

Income Distribution in Ireland: Through Recession, Towards Recovery

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Based on Research by M. Savage, T. Callan, B. Nolan, C. Keane, B. Colgan, M. Regan and J.R. Walsh

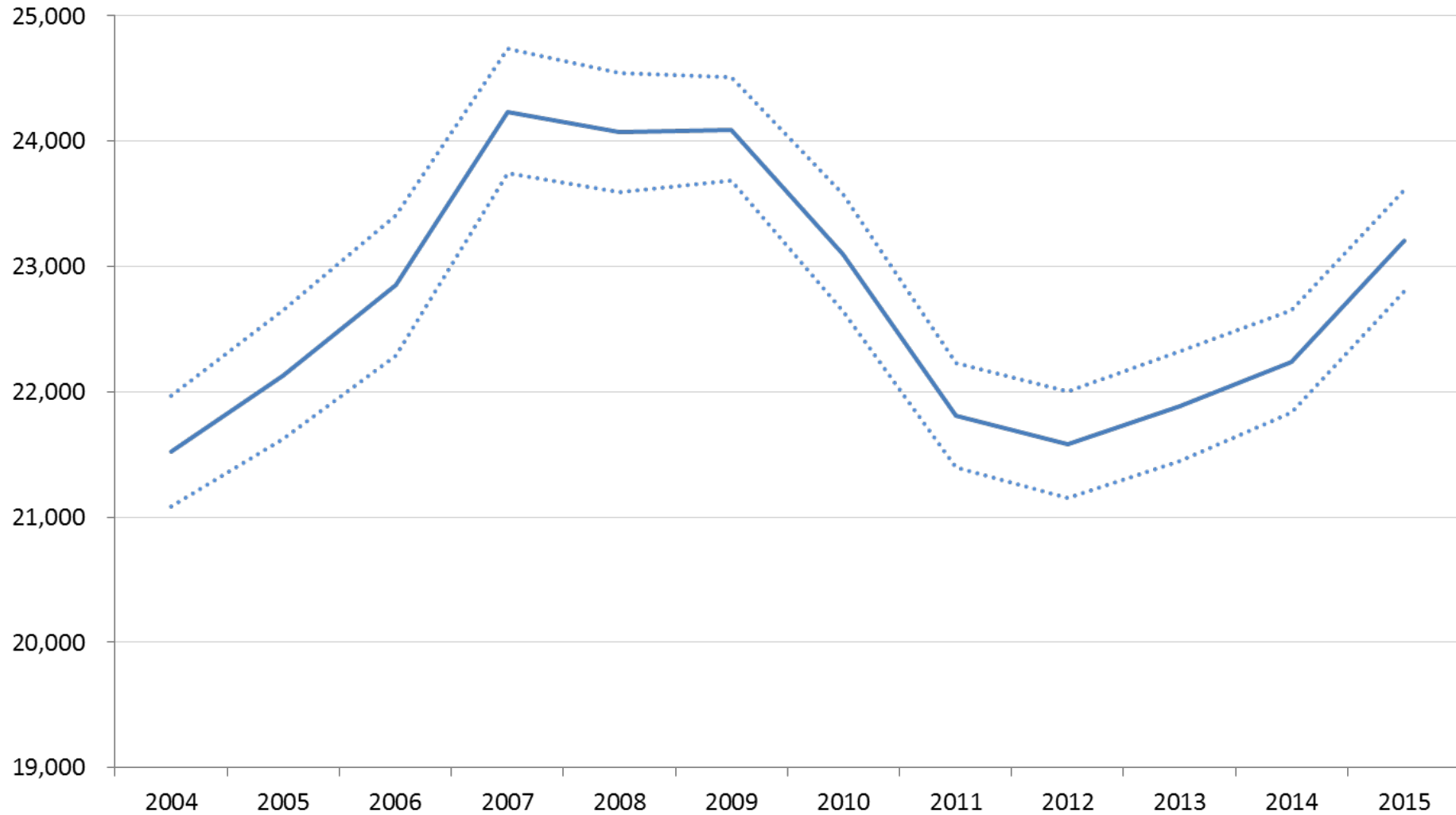


3 Main Questions Examined in our Research...

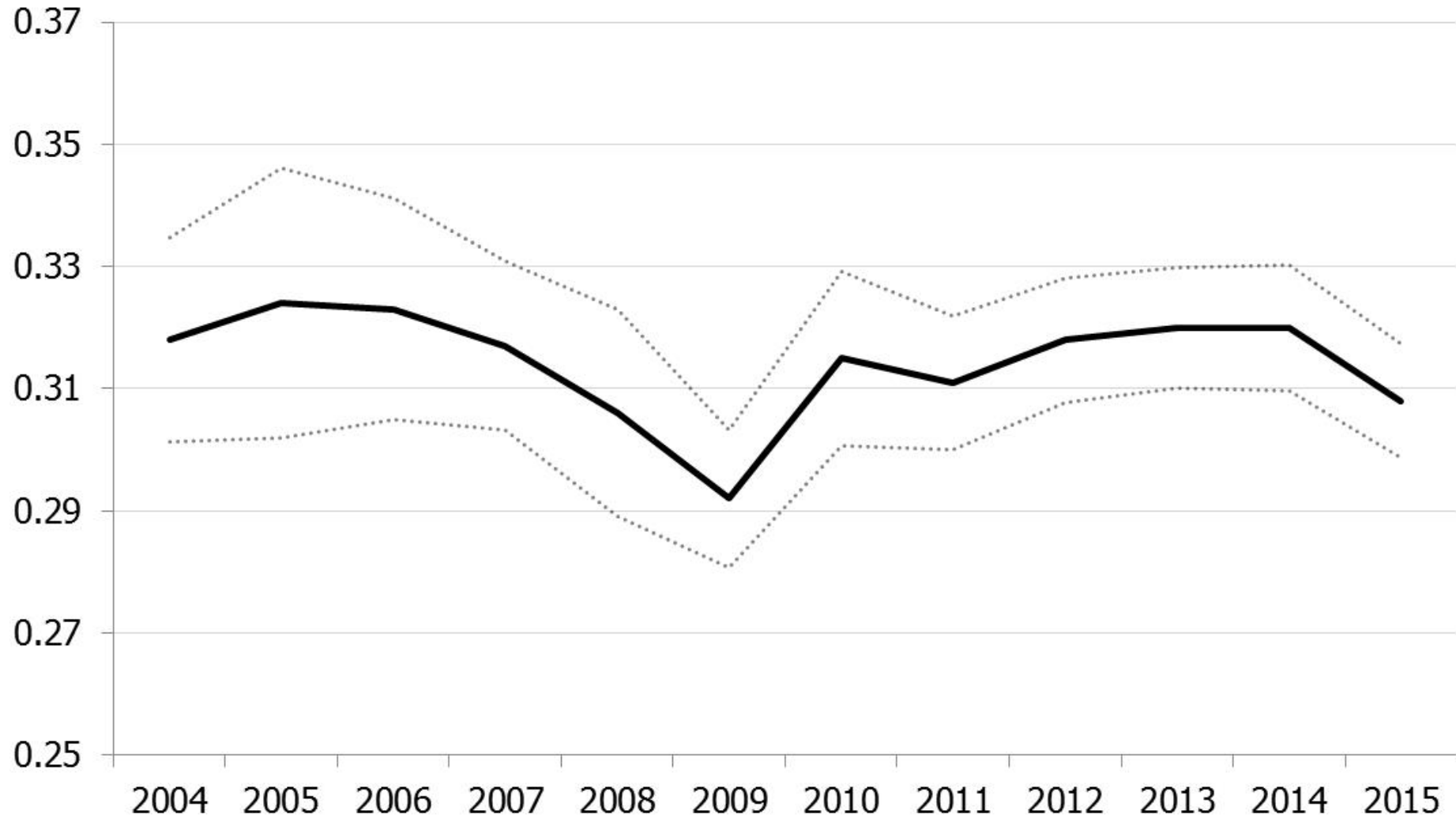


- What happened to overall income inequality in Ireland during and after the Great Recession?
- What happened to the income of the poorest 10 per cent of the population?
- What was the impact of the tax-benefit system on income inequality?

Average Household Income, 2005-2014



What Happened to Income Inequality? Gini Coefficient Ireland 2004-2015



Decile shares of equivalised disposable income among persons, 2008 to 2013



Decile	2008	2013	2015
Bottom	3.6	3.1	3.3
2	5.1	4.9	5.0
3	5.9	5.9	5.9
4	6.8	6.7	6.8
5	7.9	7.7	8.0
6	9.1	9.0	9.2
7	10.4	10.5	10.5
8	12.2	12.4	12.5
9	14.7	15.4	15.2
Top	24.4	24.7	23.9

Income Changes by Decile, 2008-2013-2015



2008-2013

Decile	% Change in Decile Income
Bottom	-21
2nd	-14
3rd	-10
4th	-10
5th	-11
6th	-10
7th	-8
8th	-8
9th	-5
10th	-8
All	-9

Income Changes by Decile, 2008-2013-2015



	2008-2013	2013-2015
Decile	% Change in Decile Income	
Bottom	-21	12
2nd	-14	8
3rd	-10	6
4th	-10	8
5th	-11	9
6th	-10	8
7th	-8	7
8th	-8	7
9th	-5	5
10th	-8	3
All	-9	6

Decomposition of Changes in Average Real Income in Bottom Decile



	2008-0 9	2009-1 0	2010-1 1	2011-1 2	2012-1 3
Overall	2	-15	-11	2	11
Stayers	0	1	2	2	4
Movers Down (2/3)	0	-5	-9	1	5
Movers Down (4+)	2	-10	-5	-1	2

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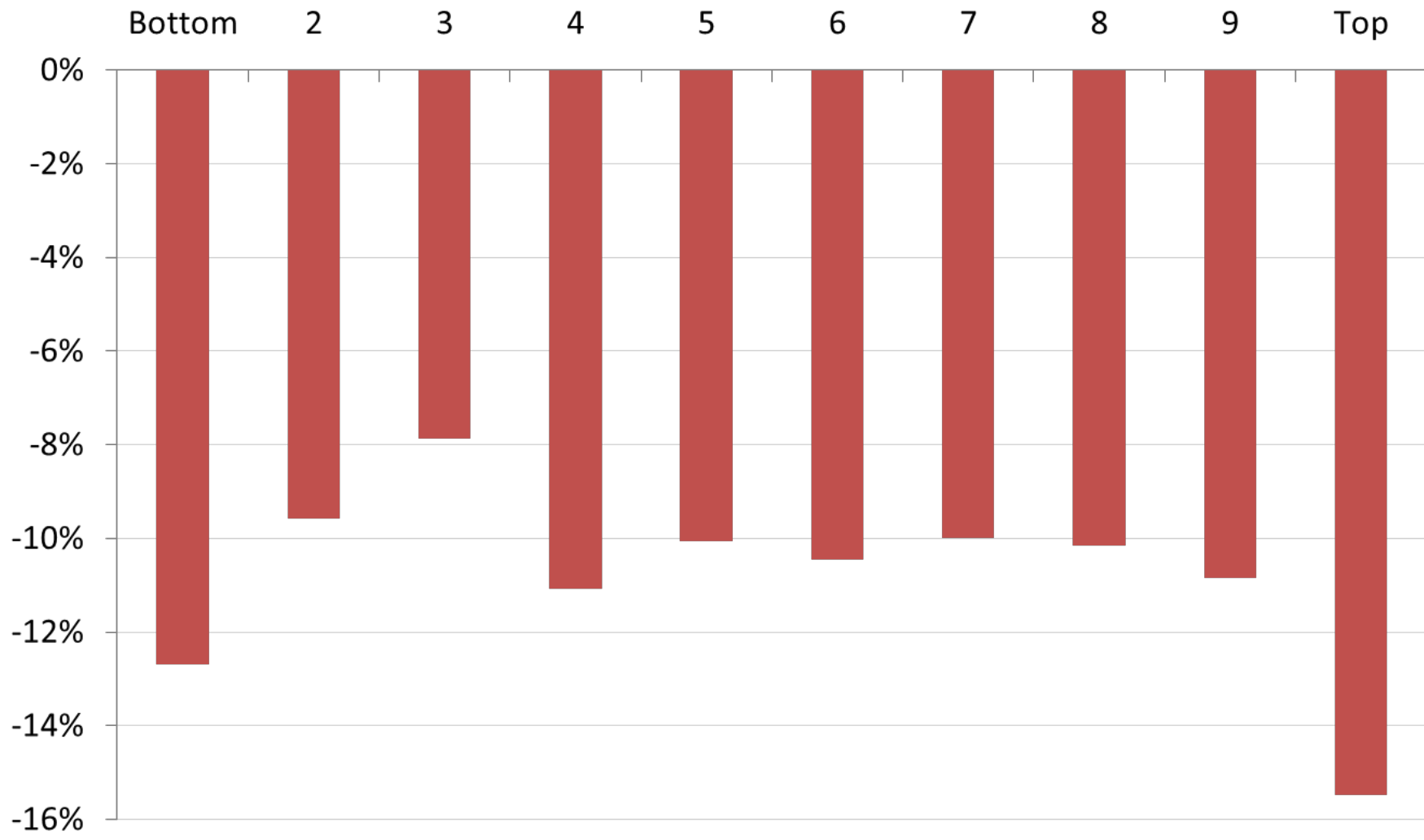
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What were the distributional effects of discretionary policy during the recession?



- Summary of “Austerity Budget” measures:
 - Income tax bands and credits reduced
 - Nominal cuts in welfare payment rates, child benefit
 - Public Sector pay cuts
 - VAT, Carbon Tax, CGT and DIRT increases
 - Tax relief for pension contributions, health insurance reduced
- Structural Changes:
 - Property tax
 - Universal social charge
 - Water charges

Impact of Budgetary Policy 2009-2015 - Percentage Change in Disposable Income by Income Decile



Overall Redistributive Impact of Direct Taxes and Cash Transfers



- Impact of discretionary reforms captures only some of redistribution done by tax-benefit system
- A progressive tax-transfer system does more redistribution when faced with a more unequal distribution of market income
 - Benefits for unemployed
 - Progressivity of income taxes means higher average tax rates if incomes of higher income groups rise faster

Gini Coefficient for Market, Gross, Disposable Incomes 2008 to 2013



Income	2008	2013
Market	0.52	0.59
Disposable	0.31	0.32
<i>Difference</i>	<i>0.21</i>	<i>0.27</i>

Breakdown of change in inequality (as measured by Gini)



- Change in market income inequality
 - *Directly measured*
- Change in redistribution due to automatic stabilisers
 - *Hold policy constant, let population and income distribution change*
- Change in redistribution due to discretionary policy changes
 - *Hold population constant at base year or end year and let policy change*

Decomposition of Change in Reynolds-Smolensky Indices, 2008 to 2013



	Base Year Population	End Year Population	Shapley Value
Total change in Reynolds- Smolensky index	100%	100%	100%
<i>of which:</i>			
Automatic Stabilisation	70%	83%	77%
Discretionary Policy	30%	17%	23%

Conclusions

- Gini coefficient broadly stable
 - Close to 0.31 or 0.32 in all years, with the exception of 2009 (Budget 2009 effect)
- Bottom decile lost most 2008 to 2013
 - Income losses driven by those falling into bottom decile, not those starting in it
- The tax/transfer system countered much of the increase in market income inequality through the recession

