

# Cherishing All Equally 2019:

## Inequality in Europe and Ireland



Edited by Robert Sweeney and Robin Wilson



FOUNDATION FOR EUROPEAN  
PROGRESSIVE STUDIES  
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# **Cherishing All Equally 2019: Inequality in Europe and Ireland**

Edited by Robert Sweeney and Robin Wilson

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FEPS

Foundation for European Progressive Studies

Rue Montoyer 40, Fourth floor

1000 – Brussels

Belgium

T: +32 2 234 69 00

Email: [info@feps-europe.eu](mailto:info@feps-europe.eu)

Website: [www.feps-europe.eu/en/](http://www.feps-europe.eu/en/)

Twitter @FEPS\_Europe

TASC

101 Baggot Street Lower

Dublin 2

D02 TY29

Ireland

Tel: +353 1 616 9050

E-mail: [contact@tasc.ie](mailto:contact@tasc.ie)

Website: [www.tasc.ie](http://www.tasc.ie)

Twitter: @TASCblog

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# Preface

# Preface

Dr Paula Clancy

## ***Chair, TASC Board of Directors***

Cherishing all Equally 2018 is the fourth in our series of annual reports on economic inequality. It is intended that these annual reports will provide us with regular updates on where Ireland stands on this issue, on whether inequality is increasing or decreasing. The focus has now expanded to include Europe as well.

As cited in the introduction to this report, growing economic inequality is now understood to be one of the defining issues of our time. Each of the four reports to date has provided us with a very clear overview of not only the growth in inequality worldwide, but also the reasons why its continuation poses a threat to humanity. More immediately we are also given the clear evidence of what is, at worst, the decimation of the lives of a large proportion of the population and, at the least, the unnecessary damage to the quality of life of so many more. And as Wilkinson, Pickett and others have demonstrated, high levels of economic inequality have a detrimental effect on the wellbeing and happiness of the whole of society, not just the disadvantaged.

Economic inequality is defined as the unequal distribution of 'material resources'. These material resources include income and wealth but lays equal emphasis on the need for strong universal public services. Investment in public services in turn relies on raising sufficient resources. Finally, the cost of goods and services - including the critical ones such as housing and child care - are a central component of the set of factors that influence access to material resources. Each annual report therefore, presents a dashboard of indicators of where Ireland stands in comparison to the EU.

A second motivation for producing these reports is to make a contribution to the development of targeted policy solutions. Each year, in addition to the dashboard of indicators, the report looks at one or more of the dimensions of inequality and/or its impact on different groups. Over the the last four reports, we have examined the gendered impact of economic inequality as well as the way in which it impacts on children and last year we focused on the issue of housing.

In this year's report there are chapters devoted to an analysis of rising inequalities in incomes, and also wealth. Ominously, as in previous years, we find that Ireland continues to have among the highest levels of market-income inequality. Even though this is significantly mitigated through cash transfers such that Ireland's level of disposable-income inequality is average in the EU, given Ireland's relatively low tax take and low levels of expenditure on public services relative to the EU average, more could be done. Moreover, as is made clear in Chapter 2 of this report, high market inequality is not restricted to Ireland. Across the continent of Europe, the state has been increasing its 'fiscal effort' in an attempt to contain the growing dispersion in incomes generated through the market in what is certainly a diversion of resources that could be more productively used.

The findings in this report, then, do not provide encouragement that we are as yet not seeing the necessary change in policy direction which would allow us to see a path to a sustainable change in long term trends in inequality. As we go to press we read that the world's billionaires became 20% richer in 2017, making more money than in any year in recorded history. So while it is of some comfort that

some indicators suggest that societies are restraining, though not completely holding the line, against disimprovement, we are not seeing the kind of policies that would indicate a fundamental improvement is on the way. This is very disappointing in the context of recovering economies.

Since it is now almost a truism to reiterate that economic inequality is not an inevitable outcome of a market economy but is rather a result of conscious political choices, it suggests at the very least a failure to appreciate the seriousness of the issue or to heed the data, and the analysis and policy proposals available to policy makers. In our first report on this issue we called for nothing less than 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. A first step and one which would demonstrate that the issue is being treated with the seriousness it deserves is for governments to gather, publish and inform European and Irish policymaking with much stronger social statistics on all the dimensions that determine equal or unequal access to material resources and services.

Economic inequality is a global phenomenon. Tabulating its extent, analysing its causes and mapping ways to effectively reduce and eliminate it is also a world-wide endeavour. Together with our partner FEPS, TASC aims to be part of this global effort, with a particular focus on the EU sphere. The partnership between FEPS and TASC allow us access to partners in all EU states, providing us with a unique opportunity to extend our approach to studying economic inequality in Ireland to many other EU countries and plans are underway to allow us to do just that.

I want to thank all those who have been part of this project to date, in particular the authors of this present report. Building on the body of global work on this issue, it contains new data, new insights and new proposals, with relevance not only to Ireland but Europe more broadly. As always TASC welcomes all contributions to this debate.



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# Acknowledgements

# Acknowledgements

Robert Sweeney

## *FEPS-TASC researcher*

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# 1. Introduction

# 1. Introduction

Robin Wilson

## *1.1 The 'I' word is back*

'Inequality is now at the forefront of public debate.' This laconic claim begins a book (Atkinson, 2015: 1) collating half a century of work on the theme by a leading international expert on poverty. It is not a claim he could persuasively have made in recent decades, dominated as they have been by the contention that the 'invisible hand' of the market, left to itself, always achieves optimal economic outcomes and that there is in any event, as the former British Conservative prime minister Margaret Thatcher famously asserted, 'no such thing as society'. So what has changed?

A number of arguments have changed the global terms of political trade, starting from an unlikely source – public health. Studies of UK civil servants revealed that their morbidity and mortality rates increased the lower they were in the service hierarchy (Marmot, 2004). The author of that study went on to chair a World Health Organization commission on the social determinants of ill-health (CSDH, 2008). This detrimental effect of social hierarchies was explained by the physiological effects of accumulated stress on the part of those in lower ranks (Wilkinson, 2005). Collating a vast number of studies from across the world showed that steep hierarchies were correlated with a host of social problems, from violent crime to drug abuse (Wilkinson and Pickett, 2009). An update of this work nearly a decade later highlighted the severe effects of inequality on mental health and wellbeing (Wilkinson and Pickett, 2018).

A key element of this foregrounding of inequality has been its reframing so as to capture widespread social concerns and anxieties in a 'devil take the hindmost' age – those who lag behind receive no aid – in the same moment as demonstrating their relevance to the public as a whole. For this strand of work has focused on the 'social gradient' of inequality. That is to say, on many issues of social performance – take educational attainment – there is a pattern of outcomes correlated with income. But not only that: the graph of performance (in this case upward) against income has a steeper slope the more unequal the society. Inequality not only thus reduces the average performance of the society, because of how the lower-ranking figures drag down the mean. It also means that everyone is affected: yes, those at the top always do (roughly equally) well but, below them, everyone else suffers to an extent from living in a more unequal society.

So, to continue the example, Ireland can be proud of its position in the 2015 PISA rankings of educational performance, coming in at 11th in the world. But it was behind Finland (eighth) and Estonia (fifth) in Europe.<sup>1</sup> In Ireland, 'capital-conscious' parents can game the education system with its performance league tables, surmounting entry barriers such as school fees, the cost of uniforms and expensive equipment (Cahill, 2015: 306). By contrast, Finland's success since a comprehensive reform of its education system in the 1970s is because schooling is entirely public and between-school inequalities in educational outcomes are minimal. There is no streaming in school and most students receive individual 'special' attention to address any learning difficulties at some point in their school careers (Sahlberg, 2011: 45-9). This is in a context where inequality of household disposable income, according

<sup>1</sup> See <http://factsmaps.com/pisa-worldwide-ranking-average-score-of-math-science-reading/>.

to the Gini coefficient – where 0 is absolute equality and 1 or 100 is maximum inequality, depending on presentation – was 29.5 for Ireland in 2016, as against 25.3 for Finland in 2017:<sup>2</sup>

If the social repercussions of inequality are bad enough, then the political implications are equally toxic. The concentration of resources at the top corresponds to a concentration of political power through campaign financing, greater access to politicians, and higher likelihood that 'wealth creators' get a sympathetic ear. At the societal level the politics of inequality is evidenced by recent changes that have swept the continent of Europe. The social discontent sewed by prosperity for the few, and stagnation or plunder for the many creates space for reactionary political forces, forces more reactionary than those that led us here. Enter into the fray the hard right who seek to pin the blame on someone or something, or anything. Anything except what is its major cause; policies that redistribute income and wealth to a small minority, and which lead to growing insecurity among those whose resources have been taken. The blame is invariably shifted to the vulnerable, especially immigrants, often fleeing the horrors and consequences of Western actions elsewhere; be they military, economic, climate, or otherwise. This makes the process of integration ever more fraught – it's never easy to begin with. The 'Right' also promises to return us to halcyon days of traditional, 'family values', and all that that means for the other half of the population.

This turns on its head the notion that equality involves 'levelling down' and contextualises the alternative focus on social mobility – which in fact is harder to realise in countries where the ladder is steeper and the rungs further apart. Most notably, in the country of the rags-to-riches 'American dream', working-class living standards have stagnated since the neo-liberal revolution of the 1980s, after decades of steady growth, while the gains from increased prosperity have been largely appropriated by a soaring rich stratum (Irvin, 2008). And as we will show, Europe has managed to avoid this faith only by increasing efforts by the state that prevent yawning market inequality translating into commensurate increases in disposable income inequality.

Left to themselves, individuals within social hierarchies dramatically underestimate inequality, because they compare their income with that of those ranked close to them (Toynbee and Walker, 2008). The coining of the term 'the 1 per cent' by the Occupy movement in the US allowed this phenomenon to be publicly grasped and debated, particularly in the wake of the global economic crisis precipitated on Wall Street in 2008. And, contrary to arguments that such 'wealth creators' should be incentivised by even higher remuneration, economic recovery was being weakened, it became evident, by the suppression of demand among those, drawn from the 99 per cent, with the greatest propensity to consume (Lansley, 2012).

Indeed many at the bottom of the labour market found themselves falling into an insecure netherworld of at best casual, irregular and precarious employment (Standing, 2011) – a scenario made even worse in Ireland than elsewhere in Europe, particularly for the mental health of precarious workers, by the weak public provision of health, housing and childcare services (Bobek *et al.*, 2018: 84). In this changed environment, a French economist acquired something akin to rock-star status – including a lecture in 2014 to a packed hall at what is now the FEPS-TASC annual conference – with a weighty tome turned unlikely bestseller (Piketty, 2014), charting how income and wealth inequality had followed a U-shaped curve over the 20th century and was returning to levels last seen at the time of *The Great Gatsby*.

Worldwide, it became apparent that the 1 per cent – the 'global plutocrats' as Milanovic (2016: 22) calls them – had seen their incomes rise by more than 60 per cent in the two decades before the world

<sup>2</sup> Eurostat data, available at [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc\\_di12](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di12)

financial crisis (*ibid.*: 11). A global poll commissioned by the International Trade Union Congress in 2014 found that 78 per cent of respondents believed the current economic system favoured the wealthy and 60 per cent that corporate interests had too much influence.<sup>3</sup> This groundswell of opinion foregrounding equality as a global concern was reinforced by a huge investigation, led by the International Consortium of Investigative Journalists, of tax avoidance by the rich and powerful, culminating in the explosive leak of the 'Panama Papers' in 2016.<sup>4</sup> Its whistleblowing source heralded inequality as 'one of the defining issues of our time.'<sup>5</sup>

## ***1.2 More equal than others***

Some countries, however, remain more equal than others, in part due to how much they offset the inherent tendencies for incomes and wealth to polarise in unregulated markets through taxation and welfare systems. It is also down to how markets are embedded in, and related to institutions which compress disparities in income and wealth at source; that is before the state lends its helping hand. Those differential outworkings in terms of equality in the advanced capitalist countries are often analysed in terms of three or more 'worlds of welfare capitalism' (Esping Anderson, 1990). This can provide a useful framework for analysing distributional dynamics related to income, though less so if we seek to contextualise Europe as whole among the world. A typological lens suitable to the analysis of wealth, moreover, has yet to be developed.

Nevertheless the Nordic universal welfare states, with strong social-democratic traditions, have historically been the most equal; the continental models, with counterposed Christian-democratic parties and a social-insurance foundation, have come next; and Anglo Saxon cases with winner-takes-all electoral systems favouring 'free market' parties and means-tested welfare have performed poorest. Eastern Europe also has considerable diversity with countries such as the Czech Republic and Slovenia now rivalling and indeed bettering the Nordics, in sharp contrast to the Baltics. But it is easy to get lost in the sea of indicators available to the researcher; from the Gini to the top one per cent shares to decile ratios and on and on. When each is applied to the numerous countries and political entities residing in the continent of Europe, the problem applies *writ large*. A more fruitful approach to examining inequality may entail answering the questions; what is the best way of conceiving of inequality? And how is it that Europe manages to achieve its distributional outcomes? This is the task undertaken by Gabriel Palma in Chapter 2.

If the dynamics of income inequality are relatively well-understood, the same unfortunately cannot be said of wealth. Part of the reason is a lack of data availability; the very wealthy in particular are not keen to divulge. And statistical agencies have not, until recently, been clamouring to find out. But the problems go deeper than that. The institutional underpinnings of egalitarianism correspond well to distributional outcomes in income: Nordic countries have strong trade unions and high taxes, for instance. But Nordic countries tend to have high wealth inequality, and in income-unequal Southern Europe the distribution of wealth is surprisingly even. The 'whats' and 'whys' have yet to fully reveal themselves. The burgeoning literature, brought to public consciousness by French economist Thomas Piketty (2014), has deepened understanding, but also leaves much to be said. Hanna Szymborska probes the issue in Chapter 3 through her analysis of wealth inequality in Europe.

In terms of the above categories, Ireland, of course, fits into the Anglo-Saxon bracket, but differs from

<sup>3</sup> Available at [https://www.ituc-csi.org/IMG/pdf/ituc\\_global\\_poll\\_2014\\_en\\_web.pdf](https://www.ituc-csi.org/IMG/pdf/ituc_global_poll_2014_en_web.pdf)

<sup>4</sup> See <https://www.icij.org/investigations/panama-papers/>.

<sup>5</sup> *Guardian*, 6 May 2016

the UK and the English-speaking world in important respects. It achieved economic prosperity and development much later – the Celtic Tiger only began to roar in the 1990s. Since the crisis, recovery has been stronger than in neighbouring states, aided by conditions favourable to its high level of FDI dependence. At the same time, class and distributional struggle have historically been overshadowed, ostensibly at least, by political cleavages based on religion and national identity politics. Ireland has never been governed by an organised labour-based party, except as a junior coalition member. The result has been a comparatively weak welfare state, especially in universal service provision, though buttressed by transfers to alleviate poverty. These factors have important bearing on income distribution in Ireland. The socioeconomic context of Ireland is examined by Robert Sweeney in Chapter 4.

Previous editions of this report have focused on inequality in Ireland. From them, several distributional facts about the country have been brought to light. Ireland has historically been a country characterised by high levels of income inequality. And inequalities generated within the market have been unusually pronounced. But in bringing some facts to light, the research has, as research inevitably does, asked further questions, questions which could not be answered with available data. For instance, what is it about Ireland that elevates it to the status of being among the most market income unequal countries in the world? Is it because of low labour force participation, and hence high exclusion from the labour market income? Or is low pay and unequally distributed wages to blame? After all, Ireland consistently has the highest levels of low pay in Europe, depending on the year of measure. These are some of the questions which Robert Sweeney addresses in Chapter 5, which provides a comparative analysis of income inequality in Ireland.

If political economy considerations are key to understanding the growing gap between haves and have nots, then such considerations are also central to narrowing it. The challenge is to tackle the ugly tide crawling across the continent at the main source, and not just the cultural manifestations thereof. After all a spectre is indeed haunting Europe, and it's not the spectre of progressivism. Chapter 6 provides some concluding comments on the report, and sketches some policies to address inequality in Europe and in Ireland.

### ***1.3 The report***

This report examines and describes inequality in Ireland and the wider Europe, especially economic inequality. Now in partnership with the Foundation for European Progressive Studies (FEPS), this is the fourth edition of *Cherishing All Equally*. The aim is to provide an in-depth analysis of trends in socioeconomic disparity, of interest to policy-makers, researchers, practitioners and citizens. The report outlines key policy options in Ireland and across the continent to tackle inequality.

Its first content chapter, Chapter 2, looks at income inequality in Europe in a global context, and how best to analyse it. It also analyses income inequality in Europe over time. Regarding the former, the chapter examines how Europe manages to achieve its relatively homogenous distributional outcomes despite its broad diversity of fundamentals. Taking a global perspective, Europe remains something of an egalitarian haven in a runaway unequal world. It shows that where inequality is high worldwide, this is almost entirely down to how the top decile has gained at the expense of the bottom 40 per cent in a contest with the half of the population in the middle largely receiving around half of the income regardless of the country. Europe's comparatively equal income distribution arises, then, because the working classes are able to wrestle a larger share of national income from the 'production classes'. But the chapter finds that Europe's welfare states are having to run harder to stand still, in the sense

that an ever-increasing 'fiscal effort' – of raising revenue in a progressive manner and spending widely on welfare – is required to dampen the upward creep of disposable income inequality, as market inequality has soared.

Chapter 3 explores the features and dynamics of wealth inequality in Europe. Though detailed data is not available stretching back an extended period, it shows that wealth inequality has grown over time. Housing wealth and house prices are key, though less so for the rich who are able to diversify into higher yielding assets. Income facilitates the accumulation of wealth, but the relationship between the two is not as strong as might be expected. The ability of lower income groups to bridge the wealth divide has been declining as labour's share of income has fallen and asset prices, especially property, continue their post-crisis climb in much of Europe. The prevailing system of housing provision, then, and the mix between social and private housing play a key role in wealth distribution. The chapter finds significant wealth differences existing between age cohorts, though larger differences exist within them. This suggests that demographic factors are not the ultimate cause of growing wealth inequalities. Instead they are generated elsewhere in the society, including in the labour market and through parental transfers. Macroeconomic factors are also important, and at the individual level, wealth is positively correlated with education level and being male.

Chapter 4 analyses a range of socioeconomic trends and indicators in Ireland, especially in comparison to other EU-15 countries. This sets up the following chapter which is a more detailed examination of income distribution. The discussion ranges from institutional description of Ireland's labour market and fiscal policy, to poverty and deprivation indicators, to analysing education, health and gender disparities. Ireland is found to score comparatively poorly in several indicators. Poverty and deprivation are comparatively high, for instance. The former arises mostly directly because of weak labour market performance, whereas a high prevalence of low pay also factors into deprivation. Ireland's relatively weak labour market protections and its low-tax/low-spend model translate to social performance. For instance, because of deficits in childcare and high levels of low pay, economic differences between the genders are relatively high in Ireland. That said, inequalities in health are not unusually pronounced and transfers by the state play a major role in poverty reduction.

Chapter 5 provides a detailed examination of income inequality in Ireland, comparing it to other high-income small open economies and the UK. Because inequality has stayed still, but has trended upward elsewhere, Ireland currently ranks in the middle among EU countries, except for market income inequality which remains very high. But among the sample of countries of interest in the chapter, Ireland's allocation of net income is highly skewed, trumped only by the UK. Drawing on insights from Chapter 2, the top 10% is unremarkable in Ireland. The bottom 40%, however, gets an unusually small amount of their income from work, and an unusually large amount through transfers. That said, most of Ireland's inequality is generated through work, independent of working time. In other words, Ireland's status as the most market unequal country is not due to low employment and poor labour force participation; although they make it the worst pupil in the class, it's high to begin with. Though levels of inequality vary across sectors of the economy, strikingly income inequality is high in every sector compared to the sample average. Thus, inequality in Ireland is a structural issue, related to the distribution of bargaining power between labour and capital, not between the employed and the un- or underemployed.

Chapter 6 is the concluding chapter. In addition to reflecting on the content chapters, it provides a framework for achieving a more egalitarian Ireland and Europe. A set of principals are laid out that would assist the rebalancing of income and wealth at the European level. This is followed by proposals

that work more within existing institutional structures, especially reform of European macroeconomic policy. For Ireland, it is argued that nominal wage increases for those at the bottom need to be buttressed by increases in the social wage. Tackling deficits in service provision through public investment complements wage and employment policies, as addressing cost of living concerns is needed to give the economy and employers room for pay rises and to maintain competitiveness.

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2. How does Europe still manage to achieve a relatively low and fairly homogeneous level of inequality in spite of a broad diversity of fundamentals?

## 2. How does Europe still manage to achieve a relatively low and fairly homogeneous level of inequality in spite of a broad diversity of fundamentals?

José Gabriel Palma  
*Cambridge University*

### ***Key points:***

- Countries with high or middle average income vary markedly in how evenly they distribute it. Europe has a significantly more equal distribution of income than other global regions.
- Yet the income share accruing by country to the middle-upper deciles (D5-9) and the combined share secured by the uppermost decile (D10) plus the four lowest deciles (D1-4) approximates widely around the world to a 50-50 split. Within that, the proportion secured by the middle (D5-6) as against the upper-middle (D7-9) deciles also tends to be fairly consistent.
- By contrast, the respective shares received by the uppermost decile (D10) and the lowest deciles (D1-4) vary strikingly. They largely explain the overall pattern of inequality by country.
- In other words, except for a few extreme cases, inequality leaves relatively unaffected the 'administrative' classes in the middle of the distribution (D5-9). Its severity mainly reflects the distributional struggle between the 'production' classes of capital, executives and highly-paid professionals (D10) and labour (D1-4).
- This challenges notions that inequality is an almost inexorable outcome of exogenous forces such as globalisation. Europe's welfare states, with the redistributive effects of taxes and transfers, show that it is in fact a matter of political choice.
- Market inequality in Europe is not so dissimilar from the global pattern. Indeed, its rise in the neo-liberal era has meant European states have had to make an ever-increasing fiscal effort to keep net inequality from rising in tandem and have faced growing public debt.
- Korea and Taiwan, however, have not seen such an increase in market inequality in recent decades, while they have achieved a much greater rise in productivity than in Western Europe. This suggests high market inequalities in the latter reflect a distributional failure – a policy choice which can be rectified – which has been economically damaging.

## 2.1 Introduction

The tide of rising inequality growing across the world has not developed evenly. Some regions have historically represented something of a dry patch. They have instituted protections against the elements, and sometimes have even managed to avoid the rain all together. Other regions, however, have historically not been so fortunate. There pressures have been building to redistribute resources, where income has increasingly flowed to the top.

If there is close to unanimity that inequality has been rising – the data are very clear on that – there is less agreement on how best to comprehend it. For instance, are the impersonal forces of the market to blame? It could be technological change, or it could just be the natural tendency for returns to capital to grow faster than the rest of the economy. But it might also be that policies have been implemented that result in income going to the top, and which prevent income going to the bottom.

Another question that arises, and is closely related to the previous point, is how best should inequality be measured? True, more and more income is going up and less and less is going down. But who precisely are the beneficiaries? If it is the rich, then perhaps we should look at the 1%. If it is the upper middle classes, then clearly an analysis of the top 1% is inappropriate. In that case perhaps it is best to look at the Gini coefficient which, though not obviously intuitive, is nonetheless a comprehensive index of inequality.

This chapter addresses these questions through examining inequality in Europe. It looks at Europe's place in distributional outcomes across the world. It finds that Europe is something of a haven in terms of how evenly income is spread. The fact that this is achieved despite considerable heterogeneity in national institutions and politics is quite remarkable, and merits further investigation.

In terms of how best to measure inequality and what groups have benefitted most from the redistribution of income, the chapter makes a number of findings. First the share of national income that goes to the middle and upper-middle classes is decidedly similar across countries. Aside from a few very poor developing countries, the middle and upper-middle classes together get approximately half of the income. Therefore to understand inequality attention should be directed at the top and bottom. Specifically, changes in inequality are driven by gains by the top or richest 10 per cent of earners (the top decile) at the expense of the bottom 40 per cent of earners (the bottom four deciles).

In Europe, inequality is low because the bottom 40 per cent of earners manage to get a larger share of total income than in other regions. Conversely, the top 10 per cent do relatively poorly. Europe manages to achieve this through larger transfers by the welfare state. When only looking at so-called market income (that is pre-tax and pre-transfers), Europe is not all that equal, and not all that homogenous. In recent times, however, market income inequality has been rising so that European welfare states are having to make a larger and larger effort to achieve comparatively even distributional outcomes. A more sustainable path would be to reduce inequality at source.

This chapter is divided into two parts. The first section looks at distributional outcomes in Europe compared to the rest of the world. It looks at, respectively, where Europe differs, where Europe is similar, and how best to measure and understand inequality. The second section examines in more detail how Europe achieves its distributional outcomes and the sustainability of policies that get there. It first looks at how Europe is similar in disposable income distribution, but diverse in terms of market income distribution. It then looks at distribution through time and the role of fiscal transfers in sustaining Europe's relative equality.

## ***2.2 Europe and distribution across the world***

This section explores some trends in inequality across the world and Europe, and how well some of the existing explanations accounts for them. It finds that distributional outcomes are highly diverse, with Europe being an exception. The complex relationship between inequality and income undermines deterministic or inevitable, inequality rules. Instead, there appears to be significant scope for policymakers to affect inequality.

### ***2.2.1 Global diversity, European homogeneity***

It is well-known that there is a huge diversity of inequality across countries. Figure 1 highlights this phenomenon from the point of view of the traditional indicator of overall income inequality – the Gini, represented here on a scale from 0 to 100. This figure relates to disposable income, or income after taxes and transfers. The horizontal axis represents where a country ranks in terms of its inequality and the vertical axis displays the level of inequality using the Gini. For instance, Zambia, with a Gini coefficient of almost 65, ranks 130th out of 130 countries, making it the most unequal. The most equal countries have a Gini of less than 25.

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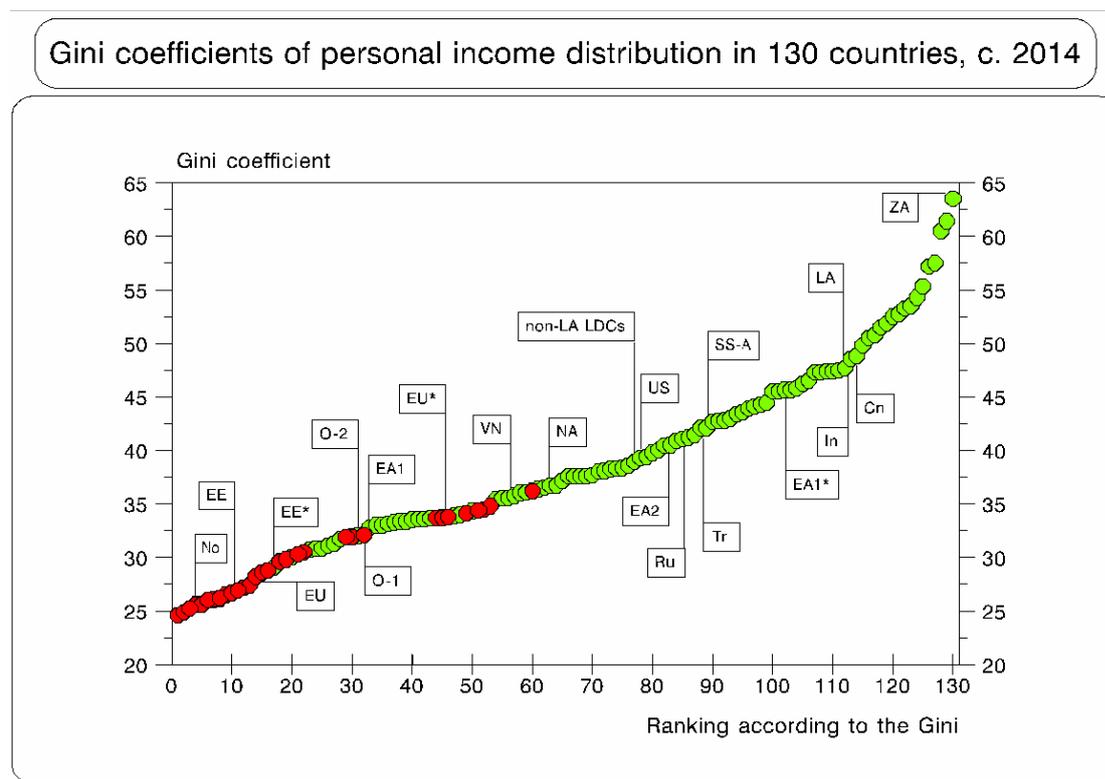
As is evident, inequality is highly diverse across the world, except in most of Europe. The latter point can be illustrated by the clustering of red points among European countries, which indicates that there is much less heterogeneity in Europe. As we will also see in Chapter 5, Nordic (No) and high-income Eastern European countries (EE) rank, respectively, as the most and second most equal regions in Europe and the world. This is followed by the rest of continental Western Europe (EU), lower-income Eastern Europe (EE\*), and among European countries, followed by Anglophone Europe O-1. Though there is considerable diversity within Europe, when measured against the rest of the world what is striking is Europe's homogeneity. The multiplicity of distributional outcomes evident is one of the most challenging analytical issues in economics and politics today.

The obvious question arises: how does almost all of Europe manage to have such a roughly homogenous distributional outcome compared with the rest of the world, despite significantly heterogeneous fundamentals among its members? Also, Europe's distributional outcomes are characterised by much lower inequality than in most of the rest of the world, at least after taxes and transfers.

One explanation for Europe's egalitarian success may lie with fairly exogenous or extraneous factors and supposedly inescapable trends in capitalism. Picketty's (2014) now-famous argument that because the rate of return on capital exceeds economic growth, wealth inequality increases, and hence income from capital becomes more concentrated<sup>6</sup>. Though the argument is, in principal, logically sound, Picketty does not flesh out an explanation for why capital income has grown so much.

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<sup>6</sup> That is,  $r > g$ , where  $r$  denotes the return on capital, and  $g$  denotes the rate of economic growth.

**Figure 2.1: Gini coefficients of personal income distribution**

Source: See Appendix. Unless otherwise stated, these will be the sources of all figures in this chapter.

Notes: In this figure, the Gini coefficient (or Gini for short) refers to disposable income (i.e. after taxes and transfers). In the case of regions, the statistic used to measure centrality is the median.

Red circle indicates a European country. Cn = China; EA1 = Korea and Taiwan; EA1\* = Hong Kong and Singapore; EA2 = Indonesia, Malaysia and Thailand; EE\* = Eastern Europe with an income per capita below US \$15,000 (at purchasing-power parities); EE = those above that level; EU\* = Mediterranean Western Europe; EU = rest of Continental Western Europe; In = India; NA = North Africa; No = Nordic countries; LA = Latin America<sup>7</sup>; O-1 = Anglophone Europe (Ireland and the United Kingdom); O-2 = other Anglophone OECD (Australia, Canada and New Zealand); Ru = Russia; SS-A = Sub-Saharan Africa; Tr = Turkey; US = United States; VN = Vietnam; Za = Southern Africa (Botswana, Namibia, and South Africa). Unless otherwise stated, these acronyms will be used throughout the chapter.

A different explanation for inequality can be found in Kuznet's 'inverted-U' hypothesis of the 1950s (Piketty, 2014: 13-15), which has often been misused as an explanation for high inequality in many middle-income countries. As countries industrialise, the migration of rural workers to the city depresses urban wages, thus increasing inequality. At higher levels of income, workers acquire more human capital and therefore wages increase. The initial rise and subsequent fall in inequality is what leads to the 'inverted-U'. Alternatively, the reason for such diverse distributional outcomes across the world may be found in the diversity of political and parliamentary institutions. Here, it has been argued that the political mechanisms of parliamentary democracy inhibit the rise of inequality (Acemogul and Robson, 2000)

Examination of the empirical evidence across countries leads us to question income/economic growth-based explanations of inequality, as well as explanations based on political institutions. Regarding the former, the sheer diversity of distributional outcomes, among countries of similar levels of development,

<sup>7</sup> Latin America excludes Argentina and Venezuela due to unreliable data (especially in the latter); among the many issues, high and repressed inflation has a highly distorting effect.

confounds simple relationships between the level of inequality in a country and its income and living standards. In particular, inequality is particularly varied among middle-income countries, and also with some important diversity among non-European high-income countries as well.

The relationship between inequality and income is shown in Figure 2, when all countries in the sample are categorised by gross domestic product (GDP) per capita.<sup>8</sup> The figure confirms what was evident in Figure 1: middle-income countries (the vertical ellipse in the middle) are found across the whole distributional range – some having a Gini as low as 26 (for example, Belarus and the Slovak Republic), yet others close to 65 (Namibia and South Africa, whose Gini coefficients are not drawn to scale). High-income countries, especially the non-European ones, are also found across a wide distributional range (ellipse to the right). Outside of Europe, there is much diversity.

The distributional geometry of low-income countries appears rather different. On average, inequality follows an upward trend vis-à-vis income per capita (the angled ellipse): from Mali, Guinea and Burundi, with a Gini of around 33, to countries such as Zambia with one of 57 – that is, from Sub-Saharan countries with an income per capita below US\$650 (SSA\*\*) to those with one above US\$2,000 (SSA). This trend of inequality increasing with income within this part of the sample is then followed by lower middle-income Latin America (LA\*), India (In) and middle-income, mineral-rich Southern Africa (ZA\*<sup>9</sup>).

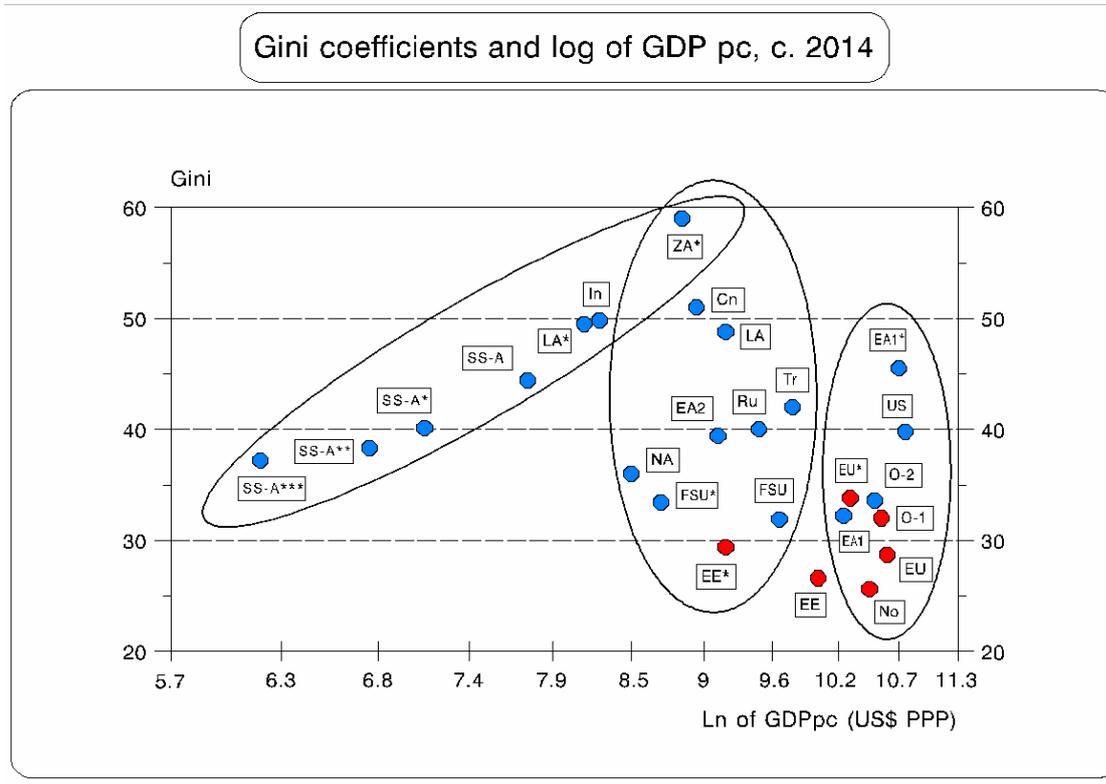
The huge distributional diversity among middle-income countries and non-European high-income ones indicates that, at least at certain levels of GDP per capita, countries seem to take full advantage of the distributional choice at their disposal – in some cases for the better, in some for the worse, from an inequality point of view. This immediately casts serious doubt on the many well-known and relatively simple theories purporting to explain why there is high inequality among some middle-income countries, especially those in Latin America and Southern Africa.

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<sup>8</sup> When I analyse income distribution across countries from the perspective of their GDP per capita, I do so simply as a mechanism for visualising the geometry of within-country inequality across the world, i.e. it is just a cross-sectional description of cross-country differences in inequality, when characterised by GDP per capita. Ln of GDP per capita, meaning the natural logarithm of GDP per capita, compresses the horizontal axis. A regular scale would result in very poor and rich countries' data points being far apart.

<sup>9</sup> Regarding India's Gini, there is a big discrepancy between the World Bank and the OECD (and other) databanks – the latest data reported by both are for 2011, and these are 35.1 and 49.5, respectively. Here we use the latter source (see Appendix).

**Figure 2.2: Gini coefficients of log of GDP per capita**



Sources: see Appendix (note that for India and China I use OECD data as these are more believable than other sources)<sup>10</sup> and, for GDP pc, the Penn World Table (2017; PWT8.1). Unless otherwise stated, throughout the paper 'US\$' will refer to this type of dollar (PPP, in 2005 US\$).

Notes: Red circles indicate a European group of countries. Acronyms as in Figure 1, and FSU\* = Former Soviet Union with an income per capita below 10,000 (US\$ PPP); FSU = those above that level (excluding Russia); LA\* = Latin America with an income per capita below 8,000 (US\$ PPP); LA = those above that level; SS-A\*\*\* = Sub-Saharan Africa with an income per capita below 650 (US\$ PPP); SS-A\*\* = those between 650 and 1,000 (US\$ PPP); SS-A\* = those between 1,000 and 2,000 (US\$ PPP); and SS-A = those above that level. In this and in other figures below, Southern Africa will be proxied by South Africa (ZA\* = South Africa's Gini is 63). GDP pc = expenditure-side real GDP per capita in 2014 (PPPs, in 2005 US\$). In this and the following graphs, the range of the horizontal axis corresponds to the actual range of GDP pc in the sample.

Moreover, and perhaps ironically, some of the worst levels of middle-income inequality are found in countries characterised by the consolidation of democracy, such as in Latin America and South Africa, a process which has often been led by 'centre-left' political coalitions. These are countries where democracy has been formally achieved but is yet to be substantively accomplished—although many economic and political institutions have changed in the recent past, and some significantly so, the narrow interests of the élite have not.

<sup>10</sup> When Deng Xiaoping said 'Let some people get rich first', it is unlikely that he had in mind that the richest 1 per cent of households would end up owning a third of the country's wealth, as a report from Peking University recently found (see <https://www.ft.com/content/3c521faa-baa6-11e5-a7cc-280dfe875e28>). On rising inequality in parts of Asia, see also <https://www.ft.com/content/e8bca4ec-bf29-11e3-a4af-00144feabdc0>.

In Latin America, for example, the unique comparative advantage of its oligarchies seems to lie precisely in being able to use different institutions (often quite astutely) to keep achieving their quite immutable goals. Few oligarchies in the world have shown such skills in their struggle for the 'persistence of élites,' despite otherwise substantial institutional change. This brings us to the complex issue of persistence and change in institutions, and in particular to the so-called 'iron law of oligarchy' — how dysfunctional institutions are sometimes so effective in creating incentives for their own re-creation.<sup>11</sup> Now South Africa seems to be following the same path with a vengeance.<sup>12</sup>

Finally, the rather wide spectrum of inequalities found as well among high-income countries highlights the contrast between those – mostly in Europe – that have tried to defend the distributional achievements of the pre-neoliberal era and those that have been happy to sail with the inegalitarian winds of globalisation (for example, some Anglophone countries within the OECD, as well as Hong Kong and Singapore). Again, the diversity in distributional outcomes among otherwise similar countries suggests significant scope for policy discretion.

In sum, this section has observed two important facts. First, inequality is highly diverse across the world, with Europe being an exception to this trend. Second, the complex relationship between income, living standards and inequality undermines law-like or inevitable theories of inequality. Explanations that account for inequality in terms of the level of democracy in countries are similarly weak. The evidence, in contrast, points to significant scope for policy discretion in influencing income distribution.

### ***2.2.2 Distributional similarities: the middle and the extremes***

The broad spectrum of cross-country distributional diversity found previously suddenly changes when instead of looking at inequality among the whole population, the population of each country is divided into two halves. On the one hand we look at half of the population who constitute the middle and upper-middle classes. They are the group whose income is below the top 10 per cent of earners but above the bottom 40. They can be denoted 'D5-D9'. On the hand we consider the remaining half of the population, the top and lower groups collectively. They are the top 10 percent of earners or the 'top decile' (D10), and the bottom 40 per cent of earners or the 'bottom four deciles' (D1-D4). Together they can be denoted 'D10 plus D1-D4'. What we generally find is remarkable homogeneity in the share of national income accruing to the middle group (D5-D9).

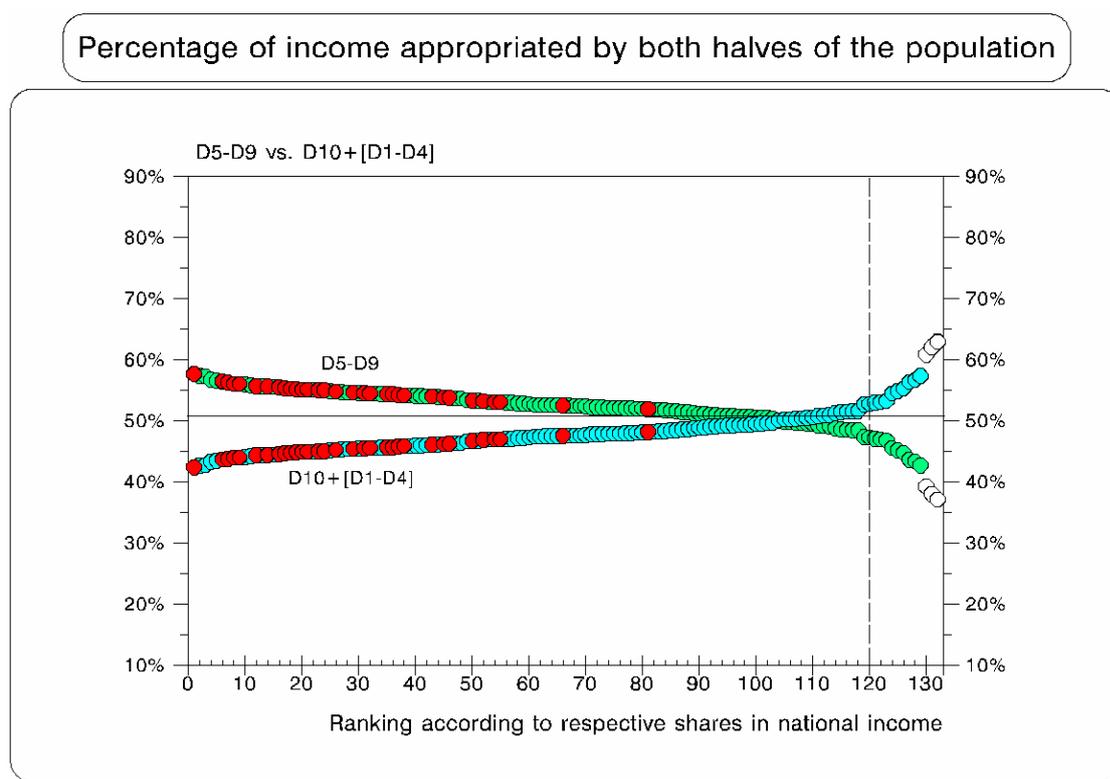
This is illustrated in Figure 3 below. It shows the share of national income accruing to different groups within countries. Countries are aligned from left to right according to how much the middle group gets, and consequently how little the top and bottom groups get. For instance,

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<sup>11</sup> See especially Acemoglu and Robinson (2006).

<sup>12</sup> On South Africa's inequality, see for example Leibbrandt *et al.* (2010); see also Palma (2011, Appendix 3).

**Figure 2.3: Percentage of income appropriated by both halves**



Notes: Red circles indicate a European country; the three countries shown on the right-hand side of the figure are the Southern African ones. D10 = decile 10; D5-D9 = deciles 5 to 9; D1-D4 = deciles 1 to 4.

The country in which the middle group (D5-D9) receives the largest share is indicated by the leftmost red points, the points touching the left vertical axis. In that country, which is European, the middle group receives about 58% of national income, and the remaining top and bottom groups (D10 + D1-D4) receive approximately 42% as indicated by the lower leftmost point.

The distributional contrast between Figures 1 and 3 is truly remarkable: a broad spectrum of inequality suddenly turns into a remarkable uniformity. Furthermore, and quite surprisingly, these two halves of the population divide the national income between themselves in a fairly 'equitable' way, with each half of the population getting a share not far from half of the national income. This means that the middle and upper middle classes together get about half of national income depending on the country, and similarly the top and lower groups collectively get the other half. No one seems to have noticed this before our previous work (for example, Palma, 2006, 2011 and 2016).

From this perspective, the European distributional outcome is not such an outlier, with the rest of the world following a relatively similar path. In fact, the average for D5-D9's share in Europe, at 54.8 per cent, is just 3.7 percentage points higher than that of the rest of the world. That is to say, the European middle and upper middle classes get just under 55 per cent of national income on average, which only slightly more than those classes get in the rest of the world. And if the small number of countries (mostly Latin American and Southern African) where D5-D9 has been squeezed below 50 per cent of national income are excluded, the average for D5-D9's share in Europe seems to be a mere two percentage points above the rest. The averages for D10 plus D1-D4 follow the same pattern, but obviously the other

way around.<sup>13</sup> That is, looking at the share of income accruing to D5-D9 in Europe compared to other countries, or correspondingly the share accruing to D10 plus D1-D4, Europe is not so different.

One controversy stimulated by similar findings is whether this distributional homogeneity in these two halves of the population implies a permanent state of affairs. That is, have the middle and upper-middle classes, D5-D9, always been able to appropriate approximately half of national income? Conversely, have D10 plus D1-D4 always gotten the other half?<sup>14</sup> In fact, available data indicate that at least for European (and other high-income OECD) countries there does seem to have been a remarkable stability over time; the middle and upper-middle classes have historically received a constant share of national income.

Figure 4 shows the share of national income accruing to select European regions and countries through time. As can be seen, the share of income going to the middle group is remarkably stable. Over a period of 28 years, the share of national income going to the broad middle in both Western and Eastern Europe has remained at 55 per cent. In France, the share fell after the financial crisis, whereas in Hungary it has changed comparatively little.

Indeed, this apparent stability in the income share of D5-D9 in European countries with the exception of France appears to have been unaffected by the 2008 global financial crisis and rapidly changing political scenarios in the region. This does not seem to be the case in some other regions in the world, where the share of D5-D9 has shown movement.<sup>15</sup> Yet, on the whole, such changes have increased the homogeneity of the D5-D9 share across the world: in many countries where this share was well below 50 per cent of national income, the trend has been upwards, especially in Latin America (for example, Brazil, Chile, Colombia and Ecuador). In South Africa, however, the share has moved in the opposite direction since the introduction of democracy in 1994.<sup>16</sup> The point remains, though, that the share of income going to the middle is remarkably homogenous worldwide.

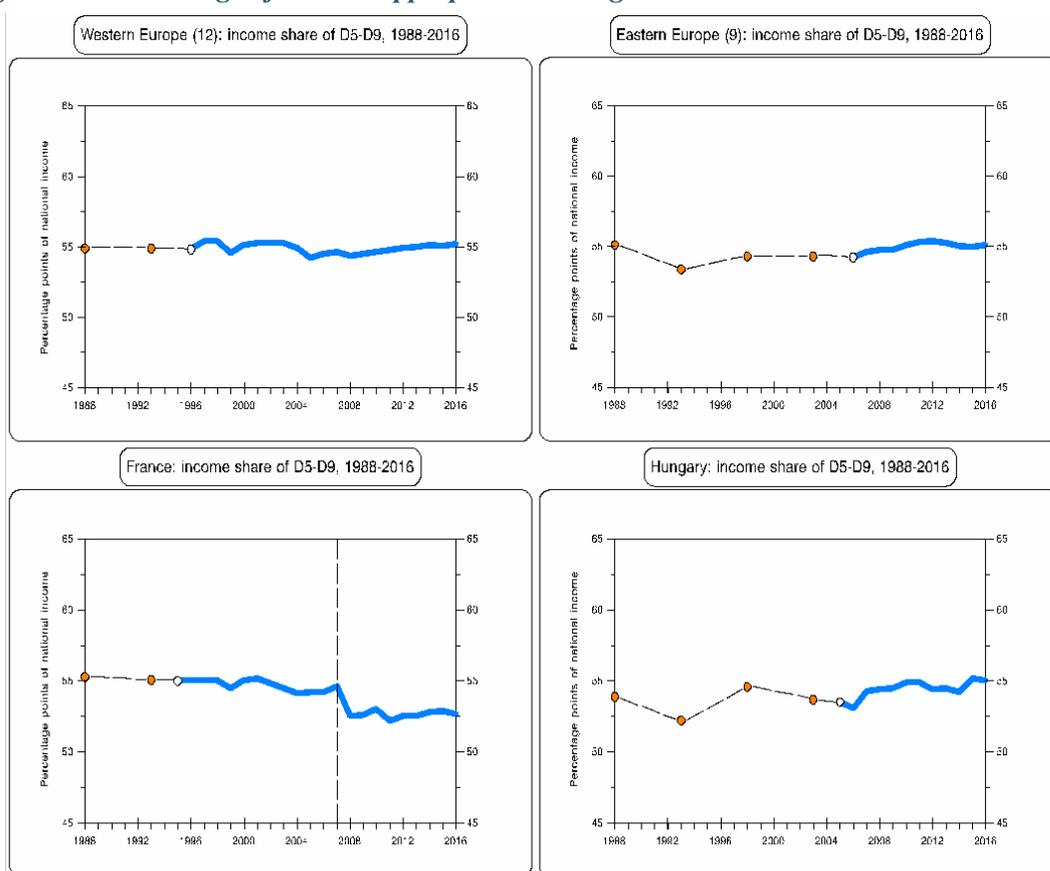
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13 For example, the coefficient of variation, a standard measure of dispersion, of the ranking in Figure 1 is more than three times as large as that in Figure 3 – 0.22 for the Gini and 0.07 for both halves of the population (all countries included). This means that there is much more variability when inequality is measured using the Gini for the whole population, and much less variability when inequality is measured according to the share of income going to D5-D9. This multiple increases to nearly nine when one compares the coefficients of variation of the Palma ratios in Figure 6 below with that of the two halves of the population.

14 For a discussion of this issue, see for example Palma (2014).

15 For an analysis, see Palma (2014).

16 According to this dataset, the average for the share of D5-D9 in Latin American countries c. 2015 (although with some diversity) had already reached the 50 per cent mark. See WDI (2018).

**Figure 2.4: Percentage of income appropriated through time**

Notes: Western and Eastern Europe includes all countries for which both datasets provide information (except for Luxembourg, which was excluded due to its small population). In Western Europe these countries are Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Spain and the United Kingdom. In Eastern Europe they are Bulgaria, the Czech Republic, Estonia, Hungary, Lithuania, Poland, Romania, Slovakia and Slovenia.

Sources: WPID (2013) for 1988 and 1993 for Western Europe, and 1988, 1993, 1998 and 2003 for Eastern Europe; Eurostat (2018) for the rest.

From the contrast between the inequality outcomes for the whole of the population in each country outlined in the previous section, and the homogenous share of the middle and top/bottom halves, it must follow that the enormous diversity of overall inequality, shown by the Gini data in Figures 1 and 2, has to be the result of what happens within these two halves. In other words, because the share of income going to the broad middle on the one hand, and the top and lower groups on the other is stable through time and across countries, changes in income distribution have to be driven by reallocations within these groups. Inequality changes because either income is redistributed between different members of the broad middle, or because income is redistributed between different members of the top and lower groups. This leads us to probe further the distribution of income within D5-D9, and also within D10 plus D1-D4.

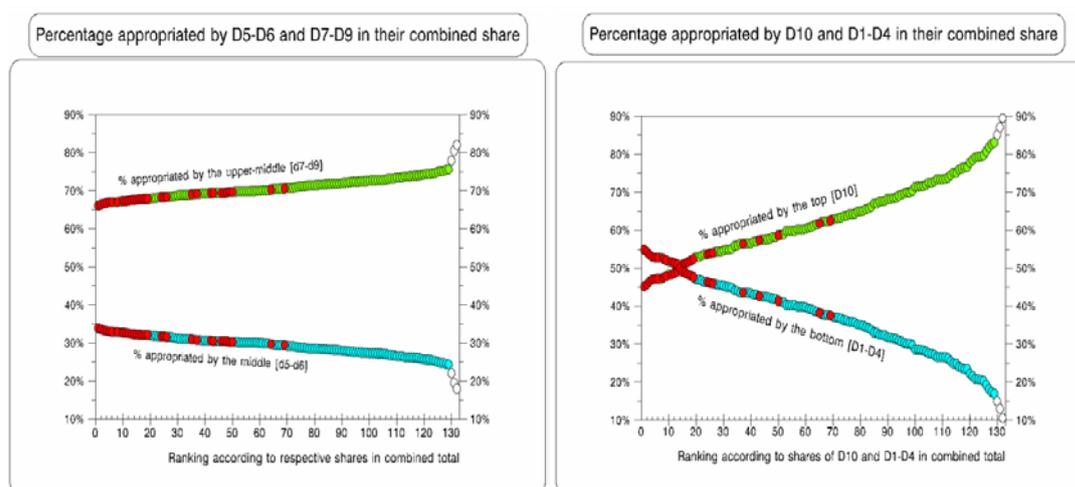
### 2.2.3 Understanding inequality: top and bottom

Having established the constancy of the share of national income going to the group of earners below the top 10 per cent and above the bottom 40 per cent, D5-D9, on the one hand, and the share of national income of the top 10 per cent plus the bottom 40 per cent of earners, D10 plus D1-D4, on the other, a natural question arises. Is inequality driven by changes within D5-D9, or is inequality driven by changes within D10 plus D1-D4?

Figure 5 investigates this by breaking down D5-D9 into D5-D6 and D7-D9 on the left panel, and D10 plus D1-D4 into D10 and D1-D4 on the right. D5-D6 refers to the group of earners above the bottom 40 per cent and below the top 40 per cent, the middle 20 per cent of earners. D7-D9 refers to the group of earners above the bottom 60 per cent and below the top 10 per cent. The right panel breaks the remaining top and lower group, D10 plus D1-D4, into the bottom 40 per cent of earners, D1-D4, and the top 10 per cent of earners, D10. As before, the vertical axis represents the share of national income that each group receives, and the horizontal axis represents the ranking of each country according to how much each group receives. Red points represent Europe.

In the half of the population making up the middle and upper-middle classes (D5-D9), the relative distributional uniformity of the whole group across the world is reproduced inside it. That is to say, there is little variation (with the sole exception of the three Southern African countries) between the shares of the middle (D5-D6) and the upper-middle (D7-D9). This suggests that inequality is not driven by transfers between the middle and upper middle classes; when we divide the middle and upper middle classes into smaller groups, those smaller groups still get a stable share of income.

**Figure 2.5: Percentage appropriated by groups within the halves**



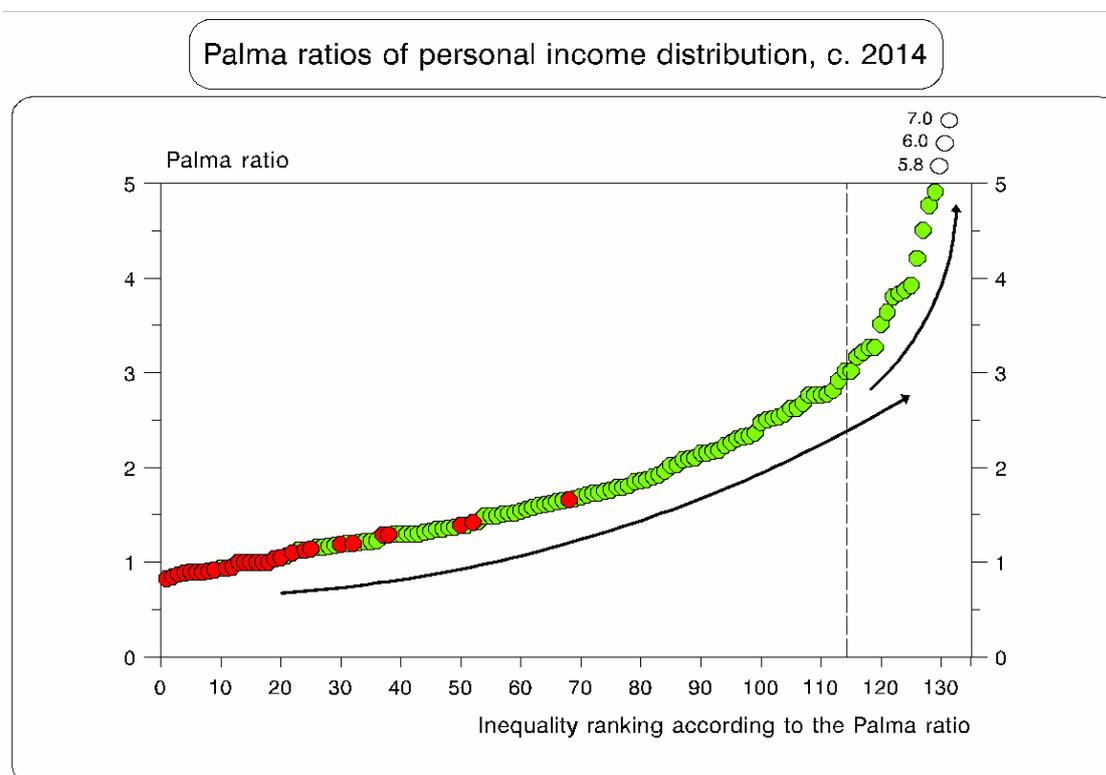
But the opposite is the case for the other half of the population, comprising the uppermost (D10) plus lowest (D1-4) groups on the right-hand panel. Here, the scenario of relative uniformity changes to a highly heterogeneous one. Though Europe is comparatively uniform, there is a huge diversity of outcomes in the distributional struggle between D10 and D1-D4 for their respective shares. It varies from D10 securing less than half, around 45 per cent, to it securing 90 per cent. Correspondingly, D1-D4 secures around 55 per cent of national income in some European countries, but secures only 10 per cent in some Southern African countries.

That is to say, though both halves of the population within each country ('D5-D9' and 'D10 plus D1-D4') tend to secure a relatively similar share of national income, they divide this income among their own constituents in a remarkably different manner across the world. We believe that this distributional stylised fact has not been properly incorporated within the analysis of inequality. The very diverse distributional outcomes across the world are the result of it. With the exception of very few extremely unequal countries (located in very specific parts of the world), the broad spectrum of overall inequality across the world emerges almost exclusively from what happens distributionally between the 'production classes', i.e. between the capitalist elite, top executives and highly-paid professionals at one end (D10), and the workers at the other (D1-D4).

Europe, as mentioned, is more homogenous. But as can be seen by comparing how spread the red points are in the right panel compared their more concentrated grouping in the left panel, it is clear even that distributional struggle is also driven by D10 and D1-D4. For instance, the share of income going to D10 ranges from about 45 per cent to well over 60 per cent in Europe. But D7-D9 or D5-D6 has much less variation.

Such observations do not mean, of course, that D5-D9, the administrative classes, are immune from the overall distributional struggle.<sup>17</sup> They are very much part of it, but (with the acknowledged exceptions) they seem to be surprisingly successful in defending their half of the national income as a group, and their own shares in this half as respective constituents.<sup>18</sup> And the evidence seems to indicate that in most countries this has not changed with globalisation.

**Figure 2.6: Palma ratios of personal income distribution**



Notes: The Palma ratio is the ratio of the income share of D10 to that of D1-D4. Red circles indicate a European country.

<sup>17</sup> See Palma (2014).

<sup>18</sup> In the few cases where D5-D9 can only appropriate as a group well below half of the national income, as is the case in the three Southern African countries, the middle (D5-D6) is the section which seems to have been squeezed the most.

Figure 6 also helps to visualise the logic of the new way of measuring inequality, suggested in Palma (2011) – later christened the 'Palma ratio' by Alex Cobham and Andy Sumner.<sup>19</sup> This index aims to measure inequality where inequality exists by dividing the share of the top 10 per cent, the so-called production classes, by that of the bottom 40 per cent among. Unlike the Gini, which inevitably blends the distributional heterogeneity of one half of the population with the relative homogeneity of the other into one index, the Palma ratio measures inequality where there is diversity – in the distributional struggle between the top and bottom.

The most important distributional feature revealed by Figure 6 – a phenomenon which was not evident in the Gini-ranking of Figure 1 – is that inequality across the world, as measured by this ratio, increases first relatively slowly, and almost linearly, only to switch gear at the tail-end of the distribution (around ranking 115), when it begins to increase rapidly and geometrically. In fact, as the lower arrow in the graph indicates, had the 'steady pace' of deterioration of inequality found in the first 115 countries continued at the tail-end of the sample, the most unequal country in the world today would have posted a Palma ratio not much higher than three. In reality, the most unequal country has a ratio of seven.

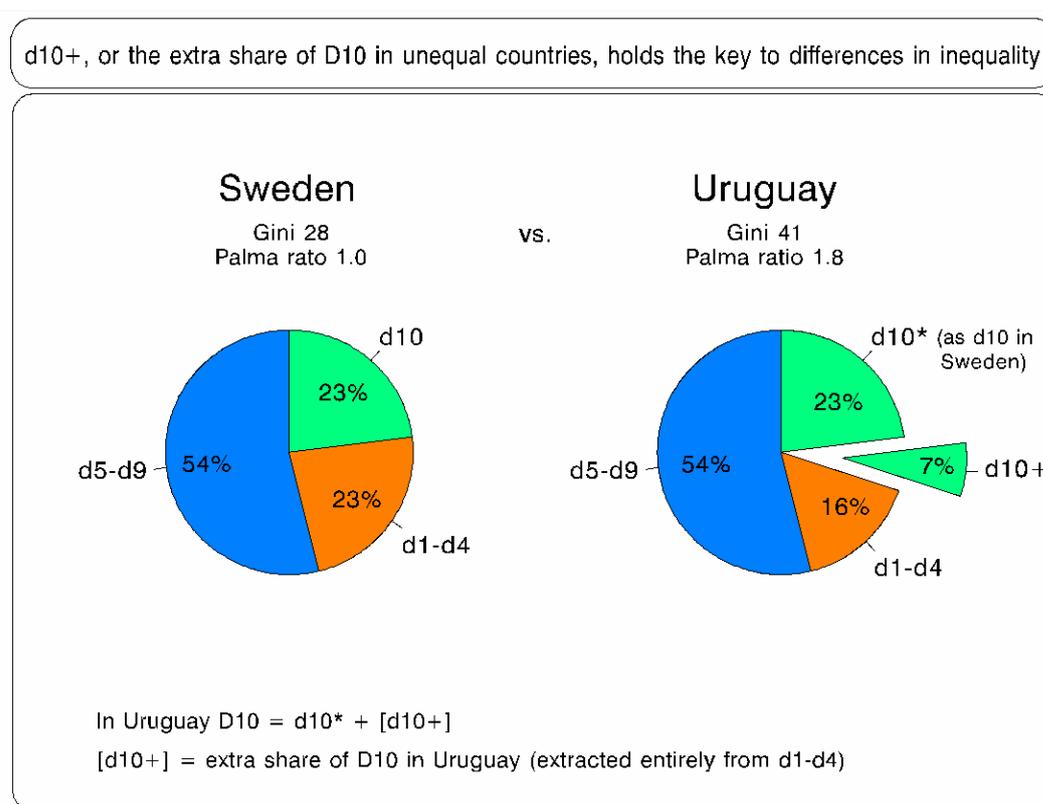
This rapid deterioration of inequality at the tail-end of the distribution inevitably casts further serious doubts on traditional theories of inequality, which have little or nothing to say on the matter.<sup>20</sup> At the same time, the Palma ratios of Figure 6 emphasise how European countries are almost entirely concentrated in the lower end of the world inequality ranking.

Comparing the distribution of income in Sweden and Uruguay – countries which, according to their Ginis (28 and 41, respectively), seem to have little in common from this point of view – provides a clear example of the relevance of the Palma ratio. For, along with a related inequality indicator described in Figure 7 below, 'd10+', it highlights similarities as well as contrasts.

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<sup>19</sup> See Cobham and Sumner (2013a, b and c). See also Fisher (2013, especially the brilliant animation at the end of the article), Fisher (2014, map 7), Green (2012) and Chang (2014).

<sup>20</sup> As indicated by Cobham et al. (2015), 'Data for the Palma Ratio is now listed and updated as standard measure of inequality in the OECD Income Distribution database (see Cingano, 2014 and OECD, 2016) and the UNDP annual Human Development Report (See UNDP, 2017), as well as by some national statistical offices, for example, the UK (ONS, 2016). Further, interest in the Palma Ratio is evident among NGOs and international agencies alike (see for illustration, EC [European Commission], 2014; OECD, 2014; Oxfam, 2014; UNDESA, 2013).'

**Figure 2.7: Extra share of D10**

Although there is a considerable distributional difference between these two countries, this is all about the extra share of the rich in Uruguay – which we shall call  $d10+$ . As can be seen,  $d10+$  represents how much more the top group, the top 10 per cent, get in Uruguay compared to Sweden. This extra share for the top decile comes entirely at the cost of the bottom 40 per cent, a fact the Gini obscures. Its actual size (7 per cent of national income in this case) will of course vary according to the benchmark with which the unequal country is compared. As it happens, in this case it is also what would have to be transferred from D10 to D1-D4 for Uruguay to have a Palma ratio of one.

Following this logic, Doyle and Stiglitz (2014) made a proposal to include a 'Palma target' in the post-2015 UN framework for global development – that all countries should have a Palma ratio of one by the year 2030. As Figure 6 showed, most European countries have already achieved this target or are very close to it in terms of inequality after taxes and transfers. What has been happening in Europe in terms of market distributional outcomes is another matter, of course (which we return to below). In turn, Newberg-Pedersen (2013) suggested that countries should aim to halve the gap between their starting point and a Palma of one by 2030.

Figure 7 also shows that the information provided by  $d10+$  complements that from the Palma ratio. While it is not at all intuitively clear where the extra inequality of Uruguay shown by the Gini (41 versus 28) comes from, to know that Uruguay's Palma ratio is almost twice that of Sweden, and that its  $d10+$  (in this scenario) is 7 per cent of national income, is a much more focused, transparent and informative story. And the thrust of this story is that in most countries in the world (with very few exceptions located at the tail-end of the distribution) the distributional struggle is located in the D10, the production classes, and relates to whether D10 succeeds in appropriating this extra share of national income ( $d10+$ ) by shrinking that of D1-D4. Therefore, the size of  $d10+$  is also a proxy for the capacity or otherwise of D1-D4 to resist the insatiable instincts of D10.

As mentioned above, the \$64,000 question is whether the size of d10+ in Uruguay is the fairly inevitable outcome of the workings of its different 'fundamentals' (vis-à-vis those of Sweden) or is instead constructed, reflecting choice and a more unfair political settlement. Even if the former were held to be the key causal determinants of Uruguay's 'extra' inequality, it would still be necessary to explain why, while these are supposedly able to have such significant distributional impact on the production classes, they have so little impact on the share of its administrative classes. If the nature of political settlements is what really matters distributionally, then d10+ would reflect the specificity of Uruguay's own political economy and market failures – revealing key issues about the nature of the country.

Schumpeter once said: 'The fiscal history of a people is above all an essential part of its general history' (Schumpeter, 1918: 100). To this can be added that its (closely related) distributional history is as essential a part. The distributional information provided jointly by the Palma ratio and d10+ – including the focusing of the distributional struggle on a fairly specific arena – can help illuminate this message, and at the same time help to create awareness of the dimensions and nature of inequality. This can be very useful for policy making, as with these two indicators it now becomes quite evident where inequality is located and what needs to be done if one wants to eradicate the 'extra' inequality in countries such as Uruguay. And this is quite relevant to the distributional struggles emerging in Europe today, especially in terms of its growing market inequality.

As we analyse below, the market distributional outcomes (that is, before taxes and transfers) are rather different as far as the Gini is concerned – unfortunately we do not have the data in terms of deciles. But why are only some governments, as evidenced in Europe, willing and able to do something systematic via taxes and transfers? And when they do so, are they really violating some distributional law of gravity – at a cost of efficiency?

In sum, we see that the constant share of the middle group remains constant when we examine groups within that group. In contrast, the constant share of the top and bottom groups collectively displays great variation when we look at their shares of national income separately. It follows that the great diversity in distributional outcomes observed in the previous section is overwhelmingly driven by what happens to these two groups. That is, to understand changes in inequality, it is best to focus on the top 10 per cent and the bottom 40 per cent.

## ***2.3 Can Europe continue to sustain its relatively low inequality by ever-increasing fiscal transfers?***

This section examines in more detail how Europe manages to achieve its distributional outcomes. Europe's homogeneity holds only when we consider disposable income. Market income inequality in Europe is much more heterogeneous and much higher as well. Europe's comparatively low inequality is therefore a result of large efforts on the part of states to reduce disparities in market income. These efforts, moreover, have been increasing over time, which calls into question sustainability of ever-growing redistribution. An alternative strategy would be to reduce inequalities at the source.

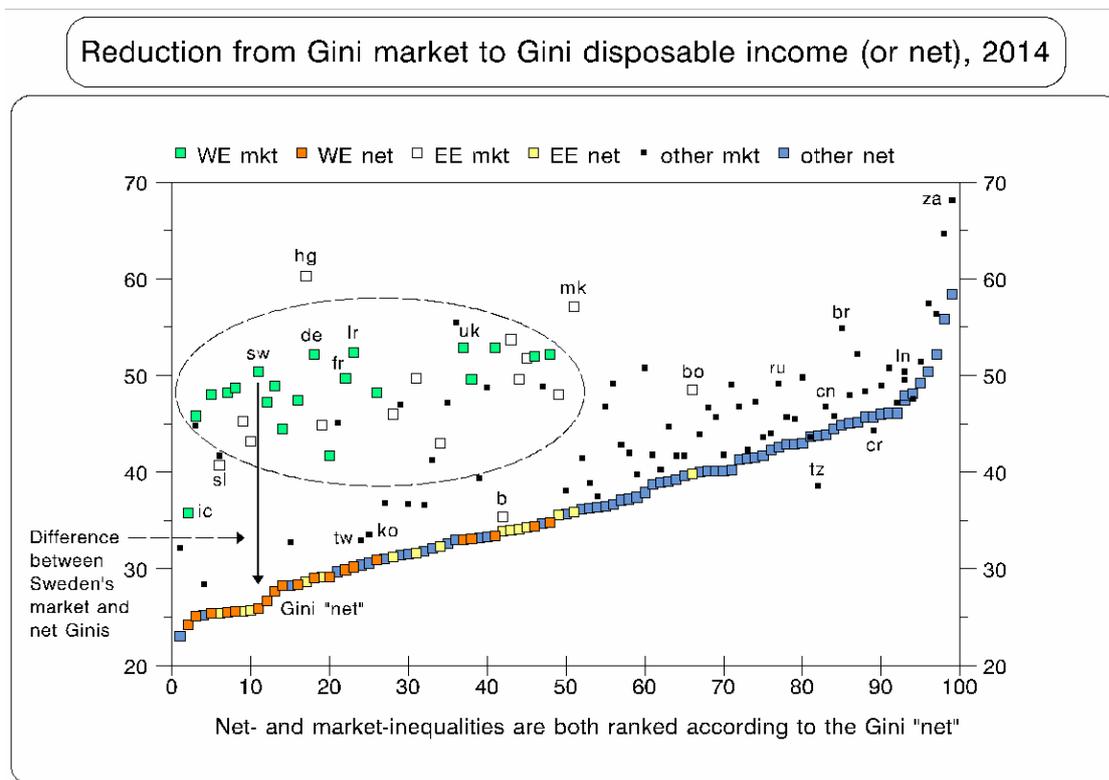
### ***2.3.1 Inequality in Europe: from uniformity to diversity***

All that has been said so far about Europe's relatively low and homogeneous levels of inequality refers only to its distribution of income after taxes and transfers (net inequality). The picture is rather different, however, when one looks at its market distributional outcomes, namely those that emerge from economic activity before taxes and transfers.

Figure 8 shows the change in inequality when market income inequality is measured, and then again when disposable income inequality is measured. Both distributions are ranked according to the Gini coefficient on the vertical axis. The vertical distance between the two observations of each country (for instance, Sweden) is the reduction in the Gini after taxes and transfers. As before, countries are aligned and ranked on the horizontal axis from left to right according to increasing disposable income inequality. Thus, Sweden is approximately the 'tenth most' unequal out of 100 countries.

The figure highlights a number of issues. First, it illustrates that the distributional picture of disposable income (Gini net) in this dataset is almost identical to that in Figure 1. That is, there is a wide diversity of net inequality across countries, with some posting a Gini below 25 (Belarus and Iceland), while others are close to 60 (Namibia and South Africa). Second, in this net-inequality ranking most Western and Eastern European countries are located at the lower-inequality end. In fact, with the exception of Bosnia and Herzegovina ('bo'), all European countries have a disposable-income Gini below 36 – with Western Europe posting an average and median of just 29, and Eastern Europe one of 31 and 32, respectively.

**Figure 2.8: Reduction of market inequality to disposable income inequality**



Notes: 'disp' = Gini of disposable income; 'mkt' = Gini of income before taxes and transfers.

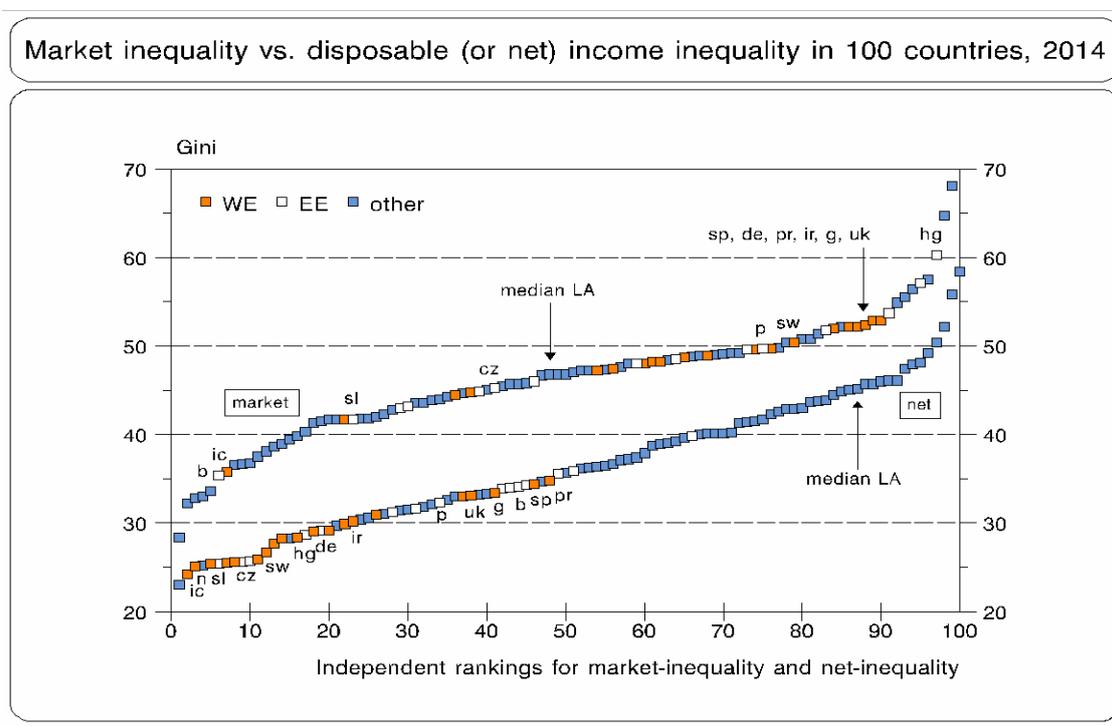
EE = Eastern Europe (16 countries; except for the three Baltic states, excludes those from the Former Soviet Union); and WE = Western Europe (20 countries). b = Bulgaria; bo = Bosnia and Herzegovina; cn = China; de = Germany; fr = France; hg = Hungary; ic = Iceland; in = India; Ir = Ireland; ko = Korea; mk = Republic of Northern Macedonia; ru = Russia; sl = Slovak Republic; sw = Sweden; tw = Taiwan; uk = United Kingdom.

Source: SWIID (2018) – this will be the source for the remaining figures in this chapter.<sup>21</sup> Although some data are already available for 2015, the year 2014 is the one with the largest number of countries.

<sup>21</sup> Unfortunately, this source does not provide data for income deciles. Therefore, for this analysis one has to rely on the traditional Gini, as the Palma ratio requires this information.

Moreover, this homogeneous and low-inequality European picture changes completely when one looks at market inequality (see ellipse). Now the average Gini jumps from its previous net-inequality average of 29 to one above 48, and in Eastern Europe from 31 to 47. In fact, these European averages for market inequality are even similar to that for Latin American (47). This was certainly not the case as far as net inequality was concerned, when the average disposable-income Gini for Latin America was half as much again as that for Western Europe and 40 per cent higher than that for Eastern Europe. As such, European countries seem to be just about the only countries in the world willing, and still able, to make a fiscal effort to reduce market inequality significantly.

**Figure 2.9: Market inequality vs. disposable income inequality**



Notes: Acronyms as in previous figures. Also n = Norway; p = Poland; g = Greece; sp = Spain; pr = Portugal

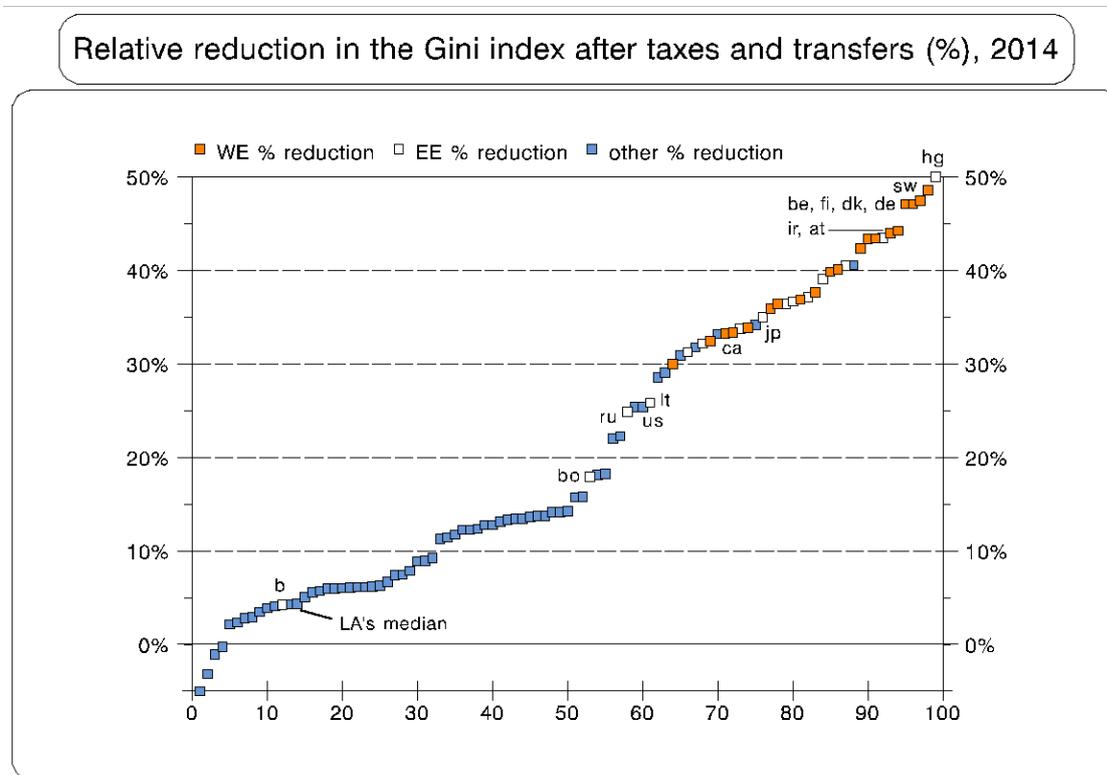
Figure 9 presents the same information but now the two distributions – net inequality and market inequality – are ranked *independently*. The top series represents market inequality and the bottom represents net income inequality.

The switch from a relatively low and fairly homogenous level of inequality across Europe (East and West) in terms of net inequality to almost its opposite in terms of market inequality, is quite remarkable. In the net distribution, most European countries are crowded at the lower end, whereas in the other they are all over the place – many at the higher end. In fact, in terms of market inequality not only does Europe have one of the highest regional averages but there is also significant diversity across countries – one European country (Hungary) rubs shoulders with Namibia and South Africa at one end of the distribution, while two others (although formerly part of the Soviet Union), Ukraine and Belarus, post the lowest market inequality of them all (with Bulgaria and Iceland not far from them).<sup>22</sup> Indeed,

<sup>22</sup> Although, inevitably, one should take with some caution Ukraine's 2014 data, supposedly collected in the midst of the worst events of its civil war, and the actual year of Russia's annexation of Crimea. Also, it is unlikely that under these peculiar conditions the income of many of its oligarchs/warlords is captured in these voluntary household surveys.

countries such as Germany, Ireland and the UK post some of the highest levels of market inequality in the whole world – as well as (perhaps not so surprisingly) Greece, Spain and Portugal, with Sweden (very surprising) not that far behind!<sup>23</sup>

**Figure 2.10: Relative reduction in Gini after taxes and transfers**



Notes: The relative reduction is the percentage by which the market-income inequality is reduced due to taxes and transfers (i.e. the difference between the market-income and disposable-income Gini indices, divided by the market-income, expressed as a percentage). The first observation is Tanzania (actual value -13.5 per cent) and the last Hungary (actual value 52.5 per cent). Acronyms as in previous figures. Also be = Belgium; ca = Canada; de = Germany; dk = Denmark; lt = Latvia; jp = Japan; fi = Finland; and ru = Rumania.

This remarkable asymmetry between the two categories of inequality in Europe is most evident in Figure 10. The vertical axis represents the percentage fall in the Gini coefficient of inequality after transfers and taxes, and countries are ranked or aligned horizontally according to the size of the drop.

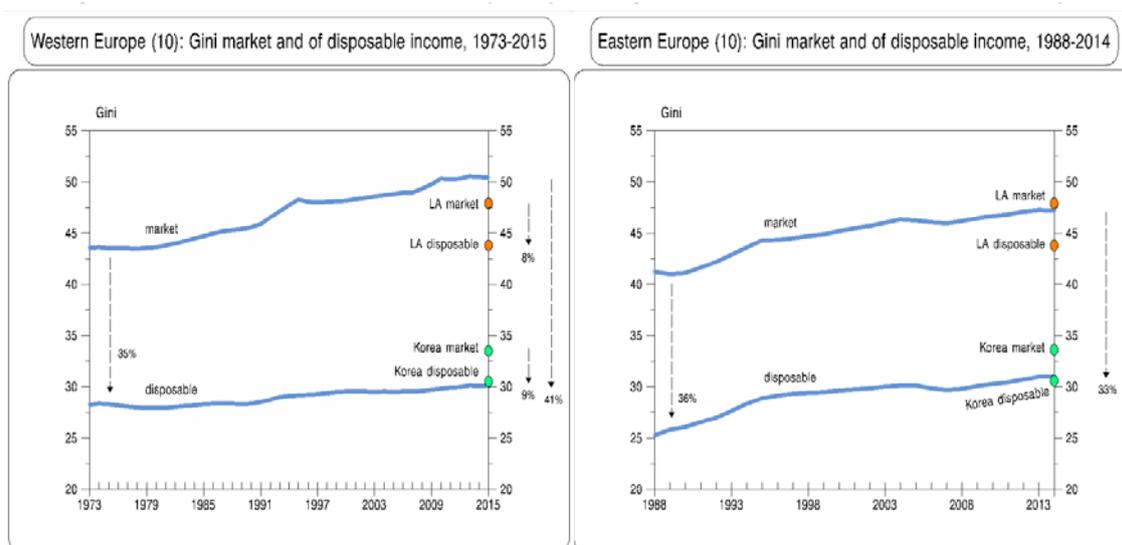
As Figure 10 indicates, all 25 countries at the high end of the distribution, in terms of relative decline of the Gini after taxes and transferences, are in the European Union, except for a former country of the Soviet Union (Moldova, ranked 88, which is in Europe anyway). Only then appear Japan (75), Canada (70), Australia and New Zealand (67 and 65). In fact, the lowest ranking European country is Switzerland (64). At the tail-end of the distribution – countries which make little effort to improve their market-inequality – one finds mostly Latin American countries, with the regional median just 15 (and Costa Rica even posting a negative value, -1.4). No other inequality statistic sets Europe, West and most of East, so much apart from the rest of the world. The making of European exceptionalism, then, is traceable to the distributive role of the state, not the market.

<sup>23</sup> However, it is likely that, at least to a certain extent, Europe's more-elevated market inequality than, say, many in Latin America is due to better-quality and more representative surveys.

### 2.3.2 European inequality and redistribution through time

To understand more fully the current state of inequality in Europe, it is useful to explore its historical trajectory. Figure 11 indicates how Europe 'got there' in terms of the dynamics of its market and net inequality. It comprises historical data for Western and Eastern Europe for the two Ginis, for the longest period for which data are available, for at least ten countries in each region.

**Figure 2.11 : Reduction in market inequality through time in Western and Eastern Europe**



- Western Europe: Finland, France, Germany, Ireland, Italy, Norway, Portugal, Sweden, United Kingdom and Spain. Eastern Europe: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia. LA = average of Latin American countries.<sup>24</sup> The arrows at the right-hand corner of each figure indicate the reduction of the average Gini (in percentage terms) after taxes and transfers in the respective region (and in Latin America and Korea).

Several issues emerge from Figure 12. One is the increasing degree of market inequality in both Western and Eastern Europe – especially since the neo-liberal economic reforms which started with the election of Margaret Thatcher in the UK and Ronald Reagan in the US. Market inequality increased in the US from a Gini of 43 in 1980 to one of 51 in 2016, and in the UK from 41 in 1979 to 53 in 2015. Something similar happened in most European countries (see below).

As can be seen, the Gini market increased steadily from the beginning 1980s to the pre-crisis period, though it has since steadied. In spite of this, however, Western European countries have somehow managed to keep their net or disposable-income inequality remarkably stable, with their average net inequality increasing only from 28 to 30 between 1979 (the same level as in 1973) and 2015, while their market-inequality increased from 43 to 51 (1979-2015). The inevitable consequence, of course, is the need for an ever-increasing fiscal effort (via taxes and transfers) to still manage this remarkable reduction in inequality. In Eastern Europe, meanwhile, both measures of inequality have moved up in tandem, with the net-inequality Gini increasing from 25 to 31 between 1988 and 2014 and the market-

<sup>24</sup> In this and other figures Venezuela is excluded from the average due to unreliable data (especially due to highly repressed inflation).

inequality one from 41 to 47 – implying a relatively stable fiscal effort to achieve the approximate one-third reduction in market-inequality.

At the same time, the figure also indicates how in Europe, market inequality has increased so much that (as already mentioned) at the end of this period it had reached, on average, Latin American levels of inequality in the West and the East. This is in huge contrast with what happened, for example, in Korea and Taiwan, where high levels of investment, productivity and wage-growth, coupled with significantly lower levels of financialisation, helped market inequality to remain remarkably low and stable throughout the period.<sup>25</sup>

**Figure 2.12: Reduction in market inequality through time**

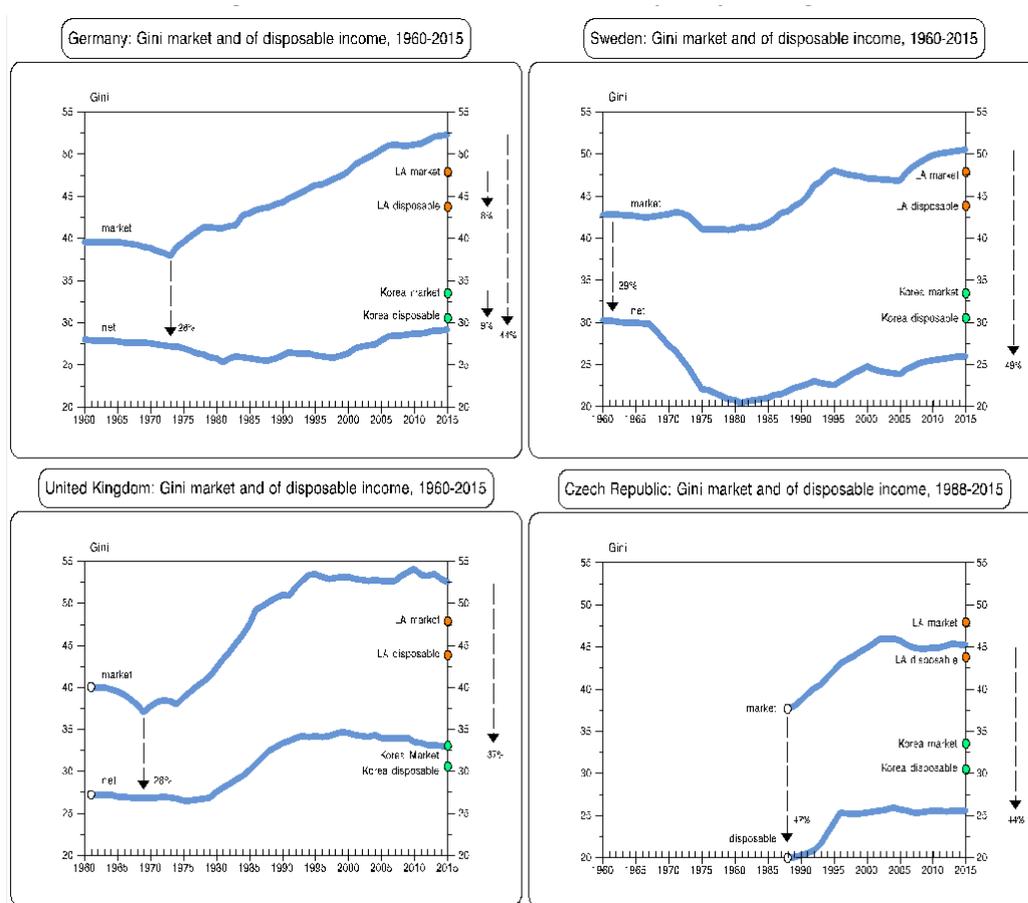


Figure 12 gives us a more country-specific picture in Europe of all this. In the case of Germany, a relatively low and (over the cycle) stable net inequality has required an ever-growing fiscal effort, as its market Gini has increased from below 38 to above 52 between the time of the oil crisis of 1973 and 2015 – a 40 per cent jump which took Germany to a level of market inequality close even to that of Brazil! To achieve a net Gini just below 30 throughout this 32-year period of remarkably worsening market inequality – which started well before reunification – the fiscal effort has ballooned from having to reduce the market Gini by 28 per cent to having to do so by 44 per cent. Why has Germany experienced this remarkable increase in market inequality, while countries such as Korea and Taiwan have managed to

<sup>25</sup> I understand by 'financialisation' the rise in size and dominance of the financial sector relative to the non-financial sector, as well as increasing diversification towards financial activities in non-financial corporations.

keep theirs low and fairly stable throughout this period? And how long will the public sector in Germany be able to afford this ever-increasing fiscal effort, to keep net inequality below 30?

Sweden has even managed to improve its net inequality during the whole period (1960-2015), in the face of rising market inequality since the mid-1970s. The latter had declined from 1960 to the end of the 70s, to then go up by ten percentage points between then and 2015. In turn, net inequality declined by nearly ten percentage points between 1960 and the end of the 70s, with the reverse trend through to 2015 (increasing by five percentage points). In all, Sweden's fiscal effort increased from 29 per cent to 50 per cent between the early 60s and the late 70s, remaining at that level since – only Hungary makes a bigger fiscal effort in the whole sample.

In the UK, on the other hand, since the mid-70s, both measures of inequality have worsened significantly. But as market-inequality has grown even faster than net, the fiscal effort went up from a level similar to those of Germany and Sweden in the early period (29 per cent) to 37 percent, as the UK – as opposed to Germany and Sweden – has allowed its net inequality to increase significantly (from below 27 to 33 between the mid-70s and 2015). The Czech Republic – like many countries in Eastern Europe – has followed a pattern similar to that of the UK since the fall of the Berlin Wall, with both types of inequality increasing significantly, resulting in a huge but relatively stable fiscal effort throughout.

It is not at all obvious how long Europe will be able to continue making the ever-increasing fiscal effort required to convert ever-rising market inequality into something more civilised in terms of disposable income. The mounting fiscal pressures come alongside other demands on fiscal resources (such as the increasing cost of public health, pensions and education), colossal subsidies to the financial sector at times of stress and a trend to reduce taxation for higher-income groups and corporations. Taxes for those on medium and low incomes had to increase to square the circle – for example, Thatcher increased VAT from 8 to 20 per cent, while slashing marginal rates of taxation for high-income groups and corporate taxes – while fiscal borrowing has become ever easier and cheaper.

The distributive fiscal effort has thus not only led to an ever-increasing share of social expenditure in the total budget, with social protection reaching on average about 40 per cent of public expenditure in Western Europe. It has also been one of the main contributors to rising public-sector debt,<sup>26</sup> which now averages 87 per cent of GDP in the euro area (with Italy at 132 per cent, Portugal 126, Belgium 103, Spain, France and Cyprus at nearly 100 per cent, and so on).<sup>27</sup>

Overall, public-sector debt represents about one-quarter of the staggering level of debt worldwide – US\$250 trillion overall, having increased \$25tn in just the year to the end of March – which is equivalent to 320 per cent of world GDP.<sup>28</sup> Is there a ceiling to public-sector debt, even in Europe? How long can Europe continue to capitalise the servicing of that debt – called 'Ponzi-finance' in the financial literature? And how much more will social expenditure be able to increase as a share of total public spending? In other words, how long will governments be able to continue seeking to reduce the taxation of the rich and corporations – at the same time as helping them to elude legally an ever-increasing amount of their taxes – while attempting to reduce rising market inequalities to the same net rate in the same way?

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<sup>26</sup> If one adds public health and education, this share rises to about two-thirds of the total; see Eurostat (2018).

<sup>27</sup> Greece, of course, belongs to a different league with its public debt of 180 per cent of GDP; see Eurostat (2018) and IMF (2018).

<sup>28</sup> IFF (2018); see also <https://www.ft.com/content/8afa6d3c-8688-11e8-96dd-fa565ec55929?tagToFollow=gfc%bd277-102b-4669-b9ee-502c81922ab3>. If anybody still thinks that this level of debt can be serviced at normal interest rates – let alone repaid – better think again.

Is it not time to realise that the only sustainable way forward in terms of maintaining (let alone improving) current levels of net inequality is to start doing something 'at source' – reining in market inequality? Korea and Taiwan have a lot to teach us, by doing so via high levels of investment, productivity and wage growth, and lower levels of (often harmful from the point of view of the real economy) financialisation.<sup>29</sup>

There are basically two main routes to achieving relatively low net inequality, the Swedish and the Korean models. Figure 13 highlights the differences between them in terms of the relative reductions of market inequality via taxes and transfers.

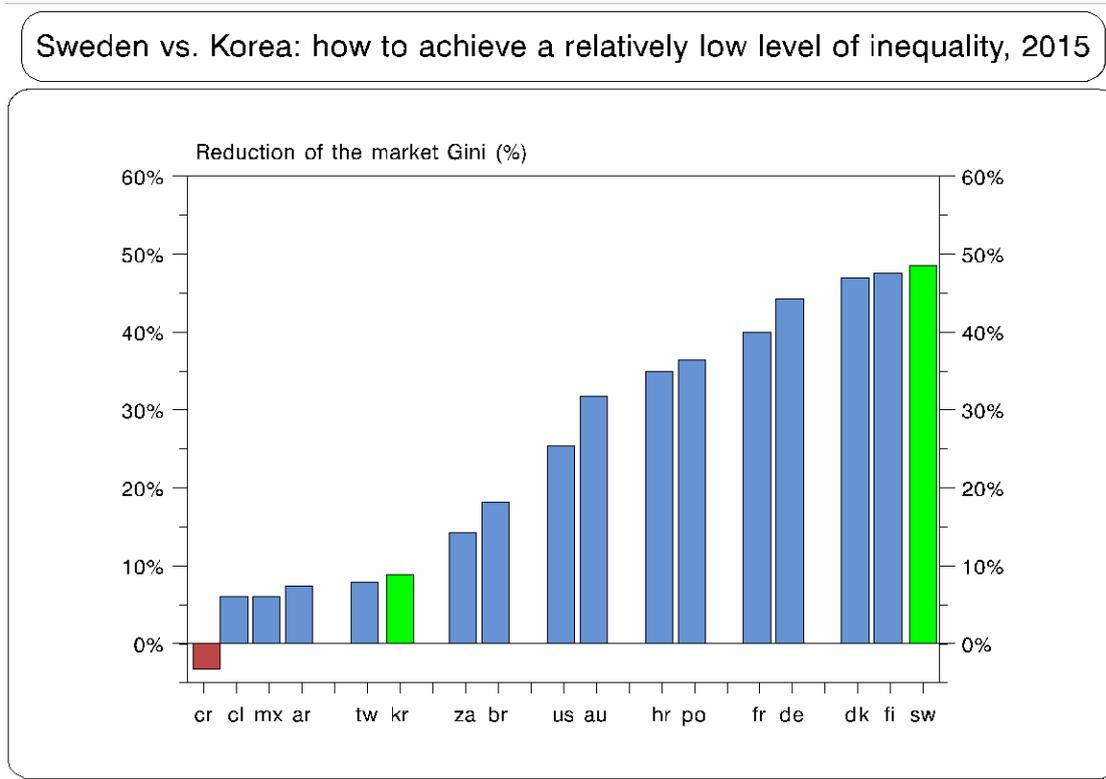
While all Nordic countries in this database post some of the lowest levels of net inequality in the world (an average Gini of 25), Korea and Taiwan are not far behind (30). But they get there through a very different route. While the Nordic countries (with the exception of Iceland) have let their market inequality rocket to an average of 48, Korea and Taiwan have been able to keep their market inequality to just 33. This is in fact lower than the net inequality of two-thirds of the countries in the sample!

So, not surprisingly, these countries do not need to make a massive fiscal effort to be among the lower net-inequality countries in the world – allowing their fiscal resources to be used for other growth-enhancing purposes and their public debt to remain below (in Taiwan's case well below) 40 per cent of GDP. Perhaps the fact that Korea and Taiwan, with their much lower market inequality, have managed to more than quadruple their productivity since 1980 (4.5 and 4.2 times, respectively), while Western Europe – with its rapidly rising market-inequality – has managed a meagre 20 per cent increase over the same period is not a random contrast.<sup>30</sup> Those huge and rising market inequalities in Europe may not be anything but 'distributional failures', slowing down productivity and wage growth. How long will the public sector be able to keep subsidising those failures, making them more palatable via huge (and increasing) social expenditure?

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<sup>29</sup> For an analysis of the negative impact of excess liquidity on the real economy, see Kindleberger (2004); see also Palma (2009).

<sup>30</sup> GGDC (2018). Eastern Europe (as defined in this chapter) has increased its productivity during this long period by also just 75 per cent overall.

**Figure 2.13: Different ways to lower inequality**

Notes: ar = Argentina; au = Australia; br = Brazil; cl = Chile; cr = Costa Rica; de = Germany; dk = Denmark; fi = Finland; fr = France; hr = Croatia; kr = Korea; mx = Mexico; po = Poland; sw = Sweden; tw = Taiwan; us = United States; za = South Africa.

## 2.4 Conclusion

For the first time since that remarkable era at the end of the 1970s and the early 80s, which saw the elections of Thatcher and Reagan and led to the fall of the Berlin Wall, inequality is really coming in from the cold. As Atkinson rightly said, 'Inequality and poverty have returned with a vengeance.'<sup>31</sup> The World Economic Forum went so far as to identify the ever-growing gap between rich and poor as the central theme for one of its recent gatherings, with vivid speeches by the managing director of the IMF, the president of the World Bank and corporate leaders – all warning *ad nauseam* that failure to tackle inequality risked social unrest and erroneous political choices by those who felt left behind by this neo-liberal type of globalisation.

To my knowledge, however, not one of those speeches analysed how rising inequality in most of the world was due to a distributional failure, leading to increasing market inequality. Nor how this risked, in ever-increasing form, the distortion of resource allocation and the suffocating of investment and productivity growth. Christine Lagarde of the IMF place all of the emphasis on just part of the story: 'Business and political leaders at the World Economic Forum should remember that in far too many countries the benefits of growth are being enjoyed by far too few people. This is not a recipe for stability and sustainability.'<sup>32</sup>

<sup>31</sup> Atkinson (2015).

<sup>32</sup> See <https://www.ft.com/content/b3462520-805b-11e3-853f-00144feab7de>.

Helping to contain recent anxieties about social discontent has been the apparently successful diversion of mounting anger among those in the OECD countries who see themselves as 'losers' within the current process of globalisation: by Donald Trump in the US, Brexit in the UK and the far-right in Continental Europe. Although many still feel very uncomfortable with these new political parameters, they have turned attention away from increasing market inequality. Even though these events may well force some readjustment in the global process of accumulation, and may bring some geopolitical uncertainties, so far the global elite has adapted rather well – and indeed even higher market inequalities have eventuated, as with Trump's tax cuts. In the global South meanwhile, growing discontent on several fronts may also have brought political changes in many emerging markets, but these seem no more a solution to the problems of globalisation and inequality than the political changes in the North.

The first section of this paper showed that, as far as net inequality is concerned, the distributional fight is mostly about just half of the population in each country fighting over just half of the national income. The second section demonstrated that there is bound to be a ceiling to the amount of social expenditure aiming to reduce market inequality, whose sustained increase may simply represent a complex distributional failure. Perhaps awareness of these two realities could help bring about a more equal society and a more dynamic world economy.

### ***Appendix: Sample in Section 1***

In order to construct the sample for Section 1, we used the following sources:

- i).- OECD (2017) for high-income OECD countries, and other non-Latin American countries for which this dataset provides information (including China, India and Russia);
- ii).- SEDLAC (2017) for all Latin American countries;
- iii).- Taiwan (2017) for Taiwan; and
- iii).- World Bank-WDI (2017) for the rest. From this source, I only included countries with data after 2005. I also excluded countries with a population of less than 1 million (Belize, Bhutan, Comoros, Djibouti, Fiji, Iceland, Luxembourg, Maldives, Montenegro, Saint Lucia, Sao Tome and Principe and Suriname).

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# 3. Wealth inequality in the European Union

# 3. Wealth inequality in the European Union

Hanna Szymborska

*Open University*

Key points:

- Research on inequality has tended to focus on income rather than wealth, partly because income data are easier to obtain. However, in Europe, wealth inequalities are often higher than income inequalities, a phenomenon that has grown in recent years. In fact, this divergence is common across the EU.
- Being the most important asset class, property is central to the generation of wealth inequalities.
- Wealthier households not only have more wealth but also more diversified portfolios, including financial assets. Less-wealthy households are less likely to own their own home, but for those who do, home ownership comprises a large portion of their assets.
- The dependence of less-wealthy homeowners on stable house prices makes them more vulnerable in a crisis, when prices fall. And while the less wealthy tend to hold less debt than the wealthy, the debt they do have is higher in proportion to their assets and is more likely to be unsecured.
- Wealthy households benefit from being able to extract rents from their assets, such as additional property or financial investments. Meanwhile, low-wealth households are almost entirely dependent on employment income and have suffered as real wages have fallen.
- The wealth gap is conditioned by institutional factors, such as the availability of social housing. Wealth inequalities are also evident between male and female-headed households. Likewise, education level can be used as an inequality marker, but it is no 'magic bullet' for reducing inequality.
- Demographic factors exacerbate intergenerational inequalities, but are not the ultimate cause
- Differential macroeconomic performance across the euro area has also been significant. A regime of fiscal transfers is needed if wealth inequalities between core and periphery countries are to be lessened, given the continuing shadow cast by the Eurozone crisis.

### 3.1 Introduction

Though the issue of inequality has been receiving some much overdue recent attention, the debate has tended to focus on income as opposed to wealth. This is true whether we consider dialogue from the broad public, policymakers, civil society groups, or social science researchers (Keister and Moller, 2000; Kus, 2016). But there are strong reasons to consider wealth, both as a topic of interest in its own right, and as a complement to analyses of the distribution of income. Wealth is a key indicator of social stratification (Skopek et al., 2014). Differences in the accumulation of housing assets, and consumer goods (especially luxury goods) point to different standards of living, and attendant problems associated with those differences. Wealth reflects capacity to invest in education and quality of life, as well as the ability to handle large expenses associated with health, changing living situations, family emergencies and payment of debts (Williams, 2017). One's wealth also reflects their capacity to affect the political system, which is particularly pertinent in today's public dissatisfaction with political elites.

Moreover, because wealth is more resilient to changes over time, it tends to be more unequally distributed than income. The magic of compound interest and inflation of asset values implies that wealth begets more wealth, to a greater extent than income begets more income. Because wealth carries more financial weight than income, it is a better indicator of living standards (Cowell *et al.*, 2012: 1). Moreover, wealth undermines popular narratives of meritocracy because it transmits of inter-generational privilege through inheritances.

These differences in accruing income and wealth mean that their respective weight is not the same across households. High-income households tend to accumulate higher wealth through savings and purchases of appreciating assets, but this need not be true for all high earners. Conversely, families with large net worth can build their wealth independently of their income streams, for instance by obtaining inheritance and gifts or earning large returns on their assets. In fact, in most Eurozone countries, fewer than 10 per cent of households are affluent in both income and wealth (Kontbay-Busun and Peichl, 2014).

As such, this chapter analyses the pattern of wealth inequality across Europe<sup>33</sup> and presents a number of findings. First, we find that wealth inequality at the EU level has been increasing, owing primarily to uneven declines in net wealth among different groups between 2010 and 2014. The systems of housing provision and house price dynamics play a central role in the generation of wealth inequalities, though the wealthiest households are more diversified in terms of assets. Income from wealth is important, and the ability of lower-income groups to acquire more wealth is declining. Macroeconomics, education, and gender also play a role in the accumulation of wealth, and intergenerational inequalities are pronounced, with demographic factors only explaining part of this trend.

The data used are from the two waves of the Eurosystem Household Finance and Consumption Survey (HFCS).<sup>34</sup> While income and wealth inequality share some features, wealth has certain distinguishing aspects (Cagetti and De Nardi, 2008: 286). Contrary to income, which generally does not come in negative amounts (self-employment losses aside), net worth (commonly assets minus liabilities), does assume negative values (Cowell and Van Kerm, 2015). Consequently, techniques commonly used to analyse income distribution, involving strictly positive values, cannot be applied to wealth (*ibid.*: 17).

<sup>33</sup> We use Europe, EU and euro area interchangeably to denote countries covered by the survey data (see the following footnotes).

<sup>34</sup> Collected by the European Central Bank (ECB), the HFCS is harmonised *ex ante* along the cross-section of countries, agreeing on definitions and scope, which allows for international analysis of household balance sheets. While the data were collected at different times in different countries, the most common reference period for the first wave is 2010 and for the second wave 2014. In this chapter, I hence refer to these two data points.

Data on the distribution of wealth are more limited than those on income, but over the past few years more empirical information on the historical distribution of wealth has become available, owing to the work of Piketty and colleagues (Piketty, 2014; Piketty and Zucman, 2014). Contemporary data on wealth are usually sourced on an individual-country basis from administrative tax records or household surveys. The HFCS is a comparable cross-country survey of household finances, which has collected information on the holdings of assets and debt, as well as income flows and socio-economic characteristics on a sample of households in selected European Union countries in 2010 and 2014.<sup>35</sup>

The dataset excludes information on future wealth from pensions and life insurance, which means that it can only measure private wealth that accrues from the marketable value of assets and liabilities held. This is an important caveat to cross-country comparison, given that European countries included in the dataset differ in public-insurance provision, including pensions and social benefits. Consequently, estimates of current material wealth reported in the HFCS are likely to suffer from inaccuracies in measurement of the actual wealth of households, within and across countries.<sup>36</sup>

The chapter is structured as follows: Section one examines patterns of wealth inequality across the EU and within euro area countries. Section two looks at changes in wealth ownership between 2010 and 2014. Section three analyses how these patterns are reflected in disparities in the ownership of different types of assets and debt. Section four discusses the factors that shape wealth inequality in the EU by focusing on the role of institutional conditions, balance-sheet composition, income and household characteristics (including gender, education and intergenerational disparities). The last section concludes by formulating points for policy action to reduce wealth inequality in the EU.

### ***3.2 Patterns of wealth inequality in the euro area***

This section examines patterns of wealth in the euro area. It finds evidence of increasing inequality in the distribution of wealth over time. This trend holds true whether we measure wealth at the aggregate European level or the individual country level.

Because comparable international data on household wealth in the EU have only been available since 2010, information on long-term trends in wealth inequality in the region is limited. One limitation is that we cannot establish how it has changed across Europe in past decades because data for individual countries vary in design and scope.

To gauge the long run, we look at select countries. The World Inequality Database provides far-reaching data on the shares of wealth held by the richest households in France and the United Kingdom. In both countries, the top 10 per cent share of wealth decreased after World War II and continued until the mid-1980s, from 69.8 per cent in France and 83.5 per cent in the UK in 1946, to 50 per cent and 46.7 per cent, respectively, in 1984. Since then, wealth inequality has been on the rise, with the top 10 per cent share reaching 55.3 per cent in France in 2014 and 52 per cent in the UK in 2012 (World Inequality Database, 2018).

<sup>35</sup> Over 62,000 households in 15 euro-area countries (Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, Netherlands, Portugal, Slovenia, Slovakia and Spain) participated in the first wave (HFCN, 2013). In the second wave, 84,000 households took part from 18 euro-area countries (the above plus Estonia, Ireland and Latvia) excluding Lithuania, and including Hungary and Poland (HFCN, 2016).

<sup>36</sup> Other reported limitations of the HFCS which are associated with household wealth surveys of this type are: (1) significant bias arising from under-reporting among households at the top of the distribution (Eckerstorfer et al., 2016); (2) limited information on non-pecuniary wealth, ie human-, social- and cultural capital, welfare, a safe and clean environment, quality healthcare and education, and so on (Fessler and Schürtz, 2013: 37-8). Apart from these limitations, the HFCS is a relatively new survey and there is little information about the time-series dynamics of the different components of wealth.

The top 10 per cent income shares in Europe experienced a similar trajectory, albeit at lower levels. A recent study found that income inequality between European countries fell between 1900 to 1980 but has been increasing ever since (Roses and Wolf, 2018). This finding is also replicated in Chapter 4 of this report. These trends are consistent with long-run trends in income and wealth in selected Eurozone countries that were estimated by Roine and Waldenström (2014).

A look at aggregate, EU-level indicators supports the observation of increasing wealth inequality that is indicated by the historical data. In 2010, the top 10 per cent of households in the EU owned 50 per cent of total net wealth in the sample. In 2014, the share of the top 10 per cent increased to 51.2 per cent (HFCN, 2016).

The increase in wealth inequality can be mainly attributed to polarisation of wealth between the top and the bottom of the distribution. The ratio of wealth held by households in the 90th percentile to those in the 10<sup>th</sup>, increased by 17.8 per cent between 2010 and 2014, from 427.6 to 503.5. During the same period, the ratio of wealth held by households in the 80th percentile to those in the 20th rose by only 2.2 per cent, from 40.1 to 41. Similarly, the Gini index for wealth, which is sensitive to changes in the middle of the distribution, increased by 0.7 per cent, from 0.680 to 0.685. An interpretation of this is that akin to the income inequality trends outlined in the previous chapter, changes in the distribution of wealth is driven less by changes in the middle but more by gains and losses among the wealth-poor and wealth-rich.

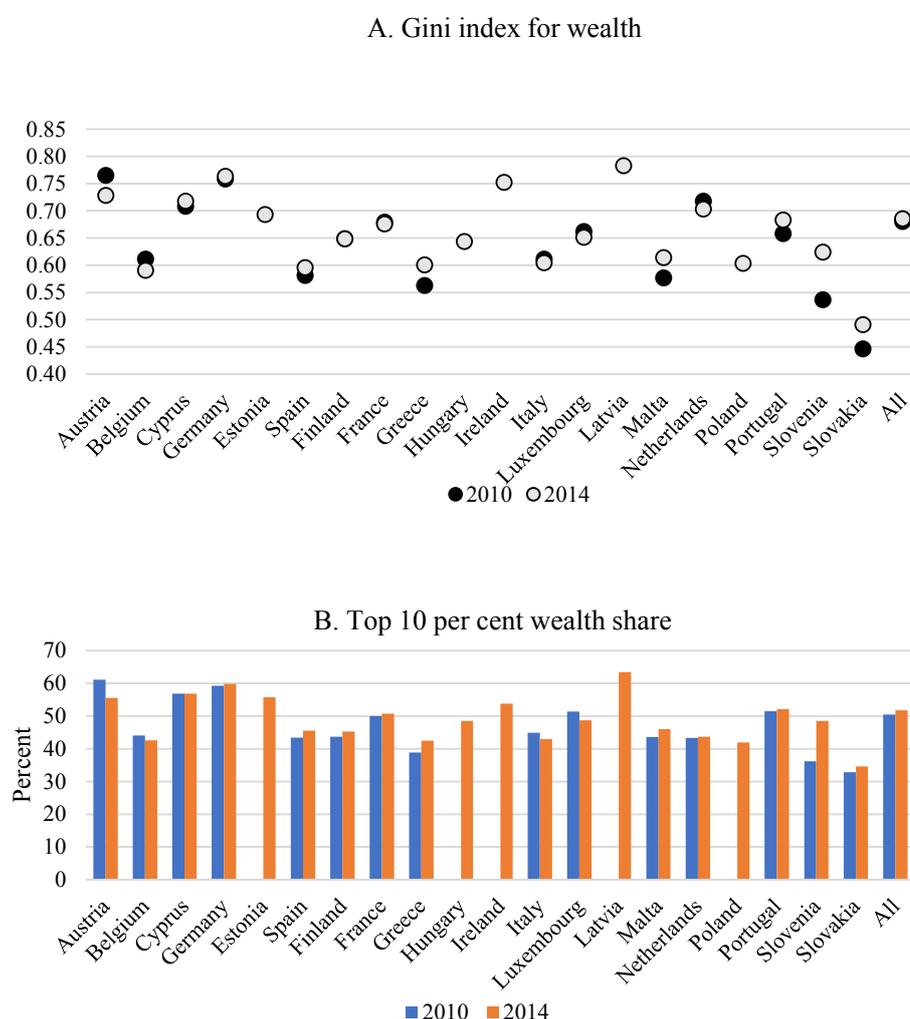
The observed wealth inequalities in the EU are explained almost entirely by disparities within countries rather than between them. Decomposition of inequality<sup>37</sup> indicates that within-country inequality accounted for approximately 99 per cent of overall wealth inequality in the sample in both years. However, the portion of inequality explained by wealth disparities between countries increased from 0.8 per cent in 2010 to 1.1 per cent in 2014, suggesting divergence of net wealth across the euro area.

Turning our attention to individual countries, we similarly see growing wealth differences between 2010 and 2014. Figure 1 shows changes in the Gini index of wealth (panel A) and the top 10 per cent share of net wealth (panel B) for all countries in the sample.<sup>38</sup> The Gini for wealth has fallen in Austria, Belgium, Italy, Luxembourg and the Netherlands. But wealth inequality has spiked in Slovenia and Slovakia and has also increased substantially in Greece, Malta and Spain. In 2014, Latvia, Germany, Ireland and Austria, as well as Cyprus and the Netherlands, were the most unequal countries in terms of net worth, with their Gini for net wealth exceeding 0.7. Together with Estonia, Portugal and France, the wealthiest 10 per cent of households owned more than half of total net wealth in these countries in 2014 (except for the Netherlands, where the top 10 per cent share stood at 44 per cent that year). In contrast, Slovakia, Belgium, Spain, Greece, Poland and Italy had the lowest net wealth inequality in 2014, with the Gini estimated at 0.6 or less and the top 10 per cent share of net wealth at approximately 40 per cent or below.

<sup>37</sup> Decomposition is undertaken using Stata module `ineqdeco` (Jenkins 1999), following Shorrocks (1984). Inequality is measured as half of the squared coefficient of variation.

<sup>38</sup> Note that not all countries found in the second wave of the survey had been included in the first wave. For these countries, only information for 2014 is displayed in the figures.

**Figure 3.1: Net wealth inequality by country, 2010 and 2014 (source: author's calculations based on HFCS)**



Increasing inequality is therefore found regardless of whether measured using the Gini coefficient or top 10 per cent shares, historically or through time, or whether we look at aggregate or individual country data.

### 3.3 Changes in net wealth, 2010 to 2014

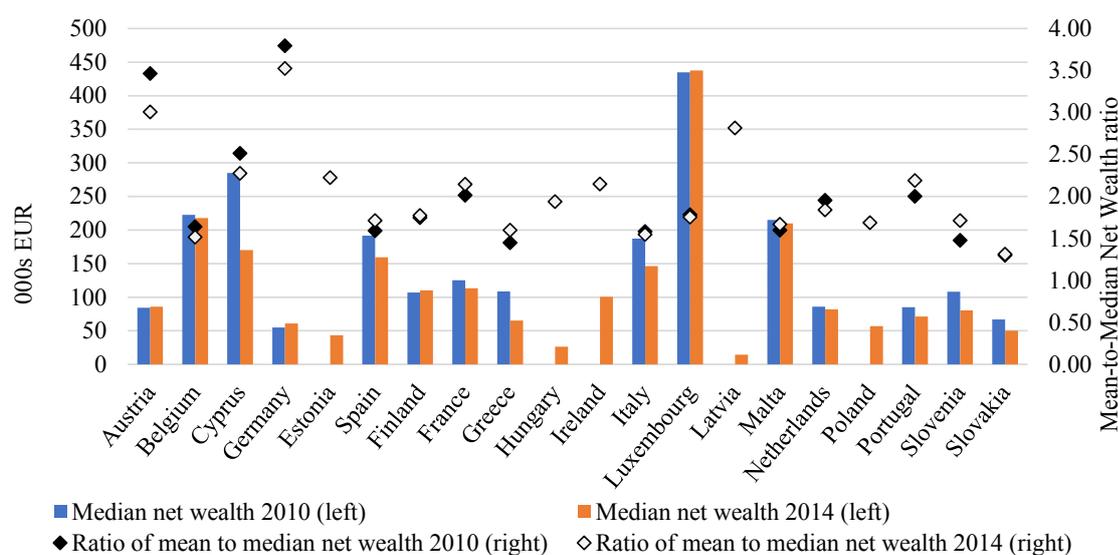
Though the emphasis of this report is on how wealth is distributed, it is also useful to examine changes in the 'average' levels of wealth and how such changes are spread across different groups. This attention allows us to gauge changes in material wellbeing, and furthers our understanding of EU-level patterns of wealth distribution. We find that most countries experienced a decline in net wealth and that changes in house prices are an essential component of this decline.

Figure 2 shows that declines in net worth were uneven across countries covered by both waves of the survey. The largest fall between 2010 and 2014 is observed in Cyprus and Greece (40 per cent), Slovenia, Slovakia and Italy (22-26 per cent) and Spain and Portugal (15-16 per cent). In contrast, median net wealth increased for Austrian, Finnish and Luxembourg households, as well as in Germany, where median net wealth rose by 10 per cent between 2010 and 2014. These patterns reflect differences

across core and periphery countries of the euro area, and show that households in the periphery were hit harder by the 2010 eurozone crisis than those in the core.

Consistent with the previous observations, in Austria, Luxembourg and Germany disparities in net wealth, measured by the ratio of mean to median,<sup>39</sup> declined between 2010 and 2014. This is also observed in Belgium, the Netherlands, Cyprus and Italy. Conversely, the mean-to-median net-wealth ratio increased in Spain, France, Greece, Malta, Portugal, Slovenia and Slovakia. However, in several countries it increased.

**Figure 3.2: Median net wealth and the ratio of mean to median wealth by country, 2010 and 2014 (source: author's calculations based on HFCS)**



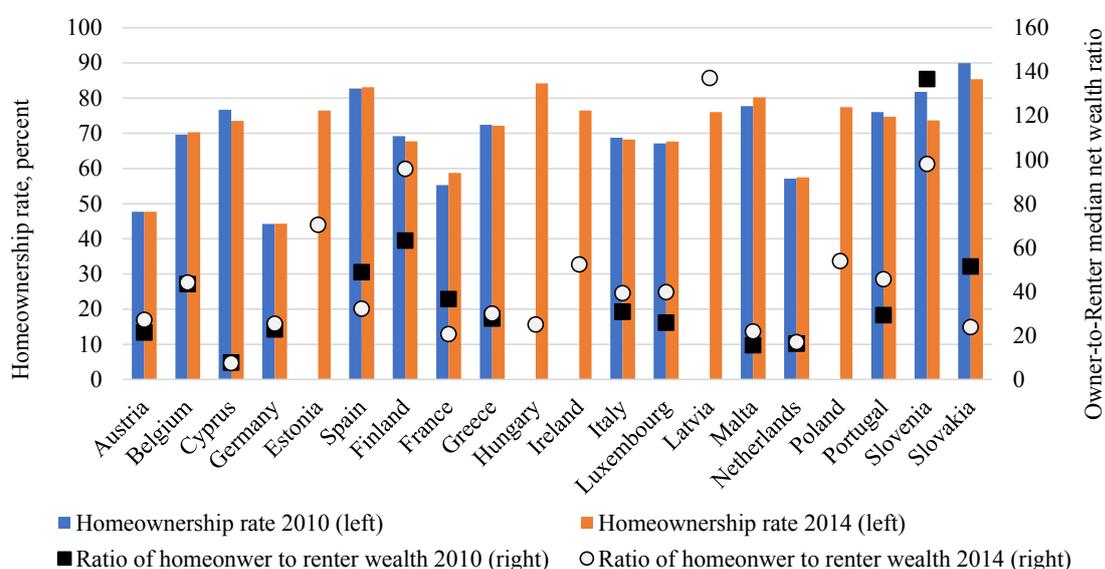
As mentioned, the increase in wealth inequality in the EU is as a whole a product of uneven changes in wealth across the distribution. While all household groups experienced a fall in their net wealth between 2010 and 2014, households towards the bottom of the distribution saw larger declines than those at the top (HFCN, 2016). The median net wealth of the bottom 10 per cent fell by 22.7 per cent, from €1,300 to €1,000 in real terms, while the median net wealth of the top 10 per cent declined by 8.7 per cent, from €543,300 to €496,000. By comparison, median net wealth across all households fell by 10.5 per cent, from €116,300 to €104,100.

Differences in home ownership levels and housing inequality help us understand the overall trends in net wealth in the euro area between 2010 and 2014. Figure 3 shows that in all countries, apart from Cyprus, homeowners<sup>40</sup> held at least 10 times more net wealth than renters in the period. Inequality between these two groups was particularly high in Latvia, Finland and Slovenia, where the ratio of the median net wealth of home owners to renters exceeded 100 in 2014. Moreover, home-ownership rates differ significantly across the countries in the sample. More than 80 per cent of households in Spain, Hungary, Malta and Slovakia own a home, compared with fewer than half of German and Austrian households. Home-ownership rates of more than 70 per cent are also observed in Cyprus, Estonia, Greece, Ireland, Latvia, Poland, Portugal and Slovenia.

<sup>39</sup> The more the distribution of wealth is 'stretched' at the top by extremely wealthy individuals, the higher will be mean (average) wealth and the greater will be its ratio to the median wealth level (above and below which are 50 per cent of the sample).

<sup>40</sup> Home-owners in this figure are restricted to those owning all of their residence.

**Figure 3.3: Housing wealth inequality by country, 2010 and 2014 (source: author's calculations based on HFCS)**



Patterns of wealth accumulation by homeowners, moreover, are determined by movements in house prices, which influence the overall changes in net wealth observed in the euro area between 2010 and 2014. Table 1 shows the evolution of the house-price index for the euro area countries between the first quarter of 2010 and the last quarter of 2017. The decline in net worth for the euro area as whole between 2010 and 2014 is explained by falling house prices in that period.

Trends in house prices were dramatically different across countries, however. In Germany, Austria and Luxembourg, where households saw net wealth increase between 2010 and 2014, house prices had been rising systematically since the beginning of 2010. In contrast, countries where median household wealth declined substantially between 2010 and 2014 – Spain, Italy, Slovenia and Cyprus – experienced prolonged decreases in house prices. The fact that at the end of 2017 house prices in these countries remained below their 2010 levels signals that a continued fall in household net wealth is likely. Given that in this period house prices continued their upward trajectory in the core countries, as well as in Estonia, Hungary, Latvia and Malta, further divergence of net wealth in the euro area is expected in the coming years.

**Table 3.1: House-price index in euro area, 2010Q1=100 (source: Eurostat)**

Country	2008 Q4	2010 Q1	2012 Q4	2014 Q4	2016 Q4	2017 Q4	Change between 2010 Q1 and 2017 Q4
Estonia	135	100	120	152	172	181	80.6%
Austria		100	120	130	148	157	57.3%
Latvia	154	100	119	123	141	153	52.7%
Luxembourg	97	100	111	122	136	142	41.8%
Germany	99	100	110	116	131	136	35.9%
Hungary	106	100	89	96	124	133	32.9%
Malta	104	100	103	107	121	126	26.4%
Belgium	100	100	108	111	115	119	19.4%
Slovakia	113	100	94	99	113	119	19.1%
Portugal	97	100	88	90	102	112	12.4%
Ireland	128	100	69	87	100	112	12.4%
Finland	91	100	107	107	108	110	9.8%
France	103	100	108	104	105	109	9.4%
<b>Euro area</b>	<b>102</b>	<b>100</b>	<b>99</b>	<b>98</b>	<b>105</b>	<b>109</b>	<b>9.2%</b>
Netherlands	105	100	89	87	97	106	5.6%
Poland		100	96	95	99	103	3.1%
Slovenia	108	100	92	84	90	99	-1.1%
Cyprus	108	100	95	89	90	92	-8.0%
Italy		100	96	87	86	85	-14.7%
Spain	106	100	76	72	79	85	-15.4%

Note: no data available for Greece

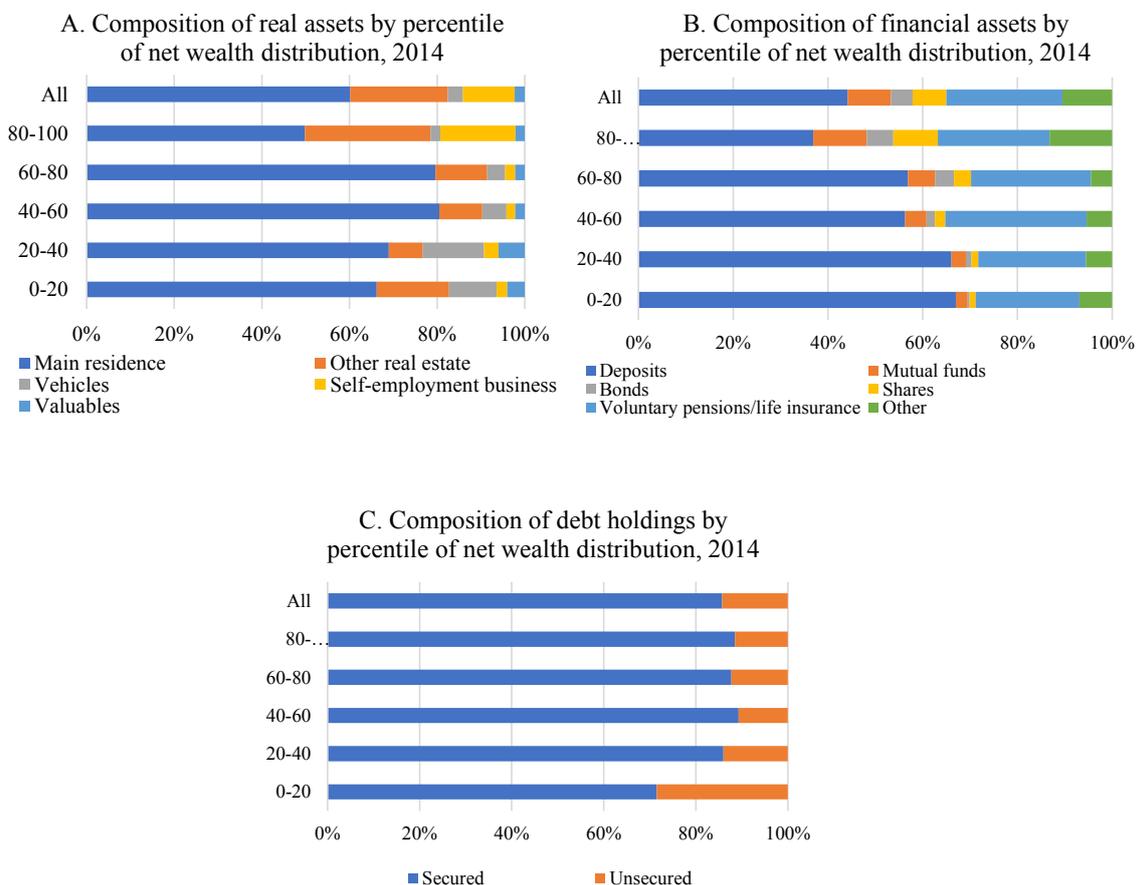
Thus, having established that wealth inequality has been rising in Europe, we also see that the level of net wealth has fallen in most countries from 2010 to 2014, which is in no small part due to housing and declines in house prices. This opens the question of what role asset (and liability) types, including but not limited to housing, play in the distribution of wealth.

### 3.4 Role of portfolio composition

This section explores the role of portfolio composition in affecting the distribution of wealth. Housing constitutes the most important asset type across different groups in the distribution and contributes the most to indebtedness. It finds that wealthier households are more diversified and have higher-yielding assets. This exposure to property explains why lower wealth households have generally fared more poorly than high-wealth households in recent times. While home ownership is essential for improving a household's position in the net wealth distribution, the financial situation of households for whom the primary residence is the dominant asset, is unstable, as they have no financial cushion when house prices fluctuate.

Figure 4 shows that, among all households, real assets prevail over financial assets in terms of value, and they constitute 85 per cent and 82 per cent of total assets in 2010 and 2014 respectively. Together with vehicles, primary residence is the most important real asset. Primary residences contributed 49.5 per cent to the total asset portfolio, with an overall home-ownership rate of approximately 60 per cent, in both years. In 2014, a little more than one fifth of HFCS households owned property other than their main residence. Furthermore, just over 10 per cent of households owned business equity. Among financial assets, ownership of deposits dominates (96 per cent ownership rate in 2014), followed by private pensions and life insurance (33 per cent ownership), while only 15 per cent of households hold other types of financial assets. In terms of value, deposits constituted approximately 43 per cent of total financial assets (and approximately 8 per cent of total assets) in 2014, while private pensions contributed approximately 26 per cent and other financial assets (including mutual funds, shares and bonds) accounted for 29 per cent of total assets.

**Figure 3.4: Balance-sheet composition in euro area by percentile of net wealth distribution, 2014**  
(source: author's calculations based on HFCS)



In terms of liabilities, only 44 per cent of HFCS households held debt in 2014, out of which approximately 29 per cent and 23 per cent held non-mortgage and mortgage debt respectively. Nearly 86 per cent of the total value of household debt in the EU is accounted for by mortgages. Thus, as well to contributing the most to the asset side of net wealth, housing is also the most important component of the liability side.

In general, the majority of wealth distribution in the euro area in 2010 was explained by disparities in real assets and this was consistent across countries (Lindner, 2015). But, the precise contribution of different real assets to inequality varies across countries and depends on the decomposition method used (*ibid.*). Disparities in ownership of the main residence generally contribute the most to observed wealth inequality in the euro area (an estimated 44.5 per cent in 2010), followed by other real estate (23.7 per cent), and self-employment business equity (13.5 per cent). Differences in holdings of self-employment business assets explain a sizeable part of wealth inequality in such countries as Malta, Cyprus and Austria, while in the Netherlands, Slovakia, Slovenia, Italy, Finland and Greece, the contribution of primary residence is greater (*ibid.*). In Belgium, France, Germany and the Netherlands, disparities in financial wealth explain a comparatively larger portion of wealth inequality than in the euro area as a whole, but the contribution is below 3 per cent.

The composition of net wealth also varies across the distribution. Households at the bottom tend to depend on few types of assets, while the wealth holdings of households at the top of the distribution are more diverse. In terms of the number of households owning assets, the main assets for the least-wealthy 20 per cent of European households are low-yielding deposits, which were owned by over 90 per cent of households in this group in 2014. Only 8 per cent of the least-wealthy households owned a home that year. Nevertheless, in terms of value, primary residence contributes the most to the holdings of real assets among this group and constituted more than two-thirds of the real-asset portfolio in 2014.

Low rates of home ownership mean that fewer households in the bottom quintile of the distribution of net wealth hold secured debt. In 2014, 7.7 per cent of households in this group held collateralised debt, compared with over 41 per cent holding non-collateralised forms, such as credit card and instalment debt.

As we move towards the top of the wealth distribution, we see that households there own a greater variety of assets (cf OECD, 2015). In addition to over 94 per cent of the wealthiest quintile owning a home and nearly 100 per cent holding deposits in 2014, more than a quarter of households in this group owned their own business and more than a fifth held high-yielding financial assets (including mutual funds, bonds, shares and private-pension wealth). Business equity and profitable financial assets contributed more to the asset portfolios of the wealthiest households than for those towards the bottom of the distribution, constituting 17 per cent and more than 60 per cent of the real and financial asset portfolio, respectively. Moreover, real estate (other than main residence) accounted for nearly one third of all real assets for this group. Higher asset holdings of wealthier households translate into greater amounts of secured debt ownership. In 2014, over one third of the wealthiest households held secured debt, with little more than one fifth holding unsecured types

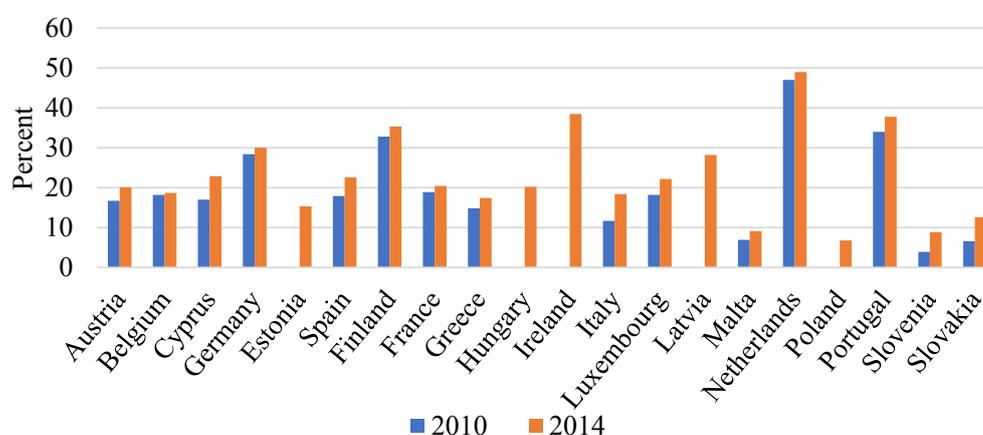
The higher and more diverse asset holdings of the wealthier households, together with their lower reliance on non-collateralised debt, results in greater financial stability for wealthy households compared with those at the bottom of the distribution. While more households at the top hold debt, it is the bottom and the middle percentiles that are more fragile and have higher debt-to-asset ratios. Debt

holdings constituted only 8.3 per cent of total assets for the wealthiest quintile in 2014. Leverage or debt increases as households move down the distribution in that poorer households are more indebted. The ratio of debt to assets for the least wealthy quintile of European households was 117 per cent in 2014, and exceeded one third for the bottom three quintiles in the distribution.

Moreover, the financial fragility/insecurity of households varies across the euro area, as is evident in Figure 5. In all countries in the sample, the debt-to-asset ratio increased between 2010 and 2014. The rise was the most substantial in Cyprus, Spain, Italy, Slovenia and Slovakia. In 2014, highest-leverage levels were observed in the Netherlands, Ireland, Portugal and Finland, where the household debt-to-asset ratio exceeded 30 per cent.

These differences in wealth composition and leverage have important implications for the long-term trajectory of wealth and inequality. Assets held more widely among the wealthiest households, such as business equity and other real estate and risky financial assets, yield greater returns than assets held by households towards the bottom of the distribution. The higher leverage of the least wealthy group signals negative net worth, which is when debt holdings exceed assets and make household wealth more vulnerable to sudden declines, particularly for households whose balance sheets are dominated by one type of asset, such as main residence. Given that it is those at the bottom who are most likely to become unemployed during a recession, the effect is therefore twofold: not only does the bottom suffer larger declines in net wealth, but it is less likely to be capable of servicing the debt on that wealth.

**Figure 3.5: Debt-to-asset ratio in euro area, 2010 and 2014 (source: HFCS)**



Indeed, across the EU the net wealth of leveraged home-owners fell substantially between 2010 and 2014, owing to fluctuating house values. The median net wealth of homeowners with a mortgage decreased by 20 per cent, from €180,300 to €144,300, while the net wealth of outright homeowners fell by 12 per cent, from €258,800 to €226,700. The impact was asymmetrical, as mortgaged homeowners in the bottom quintile of the distribution experienced larger decreases in their net worth, which fell by a third between 2010 and 2014. Yet, despite large declines, the net wealth of homeowners was substantially higher than that of renters, whose median net worth averaged €9,300 in the period. As suggested by the analysis in the previous section, differences in home ownership contribute significantly to wealth inequality (Lindner 2015).

This section also proves that housing is a key component of distributional dynamics related to wealth. It is both the most important asset and source of debt. However, the inability of lower-wealth households to diversify into other assets has, in recent times, left them more vulnerable to the waxing and waning of the economic cycle.

### ***3.5 Aggregate determinants of wealth distribution***

The previous sections have established trends in wealth distribution and also how wealth levels and portfolio composition relate to distribution. The following sections attempt to provide some explanations for these trends. Given the observation in the previous section, that leveraged households toward the bottom part of the distribution are vulnerable to economic shocks, we now explore some of the macroeconomic and structural factors that contribute to wealth inequalities.

Of course, numerous institutional and structural factors can explain the observed differences in wealth across countries, as well as disparities in accumulation within countries. Given the importance of housing and property, the prevailing system of housing provision in a given country is key. Higher provision of social and private-rented housing explains low home-ownership rates in Austria and Germany, while privatisation of social housing and the liberalisation of mortgage finance explain high dependence on house purchase among Eastern and Southern European households (Wind *et al.*, 2017). Expansion of home ownership in the latter group of countries has been associated with increasing inequality of housing wealth (*ibid.*).

In terms of macroeconomic factors, Adam and Zhu (2016) analyse the distributional impact of price changes across countries and household socio-demographic characteristics, finding that wealth inequality on average decreases with unexpected inflation. Claeys *et al.* (2015) find that loose monetary policy and low interest rates raise wealth inequality in the short run. Le Blanc *et al.* (2014) study differences in motivation to save across countries, finding that institutional framework, gender, age, marital status and accumulated wealth influence household saving and thus opportunities for wealth accumulation. Mathä *et al.* (2017) establish the importance of asset-price dynamics, home-ownership and intergenerational transfers in explaining differences in household wealth between countries.

Macroeconomic imbalances in the euro area play a role in shaping wealth inequality. The strong macroeconomic performance of the core euro-area economies has sustained their house-price growth and wealth accumulation, while house prices have remained suppressed in periphery countries, which continue to battle the negative consequences of the Eurozone crisis precipitated in 2010 (ECB, 2015; Stockhammer, 2016). Thus, though macroeconomic factors play an important role in wealth inequality, data show their impacts vary by region.

Compared to macroeconomic factors, the system of housing provision within a country and the mix between social and private accommodation plays a greater role in structuring wealth inequality. For example, unexpected price increases reduce inequality, whereas low interest rates increase it. The importance of macroeconomic factors on inequality is likely to vary across countries given that some countries have largely recovered the crisis, whereas others have not.

### 3.6 *Income and wealth*

This section looks at how income dynamics influence the distribution of wealth. Though the relationship between income and wealth is not as strong as one might imagine, wealth is an important source of income. For example, wealthy households were able to shield income loss from assets from the downturn. Income-rich households are also better able to accumulate more wealth. We argue that income-poor households are unlikely to catch up to soon, especially as house prices continue to rise.

The relationship between income and wealth, and income and wealth inequality is complex. Wealth inequality is, by definition, determined by disparities in the patterns of asset and debt/liability accumulation. Across countries, such disparities are driven by differences in institutional frameworks; as before, provision of social housing, macroeconomic performance, balance-sheet composition, and other factors (see below) are important, which in turn influence saving and borrowing opportunities (Ampudia *et al.*, 2016; Bover *et al.*, 2014). But such factors need not be strongly related to the distribution of income. For instance, Scandinavian countries have high levels of wealth inequality and comparatively low levels of income inequality, and the converse is true in Southern Europe (Skopek *et al.*, 2015).

Despite the connection not being as strong as one might imagine, there is a logical connection between income and wealth. Differences in income across the distribution influence households' abilities to accumulate wealth through savings and asset purchases. Empirically, Arrondel *et al.* (2014) show that a household's position in the wealth distribution is likely to depend on the amount of income (and intergenerational transfers received).

At the same time, disparities in ownership of different types of wealth generate varying income streams. In addition to some households having more wealth, certain assets (such as business income, income from property other than main residence and high-yielding financial assets) have higher returns than others (such as household main residence, vehicles and deposits). One example is that only 1 per cent of households in the bottom quintile of the net-wealth distribution earned rental income from property in 2014, compared with over 27 per cent among the top quintile. Similarly, just over one third of the least wealthy quintile earned income from financial investment that year, compared with more than 77 per cent of top quintile households.

Table 2 shows how ownership of assets creates opportunities for income generation. It displays the change in income by source, including asset income. Though employee income cannot be considered as income from wealth, self-employment income can in part (see Chapter 4). Compared to the bottom quintile, the richest quintile experienced a bigger drop in their income from self-employment, transfers, property, and private business income. The large increase in self-employment income among wealth-poor households should be treated with caution. Rather than reflecting a surge in wealth generation, this trend more plausibly shows that poorer households are often entering precarious self-employment involuntarily. Moreover, median flows of property income between 2010 and 2014 nearly doubled the top quintile's flows of financial-investment income, while the financial income of households in the bottom quintile remained stagnant. Similar patterns are observed for changes in the flows of retirement income, the most important source of wealth income,<sup>41</sup> with households at the bottom of the distribution suffering losses and those at the top making gains. The greater diversification of wealthier households, especially into financial/retirement assets, has translated into a greater ability to shield their income from downturns.

<sup>41</sup> This is true if we following the convention in Chapter 4 in which 30 per cent of self-employment income is considered to be capital income.

The flipside of receiving little income from assets is that one is likely to be asset poor. Indeed, these patterns of income flow suggest uneven experiences in the labour market for households with different wealth levels. More than 90 per cent of the gross income of households in the bottom four quintiles of the net-wealth distribution was composed of employee income in 2014, compared with 80 per cent for the richest quintile, according to the HFCS (HFCN, 2016). In reality, employee income at 80 per cent likely overestimates the importance of employee income to households in the top quintile of wealth. The fact that between 1995 and 2017 the share of GDP accruing to wages fell from 58 to 55.6 per cent, suggests the erosion of the purchasing power of wealth-poor households (AMECO, 2018). Moreover, this period has also witnessed large increases in house prices, which in many countries are now higher than pre-crisis levels. Thus, not only has the income of wealth-poor groups been in decline, but it has not been cushioned by greater ease of acquiring assets.

**Table 3.2: Median value of income flows by source and quintile of net-wealth distribution, 2010-2014 (source: author's calculations based on HFCS)**

		Employee			Self-employment			Retirement		
2014 EUR	2010	2014	Change	2010	2014	Change	2010	2014	Change	
Bottom 20%	15,595	15,200	-2.5%	7,358	10,535	43.2%	11,000	10,409	-5.4%	
Top 20%	37,058	40,847	10.2%	28,213	22,086	-21.7%	23,897	26,933	12.7%	

**Table 3.2 continued**

		Transfers			Property			Financial investment			Private business		
2014 EUR	2010	2014	Change	2010	2014	Change	2010	2014	Change	2010	2014	Change	
Bottom 20%	4,940	5,000	1.2%	6,000	5,400	-10%	20	20	0%	100	81	-19%	
Top 20%	3,853	3,476	-9.8%	7,500	6,042	-19.4%	500	932	86.5%	6,400	1,844	-71.2%	

The largest drop in the wage share is observed for Ireland; measured at current market prices, the Irish wage share declined from 53.4 per cent in 1995 to 34.4 per cent in 2017, though this may in large part be due to inflation of its GDP through multinational tax avoidance. Substantial decreases in the wage share have also taken place in Poland, Malta, Hungary, Portugal and Slovenia. In contrast, the share increased in Greece, France, Hungary, Latvia, Luxemburg and Slovakia during this period. Divergent trends in relative wage income across the Eurozone countries signal another potential future source of wealth inequality.

In sum, wealthier households have been more able to insulate their asset-income from declines than have wealth-poor households. The fact that poor households get a large portion of their income from employment, coupled with the falling wage share, indicates that group's diminishing ability to close the wealth gap.

### ***3.7 Inequalities in education***

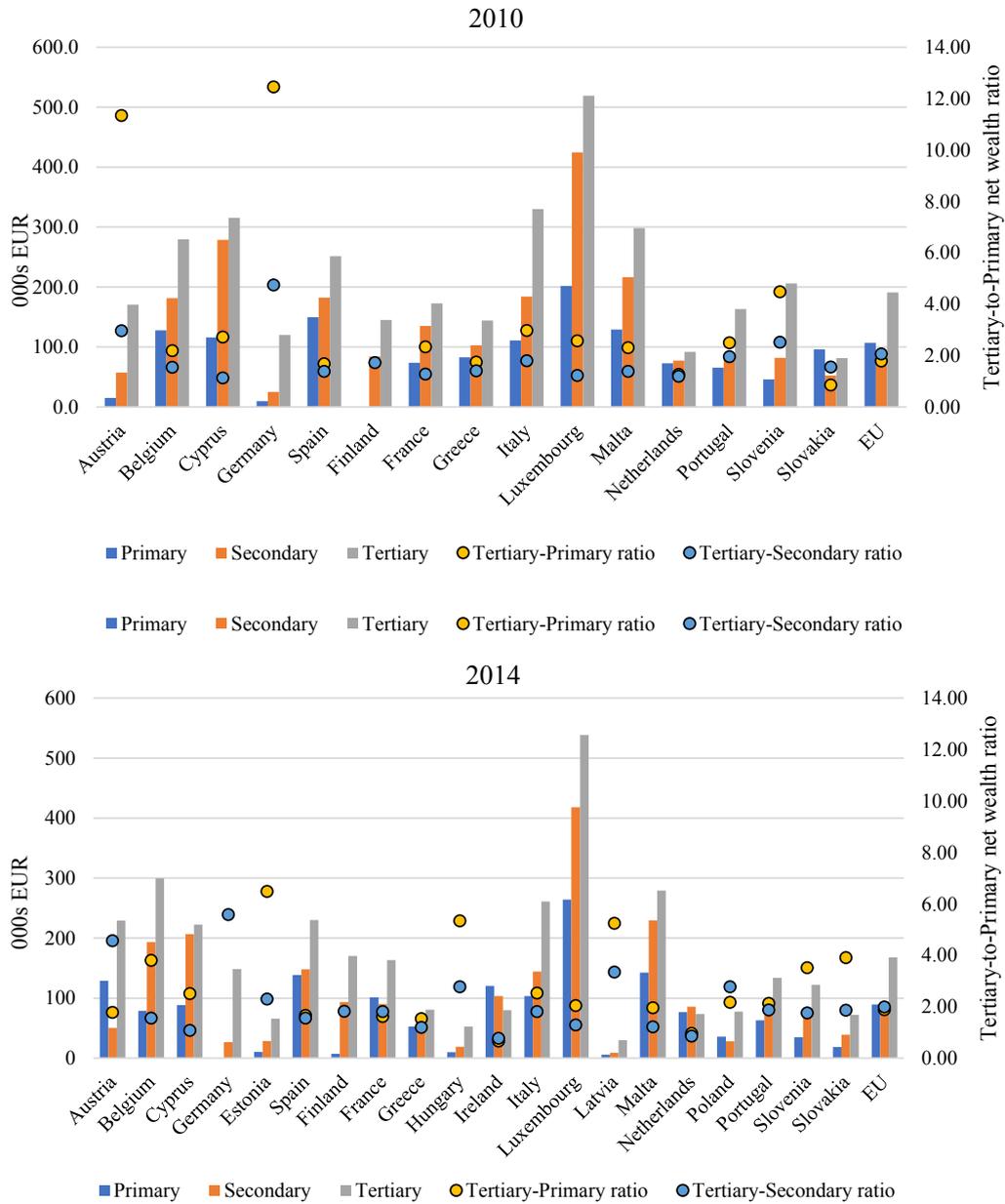
Turning now to micro-level factors, the role of education in wealth accumulation is examined. Unsurprisingly, the finding is that groups with more education have greater wealth.

Accumulation of human capital has vital implications for the accumulation of pecuniary wealth, as it tends to boost incomes and allow for greater saving (Williams, 2017). In the HFCS, the impact of human capital can be approximated by investigating disparities in wealth accumulation according to educational level. For example, by comparing households whose heads completed education at the primary, secondary or tertiary level. Those with a university degree tend to own more wealth than those who completed only secondary or primary education. Across the EU, median wealth for highly-educated households is twice that of households with only secondary education and the disparity is even more acute for households with only primary education.

Figure 6 shows that the educational wealth gap in 2010 was highest in Germany and Austria, where households who completed tertiary education owned more than 12.5 and 11 times as much wealth (respectively) as households with only primary education, and nearly five and three times as much wealth (respectively) as households with only secondary education. By 2014, this gap had widened in Germany, as the median wealth of households with only primary education plummeted to €200, in real terms. Similar to Germany, Belgium and Slovakia also experienced increases in the median wealth gap between households with the highest and the lowest levels of education between 2010 and 2014. This trend paralleled the overall increase in the tertiary-to-secondary wealth ratio in the EU, from 1.8 to 1.9. In the second wave of the survey, sizeable differences in median net wealth between the extreme levels of educational attainment are also observed for Estonia, Finland, Hungary and Latvia, where the median ratio of net wealth by tertiary-to-primary education exceeded five in 2014.

In Ireland and the Netherlands, however, the median net wealth of households with primary education exceeded that of households with a university degree in 2014. In the case of Dutch households, this was primarily due to large decreases in the median value of wealth held by the latter group. In several countries, the extreme educational wealth gap fell between 2010 and 2014, and the differences in the median holdings of net worth are not as vivid as between homeowners and renters, as documented above. That is to say, education is not as strong a predictor of wealth differences. Indeed, this finding is consistent with empirical evidence suggesting that rising educational levels worldwide have not led to alleviation of income and wealth inequality (Castelló-Climent and Doménech, 2014).

**Figure 3.6: Median net wealth by level of educational attainment, 2010-2014 (source: author's calculations based on HFCS)**



Patterns of educational attainment are, therefore, reflective of patterns of wealth accumulation in that households that are 'education rich' are likely to be wealth rich too. This may be due to greater levels of education improving wealth-accumulation opportunities by opening doors to higher earnings and saving (Murphy and Topel, 2016). There is significant heterogeneity across countries, and though the education-wealth gap has decreased somewhat in most countries between 2010 and 2014, in many countries it has not.

### **3.8 Gender inequality**

The gender wealth gap has mainly been studied from the standpoint of individual differences in asset holdings between men and women *within* a household (Deere and Doss, 2006), but it can also be analysed across households through the HFCS (Schneebaum *et al.*, 2018).

Figure 7 shows that, across the EU, the median household headed by a man owns on average 1.6 times as much wealth as one headed by a woman. Between 2010 and 2014, the ratio decreased from 1.61 to 1.57. And in the majority of the countries covered by the two waves of the survey, gender wealth inequality declined. Nevertheless, only 30 per cent of households in the top decile of the net-wealth distribution are headed by a woman, and most households in the top 40 per cent of the distribution are headed by a man.

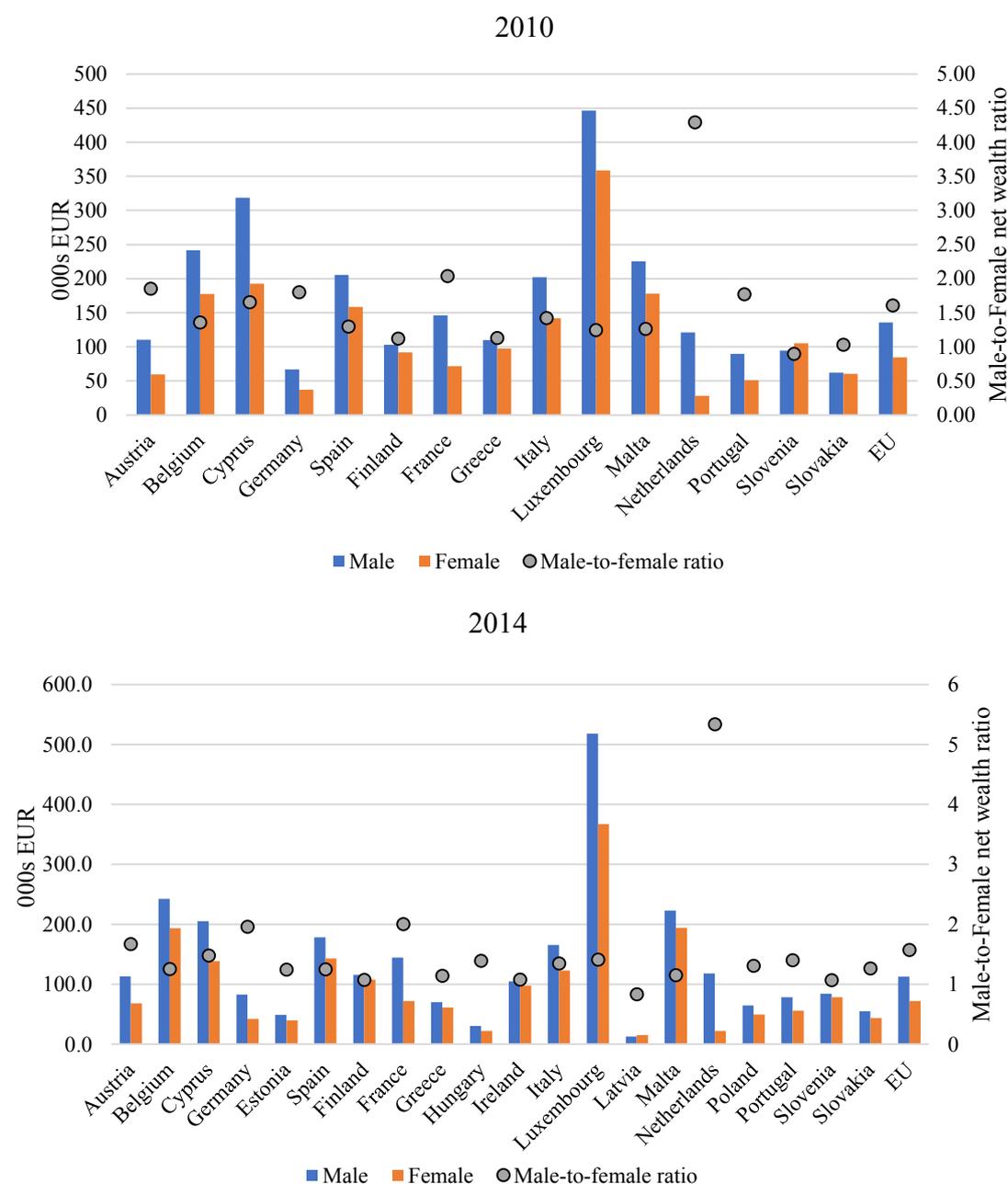
The ratio of median wealth of male-to-female-headed households is highest in the Netherlands, where it rose from 4.3 in 2010 to 5.3 in 2014. Other countries with relatively high gender wealth inequality are France, where the median male household owned on average twice as much wealth as the median female household in the period, and Germany, where the wealth ratio was just under two. Latvia is the only country in the sample where households headed by women have marginally higher net worth than those headed by men (the median ratio of female-to-male-headed household wealth was 1.2 in 2014).

Similar to the Netherlands, gender wealth inequality increased in Germany between 2010 and 2014, as the male-to-female net wealth ratio expanded from 1.8 to 1.96. The wealth gap also increased in Luxembourg (with the ratio rising from 1.2 to 1.4), as well as in Slovenia and Slovakia, where the ratio is close to one. Overall, there is evidence of a persistent wealth gap by gender in the euro area, albeit the degree to which varies substantially across countries.

Inequalities in the labour market likely have a strong bearing on gender wealth inequality. As shown in Chapter 4, the Netherlands, where many women work part-time, has the highest earnings gap between men and women in the EU-15, and Germany has the second highest. In contrast, Finland has the lowest earnings gap and also the lowest wealth gap among EU-15 countries. Lower earnings affect the ability to acquire assets such as housing. But lower earnings and lower labour force participation may also exclude or limit women's participation in occupational pension schemes.

Overall, though the gap has decreased somewhat in recent times, men have more wealth than women. Earnings and participation in the labour market appear are a key driver of this trend.

**Figure 3.7: Median net wealth by gender of household head, 2010-2014 (source: author's calculations based on HFCS)**



### 3.9 Intergenerational inequality

This section examines intergenerational aspects of wealth inequality. Wealth accumulates with age, and all groups have experienced declines in net wealth in recent years. Demographic trends may magnify wealth inequalities, but ultimately those inequalities are generated elsewhere, with parental transfers likely playing an important role.

Some see the intergenerational wealth gap as the key mechanism driving overall inequality in ageing societies (Piketty, 2000; Bowles and Gintis, 2002; Erikson and Goldthorpe, 2002). According to this view,

as older households tend to own more wealth, the observed increase in the number of the elderly in Europe in recent decades (European Commission, 2014) would translate into greater wealth inequality in European societies as a whole.

For Christophers (2018), however, intergenerational disparities are more a reflection rather than a cause of the overall circumstances shaping the distribution of wealth at any point in time. In this context, availability of inheritance plays a crucial role.

Figure 8 shows that in the EU as a whole, wealth accumulation has a hump-shaped pattern across age groups. This distribution corresponds to the life-cycle theory, which states that young households borrow in expectation of future income increases and accumulate assets over their life-cycle until retirement, at which point they consume from their wealth and their wealth holdings decrease (Bertola *et al.*, 2006: 6).

Based on Figure 8, the highest amount of net wealth in the EU is accumulated by households whose head is between 55 and 74 years old. Between 2010 and 2014, all age groups experienced declines in their median net wealth but the fall was comparatively greatest for households whose head was between 35 and 56 years old. Moreover, leverage (the ratio of debt to assets) is observed to decline with age, which suggests that as households grow older they become more financially stable.

Yet, as their net wealth decreased, the leverage of all households went up between 2010 and 2014. The increases in debt-to-asset ratio were particularly high for households whose head was aged 35-44, but also those in the 16-34, 45-54 and 75 years-plus categories. The aggregate increase in indebtedness among the elderly was paralleled by a rise in the percentage of these households holding debt. This shows that growth was not driven by a select few households, but was part of a more general phenomenon of growing indebtedness among older groups. While the proportion holding debt fell among households whose head was between 16 and 64, it increased from 23.8 to 24.4 per cent for those whose head was 65-74, and from 7.7 to 9.3 per cent for those aged 75 and over. These numbers can be explained by older households taking on debt to compensate for low returns on private pension schemes, the result of annuities being suppressed by low interest rates since the Great Recession.

**Figure 3.8: Net wealth and debt-to-asset ratio by age group of head of household, 2010-2014**  
(source: HFCS)

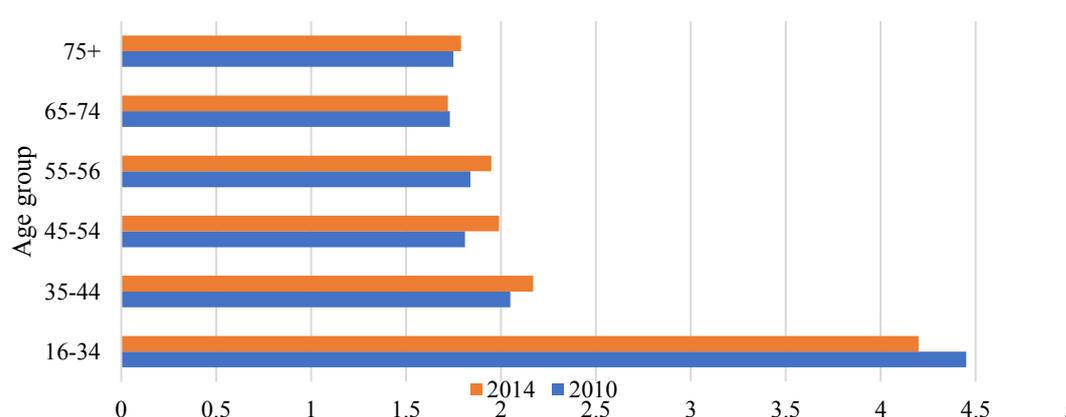


Differences in home-ownership across age groups play a vital role in determining intergenerational wealth inequality. Around one third of households headed by 16-34 year-olds own a home, compared with 60 per cent and above among the other age groups. Nevertheless, even as the net wealth of the young decreased between 2010 and 2014, the home-ownership rate of the youngest group rose from 30 to 32.4 per cent, while the percentage of households owning a home declined for the other age groups.

Parental wealth has an important impact on the wealth-accumulation possibilities of the young. On average, 18 per cent of households across the EU headed by a 16-34 year-old received some form of gift or inheritance in 2014. This varies greatly across countries, from a third of the youngest households in Cyprus and a quarter in Slovakia and France, to 8 per cent in the Netherlands and 3 per cent in Greece. Figure 9 suggests that the availability of inheritance is one of the reasons why net wealth inequality, measured by the ratio of mean-to-median wealth holdings, is highest among the youngest age group.

High inequality among the young supports the view that intergenerational disparities – induced by the growing share of older people – are not the root cause. Rather they are a symptom that magnifies wealth inequality, and that wealth inequality is ultimately produced elsewhere in society. Because younger people are less able to accumulate wealth themselves, absent inheritance or parental assistance, it should follow that wealth inequalities among them are less pronounced than among older cohorts. The fact that the opposite is true suggests a strong role for bequests and assistance. As wealth begets more wealth, existing wealth inequalities among younger groups are likely to become more pronounced in the future. Moreover, income-rich households are more likely to bequest wealth to children than income-poor ones. These children are more likely to be income-rich in the future (and then more able to acquire assets themselves). As such, it follows that demographic factors, though reinforcing existing disparities, are not the principal source of wealth inequality.

**Figure 3.9: Mean-to-median net wealth ratio by age group, 2010-2014 (source: author's calculations based on HFCS)**



In sum, significant differences in net wealth exist between different age groups. Wealth accumulates with age, peaking around 55-64, and declining thereafter. All cohorts experienced declines in net wealth from 2010 to 2014 as asset values dropped, and consequently increases in leverage. Intergenerational and demographic trends may magnify extant inequalities, but ultimately the skewed distribution of wealth is generated elsewhere.

### ***3.10 Conclusion***

This chapter investigated wealth inequality across Europe, using data from the Household Finance and Consumption Survey. It demonstrated that wealth inequality in the euro area is greater than income inequality and is attributable chiefly to wealth disparities within countries. Between 2010 and 2014, wealth inequality increased in the EU as a whole, within and between countries. Rising wealth inequality within countries was explained by different rates of decline of net wealth across the distribution, with the least-wealthy households suffering the greatest losses over time.

The growing divergence between euro area countries can be understood by different trends in net wealth across countries, driven by disparate house-price growth. Net wealth of households in the core countries, including Germany, Austria and Luxembourg, increased between 2010 and 2014 thanks to strong house prices. Conversely, households in periphery countries, including Cyprus, Greece, Italy and Spain, as well as Slovenia and Slovakia, saw their net wealth plummet in the period, in tandem with slowing house-price growth.

Differences in ability to diversify or balance-sheet composition, across and within countries, have likely contributed to overall wealth inequality. Households whose dominant asset was their main residence, particularly when backed by a large relative amount of debt, experienced lower wealth and greater decreases in net wealth over the period than households with more diversified and less leveraged portfolios. Home-ownership is one of the key factors contributing to wealth inequality: renters own significantly less wealth, although this varies across countries.

In addition, differences in macroeconomic performance and public provision of services, stagnant wages, a falling wage share in national income and growing wage inequality have been vital drivers of wealth disparities in the EU. Declining wage shares and rising wage inequality are likely to feed back to wealth inequality as wages constitute the main source of income for low-wealth households, impeding their ability to save and purchase assets.

Female-headed households and households with lower levels of education own less wealth than male-headed households and households with a completed university degree. While wealth gaps across these groups have fallen slightly between 2010 and 2014, trends in wealth inequality across gender and education have been uneven across countries. Lastly, there are observable life-cycle patterns of wealth accumulation in the EU, which suggests that demographic change and societal ageing has played some role in increasing wealth inequality. That said, inequality is highest among the youngest group of households in the sample, with certain young households benefiting from their parents' wealth through inheritance.

Addressing wealth inequality has potential to improve the financial wellbeing of households on a variety of socio-economic dimensions. Co-ordinated policy measures at the EU level are needed to alleviate disparities in wealth, alongside income. These would contribute to narrowing the wealth gap across gender, generations and educational levels, as well as to reducing wealth inequality across countries.

First, a levelling out of macroeconomic imbalances across the euro area through coordinated fiscal transfers could counteract the divergence of net wealth across European households. Secondly, given that bank accounts are the dominant financial asset for low-wealth households, a low-interest rate policy has a depressing impact on potential improvements in wealth accumulation at the bottom of the distribution and deepens inequality.

Moreover, policies aimed at alleviating inequalities in housing wealth have important implications for improving the overall patterns of wealth inequality in the euro area. But supporting accumulation of assets other than housing, as well as ensuring access to affordable credit, is important to cushion households – particularly low-wealth and leveraged homeowners – from fluctuations in their wealth resulting from changing house prices. The latter is also important to counteract rising wealth inequality across the euro area, particularly in periphery countries where the impact of the Eurozone crisis lingers on.

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## 4. Irish social and economic trends among European countries

# 4. Irish social and economic trends among European countries

Robert Sweeney<sup>42</sup>

*FEPS-TASC researcher*

Key points:

- Ireland has the second highest inequality of market incomes of the relatively prosperous EU. It has been on a rising graph since the 1970s, with the gains captured by the top 1 per cent explaining much of the change. This has coincided with a reduction in the density of trade-union membership at work.
- Ireland is however only in the middle when the measure of inequality is by disposable income, after taxes and transfers. The Irish welfare state has successfully stabilised inequality on this measure since the 1980s.
- Inequality in Ireland is translated into high rates of poverty and deprivation, via weak participation in the labour market and extensive low pay. Life expectancy is notably unequal and labour-market participation stratified by education at the low end.
- Inequality in Ireland also has a strong gender dimension, including weaker participation in employment and greater exposure to low pay, in the context of poor childcare provision. The 'motherhood penalty' is the biggest factor retarding women's lifetime earnings.
- Revenue from tax and social-insurance contributions is low by European standards, in comparison with national income. Dependence on consumer taxation is regressive and on corporate-tax revenue (inflated by multinational profit-shifting) concerning. Public expenditure is correspondingly low, notably on social protection, although this is partly due to Ireland's demography.

## 4.1 Introduction

Inequality has been receiving increasing attention from diverse sources. From the International Monetary Fund (2017) to the European Parliament (2015), and from Oxfam (2018) to the World Inequality Lab (2018), several organisations have highlighted high inequality as a central social problem of our time. Though uneven, there has been a steady rise in inequality within countries over recent decades.

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<sup>42</sup> I would like to thank Sean O'Riain, Donald Storrie and Paul Sweeney for comments and suggestions on a previous draft of this and the following chapter. All errors and omissions are mine.

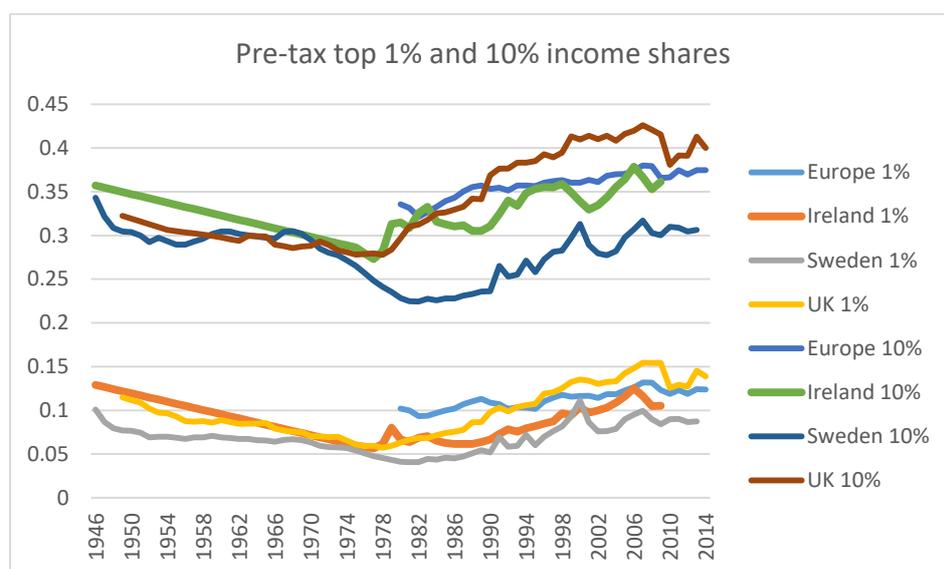
Ireland performs comparatively poorly across a range of socioeconomic indicators. The Irish economic model, which generates through the market large inequalities which the state partially offsets through transfers, is associated with social problems. There is a high incidence of poverty and low pay is prevalent. Economic inequalities are translated into social inequalities, and traditionally vulnerable demographics such as women and children also do poorly. While the state redistributes through cash payments, social provision through services is comparatively weak. Though the state is effective in redistribution and poverty reduction, such is the scale of inequality generated in the market that Ireland remains, even after taxes and transfers, a comparatively unequal country.

The layout of this chapter is as follows: Section 2 previews trends in inequality, leading to a discussion of the Irish labour market. The next section examines poverty and deprivation. The subsequent section looks at the gender dimension to economic inequality. The following section explores health and educational inequalities. The penultimate section looks at the role of fiscal policy in redistribution. The final section concludes.

## ***4.2 A preview of economic inequality in Ireland***

Inequality can be measured at the household or the individual level. The former is typically favoured, as resources tend to be pooled among family members and other cohabitants. Ideally, inequality would be measured on the basis of total final household consumption. Final consumption, in which both private and public goods and services are accounted for, provides a more comprehensive measure of wellbeing than final income. It also facilitates better comparison of inequality across countries, given the large differences in the scale of public provision. Given the difficulties involved in constructing such series, however, distributions of consumption are rarely available.

Ideally, a detailed, historical series would also exist, measuring inequality in a variety of ways. But such data are generally difficult to come by. A long-run series has been constructed by the French economist Thomas Picketty and co-authors. Using their World Top Incomes database, Figure 1 below examines the share of income accruing to the top 1 per cent and top 10 per cent of earners. It is based on pre-tax income, essentially the sum of labour income and capital income. It refers to so-called tax cases, primarily individuals who pay taxes but sometimes couples who pay taxes jointly.

**Figure 4.1: Pre-tax top 1% and 10% individual income share**

Source: World Top Incomes database.

Notes: first data point for Ireland is 1943, not 1946. Missing data are linearly interpolated.

As can be seen, the period since the second world war was generally one of falling income inequality across advanced countries until the end of the 1970s, after which inequality began to increase. In the case of Ireland, as is evident from the straight line at the beginning of the series, much of the data is missing. Nevertheless, it is apparent that among owners of factors of production in Ireland – workers, business owners and asset owners – inequality fell markedly from the 1940s to the late 1970s. Since then the share of income accruing to both the top 1 per cent and top 10 per cent has been increasing steadily in Ireland, as it has elsewhere, although in recent years there has been a stabilisation. The period since the 1980s, of course, coincides with the advent of neo-liberalism, the rightward shift in economic policy.

Interestingly, the most egalitarian year on record in Ireland was 1975, in which the top 1 per cent earned 6 per cent of income and the top 10 per cent earned 29 per cent. Around the time of the crash in 2009, those income shares were respectively 11 and 36 per cent. The top 1 per cent almost doubled its share of national income between the two periods, accruing five extra percentage points, while all of the top 10 per cent 'only' gained seven points. Thus the increase in the share of income accruing to the top 10 per cent has been overwhelmingly driven by gains by the top 1 per cent.

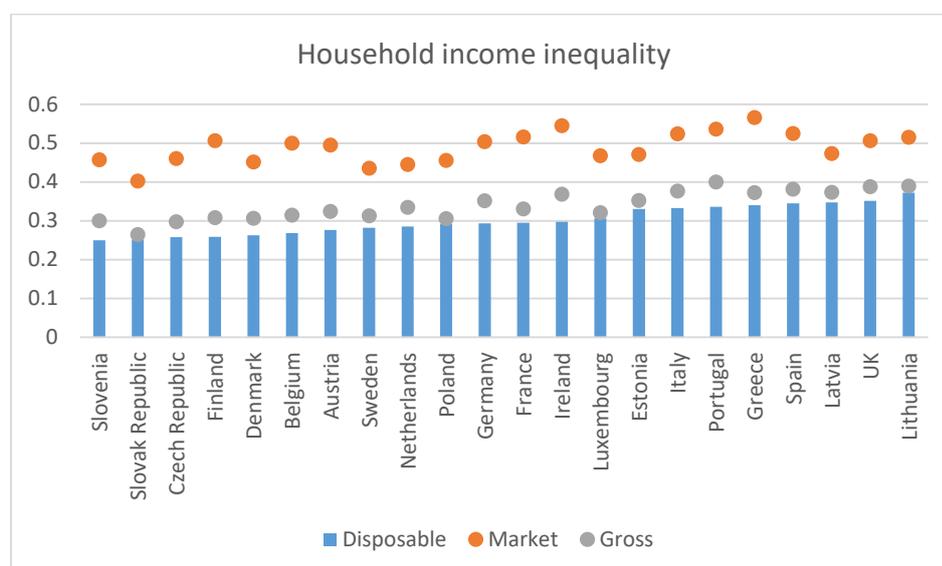
While this series is useful for evaluating historical trends, it is only available in pre-tax form and at the individual or 'tax case' level. Transfers by the state in the form of welfare payments are excluded. Taxation and welfare systems, though, play a large role in redistribution. Moreover, as mentioned, the household plays an important role in distributional outcomes through resource-pooling. And households are increasingly being formed on the basis of educational and cultural attainment, or 'assortative mating'. That is, highly-educated people – and hence high potential earners – are less likely to marry outside their cultural and educational group than was previously the case. Assortative mating and income pooling among household members affect distributional outcomes, though other processes play larger roles (Eika *et al.*, 2014). Economic inequality measured at the individual level paints an incomplete picture of distributional dynamics.

Callan *et al.* (2018) examine the trajectory of income distribution in Ireland using a variety of historical sources. Their unit of analysis is household disposable income per (equivalent)<sup>43</sup> person. They find that income distribution has been broadly stable since 1987. Given the trend increase in pre-tax inequality illustrated above, this suggests the Irish state has had to steadily increase its intervention to maintain distributional stability. They treat 1986 as a turning point in welfare policy as payments to lower-income groups were increased (*ibid.*: 1). It is possibly the case then that disposable-income inequality has increased since the 1970s but has been stable for the last 30 or so years.

Figure 2 displays inequality within countries, in terms of household income per person, for disposable, market and gross income. Inequality is measured using the Gini coefficient, using latest available data (mostly 2015 and 2016). Disposable income refers to net income, after taxes paid and transfers received. Market income refers to income earned through the market, mostly income from work but also capital income. It is before taxes are paid and transfers received. Gross income is pre-tax income. It is essentially the sum of market income and income from state transfers. Household income per person is 'equivalised', meaning the composition of the household is controlled for. EU countries were selected for which data were available and arranged from left to right according to increasing disposable-income inequality; thus, Slovenia has the lowest disposable-income inequality and Lithuania the highest.

Focusing on disposable income, the most relevant metric, there is considerable diversity across countries in the distribution. Perhaps surprisingly, the most egalitarian countries lie on the western periphery of Eastern Europe. Then come the Nordic countries, then central Europe, with the Mediterranean and Baltic countries respectively the most unequal. Ireland is somewhat more unequal than most European countries, with a Gini coefficient of almost 0.3.

**Figure 4.2: Gini coefficient of equivalised household inequality per person**



Source: OECD Income Distribution Database.

<sup>43</sup> Equivalence controls for household composition. For instance, a household with a given income shared between two adults will have a lower standard of living than a household sharing the same income between an adult and a child. As resources and bills are shared, that same two-adult household has a higher standard of living than if the two adults lived separately.

The following chapter shows that when the remaining European countries are included, and because most developed countries have grown more unequal over time, Ireland currently ranks in the middle.

What is striking about Ireland is that it has after Greece the highest-market income inequality of the countries – even above Portugal, the next highest. Only for Greece's extreme unemployment, Ireland would be more market income unequal. Ireland also has high gross or post-transfer/pre-tax inequality but several countries are more unequal on this measure. Indeed, the three measures of inequality in the figure are particularly dispersed in Ireland: its welfare state plays an unusually large role in redistributing income. Most of this is achieved through transfers to lower-income groups by the state (as evidenced by the distance between market and gross inequality). The taxation system also plays a large role (as evidenced by the distance between gross and disposable inequality) but not quite as large as transfers.

In sum, income inequality has been steadily increasing among advanced countries since around the beginning of the 1980s, though the trend seems to have stabilised in recent years. The income share of those at the very top has driven most of the increase, in Ireland and elsewhere. In Ireland, however, disposable-income inequality has changed little over the past 30 years or so. This indicates the state has had to play a large role to maintain distributional stability. This is achieved primarily through a system of transfers to lower-income groups and also by the tax system.

### ***4.3 The Irish labour market: low pay, weak employment and poverty***

As the key site of distributional struggle, the labour market is the central determinant of inequality. It provides a basis for understanding market inequality in Ireland. This section examines structures and outcomes in the labour market as they relate to distribution. Ireland has what might be termed a flexible labour market: workers offer great flexibility to employers. Union membership and coverage are comparatively low and labour protection comparatively weak. One consequence is an unusually high incidence of low pay. Moreover, though employment has increased in recent years, participation rates remain low, which intensifies distributional pressures. Ireland also has high rates of poverty and deprivation.

#### ***4.3.1 Institutional aspects of the labour market***

Not only in Ireland but across Europe, labour markets have undergone major transformation in the last three decades or so. There has been increased polarisation in remuneration from work, an unprecedented growth in the number of women in paid employment and a shift from manufacturing and agriculture towards services. These processes are related in that women disproportionately occupy service positions, often in the public sector. A further change peculiar to Ireland is the comparatively high dependence of employment on foreign direct investment (FDI), though the domestic-oriented<sup>44</sup> sector still accounts for some 90 per cent of employment (Jacobson, 2018).

In addition to structural transformation, another key source of change in the labour market has been increased 'flexibility', as elsewhere in Europe. According to textbook neoclassical economics a variety of 'rigidities' are said to impede the smooth operation of labour markets and these can, it is argued, lead to higher unemployment. As such, governments across the continent have sought to limit or scale back a variety of labour-protective measures, from restrictions on hiring and firing to the role and salience of trade unions.<sup>45</sup> Both structural change, including in Ireland the penetration of FDI, and the move towards more flexible workplaces have weakened organised labour.

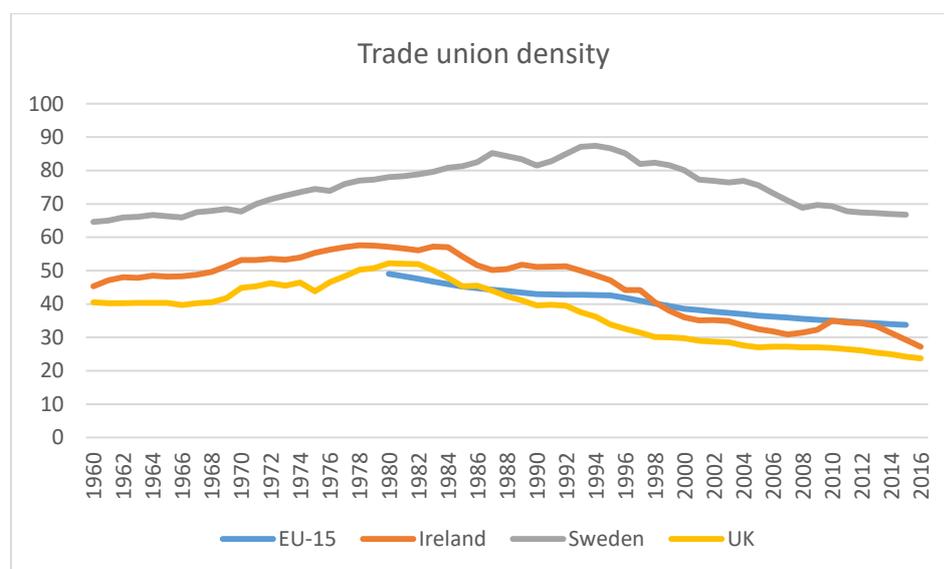
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<sup>44</sup> This includes foreign-owned firms catering to the domestic economy such as supermarkets.

<sup>45</sup> The evidence that more employer-friendly labour market structures lead to higher employment is decidedly mixed (Howell *et al.*, 2007).

These trends are evident in Figure 3, which shows trade-union density – the share of employees who are members of a union – in Ireland and comparator countries since 1960. A pattern of increase from the 1960s followed by sustained decline from around the early 1980s is observable. Trade-union density in Ireland is currently close to the EU-15 average,<sup>46</sup> and much below social-democratic Sweden, albeit somewhat above the UK. Unsurprisingly, there is a strong inverse correlation between trade-union density in Figure 3 and market inequality in Figure 1. The post-war decline in inequality coincided with a rising share of the workforce becoming members of a union. Similarly, the increase in inequality since the 1980s has coincided with declining union density.

**Figure 4.3: Trade union density**



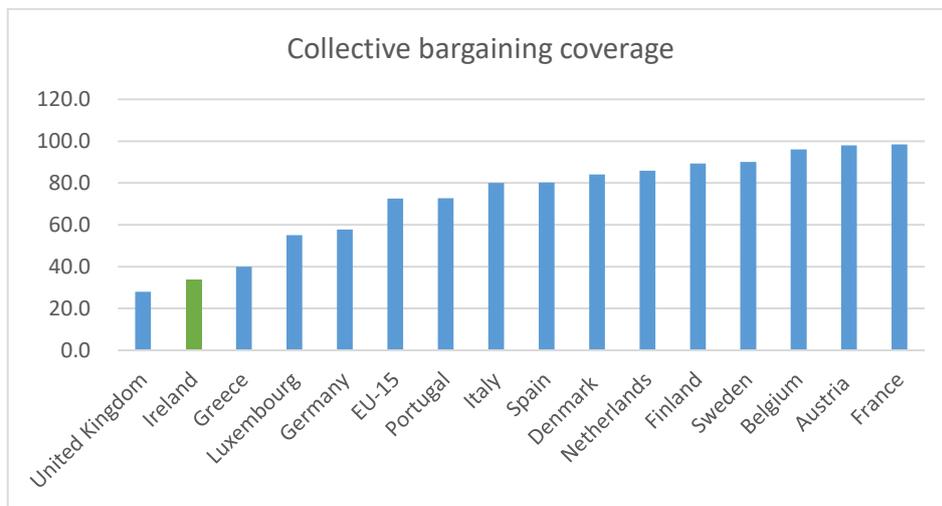
Source: OECD labour statistics.

Note: due to missing data the EU-15 average could not be measured exactly; it was measured every five years using nearest-year data and linearly interpolated.

Trade-union density can however give a misleading picture of the role and strength of unions in an economy. In several countries, the share of the workforce who are a member of a union is not high but most workers are still covered by collective-bargaining agreements. As shown in Figure 4, at just a third of the workforce, collective-bargaining coverage is unusually low in Ireland by EU-15 country standards. Recent industrial strife at Ryanair and elsewhere suggests many workers desire union recognition, and would be more likely to join were recognition available.

<sup>46</sup> the 15-member EU before the enlargements to the east in the 21st century

**Figure 4.4: Collective bargaining coverage**

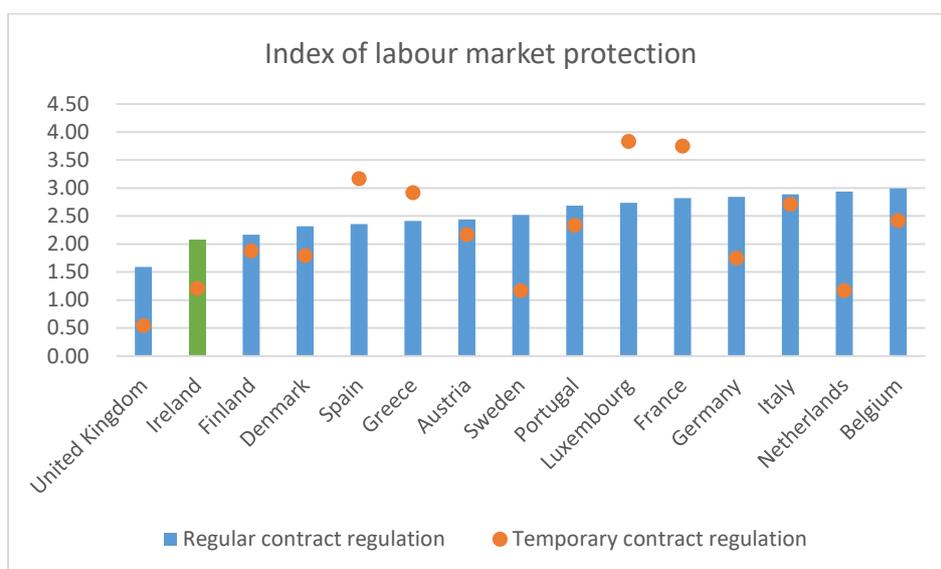


Source: OECD.

Note: figures are for 2014 as more recent data are not available for Ireland and several other countries.

Unsurprisingly then, Irish labour law offers workers low protection. As shown in Figure 5 below, Ireland ranks 14th out of the EU 15 in terms of labour market protection, 12th for temporary-contract regulation. Though severance pay is reasonable, crucially Ireland performs poorly given the ease with which employers can lay off employees – for instance, comparatively little notice has to be given (Murphy, 2016). Interestingly, most Nordic countries also offer relatively weak labour-market protection. They have achieved high prosperity and historically high degrees of equality through a bargaining process which integrates a relatively flexible and productive labour force into international markets, backed by high replacement rates and active labour-market programmes.

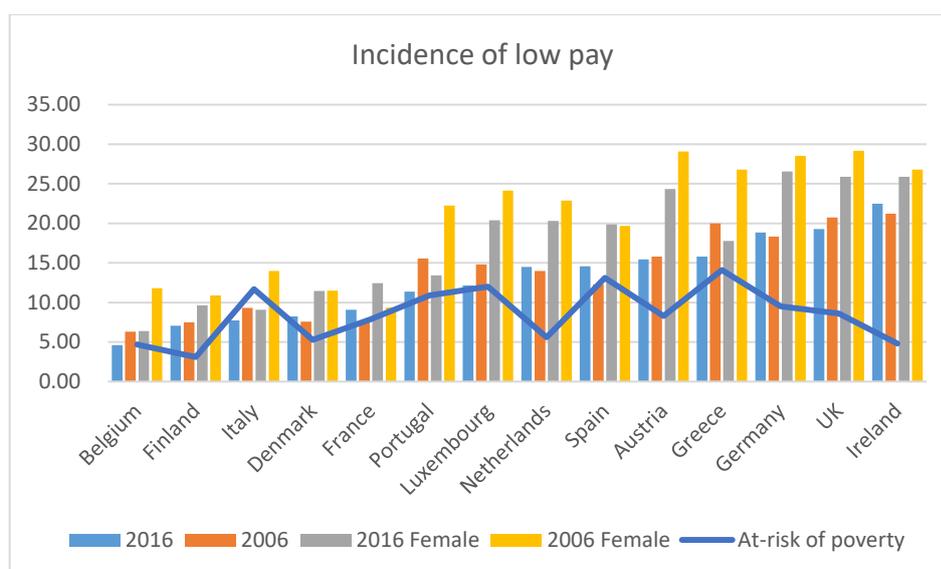
**Figure 4.5: Index of labour market protection**



Source: OECD employment-protection statistics.

One indicator of the distributional consequences of weak labour-market institutions is low pay, as shown in Figure 6 below. It shows the incidence of low pay among EU-15 countries, arranged according to total and specifically female pay for 2016, the latest year of available data. Someone is low-paid if, as a full-time worker, they earn less than two-thirds of gross (that is, pre-tax) median earnings. The low incidence of low pay in Belgium and especially Italy is partly a result of fewer women in the workforce, and hence fewer low-paid service occupations. The Nordic countries' ability to combine low incidence of low pay and high female participation is likely a result of collective bargaining in which comparatively high wage floors are set sector-by-sector.

**Figure 4.6: Incidence of low pay**



Sources: Low-pay based on OECD labour statistics; in-work poverty rate based on Eurostat.

Notes: in-work poverty data are for 2016 and refer to equivalised disposable income of less than 60 per cent of median; Swedish figures for low pay are not available.

At 23 per cent of the workforce, Ireland has the highest incidence of low pay in the EU 15.<sup>47</sup> In 2006, things were somewhat better, in that 'only' a fifth of the workforce were low-paid. Ireland also has a high rate of low pay among women, where more than a quarter are in low-paying jobs. Again, things have deteriorated for Irish women over the course of a decade, as somewhat fewer women were in low-paid jobs in 2006. The existence of low pay coincides, incidentally, with below-average labour costs (wages plus employers' pay-related social insurance) throughout the economy (Unite, 2016; TASC, 2018). This is despite Ireland being a high-cost economy overall (NCC, 2018; *ibid.*).

That said, the in-work poverty rate in Ireland is low by European standards. At 4.8 per cent, only Belgium and Finland had lower in-work poverty in 2016. The reason for the discrepancy between pay and poverty is that low pay refers to pay, whereas the poverty figure incorporates income received from other sources. In particular, the Irish state supplements the income of the low-paid through a variety of transfers such as family income and child supports, and jobseekers' allowance for part-time workers (Collins and Murphy, 2016). The state, in effect, subsidises a low-pay economy and enables employers to pay low wages.

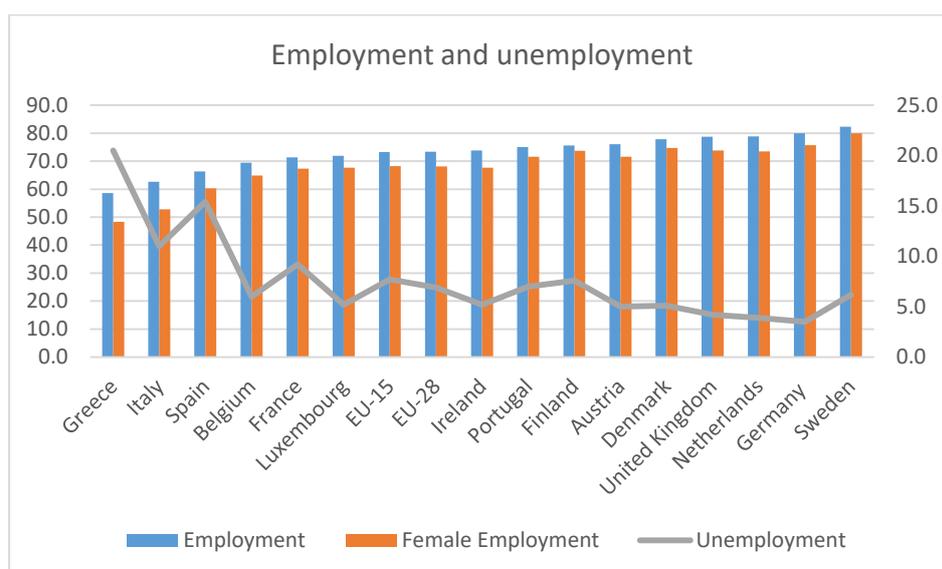
<sup>47</sup> Ireland's unusually high rate of low pay is replicated when hourly earnings are used. Among EU-15 countries, data for the same period as above show that only Germany has a higher incidence of low pay (Wickham, 2017: 43).

### 4.3.2 Employment participation

In addition to its impact on pay, the labour market affects the distribution of income in that participation in paid employment varies across different groups in society. Figure 7 shows the overall employment and unemployment rates for segments of the Irish and European labour forces. Countries are ordered according to the total employment rate. Employment figures are based on the end of the first quarter of 2018 for 20-64 year olds, whereas unemployment is based on the second quarter for the entire population. As has been well-documented, Ireland's unemployment rate is lower than European averages. As with other metrics, though, averages are skewed by extreme values among the Southern European countries.

The headline unemployment figure is not a true reflection of the share of the workforce whose employment needs are being met by the economy. The official rate is based on the International Labour Organisation definition of employment, being at least one hour of paid work per week. Factoring in part-time workers who would prefer to be working full-time, and the sizeable segment of the workforce aid by the state through government job schemes, the so-called broad jobless rate was estimated to be 15 per cent in 2017 (Hennigan, 2017). Fewer people at work helps explain Ireland's high market inequality.

**Figure 4.7: Employment and unemployment rates**



Source: Eurostat.

Note: the unemployment axis is on the right-hand side.

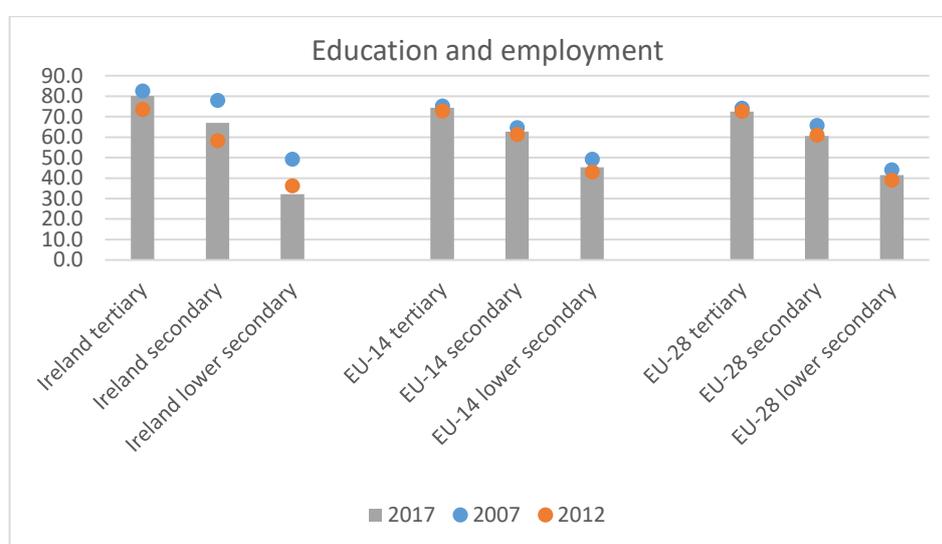
A similar point arises when one examines the employment rate, the share of the population in employment. The lower unemployment rate in Ireland compared with, say, Portugal or Finland masks the fact that the share of the workforce in employment in these countries is higher. At 74 per cent, Ireland comes ninth out of 15 in terms of the share of the population in employment. It comes (joint) tenth in terms of the share of women who are employed.<sup>48</sup> That is to say, though the headline rate of unemployment continues to recover, Ireland has difficulty finding employment for its population, especially women.<sup>49</sup>

<sup>48</sup> Irish female-labour force participation is however above the EU-15 average (Wickham, 2016: 225).

<sup>49</sup> Low employment does not appear to be a general feature of the Irish economy but rather is localised in segments of the labour market. The OECD (2018: 38) notes, for instance, that the differential in participation between low- and highly-educated youths in Ireland is the highest in the EU. Female participation is also low, though it should be borne in mind that much of the work women do is unpaid.

The class-based nature of employment is shown in Figure 8, which demonstrates the strong relationship with educational attainment. Across Europe, the rate of employment steps down from the tertiary-level educated, to those with only upper-secondary education, to those with only lower-secondary and below. In Ireland, at just 32 per cent and well below European norms, the employment rate among the least educated was particularly low in 2017. In contrast, there was a significant gain in employment for the middle group from 2012 and also a gain for the top group, whose employment rate had fallen less over the crisis. A decade or so previously there was no discernible difference in employment for low-education groups in Ireland compared with Europe as a whole. This points to an incomplete employment recovery for low-education groups or a structural problem which was papered over by the boom of the 2000s.

**Figure 4.8: Employment and education**



Sources: Eurostat.

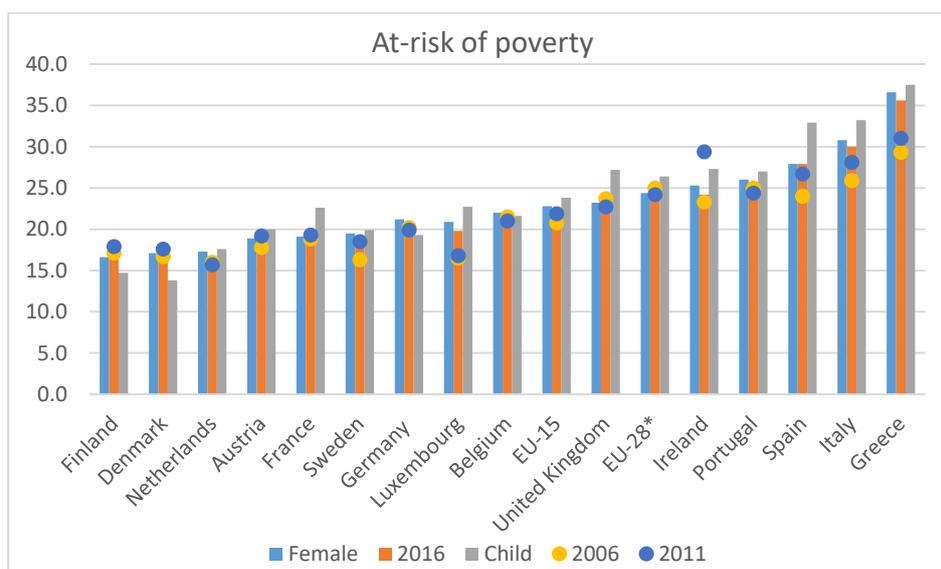
Notes: German data were not consistently available so EU 14 was used; because of a lack of consistently available data EU 28 refers to economy-wide figures, not averages.

### 4.3.3 Poverty and deprivation

Poverty is sometimes understood as an absolute lack of resources. On reflection, though, most people would find an unchanging definition of poverty to be unacceptable. For instance, a person without access to electricity and indoor plumbing may not have been considered poor in the past but today would be considered completely deprived. As such, poverty is measured in a country relative to that country's capacity to generate income and wealth. It measures the ability of persons to participate meaningfully in society.

The most common definition of poverty is the 'at-risk of poverty' rate. It measures the share of the population whose income is less than 60 per cent of the median. Figure 9 shows the incidence of poverty by that measure among European countries, arranged according to 2016 figures. At 24 per cent the incidence in Ireland is high – only the Southern European states have higher rates of poverty risk among the EU 15. And though it has fallen in recent years, it is marginally (~1 per cent) above the level of 2006. Given Ireland's low rate of in-work poverty, underemployment and low work intensity are likely to blame, with low wages having a more indirect effect.

**Figure 4.9: At-risk of poverty rate**



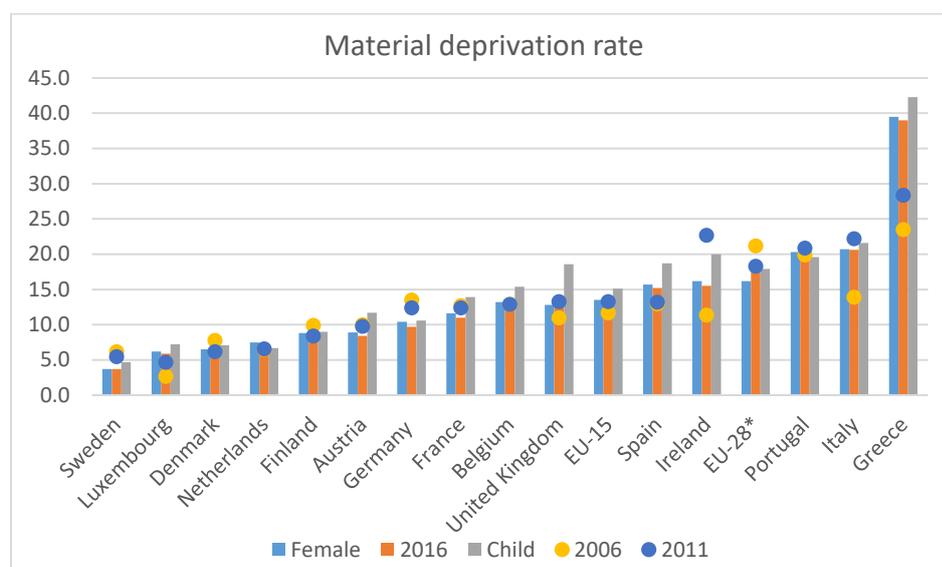
Source: Eurostat.

Note: data for Romania and Croatia are missing for 2006.

As shown, certain demographics are more at risk of poverty than others. Given low female participation and high underemployment and precariousness, the at-risk of poverty rate is higher for women.<sup>50</sup> Child poverty is above the overall risk of poverty for most countries and in Ireland 27.3 per cent of children were at risk in 2016. One of the reasons for higher rates among children is that households without children tend to have higher adjusted incomes, given the lower need to share. Nevertheless, it remains the case that those with least control over their destiny experience the largest socioeconomic disadvantage.

Figure 10 shows a very similar pattern, this time using the material-deprivation rate. This is defined as the proportion of the population unable to afford at least three out of nine necessities. Unlike the at-risk of poverty rate, it is a measure of actual living standards. Ireland has the fourth highest deprivation rate among EU-15 countries. It has grown significantly over the past decade, though falling since the height of the crisis in 2011. Adults with disabilities and lone parents are particularly vulnerable (Watson *et al.*, 2018). Unsurprisingly, female and particularly child deprivation tend to be higher than overall figures. Ireland's poor performance in deprivation is attributable to high household arrears and an inability to meet unexpected expenses and/or afford a week's holiday abroad (Coffey, 2014).

<sup>50</sup> Though not shown, older people tend to be at less risk of poverty as earnings increase with age.

**Figure 4.10: Material deprivation rate**

Source: Eurostat.

Note: EU-28 figure for 2006 is as above.

As to what is responsible for Ireland's poor outcomes, given that in-work poverty is low, the low employment rate implies that an unusually high percentage of children are born into households which do not earn market income (OECD, 2016). Ireland also has a high number of 'low work intensity' households, where working-age members work for less than a fifth of their potential working time. The National Economic and Social Council (2014) highlights a lack of affordable childcare and the sudden withdrawal of benefits upon entering employment as impediments.<sup>51</sup> The poor and often demeaning conditions of low-skill and low-paid work in Ireland are, no doubt, also barriers. In any event, full or partial exclusion from the labour market translates into low or no market income, and so higher poverty and market-income inequality.<sup>52</sup>

For some, this provides a justification for greater means-testing and similar welfare 'reforms'. While raising Ireland's employment rate and intensity would put a dent in poverty, caveats are needed. There is an obvious relationship between wages and participation, so higher pay at the bottom is an alternative policy option to forcing people to take poor-quality work. Though there are relatively few who are materially better-off on social protection than in work (NESC, 2014), if wages were to increase sufficiently through greatly reducing or eliminating low pay, a point would eventually be reached where higher pay would overcome economic disincentives to work, such as high transport or childcare costs, and presumably any non-economic disincentives. Of course, addressing low pay and improving public services are not mutually exclusive – both are desirable and need to be pursued.

Similar comments apply to tackling deprivation, except that here low pay may have a more direct impact. Ireland has among the highest rates of deprivation among employed persons in the EU 15 (Taft, 2018). It not clear what proportion of deprived workers are full-time, so it is unclear how much of in-work deprivation is due to low pay, and how much is due to part-time and precarious employment. Ireland's high living costs are another factor in its high deprivation.

<sup>51</sup> Other factors include a lack of affordable public transport and regional imbalances in the Irish economy (NESC, 2014).

<sup>52</sup> Ireland's large household size and high fertility rate may also spread scarce resources among more people.

So, in terms of trade-union prominence and labour protection, Ireland has very flexible and employer-friendly labour markets. Ireland's high rates of low pay then come as little surprise. Despite what amounts to state subsidisation of low pay and an institutional environment favourable to employers, Ireland's ability to generate jobs, though improving, remains underwhelming. This translates into unusually low market incomes among those at the bottom end of the distribution, and as a result high rates of poverty and deprivation. Greater provision of public services such as childcare and affordable transport is required, along with measures to tackle low pay and employment insecurity.

#### ***4.4 Gender-based economic inequality***

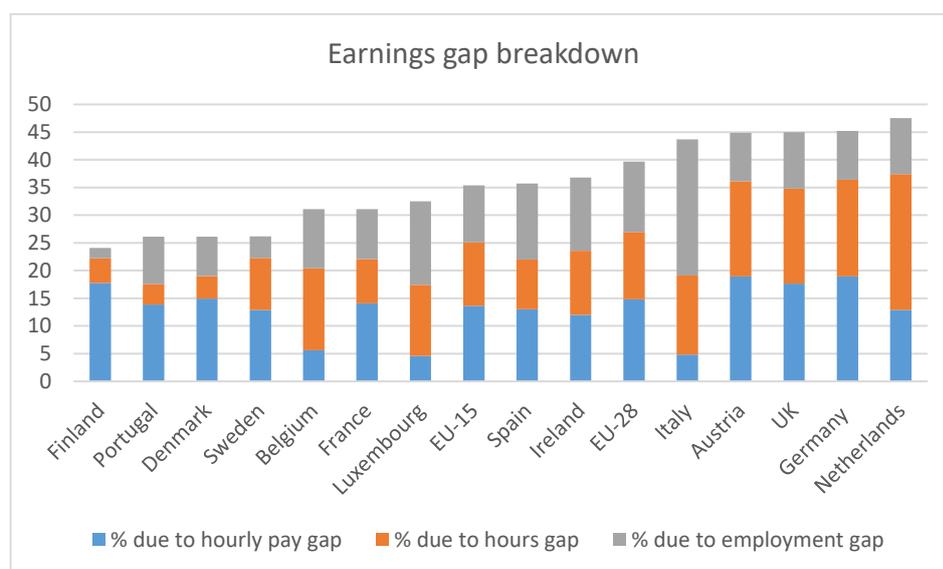
This section examines gender-based economic inequalities. It documents trends and then examines the role played by the Irish economic model. It finds a substantial gap in earning and decision-making power between men and women, for which there are many reasons. These include potential discrimination, gender norms surrounding parenting, occupational differences and how female labour is undervalued in society. The single largest reason, however, is the economic penalty women suffer upon entering parenthood. This would be significantly mitigated by a more expansive welfare state and stronger labour protection.

While not reducible to class of course, class inequalities and economic processes are an essential component of the continued disparities in social standing between men and women. Gender inequality and the under-representation of women is correctly identified as economically wasteful. Unlike general or class-based inequalities, gender equality is therefore not typically discussed in public forums as being in tension with economic prosperity. Yet it is women who predominantly and disproportionately occupy low-paid and precarious positions. While the goal ought to be to eliminate or greatly mitigate the prevalence of such roles, rather than just be the best student in the class, a comparative perspective remains informative.

Looking at total earnings, Figure 11 shows that annual earnings of women in Ireland are 37 per cent less than for men. This makes Ireland's earnings gap the fifth largest among the 14 EU states illustrated in the figure. The discrepancy in annual earnings arises from differences in hourly pay, hours worked and employment rates – in Ireland, each contributes a more or less equal weight.<sup>53</sup> This essentially means that if men and women worked the same amount of hours, for instance, the Irish earnings gap would fall by around a third. Countries with more egalitarian distributions between the sexes tend to have lower contributions arising from hours worked and the employment differential. In Finland, for example, the gap in earnings is mostly explained by the difference in hourly pay, with an almost negligible contribution arising from differential employment.

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<sup>53</sup> Some caution is needed to avoid misinterpretation. The above figure does not imply that the hourly earnings gap in Ireland is 12 per cent, but that of the 37 per cent earnings difference around a third is due to hourly pay differences. For instance, if the actual difference in hourly earnings were 1 per cent but men and women worked the same amount of hours and were employed at the same rate, then 100 per cent of the earnings difference would be due to differences in hourly pay.

**Figure 4.11: Earnings gap breakdown**

Source: calculated from Eurostat gender statistics<sup>54</sup>.

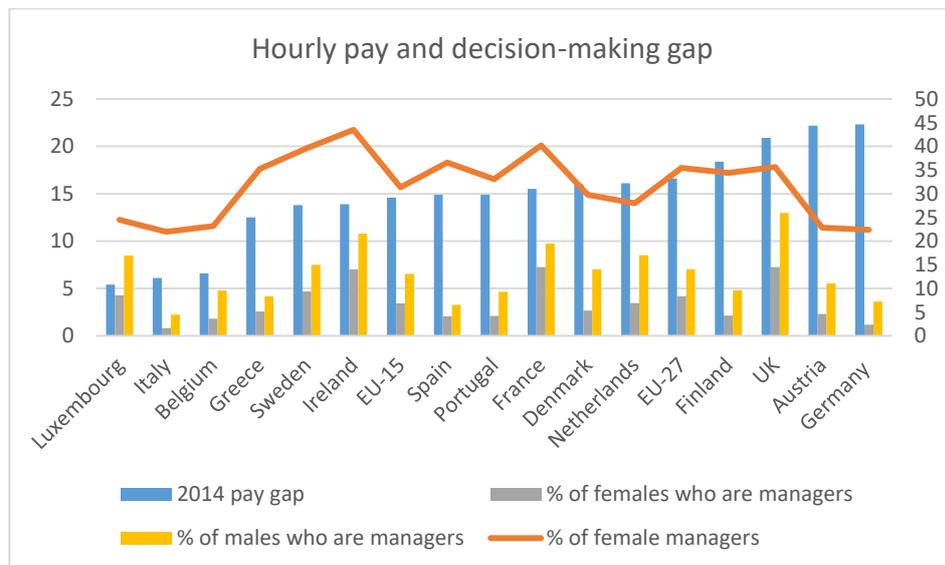
Note: figures for Greece are not available.

Figure 12 develops the point. It shows the 'unadjusted' pay gap – not controlled for experience, education and the variety of other factors which affect earnings – in hourly earnings between men and women. According to the most recent figures, the hourly rate of gross pay for men in Ireland is around 14 per cent higher than for women. This of course only takes into account paid work and neglects the fact that women do more unpaid and caring work (see, for instance, Folbre, 2009).

There are also large discrepancies in decision-making power in the workplace between men and women. Though the highest proportion in the EU, only about 43 per cent of managers in Ireland are women. Moreover, this is not driven by differences in participation rates as the proportion of female workers who are managers (11 per cent for men and 7 per cent for women) is also lower. Higher rates of part-time work among women may be a factor. These figures also ignore the fact that the sectors towards which women have traditionally gravitated tend to be lower-paid and therefore lower-status. They also make little allowance for differing decision-making power among managers in that top managerial positions are male-dominated. Though there has been gradual improvement, including in recent years (Jing Teow *et al.*, 2018: 6), there is a stark difference between holding a managerial position at a day-care centre, for instance, and holding a leadership position in a listed company.

<sup>54</sup> [http://ec.europa.eu/eurostat/statisticsexplained/index.php/Gender\\_statistics#Gender\\_overall\\_earnings\\_gap](http://ec.europa.eu/eurostat/statisticsexplained/index.php/Gender_statistics#Gender_overall_earnings_gap)

**Figure 4.12: Hourly pay and decision-making gap**

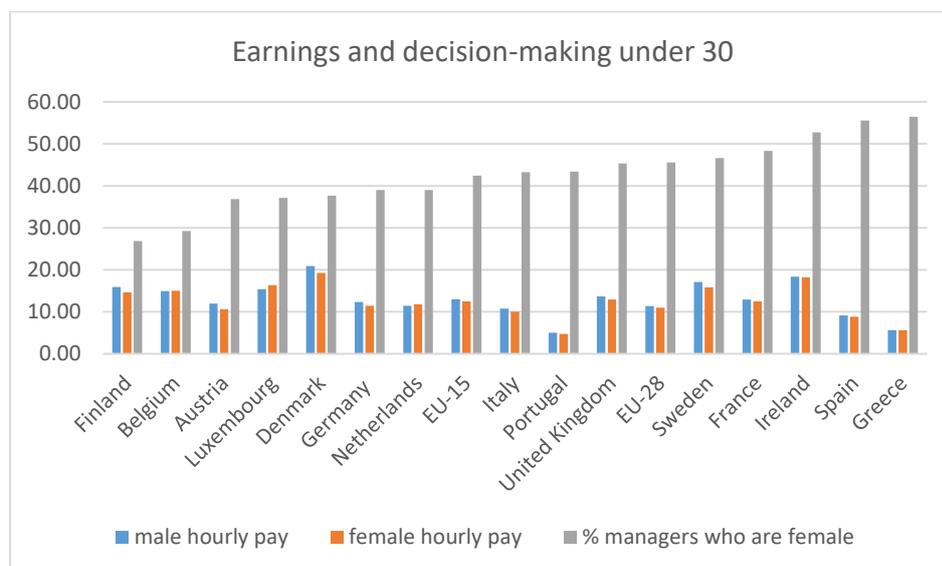


Source: Eurostat.

Note: the percentage of female managers axis is on the right-hand side.

Figure 13 looks at hourly earnings and managerial positions for men and women under the age of 30. We see that for all countries the difference in hourly earnings greatly diminishes, is negligible or actually favours women in some countries (Belgium, the Netherlands, Luxembourg and Greece). In Ireland, the difference favours men, though is less than 1 per cent. Moreover, of the under-30s who are managers, almost 53 per cent are female (the percentage of male and female workers under 30 who are managers is omitted because of the low numbers). Economic differences between men and women are very much age-based.

There are several reasons for the continued earnings difference between men and women. Some of it might arise from discrimination, in that companies may be reluctant to hire someone to a well-paid and prestigious position who could go on maternity leave shortly thereafter. Another reason may be old-fashioned sexism or individual biases regarding competence in favour of men (see, for review, Gregory, 2009). Men are also more likely to be overconfident so may be more inclined to bargain for higher pay.

**Figure 4.13 Gender-based earning and decision-making under 30**

Source: Eurostat.

Most important however is the 'motherhood penalty', in which dropping out of the labour force due to childbirth and childrearing results in lower earnings and slower progression upon re-entry. Not only do women lose years of experience; mothers are also more likely to work part-time, which tends to be less well-paid per hour. The parenthood penalty helps explain why economic inequalities are almost negligible under the age of 30. As well as encouraging part-time work and lowering hourly pay, in Ireland parenthood completely explains differences in participation rates (OECD, 2017). This strongly points to the need to expand childcare.

In fact, for some the difference in earnings is wholly attributable to the presence of children (Kleven *et al.*, 2018). Though Ireland is not included, the OECD (2017: 160) finds that for most countries a pay penalty continues to exist after birth. Discrimination may therefore explain some of the gap in Ireland but discrimination is unlikely to be the major reason. Interestingly, in probably the two most patriarchal countries in the OECD study, Mexico and Colombia, women without children earn more than men per hour. A possible explanation is lower occupational segregation between the sexes in developing countries as educated women are motivated or driven by circumstance into similar, monetarily rewarding jobs to those held by men. Latin America, for instance, has a significantly higher proportion of women in science and engineering than Europe (UNESCO, 2017).

In contrast, where women participate in the labour market more, as in Scandinavian countries, outside of the top tier occupations are highly segregated, as traditionally unpaid caring work is performed for pay in the public sector by women (Wolf, 2013). Indeed in Figure 13, Scandinavian countries record among the highest differences in hourly pay for those under 30. In any event, by influencing hourly pay, participation and the desire for part-time work, outcomes after birth appear as the single largest factor in economic differences between men and women. For hourly pay, discrimination may also play a role but occupational segregation appears to be more important.<sup>55</sup>

<sup>55</sup> Cultural processes of course remain important. Cultural change through greater burden-sharing of childrearing will go some way towards reducing the gap in hourly earnings. As well as reducing the motherhood penalty as more men become involved in early-years childcare, greater participation of women in empowering roles contributes to weakening traditional beliefs about the roles of men and women. Insofar as discrimination is an important component of pay differences, this will also reduce the hourly-earnings gap. Role models may also encourage women to seek more empowering positions.

The motherhood penalty points to policy interventions that support Irish women in the workforce and men's participation in parenting. Childcare costs in Ireland are among the highest in Europe and public investment among the lowest (ICTU, 2016). There are, though, limits to the extent to which the motherhood penalty in hourly pay can be overcome through greater burden-sharing of parenting or through greater access to childcare and similar measures. Childcare, flexible workplaces and paternity leave mitigate rather than eliminate the motherhood penalty – not least because men will never get pregnant and drop out of the labour market.<sup>56</sup> Differences in participation rates post-birth, moreover, are strongly class-based: professional women are much more likely to avail themselves of childcare services than working-class women, even when well-subsidised (Wolf, 2013). Working-class women drop out of the labour force for longer and are much more likely to do part-time work upon re-entry.

Thus, without a strong commitment to raising the pay and conditions of the lower-paid and valuing feminised sectors of the economy more, disparities between the sexes are likely to remain stubbornly high in Ireland. Indeed, without such a commitment differences in hourly pay could feasibly increase through the expansion of childcare, by expanding the low-paid economy or through workplaces becoming more gender-segregated, at least in the short-term.

In sum, Ireland's model of economic governance is central to women earning less than men, having less decision-making power in the workplace and enduring more precarious working lives. Discrimination may play a role but the overwhelming reason appears to be the different outcomes men and women experience upon entering parenthood. Along with changing attitudes and greater burden-sharing in parenting, challenging Ireland's economic model is central to eliminating economic inequalities between the sexes. This includes having more family-friendly workplaces, and well-paid and affordable childcare, but also valuing feminised labour more and tackling precarious and low-paid work.

#### ***4.5 Health inequalities***

The previous sections detailed how Ireland's socioeconomic policy choices have led to poor labour-market outcomes and high inequality, including by gender. Here I briefly consider another consequence, health inequalities. These largely mirror Ireland's poor socioeconomic performance more broadly.

As touched on in the introduction, in addition to creating disparities in material wellbeing, inequalities in economic resources create inequalities in quality of life. As well as obvious differences in lifestyles, economic inequality produces large differences across a range of social outcomes. This goes beyond an inability to gain access to resources. The stress associated with being from a lower economic class implies a diminished ability to participate in social institutions, independent of entrance barriers (Wilkinson and Pickett, 2010).

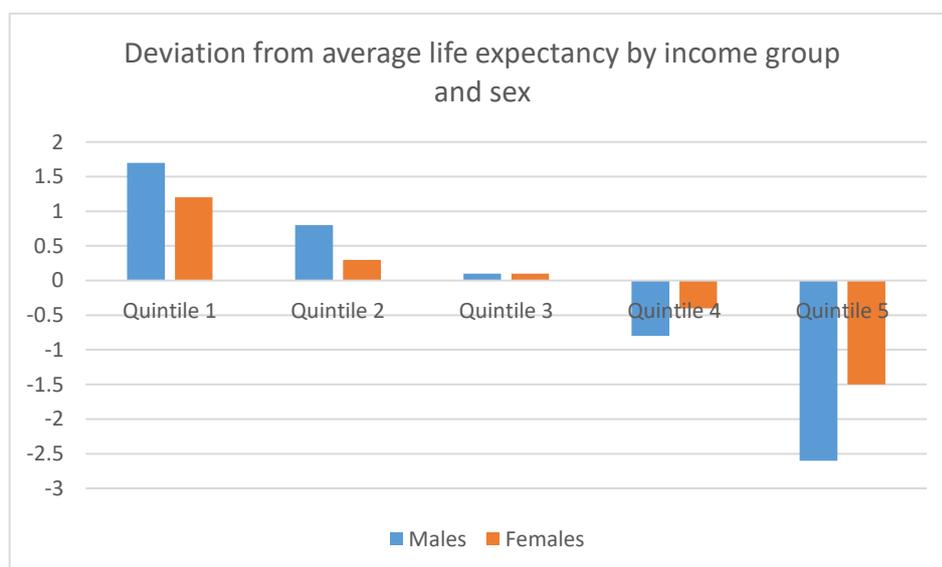
Figure 14 below displays how men and women deviate from their respective average life expectancies by income quintile. It is based on a 2010 analysis by the Central Statistics Office, the last time such an exercise was undertaken. For both men and women, income group has an important bearing on life expectancy. Men in the top 20 per cent of earners live on average 1.7 years longer than the 'average' male, whereas men in the bottom 20 per cent live 2.6 years less. Similarly women in the top quintile

<sup>56</sup> Gender differences in time spent with children overwhelmingly relate to pre-school years (OECD, 2017: 192). Though expansion of paternity leave is obviously desirable and increases male involvement in early-years childrearing, there may be limits to its efficacy. O'Connor and Murphy (2007: 38) note: 'International evidence has shown that even where there is a concerted effort to engage men in family caring, the uptake has been relatively poor.' The lure of well-paid and fulfilling work can trump traditional gender roles for some. Among the upper-middle classes, much greater sharing of early parenting duties is apparent as mothers quickly re-enter the workforce after birth by outsourcing care. Among elite women and couples (top 1 per cent to 0.1 per cent of household earners), though, traditional roles reappear as a single salary suffices to sustain affluence upon the arrival of children (Wolf, 2013: 36-56; 67-68).

live 1.2 years more than the average female, whereas women in the bottom 20 per cent live 1.5 years less than the average. That is, there is a 4.3-year difference for men and a 2.7-year difference for women between the top and bottom income groups, underlying the central role location in the economic hierarchy plays in quality of life.

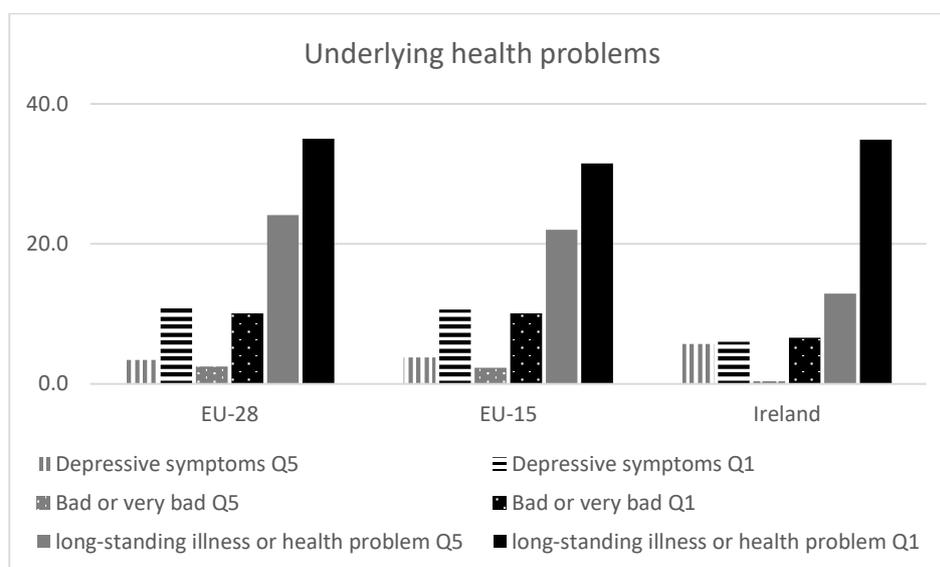
There is also an important gender dimension to how economic inequality interacts with health outcomes. Life expectancy in Ireland for men is 78.4 years, whereas for women it is 82.8 (CSO, 2015), though differences in years of good health are smaller. Differences between the sexes no doubt reflect biological processes but also risk-based behavioural differences such as cigarette and alcohol consumption, health care (non-)utilisation and so on (Helgeson, 2012). Given a lower male life expectancy, and larger differences in life expectancy based on income, the relative differences in life expectancy based on income are even larger for men. Put another way, though both sexes from lower income groups suffer poorer health outcomes, lower-income men are particularly susceptible to poor health (see also Layte and Nolan, 2016).

**Figure 4.14: Deviation from average life expectancy by income group and sex**



Source: CSO (2010).

It could be argued that wealthier people have greater access to life-extending medicines, so that the above does not reflect lifelong differences in overall health. Figure 15 below thus shows selected underlying health issues for different income quintiles. With the exception of depressive symptoms in Ireland, in which there is little difference between income groups, the bottom fifth of earners suffer from higher rates of ongoing health problems. In Ireland just over a third of the bottom quintile report a longstanding illness or health problem, whereas only one in eight of the top quintile do. The largest inequality is in the different rates of reported bad or very bad health. In Ireland 6.6 per cent of the bottom quintile suffer bad or very bad health, whereas the same is true for only 0.4 per cent of the top fifth. More generally, because of better health among wealthier groups, the rates of self-reported poor health in Ireland are lower than the EU-15 average, though inequalities are somewhat higher. Based on depressive symptoms at least, both inequalities in, and rates of, poor mental health are lower in Ireland.

**Figure 4.15: Self-reported underlying health problems**

Source: Eurostat.

Notes: Q5 refers to the bottom 20 per cent of income earners and Q1 the top; to control for demographic factors, the above figure relates to 16 to 64 year-olds.

Unsurprisingly then, economic inequalities are reproduced across health system. Lower-income men are at particular risk of poor health outcomes as measured by differences in life expectancy. In peer group terms, economic-based health inequalities are comparable to those of other countries.

## 4.6 Fiscal redistribution

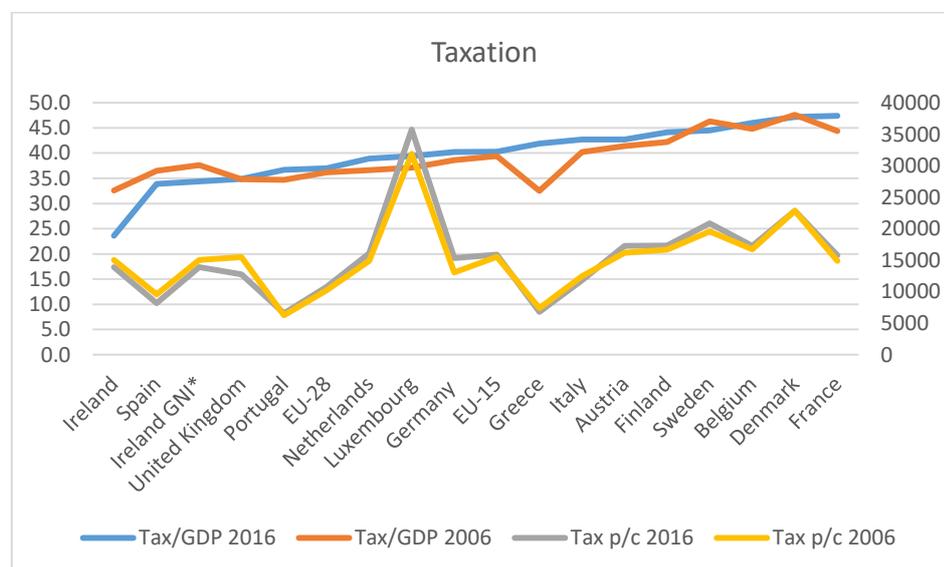
Having established that Ireland performs poorly among comparators across a diverse range of social and economic indicators, this section looks at the role of the state. It finds that though demographic trends mostly explain why the Irish state is comparatively small, there are large deficiencies in public provision, given the scale of social problems Irish society faces.

As discussed in the introduction, the state affects the distribution of income and wealth in a variety of ways. The one which receives the most attention is fiscal policy. The willingness and capacity of states to raise revenue through taxation, and to disburse (and generate) that revenue through spending, is a cornerstone of advanced economies. The more egalitarian and socially functional societies tend to have higher public spending and taxation as demonstrated in Chapter 2. The improvement in Ireland's fiscal position in recent times implies greater discretion for a redistributive macroeconomic policy.

Figure 16 below shows the tax intake in Ireland and EU-15 countries by different measures at different times. We define the overall tax intake to include exchequer taxes such as PAYE, VAT and so on plus social-insurance contributions, namely PRSI. The most widely-used measure of the level of taxation in an economy is as a proportion of GDP, and the figure is ordered on that basis with 2016 data. Given the unreliability of GDP as a measure of national income, the CSO's modified gross national income (GNI\*) measure, accounting for distortions caused by foreign companies, should also be used as a denominator. Relative to GDP Ireland has the lowest level of taxation, and based on the more realistic GNI\* the second lowest level, in the EU 15. Moreover, at 34.4 per cent of GNI\* in 2016, the ratio has

actually fallen by 3 per cent or so over the past decade. A low tax intake diminishes the capacity of the state to redistribute income and wealth.

**Figure 4.16: Levels of taxation in Europe**



Source: calculated from Eurostat.

Notes: Taxation as percentage of GDP is on the left axis, overall tax intake per capita (in euros) on the right axis; 2006 per capita tax is expressed in 2016 prices using a harmonised consumer-price index.

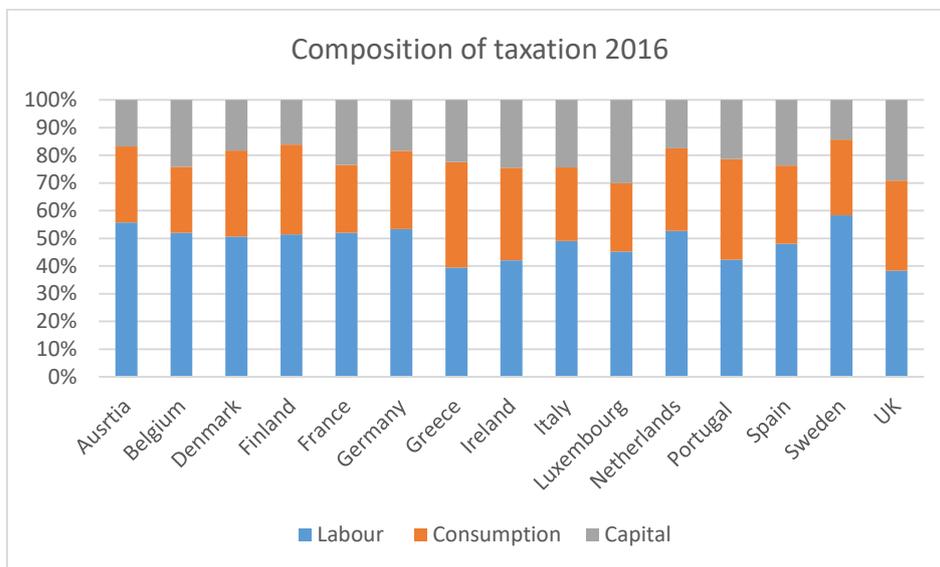
Figure 17 below shows the composition of taxation among EU-15 countries. Bearing in mind that Ireland's taxation level is significantly below European averages, its taxation is unremarkable compared with other European countries. The share of capital taxation in Ireland is high. This is largely a result of a recent boost in corporation-tax revenues, as US tech companies have minimised their obligations elsewhere. Ireland also collects an above-average share of taxation from consumption taxes. This no doubt reflects Ireland's relatively high standard VAT rate of 23 per cent and above-average consumer costs. While consumption taxation is regressive, capital taxation is clearly not. The currently buoyant capital revenues accruing to the Irish state, though, raise sustainability and indeed ethical issues. It is often at the expense of poorer countries that tax havens gain.

The most important category of taxation in Ireland and the EU 15 is labour income taxation. Three-quarters of labour taxation is paid by employees (Eurostat, 2017) – about 80 per cent through income taxes and 20 per cent through employee social insurance (Goldrick-Kelly and McDonnell, 2017a). Only Greece and the UK collect a lower proportion of their taxation from labour. Considering that the overall tax intake in Ireland is lower, the low tax intake from labour becomes more pronounced. Goldrick-Kelly and McDonnell (2017a) note that income tax paid by employees is above the peer-country average, but Ireland's unusually low social-insurance contributions push it below advanced-country European norms.

Some of Ireland's low intake may be explained by somewhat lower participation rates in the labour market. Moreover, the relatively high income threshold on entering the tax system means a large number of workers pay little taxation, given the prevalence of low pay. Despite the low tax intake overall, Ireland

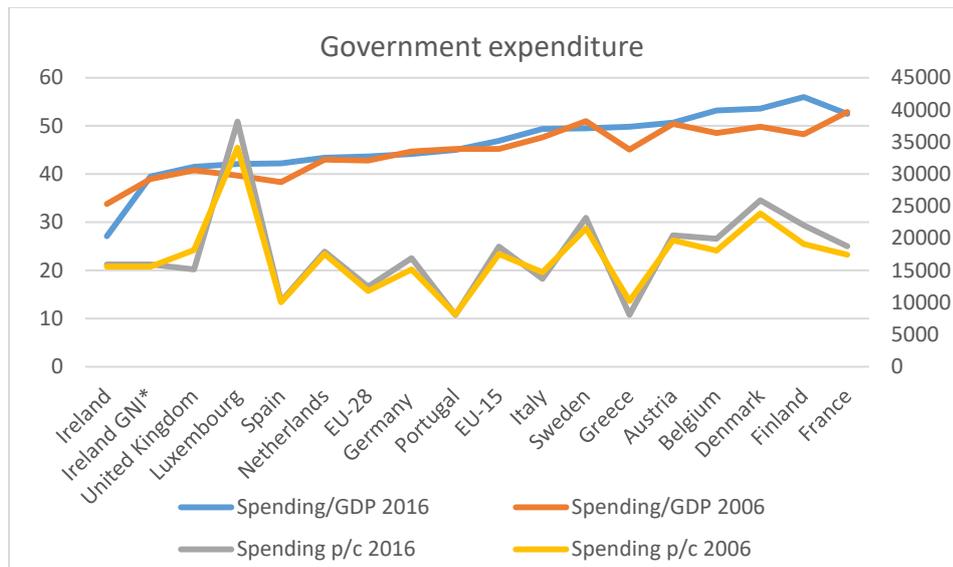
has a progressive taxation system. But this is necessitated by inequalities elsewhere in the economy. Given the large deficiencies in housing, childcare, health and other social services, more revenues have to be raised both to provide needed services and to facilitate income generation in the labour market.

**Figure 4.17: Composition of taxation**



Source: Eurostat (2018), *Taxation trends in the European Union*.

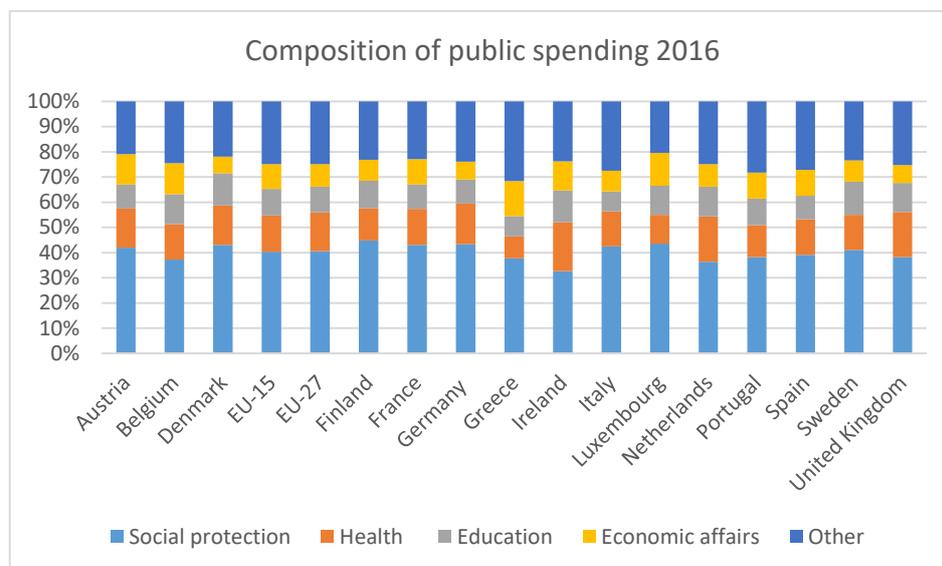
Figure 18 below displays total government spending in Ireland and across EU-15 countries. The countries are ordered according to government spending relative to GDP in 2016. As one would expect, the profile of total government expenditure across countries is similar to the level of taxation. As a proportion of GDP, Ireland is and has been the lowest spender within its peer group. Using GNI\* paints the same picture, though Spain recorded lower spending in 2006. In spending per capita, Ireland remains below the EU average using both 2016 and 2005 levels. The most recent figures indicate that public spending per capita is the fifth lowest in the EU 15.

**Figure 4.18: Level of government expenditure**

Source: Eurostat.

Notes: 2016 missing for EU-27 so the series was omitted. As before spending in relation to GDP is displayed on the left axis and per capita spending on the right axis; 2006 per capita figures are expressed in 2016 prices using a harmonised consumer price index.

Turning now to the composition of public spending, Figure 19 shows that social protection is by far the largest component in Ireland and the wider Europe. Yet social protection in Ireland comprises the lowest share of spending in total. This is partly explained by labour-market and, as discussed below, demographic factors. But as with taxation, public spending in Ireland is already low. Ireland spends somewhat more of its public-spending share on health and education – health spending is somewhat higher, whereas there is significant underspending on education (McDonnell and Goldrick-Kelly, 2017b; Healy, 2018). The shares of economic affairs, comprising transport, R&D, and other growth-promoting spending, and the 'other' residual, comprising security, housing, and other categories, are unremarkable in Ireland. Defence spending in Ireland is also lower.

**Figure 4.19: Composition of public spending in the EU****Figure 19: Composition of public spending in the EU.**

Source: Eurostat.

The level of spending on social protection clearly affects distributional outcomes. McDonnell and Goldrick-Kelly (2017b) find that if old-age spending is excluded, social-protection spending in Ireland rises above European comparator countries. Ireland spends above average on family and child supports, unemployment and housing supports. At least some of this spending underlines the point made earlier that the Irish social-protection system facilitates the very high incidence of low pay. Ireland's low old-age spending appears to be driven mostly by demographic factors (*ibid.*), although reliance on private care plays a role as well. The Irish state provides very generous subsidies to private pensions, which exacerbate inequalities generated through the labour market. Resources devoted to providing for old age are set to increase in the coming years and the mix between public provision, transfers and private subsidies will have significant distributional consequences.

In sum, the Irish state is comparatively small. Both taxation and government spending, relative to the size of the economy and on a per capita basis, are low in relation to other European countries. Ireland has a comparative shortfall in labour taxation owing to its low social-insurance contributions. Public spending is comparatively low due to Ireland's low social-protection expenditure. In a sense this can be explained by a younger population. It is also the case, however, that Ireland's high rates of inequality and low pay oblige the state to do more to affect distributional outcomes. Given Ireland's large market inequalities, public interventions remain inadequate.

#### 4.7 Year-on-year summary of changes

Before concluding, as in previous editions I present a summary of the data and how they have changed over the recent period. Regarding top shares of income, recent tax-authority data were not available. The gross (pre-tax) and net (after taxes and transfers) income Gini coefficients have been declining. Based on all measures of employment, participation rates have been increasing and are above the aggregate EU 15. Similarly, the share of jobless working-age households has been falling, but remains above the EU-15 tally.

Table 4.1: Summary of year-on-year changes

1. Gross income inequality				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Top 10% income share	38.75% ('16)	37.62% ('17)	37.62% ('17)	-
Top 1% income share	10.95% ('16)	12.05% ('17)	12.05% ('17)	-
Bottom 90% income share	61.25% ('16)	62.38% ('17)	62.38% ('17)	-
Gross Gini coefficient	45.4% ('14)	42.8% ('15)	41.9% ('16)	-
2. Net Income Inequality				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Net Gini coefficient	31.1 ('14)	29.8 ('15)	29.5 ('16)	-
3. Employment				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15*
Share of 20-64 year olds in employment	68.1% ('14)	69.9% ('15)	73.0% ('17)	72.40%
Share of 20-64 year old males in employment	74% ('14)	76.1% ('15)	79.1% ('17)	77.90%
Share of 20-64 year old females in employment	62.3% ('14)	63.8% ('15)	67.0% ('17)	66.90%
4. Unemployment				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15*
Share of Irish children living in jobless households	16% ('14)	14.5% ('15)	11.8% ('17)	10.20%
5. Minimum wage				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Statutory Minimum Wage (€9.55) as share of Living Wage (€11.70)	79.5% ('16)	80.4% ('17)	82.4% ('18)	-
<i>Note: Minimum wage increase from €9.55 to €9.80</i>				
6. Social Protection				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Typical payment p.a. for single jobseeker/person with disability	€9,776 ('16)	€10,036 ('17)	€10,296 ('18)	-
Typical payment p.a. for single carer	€10,608 ('16)	€10,868 ('17)	€11,128 ('18)	-
Typical payment p.a. for single pensioner	€12,132 ('16)	€12,391 ('17)	€12,652 ('18)	-
7. Wealth Inequality				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Top 10% wealth share	53.8% (2013)	53.8% (2013)	53.8% (2013)	-
Bottom 50% wealth share	4.9% (2013)	4.9% (2013)	4.9% (2013)	-
8. Public Spending				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
General government expenditure national income	47.5% ('14)	43.8% ('15)	39.1% ('16)	47%
9. Tax				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Tax-to-national income ratio	37.5% ('14)	36.2% ('15)	34.3% ('16)	41.90%
10. Social security contributions				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Net social security contributions, % of GDP	8.1% ('14)	6.5% ('15)	5.6% ('16)	11.70%
11. Childcare costs				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU14 exc. IT
Typical childcare fees, % of family net income	27.4% (2012)	27.4% (2012)	26.1% ('15)	12.20%
12. Third-level education				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15*
Share of 30-34 year olds with a third-level qualification	52.3% ('15)	52.9% ('16)	53.5% ('17)	40.30%
13. Youth unemployment				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Share of 15-29 year olds 'Not in Employment, Education, or Training (NEETs)	16.8% ('15)	16.8% ('15)	12.9% ('17)	12%
14. Cost of living				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Cost of living in Ireland relative to EU-15 average	116.3% ('14)	113.8% ('15)	118.9% ('16)	-
15. Deprivation				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Share of population experiencing two or more forms of material deprivation	29% ('14)	25.5% ('15)	21% ('16)	-
16. Child poverty				
	Cherishing All Equally 2016	Cherishing all equally 2017	Cherishing all equally 2018	EU15
Share of 0-16 year olds at risk of poverty or social exclusion	29.1% ('14)	27.8% ('15)	26.9% ('16)	23.40%

Sources: Eurostat, CSO, OECD.

Note: \* indicates the figure is taken at the EU-15 level, rather than the average among countries; national income refers to GNI\* for Ireland and GDP everywhere else.

The statutory minimum wage has been increasing, absolutely and as a share of the living wage. Jobseekers', carer and pension welfare measures have increased, though only marginally. No updated data were available for wealth inequality. Government spending as a share of GNI\* fell and, as noted, is well below the EU-15 average (as a share of GDP). Public spending on health and education was not available at the per-household level, but fell as a share of GDP.

Tax-to-GNI\* continued to fall and as a share of national income is well below European norms. (Though an improvement on GDP, GNI\* remains problematic: national income grew at an implausible rate of 9 per cent in 2016.) Net social-security contributions are also low and have continued to fall. Childcare fees as a share of family income fell somewhat, but are more than twice as expensive as the EU-15 average – only the UK does worse. Educational attainment of the labour force has been increasing while the share

of young people neither in employment nor training has, unsurprisingly, continued to fall. Ireland's cost of living relative to the EU has continued to rise, though poverty among the general population has fallen. Poverty and being at-risk of social exclusion also fell among the young but remains above the EU-15 average.

By and large then, though Ireland lags behind Europe across several indicators related to distribution, the upturn in the economy is coinciding with an improvement in social conditions. It scores better than average on employment-related indicators, where poor performance in Mediterranean countries continues to be a drain for the EU.

## **4.8 Conclusion**

As elsewhere, market inequality in Ireland has grown for almost four decades, though it has steadied in recent years. Aside from Greece, market inequality is higher here than in any other European and, to our knowledge, developed country. In Ireland, however, intervention by the state has halted the translation of unevenly distributed market income into higher disposable-income inequality, since the late 1980s at least. Transfers by the state and a broadly progressive taxation system are responsible. Ireland currently has middling levels of income inequality as most of the rest of Europe has grown more unequal over time.

Ireland's weakly protective labour-market institutions go a long way towards explaining its exceptionally high market-income inequality. Labour regulations offer comparatively weak protection to workers and organised labour plays a less prominent role than it does elsewhere. As such, Ireland has unusually high rates of low pay, which disproportionately affects women.

Another feature of Ireland's labour market is that though the unemployment rate is respectable, employment is comparatively low. This is largely a consequence of low female participation and low participation among low-educated workers since the crisis. Coupled with a high proportion of low-work-intensity households, poverty and deprivation in Ireland are therefore high. Deprivation is also high among workers, most likely a result of insecure and low-paid employment.

Inequalities in the distribution of economic resources are largely translated into disparities in health outcomes and inequalities between the sexes. For the latter, though cultural factors explain some of the persistence of inequality, it is the penalty women face upon entering parenthood which is most telling. Addressing Ireland's economic model, and not only cultural change, is key to a more gender-equal society. The small size of the Irish state can partly be explained by its young demographic structure. However, given the scale of market inequalities and deficits in areas which include childcare, housing, health, education and industrial development, further interventions are justified on both social and economic grounds.

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# 5. Income inequality in Ireland in comparative perspective

# 5. Income inequality in Ireland in comparative perspective

Robert Sweeney

Key points:

- Inequality in market incomes in Ireland is greater than in comparable small, open developed European economies, though similar to that in the UK, according to the Gini coefficient.
- Of the various sources of income in Ireland, labour as elsewhere is by far the greatest. And inequality in labour incomes is the biggest determinant of market-income inequality.
- While the poorest on the margins of the labour market in Ireland are highly dependent on state transfers to top up very low labour income, for those in gainful employment differential hours worked does not explain Ireland's high inequality in labour incomes. This comes down to the employer-employee relationship.
- Some of the high labour-income inequality in Ireland reflects inequality between sectors but most stems from inequalities within them. Closer inspection reveals significant scope for redistribution of value added by an enhanced labour share and wage compression.
- This points to the need for strong sectoral agreements concluded through collective bargaining by recognised trade unions. This should be allied to ecologically sensitive industrial upgrading and the wider provision of public goods such as childcare and social housing.

## **5.1 Introduction**

The previous chapter established key features of the Irish economy affecting income distribution. It showed that though market-income inequality in Ireland has grown considerably over four decades, disposable-income inequality has remained stable, since the late 1980s at least. As other countries have become more unequal, this stabilisation of income inequality means Ireland currently ranks in the middle among European countries. Ireland has weak protection of workers and a high incidence of low pay, which disproportionately affect women, especially in the private sector. Ireland's very high levels of market inequality are offset by progressive taxation and especially transfers.

This chapter provides a detailed, comparative analysis of the dynamics of inequality in Ireland. It focuses on income inequality and its different components. Based on the insights of Chapter 2, considerable attention is given to the top 10 per cent and bottom 40 per cent of earners. Wealth inequality was dealt with extensively in Chapter 3, so it is not considered here, at least not directly. The chapter examines the contributions of different sources of income to inequality: labour income, capital income, public transfers, household transfers and taxation. It drills down into the components of labour-income inequality, the largest income source and the most important contributor to income inequality. In particular, the relative contributions of employee versus self-employed income are considered on the

one hand, and working time on the other. In addition, the chapter explores structural components of inequality in Ireland – inequalities within and between different sectors of the economy. Attention is then paid to the possibility of redistribution.

The comparators used – Austria, Belgium, the Netherlands, Sweden, Denmark, Finland and the UK – are mainly exemplars of high standards of living and competitiveness, as well as historically high social protection and economic equality; the UK has been chosen because of its importance to the Irish economy and its similar socioeconomic and labour-market institutions. Larger European economies have otherwise been excluded, because their different economic structures and global constraints render comparisons less meaningful. Similar comments apply to poorer, small European countries. The chapter also presumes that greater equality is desirable and that highly unequal Greece, for instance, with its concomitant social problems, is not to be emulated.

The chapter finds that, aside from the UK, Ireland is the most unequal country of the sample. In particular, the labour market is the driving force behind inequality in Ireland. In confirmation of the previous chapter, were it not for extensive public transfers Ireland would be considerably more unequal. The lower-middle and working classes receive an unusually low proportion of their income from paid work (henceforth work). Working time and participation rates explain why Ireland is an outlier, but even when time and participation are controlled for labour-income inequality remains high. Thus addressing the employer-employee relationship is central to the creation of a more equal society.

The chapter finds that Ireland has a comparative surfeit of high- and especially low-income sectors. The degree to which inequality is driven by differences in income between different sectors is accordingly comparatively high. That said, most inequality is generated internally in particular sectors and those sectors are mostly non-exporting. Indeed, inequality is higher in almost every sector of the economy than among the comparators. The chapter also finds there to be considerable space for policymakers to affect income distribution.

The layout is as follows: the first section examines income-inequality trends and context. The next looks at the composition of income inequality in Ireland and the comparators. The third section explores some structural and sectoral aspects of inequality in Ireland, followed by discussion. The final section concludes.

## ***5.2 Income-inequality trends and overview***

Inequality has stabilised in Ireland over a number of years. Because inequality has increased dramatically elsewhere, distributional outcomes are appearing more favourable. The working classes and the lower-middle classes still do relatively poorly in Ireland, and the upper-middle to upper classes and rich do relatively well.

The analysis which follows is based on the EU survey on income and living conditions (EU-SILC). The latest data, EU-SILC 2016, are used, which refer to the year 2015. Because of their voluntary nature, survey datasets suffer from large under-reporting of incomes, at the top in particular. Mandatory tax authority figures, though still not perfect, provide a better gauge of income inequality. According to the Irish Revenue, the top 1 per cent of earners<sup>57</sup> account for 11.3 per cent of income in Ireland (Kennedy

<sup>57</sup> This refers mostly to individuals but, because married couples can jointly pay tax, it incorporates some couples as well. Those at the very top of the income distribution, the top 1 per cent, are more likely to be single tax units than, for instance, the upper-middle classes, where dual-earning households are more common.

*et al.*, 2018). Using comparable<sup>58</sup> EU-SILC data, the top 1 per cent account for 6.2 per cent of individual income. Therefore, the share of income accruing to top earners may be almost double what EU-SILC suggests. Inclusion of incomes transferred offshore for tax purposes would produce higher inequality still. Despite these limitations, EU-SILC data are utilised, as cross-country data based on tax authorities are not available for European countries.

The standard measure of income inequality is the equivalised household Gini coefficient of disposable income. The Gini is an index which measures how far a country (or other entity) is from a situation of perfect equality. As before, disposable income means the income households have in their pockets, after transfers and taxes are netted from or to total income. Equivalised household income is household income adjusted for the size and composition of the household.

**Table 5.1: Gini coefficient of equivalised household disposable income**

	1995	2003	2007	2016
Denmark	20	24.8	25.2	27.7
Finland	22	25.8	26.2	25.4
Sweden	21	23.0	23.4	27.6
Austria	27	27.4	26.2	27.2
Belgium	29	28.3	26.3	26.3
Netherlands	29	27.0	27.6	26.9
UK	32	34.9	36	31.5
Ireland	33	30.6	31.3	29.5

Source: Eurostat.

Notes: 1995 or nearest year used. Some 2003 values have been linearly interpolated.

As discussed in the previous chapter, Callan *et al.* (2018) show that inequality has been stable since 1987, though inequality was likely higher in the late 1970s. As shown in Table 1, there was a fall in income inequality between 1995 and the early 2000s. Though not shown, the most egalitarian year in this period was 2001, when the Gini coefficient fell to about 29. This no doubt reflects an increase in income around the bottom end of the distribution, as workers entered the workforce *en masse* with the advent of the Celtic Tiger. At the height of its employment creation in 2007, however, Ireland remained the second most unequal country in the sample – Ireland's distribution of income thus cannot be reduced to inadequate labour-market participation.

In relative terms, Ireland is consistently the most unequal country in the sample, setting aside the UK. The Nordic countries have gone from being by far the most egalitarian at the beginning of the series to being now generally comparable to, and indeed in most cases more unequal than, the central-European countries. The central-European countries of Austria, Belgium and the Netherlands, which have mostly become less unequal over the last 20 years, had traditionally represented a middle ground between the neo-liberal, Anglo-Saxon model and the social-democratic, Nordic model.

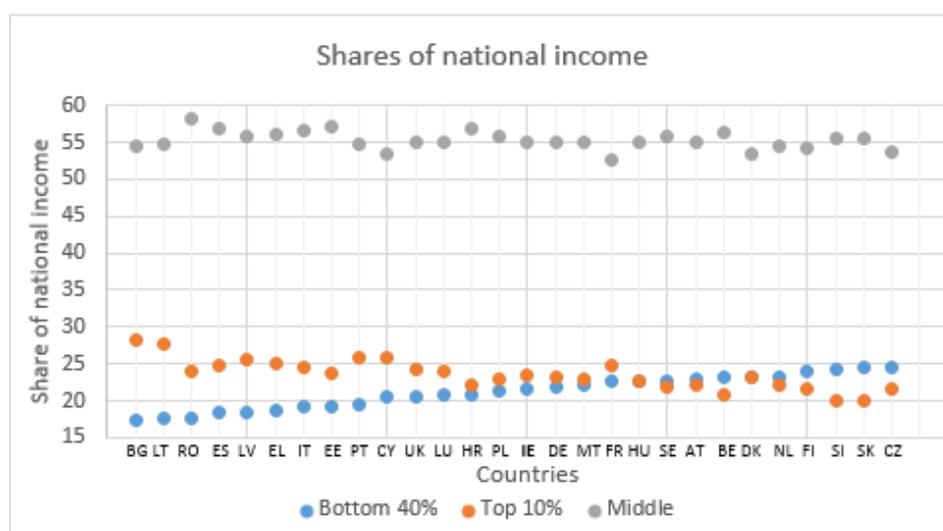
<sup>58</sup> This was calculated using EU-SILC microdata. Persons exempt from income tax were excluded to make it comparable to revenue figures. For details see <https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/marital-and-civil-status/exemption-and-marginal-relief/exemption-limits.aspx>.

The Gini coefficient has limitations. Being a single-figure index, it does not reveal which income groups are driving distributional change. That is, one cannot tell whether changes in inequality arise from a relative change in income among lower, middle or higher-income groups. Yet the share of national income accruing to middle-income groups tends to be constant across highly heterogeneous countries. As we saw in Chapter 2, inequality tends to be driven by gains and losses among the rich and poor (see also Palma, 2011). Therefore, as discussed previously, the Gini may fail to adequately capture those parts of the income distribution which drive inequality.

This can be seen in Figure 1 below. The figure shows for EU-28 countries the share of equivalised national income accruing to the top 10 per cent, the bottom 40 per cent and the group between. Countries are arranged according to the share of income gained by the bottom. In the leftmost country, Bulgaria, the bottom 40 per cent receive about 17 per cent of national income, the top 10 per cent receive about 28 per cent and the group below the top 10 per cent and above the bottom 40 per cent receive about 55 per cent. Strikingly, there is remarkably little variation in the share of income going to the middle-income group.<sup>59</sup> In the rightmost country, the Czech Republic, it secures 54 per cent of national income, almost the same as in Bulgaria.

With the inclusion of poorer Eastern and Southern European countries, as compared with Table 1 Ireland now ranks in the middle. To understand the dynamics of income inequality, it is therefore best to focus on the tails of the distribution.

**Figure 5.1: Distribution of income in Europe**

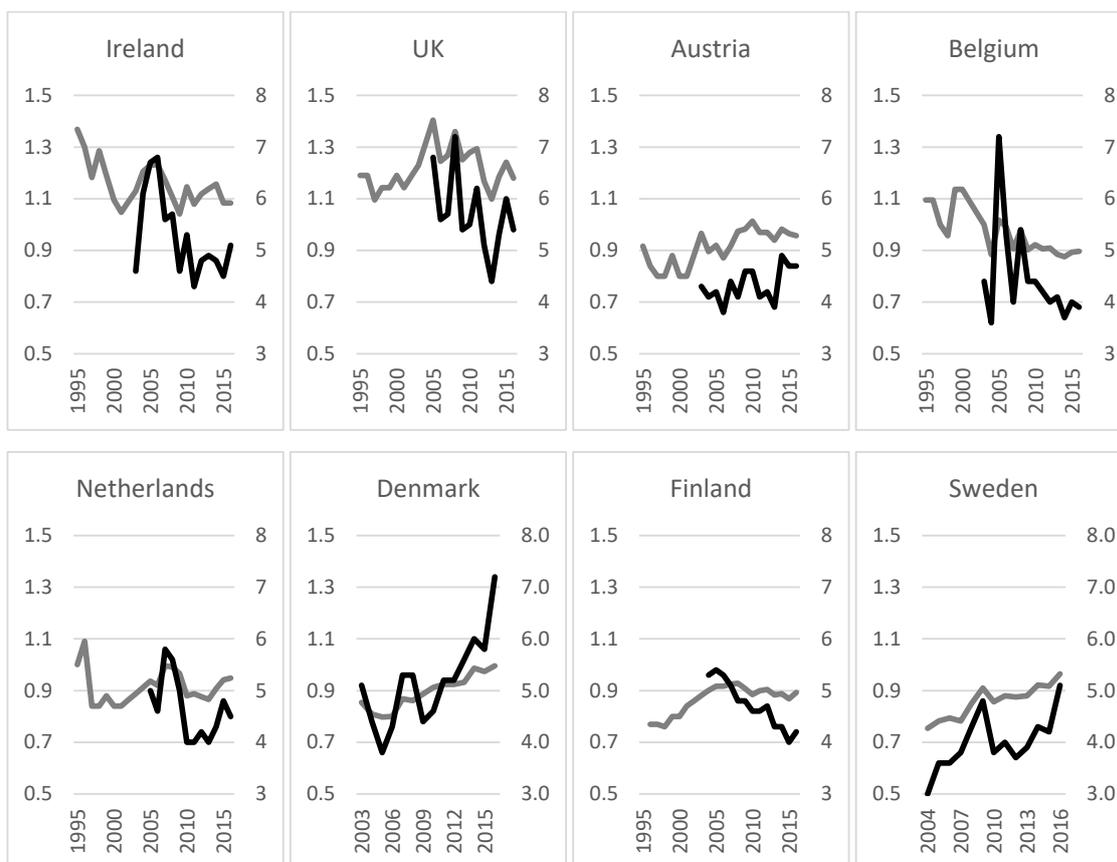


Source: Eurostat.

Notes: based on EU-SILC for the year 2016. Country codes are as per Eurostat: BG-Bulgaria, LT-Lithuania, RO-Romania, ES-Spain, LV-Latvia, EL-Greece, IT-Italy, EE-Estonia, PT-Portugal, CY-Cyprus, UK-United Kingdom, LU-Luxembourg, HR-Croatia, PL-Poland, IE-Ireland, DE-Germany, MT-Malta, FR-France, HU-Hungary, SE-Sweden, AT-Austria, BE-Belgium, DK-Denmark, NL-Netherlands, FI-Finland, SI-Slovenia, SK-Slovakia, CZ-Czech Republic.

<sup>59</sup> The coefficients of variation, a measure of the degree of variation, for the top, middle, and bottom groups are 0.086, 0.022, and 0.105 respectively.

**Figure 5.2: Trends in distribution**



Source: author's calculations based on Eurostat.

Note: left-hand axis and grey line refer to Palma ratio; right-hand axis and black line refer to top 1 per cent.

The so-called Palma ratio divides the income of the top 10 per cent of earners by that of the bottom 40 per cent. As well as having a straightforward interpretation, it is more attuned to changes in income of high and lower income groups. Figure 2 shows the Palma ratio of equivalised household disposable income for Ireland and comparator countries through time (grey lines). It also shows the share accruing to the top 1 per cent (black lines).

In Ireland, the Palma ratio has fallen steadily over 20 years, though there has been little change since the early 2000s. The top 10 per cent of earners increased their share vis-à-vis the bottom 40 per cent during the recession, though this has more or less reversed in recent years. In 2016, the top 10 per cent of households earned at least<sup>60</sup> 1.08 times as much as the bottom 40 per cent. Since the recession, moreover, changes in the Palma ratio in Ireland have strongly mirrored changes in the share received by the top 1 per cent. An exception is the most recent year, 2016, in which the Palma ratio changed little but the share received by the top 1 per cent increased sharply – in that year, the top 1 per cent earned at least 5.1 per cent of national income.

In comparative terms, except for the UK, Ireland is more unequal according to the Palma ratio than all the comparator countries. Most, including all the Nordics, have become more unequal over time. According to the top 1 per cent share, though, Denmark and the UK are more unequal than Ireland, Sweden the same and the four remaining countries less unequal.

<sup>60</sup> The figures are based on EU-SILC survey data, which considerably understate the income of those at the top.

Some of these trends appear surprising and point to the limitations of static comparative analysis. By some metrics Ireland would appear to be as egalitarian as Sweden and more equal than Denmark. However, inequality in Nordic countries has increased dramatically in the last 20 years, driven largely by the gains of the rich. A more detailed analysis is in order.

As inequality has increased across the developed world, Ireland is neither highly unequal nor highly unequal among EU countries. When compared with high-income small, open economies, aside from the UK, Ireland is generally the most unequal. This is true whether the measure is the Gini coefficient or the Palma ratio. Ireland becomes somewhat less unequal when measured by the share of income gained by the top 1 per cent, as the distribution of income in previously egalitarian Nordic countries has become markedly more skewed.

### ***5.3 Composition of income inequality***

Macro indicators of inequality can be quite blunt in that they do not provide a basis for pinpointing the policy interventions needed for a more egalitarian Ireland. This section fills that gap. It first breaks down the sources of income that accrue to different groups in society. In confirmation of the previous chapter, we find that lower income groups are unusually dependent on transfers and gain little income from work. Labour income is highly unevenly distributed in Ireland. This holds after we control for differences in working time.

#### ***5.3.1 Sources of income***

Income can be gained and, for the self-employed, lost through work. Income is also gained by holding assets and through transfers received or paid. Though private or inter-household transfers exist, it is public transfers through taxes paid and benefits received which dominate. As with total income, inequalities in sources of income can be measured in many ways. Given the remarkably constant share of the middle classes across countries, this section follows the previous in focusing on the upper classes and the rich, and the lower-middle classes and below.

Table 2 below thus depicts the sources of income for the top 10 per cent and bottom 40 per cent of earners in the eight countries, arranged in order of increasing inequality as measured by the Palma ratio. In Finland the gap between the top and bottom is the smallest, while it is the largest in the UK. Income is calculated on an equivalent income-per-person basis. That is, household income per person is adjusted for sharing resources among household members and for the fact that children consume fewer resources.

**Table 5.2: Components of household equivalised disposable income per person by income group**

	Finland	Belgium	Sweden	Netherlands	Austria	Denmark	Ireland	UK
<i>Income 10%</i>								
Labour	0.75	0.82	0.68	0.79	0.74	0.73	0.73	0.76
Capital	0.17	0.09	0.15	0.11	0.11	0.19	0.10	0.10
<i>Transfers 10%</i>								
Received	0.08	0.09	0.17	0.10	0.15	0.07	0.17	0.14
Paid	0.35	0.30	0.34	0.39	0.35	0.40	0.29	0.32
<i>Income 40%</i>								
Labour	0.40	0.37	0.38	0.52	0.50	0.50	0.24	0.33
Capital	0.12	0.03	0.03	0.03	0.04	0.01	0.02	0.05
<i>Transfers 40%</i>								
Received	0.48	0.60	0.59	0.45	0.46	0.49	0.74	0.62
Paid	0.17	0.16	0.21	0.23	0.18	0.28	0.04	0.12

Source: author's calculations based on EU-SILC microdata 2016.

Notes: according to EU-SILC coding, labour income = PY010G + PY020G + PY050G\*0.7. Capital income = HY040G + HY090G + PY080G + PY050G\*0.3; transfers received = HY120G + HY130G + HY140G. Transfers paid = PY090G + PY100G + PY110G + PY120G + PY130G + PY140G + HY050G + HY060G + HY070G + HY080G.

In all countries labour income is the largest source of income for the top 10 per cent of earners. Labour income comprises employee income and, following Alvaredo *et al.* (2017), 70 per cent of self-employment income. It also includes in-kind benefits, which are small. Countries in which labour income is the most important source of income tend to be more equal but the relationship is not particularly strong. Labour income is most important for the top 10 per cent in the central-European economies. At 73 per cent of pre-tax income, the share is the second lowest in Ireland and Denmark, with Sweden the lowest.

Capital income represents a relatively small portion of pre-tax income for the 10 per cent everywhere. Capital income comprises private pensions, rents, dividends and interest from (non-private-pension) financial assets; it does not include capital gains. As previously, following Alvaredo *et al.* (2017), 30 per cent of self-employment income is also considered capital income. Though capital income is most likely to suffer from under-reporting by high-income households, this applies to all countries to some degree. Given Ireland's generally generous policies towards the financial and property sectors, it may surprise readers that capital income is relatively unimportant for the upper classes and rich in Ireland. As assets tend to accumulate with age, Ireland's youthful demographic structure no doubt plays a central role.

Goda and Sanchez (2018), who kindly shared their findings, attempt to overcome the limitations of survey data by modelling the income of the top 10 per cent using data from national accounts. Cautioning that the values represent estimates, for 2010 they find capital income to be 31 per cent of labour income in Ireland. In their extreme scenario they find it to be 60 per cent. Yet in the table above capital income is only 13 per cent of labour income for the top decile. Capital income for the top 10 per cent is hence

under-reported, probably by a factor of 2.5 and possibly by up to 4.5 times. Similar findings apply to the other countries for which the authors had data.

Nevertheless, the baseline figure from Goda and Sanchez suggests labour income remains the most important source of income for the top 10 per cent (but not the top 1 per cent). For the bottom 40 per cent, meanwhile, under any plausible scenario labour income is much more important than capital income. The labour market is the focal point of income inequalities.

When it comes to transfers, the top 10 per cent in Ireland simultaneously pay the least and, along with Sweden, receive the most out of all the sample. Transfers received comprise mostly state transfers, such as old-age pension, unemployment benefit, and family and children's allowances. The largest component for the top 10 per cent is family and children allowances. This reflects Ireland's fertility rate, which is the highest of the eight countries, after which come Sweden and the UK<sup>61</sup>. The relatively high share of transfers received by the top 10 per cent also reflects under-reporting of high incomes across countries. Transfers paid comprise taxation, especially the category 'tax on income and social insurance contributions'; they do not include employer's social insurance (or consumption taxes). The low share of transfers paid by the top decile in Ireland probably reflects low personal social-insurance contributions and only two bands of income tax.

Turning to the bottom 40 per cent, it is here that Ireland is an outlier. For most countries labour income comprises a significant share of income for this group – close to half of pre-tax income in many cases. In Ireland it is only a quarter. Even in the UK, the most inegalitarian country listed, the bottom 40 per cent earn just over a third of their income through the labour market. This chimes with the point made repeatedly in the previous chapter that Ireland has extremely high rates of low pay as well as low participation.

The flipside of weak earning power through the labour market is high transfers received and low transfers (taxes) paid. Again, this is what we see in Ireland. The bottom 40 per cent receive almost three quarters of their income in transfers from the state and pay just 4 per cent of it in transfers. The unusually weak earning power of workers in the lower parts of the income distribution means that they are dependent on the state for transfers and can contribute little to the public coffers lest they live in poverty. The improvement in the labour market since 2015 would change these figures, though the scale of the problem suggests structural issues in the labour market.

#### ***5.4 Composition of labour income***

The centrality of labour income in determining the overall distribution of income calls for deeper analysis. Ireland has the most unequal distribution of labour income of the sample. After accounting for differences in working time between countries, the distribution of labour income in Ireland remains highly unequal, second only to that of the UK. It provides further evidence that inequalities in the labour market are the central drivers of inequality in Ireland.

Labour income is income earned in the labour market through employment and self-employment. Unlike gross and disposable income, which are essentially income pre-tax and income after taxes and transfers respectively, the ability of the state to affect the distribution of labour income is more circumscribed in the short run. It is perhaps for this reason that the distribution of labour income does not follow a simple pattern comparable to gross and net income. Rather than emphasising the Palma ratio, this section focuses on the Gini coefficient.

<sup>61</sup> Eurostat fertility statistics: [http://ec.europa.eu/eurostat/statistics-explained/index.php/Fertility\\_statistics](http://ec.europa.eu/eurostat/statistics-explained/index.php/Fertility_statistics)

**Table 5.3: Inequality and labour income**

	Belgium	Sweden	Denmark	Finland	Netherlands	Austria	UK	Ireland
Gini	0.30	0.32	0.33	0.35	0.37	0.37	0.43	0.43
<i>Employment income</i>								
Share of labour income	0.91	0.97	0.92	0.85	0.90	0.88	0.87	0.86
Share of Gini	0.96	0.98	0.85	0.88	0.89	0.85	0.86	0.88
<i>Self-employment income</i>								
Share of labour income	0.09	0.03	0.08	0.15	0.10	0.12	0.13	0.14
Share of Gini	0.04	0.02	0.15	0.12	0.11	0.15	0.14	0.12

Source: EU-SILC microdata 2016.

First consider, labour income without controlling for differences in the number of hours worked and the prevalence of part-time versus full-time work across countries. Table 3 above shows the Gini coefficient for total labour income. Following Lerman and Yitzhaki (1985), the Gini is broken down to evaluate the contributions to overall inequality of income from employment (overwhelmingly monetary but also in-kind) and self-employment. Having established the importance of labour income to inequality at the household level in the previous section, the unit of analysis here is individuals with positive income who are working full- or part-time, excluding the unemployed, the retired, the disabled, the inactive and so on. This facilitates an understanding of inequalities within the labour market, as opposed to the overall contribution of labour income to inequality.

Countries are ordered from left to right according to increasing inequality. With a Gini coefficient of 0.30, Belgium has the most egalitarian distribution of labour market income. Nordic countries are generally more egalitarian than central-European countries, which are in turn more egalitarian than Anglo-Saxon countries. Due to rounding, Ireland and the UK are distributionally the same.<sup>62</sup> While the sample of countries is small, this suggests that Ireland's ranking as among the most unequal countries in the OECD based on market-income inequality is a result of low employment. Yet its generally very high level of market-income inequality is not: when only those at work are considered, Ireland remains the most unequal in the sample, although the difference between it and the UK is negligible.

For all countries, income from employment constitutes the lion's share of income earned through the labour market. In Ireland, over 85 per cent of labour income is earned through employment, whereas in Sweden it is fully 97 per cent. Self-employment income is a small share in all countries. Labour income as a share of total income closely tracks the share of the Gini coefficient accounted for by labour income. This means labour income has a much greater effect on inequality than self-employment income.<sup>63</sup> In Ireland and elsewhere, it is the employee-employer relationship that is key to understanding the distribution of income.

It might legitimately be argued that the above figures are incomplete, owing to the growth of precarious and non-standard working arrangements. Large inequalities in labour income may not be the result of large discrepancies in pay for a given amount of work in a given job, but could instead be the result

<sup>62</sup> Ireland's Gini coefficient is 0.4312, whereas the UK figure is 0.4267.

<sup>63</sup> This may seem obvious because most income is earned through employment. It need not be the case, however, that if income from source A is high as a share of total income, source A income will drive inequality. If source A income were distributed very evenly, and remaining income very unevenly, then the remaining income would have a disproportionate effect on inequality.

of individual choices made about work-life balance generally, and part-time and full-time work in particular. Of course, the prevalence of part-time and full-time work is in no way reducible to individual choice, but also arises from a complex interplay between the welfare state, labour protection, the ability of employers to impose precarious contracts and the availability of affordable childcare. It is, nevertheless, instructive to examine distributional outcomes after controlling for working time.

Table 4 presents a breakdown of the Gini coefficient of equivalised labour income. Equivalised labour income here means labour income standardised so that the effects of working time have been removed. It is based on the methodology of Bandolini *et al.* (2010), also employed by Eurofound (2017b). As before, the table is ordered on the basis of increasing inequality from left to right and the unit of analysis is individuals in receipt of labour income.

The results are qualitatively the same as in Table 2. Belgium is the most egalitarian, along with the Nordic countries. As before, equivalised labour income comprises mostly employee income.

**Table 5.4: Inequality and equivalised labour income**

	Belgium	Sweden	Denmark	Finland	Netherlands	Austria	Ireland	UK
Gini	0.27	0.29	0.31	0.32	0.32	0.33	0.38	0.40
<i>Employment income</i>								
Share of labour income	0.92	0.97	0.93	0.86	0.90	0.88	0.86	0.87
Share of Gini	0.98	0.98	0.85	0.88	0.89	0.85	0.89	0.86
<i>Self-employment income</i>								
Share of labour income	0.08	0.03	0.07	0.14	0.10	0.12	0.14	0.13
Share of Gini	0.02	0.02	0.15	0.12	0.11	0.15	0.11	0.14

Source: EU-SILC microdata 2016.

Employee income also drives inequality. The share of the Gini coefficient accounted for by employee or self-employed income also closely matches the respective shares of employee and self-employed income in overall income. That is to say, because equivalised or time-adjusted employee income comprises the greatest share of time-adjusted labour income, it drives inequality.

The only difference of note is that Ireland goes from being the most unequal to being the second most unequal.<sup>64</sup> The change in inequality as a result of hours worked underscores the importance of non-standard and part-time work in inequality in Ireland. It remains comparatively unequal, though, after controlling for working time.

Table 3 suggested that differences in pay, not participation, are responsible for Ireland's high market inequality and by controlling for working time Table 4 strengthens that claim. Because labour income is the most important component of market income, and because Ireland has high labour-income inequality independent of working time and participation, it follows that Ireland's high market-income

<sup>64</sup> It is important to note Table 3 shows that the overall distribution of labour-income inequality is more unequal in the UK than Ireland after controlling for hours worked. It does not necessarily show that time-adjusted employee income is more unequal in the UK. Though not shown, time-adjusted employee-income inequality among recipients of labour income is identical in Ireland and the UK. A more meaningful comparison, which was not undertaken, would compare time-adjusted employee-income inequality among recipients of employee income only, as opposed to among recipients of labour income, who also include the self-employed.

inequality is a structural feature of its earnings hierarchy. Though including all countries would provide conclusive evidence at the full EU-level, it seems participation and working time explain why market inequality can be inordinately high but not why it is generally high.

In sum, capital income is important for upper-income groups but less so in Ireland. The top 10 per cent in Ireland simultaneously pay the least and receive the most, in terms of transfers, of the countries in the sample. The labour market is the focal point of income inequality and is highly skewed in Ireland. This is true not only of the raw distribution of labour income but also after controlling for differences in working time across comparator countries. The employer-employee relationship is thus central to the production of inequalities.

## ***5.5 Structural components of inequality***

Having established the centrality of work to the generation of inequality, this section explores structural components of distribution. Though inequalities between sectors of the economy are comparatively large in Ireland, most of the inequality arises from inequality within sectors. There is significant scope for redistribution.

### ***5.5.1 Inter-sectoral inequality***

The sectoral composition of an economy and the division of labour in society which follows play an important role in distributional outcomes. Sectoral composition is important as certain sectors are more likely to be high-income and high value-added – technologically sophisticated sectors, such as software and pharmaceuticals, are cases in point. Other sectors, such as retail and hospitality, are likely to be relatively low-income. Sectoral imbalances can thus play a significant role in inequality. For instance, an economy with a relatively high share of high- and low-income sectors is likely to be more unequal than one with a more even distribution (see, for instance, Galbraith, 2011). Highly FDI-dependent economies are more likely to display this feature. -

Table 5 below shows the structural composition of Ireland and comparator economies in terms of the share of employment accounted for by each sector. The sectors are ordered on the basis of the average wage across countries. So, finance and real estate (FIRE) is the highest-paid on average across the eight countries, and retail and hospitality the least well-paid. Wage data were not available for the primary sector, namely agriculture.

Focusing for the moment on the extremes, Ireland has the largest retail and hospitality sector, the one with the highest levels of low pay (Collins, 2015). For historical reasons, Ireland also has a large agricultural sector, where employees are also generally poorly paid (*ibid.*), but highly subsidised under EU supports. Ireland has, however, large financial and tech sectors, no doubt reflecting the strong presence of multinationals in the economy. The high incidence of well-paying jobs is welcome. What is not welcome is the simultaneous prevalence of high-paying jobs and low-paying jobs. Their co-existence suggests that the Irish FDI-led model is a contributor to inequality.

**Table 5.5: Structure and employment**

	Belgium	Sweden	Denmark	Finland	Netherlands	Austria	Ireland	UK
FIRE	4.30	3.53	4.20	3.08	3.79	4.21	4.91	5.08
IT, professional & scientific	8.77	13.56	9.30	11.49	10.16	8.85	11.41	11.34
Industry	13.49	11.06	12.35	14.08	9.72	16.59	12.18	9.83
Construction	6.51	7.11	5.99	7.59	4.77	8.10	5.85	7.26
Public & social services	32.92	33.34	31.61	28.67	27.63	24.59	25.35	29.61
Retail & hospitality	16.16	14.46	20.15	14.25	18.07	19.96	20.83	18.33
Primary	1.21	1.98	2.24	3.92	2.16	4.08	5.12	1.61
Other	16.65	14.97	14.17	16.92	23.71	13.62	14.36	16.95

Source: Eurostat labour force survey 2017.

Notes: sectors were classified on the basis of NACE 2 at the single-digit level. As before, FIRE is the sum of finance and real estate; IT, professional & scientific the sum of information and communication, and professional, scientific and technical activities; industry the sum of manufacturing and electricity, gas, steam and air-conditioning supply; construction is as given; public sector the sum of public administration and defence, education, and human health and social work; retail and hospitality the sum of accommodation and food, and wholesale and retail; primary the sum of agriculture and mining and quarrying; and other the remaining sectors. Given multiple sectors in most groups, weighted averages were used to calculate wages. Wage data from 2016 were used for the Netherlands.

Ireland is thin in the middle tier of sectors, and hence jobs. Despite large shortages in the stock of housing, construction employment is currently quite low. Though below average, employment in industry in Ireland is respectable. While the size of the public sector is driven by a complex array of demographic and other factors, employment in public sector-related activities seems small. Though not shown, it is employment in human health and social-work activities which drives Ireland's relatively low public-sector employment. This underscores the relative deficit in Ireland's caring infrastructure.

As well as through having more workers employed in high- and low-income sectors than comparators, inequality may also be exacerbated if high-income sectors are unusually well-paid and low-income sectors unusually poorly paid. It is thus useful to examine how pay in the best- and worst-paid industries compares with the average, and whether there are any differences between Ireland and its comparators in this regard.

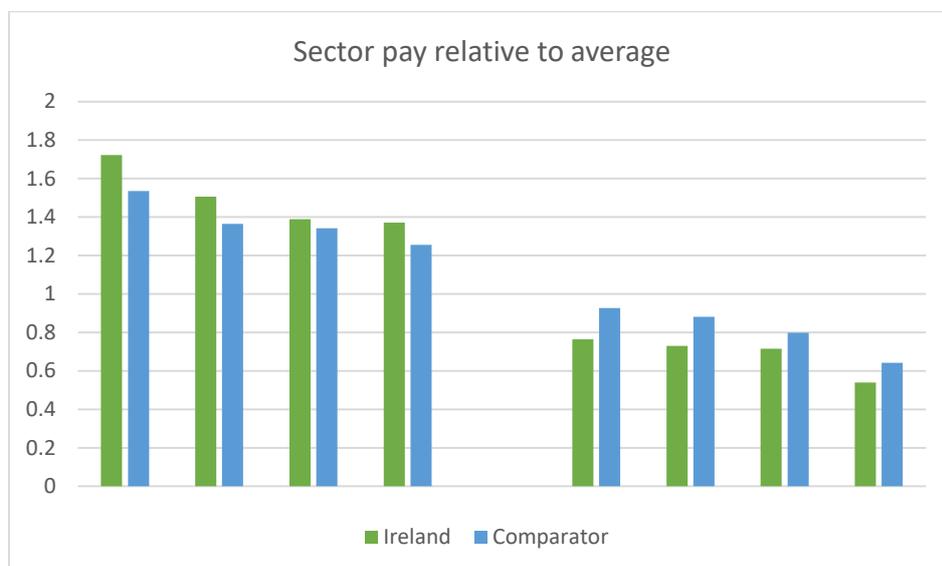
**Figure 5.3: Relative wages in the best and worst paid sectors****Eurostat: Labour cost survey.**

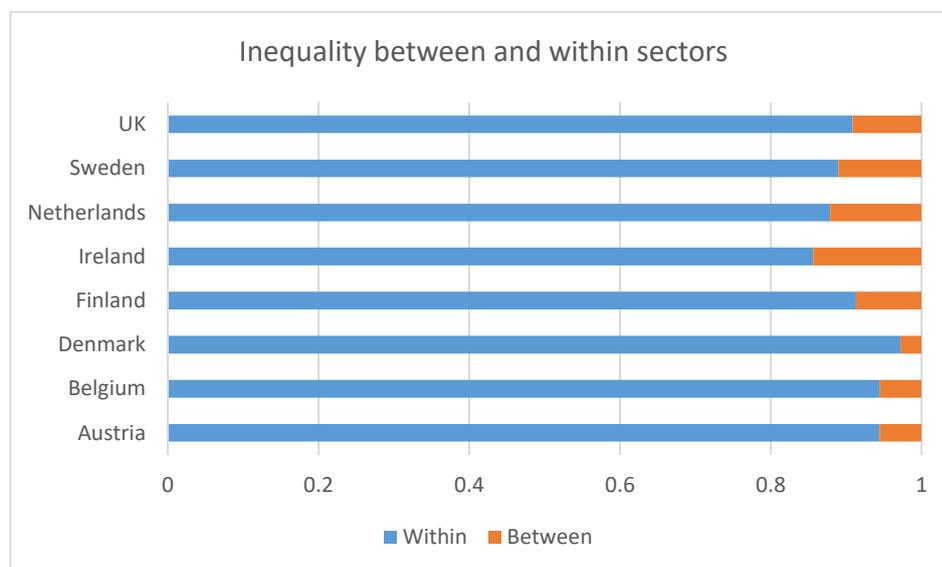
Figure 3 does just that for the four best- and four worst-paid sectors out of the total of 16 based on 2017 data. The best-paid sectors in Ireland are energy (electricity, etc.), education, information and communication, and finance. The worst-paid are hospitality, 'other services', administration and support, with water and sewerage the 'least worst'. The comparator countries are similar.<sup>65</sup>

At 1.7 times the nationwide average, the leftmost green bar shows that pay in the top Irish sector (energy) is very well-remunerated. Pay in the top sector for comparator countries is just over 1.5 times nationwide levels on average. As the first four green bars are higher than the corresponding blue bars, it is apparent that the top sectors in Ireland are particularly well-paid. Lowest-paid sectors in Ireland are unusually poorly paid. The worst-paid sector in both cases is hospitality. But in Ireland wages in hospitality amount to just 54 per cent of the national average, whereas in comparator countries this is 64 per cent.

Some of this may be attributable to Ireland's model of attracting FDI. To attract top-class talent, it would be unsurprising for pay in information and communication, a key export sector, to be relatively high. Differences in pay between sectors may also reflect the fact that unionisation and collective-bargaining coverage is more circumscribed in Ireland as indicated in Chapter 4. The comparative strength of organised labour in comparator countries means that private-sector workers in lower-pay sectors get a larger share of the economic pie.

Certain sectors of the economy are also more shielded. Ireland is a high-cost economy, though labour costs are below EU-15 averages (Sweeney, 2018), which suggests that certain sectors are effective at extracting 'rents'. As alluded to in the previous chapter, governments provide effective protection from competition for some sectors. This may be in the form of undue entry barriers into a profession or a regulatory structure which permits excessive fees. For instance, households in Ireland face unusually high borrowing costs, which is difficult to attribute merely to compensation for greater riskiness of lending. Professional services such as legal and insurance costs are also high.

<sup>65</sup> The four best-paid sectors on average in comparator countries are respectively finance, information and communication, energy, and scientific and professional. The four worst-paid are hospitality, administration and support, entertainment and other, and water supply and sewerage the least worst.

**Figure 5.4: Inequality between and within sectors**

Source: EU-SILC (2016).

Figure 4 decomposes labour-income inequality according to inequalities within and between sectors. The measure of inequality used here is the Theil coefficient. This is favoured because such a decomposition cannot be reliably performed (or performed at all) using more standard measures of inequality, such as the Gini coefficient, the Palma ratio, or the top 1 per cent or 10 per cent shares. Despite large differences in average income between sectors, and greater weighting towards both high- and low-income sectors, the share of inequality accounted for by differences in income between sectors is still relatively small in Ireland. Using more disaggregated data, Eurofound (2015: 23) calculates the share of inequality accounted for by differences in income between sectors to be 21 per cent.<sup>66</sup> Intersectoral differences in income are therefore significant but most income inequality in Ireland arises within sectors.

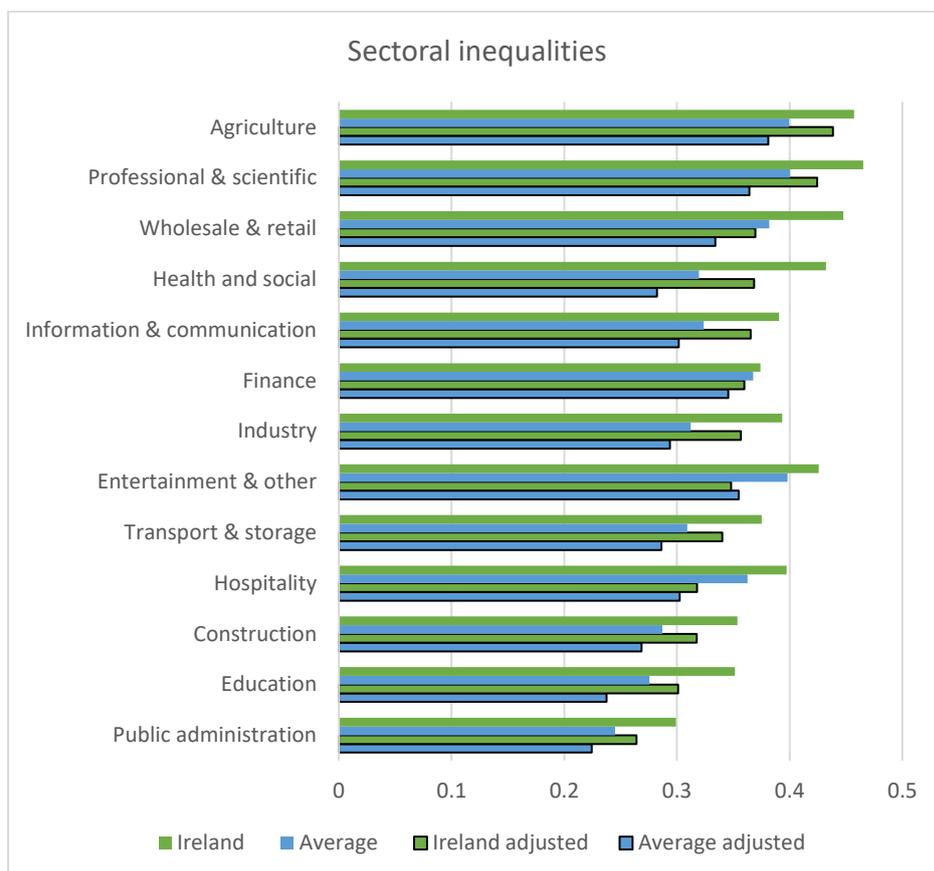
### 5.5.2 Within-sector inequalities and the scope for redistribution

Independent of differences in the strength of organised labour across an economy, certain sectors may be more likely to generate inequalities internally. Occupations can differ greatly in terms of the level and scarcity of skills, creative input and knowledge required of the worker. Unlike rote and repetitive tasks, highly knowledgeable, creative and skilful occupations may be more difficult to automate. This enables them to acquire a greater share of the economic pie than less empowered occupational groups. Sectors which are skewed in terms of requiring a relatively high share of both high- and low-skilled occupations are likely to be more unequal (Goos and Manning, 2007; Wright and Dwyer, 2003; Breathnach, 2007). The financial sector, for instance, requires so-called front-office, technically challenging occupations such as fund management and trading, which are particularly well-remunerated. Finance also has back-office administrative support, whose pay is more in line with comparably-skilled workers in other sectors.

<sup>66</sup> If the analysis is refined and the number of sectors increased, the share accounted for by differences between sectors would also increase. For instance, if every worker were assigned to a different sector in the economy, differences between sectors would account for all of the inequality.

Figure 5 displays labour-income inequality within sectors in Ireland and for comparator countries, using the Gini coefficient. Green bars denote Ireland and blue bars denote comparator averages. Bars with black outlines denote time-adjusted labour-income inequality, using the same technique as in the previous section. Sectors are ordered according to time-adjusted inequality in Ireland.

**Figure 5.5: Distribution of income by sector**



Source: EU-SILC (2016).

Looking at the unadjusted data, inequality in Ireland is higher in every sector of the economy than the comparator average. The most unequal are professional and scientific, agriculture, and wholesale and retail. These sectors are also among the most unequal in the comparator countries. With Gini coefficients greater than 0.4, health and social, and entertainment and others are also among the more unequal sectors in Ireland. Health and social, however, is not particularly unequal among comparators.

When working time is controlled for, agriculture becomes slightly more unequal than professional and scientific, but the two are still the most unequal. There is a large fall in inequality in wholesale and retail, and health and social but they still rank as the third and fourth most unequal respectively. This indicates that low working time, namely more part-time and seasonal work, is responsible for some of the inequality in these sectors. Entertainment is no longer among the more unequal. Controlling for working time also narrows the gap between Ireland and comparators considerably in wholesale and retail. Again, this suggests a greater number of part-time and precarious workers than in comparators. Though not among the most unequal sectors, hospitality also experiences a large fall in inequality when working time is controlled for.

The status of professional and scientific as the most unequal sector in Ireland may reflect the heterogeneous nature of the grouping rather than structural features of its earnings hierarchy. The skewed distribution of agricultural income may be due to the sector having many unskilled workers employed by farm owners. Wholesale and retail contains the highest number of minimum-wage jobs, which tend to be low-skilled as well. The status of health and social as among the most unequal is surprising. It clearly reflects features peculiar to Ireland, given the sector is so much more unequal than the comparator average. This may be a result of the choice to pursue a more market-oriented approach to medicine and care in Ireland. High-earning medical professionals coexist with an often precarious, feminised social sector.

The two highest-income sectors are finance and information and communication. They are also much more export-oriented than other sectors. They are in the middle-to-high group in terms of how unequal they are internally. Inequality in the financial sector in Ireland is similar to comparators with relatively little change in inequality when working time is controlled for. Information and communication is considerably more unequal in Ireland than the comparator average. The fact that the export-oriented sectors are not among the more unequal suggests that Ireland's FDI-based model is not a direct impediment to greater equality. Of course, FDI dependence poses indirect barriers such as the potential for wage increases to feed into trading-sector costs, and trepidation on the part of the political class to allow wage increases, independent of material constraints.

Industry, which includes manufacturing and the energy sector, shows middling inequality in Ireland. So do the small transport and storage, and entertainment and other sectors, the latter becoming much less unequal when working time is controlled for. Construction, education and public administration are among the more equal sectors in Ireland and in comparator countries. High public-sector employment and the salience of organised labour explain the even distribution of labour income in the latter two, while there are relatively few unskilled occupations in construction, compared with, say, retail.

Though the above figure is revealing, especially considering how inequality is consistently higher across sectors in Ireland, it says less about the scope for redistribution. For instance, though the financial sector is unequal, remuneration is high on average. Given that income inequality tends to be driven by gains for the top 10 per cent at the expense of the bottom 40 per cent, it is useful to examine the sectoral employment patterns of the bottom two quintiles (excluding those not in paid work) and the potential for redistribution in those sectors. This is done in Table 6.

By redistribution we do not imply that incomes at the top should be transferred to those at the bottom. Redistribution could be phased-in through disproportionate gains or losses for different groups as the economy expands or contracts. One measure of potential redistribution is the Ireland-to-comparator ratio of time-adjusted Gini coefficients, showing the extent to which labour income is more (or less) skewed in Ireland – a ratio greater than one indicates that the sector is more unequal in Ireland.

**Table 5.6: Employment and redistribution in the bottom 40 per cent**

	Employment share	Gini ratio	Difference in VA share
Wholesale & retail	17.0	1.1	10
Health & social	12.4	1.3	-
Industry	11.8	1.2	-
Hospitality	8.6	1.1	-15
Professional & scientific	8.0	1.2	-
Construction	6.8	1.2	-7
Education	6.7	1.3	-
Entertainment & other	6.7	1.0	11
Agriculture	5.4	1.2	7
Public administration	5.3	1.2	-
Transport & storage	5.1	1.2	14
Information & communication	3.6	1.2	-
Finance	2.8	1.0	-

Sources: employment share figures are calculated using EU-SILC microdata; Gini ratio statistics are as per Figure 5; labour share of value-added figures are based on Eurostat national accounts data.

Notes: differences in VA (value-added) are based on latest figures, in this case 2016, whereas other columns refer to 2015; as before, the bottom 40 per cent of income recipients refers to equivalised disposable income.

The third column examines the percentage-point difference in the labour share of gross value added in Ireland compared with comparator averages. Value added is essentially sales minus intermediate costs and so measures how much surplus is distributable to workers and owners. A higher labour share of value added indicates that workers receive a greater share of the pie. A positive number in the column implies a higher labour share in comparator countries, and a negative number indicates workers in Ireland obtain relatively more. Sectors with many public-sector employees are excluded as value added is less meaningful. Sectors with high penetration of multinationals are also excluded, due to the unreliability of the data.

Most sectors have scope for redistribution among stakeholders. Employing 17 per cent of those in work, wholesale and retail is the most important source of employment for the bottom two quintiles. Irish workers in the sector receive 10 per cent less of value-added than in comparator countries, and labour income is somewhat more skewed as well. Health and social, and industry share around a quarter of employment for this bottom group; as noted, income is distributed very unevenly in Ireland in those sectors. The next four sectors employ about 30 per cent of the category; in all sectors income is relatively unevenly distributed. Redistribution is more challenging in hospitality: though workers receive a large share of the pie, and some workers get more than others, that pie is not very large (Sweeney, 2018). This may be a result of high intermediate costs and the extraction of rents elsewhere in the economy.

There is also scope for redistribution in sectors in the lower half of the table, from entertainment and other down. Redistribution can come from a combination of wage compression and more value added going to labour. This is especially the case for agriculture, and transport and storage. Given a relatively small number of workers are on lower pay in the more export-oriented information and communication, and finance, fewer resources would need to be devoted to raise living standards there.

In sum, Ireland has somewhat of a glut of both high and low-income sectors as measured by employment shares. Average incomes in these sectors also tend to be unusually high and unusually low by comparator standards. As a result, the share of inequality driven by inequalities between sectors is comparatively high. But inequalities internal to sectors of the economy drive labour-income inequality in Ireland. Inequality is higher in every sector in relation to comparator averages, and all but one when working time is adjusted for. There is significant scope for redistribution among stakeholders.

### 5.5.3 Discussion

The existence of high-quality, well-paid jobs, including in the multinational sector, is welcome. But their coexistence with poorly-paid sectors creates distributional challenges, especially in sectors such as hospitality where scope for redistribution among stakeholders is more limited. That domestic firms tend to be comparatively low-productivity creates additional challenges even when there is scope for redistribution. Historically, increases in labour income tend to have been associated with industrial development, when the workforce is able to bargain for shared prosperity. O'Riain (2014), for instance, links the historical retardation of Ireland's indigenous sector with a weak welfare state and high inequality. An egalitarian strategy should include a process of environmentally sustainable industrial upgrading.

Ireland has what might be described as a transfer-rich and service-poor welfare state. Given the benefits of universal transfers – payments that benefit society at large tend to be less stigmatising to the poor – redistribution from the top 10 per cent through reducing state supports may not be desirable. A better strategy is to expand services such as childcare, healthcare and housing. Many of the public services Irish citizens and residents generally have to pay for are free at the point of access elsewhere. To take childcare, as well as providing an essential social service its expansion would increase labour-force participation and reduce market inequalities. Expansion of social housing would help bring costs down, including business costs. This would enable businesses to pay higher wages and/or mitigate the need for higher wages as real living standards are raised. Funding a social investment programme through various progressive revenue-raising measures would further improve distributional outcomes.

Most of Ireland's inequality is generated internally in different sectors of the economy, independent of working time and participation. Countries enjoying greater equality tend to have more prominent trade unions. Workers in Ireland do not have an automatic right to union recognition and collective bargaining. Sector-by-sector bargaining, for instance, is a means by which workers can raise pay. Bargaining processes can also help curb precarious forms of employment (Pembroke, 2018), as well as stipulating inability-to-pay clauses in sectors which cannot afford increases. Legislation that enhances the right to collective bargaining would make a significant contribution to reducing inequality. Collective bargaining, of course, should be complemented by legislative efforts to tackle poor working conditions and pay (*ibid.*). An egalitarian strategy would therefore combine the expansion of workers' rights with an investment strategy which includes not only industrial upgrading but social investment as well.

## 5.6 Conclusion

Income inequality has increased almost universally in the developed world since the 1980s. In Ireland it has fallen since the late 1990s while it has continued to increase elsewhere, including the Nordic countries. Aside from the UK, Ireland is the most unequal of the eight countries in this chapter. Only for extensive state subsidisation of lower-income groups and workers, Ireland would be the most unequal among advanced economies. Exclusion from the labour market plays a role, but large inequalities are generated within the labour market as well. This is true even after controlling for labour time. The employee-employer relationship is central to the generation of inequality in Irish society.

Ireland has a structurally unbalanced economy. It has an abundance of both high and low-income sectors, which are indeed unusually well and poorly paid. The high-income sectors are however not, according to the latest data, particularly unequal. Most of the inequalities generated in Ireland come within sectors operating mainly in the domestic economy. Among the most unequal are wholesale and retail and health. Greater economic justice is thus in principle under the control of domestic policymakers. Improving the bargaining power of workers, complemented by industrial upgrading and investment, is key in this regard.

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# 6. Conclusion

# 6 Conclusion

## Robert Sweeney and Robin Wilson

### Key points

- An appetite exists among the public for greater equality
- Ideally the EU would move towards common welfare standards and wage policy
- This could include Europe-wide taxation on wealth and capital income
- Within the existing framework, the EU should reform its macroeconomic rules
- Macroeconomic imbalance rules should be put on an equal footing to fiscal rules
- Deficit rules should be eased and, in the case of structural deficits, abandoned
- Excessive current account and trade surpluses should be treated the same as excessive deficits
- Public investment should complement wage growth in Ireland so as to contain cost increases
- Deficits in provision exist in health, housing, and childcare
- Worker rights and protections should also be expanded

### *6.1 A vicious circle*

The preceding chapters of this report have charted the landscape of inequality in 2018. They add further depth to the core insight of this project since 2015 (O'Connor and Staunton, 2015; Hearne and McMahon, 2016; Wickham and Hearne, 2017). Europe has been recovering from the ravages of financial crisis and policies that have deepened its impact. The recovery, though, has not been even either across Europe or within its countries. Ireland has been among the strongest economic performers, especially among peripheral Europe, despite its period in troika purgatory. Yet it is a weak performer in terms of what TASC has described as the goal of a 'flourishing society' for all (O'Ferrall ed., 2011).

Returning to the arguments presented in the introduction, a return to more shallow social gradients is required, because then inequality is minimised. Redressing Europe's steeper gradient of today in this way would mean every individual was thereby given additional opportunity to flourish, realising their talents and aspirations – with those at the bottom of the existing hierarchy benefiting the most but everyone beneath the very top gaining to some degree. The performance of Europe and indeed Ireland would improve as societies are elevated as the average is raised.

Support for progressive alternatives can easily spill over into support for less laudable ideals. There is no guarantee, as recent events aptly show, that the anger instilled by legitimate economic grievances gets directed at the correct sources. Amin (2012), for instance, is not so sanguine about the possibilities

for Europe. For him, 'with risk and uncertainty as pronounced as they are now ... there appears no foundation for Europe to face the future with openness and solidarity, without the guarantees of the social state' (128). To engender such social comfort across Europe, particularly among the currently precarious, excluded and marginalised, will however require a marked transformation of the economic governance of the EU.

The citizenry, at least, appear to favour change. A special Eurobarometer survey in late 2017 on the Future of Europe found that 45 per cent of respondents stressed the significance of 'social equality and solidarity' in the face of major global challenges, whereas only 23 per cent emphasized 'free trade / market economy'. Even more strikingly, 62 per cent of respondents favoured a Europe in 2030 based on solidarity, compared with 13 per cent on individualism. And 64 per cent favoured the harmonisation of social welfare across the EU.<sup>67</sup> The German trade-union leader Reiner Hoffman (2016: 3) argued: 'If Europe wants to regain the trust of its citizens then Brussels must finally put the primacy of politics above that of the market.' This would be embodied in a 'social progress protocol' indicating the prioritisation of social over economic goals.

Repeated surveys by TASC and partner organisations have produced similar findings in the case of Ireland. In 2008 70 percent of survey respondents felt that income was distributed either 'quite unfairly' or 'very unfairly'. In 2014, that figure had risen to 83 percent (Fanning, 2015). Most people 'strongly agreed' that the government should take action to reduce the gap between high and low earners. The challenge then may then be one of convincing people to act and vote on their prior beliefs. It is less to convince them the world is unjust – that is already plain to see.

Perhaps feeling these pressures, in April 2017 the European Commission put forward as a 'European pillar of social rights' a 20-point political charter, on gender equality, pay, worker safety, pensions and benefits. Endorsed the following November at an EU summit, it is not however legally binding and does not add to any of the rights contained in the existing EU treaties (Steinruck, 2017). Notably, it does not integrate the various relevant conventions, such as the European Social Charter of the Council of Europe, and nor does it suggest any strengthening of the role for collective bargaining and dialogue between the social partners (Rasnača, 2017: 12). It does, though, offer the potential to be a vehicle for progressive change if sufficiently instrumentalised by EU institutions and stakeholders (*ibid.*)

In a recent EU summit, a comprehensive resolution on 'combating inequalities' was passed by the European Parliament. It called for an 'authentic' pillar of social rights and set out a range of concrete measures urged upon the union and member states. It warned that rising inequality across the EU could 'damage trust in the EU as an engine of social progress, a dimension of the Union which needs to be developed'. The motion affirmed that 'reducing inequalities is essential for promoting fairer and more stable democracies, guaranteeing equal treatment without double standards, marginalising populism, extremism and xenophobia, and ensuring that the European Union is a project embraced by its citizens'.<sup>68</sup>

Such resolutions, though useful, currently lack teeth. In bridging the gap between what are clearly firmly-held beliefs in economic justice, and voting patterns that confound those beliefs, it does not suffice to merely identify causes of growing discontent. It is important to lay out a path of change, a path

<sup>67</sup> Eurobarometer 467, November 2017, available at <http://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey/getSurveyDetail/instruments/SPECIAL/surveyKy/2179>

<sup>68</sup> European Parliament resolution, 'Combating inequalities as a lever to boost job creation and growth', 16 November 2017, available at <http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2017-0451&language=EN>

that reduces the gap between the haves and the have nots. Space does not permit the detailing of a comprehensive egalitarian economic programme here. In this concluding reflection on the previous chapters, we sketch an outline of reforms of should and can be done, in Europe and Ireland.

## ***6.2 Principals for an egalitarian Europe***

Palma's findings from Chapter 2 were revealing. Recall that Europe performs comparatively well when the standard for income distribution is the rest of the world. The battle for shares of the economic pie is fought between the rich and higher level professionals on the one hand, the top 10 per cent of earners, and the working class on the other, the bottom 40 per cent. Europe's compressed incomes are mainly a result of the heavy lifting done by welfare states across the continent; market income inequality is not unusually low here and there are large differences between countries. However, as market incomes are becoming increasingly dispersed, welfare states are having to do ever more lifting to retain something close to European countries' historically low levels of net income inequality.

The bottom 40 per cent continues to struggle as it is here that the burden of unemployment most heavily falls. The change in fortunes is starkest in countries hardest hit by the crisis, and hardest hit by the package of policies and reforms which were ostensibly aimed at putting them back on their feet. Youth unemployment is still rampant in countries such as Greece, where a staggering 43 per cent of young people are unemployed. Then comes Spain and Italy who are not all that better off. Followed by them are Croatia, Portugal, and then France where over a fifth of young people cannot find work<sup>69</sup>. In Ireland, as we have seen, the employment recovery has been stronger, but is class-biased; the less-educated have found it much more difficult to find work. Addressing inequality, especially market income inequality, requires serious efforts to tackle joblessness. If many countries have undergone financial crises, then surely the young are now undergoing employment crises.

An economically sound agenda for European recovery would not focus primarily on balancing national budgets. Nor would it centre on imposing 'structural reforms', an outcome of which is to reduce demand by weakening labour in favour of capital. It would focus instead on high and sustainable employment across the union and the reduction of fiscal and other imbalances through growth. It would establish a substantial European budget (including revenue from a financial transactions tax) to finance Europe-wide investment in public goods, notably in a green transition, as well as to support counter-cyclical fiscal policy. It may also include a common unemployment-insurance programme, concentrating support in states hit most by rising joblessness, as recently Greece (de la Rocha Vázquez *et al.*, 2017: 11)

Though employment creation is an important means of raising income and indirectly improving the bargaining power of workers (as employers have less choice in hiring), to tackle inequality at source, it is also important to expand the rights of workers. Critical to this is enhancing the role of trade-unions. Though collective bargaining and labour rights are the domain of national policy, a number of proposals have been forwarded to expand their role in economic policymaking at European level. Koll (2013), for instance, calls for greater centralisation of collective bargaining. Specifically, nationally bargained agreements should be coordinated with other member states so as to make them consistent with EU or EMU economic strategy. For Koll, this means avoiding excessive trade imbalances through undercutting labour costs. The institutional vehicle could be the Macroeconomic Dialogue, an existing forum that brings together social partners, the ECB, the Commission, and the Council.

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<sup>69</sup> Based on May 2018. See Statista (2018): <https://www.statista.com/statistics/266228/youth-unemployment-rate-in-eu-countries/>

Turning to wealth inequality, Szymborska's exploration in Chapter 3 was revealing in several respects. Wealth inequality has been growing recently in Europe, and available evidence suggests it has in fact been growing for some time. Property represents the most important source of wealth for most households, though less so for the more affluent who are better able to diversify. For them, pension wealth is also sizeable. But house prices remain key to understanding how disparities in wealth evolve, along with many other factors. Income, of course, facilitates asset accumulation, and lower income households are finding it more difficult to close the wealth gap. Well-educated males are more likely to have significant holdings. At the aggregate level, demographic factors exacerbate inequalities but are not the ultimate cause. Parental transfers and the system of housing provision are also important.

If the recovery in incomes and employment since the crisis has been underwhelming, the same cannot be said for asset values. Importantly, most countries have witnessed large increases in house prices. Equity markets have also risen considerably. From the post-crisis nadir of 2008, since then stock market values have increased by 60 per cent in the euro area<sup>70</sup>. The recovery in both property and financial asset values in recent years is likely to have exacerbated disparities in wealth. Though the survey evidence presented in Chapter 3 points to the centrality of housing, which is of course key, surveys underestimate holdings of financial wealth, especially at the top.

The relative mobility of certain forms of wealth over income necessitates international solutions. But while the political obstacles are formidable, the rise of inequality in recent years has put the spotlight on these issues. Investigative journalists have exposed the threat posed by secrecy jurisdictions to global tax revenues and the EU is big enough and strong enough to put them under severe pressure, even without concerted OECD action – it is just a matter of political will. The first step is to insist on transparency as to the beneficial ownership of all asset holdings, on pain of severe international sanction. The closing down of secrecy jurisdictions through which the wealthiest individuals conceal their assets is another necessary step (see Jacobsen, 2018). Finally, the taxation of wealth and, specifically, the prevention of corporate global gaming to minimise tax commitments, is then needed to actually reduce inequalities. Such policies may be allied to an end to the 'race to the bottom' in corporate-tax rates more generally, and specific taxation of the transfers of financial assets. The latter would include the implantation of a financial transactions tax which, as alluded to, could contribute to a beefed up EU budget that tackles a variety of social concerns.

### ***6.3 Reforms within the current framework***

Policy areas that most directly impact distribution – wage policy, collective bargaining, labour market regulation, welfare and so on – have heretofore been the domain of national governments. Insofar as EU legislative initiatives have impacted these domains, the EU has at times been an agent for progressive change. The 2003 Working Time Directive legislated for minimum standards for holidays, rest breaks and protected employees against pay discrimination. In recent years it has begun to protect workers against insufficient working hours, which is positive from an income distribution perspective (Gornick and Smeeding, 2018). The EU has also introduced a directive on posted workers, which inhibits the ability of employers to import cheap labour from lower cost countries (Picard and Pochet, 2018). Against these defensive measures, though, EU case law has increasingly subordinated protective labour law to market processes when the former has come into conflict with the commercial prerogatives of companies (Giubboni, 2018). The general thrust of post-crisis reforms, moreover, has been to weaken the welfare state, especially in the crisis countries. Beyond the national arena, common social welfare

<sup>70</sup> World Bank (2018) statbank. See: <https://data.worldbank.org/indicator/CM.MKT.LCAP.CD?locations=XC-EU>

standards and greater centralisation of collective bargaining across the continent would represent high levels of supranational or EU-level policymaking in the arena social and welfare policy, which have not been forthcoming as of yet.

In terms of macroeconomic policy, moves towards greater political and fiscal union are required to ensure the long-term survival and prosperity of not only the euro, but the EU as a whole. Again, such moves would entail a significant reorientation of EU's current structure. Similarly, Europe-level wealth taxes require a high level of political and economic coordination, not to mention requiring a sharp change from the current neoliberal outlook among states. The looming exit of Britain from the EU is likely to make cross-continent taxation on wealth even more challenging, save a sharp turn in economic policy. The upshot is that short of a reconfiguration of the EU's current structure, it is also necessary to reform and push back existing rules, within the existing architecture.

One area in pressing need of reform is the EU's byzantine set of macroeconomic policy rules. The Stability and Growth Pact (SGP) entered into force in 1998 to ensure stability of the Eurozone but which all EU member states were in principal subject to. The pact required states to run budget deficits of no greater than three per cent of GDP, and to have public debt levels not exceeding 60 per cent of GDP. After some reforms in the 2000s, the pact was strengthened post-crisis. The most recent Fiscal Compact concentrated on the speed of adjustment when a country's debt exceeded 60 per cent – the difference must be reduced by on average one twentieth from its present level – and the requirement to have a so-called structural budget deficit of no greater than 0.5 percent of GDP in a given year. A structural deficit is the budget deficit a country has independent of the business cycle. So if a country is in a recession and has a high deficit, its structural deficit would be calculated to be smaller than the headline rate, as the deleterious effects of cyclical downturns on public finances are controlled for. The converse is likely to be true in a boom. Structural reforms, especially pension reform, are considered key to achieving a sound fiscal position (Niechoj, 2011: 6).

A further set of post-crisis reforms went beyond fiscal policy, but aimed at preventing so-called macroeconomic imbalances. Under this reform a scorecard of macroeconomic indicators is periodically assessed and corrective action is pressured on countries that are deemed unbalanced. Various imbalances were considered important backdrops to the crisis which needed to be prevented going forward. For instance, if a country consistently imports more than it exports that country it is likely to finance those net imports via external borrowing. Large accumulations of external borrowings can, over time, threaten a country's financial stability. In addition to external and competitive concerns, the scoreboard of indicators includes variables related to internal imbalances such as private indebtedness, private sector credit flows, unemployment indicators, and so on. It also stipulates inflation-adjusted changes in house price should not exceed six percent in a given year. Countries found to exceed thresholds may be deemed to have excessive imbalances, and may need to undergo 'structural reforms'. If imbalances are not corrected, countries may ultimately receive sanctions such as fines.

Restrictions on fiscal policy have important distributional consequences, especially given that many governments are more likely to reduce spending than raise taxation. Contracting government spending reduces demand, which increases unemployment. As previously, more people out of work means the unemployed or underemployed have less or no market income. The reserve of workers available for hire means employers have more choice, and hence bargaining power over pay and conditions. Restraints on spending mean that states are less likely to increase benefits and welfare payments, which disproportionately impact poorer people. Non-monetary sources of income are likely to be affected through less access to and lower quality public service provision.

Wealth inequalities are also impacted. Insofar as fiscal rules impact the tendency of governments to expand the stock of social housing, disparities in housing assets are to be likely accentuated under fiscal consolidation. High levels of social provision, as has historically been the case in central and eastern European countries, mean assets are more evenly spread. Restrictions on the state's ability to expand housing may produce spikes in prices, as has happened recently in several countries, as demand outstrips supply. Similar comments apply to pension spending, and pension assets. Lower levels of public provision pushes people to rely on the market, which tends to exacerbate inequalities. Moreover, pension and life insurance companies are major investors in government bonds, such that fiscal rules will over time reduce the stock public debt outstanding. This contributes to 'searches for yield' in alternative asset classes, including property. Institutional investors are major players in the German, Dutch, and Irish rental markets<sup>71</sup>, for instance, and have helped push up property values globally.

The macroeconomic imbalances rules similarly have large distributional implications, implications which encroach into the supposed national autonomy of social and labour market policy. As the trade imbalance<sup>72</sup> is perhaps the single most important indicator (Koll, 2013), unit labour costs, which attempts to measure the labour cost associated with producing a unit of output, becomes an important corrective device in addressing imbalances. But there is an asymmetry in the application of the rules. It is only when labour costs have risen too high (greater than nine percent for euro area countries, and 12 percent for non-euro area), that alerts are triggered. Similarly, more leeway is given to countries in correcting excessive export growth, which would be associated with low labour costs, than a country with excessive import growth, which would be associated with high labour costs. So-called structural reforms of the labour market are likely from the process, reducing further worker protections (ibid.).

Macroeconomic rules, especially in the context of a common currency, are in principal a sound idea. But the SGP and the related Fiscal Compact are problematic. Fiscal rules failed to prevent the recent financial crisis. Countries which strictly adhered to rules and ran budget surpluses through most of the 2000s, such as Ireland and Spain, were among the hardest hit. More technically, if a country is growing sufficiently quickly (or has sufficiently high inflation), it is possible to have a deficit of more than three percent, but reduce the overall level of indebtedness. Nevertheless, fiscal consolidation or austerity would still be recommended. The Fiscal Compact relies on being able to decompose how much of the deficit is due to cyclical factors, and how much is due to structural or long-term factors, which cannot be reliably achieved in practice<sup>73</sup>. For instance, large revisions of estimates have been made retrospectively (Truger, 2014).

As they currently stand, the fiscal and macroeconomic rules are in need of reform. It should be acknowledged that the so-called structural deficit cannot be measured in practice, so there should be no rule compelling the structural deficit to remain below 0.5 per cent of national income. Another reform would be that if a country is reducing its public indebtedness through nominal economic growth, then the requirement for it to have an overall deficit of no greater than three per cent of GDP should be abandoned. Moreover, deviations from the three percent deficit rule should also be allowed if the deficit relates to growth-enhancing public investment.

<sup>71</sup> See: <https://www.ft.com/content/c6004974-8773-11e3-ba87-00144feab7de>

<sup>72</sup> The actual metric used is the current account balance which, for most countries, differs little from the trade balance.

<sup>73</sup> In particular, it relies on being able to measure the so-called 'output gap', how far economic output is from full or potential output. This requires modelling the economy using a simple aggregate production function which is problematic for several reasons (see, for instance, Felipe and McCombie, 2005).

The greatest factor in the expansion of public indebtedness in recent years were the collapses in finances due to the severe recessions, and in many cases, collapses of asset bubbles in European countries. This was magnified by rescues to the banking system and particularly actions by the ECB which allowed interested rates on crisis countries' public debt to soar, unnecessarily (see Weisbrot, 2015). Internal imbalances such as credit and house price growth were central. Arguably, trade competition also played a role as well, though that is more controversial (see Storm, 2016). The point is that to seriously contain excess public indebtedness, attention cannot be restricted to fiscal policy and fiscal rules per se.

But priority is given to fiscal rules over macroeconomic imbalances (Niechoj, 2011). A reformed macroeconomic framework would put fiscal rules and macroeconomic imbalances on an equal footing. This would entail greater symmetry in that equal attention would be given to trade surpluses and deficits. Adjustment would not focus on unit labour costs which are also, in practice, unmeasurable at the aggregate level (Felipe and Kumar, 2014)<sup>74</sup>. Other measures of competitiveness have been proposed, including by the ECB (Huemer et al., 2013). Less emphasis on structural reforms would be given, and more emphasis would be placed on sustainable growth. As a complement, dedication to 'price stability' should not be elevated over other socioeconomic goals by the ECB, such as combatting unemployment.

Reforming the current fiscal rules would allow member states to implement policies that are growth-friendly while also enabling them to reduce inequality. Putting macroeconomic imbalances on an equal footing to fiscal rules would support the financial sustainability of the EU and the euro area. Within the existing ruleset it would help dampen inequality if adhered – for instance, the large increase in house prices in recent years would be curtailed. Appropriate changes to the ruleset would also foster egalitarian growth into the future.

## ***6.4 Ireland, inequality and beyond***

Sweeney's chapters first provided a backdrop against which to explore Ireland's distributional trends, before conducting a more detailed analysis of income inequality in the country. Regarding the former, it was found that Ireland has plenty of work to do if it is to catch up to the social standards that prevail in other European countries, especially in the EU-15. Poverty and deprivation are comparatively high, though the former is alleviated for those with access to work. Deprivation, however, is still high among workers. On the labour market front, Ireland does quite poorly with low levels of labour force participation, especially for women and the less educated. Ireland does reasonable in inequalities in health, but lags behind in indicators of economic-based gender inequalities.

As for inequality, the distribution of net income has changed little over a period of almost three decades years, though pre-tax inequality has been growing since the late 1970s. Because Ireland has been staying still, and as other countries are becoming more and more unequal, Ireland now ranks in the middle among European countries. Taxation and particularly transfers do much of the heavy lifting in reducing inequalities from the market. The top 10 percent are not unusual, but among small, open economies, the bottom 40 percent earns a very small amount of their income from work. Part of this is related to working time as many people are excluded from the labour market and work few hours,

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<sup>74</sup> Unit labour costs are measured by looking at the labour cost to produce a unit of output, such as euros per haircut. The problem is that because there are many different types of goods and services produced, a single measure for unit labour costs cannot reliably be produced. Though the measure continues to be widely used by economists, what it actually measures is labour's share of income.

which pushes Ireland to the second worst in the class after Greece in market inequality. Most of Ireland's inequality, though, is generated in the labour market, independent of working time. This is a structural issue which applies across sectors of the economy, mostly as a result of inequalities arising within industries.

The Irish welfare state is very effective at reducing market inequalities and poverty, but expenditure is skewed towards cash transfers. The system also indirectly subsidises the poorest performing and most extractive parts of the private sector: Working Family Payment enables inefficient employers to pay workers poorly and Housing Assistance Payment allows landlords to charge rents for dwellings of a standard only poor tenants would be obliged to accept. Hence it can simultaneously be true that on one count of economic inequality – the Gini coefficient for disposable income – Ireland is in the middle of the European pack, yet on other social measures, of poverty and deprivation, it is lagging behind. An egalitarian strategy should therefore focus more on addressing inequalities in the labour market, complemented by public investment. Ireland is already a high cost economy such that wages increases alone would threaten competitiveness. Strategic interventions in key areas would help mitigate cost pressures.

But Ireland is trapped on a low social road where lack of investment in public goods leads citizens to depend on expensive private alternatives. This in turn renders much of the public tax-averse, reinforcing the restraint on revenue for public services. For instance, in most of Europe, but not in Ireland, health is seen as a public good, paid for through general taxation or social insurance but then free, so as to be universally available, at the point of need. And the difference between education in Finland and in Ireland, referred to in the introduction, is that in Finland, much more clearly than in Ireland, education is 'widely seen as a public good' (Salhberg, 2011: 10). Ireland has some of the highest health care costs in Europe, and as we have seen the health sector is a key driver of inequality. There wage growth alone is not the optimal strategy.

The 2011 Programme for Government set a deadline of 2016 for free general-practitioner care and universal health insurance but this came and went. 'Sláintecare', which emerged in 2017 from a cross-party group of TDs and was adopted by the Dáil without a vote, also aspired towards a universal health system. But it is treading water – matched neither by political commitment nor the necessary public resources. In 2014 a report for the World Health Organisation said Ireland was alone in Europe in not offering universal access to primary care and was an 'extreme outlier' with its user charges (Burke, 2016: 179).

Similarly, the housing crisis, discussed by Hearne in last year's FEPS-TASC report (Wickham and Hearne, 2017), is at root a quite simple product of the virtual termination of the building of social housing in Ireland. In that context, the private-rented sector has inevitably become more and more unaffordable while homelessness, especially in Dublin, has risen inexorably. This would simply not be understood in countries like the Netherlands or Austria where social housing is a substantial rather than residual sector. Ireland has many empty homes, a product of the excesses of developers during the Celtic Tiger. A scaled-up public housing programme would alleviate growing social pressures, as well as being economically beneficial.

The other urgent public service deficit relates to early-years provision. Ireland is, despite recent developments, well adrift of European norms, particularly in Scandinavia. Ireland invests less than 0.4 per cent of GDP annually in services for children from zero to six – less than 0.2 per cent if infant school

classes are discounted (in more progressive societies, or in the exemplar Reggio-Emilia region in Italy, children do not start school proper until age seven). The OECD average is 0.7 per cent of GDP. In 2015, the European Commission said costs of early-years provision were higher in Ireland than in any other European country (Hayes, 2016: 198-9).

There has been progress: from September 2018, children over two years old will be entitled to free early-years provision. But quality and the adequacy of hours for working parents remain questionable. In the Nordic countries, by contrast, the assumption that early years provision is to foster child development and gender equality at work means professionally qualified staff and full-day availability are the norm.

In this context, there is no avoiding the evidence Sweeney provides that taxation revenue in Ireland is below European averages, as a percentage of national income. If public goods such as these are to be provided in Ireland as they are in comparator societies, then public expenditure needs to increase and focus more on services. Elevating the 'social wage' reduces the cost of living and helps lay the ground work for pay rises, especially among the bottom 40 percent.

Against this secure backdrop, there should also be progressive increases in the minimum wage to the subsistence level identified by the Living Wage Technical Group and, further, to the threshold of low pay – two-thirds of median earnings – used by Eurostat (Wickham and Hearne, 2017: 43). Low pay is mainly a phenomenon of non-externally-trading sectors, as Sweeney shows, and this would eliminate wasteful subsidisation by the exchequer of enterprises making profits through super-exploitation, incentivising instead innovations to raise business efficiency. Again this would be complemented by public investments to bring costs down, and give employers more breathing room for pay increases, especially the low value-added sectors.

As well as legislating for pay increases, workers' rights should be increased. Two of the most salient issues are trade union recognition and further tackling precarious work, which has been declining in recent years. These are not, of course, mutually exclusive. For instance, the suspension of the Joint Labour Committees in 2011 facilitated employers in withdrawing from engagement with unions and so enhancing precarity in sectors such as hotels and catering (Bobek *et al.*, 2018: 26). Union recognition must be a fundamental right. Ultimately, trade union recognition should be a right for all. There is little reason why in the interim it cannot be available to all domestic firms and firms catering to the domestic economy. Sector-by-sector collective bargaining allows workers and employers to bargain over wages, including inability to pay clauses when necessary.

Finally, public investment, and wage and employment policy should be accompanied by a longer-term goal of industrial upgrading and knowledge creation. As Sweeney urges, this requires an industrial policy going beyond the focus on the individual firm and, in particular, the next major FDI project. The relative neglect of the indigenous sector in industrial policy has led to an underperforming indigenous sector. This is in contrast to Germany, in many respects the most successful economy in Europe. Its collective system of apprenticeship ensures high skills for those who do not enter higher education, and complements its high-tech economy. In Ireland, greater and more substantial use of equity stakes by the state in promising start-ups could represent a more ambitious attempt at promoting indigenous industry. Though greater funding of higher education and research is required, including tackling precarious employment in the sector, more emphasis on non-tertiary education better equips the workforce with the skills most will realistically use in employment: literacy and numeracy.

There are pathways to recovery, a recovery in which social and economic resources are more fairly distributed. So, as the introduction to this report signalled at the outset, the 'I' word – inequality – is back. The question is now how much it will be taken off the page and tackled in reality.

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Inequality is widely perceived as being one of the defining social and economic issues of our time. This report examines inequality in Europe and Ireland, especially in income and wealth. A key finding is that inequalities generated through the market have been central to the concentration of resources in the hands of the few.

Governments have been partially able to stem the tide through taxes and transfers, but have not done enough to address the problem at source. This report helps us understand how this came to pass, and also what can be done.

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