# Income Distribution and the Impact of Social Transfers


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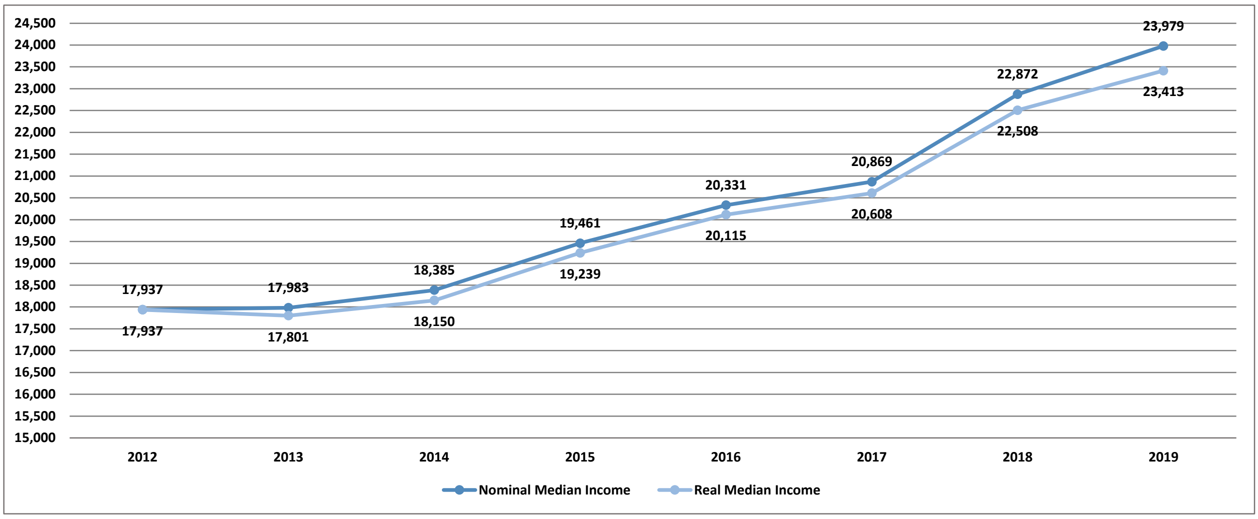
### Key Point:

Income levels increased substantially between 2012 and 2019 following a number of years of contraction: with nominal median disposable household incomes increasing by €6,100 or 34% from over €17,900 in 2012 to almost €24,000 in 2019. The rise in direct income (i.e. income from employment and self-employment) has been the largest contributor to the growth in disposable income (which also includes taxes and cash transfers). While there are substantial inequalities in the direct income received by higher and lower income households, Ireland's progressive tax structure and redistributive system has been effective in offsetting market income inequalities. In 2018, Ireland's quintile share ratio (which measures the level of inequality in the income distribution) was 4 in respect of disposable household income, compared to the EU-28 average of 5.1 and United Kingdom average of almost 6. The Gini coefficient scale (which measures the level of income inequality in society) also demonstrates the effectiveness of Ireland's social transfers system in reducing levels of market income inequalities. It should be noted that these data relate to the position prior to the Covid-19 pandemic in which market incomes plummeted and the welfare state provided transfer payments to hundreds of thousands of displaced workers.

### Changes in household income

Figure 1 shows changes in nominal and real equivalised disposable household income between the years 2012 and 2019 (equivalised incomes are adjusted to take account of differences in household composition, e.g. between households consisting of single adults versus those with couples and children). Between 2012 and 2019, nominal median incomes increased from over €17,900 in 2012 to almost €24,000 in 2019. This represents an increase of over €6,100 or 34% on 2012. In real terms, the median disposable income was over 23,400: increasing by €5,500 or 31% from €17,900 in 2012.

**Figure 1: Nominal and Real Median Equivalised Disposable Income, 2012-19**

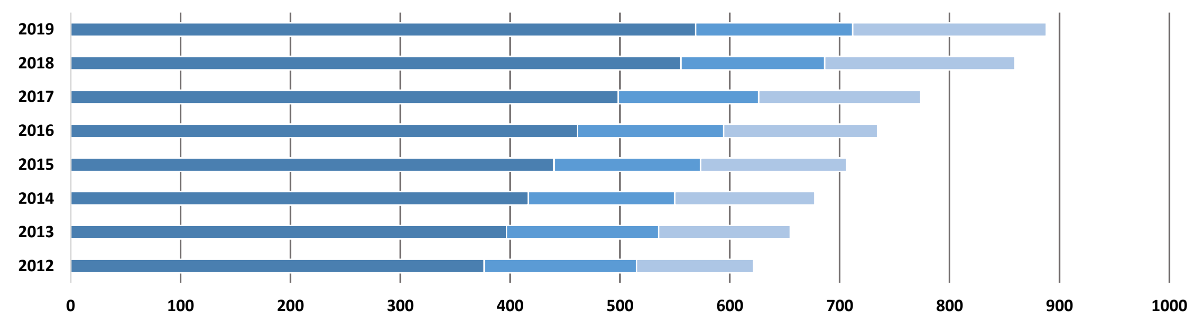



Source: CSO Silc (2020) (2018) Note: Deflator base year: 2012.

## Income Distribution: *Composition of nominal equivalised average weekly income*

Figure 2 shows changes in the composition of nominal equivalised average weekly income between 2012 and 2019. Incomes grew between 2012 and 2019, reflecting labour market improvements during these years. The rise in direct income (income that is gained from employment or self-employment) represents the largest contributor to the growth in disposable income. Since 2012, average weekly direct income increased from almost €380 to almost €570 in 2019: representing a cumulative increase of over €190 or 50%. During these years, average weekly tax and social contributions increased significantly from €107 in 2012 to €176 in 2019: a cumulative increase of €69 or 64%. There was a gradual increase in average weekly social transfers (PRSI, social protection and housing allowances) to €143 in 2019.

**Figure 2: Composition of nominal equivalised average weekly income, 2012-19**

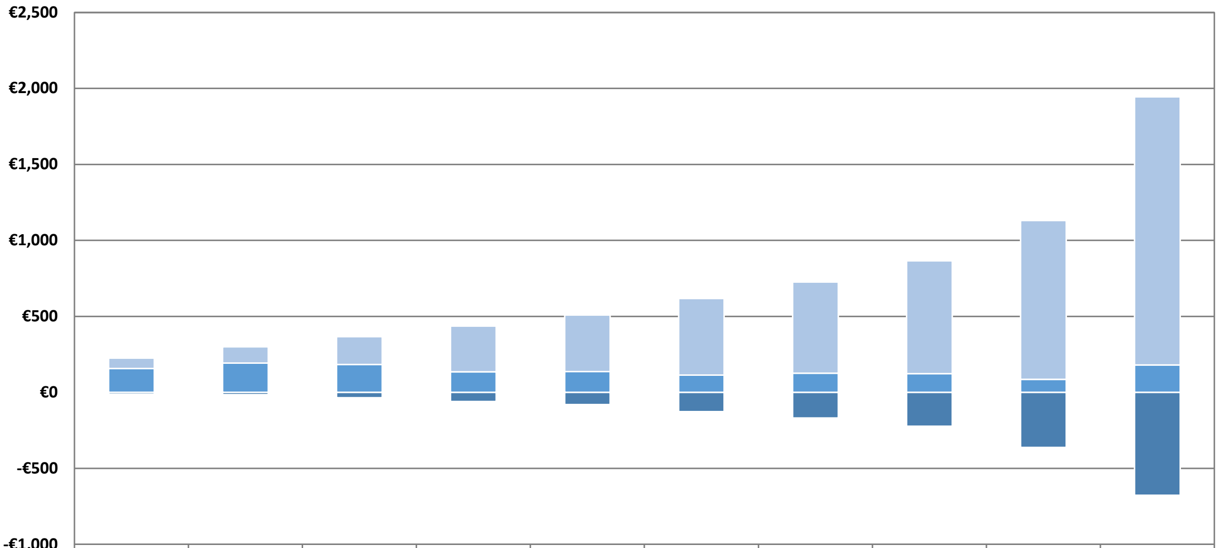



| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| Direct Income | 376.33 | 396.70 | 416.54 | 439.88 | 461.15 | 498.45 | 555.34 | 568.79 |
| Social Transfers | 138.63 | 138.31 | 133.36 | 133.50 | 133.15 | 127.84 | 130.88 | 142.94 |
| Tax and Social Contributions | 106.62 | 119.98 | 127.50 | 132.91 | 140.45 | 147.50 | 173.26 | 176.25 |

Source: CSO Silc (2020)

Figure 3 shows the decomposition of average equivalised weekly income by decile. In 2019, high income households on the 8th decile of the income distribution received €743 per week, €560 more than lower income households on the 3rd decile, with a direct income amounting to €183. Notwithstanding, higher income deciles pay higher levels of tax and social contributions, compared to those at the lower end of the income distribution. In 2019, high income households on the 8th decile of the income distribution contributed over €223 in tax and social contributions, while those at the lower end of the income distribution (3rd decile) paid €35. This reflects the progressive and redistributive structure of the Irish tax and welfare system in offsetting market income inequalities (OECD, 2020).

**Figure 3: Decomposition of average weekly equivalised income by decile, 2019**

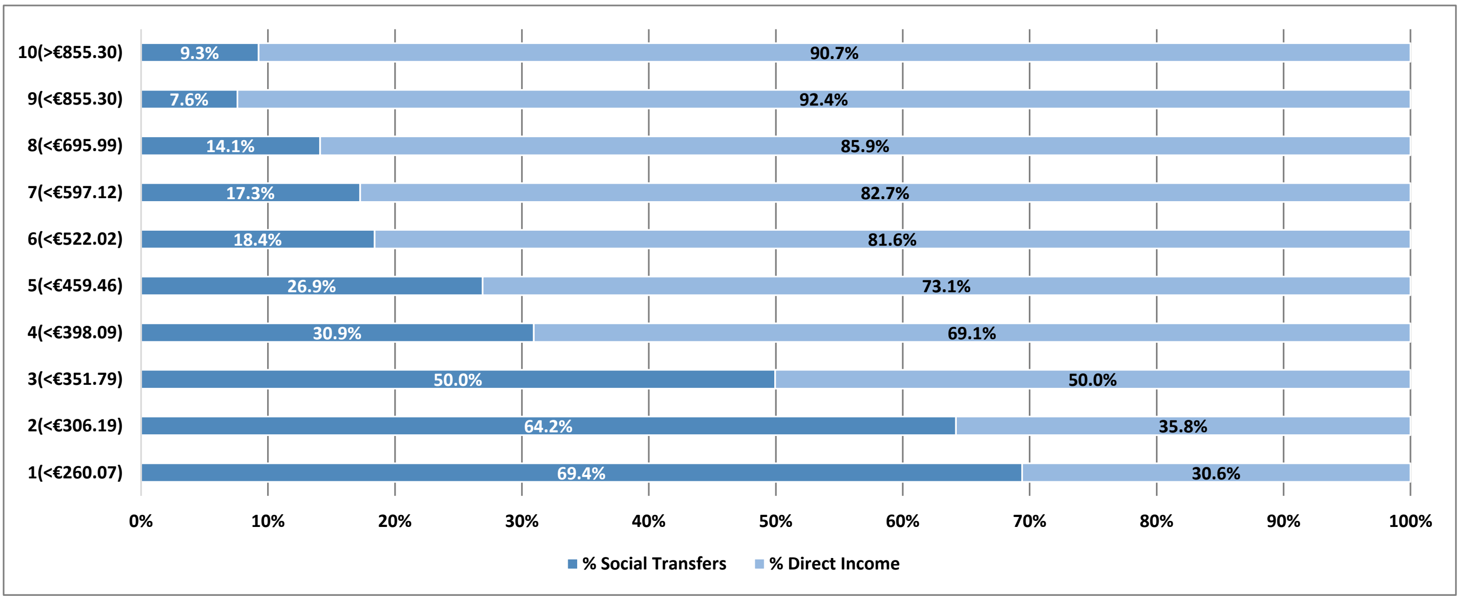



| | 1(<€260.07) | 2(<€306.19) | 3(<€351.79) | 4(<€398.09) | 5(<€459.46) | 6(<€522.02) | 7(<€597.12) | 8(<€695.99) | 9(<€855.30) | 10(>€855.30) |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct Income | 68.93 | 107.16 | 182.90 | 300.67 | 371.79 | 504.16 | 600.44 | 742.96 | 1,044.28 | 1,764.08 |
| Social Transfers | 156.37 | 192.17 | 182.57 | 134.66 | 136.90 | 113.66 | 125.17 | 121.96 | 85.77 | 180.12 |
| Tax and Social Contributions | -12.25 | -14.98 | -34.96 | -60.63 | -79.79 | -126.82 | -168.79 | -223.16 | -362.88 | -678.03 |

Source: CSO Silc (2020)

Figure 4 shows the percentage of gross equivalised income by source. For households in the bottom 3 deciles of the income distribution, with disposable income less than €360 per week, social transfers account for over 50% of household income in 2019. Conversely, for households in the top three deciles of the income distribution with disposable income above €600, direct income accounts for over 80% of household income.

**Figure 4: Percentage of equivalised average weekly income by source, 2019**

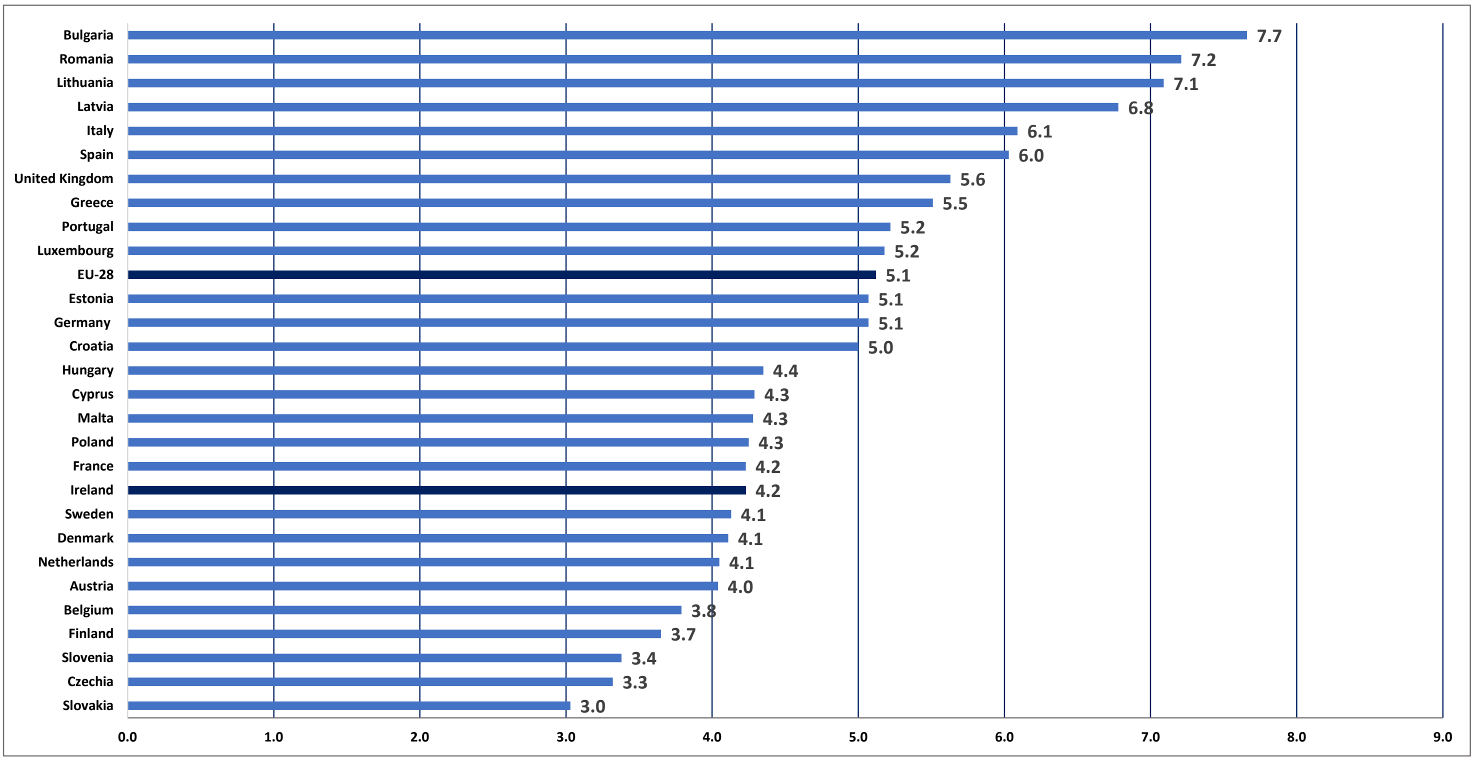



Source: CSO Silc (2020)

## Income Distribution: *impact of social transfers*

Figure 5 compares the income quintile share ratio for equivalised disposable incomes across the EU-28. The income quintile share ratio – or the S80/S20 ratio – measures the level of inequality in the income distribution. It is calculated as the ratio of total income received by the top 20% of the population with the highest income (top quintile) to that received by the 20% with the lowest income (lowest quintile). A low-income quintile share ratio is indicative of a more equal society, as the income difference between those on the top and bottom of distribution are lower. In 2018, Slovakia had the lowest income quintile share ratio at 3.0, while Bulgaria had the highest quintile share ratio at 7.7. Ireland had a quintile share ratio of 4.2 in 2018, which was below the EU-28 average of 5.1. This means that the top 20% of the Irish population have four times as much income as the bottom quintile.

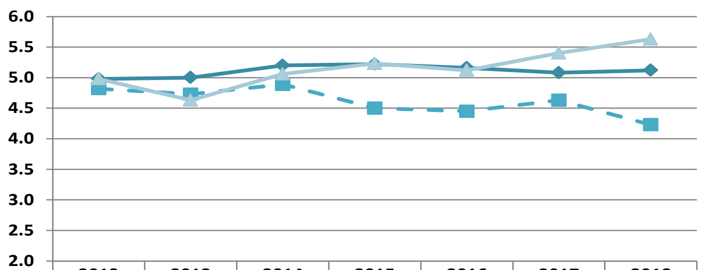
**Figure 5: Income quintile share ratio (S80/S20) across EU-28, 2018**




Source: EU-Silc (2020)

Figure 6 compares the trends in the income share ratio for Ireland, UK and the EU-28 average from 2012 to 2018. Since 2012, Ireland's disposable income quintile share ratio has been consistently lower than the EU-28 and the UK. In 2018, the UK had an income quintile ratio of almost 6, compared to Ireland's quintile ratio of 4. This suggests that when compared to the UK, Ireland has a more generous system of social transfers which lowers the difference between those on the top and bottom quintiles of the income distribution.

**Figure 6: Trends in disposable income quintile share ratio for Ireland, UK and EU-28, 2012-18**

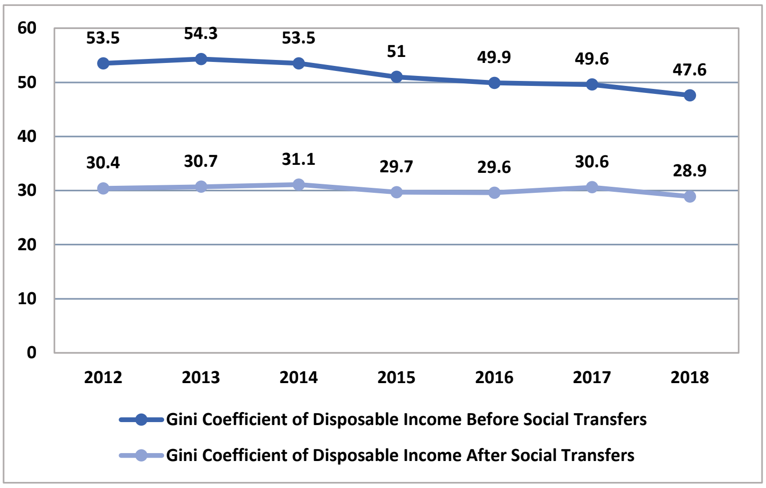



| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|
| EU-28 | 5.0 | 5.0 | 5.2 | 5.2 | 5.2 | 5.1 | 5.1 |
| Ireland | 4.8 | 4.7 | 4.9 | 4.5 | 4.5 | 4.6 | 4.2 |
| United Kingdom | 5.0 | 4.6 | 5.1 | 5.2 | 5.1 | 5.4 | 5.6 |

Source: EU-Silc (2020)

Figure 7 compares the Gini coefficient before and after social transfers (which includes pensions). The Gini coefficient measures the level of income inequality: with 0 indicating perfect equality and 100 indicating total inequality. Countries that have a progressive and redistributive tax and welfare system tend to perform better on the Gini coefficient scale due to greater levels of social transfers.

**Figure 7: Comparison of Gini Coefficient of Equivalised Disposable Income Before and After Social Transfers, 2018**




Source: EU-Silc (2020). Note: pensions included in social transfers

Towards the end of the Great Recession in 2012, Ireland's Gini coefficient before social transfers was 53.5, compared to 30 after social transfers. Six years later the difference on the Gini coefficient scale has reduced: with the Gini coefficient being 48 before social transfers, compared to 29 after social transfers. Overall, these trends show that Ireland's income redistribution and social transfers system contribute significantly towards reducing high levels of income inequality generated in the market.

## References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