

Income Inequality in Ireland

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Introduction

Who are the winners and losers in Ireland's race for economic development? The growth itself is undisputed. Even a cursory examination of key economic indicators reveals that the overall economy has improved immensely over the past decade. GDP growth was 11.5 percent in 2000, with growth for 2001 projected to be 8.8 percent. Unemployment has been reduced from a high of 15 percent of the labor force in 1993 to less than 5 percent in 2000. Employment increased at an average rate of 4.5 percent per annum for the years 1994-1999. ("Monthly Economic Bulletin") Irish living standards are rapidly converging upon those of the European Union (EU); in 1990 Irish GNP per capita was 66 percent of the EU average, whereas in 2000 it stood at 90 percent of the average. (Fitz Gerald, p. 54) However, the question remains: Who has prospered, and who has not? As I will illustrate, the poor have not shared the fruits of economic growth equally with the rich.

In this article, I will examine income inequality issues in Ireland, beginning by explaining the relevance of the topic in Ireland. Next, I will examine Ireland's recent social welfare initiatives. The main focus of the article will be the trends in income inequality and poverty throughout the period of rapid Irish economic growth. I will

conclude by stressing that the key challenge for the Irish government will be to find a balance that can provide for the less fortunate without reducing the competitiveness of Irish industry in the world marketplace.

Relevance

Income inequality in Ireland is important for several reasons. First, because income inequality often rises as economies improve, the Irish government must ensure that Ireland's rapid economic growth does not cause inordinate increases in income inequality. Second, given Ireland's complete reversal in economic circumstances over the last two decades, the question arises as to what the appropriate level of social welfare should be. Having inherited its traditionally modest social welfare system from the United Kingdom at the time of its independence in 1922, Ireland's system continues to hold many characteristics in common with that of the U.K. (Callan and Nolan p. 180) In addition, the social welfare expenditure rate in Ireland remains far below the EU average. Now that Ireland is prospering, the question that remains is whether Ireland should continue along this path, or instead develop a more extensive welfare state. Third, if income inequality in Ireland increases, crime is also likely to rise. Although Ireland is not now known as a nation with serious social ills, this could change with increased inequality. Finally and most importantly, if the Irish poor become progressively unhappier with their socio-economic situation, they can exercise their right to vote the incumbent government out of power. This possibility brings issues of inequality to the forefront of Irish political concerns.

Ireland has a promising economic future. It has a young, well-educated workforce, a dynamic industrial sector, a growing service sector, and a government that has its eye on the direction of the global economy. In order to ensure sustainable Irish economic growth, the government can do several things. First, it should make sure incomes of the poor do not fall too far behind those of the wealthy in Ireland. Second, the government should also take steps to afford those from lower socio-economic backgrounds the same opportunities as the wealthy. Third, the Irish government needs to successfully strike the delicate balance between welfare and incentive in order to enhance its prosperity without decreasing the competitiveness of the Irish workers and marketplace. If Ireland can successfully manage these three goals, it will be able to achieve increasing prosperity and success for years to come.

Social Welfare in Ireland

Historically, the level of Ireland's social welfare expenditures has been more similar to those of the U.K. and the U.S. than social democratic states such as Germany and France. (Callan and Nolan, p. 180) For example, in 2000, Irish social expenditures were only about 5.7 percent of GDP. This rate was much lower than the EU average of 14.4 percent and a Eurozone average of 16.3 percent of GDP. ("Economics: Taxes Should Rise...") However, despite these comparatively low levels of social welfare spending, Ireland does have a recent history of growing efforts to protect the less fortunate. Following the United Nations Social Summit in Copenhagen in 1995, in 1997 the Irish government outlined a concrete strategy to combat poverty. (Layte et al., p. 174) The resulting National Anti-Poverty Strategy (NAPS) defined poverty levels, as well as set global poverty reduction targets to be achieved over the period 1997-2007. As reported by Layte, Nolan, and Whelan, the NAPS definition of poverty is as follows:

People are living in poverty if their income and resources (material, cultural, and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalized from participating in activities which are considered the norm for other people in society. (Layte et al., p. 174)

When it was initiated, the NAPS set the following global poverty targets:

Over the period 1997-2007, the National Anti-Poverty Strategy will aim at considerably reducing the numbers of those who are 'consistently poor' from 9 to 15 percent to less than 5 to 10 percent, as measured by the Economic and Social Research Institute. (Layte et al., p. 174).

These targets have since been adjusted to reflect the health of the Irish economy, and current global poverty targets are to "reduce 'consistent poverty' to below 5 percent by 2004. Unemployment is to be reduced to below 5 percent by 2002, and long-term unemployment is to be reduced to below 2.5 percent by the same date". (Layte et al., p. 175)

Issues of social welfare and taxation have also been central to national budget negotiations in the past two years. Prior to each of the budget unveilings in December 1999 and 2000 by Irish Minister for Finance Charlie McCreevy, there was heated debate as to the appropriate levels of taxation and social welfare given Ireland's newfound economic success. In December 1999, McCreevy responded to this debate with a budget for 2000 that yielded many taxation and welfare benefits. The total budget amounted to IR£942 million. It included welfare measures that increased old age pensions by IR£7/week to a level of IR£96/week, raised weekly welfare payments by IR£4/week to IR£77/week, increased child benefits, doubled the personal allowances of the aged, blind, widowed, dependent relatives, and incapacitated children, and gave a one-time gift of IR£2000 to Irish citizens who had reached the age of 100. (Parkin, 1999) On the taxation side, the budget for 2000 cut the higher tax rate from 46 percent to 44 percent

and the standard tax rate from 24 percent to 22 percent. In addition, by widening tax bands, McCreevy moved 125,000 people from the upper tax bracket into the standard bracket, and removed 50,000 people from the tax net altogether. Finally, tax allowances for couples were increased by IR£1000 and for singles by IR£500. (Parkin, 1999)

Despite the ostensibly generous welfare and taxation package, many registered complaints with the new budget throughout 2000. Trade unions felt that the package favored the rich and didn't give enough additional resources to the poor. ("Ireland: An Emotional Budget") Spokespeople for the EU, as well as certain members of the Irish government itself, warned that generous tax cuts were likely to lead to increased inflationary pressures that could set Ireland's inflation rates further out of line with EU averages. ("News: Irish Low-Paid...") Children's rights groups (including the Children's Rights Alliance, Combat Poverty, the National Youth Council, and the Society of St. Vincent de Paul) called for increases in child welfare benefits in April 2000, following the release of survey data compiled by the Institute for Public Policy Research that found Ireland the second-worst place in Europe to be a child. In this survey, it was found that 28 percent of Irish children were living below the poverty line, compared with an EU average of 20 percent. In fact, as a result of this survey, Combat Poverty called for an increase in child benefits to IR£30-40/week. ("Analysis: Ireland's Children ...") The government responded in July 2000 by increasing child benefits to IR£100/month (from IR£84/month). However, many maintained that this still wasn't enough for the eradication of child poverty. (O'Connor, p. 6) Also in July 2000, it was reported that studies showed that without the tax breaks provided in the Programme for Prosperity and Fairness (the national pay program outlined for the years 2000-03), those on welfare

would actually have less purchasing power in 2000 than before because of the inflationary effects. (“News: Inflation...”)

Debate over welfare and taxation issues in Ireland continued throughout 2000, and intensified as the time for the release of the new budget for 2001 drew near. Some 28 groups assembled in October 2000 to make social welfare demands on Minister McCreevy for Budget 2001. (Holland, p. 6) In November 2000, citing the statistic that Ireland was ranked 17th on a poverty index of 18 industrialized nations, the Council for Religious in Ireland (CORI) asserted that social welfare benefits should be benchmarked at 50 percent of average incomes in order to improve Ireland’s poverty situation. This would lead to weekly welfare payments of IR£92 for 2000, and IR£100 in 2001. (O’Halloran, p. 13)

As a result of these demands and the continued success of the Irish economy (the budget registered a record surplus of IR£3.5 billion in 2000), on December 6, 2000, McCreevy announced a budget that was even more generous than Budget 2000. Totalling IR£2081 million, Budget 2001 was comprised of IR£1231 million in tax cuts, and IR£850 million in social welfare expenditure. The tax cuts brought the higher rate from 44 to 42 percent, and the lower rate from 22 to 20 percent. Tax bands were further widened which left only 23 percent of the population in the higher tax bracket (compared to 40 percent in 1999) and removed 150,000 from the tax net altogether. Changes in social welfare expenditure included increasing weekly welfare payments from IR£77 to IR£110 (well above the IR£100 recommended by CORI in November), weekly old age pensions from IR£96 to IR£106, and the child benefit by IR£90/month over three years. In addition, the elderly were given free access to TV and telephone licenses, as well as gas and electric allowances. (Parkin, “Minister...”)

Protecting Those at the Bottom

As mentioned above, one of the effects often associated with a period of rapid economic growth is widening income inequality. Rapid economic growth has surely been the case in Ireland in recent years. What about those at the bottom of the distribution? Have they been left behind in Ireland's surge for prosperity? These are not idle questions. If the Irish government allows the Irish poor to fall behind, Ireland's economic growth may not be sustainable. Therefore, it is imperative to understand where the poor stand in Ireland, what their prospects are for the future, and what, if anything, needs to be done to improve their situation. In the Irish case, it turns out that the outlook for the poor is quite positive.

In terms of general income patterns, the widening of inequality that Ireland has experienced along with its economic growth has clearly been characterized by income growth at the top of the income distribution, rather than a falling out at the bottom. Both the Gini coefficient and income deciles can be used to measure income inequality. The Gini coefficient is a statistical measure derived from the ratio of income accruing to some percentage of the population to the total population examined. As such, if everyone in the population earned an identical income, the Gini coefficient for that population would be zero. Alternatively, if all income went to one individual, the Gini coefficient would be one, denoting complete inequality. Thus, the higher the Gini coefficient, the greater the degree of income inequality present in a population. (Filer et al., p. 580) Income decile analysis is a method used to examine income distribution across a population in which the share of total income accruing to a given 10 percent of the population (the bottom 10 percent, the next 10 percent,... top 10 percent) is determined. (Nolan and Maitre, p. 150)

Table 1**Decile shares of Disposable Income among Households, 1973-1994/95,
Household Budget Surveys**

Decile	1973	1980	1987	1994/95
Bottom	1.7	1.7	2.2	2.1
2	3.3	3.5	3.7	3.5
3	5.0	5.1	5.0	4.8
4	6.5	6.6	6.3	6.0
5	7.8	7.9	7.6	7.6
6	9.2	9.3	9.2	9.2
7	10.9	11.0	11.0	11.3
8	13.0	13.0	13.4	13.6
9	16.2	16.2	16.5	16.7
Top	26.4	25.7	25.1	25.1
All	100.0	100.0	100.0	100.0
Gini	0.367	0.360	0.352	0.362

Source: Nolan, Brian and Bertrand Maitre. "Income Inequality" in *Bust to Boom: The Irish Experience with Growth and Inequality*. Brian Nolan, Philip J. O'Connell, and Christopher T. Whelan, eds. Dublin, Ireland. ESRI 2000. p. 151.

Using information from the Household Budget Survey¹, the data in Table 1 suggest an overall reduction in income inequality in Ireland during the period 1973-80 (as measured by the Gini coefficient as well as by income decile analysis). In 1973, the Gini coefficient was 0.367. By 1980, it had fallen to 0.360. Also, in 1973 the second and third income deciles registered 3.3 and 5 percent shares of disposable income, while the top decile held 26.4 percent. By 1980, these shares had shifted to 3.5 percent, 5.1 percent, and 25.7 percent respectively, indicating a shift in resources from the top to the lower deciles. Further reduction in inequality occurred from 1980-87, as illustrated by the Gini coefficient falling further, to 0.352, and income again shifting slightly from the top decile to those at the bottom. During this period, the bottom decile gained 0.5

¹ The Household Budget Survey is a survey reporting detailed income data, conducted nationally by the Central Statistics Office in Ireland in 1973, 1980, 1987, 1994/95. (Nolan and Maitre, p. 148)

percentage points in disposable income, while the top decile lost an additional 0.6 percentage points. (Nolan and Maitre, p. 151)

However, when we turn to the period after 1987, we see a rising Gini coefficient, as well as shifts in income distribution among the deciles that illustrate rising inequality. During this period, the Gini rose to 0.362 in 1994 and the bottom four deciles all lost percentage shares in disposable income, while the seventh, eighth, and ninth deciles increased their shares. The top decile remained stationary during this period. (Nolan and Maitre, p. 151) (See Table 1)

Table 2

**Decile Shares of Disposable Income among Households, 1994 and 1997,
Living in Ireland Surveys**

Decile	1994	1997
Bottom	2.3	2.1
2	3.3	3.3
3	4.6	4.5
4	6.0	6.0
5	7.4	7.7
6	9.1	9.5
7	11.1	11.2
8	13.5	13.4
9	16.5	16.5
Top	26.4	25.8
All	100.0	100.0
Gini	0.377	0.374

Source: Nolan, Brian and Bertrand Maitre. "Income Inequality" in *Bust to Boom: The Irish Experience with Growth and Inequality*. Brian Nolan, Philip J. O'Connell, and Christopher T. Whelan, eds. Dublin, Ireland. ESRI 2000. p. 154.

Turning to the period most relevant to our discussion, 1994-97 (when rapid economic growth in Ireland commenced), one would expect to see a large jump in income inequality, following the general pattern. (Nolan and Maitre, p. 151)

Surprisingly, however, this was not the case in Ireland. Using data from the Living in Ireland survey², the data in Table 2 indicate that the Gini statistic fell from 0.377 in 1994³ to 0.374 in 1997 (Nolan and Maitre, p. 154). During this same period, the middle deciles increased their shares of disposable income at the expense of the top decile. In 1994, the fifth and the sixth deciles held 7.4 percent and 9.1 percent shares of disposable income, while the top decile accounted for 26.4 percent. By 1997, the shares were 7.7 percent, 9.5 percent, and 25.8 percent respectively. Thus, both the Gini coefficient and income decile analysis indicate a fall in income inequality in Ireland from 1994 to 1997. (Nolan and Maitre, p. 151)

When compared with its fellow OECD members in successive income data studies (using data from the 1980's and early 1990's), Ireland's relative income distribution improved. In an earlier study conducted by Atkinson, Rainwater, and Smeeding for the OECD, Ireland had a Gini coefficient of 0.33 for the mid/late 1980s, which was higher than that of all other nations examined except for the U.S. (Nolan and Maitre, p. 158) The results of this study are presented in Table 3.

² The Living in Ireland Survey is the Irish component of the European Commission Household Panel Survey. This household survey gathers data on income levels, labor market activity, and family situation in most member states of the EU. ("European Community Household Panel.")

³ The difference in value between the Gini coefficient found for 1994 from the Household Budget Survey and that found for 1994 from the Living in Ireland Survey results from the timing of the fieldwork involved in data collection, particularly with respect to farm incomes. (Nolan and Maitre, p. 152)

Table 3**Gini Coefficient for the Distribution of Disposable Income Among Persons, Various Countries, Mid/late 1980's**

Country	Year	Gini
Australia	1985	0.295
Belgium	1988	0.235
Canada	1987	0.289
Finland	1987	0.207
France	1984	0.296
Germany	1984	0.250
Ireland	1987	0.330
Italy	1986	0.310
Luxembourg	1985	0.238
Netherlands	1987	0.268
Norway	1986	0.234
Portugal	1989/90	0.310
Spain	1990/91	0.310
Sweden	1987	0.220
UK	1986	0.304
USA	1986	0.341

Source: Nolan, Brian and Bertrand Maitre. "Income Inequality," in *Bust to Boom: The Irish Experience with Growth and Inequality*. Brian Nolan, Philip J. O'Connell, and Christopher T. Whelan, eds. Dublin, Ireland. ESRI 2000. p. 158.

But a later study, conducted by the European Commission Household Panel (ECHP), showed that although inequality had increased slightly in Ireland through the late 1980's and early 1990's (by 1993 the Gini coefficient for Ireland had risen to 0.34), this increase was less than that of many other nations. While Ireland's Gini coefficient rose by only 0.01, by 1993 the Gini values for Belgium, Germany, Luxembourg, Portugal, Spain, and the U.K. had risen by between 3 and 8 percentage points. In fact, according to the ECHP survey, by 1993 Ireland had a lower Gini coefficient than both Portugal and the U.K., whereas in the first study its Gini had been higher than that of both those nations. (Nolan and Maitre, p. 159) These figures are presented in Table 4.

Table 4**Gini Coefficient for Distribution of Disposable Income Among Persons, Various Countries, 1993.**

Country	Year	Gini
Belgium	1993	0.28
Denmark	1993	0.22
France	1993	0.31
Germany	1993	0.29
Greece	1993	0.35
Ireland	1993	0.34
Italy	1993	0.32
Luxembourg	1993	0.31
Netherlands	1993	0.27
Portugal	1993	0.39
Spain	1993	0.34
UK	1993	0.35
Average	1993	0.31

Source: Nolan, Brian and Bertrand Maitre. "Income Inequality," in *Bust to Boom: The Irish Experience with Growth and Inequality*. Brian Nolan, Philip J. O'Connell, and Christopher T. Whelan, eds. Dublin, Ireland. ESRI 2000. p. 159.

We find still more evidence that Ireland's growth has been characterized by rapid growth at the top rather than by a falling out at the bottom when we look more closely at the poor in Ireland. Incomes of the Irish poor improved absolutely over the period 1987-97. This can be illustrated by indexing the 1987 half-average-income poverty line to increases in prices over the decade 1987-97. This poverty line is determined by averaging national income and then halving that figure. While in 1987 about 20 percent of the population fell below the poverty line, in 1997 only 7 percent fell below the indexed 1987 poverty line, illustrating that *absolute* prosperity throughout the population had improved over the decade. (Layte et al., p. 166) However, it is also apparent that the poor's *relative* position in Ireland worsened during 1994-97. This can be seen by examining the percent of households falling below relative income poverty lines. Using

data from the ESRI samples of 1994 and 1997, relative income poverty lines were constructed at 40 percent, 50 percent, and 60 percent of average household income. From 1994 to 1997, the percent of households below each of these poverty thresholds increased by at least 2 percentage points. (Layte et al. p. 165) Therefore, although incomes of the poor rose in absolute terms during the period of rapid economic growth, they lagged behind the growth in incomes of the rich.

In addition to determining the number of households located below poverty thresholds, it is also important to estimate how far the poor are falling behind the rich. (Sen, p. 219) In order to determine this, one can use a per capita income gap ratio and a depth-and distribution-sensitive measure of poverty that give additional weight to those with the largest income gaps. A per capita income gap ratio is a measure that calculates the mean distance that the poor have fallen below a given constructed poverty line. In this way, it determines the severity of poverty for the poor, but is insensitive to the number of people included in the poverty measure. (Sen, p. 223) A depth-and distribution-sensitive measure of poverty is defined as “a (normalized) weighted sum of the income shortfalls of the poor.... [The level of] deprivation depends on the distance between a poor household’s actual income and the poverty line, not the number of households that lie between a given household and the poverty line.” (Foster et al., p. 762) In Ireland between 1994 and 1997, both the per capita income gap and the weighted gap rose sharply. Indeed, after having fallen during the 1980’s and early 1990’s, they were in some cases back above the levels measured using data from the 1973 Household Budget Survey. (Layte et al. p. 165) That is, as some people’s incomes skyrocketed, others increased only marginally, pushing them farther below poverty lines.

Looking at the above data, an obvious question arises. If the situation of the poor improved absolutely, then why does it matter if they did not gain as much as the rich?

Although some might argue that relative differences in prosperity are immaterial, as long as there exists a certain level of poverty below which people are not allowed to fall, it is this author's opinion that relative gains do matter. To quote John Kenneth Galbraith:

But just as it is far too tempting to say that, in matters of living standards, everything is relative, so it is wrong to rest everything on absolutes. People are poverty-stricken when their income, even if adequate for survival, falls radically behind that of the community. (Galbraith, p. 286)

In Ireland's case, a worsening of relative poverty could conceivably lead to social unrest and civil strife as individuals' expectations are adjusted to reflect societal norms. In addition, the Irish poor represent a lost opportunity for Irish success. If workers remain underutilized because of lack of opportunities, Irish GDP and living standards will not be as high as they might be with full use of Irish labor resources.

The Irish government cannot let inequality between the rich and the poor proceed unchecked. In dealing with this issue, welfare policy comes into play. In order to manage poverty and income inequality, the government should at least ensure that poverty thresholds keep pace with the growth in average incomes. This has not always been the case in recent years. From 1994-97, average household income rose by about 10 percent in real terms, while most social welfare rates rose by about half as much. (Callan and Nolan, p. 185) Although the 2001 budget greatly increased social welfare rates, no commitment has been made as of yet to index them to average incomes. Such an effort will not be easy. Ireland's success can largely be attributed to the influx of foreign capital into the nation. Although Ireland has internalized some of the technological know-how associated with this capital influx, it is still very dependent on the continued

presence of outside companies for economic success. Because of this, Ireland cannot afford to fund its welfare state through high corporate taxation and risk driving foreign multinationals elsewhere. Alternatives to increased corporate taxation include more sales taxes or increased value-added taxation. These taxes will tax consumers in Ireland as well as intermediaries in the production process.

Conclusion

A picture of the inequality accompanying Irish economic growth emerges. The rich are getting richer. The poor aren't getting poorer; however, their lot is not improving as rapidly as that of the wealthy. Taking everything into account, Ireland so far seems to have escaped the worst of the growing inequality problem normally associated with rapid economic growth.

However, the Irish government cannot allow Ireland's economic success to stand on its own. It should take one step further in its social welfare programs and benchmark social welfare rates to average incomes. This will ensure that those with the lowest incomes in Ireland do not fall extremely far behind those with the highest. Also, in funding social welfare, Ireland must make sure that it does not reduce its international competitiveness. It needs to successfully strike a balance between state and market, so that it remains an attractive place for foreign investment. In so doing, the Irish government should not strive to achieve a welfare state that is as extensive as some of those in the European Union. If the Irish government can strike this delicate balance, it will be one step closer towards realizing the full potential of the Irish people.

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Abstract

Ireland's recent economic growth has caused many to wonder if income inequality in the nation is on the rise. This article examines recent income inequality trends in Ireland, social welfare efforts employed to combat rising inequality, and the extent to which these efforts have been adequate.

Bibliography

Ashley Weber graduated with high honors from Lehigh University in June 2001 with a Bachelor of Science degree in finance and a Bachelor of Arts degree in international relations. While at Lehigh, Ashley was a member of the Roy Eckardt College Scholar program, and graduated with departmental honors for her research in international relations. She was also inducted into Phi Beta Kappa, Phi Eta Sigma, and Beta Gamma Sigma Honor Societies. She is currently pursuing a career in asset management at Douglas C. Lane & Associates while living in New York City.