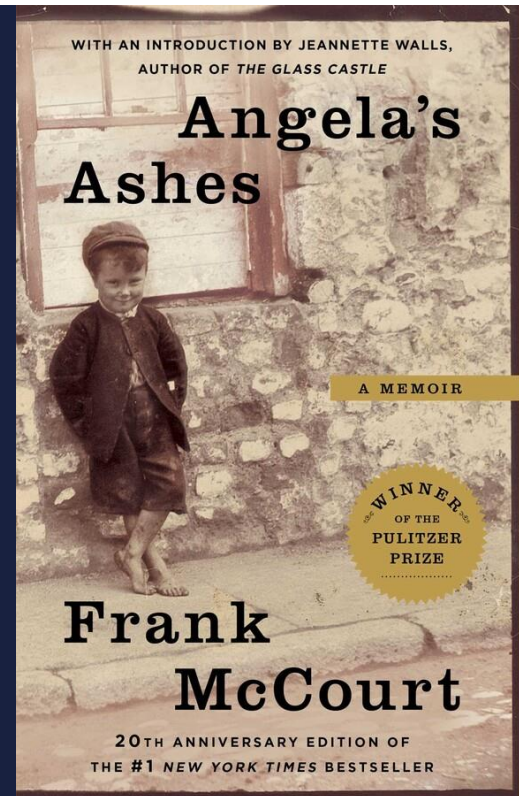


# Inclusive Growth: the Irish exception

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Eclneq, Aix-en-Provence  
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## Introduction

### **Rise in economic inequality & stagnation of material living standards in many rich countries over recent decades**

- Has led to widespread concern about deepening cleavages and emerging systemic socio-political risks (e.g. Atkinson, 2015)
- & for inclusive growth to become a rallying cry for organisations like the OECD (2015), the World Bank (2017) & the IMF (2017)

**Ireland stands out as a rare recent example of somewhere that has experienced such inclusive growth**

# Ireland has seen income inequality fall over last 3 decades



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

# ... the product of inclusive – if volatile – income growth



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

## This paper:

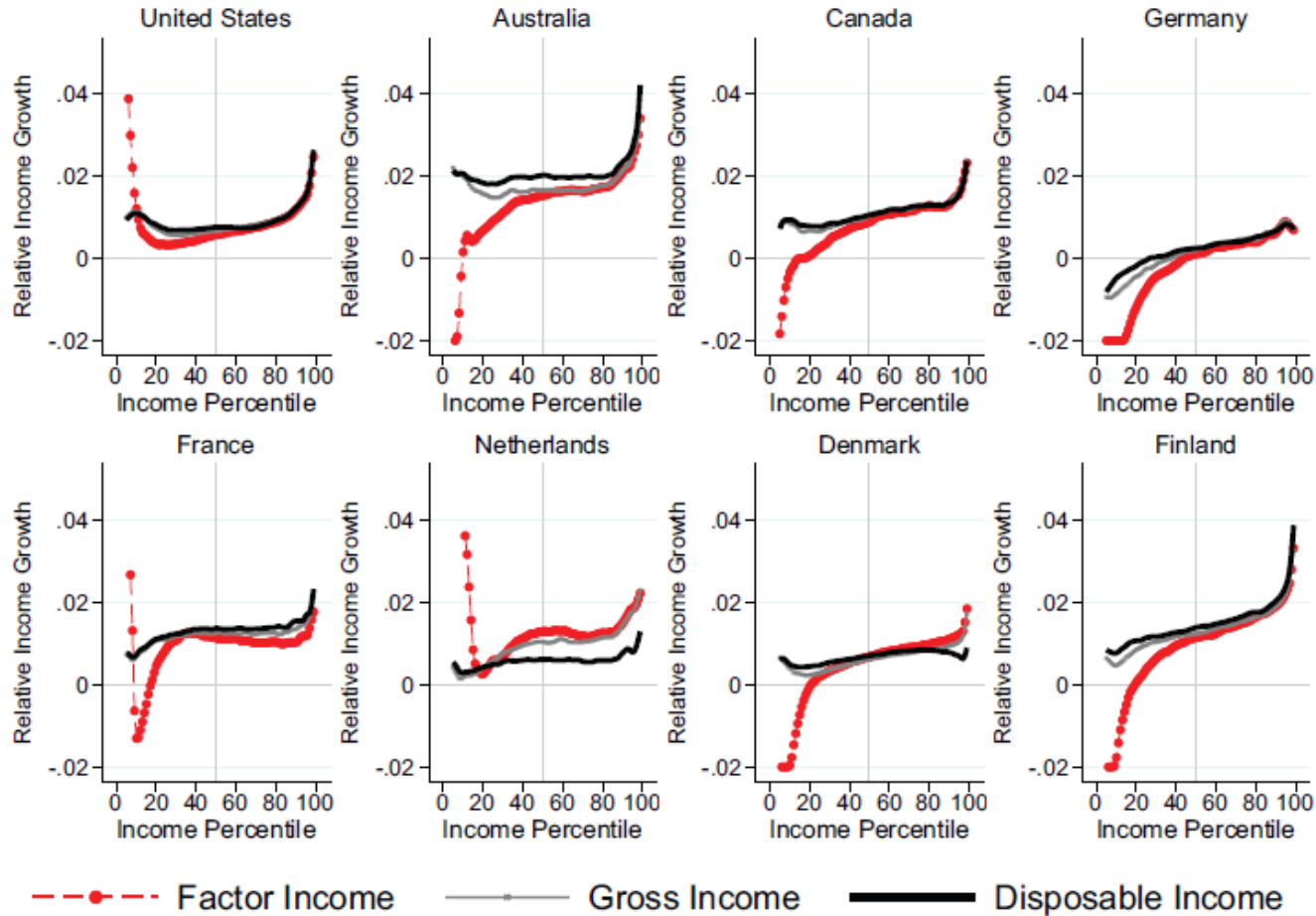
### **Explores what underlies this inclusive pattern of growth**

- Decompose growth across the distribution into “compositional” and “policy” components following Parolin & Gornick (2021)
- ... then microsimulate direct effect of tax & transfer reforms

### **Use household survey data covering period 1987-2019**

- Focus on real equivalized disposable household income: not some distorted National Accounts measure like GDP
- Disposable income after taxes & benefits but before housing costs are deducted, deflated by the Consumer Price Index (CPI)
- Focus on working-age population to minimise problems posed by households without positive market income

# In contrast to experience of other advanced economies



Source: Figure 3 in Parolin, Z. J., & Gornick, J. C. (2021). Pathways toward Inclusive Income Growth: A Comparative Decomposition of National Growth Profiles. *American Sociological Review*, 86(6), 1131–1163.

# ... inclusive growth for even working-age pop in Ireland



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files. Working age population only.

## Decompose this into policy & composition components

### Use Parolin & Gornick's (2021) DFL-style decomposition that reweights data on basis of characteristics including:

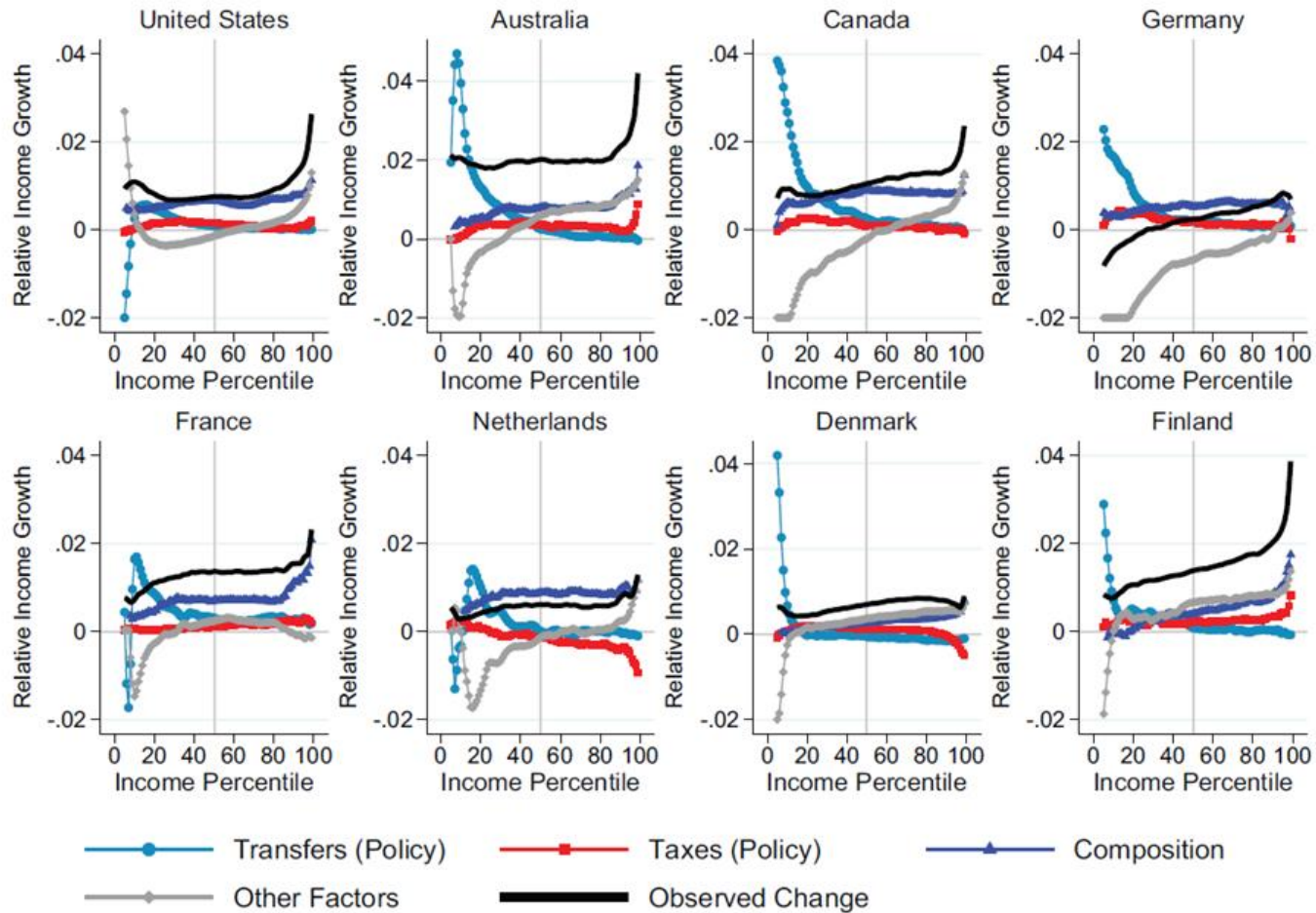
- Number of adults and children in the household
- % of household members <18, 18-25, 26-35, 36-45, 46-55, 55+
- whether household head & spouse/partner have same level of education and (separately) same employment status
- + ... + set of interactions

### Decompose growth incidence curve into compositional, tax policy, welfare policy & residual components

- Only for working age population with positive market income as has trouble dealing with non-positive values

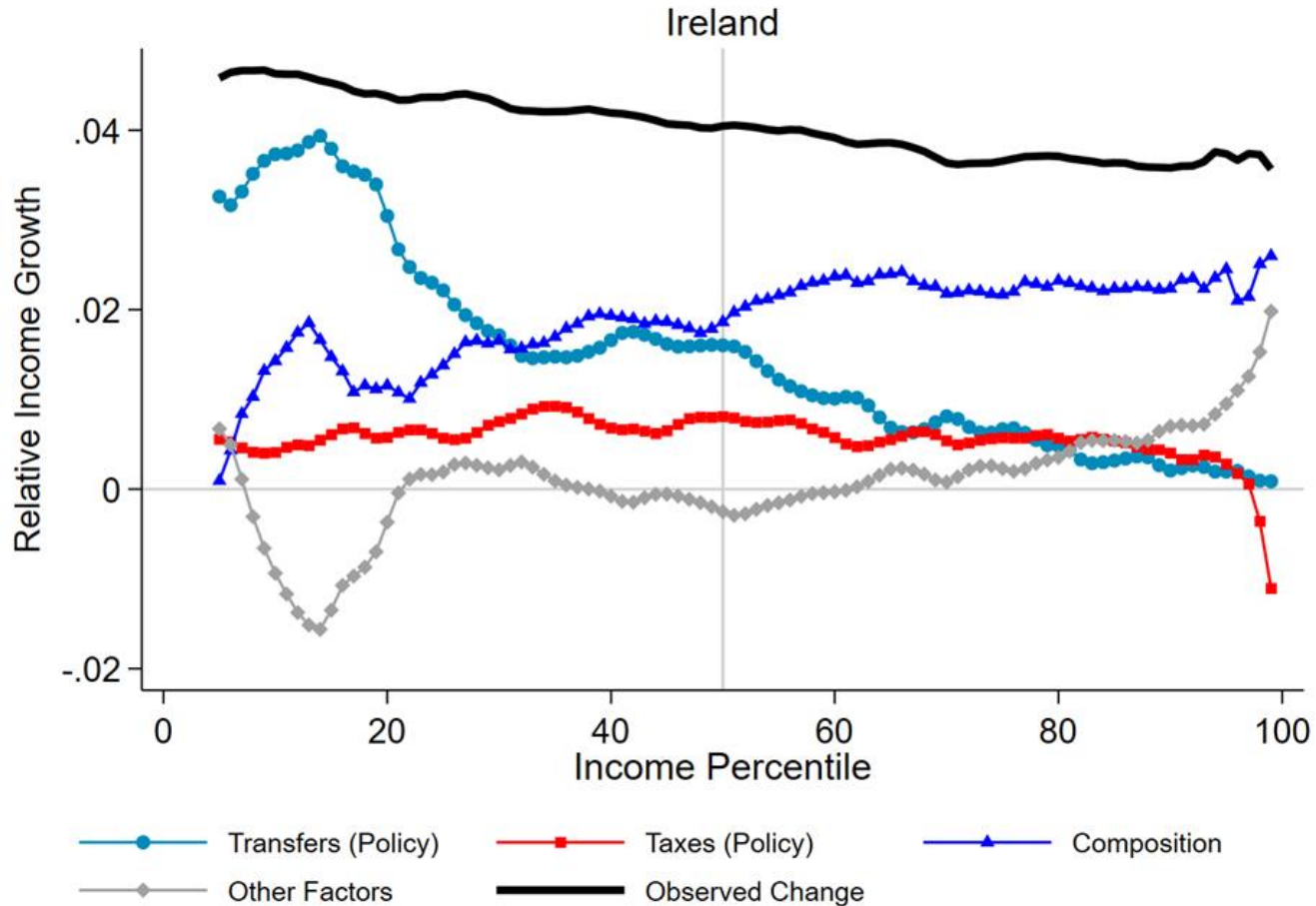


# Parolin & Gornick (2021) decomposition: 8 LIS countries



Source: Figure 7 in Parolin, Z. J., & Gornick, J. C. (2021). Pathways toward Inclusive Income Growth: A Comparative Decomposition of National Growth Profiles. *American Sociological Review*, 86(6), 1131–1163.

# Parolin & Gornick (2021) decomposition: Ireland



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services and the Survey of Income and Living Conditions Research Microdata Files.

# Parolin & Gornick (2021) decomposition: summary

## **Compositional contribution larger than other countries**

- Boost to growth across the distribution, but regressive pattern

## **Welfare policy contribution spreads further up distribution**

- Scale at very bottom similar to Australia, Canada and Denmark, but still large positive contribution at median in Ireland

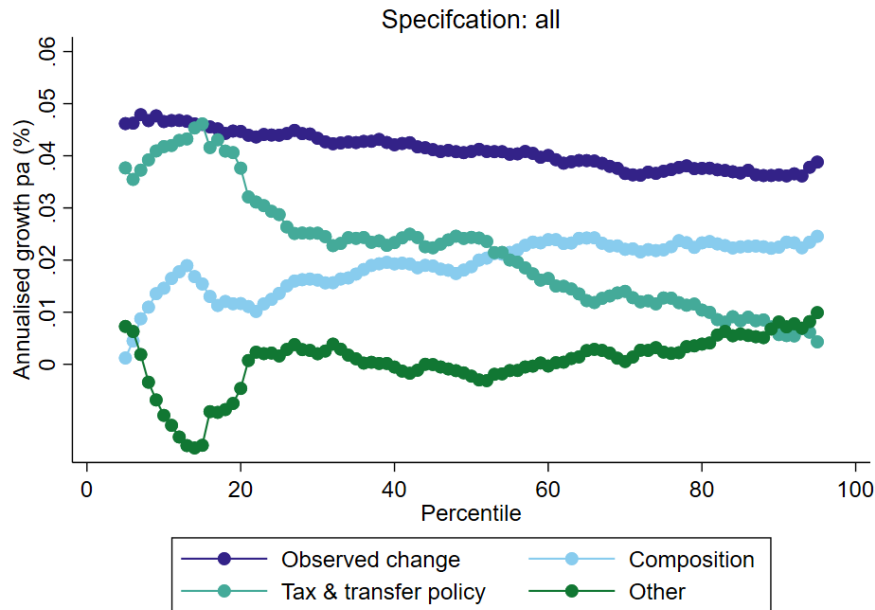
## **While tax policy contribution positive across distribution**

- ... except at the very top (like the Netherlands & Denmark)

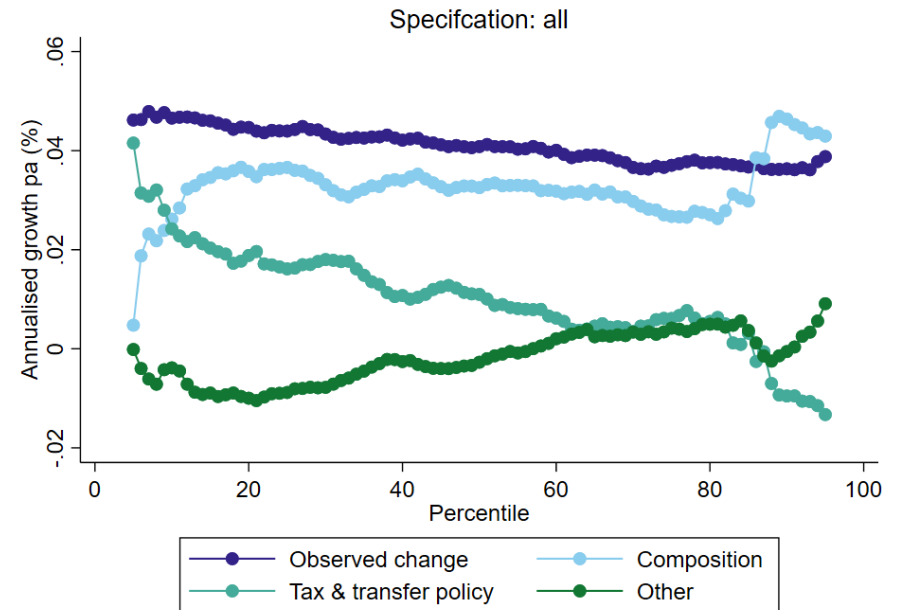
**However, relative roles of policy & composition sensitive to whether reweight to 1987 or 2017 baseline**

# Parolin & Gornick (2021) decomposition: caveat

## Reweighted to 1987 baseline



## Reweighted to 2017 baseline



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services and the Survey of Income and Living Conditions Research Microdata Files.

# Huge compositional change in Ireland over this period

## Large fall in size of households, especially at the bottom ↔

- alongside big shift in age structure of population ↔

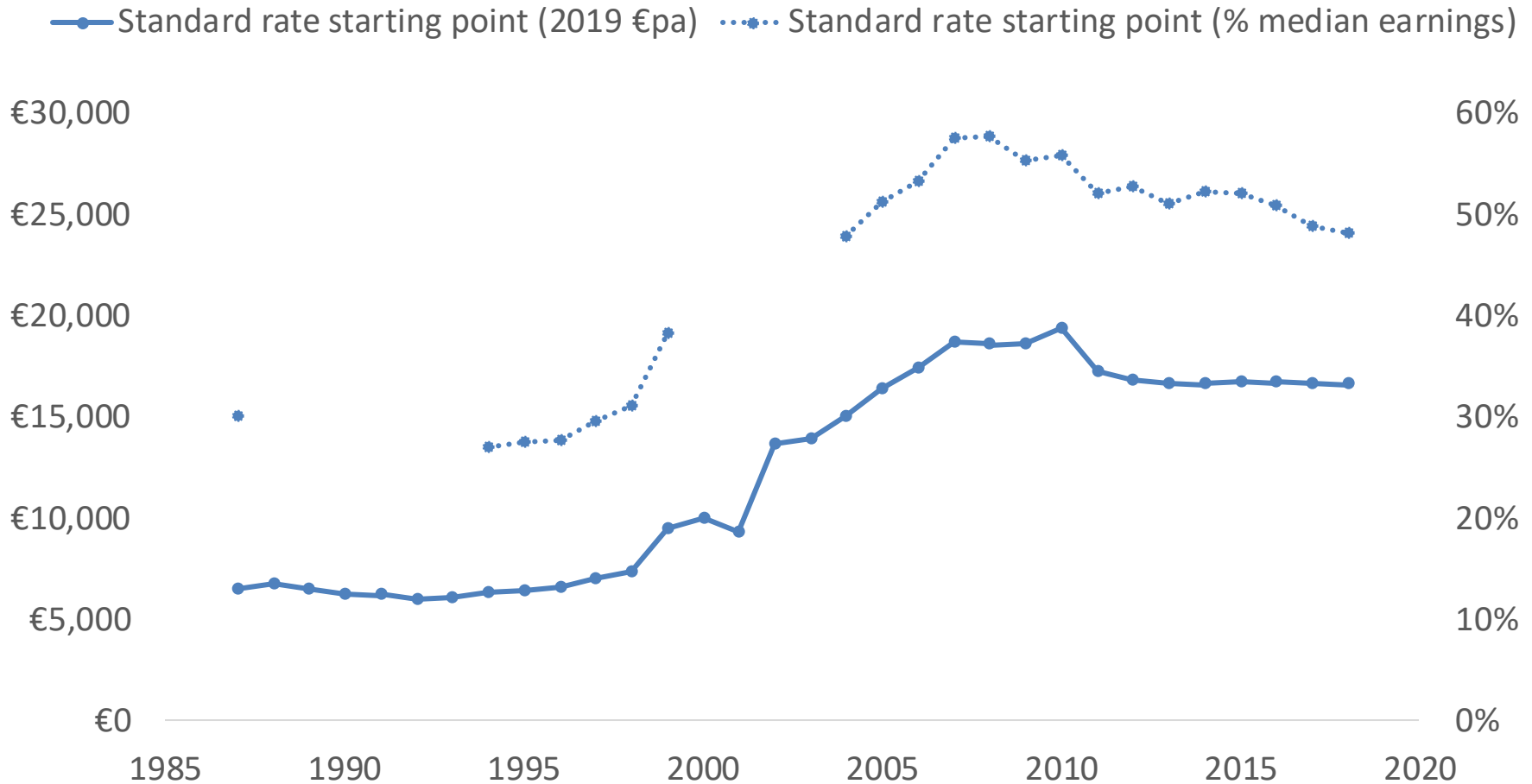
## Alongside rise in the share of HHs w/2+ in paid work ↔

- ... largely driven by women working more in their 30s/40s ↔
- ... with most spouses of working men now also in paid work ↔

## ... & increase in % of those aged 25-60 with tertiary edu ↔

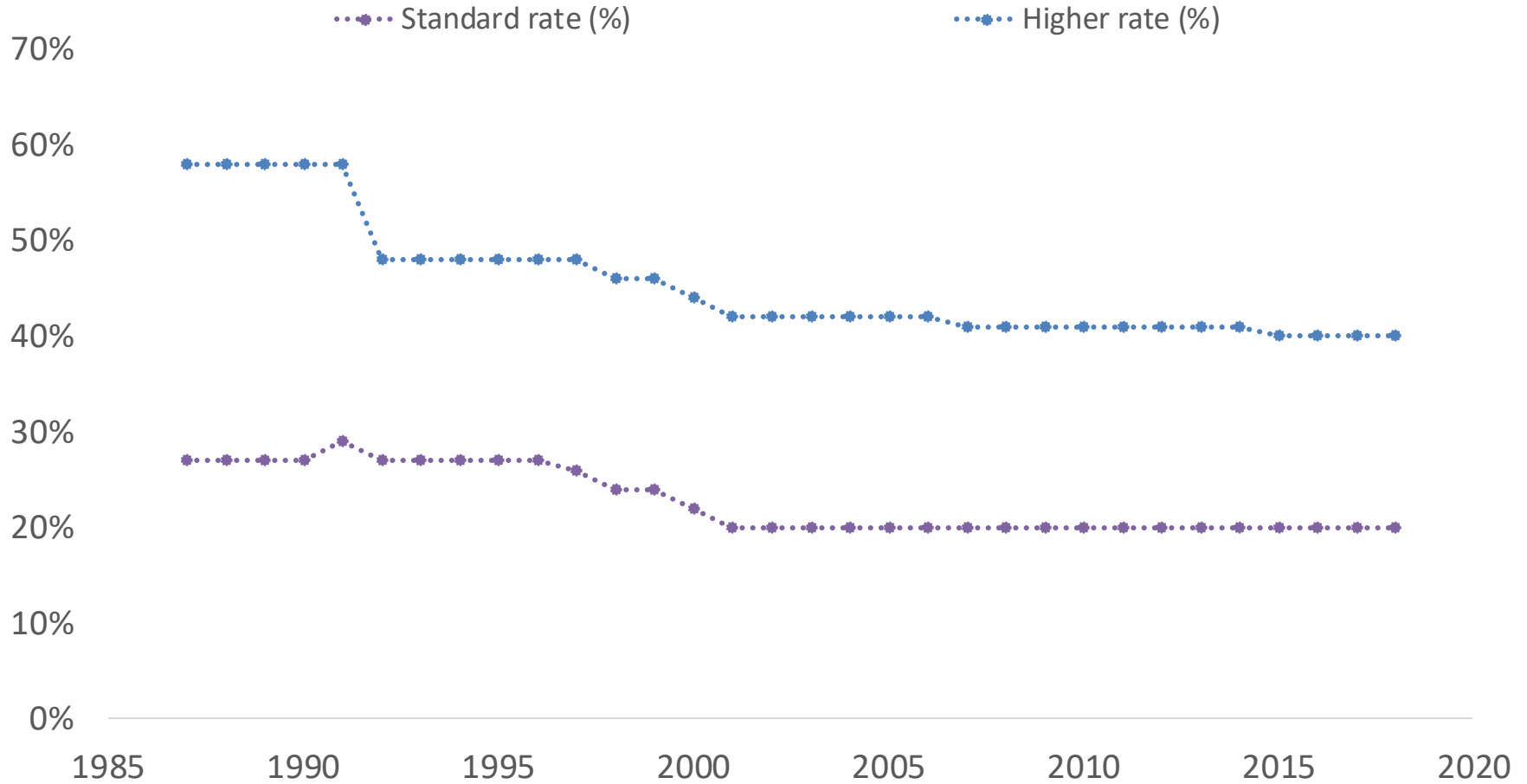
- ... so despite quite modest earnings growth | education ↔
- ... median earnings have risen substantially in real terms ↔
- ... although by far less than median disposable income ↔

# Policy reforms: many taken out of income tax net



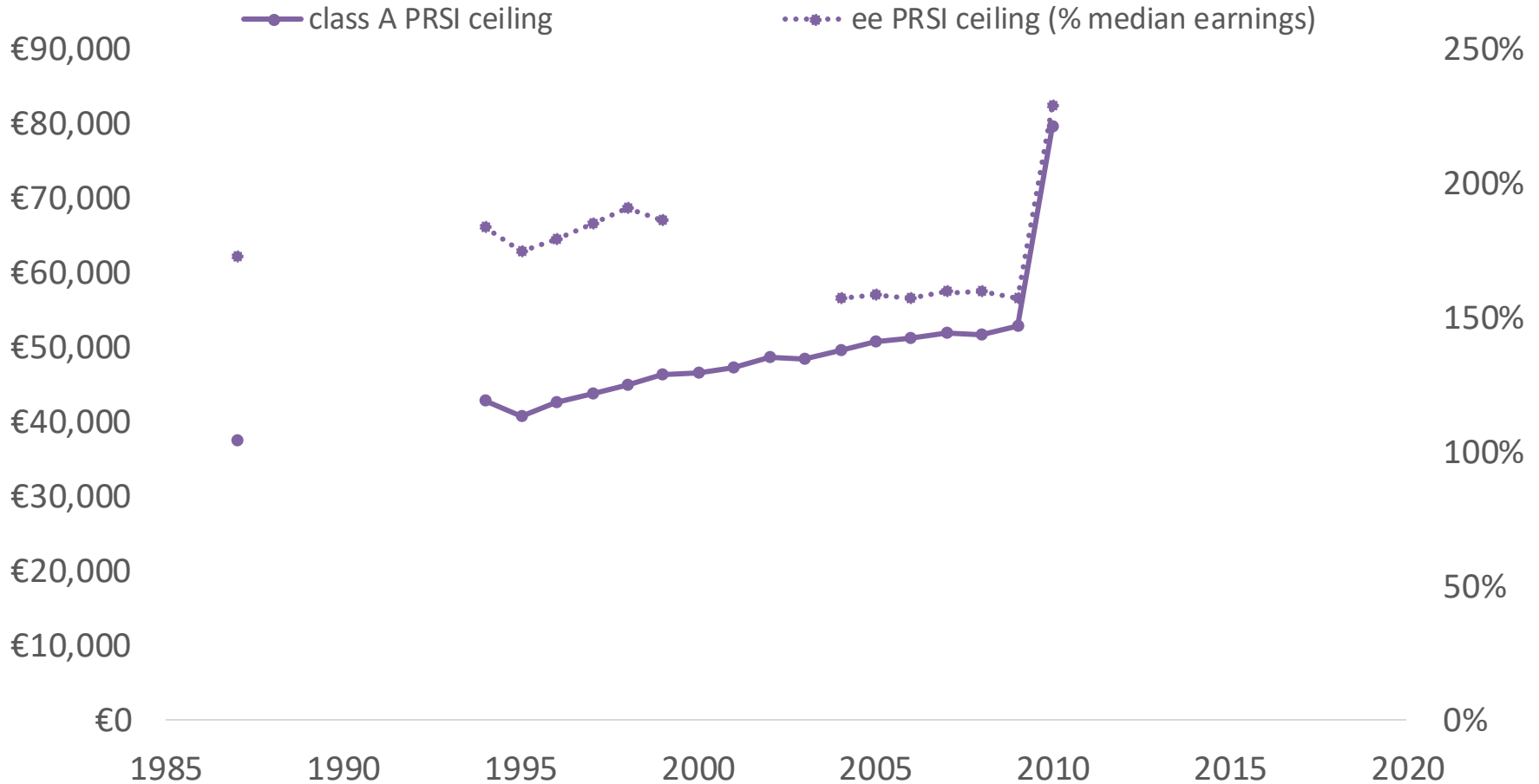
Note: Authors' calculations derived from Table IT1 in Office of the Revenue Commissioners' Annual Statistical Report (various years). Values expressed in January 2019 euro, using CSO all-items Consumer Price index (CPM02 series).

# ... with rates of income tax also cut substantially



Note: Authors' calculations derived from Table IT1 in Office of the Revenue Commissioners' Annual Statistical Report (various years).

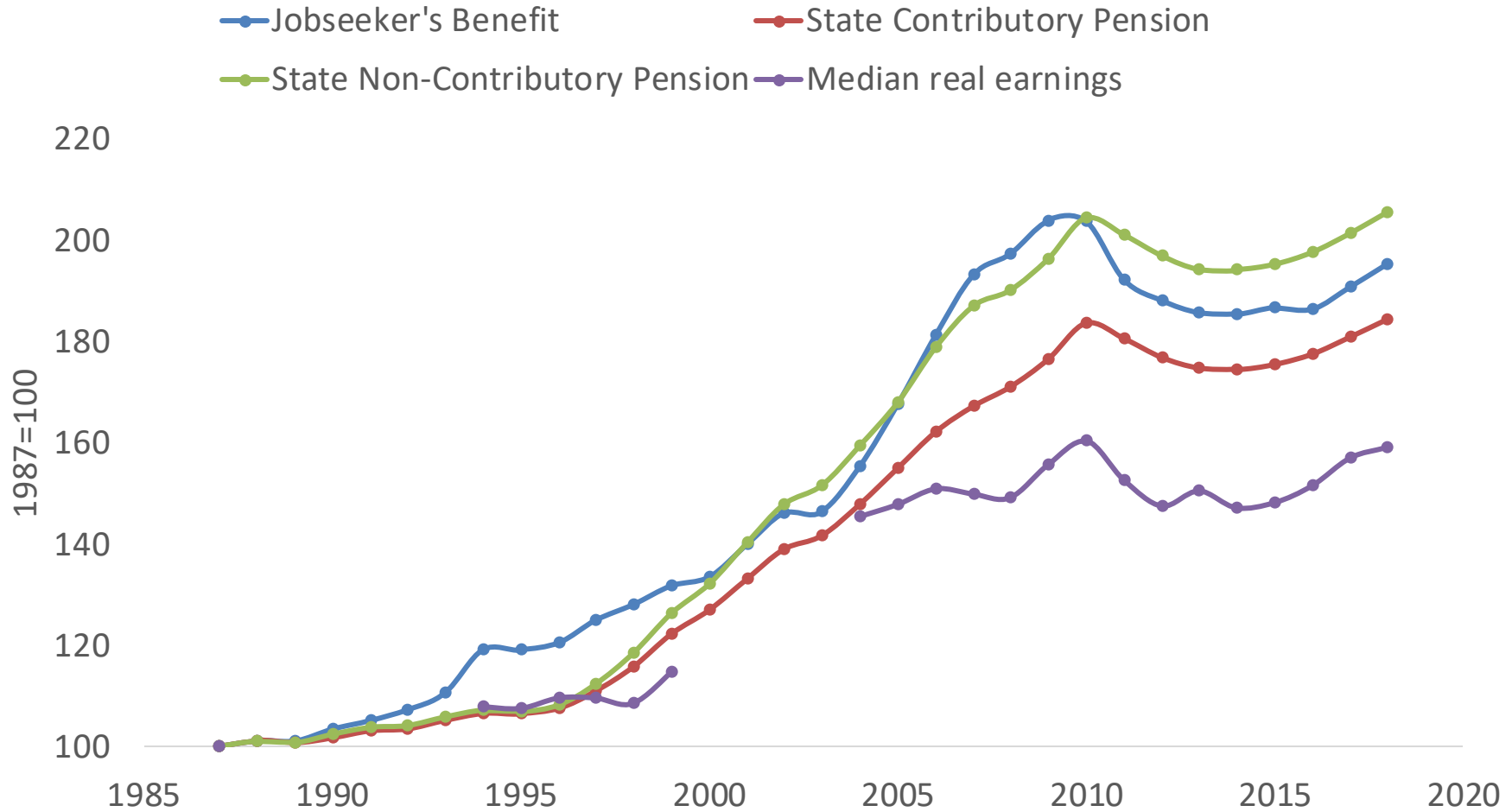
# ... but more complicated at the top with uncapping of SSCs



Note: Authors' calculations derived from historic Department of Social Welfare publications (various years). Values expressed in January 2019 euro, using CSO all-items Consumer Price index (CPM02 series).



# ... while welfare rates have risen faster than earnings



Note: Authors' calculations derived from historic Department of Social Welfare publications. Values expressed in January 2019 euro, using CSO all-items Consumer Price index (CPM02 series).

## Can directly simulate first-round effects of these reforms

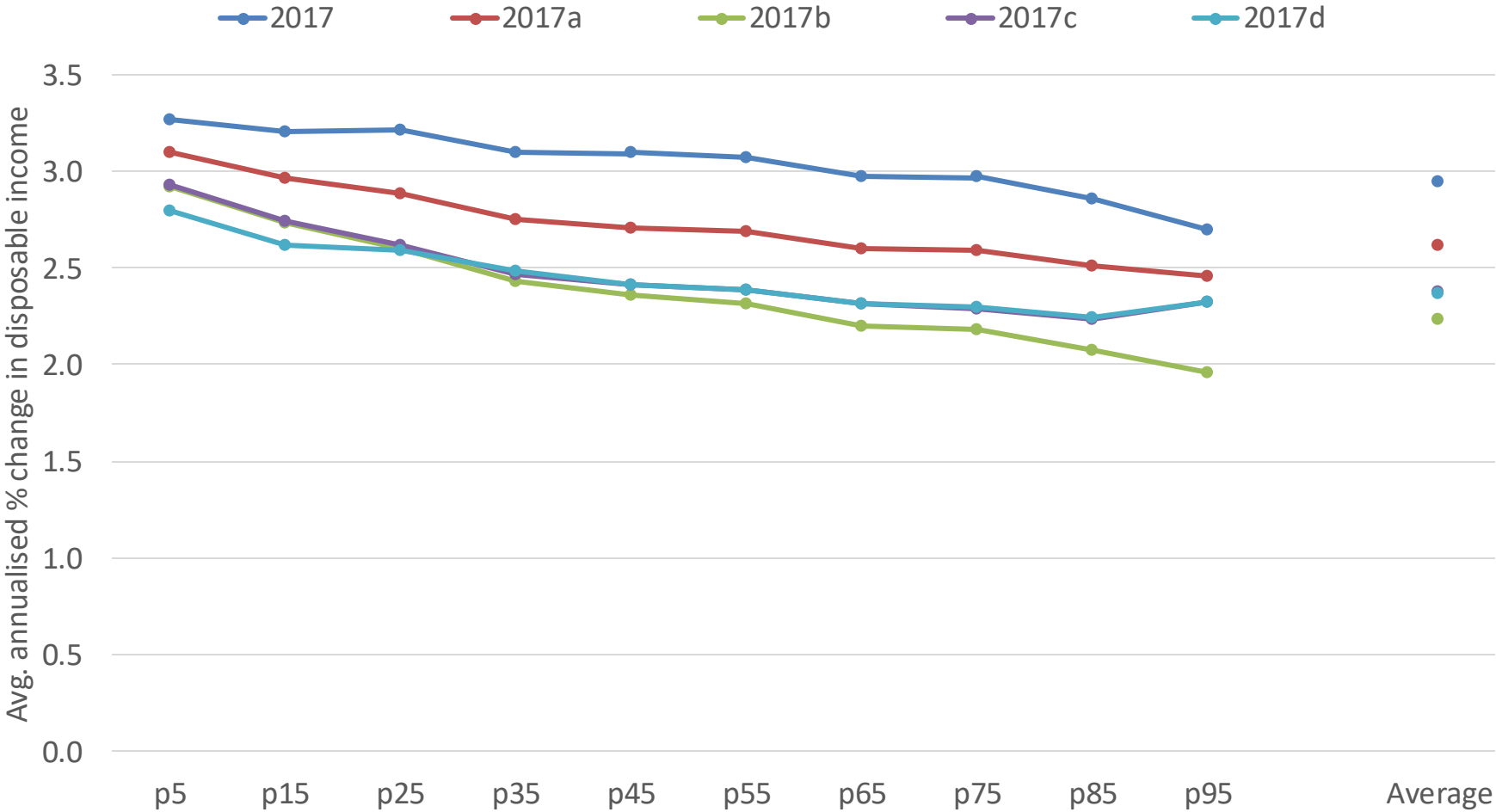
### Use EUROMOD run on data from the 2019 SILC to simulate counterfactual distribution of income if:

- A. Tax credits, standard rate cut-off & PRSI entry threshold rose only in line with median earnings
- B. ... + income tax rates remained at 1987 levels (27% & 48%)
- C. ... + USC never introduced & PRSI remained at subject to cap
- D. ... + welfare payments indexed to median earnings

### Does not account for any behavioural responses to these reforms (e.g. higher employment from tax cuts)

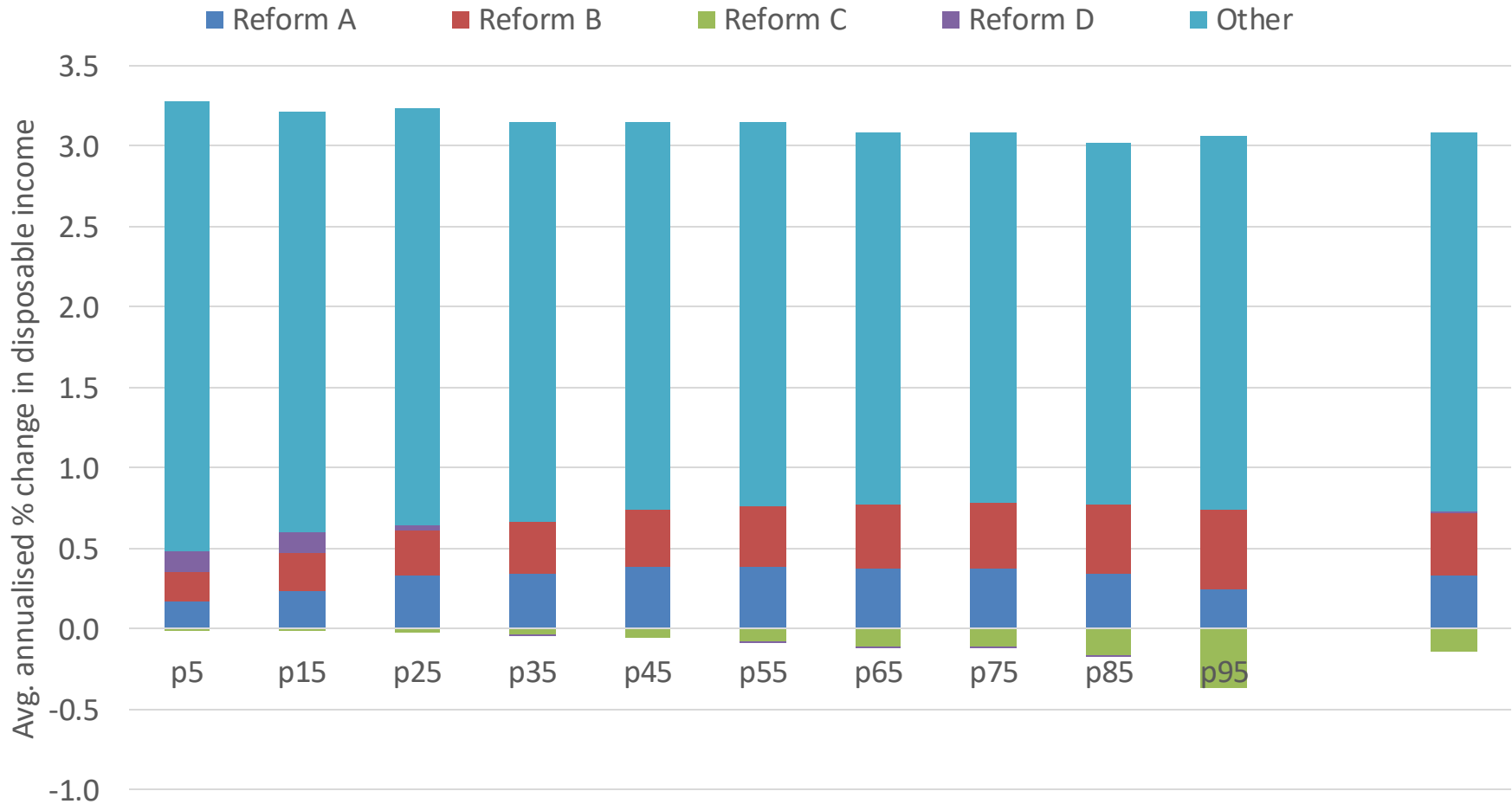
- Continue focus on working-age population with market income

# Although suggests growth would be lower without reforms



Note: Authors' calculations using SWITCH – the ESRI tax & benefit microsimulation model – run on the 2019 Survey of Income and Living Conditions Research Microdata Files.

# ... also suggest reforms explain small % of observed growth



Note: Authors' calculations using SWITCH – the ESRI tax & benefit microsimulation model – run on the 2019 Survey of Income and Living Conditions Research Microdata Files.

# Conclusions

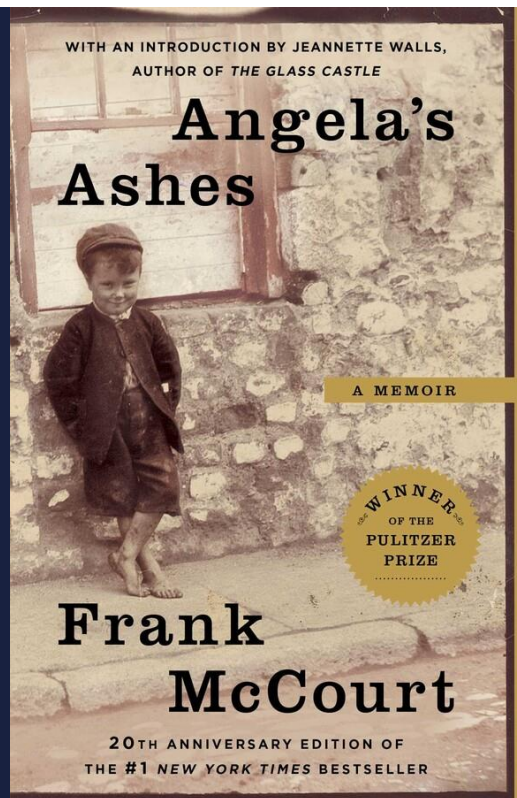
## **Irish experience a rare recent example of inclusive growth**

- While aggregate growth best seen as Irish hare catching up with neighbouring tortoises, wasn't predetermined to be inclusive
- The result of huge compositional change & policy reforms (which it's not clear are replicable elsewhere let alone Ireland)
- Estonia post-EU accession only other case of such sustained, strong growth alongside falling inequality? Earlier transitions?

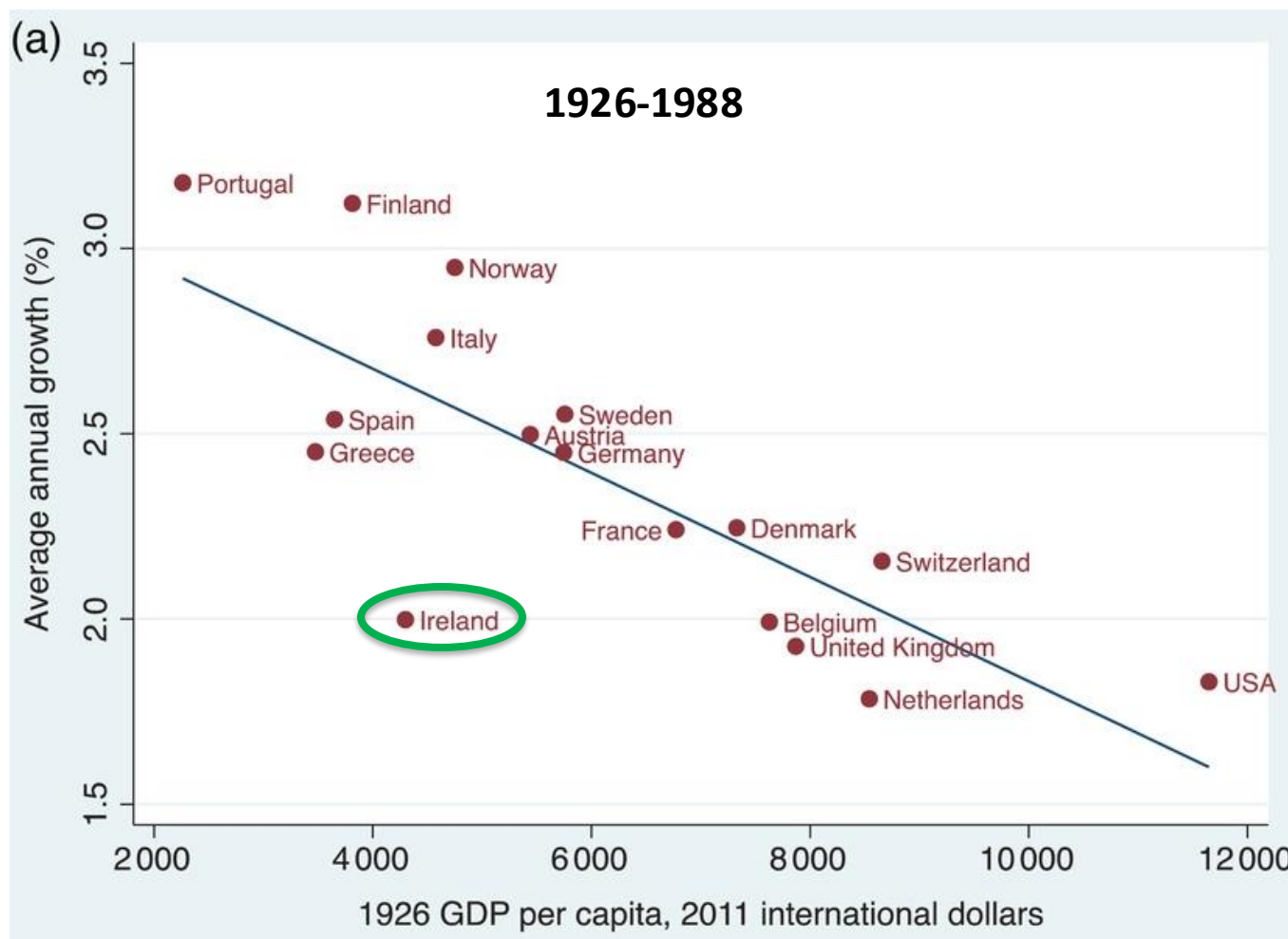
## **Relative contribution of composition & policy still unclear**

- Any decomposition sensitive to selection of baseline period?
- Are no-behavioural response microsimulation estimates for reforms of this magnitude informative?
- What else might be informative?

Suggestions &  
comments very  
welcomed!

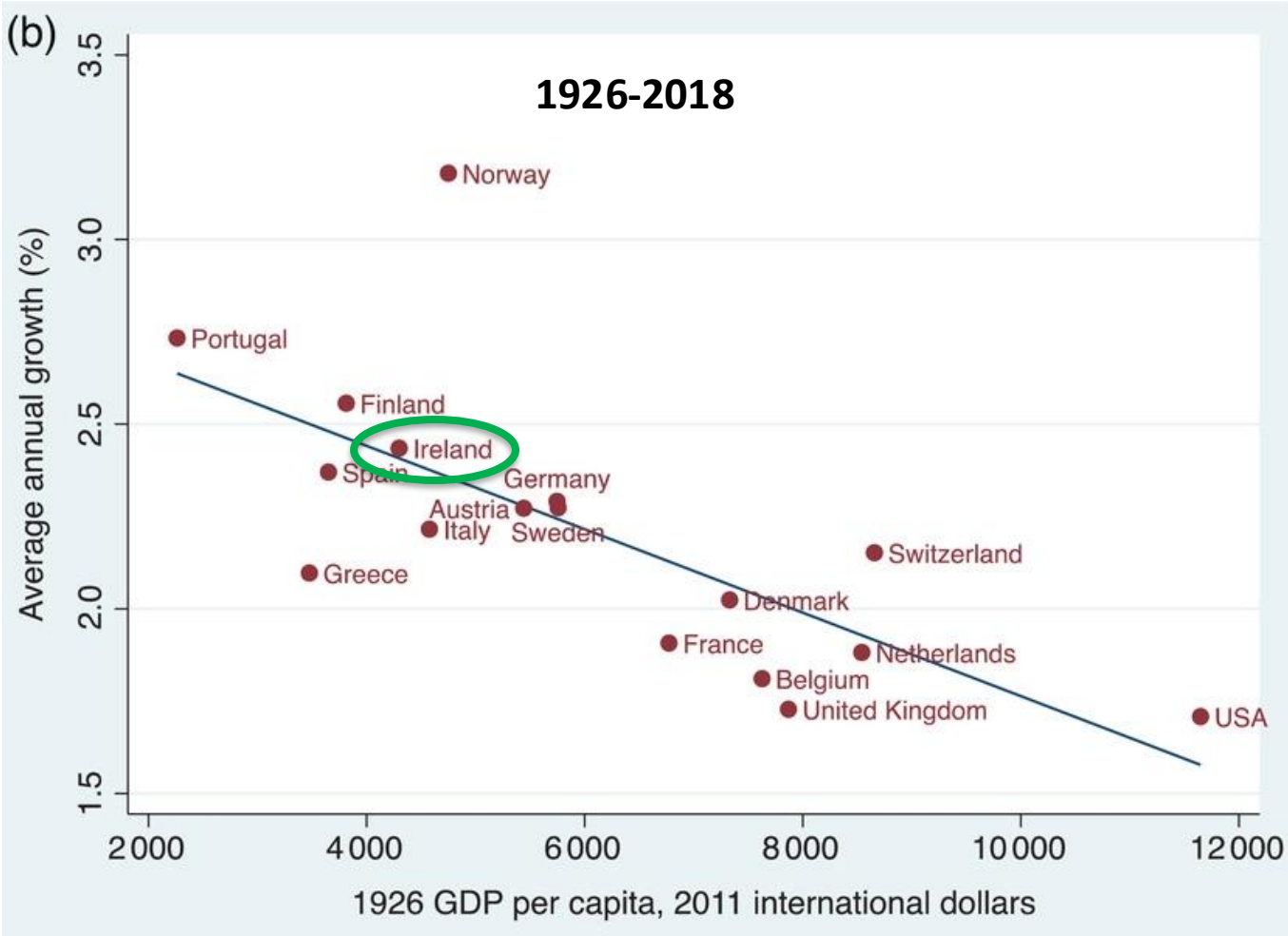


# While aggregate growth best seen as belated convergence



Source: Figure 2 from Ó Gráda, C., & O'Rourke, K. H. (2021). The Irish economy during the century after partition. *The Economic History Review*. <https://doi.org/10.1111/ehr.13106>

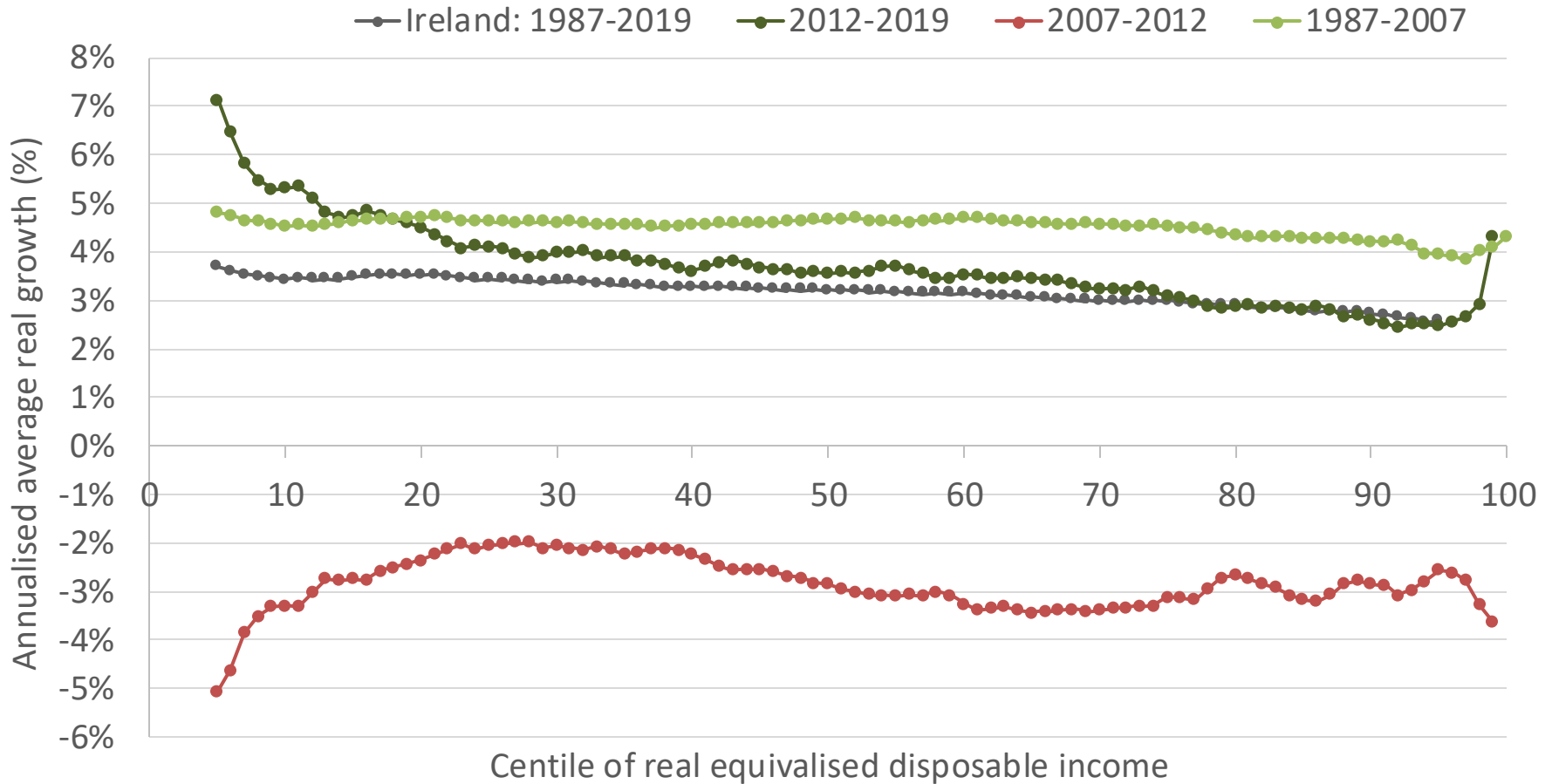
# While aggregate growth best seen as belated convergence



Source: Figure 2 from Ó Gráda, C., & O'Rourke, K. H. (2021). The Irish economy during the century after partition. The Economic History Review. <https://doi.org/10.1111/ehr.13106>



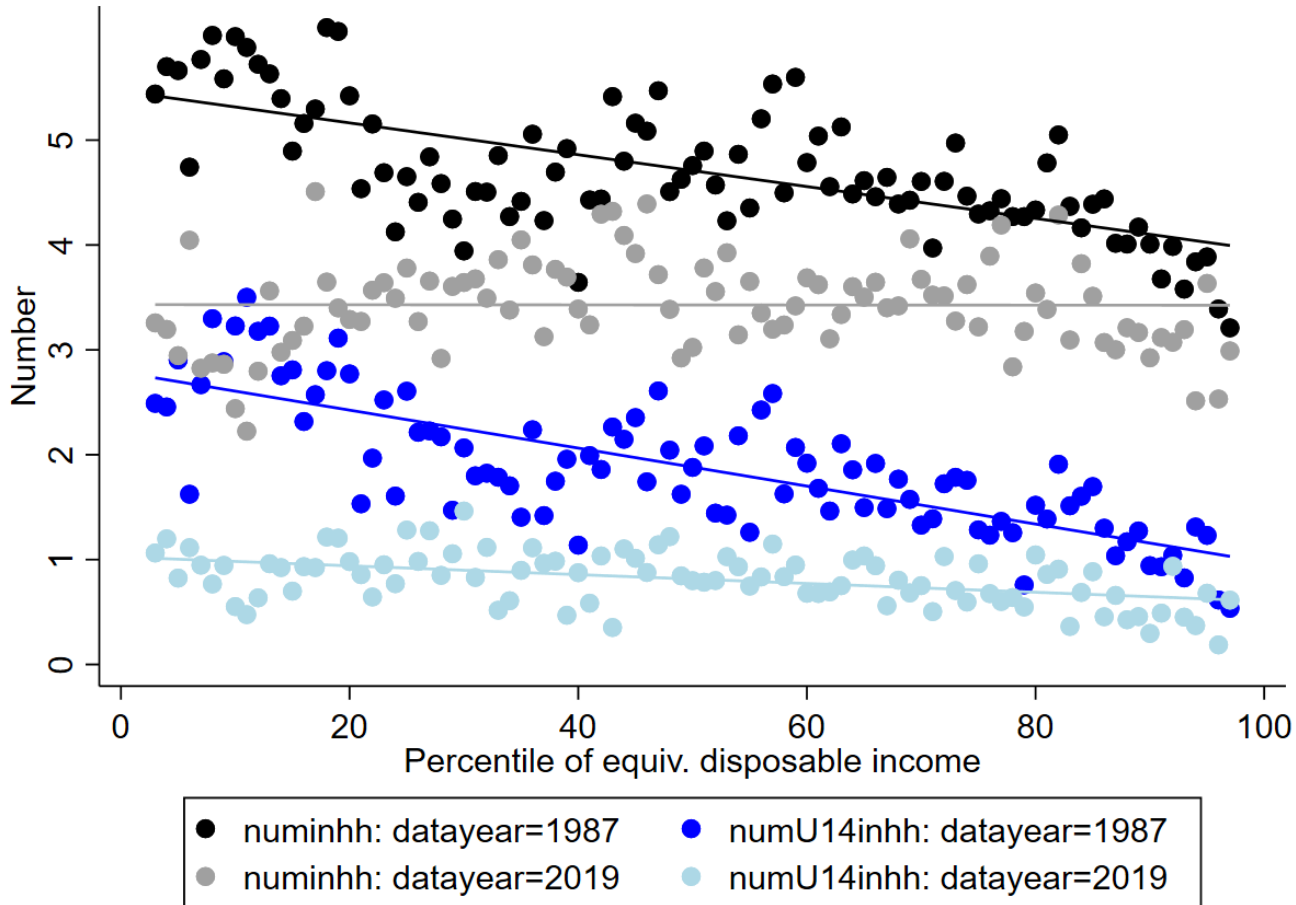
# ... the product of progressive – if volatile – income growth



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

# Changes in household size & composition one key factor

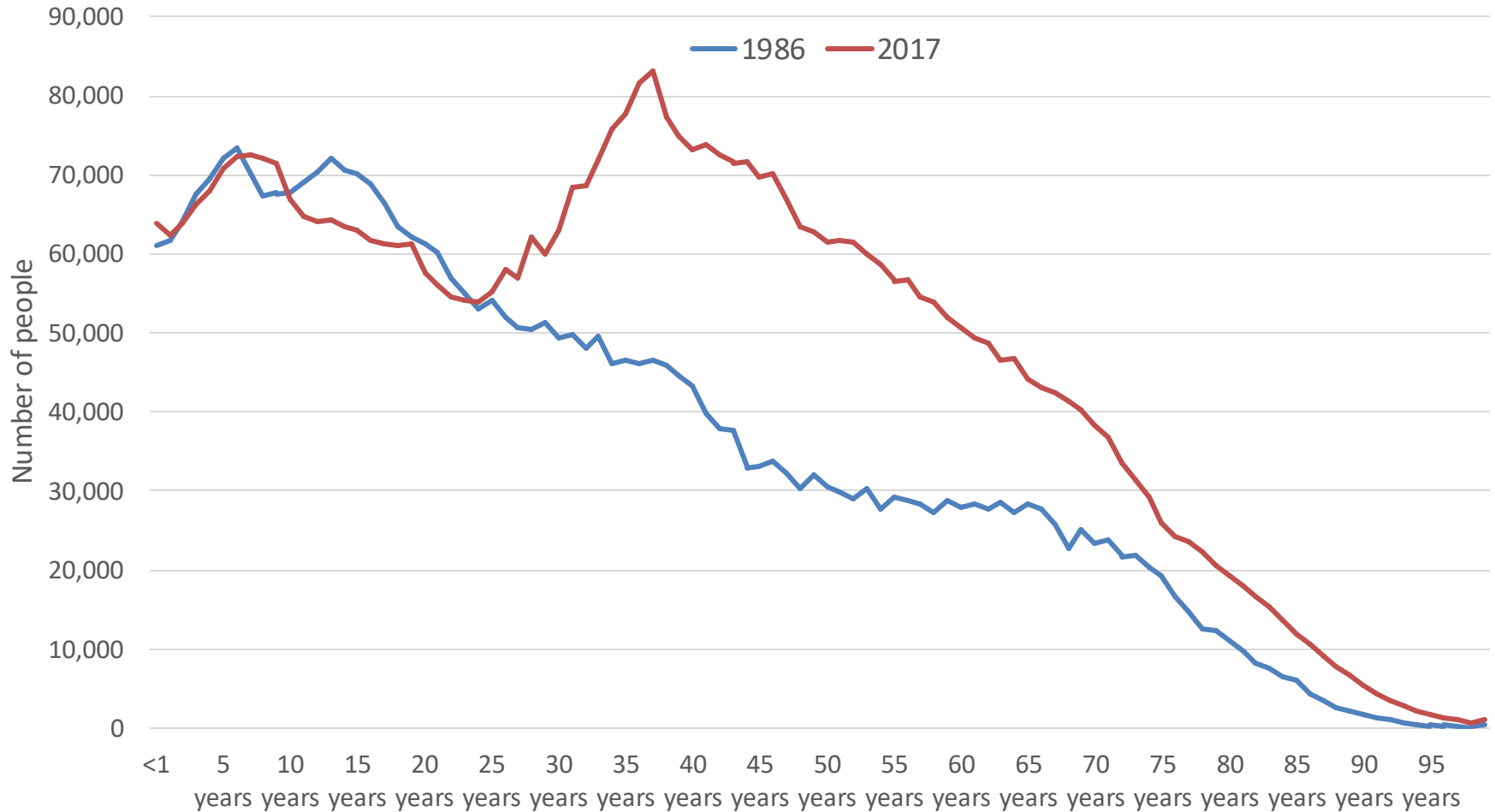
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Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services and the Survey of Income and Living Conditions Research Microdata Files.

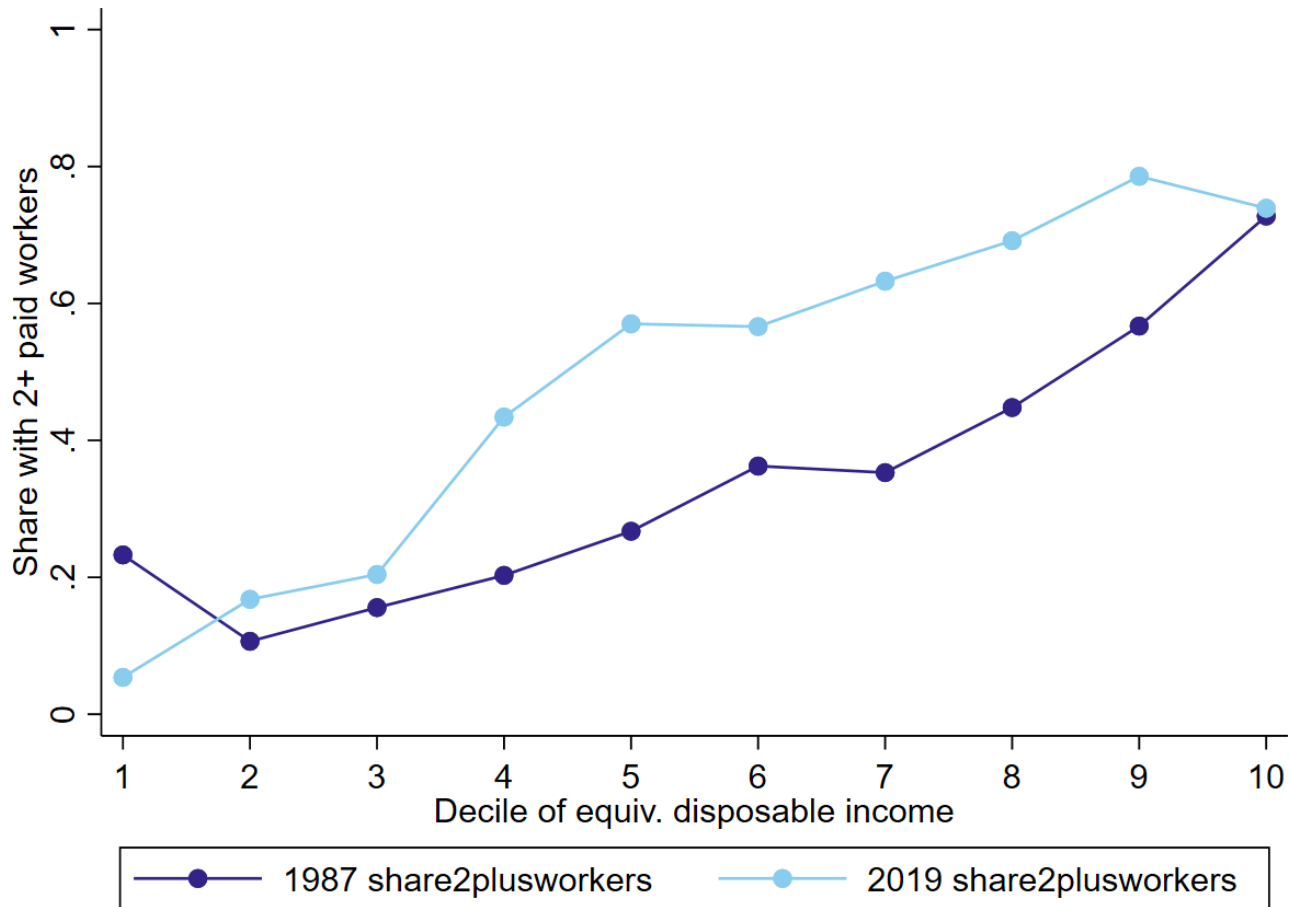
# ... alongside huge shift in age structure of population

## BACK



Source: Central Statistics Office population estimates

# But also see a rise in the share of HHs w/2+ in paid work BACK

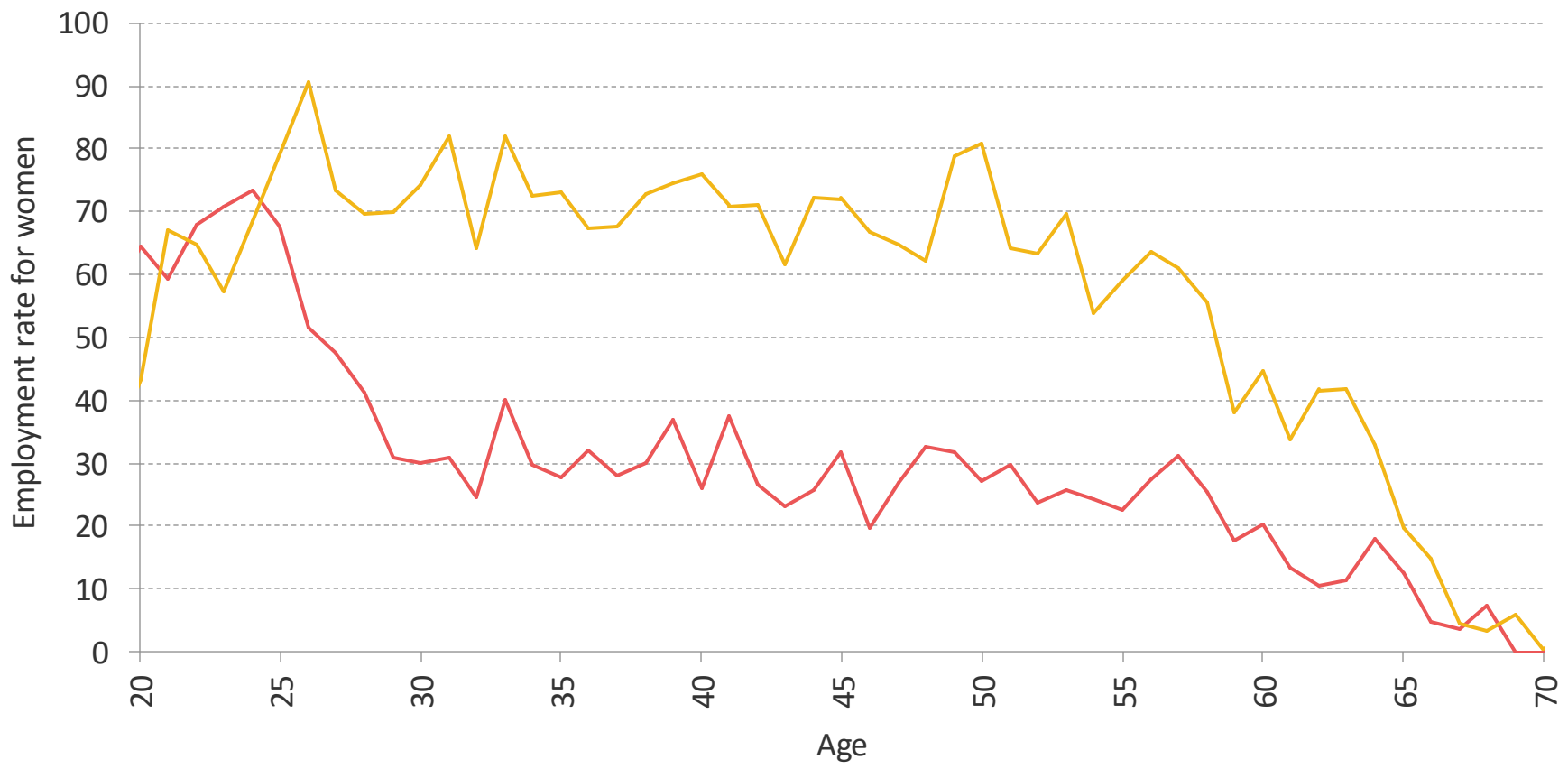


Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

# ... largely driven by women working more in their 30s/40s

## BACK

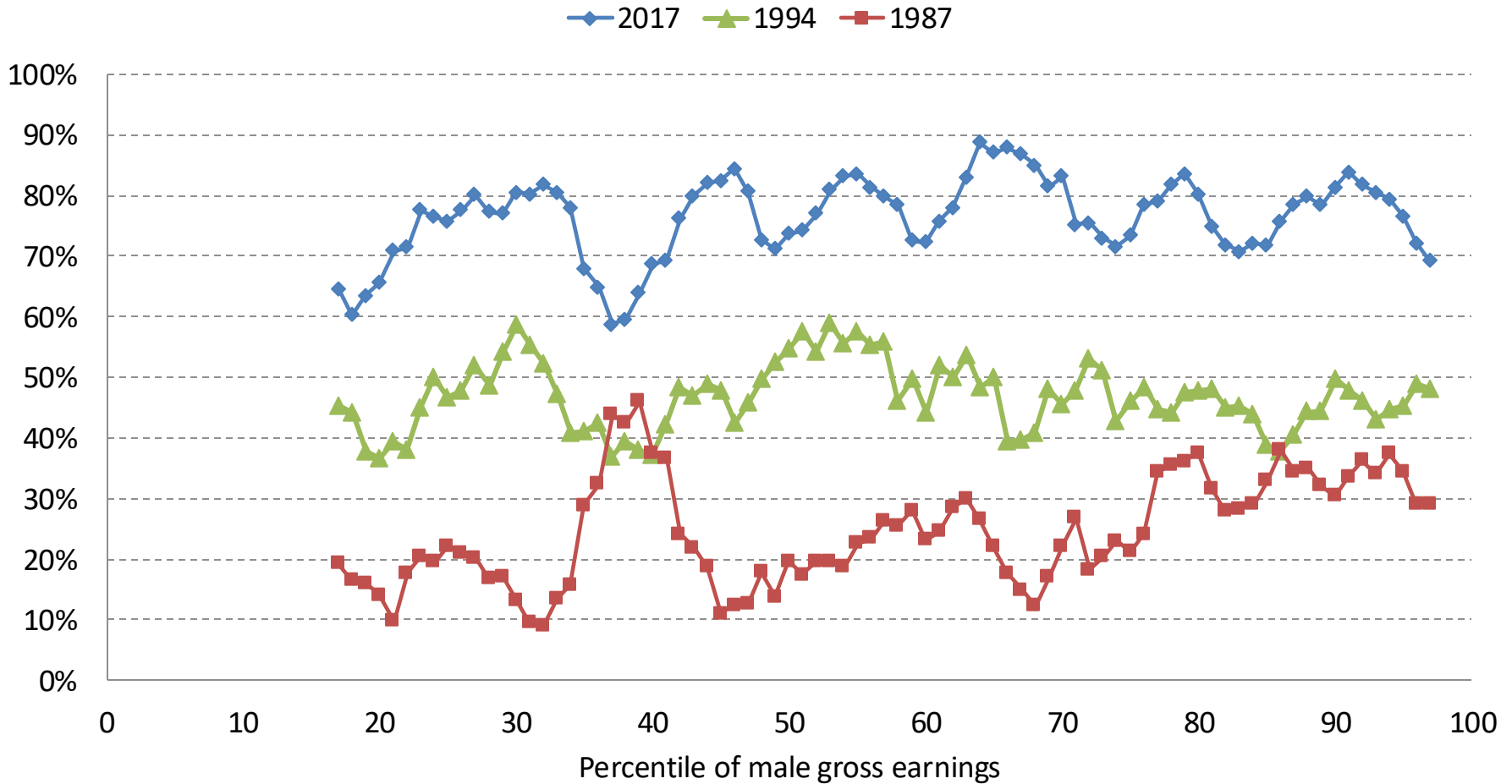
— 1987 — 2019



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

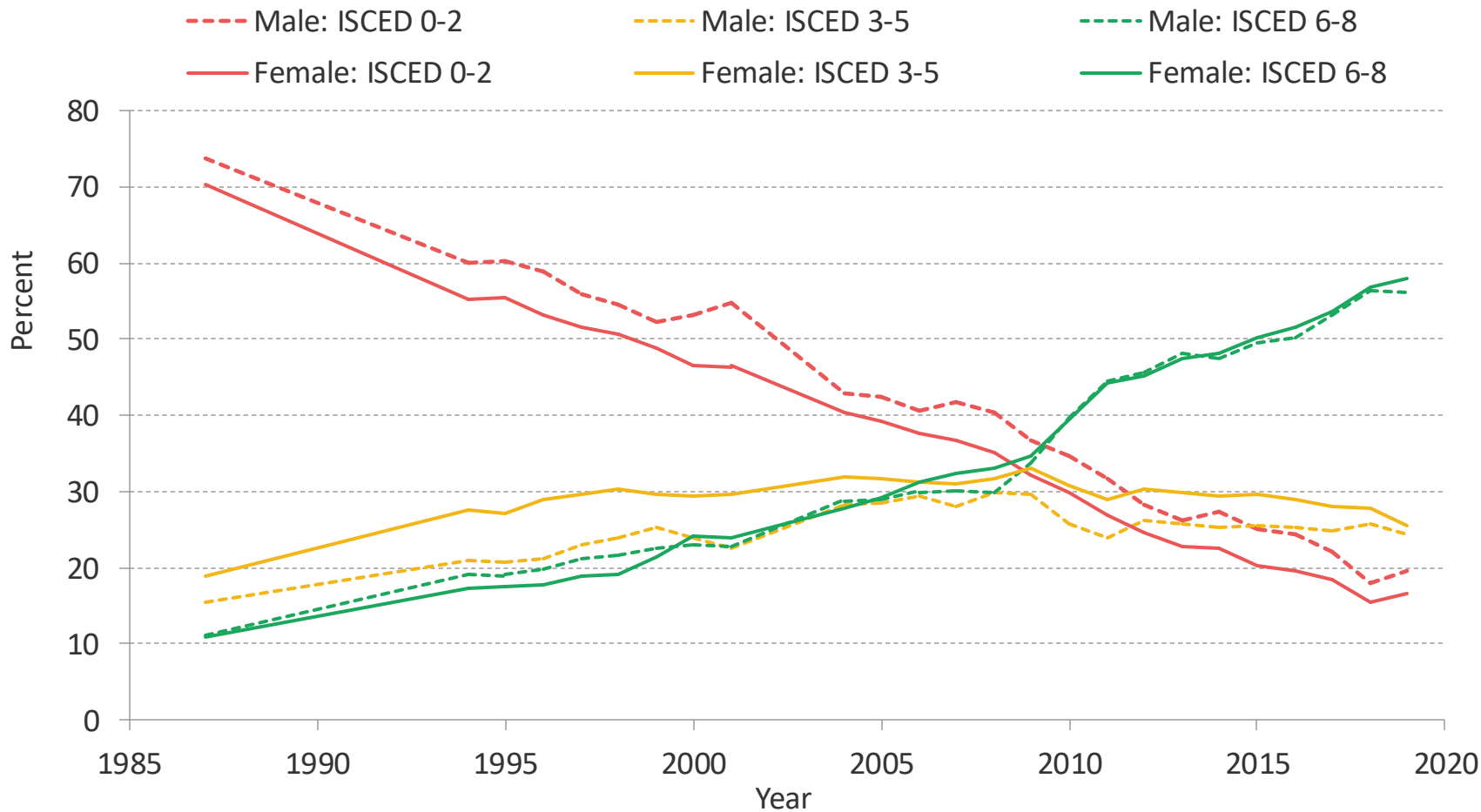
# ...with most spouses of working men now in paid work

## BACK



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files. 5-year smoothed averages.

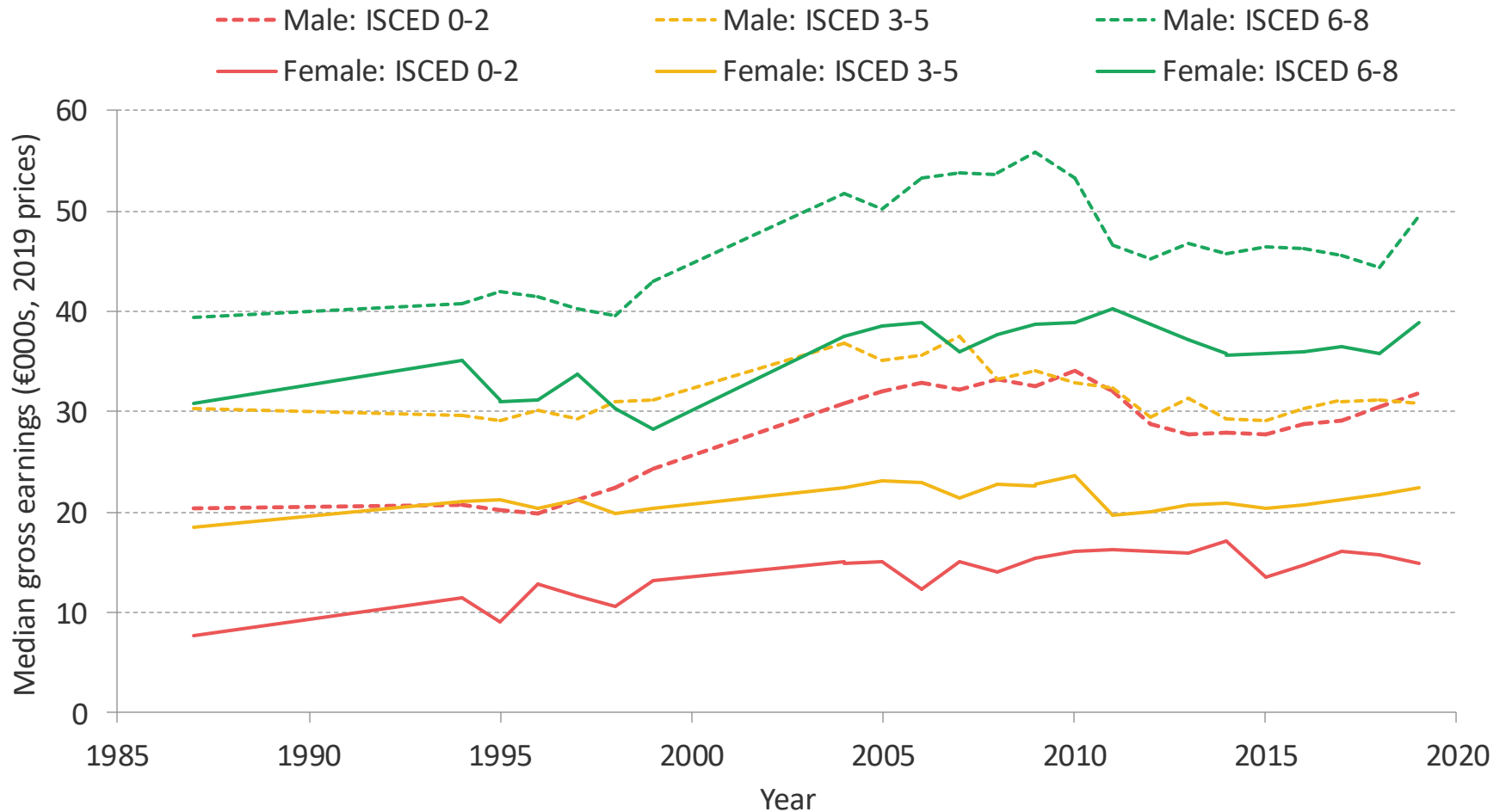
# Also big increase in % of those aged 25-60 with higher ed BACK



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

# ... so despite quite modest earnings growth | education

## BACK

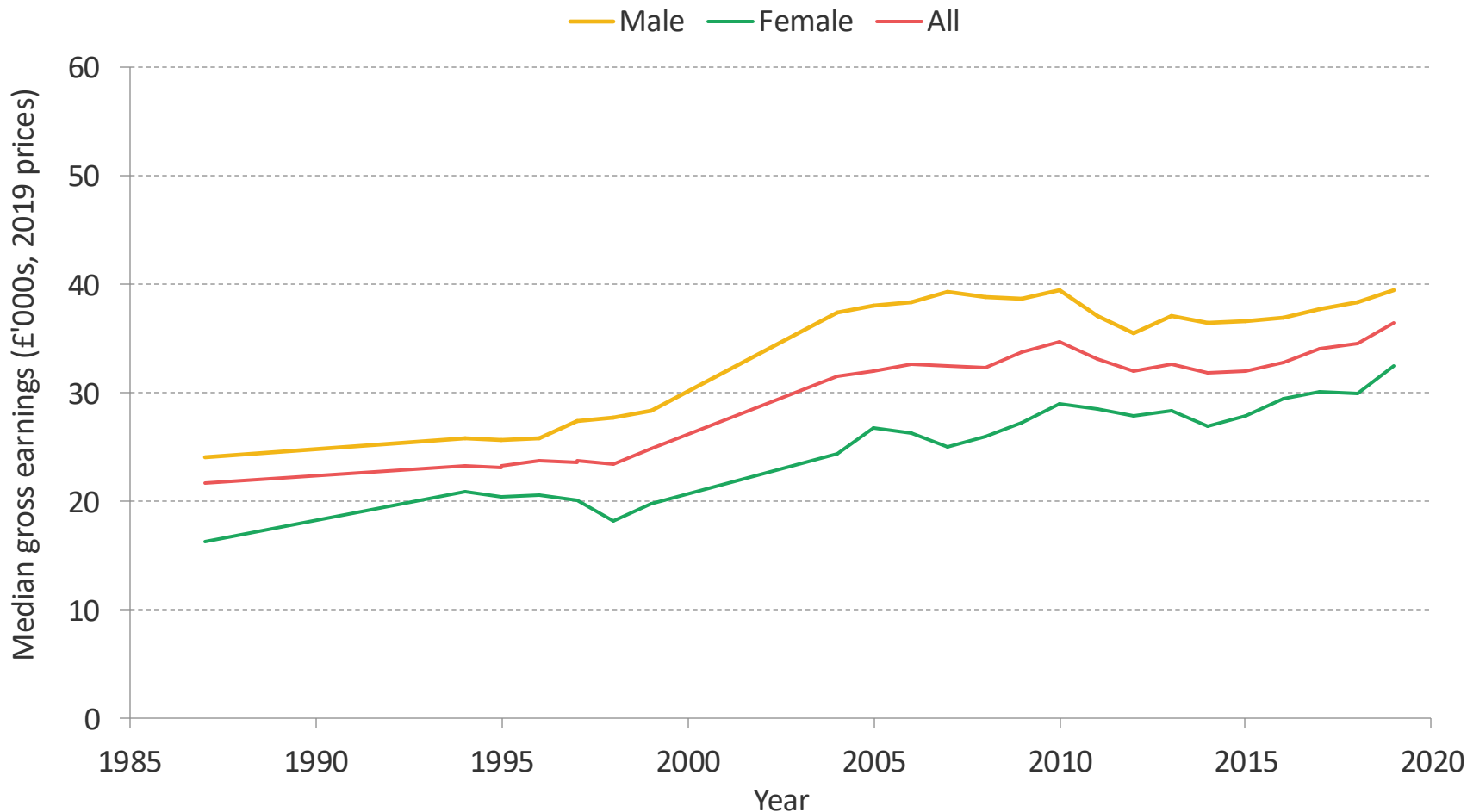


Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.



# ... median earnings have risen substantially in real terms

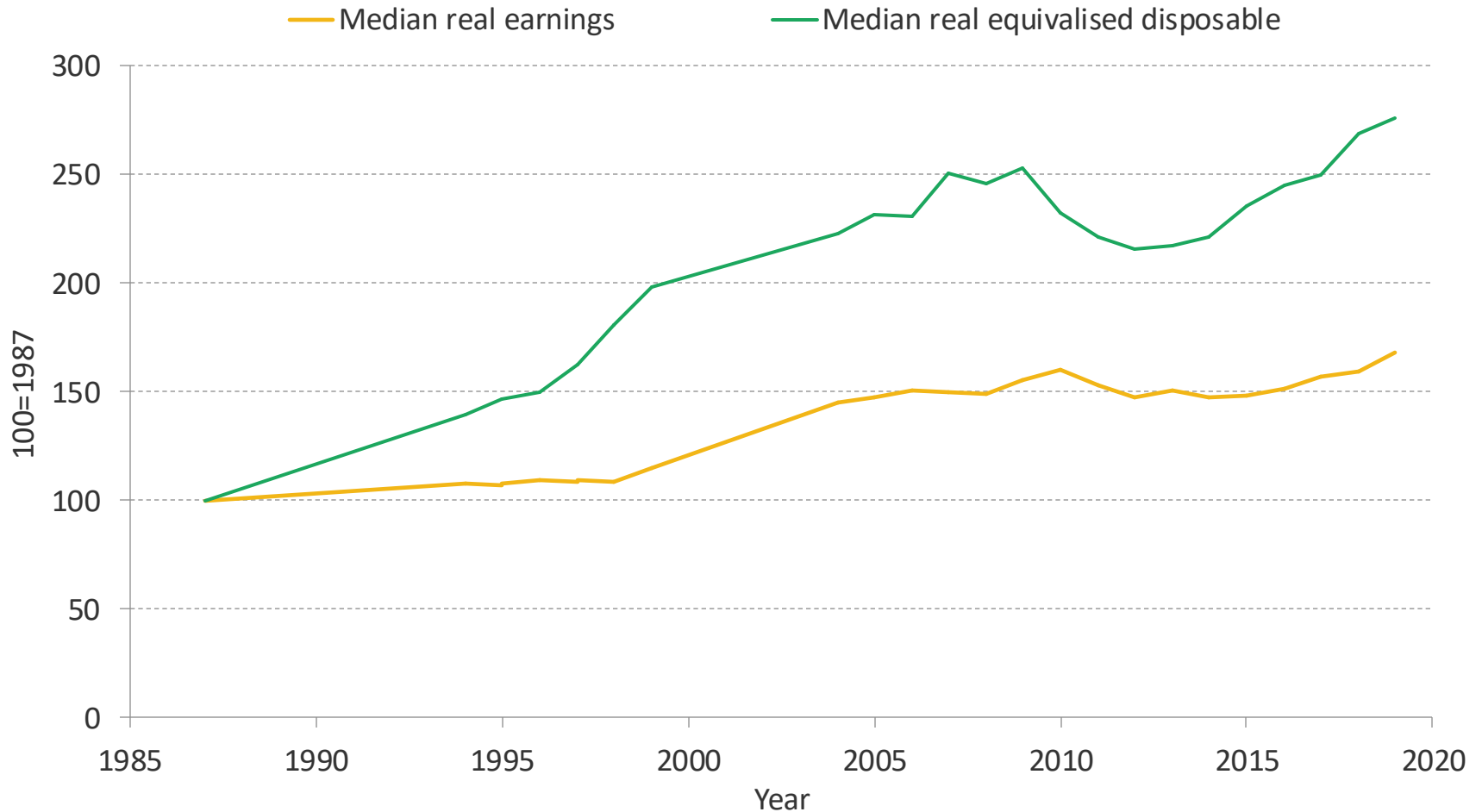
## BACK



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

# ... although by far less than median disposable income

## BACK



Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.