is. However, Ireland also has high rates of high pay, where people earn more than one and a half times the gross median earnings of full-time workers. As highly-paid individuals are located in high-income households, efforts to tackle wage inequality at the high end would reduce Ireland's high market inequality (Sweeney, 2021).

Another underexplored topic is what share of national income goes to workers and what share goes to capital. The labour share of income is considered to be an important measure of income distribution. A rising share of income going to labour is generally assumed to mean workers are gaining relative to employers, and conversely for a falling share. All income goes to either labour or capital so that a gain in share for one is a loss in share for others.

Uncertainties as to what income to include and exclude given the unreliability of national accounts data due to multinational profit shifting has made analysis and interpretation more difficult in an Irish context (see Sweeney, P., 2013; Flaherty and O'Riain, 2020; CSO, 2021). Following Byrne et al. (2022) and others, we exclude those sectors of the economy dominated by multinationals.[4] This, of course, assumes that foreign dominance of these sectors persists over time, which may not be the case. Labour income includes all benefits accruing to workers, primarily wages and salaries, but also in-kind benefits and employers' social insurance contributions.

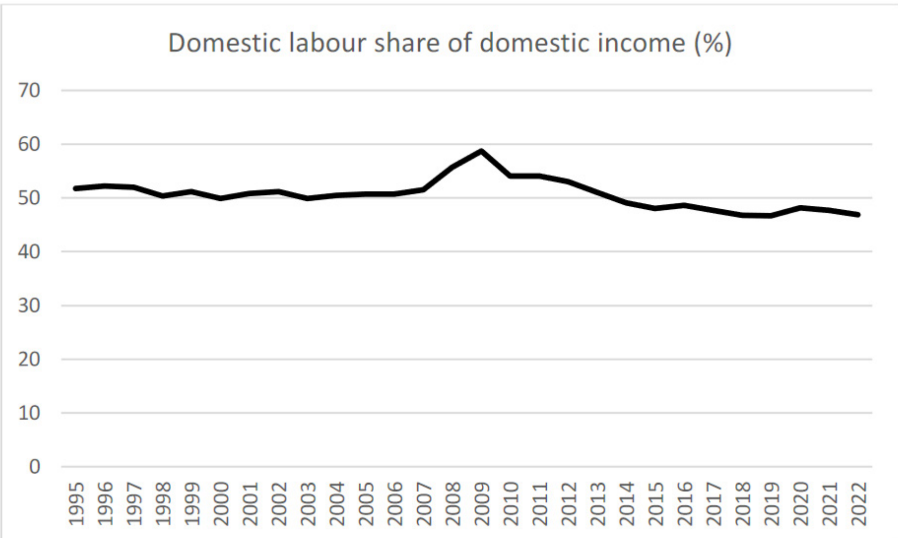

Figure 4: Trends in the functional distribution of income: labour share.

Source: Eurostat (NAMA_10_A10).

4 We exclude not only information and communication but all of manufacturing, despite the fact that a modest part of manufacturing is domestic oriented. We do this as we wish to present the most up to date data, and a granular breakdown by sector is only available to 2021. It is unlikely to affect findings.

As can be seen, the trend is one of relative stability but gentle decline. The series was stable up to 2007, after which the labour share increased significantly. This is more a result of the decline in national income due to the financial crisis than it is a gain by workers. Since the recovery of the economy the share has been falling, as gains to capital have outstripped those for labour. There appears to have been a small increase for labour in the initial period of Covid, after which a decline is once evident. Again, this appears to be driven by the fall in national income in this period which was subsequently reversed. Payments to labour varied less due to the variety of government supports.

It is noteworthy that the labour share of income has declined somewhat while market inequality has been stable and disposable income inequality has fallen. A more unequal distribution of market income need not imply a falling share of labour income if, for instance, the distribution of wages becomes more unequal but the wage bill as a share of firm income remains stable. Similarly, for a given distribution of market income, inequalities in disposable income are a result of how and the extent of redistribution the state engages in through taxes and transfers. If the state decides to increase income tax, that does not directly change the share of income that goes to labour, which is measured prior to income taxation. In other words, the labour and capital shares are conceptually and, in an Irish context, empirically only weakly related to those measures of inequality deemed most socially poignant.

To sum, income inequality has declined over the last three or so decades. Covid supports were highly redistributive, though their partial removal between 2020 and 2021 does not seem regressive. Still, the transfer system became less redistributive in this period, and one cannot rule out the removal of Covid supports as a factor. Levels of income inequality in Ireland are now around middle by EU standards. Ireland's labour share of income has also remained broadly stable. The next section of this report turns to distributional aspects of inflation.

Distribution and inflation

Distribution and inflation

This section examines distributional aspects of Ireland's recent inflation experience. It shows how inflation has impacted low-income households and renters the most, and the components of that inflation in terms of goods and services. It then looks at deprivation and how inequality interacts with cost of living issues.

Distributional aspects of Ireland's inflation

The opening up of economies after Covid was predicted to put upward pressure on prices as supply struggled to meet pent-up demand. Its asymmetric nature has, however, aggravated general prices pressures. Highly-vaccinated Western economies opened sooner than much of the developing world where goods are produced, creating demand-supply imbalances. The Russian invasion of Ukraine has done much to add to this, especially with regard to the price of energy. Nevertheless, the extent to which global inflation has re-emerged and persisted has taken most commentators by surprise. As well as eroding living standards, high inflation makes it difficult for households and businesses to plan, and can lead to a slowdown in investment. It therefore has had and is having major social, distributional, and economic implications.

Inflation is calculated based on economy-wide consumption patterns of households. The Consumer Price Index, the main inflation indicator in Ireland, reveals the average price change of goods and services. This is important as changes in wages, social welfare payments, pensions and so on can be benchmarked to see if, or to what extent they are keeping up general changes in the cost of living. After little inflation the previous decade the HICP, the EU harmonised measure of price change, was 2.4% in 2021, 8.1% in 2022, and is expected to be 4.6% for 2023.

However, different groups in society have different consumption patterns so that the average change in the price level will not necessarily be the same as the average change in the price of an individual's or a group's typical consumption basket. Lower-income households consume fewer luxury goods and services so that essentials are likely to comprise a larger share of their household budget. Similarly, the consumption patterns of urban and rural households are likely to differ, as it is the consumption of the old and the young. Indeed the most recent bout of inflation has affected groups in societies differently, although it has been found that over the long-term inflation affects all similarly (Lydon, 2022).

The figure below looks at the breakdown of inflation by location in the income distribution, and among a range of different consumption categories. An important caveat is that these calculations are based on the previous Household Budget Survey, which relates to 2015. The figure assumes that consumption patterns are the same today as they were seven years ago and similarly that households have not shifted consumption behaviour in the face of recent inflation. The figure measures the overall or cumulative inflation rate experienced between March 2018 and March 2023, as provided by a recent CSO release. It is based on the national measure of price change the CPI, which is very similar to the EU harmonised measure (CSO, 2016).

Importantly in the context of this report is that the bottom 20% of income recipients, Deciles 1 and 2, have experienced the largest increases in prices. The inflation rate for these groups has been around 19%, whereas the overall rate has been around 17%. The three top deciles have experienced the lowest inflation, particularly Decile 8. In other words, the erosion of living standards has been greatest for those with least income.

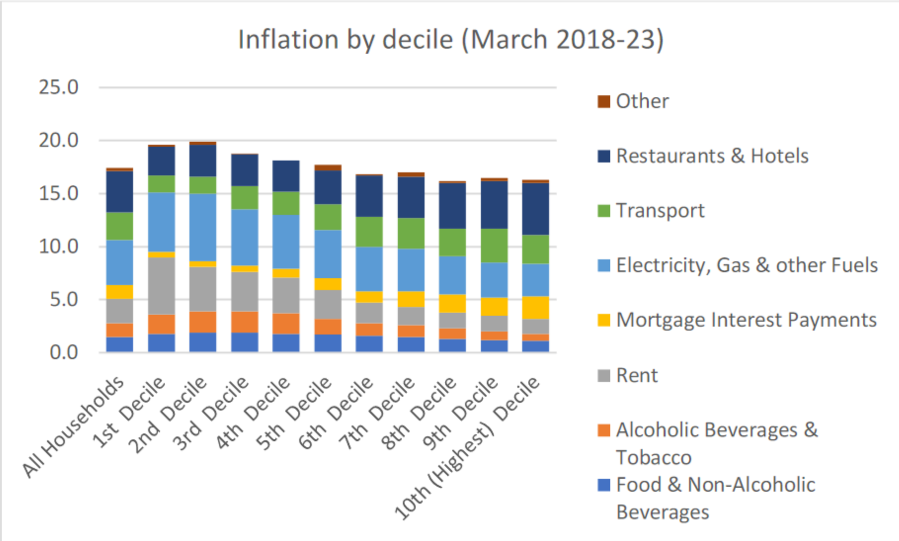

Figure 5: Distributional impact of inflation: income.

Source: CSO (2023b).

The major contributor to inflation has obviously been energy, which has increased by 41.2% in 2022, though the rate of increase has since slowed (CSO, 2023c). As energy is a necessity, all households consume it so that it comprises a larger share of low-income households' budgets, given their lower incomes. Being a necessity means that energy consumption is less subject to change in the face of rising prices. Another factor that elevates lower-income households' energy use is their comparatively poor standard of accommodation, which tends to be less well-insulated than high-income housing. Combined, these factors explain why the poor have suffered most under rising cost of living pressures.

While income is the most obvious way to analyse cost of living in an inequality context, it is clearly not the only one. Pre-covid most discussion of Ireland's high cost of living had centered on the rising cost of accommodation. Urban renters, in particular, had experienced very high increases in the cost of a most basic necessity, shelter. Geography has much to say about the economic lives that people live.

Figure 6 below breaks down inflation by tenure type and according to rural and urban residence. Variations in inflation by tenure type and geography are generally not as pronounced as variations according to income. Outright owners and mortgage holders have experienced largely the same level of inflation, as have rural and urban dwellers. The main exceptions are renters, whether one is renting from a local authority or a private owner. Private renters spend huge amounts on rent and while those renting from a local authority have also experienced considerable rent inflation, energy price increases have hit them more. This may be due to poorer insulation or having larger households, and hence larger units to heat.

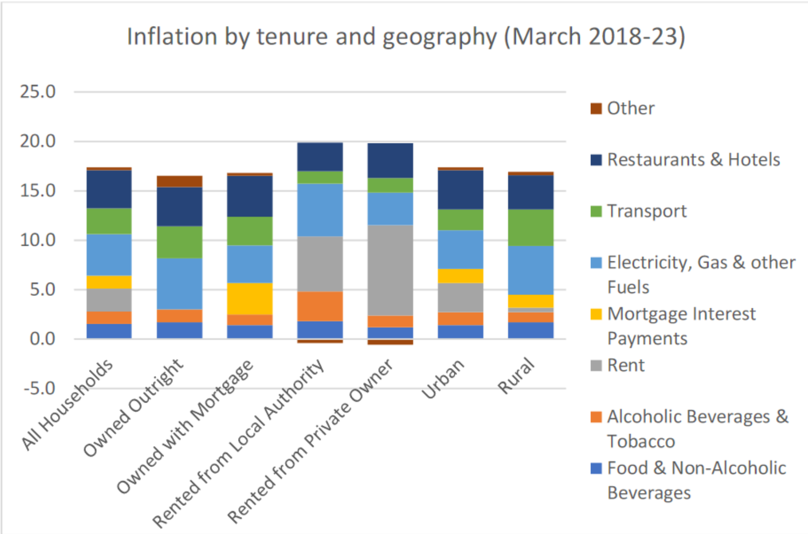

Figure 6: Distributional impact of inflation: tenure and geography.

Source: CSO (2023b).

High rent pressures are obviously a function of the ongoing problems in Ireland's housing market, and are less due to Covid and geopolitical events. Hotel prices are closely related to general property prices, with the influx in asylum seekers also having an impact. Increases in the price of transport, another major contributor to inflation, is a knock-on effect from energy price increases.

Inflation, deprivation, and inequality

It is one thing to say that inflation has impacted some groups more than others, it is something different to say that inequality has increased owing to the uneven rise in prices across households. One does not imply another as income gains for some groups may compensate for the higher costs they now face.

Is it possible to quantify the effects on inequality of differential price rises? It is, but the answer is complicated by the fact that some consumption items are deemed to be choices. In principle, households have the option to substitute goods experiencing price increases for goods whose price is not increasing, or to refrain from consumption completely. So if the cost of air travel has increased, for instance, households can opt to holiday in a nearer location or one that does not require air travel. As they can still consume the same amount or almost as much tourism, albeit in a nearer location, it is sometimes argued that living standards have not fallen, at least not commensurately. Simply subtracting the increased costs that households now face from income, and then calculating the after-cost distribution of income may yield unsatisfactory results.

Housing is an example of a cost in which it makes sense to deduct from income so as to calculate the after-housing cost distribution of income. Housing is a necessity so it is not a choice of whether, but rather of how much to consume. It is invariably the largest expense or purchase that households make. It is also not easy to substitute one type of house for another, even for those renting in the private market. Thus the after-housing cost distribution of income is a useful though imperfect gauge of inequality that accounts for living costs. It is, however, an incomplete measure as other essential or arguably essential costs are not taken into account, such as childcare and healthcare expenses.

Roantree et al. (2022) show that as with before housing cost income inequality, after housing cost income inequality has also fallen. The period of analysis is rather short, between 2007 and 2021, but nevertheless the fall in after-housing cost Gini coefficient and 90-10 ratio is actually more pronounced than the fall in inequality before housing costs are deducted. Among the reasons are that the 'supported' rental sector has grown through cash payments such as HAP, benefitting the least well-off, whereas the share of middle-income households renting privately has grown. Indeed, Irish housing supports are highly targeted and poverty-reducing by international standards (Berard and Trannoy, 2021).

To say that the distribution of income has become more equal on various measures is not to say that households are not experiencing hardship, or growing levels of hardship. As alluded to previously, the distribution of income in a society is strongly related to many social outcomes. Income inequality is, however, by no means the full picture and there is debate as to the relative importance of different indicators (Layte and Whelan, 2014). This is particularly so in the context of the ongoing cost of living pressures.

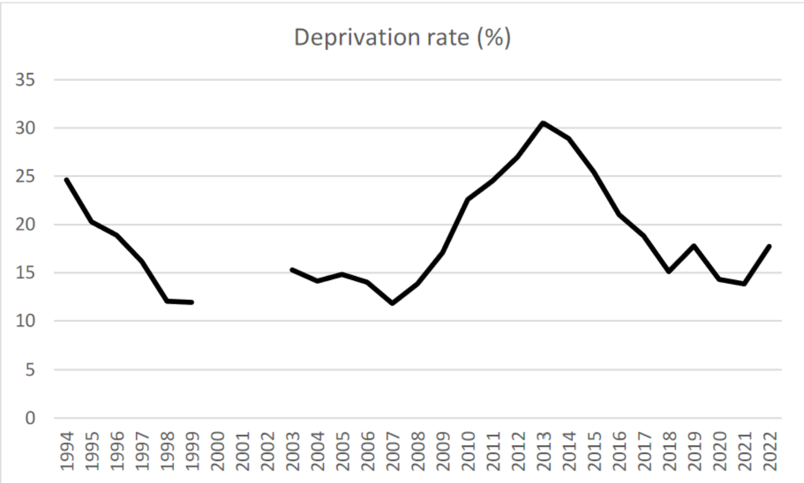

Figure 7: Deprivation in Ireland.

Sources: Living in Ireland Survey (1994-1999), and SILC (2003 onwards) as compiled by Roantree et al. (2022) and CSO (2023d).

A commonly used measure of living standards that is sensitive to changes in conditions of the less well-off is deprivation. The deprivation rate is the share of the population who cannot afford two or more basic items considered to be the norm for other households in society. It includes items such as being able to afford two pairs of fitting shoes, and being able to afford to keep the house warm, and more. It is sensitive to changes in societal and group income, but distinct. One can be income-poor but live well by drawing down assets. Similarly, one can be income well-off but have a low standard of living arising from certain added expenses, such as living with a disability.

As can be seen, the arrival of the Celtic Tiger in the late 90s resulted, unsurprisingly, in a sharp fall in deprivation, after which it stabilised. During the financial crisis, deprivation increased sharply once again, and fell back to its medium-term trend once the economy recovered. Over the past year, deprivation increased sharply. This was driven by an inability to afford heating one's home adequately and also being unable to afford socialising once a fortnight (CSO, 2023d).

Some groups in society are known to be at high risk of deprivation. Renters have high expenses, the unemployed or underemployed have low incomes, whereas households with a disability and lone parents[5] may have both high expenses and low incomes. Unsurprisingly, these are the groups that experience the highest levels of deprivation in Ireland (CSO, 2023d, Roantree et al., 2022).

All told, households toward the lower end of the income distribution have experienced the most inflation and those near the top the least, though still significant inflation. The impact this has had on the least well-off also shows up in the recent rise in deprivation, which has been declining since the recovery. At the same time, after housing cost income inequality has fallen.

5 Small households are more expensive to run. Two single person households will have higher per person expenses than one two-person household. For instance, utilities such as internet need to be paid twice.

Discussion and policies

Discussion and policies

Discussion

This report has examined the state of inequality in Ireland looking at broad and recent trends. It was posited from the outset that Ireland's distributional footprint has been influenced by a set of current and historical circumstances. The comparatively weak influence of social democracy undoubtedly helps explain the country's highly unequal labour market and underdeveloped public services. The influence this has on household disposable income is complicated by the fact that low-pay workers tend to be from households that are not at the low end of the income distribution, though high-pay workers do tend to come from high-income households.

At the same time, targeted transfers have been a staple of redistribution in Ireland for some time, pre-dating the large expansion in unemployment that prosperity brought. Combined with a progressive direct system of taxation, and the outcome is that the Irish state is and has been highly redistributive. This redistribution, however, is necessitated by high, and historically exceptionally high, levels of market inequality. The decline in income inequality in Ireland should not lead to complacency when it comes to the welfare state.

For one, though the welfare state has become more redistributive over time, the most recent uptick in inequality has primarily been a result of less redistribution by the state. Aside from the distribution of wages, the state has the ability to affect the distribution of market income. For instance, it can invest in childcare, encouraging employment and generating market income among the less well-off. Such investment would also ease cost of living pressures for households.

This raises the issue of how cost and price pressures have affected Irish households in recent years. Given the increase in deprivation over the last couple of years, it is no surprise that low-income and renters households have suffered the most under recent price increases. The rising cost of energy has been most noteworthy, and this has bled into other price increases, such as transport and food. Rents have continued to rise, reflecting ongoing problems in the housing market, but also affected by global inflation as materials cost have dampened supply.

Recommendations

Maintain or increase revenue

Ireland's public finances are currently in a very healthy state. While governments are reluctant to raise taxation in the context of ongoing cost of living pressures, the temptation to reduce taxation should be resisted. Inflation is expected to be 4.9% for 2023, and decline only to 2.5% next year (IFAC, 2023). Aside from the distributional effects, reducing taxes would add fuel to an already stimulated economy. On the other hand, Ireland has a number of public expenditure challenges in the coming years due to societal ageing and climate change. Both the Commission on Taxation and Welfare, the Commission on Pensions, among others have set means to raise revenue to meet future challenges. Taxation is an effective way to reduce inequality and tax reductions would reduce its redistributive impact further. Deficiencies in capital taxation and self-employed PRSI are noteworthy.

Targeted supports for those on low incomes

Since the return of high levels of inflation the government has introduced a series of cost of living measures. The most recent €1 billion package was introduced in February, though apparently met through existing budget allocations. Further measures are likely to be introduced as part of Budget 2024. IFAC (2023) notes that less than a quarter of measures introduced so far have been targeted. We support the introduction of further measures that are targeted, and ideally funded from new revenue-raising.

Benchmarking welfare payments

The February cost of living measures included a one-off €200 increase in core social welfare payments. While welcome in the context of cost of living pressures, a more robust system for assisting social welfare recipients should be introduced, such as through indexation to wages. In normal times, indexing payments (and taxes) to prices results in higher poverty and inequality. When inflation is low, low-income groups receive little or no increases as they may be out of paid work and prices have not risen, whereas middle and higher-income groups experience income growth in line with wage increases. Thus while basing increases in social welfare rates on inflation has been necessary in recent years, we support indexation according to wages. Extraordinary increases in welfare payments due to inflation could be offset in subsequent years through smaller increases. We endorse benchmarking rates to 27.5% of average weekly earnings (see SJI, 2023).

Increases in the social wage

Given inflationary pressures that still exist in the economy, income inequality would be best addressed through increases in the social wage, rather than money wages at this moment in time. Indeed, the previous round of pay negotiations between the government and public sector unions called for increase in social investment. For the purposes of this study, public investment in childcare would be most welcome. Though investment has increased in recent years, childcare remains expensive in Ireland. High childcare costs act as a barrier to employment, particularly for women. This elevates the dispersion of market income. We recommend increases in childcare of around 0.1% of national income to gradually bring total childcare spending to 1% of national income.

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The last three years have seen repeated crises and hardship for large swathes of Irish society. Just as Ireland was recovering from Covid, a cost-of-living crisis erupted, and continues today. While everyone has been affected, not everyone has been equally affected. But who, if anyone, is to blame? Has inequality increased over the last couple of years, and why? This report examines inequality in Ireland in recent years and over the long run. It examines Ireland's ongoing cost of living problems, and the distributional impact of inflation. It also attempts to chart a way forward.

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