

# TENURE, INCOME & RESILIENCE

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Changes to the Distribution of Household Incomes 2006 to 2015



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# Introduction

- Research focused on household incomes across four tenures from 2006 to 2015.
- Business cycle: Growth to 2009. Collapse and recovery to 2015.
- Across four tenures: (i) Owner-occupiers who own outright. (ii) Owner occupiers with a mortgage or other loan. (iii) Renters - private market. (iv) Renters –local authority.
- Why Tenure? Endogenous. Differentiated policy treatment. Illustrates channels by which macroeconomic shock impact on households. Processes behind cycle?
- Priors: Post 2008 shock would reduce inequality?

# ORIENTATION

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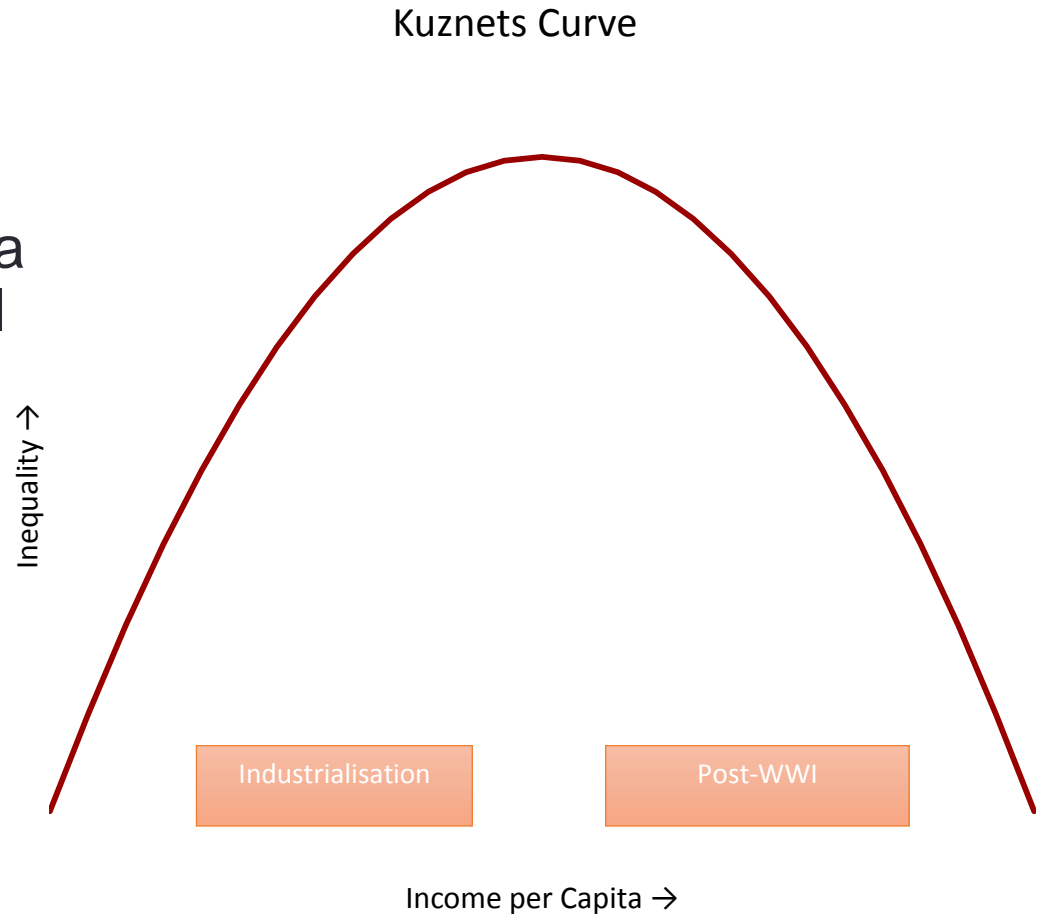
Literature, Data Source & Variable of Interest

## Kuznets Curve

Q: Why doesn't the cumulative effect of concentrations of past savings dominate?

Economy develops from a primarily rural agricultural society to an industrialised, urbanised economy.

Inequality initially increases; pre-industrial economic and social institutions are shattered. Then falls; democratisation, welfare state etc.



# Atkinson, Piketty et al

- Disquiet. In general there has been an upward shift in inequality since the 1980s in developed countries.
- Particularly the Anglo-Saxon economies. UK, US, Aus & Can.
- Also elsewhere. Ger, NL and Nordics (Den, Fin, Swe).
- Theory: 20<sup>th</sup> Century Crises were aberrations which temporarily disturbed the fundamental dynamic.
- Piketty (2014) predicts the mathematical inequality:
$$r > g$$
- Maclennan & Miao (2017) posit this inequality:
$$rh > g$$
- Housing appears to be a major reinforcer of wealth and income inequalities; housing policies may strengthen or reduce inequalities.

# SILC – Strengths & Weaknesses

- CSO Survey on Incomes and Living Conditions. Official measure of poverty and inequality. Began in 2003.
- Outstanding dataset. 4,300+ households per annum from 2006 onwards. 11-15,000 individuals. Observations weighted to match population. 59% response rate.
- Based on householder interviews and administrative data.
- No imputation required.
- Caveat 1: May not capture top and bottom decile incomes as well as middle. A challenge for all income surveys.
- Caveat 2: Sampling method means that estimating confidence intervals is not straightforward.

# Income

- Real Equivalised Household Disposable Income.
- Disposable Income. Calculated by adding direct income, such as employee income, and social transfers, such as child benefit or rent supplement, and then deducting taxes, social insurance and regular inter-household deductions.
- Base is 2014.
- National Equivalisation Scale: 1 / 0.66 / 0.33.
- Household X. 1 adult. Income of €35k. Equiv income = €35k.
- Household Y. 2 adults, 2 children. Income of €35k. Equiv income = €15.1k.
- Income vs consumption, vs wellbeing, lifecycle etc.
- Subsidised and free services. More later on housing subsidies.

# SOME FINDINGS

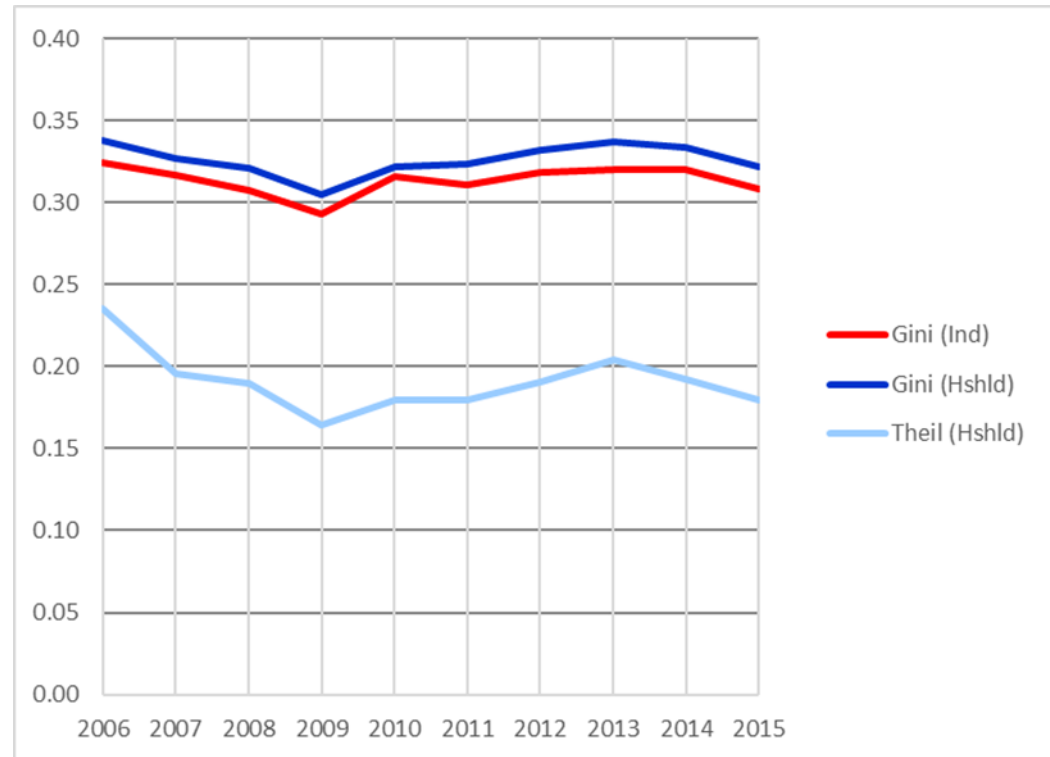
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Robust to Recession?



## Gini & Theil: Whole Distribution

Gini coefficient & Theil index: Statistical measures of inequality which assign a single number to a distribution that describes the inequality and which permits the ranking of alternative distributions.

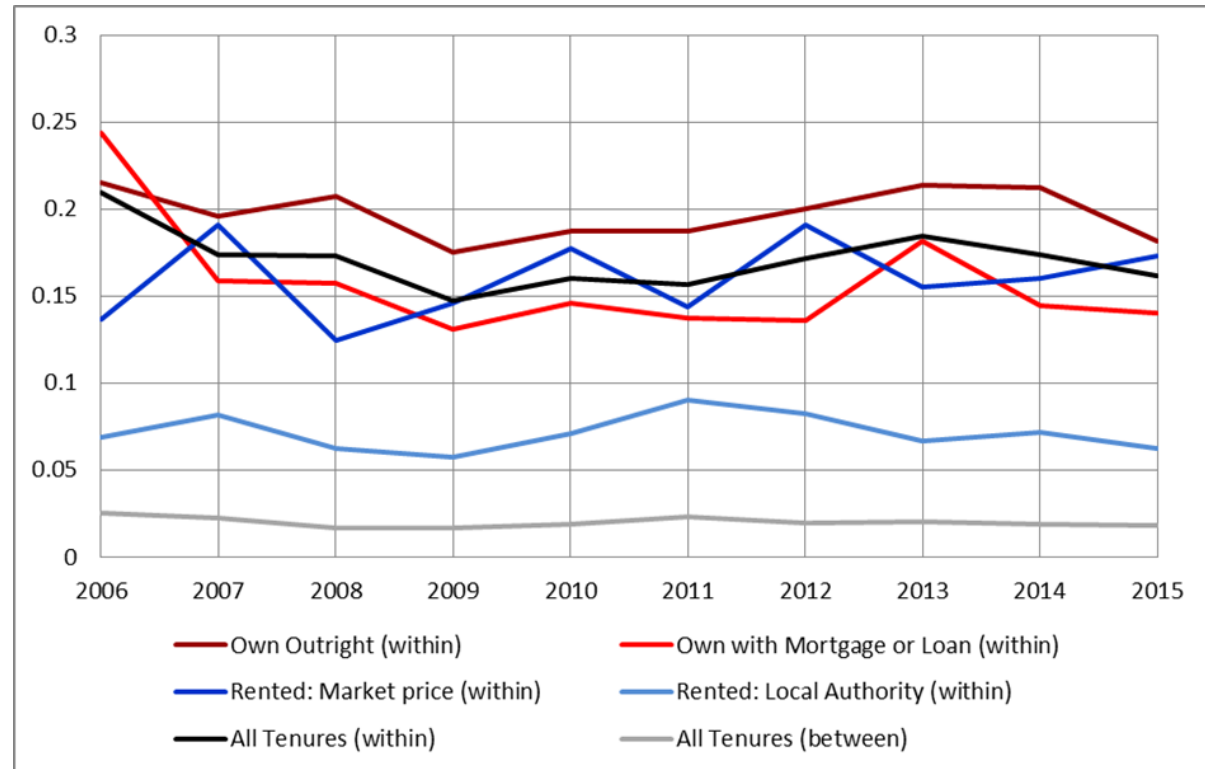


## Theil Index: Decomposed by Tenure

Theil Index is perfectly decomposable.

Within inequality: inequality due to the variability of income within each group.

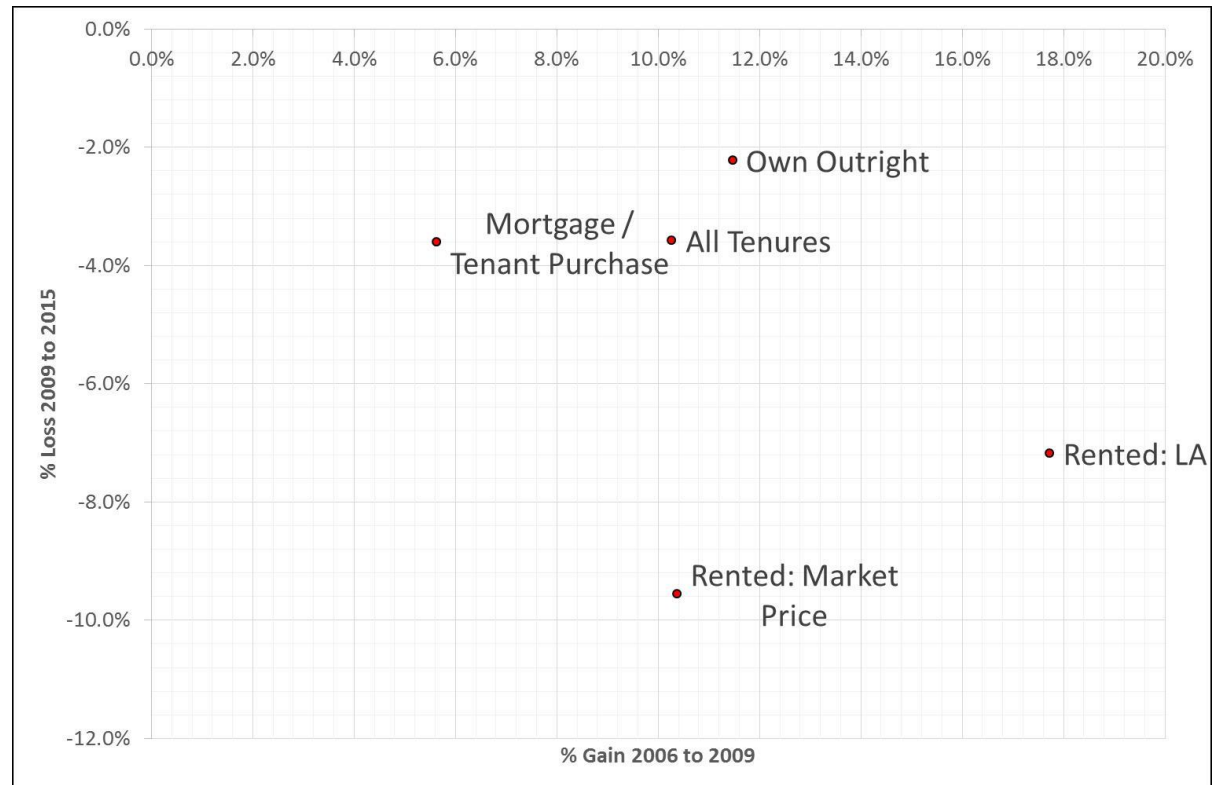
Between inequality: the inequality due to the variability of income across different groups.



## Median Incomes by Tenure

Percentage gains (2006 to 2009) and losses (2009 to 2015).

Although all tenures are situated within the same quadrant their positions within that quadrant vary considerably. Differential income growth across the distribution.

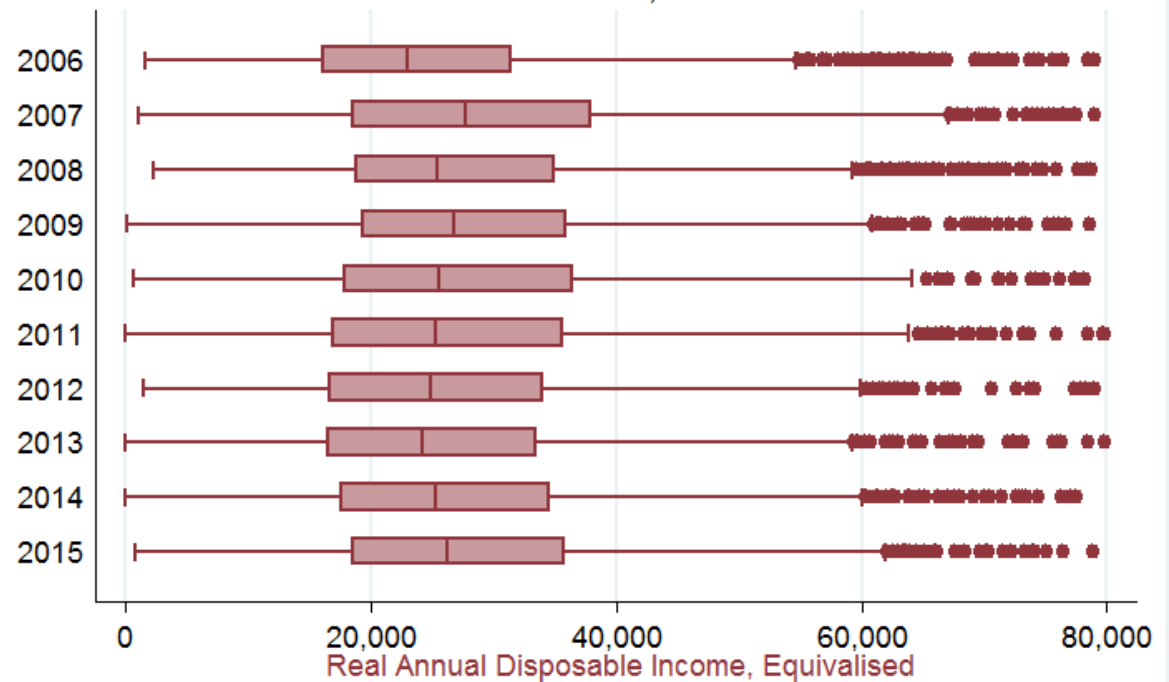


## Boxplot 1

Highest Income tenure group. Vary considerably from those of owner occupiers. Incomes reduced considerably in 2008, the median fell sharply and the interquartile range contracted. A recovery occurred in 2009 before the onset of 5 years of generally declining incomes in each year. In 2014 and 2015 incomes recovered although not to the 2007 high water mark.

### Mortgage & Tenant Purchase Hshld Incomes 2006-15

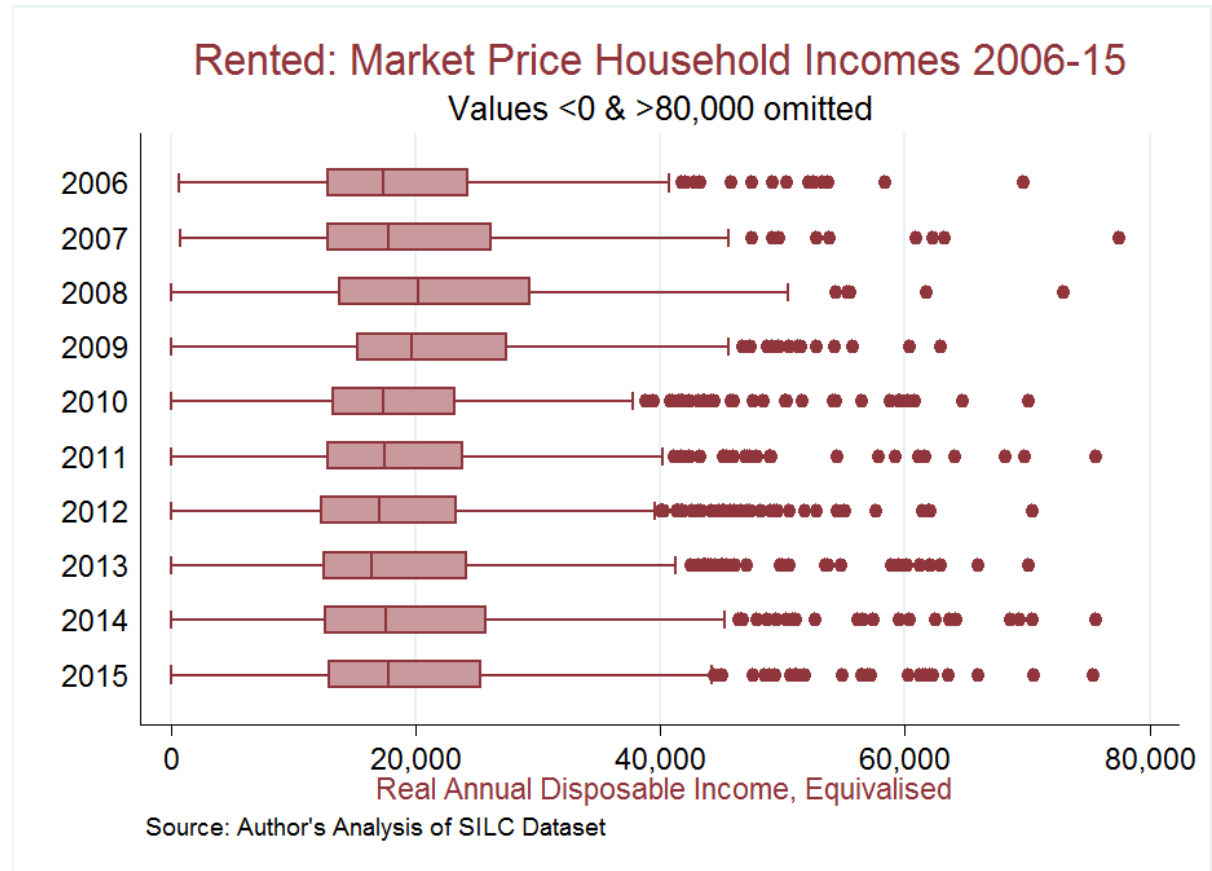
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Source: Author's Analysis of SILC Dataset

## Boxplot 2

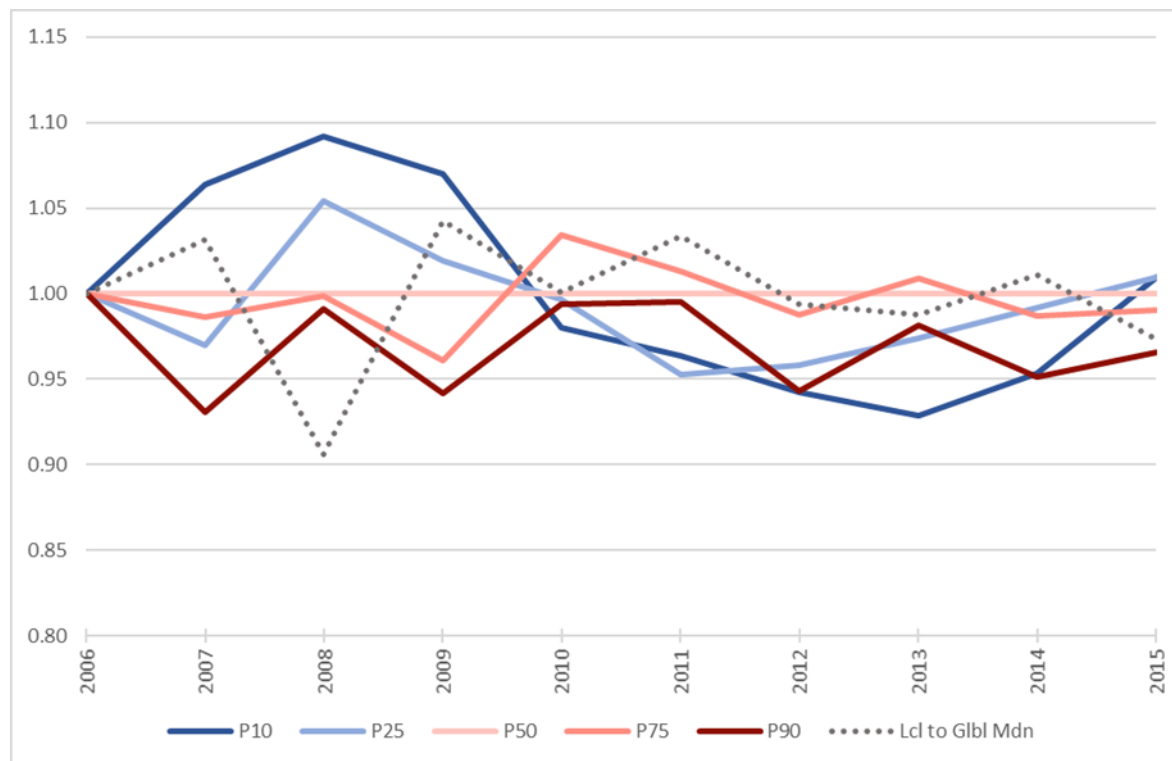
Generally lower incomes than those found among the ownership tenure groups. From 2006 to 2009 incomes grew; In 2009 the distribution contracted and from 2010 to 2012 the interquartile range shifted leftward. 2010 seems to have been a particularly difficult year for many households. The 2014 and 2015 recovery has occurred although the greater dispersal at the mid-to-upper end of the distributions evident among the ownership tenures does not appear to have occurred.



## Median to Quantile Ratio

Change in quantile income relative to median among households with a mortgage or loan.

General compression during 2006 to 2010, then became more settled. The tenure group median held a relatively stable relationship to global median, although note the fall in 2008, when the median income among this group fell while median incomes among other tenure groups increased. Lower deciles lost ground from 2010 to 2013 but have recovered. P90 has also lost ground.



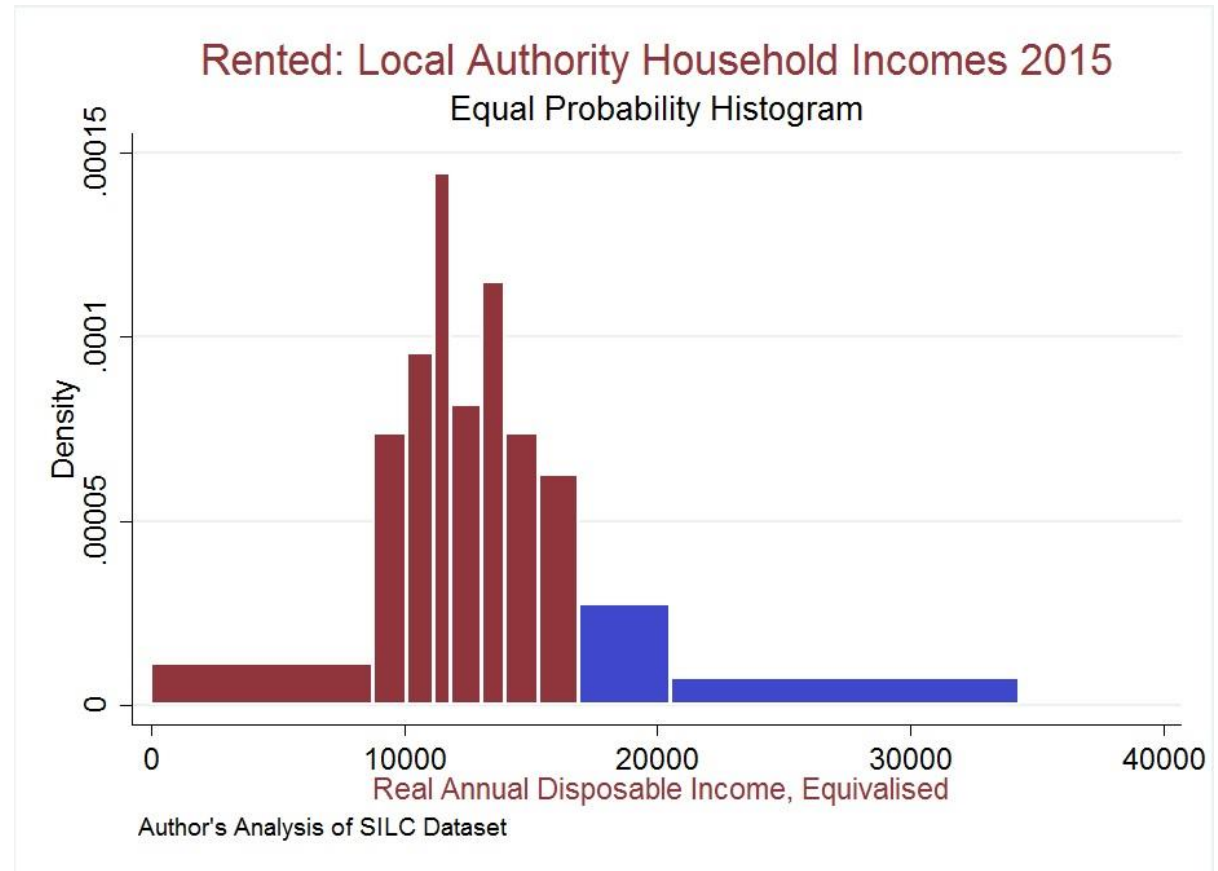
## Renting: Local Authority

Equal Probability Histogram. Area represents probability, therefore deciles.

Bimodal distribution.

Upper quintile maps well to middle of the Rented: Market Price distribution.

Housing costs heavily subsidised.



# Some Conclusions

- General stability in terms of income inequality. But not absolute.
- Households renting in the private market losing ground vis-à-vis other tenures. Exposed to market vicissitudes. Price. Tenancy continuity.
- Renters in the private market are changing: Households with children increased from 40% to 52%. Households aged 25 to 49 has increased from 67% to 77%, as has the proportion aged from 50 to 64, from 9% to 12%.
- Tenure shift underway. 10% homeownership drop since 2002.
- Households renting from a local authority owned unit have diverse incomes. Upper tail of the income distribution raises policy questions. Especially when housing costs are considered.
- Distributional implications of housing policy. Regressive impact of supply incentivisation. How to address housing supply without amplifying 'r > g'?



*Note : this presentation has been prepared by staff of the Strategic and Business Support Unit of the Department of Housing, Planning, Community and Local Government. The presentation does not necessarily represent the policy position(s) of the Department, the relevant Minister, or of the Government.*

# THANK YOU

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