



Economic inequality in Northern Ireland

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Foreword

From the rise of the Occupy Movement, to the publication of provocative publications such as *The Spirit Level* and *Capital* the question of economic inequality has been setting the political agenda across the world for the last number of years. However, in many ways this debate has passed Northern Ireland by. Partially, this is because our focus has been on reducing levels of poverty and economic inactivity, but it has also stemmed from the lack of data about the levels of economic inequality in Northern Ireland. This research goes some way to rectifying this by illustrating how unequal we are in terms of income and wealth.

Economic inequality has traditionally referred to income inequality. However, this is changing with wealth inequality being given greater emphasis. Data available in Northern Ireland on wealth is limited, but this paper gives a clear indication of wealth held by households. What is apparent is that from the top to the bottom people in Northern Ireland have limited savings when compared to Great Britain. A high proportion of households in Northern Ireland have no savings (45%) but even the level of savings held by households at the top is low.

One of NICVA's core values is a commitment to equality. This is because there are consequences for a society if inequality becomes too great. These include social impacts on health, education and social cohesion as well as economic impacts including limiting growth. This research therefore provides recommendations for policy makers in Stormont to monitor economic inequality and make efforts to limit its negative impact.

Seamus McAleavy
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Executive Summary

Introduction

Economic inequality – disparities in income and wealth – has been rising up the political agenda for the last number of years. Driven by popular academic works such as that of Piketty, insecurities arising from the financial crisis and the manner in which governments around the world have subsequently sought to balance the books, there are now regularly voiced concerns about inequality. This report covers economic inequality in Northern Ireland – how high it is, how this compares to other countries, and how it has been changing.

Key terms and concepts

This report is concerned with economic inequality. This refers to an unequal distribution of mainly income and wealth across the population. This inequality is measured throughout the report by a number of indicators. These include the shares of total income or wealth held by sections of the population and ratios between different parts of either the income or wealth distributions. The most commonly referenced statistic for inequality is the Gini coefficient. This measures the level of inequality for, say, income across the whole population. The statistic is between 0 (complete equality – everyone with the same level of income in this case) and 1 (complete inequality – one person with all income). In other words, the higher the Gini coefficient, the higher the level of inequality.

An important distinction is between poverty and inequality. Poverty is a condition of having insufficient resources of various types to meet the standards of needs set by society. It is usually measured in advanced economies as having a household size-adjusted income below 60% of the median income. This makes it a rather specialised form of inequality in the lower half of the income distribution. This report does not focus on poverty, though it does consider it alongside inequality as a policy objective in the final chapter.

Changes in economic inequality in advanced economies

Income inequality has increased in a majority of OECD countries compared with the 1980s. However, it has not increased in all, suggesting that there is no inevitability to rising inequality. These large increases in income inequality occurred between the 1980s and 1990s, and increases since have been more subdued.

One important development has been the growth in the income share of the top 1% and above of the income distribution. In the UK, the top 1% share of income has increased from 5% in the 1970s to 13%.

Wealth inequality across advanced economies tends to be higher than income inequality, and has also been generally increasing over the last few decades. The data available for wealth inequality is much poorer, however.

What determines changing economic inequality?

Multiple explanations have been offered for the rise in income inequality since the 1980s:

- Broad economic changes that affect the structure of relative earnings such as globalisation and technological change.
- Changes in the shape of the labour market such as the growth in part-time or temporary work and self-employment.
- Changes to labour market institutions such as falling trade union density, weaker employment protection and changes to corporate governance.
- Demographic change, such as ageing populations and the rise of single adult households.
- The changing level and nature of income redistribution by governments.

Technological change has fallen out of fashion somewhat as a theory of explaining economic inequality. Many of the other changes, such as the composition of the labour market, labour market regulation, and globalisation, are not easily distinguished in practice.

Wealth inequality has attracted less attention until relatively recently. It is influenced by the levels of income inequality, which it itself also influences through, for example, capital income. The pattern of intergenerational transfers such as inheritance and the structure of taxation for these also matter. Piketty has argued that the fundamental driver of wealth inequality is the difference between economic growth rates and the return on capital.

What are the consequences of economic inequality?

The consequences of income inequality on social and economic outcomes are highly contested.

Income inequality is correlated with a range of poorer social outcomes in health and education, among others. These striking bivariate correlations however appear to disappear when looking at changes in inequality and changes in outcomes, and there is a more mixed picture in multivariate analysis.

The economic consequences of inequality have gained traction after high profile reports from IMF and OECD staff. There is an emerging picture of inequality having consequences for long-term growth.

Income inequality in Northern Ireland

Northern Ireland is the most equal part of the United Kingdom, which is a relatively unequal country when compared to other European countries.

The median income (at which half of people are above and half are below) in Northern Ireland is £400 per week before housing costs (BHC), or £361 after housing costs (AHC). Income at the 10th percentile (the income level 10% of people are below) after housing costs is around half this, while income at the 90th percentile is almost double the median. Since 2006-09, the ratio between incomes at the 90th percentile and the 10th percentile has increased slightly.

The bottom 30% of households in Northern Ireland account for 14% of total income. The top 30% account for 51%. The top 10% of Northern Irish households alone receive 24% of all income.

Compared to Great Britain, incomes at the bottom in Northern Ireland are roughly the same. However, going up the income distribution, income at the median in NI is 94% of the GB median, whereas the NI 90th percentile is only 85% of the GB equivalent. Northern Ireland is therefore more equal than Great Britain, and this is largely due to the lower incomes at the top of the distribution. The 90th percentile is 4.2 times higher than the 10th in Northern Ireland, whereas the ratio in Great Britain is 5.1.

Northern Ireland has a lower Gini coefficient than the UK as a whole. The BHC coefficient for NI is 0.3, compared to 0.34 for the UK as a whole. Taxes and transfers reduce the Gini coefficient by 0.21 in Northern Ireland, one of the highest reductions of any region or country in the UK.

The Gini coefficient in the Republic of Ireland was 0.30 in 2012-13, compared to 0.28 in Northern Ireland. The Republic of Ireland has tended to be slightly more unequal than NI on this measure.

Northern Ireland is less equal than most Scandinavian and central European countries, and more equal than Poland and southern European countries.

Wealth inequality in Northern Ireland

In terms of savings, there is a relatively high degree of wealth inequality in Northern Ireland, driven by the number of households with none whatsoever. Including property ownership equalises wealth inequality somewhat.

A high proportion of households in Northern Ireland have no savings (45%). A minority of households account for the vast majority of household savings and inequality appears to be quite high.

However, the level of savings among households at the top of the distribution is relatively low (the top 10% in Northern Ireland have £20,000 or more in savings, whilst in Great Britain it is £70,000). Whilst the household savings “pie” is very unequally distributed in Northern Ireland, the size of that “pie” it is a relatively small.

But inequality in household savings has been growing in Northern Ireland: as the proportion of households with no savings increased, the value of the savings held by those at the top has grown.

Northern Ireland has a higher proportion of households with no savings than Great Britain (45% compared to 33%); but many of them are owner-occupiers so likely to have some equity. The proportion of households with no savings in rented housing in Northern Ireland is close to the level in Britain (22% compared to 20%).

Property makes up a much greater share of household wealth in Northern Ireland than financial savings and assets. The total savings wealth held by households in Northern Ireland amounts to £11bn: the total property wealth is four times that at £44bn.

Overlaps between wealth and income

Levels of “high wealth”, measured here as over £20,000 in savings or £150,000 in equity or both, are fairly constant across much of the bottom and middle of the income distribution. 10% of the bottom income decile have high savings or equity or both, compared to 15% of the middle decile. High wealth levels become more prevalent in the top fifth of the distribution. Households in the top income decile are over five times as likely to have high levels of wealth as households in the bottom decile.

Conclusions and policy recommendations

There are two broad reasons to be worried about economic inequality. The first are normative concerns around perceptions of fairness or how deserved disparities in economic outcomes are.

The second set of concerns is based around the consequences of economic inequality on social and economic outcomes. This is a highly contested field of work, though the impacts on social mobility, economic growth and aspects of income stand out from the literature review.

Public policy should be concerned with economic inequality, though it is not clear that it should be the top priority. In the case of Northern Ireland, low employment and persistent deprivation might be higher social priorities.

Recent proposals to reduce inequality from Piketty, Atkinson and Stiglitz are largely beyond the powers of the Northern Ireland Executive, which should temper expectations about the prospects of a large fall. However, there are still relevant proposals, such as codes of conduct for pay and bolstering institutions which reduce inequality.

This report makes several recommendations for reducing economic inequality in Northern Ireland:

- Make provision for Northern Ireland to be included in the Wealth and Assets Survey or create a Northern Ireland version to remedy the lack of reliable wealth statistics.
- Distributional analysis should become mainstream in Northern Ireland government decision-making, and should be published where appropriate.
- Devise specific targets or objectives around inequality similar to the Scottish government's Solidarity Target.
- Consider how those on low incomes can be compensated for inequality, e.g. through careful design of welfare reform mitigations or reducing high costs.
- Examine how Northern Ireland's low savings rate could be increased, with policy options including government-backed saving account design or automatic deductions in a similar manner to pension contributions. This should be part of a broader agenda of financial inclusion and resilience.
- Measures to alter the distribution of market incomes through social clauses; a strategy to manage implementation of the National Living Wage; improving employment rates for disadvantaged groups; and bolstering institutions that reduce inequality.

Introduction

This report seeks to provide an understanding of the changing patterns of economic inequality in advanced economies and analyse the extent of inequality in Northern Ireland. It places income and wealth disparities in Northern Ireland in the context of Great Britain and other countries before proposing a set of policies to mitigate and reduce inequality.

The report proceeds in five sections. The first section is a literature review on the determinants of and consequences of economic inequality. Sections two and three analyse the levels of income and wealth inequality respectively in Northern Ireland. Section four looks at the overlaps between high levels of wealth and income. Section five considers why we should be concerned about economic inequality in Northern Ireland, what level of priority it should have for government, and what policy actions are available to the Executive to reduce inequality.

The Northern Ireland policy context

The following section explores some of the causes of economic inequality. Many of these are at the level of broad economic changes such as globalisation or the decisions of national governments around a range of policy areas. As a small economy and devolved administration with limited revenue-raising powers, Northern Ireland has only a limited ability to shape these trends. Even in areas where Northern Ireland has devolved responsibility, for example, employment law, substantial parts are determined by European Union regulations.

This background informs much of the policy analysis that appears throughout the report, although should not be taken as fatal to policy changes in this area. For example, Northern Ireland has relatively more control over its social security system than other devolved administrations, and could theoretically make budget neutral and income progressive changes, for example, by reducing benefit levels to wealthier pensioners.

Literature review: determinants and consequences of economic inequality

Introduction

It is possible to identify multiple determinants of economic inequality: institutions, policies, the strength of certain industrial sectors, demography and changes in the macro-economy, amongst others. The potential consequences of inequality for a range of social outcomes and economic growth are also numerous, and are both controversial and contested. Economic inequality here refers to disparities in both income and wealth across the population.

This review first looks at the overall trends in inequality in advanced economies, before considering the determinants of economic inequality, and which of these are most pertinent for Northern Ireland. It then examines the conflicting evidence on the consequences of inequality.

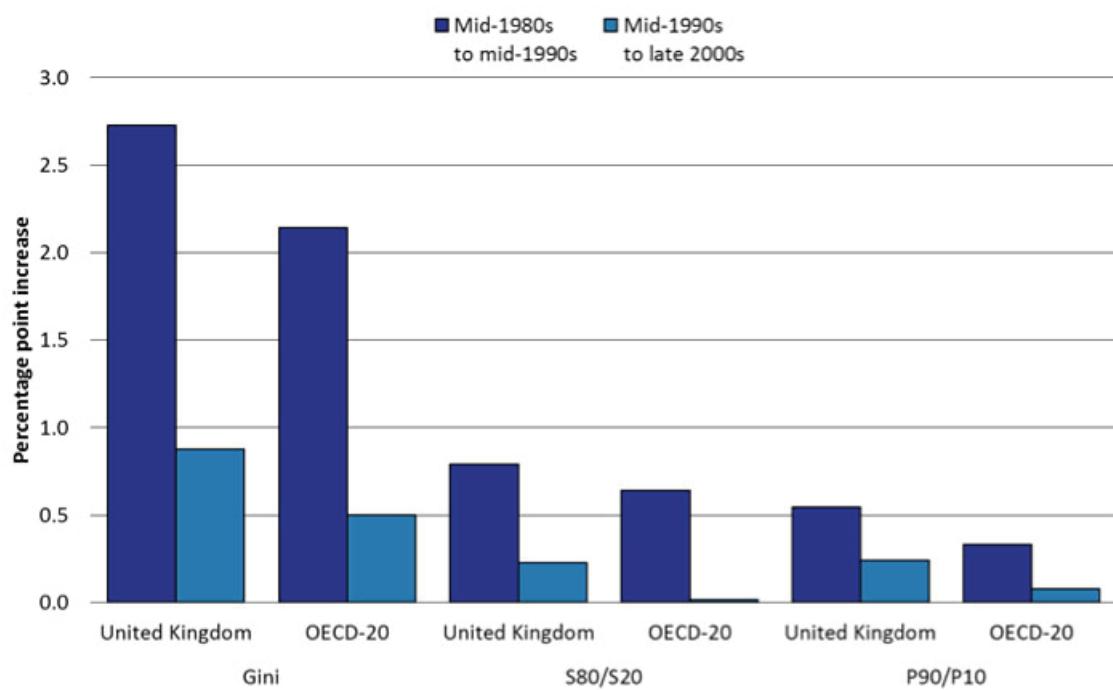
Trends in economic inequality in advanced economies

There has been a renewed interest in inequality in the last number of years, with the publication of several notable books (such as *The Spirit Level* and *Capital in the 21st Century*) and growth of the 'Occupy' movement with its focus on the top 1%. These have not come from nowhere: there has been an increase in economic inequality across most advanced economies over the course of the last few decades. The OECD notes that the Gini coefficient for income increased for 17 out of 22 OECD countries between the mid-1980s and the mid-2000s by an average of 10% (2011: 22). Dabla-Norris et al at the IMF also note that the middle quintile in advanced economies have experienced an average decrease in incomes of about 1% between 1990 and 2009, whereas the top quintile has experienced average growth of about 3.5% (2015:13). Increasing income inequality was not inevitable, however, with France, Hungary and Belgium experiencing little change (OECD, 2011:24).

Two particular trends worth highlighting within the overall trends of income inequality are the different patterns by time and the increased focus at the top. Firstly, the increase in income inequality between the mid-1980s to the mid-1990s was generally much larger than the increase since (OECD, 2011:45). This holds across a number of measures. As summarised in figure 1, the increase in the Gini coefficient for the original 20 countries in the OECD was 2.1 percentage points in the decade up to the mid-1990s, and then 0.5 percentage points between the mid-1990s and the mid-2000s. The same pattern is reflected in the share of income going to the top and bottom 20% of the income distribution (top share up 0.6 percentage points, then unchanged) and the ratio of the 90th percentile to the 10th (up 0.3 percentage points, then up 0.1). Importantly for Northern Ireland, these OECD-wide trends were shared in the United Kingdom. This means the increase in inequality since the 1980s slowed down from the 1990s to just before the recession in 2008. UK data since suggests that the summary measures of inequality have remained stable since (e.g. DWP, 2015), but

this will be examined in more detail in the income analysis chapter. There is also some evidence of an increase in income inequality in Northern Ireland in the 1980s and early 1990s (McGregor & McKee, 1995).

Figure 1



Source: *Divided We Stand: Why Inequality Keeps Rising*, OECD (2011). Summary table A1.1

The second trend is the growing concentration of income in even smaller parts of the income distribution. While a standard measure may look at the share of the top 20%, one of the major findings of authors such as Alvaredo et al (2013) is the share of income taken by the top 1%. In the UK, according to the World Top Incomes database, the share of the top 1% adults or families almost trebled from around 5% of all income in the late 1970s to nearly 15% before the recession though has since fallen to 13%. From the same source, the top 0.1% account for nearly 5% of income, up from 3% in the early 1990s. These trends are somewhat in contrast to the overall picture of inequality since the mid-1990s.

There is less data around trends in wealth inequalities. Wealth tends to be more unequally distributed than income (Dabla-Norris et al, 2015:16). In Great Britain, for example, in 2010-12 the Gini coefficient for wealth was 0.65 (and 0.91 for financial wealth), compared to 0.4 for income (Crawford et al, 2015:18). Wealth inequality has increased between the top and the middle of the distribution in the UK but not the bottom (OECD, 2015: 7). Piketty assembled several datasets to create a picture for the UK over time, finding that the top 1% and 10% share of overall wealth increased from 1810 to 1910 (to around 70% and 90% respectively) before falling sharply to 1970. Since then, the share of the top decile and top percentile has grown again, but remains well below the level of the early 20th century (2014: 344).

Determinants of inequality and how they are changing

Income inequality

When discussing income inequality, the distribution we are normally interested in is at the household level, after taxes and public transfers, and adjusted for family size (a process known as equivalisation). It follows from this that income inequality at this level is determined by the distribution of the sources of income (earnings, income from self-employment, and capital income), the level of taxation and patterns and generosity of state transfers, and household composition. Also of interest are demographic shifts, particularly for those groups most likely to rely more heavily on state support for income, such as children and those of retirement age. These determinants and what influences them will be discussed in turn. These determinants are not necessarily exclusive, however: forces such as globalization and technological change can and do also affect, for example, the composition of the labour market.

Changes to relative earnings/broad economic changes

The distribution of earnings is very important for the distribution of income: 69% of all income in Northern Ireland in 2013-14 came from earnings; 72% for the UK as a whole. There have been various changes in the broader economy that may have had an impact on inequality through affecting relative wages at different points in the income distribution. These include technological progress and processes associated with globalisation, and the main mechanism is changing the relative demand and hence wages for different sections of the earnings distribution.

Technological change, or rather 'skills-biased technological change', refers to advancements in production that change the relative demand for different levels of skills in the labour market, such as automation reducing the demand for low skilled assembly line workers. In this view, the impact on income inequality depends on what is winning the 'race' between the supply of skilled workers and technological change (OECD, 2011:31; Goldin & Katz, 2007). The OECD and Dabla-Norris et al have found evidence of technological advances increasing the dispersion of earnings (2011, 2015). However, it is contested by others who note that many of the original proponents of this view have recanted and that it does not explain recent wage trends (Mishel et al, 2013). Krugman argues that the technological change story of growing inequality should no longer be taken seriously due to, first middle incomes ceasing to outpace the bottom, and then middle incomes ceasing to grow at all in real terms in the US (2015).

There are several facets to globalisation with the potential to alter the earnings distribution. Standard trade theory suggests that higher levels of trade should increase the returns to the predominant factor, which in advanced economies is skilled labour. The reduction in capital controls and rise of 'financialisation', or the growing importance of financial institutions and transactions, could also have contributed to earnings inequality (Kus, 2012). Another dimension is offshoring, which might reduce demand for lower-skilled workers in advanced economies, though Blinder finds no relationship between how 'offshorable' a task is and its skill level (2007).

It is unclear how much of the increase in inequality relative to a few decades previous these factors can explain, at least at the very top: the top 1% share of income varies substantially across countries that have faced similar technological change and exposure to globalisation (Alvaredo et al, 2013; Gordon & Dew-Becker, 2007).

Composition of the labour market

There have been several major changes to the labour market over the last number of years, such as the growth in female employment and the rise in what the OECD calls 'non-standard' employment – namely part-time and temporary jobs, and self-employment (OECD, 2015). These can have consequences for income inequality. In the case of non-standard work, this has been quite substantial over the last fifteen years in the UK as a whole: 56% of employment growth between 2000 and 2015 was in either part-time or self-employed work. The context is slightly different for Northern Ireland, with self-employment at a high level but not increasing over the last decade (Tinson, 2015: 16). Part-time employment has increased in Northern Ireland over the last decade from around 21% of the total to 24%. Why does this matter for income inequality? As the OECD notes, non-standard workers tend to have lower earnings per week (or per year in the case of temporary workers), and also tend to get paid less per hour even after controlling for other factors (OECD, 2008:83). As a consequence, moving from a distribution of full-time workers to part-time workers increases the Gini coefficient of market income in the UK from 0.3 to 0.35. The OECD also note that average working hours have tended to fall more for low earners than higher earners, again contributing to growing inequality (OECD, 2011:32). The distribution of self-employment income is also more unequal (Jenkins, 2015:8), and has been falling relative to employee incomes since the recession (Tinson, 2015: 9).

Labour market institutions and regulations

Most advanced economies have experienced a decline in union density and changes in employment protection legislation over the last number of decades. Another important labour market institution is the level of the minimum wage relative to high wages. In an IMF review on the effect of labour market institutions on inequality, Jaumotte and Buitron find that unions and the minimum wage reduce the dispersion of wages but have an unclear effect on the income distribution based on the impact on employment (2015). They may also have an impact on the politics of redistribution and the bargaining power of labour relative to capital, which could increase the share of income received by the top of the distribution (2015:8-9). For the UK the picture is somewhat mixed. There was a decline in both union membership and coverage in the last number of decades (Schmitt and Mitukiewicz, 2011) but on the other hand a minimum wage was also introduced in 1998.

The loosening of employment protection legislation can have an uncertain effect, as it might boost employment (reducing income inequality) but with types of work concentrated at the bottom of the earnings distribution (OECD, 2011:30).

Another factor, related to labour market institutions in that it affects the setting of compensation is corporate governance. Corporate governance here means the rules around

ownership and accountability in companies. Changes to these structures designed to synchronise shareholder and management interests have led to increasing bonus payments (Smithers, 2014). This has implications for income inequality (Harrop, 2014).

Demography

There are three main ways in which demography influences income inequality: household structure, age trends, and assortative mating. The first of these reasons, household structure, is predicated on the idea that multi-person households can share the cost of some resources and so require a smaller amount of income to reach the same standard of living than if they were living separately. In the OECD economies, there has been a reduction in average household size driven by more single adult households both with and without children, and the fall was especially large in the UK (OECD, 2008:59). The OECD's 2008 report also found that differences in household size did not explain cross-country differences well but had some explanatory power for changes over time within countries, explaining 20% of the increase in the UK's Gini coefficient between 1985 and 2005 (2008:66). In Northern Ireland over the last nine years, however, there has been little change in household composition, with a slight decrease in couples with children and increase in pensioner households.

Age differences can drive inequality if there is a relative increase in either retired households or children, as these groups tend to have lower incomes. Northern Ireland is currently younger relative to the rest of the UK, but is expected to age relatively more quickly due to lower levels of immigration (Kenway et al, 2015: 19). However, any effect from this in the UK and by extension Northern Ireland may have been ameliorated by the growth in state support to both children and pensioners in the last few decades (MacInnes et al, 2014:89).

The third possible channel is assortative mating – that is, whether household formation between adults tends to be between those with similar incomes or not. In a scenario with four individuals, two high income and two low income, inequality will be higher when the individuals form two households along income lines. This phenomenon is to a certain extent predicated on partners working, and so is a possible effect of rising female participation in the labour market. The effect can be quite significant – for example, the Gini coefficient in the US would be around nine percentage points lower with random mating (Greenwood et al, 2014). The OECD found that the effects of increasing assortative mating and falling household size were relatively modest for increasing inequality once labour market changes were factored in (2011: 35).

Redistribution

One of the most substantial factors for the level of income inequality is the extent to which governments alter the distribution of market incomes through taxation and transfers of income. There is also the provision of services in-kind, which also tend to be redistributive (OECD, 2011:38). Given high rates of out-of-work benefit receipt and public sector employment in Northern Ireland, this is likely quite a significant factor. The OECD characterise two broad types of redistributive state: Beveridgean and Bismarckian, with the former based more on redistribution from higher to lower incomes and the latter on providing insurance

against negative events and stages of the life cycle (2008: 99-100). Welfare states tend to exhibit dimensions of both. The effect of a welfare state on inequality depends on its degree of targeting (i.e. who is eligible), its progressivity (the profile of benefits relative to the income distribution), and its overall redistribution (how much it changes the income distribution). The UK tends to be above average on these dimensions (OECD, 2008:99-116).

Huber & Stephens note that redistribution tends to increase based on higher need, such as higher unemployment, rather than social policy (2013). The UK may be something of an exception, given that the progressive profile of benefit reforms between 1997 and 2009, which tended to increase incomes at the bottom the most and so reduced inequality relative to the previous system (Adam & Browne, 2010). The impact of redistribution for Northern Ireland is examined further in the income inequality chapter.

Alvaredo et al have argued that changes to taxation have considerable explanatory power for the rise in incomes of the top 1% and above (2013).

Social norms

Social norms have been highlighted as a possible determinant of inequality. However, their role is a tougher proposition to consider empirically. On some level, it could also be said that social norms influence many of the factors listed above: for example Tanzi notes that social norms can influence the extent of assortative mating (1998: 8). Levy and Termin see social norms combined with institutions as providing a framework within which other factors such as skills-biased technological change operates (2007). This is also in line with what Piketty and Saez argue – “the ultimate driver of inequality and policy might well be social norms regarding fairness of the distribution of income and wealth” (2014:8).

If there is a direct influence from social norms (excluding institutions) to inequality, it may be through the determination of compensation at the very top of the income distribution, as argued by Krugman (2002).

Wealth inequality

Wealth inequality is of rising interest in policy and political circles, though remains constrained to some extent by lower data quality and availability than income. Measuring wealth inequality is also subject to different definitions used in the literature, with differences between marketable and broader definitions, as well as gross and net. Wealth inequality is determined by some of the same factors as income inequality (such as redistribution policies and socio-economic demographics) as well as income inequality itself. There is also the issue of intergenerational transfers and Piketty’s ‘law’ relating to growth and returns on capital.

Income inequality

As wealth is a stock, inequality in the distribution of flows can influence how that stock accumulates. It follows that higher levels of income inequality mean that high income individuals can accumulate more wealth than under lower levels of income inequality. In practice, however, this relationship is not as straightforward –Sweden has a higher level of

wealth inequality than the USA, despite much lower income inequality, suggesting the importance of other factors (Bonesmo Fredrikson, 2012).

Looking at a long term view in the United States, Saez and Zucman find that the increase in wealth inequality there has been driven by very high labour market incomes at the top of the distribution (2014: 3). They also identify a ‘snowball’ effect whereby increasing income and wealth inequality are reinforcing each other.

Intergenerational transfers

Inheritance of wealth is another potential determinant of wealth inequality. If already wealthy individuals are more likely to receive an inheritance, or a larger inheritance, it can increase wealth inequality. Bonesmo Fredrikson examines several studies which find inheritance transfers to be highly concentrated (2012:18). UK research has found little impact of inheritances on wealth inequality, however (Crawford & Hood, 2015; Karagiannaki, 2011).

Growth and the rate of return to wealth

Piketty's *Capital in the 21st Century* proposed the identity $r>g$ for a society with an increasing concentration of wealth, where r represents the return to capital and g represents economic growth. He refers to this as a “fundamental force for divergence” (2014: 351). This identity is better viewed as creating a steady-state of wealth inequality, but a larger gap between r and g tends to amplify random shocks and so increase the level of dispersion (Piketty, 2015:75). Larger fortunes also mean more can be reinvested after living costs. However, as noted by Jones, r and g are theoretical simplifications that assume that changes in one will not be reflected in the other (2015: 45). To the extent this means that wealth inequality relies on other factors such as institutions is not far removed from what Piketty himself says (2015:69).

Consequences of inequality

There is a strong normative dimension to concern about inequality: gulfs in rewards are often viewed as unfair, particularly if they appear unmerited. But increasingly the debate has shifted to some of the social and economic consequences of economic inequality. The Spirit Level created a debate around its central finding that higher levels of inequality are associated with poorer outcomes for a range of social issues such as health, education and crime for the whole population (2009). International agencies such as the OECD and IMF have also brought new life to the debate over whether high levels of inequality reduce economic growth. This section reviews some of these claims and the evidence for them.

Social consequences

Health

Among the correlations outlined in the Spirit Level is the association between worse health outcomes and income inequality across advanced economies and US states. Evidence is presented showing the incidence of both infant deaths and life expectancy is associated with

levels of income inequality (2009:82-83). Drawing on other research, Wilkinson and Pickett argue that the health effects of inequality are found even after accounting for individual incomes (2009:87). Their proposed mechanism for these physical health effects is higher levels of stress in unequal societies arising from status anxiety. This stress reaction is also argued to contribute towards higher levels of obesity in more unequal societies.

This is only one of several mechanisms by which inequality could affect health outcomes: there is also the absolute income hypothesis (an additional pound of income ‘buys’ more health for a person on a lower income than a higher one) and the society-wide effects hypothesis (inequality drives up homicides and suicides) (d’Hombres et al, 2012:21-22).

There are several caveats to be noted for these arguments. The first is that while inequality may affect health outcomes, it is not dominant. As Kenworthy notes, in the same period that income inequality rose in most advanced economies, life expectancies have also increased (2015). The second is that many of the studies finding support for the impact of inequality on health outcomes are cross-sectional, meaning they could be capturing other differences between countries that are associated with both health and inequality (Leigh et al, 2009:3). When looking at differences across time in countries, multiple reviews have found evidence of a weak relationship or no relationship between income inequality and health outcomes (Leigh et al, 2009:25).

A different account is offered by Clarkewest (2008). Arguing that economic inequality affects health through differential investment in health-enhancing infrastructure, he notes that the level of inequality could alter changes in life expectancy. He then finds that once the initial level is controlled for, there is a strong negative relationship between changes in inequality and changes in life expectancy (2008:1878).

Education

The Spirit Level also notes that average attainment in literacy and numeracy at age 15 is negatively correlated with levels of income inequality, as well as dropping out of school on US data. In their argument, this is due to the negative effects of inequality on family life and relationships damaging early-years development, as well as a possible ‘stereotype threat’ effect whereby awareness of perceived social inferiority reduces performance (Wilkinson & Pickett, 2009:103-116). Other possible factors are that increasing wage inequality could encourage higher investment in education (thus raising attainment) as the returns to education are higher, or reduce attainment as those at the bottom of the income distribution are increasingly unable to finance education (d’Hombres et al, 2012:33).

Some of the same problems with assessing this relationship appear as with health: namely that there are cross-sectional results but not when changes in variables are compared (Kenworthy, 2015). In their review of the evidence, d’Hombre et al find a range of studies showing a range from no to moderate effects of income inequality on educational attainment, though note there are problems of causation for all but the most robust studies (2012: 34-36). In the US, where there is a growing gap in college completion between children in different income groups, there is evidence that growing inequality has contributed to this (Duncan et al, 2015).

Social capital and trust

Another potential consequence of inequality is a reduction in trust, a relationship noted as early as Alexis de Tocqueville in 1831 (Wilkinson & Pickett, 2009:50). Inequality is seen as a social divider and can affect social capital in two main ways (d'Hombres *et al*, 2012). The first is by increasing heterogeneity, which reduces the frequency of interactions, which are necessary to build trust. The second is by creating perceptions of unfairness, whereby poor individuals are exploited by richer individuals, so reducing trust among low income groups. This matters as trust is a central foundation of economic transactions (e.g Putnam 1995).

As before, the evidence for inequality reducing trust is mixed. Kenworthy finds that change in trust is correlated with changes in inequality, but that the effect is driven entirely by two countries in the sample (2015). Wilkinson and Pickett rely again primarily on bivariate correlations that can capture other effects. However, using multivariate analysis, d'Hombres *et al* did find support for the proposition that inequality reduces trust in Europe, one of the few *Spirit Level* findings their research confirmed (2013). This is in contrast to Steijn and Lancee who find that the effect of inequality on trust disappears when including national wealth (2011).

Economic consequences

Economic growth

There has been a renewed interest in the last few years on the consequences of inequality for economic growth. Some economic inequality is necessary for growth by providing incentives for innovation and raising saving rates among high income individuals (Ostry *et al*, 2014:7-8). It also has the potential to reduce economic growth through a variety of mechanisms. These include hampering human capital formation through credit constraints for those with low incomes, higher levels of instability, reduces the social consensus needed for responding to shocks, as well as potentially reducing consumption growth (Ostry *et al*, 2014; Berg & Ostry, 2011; Dabla-Norris *et al*, 2015).

The evidence is (as in previous cases) mixed, though Boushey & Price note a nuanced emerging consensus that “high inequality is bad for economic growth over long time horizons and that high inequality is particularly bad for those at the bottom of the income spectrum” (2014:14). In the short run, however, it might increase economic growth. Ostry *et al* contribute to this field by attempting to unravel the effects of redistribution within the nexus of growth and inequality, finding that inequality has a negative effect on medium term growth and its duration whereas redistribution has a small, insignificant effect (2014). The exception is for countries where redistribution is already high, though the disincentive effects are largely cancelled out (2014:24). Cingano also finds a negative effect, but this is dependent on the gap between the bottom 40% and the rest, with the divergence at the very top making no difference (2014). Cingano also finds evidence of increased income disparities depressing skills development among individuals with less well-educated parents.

Income mobility

The notion that income inequality reduces social mobility was popularised by the 'Great Gatsby curve', which showed a correlation between Gini coefficients and intergenerational income mobility (Krueger, 2012). The mechanisms for inequality to affect the prospects of the next generation include socio-economic status affecting childhood health and development and access to good schools and neighbourhoods, while family resources and connections influence labour market access and thus lifetime earnings (Corak, 2013: 85). In this reading, the curve signals a range of inequalities rather than measures them (2013:85).

Corak has provided evidence of correlations between inequality and mobility in the US and OECD countries (2013:82). However, the intergenerational elasticity of earnings measure is considered by some to be flawed (Winship, 2015), and use of a different measure to look at the US, Canada, and Sweden found more mixed evidence (Corak et al, 2014). Chetty et al find a robust negative relationship between inequality and mobility for both US census zones and OECD countries (2014:1614). These studies look exclusively at income inequality, though there is no reason to think that wealth inequality would not also have an impact on income mobility.

Conclusions

This section has reviewed some of the causes and consequences of economic inequality. Related to data constraints, much of the focus is necessarily on the income rather than wealth component of inequality. There are many potential causes of the increase in inequality compared to several decades ago: as Autor et al note, one factor alone is unlikely to account for the entirety of the increase (2008:303). It is also possible that there are interconnections between the different causes of inequality: the structure of the social security system could influence labour market composition, in turn influenced by changing norms. The consequences of globalisation and technological progress may also be mediated into different configurations by the shape of labour market institutions.

The consequences of economic inequality are highly contested in the literature, as might be expected for such a broad and politically contentious topic. There are striking correlations between higher income inequality and poorer social outcomes across a range of fields, though many of these disappear or at least weaken when other variables are taken into account. But if more unequal countries have worse social outcomes, even if these are not directly or substantially the result of inequality, then what is causing them, and is it related to inequality? One important question is whether the initial level of inequality has a bearing on outcomes, even when the evidence that changes in inequality do not.

The economic consequences of inequality are just as vigorously contested, though there are some signs of a fragile emerging consensus on economic growth. The income mobility debate is also important due to the potential for social waste and reduced choices for individuals. However, the literature on these economic consequences does appear clear that the rise of the top 1% has relatively little bearing compared to the inequalities within the rest of the population.

This review has been far from exhaustive. For example, some of the potentially more concerning consequences of the rise of the top 1% might be around the distribution of political power (for example, Gilens & Page, 2014 or Piketty, 2014). The 1%, however, might be less important for Northern Ireland, which is unlikely to host many of the global or even UK's top 1% of the income distribution. One illustrative point in case for this is that Barclays Wealth recently estimated one in 128 people in Northern Ireland to be a millionaire, compared to one in 65 in the United Kingdom as a whole (2015).

The relevance of these for Northern Ireland is that, as a small country with a set of limited devolved powers, it is difficult to shape large impersonal global forces or technological change. The response to these is therefore what matters. Other causes, such as labour market institutions or redistribution are marginally more within the gift of the devolved administration.

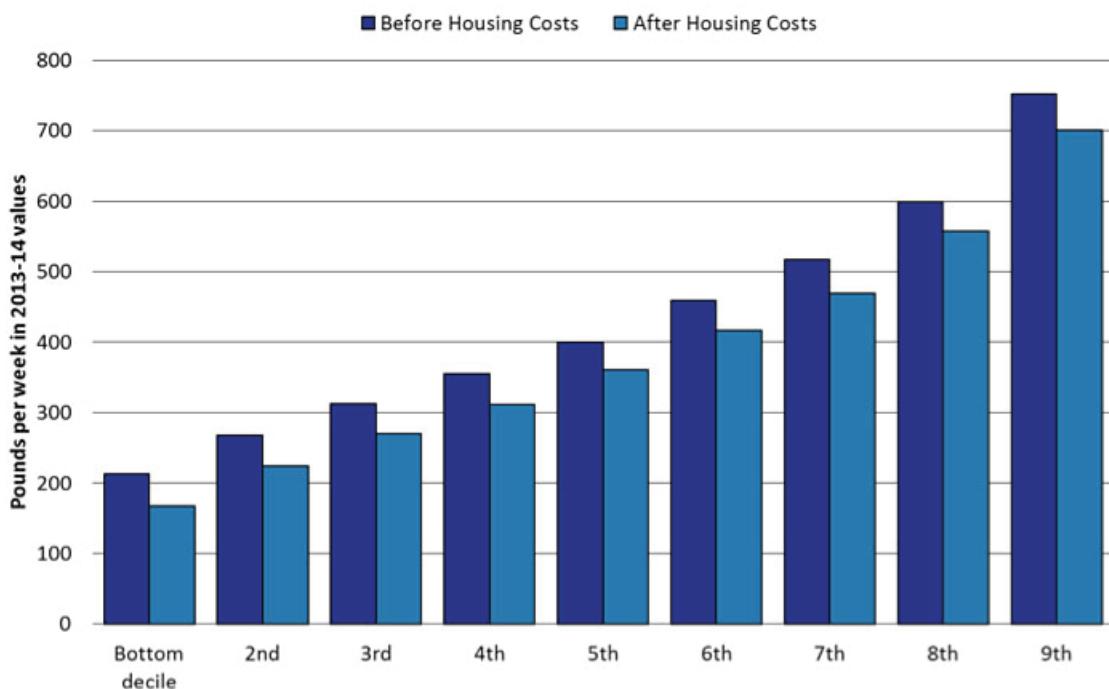
Income inequality in Northern Ireland

Key points

- The median income in Northern Ireland is £400 per week before housing costs, or £361 after housing costs. Income at the 10th percentile after housing costs is around half this, while income at the 90th percentile is almost double the median.
- Income in the bottom fifth is heavily reliant on state support such as benefits and pensions, whereas income at the top of the income distribution is mostly made up of earnings.
- Since 2006-09, the ratio between incomes at the 90th percentile and the 10th percentile have increased slightly.
- The bottom 30% of households in Northern Ireland account for 14% of all income. The top 30% account for 51%. The top 10% of Northern Irish households alone receive 24% of all income.
- Compared to Great Britain, incomes at the bottom in Northern Ireland are roughly the same. However, going up the income distribution, income at the median in NI is 94% of the GB median, whereas the NI 90th percentile is only 85% of the GB equivalent.
- Northern Ireland is more equal than Great Britain largely due to the lower incomes at the top of the distribution. The 90th percentile is 4.2 times higher than the 10th in Northern Ireland, whereas the ratio in Great Britain is 5.1.
- Northern Ireland has a lower Gini coefficient than the UK as a whole. The BHC coefficient for NI is 0.3, compared to 0.34 for the UK as a whole.
- The Gini coefficient in the Republic of Ireland was 0.30 in 2012-13, compared to 0.28 in Northern Ireland. The Republic of Ireland has tended to be slightly more unequal than NI on this measure.
- Northern Ireland is less equal than most Scandinavian and central European countries, and more equal than Poland and southern European countries.
- 90th percentile earnings in NI are 3.5 times higher than the 10th percentile, and 2.2 times higher than the median. This has not changed much in over 15 years.
- The top 1% of taxpayers in Northern Ireland receive 8% of all income
- Taxes and transfers reduce the Gini coefficient by 0.21 in Northern Ireland, one of the highest reductions of any region or country in the UK.

Income and its sources in Northern Ireland

Figure 2: Income distribution before and after housing costs



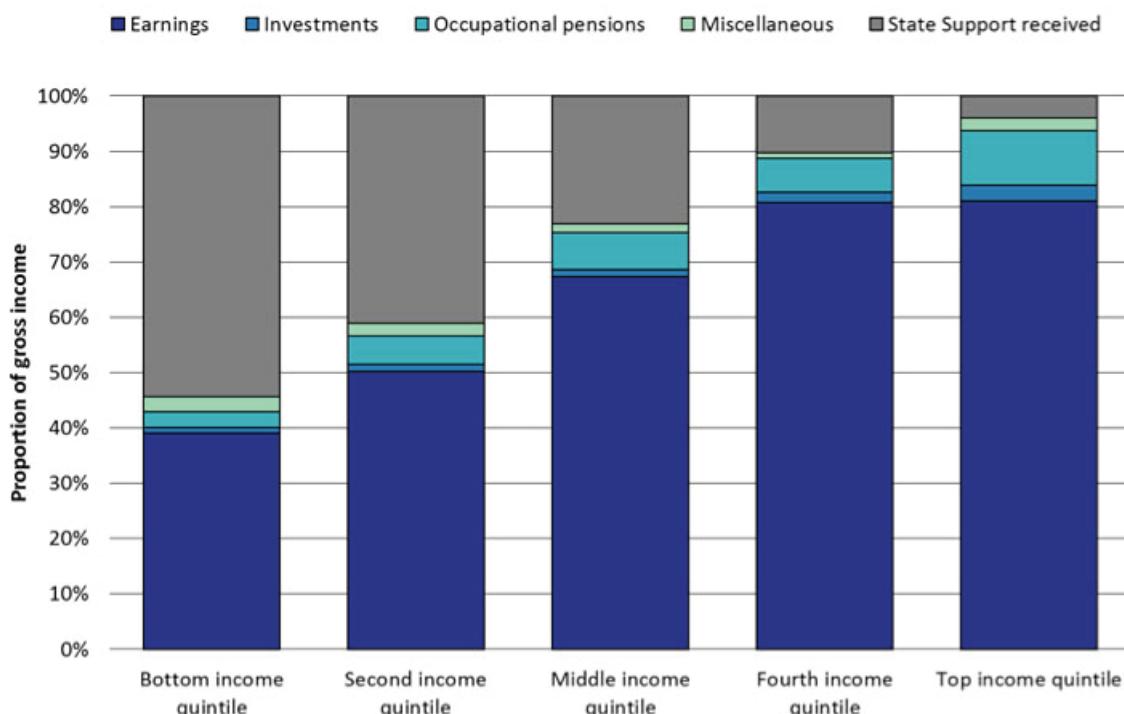
Source: *Households Below Average Income, Department for Work and Pensions (DWP)*. The data is a three year average up to 2013-14.

Figure 2 looks at the income distribution for Northern Ireland before and after housing costs for the three most recent years of data. Housing costs here refer to rent, mortgage interest, service charges and ground rent. So ‘before housing costs’ income here also includes things such as housing benefit. Unsurprisingly, income before housing costs is always higher at each point. Income here is also ‘equivalised’, which means that it is adjusted to take into account different family sizes.

10% of the population of Northern Ireland have a weekly equivalised income of £214 per week before housing costs or £167 per week after housing costs, or less. At the other end of the scale, 10% of the population have a weekly equivalised income equal to or greater than £752 per week BHC or £700 per week AHC. This means, after housing costs, incomes at the 9th decile are 4.2 times higher than at the 10th decile. Housing costs exacerbate inequalities in Northern Ireland: they vary very little between deciles, meaning that they are on average 22% of gross income in the bottom decile and only 7% in the top decile.

Half of people in Northern Ireland have a household income below £400 per week BHC or £361 per week AHC.

Figure 3: Sources of income by overall income quintile



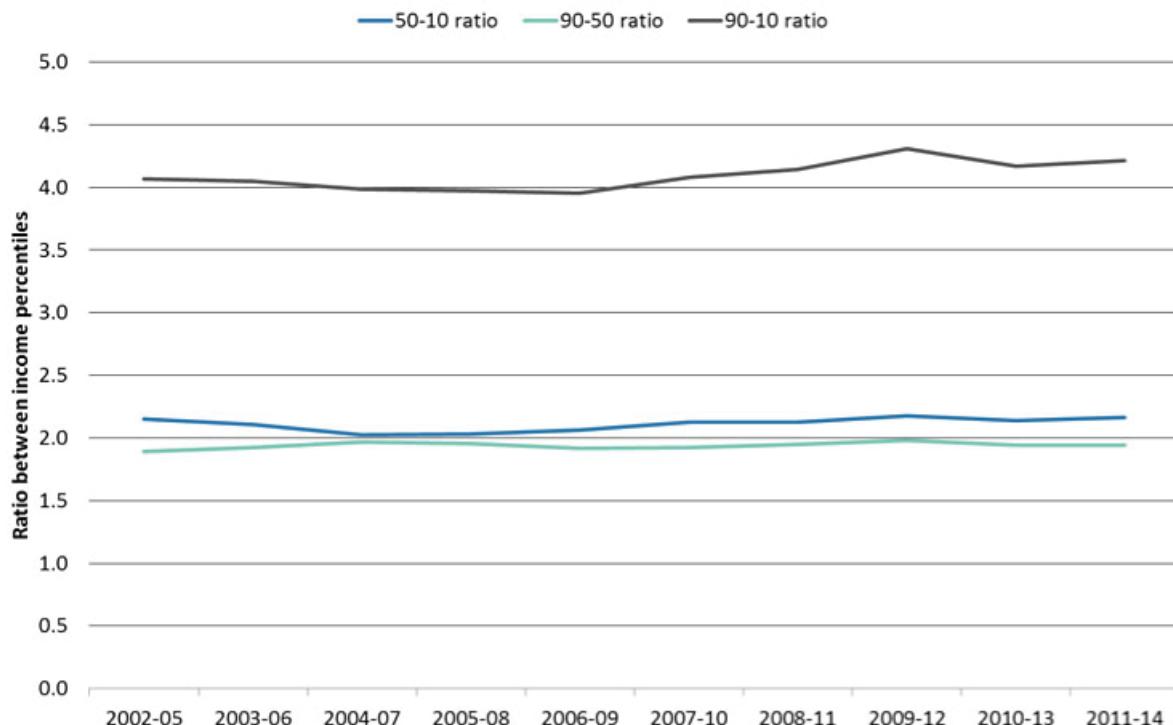
Source: *Households Below Average Income*, Department for Social Development. The data is for 2013-14.

This graph looks at the source of income for each fifth of the income distribution. This is broken down into earnings, investment income, occupational pension, state support such as benefits, state pensions and tax credits, and miscellaneous. The analysis is on a before housing costs basis.

The most notable differences between the lower and higher quintiles is the relative importance of earnings and state support. 40% of total income in the bottom quintile comes from earnings, whereas 55% comes from state support. In the second quintile, earnings make up half of income. For the top 40% of the distribution, however, earnings make up almost exactly the same share of income at around 80%. The difference between the top two quintiles is that 10% of income in the fourth still comes from state support, whereas, this is less than 5% in the fifth. Occupational pensions explain much of the difference, rising from 6% to 10%.

Overall in Northern Ireland, 69% of income comes from earnings, and 20% from state support.

Figure 4: Income ratios over time

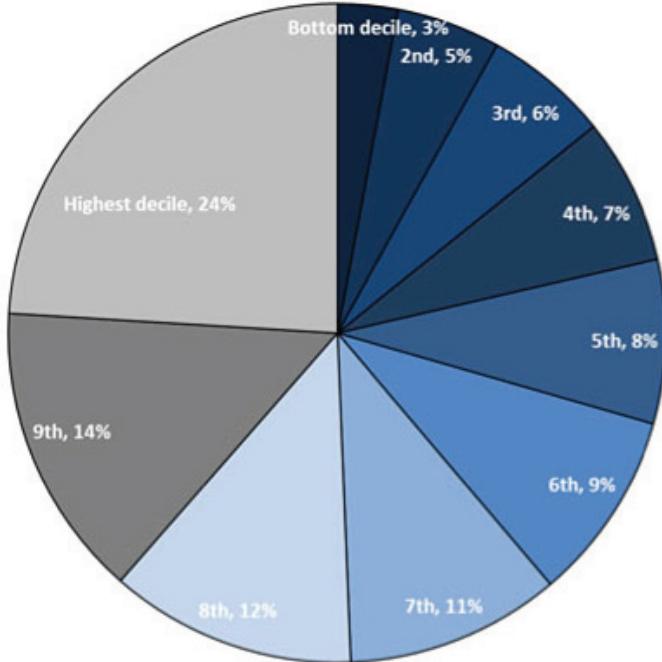


Source: *Households Below Average Income, DWP*.

Figure 4 plots the ratio of some of the after housing cost decile values from figure 1 across time. The ratios used look at how much higher the middle is to the bottom (50-10), then compares the top to the middle (90-50) and then the top to the bottom (90-10).

The ratios have not changed very much since the data series begins in the early 2000s. Inequality between the middle and the bottom appeared to fall slightly but has since rebounded to its previous level. A more notable change is that the difference between the top and the bottom, the 90-10 ratio, remained constant at 4 until the mid- to late-2000s before growing. It is now around 4.2.

Figure 5: Share of total income by income decile



Source: Households Below Average Income, DWP. The data is a three year average to 2013-14.

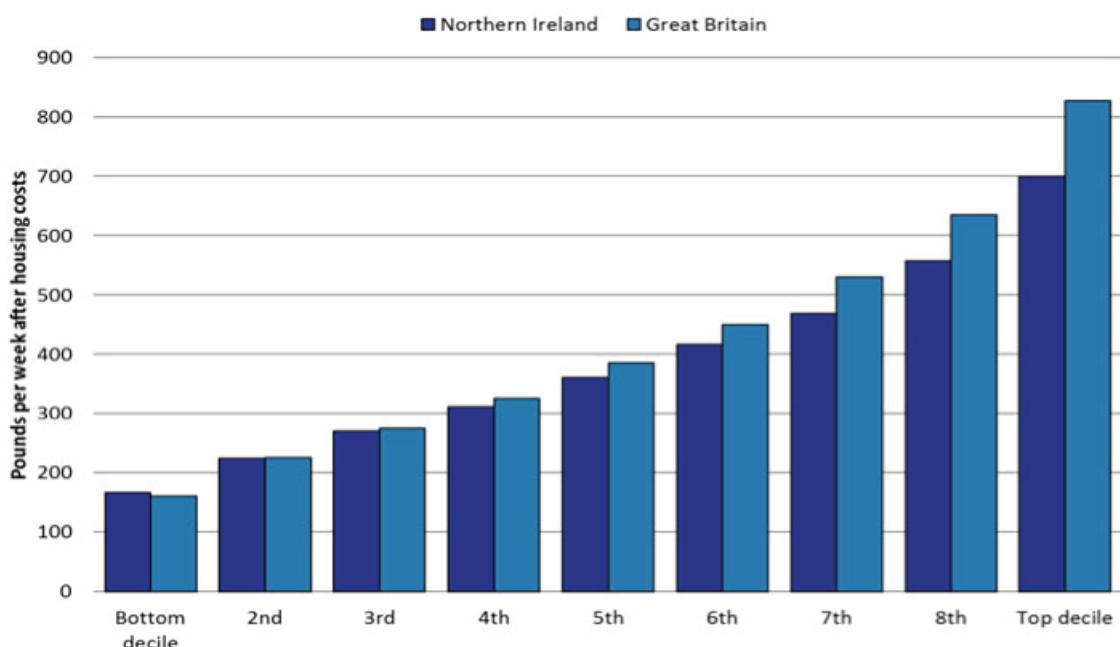
The last graph split incomes in Northern Ireland into five equal parts to examine their composition. This graph approaches it the other way, and splits the population into ten equal parts to see how much of total income each component has. It is again on a before housing costs and equivalised basis.

What figure 5 shows is that the bottom 10% of households in Northern Ireland have only 3% of total income. The top 10% of households in Northern Ireland have almost a quarter of all income at 24%. Or to look at it another way, the 30% of households with the highest incomes in Northern Ireland have half of all income. The bottom 30% of the population has 14% of all income.

It is official policy of the Scottish Government to increase the share of income that goes to its bottom 30%, unique in the UK.

Comparing Northern Ireland and Great Britain

Figure 6: The income distribution in Northern Ireland and Great Britain



Source: *Households Below Average Income, DWP*. The data is a three year average to 2013-14.

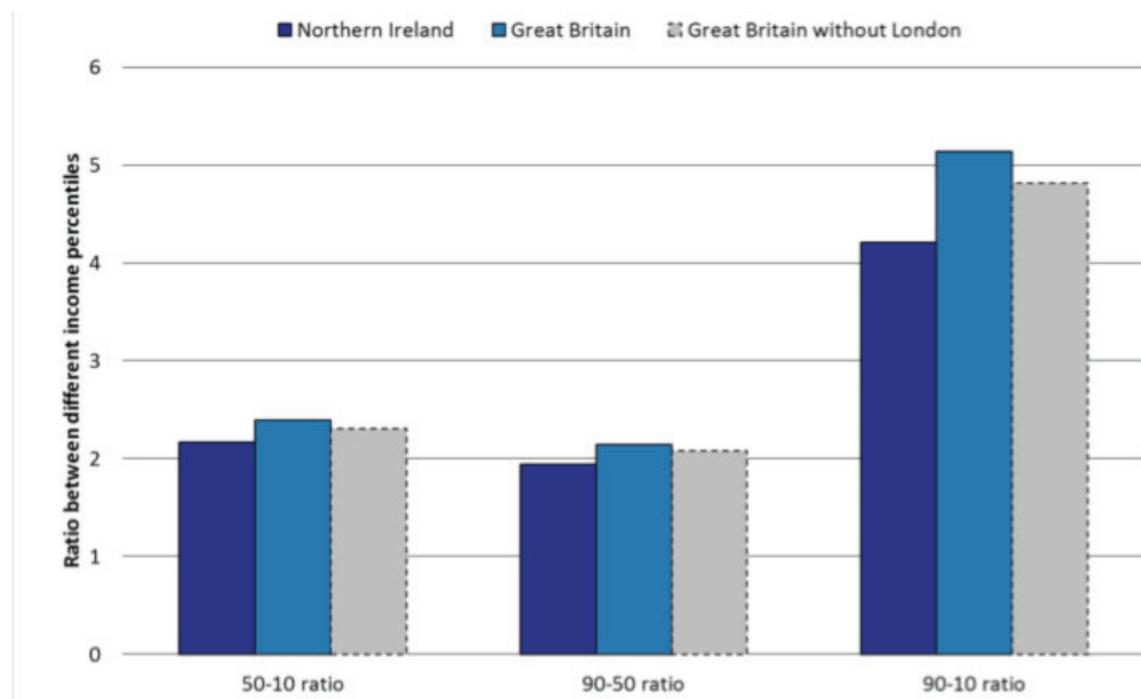
This section looks at how income inequality in Northern Ireland compares with Great Britain. Figure 6 looks at the decile breaks for NI and GB on an after housing costs basis. Incomes at the bottom few deciles are very similar, which is not surprising as the level of benefits, the state retirement pension, and the minimum wage are the same across the UK.

However, the higher the income decile, the bigger the gap between incomes in Northern Ireland and Great Britain. At the median, weekly income in Northern Ireland is only 94% of what it is in GB. This drops to 88% by the 7th decile, and then 85% by the top decile. So the main difference between the income distributions in Northern Ireland and Great Britain is that the top of the distribution in the latter have higher incomes. Incomes for the bottom 30% are very similar between the two regions.

The prominence of some very high incomes in Great Britain could be as a result of a 'London effect', whereby the financial services sector and other well remunerated industries skew the Great Britain figures.

Figure 7 looks specifically about inequalities in the income distributions, as well as excluding London from the Great Britain calculations.

Figure 7: Income ratios in Northern Ireland and Great Britain



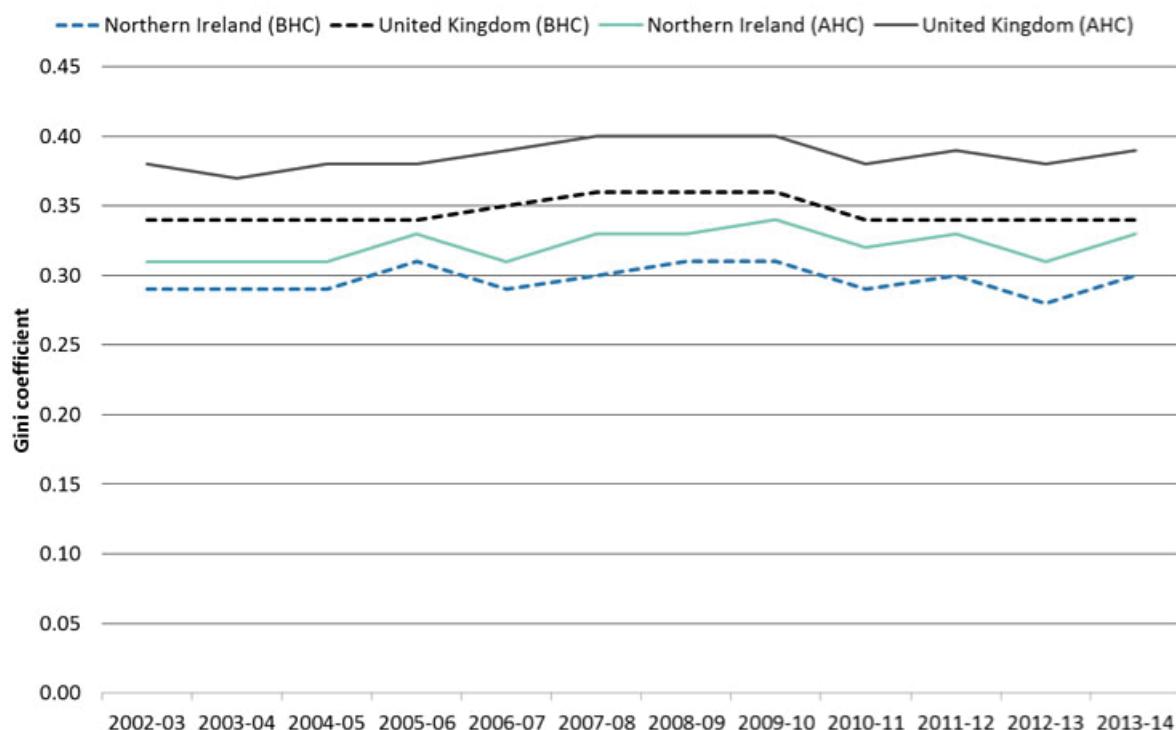
Source: *Households Below Average Income*, DWP. The data is a three year average to 2013-14.

The ratios used in figure 7 look at how much higher the middle is to the bottom (50-10), then compares the top to the middle (90-50) and then the top to the bottom (90-10). For the first ratio, the median income in Northern Ireland is 2.2 times higher than the 10th percentile, slightly lower than Great Britain (2.4) and GB without London (2.3). For the second ratio, the 90th percentile income in Northern Ireland is 1.9 times higher than the median, slightly lower again than the other two, both at 2.1.

The clearest difference, however, is comparing the top and the bottom of the income distributions. The 90th percentile in Northern Ireland is 4.2 times higher than the 10th, but in Great Britain the figure is 5.1 times higher, and still 4.8 times higher even without London. This means that inequality between the top and the bottom in Northern Ireland is lower than in Great Britain, even accounting for London. Between the top and the middle, and the middle and the bottom, inequalities are slightly smaller in Northern Ireland.

Another way to examine inequality is through a summary statistic such as the Gini coefficient, which provides a measure of inequality across the whole distribution. For the Gini coefficient, 0 represents a state of perfect income equality, where everyone has the same income, to 1, where one person has all income: therefore the higher the value in this measure, the higher the degree of income inequality. Figure 8 looks at the Gini coefficient for Northern Ireland and the UK as a whole, on a before and after housing costs basis.

Figure 8: Gini coefficient time series for Northern Ireland and the UK

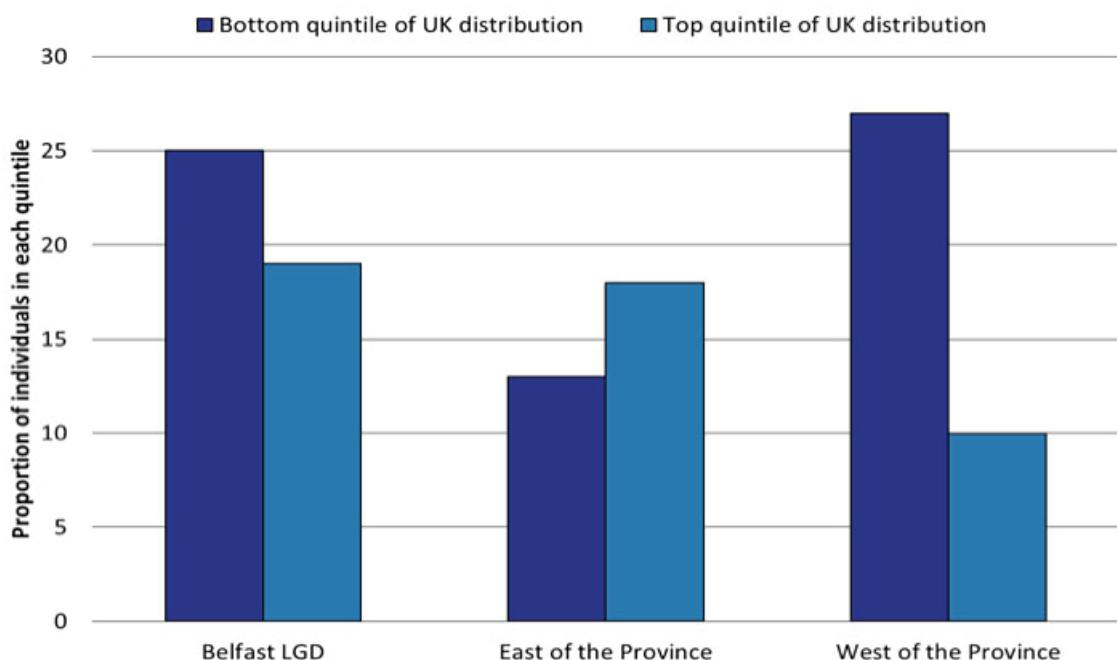


Source: *Households Below Average Income, Department for Social Development*.

The first thing to note is that, as in figure 1, inequality is greater on an after housing costs basis. The Gini coefficient for Northern Ireland in 2013-14 was 0.30 before housing costs, and 0.33 after housing costs. For the UK as a whole, these figures are 0.34 and 0.39 respectively. Inequality is lower in Northern Ireland than the UK as a whole both before and after housing costs, and Northern Ireland AHC is lower even than the UK BHC.

For both Northern Ireland and the United Kingdom as a whole, there has been little change in inequality compared to 2002-03, when the data becomes available. In the UK, there appears to have been an increase in the AHC measure up until the recession in 2008, but a decrease since then. There may also have been a slight increase in the AHC Gini coefficient for Northern Ireland since 2002-03, though the smaller sample size means there is more variation from year to year, making trends harder to pick out.

Figure 9: Income inequalities within Northern Ireland



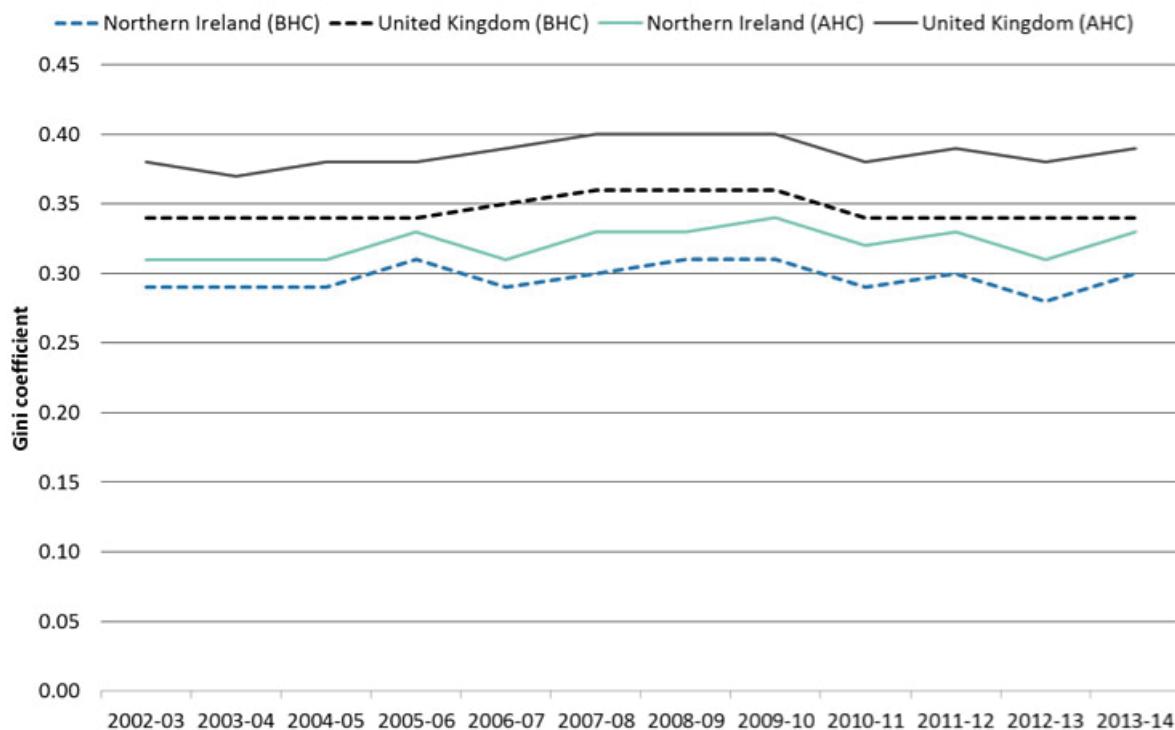
Source: *Households Below Average Income, DSD*. The data is for 2013-14.

This graph looks at income inequalities within Northern Ireland, by showing the proportion of individuals in each region in the bottom and top fifth of the UK income distribution (not the Northern Ireland income distribution, as in other graphs in this chapter). This indicates several dimensions of regional inequalities in Northern Ireland. Firstly, it is possible to say that Belfast is the most unequal part of Northern Ireland, as it has a high proportion of people in the bottom of the income distribution (25%) and a high proportion at the top (18%). For the other regions, the East has a lower proportion at the bottom and the West has a lower proportion at the top.

The second is about inequalities between regions. The East is generally the most prosperous region, with relatively few people at the bottom of the distribution and relatively high proportion at the top. In contrast, only 10% of people in the West are in the top fifth, while 27% are in the bottom fifth.

Comparing Northern Ireland with the Republic of Ireland and Europe

Figure 10: Gini coefficient time series for Northern Ireland and the Republic of Ireland



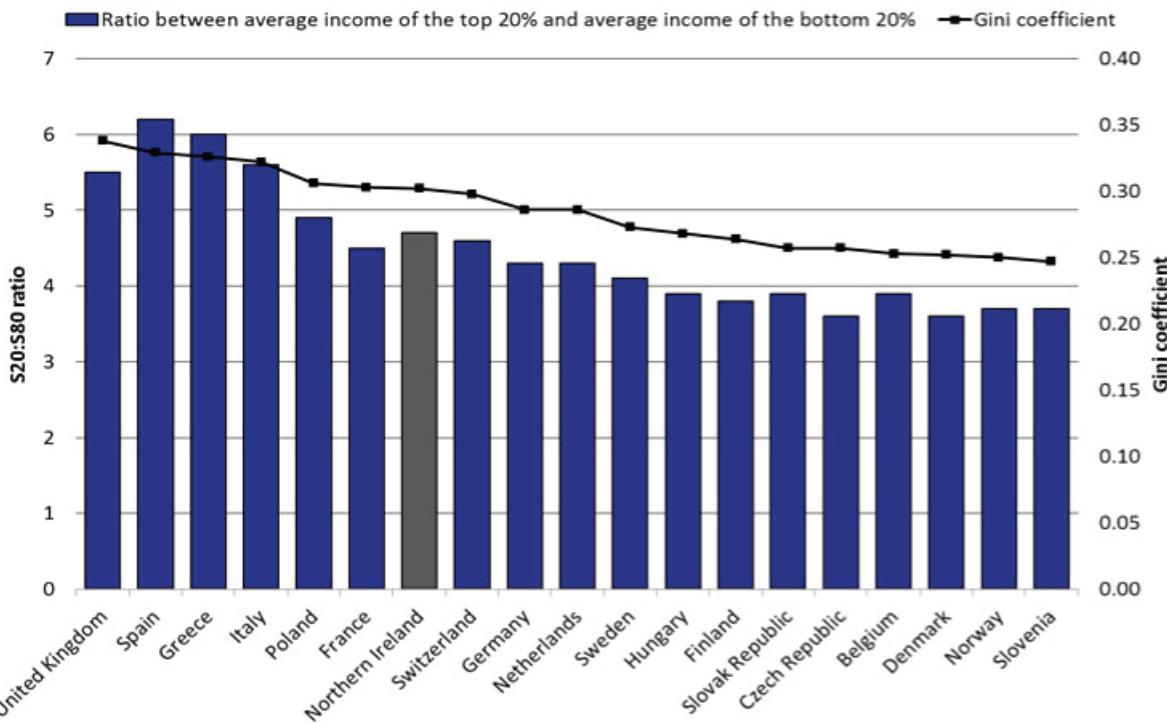
Source: OECD Stat; *Households Below Average Income*, DWP.

Figure 10 compares the Gini coefficients before housing costs for Northern Ireland and the Republic of Ireland between 2004-05 and 2012-13. This comparison draws on different data sources and slightly different time frames so should be considered illustrative rather than definitive.

What the graph suggests is that there is not much difference between Northern Ireland and the Republic of Ireland in terms of inequality on this measure: before around 2007-08, inequality in the Republic appeared to be higher, but has since declined somewhat. In 2012-13, the coefficient for Northern Ireland was 0.28, compared to 0.30 for the Republic of Ireland.

O'Connor and Staunton note that the Republic of Ireland has a very high Gini coefficient before taxes and transfers at 0.57 (2015: 32). This is higher than Northern Ireland's, suggesting that taxes and transfers in the Republic of Ireland are more effective at reducing inequality.

Figure 11: Inequality measures for OECD countries



Source: *OECD Regional Well-Being*. The data is for 2010

Figure 11 compares Northern Ireland with European countries in the OECD in 2010, the latest comparable data available. The graph shows the ratio of total income received by the top 20% to total income received by the bottom 20% and the Gini coefficient for each country.

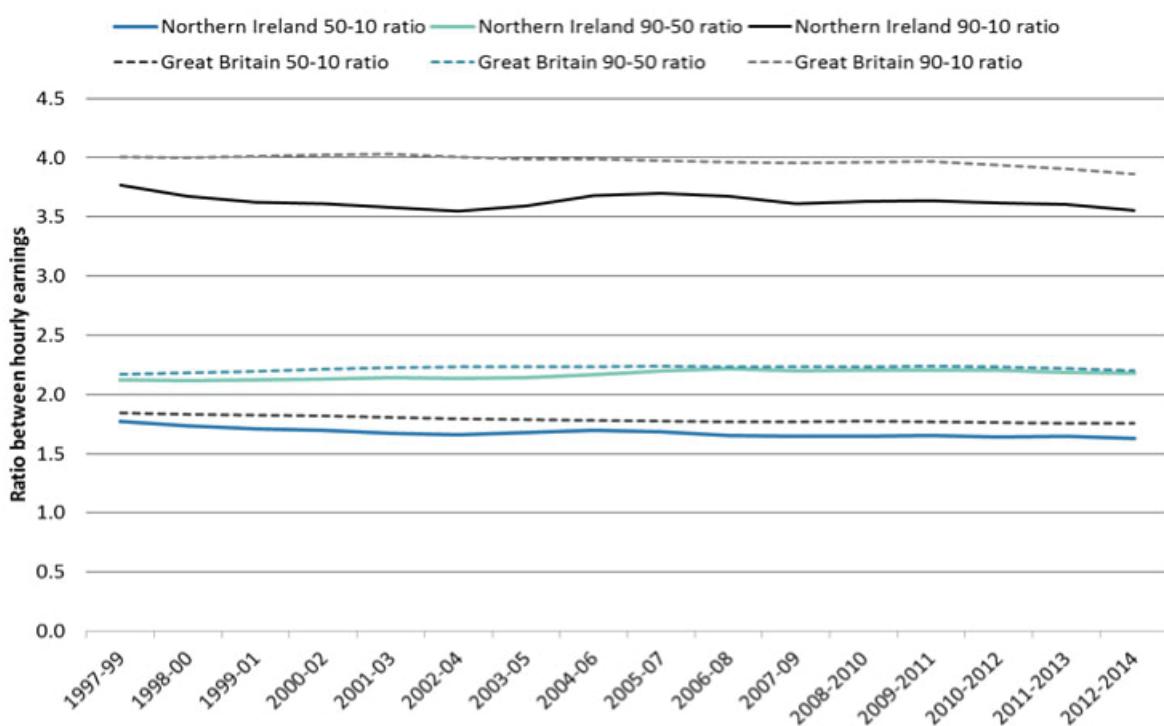
On this basis in 2010, the Gini coefficient in Northern Ireland was 0.3, and the income received by the top 20% was 4.7 times higher than that received by the bottom 20%.

This means Northern Ireland is about as unequal as Switzerland on both the Gini and income share measures, and similar to France. Northern Ireland is more unequal than a host of Scandinavian and central European countries, but more equal than Poland, the UK as a whole and several south European countries.

When looking at the sub-regions of this European OECD countries, Northern Ireland is joint 56th most unequal out of 173 regions. So although Northern Ireland has the lowest level of income inequality in the United Kingdom, it is still relatively high compared with much of Europe.

Inequality in earnings and taxable income

Figure 12: Earnings ratio time series for Northern Ireland and Great Britain

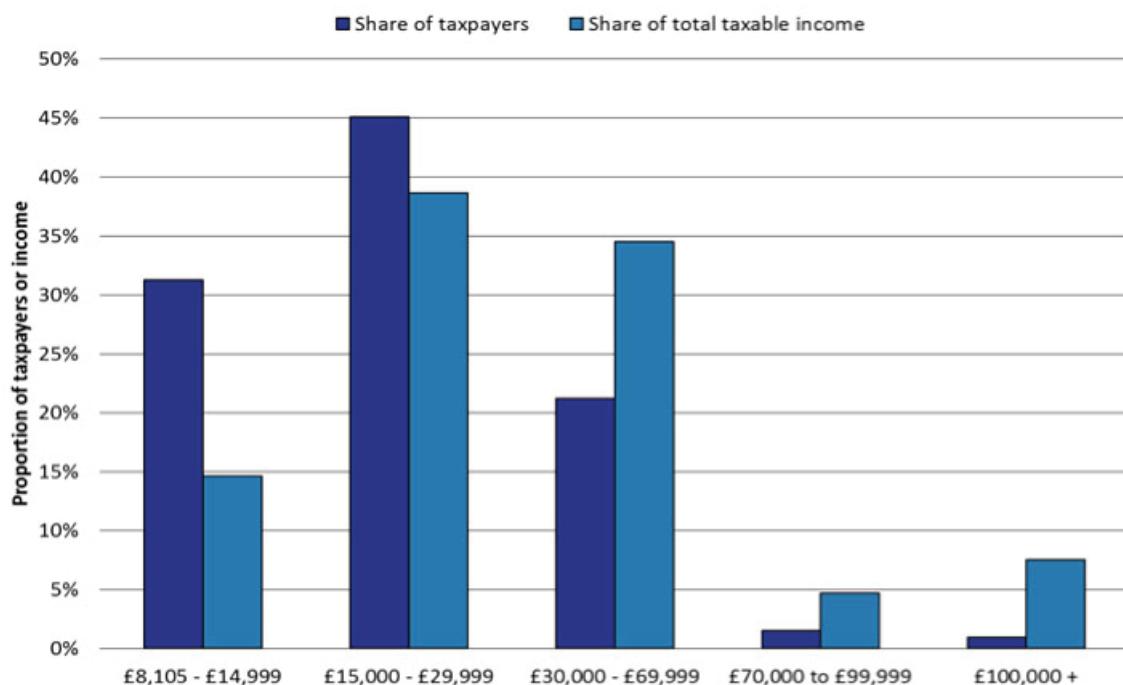


Source: Annual Survey of Hours and Earnings, ONS via NOMIS.

Figure 12 looks at inequalities in the distribution of hourly earnings in Northern Ireland and Great Britain. This echoes the trends in the distribution of income between the two, which is not surprising given that earnings make up a substantial share of income. The first thing to note is that there has been no substantial change in the ratios between 1997-99 and 2012-14: the 50-10 and 90-10 ratios are slightly lower, perhaps due to the effect of the minimum wage in this period.

What is more interesting is that the ratios are very similar between Northern Ireland and Great Britain, except between the two 90-10 ratios, which have a more striking difference. This again emphasises the point that the greater inequality in Great Britain compared to Northern Ireland is driven by higher incomes at the top.

Figure 13: Share of income by tax payers



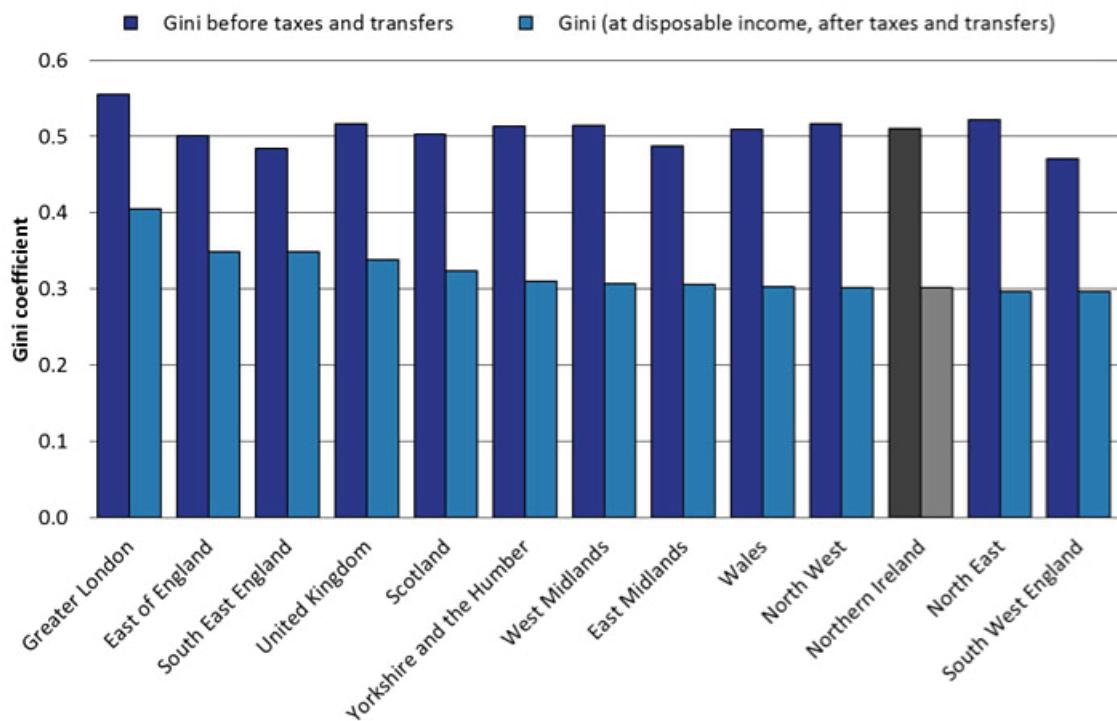
Source: Survey of Personal Incomes, HMRC. The data is for 2013-14.

Figure 13 looks at a slightly different subset, namely those who have a high enough income to pay income tax. This means it excludes those with very low incomes, but allows a closer look at the top of the distribution than other data sources. It will also exclude those at the very top who use alternative tax arrangements. The graph shows that 31% of taxpayers in Northern Ireland have an income between £8,105 and £14,999, but these taxpayers receive only 15% of all income. At the other end of the scale, the top 1% of taxpayers in Northern Ireland received 8% of all income, and the next 2% receive 5% of all income. To get into the top 3% of taxpayers in Northern Ireland, an income of £70,000 a year or more is required.

In contrast, the top 1% of taxpayers in Great Britain received 11% of all income, three percentage points higher than the top 1% in Northern Ireland.

The impact of taxes and transfers on inequality

Figure 14: The effects of redistribution on inequality



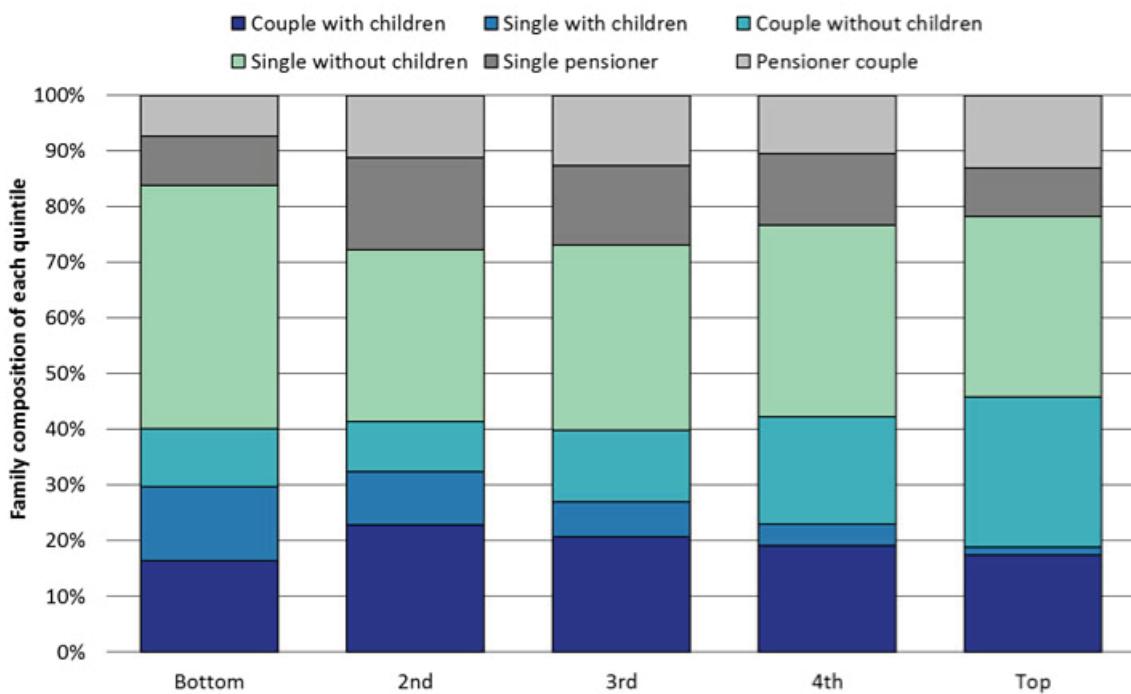
Source: *OECD Regional Well-Being*. The data is for 2010.

Figure 14 shows the regions and countries of the United Kingdom's Gini coefficients before and after taxes and transfers. What this means is that it looks at inequality in a hypothetical scenario with only market income - removing the effects of taxes, benefits and pensions, as well as the Gini coefficient including these. This gives an idea of how redistributive the tax and social security systems of different countries are, or in this case, by what degree the same tax and social security systems alter the market income distribution.

For the UK as a whole, taxes and transfers reduce the Gini coefficient from 0.52 to 0.34, a reduction of 0.18. For Northern Ireland, the reduction is from 0.51 to 0.30, a decrease of 0.21. The other large reductions in inequality through taxes and transfers are for the North West and North East of England. The general pattern is that the better off the region, the smaller the reduction in inequality. This could be a reflection of the relatively higher reliance on means-tested benefits for income in different parts of the UK.

Who are the rich and the poor?

Figure 15: Family composition of income quintiles



Source: *Households Below Average Income, DWP*. The data is a three year average to 2013-14.

Figure 15 shows the family composition of each after housing costs income quintile. Single adult families are the largest family type in each quintile (in part because the unit of measurement here are families rather than people). Single adults without children make up 44% of families in the bottom income quintile.

Comparing the top and bottom quintiles, those in the top quintile are more likely to be pensioner couples or working-age couples without children; about as likely to be single pensioners and couples with children, and less likely to be single adults, with or without children. This is largely due to the number of additional adults and whether there are children. More adults normally means more income, but with some economies of scale in costs (e.g. two adults living together do not require spending twice as much on housing as one adult), leading to a higher equivalised income position. This would explain why a relatively large proportion of the top income quintile are couples without children. Additional children in a household represent higher outgoings without additional earnings (with the exception of child benefit and tax credits), which is some explanation of why single parents are more likely to be at the bottom of the distribution.

Household wealth inequality

Key points

- A high proportion of households in Northern Ireland have no savings (45%). This means that a minority of the households account for the vast majority of household savings and inequality appears to be quite high.
- However, the level of savings among households at the top of the distribution is relatively low (the top 10% in Northern Ireland have £20,000 or more in savings, whilst in Great Britain it is £70,000).
- Whilst the household savings “pie” is very unequally distributed in Northern Ireland, the size of that “pie” is a relatively small.
- But inequality in household savings has been growing in Northern Ireland, as the proportion of households with no savings increased whilst the value of the savings held by the top has grown.
- Northern Ireland has a higher proportion of households with no savings than Great Britain (45% compared to 33%); but many of them are owner-occupiers so likely to have some equity. The proportion of households with no savings in rented housing in Northern Ireland is close to the level in Britain (22% compared to 20%).
- Property makes up a much greater share of household wealth in Northern Ireland than financial savings and assets. The total savings wealth held by households in Northern Ireland amounts to £11bn the total property wealth is four times that at £44bn.
- The proportion of households that are owner-occupiers in Northern Ireland has fallen from 73% to 66% in the last decade but the proportion that own their property outright has increased from 30% to 37%.
- Property prices in Northern Ireland remain considerably below the 2007 peak. So although the proportion of households with any property wealth has fallen, the value of that wealth among those who have it has also fallen.
- In recent years the top account for an increasing share of the property wealth “pie”, but the size of that “pie” has gotten much smaller.
- Lone parents and workless families are very unlikely to have equity of over £150,000 and most have no savings. Pensioner households, particularly couples are the most likely to have savings of over £20,000 or equity of £150,000.
- But pensioners do not dominate those households at the top in terms of savings and property wealth – about as many pensioner families are among the top as working-age ones, mostly couples with and without children.

Introduction

In this section we look at household wealth inequality in Northern Ireland; in particular we look at two components of wealth:

- household capital savings – which includes total value of money in all bank accounts and the value of financial assets (such as ISAs, bond, shares)
- household equity – the value of the home of owner-occupiers minus the amount outstanding on the mortgage

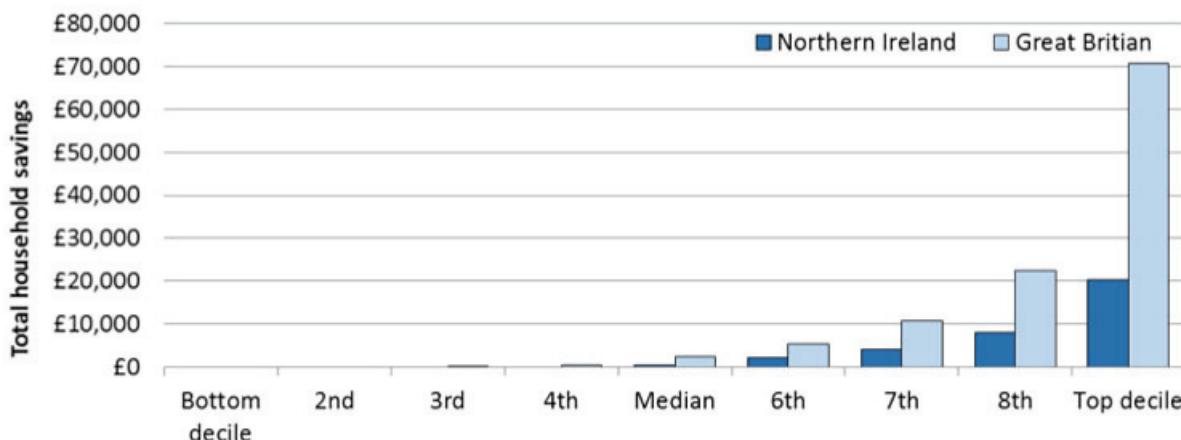
There is a lack of good wealth data in Northern Ireland. This section uses what is available from the Family Resources Survey (FRS) and supplements it with modelling of equity values. However, this data does come with something of a health warning: the savings data from the FRS is less reliable than, for example, the Wealth and Assets Survey, which is not available in Northern Ireland. The savings section of the FRS also has a low response rate and some problems around under-reporting of assets, though it is not clear these would affect Northern Ireland disproportionately. The analysis in this section should therefore be considered illustrative rather than definitive.

Savings distribution

Household savings in Northern Ireland appear to be much less equally distributed than income. Whilst almost all households will have at least some source of income, even if it is merely a social security stipend, close to half of households in Northern Ireland have no savings (45%). The wealthiest 10% of households in Northern Ireland have at least £20,000 in capital savings. Though £20,000 is much greater than what the majority of people in Northern Ireland have, savings levels in Northern Ireland are low across the distribution compared to the average for Great Britain.

At 33%, Great Britain has a smaller proportion of households with no savings than Northern Ireland, though it is still common for a household to have no savings. Meanwhile the gap between the wealth of those in the top 10% in Northern Ireland and the 10% in Great Britain is substantial – at £70,000 in Britain it is more than three times higher than in Northern Ireland.

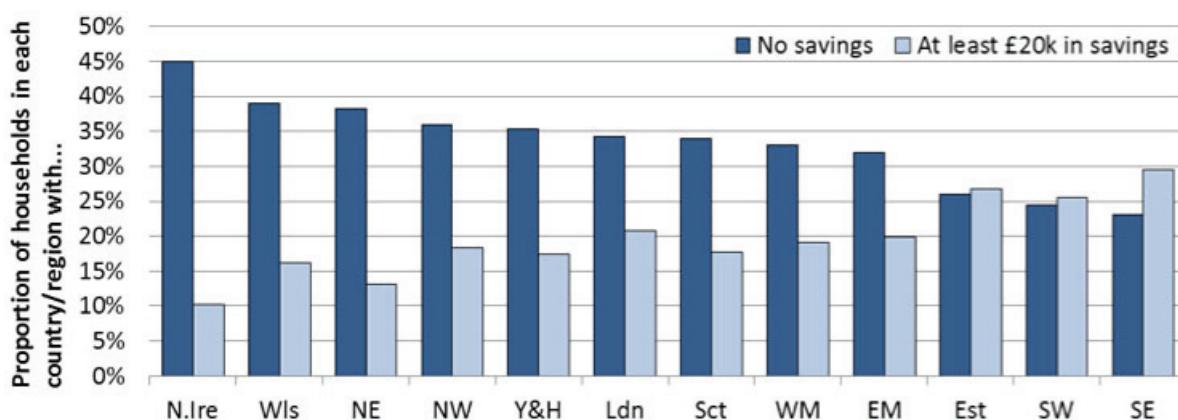
Figure 16: Distribution of total household savings in Northern Ireland and Great Britain



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

These low levels of savings in Northern Ireland are not only the case when compared to the GB average but also when comparing it to the component regions. Northern Ireland has the highest proportion of households with no savings at 45%, 6 percentage points higher than the next highest area (Wales). It also has the lowest proportion of households with savings of over £20,000 at 10%, 3 percentage points lower than the next lowest area (the North East).

Figure 17: Proportion of households with no savings and more than £20k in each region

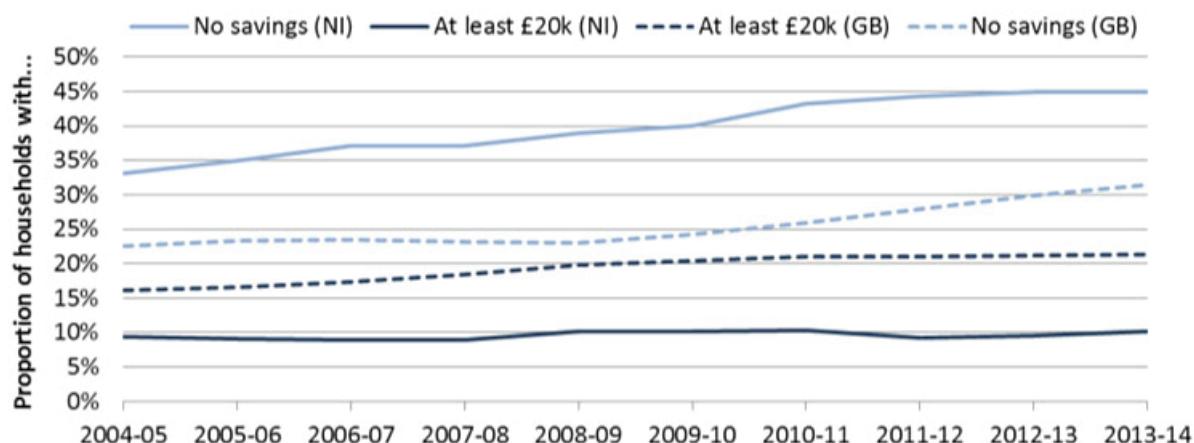


Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

The savings distribution in Northern Ireland can appear to be very unequal: almost half of households having no savings so the top half by default hold almost all of the savings. However, this is not due to the wealthiest having a particularly large amount of wealth. The average savings in Northern Ireland (total savings divided by the number of households) is £17,000 whilst in the South East of England where still more than a fifth of households have no savings the average savings is £65,000.

Savings distribution over time

Figure 18: Proportion of households with no savings and at least £20k over time



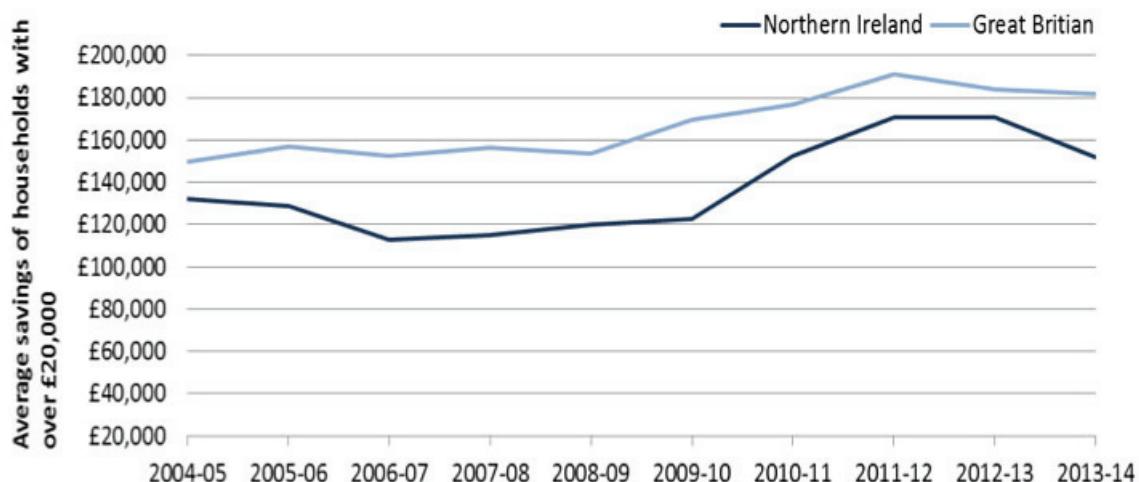
Source: Family Resources Survey, DWP. The data is a three year average to the date shown.

The proportion of households with no savings in Northern Ireland has been rising over the last decade, from 33% in the three years to 2004/05 to 45% in 2013/14. This has risen across Great Britain but only in the last five years. Meanwhile the proportion of people with savings of at least £20,000 has not changed in Northern Ireland, whilst in Great Britain it has risen slightly. However, it should be noted that £20,000 in 2004-05 is worth around £26,000 today.

So inequality in terms of household savings has risen in Northern Ireland in the last decade but this is because of an increase in the proportion of households with no savings and a fall in the proportion in some, whilst the proportion with lots is unchanged. In Great Britain savings inequality has increased because of an increase in the proportion of households at both extremes.

Whilst the proportion of households with a high amount of savings in Northern Ireland has not increased, has the value of their savings increased? The next graph looks at the average amount of savings held by households with at least £20,000 in savings. This is adjusted by CPI inflation. It shows that their average wealth has increased over the last decade from around £130,000 to £150,000, with the rise primarily occurring at the end of the 2000s and a slight fall in the most recent year. This rise in the average value of the wealth held by those with at least £20,000 can also be seen in Great Britain, though savings level are generally higher and the increase has been more consistent.

Figure 19: Average value of household savings among those with at least £20k



Source: Family Resources Survey, DWP. The data is a three year average to the date shown

Overall Northern Ireland a large and growing proportion of households have no savings, meanwhile the proportion of households with a high amount of savings (at least £20,000) has not changed, but the average value of the savings that they hold has. But what makes Northern Ireland stand out from the rest of the UK is not the trend in inequality overtime but the relatively low level of savings across the distribution, particularly the high proportion of households with no savings.

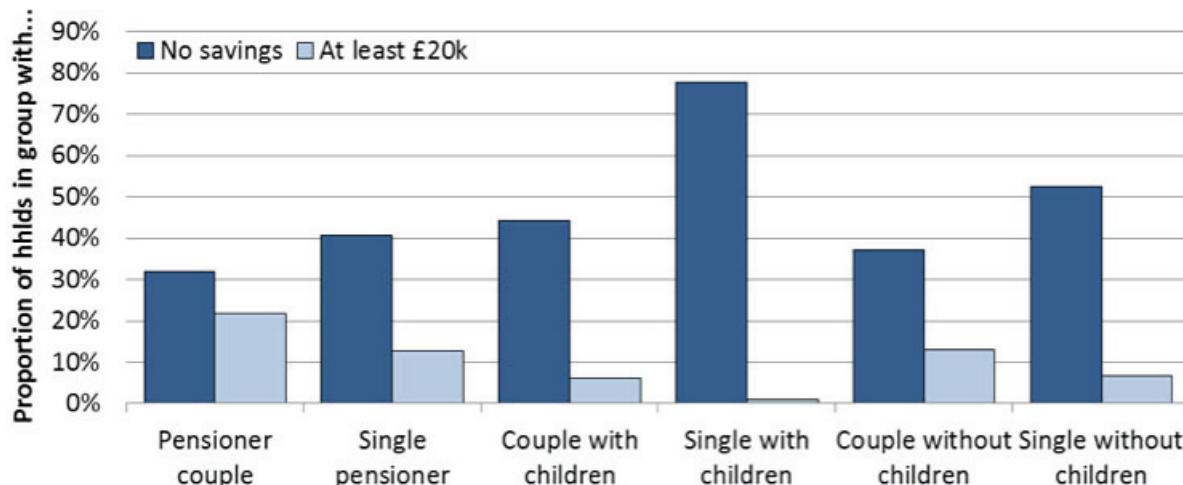
Who has the most and least savings?

Next we turn to look at the types of households at either end of the savings distribution. Lone parent families have by far the highest proportion with no savings at 78% and the lowest proportion with over £20,000 in savings at 1%. The only other group to have an above average proportion with no savings was single working-age adults at 53%.

But it is common across all family types to not have any savings – the lowest rate is 32% among pensioner couples who also have the highest proportion of households with at least £20,000 in savings at 22%, more than double the average of 10%.

Overall pensioners, couples and families without children are more likely to have savings than working-age, singles and families with children.

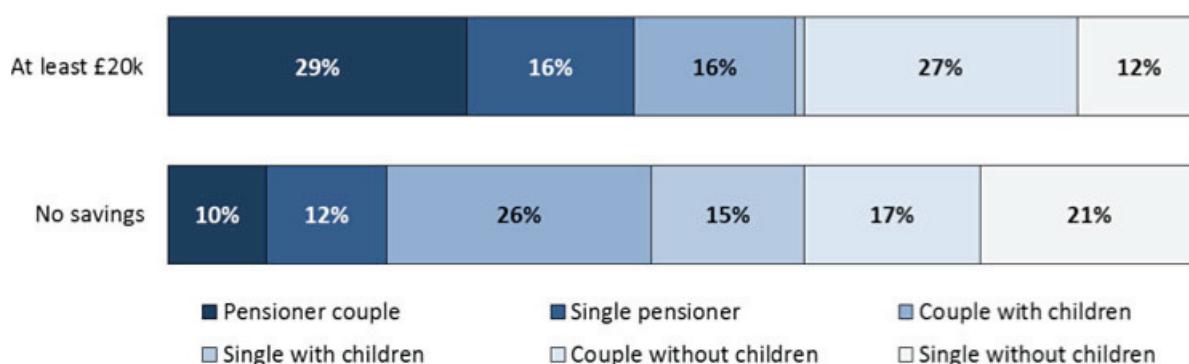
Figure 20: Proportion of different family types in households with no savings and more than £20k



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Pensioner families make up almost half (45%) of households with more than £20,000 in savings, working-age couples (with and without children) account for much of the rest. Though only 7% of single adult families have substantial savings, they account for 12% of households with at least £20,000 in savings. Similarly, whilst the vast majority of lone parent families have no savings, they only account for 15% of households with no savings. The most common family type with no savings are couples with children who account for more than a quarter of households without savings.

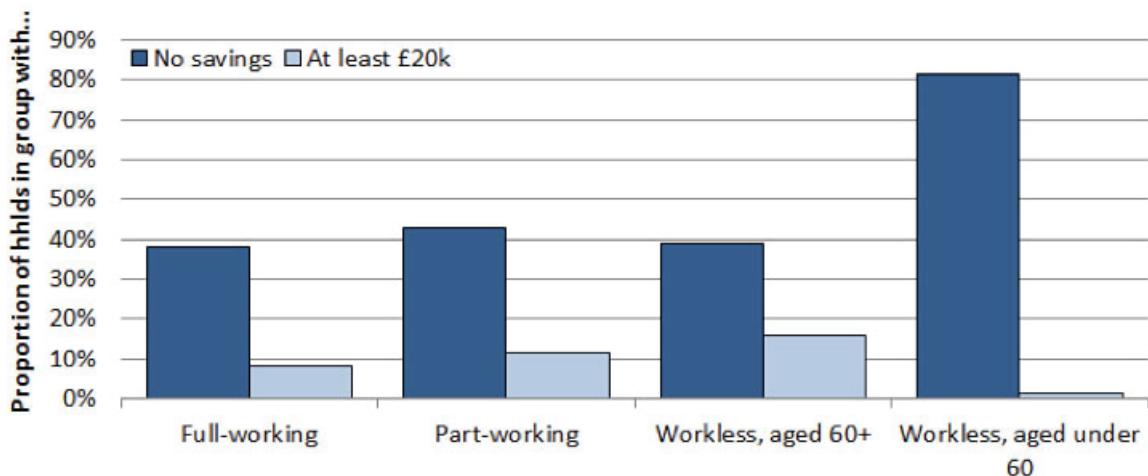
Figure 21: Proportion of households with no savings and more than £20k by family type



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

In terms of employment status unsurprisingly workless families are the household type with the highest proportion with no savings at almost 82% and the proportion with savings of more than £20,000 is close to zero. Among working and retired households the proportion with no savings is consistently around 40%. However, 16% of retired households have at least £20,000 in savings, double the rate among fully-working households. A slightly higher proportion of families classified as full-working have savings of over £20,000 than those classed as part- working.

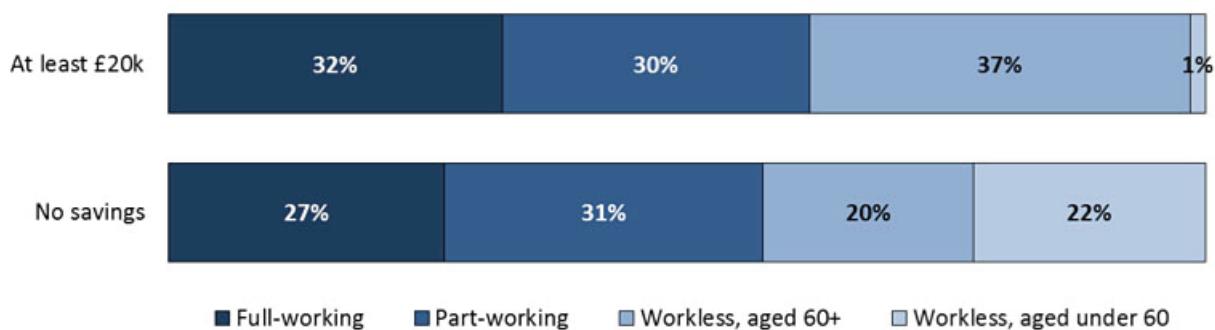
Figure 22: Proportion of different family work status in households with no savings and more than £20k



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Retired families make up the biggest share of households with more than £20,000 with the remaining split relatively evenly between part-working and full-working families. However, all of these groups make up large shares of those with no savings as well – 27% are fully working families and 31% part working families both higher than the proportion that are workless (22%).

Figure 23: Proportion of households with no savings and proportion with more than £20k by family work status



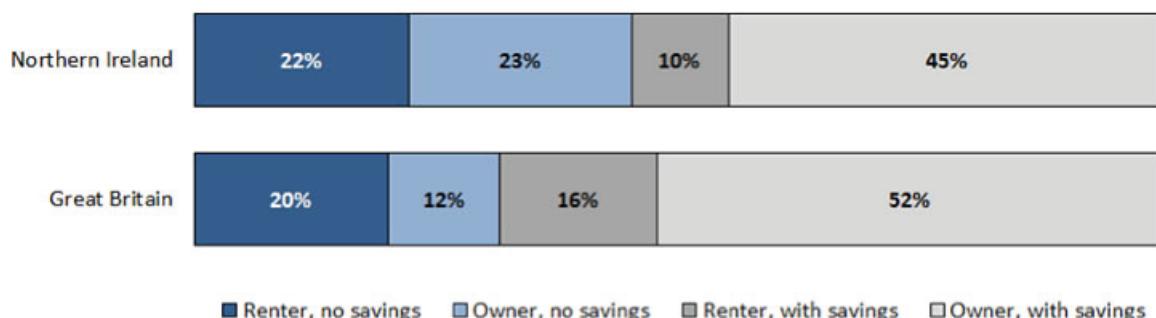
Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Overall it is common among all family types and employment statuses to have no savings. However, among workless families, lone parents and single adults is very unusual to have savings of over £20,000; among retired families and couple families higher savings are more common.

Property wealth: housing equity

The largest component of most household's wealth is their equity. Households without savings may nonetheless have some wealth through owning their own home. In fact, in Northern Ireland half of households with no savings are owner-occupiers so are likely have some equity; a quarter own their homes outright.

Figure 24: Proportion of households by savings and tenure in Northern Ireland and Great Britain



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Whilst Northern Ireland has a high proportion of households with no savings compared to Great Britain (45% compared to 33%) there is little difference in the proportion of households that have no savings and rent their home (22% compared to 20%).

The next graph looks at how property wealth and savings overlap in Northern Ireland. It shows that half of households with no savings are owner-occupiers, but also that most owner-occupier households have savings. Meanwhile most renters have no savings. Among those with saving of more than £20,000 the majority are households who own their homes outright.

Factoring in property wealth does two things to the wealth inequality picture in Northern Ireland. Firstly, it substantially reduces the proportion of households with no wealth to a level that is in-line with the average for Great Britain. Secondly, it particularly increases the value of the wealth held by the top – most of households with savings of £20,000 also own their homes outright.

Figure 25: Households in Northern Ireland by savings by tenure

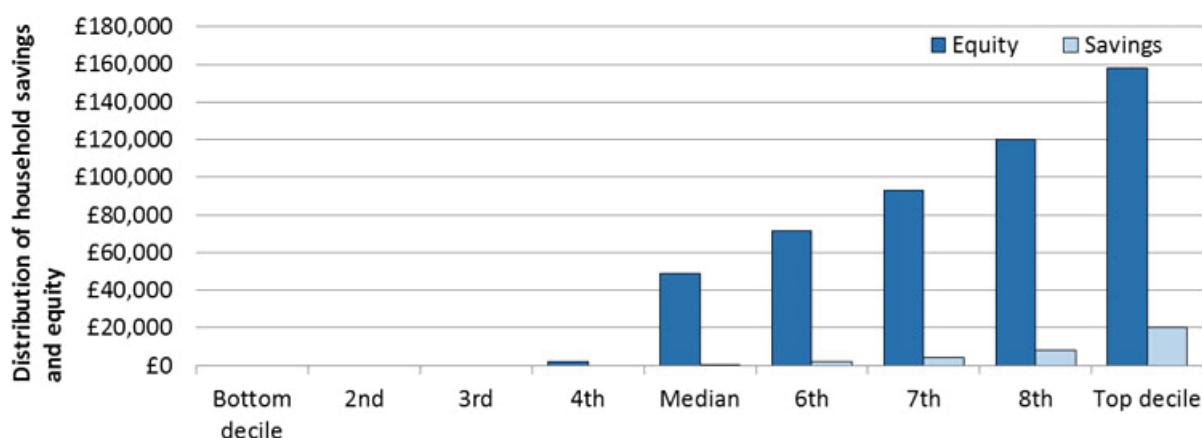


Source: Family Resources Survey, DWP. The data is for 2012/13 to 2013/14.

So far we have only considered whether a household has some property wealth based on their tenure, which is the extent of property wealth information contained within the Family Resources Survey. Instead we have estimated the value of that wealth based on information on Rates liability and outstanding mortgage amounts. (It's worth noting that this only considers the home that a household occupies, not additional properties. This is obviously imperfect but the best that can be managed given data limitations for Northern Ireland).

The next graph shows our estimates of the distribution of property wealth in Northern Ireland compared to that of financial savings. Firstly it shows that many more households have some equity than savings. But it also shows that the value of equity on the whole dwarfs that of savings. Whilst the total savings wealth held by households in Northern Ireland amounts to £11bn the total property wealth is four times that at £44bn. For many households in Northern Ireland equity is the sole component of their wealth and for the vast majority of households with both savings and equity, equity is the largest component of their wealth.

Figure 26: Distribution of total household savings and equity in Northern Ireland



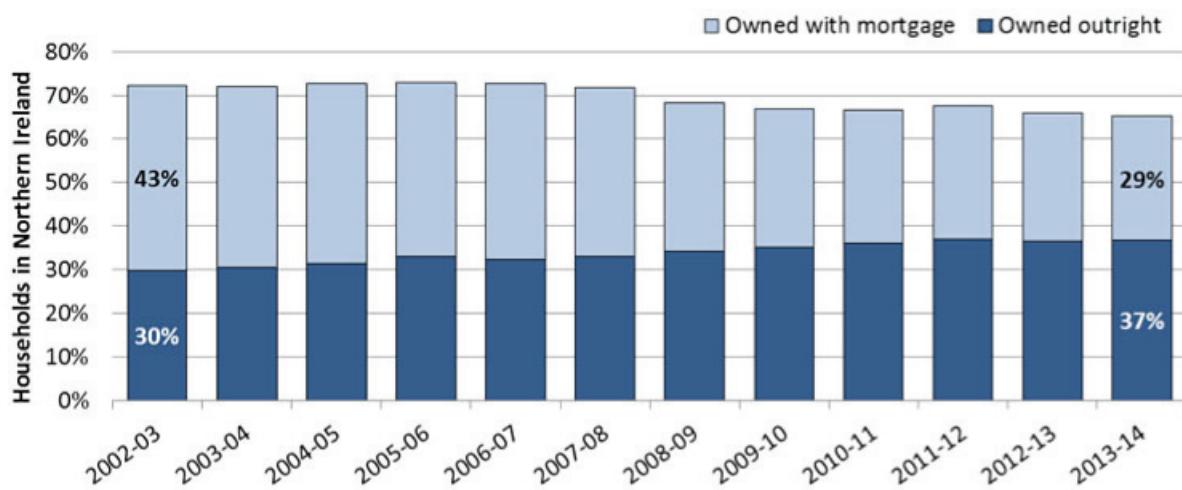
Source: NPI model based on the Family Resources Survey, DWP. The data is for 2012-13 to 2013-14

Among the poorest 10th in terms of property wealth are those in negative equity, overall our model suggests that around 43,000 households (6%) have more outstanding on their mortgage than the property is presently worth.

Property wealth over time

The next graph looks at how the proportion of households that owner-occupy has changed overtime i.e. if the proportion of households with some form of property wealth has increased or decreased. It shows that over the last decade the proportion of owner-occupying households has fallen slightly from 73% to 66%, so the proportion of households with any equity has fallen. But despite this overall fall in owner-occupation, the proportion of households that own their property outright has increased from 30% to 37%. Ten years ago there were more households with mortgages than outright owners, but now the reverse is true. These shifts suggest an increase in inequality in terms of property wealth – the proportion of households with no property wealth has increased and among those who have some, fewer have any mortgage liability.

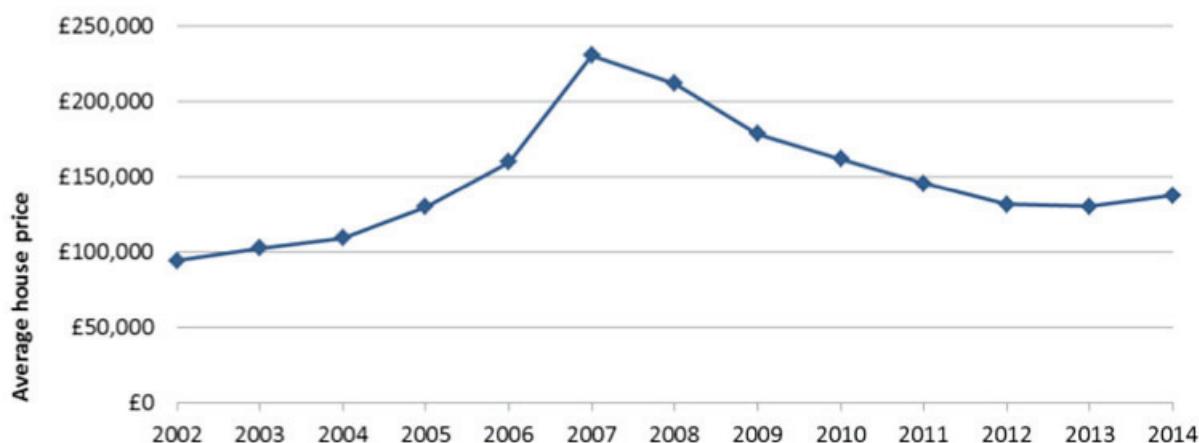
Figure 27: Change in proportion of owner-occupied households



Source: Family Resources Survey, DWP.

However, changes in the value of that property wealth also matter in terms of inequality. House prices in Northern Ireland rose sharply between 2004 and 2007 to then fall. In 2014 the average house price was £130,000, about £100,000 below the 2007 peak. So whilst the proportion of households with property wealth is getting smaller, the value of that wealth has also fallen in recent years.

Figure 28: Change in average house price



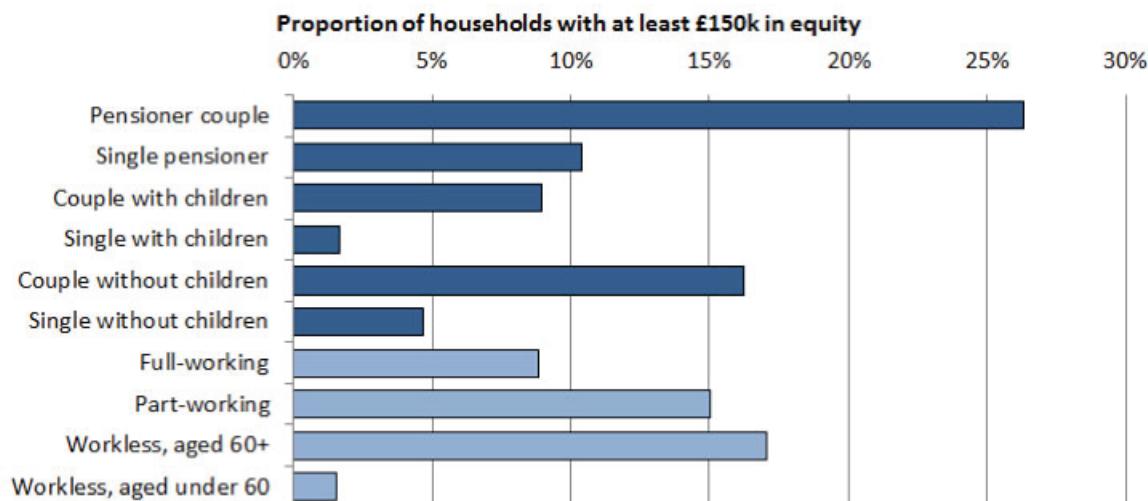
Source: House Price Index, ONS

Who has the most property wealth?

Next we focus on those households with the most property wealth, those with more than £150,000 which would put them in the top 12%. The graph below shows the proportion of different types of households with at least £150,000 in property wealth by work status and family status. It shows that over a quarter of pensioner couples (26%) have at least £150,000 in property wealth which is much higher than all other family types and more than double the proportion of single pensioners at 10%. Single working-age adult families are the least likely to have equity at £150,000 or more, particularly lone parents at 2%, but also single adults at 5%.

By work status retired households are the most likely to have at least £150,000 in property wealth at 17%. This is only just above the rate among part-working families at 15% which is much higher than the rate among full-working families (9%). This is likely to be linked to the low rate among single adult families, many of whom will be working full-time and the higher rate among couples families.

Figure 29: Proportion of household types with at least £150,000 in equity

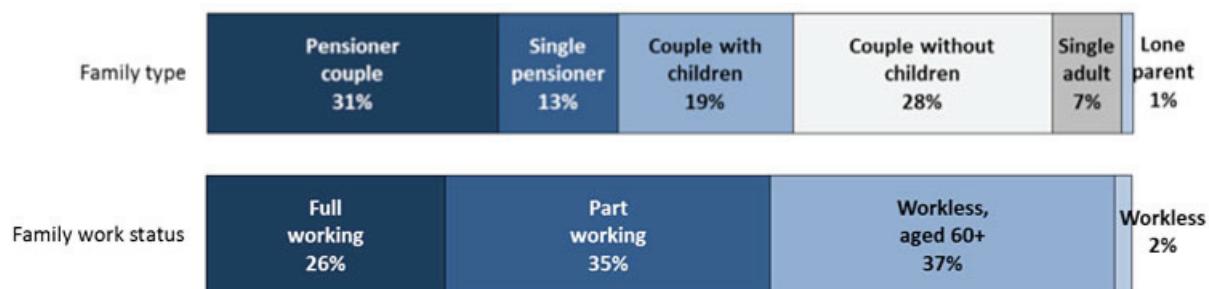


Source: NPI model based on the Family Resources Survey, DWP. The data is for 2012-13 to 2013-14.

Next we look at who make up those households with at least £150,000 in property wealth. Almost half are pensioner families (45%), but more are working-age couple families (47%). Almost all of the remainder are single adult families without children. In terms of work status 2% are workless households, but full working, part working and retired households each make up a large share of those with at least £150,000 in property wealth.

Although pensioner couples are much more likely to have property wealth of over £150,000, pensioners are not the only household type to have substantial property wealth; a large proportion of those who do are working-age and working.

Figure 30: Types of households with at least £150,000 in equity



Source: NPI model based on the Family Resources Survey, DWP. The data is for 2012-13 to 2013-14.

Overlaps between household wealth and income

Key points

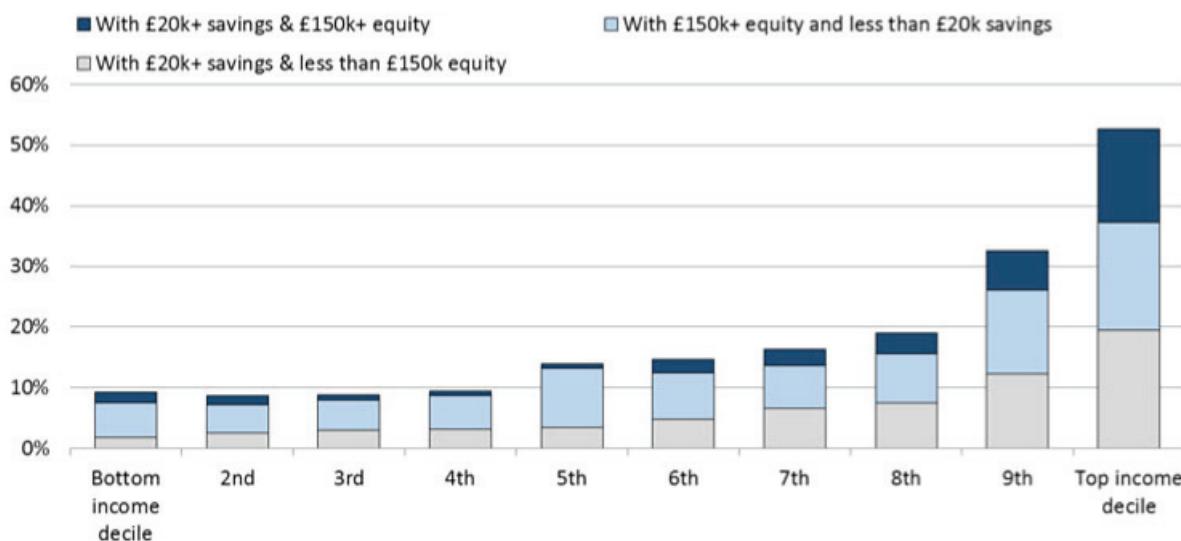
- There is little difference in the prevalence of high levels of wealth in much of the income distribution. 10% of the bottom income decile have high savings or equity or both, compared to 15% of the middle decile.
- Households in the top income decile are over five times as likely to have high levels of wealth as the bottom.
- High equity levels are more evenly distributed than high levels of savings or high savings and high equity. This is the case for the whole population and with pensioners excluded.

Introduction

This section provides a brief overview of the overlap between income and wealth. The literature review noted that income and wealth inequalities are to some extent determinants of each other. This section explores that with reference to high levels of certain types of wealth in Northern Ireland.

High levels of wealth by income

Figure 31: Proportion of households in each income decile with high level of savings or equity



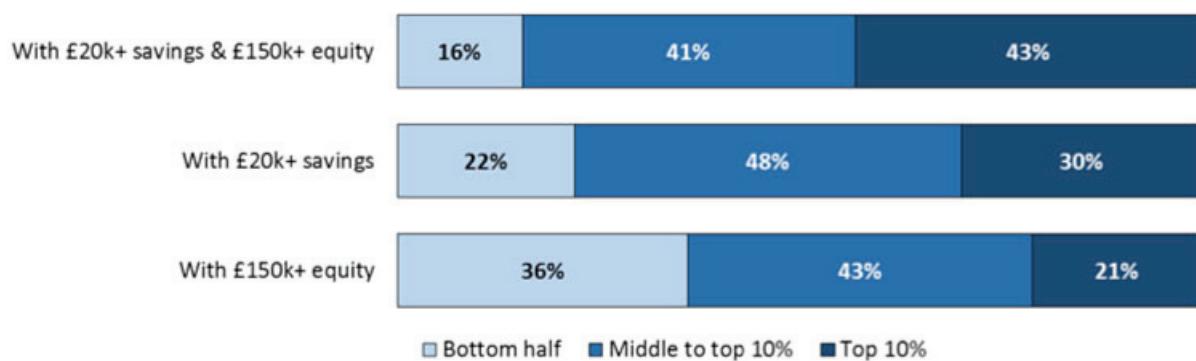
Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Figure 31 shows the proportion of households with “high wealth” by each income decile. High wealth here is taken as either over £20,000 in savings or £150,000 in equity or both. At the top of the income distribution, just over half (52%) of households have high savings, equity or both. This is 5.2 times higher than the bottom income decile, with 10% having high wealth

on these dimensions. The contrast is really between the top 10% or 20% of the income distribution and the rest on this basis: the difference between the bottom decile and the middle decile is just 5 percentage points. Perhaps unsurprisingly given home ownership rates, those with the lowest incomes are generally more likely to have over £150,000 in equity than over £20,000 in savings.

Figure 32 below looks at what deciles those with high wealth are found in. 43% of those with both more than £20,000 in savings and £150,000 in equity are in the top 10% of the income distribution, and 84% are in the top half of the income distribution. High levels of these types of wealth are then strongly concentrated at the top of the income distribution.

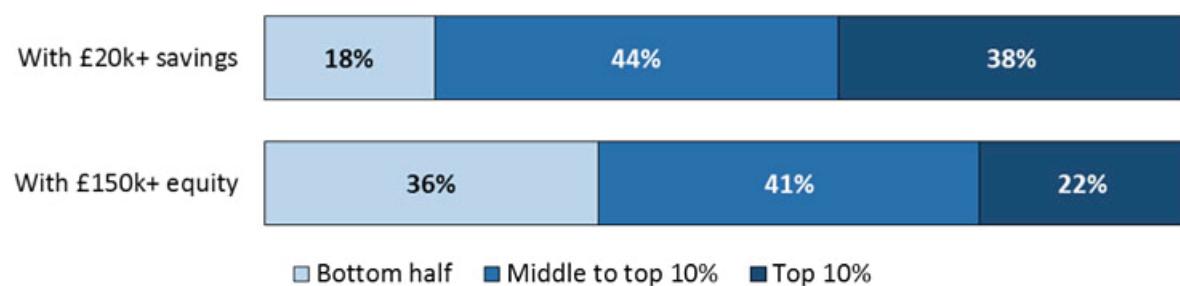
Figure 32: Households with high level of savings or equity across in income group



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

The concentration is somewhat less extreme when looking only at high levels of savings, with 22% found in the bottom half of the income distribution and 30% in the top decile. Equity over £150,000 is more evenly distributed again, with 36% of those with this level of equity found in the bottom half for income, and 21% in the top decile.

Figure 33: Non-pensioner households with high level of savings or equity across in income group



Source: Family Resources Survey, DWP. The data is a three year average to 2013-14.

Pensioner households are excluded from figure 33. This tends to increase the concentration of high levels of savings amongst top income households, with the share of the top decile rising from 30% to 38%. There is almost no difference to the income composition of those with a high level of equity, however.

Policy analysis and conclusions

The state of economic inequality in Northern Ireland

The previous three chapters have examined the extent of income and wealth inequalities in Northern Ireland. This section briefly recaps how high these inequalities are.

Income inequality

Northern Ireland is the most equal part of an unequal country. The Gini coefficient for NI is 0.30, below the figure for the UK as a whole (0.34). There has been little change in Northern Ireland's overall level of income inequality on this basis in the last ten years, with only a slight increase in the ratio of top (90th percentile) to bottom (10th percentile) incomes.

The reason Northern Ireland is relatively more equal than the UK as a whole is because high incomes in Northern Ireland are lower than high incomes in Great Britain. But Northern Ireland's Gini coefficient makes it more unequal than Germany, Belgium, and the Netherlands, among others.

Wealth inequality

Wealth inequality in Northern Ireland as measured by savings appears to be both high and growing. This is driven by the large proportion of households with no savings at all, though the value of savings held at the top has also increased. As with income, the top level of savings in Northern Ireland is below that of Great Britain.

Partly due to higher levels of home ownership in Northern Ireland compared to GB, factoring in property wealth reduces the proportion with no wealth to GB levels, though property wealth inequality in Northern Ireland has also increased in recent years.

Should we be concerned with economic inequality in Northern Ireland?

There are two broad reasons why one might be worried about economic inequality. The first is normative: moral concern about the justness of disparities of income and wealth. This may be predicated on perceptions of 'deservedness': that the ability, capacity or work ethic of those with high incomes or wealth is greater than those with less and that the latter is not reflective of the former. Such a view raises further questions about whether the balance of ability or work ethic has shifted in the last few decades to match the higher levels of inequality. A more popular focus for concern with inequality in recent years is on the basis of the consequences of inequality, a more instrumental viewpoint. Here, at least nominally, the problem is not so much the justness or otherwise of inequality but the social and economic consequences. These were reviewed in the literature chapter, and as was apparent, are very much a contested field and subject to revision. Some of the findings were that economic inequality reduces income mobility, reduces long term economic growth, and has possible effects on trust and aspects of education. So there should be some concern with economic inequality on this basis.

But one important question is to do with magnitudes: how much priority should be attached to reducing economic inequality? As an example, if economic inequality reduced levels of educational attainment, is the best way to raise attainment to reduce economic inequality or is it instead more direct methods such as more funding for schools? A further example is that of the debate around the ‘Great Gatsby curve.’ There is some evidence that, for example, the incidence of lone parent households has a larger effect on mobility than income inequality (though these are correlated as well). In this example, however, some of the actions that might prevent households from splitting such as measures to improve incomes and security would also act to reduce income inequality.

Public policy should be concerned with economic inequality, though whether it should be the top priority is more debateable: for example, poverty and low employment rates should arguably be higher up the agenda. There is the potential for conflict with some policy agendas, however. Take the case of British cities, as noted by Lee et al, 2013. Looking at labour markets alone, cities which are more equal tend to be those in industrial decline, and are more equal due to relatively fewer well-paid jobs. Northern Ireland faces the same dilemma as some of these cities, which are eager to expand high-skilled sectors, which risks increasing inequality at the same time. Again, as Lee et al note, the lot of low-skilled people in more unequal cities is somewhat mixed, as they face higher costs of living but are more likely to be employed.

One way to view Northern Ireland’s modest level of inequality relative to the rest of the UK is as a sign of economic weakness: due to a lack of a developed private sector. The real policy challenge for Northern Ireland is to restructure its economy without producing high levels of inequality.

Addressing economic inequality

Recent proposals to address economic inequality

The last number of years has featured a considerable output on inequality, with recent works from Piketty, Stiglitz, Reich, and Atkinson. These books have come with a variety of policy proposals, which this section will briefly review.

Piketty

Piketty’s *Capital* is concerned primarily with growing wealth inequality, and as such, his major proposal is what he calls a “useful utopia” of a global wealth tax on all asset classes. It is global (and with bank information sharing) in order to reduce evasion. In addition to stopping the cycle of increasing wealth inequality, it has the possible advantage of higher contributions (as it is a better measure of capacity to pay tax than income alone) and incentive advantages (it penalises those using wealth inefficiently). He sees it as something that would need to be built regionally, for example, at the EU level, noting “it is very difficult for a country acting on its own to impose a progressive tax on capital” (2014:529). This proposal is clearly at several layers of political governance above Northern Ireland. Piketty has additional concerns around, for example, access to further education being inhibited by tuition fees, though the relevant policy objective is mobility rather than wealth inequality in that case.

Atkinson

Anthony B. Atkinson's recent work, *Inequality: What Can Be Done?* (2015), is predominantly concerned with policy solutions, and has a more UK-specific focus than Piketty's main proposal. Atkinson has 15 proposals, as well as several more tentative ideas to consider. Again, many of these are at the wrong level of political governance to be relevant for Northern Ireland by itself, such as raising income tax, altering inheritance taxes or offering guaranteed real interest for small savers. Some are already the case, at least in some form, for example, an example the explicit target for reducing unemployment is not far off Northern Ireland's 70% employment rate target, with inactivity a more appropriate target in NI's case. NI also has an employment scheme (Steps 2 Success) similar in idea if not scale to the versions proposed by Atkinson.

Other proposals might be more relevant, however. While Northern Ireland has targets for pay in certain sectors as part of the Economic Strategy, it does not have Atkinson's suggestion of a national pay strategy featuring a code of practice for pay above the minimum. What is meant by this is the publication of pay ratios (relative to the minimum wage), perhaps with such a code of practice as a requirement for public contracts. The main intention of this is to start 'a national conversation' (2015:154). There are other suggestions that would have particular impact in Northern Ireland, such as the minimum capital endowment paid at adulthood (similar to the Child Trust Fund abolished in 2010), but which may be beyond the financial capacity of the Executive.

Stiglitz

Stiglitz, in his 2012 book *The Price of Inequality*, is concerned primarily with the USA, who have had a different experience of inequality. His diagnosis features on the inefficiencies in markets and the growth of rent-seeking (defined as political lobbying activities that restrict competition and boost income), particularly in financial services. Following on from this, a large part of his proposed solutions are based around enforcement and changes to regulation. His proposals include curbing the financial sector; stronger competition laws; better corporate governance; ending corporate welfare (such as subsidies and tax reliefs); ensuring access to justice and education; and helping ordinary citizens save; as well as the familiar suite of proposals around income and wealth taxes. Again, proposals around competition law and tax are beyond the remit of the Northern Ireland assembly. Potentially more relevant for Northern Ireland are the proposals around maintaining access to education and justice, with the latter important given changes around legal aid. Stiglitz also highlights, as do others, the importance of trade unions and the like as counter-veiling organisations.

Action on inequality

This next section makes some proposals around economic inequality in Northern Ireland, trying to reflect the relative levels of inequality and the policy context of actors in Northern Ireland. Though not new, one idea that gained popularity in the last few years was that of "pre-distribution." This is the idea that inequality can be reduced by altering the distribution of market incomes, as well as by the more traditional redistribution. Pre-distribution chimes

with some of the proposals listed above, such as Stiglitz and Atkinson on counter-veiling institutions, reducing concentrations of market power and boosting wages. This approach is appealing to political actors in an era of restrained public finances: for example, the Chancellor of the Exchequer's introduction of a "national living wage." The following proposals will consider elements of both pre- and redistribution, as well as auxiliary measures to improve the understanding of economic inequality in Northern Ireland.

1. Creating a wealth of data

The first step to reducing inequality is to understand and monitor it. Income data generally is understandably not perfect in terms of its coverage at the bottom and top of the distribution or its timeliness, but is very good compared to wealth data available in Northern Ireland. While Great Britain has the Wealth and Assets survey, there is no real equivalent for Northern Ireland: the wealth section in this report could only examine savings and model property values from rates. This is not a new problem either, with T.A.B. Corley in 1962 expressing his hope that the "statistical darkness" around wealth would soon end (1962:26). The first proposal is that the Executive, perhaps as part of a broader review of economic statistics as proposed by Burke (2014), examine participating in the Wealth and Assets Survey or creating or expanding a survey to feature wealth.

2. Embedding economic inequality in decision-making

A corollary of this is to know the implications of any given government policy on the distribution of incomes and wealth. In the latter case, the analysis would be difficult even with proper data, never mind under current availability. Income analysis is more common, though according to a paper by Williamson Consulting, the use of distributional analysis in economic assessment varies in Northern Ireland (2016). Distributional analysis should become mainstream at the appropriate levels of decision-making.

3. Targeting the right objectives

There are few specific government targets to reduce economic inequality in the UK. Scotland is an exception, with an explicit target to increase the share of overall income received by the bottom 30% of the population, as well as increasing their income overall (Scottish Government, 2008). This so-called "solidarity target" has both relevance for inequality objectives (increasing the share of the bottom's income) and poverty objectives (increasing the income of the bottom 30% overall) and so strikes an appropriate balance. A target for wealth inequality, such as reducing the proportion of households with no savings, would also cover both poverty and inequality objectives in a similar manner.

Another method would be to insert concern over economic inequality into existing targets. For example, the Executive's 70% employment rate target. This is a valuable objective in its own right for a variety of reasons. From an inequality perspective, however, employment is neutral, as it includes poorly remunerated and insecure forms of work whereas "standard" employment (full-time permanent jobs) tends to reduce inequality, as covered in the literature review. On this basis, a sub-target might be set in terms of increasing the proportion of work consisting of full-time employee jobs.

Of course, objectives by themselves are insufficient. But they do allow the government to be held to account, and perhaps in time alter policy.

4. Mitigating the losses from inequality

Substantial reductions in, for example, the Gini coefficient are probably beyond the gift of government and other policy actors in Northern Ireland. As covered in the literature review, many of the factors driving economic inequality in Northern Ireland are difficult for a devolved administration to shift. Compensating the losers from inequality is more directly within the remit of the Executive. This is primarily done through the social security system, and so ensuring this remains as responsive and protective of those on low incomes as possible is important. Avoiding some of the mistakes made in the rest of the United Kingdom, for example, around the abolition of the discretionary Social Fund or the large rise in the use of benefit sanctions would be one way to avoid penalising those losing out in an unequal economy.

One consequence of inequality highlighted by Lee et al is that of the cost of living (2013:49). Reducing costs has value as part of an anti-poverty strategy (Tinson et al, 2014). How such an approach might work in Northern Ireland would include a focus on fuel and transport costs which tend to account for more spending relative to the UK as a whole.

5. Asset building for NI's savings problem

One of the key findings of this report is the relatively high proportion of Northern Irish households that have no savings. This is both an inequality problem in the sense that it is unhelpful for life chances when compared to those with savings, but also a problem for poverty and resilience to future economic shocks. While squeezed incomes and low interest rates are likely a major reason for the low savings rate, efforts must be made to ensure that the policy context is as helpful as possible. Previous developments in this area, both abolished in 2010, were the Child Trust Fund and Savings Gateway for those on low incomes. However, a similar scheme is being introduced in the UK from 2018 for those on Universal Credit or Working Tax Credit.

An alternative or perhaps complimentary policy would be to examine with private sector actors the feasibility of creating automatic payments to savings accounts along the same lines as pension auto-enrolment (Pew Charitable Trusts, 2016). The UK government is now introducing a new low savings scheme, which the Executive should monitor closely.

There are also a set of policy tools based around ‘nudging’, or using insights from behavioural economics. There is some evidence that this can make small improvements to savings rates at little cost, through reminders for example (Karlan et al, 2010). However, a US study which altered the design of savings accounts found that nudging may be ineffectual in cases where liquidity constraints are the main barrier (Loibl et al, 2016). This provides a challenge for both nudging methods and the more traditional policy tools mentioned above.

One measure for asset building, and improving resilience more widely, could be centred on bolstering credit unions as part of a broader financial inclusion model. Given the low rates of savings across the population, almost any boost in savings would likely reduce this form of wealth inequality. It could also meet other objectives such as reducing high cost lending (Ellison *et al*, forthcoming).

6. Altering the distribution of market incomes

Northern Ireland's very limited tax raising powers mean – even if it wanted to – it could not alter its social security system to become substantially more generous in a bid to reduce inequality. This leaves instead some of the “pre-distribution” mechanisms discussed above, though again some of these are not available to the Executive. There are several components such a strategy could take.

The first of these is through public procurement: the use of “social clauses” in purchasing decisions. RSM McClure Watters recommended the development of a Social Value Strategy for social clauses in Northern Ireland (2012). Northern Ireland now has the ‘Buy Social NI’ toolkit for public procurement over certain financial limits. While these rightfully have a focus on apprenticeships, building skills and government employment schemes, it should be investigated whether a wage code (perhaps including the voluntary Living Wage level or publishing pay ratios) could also be included.

Earnings are a large part of the inequality story. There are two main developments worth considering here, both badged under the “living wage.” The first is the voluntary living wage, driven by the Living Wage Foundation. Modelling by Oxford Economics found the possibility of a modest positive employment impact (through increases in productivity) as a result of the higher wages from a living wage in Northern Ireland (2012). It also has an impact on earnings inequality (2012: 32). The Executive should consider ways to promote the voluntary living wage: for example, the Scottish Government has the Scottish Living Wage Accreditation Initiative to encourage employers to sign up.

Related is the introduction of the UK government’s National Living Wage, which is a higher rate than the National Minimum Wage for those aged 25 and over. While higher wages for the bottom of the distribution are welcome, there is also a higher risk associated with this measure. Though it starts out at £7.20 an hour, the same rate modelled by Oxford Economics in 2012, it is expected to rise to £9 an hour by 2020. This declared level for the wage breaks with the more cautious approach to increases that have characterised the setting of the minimum wage thus far. The Executive should consider how to prepare and work with heavily affected sectors to mitigate potential employment losses as the rate increases.

Another target often cited as part of the pre-distribution armoury is increasing employment for disadvantaged groups. In Northern Ireland, the most obvious case is that of disabled people, who have an employment rate of only 34%, compared to around 50% in England.

Another might be around institutions. While NI remains relatively unionised due to its large public sector, it is still relatively low among private sector workers. There is also the question of the large self-employed population: in the US, there is an emerging struggle for rights for independent workers. What might a Northern Ireland equivalent look like? There is also the question of weighing these counter-veiling institutions against other economic policy objectives. How might these be reconciled? Could there be scope for an equivalent to Atkinson's proposed Social and Economic council? If Northern Ireland can find a successful combination of institutions and policies, it can provide inspiration to other administrations as they attempt to reduce inequality.

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