



# The Crisis, Inequality and Poverty in Ireland

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# Outline

- Recessions and income inequality, wealth and poverty
  - What do we know about the distributional impact of the Irish crisis so far?
  - The tax and welfare responses to the crisis and their distributional impact
  - Prospects for the future
- 

# Recession and Income Inequality

Standard pattern in recession:

- Profits down, impact on top incomes
- Unemployment up, hours and LF participation down,
  - low-skilled most affected
- Dispersion in wage rates may fall or rise
- Inequality in annual earnings rises, due to falling employment/hours
- Net impact on household income inequality (as captured by e.g. Gini) may be modest

# Recession and Wealth Inequality

- Wealth other than housing is highly concentrated
- Impact of collapse in equities, profits disproportionately towards top
- Little impact of 1990s recession on wealth inequality – though 1930s were different
- Top wealth-holders often well diversified
- But gap between those with and without wealth may narrow

# Recession and Poverty

- Impact on poor and vulnerable households most directly via unemployment, increase in households with no or only one earner
- But also falling hours of work, wages
- Adequacy of social transfers key – and varies across countries
- Relative income poverty may not rise, at least in shorter term (cf. Finland)
- Deprivation may rise – despite buffering

# Current “Bust”: Distinctive Features

- Income inequality across OECD high at onset
- Scale and speed of increase in unemployment
  - though varying output fall and unemployment response
- Extensive recent migration
- Extent of household debt at onset
- Wider ownership of shares + property
- Scale of fall in asset prices
- Bursting of housing price bubble in some countries
  - Negative equity esp. among younger families key feature
- Prices stable or falling, interest rates very low

# Distributional Implications of Ireland's Crisis: the Context

- Income inequality in Ireland high-ish compared with other OECD countries
  - Summary inequality measures show ranking of 22<sup>nd</sup>. out of 28 OECD countries (*Growing Unequal? OECD 2008*)
- But level of inequality rather stable over time
  - Gini in 0.31-0.32 range from 1987-2007

# Distributional Implications of Ireland's Crisis: the Context

- Relative income poverty above EU average
  - EU average about 16%; Ireland 18% in 2007
- Fluctuates over time, depending esp. on level of social transfers vis-à-vis income threshold

# Distributional Implications of Ireland's Crisis: the Context

- Deprivation levels fell sharply over boom,
  - as measured by % of households reporting they were going without ... because they could not afford it
- “Consistent poverty” - % both below relative income threshold and above deprivation threshold – also declined substantially

# The Direct Impact on Incomes

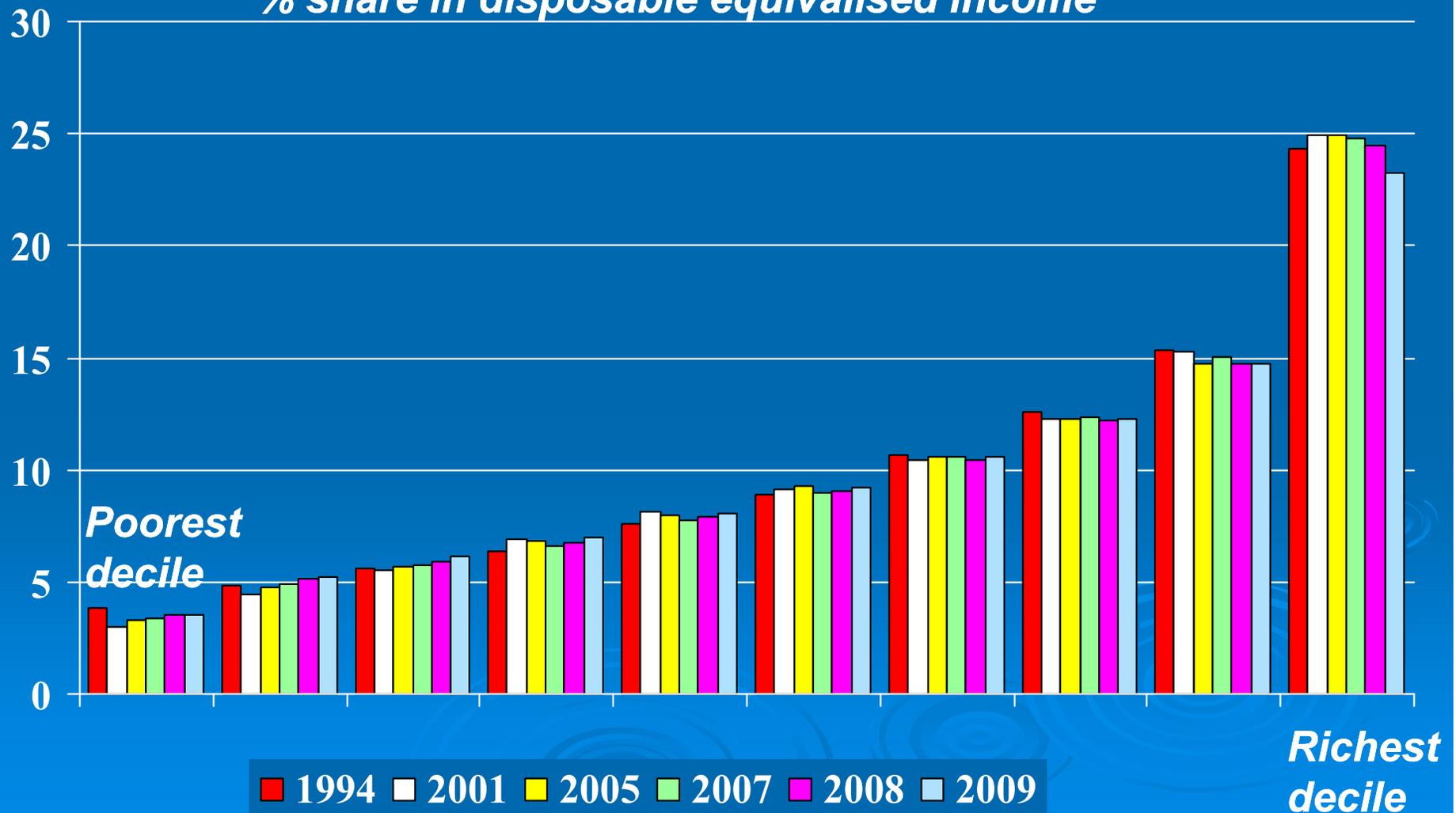
- Unemployment up from 4% to 14%, generally means substantial fall in income of household
- Substantial decline in average earnings for those still in employment
  - 10% in private sector?
  - Combination of declining hourly pay and falling hours – overtime cut, more part-time
- Profits, self-employment income down
- Public sector pay cut

# What Do We Know About Distributional Impact?

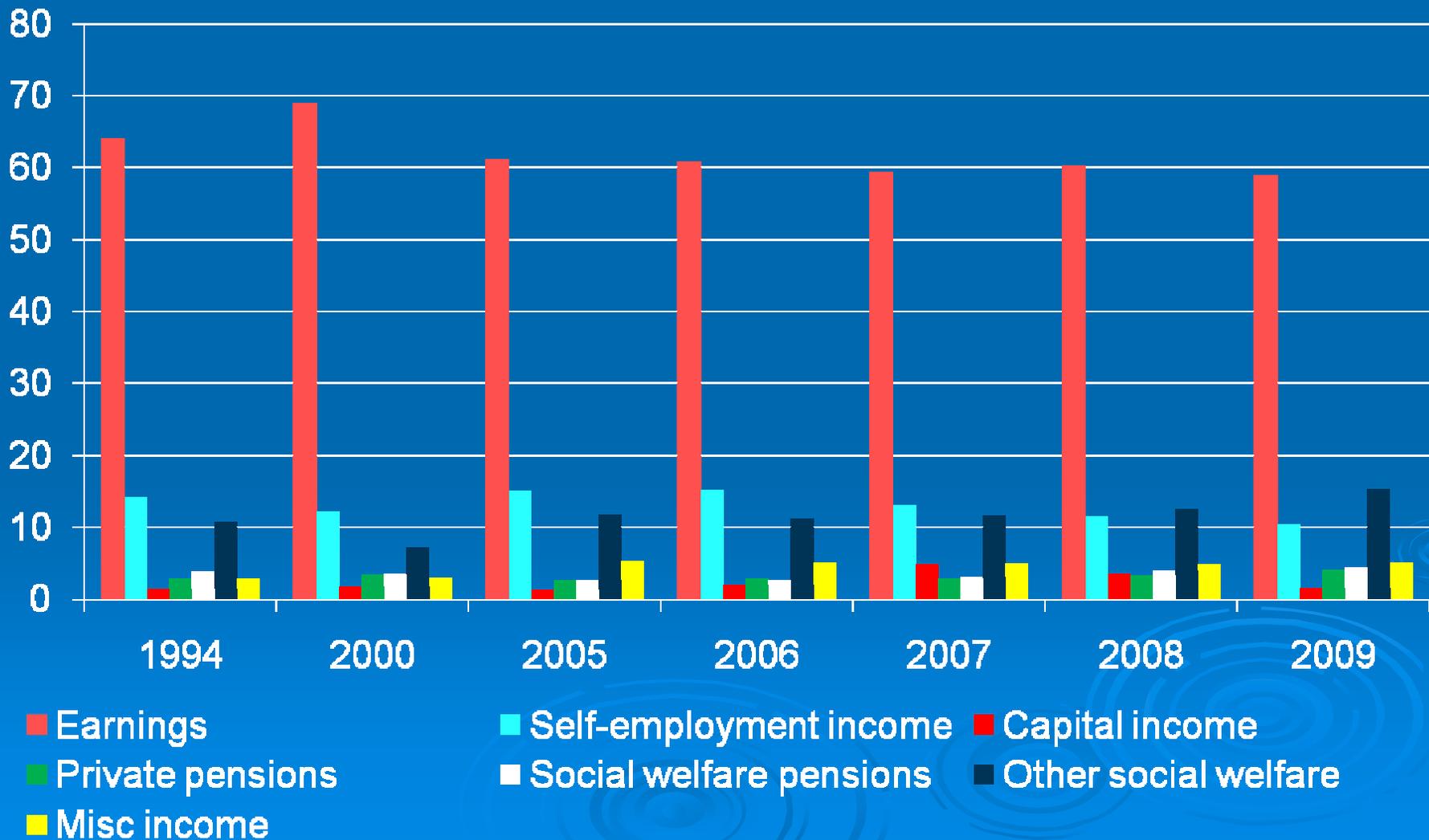
- Income inequality has fallen:
  - Gini down from 0.32 in 2007 to 0.29 in 2009
- Bottom 60% share up, top 30% down:
  - Share of bottom 2 deciles up from 8.3% to 8.9%
  - Share of next 2 deciles up from 12.3% to 13.1%
  - Share of next 2 deciles up from 16.7% to 17.3%
  - Share of 70-90 down from 39.8% to 38%
  - Share of top decile down from 31.7% to 29.3%

# Income Shares among Persons, Equivalised, Ireland 1994-2009

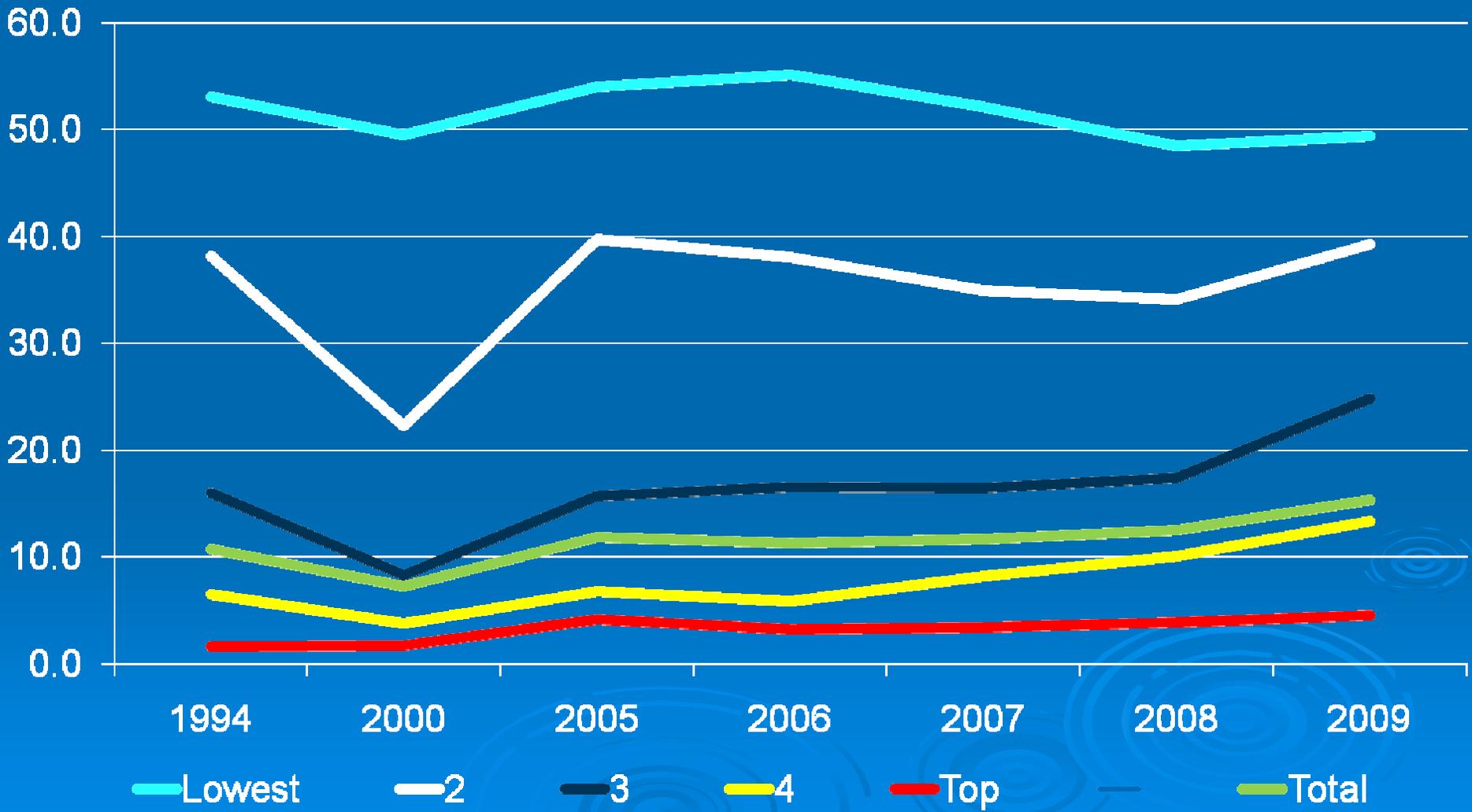
*% share in disposable equivalised income*



# Income by Source as % of Total, 1994-2009



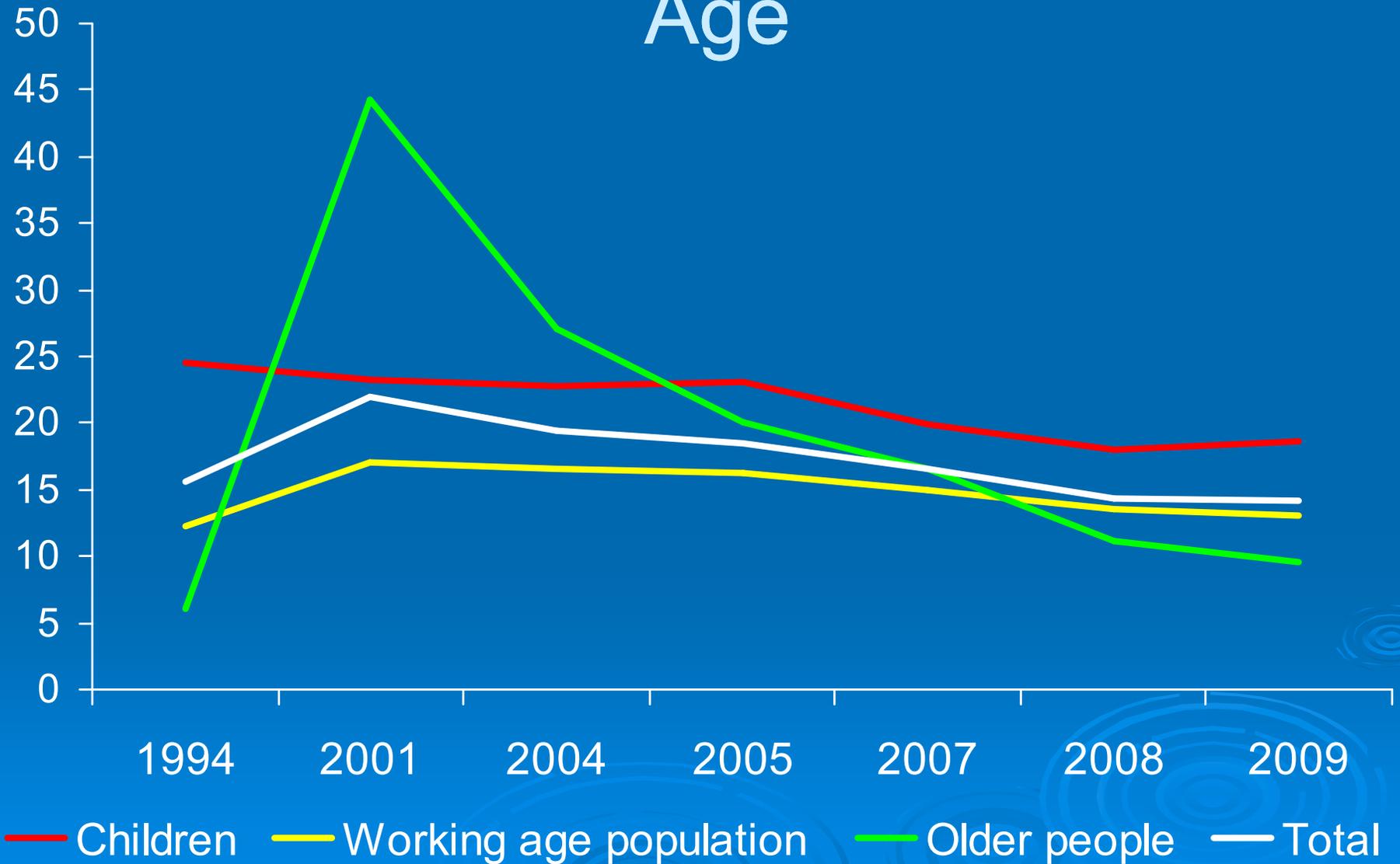
# Social Welfare (Non-Pension) as % of Income by Quintile, 1994-2009



# What Do We Know About Distributional Impact?

- Relative income poverty has fallen from 16.5% in 2007 to 14.4% in 2008 and 14.1% in 2009
  - Income threshold fell 3% 2008-2009
- Varying trends by age over boom, but sharpest fall for older persons

# Relative Income Poverty Trends by Age



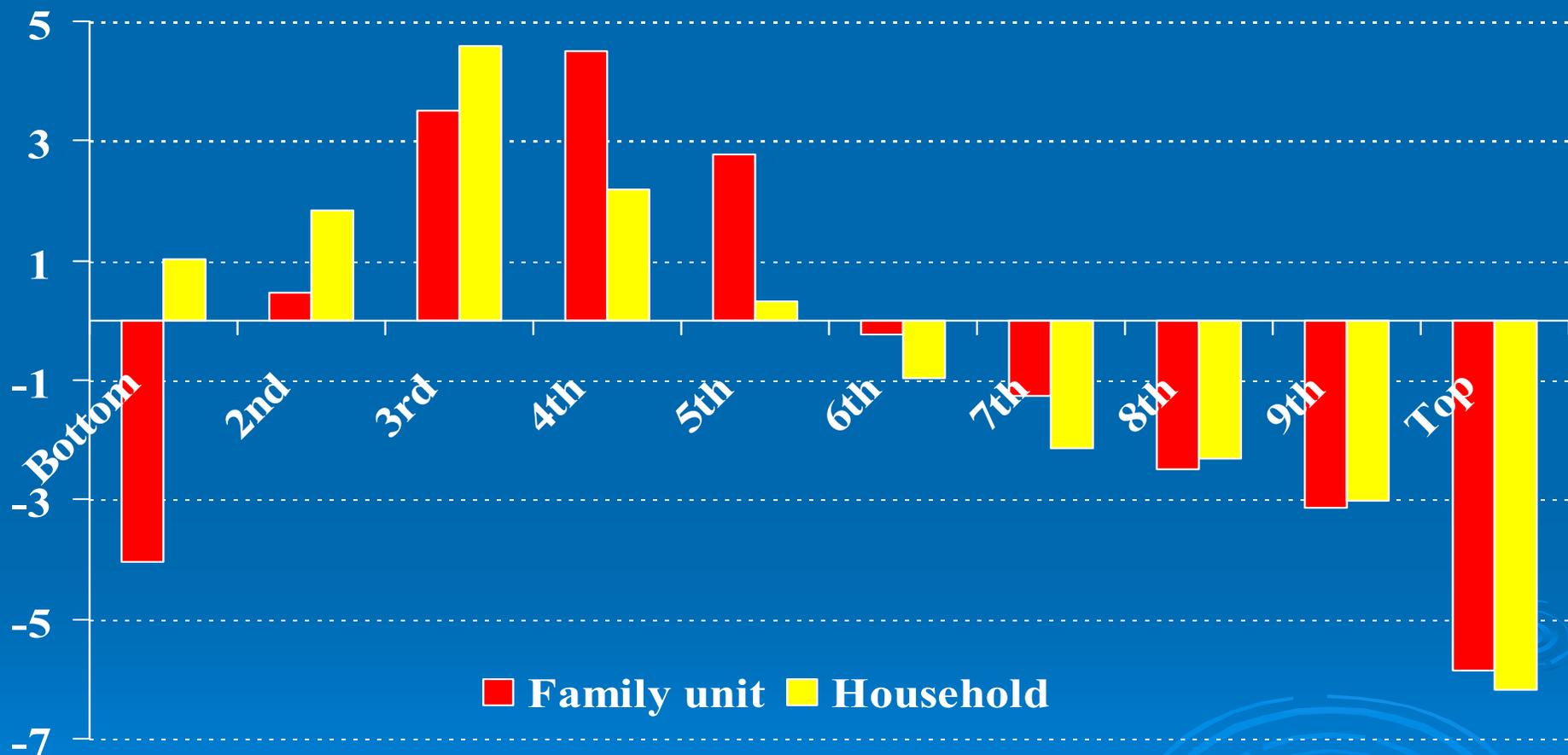
# What Do We Know About Distributional Impact?

- Deprivation rose in 2009:
  - % in arrears on utilities etc. rose from 10% to 24%;
  - % reporting 1 or more on a set of 11 deprivation items rose from 25% to 29%
- “Consistent poverty” fell from 5.1% in 2007 to 4.2% in 2008 but then rose to 5.5% in 2009

# Tax/welfare response 2009-2010

- Budget 2009
  - income levy introduced
  - 3% rise in welfare payment rates
- Supplementary budget April 2009
  - Levy rates doubled (to 2/4/6), Health levy doubled (to 4 & 5)
  - PRSI ceiling raised
  - Christmas bonus abolished
  - Early Childcare Supplement halved, to be abolished
  - Cuts in payment rates for unemployed under 21
- Budget 2010
  - Cuts in welfare for working age of 4%
  - Larger cuts for 21-25 year-olds
  - Child Benefit cut by 10% with compensation for welfare recipients

# Distributive impact of tax/welfare measures in Budgets 2009/10: ( baseline: indexation with fall of 4% in wages)



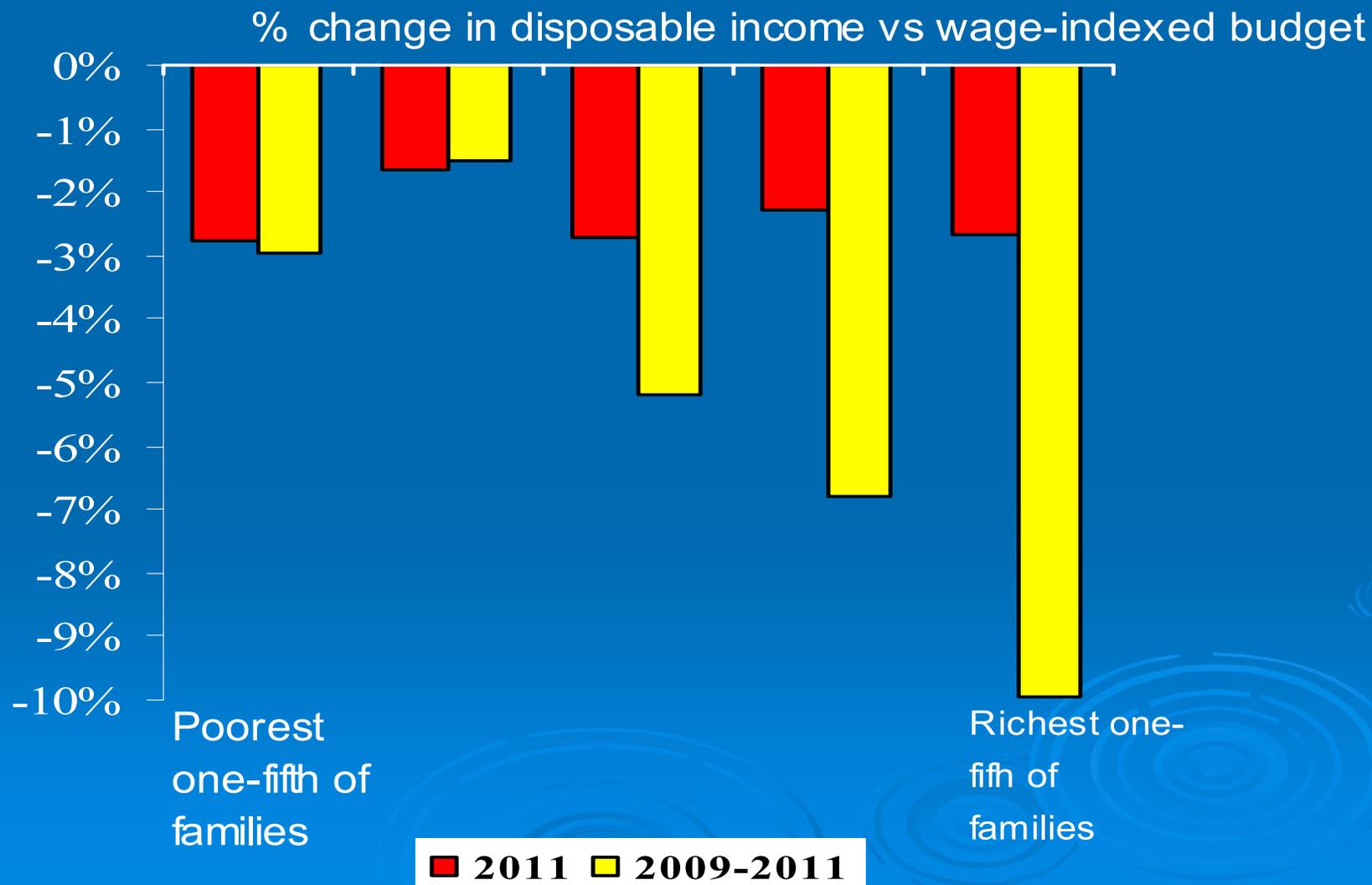
*Deciles each contain 10% of family/household units, ranked from lowest to highest incomes*

# Tax/welfare response 2011

## ➤ Budget 2011

- Cuts in welfare for working age of 4%
- Child Benefit cut by 10% with no compensation for welfare recipients
- Universal Social Charge – combining Income and Health levies
- Increases in income tax via reduced credits
- Cuts in public service pensions
- Restricting tax reliefs on employee pension contributions

# Distributional impact of Budget 2011 and Budgets 2009-2011



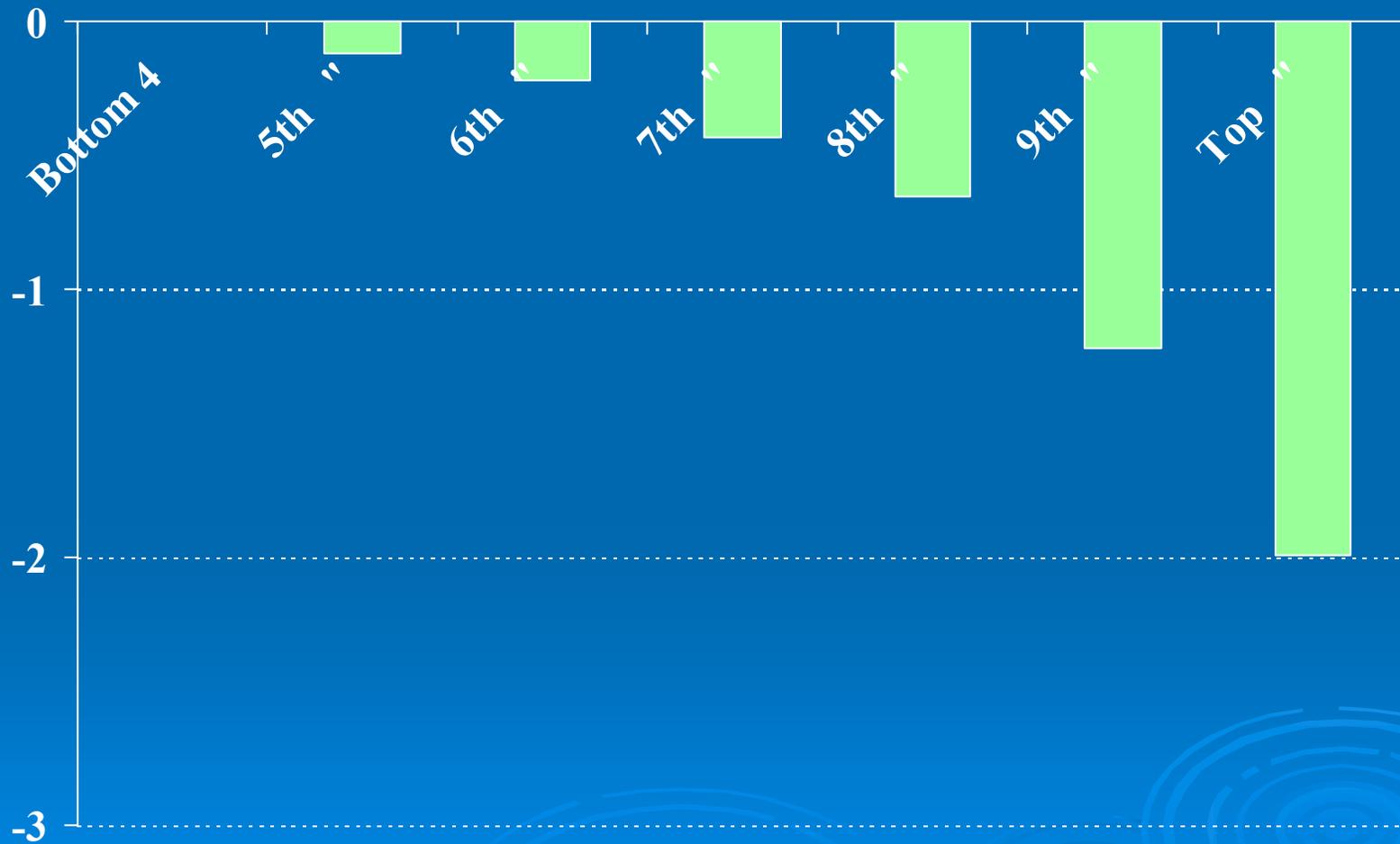
# Public sector pay cuts, 2010

- 5% on first €30,000
- 7.5% on next €45,000
- 10% on next €50,000
- 8% on next €40,000\*
- 12% on all pay if over €160,000\*\*
- 15% on all pay if over €200,000\*\*

\*Modified by allowance for elimination of bonus

\*\*Special provision to ensure no 100% tax rate

# Distributive impact of public sector wage cuts in Budgets 2009/2010: Impact relative to 5% cut in gross pay



*Deciles of disposable income, family units*

# Tax Increases and Spending Cuts 2011-2014

- Programme for Government commits new government to
  - No increase in income tax or PRSI
  - “Consider various options for a site valuation tax”
  - Review USC
  - Maintain social welfare rates.
  - Cut public service numbers by 22,000-25,000 by 2015, but no compulsory redundancies or further pay cuts in public sector
- What about previous government plan to reduce social transfers from €21bn. to €18bn.?
- Levels of health, education spending?

# Conclusions

- Range of channels through which crisis impacts on inequality hard to capture
- Increase in unemployment, reductions in social transfers, increase in taxes have direct and straightforward impact
- So far pain has been shared across distribution
- Effects of cuts in spending on health, education, social services will be more difficult to assess
- Impact on wealth, and on life-chances by cohort, even more difficult to capture but critical