

INCOME EQUALITY IN THE IRISH LABOUR MARKET: CHANGES IN EARNINGS AND TAXATION LEVELS, 1987 TO 1995†

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Introduction

In his seminal work in the early 1970s Daniel Bell outlined an optimistic scenario for the developed industrial societies. Bell (1973) predicted a general up-grading of the occupational structure with a shift to professional and white collar work. The majority of the population would be in the middle grouping and a new professional and technical elite would emerge replacing the propertied elite. It is now apparent that a substantial shift in the occupational structure has occurred in the Irish labour market in the past 20 years. Between 1975 and 1996, excluding agriculture workers, the proportion of professional/ technical workers increased from 14.5% to 20.7% of the labour force (Labour force Survey, 1975, 1996). Conversely, labourers and unskilled workers decreased from 7.5% in 1975 to 3.4% of the labour force by 1996. Similarly, manual skilled and semi-skilled producers, makers and repairers decreased from 28.3% to 22.8% of the labour force.

According to Bell (1973) this shift would benefit even those workers remaining at the bottom of the occupational structure. The general prosperity in a post-industrial society would trickle down to remaining manual workers giving better working conditions, increased standard of living and enhanced leisure time. While there is no explicit consideration of the likely trend in income inequalities between occupational levels, Bell expected all workers to benefit from real income gains.

However, the increased unemployment experienced by many developed industrial societies in the 1980s tended to dampen such optimistic expectations. Andrew Gorz (1982) argued that new technology had made a substantial proportion of society redundant. The traditional proletariat (e.g., producers, skilled, semi-skilled and unskilled) was in the process of dividing into a neo-proletariat (an underclass) made up of the unemployed and low paid service workers and the remnants of the traditional proletariat. This latter traditional working class, shrinking in size, fearful of losing their jobs and increasingly marginal to the economy, had abandoned its opposition to capital and lost its industrial militancy.

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The emergence of a new service class would be polarised between a privileged professional elite of overworked decision makers and technicians and a new servile class of personal servants and others catering to the elite (Gorz, 1989). Thus Gorz's pessimistic scenario envisages not only increased income differences between occupations in the labour market (i.e., increased income inequality) but also no real income gains for those at the bottom of the occupational structure.

Within OECD countries there is evidence for both the optimistic and pessimistic scenarios outlined above regarding trends in the dispersion of income between occupations and the extent of gains for lower occupational groups. While the trend in the distribution of earnings narrowed in most industrialised countries in the immediate post war period, this reversed in many OECD countries after 1980 (OECD, 1993). Since 1990 earnings inequality rose significantly in the US and the UK. Alternatively, the tendency towards inequality appears to have slackened in other countries with a few countries, Canada, Finland and Germany, experiencing an actual decline in earnings dispersion (OECD, 1996). In the UK the income share of the bottom fifth of households has fallen steadily since 1982 and the gap between rich and poor is the greatest since the 2nd world war (Rowntree Report, 1995). Between 1980 and 1993 the annual income of the top 1% of British earners increased by 265% while that of the bottom 50% increased by 106% (Bradley, 1996). Data on wage trends from 1993 to 1995 indicate that in the United States 25% of all full-time workers earned less than two-thirds of the median wage compared with for example 7% or less in countries like Sweden and Finland (OECD, 1996).

Based on Bell's (1973) predictions of the trends in post industrial society, this paper addresses two issues. Firstly, that with the changing professional and technical shape of the occupational structure even low level occupations have benefited from real income gains. Secondly, changes in the occupational structure have been associated with a decrease in income inequality in the Irish labour market.

The period examined here is from the commencement of centralised wage agreements in 1987 to 1995. The data used are the yearly income and taxation returns to the Revenue Commissioners as published in the Annual Statistical Report. The period 1987 to 1995, though short, can be considered as a time particularly suited to confirm Bells predictions as it coincides with a time of rapid economic expansion, a decrease in the level of unemployment and centralised wage agreements between unions and government containing explicit reference to increasing the pay of low income earners.

Section 2 of the paper outlines some economic trends, particularly pay, since the commencement of centralised wage agreements in 1987. Section 3 outlines the distribution of income in the labour market. Section 4 analyses the trend in the dispersion of income among wage earners and Section 5 concludes with a discussion of the findings and the policy implications for centralised wage agreements.

Economic Trends and Wage Agreements, 1987 to 1996

The period since 1987 has been one of continuous economic growth. Real National Income increased by 54% between 1987 and 1996 compared to an increase of 7% between 1980 and 1987. In 1996 alone national income grew by 8% (table 1).

TABLE 1: Economic indicators 1987–1996 (all figures reduced to base year 1968)

Year	National Income %	Average earnings* %	wage bill** %	Company profits %	Number employed %
	change +	change	change	change	change
1987–96	+ 54%	+ 13%	+ 45%	+ 78%	+ 18%

+ Percentages rounded off

* Average industrial earnings refers to the gross average wage of workers in industry

** Refers to the entire wage bill for all PAYE workers minus agricultural workers

Source: Labour force survey and CSO Data bank (National Accounts Data).

Average real disposable income increased by 12.7% between 1987 and 1996. Changes in taxation levels, however, are estimated to have increased real disposable income by approximately 17% when added to wage increases¹. The overall wage bill of the employed work force (excluding agricultural workers) increased by 45.2% in the same period which partly reflects an increase of 195,000 in the numbers employed. The largest increases occurred in the size of company profits, 78% between 1987 and 1996. Not surprisingly, therefore, given the expansion of the Irish economy in the 1990s absolute real increases have occurred for both the average wage earner and the owners of capital. In relative terms, however, the gains appear to be greatest for employers, shareholders and the self-employed than for wage earners (see esp. Lane, 1998). Moreover, within the wage earner group as a whole the distribution of wage increases and taxation changes may not have been evenly distributed. Below two aspects of this question are addressed. First, the earnings distribution of PAYE wage earners for the years 1986/87 and 1994/95² are outlined and secondly, the trends in income equality or inequality between 1987 and 1995 are compared.

Data source and methodology

The most comprehensive data on earned income in Ireland are the yearly taxation returns to the Revenue Commissioners as published in the annual Statistical Report. These returns include the total income earned and the proportion paid in tax by all those assessed for taxation purposes³. Excluding proprietor directors, 1,060,427 people were assessed in 1994/95 (table 2). However, a sizable proportion of those returned were earning incomes below the taxation threshold. In order to exclude welfare pensioners

and part-time workers, those earning less than £4,000 have been excluded giving a total of 839,944 persons which we estimate as a reasonable approximate figure for full-time wage earners in the economy. To confirm this the figures were compared with those from the 1995 labour force survey. When employers, the self-employed, proprietor directors and part-time workers (estimated at 10% of the LF) are excluded from the estimated labour force in 1995 (1,233,600) the remainder, 827,600, is close to our estimated number of full-time wage earners assessed under schedule E (see table 1.1 in appendix).

Income Distribution for PAYE Earners in 1987 and 1995⁴

During the period 1987 to 1995 total income assessed for PAYE wage earners increased by 26% mainly due to a substantial increase in the employed labour force (table 2). While average gross income (calculated by dividing total income by the total number of PAYE earners) increased in this period by 20%, average net income after tax increased by 27% (total income minus total tax divided by total earners) indicating a significant reduction of in tax deductions as a proportion of income. However, as indicated earlier, the real average net income of industrial earners increased by 17% which is considerably below the increase of 27% in average net income for all wage earners.

TABLE 2: Percentage changes in total income, tax and average rates of pay for 1987 and 1995

	1986/87+ (at 1995 prices)	1994/95	% change 1987 to 1995
Estimated full time wage earners	804,300	839,944	
Total income earned	£10.5 billion	£13.2 billion	+ 26%
Total tax take	£2.6 billion	£2.8 billion	+ 6%
Average gross income (before tax)	£13,069	£15,700	+ 20%
Average net income (after tax)	£9,755	£12,400	+ 27%

+ The number of full time wage earners for 1987 was estimated by the same method as used for 1995 (see table 1.1 in appendix).

* All 1987 prices have been transformed into 1995 prices

Source: The Revenue Commissioners Statistical Report for 198/67 and 1994/5.

Thus average pay after tax has for all wage earners increased substantially more than the average industrial wage indicating the possibility that income gains are unevenly distributed among wage earners.

Trends in Income Dispersion

At least half of all workers earned less than incomes of £12,500 and £12,250 for 1995 and 1987 respectively (these were the closest income bands available for comparative purposes)⁵. However, there was a decrease of 8% in the numbers earning less than these incomes between 1987 and 1995. Even so, average gross income for those earning less than £12,250 / £12,500 differed little between 1987 and 1995 (Table 3).

TABLE 3: Average incomes under £12,500 in 1987 and 1995

1987 (adjusted to 1995 prices)		1995		% change
% Earning*		% Earning		
under £12,250	58%	under £ 12,500	50%	- 8%
Average gross income		Average gross income		
under £12,250+	£8,027	under £12,500	£8,124	+ 1.2%
Average net pay (income-tax)	£6,751	Average net pay (income-tax)	£7,150	+ 6%

* The salary bands used in the revenues statistical report for 1987 and 1995 are not exactly the same because of the necessity to adjust the 1987 income bands to 1995 prices. Thus the nearest comparable band below the average industrial wage is £12,250 and £12,500 for 1987 and 1995 respectively.

+ Average gross income is calculated by dividing the number earning less than these incomes by the total income earned by these workers.

Source: The Revenue Commissioners Statistical Report for 198/67 and 1994/5.

Taxation changes during this period increased average net pay by almost 5%. Thus increases for at least half of all PAYE workers earning less than the average industrial wage (and taking taxation changes into account), were well below the increase in the average net industrial wage and substantially below the average net increase for all PAYE workers (see table 2). Indeed, it is notable that even by 1995 approximately 419,000 workers (50% of wage earners) earned less than £12,500 in gross income.

Table 4 compares the average net wage (gross wage minus tax) for each quintile in 1987 and 1995. While the average net wage of the bottom 20% increased by 5% the average wage for the top 20% increasing by 38%. The evidence from tables 4 indicates increasing income inequality among wage earners between 1987 and 1995.

TABLE 4: Changes in average net incomes between 1986/7 and 1994/5

% Wage Earners	Average Earnings after Tax		% Change
	1987	1995	
1. Bottom 20%	4,991	5,253	+5.2%
2. 20%	6887	7,947	+15.4%
3. Middle 20%	8,629	10,410	+20.6%
4. 20%	11,060	14,671	+32.6%
5. Top 20%	17,205	23,718	+37.8%

Source: The Revenue Commissioners Statistical Report for 198/67 and 1994/5.

International comparisons of income inequality

A useful means of assessing trends in income inequality in Ireland is to compare the proportion of wage earners in the low pay category with other developed industrialised countries. Many International studies of low pay have tended to define low pay in relation to median earnings (OECD, 1994; 1996). This is a relative measure of wage dispersion and low pay is defined as including full-time workers who earn less than two thirds of median earnings for all full-time workers. The median is a measure of central tendency and is the middle-most or most central item/value in a set of numbers. Half of the wage earners will lie above this point and half below it. Low pay is then defined as two-thirds or less of median earnings. Table 5 is based on this definition of low-pay. Two-thirds of the median wage for 1995 is £8,416 (gross income). For 1987, two thirds of the median wage, adjusted to 1995 prices, is £7,282.

TABLE 5: The incidence of low pay

	1987	1995	% change
% of workers below the Median wage	24.1%	26.8%	+ 2.7%

Source: The Revenue Commissioners Statistical Report for 198/67 and 1994/5.

From 1987 to 1995 the proportion of low paid workers increased by 2.7%. International comparisons with other OECD countries indicates that Ireland has the highest proportion of low paid full-time workers (table 6).

TABLE 6: International comparisons of low pay

Percentage of full-time workers defined as being in low-paid employment*

Ireland	26.8%
United States	25.0%
U. K.	19.6%
New Zealand	16.9%
Japan	15.7%
Australia	13.8%
France	13.3%
Germany	13.3%
Austria	13.2%
Switzerland	13.0%
Italy	12.5%
Netherlands	11.9%
Belgium	7.2%
Finland	5.9%
Sweden	5.2%

* Data refer to median earnings for years, 1993, 1994 and 1995. Low pay is defined as two-thirds of the median gross wage

Source: OECD, 1996:72; The Revenue Commissioners Statistical Report for 1994/5.

A notable feature of table 6 is the extent, using OECD figures, of the differences between countries at the top and the bottom of the table with Sweden having only 5.2% classified as low paid workers compared to 26.8% for Ireland.

To summarise the findings:

- Income inequality generally has increased between 1987 and 1995. Increases in earnings for those on less than the average industrial wage were well below the increase in the average industrial wage and substantially below the average increase for all PAYE workers.
- Though all wage earners have benefited from taxation reductions the changes in the PAYE sector have favoured the top 50% of earners to a greater extent than the bottom 50%. The average wage (after tax) for the bottom 20% of wage earners increased by 5.2% between 1986 and 1995.
- There is a substantial proportion of low paid full-time workers in the Irish economy. More than half of all full-time workers earned less than the average industrial wage in 1987 and 1995. Internationally, among OECD countries, Ireland has one of the highest proportions of low paid full-time workers.

- The proportion of low paid workers as defined by two thirds of the median wage increased by 2.7% between 1987 and 1995.

Conclusion

Based on Bell's (1973) predictions of the trends in post industrial society, this paper examined whether wage earners in lower level occupations had benefited from real income gains and whether income inequality had decreased generally. The evidence here indicates that the proportion of workers earning below an income threshold of £12,500 decreased from 58% to 50% between 1987 and 1995, and for the bottom 20% of wage earners there was a real, albeit modest, increase of 5.2% in average income after tax deductions. While this supports Bell's thesis the increase is relatively small in comparison to the overall increase in average earnings of 27% between 1986 and 1995. However, there is no support for the position that changes in the occupational structure have been associated with a decrease in income inequality in the Irish labour market. Indeed, it appears that inequality in earnings has actually increased and apparently, Ireland has one of the highest proportion of low paid workers among OECD countries. These findings of increasing income inequality are echoed in other studies using different data sources⁶.

Increasing income inequality may have adverse consequences both at firm and national level. For Doeringer and Piore (1971) stable wage hierarchies within organisations act to encourage the recruitment and retention of workers with firm specific skills. The establishment of wage hierarchies, often above the market clearing wage, act to curb employee opportunism and encourage 'consummate rather than perfunctory cooperation' (Williamson, 1975: 73). Employees can act in an opportunistic manner in pursuit of their interests where they have a monopoly over knowledge which is specific to the firm. Consequently, those employees with such knowledge are likely to demand higher wages but deliver few of the advantages associated with internal labour markets which act to retain employees with some degree of commitment to the firm. An increase in income inequality inside the firm is likely to erode social cohesion between different occupational groups. As pay is increasingly based solely on 'performance' so compensation is increasingly decided at the level of the individual employee and the incentive to cooperate with other employees diminishes.

At national level, growing income inequality in the economy makes centralised wage agreements more difficult to construct. Such agreements are based on the capacity of unions to restrain their members wage demands in return for concessions. However, increased income inequality is likely to undermine the consensus necessary for these agreements. While the evidence shows that the majority of companies have adhered to the wage norms in the agreements, the evidence in this paper indicates that central wage agreements and taxation changes have tended to favour the top rather than the bottom 50% of wage earners.

Paradoxically, the ending of centralised wage agreements is likely to accelerate income inequality as powerful individuals and groups demand higher wages. In the absence of these agreements income inequality could possibly have increased to an even greater extent and may have increased at a faster rate in the period prior to centralised agreements. For these reasons it can be argued that centralised agreements remain a better option for reducing income inequality in the labour market. However, to reduce inequality these agreements need to be clearly focused with specific measurable mechanisms. Two such remedies can be identified, one which is compatible with the view of pay as having a cohesive function and a second which is more compatible with the market allocative model of neo-classical economics. In the former case two particular measures have received considerable attention: the proposal of a minimum wage of £4.40 per hour and the reform of the taxation system to favour the lower paid. Both of these measures are likely to have an immediate impact to improve the earnings of low pay workers. The second remedy is to ensure that all workers are high skilled. While this is a laudable and attractive solution it requires a long period of time to adjust a substantial proportion of the labour force towards high skilled occupations. As Crouch (1997) observes, it is the ‘utopian vision of the learning society’ where everyone in the work force has an ‘occupational pride in their skills and knowledge’. Income differentials are compressed and the few who cannot attain a high skill are so small that they can be subsidised by the rest ensuring living standards not far behind the average. However, in the mean time a sizable proportion of the labour force will remain in low income occupations unable to participate in the employment opportunities provided by the ‘learning society’ because of limited basic education, age constraints and limited access to training opportunities.

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Appendix

TABLE 1.1: Wage Earners assessed under schedule E 1994-95 and Labour Force Survey, 1996

PAYE Earners assessed under schedule E+		LABOUR FORCE SURVEY, 1995	
Number	1,060, 427	Number employed	964,000*
All those assessed for PAYE below £4,000 eliminated	- 220,483	Part-time workers (10%)	- 96,400
		Proprietor directors	- 40,000
TOTALS	839, 944		827,600
+Excluding self-employed, employers and proprietor directors		Labour force in 1995:	1,233,600
		Self-employed:	269,000
		* No. of employees:	964,000

Source: The Revenue Commissioners Statistical Report, for 1994/5; Table: Id55

Notes

- 1 Leddin and Walsh (1997) calculate that the reduction in tax rates accounted for approximately one third of the increase in earnings after tax between 1987 and 1997.
- 2 The Statistical Report for 1994/95 is the most recent report available
- 3 However, there are some problems in using the revenue reports for the purpose of evaluating PAYE wage earners. While wage earners are assessed separately from employers and the self-employed under schedule E of the tax code, there are, nevertheless, a number of groups included who are not full-time wage earners. First, there are approximately 100,000 social welfare pensioners assessed under schedule E (data supplied by the Statistical office), secondly, there are approximately 40,000 proprietor directors³, thirdly, part-time workers make up approximately 10% of all wage earners.

- 4 For convenience the tax years 1986/87 and 1994/95 are labelled as 1987 and 1995 respectively.
- 5 The average gross industrial wage in 1995 was £13,780 while the average industrial wage in 1987 (adjusted to 1995 prices using the consumer price index) was £12,360.
- 6 Using data from the 'Living in Ireland Surveys' carried out by the ESRI in 1987 and 1994, Sexton *et al.* (1998) found that while the overall increase in average hourly earnings between 1987 and 1994 was just under 21%, the greatest gains were made by persons with higher educational and qualification levels. At this higher occupational end of the spectrum real increases ranged from 26% to 36% compared to increases of under 6% for low skill occupations such as sales assistants and unskilled manual labourers. Collins and Kavanagh (1998: 185) concluded from their analysis of successive house hold budget surveys between 1973 and 1994/5 that the gap between the rich and the poor had increased significantly.