

Measuring Poverty in Ireland: An Assessment of Recent Studies

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Abstract: The economic debate preceding the Irish Budget in 1989 was dominated by claims that one-third of the population lives in poverty. The Combat Poverty Agency (CPA)/ESRI study (September, 1988) was cited in support of the claims. This article examines the issues involved in the measurement of poverty such as absolute and relative poverty, the use of disposable or final income, the inclusion of non-cash benefits, adult equivalence scales, understatement of income in surveys, failure to satisfy means tests, inequality in major consumption items and the treatment of assets. The CPA/ESRI results are compared to those of the NESC and CSO which indicate a less critical position in regard to poverty and inequality. Ireland's social welfare record is briefly reviewed.

I INTRODUCTION

The Combat Poverty Agency/ESRI *Report on Poverty and the Social Welfare System in Ireland* (1988) and the NESC *Report on Redistribution through State Social Expenditure in the Republic of Ireland 1973-1980* (1988) provide much interesting material on income distribution in Ireland. This will be further increased when the material from the 1987 Household Budget Inquiry becomes available in 1989-90. The CPA/ESRI report drew strong support from poverty lobbyists before the 1989 Budget and particular emphasis was made on the poverty of 33.5 per cent of the population (p. 22).

The CPA/ESRI report examined the disposable household incomes of 1987 of 3,301 households surveyed. Its poverty estimates were based on the number of households with disposable incomes below 40 per cent, 50 per cent and 60 per cent of mean household equivalent income. The equivalence scale used was one for the household head, 0.7 for each adult and 0.5 for each child. Both the equivalence scales and the three poverty lines were adopted from a study by the EC Commission and covering all Community countries. According to the EC methodology the proportion of persons in poverty is either

12.8 per cent, 22.9 per cent or 33.5 per cent depending on whether the 40 per cent, 50 per cent or 60 per cent poverty line is used. The numbers below the poverty line in each case are 453,000, 811,000 and 1,186,000. "The most important findings are that the percentage of households falling below the poverty line has risen between 1980 and 1987 and the percentage of persons in these households has risen more rapidly, irrespective of which of the three lines we choose" (p. 23).

II POVERTY AND INEQUALITY

The EC methodology measures inequality rather than poverty. However, measures of inequality are repeatedly taken as measures of poverty in the text. Sixty per cent of the average household disposable income in Switzerland would place a household in poverty according to this methodology. The measure would record no poverty in a low income society with an egalitarian distribution of income. The authors cite Piachaud (1981) that "the search for an objective or scientific method of measuring poverty which could command universal acceptance has been compared with that for the 'Holy Grail'" (p.20). They state that

an "absolute" conception of poverty clearly is still of critical importance in many countries. In developed countries, though, ensuring that everyone has the absolute minimum — in terms of nutrition, clothing and housing for example — though still relevant, would not generally be seen as sufficient to eradicate poverty (p. 12).

A programme which met these requirements would exhibit high target efficiency from the perspectives of both horizontal and vertical equity. Those outside the target group would not benefit and all those within the target group would benefit. The authors dismiss too lightly the value of this type of analysis in the design of poverty alleviation programmes.

The CPA/ESRI report states that "an extreme view sees poverty as synonymous with inequality" (p. 15). In fact the report itself adopts this position in order to comply with the EC methodology. Households experiencing a real increase in incomes might be classified for the first time in poverty if average households received a larger proportionate increase. In absolute terms, however, they are better off.

III INCOME

The income concept used by the CPA/ESRI report is disposable household income. This is the sum of direct income from work and property plus state transfers less direct taxes. This concept of income excludes two further steps used by the CSO and the NESO. These bodies adjust disposable income for

the non-cash social services and indirect taxes paid. The exclusion of both indirect taxes and the non-cash social services from the concept of income was made because of the EC Poverty Programme. The methodology is incorrect since the report states that "we focus mainly on disposable income, since this is the most directly relevant to spending power or 'command over resources' which determine a family's standard of living" (p. 9). The CSO/NESC view is that indirect taxes do not represent command over resources by the purchaser and that the possession of housing, health and education entitlements is command over resources. The deduction of indirect taxes and the addition of non-cash benefits is therefore used by the CSO/NESC as a better indicator of command over resources than disposable income.

IV ADULT EQUIVALENCE SCALES

The adult equivalence scales used are critical given the finding that "Households with children were found to have a relatively high risk of poverty in 1987 with a substantial increase in the risk since 1980" (p. 51). The EC equivalence scale was 0.5 of the adult scale. This contrasts with the CSO/NESC scale of 0.25 for those aged 0-4, 0.38 for those aged 5-13 and 0.53 for those aged 14-20, an unweighted average of 0.399. The equivalence derived from actual expenditure data in the 1980 HBS was 0.327. The EC equivalent scale is therefore 25 per cent greater than that previously used by the CSO/NESC studies and 53 per cent greater than that indicated in actual expenditures in the HBS.

V RESULTS AND METHODOLOGY DIFFERENCES

The exclusion of non-cash benefits and indirect taxes and the use of higher equivalence scales for children make the CPA/ESRI study different from earlier work by the CSO/NESC methodology. The results also differ. Thus the CPA/ESRI report states that "the percentage of persons under each line has increased more sharply between 1980 and 1987, by between 2 and 4 per cent, having also shown an increase from 1973 to 1980" (p. 23). On the other hand, the NESC report (1988) states that over the 1973-80 period:

the policies of successive governments did, despite limited coherence to their efforts, result in direct taxation and cash transfers becoming more progressive in their distribution. This meant that State policy in those areas compensated for rising inequalities in direct income. When we look at the impact of indirect taxes and transfers, the results are more impressive still. The effect was to decrease the level of income inequality in final income quite significantly, and to do so in a period during which inequalities based on the market were rising. Whereas the combined effect of indirect taxes and benefits shifted resources from the poor to

the rich in 1973, in 1980 it was redistributing from high to low income groups (p. 148).

The NESC offers "a number of general and very tentative observations which taken together might point to the latter (1980-87) period as one of greater redistribution" (p. 166). The NESC points to rapidly rising taxes and transfers, the relative increase of cash compared to non-cash transfers and the increasing redistributive impact of health, housing and education expenditures as evidence to support its assessment of the period 1980-87 as one of greater redistribution.

The use of higher child equivalence scales and the exclusion of non-cash benefits obviously worsen the position of households with children by overstating costs and ignoring education and health benefits, when compared with the NESC/CSO studies. Applying the EC disposable income criterion to the 1980 CSO data, and comparing the results with those using final income, shows that with final income both inequality and poverty were reduced.

In 1980 the bottom decile had a disposable income of 29.5 per cent of the average and 14.7 per cent of the top decile. When final incomes are compared, the bottom decile rises to 50.9 per cent of average and 31.4 per cent of the top decile (NESC, p. 205). Non-cash programmes are important in the overall redistributive picture in Ireland. In the 1980 NESC study the non-cash programmes cost £1,620m, or 71 per cent more than social security and welfare spending. NESC indicates that health, education and housing have become more redistributive. The redistributive impact of indirect taxation in 1980 is shown in the payment by the bottom income decile of £1.87 tax on a disposable income of £31.41, compared to £50.47 tax on a disposable income of £214.17 in the top decile and £18.95 tax paid by the average household on disposable income of £106.46. The tax rate on the lowest decile was 6 per cent of income, compared to 18 per cent on average income and 24 per cent in the highest decile.

The combined impact of the move from disposable to final income is to raise the income of the bottom decile by 75 per cent, compared to 2 per cent for average incomes and to reduce incomes by 18 per cent for the top decile because such households pay more indirect taxes and benefit less from the social services than their share in the population.

Taking average final income of £106.46 and applying the EC poverty lines to this definition of income, the targets become £43.34 at the 40 per cent line, £53.23 at the 50 per cent line and £63.88 at the 60 per cent line. The first poverty line is exceeded by the average income in the bottom decile by 27 per cent. The second poverty line is exceeded by the average in the bottom decile by 4 per cent and the highest poverty line is some 16 per cent above the average income in the bottom decile. The poverty/inequality indicated by using the

final income concept is confined to well within the bottom decile, to slightly less than the bottom decile and the bottom decile and a half, depending on the poverty line used. In each case this is substantially below the numbers in poverty when disposable income is the criterion used.

VI UNDERSTATEMENT OF INCOME

The NESC report No. 85 (June, 1988) states that "understatement of earned income is found in all survey-derived income data" (p. 59). Murphy (1984) states that "the greatest problem, of course, is the understatement of income which characterises all direct income surveys of the HBS type. . . . Unfortunately, there is no reliable basis for determining the extent of income understatement or, more importantly, the degree to which it varies between different income sources and types of households. One approach is to compare total income with total expenditure. Expenditure exceeds income at all levels." Average expenditure per household in the 1980 HBS was £127.50. This exceeded average reported income of £106.46 by 20 per cent. In the case of the four HBS categories accounting for the bottom 26.7 per cent of households by income the average expenditure reported was £54.55 or some 50 per cent greater than the weighted average of the incomes of the four categories of £36.42. The degree of excess of expenditure over income is therefore greater at lower incomes. Applying the 40 per cent poverty line to expenditure per household gives a target of £51.00. At that level the expenditures indicate living standards 50 per cent higher than those indicated by the report income data.

Support for the hypothesis that there was substantial under-reporting of income at this level to the ESRI is seen in the analysis by the report of two means-tested schemes, supplementary welfare allowance and family income supplement. The ESRI estimates that the take-up rate by persons reporting incomes which qualify for supplementary welfare allowance was "somewhat below 50 per cent" (p. 64). For family income supplement the take-up rate was "22 per cent of eligible families, or 40 per cent of the money amount potentially payable to them" (p. 66). The low take-up rate may be due to lack of knowledge or administration defects as well as "the time, effort and perceived stigma attached to receiving certain means-tested benefits" (p. 67). It may also indicate an inability to persuade an independent referee of the veracity of a reported disposable income.

The expenditure patterns recorded by the CPA/ESRI report examined twenty "style of living" indicators and found that "significant numbers of 'poor' households have low deprivation scores while high deprivation scores are recorded by the non-poor" (p. 35). Table 1 divides these commodities into three groups. In the case of nine commodities those on unemployment benefit did better than households as a whole. For seven commodities the unemploy-

ment benefit households did slightly worse than households as a whole, while in four commodities they had ownership rates some 10 per cent or more below households as a whole. The expenditure of households on these items shows less inequality than in the income sections of the report.

Comparison of the data in the 1987 style of living indicators and the 1980 HBS also shows reduced inequality. For example, colour TV increased from 51 per cent to 87 per cent of all households, central heating from 29 per cent to 55 per cent of households and phones from 32 per cent to 52 per cent of households.

Table 1: *Style of Living Indicators, 1987*

<i>1. Unemployment Benefit Households do Better than All Households</i> (9 commodities)		
	<i>Unemployment Benefit</i> (%)	<i>All Households</i> (%)
Fridge	98	95
Washing Machine	87	80
Colour TV	87	80
Dry Dwelling	93	90
Indoor Toilet	95	93
Bath/Shower	95	91
Meat/Chicken/Fish	89	87
Roast once a week	79	76
Presents for friends and family	78	76
<i>2. All Households have a Margin Over Unemployment Benefit</i> <i>Households of 6 Per Cent or Less</i> (7 commodities)		
Car	51	53
Heating	96	97
Daily Newspaper	53	55
New Clothes	86	90
Raincoat	81	87
Two Pairs of Shoes	78	84
Hobby	61	67
<i>3. All Households have a Margin of 10 Per Cent or More</i> <i>Over Unemployment Benefit Households</i> (4 commodities)		
Telephone	38	52
Central Heating	45	55
Holiday	21	32
Able to Save	27	43

Source: ESRI Report, Table 7.3.

VI TREATMENT OF ASSETS

Assets were not taken into account in the CPA/ESRI report. This fails to distinguish between households with the same disposable incomes but with differing asset portfolios. The NESR report (p. 196) showed that in the lowest income quintile in 1980 some 54.6 per cent of households owned their dwelling outright, compared to 34.8 per cent in the highest income quintile. The CPA/ESRI report found that 23.2 per cent of those under the 50 per cent line in 1987 were farmers (p. 49). Including those with assets such as houses and land in the poverty category ignores the ability of these assets to produce a return.

VII THE CONTEXT

The weakest aspect of the CPA/ESRI study is its failure to place its recommendations on social welfare in context. The NESR Report (p. 164) provides that context. Social welfare as a proportion of GNP increased from 10.4 per cent in 1980 to 15.3 per cent in 1987. The real value of the contributory old age pension rose by 24.1 per cent, unemployment benefit and disability benefit by 13.1 per cent and child benefit by 42.6 per cent. By contrast, real average earnings in 1986 had not recovered to 1980 levels. After-tax pay had fallen since tax rose from 29.1 per cent to 37.4 per cent of GNP and personal taxes from 38.7 per cent to 43.33 per cent of total taxation between 1980 and 1987. Real GNP *per capita* fell from £2,614 in 1980 to £2,498 in 1986 at constant 1980 prices.

The lack of a reference to this context in the CPA/ESRI report influenced many to call for social welfare increases of as much as 25 per cent in the 1989 Budget. The consequences of such an increase for tax rates, poverty traps, work incentives, interest rates and the public finances would have been severe and placed at risk the improvements then and currently taking place in the Irish economy.

We have seen that the EC has imposed a methodology which begs many questions about poverty, poverty lines, equivalence scales, non-cash benefits and indirect taxes. The CPA supplied a preface to the ESRI report which included in its recommendations "more flexibility in the availability for work conditions and less frequent 'signing on' (p. vii), deferral of tax cuts except for the lowest paid, and a statutory minimum wage" (p. ix) (to increase take-home pay). The ESRI report is scrupulously neutral in not coming down on the side of any of the three poverty lines but the CPA chose the highest line. It is a matter of some regret that the ESRI failed to clarify its position when the sponsoring agency chose to highlight the highest number rather than

the others which were equally valid. With a crusading sponsor, an inappropriate EC methodology and a silent ESRI, the report could have done serious harm to the Irish economy. It did not, however, influence the 1989 Budget. The welfare increases were selective and small overall, while progress towards lower borrowing and taxation was maintained.

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