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EXECUTIVE SUMMARY

Overview

This study examines options for the future development of the Irish welfare state, with a view to tackling low income and deprivation more effectively. It draws on existing national and cross-country evidence as well as providing new analyses to inform policy debate in this area. The impact of alternative policy choices is explored using *SWITCH*, the ESRI tax-benefit model.

There are four main parts to the study.

1. The structure of Ireland's welfare state is put in international context, and a review of demographic developments and prospects helps to clarify the nature of future challenges for the system.
2. Policy issues arising for the main "vulnerable groups" identified in the National Action Plan for Social Inclusion are then considered in depth.
3. The way in which risks of poverty and deprivation are structured across regions and areas is then examined; this has important implications for what can and cannot be expected from area-based policies.
4. Finally, the potential impacts of alternative large-scale policy reform packages are explored.

Ireland is one of a small number of countries to have set an explicit target for poverty reduction The overall target in the *National Action Plan for Social Inclusion* is framed in terms of "consistent poverty". This measure, designed to identify those who are suffering basic deprivation due to lack of resources, is currently defined as individuals falling below 60 per cent of median income and deprived of two or more items from a list of 11 basic necessities. The official target is:

> To reduce the number of those experiencing consistent poverty to between 2 per cent and 4 per cent by 2012, with the aim of eliminating consistent poverty by 2016. (Ireland, 2007, p. 13.)

Broader measures of poverty are also of interest, particularly when designing policy for the longer term. The most widely used approach in international comparisons is to focus on the proportion of the population falling below certain fractions of median income. The EU has termed these "at risk of poverty" indicators, recognising that not all of those falling below such income cut-offs would be classed as "poor". The "at risk of poverty" measures automatically ensure that poverty standards rise in line with real income growth. Adjustment of the consistent poverty yardstick over time involves, in addition, revision of the items included in the index of basic deprivation. As a result, there may be discrete changes in consistent poverty as the items employed to capture deprivation are changed. Given this, the "at risk of poverty" measures provide valuable

information on trends complementing what is possible with the consistent poverty method.

In this study, we pay particular attention to the "at risk of poverty" measure for practical reasons. When assessing proposed policy changes it is possible, using a tax-benefit model, to simulate the first-round impact of tax and welfare policy changes on disposable incomes and on measures of financial work incentives. These changes in disposable income may, of course, have an impact on deprivation. But this indirect effect cannot be readily quantified, so in this study we focus mainly on the impacts on income and financial work incentives. Research addressing the issue of the impact of changes in welfare policy on consistent poverty has begun recently and will complement the findings of the present study.

Context

INTERNATIONAL CONTEXT

We begin by examining how welfare spending in Ireland compares with that in other EU countries, and how Irish welfare spending has changed over time. Ireland is seen to have a particularly low level of social protection spending as a proportion of national income, with the shortfall compared with the EU average mostly concentrated in the area of old age pensions. Only a part of this gap is explained by differences in population structure. Overall social protection spending as a proportion of GDP was 9 percentage points below the EU-15 average in 1990; by 2000 this had widened to 13 percentage points, and in 2004 it had narrowed to under 11. Despite this, Ireland's relatively high income means that it is in the top half of the EU when ranked by social protection spending per head. Over the entire period 1990 to 2004, social protection expenditure more than doubled in real terms, faster than any other member of the EU-15. This brings out the complex mix that must be taken into account in seeking to understand and assess the evolution of social protection expenditure in what was a most unusual macroeconomic context, and serve as background to the analysis of policy options at the level of contingencies and schemes.

The proportion of persons "at risk of poverty" in Ireland is among the highest in the EU. Simulation analyses show that differences in the age profile, the pattern of labour force participation, and household composition do not play the major role in observed cross-country variation in the percentage "at risk of poverty". Differences in tax and welfare rates and structures are more important. Given this, there is particular interest in cross-country comparisons aimed at identifying potential strategies for reduction in poverty risk, while maintaining an efficient labour market. Sapir (2005) identifies the Scandinavian model as one which attains both efficiency (in terms of high employment rates) and equity (low risks of poverty). Successful anti-poverty policy requires both enhanced education and employment opportunities and improved income supports – neither is enough on its own. Countries such as Denmark and the Netherlands have sustained both high employment and a comprehensive welfare system ensuring that those without income from employment have an adequate income. Over the last decade Ireland has successfully made the transition to high employment and low unemployment rates. The experience of other EU countries suggests that it is possible to combine these achievements with low "at risk of poverty" rates, with a system that encourages active participation in the labour market, while providing a comprehensive safety net and higher rates of welfare payment relative to average incomes.

DEMOGRAPHIC FACTORS

Ireland has seen major changes not only in its economic fortunes but also in its demographic and socio-economic profile over recent years, as a result of dramatic developments in migration but also more subtle longer-term trends. Ireland is distinctive in having substantially more children and fewer older people in the population than many other EU countries, with the share of the proportion of working age close to the EU average. Ireland has not yet experienced the "greying" of the population seen in some other rich countries. However, there has been a marked decline in the share of the population made up by children: the share of the population aged 0-14 years peaked in the 1960s, declined slowly until the mid-1980s, and fell sharply from then until 2002, with the recent Census showing it has been stable since then.

Childbearing has become increasingly concentrated among women aged in their 30s, with declines for other age groups. There has also been a marked fall in the number of children per family and the number of families with three or more children – although this is still high compared to other countries. A rapid increase in the share of fertility occurring outside of marriage began in the 1980s and continued through the 1990s, approaching one-third of births in 2000. This has been one factor associated with a sharp rise in lone parenthood – a rise in marital breakdown also being an important factor. Ireland now has a high proportion of lone parent households compared with other EU countries, though less than the UK.

Turning to older people, 11 per cent of the population was aged 65 years or over in 2006, no higher than in the early 1960s, whereas in the EU-15 that percentage rose from 12 per cent in 1970 to 17 per cent in 2004. However, it is expected that a similar rise will take place in Ireland over the next 20 years or so. Given expected migration patterns, there would also be further increases in succeeding decades. There is a growing tendency for older people to live apart from their children or other relatives, in Ireland as in other rich countries, but the proportion who never married has fallen.

Ireland's economic boom has also had a pronounced impact on migration flows in and out of the country, with the net inflow of immigrants increasing from 8,000 a year in 1996 to 53,000 a year in 2005. The composition of migratory flows to Ireland has also become increasingly diverse, with fewer coming from the UK and the US and many more from the rest of the EU and the rest of the world, and with a relatively young age profile.

Vulnerable Groups

The National Action Plan on Social Inclusion identifies a number of vulnerable group of particular interest from the point of view of anti-poverty policies. Six vulnerable groups (lone parents, children, older people, persons with a disability, unemployed people and the "working poor") are examined in depth here using household survey data; some other groups, such as travellers and the homeless, are highly vulnerable but form such a small proportion of the general population that their situation is not well represented by general survey data such as that which forms the basis for this study.

LONE PARENTS

European and worldwide comparisons show that Scandinavian countries have the lowest risks of income poverty for lone parents. This is achieved by a system of activation which promotes employment for all, and supports for employment including a comprehensive childcare system, as well as education and training. The UK has reduced risks of poverty for lone parents substantially, but the risk facing UK lone parents still remains at the high end of the EU scale. The structure of income supports and activation for lone parents proposed in the Government's 2006 discussion document is in line with best international practice, as exemplified by Norway and the Netherlands. Much depends, of course, on the implementation of the approach. The proposals note that "Introduction of an activation requirement is predicated on childcare supports being available". This is a critical issue. While childcare structures and policy have been developing in recent years, they are still far from the fully developed systems found in Scandinavia. There must be a linkage between childcare provision and activation provisions, so that what is sought in terms of activation is in line with the possibilities afforded by the childcare structures.

Another key decision in the design of the system is whether activation or a work-test is to be voluntary or compulsory. In the Scandinavian countries activation is typically compulsory, not just for lone parents but for all social assistance beneficiaries. This is in the context of an excellent and fully fledged childcare system, making it possible for families, including lone parent families, to combine work and care. This context does not (yet) exist in Ireland. In the UK (where the childcare system is perhaps more developed than in Ireland, though less so than in Scandinavia) the New Deal for Lone Parents operates on the basis of *voluntary* participation. Again, this contrast suggests that the extent of compulsion needs to be linked to the extent of childcare provision.

CHILDREN

There are strong links between child poverty and the overall "at risk of poverty" rate. Countries with the best record on the reduction of child poverty – the Scandinavian countries – also tend to have the lowest rates of overall poverty. The "best practice" approach to improving EU performance in this area suggests close attention should be given to the policies and structures of the best-performing countries. The logic of the approach is, therefore, that other countries should compare their approaches with those of the Scandinavian countries – which are the best performers in this regard not only in Europe but in global terms. By contrast, much of the debate on child poverty has focused on restructuring income-tested income support for families with children, with attention centering on recent initiatives in English-speaking countries. While some reductions in poverty have been achieved by these initiatives, it is clear that rates of child poverty in the English speaking countries remain above those in most European countries, and well above Scandinavian levels.

This approach is associated with a tendency to view child poverty as a problem to be dealt with, in the main, through child income support. But avoidance of poverty requires that parents have adequate incomes too. Tackling child poverty, therefore, requires a strategy that takes a broad view of welfare income supports, and "activist" measures to increase participation in employment. Solutions lie not with welfare alone, or employment alone, but a combination of both.

OLDER PEOPLE

The "at risk of poverty" rate for older people has varied substantially over time in Ireland. The risk of poverty (at 60 per cent of median income) rose from low levels in 1994 to over 40 per cent around the year 2000. The Irish rate was second highest (to Cyprus) in the EU-25 around the year 2003, and more than double the EU average. The lowest risk of poverty for older people in Western Europe was in the Netherlands, a country with a strong basic pension and mandatory occupational pensions. Despite the high risk of income poverty in Ireland, older people had lower than average risks of consistent poverty. Home ownership, drawing on financial assets and family support contribute to explaining this difference. Increases in payment rates for State Pensions since the turn of the century have contributed to a strong reduction in the risk of poverty for pensioners. Recent Central Statistics Office estimates, based on the Survey on Income and Living Conditions (EU-SILC 2006), indicate that older persons now have a lower "at risk of poverty" rate than the average for the whole population.

One of the issues raised in the Green Paper on pensions is whether tax incentives for pension contributions should be allowed at the individual's marginal rate, as at present, at the standard rate, or at a hybrid rate between the two. We have explored some alternatives to the current tax treatment of pensions, involving the limitation of tax relief on pension contributions and a rise in the State Pension. In our analysis, this limitation applies not only to private sector contributions, but also to the implicit contributions arising from public sector pension schemes. We find that, in a static framework, standardisation of tax relief on all pension contributions (employer and employee, public sector and private sector) offers scope for very substantial reductions in the risk of poverty for older people. There are also alternative uses of the resources, discussed later, which also allow for a broad reduction in risks of poverty. Further work on how these results are affected by likely shifts in the demographic balance is currently under way.

PEOPLE WITH A DISABILITY

People with a disability are particularly vulnerable to poverty and social exclusion. There are particular difficulties in identifying those with disabilities in recent household surveys (with questions determined at European level); the National Disability Survey will shortly give a more accurate portrait of the extent of disability, but with limited information on income or deprivation. However, given that welfare payment rates for disability related payments have trended in line with unemployment payments rather than the special increases in pension rates, we can use the Living in Ireland Survey as a guide to risks of poverty for those with a disability. In the 2001 Living in Ireland Survey, 22 per cent of respondents reported a chronic illness or disability, and almost four-fifths of these adults were in households "at risk of poverty", more than twice the figure for other adults. Similarly, the consistent poverty rate for those reporting a chronic illness or disability was twice the rate for those not doing so. The percentage "at risk of poverty" rose sharply for long-term ill or disabled adults between 1995 and 2001, linked to the extent to which people with illness or disability and the households in which they live rely on social welfare payments as a source of income. The factors underpinning this heightened poverty risk and consistent poverty are complex, with disability having its effects through a variety of channels, starting with its potential

effects on educational attainment and its direct and indirect impact on the individual's working career and perhaps also that of others in household.

In analysing possible policy responses we looked first at the impact of an increase in the level of support provided by the most directly relevant social welfare schemes. We found that a 10 per cent rise in these welfare payment rates would reduce the risk of poverty for those who are hampered by a chronic illness or disability by 8-10 percentage points. The impact of introducing a scheme aimed at covering some of the costs associated with disability was also examined, specifically a scheme paying €20 per week to those reporting that they were severely limited by a chronic illness or disability and €10 per week to those reporting some degree of limitation. This was associated with a fall of 5 and 3 percentage points respectively in the risk of poverty for these groups. Finally, the potential impact of an increase in employment for persons with a disability was explored: a 10 percentage point rise in their employment rate was seen to be associated with a fall of about 3 percentage points in their overall risk of income poverty.

UNEMPLOYED PERSONS

The rapid fall in the Irish unemployment rate, and its positive economic and social effects, have been well documented. There remains, however, a high risk of income poverty and of consistent poverty for those who are unemployed. The "at risk of poverty" rate for those who are unemployed is towards the high end of the international spectrum, exceeded in the EU-15 only by the UK. International best practice confirms that is possible to attain *both* low unemployment and a low risk of poverty for the unemployed. In Sweden, Denmark and the Netherlands the risk of poverty facing the unemployed is about half of that in Ireland and the UK, but the unemployment rate remains low. Strong activation policies are the key to achieving this combination. OECD analysis suggests that Irish activation policy has become very effective, and may now be able to offset the potential negative incentive impact of higher unemployment compensation.

IN-WORK POVERTY AND THE WORKING POOR

Over the decade from the mid-1990s, Ireland has seen very rapid increases in employment and in incomes from employment, but concern about the numbers of "working poor" are being voiced more frequently, both in Ireland and at EU level (e.g., in the Joint Report on Social Protection and Social Inclusion, EU (2006)). The "working poor" may be measured as individuals who are themselves in work and who live in a household that is poor or "at risk of poverty". In the Irish case 7 per cent of adults in work are in households below the 60 per cent of median income threshold, a figure which is close to the EU-15 average. As elsewhere, the percentage below that threshold is very much higher for the self-employed than for employees; the figure is 6 per cent for employees but 16 per cent for the self-employed, neither being particularly high or low compared with other EU-15 countries. The size of the in-work population means that even with a relatively low "at risk of poverty" rate 17 per cent of adults below the 60 per cent threshold are in work. It should be noted, however, that of those falling below the income thresholds, only a small minority of employees, and a smaller proportion of the self-employed are in consistent poverty.

Over the ten years from 1994, in-work poverty risk rose from 5 per cent to 7 per cent, while for employees the increase was significantly greater. This reflects the fact that households where the numbers at work rose saw

particularly marked income increases – with the proportion of married women in paid work rising very rapidly over the period – so households with only one earner could well fail to keep pace with the poverty threshold.

Focusing on policy options aimed at the working poor, we simulated a 10 per cent increase in the National Minimum Wage using the *SWITCH* tax-benefit model, and found that the overall risk of in-work poverty would fall from about 5½ per cent to 4 per cent, while for employees it would fall from 2½ per cent to 1½ per cent. Other policy options explored focused on assisting low-earning households with children. Universal Child Benefit has been very substantially increased in recent years, and simulation of the impact of these increases suggest that they may have had a significant impact in reducing poverty for households with children. The option of a means-tested "second tier" child income support supplement was already been explored, and had the potential to make a significant impact on the risk of poverty for children.

Spatial Issues

Analysis of Census data (2002) shows that deprivation remains a spatially diffuse phenomenon. Significantly greater variation occurs within rather than between spatial units. The Border and Western Regions tend to be the most deprived but the situation varies depending on the particular aspect of deprivation on which one focuses. Generally, spatial variations in risk of deprivation are counterbalanced by a more even incidence of poverty as high risk areas tend to have a lower share of the population. Analysis at the household level using EU-SILC 2005 looking at both "at risk of poverty" measures and at consistent poverty broadly confirms this picture. Focusing on areas defined in terms of population density confirms that both types of poverty were distributed across areas in a fairly similar manner to the population as a whole. Given the diffuse nature of poverty, area programmes cannot be justified on a targeting basis alone.

Poverty and deprivation are much more sharply differentiated by housing tenure. In particular, local authority tenants display distinctive levels of disadvantage in relation to both "at risk of poverty" rates and consistent poverty. This is also true of a range of deprivation dimensions. However, with the exception of neighbourhood problems relating to such matters as crime and pollution there is no evidence that urban local authority tenants are less favourably situated than their rural counterparts. Thus, there is no evidence to support the view that urban 'underclass' or vicious circle contextual effects play an important role in explaining the distribution of poverty and deprivation in Ireland.

The fact that we have found no strong evidence of a causal role for spatial factors means that expectations regarding area-based policies need to be adjusted. If, as we have found, area-based interventions are not likely to be effective in targeting "people poverty", the comparative advantage of such policy interventions may lie in dealing with "place poverty". Recent interventions have shifted towards this focus, encompassing goals such as enhanced neighbourhood infrastructure, improved service delivery and mobilisation of community resources. It is important, however, not to encourage unrealistic expectations that such initiatives can provide solutions to problems that can be addressed only by national policies.

Policy Packages

There remains a substantial gap between risks of poverty in Ireland and those in the EU countries with the best performance in this area. How can this gap be bridged? We have examined the scope for bridging this gap with two simple rate- increasing welfare packages (10 per cent and 20 per cent) and with two packages incorporating structural changes as well as increased welfare payment rates. Here we focus on the package which seems to offer greatest scope for bridging the gap, which involves:

- a *uniform* welfare payment rate across all schemes of €230 per week in 2007 terms. This is similar to the target set in the Programme for Government for older persons, but well above the target for general welfare rates (of €185.50 per week) set in the National Action Plan for Social Inclusion (Ireland, 2007);
- an income-tested Child Benefit Supplement;
- a reorientation of the State's total expenditure on pensions away from tax expenditures for private pensions and towards the State Pension.

The option examined would involve restricting tax relief on superannuation contributions to the standard rate of tax. This applies both to private sector contributions and to the implicit contributions within the public sector scheme, which would need to be made explicit. Net revenue from standardisation would be of the order of €1,500 million per annum. Standard rate taxpayers would be unaffected by the change, while tax liabilities would rise for top rate taxpayers. This aspect of the package can be seen as rebalancing State support for pensions in favour of greater universal support, and less support towards the higher end of the income distribution. Standard rate taxpayers would gain from the increased universal support, and would be unaffected by the standardisation of relief on superannuation contributions. Further work examining how the impact of such policy changes would be affected by the ageing of the Irish population is currently under way.

The direct impact of this package suggests a fall in the risk of poverty from almost 16 per cent to between 10 and 11 per cent. The reduction in risk is greatest for the high risk groups (older people, people with a disability and unemployed persons) for whom risks fall from about 40 per cent to close to 20 per cent. There are significant increases in replacement rates, with the modal rate rising from between 50 and 60 per cent to between 60 and 70 per cent. The rise in high or very high replacement rates (defined as above 70 per cent and above 90 per cent) is, however, more modest. If this policy package were to attain its poverty-reduction potential it would need to be complemented by further measures encouraging activation of welfare recipients – including not only unemployed persons but also lone parents and people with a disability.

A key message from this research is that there the balance between payment rates for pensions and for other welfare payments merits reconsideration. Recent results from the EU-SILC suggest that older people now have lower than average "at risk of poverty" rates, following increases in the State Pension in recent years. Older persons have had lower than average risks of consistent poverty for the past decade and more – partly reflecting their access to resources not included in cash income, such as the advantage of owning a house outright. Current policy includes a target of raising the State Pension to at least €300 by 2012. However, the target for welfare payment rates for other welfare recipients

is a more modest one. The goal in the National Action Plan for Social Inclusion is to "…maintain the relative value of the lowest social welfare rate at least at €185.50, in 2007 terms". Differing interpretations of this goal are possible. The most generous would involve indexation of the lowest rate in line with earnings. If earnings grew by 5 per cent per year, the minimum welfare rate would rise to about €237 by 2012. The ratio between the minimum welfare rate and the State Pension would, in this case, fall from close to 90 per cent to below 80 per cent. This would be less effective in reducing the "at risk of poverty" rate than an alternative package which raised the State Pension to the target level, with other payment rates increased to "close the gap" between pension and non-pension rates.

GLOSSARY

"At risk of poverty" rate: The proportion of individuals living in households with incomes below 50, 60 or 70 per cent of median household disposable income (the income of the middle-ranking household) adjusted for family size and composition using equivalence scales (see below).

"Basic" deprivation: being unable to afford basic necessities, measured by a set of eight non-monetary deprivation indicators including a warm overcoat, a second pair of shoes, or heating the house adequately in the winter.

Child Benefit: a monthly payment, payable regardless of a person's income or social insurance record, to the parents or guardians of children under 16 years of age, or under 19 years of age if the child has a disability or is in full-time education or FÁS Youthreach training. The same monthly rate applies for the first and second child, with an increased rate applying to third and subsequent children.

Consistent poverty: a household that is both below a relative income threshold and reports "basic deprivation" is considered to be consistently poor.

Equivalence scale: a measure of household size and composition used in adjusting household income for the differences in "needs" associated with differing size and composition; for example, a value of 1 can be assigned to the first adult in the household, a value of 0.66 to each additional adult, and a value of 0.33 to each child, and these summed to give the number of "adult equivalents" it contains; equivalised income is then derived by dividing household disposable income by that number. Disposable income is all income received by household members from earnings, self-employment (including farming), rent, interest, dividends, and social welfare transfers, after deduction of income tax and employee social insurance contributions.

European Community Household Panel (ECHP): a longitudinal survey organised by Eurostat, the Statistical Office of the European Communities, and carried out in most of the then Member States of the EU-15 from 1994 to 2001.

EU-SILC: EU Survey on Income and Living Conditions, a common framework for the systematic production of statistics on income and living conditions, across the Member States. In Ireland, this survey has been carried out by the Central Statistics Office since the second half of 2003.

Family Income Supplement (FIS): a weekly tax-free payment for families, including one-parent families, at work on low pay. To qualify for this payment recipients must:

- be an employee in paid employment which is expected to last for at least 3 months;
- work at least 19 hours every week, or 38 hours every fortnight;
- have at least one qualified child (any child under age 18 or aged 18 to 22 years if in full-time education) who normally lives with them and/or is supported by them;
- have an average weekly family income below the income limits set for their family size.

If two people are married or living together as husband and wife they can combine their hours worked and their income will be added together when determining the family income limit.

GDP and GNP: Gross Domestic Product (GDP) and Gross National Product (GNP) are measures of aggregate national income. GDP measures output produced in a country, and GNP measures output generated by the factors of production owned by residents of the country. For most countries, these measures are very similar, but for Ireland, GNP is about 15 per cent below GDP, because the profits of the large multinational sector form part of output produced in Ireland, but are not part of the income of Irish residents.

Increases For Dependants: most weekly social welfare payments are made up of a personal rate for the recipient and extra amounts for their spouse/partner or any child. These extra amounts are known as an Increase for a Qualified Adult (IQA) and Qualified Child Increase (QCI) respectively. (Terms formerly used to describe these increases in payments include Child Dependant Additions (CDAs), Adult Dependant Additions (ADAs) and Qualified Adult Additions (QAA)).

If a welfare recipient has a spouse or partner who is considered a Qualified Adult they may receive an IQA. This may be the case if the spouse or partner's sole income is from certain social welfare or Health Service Executive (HSE) payments, including Child Benefit and Supplementary Welfare Allowance (SWA). If the welfare recipient is divorced or separated and they support their former spouse, they may claim an IQA for them if they are paying them a certain amount of maintenance a week, if they are not living with someone as husband and wife, and if their income does not exceed certain limits. Where the spouse or partner earns over the limit but less than a specified ceiling, the welfare recipient continues to get an IQA but at a reduced rate.

Most social welfare payments provide for an increase in respect of children who are ordinarily resident in the State and who satisfy the condition as to age. A full rate QCI is payable where the claimant has no spouse or partner, is separated, or is in receipt of an IQA (whether it is at the full rate or at the reduced rate) in respect of the spouse. A half-rate QCI is payable where the claimant is living with a spouse or partner who is not a Qualified Adult. A QCI is not payable if the child is getting a social welfare payment or if the recipient's spouse or partner has a weekly income of €400.

Living in Ireland Survey: The Irish element of the European Community Household Panel.

Mean: the arithmetic average.

Median: the point which divides a distribution in two – for example, the income level above and below which half the recipients fall.

OECD: Organisation for Economic Co-operation and Development.

Relative income poverty: falling below an income threshold derived as a proportion (for example, 50 per cent or 60 per cent) of mean or median income.

Rent or Mortgage Interest Supplement (RMIS): a weekly supplementary payment under the Supplementary Welfare Allowance (SWA) scheme. SWA provides a basic weekly allowance to eligible people who have little or no income. If someone has claimed a social welfare benefit or pension but it has not yet been paid and they have no other income, they may qualify for SWA while they are awaiting payment.

People with an income, whether from the basic SWA or otherwise, that is too low to meet certain special needs may also qualify for a weekly supplement payment. One such need is rent/mortgage interest payments. The amount of the supplement is calculated by the HSE's Community Welfare Officer and generally ensures that the recipient's income after paying their rent or mortgage interest does not fall below a minimum level.

Unemployment Assistance (UA) and Unemployment Benefit (UB): people who are aged 18 years or over and are unemployed in Ireland may be paid either Unemployment Assistance (UA) or Unemployment Benefit (UB). To qualify for either UA or UB, recipients must be unemployed (i.e. for at least 3 days in each period of 6 consecutive days), be under 66 years of age and be capable of, available for and genuinely seeking work.

UB is a weekly payment made to people who were paying Pay Related Social Insurance (PRSI) before they lost their job. To qualify for UB people must have lost at least one day's employment including a loss of income.

If an unemployed person does not qualify for UB because they have not made sufficient PRSI contributions, or if they have used up their entitlement to UB, they may be paid UA, which is also a weekly payment but is means tested.

1. INTRODUCTION

1.1 Context

This study has a broad remit: to examine how the Irish welfare state could be developed to tackle low income and deprivation more effectively. It draws on existing national and cross-country evidence as well as providing new analyses to inform policy debate in this area. The impact of alternative policy choices is explored using *SWITCH*, the ESRI tax-benefit model.

The current objectives and strategy of Ireland's welfare system are well documented in the NESC's (2005) *The Developmental Welfare State*, and the *National Action Plan for Social Inclusion 2007-2016* (Government of Ireland, 2007). Each of these studies focuses on supporting and protecting vulnerable groups in dealing with problems faced at different stages of the life cycle. While income support is a critical factor, policies aimed at tackling poverty include a range of services such as education, health, housing and employment supports.

The economic background to our investigation is one in which economic growth over most of the past two decades has been very strong. Despite current short-term difficulties in the international macroeconomy and in the housing sector, the medium-term outlook is also quite positive, though with growth at somewhat lower levels. A particular feature of the period has been the strong performance of the labour market, with unemployment falling from over 15 per cent to below 5 per cent. At the same time, net migration flows were reversed, with the boom in the Irish labour market attracting not only returning Irish emigrants but workers from new member states of the EU and from further afield.

At an early stage in this process, Ireland became one of a small number of countries to set an explicit target for poverty reduction. The overall target in the *National Action Plan for Social Inclusion* is framed in terms of "consistent poverty". This measure, designed to identify those who are suffering basic deprivation due to lack of resources, is currently defined as individuals falling below 60 per cent of median income and deprived of two or more items from a list of 11 basic necessities. The official target is:

> To reduce the number of those experiencing consistent poverty to between 2 per cent and 4 per cent by 2012, with the aim of eliminating consistent poverty by 2016. (Ireland, 2007, p. 13.)

Broader measures of poverty are also of interest, particularly when designing policy for the longer term. The most widely used approach in international comparisons is to focus on the proportion of the population

falling below certain fractions of median income.[1] The EU has termed these "at risk of poverty" indicators, recognising that not all of those falling below such income cut-offs would be classed as "poor". Most would agree that poverty standards of a century ago could no longer be used to define what constitutes poverty in present-day society: it is not enough that the poor have experienced real income gains over the past century (welcome though this is) if they have not got the resources to participate fully in contemporary society. A corollary of this is that poverty standards must also be adjusted over shorter periods of time. The "at risk of poverty" measures automatically ensure that poverty standards rise in line with real income growth. Adjustment of the consistent poverty yardstick over time involves, in addition, revision of the items included in the index of basic deprivation. As a result, there may be discrete changes in consistent poverty as the items employed to capture deprivation are changed. Given this, the "at risk of poverty" measures provide valuable information on trends complementing what is possible with the consistent poverty method.

Latest CSO figures (from the EU Survey on Income and Living Conditions 2006) indicate that the extent of consistent poverty is close to 7 per cent. As noted above, the policy target is to reduce this to between 2 and 4 per cent by 2012, with the aim of eliminating consistent poverty by 2016. In terms of the "at risk of poverty" measure, latest figures (again from the CSO's EU-SILC for 2006) show a fall from around 20 per cent to 17 per cent. Further reductions are required if the "at risk of poverty" measure in Ireland is to come closer to the best performing countries in the EU, where the corresponding figure is around 10 to 12 per cent.

How can reductions in these indicators of low income and deprivation be achieved? We approach this question first by looking at what may be learned by comparisons with the countries achieving the best results on these measures. Next we examine the issues affecting vulnerable or high-risk groups, and explore policy measures which could help to improve their situation. We also investigate cross-cutting issues relating to the spatial distribution of poverty. Finally, we take a more systemic approach to the welfare system, looking at the potential impact of large scale packages. In this context, of course, financing is also an important issue, and particular attention is paid to this.

In this study, we pay particular attention to the "at risk of poverty" measure for practical reasons. When assessing proposed policy changes it is possible, using a tax-benefit model, to simulate the first-round impact of tax and welfare policy changes on disposable incomes and on measures of financial work incentives. These changes in disposable income may, of course, have an impact on deprivation. But this indirect effect cannot be readily quantified, so in this study we focus mainly on the impacts on income and financial work incentives. Research addressing the issue of the impact of changes in welfare policy on consistent poverty has begun recently and will complement the findings of the present study.

[1] Such measures are commonly termed relative (income) poverty rates in the academic literature. In the EU context they are termed "at risk of poverty" indicators, a subset of the Laeken indicators (named for the venue of the European Council meeting at which they were adopted). Ireland, like other EU countries, has agreed to the use of this measure to monitor progress.

1.2 Outline of the Study

There are four main parts to the study.

1. The structure of Ireland's welfare state is put in an international context, and a review of demographic developments and prospects helps to understand the nature of future challenges for the system.
2. Policy issues arising for the main "vulnerable groups" identified in the National Action Plan for Social Inclusion are then considered in depth.
3. The way in which risks of poverty and deprivation are structured across regions and areas is then examined; this has important implications for what can and cannot be expected from area-based policies.
4. Finally, the potential impacts of alternative large-scale policy reform packages are explored.

Three chapters set out the broad context within which options for future development of Ireland's welfare state must be considered. Chapter 2 examines Ireland's social protection expenditures in an international and historical context. Chapter 3 focuses on identifying countries which have attained the best outcomes, in terms of social inclusion outcomes, at both EU and global level. The common characteristics of the welfare systems of the best performing systems are also considered, as indicators of "best practice" in this area. Chapter 4 considers demographic and socio-economic trends which are shaping current and future needs for social protection, and possibilities for future development of the welfare state in Ireland.

The next set of chapters (Chapters 5 to 10) analyse the situations facing key vulnerable groups, identified in the National Action Plan for Social Inclusion, and explore policy options which could improve the situation of these groups. These groups link in with the life-cycle approach of the Plan, seeking to support individuals in dealing with the problems faced at different stages of their lives – whether childhood, adulthood, old age or disability. One-parent families have been at high risk of poverty for some time, and with sustained growth in their numbers, and falling unemployment, they are now one of the largest groups "at risk of poverty". In Chapter 5, recent policy proposals (Department of Social and Family Affairs, 2006) are considered in the light of international evidence and trends on "what works" for lone parents. Chapter 6 re-examines the structure of child income support, drawing on international comparisons of "child benefit packages". Again, we follow the EU's model of examining "best practice" by reference to measured outcomes for children in terms of risks of income poverty. We also explore the design of a "second tier" child income support, along the lines indicated in the NESC strategy report.

The situation of older people in Ireland is also examined in an international comparative context (Chapter 7). The balance between direct expenditure on the old age pension schemes, and "tax expenditures" on occupational pensions is examined, following special adaptation of the *SWITCH* tax-benefit model. This allows a comprehensive view of the reliefs associated not just with employee superannuation contributions, but also with contributions by employers, including the government.

Chapter 8 looks at poverty risk and consistent poverty rates for people with a disability. Key channels through which disability seems to raise risks of

poverty are identified, and policy strategies for reducing risks of poverty for adults with a disability are explored.

Chapter 9 re-examines risks of poverty and social exclusion facing unemployed persons, in the light of the major fall in unemployment since the early 1990s. While Ireland is seen as a model country in terms of its achievements in reducing unemployment from very high to very low levels, the risk of income poverty facing the unemployed is still high when compared to a number of other countries. International comparisons of poverty risk prove useful in pointing towards policies aimed at providing adequate income support to those without jobs, while encouraging movement from unemployment into employment.

While there has been rapid growth in employment over the past decade, there are also continuing concerns at national and EU level about the numbers of "working poor". Chapter 10 looks at what in-work poverty means and how it is defined. Data from EU-SILC are used to assess its current extent and trends over time are explored using ECHP data. Policy options geared to deal with the situation of the working poor are then examined.

Chapter 11 looks at cross-cutting spatial issues related to poverty, drawing both on Census data and on new analyses of EU 2005 data. Both sources suggest that poverty is a spatially diffuse phenomenon. The implications for what can, and cannot, be expected from area-based policies are drawn out.

Chapter 12 explores four major welfare reform packages. The first two isolate the effect of simply increasing welfare payments, by 10 per cent or 20 per cent respectively, while maintaining the same structure. Two further packages, involving substantial elements of structural reform – levelling up to a new uniform payment rate, adding a substantial second-tier child payment, and rebalancing state resourcing of social welfare pensions and private occupational pensions – are also considered. The *SWITCH* model is used to identify the "first-round" or "cash" impacts of these packages; and also provides evidence on the impact on financial incentives to work. The key role of activation measures in underpinning high rates of welfare payment, while maintaining high employment rates, is stressed.

Chapter 13 summarises our findings and draws out key conclusions.

2. IRELAND'S SOCIAL PROTECTION EXPENDITURE

2.1 Introduction

Unprecedented levels of economic growth in Ireland over the past decade have had a substantial impact on welfare spending, particularly when viewed as a proportion of GDP, despite a relatively stable underlying structure. This chapter sets the stage for subsequent examination of policy options and directions in specific areas by setting out the broad picture of current levels and patterns of welfare spending, how these compare with other countries, and how they have been changing in recent years.

2.2 Measuring Welfare Spending

The most common way of making comparisons of "welfare effort" across countries is to simply look at total social protection expenditure by the state, expressed as a percentage of total national income. While informative, there are many pitfalls in interpreting such broad aggregates. The first is that institutional structures across countries differ greatly, and what gets counted as "social protection" and what gets counted as expenditure "by the state" may depend on those structures. For example, if expenditure on income support is channelled through social insurance funds, these may not formally or legally be considered as state institutions. A considerable effort has been made at EU level (via the ESSPROS categorisation system – the European System of Integrated Social Protection Statistics) and more broadly (by the OECD and the IMF, for example) to construct comparative data that is harmonised in these terms, but the underlying difficulties in doing so need to be kept in mind.

Another issue arises because the state may in some cases seek to ensure that income support is available by encouraging private provision through subsidies and tax incentives rather than by direct state transfers. This is most obvious in the pensions area, where some countries (including Ireland) place much of their emphasis on encouraging private provision. Focusing purely on spending on pensions by the state then may give a partial picture of overall state effort in relation to the pension system as a whole. The OECD in particular has put a good deal of effort in recent years into developing measures of "net" social spending taking expenditure through taxes foregone (as well as the taxes paid by recipients) into account, but these still only give a partial picture of the complex underlying reality.

Another point to emphasise is that it is usually expenditure by the state that is counted, which does not of course represent the overall effort that society as a whole is making to provide for the well-being of its members. Increasing state spending may represent a shift in the balance of responsibility for certain activities from the household to the state – such as early childcare or caring for older people and such care in the home will not have been assigned a monetary value in an accounting sense when assessing social provision. This shift is often associated with an increase in the proportion of women engaged in paid work, as experienced in recent years in Ireland, and represents a change in mode of provision rather than overall "effort". The focus on state spending also means that provision via private financing, such as private health insurance, which is more common in some countries than in others, will not be included.

Yet another issue relates not to what is counted as "effort" but how that effort is expressed. The proportion of national income going towards social protection spending is clearly a key indicator, but it does not tell the whole story. Social protection spending may increase as a share of national income in a recession as the numbers unemployed rise and total income growth slows, and fall if unemployment is declining and national income growing very rapidly – so the macroeconomic context is key to interpreting the implications of the way social protection's share is changing. The level of support provided to recipients in real terms, as well as relative to the overall "size of the pie", is an important element in understanding the implications of trends in social spending. In the same vein, the demographic context is critical – a growing share for social protection in a situation where the proportion of the population aged 65 years or over is growing substantially has very different implications to the same trend where the proportion above that age is stable or falling.

These are some of the considerations that must be kept in mind as we turn to levels, patterns and trends in social protection spending in the following sections.

2.3 Current Levels of Welfare Spending in Relation to National Income

We start by looking at the most widely-used and commented-on "headline" figures, for total social protection expenditure expressed as a percentage of GDP. Table 2.1 shows the most up-to-date figures currently available produced by Eurostat for the 25 (then) member states of the EU relating to 2004. We see that the range is wide, from 13 per cent up to 33 per cent of GDP. Countries at the upper end are the Scandinavian welfare states of Denmark and Sweden, but the developed continental welfare states of Belgium, Germany, France, Austria and the Netherlands are nearly as high at around 30 per cent. At the other end of the spectrum one finds Estonia, Latvia, Lithuania, Slovakia, Cyprus – and Ireland. Ireland in 2007 was spending 17 per cent of GDP on social protection, which is not as low as the 13 per cent reported for the Baltic States but is similar to Cyprus and Malta, which are very far below Ireland in terms of average income per head and have much less developed welfare states. With the EU average share at 27 per cent, Ireland is a full 10 percentage points below that.

Table 2.1: Total Social Protection Expenditure as a Percentage of GDP, EU Countries, 2004

Country	% of GDP
Belgium	29.3
Czech Republic	19.6
Denmark	30.7
Germany	29.5
Estonia	13.4
Ireland	**17.0**
Greece	26.0
Spain	20.0
France	31.2
Italy	26.1
Cyprus	17.8
Latvia	12.6
Lithuania	13.3
Luxembourg	22.6
Hungary	20.7
Malta	18.8
Netherlands	28.5
Austria	29.1
Poland	20.0
Portugal	24.9
Slovenia	24.3
Slovakia	17.2
Finland	26.7
Sweden	32.9
UK	26.3
EU-15 average	27.6
EU-25 average	27.3

Source: Eurostat (downloaded 8/6/2007).

Countries are commonly categorised in the research literature into "welfare regimes", conceptualised in terms of the constellation of socio-economic institutions, policies and programmes which countries have adopted to promote their citizens' welfare. Esping-Andersen's (1990) influential study distinguished between 'social democratic', 'corporatist' and 'liberal' welfare regimes, and this terminology has now become standard, with a strong case being made for adding a fourth, "Southern" welfare regime or sub-protective welfare state.[2] The ex-communist transition countries do not fit into this set of categories and may be best considered for the present as in a distinct group. Countries in the social democratic regime would be seen as having high shares of national income going on social protection, with those in the corporatist regime not far behind, while the "Anglo-Saxon" or liberal regime would be generally thought of as having a significantly lower share but still higher than the "Southern" regime. When we look at the figures in Table 2.1 through this lens, what is striking is the extent of the gap between the UK and Ireland; the UK is the classic example of the Anglo-Saxon or liberal regime country and at 26 per cent is allocating only marginally less than the EU average to social protection, while Ireland, categorised in the same "regime" and having rather similar institutional structures to the UK, currently spends less than two-thirds of that average.

[2] See for example Ferrera (1996), Gallie and Paugam (2000), Arts and Gleisen (2002).

One point that needs to be made about these comparisons is that GDP may be inappropriate in the Irish case as the measure of national income, as is widely recognised. GDP is particularly problematic as a measure of domestic income because foreign direct investment is so important, with profits and other revenues repatriated to the countries of origin being substantial as a result. These are included in GDP but not available to domestic residents. Alternative measures such as Gross National Product (GNP) or Gross National Income (GNI) are therefore more appropriate in thinking about shares in national income.[3] In 2004, these were only about 85 per cent of GDP in the Irish case – a much bigger difference than would be seen for other EU countries. If we express social protection spending as a percentage of GNP or GNI rather than GDP, the 2004 figure for Ireland would be about 20 per cent. This is a sizeable difference, but still leaves Ireland well below the EU average – though not lower than Spain, it might be noted.

To see what underpins this, it is worth looking first at the pattern of social protection spending across areas. Table 2.2 shows expenditure in each country as a percentage of GDP by area, distinguishing social protection spending in relation to sickness and health care, disability, old age, survivors, family and children, unemployment and housing. We see that Ireland spends close to the EU-25 average on sickness-related payments, survivors (i.e. widow(er)s and orphans), and housing, and is not far below average on unemployment-related spending, and is marginally above the average in relation to family and child-focused social protection spending. If one takes the sum of those five areas, Ireland's spending (at 12 per cent of GDP) is only slightly below the corresponding average for the EU-25 (13 per cent). (The EU-15 in fact gives a very similar picture in these terms.) Spending on disability-related transfers is relatively low in Ireland, at 1 per cent of GDP being only half the EU-25 average of 2 per cent,[4] but that still only accounts for a modest proportion – 1 percentage point out on 10 – of the overall gap between Ireland and the EU average. By far the most important contributor to that gap, accounting for 80 per cent of it, is spending on old age-related transfers. Ireland in 2004 spent the equivalent of 3 per cent of GDP on old age-related social protection, compared with an EU average of 11 per cent.

A similar overall conclusion is warranted when we compare the Irish pattern of spending with our closest neighbour and fellow member of the "Anglo-Saxon/liberal" welfare regime, the UK. The UK spends a considerably lower share of GDP on unemployment-related payments than Ireland – which is remarkable in the light of the very low level unemployment has reached in Ireland – and also a lower share on family and child-focused payments, but these are balanced by higher spending on sickness and disability and on housing. The gap in overall spending is a reflection of the fact that the UK spends almost 11 per cent of GDP on

[3] GNP adds factor income received from the rest of the world to GDP, and deducts factor payments flowing from Ireland to abroad; however, GNI in addition adds in subsidies received from the EU and deducts taxes paid to the EU, and thus is a more comprehensive measure of income available to Irish residents (whether institutions or households).

[4] This may be related to the fact that the self-employed and civil servants have been brought within the social insurance system relatively recently, and also to the younger age profile of the Irish population compared with other EU member states – since disability and age are strongly related.

old age-related payments; identical to the EU-25 average, whereas as already highlighted Ireland spends only 3 per cent.

Table *2.2:* Total Social Protection Expenditure by Type as a Percentage of GDP, EU Countries, 2004

Country	Sickness/ Health	Disability	Old Age	Survivors	Family/ Children	Unemploy -ment	Housing
				% of GDP			
Belgium	7.7	1.9	9.6	2.7	2.0	3.5	0.1
Czech Republic	6.7	1.5	7.6	0.2	1.6	0.7	0.1
Denmark	6.1	4.1	11.1	0	3.9	2.8	0.7
Germany	7.7	2.2	12.0	0.4	3.0	2.4	0.2
Estonia	4.2	1.2	5.7	0.1	1.7	0.2	0.0
Ireland	**6.9**	**0.9**	**3.0**	**0.8**	**2.5**	**1.3**	**0.5**
Greece	6.7	1.3	11.9	0.9	1.7	1.5	0.6
Spain	6.0	1.5	7.9	0.6	0.7	2.5	0.2
France	8.8	1.7	10.9	1.9	2.5	2.3	0.8
Italy	6.5	1.5	12.9	2.5	1.1	0.5	0.0
Cyprus	4.2	0.8	8.1	0.3	2.0	0.9	0.4
Latvia	3.0	1.2	5.8	0.3	1.3	0.4	0.1
Lithuania	3.8	1.3	5.8	0.3	1.1	0.2	0.0
Luxembourg	5.5	3.0	5.8	2.3	3.8	1.0	0.2
Hungary	6.0	2.1	7.4	1.2	2.5	0.6	0.4
Malta	5.0	1.2	9.2	0.3	1.0	1.3	0.3
Netherlands	8.1	2.9	9.6	1.4	1.3	1.7	0.3
Austria	7.1	2.3	13.3	0.4	3.0	1.7	0.1
Poland	3.8	2.3	10.8	1.0	0.9	0.7	-
Portugal	7.1	2.4	9.3	1.6	1.2	1.3	0.0
Slovenia	7.8	1.9	10.2	0.4	2.0	0.7	-
Slovakia	5.0	1.6	6.5	0.1	1.8	1.0	0.0
Finland	6.6	3.4	8.6	1.0	3.0	2.5	0.3
Sweden	8.0	4.7	12.0	0.7	3.0	2.0	0.6
UK	7.8	2.4	10.7	0.9	1.7	0.7	1.5
EU-15 average	7.5	2.1	10.9	1.2	2.1	1.8	0.5
EU-25 average	7.4	2.1	10.8	1.2	2.1	1.7	0.5

Source: Eurostat (downloaded 8/5/2007).

These differences are naturally also seen when we look at the composition of social protection spending by type, in terms of the share of total social protection expenditure (rather than GDP) going to the different areas. Table 2.3 shows that for the EU as a whole, 40 per cent of social protection spending goes on old age-related payments. The figure for the UK is almost identical, and for most countries (20 out of the 25) it lies in the range 35-45 per cent. For Ireland, though, only 17 per cent of social protection spending goes on old age pensions; this is by far the lowest share of any member state; even the next-lowest (Luxembourg at 26 per cent) is much higher, and every other country has at least twice the Irish share going to old age.

Such variation is of course partly to do with differences in the age structure of the population and in particular in the proportion falling into the age groups that would receive such pensions. Ireland has a low proportion of its population aged 65 years or over, as Table 2.4 shows.

About 11 per cent were (estimated to be) of that age in 2004. This is lower than in any other EU-25 member, with only Cyprus and Slovakia being close to that figure. Seven other countries are in the 12-15 per cent range, ten are between 15 per cent and 17 per cent, and five are over 17 per cent. Nonetheless, the difference in age profile is by no means the whole story. This is illustrated by the fact that countries with a share of older people no more than about 50 per cent higher than Ireland's have social protection spending on pensions (as a percentage of GDP) that is as much as three times as high or more. For example, France, Germany and Belgium have high shares in the older age ranges, with 16-18 per cent aged 65 years or over compared with Ireland's 11 per cent, but they are spending 10-12 per cent of GDP on old age pensions compared with Ireland's 3 per cent. If Ireland's population had the same age profile as those countries, *ceteris paribus* we might expect old age pension expenditure to be 55-60 per cent higher, which would bring it to 4.5-5 per cent of GDP. This would be much higher than the actual 2004 level, but still only half the spending seen in Belgium, France and Germany.

Table 2.3: Total Social Protection Expenditure by Type as a Percentage of Total Social Protection Expenditure, EU Countries, 2004

Country	Sickness/ Health	Disability	Old Age	Survivors	Family/ Children	Unemploy -ment	Housing
	% of Total Social Protection						
Belgium	26.4	6.5	32.6	9.4	6.7	11.9	0.2
Czech Republic	34.0	7.7	38.7	1.0	8.1	3.8	0.5
Denmark	20.0	13.5	36.1	0	12.7	9.2	2.3
Germany	26.2	7.5	40.6	1.4	10.1	8.3	0.8
Estonia	31.0	9.0	42.3	0.8	12.5	1.6	0.4
Ireland	**40.4**	**5.1**	**17.4**	**4.9**	**14.9**	**7.9**	**3.1**
Greece	25.7	4.9	45.9	3.4	6.7	5.7	2.2
Spain	30.0	7.3	39.7	2.9	3.4	12.5	0.8
France	28.2	5.5	34.8	6.1	8.0	7.3	2.7
Italy	25.0	5.9	49.5	9.7	4.3	1.9	0.1
Cyprus	23.7	4.2	45.7	1.8	11.2	4.9	2.3
Latvia	23.9	9.5	46.2	2.4	10.2	3.3	0.6
Lithuania	28.6	9.9	43.8	2.0	8.5	1.5	0.0
Luxembourg	24.5	13.3	25.5	10.3	17.0	4.6	0.7
Hungary	28.9	10.1	35.9	5.7	11.9	2.9	2.0
Malta	26.7	6.6	48.8	1.8	5.1	6.8	1.6
Netherlands	28.4	10.2	33.8	5.0	4.5	5.8	1.2
Austria	24.2	8.0	45.5	1.3	10.4	5.8	0.4
Poland	19.1	11.3	54.1	4.8	4.5	3.4	-
Portugal	28.4	9.7	37.5	6.6	5.0	5.3	0
Slovenia	32.0	8.0	42.1	1.6	8.4	3.0	-
Slovakia	29	9.3	37.9	0.7	10.3	6.0	0.1
Finland	24.7	12.8	32.2	3.6	11.1	9.5	1.1
Sweden	24.5	14.2	36.5	2.1	9.3	6.0	1.7
UK	29.9	9.1	40.5	3.2	6.6	2.6	5.5
EU-15 average	27.2	7.8	39.8	4.3	7.5	6.3	1.9
EU-25 average	27.2	7.7	39.6	4.4	7.5	6.4	1.9

Source: Eurostat (downloaded 8/5/2007).

The nature of the Irish pension system is very different to those countries, with much greater reliance in the Irish case both on means-testing and on flat-rate rather than earnings-related pensions from the state,

and on encouragement of employment-related private pensions via tax relief and other means. (The balance between means-tested and insurance-based payments will change in the future as the effects of integration of the self-employed and public service employees into the social insurance system work their way through to higher proportions of future retirees having entitlement to contributory pensions.) In addition, differences in the way spending is categorised by type and in whether funded occupational pension schemes are included (which they are not for Ireland because of unavailability of data) affect these comparisons (despite the best efforts of those compiling them). Nonetheless, Ireland still seems to be an outlier even when differences in age profile are taken into account.

Table 2.4: Population Aged 65 years or Over as a Percentage of Total Population, EU Countries, 2004

Country	% of Population
Belgium	17.1
Czech Republic	14.0
Denmark	14.9
Germany	18.0
Estonia	16.2
Ireland	**11.1**
Greece	17.9
Spain	16.9
France	16.4
Italy	19.2
Cyprus	11.9
Latvia	16.2
Lithuania	15.0
Luxembourg	14.1
Hungary	15.5
Malta	13.0
Netherlands	13.8
Austria	15.5
Poland	13.0
Portugal	16.8
Slovenia	15.1
Slovakia	11.6
Finland	15.5
Sweden	17.2
UK	15.9

Source: Eurostat (downloaded 8/6/2007).

Before we go on to look at social protection spending in real terms and over time, the key implications of the discussion to date may be noted. Ireland has a particularly low level of social protection spending as a proportion of national income at present (or at least in 2004, the latest date for which comparative data is available), and this remains the case when a more appropriate measure of national income than GDP is employed. However, this does not reflect a generalised shortfall compared with the EU average across different areas of social protection spending: instead, it is mostly concentrated in the area of old age pensions. This is partly a reflection of the population structure, but that does not account for the bulk of the gap between Ireland's state spending in this area and other member states. While there is very wide variation in pension systems, Ireland's spending by the state in this area also falls well short of the UK, which has a broadly similar structure. In thinking about the most useful

points of comparisons, it is also worth noting that the EU-25 average itself has to be interpreted with care when used for this purpose. Ireland has an average income level that is well above the average, which would generally be associated with an above-average level of social spending – as we bring out in the next section.

2.4 Levels of Welfare Spending in Absolute Terms

While welfare spending as a proportion of GDP is clearly relevant as an indicator of "welfare effort", the amounts actually spent and received by those relying on transfers are also important and vary widely across countries. Table 2.5 shows first the total amount spent on social protection by each of the EU-25 member states, converted into a common currency (€). Unsurprisingly, the biggest spenders – Germany, France, Italy, the UK – are the member states which have both large populations and relatively high average incomes. Ireland's total expenditure, while only a fraction of what these countries are spending, dwarfs the amounts being spent by countries such as Estonia, Latvia, Lithuania and Malta.

Table 2.5: Total Social Protection Expenditure and Expenditure Per Capita, EU Countries, 2004

Country	€m	€ Per Capita	PPP Per Capita
Belgium	84,736.5	8,131.2	7,889.8
Czech Republic	17,064.7	1,670.4	3,130.7
Denmark	60,533.5	11,200.5	8,469.8
Germany	651,313.4	7,893.2	7,238.8
Estonia	1,258.6	933.0	1,624.8
Ireland	**2,5078.2**	**6,164.1**	**5,232.2**
Greece	43,756.1	3,955.6	4,829.8
Spain	167,997.6	3,935.1	4,437.5
France	518,182.3	8,314.3	7,771.9
Italy	362,461.0	6,230.5	6,257.4
Cyprus	2,262.1	3,057.9	3,405.5
Latvia	1,401.1	605.8	1,220.0
Lithuania	2,414.0	702.6	1,447.6
Luxembourg	6,093.0	13,441.4	12,179.6
Hungary	17,064.8	1,688.4	2,867.9
Malta	817.9	2,038.3	3,001.0
Netherlands	139,643.0	8,576.6	8,055.5
Austria	68,733.8	8,409.5	8,062.1
Poland	40,729.7	1,066.7	2,213.2
Portugal	35,544.0	3,384.5	4,082.1
Slovenia	6,382.7	3,196.1	4,379.3
Slovakia	5,813.8	1,080.1	2,063.5
Finland	40,572.3	7,760.3	6,897.4
Sweden	92,772.8	10,315.5	8,756.3
UK	455,629.9	7,612.9	6,993.8
EU-15 average	2,753,047.0	7,129.6	7,252.1
EU-25 average	2,848,257.0	6,188.3	6,188.3

Source: Eurostat (downloaded 8/6/2007).

It is more informative then to look at expenditure per head of population, shown in the second column of Table 2.5. Now we see that Ireland, spending €6,164 per annum per head of population, is well below the top-spending countries such as Luxembourg and Sweden which are at close to twice that figure, but at the same time Ireland is spending ten times

as much as the country with the lowest level of expenditure per head, Latvia. For convenience Table 2.6 shows where the various countries come when they are ranked in terms of € per head: we see that Ireland is in the middle, ranking 12th. This may be slightly misleading, though, in that there is a very substantial gap between Ireland's level and that of the next group of countries, comprising Greece, Spain, Portugal, Slovenia and Cyprus, which are spending less than two-thirds of the Irish figure. So it might be more valid to see Ireland as clearly in the top half when ranked by € per head. It is also clear from the ranking that there is a strong relationship between social protection spending per capita and average income per capita, to which we return shortly.

First, though, it is worth deepening the comparison of average spending per capita to take into account the fact that the cost of living, and thus what a euro will buy and the living standard a given level of income will support, differs across countries in a systematic way – with costs generally higher in better-off countries. It is, therefore, important to adjust for such differences by focusing on what is known as average spending in purchasing power parity terms, which is done in the final column of Table 2.5.

Table 2.6: Countries Ranked by Social Protection Expenditure Per Capita, EU Countries, 2004

Rank	€m Per Capita	PPP Per Capita
1	Luxembourg	Luxembourg
2	Denmark	Sweden
3	Sweden	Denmark
4	Netherlands	Netherlands
5	Austria	Austria
6	France	Belgium
7	Belgium	France
8	Germany	Germany
9	Finland	UK
10	UK	Finland
11	Italy	Italy
12	**Ireland**	**Ireland**
13	Greece	Greece
14	Spain	Spain
15	Portugal	Slovenia
16	Slovenia	Portugal
17	Cyprus	Cyprus
18	Malta	Czech Republic
19	Hungary	Malta
20	Czech Republic	Hungary
21	Slovakia	Poland
22	Poland	Slovakia
23	Estonia	Estonia
24	Lithuania	Lithuania
25	Latvia	Latvia

Source: Eurostat (downloaded 8/6/2007).

We see that this adjustment narrows the range of variation in spending levels across countries very substantially: the top-spending country is now at ten times that of the lowest-spending one, compared with seventeen times when the comparison is made in common currency terms but without this adjustment. However, the ranking of countries is not

significantly affected as Table 2.6 brings out, apart from several pair-wise switches by countries ranked beside each other (such as Denmark and Sweden or Belgium and France). As we see, Ireland's ranking remains at the mid-point, 12th.

As already noted, this has to be seen in the light of the differences in average income across countries and the extent to which average welfare spending per head varies in line with average income per head. The countries towards the top of the ranking by social protection spending are also among the richer in terms of average income, while those towards the bottom in social protection spending are very far below the EU average income. This is brought out by Table 2.7, which shows how GDP per capita in PPP terms varies across the 25 countries. We see that countries such as Luxembourg, Denmark, Sweden, the Netherlands, Austria, Belgium and Germany, ranked highest in terms of social protection spending per head, all have average income per head well above the EU average (by at least 10 per cent); even more strikingly, the countries ranked lowest in terms of social protection spending have average income that is only about half the EU average.

Table 2.7: GDP Per Capita in PPP Terms, EU Countries, 2005 (EU-25=100)

Rank	GDP Per Capita in PPP Terms	Rank
Belgium	118	6
Czech Republic	74	17
Denmark	122	5
Germany	110	9
Estonia	60	21
Ireland	**139**	**2**
Greece	84	14
Spain	98	13
France	108	11
Italy	101	12
Cyprus	89	15
Latvia	49	25
Lithuania	52	23
Luxembourg	251	1
Hungary	63	20
Malta	74	17
Netherlands	125	3
Austria	123	4
Poland	50	24
Portugal	72	19
Slovenia	82	16
Slovakia	57	22
Finland	110	9
Sweden	115	8
UK	117	7
EU-15	108	
EU-25	100	

Source: Eurostat (downloaded 12/6/2007).

Ireland appears right at the top of the ranking by GDP per head, second only to Luxembourg; in that sense its mid-point ranking in terms of social protection spending appears somewhat anomalous. GDP is a misleading

indicator in the Irish case for the reasons already mentioned, overstating income accruing to Irish residents. If we adjust the Irish figure downward by the likely scale of this overstatement, Ireland would move down in terms of average income per head, to a level similar to Belgium or the UK. However, this would imply a ranking in income per head terms that was still much higher (about 6th or 7th) than that seen for social protection spending.

2.5 Levels of Welfare Spending Over Time

Having examined current levels and patterns of social protection expenditure in Ireland in some detail, we now look at how it has evolved over time in recent years. We take 1990 as point of departure for this exercise, and Table 2.8 shows total social expenditure as a percentage of GDP for Ireland and other EU countries for selected years. The figures for other EU-15 member states also go back to 1990, whereas for the new member states joining in 2004 Eurostat has produced figures only back to 2000.

Table 2.8: Total Social Protection Expenditure as a Percentage of GDP, EU Countries, 1990-2004

Country	1990	1995	2000	2001	2002	2003	2004
				Social Protection as % of GDP			
Belgium	26.4	27.4	26.5	27.3	28.0	29.1	29.3
Czech Republic	-	17.4	19.5	19.4	20.2	20.2	19.6
Denmark	28.2	31.9	28.9	29.2	29.7	30.7	30.7
Germany	25.4	28.2	29.2	29.3	29.9	30.2	29.5
Estonia	-	-	14.0	13.1	12.7	12.9	13.4
Ireland	**18.4**	**18.8**	**14.1**	**15.0**	**16.0**	**16.5**	**17.0**
Greece	22.9	22.3	25.7	26.7	26.2	26.0	26.0
Spain	19.9	21.6	19.7	19.5	19.8	19.9	20.0
France	27.4	30.3	29.5	29.6	30.4	30.9	31.2
Italy	24.0	24.2	24.7	24.9	25.3	25.8	26.1
Cyprus	-	-	14.8	14.9	16.3	18.5	17.8
Latvia	-	-	15.3	14.3	13.9	13.4	12.6
Lithuania	-	-	15.8	14.7	14.1	13.6	13.3
Luxembourg	21.4	20.7	19.6	20.8	21.4	22.2	22.6
Hungary	-	-	19.3	19.3	20.3	21.1	20.7
Malta	-	-	16.3	17.1	17.1	17.9	18.8
Netherlands	31.1	30.6	26.4	26.5	27.6	28.3	28.5
Austria	26.0	28.7	28.2	28.6	29.1	29.5	29.1
Poland	-	-	19.5	20.8	21.2	20.9	20.0
Portugal	16.3	21.0	21.7	22.7	23.7	24.2	24.9
Slovenia	-	-	24.9	25.3	25.3	24.6	24.3
Slovakia	-	18.4	19.3	18.9	19.0	18.2	17.2
Finland	24.6	31.5	25.1	24.9	25.6	26.5	26.7
Sweden	33.1	34.3	30.7	31.3	32.3	33.3	32.9
UK	22.9	28.2	27.1	27.5	26.4	26.4	26.3
EU-15 average	25.4	27.7	26.9	27.1	27.4	27.7	27.6
EU-25 average			26.6	26.8	27.0	27.4	27.3

Source: Eurostat (downloaded 11/6/2007).

We see that Ireland's social protection spending at the start of this period amounted to over 18 per cent of GDP, and that by 1995 it was close to 19 per cent. From the mid-1990s the rate of economic growth picked up and reached unprecedented levels, faster than any other OECD country in the second half of the 1990s. By 2000, social protection spending was

down to only 14 per cent of GDP, as the numbers unemployed declined dramatically and the rate of increase in incomes from work and profits outpaced social protection benefits. From 2000 onwards, though, social protection spending has risen as a percentage of GDP, reaching 17 per cent by 2004.

This brings out the immediate impact of the "Celtic Tiger" economic boom on social protection expenditure when framed against total national income (exaggerated by the difficulties in using GDP to measure national income already noted). The period from 2000, when social protection spending began to increase again as a share of GDP, has not been one of slow growth, but GDP has not been rising by the quite exceptional levels seen in the 1990s. This, together with increasing income support levels, was sufficient to reverse the downward trend in social protection expressed as a proportion of GDP.

Over the same period, the table also shows that social protection spending levels in the EU-15 rose markedly between 1990 and 1995 but have been stable since on average – with considerable variation from country to country – while for the EU-25 a more modest increase was seen between 2000 and 2004. This contributed to the widening gap between Ireland's social protection spending as a proportion of GDP and that of our EU partners.

Focusing on the EU-15, in 1990 Ireland's figure was 9 percentage points below the EU-15 average; by 2000 this had widened to 13 percentage points, and in 2004 it had narrowed to under 11.

Finally, it is worth looking at the evolution of social protection expenditure in real terms, adjusting for changes in prices to hold purchasing power constant. Table 2.9 shows how total social protection expenditure in constant (1995) prices changed over the period from 1990. The scale of the increase in spending in real terms in the Irish case is striking: the increase between 1990 and 2004 was 135 per cent, substantially more than doubling spending in real terms. This was the fastest increase among the EU-15, with only Portugal and Luxembourg coming close to that figure, and more typical rates of increase being of the order of 30-60 per cent.

Table 2.9: Total Social Protection Expenditure in Constant (1995) Prices, EU Countries, 1990- 2004

Country	1990	1995	2000	2004	% Increase 1990-2004
Belgium	48,382.4	56,839.3	62,114.7	73,111.8	51.1
Czech Republic	-	255,782.3	316,855.9	374,542.7	
Denmark	260,130.4	325,179.1	340,162.8	380,374.6	46.2
Germany	-	520,643.2	579,371.5	589,957.8	
Estonia	-	-	8,307.4	10,904.4	
Ireland	**7,630.0**	**9973.4**	**12,429.2**	**17,964.3**	**135.4**
Greece	17,128.4	1,7819.8	24,368.3	30,197.4	76.3
Spain	81,076.9	96,660.2	108,390.9	129,129.6	59.3
France	30,9524.6	362,466.9	407,064.6	465,991.3	50.6
Italy	222,651.3	228,875.0	257,943.9	285,177.8	28.1
Cyprus	-	-	760.0	1,060.6	
Latvia	-	-	520.6	585.8	
Lithuania	-	-	5,413.7	6,178.9	
Luxembourg	2,297.0	3,131.4	3,864.6	5,103.0	122.2
Hungary	-	-	1,292,937.6	1,754,303.5	
Malta	-	-	228.7	266.0	
Netherlands	85,027.2	93,349.4	98,008.0	111,893.4	31.6
Austria	41,283.0	50,446.7	55,265.9	59,977.2	45.3
Poland	-	-	83,919.6	96,078.8	
Portugal	11,902.3	17,890.1	23,269.8	27,682.2	132.6
Slovenia	-	-	728,779.4	820,004.3	
Slovakia	-	107,710.4	131,266.0	134,263.6	
Finland	25,396.2	30,201.7	29,805.2	34,677.2	36.5
Sweden	57,2671.8	613,477.0	646,428.8	754,444.7	31.7
UK	157,864.0	202,789.4	231,294.2	258,976.4	64.1

Source: Eurostat (downloaded 11/6/2007).

2.6 Conclusions

This chapter has examined Ireland's welfare spending, how it compares with other countries, and how it has been changing in recent years. Ireland was seen to have a particularly low level of social protection spending as a proportion of national income, with the shortfall compared with the EU average mostly concentrated in the area of old age pensions and that only partly a reflection of the population structure. Social protection spending as a proportion of GDP was 9 percentage points below the EU-15 average in 1990; by 2000 this had widened to 13 percentage points, and in 2004 it had narrowed to under 11. Ireland is in the top half of the EU when ranked by social protection spending per head. Between 1990 and 2004 social spending more than doubled in real terms in the Irish case, faster than any other member of the EU-15.

These aggregates serve to bring out the complex mix that must be taken into account in seeking to understand and assess the evolution of social protection expenditure, particularly in what was a most unusual macroeconomic context in the Irish case. A deeper understanding would require in-depth investigation of trends over time at the level of specific contingencies and schemes, which is beyond the scope of this study. However, the broad picture described in this chapter should serve as background to the analysis of policy options at the level of contingencies and schemes, to which the bulk of the study is devoted.

3. INTERNATIONAL EVIDENCE

3.1 Introduction

A key feature of the EU's "open method of coordination" for social policy is the comparison of each country's social policies with "best practice" in the area. In this chapter, we look at evidence on risks of poverty (Section 3.2) in order to identify those countries which attain the best outcomes in this area. In Section 3.3, we explore possible reasons for the gap between the at-risk-of-poverty rate in Ireland and in the countries with the lowest risks of poverty. Section 3.4 briefly reviews the findings of a major study on future options for the Dutch welfare state. The main conclusions are drawn together in Section 3.5.

3.2 Cross-Country Evidence on Risks of Poverty

There are two main sources of internationally comparable data on risks of poverty. Table 3.1 presents information drawn from the Luxembourg Income Study, which includes microdata from a range of countries including the US, Canada and Australia as well as a set of European countries (EU and non-EU). The countries are ranked in "league table" form, from those with the lowest poverty risk to those with the highest risk (at the 60 per cent of median income cut-off). The equivalence scale is one specifically developed by researchers from the Luxembourg Income Study. It depends simply on the number of persons in the household, making no distinction between the income needs of adults and children. The scale is the square root of the number of persons in the household. Thus, the LIS scale is 1 for a one-person household, 1.4 approximately for a two person household and 1.73 for a three-person household. EU and OECD calculations tend to be based on what is termed the modified OECD scale, which allows 1 for the first adult, 0.5 for other adults, and 0.3 for each child. Thus, a two-adult household would have a scale of 1.5 (as against 1.4 in the LIS scale) and a two-adult two-child household would have an OECD scale of 2.1, as against a LIS scale of 2).

Table 3.1 shows the results of the LIS-based analysis. The best performing countries, in terms of low risks of poverty, are the Scandinavian countries, along with the Netherlands (the best ranked country) and Luxembourg. Poverty risks for these countries are about 11-12 per cent. The highest risk of poverty, above 20 per cent, are found in four English-speaking countries (the US, Ireland, Australia and the UK) and two Mediterranean countries (Greece and Spain). Some of the continental European countries (Germany, Austria, Switzerland and France) have risks of poverty which are one or two percentage points higher than the Scandinavian countries, and well below those observed elsewhere. The rank

Table 3.1: "At Risk of Poverty" Rates for Industrialised Countries from Luxembourg Income Study, 2000 or Nearest Year

Country	50 Per Cent of Median Income	60 Per Cent of Median Income
Netherlands (1999)	4.9	11.1
Sweden	6.5	12.3
Norway	6.4	12.3
Finland	5.4	12.4
Luxembourg	6.1	12.4
Denmark	5.4	13.1
Germany	8.4	13.4
Austria	7.7	13.4
Switzerland	7.7	13.5
France	7.3	13.7
Belgium	7.9	16.1
Canada	12.1	18.6
Spain	14.2	20.8
United Kingdom (1999)	12.5	21.1
Greece	14.3	21.4
Australia (2001)	13.0	21.6
Ireland	**16.2**	**22.5**
United States	17.7	24.2

Source: Luxembourg Income Study, key statistics.

ordering by risk of poverty at 50 per cent of median income is very similar. There is some re-ranking within the main groups identified (low, high and medium risk) but no country moves from low to medium risk or vice versa.

More systematic comparisons are possible with the group of EU countries, where harmonised surveys (the European Community Household Panel and the EU Survey of Income and Living Conditions (SILC)) have been conducted for about 10 years. This means that we can look at more recent data (2005 instead of 2000) and also examine how stable the ranking is over time.

Table 3.2 documents the Eurostat results for EU countries, which are based on the modified OECD scale. The countries are ordered by the risk of poverty in the latest available year, 2005. Again, the risks found in the Scandinavian countries and the Netherlands are the lowest. Poverty risks in some of these countries (Denmark and Finland) have risen slightly, while that in Austria has fallen, bringing it into this group. Once again, a set of continental European countries (Germany, where risks have fallen as living standards in the former East Germany have risen, Luxembourg and France) have risks only marginally higher than the lowest risk group of countries. The highest risks are found, once again, in the southern countries along with Ireland, where the poverty risk is around 20 per cent. There have been some falls in poverty risk for the high risk group – from 20 to 18 per cent for the UK, and from 23 to 20 per cent for Portugal.

Table 3.2: "At Risk of Poverty" Rates for EU-15 Countries, 1995, 2000 and 2005

	1995	2000	2005
Sweden			9
Netherlands	11	11	11
Finland		11	12
Austria	13	12	12
Denmark	10		12
Germany	15	10	13
Luxembourg	12	12	13
France	15	16	13
Belgium	16	13	15
UK	20	19	18
Italy	20	18	19
Spain	19	18	20
Ireland	**19**	**20**	**20**
Greece	22	20	20
Portugal	23	21	20
EU-15	17	15	16
New Member States			17

Source: Eurostat database based on ECHP and EU- SILC, http://epp.eurostat.ec.europa.eu

Table 3.3: "At Risk of Poverty" Rate by Gender, EU-15 Countries, 2005

	Total	Males	Females
Sweden	9	9	10
Netherlands	11	11	11
Denmark	12	12	12
Austria	12	11	13
Finland	12	11	13
Germany	13	12	14
France	13	12	14
Luxembourg	13	13	13
Belgium	15	14	15
United Kingdom	18	18	19
Italy	19	17	21
Ireland	**20**	**19**	**21**
Greece	20	18	21
Spain	20	19	21
Portugal	20	20	21
European Union (15 countries)	16	15	17
New Member States (10 countries)	17	17	17

Are risks higher for men or for women, and to what extent? Table 3.3 shows male and female poverty risks for EU countries in 2005 (at the 60 per cent income cut-off). Countries are again ranked by overall poverty risk, from lowest to highest. In the three countries with lowest risk (Sweden, the Netherlands and Denmark) the risks are the same for men and women. In the other countries with below average poverty risk, the

rate for women is typically two percentage points above that for men. This is also the modal situation for countries with a risk higher than the average, including Ireland: the risk for men is one percentage point below the overall, and the risk for women is one percentage point above the overall risk. Only in Italy is a more substantial gap found, with the risk for women four percentage points higher than for men.

3.3 Cross-Country Policy Comparisons

What accounts for the differences in poverty rates between countries. Broadly we may distinguish between two types of explanation for a country having a particularly low risk of poverty. This may arise:

(a) because relatively few individuals in this country have characteristics usually associated with poverty (e.g., unemployment, illness or lone parenthood) or
(b) because, although there are many individuals with characteristics linked to a high risk of poverty, the risk in that country, given those characteristics, is itself low relative to the risk in other countries.

Callan *et al.* (2004) explored the extent to which the gap between Irish and Dutch poverty risks could be explained by factors of type (a), aspects of population structure. They used the European Community Household Panel to examine the significance of structural differences in the labour market, demographic profile and household composition for the extent of risk of poverty. The question asked was, in effect, what the "at risk of poverty" rate would be in Ireland if it had the same unemployment rate, or the same age structure, or the same household structure, as obtained in the Netherlands. The aim was to identify the impact of this single change in population structure, so the method involved ensured that there were no other changes. To derive the results, the actual survey data were simply reweighted to shrink or expand the size of the group in question, without changing any of their circumstances or the situation of the rest of the sample – most importantly, their incomes.

The conclusion from these simulations was that differences in age profiles, patterns of labour force participation, and household composition do not in themselves appear to play the major role in explaining the substantial gap in "at risk of poverty" rates between Ireland and the Netherlands.[5] This suggests that the key to the gap lies in type (b) factors, differences in the risks of poverty faced by similar population groups. Although it cannot be guaranteed that this result would hold in other comparisons, it is worth noting that it is entirely consistent with the results from a similar exercise carried out with data from the Luxembourg Income Study. Rainwater and Smeeding (1997) employ a similar simulation method based on reweighting the survey samples. Their analysis covers the Netherlands, Belgium, Denmark, France, Germany, the UK, Australia and the USA and arrives at similar findings to those discussed above. Rainwater and Smeeding conclude that social protection and the way household income is built up or "packaged" have far stronger effects on 'at risk of poverty' rates (and income inequality) than demographic factors such as age or household composition. Focusing on the Netherlands, they conclude that:

[5] In fact, the analysis was extended to cover 5 countries, and similar results were obtained.

> It is the Dutch income package, not its demography, which produces low rates of poverty. (Rainwater and Smeeding, 1997.)

Biewen and Jenkins (2002), using somewhat different methods arrive at similar conclusions: most of the poverty difference between the US and Britain, and between the US and Germany was accounted for by higher US risks of poverty for any given set of personal characteristics. This was partly offset by a more favourable distribution of household characteristics in the US, principally a higher employment rate.

This brings the focus back to factors influencing the poverty risks facing the same population groups. Differences in tax-benefit structures are clearly relevant here. To what extent can inter-country differences in 'at risk of poverty' rates be attributed to differences in tax/transfer systems? Aggregate measures examined in Chapter 2 indicate that social expenditure as a proportion of national income in Ireland is much lower than in the EU countries with the lowest "at risk of poverty" rates. Ireland's position in the ranking of countries by expenditure on social protection is not as high as its ranking in terms of national income.[6] Aggregate level comparisons of "welfare effort" and 'at risk of poverty' rates suggest that there is a relationship. There is, however, a more direct way to examine the possible impact of differences in tax and welfare structures on inter-country differences in "at risk of poverty" rates. This involves using a tax-benefit model which can examine the first-round impact of simulating a "foreign country" policy as well as its own domestic policies to arrive at a more precise estimate of how much policy differences contribute to the explanation of differences in poverty rates. Callan *et al.* (2004) used *SWITCH*, the ESRI tax benefit model to undertake such an analysis. Rather than directly "importing" Danish welfare payment rates, an alternative welfare system was modelled for Ireland with payment rates which were similar to those in Denmark in terms of their relationship to average earnings.

A further key difference is that a greater proportion of the Danish population is covered for key social insurance schemes than in Ireland. For some of the biggest social insurance schemes in Denmark – including pensions – eligibility is linked to *residence*, so that how much is paid in pension depends on the length of stay in the country, not on former income or contribution record. In order to capture this difference, Callan *et al.* (2004) simulated a "Danish-style" system in Ireland under which the payment rates for non-contributory and contributory Old Age Pensions were the same, and were scaled to provide the same level of income in relation to average earnings as the Danish pension.

The simulation results show substantial falls in the Irish "at risk of poverty" rate at 60 per cent of median income, the application of the Danish structure/support levels reducing the rate by 7 percentage points. There is little or no impact on poverty at the lower cut-offs. This means that differences in social protection could account for about two-thirds of the difference in actual relative poverty rates between the two countries at

[6] This applies even when the comparison takes account of the fact that Ireland's GNP per head is considerably lower than GDP per head.

the 60 per cent of median income threshold. This simulation takes into account the need to increase taxes very substantially, but does not take account of behavioural responses in the labour market.[7]

What are the broader lessons to be drawn from this analysis? Atkinson has pointed out that:

> Social investment in improving labour market skills and employability, or an 'active welfare state', is an important part of anti-poverty policy, but is not a complete substitute for social spending (Atkinson, 2000).

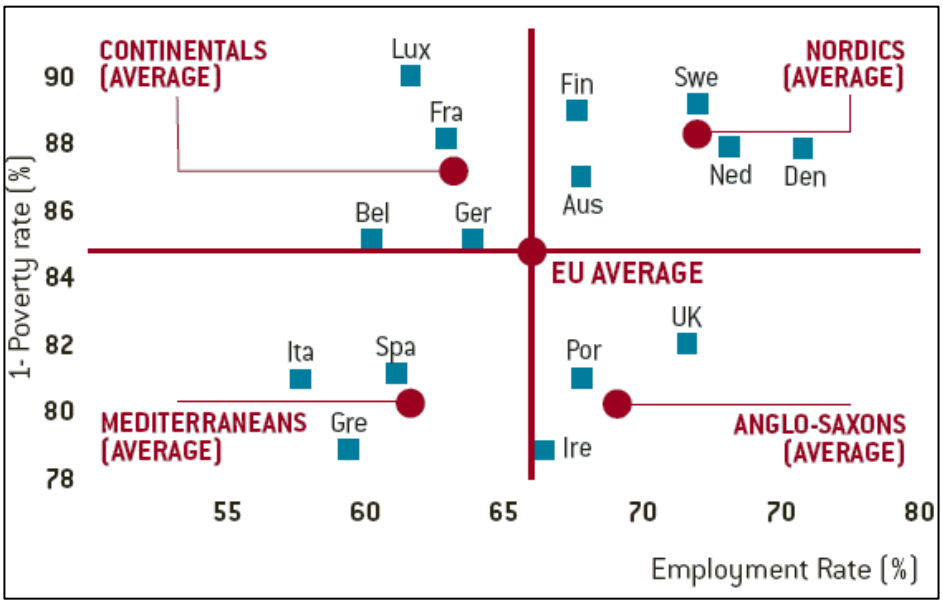
Thus, for anti-poverty policy to make progress requires enhanced education and employment opportunities and improved income supports. Both elements are necessary – neither is sufficient on its own to ensure success in combating "at risk of poverty".

The success of countries such as Denmark and the Netherlands in keeping 'at risk of poverty' at low levels over a sustained period depends crucially on both of these factors: a high employment rate and a comprehensive welfare system ensuring that those without income from employment have an adequate income. Each of these factors is necessary, but neither on its own can be regarded as sufficient to keep 'at risk of poverty' at a low level. Since the mid-1980s Ireland has made the transition from a labour market with relatively low participation rates and high unemployment to one with high employment and low unemployment. This represents a major achievement, and one of the two key elements identified above as distinguishing countries with low relative poverty rates such as Denmark and the Netherlands from others. Over this period, however, "at risk of poverty" rates in Ireland have remained higher than the EU average. Comparison with "best practice", in the EU countries who do best on this indicator, suggests that achieving low rates of "at risk of poverty" risk would require a more comprehensive safety net and higher rates of welfare payment.

Sapir (2005) gives a broader perspective on these issues. Figure 3.1, drawn from Sapir (2005), provides a useful typology of welfare regimes and their associated outcomes in terms of social inclusion (indicated by the proportion of persons *not* at "risk of poverty") and economic efficiency (indicated by the overall employment rate, which takes into account not just unemployment but also labour market participation). The EU-15 countries are plotted on this chart, with efficiency (measured by the employment rate) on the x axis, and equity (the percentage chance of not being "at risk of poverty", or 100 minus the percentage risk of poverty). The four welfare regimes are the Scandinavian model; the Continental European system; the liberal model (termed Anglo-Saxon by Sapir and others); and the model of the Southern/Mediterranean countries, with a less developed welfare state.

[7] Issues regarding financing and behavioural responses are taken up again in Chapter 12.

Figure 3.1: Employment Rates and Probability of Avoiding Poverty, EU, 2004



Source: Sapir (2005).

Sapir argues that this evidence indicates that the Scandinavian economies and welfare regimes are attaining both equity and efficiency goals. Ireland and the UK score well on the efficiency front, but not on the equity goal. The Continental economies, by contrast, score well on equity but not on efficiency; while the Mediterranean or southern EU countries, by and large, achieve neither efficiency nor equity.

3.4 Reform Options: A View from the Netherlands

A major study of options for the future of the Dutch welfare state was undertaken by de Mooij (2006). At present, the Dutch welfare state could be characterised as something of a hybrid between a Scandinavian style system and a typical Continental European system. Three major directions for reform were considered:

- A *residual welfare state*, characterised by a more flexible labour market and greater emphasis on private responsibility, with a smaller role for government. The reform package analysed in this respect included lower benefits, a lower minimum wage and a flat tax schedule.
- A *universal welfare state*, on the other hand, involves more generous and uniform social provision, "…combined with intensive and mandatory activation and public expenditures that are complementary to labour". Reforms here included further individualisation of the tax system, public childcare support and "…intensified activation strategies with strict monitoring backed by sanctions".
- A *diversified welfare state*, where redistribution remains the preserve of central government, but is at a reduced level. Central government also sets some rules regarding certain types of social insurance, leaving it to "clubs" or "regions" to provide insurance in line with the rules. Reforms include a diversification of unemployment insurance, with average benefits and duration falling.

These alternative reform packages are simulated in a model which allows for behavioural responses such as changes in labour supply, within a consistent macroeconomic framework.

What are the results for the different reform packages? Each of the packages leads to an increase in labour supply. The greatest increase is for the residual welfare state package; the least is for the diversified welfare state. Direct estimates of risks of poverty are not provided. But a "replacement rate" type measure is used as an indicator of social cohesion. This shows that the replacement rate is reduced substantially by the residual welfare state package, and more modestly by the diversified welfare state. There is little change (a slight fall) in the ratio under the universal welfare state package. Similarly, the residual welfare state leads to a strong increase in income inequality; while the universal welfare state reforms boost labour supply without an increase in inequality.

3.5 Conclusions

The proportion of persons "at risk of poverty" in Ireland is among the highest in the EU. Simulation approaches demonstrate that differences in the age profile, the pattern of labour force participation, and household composition do not play the major role in observed cross-country variation in the percentage "at risk of poverty". Differences in tax and welfare rates and structures are more important: tax-benefit model simulations applying Danish welfare structures and support levels (relative to average income) to Ireland finds this substantially reduces the "at risk of poverty" rate. There is of course a substantial extra cost associated with Danish-style payment rates and coverage. The simulations take account of the direct implications of financing this through income taxes, but not the behavioural implications. Issues concerning financing and labour market responses to changed policy are considered in Chapter 12.

Sapir (2005) identifies the Scandinavian model as one which attains both efficiency (high employment rates) and equity (low risks of poverty). Successful anti-poverty policy requires both enhanced education and employment opportunities and improved income supports – neither is enough on its own. (Indeed, anti-poverty policy will also typically require the provision of other services, such as health care, housing, childcare and elder care.) Countries such as Denmark and the Netherlands have sustained both high employment and a comprehensive welfare system ensuring that those without income from employment have an adequate income. Over the last decade Ireland has successfully made the transition to high employment and low unemployment rates. The experience of other EU countries suggests that achieving low rates of "at risk of poverty" would in addition require a more comprehensive safety net and higher rates of welfare payment relative to average incomes. In later chapters we will examine the scope for such changes and their potential impact on different vulnerable groups. The wider implications are brought together in Chapter 12, which looks at alternative policy packages.

4. DEMOGRAPHIC AND SOCIO-ECONOMIC CONTEXT

4.1 Introduction

Ireland has seen major changes not only in its economic fortunes but also in its demographic and socio-economic profile over recent years, as a result of dramatic developments in migration but also more subtle longer-term trends. To further flesh out the context in which policy options and directions in specific areas have to be thought about, this chapter describes key aspects of that demographic and socio-economic context. We begin with an overview of Ireland's current population profile and go on to highlight some important recent developments.

4.2 Population Structure

The age structure of the population is fundamental to the context in which social policies operate, and the publication of data from the *2006 Census of Population* means that an up-to-date picture is now available. Table

Table 4.1: Population by Age Group, Ireland 2006

Age	Number	Per Cent
0-4 years	302,252	7.1
5-9 "	288,325	6.8
10-14 "	273,872	6.5
15-19 "	290,257	6.8
20-24 years	342,475	8.1
25-29 "	373,078	8.8
30-34 "	349,361	8.2
35-39 "	322,105	7.6
40-44 "	301,329	7.1
45-49 years	274,745	6.5
50-54 "	247,068	5.8
55-59 "	225,328	5.3
60-64 "	181,727	4.3
65-69 years	143,396	3.4
70-74 "	119,152	2.8
75-79 "	92,466	2.2
80-84 "	64,884	1.5
85 years and over	48,028	1.1
Total	4,239,848	100

Source: Census of Population 2006.

4.1 shows that the population had reached over 4.2 million at that point, a marked increase on the previous Census when it was 3.9 million. This increase has major implications from a social policy and social protection perspective, but so does the age structure. We see that 21 per cent of the population was aged 14 years or under and 29 per cent were aged 19 years or under, a very high proportion of whom one would expect to be dependent on others in financial terms. At the other end of the age spectrum, 11 per cent are aged 65 years or over, with under 3 per cent aged 80 years or over – again, these are likely for the most part not to be in the paid labour force. So about six out of ten persons in the population are in what we generally thought of as the working age range.

It is interesting to put this in comparative perspective, drawing on data for other EU member states (which refers to 2005). Table 4.2 shows that Ireland is distinctive in having substantially more children and fewer older people in the population than many other EU countries and the EU average. With these two divergences counter-balancing one another, the proportion of working age is close to the EU average.

Table 4.2: Composition of Population by Age, EU Countries, 2005

Country	Percentage Under 16 Years	Percentage 16-64 Years	Percentage 65 Years or Over
Belgium	19	65	16
Czech Republic	16	70	14
Denmark	20	65	15
Germany	15	66	19
Estonia	17	67	16
Ireland	**22**	**67**	**11**
Greece	16	66	18
Spain	15	68	17
France	19	65	16
Italy	15	66	19
Cyprus	20	68	12
Latvia	16	67	17
Lithuania	19	67	15
Luxembourg	20	67	14
Hungary	17	68	15
Malta	19	66	15
Netherlands	20	67	13
Austria	17	67	16
Poland	18	69	13
Portugal	17	66	17
Slovenia	15	69	15
Slovakia	16	71	12
Finland	19	65	16
Sweden	21	63	16
UK	19	64	17
EU-15 average	17	66	17
EU-25 average	17	66	17

Source: Eurostat (downloaded 31/5/2007).

In terms of recent trends, Table 4.3 shows that this age structure has not shifted over the past twenty years in terms of the proportion aged 65 years or over; indeed even the proportion aged 80 years or over has risen only modestly, so Ireland has not (yet) experienced the "greying" of the

population seen in some other rich countries. However, over the same period there has been a marked decline in the share of the population made up by children. The table shows that the percentage of the population aged 14 years or below fell sharply, from 29 per cent to just over 20 per cent, over the two decades – with the consequent increase in the proportion of working age having profound economic as well as social implications.

Table 4.3: Population by Age Group, Ireland 1986-2006

	Per Cent 1986	Per Cent 2006
0-14 years	28.9	20.4
15-64 years	60.2	68.6
65 years and over	10.9	11.0
of whom		
80 years and over	1.9	2.6

Source: Census of Population 2006.

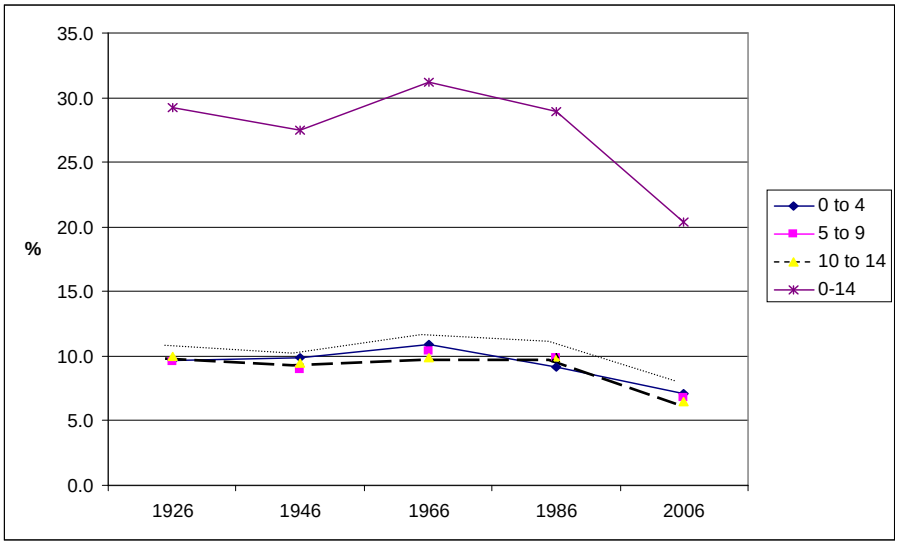
Following this brief overview, we now focus in turn on population groups and family types of particular interest and highlight some important trends, before turning to migration which has been a key feature of recent developments.

4.3 Children

In the previous section we saw that those aged 14 years or under comprised 20.4 per cent of the Irish population in 2006. If we look at the number aged under 18 years – a conventional cut-off in distinguishing "children" from "adults" - the recent Census showed just over one million persons (1,036,034) of that age, representing 29 per cent of the population. Of these, 29 per cent are aged between 0 and 4, similar numbers are aged 5-9 and 10 to 14, and about 17 per cent are aged between 15 and 17 years.

We saw in the previous section that the share children comprise in the total population fell sharply from 1986 to 2006. If we take a longer time horizon, then Figure 4.1 shows that the share of the population aged 0-14

Figure 4.1: Percentage Share of Children in the Irish Population Over Time, 1926-2006

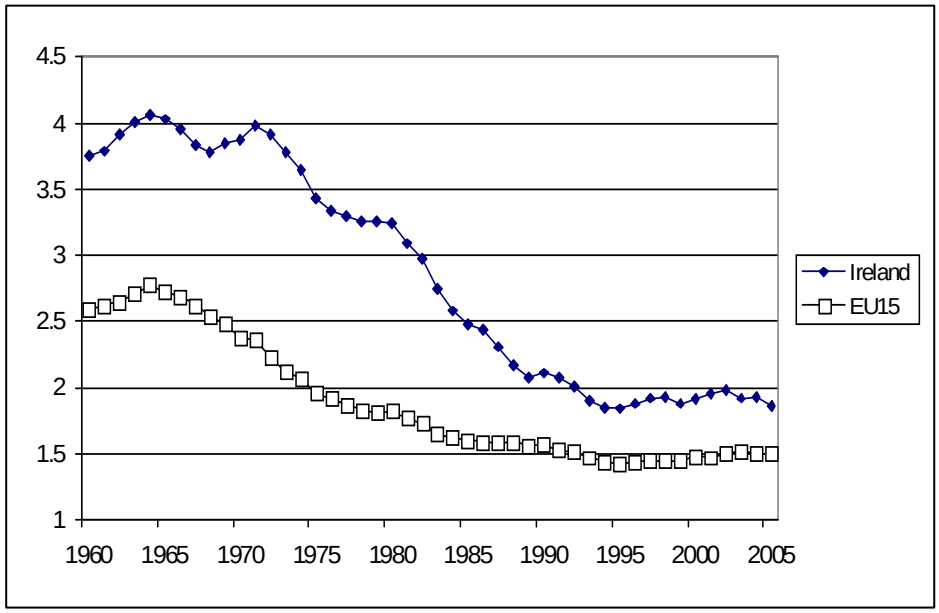


Source: Census of Population.

years peaked in the 1960s, declined slowly until the mid-1980s, and fell sharply from then until 2002, with the recent Census showing it was stable since then.

These changes primarily reflect trends in birth rates. The total fertility of women of normal childbearing age was much higher in Ireland than elsewhere in the EU15 in the 1960s, but as Figure 4.2 shows it fell rapidly for two decades from 1970. That decline bottomed out in the 1990s, and fertility then recovered slightly. By 2003 the total fertility rate was somewhat higher than it had been in 1995, and is now marginally below the population replacement rate.[8]

Figure 4.2: Total Fertility Rates in Ireland and the EU-15, 1960-2005



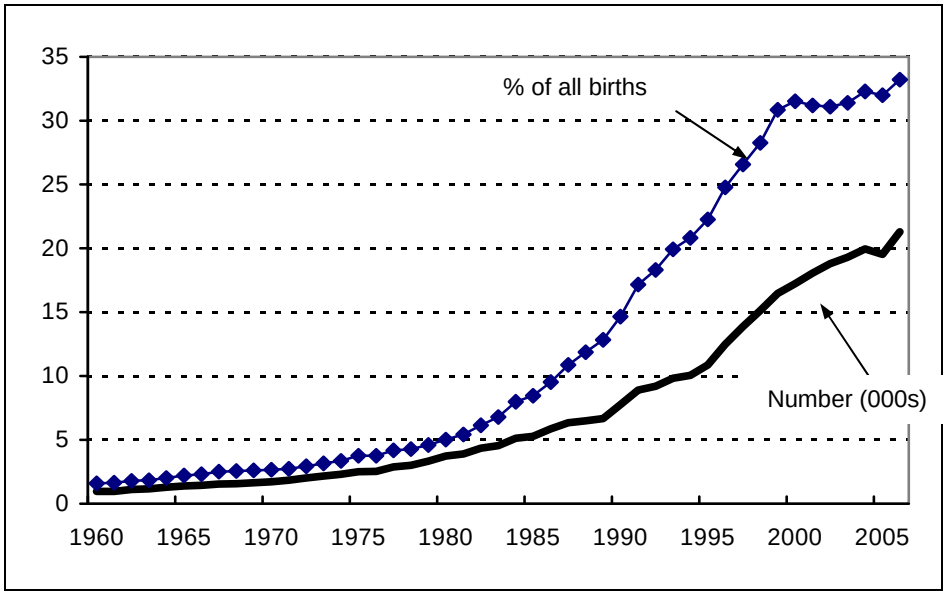
Source: Eurostat.

Women in Ireland have traditionally had a late age at childbearing, and this remains the case. In 1960, the average age of women giving birth was 31.6 years. Over the following two decades, that age shifted slightly downwards and was 28.8 years in 1980. Thereafter it edged slowly upwards again, and by 2003 had reached 30.6 years. At the same time childbearing has declined among those aged in the teens and early 20s on the one side and aged over 40 on the other, and has become increasingly concentrated among women aged in their 30s. Teenage birth rates now account for less than 6 per cent of births, and have fallen slightly since the early 1980s. The birth rate among women aged 40-44 years is now less than a third of what it was in the early 1970s, while births among those aged 45 years or over, while always unusual, have also declined since the 1970s.

[8] Technically, the 'replacement' fertility rate is the number of births that 100 women of reproductive age would need to have in order to replace themselves, that is, to produce 100 women of reproductive age. This rate is now usually defined as 210 births per 100 women (or 2.1 per woman). Of these 210 births, just over 108 on average will be male and just under 102 will be female (this gender imbalance is a biological feature of human reproduction). About two of the females will die before they reach the average reproductive age, thus yielding the 100 live females of that age. Replacement fertility in this sense is quite different from population replacement, since the latter is strongly affected in addition by migration.

A rapid increase in the share of fertility occurring outside of marriage began in the 1980s and continued unabated through the 1990s, approaching one-third of births in 2000 and then levelling off, as shown in Figure 4.3. This has implications for their family circumstances and the extent to which children are in lone parent families, a specific group we discuss in the next section.

Figure 4.3: Births Outside of Marriage, 1960-2003



Source: CSO *Vital Statistics.*

There has also been a marked fall in the number of children per family, and thus the number of siblings that each child has. The number of children aged under 15 years living in households with only one or two children (below 15) rose by 59 per cent between 1981 and 2002, while the numbers living in households with four, five or six or more children fell equally sharply, as shown in Table 4.4 (to be updated to 2006). This meant that by 2002, 60 per cent of children were living in households with one or two children, compared to 35 per cent in 1981, and 15 per cent were living in households with four or more children, compared to 38 per cent in 1981. This reflects the fact that higher order births were exceptionally common in Ireland in the quite recent past, but have been declining very rapidly.

Table 4.4: Distribution of Children by Number of Children in Household, 1981 and 2006

Children in Household	1981		2006	
	Number of Children	%	Number of Children	%
1	118,041	11.5	209,402	24.3
2	248,580	24.1	325,836	37.8
3	267,225	25.9	213,915	24.8
4	196,304	19.0	81,384	9.4
5 or more	200,901	19.5	32,471	3.8

Source: Census of Population.

Large families, which can require special consideration from a policy perspective are, therefore, very much less common than they used to be

quite recently. From a comparative perspective, though, Table 4.5 shows that Ireland still has a very high proportion of households comprising a couple with three or more children – the highest of any country in the EU-25, and twice the EU average.

Table 4.5: Share of "Large Families" Among All Households, EU Countries, 2005

Country	Per Cent Couple with 3 or More Children
Belgium	13
Czech Republic	5
Denmark	10
Germany	8
Estonia	7
Ireland	**15**
Greece	2
Spain	5
France	5
Italy	9
Cyprus	5
Latvia	11
Lithuania	5
Luxembourg	7
Hungary	13
Malta	8
Netherlands	9
Austria	13
Poland	8
Portugal	8
Slovenia	4
Slovakia	6
Finland	12
Sweden	11
UK	7
EU-15 average	7
EU-25 average	8

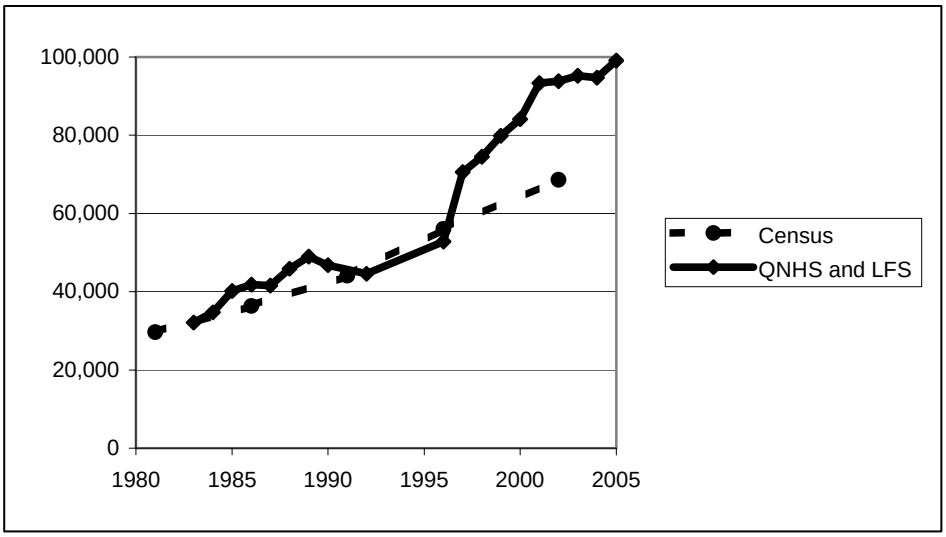
Source: Eurostat (downloaded 31/5/2007).

4.4 Lone Parent Families

Lone parent families are also a particular focus for social policy and social protection, so it is of interest to look at the numbers involved and how they have been changing. The *Census of Population* and the *Quarterly National Household Survey* are the key statistical sources in this regard, and Figure 4.4 shows the incidence of lone parenthood as measured by these sources. Each shows substantial growth in the incidence of lone parenthood over the past 25 years or so. On the Census measure, the numbers more than doubled from a base of about 30,000 in the early 1980s to almost 70,000 in 2002. The *QNHS* measure suggests even more rapid growth, to a level close to 100,000 in 2005. The reasons for such a marked difference in the estimates are not clear. The 2006 Census introduced new questions on relationships within the household to help to identify lone parents more accurately. These results are discussed in detail in Chapter 5, but show a total of 152,542 households comprising a lone mother or father living with her or his offspring of any age and no other persons; a further 17,238

households include a lone mother or father living with her/his children and other persons.

Figure 4.4: Growth in the Incidence of Lone Parenthood, 1981-2005



Source: Census of Population five-yearly intervals from 1981 to 2006 (with *2001 Census* delayed to 2002) and *Labour Force Surveys* and *Quarterly National Household Survey* for years from 1983 to 2005.

The rise in lone parenthood has been associated with an increase in marital breakdown, and a rise in non-marital childbearing (which includes cohabiting as well as lone parents). Working in the other direction, there has been a marked decline in the proportions widowed over the period. The proportion of births accounted for by non-marital births rose sharply through the 1980s and 1990s, but has levelled off since 2000 at just under 1 in 3. It is also important to remember that not all lone parents are living in single-adult households, some live with one or both of their own parents in a multigenerational household, or in other housing arrangements. It appears that about 70 per cent of lone parent families with dependent children under 18 years live in "self-contained" lone parent households, with the remaining 30 per cent mostly in multi-generational households.

Cross-country comparisons on the rate of lone parenthood are beset by difficulties (see Bradshaw, 1996 for details), but data produced by Eurostat presented in Table 4.6 show Ireland with an above average proportion of households being a single adult with children, but less than the UK which is a clear outlier.

Table 4.6: Share of Lone Parent Households, EU Countries, 2005

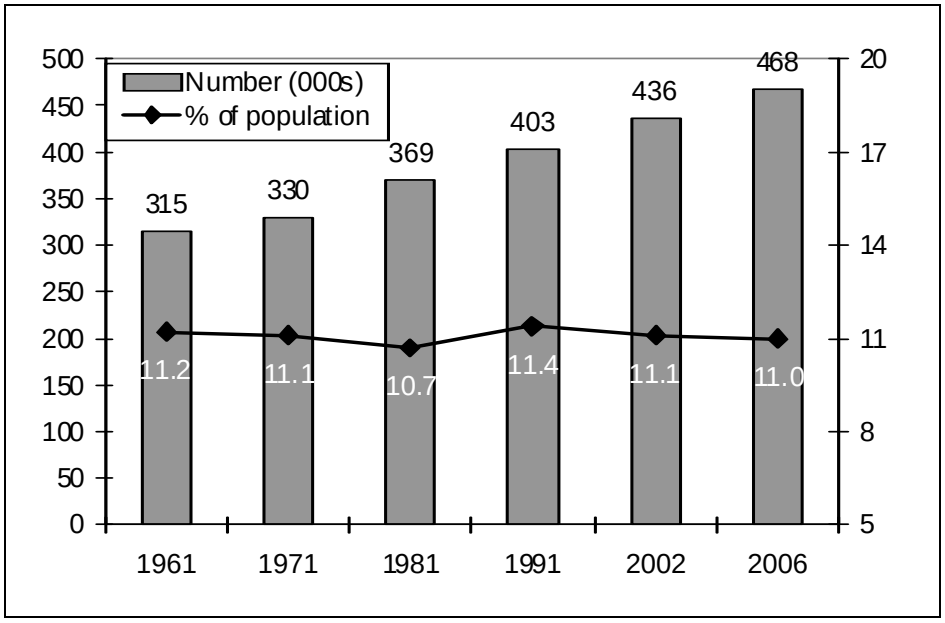
Country	Per Cent Single Adult with Child(ren)
Belgium	6
Czech Republic	4
Denmark	7
Germany	8
Estonia	7
Ireland	**7**
Greece	2
Spain	2
France	5
Italy	2
Cyprus	3
Latvia	6
Lithuania	6
Luxembourg	3
Hungary	5
Malta	2
Netherlands	4
Austria	4
Poland	3
Portugal	3
Slovenia	3
Slovakia	3
Finland	5
Sweden	8
UK	9
EU-15 average	6
EU-25 average	5

Source: Eurostat (downloaded 31/5/2007).

4.5 Older People

The *2006 Census* shows 467,926 persons aged 65 years or over in Ireland in April 2005, comprising 11 per cent of the total population. Of these, 56 per cent are aged under 75 years, a further one-third are aged between 75 and 84 years, and 10 per cent of older people are aged 85 years or over. As we have seen, the population share of this age group is remarkably low in Ireland, and has not been growing in recent years. The *absolute* number of older people has increased but the share in the total population has remained almost unchanged at around 11 per cent since the early 1960s, as shown in Figure 4.5. In the EU-15, the percentage of the population aged 65 years or over rose from 12 per cent in 1970 to 17 per cent in 2004, so Ireland is exceptional in this respect.

Figure 4.5: Older People (Aged 65+) in Ireland, 1961-2006: Number and Percentage of Population

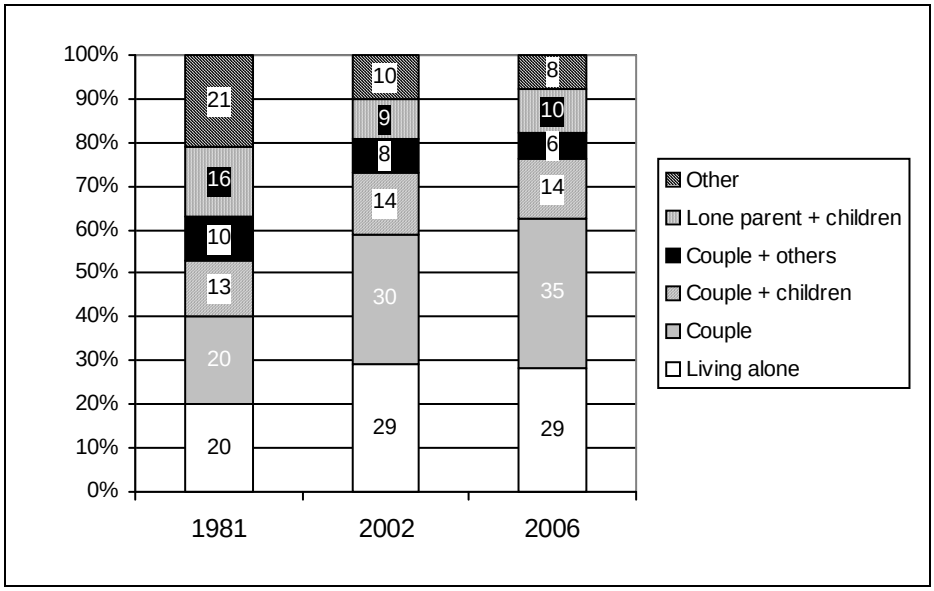


Source: Censuses of Population.

A number of distinctive features of Irish demographic development account for this "non-ageing" of the population. One is the relatively high birth rates, especially up to the early 1980s, noted earlier. Another is the high emigration of the 1950s, which meant that the cohorts reaching 65 years in the 1990s and early part of this decade were smaller than they otherwise would have been. A further factor has been the slow rate of improvement in older-age longevity in Ireland in the second half of the twentieth century, especially among men – it is only since the latter part of the 1990s that older Irish people began to close the life expectancy gap with the rest of Europe.

There is a growing tendency for older people to live apart from their children or other relatives, in Ireland as in other rich countries, which also has implications for social policy. In 2002, almost 60 per cent of those aged 65 years or over were living either alone or as a couple. Figure 4.6 illustrates this trend by showing the household circumstances of older people in 1981, 2002 and 2006. The household types among older people that have shown the largest increases are the solitary/living alone household and the couple household. In 2006, 29 per cent of older people were living alone and 35 per cent were living in a couple household, compared to 20 per cent living alone and 20 per cent in a couple household in 1981. Those living in couple households with children or others present have remained more or less as common as before, but those living in non-couple or more complex households (e.g. lone parents/the widowed living with children or non-married elderly living with siblings or other relatives) have become much less common.

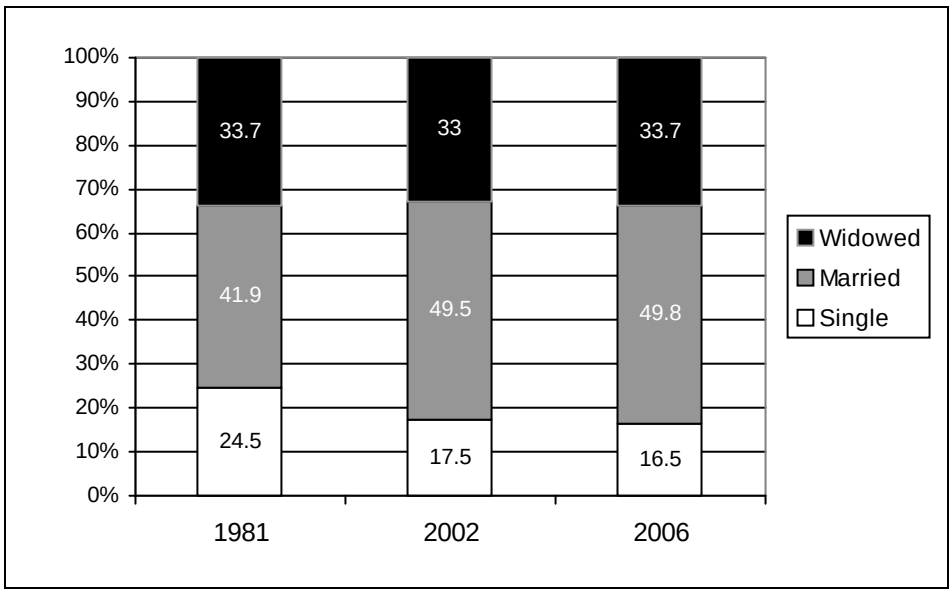
Figure 4.6: Household Circumstances of Older People in Ireland, 1981 and 2002



Source: Census of Population.

The changing household composition of older people is associated with another important shift in their circumstances, namely the growing likelihood that they have been married at some point in their lives rather than remaining permanently single. Ireland had a uniquely low marriage rate in the period when the oldest of the present population were in the marriageable ages of their lives, and the consequences remained visible decades later; Figure 4.7 shows that in 1981 almost 25 per cent of older people were single. However, a marriage boom then occurred in Ireland in the 1960s and 1970s. Those who married at that time are now entering old age, increasing the proportion of married people in the older population. By 2006, for example, almost 50 per cent of older people were in a surviving marriage, compared to 42 per cent in 1981, while the proportion who had never married had fallen to 17.5 per cent and is likely to fall further over the coming period. (The proportion widowed has also fallen.) For older people of this generation, remaining single also usually entailed remaining childless, and so the shift away from singlehood in the older population means a decline in the proportion of older people who lack either a spouse or adult children to look after them in old age. This means, among other things, that the growing tendency for older people to live alone or apart from their children does not necessarily mean a corresponding rise in risk of isolation, since more older people are likely to *have* children and/or a spouse and so are less likely to be completely alone in the world.

Figure 4.7: Marital Status of Older People, 1981 and 2006

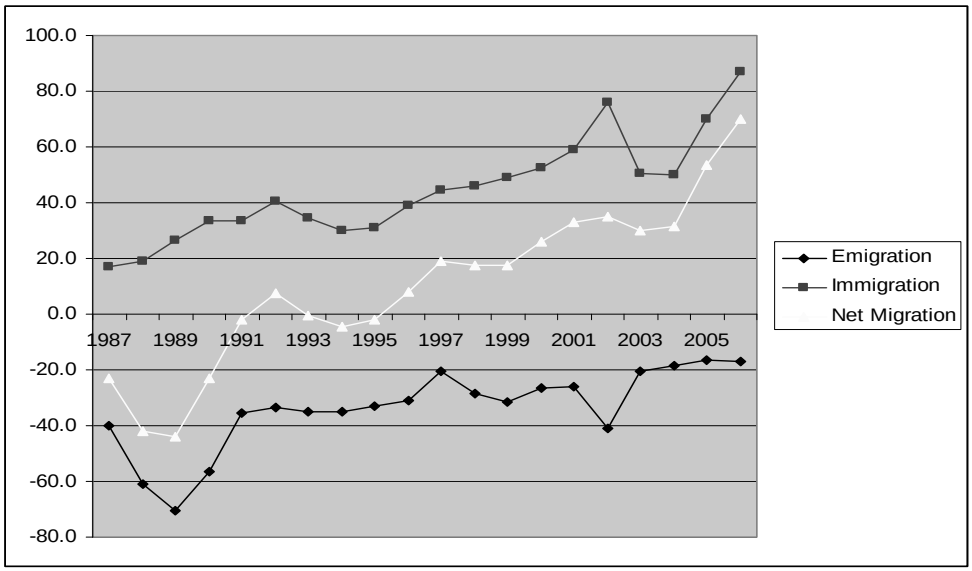


Source: *Census of Population.*

4.6 Migration

Ireland's economic boom from the mid-1990s resulted in a sustained increase in employment and decline in unemployment, and had a pronounced impact on migration flows in and out of the country. Figure 4.8 shows the change from net emigration in the late 1980s to net immigration from the mid-1990s onwards. In 1987, 23,000 more people left than entered the country (40,000 left while 17,000 came in). In the early 1990s the outflows and inflows were almost in balance. However, from 1996 onwards net migration has made a positive contribution to Ireland's population growth. The net inflow of immigrants increased from 8,000 a year in 1996 to 67,000 a year in 2006.

Figure 4.8: Emigration, Immigration and Net Migration, 1987-2006

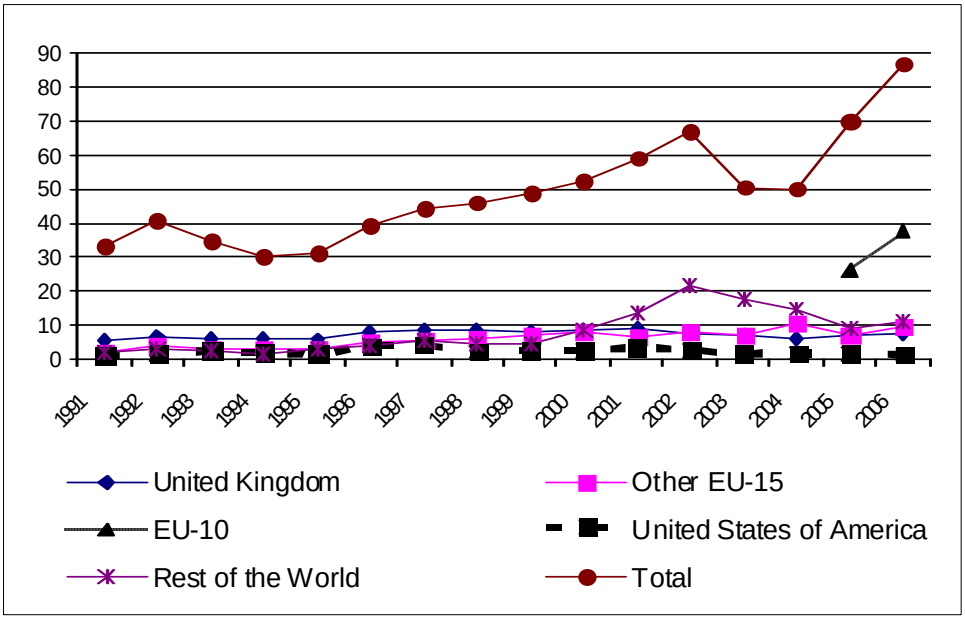


Source: Central Statistics Office.

The composition of migratory flows to Ireland has become increasingly diverse. In 1991 about two-thirds of the total number of immigrants were

Irish people returning home, but by 1996 returning migrants accounted for less than half of the gross inflow. The importance of the return flow of people who had left Ireland continued to diminish and by 2006 it had fallen to 20,000 or less than one-quarter of the gross inflow of 87,000. At that point, over three-fifths of the gross inflow consisted of nationals from other EU countries, including the new Member States from Central and Eastern Europe who joined the European Union in 2004. Over four-fifths of the non-Irish migrants in 2006 were nationals of the EU-25. Figure 4.9 shows how the country of origin of immigrants changed between 1991 and 2006. In 1991, 56 per cent of all immigrants who moved to Ireland came from the UK and 13 per cent came from the US, many of whom were Irish workers returning home. Immigrants from the rest of the EU and the rest of the world amounted to 31 per cent in total. In 2006 immigrants from the rest of the EU and the rest of the world accounted for over two-thirds of the total inflow, with the biggest increase for the latter.

Figure 4.9: Estimated Flow of All Immigrants by Country of Origin, 1991-2006 (Thousands)



Source: Central Statistics Office.
Note: European Union refers to EU-15.

These changing patterns of migration, as well as having major implications for social policy in themselves, have had an impact on the composition of the population by nationality and ethnic origin. In 2006, over 10 per cent of the population were foreign nationals as shown in Table 4.7. Of these 113,000 were UK nationals, almost 165,000 were nationals of other EU countries, and 145,000 came from outside the EU. This compares to 67,000 from the UK in 2000, with 25,000 from other EU countries and 34,000 from outside the EU.

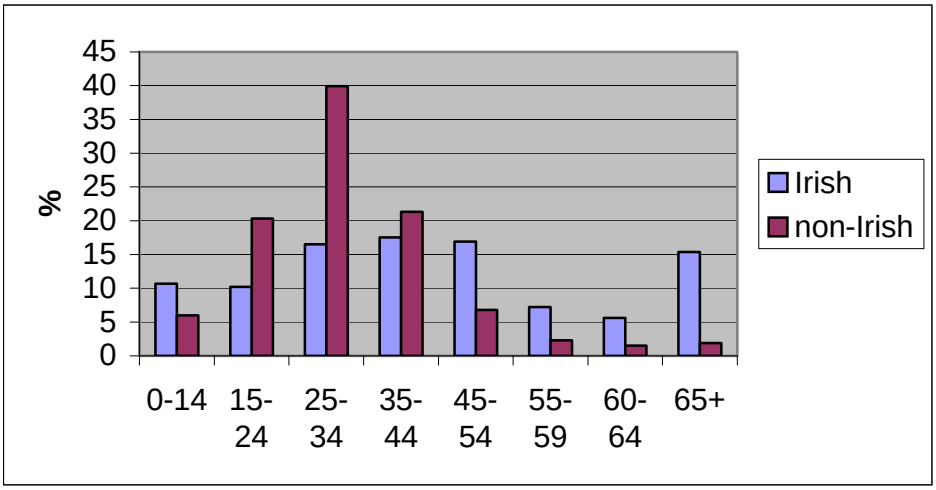
Table 4.7: Total Population in 2000 and 2006 Classified by Nationality (000s)

Nationality	2000*	2006
Irish	3,660.4	3,706.7
UK	66.9	112.6
Other EU 15/25	25.3	163.2
Non EU	34.3	145.3
USA	8.0	12.5
Other	26.3	132.8
Total Population	3,786.9	4,127.8
Foreign Population	126.5	421.1
Per cent Foreign	3.3%	10.2%

Source: CSO, 2000 and 2007.
**Note:* The CSO has revised total immigration figures for 2000 but not nationality data. Consequently, the unrevised figures are supplied here.

Migrants are distinctive in terms of age profile, and thus also have an impact on the profile of the population. Using the CSO's *Quarterly National Household Survey*, Barrett, Bergin, and Duffy (2006) looked at non-Irish immigrants who arrived in Ireland in the ten years up to 2003 and were in the labour force at that point, and found that over 80 per cent were aged between 20 and 44 years, compared with 44 per cent of the native population (which includes return migrants born in Ireland and of Irish nationality). Figure 4.10 compares the age profile of residents of Irish nationality with those who did not have Irish nationality in the 2006 Census.[9] This again shows a much higher proportion of the non-Irish than Irish population in the 15-24 years and 25-34 years age ranges.

Figure 4.10: Age Profile of Usual Residents by Age Distinguishing Non-Irish Versus Irish Nationality, 2006



Source: *Census of Population.*

[9] This does not correspond to a distinction between immigrants and non-migrants since some people not of Irish nationality may have been in Ireland since birth, but nonetheless serves as a reasonable approximation.

4.7 Conclusions

This chapter has set out some important trends in population and family structures which provide the context in which policy has to be framed, including the declining share that children make up in the total population, falling family size and apparent recent stability in the importance of lone parent households. In concluding, it should be emphasised that the stability in the share of older people in the Irish population which has persisted for many years is likely to change in the future, and projecting the size of that population, though problematic, is also a key ingredient in thinking about social protection and pensions policy in particular. That is inextricably linked with prospects for migration, which is particularly difficult to project given its dependence on macroeconomic developments.

5. ONE PARENT FAMILIES

5.1 Introduction

In Ireland, as in many other countries, lone parents have tended to have a higher than average risk of poverty. There has also been substantial growth in the incidence of lone parenthood. Taken together, these factors mean that policies dealing with lone parents face particular challenges. The recent report on lone parenthood (Department of Social and Family Affairs (DSFA), 2006) reviews much of the relevant evidence, and presents for discussion proposals for a restructuring of policy regarding lone parenthood. Callan *et al.* (2007) provide a detailed statistical portrait of this vulnerable group, from which we draw at relevant points in this chapter. We begin by setting out the Irish experience in relation to the growth of lone parenthood (Section 5.2) and how its incidence compares with that in other countries. In Section 5.3 we examine how poverty risks for lone parents vary across countries, with a view to identifying countries embodying "best practice", as emphasised by the EU's "open method of coordination" regarding social policy and social inclusion. Employment rates across countries and over time are examined in Section 5.4, as a backdrop to the discussion of income and employment supports in Section 5.5. We focus particularly on countries which have either low levels of poverty risk for lone parents, or have made good progress in reducing poverty risks. In Section 5.6 we look more closely at the official proposals (DSFA, 2006) for reform of Irish policy structures, and consider them in the light of the review of policies in countries with a successful track record in reducing poverty risks for lone parents or keeping that risk at a low level. The main conclusions are drawn together in the final section.

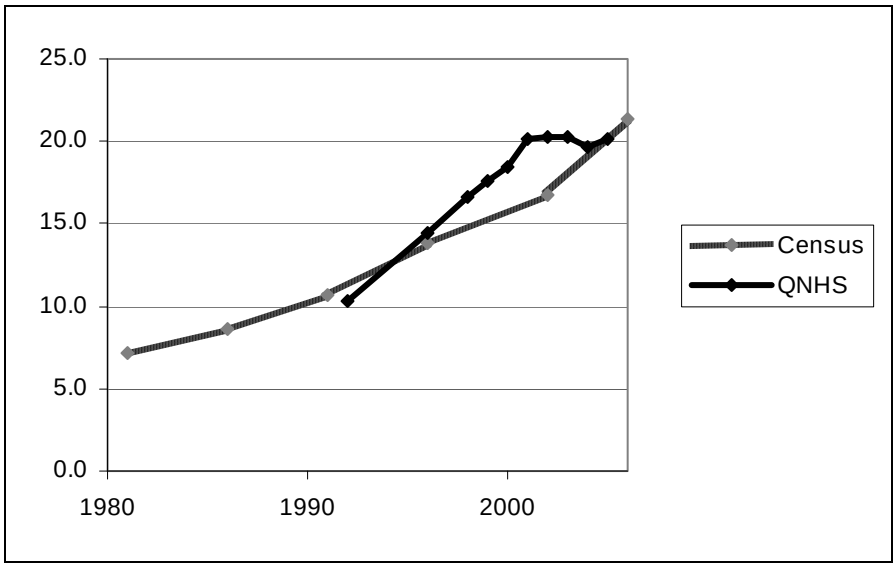
5.2 Growth in Lone Parenthood

The rapid growth in lone parenthood in Ireland was described in Chapter 4 (Section 4.4). The number of one-parent families with a child aged under 15 years rose from about 30,000 in 1981 to about 100,000 in 2006. Another perspective is given by examining what proportion of all families with dependent children is accounted for by lone parent families. Figure 5.1 illustrates how this proportion has grown over time. Census data indicate that the proportion has risen from 7 per cent in 1981 to 21 per cent in 2006. The *Quarterly National Household Survey* confirms the rise in the proportion since the mid-1990s, but suggests that the rate has stabilised since about the year 2000.

How does this rate of lone parenthood compare in international terms? Table 5.1 shows the rate of lone parenthood, measured in terms of lone parent households as a proportion of all households with children, for EU-15 member states in 2005. The highest rate by some margin is in the UK,

but the Irish rate of 18 per cent is second highest, jointly with Sweden and Belgium. Denmark and Germany also have above average rates of 16 per cent. The lowest rates of lone parenthood, as measured at household level, are in the Mediterranean/Southern European countries. Other continental European countries have rates between 9 and 14 per cent.

Figure 5.1: Lone Parent Families as Proportion of All Families with Children Aged Under 15 Years, 1981-2006



Note: Lone parents are defined as those with at least one child aged under 15 years.
Sources: *Census of Population 1981, 1986, 1991, 1996, 2002* and *2006* and *Labour Force Surveys* and *Quarterly National Household Survey* for years from 1983 to 2005.

Table 5.1: Prevalence of Lone Parent Households in EU-15 States, 2005

	Single Parent Households as Percentage of all Households With Children
UK	24
Ireland	**18***
Sweden	18
Belgium	18
Denmark	16
Germany	16
France	14
Netherlands	13
Austria	12
Finland	10
Luxembourg	9
Portugal	7
Italy	6
Spain	6
Greece	5

Sources: EU Labour Force Survey data from Eurostat News Release 59/2006 except for Sweden, where this information was not available, and data from Luxembourg Income Study (LIS) Key Figures were used instead (accessed at http://www.lisproject.org/keyfigures.htm on 31/05/07). Irish data are based on *QNHS*, but it should be noted that the incidence of lone parent households within larger households is likely to be higher for Ireland than for other Northern European countries. Both *QNHS* and *Census 2006* data indicate a higher rate of lone parenthood (about 21 per cent) on a family unit basis.

It must be stressed that measurement of the incidence of lone parenthood at family rather than household level is likely to alter some of these results. Lone parents living within wider households are relatively infrequent in many Northern European countries – Ireland being an exception – and are more common in Southern European countries.

In the next section we turn to the incidence of poverty among lone parents. Here we may note simply that countries with a high incidence of lone parenthood include some with the lowest risks of poverty, and others with the risks among the highest.

5.3 Risks of Poverty

We draw on two key sources to examine risks of relative income poverty (the "at risk of poverty" measure in the Laeken indicators) for the lone parent group. The first is the Luxembourg Income Study, which includes a selection of EU and non-EU countries. Table 5.2 shows the risks of poverty at 50 per cent of the median equivalised income for the closest available year to 2000. It is clear that the lowest risks are faced by lone parents in the Scandinavian countries (6 to 13 per cent). Next lowest are Poland and Estonia, with rates of 18 and 23 per cent respectively. The major continental European countries (France, Germany and Spain) have risks of close to 30 per cent. Higher risks of poverty are faced by lone parents in the Netherlands (35 per cent) and in a range of English-speaking countries (Australia, the UK, Canada, Ireland and the USA – with risks of 35 to just under 50 per cent).

Table 5.2: Risks of Poverty (at 50 Per Cent of Median Equivalised Income) Circa 2000

Country	Risk
Denmark	6.1
Finland	8.1
Norway	10.9
Sweden	12.9
Poland (1999)	18.0
Estonia	23.1
France	28.8
Germany	30.5
Spain	32.8
Israel (2001)	32.9
Netherlands (1999)	35.1
Australia (2001)	35.2
UK (1999)	39.2
Canada	40.7
Ireland	**46.3**
USA	49.5

Source: Luxembourg Income Study (LIS) Key Figures (accessed at http://www.lisproject.org/keyfigures.htm on 31/05/07).

More recent data are available from Eurostat's social inclusion statistics, which form the basis for Table 5.3. The 60 per cent of median income cut-off is used to define the risk of poverty here. Again the lowest risks of poverty are in the Scandinavian countries (14 to 21 per cent); Slovenia also has a low risk (22 per cent). The next lowest risks are found in a group including France, the Netherlands, Austria and two more recent member

states (Hungary and Romania, with risks of 25 to 27 per cent. A further twelve member states, including Germany, Portugal, Italy, Belgium, Spain and the UK have poverty risks for lone parents of between 30 and 37 per cent. The risk in the UK is close to 37 per cent, similar to Belgium, Italy and Spain. The poverty risk facing Irish lone parents is 45 per cent, similar to that in Greece and exceeded only in Lithuania and Malta.

In looking for "best practice" in terms of achieving low risks of poverty for lone parents it is clear that the Scandinavian countries have a record which makes their policies towards lone parents of interest. Among Continental European countries it seems that France, the Netherlands and Austria fare best.

Table 5.3: "At Risk of Poverty" Rates for Lone Parent Households, EU Countries, 2005 or Nearest Year

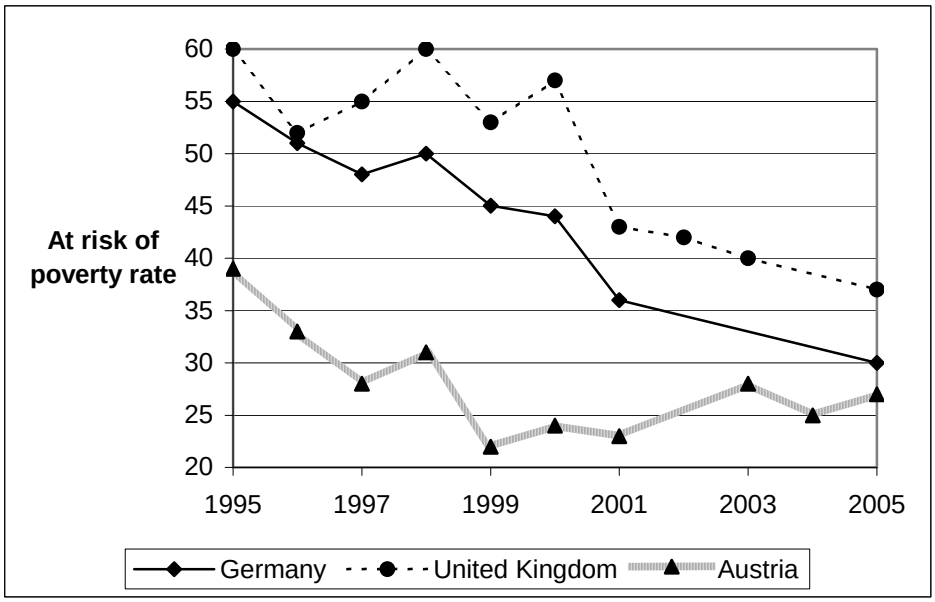
Country	"At Risk of Poverty" Rate, (60 Per Cent of Median Income)
Iceland	14
Sweden	18
Norway	19
Finland	20
Denmark	21
Slovenia	22
France	26
Netherlands	26
Hungary	27
Romania	27
Austria	27
Germany	30
Latvia	31
Luxembourg	32
Slovakia	32
Bulgaria (2004)	33
Croatia (2003)	34
Portugal	34
Cyprus	35
Italy	35
Belgium	36
Spain	37
United Kingdom	37
Estonia	40
Turkey (2003)	40
Poland	40
Czech Republic	41
Greece	43
Ireland	**45**
Lithuania	48
Malta	51

Source: Eurostat website (http://epp.eurostat.ec.europa.eu).

What about countries which have achieved large falls in the risk of poverty for lone parents? Over the 1995 to 2005 period just six countries

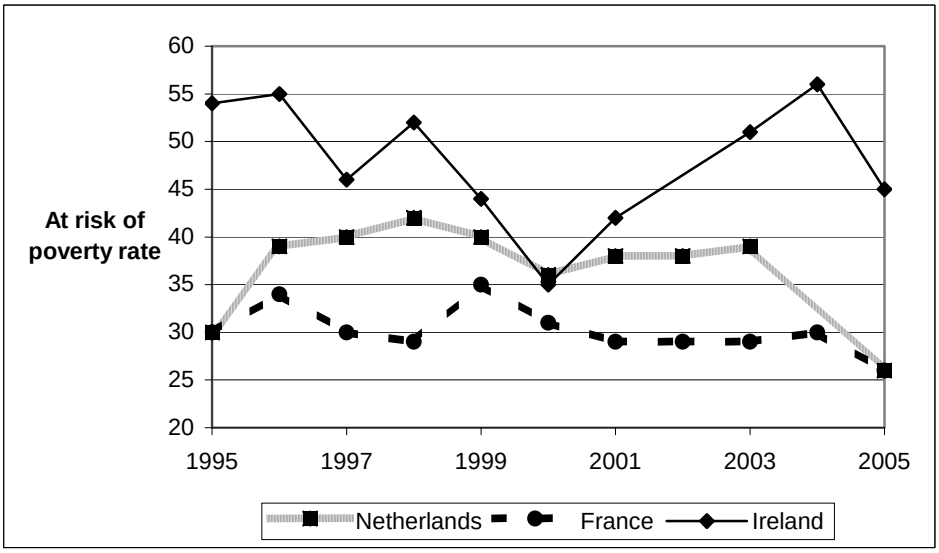
are found by Eurostat to have achieved any reduction in this risk. The greatest reductions were in Germany and the UK, where poverty risks for lone parents were reduced by close to 25 percentage points. In Austria, the risk was reduced by about 12 percentage points and in the Netherlands and Ireland by about 9 percentage points. In the Dutch case, however, the most striking feature is that the risk fell by about 13 percentage points between 2003 and 2005.

Figure 5.2: "At Risk of Poverty" Rate for Lone Parents, Germany, UK and Austria, 1995-2005



Source: Eurostat website (http://epp.eurostat.ec.europa.eu).

Figure 5.3: "At Risk of Poverty" Rate for Lone Parents, Ireland, Netherlands and France, 1995-2005



Source: Eurostat website (http://epp.eurostat.ec.europa.eu).

The Eurostat figures are for lone parent households; they do not include households in which there is a lone parent along with another adult or adults (often the parent of the lone parent). National analysis of the Living in Ireland data suggests that the level and evolution of risk for this total group has been somewhat different. The level of risk is a good deal lower for all lone parents, as emphasised by Whelan, Nolan and Maître (2005), because the resources of other adult household members help to keep the household above the poverty line income. On the other hand, the overall risk for this wider group of lone parent – about 26 per cent in 1994 – has risen by about 6 percentage points over the period. A significant part of this rise relates to the fact that a higher proportion of lone parents are now living in lone parent households rather than as part of wider households.

5.4 Lone Parents and Employment

Employment is a key differentiating factor in understanding the risk of poverty faced by lone parents. Table 5.4 shows that in 1994 the poverty risk for lone parent families headed by a parent not in employment was almost seven times greater than for a family headed by a parent in employment. Between 1994 and 2001 the risk rose for families headed by an employed person and particularly strongly for families headed by a parent not in employment. The overall employment rate rose sharply over this period, from just under 40 per cent to almost 70 per cent. Despite this, however, the overall risk of poverty rose. This was mainly due to the rise in the risk of poverty for those not in employment; if this had remained constant then the overall risk would have fallen.

Table 5.4: Risks of Poverty for Lone Parent Families, 1994 and 2001 (60 Per Cent of Median Equivalised Income)

Lone Parent Group	"At Risk of Poverty"
1994 (Employment rate: 38 Per Cent)	
Employed	5.0
Not employed	34.1
All lone parents	25.5
2001 (Employment rate: 70 Per Cent)	
Employed	10.8
Not employed	55.8
All lone parents	31.9

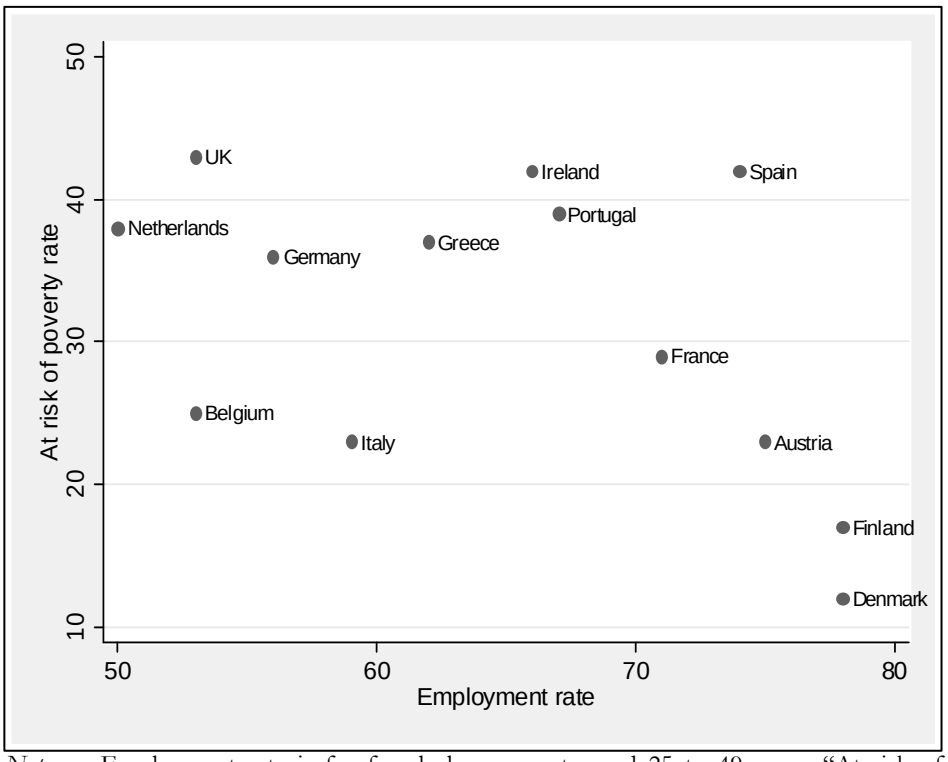
Source: Living in Ireland Survey, 1994 and 2001.

The gap between the risks of poverty for those in and out of employment is very substantial. This is one of the reasons why policy towards lone parents in many countries has shifted towards supporting connection with the labour market and movement into employment. Dynamic considerations reinforce this point, as time spent out of the labour market tends to reduce potential earnings, while time spent in employment tends to increase the wage that can be commanded. The Irish evidence from Table 5.4, along with cross-national evidence in Figure 5.5, points to more complex relationships between employment and poverty risk than might be apparent at first sight.

It is clear from Figure 5.4 that low employment rates can be associated with high poverty risks (e.g., UK, the Netherlands and Germany) but also with relatively low poverty risks (Belgium and Italy). The lowest poverty

risks are found in Denmark, Finland and Austria, countries with the highest employment rates, close to 80 per cent. On the other hand, a high employment rate does not guarantee a low poverty rate. Ireland, Portugal and Spain all have employment rates close to 70 per cent, but risks of poverty are among the highest in the EU.

Figure 5.4: Employment Rates and "At Risk of Poverty" Rates for Lone Parents, EU Countries, 2001



Note: Employment rate is for female lone parents aged 25 to 49 years. "At risk of poverty" rate is for all lone parent households.

Sources: Employment rates from Eurostat (2004) *Statistics in Focus, Population and Social Conditions, Theme 3-5/2004*. "At risk of poverty" rates from Eurostat website (http://epp.eurostat.ec.europa.eu).

5.5 Income and Employment Supports

Up to now we have focused on key outcomes for lone parents, in terms of employment and poverty risk. Now we turn to the environment and processes which generate these outcomes, focusing in particular on policies geared at supporting the incomes of lone parents, and at supporting their participation in the paid labour market. We saw earlier that one useful classification of welfare regimes was into four types: Scandinavian, continental European, English-speaking countries, and Southern/Mediterranean. The countries with the lowest risks of poverty for lone parents are found in the Scandinavian countries, so the policy regimes in place in these countries merit particular attention. As we have seen, several Continental European countries also have poverty risks for lone parents which are substantially below those in Ireland; and in the UK, poverty risks have been substantially reduced over the past decade. In this section we will look at one main example from each of these welfare

regimes,[10] in the next section we will outline the current Irish system and the proposals for reform in the Government discussion paper (Department of Social and Family Affairs, 2006).

5.5.1 NORDIC COUNTRIES: THE CASE OF NORWAY

While all the Scandinavian countries have low risks of poverty for lone parents, Norway is of particular interest, because

> In a Scandinavian context, the Norwegian welfare state has been a latecomer with regard to making the combination of paid work and childcare easier for Norwegian mothers, particularly in relation to developing public childcare provision. At the same time, the Norwegian welfare state has given women better rights to continue their traditional roles as housewives and mothers after divorce, the death of a husband, or when supporting a family through childbirth in the absence of a male provider. (Syltevik, 2003).

The Norwegian "Transitional Allowance" for lone parents, established in 1964, was built around a categorical approach, covering widows and unmarried mothers.[11] In 1981 the scheme was extended to cover separated and divorced persons, and made gender-neutral by including lone fathers. Persons eligible for the scheme were entitled to:

- a guaranteed minimum income through the allowance, if they preferred to take care of their child or children at home, until the youngest child was about 10 years of age;
- a top up to wage income, if required, for those engaged in part-time or full-time work;
- child-care benefits for parents in education or paid work;
- an educational allowance to cover the costs of books and travel expenses;
- an extra child allowance until the youngest Child was 18 years old;
- reduced levels of income taxation.

Most lone parents (70 per cent in the 1980s and 60 per cent in the 1990s) made use of the scheme at some time,[12] but few used it for long periods – the average time on the scheme was three years in the early 1990s. (Terum, 1993). Thus, at any given time, a majority of Norwegian lone parents were supporting themselves without use of the transitional allowance.

[10] We do not examine the situation in Southern/Mediterranean countries, which have poverty risks towards the high end of the EU scale.

[11] Also included were those classed as "family widows" – a group with circumstances similar to those dealt with by the Single Woman's Allowance in the Irish welfare code, having taken care of elderly parents or other relatives, and without an income after their death.

[12] Kjeldstad and Roalso (1995).

The numbers in receipt of transitional allowance grew, with rising numbers of divorces and separations. Syltevik (2003) notes that this did *not* lead to a "moral panic" regarding lone parents, but that it was questioned whether the transitional allowance gave lone parents sufficient incentive to take up employment. "It was argued that the allowance made lone parents 'passive' and 'dependent' for a longer time than necessary, and was therefore counter-productive in relation to goals of increased self-provision" (Syltevik, 2003, p.67). Furthermore, as general policy towards childcare had made substantial investment in measures to help all families combine work and care for children, there had been changes in the possibilities of combining work and care for lone parents.

Policy changes for lone parents came as part of a wider welfare reform package in the late 1990s, with an emphasis on welfare-to-work, gender equality and increased women's labour market participation. The key changes in the transitional allowance for lone parents were:

- Transitional allowance was restricted to three years, although this could be extended by a further two years for lone parents engaged in education.
- Only those with a child aged under 8 years (previously 10 years) were eligible for the allowance.
- Where the youngest child was aged 3 years or over, the recipient had to be active in the labour market – either with a job of at least half of full-time hours, or studying at least the same amount of time, or actively seeking work.
- There is also provision for payment of the allowance when the youngest child is older than 8 and under 10 years, if the lone parent has "special difficulties adjusting to a new situation".
- Rates of financial support were slightly increased, and a higher proportion of childcare costs was covered by the state (Millar and Evans, 2003).

Assessing the impact of these changes, Syltevik (2003) finds that the reform has reduced the use of transitional allowance. Eurostat's poverty risk figures show that Norway is still among the countries with relatively low poverty risk for lone parents – the risk in 2005 was 19 per cent, and it varied between 16 and 21 per cent between 2003 and 2005. Syltevik (2003) argues that "…problems with the new scheme in Norway are related to an over-optimistic picture of the possibilities for lone parents in the labour market and an under-estimation of the difficulties they face in combining care and paid work".

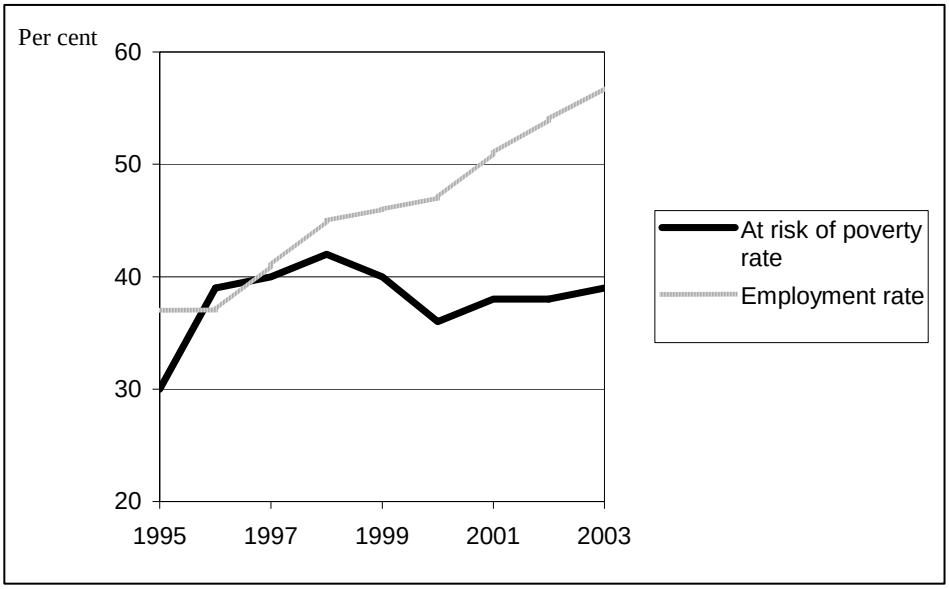
5.5.2 CONTINENTAL EUROPE: THE CASE OF THE NETHERLANDS

The Dutch welfare state has had relatively high benefit levels, similar to the Scandinavian countries, but until recently has been based a "male breadwinner" model, with low labour market participation by women – in marked contrast to the Scandinavian countries. Over the past two decades, however, the Dutch welfare state has moved strongly towards "activation", promoting and/or enforcing employability, employment and participation (Knijn and van Berkel, 2003). Policies towards lone parents have changed in line with this more general policy shift. There has also been growth in

the incidence of lone parenthood. Between 1980 and 2002 the incidence of lone parenthood, as measured by lone parent families as a proportion of all families with dependent children, doubled from 8 per cent to 16 per cent.

Until the mid-1990s lone mothers with a child aged under 12 years had an exemption from the general work requirement attaching to social assistance. In 1996, a new General Social Assistance Act, which laid great stress on activation, resulted in the introduction of a work obligation for mothers whose youngest child was aged 5 years or over. (Knijn and van Berkel, 2003.) The Act gave considerable scope to local authorities to take account of individual variation in circumstances. An investigation by the Dutch General Audit Office shows that the number of exemptions from work obligations was high. In September 2002 less than 20 per cent of all lone parents had full work obligations imposed – about half had a full formal exemption (many because of having a child under 5 years) and the remainder had partial exemptions or *de facto* exemptions (in which case work obligations were not enforced). OECD (2002) stated that application of the work test varied "…depending on the attitude of staff and local politicians, some of whom believe that the mother should be able to look after her children at home". Knijn and van Wel (2001) also find that local policymakers and caseworkers tended to resist a rigid interpretation of the reform and "…reject the full-time work obligation for lone mothers who have a strong care ethos"; and were hesitant about insisting that lone mothers take up jobs which might not improve their incomes.

Figure 5.5: Employment Rate and "At Risk of Poverty" Rate for Lone Parents in the Netherlands, 1995-2005



Sources: Employment rates from Eurostat (2004) Statistics in Focus, Population and Social Conditions, Theme 3-5/2004. "At risk of poverty" rates from Eurostat website (http://epp.eurostat.ec.europa.eu).

A further reform was introduced in 2003, which strengthened provisions requiring activation. There is now no general exemption for lone parents of a young child. If unable to find work, a lone parent must engage with a "Centre for Work and Income" or reintegration organisation charged with helping the applicant to find suitable work or training. The comprehensive approach is designed to promote labour market entry or

"social activation"[13] of all social assistance recipients, including lone parents.

The evolution of the employment rate and the "at risk of poverty" rate for lone parents in the Netherlands over the period 1995 to 2005 is set out in Figure 5.5. The employment rate rose sharply between 1995 and 2003, which might have been expected to reduce the risk of poverty. But the "at risk of poverty" rate rose initially and then stayed close to 40 per cent.[14]

5.5.3 ENGLISH-SPEAKING COUNTRIES: EVIDENCE FROM THE UK

In the UK, lone parents have been entitled to income support until the youngest child reached the age of 16 years. Initially, active labour market policy focused mainly on those in receipt of unemployment payments, largely ignoring lone parents (Evans, 2003). The New Deal for Lone Parents (NDLP) (rolled out nationwide in 1998) was designed "…to encourage lone parents to improve their prospects and living standards by taking up and increasing paid work, and to improve their job readiness to increase their employment opportunities". (Material from Department of Work and Pensions, quoted in Evans, 2003). One-to-one tailored advice and support from a specialist adviser is a central part of the NDLP. The advisers can help with job search, claiming of appropriate in-work benefits and finding suitable educational and training opportunities.

Unlike some of the reforms discussed in other countries, a key feature of the NDLP was that it was voluntary. However, attendance at a work-focused interview with a personal adviser was made mandatory for all those on Income Support from 2001. Evans (2003) estimates that between 15 and 20 per cent of lone parents on Income Support availed of the New Deal for Lone Parents. Those most likely to participate tended to have higher qualifications, recent work experience and a short claim history. Factors making participation less likely included having a child under 3 years, having more than one child, and having health problems or a disability. For lone parents with a child aged under 3, the take-up of the NDLP was at about 5 per cent.

How effective is the programme in terms of increasing the employment of lone parents? This question must be answered in two stages. Lessof *et al.* (2003) found that 50 per cent of NDLP participants moved into employment, as against 26 per cent of matched sample of non-participants. This suggests a very strong pro-employment impact on those who participate. The other key factor is the rate of participation, estimated at about 20 per cent in 2002. Evans (2003) comments that "…improving participation without changing the content of the programme is logical for as long as there is a large proportion of non-participants who look very similar in all respects to participants and would gain similarly from the programme". However, he cautions that making participation in NDLP

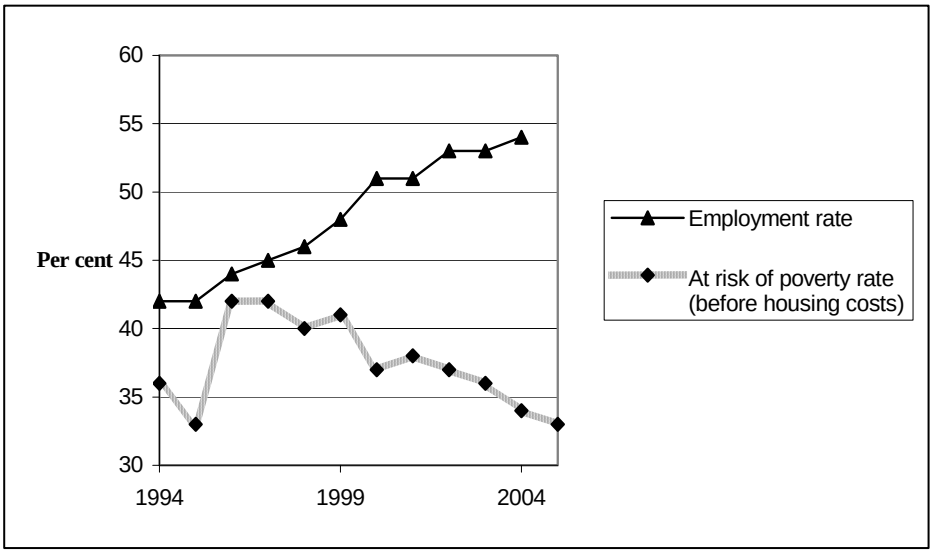
[13] Social activation includes voluntary work, for which a small allowance for expenses may be paid.

[14] National sources (Central Bureau of Statistics, 2006) indicate that the risk remained close to 40 per cent in 2005.

itself compulsory is unlikely to achieve much more than the mandatory Personal Adviser meetings are already achieving.

Figure 5.6 shows how the employment rate and "at risk of poverty" rate have evolved in the UK over the past decade. Over the full period, the employment rate rose by about 12 percentage points. The "at risk of poverty" rate fell slightly over the full period. But between 1996 and 2004, the employment rate rose by about 10 percentage points, while the "at risk of poverty" rate fell by about 8 percentage points. The headline policy initiatives affecting lone parents over the 1998-2004 period was the New Deal for Lone Parents; but other policy changes,[15] including greater income support for lone parents not in employment, and the introduction of a National Minimum Wage also played a role in generating these results.

Figure 5.6: Employment Rates and "At Risk of Poverty" Rates for Lone Parents, UK, 1995 to 2005



Sources: Employment rates from Eurostat (2004) *Statistics in Focus, Population and Social Conditions, Theme 3-5/2004*. "At risk of poverty" rates from Department of Work and Pensions, *Households Below Average Income*.

5.5.4 WHAT CAN WE LEARN FROM INTERNATIONAL EXPERIENCE?

The cross-country evidence shows clearly that for lone parents, the lowest risks of poverty are in the Scandinavian countries. How is this achieved? Key features of the Swedish and Finnish systems, as summarised by OECD (2005), are:

- Strong emphasis is placed on participation in employment for all citizens.
- An extensive childcare system makes employment feasible for lone parents.

[15] Documented in Evans *et al.* (2003).

- A comprehensive system of employment supports, including training and skill upgrading as well as job matching, is made available.
- The work-test in the benefit system applies to all, including lone parents.

Norway, as we have seen, has had a rather different approach to lone parenthood, starting with a categorical benefit (payable until the youngest child reached 12 years of age), and reflecting a different attitude towards the role of lone parents as carer's for their children. Recent reforms have moved Norway towards the mainstream Scandinavian approach, and the poverty risk is low, with a high employment rate.

What of the continental model? The poverty risk for the Netherlands and Austria is just over 25 per cent – somewhat higher than that in the Scandinavian countries (close to 20 per cent), but well below the rates in Ireland (45 per cent) and the UK (40 per cent). Again, the Dutch model has involved an increase in the employment rate, and some extension of childcare; but the timing of the fall in the poverty risk means that other factors must also be at work. Given the size of the poverty reduction which would be involved in a move to Dutch levels of poverty risk for lone parents, this merits closer investigation.

The UK poverty risk for lone parents has fallen sharply, and is now somewhat below the Irish rate. Gregg and Harkness (2007) stress that the design was radically different from US welfare reforms:

> In the UK the generosity of in and out-of-work benefits were both increased substantially for families with children, there has been no use of time limits for welfare payments to lone parents and participation in job search and training or other support programmes has remained, to date, voluntary. The only element of compulsion has been for lone parents to attend interviews at the Job Centre to discuss work options. (Gregg and Harkness, 2007, p. 3.)

There are some common factors to be found in comparing countries which have achieved low risks of poverty for lone parents, and those which have had marked reductions in recent years; and there are also some divergences in the policies used which need to be considered. Common factors include:

- Promotion of employment as a route out of poverty: this involves more than simply promoting a transition for non-employment or unemployment into employment. It also requires structures which "make work possible" by assuring the availability of suitable and affordable childcare and which "make work pay" for those making the transition.
- "Making work pay" is often thought of as involving policies such as tax credits and in-work benefits. These do, indeed, have a role to play. But education and training are also vital in ensuring that employment can be found, and that progression to increased pay can be achieved.

- Irrespective of other conditions, the age at which children of lone parents cease to be regarded as dependent appears to be lower in other countries than in Ireland.

The major divergence between countries in terms of their policy approaches seems to be in the extent to which a work-test is required of lone parents of school-going children. In order of strictness, one might start with the Scandinavian countries (where the work test is applied strictly to all persons looking for social assistance, including lone parents); then the Netherlands (where the work test has become more strict, although possibly with local variation); and then the UK (where the New Deal for Lone Parents is voluntary, albeit with a mandatory work-focused interview). New Zealand has moved from a system where work search was mandatory for lone parents with school age children to a system of "enhanced case management", where the focus is on getting the right outcome for the individual, regardless of children's ages. (Hutten, 2003.)

In the next section we consider current Irish policy towards lone parents, and official proposals for its reform, in the light of this review of international experience.

5.6 Policy Towards Lone Parents in Ireland

A detailed description of the One-parent Family Payment (OFP) and its evolution over time can be found in Ireland (2006). Here we summarise key features of the current system. To claim OFP, a person

- must be widowed, separated, divorced, or unmarried,[16]
- must be the main carer for, and have charge of, at least one child,
- must satisfy a means test,
- must not have gross earnings above €400 (the rate from May 2007),
- must make efforts to seek maintenance,
- must not be cohabiting,
- divorced or separated persons must have been separated for at least a year.

The means test includes income from earnings, maintenance and imputed income from capital and property (other than the family home). Only half of maintenance income is assessed as means, so that an incentive remains for OFP claimants to seek support. The treatment of earnings has also been changed in recent years so as to improve the incentive to take up employment. A significant tranche of earnings is disregarded (up to €146.50 per week). Earnings in excess of that amount lead to partial withdrawal of the benefit, at the rate of 50 cent per euro of earnings. Benefit is completely withdrawn if earnings exceed an upper limit, currently €400 per week. Beneficiaries of OFP are entitled also to apply for support

[16] Prisoner's spouses also qualify.

under the Family Income Supplement (FIS), if they satisfy the conditions of that scheme.

The rate of payment and child additions are in line with several other means-tested and contributory schemes, currently at €185.80 per week[17] with a Qualified Child Increase of €22 per week.

As noted earlier, there has been continuing growth in the number of lone parents. Changes in the scheme, including higher rates of payment and a lower rate of benefit withdrawal for those with earnings, have also contributed to growth in the number of beneficiaries of the scheme. The net effect has included a substantial rise in expenditure on the scheme. There has also been a shift in composition, with a greater proportion of claims arising from separation and divorce, and a smaller proportion from the death of a spouse. Average length of claim is estimated at 5 to 6 years (Ireland, 2006, p.64). Exits from the scheme arose in roughly equal proportions from three main sources:

- Marriage or cohabitation.
- Earnings exceeding the upper earnings limit.
- Falling out of the scope of the scheme as the youngest child reaches the upper age limit.

5.6.1 ISSUES AND PROPOSALS

Issues highlighted by Ireland (DSFA, 2006) included the fact that a scheme based around the contingency of lone parenthood created a financial incentive favouring that state. In particular, the loss of the contingency based payment could be an obstacle to the formation of new relationships involving cohabitation or marriage and joint parenting. In any event, rules regarding cohabitation are seen as difficult to enforce. The implicit rationale behind the structure of the scheme can also be seen as based around the "male breadwinner" model, while social developments have moved away from this approach over recent decades. The review also highlighted wider issues concerning educational disadvantage, childcare and financial stability.

The proposals in the review are built around a more direct response to needs, and a view that the longer-term welfare of lone parents is best served by encouraging and promoting their attachment to the labour market. Several options were considered, but the one advocated contains the following elements:

- A new means-tested parental allowance for all low income families, replacing not only the One-parent Family Payment but also the Qualified Adult Addition to other welfare benefits.
- The Parental Allowance would be payable until the youngest child reaches a certain age (e.g., 7 or 8 years).

[17] Beneficiaries aged 66 years or over receive a higher payment.

- There would be no conditions up to age 5 years, but if the youngest child was aged over 5 years, there would be compulsory engagement with a Job Facilitator/Departmental Representative who would provide information and advice on education, training and employment options. It was envisaged that there would be three years of engagement, during which the parent might take up employment, but would not be required to do so.
- Over a higher age (8 years or over), Parental Allowance would not be payable and former recipients would be expected to seek work or training, with options including Back-to-work Allowance, Back-to-education Allowance and Unemployment Assistance. For lone parents, the condition of "genuinely seeking work" could be met by seeking a part-time job of 19 hours or more – which would meet the FIS qualification condition.
- It was envisaged that the activation process would be positive in nature, with mutual obligations.
- The critical issue of childcare was not dealt with directly as it forms part of a wider childcare policy; but it was possible that the activation package could include a direct child care allowance.
- The earnings disregard would be reduced from €146.50 to €120, but the taper would be at 40 per cent rather than 50 per cent, with a cut-off at €400.
- There would be transitional arrangements for existing recipients.

5.6.2 DESIGN AND IMPLEMENTATION OF POLICY

Key advantages of the approach proposed include the fact that it provides support on an even-handed basis to all low income parents. It also does away with the need for a cohabitation test, and removes obstacles to cohabitation implicit in the current system. The reform is not a "piecemeal" one designed purely with lone parents in mind. It is set in a wider context, with a move away from the "male breadwinner" model of adult dependancy to a more nuanced support for low income parents. The activation proposals are in line with those in the "best practice" countries. Childcare is, however, a crucial piece of the jigsaw. A strong childcare system is central to the success of the proposed reform, and the phasing of its introduction must be linked with the development of childcare access.

A further theme that arises in implementing the proposal is that of flexibility versus discretion. As stated, the proposals on activation are conditioned purely on the age of the youngest child. But transitions into lone parenthood need to be taken into account as well. For example, in the case of a separation arising from domestic abuse, even if the youngest child is aged above the cut-off, one might regard it as reasonable that such a case be treated differently. More generally, circumstances such as the recency of separation might be of relevance to the nature and extent of activation that could be expected.

Finally, the lesson from best practice countries also includes higher levels of income support. We can examine the potential impact of this element using *SWITCH*. A 10 per cent rise in welfare rates would have the direct effect of reducing "at risk of poverty" rates among lone parents by

about 2 percentage points. A 20 per cent rise in welfare payments would see a further 1 percentage point reduction in the risk of poverty at 60 per cent of median income. Further analysis of packages involving increased welfare payments will be undertaken in Chapter 12, and the implications for lone parents will be considered.

5.7 Conclusions

European and worldwide comparisons show that Scandinavian countries have the lowest "at risk of poverty" rates for lone parents. This is achieved by a system of activation, which promotes employment for all, and supports for employment including a comprehensive childcare system, as well as education and training. The UK has reduced risks of poverty for lone parents substantially, but they still remain at the high end of the EU scale. The Netherlands may represent an intermediate possibility. The Dutch welfare state embodies elements of the Scandinavian approach (high benefits with an emphasis on activation) and "at risk of poverty" rates for lone parents have fallen to levels substantially below Irish and UK rates, although still somewhat higher than those in Scandinavia.

The structure of income supports and activation for lone parents proposed in the Government's discussion document (Ireland, 2006) is in line with best international practice as exemplified by Norway and the Netherlands. Much depends, of course, on the implementation of the approach. Here we highlight some key points with respect to implementation.

The proposals note that "Introduction of an activation requirement is predicated on childcare supports being available". This is a critical issue. While childcare structures and policy have been developing in recent years, they are still far from the fully developed systems found in Scandinavia. There must be a linkage between childcare provision and activation provisions, so that what is sought in terms of activation is in line with the possibilities afforded by the childcare structures.

Another key decision in the design of the system is whether activation or a work-test is to be voluntary or compulsory. In the Scandinavian countries activation is typically compulsory, not just for lone parents but for all social assistance beneficiaries. This is in the context of an excellent and fully fledged childcare system, making it possible for families, including lone parent families, to combine work and care. This context does not (yet) exist in Ireland. In the UK (where the childcare system is perhaps more developed than in Ireland, though less so than in Scandinavia) the New Deal for Lone Parents operates on the basis of voluntary participation. New Zealand has moved away from a compulsory work test towards a more flexible system of "enhanced case management". Again, this contrast suggests that the extent of compulsion needs to be linked to the extent of childcare provision.

The government's proposals suggest that payment of a Parental Allowance would be conditional on what the UK terms "work-focused interviews" when the youngest child reached the age of 5 years, and would cease when the child reached the age of 7 or 8 years. This contrasts with the current situation, in which payment of OFP continues until the child reaches the age of 18 years, but can continue beyond that if the child is in full-time education. While the proposals leave some room for debate as to

the precise age cut offs involved, it is clear from international comparisons that the current situation is a highly unusual one.

The outcome of implementing proposals along these lines also depends on how the new system is perceived. To what extent is it seen as designed to promote the welfare of lone parents, offering advice and support in finding suitable employment, education, training and childcare? In addition, to what extent is it seen as a measure curtailing the benefits of lone parents, aimed at savings on welfare expenditure rather than the welfare of parents? Both design and implementation must aim to achieve, in reality and in perception, the former outcome to a much greater extent than the latter. In this context a substantial impact on employment rates and on risks of poverty can be achieved.

6. CHILDREN

6.1 Introduction

We begin by reviewing Irish goals relating to child poverty, and consider how they relate to recent developments in UK policy (Section 2). We then draw on international comparisons to situate Irish policy and performance in a wider setting (Section 3). In particular we focus on what Ireland may have to learn from countries representing "best practice" in minimising child poverty. This is in line with the EU's approach to social policy development, which under its "open method of coordination" lays great emphasis on countries comparing their performance with best practice in the social policy area.

6.2 Child Poverty Targets: Irish and UK Experience

Ireland's National Anti-Poverty Strategy introduced a specific target for the reduction of child poverty in 2002. (Ireland, 2002). The strategy focused on a reduction in the number of children who are "consistently poor" i.e., live in households with incomes below 60 per cent of the median (middle-ranking) income adjusted for family size and composition *and* are in households which are experiencing "basic deprivation". In *Building an Inclusive Society*, (Ireland, 2002) the target for reduction of child poverty was set as follows:

> Over the period to 2007, the Strategy will aim at reducing the numbers of children who are 'consistently poor' below 2 per cent, and, if possible, eliminating consistent poverty, under the current definition of consistent poverty[18]. (Ireland, 2002, p.14).

This was the focus of a special initiative to "End Child Poverty" initiated under the *Sustaining Progress* partnership agreement, and continued as an element of the current partnership, *Towards 2016*.

The most recent National Action Plan for Social Inclusion, 2007-2016 (Ireland, 2007) does not contain a specific target for consistent poverty relating to children. Instead, there are three specific goals relating to educational outcomes, and a commitment to maintain total child income supports at 33 to 35 per cent of the minimum adult payment rate, and to review child income supports aimed at assisting children in families on low income. However, the overall goal is now:

[18] The "current definition" refers to the use of an 8-item index, with lack of any one item indicating basic deprivation, and an income cut-off of 60 per cent of median income per adult equivalent.

> To reduce the number of those experiencing consistent poverty to between 2 per cent and 4 per cent by 2012, with the aim of eliminating consistent poverty by 2016, under the revised definition. (Ireland, 2007, p.13.)

In order to achieve this goal, the consistent poverty rate must fall for all groups, including children. The most recent EU-SILC indicates that the consistent poverty rate is just under 7 per cent overall, but about 11 per cent for children.

Identification of "basic deprivation" is explored in Maître, Nolan and Whelan (2006), who find that, in the context of a rapidly changing society, what counts as "basic deprivation" may not be captured by a fixed set of indicators but require that the set of indicators be changed over time. Thus, the deprivation element of the original "consistent poverty" measure was based on having to do without at least one item from a set of 8 indicators (measured in the Living in Ireland Surveys). With changes in living standards, and a new data source (the CSO's EU Survey on Income and Living Conditions – EU-SILC), a new measurement approach was proposed by Maître *et al.* It involves a total of 11 indicators (including some, but not all of the original 8) and a household is regarded as deprived if lacking 2 or more of these. This approach has been officially adopted in the National Action Plan for Social Inclusion (Ireland, 2007).

The UK target for child poverty follows the tiered approach pioneered by Nolan (1999, 2000). Thus, the UK target is summarised by the Department of Work and Pensions (2003) as follows:

> Our new measure of child poverty will consist of:
> **Absolute low income** – to measure whether the poorest families are seeing their incomes rise in real terms.
> **Relative low income** – to measure whether the poorest families are keeping pace with the growth of incomes in the economy as a whole.
> **Material deprivation and low income combined** – to provide a wider measure of people's living standards.
> Using this measure, poverty is falling when all three indicators are moving in the right direction.
> (Department of Work and Pensions, 2003, Executive Summary.)

The rationale for the inclusion of a relative income component in the poverty measure has been succinctly stated by the UK authorities:

> Measures of relative low income are widely used in industrial nations, and this is the most widely watched indicator in the European Union. EU agreements entered into at Lisbon (2000) and Laeken (2002) mean that relative low income is a central yardstick in measuring the success of our drive to increase social cohesion. Relative income measures are important because when children fall too far behind the typical family, they will not be able to take a full part in the activities that social inclusion demands. So to tackle social exclusion it is essential that as well as increasing incomes, we also help the poorest children narrow the gap with the rest of society as the nation overall grows richer.

(Department of Work and Pensions, 2003, paragraphs 32 to 34.)

In this context, it is to international comparisons of rates of child poverty based on relative poverty lines (or the EU's "at risk of poverty" measure) that we now turn.

6.3 An International Perspective on Child Poverty

Table 6.1 presents data drawn from the Luxembourg Income Study, which harmonises microdata for a wide range of countries in order to permit cross-country comparisons of income distribution and poverty statistics.

Table 6.1: Incidence of Children "At Risk of Poverty", Circa 2000, Luxembourg Income Study

Country (2000 Unless Otherwise Stated)	50 Per Cent of Median Income Per Adult Equivalent	60 Per Cent of Median Income Per Adult Equivalent
Norway	3.4	7.5
Finland	2.8	8.0
Denmark	2.7	8.9
Sweden	4.2	9.2
Netherlands (1999)	6.3	12.2
Slovenia (1999)	6.9	12.3
Belgium	6.7	12.8
Germany	9.0	14.2
Switzerland	8.9	15.0
Austria	7.8	15.9
France	7.9	15.9
Taiwan	8.0	16.1
Hungary (1999)	8.8	16.9
Luxembourg	9.1	18.4
Greece	12.7	18.7
Estonia	13.6	20.1
Ireland	**15.8**	**21.8**
Australia (2001)	14.9	23.0
Canada	15.2	23.6
Spain	16.0	24.0
Poland (1999)	18.5	26.7
United Kingdom (1999)	17.0	28.0
Israel (2001)	18.0	28.5
Russia	22.1	28.8
United States	22.3	30.2
Mexico	26.9	34.8

Source: Luxembourg Income Study (LIS) Key Figures accessed at www.lisproject.org, 10 May 2007.

What might be termed English-speaking countries[19] are clustered towards the higher end of the child poverty risk spectrum. Six of the ten countries with the highest risks of child poverty can be regarded as English speaking; and of the other four countries in that ten, three are at much

[19] More precisely, countries in which English is the primary language of a majority of the population.

lower levels of income per head. Ireland and Australia are the English-speaking countries with the lowest risks of child poverty at around 15-16 per cent below the 50 per cent of median income cut-off, and 22-23 per cent below the 60 per cent line. These levels are substantially above not only those in the Scandinavian countries, but also those obtaining in most of the Continental European countries. Similar findings were obtained by UNICEF (2005). Micklewright (2004) extends this analysis and finds that the English-speaking countries also perform poorly on other indicators of child welfare.

More detailed figures, over a longer time span, are available from Eurostat's database. Table 6.2 shows risks of child poverty (at the 60 per cent of median income cut-off) for EU-15 countries from 1995 to 2005. The countries are ranked with lowest poverty risk (in 2005) at the top and highest poverty risk at the bottom. The Scandinavian countries have the lowest risks of child poverty on a consistent basis over this period. The risk in Ireland has fallen over time, but has always been at the high end of the international spectrum along with countries such as the UK, Spain and Portugal.

Table 6.2: "At Risk of Poverty" Rate for Children (Under 16 Years) for EU countries, 1995 to 2005

Cut-off point: 60 Per Cent of Median Equivalised Income after Social Transfers Countries Ranked from Lowest Risk of Poverty for Children to Highest, 2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Sweden			7		7		7	10		11	8
Norway									8	8	9
Denmark	6		6		7		7		9	9	10
Finland		5	5	5	7	6	9	10	10	10	10
Germany	18	15	15	13	13	13	14				13
France	16	16	16	16	17	18	16	16	15	14	14
Austria	16	18	15	15	14	12	13		16	15	15
Netherlands	13	14	13	14	14	17	17	17	18		16
Belgium	16	15	14	13	12	11	12		16	17	19
Greece	18	19	18	17	17	19	18		21	20	19
Luxembourg	16	14	16	20	19	18	18		15	19	20
Ireland	**26**	**27**	**25**	**23**	**21**	**22**	**26**		**20**	**22**	**22**
United Kingdom	28	25	27	29	29	27	23	23	22		22
Spain	24	23	26	24	25	25	26	21	19	24	24
Italy	24	24	23	21	22	25	25			25	24
Portugal	26	23	25	26	26	26	27			23	24
New Member States							19	20	20	22	24

Interestingly, no country has achieved a substantially lower rate of child poverty than of overall poverty. On the other hand, there are two countries with quite low overall poverty risks (Netherlands and Luxembourg) which have significantly higher child poverty risks. This suggests that there may be quite severe constraints on the scope for a policy which targets children, with the aim of reducing the child poverty rate below the overall poverty rate.

Table 6.3 shows that the pattern of risk identified above is maintained when the focus shifts to poverty risk at the 50 per cent of median income cut-off.

Table 6.3: "At Risk of Poverty" Rates for Children (Under 16 Years) at 50 Per Cent of Median Income, EU Countries, 2005

Country	"At Risk of Poverty" Rate (%)
Finland	3
Sweden	4
Denmark	5
Norway	5
Austria	6
France	6
Germany	7
Netherlands	9
Luxembourg	10
Belgium	11
Greece	12
United Kingdom	13
Ireland	**14**
Italy	16
Portugal	16
Spain	16
New Member States	17

6.4 Tackling Child Poverty

What policy mix offers the best prospects for tackling child poverty? We summarise our recent review of these issues (Callan *et al.*, 2006) and then consider the implications of a recent OECD paper (Whiteford and Adema, 2007) focusing on the same issue.

The lowest rates of child poverty and of overall poverty shown in Table 6.2 are for the Nordic countries – Denmark, Finland and Sweden among the EU countries, and Norway. The logic of the "best practice" approach dictates that special attention should be paid to these countries in order to understand how they have achieved low rates of child poverty and general poverty, and what lessons may be learned from their experience. This is all the more so because the child poverty outcomes for children achieved in these countries represent "best practice" not just within the EU but in global terms.

We begin by considering how income support paid by the state in respect of children varies across countries: clearly this has the potential to affect child poverty outcomes. Child income supports can vary according to the age and number of the children concerned, and may also depend on whether one or two parents are present in the household, and on the labour force status and income of the parent(s). Bradshaw and Finch (2002) examine child income support packages for a wide range of family types and labour market/income situations. They choose a subset of these cases, giving greater weight to those occurring more commonly. While this does not provide a fully representative picture of families in any one country, this approach provides a standardised framework with which to assess the nature of the income support packages across countries. Their analysis shows that the package of cash income supports offered in Ireland, as of 2001, was among the most generous across countries. Ireland ranked

third in terms of the value of the cash package of income supports for children – mainly child benefit and Qualified Child Increases. The total value of the package, averaged over a wide range of family situations, was just over 13 per cent of the average industrial wage, compared with 15 per cent for the country with the most generous package. The value of the package in most countries – including the four Scandinavian countries – was between 5 and 10 per cent of the average wage.

On the other hand, the value of Ireland's overall child support package, taking into account housing benefits and provision of non-cash services such as subsidised childcare, was towards the lower end of the international spectrum in 2001. Increases in child benefit since then, and the introduction of the Early Childcare Subsidy will have boosted Ireland's overall child support package, and its position in the country rankings of child supports. Because this support is delivered through a cash mechanism, while other countries typically use non-cash mechanisms for childcare, Ireland's position in the ranking of cash income supports will be further enhanced, while its low ranking in terms of directly provided services will remain unchanged.

It is striking that the four Scandinavian countries, which have the lowest child poverty rates, had child income support packages of between 6 and 10 per cent, in the middle of the international ranking. Thus, their exceptional performance in terms of reducing child poverty is *not* due to exceptionally high child income supports. Indeed, both Ireland and the UK have higher valued cash supports – but as we have seen, child poverty rates in Ireland and the UK are close to the highest in the EU, while those in the Scandinavian countries are among the lowest.

The clear message from these international comparisons is that, to date, the most effective policy regimes in countering both child poverty and general poverty have been those of the Scandinavian countries. Furthermore, the success in countering child poverty is not due to especially high child income support payments, but to the more general income support regime and to the extent to which the welfare state more broadly reconciles equity and efficiency goals and underpins a high employment rate.

However, welfare state expenditures have to be financed. If Ireland, like other English-speaking countries, is unwilling to finance expenditure at the levels seen in Scandinavian countries, then the question arises as to what can be achieved with a more targeted approach to the reduction of child poverty. In the following section, therefore, we concentrate on the recent evolution of policy in Ireland and in other English speaking countries, which relates to the development of more targeted child income supports. It must be remembered, however, that these supports operate in an environment where child poverty is substantially higher than in the Scandinavian countries.

Whiteford and Adema (2007), in a broad ranging analysis of the effectiveness of the policy mix in different countries, identify the effectiveness of the tax and benefit system with the proportion of the pre-transfer poverty risk that is eliminated by transfers. Table 6.4 summarises the main results. It can be seen that, for households with children, the three

countries with the most effective systems are Denmark, Finland and Sweden.

Table 6.4: Effect of Tax and Benefit Systems on Child Poverty, OECD Countries, 2000

Country	Reduction in Pre-Transfer Poverty Risk for Households with Children
	Percentage Reduction
Denmark	80
Finland	77
Sweden	77
Belgium	75
France	73
Norway	72
Czech Republic	68
Australia	58
Germany	47
Netherlands	46
UK	46
New Zealand	44
Canada	37
Ireland	**35**
US	19
Portugal	3
Italy	2
Switzerland	-11
Japan	-20
OECD Average	40

Source: Whiteford and Adema (2007), Table 7.

Whiteford and Adema (2007) then calculate the potential for reduction in poverty risk from an improvement in the effectiveness of tax/transfer systems in other countries. The results of this calculation are set out in Table 6.5. Countries are ranked by the scope for tax-benefit policy to yield further reductions in the risk of child poverty. The extent to which further reductions could be attained is defined by Whiteford and Adema by reference to the effectiveness not of the best performing tax/transfer system, but of the third best system. In the case of child poverty, this is the Swedish system, which lifts out of poverty 77 per cent of those whose pre-transfer income would leave them "at risk of poverty".

The country with the greatest scope for further reduction in poverty through tax-benefit policy is the USA, where a high pre-transfer poverty count coexists with a tax-benefit system which lifts less than 1 in 5 of the pre-transfer poor out of poverty. Other countries with relatively high scope for reductions in poverty through tax-benefit policy include:

- Italy, Portugal and Japan, where pre-transfer poverty gaps are moderate but the tax-transfer systems have little impact on poverty.
- Ireland and the UK, where tax-transfer systems have somewhat greater impact on poverty, but pre-transfer poverty counts are higher.

Table 6.5: Actual Reduction in Poverty from Tax-Transfer System and Possible Further Impact if Tax-Transfer System Matched "Best Practice" Effectiveness

	Pre-Transfer	Post-Transfer	Extent of Further Reduction Possible if Transfers Match "Best Practice" Effectiveness	Level Achievable if Transfers Match "Best Practice" Effectiveness
	%	%	% Point Reduction	%
USA	26.6	21.7	15.7	6.0
Italy	15.9	15.7	12.1	3.6
Portugal	16.4	15.6	11.9	3.7
Japan	12.9	14.3	11.4	2.9
Ireland	**24.9**	**15.7**	**10.1**	**5.6**
United Kingdom	29.1	16.2	9.7	6.5
Canada	21.1	13.6	8.9	4.7
New Zealand	28.7	14.6	8.2	6.4
Germany	19.9	10.9	6.4	4.5
Australia	26.6	11.6	5.6	6.0
Netherlands	16.1	9.0	5.4	3.6
Switzerland	7.8	6.8	5.1	1.7
Czech Republic	21.4	7.2	2.4	4.8
France	27.7	7.3	1.1	6.2
Norway	11.8	3.6	1.0	2.6
Belgium	14.9	4.1	0.8	3.3
Sweden	16.1	3.6	0.0	3.6
Finland	16.7	3.4	0.0	3.4
Denmark	11.8	2.4	0.0	2.4
OECD	20.5	12.1	7.8	4.3

Source: Whiteford and Adema (2007), Table 9.

In a parallel exercise, Whiteford and Adema explore the potential impact of:

- a reduction in the proportion of jobless households; and
- an increase in the proportion of two-earner couples.

with each country's rate of jobless households being decreased (and of two earner couples increased) to the level of the country with the third highest employment rate (Portugal). Ireland is again one of the countries where the potential impact of such a change is greatest. Combining these two elements, the household poverty rate could be reduced by about 6 percentage points, similar to the potential impact of a more effective tax-benefit system.

6.5 Potential Developments to Counter Child Poverty

Identifying the impact of changes in child income support policies on the risk of income poverty facing children requires more than a simple comparison of changes over time. We need to hold constant the population, and all policies other than child income support. Callan *et al.* (2006) do this using *SWITCH*, the ESRI tax benefit model. Their analysis suggests that changes in child income supports (including the sharp increase in Child Benefit in 2001/2 and the Early Childcare Supplement in 2006) led to a reduction of 4.2 percentage points in the incidence of "at risk of poverty" (using the 60 per cent median cut-off) for children. This represents a fall of one-fifth in the head count measure. The "poverty gap" measure which takes account of the depth of income poverty for those experiencing it falls rather more, by about one-third, because it also takes into account those who are brought closer to but not above the poverty threshold.

One way of achieving greater "targeting" with child benefit would be to increase it while making the payment taxable. This would give a full payment to those with lowest incomes, a payment reduced by 20 per cent for those on the standard rate of tax, and reduced by 42 per cent for those on the top rate of tax. This option was debated during the 1990s, and would have had much to recommend it. At a time when the basic child benefit payment was being increased so rapidly, all those with children would have seen their Child Benefit increase despite its being made taxable, but there would have been larger net increases for those on lower incomes. This approach was not adopted, instead universal child benefit was increased but without making it taxable (while CDAs were frozen as we have seen). The taxable status of child benefit could have been changed more readily at the same time as substantial increases in payment levels were introduced. In the absence of substantial further increases in child benefit, making the payment taxable would require the "clawing back" of some of the net benefit for high earners. Making the payment taxable would also affect marginal tax rates and how they change as those with children move into the tax net or from the standard to the higher tax band. None the less, it remains a way of introducing some element of targeting to the payment without affecting its essential structure and the way it is paid.

A CHILD BENEFIT SUPPLEMENT

The possibility of a "second tier" child income support, which would be income-tested, but unrelated to employment status, has been under consideration for some time. (See, for example, Ireland, 2004). Key factors here include the desire to have an income-tested supplement, so as to maximise the impact on child poverty for a given level of resources; a seamless transition between child income support when out of work and when in employment, in order to facilitate those wishing to take up employment; and the low rate of take-up of Family Income Supplement (FIS), the existing in-work benefit for families with children.

What might such a payment look like? One possibility is that it could take the form of "…a tapered, employment-neutral Child Benefit

Supplement".[20] This is the form of unification which is examined here. Other possible designs are not excluded, but the non-categorical, income-tested Child Benefit Supplement (CBS) provides a clear starting point and benchmark against which other options can be compared.

Callan *et al.* (2006) sketch what such a supplement (CBS) might look like, its likely cost and its potential impact on the risk of poverty and on financial incentives to take up employment, Here we update and extend that analysis. Our analysis is based on *SWITCH*, the tax benefit model, which contains all the relevant information and can, therefore, calculate each family's entitlement accurately. Implicit in the analysis is that each family has the same income for each week of the year. Difficulties arising from problems of administration and take-up of such a benefit are discussed later.

Currently, Child Benefit is paid in respect of all children under the age of 16 years, as well as 17 and 18 year olds who are in full-time education. Qualified Child Increases are paid to recipients of most welfare payments in respect of children under the age of 18 years, with an extension (in most cases) to age 22 years on production of evidence that the child/young adult is in full-time education. In what follows, our analysis assumes that payment of Child Benefit Supplement is made to all children aged up to 16 years, and to all those in full-time education under the age of 22 years.[21] Currently, Child Benefit and FIS are regarded as "family benefits" under EU regulations, and are, therefore, payable to parents living in Ireland with children living in another EU state. This is not the case with Qualified Child Increases for social welfare payments which are not themselves classed as family benefits. A new Child Benefit Supplement seems likely to be classified as a family benefit, which would entail payments to persons with children living outside the state. The additional cost cannot be estimated on the basis of household survey data used here.

There are three key parameters to be set for a Child Benefit Supplement:

- the weekly or monthly rate of payment for CBS;
- the income level up to which a full payment is made;
- the rate of withdrawal (taper, "phase-out") applied to the benefit as income rises above that limit.

We set the level of the Supplement at a rate which bridges the gap between current child income supports and the official target for the total child income support package i.e., 33-34 per cent of the main social welfare payment rate. We translate this in cash terms into €24.50 per week – a little above the current rate of Qualified Child Increase. We also consider a higher level of payment, designed to bridge the gap between child benefit and 33 per cent of the "at risk of poverty" threshold[22] at 60 per cent of

[20] The quote is from Combat Poverty Agency (2005).
[21] The aggregate cost and impact would vary slightly if the payment were made in respect of 17 and 18 year olds not in full-time education; while this is a rather small set, they are disproportionately located in low income households.
[22] This could be thought of as the "child addition to the "at risk of poverty" threshold".

median income. This translates in cash terms to about €48 per week, more than double the level of the current Qualified Child Increase payments. All qualified child addition rates are set to zero, as the logic of the approach is that these are replaced by the CBS.

The situation with respect to replacement of FIS is not so straightforward. A key feature of FIS is that it can provide a very high level of support for those in employment at low incomes – even if there is only one child in the family. The level of *additional* support in respect of second and higher order children was, for many years, similar to the level of the Qualified Child Increase (previously known as Child Dependant Additions). There have been very marked changes in policy in this area in recent years. Between 2005 and 2007, the "per child" addition implied by the FIS thresholds rose from about €15 per child (for the 2nd and 3rd children) to over €40 per week – well above the €22 per week rate of Qualified Child Increases. The rise for higher order children was even more striking, with payments of between to €55 to €60 per week for each of the next four children in a family. It is not possible for a fixed, per-child payment such as a Child Benefit Supplement to replicate this structure; and even the addition of a "per family" element to the CBS (equivalent to a higher rate for the first child in the family) would not fully replicate the structure of support provided by FIS.

This point was recognised in the analysis of the Tax and Welfare Working Group (1996). The approach adopted there was to allow for a "residual" FIS scheme to provide this form of income support. The success of a Child Benefit Supplement (CBS or other such scheme in "migrating" low income working families off FIS could then be gauged by the reduction in the numbers of FIS recipients and FIS expenditure. Some of the schemes examined by the working group resulted in the "residual" FIS scheme becoming very small; but, depending on the design of the scheme and the levels of payment, FIS could remain a significant feature of the overall package. Where any given package lies on this continuum is a matter for empirical investigation, using the simulation techniques employed here.[23] For a package involving a Child Benefit Supplement rate of €24.50 per week, we report results for both cases – with FIS abolished, and with FIS retained – in order to clarify what is at issue.

Table 6.6 summarises the cost of the alternatives examined, and their direct or "first round" impact (i.e., before any adjustments to behaviour, which may be induced by changes in the budget constraints caused by the policy change) on risks of poverty at the 60 per cent of median income cut-off. A CBS set at €24.50 per week, with an income limit of about €500 per week and a withdrawal rate of 20 per cent is found to cost around €60

[23] The Child Benefit Supplement examined here is designed primarily to replace Qualified Child Increases. It will also replace some element of FIS payments, with the exact extent depending on the parameters of the scheme. An example using round numbers may help to clarify. If the FIS income limit for a one child family were €400 per week, and the family's income was €300 per week, then the FIS entitlement would be €60 per week. Now suppose a Child Benefit Supplement of €20 per week is introduced. The FIS entitlement falls to €48 per week, a reduction of €12 per week, or 60 per cent of the amount of the Child Benefit Supplement.

million if FIS is abolished, or €120 million if FIS is retained for those still eligible after payment of the supplement. The direct impact is to reduce the risk of poverty overall by about 1 percentage point, and of child poverty by about 2 percentage points.

Table 6.6: Cost and Anti-Poverty Impact of Alternative Implementations of a Child Benefit Supplement (Baseline: 2007)

	Cost €m Per Annum	Percentage Point Reduction in Child Poverty	Percentage Point Reduction in Overall Poverty
CBS €24.50, FIS abolished	63	1.9	0.8
CBS €24.50, FIS retained	120	2.3	1.0
CBS €48, FIS abolished	619	5.1	1.9
CBS €48, FIS retained	657	5.2	2.0

Source: SWITCH.

Table 6.7 examines the distributional impact of introducing a Child Benefit Supplement (at €24.50 per week) and abolishing FIS. It can be seen that there are significant numbers of losers – about 50,000 families in the lower half of the income distribution. These are mainly in deciles 4 and 5 – above the poverty line, but still a focus of interest for policy in terms of "making work pay". Typical losses are of the order of €25 to €30 per week. In our overall packages in Chapter 12, we therefore allow for a continuation of the FIS scheme, but with extra resources for Child Benefit Supplement helping to "float" more recipients off FIS.

Table 6.7: Distributional Impact of a Child Benefit Supplement (€24.50) and Abolition of FIS

Number of Cases (000s)	Loss > €0.50 pw	No Change	Gain > €0.50 pw	Total
Bottom	4	236	22	263
2nd	4	145	31	180
3rd	8	193	20	221
4th	18	140	64	221
5th	14	188	19	222
6th	4	215	3	221
7th	3	217	1	221
8th	1	220	0	221
9th	1	221	0	222
Top	0	222	0	222
All	57	1,998	159	2,214

The application of substantially greater resources through the Child Benefit Supplement can have a greater impact on poverty risk. A Child Benefit Supplement paid at the rate of €48 per week – the amount required to make the total child income support package correspond to the "child addition to the poverty threshold" – has a direct impact on overall poverty of about 2 per cent, and reduces the risk of child poverty by about 5 percentage points. The cost is correspondingly higher at around €660 million if FIS is retained. At this level of payment about half of FIS recipients would have been "floated off" the scheme by the supplement.

How is this improvement in poverty reduction impact achieved? One difference is that as a purely income-related supplement, Child Benefit

Supplement is payable to all those with low incomes. Family Income Supplement, on the other hand, is not payable to those who are self-employed, including farmers. While there can be considerable diversity in this low income group, it is likely to include significant numbers who are falling below relative income thresholds, but who may not be in "consistent poverty".

A further key difference with respect to the existing structure is that it is assumed that the new Child Benefit Supplement is paid to all those who qualify, and only to those who qualify. Thus, it is assumed that the Child Benefit Supplement does not experience the problems with take-up which have been associated with schemes such as the Family Income Supplement. On the other hand, there is also an implicit assumption that the new benefit will be given only to those who are entitled to receive it. The UK experience with tax credits suggests that this is not easily achieved. The House of Commons Treasury Committee (2006) noted that about one-third of all tax credit awards were overpaid, at an average cost per case of about UK£1,000.

A useful point of comparison can be provided by examining what the existing income support structure would achieve, if perfect take-up of benefit could be guaranteed. Callan *et al.* (2006) found that moving from low take up to full take up of FIS would lead to a 3 percentage point reduction in the key "at risk of poverty" indicator. Thus, while CBS involves more than just changes in take-up, a key element of its impact in poverty reduction comes from the assumed full take-up. Achieving full take-up, and avoiding overpayments and reclaiming of payment, as in the UK experience, would be vital to the success of the scheme.

The balance of advantage between FIS and CBS as instruments of child income support policy may have changed in recent years, with changes in the structure of the FIS scheme on offer, and possible changes in terms of take-up of the benefit. New empirical data regarding non-take-up of FIS are envisaged and due to take place during 2008. Results from this new source of information will be of interest. The re-basing of the *SWITCH* model to use 2005 SILC data will also permit some new insights into levels of take up, and the potential impact of increased take-up. The numbers of persons eligible for FIS can be expected to have increased because of changes in the income limits; and the size of the SILC sample is also bigger than that of the Living in Ireland Survey.[24] More fundamentally, however, there are differences in the focus of the current FIS scheme and the CBS structure, in that the FIS is geared not only towards support of incomes for low income working families, but also towards ensuring a greater financial incentive to work. In this context, the issue of whether the introduction of a CBS is designed to replace FIS completely, or only partly substitute for FIS, is a critical one.

[24] It must be noted, however, that the focus of the EU-SILC is on annual incomes, and as a result data on current FIS receipts are not included; the analysis which can be undertaken regarding take-up is restricted as a result.

6.6 Conclusions

There are strong links between child poverty and the overall "at risk of poverty". The countries with the best record on the reduction of child poverty – the Scandinavian countries – also tend to have the lowest rates of overall poverty. The "best practice" approach to improving EU performance in this area suggests close attention should be given to the policies and structures of the best-performing countries. The logic of the approach is, therefore, that other countries should compare their approaches with those of the Scandinavian countries – which are the best performers in this regard not only in Europe but in global terms.

By contrast, much of the debate on child poverty has focused on restructuring income-tested income support for families with children, with attention centering on recent initiatives in English-speaking countries. While some reductions in poverty have been achieved by these initiatives, it is clear that rates of child poverty in the English speaking countries remain above those in most European countries, and well above Scandinavian levels.

This approach is associated with a tendency to view child poverty as a problem to be dealt with, in the main, through child income support. The problem with this is that children are not poor on their own – they have a parent or parents living in poverty with them. So avoidance of poverty requires that parents have adequate incomes too. As Sutherland (2005) puts it:

> One feature of the "successful" countries in Europe is that relatively large parts of their benefit systems are not child-contingent but nevertheless succeed in keeping children as well as adults out of poverty. Sutherland (2005, p. 32).

Tackling child poverty requires a strategy that takes a broad view of welfare income supports, and "activist" measures to increase participation in employment. Solutions lie not with welfare alone, or employment alone, but a combination of both.

7. Older People: Poverty Risks and Pensions Policy

7.1 Introduction

The National Pensions Policy Initiative (NPPI) recommended a target replacement income of 50 per cent of pre-retirement income before tax, and an overriding minimum income of 34 per cent of gross average industrial earnings (GAIE). The Pensions Board (2005), in its National Pensions Review, confirmed these targets.[25] However, a number of Board members

> …believe that a higher minimum pension target is needed to ensure that pensioners without supplementary pensions have an adequate income by reference to household incomes generally. Other board members also support an increase in the basic pension target for reasons of greater social equity.

Here we revisit these issues, and are able to analyse the trade-off between the costs of state pensions, the cost of state support for private pensions and the overall impact on poverty and the distribution of income.

Our perspective includes both the minimum income guaranteed through the state's old age pension and pensions provided by employers (including the state and public authorities as employers). We also take account of privately organised pensions unrelated to the state or to employers. We begin (Section 7.2) by reviewing evidence on the risks of poverty faced by older people. As well as Irish evidence, we draw on a recent review of EU experience, which points to links between differences in pension systems and differences in poverty risk. Section 7.3 then examines more closely the impact of changes in state pension payment rates between 2000, when "at risk of poverty" rates for older people were very high, and 2006, by which time "at risk of poverty" rates for older people were much lower, and close to the average. In this section we use the *SWITCH* model to isolate that part of the reduction in poverty risk due to the changes in payment rates.

The following sections look at possible policy options for the future. Section 7.4 considers a targeted policy change, based on the fact that "at risk of poverty" rates are particularly high for an older person living on his or her own. A new supplement, which we call "Living Alone Supplement",

[25] The report notes that the representative of the Department of Finance did not agree to this target.

was incorporated into the model and the impact of implementing such a payment is examined.

Section 7.5 looks at options related to the income tax treatment of pension contributions. At present, all contributions – whether by an employer, the individual himself or herself, the state as employer, or made to a private pension plan – are allowable against income tax at an individual's marginal rate of tax.[26] We estimate the total size and distributional impact of this tax expenditure. We then consider an illustrative package involving a "standardisation" of the tax relief on pensions – allowing it only at the standard rate of tax, as was done with mortgage interest relief and relief on health insurance premia. This would generate a rise in income tax revenue which could be used in many ways. For simplicity, we examine first of all a flat rate increase in social welfare pensions (including all of the rates for those over 66 years outside the main pension schemes). We then estimate the net cost and distributive effect of the package, and its likely "first round" impact on the "at risk of poverty" measure. The final section draws together the main findings.

7.2 Poverty Risks Among Older People

7.2.1 POVERTY RISKS AMONG OLDER PEOPLE: TRENDS, LEVELS AND ALTERNATIVE MEASURES IN IRELAND

Table 7.1 shows how "at risk of poverty" rates have evolved over the past ten years, drawing on results from the Living in Ireland Survey (1994 up to 2001) and in more recent years, the EU Survey on Income and Living Conditions (EU-SILC).

Table 7.1: "At Risk of Poverty" Measure for Older People and for All Persons, Ireland, Selected Years, 1994-2005

	Data Source	Percentage of Older People "At Risk of Poverty"	Percentage of All Persons "At Risk of Poverty"
1994	LII	5.9	15.6
1997	LII	24.2	18.2
2000	LII	38.4	20.9
2001	LII	44.1	21.9
2003	CSO EU-SILC	29.8	19.7
2004	CSO EU-SILC	27.1	19.4
2005	CSO EU-SILC	20.1	18.5
2006	CSO EU-SILC	13.6	17.0

Note: While the income definitions in the two data sources (the Living in Ireland Survey up to 2001 and the EU-SILC from 2003 onwards) are very similar, there is a difference which particularly affects older people. Non-cash benefits such as free electricity, gas and a TV licence are not included as part of disposable income in the Living in Ireland survey, but are included with cash incomes in the EU-SILC measure of disposable income.

[26] The amount allowed is subject to a limit in terms of the proportion of income that can qualify.

"At risk of poverty" rates were high for older people in the 1980s, but fell to 6 per cent by 1994 – well below the corresponding risk for all persons. This risk for older people rose sharply in the following years, rising to almost 1 in 4 by 1997, and to 44 per cent by 2001. By this time the risk was more than double that for all persons. It is not yet clear how much of the decline from 44 per cent (Living in Ireland, 2001) to 30 per cent (EU-SILC, 2003) is due to the difference in income definitions between the surveys (see note to table for details). Initial analysis suggests that up to half of the fall in the risk of poverty for the elderly between the LII 2001 and EU-SILC 2004 may be accounted for by this difference in income definition. But figures from the CSO's EU Survey on Income and Living Conditions (EU-SILC) indicate that "at risk of poverty" rates for older people declined from just under 30 per cent to about 14 per cent between 2003 and 2006. This sharp decline means that "at risk of poverty" rates for older people are now lower than the risks for other persons, both adults and children.

It is clear from the foregoing that "at risk of poverty" rates for older people are quite volatile. The volatility of the risk relates in part to the fact that many older people are heavily dependent on the state pensions, contributory and non-contributory. If these payment rates are close to the poverty threshold, then a small change either way (or a small additional income) can move many people above or below the threshold.

We know that income is a key resource, but not the only element of "command over resources" that affects individuals' and families' standard of living. Nolan and Whelan (1996), argued for the use of a combination of information on income with information on key indicators of basic deprivation (being unable to afford basic items or activities) to identify those living in what was termed "consistent poverty". This is the approach which has been adopted by the National Action Plan for Social Inclusion. Table 7.2 draws together published evidence on the rate of consistent poverty for older people, and for all persons.

Table 7.2: Proportions of Older People and of All Persons in Consistent Poverty, Selected Years, 1997-2005

	Older People		All Persons	
	At 60 Per Cent Median Income	At 70 Per Cent Median Income	At 60 Per Cent Median Income	At 70 Per Cent Median Income
1997		8.4	7.8	10.7
1998			6.0	7.7
2000			4.3	5.4
2001		3.9	4.1	4.9
2003	5.8		8.8	
2004	3.3		6.8	
2005	3.7		7.0	
2006	2.1		6.9	

Sources: 1997-2001: Whelan *et al.* (2003); 2003-2006: CSO Statistical Releases on EU-SILC.

Two key points emerge clearly from this table. First, the rate of consistent poverty for older people is always below the rate of consistent

poverty for all persons. This contrasts with the "at risk of poverty" measure, where older people were sometimes at much lower risk than others, and sometimes at much greater risk. Second, the rate of consistent poverty for the elderly is very far below the "at risk of poverty" measure e.g., for 2003 the "at risk of poverty" rate was close to 30 per cent (at the 60 per cent of median income cut-off) while the corresponding rate of consistent poverty was under 6 per cent.

What gives rise to these quite different results for "at risk of poverty" rates and consistent poverty? The major factors relate to the non-income resources available to support the standard of living of the elderly. These include the fact that most older people own their own homes outright, without any mortgage. As a result, their housing costs are very low, and their cash incomes can stretch further to meet other needs. The standard economic approach to take this into account is to move to a broader measure of income which includes the value of the "in-kind" benefit enjoyed by the home owner from his or her own property. Different valuation methods have been proposed, but the simplest way of thinking about this is that rather than the owner paying zero rent and having zero income from the property, he or she rents it to himself/herself. This "imputed rent" is added to the home-owners' income to put the resources of the home owner on a similar footing to a tenant. Tenants may also benefit from an imputed rent, if they enjoy the use of a property at less than the market rent. These issues, including different valuation methods for imputed rent, and the implications for measurement of income distribution and poverty, are currently being examined in a project involving eight European countries.[27]

Zaidi *et al.* (2006a) also point to the financial assets and wealth of older people as important considerations in determining their overall command over resources. For example, assets built up over earlier stages of the lifecycle may be used to provide resources additional to income. Family support may also allow an older person to maintain a standard of living higher than their income alone would allow.

7.2.2 "AT RISK OF POVERTY" AMONG OLDER PEOPLE: IRELAND IN EU CONTEXT

A recent review of EU experience regarding the risk of poverty for older people is provided by Zaidi *et al.* (2006a), drawing mainly on results from the Eurostat database on social inclusion. It is important to realise that there is a significant difference between the income concept used by Eurostat and that used in national analyses of Irish data by the CSO (in its regular publications based on the Irish element of the EU Survey on Income and Living Conditions) and the ESRI (in analyses of the Irish element of EU-SILC and of the earlier Living in Ireland Survey). One crucial difference is the treatment of private pensions (i.e. pensions which are privately organised by the individual, most often the self-employed, and not forming part of a state scheme or an occupational scheme). In national analyses, these are considered as part of disposable income; but in the EU level database they are excluded. Persons relying on this income, and without sufficient income from other sources, will therefore be deemed to

[27] The project is part of a broader one on Accurate Income Measurement for the Assessment of Policy (AIMAP).

be "at risk of poverty" in EU level analyses, whereas the national level approach may find they have sufficient income, including private pensions, to keep them above the poverty threshold.[28] The origins of these differences lie in different institutional structures, which make standardisation of the measurement approach problematic.

A further difference which should be borne in mind is that the "equivalence scales" – method of adjusting incomes to take account of differences in household size and composition – used at EU and national level are also different. At EU level, the equivalence scale counts 1 for the first adult in the household, 0.6 for each other adult, and 0.3 for each child. The scale frequently used in Ireland allows 1 for the first adult, 0.66 for each other adult and 0.33 for each child. The lower allowance for additional adults and for children results in a higher poverty line for single person households, making many elderly persons (especially in single person households) more likely to fall below the "at risk of poverty" threshold.

Zaidi *et al.* (2006a) divide countries into low, medium and high poverty risk groups. The high poverty risk group includes Ireland and the UK along with Spain, Greece and Portugal. The latter, Southern countries have traditionally had a less developed welfare state than Northern European countries. The fact that Ireland and the UK feature in this group – and that Ireland has such a remarkably high poverty risk in this analysis – is in part due to the income measurement issue mentioned earlier. However, the extent to which this explains the high figures for the UK and Ireland is not yet known.

The low poverty risk group includes several accession states, all of which belong to the Central and East European Countries. These countries are all from the former communist bloc. Comparisons with low poverty risk countries which have longstanding market economies – namely the Netherlands, France and Luxembourg – may be more productive. The Dutch system has the lowest poverty risk of the three. Zaidi *et al.* (2006a) point to the fact that the Netherlands has a universal, residence-based basic pension, indexed in line with wages, along with mandatory occupational pensions and generous survivors' benefits in occupational pensions.

Callan, Nolan and Walsh (2007) consider other comparative analyses of poverty risks for the elderly, including the EU's Joint Social Inclusion Report (European Commission, 2006). The divergence in results based on the EU's framework and national analysis is worthy of further investigation. In what follows, we focus on results with the national framework, which is geared to take account of the nature of the Irish pensions system.

[28] There are other differences between the approaches which may contribute to differences in measured poverty risks. For example, the treatment of pension contributions (public or occupational, not private) differs in that the Eurostat database treats superannuation contributions as a deduction from gross income before arriving at disposable income; national level analysis treats superannuation contributions as part of disposable income.

7.3 Exploring the Impact of Recent Changes in State Pensions

Evidence from the CSO analysis of EU-SILC surveys points to a sharp reduction in the proportion of older people "at risk of poverty". In 2003, the risk for older people was close to 30 per cent – about one and a half times the risk for all persons. By 2005 the risk had fallen to just over 20 per cent, not much more than the risk for all persons. In 2006, a further fall puts the risk of poverty for the elderly at just under 14 per cent, significantly below that for other adults and children. Comparison of the risk figures with earlier years is complicated by a difference in the treatment of non-cash benefits such as free electricity, etc.

Here we try to identify how much of the reduction is due to changes in the rates of payment for the main state pension rates (Old Age Contributory and Non-Contributory Pensions) along with rates paid to those on other schemes who are of pension age. We analyse this question by comparing the actual 2006 policy with a counterfactual policy, under which these pension rates would be indexed in line with wage growth from their 2000 levels, while all other policy parameters would remain at their actual 2006 levels. This isolates the impact of 2006 actual policy over and above a "neutral" policy, simply indexed in line with wages. (For a detailed rationale of this "distributionally neutral" policy, see Callan *et al.* 2005).

The total cost of the actual 2006 pension rates, over and above the 2000 rates indexed in line with wage growth of 42 per cent, is estimated at €515 million. Table 7.3 shows how this amount is distributed over the deciles of equivalised income, and the proportionate gain in income for each decile.

Table 7.3: Impact of Changes in Pension Rates, Over and Above Wage Indexation, 2000-2006

Decile	Aggregate Gain in €m p.a.	Percentage Gain
Bottom	89	5.7
2nd	67	3.6
3rd	180	6.1
4th	102	2.1
5th	25	0.4
6th	20	0.3
7th	11	0.1
8th	7	0.1
9th	5	0.1
Top	8	0.0
All	515	0.8

The gains are strongly concentrated on the bottom four deciles of the income distribution. This group obtains 85 per cent of the total benefit from the package of policy changes implemented between 2000 and 2006. Income in these deciles rises by between 2 and 6 per cent, as against an overall figure of 0.8 per cent.

Despite this strong concentration towards the bottom of the income distribution, the head count measure of the risk of poverty for older people declines by no more than 5 percentage points (from a base of about 40 per cent). However, there is a substantial reduction in the "poverty gap" measure which takes into account both the incidence of poverty – as measured by the head count – and the depth of poverty, how far those in

poverty are below the "at risk of poverty" line. This "poverty gap per person" measure falls by 45 per cent.

Such findings are not unusual, and reflect a key weakness in the commonly used "head count" measure of poverty. A policy may improve the lot of many poor persons, without raising any of them above the poverty threshold. The head count measure will record no change in poverty, but the poverty gap measure will show a reduction depending on the extent to which the policy has brought people closer to the poverty threshold income. On the other hand, a policy which left the aggregate income of those initially in poverty unchanged, but transferred income from those who were poorest to those close to the poverty line income could result in a substantial fall in the head count. The lesson to be drawn is that we must look at both head count and poverty gap measures in order to obtain a fuller picture of the impact of policy changes (or of economic and social developments) on poverty risks.[29]

7.4 Targeting Vulnerable Older People: a "Living Alone Supplement"?

7.4.1 INTRODUCTION

"At risk of poverty" rates for older people living alone are particularly high. This is not simply an Irish phenomenon. Zaidi *et al.* (2006a) report that "in many countries, single elderly persons have the highest risk of poverty across all household types". Could a payment targeted on these households be an effective (and efficient) instrument of anti-poverty policy? To explore this, we investigate the potential of what we call a "living alone supplement" to reduce risks of poverty among the elderly population. We begin by describing the current Living Alone Allowance and then describe how the "living alone supplement" would complement this to provide a higher level of income support for persons over the age of 70 who are living alone. The key questions are of the "what if" type – what would be the impact on poverty if such a supplement were introduced. A tax-benefit model is an essential tool in addressing such questions. We use the *SWITCH* model to explore the costs of such a supplement, and the net impact on risks of poverty in the overall population and among older people.

[29] It should be noted that there are two types of poverty gap measure. One, due to Foster, Greer and Thorbecke (1990) combines information on the extent of poverty (as measured by the head count) and the depth of poverty (how far below the poverty line each poor person falls). An alternative measure is used in recent EU social inclusion analyses. It looks at the poverty gap (as a proportion of the poverty threshold) for the median poor person i.e., halfway between the poorest person and the poor person whose income is closest to the poverty line. There are advantages and disadvantages to each measure, but in either case, it is necessary to consider both the head count measure and the poverty gap measure to obtain a full picture. Here we use the poverty gap measure developed by Foster, Greer and Thorbecke.

7.4.2 LIVING ALONE ALLOWANCE AND A POSSIBLE LIVING ALONE SUPPLEMENT

At present the Living Alone Allowance (LAA) is a supplementary payment for people on certain social welfare payments[30] who are deemed to live completely or mainly alone. It represents an increase of €7.70 on top of the welfare payment. It is possible for recipients of certain payments, such as Disability Allowance, Invalidity Pension and Blind Person's Pension, to receive the LAA if they are aged under 66 years. For the other benefits to which LAA applies recipients must be over 66 years old.

A Living Alone Supplement could either be a non-means-tested payment or a means-tested payment. Here we investigate the potential of a non-means-tested supplement. In this way, it is possible to arrive at an estimate of the scope that such a proposal may have in effecting a reduction in the risk of poverty for the elderly. A non-means-tested benefit would, however, involve substantial transfers of income to the non-poor elderly (particularly those with occupational pensions). Designing appropriate income or means-tests to achieve the optimal balance between the costs and anti-poverty benefits of such a proposal would require careful consideration. But for the moment, the focus is on estimating the maximum attainable benefit under a non-means-tested scheme.

The eligibility conditions we consider are simply:

- that the individual be aged 70 or over;
- that the individual be living alone i.e., in a one-person household.

For these individuals, the Living Alone Supplement (LAS) replaces the Living Alone Allowance (i.e., the payment is made instead of LAA, not as well as the LAA – as the rate of payment examined is well above the LAA rate, this involves a gain for all those eligible for the LAS). For those aged less than 70 years, the LAA continues as at present.

Three rates of payment for the LAS were examined:

- a rate of €46.50 per week;
- a rate of €30.00 per week;
- a rate of €20.00 per week.

7.4.3 COST OF A LIVING ALONE SUPPLEMENT

The *Statistical Report on Social Welfare Services* records expenditure on the Living Alone Allowance as €44 million in 2000, rising to €49 million in

[30] The relevant payments are Disability Allowance, Invalidity Pension, Unemployability Supplement, Blind Person's Pension, Old Age Contributory Pension, Old Age Non-Contributory Pension, Retirement Pension, Widow's/Widower's Contributory Pension, Widow's/Widower's Non-Contributory Pension, Invalidity Pension, Deserted Wife's Benefit or Allowance, Prisoner's Wife's Allowance, and Widow's/Widower's/Dependent Parents Pension under the Occupational Injuries Benefit Scheme.

2004.[31] The corresponding *SWITCH* estimate is of an aggregate cost of €49 million in 2000 and €52 million in 2006. The *SWITCH* estimates are therefore of the same order of magnitude as the officially recorded expenditure. The gap between the two was about 10 per cent in the year 2000, but seems to have declined since then.

Table 7.4 presents the estimates from *SWITCH* for expenditure on the LAS and total social welfare expenditure (which takes account of the savings made through the abolition of the LAA for those aged over 70 years). More than 100,000 people are estimated as receiving the supplement.

Table 7.4: Expenditure on the Living Alone Supplement and the Increase in Social Welfare Expenditure at Alternative Rates of Payment (€million p.a.)

Rate of LAS	Expenditure on LAS	Increase in Total SW Expenditure
Per Week	€million Per Annum	€million Per Annum
€46.50	255	211
€30.00	165	121
€20.00	110	66

7.4.4 IMPACT ON "AT RISK OF POVERTY" RATES

Using the modified OECD equivalence scale (1 for the head of household, 0.5 for other adults, and 0.3 for children aged under 14 years) the LAS would lead to a small reduction in the overall poverty. However, it would have a bigger impact on the poverty rate of the older people, especially for those aged over 80 years. Table 7.5 below gives the proportions of the whole population, those aged over 65 years and those aged over 80 years whose equivalised disposable income falls below the poverty thresholds of less than 60 and 50 per cent of median income.

Table 7.5: Impact of Living Alone Supplement on Headcount Numbers Below Poverty Thresholds Based on Median Income (%)

	<60 Per Cent of Median Income			<50 Per Cent of Median Income		
	All	Older People	Aged Over 80 Years	All	Older People	Aged Over 80 Years
Current Policy	19.2	40.3	63.1	10.8	24.0	40.2
LAS at €20.00	19.2	40.0	61.6	10.6	22.0	29.9
LAS at €30.00	19.2	39.9	61.6	10.1	17.7	10.1
LAS at €46.50	19.1	39.6	60.3	9.1	8.5	0.5

Source: *SWITCH* estimates using OECD modified equivalence scale.

[31] These figures come from multiplying the number of recipients of the LAA under each scheme given in Tables B7, C11, and E5 by the rate of the allowance.

As Table 7.5 shows, the greatest impact of the LAS on "at risk of poverty" rates would be for people aged over 80 years whose disposable income is below 50 per cent of the median income. The proportion of this group whose income is below that threshold would fall from around 40 per cent under the current system to less than 1 per cent under the proposed LAS at the rate of €46.50. The corresponding impact of the LAS at the two lower payment rates would obviously be smaller, but would still be substantial. The impact on those aged over 65 years, though less striking than that for the very elderly, would still be considerable. Again focusing on the highest rate of €46.50, the income poverty risk for this group (at the 50 per cent cut-off) would fall from 24 per cent to around 9 per cent.

It is well known that headcount measures of poverty can be very sensitive to the precise location of the poverty line in relation to income support levels. This is particularly so for the elderly, for whom welfare income may be the only, or the preponderant, element of income, so that large numbers have incomes at very similar levels. In these circumstances the poverty gap measure, which takes account not only of the extent but also of the depth of poverty,[32] can provide a better picture of the impact of policy changes. At the 60 per cent of median income threshold, Table 7.5 shows that the LAS would have a relatively small impact on the headcounts. However, as shown in Table 7.6, the poverty gap measure would be reduced by a substantial amount. For example, at the rate of €46.50, the LAS would lead to a fall in the poverty gap by one-third for older people (aged 65 years or more), and by one-half for those aged 80 years or over.

Table 7.6: Poverty Gap (Per Person) at 60 Per Cent of Median Income (%)

	All	Older People	Aged Over 80 Years
Current Policy	4.1	7.9	11.1
LAS at €20.00	4.0	7.0	9.2
LAS at €30.00	4.0	6.3	7.7
LAS at €46.50	3.8	5.2	5.3
Reduction in Poverty Gap (%)			
LAS at €20.00	2.2	11.0	17.1
LAS at €30.00	4.1	20.1	30.5
LAS at €46.50	7.3	34.6	52.1

All of the above results on the impact of the LAS on poverty have been calculated using the OECD modified equivalence scale. As stated earlier, this scale assigns a value of 1 to the household head, 0.5 to each additional adult member and 0.3 to each child in the household when calculating the household's equivalised income. The alternative national scale that has been employed in Irish poverty research, and within the NAP inclusion, assigns a value of 1 to the household head, 0.66 to each additional adult member and 0.33 to each child. This latter scale is more representative of the current social welfare system in Ireland where qualified adult additions have

[32] The "poverty gap" measure takes into account not only how many people fall below the poverty line, but how great is the gap between their income and the poverty threshold.

been moving from around 60 per cent of the personal rate of payment towards 70 per cent. For this reason results based on the 1/0.66/0.33 scale are also of interest.

At the 60 per cent of median income threshold, the impact of the LAS policy on the headcount of "at risk of poverty" is greater when the 1/0.66/0.33 scale is used than under the 1/0.5/0.3 scale. At the rate of €46.50, the LAS reduces the proportion of older people who fall below the poverty line from 39 to 32 per cent when the 1/0.66/0.33 scale is used – as against a fall of less than one percentage point with the OECD scale. Similarly, for those aged over 80 years, under the 1/0.66/0.33 scale the risk of income poverty falls from 58 to 28 per cent, as against a fall of 3 percentage points with the OECD scale. The different equivalence scales also affect the impact on the poverty gap. For the poverty line of 60 per cent of median income, under the 1/0.66/0.33 scale the LAS of €46.50 cuts the poverty gap by one-half for the elderly, and by three-quarters for the very elderly. This contrasts with the results under the modified OECD scale where the corresponding poverty gaps are cut by one-third and one-half.

Why are these results so sensitive to the equivalence scale used? In general terms, this arises because the policy is specifically focused on one-person households, so that the balance struck by the equivalence scale between the first adult, and all other members of the household becomes particularly important. The equivalence scale has a marked impact on the level of the poverty line for a single person household. For 2006, using income growth factors kindly supplied by the Revenue Commissioners, *SWITCH* estimates suggest that the "at risk of poverty" threshold is about €30 higher under the OECD equivalence scale than under the alternative national equivalence scale, which gives greater weight to other adults and children. An Old Age Contributory Pension at the maximum rate, together with the proposed Living Alone Supplement, comes close to the threshold under the national equivalence scale, but is still well short of the threshold under the OECD scale.

A further sensitivity analysis was undertaken to allow for the fact that average income in the EU-SILC surveys is significantly lower than would be expected on the basis of results from the Living in Ireland Survey. (As a result, poverty thresholds based on SILC are lower than those based on forward projections from the Living in Ireland database). In order to explore the potential impact of this difference, income growth settings were reduced in *SWITCH*, and the analysis was repeated, to explore how this would alter the estimated impacts on poverty risk. Given that the policy is targeted on the elderly population, much of which has an income fixed at social welfare pension rates, the expectation was that initial poverty risks would be lower, and that a fixed €46.50 income increase would have more of an impact on poverty. This proved to be the case. In the "low income growth" scenario, the risk of poverty was reduced for older people by 18 percentage points rather than 7. For those aged over 80 years, the risk was reduced by 39 percentage points rather than 30.

7.4.5 CONCLUSION

The results are sufficient to indicate that the proposed Living Alone Supplement could have a significant impact on poverty risk. Balancing this

benefit with the cost requires further fine tuning of the analysis, and of possible income or means-testing aspects of the proposal.

7.5 Tax Expenditures on Private Pensions

The current tax treatment of occupational pension contributions is that both employer and employee contributions are deducted when calculating income for tax purposes. Alternatively, this can be viewed as a tax-free allowance equal to the value of the employee and employer contributions, allowable at the individual's marginal rate of tax, be it standard rate or top rate. Payments by the self employed in respect of retirement annuity premia are also treated in the same way. These tax reliefs on pension contributions can also be regarded as "tax expenditures".

The "tax expenditure" approach highlights the fact that the tax system is sometimes used to achieve goals which are similar to those of the public expenditure system. Identifying the cost of the tax reliefs, and their distribution across persons, is then an important element in assessing whether the policy approach is an efficient and effective way of achieving these goals.

Tax expenditures are identified with reference to a benchmark tax system, including definitions of the tax base and the rate structure. As Whitehouse (1999) notes, there are variations in international practice in the identification of tax expenditures regarding pensions.

> In Australia, Canada, Spain and the United States, the comprehensive income tax – with pension benefits tax-free and contributions and investment returns taxed – is used as the benchmark. In the United Kingdom, the actual tax treatment is compared with a so-called 'unapproved' scheme, where contributions and investment returns are taxed but the withdrawal of the pension as a lump-sum is tax-free. This is equivalent to the comprehensive income tax treatment (i.e., TTE). Other countries (such as the Netherlands) do not report tax expenditures for pensions at all or (for example, Germany) choose a benchmark very much closer to the actual treatment. Whitehouse (1999, p. 29).

There is also substantial variation across countries in the actual tax regime applied to pensions, as documented by Whitehouse. The classic theoretical treatments of pension contributions, pension fund income, and pension payments to beneficiaries include (using the notation T for Taxed, E for exempt):

EET: Pension contributions and pension fund income are exempt, and pension payments are taxed in the hands of the beneficiary. This corresponds to the expenditure tax treatment.

TEE: This also relates closely to expenditure tax treatment, and is sometimes termed the "prepaid" expenditure tax treatment.

One feature of interest in the present context is that countries use different forms of limitation on the amount by which tax liability can be reduced through increasing pension contributions. Whitehouse (1999) identifies the following possibilities:

- absolute limits on the amount of contributions (e.g., Australia, Germany);
- limits on the proportion of contributions that can be deducted (e.g., Austria, Finland);
- limits on the proportion of income on which contributions can be made (e.g., Ireland and the UK).

In this paper we investigate another type of limitation, which limits the deductibility of contributions at higher rates of income tax. Like many of the actual systems examined by Whitehouse, this diverges from the classic theoretical treatments, but analysis of this case is of some independent interest, given the political economy of standardising tax reliefs. Investigation of a full TEE regime is a topic of interest for further research.

Whitehouse goes on to show that restricting the deductibility of contributions is close to introducing a comprehensive income tax, whereas the current treatment in Ireland and in the UK is close to that of an expenditure tax. If the overall tax system were to move towards an expenditure tax base rather than an income tax one, the existing tax arrangements for pensions would involve little or no redistribution. Arguments for and against the differing treatments of pension contributions need to be considered in this wider context, but the likelihood of such a fundamental shift – debated here some years ago when the Commission on Taxation reported – seems slight. A prerequisite for an informed debate on this topic is a sense of the scale of the tax reliefs, and the distribution of the benefits which arise from them. It is to this issue that we now turn.

Hughes and Sinfield (2004) show that similar tax arrangements in the UK and the US, designed to encourage the growth of private pension schemes, lead to a concentration of tax relief among the highest income groups. This is for two reasons.[33] The first is that the rate of membership of occupational pension schemes (and contributions by the self-employed) rise strongly with income. The second is that tax relief is allowed at the top marginal rate. Hughes (2005) shows that tax relief is also highly concentrated towards the top of the Irish income distribution.

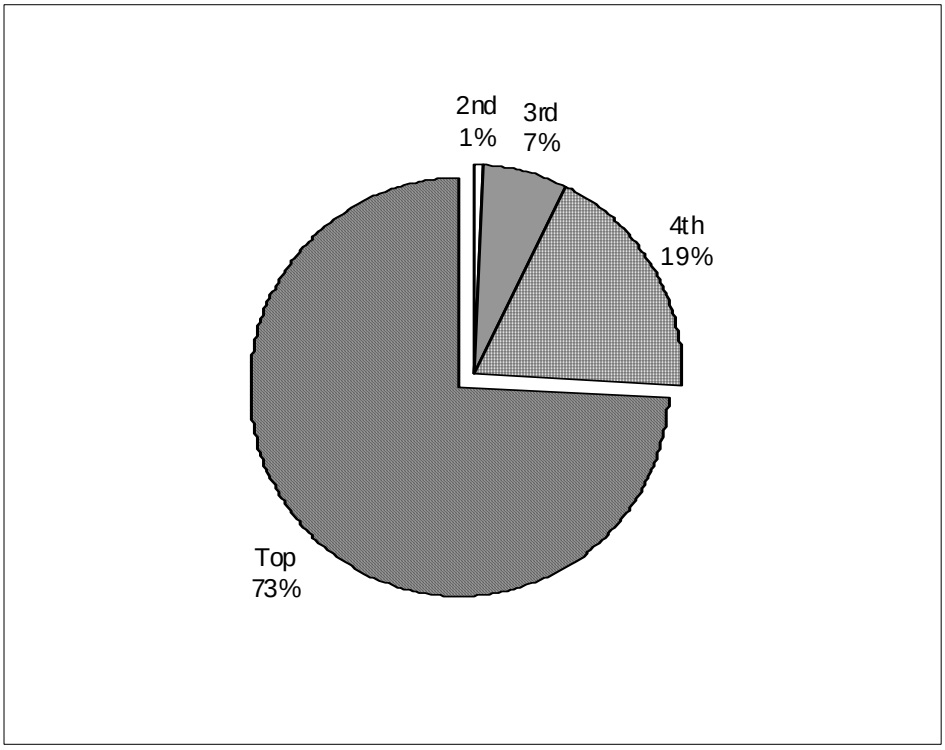
This is confirmed by analysis using the *SWITCH* model. It differs from Hughes (2005) in two respects. First it is based on family units rather than households – though the results are similar in either case. Second, whereas Hughes looks at quintiles of employees and self-employed separately, we use family income per adult equivalent, over the full income distribution, as the ranking criterion for division into quintile groups. The results are shown in Figure 7.1, and are broadly similar to those of Hughes. If anything, the contributions are concentrated somewhat more in the top quintile. Hughes (2005) found that the tax relief from retirement annuity premia paid by the self-employed were more strongly concentrated towards

[33] Agulnik and Le Grand (1998) and Hughes (2005).

the top of the self-employed income distribution than the relief from employee contributions.[34]

It could be argued that the current income of the household is not the most relevant point of reference in thinking about the distributional implications of different approaches, and that some currently middle- or high-income households benefiting from the arrangements will be on much lower incomes when they retire. It would be very useful to complement the present analysis with a lifetime income perspective, and studies for some other countries have sought to do so. However, the evidence still suggests that, as Sinfield (1997) puts it (in relation to broadly similar arrangements in the UK): *The greatest beneficiaries are those who have the least needs by any measure used in social policy analysis*. It is of interest then to establish more closely the extent of the support being provided through this mechanism, and examine possible reallocations of resources which might better serve the overall objectives of social policy and pensions policy. Similar arguments have been accepted and acted upon in the case of mortgage interest tax relief, which is now allowed at the standard rate of tax, not at the top marginal rate.

Figure 7.1: Distribution of Benefit from Exemption of Employee Superannuation Contributions by Quintile of Family Units



Source: SWITCH model.

In order to provide a benchmark for the extent of the resources implied by the tax treatment of pension contributions, we have attempted to estimate the cost of tax reliefs in respect of employee contributions,

[34] The overall impact of state interventions in relation to pensions also includes the State Pensions, contributory and non-contributory. The former is financed by pay-related social insurance contributions, but takes the form of a flat rate benefit, which features combine to make it strongly progressive.

employer contributions and self-employed contributions. One issue which arises in this context is the correct treatment of the State's own public service superannuation scheme. This is a "pay as you go" scheme so there are no contributions to the core scheme, and benefits are paid out as they become due. In the present context, where both employer and employee superannuation contributions are exempt from tax, there are no particular tax issues associated with the accrual of pension benefits under the civil/public service superannuation scheme. If employee and employer contributions were to become – to any extent – taxable, then an inequity would arise if the state scheme were to maintain a tax-free status because it is not explicitly funded. Thus, in principle, a similar approach would be required for the state superannuation scheme. The accrual of pension benefits, while not recorded in pay, would amount to a "benefit-in-kind" that would have to be valued and taxed in the same way as contributions to a fund. Otherwise a sharp inequity would arise between public and private sector employees. There are of course many issues which would arise from such a change, including implications for wage bargaining in the public and private sectors, and the detail of how it would be administered and implemented. Here we abstract from these issues to get a broad view of the overall impact of a shift in the tax treatment in pensions. It is worth noting, however, that if, tax relief were restricted to the standard rate, then only those on the top rate of tax would be affected by the change.

The estimates of pension contributions were constructed as follows:

- Employee contributions were derived from information provided by employees on deductions from pay. Employee membership of an occupational pension scheme was measured using questions from the Living in Ireland Survey, as used in studies of the coverage of pensions.
- Typically employee contributions were of the order of 5 per cent, and employer contributions at 10 per cent. But as this split could differ, and we had direct information on employee contributions only, employer contributions were constructed as the balance between the employee contribution and 15 per cent. This assumption involves the same total contribution rate for all schemes. If, as is likely, contribution rates are higher for higher paid workers – as a tax efficient method of compensation – then the estimates derived here would understate the share of top earners in the tax relief.
- For the self-employed, information directly provided by respondents was used.
- For public sector employees, it was assumed that the government's contribution was sufficient to bring the total contribution to 20 per cent of pay, given that the public service pension scheme offers higher income guarantees (including parity with those in employment in the same grade).

This combination of data and "stylised facts" about pension systems allows a more comprehensive picture of the pension contribution/ financing situation than has been possible heretofore. Table 7.7 provides *SWITCH*-based estimates of the income tax foregone by the tax treatment of pensions. These are compared with estimates by the Revenue for 2000.

For both employees and the self-employed, the *SWITCH* estimate of tax foregone is 54 per cent of the corresponding Revenue estimate. For employer contributions, however, the *SWITCH* estimate is more than 40 per cent higher than the Revenue estimate. Given that the employer contributions are estimated as a residual from the average total rates of contribution, this may arise if employees in reporting their incomes understate or neglect to state the amount of their own contribution. In this case the estimate may be close to the total contribution, though the split between employer and employee is inaccurate. Thus, the ratio between the *SWITCH* estimate of the cost of tax relief for employer, employee and self-employed contributions is very similar to the Revenue estimate. It should be noted, however, that the *SWITCH* estimate is derived by attributing the benefit of employer contributions to the relevant individuals, so that the tax relief is at the relevant personal rate of tax. The Revenue estimates, on the other hand, may value the tax relief of employer contributions made by companies at the relevant, and much lower, corporate income tax rate.

Table 7.7: Estimates of Tax Foregone on Pension Contributions, *SWITCH* and Revenue

Component	*SWITCH* Estimate of Tax Foregone 2000	Revenue Estimate of Tax Foregone 2000/01	*SWITCH* as Percentage of Revenue Estimate	*SWITCH* Estimated Aggregate Contributions	Average Tax Rate Implied by *SWITCH* Analysis
	€m	€m		€m	
	Per Annum	Per Annum	%	Per Annum	%
Employee contributions	255	472	54	820	31
Self-employed/retirement annuity premia	111	205	54	362	31
Employer contributions	922	646	143	2,321	40
Government as employer, contribution equivalent	706	n.a.	n.a.	1,751	40
Total, excluding government	1,288	1,323	97	3,503	37

When this is taken into account, it seems likely that the *SWITCH* estimates of the value of tax foregone are lower than might be expected. One factor contributing to this is that, in general, household survey data do not obtain good coverage of the very highest echelons of the income distribution – a group which tends to have very large pension contributions. Another, mentioned earlier, is the assumption that total contribution rates are constant across income groups, when tax efficiency suggests that contribution rates are likely to rise with income.

Some further evidence on the internal consistency of the estimates is provided by the implicit tax rate (the value of the tax relief divided by the total amount of contributions in the relevant category). For employees this

is 31 per cent, at a time when the standard tax rate was 22 per cent, and the top tax rate 44 per cent. As higher rate taxpayers are known to be more likely to contribute to pension schemes, and more likely to contribute greater amounts, this is not implausible. The implicit tax rates for employer contributions and imputed government contributions seem rather closer to the top tax rate than one might expect. On the other hand, the implicit tax rate for the self-employed is no higher than that for employees, when a higher figure might have been expected. These results suggest that further work is required in calibrating the estimates of contributions, but it is nonetheless of interest to use these initial estimates as a basis for an exploration of policy issues.

The inequity of having higher rates of support for the pensions of high-earners (top rate taxpayers) is recognised in the *National Pensions Review* (Pensions Board, 2005).[35] The approach suggested there is one of "levelling up" support so that all those paying contributions to private pensions would enjoy relief at the top tax rate. But this involves extra resources for those who can afford to pay for private pensions (and still involves greater amounts for those with top incomes). An alternative is to allow the relief at a single lower rate than 40 per cent. Here, for simplicity, we examine policies involving standardisation at the standard tax rate of 20 per cent, as has been implemented for mortgage interest tax relief and health insurance premia. We look at the impact of doing this and channelling some of the resources gained by the Exchequer into an increase of €50 per week in the state pension.

Table 7.8: Standardisation of Pension Tax Relief and €50 Rise in State Pensions

Decile	Aggregate Gain/Loss in €m Per Annum	Percentage Gain
Bottom	4	0.3
2nd	88	3.5
3rd	430	14.3
4th	267	5.2
5th	48	0.8
6th	-12	-0.2
7th	-94	-1.2
8th	-183	-2.1
9th	-403	-3.8
Top	-770	-4.3
All	-626	-0.9

Table 7.8 shows that the net gains from this package are concentrated in the third and fourth deciles. The greatest proportionate gain is also for the third decile. This reflects the improvements in the relative income position of pensioners in recent years. On balance, there are losses for all deciles in the top half of the income distribution.

[35] It should be noted, however, that the structure of the social insurance system, with pay-related contributions and flat rate benefits, is an offsetting influence. A closer study of the redistributive impact of the social insurance system, taking into account life cycle elements, would be of considerable interest.

It should be noted, however, that this reform is not revenue-neutral. It generates over €600 million per annum of extra net revenue for the Exchequer. These resources could be used to redesign the package in various ways. For example, instead of full standardisation, part of the pension contributions could be allowed against the top rate of tax, thus moderating the income losses for top-rate taxpayers associated with the package. That is, of course, on the assumption that additional resources on this scale are indeed generated by this change in tax treatment of pensions. The sums shown are the product of an arithmetic calculation assuming a change in tax treatment and no change in the size of the flows involved. It is likely that behaviour would in fact change, with some of the resources previously channelled into private pensions being redirected towards other tax-favoured forms of saving. It is extremely difficult to judge how great this response might be – and it could be taken into account in adjusting tax treatment of other types of saving if necessary – but it would have to be factored in to an assessment of the overall budgetary impact. (The potential sensitivity to changes in tax treatment provides one rationale for moving to standard-rating the relief rather than abolishing it entirely.)

What of the impact on poverty? We look first at the impact on the risks of income poverty for older people, and then at the implications for overall poverty risk. Table 7.9 shows the effect on the head count and "poverty gap per person" measures at both the 50 per cent and 60 per cent of median income cut-offs. (It should be remembered that the initial poverty risks are the result of a simulation of the year 2006, based on uprated 2000 data – these are not intended as precise estimates of poverty rates in 2006, but incorporate many key features of the 2006 situation. Our interest, however, is in changes in poverty risk due to policy changes, and here the simulations have an advantage over actual data in being able to "hold constant" all things other than policy.)

Table 7.9: Risks of Income Poverty: Headcount and Poverty Gap at 50 Per Cent and 60 Per Cent of Median Income: Baseline Estimates (2006) and Pension Reform Package

	Baseline	Pension Reform Package	Percentage Change in Measure
"At Risk of Poverty" Headcount	**%**	**%**	**%**
50 per cent of median income	8.2	1.3	84
60 per cent of median income	40.5	3.1	92
Poverty Gap			
50 per cent of median income	0.7	0.4	43
60 per cent of median income	5.0	0.7	86

The pension reform package involving standardisation of income tax relief and a higher state pension leads to the virtual elimination of the risk of income poverty at both the 50 per cent and 60 per cent lines. Correspondingly, the poverty gap measures also fall to very low levels.

These costings are based on the current population structure. The National Pensions Review (Pensions Board, 2005) points out that the ratio of persons in work to those aged over 65 years is projected to fall from 4.3 in 2006 to 2.7 in 2026 and to 1.4 in 2056. With these declines, the balance between the revenue gain from restriction of tax relief and the cost of increases in pensions will become less favourable. But the considerations of target efficiency of state support for pensions apply also when the elderly population is larger. The design of a long-term sustainable pension policy must take account not only of the ageing of the population, but also of the target efficiency of state pensions as against tax expenditures supporting private pensions.

7.6 Conclusions

In this chapter we have examined risks of income poverty for older people in Ireland. Over time, the "at risk of poverty" rate (at 60 per cent of median income) rose from low levels in 1994 to over 40 per cent around the year 2000, but has been coming down since then. Latest figures, from EU-SILC 2006, indicate that the risk of poverty for elderly persons is below the average risk for all persons. Comparisons with other EU countries are made difficult because of differences in definitions of income, which reflect structural differences in pension systems. Published EU figures indicate that the "at risk of poverty" rate for elderly persons in Ireland is relatively high. The extent to which this arises because of differences in income definitions, and in equivalence scales used to adjust for family size and composition, deserves further investigation.

Older people in Ireland have lower than average consistent poverty rates – that is, when both low income and direct measures of deprivation are used – with home ownership, financial assets and family support all contributing to explaining this contrast with the picture based on income alone. The impact of recent changes in state pension rates on the risk of poverty was identified. While the impact on the "head count" measure of poverty was limited, the changes did reduce the depth of poverty for older people substantially.

A restructuring of state supports for public and private pensions, limiting tax relief on pension contributions to the standard rate of tax, was found to offer scope for substantial reductions in poverty for older people. On a purely arithmetic basis, standardisation could bring in to the Exchequer more than enough resources to allow the state pensions to be increased by €50 per week, which would virtually eliminate the risk of income poverty for older people. There are, of course, many issues involved in such a restructuring. Some of these are discussed in the paper, but others are left for further research, including the implications of demographic ageing, and how the flow into pension-related savings would respond, which would determine the impact on revenue for the Exchequer. However, the results indicate that further analysis of options of this type is well worthwhile.

8. PEOPLE WITH A DISABILITY

8.1 Introduction

People with a disability are particularly vulnerable to poverty and social exclusion. Disability affects people throughout the life-cycle, but rather different issues arise in relation to children, those of working age, and older people. The household surveys on which we have to rely here in simulating policy options do not provide information about children with disabilities, so our attention is restricted to adults. We first discuss the available information on which the subsequent analysis has to be based. We then look at poverty risk and consistent poverty rates for people with a disability, at the circumstances of people with a disability in terms of poverty, and at the key channels through which disability seems to be having its effects on poverty status. We then look at strategies for reducing poverty and poverty risk for adults with a disability; since, disability impacts on living standards most directly through its effects on work, our primary focus at that stage is on those of working age. Finally, the main findings are summarised.

8.2 Disability in Household Surveys

The empirical measurement of disability poses serious difficulties, in Ireland as elsewhere. The definition of disability employed varies from one data source to another, and the precise way it was captured also differs from one dataset to another, making it very difficult to obtain a rounded picture (see National Disability Authority (NDA), 2006). The *2002 Census of Population* included a series of questions about the presence of long-lasting conditions, sight or hearing loss, physical disability, and difficulty carrying out specific activities. Taking these together, these showed 6.4 per cent of the working-age population with a disability. The Census does not include information on income, so it cannot serve as a basis for analysing disability and poverty, our interest here. The national disability survey on disability prevalence and impact which has recently been carried out by the CSO, following up on the information on disability obtained in the *2006 Census of Population*, will be a landmark in terms of in-depth information about people with disabilities. However, results from that survey will not be available until late 2007, and in any case the examination of income support options – a key focus here – can most easily be carried out using the *SWITCH* tax-benefit model, which has to rely on the information obtained in general household surveys.

The information relating to disability obtained in these surveys comes from questions about whether the individual has a chronic or long-standing illness or disability, and/or is hampered or restricted in the activities they can carry out. The Living in Ireland Surveys and special modules on

disability included with the CSO's *QNHS* in 2002 and 2004 have been analysed in some depth in this context (see Gannon and Nolan, 2005). The *QNHS* modules are restricted to adults of working age, and show 10-11 per cent of those aged between 15 and 64 years reporting a long-standing health problem or disability. The Living in Ireland Survey shows a higher proportion reporting a chronic illness or disability – 15-16 per cent of those of working age – illustrating the sensitivity of the measured prevalence of disability to the precise questions employed.[36] The *QNHS* does not obtain information about income, so while it is very helpful in examining the profile of those reporting disability and their labour market participation, it does not serve as a basis for analysis of disability and poverty.

A particular problem arises in that respect with the EU-SILC survey. Unlike the *QNHS* and Living in Ireland Surveys, which ask about long-standing/chronic health problems/illness *or disability,* EU-SILC asks whether the respondent suffers from any chronic (long-standing) illness or condition (health problem) – the term "disability" is not included. The survey then asks separately "in the last 6 months have you been limited in activities people usually do, because of a health problem?" where respondents can reply that they were strongly limited, limited, or not limited. About 16 per cent of working-age respondents report being limited or strongly limited in their activities in EU-SILC 2004, but whether this (perhaps in combination with the "chronic illness" question) is a satisfactory way to capture people with a disability needs in-depth investigation. From present purposes we, therefore, rely on the data from the Living in Ireland Survey (which is in any case what underpins the current version of the *SWITCH* model).

8.3 Disability and Poverty

We now turn to the relationship between disability and poverty. The CSO's published results from EU-SILC (e.g. CSO, 2006) include some figures relating to disability and poverty, but these are based on categorising persons by labour force status, not by disability *per se*. They refer to people who are categorised in labour force terms as "not at work because ill or disabled", which is not the same as a measure of individuals with chronic illness or disability. Gannon and Nolan (2004) carried out a detailed analysis of the relationship between these two measures, and showed that many adults of working age reporting a chronic illness or disability are not in that labour force category (and some people in that labour force category do not report such an illness or disability). It is worth noting nonetheless that in EU-SILC 2005 the "at risk of poverty" rate for those categorised as ill/disabled in labour force terms was 41 per cent, while their consistent poverty rate was 17 per cent – both very much in excess of the average (see CSO, 2006, Tables 4 and 7).

Results from the Living in Ireland Surveys relating to *households* where the reference person is in the labour force category, ill or disabled have also

[36] Possible factors underlying this difference between the surveys are discussed in Gannon and Nolan (2004). The questions themselves were different – the Living in Ireland Survey referring to "any chronic, physical or mental health problem, illness or disability", and the *QNHS* to "any longstanding health problem or disability". Also, a much higher proportion of the *QNHS* individual questionnaires were answered by proxy, whereas those responding directly about themselves appear to be more likely to report a long-standing health problem or disability.

been presented in the various ESRI publications focused on monitoring poverty trends. These have often been used as a point of reference in relation to poverty and disability (for example in the Report of the Working Group on the Review of the Illness and Disability Schemes, 2003). It is clear that having the household reference person in that situation may have a marked impact on household income and poverty. However, here we are concerned with the overall relationship between disability and poverty and how best to design policies to minimise it, so it is more satisfactory to focus on all adults with a disability. (The same point applies to those in receipt of illness and disability-related social welfare payments: only a sub-set of adults with a disability will be in receipt of such payments.)

As we have seen, data from the 2001 Living in Ireland Survey show 16 per cent of those of working age reporting a chronic illness or disability; this was the case for a higher proportion of those aged 65 years or more, as would be expected, so overall 22 per cent of adults reported such an illness/disability. Table 8.1 shows that 38 per cent of these adults were in households "at risk of poverty" – that is, below 60 per cent of median equivalised disposable household income. This was more than twice the poverty risk for adults not reporting a chronic illness or disability, which was 17 per cent, and well above the overall average rate for adults in the sample which was 21 per cent.

Table 8.1: Risk of Poverty and Illness/Disability, Adults, Living in Ireland Survey 2001

	% "At Risk of Poverty"
Ill/disabled	37.5
Not ill/disabled	16.7
All	21.3

Table 8.2 shows the percentage of long-term ill or disabled persons who are in households experiencing basic deprivation, and their consistent poverty rate. We see that the percentage in households experiencing basic deprivation, at 13 per cent, is nearly twice as high as for other adults. The consistent poverty rate is over 7 per cent for ill or disabled adults, compared with 3 per cent for other adults and the overall average for all adults of 4 per cent. (These figures for basic deprivation and consistent poverty in 2001 are based on the original 8 deprivation items rather than the revised/adapted set to be employed in the future.)

Table 8.2: Consistent Poverty and Illness/Disability, Adults, Living in Ireland Survey 2001

	% Experiencing Basic Deprivation	% Consistently Poor
Ill/disabled	13.2	7.4
Not ill/disabled	7.4	2.9
All	8.6	3.9

Additional information obtained in the LII surveys on the extent to which chronically ill or disabled people reported being hampered in their daily activities provides some insight into the variation in poverty outcomes by extent/nature of disability. Table 8.3 looks at the variation in the risk of poverty and consistent poverty across the three categories used – hampered

severely, to some extent, or not at all – and shows a very pronounced and consistent relationship between degree hampered and poverty. Almost half those reporting severe hampering are "at risk of poverty", this figure falls to 40 per cent for those hampered "to some extent", and to 21 per cent for those who say they are not hampered at all. The poverty risk facing the "not hampered" group is still higher than those who do not report chronic illness or disability, but not by much. Turning to consistent poverty, 16 per cent of those who are severely hampered are in households in consistent poverty, which is about five times higher than the rate for those with no chronic illness or disability. The rate for those hampered to some extent is about twice that for those with no chronic illness or disability. Finally, for those who say they are not hampered at all, the consistent poverty rate is no different to that for adults with no chronic illness or disability.

Table 8.3: Poverty and Degree Hampered, Adults, Living in Ireland Survey 2001

Ill/Disabled and…	"At Risk of Poverty"	Consistently Poor
	%	%
- Severely hampered	49.4	15.7
- Hampered to some extent	39.6	6.1
- Not hampered	21.4	2.7
Not ill/disabled	16.7	2.9

We can also look at trends over time – although only up to 2001 – by comparing the results on poverty risk and consistent poverty from 2001 with the corresponding figures from the 1995 Living in Ireland Survey.[37] Table 8.4 shows first that the percentage "t risk of poverty" rose sharply for long-term ill or disabled adults between 1995 and 2001, from 21 per cent to 38 per cent, whereas the poverty risk for other adults was stable over that period at about 17 per cent. This is linked to the extent to which people with illness or disability and the households in which they live rely on social welfare payments as a source of income. Social welfare accounts for most of the income accruing to households with an ill/disabled member, as we shall see shortly, and over this period social welfare payment rates, although increasing in terms of purchasing power, lagged behind the very rapid pace of increase in incomes from work. As a result, those who continued to rely on social welfare for their household incomes, which was the case for many people with a disability, saw their living standards improve but their poverty risk rise. Focusing on consistent poverty, there was only a marginal decline between 1995 and 2001 for those with a long-term illness or disability whereas other adults saw their consistent poverty rate fall from 6 per cent to 3 per cent. For those with a disability or long-term illness, the proportion experiencing basic deprivation did fall but this was offset by the rise in the proportion below the relative income threshold. A significant number of households containing adults with a chronic illness or disability and relying on social welfare went from being clustered above the income threshold to falling below it.

[37] The first Living in Ireland Survey, in 1994, had slightly different wording for key questions.

Table 8.4: Poverty and Illness/Disability, Adults, Living in Ireland Surveys 1995 and 2001

	"At Risk of Poverty" %	Consistently Poor %
Ill/disabled		
1995	21.2	7.8
2001	37.5	7.4
Not ill/disabled		
1995	16.7	6.0
2001	16.7	2.9
All		
1995	17.6	6.3
2001	21.3	3.9

As noted earlier, results from the Living in Ireland surveys relating to households where the reference person is classified as ill or disabled in labour force terms have often been a point of reference in assessing the relationship between disability and poverty, and it is also worth noting the patterns these figures show. As the Report of the Working Group on the review of the Illness and Disability Payment Schemes (2003) brought out, both the risk of poverty and consistent poverty rates for such households were substantially above average in 2001.[38] Two-thirds were below 60 per cent of median equivalised disposable income, three times the rate for all households, while over one-fifth were in consistent poverty, which was four times the rate for all households. Over the period from 1994 the "at risk of poverty" rate for these households doubled; while the consistent poverty rate declined by about one-third. This was much less rapid than the decline in consistent poverty for all households over the period.

One can also look directly at poverty rates and trends for those in receipt of illness/disability-related social welfare payments.[39] In 2001, half those in receipt of such payments were in households below the 60 per cent of median income threshold, and 16 per cent were in consistent poverty. In terms of trends over the period from 1994, the "at risk of poverty" rate for this group rose very sharply indeed, from 10 per cent to just under 50 per cent, while the consistent poverty rate fell but only from 23 per cent to 16 per cent – again, much less favourable trends than those for the sample as a whole.

8.4 Understanding the Relationship Between Disability and Poverty

The relationship between disability and poverty, underpinning the heightened poverty risk and consistent poverty rates we have just described, is a complex one. Disability can impact on poverty and disadvantage through a variety of channels, starting with its potential effects on educational attainment and its direct and indirect impact on the individual's working career and perhaps also that of others in household. Studies using Irish data, and for other rich countries, have shed some light on these channels of influence but much remains to be learned.

[38] See Chapter 7 and Appendix V of the Report for details.

[39] Once again, these are the Report of the Working Group on the review of the Illness and Disability Payment Schemes (2003) See Chapter 7 and Appendix V of the Report for details.

It is useful in this context to distinguish between adults of working age and those aged 65 years or over. Disability itself is strongly related to age, and there is also a marked relationship between age and poverty. The percentage of adults in the 2001 LIIS reporting a chronic illness or disability rises from about 12 per cent in the 25-44 years age range to about 16 per cent between 45 and 64 years, and then rises much more sharply to 35 per cent for those aged 65 years or over. As a consequence, 35 per cent of the adults reporting a chronic illness or disability in the survey are aged 65 years or over; of those aged between 15 and 64 years and reporting such an illness/disability, half are aged between 45 and 64 years.

Table 8.5 shows how both poverty risk and consistent poverty vary by age, for those who do versus those who do not report a chronic illness or disability. There is a heightened poverty risk for ill/disabled people throughout the age groups, but the gap between them and others is proportionately greatest in the 45-64 year age range. On the other hand, poverty risk itself peaks in the age group 65 years plus. While risk of poverty rises sharply for over-65s among those not reporting disability, though, for those with a disability there is a much more gradual increase with age in the risk of poverty.

Table 8.5: Poverty and Illness/Disability by Age, Adults, Living in Ireland Survey 2001

	% "At Risk of Poverty"		% Consistently Poor	
Years	Ill/Disabled	Not Ill/Disabled	Ill/Disabled	Not Ill/Disabled
Age 15-24	28.0	14.7	2.2	4.3
25-34	15.1	10.8	3.8	2.5
35-44	18.2	15.8	5.9	2.8
45-54	37.6	12.6	11.2	1.6
55-64	46.3	19.1	13.5	4.7
65+	49.5	37.3	6.0	1.6

Focusing on consistent poverty, the consistent poverty rate is higher for the ill or disabled group than for all others throughout the age range, except in the youngest age category. The gap between the incidence of consistent poverty for the disabled and others is now proportionately greatest in the 45-54 and 65+ age ranges. However, the rate of consistent poverty for those reporting chronic illness/disability is highest in the 45-64 year range, not among those aged 65 years or over.

Among those of working age, those with a disability are much less likely to be in work than others in the same age group, and this is the most obvious and direct channel of influence from disability to poverty. Gannon and Nolan (2004) found that about 40 per cent of those reporting a longstanding/ chronic illness or disability and of working age in the Living in Ireland Survey were in employment, with the remainder mostly not active in the labour force (rather than unemployed). This compared with an employment rate of close to 70 per cent for those not reporting such an illness or disability. Other data sources such as the *Census of Population* and the *Quarterly National Household Survey* also show people with disabilities having much lower employment rates than others (see also NDA, 2005). (Those who are at work are also more likely to be part-time: the *QNHS*

shows that one-quarter of those with a disability at work are working part-time, versus 16 per cent for the rest of the working-age population.)

Not all of that difference in employment rates may be attributable to the presence or absence of disability per se, because those who report disability may also have other characteristics that disadvantage them in the labour market – for example in terms of age, gender, education and skills, or geographic location. (Some of those other disadvantages may themselves have been affected by the presence of a long-standing disability, of course, for example, level of education). Analysis of cross-sectional data incorporating such characteristics in Gannon and Nolan (2004a,b) showed that those reporting a longstanding/chronic illness or disability that hampers them in their daily activities or restricts the kind of work they can do have a significantly reduced probability of participating in the paid labour force. For men who report being severely hampered or restricted, that reduction is as much as 60 percentage points or more, while for women it is about 50 percentage points. For those who report being hampered or restricted "to some extent" rather than severely the effect is much smaller but still substantial. On the other hand, for those reporting a longstanding/chronic illness or disability that did not hamper or restrict them, the probability of being in the labour force was similar to others of the same age, gender and educational attainment and not reporting any such condition. Gannon and Nolan (2006) showed that disability that persisted over the life of the Living in Ireland Surveys had a particularly pronounced impact on employment rates and consequently on poverty outcomes.

As well as the work status of the individual with a disability, the numbers in the household at work have a crucial impact on poverty and poverty risk – and this is the case both for working-age individuals with disabilities and those with disabilities aged 65 years or over. Nolan and Gannon (2006) brought this out by distinguishing three sets of persons, within different age categories:

1. Those not reporting a chronic illness or disability,
2. Those reporting a chronic illness or disability but not "at risk of poverty" (i.e. in households above the 60 per cent of median income threshold), and
3. Those reporting a chronic illness or disability and "at risk of poverty" (i.e. in households which are below the 60 per cent of median income threshold).

For each of these groups it then looks at the proportion in households where no-one was at work, where one person was at work, and where more than one person was at work. The results for those aged under 65 years showed that those reporting a chronic illness or disability who are "at risk of poverty" are mostly in households where no-one is at work; very few indeed have more than one person at work. In the 45-64 year age range, for example, four-fifths of those reporting chronic illness/disability are in households with no-one at work. So this is clearly a central influence on the income of the household and its poverty risk. For those reporting chronic illness or disability but not "at risk of poverty", by contrast, only a small minority are in households with no-one at work, and a high proportion are in households with two or more people at work (close to the proportion for those who are not ill or disabled).

For those aged 65 years or over, the number at work in the household is less important but still has a role to play. For over 65s who are ill or disabled but above the poverty risk income threshold, about 30 per cent are in households where someone is at work, and about 10 per cent have two or more at work. For over-65s with a disability or long-term illness and whose incomes are below the threshold, on the other hand, only 10 per cent have someone in the household at work and hardly any have more than one.

The related issue of sources of income coming into the household, and in particular the extent of dependence on social welfare payments, is examined in a summary fashion in Table 8.6. This shows that for non-disabled people, on average over 80 per cent of the income of the household came from work – from earnings or self-employment income. For those with a long-term illness or disability but above the risk-of poverty line, while the share was lower, still about two-thirds of household income was from work. For people who were ill or disabled and "at risk of poverty", by contrast, only 10 per cent of income was from work and 86 per cent was from social welfare payments.

Table 8.6: Poverty Risk, Illness/Disability, and Main Source of Income, Adults, Living in Ireland Survey 2001

Main Source of Income	Not Ill/Disabled %	Ill/Disabled but Not "At Risk of Poverty" %	Ill/Disabled and "At Risk of Poverty" %
Work	81.4	67.0	10.0
Private Pension	4.2	13.7	0.7
Social Welfare	13.3	18.3	86.5
Other	1.1	1.0	2.8
Total	100.0	100.0	100.0

So what distinguishes people with a long-term illness or disability in households below the "at risk of poverty" threshold is that their households have little engagement with paid work and are highly dependent on social welfare. Statistical analysis shows that even when one controls for age, gender, region and household composition, the estimated effect of having a hampering chronic illness or disability on the likelihood of being "at risk of poverty" and consistently poor is pronounced.[40] Overall, the increase in the proportion "at risk of poverty" where the individual was severely hampered, was 22 percentage points; where the individual was hampered to some extent the increased rate of being "at risk of poverty" was 12 percentage points. Whereas the consistent poverty rate was about 7.5 per cent for someone without an illness or disability, an individual with a severely hampering illness or disability was predicted to have a rate between 6 and 13 percentage points higher. Someone with an illness or disability that hampers them to some extent had a predicted rate of consistent poverty that was 2-4 percentage points higher. A substantial proportion of this effect (perhaps up to half) operates through the individual's education level and whether he or she was in work.

[40] See Gannon and Nolan (2006) for a full description.

8.5 Policies Aimed at Reducing Poverty for People with a Disability

In thinking about policies designed to address poverty among people with a disability, income support is of central importance but is by no means the whole story. As highlighted in the Report of the Working Group on the Review of the Illness and Disability Payment Schemes (2003), promoting employment also has a key role to play, and a variety of measures across different Departments and agencies are involved in that context. Without looking in any detail at these measures and how their effectiveness might be improved, we can examine the impact that greater success in promoting employment among people with a disability would have on the incomes and poverty risk of their households. First, though, we concentrate on income support and on the potential impact of channelling more resources through existing schemes and/or introducing a new scheme to help meet the costs associated with disability.

As far as the current structure of income support is concerned, a person who is ill or disabled may qualify for one of the following:

- Illness Benefit (called Disability Benefit up to 2006) for people who are currently incapacitated for work;
- Invalidity Pension, for people who are permanently incapacitated for work;
- Occupational Injury Benefits (including Injury Benefit and Disablement Benefit) for those who are injured at work or contract a prescribed occupational disease;
- Disability Allowance and Blind Person's Pension, means-tested support for people whose employment capacity is substantially reduced because of their disability;
- Supplementary Welfare Allowance, means-tested support for people who are incapable of work and not entitled to Illness Benefit (e.g. because they do not meet the social insurance contribution conditions).

We look at the impact of a rise of 10 per cent, and of 20 per cent, in the welfare payments on these schemes, in the context of an overall rise in welfare payment rates at these levels, and here try to identify the impact of such a policy change on the risks of poverty facing people with a disability. Table 8.7 shows the main results.

Table 8.7: Reduction in Poverty Risk for People with a Disability from Increases in Welfare Payment Rates

	No Chronic Illness/Disability	Chronic Illness/Disability and Somewhat Hampered	Chronic Illness/Disability and Severely Hampered
Baseline 2007	12.9	33.8	40.4
With 10 per cent increase in welfare payments	10.3	26.2	31.0
With 20 per cent increase in welfare payments	8.5	21.2	22.0

Source: *SWITCH* simulations.

It is clear from these results that welfare payment increases could play a substantial role in reducing the risks of poverty facing disabled people. A 10 per cent rise in welfare payment rates leads to a fall in risk from about 40 per cent to around 30 per cent for those who are "severely hampered" and to a fall of about 8 percentage points in the risk for those who are "somewhat hampered". An increase of 20 per cent would have further, substantial effects. These results are discussed further in Chapter 12.

Many people with a disability are not in receipt of disability-related income maintenance schemes, and for the most part these schemes are designed with an income maintenance function in mind, that is they are intended to substitute for income from work, rather than to meet the additional costs associated with disability. (Disablement Benefit is an exception in that it is intended to compensate for loss of physical and mental faculty and can be paid regardless of the labour force status of the claimant.) [41] The Report of the Working Group on the Review of the Illness and Disability Payment Schemes took the view that needs arising from the additional costs of disability should be addressed separately to income maintenance needs, echoing the Report of the Commission on the Status of People with Disabilities (1996). A Working Group under the partnership process spent some time considering such a costs of disability payment, and at present there is a commitment in the Disability Sectoral Plans and in the partnership agreement *Towards 2016* to consider this as Independent Needs Assessment of those with disabilities is rolled out.[42]

The core difficulties in framing such a scheme are the accurate identification of the costs involved, which vary very widely across individuals, and the design of an administrative mechanism that would allow varying levels of support to be delivered. A report by Indecon for the NDA (2004) examined the costs associated with disability in Ireland and reviewed international evidence. Because of gaps in data on disability and the wide variation in the needs of different individuals, this did not establish a definitive figure of the average cost of disability, but did show that there were extra costs of living related to disability over and above those which are currently met by state services or supports, for example, extra costs for heating or transport. It quotes studies elsewhere estimating the extra cost of living for people with a high level of disability at €40 a week or more.

Here we have only quite crude information on the severity of the impact of disability available in the Living in Ireland Surveys, namely whether the person reports that they are hampered severely, to some extent or not at all. As a preliminary and necessarily very tentative exercise, we look at a scheme that pays those reporting severe limitations €20 per week, those reporting some limitations €10 per week, and nothing to those who report a disability but say it does not hamper them. The additional costs associated with disability might not in fact be closely linked to the degree of

[41] See Report of the Working Group on the Review of the Illness and Disability Payment Schemes (2003) para. 2.14-2.16 on this distinction.

[42] The reference in *Towards 2016* states that "…issues around cost of disability will be considered following the development of a needs assessment system provided for under Part 2 of the Disability Act, 2005".

hampering involved, but this may serve to illustrate the very broad impact such a scheme might have.

Table 8.8 shows the estimated impact of such a scheme on measured risk of poverty. The €20 per week supplement for those who are severely hampered by a disability leads to a 5 percentage point fall in the "at risk of poverty" measure from 40 per cent to about 35 per cent. The €10 per week supplement for those "somewhat hampered" by a disability leads to a smaller, but significant, fall of about 3 percentage points.

Table 8.8: Estimated Impact of a "Tailored" Disability Supplement

Category	Baseline Poverty Risk	Poverty Risk with a Supplement
Persons with a chronic illness/disability, somewhat hampered	33.8	30.6
Persons with a chronic illness/disability, severely hampered	40.4	34.9
All persons	16.9	16.0

Finally, we return to the issue of employment and on the impact that increasing the employment rate of people with a disability would have on poverty risk. Here, we simply explore the potential impact of an increase in employment for people with a disability. This is intended to give an idea of how much can be expected from this source in terms of reduction in poverty risk. Currently, the employment rate for people with a disability stands at about 33 per cent. The employment rate for persons without a disability is about twice that level. What would be the impact of a substantial rise in the employment rate for people with a disability? We consider the impact of a 10 percentage point rise in the employment rate, assuming that the risks of poverty remain the same for individuals in the same employment and disability classification. Thus, the risk is reduced from about 50 per cent to about 12 per cent for a person with a disability moving from unemployment or non-employment into employment. On this strict assumption, we find that the risk of poverty for people with a disability would fall from an overall level of about 37 per cent, to around 34 per cent. While this is a significant fall, and there are gains beyond the income gains taken into account in this calculation, this result does point to the fact that employment is not likely to provide a complete solution to the heightened poverty risks facing people with a disability.

8.6 Conclusions

People with a disability are particularly vulnerable to poverty and social exclusion. The information relating to disability obtained in general household surveys is limited but does allow their income and deprivation levels to be analysed. In the 2001 Living in Ireland Survey, 22 per cent of respondents reporting a chronic illness or disability, and 38 per cent of these adults were in households "at risk of poverty", more than twice the figure for other adults. Similarly, the consistent poverty rate for those reporting a chronic illness or disability was twice the rate for those not doing so. The percentage "at risk of poverty" rose sharply for long-term ill or disabled adults between 1995 and 2001, linked to the extent to which people with illness or disability and the households in which they live rely

on social welfare payments as a source of income. The factors underpinning this heightened poverty risk and consistent poverty are complex, with disability having its effects through a variety of channels, starting with its potential effects on educational attainment and its direct and indirect impact on the individual's working career and perhaps also that of others in the household.

In analysing possible policy responses we looked first at the impact of an increase in the level of support provided by the most directly relevant social welfare schemes. We found that a 10 per cent rise in those welfare payment rates would reduce the risk of poverty for those who are hampered by a chronic illness or disability by 8-10 percentage points. The impact of introducing a scheme aimed at covering some of the costs associated with disability was also examined, specifically a scheme paying €20 per week to those reporting that they were severely limited by a chronic illness or disability and €10 per week to those reporting some degree of limitation. This was associated with a fall of 5 and 3 percentage points respectively in the risk of poverty for these groups. Finally, the potential impact of an increase in employment for persons with a disability was explored: a 10 percentage point rise in their employment rate was seen to be associated with a fall of about 3 percentage points in their overall risk of income poverty.

9. UNEMPLOYED PERSONS

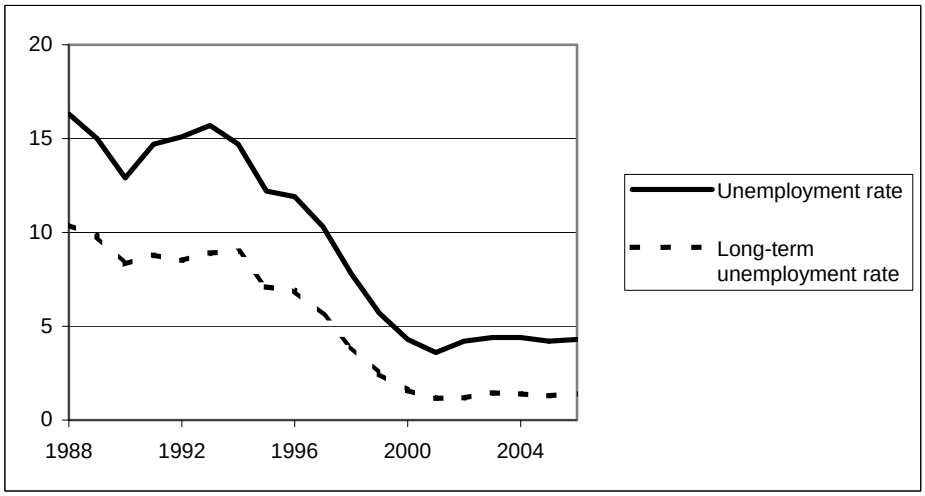
9.1 Introduction

In this chapter we focus on risks of poverty and social exclusion facing unemployed persons, and policies aimed at providing adequate income support to those without jobs, while encouraging movement from unemployment into employment. Section 2 sets the context, outlining the major changes in the extent and composition of unemployment since the early 1990s. Section 3 puts Irish experience into an international context. While Ireland is seen as a model country in terms of its achievements in reducing unemployment from very high to very low levels, the risk of income poverty facing the unemployed is still high when compared to a number of other countries. Here again, there may be lessons to learn from "best practice" at European level. Section 4 summarises key findings of recent research regarding welfare payments, poverty and work incentives in Ireland. The main conclusions are drawn together in Section 5.

9.2 Trends in Unemployment and Risks of Poverty

Unemployment was, for many years, the most serious problem in the Irish economy and the single greatest cause of poverty. Figure 9.1 charts the dramatic fall in Irish unemployment over the late 1990s – the unemployment rates are measured according to the main international standard (the ILO convention), so that only those available for work, and actively seeking work, are counted. In 1993, the overall unemployment rate was close to 16 per cent. By the year 2000 it was just over 4 per cent. The fall in long-term unemployment was even sharper, from around 9 per cent to about 1½ per cent.

Figure 9.1: Unemployment and Long-term Unemployment Rates, 1988-2006



Falling unemployment brings major economic and social benefits. It raises household incomes, and leads to increased tax revenue and reduced expenditure on unemployment compensation. Increased participation in employment also brings personal and wider social benefits. But the fall in the rate of unemployment does not eliminate all the disadvantages associated with it. What about the risks of poverty facing the smaller population group now unemployed? Table 9.1 sets out the evolution of these risks, based on data from the Irish element of the European Community Household Panel, and the EU-SILC database. Because these European databases focus particularly on income and employment status over a 12 month period, unemployment is here defined in terms of being "mainly unemployed" during the previous year.

During the late 1990s, when the unemployment rate fell sharply, there was an increase in the "at risk of poverty" rate faced by those who were unemployed, from around 40 per cent to 50 per cent or higher. This would be consistent with a selection effect, whereby unemployed persons in the worst off households were less likely than others to find jobs. The risk of poverty in the most recent years is estimated at between 42 per cent and 47 per cent. These risks are more than twice as high as those for the overall population.

Table 9.1: "At Risk of Poverty" Measure for Persons Mainly Unemployed in Preceding Year

Year	"At Risk of Poverty" Rate
1995	37
1996	40
1997	44
1998	46
1999	55
2000	48
2001	54
2002	n.a.
2003	42
2004	44
2005	47

Source: CHP (1995-2001) and EU-SILC (2003-2005) from Eurostat website http://epp.eurostat.ec.europa.eu

CSO analysis of SILC 2005 (Central Statistics Office, 2006) shows that the "at risk of poverty" rate for persons unemployed at the time of interview (using a "principal economic status" measure) was, at about 40 per cent, somewhat lower than the risks quoted from European sources above. This is likely to reflect the fact that the European measures are based on the dominant economic status over the preceding year. The "current status" measure includes more persons who are unemployed on a short-term basis. The income measure used in both cases is, however, an annual one.

The CSO analysis also identifies the proportion of unemployed persons (again, using a Principal Economic Status definition) who are in consistent poverty i.e., falling below the income cut-off at 60 per cent of median income per adult equivalent *and* identified as deprived, lacking one or more of a set of 11 basic deprivation indicators. About half of those falling

below the income cut-off are also found to be deprived, so the consistent poverty rate for unemployed persons is close to 22 per cent – about three times the rate for the total population. The consistent poverty rate for unemployed men, at 25 per cent, was about twice that for unemployed women.

Callan *et al.* (2006) focus particularly on "at risk of poverty" rates and consistent poverty faced by the long-term unemployed. While savings, borrowing and assistance from relatives may help to tide over a short spell of unemployment, a longer spell, with low income over a sustained period, can be expected to raise the risk of deprivation and exclusion from ordinary living patterns. Callan *et al.,* find that in 2004, the risk of consistent poverty was about 27 per cent for the long-term unemployed, as against 19 per cent for all unemployed persons, and an overall rate of about 7 per cent. This suggests that consistent poverty for short-term unemployed is about double, and for long-term unemployed about three times the overall rate. The consistent poverty rate for the unemployed rose from 19 per cent to 21½ per cent in 2005.

Taken together, these results suggest that the scope for policy action to reduce risks of poverty for unemployed persons should be explored. In the next section we turn to international evidence, with a view to identifying best practice as a guide to policy improvements.

9.3 Evidence of International "Best Practice"

As noted earlier, Ireland is now counted as a country with one of the lowest rates of unemployment. But Ireland's "at risk of poverty" rate for the unemployed is 47 per cent, which puts it among the four highest in the EU15, exceeded only by the UK. The best performing countries in this respect are Sweden, Denmark and the Netherlands, each of which has an "at risk of poverty" rate of 27 per cent, some 20 percentage points below the Irish rate. Does higher unemployment compensation necessarily lead to a higher rate of unemployment? Here the evidence is again quite clear. The three countries with the lowest risk of poverty for unemployed persons (Sweden, Denmark and the Netherlands) have unemployment rates of 3, 4 and 5 per cent respectively. There is no close connection between the level of poverty risk faced by unemployed persons and the rate of unemployment. In particular, Sweden, Denmark and the Netherlands have managed to combine a low rate of unemployment with a low risk of poverty for those who are unemployed. This contrasts with the current Irish combination of low unemployment with a high "at risk of poverty" rate. In the next section, we consider further how poverty risks for unemployed persons might be reduced, while maintaining a low rate of unemployment.

9.4 Welfare Payments, Poverty and Work Incentives

Given the configuration of high poverty risk for the unemployed, and a low rate of unemployment, it seems natural to investigate the possibility of an increase in unemployment compensation as a means of reducing poverty risk. We will address this issue empirically in Chapter 12, in the context of overall welfare packages. Here we focus on a question of particular concern in terms of policy towards the unemployed. While raising unemployment compensation payments will reduce the risk of poverty for those who are unemployed, will it also have the effect of

reducing financial incentives to work, and thereby lead to changes in behaviour which will raise the rate of unemployment?

Table 9.2*:* Persons Mainly Unemployed in Previous Year: Population Incidence and Risk of Poverty

Country	Risk of Poverty (60% Median Income) for Persons Mainly Unemployed in the Previous Year	Unemployment Rate, Defined as Persons Mainly Unemployed in Previous Year as a Proportion of All Persons (Aged 18-64 Years)
Sweden	26	3
Denmark	27	4
Netherlands	27	5
Portugal	28	5
France	29	6
Belgium	31	9
Greece	33	5
Finland	35	6
Spain	35	7
Germany	43	6
Italy	44	6
Austria	47	2
Ireland	**47**	**4**
Luxembourg	47	2
UK	51	2
New member states (average)	47	8

Source: EU SILC, 2005 (Eurostat website http://epp.eurostat.ec.europa.eu/portal)

This issue has been investigated in some depth in Callan *et al.* (2006). The approach taken there is to tackle this issue in two stages. The first stage is to identify the changes in financial incentives. For the unemployed, replacement rates are the preferred measure. These measure the balance between out-of-work and in-work incomes at family level, and take account of out-of-work benefits, and the full or partial withdrawal of these or other benefits if an individual were to take up a job. In order to estimate in-work incomes for unemployed persons, it is necessary to "predict" the gross wage that would be received in employment. In this report we focus on a profile of replacement rates for the unemployed, at wages that reflect the individual's age, sex, marital status and educational qualifications. There is a well-established correlation between these variables and potential earnings, as is confirmed by the wage equations reported in Callan *et al.* (2006). The wage equations predict hourly earnings on the basis of information about the individual's age, sex, marital status and level of education.[43] Key features include the fact that the average predicted wage for the unemployed is below the average industrial wage; but that rather than assign a uniform wage to all individuals, variation in individual circumstances (education, age etc.) are allowed to play a role in influencing the wage. Taxes and welfare entitlements are then calculated on the basis of the predicted wage.

[43] Estimation was by ordinary least squares. Investigation of sample selection effects would be of interest, though in earlier years the impact was limited.

The replacement rate is then calculated as:

$$RR = 100 * \frac{Out\ of\ work\ family\ disposable\ income}{In\ work\ family\ disposable\ income}$$

For example, an individual might find that his or her income when unemployed is €150 per week, but that on taking up a job that disposable income would rise to €300 per week. The replacement rate in this situation would be 50 per cent. The same basic information can also be used to construct an "average tax rate" on taking up a job (Pearson and Whitehouse, 1997). But as Adams *et al.* (2006) indicate, "In general, the replacement rate better captures the strength of the incentive to work at all". In Chapter 12, we will use this approach to identify the impact of increased welfare payment rates on the financial incentive to work facing unemployed persons.

There is, however, a second stage in the assessment of the impact of increased welfare payments on behaviour, and hence on unemployment outcomes. Much of the literature tends to treat unemployment compensation as an unconditional payment, equivalent to a payment in respect of "not working" or leisure. In reality, however, unemployment compensation payments have conditions attached, which vary across countries, and which also vary in the degree to which they are enforced. This aspect of unemployment compensation schemes has come under increasing attention in recent years (e.g., OECD, 2003a) and has significant implications for the likely impact of increased payments.

Evidence on the extent to which replacement rates influence the duration of unemployment spells, and thereby the level of unemployment, is mixed. Both in Ireland and elsewhere, some time-series studies indicate quite a strong association between the level of replacement rates and the level of unemployment. As against this, there is evidence from three sources indicating that high replacement rates are compatible with low unemployment. First, during recent years in Ireland replacement rates have risen quite markedly, but unemployment has remained low. Second, studies at household level in Ireland (Layte and Callan, 2001) and elsewhere have found that while the impact of replacement rates on unemployment is statistically identifiable and significant, it is also rather small, and accounts for rather small proportions of the large movements in unemployment actually observed during the 1980s and 1990s. Third, the policy and labour market regime in Denmark and some other Scandinavian countries clearly demonstrates that high replacement rates, providing effective income support to the unemployed, can coexist with low unemployment rates (OECD, 2006).

A key element in achieving this combination is a strong policy on activation – an area in which Irish policy has developed significantly over recent years.

At a wider level, there have been studies of participation decisions by Callan and van Soest (1996) and more recently by Callan, van Soest and Walsh (2007). These go beyond the decisions of unemployed persons to look at labour supply choices of husbands and wives. The results point to a higher responsiveness of married women's labour supply to net rewards from employment. "Standard" tax cuts have rather limited impact, but a structural reform along the lines of the "individualisation" of the standard

rate band has a greater impact – though still small in relation to trend growth in married women's labour supply.

OECD (2003a) notes that Ireland was the country with the highest ratio of beneficiary to labour force survey unemployment by 1995. It dates the start of significant activation policies in Ireland to 1996. By the year 2000, 20 to 54 year olds crossing a 9-month benefit receipt threshold entered processes set out under Ireland's Employment Action Plan, part of the European Employment Strategy. These included attendance at an interview. Overall outcomes included a sharp fall in the total number of unemployment compensation recipients, and an even greater fall in labour force survey unemployment.

In a later cross-country empirical analysis, OECD (2006) finds that "…in countries with a strong emphasis on activation policies, like Denmark and the Netherlands, unemployment benefits have a statistically insignificant effect on unemployment" (OECD, 2006, p. 217) The same OECD analysis finds that the impact of an increase in the replacement rate in Ireland has an impact which is statistically indistinguishable from zero, and less than that in Denmark or Sweden. This suggests that activation policy in Ireland is already very effective in counterbalancing the potential negative effects on work incentives of increased unemployment compensation payments.

9.5 Conclusions

The rapid fall in the Irish unemployment rate, and its positive economic and social effects, have been well documented. There remains, however, a high "at risk of poverty" rate and high consistent poverty rates for those who are unemployed. The "at risk of poverty" rate for those who are unemployed is towards the high end of the international spectrum and exceeded in the EU 15 only by the UK.

International best practice confirms that is possible to attain *both* low unemployment and a low "at risk of poverty" rate for the unemployed. In Sweden, Denmark and the Netherlands the risk of poverty facing the unemployed is about half of that in Ireland and the UK, but the unemployment rate remains low. Strong activation policies are the key to achieving this combination. OECD analysis suggests that Irish activation policy has become very effective, and may now be able to offset the potential negative incentive impact of higher unemployment compensation. It should be remembered, however, that the Irish labour market has been exceptionally strong over this period. A key test will be whether the system is robust with respect to a slowdown in growth. In this respect it is of interest to look at unemployment rates for Scandinavian countries in a longer-term perspective, and compare them with the evolution of unemployment rates in the UK and the US, countries with very different welfare regimes. Experience since 1970 indicates that unemployment rates in Denmark and Norway have been as low as, or lower than, in the US and the UK, Shocks in the early 1990s, on the other hand, led to sharp and sustained increases in unemployment in Sweden, and to a greater extent in Finland. Unemployment rates have fallen back in these countries, but rather slowly. At present, therefore, unemployment rates in Norway and Denmark are below 4 per cent, and closer to 5 per cent in the UK and US. Rates in Sweden and Finland are between 7 and 8 per cent.

10. In-Work Poverty and the Working Poor

10.1 Introduction

Over the decade from the mid-1990s, unprecedented levels of economic growth in Ireland have been associated with very rapid increases in employment, while unemployment has fallen dramatically. The number of women in the paid labour force has risen sharply, and substantial numbers of migrants have been attracted to Ireland to work. While incomes from employment have been rising on average at a rapid rate, concern about the numbers of "working poor" are being voiced more frequently – a concern that is also receiving increasing attention at EU level. In this chapter we first discuss what in-work poverty means and how it may be measured. We then use data for Ireland from EU-SILC to assess the extent of "in-work poverty", and combine this with data from the European Community Household Panel to look at trends over time. We then look in some depth at what types of individual and household are most likely to be measured as "working poor". Next, we tease out the implications for designing effective policies to combat in-work poverty. A number of specific approaches to improving the situation of the working poor are then analysed in detail. Finally, the conclusions are summarised.

10.2 Measuring the Working Poor

In defining and measuring in-work poverty, as for poverty more broadly, exclusion due to lack of resources is the core concept one is seeking to capture. Before getting into the details of how that might best be done, it is worth noting that there are differences between the situations of someone in work versus unemployed or inactive that are clearly relevant to their experience of, or exposure to, exclusion. On the one hand, not being able to obtain employment is itself a form of exclusion – that can be very important in its own right and also have a major impact not only on someone's financial situation but also on their social connectedness. On the other, the financial and time costs associated with working and getting to and from work can affect ability to participate in other dimensions of life, and poor working conditions may themselves be a significant source of stress impacting on quality of life. It is not easy to take these factors into account empirically, but it is important to keep them in mind particularly in comparing in-work poverty with, for example, the situation of the unemployed.

10.3 A Comparative Perspective on In-Work Poverty Risk in Ireland

We begin by looking at the extent of in-work poverty risk in Ireland compared to other countries in Western Europe. This entails looking at the percentage of working individuals who are in households falling below 60 per cent of median equivalised income – "at risk of poverty". Table 10.1 shows figures on in-work poverty risk for Ireland and other countries in the "old" EU-15, from two EU sources.[44] The first, for 2004, is taken from the 2006 Joint Report on Social Protection and Social Inclusion prepared by the EU Commission and Eurostat, mostly using data emerging from the new EU-SILC. (Figures for 2005 from EU-SILC have now been produced by Eurostat for some but not all these countries.) The second, for 2001, is taken from analysis by Bardone and Guio (2005) carried out for Eurostat using the last wave of the European Community Household Panel Survey (ECHP). In both cases, an annual income measure is employed, and the employment status of the individual is measured on the basis of their "most frequent activity status" in the year; to be counted as working, someone must have reported being in work as their status for more than half the months of the year. This is the way in which in-work poverty is now measured in the context of the EU's Social Inclusion Process, providing an obvious point of departure.

Table 10.1: In-Work Poverty Risk in Ireland and Other EU-15 Countries, 2004 and 2001

	2004 EU-SILC	2001 ECHP
	Percentage of those in Work Below 60 Per Cent Median Equivalised Income	
Belgium	4	4
Denmark	5	3
Germany	9	4
Greece	13	13
Spain	11	10
France	5	8
Ireland	**7**	**7**
Italy	10	10
Luxembourg	8	8
Netherlands	6	8
Portugal	7	6
Austria	13	12
Finland	4	6
Sweden	6	3
United Kingdom	7	7
EU-15 average	7.7	7.3

Source: 2004: *Joint Report on Social Protection and Social Inclusion,* 2006, Annex 1 Methodological Notes and Statistical Tables, Table 5; 2001: *Statistics in Focus*, *Population and Social Conditions*, 5/2005, In-Work Poverty, Table 1.

We see from Table 10.1 that in the Irish case 7 per cent of adults in work were in households below the 60 per cent of median income

[44] While the New Member States are also of interest, of course, the EU-15 represents the most direct frame of reference from a comparative perspective and available data also allow trends over time to be examined more easily for them.

threshold, in both the 2004 and 2001 data. Compared with the other countries covered, this is marginally below the average – with Greece, Spain, Italy and Austria having much higher figures, Belgium, Denmark, Finland and Sweden having lower ones, and Luxembourg, the Netherlands, Portugal and the UK having intermediate levels like Ireland. The switch from ECHP to EU-SILC as data source produces quite different figures for 2004 versus 2001 in Germany, and the figures for France are also rather different, but for Ireland the two sources present a consistent picture: the percentage of individuals at work who are in households "at risk of poverty" is close to the EU-15 average.

To put this in context, it is interesting to compare the level of in-work poverty to the overall percentage of adults who fall below the 60 per cent relative income threshold, Table 10.2 shows that in 2004 Ireland in fact has a rather lower level of in-work poverty than would be expected from its overall adult at-risk figure, because the latter is particularly high. Over 20 per cent of Irish adults were below the 60 per cent threshold in 2004, higher than any other country from the EU-15 (and also highest in the EU-25 according to the figures presented in the Joint Report.) This is strongly influenced by the particularly high "at risk of poverty" rate facing older people in Ireland. So the in-work "at risk of poverty" rate in Ireland is only one-third of the corresponding figure for the adult population as a whole, compared with 50 per cent on average for the EU-15 countries. Only in Belgium, France and Finland is the ratio of the in-work risk to the overall risk about that low. By contrast, countries such as Spain, Portugal and Greece have overall poverty risk levels that are similar to Ireland but much higher figures for in-work poverty risk.

Table 10.2: In-Work Poverty Risk Versus Overall Poverty Risk in Ireland and Other EU-15 Countries, 2004

	In-Work Poverty Risk	Overall Adult Poverty Risk	In-Work/Total Poverty Risk
	Percentage Below 60 Per Cent Median Equivalised Income		
Belgium	4	14	0.29
Denmark	5	11	0.45
Germany	9	15	0.60
Greece	13	20	0.65
Spain	11	19	0.58
France	5	13	0.38
Ireland	**7**	**21**	**0.33**
Italy	10	18	0.56
Luxembourg	8	10	0.80
Netherlands	6	11	0.54
Austria	7	12	0.58
Portugal	13	20	0.65
Finland	4	11	0.36
Sweden	6	11	0.54
United Kingdom	7	17	0.41
EU-15 average (unweighted)	7.7	14.9	0.49

Source: *Joint Report on Social Protection and Social Inclusion*, 2006, Annex 1 Methodological Notes and Statistical Tables, Table 5.

One relevant factor is the size of the self-employed population and of the agricultural sector in particular. In-work poverty for employees versus the self-employed are in many ways distinct phenomena – apart altogether from issues of income measurement for the latter – and, therefore, it is important to look at the two groups separately. While the figures available from EU-SILC for 2004 at this stage do not allow this, Table 10.3 presents the at-risk rates for the two groups separately taken from the Bardone and Guio (2005) analysis of 2001 ECHP data for Eurostat.

Table 10.3: In-Work Poverty Risk for Employees Versus Self-Employed in Ireland and Other EU-15 Countries, 2001

	Employees	Self-employed
	Percentage Below 60 Per Cent Median Equivalised Income	
Belgium	3	10
Denmark	1	15
Germany	4	5
Greece	5	25
Spain	7	20
France	6	25
Ireland	**6**	**16**
Italy	7	18
Luxembourg	8	2
Netherlands	-	-
Austria	3	24
Portugal	7	28
Finland	4	17
Sweden	2	22
United Kingdom	5	14

Source: Statistics in Focus, Population and Social Conditions, 5/2005, In-Work Poverty, Table 1.

We see that in Ireland, as in most of the other countries, the percentage below 60 per cent of median income is very much higher for the self-employed than for employees; there is also considerably more variation across countries in the rate for the self-employed. For 10 out of the 15 countries, the "at risk of poverty" rate for employees is in the range 4 per cent – 8 per cent, and the figure for Ireland, at 6 per cent, is right in the middle of that range. For the self-employed, the Irish figure is much higher at 16 per cent, but this is again in the intermediate range compared with the corresponding figures for the self-employed in the other EU-15 countries. So the percentage of employees and the percentage of self-employed in households below 60 per cent of median income in Ireland is unremarkable, neither particularly high nor particularly low, compared with other EU-15 countries.

As in other countries, the size of the in-work population in Ireland means that even with a relatively low "at risk of poverty" rate that group will represent a substantial proportion of all adults below the income threshold. Table 10.4 shows that in the Irish case, 17 per cent of adults below the 60 per cent threshold in 2004 were in work. This is a particularly low figure compared with other EU-15 countries, only Belgium having a lower figure, whereas one-quarter or even one-third of adults below the income threshold are in work in the other Western European member states. This reflects the fact that a particularly high proportion of adults not in work – notably the retired and the inactive – are below the threshold in

Ireland, and this is what underlies Ireland's particularly high overall "at risk of poverty" rate.

Table 10.4: The Share of In-Work Poverty in Overall Poverty in Ireland and Other EU-15 Countries, 2001

	Adults in Work and Below 60 Per Cent of Median Equivalised Income as Percentage of all Adults Below that Income Threshold
Belgium	14
Denmark	26
Germany	-
Greece	32
Spain	26
France	21
Ireland	**17**
Italy	25
Luxembourg	44
Netherlands	33
Austria	34
Portugal	36
Finland	21
Sweden	31
United Kingdom	26

Source: Joint Report on Social Protection and Social Inclusion, 2006, Annex 1 Methodological Notes and Statistical Tables, Table 5.

10.4 Trends Over Time in In-Work Poverty Risk

Having seen how in-work poverty risk in Ireland compares with other EU-15 countries, we now look at how it has been changing over time in the Irish case. Over the ten years from 1994, based on data from the ECHP and EU-SILC, in-work poverty risk rose significantly. In the first, 1994 wave of the ECHP 5 per cent of those in work were also in households below 60 per cent of median income. As we saw in the previous section, by 2004 the corresponding figure was 7 per cent. For employees the percentage in households below the 60 per cent income threshold rose even more sharply, from 2 per cent to over 5 per cent. This occurred against a background of extremely rapid economic growth – with Ireland having the highest GDP growth in the OECD over the period – and employment rising sharply over the period, so this higher risk is being applied to a larger proportion of the working-age population. There were also very substantial increases in earnings and household incomes. In that context, why did in-work poverty risk rise?

The answer lies in the pattern of increases in household incomes and the nature of relative income lines. There was a dramatic shift in the type of households below the 60 per cent of median relative income threshold over the period. In 1994, over 40 per cent had an unemployed "reference person", whereas this was 7 per cent by 2001 and had fallen further by 2004. Conversely households with a head/reference person who was ill/disabled, working in the home, or retired accounted for far more of those below the threshold in 2004 than they had in 1994, reaching almost two-thirds of those affected. The sharp decline in unemployment and the failure of vulnerable groups such as the ill/disabled, the retired and those in home duties to keep pace with the advances made by those in employment

were the main factors at work. Despite their relatively low probability of being below the income threshold, households where the head/reference person is in work also comprised a higher proportion of those below the income threshold by the end of the period, consistent with the rise in poverty risk for working individuals.

This reflects the fact that while incomes increased in real terms throughout, some working households saw more rapid increases than others. Households where the numbers at work rose saw particularly marked income increases – with the proportion of married women in work rising very rapidly over the period. This in turn contributed to the very rapid increase in average or median incomes: from 1994 to 2004, median income and thus the median-based poverty thresholds more than doubled in nominal terms. Households with only one earner, even if that earner saw their earnings rise quite considerably over the period, could well fail to keep pace with the poverty threshold, and some thus saw their overall household incomes slip below that threshold. This is a key factor in the growth in in-work poverty measured vis-à-vis relative income thresholds.

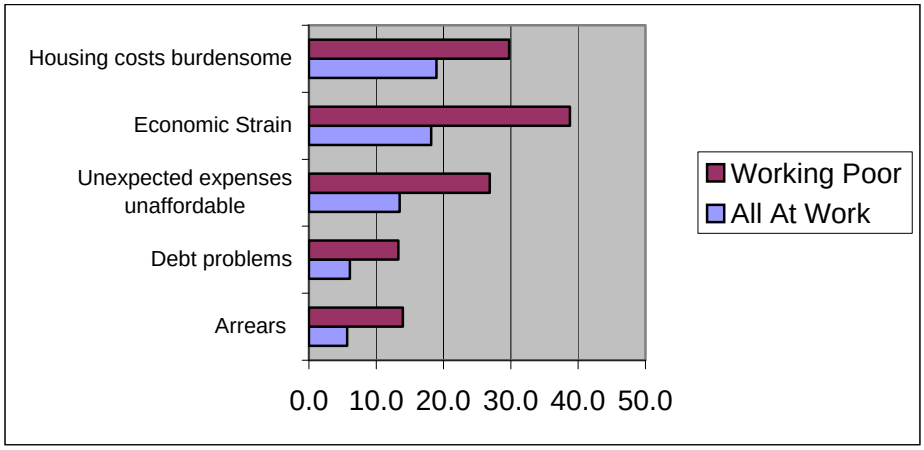
The picture would of course be very different indeed if instead of income thresholds linked to average income one used a standard held constant in purchasing power terms. This can be illustrated by taking the 60 per cent of median threshold in 1994 and indexing it to changes in the Consumer Price Index rather than average incomes. Using such a "constant in real terms" line, the overall percentage falling below that threshold would have fallen from about 16 per cent in 1994 to about 2 per cent in 2001, and even lower by 2004. This reflects the scale of real income growth throughout the distribution seen over this remarkable period in Ireland. On that basis in-work poverty, like overall poverty for the sample as a whole, would have virtually disappeared by 2004.

10.5 Alternative Perspectives on Poverty for the Working Poor

While those in work living in households below the 60 per cent relative income threshold are "at risk of poverty", we know from a range of Irish and international studies that it is hazardous to draw strong conclusions on the basis of current income alone about living standards, and in particular about whether a household is unable to reach an acceptable standard of living due to lack of resources. Using non-monetary deprivation indicators allows us to focus on those who are both below "at risk of poverty" thresholds and reporting specific types of deprivation – the "consistently poor" (Nolan and Whelan, 1996). Using the original set of basic deprivation indicators employed in measuring "consistent poverty", about 7 per cent of the overall EU-SILC sample were in "consistent poverty", in this sense (that is, below 60 per cent of median income *and* reporting basic deprivation) in 2004. Looking at those in work, then, we find that only 2 per cent were "consistently poor" (whereas 7 per cent were below 60 per cent of median income). So only one-quarter of the "working poor", measured in income terms alone, are in consistent poverty. Similarly, only 1.5 per cent of all employees were in consistent poverty, which means that just over one-quarter of employees below the income threshold were in consistent poverty. With the revised and expanded set of basic deprivation indicators now being employed to measure basic deprivation (and a threshold of two or more on that index), only 1.4 per cent of those in work and 1.2 per cent of employees are in households in consistent poverty.

This is not to say that the majority of the "working poor" defined in income terms are indistinguishable from others at work in terms of their living standards. This is brought out if we construct a deprivation index using a broader range of consumer durables and regular consumption items. This shows 38 per cent of those at work and below the 60 per cent income threshold are deprived of two or more of the items involved, compared with 19 per cent for all those at work. Similarly, as Figure 10.1 illustrates, those working and below the income threshold demonstrate higher levels of subjectively-assessed economic strain than others at work. Compared with all those at work, about twice as high a proportion of the working poor said that they had recent experience of arrears on mortgage/rent or utility bills, could not meet unexpected expenses, or experienced debt problems to meet ordinary living expenses.

Figure 10.1: Subjectively-Assessed Economic Strain for All At Work Versus Working Poor, Ireland 2004



It is also of interest to look at another measure recently developed in the ESRI which relates to 'economic vulnerability' (Whelan and Maître, 2006, Whelan, Maître and Nolan, 2007). This is captured by combining information about whether a household is below "at risk of poverty" thresholds, experiencing enforced basic deprivation, and reporting difficulty in making ends meet. The statistical methodology latent class analysis is applied to identify an underlying patterns of connection between these variables (see Whelan and Maître, 2006 for details). This identifies one-fifth of the total population as economically vulnerable, using data from the 2004 EU-SILC survey. When this approach is applied to the situation of those at work we find that about 10 per cent would be categorised as "economically vulnerable", however, only about half the "working poor" defined in purely income terms are identified by this approach as "economically vulnerable".

These results suggest that many of those who are at work and in households falling below the 60 per cent of median income threshold are indeed disadvantaged, across a wide range of indicators. However, a substantial proportion does not appear to be particularly disadvantaged in these terms. This is more likely to be true of the self-employed than of employees, due both to the extent to which the incomes of the self-employed fluctuate over time and the difficulties faced in trying to capture their situation in surveys. For that reason, when we come to the

implications for policy and alternative strategies we concentrate for the most part on employees.

10.6 A Detailed Picture of In-Work Poverty in Ireland: The Individual

Having examined the extent of in-work poverty in Ireland in comparative perspective, we now go on to analyse the nature of that phenomenon in more depth using micro-data from the 2004 EU-SILC. (The overall extent of in-work poverty in the 2005 survey seems similar, but significant work is required with the micro-data before they will be ready for in-depth analysis on this topic.) As we have seen, if the working poor are defined as those at work and living in a household with total (equivalised) income below 60 per cent of median income, then the results from the 2004 EU-SILC survey indicate that 7 per cent of those at work are in that position. Applying that percentage to the total at work shown by the 2*006 Census of Population* of just below two million, this would suggest that 130,000 persons were working poor in that sense.

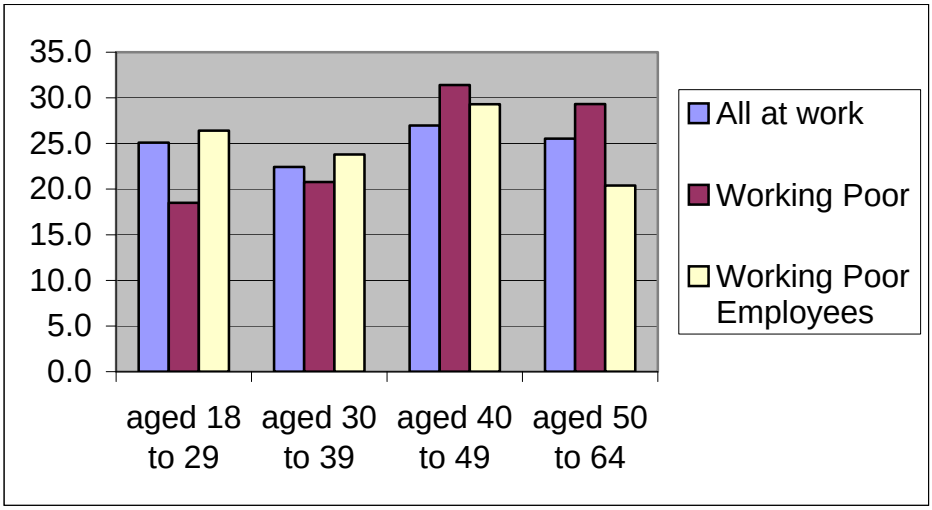
We have also seen that the self-employed face a much higher probability of being below the income threshold, in Ireland as in most other countries. However, employees make up over four-fifths of the working population, so despite their low risk almost two-thirds of the working poor are employees – about 85,000 persons. The remainder of the working poor are self-employed, more than half working in agriculture. Farmers face a particularly high probability of being counted as working poor: they comprise less than 7 per cent of those at work in EU-SILC 2004 but almost 20 per cent of the working poor, or 25,000 persons. Survey-based measurement of farm income poses particular problems and these incomes can also fluctuate substantially from year to year; among other issues, income in kind in terms of home production is in principle included in the measure (and is very much less important now than it would have been in the past), but may not be fully captured. Self-employed other than farmers comprise about 11 per cent of those at work but 15 per cent of the working poor, or about 20,000 persons.

As discussed earlier, being "in work" can be measured in different ways, focusing on the person's status at the time of the interview or throughout the year; however, this turns out to make little difference to the pattern of poverty risk or the individuals in the sample identified as the working poor. Concentrating on employees, if we use the "main activity status" of individuals (based on the activity status in each month recorded in the survey) to identify those who were employees for over half the year (the approach adopted in the figures produced by Eurostat and reported in the previous section), then 6 per cent were below the income threshold. If we look at those who give their current principal economic status in the survey as employee, then 5.3 per cent are in households below the 60 per cent of median income threshold. Most of those who are currently employed were also in work for most of the previous year, although the "at risk of poverty" rate is higher for the small minority who were not.

We now examine the profile of those who are measured as "working poor", focusing first on their own individual characteristics and then on those of their household. Figure 10.2 shows the age composition of all those who are at work and below the 60 per cent threshold. We see that, compared with all those at work, the working poor are more concentrated in the older age ranges – over 60 per cent are aged 40 years or more,

compared with 52 per cent of the workforce as a whole. This reflects the older age profile of the self-employed (including farmers), though, with working poor employees are not very different in age terms from all employees.

Figure 10.2: Age Profile of Working Poor Versus All At Work, Ireland 2004



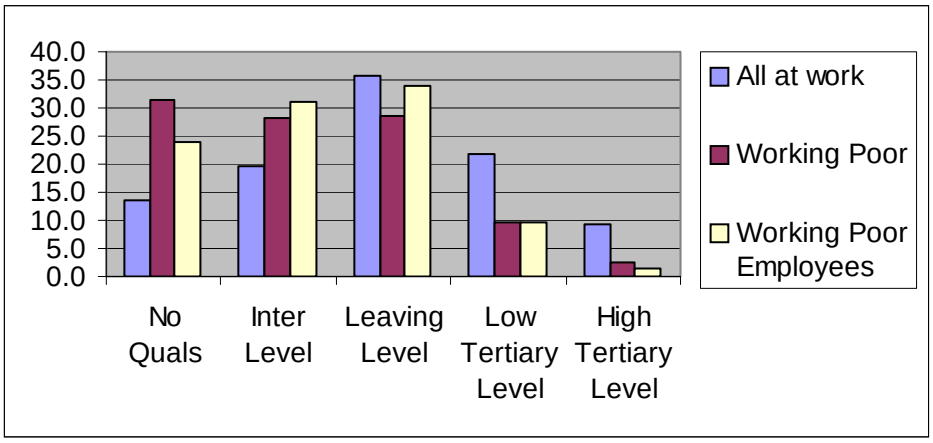
The working poor are also slightly more likely to be male: 61 per cent of the working poor are men, compared with 57 per cent of all those at work. However, among employees the opposite is true: 49 per cent of working poor employees are men, compared with 52 per cent of all employees. (Since men make up a clear majority of the work-force, they still face a higher probability of in-work poverty.) For both men and women employees, the likelihood of being working poor is lowest in the 25 to 34 year age group; for men it is highest in the 45 to 54 year group, while for women it is highest in the 55 to 64 year range.

As far as educational attainment is concerned, Figure 10.3 shows that the working poor have substantially lower levels of educational attainment than all those at work; almost one-third have no education beyond primary level (compared with 13 per cent of all those at work), and only 41 per cent have attained at least the upper secondary completion qualification, compared with 67 per cent of all those at work. Working poor employees have slightly higher levels of attainment than self-employed working poor, but still have a significantly disadvantaged profile compared with others at work.

This age, gender and educational profile is reflected in the earnings of the employee, one factor in understanding why they are "working poor". The number of hours worked is a significant influence on earnings particularly among employees, and part-time employees face a much higher poverty risk than full-time ones. (About 4 per cent of full-time male employees, 3 per cent of full-time female employees, and 10 per cent of female part-time employees are in households below the 60 per cent threshold; part-time men face an even higher poverty risk than part-time women, with almost one in five below the threshold, but there are far fewer of them.) The risk of poverty is also clearly related to the position of the employee in the weekly earnings distribution. Even when working full-time, the risk of poverty is 12 per cent for employees in the bottom quintile

of the earnings distribution; this falls to 8 per cent for the second quintile and is only about 1-2 per cent in the rest of the earnings distribution.

Figure 10.3: Educational Attainment of Working Poor Versus All At Work, Ireland 2004



As well as the overall earnings distribution, we can look at the situation of employees falling below conventional low pay thresholds. In the 2004 sample, about 23 per cent of Irish employees had weekly gross earnings below two-thirds of median earnings – a widely used measure of low pay. With about 1,616,000 employees in the state in the 2006 Census, this would correspond to about 370,000 employees. Of these low-paid individuals, though, only 13 per cent were in households "at risk of poverty" – about 48,000 persons. So most low paid employees are not working poor in that sense. On the other hand, 60 per cent of working poor employees are themselves low paid, in terms of their own weekly earnings. This asymmetric relationship between low pay and household poverty is consistent with earlier Irish studies (for example, Nolan, 1998), and with the pattern found in other Western European countries; for example, Nolan and Marx (2000) note that for full-time employees across the ECHP generally about 60 per cent of the low paid are in the top 60 per cent of the income distribution. This reflects the fact that employees, whether low paid or not, are mostly to be found in households not in poverty or towards the bottom of the income distribution. Such households generally do not contain an employee, but where they do contain an employee most often that employee is low paid. The features that distinguish the minority of the low paid who are in households "at risk of poverty" then relate to the household context in which poverty is occurring, as we explore in the next section.

10.7 A Detailed Picture of In-Work Poverty in Ireland: The Household

We now turn from the individual characteristics of the working poor to the type of households they live in – with those household characteristics likely to be critical in understanding why they are indeed below the "at risk of poverty" threshold. We show in Table 10.5 the composition of the households involved, for all working poor and for working poor employees (who it will be recalled are estimated to number about 130,000 and 85,000 persons respectively). We see that the working poor are predominantly in households with children – only one-third are in households with no children. Only 7 per cent are lone parents with children, so about 60 per cent are in households with two or more adults and children. The largest proportion – 29 per cent – are in households with three or more adults plus children – in many cases these comprise a couple with their offspring,

some of whom are still children but others are aged 18 years or over. The corresponding profile for working poor employees shows that these are even more likely to be in households with children. About 9 per cent are in households comprising just one adult with a child or children, but 63 per cent are in households with two or more adults and children. Strikingly, only 2 per cent are living alone. (This profile of course reflects both the distribution of all employees by household composition type and the risk faced by each type of being below the income threshold; for example, single adult employees with children face a much higher probability of being below the income threshold than others, but comprise only a small proportion of all employees.)

Table 10.5: Household Composition for the Working Poor and for Working Poor Employees, Ireland, 2004

	Working Poor	Working Poor Employees
	Percentage of those Below 60 Per Cent Median Equivalised Income	
1 adult	8.3	2.3
2 adults	16.0	15.5
3+ adults	10.4	11.7
1 adult with children	6.7	9.0
2 adults, 1 child	6.2	3.9
2 adults, 2 children	8.9	9.5
2 adults, 3 children	7.8	6.6
2 adults, 4+ children	6.5	7.3
3 adults+ with children	29.3	34.0
Total	100	100

As well as household size and composition, the other key feature of the household in this context is the number of people with an income and the source of that income. What is distinctive about the households of the working poor is how few of their working-age adult members are actually in work. This is illustrated in Figure 10.4, which shows that for all those at work, the average number of working-age adults in the household is 2.6. For the working poor, the corresponding figure is only slightly lower, at 2.3. However, for all those at work the average number of persons in the household in work is 2, whereas the corresponding figure for the households of the working poor is only 1.3. The gap is even greater when we focus on those in full-time work, where the figures are 1.6 versus 0.8 respectively for the households of those at work versus the working poor.

Focusing on employees, Figure 10.5 shows that for all employees there are 2.7 persons in the household of working age on average, of whom 2.1 are in work and 1.7 are in full-time work. For working poor employees, on the other hand, there are almost as many working-age adults at 2.5 per household on average, but only 1.4 are in work and only 0.8 in full-time work.

Figure 10.4: Numbers in the Household in Work for the Working Poor Versus All At Work, Ireland 2004

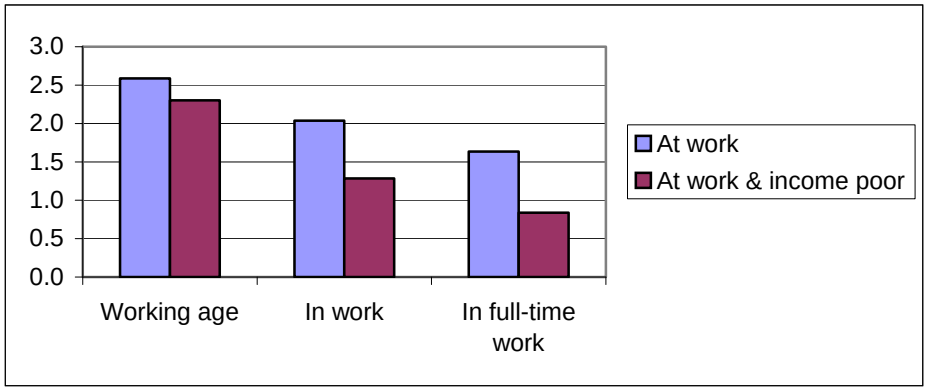


Figure 10.5: Numbers in the Household in Work for Working Poor Employees Versus All Employees, Ireland 2004

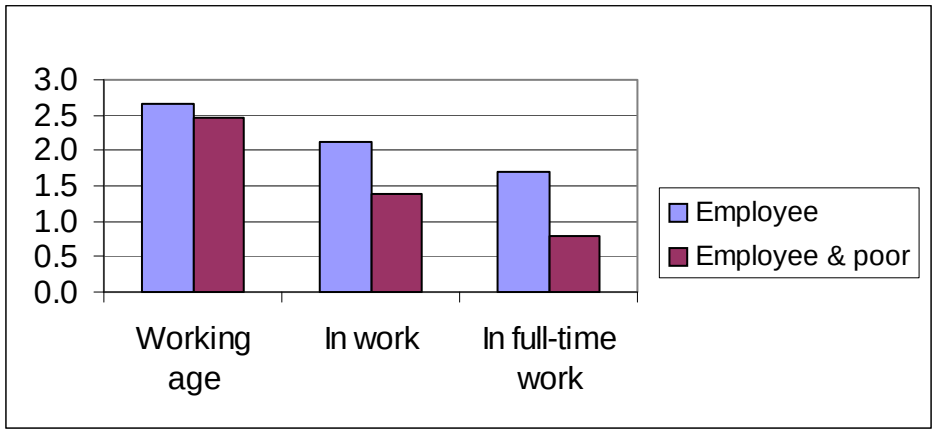


Table 10.6: Poverty Risk by Household Composition and Number At Work, Ireland 2004

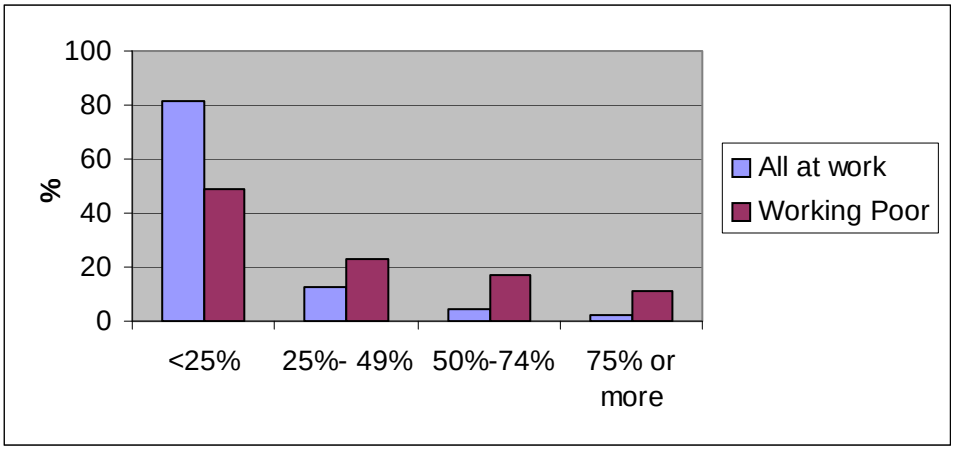
	Percentage Below 60 Per Cent of Median Equivalised Income
2 adults no children	
1 at work	10.2
2 at work	2.4
2 adults with children	
1 at work	15.1
2 at work	1.4
3 adults no children	
1 at work	11.3
2 at work	2.1
3+ at work	0
3 adults no children	
1 at work	32.6
2 at work	5.9
3+ at work	7.9

The central role played by the number of persons in the household at work is brought out in Table 10.6, which shows for employees in 2 and 3-adult households how the percentage falling below the 60 per cent

threshold varies depending on the presence or absence of children and the number of adults in work. We see that the risk of poverty is relatively high for employees where only one adult is in work, whether there are children or not, but that the risk is very low indeed where 2 or more are at work except in households of 3 or more adults with children.

The salience of numbers at work in the household is also reflected in the sources of income received, and Figure 10.6 shows that the households of the working poor are quite heavily reliant on social welfare transfers compared with others at work. For 28 per cent of the working poor, at least half of all the income coming into the household was from social welfare (compared with a figure of only 7 per cent for all those at work).

Figure 10.6: Social Welfare Transfers as a Percentage of Total Household Income, Working Poor Versus All At Work



10.8 Policy Towards the Working Poor

We now turn to policy, and the implications of the patterns and trends we have described for reducing poverty in general and in-work poverty in particular. The central plank of the government's strategy for combating poverty since the late 1980s has been precisely to get more people into work, and this has been an unprecedented success in terms of the scale of employment growth and reduction in unemployment achieved. Generating more jobs has also been assigned a central role at EU level in lifting people out of poverty. In the Irish case that strategy has certainly been a resounding success in terms of improving living standards and reducing deprivation. While those who remain outside the workforce have lagged behind in income terms, even they have seen significant improvements in living standards. However, some people in work still fall below "at risk of poverty" thresholds, and while only a minority of these are in consistent poverty it seems reasonable to take the broader group as a focus (though not the exclusive focus) of policy concern.

It might come as a surprise to see that risk of poverty for those in work has actually increased over the period from the mid-1990s when a National Minimum Wage (NMW) was introduced in 2001. This NMW is at a relatively high level, in absolute and relative terms, compared with other

EU countries.[45] This should not be so much of a surprise, though, in the light of the very limited overlap between low pay and household poverty that has been known for some time from previous studies of Ireland and other OECD countries (see for example, Nolan and Marx, 2000). These studies have demonstrated that policies aimed at improving the earnings of the low paid as a group, including minimum wages, (directly) benefit only a minority of poor households, with most of the benefits going to non-poor households simply because that is where most of the low paid are to be found. This is not in itself an argument against a minimum wage, of course, since other aims may be to the fore such as preventing exploitation of workers and promotion of greater equality in earnings between men and women. It is also important to note that despite the very large spill-over of its effects to "non-poor" households, a substantial proportion of the working poor may still benefit.

In order to explore this policy option, we simulated a 10 per cent increase in the National Minimum Wage using the *SWITCH* model. The overall effects on the risk of poverty were very small. Greater effects were found on the poverty risk when focusing on in-work poverty and on poverty among employees, as the self-employed would gain no direct benefit from a rise in the minimum wage. The risk of in-work poverty would fall from about 5.5 per cent to 4 per cent. The "at risk of poverty" rate for employees is estimated to fall from 2.5 per cent to 1.5 per cent. While an increase in the national minimum wage benefits those at the bottom of the individual earnings distribution, it is spread further up the household income distribution. One side-effect of this is a small rise in the median wage, which acts to reduce the impact on overall poverty.

As far as the tax system is concerned, those on the Minimum Wage have now been lifted out of the income tax net and their social security contributions have been reduced by a variety of changes in the PRSI structure. To have any significant impact on the working poor, it is likely that further tax reductions would have to be targeted at those in low-income households rather than on the basis of low individual earnings. This is difficult to achieve, given the moves towards greater individualisation of the income tax structure. One approach might be to allow tax relief for those with child dependants below an income threshold. As with other measures targeted via income level, the potential for disincentive effects and poverty traps is significant.

The alternative to tax reductions for the working poor is direct cash transfers, and the Family Income Supplement for those in work with children but on low household income has served as the principal policy instrument in this respect for many years. It faces the problem of non-take-up of benefits, as is commonly found with such schemes elsewhere, and the potential for serious disincentive effects and poverty traps as the payment is withdrawn is also a major concern. Those without children are also not currently catered for. The option of a new "second tier" child income

[45] At almost €1,300 per month the Irish minimum is currently higher in absolute terms than those operating in any other EU Member State except Luxembourg; when adjusted for Purchasing Power Parities, it is in a group of 6 Member States with relatively high minima (see Regnard, 2006). As about 50 per cent of average gross earnings (in industry), the Irish minimum is among the highest in the EU relative to earnings.

support, payable as a supplement on top of child benefit, has been under consideration in policy debate – and was explored in Chapter 6 in the context of strategies against child poverty; we will return in Chapter 12 to the impact on the working poor of a package incorporating such an approach.

Concern about disincentives focuses attention on the broader range of policies aimed at helping families with children, in particular universal cash transfers. In the Irish case universal Child Benefit has been very substantially increased in recent years, at significant exchequer cost, and the system of cash support for children is now among the more generous in the EU. Simulation of the impact of the increases to date using *SWITCH* suggest that they may indeed have had a substantial impact in reducing overall child poverty rates measured vis-à-vis "at risk of poverty" thresholds (Callan *et al.*, 2006).

10.9 Conclusions

Defining "working poor" as persons in work living in households that are "at risk of poverty", we have seen that 7% of Irish adults in work are in that situation, close to the EU-15 average. The corresponding figure is 6% for employees but 16 per cent for the self-employed, neither being particularly high or low compared with other EU-15 countries. This means that 17 per cent of adults "at risk of poverty" in Ireland 9below 60% of median household income) are in work. Over the ten years from 1994, in-work poverty risk rose from 5 per cent to 7 per cent. However, only a relatively small minority of the "working poor", measured in income terms alone, are in consistent poverty. Working poor employees tend to have relatively low levels of educational attainment, are often low paid, and are also predominantly in households with children.

Focusing on policy options aimed at the working poor, we simulated a 10 per cent increase in the National Minimum Wage using the SWITCH tax-benefit model, and found that the overall risk of in-work poverty would fall from about 5½ per cent to 4 per cent, while for employees it would fall from 2½ per cent to 1½ per cent. Other policies focus on assisting low-earning households with children. The option of a means-tested "second tier" child income support supplement has already been explored in Chapter 6. Universal Child Benefit has been very substantially increased in recent years, and simulation of the impact of these increases on suggest that they may have had a significant impact in reducing poverty for households with children.

As in measuring poverty more generally, the most common way of measuring the extent of in-work poverty relies on income, and on whether the disposable income of a household (adjusted for household size and composition) falls below a specified income threshold (see for example, the comparative studies by Forster and Pearson, 2002 and Fritzell and Ritakallio, 2004). As discussed in earlier chapters, a threshold of 60 per cent of median equivalised household income is widely used, including in the EU's Social Inclusion indicators, and comparative figures across countries are often produced on this basis. The fact that the EU's social inclusion indicators label people below such income thresholds as "at risk of poverty" rather than poor is a recognition of the fact that they may not all be suffering exclusion in terms of ordinary living standards. Non-monetary indicators of deprivation can be used to hone in on those who are both on

low income and experiencing serious deprivation or exclusion, and we will be using this approach to elaborate on the extent of in-work poverty in Ireland, though for comparative purposes we have to rely on measures based purely on income.

Poverty or "poverty risk" status measured in this way is a feature of the household – which assumes everyone in a particular household has a common standard of living – but "working", by contrast, refers to an individual. One way to define and measure "in-work poverty" or "the working poor" is then to focus on individuals who are themselves in work and who live in a poor household (or household "at risk of poverty"). A different approach is to focus on households where the "household head" or potential "main earner" is in work, but despite this the household is in poverty – and all those living in such households, including children and other dependents, are in some sense affected by in-work poverty. That reflects an important element in underlying policy concerns, and we will present some figures for Ireland on this basis; however, the more straightforward analytical approach on which we concentrate most of our attention is to focus on individuals who are themselves at work and are also poor (or "at risk of poverty"), and then look at the role they play in their household and the position of other household members.

Significant issues arise both in relation to how income is measured and what "in work" means. For both, there is the question of timing: some studies focus on the individual's current labour market status and their household income in the last week or month, while others take a longer time period, often an annual perspective. The latter then faces the obvious problem that someone's labour force status may well change over the course of a year, so that they may have been in work for some but not all of it. Do we then confine our attention to those who worked for most or all of the year, or include anyone who has been in work at any point? In presenting comparative data we are constrained by available figures to employing the annual time horizon, but for Ireland we can use the micro-data to also hone in on those who are in work at the time of interview and their current income at that point. There is also a question as to how the "working" element of "working poor" is defined and measured. While both employees and the self-employed are of course conventionally measured as being "in work", in practice much of the focus in studying in-work poverty has been on employees – reflecting both the fact that incomes of the self-employed are difficult to measure accurately and the different policy issues raised by this group, in particular farmers.

11. THE SPATIAL DISTRIBUTION OF POVERTY AND DEPRIVATION

11.1 Introduction

Space or location can impact on outcomes in a variety of complex forms. These include regional development patterns and policies, planning policies, transport policies, the development of urban systems and rural development strategies.[46] Our relatively specific set of concerns in this chapter focus on the spatial distribution of poverty and material deprivation and the ensuing policy implications.

Initially we will deal with spatial distribution as such. Our focus, depending on the degree of disaggregation possible with the relevant data sources, will be on local authority areas and planning regions. In so doing, rather than assuming that spatial variation involves a homogeneous pattern, we will use a range of indicators. As will become clear, conclusions regarding the value of spatial interventions do not follow automatically from the facts of spatial distribution. However, knowledge of such variation allows discussion of such options and choices between them to proceed on an informed basis. Our analysis will be extended beyond location as such by using information relating to population density, housing tenure and the manner in which they interact. In using such information we seek to address, in what is necessarily an indirect manner, issues relating to the extent to which poverty is concentrated in certain 'blackspots' and the policy implications that follow, issues relating to such concentration have been of long-standing concern.[47]

Previous work on the spatial distribution of poverty and social exclusion has drawn on a variety of data sources including The *Census of Population* (2000), the *Living in Ireland Survey* (LIS, 2000) and the *National Survey of Housing Quality* (2002). In this chapter we seek to provide an overview of earlier results and where possible update such findings making use of the 2005 wave of EU-SILC.

[46] For detailed discussion of a range of such issues see Bartley and Kitchin (2007).
[47] Watson *et al.* (2005), Nolan *et al.* (1998) and Nolan and Whelan (2000) and Haase (1999).

Previous work has addressed three key aspects of the spatial distribution of poverty and social exclusion:

- The identification of patterns of concentration and the manner in which these have evolved over time.
- The significance of such patterns in the context of overall levels of incidence.
- Consideration of the processes underlying poverty clustering.

These questions are directly relevant to government policy. The National Anti-Poverty Strategy and the more recent NAP inclusion (2007) have addressed a series of issues relating to the concentrated and cumulative nature of poverty and social exclusion. Such concerns have prompted a variety of area-based programmes.

11.2 The Variety of Rationales for Area Intervention

Since the early 1990s there has been a growing emphasis on policy options involving spatial programmes aimed at tackling unemployment, poverty and social exclusion. Following a number of pilot schemes area-based programmes have become a significant part of government policy aimed at tackling poverty. As Walsh (1999, p. 279) notes, this is clearly evidenced in The National Anti-Poverty Strategy (1997), which exhibits an explicit spatial dimension in two of its five priority themes: disadvantaged urban areas and marginalised rural communities. In 1992 the Irish Government in collaboration with the European Commission established Area Development Management (ADM – now Pobal). Its primary objective was to promote social inclusion, reconciliation and equality and to counter disadvantage through local, social and economic development. As Haase *et al.* (1996) document, the initiative was representative of a concern to develop area-based programmes in response to emerging evidence relating to unemployment blackspots. The number and range of projects managed by Pobal has evolved considerably since 1992. Among its current programmes are the Local Development Social Inclusion Programme (LDSIP) and RAPID (Revitalising Areas by Planning Investment and Development) programmes. The former is a National Development Programme aimed specifically at addressing social inclusion issues at local level. The LDSIP provides funding to Partnership Community Groups and Employment Pacts that adopt a partnership approach to tackling local issues on the basis of comprehensive, integrated local action plans. The RAPID programme is intended as a response to the need for more and better-targeted investment in disadvantaged areas. The focus in terms of service delivery is on integrating services more efficiently and tailoring them to community needs. It is also intended to encourage investment in new facilities and services. Among the objectives identified as fundamental to the RAPID programme are the development of an integrated focus on social groups experiencing cumulative disadvantage, reduction in spatial concentration of poverty, unemployment and social exclusion, and the mobilisation of social capital and capacity for economic and social development. Other programmes include the Equal Opportunities Childcare Programme (EOCP) and the Millennium Partnership Fund for Disadvantage.

One of the important considerations, but by no means the only one, in allocation of funding under these programmes is the socio-demographic profile of the geographical areas. This can involve the use of indices of

deprivation, which rank district electoral divisions (DEDs) according to indicators such as unemployment, education, class composition and housing quality (Haase, 2006).

This discussion of ADM/Pobal activities illustrates that although area interventions all appear to share the objective of targeting scare resources, the rationales or justifications associated with such interventions are variable and can take on a good deal of complexity. The most straightforward justification is based on the assumption that if poor households are highly concentrated in specific areas then it is possible to target resources on these areas in order to maximise the number of households reached. Increased polarisation, and its spatial manifestations, provides an important component of the rationale for spatial interventions.

A recent review of area-based targeting by Tunstall and Lupton (2003) distinguishes between five different rationales.

- The first focuses on 'efficiency' and completeness in reaching poor individuals and derives its logic from the concentration of deprivation and disadvantage. Thus, as Walsh (1999, p. 283) notes, developments within mainstream welfare policy have encouraged a greater local focus on the design and delivery of services. Spatial programmes seem to offer an attractive means of responding to social needs. Here, evidence relating to the distribution of unemployment, unskilled manual work, lack of educational qualifications and low income plays a crucial role.
- The second rationale is based on the argument that concentrated poverty may have cumulative and qualitatively different effects on individuals, organisations and infrastructure than less concentrated poverty. Poverty "black spots" could result in a qualitatively different experience of poverty in terms of factors such as physical and mental health, degree of economic strain and alienation from social and political participation. This rationale could provide the justification for interventions offering support targeted not just at individuals but organisations and infrastructure. A crucial objective is to provide a focus for enhancing service provision in response to multiple deprivation.
- The third justification relates to choice of areas as a form of rationing by taking advantage of the fact that targeting of areas may be a good deal simpler than targeting of individuals.
- The fourth relates to the use of area-based initiatives as a form of piloting. Thus Walsh (1999, p. 288) notes that the Area Based Response to Long-Term Unemployment (ABR) and its linked programme, the Global Grant for Local Development (GGLD) initiatives operated on a pilot basis between 1991 and 1995 before being subsumed into the Local Development Programme.
- The fifth rationale focuses on additional benefits deriving from area initiatives such as community involvement and the development of partnerships. This justification draws attention to the particular importance in deprived areas of co-ordination and more accurate identification of needs. This rationale stresses that involvement of local communities in the process of economic and social change has an intrinsic value. Loss of skills, self-confidence and motivation are seen as crucial elements in the process of social exclusion.

A particular justification for targeted intervention does not necessarily involve a commitment to a specific understanding of the causal processes. However, some such set of assumptions underlies spatial interventions. It is possible though to see spatial concentration of deprivation as having no causal significance or distinctive consequences. Instead concentration could be seen to arise simply as a consequence of variations across other genuinely causal variables such as human capital. Alternatively location could be thought to play a potentially independent role in a number of ways. Thus, employers' hiring behaviour could mean that merely residing at a particular address could increase one's risk of unemployment and poverty at a given level of human capital. More broadly those coming from areas where the resource stock, in terms of access to training, education, financial institutions etc., is poorer, could be seen as being additionally disadvantaged. Much more controversially, at the centre of debates concerning the creation of a spatially concentrated underclass is the highly contested idea that persistent poverty is transmitted through a fundamental altering of norms and 'tastes' in relation to welfare dependency, employment commitment and non-marital fertility.

11.3 The Spatial Distribution of Deprivation Surrogates

The initial findings we consider derive from analysis of the 2002 Census. Our focus is on variations in what are considered to be some of the underlying correlates of poverty and deprivation. These surrogate measures of deprivation include unemployment, age structure and social class. Here we focus on some of the key findings reported by Watson *et al.* (2005) distinguishing the local authority areas represented by the 34 counties and County Boroughs. Such distributions may mask substantial variation at for example a rural/urban district level of district electoral division level.

In pursuing analysis using census data a decision must be made whether to present such results separately for a number of dimensions or to calculate a composite measure of multiple deprivation. Units of analysis may not be ranked the same way in relation to different indicators. Do we simply assume that the different dimensions are non-comparable and indicators relating to them should be presented separately, or do we try to aggregate or arrive at an overall assessment across dimensions – and if so how is this best done? Arguments for aggregated versus disaggregated approaches occur across a variety of substantive contexts. One can contrast the UNDP's Human Development Index (HDI), constructed from indicators of life expectancy, education and standard of living with the Laeken indicators that are very deliberately presented individually with no attempt to produce an overall "score" across the dimensions. In the latter case Atkinson *et al.* (2006) argue that this should be avoided precisely because the whole thrust of the European social agenda is to emphasise the multidimensionality of social disadvantage.

Here we concentrate on the latter approach. There are a number of reasons underlying this choice. The first relates to the limited number of indices available at appropriate levels of disaggregation. Haase (2005) bases his factor analysis which identifies three dimensions relating to Social Class, Disadvantage, Labour Market Deprivation and Demographic decline on 10 indicators. However, these include both the percentage of the adult population with a primary school education and the percentage with a Third Level education and the percentage of persons in households headed by professional, managerial or technical employees and the percentage of

persons in households headed by semi-skilled manual and unskilled manual workers. In the absence of a clearly stated case as to why the measures employed are preferable to ones capturing average educational level and mean social status, a case can clearly be made that the analysis includes only eight independently measured variables.

Additional concerns include the fact that there is no clear consensus on which indicators to include in such an index and the fact that crucial differences may be obscured by such aggregation. The most important factor underlying our decision, however, is the absence of any objective basis on which to assign weights to dimensions. While simply assigning equal weights to each indicator is transparently arbitrary, it emerges that apparently more sophisticated statistical approaches can be equally so. The most commonly used statistical technique for this purpose is factor analysis. This procedure can identify dimensions of socio-demographic characteristics that we have reason to expect to be associated with poverty and deprivation. However, as Nolan *et al.* (1998) observe, in the absence of direct measures of the latter, the weight derived for such an analysis can be informative only with regard to the relationship between the socio-demographic variables but not concerning the association between such variables and deprivation and poverty.

Furthermore, despite the claims by Haase (2006, p. 7) that his use of confirmatory factor analysis allows the dimensions of disadvantage to be first conceptualised using theory, it is difficult to see that considering lone parenthood as an element of labour market disadvantage or mean number of persons per room as an indicator of social class disadvantage substantially advances our understanding of the underlying phenomena being tapped by such concepts. The treatment of the percentage of low skilled persons to labour market disadvantage and the percentage of lone parents as an indicator of demographic decline is done on the basis of earlier exploratory analysis (Haase, 2006, p. 10). Therefore, it is difficult to see that distinguishing the three dimensions constitutes a significant conceptual advance on reliance on the original indicators. However, if this is thought to be the case, than it becomes difficult to see why they should be added together with equal weighting. The argument that this is justified by the fact that the correlation between labour market disadvantage and demographic decline is effectively zero seems counterintuitive and would seem rather to justify maintaining multidimensional profiles (Haase, 2006, p. 14).

We have agued against combining what we consider to be distinct dimensions into a single index both because we believe it obscures the fact that different areas have distinctive problems and because it can create an air of spurious precision in relation to the distribution of deprivation and hinder rather than facilitate casual understanding. However, debates about the best way to identify deprived areas at a high level of disaggregation and the merits of particular forms of statistical analysis are probably largely beside the point from a practical policy point of view. Different procedures are likely to identify largely the same types of areas and deprivation measures are very seldom the sole factor taken into account in allocating funding between areas.

Here, in what is intended to be a summary treatment, we will present the results relating to three key indicators; namely unemployment,

economic dependency and absence of educational qualifications as contained in the 2002 Census.[48] In what follows we present figures and maps at the level of the 34 counties and County Boroughs in the Republic of Ireland. The maps presented are based on quintile distributions at county level. Each of the five categories contains approximately 7 counties. The numeric range for each category is different from one to the other. The legends distribute counties in 5 groups from the lowest to highest incidence of risk of the specific indicators under consideration, but they do not, however, purport to have an equal distribution in terms of average rates or levels. Hence, the maps provide a visual, graphic representation of a ranking of the county-level data from highest to lowest across the country in terms of the 5 categories. To properly interpret the maps the reader must take account of the difference between the highest figure in the top quintile and the lowest in the bottom quintile. The findings for the local authority areas can also be aggregated into a set of 8 Regional Authority categories as follows.

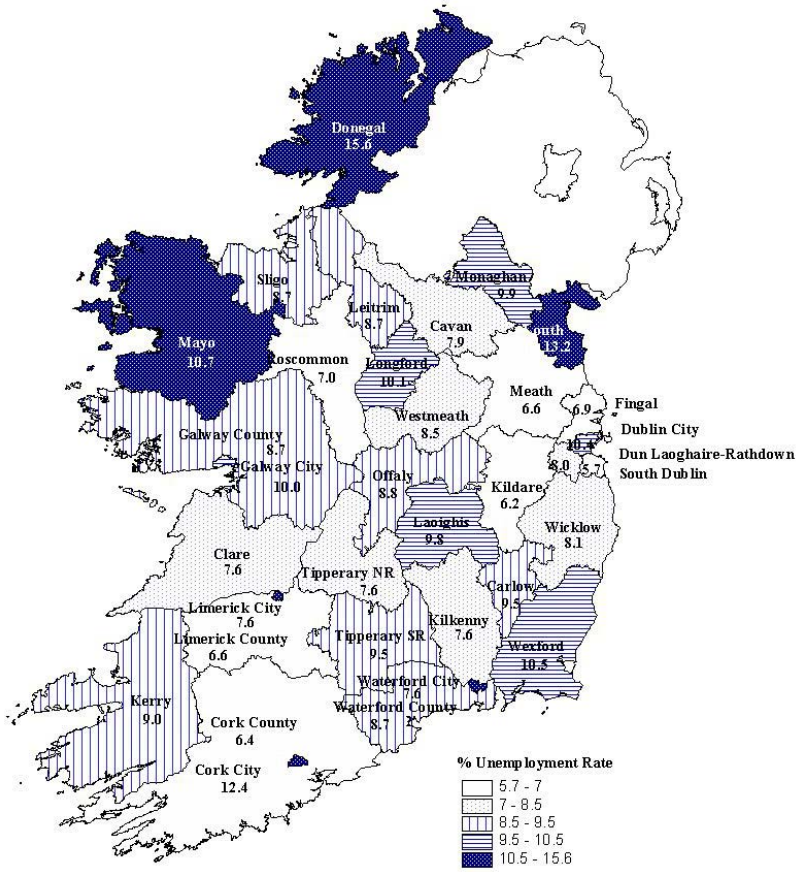
- Border
- Midlands
- West
- Dublin
- Mid-East
- Mid-West
- South-East
- South-West

Drawing on the 2002 Census in Map 1 we focus on the unemployment rate. The national rate was 8.8 per cent. Rates were highest in the Border region (12 per cent) followed by the South-East (9.6 per cent) with Dublin and the West having the lowest level (5.2 per cent). Some of these regional trends are strongly influenced by individual counties. For example, the unemployment rates in Donegal and Louth are high compared to the national average with rates of 15.6 per cent and 13.2 per cent, respectively. The levels in the county boroughs of Limerick and Cork were also relatively high. In interpreting the low levels of unemployment in Border areas it is necessary to take into account the importance of farming in such areas and the likelihood that relatively high levels of under-employment are often associated with small-scale farming.

In summary then unemployment rates were highest in parts of the Border region as well as the South-East. The level of unemployment in some Border and Western counties seemed to be lower than the national levels – for example, Cavan and Roscommon both had recorded unemployment rates below 8 per cent compared with a national figure of 8.8 per cent. However, such counties are equally characterised by high levels of small-scale farming. One can surmise that this latter may reflect elderly age structures and may, at least to some degree, mask underemployment.

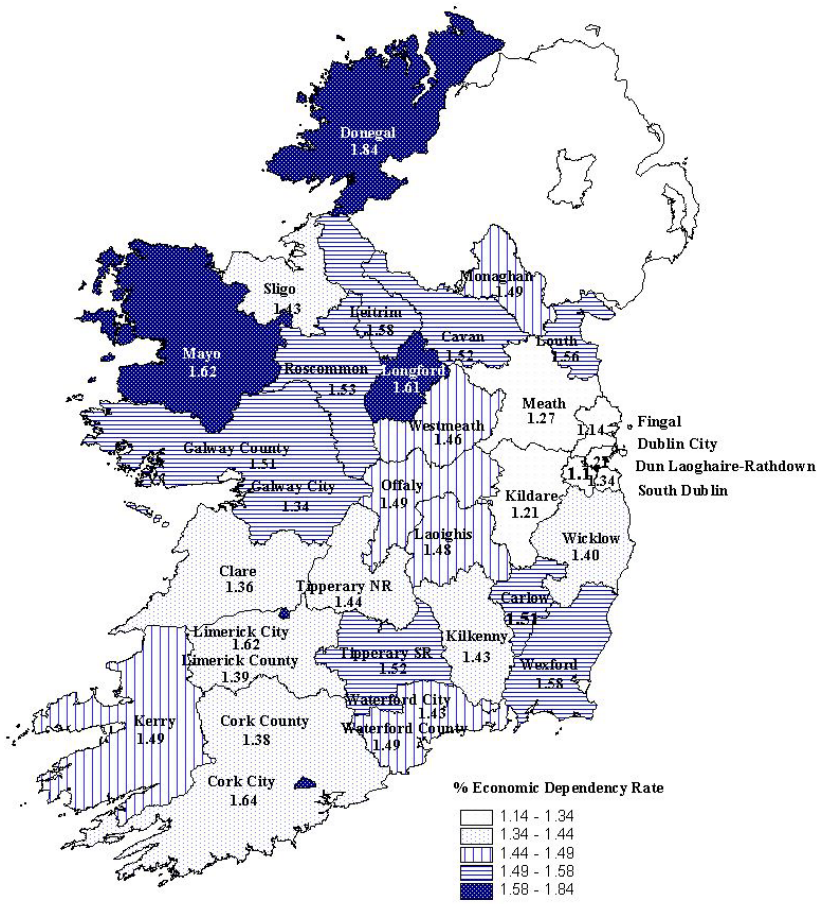
[48] For a more detailed treatment see Watson *et al.* (2005) on which this section draws substantially.

Map 1: Unemployment Rate by Local Authority Area (*Source*: Watson *et al.*, 2005, p. 18)



In Map 2 we display economic dependency rates by local authority area. The measure employed here is based on the ratio of those who are economically inactive to those who are economically active. The figures in Map 2, therefore, provide details on the extent to which those who are economically active in each region or county are economically "supporting" those who are inactive. At national level there were 1.39 inactive persons for every person who was "at work". Levels of economic dependency were quite mixed across the country. The highest levels are found in the Border region (1.61) but this is largely driven by Donegal (1.84). This reflects the relatively elderly age structure of the county combined with its very high level of recorded unemployment. The South-East and West also have high levels of economic dependency (1.51 each). This is followed by the Midlands and the South-West with levels higher than the national average (1.49 and 1.46 respectively). This variability across the country and lack of a well defined regional pattern reflects the fact that economic dependency is substantially affected by a number of factors including regional age structure; unemployment rates and the agricultural activity.

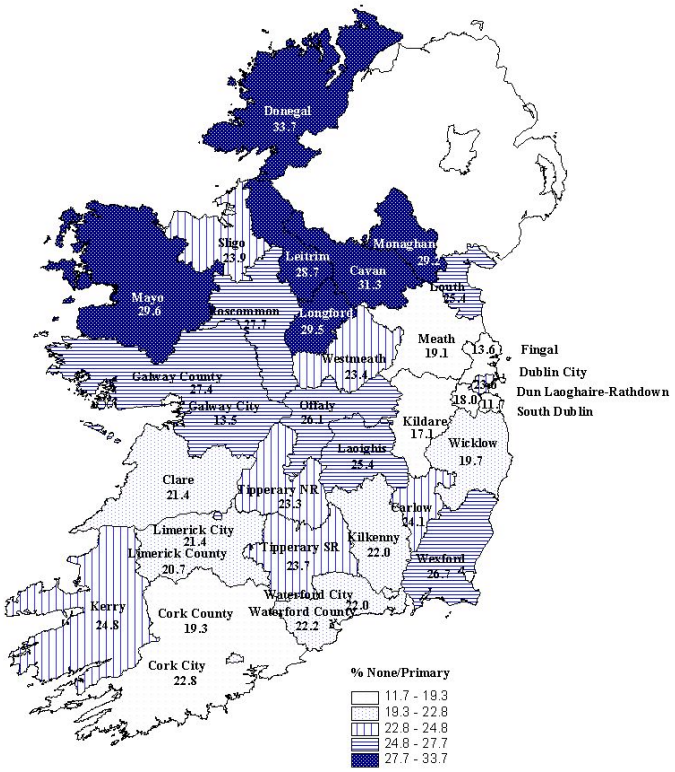
Map 2: Economic Dependency Rates by Local Authority Area (*Source*: Watson *et al.*, 2005, p. 29)



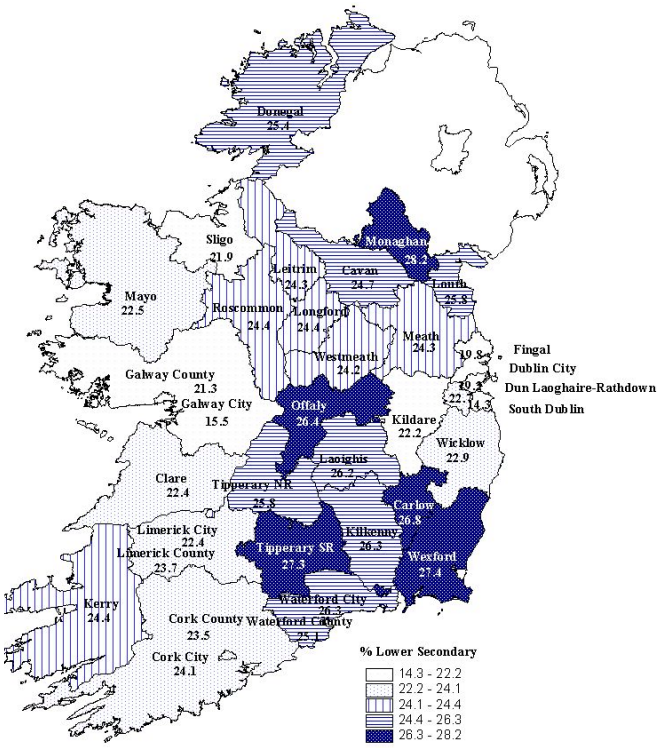
Given the demonstrated relationship between poverty and disadvantage on the one hand and level of educational attainment on the other, it is clearly important to consider regional variations in the level of education as an aid to understanding the spatial patterning of disadvantage. The relevant figures are set out in Maps 3.1. to 3.4.

It is clear that the Border and West regions stand out as having an above average percentage of persons with lower levels of attainment. The national figure of 22 per cent of persons who are recorded as having left education with no qualifications or primary level only compares with a figure of 29 per cent in the Border counties and 26 per cent for the Western region. One can see that 34 per cent of persons in Donegal, 31 per cent in Cavan, 30 per cent in Mayo and 29 per cent each in Leitrim and Monaghan have left full-time education with, at most, primary level education. Outside the counties in the Border and West regions only Longford, Offaly, Laois and Wexford (each with 26-30 per cent) have a particularly high percentage of persons with at most, primary level education (See Map 3.1). In contrast, the counties with the highest percentages of third level graduates are generally in Dublin and the Mid-East regions (Map 3.4).

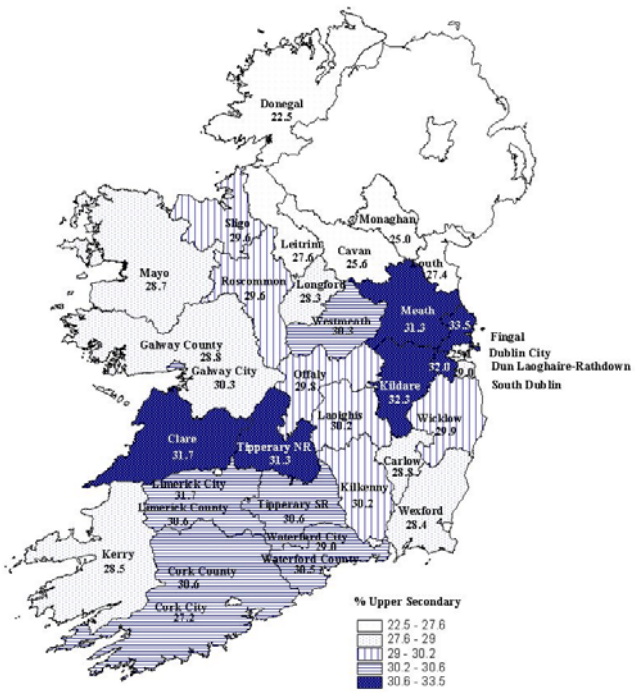
Map 3.1: Per Cent of Persons Age 15+ Who Have Left School With No Education or Primary Education



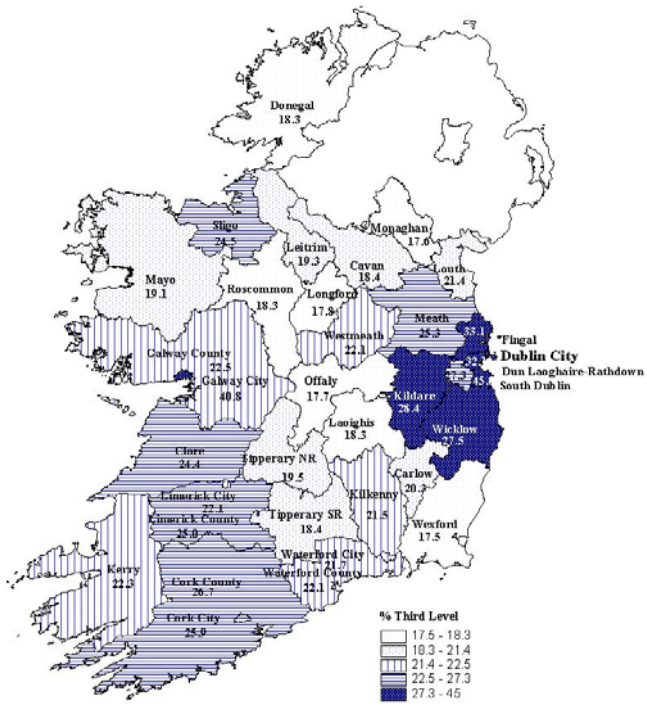
Map 3.2: Per Cent of Persons Age 15+ Who Have Left School With Lower Secondary Education



Map 3.3: Per Cent of Persons Age 15+ Who Have Left School With Upper Secondary Education



Map 3.4: Per Cent of Persons Age 15+ Who Have Left School With Third Level Education



In interpreting these figures it is important to remember that educational structures are to a large extent influenced by the age structures of a region. The areas identified above as having lower than average levels of attainment are generally regions of the country that have an over-concentration of older people. Overall, therefore, Maps 3.1 to 3.4 (*Source*: Watson *et al.*, 2005). confirm a relatively higher level of educational disadvantage (much of which is related to age structures) in the counties of the Border and Western regions.

11.4 Measurement of Poverty and Deprivation at the Household Level in EU-SILC

11.4.1 "AT RISK OF POVERTY" AND CONSISTENT POVERTY

The remainder of our analysis is based on the EU-SILC 2005 survey. Our initial focus is on two poverty measures, namely, the 'at-risk of poverty' and the consistent poverty measures. The former is constructed by using the equivalised household disposable income. Disposable household income is divided by equivalised[49] household size to produce equivalised income, which is then applied to each member of the household. The "at risk of poverty" rate is the share of persons with an equivalised income below a given percentage of the national median income. In this chapter we use the conventional 60 per cent median income as poverty threshold.

The EU-SILC also allows us to identify individuals who are experiencing deprivation through a wide spectrum of items ranging from possession of consumer durables, quality of housing and neighbourhood environment to health status. Our second poverty indicator is the consistent poverty measure that is then constructed by identifying individuals who are "at risk of poverty" and who also are deprived of at least two out of the following items:

- Without heating at some stage in the past year due to lack of money.
- Unable to afford two pairs of strong shoes.
- Unable to afford a roast joint (or its equivalent) once a week.
- Unable to afford a meal with meat, chicken or fish (or vegetarian equivalent) every second day.
- Unable to afford new (not second-hand) clothes.
- Unable to afford a warm waterproof coat.
- Keep the home adequately warm.
- Presents for family or friends at least once a year.
- Replace any worn out furniture.
- Have family or friends for a drink or meal once a month.
- Have a morning, afternoon or evening out in the last fortnight, for entertainment.

11.4.2 VARIATION BY REGIONAL AUTHORITY

In this section we examine the distribution of risk of poverty across Regional Authority. The risk of poverty, or poverty rate, is the percentage of households with equivalised income below the 60 per cent of median poverty line. The Regional Authorities are made up as follows:

[49] The equivalence scale employed attributes a weight of 1 to the first adult, 0.66 to each subsequent adult (aged 14+ living in the household) and 0.33 to each child aged less than 14 years.

- Border: (Cavan, Donegal, Leitrim, Louth, Monaghan, Sligo).
- Dublin: (Dublin City, Fingal, Dun Laoghaire-Rathdown, Dublin South).
- Mid-East: (Kildare, Meath, Wicklow).
- Midland (Laois, Longford, Offaly, Westmeath).
- Mid-West: (Clare, Limerick, Tipperary North Riding).
- South-East: (Carlow, Kilkenny, Tipperary South Riding, Waterford, Wexford).
- South-West: (Cork, Kerry).
- West (Galway, Mayo, Roscommon).

In Table 11.1 we compare the distribution of households across Regional Authorities in EU-SILC. As can be seen the distributions are pretty well identical and enhance our confidence in analysis involving this variable with EU-SILC data.

Table 11.1: The Distribution of Households Across Planning Regions in EU-SILC 2005 and the Census 2006

	EU-SILC 2005 % of Households	Census 2006 % of Households
Border	11.4	11.0
Midland	5.8	5.9
West	9.7	9.8
Mid-West	8.4	8.5
South-East	10.7	10.9
South-West	14.7	14.6
Mid-East	10.8	11.2
Dublin	28.4	28.0
Total	100.0	100.0

In Table 11.2 we show the breakdown risk of poverty at 60 per cent of median household income and the corresponding figures for consistent poverty at that income level. Focusing on the former first, we find that the average "at risk of poverty" rate is 18.5 per cent. However, there is significant variation across regional authority. The highest rate is observed in the Border with a rate of 28.6 per cent. The West and Mid-West have levels a couple of percentage points below this followed by the Midlands and the South-East with rates, respectively, some 4 to 3 percentage points lower. The rates for the South-West and Mid-East are respectively 18 per cent and 15 per cent. Finally, the lowest "at risk of poverty" rate of 12 per cent is found in Dublin. Poverty rates in the most disadvantaged regions are approximately two and a half times that for Dublin. When we aggregate to the level of Regional Assembly and compare the Border, Midlands and West (BMW) assembly with the South and East we find a differential of just less than two to one with the respective figures being 27 per cent and 17 per cent.

While risk rates vary significantly across regions, it is important to keep in mind that, because the regions also vary substantially in terms of their population size, the numbers experiencing "at risk of poverty" are more evenly spread across areas than the rates of poverty. The largest number of poor households is located in Dublin where the figure is 17 per cent and the smallest numbers in the Midlands and Mid-east where the figures are 7 per cent and 8 per cent. The remainder are spread fairly evenly across the

outstanding regions with the relevant percentages ranging from 12 per cent in the Mid-west to 16 per cent in the Border Region. At the levels of Regional Assembly over one-third of those "at risk of poverty" are found in the South and East and two-thirds in the BMW area. The findings reported are almost identical to those reported by Watson *et al.* (2005, p. 64) for a range of "at risk of poverty" lines based on data from the Living in Ireland Survey (LIS) conducted in 2000.

Table 11.2: Risk of Household Poverty at 60 Per Cent of Median Income by Regional Authority

	60 Per Cent "At Risk of Poverty"	Consistent Poverty at 60 Per Cent Income Line
	%	%
Border	28.6	11.4
West	26.9	5.7
Mid-west	26.6	7.9
Midland	23.6	9.2
South-west	18.1	7.2
South-east	22.3	5.3
Mid-east	15.2	5.5
Dublin	11.8	5.1
Regional Assembly		
BMW	26.9	8.8
South and East	16.9	5.9
Total	18.5	7.0

We now focus on spatial variation in levels of consistent poverty – where the household falls below 60 per cent of household equivalent income and experiences an enforced lack of two or more of the eleven items making up the revised basic deprivation index (Whelan, 2007). The overall rate of consistent poverty for households is 7 per cent. The highest level is once again observed in the Border region where 11 per cent fall below this threshold. In this case it is followed by the Midlands with a rate of 9 per cent, the Mid-west with a rate of 8 per cent, the South-west with one of 7 per cent. For the remaining regions very little variation is observed with the relevant figure lying between 5 and 6 per cent. At the level of Regional Assembly the consistent poverty rate for the BMW region is 9 per cent while that for the South and East is 6 per cent. This constitutes a disparity of 1.6 compared to one of 1.9 in relation to "at risk of poverty". Not only are rates of consistent poverty considerably lower than those relating to "at risk of poverty" but they exhibit considerably less spatial variation. Once again composition figures offer a somewhat different perspective. Almost 30 per cent of the consistently poor are found in Dublin while the lowest number of just less than 6 per cent are found in the Midlands. After Dublin the highest level of 15 per cent is observed for the South-west. Figures for the remaining regions vary between 9 per cent and 11 per cent. At the Regional Assembly level the concentration of consistent poverty in the South and East area is almost identical to that for "at risk of poverty" with almost two out of three being found. Once again these results are almost identical to those reported by Watson *et al.* (2005, p. 64) based on the LIS 2000 Survey.

11.4.3 VARIATION BY POPULATION DENSITY OF AREA

Earlier work has looked at variation in poverty risk and density not only by actual geographical location but also by type of area in the sense of the population density of the area where the household is located. Such analysis focuses on the possibility that it is not location as such but factors associated with population density, such as labour market opportunities distance from a range of facilities and resources that are crucial. In Table 11.3 we break down the risk of poverty and consistent poverty of households by areas distinguished in terms of population density. The risk of poverty is greatest where population is least concentrated. In towns and suburbs the rate of poverty is 14 per cent. It rises to 19 per cent for towns with populations greater than 5,000. It then evens out at level in the mid-twenties for the towns with a population of less than 5,000, mixed urban/rural and rural areas. "at risk of poverty" is thus associated with density of population. However, the major contrast is between cities and suburbs and large towns and the rest. There is no evidence that the most sparsely populated rural areas experience a distinctive level of disadvantage. In terms of incidence, those experiencing "at risk of poverty" are fairly evenly distributed across such areas with one in four being located in both cities and suburbs and rural areas.

Table 11.3: Household Risk of Poverty at 60 Per Cent of Median Income and Consistent Poverty by Population Density

	"At Risk of Poverty"	Consistent Poverty
	%	%
Cities & suburbs	14.2	6.6
Towns and environs with population =>5000	18.7	8.3
Towns and environs with 1000<=population<5000	25.3	7.6
Mixed urban/rural areas	23.7	7.5
Rural	23.4	4.4
Total	18.5	7.0

At this point we focus on the corresponding pattern of differentiation in relation to consistent poverty. Here we can see that in contrast to "at risk of poverty" the lowest level is actually found in rural areas where 4 per cent are consistently poor. The highest level of 8 per cent is observed for towns with population greater than 5,000. However, overall variation in consistent poverty by density of population is extremely modest. As a consequence the incidence of consistent poverty is distributed across such areas in a manner similar to the population as a whole.

11.4.4 VARIATION BY HOUSING TENURE

As a first step to providing a more detailed disaggregation that could reveal pockets of deprivation, previous research has broken down poverty risk by type of housing tenure. In Table 11.4 we show details of the distribution of "at risk of poverty" and consistent poverty by tenure. By far the most favourable situation is enjoyed by home owners with a mortgage whose "at risk of poverty" rate is 7 per cent this rises sharply to 19 per cent for outright home owners. This may seem paradoxical but it is consistent with earlier findings and reflects the fact that the latter group contains a large group of older people. Relatively modest differences are observed between

the latter group and private renters for whom the "at risk of poverty" rate is 22 per cent. However, for local authority purchasers it rises to 28 per cent and for their tenant counterparts it jumps sharply to 48.2 per cent. While such tenants experience a distinctively high risk of poverty, it is important to keep in mind that they make up only one in four of those "at risk of poverty" whereas those owning outright constitute one in two.

For the consistent poverty measure the distribution is somewhat different. Here the main contrast is between homeowners overall with a poverty rates of 2 per cent – 4 per cent and the remaining forms of tenure. For private tenants and local authority purchasers the rate rises to 11 per cent and 13 per cent, respectively before more than doubling to 27 per cent for local authority tenants. While the consistent poverty rates are considerably lower than their "at risk of poverty" counterparts the differentials between forms of tenure are a good deal sharper.

Table 11.4: Households "At Risk of Poverty" at 60 Per Cent of Median Income and Consistent Poverty by Housing Tenure

	"At Risk of Poverty"	Consistent Poverty
	%	%
Owned with mortgage	6.5	2.0
Owned outright	19.3	3.5
Privately rented	22.2	10.7
Local Authority Tenant Purchaser	27.7	12.6
Local Authority rented	47.7	27.1
Total	18.5	7.0

Thus the disparity in risk between owners with a mortgage and local authority tenants is approximately 7:1 in relation to "at risk of poverty" while for consistent poverty it is almost 14:1. This differential is reflected in the fact that in contrast with the situation relating to "at risk of poverty" local authority tenants make up four out of ten of the consistently poor, while one in four own their houses outright.

11.4.5 VARIATION BY HOUSING TENURE AND POPULATION DENSITY

In this section we look at the combined impact of housing tenure and density of population. To facilitate our analysis and to ensure minimally acceptable numbers in the cells of our table we combine the categories relating to "towns and environs" into one category. This also has the advantage of dividing the population into reasonably comparable sized blocks.

In Table 11.5 we focus first on "at risk of poverty". Here we see that the impact of population density within tenure categories is relatively modest and displays little in the way of systematic pattern. Within the non-owner tenures, city and suburb dwellers exhibit the lowest rates. Overall though one is struck by modest variation in risk by population density in comparison with that associated with tenure.

Table 11.5: Households "At Risk of Poverty" at 60 Per Cent of Median Income and by Housing Tenure and Density of Population

	% Owned with a Mortgage	% Owned Outright	% Privately Rented	% Local Authority Purchases	% Local Authority
Cities & suburbs	5.3	10.8	18.3	18.3	41.0
Towns and environs	7.9	7.9	24.9	35.0	50.7
Mixed urban/rural areas	3.9	3.9	24.6	32.2	58.9
Rural	9.6	9.6	31.3	30.5	44.8

For consistent poverty, as can be seen from Table 11.6, we also observe extremely modest variation by density of population within tenure categories.

Table 11.6: Household Consistent Poverty by Housing Tenure and Density of Population

	% Owned with Mortgage	% Owned Outright	% Privately Rented	% Local Authority Purchases	% Local Authority Tenant
Cities & suburbs	2.2	2.7	9.2	12.1	24.9
Towns and environs with Population =>5000	2.5	2.2	11.4	18.0	31.3
Mixed urban/rural areas	1.6	5.4	14.6	14.2	24.5
Rural	1.1	1.1	10.8	-	25.1

11.4.6 VARIATIONS IN DIMENSIONS OF DEPRIVATION

So far we have concentrated our analysis at the household level on "at risk of poverty" and the consistent poverty index that incorporates the eleven-item basic deprivation measure. Using the EU-SILC 2004 data. Whelan *et al.* (2007) identified five relatively distinct dimensions.

- The basic deprivation index comprises eleven items including those relating to food; clothes; adequate heating; new furniture; being able to afford an afternoon or evening out; being able to entertain family and friends; roast joint or equivalent; and going without heating.
- The second dimension relating to consumption deprivation comprises nineteen items that refer to a range of consumer durables such as a telephone; CD player; dishwasher; and PC. Deprivation of these items is considered to constitute a significantly less serious form of exclusion than the basic items.
- The third dimension comprises four items relating to rather basic housing facilities. A bath or shower and an indoor toilet and hot water weight particularly strongly on this dimension.
- The fourth dimension relates to the quality of the neighbourhood environment. Here, the strongest loading relates to noise with pollution and crime, violence and vandalism loading slightly lower. Rather weaker weightings are found for housing deteriorating

elements such as leaking roof and damp and the rooms being too dark.

- The final dimension relates to the health status of the household reference person. Each of the three indicators relating to this dimension namely self-assessed health status, indication of the existence of chronic illness or disability and restricted mobility load extremely high on this dimension.

The fact that the various items are separable into distinct dimensions means that some types of deprivation cluster together but others do not – for example, a neighbourhood with crime or vandalism is often noisy and polluted, but the presence or absence of such characteristics does not tell us much about the likelihood of observing basic deprivation. Households with health and housing problems are not necessarily located in problem neighbourhoods. Many households lacking particular consumption items do not experience basic deprivation, although we expect that most of those exposed to the latter will experience the former.

In Table 11.7 we show the distribution of these deprivation dimensions across Regional Authorities in terms of their mean scores. Focusing first on regional variation in basic deprivation, we find that the main contrast is between the Border and Midland Regions and all others with the former having deprivation scores of 0.88 and 0.82 compared to the overall average of 0.69. These two regions also have the highest consumer deprivation scores of close to 2 compared to an overall average of 1.47. Variation is also more systematic with deprivation scores falling to 1.16 for Dublin and 1.31 for the Mid-east. For housing deprivation the sharpest contrast is also between these two regions and the remainder with values of 0.06 and 0.11 being observed compared to an overall average 0.15. For neighbourhood environment deprivation the pattern is quite different with the highest value of 0.75 being observed in Dublin compared to an overall average of 0.53. With regard to health, clearly associated with variation in age structures, the highest values are found in the three Western regions with values of 0.99, 0.93 and 0.84 compared to an overall average of 0.79.

Table 11.7: Mean Deprivation by Planning Regions

	Basic Deprivation	Consumer	Housing	Environment	Health
Border	0.88	1.88	0.16	0.46	0.78
Midland	0.82	1.90	0.14	0.37	0.81
West	0.56	1.48	0.23	0.42	0.99
Mid-west	0.56	1.31	0.21	0.51	0.93
South-east	0.68	1.55	0.18	0.45	0.78
South-west	0.76	1.75	0.22	0.45	0.84
Mid-east	0.65	1.31	0.11	0.39	0.72
Dublin	0.66	1.16	0.06	0.75	0.70
Regional Assembly					
BMW	0.75	1.74	0.18	0.43	0.86
South & East	0.67	1.38	0.13	0.57	0.77
Total	0.69	1.47	0.15	0.53	0.79

If we focus on the Regional Assemblies, we see that the South and East enjoy advantages over the BMW area on four of the five dimensions with

neighbourhood environment being the exception. However, the advantage in relation to health is rather marginal. Overall regional variation accounts for modest variation in relation to deprivation dimensions and the impact is uneven across dimensions and regions.

In Table 11.8 we show the impact of population density in relation to the range of deprivation dimensions. In the case of basic deprivation it is clear that there is no straightforward rural-urban contrast. In the context of an overall average of 0.69, the highest value of 0.86 is observed in towns and environs with populations of between 1,000 and 5,000 while the lowest of 0.46 is found in rural areas. A similar situation emerges in relation to consumption deprivation where values of 1.93 and 1.22 compare to an overall average of 1.47. In the case of housing we get an urban rural contrast with the value for cities and suburbs and towns with populations of greater than 5,000 exhibiting values approximately half those for the remaining categories. Similarly, an urban-rural pattern of differentiation emerges with neighbourhood-environment but in this case it is the urban dwellers that are disadvantaged with the highest deprivation with a steady decline in scores being observed from 0.72 for cities and suburbs to 0.26 for rural areas. Finally, health deprivation is unaffected by population density.

Table 11.8: Mean Deprivation by Population Density

	Basic Deprivation	Consumer	Housing	Environment	Health
Cities & suburbs	0.75	1.32	0.09	0.72	0.75
Towns and environs with pop=>5000	0.75	1.63	0.11	0.63	0.77
Towns and environs with 1000<=pop<5000	0.86	1.93	0.17	0.47	0.79
Mixed urban/rural areas	0.71	1.69	0.18	0.40	0.91
Rural	0.46	1.22	0.24	0.26	0.78
Total	0.69	1.47	0.15	0.53	0.79

In Table 11.9 we look at the impact of housing tenure on the range of deprivation dimensions. In this case variation is a good deal more substantial. Basic deprivation varies from a low of 0.29 for mortgage holders to a level almost ten times higher for local authority tenants. The level of deprivation for the latter is almost twice as high for any of the remaining groups. In the intermediate range outright owners enjoy a significant advantage over private tenants and local authority purchasers. For consumption deprivation the differentials are not quite as sharp but the overall pattern is very similar. The deprivation levels for local authority tenants are seven times higher than for mortgage holders and four times that of outright owners. However, the distance between the former and private tenants and local authority purchasers is significantly less than in the case of basic deprivation. For housing deprivation the pattern is less clear-cut. Local authority tenants once again experience the least favourable conditions with a deprivation level of 0.32 that is ten times higher than for mortgage holders. However, local authority purchasers experience a more favourable outcome in this case while for outright owners the opposite is true. This pattern is likely to be related to the short and long-term distribution of responsibility for housing maintenance costs.

Table 11.9: Mean Deprivation by Tenure

	Basic Deprivation	Consumer Durables	Housing	Environment	Health
Owned with mortgage	0.29	0.57	0.03	0.45	0.36
Owned outright	0.40	1.04	0.17	0.43	0.98
Privately rented	1.30	2.83	0.19	0.66	0.58
LAT Purchaser	1.03	2.34	0.08	0.59	0.84
Local Authority rented	2.25	3.92	0.32	1.04	1.23
Total	0.69	1.47	0.15	0.53	0.79

Focusing on neighbourhood environment the deprivation level for local authority tenants is over twice that for both types of private homeowners. While private renters and local authority purchasers occupy an intermediate position. With health a slightly different pattern emerges. Once again local authority tenants and mortgage holders are found at the opposite ends of the spectrum with the deprivation levels of the former being four times higher. However, clearly influenced by the age profiles, the next highest level of deprivation is observed for outright owners with local authority purchasers having only a slightly lower level.

Taking an overview, variation across the five deprivation dimensions by regional authority is relatively modest. The major contrasts are between the Border, Midland and South-West regions and the remainder in relation to basic and consumption deprivation; between Dublin and the Mid-East and the rest with regard to housing; and between Dublin and the rest in the case of neighbourhood environment. There is no systematic pattern in the case of health. Similarly, population density contributes very little to understanding of these forms of deprivation, although those in rural areas do exhibit slightly higher levels of deprivation in relation to basic, consumer and housing deprivation. It is housing tenure that proves to be the most powerful differentiating factor. Local authority tenants are substantially differentiated in terms of all five dimensions. For other dimensions, the pattern varies depending to some degree on the extent to which age is a relevant factor. With local authority owners and private tenants being disadvantaged in relation to basic and consumption deprivation and outright owners with regard to health. It is important to keep in mind that the overlap between dimensions is modest and that as Whelan *et al.* (2007) have shown the numbers simultaneously experiencing multiple deprivation is extremely low.

11.4.7 GROSS AND NET EFFECTS OF REGIONAL AUTHORITY

In addition to documenting variation in poverty rates by location, density of population and tenure, we also need to get some sense of how the magnitude of such variation compares with the scale of variation within areas and tenure type. Following on from this we seek to assess the extent to which such variation is causal in nature. To what extent could the patterns we observe arise solely because poverty and location/density are jointly associated with other factors that are the true determinants of poverty?

The fact that a specific type of area or form of housing tenure has a relatively high poverty rate does not in itself indicate anything about the

impact of location or tenure *per se* on poverty: such effects could be entirely attributable to the socio-economic composition of the households involved. Households renting Local Authority housing could be at a high risk of poverty because applicants for such housing tend to be drawn from the most vulnerable sectors of the population: the unemployed, lone parents, the elderly and those unable to work. Cross-tabulations can only take us so far in understanding variations in poverty risk by area/tenure type at a point in time or the changes in this pattern observed over time. We, therefore, need to systematically examine the extent to which the observed variation in risk of poverty by area and housing tenure may be attributable to differences in the measured characteristics of those located in different areas or tenure groups, using logistic regressions. This procedure allows one to assess the effect of any particular factor on the odds of being poor while holding constant the influence of other factors.

In the analysis that follows we proceed to compare net effects in relation to "at risk of poverty" and consistent poverty. By net effects we mean those that persist after we control for a range of socio-demographic characteristics of the household reference person (HRP). The HRP is defined as the person who is responsible for the accommodation. Where that responsibility is equally shared the oldest person is chosen. In assessing the net effect of regional authority, the set of HRP characteristics for which we control comprises labour force status, education, social class, marital status, age group and housing tenure.

In Table 11.10 we show the gross and net odds ratios, derived from a logistic regression of being poor at 50 per cent and 60 per cent of median income and for the modified consistent poverty measure broken down by Regional Authority with Dublin taken as a reference point. The gross odds ratios summarise the differences between groups before taking account of the socio-demographic controls, whereas the net ratios refer to the remaining differences once the effects of the socio-demographic variables have been statistically controlled. The coefficients we report are odds ratio. The notion of odds on is familiar in gambling terminology where instead of saying that one team has a probability of 0.2 of winning a game and the other one of 0.8, we can say that the odds on the first team winning are 1:4 or 4:1 against or 0.25 (0.2/0.8) and that of the other 4:1 or 4:1 to one on (0.8/0.2). We focus first on the gross effects. These are, effectively a way of summarising the results we reported elsewhere in percentage terms. These results confirm the extent of variation across regions in terms of "at risk of poverty", with the differences being statistically significant for the Border Region, the Midlands the Mid-west and the South-west. The disparity in "at risk of poverty" rates is greatest between the Border Region and Dublin, with the odds on poverty being three times higher in the former. For the Western regions figures are 2.7/2.8. When we control for the socio-demographic characteristics of the household reference person, the range of differentials is slightly narrowed with the West and the Border region now having odds-ratios with the range of differentials for the three areas referred to above being reduced to between 2.5/2.4.

Table 11.10: Gross and Net Odds Ratios of "At Risk of Poverty" at 60 Per Cent of Median Income and Consistent Poverty by Regional Authority

	60 Per Cent Income Line		Consistent Poverty	
Region	**Gross**	**Net**	**Gross**	**Net**
Border	3.01	2.54	2.40	2.12
Midland	2.31	1.59	1.89	1.39
West	2.76	2.42	1.13	1.11
Mid-West	2.72	2.45	1.59	1.49
South-East	2.15	1.40	1.04	0.60
South-West	1.66	1.18	1.44	1.12
Mid-East	1.34	1.40	1.07	0.98
Dublin	1.00	1.00	1.00	1.00
Nagelkerke R^2 [50]	0.04	0.34	0.02	0.35
Percentage unique to region		0.02		0.01
Percentage common		0.02		0.02
Percentage unique to socio-demographic influences		0.30		0.32

An explanation of this finding is provided when we examine the level of variance explained with and without the inclusion of socio-demographic controls. In order to assess the impact of variables such as region, we distinguish between the variance that is unique to each influence and that which is shared between them. We identify these components by varying the order of entry of each type of variable. Thus the variance that is unique to the variable region is that which is added after socio-demographic variables have been taken into account and vice versa. The shared component is that which cannot be uniquely allocated to either variable. Unlike ordinary least squares regression there is no universally accepted measure of explained variance for logistic regression. We have reported the Nagelkerke R^2, however, our conclusions relating the relative importance of the types of effects we are considering would not be substantially affected by opting for another measure. From Table 11.10, we see that, when we enter regional effects on their own, the proportion of variance explained is 4 per cent. When we add the socio-demographic variables this increases to 34 per cent. Entering the latter on their own gives a figure of 32 per cent. Thus, while statistically significant variation in "at risk of poverty" by regional authority are observed, the vast majority of variation is within rather than between regions. Controlling for the effects of household characteristics reduces but does not eliminate regional effects with the proportion of variance declining from 4 per cent to 2 per cent. Other factors associated with being in such regions are clearly playing a role. However, the independent impact of such characteristics is rather modest. Furthermore, regional variation plays little role in explaining the impact of socio-demographic influences with a rather modest decline in the proportion of variance explained from 34 per cent to 32 per cent being observed when one controls for such factors.

[50] Nagelkerke R^2 is a modification of Coz and Snell's R^2. The latter is an attempt to imitate the interpretation of the multiple R^2 in OLS. However, its maximum can be, and usually is less than one. Nagelkerke R^2 involves a modification of the Cox and Snell coefficient to ensure that it can vary from 0 to 1.

A similar situation is observed when we focus on consistent poverty. Consideration of the gross effects reveals statistically significant odds for the Border, Midland's and Mid-West regions of, respectively, 2.4, 1.9 and 1.6 in relation to the comparison with Dublin. Controlling for socio-demographic influences reduces these values to, respectively, 2.1, 1.4 and 1.1. Regional location on its own explains only 2 per cent of the variance. This is reduced to 1 per cent after controls are introduced. When we add the impact of household characteristics the proportion of variance explained rises to 35 per cent with the unique component attributable to such influences being 33 per cent. Not surprisingly, given these findings, controlling for the impact of regional authority has no impact on the value of the socio-demographic influences. The impact of such factors cannot in any way be attributed to the geographical location of households.

11.4.8 GROSS AND NET EFFECTS OF DENSITY OF POPULATION AND HOUSING TENURE

In this section we consider the gross and net effects of the combined impact of housing tenure and population density. In pursuing this approach, we follow Nolan *et al.* (1998), Nolan and Whelan (2000) in seeking to adopt an indirect approach to capturing contextual or neighbourhood effects and the cumulative or vicious circle processes underlying them. As has generally been the case in Ireland, the data available to us do not allow us to identify spatial units or neighbourhoods of a kind that would enable us to conduct a multilevel analysis to test whether the impact of household characteristics vary depending upon the particular context in which they are located. Absence of spatial concentration is not inconsistent with the emergence of pockets of deprivation and associated cultural and social division that display a distinctive quality. Of course, what we are particularly anxious to establish is whether there is evidence for vicious circle processes whereby negative household characteristics have their impact exacerbated by occurring in one neighbourhood context rather than another. A particularly striking example of such phenomena is the urban underclass processes addressed by Wilson (1987, 1991, 1996). Crucial to his analysis is a focus on the unintended consequences of the uneven impact of social change. He is particularly concerned with the consequences of structural exchange in which economic disadvantage is reinforced by social context as reflected in increasing fatalism and detachment from mainstream values.

In the absence of data appropriate for multilevel modelling, in our earlier work we have sought to establish whether households who might most plausibly be expected to experience such processes, such as local authority households in urban centres, exhibit distinctive levels of poverty risk when we control for household characteristics that might be expected to have independent impact on such outcomes.

It is for this reason that in the analysis which follows, our urban-rural contrast, distinguishes between those in towns and suburbs and all others. In Table 11.11 we summarise the results of a set of logistic regressions in which "at risk of poverty" at the 60 per cent income line is the dependent variable and urban-rural location and housing tenure are the independent variables. The gross coefficients represent the impact of these variables before controlling for other socio-demographic factors. In exploring whether the evidence supports the existence of some sort of vicious circle process, our particular focus will be on the extent to which we can identify

evidence for particular kinds of interaction effects. Specifically, we might expect to find evidence that an interaction exists between urban location and being a local authority tenant such that the differential risk of poverty between the latter and other forms of household tenure is significantly greater in urban rather than rural areas. In fact, we could find no evidence for any form of interaction between location and tenure. The gross coefficients reported in Table 11.11 are simply the additive outcome of the higher risk levels experienced by households with particular forms of tenure multiplied by the higher risk of poverty for rural residents. The figures in the first column, which relate to urban residents, show the former effects with mortgage holders as the reference category. Thus the odds of being "at risk of poverty" at the 60 per cent income line are 3.5 times higher for outright owners than for mortgage holders. This rises to 4.1 for private tenants and to 5.6 for local authority purchasers. The highest differential of 13.1 relates to local authority tenants. The figures in the second column are arrived at by multiplying those in the first column by the constant of 1.89. This is the coefficient capturing the higher risk of poverty to which rural dwellers on average are exposed. Consequently, the differentials between forms of tenure are identical irrespective of location and there is no support for the existence of any form of urban underclass effect.

In Columns 3 and 4 we report the corresponding odds ratios having controlled for a wide range of socio-demographic characteristics. Once again we could find no evidence for any form of interaction between urban-rural location and type of housing tenure. The coefficients in column 3 represent the net effects for tenure. Those relating to all forms of tenure, other than being a local authority tenant are at least halved. In the latter case the reduction is of the order of three quarters. The odds ratios relating to the rural effects are arrived at by multiplying their urban counterparts by 1.7 which is the coefficient representing the net increases in the odds of poverty associated with being in a rural location. The reduction in the overall rural coefficient leads to a larger proportionate reduction in the net rural coefficients. However, crucially from our point of view the relativities between categories of housing tenure remain constant across the urban-rural divide with no support being offered for any cumulative "neighbourhood effect".

Table 11.11: Gross and Net Odds Ratios for "At Risk of Poverty" at 60 Per Cent of Median Income

	Gross Odds Ratios		Net Odds Ratios	
	Urban	Rural	Urban	Rural
Owned with mortgage	1.0	1.9	1.0	1.7
Owned outright	3.5	6.5	1.6	2.7
Privately rented	4.1	7.8	1.4	2.3
Local Authority Purchasers	5.6	10.6	2.8	4.7
Local Authority rented	13.1	24.8	3.1	5.2

In Table 11.12 we repeat the above analysis for consistent poverty. Once again no evidence is found for any significant form of interaction between urban-rural location and housing tenure. In column 1 we show the gross coefficients for the latter. With the exception of outright ownership,

they are slightly higher than in the case of "at risk of poverty". For private renters the odds on consistent poverty is six times higher than for mortgage holders and for local authority purchasers it rises to seven. For local authority tenants it climbs to over eighteen to one. The gross coefficients in column 2 are derived by multiplying those in the first column by 1.23, in order to capture the increased consistent poverty risk across all forms of housing tenure of being a rural dweller. As before the differentials between forms of tenure remain constant irrespective of location.

Table 11.12: Gross and Net Odds Ratios for Consistent Poverty at 60 Per Cent of Median Income

	Gross Odds Ratios		Net Odds Ratios	
	Urban	Rural	Urban	Rural
Owned with mortgage	1.0	1.2	1.0	1.0
Owned outright	1.8	2.2	1.0	1.0
Privately rented	6.0	7.4	2.2	2.3
Local Authority Purchasers	7.0	8.6	2.9	3.1
Local Authority rented	18.4	22.6	2.8	3.9

In columns 3 and 4 we report the corresponding net coefficients. The coefficient for outright owners becomes indistinguishable from that for mortgage holders. For private tenants and local authority purchasers the magnitude of the coefficients are reduced by approximately 60 per cent and that for local authority tenants by 85 per cent. The rural gross coefficients are calculated by multiplying the corresponding urban figures by 1.04, which is the negligible impact on consistent poverty of being a rural rather than an urban resident.

Overall findings from analyses of the "at risk of poverty" measure and consistent poverty lead to the same conclusion. In neither case is there any evidence of the type of statistically significant interaction effects that would be expected if there were neighbourhood effects, associated with combinations of particular forms of housing tenure and urban location, generating vicious circle processes.

11.5 Conclusions

From the analysis based on the Census data measures of deprivation such as age structure, economic status and activity, levels of farming and social class, we saw that the Border regions contained counties with the highest percentages of population unemployed while Western areas, which were disadvantaged in other respects, showed lower rates because of higher levels of farming. The Border and Western regions also exhibited, high levels of economic dependency and lower levels of educational attainment. At the other end of the spectrum, Dublin and the Mid-East emerged as highly favoured regions.

Extending our analysis using the data from EU-SILC 2005 we found clear variation across Regional Authority levels in the "at risk of poverty" rates, with the Border, the West, the Mid-West and the Midland all having rates of poverty twice the level for Dublin. Regional variation for consistent poverty was a good deal more modest although the Border area

continues to be characterised by a distinctively high rate. Extending our analysis to look at variation in a range of deprivation dimensions we found regional variation to be modest and uneven across dimensions. Focusing explicitly on "at risk of poverty" and consistent poverty we found that the bulk of the variation in such outcomes is within rather than between regions.

A somewhat similar picture emerges when we distinguish between levels of population density. The more populated areas display lower levels of "at risk of poverty" but little variation is observed for consistent poverty. Overall both those "at risk of poverty" and in consistent poverty are distributed across such types of areas in a fairly similar manner to the population as a whole.

In relation to the impact of geographical location, we found that such effects were not in any sense statistically spurious. Even after controlling for a variety of household factors the magnitude of such effects remains largely unaffected. The crucial point that needs to be made in relation to geographical effects is not that the differences we observe are in any sense misleading but that they are extremely modest when placed in the context of overall variation in risk between households. Furthermore, the regional and local authority spatial units that we have employed in our analysis do not in any way constitute homogeneous blocks in relation to risk of poverty and deprivation. Finally, as we have observed, different dimensions of deprivation have rather different spatial distributions.

A more fine-grained analysis of spatial location, than it was possible for us to undertake on this occasion, can be provided by going to the level of DED. However, while such an analysis would inevitably reveal a more marked pattern of spatial differentiation, the regional and local authority patterns that we have documented will also break up yielding a more scattered overall picture of spatial differentiation. Thus, using 1996 SAPS data, Nolan and Fahey (2002, pp. 240-241) concluded that the national picture is something akin to a partially patterned mosaic: the DEDs with the highest unemployment rates are far worse off than those with the lowest unemployment rates and there is some tendency towards a clustering of the worst with the worst and the best with the best. However, the clustering effect is relatively modest when placed in the context of overall variation, so that the effect is not of sharply delineated blackspots in which the bulk of the poor or unemployed are concentrated. The most reasonable conclusion remains that while some geographical concentration of disadvantage exists, poverty and deprivation are spatially pervasive and affect almost all parts of the country at all levels of geographical disaggregation. Our current analysis confirms earlier findings (Nolan, Whelan and Williams, 1994, 1999; Fahey and Williams, 2000) that from a pure targeting perspective, a focus on geographical location offers the crudest basis for reaching 'at risk populations'. As Nolan *et al.* (1999) concluded, area based strategies cannot be the panacea for spatially pervasive problems.

The majority of people do not reside in clearly identifiable 'poor' areas and area-based initiatives should not, therefore, be the main policy instrument for combating poverty and deprivation. Poverty remains a spatially diffuse phenomenon and policies to tackle it must continue to prioritise structural causes over a focus on spatial outcomes. Area

programmes cannot be justified on a targeting basis, though a variety of other rationales are available. Hasse (2007, p. 264) suggests that our earlier research supporting these conclusions treats space as an optional extra and fails to grasp the unique contribution of geography to the creation and perpetuation of cumulative disadvantage and deprivation (Nolan *et al.,* 1998, 2002 and Watson *et al.,* 2000). It is true we are strongly committed to the view that discussions of poverty in Ireland have paid disproportionate attention to spatial and community issues in comparison with that devoted to vulnerable social groups. However, we have also recognised that recent interventions have involved more complex justifications that have encompassed factors such as enhanced neighbourhood infrastructures, as improved service delivery and mobilisation of community resources involving a somewhat broader quality of life perspective. Thus as Pringle and Walsh (1999, p. 339) observe, policies aimed at promoting social inclusion involve more than simply providing resources and have the objective of creating mechanisms whereby the disadvantaged can participate more actively in all aspects of life, including decision making.

Where we do differ profoundly from Haase is in his conclusions regarding the importance of neighbourhood effects, both generally and specifically in the Irish case, and the extent to which such effects provide a justification for area based interventions. As we noted earlier, the possibility that individual or household neighbourhood characteristics may interact with attributes of neighbourhood to produce vicious circle processes of cumulative disadvantage constitutes a fascinating area of social enquiry. It is one that for a number of reasons has been explored in most depth in the United States. In the first place, associated with the scale of ethnic differentiation, the degree of spatial concentration of poverty and deprivation is exceptional. Thus, Wacquant (1993) on the basis of a comparative study of two neighbourhoods in Chicago and the peripheral of Paris concludes that there is no European counterpart to the African-American experience of long-term negative discrimination and restriction of opportunity. As a consequence, conceptual and methodological developments relating to the study of urban disadvantage took place at a rate that far outstripped their European counterparts. Finally, the availability of Census Bureau data relating to administratively defined census tracts and block groups offered substantial possibilities in terms of the analysis of overlapping and nested ecological structures. The US research environment thus offers possibilities for the scientific study of neighbourhood effects that go so far beyond what is possible in the Irish case that it would be difficult to exaggerate the gap. Yet as Sampson *et al.* (2002, p. 443) observed, at the outset of the 1990s Jencks and Mayer (1990) offered a highly influential assessment of the "…so called neighbourhood effects literature that was ultimately pessimistic". Such pessimism was, in part, based on the fact that the data sources on which such analysis was typically based related the composition of statistical areas rather than to the unfolding of dynamic processes. As Sampson *et al.* (2002, p. 445) note, the study of neighbourhood effects is plagued by thorny methodological problems that include the trick issues of what constitutes a neighbourhood and the degree to which the relevant geographical area may vary depending on the outcome of interest. However, the most fundamental problem relates to selection bias i.e., the fact that people are distributed between neighbourhoods on the basis of a range of causal factors many of which are unmeasured.

Jencks and Mayer's pessimism was related to the fact that very few studies succeeded in isolating and measuring the social processes or mechanisms that could count for such effects. While a great deal of subsequent work in the US has attempted to rectify these deficiencies and progress has been made, Sampson *et al.* (2202, pp. 473-474) conclude that we continue to know relatively little about key processes or whether they are responsive to neighbourhood policy interventions. Even experimental evidence must be assessed with a good deal of caution. Conclusions regarding such effects must be qualified by a range of caveats relating to intervening mechanism, identification of appropriate spatial units and the role of selection effects (Jargowski, 1996; Brooks-Gunn *et al.,* 1997).

Given the outcome of such research in the United States, Friedrich's (1998, p. 93) conclusion based on a review of European research that "…the most general evidence presented on neighbourhood effects indicates low or negligible effects". In the Irish case in the absence of the kind of evidence that would allow genuine multi-level modelling of neighbourhood effects we have approached the issue indirectly by asking whether there is evidence that local authority tenants in urban centres are more likely to experience poverty and deprivation on a scale over and above what we would expect on the basis of the households in which they are located. The evidence for such effects has always been weak. In our most recent analysis based on the EU-SILC 2005 data, we find that housing tenure and most particularly being a local authority tenant is a far more powerful predictor of poverty and deprivation than geographical location. However, the largest part of that effect can be accounted for by household characteristics and it is difficult to exclude the possibility that the reminder may be a consequence of unmeasured selection effects. More importantly from the point of view of the current issue we found no interaction between forms of housing tenure and urban-rural location. Whatever are the residual effects of being a local authority tenant it appears that they operate in a generally similar fashion in urban and rural areas. Thus, while urban local authority residents experience distinctive environments in terms of the quality of their neighbourhood, in relation to the causal determination of poverty and deprivation, the evidence runs directly contrary to the urban underclass hypothesis.

The available evidence supports the view put forward by Fahey and Williams (2000, p. 241) that if neighbourhoods matter, it is perhaps in a more complex and fine-grained way that can be easily captured by statistical analysis. They suggest an understanding of neighbourhood that views deprived areas not as large uniform social environments but as complex composites of micro areas, each having its own character and neighbourhood quality. Additionally, as the US evidence suggests the spatial or neighbourhood level that matters, and the neighbourhood resources and facilities that are critical in mediating such effects, may depend on the particular issue with which one is concerned or the stage of the life cycle on which one focuses. Thus the neighbourhood characteristics and the relevant level of aggregation that has consequences for the quality of schooling available to very young children may be rather different from those that affect teenagers risk of being involved in crime or the availability of social support for older people.

In relation to such issues a stronger focus on 'place' or neighbourhood deprivation or poverty as opposed to 'people' deprivation or poverty can

be justified without the need to posit neighbourhood vicious circle effects. As Fahey (1999) stressed, characteristics of neighbourhood can continue to have consequences as the individuals affected by them change. Thus the selection effects related to social housing contribute to a residualisation process whereby the upwardly mobile are replaced by more disadvantaged groups. Similarly, mobility within the local authority sector may be influenced by perceptions of quality of neighbourhood environment at a quite micro-level. As Fahey (1999) stresses such problems require responses focused not at the level of the characteristics of residents but at the level of public management of housing and neighbourhoods.

The additional analysis that we have reported in this chapter reinforces the earlier conclusion by Watson *et al.* (2005) that, in evaluating the potential of area based initiatives, it is necessary to strike a balance between a perspective that sees them as serving little purpose until structural problems are resolved and one that encourages unrealistic expectations of the extent to which they can contribute to resolving the problems faced by disadvantaged communities.

12. DEVELOPING POLICY OPTIONS

12.1 Introduction

In this chapter we draw on the preceding analyses to develop a number of broad policy packages. We then examine their cost and "cash" or "first round" impact on the risk of poverty and the overall distribution of income, using *SWITCH,* the ESRI tax-benefit model. We also use *SWITCH* to examine the first-round impact on financial incentives to work, as measured by replacement rates and effective marginal tax rates. Changes in financial incentives, along with other aspects of the packages (e.g., increased activation) will shape the behavioural responses which will contribute to the overall impact of the packages.

Section 12.2 describes the packages which will be analysed and outlines the microsimulation framework used to compare them with existing policy and with each other. Section 12.3 identifies the costs associated with each package, and some issues involved in financing them. Section 12.4 turns to the direct impact of the packages on the "at risk of poverty" measure, focusing in particular on the extent to which the impact could close the gap between poverty risks in Ireland and those of the best-performing countries in the EU on this criterion. Section 12.5 examines the impact of the policy packages on financial incentives to work, as measured by replacement rates and marginal effective tax rates. The main conclusions are drawn together in Section 12.6.

12.2 Reform Packages and the Analytic Framework

Twin themes run through this analysis:

- making most effective use of a given set of resources in tackling poverty; and
- identifying the potential impact of increased resources in minimising risks of poverty.

We look at these issues by examining potential large-scale reforms set in the context of the 2007 tax/welfare system, socio-demographic structure and income distribution. In reality, any reform would, of course, need to be phased in over time. But it is not the case that the "fruits of growth" would necessarily ease the way in achieving lower risks of poverty. Rising incomes mean a rising average standard of living, and the income levels required to participate in society would also rise. Thus, a "snapshot analysis" of the type undertaken is of considerable value in identifying future goals, towards which a path can then be plotted.

In our analysis of broad policy options, we look at two options which simply increase resources, without any structural reforms:

- a 10 per cent increase in welfare payments across the board,
- a 20 per cent increase in welfare payments across the board.

We then construct two packages embodying structural reforms aimed at achieving a greater anti-poverty impact than simply expanding the current system. Each of these options incorporates two key structural features:

1. A second-tier child income support, modelled as an income-tested Child Benefit Supplement, is put in place – the role of FIS is reduced, but not abolished, in the light of the findings of Chapter 6.
2. Payment rates are "levelled up" to a uniform figure.

The first element has been discussed in earlier chapters, so we focus now on the third element – harmonisation of payment rates at a higher level. The highest rate of payment in the system is currently for Carer's Allowance (€218, when the carer is aged 66 years or over and caring for one person). However, this is a payment received by very few people.[51] The State Contributory Pension, with a personal rate of €209.30, is a better indicator of the maximum payment rate for a scheme with large-scale participation. This stands at a small premium (just under 5 per cent) in relation to the payment rate for the State Non-contributory Pension (and the Carer's Allowance for carers aged under 66 years). Harmonisation of these rates can be seen as a move towards a uniform payment rate for pensions.[52] The National Pensions Board (1993) Final Report concluded that rates of payment should be the same for the (state) contributory and non-contributory pensions. It was argued that the fact that the contributory pension is not subject to a means-test could seen as sufficient compensation for contributions paid.

The main differentiation in the system, however, is between rates of payment for pensions and the rates paid in respect of schemes dealing with other contingencies. The personal rate for the State Contributory Pension is some 12½ per cent (€23.50 per week) higher than payment rates for schemes in respect of illness, disability, jobseekers, lone parenthood and the safety-net scheme, Supplementary Welfare Allowance. The State Contributory Pension rate is also about 10 per cent higher than that for recipients of invalidity pensions, and widow's/widower's contributory pensions. There is little differentiation between payment rates for contributory and means-tested schemes for contingencies arising during the working age years.[53]

It is not at all clear that this pattern of differentiation in payment rates contributes to effective targeting of resources where need is greatest. The major differentiation involves higher rates for pensions than for other

[51] In 2005 there were fewer than 3,000 people potentially receiving this rate.
[52] This could be part of a broader move toward a universal, residence-based pension – but could also be effected without such a move. Our analysis does not depend on a particular view being taken of the arguments for and against a universal, residence based pension.
[53] There are, however, significant differences in entitlements arising from payments with the same maximum rate, depending on whether or not means-testing applies.

welfare payments. But pensioners benefit from two sources of non-cash benefits to a greater extent than other groups:

1. Pensioners are more likely than others to own their homes outright, conferring on them an income advantage in that they do not have to pay rent or mortgages.
2. Some of the main non-cash resources provided by the welfare system (e.g., the Household Benefits package) are also focused particularly on pensioners.

Furthermore, as noted in Chapter 7, given current levels of income support for older persons, increased support in the form of cash may not be the most effective way of improving the position of older persons. For example, the organisation and provision of home help services may be critical for the welfare of an elderly person, but difficult to achieve through a market system. Provision of such services, which are more closely related to increased needs, may also provide improved targeting of resources to older persons in greater need. As against this, it could be argued that a lower payment to people of working age is necessary in order to maintain an adequate incentive to work; while this may be seen as less of an obstacle to the provision of an increased level of support to older persons.

As noted in earlier chapters, it could also be argued that special payments are needed to offset the costs associated with having a disability, or that childcare costs, not taken into account in standard analyses of risks of poverty, impose a particular burden on lone parents. Given all these uncertainties, it is certainly worthwhile to explore options which incorporate a standard welfare payment rate across all contingencies, and applies to both contributory and non-contributory schemes. A "what if" analysis on this basis will provide important evidence for the policy debate.

We examine these options at two levels of payment. In setting these levels, we draw on the target for the level of State Pensions set in the Programme for Government. The commitment in that document is to "…increase the basic state pension by around 50 per cent to at least €300 per week by 2012." (Agreed Programme for Government, p. 51). The target is set in nominal terms. The impact of reaching a nominal level of €300 per week will depend on the evolution of prices and wages over the next 5 years. If wage growth were very rapid, the target would be easier to reach – but reaching it would have less impact on risks of poverty. We can translate the €300 target into 2007 terms, given an average rate of wage growth over the 2007-2012 period. Wage growth of 5 per cent per annum would imply that the target of €300 in 2012 equated to a value of about €235 per week in 2007 terms. Wage growth of half a percentage point higher per annum would mean that the €300 target equated to about €230 per week in 2007, while slower wage growth (4.5 per cent) would mean that the target equated to €240 per week.

Given that we are examining an option which involves payment of this level not just for pensions, but for all welfare payments, we take a conservative view and look at the implications of "levelling up" welfare payments to values of:

- €220 per week – this rate is about 5 per cent higher than the 2007 State Contributory Pension, but close to 19 per cent higher than the

most common personal rate of payment for persons of working age.

- €230 per week – this represents an increase of just under 10 per cent in the State Contributory Pension rate, and is almost 24 per cent higher than the most common non-pension personal rates of payment.

All personal rates of payment are increased to these levels, eliminating differentiation between the rates.

The rate of payment for Child Benefit Supplement needs to be sufficient to ensure that the total child income support package (Child Benefit and the Child Benefit Supplement) represents 33 per cent of the main payment rate. Given that Child Benefit is unchanged at about €37 per week, Child Benefit Supplement would need to be about €36 per week if the main payment rate were €220, and close to €40 per week if the main payment rate were €230. Our analysis is based on a rate of €40 per week in both cases.

Thus the four packages considered are:

(a) A 10 per cent increase in all social welfare payment rates.
(b) A 20 per cent increase in all social welfare payment rates.
(c) All personal payment rates increased to a uniform level of €220 per week, with a Child Benefit Supplement (as per Chapter 6) of €40 per week.
(d) All personal payment rates increased to a uniform level of €230 per week, with a Child Benefit Supplement of €40 per week.

Before simulating these packages, we must first establish a baseline simulation against which changes can be measured.[54] This involves using the *SWITCH* model to simulate the system as of 2007.[55] As results based on survey data for 2007 will not be available until late 2008, we use two points of comparison in order to assess the suitability of the *SWITCH* baseline for this purpose. First (Table 12.1), we consider results of a simulation of the year 2000, and compare this with the results of direct analyses of the 2000 Living in Ireland Survey (which provides the data for *SWITCH).* Second (Table 12.2), we consider how a *SWITCH* simulation for the year 2005 compares with the results of direct analyses of the CSO's EU Survey of Income and Living Conditions (SILC).

In Table 12.1, the overall risk of poverty in the *SWITCH* simulation is just almost identical to the directly calculated rate, at just under 21 per cent. The structure of poverty risks as between children and older people, the unemployed and the "working poor" and people with a disability is also closely reflected in the simulated results.

[54] A similar process is undertaken for the ESRI's macromodel in establishing a baseline for its analyses.
[55] The analysis as carried out during 2007. Given the structural nature of the issues being addressed, analysis based on 2008 policies would arrive at similar results.

Table 12.1: Comparison of *SWITCH* Simulation and Living in Ireland Survey, 2000

	Living in Ireland 2000	*SWITCH* 2000
All persons	20.9	20.8
Children	23.7	21.9
Older people	38.4	41.0
Lone parents and children	32.9	35.0
People with a disability, somewhat hampered	36.1	39.4
People with a disability, severely hampered	41.1	46.1
Unemployed persons	52.3	51.9
"Working poor"	7.1	6.3

There are more significant differences in Table 12.2. Here the comparison is between risks of poverty as calculated from EU-SILC 2005 and as estimated by *SWITCH*, based on data drawn from the Living in Ireland Survey of 2000, but uprated and adjusted for key changes in demographics and socio-economic structure between 2000 and 2005. These comparisons are influenced also by differences in the way in which data were gathered by SILC as against Living in Ireland, and by differences in the definition of income used in the measurement of poverty risk. The overall poverty risk, and the risks for children, the unemployed and the "working poor" are again quite close. We consider each of the other three groups (People with a disability, lone parents and older people) in turn.

Table 12.2*:* Comparison of *SWITCH* Simulation and EU-SILC, 2005

	EU-SILC 2005	*SWITCH* 2005
Total	18.5	19.2
Children	21.2	21.8
Older people	20.1	41.5
Lone parents	40.7	27.1
People with a disability: Limited activity/somewhat hampered	23.0	37.9
People with a disability: Strongly limited/severely hampered	32.7	40.9
Unemployed persons	40.6	46.0
"Working poor"	7.0	5.8

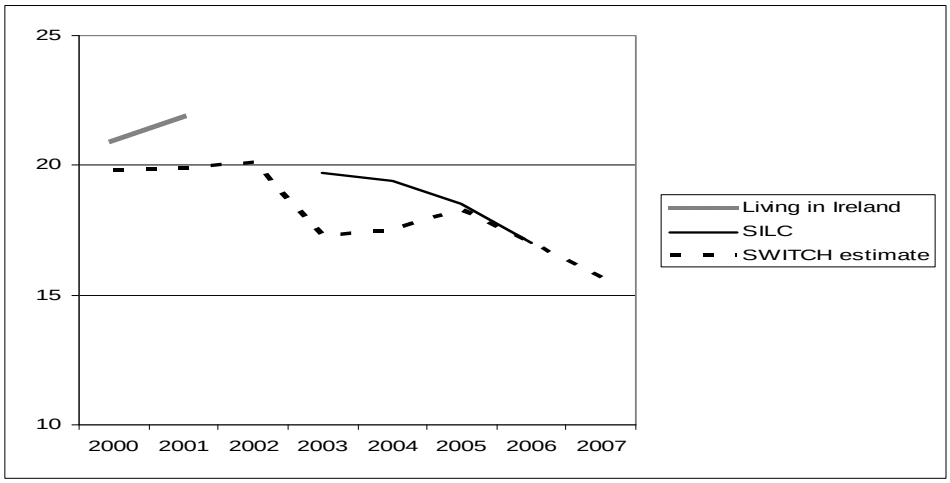
Unlike the *QNHS* and Living in Ireland Survey, which ask about longstanding/chronic health problems/illness *or disability,* EU-SILC asks whether the respondent suffers from any chronic (long-standing) illness or condition (health problem) – the term "disability" is not included. The survey then asks "in the last 6 months have you been limited in activities people usually do, because of a health problem?", where respondents can reply that they were strongly limited, limited, or not limited. About 16 per cent of working-age respondents report being limited or strongly limited in their activities in EU-SILC 2004. This contrasts with less than 12 per cent reporting themselves as somewhat or severely hampered in the Living in Ireland Survey. It seems likely, therefore, that the group identified within the Living in Ireland Survey are more severely affected by disability, and as a result are at greater risk of poverty, as found in Table 12.2.

Turning to lone parents, the group identified by the CSO analysis of SILC consists of lone parent households, whereas the *SWITCH* analysis includes all lone parents. Whelan *et al.* (2005) find that lone parent households are at higher risk of poverty than all lone parents, which includes also those who live with their own adult children, their own parents, or other adults.

The sharpest difference is that between the estimates of poverty risk for older people. The most likely explanation for this difference is that the CSO analysis of SILC (Central Statistics Office, 2006) includes a number of non-cash benefits in its definition of disposable income – principally those covered by the Household Benefits Package (free electricity or gas, free telephone allowance and a free television licence). These are not included in the measure of cash disposable income used in the Living in Ireland Survey. The main argument for their inclusion is that these resources contribute to well-being in the same way as income. As against this, the inclusion of non-cash resources only for older persons may distort the overall picture of the income distribution and the "at risk of poverty" rate. For example, for the working age population, income is defined as including superannuation contributions paid by employees; but does not include superannuation paid by an employer, or the equivalent accumulation of entitlements arising from employment in the public service. Including non-cash benefits for one population group and not others may therefore distort the picture. The results reported here are based on the cash measure of disposable income which has underpinned the measures of risk of poverty in the Living in Ireland study; but the issues involved will also be examined in future research.

Overall, these results indicate that the risks of poverty simulated by *SWITCH* offer a useful base for the analysis of policy issues. It must be borne in mind, however, that the *SWITCH* poverty measures are based on cash incomes, while the SILC measures include a particular subset of non-cash incomes which go, in the main, to older people. Figure 12.1 shows the risks of poverty at 60 per cent of median income based on Living in Ireland (2000-2001) and SILC (2003-2006). Alongside these, we show the estimated risk of poverty based on *SWITCH* simulations. While, as we have

Figure 12.1: Estimates of Overall Risk of Poverty at 60 Per Cent of Median Income, 2000-2007



seen, simulated poverty risks tend to be slightly lower than those based on recorded data, the *SWITCH* estimates suggest a significant reduction in poverty risk between 2000 and 2007. The overall risk in 2007 is estimated at 15.7 per cent, and the impacts of policy changes are calculated in relation to that figure.

12.3 Costs

The direct costs of the four packages, in advance of any behavioural responses to changed incentives, are set out in Table 12.3. In that table, the term "gross costs" refers to increases in welfare expenditures. Net costs take into account increased tax revenues arising from that expenditure, and more significantly, increased revenues arising from the standardisation of tax relief on pension contributions in Packages (C) and (D).

Table 12.3: Net and Gross Costs of Alternative Packages in 2007 Terms

Package	(A) 10 Per Cent Rise	(B) 20 Per Cent Rise	(C) Uniform €220, Child Benefit Supplement	(D) Uniform €230 p.w., Child Benefit Supplement
			€m Per Annum	
Gross cost	1,441	2,869	1,554	1,968
Net cost	1,336	2,690	1,480	1,863

Looking first at gross costs we see that a 10 per cent rise in all welfare payment rates would cost in the order of €1,340 million per annum, and a 20 per cent rise would cost about twice that. The gross cost of "levelling up" to a new uniform personal rate of payment of €220 would fall by about €140 million more than the cost of a 10 per cent rise in all rates. The cost of a further increase to €230 would be about €380 million per annum, making a total cost of about €1,860 million.

The differing levels of resources involved in these four packages mean that financing requirements and implications would also be quite different. We return to this issue in Section 12.6.

12.4 Impact on "at Risk of Poverty" Rates

In evaluating changes in the risk of poverty brought about these packages, it is helpful to bear in mind that the implicit reference point of a zero poverty risk may not be the most appropriate. This can clearly be seen in the construction of the UK child poverty target (Department of Work and Pensions, 2003), which contains two elements: a material deprivation child poverty rate that "approached zero" and an "at risk of poverty" measure which is to be "among the best in Europe". Expanding on this, the Department of Work and Pensions document states that:

> Possible ways to define being 'amongst the best in Europe' could include: having a relative child poverty rate no higher than the average of the best three countries in Europe; having a relative child poverty rate no higher than the average of the best four countries in Europe; and, having a relative child poverty rate that was within 2 percentage points of the average of the best three countries in Europe. (Department of Work and Pensions, 2003, p.20.)

Applying these criteria to the overall risk of poverty would mean that the target risk of poverty at 60 per cent of median income would be between 11 and 13 per cent. We have seen that simulation estimates have a tendency to be slightly lower than the poverty risks calculated directly from recorded income, because the simulations are based on full take-up of benefit. For this reason we will focus on a reference point of 11 to 12 per cent in considering policy impact on the risk of poverty.

A second point to note is *SWITCH* simulations based on uprated Living in Ireland data yield poverty thresholds which are in excess of those calculated from the EU-SILC. This arises because there is, in effect, a difference between the levels of median equivalised income calculated from the Living in Ireland Surveys of 2000/2001 and the EU-SILC series starting in 2003. The *SWITCH* simulations arrive at an "at risk of poverty" rate which is very close to that found in EU-SILC for 2004/5, but with a higher level of median equivalised income. In order to check the results for sensitivity to this feature, we have re-estimated the policy impacts reported here using an income growth factor which is scaled to arrive at the same poverty threshold as the EU-SILC. Some of these results are reported below, but in general, the differences between these two sets of results in terms of policy impact are rather slight.

The nature of the packages examined means that they are focused on the lower half of the income distribution. Median income rises slightly (about 2 per cent) under packages (A), (C) or (D). Package (B) has a greater impact on the median, at around 4 per cent of the initial median value.

Table 12.4*:* Estimated Direct Impact of Policy Packages on the "At Risk of Poverty" Measure

	Baseline	(A) 10 Per Cent Rise	(B) 20 Per Cent Rise	(C) Level up to €220 p.w.	(D) Level up to €230 p.w.
"At risk of poverty", head count	**%**	**%**	**%**	**%**	**%**
50 per cent median	6.2	5.4	3.8	3.6	3.4
60 per cent median	15.9	13.5	10.6	12.7	11.9
70 per cent median	24.5	23.4	21.2	23.0	22.3
Indices of poverty at 60 per cent of median income					
Head count	100	85	67	80	75
Poverty gap ratio	100	80	66	65	59

Table 12.5 shows the estimated impact of the different policy packages on the "at risk of poverty" measure. A 10 per cent rise in all welfare rates (which would bring the maximum rate for pensioners to about €230 per week) would see the overall "at risk of poverty" rate at the 60 per cent of median income cut off fall from about 16 per cent to just under 13 per cent. A 20 per cent rise in all welfare rates, bringing pension rates to around €250 per week, would see the risk decline further, to just under 11 per cent. But Package (D), a restructuring of payments, bringing all payments up to the €230 level, combined with a Child Benefit Supplement would see the risk decline to around 12 per cent – at a similar cost to Package (A), the 10

per cent rise in all welfare payments with unchanged structure and substantially lower than the cost of Package (B), the 20 per cent rise in all welfare payments. This "at risk of poverty" rate is similar to the best-performing countries in the EU. Package (D) performs better than the 10 per cent rise in rates (Package (A)) at higher and lower income cut-offs; and performs about as well in poverty reduction at these alternative cut-offs as the 20 per cent rise in rates (Package (B)).

Given the well known limitations of the head count measure of poverty, an alternative perspective is given in the lower panel of the table, which shows the extent to which a poverty index (defined as 100 in the baseline situation) is reduced by each policy. The head count index is reduced by about one-third by a 20 per cent rise in rates, or by about 25 per cent by a levelling up package with a new rate of €230 per week (Package (D)). But the poverty gap ratio, which takes into account not just the extent but also the depth of income poverty, falls substantially more under Package D than under Package B. Levelling up the rates to €230 per week leads to a reduction in the poverty gap ratio of about 40 per cent, as compared with about 34 per cent under the 20 per cent rise in rates.

How are these results affected if *SWITCH* simulations are adjusted to match the median incomes calculated from EU-SILC, instead of matching the "at risk of poverty" rate? Table 12.5 below shows the impact of the packages on the headline "at risk of poverty" rate at 60 per cent of median equivalised income.

Table 12.5: Impact on "At Risk of Poverty" Rate: Sensitivity Analysis (Poverty Risk at 60 Per Cent of Median Income Per Adult Equivalent)

	Package A	Package B	Package C	Package D
SWITCH poverty risk aligned with EU-SILC results	-2.4	-5.3	-3.2	-4
SWITCH median income aligned with EU-SILC results	-1.2	-2.2	-3.4	-3.9

Moving to a scenario in which the median income is aligned with SILC leads to a reduction in the poverty impact of the 10 per cent and 20 per cent welfare increases, but to an increase in the poverty reduction impact of the restructuring packages. The restructuring packages would now dominate the simple welfare increases in having a greater poverty reduction impact at a lower cost.

How do these results translate into changes in the "at risk of poverty" rate for vulnerable groups. With some exceptions, the patterns reflect the changes in risk at aggregate level. Older people, people with a disability and unemployed persons have the highest risks in the baseline scenario – these risks are close to 40 per cent. A 10 per cent rise in welfare payments sees these risks fall to 25 to 30 per cent. Package D, levelling up payments to €230, complemented by a Child Benefit Supplement, sees the risks fall to about 20 per cent – similar to what obtains under a 20 per cent rise in welfare payment rates. Lone parents have an initial risk which is about 20 per cent, closer to the average risk of around 15 per cent. Under Package D this risk falls by about 6 percentage points – compared to a fall in the

overall poverty risk of about 5 percentage points. The risk for children in the baseline scenario is close to the average risk – and remains so, at about 10 per cent, under Package D (levelling up to €230 per week accompanied by the introduction of a Child Benefit Supplement). The overall pattern, therefore, is one in which the highest risks are reduced most by these packages, while groups with a risk close to average see their risk fall in line with the average risk.

The broader distributional implications of Package D are illustrated in Table 12.6. Gainers are concentrated in the lower deciles, where most tax units (except in the bottom decile) gain from the package. Losers, by contrast, are found almost exclusively in the top half of the distribution, and particularly in the top two deciles.

Table 12.6*:* Gainers and Losers by Decile of Income Per Adult Equivalent

	Number of Tax Units (Thousands) Gaining or Losing		
	Loss > €0.50 p.w.	No Change	Gain > €0.50 p.w.
Bottom	0	137	92
2nd	0	19	224
3rd	0	29	188
4th	8	77	145
5th	14	136	80
6th	22	155	53
7th	47	156	26
8th	91	122	17
9th	134	80	13
Top	157	60	16
All	473	974	854

Average gains and losses for those affected are substantial. Average gains are between €35 and €50 per week for those in the bottom half of the income distribution. Average losses for those who lose, range from €60 to over €80 per week for those in the top two deciles.

12.5 Impact on Financial Incentives to Work

What are the implications of these packages for financial incentives to work? In order to examine this question we look at the impact of the packages on the distribution of replacement rates, measuring the balance between income in work and out of work. For simplicity, we focus on the estimated baseline distribution, and the distribution of replacement rates under Package D, which involves a uniform welfare payment rate of €230 per week.

Table 12.7 presents the distribution of estimated replacement rates for unemployed persons in receipt of Unemployment Assistance or Unemployment Benefit. The methods and definitions used are identical to those in Callan *et al.* (2006). A key point is that the replacement rates reported here include simulations of the value of Rent and Mortgage Supplement for persons who are unemployed. The estimates are constructed "as if" the value of this supplement was identically zero for all persons in employment. Ignoring the existence of Rent and Mortgage Supplement would tend to underestimate the replacement rate for those benefiting from it. The treatment here errs on the other side, as there are

provisions for long-term unemployed persons to retain the supplement for a period; and a Rental Accommodation Scheme has been introduced with the aim of providing a more secure housing solution for those who previously have received Rent and Mortgage Supplement over the longterm. Perhaps the best interpretation of these figures is that they represent a "telescoping" of the path of benefits over time, looking towards a longer-term balance between in-work and out-of-work income.

Table 12.7: Distribution of Replacement Rates for Unemployed Persons in Receipt of UA or UB

Replacement Rate Category (Per Cent)	Baseline 2007	Welfare Package with Rates Levelled up to €230 (Package D)
< 10	1.0	0.4
< 20	4.4	0.7
< 30	1.7	1.8
< 40	4.7	4.2
< 50	11.2	5.2
< 60	48.1	9.4
< 70	3.3	48.8
< 80	5.7	4.6
< 90	5.6	4.1
< 100	7.9	6.2
Over 100	6.3	14.7
Total	100.0	100.0

One clear feature is that the modal replacement rate category, containing about half of all unemployed persons, is between 50 and 60 per cent for the baseline scenario (2007). The modal category for Package D (€230 per week welfare payment) is between 60 and 70 per cent.

Particular attention has been given to replacement rates above 70 per cent and above 90 per cent. The 2007 baseline estimates suggest that about 25 per cent of the unemployed have replacement rates above 70 per cent, and just under 15 per cent have replacement rates above 90 per cent. Under Package D, with a welfare payment rate of €230 per week, these proportions rise by about 5 percentage points, to 21 per cent and 30 per cent respectively.

In considering the possible impact of such changes in replacement rates, it may be helpful to distinguish two views. On the one hand, it could be argued that such increases in replacement rates represent a sharp deterioration in the financial incentive to work. While analysis based on marginal changes in financial incentives may suggest rather limited behavioural responses (see, for example, Layte and Callan, 2000) a "step change" in incentives might be sufficient to induce larger scale responses. An alternative view, on the other hand, is that Scandinavian experience indicates that raising replacement rates is a necessary part of providing an adequate floor to incomes and reducing poverty. The key, in this view, would be that activation measures are sufficient to ensure that unemployment compensation does not act as a passive income support measure, but is conditional on fulfilling a contract which involves job-

seeking and undertaking training and re-skilling to participate in the labour market.[56]

What about the impact on effective marginal tax rates (EMTRs), which have a greater influence on decisions regarding work hours and work effort for those in employment? The standardisation of tax relief on pension contributions brings more income within the scope of the taxation system. Given the progression in tax rates, this will tend to increase the average tax rate. Our simulations suggest that the average tax rate would rise by about 3 percentage points, from 36 per cent under the baseline scenario to around 39 per cent under Package D.

12.6 Financing Issues

The packages explored involve substantial additional resources of between €1,340 million and €2,700 million per annum. The restructuring packages offer greater returns in terms of reduction in the "at risk of poverty" rate, at a somewhat lower cost. For example, Package (D), with a cost of €1,863 million per annum, achieves a greater reduction in the poverty gap (a measure taking account not only of the extent of poverty but also its depth) than a 20 per cent rise in all welfare rates – a pacakage which costs almost €900 million more.

Clearly the amount of resources involved is substantial. But it is not, perhaps, as large as might have been expected. Countries which have the lowest rates of "at risk of poverty" in the EU typically have very much larger welfare states than Ireland, and matching their performance might have been expected to involve a very substantial rise in social expenditure as a proportion of GDP. But the exploration of options undertaken here suggests that a restructuring of welfare expenditure, rather than simply scaling up the existing system, could provide a more efficient way of achieving similar results.

Options for financing increased expenditure on welfare could include increases in income tax or PRSI; increases in indirect taxes; or reductions in other government expenditure. Here, however, we focus on another reform option, a change in the tax treatment of superannuation contributions, whether by employee, employer, self-employed or the "implicit" contributions of government as employer in the public service pension scheme. The details of this approach are set out in Chapter 7. Here we simply report on how the application of standardised relief would fit into the overall package, and particularly its financing.

Table 12.8 shows that the standardisation of income tax relief on all superannuation contributions would be more than sufficient (in the absence of behavioural responses, as discussed in Chapter 7) to finance Package C. The net cost of package D would be reduced to around €350 million per annum. This is modest in relation to the size of even a single year's budgetary package.

[56] Similar issues arise with respect to lone parents and people with disabilities, as examined in Chapters 5 and 8.

Table 12.8: Cost of Restructuring Packages – With and Without Reform of Tax Treatment of Pensions

(Poverty Risk at 60 Per Cent of Median Income Per Adult Equivalent)

	Package C €m per annum	Package D €m per annum
Net cost without reform of tax treatment of pensions	1,480	1,863
Net cost with reform of tax treatment of pensions	-37	346

12.7 Conclusions

As recently as three years ago, available evidence suggested that the risk of poverty in Ireland (at the 60 per cent of median income cut-off) was close to 20 per cent, while the best rates achieved in Europe were close to 10 per cent. CSO estimates based on the 2006 Survey on Income and Living Conditions (EU-SILC), along with microsimulation estimates for 2007 suggest that the Irish rate has declined somewhat. Recent EU-SILC figures for the EU countries with lowest risks of poverty show slightly higher rates, so that the gap is narrowing from both sides. Current Irish "at risk of poverty" rates are estimated at around 15 to 16 per cent. The lowest European rates are now between 10 and 12 per cent. How can this gap be bridged?

We have examined the scope for bridging this gap with two simple rate-increasing welfare packages (10 per cent and 20 per cent) and with two packages incorporating structural changes as well as increased welfare payment rates. Package C involves a uniform welfare payment rate across all schemes of €220 per week, and Package D a uniform payment rate of €230 per week. Each of these packages also includes a Child Benefit Supplement of €40 per week, along the lines described in Chapter 6.

While these packages involve substantial resources, they are within the scope of a multi-year budgetary package. "Standard" financing options would include increased income tax or PRSI, increased indirect taxes, or reductions in (the growth of) other government expenditures. We also explored a further option: reform of the tax treatment of superannuation contributions, restricting tax relief on such contributions to the standard rate of tax. The net revenue from standardisation could be of the order of €1,500 million per annum. Standard rate taxpayers would be unaffected by the change, while top rate taxpayers would see their tax liabilities rise. This could be seen as rebalancing state support for pensions in favour of greater universal support, and less support towards the higher end of the income distribution. Standard rate taxpayers would gain from the increased universal support, and would be unaffected by the standardisation of relief on superannuation contributions. However, the broad packages do not depend on this particular financing option being chosen.

The reforming packages examined seem to have considerable scope for reducing the risk of poverty. The direct impact suggests a fall in the risk of poverty from almost 16 per cent to as low as 12 per cent – close to the lowest in the EU. The reduction in risk would be greatest for the high risk groups (older people, people with a disability and unemployed persons) for whom risks would fall from about 40 per cent to close to 20 per cent.

There would be significant increases in replacement rates, with the modal rate rising from between 50 and 60 per cent to between 60 and 70 per cent. The rise in high or very high replacement rates (defined as above 70 per cent and above 90 per cent) would be more modest. A key feature if this policy package were to attain its poverty-reduction potential is that it would need to be complemented by further measures encouraging activation of welfare recipients – including unemployed persons, lone parents and people with a disability. Long-term issues regarding improved health, increased life expectancy and the labour market participation of older persons also arise. Our analysis has focused on the impact of policy on the "at risk of poverty" measure. Given the focus of Irish policy on consistent poverty, one would also wish to know how consistent poverty would be affected by such policy packages. This question is not directly answerable but research to establish bounds on the likely change is currently under way.

13. KEY FINDINGS

13.1 Setting the Context

13.1.1 EVOLUTION OF IRELAND'S SOCIAL PROTECTION SPENDING IN COMPARATIVE PERSPECTIVE

We saw at the outset that Ireland currently has a particularly low level of social protection spending as a proportion of national income (and this remains the case with a more appropriate measure of national income than the commonly-employed GDP). However, this does not reflect a generalised shortfall compared with the EU average across different areas of social protection spending: instead, it is mostly concentrated in the area of old age pensions. This is partly a reflection of the population structure, but that does not account for the bulk of the gap between Ireland's state spending in this area and other member states. While there is very wide variation in pension systems, Ireland's spending by the state in this area also falls well short of the UK, which has a broadly similar structure.

We also saw that Ireland's level of social protection per head of population in real terms (adjusted for differences in purchasing power) ranks in the middle of the EU-25. This has to be seen in the light of the fact that the countries towards the top of the ranking by social protection spending are also among the richer in terms of average income, while those towards the bottom in social protection spending are very far below the EU average income. Ireland appears right at the top of the ranking by GDP per head, second only to Luxembourg; if we use a more appropriate measure of national income, Ireland would move down in terms of average income per head, to a level similar to Belgium or the UK, but still much higher (about 6th or 7th) than its ranking by social protection spending.

We saw that Ireland's social protection spending as a proportion of national income fell sharply from the mid-1990s as the rate of economic growth reached unprecedented levels, faster than any other OECD country. From 2000 onwards, though, social protection spending has risen as a percentage of GDP. Finally, social protection expenditure in real terms rose more rapidly between 1990 and 2004 in Ireland than any other EU-15 country, at twice the rate that was more typical for those countries. These aggregates serve to bring out the complex mix that must be taken into account in seeking to understand and assess the evolution of social protection expenditure in what was a most unusual macroeconomic context, and serve as background to the analysis of policy options at the level of contingencies and schemes.

13.1.2 CROSS-COUNTRY COMPARISONS OF POVERTY RISK AND WELFARE REGIME

The proportion of persons "at risk of poverty" in Ireland is among the highest in the EU. Simulation approaches demonstrate that differences in the age profile, the pattern of labour force participation, and household

composition do not play the major role in observed cross-country variation in the percentage "at risk of poverty". Differences in tax and welfare rates and structures are more important.

Sapir (2005) identifies the Scandinavian model as one which attains both efficiency (high employment rates) and equity (low risks of poverty). Successful anti-poverty policy requires both enhanced education and employment opportunities and improved income supports – neither is enough on its own. Countries such as Denmark and the Netherlands have sustained both high employment and a comprehensive welfare system ensuring that those without income from employment have an adequate income. Over the last decade Ireland has successfully made the transition to high employment and low unemployment rates. The experience of other EU countries suggests that achieving low "at risk of poverty" rates would in addition require a more comprehensive safety net and higher rates of welfare payment relative to average incomes.

13.1.3 DEMOGRAPHIC AND SOCIO-ECONOMIC CONTEXT

Ireland has seen major changes not only in its economic fortunes but also in its demographic and socio-economic profile over recent years, as a result of dramatic developments in migration but also more subtle longer-term trends. We saw that Ireland is distinctive in having substantially more children and fewer older people in the population than many other EU countries, with the share of the proportion of working age close to the EU average. This age structure has not shifted over the past twenty years in terms of the proportion aged 65 years or over, Ireland has not yet experienced the "greying" of the population seen in some other rich countries. However, there has been a marked decline in the share of the population made up by children: the share of the population aged 0-14 years peaked in the 1960s, declined slowly until the mid-1980s, and fell sharply from then until 2002, with the recent Census showing it was stable since then.

Childbearing has declined among those aged in the teens and early 20s on the one side and aged over 40 on the other, and has become increasingly concentrated among women aged in their 30s. There has also been a marked fall in the number of children per family, with the numbers in households with three or more children now much lower than it was – although from a comparative perspective Ireland still has a very high proportion. A rapid increase in the share of fertility occurring outside of marriage began in the 1980s and continued unabated through the 1990s, approaching one-third of births in 2000. The incidence of lone parenthood has risen sharply over the past 25 years or so, associated with not only this rise in non-marital childbearing (which includes cohabiting as well as lone parents) but also an increase in marital breakdown. Ireland has a high proportion of lone parent households compared with other EU countries, though less than the UK.

Turning to older people, 11 per cent of the population was aged 65 years or over in 2006, no higher than in the early 1960s, whereas in the EU-15 that percentage rose from 12 per cent in 1970 to 17 per cent in 2004. There is a growing tendency for older people to live apart from their children or other relatives, in Ireland as in other rich countries, but it is also now more likely that they have been married at some point in their lives rather than remaining permanently single.

Ireland's economic boom has also had a pronounced impact on migration flows in and out of the country, with the net inflow of immigrants increasing from 8,000 a year in 1996 to 53,000 a year in 2005. The composition of migratory flows to Ireland has also become increasingly diverse, with fewer coming from the UK and the US and many more from the rest of the EU and the rest of the world, and with a relatively young age profile.

13.2 Vulnerable Groups

13.2.1 LONE PARENTS

European and worldwide comparisons show that Scandinavian countries have the lowest risks of income poverty for lone parents. This is achieved by a system of activation which promotes employment for all, and supports for employment including a comprehensive childcare system, as well as education and training. The UK has reduced risks of poverty for lone parents substantially, but they still remain at the high end of the EU scale.

The structure of income supports and activation for lone parents proposed in the Government's discussion document (Department of Social and Family Affairs, 2006) is in line with best international practice as exemplified by Norway and the Netherlands. Much depends, of course, on the implementation of the approach. The proposals note that "Introduction of an activation requirement is predicated on childcare supports being available". This is a critical issue. While childcare structures and policy have been developing in recent years, they are still far from the fully developed systems found in Scandinavia. There must be a linkage between childcare provision and activation provisions, so that what is sought in terms of activation is in line with the possibilities afforded by the childcare structures.

Another key decision in the design of the system is whether activation or a work-test is to be voluntary or compulsory. In the Scandinavian countries activation is typically compulsory, not just for lone parents but for all social assistance beneficiaries. This is in the context of an excellent and fully fledged childcare system, making it possible for families, including lone parent families, to combine work and care. This context does not (yet) exist in Ireland. In the UK (where the childcare system is perhaps more developed than in Ireland, though less so than in Scandinavia) the New Deal for Lone Parents operates on the basis of voluntary participation. Again, this contrast suggests that the extent of compulsion needs to be linked to the extent of childcare provision.

The government's proposals suggest that payment of a Parental Allowance would be conditional on what the UK terms "work-focused interviews" when the youngest child reached the age of 5 years, and would cease when the child reached the age of 7 or 8 years. This contrasts with the current situation, in which payment of One-parent Family Payment continues until the child reaches the age of 18 years, but can continue beyond that if the child is in full-time education. While the proposals leave some room for debate as to the precise age cut offs involved, it is clear from international comparisons that the current situation is a highly unusual one.

13.2.2 CHILDREN

There are strong links between child poverty and the overall "at risk of poverty" rate. Countries with the best record on the reduction of child poverty – the Scandinavian countries – also tend to have the lowest rates of overall poverty. The "best practice" approach to improving EU performance in this area suggests close attention should be given to the policies and structures of the best-performing countries. The logic of the approach is, therefore, that other countries should compare their approaches with those of the Scandinavian countries – which are the best performers in this regard not only in Europe but in global terms.

By contrast, much of the debate on child poverty has focused on restructuring income-tested income support for families with children, with attention centering on recent initiatives in English-speaking countries. While some reductions in poverty have been achieved by these initiatives, it is clear that rates of child poverty in the English speaking countries remain above those in most European countries, and well above Scandinavian levels.

This approach is associated with a tendency to view child poverty as a problem to be dealt with, in the main, through child income support. The problem with this is that children are not poor on their own – they have a parent or parents living in poverty with them. So avoidance of poverty requires that parents have adequate incomes too. Tackling child poverty requires a strategy that takes a broad view of welfare income supports, and "activist" measures to increase participation in employment. Solutions lie not with welfare alone, or employment alone, but a combination of both.

13.2.3 OLDER PEOPLE

The "at risk of poverty" rate for older people has varied substantially over time in Ireland. The risk of poverty (at 60 per cent of median income) rose from low levels in 1994 to over 40 per cent around the year 2000. The Irish rate was second highest (to Cyprus) in the EU-25 around the year 2003, and more than double the EU average. The lowest risk of poverty for older people in Western Europe was in the Netherlands, a country with a strong basic pension and mandatory occupational pensions. Despite the high risk of income poverty, older people had lower than average risks of consistent poverty. Home ownership, drawing on financial assets and family support contribute to explaining this difference. Recent increases in payment rates for State Pensions have contributed to a strong reduction in the risk of poverty for pensioners. Recent CSO estimates, based on the Survey on Income and Living Conditions (EU SILC), indicate that older persons now have a lower than average "at risk of poverty" rate.

The potential of a non-means-tested "Living Alone Supplement" to target vulnerable older people was examined. While the impact on the headcount of poverty risk at the 60 per cent line is limited, there is a more substantial impact on the broader poverty gap measure of poverty. The results are sufficient to indicate that a Living Alone Supplement could have a significant impact on poverty risk. Balancing this benefit with the cost requires further fine tuning of the analysis, and of possible income or means-testing aspects of the proposal.

A restructuring of state supports for public and private pensions, limiting tax relief on pension contributions to the standard rate of tax, offers scope for very substantial reductions in poverty for older people. In fact, standardisation could create more than sufficient resources to increase the state pensions by €50 per week, which would virtually eliminate the risk of poverty for older people. There are also alternative uses of the resources, examined in Chapter 12, which also allow for a broad reduction in risks of poverty.

13.2.4 PEOPLE WITH A DISABILITY

People with a disability are particularly vulnerable to poverty and social exclusion. The information relating to disability obtained in general household surveys is limited but does allow their income and deprivation levels to be analysed. In the 2001 Living in Ireland Survey, 22 per cent of respondents reporting a chronic illness or disability, and 38 per cent of these adults were in households "at risk of poverty", more than twice the figure for other adults. Similarly, the consistent poverty rate for those reporting a chronic illness or disability was twice the rate for those not doing so. The percentage "at risk of poverty" rose sharply for long-term ill or disabled adults between 1995 and 2001, linked to the extent to which people with illness or disability and the households in which they live rely on social welfare payments as a source of income.

The factors underpinning this heightened poverty risk and consistent poverty are complex, with disability having its effects through a variety of channels, starting with its potential effects on educational attainment and its direct and indirect impact on the individual's working career and perhaps also that of others in the household. When one controls statistically for other factors, those reporting a longstanding/chronic illness or disability that hampers them in their daily activities or restricts the kind of work they can do have a significantly reduced probability of participating in the paid labour force. Those reporting a chronic illness or disability who are "at risk of poverty" are also mostly in households where no-one else is at work. The extent of dependence on social welfare payments is a key factor: people who were ill or disabled and "at risk of poverty" had only 10 per cent of their household income coming from work, with most from social welfare payments. So what distinguishes people with a long-term illness or disability in households below the "at risk of poverty" income threshold is that their households have little engagement with paid work and are highly dependent on social welfare.

13.2.5 UNEMPLOYED PERSONS

The rapid fall in the Irish unemployment rate, and its positive economic and social effects, have been well documented. There remains, however, a high risk of income poverty and of consistent poverty for those who are unemployed. The "at risk of poverty" rate for those who are unemployed is towards the high end of the international spectrum, exceeded in the EU-15 only by the UK.

International best practice confirms that is possible to attain *both* low unemployment and a low risk of poverty for the unemployed. In Sweden, Denmark and the Netherlands the risk of poverty facing the unemployed is about half of that in Ireland and the UK, but the unemployment rate remains low. Strong activation policies are the key to achieving this

combination. OECD analysis suggests that Irish activation policy has become very effective, and may now be able to offset the potential negative incentive impact of higher unemployment compensation.

13.2.6 IN-WORK POVERTY AND THE WORKING POOR

Over the decade from the mid-1990s, Ireland has seen very rapid increases in employment and in incomes from employment, but concern about the numbers of "working poor" are being voiced more frequently, in Ireland as at EU level. "The working poor" may be measured as individuals who are themselves in work and who live in a household that is poor or "at risk of poverty". In the Irish case 7 per cent of adults in work are in households below the 60 per cent of median income threshold, a figure which is close to the EU-15 average. As elsewhere, the percentage below that threshold is very much higher for the self-employed than for employees; the figure is 6 per cent for employees but 16 per cent for the self-employed, neither being particularly high or low compared with other EU-15 countries. The size of the in-work population means that even with a relatively low "at risk of poverty" rate 17 per cent of adults below the 60 per cent threshold are in work.

Over the ten years from 1994, in-work poverty risk rose from 5 per cent to 7 per cent, while for employees the increase was significantly greater. This reflects the fact that households where the numbers at work rose saw particularly marked income increases – with the proportion of married women in work rising very rapidly over the period – so households with only one earner could well fail to keep pace with the poverty threshold. However, only a relatively small minority of the "working poor", measured in income terms alone, are in consistent poverty.

Compared with all those at work, working poor employees have substantially lower levels of educational attainment than all those at work, and are often low paid. Working poor employees are also predominantly in households with children: about 9 per cent are in households comprising just one adult with a child or children, but 63 per cent are in households with two or more adults and children.

13.3 Spatial Issues

Analysis of Census data shows that deprivation remains a spatially diffuse phenomenon. Significantly greater variation occurs within rather than between spatial units. The Border and Western Regions tend to be the most deprived but the situation varies depending on the particular aspect of deprivation on which one focuses. Generally, spatial variations in risk of deprivation are counterbalanced by a more even incidence of poverty as high risk areas tend to have a lower share of the population. Analysis at the household level using EU-SILC 2005 looking at both 'at risk of poverty' measures and at consistent poverty broadly confirms this picture. Focusing on areas defined in terms of population density confirms that both types of poverty were distributed across areas in a fairly similar manner to the population as a whole. Given the diffuse nature of poverty, area programmes cannot be justified on a targeting basis alone.

Poverty and deprivation are much more sharply differentiated by housing tenure. In particular, local authority tenants display distinctive levels of disadvantage in relation to both "at risk of poverty" rates and consistent poverty. This is also true of a range of deprivation dimensions. However, with the exception of neighbourhood problems relating to such

matters as crime and pollution there is no evidence that urban local authority tenants are less favourably situated than their rural counterparts. Thus, there is no evidence to support the view that urban 'underclass' or vicious circle contextual effects play an important role in explaining the distribution of poverty and deprivation in Ireland.

The fact that we have found no strong evidence of a causal role for spatial factors does not rule a potential valuable role for area-based interventions. Recent interventions have had more complex justifications than targeting, encompassing factors such as enhanced neighbourhood infrastructure, improved service delivery and mobilisation of community resources. They address 'place poverty' as well as 'people poverty'. It is important, however, not to encourage unrealistic expectations that such initiatives can provide solutions to problems that can be addressed only by national policies.

13.4 Policy Packages

There remains a substantial gap between risks of poverty in Ireland and those in the EU countries with the best performance in this area. How can this gap be bridged? We have examined the scope for bridging this gap with two simple rate- increasing welfare packages (10 per cent and 20 per cent) and with two packages incorporating structural changes as well as increased welfare payment rates. Details of the packages and their "first round" impact on poverty risks are given in Chapter 12. Here we focus on the package which seems to offer greatest scope for bridging the gap, which involves:

- a uniform welfare payment rate across all schemes of €230 per week in 2007 terms. This is similar to the target set in the Programme for Government for older persons, but well above the target for general welfare rates (of €185.50 per week) set in the National Action Plan for Social Inclusion (Ireland, 2007);
- an income-tested Child Benefit Supplement;
- a reorientation of the state's total expenditure on pensions away from tax expenditures for private pensions and towards the state pension.

The package is financed, in the main, by restricting tax relief on superannuation contributions to the standard rate of tax. The net revenue from standardisation is of the order of €1,500 million per annum. Standard rate taxpayers are unaffected by the change, while top rate taxpayers see their tax liabilities rise. This aspect of the package can be seen as rebalancing state support for pensions in favour of greater universal support, and less support towards the higher end of the income distribution. Standard rate taxpayers gain from the increased universal support, and are unaffected by the standardisation of relief on superannuation contributions.

The direct impact of this package suggests a fall in the risk of poverty from almost 16 per cent to between 10 and 11 per cent. The reduction in risk is greatest for the high risk groups (older people, people with a disability and unemployed persons) for whom risks fall from about 40 per cent to close to 20 per cent. There are significant increases in replacement rates, with the modal rate rising from between 50 and 60 per cent to between 60 and 70 per cent. The rise in high or very high replacement rates

(defined as above 70 per cent and above 90 per cent) is, however, more modest. A key feature if this policy package were to attain its poverty-reduction potential is that it would need to be complemented by further measures encouraging activation of welfare recipients – including not only unemployed persons but also lone parents and people with a disability.

A key message from this work is that the balance between payment rates for pensions and for other welfare payments needs to be reconsidered. Recent results from the EU-SILC suggest that older people now have lower than average "at risk of poverty" rates, following increases in the State Pension in recent years. Older persons have had lower than average risks of consistent poverty for the past decade and more – partly reflecting their access to resources not included in cash income, such as the advantage of owning a house outright. Current policy includes a target of raising the State Pension to at least €300 by 2012; but the target for welfare payment rates for other welfare recipients is a more modest one. The goal in the National Action Plan for Social Inclusion is to "…maintain the relative value of the lowest social welfare rate at least at €185.50, in 2007 terms". Differing interpretations of this goal are possible. Perhaps the most generous would be that it involves indexation of the lowest rate in line with earnings. Assuming 5 per cent growth in earnings per year, this would see the rate rise to about €237 by 2012. This would represent 79 per cent of the State Pension target of €300 per week – a fall from the current ratio of 88 per cent of the State Pension rate.

Our analysis suggests that a package which raised the State Pension to the target level, with other payment rates increased to "close the gap" which currently exists between pension and non-pension rates would be a more effective way of reducing the "at risk of poverty" rate. One option which merits further consideration is the possibility of financing this package by a standardisation of tax reliefs for superannuation contributions.

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