

Poverty, income inequality and living standards in Ireland: report launch

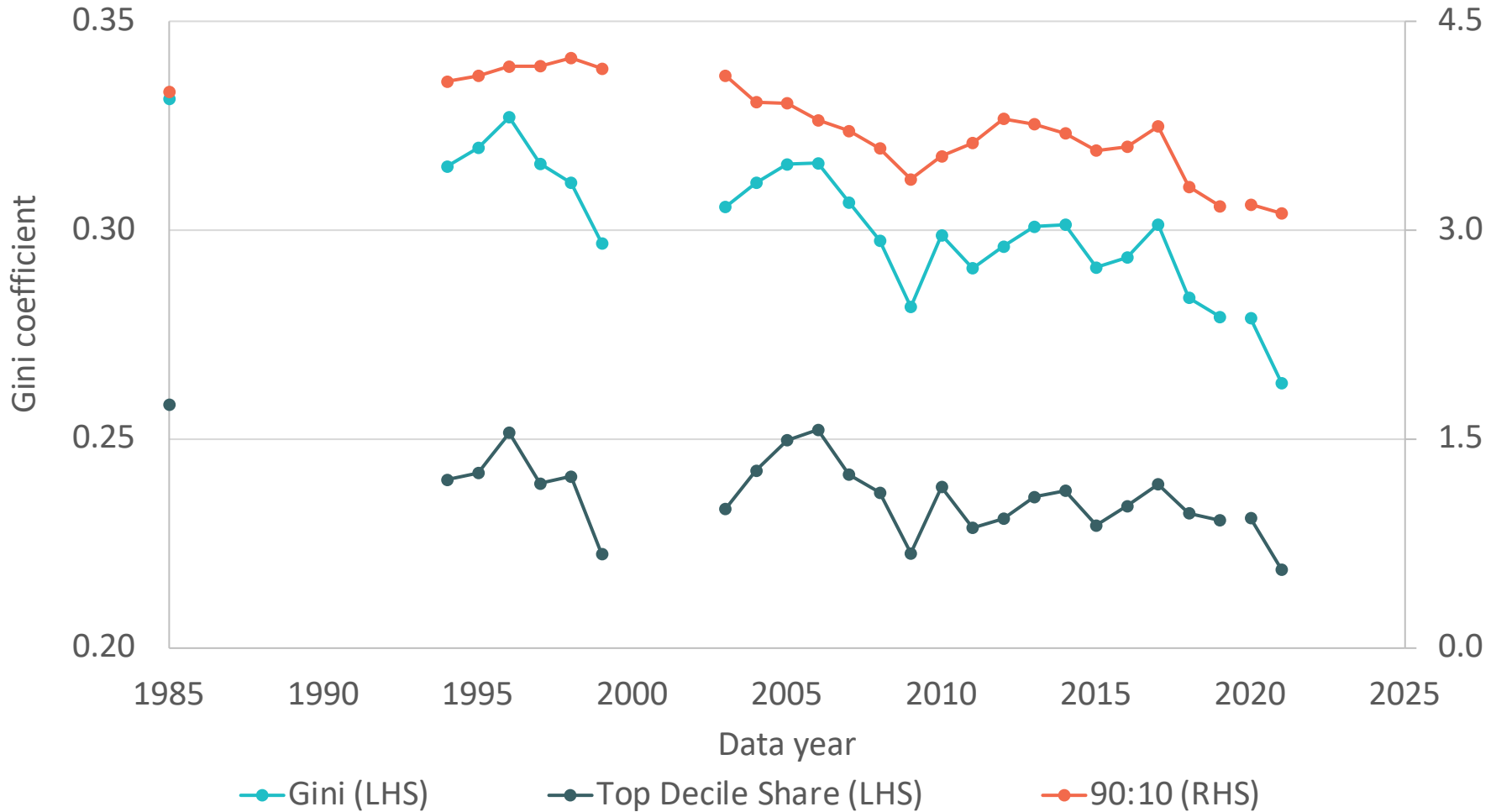
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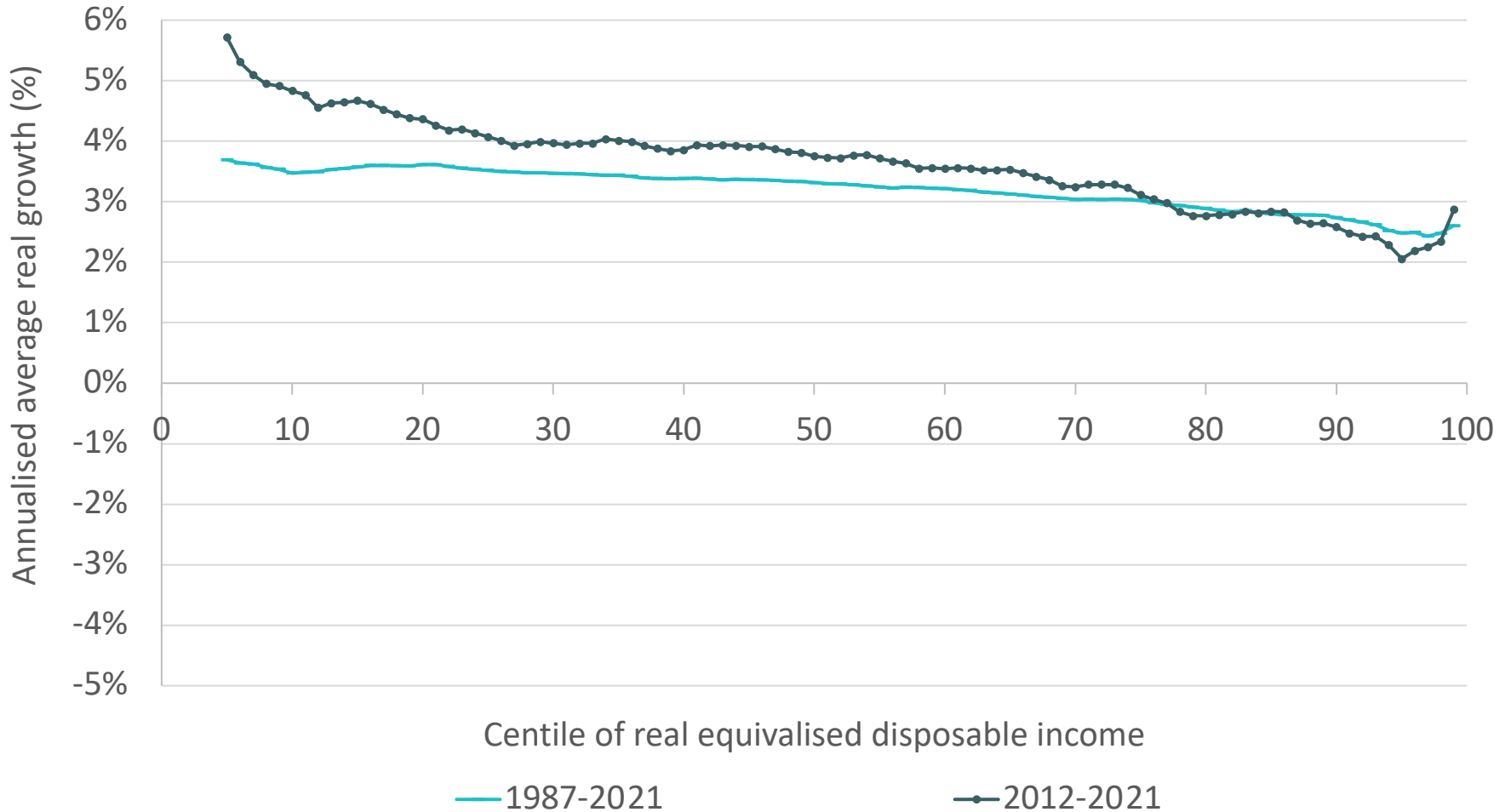
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Income inequality has fallen here over the past 30 years



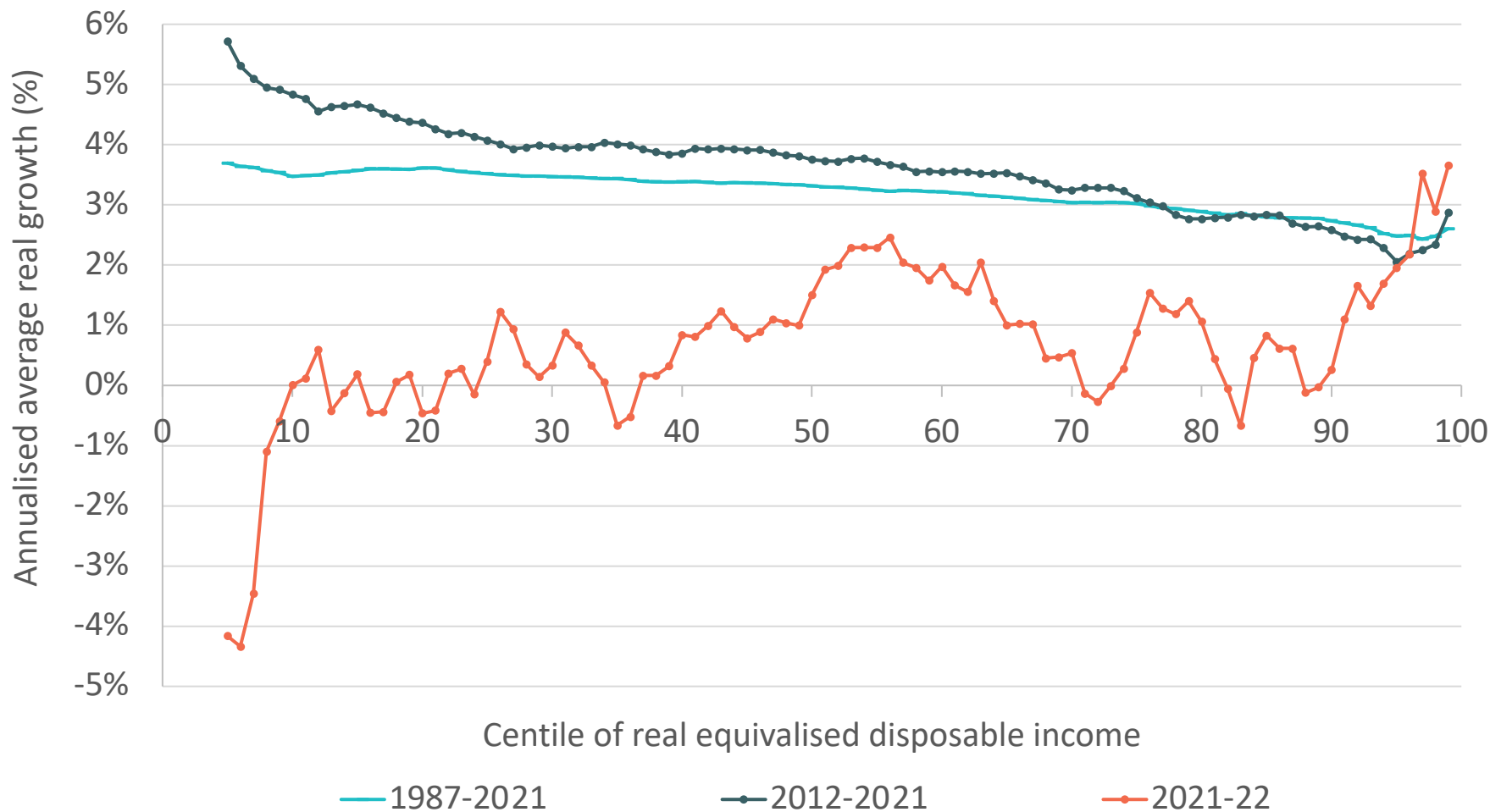
Note: Authors' calculations using the ESRI Survey of Income Distribution, Poverty & Usage of State Services, the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files.

... the product of inclusive growth in after tax income



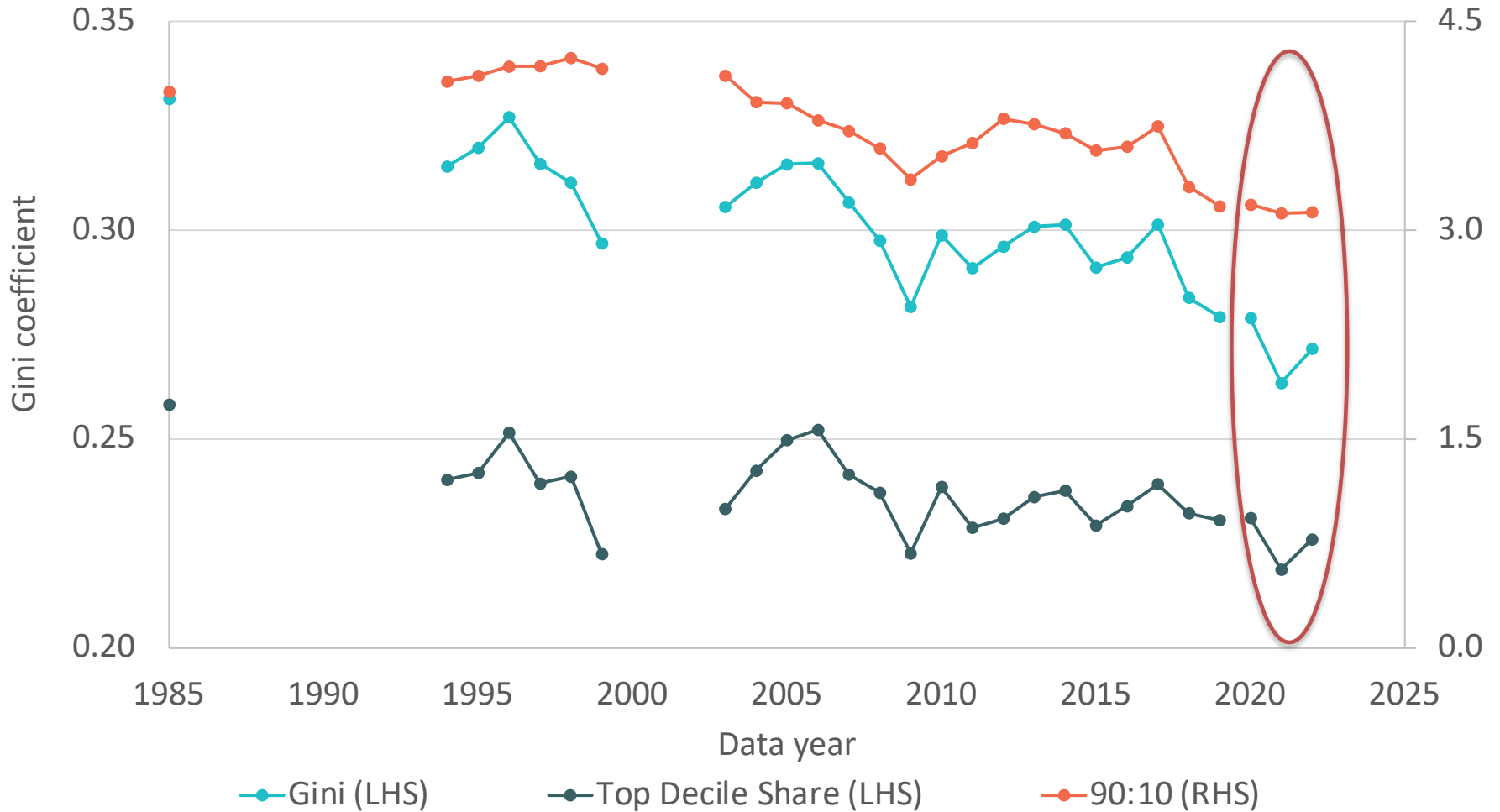
Note: Author's calculations using the Living in Ireland Survey and the Survey of Income and Living Conditions Research Microdata Files. Incomes after direct taxes paid and benefits received.

But latest data suggests this fell or stalled for bottom half



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... with income inequality rising for first time since 2017



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Why are we now seeing these patterns of growth?

Despite strong labour market recovery, earnings from employment fell for those in the bottom quintile (fifth)

- Driven by a decline in number of usual hours worked per week and shift towards more part-time employment

Highlights role household structure plays in mediating the impact of (individual) earnings on (household) income

- Only a quarter in the lowest quintile of individual earnings were also in the lowest quintile of equivalised household income
- Same share as located in top two household income quintiles

Is this cause for concern?

Sluggish growth preceded ongoing high rates of inflation

- Two years of 7%+ inflation raise the prospect of three years without real income growth for most households

Means Government faces difficult choices in Budget 2024

- Can't – & shouldn't try to – protect everyone from rising prices
- Instead need to decide what groups want to protect & how
- Once-off payments were coherent response to sharp rise in prices, but unless repeated or undertake a benchmarking exercise now risk eroding adequacy of welfare system

Also questions about adequacy of welfare system for kids

After housing cost AROP & material deprivation rates are higher for children than working-age or older adults

- 20.1% and 18.8% respectively for those age 0-17 compared to 16% and 11.8% for those 65+ (14.2% and 17% for those 18-65)

Moreover, now strong body of evidence that poverty has negative causal effect on child and later life outcomes

- National Academies (2019): ‘wealth of evidence suggests that a lack of adequate family economic resources compromises children’s ability to grow and achieve success in adulthood’

...with renewed political prioritisation of child poverty

Establishment this year of a Child Poverty and Well-being Programme Office in the Department of the Taoiseach

- “Ending child poverty is a core ambition of this Government ... because happy childhoods are the foundation for realising broader economic, environmental, and social goals” - Taoiseach

We examine options for reducing child poverty using the ESRI tax & benefit model (SWITCH) run on CSO SILC data

- A. Increasing Child Benefit (CB)
- B. Raising IQCs
- C. Increasing WFP
- D. Introducing second tier of CB

Options for reducing child poverty: child benefit & IQCs

Would cost €535 million to reduce child poverty by 1ppt via increases to child benefit (€38/month/child)

- High cost reflects untargeted nature of payment: much of cost would go on transfers to higher income households

Raising Increases for Qualified Children (IQCs) would cost less (€335m), but potential impacts on work incentives

- IQCs paid alongside payments like Jobseekers' Allowance which are heavily means-tested, weakening the financial incentive to be in paid – particularly full-time paid – work
- However, such incentives only one factor in the decision to undertake paid work

Options for reducing child poverty: increases to WFP

Working Families Payment (WFP) has less adverse effects on work incentives as requires work >38hrs/fortnight

- While also appears very effective way of reducing child poverty (€190m/ppt reduction), does not provide support to children furthest below the poverty line

Even when combined with increases to IQCs, will be some ineligible for WFP and who receive little from IQCs

- Fragmented nature of the welfare system among reasons the Commission on Taxation & Welfare recommended introducing new means-tested second-tier of child benefit

Options for reducing child poverty: second-tier of CB

While design of payment requires careful consideration, our simulations suggest could have substantial impacts

- Lower cost/ppt reduction in child poverty than increasing WFP, but resources directed towards lowest-income children
- Could reduce child poverty by a quarter ($\cong 40,000$ children) at a cost of €700m, while halving the poverty gap

However, such a reform requires confronting some of the implicit choices made in structure of the current system:

- e.g. should the welfare system encourage low-income parents to engage in part-time (rather than full-time) work?

Conclusions

Latest data suggests real household income growth stalled & inequality rose despite strong labour market recovery

- Ongoing high inflation is likely to further erode incomes, raising prospect of 3 years without income growth for most households

Introduction of a means-tested second tier of child benefit could reduce child poverty by a quarter ($\cong 40,000$ children)

- strong evidence that poverty has negative causal effect on child & later life outcomes, especially when it starts early & persists

THANK YOU!



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