SOCIAL JUSTICE IRELAND

working to build a just society

Who really took the hits during Ireland's Bailout?

Introduction

In his contribution to *Social Justice Ireland*'s conference '*A Future Worth Living For*' Dr István Székely of the European Commission noted that the cumulative consolidation efforts of the 2009-2013 period were progressive. He stated that the Budgets of that period took more as a percentage of total ***income*** from those higher on the income distribution scale than those lower down the income distribution scale. He cited research by the Economic and Social Research Institute (ESRI) to support his claim. While this statement is, strictly speaking, correct it is only ***a part of the truth***.

It is important to realise that a single piece of data, while accurate in itself, can often lead to a false interpretation of the overall reality. It is essential that all the relevant data be made available so as to ensure that the analysis is accurate. Otherwise a selective use of data can produce an inaccurate analysis which in turn can lead to inappropriate policy recommendations being made and implemented.

So who did bear the brunt of the huge retrenchment Ireland has experienced in the period 2008-2013? In the following pages we address four key concerns and show who really took the hits in that period.

Four key concerns

Social Justice Ireland (SJI) has four main concerns with using the data highlighted by Dr Székely to imply that adjustments have been progressive:

i) The ESRI's distributional analysis cited in the presentation referred to above captures the distributional effects of changes in tax, social transfer payments and public sector wage cuts but does not capture the effects of public expenditure cuts on public services; likewise it does not capture the distributional impact of certain transaction taxes, such as capital gains tax and stamp duty.

ii) Including budgetary changes introduced in 2009 into the overall calculation distracts attention from the regressive effects of budgets introduced from 2010 onwards and the policy choices made in the 2010-2013 period.

iii) Including changes made in 2009 when calculating the distributional effects of budgetary policy obfuscates the role of the Troika in the formation and implementation of regressive budgetary policies. Looking at the impact of Budgets after 2009 exposes the role of the Troika in this regard as it focuses on impacts that took effect in the years 2011, 2012, and 2013 and will continue to do so in 2014.

iv) Finally, income inequality increased between 2009 and 2011 despite the relatively progressive budgets which took effect in 2009. This fact raises great concerns regarding the negative effects on income inequality of budgets which took effect in 2012, 2013, and will take effect in 2014. Data for the latter years are not yet available but are likely to show a continuing widening of the income gap between the rich and those on low to middle incomes in Ireland.

We now look at each of these concerns in detail.

i) ESRI analyses do not capture the effects of the total adjustment

The ESRI's distributional analysis captures changes in tax, welfare and public sector pay using micro data from the EU-SILC[1] in their SWITCH model, which simulates the effects of tax and social welfare changes (Callan et. al., 2013). However, it does not capture the effects of reductions in expenditures on service provision – such as, for example, health, education or services for the homeless - upon which those on lower incomes or in vulnerable positions are more likely to rely.

Between the first adjustment in July 2008 and Budget 2014, €30,339m in budgetary adjustments have been implemented, of which two-thirds or over €20,159m have been through cuts in public expenditure.

While the ESRI has captured a significant part of these expenditure cuts in their analysis, it is extremely difficult to measure the impact of the loss of services. The loss of services can have a devastating impact on the life chances of those on low incomes or in vulnerable situations, and upon those who rely on vital services to maintain their quality of life.

Policymakers in government and in the Troika should acknowledge the effects of such reductions in spending on people's life chances and quality of life.

ii) Including 2009 in cumulative calculations can distract from regressive impacts of Budgets 2010, 2011, 2012, 2013, and 2014

There were three major budgetary initiatives introduced in 2009: Budget 2009 (which was announced in October 2008), the introduction of changes to public sector pay in March 2009, and a supplementary budget introduced in April 2009. The full-year impact of the tax and expenditure changes in that year was €7,652m, over 60% of which were accounted for by tax increases. Changes introduced in 2009 were indeed progressive along the income distribution.

However, later budgets were neutral or regressive where income and tax changes are considered without including the impact of cuts in services which would have revealed a much more regressive cumulative impact. It is worth quoting a section of an ERSI analysis of Budget 2013 in full:

> *'The big distinction here is between the budgets for 2009 (October 2008 and April 2009) and those for later years. The October 2008 Budget imposed high and progressive levies on income (later replaced by USC), imposed a progressively structured public service pension levy, and raised welfare payment rates by 3 per cent. Since then, budgets have been either regressive or broadly proportional. For example, Budget 2010 was clearly regressive, as we indicated in our analysis at that time. Much of the overall progressive impact of the 6 austerity budgets is due to the front loading of tax increases and effective public sector pay cuts in the period October 2008 to April 2009 (Callan et. al., 2012).'*

The effects of one fiscal consolidation should not be used to m the regressive effects of later fiscal consolidations. Unfortunately, government and Troika policymakers do just that.

[1] EU-SILC is an annual survey of household income conducted by the Central Statistics Office (CSO)in Ireland.

iii) The regressive adjustments of the Troika years: 2011 to 2014

Social Justice Ireland believes that to examine accurately the Troika's contribution to protecting the most vulnerable and preventing budgets from increasing income inequality, the regressive nature of Budgets 2011 to 2014 must be examined. These were the Budgets that the Troika directly influenced during Ireland's Bailout. Their impact should not be masked by including the of budgetary policy changes made in 2008, 2009 or 2010.

This would reveal that budgets introduced under the tutelage of the Troika were regressive, taking more as a percentage of income from those who have least. The real impact is even more regressive because, as noted above, this calculation does not include the impacts of reductions in services introduced in these years, which impact disproportionately on the most vulnerable.

In recognising this reality it is important to place it in the wider context of what the Troika has since discovered about the effects of their approach to recovery not just in Ireland but across a wide range of other countries in the 'developed' world who have experienced difficulties in recent decades.

International Monetary Fund (IMF) researchers have examined a sample of 17 OECD countries who implemented fiscal consolidation between 1978 and 2009 and concluded that fiscal consolidation 'typically led to a significant and persistent increase in inequality, declines in wage income and in the wage share of income, and increases in long-term unemployment' and noted that governments 'may have the flexibility to design the fiscal adjustment in a way that lessens the distributional impact or they may be able to offset some of the distributional impact through other measures' (Ball et. al., 2013: 11).

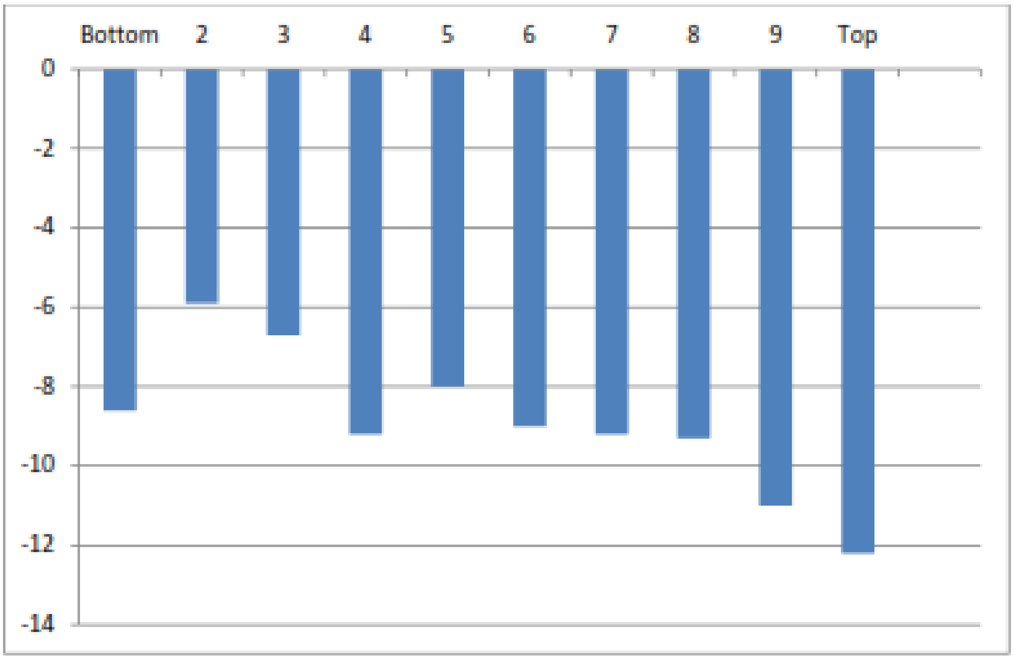
The IMF Managing Director, Christine Lagarde, (2012) has argued for "fiscal policy that focuses not only on efficiency, but also on equity, particularly on fairness in sharing the burden of adjustment and on protecting the weak and vulnerable".

As successive regressive budgets are implemented it becomes clear that the overall progressivity of adjustment is being reduced.

The latest update published by the ESRI indicates that budgetary policy between 2009 and 2013 retains a slightly progressive profile (see Table 1), but that it has not done enough to offset increases in income inequality and large falls in income for those who earn the least, leading to an increase in income inequality in Ireland (see Table 2).

> *Budgets introduced under the tutelage of the Troika were regressive, taking more as a percentage of income from those who have least.*
>
> *The real impact is even more regressive because this calculation does not include the impacts of reductions in services introduced in these years, which impact disproportionately on the most vulnerable.*

Table 1 - Estimated impact of Budgets 2009 to 2013 and public sector pay adjustments classified by decile of disposable income per adult equivalent



Source: Callan (2013).

iv) Income inequality increased between 2008 and 2011 despite a progressive budgetary stance in 2009

Data from the EU-SILC study conducted by the Central Statistics office (CSO) indicate that income inequality has increased between 2008 and 2011 with the Gini coefficient, a common measure of inequality, rising from 29.3 in 2009 to 31.3 in 2011. (Data are not yet available for 2012 and 2013. However, as the budget in each of those years was regressive inequality is likely to have worsened.)

This increase has occurred despite the progressive budgetary stance in 2009. Given the regressive or neutral nature of government budgets since 2010 and the persistence of unemployment, it is likely that inequality has continued to increase, possibly at a higher rate. Moreover, the longer-term effects of public expenditure cutbacks in areas such as education, health and other services only become visible after some time, and there may be deep and long-lasting effects on the life chances of many vulnerable young people.

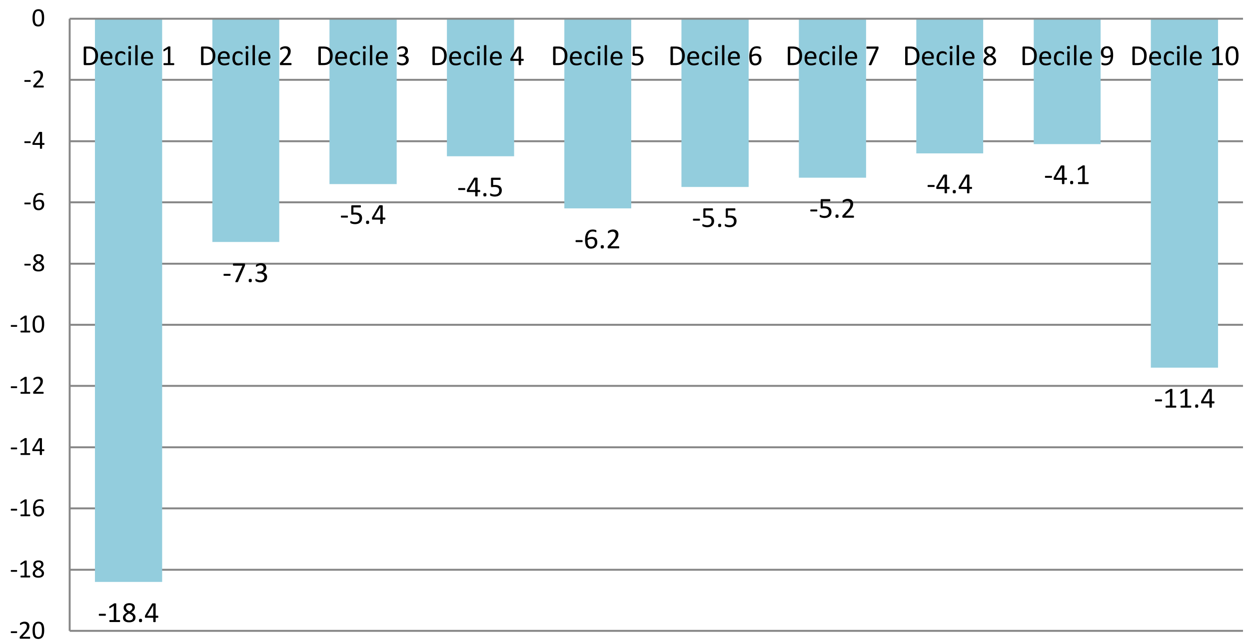
Table 2 shows the change in average real incomes by decile of disposable income per adult equivalent between 2008 and 2011, as calculated by the ESRI. (This means that the disposable income has been adjusted to take account of the Consumer Price Index.)

This table shows that the poorest ten per cent of the population saw their real disposable income fall by 18.4 per cent in the period 2008-2011 while the richest ten per cent of the population experienced a fall of 11.4 per cent. (Note: disposable income means all income one has after taxes have been paid and social welfare payments received i.e. the money people have in their pockets *before* they start to pay their bills.)

It should be noted that an examination of this change comparing 2009 and 2011 – a comparable period to that examined by the ESRI in their analysis of budgetary changes – would be likely to reveal larger decreases in real incomes for those in the lower income deciles given the increases in social welfare rates introduced in 2009, and the later reductions in social welfare payments introduced in 2010 and 2011.

Moreover, changes in Ireland's labour market from 2011 on, particularly those surrounding the striking down and changes to Employment Regulation Orders or Registered Employment Agreements, and the system of Joint Labour Committees, may also have had adverse effects on income inequality, reducing income for the low-paid, which is likely to be seen when SILC data from 2012 and 2013 become available.

Table 2 – Percentage change in average real incomes by decile of disposable income per adult equivalent, 2008 and 2011



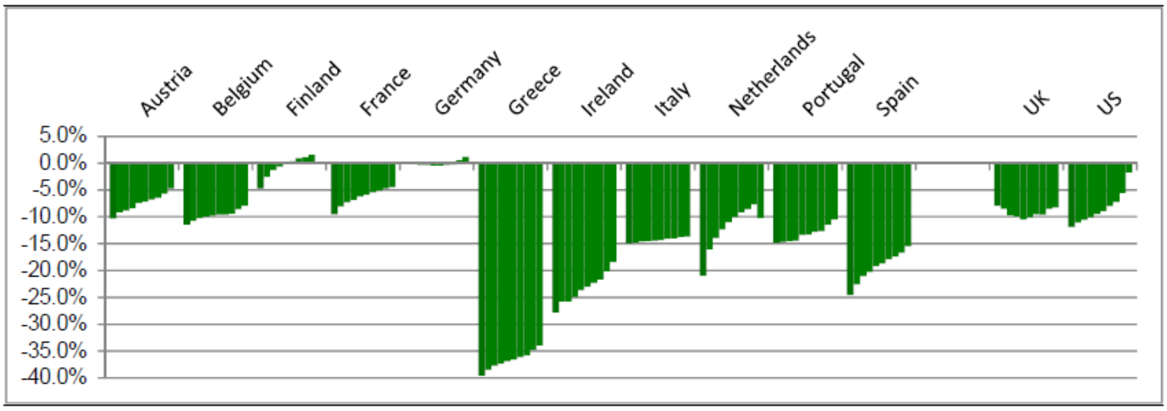
Source: Callan et. al (2013: 9).

This growth in real income inequality is confirmed in a study published in October 2013 by UBS Global Economics Research which shows the growth in real disposable household income by decile between 2008 and 2012. Table 3 reproduces the results for a range of countries including Ireland. It confirms the analysis provided in this paper. It shows that real disposable income has declined not just in Ireland but across most developed economies. The UBS analysis states:

> *Given that this was the worst global economic episode since the 1930s, and many economies have yet to return to their pre-crisis levels of real GDP, this should not occasion much surprise. However,* ***the higher income brackets have generally faired better than have the lower income brackets, particularly in real terms****.* (emphasis ours)

Table 3

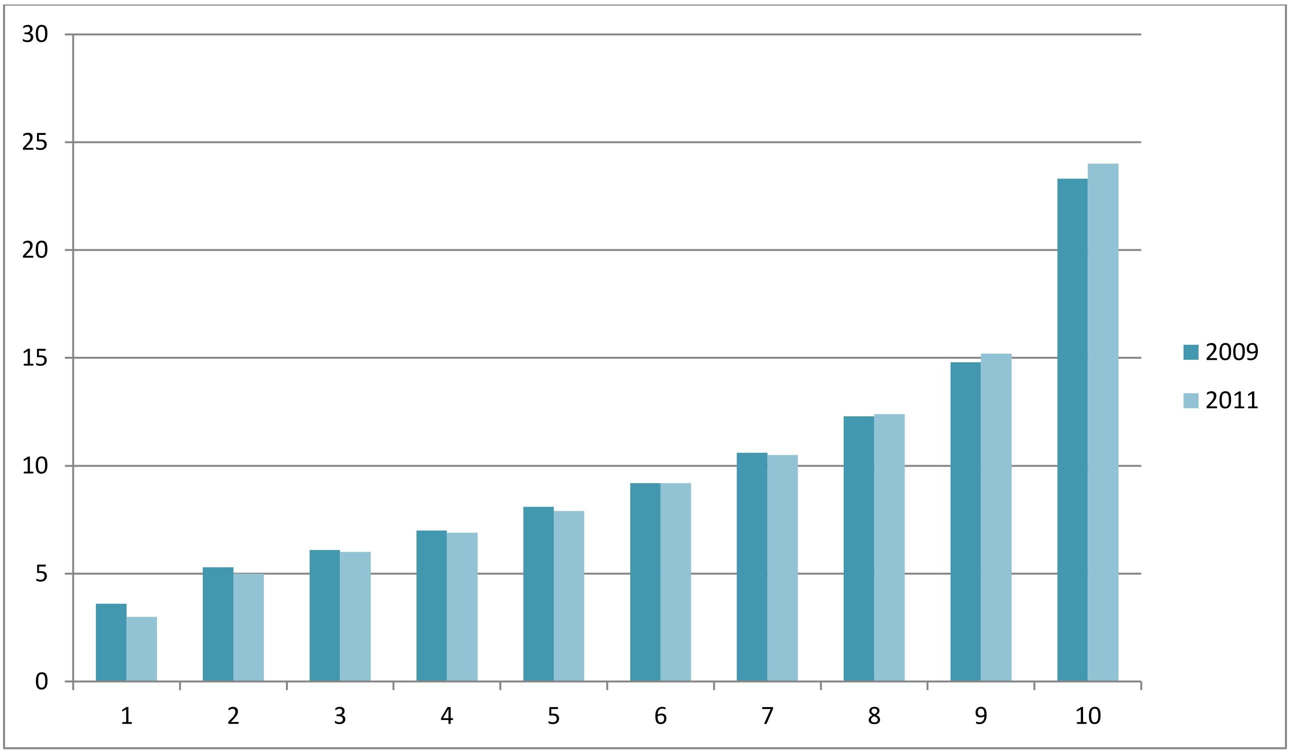
The growth of income inequality – growth in real disposable household income by decile (lowest decile on the left, highest decile on the right) between 2008 and 2012. Calculations as per text description



Source: UBS

Table 4 shows the income distribution in Ireland in the years 2009 and 2011 (but does not include the income falls identified in Table 2 above). This confirms the widening gap between low and middle-income Ireland on the one hand and the richest 20 per cent of the population on the other hand. Only the top two deciles have seen their share of disposable income grow significantly in this period. As stated already when data become available for 2012 and 2013 this situation is likely to have worsened partly due to the regressive nature of Budgets 2012 and 2013.

Table 4 - Decile shares of equivalised disposable income among persons, 2009-2011



Source: Callan et. al (2013: 8).

References

L. Ball, D. Furceri, D. Leigh, & P. Loungani (2013), 'The Distributional Effects of Fiscal Consolidation', *IMF Working Paper WP/13/151.* http://www.imf.org/external/pubs/ft/wp/2013/wp13151.pdf

T. Callan (2013), *Distributional impact of Budgets 2009 to 2013: An Update.* https://www.esri.ie/__uuid/3a60f7b2-1701-41f9-bf29-aa92621f4f4f/SWITCH-September-2013-update-revised_CK.pdf

T. Callan, B. Nolan, C. Keane, M. Savage & J. Walsh (2013), 'Crisis, Response and Distributional Impact: The Case of Ireland'. Working Paper No. 456. http://www.esri.ie/UserFiles/publications/WP456/WP456.pdf

T. Callan, C. Keane, M. Savage & J. Walsh (2012), *Budget 2013: Distributional Impact.* http://www.esri.ie/__uuid/f1394f7f-aae3-49a6-94b1-c44c5edc60ac/Budget2013_Distributional_Impact_7Dec12.pdf

C. Lagarde, 2012, op-ed, *China Daily*, December 28.

P. Donovan, (2013), *Inequality in a time of crisis*, UBS Global Economics Research, 9 October 2013.

Social Justice Ireland
Arena House,
Arena Road, Sandyford,
Dublin 18
Phone: 01 213 0724
Email:
secretary@socialjustice.ie
Charity Number: CHY 19486
www.socialjustice.ie