

# Child Poverty in Ireland and the Pandemic Recession

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## AUTHORS

Mark Regan

Bertrand Maître



# Objectives

1. Document child poverty trends from 2004-2018 using the Survey on Income and Living Conditions (SILC) data sets
2. Show how poverty levels changed during the Great Recession for children across households
3. Estimate income poverty rates for 2020 using a tax-benefit microsimulation model, Euromod
  - In absence of an economic recovery
  - With a moderate economic recovery

# Why is child poverty a concern?

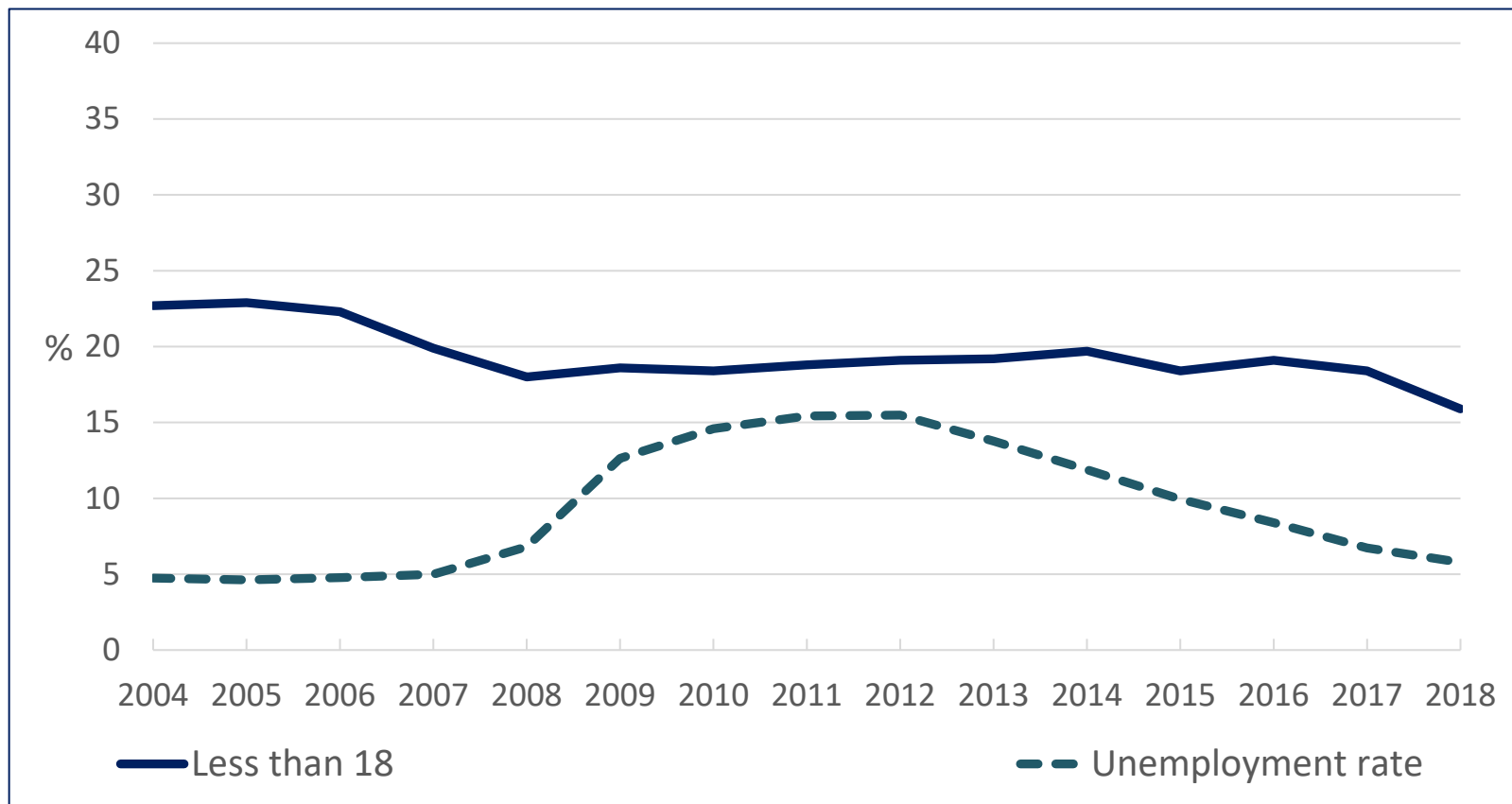
- Poverty will decrease living standards of children in the short-run, but will also have long-run effects
- Early life poverty reduces the odds of completing secondary education, worst for children who suffer years of poverty (Duncan et al., 1997)
- Impacts adult earnings and hours of work (Duncan et al., 2012)
  - A \$3,000 increase to family income of poor children (aged under 5) would translate to a 17% increase in adult earnings in later life
  - Smaller effects if the income increase occurs after age 5

# Measures of poverty

1. At-risk of poverty (AROP) rate
  - Portion of people living in households with income <60% of median equivalised household disposable income
  - Relative measure
  - For a given household, poverty is a function of their income and the income of other households
  
2. Basic deprivation
  - Inability to afford at least 2 out of an 11 list item of basic consumables
  - Absolute measure
  - Poverty is only a function of a household's self-reported ability to afford items

# Trend in AROP rates

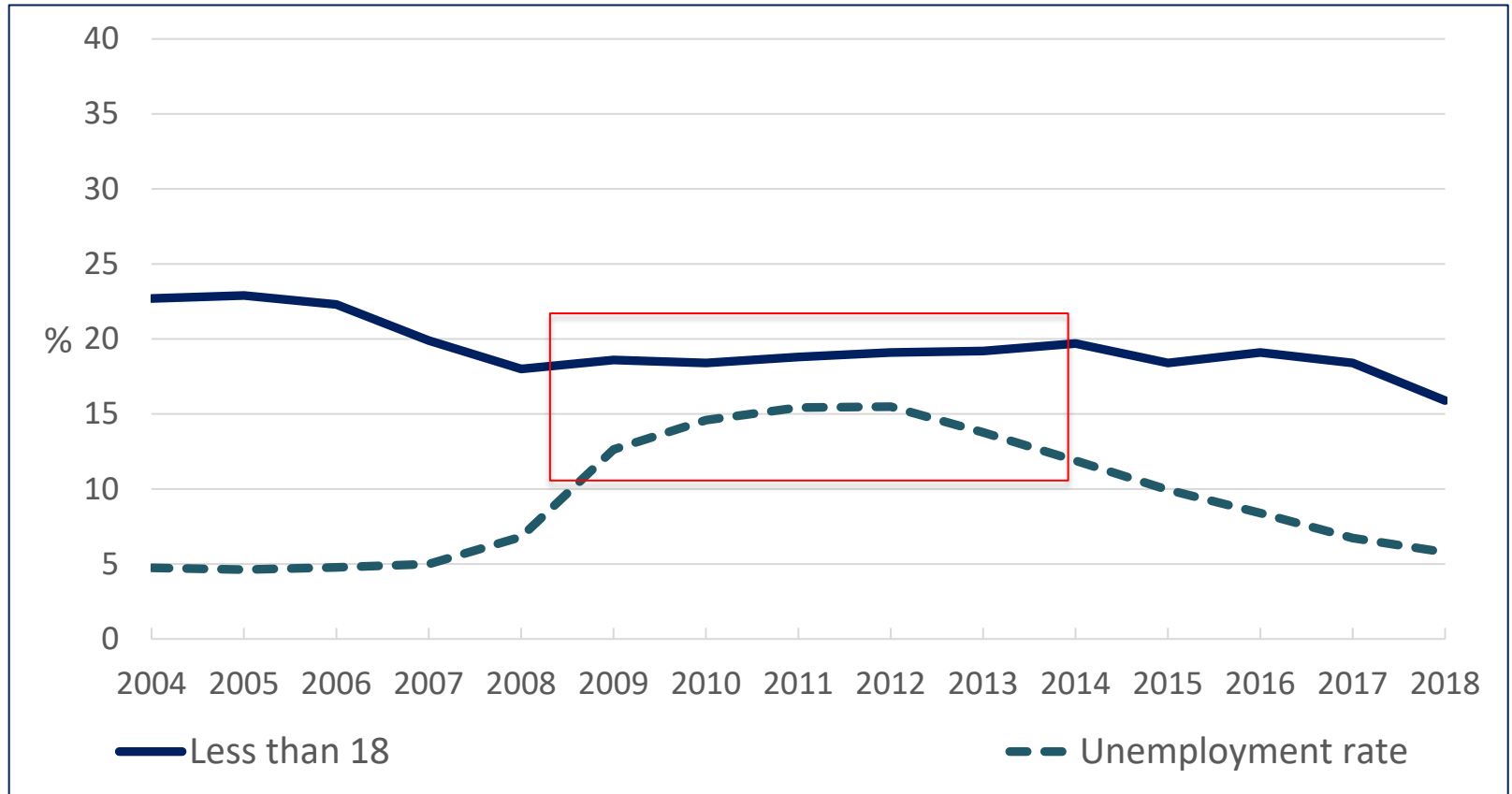
**Child AROP rates fell from 23 per cent in 2004 to 15 per cent by 2018**



**Notes:** Authors' analysis using SILC Research Microdata file. Year refers to the SILC survey year.

# Trend in AROP rates

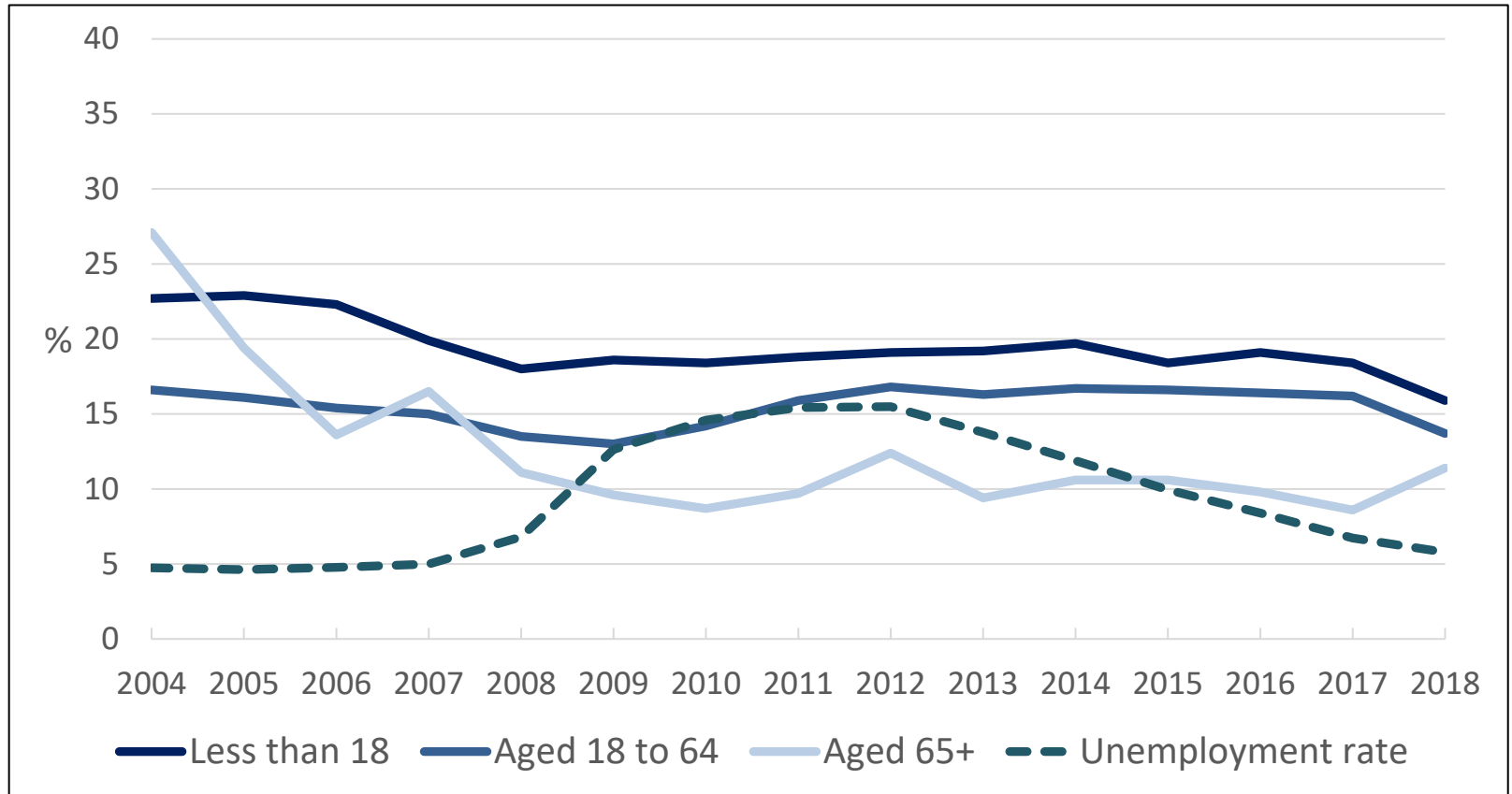
**AROP rates didn't change during the Great Recession, relative measure flaw**



**Notes:** Authors' analysis using SILC Research Microdata file. Year refers to the SILC survey year.

# Trend in AROP rates

**AROP rates have generally been lower for adults**



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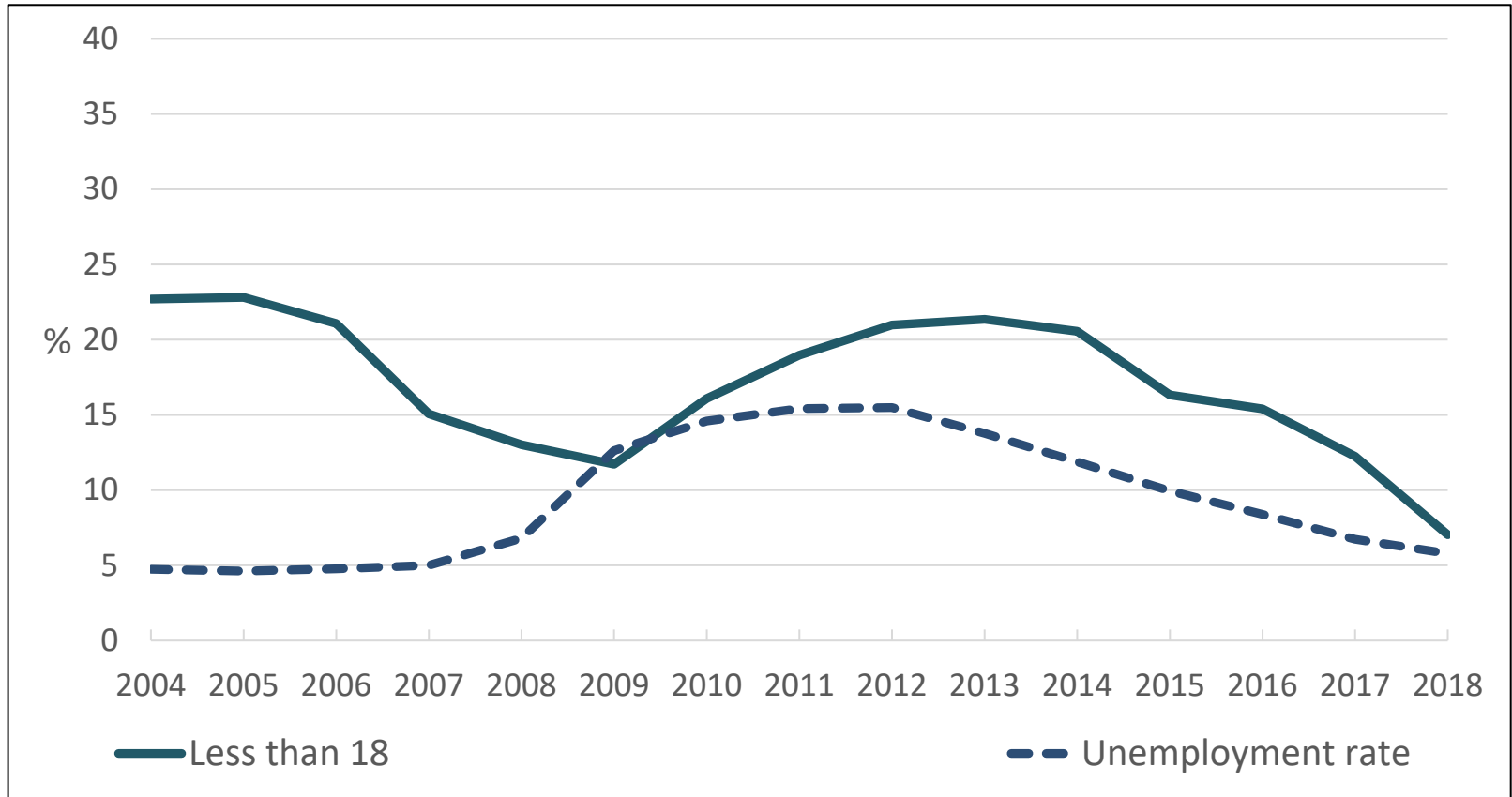
# AROP rates

- AROP rates do not track the business cycle well- show no upswing during the Great Recession
- Income losses households incurred are reflected in a lowering of the poverty threshold (60% of median equivalised household disposable income), rather than in the AROP metric
- Absolute measures of poverty, such as the basic deprivation rate, can be more useful in a large recession
- Using a constant poverty line can also help untangle income poverty changes from changes to median incomes



# AROP rates using the 2004 poverty line

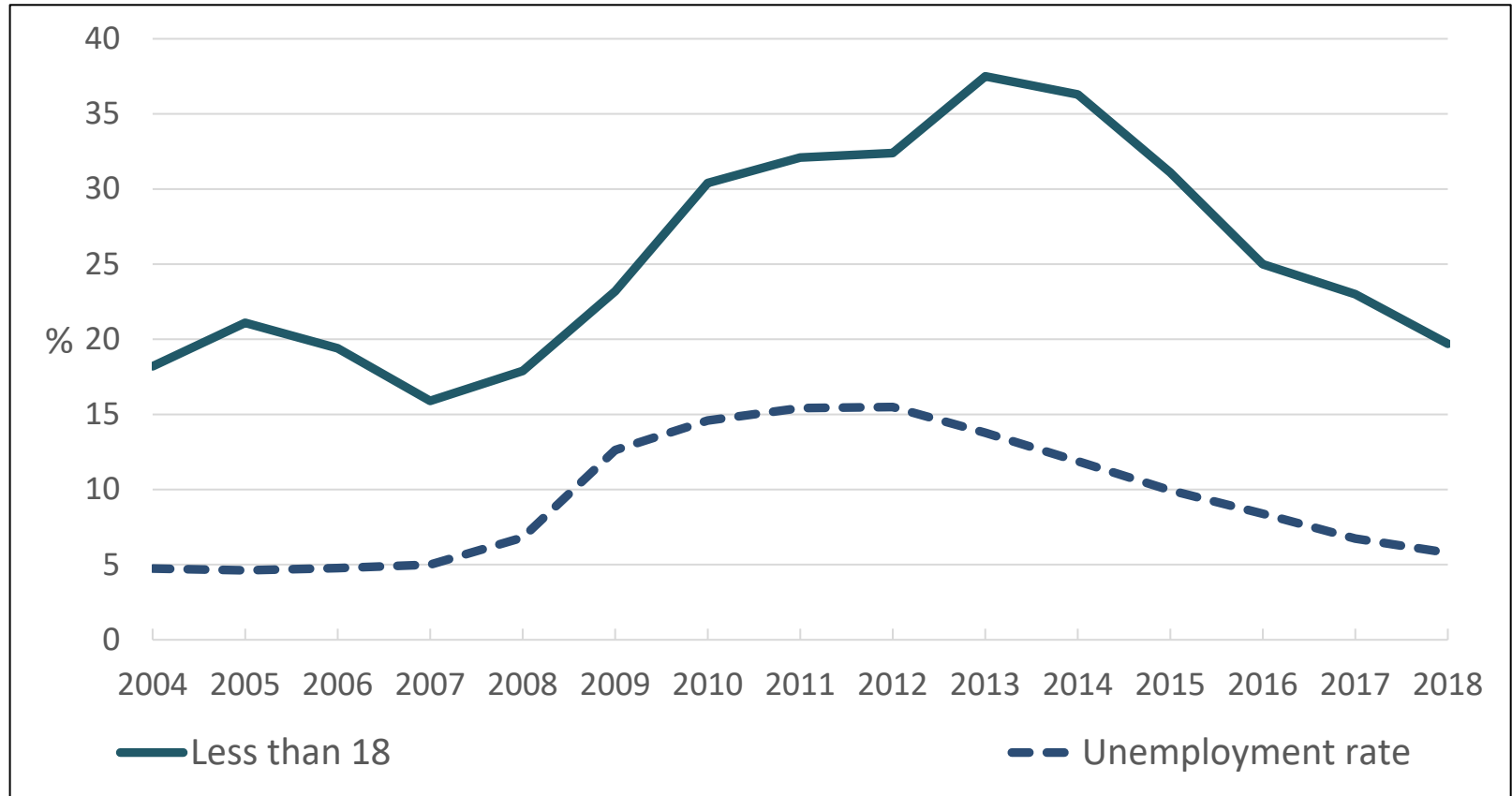
We see a cyclical pattern in child AROP rates if we use a fixed poverty line



**Notes:** Authors' analysis using SILC Research Microdata file. Year refers to the SILC survey year. 2004 poverty line is indexed in line with inflation.

# Basic deprivation rates

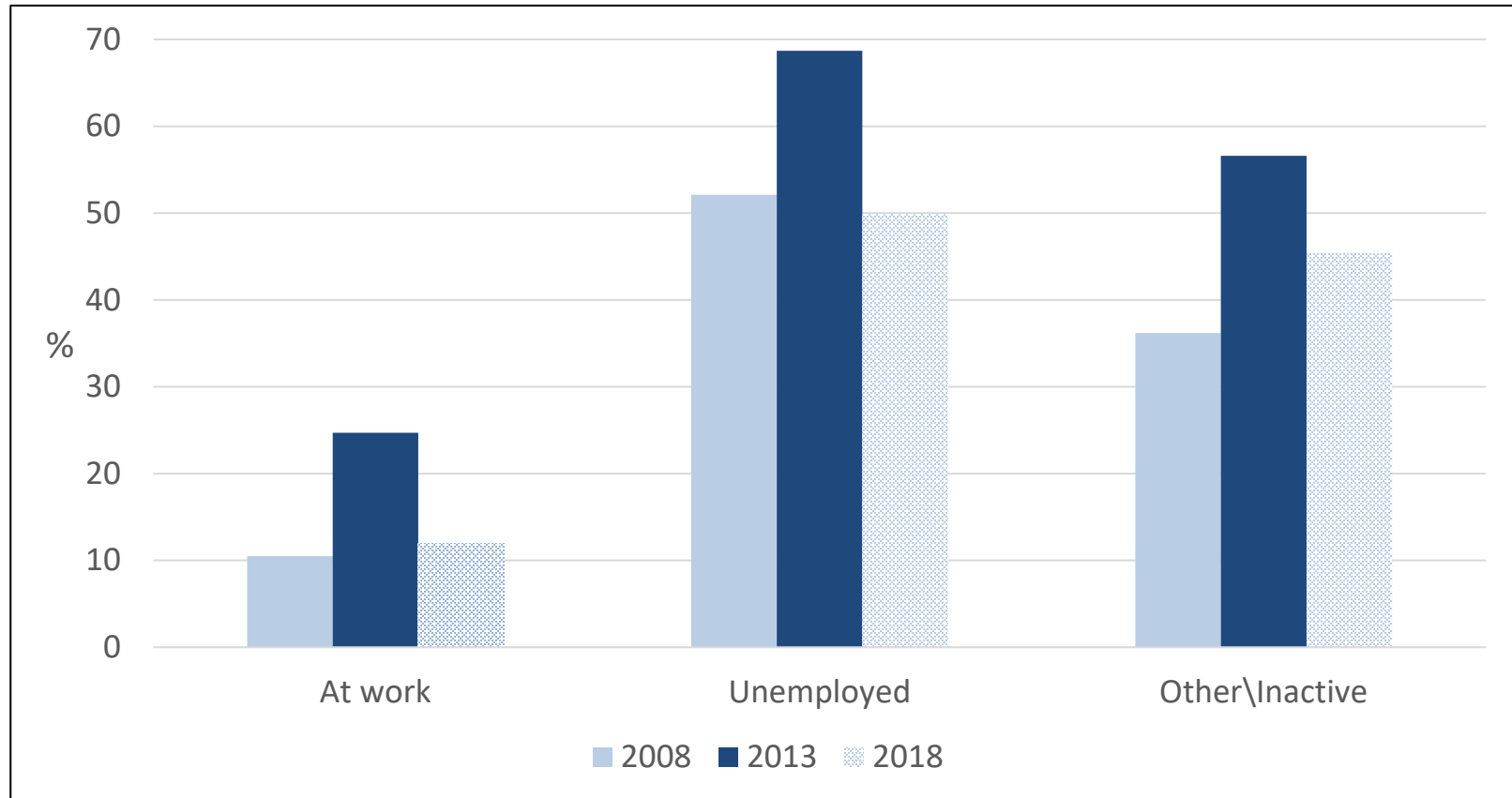
Rapid rise from 15 per cent in 2007 to over 35 per cent by 2013



**Notes:** Authors' analysis using SILC Research Microdata file. Year refers to the SILC survey year.

# Child deprivation rate by household head status

Employment substantially reduces the risk of a child being deprived



**Notes:** Authors' analysis using SILC Research Microdata file. Year refers to the SILC survey year.

# Summary

- Deprivation and fixed income poverty rates rose rapidly over the Great Recession
- By 2018 these were as low as during the Celtic Tiger period
- Parental employment substantially reduces the likelihood of a child facing deprivation or living in income poverty
- Given recent unprecedented job losses, how are child poverty rates likely to evolve in 2020?

# Simulating changes in child poverty (I)

- Estimate how income poverty will evolve over the course of 2020
- Make use of a harmonised European tax-benefit model, Euromod
  - Use the 2017 Irish EU-SILC file with incomes increased to start of 2020 levels
- Simulate widespread job losses and emergency income support measures
  - Pandemic Unemployment Payment (PUP)
  - Temporary Wage Subsidy Scheme (TWSS)

# Simulating changes in child poverty (II)

- Simulate a baseline 834,000 job losses in Mid-March
  - 584,000 receive PUP
  - 250,000 receive the TWSS
- Job losses are calibrated to match observed uptake of TWSS and PUP by industry at the end of April

# Simulating changes in child poverty (III)

- Also model a labour market recovery
- Allow a certain portion of displaced workers to return to work in Mid-June and at the end of September - based on quarterly unemployment estimates from Central Bank (2020)

## Incorporating uncertainty:

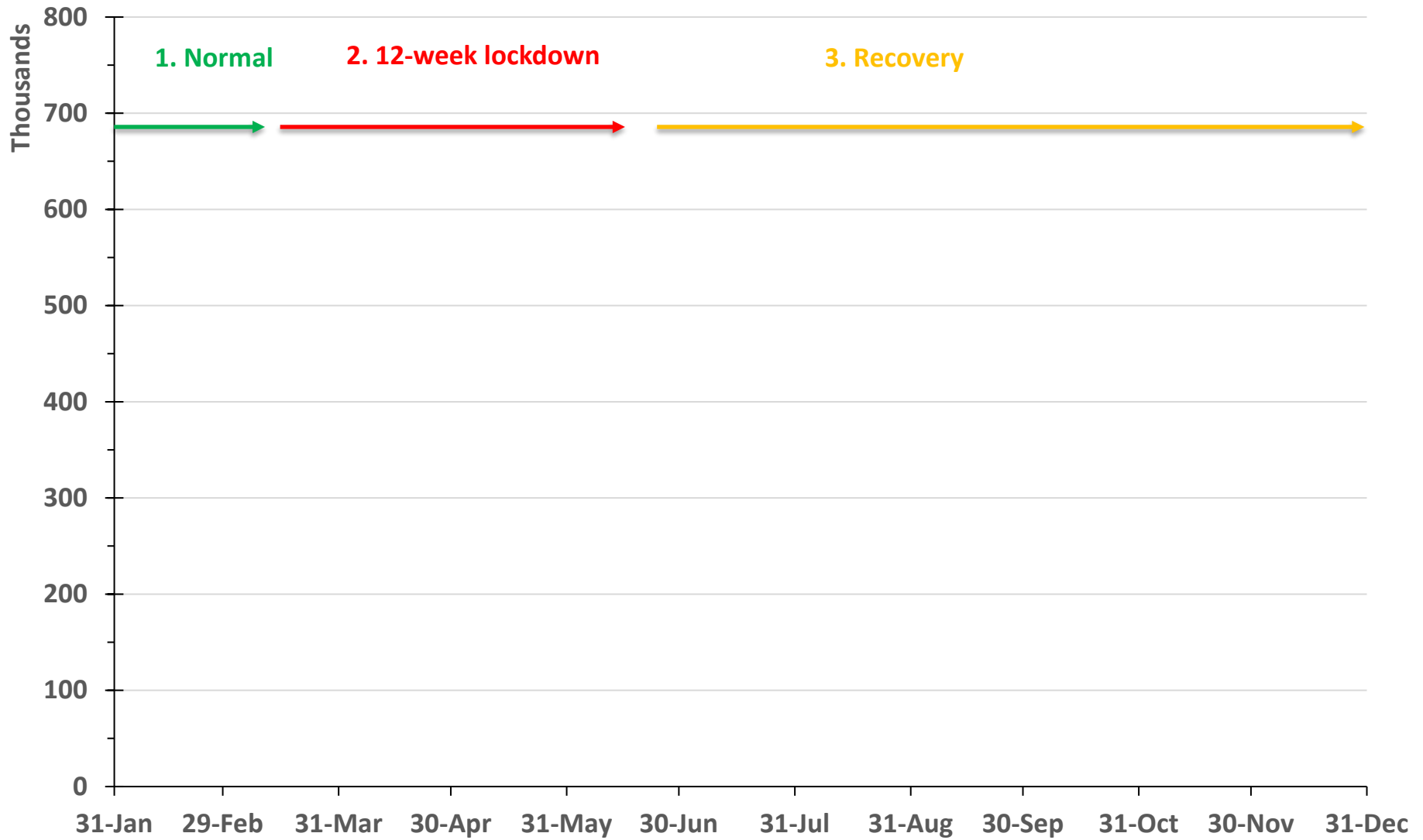
1. Allow the scale of job losses and labour market recovery to vary with a 10 percentage point spread (depth of recession and speed of recovery can be smaller/larger than the baseline)
2. Estimate the modelled results 100 times and report min., average and max. income poverty changes- Monte Carlo approach

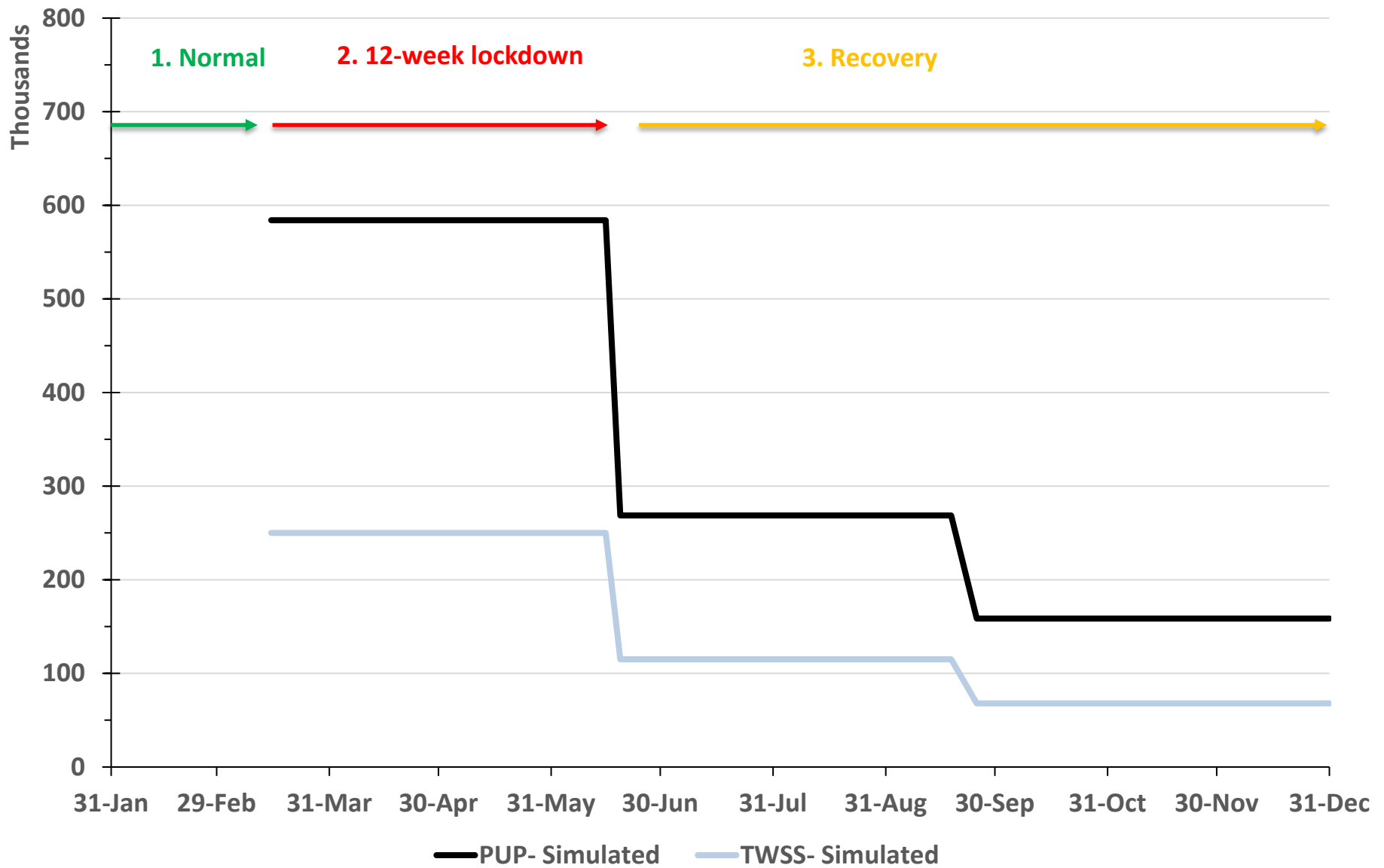
# Scenarios and assumptions

- No Pandemic Baseline
  - Normal economic activity for all of 2020
  - Tax-benefit rules for as at January 1<sup>st</sup> in place the whole of 2020
- Scenario A: No economic recovery
  - Large employment losses from Mid-March for the entirety of 2020
  - TWSS and PUP in place for the remainder of 2020
- Scenario B: Economic recovery
  - Large employment losses from Mid-March for a 12-week period
  - Workers return to work in Mid-June and end of September
  - Between 61 and 82 per cent of displaced workers return to work by end of September
  - TWSS and PUP in place for the remainder of 2020



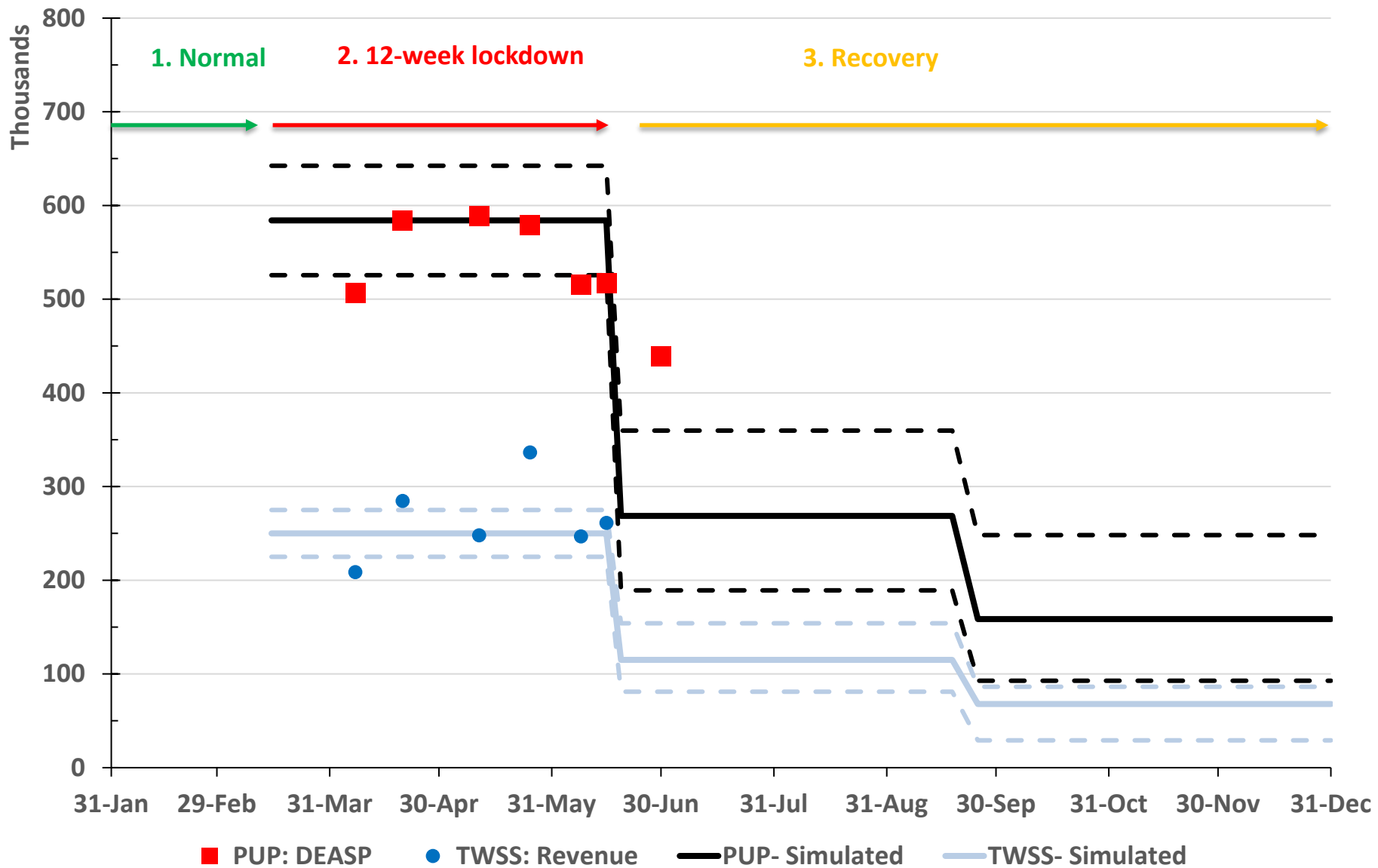
What does our simulated economic recovery look like?





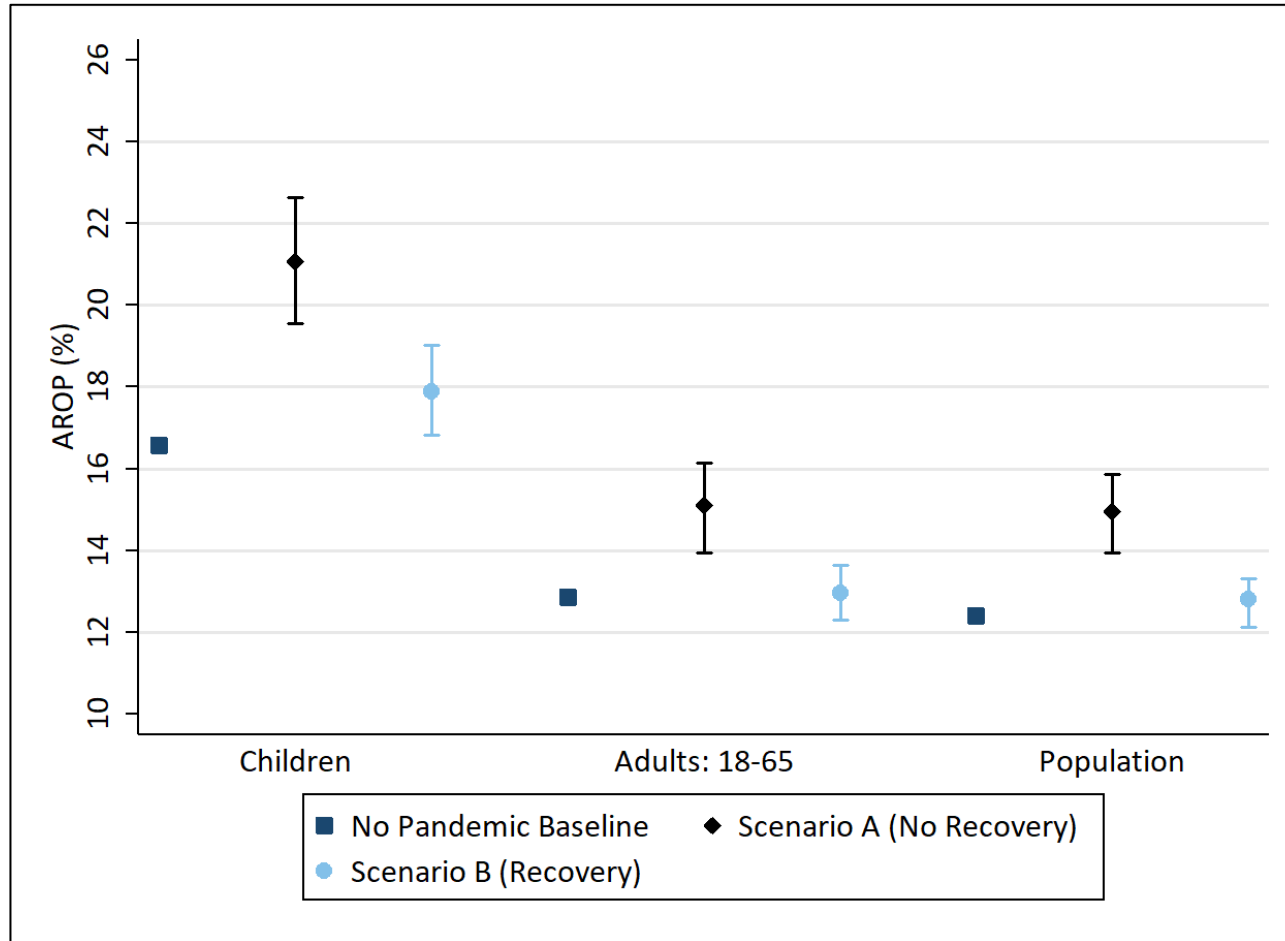


**Notes:** Dashed line are bounds on the extent of employment losses



**Notes:** Dashed line are bounds on the extent of employment losses. Shapes are administrative figures of recipients of TWSS and PUP on a fortnightly basis.

# Income Poverty Estimates



**Notes:** The “No Pandemic Baseline” poverty line is the poverty threshold in all scenarios. Authors’ analysis using EUROMOD over 100 iterations of each scenario. Shapes are averages, capped tails are minimum/maximum simulated poverty rates.

# Income losses for newly poor households

		Scenario A (No Recovery)		Scenario B (Recovery)	
		Not Poor (%)	Poor (%)	Not Poor (%)	Poor (%)
No Pandemic Baseline	Not Poor	-8.5	-67.6	-4.4	-50.3
	Poor	19.1	-1.6	15.3	0.1

**Notes:** The table tabulates average disposable income changes of households based on their poverty status in the No Pandemic Baseline and Scenarios A and B respectively. Average income change over 100 iterations shown.

# Income losses for newly poor households

## Households falling into poverty lose >50% of household income

		Scenario A (No Recovery)		Scenario B (Recovery)	
		Not Poor (%)	Poor (%)	Not Poor (%)	Poor (%)
No Pandemic Baseline	Not Poor	-8.5	<b>-67.6</b>	-4.4	<b>-50.3</b>
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# Income losses for always poor households

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# Income losses for always poor households

Households poor in the baseline incur small average income changes

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No Pandemic Baseline	Not Poor	-8.5	-67.6	-4.4	-50.3
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# Some households rise out of poverty

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# Some households rise out of poverty

A very small portion of households rise out of poverty- due to income gains from PUP. Less than 1% of children gain from this occurrence.

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No Pandemic Baseline	Not Poor	-8.5	-67.6	-4.4	-50.3
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**Notes:** The table tabulates average disposable income changes of households based on their poverty status in the No Pandemic Baseline and Scenarios A and B respectively. Average income change over 100 iterations shown.

# Conclusions

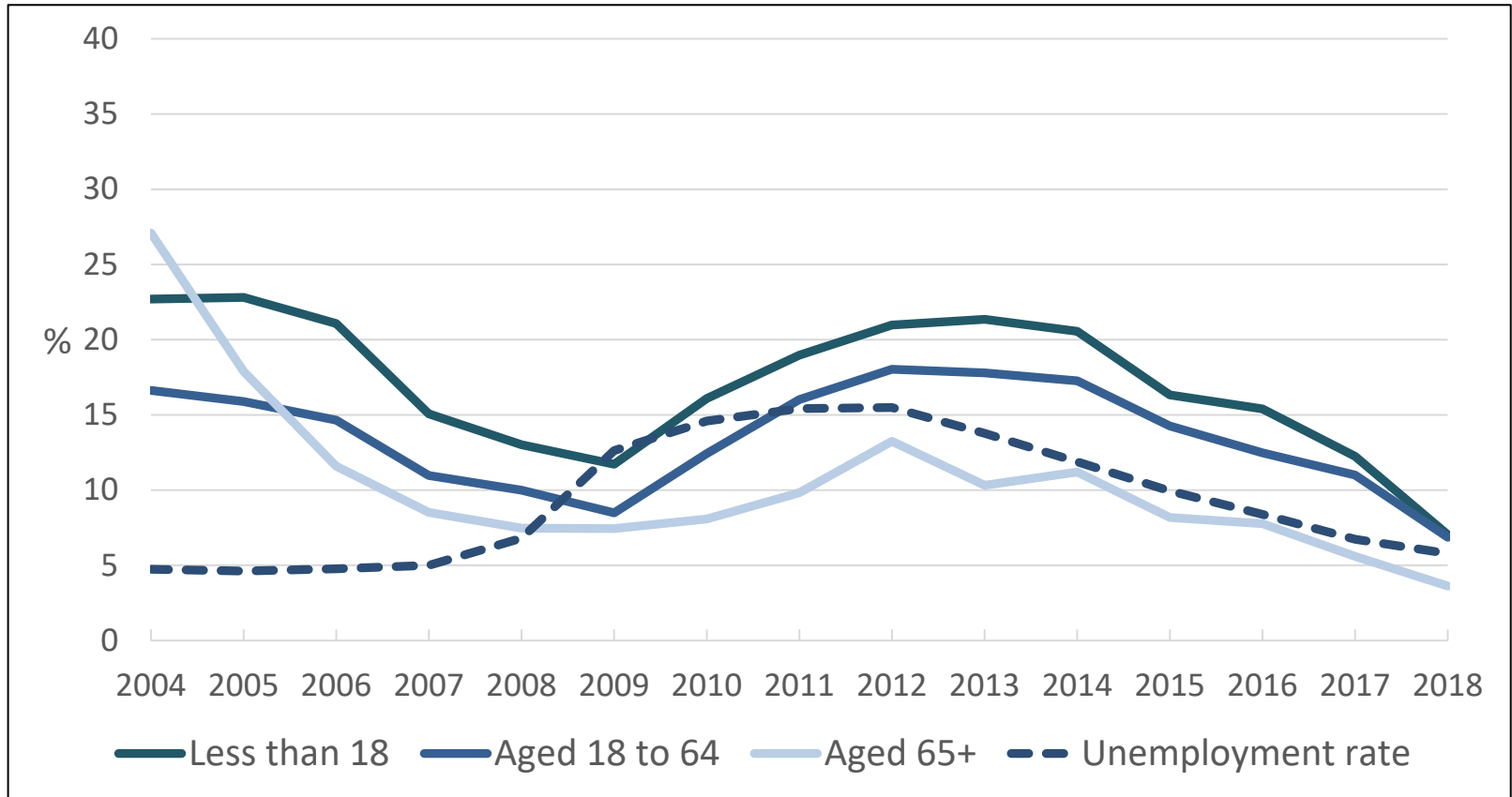
- Child income poverty estimates rise by an average of:
  - One-quarter in No Recovery Scenario, to 21.1%
  - One-eleventh in Recovery Scenario, to 18%
- Even with emergency measures like PUP and TWSS in place for the entire year, an economic recovery will be important to mitigate a rise in child income poverty
- Increasing the child allowance for social welfare payments would help combat this rise

Thank you.

Questions/Comments?

# AROP rates using the 2004 poverty line

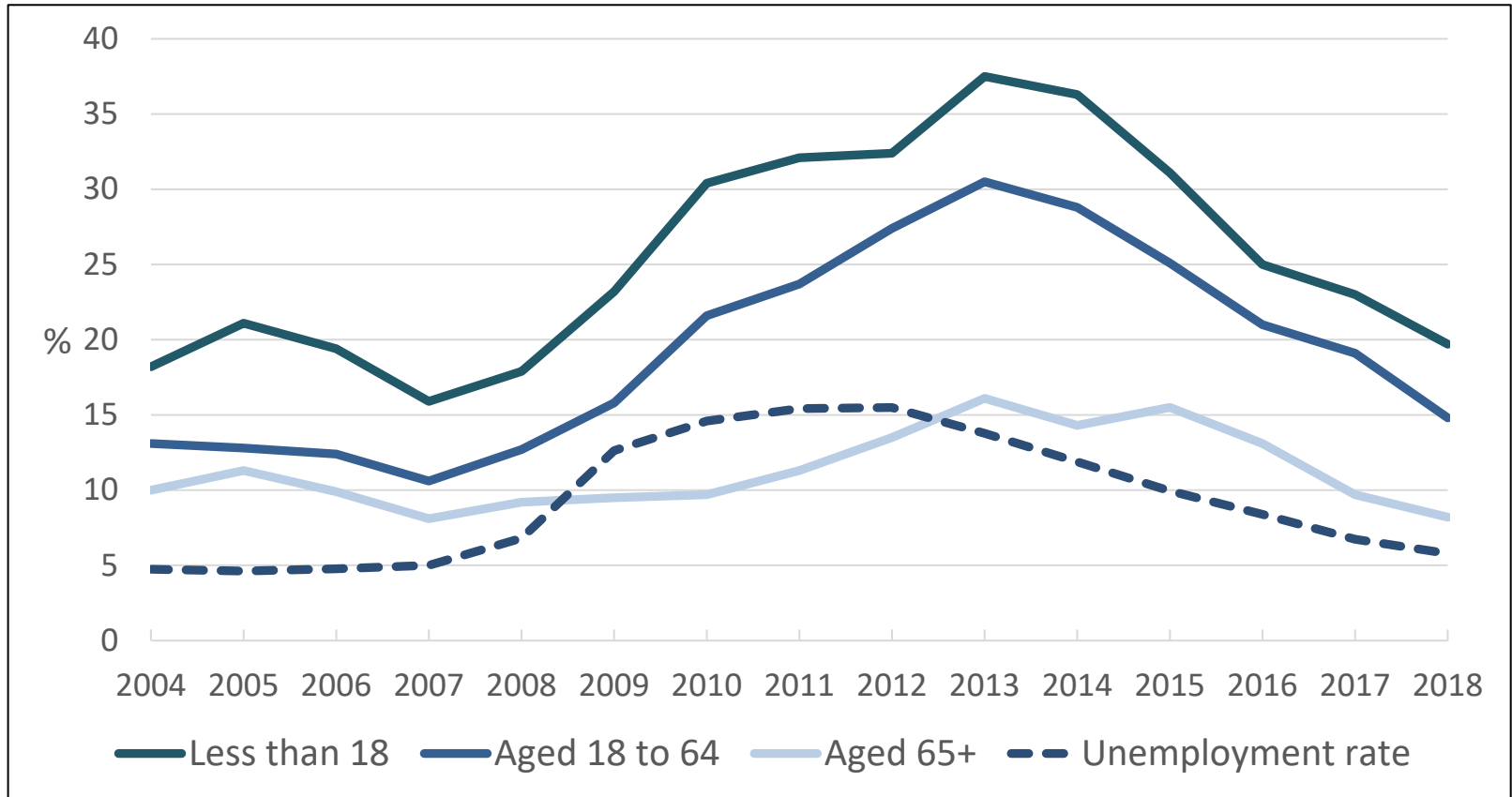
Again, child AROP rates are usually higher than adult an elderly rates



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# Basic deprivation rates

Deprivation is highest among children and lowest among the elderly



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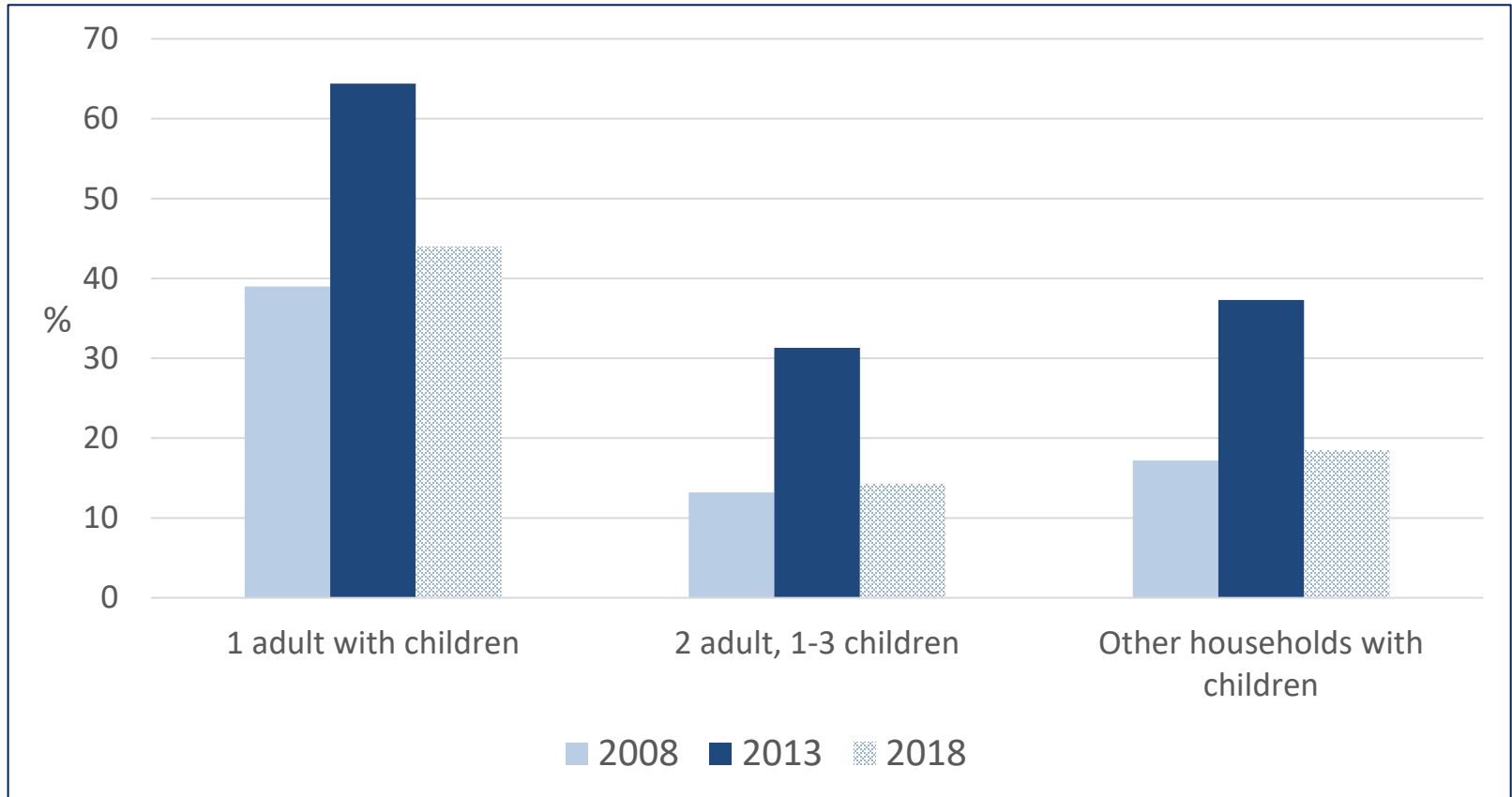


# Child poverty transition matrix

		Scenario A (No Recovery)		Scenario B (Recovery)	
		Not Poor (%)	Poor (%)	Not Poor (%)	Poor (%)
<b>No Pandemic Baseline</b>	<b>Not Poor</b>	78.5	4.9	81.5	1.9
		[77.2, 80.2]	[3.2, 6.3]	[80.5, 82.3]	[1.1, 3.0]
	<b>Poor</b>	0.4	16.2	0.6	16
		[0.1, 1.1]	[15.5, 16.5]	[0.2, 1.2]	[15.4, 16.4]

# Child deprivation rates by household type

**One-adult households have consistently higher deprivation rates**



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