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Some Reflections on Inequality in Ireland

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Preface

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 societies as a whole.

One of the ways this is done is by researching key areas of policy and publishing the results of these studies. This research analyses the present reality, identifies desirable futures, seeks out viable pathways towards such futures and shows how its recommendations can be financed. The Policy Research Series is one of the formats in which this work is communicated.

'*Some Reflections on Inequality in Ireland*' is part of *Social Justice Ireland's* Policy Research Series. It reflects on the reality of equality and the myths that enable its persistence. It looks at inequality in economics and the ideologies in public policy that have produced the present unequal situation across the world. It goes on to look at inequality in Ireland, wealth inequality, international inequality and gender inequality all of which are currently issues of concern for many people. It goes on to discuss some key causes of inequality, identifies a range of costs that follow from inequality and concludes with some proposals on how inequality could be reduced.

The purpose of this Policy Research Series is to provide a forum for debate, detailed exploration and discussion on policy issues that affect us all.

'Some Reflections in Inequality' in Ireland, is a very valuable contribution to this Policy Research Series. This paper forms the basis of *Social Justice Ireland's* Sustainable Development Goals Policy Briefing 2018, on Inequality.

Among the objectives of this research are to ensure that Government has a good understanding of the Sustainable Development Goals (SDGs) and their relevance for Ireland and commits to particular actions to deliver on them. This research also seeks to underline the link between social inclusion in Ireland and across the planet so that all levels of government act in a coherent manner to reduce inequality. It also seeks to raise awareness at local and community level to ensure that the SDGs are woven into local government actions.

We hope that this paper can make a timely and significant contribution to the ongoing discussion and debate regarding the Sustainable Development Goals in Ireland.

We wish to thank Charles M.A. Clark and Catherine Kavanagh for their detailed and rigorous research and for the time and energy they invested in researching and writing the paper.

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Introduction

Ireland is an unequal society in an unequal world. Some of Ireland's inequality comes from its history. Just as the legacy of slavery still has real impacts on the descendants of enslaved peoples (as well as where they came from), so too the effects of the legacy of invasion, occupation and discrimination in Ireland are still present. Some of Ireland's inequality comes from being a capitalist economy in a world capitalist system, with market discipline rewarding some and punishing others. Connected to the history of capitalism is the history of using state power to benefit some groups at the expense of others. There is no capitalism without state power protecting the property of the powerful. Such interventions are so ubiquitous they are often not noticed. We see them more clearly in government spending priorities, but they become invisible in the hidden details of tax codes and tax treaties. Differences in public policy and institutions explain a good proportion of the variety of levels of inequality found in rich countries. Underlying inequality is the role of values and culture which inform the legal and political systems and shape the choices people make when they vote and when they consume. As Anthony Atkinson (an expert on inequality over the past 50 years) stated (2014, p.619): "[i]nequality is embedded in our social structure, and the search for a significant reduction requires us to examine all aspects of our society". Reducing inequality will require more than changing economic policies; it will require a reexamination of social structures and values.

If the effects of inequality were benign, inequality would just be a curiosity to study, not one of the two central challenges the world is facing (climate change being the other). During the 1980s and 1990s, many in the economics profession argued that inequality wasn't increasing, and even if it was, it was because a healthy market was sending signals to people to change their economic choices.[1] Today however, there is a consensus that excessive inequality is behind many of the pressures impacting on the global order. Thus, when Pope Francis tweets: "[i]nequality is the root of social evil" and when President Obama states in his final State of the Union Address that inequality is the "defining issue of our time…. No challenge is more urgent. No debate is more important," they are acknowledging the challenges that world leaders face. We see this in the focus given to the issue of inequality by the major international agencies charged with regulating the world economy: the International Monetary Fund (IMF), the World Bank, The Federal Reserve System (Central Bank in U.S.), and the Organization for Economic Cooperation and Development (OECD). Economists have found that more unequal societies have more unstable economies. Sociologists have noted that more unequal societies have greater crime and other social problems. Political scientists have noted that citizens in more unequal societies are less politically engaged (and vote less) and have less trust in public institutions. Public health experts have long agreed that people who live in unequal societies are less healthy, more obese, die younger, and are generally less happy than those living in more equal societies. Of course, the cause and effect issue is important in the debate, but there is no doubt there is a strong connection between inequality and social problems. It is most likely that inequality and social problems are both

[1] See Clark (1996) *Inequality in the 1980s: An Institutionalist View* for an overview of the early increase in inequality.

causes and effects, as the real world is more like an evolutionary process rather than the static general equilibrium system that frames much economic analysis.

Inequality is about participation and exclusion; it is about who has a voice and who is ignored. When Thomas Jefferson wrote the famous words in 1776: "[w]e hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness"[2], he was proposing the idea that all people count, all have dignity and all deserve a voice. Jefferson was not making the case that Aristotle easily countered (all people are the same), but that each person has certain rights as members of the human race. In the 21st century, social, economic and wealth inequality can be called 'excessive' if they impact on these rights. Inequality is not a problem if differential incomes and wealth promote the common good. Increasing the pay of occupations in which there is a shortage promotes the well-being of the community; it enhances efficiency. However, income differences that are due to hierarchy, or obstacles to education which are determined by ability to pay instead of ability to learn, or any number of 'market failures' and inherited advantages, do not lead to wealth creation, but are instead, examples of wealth capture.

The Four Modes and Enabling Myths of Inequality

It is important to remember excessive inequality is always supported by a foundation of enabling myths; theories, ideologies, and values that support one group taking advantage of another. According to Dugger (1996), there are four core forms or modes of inequality: gender, race, class and nation. Each of these forms is supported by myths and practices that legitimate them.

Table 1
Dugger's Inequality Tableau

Forms	**Practices**	**Myths**	**Antidotes**
Gender	Domination	Sexism	Feminism
Race	Discrimination	Racism	Civil Rights
Class	Exploitation	Classism	Economic Democracy
Nation	Predation	Jingoism	Internationalism
Source: Dugger (1996).			

For example, the rich are obviously superior to the poor, just look at how the poor live! In *An American Dilemma* (1944) Gunnar Myrdal famously noted that White Americans used the inferior living conditions of African-Americans (which was caused by discrimination and justified by racism) as evidence of their inferiority. Also, in the past, it was common to hear the view that men were superior to women - just look how dependent women are on men! (of course, the argument tended to ignore how that this dependence was created). Another example is the

[2] Declaration of Independence (1776). The first draft stated that these rights were sacred. Benjamin Franklin changed it to "self-evident." As often happens, the words of the author went well beyond his understanding, covering women, all races, and even the people who used to be Jefferson's (and many of the other signers) property.

arrogance and impunity by which the West treats developing countries, ignoring how the legacy of colonial and imperialism which is at the heart of much of their suffering.

We believe public policy reflects values. Any policy designed to reduce inequality needs to promote the values of equality, which means it will have to counter the myths that support inequality

Inequality in Economics

The financial meltdown and Great Recession have brought the issue of inequality into the political discourse in a way that we have not seen in many years. It exposed both the preferential treatment for the very rich (bonuses and bailouts) and the stagnant incomes and excessive debt of the middle class. Many economists have argued that inequality was a primary cause of the crisis (for example, the United Nations Commission of Experts led by Joseph Stiglitz[3]). It is worth noting that excessive levels of inequality were one of the many things the financial meltdown and Great Recession had in common with the Great Depression of the 1930s. As John Maynard Keynes (1936, p. 372) noted in *The General Theory of Employment Interest and Money:* "[t]he outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." Keynes's insight that excessive inequality promotes economic instability and mass unemployment sounds remarkably contemporary.

However, political philosophers worried about high levels of inequality at least since the time of the Ancient Greeks. Great disparities between the rich and the poor, Plato argued, would cause political instability, lead to social unrest and eventually revolution (Plato, Republic, IV, 422a).[4] Writing over 2,100 years after Plato, Adam Smith reached a similar conclusion.

> "Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many.… Civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all" (1976, pp. 709-10; 715).

Besides the threat to political instability, Smith presented both efficiency and ethical arguments against excessive inequality (low wages and excessive competitive profit rates).

> "The liberal reward of labour … increases the industry of the common people. The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that

[3] http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf
[4] For an excellent analysis of Plato's views on this topic, see Rosicka (2001).

> strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low". (Ibid. p. 99).

Also, he noted that:

> "No society can surely be flourishing and happy, of which the far greater part of the members is poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged". (Ibid., p. 97).

In fact, much of Adam Smith's critique of the Mercantilist system of the 17th and 18th centuries centers on the inequality (a violation of efficiency and equity) created by the state granting preferences to some individuals/companies at the expense of their competitors and most importantly to the detriment of consumers, and society in general. John Stuart Mill expanded on the role of the state and public policy in establishing the distribution of wealth and incomes in his *Principles of Political Economy* in 1848. After summing up the role of 'natural' forces in determining the rules that determine the production of wealth, Mill stated:

> "It is not so with the Distribution of Wealth. That is a matter of human institution solely…. The distribution of wealth, therefore, depends on the laws and customs of society. The rules by which it is determined, are what the opinions and feelings of the ruling portion of the community make them and are very different in different ages and countries; and might be still more different, if mankind so chose" (Mill, 1987, p. 200).

The classical school of Political Economy, approximately from the time of Smith to Mill, generally took a broader view of the economy, seeing it in relation to society and social institutions and placing it in a historical context. Thus, economic outcomes, especially the distribution of wealth and incomes (a central issue in their theories), was the result of more than just pure economic forces.[5]

Behind the classical case for 'laissez-faire' economic policies was the belief that market forces would produce more equality than the Mercantilist system. This greater equality would come about by first removing help the state gave to merchants with political influence (what we now call crony capitalism), and second, the invisible hand of market competition would equalize incomes (wages, rents, interest and profits), allowing only the differentials that were due to risk or efficiency generating differences. The key to the system was the equalization of profit rates brought about by the free flow of capital towards areas and industries with higher than average profit rates and away from those with returns that were below the average rate. Any inequality that persisted was thus due to the natural result of market forces. However, by the 1850s it was obvious that the capitalist reality was different from the bourgeois ideal of the Enlightenment philosophers, including Adam Smith.

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[5] It is worth noting that classical, as well as neoclassical economists saw the pure economic forces as being analogous to, or the same as, the forces of nature. See *Economic Theory and Natural Philosophy* (Clark 1992).

The neoclassical school of economics took a different approach. While the classical economists were interested in how the 'surplus' was divided among the social classes, the neoclassical economists adopted an individualistic perspective and eliminated historical and social context from their analysis. John Bates Clark, who is credited with the Marginal Productivity Theory of Distribution, best summed up this new approach when he wrote: "[t]he distribution of the income of society is controlled by a natural law, and that this law, if it worked without friction, would give every agent of production the amount of wealth which that agent created" (Clark, 1965, p. v)[6]. Thus, all incomes earned in the market were both just (as they match contributions) and efficient (because they were produced by the market).

The Argument for Inequality in Economics

The microeconomic case for income inequality argues that incomes (wages, rents, interest and profits) are prices that need to be able to rise and fall based on market conditions. High incomes are an incentive to correct for a shortage (demand greater than supply), and lower incomes are the result of a surplus (supply greater than demand). Inequality is a means to achieve the end of economic efficiency. In an efficient economy, income differentials will be just enough to provide the incentives needed to get people to acquire the skills, education and training (what economists call human capital) necessary to perform high value economic activities. This, at least in theory, is how the market is supposed to work.

Underlying this approach are the two key principles that (i) all agents in the economy (i.e., individuals, firms, unions, governments) maximize a well-defined objective function; and (ii) there exists a market equilibrium which balances the conflicting goals of the various players in the labour market (Borjas 1988, p. 21). In the neoclassical approach, individual economic agents make choices, based on their preferences and endowments, which, when totaled, determine market outcomes. Any existing income distribution is merely the outcome of this market process. Market incomes are determined by the price (market outcome) that the factor service receives in a competitive market. Any long-term income inequality will be the result of differences in productivities or, what is rarely brought into the analysis, initial endowments. The distribution of income is determined by individual choices and reflects individual achievements. The most important choices in terms of income determination involve the accumulation of human capital. Essentially, the theory states that individuals can exchange current earnings for future earnings, with their choices reflecting their time preferences. Income differentials are the result of education/skill differentials, those with higher levels of education or who have accumulated skills, have done so by investing in their human capital. Higher incomes thus reflect higher levels of productivity. The question of rising income inequality is thus addressed as a problem of the determination of income differentials. Some productivity factor, like education, must be behind the rise in wage inequality. In the 1980s, the argument was the increased use of computers gave greater rewards to those who could use this new technology and lower returns for those who

[6] Friction includes: government policy, unions, and market failures like monopoly and asymmetric information. It is difficult to find a labour market that fits the "frictionless" equilibrium model of neoclassical economic theory.

could not. This approach assumes that incomes are market determined prices and that some supply or demand factor is behind the change in relative prices of skills/education. Changes in income distribution are thus analysed via changes in the supply and demand for the various individual attributes.

By the mid-1990s, this labour skill explanation began to fall apart. Every developed country was facing the same technological changes, yet some had dramatic increases in inequality while others had little or no changes. Blau and Khan (1995) found that institutional factors, such as: extent of collective bargaining coverage, unionization rates and pay policies and government policies towards the labour market, played a role in explaining the variation in changes in inequality among developed countries. Labour markets are in reality, very different from the perfect competition model taught in economics classes. Most often incomes (and prices in general) are not determined solely by market forces. As Appelbaum (1979, pp. 115-6) observed:

> "[t]he labour market is not a 'market,' as that term is usually understood, for the labour market does not possess a market-clearing price mechanism. Variations in either money wages or in the real wage rate are unable to assure a zero surplus of labour, and thus eliminate unemployment. In the context of (i) an industrial structure that is largely oligopolistic, (ii) fixed technical coefficients in production and (iii) mark-up pricing, the demand for labour depends on the level of aggregate economic activity. It has little, if anything, to do with the marginal product of labour. The supply of labour, meanwhile, depends largely on demographic and other sociocultural factors, though it is somewhat responsive to changes in employment opportunities".

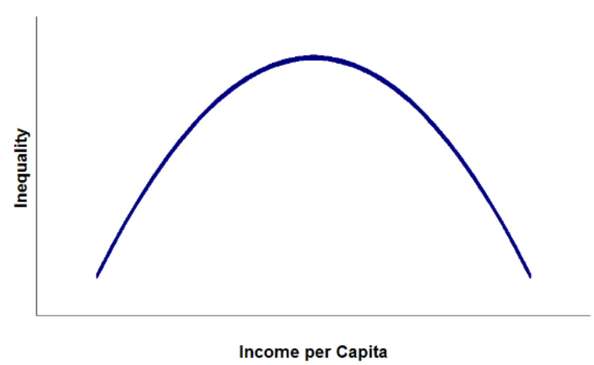
Hence, social and political factors play a significant role in setting incomes. Incomes and working conditions are determined by historical and social context: levels of unionization and collective bargaining; government protection of workers and the unemployed; social welfare protections; political and social values; family structures and other social, cultural and political factors.

So, How Did we Get here? Ideologies and Public Policy

Economic ideas and theories inform public policy. In the 1970s, Arthur Okun published what has become the classic statement on the relationship between equality and efficiency. Okun argued that promoting equality would cause economic growth to slow down because such policies interfered with the price mechanism in a market economy. Competitive markets produce prices that act as information to economic actors. The market is a means for providing information that allows for economic coordination. Policies that promote more equality, like a minimum wage, distort these signals and thus hamper the efficiency of markets. Ironically, Okun's central argument was that rich societies can afford to sacrifice some efficiency to have the social goal of more equality; that a rich society can easily afford the lower economic growth to have the more social important goal of greater equality. However, the suggestion that anyone would want to lower economic growth rates for any reason was unthinkable. Better to have a bigger economic pie than fight over whether one's slice is big enough. Okun's analysis laid the foundation for 1970s supply-side (trickle-down) economics. Hence, economic policy was driven by the belief that by increasing inequality, a country can boost economic growth.

A related concept is the so-called Kuznets curve. The fall in inequality after WWII prompted Simon Kuznets to suggest that market economies first produce more inequality (as it industrializes) but then produces lower inequality as it matures, leading to the Kuznets curve. The rise in inequality during the industrialization phase was seen as necessary due to the need to fund industrialization. Higher investment levels needed higher savings, which comes about by a redistribution of income towards the economic groups with higher savings rates (the already affluent). The rise in inequality is also supported by the high rates of returns to the owners of the new industries that are part of the industrialization process. Major changes in technology and the growth of new industries often produce big winners, which increases inequality. We saw this in particular in the US, with for example, the big industry names like John D. Rockefeller, Cornelius Vanderbilt and J.P. Morgan in the late 19th century. But as a country's economy matures, Kuznet argued that competition will intensify, and the monopoly power held by the first innovators declines, shifting much of the benefits to the rest of the economy. Furthermore, the shift of population away from rural/agriculture production and lower paying jobs, towards the higher paid jobs in cities and manufacturing, leads to more equality. At the stage of mature capitalism, the needs of the economy switch from funding high investment to funding high consumption.

Figure 1: The Kuznets Curve



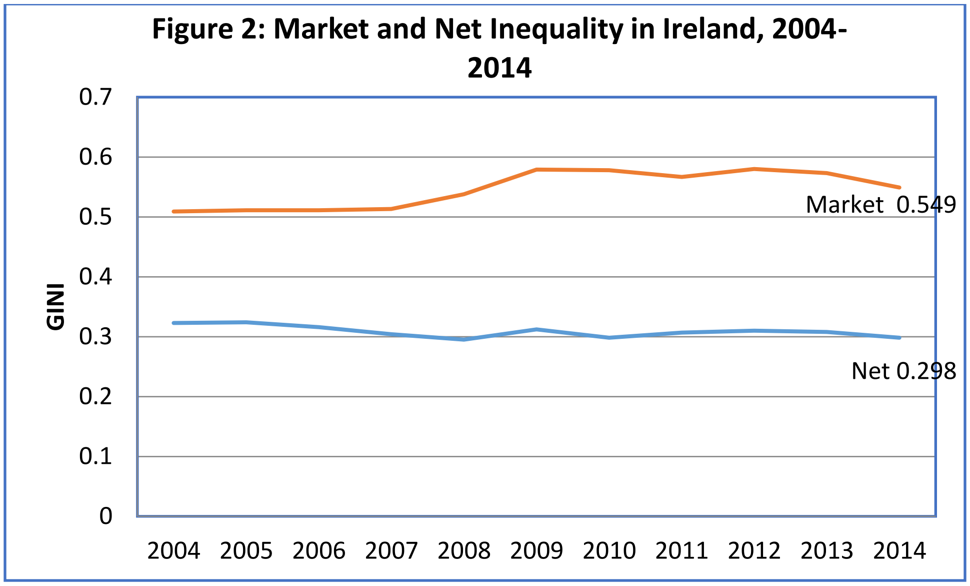
Inequality in Ireland

What was the experience in Ireland? By the late 1980s, Ireland was one of the most unequal countries among in the OECD. Table 2 shows that Ireland's GINI coefficient after taxes and transfers was the second highest among rich countries, only the U.S. witnessed more inequality. The observation that English speaking countries generally are more unequal suggests that these countries' values and legal systems play a role in shaping income distribution. Beginning in the 1980s, Ireland adopted a more 'corporatist' model, using social partnership agreements to bring more coordination and stability to the wage and tax setting processes. This was supplemented by Ireland's membership in the European Union and Euro zone and the dramatic growth rates of the 'Celtic Tiger' years. Yet these changes did not substantially change the market (pre-tax and transfer) distribution of income in Ireland (see Figure 2). During the Great Recession, market inequality increased, as incomes at the bottom fell more dramatically than incomes at the top (although the top 10% had a reduction in real income of 11.4% from 2008-2011, which is the second largest decile decline –the bottom 10% group saw a fall of 18.4%). The bottom half of households saw real incomes fall by 8.36% while the top half fell by 6.08%.[7]

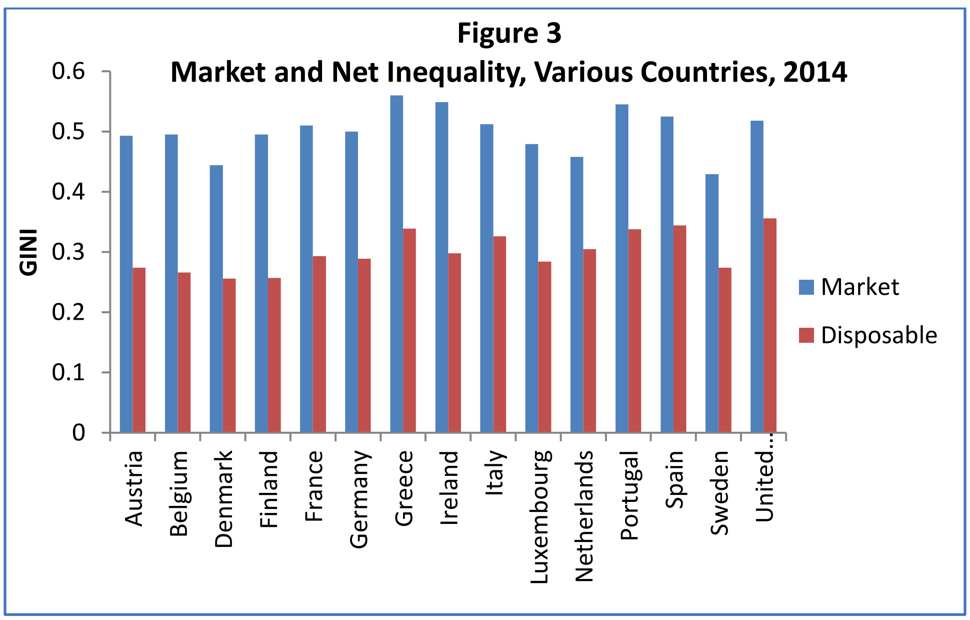
Table 2: Changes in Income Inequality from 1980s to 2010s			
Late 1980s		**Early 2010s**	
Country and Year	**GINI Net Taxes and Transfers**	**Country and Year**	**GINI Net Taxes and Transfers**
Finland 87	0.207	Norway 13	0.248
Austria 87	0.227	Denmark 13	0.249
Belgium 88	0.232	Finland 13	0.259
Norway 86	0.234	Netherlands 13	0.264
Luxembourg 85	0.236	Austria 13	0.279
Netherlands 87	0.236	Belgium 00	0.279
Denmark 87	0.255	Luxembourg 13	0.283
Germany 89	0.257	Germany 13	0.289
Canada 87	0.283	France 10	0.289
France 89	0.287	**Ireland 10**	**0.294**
Australia 89	0.302	Italy 14	0.319
United Kingdom 86	0.303	Canada 13	0.321
Italy 86	0.309	Australia 10	0.330
Spain 85	0.314	United Kingdom 13	0.330
Ireland 87	**0.328**	Spain 13	0.343
USA 86	0.340	USA 13	0.377
Source: Luxembourg Income Study			

The changes in income inequality in Ireland were mostly due to developing a more European social welfare system, and less on adopting the taxation rates of typical European countries. Market inequality (pre-taxes and transfers) in Ireland remains one of the highest among rich countries (see Figure 3). And the share going to the rich has increased over the past several decades (see Figure 4). Figures 5 and 6 provide shed some light on the distribution of income in Ireland by tax unit in 2015, and by decile groups in 2016. Of significance is the fact that just under 39% of income went to the top two declines in 2016.

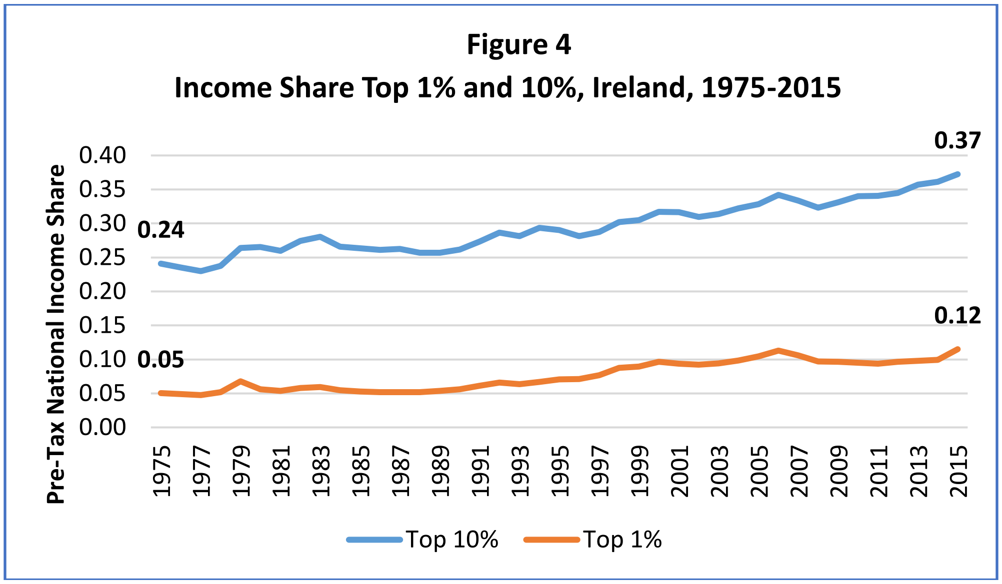
[7] Data is from Callan et al, (2013, p. 337).



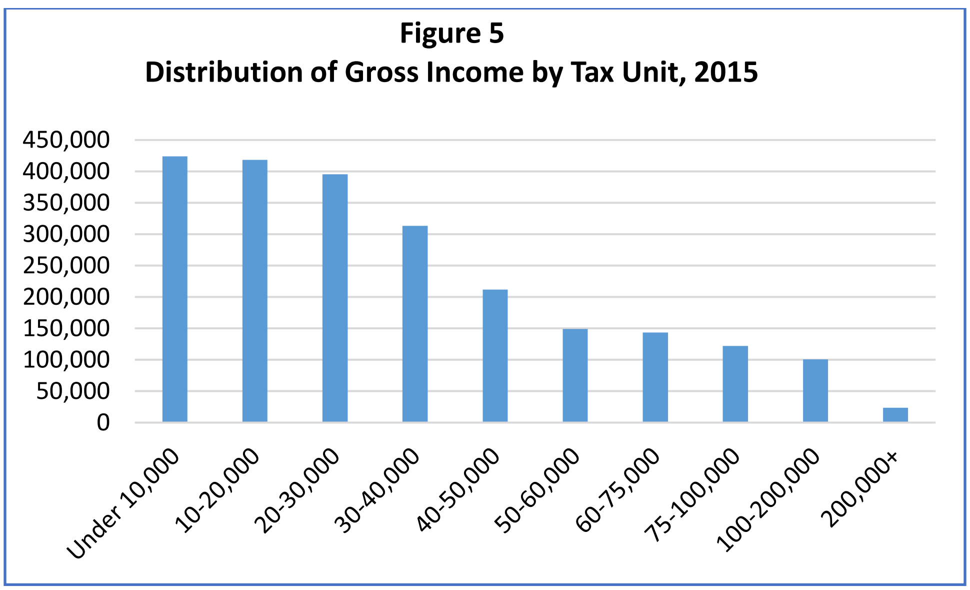
Source: Eurostat



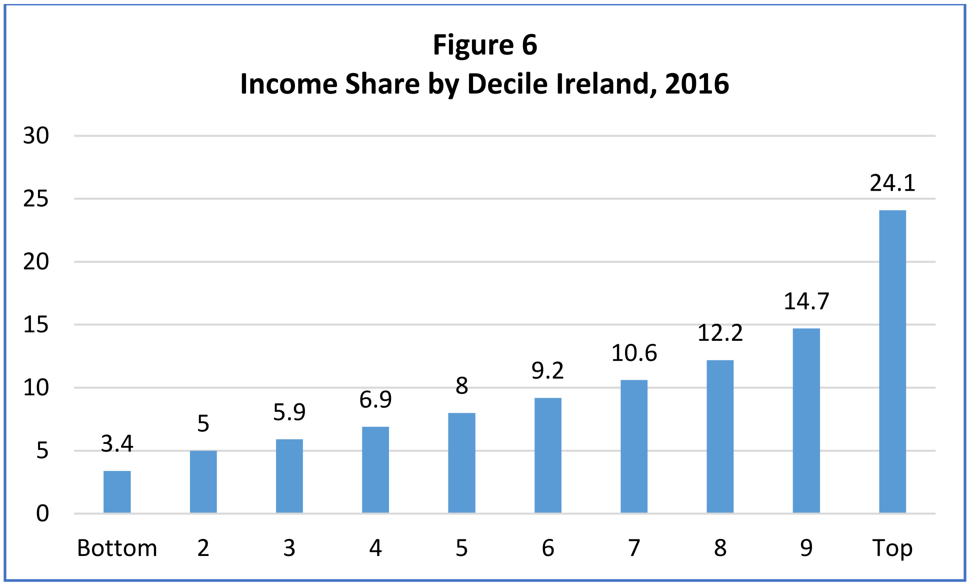
Source: OECD



Source: World Inequality Database



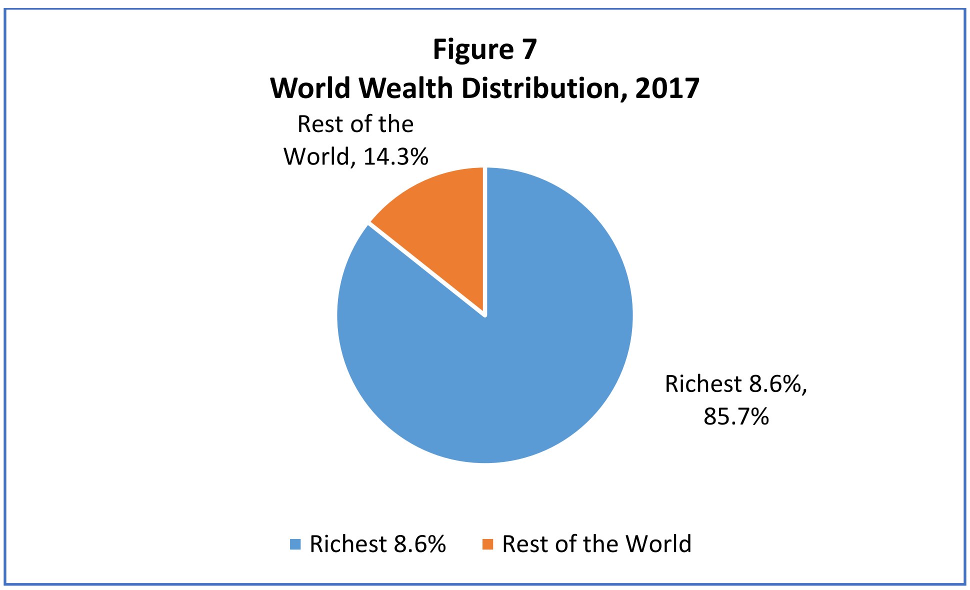
Source: Living in Ireland Survey, 2016



Source: Living in Ireland Survey, 2016

Wealth Inequality

Oxfam (2017) reports that "the richest eight men own the same amount of wealth as the poorest half of the world". From 1988 to 2011, the incomes of the world's richest 1% increased 182 times, while the poorest 10% only increased by less than $3 per year.



Source: WID

But what about wealth inequality in Ireland? Wealth inequality refers to the total amount of assets of an individual or households, including financial assets, such as bonds and stocks, property and private pension rights. Table 3 shows that Ireland has one of the most unequal distributions of wealth among the rich countries, based on the most recent data available. The World Economic Forum (2018) report notes that Ireland's wealth inequality score increased by over 10 points in the past five years. They also argue more generally that a key reason for the rise in wealth inequality is the "[e]xcessive reliance by economists and policymakers on gross domestic product as the primary metric of national economic performance".

Table 3
Income and Wealth Inequality, 2018*

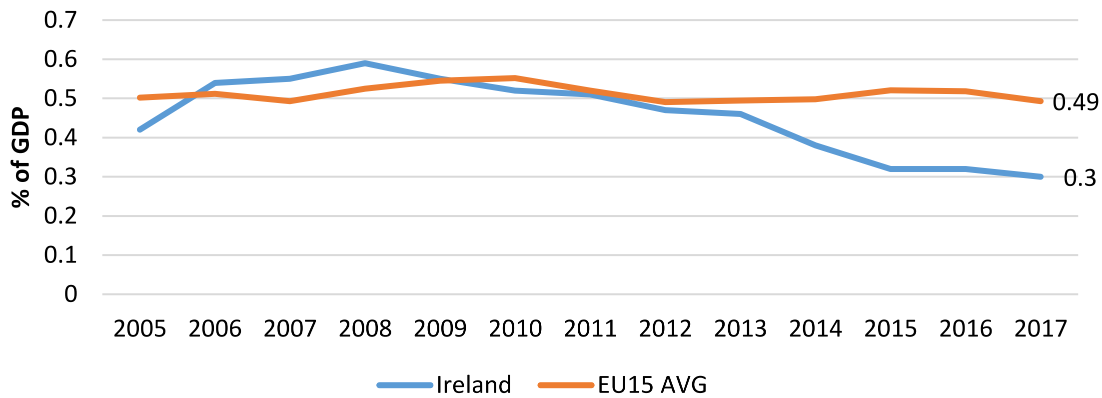
Country	Income GINI	Country	Wealth GINI
Iceland	24.4	Iceland	46.7
Norway	24.9	Belgium	63.0
Denmark	25.3	Australia	65.2
Finland	25.6	Spain	65.7
Sweden	25.7	Italy	66.0
Belgium	25.9	Greece	67.7
Netherlands	26.6	Luxembourg	68.1
Austria	27.8	Switzerland	69.4
Luxembourg	28.4	France	70.2
Germany	29.0	Portugal	70.9
Switzerland	29.3	New Zealand	72.3
France	29.9	Netherlands	73.0
Ireland	**30.3**	Canada	73.5
Canada	31.2	United Kingdom	73.5
New Zealand	32.5	Finland	76.7
United Kingdom	32.8	Austria	78.8
Italy	33.0	Germany	79.1
Australia	33.2	Norway	80.5
Greece	33.2	Denmark	80.9
Spain	34.3	**Ireland**	**81.3**
Portugal	34.8	Sweden	83.4
United States	37.8	United States	85.9

Source: World Economic Forum (2018)
*Data refer to latest year available

International Inequality

We think it is informative to examine how Ireland fares in helping other countries. Does Ireland contribute to or try to reduce international inequality? And has its track record improved or disimproved? One measure that sheds light on this important issues is the extent of Overseas Development Aid (ODA). The figure highlights that Ireland's contribution of 0.32% of Gross National Income (GNI) falls well below the EU average and is well short of the commitment to sepnd 0.7% of GNI on developing aid. Ireland's contributed €1.17 billion to foreign aid in 2016, significantly lower than the peak of €4.26 billion in 2007.

Figure 8
Official Development Assistance (ODA)
Ireland and the EU15 Average, 2005-2017



Source: Eurostat

The issue of tax evasion has received much publicity in the media recently. Developing countries are most affected by the phenomenon of tax evasion because it deprives states of billions of euros in public revenue every year. As noted by Friederike Röder, Director of ONE France recently: "[i]t is estimated that Africa loses 90 billion dollars [€75 billion] annually due to illicit financial flows, including tax evasion," Friederike Röder, Director of ONE France, told a conference on tax evasion and development finance. Africa receives $27 billion (€23 billion) in development aid per year, according to the OECD".[8] The loss every year far exceeds the gains received from aid.

An estimated $500 billion in tax revenue is lost from corporate revenues annually due to base erosion and profit shifting (BEPS). Researchers from United Nations University report that Ireland gained $660 million in 2013 from BEPS (0.2% of GDP). This was equal to 45% of Ireland's 2013 ODA. Many developing countries lose somewhere between 1% and 6% of GDP due to BEPS.

Table 4 highlights Oxfam's recent ranking of the top 15 corporate tax havens. Ireland is ranked 6th.

[8] Speech at the Convergences World Forum, 2017.

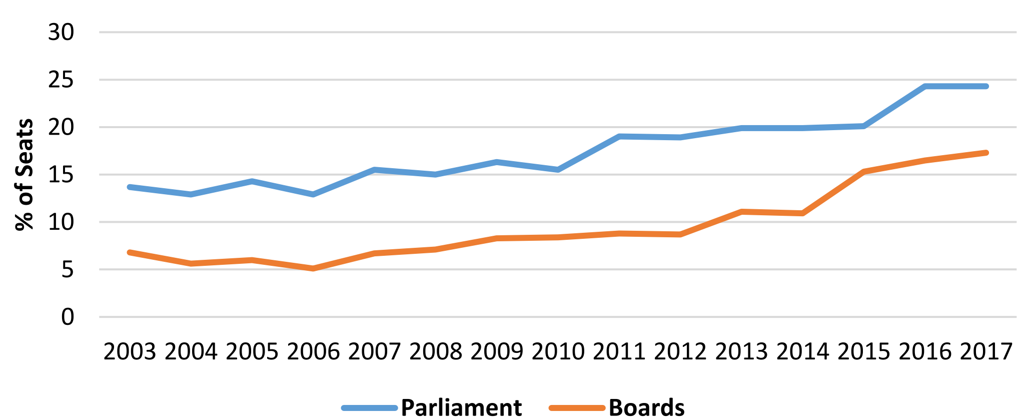
Table 4 Oxfam's Ranking of the Top 15 Corporate Tax Havens	
1	Bermuda
2	Cayman Islands
3	Netherlands
4	Switzerland
5	Singapore
6	Ireland
7	Luxembourg
8	Curaçao
9	Hong Kong
10	Cyprus
11	Bahamas
12	Jersey
13	Barbados
14	Mauritius
15	British Virgin Islands

Source: Oxfam (2017)

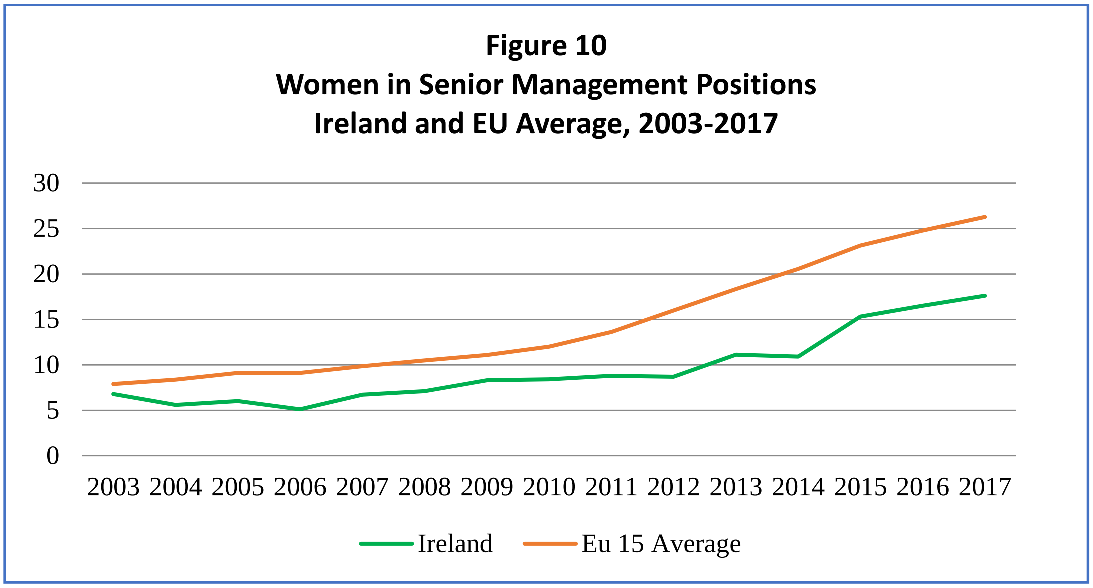
Gender Inequality

Gender inequality is another important aspect of overall inequality. Figure 9 shows that there has been an increase in Ireland's proportion of females in a leadership role (more females are represented in senior management positions); from 5.6% in 2004 to 17.3% in 2017. Female representation in national parliament also increased, from 12.9% to 24.3% over the same time. However, this is still very low compared to EU average. Further, the gender pay gap, while down from the 2005-6 levels, is still around 14% or equivalent to the EU average. The gender gap highlights that women are still disadvantaged in terms of the type of jobs and occupations they hold.

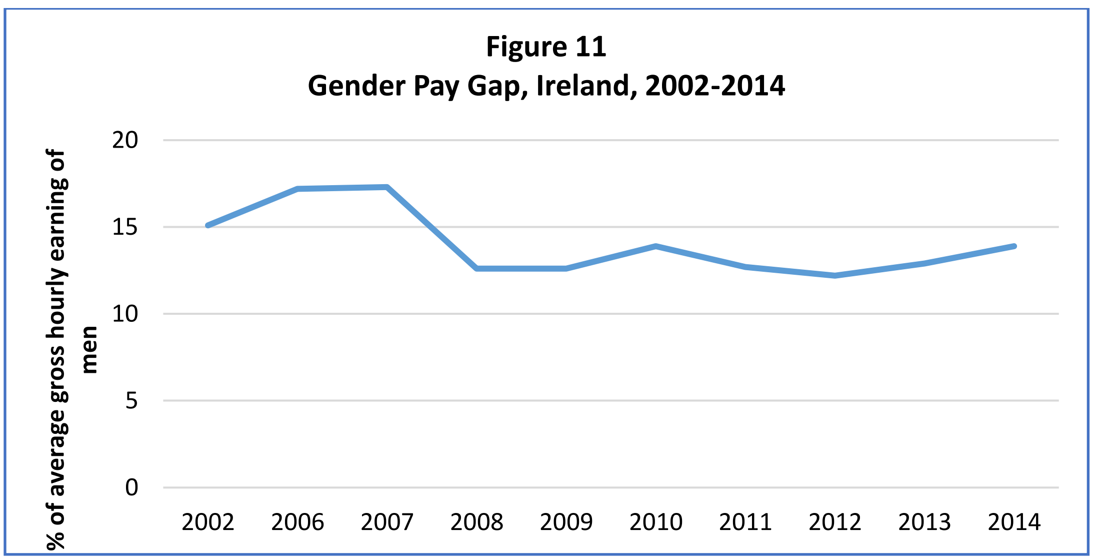
Figure 9
Females in Parliament and Boards, 2003-2017



Source: Eurostat



Source: Eurostat



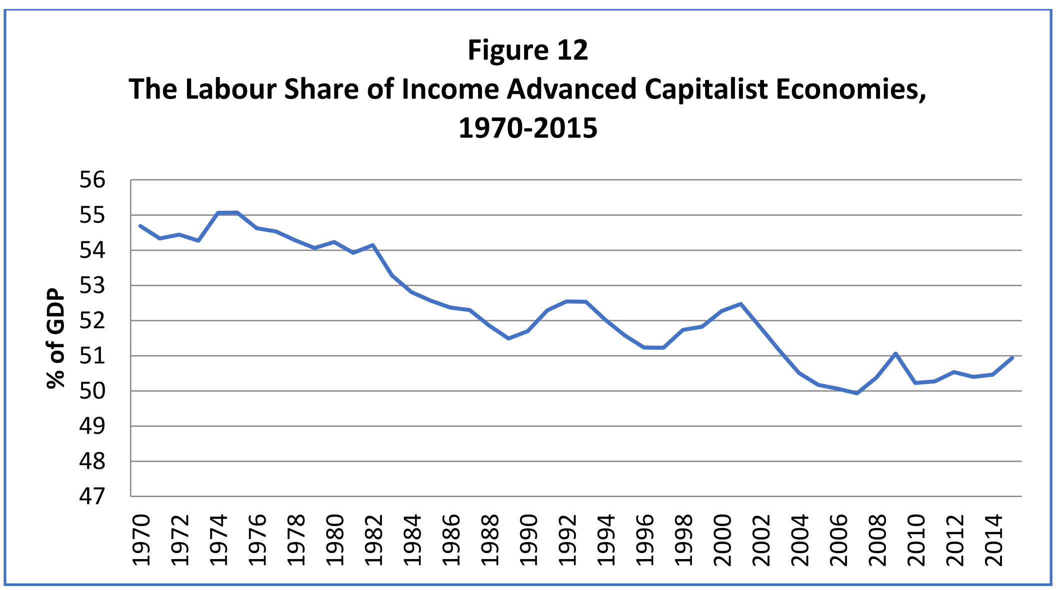
Source: Eurostat

Some Key Causes of Inequality

In the past three decades, globalization, financialization and ‘trickle-down’ economic policies have shifted income towards the top 10%. Globalization forces workers in rich countries to compete with workers in developing countries. Financialization 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 hands of financial service 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 to increase 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 the early 1990s (above average) to 33.9% in 2018 (well below average).

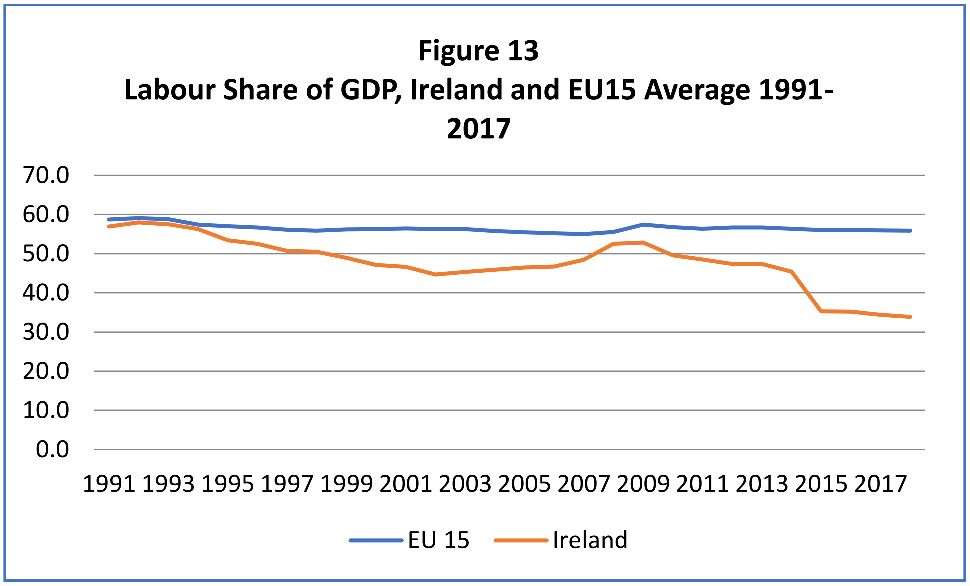
Labour Share of GDP

The share of labour income has declined in most advanced capitalist economies since the late 1970s and early 1980s (see Figure 12).



Source: IMF (2017)

The IMF (2017, p. 121) argue that “the decline in the labour share has been concomitant with increases in income inequality, for two reasons. The first is that within the workforce, lower-skilled workers have borne the brunt of the fall in labour share amid evidence of persistent declines in middle-skill occupations and income losses for middle-skilled workers in advanced economies (Autor and Dorn 2013; Goos, Manning, and Salomons 2014). The second is that capital ownership is typically concentrated among the top of the income distribution (Wolff 2010) and hence an increase in the share of income accruing to capital tends to raise income inequality."



Source: Eurostat

Figure 13 shows the decline of labour share has been greater in Ireland than in the EU15. Part of this decline is the exaggeration of GDP in Ireland (see Clark and Kavanagh, 2018), but it is also due to the weakening of workers bargaining position post 2009.

Wage Inequality

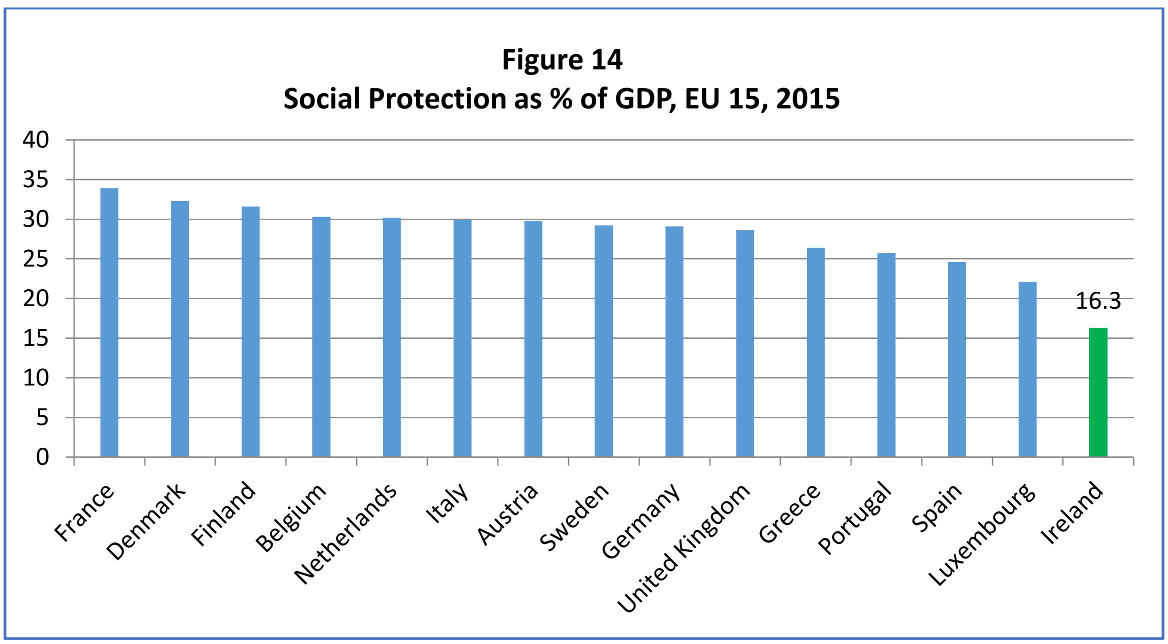
The decline in labour share is connected to real wage growth lagging behind productivity growth. The basic promise of a capitalist economy has been that as the economic pie becomes larger, all share in the increased prosperity. This is the creation of the middle-class society. As workers get more productive (meaning they are producing more), they get rewarded for their work. This idea is part of the ancient idea of a 'just wage'. Yet for many workers, incomes have been stagnant for decades. This stagnation is due to many factors, the same factors that have promoted more inequality (globalization, technological change, change in policies etc.).

A recent IMF report shows that the *market* income share of the bottom 20 per cent of households is the lowest in the OECD (IMF, 2017). The report argues that the relatively low labour market participation rate of women is a contributory factor along with the increase in the extent of long-term unemployment. The IMF also identifies low intergenerational income mobility and a relatively high proportion of young people without employment, education or training as further contributory factors towards the relatively high market income inequality.

Voitchovsky et al (2012) found that in Ireland, the dispersion in hourly earnings across all employees fell sharply to 2000 but increased after then to 2007. The European Parliament (2014) have shown that changes in wage inequality explain around one fourth of the variation in changes in overall income inequality between 2006 and 2011. A 0.1 increase in the Gini index for wages implies an increase of 0.04 points in the Gini index for overall income. Wages therefore account for a very important part of income inequality. A key concern for Ireland is that about one fifth of all workers are classified as low-paid (Clark and Kavanagh, 2018).

Social Protection Systems

Clearly, public policy and institutions also have a significant role to play. Figure 14 shows that the extent of social protection as a % of GDP in Ireland is the lowest among the EU15 countries. Further, there has been a steady decline in unionization rates over the years. The unionization rate and extent of collective bargaining coverage are significantly lower in Ireland compared to our EU counterparts (see Table 5).



Source: Eurostat

Table 5 Unionization and Collective Bargaining Coverage EU15			
Country	**Unionization rate**	**Country**	**Collective Bargaining Coverage**
Finland	74	France	98
Sweden	70	Belgium	96
Denmark	67	Austria	95
Belgium	50	Finland	91
Luxembourg	41	Portugal	89
Italy	35	Sweden	89
Ireland	29	Netherlands	84
Austria	28	Denmark	80
United Kingdom	26	Italy	80
Greece	25	Spain	69
Netherlands	20	Germany	59
Portugal	19	Luxembourg	59
Spain	19	Ireland	44
Germany	18	United Kingdom	29
France	8	Greece	10
Source: https://www.worker-participation.eu/National-Industrial-Relations/Across-Europe/; data for most recent year available			

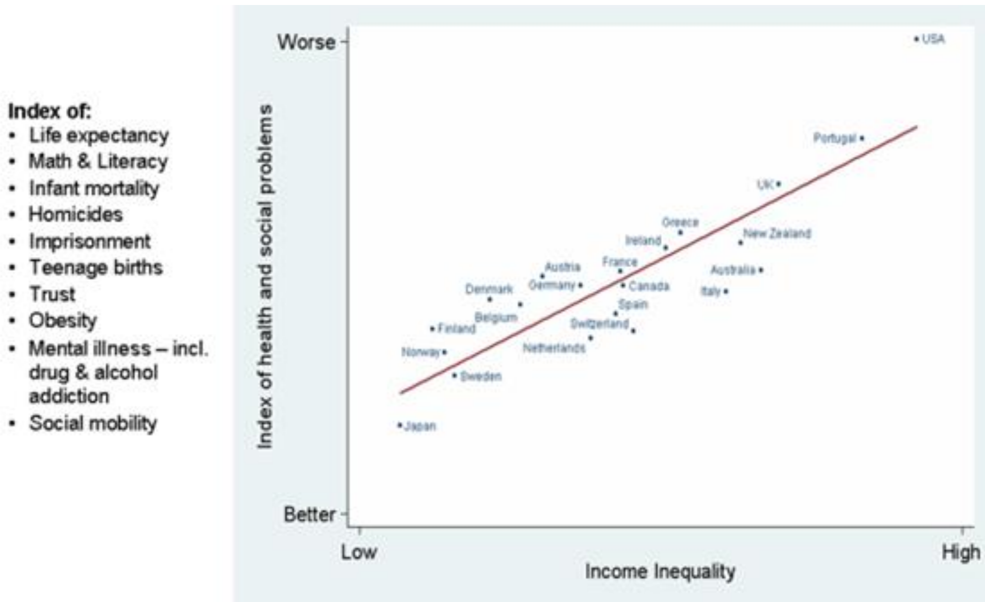
The Costs of Inequality

Inequality is associated with several key outcomes that negatively impact on societies.

Social 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. Figure 15 demonstrates that more equal societies have less health and social problems than less equal societies.

Figure 15
Health and Social Outcomes are Worse in More Unequal Countries



Source: Pickett and Wilkinson (2009)

Their book has generated considerable attention to the topic of inequality and its relationship to social outcomes. Much of the academic literature focuses on how to measure inequality and the issue of causality. Questions include, for example, can the GINI coefficient carry all of this weight, explaining math scores and crime rates? Are social problems caused by inequality or is inequality the result of social problems? It is possible that inequality is more a qualitative factor than a quantitative one; it is more than just the distance between the Lorenz Curve and the 45% line that shows perfect equality. As noted earlier, the issue of causality only becomes critical if one adopts a mechanical view of social outcomes.

According to Bergh, Nilsson and Waldenstrom (2016), there are five (5) mechanisms by which inequality can influence social outcomes as follows.

1. The most direct way inequality will affect social outcomes is called the 'purchasing-power effect'. Inequality in income means inequality in spending power. If a market economy is seen as a consumer's democracy (market produces what consumers want), inequality results in some people with many votes, and some with few votes. This will shape the material reproduction of a country. Differences in spending power will lead to differences in social outcomes that are tied to spending power. If healthcare or education is influenced by how much money one can spend, there will be differences in health and education outcomes.

2. Inequality influences the political system, the shaping of government institutions, the making of laws and importantly, public spending. Research shows that political participation (voting, volunteering and donating money) is greatly influenced by inequality. Social spending can be a great equalizer in society. Universal healthcare and education to all citizens is an equality promoting public policy.

3. Inequality is associated with lower levels of trust. Although difficult to measure (as it is a subjectively reported statistic), it is widely found effect of inequality, and it affects every aspect of social living. As trust is the bedrock of cooperation, and cooperation is essential to all social living, the importance of trust cannot be minimized. Trust comes from social interaction with people and grows when that social interaction is positive.

4. Inequality promotes social comparisons. Since all consumption is a form of social communication (Douglas and Isherwood, 1982) we should expect a highly unequal level of consumption to influence the conversation. Within the public health field, inequality, like racism and sexism, affects the stress levels of both those at the bottom (which is expected) and (surprisingly) those at the top.

5. Violence and crime, long associated with poverty and inequality is the fifth mechanism by which inequality can influence social outcomes. High crime rates affect communities, businesses, schools and families. More crime is also a drain on public resources, with increased spending required on policing and incarceration.

Instability

One reason why the IMF and World Bank have begun to pay more attention to inequality is its association with the financial meltdown and Great Recession. Many international agencies completely failed to see the events of 2008-9, and a contributory reason is that they generally do not view inequality as a macroeconomic variable[9]. Most economists ignored Keynes's warning of the link between inequality and unemployment. John Maynard Keynes (1936, chapter 24) noted that the unequal distribution of incomes and wealth was connected to the problem of unemployment and economic depression. The IMF and OECD have recently concluded that the rise in inequality in the past three decades has led to lower and more unstable economic growth[10]. 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).

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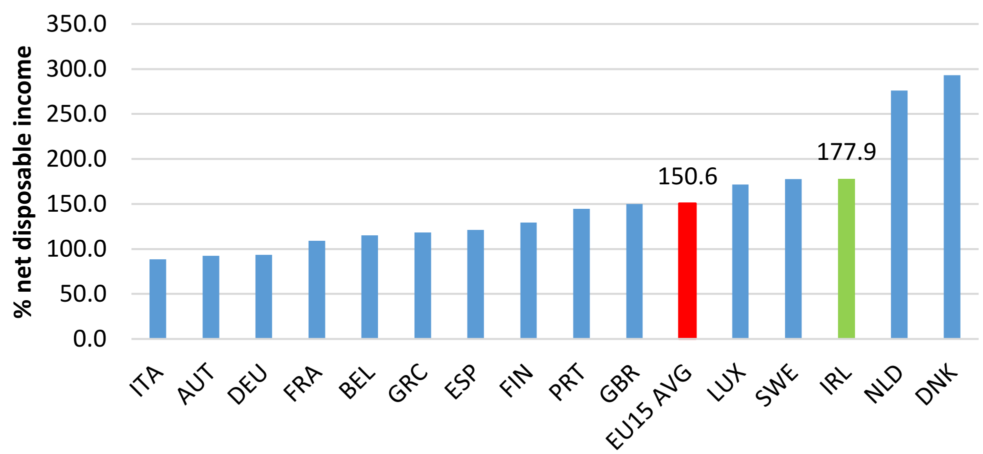
[9] The post-Keynesian approach however does view income distribution seen as a macroeconomic variable.

[10] As mentioned earlier, the Stiglitz Commission argued that income inequality was one of the contributory factors to the 2008 financial meltdown and Great Recession.

Debt and Hours Worked

Inequality leads to lower investment in human capital by those (in particular) in the lower income groups, leading to both lower incomes and lower productivity levels (and lower real economic growth). When incomes grow at the top but not at the lower end, households at the bottom go into debt to merely get by and households at the middle and upper middle classes often reveal what can be called a 'Veblen Effect': they go into debt to maintain levels of consumption that emulate the consumption levels of those at the top. This rise in private sector debt is a major feature of the Irish economy. Ireland's private debt was 278% of GDP in 2016 (55% above EU15 average). A hhigh level of private debt is a concern because it exposes households to sizeable risks in the event of sudden changes in asset prices. 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 in 2016.

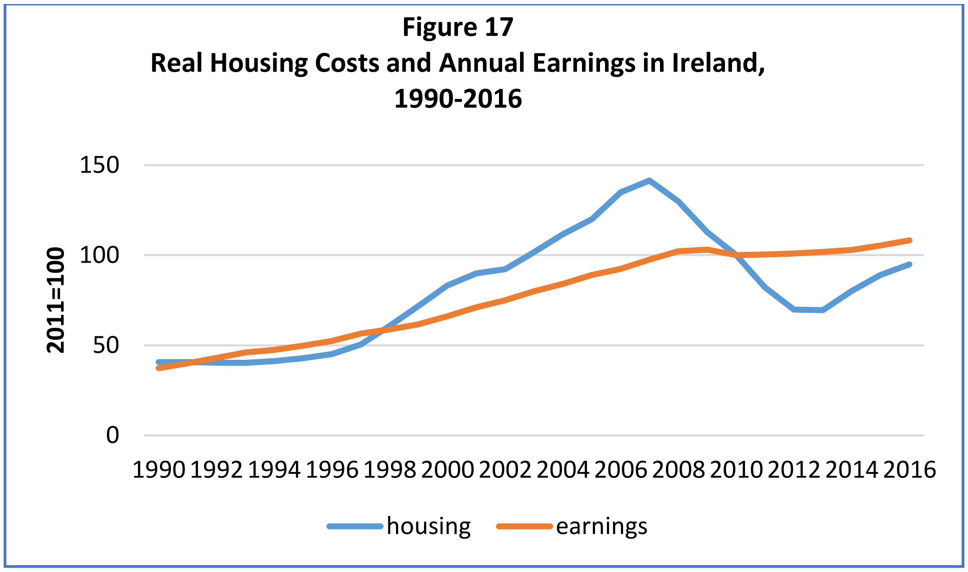
Figure 16
Household Debt among the EU 15, % Net Disposable income, 2015



Source: Eurostat

Housing

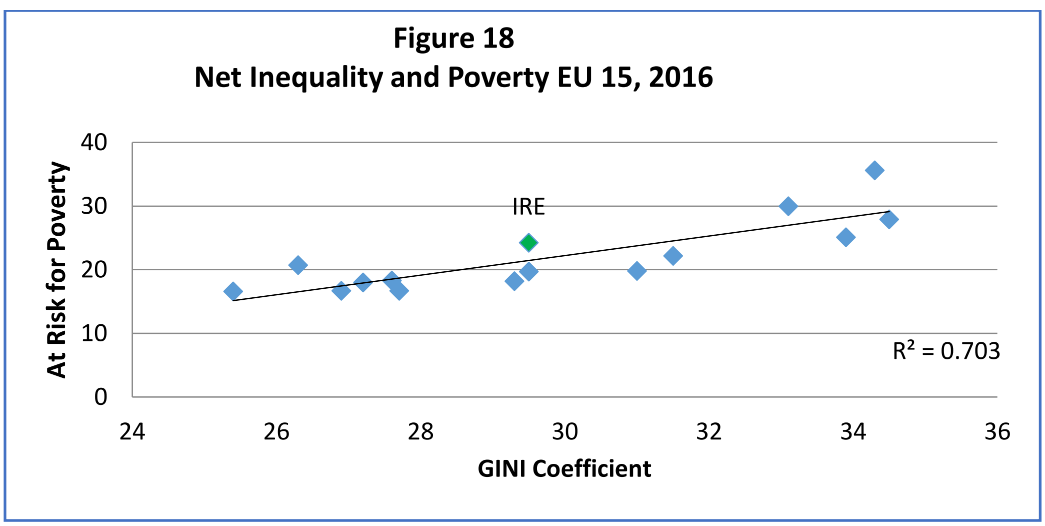
Inequality distorts the market for housing, promoting bubbles in housing prices and homelessness. Income inequality squeezes more people into the lower end of the housing market, causing many to become homeless.



Source: OECD

Poverty

There is a strong connection between inequality and poverty. It can be argued that rising inequality is a key reason why economic growth has not been 'trickling-down' to the poor, as top income groups take much of the gains of economic progress. Figure 18 shows the strong correlation between net inequality and poverty rates for the EU15.



Source: Eurostat

Mobility

One of the most worrying effects of high income inequality in the long run is its impact on future generations. By giving unearned advantages to the offspring of the affluent and unearned disadvantages to the offspring of the working classes, intergenerational inequality has all the costs of inequality without any of the market efficiency benefits. John Stuart Mill argued, on efficiency grounds, that the state should have very high inheritance taxes to prevent too much concentration of wealth, as well as passing on of unearned pillages. Besides the basic unfairness of inequality leading to lower mobility, another effect is that that inequality generates more inequality. Today's inequality will produce more inequality among future generations, as we produce greater advantages and disadvantages.

Krueger (2012) labeled the relationship between higher inequality and lower social mobility the 'Great Gatsby Curve'. He noted that studies for the U.S. showed that the correlation between parents and their children's income was around 0.50. Krueger stated that this is "remarkably similar to the correlation that Sir Francis Galton found between parents' height and their children's height over 100 years ago. … The chance of a person who was born to a family in the bottom 10% of the income distribution rising to the top 10% as an adult is about the same as the chance that a dad who is 5'6" tall having a son who grows up to be over 6'1" tall. It happens, but not often." However, the relationship inherent in the Great Gatsby curve is not about nature versus nurture. Rather, it takes account of the fact that we have genetic predispositions which are affected by our environment, including numerous family characteristics (finances, education, class, and wealth).[11] In addition to family effects, the effects of public policy are important (generally social welfare systems and other institutions). Countries with considerable redistribution and universal systems such as those found in the Scandinavian countries have lower inequality, poverty and greater mobility (in particular, less disadvantages to those with low income parents). Most research shows there are always advantages to having wealthy parents, but disadvantages of low income households can be reduced, then mobility can be as much a reality as a dream.

An early analysis of mobility in Ireland was undertaken by Halpin (1992), who examined the effect of industrialization on an individual's mobility over their life time (intra not inter). He concluded that the changes in the structure of the economy did not increase mobility; although it did change the paths that individuals took, it did not substantially change where they ended up. A more recent study (Jerrim and Macmillan, 2015) uses tax records examines mobility from 2006-2015. Of those in top 10% in 2006, 57% remained in top% in 2015. Further, up until 2002, the growth pattern of the Celtic Tiger economy was producing growth in labour incomes across all income groups (the classic 'rising tide lifts all boats'). But the bubble economy benefited strong growth at the top. When it burst, aggregate income fell, but the falls were particularly hard at the low end of the distribution. Around 43% of tax units were in the same quintile income group.

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 EU 15 demonstrate that national policy, history and culture influence how much inequality each country has. Low tax rates and low levels of social protection spending promote greater inequality, while universal healthcare, education and income supports

[11] See Nolan et al (2010) for a review of the issues.

promote greater equality. Great concentration in wealth inequality, the result of generations of exclusion, cronyism and exploitation, requires dramatic efforts in order to be reduced. We propose the following policy considerations as a step towards reducing inequality in Ireland.

Information and Transparency: Information on inequality in Ireland, especially incomes and wealth at the top, is inadequate, and is below 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.

Worker Protections: Ireland's market inequality is due in part to a lack of worker protections and the power of corporations, especially foreign multinationals. Greater support for workers (unions, collective bargaining) and social protection spending is needed to bring them closer to the European norms.

Tax Avoidance and Rent Seeking: Most, if not all, large accumulations of wealth are supported and facilitated using state power. Often it is the privatization 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 began 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 hard for developing countries, whose lost tax revenues amount to a greater loss than is provided in development aid.

Gender Equality: All inequality starts with the subjection of women. John Stuart Mill's assessment of inequality (in 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.

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