Catholic Social Teaching and Inequality

Gerry O'Hanlon SJ

The Question

My 92 year old uncle Rory recalls with fondness a time back in the 1940s and '50s when he used to go for the odd drink in summer time with the then-goalkeeper of the Irish soccer team, a relative through marriage. Rory, a tradesman, was earning about IR£10 a week; Tommy, a soccer star playing in England, earned about IR£20. The differential in earnings was no bar to social relations. Would there be the same ease of relations if the footballer were earning a 100 times, a 1,000 times what the ordinary person earns, as is the situation today?

In the Preface to their book, *The Spirit Level*, Richard Wilkinson and Kate Pickett state: 'At an intuitive level people have always recognized that inequality is socially corrosive'.[1] They go on to argue that, beyond intuition, the evidence shows that less equal societies have poorer outcomes in nearly every social domain.[2] This implies, counter-intuitively, that even the very rich benefit from a more equal society.

Opponents of this approach tend to argue that, once basic material needs are satisfied, relative as opposed to absolute poverty does not really matter. They criticise a 'politics of envy',[3] out of touch with the 'real world', where competition and inequality are drivers of economic growth. Sometimes, if Christian, they may even cite the vineyard owner of the parable (the Labourers in the Vineyard) who pays the same wages to those who arrive at the eleventh hour and answers complaints from the other workers by asking: 'Do you begrudge my generosity?'[4]

One thinks, in this context, of the former British Labour Party Cabinet Minister, Alan Johnson, writing about his boyhood in the poverty of London's Notting Hill in the 1950s and imagining how much the drudgery of his mother's life would have been alleviated by the acquisition of a washing machine.[5] Had Lily Johnson been able to afford a washing machine, would it have bothered her that the rich had far more?

The issue is particularly topical as there are signs in Ireland that our economy is beginning to pick up. Who should benefit first, and most, from this recovery? Some point to the July 2014 ESRI report authored by John FitzGerald which claimed that income inequality had narrowed during the economic crisis and that middle-income earners shouldered the burden of tax increases.[6]

However, later in the summer, the Nevin Institute published a report, authored by Dr Michéal Collins, which outlined how poorer people pay out a greater share of their income in tax than their richer counterparts, due in large part to the distinction between income tax and indirect taxes such as VAT.[7] And then – the topic addressed by Tom McDonnell in this issue of *Working Notes* – there is the absence of adequate data on wealth, as opposed to income, distribution in Ireland so that competing claims are more difficult to assess.

It is this issue of wealth which Thomas Piketty has addressed with his thesis that the rich get richer more quickly than the rest of society, in almost mechanical fashion, because the main driver of inequality is the tendency of returns on capital to exceed the rates of economic growth. This raises the question of the economic model that is predominantly operative, and which has economic growth as its core objective.

The implication of Piketty's thesis is that a reliance on constant growth, even at higher levels than now anticipated, will not automatically lead to a change in the structures of inequality in income and wealth. (There is, of course, the further question of the correlation between constant growth and increased consumption, an issue of increasing urgency in the face of stark evidence of environmental damage.[9]) But given that at least for now this is the model we have chosen to pursue, how can a policy of austerity, with a concomitant cutting-back of public services, not to mention its unfair penalisation of those who were not responsible for the recession, enable growth to happen, let alone address the problem of inequality?

The intersection between this kind of macro-economic consideration and more micro/local considerations was illustrated in very graphic fashion when the front page of *The Irish Times* (Friday, 5 September 2014) carried one story about the apparent conversion of the European Central Bank (ECB) to the need for a stimulus package and another about the revelation that in Ireland 'thousands of children at risk have yet to be allocated a social worker'.

Does Catholic social teaching have anything to contribute to this important, complex and contested debate about equality?

Catholic Social Teaching

The biblical Jesus was a prophet of 'the reign of God', which was open to all, with no one excluded or marginalised.[10] He made it clear that there was a special place for beggars, hungry people, and the poor in this kingdom of his 'compassionate' Father. Dives is tormented because he failed to respond to (perhaps even to notice?) the poor man Lazarus 'who desired to be fed with what fell from the rich man's table' (Lk 16: 19–31), while judgement of fidelity to the kingdom of God will hinge on our treatment of the hungry, the thirsty, the stranger, the sick, the naked, the prisoner (Mt 25: 3–46).

In this overall context, the surprising and provocative parable of the Labourers in the Vineyard (Mt 20: 1–16), which seems to overturn our conventional ideas about equality and strict justice (equal pay for equal work) is far from being an apologia for the inequality of the rich, but more a striking illustration of the desire of God that even the poorest of the poor should have basic needs met.

This biblical thrust was taken up in many different ways throughout Christian tradition. Within the Catholic Church, since Pope Leo XIII's Encyclical Letter, *Rerum Novarum* (1891), it has matured into a body of teaching known as Catholic social teaching. This teaching starts from the fundamental assertion (shared by secular human rights discourse) of the basic dignity and equality of all human beings.

Values and Principles

Given this basic equality, Catholic social teaching goes on to outline a framework of values and principles which it believes can help to structure our lives together. Among these values are truth, freedom and justice. The key principles include:

- *The common good* – 'the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfilment ...';[11]
- *The universal destination of goods* – even if there is right to private property, still in some basic sense the goods of the earth are for all and the use of private property involves a social responsibility;
- *The 'preferential option for the poor'* – people who are poor must have access to the level of well-being necessary for their development and not just for the satisfaction of basic needs, and there must be effective conditions of equal opportunity for all and a guarantee of objective equality before the law;
- *Solidarity* – this is understood not as a vague feeling of compassion but a firm determination to commit oneself to the common good, which is incompatible with the existence of 'stark inequalities' between peoples;
- *Subsidiarity* – this reflects the need for consultation and decision-making at appropriate, lower levels of society.

Social Teaching and Inequality

I have written elsewhere on the admissibility of some degrees of inequality and diversity in Catholic social teaching, in the context of wealth creation and the unequal distribution of talents.[12]

However, this inequality should only occur within a context which respects the basic framework of values and principles outlined above. The Second Vatican Council puts it like this:

... excessive economic and social differences between the members of the one human family or population groups cause scandal, and militate against social justice, equity, the dignity of the human person, as well as social and international peace.[13]

This position is well summed up in the Pastoral Letter in Economic Justice issued in 1986 by the Catholic Bishops' Conference of the United States:

However, unequal distribution should be evaluated in terms of several moral principles we have enunciated: the priority of meeting the basic needs of the poor and the importance of increasing the level of participation by all members of society in the economic life of the nation. These norms establish a strong presumption against extreme inequality of income and wealth as long as there *are poor, hungry, and homeless people in our midst. They also suggest that extreme inequalities are detrimental to the development of social solidarity and community.*[14]

In an authoritative commentary on the development of Catholic social teaching, Donal Dorr[15] notes that in the first seventy years or so (between 1891 and 1961) while there was a genuine concern for the situation of people who were poor, nonetheless the ethos of the teaching (in which the right to private property retained a uniquely privileged place) tended to resist the kind of changes intended to redistribute wealth and power and bring greater equity into society.

However, this ethos began to change from Pope John XXIII onwards, with the focus shifting from property to poverty and the 'option for the poor', leading to a critique of the systems which caused poverty. In this sense, the Catholic Church has been moving away from that long history dating back to the fourth century when, through the alliance with the Emperor Constantine, it became part of 'the establishment' in most of the Western world.

In his consideration of the specific issue of inequality,[16] Dorr draws attention to what John XXIII taught in his encyclical, Mater et Magistra (1961): '... the economic prosperity of a nation is not so much its total assets in terms of wealth and property, as the equitable division and distribution of this wealth'.[17]

Dorr notes that while the Second Vatican Council document, *Pastoral Constitution on the Church in the Modern World*, gives few guidelines that could enable one to decide at what point inequalities can be considered so great as to be inequitable or unjust,[18] still it is clear any kind of social or cultural discrimination in basic personal rights is to be resisted[19] and basic human needs have to be met.

Pope Francis on Inequality

Pope Francis seems to be located very firmly in the more radical ethos that developed in Catholic social teaching after the first seventy years. In the Apostolic Exhortation, *Evangelii Gaudium,* which he issued in November 2013,[20] he deplores the fact that in our world 'inequality is increasingly evident' (n. 52) and that 'while the earnings of a minority are growing exponentially, so too is the gap separating the majority from the prosperity enjoyed by those happy few' (n. 56). He criticises 'trickle-down theories which assume that economic growth, encouraged by a free market, will inevitably succeed in bringing about greater justice and inclusiveness in the world' (n. 54). He says 'no' to a socioeconomic system of exclusion and inequality which spawns violence (n. 53; n. 59).

Pope Francis goes on to note the need for structural reform as well as cultural transformation (n. 188–9) and states that 'solidarity is a spontaneous reaction by those who recognize that the social function of property and the universal destination of goods are realities which come before private property' (n. 189). All people, including the poor, deserve not just nourishment or a 'dignified sustenance', but also a general 'temporal welfare and prosperity', which requires education, access to health care and above all employment' (n. 192).

'Inequality is the root of social ills.' (Pope Francis)

Francis sees the option for the poor as not just a humanitarian stance but as 'primarily a theological category', in fidelity to the gospel of Jesus Christ, and so he wants 'a Church which is poor and for the poor' (n. 198). His approach resonates with the analyses of Piketty and Wilkinson and Pickett: he speaks of the need 'to resolve the structural causes of poverty', saying that the problems of the people who are poor need to be resolved 'by rejecting the absolute autonomy of the markets and financial speculation and by attacking the structural causes of inequality ...'(n. 202). And he concludes this sub-section with a phrase that received widespread attention when it was subsequently repeated in a tweet by the Pope on 28 April 2014: 'Inequality is the root of social ills.'

Public Policy

The translation of the vision of Catholic social teaching into public policy is far from simple.[21] What the teaching provides are a certain direction and criteria that can be of great help, but '... it would be foolish to imagine that the Church can provide clear practical guidelines to politicians, economists or planners'.[22]

The complexity of the translation process is adverted to philosophically by Séamus Murphy when he outlines the tendency of Catholic social teaching to be utopian in advocating only the good, and even the best, and resisting pragmatic policies which may be simply the best available in our world of limited resources and ongoing conflict about how the common good may best be served.[23]

Educationalist David Tuohy reflects on the tension between the discourse of the common good and that of individual rights and the need to develop a public language of politics which integrates the two.[24] He also notes the distinction between 'liberty rights' (affirming the agency of the right-holder to pursue their own interests) and 'claim rights' (which include the duties of other people to act in a particular way for the benefit of the right-holder), with the consequence that 'the establishment or declaration of rights is not a magical guarantee of their realisation'.[25]

There is, in addition, the resistance in principle by many to any 'interference' by religion in the public sphere. Anglican theologian Sarah Coakley notes the impoverishment that this would entail (to both 'sides'), arguing against what she calls 'the two false alternatives' of fideism and secularism. Christian belief and hope may be of immense help in the struggle to bring about a better world, in sustaining us on that 'long march through the institutions'. She underlines the significant resource that a critical and creative theology represents, rooted in a world-view which respects the power-in-vulnerability so evident in Jesus Christ, and that 'gentle effacement' learned through prayer and leading to an opening up to the 'other' at a depth not otherwise possible or perhaps even imaginable.[26]

But, with all due care for the complexity of the translation process involved, are we not right to be inspired by Catholic social teaching in seeking a public policy, nationally and globally, that promotes greater equality, that is fairer? The precise extent of inequality in Ireland may be disputed, but it is clear that it is excessive – think only of the children at risk referred to above, the difficulties of access to public health services, the lack of social housing, the plight of asylum seekers. At a global level we are all aware of the huge disparities between the North and South. And in the North itself (as the Occupy movement, among other groups and commentators, made clear) it is not only footballers who enjoy obscene levels of income and wealth.[27]

The Great Recession has revealed the flaws in following an economic model which gave excessive licence to the market and to the value of profit, and which insulated economics from conversation with other disciplines and with other values which might have directed us to a more integral human development. Catholic social teaching is one source of this more holistic approach and can be of help in contributing to a conversation about a better way forward. Of course, this will only happen if Catholics themselves, and other Christians with their own unique heritages in this field, take the teaching seriously.

Clearly, Pope Francis himself is passionate about this, and shares and even reinforces the more radical turn that the Catholic tradition has taken since Vatican II. And in doing so, he reminds us that however complex the translation of vision into policy may be, the biblical message of love, mercy, service and a preferential concern for the poor is '... so clear and direct, so simple and eloquent, that no ecclesial interpretation has the right to relativize it.'[28] He adds: 'Why complicate something so simple? Conceptual tools exist to heighten contact with the realities they seek to explain, not to distance us from them. ... So why cloud something so clear?'[29]

Conclusion

Catholic social teaching recognises the right of each person and every nation 'to be seated at the table of the common banquet', instead of lying outside the door like Lazarus, while 'the dogs come and lick his sores' (Lk 16: 21).[30] Excessive inequality is both a symptom and a cause of exclusion from this kind of communion, as the other articles in this issue of *Working Notes* indicate. The social teaching urges us as citizens, with whatever particular talents we possess, to engage in the struggle for a more just and equal world, which is surely what God dreams of, what the Kingdom of God is about. It does so with urgency and in the spirit of cooperation articulated by Pope Francis himself:

If anyone feels offended by my words, I would respond that I speak them with affection and with the best of intentions, quite apart from any personal interest or political ideology. My words are not those of a foe or an opponent. I am interested only in helping those who are in thrall to an individualistic, indifferent and self-centred mentality to be freed from those unworthy chains and to attain a way of living and thinking which is more humane, noble and fruitful, and which will bring dignity to their presence on this earth.[31]

Notes

1. Richard Wilkinson and Kate Pickett, *The Spirit Level, Why More Equal Socieities Almost Always Do Better,* London: Allen Lane, 2009.
2. Karen Rowlingson has examined the points made in various critiques since the publication of *The Spirit Level*, alongside the evidence and debate in the broader peer-reviewed literature, and concludes that: '... there is some evidence that income inequality has negative effects. There is hardly any evidence that it has positive effects'. See Karen Rowlingson, *Does Income Inequality Cause Health and Social Problems?*, York: Joseph Rowntree Foundation, September 2011, p. 6. (http://www.jrf.org.uk/sites/files/jrf/Rowlingson-Income-eBook.pdf)
3. Echoes of this approach are to be found within Catholic social teaching itself – see, for example, Pope John Paul II, *Centesimus Annus* (The hundredth anniversary), Encyclical Letter, 1 May 1991, n. 12, quoting Pope Leo XIII, *Rerum Novarum*, Encyclical on Capital and Labour, 15 May 1891, in a critique of socialists who Leo describes as 'working on the poor man's envy of the rich...' (n. 4).
4. Mt 20: 15.
5. Alan Johnson, *This Boy: A Memoir of a Childhood*, London: Corgi, 2013, pp 36–38.
6. *The Irish Times,* Monday, 28 July 2014.
7. *The Irish Times,* Thursday, 29 August 2014.
8. See Gerry O'Hanlon, 'A New Economic Paradigm?', *Working Notes,* Issue 63, March 2010, pp 3–10 and Gerry O'Hanlon, 'A New Economic Paradigm? In the Concrete: Towards a New Model', *Working Notes,* Issue 64, October 2010, pp 3–9.
9. For a scathing critique of the policy of austerity, in particular as it has been functioning in Europe, see Mark Blyth, *Austerity: The History of a Dangerous Idea,* New York: Oxford University Press, 2013.
10. See Jose Antonio Pagola, *Jesus: An Historical Approximation,* Colombia: Convivium Press, 2014 (5th edition; original 2009), pp 456–462.
11. Vatican Council II, *Gaudium et Spes, Pastoral Constitution on the Church in the Modern World*, 7 December 1967, n. 26. (www.vatican.va)
12. Gerry O'Hanlon, 'How Much Equality is Needed for Justice?', *Working Notes,* Issue 56, November 2007, pp 24–29.
13. Vatican Council II, *Gaudium et Spes, Pastoral Constitution on the Church in the Modern World*, n. 29.
14. National Conference of Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy,* Washington DC: Office of Publishing and Promotion Services, United States Catholic Conference, 1986, n 185.
15. Donal Dorr, *Option for the Poor and for the Earth: Catholic Social Teaching,* New York: Orbis Books, 2012, pp 440–467, especially pp 440–446.
16. *Ibid.*, pp 97–99; pp 133–135.
17. Pope John XXIII, Mater et Magistra, Encyclical on Christianity and Social Progress, 15 May 1961, n. 74. (www.vatican.va)
18. Donal Dorr, op. cit. p. 134.
19. Vatican Council II, Gaudium et Spes, Pastoral Constitution on the Church in the Modern World, n. 29.
20. Pope Francis, *Evangelii Gaudium* (The Joy of the Gospel), Apostolic Exhortation, 24 November 2013, n. 194. (www.vatican.va)
21. For more on this, see Gerry O'Hanlon, *Theology in the Irish Public Square,* Dublin: Columba, 2010, in particular the reference to the 'bi-lingual' nature of Catholic social teaching in its appealing to the Bible as a kind of 'deep background' but then being couched in terms which are 'accessible to the ordinary canons of human reason' (p. 25).
22. Donal Dorr, *op. cit*., p. 454.
23. Séamus Murphy SJ, 'Utopianism, Advocacy and Consequentialism', *Milltown Studies*, No. 28, Autumn 1991, pp 5–23.
24. David Tuohy SJ, *Denominational Education and Politics: Ireland in a European Context,* Dublin: Veritas, 2013.
25. *Ibid*., p. 95.
26. Sarah Coakley, *God, Sexuality and the Self: An Essay 'On the Trinity',* Cambridge: Cambridge University Press, 2013, pp 17–19; pp 85–87.
27. Mark Blyth notes that 'the top 1 per cent of the US income distribution now has a quarter of the country's income' (see *Austerity: The History of a Dangerous Idea*, p. 13); Wilkinson and Pickett point out that in 2007 the chief executives of 365 of the largest US companies received well over 500 times the pay of their average employee and they report the finding of the International Labour Organization that 'there is little or no evidence of a relationship between executive pay and company performance' (*The Spirit Level*, p. 250); and, writing in 2010, Will Hutton notes that '... base pay of CEOs in the FTSE has risen from 47 times an average worker's salary in 2000 to 81 times now ...', while the ratio in the US rises to 300 times (see Will Hutton, *Them and Us: Changing Britain – Why We Need a Fairer Society*, London: Little, Brown, 2010, p. 3, p. 67).

28 Pope Francis, *Evangelii Gaudium* (The Joy of the Gospel), Apostolic Exhortation, n. 194.

29. *Ibid*., n. 194.
30. Pope Paul VI, *Populorum Progressio* (The Development of Peoples), Encyclical, 26 March 1967, n. 47. (www.vatican.va); Pope John Paul II, *Sollicitudo Rei Socialis* (The Social Concern of the Church), Encyclical, 30 December 1987, n. 33. (www.vatican.va)
31. Pope Francis, *Evangelii Gaudium* (The Joy of the Gospel), n. 208.

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Editorial

This issue of *Working Notes* looks at inequality – a subject which has been the focus of increasing attention in the last few years, from sources as diverse as the Occupy movement and the OECD. The slogan of the former, 'We are the 99%', reflects the extreme concentration of wealth and incomes in the top 1% of the population in developed countries. Meanwhile, the latter acknowledges that: 'Income inequality in OECD countries is at its highest level for the past half century. **The average income of the richest 10% of the population is about nine times that of the poorest 10%** across the OECD, up from seven times 25 years ago'. (www.oecd.org; emphasis in the original)

Included in this issue of *Working Notes* is an interview with Thomas Piketty, who, in his best-selling book, *Capital in the Twenty-First Century*, argues that the main driver of inequality is the tendency for the return on capital to exceed the rate of economic growth. A 'drift' towards inequality is therefore an in-built feature of capitalism, Piketty suggests. He argues that in order to prevent ever more extreme inequality from developing, governments at both national and international level must consider how taxation can be shaped to counter this tendency, and says there needs to be fresh thinking about the nature of progressive taxation in respect of both incomes and wealth and about the linkages between different forms of taxation.

Micheál Collins outlines the data regarding income distribution in Ireland between 2005 and 2012 (the latter being the most recent year for which results are available). He shows that despite the marked rise and then decline in the country's total income over this period, spanning the final years of the boom through several years of recession, the 'shape' of distribution did not change significantly. Describing the overall picture of Ireland's income distribution in these eight years as 'stable but not so equal', Micheál Collins shows that, in 2012, those in the bottom 10 per cent of the income distribution received just 3 per cent of all disposable income while those in the top 10 per cent received eight times this share (24 per cent). Moreover, he draws attention to the fact that there has been an increase in income poverty since the recession began and an even more significant increase in deprivation, as measured in terms of households lacking basic goods. He highlights also the fact that a significant percentage of people who are in employment are at risk of poverty, and argues that tackling inequality in earnings and the problem of low pay must be key features of policies to counter poverty.

As to the question of wealth in Ireland, Tom McDonnell shows that as a society we have accorded little importance to collating and analysing information to establish the total wealth owned by households and how this is distributed between different groups across society. Over the past forty years, studies on wealth in Ireland have been sporadic and limited in scope. Nonetheless, in every instance these studies have pointed to a highly unequal pattern of distribution, with some studies suggesting that the top 5 per cent of the population held 40 per cent or more of overall wealth. Tom McDonnell highlights the difficulty of obtaining accurate information on wealth and its distribution, since the group that is of critical importance in this process – the very wealthiest – often avoid inclusion in wealth studies, or even if they are included may not divulge the full extent of their wealth holdings.

In the final article in this issue, theologian Gerry O'Hanlon SJ explores the potential contribution of Catholic social teaching to reflection and debate on inequality. The core principles of this teaching, such as social solidarity, the importance of the common good, the universal destination of goods, and the preferential option for the poor, pose a challenge to economic and social systems that give rise to gross levels of inequality. Gerry O'Hanlon notes the significant level of attention given to the question of inequality in the document, *The Joy of the Gospel*, issued by Pope Francis in November 2013. In this, the Pope deplores the growing social divisions and human suffering created by an 'economy of exclusion and inequality'. He makes clear that the response cannot be confined to individual acts of generosity but must involve 'rejecting the absolute autonomy of markets and financial speculation and ... attacking the structural causes of inequality'.

Household Wealth and its Distribution in Ireland

Tom McDonnell

Introduction

We do not know the distribution of household wealth in Ireland. The reason is straightforward. We do not *yet* have sufficiently high-quality data usable for distributional analysis – the type of analysis that would allow us to know what groups within society own what share of wealth. We cannot even be certain about aggregate net wealth in Ireland or of the composition of wealth by asset type.

Household balance sheet data, such as quarterly accounts data, is of minimal use for distributional analysis as it provides only aggregate data and excludes certain types of asset. On the other hand, survey data contain systemic biases due to the undervaluation and/or omission of certain asset types – for example, financial and personal assets.

Voluntary surveys achieve a poor response rate. The very wealthy are likely to be under-represented due to non-response, while those who do respond are likely to undervalue their wealth. Household surveys are therefore unlikely to be representative of the circumstances of the very wealthy.[1] In practice, this means surveys such as the European Central Bank's *Eurosystem Household Finance and Consumption Survey* (HFCS) will tend to underestimate the relative wealth of the very wealthy and to overestimate the share of gross assets represented by 'real assets'. (The term 'real assets' refers to physical assets, such as agricultural land, residential housing and commercial real estate.) Even so, the news that the Central Statistics Office (CSO) is currently conducting such a survey in Ireland is welcome and long overdue.

Studies on Wealth in Ireland

1971 Data

Data from inheritance tax and estate duty have sometimes been used as a source of information, albeit limited, on wealth holdings and wealth distribution. Patrick Lyons, using estate duty data in 1971, found that per capita wealth in Ireland in 1966 was £676 (or £1,130 per adult) and that total wealth was £1.948 billion.[2] He also estimated that the top 5 per cent of the adult population held 72 per cent of household wealth.

However, the estate duty method is likely to underestimate wealth and the estimates by Lyons were criticised on a number of grounds. There may have been a systemic underestimation of agricultural assets, making the overall estimate for wealth too low. The estate duty approach is also problematic because it excludes large numbers of people who die leaving small estates which do not come to the attention of the tax authorities. Certain types of property may also be excluded from estate duty, while other types of property may be over-valued or under-valued. Subsequent research reduced the estimated share of the top 5 per cent of wealth holders to 70 per cent or even 57 per cent of total wealth, but obviously these revised estimates would still represent a high degree of wealth inequality.

1987 Data

Brian Nolan used 1987 data from the 'Survey of Income Distribution, Poverty and Usage of State Services', which was carried out by the Economic and Social Research Institute (ESRI), to estimate the wealth of Irish households.[3] Nolan estimated that the top 10 per cent of households held 42.3 per cent of household wealth; the top 5 per cent held 28.7 per cent; and the top 1 per cent held 10.4 per cent. The bottom 50 per cent of households held just 12.2 per cent of net household wealth. Strikingly, the top 2 per cent of households held more wealth in total than the entire bottom 50 per cent. In looking at these figures, it must be borne in mind that, as already noted, survey data such as this will actually underestimate the wealth of the very wealthy as non-disclosure is likely to be much more pervasive for wealthier households. One reason is that financial assets are far more susceptible to non-disclosure than real assets and financial assets make up a higher proportion of the net wealth of wealthier households.

Nolan found that the principal residence was by far the most important component of reported wealth. The principal residence made up 55 per cent of the total even after subtracting for mortgages outstanding. Farm land was next at 26.5 per cent after subtracting for farm loans outstanding. This was followed by unincorporated businesses at

7 per cent. Ownership of financial assets and unincorporated businesses was particularly concentrated in wealthier households. On the other hand, ownership of the principal residence was much more evenly distributed over the entire population.

Bank of Ireland and Credit Suisse Reports
Bank of Ireland (BOI) and Credit Suisse have published more recent estimates of wealth and wealth distribution in Ireland.

According to a BOI report published in 2007, net household wealth in 2006 was €804 billion (€196,000 per capita), and the gross assets of Irish households were worth €965 billion.[4] Of this total, €671 billion was in the form of residential property and €24 billion was commercial property. Deposits were valued at €92 billion, pension funds at €71 billion, and business equity at €50 billion.

The report also estimated that the composition of assets was as follows: 72 per cent property; 15 per cent equities; 3 per cent bonds, and 10 per cent cash. The BOI report does not appear to include the value of land, vehicles, personal property, and certain financial assets such as, for example, life assurance policies. According to the report, the top 1 per cent of the population held 20 per cent of household net wealth in 2006, while the top 5 per cent of the population held 40 per cent of household wealth. It is not entirely clear how these estimates were derived, although the report does state that a wealth concentration similar to that of the UK and other Anglo-Saxon economies was assumed.

The Credit Suisse report brings us into the post financial crash environment.[5] It estimates that in 2011 the average net wealth per adult in Ireland was $181,000 (€126,000) and that the median wealth was $100,000 (€69,000). The value of real assets was estimated at €336 billion, financial assets at €302 billion, and liabilities/debt at €210 billion. The Credit Suisse report therefore places net household wealth in 2011 at approximately €428 billion. The report does not decompose either real assets or financial assets by type.

Regarding the distribution of wealth, the Credit Suisse report estimates that the top 1 per cent of the population held 28.1 per cent of household wealth in 2011, and that the top 5 per cent held 46.8 per cent of household net wealth. The estimated wealth distributions for both the Bank of Ireland report and the Credit Suisse report should be treated with a degree of caution as there are issues regarding data sources and the lack of inclusion of certain asset types. Even so, the results suggest a highly unequal distribution of wealth.

2014 Central Bank Accounts

The Central Bank of Ireland's *Quarterly Financial Accounts*[6] includes data on household net worth.[7] Household net worth in the first quarter of 2014 was estimated at €508.5 billion or €110,312 per capita.

> *... Ireland remains a wealthy country even after the ending of the Celtic Tiger era*

The *Quarterly Financial Accounts* also show that household debt in the first quarter of 2014 stood at €164.3 billion or €35,694 per capita. Census 2011 reports an average household size of 2.73. This suggests that in Ireland there is a mean net worth per household of approximately €301,152. Unfortunately, this data cannot provide a picture of the actual distribution of wealth as it only looks at household wealth in aggregate. It does, however, illustrate that Ireland remains a wealthy country even after the ending of the Celtic Tiger era.

CSO Data

The Central Statistics Office (CSO) began publishing Institutional Sector Accounts in October 2011.[8] These include data relevant to looking at one aspect of wealth-holding in Ireland, namely financial wealth, but do not cover 'real assets'. The CSO Accounts provide information from 2002 onwards for the financial assets and liabilities of the household sector (see Table 1, p.10). The household sector was a net borrower up to the end of 2008, by which time borrowing had peaked at €212.8 billion. Irish households became net lenders from 2009 onwards.

Net financial wealth in 2011 was reported as €120.9 billion and increased to €139.9 billion in 2012. Gross financial assets were €324.3 billion in 2012, while liabilities were €184.4 billion. Insurance Technical Reserves at €143.2 billion (44.2 per cent) made up the largest component of financial assets in 2012.[9] This was followed by currency and deposits at €128.4 billion (39.6 per cent), and shares and other equity at €46.4 billion (14.3 per cent).

Table 1: Household Financial Balance Sheet, 2007–2012 end year (€ million)[1]

		2007	2008	2009	2010	2011	2012
Currency and Deposits		**116,708**	**120,449**	**125,721**	**126,253**	**124,465**	**128,369**
	Currency & Transfer Deposits	*59,953*	*57,209*	*60,562*	*60,742*	*57,707*	*58,292*
	Other Deposits	*56,755*	*63,240*	*65,519*	*65,511*	*66,758*	*70,077*
Shares and Other Equity		**56,031**	**45,644**	**50,093**	**48,613**	**47,321**	**46,364**
	Quoted Shares	*17,607*	*6,176*	*8,664*	*8,527*	*8,913*	*9,404*
	Unquoted Shares	*38,424*	*39,467*	*41,429*	*40,086*	*38,409*	*36,960*
Insurance Tech. Reserves		**126,994**	**108,542**	**122,592**	**132,068**	**133,361**	**143,229**
	Pension Funds	*71,753*	*61,069*	*67,690*	*70,331*	*70,449*	*78,043*
	Life Assurance Reserves	*52,872*	*44,388*	*52,048*	*58,881*	*60,152*	*62,516*
	Pre-payments of Premiums	*2,369*	*3,085*	*2,854*	*2,857*	*2,709*	*2,671*
Securities besides Shares		**484**	**575**	**630**	**494**	**477**	**497**
OAR[2]		**1,897**	**4,868**	**4,470**	**4,716**	**5,409**	**5,922**
Total Financial Assets		**302,114**	**280,078**	**303,506**	**312,144**	**311,032**	**324,381**
	Short-term Loans	*(13,490)*	*(12,213)*	*(12,104)*	*(8,293)*	*(6,854)*	*(5,429)*
	Long-term Loans	*(180,824)*	*(190,506)*	*(185,604)*	*(176,589)*	*(171,855)*	*(166,902)*
	OAP[3]	*(5,877)*	*(10,094)*	*(9,593)*	*(9,368)*	*(11,347)*	*(12,136)*
Total Liabilities		**(200,191)**	**(212,813)**	**(207,251)**	**(194,250)**	**(190,056)**	**(184,467)**
Net Financial Assets		**101,923**	**67,264**	**96,234**	**117,894**	**120,976**	**139,914**

Source: Central Statistics Office, *Institutional Sector Accounts Non-Financial and Financial 2012*, Dublin, 2013.
Notes:
[1] Data is for households and non-profit institutions serving households.
[2] OAR refers to Other Accounts Receivable.
[3] OAP refers to Other Accounts Payable.

Dynamics of Wealth

Much of the dynamics of net wealth is driven by capital gains and losses on real and financial assets rather than by the active accumulation of savings by households. Irish households have suffered large declines in net wealth since 2006, reflecting the dramatic deterioration in the value of housing assets and the exposure of Irish households to the housing market. By the fourth quarter of 2010, household net wealth had fallen close to its level in the third quarter of 2003. The general decline in the value of real and financial assets explains almost all of the fall in net wealth during this period. This fall was nearly identical to the fall in the value of the housing stock.

However, a 2012 study of the impact of the financial crisis found that, despite their collapse in value, housing assets still represented just over three-quarters of household net worth in Ireland in 2010.[10] The study also showed the net worth of Irish households as a percentage of disposable income fell by a massive 164 percentage points between 2007 and 2010 – from 723 per cent to 559 per cent. This was the largest decline in net worth of fourteen countries studied.[11]Ireland also had the second largest percentage decrease in net *financial* wealth over the period 2007 to 2010.

Cross Country Trends

While the holding of assets by households varies considerably from country to country, there are some general trends. A large proportion of household wealth in all countries is concentrated in housing assets. The proportion of households in Ireland that were owner occupied in 2011 was 69.7 per cent, according to the April 2011 Census. This proportion is relatively high compared to most other euro area countries and suggests that housing assets as a proportion of total assets may also be comparatively high in Ireland.

Household Finance and Consumption Survey

The euro system *Household Finance and Consumption Survey* (HFCS)[12] is the most comprehensive dataset available for household level net wealth,[13] wealth composition, and wealth distribution in the euro area. Ireland and Estonia were not included in the 'first wave' of this survey which assembled data from every other euro area Member State for the year 2010. The results of this first wave of the survey were published in 2013.

Components of wealth: Data from the HFCS suggests real assets make up almost 85 per

Table 2: Composition of Gross Assets in the Euro Area by Main Types (%)[1]

		% real assets	% financial assets	% gross assets
	Real assets	100		85
	Financial assets		100	15
Real Assets[2]				
	Main residence	*60.8*		*51.7*
	Other real estate	*22.7*		*19.3*
	Self-employment business	*11.5*		*9.8*
Financial Assets				
	Deposits		*42.9*	*6.4*
	Insurance Tech. Reserves[3]		*26.3*	*3.9*
	Mutual funds		*8.7*	*1.3*
	Shares		*7.9*	*1.2*
	Bonds		*6.6*	*1.0*

Source: European Central Bank, *The Eurosystem Household Finance and Consumption Survey Results from the First Wave*, April 2013, Table 2.6, p. 46.
Notes:
[1] For this study, the reference year for most country surveys was 2010; Ireland and Estonia were not surveyed.
[2] The other main categories of real assets are vehicles and valuables.
[3] Insurance Technical Reserves are made up of voluntary private pensions and whole life assurance

cent of the value of assets in the euro area (see Table 2, p. 11).[14] For homeowners, the dominant components of net wealth appear to be housing assets and associated debts such as mortgages, whereas financial assets and liabilities (excluding mortgages) have only limited impact on net wealth. However, this 85 per cent figure is probably a gross overestimation of the relative weight of real assets in total assets because financial assets are much less likely to be disclosed by survey respondents. For instance, and in contrast to the data from the HFCS, a cross country analysis of data on wealth-holding in the year 2000 found that for most countries non-financial assets accounted for between 40 per cent and 60 per cent of total assets.[15] This may suggest the HFCS suffers from significant biases related to the under-valuation and/or non-disclosure of financial assets. The HFCS also fails to cover public and occupational pensions which in some countries may be quite substantial as a proportion of gross assets.

Composition of real assets: The HFCS shows that the composition of real assets is unevenly spread across wealth and income groups (see Table 3 below). It reveals that self-employment business wealth makes up a much larger component of real assets for the top 20 per cent of wealth holders than it does for less wealthy groups: for this top group, it represents 16.8 per cent of real assets. Non main residence real estate property is also a much more important component of real assets for the wealthiest group than it is for less wealthy households. Self-employment business wealth and ownership of commercial real estate properties are also both highly concentrated in the wealthiest group. The relative importance of these assets is likely to be even more exaggerated for the top 5 per cent of households and especially for the top 1 per cent of households.

The household main residence makes up a much smaller component of real assets for the wealthiest

Table 3: Composition of Real Assets in Total Real Assets of Households, Euro Area (%)

	Household Main Residence	Other Real Estate Property	Vehicles	Valuables	Self-employment Business Wealth
Euro Area	60.8	22.7	2.9	2.0	11.5
Percentile of Net Wealth					
Less than 20	63.5	15.6	11.9	5.9	3.1
20–39	67.3	10.4	14.3	6.1	1.9
40–59	81.4	9.5	4.8	2.3	2.0
60–79	81.6	10.8	3.4	1.9	2.4
80–100	50.0	29.6	1.8	1.8	16.8

Source: European Central Bank, *the Eurosystem Household Finance and Consumption Survey Results from the First Wave,* 2013, Table 2.3, p. 32.

Table 4: Composition of Financial Assets in Total Financial Assets of Households, Euro Area (%)

	Deposits	Mutual Funds	Bonds	Publicly Traded Shares	Money Owed to Household	ITRs[1]	Other Financial Assets[2]
Euro Area	42.9	9.7	6.6	7.9	2.2	26.3	5.3
Percentile of Net Wealth							
Less than 20	65.7	1.8	-	1.2	4.4	26.1	0.6
20–39	62.3	5.4	1.4	1.7	3.9	23.9	1.3
40–59	55.4	5.5	2.5	2.9	1.9	30.1	1.7
60–79	53.5	6.7	4.0	4.1	1.8	28.2	1.7
80–100	35.4	10.4	8.6	10.6	2.2	25.4	7.4

Source: European Central Bank, *The Eurosystem Household Finance and Consumption Survey Results from the First Wave*, 2013, Table 2.6, p. 46.
Notes:
[1] ITRs refers to Insurance Technical Reserves (pensions and life assurance).
[2] 'Other financial assets' would include, for example, non-listed share ownership, managed accounts, options, futures, index certificates, precious metals, oil and gas leases, royalties, future proceeds from a lawsuit or estate being settled.

20 per cent than it does for the other groups. Even so, the household main residence is still by far the most important component of real assets for the wealthiest 20 per cent. The small share of valuables in total real assets may reflect systemic under-valuation but may also suggest that the problem of under-valuation of valuables is not that important in the wider context of estimating net household wealth.

Composition of financial assets: The HFCS also gives us data for financial assets. The composition of financial assets in the euro area is shown in Table 4 above. Deposits are the most important financial asset both overall and for each individual group. Indeed, deposits represent over half of all financial assets for all bar the wealthiest group (35.4 per cent). Deposits and Insurance Technical Reserves combined make up over 60 per cent of total financial assets for each group and over 80 per cent of total financial assets for all but the wealthiest group (60.8 per cent).

Mutual funds, bonds and publicly traded shares combined make up almost one-third (29.6 per cent) of the financial portfolio of the wealthiest group. This is significantly higher than the figure for any other group: it is, for example, twice the figure for the second wealthiest group, for whom mutual funds, bonds and shares represent just 14.8 of financial assets. The relative importance of such assets is likely to be even more pronounced for the wealthiest 1 per cent of households.

Wealth distribution: The distribution of wealth within a country is shaped by a range of institutional factors including the country's economic history; its present economic structure; its sectoral composition of home ownership; its tax policy; its pension policy, and its demographics.

The HFCS data reveal a picture of an extremely unequal distribution of wealth in the Member States of the euro area: the wealthiest 10 per cent of households in the euro area held over half of all household wealth (50.4 per cent) and the wealthiest 5 per cent held more than a third (37.2 per cent) of household wealth.[16]

The large difference between median net wealth (€109,200) and mean net wealth (€230,800) is evidence of the extreme unevenness in the distribution of net wealth (see Table 5, p. 13). Households in the 10th percentile have just €1,200 in net wealth on average, whereas households in the 90th percentile have €506,200 in net wealth on average – in other words, *the 90th percentile controls 422 times the net wealth of the 10th percentile***.** The bottom 20 per cent of households have negative mean net wealth. The top 50 per cent of households own 94 per cent of total net household wealth, while the top 20 per cent own 67.6 per cent of net wealth.

Within the euro area, then, it is clear that wealth-holding is highly concentrated. Moreover, as Table 5 also shows, the distribution of wealth is even more unequal than is the distribution of income (though this too is very uneven).

Applying the HFCS Findings to Ireland

What might be the outcome if the findings on the distribution of wealth from the first wave of the HFCS were to be applied to Ireland – which was not, of course, one of the countries included in the survey?

Table 5: Household Net Wealth and its Distribution in the Euro Area

	Median Net Wealth (€1,000)	Mean Net Wealth (€1000)	Share of Total Net Wealth (%)
Euro Area	109.2	230.8	100.0
Percentile of Net Wealth			
Less than 20	1.2	-2.8	-0.2
20–39	27.0	29.4	2.5
40–59	109.2	111.9	9.7
60–79	230.6	235.1	20.4
80–100	506.2	780.7	67.6
Percentile of Net Income			
Less than 20	26.7	89.2	7.7
20–39	53.2	124.9	10.8
40–59	104.9	172.5	14.9
60–79	157.3	226.8	19.7
80–100	295.3	540.8	46.8

Source: European Central Bank, *The Eurosystem Household Finance and Consumption Survey Results from the First Wave*, April 2013, Table 4.1, p. 75.

As already noted, the Central Bank's *Financial Accounts* give, as an estimate, a figure of €508.5 billion for the 'net household worth' in Ireland in the first quarter of 2014. In this estimate, household net worth is calculated as the sum of the household sector's housing and financial assets minus its liabilities.

If the distribution of wealth in Ireland were assumed to mirror the distribution in the euro area as shown by the HFCS, with the top 5 per cent of households owning 37.2 per cent of net wealth, then the top 5 per cent of households in Ireland would hold €189.2 billion in net assets. Census 2011 data indicates there are 1,680,678 households in Ireland and so the top 5 per cent represents 84,034 households. A total household net wealth of €189.2 billion divided by 84,034 households is equivalent to a mean household net wealth for the top 5 per cent of €2.25 million.

However, it is unclear to what extent the distribution of net wealth in Ireland actually does mirror that of the euro area. We do not have the data. The true distribution may well be substantially different and therefore any estimate of the wealth held by particular groups should be treated with extreme caution. Ireland's inclusion in future euro system surveys will provide more reliable estimates of the distribution of net wealth in Ireland.[17] Brian Nolan's study, using data from the last survey of household wealth in Ireland (i.e., 1987), estimated that the top 5 per cent of households held a somewhat smaller proportion of net household wealth (28.7 per cent). If this proportion were to be assumed as accurately reflecting wealth distribution in Ireland in 2014 then the net household wealth of the top 5 per cent would be valued at €145.9 billion, which amounts to €1.74 million per household.

Conclusion

In Ireland, efforts to assess the distribution of wealth or even to establish the aggregate wealth of the country have been sporadic and limited. However, the studies that have been undertaken over the past forty years point in every instance to a distribution of wealth that is highly skewed in favour of a small minority of the population. Estimates of the percentage of wealth held by the top 5 per cent have varied considerably between studies (from, for example, 28 per cent to over 40 per cent) – as have estimates of the share held by the top 1 per cent (from 10 per cent to over 28 per cent). Such variations reflect differences and limitations in the methodologies employed. But the overall message is clear: wealth-holding is highly concentrated in Ireland, as it is in other countries of the euro area. The obverse of the concentration of wealth among a minority is that a significant part of the population has little or no wealth.

In addition, studies on wealth indicate that the composition of the assets held by the top 10 per cent is likely to be quite different from that of the population overall, while the asset mix of the top 1 per cent will be different again. For wealthier cohorts, financial assets tend to represent a larger component of their overall assets. This is significant not only in terms of the actual distribution of wealth but in so far as it has a bearing on the extent to which the distribution of wealth can be fully and accurately assessed since financial assets are much more susceptible to non-disclosure than real assets.

Notes

1. Robin Boadway, Emma Chamberlain and Carl Emmerson, ‘Taxation of Wealth and Wealth Transfers’, in Stuart Adams *et al* (eds.), *Dimensions of Tax Design: The Mirrlees Review* (Chair: Sir James Mirrlees), Oxford: Oxford University Press for the Institute for Fiscal Studies, 2010, pp 737–836.
2. Patrick M. Lyons, ‘The Distribution of Personal Wealth by County in Ireland, 1966’, *Journal of the Statistical and Social Inquiry Society of Ireland*, 22(5), 1972.
3. Brian Nolan, *The Wealth of Irish Households: What Can we Learn from Survey Data?*, Dublin: Combat Poverty Agency, 1991.
4. Bank of Ireland, *The Wealth of the Nation: Update for 2007*, Dublin: Bank of Ireland, 2007.
5. Credit Suisse Research Institute, *Global Wealth Databook 2011*, Zurich, October 2011.
6. Central Bank of Ireland, *Quarterly Financial Accounts for Ireland: Q1 2014*, Dublin, September 2014. (http://www.centralbank.ie/polstats/stats/qfaccounts/Documents/2014q1_ie_qfaccounts.pdf)
7. The Central Bank calculates household net worth as the sum of the household sector’s housing and financial assets minus their liabilities.
8. Central Statistics Office, *Institutional Sector Accounts Non-Financial and Financial 2012*, Dublin: Stationery Office, 2013.
9. Insurance Technical Reserves are made up of net equity in pension funds and life assurance reserves.
10. Mary Cussen, Brídín O’Leary and Donal Smith,‘The Impact of the Financial Turmoil on Households: A Cross Country Comparison’, *Central Bank Quarterly Bulletin*, 02, April 2012, pp 78–98. (http://www.centralbank.ie/publications/documents/Quarterly%20Bulletin%20Q2%202012.pdf)
11. *Ibid*.
12. European Central Bank, *The Eurosystem Household Finance and Consumption Survey Results from the First Wave*, Statistics Paper Series 2, Frankfurt: ECB, April 2013.
13. Care is required when interpreting cross country comparisons of net household wealth. One reason is the cross country variation in household characteristics. For example, a higher rate of home ownership will be associated with higher levels of net household wealth but with lower levels of net wealth in the government and/or corporate sector.
14. The HFCS classifies self-employment businesses, where at least one member of a household works as self-employed or has an active role in running the business, as real assets.
15. James B. Davies, Susanna Sandström, Anthony B. Shorrocks and Edward N. Wolff, *The Level and Distribution of Global Household Wealth*, Cambridge MA: National Bureau of Economic Research, 2009, NBER Working Paper No. 15508, p. 4. (http://www.nber.org/papers/w15508.pdf)
16. The top 10 per cent of income earners earned 31 per cent of total income, while the top 5 per cent earned 20.2 per cent of total income.
17. The first results for Ireland are expected to be published in late 2014.

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Interview with Thomas Piketty, Author of *Capital in the Twenty-First Century*

Jean Merckaert and Jean Vettraino

Introduction

Thomas Piketty is an economist. He is director of studies at the School for Advanced Studies in the Social Sciences in Paris and a professor at the Paris School of Economics. His research focuses on economic inequalities. His most recent book, *Capital in the Twenty-First Century*,[1] has generated lively debate in the United States and Europe.

In *Capital in the Twenty-First Century*, Thomas Piketty shows that the rich get richer more quickly than the rest of society, in an almost mechanical fashion. In his view, the main driver of inequality is the tendency of returns on capital to exceed the rate of economic growth. He makes the case for a progressive taxation – including income tax, inheritance taxation and a yearly tax on capital. Is this possible at a national level? Is it realistic in an era of tax havens? Would it be enough to reduce inequalities?

Thomas Piketty responds to these questions in an interview conducted by Jean Merckaert and Jean Vettraino on behalf of CERAS (Centre for Research and Social Action), a Paris-based Jesuit Centre. The interview was originally published in the CERAS journal, *Revue Projet*.

Jean Merckaert and Jean Vettraino: *You have shown that, apart from the time of the 30-year post-war boom ('les Trente Glorieuses') the rich have grown richer more quickly than the rest of society. Is this an inevitable trend? Is the rate of return on capital (around 4 or 5 per cent per annum during the last two decades) immutable at this point?*

Thomas Piketty: My work consists above all in putting these multi-faceted and contradictory tendencies and forces in a historical and comparative perspective. In observing the years 1913–1948 in the United States, the economist Simon Kuznets noted a significant compression of income inequality. Many concluded from this that the rate of growth and the reduction in inequality go hand in hand and in fact economists have disengaged from this field of research. Emmanuel Saez and I have extended the U-curve of Kuznets and have shown that in the 1990s, inequality in the USA had returned to the level pertaining at the start of the twentieth century. Marx, for his part, predicted a downward trend in the return on capital. This rate is a measure of the return on capital in one year (a return of €4,000 per annum on a €100,000 apartment equals a rate of 4 per cent). As I show in my book, Marx's prediction is false. The absolute return on capital, apart from wartime, is still 3 or 4 per cent per annum today, the same as in the eighteenth and nineteenth centuries. And there is no reason for it to collapse as a result of accumulation. Even if we managed to put the genie of financial deregulation back in its bottle, this would not affect fundamentally the excess of the return on capital (R) over the rate of growth (G).

In pre-industrial societies, economic growth was 0 per cent per annum, or at most less than 0.1 per cent per annum. Even in the nineteenth century, in spite of all the technical innovations, it was between 1 per cent and 1.5 per cent. Ground rent, on the other hand, was about 4 or 5 per cent per annum. This is what allowed the well-to-do to live from their possessions and to devote themselves to things other than their own subsistence: to the arts, to science, to war, to government, to religion.

In a certain way, this fact (R>G) traumatised society – by way of the problem of usury: can money make money? – but it also formed one of its foundations. In Christian philosophy of the time, usury was eliminated, but ground rent was maintained. There was distrust of certain types of capital, notably financial – there was a fear of not being able to control it – but not of return from land (which 'does not lie'). It seemed reasonable that land would produce a rent, allowing those who owned it to live without working.

With the coming of the Industrial Revolution, it was assumed that this outdated thinking was no more. No doubt, things had changed, with growth now at 1 or 2 per cent per annum. But the gap between the two had not moved as much as imagined. In the novels of Jane Austen or Balzac, the return of capital is of the order of 3 or 4 per cent per annum, and as much as 6 or 7 per cent for the riskiest assets. In the twentieth century, if the order between R and G became inverted, this was due to circumstances that were altogether exceptional and tragic [the two World Wars].

There was also the fact of demographic growth. A great part of the growth in the twentieth century and right up to today arose from that. The growth of population and of productivity tended to diminish the influence of patrimony, in the sense of inherited assets. In a society where people no longer have children, where the population shrinks, inherited wealth takes on considerable importance. Of course, there is nothing inevitable about this. Perhaps there will be so many children and technological innovations – clean and non-polluting – in 2050 that there will be growth of 4 or 5 per cent per annum … But it would be a good idea to lay out other solutions!

The level of growth of the thirty post-war years, even if it has strongly pervaded our psyche, seems well and truly behind us. And when the gap between R and G grows wider, the initial inequality arising from inherited wealth is amplified. Young people with no capital had better have big salaries to become a homeowner in Paris today! To deny this dynamic of inequality, and gamble instead on a convergence between the rate of growth and the return on capital, this would be to bet on an extraordinary coincidence.

***Jean Merckaert and Jean Vettraino:** Does the financialisation of great fortunes not weaken the very foundations of this enrichment?*

Thomas Piketty: The excessive financialisation of capital makes matters worse. The explosion in the number of highly-paid jobs is mainly connected with the financial sector. Financial deregulation has also made access to return on capital more unequal. The formula R>G is very abstract, for return on capital covers very different kinds of assets and portfolios.

The data at our disposal are incomplete, but in the case of the largest portfolios, whether they be individual fortunes, large endowment funds of universities, or sovereign funds, very high returns can be observed, from 6 to 8 per cent. By contrast, in the case of the ordinary depositor, who arrives at his bank with 10,000 or 100,000 euro, the return hardly covers inflation. In the capital market model beloved of economists, financial intermediation exists to give everyone the same maximum return. But some people have access to sophisticated financial products giving very high returns, while others are given products where they gain nothing.

***Jean Merckaert and Jean Vettraino:** Is the assessment different for the countries of the 'South'?*

Thomas Piketty: This disconnection between the return on large accumulated assets, and the rate of growth, can already be observed at global level.[2] Even when China is included, global Gross Domestic Product has grown on average by only 3.3 per cent per annum over the last thirty years (half of this being due to demographic increase). Average income is increasing worldwide by 1.5 per cent or 2 per cent per annum. China already has to tackle very large concentrations of inherited assets. For the moment, as in Russia, it is ruling on this issue case by case, sometimes removing this or that oligarch. But is this tenable in the long run? It is possible that China will manage more rapidly than Europe or the United States to develop a type of regulation adapted to patrimonial capitalism of the twenty-first century, for there is serious debate there about the introduction of taxes on property and inheritance. Even in the case of single party system, tax may be preferable to imprisonment as a means of regulating the inequalities caused by inheritance!

That said, when one looks at capital on a global scale the rich countries have never been so rich. The capital held by all the citizens of such countries represents six years of income (this is only an average); namely, more than all the debts! It is States which are poor, as a result of public debt.

The absence of limits on accumulation led to radical solutions at the end of the nineteenth century. The challenge, today, is to respond by more peaceful ways than war, and more effective ways than communism. Is private benefaction the answer? Often, the people who donate to foundations keep control of them. It is not sufficient for someone to call their private interest 'general interest' for it to be such.

***Jean Merckaert and Jean Vettraino:** Has taxation, which differs greatly in different countries and different periods, had a significant impact on the distribution of incomes and inherited capital?*

Thomas Piketty: Taxation is a tool which permits the financing and development of public projects, public goods, social protection, education, and so on. In the course of history, the question of fair taxation – successfully getting agreement on who pays for what, and according to what criteria – has always been at the heart of political conflict. My book falls within the ambit of this vast enquiry on the nature of fair taxation and its effect on the nature of society. What I am attempting to do is to encourage fresh thinking on the linkage between tax on income (flows) and tax on capital (stock). A third significant category, tax on expenditure (consumption) is linked to the other two, for, in principle, consumption equals income less savings. In every era, these three broad categories, in differing proportions, can be observed.

Tax on consumption is often that which weighs most heavily on the working classes, who save little and consume almost all their income. During the *Ancien Régime* the tax on salt was the most unpopular tax. In fact, it is possible to imagine a consumption tax which would be progressive. In some ways, an attempt is made to create this by having different VAT rates, but in practice it is difficult to make a distinction between basic commodities and luxuries. The enthusiasm for VAT in Europe is in fact a symptom of the weakness of collaboration within the European Union. VAT is seen as a means for taxing imports from neighbouring countries. But when every country will have raised its VAT rate to 25 per cent, will this represent an advance? It will not restore our competitiveness *vis-a-vis* China, and the intra-European competitiveness effect is completely wiped out when everyone has recourse to it.

Jean Merckaert and Jean Vettraino: *Is it not the case that a tax on capital must logically become more important in a world where the overall weight of capital is growing in comparison with income?*

Thomas Piketty: Yes, but in my reflections I focus both on income tax *and* tax on capital. The novelty of the book is perhaps to show that there is a place for both. Tax on capital can be expected to grow in importance in a society where the overall weight of capital is growing in comparison with incomes. This is not to say that it should completely replace income tax. Income and capital are two separate dimensions of inequality among individuals. Some people have very high incomes and little capital; others have very high capital and low incomes. There is obviously a correlation – on average, people who have a substantial capital have higher incomes – but it is far from being a perfect one. There is a need for two taxes to tap into the different dimensions of people's capacity to contribute: the main object of a tax system is to rope in everyone, according to their abilities and means.

Maurice Allais [1911–2010], an economist who was anything but left-wing, was a long-time supporter of the idea of a tax on capital as the only tax – the advantage being that once it was paid, you would have the maximum incentive to invest your capital in the best way possible, to make it productive, without being taxed further on the yield obtained. The limitation of this argument is that the return achieved is not solely the result of your management and your efforts. Take the case of a company which has had one very bad year, with heavy losses: if you base tax solely on the stock of capital used, you will end up making the company pay the same tax as one that has made enormous profits, and you will risk bankrupting it even though its difficulties are temporary.

There needs to be a balance between taxation of the stock of capital used, and taxation of the flow of income and of the profit made each year. There is an 'insurance' function built into tax, in the sense that the contribution of people depends on their prosperity at that moment.

Nevertheless, we must not go to the other extreme and take the view that capital that does not produce any income should pay nothing. If this were the case someone who owned a building or a château and who refused to rent it out, merely sleeping in it one night a month, would be exempt from property tax on the grounds that he has no income … In practice, quite rightly, he has to pay property tax. If he refuses to earn an income from his properties, he will need to sell one from time to time to pay his tax. This is indeed the objective of a tax on capital: to ensure that if someone does not obtain any return on their capital they should divest themselves of it in favour of someone who will use it in a more productive manner.

Jean Merckaert and Jean Vettraino: *Does the combination of the two kinds of tax actually result in reduced inequality?*

Thomas Piketty: The two forms of tax played a role in the reduction in inequality in the nineteenth century. For the future, I am proposing a combination of, firstly, income tax; secondly, a progressive tax on inherited capital; and then a third tax: a progressive tax on capital on a yearly basis, a little like property tax or wealth tax in France. But this must be implemented in a more harmonised manner.

The property tax dates from the start of the nineteenth century, a world where capital was principally in the form of property, and it was based solely on inherited property, without taking into account either debts or financial assets. This situation in no way matches the reality of capital in the twenty-first century, where it is very much linked to finance. The wealth tax created in the years 1980–1990 is more modern because it takes into account the different forms of financial assets. But it is full of tax loopholes, and it is very difficult to make it work in the absence of a global view regarding capital and of prior declarations of assets.

There is a need today for a form of annual taxation of capital, because it is not enough to wait for intergenerational transfer alone. If you make your fortune by the time you are 40, by the time you are 90 your wealth will have continued to grow strongly: it will be difficult for society to take advantage of your fiscal capacity when it is at its maximum. Is it right, as at present, that we wait until Bill Gates or Warren Buffet pass on their wealth before the fiscal system can draw down a contribution from it?

Conversely, when an estate is inherited, it is not necessarily right to concentrate all the tax assessment at that point, not only for psychological reasons, but also for economic reasons: it is not possible to predict how the return on the assets will evolve. Who could have imagined that a Parisian apartment inherited in 1972, and valued at 100,000 euro, would be worth millions of euro today and would produce a rent equal to five months' minimum wage payments? Instead of taxing this inheritance heavily in 1972, and then not taxing it for the next forty years, it would be more logical to try to tax part of it at the time of the transmission of the estate, and another part throughout the inheritor's life.

Jean Merckaert and Jean Vettraino: *Against a backdrop of bank failures, if it is not known who owns what, is it not difficult to make everyone contribute in an acceptable manner?*

Thomas Piketty: Yes, and this is perhaps the most important argument; it is a question of finding a way to obtain more transparency, democratic and financial, in regard to capital. One corollary of levying taxes is that it involves the production of legal categories and statistical categories. It is a way for society to produce information about itself. Since the French Revolution, we have had the wealth tax system, the right of succession, the creation of a land register – these have been a way of registering properties, of instituting the right to property, of engendering public respect for it.

If you pay tax on your property, this means that your right to the property is publicly guaranteed. A certain degree of transparency is established: who owns what becomes better known. Within global financial capitalism today, a global financial register does not exist, not even in the European Union. The President of the French Republic does not know that his Budget Minister has a Swiss bank account… This extremely opaque system is not healthy either for democracy or for financial regulation. Against a background of bank failures or the restructuring of financial systems, if we do not know who owns what, and in which bank, it is very difficult to engage people in a manner that is acceptable to everyone.

Jean Merckaert and Jean Vettraino: *Inequalities have more to do today with capital (therefore with inheritance) than with incomes. But does society really support the taxing of assets, and particularly of inheritances?*

Thomas Piketty: It is perfectly legitimate to be afraid of being taxed on what has been successfully accumulated. We need to take such fears seriously and respond to them in a focused discussion, in the most democratic and transparent way possible. In 2007, Nicholas Sarkozy took advantage of the positive public attitude of many French people in relation to a reduction in death duties to exempt estates of 1.5 or 2.0 million euro … Each parent could use this allowance for each child every six years, up to five times in their lives. This measure was modified in 2012 because it really cost the State too much. Too often, there is a reluctance to go into figures in detail. In fact, the last sentence of my book reads: 'Refusing to deal with numbers rarely serves the interests of the least well-off'.

Jean Merckaert and Jean Vettraino: *If you have an apartment which is worth 300,000 euro and a loan of 290,000 euro, should you pay as much property tax as someone who has no loan?*

Thomas Piketty: For my part, I am not proposing to increase tax on inherited wealth in general, but to make the tax more progressive. This would entail reducing property tax for the majority of the population and increasing it for the highest inheritances. This would facilitate access to inherited wealth for those who do not have it. At present, if you have an apartment worth 300,000 euro and a mortgage of 290,000 euro, you pay as much property tax as someone who does not have a mortgage. That is the case even though, in this situation, your net capital is only 10,000 euro.

I am proposing to replace the current taxes on inherited wealth, one of which is property tax, by a progressive tax: the current level of inheritance tax would be reduced for 90 per cent of the population, i.e., those whose capital is lowest, when netted against a mortgage, and who wish to build it up. On the other hand, the tax would be increased for wealthy individuals. The scale could be as follows: 1 per cent of 1 to 5 millions, 2 per cent over 5 millions.

Such a tax, at European level, would yield more than 2 per cent of GNP. It would increase the mobility of capital. Of course, there is no mathematical formula which allows us to fix the ideal tax. The problem is that these questions are often left to technicians. As for the elites, their capacity to deny reality is well known: at the end of the nineteenth century, the economist Paul Leroy-Beaulieu was explaining that France had no need of a progressive tax because, thanks to the Revolution, our country was quite egalitarian …!

Jean Merckaert and Jean Vettraino: *Over the past thirty years, personal fortunes have become very mobile. Is the tax system, which is based for the most part on cash flows, capable of correcting inequalities, considering that it is designed at the national level?*

Thomas Piketty: Some things are possible at national level, such as making the taxation of inherited capital (net of mortgages) more progressive, without all the owners of second homes taking the Eurostar tomorrow! But to develop much further a progressive system of taxing the largest accumulations of capital, this would require cooperation at a European level. Failing that, the capacity to increase tax in European countries will become more and more constrained. That is even truer in the case of corporation tax, which is circumvented to a massive extent by the multinationals.

At present, there are eighteen different rates of corporation tax in the eurozone, though this zone is completely integrated from an economic point of view and though all the large companies can transfer their profits very easily from one country to another according to their tax interests. It is as if the income tax scale were different in each of the twenty Parisian *arrondissements*. And so, to pay at a lower rate all that would be needed would be to take the Métro. Naturally, each *arrondissement* would lower its rate …

If it is desired to maintain, within the EU, economic integration and the free circulation of capital, goods, services and persons, there has to be greater tax coordination. If not, public opinion in some countries will end up urging an exit from the system, in the belief that a return to national frontiers will allow for greater protection. If it cannot be shown that there are ways of reconciling globalisation with some sort of fiscal and social justice, there is a temptation to become inward-looking. Fiscal cooperation is fundamental if we want to maintain our commitment to the European project and to globalisation.

Jean Merckaert and Jean Vettraino: *What is the place of corporations in your triptych of the main forms of taxation?*

Thomas Piketty: There are ramifications in regard to taxation of corporations. For example, tax on company profits is a form of tax on income flow. This way of taxing at source, imposing a corporation tax at the point where a company makes its profits, remains an important element of the ideal system that I have described. But, ultimately, a fair system of taxation must first rely on the level of income and of capital.

When we think of tax as progressive, it must also apply at an individual level. Corporations are collective institutions through which are channelled salaries, shares and dividends. We rely on them to ensure that tax is declared and levied, and to shed light on the structure of their shareholdings. The corporation is also a place where staff should participate in decision-making, which is not possible without a precise knowledge of the accounts – of who owns the company, for example. Fiscal and financial transparency must first take place at the level of the enterprise.

Jean Merckaert and Jean Vettraino: *Even at its best, taxation will never correct all inequality. Would it not be best first to look into the origins* *of the primary distribution of incomes, and particularly the control of money creation*?

Thomas Piketty: Taxation is only one tool among others, but it would be a mistake not to think of it as playing a part in secondary distribution. Through the way it modifies incomes, it has an effect on the capacity of people to accumulate capital, to finance investments, training, and therefore, finally, it has an effect on primary inequality. This is clear in the case of inheritance tax. It is true also in the case of income tax: the most important effect of very high tax rates in the United States between 1930 and 1980[3] was without doubt to put an end to remuneration above a certain threshold, and to leave a larger payroll for workers. Conversely, the suppression of these rates (under President Reagan) contributed to the take-off of very high remuneration, thus limiting the amount of payroll available for the rest of the staff.

There are other tools besides tax. The first of these is education. The dissemination of knowledge is the No. 1 force which makes reductions in long-term inequality possible. But education cannot achieve everything either. Even with an excellent system of education, the mechanisms that give rise to inequality endure, both within and outside the education system itself. Progressive tax complements education.

Financial regulation also plays a central role. The growth in gross financial positions is what most characterises the evolution of financial capital during the last few decades. To put it another way, what France owns in the rest of the world is now quite close to what the rest of the world owns in France: its net capital situation *vis-à-vis* other countries is relatively weak. Half of French financial shares are owned by the rest of the world: the gross fund position is enormous. This has given rise to a situation which is potentially very fragile, as in Spain. The kind of financial folly which results from this adds enormously to the instability in the distribution of assets between countries and within countries, and to the extreme inequality of returns on capital according to the different sizes of portfolios.

But not everything can be left to the regulation of the banking system. No more, incidentally, than to the central banks. In the last few years, too much has been devoted to monetary policy and too little to fiscal policy. The great advantage of the central banks is that they can create billions of euro or dollars by the day, establish rules for banks, and so on. The financial regulator has a kind of infinite power. But the central banks do not always know what to do with this money. They will lend it here or there, but with what ultimate impact? Sometimes, the redistribution is the wrong way round: some people make immense profits because they borrow at ridiculous rates and feed financial bubbles in the process.

Jean Merckaert and Jean Vettraino: *What resistances have been encountered to the 'fiscal revolution' which you had encouraged in France and which the Socialist Party had largely taken on board?*

Thomas Piketty: The question of the merging of the General Social Contribution (CSG) with income tax broached in *Capital in the Twenty-First Century* is of quite limited importance – despite the title of the book – compared with the global question of tax. I proposed that the CSG system be used – its system of deduction of tax at source has a relatively large tax base – and to extend that to income tax. But the proposal was not really the subject of much debate before the elections, and a reform like that, minimal as it may be, needs to be prepared in advance. Now, presidential candidate Hollande judged that he could win without taking too many risks. In the absence of specific commitments or of an overall perspective, he was obliged to invent reforms which for the most part smacked of DIY. Thus he began by removing the reduction in the employer's contribution put in place by Sarkozy, before inventing, six months later, a tax credit to stimulate competitiveness and employment, which had the effect of repaying, after a one-year delay, part of the previous contributions. He then considered its replacement by a reduction in social security contributions.

Jean Merckaert and Jean Vettraino: *In the face of a colossal public debt, it would seem ideological not to take advantage of large inheritances. What are the conditions in which the idea of a global tax on inherited capital could take hold?*

Thomas Piketty: There is no need for this tax to be global. At the same time, reforms are required at the national level, as well as more international cooperation when that is needed. I remain optimistic, because the economic and democratic fundamentals are driving us in the direction of a progressive tax on capital. If it is thought desirable to continue to have a capital-rich middle class as well as an access to capital for people starting from zero, there is need for a system of taxation which leaves them this chance.

Reducing the property tax for indebted households who seek to accumulate capital could bring together the Right and Left and could be decided at the national level. When a country finds itself in a difficult economic situation, it has to find revenues, and the taxation of large inheritances is quite natural. In Spain, the tax on wealth holders removed in 2008 was reintroduced in 2011. When you have, on the one hand, a colossal public debt, and on the other, thriving accumulations of capital, a failure to harness these could only stem from some ideology.

Furthermore, without going as far as a global tax, public opinion is pushing for a more credible campaign against tax havens. Five years ago, everyone thought that the secret Swiss bank account would always exist. It only needed the United States to threaten to withdraw the licences of Swiss banks for the secret to begin to crack. If we are content just to request politely that the tax havens become more transparent, that will not work. But the pressure will have to come from the United States … And what is keeping the big countries of Europe from speaking with a single voice?

Notes

1. Thomas Piketty, *Capital in the Twenty-First Century,* translated by Arthur Goldhammer, Cambridge MA & London: The Belknap Press of Harvard University Press, 2014.
2. *Capital in the Twenty-First Century*, Table 12.1, p. 435.
3. In 1932, when Franklin D. Roosevelt was elected President, the rate of federal income tax applying to the richest people in the United States was 25 per cent. On assuming office, Roosevelt decided to raise the tax immediately to 63 per cent, then to 79 per cent in 1936, and to 91 per cent in 1941, a level which applied until 1964, before it was reduced to 77 per cent, and then 70 per cent in 1970.

This interview was conducted by Jean Merckaert and Jean Vettraino in Paris on 5 May 2014. The interview was first published in French in *Revue Projet*, No. 341, June 2014. *Revue Projet* is the journal of the Jesuit Centre, CERAS (Centre for Research and Social Action), Paris.

Translation by Bill Toner SJ.

Ireland's Income Distribution

Micheál L. Collins

Introduction

Judged in an international context, Ireland is a high income country. The 2014 United Nations Human Development Report ranks Ireland as having the 28th highest gross national income per person in the world – with an average income at almost two and a half times the world average.[1] Data from the Central Statistics Office (CSO) show that average incomes, also measured as gross national income per person, stood at €32,599 in 2013 – a historically high figure, though lower than the peaks achieved in the years immediately before the recent economic recession.[2]

However, while overall averages are interesting, they assume an equal distribution of income across the population. In reality, income is not so evenly spread.

This article deals with the recent history of Ireland's income distribution. Over the past decade, there have been significant improvements in the regularity with which income distribution data have been collected and published, and these sources serve as the basis for the analysis in this article. Overall, the story is one of limited change in the structure of the distribution, although incomes notably declined in the recession. However, beneath the headline indicators there lies an important story of growing divides in earned income and the growing role which the State plays in countering this inequality through the redistributive system.

Understanding the nature, shape and composition of the income distribution is an important component of our understanding of society and the appropriateness of various policy options. In the context of considerations of policy changes (to taxes, welfare payments or public services) or changes to earnings levels (both high incomes and low incomes) it is useful to ground considerations in an understanding of the incomes experienced in society.

Data and Income Definitions

The analysis in this article draws on the modelling and analysis of income distribution in the Republic of Ireland being undertaken by the Nevin Economic Research Institute (NERI). That work and the data presented here come from analysis of the Survey on Income and Living Conditions (SILC) carried out by the Central Statistics Office. SILC is part of a Europe-wide household living standards survey and collects information on income and living standards from a representative national sample.

The most recent data, for 2012, comprised responses from 11,891 individuals in 4,592 households. Over the previous seven years covered in the analysis below (i.e., 2005 to 2011), the sample size ranged between 11,000 and 13,000 individuals and between 4,000 and 5,800 households. SILC data corrects for under-representation and non-response and the collected income data is reconciled by the CSO with tax records in an attempt to ensure its accuracy.

Like all survey data sources, the SILC dataset, and consequently any analysis drawn from it, is subject to some caveats. In particular, income surveys tend to experience lower response rates from high income households, a feature which may result in a downwards bias in some of the averages reported later. Similarly, successful sampling for low-income households and minorities can be difficult to achieve, while those in institutions are excluded from the sample. However, the SILC remains the most detailed and robust data source available for Irish individual and household income and offers the most comprehensive method for examining Ireland's income distribution.

The reason that income distribution surveys, such as SILC, collect and examine data for households is that members of households, be they working, unemployed, disabled, ill, retired or children, generally live together as unit and base their living standards on their collective income. In some cases, households can consist of one person only, while in other cases the household incorporates multiple individuals across the lifecycle. An understanding of household income is important because policy is often considered and critiqued on the basis of its impact on household or family income.

The SILC data provide information on the distribution of three income concepts: direct income, gross income and disposable income. *Direct income* captures earnings from various sources (cash and non-cash earnings, self-employment profits, private pensions, rental income and investments). *Gross income* represents direct income plus all forms of social welfare entitlements (including child benefits and old age pensions). Finally, *disposable income* is calculated as gross income minus any tax and social contributions paid. As such, it is a measure of the income which households have to live off and is the core income concept used to measure income distribution.

As two households on the same income may experience different standards of living because of variations in household size and composition (adults and children), the data are adjusted to account for these differences. That process, known as equivalisation, adjusts household incomes to an income per-adult basis using the national equivalence scale.[3]

Following equivalisation, households have been ranked by gross income and divided into deciles – ten per cent groups of the household population spanning the 10 per cent with the lowest income (the bottom decile) to the 10 per cent with the highest income (the top decile). These equivalised household deciles can then be used to profile the income distribution, and the changes to it that occur over time.

Distribution Trends

Table 1 (below) and Figure 1 (p. 5) outline the distribution of disposable income in Ireland across the income deciles since 2005. In 2012, those in the top 10 per cent of the income distribution received 24 per cent of all disposable income while those in the bottom decile received 3 per cent. The combined share of the two lowest deciles (7.9 per cent) equates to just one-third of that received by the top 10 per cent.

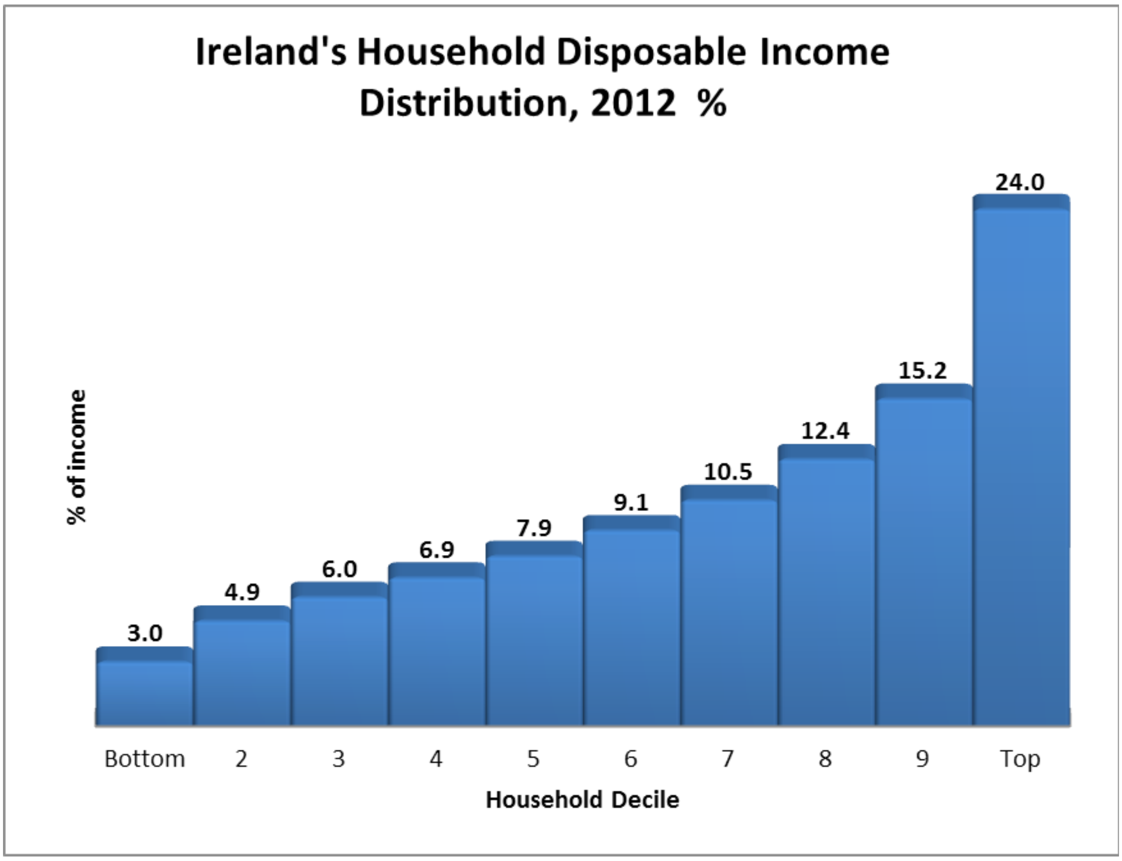
Looking across the data, the overall trend is one of stability. Despite the data covering periods of economic boom and bust, the shares of the bottom 20 per cent have remained at around 8 per cent; the share of the top 10 per cent has been between 24 and 25 per cent; the top 20 per cent have received 38 to 40 per cent of the income share, and the bottom half of the distribution has stood at between 28 and 30 per cent. Of course, while these shares have been stable, the overall amount of income being distributed grew to a peak in 2008 and subsequently fell. Using average household income figures (see Table 1), disposable incomes climbed 21 per cent in the period from 2005 to 2008, before falling 17 per cent from 2008 to 2012.

In an attempt to simplify the interpretation of income inequality/distribution data, there are a number of summary measures available. These reduce the trends to one number offering a snapshot of the distribution and facilitating comparisons over

Table 1: Recent Trends in Ireland's Income Distribution

	2005	2006	2007	2008	2009	2010	2011	2012
Deciles	%	%	%	%	%	%	%	%
Bottom	3.3	3.5	3.4	3.5	3.6	3.2	3.0	3.0
2	4.7	4.8	4.9	5.1	5.2	5.0	5.0	4.9
3	5.6	5.7	5.7	5.9	6.1	5.9	6.0	6.0
4	6.7	6.6	6.6	6.8	7.0	6.8	6.9	6.9
5	7.8	7.7	7.7	7.9	8.1	7.8	7.9	7.9
6	9.2	8.9	9.0	9.1	9.3	9.1	9.2	9.1
7	10.5	10.3	10.6	10.4	10.6	10.3	10.5	10.5
8	12.1	12.1	12.3	12.2	12.3	12.0	12.4	12.4
9	14.5	14.7	15.1	14.7	14.8	15.2	15.2	15.2
Top	25.6	25.9	24.7	24.4	23.2	24.7	24.0	24.0
Gini coefficient	32.4	32.4	31.7	30.6	29.3	31.4	31.1	31.2
Quintile ratio	5.0	4.9	4.8	4.5	4.3	4.9	4.9	5.0
Deprivation rate	14.8	14.0	11.8	13.7	17.1	22.6	24.5	26.9
Poverty rate	18.5	17.0	16.5	14.4	14.1	14.7	16.0	16.5
Poverty pre-transfers	40.1	40.3	41.0	43.0	46.2	50.2	50.7	50.3
Mean household income €	40,497	43,646	47,988	49,043	45,959	43,151	41,819	40,505
Poverty threshold, 1 adult €	10,018	10,566	11,876	12,455	12,064	11,155	10,889	10,621

Figure 1



time. The two most prominent of these measures are listed in the table, namely, the Gini coefficient and the quintile ratio. The former, named after its proposer, the Italian sociologist and statistician Corrado Gini, ranges from 0 to 100, with higher scores reflecting a greater degree of inequality in the distribution. The latter measure, the quintile ratio, compares the shares of the bottom 20 per cent and the top 20 per cent (quintiles).

In the case of Ireland's income distribution, the aforementioned stability in the decile shares between 2005 and 2012 is, unsurprisingly, reflected in stable summary measures. The Gini has sat at around 30 to 32 and the quintile ratio at 4.5 to 5 over this eight-year period. Both measures dip in 2009, reflecting the unfolding economic crisis in and around that time, and the fact that this hit higher incomes and earners first before subsequently impacting right across the income distribution as austerity measures were implemented.

The Lowest Income Groups

In SILC, those on the lowest incomes are captured by assessing the numbers beneath a poverty line which is set at 60 per cent of median equivalised disposable income. While there are critiques of measuring poverty in this way, it represents a simple and easily-updatable empirical attempt to determine an income amount below which households and individuals are unlikely to have sufficient resources to participate in society.[4]

Between 2005 and 2009, the proportion of the population below the poverty line (at risk of poverty) declined from 18.5 to 14.1 per cent, a phenomenon predominantly driven by increases in the incomes of those dependent on social welfare payments at that time. Much of that progress dissipated as the recession took hold, with the poverty rate climbing back up to 16.5 per cent. Estimates by Social Justice Ireland suggest this increase represents an additional 120,000 people falling into poverty since 2009, with overall numbers standing at approximately 750,000 people in poverty, one-quarter of whom are children.[5] These increases occurred even as the poverty line fell, in line with median incomes, during the period (see Table 1, p. 4).

Complementing the poverty rate is the *deprivation rate* measuring the proportion of the population indicating an inability to afford more than two of eleven basic items. These items include: two pairs of shoes; new, not second-hand, clothing; a warm waterproof coat; being able to heat the home; being able to afford to socialise; being able to afford a roast once a week; being able to buy presents for family once a year, and being able to replace worn-out furniture.[6] As Table 1 shows, deprivation declined as overall income grew but then increased rapidly as the recession unfolded. By 2012, almost 27 per cent of the population were experiencing deprivation (in other words, they lacked two or more items from the list of eleven basic items). This contrasts with a deprivation rate of 11.8 per cent in 2007. The extent of deprivation among those in the lowest income groups is striking: the data for 2012 show that in the bottom three deciles of income distribution the proportion experiencing deprivation averaged 48 per cent.

And the Highest ...

At the other end of the income distribution scale, there are no official data on the shares of income going to those at the very top. However, estimates by Nolan using income tax data suggest that in 2009, the latest year for which information is available, the top 1 per cent received 10.5 per cent of all the income.[7] Although there are measurement challenges for this group, what is clear is that the skewed income distribution picture outlined above, and represented in Table 1, is in reality even more skewed towards those at the very top of the income distribution.

In 2012, more than half the Irish population would sit below the poverty line were it not for social transfers.

Pre-Distribution and Re-Distribution

Standing back from these stable trends in the income distribution, a number of questions arise. In particular, why is it the case that income inequality has, for the most part, remained stable while there have been considerable developments in social protection policies and expenditure?

An insight comes from a comparison between the proportion of the population who are classified as being in poverty before and after social transfers. In 2012, more than half the Irish population would sit below the poverty line were it not for social transfers. However, after income from welfare payments – including Child Benefit, old age pensions, disability payments, jobseeker payments, Family Income Supplement and so on – is taken into account, the proportion of the population below the poverty line falls to 16.5 per cent. This welfare induced decrease in the poverty rate is often cited as a measure of the effectiveness of the Irish welfare system, which is not an unreasonable conclusion, but as the data shows that system has been running hard to counter the inequity in the underlying pre-distribution.

In an earlier paper, this author looked at the structure of the gross household income distribution (earnings plus transfers) in 2011. In cash income terms, with no adjustments for household size and composition, this study shows that:

- 33 per cent of households had a gross income of less than €27,000
- 62 per cent of households had a gross income of less than €50,000
- The top 30 per cent of households had a gross income of more than €62,000 per annum
- The top 20 per cent of households had a gross income of more than €80,000 per annum
- 12 per cent of households had a gross income above €100,000 per annum
- 2 per cent of households had gross incomes above €200,000 per annum.[8]

Such a profile offers an often missing insight into the nature of income across the State and the large numbers of households living on low incomes – even after welfare transfers. Implicit in these figures is an underlying skewed direct (or earned) income distribution – 'the pre distribution'. Many earn nothing, and are entirely dependent on transfers, while many others earn income but at low levels. Eurostat, using data from the 2010 Structure of Earnings Survey, estimated that 20.7 per cent of Irish workers were low paid – defined as those earning two-thirds or less of the national median gross hourly earnings.[9] Complementing this, data from SILC points towards those at work (the working poor) as representing 12.6 per cent of all those at risk of poverty.

Challenges and Conclusions

On the surface, Ireland's income distribution looks remarkably stable. However, underneath there is much going on. The large role played by social transfers in counteracting low incomes is remarkable. The sustainability of such a level of intervention, which is understandably exaggerated during the recent period of high unemployment but was still very high in earlier periods of full employment, is questionable. Indeed, in the context of an ageing population where other welfare commitments will naturally grow, it is not realistic to think that it will be feasible for the State's social protection system to continue to play such a huge role in countering inequality.

That implies some policy directions for the years to come. To date, our attention has principally been on the disposable income distribution and on adopting various policy measures and reforms to improve it. While that should continue, it needs to be joined by a further focus on the direct income distribution, most particularly earnings, and policy attempts to address the skewed earnings distribution. Initiatives such as the living wage and other (earnings and tax) measures targeted at the working poor and those on low incomes should form part of such a response.[10] Without them, if Ireland is to maintain its stable, but not so equal, income distribution, it will require more and more effort on the part of the State's welfare system.

Notes

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2. Central Statistics Office, *National Income and Expenditure 2013*, Dublin: Stationery Office, October 2014. (http://www.cso.ie/en/media/csoie/releasespublications/documents/economy/2013/nie_2013.pdf)
3. For more information see Micheál L. Collins, *Total Direct and Indirect Tax Contributions of Households in Ireland: Estimates and Policy Simulations,* Dublin: Nevin Economic Research Institute, August 2014, NERI Working Paper, 2014/No. 18. (http://www.nerinstitute.net/download/pdf/household_tax_contributions_neri_wp18.pdf)
4. An alternative approach is provided by 'Budget Standards' measures such as the 'Minimum Essential Standard of Living' developed by the Vincentian Partnership for Social Justice (see www.budgeting.ie).
5. Social Justice Ireland, *Poverty and Income Distribution – Policy Briefing*, Dublin: Social Justice Ireland, 2014. (http://www.socialjustice.ie/sites/default/files/attach/publication/3375/2014-06-26-sjipolicybriefingonpovertyandincomedistribution.pdf)
6. For a complete list see Central Statistics Office, *Survey on Income and Living Conditions 2012*, Dublin: Stationery Office, 2014, p. 20. (http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2012/silc_2012.pdf)
7. See The World Top Incomes Database (http://topincomes.parisschoolofeconomics.eu/#Country:Ireland).See also Brian Nolan, 'Long Term Trends in Top Income Shares in Ireland', in A. B. Atkinson and T. Piketty (eds.), *Top Incomes over the Twentieth Century: A Contrast Between Continental European and English-Speaking Countries*, Oxford: Oxford University Press, 2007 and Brian Nolan, 'Updating top income shares for Ireland 2000–2009', The World Top Incomes Database, 21 May 2012. (http://topincomes.parisschoolofeconomics.eu/#Country:Ireland).
8. Micheál L.Collins, *Household Income Distribution in the Republic of Ireland*, Dublin: NERI, February 2014, NERI Research inBrief, No. 9. (http://www.nerinstitute.net/download/pdf/charts_from_neri_inbrief_february_2014.pdf)
9. Eurostat, 'In 2010, 17% of employees in the EU were low-wage earners', *Statistics in Focus* 48/2012, Luxembourg: Eurostat, 2012.
10. See 'Living Wage Ireland' (www.livingwage.ie). The Living Wage Ireland Technical Group is comprised of: Vincentian Partnership for Social Justice (VPSJ); Nevin Economic Research Institute (NERI); Social Justice Ireland; SIPTU (The Services, Industrial, Professional and Technical Union); Tasc.

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