MAKE EUROPE SUSTAINABLE FOR ALL

SDGs Policy Briefing

SOCIAL JUSTICE IRELAND

working to build a just society

INEQUALITY

2018

Ireland is an unequal society in an unequal world. Inequality is partly determined by wages and profits, but is also deeply embedded in a country's social structure; including property ownership, market and political power, public policy, past inheritance, discrimination and prejudices.

Reducing inequality will require more than changing economic policies; it will require a reexamination of social structures and values.

Why Does Inequality Matter?

Inequality is increasingly being recognised as one of the great global challenges. It is global because it affects all peoples and all aspects of their lives. Just like climate change, excessive inequality has polluted our societies, our politics and our economy.

Of course, there are those who argue that the increase in inequality over the past four decades was just the result of an efficient market rewarding innovators and superior talent – these are the often called 'inequality deniers'. They argue that any effort to reduce inequality will distort market incentives and shrink the economic pie, leaving smaller slices for everyone.

Just as the putrid smell of gas-powered motor vehicles in the 1920s was marketed as the sweet smell of progress, today's inequality deniers argue that we need to celebrate the plutocrats, glory in their achievements and be thankful that we live in the brave new world they have created.

Inequality is about exclusion; exclusion from participating up to one's capabilities in the economic, social and political life of the community. Excessive inequality is caused by creating barriers to participation and by failing to create adequate pathways to participation. Inequality hurts the economy, leading to unstable economic growth and employment, higher debt, housing bubbles and increased homelessness.

The social bonds of society are strained by inequality, leading to higher rates of crime, incarceration and drug abuse, lower educational attainment, and lower levels of social cohesion and trust. Inequality undermines democracy; it gives excessive influence to the affluent and marginalises others. Critically, inequality requires the enabling myths of sexism, racism, classism and nationalism to justify unjust outcomes.

In *The Spirit Level* (2009), Kate Pickett and Richard Wilkinson demonstrated how inequality heightens many social problems - problems that should have been ameliorated in affluent societies. More equal societies have less health and social problems than less equal societies.

So How Did We Get Here?

The Post World War II consensus was that economic growth would cure all political, economic and social problems, "a rising tide lifts all boats." But when public policy drills holes in the boats of the poor and workers, many boats sink.

The rise in inequality has not been caused by natural market forces and necessary incentives, but instead is the result of government (national and international) policy and the exercise of corporate economic and political power.

The Post WWII economy was driven by rising wages and expansion of public goods and services, leading to three decades of falling inequality in all the advanced capitalist economies.

In the late 1970s there was a revolt of the haves, the assertion of political and economic power designed to redirect income and wealth upward by weakening social supports for workers and removing constraints of the exercise of economic power (deregulation, especially in the financial sector). This created a credit-driven economy, where middle and lower classes maintained their standards of living not with wage increases, but with debt and increased working time. In the 1970s a middle-class family could be supported by one adult worker.

Today most middle-class families have two adults working full time to make ends meet. The central argument of trickle-down economic policies is that the rich need more money (tax cuts) to incentivise them to invest more, while the poor need less money (benefit cuts) to incentivise them to work more.

The Sustainable Development Goals (SDGs)

The Global Goals for Sustainable Development were adopted at the UN General Assembly on 25th September 2015 and came into effect on 1st January 2016. These goals make up the 2030 Sustainable Development Agenda which is defined as a 'plan of action for people, planet and prosperity'. In this process world leaders have committed to 17 Global Goals (also known as Sustainable Development Goals (SDGs)) containing 169 targets to achieve three distinct aims: to end poverty, fight inequality and tackle climate change over the next 15 years. *Social Justice Ireland* believes these goals should be at the core of Government policy-making in the years ahead.

Wealth and Income Inequality in Ireland

Historically Ireland has been a very unequal society. For centuries only a small elite had the opportunity to own property and accumulate wealth.

Independence did not lead to a radical redistribution of land and wealth or a major change in economic policy, so that by the late 1980s Ireland had one of the most unequal distributions of wealth and income in the OECD (along with the UK and USA).

Today Ireland‘s market inequality (before taxes and transfers) remains one of the highest in the OECD and has risen since the Financial Crisis, yet Ireland's national inequality (after taxes and transfers) has been falling since the crisis and is now near the average among rich countries.

Today Ireland‘s market inequality (before taxes and transfers) remains one of the highest in the OECD and has risen since the Financial Crisis, yet Ireland's national inequality (after taxes and transfers) has been falling since the crisis and is now near the average among rich countries.

Table 1
Income and Wealth Inequality

Country	Income GINI	Country	Wealth GINI
Denmark	25.6	Belgium	63.0
Finland	26.0	Spain	65.7
Belgium	26.8	Italy	66.0
Norway	27.2	Greece	67.7
Austria	27.6	Luxembourg	68.1
Sweden	27.8	France	70.2
Luxembourg	28.4	Portugal	70.9
Germany	28.9	Netherlands	73.0
France	29.5	UK	73.5
Ireland	**29.8**	Finland	76.7
Netherlands	30.3	Austria	78.8
Italy	32.6	Germany	79.1
Portugal	33.6	Norway	80.5
Greece	34.0	Denmark	80.9
Spain	34.5	**Ireland**	**81.3**
UK	36.0	Sweden	83.4

Source: Eurostat, Credit Suisse 2017

Causes of Inequality

In the past three decades globalization, financialisation and "trickle-down" economic policies have shifted income towards the top 10%.

Globalisation forces workers in rich countries to compete with workers in developing countries.

Financialisation is the increased power of the financial services industry, as the rich countries went from being wages and public spending-driven economies into credit-driven economies.

The power of finance dominates corporate decision-making, so that companies make their decisions based on what is best for finance (Wall Street), with much of the profits earned by companies ending in the financial services sector.

Trickle-down economics is the belief that cutting taxes on the rich will lead to higher investment levels, and thus higher economic growth.

While the evidence suggests that this is a poor way to increase investment spending or economic growth, it is a very good way for increasing the share of income going to the already rich.

All three factors have reduced the share of income going to labour, which for Ireland has fallen from just under 60% in early 1990s (above average) to 33.9% in 2018 (well below average).

Costs of Inequality

Instability

The IMF and OECD have concluded that the rise in inequality in past three decades has led to lower and more unstable economic growth. From 2007-2017 Ireland has had the third highest variation in unemployment rates in EU15 and the highest in GDP growth rates (15 times OECD average). The credibility of GDP in the Irish context has been questioned and GNI* is now often used in its place.

Debt & Hours Worked

When the share of income going to the middle class decreases this often leads to an increase in private debt. Ireland's private debt was 278% of GDP in 2016 (55% above EU15 average). Inequality is also associated with higher hours worked as workers adapt to their smaller share. Irish workers work 15% more hours per year than the EU15 average.

Housing

Inequality distorts the market for housing, promoting bubbles in housing prices and homelessness. Income inequality squeezes more people into the lower end of the housing market, causing many to become homeless.

Poverty:

There is a very strong connection between inequality and poverty.

In fact rising inequality is the main reason that economic growth has not been "trickling-down" to the poor, as top income groups take much of the gains of economic progress.

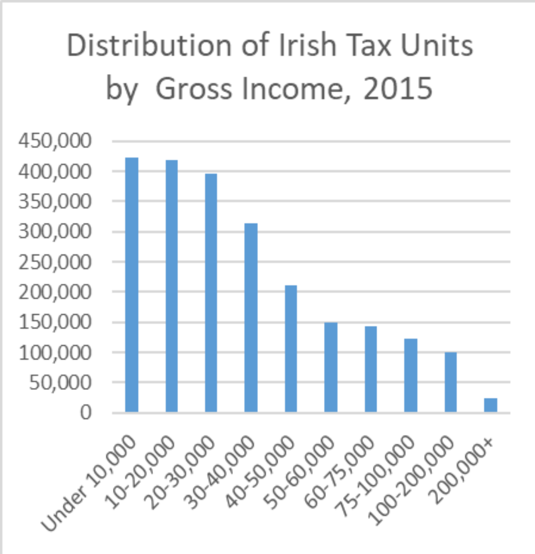
Mobility

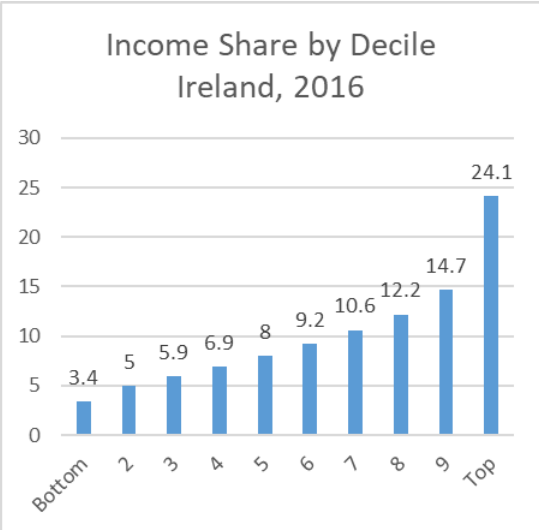
One of the most dangerous costs of inequality is what has been called the Great Gatsby curve, which shows the relationship between inequality and economic mobility.

The evidence shows that more equal societies have greater intergenerational mobility, and more unequal societies have less mobility.

Evidence shows that in all societies having affluent parents gives one an advantage, yet in equal societies individuals from the lower classes are not hampered by their parents social class and are far more equal.

In unequal societies being born poor is usually to be sentenced to always being poor.





Sustainable Progress Index 2018.

Each year, *Social Justice Ireland* marks UN World Day of Social Justice with a seminar looking at Ireland's progress to date in meeting our responsibilities under the Global (Sustainable Development) Goals. This year we launched the Sustainable Progress Index for 2018.

This index is based around the Global Goals, measuring how Ireland is performing on social, economic and environmental indicators, and comparing Ireland with other members of the European Union, specifically our peer countries in the EU-15. It was authored by Professor Charles Clark of St John's University in New York, Dr. Catherine Kavanagh and Niamh Lenihan of University College Cork.

The full index together with our other publications on the Sustainable Development Goals and related issues are available free of charge on our website: www.socialjustice.ie

Some policy suggestions to reduce inequality

Rising Inequality is both a national and international concern. Variations in wealth and income inequality within the OECD and EU15 demonstrate that national policy, history and culture influences the level of inequality in each country. Low tax rates and low levels of social protection spending promote greater inequality, while universal healthcare, education and income supports promote greater equality. Great concentration in wealth inequality, the result of generations of exclusion, cronyism and exploitation, requires dramatic events to reduce.

1.Information and transparency

Information on inequality in Ireland, especially incomes and wealth, is inadequate and less than what is produced in other European countries. This is especially true on the important issue of intergenerational income mobility. Furthermore, much more research is needed on the mechanisms by which inequality influences social outcomes.

2. **Worker protections**

Ireland's market inequality is the result of a lack of worker protections and the unhampered power of corporations, especially foreign multinationals. Greater support for workers (unions, collective bargaining) and social protection spending to bring them closer to the European norms is required.

3. **Tax avoidance**

Most, if not all, large accumulations of wealth are supported and facilitated by the use of state investment and/or power. Often it is the privatisation of the benefits of social investments, invention and innovations.

The great technological developments of the second half of the 20th century (microcomputer, GPS and Internet) all started as government research projects. Great financial fortunes often start with changes in government regulations that benefit one group, often at the expense of all others. Considerable "wealth" is earned in Ireland in the "tax avoidance" industry. This is wealth capture not wealth creation. This benefits only the very rich, and costs many countries significant lost tax revenue.

This is especially critical for developing countries, whose lost tax revenues amount to a greater sum than is provided in development aid.

4. **Gender Equality**

All inequality starts with the subjection of women. John Stuart Mill's assessment of 1869 still holds: the "subordination of one sex to another – is wrong in itself, and now one of the chief hindrances to human improvement; … admitting no power and privilege on the one side, nor disability on the other."

The enabling myths of sexism, racism, classism and nationalism need to be continually challenged. Policies to reduce the Gender Gap need to be promoted.

Social Justice Ireland is an independent think tank and justice advocacy organisation that advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for society as a whole.

Email: secretary@socialjustice.ie

CHY number: 19486

Registered Charity Number: 20076481

We're on the web
www.socialjustice.ie

Disclaimer: 'This paper has been produced with the financial assistance of the European Union. The contents of this paper are the sole responsibility of Social Justice Ireland and can under no circumstances be taken as representing the views of the European Union'.