



Relative Income Poverty Risk: What Ireland Can Learn from the Best-Performing Countries

Tim Callan and Brian Nolan

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Presentation based on....

- T. Callan and B. Nolan (2005) "Relative Income Poverty Risk: Learning from the Best-Performing Countries" in T. Callan, A. Doris, D. McCoy (eds.) *Budget Perspectives 2005*, Dublin: ESRI.
- T. Callan, M.Keeney, B. Nolan, B. Maitre (2005) *Why is Relative Income Poverty So High in Ireland?*, Dublin: ESRI Policy Research Series Paper No. 53.



Outline

- What is "relative income poverty risk"?
- Ireland's ranking vis-à-vis EU-15
- Why is Ireland's figure so high?
 - Household structure, labour force status, earnings distribution
 - Welfare and taxes
- Child poverty and child income support
- Conclusions



Relative Income Poverty Risk

- Number falling below income thresholds derived as proportion of mean or median income
 - 60% of median, adjusted for household size
- EU's Laeken Social Inclusion Indicators include this, together with battery of other indicators e.g. health, education
- Described as people "at risk of being poor"

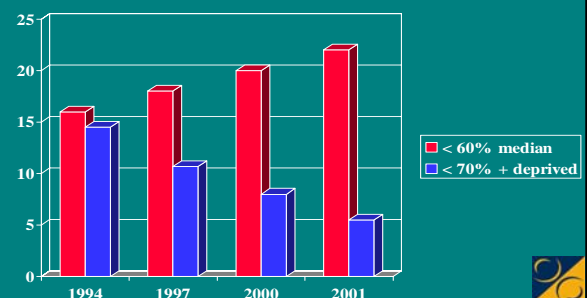


Relative Income Poverty Risk

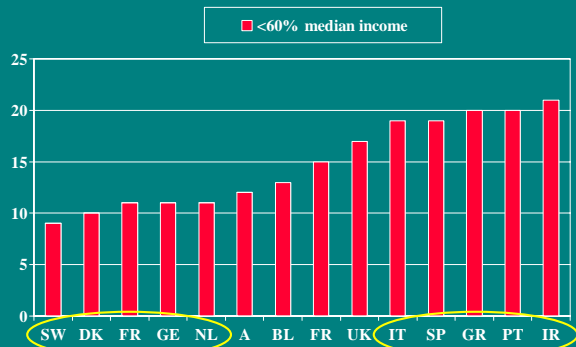
- Only a sub-set below these thresholds are experiencing basic deprivation
 - "consistently poor" - focus of Irish NAPS targets
- And average income is not the only relevant reference point
- But cannot ignore agreed EU indicators



Relative Income Versus Consistent Poverty



Relative Income Poverty in EU, 2001



Relative Income Poverty in Ireland

- Not a once-off:
 - Ireland was in a group well above EU average in 1980s
 - Holds with other relative thresholds
 - Not confined to particular age group
- So focus on deep-seated structural factors, not short-term trends



Relative Income Poverty

- Variety of factors might contribute to high relative income poverty:
 - High proportion of population in high-risk groups – lone parents, ill, disabled, unemployed, elderly
 - Risk for these groups might be higher than elsewhere
 - Higher earnings inequality might play a role
 - Tax and welfare system



Why So High in Ireland?

- We “simulate” the impact on Ireland’s relative income poverty rate of varying
 - Age structure
 - Household composition
 - Employment/unemployment/inactivity
- We impose the structures seen in other EU countries incl. Netherlands
- Results show very modest impact on % below relative income thresholds



Why So High?

- Earnings dispersion is relatively high in Ireland – as in UK
- What if every earner had the same earnings?
- EUROMOD model can be used to simulate impact on household after-tax incomes
- Irish relative income poverty rate still high

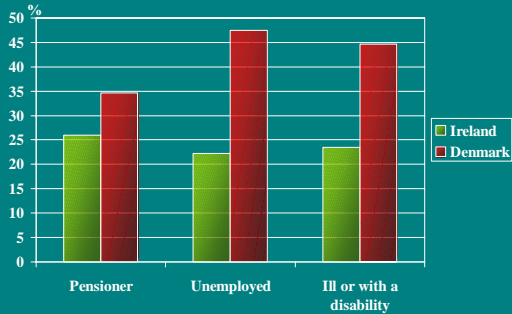


What about tax/transfer systems?

- Cross country comparisons at aggregate level
 - Low relative income poverty risk associated with high transfer expenditure as % of GDP or GNP
 - What if the Irish welfare system had
 - Coverage similar to that in Denmark
 - Payment rates, in relation to average income, same as in Denmark
- and**
- Income tax rates were increased by enough to fund the implied increase in social expenditure?



Income Support Rates as % of Average Industrial Earnings, 1998



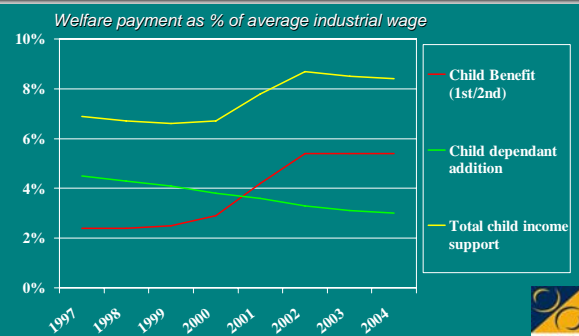
Results: Taxes and transfers

- “Static” calculation: takes into account need to fund higher expenditure, but not changes in behaviour
- Risk of being below 60% of median income falls from about 18 per cent to about 13 per cent – half of gap between Irish and Danish relative income poverty risk

Interpretation

- Two broad elements needed for success in reducing relative income poverty risk
 - Enhanced education and employment opportunities; and
 - Improved income supports
- Successful countries have comprehensive welfare, high payment rates AND high employment rates

Evolution of cash income support for children, Ireland, 1997-2004



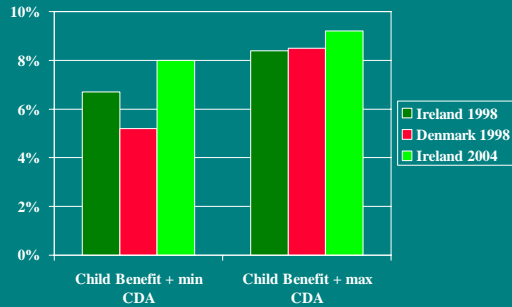
What impact on (child) poverty?

- Impact compared to what?
 - Counterfactual 1: Tax and welfare indexed in line with wage growth, distributionally neutral policy which would leave relative income poverty risk unchanged
 - Counterfactual 2: Resources used instead for tax cuts, as in earlier years.

Impact on poverty risk (60% median)

	Compared to neutral policy	Compared to further tax cuts
Total poverty risk	-1.0%	-1.3%
Child poverty risk	-3.7%	-3.9%

Cash Income Support for Children, Ireland and Denmark, in relation to average earnings



Conclusions (1)

- *Relative income poverty risk higher in Ireland than many other EU*
- *Compared to countries with lowest rates, gap is not due to*
 - *Demographic composition*
 - *Employment/unemployment*
 - *Earnings distribution*



Conclusions (2)

- *A substantial part of the gap can be accounted for by differences in welfare systems*
 - *Coverage*
 - *Rates of payment*
- *Changes in child income support have had a significant impact on relative income poverty risk for children*
- *Child income support cannot be expected to make up for gaps in coverage and in personal rates of payment*

