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Income Inequality and Living Standards

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As shown by Tony Fahey and Theresa Reidy in this volume, Irish society and politics has undergone remarkable change over the last three decades. Such change is also evident in the distribution of income and incidence of low living standards in Ireland: the topic of this paper.

Using data from household surveys harmonised by Roantree et al. (2021), Figure 1 plots the change in median real disposable income adjusted for household size against the Gini coefficient (a common measure of income inequality that varies between 0 – indicating perfect equality – and 1 - indicating perfect inequality).[2] This shows that the last 30 years can be characterised as a period of robust, inclusive – if volatile – income growth, comprised of 4 distinct phases.

The first, from 1987-1999, saw median incomes rise rapidly (almost doubling in real terms) at the same time as inequality fell (from 0.333 to 0.297). The second, from 1999-2007, saw median incomes continue to rise (albeit at a slower pace) but inequality also increase (with the Gini rising from 0.297 to 0.314). The third, from 2007-2012, saw median incomes initially stall then collapse (falling by 15% between 2009 and 2012), while income inequality also fell (from 0.314 to 0.302). Fourth and finally, the period from 2012 to 2019 (latest year of SILC data available at the point of writing) saw median income growth resume alongside a sustained reduction in income inequality.

These patterns of growth have left median incomes at their highest- and income inequality at their lowest- recorded levels. This is in stark contrast to the experience of other advanced economies over this time, as shown by Thewissen et al. (2018). Indeed, among the countries for which the OECD provide data, only France has seen reductions in income inequality of similar magnitude, though France also experienced much slower rates of median income growth (ibid).

Roantree et al. (2021) show that this impression is not a product of restricting attention to growth in median incomes (as opposed to, say, lower quantiles of the distribution) or looking at the Gini coefficient (which can be sensitive to changes around the middle of the distribution: see Cowell, 1995). Rather, they show that even accounting for the dramatic and highly unequally borne impact of the recession, income growth was far stronger at the bottom of the distribution than the top over the past three decades, averaging about 3% per year at the bottom of the distribution compared to nearer 2% per year at the top. Compounded over such a horizon, these

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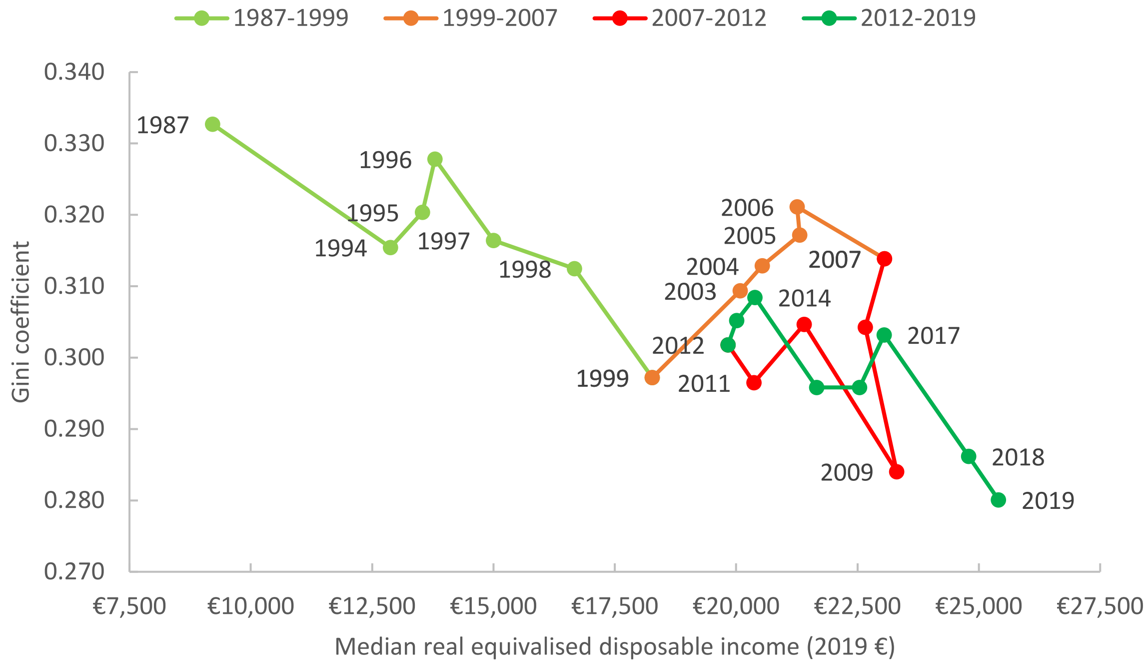
[2] These statistics are available at https://doi.org/10.26504/bkmnext412 and were constructed as part of an ESRI research programme on "Poverty, income inequality and living standards in Ireland" kindly funded by the Community Foundation for Ireland, using data collected and provided by both the ESRI and the Central Statistics Office. This paper draws on these data throughout.

differences in growth rates have contributed to a compression of the income distribution and resulted in a substantial reduction in income inequality over the period.

Figure 1: Median income growth and inequality in Ireland 1987-2019



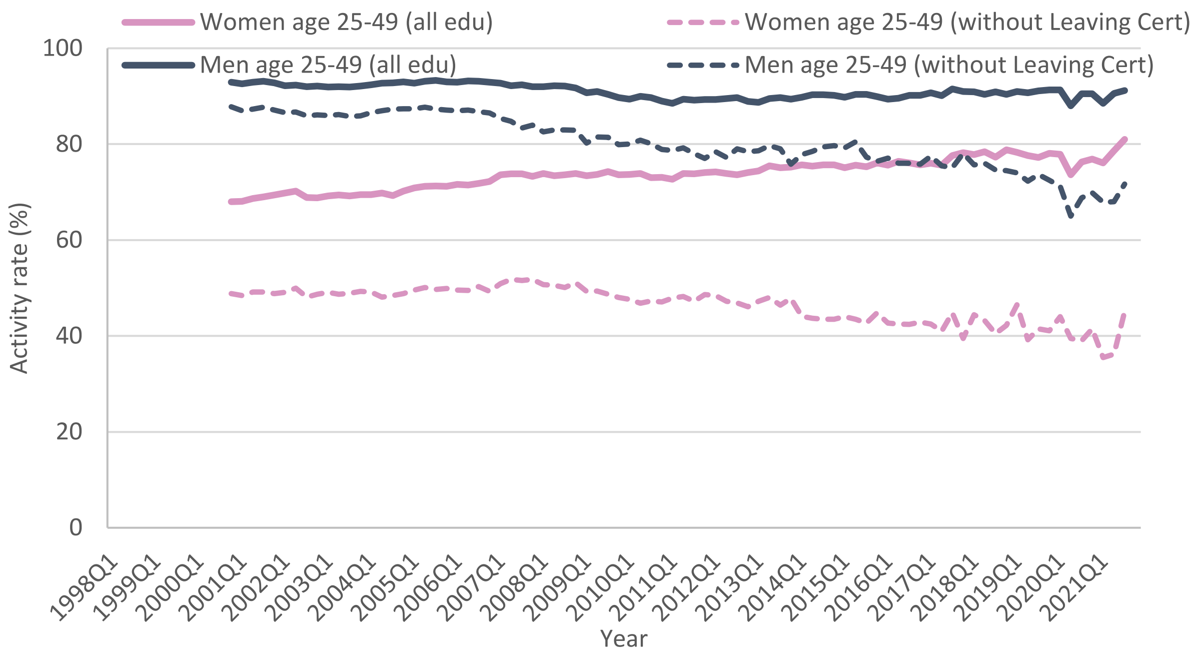
Source: Roantree et al. (2021), available at https://doi.org/10.26504/bkmnext412
Note: Incomes equivalised using modified OECD scales and uprated to 2019 terms using all-items Consumer Price Index.

However, this period of inclusive income growth has not been enough to eliminate the incidence of very low living standards, particularly for some historically less-advantaged groups. While the population wide at-risk-of-poverty rate has fallen from around 20% in the 1990s to 13% in 2019, the rate for those of working-age living in households without anyone in paid work has remained consistently high, reaching a trough of 37% in 2007 but rising relatively steadily thereafter to reach a peak of 63% in 2018 (Roantree et al. 2021). Similarly, lone parents – who have low rates of employment – have experienced consistently high at-risk-of-poverty rates, with both groups also enduring high rates of material deprivation: a self-reported inability to afford certain items which might be considered essential.

Given the strength of the link between a household enduring poverty or deprivation and not having anyone in paid work, the pace of the recent vaccine-aided labour market recovery is to be warmly welcomed. The latest statistics from the CSO's Labour Force Survey suggest that by the end of 2021, employment rates for all age groups had exceeded their pre-COVID-19 pandemic peak: something which took more than a decade to achieve in the aftermath of the Great Recession.[3] While this should alleviate some worries about the potential long-run scarring effects of pandemic related job losses (expressed by e.g. von Wachter, 2020, among many), Figure 2 shows that there has been a secular decline in the labour market participation rates of less educated working-age men and women. This decline predates the Great Recession for men and should be a cause for concern among policymakers, not least given that almost a tenth of a cohort entering post-primary education continue to leave without acquiring a Leaving Certificate or equivalent qualification (Department of Education, 2022).

[3] See https://data.cso.ie/table/QLF18 (accessed 10/4/2022)

Figure 2: Labour market participation rate by sex and education level



Source: Author's calculations using Eurostat series LFSQ_ARGAED (Activity rates by sex, age and educational attainment level).
Note: Without Leaving Certificate defined as ISCED levels 0-2 (Less than primary, primary and lower secondary education)

Such concerns about the prospects for future trends in inequality might be amplified by the emergent intergenerational inequality in the labour market pointed to by Roantree et al. (2021), with average earnings for those born in the 1980s no higher at ages 25 to 35 than for those born in the 1970s. Similar stagnation in earnings growth across generations has also been documented in Britain by Cribb (2019) and in the United States by Kurz et al. (2019), likely arising from or exacerbated by the impact of the Great Recession and lost decade that followed in all three countries. Such intergenerational inequality in the labour market risks being compounded by that in the housing market, where rates of homeownership have fallen substantially across generations, raising concerns about the adequacy of income in retirement for future birth cohorts (Slaymaker et al., 2022).

To conclude, while the magnitude of growth experienced over the last three decades can be seen as an Irish hare catching up with neighbouring tortoises (Honohan and Walsh, 2002), or – more prosaically – as Ireland making up for lost time after decades of self-inflicted under-performance (Ó Gráda and O'Rourke, 2021), it is not pre-ordained that this catch-up growth should have been as broad-based or inclusive as it was. Although the international experience is more varied than United States-centric grand narratives of stagnant incomes and rising inequality often suggest (Nolan and Thewissen, 2020), other European Union and OECD countries saw slower and less equally distributed growth than Ireland over the last three decades. From that point of view, the Irish experience over the last three decades is indeed remarkable.

Nevertheless, it is not clear this experience can be replicated over the next 30 years. To the extent the experience was underpinned by factor input growth, changes in household composition, or increases in the employment and education levels of the population (the subject of ongoing research), it will be extremely difficult to replicate. Exposure to a less benign growth-environment is likely to force policymakers in Ireland to confront complicated, contentious policy trade-offs more often. From this perspective, the recent response to the quite modest and balanced proposals of the Commission on Pensions (2021) to fund future State pension payments does not bode well.

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