The Distribution of Income and Wealth in Ireland

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Abstract and Keywords

Ensuring a fair and efficient distribution of economic resources in society is one of the most important public policy challenges facing democratic governments. This chapter notes how the emergence of new and better data on the composition and distribution of income and wealth has heightened interest in economic inequality. Data on the distribution of both income and wealth are presented, highlighting how Ireland, as a liberal market economy, has high levels of direct market income inequality but the welfare state plays a significant role in redistribution. The provision of robust wealth data is a recent phenomenon for Ireland, one absent from our understanding of living standards, well-being, and redistributive public policies for some time. Wealth is more unequally distributed than income, and it is notably concentrated in housing capital. The chapter concludes by highlighting the relevance and potential of these new insights.

Keywords: income distribution, wealth distribution, economic inequality, housing capital, liberal market economy, redistribution

THIS chapter starts with the observation that ensuring a fair and efficient distribution of economic resources in society is one of the most important public policy challenges facing democratic governments. From the OECD to the IMF, policymakers are increasingly concerned about the impact of growing inequalities on economic and political stability. To the IMF, a ‘persistent lack of inclusion—defined as broadly shared benefits and opportunities for economic growth—can fray social cohesion and undermine the sustainability of growth itself’ (Duttagupta et al., 2017). This concern has been heightened in the aftermath of the great recession, the implementation of fiscal austerity measures, rising parliamentary volatility, and the emergence of new right-wing populist parties. These parties increasingly mobilize around the questions of welfare chauvinism and redistribution, and attract support by those left behind by globalization (Kriesi and Pappas, 2015; Bartels, 2016; Rodrik, 2017).

One of the main reasons why economic inequality has become a salient issue over the past decade is the emergence of new and better data (Piketty et al., 2018). Researchers now have access to much larger amounts of data and more sophisticated methods and

techniques to analyse these data, leading to a much more informed theoretical debate. What was once a debate without data has now become a vibrant area of research (Hager, 2018). There have been major statistical advances in how countries organize their national accounts, how they measure national income growth, and how they monitor individual and household resources. Researchers have improved their conceptual measures, allowing for greater harmonization of comparative quantitative indicators. In addition, governments are increasingly obliged to implement transparent legal and administrative surveys on income, taxes, and living conditions. In a world of increased financial globalization, citizens and policymakers now have a much better understanding of who actually benefits from economic growth.

(p. 462) However, while we know a lot about income distribution, we still know much less about wealth and the capital income that flows from the ownership of wealth. Income is the flow of resources that households, firms, and individuals receive from either selling their labour or owning property (whether capital, real estate, or other forms of wealth).[1] National income is equal to the total amount of labour income and capital income. The vast majority of people earn their living through labour income (wage earnings), and this is directly observable in national survey data. But a significant minority of people earn their living, or a large proportion of their living, through capital income (usually those at the very top of the income distribution), which is less easily observable. In Ireland, the majority of wealth is bound up in the ownership of housing. Housing capital is the largest form of wealth in society, yet we know very little about who owns it and who earns an income from it. This, as we will argue in the conclusion, is a major blind spot in analysing public policy in Ireland.

How we measure things makes a big difference to the theoretical inferences that we draw. Income inequality is multifaceted and complex. It can be defined as the unequal distribution of income that accrues to individuals and households. As mentioned already, income can be generated through labour (wages, salaries, bonuses) or through the ownership of capital or wealth assets (dividends, rent, interest). Hence, income inequality is a term that is used to discuss the combined inequalities that arise from the unequal distribution of capital and labour income. In most OECD economies, 50 per cent of the population typically own less than 5 per cent of national *capital or wealth*, with the middle 40 per cent owning about 30–40 per cent, and the top 10 per cent owning 60–70 per cent (Alvaredo et al., 2018). Hence, capital income is something that generally accrues to the highest income earners in society. We are accustomed to thinking about economic distribution in terms of wage or earnings inequalities, not wealth inequalities (Atkinson and Piketty, 2010). In this chapter, we describe the trends in both the distribution of income and wealth in Ireland, and discuss how Ireland compares internationally.

Measuring and Theorizing Income and Wealth Inequalities

Across the research literature in economics, political science, social policy, and sociology, there are numerous approaches to measuring and understanding income and wealth inequalities. These range from measures that summarize a distribution into one number that increases with inequality (e.g. the Gini coefficient) to those that offer a more fine-grained analysis of who exactly benefits from income growth, using measures such as the *average change* in median incomes and variations in the income shares of certain groups. In the case of the latter, the population is usually divided into deciles (from the poorest 10 per cent, to the richest 10 per cent) or quintiles (from the poorest 20 per cent to the richest 20 per cent), or a 50/40/10 split (the bottom 50 per cent, middle 40 (p. 463) per cent, and top 10 per cent). We then measure the *share* of what each decile and quintile takes from national income, and/or measure the *ratio* of the top decile vis-à-vis the bottom 90 per cent (P90/10). In addition, there are a variety of indicators to assess socially constructed norms, such as the at risk of poverty rate, which is measured as those living on incomes that are below 60 per cent of the post-tax and post-transfer income of the median (middle) person in a society's income distribution.

The measurement of wealth/capital is even more complex. The most obvious starting point is to identify the structural composition of wealth in society, which can be either publicly or privately owned. In all advanced capitalist societies, wealth is almost entirely privately owned. Most governments have net debt (more liabilities than assets), not net wealth (more assets than liabilities). National wealth is composed of land, housing, commercial real estate, and financial capital (business assets). Generally, we divide national capital into financial (savings, mutual funds, insurance funds, stocks/bonds) and non-financial (housing, land, buildings) assets. Once we have this information, we can calculate the market value of all these assets. We can then express this market value as a number or price. For example, globally, the total amount of wealth or capital that can be exchanged on some market equals $243 trillion (Credit Suisse, 2018). It is also commonplace to refer to national capital or wealth in terms of national income. This is called the capital–income ratio. In most OECD countries, national capital or wealth typically equals 400–600 per cent of national income (Alvaredo et al., 2018). In Ireland, and across Western Europe, the most dominant form of wealth is housing capital. Therefore, the shape of national wealth or income ratios over time is heavily influenced by housing prices (Fuller et al., 2019).

The type of data sources we use can also have a big impact on the patterns observed, and our normative judgements about the type of policy interventions governments should pursue. Most income data are generated from *national surveys* on income and living conditions, and *tax and administrative* records. Survey data are reliable for generating a representative sample of the population, whereas tax/administrative data are useful for capturing trends in top incomes (which, given the small size of the sample, are generally underrepresented in survey data). In addition, the normative judgements we make heavily de-

pend on whether we use data that are based on direct income, gross income, and/or disposable income. Direct income, or market income, refers to what people earn in the market *before* income taxes, whether it is from wages, profits, or capital income. Market incomes tend to be highly unequally distributed. Gross income combines market income with transfers received from the state via the welfare and social insurance system. Disposable income, calculated as gross income minus income taxes, refers to the amount of money individuals or households have available to spend each week/year. Disposable incomes are more equally distributed, depending on the progressivity of the tax system (Savage et al., 2018) and the extent and effectiveness of the social transfer system. This distinction is particularly important in Ireland.

In this chapter, we primarily use data from the Central Statistics Office (CSO) Survey on Income and Living Conditions (SILC). We present data that depict trends in both direct market and disposable income, to capture the role of the redistributive functions (p. 464) of the state. In terms of disposable income, we use equivalized household income data, which account for the impact of the tax/transfer system. This means we are adjusting for household size and composition and presenting data on individuals. Where possible, we present more precise data on top incomes, which predominantly come from tax/administrative records.

In terms of wealth data, we use the Household and Finance Consumption Survey (HFCS) from the CSO and European Central Bank (ECB), and focus on the concept of net wealth, which represents the capital that households possess after account is taken of concurrent debts such as mortgages and loans. These wealth data are new, and essentially an outcome of the Great Recession and the realization by central banks and governments that they knew little about the assets and debts of their populations. As such, they only provide for a snapshot in time, meaning that while we can reliably depict the structural composition of wealth in Irish society and its distribution, we have limited insight into longer-term trends. Hence, the data we present are far more comprehensive for incomes than wealth.

In recent years, the breakthrough in research on economic inequality has been a focus on top incomes. Political economy research increasingly suggests that over the past thirty years, national income growth has been redistributed upwards to the top 1 per cent (Flaherty, 2015; Alvaredo et al., 2018). This is particularly the case for liberal market economies, such as the UK and the USA. A similar trend in the distribution in market incomes, albeit not as extreme, can be observed in Ireland (Nolan, 2007). Where possible, we present data on top incomes, and how these relate to the capital income that accrues to the owners of property. The dominant explanations for the trend toward the top 1 per cent capturing the income gains that accrue from economic growth is the structural effect of globalization and skills-based technological change (Tinbergen, 1975). The unequalizing effects of technology, it is argued, are benefiting the highly skilled, who can demand a higher premium for their skills. In turn, they are aided and abetted by the globalization of trade, which also increases wage competition at the bottom of the distribution (Heckscher and Ohlin, 1991; Dunhaupt, 2014). Furthermore, recent decades have seen

‘an unprecedented surge in top wage incomes’ received by professionals in the financial sector and senior executives in industry, legal and specialist services (Atkinson et al., 2011: 3; Bell and Van Reenen, 2013).

However, there is significant cross-national variation in income inequality between countries (Huber and Stephens, 2014). While top income inequality has grown significantly in the USA, India, Russia, and China, it has remained stable in Europe. Within the OECD, top income growth is a phenomenon that is predominantly observable in the English-speaking world (Scheve and Stasavage, 2016). This suggests that political choices and domestic institutions matter. The effects of government policy on the distribution of income are wide ranging, but the most direct effect is through fiscal policy (Atkinson and Leigh, 2013; Neal, 2013). Income tax cuts are strongly correlated with rising top incomes, and the progressivity of the tax system has a significant effect on post-market income inequalities. Similarly, trade unions and collective bargaining coverage enhance worker influence, and there is strong evidence to suggest that (p. 465) collective bargaining coverage, minimum wages, and union density mitigate against rising earnings inequality in the labour market (Ahlquist, 2017). Whereas fiscal policies affect the shape of disposable incomes, labour market/collective bargaining institutions affect the shape of direct market incomes. We will discuss the importance of Irish fiscal and labour market policy in shaping income and wealth distribution in the conclusion.

Given the huge advances in how researchers gather and measure data on economic inequality, few doubt the trend toward rising top incomes. The debate has therefore moved on to explaining theoretically why top incomes are rising, and why there is such cross-national variation in this trend. On the one hand there are economic or market-based explanations that give priority to educational returns and skills-biased technological change. On the other, there are political science and sociological explanations that give priority to power resources, and the bargaining power of different interest groups to influence public policy. Both are clearly important. For example, there can be no doubt that technological change and the liberalization of markets has benefited those with skills that are in high demand. But this cannot necessarily explain why governments cut corporate tax rates.

The remainder of this chapter is structured as follows. First, we describe the trends in the distribution of direct market and disposable incomes in Ireland, from 2006 to 2016. Second, we describe the trends in the distribution of wealth. Third, we discuss the public policy implications. The chapter concludes by arguing that we need more and better data on wealth, and that the public policy challenge in Ireland is shifting the focus of taxation away from labour incomes and toward less productive forms of wealth such as land and housing.

Trends in Income Inequality

A useful starting point to describe the trends in income inequality is to examine the disposable and direct market income shares going to each decile, and each quintile, across the income distribution since 2006. This is depicted in Table 27.1.

Table 27.1 Shares of equivalized direct* and disposable income, 2006–16

	Direct	Direct	Direct	Disposable	Disposable	Disposable
	2006	**2011**	**2016**	**2006**	**2011**	**2016**
Decile Shares						
Bottom	0.0	0.0	0.0	3.5	3.0	3.4
2	0.9	0.1	0.5	4.8	5.0	5.0
3	3.1	1.2	2.3	5.7	6.0	5.9
4	5.1	3.4	4.4	6.6	6.9	6.9
5	7.0	5.6	6.7	7.7	7.9	8.0
6	8.9	8.3	8.8	8.9	9.2	9.2
7	11.0	11.3	11.3	10.3	10.5	10.6
8	13.8	14.8	14.2	12.1	12.4	12.2
9	17.5	19.8	18.4	14.7	15.2	14.7
Top	32.7	35.4	33.5	25.9	24.0	24.1

Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Quintile Shares						
Bottom	0.9	0.1	0.5	8.3	8.0	8.3
2	8.2	4.6	6.7	12.3	12.9	12.8
3	15.9	13.9	15.5	16.6	17.1	17.2
4	24.8	26.1	25.4	22.4	22.9	22.8
Top	50.2	55.2	51.9	40.6	39.2	38.8
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Note:

(*) Direct income in this and subsequent tables/charts has been modified to better represent the flow of market income to individuals. It excludes employers' social insurance contributions and includes public sector occupational pensions

Source: Authors' calculations from CSO SILC surveys

The data point towards a number of notable observations. First, the most notable trend in the distribution of *disposable income* (after taxes and transfers) is the relative *stability* of both the deciles and quintile *shares* over time. Focusing on quintiles, the bottom quintile took 8.3 per cent of national income in 2006; this declined to 8.0 per cent in 2011, but increased again in 2016 to 8.3 per cent. While this is a relatively small amount of income for one-fifth of the population, that low-income share has been stable over time. In 2006, the third (middle) quintile took 16.6 per cent of national income, which increased marginally to 17.1 per cent in 2011, and then 17.2 per cent in 2016. Hence, over a decade it increased by 0.6 per cent. For the top quintile of income earners, their share was 40.6 per cent in 2006, which decreased to 39.2 per cent in 2011, while it decreased again marginally in 2016 to 38.8 per cent. But over time, the top quintile has taken approximately 40 per cent of total income, after taxes and transfers.

(p. 466) Second, the data highlight the *stark difference* between disposable and direct market income across the population. The share of the bottom quintile is very low in terms of what they receive from market income (0.5 per cent), while the shares of the top quintile is very high (52 per cent). But after taxes and transfers, this sharp divergence closes. The bottom quintile share of direct market income was 0.9 per cent of in 2006, 0.1 per cent in 2011, and 0.5 per cent in 2016. But their disposable income in the same years equalled 8 per cent. Hence, the bottom fifth of the population effectively take little or no market income, and are almost dependent on state transfers. The top quintile of earners took 50.2 per cent of market income in 2006, 55.2 per cent in 2011, and 51.9 per cent in 2016. But their share of disposable income for the same years was around 40 per cent. Hence, the (p. 467) share of the top quintiles market income in national income drops from an average of 52 per cent to 40 per cent after transfers and taxes.

Table 27.2 The income shares of the bottom 50 per cent, middle 50 per cent, and top 10 per cent

	Direct	**Direct**	**Direct**	**Disposable**	**Disposable**	**Disposable**
	2006	**2011**	**2016**	**2006**	**2011**	**2016**
Income Shares						
Bottom 50%	16.1	10.4	13.9	28.3	28.8	29.1
Middle 40%	51.3	54.2	52.6	46.0	47.3	46.8
Top 10%	32.7	35.4	33.5	25.9	24.0	24.1
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Mean € per yr	20,807	19,309	23,370	21,229	21,440	23,852
Median € per yr	16,684	13,347	18,155	17,610	18,148	20,597
Gini	49.7	56.2	52.2	32.5	31.1	30.6

Source: Author’s calculations from CSO SILC surveys

Table 27.2 offers a further way to capture and understand the trends in the distribution of income. It outlines the shares going to the bottom 50 per cent, middle 40 per cent, and top 10 per cent of the population. This is in line with Piketty et al. (2018) and Alvaredo et al. (2018). As Piketty argues, using 50/40/10 metrics as a strategy to compare income distribution across the population might not have the poetry of referring to working and ruling classes, but they allow us to make factual quantitative comparisons across time while broadly capturing intuitive understandings of the lower, working/middle, and upper income groups. They are also very revealing of how market incomes are distributed, and the extent of state intervention.

In 2006, the bottom 50 per cent took 16 per cent of market income and 28 per cent of disposable income. In 2011, their market income share was 10 per cent and their disposable income share 29 per cent. In 2016, it was 14 per cent market income, 29 per cent disposable income. Hence, the bottom 50 per cent almost doubled their income share after taxes and transfers, from an average of 15 per cent to near 30 per cent. For the middle 40 per cent, their market income share in 2006 was 51 per cent, while their disposable income share was 46 per cent. In 2011, it was 54 per cent for market income and 47 per cent for disposable income. In 2016, it was 52 per cent market income, 47 per cent disposable income. Hence, the middle 40 per cent took slightly less than 50 per cent of national income after taxes (which was notably not the case in the USA, China, Russia, or India). In 2006, the top 10 per cent of the population took 33 per cent of market income and 26 per cent of disposable income. In 2011, it was 35 per cent market income, 24 per cent disposable income. In 2016, it was 33 per cent market income, 24 per cent disposable (p. 468) income. Hence, the top 10 per cent experienced an approximately ten percentage point drop in their income share after taxes, which largely explains the increase for the bottom 50 per cent.

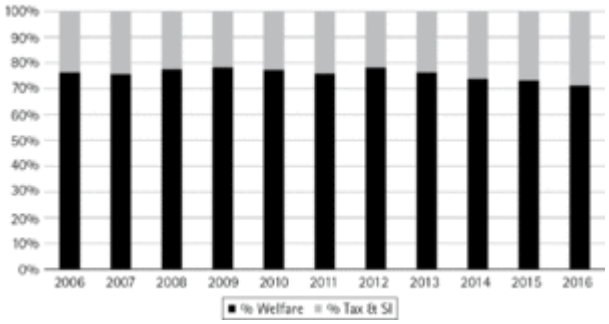

Figure 27.1 Composition of the reduction in income inequality, 2006–16

Source: Authors' calculations from CSO SILC surveys

We think that there are two important observations that can be made from looking at the direct market and disposable income distribution by decile, quintile, and 50/40/10 split. First, it shows the importance of the welfare state in shaping the politics of redistribution. Depending on your normative and political perspective, this is either a good or bad thing. But objectively, it would suggest that Ireland has a progressive income tax system

and an effective transfer system. By decomposing the reduction in income inequality into that driven by welfare payments and that driven by income taxation, we find that at least 70 per cent of the reduction in market and disposable income can be explained by welfare payments and 30 per cent by the income tax system (see Figure 27.1). Second, it suggests that Ireland has a large low-wage economy, with 50 per cent of the population barely earning 15 per cent of market incomes. A low-wage economy narrows the income tax base. One way to broaden the income tax base is to collectively lift market wages for earners in the bottom quintiles.

What is not captured in the SILC data is the distinction within the top 10 per cent of income earners. Piketty et al. (2018) make a clear distinction between the 9 per cent and 1 per cent within the top decile. Estimates of the income shares going to the top percentile in Ireland are available from 1938 to 2015 (see Nolan, 2007; WID, 2018). From these data we can gauge that their share was approximately 5.6 per cent in 1990, 9.7 per cent in 2000, 11.3 per cent in 2006, 9.4 per cent in 2011, and 11.5 per cent in 2015. Hence, while the top decile takes approximately one-third of market incomes, within this, approximately 10 per cent accrues to the top 1 per cent of earners. This is only four percentage points less than the income share going to the bottom 50 per cent. It is this focus (p. 469) on top incomes, and the extent to which their incomes are shaped by growing labour and/or capital incomes, that requires more empirical research in the Irish case.

Data on individual incomes in Ireland were produced for the first time by the Revenue Commissioners in 2018; prior to this, information was only available for tax units that included a mixture of individuals and couples. Based on the 2016 tax year, Table 27.3 summarizes these data, offering the first comprehensive insight into individual direct market incomes for Ireland. The trends underscore the aforementioned scale of low-income earners in Ireland, with 60 per cent receiving taxable income of less than €30,000; overall, 90 per cent of income earners in Ireland earn less than €90,000. Estimations based on these data allow us to examine the distribution of income within the top 10 per cent. While 10 per cent of all income is received by the top 1 per cent, most of this flows to the top 0.5 per cent of earners (almost 15,000 individuals). At the very top of the income distribution, the top 0.1 per cent of earners, almost 3,000 individuals, receive 3.5 per cent of all the market income in Ireland.

(p. 470)

Table 27.3 Distribution of individual market incomes in Ireland, 2016

From €	To €	No. of individuals	% of total individuals	Average income €	% of all income
0	10,000	546,133	18.6%	4,949	2.9%
10,000	20,000	661,921	22.5%	14,820	10.4%
20,000	30,000	564,214	19.2%	24,872	14.8%
30,000	40,000	441,448	15.0%	34,616	16.2%
40,000	50,000	265,480	9.0%	44,593	12.5%
50,000	60,000	165,919	5.6%	54,563	9.6%
60,000	70,000	94,061	3.2%	64,622	6.4%
70,000	100,000	115,755	3.9%	81,768	10.0%
100,000	150,000	49,718	1.7%	119,259	6.3%
150,000	200,000	15,368	0.5%	171,551	2.8%
200,000	275,000	9,259	0.3%	231,198	2.3%
Over	275,000	10,224	0.3%	547,378	5.9%

		2,939,500	**100.0%**	**32,170**	**100.0%**
Top 10%		294,385	10.0%	108,179	33.7%
Top 1%*		29,395	1.0%	323,906	10.1%
Top 0.5%*		14,698	0.5%	456,104	7.1%
Top 0.1%*		2,940	0.1%	1,120,145	3.5%

Notes:

(*) estimates of share accruing to top earners

Source: Calculations based on Revenue Commissioners (2018)

Theoretical and Policy Inferences

There are three inferences to be drawn about *income* inequalities in Ireland. First, in terms of the literature on comparative political economy, Ireland is a liberal market economy, and compared with other small open Northern European countries, direct market income inequalities are quite high (OECD, 2018). As Figures 27.2 and 27.3 show, the top decile takes around 35 per cent of market income (before taxes), while the top 1 per cent takes around 11 per cent. In Denmark, for example, the top decile takes 27 per cent of market income, while the top 1 per cent takes 6.5 per cent. However, when compared with the UK or USA, Ireland looks much more equal. In the USA, the top decile takes around 47 per cent of national income, while the top 1 per cent takes 20 per cent. In terms of lower income earners, the bottom 50 per cent in Ireland takes 13 per cent of direct market income, which is similar to the UK and the USA. In France, Denmark, and Sweden it is over 20 per cent. Simply put, market income inequality in Ireland is higher than in the social democracies of Northern Europe, but lower than in the neoliberal economies in the USA and UK.

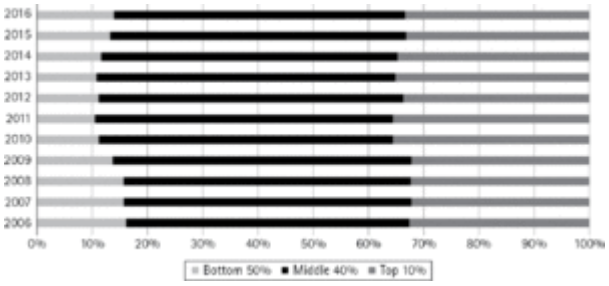

Figure 27.2 Shares of direct income in Ireland, 2006–16

Source: Authors' calculations from CSO SILC surveys

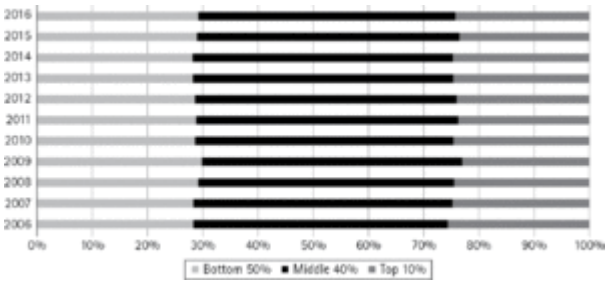

Figure 27.3 Shares of disposable income in Ireland, 2006–16

Source: Author's calculations from CSO SILC surveys

Second, unlike other liberal market economies, the Irish welfare state plays a significant role in redistribution, which directly reduces market inequalities. This is perhaps the most important inference to take away from the chapter. Tables 27.1 and 27.2 and Figures 27.2 and 27.3 show the difference between direct market (before taxes and transfers) and disposable income (after taxes and transfers). Whereas the top decile takes 35 per cent of market income, this drops to 24 per cent after taxes and transfers. Similarly, the top quintile (top 20 per cent) takes 54 per cent of market incomes, but 38 per cent of disposable income. The bottom 50 per cent takes 13 per cent of market incomes, but after state transfers this increases to 30 per cent of disposable income. This suggests that Ireland has a significantly large low-wage and high-wage sector (see Collins and (p. 471) Murphy, Chapter 25, on job polarization and occupational upgrading). But it also shows that inequality between the two is reduced because the state actively intervenes to tax higher income earners and redistributes it downwards to those with little or no market income (unemployed, pensioners, people with a disability). This clearly demonstrates the redistributive function of the state. Internationally, Ireland is seen as having a relatively strong social safety net, and research suggests that the progressivity of the income tax system, particularly during the economic crisis, has acted as a strong buffer against rising inequality (Savage et al., 2018). Further, the relative importance of the tax and welfare systems in reducing market-based inequalities has remained constant over time, regardless of what political party has been in government. This would suggest that automatic stabilizers and the institutions of the welfare state are deeply embedded, and that they are path dependent.

Third, the trends in the shares of disposable income have remained remarkably stable over time. In 2006, the top decile took 26 per cent of national income, and the top quintile 40 per cent. In 2016, eleven years later, the percentages remained much the same. However, in terms of market income, there is evidence of some increase in the shares of those with higher incomes over the period. Hence, top market income shares have increased, but post-market incomes have remained stable. Stability seems to be a defining feature of the Irish social structure of income distribution. How this relates to the deeper question of social class in Ireland requires further empirical research.

Trends in Wealth Inequality

Wealth is more unequally distributed than income because not all people own property, and among the many that do, it is in the form of a mortgage-debt contract for buying (p. 472) a house. One of the most interesting findings in the study of wealth inequality is that the bottom 50 per cent of the population has never possessed any wealth, and this was the case in the eighteenth, nineteenth, twentieth, and twenty-first centuries (see Piketty, 2015). The qualitative shift in the twentieth century—with the birth of liberal democratic capitalism—was the emergence of a property-owning middle class. Whereas in the seventeenth to nineteenth centuries, the top 10 per cent and 1 per cent effectively owned everything (primarily in the form of land and government bonds), this changed in the twentieth century, when the middle 40 per cent effectively claimed 30–40 per cent of

national wealth. Today, that structure persists for most OECD economies, with the top 10 per cent owning between 50–60 per cent of all wealth and the next 40 per cent owning most of the remainder (Piketty, 2015).

The provision of robust wealth data is a recent phenomenon for Ireland, one absent from our understanding of living standards, well-being, and redistributive public policies for some time. Table 27.4 outlines the overall composition of wealth in Ireland in 2013, with data derived from the first CSO and ECB HFCS. The overall net wealth of Irish households is approximately €364 billion: this is composed of the assets that household possess (€484 billion) once account is taken of their outstanding debts (€120 billion). While the perspective of households is informative, it is important to note that this figure excludes the wealth held by industry, institutions, and by government itself.

(p. 473)

Table 27.4 Composition of net wealth of all households in Ireland, 2013

Source	Value €bn	% Gross
Real Assets		
Household main residence	226	47%
Other housing	44	9%
Farms	92	19%
Other property	16	3%
Businesses (net value)	26	5%
Vehicles	12	3%
Other real assets	8	2%
Financial Assets		
Bank account	33	7%
Voluntary pension	13	3%
Other financial	14	3%
Gross Assets	**484**	**100%**
Debt	-120	
Net Wealth	**364**	

Source: CSO Household Finance and Consumption Survey (2015)

The composition of wealth in Ireland is notable because so much of it is concentrated in housing capital. Financial assets (savings, pensions, shares, etc.) only account for 13 per cent of household wealth. Housing and other forms of property account for 56 per cent of net household wealth, with most of this comprising equity held in a household's principal residence. Housing (and the land upon which it is based) and farming combined equal approximately 75 per cent of net household wealth, with businesses, vehicles, and other real assets accounting for the remaining 10 per cent. Hence, housing and farming dominate

the structure and composition of household wealth in Ireland, which would suggest that capital is less entrepreneurial than often assumed. It would also suggest that if there is any capital income to be earned from 75 per cent of household wealth in Ireland, it is in the form of recurring housing and farm rents.

Table 27.5 Distribution of net wealth in Ireland by net wealth decile, 2013

Net Wealth Decile	% of all net wealth
Bottom	-3.5%
2	0.0%
3	0.2%
4	1.2%
5	3.5%
6	5.7%
7	8.3%
8	11.9%
9	18.9%
Top	53.8%
90-94%	16.1%
95-99%	22.9%
Top 1%	14.8%
Summary	
Bottom 50%	1.4%
Middle 40%	44.8%
Top 10%	53.8%

Source: Staunton (2015) and ECB (2017)

The distribution of this wealth is outlined in Table 27.5. The bottom 50 per cent own 1.4 per cent of net national wealth, the middle 40 per cent own 44.8 per cent, and the top 10 per cent own 53.8 per cent. Within the top decile, the top 1 per cent own almost 15 per

cent of Ireland's household wealth. This suggests a relatively high level of wealth concentration, but much like the distribution of income, it is not as unequally distributed as in (p. 474) the USA or UK. In the USA, the top 10 per cent own 73 per cent of net wealth, and the top 1 per cent own 38 per cent.

Table 27.6 Distribution of net wealth, various EU states

	Ireland	Euro area	France	Germany	Austria	Nether-lands	Finland
Median €000s	100.7	104.1	113.3	61.1	86.2	82.2	110.1
Mean €000s	216.3	223.3	243.1	214.3	258.4	151.1	195.3
Top 10%	53.8%	51.2%	50.7%	59.8%	55.5%	43.6%	45.2%
Top 5%	37.7%	37.8%	37.4%	46.3%	43.4%	28.7%	31.4%
p80/20	170.5	41.0	32.4	111.4	57.0	71.3	84.9
Gini	75.2	68.5	67.6	76.2	73.1	69.8	64.8

Note: p80/20 is the ratio of the share held by the top 20 per cent relative to that of the bottom 20 per cent.

Source: ECB HFCS second wave results (2017)

Within Eurozone countries, representing those who took part in the HFSC survey, the share of net wealth held by the top 10 per cent and 5 per cent respectively are similar to those across the EU and in countries such as France (see Table 27.6). Wealth is more concentrated within the top decile in Germany and less so in the Netherlands and Finland. These trends, alongside the presence of zero or negative net wealth (more debt than assets) among those at the bottom of the distribution, lead to Ireland, Germany and Latvia recording the highest net wealth Gini coefficients in the Eurozone (see Figure 27.4). Overall, Ireland's wealth distribution, while highly concentrated, is closer to Western European standards than the USA (WID, 2018; Lawless et al, 2015). This probably reflects the relatively high levels of home ownership in Ireland, and the structure of the Irish foreign direct investment growth regime (see Brazys and Regan, Chapter 24), whereby most high-tech, high-yielding business are foreign owned (Brazys and Regan, 2017).

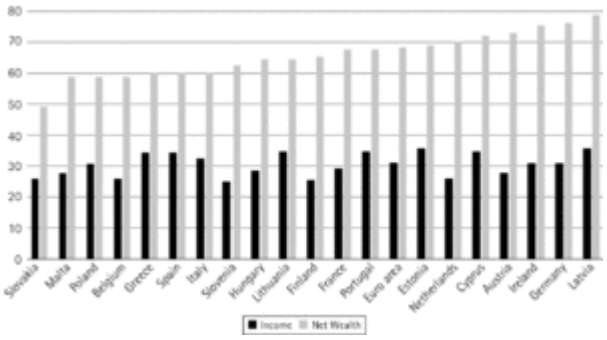

Figure 27.4 Comparison of income and net wealth inequality (Gini coefficients), various EU states

Source: ECB (2017) and Eurostat online database

Note: Net wealth Gini coefficient is for HFSC second wave, income data Gini coefficient is for equivalized disposable income and for the year 2014, as this was the most common year for HFSC round 2

The dominance of housing and land in the structure of Ireland's net wealth is reflected in the distribution of wealth across the age groups. Table 27.7 shows that almost 60 per cent of household wealth is owned by those over fifty-five years of age and almost one-third by those over the age of sixty-five. While this correlation is unsurprising, it does point toward the likely transfer of large amounts of wealth as inheritance over the next two to three decades. Currently, such transfers are generously facilitated by the Irish inheritance tax system (capital acquisitions tax), with large tax-free thresholds for family transfers of housing, businesses, and farms. The significant increases in Irish house and land prices over the last few decades, driven in large part by demographic changes and public policy, means that these transfers include substantial amounts of capital gains, gains that would be subject to taxation upon their realization in almost all other types of assets (Drudy and Collins, 2011; Collins, 2017).

(p. 475)

Table 27.7 Age distribution of households' net wealth, Ireland, 2013

	Median Net Wealth, €000s	Mean Net Wealth, €000s	Share of Net Wealth
Under 35 yrs	4.0	38.0	3.5%
35–44 yrs	31.5	122.5	13.3%
45–54 yrs	157.1	283.4	25.1%
55–64 yrs	195.5	344.1	25.7%
65–yrs +	202.3	348.2	32.5%

Source: CSO Household Finance and Consumption Survey (2015)

Discussion

Figure 27.5 summarizes the main findings of this chapter. The distribution of wealth is significantly more unequally distributed than income. This is to be expected, given that most people own little net wealth, and where they do, it is in the form of currency and a small amount of savings in a bank account. Among the bottom 99 per cent, the composition of wealth in Ireland is heavily concentrated in the ownership of land, housing capital, and real estate. This would suggest that when land and house prices increase, a (p. 476) significant portion of the middle 40 per cent and top 10 per cent of income earners receive a wealth effect; that is, their net wealth increases. This has important electoral and public policy implications given that these assets have substantially increased in value over the past few decades.

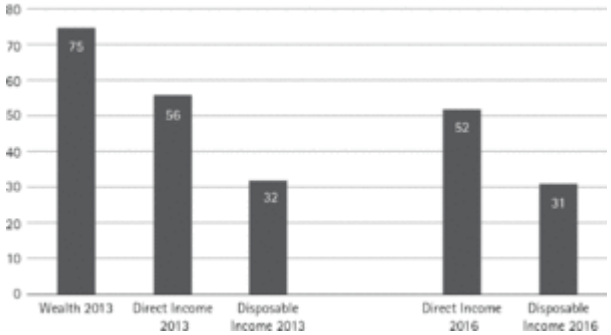

Figure 27.5 Inequality of income and wealth in Ireland (Gini coefficients)

Source: Authors' calculations from CSO SILC surveys and ECB (2017)

Key political economy questions therefore arise. How will Ireland accommodate the substantial transfer of wealth that the age structure of wealth implies over the next two to three decades? How will public policy address the likely further concentration of this wealth among those in the top half of the wealth distribution? Is it appropriate to continue to tax the transfer of these assets, in the form of inheritances, generously allowing capital gains earned by these assets to be effectively left untaxed? Is the structure of Ireland's wealth problematic given its concentration in relatively unproductive asset classes? Could public policy induce a change that would enhance the indigenous entrepreneurial economy and address sustained productivity deficits in many domestic sectors? Similarly, if policymakers—and the electorate—have a preference for reducing income taxes on those who work, while maintaining levels of welfare and public service provision, then are they willing to shift the tax burden away from labour and on to the incomes and transfers arising from unproductive forms of capital such as land and housing?

In effect, these are all new issues for political economy in Ireland, ones that could not be robustly considered given the limited knowledge of the structure and distribution of wealth in Ireland that existed until very recently. The new evidence we outlined earlier, which complements a heightened international research and policy interest in capital structures and wealth distribution, opens new public policy issues and choices for the years ahead. Just as the arrival of robust recurring data have driven political economy (p. 477) discussion and choices in areas such as child poverty, income taxes, and environmental degradation, they now open up new choices and debates around wealth, particularly unproductive wealth.

In terms of income, as Figure 27.5 shows, and as detailed in Tables 27.1-27.3, direct market incomes (before taxes and transfers) in Ireland are highly unequally distributed. We have provided a detailed description of how direct market income is distributed by decile, quintile, and the 50/40/10 split, from 2006-16. We noted that these income shares have remained remarkably stable over time. Figure 27.5 gives a simple summary using the Gini coefficient. In 2016, Ireland's market income Gini coefficient was 52, which is very high by OECD standards; only Greece records a higher level of direct income inequality

(OECD, 2018). However, the Gini coefficient for disposable income drops to the OECD average of 31, after taxes and transfers. As detailed above, and captured in Figure 27.1, 70 per cent of this reduction in income inequality can be explained by welfare transfers, and 30 per cent through taxes.

There are two inferences to be drawn from this reduction in income inequality. First, it shows that Ireland's welfare state is functioning as it is supposed to, and that the income tax system is highly progressive. The state taxes the gross market incomes of higher earners and redistributes it downward to those with little or no market income. Whether you think this is a good or bad thing is a normative question; but it has remained stable over time, regardless of what political party is in government, suggesting popular support for the welfare state. Second, it suggests that market incomes in Ireland are highly skewed and that 50 per cent of the population have very little market income. In particular, this reflects the prevalence of a large low-paid sector in the Irish workforce, and it also explains why the OECD ranks Ireland as among the member states with the largest low-paid sector, roughly equivalent to one-quarter of full-time workers. In turn, this means the income tax base is very narrow. This limits the political economy choices around changing income taxes, particularly if policy exempts those earning below around €250 per week. One way to widen the income tax base is to increase the market incomes of those in the bottom three quintiles of the income distribution. This aspiration is built into the UN's Sustainable Development Goals.

Finally, while we know a lot about income distribution, we know much less about wealth and the intersection between both. Despite recent developments, much more research is required on the distribution of wealth, and the extent to which capital incomes shape the dynamics of the income distribution within the top decile and percentile. We also know very little about the extent of capital in the income earnings distribution; we still have very little information about who owns wealth and about the role of tax avoidance at the very peak of the income distribution where capital income prevails. Continuing to build our knowledge in this area represents an important political economy research agenda for the decades ahead. Irish public policy choices, long formed in the absence of a comprehensive knowledge of capital and wealth distribution, will need to evolve in the years to come to consider these structural changes.

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Notes:

(1.) In this chapter we refer to wealth as capital, which is the ownership of property, regardless of the composition of the property or asset: housing, land, stocks and bonds, funds, savings accounts, etc.

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