POVERTY, INCOME INEQUALITY AND LIVING STANDARDS IN IRELAND: THIRD ANNUAL REPORT

Barra Roantree

Karina Doorley

September 2023

Jointly-published Report No. 4

Economic and Social Research Institute
Community Foundation Ireland

Available to download from www.esri.ie

https://doi.org/10.26504/jr4

ABOUT THE ESRI

The mission of the Economic and Social Research Institute (ESRI) is to advance evidence based policymaking that supports economic sustainability and social progress in Ireland. ESRI researchers apply the highest standards of academic excellence to challenges facing policymakers, focusing on 10 areas of critical importance to 21st Century Ireland.

The Institute was founded in 1960 by a group of senior civil servants led by Dr T.K. Whitaker, who identified the need for independent and in-depth research analysis to provide a robust evidence base for policymaking in Ireland.

Since then, the Institute has remained committed to independent research and its work is free of any expressed ideology or political position. The Institute publishes all research reaching the appropriate academic standard, irrespective of its findings or who funds the research.

The quality of its research output is guaranteed by a rigorous peer review process. ESRI researchers are experts in their fields and are committed to producing work that meets the highest academic standards and practices.

The work of the Institute is disseminated widely in books, journal articles and reports. ESRI publications are available to download, free of charge, from its website. Additionally, ESRI staff communicate research findings at regular conferences and seminars.

The ESRI is a company limited by guarantee, answerable to its members and governed by a Council, comprising up to 14 members who represent a cross-section of ESRI members from academia, civil services, state agencies, businesses and civil society. The Institute receives an annual grant-in-aid from the Department of Public Expenditure and Reform to support the scientific and public interest elements of the Institute's activities; the grant accounted for an average of 30 per cent of the Institute's income over the lifetime of the last Research Strategy. The remaining funding comes from research programmes supported by government departments and agencies, public bodies and competitive research programmes.

Further information is available at www.esri.ie.

THE AUTHORS

Barra Roantree is an Assistant Professor at the Department of Economics, Trinity College Dublin. Karina Doorley is a Senior Research Officer at the Economic and Social Research Institute and an Adjunct Associate Professor at the Department of Economics, Trinity College Dublin.

ACKNOWLEDGEMENTS

The authors would like to thank Community Foundation Ireland for their generous support, which has made this report and the Poverty, Inequality and Living Standards research programme at the ESRI possible. This research programme has benefited immensely from the advice and comments of members of the steering group – Helen Russell, Tina Roche, Anna Lee and Robert Joyce – as well as those from three anonymous reviewers. We are also grateful to Bertrand Maître, Anna Visser and Anne-Marie McGauran for their comments on this work as it evolved, and to the Central Statistics Office (CSO) for facilitating access to the Survey of Income and Living Conditions (SILC) Research Microdata Files used in the analysis. Lianora Bermingham of the CSO provided invaluable assistance with these data as did Anna de Courcy with copyediting.

This report has been peer-reviewed prior to publication. The authors are solely responsible for the content and the views expressed

FOREWORD

The progress we are making as a society to narrow the income inequality gap is precarious. This vulnerability has been brought into sharp focus by the third Poverty Income Inequality and Living Standards report by the ESRI in partnership with Community Foundation Ireland. There is no room for complacency.

Community Foundation Ireland uses this partnership to support our mission of Equality For All In Thriving Communities. As a philanthropic hub we believe this report provides policymakers with the evidence needed to make informed policy decisions to truly end poverty in all its forms.

The fragility of what has been achieved in recent years is evident when we see that progress stalled as the country was hit with the cost-of-living crisis, the impact of war in Ukraine and Covid.

This translates into a sharp rise in the rate of material deprivation from 13.3 to 16.6 per cent in 2022. The rates are particularly high among lone parents, those renting from an approved housing body, local authority or receiving HAP, and those in households where no one of working-age was in paid work.

The impact of poverty on our children has been the subject of long-term debate. Many solutions including a new tier of child payments targeted at those who struggle to make ends meet have been proposed by organisations like the Children's Rights Alliance for more than a decade.

Now we have research which demonstrates the impact this targeted approach would have. The case can be made that the introduction of a new targeted Child Income Support Payment (CISP) not only follows best practice in other countries but has the potential to reduce child poverty here by a quarter.

With an estimated 170,000 currently below the poverty line, that's equivalent to taking more than 40,000 children out of poverty.

The Foundation believes the work of researchers Barra Roantree and Karina Doorley with the support and leadership of ESRI Director Alan Barrett is timely and is an important contribution to current discussions by policymakers on how to end poverty.

It is a contribution which should inform preparations for Budget 2024 and subsequent budgets. This third volume of the Poverty, Income Inequality and Living Standards research allows continued tracking and an ability to identify trends to ensure we do more to become a society which offers equality for all.

Denise Charlton,
Chief Executive,
The Community Foundation for Ireland

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

AHC	After housing costs
AROP	At-risk-of-poverty
BHC	Before housing costs
CISP	Child Income Support payment
CSO	Central Statistics Office
ECHP	European Community Household Panel
ESRI	Economic and Social Research Institute
EU	European Union
HAP	Housing Assistance Payment
HCTI	Housing cost-to-income (ratio)
IQCs	Increases for a qualified child
LFS	Labour Force Survey
LIIS	Living in Ireland Survey
LIIS	Living in Ireland Survey
OECD	Organisation for Economic Co-operation and Development
PUP	Pandemic Unemployment Payment
RAS	Rental Accommodation Scheme
RMF	Research Microdata File
RS	Rent Supplement
SILC	Survey of Income and Living Conditions
SMC	Social Metrics Commission
WFP	Working Family Payment

EXECUTIVE SUMMARY

KEY FINDINGS

This report is the third from an ESRI research programme funded by Community Foundation Ireland, which seeks to address gaps in our knowledge and understanding of poverty, income inequality and living standards in Ireland. It builds on the previous reports which have found that while Ireland has experienced strong and progressive – if volatile – income growth over the past three decades both before and after accounting for housing costs, levels of income poverty and material deprivation have remained consistently high for certain groups (notably lone parents and those in working-age households where no one is in paid work). This year's report finds the following in relation to the evolution and distribution of material living standards in Ireland.

Income growth and inequality

- **2021 saw disposable incomes fall or stall for those in the bottom half of the distribution.** Whereas real disposable income adjusted (equivalised) for household composition has grown robustly – and by more at the bottom than the middle or top of the distribution – since 2012, the latest data from the Survey of Income and Living Conditions (SILC) suggest incomes fell in real terms at the very bottom of the distribution between 2020 and 2021 and stalled across much of the rest of the distribution.
- **These sluggish patterns of growth are despite a strong labour market recovery in 2021 and predate the sharp rise in prices that followed the invasion of Ukraine in early 2022.** While the easing of COVID restrictions saw 200,000 more people employed on average in 2021 than 2020, employment earnings for those at the bottom of the household income distribution fell, due to a combination of a reduction in usual hours worked and fewer months worked full-time per year. This occurred before the sharp rise in prices that followed the invasion of Ukraine in early 2022, which are likely to further erode real incomes unless we experience levels of nominal income growth last seen in 2006 and 2007.
- **Measures of income inequality – which have seen a sustained decline in recent years, reaching their lowest recorded levels in 2020 – increased in 2021.** This is true both before and after accounting for housing costs, and serves as an important reminder that growth in employment and individual earnings – even when focused on low-paid workers – is not necessarily enough to ensure inclusive growth in disposable household incomes. It also highlights the crucial role tax and transfer policy play in underpinning inclusive growth, especially for the living standards of the poorest.

Income poverty and material deprivation

- **Although both before housing costs (BHC) and after housing costs (AHC) measures of income poverty were stable, 2022 saw a sharp – statistically significant – rise in the rate of material deprivation.** The share of individuals unable to afford two or more items from a list of ten essentials rose from 13.3 to 16.6 per cent in 2022, with rates particularly high among lone parents (42 per cent), those renting from an approved housing body, local authority or receiving HAP (45.6 per cent), and those in households where no one of working age was in paid work (53.8 per cent).

- **While those aged 65+ face a higher AROP rate than other age groups in terms of BHC income, children have consistently faced higher rates of material deprivation and AHC income poverty.** Children living in households renting their accommodation and where no one is in paid work are at particularly high risk of poverty and material deprivation.

Reducing child poverty

- **The Government faces a challenge in reducing levels of child poverty**, something it has placed a renewed emphasis on with the establishment of a Child Poverty and Well-being Programme Office in the Department of the Taoiseach. A substantial body of evidence finds that income poverty has a negative causal impact on child and later life outcomes, particularly when it starts in early childhood and persists throughout.

- **Nevertheless, policymakers must confront a difficult set of trade-offs in pursuing reductions in child poverty with the current set of tools available.** While increasing universal Child Benefit would reduce the child poverty rate and the poverty gap, it is substantially more costly to do so for each percentage point reduction than reforms to targeted means-tested payments like IQCs (Increases for a Qualified Child) and WFP (Working Families Payment). On the other hand, reforms to these more targeted payments have the potential to either weaken financial work incentives for recipients (because IQCs are primarily linked to stringently means-tested benefits) or to bypass the very lowest-income children (because WFP is contingent on a parent(s) working at least 38 hours per fortnight).

- **Introducing a new Child Income Support Payment (CISP) would enable policymakers to reduce child poverty more effectively.** Such a reform – which would provide all households with children to receive a payment determined by their means and number of children – has been recommended by the Commission on Taxation and Welfare (2022), National Economic and Social Council (2007; 2021) and the Childrens Rights Alliance (2010) among others. We estimate that such a reform has the potential to reduce child poverty by a quarter and the child poverty gap by half at a cost of around €700 million.

However, in undertaking such a reform, the Government will have to confront some of the implicit choices made by the structure of the current welfare system that are rarely discussed, such as whether the welfare system should incentivise low-income individuals to engage in part-time work.

CHAPTER 1

Introduction

This report is the third from a research programme funded by Community Foundation Ireland exploring the evolution of poverty, income inequality and living standards in Ireland. Although the Central Statistics Office (CSO) has – through the Survey of Income and Living Conditions (SILC) – collected comprehensive information on the living standards of households annually since 2003, these do not cover the period of rapid economic growth seen in Ireland over the 1990s. And while comparable surveys – the 1987 ESRI Survey of Income Distribution, Poverty and Usage of State Services (the 1987 Survey) and the Living in Ireland Survey (LIIS) – were conducted by the Economic and Social Research Institute (ESRI) over these years, the indicators of poverty, income inequality and low living standards derived by researchers using these data (e.g. Callan et al., 1989; Nolan and Maître, 2000; Nolan, 2003) are not directly comparable with those produced subsequently.[1]

This report aims to help address some of these gaps by providing analysis of a harmonised set of indicators that can be used by policymakers, academics and the wider public.[2] These are derived from the three high-quality large-scale household surveys mentioned above, which are described in greater detail in Appendix A along with the approach used to construct the measures of poverty, deprivation, income inequality and living standards used in the report. While much work has been done by the data collectors to maintain the comparability of these surveys over time, there were some methodological changes which nevertheless may affect estimates and which we flag here.

The first is that the LIIS adopted a longitudinal design with household members followed up in subsequent waves of the survey. By Wave 7 (2000), attrition was deemed to be a cause of concern and the original sample of individuals still in scope of the survey (i.e. who had not died, moved to an institution or outside of the EU) were supplemented with a booster sample of more than 1,500 individuals selected via a similar procedure as that used for the first wave of the survey. However, to avoid potential concerns about the representativeness of these later waves, we use only Waves 1-6 of the Living in Ireland Survey, spanning the years 1994-1999.

1 This is for reasons as varied as differences in the definitions of income, deprivation, inflation and equivalence scales used across studies, in addition to revisions to the weights used to make these data representative of the underlying populations they are designed to measure.

2 A spreadsheet containing the data underlying the figures presented in this report is being published at https://doi.org/10.26504/jr4 which we will update for the duration of this research programme.

Second, 2020 saw a change in the reference period about which individuals surveyed for SILC were asked about their incomes, from the 12 months prior to the date of interview to the calendar year prior to the date of interview. This means that respondents in 2022 – the latest year of data available – reported their income in the calendar year 2021 (and similarly respondents in 2021 and 2020 reported their incomes in the calendar years 2020 and 2019 respectively) whereas respondents in 2019 reported their incomes for some period over 2018 and 2019 depending on when they were interviewed. As a result, some caution is required in comparing changes in measures of income growth, inequality and poverty across the 2019 and 2020 editions of SILC.

Finally, as with any household survey, there is likely incomplete coverage of the very top of the income distribution by the household surveys we utilise due to non-response and undersampling (Atkinson et al., 2011; Callan et al., 2021). In addition, like in many countries, neither SILC nor its predecessors collect information on realised or unrealised capital gains which are more prevalent towards the top of the income distribution, not least because of their preferable tax treatment relative to employment or dividend income (Björklund and Waldenström, 2021; Kakoulidou and Roantree, 2021).

This report proceeds as follows. Chapter 2 assesses recent changes in patterns of income growth and inequality. Chapter 3 then considers measures of income poverty and deprivation, with a particular focus on children. Chapter 4 goes on to present analysis of some different options for reducing child poverty available to policymakers in Ireland. The report concludes in Chapter 5 with a summary of our key findings and some reflections on their implications for policy.

CHAPTER 2

Income growth and inequality

Previous editions of this report have highlighted the strong and inclusive – if volatile – real income growth experienced in Ireland over the last 30 years (Roantree et al., 2021; 2022). This is shown by the blue series in Figure 2.1, which plots the growth in real disposable income at each centile (per cent) of the distribution from 1987 to 2021. Growth over this period was stronger at the bottom of the distribution than the top, at 4 per cent per year for the bottom fifth compared to 2.7 per cent per year for the top fifth. This was also the case over the recovery from the financial crisis with income growth since 2012 strongly progressive, rising by 5.1 per cent per year for the bottom fifth compared to 2.7 per cent per year for the top fifth as shown by the dark green series in Figure 2.1.

However, this pattern of strong and inclusive income growth is not evident in the latest year of data. The orange series in Figure 2.1 shows that incomes did not grow on average for the bottom two-fifths of households, and fell in real terms for the bottom 10 per cent between 2020 and 2021 (data years 2021 and 2022). While income growth stalled across much of the rest of the distribution, Figure 2.1 also shows that incomes grew around the middle and at the very top of the distribution, by 1.9 per cent at the median and 2-4 per cent for the highest few centiles.[3]

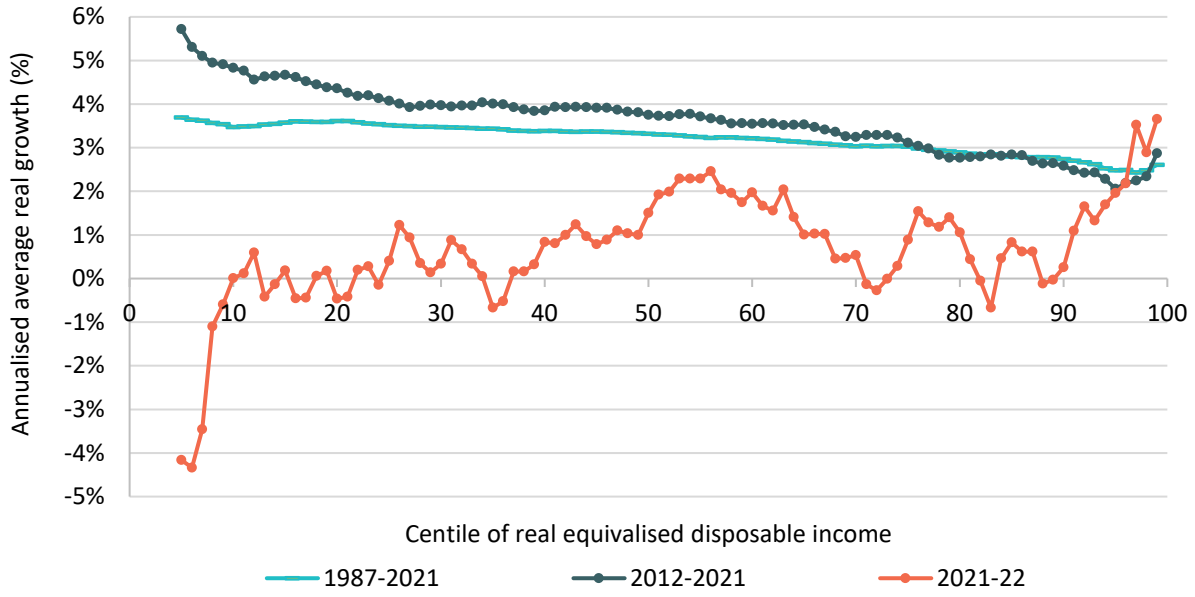
This pattern of income growth has led to an increase in measures of income inequality, notably the Gini coefficient – which summarises the level of income inequality as a number between 0 (where everyone has the same income) and 1 (where one person has all income). Figure 2.2 plots this commonly used measure of inequality over time, alongside the 90:10 ratio – the ratio of the person at the 90th percentile of the distribution compared to the person at the 10th percentile of the distribution – and the top 10 per cent share of total income. Figure 2.2 shows all these measures increased in the latest year of data, the Gini coefficient from 0.263 to 0.273, the 90:10 ratio from 3.122 to 3.129 and the top 10 per cent share from 0.219 to 0.226.[4] Such changes in the distribution of income are somewhat surprising given 2020 was the nadir of the labour market during the pandemic, with 2021 seeing a strong recovery following the easing of COVID-19 restrictions. Indeed, accounting for receipt of the Pandemic Unemployment Payment (PUP) on

[3] Appendix Figure B.1 shows that similar patterns of growth are observed in terms of after housing costs income which deducts the recurrent or ongoing cost of housing from disposable income following Roantree et al. (2022), Slaymaker et al. (2022) and Belfield et al. (2015) among others (see Appendix A.2 for further details).

[4] This is also true in terms of AHC income inequality, as shown in Appendix Figure B.2.

average 200,000 more people were employed in 2021 than in 2020, with the numbers employed almost regaining their pre-pandemic peak by Q4 2021.[5]

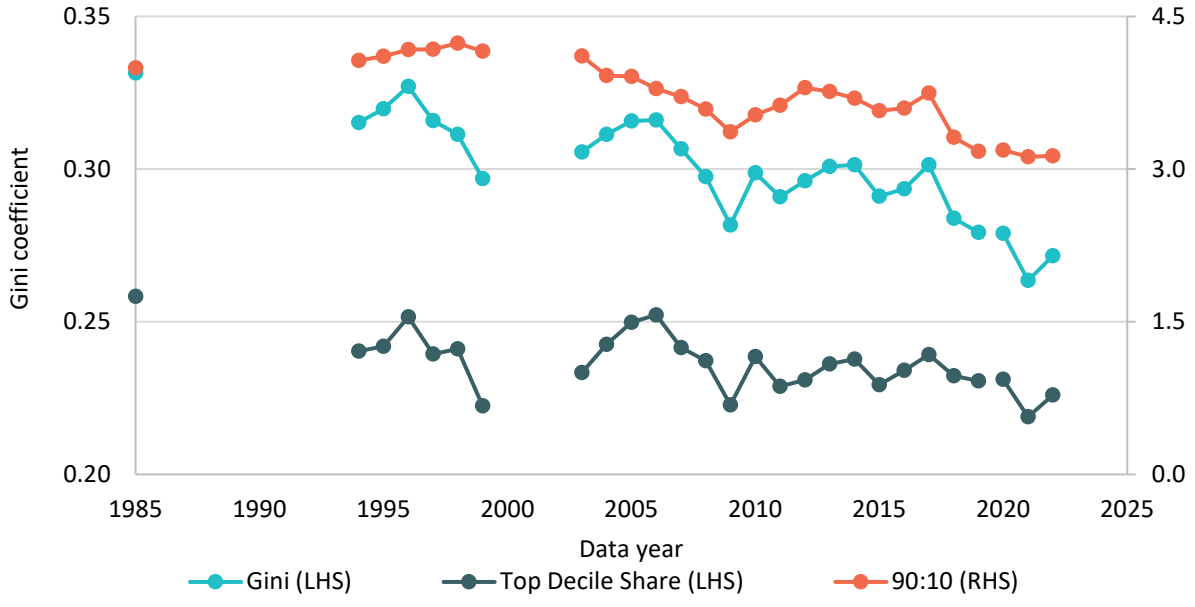
FIGURE 2.1 GROWTH INCIDENCE CURVE FOR REAL EQUIVALISED (BHC) INCOME



Sources: Authors' calculations using the ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

Note: Incomes after direct taxes paid and benefits received, but before housing costs. Excludes a small number of observations with non-positive values for disposable income.

FIGURE 2.2 DISPOSABLE INCOME INEQUALITY (BHC)



Sources: Authors' calculations using the ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

Note: Incomes after direct taxes paid and benefits received, but before housing costs. Excludes a small number of observations with non-positive values for disposable income. Income reference period refers to previous calendar year from data year 2020, and previous 12 months before.

[5] Authors' calculations using employment estimates from CSO Table QFL01 subtracting PUP claims from Table LRW13 (both available at https://data.cso.ie/).

TABLE 2.1 DECOMPOSITION OF EQUIVALISED DISPOSABLE INCOME, BY INCOME QUINTILE

	Market income		Net transfers		Disposable income	
Data year	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
	€	**€**	**€**	**€**	**€**	**€**
Quintile 1	6,090	5,533	10,594	10,958	16,684	16,492
Quintile 2	16,168	17,125	7,833	6,924	24,001	24,049
Quintile 3	27,149	30,712	3,475	384	30,624	31,096
Quintile 4	44,198	45,467	-5,344	-6,240	38,854	39,227
Quintile 5	78,330	85,231	-16,510	-21,463	61,821	63,768

Sources: Authors' calculations using the 2022 and 2021 Survey of Income and Living Conditions Research Microdata Files (SILC RMF).
Notes: All income concepts are equivalised and refer to income in the previous calendar year. Excludes a small number of observations with non-positive values for disposable income.

To shed light on these patterns of growth, Table 2.1 decomposes equivalised disposable income into market income – that from employment, self-employment, investments, and transfers – and income from net transfers – that from social welfare payments less direct taxes – across the distribution of income for the 2022 and 2021 data. This shows that the decline in equivalised disposable income for the lowest-income quintile of €193 (1.2 per cent) on average is driven by a fall in market income of €557 (9.1 per cent). This decline is somewhat offset by a €364 (3.4 per cent) rise in net transfers, in part the result of tax cuts and some targeted increases to welfare payments including the Living Alone Increase (Doorley et al., 2020). These were sufficient to – on average – offset cuts to the Pandemic Unemployment Payment (PUP), whose introduction Keane et al. (2021) showed did much to cushion the initial impact of job losses at the start of the pandemic. By contrast, market income has grown strongly across the rest of the distribution, with a rise of €6,901 (8.8 per cent) for the highest-income quintile sufficient to offset a €4,953 (30 per cent) fall in net-transfers: in part the result of fiscal drag from the non-indexation of tax credits and thresholds in Budget 2021 (Doorley et al., 2020).

Table 2.2 decomposes average equivalised market income further into its component parts: employment income, self-employment income and other income.[6] This shows that the source of the decline in market income at the bottom of the distribution is primarily a fall in average employment and self-employment income. While the fall in the latter is in part due to a reduction in the share of individuals living in households reporting positive self-employment income (from 13.5 to 12.5 per cent), the share of individuals living in households with some income from employment actually rose from 50 to 51.6 per cent reflecting the rise in employment accompanying the easing of COVID-19 restrictions noted above.

[6] Other income comprises property/rental income, interest/dividend income, regular inter-household cash transfers and income received by children. All figures in Table 2.2 are again equivalised.

TABLE 2.2 DECOMPOSITION OF EQUIVALISED MARKET INCOME, BY INCOME QUINTILE

	Employment		Self-employment		Other	
Data year	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
	€	**€**	**€**	**€**	**€**	**€**
Quintile 1	5,171	4,699	695	612	224	221
Quintile 2	14,722	15,225	1,060	1,673	386	229
Quintile 3	24,666	28,322	1,867	1,905	616	485
Quintile 4	40,430	41,781	2,825	3,146	944	540
Quintile 5	62,061	67,864	11,193	11,661	5,076	5,706

Sources: Authors' calculations using the 2022 and 2021 Survey of Income and Living Conditions Research Microdata Files (SILC RMF).
Notes: All income concepts are equivalised and refer to income in the previous calendar year. Excludes a small number of observations with non-positive values for disposable income.

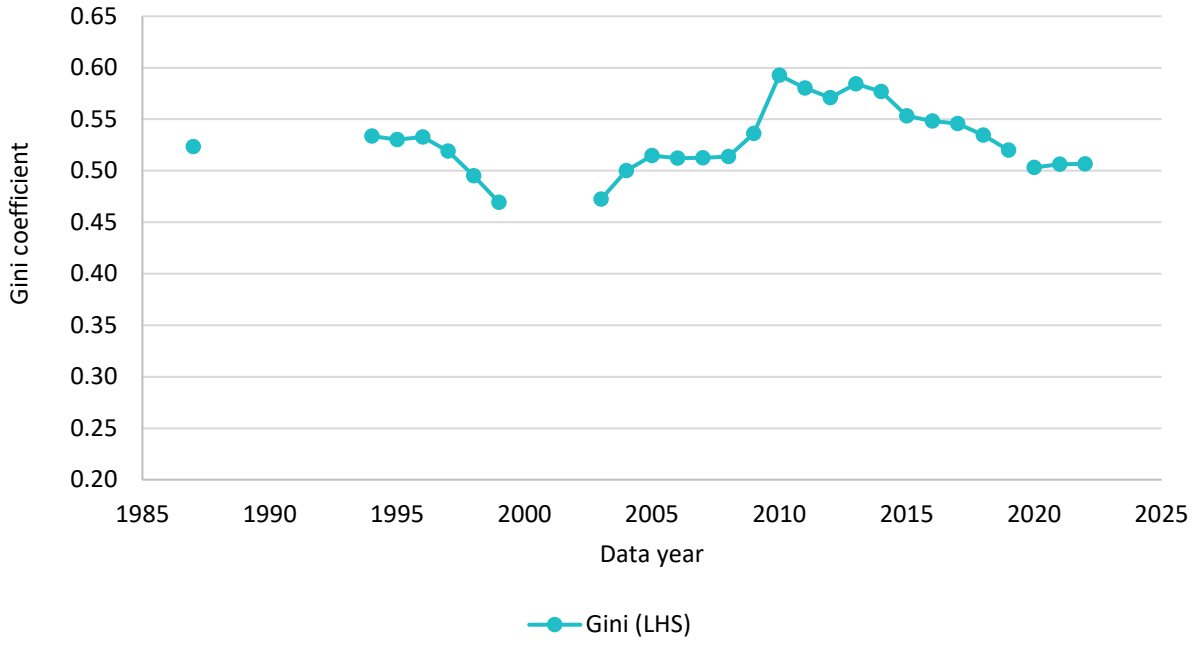
Rather, looking at those in the bottom quintile who were in paid work, the fall in employment income appears to be driven by a decline in the number of usual hours worked per week and the number months worked full-time per year alongside a rise in the number of months worked part-time. This suggests that the impact of the labour market recovery in 2021 was more muted for those in lower- than higher-income households, despite Revenue (2023) statistics showing that individual earnings growth has been strongest at the bottom of the individual earnings distribution in recent years.[7]

It also highlights the important role household structure plays in mediating the impact of changes in individual earnings on household disposable income, as highlighted by Blundell et al. (2018) and shown in an Irish context by Redmond et al. (2021). Indeed, Appendix Table B.1 shows that only a quarter of those in the lowest quintile of individual earnings were also in the lowest quintile of equivalised household disposable income, with a quarter also located in the highest two income quintiles. The reason for this is largely because many low earners have a higher earning partner or spouse, placing them in the middle or even the top of the distribution of household disposable income despite low levels of individual pay (Redmond et al., 2021).[8]

7 See figure titled 'Real gross pay growth' on p.1 of Revenue (2023). While SILC offers a smaller sample to examine the distribution of earnings, Appendix Figure B.3 shows a similar pattern of growth across deciles of individual earnings.

8 It is for this reason that increases in the minimum wage have been described as a 'blunt instrument' for boosting the incomes of those at the bottom of the income distribution (Dorris et al., 2022; Redmond, 2020; Low Pay Commission, 2018). While limited in terms of its effect on low incomes, minimum wage policy has an important role in counteracting forces acting to increase earnings or wage inequality (Holton and O'Neill, 2017; Redmond et al., 2021), reducing the gender pay gap (Bargain et al., 2019) or limiting the extent to which employers with market power are able to capture gains from in-work transfers like the Working Families Payment (Joyce and Zilliak, 2020).

FIGURE 2.3 GINI COEFFICIENT FOR MARKET INCOME



Sources: Authors' calculations using the 1987 ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

Note: Incomes after direct taxes paid and benefits received, but before housing costs. Excludes a small number of observations with non-positive values for disposable income. Income reference period refers to previous calendar year from data year 2020, and previous 12 months before that.

The importance of household structure in mediating the effect of labour market outcomes on household income is also illustrated by Figure 2.3. This plots the Gini coefficient for market income inequality which, at 0.507 in the latest year of data, is statistically no different to the previous year at 0.506. This in large part reflects the fact that household worklessness more so than individual earnings underpins the level of and changes in measures of market income inequality (Roantree, 2020), with neither low pay nor the correlation of earnings within couples explaining the relatively high levels of market income inequality that Ireland experienced over the 2010s (Nolan and Maître, 2021).

Overall, then, the picture that emerges from the most recent year of data is one of falling incomes or sluggish growth for most households despite a strong recovery in the labour market. On its own, this need not be cause for excessive concern given year-on-year variation in income growth is not unusual, with a year of weaker income growth often made up with stronger growth the following year. However, the patterns of income growth we document occurred before the sharp rise in prices that followed the invasion of Ukraine in early 2022, which saw inflation – driven by a sharp increase in energy prices – rise from 2.4 per cent in 2021 to 7.8 per cent in 2022 and 4.9 per cent in the first six months of 2023.[9] This means nominal increases of at least 7 per cent per year would be needed in 2022 and 2023 to avoid

[9] See https://data.cso.ie/table/CPA01 and https://data.cso.ie/table/CPM01.

stagnation in real disposable incomes, let alone to offset the effects of 2021. Such levels of growth would surpass those seen in all but a handful of years since 1987, when average incomes were boosted by substantial increases in welfare payments and reductions in personal taxes.[10]

As we conclude in Chapter 5, this is perhaps a timely reminder of the role tax and transfer policy play in underpinning inclusive growth, especially for the living standards of the poorest. This is particularly the case given the approach of the Government in response to increases in the cost of living, which has placed particular emphasis on a mix of universal and targeted once-off payments. While this represents a coherent approach to the sharp rise in energy prices (providing support that is timed to coincide with the arrival of energy bills), Doolan et al. (2022a) showed that the adequacy of core social welfare payments risks being eroded unless these once-off measures are repeated or the level of social welfare payments and tax credits revisited in the coming years: for example, through a benchmarking exercise like that recommended by the Commission on Taxation and Welfare (2022) or a series of real (above inflation) increases once the rate of inflation has returned to more normal levels. Despite the large fiscal surpluses projected over the coming years, maintaining the adequacy of the social welfare system so that it contributes toward inclusive growth will pose a challenge for this and future Governments given the pressures on the public finances from maintaining even the existing level of services and the reliance on windfall – potentially transitory – receipts from corporation tax (Irish Fiscal Advisory Council, 2023).

[10] Average equivalised nominal income grew by more than 6.5 per cent only in 1995, 2006 and 2007.

CHAPTER 3

Income poverty and material deprivation

Our focus so far has been on income growth and inequality across the entire population. However, policymakers may have particular concerns about the living standards of those with the least resources. In this chapter we look at how two key indicators of low living standards have evolved: income poverty and material deprivation.

Measures of income poverty conceptualise low living standards as not having sufficient resources to buy essential goods and services. However, what constitutes an essential good or service is a subjective question, with the answer evolving over time, reflecting changes in average living standards, technology and the views of society more generally. Because of this, most measures of income poverty are ultimately relative, explicitly defined with respect to average incomes which sets a 'poverty line' under which individuals are deemed to be at-risk-of-poverty (AROP) if their incomes fall below.[11] We consider AROP rates defined in terms of both of before housing costs (BHC) and after housing costs (AHC) income.

While the AROP rate is widely used for monitoring poverty, Whelan et al. (2019, p.684) – among others – argue that its limitations include:

> *the failure to take account of longer-term command over resources, unusually high expenses, accumulated debt, the distinctive circumstances of the self-employed and the role played by state services.*

In part because of these limitations, researchers working in the area of poverty and social exclusion have moved towards using multiple measures including non-monetary indicators.

Material deprivation is one such measure of low living standards. Like income poverty, measures of material deprivation also conceptualise low living standards as not having sufficient resources to buy essential goods and services. However, they take a different approach to assessing this than measures of income poverty, directly asking people whether they are able to afford certain items which might be considered essential.

---

11 This is true even for what are sometimes (confusingly) called measures of 'absolute poverty'. These define the poverty line in relation to average incomes in some fixed year, in contrast to what are sometimes called measures of 'relative poverty' that do so in relation to contemporary average incomes. We restrict attention to the latter class of measures as our focus in this section is changes in poverty over the medium to long run.

We construct an indicator of material deprivation that can be measured across the years covered by the Living in Ireland Survey (LIIS) and the Survey of Income and Living Conditions (SILC) – 1994 to 2022 – which classifies people as being materially deprived if they are unable to afford two or more of the following ten items:[12]

- Two pairs of strong shoes;
- A warm waterproof overcoat;
- New (not second-hand) clothes;
- Replacement of worn out furniture;
- A meal with meat, chicken, fish (or vegetarian equivalent) every second day;
- A roast joint or its equivalent once a week;
- Home heating during the last year;
- Presents for family or friends at least once a year;
- Drinks or a meal for family or friends once a month;
- A morning, afternoon or evening of entertainment once a fortnight.

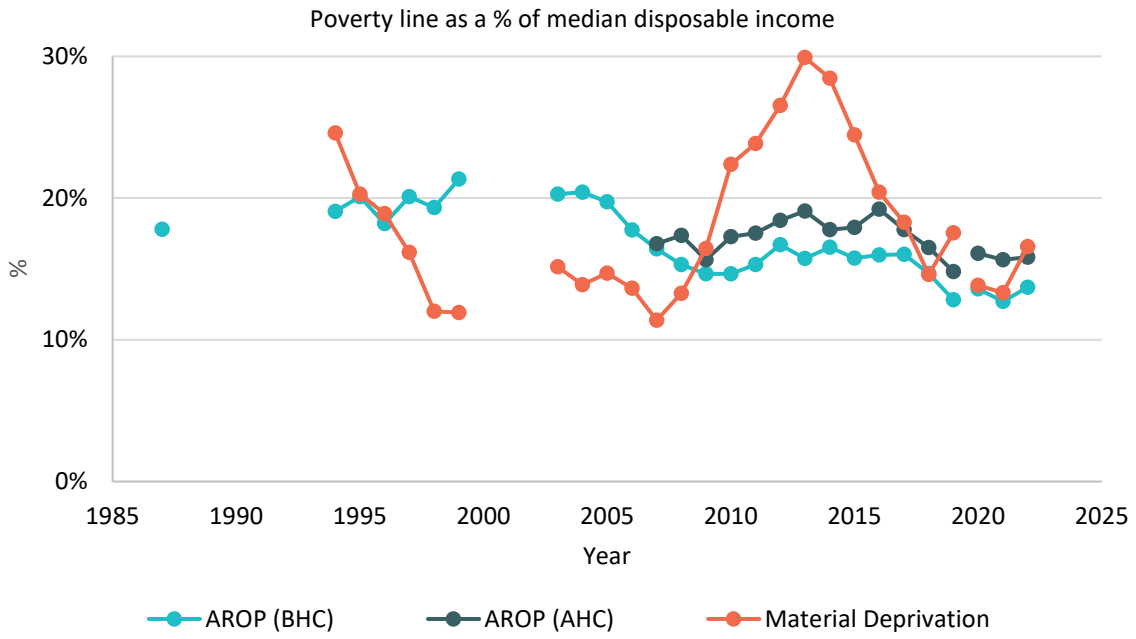
Figure 3.1 plots these measures of income poverty and material deprivation over the full horizon our data allow.[13] As discussed in Roantree et al. (2021), while AROP and material deprivation rates have both declined over the long run, they have evolved differently across the economic cycle, with the material deprivation rate exhibiting more volatility than the at AROP rate during the Great Recession and the subsequent recovery. Although both BHC and AHC measures of income poverty have been relatively stable in recent years, 2022 saw a sharp (statistically significant) rise in the overall rate of material deprivation from 13.3 to 16.6 per cent. One reason for this divergence between measures of income poverty and material deprivation could be that since 2020 there is a difference in the reference period the measures refer to, with the former based on income in the previous calendar year and the latter on responses to questions about whether someone is unable to afford two or more items from the list of ten at the point when surveyed. As such, the measure of material deprivation could be capturing some of the effects of the recent surge in inflation (which has left some households unable to afford essentials included in measures of material deprivation) that has not yet shown up in AROP rates.

---

12 Not all 11 items used for the current official definition of consistent poverty used in the national anti-poverty targets are available for the full period. Section A.3 in Appendix A provides an overview of changes in the measurement of material deprivation in Ireland and how this indicator differs from that used by the Department of Employment Affairs and Social Protection (DEASP) (2020), published by the CSO in its annual Survey of Income and Living Conditions release and that used in the contemporary analysis of the Living in Ireland Survey (e.g. Nolan and Whelan, 1996).

13 This horizon is limited to the years since 2007 for the AHC AROP rate as this is when consistent information on housing costs is available from. Note also that we use the modified OECD equivalence scales to adjust for household size and composition which means that the AROP statistics presented here are not directly comparable to those released by the CSO, which use a different ('national') equivalence scale.

FIGURE 3.1 AT-RISK-OF-POVERTY AND MATERIAL DEPRIVATION RATES: 1987-2019



Sources: Authors' calculations using the ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions RMF.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received adjusted for household size and composition using the modified OECD equivalence scales. Deprivation defined as being unable to afford two or more items from a list of ten essentials.

The overall AROP and material deprivation rate can mask significant variation across the population. Table 3.1 presents estimates of these three measures for various demographic groups using the 2022 SILC, alongside the corresponding number of individuals below the poverty line or enduring material deprivation that this amounts to. It shows that certain groups experience particularly high AROP and material deprivation rates, for example lone parents, those of working age living in households without anyone in paid-work and supported renters. However, although some groups face relatively low AROP and material deprivation rates, they nevertheless make up a large share of the overall number AROP or enduring material deprivation because the group is large in absolute terms. For example, while working-age households with 2+ earners face much lower AROP and material deprivation rates, they still comprise over a third of the number in both states.

Table 3.1 also shows that while those aged 65+ face a higher AROP rate than other age groups in terms of BHC income, they face a lower AHC income AROP rate and lower rate of material derivation. This in part reflects the fact most of this group own their home outright, but also illustrates the sensitivity of AROP rates for those 65+ to the choice of equivalence scale and small movements in the poverty line.[14]

[14] This is as a large number of such individuals have equivalised incomes in and around 60 per cent of the median, corresponding to receiving a full contributory state pension in addition to a small amount of private savings (Beirne et al., 2020).

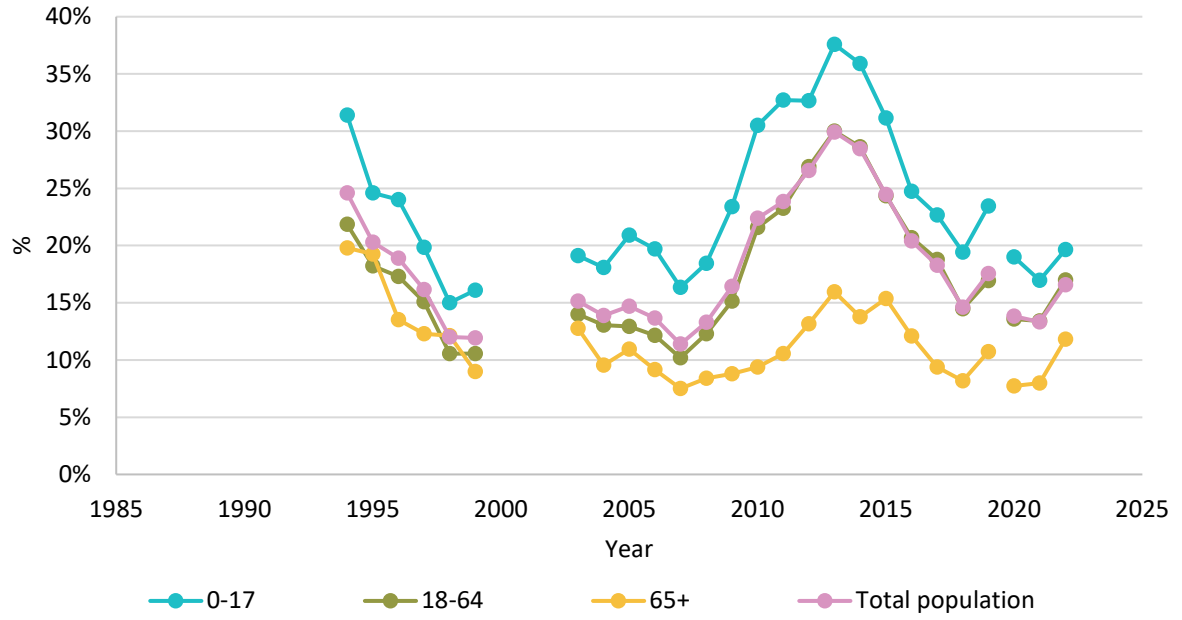
TABLE 3.1 AT-RISK-OF-POVERTY AND MATERIAL DEPRIVATION RATES, 2022

	Material deprivation		AROP (BHC)		AROP (AHC)	
	%	N	%	N	%	N
Household Type						
Single adult, no children	19.8	110,582	42.0	234,583	40.0	223,566
Single adult, w/children	42.0	84,457	31.3	62,896	51.1	102,781
2 adults, no children	13.1	138,860	8.7	91,623	8.7	92,382
2 adults w/children	15.9	242,378	11.7	177,989	15.4	234,273
3+ adults, no children	13.6	138,856	4.4	45,218	4.7	47,856
3+ adults, w/children	17.6	123,217	11.5	80,723	14.2	99,568
Housing Tenure						
Owned outright	9.6	173,524	14.7	265,074	9.9	178,607
Owned w/mortgage	9.8	172,250	4.4	77,812	4.4	77,570
Unsupported Renter	19.7	145,064	19.6	144,307	29.8	219,596
Supported Renter	45.6	347,511	27.0	205,841	42.6	324,653
Number in paid work (working age HHs only)						
0	53.8	218,143	53.0	215,014	62.5	253,423
1	24.2	304,392	16.8	211,211	23.0	289,098
2+	9.3	315,814	7.8	266,808	7.6	257,905
Age group						
0-17	18.8	213,570	14.9	169,156	20.1	229,097
18-64	17.0	529,480	11.0	341,771	14.2	442,378
65+	11.8	95,299	22.6	182,106	16.0	128,950
Total	16.6	838,349	13.7	693,033	15.8	800,426

Sources: Authors' calculations using the 2022 Survey of Income and Living Conditions Research Microdata File (SILC RMF).
Notes: Excludes a very small number of observations with non-positive values for disposable income.

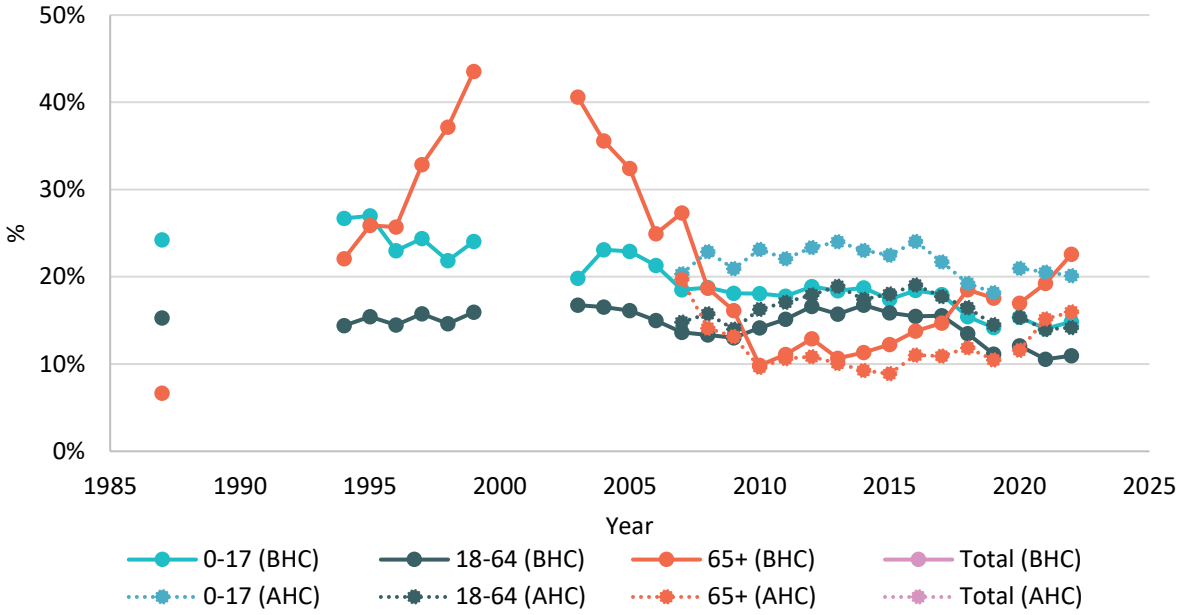
However, as shown in previous editions of this report (Roantree et al., 2021; 2022), there also exists significant variation in AROP rates among those age 65 plus, with low and falling rates for those who live with at least one other adult but high and rising rates for those living alone. Nolan et al. (2019) show that some of this elevated risk of poverty is explained by weak previous attachment to the labour market and periods of emigration. Another important factor is that even despite increases in supplements to those living alone, increases to the state pension have lagged behind median income growth in recent Budgets, with the AROP rate of pensioners particularly sensitive to the relative growth in such transfers. Indeed, as Figures 3.2 and 3.3 show, it is only recently that the BHC AROP rate for those over 65 has overtaken those of working-age and children, while the AHC AROP rate and material deprivation rate have always been lower.

FIGURE 3.2 MATERIAL DEPRIVATION RATE BY AGE GROUP: 1994-2022



Sources: Authors' calculations using the Living in Ireland Survey and Survey of Income and Living Conditions RMF.
Note: Deprivation defined as being unable to afford two or more items from a list of ten essentials.

FIGURE 3.3 AT-RISK-OF-POVERTY RATE, BY AGE GROUP: 1987-2022



Sources: Authors' calculations using the Living in Ireland Survey and the Survey of Income and Living Conditions RMF.
Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received adjusted for household size and composition using the modified OECD equivalence scales.

TABLE 3.2 ESTIMATED ODDS RATIOS FROM LOGISTIC REGRESSIONS (2020-2022 DATA)

	(1) AROP BHC	(2) AROP AHC	(3) Material deprivation
Unsupported Renter	3.029	6.865	3.942
	(0.343)	(0.726)	(0.451)
Supported Renter	4.330	9.970	8.456
	(0.498)	(1.010)	(0.865)
No one in paid work	5.563	5.474	3.068
	(0.670)	(0.678)	(0.358)
3+ children in HH	2.411	2.015	1.556
	(0.211)	(0.172)	(0.133)
Someone with a disability in HH	1.487	1.582	2.037
	(0.137)	(0.149)	(0.183)
Youngest child age 12-17	1.841	1.564	1.487
	(0.186)	(0.155)	(0.144)
Lone parent household	0.991	1.478	2.018
	(0.135)	(0.189)	(0.249)
N (individuals)	7,500	7,500	7,500

Sources: Authors' calculations using the 2020, 2021 and 2022 Survey of Income and Living Conditions Research Microdata Files (SILC RMF).
Notes: Estimated odds ratios from logistical regression of individual characteristics on AROP and material deprivation status. Excludes a small number of observations with non-positive values for disposable income. Robust standard errors in parentheses.

There is also significant variation in income poverty among children and those of working age. Table 3.2 displays the estimated odds ratios from a statistical model (a logistical regression) of the relationship between various household characteristics and the likelihood of being below the BHC poverty line (column 1), below the AHC poverty line (column 2) or experiencing material deprivation (column 3), pooling the 2020-2022 years of data to provide sufficient sample sizes. These odds ratios tell us the relative risk of being below the poverty line or enduring material deprivation, with an odds ratio of 2 (for example) saying that an individual in that group faces twice the chance of someone in the excluded group.[15]

The estimates show that living in a household renting their accommodation (with or without state support) and where no one is in paid work are characteristics particularly associated with a greater risk of poverty and material deprivation for children, with odds ratios in excess of 2 for all outcomes. Living in a large household, where someone has a disability, and where the youngest child is age 12-17 are also characteristics associated with greater risk of poverty or material deprivation for children, with estimated odd ratios of 1.5-2.5. While living in a lone parent household is also associated with a greater risk of AHC poverty and material deprivation for children, our estimates suggest it is not associated with a greater risk of BHC poverty. This is not to say that children in lone parent households face

[15] Note that while odds ratios allow us to easily compare the relative chance that someone in each group has of e.g. being below the poverty line (which is constant across other covariates), but do not allow the absolute or relative risk of income adequacy to be directly inferred (as these depend on the values taken by other covariates).

the same BHC poverty rates as those in multi-adult households, but rather that children in lone parent households are not at greater risk of BHC poverty conditional on their parents' employment status and housing tenure, with lone parents highly unlikely to be in paid work (Roantree, 2020) and highly likely to be living in rented accommodation (Russell et al., 2021). This illustrates the diversity of circumstances that lone parents experience (Lunn and Fahey, 2011), as well as the crucial role of paid work in determining whether a child is considered at-risk-of-poverty. The next chapter directly addresses the issue of child poverty, simulating a range of options available to policymakers for reducing the extent and depth of child poverty.

CHAPTER 4

Options for addressing child poverty

Chapter 3 showed that children have consistently faced higher rates of material deprivation than other age groups, as they have higher after housing costs (AHC) at-risk-of-poverty rates. We saw that material deprivation and at-risk-of-poverty rates are particularly elevated for children in households where no one is in paid work and that rent their accommodation.

While relatively higher AROP rates than other age groups are sometimes put forward as a reason for policies to reduce child poverty, a more compelling one is provided by the conclusion of a recent report by the United States National Academies of Science, Engineering and Medicine that a 'wealth of evidence suggests that a lack of adequate family economic resources compromises children's ability to grow and achieve success in adulthood' (National Academies, 2019). This goes beyond the significant statistical associations between poverty and poor child outcomes that have been extensively documented both here in Ireland (e.g. Maître et al., 2021; Curristan et al., 2022) and abroad (e.g. Duncan et al., 2010; Hanson et al., 2013), but which could reflect mere correlation given the strong association between poverty and other forms of disadvantage that also affect outcomes e.g. lower parental education. In fact, there exists a strong body of evidence that income poverty has a causal impact on child outcomes, particularly when it starts in early childhood and persists throughout.[16] Much of this evidence comes from studies adopting an experimental or quasi-experimental design which find positive causal effects on child and later-life outcomes of programmes designed to alleviate poverty, either directly through the provision of cash transfers (e.g. Hoynes et al., 2015; Milligan and Stabile, 2011) or indirectly through the provision of food (Hoynes and Schanzenbach, 2015; Bailey et al., 2023), housing (Chetty et al., 2015; Oreopoulos, 2003) or medical care (Currie and Schwandt, 2016).

Given this body of evidence and the renewed political emphasis placed on reducing child poverty (notably the establishment of a Child Poverty and Well-being Programme Office in the Department of the Taoiseach), this chapter presents analysis of some different options available to policymakers in Ireland. While our focus is on the effect these reforms would have on the income poverty rate for children, that is not to say that income is all that matters for children's ability to grow and succeed. It is clear from social and behavioural science research that context of individuals' lives also matters, especially factors like health and wellbeing, as well as local neighbourhood conditions (National Academies, 2019).

[16] National Academies (2019, Chapter 3) provides an accessible summary of this literature, including some of what is cited below.

We conduct our analysis using SWITCH, the ESRI's tax and benefit microsimulation model (Keane et al., 2023). This allows us to simulate the first-round effects of policy changes, holding the behaviour of individuals fixed. SWITCH is run on the 2019 Survey on Income and Living Conditions Research Microdata File (RMF), which contains survey information on household demographic characteristics, family composition and labour force participation, as well as linked administrative information from the Revenue Commissioners on earnings, and from the Department of Social Protection on welfare receipt. The data are reweighted to match the 2019 official statistics on employment, unemployment and the gender-age profile of the population as reported by the CSO,[17] as well as the income distribution for employees and the self-employed. In the reweighting process, existing targets for household composition and the regional distribution of the population set by the CSO for SILC are also included. We also uprate incomes from 2019 to 2023 levels using price and earnings growth indices and forecasts from the Central Statistics Office and the ESRI's *Quarterly Economic Commentary*. As such, the baseline estimates of poverty rates diverge slightly from those presented in Chapter 3, though estimates of the change in poverty rates are representative of what would happen if the reforms were undertaken today.[18]

In what follows, we consider the impact of reforms to different payments aimed at reducing child poverty: Child Benefit, Increases for Qualified Children, Working Families Payment, and a new integrated second tier of child income support as recommended by the Commission on Taxation and Welfare (2022), among others.

4.1 INCREASING CHILD BENEFIT

Child Benefit is a universal allowance paid to a parent – by default the mother – of a child from birth until their 16th birthday (18th if they have a disability, are in full-time education, or are in full-time training).[19] It is currently paid at €140 per month per child, lower in nominal and real terms than the peak of €166 per child paid in 2008. Because the payment is universal, it does not suffer from social stigma in the same way as many means-tested payments. Such stigma can lead to lower levels of take-up for such payments (Celhay et al., 2022). Conversely, because it is universal it is much less targeted towards those with low incomes making it a relatively expensive way of addressing child poverty.

17 CSO sets gender-age targets for the SILC dataset to be representative. In the reweighting process that we implemented, the age bands for males were kept the same as the ones CSO uses – dividing the male population in four age bands – but for females five-year age bands were set as targets.

18 We simulate the overall and child AROP rates to be 11.9 per cent and 15.5 per cent respectively for 2023. The overall and child poverty gaps are estimated at 2.6 per cent and 3.4 per cent respectively for 2023.

19 This includes a parent habitually resident in the country even if their child is not. See the overview of the payment at https://www.citizensinformation.ie/en/social-welfare/social-welfare-payments/families-and-children/child-benefit/.

TABLE 4.1 ESTIMATED IMPACT OF CHILD BENEFIT REFORMS ON AROP RATE, POVERTY GAP AND NET SPENDING

Number of beneficiaries (households)	665,456
Change in:	
At-risk-of-poverty rate for children (ppt)	-1.0
Poverty gap for children (ppt)	-0.3
Net spending (€ million per year)	+535

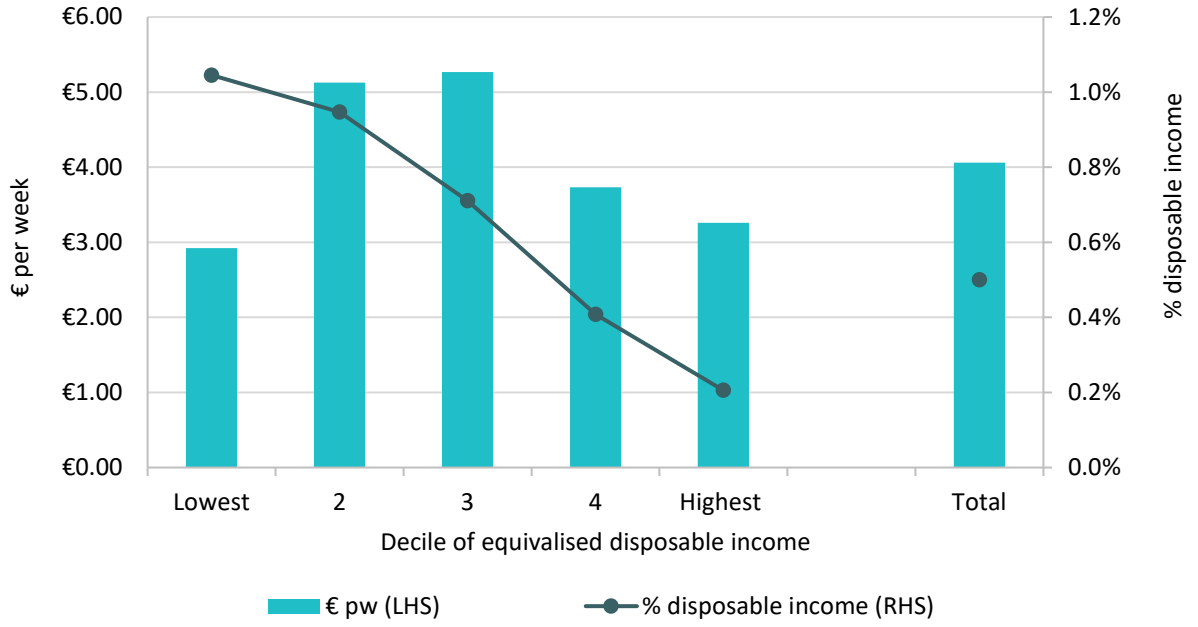
Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the CSO's national equivalence scales. Reforms as described in text.

This is shown in Table 4.1, which presents the estimated number of beneficiaries and cost of increasing Child Benefit by €38 per month; this is an amount calibrated to reduce child poverty by 1 percentage point, benefiting at an estimated 665,456 households at a cost of €534 extra per year. Table 4.1 also shows that this reform would reduce the child poverty gap – how far below the poverty line those at-risk-of-poverty are – by 0.3 percentage points from its baseline level of 3.4 per cent (i.e. after the reform, children below the poverty line would be on average 3.1 per cent below it compared to 3.4 per cent before).

Figure 4.1 shows the distributional impact of this reform across the distribution of income, plotting the average cash (euro per week) and percentage of disposable income gain for each income quintile (fifth). This illustrates the extent to which increases to child benefit are a blunt instrument for achieving reductions in child poverty. While quintiles 1 to 3 would benefit most from this reform in proportional terms, the highest income quintile would benefit by more than the lowest income quintile in cash terms. In other words, as much of the increased spending from the reforms would go towards transfers to parents in the highest income quintile as to parents in the lowest income quintile, making increases to Child Benefit a very untargeted – and so expensive – approach to reducing child poverty. For this reason, we now turn to look at more targeted alternatives.

FIGURE 4.1 DISTRIBUTIONAL IMPACT OF CHILD BENEFIT REFORMS



Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

4.2 RAISING INCREASES FOR A QUALIFIED CHILD (IQCS)

Increases for a Qualified Child (IQCs) are paid in addition to the personal rate of most social welfare payments for claimants with children. They are currently paid at a rate of €42 per week for each child under 12 and €50 per week for each child over 12.[20] These offer a more targeted alternative to increasing Child Benefit as most (but not all) of the social welfare payments they are linked to are means-tested.[21] As a result, recipients are typically located towards the bottom of the income distribution with many below the poverty line.

Raising IQCs is therefore a relatively more effective approach to reducing child poverty than increasing Child Benefit. This is illustrated by the estimates in Table 4.2, which show that increasing IQCs by 56 per cent at a cost of €334 million per year would have the effect of reducing the child poverty rate by 1 percentage point: this is just two-thirds of the cost of effecting the same reduction via increases to Child Benefit. The reason for this is that the increases would be far more focused on children below the poverty line, with just 189,877 households estimated to benefit compared to 665,456 with the increase to Child Benefit.

20 For further details on the operation of IQCs, see https://www.citizensinformation.ie/en/social-welfare/irish-social-welfare-system/claiming-a-social-welfare-payment/claiming-and-increase-in-your-payment-for-a-child-dependant/.

21 One notable exception is (contributory) Jobseekers' Benefit, though the Government are in the process of reforming this payment to remove the IQCs and make it more closely related to previous earnings (Kakiloudou and Roantree, 2021).

TABLE 4.2 ESTIMATED IMPACT OF IQC REFORMS ON AROP RATE, POVERTY GAP AND NET SPENDING

Number of beneficiaries (households)	189,877
Change in:	
At-risk-of-poverty rate for children (ppt)	-1.0
Poverty gap for children (ppt)	-0.5
Net spending (€ million per year)	+334

Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

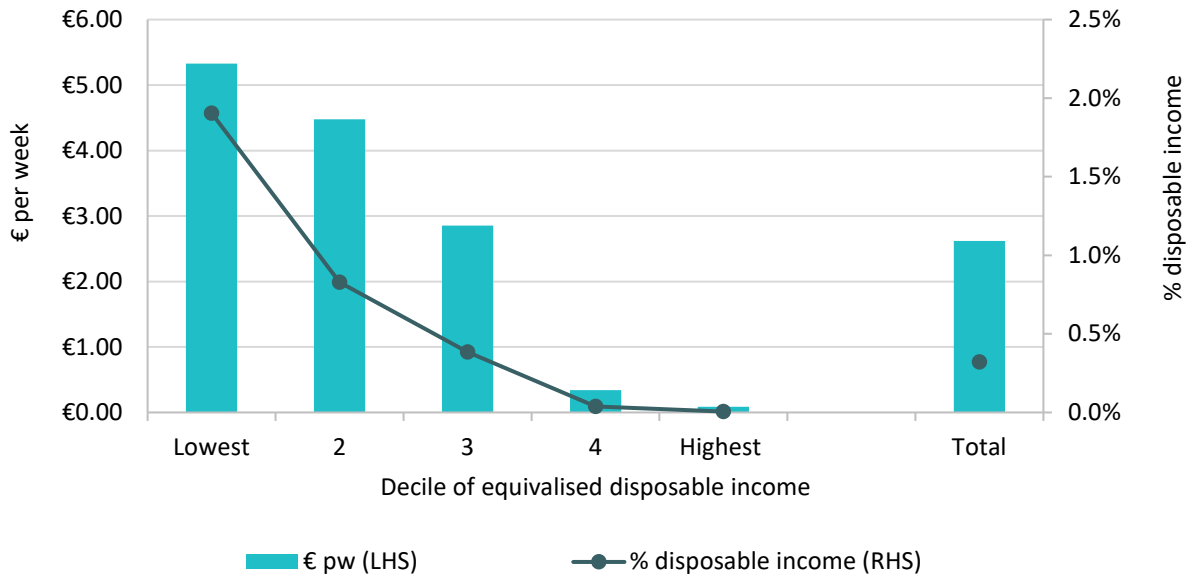
Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

Raising IQCs also reduces the poverty gap for children by more than increasing Child Benefit, meaning that those who remain below the poverty line are – on average – below it by less. This again reflects the fact that more of the increased spending is channelled towards children at the bottom of the income distribution, with Figure 4.2 showing that the increases to IQCs primarily benefit those in the very lowest income quintile both in cash and proportional terms. Indeed, the Figure shows that while those in the lowest income quintile gain by more than 1.5 per cent or €4 per week on average, those in the highest income quintile gain almost nothing.

However, a potential consequence of addressing child poverty by raising IQCs is negatively impacting financial work incentives. This is as IQCs are primarily paid in addition to a personal rate for welfare payments like Jobseekers' Allowance, Carer's Allowance and One Parent Family Payment which are heavily means-tested – in some cases subject to cliff-edges (Doolan and Keane, 2023) – and so only available to those working a small number of hours. As a result, raising IQCs in isolation weakens the financial incentive to be in paid – particularly full-time paid – work, from the current situation where very few individuals would be financially better-off out of work (Doolan, 2022b; Bercholz and Keane, 2019; Callan et al., 2016). While such static financial work incentives are only one influence in the decision to undertake paid work,[22] policymakers still need to be conscious of the trade-offs that can arise between raising the living standards of those on low incomes and encouraging individuals to take up paid work given constraints on government spending: what Blundell (2006) calls the 'iron triangle' of welfare policy. For this reason we turn to look at reforms to another tool in policymakers' arsenal: the Working Families Payment.

[22] Other influences include the responsiveness of individuals to these financial work incentives – on which there are limited estimates for the Irish population – as well as more dynamic considerations, like those considered by Brewer and Shaw (2018).

FIGURE 4.2 DISTRIBUTIONAL IMPACT OF IQC REFORMS



Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the CSO's national equivalence scales. Reforms as described in text.

4.3 INCREASING WORKING FAMILIES PAYMENT (WFP)

Working Families Payment (WFP, previously called Family Income Supplement) is a payment to low-income parents who are in paid employment. It is means-tested, with those eligible receiving an amount that depends on their assessable income and how many children they have.[23] WFP does not have as adverse an impact on financial work incentives as the means-tested payments IQCs are linked to because – unlike those payments – it requires recipients to work at least 38 hours per fortnight to qualify. However, WFP can create disincentives for second earners, usually women, in particular as such earnings will likely be above the earnings disregard and subject to the WFP means-test (Bargain and Doorley, 2011).

Our simulations suggest that increasing WFP is a very cost-effective way of reducing Child Poverty. Assuming full take-up,[18] Table 4.3 shows that spending on WFP would only need to increase by €187 million to reduce the AROP rate for children by 1 percentage point (an 8.3 per cent increase in maximum payments), compared to €535 million for Child Benefit and €334 million for IQCs, with just 164,915 households estimated to benefit.

[23] See https://www.citizensinformation.ie/en/social-welfare/social-welfare-payments/families-and-children/working-family-payment/ for further details on the operation of the scheme.

TABLE 4.3 ESTIMATED IMPACT OF WFP REFORMS ON AROP RATE, POVERTY GAP AND NET SPENDING

Number of beneficiaries (households)	164,915
Change in:	
At-risk-of-poverty rate for children (ppt)	-1.0
Poverty gap for children (ppt)	-0.1
Net spending (€ million per year)	+190

Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

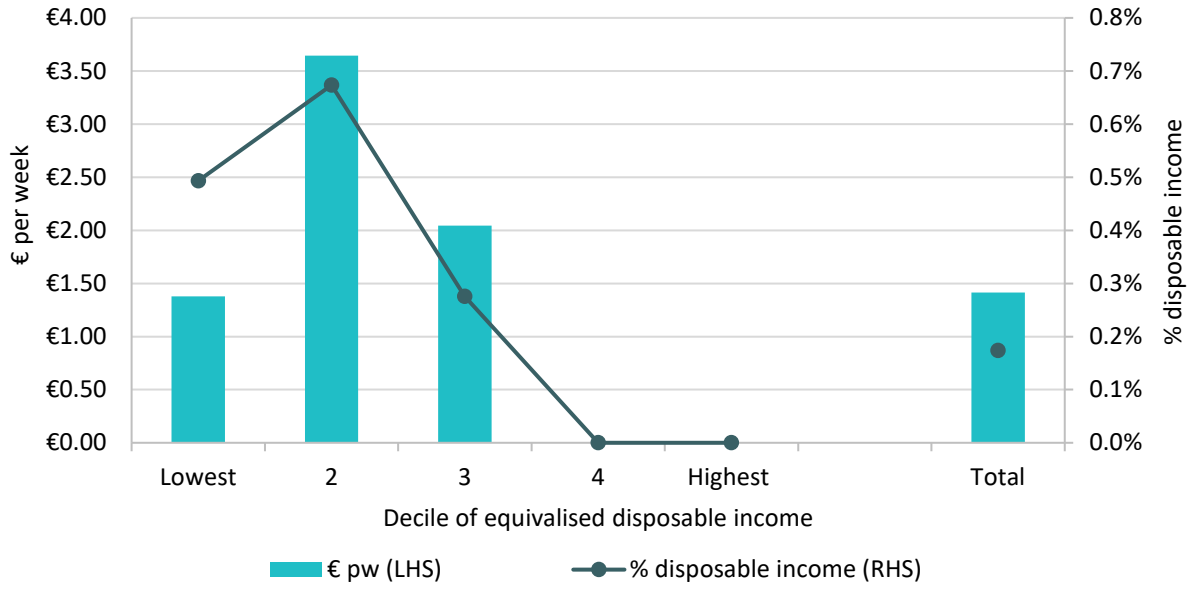
Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the CSO's national equivalence scales. Reforms as described in text.

However, Table 4.3 also shows that increasing WFP would have a relatively limited impact on the poverty gap for children, which would fall by 0.1 percentage points. The reason for this is nicely illustrated by Figure 4.3. This shows that gains – both in euro per week and as a percentage of disposable income – are highest for those in the 2nd rather than the lowest income quintile, at €3.65/0.7 per cent and €1.38/0.5 per cent respectively. This is because recipients of WFP need to be in paid work to be eligible for the payment, meaning that those in qualifying households who are below the poverty line tend to be relatively close to it. As a result, increases to the WFP are very effective at reducing child poverty because they lift children in households just below the poverty line above it (in some cases substantially above).

Conversely, increases to WFP do not benefit children in the lowest income households because these households do not have anyone in paid work and so are ineligible for WFP. As we saw in Chapter 3, such children are particularly likely to be AROP and materially deprived, meaning increasing WFP – while a very effective means of reducing the AROP rate for children, and without as adverse an effect on financial work incentives – does not provide support to those children furthest below the poverty line. In this sense, while increasing WFP in isolation has the largest effect on headline child poverty statistics, other reforms – such as those to IQCs – are more suited to tackling the depth of child poverty.

Policymakers interested in achieving a more meaningful reduction in child poverty will therefore likely want to consider increasing WFP alongside other reforms, such as those to IQCs considered in the previous section.

FIGURE 4.3 DISTRIBUTIONAL IMPACT OF WFP REFORMS



Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

However, even such a combined approach will exclude some children who live in households that are ineligible for WFP but receive little from IQCs, for example because someone is in paid work – so has a Jobseeker's or other linked payment means-tested away – but works for less than 38 hours per fortnight. This is a shortcoming of the Irish social welfare system, and among the reasons that the Commission on Taxation and Welfare (2022) recommended the:

> *introduction of a second tier of an income related child income support in addition to Child Benefit that combines existing supports and that would be provided to all low-income households, whether in receipt of a social welfare payment or not.*

We now turn to consider the impact of such a reform.

4.4 A SECOND TIER OF CHILD INCOME SUPPORT

In addition to being recommended by the Commission on Taxation and Welfare (2022), the introduction of a second tier of child income support has long been supported by the National Economic and Social Council (2007; 2021) and the Childrens Rights Alliance (2010), with the Department of Social Protection even going as far as to conduct a feasibility study of reform in 2011 which was not further pursued due to administrative and cost implications. Such a reform would move the system of child income supports in Ireland closer towards the model used by most other EU and OECD members (Commission on Taxation and Welfare, 2022), with supplementary child income support based exclusively on levels of income and family status rather than employment status or the receipt of a particular social welfare payment.

TABLE 4.4 ESTIMATED IMPACT OF INTRODUCING SECOND TIER OF CHILD INCOME SUPPORT ON AROP RATE, POVERTY GAP AND NET SPEND

Number of beneficiaries (households)	104,860
Change in:	
At-risk-of-poverty rate for children (ppt)	-3.8
Poverty gap for children (ppt)	-2.0
Net spending (€ million per year)	+691

Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

Although the design of such a payment would require careful consideration and analysis to ensure that unintended interactions with other components of the tax and welfare system are minimal, in what follows we simulate the impacts of a simplified Child Income Support Payment (CISP) to illustrate its potential. This integrates IQCs with a modified WFP. In practice, this amounts to abolishing the current system of IQCs and removing the work requirements from WFP, allowing all households with children to receive an amount determined by the number of children they have and their means. This would significantly increase the generosity of the social welfare system to those who currently do not qualify for WFP. For example, a lone parent with one child aged 13 in receipt of only Jobseeker's Allowance would receive €222.60 per week from our simulated CISP in addition to their Jobseeker's Allowance payment of €220 per week, compared to €50 in IQCs under the current system.

We simulate that this reform would reduce the AROP rate for children by 3.8 percentage points – just over a quarter, or around 40,000 children – at a cost of €691 million per year. Table 4.5 shows that introducing such a CISP has a larger effect on the AROP rate for children than spending a similar amount increasing each of Child Benefit, IQCs and WFP, which reduce the AROP rate for children by 1.2, 1.9 and 3.2 percentage points respectively.

The impact of the CISP reform on the poverty gap for children is even larger at 2.0 percentage points, more than halving the poverty gap for children. This is more than twice as large as the reduction estimated from similarly costed reforms to Child Benefit, IQCs and WFP (see Table 4.5). In other words, as well as significantly reducing the child AROP rate, the reform would move those who remained below the poverty line substantially closer to the poverty line, reducing what is sometimes termed 'deep poverty' (National Academies, 2019).

TABLE 4.5 ESTIMATED IMPACT OF INCREASING SPENDING ON CHILD BENEFIT, INCREASES FOR QUALIFIED CHILDREN OR WORKING FAMILY PAYMENT BY €700MILLION PER ANNUM ON AROP RATE AND POVERTY GAP

	Child Benefit	IQCs	WFP
Number of beneficiaries (households)	665,456	189,877	164,915
Change in:			
At-risk-of-poverty rate for children (ppt)	-1.2	-1.9	-3.2
Poverty gap for children (ppt)	-0.4	-0.9	-0.2
Net spending (€ million per year)	+689	+693	+690

Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

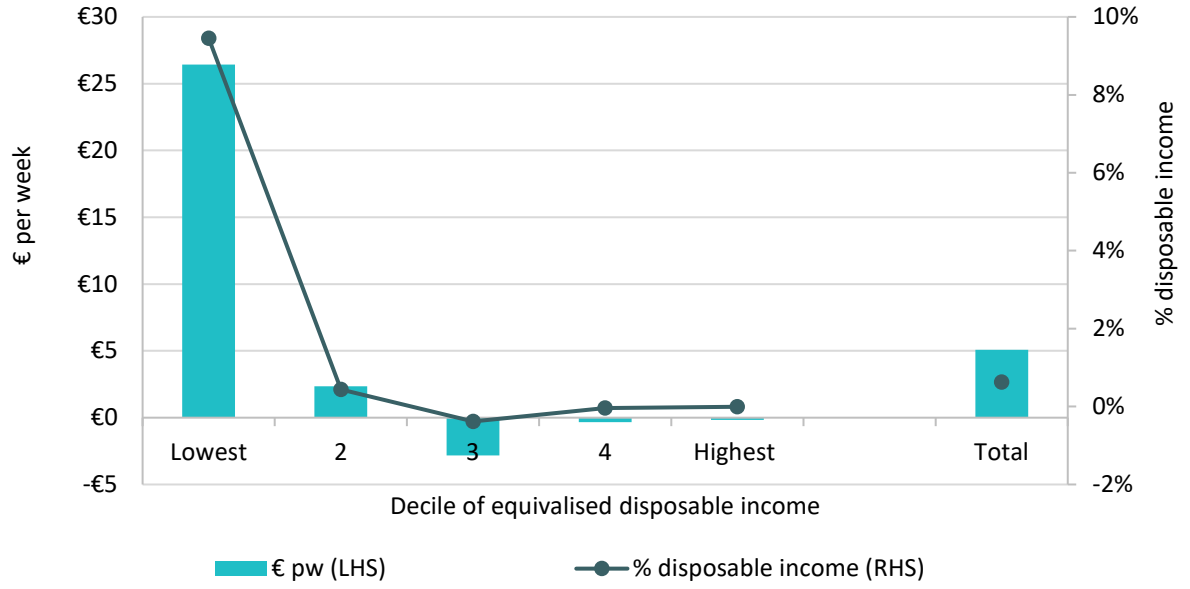
Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

Figure 4.4 shows the reason for this, namely that the reform focuses gains on the very lowest income quintile with an average gain of €26 per week equivalent to 9.5 per cent of disposable income. Changes are negligible across the rest of the distribution, though some small losses do arise in the middle of the distribution.

This illustrates one of the issues that policymakers may face with the design of a CISP if they decide to pursue its introduction. While the amount of IQCs paid alongside the personal rate is the same across social welfare payments, disregards and means-tests differ, meaning that some higher-income households currently receive IQCs under the current system – for example, through Carer's Allowance or Jobseeker's Benefit[24] – but would not under our simplified reform. We reflect on some of the other decisions policymakers may have to confront in introducing a CISP, along with the implications of our findings more generally, in our concluding chapter.

[24] Ongoing reforms to strengthen the link of this payment to previous earnings would remove IQCs in any case: see Kakoulidou et al. (2022).

FIGURE 4.4 DISTRIBUTIONAL IMPACT OF INTRODUCING SECOND TIER OF CHILD INCOME SUPPORT



Sources: Authors' calculations using SWITCH v5.3 run on the 2019 Survey of Income and Living Conditions Research Microdata Files, uprated to 2023 terms and reweighted as described in text.

Note: Poverty line defined as 60 per cent of median equivalised disposable income, that is after direct taxes paid and benefits received, adjusted for household size and composition using the national equivalence scales. Reforms as described in text.

CHAPTER 5

Conclusion

This report is the third in a series funded by Community Foundation Ireland examining the evolution of income inequality, poverty and living standards in Ireland. We conclude with a summary of the report's main findings and some reflections on their implications for policy.

Chapter 2 showed that 2021 saw disposable incomes fall or stall for those in the bottom half of the distribution. Whereas real disposable income adjusted (equivalised) for household composition has grown robustly – and by more at the bottom than the middle or top of the distribution – since 2012, the latest data from the Survey of Income and Living Conditions (SILC) suggest incomes fell in real terms at the very bottom of the distribution between 2020 and 2021 and stalled across much of the rest of the distribution. As a result, measures of income inequality – which have seen a sustained decline in recent years, reaching their lowest recorded levels in 2020 – increased in the latest year of data.[25]

These sluggish patterns of income growth predate the sharp rise in prices that followed the invasion of Ukraine in early 2022 and occurred despite a robust recovery in the labour market over the same period, with the easing of COVID restrictions seeing 200,000 more people employed on average in 2021 compared to 2020. Indeed, we saw that the share of individuals in low-income households with some employment income actually rose in 2021, with the fall in disposable income at the bottom of the distribution due to a decline in the number of usual hours worked per week and the number of months worked full-time per year by individuals in low-income households. This is particularly striking given the progressive growth in individual earnings evident in both SILC and statistics from Revenue over the same period. The discordance between these patterns of individual earnings and disposable income growth highlights the important role household structure plays in mediating the impact of changes in individual earnings on household disposable income. Indeed, as we saw, only a quarter of those in the lowest quintile of individual earnings are also in the lowest quintile of equivalised disposable income: the same share as were located in the highest two income quintiles.

The patterns of growth observed in the latest data also illustrate how growth in individual earnings – even when strong and progressive – is not necessarily enough to ensure inclusive growth in disposable incomes: what households have after taxes

[25] This is true both in terms of before housing costs (BHC) and after housing costs (AHC) disposable income.

and transfers. Indeed, as Nolan and Roantree (2023) show for the period 1987-2019, tax and transfer policy plays an integral role in underpinning inclusive growth, especially for the living standards of the poorest.

This is perhaps a timely reminder given Government approach to recent increases in the cost of living has placed particular emphasis on a mix of universal and targeted once-off payments. While this represents a coherent approach to the sharp rise in energy prices (providing support that is timed to coincide with the arrival of energy bills), Doolan et al. (2022a) showed that the adequacy of core social welfare payments risks being eroded unless these once-off measures are repeated or the level of social welfare payments and tax credits revisited in the coming years: for example, through a benchmarking exercise like that recommended by the Commission on Taxation and Welfare (2022), or a series of real (above inflation) increases once the rate of inflation has returned to more normal levels. Despite the large fiscal surpluses projected over the coming years, maintaining the adequacy of the social welfare system so that it contributes toward inclusive growth will pose a challenge for this and future governments given the pressures on the public finances from maintaining even the existing level of services and the reliance on windfall – potentially transitory – receipts from corporation tax (Irish Fiscal Advisory Council, 2023).

The Government also faces a challenge in reducing levels of child poverty, something it has placed a renewed emphasis on with the establishment of a Child Poverty and Well-Being Programme Office in the Department of the Taoiseach.[26] Chapter 3 showed that although children are no longer the age group facing the highest at-risk-of-poverty (AROP) rate as traditionally measured (at 14.9 per cent compared to 22.6 per cent for those over 65), they have consistently faced – and continue to face – higher AROP rates than other age groups in terms of after housing costs (AHC) income (20.1 and 16 per cent respectively) along with higher rates of material deprivation (16 and 11.8 per cent respectively). While relatively higher AROP rates than other age groups are sometimes put forward as a reason for measures to reduce child poverty, a more compelling reason is the – now substantial – body of evidence that income poverty has a negative causal impact on child and later life outcomes, particularly when it starts in early childhood and persists throughout.[27]

Despite this, there are trade-offs to be made by policymakers in how they seek to reduce child poverty. Chapter 4 showed that while increases to universal Child Benefit would reduce the child poverty rate and the poverty gap, it is substantially more costly to do so for each percentage point reduction than reforms to targeted

26 See https://www.oireachtas.ie/en/debates/question/2023-04-26/8/speech/186/ (accessed 16/6/2023).
27 National Academies (2019, Chapter 3) provides an accessible summary of this literature.

means-tested payments like IQCs (Increases for a Qualified Child) and WFP (Working Families Payment). However, reforms to these targeted payments have the potential to either weaken financial work incentives for recipients (because IQCs are primarily linked to stringently means-tested benefits) or to bypass the very lowest-income children (because WFP is contingent on a parent(s) working at least 38 hours per fortnight). Reforming these payments through the introduction of a Child Income Support Payment (CISP) – as recommended by the Commission on Taxation and Welfare (2022) among others – would enable policymakers to more effectively target resources towards reductions in child poverty while preserving financial work incentives and ensuring children in the very lowest-income households benefit.

In designing a new CISP, the Government will have to confront some of the implicit choices made by the structure of the current welfare system that are rarely discussed. For example, should the welfare system incentivise low-income individuals to take up part-time work, as through the current design of WFP? This arises from the requirement recipients work at least 38 hours per fortnight to qualify for the payment, creating an extremely strong incentive to work just over 19 hours per week. Similar requirements in other countries have been shown to materially affect the labour market behaviour of individuals and firms (Blundell et al., 2002; Tazhitdinova, 2020; Haywood and Neumann, 2021). The desirability of such incentives has been questioned by Blundell (2022) among others, who finds that part-time employment produces little wage progression and so contributes little to the exit of individuals from low-pay work or reliance on in-work welfare to maintain a decent standard of living. Similarly, Maître et al. (2021) find using data from the *Growing Up in Ireland* study that moving into part-time employment was not associated with reductions in child poverty over time. However, such a requirement could still be seen as desirable if one's objective was to enable and/or encourage lower-income parents to combine an element of paid work with caring responsibilities. While ultimately such decisions come down to one's broader political and social views of the world, a new CISP could accommodate either moving away from or maintaining such strong incentives for parents to work part-time.[28]

A related question that will arise if undertaking reforms to in-work welfare supports is whether eligibility should remain restricted to low-income parents. Both NESC (2020b) and the Commission on Taxation and Welfare (2022) have recommended introducing such a payment for low-income singles and couples without children, as in place in most European countries as well as the United States (Laun, 2019), with Keane et al. (2021) showing that such a reform would primarily benefit

[28] For example, the CISP could incorporate a bonus payment for recipients working at least 38 hours per fortnight similar to how Working Families Tax Credit operated in the United Kingdom in the early 2000s.

households in the lowest income quintile. The Commission in particular highlighted the potential for a tapered working-age assistance payment to address poverty among certain cohorts not currently covered by the welfare system (e.g. single adults in low-paid work) while contributing to a more coherent and integrated system of working-age welfare which creates fewer barriers to those moving in and out of paid work.

Such a reform would provide the current – and future – governments with a more developed and flexible suite of tools to pursue their distributional objectives. While care would have to be taken with the design of such a payment to ensure that employers with market power were not able to capture a large share of the gains (Joyce and Zilliak, 2020), a more expansive working-age assistance payment could act as a powerful complement to the minimum wage which as noted earlier represents a blunt and relatively ineffective instrument for boosting the incomes of those at the bottom of the income distribution (Dorris et al., 2022; Redmond, 2020; Low Pay Commission, 2018).

Ireland has been almost unique amongst advanced economies in sustaining broad-based and inclusive growth over a prolonged period. As highlighted in previous editions of this report, our experience differs to that of most other OECD countries, where increasing income inequality has been the norm over the last 30 to 40 years (Roantree et al., 2021; Thewissen et al., 2018; Atkinson, 2015; Piketty and Saez, 2003). However, such an achievement is not pre-ordained, and is unlikely to be repeated without careful consideration of the economic forces at play and whether we have an appropriate mix of tools available to policymakers. This report suggests we may not, and that reform will be required in the years ahead.

REFERENCES

Atkinson, A.B. (2015). *Inequality: What can be done?.* Harvard University Press.

Atkinson, A.B., T. Piketty and E. Saez (2011). 'Top incomes in the long run of history', *Journal of Economic Literature*, Vol. 49, pp. 3-71.

Bailey, M.J., H. Hoynes, M. Rossin-Slater and R. Walker (2023). 'Is the Social Safety Net a Long-Term Investment? Large-Scale Evidence from the Food Stamps Program', *The Review of Economic Studies*. https://doi.org/10.1093/restud/rdad063.

Bargain, O. and K. Doorley (2011). 'Chapter 9 In-Work Transfers in Good Times and Bad: Simulations for Ireland', in Polachek, S.W. and K. Tatsiramos (Ed.) *Research in Labor Economics (Research in Labor Economics*, Vol. 33, pp. 307-339. Emerald Group Publishing Limited, Bingley.

Bargain, O., K. Doorley and P. Van Kerm (2019). 'Minimum wages and the gender gap in pay: new evidence from the United Kingdom and Ireland', *Review of Income and Wealth*, 65(3), 514-539.

Belfield, C., R. Joyce and D. Chandler (2015). *Housing: Trends in prices, costs and tenure*, Institute for Fiscal Studies, doi.org/10.1920/bn.ifs.2015.00161.

Beirne, K., A. Nolan and B. Roantree (2020). *Income adequacy in retirement: Evidence from the Irish longitudinal study on ageing (TILDA).* ESRI Research Series 107, Dublin: Economic and Social Research Institute, https://doi.org/10.26504/rs107.

Bercholz, M. and C. Keane (2019). 'Work incentives adjusting for childcare subsidies and healthcare benefits', ESRI Working Paper 634, Dublin: Economic and Social Research Institute.

Björklund, A. and D. Waldenström (2021). 'Facts and Myths in the Popular Debate about Inequality in Sweden' (No. 1392). IFN Working Paper.

Blundell, R. (2002). 'Welfare-to-work: Which policies work and why?', Keynes Lecture in Economics: *Proceedings of the British Academy*, 117, 477-524.

Blundell, R. (2019). 'Tax and welfare reform: The challenge of labour market inequality', 2019 ESRI Geary Lecture, www.esri.ie/events/esri-annual-geary-lecture-tax-and-welfare-reform-the-challenge-of-labour-market-inequality.

Blundell, R. (2022). 'Inequality, redistribution and wage progression', *Economica*, Vol. 89, No. S1.

Blundell, R., A. Duncan, J. McCrae and C. Meghir (2000). 'The Labour Market Impact of the Working Families' Tax Credit', *Fiscal Studies*, 21(1), 75-103.

Blundell, R., R. Joyce, A. Norris Keiller, J.P. Ziliak (2018). 'Income inequality and the labour market in Britain and the US', *Journal of Public Economics*, Vol. 162, pp. 48-62.

Blundell, R. (2006). 'Earned income tax credit policies: Impact and optimality: The Adam Smith Lecture, 2005', *Labour Economics*, 13(4), 423-443.

Bourquin, P., R. Joyce and J. Cribb (2020). *Living standards, poverty and inequality in the UK: 2020*, Institute for Fiscal Studies, London.

Brewer, M. and J. Shaw (2018). 'How Taxes and Welfare Benefits Affect Work Incentives: A Life-Cycle Perspective', *Fiscal Studies*, 39(1), 5-38.

Callan, T., B. Nolan, B. Whelan, D. Hannan and S. Creighton (1988). *Poverty and the social welfare system in Ireland*, Combat Poverty Agency, Dublin.

Callan, T., B. Nolan, B. Whelan, D. Hannan and S. Creighton (1989). *Poverty, Income and Welfare in Ireland*, General Research Series No. 146, The Economic and Social Research Institute: Dublin.

Callan, T., B. Nolan and C.T. Whelan (1993). 'Resources, deprivation and the measurement of poverty', *Journal of Social Policy*, Vol. 22, No. 2, pp. 141-172.

Callan, T., C. O'Dea, B. Roantree and M. Savage (2016). *Financial Incentives to Work: Comparing Ireland and the UK*, Budget Perspectives 2017/2, Dublin: Economic and Social Research Institute.

Callan, T., K. Doorley and A. McTague (2021). 'Top Incomes in Ireland: Reconciling evidence from Tax Records and Household Survey Data', *Journal of the Statistical and Social Inquiry Society of Ireland*. Vol. L 2020-21, pp.1-15.

Celhay, P.A., B.D. Meyer and N. Mittag (2022). 'Stigma in Welfare Programs'. NBER Working Paper no. w30307. National Bureau of Economic Research, Cambridge MA.

Chetty, R., N. Hendren and L. Katz (2015). *The Effects of Exposure to Better Neighborhoods on Children: New Evidence from the Moving to Opportunity Experiment*. Cambridge, MA: National Bureau of Economic Research.

Children's Rights Alliance (2010). *Briefing Note on a Targeted Child Income Support Payment*. Children's Rights Alliance, Dublin.

Commission on Taxation and Welfare (2022). *Foundations for the Future: Report of the Commission on Taxation and Welfare*. Government of Ireland, Dublin.

CSO (2005). *EU Survey on Income and Living Conditions (EU-SILC) First Results 2003*, Central Statistics Office, Cork.

CSO (2017). *Standard report on methods and quality for the Survey on Income and Living Conditions (EU-SILC) 2017*, Central Statistics Office, Cork.

CSO (2022). *Survey on Income and Living Conditions (SILC) 2021*, CSO statistical publication, Central Statistics Office, Cork.

Conefrey, T. and D. Staunton (2019). 'Population change and housing demand in Ireland', *Economic Letter*, Vol. 2019, No. 14, Central Bank of Ireland, Dublin.

Corrigan, E., D. Foley, K. McQuinn, C. O'Toole and R. Slaymaker (2019). 'Exploring affordability in the Irish housing market', *The Economic and Social Review*, Vol. 50, No. 1.

Cribb, J., T. Waters, T. Wernham and X. Xu (2022). *Living standards, poverty and inequality in the UK: 2022*, Institute for Fiscal Studies, London.

Cullinan, J., B. Gannon and S. Lyons (2011). 'Estimating the extra cost of living for people with disabilities', *Health Economics*, Vol. 20, No. 5, pp. 582-599.

Currie, J. and H. Schwandt (2016). 'Inequality in mortality decreased among the young while increasing for older adults, 1990-2010'. *Science*, 352(6286), 708-712.

Curristan, S., B. Maître and H. Russell (2022). *Intergenerational poverty in Ireland*, ESRI Research Series 150, Dublin: ESRI, https://doi.org/10.26504/rs150.

Department of Employment Affairs and Social Protection (DEASP) (2020). *Roadmap for social inclusion 2020-2025*. Dublin: Department of Employment Affairs and Social Protection.

Doolan, M. and C. Keane (2023). *Cliff edges in the Irish tax-benefit system*, Budget Perspectives BP202401, Dublin: ESRI, https://doi.org/10.26504/BP202401.

Doolan, M., K. Doorley, M. Regan and B. Roantree (2022a). *Distributional impact of tax and welfare policies: Budget 2023*, QEC Special Article, Dublin: Economic and Social Research Institute. https://doi.org/10.26504/QEC2022WIN_SA_Doolan.

Doolan M., B. Roantree and R. Slaymaker (2022b). *Low income renters and housing supports*, Research Series 141, Economic and Social Research Institute, Dublin.

Doorley, K., C. Keane, A. McTague, S. O'Malley, M. Regan, B. Roantree and D. Tuda (2020). *Distributional impact of tax and welfare policies: COVID-related policies and Budget 2021*, QEC Special Article, Dublin: Economic and Social Research Institute.

Doorley, K., T. Kakoulidou, S. O'Malley, H. Russell and B. Maître (2022). *Headline poverty target reduction in Ireland and the role of work and social welfare*, Economic and Social Research Institute and Department of Social Protection, Dublin.

Dorris, A., D. O'Neill and O. Sweetman (2022). 'The introduction of a living wage in Ireland', Economics Department Working Paper Series n316-22, NUIM Department of Economics, Maynooth.

Duncan, G.J., K.M. Ziol-Guest and A. Kalil (2010). 'Early-childhood poverty and adult attainment, behavior, and health', *Child Development*, 81(1), 306-325.

Eurofound (2017). *In-work poverty in the EU*, Publications Office of the European Union, Luxembourg.

Eurostat (2018). 'Methodological guidelines and description of EU-SILC target variables (2018 operation, July 2019 version)', Eurostat, Brussels.

Fahey, T. (2004). 'Housing affordability: Is the real problem in the private rented sector?', ESRI *Quarterly Economic Commentary*, Summer 2004, Economic and Social Research Institute, Dublin.

Fahey, T., B. Nolan and B. Maître (2004). *Housing, poverty and wealth in Ireland*, No. 34, Combat Poverty Agency, Dublin.

Government of Ireland (1997). *National Anti-Poverty Strategy.* Government Publications Office, Dublin.

Hanson, J.L., N. Hair, D.G. Shen, F. Shi, J.H. Gilmore, B.L. Wolfe and S.D. Pollak (2013). 'Family poverty affects the rate of human infant brain growth', *PLoS ONE*, 8(12), e80954.

Haywood, L. and M. Neumann (2021). 'Equilibrium effects of tax exemptions for low pay', *Labour Economics*, 69, 101976.

Holton, N. and D. O'Neill (2017). 'The changing nature of Irish wage inequality from boom to bust', *The Economic and Social Review*, Vol. 48, No. 1, pp. 1-26.

Hoynes, H., D. Miller and D. Simon (2015). 'Income, the Earned Income Tax Credit, and infant health', *American Economic Journal-Economic Policy*, 7(1), 172-211.

Hoynes, H. and D.W. Schanzenbach (2015). *U.S. Food and Nutrition Programs*. Cambridge, MA: National Bureau of Economic Research.

Irish Fiscal Advisory Council (2023). 'Fiscal Assessment Report June 2023'. Dublin: Irish Fiscal Advisory Council.

Joyce, R. and J.P. Ziliak (2020). 'Relative poverty in Great Britain and the United States, 1979-2017', *Fiscal Studies*, Vol. 40, No. 4, pp. 485-518.

Kakoulidou, T. and B. Roantree (2021). *Options for raising tax revenue in Ireland*, Budget Perspectives 202201, Dublin: ESRI, https://doi.org/10.26504/BP202201.

Keane, C., K. Doorley, T. Kakoulidou and S. O'Malley (2023). 'SWITCH: A Tax-Benefit Model for Ireland Linked to Survey and Register Data', *International Journal of Microsimulation*; 16(1); 65-88. DOI: 10.34196/IJM.00275.

Keane, C., K. Doorley and Tuda (2021). *COVID-19 and the Irish welfare system*, Budget Perspectives Paper 2021/02, Economic and Social Research Institute, Dublin.

Laun, L. (2019). 'In-work benefits across Europe', Working Paper Series 2019:16, IFAU – Institute for Evaluation of Labour Market and Education Policy.

Low Pay Commission (2018). *Recommendations for the national minimum wage*, Low Pay Commission, Dublin.

Lunn, P. and T. Fahey (2011). *Households and Family Structures in Ireland: A Detailed Statistical Analysis of Census 2006*. The Family Support Agency and the Economic and Social Research Institute, Dublin.

Maître, B., B. Nolan and C. Whelan (2006). *Reconfiguring the measurement of deprivation and consistent poverty in Ireland*, Policy Research Series 58, Economic and Social Research Institute, Dublin.

Maître, B., H. Russell and C. Whelan (2014). 'Economic stress and the great recession in Ireland: polarization, individualization or 'middle class squeeze'?', Geary Institute Working Paper 201407, University College Dublin, Dublin.

Maître, B., H. Russell and E. Smyth (2021). *The dynamics of child poverty in Ireland: Evidence from the Growing Up in Ireland survey*, ESRI Research Series 121, Dublin: Economic and Social Research Institute.

Maître, B. and I. Privalko (2021). 'Technical paper on the measure of basic deprivation and consistent poverty in Ireland', Social Inclusion Technical Paper No. 10, Department of Social Protection, Dublin.

Maître, B., H. Russell and E. Smyth (2021). *The dynamics of child poverty in Ireland: Evidence from the Growing Up in Ireland survey*, ESRI Research Series 121, Dublin: ESRI, https://doi.org/10.26504/rs121.

Maître, B. and B. Nolan (2022). 'Does household worklessness explain Ireland's high working-age market income inequality?', *Economic and Social Review*, Vol. 52, No. 4.

McQuinn, K., C. O'Toole, W. Disch, E. Shiel and E. Kenny (2022). *Quarterly Economic Commentary*, Spring 2022, Dublin: ESRI, https://doi.org/10.26504/qec2022spr.

Milligan, K. and M. Stabile (2011). 'Do child tax benefits affect the well-being of children? Evidence from Canadian child benefit expansions', *American Economic Journal: Economic Policy*, 3(3), 175-205.

McGinnity, F., H. Russell, D. Watson, G. Kingston and E. Kelly (2014). *Winners and losers? The equality impact of the Great Recession in Ireland*, Economic and Social Research Institute and Equality Authority, Dublin.

Mirrlees, J., S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Jonson, G. Myles and J. Poterba (2011). *Tax by design: The Mirrlees review*, Oxford University Press, Oxford.

National Academies of Sciences, Engineering, and Medicine (2019). *A Roadmap to Reducing Child Poverty*. Washington, DC: The National Academies Press. https://doi.org/10.17226/25246.

NESC (2007). *Ireland's child income supports: the case for a new form of targeting*, NESC Research Series Paper No. 6, National Economic and Social Council, Dublin.

NESC (2020a). 'Towards a More Integrated Income Support System', NESC Background Paper No. 151/5, National Economic and Social Council, Dublin.

NESC (2020b). 'The future of the Irish social welfare system: Participation and protection', NESC Council Reports No. 151, National Economic and Social Council, Dublin.

Nolan, B. (2003). 'Income Inequality during Ireland's Boom', *Studies: An Irish Quarterly Review*, 92(366), 132-142.

Nolan, B. and C.T. Whelan (1996). *Resources, deprivation and poverty*, Oxford University Press, Oxford and Clarendon Press, New York.

Nolan, B. and B. Maître (2000). 'A Comparative Perspective on Trends in Income Inequality in Ireland', *The Economic and Social Review*, Economic and Social Studies, Vol. 31(4), pp. 329-350.

Nolan, B. and B. Maître (2021). 'Does Household Worklessness Explain Ireland's High Working-Age Market Income Inequality?', *The Economic and Social Review*, Economic and Social Studies, Vol. 52(4), pp. 357-374.

Nolan, B. and B. Roantree (2023). 'Inclusive Growth: the Irish Exception?', paper presented at the Tenth Meeting of the Society for the Study of Economic Inequality, Aix-en-Provence.

Nolan, B. and C.T. Whelan (2010). 'Using non-monetary deprivation indicators to analyze poverty and social exclusion: Lessons from Europe?', *Journal of Policy Analysis and Management*, Vol. 29, pp. 305-325, https://doi.org/10.1002/pam.20493.

Nolan, A., S. McGuinness, B. Maître and A. Whelan (2019). *Gender, pensions and income in retirement*, ESRI Research Series 87, Dublin: Economic and Social Research Institute.

Oreopoulos, P. (2003). 'The long-run consequences of living in a poor neighborhood', *Quarterly Journal of Economics*, 118(4), 1533-1575.

Piketty, T. and E. Saez (2003). 'Income inequality in the United States, 1913-1998', *Quarterly Journal of Economic*s, 118 (1), 1-39.

Redmond, P., K. Doorley and S. McGuinness (2021). 'The impact of a minimum wage change on the distribution of wages and household income', *Oxford Economic Papers*, Vol. 73, No. 3, July 2021, pp. 1034-1056, doi.org/10.1093/oep/gpaa048.

Redmond, P. (2020). *Minimum wage policy in Ireland*, Budget Perspectives 2021 Paper 2, Economic and Social Research Institute, Dublin.

Revenue (2023). 'PAYE Real-time Data: Insights on Taxpayers in 2022'. Revenue, Dublin. https://www.revenue.ie/en/corporate/documents/research/paye-real-time-insights-2022.pdf (accessed 16/06/2023).

Roantree, B. (2020). 'Understanding income inequality in Ireland', *Journal of the Statistical and Social Inquiry Society of Ireland*, Vol. 49, pp. 43-63.

Roantree, B., B. Maître, A. McTague and I. Privalko (2021). *Poverty, income inequality and living standards in Ireland*, Economic and Social Research Institute and The Community Foundation for Ireland, Dublin.

Roantree, B., M. Barrett and P. Redmond (2022). *Poverty, income inequality and living standards in Ireland: second annual report*, Economic and Social Research Institute and The Community Foundation for Ireland, Dublin.

Russell, H., I. Privalko, F. McGinnity and S. Enright (2021). *Monitoring adequate housing in Ireland*, Economic and Social Research Institute and Irish Human Rights and Equality Commission, Dublin.

Slaymaker, R., B. Roantree, A. Nolan and C. O'Toole (2022). *Future trends in housing tenure and the adequacy of retirement income*, ESRI Research Series 143, Economic and Social Research Institute, Dublin.

Social Metrics Commission (2018). *A new measure of poverty for the UK*, Social Metrics Commission, London.

Tazhitdinova, A. (2020). 'Do only tax incentives matter? Labor supply and demand responses to an unusually large and salient tax break', *Journal of Public Economics*, 184, 104162.

Thewissen, S., L. Kenworthy, B. Nolan, M. Roser and T. Smeeding (2018). 'Rising Income Inequality and Living Standards in OECD Countries: How Does the Middle Fare?', *Journal of Income Distribution*, Vol. 26(2), pp. 1-23, July.

Watson, D., B. Maître and C.T. Whelan (2012). *Work and poverty in Ireland: An analysis of the CSO Survey on Income and Living Conditions 2004-2010*, Social Inclusion Report No. 3, Department of Social Protection, Dublin.

Whelan, C.T., D. Watson and B. Maître (2019). 'From Income Poverty to Multidimensional Quality of Life', *The Economic and Social Review*, Economic and Social Studies, Vol. 50(4), pp. 683-705.

Whelan, T. and B. Maître (2007). 'Poverty, deprivation and economic vulnerability in the enlarged EU', T. Fahey (ed.), *Handbook of quality of life in the enlarged European Union*, Routledge, London, www.esri.ie/publications/poverty-deprivation-and-economic-vulnerability-in-the-enlarged-eu.

APPENDIX A

Data and methodology

This appendix provides additional details on the data sources used in this paper as well as the methodology used to derive indicators of poverty, deprivation and income inequality measures.

A.1 DATA SOURCES

The Survey of Income Distribution, Poverty and Usage of State Services

The Survey of Income Distribution, Poverty and Usage of State Services was carried out by the Survey Unit of the ESRI in 1987 with the support of the European Commission and the Combat Poverty Agency. Results were first published in Callan et al. (1988), which reports that 3,286 households responded out of a valid sample of 5,155: an effective response rate of 63.7 per cent. These households contained just under 8,200 adults, each of whom was interviewed individually about their income sources and experience of the labour market. Weights were derived to correct for the greater likelihood of larger households being sampled (a product of the sampling frame being based on the electoral register and so households with more voters being more likely to be selected for inclusion) and a slight over-representation of older and rural heads of households. Analysis was carried out on the anonymised Research Microdata Files held by the ESRI on its secure server.

Living in Ireland Survey

The Living in Ireland Survey was also carried out by the Survey Unit of the ESRI, beginning in 1994, again with the support of the European Commission. Each adult in a household completed an individual questionnaire through a face-to-face interview, with a similar initial sampling frame to the 1987 Survey. However, in keeping with the European Community Household Panel (ECHP) of which it was part, the survey adopted a longitudinal design with household members followed up in subsequent waves of the survey. By Wave 7 (2000), attrition was deemed to be a cause of concern and the original sample of individuals still in scope of the survey (i.e. who had not died, moved to an institution or outside of the EU) were supplemented with a booster sample selected via a similar procedure as that used for the first wave of the survey. Weights were derived to correct for attrition and biases in the distribution of observed characteristics compared to the population of interest. There was an influx of more than 1,500 new individuals into the survey as compared to 5,530 from the original sample. However, to avoid any potential concerns about the representativeness of these later waves, we use only Waves 1-6 of the Living in Ireland Survey, spanning the years 1994-1999, with analysis again carried out on the anonymised survey microdata files held by the ESRI on its secure server.

Survey of Income and Living Conditions

The Survey of Income and Living Conditions (SILC) is an annual survey of households carried out by the Central Statistics Office (CSO) since 2003. Like the Living in Ireland Survey, it was initiated with the aim of collecting harmonised information on households for all countries in the European Union (EU). However, unlike the Living in Ireland survey, it is not primarily a longitudinal survey with the vast majority of respondents sampled anew each year.[29] For the most part, we use the anonymised Research Microdata File data made available by the CSO to researchers through a secure virtual desktop infrastructure. We also make use of the Eurostat User Database version of the data, which contains a more limited set of variables. Methodological changes to SILC in 2020 – including to the data collection and income reference period – have resulted in a break to the time series in a similar way to that between the Living in Ireland Survey and SILC.[30]

A.2 INCOME CONCEPTS AND COMPARISONS

Before housing costs (BHC) disposable income

Our definition of BHC disposable income corresponds to that used by Eurostat for the purposes of SILC (Eurostat, 2018) with the exclusion of the imputed value of a company car – which is available only in the SILC data from 2007 – and net contributions to individual private pension plans, which represent deferred income and should be treated in a manner consistent with those to (predominantly public sector) defined benefit pension schemes. In essence, this adds pension and social welfare income to market income (that from employment, the rent of land or property, regular inter-household cash transfers received, interest, dividends and profit from capital investments in unincorporated businesses), then deducts taxes on income, social insurance contributions regular taxes on wealth and regular inter-household cash transfers.

After housing costs (AHC) disposable income

Our definition of AHC disposable income deducts from BHC disposable income our measure of housing costs. As discussed in Chapter 1, for renters this is defined as rents gross of (including) any rental supports received (such as Rent Supplement (RS) and the Housing Assistance Payment (HAP), plus any rental contribution paid to local authorities (differential rent). For owner occupiers with a mortgage, housing costs include mortgage interest payments but exclude mortgage capital repayments on the principal private residence. This is because mortgage capital

29 A small number of households are included in a panel element: see CSO (2017, pp. 7-9).

30 See https://www.cso.ie/en/releasesandpublications/in/silc/informationnote-breakintimeseriessilc2020/ for further details.

repayments are more appropriately considered a form of saving as they contribute to the accumulation of equity – and so net wealth – in residential property.[31]

Our measures of market and disposable income are aggregated to the level of the household, before being adjusted for household size and composition (as discussed below). This implicitly makes an assumption of perfect income sharing within households. While appropriate for many households (e.g. a couple who both benefit from additional income in the household), it may be less so for others (e.g. students or young workers sharing a house). However, like Bourquin et al. (2020), we regard perfect income sharing as the most transparent and least arbitrary assumption given the data available.

As described in the main text, our measures of disposable income are adjusted for household size and composition using the modified OECD equivalence scale. This is to account for the fact that two households with the same level of disposable income, but different composition, will typically experience different standards of living. For example, a household income of €50,000 will – ceteris paribus – deliver a much higher standard of living to a single adult than a couple with two children. Equivalising incomes with the modified OECD scale is not the only approach one could take. For example, the CSO uses a 'national' equivalence scale that (as shown in Table A.1) gives greater weight to second or subsequent adults and children aged 14 plus, while there are likely characteristics other than age and the number of individuals that affect a household's needs. Nevertheless, some method is needed for comparing incomes across different household types, and the approach we adopt allows us to produce estimates which can be compared to other EU Member States, the United States (US) (Joyce and Ziliak, 2020) and Britain (Bourquin et al., 2020).

TABLE A.1 EQUIVALENCE SCALES

	Modified OECD scale	CSO national scale
First adult	1	1
Second or subsequent adults	0.5	0.66
Child aged 14 plus	0.5	0.66
Child age under 14	0.3	0.33

[31] While a case can be made for deducting mortgage capital repayments in measures of AHC income poverty in order to take into account the fact that, for many, these payments are inescapable in the short-term (e.g. Social Metrics Commission, 2018), that case is far weaker for measures of AHC income growth or inequality. This is because doing so would treat those with higher incomes accumulating net wealth in a residential property as having fewer resources available to them than someone with the same level of BHC income who accumulates net wealth through, for example, shares in a company. However, we have examined how much difference this makes to our estimates of income poverty and find that they are qualitatively similar, with AHC poverty rates for mortgage holders substantially below those of renters.

Although we aggregate income to the household level, the individual is our unit of analysis throughout. That is, we assign each individual in a household the equivalised income of their household, consistent with our assumption of perfect income sharing.

Adjusting for inflation

All monetary amounts are converted to 2022 prices using the CSO's all-item monthly Consumer Price Index (CPM02). All growth rates in these monetary variables are calculated after accounting for inflation.

A.3 THE MEASUREMENT OF MATERIAL DEPRIVATION IN IRELAND

The Survey of Income Distribution, Poverty and Usage of State Services was the first survey in Ireland to collect a wide range of information about households' and individuals' possession of items and activities; whether they considered those as essentials; and, in their absence, if that was because they could not afford them. The follow up survey, the Living in Ireland Survey that was conducted by the ESRI between 1994 to 2001, included 23 non-monetary indicators capturing enforced deprivation due to lack of resources. Using factor analysis techniques, Callan et al. (1993) and later Nolan and Whelan (1996) identified several dimensions of deprivation (basic lifestyle, secondary lifestyle, housing deprivation). The basic lifestyle dimension (labelled basic dimension) included eight items from not being able to afford new clothes, to having a meal with meat, fish or chicken every second day. This basic deprivation indicator was used to monitor deprivation in Ireland and people were considered to experience deprivation when they lacked one or more of the eight items. The measure of basic deprivation was also combined with the AROP measure to create a measure of consistent poverty – identifying people both at risk of income poverty and deprivation – which was officially adopted in 1997 by the Irish Government in the *National Anti-Poverty Strategy* (Government of Ireland, 1997).

As living standards rose rapidly during the late 1990s and early 2000s, there was some concern that the eight-item basic deprivation measure was no longer able to capture poverty and social exclusion. Maître et al. (2006) used the release of the SILC survey to re-examine the dimensions of deprivation and derived a new measure of deprivation. Some items of the original eight were dropped and replaced by new items, including items about social interactions. The revised indicator of basic deprivation was in time extended to include 11 items, with people classified as being in material deprivation if they lacked two or more items: a definition that we follow in this report, given our focus in Chapter 3 is on the period since 2003. Of the 11 items collected in SILC, ten are available in the Living in Ireland Survey. Roantree et al. (2021) use these to construct a consistent measure of

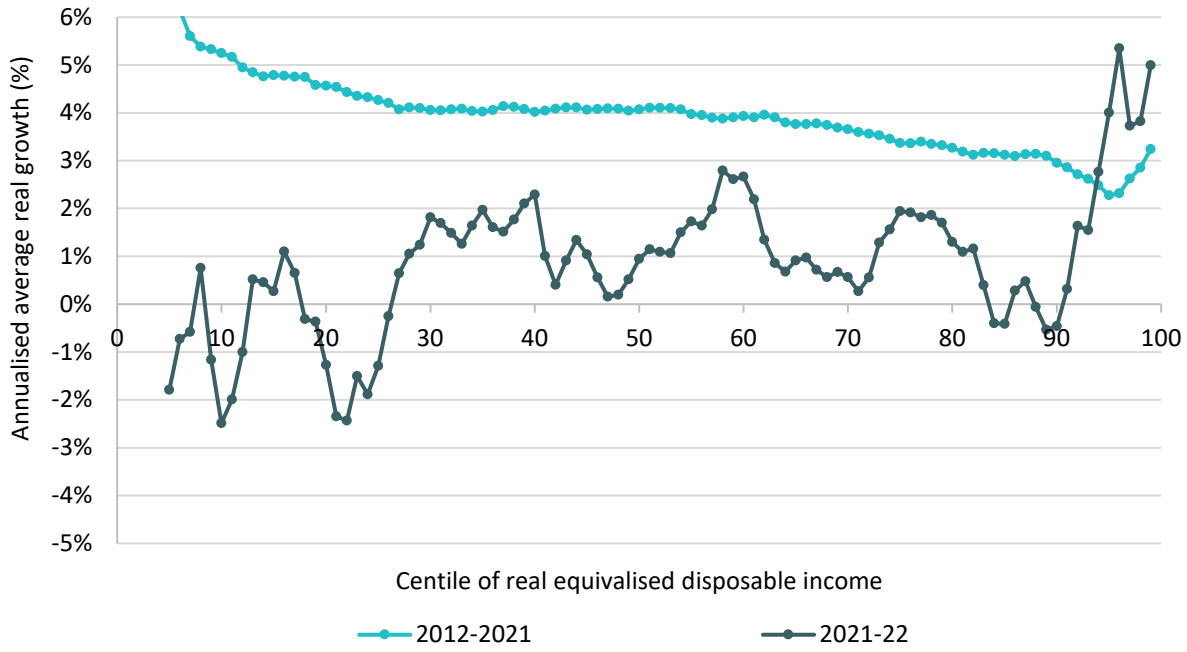
deprivation across the two surveys, with individuals classified as deprived if they are lacking two of the ten items.

In the first release of the 2003 SILC results, the CSO (2005) noted deprivation rates were about 3 to 5 percentage points higher than those observed in the final wave of the Living in Ireland Survey (2001) and highlighted two factors that could explain these differences. The first was that SILC adopted 'computer assisted personal interviewing', whereas the Living in Ireland Survey did not. The second possible explanation related to the longitudinal nature of the latter – with the associated issues of attrition discussed above – while the 2003 SILC sample was comprised entirely of households interviewed for the first time.

APPENDIX B

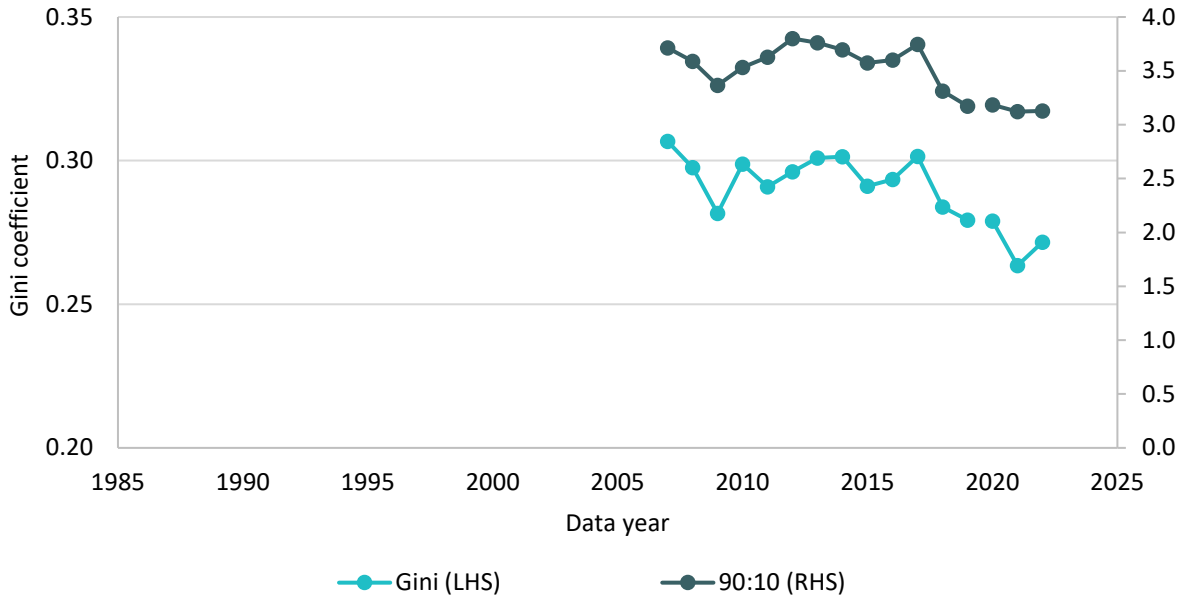
Additional tables and figures

FIGURE B.1 GROWTH INCIDENCE CURVE FOR REAL EQUIVALISED (AHC) INCOME: 2012-2022



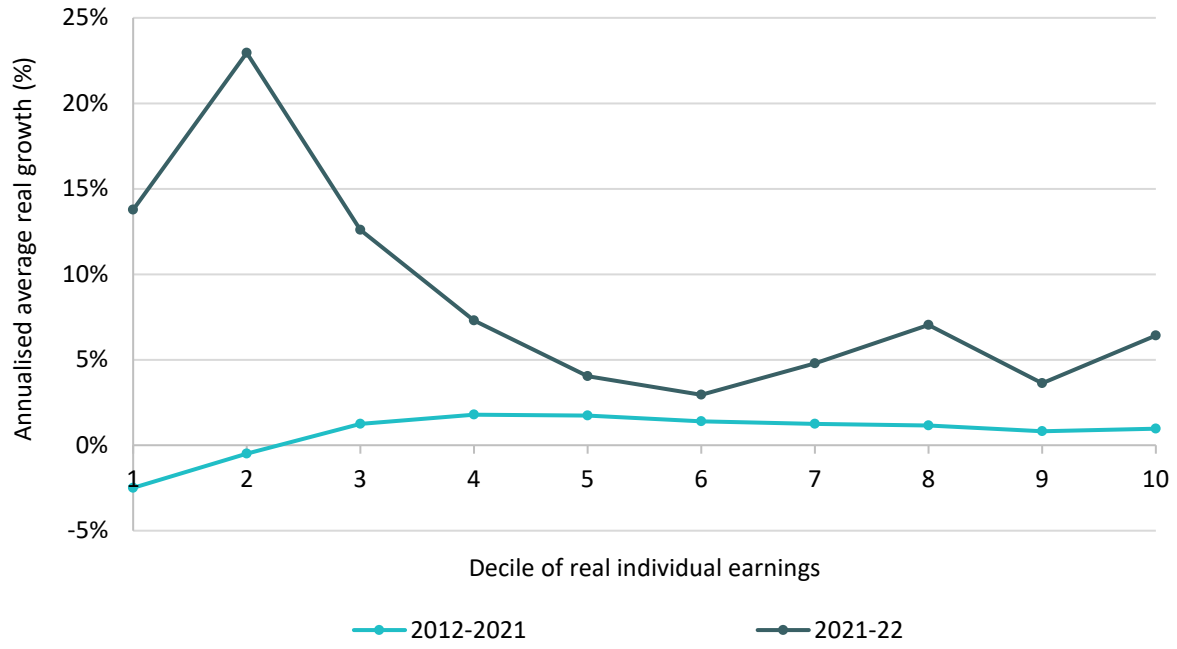
Sources: Authors' calculations using the Survey of Income and Living Conditions Research Microdata Files.
Note: Incomes after direct taxes paid, benefits received, but after housing costs. Excludes a small number of observations with non-positive values for disposable income.

FIGURE B.2 DISPOSABLE INCOME INEQUALITY (AHC)



Sources: Authors' calculations using the Survey of Income and Living Conditions Research Microdata Files.
Note: Incomes after direct taxes paid, benefits received, but after housing costs. Excludes a small number of observations with non-positive values for disposable income.

FIGURE B.3 GROWTH INCIDENCE CURVE FOR REAL INDIVIDUAL EARNINGS



Sources: Authors' calculations using the Survey of Income and Living Conditions Research Microdata Files.
Note: Earnings before tax or pension contributions.

TABLE B.1 DISTRIBUTION OF INDIVIDUAL EARNERS, BY QUINTILE OF DISPOSABLE INCOME

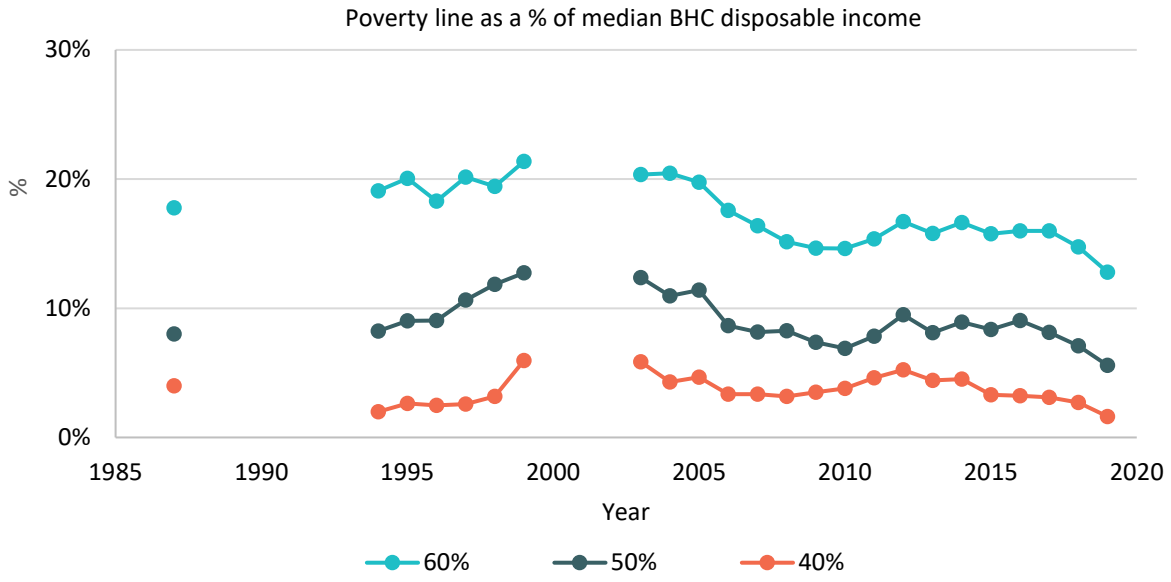
Earnings quintile	Disposable income quintile				
	1	2	3	4	5
1	25.4	26.5	22.0	18.3	7.9
2	11.6	27.5	25.2	22.0	13.7
3			32.4	30.6	21.0
4			18.0	35.3	39.2
5			13.4	25.9	54.3

Sources: Authors' calculations using the 2022 Survey of Income and Living Conditions Research Microdata Files (SILC RMF).
Notes: All income concepts are equivalised. Excludes a small number of observations with non-positive values for disposable income.

APPENDIX C

Additional tables and figures relating to Chapter 3

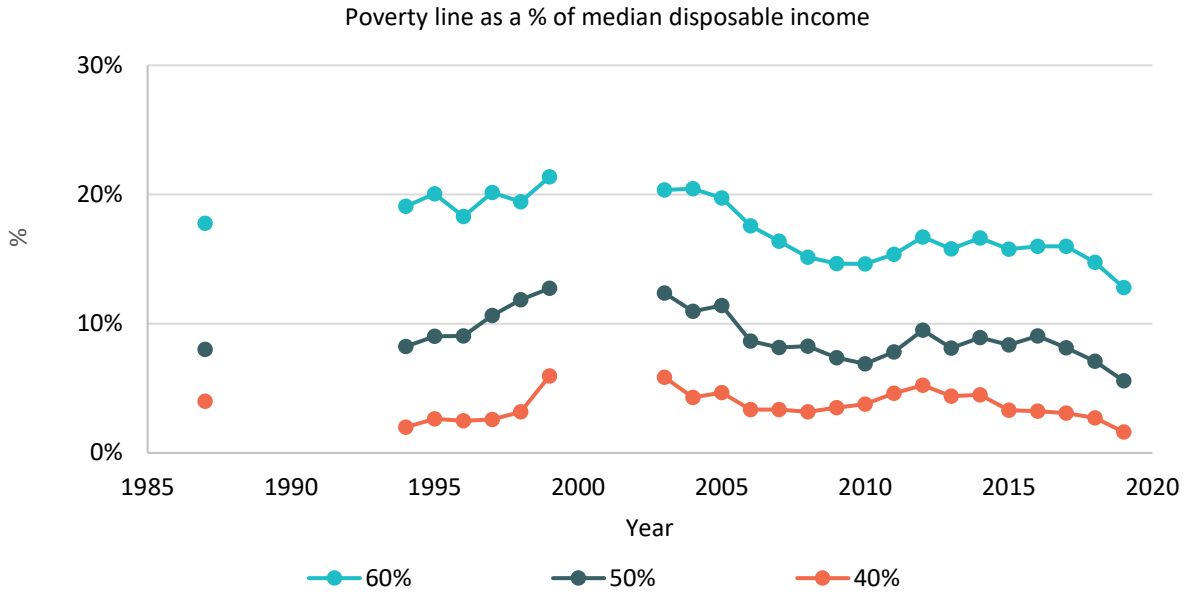
FIGURE C.1A BHC AT-RISK-OF-POVERTY RATES, VARIOUS THRESHOLDS: 1987-2022



Sources: Authors' calculations using the ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions RMF.

Note: Poverty line defined as 60 per cent of median equivalised before housing costs disposable income, that is after direct taxes paid and benefits received adjusted for household size and composition using the modified OECD equivalence scales.

FIGURE C.1B AHC AT-RISK-OF-POVERTY RATE, VARIOUS THRESHOLDS: 2007-2019



Sources: Authors' calculations using the ESRI Survey of Income Distribution, Poverty and Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions RMF.

Note: Poverty line defined as 60 per cent of median equivalised after housing costs disposable income, that is after direct taxes paid and benefits received adjusted for household size and composition using the modified OECD equivalence scales.