The Economic and Social Review, Vol. 56, No. 1 Spring 2025, pp. 31-39

PANEL RESPONSE: FISCAL POLICY

Fiscal Policy and Redistribution in Ireland

Brian Nolan
Institute for New Economic Thinking and Nuffield College Oxford

I INTRODUCTION

I was delighted to contribute to this conference in honour of Patrick Honohan and to recognise and celebrate his outstanding contribution to Irish economics and economic policy. We have been very fortunate to have had him over the last half-century, not only as a scholar, thinker and analyst but also playing such a crucial "hands on" role in navigating the financial crisis. I am also fortunate personally to have had him as a good friend since we worked together in the Central Bank all the way back in the 1970s and subsequently for his time in the ESRI in the 1990s.

Framed against the very helpful paper to the conference by Barra Roantree on fiscal policy and redistribution in Ireland (Roantree, 2025), my aim here is to complement and elaborate on it by highlighting a number of important points about inequality, redistribution and income growth in Ireland that are not as widely appreciated as they should be.

1.1 Inequality, Fiscal Policy, Booms and Busts

Fiscal policy has contributed to exceptionally strong booms and busts in the case of Ireland, as highlighted repeatedly by Patrick himself as well as others (for example Honohan and Walsh, 2002; Honohan and FitzGerald 2023). Roantree (2025) brings out that this has been reflected in swings in inequality in market

Disclaimer: The author is solely responsible for the content and the views expressed.

Corresponding author: brian.nolan@spi.ox.ac.uk

income, but that direct redistribution via cash transfers and taxes on income (including social insurance contributions and levies) did a remarkably effective job in offsetting the impact on inequality in terms of disposable income.

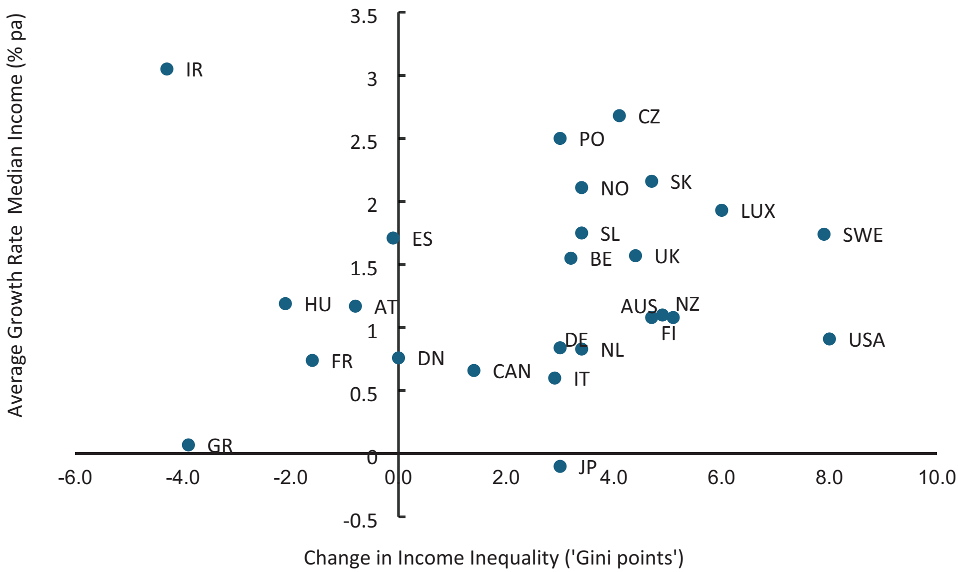
As it happens the relationship between macroeconomic fluctuations and income inequality was the topic of my doctoral dissertation (Nolan, 1986), and evidence available then and since shows that the distributional impact of recessions varies widely across rich countries depending on their institutional context and policy responses, and also across recessions, depending on their nature and distinctive features. Studies of the recession following the Global Financial Crisis also show substantial variation across rich countries (Jenkins *et al*., 2013), with inequality in disposable income increasing substantially in some but relatively stable in others. Ireland is in the latter group, which does indeed reflect the robustness of the social safety net, and the overall effect of the difficult fiscal policy choices made at the time.

But it should also be emphasised that swings in market income inequality, especially those reflecting fluctuations in unemployment, have real costs for those affected even if the impact on disposable income is muted. This is reflected most starkly in indicators of material deprivation, to which I return in discussing trends in poverty, and also in measures of financial and psychological stress. What is sometimes rather mildly described as Ireland's "inappropriate" macro fiscal policy over the decades cannot be exonerated from blame by reference to the effectiveness of redistribution in addressing its most damaging distributional consequences.

1.2 Inequality and Real Income Growth for "Ordinary" Households

Turning from fluctuations to overall performance over time, Roantree (2025) effectively brings out that disposable income inequality – as captured by household surveys – is lower in Ireland now than it was in the late 1980s, with notable declines in the 1990s and more recently since about 2017. The first point to be emphasised is that it sees Ireland "bucking the trend" of generally rising inequality across advanced countries, the phenomenon that has been central to research and broader discourse about economic inequality since before the financial crisis. Patterns across the rich countries have been much more varied than the common narrative of steeply rising inequality based primarily on US experience would suggest, with some countries seeing only modest increases, but Ireland's notable decline must be seen in the context of a generally upward trend. Figure 1 illustrates this in terms of the widely-used Gini coefficient summary inequality measure, bringing together available figures from household surveys for 25 countries (updating those presented in Nolan, 2018 Chapter 3 where a full description is provided). We see that most of the rich countries covered registered a marked increase in the Gini and only a handful saw inequality fall.

Figure 1: Income Inequality and Real Income Growth at the Median from 1980s/1990s, 25 Countries



Source: Updated from Nolan (2018).

The second point to be emphasised is that for Ireland this went together with remarkably rapid growth in real incomes for households around the middle of the distribution. Roantree (2025) notes the inclusive nature of the Irish growth "story" over the period as captured by growth incidence curves. A complementary way to illustrate this key feature and set it in a comparative context is to look at real income growth at the median or mid-point of the distribution, which Figure 1 also does and plots against the change in the Gini. Ireland's average annual income growth for such households, adjusting for inflation, is the largest among the countries covered. Ireland has been uniquely successful among rich countries since the 1980s in the extent to which it has achieved real income growth for "ordinary households" while reducing income inequality.

It is worth dwelling in this context on the advantages of this real income growth at the median measure as a "key performance indicator" for inclusive growth (as argued in Nolan, 2020). In an Irish context it is crucial that it relates to incomes actually received by households and is thus unaffected by the complexities of measuring GDP/GNI which preoccupy both external commentators and local analysts. This feature is shared by another relevant indicator which Honohan (2021) helpfully employs to evaluate recent Irish performance, namely "Actual Individual Consumption" (ACI). This adds together consumption by households and consumption spending by government on individual services such as healthcare, education and housing. This has clear advantages over other more widely-used averages derived from the National Accounts, but like them will not be affected by distributional patterns so gains could be heavily concentrated towards the top. What is happening to incomes around the middle of the distribution over time is thus of particular value as an indicator. (The merits of focusing on income versus consumption continue to be debated, as does how best to capture "non-cash benefits" from state services such as health and education, and attribute these to different parts of the income distribution – which as Roantree points out faces major conceptual and empirical challenges).

1.3 Can We Trust These Income Inequality Figures?

The next issue which requires consideration is how much we can trust the distributional patterns derived from household surveys, the source on which Roantree (2025), like much of inequality research, is based. The credibility of survey-based figures in this context has been thrown into doubt by the increasing availability of key distributional indicators produced from an alternative source, namely from the administration of income taxes. Tax-based estimates of top income shares were initially produced for France and the UK by Thomas Piketty and Tony Atkinson respectively, who then coordinated a collaborative effort whereby national analysts produced corresponding estimates for a range of countries (including ones I constructed for Ireland). These were brought together in two influential volumes edited by Atkinson and Piketty (2007; 2010), and the picture they presented of long-run trends in top income shares was a key reference point in debates about rising inequality and the characterisation in terms of the "1 per cent versus the 99 per cent" around that time.

This highlighted the limitations of surveys in reliably capturing incomes at top, due to the sparseness of that group in the population being surveyed and the greater likelihood of non-response there, as well as under-reporting of capital income there (as well as elsewhere in the distribution). This had always been recognised among survey practitioners, which is why the income share going to the top 1 per cent was rarely presented from surveys and most inequality research focused instead on broad-based measures of inequality across the distribution. The tax-based estimates of top shares not only shone a new light on that part of the distribution, they also raised questions about the reliability of the picture surveys present of overall inequality levels and trends and of the impact of redistribution. If the extent to which surveys succeed in capturing income at the top varies across countries and over time, then this picture could mislead on such fundamental "stylised facts" as how countries rank in terms of inequality, how it has been changing and the extent to which direct redistribution reduces inequality in one country versus another.

As a consequence a substantial literature has emerged investigating and applying different methods to "correct" the top of the income distribution in surveys, either by purely statistical methods fitting most often a Pareto-type distribution, by basing such a distribution on external information from tax data, or by combining survey and tax data in a more direct fashion. It is worth noting the impact this can have on overall inequality as well as top income shares for Ireland versus other rich countries. Table 1 shows results from such an exercise "correcting" survey data over a number of years drawn from the standard EU-SILC European source (that also underlies Roantree's results for Ireland) to align with top income shares estimated from tax data as described in Carranza *et al.* (2023).

Table 1: Impact of Top Income Correction on Survey Income Inequality Estimates from EU-SILC for Ireland and Other Countries

	Average impact 2004-2017	
	On Gini ("points")	*On Top 1% share (ppt)*
Belgium	+4.7	+2.9
France	+1.8	+1.5
Germany	+6.6	+5.5
Ireland	+0.1	+1.5
UK	+3.9	+3.5

Source: Carranza *et al*. (2023).

This shows first that the scale of the "correction" varies substantially across countries, to such an extent that the ranking of countries would be altered; more detailed results in the paper show that in some countries trends over time would also be affected. However, in the case of Ireland the correction has little impact on the Gini coefficient, though it does increase the estimated share going to the top 1 per cent. While this need not necessarily apply to alternative "correction" procedures, it does provide some reassurance that the picture of overall inequality produced from surveys over at least this period is not seriously compromised by the "missing top". Separately, Carranza and Nolan (2024) investigate the various analytical choices that can affect the extent of measured redistribution of income by the state, and find that correcting versus not correcting for the "missing top" is not a major consideration in that respect.

1.4 What About Poverty?

While Roantree's paper concentrated on income inequality, it is worth briefly mentioning trends in measured poverty over the same period as revealed by his own work together with ESRI researchers. Drawing on Roantree *et al.* (2024), the conventional relative income "at risk of poverty" rate based on disposable household income is seen to have declined substantially over the period. This is distinctive among rich countries, where for the most part this poverty measure has been difficult to bring down significantly over time. Roantree *et al*.'s results also show, however, that when income after housing costs is used instead for the more recent years where it can be derived, the picture is considerably less positive. It also shows that measures of material deprivation have not come down to the same extent as the standard relative income poverty rate. This is unsurprising during the recession from 2008-2011, when the purely relative income measure gives a misleading picture as is widely acknowledged. During more recent years the rapidly rising cost of housing, as reflected in the after housing costs poverty measure, provides part of the explanation for the mismatch. However, the linkages between income and deprivation as measured by these indicators, although the subject of various studies for Ireland and comparatively, is still poorly understood with important implications for poverty monitoring and anti-poverty strategies.

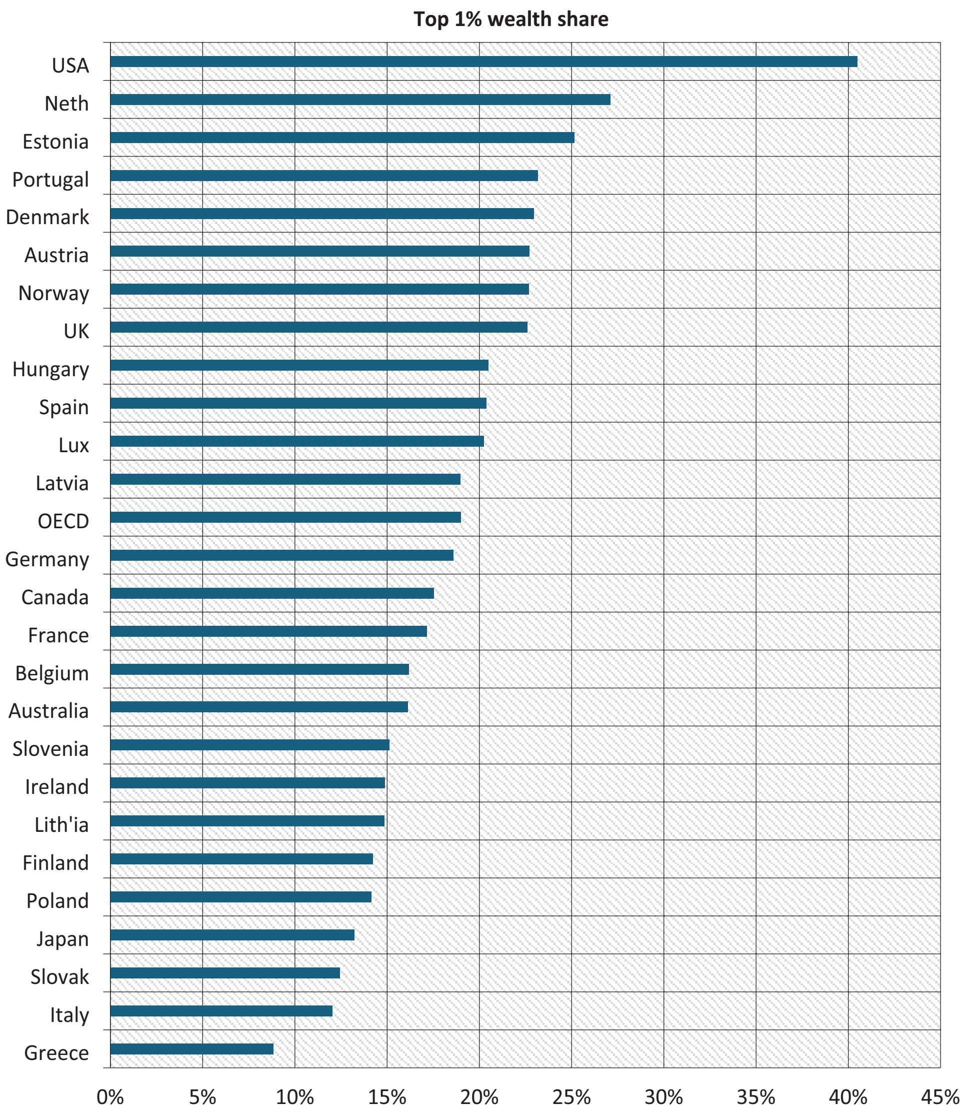
1.5 What About Wealth?

Alongside income inequality and poverty, the distribution of wealth is a central aspect of overall economic inequality. The information available about wealth is much more limited, but drawing on the four surveys that sought to gather in-depth data from households on their assets and liabilities one would see that wealth inequality in Ireland was much higher in 2013 than it had been in 1987, but that inequality then declined to 2018 and 2020: the Gini coefficient for net wealth in these years was 0.52, 0.75, 0.67, and 0.65 respectively. These figures have to be interpreted with great care, however, because recent wealth surveys capture the top of the distribution more effectively than the one carried out in 1987. The survey carried out by the ESRI in 1987 was a broad-based income survey whereas the ones from 2013, carried out as part of the Household Finance and Consumption Surveys coordinated by the ECB, were specially-designed wealth surveys where most countries, including Ireland, employed a sampling frame intended to enhance the likelihood of capturing the top of the wealth distribution. The 1987 survey did however provide a picture of wealth across most of the distribution that allowed patterns of assets and liabilities at different income levels to be studied in depth for the first time, a potential that Patrick Honohan and I exploited in Honohan and Nolan (1993).

The picture available from the more recently-available dedicated wealth surveys suggests that Ireland's current level of wealth inequality is not particularly distinctive but, as illustrated by the top 1 per cent shares presented in Figure 2, is below the rich country average. However, despite their best efforts in terms of survey design and implementation, the problem of the "missing rich" is still generally more serious than for income simply because wealth is much more concentrated towards the top. Some countries/surveys do much better than others in capturing top by effective over-sampling, but reliable external information to draw on to "correct" surveys is also much scarcer in the case of wealth.

The difference such correction can make is illustrated in Table 2, drawing on studies for the countries covered employing different methods, to bring out just how substantial this can be. These results suggest that the underestimation by the

Figure 2: Wealth Inequality in Ireland and Other Rich Countries: Top 1% Share in Net Wealth



Source: OECD Wealth Distribution Database "Key indicators on the distribution of household net wealth, 2018", downloaded 15 September 2024.

surveys of top income shares is relatively modest in the case of Ireland, but that may not necessarily hold when other approaches to such a correction are adopted. (It is worth noting that the estimates of top 1 per cent shares produced and presented by the widely-used World Inequality Database show a much higher figure for Ireland, fully 13 percentage points greater than the survey: in the absence of a detailed reconciliation between the two this is problematic to say the least.)

Table 2: Impact of Top Wealth Correction on Survey Wealth Inequality Estimates for Ireland and Other Countries

	Top "Correction" adds to Top 1% Share (ppt)
Belgium	+3 to 4
France	+1 to 4
Germany	+8 to 10
Ireland	+2 to 4
UK	+1 to 5
US	+0 to 3

Sources: HFCS, WAS, SCF, Schröder *et al*. (2020), Advani *et al*. (2022), Bricker *et al*. (2020), Vermeulen (2018).

1.6 Priorities for Policy and Research

Finally, it is worth mentioning some priorities for research and policy consideration to contribute to the debate in this broad field.

As far as taxation is concerned, it is widely argued that the burden needs to be shifted from income taxes including PRSI and USC. In that context the need to maintain rather than further erode the base for these taxes should however also be kept to the fore. Increased taxes on wealth are also widely discussed in this context, but finding politically feasible ways to do enough to make a major difference has proved challenging both in Ireland and elsewhere.

Turning to social transfers, ways to improve support in a targeted manner are much debated, with a second tier child payment the most widely advocated current priority. Various ways to reduce disincentives produced by "kinks" in the system are also frequently advocated, including in the report of the Commission on Taxation and Welfare. While this is indeed important, radical re-structuring along the lines of the UK's switch to Universal Credit to achieve it is not a "direction of travel" to be recommended. Indeed, maintaining and improving income support levels over time by appropriate indexation may be more important than structural change at this stage. There is however scope to enhance the capacity of low-income households to build savings buffers and improve their financial resilience without being penalised by the social protection system for doing so.

The implications of differential inflation/cost of living challenges across distribution have been brought into sharp relief by the post-pandemic surge in prices, and the implications need to be teased out even as inflation eases. Finally, the role of housing costs and access to housing will continue to dominate the Irish economic, social and political agenda, with major implications for how economic inequality evolves over the next decades. There are more than enough meaty issues for Patrick to continue pondering and we look forward to more always-insightful contributions from him.

REFERENCES

Advani, A., Summers, A. and Tarrant, H., 2022. "Measuring Top Wealth Shares in the UK", CAGE Working Paper, 610. https://warwick.ac.uk/fac/soc/economics/research/centres/cage/manage/publications/wp610.2022.pdf.

Atkinson, A.B. and Piketty, T. (Eds), 2007. *Top Incomes over the 20th. Century: A Contrast Between Continental European and English-Speaking Countries.* Oxford: Oxford University Press.

Atkinson, A.B. and Piketty, T. (Eds), 2010. *Top Incomes: A Global Perspective.* Oxford: Oxford University Press.

Bricker, J., Goodman, S., Moore, K. and Henriques, A., 2020. "Wealth and Income Concentration in the SCF: 1989–2019", FEDS Notes 28 September, Board of Governors of the Federal Reserve.

Carranza, R., Morgan, M. and Nolan, B., 2023. "Top Income Adjustments and Inequality: An investigation of the EU-SILC", *Review of Income and Wealth*, 69(3): 725-754.

Carranza, R. and Nolan, B., 2024. "Assessing Income Redistribution: What are the Key Analytic Choices?", *Fiscal Studies*, 45(4): 501-519.

Honohan, P., 2021. "Is Ireland Really the Most Prosperous Country in Europe?", *Economic Letter*, Vol. 2021, No. 1, Central Bank of Ireland.

Honohan, P. and Nolan, B., 1993. *The Financial Assets of Households in Ireland,* General Research Series Paper 162, Dublin: The Economic and Social Research Institute.

Honohan, P. and Walsh, B., 2002. "Catching Up with the Leaders: The Irish Hare", *Brookings Papers on Economic Activity*, 33, Issue 1, p. 1-78.

Honohan, P. and FitzGerald, J., 2023. *Europe and the Transformation of the Irish Economy*, Cambridge: Cambridge University Press.

Jenkins, S., Brandolini, A., Micklewright, J. and Nolan, B., 2013. *The Great Recession and the Distribution of Household Income*, Oxford: Oxford University Press.

Nolan, B., 1986. *Income Distribution and the Macroeconomy.* Cambridge University Press: Cambridge.

Nolan, B. (Ed.), 2018. *Generating Prosperity for Working Families in Rich Countries*, Oxford: Oxford University Press.

Nolan, B., 2020. "The Median Versus Inequality-Adjusted GNI as Core Indicator of 'Ordinary' Household Living Standards in Rich Countries", *Social Indicators Research*, 150, 569-585.

Nolan, B. and Maître, B., 2021. "Does Household Worklessness Explain Ireland's High Working-Age Market Income Inequality?", *The Economic and Social Review,* 52 (4): 357-374.

Nolan, B. and Roantree, B., 2023. "Inclusive Growth: The Irish Exception?", Paper presented at the Tenth Meeting of the Society for the Study of Economic Inequality, Aix-en-Provence.

Roantree, B., 2025. "Fiscal Policy and Redistribution in Ireland", *The Economic and Social Review*, this issue.

Roantree, B., Maître, B. and Russell, H., 2024. *Poverty, Income Inequality and Living Standards in Ireland*, ESRI: Dublin.

Schröder, C. Bartels, C. Göbler, K. Grabka, M. and König, J., 2020. "Millionaires Under the Microscope: Data Gap on Top Wealth Holders Closed: Wealth Concentration Higher than Presumed", *DIW Weekly Report*, 2020, 10, (30/31), 313-322.

Vermeulen, P., 2018. "How Fat is the Top Tail of the Wealth Distribution?", *Review of Income and Wealth*, Vol. 64, Issue 2: 357-387.