



IRISH MEDICAL
ORGANISATION
Ceardchumann Dochtúirí na hÉireann

Starting the Debate: An IMO Discussion Paper on Balancing a Strong Economy and an Equal Society

April 2014

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Mission Statement

The role of the IMO is to **represent** doctors in Ireland and to **provide** them with all relevant services.

It is committed to the **development** of a caring, **efficient** and effective Health Service.



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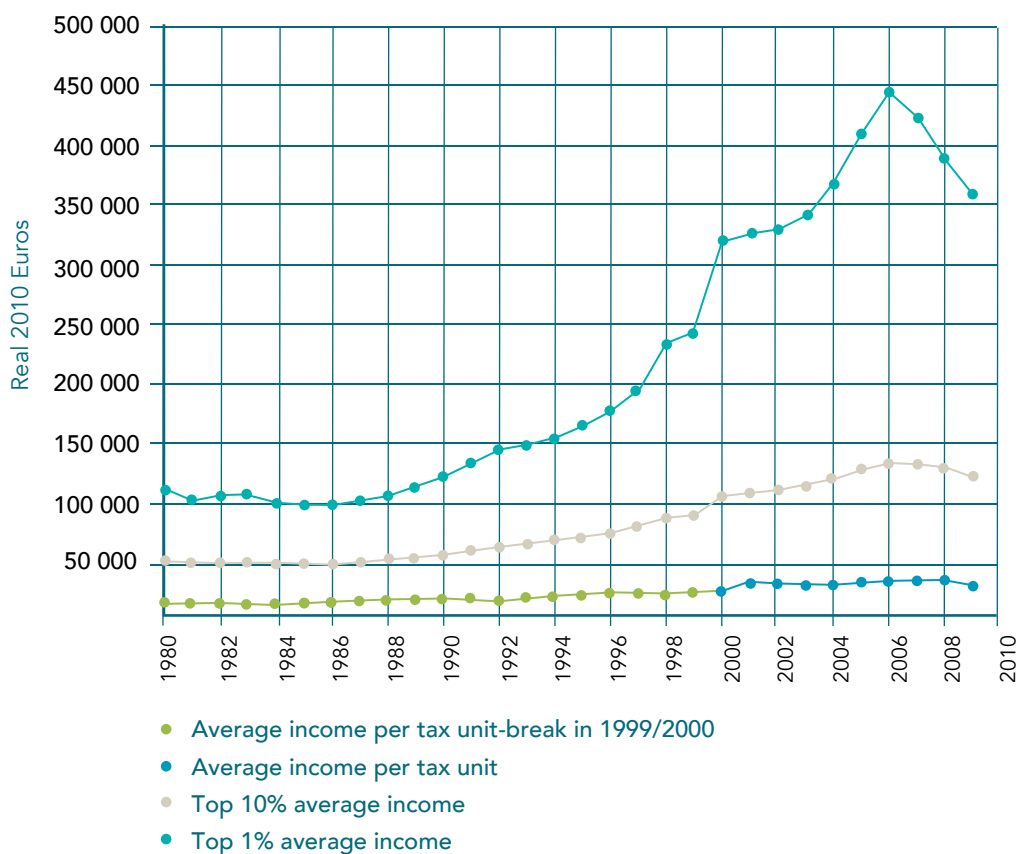
Introduction

Ireland's society is unequal. Economic growth during the boom years failed to filter down to the poorer classes and years of recession have done little to redress the balance. In fact years of austerity has seen unemployment rise, average incomes fall dramatically and deprivation rates increase. Equality is important. More equal societies have fewer health and social problems and are less exposed to international economic cycles. Now that we have exited the EU/IMF bailout, it is vital that we learn from our mistakes and that we take measures to build a healthier society, where the benefits of economic growth are distributed more evenly among all our citizens.

Inequality in Ireland

Irish society has become increasingly unequal. Indicators show that there are wide disparities in income. Since the 1980's income inequality has been growing rapidly. The graph below from the World Top Incomes Database shows the growth in taxable income of the top 1% of earners and the top 10% of earners compared with average taxable income in Ireland.

Average incomes. Ireland 1980-2009



Source: The World Top Incomes Database. <http://topincomes.g-mond.paris> Nolan (2007)

Social transfers and taxation can play some role in addressing income inequalities. The Nevin Economic Research Institute (NERI) have charted the distribution of income before and after social transfers and taxation.¹ Chart 1: Direct income represents the distribution of market income from earnings and investments. Chart 2: Gross income, captures direct income plus any social transfers to households (e.g state pensions, child benefit etc). Chart 3: Disposable income represents gross income minus any tax and social contributions paid. That is the income households have to live off. Chart 3 shows that even after social transfers and taxation. The wealthiest 10% of households are 12 times better off than the poorest 10%.

Chart 1: Ireland's Household Direct Income Distribution, 2011%

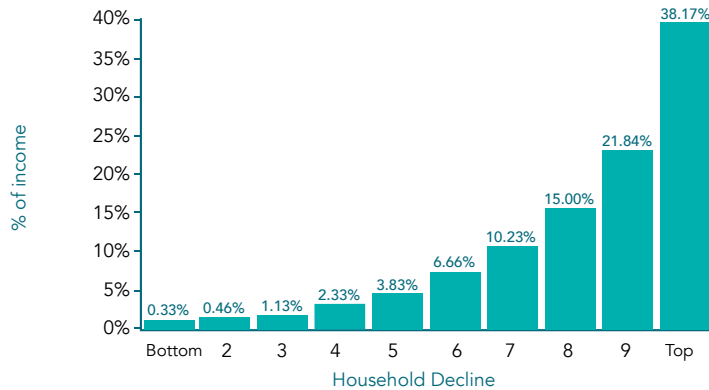


Chart 2: Ireland's Household Gross Income Distribution, 2011%

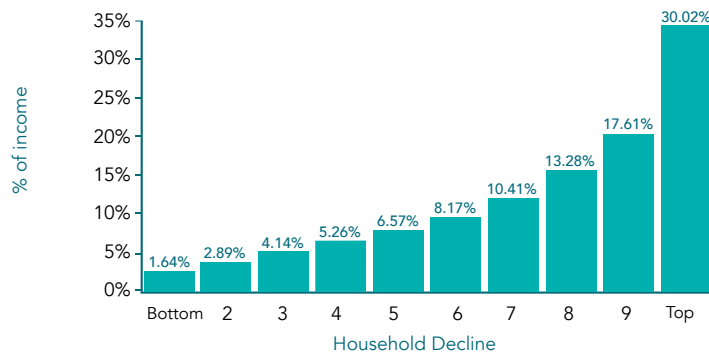
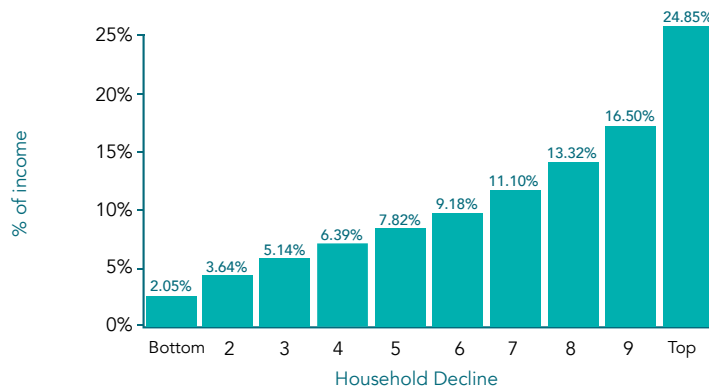


Chart 3: Ireland's Household Disposable Income Distribution, 2011%



Source: Collins M.L. 2013, Income Distribution, Pre-Distribution & Re-Distribution Latest data for the Republic of Ireland, NERI Research in Brief August 2013 (no5)

¹ Collins M.L, Income Distribution, Pre-Distribution & Re-Distribution Latest data for the Republic of Ireland, NERI Research in Brief August 2013 (no5)

The Gini Coefficient is also a common measurement of income inequality. A Gini Coefficient of zero would indicate perfect equality of income while a Gini Coefficient of 100 would indicate that just one person has all the income and everyone else has nothing. The higher the Gini Coefficient is, the higher the level of inequality. The table below shows the redistribution effect of taxation and welfare benefits on Ireland's Gini Co-efficient.

	Gini Coefficient %
Pre-distribution (direct income)*	86.45
Post redistribution (disposable income)*	31.06
Redistribution effect	-55.39
Note: *Calculations of the direct income Gini assume households with €0 have an income of €0.01	

Source: Collins M.L. 2013, Income Distribution, Pre-Distribution & Re-Distribution Latest data for the Republic of Ireland, NERI Research in Brief August 2013 (no5)

After redistribution Ireland has a Gini coefficient of 31.1%.² This is relatively high compared to most of our European counterparts.

2011 Gini Coefficients of Equivalised Disposable Income and Rankings Countries

Country	Gini Coefficient	Rank
Norway	22.9	1
Iceland	23.6	2
Slovenia	23.8	3
Sweden	24.4	4
Czech Republic	25.2	5
Slovakia	25.7	6
Netherlands	25.8	7
Finland	25.8	8
Belgium	26.3	9
Austria	26.3	10
Hungary	26.8	11
Luxembourg	27.2	12
Malta	27.4	13
Denmark	27.8	14
Cyprus	28.8	15
Germany	29	16
Switzerland	29.7	17
France	30.8	18
Croatia	31	19
Ireland (2011)	31.1	20
Poland	31.1	21
Estonia	31.9	22
Italy	31.9	23
Lithuania	32.9	24
UK	33	25
Romania	33.2	26
Greece	33.6	27
Spain	34	28
Portugal	34.2	29
Bulgaria	35.1	30
Latvia	35.4	31
EU Average	30.7	-

Source: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=0>
Downloaded from: <http://www.publicpolicy.ie/wp-content/uploads/IETable-1-page-001.jpg>

² Central Statistics Office (CSO), Survey on Income and Living Conditions (SILC) 2011 and revised 2010 results, CSO 2013
http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf

Why is Inequality Rising?

Income inequalities are not only growing in Ireland. The OECD examined trends in income inequality in a number of other OECD countries³ and found that since the 1980's income inequality has risen in 17 out of 22 countries. Researchers at the OECD identified a number of factors driving income inequality as follows:

1. Technological progress has been more beneficial to higher skilled workers. People with highly demanded skills specific to the financial and ICT sectors have enjoyed significant gains in earnings compared to those with low or no skills.
2. Regulatory and institutional reforms aimed at increasing competition and making labour markets more adaptable have increased employment opportunities mainly for low paid workers.
3. Part-time work and atypical work contracts have increased while collective bargaining arrangements have declined.
4. Changing family structures have also had some impact on income inequality. The number of single headed households has increased and represent approximately 20% of all working-age households. At the same times in couple households people are much more likely to choose partners in the same income bracket.
5. Non-wage earnings, in particular capital earnings, have become more unequal.
6. Tax and benefit systems have become less redistributive due to cuts in benefit levels, tightening of eligibility rules and the failure for transfers to keep pace with earnings growth.⁴

Joseph Stiglitz former Chief Economist at the World Bank in his recent book (The Price of Inequality, 2012) suggests that globalisation and neo-liberal, laissez-faire politics have directly contributed to rising inequality.

*“Competition across countries for investment takes on many forms – not just lowering wages and weakening worker protections. There is a broader “race to the bottom” trying to ensure business regulations are weak and taxes are low”.*⁵

While markets have contributed to increases in productivity and rising standard of living over the last two hundred years, there is no invisible hand to distribute economic gains to all citizens. Without government intervention markets can *“concentrate wealth, pass environmental costs onto society and abuse workers and consumers”*.⁶

From Boom to Bust

Our recent economic history is well documented.⁷ Following recession in the 1980's Ireland witnessed a period of unprecedented growth from the mid-1990's. Low corporate tax rates encouraged US foreign investment in a small number of growing sectors (ICT, financial services, pharmaceuticals and medical devices). In 2000-2001 economic growth shifted from foreign direct investment to construction. Cheap finance, light touch banking regulations and tax incentives fuelled investment and speculation in an unsustainable property boom. Transaction charges and indirect taxes supported exchequer spending and allowed for personal and corporate taxation to be kept low. Companies and individuals amassed considerable levels of debt and our banks were left over exposed when the property market collapsed in 2008 and the global economy entered recession. The Government bail out of the banks and the collapse in exchequer revenue left Ireland with mounting national debt and in need of an international bailout. The terms of the IMF/EU bailout required substantial fiscal consolidation measures to reduce our budget deficit to 3% of GDP.

3 OECD, Divided We Stand: Why Inequality keeps rising, OECD Publishing 2011 <http://dx.doi.org/10.1787/9789264119536-en>

4 OECD 2011

5 Stiglitz J.E, The Price of Inequality, London; Penguin 2012

6 Stiglitz 2012

7 This short summary has been taken from Drudy P.J. Collins M.L. 2011, Ireland: From Boom to Austerity, Cambridge Journal of Regions, Economy and Society 2011, 4, 339-354

Economic recession, the collapse of the property market and the banking crisis combined with austerity measures have had substantial impact on the Irish population:

- Unemployment rose from a low of 4.7% in 2007 to 14.7% in 2012.⁸
- Average equivalised disposable income fell from by 12% between 2008 and 2011 that is a fall of €2930 per individual⁹
- The at-risk of poverty rate (60% Median income threshold) anchored at 2007 has increased from 16.5% of the population to 21.2%¹⁰
- Almost one quarter (24.5%) of the population experience two or more types of enforced deprivation.¹¹

The Importance of Equality

Equality is important. In the IMO Position Paper on Health Inequalities¹², the IMO have highlighted the relationship between inequalities in health and income inequalities. Evidence shows that lower socio-economic groups have relatively high mortality rates, higher levels of ill health and fewer resources to adopt healthier lifestyles when compared to better-off sections of society:

- Men and women living in poorer areas have a shorter life expectancy at birth than those living in more affluent areas.¹³
- Coronary heart disease and diabetes rate are higher amongst the poorest fifth of the population¹⁴
- Obesity levels are lower among the higher social classes whom are more likely to consume fruit and vegetables and be physically active¹⁵
- Children from poorer classes are more likely to be obese or overweight¹⁶
- Rates for peri-natal mortality and low birth weights are higher among babies born to parents who are unemployed or of lower socio-economic status¹⁷
- Life expectancy for the traveller community is substantially lower than for settled communities while infant mortality rates and suicide rates are higher¹⁸

There is also a relationship between income inequality and other social problems such as educational achievement and crime rates. Wilkinson and Pickett (*The Spirit Level, 2009*)¹⁹, having examined international data found that countries with the greatest income inequality are more likely to have health and social problems, while countries such as Sweden, Denmark and Finland with high levels of social protection and comprehensive social safety nets, have lower income inequality and thus lower levels of health and social problems. In addition societies which are more equal are less affected by recession²⁰.

8 CSO, Seasonally Adjusted Annual Average Standardised Unemployment Rates www.cso.ie

9 SILC 2011

10 SILC 2011

11 SILC 2011

12 IMO, IMO Position Paper on Health Inequalities 2012

13 Central Statistics Office, Mortality Differentials in Ireland, 2010

14 Balanda KP, Barron S, Fahy L, McLaughlin A, Making Chronic Conditions Count, Hypertension, Stroke, Coronary Heart Disease and Diabetes, Dublin: Institute of Public Health 2010

15 Morgan et al. SLÁN 2007: Survey of Lifestyle, Attitudes & Nutrition in Ireland. Main Report. Dublin: Department of Health and Children 2008

16 Williams et al, Growing Up in Ireland, National Longitudinal Study of Children, Report 1

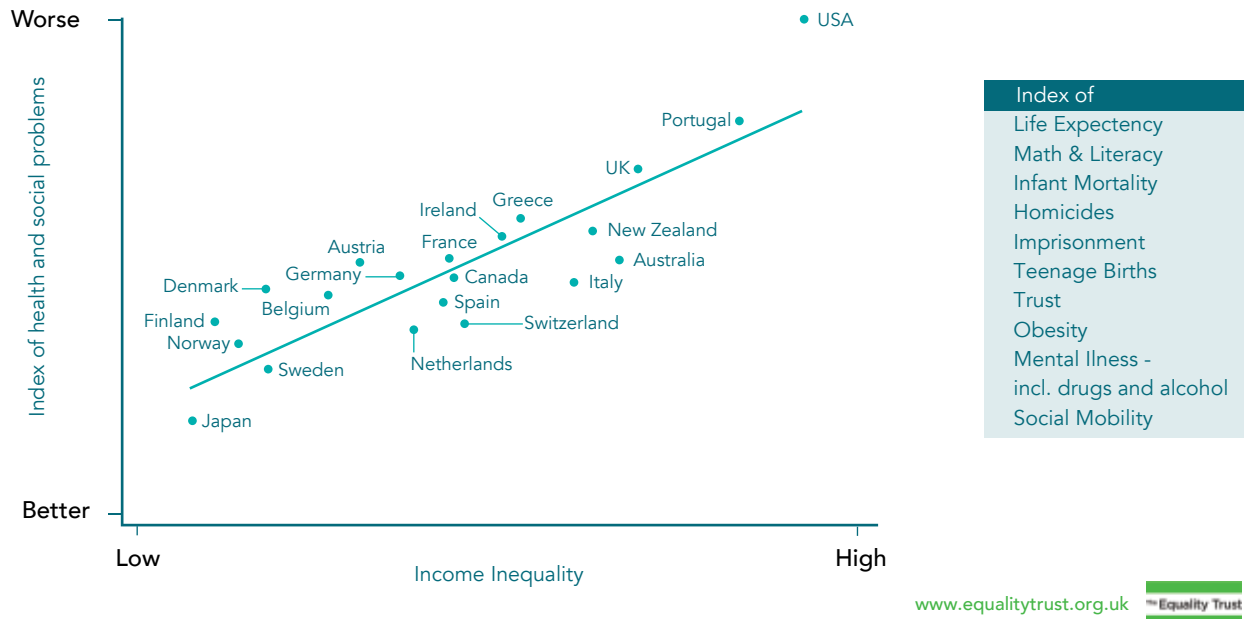
17 McAvoy H, Sturley J Burke S and Balanda KP, Unequal at Birth – Inequalities in the Occurrence of low Birth weight Babies in Ireland, Dublin: Institute of Public Health 2006

18 All Ireland Traveller health Study Team UCD, Our Geels, All Ireland Traveller Health Study DOHC, 2010

19 Wilkinson R. Pickett K, *The Spirit Level: Why Equality is Better for Everyone*, London; Penguin 200

20 Pentony S, *The Role of the Economy, The Flourishing Society* TASC Dublin 2011 www.tasc.ie

Health and Social Problems are Worse in More Unequal Countries



Source: Wilkinson & Pickett. *The Spirit Level* (2009)

Now that we have exited the EU/IMF bail-out and attempt to restore economic growth, we need to seriously think about our values and the type of society we want going forward. Fergus O’Ferrall (*The Flourishing Society*, TASC 2011) describes the main components of a healthy society:

“healthy societies are those that share an inspiring narrative about the meaning of the good life; there ought to be a certain level of equality in respect of income and welfare to facilitate a more equal citizenship; the market economy should function within a climate of strong social and political institutions; provision should be made for universal education and health systems; as far as possible full employment opportunities should be created so that all may make their contribution.”²¹

How can we assure both a healthy economy and a health society based on the principles of prosperity, equality and solidarity? The economic model adopted by Nordic countries combines a competitive economy with a model of taxation and social welfare which guarantees a minimum standard of living for all and finances the provision of adequate public services.²²

However NERI suggest that “a huge change in mentality and in institutional culture” is required. Irish citizens will not accept higher taxes and public spending unless there is:

- a major change in the way public services are organised, controlled and funded so that they deliver in an efficient and equitable way what they are meant to;
- a fairer way of paying for public services so that those on high income or wealth pay relatively more taxes than those who do not.²³

This needs to be done in a staged way over a long period to allow for growth in average incomes before raising taxes on all but the lowest incomes.

21 O’Ferrall F. Introduction *The Flourishing Society* TASC Dublin 2011 www.tasc.ie

22 Healy T. 2012, *Why we Need an Economic Plan B*, NERI WP 2012/01 www.neriinstitute.ie

23 Healy T. 2012

Restoring Economic Growth and Employment

As we move forward Ireland must focus on long term, sustainable economic growth in order to assure rewarding, productive and secure employment for as high a proportion of the population as possible.

While foreign direct investment has contributed to economic growth in Ireland, there is a need to foster more long term indigenous growth with policies encouraging entrepreneurship and support for SMEs. We need to build on our strengths and address our weaknesses. Ireland's competitive edge in international markets needs to shift from a focus on low taxes and low earnings to a competitive edge based on our highly qualified workforce and a strong and sustainable infrastructure.

We need to look to diverse areas of economic growth that create jobs and not just wealth. We need to ensure investment in research and development and innovation in growing sectors, (ICT, pharmaceutical and medical devices, sustainable energy) and across the economy. Policies are required that encourage co-operation and collaboration between research institutions and both national and multi-national enterprises. Reform of our financial sector must ensure access to credit for local businesses.

We need to align our education, training and retraining programmes to ensure that our skills match the needs of expanding sectors. Incentives are needed to encourage maths and science subjects at secondary level and creativity throughout the education system.

Investment in our infrastructure is required to ensure Irish companies can compete at international level. We need to move away from reliance on fossil fuels and invest in renewable sources of energy taking advantage of our natural assets such as wind, tidal and wave energy.²⁴ Our public transport systems and water and sewage treatment systems need updating and widespread access to high-speed broadband is required.

Equal Access to Public services

During the boom years we failed to invest in public services as a result we have a two tier healthcare system, early childhood education is underdeveloped and childcare services are expensive. While efficiencies have been made, the impact of successive budget cuts is now seriously impacting on the delivery of health and education services.

We need a new approach to the provision of public services. Investment in public services must be seen as an investment in the common good. All citizens should have the opportunity to reach their maximum potential and no citizens should be disadvantaged because they are unable to afford healthcare, education or childcare. These public services should be universally accessible, valued by all citizens and independent of political interference. The principle of solidarity must be applied to the funding of public services, so that all citizens have equal access, but contribute according to their means.

Inequality in Ireland has been compounded by a two-tier health system where almost 45% of the population are covered by medical or GP card while the rest of the population are subject to high out-of-pocket payments for GP Services, pharmaceuticals and hospital services which can deter patients from seeking necessary care . 45% of the population continue to purchase private health insurance demonstrating a lack of confidence in the public system.

In the IMO Position Paper on Health Inequalities²⁵ the IMO stressed the role of health systems in addressing health inequalities. In particular the paper emphasizes the importance of universal access to GP services and community child health services in the early detection of illness and childhood developmental issues.

Health systems play contribute to the economy and societal health and well-being in a number of ways. Improvements in the health of the population leads to improvements in the productive capacity of the country and consequently leads to long-term savings in health and social welfare spending. At the same time health services are sizeable employers and drivers of innovation and research and development.²⁶

24 Pentony S. 2011

25 IMO, 2012

26 Figueras J et al. Health systems, health and wealth: an introduction. In: Figueras J, McKee M, Menabde N (eds.) Health systems, health and wealth: Assessing the case for investing in health systems. WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, Open University Press: 2012

The economic and social value of health systems and the importance of strengthening health systems and universal access to health care has been recognised by the World Health Organisation (WHO) in The Tallinn Charter: Health Systems for Health and Wealth 2008.²⁷

Priority must be given to a universal health care system where all citizens have access to necessary care based on need and not on ability to pay. The allocation of resources should be weighted to take into account patterns of morbidity in deprived areas. Careful consideration should also be given to the application of co-payments which can deter both necessary and unnecessary care.

The IMO Position Paper on Health Inequalities²⁸ also highlighted the importance of investing in early childhood education to help break the cycle of poverty which passes from generation to generation. Investment in education must begin in early childhood and be sustained right through to third level education. Child benefit payments should be redirected towards early childhood learning and subsidising childcare. Policies are also required to ensure higher levels of attainment in third level education and training in more deprived areas.

Assuring a Minimum Standard of Living for all

The table below from the SILC 2011 shows the principle economic status of the population at risk of poverty, experiencing deprivation and living in consistent poverty.

2011	Population	At Risk of Poverty	Deprivation Rate ²	% of Individuals
				In Consistent Poverty
Principal Economic Status				
At Work	34.9	14.2	21.4	10.6
Unemployed	8.6	16.6	14.9	20.7
Student	7.5	14.7	7.5	11.4
Home Duties	12.9	17.5	14.6	16.3
Retired	7.7	4.3	3.1	1.7
Not at Work Due to Illness or Disability	3.3	4.8	4.9	5.4
Children Under 16 Years of Age	23.8	25.8	31.8	31.0

Source: Central Statistics Office (CSO), Survey on Income and Living Conditions (SILC) 2011 and revised 2010 results, CSO 2013 http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2011/silc_2011.pdf

We have seen the role that social transfers play in alleviating poverty. Welfare payments including unemployment benefit, lone parent payments, illness and disability payments, carers allowances and state pensions must ensure a minimum standard of living for all. Payments should be based on actual cost of living and household composition using tools such as The Minimum Income Standard for Ireland developed by the Vincentian Partnership for Social Justice and TCD.²⁹

27 World Health Organisation (WHO) The Tallinn Charter: Health Systems for Health and Wealth 2008. http://www.euro.who.int/__data/assets/pdf_file/0008/88613/E91438.pdf

28 IMO, 2012

29 Collins M.L, Mac Mahon B, Weld G, Thornton R. 2012 A Minimum Income Standard for Ireland - A consensual budget standards study examining household types across the lifecycle, Studies in Public Policy: 27 The Policy Institute Trinity College Dublin and the Vincentian Partnership for Social Justice downloaded from http://www.budgeting.ie/images/stories/Publications/A_Minimum_Income_Standard_for_Ireland_-_Edition_27.pdf

For those at work a well-designed minimum wage ensures a decent standard of living for lower paid workers and their families, incentivises work and raises the bar for all workers. Collective bargaining agreements will also ensure adequate remuneration and that rights of workers are respected. Countries such as Germany have combined a strong economy with a strong trade union movement.

Increase in disposable income for lower income groups will not only alleviate poverty it will also increase consumer spending and as a consequence increase employment. Michael Taft of UNITE³⁰ estimates that a 1% rise in aggregate wages can increase spending by €400 million and employment by up to 3,000 jobs while a €5 increase in social protection rates can increase consumer spending by €300 million and employment by up to 2,000 jobs.

Progressive Fiscal Policies

A fairer taxation system is needed that is more progressive across the entire tax take rather than income tax only and prioritises public services over tax breaks for private spending.

Ireland's low level of corporate tax has long been heralded as a major incentive for foreign direct investment in Ireland. However, Ireland should not be viewed as a tax haven for foreign multi-national corporations. Tax rates applied to foreign companies should be transparent and equal to tax rates for local enterprises and all measures should be taken to ensure compliance and eliminate loopholes. All corporations foreign and local should be required to contribute their share to the local economy.

Other areas where tax increases can be targeted include local taxes, taxes on carbon fuel consumption and taxes on immobile property and capital income.

Social insurance contributions in Ireland are low compared to the rest of Europe, however Ireland lacks an adequate social security system. In other countries social insurance systems support:

- Access to public health services regardless of income or employment status – including free GP care and prescription medicine.
- Pay-related social insurance pensions that are not subject to the uncertainty of financial markets
- Pay-related unemployment / sickness benefit that ensure citizens are not reduced to poverty if they are out of work due to loss of job or illness
- Family friendly maternity, paternity and family leave benefits ³¹

Social insurance systems are funded by pay-related contributions by both employers and employees and provide transparency to the funding of some public services and welfare provision. Increasing taxes on income in the current climate would be counterproductive and seen simply as a tax increase to repair our public finances. However as the economy and incomes grow social security contributions could be gradually introduced to fund expanding benefits.

Conclusion

Economic growth and an equal society are not mutually exclusive. There is an alternative European model where economic growth supports the distribution of income and public services in a more equitable way. Moving towards a more competitive economy and a healthier society will take time and a widespread change in culture and mentality but now is the time to start laying those foundations.

30 Taft M. Beyond Austerity: Towards a New Framework for Recovery UNITE downloaded from <http://notesonthefront.typepad.com/files/michael-taft.pdf>

31 Taft



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Child Health	Oct 2012	Medical Schools	Aug 2006
The Market Model of Healthcare – <i>Caveat Emptor</i>	Apr 2012	Obesity	Apr 2006
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Doctor Patient Confidentiality	Apr 2011	Health Service Funding	Mar 2005
Mental Health Services	Nov 2010	Acute Hospital Bed Capacity	Mar 2005
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