

The Impact of Social Protection on the Distribution of Income in Ireland

Submission to Oireachtas Joint Committee on Education and Social Protection

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Summary:

Understanding the distribution of income is crucial in order to understand economic inequality in Ireland. In order to address the question of the impact of social protection on the distribution of income, this paper begins by looking at the distribution of market incomes using Revenue statistical data on gross incomes. Secondly, this paper looks at social protection payments and their impact on net income inequality (once taxes and social transfers are taken into account). Finally, this paper looks at where social protection payments place people on distribution of income for adults in Ireland.

The distribution of income from work in Ireland is highly unequal

- Ireland has experienced the same rise in income inequality that has been happening in all industrial economies, particularly over the last 30 years, as demonstrated by the work of Thomas Piketty and others.
- While average incomes in Ireland have more than doubled since the 1970s in real terms, the average for the Top 10% has tripled and the average for the Top 1% has gone up five-fold.
- The Top 10% of income earners receive an average of €130,400 per tax case. Within the Top 10%, the Top 1% of people average €373,300 per tax case (*tax cases* can be single incomes or dual incomes).
- The Top 10% of tax cases take a third (34%) of all income, but represent only 12% of the working age population.
- Correspondingly, the share of income going to the majority of people - the 'Bottom 90%' – has fallen to 66% of all income, down from 72% in the 1970's.
- The average income for the Bottom 90% is €27,400 per tax case, far lower than the often quoted 'average' earnings figure of €35,000.
- According to Eurostat, 20% of workers in Ireland are on low pay, one of the highest rates in Western Europe.

The proportion of people 'at work' in Ireland is lower than the EU average

- In total, about two-thirds (65%) of 'working age' adults in Ireland are in employment (70% of men/60% of women), below the EU average of 68%, and well below countries like the UK/Netherlands/Denmark (76%) or Sweden (80%).
- 65% of working age adults in employment equates to 55% of all adults.
- 40% of all Irish adults are on a weekly income from social protection, including the State Pensions, and for most of them this is a low, fixed income. (The remaining 5% include students and others with no income).

Ireland has the highest level of gross income inequality of any country in the OECD

- The Gini coefficient before taxes and transfers in Ireland is 56.0, higher than any OECD country. The OECD average is 47.3.

Social Protection payments reduce income inequality in Ireland significantly, but...

- The net-income Gini figure of 29.9 is derived from survey data, which does not capture details at the very top and the very bottom, due to under-sampling and non-response bias.
- It is based on equivalised income – which accounts for household size but undervalues the large inequalities in market income.
- While the *Gini coefficient of net disposable equivalised income* is a useful figure for tracking changes over time or between countries, it masks a number of important structural weaknesses in the distribution of income.
- The Gini coefficient is a measure of overall income *inequality*, not a measure of income *distribution*.

Social Protection payments are paid only at subsistence levels

- Core rates give a single adult an income are between c. €10,000 and c. €12,000 per year. This compares to a minimum wage of c. €18,000 or a living wage of c. €23,000 (see Table 2).
- These fixed incomes are not linked to market forces, such as changes in the cost of living or changes in market incomes.
- Nearly half of households with the principal economic status of 'unemployed' (49.4%) and of those 'unable to work due to permanent sickness/disability' (48.5%) experience deprivation compared to 16.4% for those 'at work' (CSO SILC Survey).
- At 4.4% of GDP, Ireland has effectively the lowest level of social insurance in the EU. The EU average is 11.1% of GDP. Unlike many other European countries, social insurance in Ireland does not provide a payment linked to a person's former income or their level of social security contributions.

Social protection payments redistribute income, but not just from 'top' to 'bottom'

- In total €19.6 billion is paid out (€8.3 billion raised from Social Insurance and €11.3 billion from tax, e.g. income tax, VAT etc.)
- The €8.3 billion from Social Insurance is paid as an *entitlement* regardless of means to people across the income distribution.
- The €11.3 billion funds *assistance* payments only to those who pass a means test, who by definition are at the bottom of the income distribution. Without this, it is likely that many of those recipients and their dependents would have no income.

Social protection payments affect the income distribution by fuelling consumption

- These payments support consumption (demand) and therefore jobs in the economy. This spending therefore redistributes across the income distribution.
- Payments also 'feed back' into tax revenue through VAT and other taxes.

Social Protection payments reduce income inequality, but do not address the *root causes* of inequality

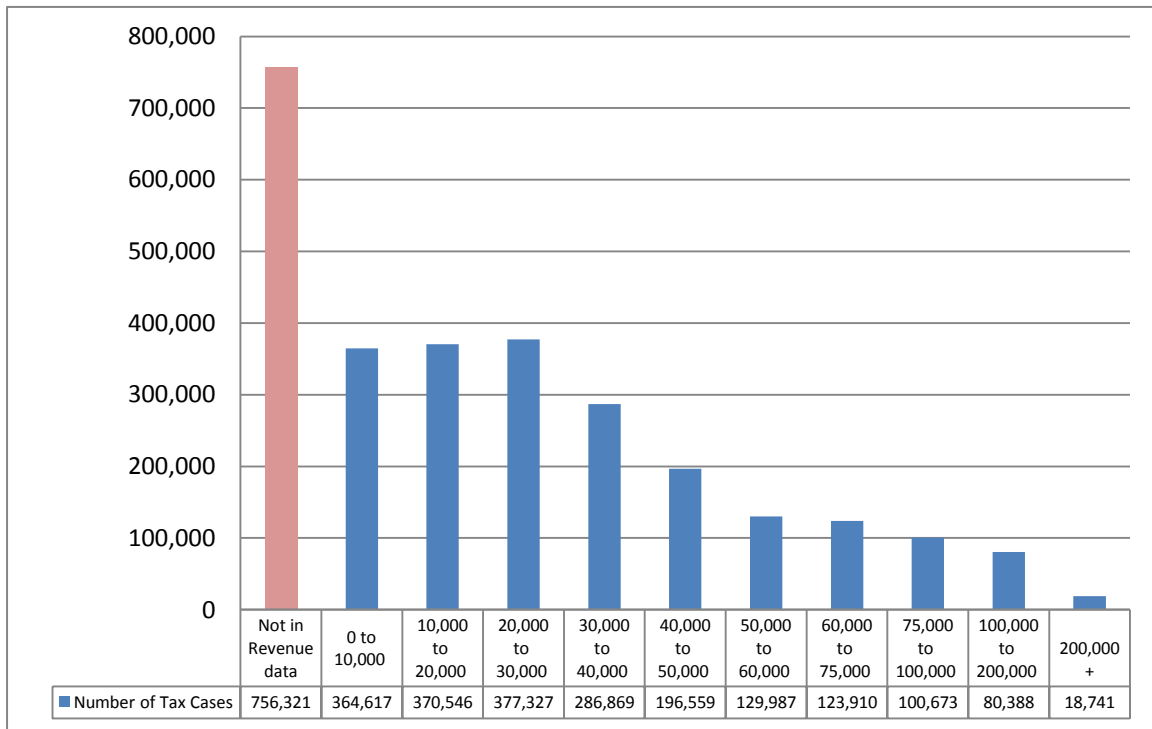
- After the economic crash, income inequality in Ireland declined because social protection payments created a floor, while high incomes fell.
- There is strong evidence that inequality is rising again: the net-income Gini coefficient is increasing, there has been a rise in incomes above €100,000, and social protection payment rates have remained unchanged.
- This growing inequality will put more and more pressure on the tax and welfare system.
- Ireland will undergo demographic changes which will mean a smaller percentage of the population are of working age. E.g. A greater proportion of people at retirement age and seeking the State Pension.

Universal free public services have a key role to play in reducing inequality

- In countries that provide universal free (or subsidised) services, and have lower costs for goods and services, incomes matter less.
- Reliance on cash payments and tax cuts over service provision makes reducing inequality in Ireland more difficult.
- Ireland's focus on tax cuts rather than improving services has meant recent Budgets have been regressive (ESRI December 2014).
- Addressing the provision of services and the high cost of living, while ensuring that people on fixed incomes can meet their material needs, will make society and the economy more equal.

Charts and Tables:

Chart 1: Number of Tax Cases by Gross Income Group

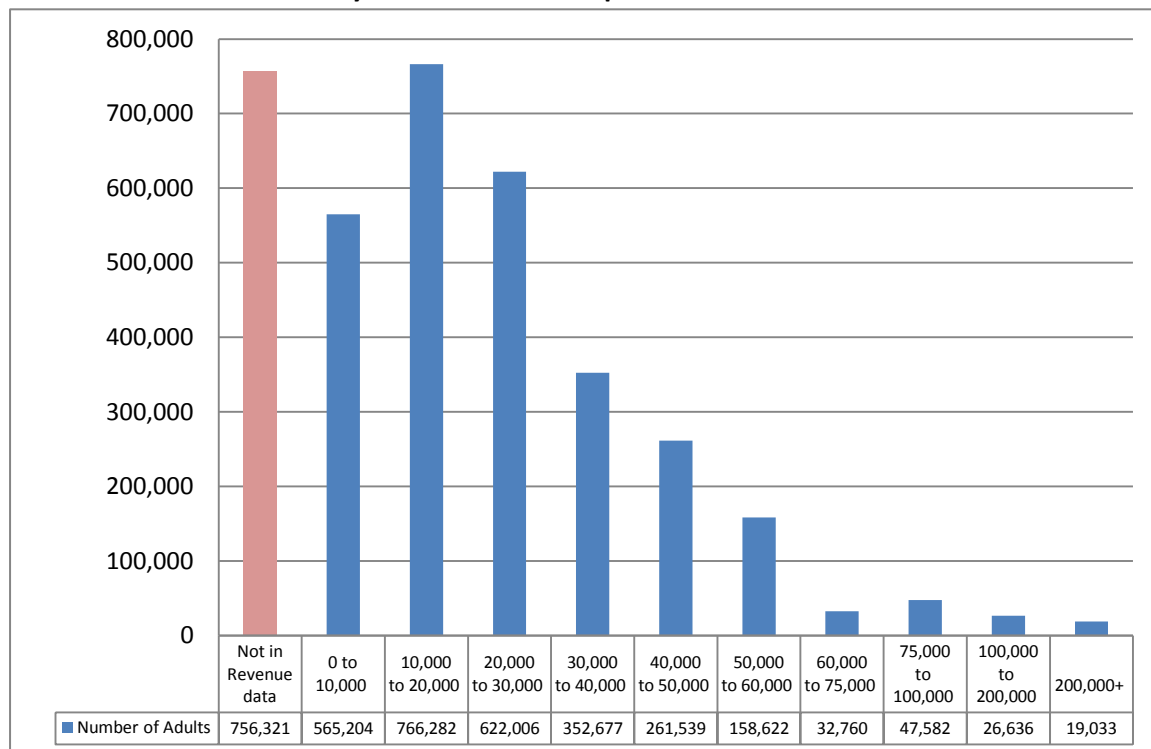


Source: Revenue Statistical Data (2011, latest official figures)

Table 1: The Distribution of Income by adult

Tax Cases	2,049,617
Married Couples in Tax Cases	802,724
Total adults in Revenue data	2,852,341
Total adults (population, Census 2011)	3,608,662
Adults NOT in Revenue data	756,321
Number of students (15+) estimate	350,000

Chart 2: Number of Adults by Gross Income Group



Source: Revenue Statistical Data (2011) with author's calculations

- These charts include 756,321 adults (15+) who are absent from Revenue's data on tax cases.
- Married tax cases have been divided in to two adults (both one and two-earner cases) and the total income for the tax case divided equally.

Impact of Social Protection Payments:

- Social *assistance* payments to those not in Revenue data will put them in one of the next two columns (less than €20,000) - see Table 2.
- Social *insurance* entitlements can be paid to people who originated from anywhere in the income spectrum (e.g. Maternity Benefit, State Contributory Pension, Jobseekers Benefit).
- However a person's income will drop once he or she becomes reliant solely on a social insurance income – again this person will often end up in the either of the two columns (less than €20,000).
- Taxes and Social Insurance will impact on gross market incomes. Income tax is largely raised from the middle and particularly from the top third of the income distribution; USC is raised from across the spectrum, with proportionately more from the top of the income distribution.
- However, VAT, Excise and other indirect taxes are raised from across the income distribution; Corporation tax, as well as CGT and CAT, also contribute to the tax revenue that is redistributed as social assistance payments.
- Around 350,000 adults over 15 will receive no direct income from either the market or Social Protection (mainly students), although parents of children under 18 who are reliant on social protection may receive Child Benefit and a Qualified Child payment as part of their social protection income. Some third level students may receive a small maintenance grant.

Table 2: Example Annual Income Levels:

	Single Person (SP)	SP with Qualified Adult (QA)	SP with QA and 2 Qualified Children
Jobseekers Allowance	€9,823	€16,257 <i>€8,129 per adult</i>	€20,985 <i>€10,493 per adult</i>
Disability Allowance	€9,823	€16,257 <i>€8,129 per adult</i>	€20,985 <i>€10,493 per adult</i>
Carers Allowance	€10,659	n/a	€17,028 <i>€8,514 per adult</i>
State Contributory Pension	€12,033	€22,812 <i>€11,406 per adult</i>	n/a
State Non-Contributory Pension	€11,443	€19,003 <i>€9,502 per adult</i>	n/a
Minimum Wage	€17,542		
Living Wage	€23,321		
<p><i>The above social protection incomes are based on 52 weeks/year plus 25% of a weekly payment as the Christmas bonus.</i></p> <p><i>Income for families with children includes Child Benefit at €31.15/week.</i></p> <p><i>Disability Allowance does not allow Qualified Adults and family amount is for two child dependents only.</i></p> <p><i>Figures assume adult beneficiaries share income evenly, including portion for child dependents.</i></p> <p><i>All figures from www.welfare.ie and rounded to the nearest euro</i></p> <p><i>Minimum Wage €8.65/hour.</i></p> <p><i>Living Wage €11.45/hour (see www.livingwage.ie).</i></p> <p><i>The above totals are based are working 39 hours/week, 52 weeks/year.</i></p>			