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POVERTY AND TIME: PERSPECTIVES ON THE DYNAMICS OF POVERTY

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and James Williams

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GENERAL SUMMARY

Introduction

The ESRI's 1987 Survey of Income Distribution, Poverty and Use of State Services has served as the basis for a lengthy series of studies of poverty and related topics in Ireland. The present study extends that research by exploiting the wealth of data in the survey which can throw light on the *dynamics* of resources, income and poverty. To understand why some people are trapped in poverty while others escape from it, why low income has a much more immediate impact on living standards for some households than others, and why some people are at much higher risk of poverty than others, one needs to look at socio-economic background, acquisition of education and skills, labour market experiences, and the build-up of savings versus debts over a long period. By doing so, our understanding of poverty and how best to design anti-poverty policy is significantly enhanced.

One perspective on income and poverty dynamics is provided by panel data – that is, information gathered over a number of years on the same set of individuals. We draw here on the results of the 1989 survey which re-interviewed some of the 1987 sample (fully described in Williams and Whelan 1994). However, the main emphasis in this study is on the alternative perspectives on dynamics which do not require panel data, and on questions which even a long-running panel would not always answer. This shows how much retrospective cross-section data can reveal about how people end up in poverty and how long they are likely to remain there, and about the highly structured processes at work.

The study first focuses on current income and its relationship with indicators of deprivation. Progressively lengthening the time horizon it looks in turn at income mobility and poverty dynamics going from current to annual income, at income/poverty dynamics over one or two years, at the relationship between poverty and long-term labour force experience, and at the deep-seated factors structuring the relationship between poverty and social class.

The Key Findings

Analysing the complex relationship between current income and deprivation a set of eight indicators of basic material deprivation were selected, such as not being able to afford a warm overcoat or a second pair of shoes, things that most people in the sample clearly regarded as necessities. About half those with incomes below the 60 per cent relative income poverty line were also experiencing basic deprivation of this type. Those on low current incomes but not apparently experiencing basic deprivation had much higher levels of savings in the form of deposits at banks, building societies, etc., and more assets in the form of housing. Possession or absence of durables such as a washing machine, or indicators of housing quality, were not very highly correlated with the indicators of current basic deprivation or with current income, and may be more strongly influenced by the evolution of income over a long period and life-cycle factors. These findings highlight central questions about how we think of poverty and how it is best measured. Townsend's widely-used definition sees poverty in terms of exclusion due to lack of resources. These results demonstrate that low income alone does not always involve basic deprivation, and that current income may not adequately reflect differences in living standards between households. The distinction between poverty conceived in terms of living standards versus a concern with minimum rights to resources is, therefore, crucial.

Current income in household surveys such as the 1987 ESRI one generally refers to the amount received in the most recent week or month (though for self-employment income and interest and dividends a longer period, usually a year, is used). This means that someone who has just lost a job and is on social welfare but spent most of the last year in work will be categorised as in the same income position as someone who has been unemployed all year. Here estimates of annual incomes and the incidence of poverty using this longer accounting period are also made. A good deal of mobility between current and annual income throughout the distribution was found. There was also some mobility *vis-à-vis* relative income poverty lines, with about 10 per cent of those below current income lines above the corresponding annual lines. Significant differences between annual and current incomes could account for only a small proportion of the households on low current incomes not experiencing basic deprivation.

The limited follow-up survey carried out in 1989, re-interviewing some of the households in the 1987 ESRI survey, showed that about 30 per cent of the households below the 60 per cent relative income poverty line in 1987 were not below such a line in 1989. This is broadly in line with the escape rates found in the available studies for other countries, though somewhat higher than the USA and lower than The Netherlands or Canada. It is clear both from the international and Irish results that the extent of mobility out of poverty depends crucially on the underlying poverty rate – the higher the poverty rate, the lower the escape rate. Caution must be exercised in drawing strong conclusions from escape rates about the extent to which poverty is a transitory or permanent phenomenon. Analysis of the long-running panel data in the US has shown that while most poverty "spells" are relatively short, the same people may experience more than one spell over a number of years. Focusing on individuals rather than spells, even if most of those who ever experience poverty spend only a relatively short time poor, a majority of those counted as poor at any point in time will be in poverty long term. Panel data running over a long period allows these complex relationships to be clarified. The Europanel survey which has recently been initiated in all European Union member states by Eurostat, being carried out in Ireland by the ESRI, opens up the exciting prospect of longitudinal data on a substantial set of Irish households.

The analysis of those on low current incomes, of current-annual income mobility, and of mobility between 1987 and 1989 all pointed to the importance of experiences in the labour market over time as key determinants of "permanent income" and thus of current living standards. Retrospective data obtained in the 1987 survey shows that while experience of unemployment is reasonably widespread, the burden is very unevenly distributed. About 28 per cent of all adults in the sample had experienced unemployment at some point in their careers, but the small group with over five years of unemployment had experienced almost half all the years of unemployment. The distinguishing characteristic of those bearing most of the burden of unemployment was a low level of educational attainment: few had a second-level qualification, and over half did not have even a Primary certificate. The risk of being in poverty currently was clearly seen to depend not only on current labour force status but also on the extent of unemployment experienced in the past. The risk of being poor rose sharply as the extent of unemployment in the previous year increased, and the risk was highest for those who were out of work all year and also had substantial unemployment during their careers.

The resources available to a household are influenced by the way incomes and assets have evolved over a long period. Social class attempts to capture the long-term rewards associated with different occupations. An analysis of the relationships between social class and the risk of being in poverty shows the extent to which current poverty risk varies with class. Those in the unskilled manual class face a poverty risk which is as much as 20 times as high as those in the professional and managerial classes. What is even more striking is the strength of the relationship between the risk of being in poverty and the social class from which the person originally came. For those both in the unskilled manual class *and* coming from that class, the risk of poverty is very high indeed, significantly higher than for those originally from a higher class. Education plays a central role in the process of reproduction of disadvantage, and the way in which the advantages associated with higher class origins are translated into access to desirable class locations. About two-thirds of those in the sample from unskilled manual backgrounds, compared with fewer than one in ten of those coming from the professional/managerial social classes, obtained little or no educational qualifications. The risk of poverty in turn is about five times as high for someone with no qualifications as it is for someone with a Leaving Certificate. Education has become increasingly important over time in determining life chances, and the consequences of failing to acquire any educational qualification for successful participation in the labour market have become much more pronounced.

Implications of the Findings

The findings amply demonstrate the importance of the time dimension for understanding poverty, and the fact that the circumstances of individuals and households are seen to change over time leads to a concentration on the *processes* at work. Policies aimed at addressing the structural factors which create and transmit disadvantage, rather than ones which are primarily palliative, are therefore essential.

The extent to which households relying on social welfare in 1987 were found to be experiencing basic deprivation is helpful in assessing the adequacy of the support provided by the various schemes. A very high proportion of those depending on Unemployment Assistance (UA) were experiencing basic deprivation, with a much lower proportion of those relying on Old Age Pensions in that situation. This serves to reinforce the emphasis in our previous research on income support levels for the long-term unemployed, and there have, in fact, been substantial increases in long-term UA since 1987. However, reliance on targeting social welfare support via means testing can create disincentive effects and unemployment traps, and the limitations to what can be achieved via income support alone have to be recognised. It is also important to emphasise that although information on both income and deprivation indicators helps us to identify groups of households in particular need, this does not mean that the social welfare system should aim to assist *only* those currently experiencing such deprivation. The principal aim of social welfare support is to bring people with incomes below the minimum adequate level up to that level. One would not wish to restrict support only to those actually experiencing exclusion – rather, the objective is to help those on low incomes avoid such exclusion.

Labour market experiences have been shown to be the key influence on the risk of poverty over time, with educational attainment in turn the key determinant of labour market success. Within an overall strategy for employment creation, special education and labour market measures are required to assist those with low levels of educational attainment. The priority must be targeting specially-designed programmes at those who have already left school with little or no qualifications, and introducing measures to reduce the numbers leaving school each year in that position. Focusing on labour market measures, recent evaluations of the main training and employment schemes in operation up to the present suggest that they have not been effective in creating jobs and reducing unemployment. However, special programmes could alleviate poverty by helping those most in need to get jobs and in effect distributing the burden of unemployment – which we have seen here to be very unequally distributed – more evenly. Targeted employment subsidies so far seem to have had little success in overcoming employers' reluctance to hire the long-term unemployed: reformulated subsidy schemes with a clear and explicit equity objective could make some contribution to improving the prospects of the most disadvantaged, though the subsidy per worker would have to be relatively high. Direct State job creation schemes such as the SES offering only short-term low-wage employment do little or nothing for the longer-term prospects of beneficiaries, and even in the short term fail to significantly alleviate poverty. Given the particular problems facing the Irish labour market over the next decade, a temporary direct employment programme providing jobs for a significantly longer period than the SES and at higher wages, targeted at the very long-term unemployed, merits serious consideration.

The dynamic perspective developed in this study has shown that the position of individuals and households can change markedly over time, and that those in poverty at a particular point in time do not inevitably remain in that situation indefinitely. From that point of view a focus on dynamics can be a basis for optimism. However, it has also revealed just how unevenly the burden of unemployment and poverty is distributed, and how difficult it is to escape the consequences of a disadvantaged start to life. This demonstrates above all the need to look beyond the social welfare system – essential though it is in alleviating the effects of disadvantage – in framing anti-poverty policy.

Chapter 1

INTRODUCTION

1.1 *Background*

The information obtained in The Economic and Social Research Institute's 1987 Survey of Income Distribution, Poverty and Use of State Services has served as the basis for a lengthy series of studies of poverty and related topics in Ireland. Callan *et al.* (1989) used this database to analyse the extent of low income and the numbers below relative and consensual income poverty lines, as well as examining the characteristics of low income households and the effectiveness of the social welfare system in alleviating poverty. Trends in relative income poverty and comparisons with other countries were also discussed (on which see also Callan and Nolan, 1994a). Subsequent research has looked in detail at topics such as child poverty (Nolan and Farrell, 1990), low pay and poverty (Nolan, 1993), psychological ill-health, poverty and unemployment (Whelan, Hannan and Creighton, 1991), and intra-household resource distribution and poverty (Rottman, 1994). The data has also served as the basis for the construction of a tax/benefit model for Ireland, applied in a number of studies focusing on the distributional and incentive effects of various options for reform (Callan, 1991a; Callan, O'Donoghue and O'Neill, 1994; Callan and Nolan, 1994b). Studies on related areas have looked at the patterns of wealth-holding among Irish households (Nolan, 1991; Honohan and Nolan, 1993), male-female wage differentials (Callan, 1991b; Callan and Wren, 1993) and women's participation in the labour force (Callan and Farrell, 1991), and inter-generational social mobility (Whelan, Breen and Whelan, 1992). An overview of this research is provided in the summary volume edited by Nolan and Callan (1994).

Up to the present, the wealth of data in the 1987 survey which can throw light on the *dynamics* of resources, income and poverty remains to be exploited. The present study aims to rectify that situation by exploring and illustrating the importance of dynamics from a number of different perspectives. To understand why some people are trapped in poverty while others escape from it, why low income has a much more immediate impact on living standards for some households than others, and why some people are at much higher risk of poverty than others, we need to look for example at their socio-economic background, acquisition of education and skills, labour market experiences, and the build-up of savings versus debts over a long period. By doing so, our understanding of poverty and how best to design anti-poverty policy is significantly enhanced.

One perspective on income and poverty dynamics is provided by what is known as longitudinal or panel data – that is, information gathered over a number of years on the same set of individuals. This allows one to see, for example, the extent to which the households in poverty at one point in time remain in that situation in subsequent years. Unlike the USA, where the Panel Study of Income Dynamics (PSID) has been run by the University of Michigan since the late 1960s, such data are only now becoming available in most European countries. For Ireland the panel study currently being run by the ESRI on behalf of Eurostat (the Statistical Office of the European Union), as part of a Europe-wide initiative, will over time provide a longitudinal database. In the meantime, the limited 1989 follow-up survey which re-interviewed some of the households who had responded to the 1987 ESRI survey is the only window into how the situation of a particular set of Irish households evolved over time. A full description of the results of that survey has been given in Williams and Whelan (1994), published by the Combat Poverty Agency. Here we include a summary of its key findings about poverty transitions, to give as complete a picture as possible of our current state of knowledge about poverty dynamics in Ireland and to illustrate the potential of panel data.

However, our main emphasis in this study is on the alternative perspectives on dynamics which do not require panel data, and on questions which even a long-running panel would not always answer. Our intention is to show how much cross-section data can in fact reveal (particularly when a retrospective element is included in the information obtained), about how people end up in poverty and how long they are likely to remain there, and about the highly structured processes at work. In the rest of this introductory chapter, the stage is set for the study. Section 1.2 discusses in more detail how research on poverty elsewhere and recent Irish studies have pointed to the need for a focus on the time dimension, and how adopting a dynamic perspective has wide-ranging implications both for understanding poverty and for policy formulation. Section 1.3 then sets out the content and structure of the report.

1.2 *The Time Dimension and the Dynamics of Poverty*

The time dimension is central to the analysis of poverty. Where poverty is measured in terms of a shortfall in income below a societal standard, as it most often is, over what period is that shortfall to be measured – a week, a month, a year, or even longer? The impact of low income on living standards will depend on how long that low income persists, becoming more serious as savings are run down and opportunities to borrow are exhausted. Households on a similar low income in a particular week or month may thus have rather different living standards. Previous research using the 1987 ESRI survey (Callan, Nolan *et al.*, 1989, Chapter 8) has revealed that the relationship between current income and direct indicators of deprivation was rather weaker than commonly assumed, and going beyond current income in measuring and understanding the living standards of households was identified as a priority for further research. It should be stressed at the outset that the implication is *not* that only low income persisting over a long period will be of concern, since a severe shortfall may cause considerable hardship even if it only lasts a relatively short time. It is the interactions between the severity of the shortfall in income, its duration, the assets on which the household can fall back and the support available from other households which determine the impact on living standards, and it is these complex interactions over time which one wishes to capture.

A dynamic perspective also focuses attention on the causal factors at work and particularly on income and labour market dynamics. Analysis of trends in poverty incidence and risk over the period 1973-1987, using the Household Budget surveys carried out in 1973 and 1980 and the ESRI 1987 survey, has shown an improvement in the position of the elderly and a marked rise in the risk of poverty among large families.[1] The improved position of the elderly means that a group with relatively stable incomes and little or no current involvement with the labour market are no longer such a substantial proportion of the poor. The growth of unemployment as a cause of low income and poverty means that the factors influencing the risk of unemployment and unemployment durations become of central interest. Such research has highlighted the importance of investigating not only the shorter-term dynamics of inflows into and outflows from unemployment and the length of spells of unemployment, but also labour market experiences over a long period and the links between an individual's labour market performance, education and family background.

At the same time, research on poverty elsewhere has focused attention on the role of income dynamics by exploiting new types of data which have increasingly become available. Panel surveys are explicitly designed to

[1] See for example Callan, Nolan *et al.* (1989), Chapter 6.

reveal the changes from one year to the next in the income, labour force status, and living standards of that group. As this type of data has become available a growing body of research literature on poverty dynamics has appeared, focused largely on the experience in the United States, examining the extent to which individuals fall into and graduate out of poverty between one period and another, the length of poverty spells, and the mechanisms underlying transitions.[2] Most importantly, this allows those who are trapped in poverty for long periods to be distinguished from those for whom poverty is a relatively transitory experience.

Examination of this literature shows the care which must be exercised in drawing conclusions about the importance of long-term versus transitory poverty. Early studies of unemployment and poverty *spells* in the US indicated that most spells are relatively short, which was taken by some as an indication that poverty and unemployment are transitory for most of those experiencing them. However, it has subsequently been shown that many of those having short unemployment or poverty spells also had more than one spell over a relatively short period, so that their "escape" from poverty was short-lived. Focusing on individuals rather than spells, unemployment and poverty have been seen to be quite concentrated among individuals either having long spells or having repeated shorter spells. "Escapes" from unemployment or poverty can have very different long-term implications for different individuals and households. This highlights the hazards of drawing strong conclusions from panels which cover only a few years, rather than the long-running ones available for the USA, and the need to set evidence on year-to-year income and poverty dynamics in their longer-term context.

In this study we address a set of interlinked issues which allow us to fit what is known about short-run poverty dynamics in Ireland firmly within their context, which is one where deep-seated structural factors play a central role in producing poverty and determining the risk of poverty for different types of household. The set of questions to be explored and the structure of the study are outlined in the next section.

1.3 *Content and Structure of the Report*

The data to be employed in this study is described in Chapter 2. Chapters 3-7 constitute the body of the study, and the material is ordered so

[2] See for example Morgan, *et al.* (1974), Duncan (1984) and Ruggles (1991) based on PSID data, and Ruggles (1988), Ruggles and Williams (1989) and US Bureau of the Census (1989) using the Survey of Income and Program Participation.

that the time horizon being adopted lengthens as we move from one chapter to the next – starting with current and moving on to annual income, to income over the period between the 1987 and 1989 surveys, to labour market experience over the long term, and finally to social class and educational background. Chapter 8 then brings together the main findings.

We begin in Chapter 3 with the focus on *current* income as measured in the 1987 survey, which for most types of income refers to the amount received in the previous week (or fortnight/month if paid on that basis). This chapter uses the set of indicators of life-style and deprivation included in the survey to explore the relationship between current income and material deprivation in depth. This shows how, at a given income level, differences in the extent of deprivation are linked to variations in the availability of savings and other assets to supplement current income. This points to the importance of the manner in which households have arrived at their current income, how their incomes and resources have evolved over a much longer period. It also provides a way of identifying groups among those currently on low incomes who are experiencing particular hardship and deserve priority from a policy point of view. The main types of households distinguished in this way are described and the implications for the design of income support policies discussed.

Chapter 4 moves on to an annual time horizon in measuring income. Some households on very low current weekly incomes may have been on much higher levels for much of the year, and conversely some of those now in work may have spent much of the year unemployed at a much lower income level. Information in the 1987 survey on labour force experience and social welfare payments received over the previous year allows annual incomes to be estimated, so the relationship between current weekly income and income over the previous year can be examined. The extent to which the rankings of households by current versus annual income differ, and the impact of using an annual rather than a weekly accounting period in applying income poverty lines, are analysed. Using the deprivation measures developed in Chapter 3, the relationship between annual income and current experience of deprivation is also analysed to see whether the longer time horizon helps in understanding the pattern of deprivation.

Chapter 5 deals with income and poverty dynamics from one year to another, and what can be learnt from panel data following individuals and households over time. It first reviews the main findings of poverty studies based on panel data in other countries, mainly the USA. Key results on income mobility and movements into and out of poverty in Ireland from Williams and Whelan's (1994) analysis of the 1989 ESRI follow-up survey are then presented. Particular emphasis is placed on identifying the main factors producing "escapes" from poverty, and comparing the Irish pattern with that revealed by panel studies elsewhere.

Chapter 6 adopts a long-term perspective in focusing on the relationship between poverty and unemployment, which earlier chapters identify as the single most important cause of poverty and deprivation and as playing a key role in movements into and out of poverty. Data is available for the 1987 sample on unemployment experience over the previous 12 months and over the entire labour market careers of respondents, and the relationship between this long-term experience of unemployment and current risk of being in poverty is examined. The analysis reveals that a relatively small number of people bear much of the burden of unemployment over time. The links between low levels of educational attainment, poor labour market experience and the risk of spending significant periods in poverty are also highlighted.

Taking an even longer-term perspective, Chapter 7 explores the relationships between poverty and social class background. Detailed information was sought in the 1987 survey on the occupation(s) of respondents themselves and of their parents, so that both the current social class and the class from which they come can be identified. Relating households' risk of being in poverty to own and parental social class serves to show that the relationship between poverty and social background is a highly structured one. The mechanisms underlying this structuring, in particular the relationship between education and social background, are then examined.

Finally, Chapter 8 brings together the main findings of the study, and discusses the implications for understanding poverty and for directing policy intervention to where it will be most effective. One of the most important contributions of the dynamic perspective is that it focuses attention on the way resources are eroded over time for those who experience prolonged or persistent low income. Groups like the long-term unemployed are therefore particularly likely to experience hardship and deprivation. It also highlights the importance of the long-term processes structuring risks of unemployment and poverty, particularly the way in which the education system serves to reproduce disadvantage. In addition to helping to identify those most in need of income support and other assistance in the short term, then, the study focuses attention firmly on the necessity for intervention aimed at improving the life-chances of those who now bear the heaviest burden of poverty and unemployment.

Chapter 2

THE DATA

2.1 *Introduction*

In this chapter the data to be used in the study are described. Section 2.2 deals with the 1987 household survey on which most of the study is based. Since that survey has been described in some detail in earlier publications, most attention is given to setting out the range of information it obtained which can throw light on the dynamics of poverty and which has not been used in previous studies. Section 2.3 then briefly describes the data obtained in the limited follow-up survey carried out in 1989, which provided the basis for Williams and Whelan's (1994) analysis of poverty transitions summarised in Chapter 5.

2.2 *The 1987 Survey of Income Distribution, Poverty and Use of State Services*

The Survey of Income Distribution, Poverty and Use of State Services was carried out by the ESRI in the first half of 1987, and was designed to produce a nationally-representative sample of the population. It produced a sample of 3,294 households on which very detailed information across a variety of areas related to poverty and the use of state services was obtained. The sampling, processing and reweighting of the data for analysis have been described in detail elsewhere (notably Callan, Nolan *et al.*, 1989, Chapter 3). The representativeness of the sample has been validated there and in subsequent studies by comparison with external information across a wide range of characteristics, including age, sex and labour force status, employment and industry of employees, taxable income by range, health services entitlement categories and health insurance coverage, and receipt of different social welfare schemes.

The data obtained in the 1987 ESRI survey has been extensively used in a series of published studies relating to poverty, as described in Chapter 1. The wealth of data in the 1987 data which can throw light on the dynamics of resources, income and poverty remains to be exploited, though, and the present study aims to do so. While the details of the different types of data to be employed are given in the relevant chapters below, it is useful to provide at this stage an overview of the range and nature of the information to be used.

The current income of each individual and household from different sources was covered in great detail in the questionnaire, and has been described and analysed in previous publications (see for example Callan, Nolan *et al.*, 1989). For most income sources, this refers to the amount received in the previous week (or month), though for the types of income which are particularly likely to fluctuate over the year or be received intermittently – namely income from self-employment (including farming) and rent, interest and dividends – a 12 month reference period was used and average weekly income derived. In line with the Household Budget Survey and other such surveys including the UK Family Expenditure Survey and General Household Survey, then, current weekly income was the income concept employed, on which analysis so far has relied.

Current weekly income is not a comprehensive measure of resources available to finance consumption, and there may be significant differences in living standards between households on similar income levels. The issue of how living standards and material deprivation may best be measured and the relationship between deprivation and low current income are explored in Chapter 3, using information obtained in the 1987 survey. This information covers a set of 24 indicators of possessions and life-style, with respondents being asked

(i) whether they have the item in question;
(ii) whether they are doing without it because of lack of money;
(iii) whether they regarded the item as a necessity, something everyone should be able to have and no-one should have to do without.

For several other indicators, respondents were simply asked whether they did or did not have the item or take part in the activity in question. The items covered household durables, heating, food, clothes, running into arrears, and social activities and hobbies. (The full set of items is given in Chapter 3.) The information on respondents' views about the different indicators allows those widely regarded as necessities to be identified, and households' own assessment of whether the absence of the item is "enforced" by lack of money is a valuable addition to knowing simply whether they have the item. Both this information, and relationship between the items themselves, have to be interpreted carefully, however, and a key objective of Chapter 3 is to see how they can best be used to measure enforced deprivation.

Information obtained in the survey on savings and other assets, also analysed in Chapter 3, points to the importance of longer-term accumulation of resources in helping to explain differences in living standards among those at similar current income levels. Respondents were asked about the level of savings and investments in the form of bank or building society deposits, Post Office deposits and Saving Certificates, gilts and equities, and various types of unit-linked and other investment funds. In addition, the market value of the house was sought for owner-occupiers, together with detailed information on their mortgage if any. This allows the outstanding debt on the mortgage to be calculated, so that the net value of the household's saving in the form of housing can be estimated by subtracting this from the value of the house. (Further information on the value of farm land and unincorporated businesses, not used in this study, was also obtained; the precise information sought on individual assets is described in Nolan, 1991).

In addition to current income and labour force status, the 1987 survey sought information on the number of weeks spent in and out of work in the last year, and the number of weeks spent in receipt of the various social welfare schemes. On the basis of this information it is possible to estimate the income received over the previous 12 months, that is annual income. The comparison of current weekly and annual income for sample households is then possible, providing the basis for a variety of analyses on the importance and impact of income fluctuations over the year. As Chapter 4 makes clear, the objective is not to show that either current or annual income is the "correct" one: each provides valuable information in analysing poverty.

The current labour force status of household members has been shown in previous studies using the 1987 sample to be of central importance in explaining current incomes and the risk of being below income poverty lines. However, experiences in the labour market over a long period are themselves crucial in understanding how people came to be in their current position – unemployed, for example – and the impact which this currently has on their standard of living. The survey obtained information about labour market experiences in the previous year and over respondents' entire careers which allow these links to be explored. For the 12 months prior to the date of interview, those currently at work were asked how long they have been in their job and about any time spent unemployed over that period. Those currently away from work were asked how long they had been away, and how long they spent in work during the period. On this basis, a picture of unemployment/employment experiences during the previous year can be constructed. As far as lifetime labour market experiences are concerned, adults were also asked when they left full-time education, and how many years were subsequently spent in employment, unemployed, ill/disabled, in home duties, retired, or in a return to full-time education or training. It is then possible, as explored in

Chapter 7, to relate the current risk of being in poverty to not only current labour force status but also the extent of unemployment or illness in the previous 12 months and over the entire career, illustrating once again the importance of longer-term factors in determining current living standards.

From an even longer-term perspective, the relationship between the risk of poverty, current social class, and social class background is of central importance to understanding the dynamics of poverty and the extent of mobility over a long period. The information obtained in the 1987 survey allows both the current social class of the individual and household – the latter generally being based on that of the household head – and the class from which they originally came to be identified. For adults in the sample, detailed information was sought on their current (or if not now working, previous) occupation, which was then coded according to the CSO's three-digit occupational categorisation. Based on this information, either the CSO's own six-class social class scale or the more disaggregated schema used in Chapter 6 can then be applied. As far as social class background is concerned, adults were asked who was the main breadwinner in their family while they were growing up, and what that person's principal occupation then was. Coding these responses in the same way, the social class of origin can be derived for whichever class schema is to be employed. Detailed information was also obtained in the survey about the educational level reached by respondents, so that the relationships between class background, educational attainment and current class, and between these and current risk of poverty, can be analysed.

2.3 *The 1989 Follow-up Survey*

A limited follow-up survey was carried out in early 1989, involving the re-interviewing of a sub-set of the 3,294 households in the 1987 sample, in order to allow changes in their financial circumstances over that period to be examined. This is the first time that panel information, on the incomes of a set of households for more than one point in time, has been available for Ireland, and the scope offered for the analysis of poverty dynamics has been explored in the study by Williams and Whelan (1994), which also gives a detailed description of the data. Their findings are summarised in Chapter 5 below, so a brief outline of the data and its limitations is necessary here.

The follow-up survey was limited in a number of important ways which affect the research which it can support. First, not all the households in the 1987 sample could be re-surveyed, due to financial constraints governing the survey. Since the main objective was to measure escapes from poverty, all the households in the bottom 25 per cent of the equivalent income distribution in the 1987 sample were included in the sampling frame for the follow-up, together with a randomly-selected 500 households from the rest of the distribution. Secondly, although farm households were included in the follow-up survey, the measurement of farm income and the extent of fluctuation from year to year pose particular problems in measuring income mobility and poverty dynamics. For this reason, the analysis is confined to non-farm households, which represents an important limitation since a significant proportion of the low- income households in the 1987 sample were farm households. Because of the nature of the follow-up data, then, the results can be taken to be most reliable in measuring changes in the situation of low-income non-farm households between 1987 and 1989.

The total target sample for the follow-up survey was 1,279 households, of whom 6 per cent could not be contacted because they had moved, emigrated etc. The response rate for those who could be contacted was 77 per cent, with 16 per cent refusing and 7 per cent ill or never available. Excluding those who gave incomplete information left a total of 918 households, of whom 767 were non-farm households. It is these 767 households on whom the analysis in Chapter 5 is based. The follow-up sample is reweighted to take into account, *inter alia,* the way the target sample was selected and differential response rates (categorising households by urban/rural location, number of adults, and labour force status of the head). Comparison of the reweighted sample with external information, such as the age, sex and labour force status of adults shown by the 1986 Census of Population, and with the 1987 sample itself, provide the basis for some confidence in the representativeness of the results.[3] The analysis then concentrates on exploring how the situation of the households interviewed in 1989 compares with the position of the same households in 1987.

The information obtained in the follow-up sample covers the key characteristics contained in the 1987 survey, namely the household composition, labour force status, and income from various sources of members, using identical questions. The income concepts measured, and particularly the key one of household disposable income, are thus comparable between the two surveys. In addition, respondents were asked about their perceptions of changes in the household's circumstances since the initial survey, as well as labour market experiences over the period.

[3] See Williams and Whelan (1994) Chapter 2 for details of the reweighting.

(Further information was obtained about the arrangements for income-sharing and the way decisions about spending are taken were also included, and provide the basis for the study on this topic by Rottman, 1994.)

2.4 *Conclusion*

Having described the range of data to be employed in the study, we now proceed to the substantive analysis. Following the framework set out in Chapter 1, our point of departure is the income measure used in previous research on poverty in Ireland and involving a short time horizon, namely current weekly income. Chapter 3 examines the relationships between current weekly income, indicators of deprivation and household assets, the results pointing to the importance of resource accumulation over a long period in determining current living standards.

Chapter 3

CURRENT INCOME, POVERTY AND DEPRIVATION

3.1 *Introduction*

Poverty status is commonly measured on the basis of income, as indeed are living standards more generally. Thus for Ireland previous research based on the 1987 household survey has looked at the numbers and types of households below various income poverty lines, as reported in Callan, Nolan *et al.* (1989) and elsewhere. However, focusing simply on income may not adequately reflect the impact of income dynamics on poverty and living standards. This is because current income is not the sole determinant of command over resources and living standards. For example, people may have access to other resources such as savings or family support, which enable them to smooth out the effects which income fluctuations would otherwise have on consumption and living standards. On the other hand, some people, far from having such resources, may have accumulated debts which mean that the impact of income fluctuations on living standards are immediate and unavoidable, if not actually magnified.

For this reason, it is valuable to complement income measures with direct indicators of the extent and nature of deprivation and exclusion being experienced by households. In this chapter we describe the range of indicators for which information was obtained in the 1987 ESRI survey, discuss how they are best used to capture aspects of deprivation, and analyse the relationship between current weekly income, wider resources, and these indicators at household level. This serves to highlight the importance of resources acquired over a long period in influencing current living standards, and to motivate the exploration in subsequent chapters of how available information can be directed towards analysis with a longer time horizon.

Section 3.2 discusses the way in which indicators of deprivation and exclusion have been used elsewhere in analysing poverty, the starting-point for the measures developed here. In Section 3.3, the range of information obtained in the 1987 survey on life-styles, and the derivation of the preferred measures for present purposes, are described. (The factor analysis used to arrive at these preferred measures is described in greater detail in Whelan, Hannan and Creighton (1991) and Callan, Nolan and Whelan (1993)). Section 3.4 looks at the pattern shown by these indicators for the sample, and their relationship with current household income. In Section 3.5 information on savings and other assets is used to illuminate the relationship between deprivation indicators, current income and broader resources. Finally, Section 3.6 brings out the implications for the measurement of poverty, the identification of households most in need, and the assessment of the adequacy of social welfare support rates.

3.2 *Deprivation Indicators and the Measurement of Poverty*

Poverty in developed countries has most commonly been defined in terms of *exclusion* arising from *lack of resources*. Townsend's much quoted definition makes clear that both elements – exclusion and its attribution to lack of resources – are essential elements. In measuring poverty, though, most studies rely on income to measure living standards and distinguish "the poor" from the non-poor. As a recent study by the US Bureau of the Census puts it, this reliance on income in measuring poverty assumes two things: first, that income is a reliable indicator of the economic resources available to people, and second that those economic resources largely determine how well-off people are. Neither assumption is entirely tenable, however. Current household income is not always a reliable indicator of household economic resources at a particular point, because income fluctuates, because households at similar income levels may have quite different levels of savings and debts, and because the resources in the form of non-cash income – benefits and services provided by employers or the state – differ across households. Second, households with the same level of economic resources may not be equally well-off because they may have widely divergent needs – whether because of differences in household size and composition or geographical variation in the cost of living.

The fact that income may not adequately capture differences in living standards and may not always be a reliable measure of poverty has led to attempts to develop other indicators which could be used along with, or indeed instead of, income.[4] Some have argued for the use of household expenditure rather than income, on the basis that it more accurately reflects living standards and is better measured in surveys (Eurostat, 1990). This raises the question of whether it is actual consumption rather than

[4] Ringen (1987) has argued forcefully that income alone is not a reliable measure of poverty defined as low consumption/exclusion, and that direct measures of deprivation in consumption should be used together with resources in measuring poverty.

consumption *opportunities* that one is interested in measuring, and there are also serious questions about the suitability of the expenditure information obtained in such surveys.[5]

Townsend (1979) pioneered the measurement of direct indicators of deprivation or exclusion rather than expenditure, obtaining information on a range of indicators of style of living for British households. Using twelve such indicators a summary deprivation index was constructed, but scores on this index were not used directly to identify the poor. Rather, an income threshold was derived, representing the point below which deprivation scores, it was tentatively suggested, "escalated disproportionately". The existence and indeed plausibility of such a threshold continue to be hotly debated.[6] In actually identifying the poor, Townsend employed the income threshold alone, without reference to the deprivation scores of the households concerned. It is worth noting that the relationship between household deprivation scores and current income was rather weak: there was a great deal of variability in the deprivation scores of households at similar income levels, though moving up the income distribution average deprivation scores did generally rise as average income rose.

Mack and Lansley (1985) went further in developing deprivation indicators and combining these with income in measuring poverty. While building on Townsend's approach, their study represented a significant departure in a number of respects. First, life-style items were selected for inclusion in the deprivation index on the basis of views in their sample as to which constituted a necessity – only items viewed as such by over half the sample were included. Secondly, in order to control for diversity arising simply from tastes – a major element in Piachaud's (1981) critique of Townsend – those lacking an item were asked whether they "would like but can't afford" it. These responses and income were then used to construct indicators of deprivation. For the middle income group, "enforced lack" was taken to occur in households which lacked an item and said this was because they could not afford it. However households on high incomes were taken not to be experiencing enforced lack of an item, even if they said they would like but couldn't afford it, while those on low incomes lacking items were taken to be experiencing enforced lack even if they said

[5] See Haveman (1991), Atkinson (1987) for the importance of the conceptual distinction between poverty as low consumption and poverty as insufficient command over resources, and Eurostat (1990) for some of the difficulties with survey expenditure data.

[6] See Piachaud (1981), Mansfield (1986), the defense by Desai (1986) and response by Piachaud (1987), and further treatment in Desai and Shah (1988), Hutton (1991).

they were doing without by choice. Finally, the deprivation index was used directly as the basis for distinguishing the poor – taken to be those experiencing enforced lack of three of more items (out of 22). Once again, there was a good deal of variability in the deprivation scores of households at similar income levels.

Mack and Lansley's choice of a particular cut-off on the deprivation scale is problematic, and the way in which they combine actual life-style information, subjective assessments and income to produce a poverty measure is also rather ad hoc. Further, no account is taken of the complex ways in which the relationship between possessions/activities and income or wider resources may vary across different types of items or different household types. Simply adding together items relating to everyday activities with those related to the possession of consumer durables or the quality of housing may also be unsatisfactory as a measure of current living standards/resource constraints. Their study also fails to elucidate how the observed deprivation/income pattern comes about, how the two are in fact related, which is necessary if we are to understand the impact of income dynamics on living standards and poverty.

The use of deprivation indicators was placed in a formal setting by Desai and Shah (1988). They propose *inter alia* that, rather than simply adding deprivation scores for different items, each item be weighted by the proportion of the population possessing it. This means that being deprived of something which almost everyone has will have a greater impact on a household's overall deprivation score than being deprived of something which most people do not have. Using Townsend's data and constructing deprivation scores in this way, they used regression techniques to relate these scores to household income and characteristics such as wealth, family composition and educational attainment. Current income was found not to be the dominant variable in determining deprivation scores. Mayer and Jencks (1988) found similar results using US data: while (equivalent) income was a significant influence on deprivation, so were age, non-cash benefits, home ownership, health status and ease of access to credit.

Hagenaars (1986) makes the important point that there are systematic biases in the possession of, for example, consumer durables which are related to age, household size and stage in the family cycle. Thus absence of a particular durable item – for example a washing machine – may mean something quite different for a young single person than it does for a couple with children. Such items may therefore be inappropriate as general indicators of deprivation. More generally, aggregation of deprivation indicators into a single index implicitly assumes that poverty is unidimensional, but this may not be an accurate reflection of reality. For example, some households may be in poor quality housing but not otherwise experiencing deprivation, while others in good quality housing may be experiencing a variety of other forms of deprivation.

This brief review makes clear that measuring deprivation/exclusion directly faces a number of serious problems, notably how to select suitable items, how to take into account the role of tastes versus resource constraints in determining living patterns, how to aggregate items in an index, and how to select a particular cut-off to distinguish the poor from the non-poor (if that is the objective). We now proceed to describe the information available on life-styles in the 1987 survey, and discuss how this may best be used to measure deprivation and analyse its relationship with current income and the longer-term accumulation of resources.

3.3 *The Data*

In the 1987 ESRI survey, respondents were given a list of 20 items or activities[7] and asked which ones they believed were "Necessities, that is things which every household (or person) should be able to have and that nobody should have to do without". They were then asked which items they did not themselves have/avail of, and which of these they would like to have but had to do without because of lack of money. (The items selected for inclusion in the survey were for the most part taken from previous studies such as Townsend and Mack and Lansley.) Table 3.1 lists the items and shows the sample responses.

The more widely possessed items also tended to be more generally regarded as necessities – with, for example, a fridge, heating for the living rooms, indoor toilet and bath or shower possessed by most and felt by nearly all respondents to be necessities. There were some notable exceptions, with most people stating that being able to save was a necessity but less than half saying they could do so, while 80 per cent of households had a TV but only 37 per cent thought it was a necessity. Thus selecting items as deprivation indicators on the basis of *views* in the population as to which are necessities (Mack and Lansley's approach) will not give exactly the same results as using actual possession by a majority/most people (which was Townsend's procedure).

[7] A further 4 items which were relevant only to households with children were also included in the survey but will not be employed here.

Table 3.1: *Indicators of Actual Style of Living and Socially Defined Necessities*

Socially Defined Necessity	*% Lacking*	*% Enforced Lack*	*% Stating Necessity*
Refrigerator	5	3	92
Washing machine	20	10	82
Telephone	48	31	45
Car	38	22	59
Colour TV	20	11	37
A week's annual holiday away from home	68	49	50
A dry damp-free dwelling	10	9	99
Heating for the living rooms when it is cold	3	2	99
Central heating in the house	45	30	49
An indoor toilet in the dwelling	7	6	98
Bath or shower	9	7	98
A meal with meat, chicken or fish every second day	13	9	84
A warm, waterproof overcoat	13	8	93
Two pairs of strong shoes	16	11	88
To be able to save	57	55	88
A daily newspaper	45	16	39
A roast meat joint or equivalent once a week	24	13	64
A hobby or leisure activity	33	12	73
New, not secondhand, clothes	10	8	77
Presents for friends or family once a year	24	13	60

In addition to the 20 items in Table 3.1, a further four included in the survey (but without the supplementary question as to whether households were doing without because they could not afford it) will be employed:[8]

(i) whether there was a day during the previous 2 weeks when the respondent did not have a substantial meal at all – from getting up to going to bed;

(ii) whether they had to go without heating during the last year through lack of money, i.e., having to go without a fire on a cold day, or go to bed early to keep warm or light the fire late because of lack of coal/fuel;

[8] The 20 items in Table 3.1, but not these additional four items, were included in the preliminary discussion of deprivation indicators in Callan, Nolan *et al.* (1989) Chapter 8.

(iii) whether the respondent has not had an afternoon or evening out in the last fortnight, "something that costs money", and this was stated to be because they had not enough money;

(iv) whether the household has experienced debt problems in terms of any of the following:

(a) it is currently in arrears on rent, mortgage, electricity or gas;

(b) it has had to go into debt in the last 12 months to meet ordinary living expenses (such as rent, food, Christmas or back to school expenses);

(c) it has had to sell or pawn anything worth £50 or more to meet ordinary living expenses; or

(d) it has received assistance from a private charity in the past year.

With these 24 items, one could simply construct an aggregate deprivation index where households score one for each item which they do not have. Alternatively, absence could be taken to indicate deprivation only where the respondent states that they "would like but can't afford" the item in question, in an attempt to control for differences in tastes. However, some low-income households may have grown accustomed to doing without or be reluctant to admit that they cannot afford something that most people have, while some households with relatively high incomes may none the less say they are forced to do without. Rather than taking these subjective evaluations at face value for all households, then, the approach adopted by Mack and Lansley could be used, whereby households at the bottom of the income distribution are taken to be experiencing "enforced absence" irrespective of their subjective assessments, while those towards the top are taken not to be experiencing enforced absence. This method of introducing an income criterion is *ad hoc*, however, and it may be more informative to explore the pattern of absence *per se* and of subjective assessments and their relationship with income.

The prior issue, though, is whether all the items, or only a sub-set, are to be taken as indicators of deprivation, and how this selection is to be made. Previous research employing deprivation indicators has generally relied on summary indices using a sub-set of items chosen on the basis of the extent to which they are possessed or regarded as necessities by most of the sample. Thus Townsend concentrated on items which were widely possessed in the sample, while Mack and Lansley focused on items which a majority of the sample regarded as necessities. In Callan, Nolan *et al.* (1989) the application of criteria of this type to the selection of items from the 20 shown in Table 3.1 was discussed. It was noted that 2 items which are widely regarded as necessities are not in fact possessed by a majority of households in the sample – namely an annual holiday away from home and being able to save. On the other hand, a colour TV is possessed by 80 per cent of the population but only 37 per cent said they regarded it as a necessity. [9] A combined criterion was then adopted, whereby items were selected only if they are both possessed *and* regarded as a necessity by a majority of households, which was true of 14 of the 20 items. A stricter criterion whereby 75 per cent of the sample must possess and regard the item as a necessity produced a more limited set of 10 items. About 70 per cent of the sample lacked one or more of the 14 items, while 46 per cent lacked one or more of the 10 items. If subjective assessments of whether this absence was due to lack of resources are taken at face value, though, the numbers experiencing *enforced* lack are significantly smaller. About 50 per cent of households lack one or more of the 14 item and say this is because they cannot afford it, while that is true of 33 per cent for the more restrictive 10 item set.[10]

The 14 and 10 item sub-sets were used in Callan, Nolan *et al.*, to construct aggregate deprivation indices, and the relationship between deprivation scores and current income was examined. Mean deprivation scores fell as one moved up the deciles of the equivalent income distribution, but there was considerable variability in deprivation scores at any particular income level. Similarly, households below relative income poverty lines had considerably higher deprivation scores on average than those above the lines, but significant numbers of households below the lines had low or zero scores on the deprivation index, and there were also smaller numbers of households above the lines with high deprivation scores.

In selecting and aggregating items to be included in a deprivation index, little attention has been paid in the literature to the relationship between the different indicators – in effect, a single underlying dimension of deprivation has been assumed. The first priority here, in building on our previous research, is therefore to systematically examine the dimensions of deprivation, to see whether the items cluster into distinct groups. In order to do so, factor analysis was applied to the 20 items in Table 3.1 plus the four additional items. In the case of the 20 items, we concentrate at this stage on absence which was stated by the respondent to be due to lack of resources – we return later to the issue of the reliability of

[9] A number of other items are possessed by a bare majority of households but not widely regarded as necessities – namely a daily newspaper, central heating, and a telephone.

[10] See Callan, Nolan, *et al.* (1989) pp. 115-118.

these subjective assessments. Three underlying dimensions of deprivation were hypothesised:

(i) basic life-style deprivation – consisting of basic items such as food and clothes;

(ii) secondary life-style deprivation – consisting of items such as leisure activities;

(iii) housing deprivation – consisting of items related to housing quality and facilities.

The results when a 3 factor solution was specified are shown in Table 3.2. [11] Informed by the results of the factor analysis, the 24 items available in the survey were grouped into 3 groups in the manner shown in the table. Eight items are taken to be indicators of basic deprivation, 9 as indicators of secondary deprivation and 7 as indicators of housing deprivation.[12] Level of absence and enforced absence of the items are generally low for the first and third group, much higher for the secondary deprivation items. The housing items are overwhelmingly regarded as necessities, with the exception of a TV. The five basic items for which this information is available are also regarded as necessities by two-thirds or more of the sample. The items included in the secondary deprivations group, on the other hand, are regarded as necessities by much lower percentages, with the exception again of being able to save regularly.

The sample evidence thus suggests that it is useful to distinguish these three dimensions, rather than simply aggregating items across the factors into a summary index – rather different households or types of household are lacking each type, suggesting that the processes producing each may also be rather different. How then should these factors be employed? It is clearly valuable to look at each, to see for example what distinguishes the type of household experiencing basic deprivation from those experiencing housing deprivation. We concentrate most on the first dimension, which represents rather basic forms of deprivation. The secondary deprivation items do not appear appropriate as indicators of exclusion from ordinary living patterns, in that the percentage actually possessing these items is

[11] See Whelan, *et al.* (1991).

[12] While the results of the factor analysis were taken as the general guide, judgement was applied where the loadings were similar – in categorising, for example, "presents for friends and family" and a hobby as secondary rather than basic items. "Heating for the living room when it is cold" is included in the housing group although it loads more heavily on the basic one, because the latter already includes "having to go without heating through lack of money".

mostly not very high, and they are not overwhelmingly regarded as necessities. The housing items, on the other hand, are possessed by most people and regarded as necessities by almost everyone (except in the case of the TV). However, it will be seen below that they do not relate to current resources in the same way as the basic items. There is clearly a great deal of valuable information to be extracted from the secondary and housing scores, but in this study we will be concentrating for the most part on the basic items.

Table 3.2: *Factor Solution for Life-style Deprivation Items*

	Basic Life-style Deprivation	*Secondary Life-style Deprivation*	*Housing/ Household Capital Deprivation*
Basic Items			
Go without Heat	0.81	0.33	0.11
Go without substantial meal	0.89	0.09	0.20
Arrears/Debt	0.76	0.25	0.04
New not second-hand clothes	0.74	0.30	0.29
Meal with meat/chicken/fish	0.74	0.30	0.40
Warm waterproof overcoat	0.76	0.16	0.42
Two pairs of strong shoes	0.75	0.25	0.38
Roast or equivalent weekly	0.73	0.33	0.25
Secondary Items			
Annual holiday away from home	0.39	0.69	0.01
Able to save regularly	0.49	0.54	0.18
Daily newspaper	0.48	0.50	0.11
Telephone	0.25	0.65	0.28
Hobby or leisure activity	0.59	0.44	0.08
Central heating	0.19	0.59	0.40
Presents for friends/family yearly	0.58	0.44	0.20
Car	0.26	0.60	0.20
Afford afternoon/evening out	0.43	0.38	0.08
Housing Items			
Bath or shower	0.17	-0.01	0.99
Indoor toilet	0.16	-0.01	0.98
Washing machine	0.02	0.46	0.63
Refrigerator	0.26	0.23	0.62
Colour television	0.21	0.30	0.53
Dry damp free dwelling	0.27	0.30	0.47
Heating for the living room	0.48	0.25	0.30

We therefore construct a "basic deprivation index" based on these 8 items. For 5 of the 8, households were asked directly about whether absence was due to the fact that they could not afford the item. For these items, households score 1 on the index for each item which the household lacks *and* says that absence is in this sense enforced. This may be regarded as an unduly stringent condition. Some households could have very low expectations, and/or may be unwilling to acknowledge or state that they could not afford such basic necessities. However, a comparison of those lacking the 5 basic items who say this is enforced by lack of resources with those who say they didn't want the item reveals that the latter do have significantly higher incomes on average – their average incomes are closer to the households who do possess the items. Further, those who claim to be doing without a particular item voluntarily display levels of deprivation on the other basic items which are little different to those who possess the item, well below those stating they cannot afford the item. This suggests that, for the most part, those who say they are doing without basic items voluntarily are indeed choosing to go without.

Adopting the general approach of erring, if anything, on the side of caution, for these 5 items we therefore count only what are stated to be items lacked due to absence of resources. (Note that this means for example that only those who say they are forced to go without meat etc. due to lack of resources will register as deprived on that item, whereas vegetarians will simply be seen as choosing to go without.) For the other 3 items the subjective assessments are not available but the nature of these items suggests that lack is likely to be enforced in that sense in most cases. For these items, simply experiencing deprivation adds to the basic deprivation index. The distribution of scores on this index for the sample is shown in Table 3.3: 68 per cent of households score 0, 15 per cent score 1, and 17 per cent are experiencing enforced lack of 2 or more basic items.

Table 3.3: *Distribution of Scores on Basic Deprivation Index*

Basic Deprivation Score	*% of Households*
0	68.0
1	14.7
2	6.7
3	4.5
4	2.7
5	1.7
6 or more	1.7
All	100.0

3.4 *Deprivation, Current Income and Poverty*

Having discussed the information available and the issues which arise in the selection of satisfactory deprivation indicators, we now proceed to analyse the relationship between these indicators and current income. This serves two purposes: first, it is the starting-point for elucidating how people come to be experiencing different types of deprivation, and second, it allows us to compare the groups identified as "poor" by income poverty lines with those apparently experiencing deprivation.

If we simply construct an index from all 24 items, the mean scores for households ranked by current equivalent income decile is shown in Table 3.4. The mean score varies little across the bottom three deciles, then falls steadily as we move up towards the top of the income distribution. However, the table also shows that there is a good deal of variability in scores within each decile, and some low income households have most of the items while some high income ones lack a considerable number. For example, while the mean score for households in the bottom decile is 8, 35 per cent of these households have scores of 10 or more and 31 per cent have scores of 5 or under. Concentrating on subjectively-assessed enforced lack, the relationship with income was stronger but considerable variability remained.

Table 3.4: *Scores on 24 Item Life-style Deprivation Index by Household Equivalent Income*

Equivalent Income decile [a]	*Mean Score on Index*	*% with Score of 10 or Higher*	*% with Score of 5 or Less*
bottom	8.1	34.8	30.7
2	8.1	36.0	31.0
3	8.1	29.8	27.5
4	6.6	20.6	42.9
5	5.8	15.9	52.7
6	5.0	11.9	65.4
7	3.8	4.8	75.3
8	3.9	7.6	72.5
9	2.7	3.2	87.3
top	2.1	1.7	92.3

a Equivalence scale 1 for household head, 0.66 for each other adult, 0.33 for each child.

The average correlation between income measured continuously and lack of individual life-style items is 0.11 (which by coincidence is exactly that found by Townsend). Using income deciles and the aggregate 24 item life-style measure, the observed correlation reaches 0.47. Correcting for attenuation due to less than perfect reliability in the measure of life-style, this rises to 0.51. Clearly, as indeed one would expect, current disposable income would be quite inadequate as the sole predictor of life style or deprivation – among other things, stage in the life cycle and experiences and resources over a longer period will also play a central role.

In any case, as we have already argued, not all the 24 items may be considered appropriate as indicators of deprivation, and simply aggregating them in a single index ignores the fact that different items may reflect different dimensions of deprivation. Concentrating on the 8 items included in what we have termed the basic deprivation index, Table 3.5 shows the location in the (equivalent) income distribution of households experiencing what they regard as enforced lack of 1 or more of these items, and the corresponding figures for those experiencing enforced lack of 2 or more items. Despite the fact that the households concerned say they are doing without the item(s) due to lack of resources, some of those households are on relatively high incomes. About 1 in 5 of the households doing without 2 or more of the items are in the top half of the income distribution.

Table 3.5: *Distribution of Households Experiencing Basic Deprivation by Equivalent Income Decile*

Current Equivalent Disposable Income Decile	*Households with Basic Deprivation Index Score of:*	
	1 or Higher	*2 or Higher*
bottom	17.2	21.2
2	17.9	23.4
3	16.3	18.2
4	12.5	9.4
5	8.3	7.3
6	8.9	8.4
7	6.6	5.3
8	5.6	3.2
9	3.6	2.5
top	3.1	1.2
All	100.0	100.0

It is interesting then to compare the households reporting basic deprivation with those falling below relative income poverty lines, to see to what extent the same households are identified by each criterion. We have in previous work employed relative income poverty lines representing 40 per cent, 50 per cent and 60 per cent of average equivalent disposable income in the sample. Table 3.6 shows the percentage of households in the sample falling below each of these income thresholds, the percentage below these lines and experiencing deprivation of at least 1 basic item, and the percentage below and experiencing enforced lack of 2 or more basic items. In addition to the 3 relative poverty lines, a slightly higher income threshold set at 70 per cent of mean income is also shown.

We see that while 30 per cent of all households are below the 60 per cent relative income line, only 16 per cent are below that line and experiencing basic deprivation. This pattern is reasonably consistent across the lines: about half the households below each income threshold are experiencing enforced lack of at least 1 basic item. Between half and two-thirds of those below the lines and lacking at least 1 basic item in fact lack 2 or more. (It is worth mentioning that the percentages experiencing deprivation are not particularly sensitive to the number of items included in the index: if any one item is dropped, the percentages experiencing deprivation below any of the lines falls only marginally.)

Table 3.6: *Percentage of Households Below Relative Income Thresholds and Experiencing Basic Deprivation*

Relative Income Line	*% Below Line*	*% Below Line and*	
		Experiencing Enforced Lack of at Least 1 Basic Item	*Experiencing Enforced Lack of 2 or More Basic Items*
40 per cent	7.5	3.3	2.0
50 per cent	17.5	9.8	6.6
60 per cent	30.0	16.0	10.7
70 per cent	41.0	20.9	12.7

Which types of household below the income lines are/are not experiencing such deprivation? Focusing on the 60 per cent line for illustration, Table 3.7 compares the composition of the two groups in terms of one key characteristic of interest, the current labour force status of the household head. Farmers form a considerably smaller proportion of those below the higher income line and experiencing basic deprivation than of all those below the line, while the ill/disabled and especially households headed by someone in home duties form a higher proportion.

Households below the 60 per cent relative income threshold and experiencing enforced basic deprivation are more likely to be headed by an ill/disabled or unemployed person, less likely to be headed by a farmer, employee, self-employed or retired person, than those below the line and not experiencing such deprivation. Overall, though, apart from the reduction in the importance of farm households, the differences in composition between those simply below the income line and those below that line and experiencing basic deprivation are not great.

Table 3.7: *Households Below Income Thresholds by Labour Force Status of Head*

Labour Force Status of Head	*Households Below 60% and*	
	Experiencing Basic Deprivation	*Not Experiencing Basic Deprivation*
	%	%
Employee	11.7	16.3
Farmer	12.4	25.5
Other self-employed	2.1	7.4
Unemployed	36.5	17.7
Ill/disabled	16.6	7.7
Retired	5.6	13.0
In home duties	15.0	12.3
All	100.0	100.0

A question included in the survey on the extent to which respondents feel they are having difficulty "making ends meet" provides some validation of the distinction being drawn between those below the line and experiencing/not experiencing basic deprivation. Whereas 71 per cent of those below the 60 per cent income line and experiencing such deprivation said that they were having extreme difficulty making ends met, the corresponding figure for those below that income line and not experiencing basic deprivation is much lower, at 37 per cent, suggesting the basic deprivation scores are indeed allowing us to distinguish between groups in rather different situations. This is also indicated by an examination of the extent of deprivation in terms of what have been identified above as secondary and housing items: those below the income line and not experiencing basic deprivation also show much lower levels of (what they regard as) enforced lack of these other types of items than do the group experiencing basic deprivation.

3.5 *Income, Deprivation and Wider Resources*

Why then do some of those with low current reported incomes manage to avoid basic deprivation while others experience it? To understand how this comes about, the starting-point is the nature of the current income measures. Current income relates to that received last week (or fortnight/month) for employee income and social welfare transfers, while for income from self-employment, including farming, the weekly average amount received over a 12 month period is used instead. For most income sources, though, the period over which current income is measured is a very short one. Current income may therefore not reflect income received by the household over the previous months or year, whereas the resources currently available to a household may be affected by income over an even longer period. Some may have built up savings over the years and thus, when current income falls, they may be able to draw on savings or increase debt, to avoid – at least for a time – basic deprivation.

Information is available for the sample on the time spent by respondents in work, and the time spent in receipt of various social welfare payments, over the previous year. This allows estimates to be made of employment and social welfare income over the previous year, and Chapter 4 uses these estimates of annual income to see whether measuring income over that longer accounting period helps to explain the observed pattern of deprivation. Later chapters look at households' current situations in the light of experiences over a longer time period. At this stage, data on the level of savings and other assets of sample households can be used to highlight the need to look beyond current income in assessing household resources and understanding their living standards.

A full description of the information obtained in the 1987 survey on household assets and an analysis of the pattern of asset-holdings by age, income, social class etc., are presented in Nolan (1991) and Honohan and Nolan (1993). Here we focus on the contrast between households on low current incomes and experiencing/not experiencing basic deprivation. Table 3.8 shows the average level of reported household savings in the form of deposits in banks, building societies, etc., for households below the 60 per cent income threshold and experiencing/not experiencing basic deprivation, broken down by head's current labour force status. As another indicator of resources available to the household over a longer period, it also shows the average value of property in the form of housing (i.e., reported market value of the house for owner-occupiers less outstanding mortgage) for each group.

We see that within each labour force status category, the households not experiencing basic deprivation have much greater savings to draw on than those who are experiencing such deprivation, and the former also have consistently higher levels of house property. Among households headed by an employee, for example, the mean level of savings for those not experiencing basic deprivation is about £1,350, compared to only £200 for households at similar current income levels but experiencing basic deprivation. Households headed by a farmer or other self-employed person below the 60 per cent income line have higher levels of savings than those headed by employees, but among the low-income self-employed those not experiencing basic deprivation again have very much higher mean levels of savings and housing wealth than those who are experiencing deprivation. (Among the farmers, the average size of farm is also significantly higher for those not experiencing deprivation.) Households with an unemployed head have particularly low mean levels of savings, but those who are experiencing basic deprivation have virtually no savings and very low values for house property. Thus significant differences in longer-term income between the two groups are suggested.

Table 3.8: *Savings and Assets of Households Below 60 Per Cent Income Line Experiencing Versus Not Experiencing Basic Deprivation, by Labour Force Status of Head*

Labour Force Status	*Mean Level of Deposits*		*Mean Net House Value*	
	Below 60% Line and			
	Experiencing Basic Deprivation	*Not Experiencing Basic Deprivation*	*Experiencing Basic Deprivation*	*Not Experiencing Basic Deprivation*
	£	£	£	£
Employee	204	1,342	9,398	14,655
Farmer	790	2,208	19,677	27,060
Other self-employed	397	2,681	22,537	29,284
Unemployed	45	442	5,335	16,460
Sick/disabled	360	1,741	12,481	19,222
Retired	832	3,052	11,034	22,364
In home duties	27	1,200	14,719	18,047
All	260	1,720	10,974	20,990

Since the distribution of savings and house values is generally quite skewed, it is also of interest to look at the comparison between those below the 60 per cent line and experiencing/not experiencing basic deprivation in terms of the median rather than the mean. This shows that the median for deposits is in fact zero for both those experiencing and those not experiencing deprivation for most of the labour force status categories – a majority of households report no deposits in either case. The difference in means between those experiencing and those not experiencing deprivation reflects the fact that both the minority who do report savings and the mean amounts they hold are larger among those not experiencing deprivation. For house values, the median shows a pattern much closer to the means.

It is important to note that neither those below the line and experiencing basic deprivation, nor those not experiencing such deprivation, form a homogenous group in terms of resources or other indicators of financial pressure and life-style. Table 3.8 suggests that in each case substantially higher levels of resources are available to the households headed by a farmer, other self-employed or retired than to those with an employee, some in home duties, sick/ill or particularly an unemployed person. This is reflected in the extent of enforced deprivation of secondary life-style items, which is a good deal higher for the unemployed than for others. A higher percentage of the unemployed also report difficulty making ends meet. This is particularly important in assessing the position of the different households below the income line and not currently experiencing basic deprivation. In particular, it is worth emphasising that those households under the 60 per cent line with an unemployed head and not currently experiencing basic deprivation are clearly under greater financial strain than the other households in that group.

Households Experiencing Basic Deprivation but Not on Low Incomes

We now turn to the group of households not on low current incomes but apparently experiencing what they regard as enforced basic deprivation. Half of those scoring 1 or more on the basic deprivation index are above the 60 per cent income threshold, representing 15 per cent and 10 per cent respectively of all households in the sample. The first issue to be addressed is the actual current income levels of these households – are they mostly on incomes just above the 60 per cent cut-off? This is not in fact the case: while a substantial number are between 60 per cent and 70 per cent of average income, 35 per cent of those experiencing basic deprivation are above a 70 per cent threshold. As Table 3.5 showed, households experiencing basic deprivation are distributed over the (equivalent) income distribution. In terms of the items on the basic index which are predominantly lacked, the pattern for the households above the 60 per cent line and experiencing basic deprivation is not very different from that shown by households below that income line and experiencing basic deprivation. We can also look at the extent of their deprivation of secondary items: while lower on average than for the group below the income threshold, those above the threshold experiencing basic deprivation do report a relatively substantial degree of enforced absence of secondary items.

Why then are these households, many with current incomes close to or above average, none the less experiencing such deprivation? Looking first at labour force status of the household head, Table 3.9 shows that this group is dominated by employees, who make up about 45 per cent of those above the 60 per cent line but experiencing basic deprivation. The other substantial groups are the retired and those in home duties, who make up 13 per cent and 16 per cent respectively. Only 12 per cent are headed by someone away from work through unemployment or illness. In terms of demographic characteristics – age of head, number of children – the group does not appear particularly distinctive.

Table 3.9: *Households Above 60 Per Cent Income Line Experiencing Basic Deprivation, by Labour Force Status of Head*

Labour Force Status	*Households above 60% Income Line and Experiencing Basic Deprivation*
	%
Employee	44.1
Farmer	9.4
Other self-employed	5.6
Unemployed	7.1
Ill/disabled	4.5
Retired	12.9
In home duties	16.4
All	100.0

Part of the explanation could again lie in the fact that current income is not always a satisfactory indicator of longer-term command over resources. In terms of annual income, an employee may have spent much of the previous year away from work and income over that period may be well below that currently being received. Whether this is true for many of the households reporting relatively high current income together with basic deprivation is among the issues investigated in the next chapter using estimates of annual income. Relatively high expenditure on housing, leaving less for other goods and services, could also be a factor for some of these households. There certainly appear to be significant differences in savings and other assets between the households above the income thresholds and experiencing deprivation and other households at similar income levels. Controlling for equivalent income decile, Table 3.10 shows that for households headed by an employee – the dominant group – those experiencing basic deprivation have much lower mean levels of savings and own much less valuable houses on average than corresponding households not experiencing basic deprivation. (In this case the contrast between the two groups using the median rather than the mean is if anything more pronounced.)

Table 3.10: *Mean Savings and House Property for Employee-Headed Households Above 60 Per Cent Line by Equivalent Income Decile and Experiencing/Not Experiencing Basic Deprivation*

Equivalent Income Decile	*Mean Deposits*		*Mean Net House Value*	
	Above 60% Line and			
	Experiencing Basic Deprivation	*Not Experiencing Basic Deprivation*	*Experiencing Basic Deprivation*	*Not Experiencing Basic Deprivation*
	£	£	£	£
4	833	1,160	15,494	18,383
5	428	1,101	11,414	18,924
6	542	1,024	15,759	20,999
7	599	1,529	14,265	24,097
8	110	1,839	15,994	25,659
9	831	2,847	21,464	25,484
Top	1,713	5,434	15,995	24,120
All	666	2,461	15,442	23,428

This group clearly requires further investigation, though the analysis so far does suggest that resources over a prolonged period have a role in explaining their current living patterns. This is also indicated by the fact that over two-thirds of these households come from the manual social classes. It is not to be expected that resources would fully explain differences in living patterns, however. In the final analysis it may be necessary to accept that some households are doing without what most regard as necessities, and themselves consider this to be due to lack of resources, but by societal norms they have relatively comfortable incomes and would be regarded as able to afford the items in question if they reoriented their expenditure.

Housing Deprivation

It is also of interest to briefly consider the housing and housing-related items. Recalling the items shown in Table 3.3, 6 out of 7 are overwhelmingly regarded by respondents as necessities, the exception being the TV. Only a relatively small percentage of households lack each, and an even smaller percentage regard this as enforced. What is the relationship between this housing-related deprivation, basic deprivation and resources, and where does it fit in to the measurement of poverty? The factor analysis itself shows that housing and basic deprivation are quite frequently experienced by different households. About 58 per cent of the households lacking 1 or more of the housing items also experience basic deprivation, 44 per cent are below the 60 per cent income threshold, and only 30 per cent are both below the 60 per cent income threshold and have basic deprivation scores of 1 or more.

Looking at the characteristics of the households experiencing enforced lack of 1 or more of the housing items but not both below the 60 per cent income threshold and experiencing enforced basic deprivation, what is striking is their distinctive demographic and geographic profile. Almost 60 per cent live in rural rather than urban areas, 50 per cent are headed by either a single person or a widow(er), and 80 per cent are either headed by such an individual or in a rural area. About one-third are elderly, single or widowed persons. Quality of housing and housing-related durables for many of these households are probably determined by the combination of relatively low resources over a prolonged period and their marital status and location. These households report significantly lower current levels of financial strain than households below the income threshold and experiencing basic deprivation, and they also have substantially higher levels of savings.

As emphasised by Donnison (1988), housing is the sector in which welfare states have found it easiest to break the links between economic status and living standards. This may mean that in many countries, taken alone or even together with low current income, measures of housing conditions are not particularly reliable indicators of generalised exclusion arising from lack of resources. Both the processes producing poor housing conditions, and the consequences of such deprivation, may be distinctive. Once again, this is an area for further investigation.

3.6 *Income, Deprivation and Social Welfare*

We have seen in this chapter how combining information on current income and lifestyles allows us to distinguish, among those on low incomes, the types of household most likely to be experiencing basic deprivation. By highlighting groups most in need of assistance, this is an important input into policy, particularly income support policy. Going further, the approach outlined here is also helpful in addressing one of the most critical and yet problematic issues in framing income support strategies: are social welfare support levels "adequate", and if not what would be an adequate level? This is an extremely difficult question to tackle head-on, as the lengthy discussion in the Report of the Commission on Social Welfare (1986) illustrates. However, the information described here does allow us to examine the extent to which households relying on social welfare for their current income are experiencing the basic forms of deprivation set out earlier. Comparing the position of households relying on different social welfare schemes gives some indication of the effectiveness of these schemes in providing the support required to avoid such deprivation. The data refer to 1987 and there have been significant changes in the levels of payment under various schemes, and the relationships between them, since that date: none the less, the sample data provide us with benchmark information against which these changes can be assessed.

Many of the households in receipt of social welfare support also have incomes from other sources, and some are also receiving payment from more than one scheme. Here we are primarily interested in households relying on the scheme in question, particularly in making comparisons across schemes. It is therefore necessary to focus on those households which are largely reliant on particular social welfare schemes, and for current purposes we take this to be the case where payments from the scheme account for more than 50 per cent of household income. Table 3.11 first shows the overall percentage of households in the sample in receipt of payment from each of the main schemes and the proportion of these households who are in this sense reliant on these payments. It then presents, for the households relying on each scheme, the percentage below the 50 per cent and 60 per cent income poverty lines and the percentage below each of these lines *and* experiencing basic deprivation.

As would be expected, the percentage of households in the sample in receipt of payment varies widely across the schemes, from 13 per cent in receipt of Unemployment Assistance (UA), 8-10 per cent in receipt of Unemployment Benefit (UB), Contributory Old Age Pension and Non-Contributory Old Age Pension, 4-5 per cent in receipt of Disability Benefit (DB), Invalidity Pension, and Widow's Contributory Pension, down to only 1-2 per cent in receipt of Disabled Person's Maintenance Allowance (DPMA), Supplementary Welfare Allowance (SWA) and Unmarried Mother's Allowance (as it was in 1987) and even fewer in receipt of Deserted Wife's Allowance. This broadly reflects the numbers in receipt in the population at the time, but means that one can be much more confident in using the sample to analyse the situation of, for example, households receiving UA than those receiving SWA.

It is interesting to see that there was also considerable variation across schemes in the extent to which recipient households were *reliant* on the scheme, in the sense outlined. We see that about half the households receiving UA, Old Age Non-Contributory Pension, and Widow's Contributory Pension relied on these payments (i.e. they constitute more than half total current household disposable income). For UB and DB the corresponding figure is 42 per cent, but for Widow's Non-Contributory Pension, Unmarried Mother's Allowance and especially DPMA the proportion of recipients relying on the scheme is lower. (The percentage of SWA recipients "reliant" on that scheme is only 23 per cent, but this is due to the fact that many are in receipt of once-off payments or top-ups rather than the full weekly rate available under that scheme.) By contrast, more than half the recipients of Invalidity Pension, 70 per cent of those receiving Contributory Old Age Pension, and over three-quarters of households receiving Deserted Wife's Allowance were relying on those payments.

Concentrating now on the households relying on the scheme in question, we look first at the percentage below the 50 per cent and 60 per cent income poverty lines. Poverty rates on this basis were unsurprisingly highest for the schemes which in 1987 had the lower rates of support, notably UA. Half the households relying on UA were below half average income, compared with about one-quarter of those relying on UB and DB, only about 10 per cent of those relying on Non-Contributory Widow's and Old Age pensions and hardly any of those on Contributory Old Age pension. The percentages below the 60 per cent line were a good deal higher for all schemes, but households relying on UA, SWA, and Deserted Wife's and Unmarried Mother's Allowances had the highest income poverty rates.

What is particularly interesting in the present context is the extent to which the pattern of poverty rates based on income lines alone holds when we look at the percentage below the income lines *and* experiencing basic deprivation. Table 3.11 shows that a very high proportion of those relying on Widow's Non-Contributory Pension and Unmarried Mother's Allowance and falling below the 60 per cent line were also experiencing basic deprivation. For these schemes, over 90 per cent of those below that income line were also experiencing basic deprivation. The corresponding figure was about 70-75 per cent for UA, Invalidity Pension, SWA, DPMA, and about 66 per cent for Deserted Wife's Allowance, Widow's

Contributory Pension, UB and DB. It was strikingly lower, at less than 50 per cent, in the case of Old Age Pensions, whether contributory or non-contributory.

Table 3.11: *Households Relying on Social Welfare, Below Income Poverty Lines, Experiencing Basic Deprivation, by Scheme*

	% Households Receiving under Scheme	% of Recipient Households "Reliant" on Scheme	% "Reliant" Below Income Line		% "Reliant" Below Income Line and Experiencing Basic Deprivation	
			50% line	*60% line*	*50% line*	*60% line*
Unemployment Benefit	8.0	42.3	25.4	45.6	16.5	29.3
Unemployment Assistance	13.4	48.1	46.8	61.0	34.5	44.6
Disability Benefit	4.9	42.1	24.7	42.3	18.1	26.8
Invalidity Pension	3.5	56.0	10.4	51.3	6.8	38.5
Old Age Contr. Pension	8.9	70.2	0.9	11.8	0.8	5.4
Old Age Non-Contr. Pension	10.0	49.0	11.2	28.2	4.5	10.0
Widow's Contr. Pension	4.3	47.0	3.1	20.0	2.8	13.3
Widow's Non-Contr. Pension	1.6	39.2	11.2	38.7	9.1	36.6
Deserted Wife's Allowance	0.4	76.6	30.1	63.0	19.6	42.8
Unmarried Mother's Allowance	0.9	36.6	20.6	58.2	15.6	53.2
Supplementary Welfare Allowance	1.0	23.4	38.8	76.4	32.8	55.5
DPMA	1.7	27.6	22.2	38.5	14.1	28.5

To summarise, a relatively high proportion of households receiving old age pensions in 1987 were relying on these payments, but poverty rates for these households were low, whether measured in terms of income alone or income plus basic deprivation. This offers welcome evidence that the emphasis during the 1970s and early part of the 1980s on improving income support for the elderly has had a major impact on poverty among that group. For the insurance-based UB and DB schemes, about 40 per cent of recipient households were relying on these payments for their income, and about 40 per cent of those households were below the 60 per cent income poverty line, of whom about two-thirds were also experiencing basic deprivation. This means that, although only about 1 in 6 households being supported by these schemes meet the combined income plus deprivation poverty criteria, this is to a considerable extent due to the presence of income from other sources. Where UB or DB were the main income coming into the household, the extent to which recipients were experiencing basic deprivation must be of concern.

While UA is means-tested and Invalidity Pension is not, both these schemes had a higher proportion of recipients relying on them and a higher percentage of those households below the 60 per cent line and experiencing deprivation than UB/DB. This is probably strongly influenced by the fact that many recipients are dependent on these schemes long term. In assessing adequacy and framing a policy response, it is therefore necessary once again to take the dynamics of income over time into account, and in particular the erosion of assets and exhaustion of borrowing opportunities for those who are dependent on certain schemes for a prolonged period. This is probably also important in the case for Deserted Wife's Allowance, where over three-quarters of recipients were relying on the scheme and a relatively high percentage of these were once again below the 60 per cent line and experiencing basic deprivation.

While a relatively small proportion of recipients of SWA and Unmarried Mother's Allowance were reliant on those payments as the main source of household income, for those who were poverty rates – and in particular the extent of basic deprivation – were particularly high. The rates paid under SWA were low compared with other schemes at the time, but it may also be the case that the special factors or needs which lead households to be relying on that safety-net scheme put them at particular risk, and special needs are also clearly relevant in the case of UMA.

Since 1987, social welfare support rates have risen significantly in real terms for all schemes, but some have increased much more than others. Focusing on the rates for adults without dependants, widows and old age pensioners have seen their rates rise by about 29-30 per cent between the first half of 1987 (when the ESRI survey was carried out) and the first half of 1994, while consumer prices rose by about 20 per cent over the same period. Invalidity Pension and Unmarried Mother's Allowance – now incorporated in Lone Parent's Allowance – rose by about the same percentage. UB and DB rates rose by slightly more, about 35 per cent, but the increases in UA and SWA were very much higher. SWA adult rates rose by 68.5 per cent over the period, while for UA the increases ranged from 63 per cent to as much as 79 per cent.[13] There were also relatively substantial increases for child dependants of UA and SWA recipients as there was some levelling upwards of Child Dependant Allowances (CDAs) across schemes.

Our analysis of the position of recipients in 1987 suggests that these more substantial increases have certainly gone where they were most needed, and provide support for the emphasis in the recommendations of the Commission on Social Welfare on according priority to raising what were then the lowest rates. They also suggest, however, that one cannot be complacent about the situation of UB and DB recipients, so that the exceptionally large increases in these rates (partly financed by abolition of pay-related supplements) announced in the 1994 Budget may be justified by more than the desire to reinforce the insurance element of the income support system. The position of those relying on Invalidity Pension and on Deserted Wife's and Lone Parent's Allowance would also appear to deserve special attention: the increase in rates for these groups have not been above average, but their special needs may merit attention.

3.7 *Conclusions*

This chapter has examined the relationship between current income and different aspects of life-style and deprivation. It has explored how both income and deprivation could be incorporated into a measure of poverty, which some argue is more consistent with the widely-accepted definition of poverty as exclusion due to lack of resources than reliance simply on income poverty lines. Concentrating on a limited set of items referring to basic types of deprivation, households both experiencing such deprivation and below relative income poverty lines were distinguished. These account for about half the households below the relative income lines.

This serves to highlight that defining poverty in terms of exclusion can be rather restrictive, if its logic is fully incorporated in the measurement procedure. Households are only to be categorised as "poor' if they are on low incomes *and* obviously excluded from participation in ordinary living patterns and activities. Leaving aside the precise way in which deprivation is defined and measured, as well as the difficulty of measuring income accurately, a considerable number of households on low incomes are apparently avoiding such basic exclusion, at least for the time being. They

[13] The higher figure is based on a comparison of the rural UA rate in early 1987 with the long-term rate in early 1994, while the lower one compares the urban rate in 1987 with the short-term rate in 1994.

may be doing so by running down savings, by borrowing, or by relying on help from family or friends. Others may be able to avoid basic deprivation only by being particularly good managers of their limited resources. Poverty defined in this way is thus by no means identical to income inadequacy. Atkinson's (1987) distinction between poverty as deprivation in terms of standard of living versus poverty as concerned with minimum *rights* to resources is of central importance here. In terms of the latter, falling below the minimum adequate income level may be seen as a violation of rights even if it does not always or immediately result in deprivation.

This needs to be emphasised in teasing out the implications of our results for policy. Whether we wish to call households on low incomes but not at present experiencing exclusion "poor" or not, the principal aim of social welfare support will be bringing people with incomes below the minimum adequate income level up to that level. In general, current income is the basis on which "need" for support is decided, irrespective of the availability of support from family or friends or the capacity to run down savings or borrow to maintain living standards – though capital assets available to the household are sometimes taken into account in assessing whether support is to be paid. One would not wish to restrict support only to those actually experiencing exclusion – rather, the objective is to help those on low incomes avoid such exclusion.

None the less, the results from applying the approach developed here are of major importance from the perspective of policy formation in allowing the types of household which are particularly likely to be experiencing basic deprivation to be identified. Policy can be framed to give priority to these groups not only in terms of income support, but also other forms of intervention such as through the tax/PRSI systems, education and labour market measures, and even in the targeting of assistance through the health and social services. Thus the fact that households headed by someone who is ill/disabled or in home duties make up a larger proportion of those counted as poor by the combined criteria than of those below the corresponding income lines, while those headed by a farmer or other self-employed make up a smaller proportion, colours one's view on the needs of these groups. Households headed by someone who is sick or disabled may require particular attention, with this group constituting 1 in 6 of households below the 60 per cent income line and experiencing basic deprivation. Households headed by a farmer, on the other hand, make up only 1 in 8 of those below that income line and experiencing basic deprivation, compared with a quarter of all those below the line. Households headed by an unemployed person are by far the largest single group among those meeting the combined low income/deprivation criteria, serving to reinforce the emphasis placed on this group from a policy perspective by previous research using the 1987 sample.

In addition, the extent to which different households relying on social welfare are actually experiencing deprivation is helpful in trying to address the crucial issue for income maintenance strategy of the adequacy of current support levels. Focusing on households which appear to be essentially dependent on their current social welfare income, we can see that certain groups, such as those relying on Unemployment Assistance, had a very high proportion experiencing basic deprivation, whereas those relying on Old Age Pensions had a much lower proportion. This serves to reinforce the emphasis given by previous research on the 1987 sample to giving priority to improving income support for those relying on UA. At the time the survey was carried out, in 1987, support rates for the long-term unemployed on UA were considerably lower than UB, while short-term UA was lower still. Since that date there have been substantial increases in long-term UA, so that it has in fact exceeded flat-rate UB for several years up to 1994 and from mid-year will be at the same level. The policy of giving priority to the needs of the long-term unemployed is validated by the extent to which they are seen to have been experiencing basic deprivation in 1987.

The extent to which the levels of income support provided under various schemes allow households to avoid basic deprivation depends crucially not simply on the support levels themselves, but on how households arrive at the position where they require support and how long this lasts. In assessing adequacy, therefore, understanding the dynamics of income is once again of central importance. Exploring the relationship between current income and deprivation has highlighted the role of wider resources in influencing current living standards, and a dynamic perspective is required if variation across households in access to wider resources is to be understood. We therefore move on in Chapter 4 to examine what can be learnt about dynamics when a longer time horizon is adopted and income is measured over the previous year.

Chapter 4

ANNUAL INCOMES, POVERTY AND DEPRIVATION

4.1 *Introduction*

The income measure employed up to this point, as in previous research using the 1987 sample, has for most sources been current weekly income. In this chapter the focus shifts to annual income. Still relying on information gathered in the 1987 ESRI survey, we measure poverty using estimates of income over a 12 month period and compare the results with those based on current weekly income. By allowing us to distinguish between households which experienced low incomes over the year and those which were on low income at the time of interview but had higher incomes for a substantial part of the preceding 12 months, this provides new insights into the dynamics of poverty in Ireland. Using the deprivation measures developed in Chapter 3, the relationship between annual income and current deprivation can also be examined, to see the extent to which that longer time horizon helps in understanding the pattern of deprivation.

The difference between measuring poverty on the basis of annual versus current income will reflect the extent and nature of income *mobility* over the year. A simple example illustrates the relationships. Suppose that society is made up of households which each have only one income source: an employee earning a fixed wage, or an unemployed person who receives a transfer which is one-third of that wage. Let us suppose in addition that the unemployment rate is 20 per cent. Two cases may be distinguished: full mobility, in which case each individual is unemployed for 20 per cent of the year, or zero mobility, in which case individuals are either employed or unemployed for the full year. If a fixed poverty line higher than the level of income support for the unemployed but lower than the wage is applied, current income poverty would be 20 per cent. The degree of annual income poverty would, however, depend on the degree of mobility. With full mobility, where everyone is unemployed for 20 per cent of the year, annual income poverty would be zero for many poverty lines (including the 50 per cent relative income poverty line). But with zero mobility, the poverty rate would be 20 per cent on an annual income basis as well. An example such as this cannot capture the entire complexity of the situation, but it does suggest that with greater mobility we may expect to find lower poverty rates with annual than with current incomes. Before comparing current and annual poverty estimates, therefore, we explore these underlying factors by looking at income mobility directly.

We begin by outlining the relevant data in the ESRI survey, and the methods used to estimate income in the 12 months preceding the date of interview. Section 4.3 then looks at the extent and nature of differences between current and annual income at individual and household level. Section 4.4 looks at the impact this income mobility has on the shape of the income distribution and on the extent of mobility in households' positions in that distribution. Section 4.5 focuses on income poverty, comparing standard poverty measures based on the different accounting periods. Section 4.6 deals with the relationship between annual incomes and current deprivation. In the final section the main findings and their implications are highlighted.

4.2 *Measures of Current and Annual Income*

It is necessary first to set out in some detail the way in which current income from various sources is measured in the 1987 survey. The current income measure employed here includes current pay from employment, sick pay and income received from social welfare schemes. Since an overwhelming majority of employees were paid at least monthly, if not more frequently, and almost all social welfare schemes made weekly payments, accurate measurement of income from these sources over a short time span is possible. This is not the case with income sources such as rent, interest and dividends, which are often paid more infrequently. Income from such sources may be accruing weekly or monthly, but recipients will often be able to give accurate responses only in terms of actual receipts, so that a longer reference period is necessary. Thus, information was sought for the 12 month period preceding the date of interview. A similar approach was taken to self-employment income, with respondents being asked for a measure of pre-tax profit in the most recent 12 month period for which they had accounts. Even if accurate responses could be obtained for, say, monthly profit figures, they would be of questionable value, since receipts and expenditures could fluctuate very substantially from month to month. Farm incomes were also measured over a 12 month period, the calendar year 1986; the method of estimation, based on a special farm questionnaire, and special tabulations from the National Farm Survey conducted by Teagasc, is outlined in Callan, Nolan *et al.* (1989).

In addition to this information on current income, the full individual questionnaire used in the ESRI 1987 Survey collected information on the pay received by persons who were not currently at work but who had worked in the previous 12 months; on the number of weeks worked in the previous 12 months; and on the numbers of weeks for which payments under various social welfare schemes were received, together with the amounts of the most recent payment. This information has been used to construct an estimate of the income received by respondents during the 12 months preceding the date of interview. We refer to this as a measure of annual income, but for comparability with the current income figures, we report this measure in terms of the average weekly income over the 12 months. Employment income over the 12 month period is estimated by multiplying usual pay by the number of weeks worked. Income under each social welfare scheme is estimated by multiplying the most recent payment under that scheme by the total number of weeks for which a payment under that scheme was received.

Some examples may help to illustrate the differences between the current and annual income concepts. An individual who is currently unemployed may have a current income of £34 per week; but she may have received this income for 4 weeks, and spent the rest of the year in employment, at a gross wage of £100 per week. Her pre-tax annual income would then be

48 weeks @ £100 plus 4 weeks @ £34 = £4,936 or £95 per week.

This figure of £95 per week is substantially higher than the figure of £34 per week for current income. Alternatively, an individual may be currently employed, at a pre-tax wage of £100 per week, but have spent most of the year in unemployment – perhaps moving from unemployment benefit to unemployment assistance. His pre-tax annual income might then be derived as follows:

20 weeks @ £42.30 plus 16 weeks @ £34 plus 16 weeks @ £100 = £2,990 or £57.50 per week.

In this case the annual income measure of £57.50 per week during the year is well below the current income of £100 per week.

Thus far, we have represented the difference between current and annual incomes in terms of gross (pre-tax) income. So far as current income is concerned, we use reported tax and employee PRSI deductions to arrive at a measure of current disposable income. The estimation of tax and employee PRSI contributions on an annual basis raises more complex issues. First, the 12 month period to which the estimate of annual income refers does not, in general, correspond to the income tax year. Second, even if it did, variation in income over the year, or other factors, could give rise to an overpayment or underpayment of taxes, which might be rectified by a tax refund or demand after the period was completed.

In this light, two alternative measures of income tax corresponding to the annual income measure are possible. The first is based on the application of the rules of the direct tax system in 1987, as set out in the ESRI tax-benefit model (Callan, 1991). This has the advantage of capturing the effects of changes between employment and unemployment during the year, by basing annual tax liability on the average over a 12 month period; the disadvantage is that there are differences between modelled tax liabilities and those recorded in the survey, for a variety of reasons, so that annual net income can differ from current net income simply because of differences in the modelled tax liabilities and reported tax payments. The second method of constructing annual tax payments is to use reported tax and PRSI payments. This has the advantage that annual net income is the same as current net income for individuals whose income was stable over the full year; but it cannot be accurate for individuals who have moved between employment and unemployment during the year. We concentrate on the latter measure, since it does not introduce differences between current and annual income for individuals whose circumstances were stable; the former measure was also constructed and its use did not have a major impact on the results of the analyses undertaken in this chapter.

A major limitation of the data is that information on earnings, employment and social welfare receipt during the 12 months preceding the date of interview is only available for respondents who completed a full individual questionnaire. In cases where it was not possible to obtain such responses, a more limited abbreviated questionnaire was completed by or on behalf of the individual: this does not contain any retrospective information on employment, earnings or social welfare receipt. Abbreviated questionnaires were returned for about 20 per cent of all respondents. For these individuals, an annual income measure cannot be calculated. In our analysis, we first consider some statistics which focus on respondents who completed a full questionnaire, where current and annual income are potentially different. This analysis is undertaken at both individual and household level. When we move to analysis of poverty measures we concentrate on the household level, and treat individuals who have answered an abbreviated individual questionnaire as if they had identical current and annual incomes. The implications of this procedure will be noted in interpreting the results.

It is important to be clear at the outset that there is no question of a straightforward choice between current and annual income, as if one were "correct" and the other "incorrect": they simply measure different concepts. A poverty measure based on current income will give information about the extent of poverty on a short-term basis; a measure based on estimates of annual income will give information about the extent of poverty on a longer-term basis. These two measures could provide quite different results. If the experience of poverty is dispersed, with many families experiencing short spells below income poverty lines, the extent of long-term poverty could fall far below the extent of short-term poverty. If, on the other hand, the experience of poverty is concentrated in long spells, then the extent of poverty under the two measures will be similar. In the Section 4.5 estimates on each basis are provided.

4.3 *The Differences Between Current and Annual Incomes*

We begin by considering the frequency and extent of differences between current and annual income measures at the *individual* level. As has been noted, an annual income measure is only available for those respondents who answered a full individual questionnaire. A total of 6,784 such questionnaires were received. For a substantial majority of these individuals, current and annual incomes were almost identical. Only about 15 per cent had estimated annual incomes which, expressed as a weekly average, were £5 or more higher or lower than their current disposable weekly income. Annual income was at least £5 higher than current income for 45 per cent of these individuals, and at least £5 lower than current income for 55 per cent. The mean difference between current and (the weekly equivalent of) annual income was £40 per week for the former and £30 for the latter.

Where there were significant differences between current and annual income, for this 15 per cent of individuals, where did they arise? In about one-third of these cases there was a significant difference between the annual and current receipts from both social welfare and wages/salaries. These are people who spent some of the year in work and some away from work receiving social welfare support during unemployment or illness. They are evenly divided into people currently in work who spent some time away from work on social welfare in the year – who thus have lower annual than current wages, and higher annual than current social welfare – and people currently unemployed but out of work on social welfare at some point during the year – with higher annual than current wages but lower annual than current social welfare.

A slightly larger number have a significant difference between current and annual social welfare receipts, but little or no difference for employment income. Many of these are receiving social welfare currently but were not in receipt for the whole year, although they did not work during the year. This includes people looking for their first job who left school recently and are now receiving UA but will not have received it all year, and women in home duties who reached the age for (non-contributory) old age pension during the year. Others are not receiving social welfare currently but did for some period during the year, although their current and annual employment incomes are not significantly different. This includes for example some individuals who were in receipt of social welfare during unemployment but have now dropped out of the labour force and are now in home duties. Another such group is people currently on State training schemes, who received social welfare for the rest of the year.

Finally, some individuals experienced changes in other types of income, such as self-employment income, occupational sick pay, reported tax/PRSI paid, which produce a significant difference between current and annual incomes. For example, current and annual self-employment income estimates will be the same by construction where the person has been in receipt for a full year, but a difference will arise where the reported figure is for a shorter period.

Aggregating to household level we find a substantially higher proportion of households with a significant difference between annual and current income. About 30 per cent of households experience a change of more than £5 per week in moving from current to annual income, compared with 15 per cent of individuals. This reflects the fact that household income will be affected if even one member's income is changed by the amount in question. Most significant differences between current and annual income at the individual level thus produce differences in a household's income, so a much higher proportion of households than of individuals is affected. (There are only a few cases of a household change being precipitated by changes in several individuals' incomes, or of almost exactly offsetting changes between individuals within a household.)

There is no general tendency for household annual income to be either higher or lower than current income, in cases where the two measures differ significantly. Just over half of the households affected have annual income less than current income, but the mean difference between the two for these households is lower than for the slightly smaller group with current less than annual income. As a result, mean annual disposable income for the sample as a whole is almost identical to mean current income, corresponding to £198 per week. None the less, it is worth emphasising that the differences between current and annual income are substantial for some households. For about 16 per cent of households the difference is £25 per week or more: for about half these it is between £25 and £50, and for the other half the gap is over £50 per week.

4.4 *The Distribution of Annual Versus Current Incomes*

Before focusing on the impact on measuring low incomes and poverty, it is worth putting this in context by looking at the effect which using (estimated) annual rather than current incomes has on the income distribution as a whole. It is usually assumed that as the accounting period used in measuring income is lengthened, the degree of inequality will fall. This reflects the fact that the incomes of individuals and households fluctuate over time, leading to changes in their positions in the income distribution from week to week or year to year. Lengthening the period over which income is measured is usually expected to improve the relative position of some of those on very low incomes and disimprove the position of some of those on very high incomes, because they are only temporarily at those extremes. For example, Shorrocks (1978) discusses the way in which income mobility and the length of the accounting period are intimately related: the longer the period used to measure income, the more mobility is subsumed with the income measure. Thus what would show up as mobility from week to week becomes subsumed within an annual income measure. Similarly, some of the income dynamics seen from 1 year to the next, discussed in depth in Chapter 5, would be blurred if one moved to analysing inequalities in lifetime incomes.

It is therefore commonly supposed that inequality falls as the accounting period is lengthened, and here we find this to be the case when moving from weekly to annual income, although the impact is a rather muted one. Table 4.1 shows the decile shares in gross and disposable household income for both current and annual incomes in the ESRI 1987 survey. For most deciles there is virtually no difference between the current and annual distributions, for either gross or disposable income. However, the top two deciles have a slightly lower share in annual than current income, with the "gains" spread across various other deciles though not the very bottom one. The Gini coefficient, a widely-used aggregate inequality measure which ranges from zero for complete equality to 1 for maximum inequality, is also shown in the table. It is slightly lower for annual than current income, indicating a reduction in overall inequality. The reduction is however marginal, the Gini falling by only 1.5 per cent for disposable income and 0.5 per cent for gross income.

While inequality is lower on an annual basis, what is most striking therefore is how little difference there is between current and annual distributions. Is this surprising? The results of a similar exercise carried out with the UK Family Expenditure Survey, comparing weekly and estimated annual incomes, showed a very similar pattern: annual gross income was more equally distributed than current, but the differences were minor except at the top of the distribution (Nolan, 1987 Chapter 5). A key factor is the way self-employment income is treated in these surveys, as already described. Self-employment income is generally subject to a good deal of fluctuation from week to week, and recipients would show a great deal of mobility in their actual weekly incomes which would be "smoothed" on an annual basis. However, as already noted it is precisely for this reason that actual weekly income figures are not used for the self-employed: following the conventional approach adopted in the Household Budget Survey and the UK Family Expenditure Survey, a 12 month income figure was sought in the ESRI survey and it is the weekly average over the year that goes into current weekly income. Thus much of the difference between weekly and annual incomes is already removed from the estimates by the use of the longer accounting period for self-employment income throughout. The differences between current and annual incomes which are reflected in the estimates presented here arise primarily from interruptions to work or variations in social welfare receipt during the year. The substantial changes in household incomes these produce appear to have little impact on the shape of the distribution, with "gainers" and "losers" largely offsetting each other.

Table 4.1: *Decile Shares in Current and Annual Gross and Disposable Household Income*

Decile	*Gross*		*Disposable*	
	Current	*Annual*	*Current*	*Annual*
bottom	1.7	1.6	2.0	2.0
2	2.8	2.8	3.4	3.5
3	4.0	4.0	4.8	4.8
4	5.2	5.2	5.9	6.0
5	6.7	6.8	7.3	7.4
6	8.6	8.8	8.8	9.0
7	10.7	10.8	10.7	10.8
8	13.5	13.4	13.2	13.1
9	17.6	17.5	16.5	16.3
top	29.2	29.1	27.4	27.0
all	100.0	100.0	100.0	100.0
Gini coefficient	0.417	0.415	0.377	0.372

It is important to note that despite the overall stability in the shape of the distribution, moving from current to annual income does produce a good deal of re-ranking of households, with some moving up and some moving down the distribution. Table 4.2 shows households in the sample cross-classified by their decile rankings by current and annual income, which is usually referred to as a transition matrix. A total of almost 80 per cent of households are on the diagonal of this matrix, in other words they are in the same decile by current and by annual income. Of the 20 per cent who have their decile ranking changed by the move from current to annual income, 11 per cent are above the diagonal – that is, in a lower decile by annual than current income – while 9.4 per cent are below the diagonal – i.e., in a higher decile by annual income. Going from current to annual income, 9 per cent rise by more than 1 decile while only 6 per cent fall by more than 1 decile. This pattern reflects the fact noted above that slightly more than half the households affected by the change in accounting period show a fall in income going from current to annual disposable income, but the mean difference between current and annual is lower than for those with annual greater than current income.

Table 4.2: *Transition Matrix for Current/Annual Income*

	CURRENT INCOME DECILE										
ANNUAL INCOME DECILE	BOTTOM	2	3	4	5	6	7	8	9	TOP	ALL
BOTTOM	9.2	0.5	0.1	0.2							10
2	0.3	8.3	0.9	0.2	0.1						10
3	0.2	0.8	7.8	0.7	0.3		0.1				10
4	0.2	0.1	0.8	7.8	1.0	0.2					10
5		0.1	0.2	0.6	7.4	1.4	0.1		0.1		10
6			0.1	0.3	0.7	7.3	1.2	0.2			10
2	0.1			0.1	0.3	0.7	7.3	1.2	0.2		10
8		0.1		0.1	0.2	0.3	0.8	7.4	1.2		10
9		0.1			0.1	0.1	0.1	1.2	7.8	0.8	10
TOP							0.1		0.8	9.1	10
ALL	10	10	10	10	10	10	10	10	10	10	100

4.5 *Income Poverty Using Annual Versus Current Incomes*

We now turn to measures of poverty based on annual versus current income. Relative income based poverty measures have been widely used in other countries and the relative poverty line method has been outlined in earlier studies using the 1987 ESRI sample, notably Callan, Nolan *et al.* (1989). Here current income poverty lines are constructed in the manner set out there:

(1) household incomes are adjusted using an "equivalence scale" to take account of differences in household size and composition. The equivalence scale used is the one closest to that implicit in the 1987 social welfare "safety net" scheme, of 1 for the head of household, 0.66 for other adults, and 0.33 for children;

(2) average household equivalent income is calculated;

(3) poverty lines are derived as 40 per cent, 50 per cent and 60 per cent of that average.

For annual income this procedure is simply repeated, to derive poverty lines based on 40 per cent, 50 per cent and 60 per cent of average annual household equivalent disposable income. This results in a marginally higher average equivalent income figure – £86.34 per week for annual income as against £85.36 per week for current income. An alternative is to apply to annual incomes the poverty lines derived from current income: this allows us to quantify the changes in poverty rates which are caused simply by changing the income measure from current to annual, without any concomitant change in the level of the poverty line.

Table 4.3 reports the results of each of these analyses. Neither a wholesale shift to the use of annual income as the basis of the analysis (the second row of the table) or a comparison of annual income with a fixed poverty line determined using current income makes much difference to the results. Very similar percentages of households fall below the 50 per cent and 60 per cent lines irrespective of the income concept used to determine the poverty line itself, or the income measure which is compared with the poverty line. With the lowest line, the 40 per cent one, the use of annual income produces a higher percentage below the line than current income. Overall, though, the use of the annual accounting period does not in itself lead to any significant change in the extent of income poverty based on the relative lines.

Table 4.3: *Percentages Below Income Poverty Lines Using Current and Annual Income*

Poverty Line Based on Mean of	*Income Measure Compared with Poverty Line*	*% of Households Below Line* 40 *per cent*	50 *per cent*	60 *per cent*
Current Income	Current Income	6.2	16.3	28.5
Annual Income	Annual Income	7.1	16.7	28.7
Current Income	Annual Income	6.8	16.3	28.2

This is consistent with the findings presented in the previous section showing the stability in the overall income distribution comparing current and annual incomes. It was clear there that such stability can be found despite considerable mobility and re-ranking of households. This mobility could mean, in the context of the relative poverty lines, that although the numbers below current and annual income lines were similar the households involved were not always the same. Evidence on mobility *vis-à-vis* the relative poverty lines is provided in Table 4.4. Of the households below 50 per cent of mean current income, about 10 per cent have annual incomes above the same line. Similarly, about 13 per cent of the households with annual incomes below the 50 per cent line have current incomes above the same line. Thus there is indeed some movement from below to above the poverty line and vice versa, but this is rather limited. Most of the households identified as in poverty using current income are also in that position using annual income.

Table 4.4: *Cross-classification of Households with Current and Annual Incomes Above/Below a Common Poverty Line (50 Per Cent of Current Equivalent Income)*

		Current Income Below Threshold? *No*	*Yes*
Annual income below threshold?	No	821,900	17,300
	Yes	21,300	146,800

The head-count measures of poverty used in the foregoing calculations have well-known drawbacks. For example, they take no account of the depth of poverty for those households who are below the poverty line. We have found that the extent of poverty using a head count measure is little changed by the move to annual income, but it is possible that the depth of poverty is lower when considered on an annual basis. In order to allow for this possibility, we have also calculated poverty measures which take into account the "gaps" between the incomes of those below the cut-off and the poverty line itself. Two such measures are considered. The first is simply the "per capita income gap" expressed as a proportion of the poverty line. It may be defined as:

$$P_2 = \frac{1}{n} \quad \Sigma^{q}_{i=0} \quad \frac{g_i}{z}$$

where n is the total number of households, q is the number of households below the threshold, z is the poverty line, and g_i is the gap between household income and the poverty threshold for households below the line. Similarly,

$$P_3 = \frac{1}{n} \quad \Sigma^{q}_{i=1} \left(\frac{g_i}{z}\right)^2$$

is a "distribution sensitive" measure of poverty, again ranging between 0 and 1, which not only takes into account the depth of poverty but gives a particularly high weight to those with the lowest incomes and a lower weight to those near the poverty line. (The latter measure is one of a class of measures proposed by Foster, Greer and Thorbecke, 1984.)

Table 4.5: *Poverty Indices Using Current and Annual Income Measures, with a Current Income Poverty Line*

Poverty Index	*Income Measure Compared with Poverty Line*	*Income Cut-off*		
		40 per cent	*50 per cent*	*60 per cent*
P2	Current	0.0217	0.0406	0.0700
P2	Annual	0.0235	0.0422	0.0713
P3	Current	0.0138	0.0197	0.0304
P3	Annual	0.0148	0.0210	0.0317

Table 4.5 summarises the results using these alternative poverty measures, which take into account the depth of poverty, and, in the case of P3, give particularly high weight to the lowest income households. The indices calculated on the basis of annual income are again very close to those calculated on the basis of current income. The depth and distribution of relative income poverty, as well as its extent, are therefore very similar whether current or annual incomes are used as the basis for the calculations.

4.6 *Annual Income and Deprivation*

Chapter 3 looked in some detail at the relationship between current income and lifestyle, focusing in particular on a sub-set of the available indicators which were taken to represent rather basic forms of deprivation. We can now make use of the estimates of annual income described in this chapter to develop that analysis. We saw in Chapter 3 that deprivation – measured via the available indicators – was certainly a good deal more prevalent among those on low incomes than high incomes, but that a substantial proportion of those on low current incomes were not experiencing deprivation while a substantial proportion of those who were apparently experiencing deprivation were not on low incomes. We will therefore be particularly interested in exploring whether annual income helps in understanding this pattern.

As in Chapter 3, it is worth looking first at the full set of 24 indicators of life-style obtained in the survey, and using an index constructed simply to reflect how many of these items households said they lacked/were doing without. Table 3.4 showed how scores on this index varied across the deciles of the current equivalent income distribution. Examining the corresponding results for the deciles of annual (equivalent) income shows very much the same picture, with only the most marginal increase in the strength of the relationship between income decile and deprivation scores. For example, while 33 per cent of households in the bottom 3 deciles had scores of 10 or more on the 24 item index, the corresponding figure for the bottom 3 deciles by annual income was 34 per cent.

Concentrating on the 8 item index of basic deprivation, there is again a marginally stronger relationship with annual income: while 72 per cent of those with basic deprivation scores of over 1 are in the bottom half of the current income distribution (see Table 3.5), 73 per cent are in the bottom half of the annual distribution. Looking at the extent to which those below annual relative income poverty lines are experiencing basic deprivation again gives a very similar picture to current income. While 16.0 per cent of those below the 60 per cent poverty line on a current income basis were experiencing basic deprivation, this was the case for 16.1 per cent of those below that line using annual income.

While there is little difference between current and annual income in the overall relationship with the deprivation indicators, in this context we are particularly interested in two groups: those below the current income poverty lines and *not* experiencing basic deprivation, and those who *are* experiencing deprivation but are on incomes above these lines – in some cases, well above. The difference between current and annual incomes could have something to contribute to understanding how this comes about: for the former, annual incomes could be significantly higher than current, while for the latter the opposite could be the case. Looking first at those with current incomes below the 60 per cent line and not experiencing basic deprivation, 10 per cent in fact have annual incomes above that, in most cases substantially above. Turning to those above the 60 per cent current income line but reporting basic deprivation, 11 per cent are in the bottom 3 deciles by annual equivalent income. The longer time horizon thus helps in explaining why these relatively small sub-sets are/are not experiencing deprivation, but does not greatly contribute to understanding the overall income/deprivation relationship. The data on the level of deposits and, even more so, on house values analysed in Chapter 3 suggest that longer-term factors may be important influences on current living standards, and the remainder of this study moves to a perspective longer than the annual one adopted in this chapter.

4.7 *Conclusions*

This chapter has focused on the differences between incomes measured over a short period (weekly or monthly) and income over a longer, 12 month period, in order to see what light it sheds on the dynamics of poverty in Ireland. This involved estimating annual incomes on the basis of information about the number of weeks in the year spent in work and in receipt from the various social welfare schemes. Since current income from self-employment (including farming) is already based on the average weekly amount received over a 12 month period, it is unaffected. About 15 per cent of individuals were found to have experienced changes in employment or social welfare incomes which led to a difference of at least £5 per week between current and annual incomes. These were fairly evenly divided between cases where annual income was at least £5 higher than current income, and those where it was at least that much lower. A household would experience such a difference if even one of its members was affected in this way; as a result about twice as many households had a gap of this magnitude between current and annual income.

Despite the fact that a substantial number of households were affected, this income mobility moving from current to annual accounting period did not produce a significant shift in the shape of the income distribution. The top of the distribution has a slightly lower share in annual than in current income, so the former is more equally distributed, but the differences are small. This is in keeping with the results of comparisons between current and annual income distributions carried out on the same basis for the UK. It reflects the fact that as far as employee and social welfare income are concerned, "gainers" and "losers" in moving from current to annual income are quite evenly balanced and tend to cancel each other out in distributional terms. Self-employment income fluctuates a great deal more during the year, and the conventional treatment of income from this source, whereby current income in fact smooths out these fluctuations, probably eliminates much of the impact which the change in accounting period would otherwise have on the distribution. The extent of mobility which takes place is seen by the fact that 20 per cent of households have their decile ranking changed by the shift from current to annual income.

Given the stability in the shape of the overall income distribution, it is unsurprising that the extent, depth and distribution of relative poverty were also found to be almost unaffected by the change from current to annual income, as shown by a number of poverty indices. Once again this masked some mobility, with individual households moving above or below a given poverty line depending on whether current or annual incomes were used. This mobility is rather limited, however, with only about 1 in 10 of the households with current income below the 50 per cent line being affected. Thus most of the households which would be identified as poor on the basis of current income would also be in that position using annual income.

The relationship between households' annual incomes and the indicators of life-style and deprivation obtained in the 1987 survey were also examined. This showed an overall pattern very similar to that seen in the previous chapter using current income. There was a substantial difference between current and annual income for only a small proportion (about 10 per cent) of those on low incomes and not experiencing basic deprivation, and for a equally small proportion of those above the 60 per cent current income line but reporting basic deprivation. The longer time horizon thus helps in explaining why these relatively small sub-sets are/are not experiencing deprivation, but does not greatly contribute to understanding the overall income/deprivation relationship. It is therefore of interest to explore the longer-term factors which influences current living standards, and in the next chapter the focus shifts from an annual time horizon to the dynamics of income and poverty from one year to the next.

Chapter 5

POVERTY DYNAMICS 1987-1989

5.1 *Introduction*

We have seen in Chapter 4 that there is a good deal of mobility in household incomes over a year, which means that some households will be moving above and some falling below any set income poverty line. The implication is that although some households may be in poverty long-term, for others it may be a much more transitory phenomenon. Households or individuals may pass into and out of poverty in response to a variety of events, for example changes in the employment status of the head or spouse, in the number of economically active household members, or in family composition. This becomes more important as the time horizon is lengthened. The availability of data following the fortunes of particular individuals and households over a number of years – usually referred to as longitudinal or panel data – has highlighted the importance of income and poverty dynamics. In this chapter we focus on what the perspective offered by such data can tell us about poverty transitions from one year to the next.

In the first part of the chapter we consider some of the main findings from the international literature which has used panel data to measure changes in income and poverty status over time. Much of this is for the United States, where survey data on the changing financial and economic circumstances of families and individuals is available over a period stretching back to the late 1960s. In the second half of the chapter we consider the available information on poverty dynamics in Ireland, from Williams and Whelan's (1994) study of the 1989 survey which re-interviewed some of those in the 1987 ESRI sample. The data available is limited but provides some new insights into hitherto unexplored aspects of Irish poverty.

5.2 *Income and Poverty Dynamics – Evidence from Panel Studies Elsewhere*

The longest-standing panel survey in the developed world, the Panel Survey of Income Dynamics (PSID) based at the International Survey Research Centre at the University of Michigan, has been carried out since 1968. Only in recent years have substantive findings on the extent and correlates of poverty dynamics begun to emerge from *European* panel surveys. We look first at what has been learnt from such panels about income dynamics in general, and then focus on transitions into and out of poverty.

Income Mobility

As far as overall income mobility over a number of years is concerned, results from the PSID over the period 1971-1978 show that about 40 per cent of the sample were in the same income quintile position at the end of the period as at the beginning, with about 30 per cent moving to a higher quintile and 30 per cent moving to a lower one (Duncan and Morgan, 1981, Duncan, 1984). Approximately 20 per cent had moved either up or down by more than 1 quintile. This and other evidence in the literature, for example Fritzell (1990) in a study of income mobility in Sweden over the period 1973-80, suggests a substantial degree of stability in income rankings over a number of years, and even more so from one year to the next.

What are the factors associated with income mobility? For the US, the single most important factor producing mobility appears to be changes in family composition. This was particularly the case for females, where the effects of marital disruption on income status were severe. The corollary was that marriage or re-marriage was found to substantially improve the economic status of females. The income status of children was very strongly linked to changes in family composition: on average, a child in a household in which the parents stayed married over the period 1972-78 experienced a substantial real income increase, whereas children in families where the parents divorced or separated experienced a substantial fall. Similarly, households headed by a female who was unmarried in 1972 and remained unmarried throughout the period experienced only a small increase in (real) income, whereas families headed by a female who was unmarried in 1972 but who was married by 1978 saw a much larger increase (Duncan, 1984). Fritzell (1990) also found that family composition was of particular relevance in explaining income change for both males and females in Sweden.

The data from the PSID also suggest that labour market events, although not as important as changes in household composition, do have a major influence on changes in economic status in the USA. The greatest impact on household income is where the male head of household becomes unemployed. Unemployment of females (other than for households which are headed by females or those in which the female is the only income earner) does not have such a significant effect on total family income. Movements by females into or out of employment is associated with an average change in income of approximately $2,000. The comparable figure for males is between $7,000-$9,000. Although these changes appear to be substantial two points should be noted. First, large changes in male labour income are also experienced by those continuously at work. These large fluctuations are often associated with changes in the number of hours worked (possibly due to second jobs, overtime or job changes) rather than with a shift from employment to unemployment. Second, the US panel data suggest that only 17 per cent of males who were employed in 1972 were unemployed in 1978. This implies that although the changes in income associated with changes in employment status are substantial, they are not a particularly common phenomenon and affect a *relatively* small number of individuals. Fritzell (1990) again found roughly comparable results in his analysis of income mobility in Sweden.

In general, therefore, income mobility was found to be primarily associated with changes in family composition and, to a lesser degree, labour market events. Other characteristics such as education and age were found to have an effect on economic wellbeing and changes therein although the latter in particular was found to impact through the labour market. These findings are best summarised by Morgan *et al.* (1974, p. 78) when they note that:

> ... the change in family composition and labour force participation and the demographic background facts dominated the explanation of change in economic status. If people's own attitudes or behaviour or environment affect their economic situations, they must do it through changes in family composition or labour force participation ... The overall result ... is that we found that changes in family composition and labour force participation so dominate changes in family well-being that nothing else seems to matter very much (Morgan, *et al.*, 1974, p. 78).[14]

Poverty Dynamics

When one shifts the focus from changes in economic status to movements into and out of poverty one immediately encounters definitional problems in the measurement of poverty transitions. One measure of aggregate changes in poverty status is the percentage of those

[14] The results from the Morgan *et al.*, study are based on simultaneous multiple regression techniques which track transitions in economic mobility. Furthermore, it should be noted that the dependent variable used in the study by Morgan *et al.*, is income-to-needs ratio.

who are poor in one year remaining poor in the next. At one extreme 100 per cent of those who were in poverty in a given year would still be in poverty in the following year, and at the other none of those in poverty in one year would be in poverty in the next. It is worth emphasising that either of these could be consistent with the overall percentage of the population in poverty in the two years being unchanged. The reality of the situation is, of course, likely to be somewhere between these two extremes.

Transitions into and out of poverty in the US over the period 1969-1978 have been estimated on an adjacent-year basis by Hill (1981) and Duncan (1984) using the PSID data mentioned above. Overall, both report that the annual percentage of persons who remained poor from one year to the next ranged from a low of 54 per cent to a high of 65 per cent. In other words, throughout the 1970s between 35 and 46 per cent of those who were poor in any one year had escaped from poverty by the next. These rates compare with those derived by Berghman and Dirven (1991) who analysed panel data for The Netherlands over the period 1986-88. They found that 64 per cent of those who were poor (below the legal minimum) in 1986 had escaped from poverty one year later, while the annual escape rate for those poor in 1987 was 61.2 per cent. These year-on-year escape rates for The Netherlands are clearly very considerably higher than the 1970s figures for the United States.

Another important source of information on poverty transition rates is the US Census Bureau's Survey of Income and Program Participation (SIPP). The Census Bureau uses a three-fold classification of "Poor" (those who lie below the official poverty line), the "Near Poor" (those in the range 100 to 124 per cent of the poverty threshold) and the "Non-Poor" (those in excess of 125 per cent of the threshold). The Bureau found that 25 per cent of those who were poor in 1984 were above the poverty line one year later, but 44 per cent of these ended in the "Near Poor" category. Thus only 14 per cent of those who were in poverty in 1984, as measured by the SIPP, were in an economically secure position one year later (US Census Bureau, 1989).

To get a complete picture of annual poverty transitions one needs to look not only at poverty escape rates or *outflows* but also at the extent of *inflows* into poverty as overall incidence is clearly a function of the balance between the two. Duncan (1984) notes that over the period 1974-78 in the United States between 3 and 4 per cent of those who were not in poverty in one year were in poverty in the following year. Berghman and Dirven suggest that comparable figures for The Netherlands were 4.8 per cent in 1986-87 and 3.8 per cent in 1987-88.

Consideration of annual poverty transition rates logically leads on to poverty duration: how long do poverty spells last? The analysis of spell length poses particular problems (as the by now substantial literature on unemployment spells amply illustrates). A major difficulty arises due to so-called right and left censoring of the data: in other words, some spells have begun before the start of the data series while others are still "in progress" when analysis takes place. There are a lot of problems (conceptual as well as methodological) in handling these "partial spells". For this reason it is important that we have a data series which is sufficiently long as to include a substantial number of completed spells, i.e., those which began and ended within the period covered by the series. A basic requirement is obviously a high quality longitudinal data series on income and other household characteristics. Only the PSID offers a sufficiently long run of data as to capture a substantial number of completed poverty spells which have begun and ended over a reasonably long period of time.

Using data from the PSID, Bane and Ellwood (1986) examined poverty durations over the period 1970-82, and found that 45 per cent of poverty spells were over within 1 year and 70 per cent were over within three. A total of 12 per cent lasted more than 9 years. However, if one concentrates on those persons who are poor at a given point, one finds that as much as 52 per cent of those identified as being poor in a cross-sectional survey are experiencing a poverty spell of 10 or more years. (Bane and Ellwood use the helpful analogy of hospital admissions/patients: although only a small proportion of those admitted to hospital will be long-stay patients, they will account for a high percentage of total hospital days and thus of hospital patients at any point in time.) While the majority of persons who are ever poor experience only short periods of poverty, most of those who are poor at any given point in time are in that situation long term and account for most person-years of poverty.

Again using PSID data but adopting a slightly different approach, Duncan (1984) looked at the proportion of the population which was in poverty for various lengths of time over the period 1969-1978. He found that 24 per cent were poor in 1 or more years over the period; 5 per cent were poor in 5 or more of the years in question and 3 per cent were poor in 8 or more years. A total of 0.7 per cent were poor in all 10 of the years under study. There was little evidence to suggest any substantial change in the relative levels of long and short-term poverty over the period in question, which is somewhat surprising in view of the sluggish conditions in the US domestic economy in the mid- to late-1970s compared with the earlier years.

Bane and Ellwood (1986) also examined the relationship between the onset of a poverty spell and events such as changes in income and household composition. They found that for about half of those who experienced a spell in poverty over the period 1970 to 1982 this was preceded by a fall in the earned income of one or more household members, most often the household head. The remainder of poverty spells were preceded by non-income related events, primarily changes in family composition. The most common of these are a child leaving the parental home to set up his/her own household. Other important factors associated with a fall into poverty involve a child being born into a low income household, marital disruption and lone parenthood. The overriding finding, however, is the variety and heterogeneity of events relating to the onset of poverty spell. The only systematic pattern to emerge from this heterogeneity is that male-head families most commonly had suffered a fall in earnings, whereas for those with female heads poverty typically begins through separation/divorce or lone parenthood.[15]

A particularly important aspect of the onset of a poverty spell is the extent to which it is related to the experience of previous spells in poverty. Hill (1981) examines the relative significance of "state dependence" versus "heterogeneity". State dependence is the effect which poverty *per se* in one year has on the probability of being poor in subsequent years, implying that being poor in one period will itself increase the chance of a further poverty spell in the future, regardless of individual characteristics, etc. This contrasts with heterogeneity effects which refer to the specific characteristics of each individual – such as low levels of educational attainment or partial disability – which may in themselves increase the probability of subsequent periods of poverty. Hill's research suggests that although it is statistically significant, the effect of state dependence is small relative to heterogeneity effects. The heterogeneity of individuals' characteristics and their role in determining subsequent spells of poverty underline the complexity of policy formulation in this area.

What of the events associated with the ending of a spell in poverty? Bane and Ellwood (1986) note that in the United States in the 1970s about half of all poverty spells were ended when the earned income of the household head increased. An increase in the earned income of an other household member was associated with the ending of a further quarter of poverty spells. The ending of the remainder was related to increases in transfers

[15] There may seem to be a disjuncture between the importance assigned to changes in family composition in determining income mobility and Bane and Ellwood's suggestion that falls in earned income are more important than marital disruption in falls into poverty. Bane and Ellwood do not document what triggered falls in earned income – it is quite possible that they are themselves attributable to a change in family circumstances.

or to marriage, which was an important route out of poverty for female household heads, especially those with children. One should note, however, that marriage was not the only, or indeed the most important, way out of poverty for females: more female heads with children escaped from poverty as a result of a change in employment or income status than did as a result of changes in marital status. Berghman and Dirven (1991), in analysing poverty-related events in The Netherlands over the period 1986-88, also found that for men (whether married or single) changes in employment status had a substantial and significant effect on poverty status. For married women, changes in the employment status of their husband had a more substantial and significant impact on their poverty status than did changes in their own employment status, while for unmarried women getting married significantly increased their probability of escape from poverty.

5.3 *Income and Poverty Dynamics – Evidence from Irish Panel Data*

We now focus on what has been learnt about income and poverty dynamics in Ireland from the limited but useful panel data produced by the partial follow-up survey which was carried out by the ESRI in early 1989, which re-interviewed a sub-set of the households in the 1987 sample. A full description of the survey and results are presented in Williams and Whelan (1994): here our aim is to summarise the main findings. As outlined in Chapter 2 above, not all the households in the 1987 sample could be re-surveyed due to financial constraints, so the bottom 25 per cent of the equivalent income distribution in the 1987 sample together with a randomly-selected 500 households from the rest of the distribution were included in the sampling frame. The measurement of farm income and the extent of fluctuation from year-to-year pose particular problems, and for this reason the analysis was confined to the 767 responding non-farm households. As described in Chapter 2, the follow-up sample is reweighted to take into account, *inter alia*, the way the target sample was selected and differential response rates. The fact that the underlying data in effect oversampled those in the bottom 25 per cent in 1987 means that one can have greater confidence in analysing *poverty escapes* from 1987 to 1989 than households *falling into* poverty.

The information obtained in the follow-up covers the key characteristics included in the 1987 survey, in particular income and household composition, using identical questions. In addition, respondents were asked about their perceptions of changes in the household's circumstances since the initial survey, as well as labour market experiences over the intervening period. Using this data-set, the ways in which financial well-being and poverty status changed for sample households between the two surveys can be examined. (Since the follow-up survey was carried out in early 1989 while the 1987 one was in the field from end-1986 to mid-summer 1987, the gap between the two surveys is closer to 18 months than 2 years in most cases.) First, the overall extent of changes in income and in positions in the income distribution are described. The way households' subjective assessments of their own financial situation evolved are then examined. Changes in poverty status over the period and the related events are then considered.

Income Dynamics in Ireland 1987-89

Just over half the households in the follow-up sample experienced a change of more than 15 per cent – increase or decrease – in real incomes between the 1987 and 1989 surveys. A further 30 per cent experienced a change of between 5 and 15 per cent. In each case there were about as many "gainers" as "losers". Looking at the impact these income changes had on the position of households in the income distribution, Table 5.1 shows transitions in rankings between the two surveys on the basis of income quintiles. Just over half the households in the follow-up sample remained in the same income quintile over the study period. About one-quarter experienced an improvement and the same number experienced a deterioration in income quintile position. In general, those who changed their relative position did so by only 1 quintile. About 75 per cent of those who experienced an improvement in their equivalent income position moved up 1 quintile, and 70 per cent of those whose position deteriorated did so to the extent of 1 quintile. Overall, the data suggest that most households did not experience very substantial change over the 1987-1989 period in their relative position in the income distribution. This is largely as one would expect, given that the interval between interviews was relatively short, and is also consistent with the overall stability found in the studies by Duncan and Morgan (1981), Duncan (1984) and Fritzell (1990) discussed above.

What are the most significant factors underlying income change over the study period? Table 5.2 shows that a change in quintile position is strongly associated with a change in the number of economically active household members. For example, 54 per cent of households which had one economically active household member in phase 1 and two or more such members in phase 2 improved their quintile ranking and 41 per cent of such households remained in the same quintile position. [16]

[16] Of course, this does not say anything about the differences in the absolute level of average income from which these transitions are being made: for example, the average 1989 income of a household which had one economically active member at both rounds of interview was 42 per cent higher than its counterpart which had no economically active members at either point of interview.

Table 5.1: *Extent of Quintile Transitions for Unadjusted and Equivalent Income[1] Among Non-farm Households 1987-89*

Change 1987-89	*Unadjusted Income*		*Equivalent Income*	
	Per cent	*(N)*	*Per cent*	*(N)*
Fall > 1 Quintile	3.8	(29)	7.2	(55)
Fall 1 Quintile	18.0	(143)	16.3	(127)
Unchanged	56.4	(432)	51.8	(397)
Rise 1 Quintile	16.3	(125)	18.5	(142)
Rise > 1 Quintile	5.0	(38)	6.0	(46)
Total	100.0	(767)	100.0	(767)

(1) Equivalence Scale: Household Head 1.0; Other Adult 0.7; Child 0.5.

Table 5.2: *Changes in Household's Equivalent Income Quintile Position Classified by Changes in the Number of Economically Active Members of the Household in 1987 and 1989*

Economically Active Members in 1987	*Change in Income Quintile 1987/89*	*Number of Economically Active Members in 1989*			
		None	*One*	*Two+*	*Total*
		Per Cent			
	Fall	18.1	0.0	*	
	Same	59.5	36.4	*	
None	Rise	22.4	63.6	*	
	Total	100.0	100.0	*	
	(N)	(251)	(23)	(4)	(278)
	Fall	41.1	27.3	5.3	
	Sale	51.6	45.0	41.0	
One	Rise	7.3	27.7	53.7	
	Total	100.0	100.0	100.0	
	(N)	(45)	(195)	(46)	(286)
	Fall	*	42.8	27.7	
	Same	*	46.7	59.3	
Two+	Rise	*	10.6	17.9	
	Total	*	100.0	100.0	
	(N)	(10)	(46)	(147)	(203)
Total		(306)	(264)	(197)	(767)

Table 5.3 shows that a change in the employment status of household head from employment to unemployment is generally associated with a deterioration in relative income position. Just over half the households headed by someone who moved from employee to unemployed saw their income quintile position fall, while the remaining 48 per cent were in the same quintile in the two surveys. Conversely, (although the numbers in this cell of the table are particularly small), 51 per cent of households whose heads went from unemployed to employed over the period experienced an improvement in their relative position in the income distribution.

Table 5.3: *Changes in Household Equivalent's Income Quintile Position Classified by Changes in the Labour Force Status of Household Head in 1987 and 1989*

Employment Status of HOH, 1987	*Income Quintile 1987/89*	*Employment Status of Head of Household, 1989*			
		Employee	*Unemployed*	*Other*[1]	*Total*
			Per cent		
	Fall	17.7	52.4	43.2	
	Same	52.3	47.6	43.1	(24)
Employee	Rise	30.0	0.0	13.6	(24)
	Total	100.0	100.0	100.1	(24)
	(N)	(268)	(21)	(24)	(313)
	Fall	16.6	18.3	*	
	Same	32.2	69.2	*	(4)
Unemployed	Rise	51.2	12.5	*	(4)
	Total	100.0	100.0	*	(4)
	(N)	(20)	(66)	(4)	(90)
	Fall	–	*	22.6	
	Same	–	*	53.9	(265)
Other	Rise	–	*	23.4	(265)
	Total	(0)	(3)	(265)	(268)
Total	(N)	(288)	(90)	(293)	(671)

[1] Other includes unable to work due to permanent illness or disability: retired; engaged in home duties; in full-time education and "other". The self-employed have been excluded.

Subjective Assessment of Change in Financial Well-being 1987-89

Before examining objectively measured changes in household poverty status, it is instructive to look at the household's subjective assessment of its financial position and changes therein over the period. Table 5.4 presents details on the head of household's assessment at both points of interview of the household's ability to make ends meet. The table is based on a direct question asked of the household head and is thus entirely conditioned by his/her subjective assessment of an acceptable standard of living, intuitive equivalence scale, etc. Although in this sense it is entirely a subjective measure one should note that a household's perceived ability to make ends meet is strongly related to its objectively measured poverty status. For example, 84 per cent of households below the 50 per cent relative income line in the 1987 sample said they were having "Great" or "Some" difficulty in making ends meet.

Table 5.4: *Households Classified by their Perceived Ability to Make Ends Meet in 1987 and 1989*

1987	*1989*					
	Great/Some Difficulty	*A Little Difficulty*	*Fairly Easily/ Easily/Very Easily*	*Total*	*(n)*	*Total Phase 1*
Great/Some Difficulty	66.3	18.7	15.0	100.0	(380)	51.2
A Little Difficulty	36.2	33.5	30.3	100.0	(165)	22.2
Fairly Easily/Easily/ Very Easily	12.8	20.7	66.5	100.0	(197)	26.6
Total Phase 2	45.4	22.5	32.1			
(N)	(337)	(167)	(238)			

From the table we see that of the households who were experiencing Great/Some difficulties in 1987, 66 per cent continued to experience a similar degree of difficulty in 1989.[17] A further 19 per cent of this group seems to have experienced a slight improvement while the remaining 15 per cent experienced a substantial improvement. At the other extreme we can see that just over two-thirds of those who were able to make ends meet with some relative degree of ease in 1987 were still able to do so by 1989.

In the 1989 follow-up, the household head was also asked to say how the household's financial situation has changed over the preceding 18 months. Almost 47 per cent of those who were experiencing Great/Some difficulty in making ends meet at the first round of interviewing felt that

[17] Whereas 46 per cent of the households in the follow-up sample said they were experiencing "Great" or "Some" difficulty in making ends meet, the corresponding figure for these households in the 1987 survey was 52 per cent. Part of the reason for this apparent decline may be the fact that new households set up between 1987 and 1989 are excluded from the population under study: only households which existed in 1987 and which continued in existence in 1989 are included.

they had experienced a deterioration in their financial situation between 1987 and 1989, compared with 38 per cent for the entire sample. The opposite trend is apparent among those who found it relatively easy to make ends meet at the first round of interviewing: an above-average percentage of this subgroup felt that their situation had improved over the period.

Changes in Poverty Status, 1987-89

We now turn to changes in the poverty status of households over the period 1987-89 using relative income poverty lines. Mean equivalent income at the first round of interviewing among non-farm households was £79.52, and by the 1989 survey this had risen to £87.90. Table 5.5 compares the percentages of the follow-up sample below lines derived as 40 per cent, 50 per cent and 60 per cent of mean income in 1987 and 1989.[18] We see that exactly the same percentages of these households were in poverty at both rounds of interviewing with the 40 per cent and 50 per cent lines, while the percentage below the 60 per cent line was 27 per cent in 1989 compared with 25 per cent in 1987.

Table 5.5: *Poverty Rates in the Follow-up Non-farm Sample in 1987 and 1989*

	Households		*Persons*	
Relative Income Line	*1987*	*1989*	*1987*	*1989*
40%	6.5	6.5	9.1	10.3
50%	15.3	15.3	19.5	20.4
60%	25.1	27.2	28.6	31.3

It is the flows into and out of poverty, the changes in the poverty status of individual households, which panel data are designed to reveal. As already noted, because of the sample structure one can have greater confidence in discussing *poverty escapes* from 1987 to 1989 than in analysing households *falling into* poverty. Table 5.6 shows that using the 40 per cent line, 59 per cent of households which were in poverty in 1987 had escaped by 1989. However, as one increases the poverty line to the 50 per cent and 60 per cent levels the escape rate falls off dramatically, with 30 per cent of those below the 60 per cent line in 1987 above that line by 1989.

[18] The reader should note that these figures refer only to non-farm households in the follow-up survey. The results presented in Chapters 3 and 4 on percentages below the income poverty lines refer to all households, including farmers, in the 1987 survey.

Table 5.6: *Extent of Poverty Escapes Among Non-farm Households, 1987-89*

Change in Status Phase 1 to Phase 2	*Poverty Line: Phase 1 – Phase 2* 40%-40%	50%-50%	60%-60%
Escape from Poverty	58.6	38.4	30.0
Still in Poverty	41.4	61.6	70.0
Total	100.0	100.0	100.0
(weighted N)	(50)	(117)	(192)

Because we are constrained by the relatively small sample size, we look at overall poverty transitions only in respect of the 60 per cent line. With this line almost two-thirds of the population did not experience poverty at either round of interviewing. Just under 10 per cent fell into poverty over the study period, i.e., were above the 60 per cent line in 1987 but were below the corresponding line in 1987. A further 8 per cent of households escaped from poverty over the period and the remaining 18 per cent of households were in poverty at both points. Changes in poverty status are strongly associated with changes in the number of economically active members in the household, with poverty escapes in particular associated with an increase in the number of household members at work. Change in the employment status of household head is also important. Over 60 per cent of households which did not experience poverty at either round of interviewing were headed by someone in employment at both points of the survey, compared with 18 per cent for households which fell into poverty over the study period, 32 per cent for those who escaped from poverty and 14 per cent for those who experienced poverty in both 1987 and 1989. Households which fell into poverty were twice as likely as average to have a head who went from employed to unemployed. Conversely, "escapers" were almost four times as likely as average to have a head who went from unemployment to employment over the period. Finally, households which were in poverty at both phases of the research were more than four times as likely as the overall average to be headed by someone who was unemployed in both 1987 and 1989.

It must be emphasised that one cannot assume that the households which were found to be in poverty in both 1987 and 1989 represent those in a state of long-term poverty. We obviously do not know what the poverty status of households was either before 1987 (the point of first interview) or after 1989 (the second interview). Furthermore, we have no information on what has been happening to households between the two surveys, and on the length of the poverty spells we observe. Thus some of those who were in poverty in 1987 but escaped by 1989 may have ended a very lengthy spell of poverty. For others the experience of poverty in 1987 at the point of first interview may have been an short-term aberration and the escape by 1989 was simply a return to a more normal situation. The problems presented by so-called left and right truncation of the data, as well as issues associated with duration of spell *per se,* can be addressed only if one has access to high quality data covering on long number of years, such as that available in the US from the Panel Survey of Income Dynamics. None the less, the data provided by the 1989 follow-up survey allows a longitudinal perspective on poverty to be adopted for the first time in Ireland, and demonstrates the value of this approach.

Cross-Country Comparisons of Poverty Escape Rates

These results are particularly valuable in that poverty "escape" rates for Ireland can now be compared with those for other countries for which panel data are available and similar analyses have been carried out. Such a comparison can be made directly for The Netherlands, Luxembourg, and the Lorraine region of France, which participated in a comparative study with Ireland employing the methodology described above (see Deleeck, *et al.,* 1992). Based on the 50 per cent relative income poverty line, poverty escape rates from one year to the next in the mid-1980s were 43 per cent for Lorraine and for Luxembourg and 59 per cent for Belgium. These compare with the Irish figure from the 1987-89 comparison at that line of 38 per cent.

An alternative point of comparison is provided by another comparative exercise in which Ireland also participated, the results of which are presented in Duncan *et al.* (1993). The countries covered in this case were Canada, Germany, Luxembourg, Ireland, The Netherlands, USA, and the Lorraine region of France. Relative poverty lines were again employed but derived as a percentage of the median rather than the mean of the equivalent income distribution, and poverty escapes in this instance were measured by a more stringent criterion: only households which were below half the median in one year but rose to at least 60 per cent of the median in the second year were counted as "escapers". The Irish figure on this basis was 25 per cent, which compares with 12 per cent for Canada, 28 per cent for Lorraine, 26 per cent for both Germany and Luxembourg, 44 per cent for Sweden, and 14 per cent for the USA.

The escape rates shown for Ireland are thus similar to those for a number of other countries, though lower than Sweden or The Netherlands and higher than the USA. As the Duncan *et al.*, study notes, there appears to be a marked inverse relationship between the escape rates and the poverty rate itself: in other words, escape rates are lowest where the percentage of the population below the poverty line is highest (the USA), and relatively high where poverty rates are low (Sweden, The Netherlands). It must also be recalled that the Irish escape rates are for a period of about 18 months whereas those for the other countries are based on mobility from one year to the next, which would bias Irish rates upwards in the comparison. Against this background Ireland is seen to have quite a high poverty rate and a correspondingly below-average escape rate compared with the other countries for whom data is available.

Poverty Dynamics and Deprivation

In addition to the dynamics of income poverty, we are particularly interested in changes in household living standards and experience of deprivation over time. Chapter 3 described the set of life-style indicators on which information was obtained in the 1987 ESRI survey, and developed a poverty measure which combined both low income and the experience of what were seen as rather basic forms of deprivation. Most of this information was also obtained in the 1989 follow-up survey, so we can also look at poverty transitions when this combined income plus deprivation criterion is adopted.

For households in the follow-up survey, the overall level of possession/ absence of the various items was little changed between the two surveys. Comparing the 1987 and 1989 responses one does see a certain amount of change for individual households, however. For example, about 4 per cent of households said in 1989 that they were doing without "a meal with meat, chicken or fish every second day", although they had this item in the 1987 survey. Similarly, 8 per cent of households had stated in 1987 that they did not have a warm, waterproof overcoat, but by 1989 said that they had this item. In terms of the three life-style dimensions distinguished in Chapter 3, the housing and household capital items show the least fluctuation between the two surveys, followed by the basic items, with the secondary items showing the greatest degree of change at household level.

As in earlier chapters, we concentrate on the items in what we have termed the basic dimension, and explore the implications of applying a combined income plus deprivation criterion in measuring poverty – here, in measuring poverty transitions from 1987 to 1989. While the basic deprivation index employed in Chapters 3 and 4 had 8 items, here we are restricted to 7 because the question about whether the household had "heat for the living room when it was cold" was not included in the 1989 survey. Analysis of the 1987 survey shows that this affects the numbers meeting the combined income/deprivation criteria only marginally, and we would expect it to have little impact on the measurement of poverty transitions. Because of the nature of the follow-up sample we concentrate on poverty escapes between 1987 and 1989.

About 10 per cent of households in the follow-up sample had incomes below the 50 per cent relative income line and a score of 1 or more on the basic deprivation index in 1987: that is, they met the combined income/deprivation criteria at the first round of interviewing.[19] The situation of these households in the 1989 follow-up survey was that 63 per cent were still below the 50 per cent line and experiencing basic deprivation, but 37 per cent were not: they had in that sense "escaped" from poverty. The corresponding figures using the 60 per cent relative income line and the same basic deprivation criterion were that 19 per cent of households in the follow-up sample had been below that line and experiencing basic deprivation in 1987, of whom 32 per cent had "escaped" by 1989.[20] These poverty escape rates are very similar to the results described earlier when the 50 per cent and 60 per cent relative income lines alone were used, and the factors involved are also very much the same. The sample size does not allow more detailed analysis of the way in which income mobility and changes in life-style/deprivation interact, and this will be a priority for future research when a suitable longitudinal database can be developed.

5.4 *Conclusions*

In this chapter we have looked at the findings from the growing international literature which uses panel data to analyse the dynamics of poverty over a period of years, and at what has been learnt from the limited but useful panel data now available for Ireland. By following a particular set of individuals and households over a number of years, such data allows movements into and out of poverty to be measured and the factors which lead to households falling into or escaping from poverty to be identified. This is particularly important in understanding the causal processes at work, particularly those which lead some households to be trapped in poverty for prolonged periods.

[19] It will be recalled from Chapter 3 that for most items this refers to "enforced" lack, in the sense that respondents stated both that they lacked the item and that this was because they could not afford it.

[20] The percentages in the follow-up sample meeting the combined income/deprivation criteria in 1987 are for non-farm households only, and are therefore not directly comparable with the figures for the entire 1987 sample presented in Chapter 3.

In the United States, a high-quality longitudinal dataset stretching back to the late 1960s (the Panel Survey of Income Dynamics) is available. Data from that source for the 1970s showed that between 35 and 46 per cent of those who were poor in any given year (using the US official poverty line) had escaped by the next year. Focusing on the duration of poverty spells, the US evidence suggests that these are often relatively short. Nevertheless, most of those found to be in poverty at a particular point in time will be experiencing poverty long term. As far as the factors producing income mobility and poverty transitions are concerned, the key finding to emerge from analysis of the PSID is that changes in household or family composition have been the most important single factor in the US context. Changes in labour force status, although important, were secondary to household compositional changes such as a young adult leaving the parental home to set up his/her own household, family break-up, or birth of children.

For Ireland, income mobility and poverty transitions have been analysed by Williams and Whelan (1994) using the information from the 1989 follow-up survey which re-interviewed some of the households who responded to the 1987 ESRI survey. It was unsurprising in view of the relatively short interval between the two rounds of interviewing (and the fact that only non-farm households were analysed) that they found that over half the sample did not change their position in the income distribution in terms of equivalent income quintile, with approximately equal proportions of the remainder experiencing a deterioration and an improvement. In terms of status *vis-à-vis* relative income poverty lines, we have seen that 59 per cent of those below the 40 per cent relative line in 1987 were above the corresponding line in 1989; the escape rates were 38 per cent with the 50 per cent line and 30 per cent with the 60 per cent line. About 65 per cent of households in the follow-up survey had experienced no poverty at either round of interviewing; just under 10 per cent had fallen into poverty over the study period; 8 per cent had escaped from poverty and the remaining 18 per cent were experiencing poverty at both points of interview. Changes in the number of household members at work appeared to be the most important single factor in producing escapes from or falls into poverty. Focusing on those below relative income poverty lines and experiencing deprivation, about one-third of those in the follow-up sample who had been below the 60 per cent line and experiencing basic deprivation in 1987 were no longer in that position by 1989.

Subjective perceptions of ability to make ends meet, relative poverty lines, and the combined income/deprivation criteria thus all show a good deal of movement out of poverty over the 18 month-two year period covered. To fully assess the implications of this mobility one would need to know what happens subsequently to the households who are seen here as "escaping" poverty: do they fall back into poverty or is their position improved in the longer term? Panel data over a longer period will be necessary to address these issues, but the limited analysis summarised here has served to demonstrate the importance of the longitudinal perspective and, in particular, the need for a focus on the factors underlying the *flows* into and out of poverty.

The critical factor in regard to income mobility and poverty transitions in Ireland seems to be labour market conditions and related changes in employment status of household head, in contrast to the evidence from the USA which indicates that changes in family composition are *the* most important factor in determining economic mobility there. This reflects the fact that both family splits due to marital breakdown and births outside marriage are much more prevalent in the USA than in Ireland, while unemployment is considerably lower there – it is the levels of unemployment and marital break-up, rather than in the risks of poverty attached to these states, which differ between Ireland and the USA. A dominant role for labour market factors in producing poverty transitions has also been found in a number of other European countries. The panel results thus reinforce the emphasis given to this area in the research based on the 1987 survey itself, both in earlier chapters of this study and in previous publications. The analysis of poverty dynamics over the 1987-89 period has also pointed towards the need for an even longer time horizon in tracing the impact of labour market experiences on poverty. These themes are taken up in the next chapter, where we concentrate on the labour market and on the relationship between long-term labour market experiences and the risk of current poverty.

Chapter 6

POVERTY AND LONG-TERM LABOUR MARKET EXPERIENCES

6.1 *Introduction*

We have seen in earlier chapters that the labour force status of household members, particularly the head of household, is central to the current income of the household. Previous research using the 1987 ESRI Survey has highlighted the importance of current unemployment as a factor for households below relative income poverty lines, and Chapter 3 of this study has shown that this is even more pronounced for households below these lines and experiencing basic deprivation. Changes in the labour force status of household members during the year underlie much of the mobility between current and annual income seen in Chapter 4, and many of the changes in poverty status of households between 1987 and 1989 described in Chapter 5. Experiences in the labour market over time are key determinants of "permanent income", central to explaining how households arrived in their present situation and to assessing how persistent low income and deprivation have been in the past and are likely to be in the future for particular households.

In this chapter the relationship between poverty and labour market experiences over a long period is analysed, making use of data obtained in the 1987 survey on labour market experience in the year prior to interview and on labour market career histories. The analysis of labour market experience during the previous year complements the discussion in Chapter 4 of the relationship between current and annual income, and further assists us in understanding the way the current risk of poverty varies across households. The information on career labour market histories is particularly valuable in allowing us to adopt a longer time horizon than earlier chapters. Relying on retrospective data collected in a cross-section survey rather than panel data from repeated interviews with a set of individuals over many years, this opens up a window on the deep-seated factors determining who experiences poverty and who does not. In this context particular attention is paid to the links between educational attainment, unemployment, and poverty.

The information to be used, in addition to that described in earlier chapters, is discussed in Section 6.2. Section 6.3 focuses on labour market experiences over the 12 months prior to the interview, while Section 6.4 looks at career histories (to the date of interview). In each case, the extent of unemployment experience is described, the characteristics of those experiencing it is examined, and the relationship with current household poverty is analysed.

6.2 *The Data*

The full individual questionnaire in the 1987 ESRI survey asked respondents, in addition to their current labour force status, several questions about their employment experiences over the past 12 months. The questions asked differed between those currently at work when interviewed, and those not at work (whether due to unemployment, illness, retirement, or because the person was in home duties). Those currently at work – that is employees or self-employed – were asked the following:

> when they took up their present job;
> since what date have they been continuously at work;
> if *not* continuously at work for the previous 12 months, how many weeks of paid work, how many weeks of unemployment, and how many spells of unemployment did they have.

For those currently at work, then, the number of weeks at work *and* the number of weeks in unemployment were sought. Those not at work when interviewed, by contrast, were asked:

> when they were last in paid employment or self-employment;
> if this *was* within the previous 12 months, they were then asked how many weeks of paid work they did, and the number of spells of unemployment experienced, in that 12 month period.

For those away from work when interviewed, then, while the number of weeks in employment/self-employment in the previous year was sought, the number of weeks in unemployment was not: the total number of weeks spent away from work can be derived as a residual, but respondents were not asked how much of this was spent in unemployment versus illness or out of the labour force. Additional information obtained in the survey on the number of weeks of receipt of different types of social security payments can however be used to distinguish these states in some cases. In particular, for those who were unemployed when sampled and not seeking their first job, we make the assumption that time spent away from work was unemployment unless sickness-related benefits were being received – that is, weeks of unemployment in the past year are estimated as:

total weeks away from work minus weeks in receipt of sickness benefits.

The full individual question also contained a section on background and lifetime labour market experiences. As well as parents' occupation and education (which forms the basis for the analysis of inter-generational mobility in Chapter 7), this sought information on when the respondent left full-time education, and how many of the subsequent years were spent in each of the following states: in employment/self-employment, unemployed, ill/disabled, in home duties, retired, and in a return to full-time education or training. Respondents were also asked how many different jobs and how many spells of unemployment they have had since leaving full-time education.

All this information is available only for adults in the sample completing full individual questionnaires. For a variety of reasons, about 20 per cent of adults did not do so, completing only an abbreviated questionnaire, containing summary information on age, education, occupation, income and social welfare status. The analysis in this chapter refers only to those who completed full questionnaires, but these cases have been reweighted to compensate for biases which could be introduced by the omission of the remaining 20 per cent.

6.3 *Unemployment in the Previous 12 Months*

We now look at labour market experiences in the 12 months up to the date of interview, concentrating on unemployment. While the duration of current spells of unemployment has been the focus of a great deal of research, little is known about total unemployment experience of individuals over particular time-periods, for example a year. This is despite the fact that from the point of view of *welfare*, as Shorrocks (1992) emphasises, it is total unemployment experienced which is of most relevance rather than the length of the current spell. Total unemployment experience over a period is determined not only by the duration of spells but by the incidence of spells and the extent to which they are concentrated among particular individuals. If the same individuals experience repeated spells of unemployment, then total unemployment experienced may be very concentrated even if there are many short spells. The extent to which unemployment experience over a year is concentrated among individuals has been analysed for Britain (Disney, 1979, Nolan, 1987) and the USA (Clark and Summers, 1979, Akerlof and Main, 1980, Bowers, 1980), but this is the first time such analysis has been possible for

Ireland. In addition, the fact that the 1987 Survey contains data not only on individuals but on their households means that, for the first time, the influence of unemployment experience rather than simply current labour force status on current household poverty may be examined.

Only a small proportion of adults who were self-employed when sampled report any unemployment in the previous year, and few of those who were long-term ill/disabled, retired or in home duties spent any time in paid work. We therefore focus on the adults who were either employees or unemployed (other than first-job seekers) at the date of sampling. (It would be interesting to include those who at the time of interview were ill but intending to seek work, but the information available does not allow time spent unemployed to be reliably distinguished from time spent ill for this group). This gives a total of 2,595 adults in the sample, of whom 2,149 (83 per cent) were employees and 446 (17 per cent) were unemployed when interviewed. In addition to the currently unemployed, 209 current employees (10 per cent of all current employees) report some time spent in unemployment in the previous 12 months. Thus a total of 655 individuals, 25 per cent of the total current employees plus unemployed, have experienced some unemployment in the previous year.

Table 6.1 shows the distribution of these individuals by the total number of weeks of unemployment experienced over the previous 12 months, distinguishing the currently employed and the unemployed. About 70 per cent of the currently employed who had some unemployment spent less than half the year in unemployment, whereas two-thirds of the currently unemployed spent the whole year in unemployment. (The latter figure would be slightly lower if first-time job seekers were included among the currently unemployed, but those out of work for a year or more still form a higher proportion of the currently unemployed in the sample than in the Live Register statistics, where during 1987 about half those registering had been doing so for a year or more.) Looking at all those who have experienced unemployment in the previous year, then, 14 per cent experienced 10 weeks or less, about 20 per cent experienced between 10 and 26 weeks, a similar number had between 26 and 51 weeks, while 46 per cent were unemployed for the whole year.

It is interesting to look at the implications of this pattern for the extent to which the unemployment experienced is concentrated among individuals. Table 6.2 shows that the individuals who were unemployed all year experienced two-thirds of all the weeks of unemployment. Thus, 46 per cent of those who experienced unemployment, 11.5 per cent of all current employees or unemployed, experienced two-thirds of the total weeks of unemployment.

Table 6.1: *Weeks of Unemployment in Previous Year for Those Who Experienced Unemployment*

Weeks of Unemployment	*Currently Employed*	*Currently Unemployed*	*All*
1 ≤ 10	28.9	7.3	13.9
> 10 ≤ 26	41.2	9.0	19.0
> 26 ≤ 51	29.9	17.4	21.4
52	0	66.3	45.6
All	100.0	100.0	100.0

Table 6.2: *Concentration of Weeks of Unemployment Experienced in Previous Year*

Weeks of Unemployment	*% of Total Weeks*	*% of Those Who Experienced Unemployment*	*% of All Currently Employed or Unemployed*
1 ≤ 10	2.0	13.9	3.4
> 10 ≤ 26	10.6	19.0	4.9
> 26 ≤ 51	21.8	21.4	5.4
52	65.6	45.6	11.5
All	100.0	100.0	25.2

Compared with earlier analyses for Britain or the USA (e.g., Nolan, 1987), this shows a lower degree of concentration of unemployment experience among individuals. This comes about because a much higher proportion of the unemployed are out of work for the entire year in the Irish case, so that although there are far more weeks of unemployment experienced, they are more evenly distributed among those experiencing unemployment than in a situation where only a small percentage of the unemployed have the maximum annual experience.

We now look at the characteristics of those who have experienced different durations of total unemployment, and compare them with the employees who have not experienced any unemployment. In doing so, we distinguish those who are currently employees but with some unemployment in the year, the currently unemployed with 26 weeks or less unemployment, currently unemployed with 27-51 weeks, and those unemployed all year. Table 6.3 shows that, in terms of age, the employees with some unemployment experience are distinctive.More than half this group are aged under 25, a considerably higher proportion than either employees with no unemployment, or the currently unemployed. Those who are currently unemployed but who worked during the year are also younger, on average, than either the employed with no unemployment experience or those unemployed all year. Indeed, the age profiles of the "fully employed" and the "fully unemployed" groups are very similar: these immobile groups have a much lower proportion of under-25s than any of the groups displaying transitions into/out of work/unemployment. The table also shows that "fully unemployed" group contains only a small proportion of women, 11.5 per cent, compared to about 38 per cent for current employees and 25-30 per cent for the unemployed with some work during the year.

Table 6.3 : *Characteristics of Those Experiencing/Not Experiencing Unemployment in Previous Year: Age and Sex*

Age	*Employee with No Unemployment*	*Employee with Some Unemployment*	*Unemployed < 26 Weeks Unemployment*	*Unemployed 27-51 Weeks Unemployment*	*Unemployed 52 Weeks Unemployment*
< 25	25.7	52.4	35.3	39.6	21.6
≥ 25 < 35	32.1	26.1	33.8	38.2	31.9
≥ 35 < 45	19.5	10.5	21.8	7.7	18.9
≥ 45 < 55	13.7	6.9	8.1	8.7	14.0
≥ 55 < 65	7.9	4.1	1.0	5.8	13.3
% Female	37.4	38.2	23.5	31.5	11.3
% of All Employees+ Unemployed	74.8	8.0	2.7	3.0	11.5

We turn next to the educational attainments of these different groups, shown in Table 6.4, where a clear pattern emerges. The percentage with little or no formal qualifications is highest, and the percentage with Leaving Certificate or third-level qualifications is lowest, for the "fully unemployed'. Indeed only 10 per cent of this group attained Leaving Certificate or higher, while 44 per cent had no education beyond Primary Certificate. The proportion with at most Primary Certificate falls steadily as we move through the unemployed with 27-51 weeks, the unemployed with 26 weeks or less, and the employees with some unemployment, reaching a figure of only 10 per cent for employees with no unemployment experience. The differences in age profile between the groups must be kept in mind here, since levels of educational attainment tend to be higher for more recent cohorts. Thus part but by no means all of the difference between the "fully unemployed" and those with some unemployment during the year is related to the fact that more of the fully unemployed come from older cohorts. However, this does not apply to the "fully employed"/"fully unemployed" comparison, since their age profiles were similar. It also means that the contrast between the employees with no unemployment and those with some unemployment is *more* pronounced than the overall pattern suggests, because the latter are younger on average but have lower levels of educational attainment.

Table 6.4: *Characteristics of Those Experiencing/Not Experiencing Unemployment in Previous Year: Education Attained*

Education Attained %	*Employee No Unemployment*	*Employee Some Unemployment*	*Unemployed < 26 Weeks Unemployment*	*Unemployed 27-51 Weeks Unemployment*	*Unemployed 52 Weeks Unemployment*
None Beyond Primary	10.0	19.2	24.0	35.6	43.8
Some Secondary	9.9	12.4	12.9	12.5	16.7
Group/Inter Certificate	24.9	30.7	43.3	29.7	30.0
Leaving Certificate	29.3	27.0	16.4	16.3	7.2
Some 3rd. Level	18.6	10.7	6.4	5.9	2.4
% of All Employees+ Unemployed	74.8	8.0	2.7	3.0	11.5

We now wish to examine the relationship between this unemployment experience during the previous year and household poverty. In doing so, household poverty status is measured using both the relative income poverty lines and the combined income/deprivation criteria described in Chapter 3. Thus Table 6.5 shows the extent to which those with varying degrees of unemployment experience are in households (a) below the 50 per cent of mean equivalent income poverty line, (b) below the 60 per cent income line, and (c) below the 60 per cent income line *and* experiencing basic deprivation (as defined in Chapter 3).

We see that only 3 per cent of the "fully employed" are in households below half mean income, and 7 per cent are below the 60 per cent income line. About twice as many of current employees with some unemployment during the year are in households below these lines. Far more of the currently unemployed with some unemployment are currently below these income lines – about 30 per cent are below half mean income and 45 per cent are below the 60 per cent line. For the "fully unemployed", though, the figures are considerably higher again: almost half are in households below the 50 per cent line and almost two-thirds are below the 60 per cent line. Even in terms of current household income, then, those who have been unemployed all year are in a less favourable position than those currently unemployed but with some work during the year. It is worth noting, though, that in terms of the income lines there is no difference between the unemployed with 26 weeks or less and those with 27-51 weeks unemployment.

Table 6.5: *Those Experiencing/Not Experiencing Unemployment in Previous Year: Poverty Status of Household*

% in Households Below	*Employee No Unemployment*	*Employee Some Unemployment*	*Unemployed < 26 Weeks Unemployment*	*Unemployed 27-51 Weeks Unemployment*	*Unemployed 52 Weeks Unemployment*
50% Income Line	2.6	6.1	30.5	32.1	48.2
60% Income Line	7.5	14.9	44.3	44.6	65.4
60% Income + Deprivation	3.4	8.0	22.6	32.9	46.6
% of All Employees+ Unemployed	74.8	8.0	2.7	3.0	11.5

Focusing on the combined income/deprivation criterion, though, reveals an interesting pattern. Only 4 per cent of current employees are in households below the 60 per cent line and experiencing basic deprivation, and again about twice as many of the current employees with some unemployment are in such households. However, the figure now rises steadily from 8 per cent of these employees through 23 per cent of the unemployed with 26 weeks or less, 33 per cent of those with 27-51 weeks, to 47 per cent of the "fully unemployed". Thus the more unemployment has been experienced in the previous year, the higher the risk of current basic deprivation due to lack of resources. This may primarily reflect the progressive run-down of savings and/or accumulation of debt as unemployment experience lengthens, so that those who have been unemployed all year have little or no other resources to draw on. This is supported by the level of bank/building society deposits held by households. Controlling for effect of age on savings by focusing on those aged 35-54 only, employees with no unemployment experience in the year were in households with average savings of £2,150 in the form of deposits, whereas employees with some unemployment had £1,180. Among the currently unemployed with 26 weeks or less unemployment, savings were nearly as high as the latter figure, at £1,050. For those who had been unemployed for 27-51 weeks, though, the average was only £510, and for those unemployed all year it was even lower at £258.

6.4 *Career Unemployment Experience*

We now turn to the analysis of unemployment experience over the entire career. As explained in Section 6.2, information was obtained in the survey on the number of years respondents spent in employment, unemployment, illness, home duties and retirement since first entering the labour force. Once again, we concentrate here on unemployment experience and its relationship with current poverty status. Looking first at those who were employed or unemployed when sampled, whose annual unemployment experience was analysed in the previous section, we find that 40 per cent report having spent some time in unemployment during their careers. This compares with the 17 per cent who were unemployed when sampled, and 25 per cent who experienced some unemployment in the previous year. Widening coverage to include all adults, whatever their current labour force status, we find that 10 per cent were currently unemployed but 28 per cent had experienced unemployment at some point in their career. Table 6.6 shows the breakdown of adults in the sample by number of years of unemployment experienced.

Over 40 per cent of those who experienced unemployment had only a year or less, another one-third had 2 or 3 years, 13 per cent had 4 or 5 years, and only 14 per cent had more than 5 years of unemployment. In terms of the concentration of unemployment experience, though, that small group with more than 5 years had an average of 10 years in unemployment, and thus experienced 48 per cent of all the years reported by the sample. Whereas 72 per cent of the adults in the sample had no unemployment, then, 4 per cent of adults experienced almost half the total years of unemployment, a stark concentration of unemployment experience over time.

Table 6.6: *Years of Unemployment Experienced in Career, All Adults*

Years of Unemployment	*% of All Adults*	*% of Those Who Experienced Unemployment*	*% of All Years of Unemployment*
0	71.9	-	-
$>0 \leq 1$	11.4	40.7	10.4
$>1 \leq 2$	6.2	22.1	14.0
$>2 \leq 3$	2.8	10.0	9.7
$>3 \leq 4$	2.1	7.4	9.4
$>4 \leq 5$	1.5	5.3	8.5
>5	4.1	14.5	47.9
All	100.0	100.0	100.0

This small group with more than 5 years in unemployment clearly merits close examination. In terms of their current labour force status, 43 per cent were currently unemployed, 15 per cent were employees, 10 per cent retired, 9 per cent disabled, and 7 per cent were in home duties. While few are aged under 25, they are fairly evenly spread over the rest of the age distribution, and most (87 per cent) are men. What is particularly striking is their very limited educational attainment: over half do not even have a Primary Certificate, and 84 per cent did not obtain a Group or Intermediate Certificate. This is much worse than even those with between 2 and 5 years of unemployment experience: half that group do not have at least a Group or Intermediate Certificate. Once again, then, the links between sustained unemployment and poor educational attainment must be emphasised.

Widening the focus to look again at all adults, it is interesting to look at the extent of unemployment experience by the current labour force status of the individual, shown in Table 6.7. We see that 29 per cent of all those currently working as employees have had some unemployment, compared with 23 per cent of the self-employed and 16 per cent of farmers. It is noteworthy that high proportions of those currently away from work because of illness have also experienced unemployment: 54 per cent of those currently ill but intending to seek work, and 33 per cent of those permanently away from work due to illness or disability, have had some unemployment. Finally, 23 per cent of the retired and 10 per cent of those in home duties report some unemployment during their time in the labour force.

Table 6.7: *Unemployment Experienced in Career by Current Labour Force Status*

Labour Force Status	*% of All Adults*	*% Who Experienced Unemployment*	*Mean Years of Unemployment*
Employee	37.2	29	1.9
Farmer	4.7	16	4.6
Other self-employed	4.4	23	2.1
First-time job seeker	1.4	100	2.8
Other unemployed	7.8	100	4.3
Ill but Intending to Seek Work	0.9	54	3.3
Ill/disabled	3.2	33	6.3
Retired	9.3	23	4.2
In Home Duties	31.0	10	2.6
All	100.0	28	3.1

The average number of years of unemployment for those who did have some is highest not for the currently unemployed – for whom the mean is 4.3 years – but for the long-term ill/disabled, who had an average of over 6 years in unemployment. The extent to which time out of employment due to unemployment is correlated with time away due to illness has major implications for the individuals concerned, carrying right through to their likely living standards in retirement. (It is also possible that some confusion may arise in responses for this group between time spent away from work due to unemployment and that due to illness.) Farmers who report some unemployment also had relatively long periods, with an average of 4.6 years, compared to under 2 years for employees who had some unemployment.

It is important to emphasize the implications of the cross-section nature of the data for interpretation of reported unemployment experience. We are not dealing with a set of individuals who have completed their labour force careers, but rather a sample across the age ranges. Having had for example 3 years unemployment over a career of 40 years obviously has different implications to having spent 3 years unemployed out of 5 years in the labour force. It may then be helpful to look at differences in unemployment experience within age ranges. For example, Table 6.8 again shows the variation in unemployment experience across current labour force statuses, but now for those aged 35-44 and those aged 45-54. Neither the retired nor first-time job seekers are now relevant categories.

Table 6.8: *Unemployment Experienced in Career by Current Labour Force Status, Age 35-44 and 45-54*

Labour Force Status	*Age 35-44*		*Age 45-54*	
	% Who Experienced Unemployment	*Mean Years Unemployment*	*% Who Experienced Unemployment*	*Mean Years Unemployment*
Employee	23	2.5	27	2.8
Farmer	22	4.3	17	7.1
Other Self-employed	21	1.2	30	2.8
First-time Job Seeker	–		–	–
Other Unemployed	100	5.8	100	5.9
Ill but Intending to Seek Work	41	4.4	63	5.2
Ill/disabled	33	5.7	43	6.4
Retired	–		–	–
In Home Duties	7	2.4	11	2.3
All	23	3.6	25	4.0

As we would expect, a slightly higher percentage overall of the older group have had some unemployment – 25 per cent compared with 23 per cent – and the mean number of years in unemployment for those experiencing it is also higher, at 4 rather than 3.6. The general pattern across the different labour force status categories remains fairly consistent, though. Within each age ranges, the percentage reporting unemployment experience is still particularly high for the currently ill or disabled, and these groups also have relatively long mean years in unemployment for those who experienced some. About 25 per cent of employees have spent some time in unemployment, and for these the mean number of years is about 2.5.

We now look at the relationship between career experiences of unemployment and current poverty status. In doing so, it is essential to distinguish individuals by both current labour force status and annual unemployment experience: that is, we are interested in the relationship between current poverty status and career unemployment experience, over and above the impact of *current* labour force status and *annual* unemployment experience, examined in the previous section. We therefore begin by comparing in Table 6.9 the poverty risks of individuals who are currently employees but with different durations of annual and career unemployment.

Table 6.9: *Employees Experiencing/Not Experiencing Unemployment in Career: Poverty Status of Household*

Current LFS, Annual and Career Unemployment	*Below 50% Income Line*	*Below 60% Income Line*	*Below 60% Income + Deprivation*	*% of Total Employees*	*% of Group Aged < 25*
Employee, No Unemployment in Career	2.3	6.1	2.6	68.1	23.0
Employee, No Unemployment in Year, ≤ 2 Years in Career	3.4	10.3	4.6	18.3	38.6
Employee, No Unemployment in Year, > 2 Years in Career	5.5	16.9	11.9	3.8	12.0
Employee, ≤ 26 Weeks in Year, ≤ 2 Years in Career	2.6	7.7	3.3	5.5	61.1
Employee, ≤ 26 Weeks in Year, > 2 Years in Career	14.2	30.9	17.5	1.3	12.1
Employee, > 26 Weeks in Year, ≤ 2 Years in Career	6.4	15.4	7.2	2.1	61.9
Employee, > 26 Weeks in Year, > 2 Years in Career	16.7	38.5	27.9	0.8	31.4

Employees with no unemployment experience face a very low risk of being in poverty: only 6 per cent are in households below the 60 per cent income line, and 3 per cent are below the combined 60 per cent income line/deprivation criteria. For employees with no unemployment in the past year but some during their careers, the risk is higher, and in particular it is significantly higher for those with more than 2 years unemployment experience. For those with some unemployment experience in the last year but not more than 2 years in their career, the percentage in "poor" households is quite low, particularly for those out of work for not more than half the last year. For those with more than 2 years unemployment in their careers, especially those out of work for much of the current year, poverty risk is much higher: 28 per cent of those with more than 26 weeks in the current year and more than 2 years unemployment in their careers are below the combined income/deprivation criteria.

These differences in risk are partly attributable to the fact that the age profile differs markedly across these groups, as shown in the final column of the table. In particular, over 60 per cent of those who spent up to half the current year in unemployment but have less than 2 years unemployment in total are aged under 25, so the fact that many are still living in the parental household helps to explain their relatively low poverty risks. The association between lifetime unemployment experience and current poverty risk is none the less important: in particular, the high risk of current poverty facing those who, although currently employed, have experienced more than 2 years unemployment points to the impact of pervasive labour market disadvantage throughout the career for certain groups. This makes itself felt first through the likelihood that those experiencing significant unemployment will be concentrated in low-wage jobs when employed. (The strength of this relationship between low pay and unemployment experience is documented in Nolan, 1992.) Secondly, spells in unemployment will themselves have a detrimental effect on the household's savings and ability to accumulate household durables and other assets. This means that, even when receiving employment income, the household may not be able to avoid basic forms of deprivation because it has no additional resources or has a carry-over of debt.

Looking at the currently unemployed, Table 6.10 shows there are also significant differences in risk of poverty associated with differences in the extent of career unemployment experience. Those currently unemployed but with no more than 2 years unemployment in their career face considerably lower risks than those with more than 2 years. Between 60 and 70% of those who have been unemployed for over half the current year and for more than two years in their careers are below the 60% income line, and it is also remarkable that a very high proportion of these are also experiencing basic deprivation.

Again, there are differences in the age profile across the groups shown, with a higher proportion of those with 2 years or less in unemployment being aged under 25. The analysis helps to focus attention on those among the currently unemployed who are most in need: it is not simply those who have been unemployed for all the current year, but rather those with substantial career unemployment experience – even if they have spent some of the past year in work – who face the highest risk of current household poverty. This is partly because those among the current unemployed who have substantial unemployment experience are more likely to be household heads with dependent families. It also reflects the second factor mentioned in discussing the position of employees, though: the impact of sustained previous unemployment on the household's resources *other than* current income. Clearly, a very high proportion of those with more than 2 years unemployment experience are entirely reliant on current income, perhaps eaten into by debt repayments, and find it exceptionally difficult to avoid basic deprivation.

Table 6.10: *Currently Unemployed Categorised by Unemployment in Career: Poverty Status of Household*

Current LFS, Annual and Career Unemployment	*Below 50% Income Line*	*Below 60% Income Line*	*Below 60% Income + Deprivation*	*% of Total Employed*	*% of Group Aged < 25*
Unemployed, ≤ 26 Weeks in Year, ≤ 2 Years in Career	28.1	42.4	20.3	13.1	39.1
Unemployed, ≤ 26 Weeks in Year, > 2 Years in Career	45.2	55.2	39.0	3.1	15.6
Unemployed, > 26 < 52 Weeks in Year, ≤ 2 Years in Career	23.8	38.1	22.5	12.0	54.0
Unemployed, > 26 < 52 Weeks in Year, > 2 Years in Career	51.3	59.5	56.5	5.3	6.7
Unemployed, 52 Weeks in Year, ≤ 2 Years in Career	37.9	54.9	35.1	22.9	37.1
Unemployed, 52 Weeks in Year, > 2 Years in Career	53.6	70.9	52.6	43.6	13.5

It is also worth looking briefly at the comparison between those who are now retired, but who did/did not experience significant unemployment during their careers. About 23 per cent of the currently-retired adults in the sample reported some unemployment experience during their careers, about half of whom had more than 2 years of unemployment. Whereas 16 per cent of those with no unemployment experience are currently in households below the 60 per cent income line, the corresponding figure is 21 per cent for those with some but not more than 2 years of unemployment, and 24 per cent for those with more than 2 years unemployment. For the combined 60 per cent income plus basic deprivation criteria, the difference is less marked. Thus, while unemployment experience during the working career is associated with a higher risk of poverty in retirement, this is not very pronounced.

6.5 *Conclusions*

This chapter has analysed the unemployment experienced by adults in the 1987 ESRI sample during the year prior to interview and during their careers to date. This has shown that while experience of unemployment is reasonably widespread, the burden is very unevenly distributed. About 25 per cent of those who were employees or unemployed when sampled had experienced unemployment in the previous year, but it was those who had been out of work all year who had two-thirds of all the weeks of unemployment. Likewise, about 28 per cent of all adults in the sample (including those currently retired, ill, in home duties, etc.) experienced unemployment at some point in their careers. However, the small group with over 5 years of unemployment – 4 per cent of adults – had experienced almost half all the years of unemployment. The distinguishing characteristic of those bearing most of the burden of unemployment was their low level of educational attainment. Fully 84 per cent of those with more than 5 years of unemployment experience had no second-level qualification, and over half did not even have a Primary Certificate.

The relationship between unemployment experience and current risk of poverty was shown to be strong. The risk of being in a household below relative income poverty lines, or poor in terms of combined income plus deprivation criteria, was seen to rise sharply as the extent of unemployment in the previous year increased. Two-thirds of those who were unemployed all year were in households below the 60 per cent relative income line, and almost half were also experiencing basic deprivation. The risk was even higher for those who also had substantial career unemployment: over 70 per cent of those unemployed all year who had more than 2 years unemployment in the year were in households below the 60 per cent line, and 53 per cent were also experiencing basic deprivation. What is particularly interesting is that those with long career durations faced almost as high a risk of current poverty even where they had not been out of work all year, showing the importance of long-term labour market experiences in determining current living standards.

Chapter 7

THE CAUSES OF POVERTY: A SOCIAL MOBILITY PERSPECTIVE

7.1 *Introduction*

We have seen in earlier chapters that there is a good deal of mobility into and out of poverty in the course of a year or from one year to the next. Notwithstanding such mobility the types of households to be found in poverty remain quite predictable. In this chapter we direct our attention to the longer-term structural transmission mechanisms that contribute to such predictability. In particular, attention is focused on the impact of social class and class origins on the risk of being in poverty. Since simply demonstrating that there is a relationship between social class and poverty may involve conflating the effects of a number of different processes we will also seek to address what have been referred to as questions of causal "texture" (Goldthorpe and Marshall, 1992). This requires that we "unpack" the effects of class by specifying the role of intervening variables such as education and labour market experience.

7.2 *Social Class and Social Mobility*

The class schema to be employed here is an internationally standardised one developed in the Comparative Analysis of Social Mobility in Industrial Society (CASMIN) project. This scheme is operationalised through a threefold procedure. First, occupations are placed in occupational groups according to the content of their jobs; second, they are given an employment status that reflects their social relationships at work (in both cases the categories and definitions used are those adopted in Britain by the Registrar-General for the analysis of official statistics); finally, a social class position is obtained for each person by cross-classifying the relevant occupational title and employment status (Marshall, 1990).

The basic purpose of the class schema is to differentiate positions within labour markets and production units according to the employment relationships they entail. Employers, self-employed and employees are distinguished, but it is also recognised that employer-employee relationships are based on quite heterogeneous principles (Erickson and Goldthorpe, 1992; Evans, 1993). The classification is based on an understanding of the development of class relations within large-scale industrial capitalist organisations and the nature of control in such organisations. Employees may be differentiated by their conditions of employment, degree of occupational security, and promotion prospects. Combining these distinctions between types of employment status and employer-employee relationships and adding a degree of differentiation in acreage for farmers gives us a detailed 14 category class schema. It is particularly interesting to assess the impact of class because of recent claims that its explanatory power is waning in modern societies (Pahl, 1989). In conducting class analysis it is necessary to decide whether the individual, the family or the household is the unit of analysis. This issue has been a matter of considerable controversy among sociologists (Dex, 1990; McRae, 1990; Breen and Whelan, 1995). The rationale of class analysis requires that members of a class are associated with particular sets of positions over time and would be undermined if classes were to appear as highly unstable aggregates of such positions. The existence of evidence for such stability provides the basis for the key role of the family as a unit of strategic action in terms of consumption and production.

The implications of the employment relationship of that member of the family unit who may be regarded as "dominant" in terms of labour market position extends beyond the work place in terms of its consequences for:

> ... experiences of affluence or hardship, of economic security or insecurity, of prospects of continuing material advance, or of unyielding material constraints (Erickson and Goldthorpe, 1992, p. 236).

The extent of class related socio-cultural variation is an empirical issue as is the scale of such differences in comparison to those arising from other sources of differentiation within and between families. It is because class is defined solely in terms of employment relationships that issues such as the relative importance of class *vis-à-vis* other influences, such as sex, stage of the life-cycle, and marital status, and over time, become issues of legitimate empirical inquiry.

In the analysis that follows given that poverty is defined in household terms we have assigned a class position to the head of household on the basis of information relating to the head of household. While it is possible, in principle, to make quite detailed class distinctions, for the purposes of an analysis in the chapter a fourfold class schema will suffice.

1. Professional and Managerial.
2. The Intermediate Non-Manual and upper petit bourgeoisie, which comprises:
   (a) higher-grade routine white-collar workers;
   (b) technicians and supervisors of manual workers;

   (c) self-employed with employees;
   (d) farmers with more than 50 acres.
3. The upper working class and lower petit-bourgeois categories, as follows:
   (a) skilled manual;
   (b) semi-skilled manual;
   (c) lower-grade white-collar;
   (d) farmers with less than 50 acres;
   (e) self-employed without employees.
4. The lower working class, made up of
   (a) unskilled manual workers;
   (b) agricultural workers.

Since the impact of social class on risk of poverty is extremely modest where the head is aged over 65 we confine our attention in this chapter to households headed by someone aged 65 or less.

Modern industrial societies are characterised by substantial levels of social mobility. Industrialisation affects the set of positions that are available for economic participation – the "empty places" which individuals can fill – and the mechanisms by which individuals are recruited or allocated to places within that set of positions. Increases in absolute mobility associated with economic development are primarily an outcome of structural change. It is possible to think of a great deal of social mobility as being forced by such change. Since 1960 the Irish class structure has changed dramatically. The numbers in the professional/ managerial and skilled manual classes have grown markedly, and the number of lower middle class workers has also increased significantly. On the other hand, the numbers in agriculture and in non-skilled manual work have declined dramatically.

Information obtained in the ESRI survey on the occupation, etc., of respondents' parents now allows the extent of intergenerational mobility in Ireland to be analysed in depth (see for example Whelan *et al.*, 1992, Breen and Whelan, 1992). In terms of the aggregated 4 class schema that we have identified, it is found that 54 per cent of household heads under 65 years have been intergenerationally mobile, that is, their current class is not the same as their parents' class. Such mobility is in large part a consequence of changes in the shape of class structure. Some indication of this is provided in Table 7.1 where the composition of each of our 4 broad social classes in terms of class origin is set out. Thus, while almost 1 in 5 of household heads under 65 come from lower working class background, less than 1 in 8 were currently in that class. Correspondingly, while only 1 in 12 originated in the professional managerial class, 1 in 5 were currently members of that class.

Table 7.1: *Class Origins of Head of Household – Aged less than 65 by Social Class (Percentage by Column)*

Class Origins	*Social Class* *Professional & Management*	*Intermediate, Non-Manual and Petit Bourgeoisie*	*Upper Working Class, and Lower Petit Bourgeoisie*	*Lower Working Class*	*Total*
Professional and Managerial	27.2	7.5	3.0	0.0	8.3
Intermediate Non-Manual & Upper Petit Bourgeoisie	27.9	36.9	16.8	9.9	22.4
Upper Working Class & Lower Petit Bourgeoisie	36.1	42.0	55.8	38.5	47.0
Lower Working Class	8.8	13.6	24.4	51.6	22.2
Total	19.5	21.1	47.4	12.1	

Economic change, no matter how deep, may not be associated with alteration in relative advantages. It is possible that the creation of increased room at "the top" and a contraction of places at the bottom will lead to a general shift upward without necessarily reducing the relative advantages enjoyed by these families with privileged positions in the old class structure. This can be illustrated by a simple example. If at point A 40 per cent of those from professional managerial background are themselves to be found in that class compared to 4 per cent of the working class, while at point B the respective figures are 60 and 6.

1. More upward mobility is experienced at point B.
2. The relative advantages enjoyed by the professional and managerial class over the working class remains unchanged, with the former enjoying a 10:1 advantage.

We could obviously look at a whole range of such comparisons. Reduction in inequality of opportunity, as opposed to increases in mobility, requires that these underlying odds move nearer to one.

In fact, there is a general agreement that, when one allows for mobility "forced" by structural change, the underlying inequalities of opportunity in Irish society have remained relatively unchanged. There is also a consensus that such inequalities are more substantial in Ireland than in other industrial societies (Hout, 1989; Erikson and Goldthorpe, 1992; Breen and Whelan, 1993). In terms of cross-national comparisons, the most striking finding with regard to social mobility in Ireland is the extent of the barriers to entry into the professional and managerial class from the working class. These barriers are of a scale as to mark out Ireland as an exceptional case (Whelan *et al.*, 1992).

A further distinctive feature of the Irish situation is that families at the bottom of the old class hierarchy have, if anything, seen the gap between themselves and others widen as they have become primarily dependent on State income maintenance for their livelihood. The swiftness of the transformation of the class structure in Ireland meant that decline in opportunities in traditional sectors was not compensated for by gradual expansion of alternative opportunities.

Class mobility can be viewed in terms of the relative chances of class mobility available from different class origins, or in terms of the composition of current classes in the sense of the heterogeneity of the classes from which they are drawn. The latter is determined by changes in the class structure *and* the pattern of inequalities of opportunity, and is of particular interest in relation to poverty. From Table 7.1 we can see that the middle classes have a relative heterogenous composition in terms of class origin, while the working classes are drawn predominantly from working class origins. The percentage originating in the working class and lower petit bourgeoisie rises from 45 per cent in the professional and managerial class to 56 per cent among the intermediate non-manual and upper petit-bourgeois class, reaches 80 per cent for the upper working class and lower petit-bourgeoisie, and 90 per cent in the case of the lower working class. Variation in the percentages coming from the lower working class is even more dramatic, rising from less than 1 in 10 in the professional managerial class to 1 in 2 at the bottom of the class hierarchy.

The existence of relatively stable class positions leads us to expect that such classes will be different not only in terms of the current employment situation but also in terms of labour market experiences viewed in career terms. In addition, the nature of such closure would lead us to expect that class position is likely to be associated with access to and exclusion from networks relative to a variety of resources which influence probability of successful participation in the labour market. Such resources include not only specific personal contact but also informational and more general cultural resources.

Furthermore, intergenerational and career stability of class positions lead us to expect that, in terms of the distinction we have made in Chapter 3 between income and life-style deprivation, the impact of class will be most clearly observed where an outcome measure captures long-term processes relating to the accumulation and erosion of resources.

Before proceeding to this analysis an important distinction between the impact of class for those households with a head of household under 65 and those where the head of household is 65 or over. The success of the welfare state in sharply reducing poverty among the elderly in recent times is directly reflected in the attenuation of the class-poverty relationship. Among those under 65 the position is radically different. In Table 7.2 we set out the relationship between class and poverty and then further distinguish between these with middle class and working class origins. The poverty measure employed is the combined 60 per cent income line and primary life-style deprivation measure. Overall the poverty rate is less than 2 per cent among the professional and managerial households. It rises to 9 per cent among the intermediate non-manual group and to over 20 per cent in the upper working class. Finally it reaches a peak of 46 per cent among the lower working class.

While it is now clear that poverty is predictable from class position, which is in turn strongly related to class origin, the question remains whether class origin has an independent impact on poverty once we allow for its influence on current class position. It is this question that is addressed in the first two columns of Table 7.2. Here, for class origins, the two highest classes are combined into a "middle-class" group and the remaining classes into a "working-class" group. In every case except the intermediate non-manual and upper petit bourgeoisie, those from working-class origins have substantially higher risks of poverty. Among the professional and managerial class the risk still remains very low. For the

Table 7.2: *Risk of Poverty by Class Origins, Controlling for Social Class – Household Head Aged less than 65 (Percentage by Column)*

Social Class	*Class Origins* *Middle Class Percentage Poor*	*Working Class Percentage Poor*	*Overall*
Professional & Managerial	0.9	2.1	1.6
Intermediate Non-Manual & Upper Petit Bourgeoisie	8.1	8.6	9.2
Upper Working Class & Lower petit Bourgeoisie	12.1	23.9	22.7
Lower Working Class	16.9	48.8	46.0

working-class groups, however, origin has a significant influence. For the upper working class and lower petit bourgeoisie, the poverty rate rises from 1 in 8 of those with middle-class origins to 1 in 4 of those originating in the working class. For the lower working class the corresponding figures are 1 in 6 and almost 1 in 2.

In Table 7.3 we set out the composition of the poor by class and class origin. Over 8 out of 10 of the poor have been intergenerationally stable in the working class; 50 per cent are located in the upper working class and lower petit bourgeoisie, and 30 per cent in the lower working class. In contrast, fewer than 1 in 20 of the poor have been intergenerationally stable in the middle class.

Table 7.3: *Composition of the Poor by Social Class and Class Origin – Household Head Aged less than 65*

Social Class	*Class Origin* Middle Class Percentage of the Poor	Working Class Percentage of the Poor
Professional & Managerial	0.5	1.0
Intermediate Non-Manual & Upper Petit Bourgeoisie	4.3	5.7
Upper Working Class & Lower Petit Bourgeoisie	6.5	51.5
Lower Working Class	1.0	29.3

Social class and class analysis possess greater power to discriminate when low income is associated with extreme life-style deprivation than when the former only is involved. This is shown in Table 7.4 where the class make of those with incomes below the 60 per cent threshold but not experiencing primary deprivation is compared to that of the group suffering both disadvantages. There is little difference for the skilled-manual class. However, while over one quarter of the low income only group are located in the non-manual classes this is true of less than 1 in 8 of those fulfilling both the income and life-style requirements. The corresponding figures for the lower working class are less than 1 in 7 and almost 3 out of 10. Our social class measure and, in particular, location in the lower working class provides a particularly good indication of broader resources. Once again not only social class but also class origins plays a role here. While 3 out of 4 lower working class respondents experiencing only income deprivation are from working class backgrounds, this is true of almost 100 per cent of those who are also experiencing primary deprivation. While lower working class households, where the head of the household is from a working class background make up 1 in 9 households falling below the 60 per cent income line they comprise over 1 in 3 of the household falling below the combined income and life-style deprivation line.

Table 7.4: *Composition of the Poor in Terms of Social Class for Types of Poverty – Household Head Aged less than 65 (Percentage by Column)*

Social Class	*Below the 60% Line But Not Experiencing Primary Deprivation*	*Below the 60% Line and Experiencing Primary Deprivation*
Professional & Managerial	3.6	1.6
Intermediate Non-Manual & Upper Petit Bourgeoisie	24.0	10.5
Upper Working Class & Lower Petit Bourgeoisie	57.2	57.4
Lower Working Class	15.2	30.9

7.3 *Class, Labour Market Experience and Poverty*

In this section we concentrate our efforts to discover to what extent the effects of class are mediated by a particular variable. Our initial focus is on labour market experience. As we have shown in Chapter 6, the risk of poverty is related to not just current employment status but also labour market experience, both in the previous year, and in overall career terms. Our expectation is that the relationship between class and poverty arises, to a significant degree, because current and longer-term labour market experiences vary systematically across social class, and such experiences are in turn key determinants of "permanent income".

In Table 7.5 we look at the relationship between class position and labour market experiences for the head of households. In particular the focus is on four distinct elements of such experiences.

(i) Unemployment;
(ii) Number of weeks unemployed in previous year;
(iii) Percentage of potential labour market time spent unemployed;
(iv) Illness/Disability.

Table 7.5: *Labour Market Experience of Head of Household by Social Class – Head Aged less than 65 (Percentage by Column)*

Social Class	*Percentage Unemployed*	*Number of Weeks in Previous Year*	*Percentage of Time Unemployed*	*Percentage Ill/ Disabled*
Professional & Managerial	0.8	0.8	1.0	9.1
Intermediate, Non-Manual & Upper Petit Bourgeoisie	4.1	1.7	2.3	12.5
Upper Working Class & Lower Petit Bourgeoisie	19.1	8.5	7.2	17.9
Lower Working Class	40.0	18.4	15.5	26.5

It is clear that each of these elements varies sharply by social class. Thus the percentage currently unemployed is less than 1 per cent in the professional and managerial class. This figure rises to a still modest 4 per cent in the intermediate class. It is, however, among the working class that the risk increases dramatically, reaching 1 out of 5 in the upper working class and 2 out of 5 in the lower working class. A similar situation pertains with regard to the number of weeks unemployed in the previous year. The percentage of potential labour market time (i.e., since leaving full-time education) spent unemployed with the figure rising from 1 to 15 per cent as one descends the class hierarchy.

7.4 *Class, Education and Poverty*

In the previous chapter we provided details of the relationship between labour market experience and education. The final link in the causal chain running in reverse direction from poverty —> labour market experience —> class —> education is that between education and class origins.

Education is the most important mechanism by which advantages associated with class origin are translated into access to desirable class locations. Given the operation of meritocratic principles, there is nothing either surprising or undesirable about the experience of a close relationship between educational qualifications and current class position. However, the successful pursuit of the objective of equality of educational opportunity would lead to a declining impact of class origin on the risk of being poor and this effect would be little affected by whether or not we controlled for education.

In fact as shown in Table 7.6 the relationship between class origins and level of education is striking. Almost 7 out of 10 of those from lower working class origins attained no educational qualifications, compared with fewer than 1 in 10 of those from professional and managerial backgrounds. Correspondingly, 40 per cent of the latter obtained third level qualifications, compared with only 3 per cent of the former.

Table 7.6: *Educational Qualifications of Head of Household by Class Origin – Head aged less than 65 (Percentage by Column)*

Qualification	*Professional & Managerial*	*Intermediate Non-Manual & Upper Petit Bourgeoisie*	*Upper Working Class & Lower Petit Bourgeoisie*	*Lower Working Class*
No Qualifications	9.0	40.0	55.8	68.2
Intermediate or Group Certificate	13.8	19.9	22.5	23.2
Leaving Certificate	38.1	21.0	12.4	2.1
Third Level	39.1	19.1	9.2	3.4

Given the relationship between class, labour market experiences and education it is hardly surprising, as shown in Table 7.7, that the risk of poverty varies sharply by level of educational qualifications. Only 4 per cent of those with a Leaving Certificate, or better, are in poverty; this rises to just less than 1 in 6 for those with the Intermediate or Group Certificate; and to just over 1 in 4 for those with no qualification. In composition terms, we find that 3 out of 4 poor households are headed by a person with no qualifications; a mere 6 per cent had the Leaving Certificate, or better. The poor are predominantly poorly educated.

Table 7.7: *Risk of Poverty by Educational Qualifications of Household Head (Aged 65 or less)*

Educational Level	*Percentage Poor*	*Composition of the Poor*
No Qualifications	26.1	75.1
Intermediate or Group Certificate	15.6	18.9
Leaving Certificate	4.6	3.9
Third Level	3.0	2.1

In the section that follows we undertake a multivariate analysis which allows us to provide an assessment of the combined and independent effects of class origins, education, class and labour market experience on poverty.

7.5 *Multivariate Analysis of the Risk of Poverty*

At this point we want to consider the net effects of class origins, social class, education and labour market experience on the risk of poverty. Attention is also directed to the cumulative effects of these factors. To pursue this investigation use was made of a statistical procedure known as logistic regression and, in order to get a clear picture of the role of the labour market experience, attention was focused on non-farm households. The results of this analysis are set out in Table 7.8. The major findings which emerge from this analysis are as follows.

Table 7.8: *Logistic Regression of the Determinants of Poverty (Excluding Farming Households)*

Unemployed or Unable to Work	1.36***
Proportion of Time Unemployed	2.79***
Social Class	
Intermediate Non-Manual	1.23***
Upper Working Class	2.05***
Lower Working Class	2.95***
No Qualifications	0.87***
Number of Children under 14 years	1.26***
Urban Location	0.30*
Married	–0.57
Sex	–1.08***
Lower Working Class Origins	0.36*

* $p< .1$; ** $p< .01$; *** $p < .001$.

1. Class background operates primarily through its influence on educational qualifications and current class situation, but even having allowed for such factors and labour market experience, where the household head has working class origins the risk of poverty is increased.

2. Education operates primarily through its influence on current class position but a complete absence of qualifications continues to have an independent, if relatively modest, additional effect on the risk of poverty. Education thus influences the risk of poverty in two ways. In the first place through a relative effect whereby it determines one's place in the class hierarchy. Qualification inflation may mean that increasing "amounts" of education are required to achieve a particular position. The second effect is an absolute one whereby the absence of a minimum set of skills places one at a disadvantage in relation to all others who possess such skills.

3. The net effect of social class on the probability of being in poverty, having controlled for the other variables in the analysis, is a good deal weaker than the gross effect but remains very substantial. Education and labour market experience are important factors mediating the impact of social class but by no means the only influence involved.

4. The cumulative effect of the variables in our analysis is such that, a household headed by a person currently in the professional managerial class and in employment, with no previous experience of unemployment, and with some educational qualification, has a zero probability of being in poverty. On the other hand, where the "head of household" is an unemployed, lower working class individual, with no qualifications, from a working class background, who has been unemployed for 15 per cent of his/her potential time in the labour market, the probability of the household being poor approaches 1.

5. The coefficients relating to the other variables included in the analysis show that being a single head of household, number of children under 14 in the household, being a woman and urban location (which in this case means residence in Dublin, Cork, Galway, Limerick or Waterford) are all associated with higher risks of poverty.

Some indication of the independent impact of class background and absence of educational qualifications is given by the fact that a household headed by someone currently in the lower working class, who is in employment, and possesses some educational qualification and comes from a non-working class background, has 1 chance in 25 of falling below the poverty line; where the qualification is lacking and working class origins are involved, the risk rises to 1 in 8.

7.6 *Conclusion*

As we noted at the beginning of this chapter, while short-term mobility into and out of poverty is far from insignificant, the influence of longer-term factors ensures that those households in poverty at a particular point display a distinct profile. The most striking illustration of this is that among the households in the ESRI Survey where the head of household was age less than 65, the risk of poverty rises inexorably as one moves down the class hierarchy. Less than 1 in 25 of the households originating in the professional and managerial class fell below the combined income and life-style line. The figure reaches 1 in 10 for intermediate non-manual etc. origins, and 1 in 5 for the upper working class etc. Finally, for the lower working class the figure peaked at almost 1 in 3.

It is of course necessary to go beyond the description of such differences in order to provide an account of the processes which lead households to experience poverty. It is necessary to incorporate, as we have done, more proximate causes of poverty. Variations in the risk of poverty arises from a chain of causality which involves, among other factors, class origins, education, social class and labour market experience. The importance one attributes to a particular factor is likely to depend on the point in the causal chain at which one commences one's analysis. The findings the extent to which poverty varies by class origins provide a salutary reminder of just how far back we may need to trace our causal path.

Of course, it comes as no surprise to find that the major part of the effect of class origins operates indirectly through such factors as education and labour market experiences. An analysis in terms of class, human capital and the labour market are, from our perspective, complementary rather than competing. Furthermore, we attribute no *a priori* priority to class as an explanatory or predictive variable in comparison with other potential influences. However, despite attempts elsewhere to argue for the declining relevance of class (Pahl, 1989), in relation to poverty in Ireland it seems more plausible to argue that social class has become more rather than less important. Poverty is increasingly associated with long-term labour market difficulties. The disproportionate extent to which the problem of unemployment is borne by households in particular social classes and from similar class background, is reflected in the striking relationship between poverty and social class and class origins.

Just as social class proves a more powerful predictor of poverty arising from chronic labour market difficulties rather than discrete life events, its relationship with poverty is strengthened to the extent that the index of poverty employed reflects the long-run erosion of resources, i.e., to the extent in which the relevant income measure is one of permanent rather than current income. It is in this context that additional effects of class origin and social class, over and above those associated with labour market experiences, should be viewed. These effects are likely to reflect, at least in part, the varying probabilities that such households will receive economic support from their own parental households or indeed broader kin networks. This in turn raises an issue which goes beyond the scope of this study, that is the extent to which persistent large-scale and long-term unemployment and intergenerational transmission of unemployment will lead to an even greater concentration of poverty among particular classes or among a particular section of the working class, and what implications this might have for the emergence of what some term as "underclass".

Chapter 8

CONCLUSIONS

8.1 *Introduction*

This study has drawn on research on a set of interlinked issues to assess what is known about the dynamics of poverty in Ireland. The theme running through the study has been the focus on the time dimension, exploring what a dynamic perspective reveals about the extent, nature and causes of poverty in Ireland. The research has mostly been based on the large-scale household survey carried out by the ESRI in 1987, and the results of Williams and Whelan's (1994) analysis of the limited 1989 follow-up survey, which reinterviewed some of the same households, have also been used. In this study we began by focusing on current income and its relationship with indicators of deprivation, which served to point up the importance of command over resources more broadly conceived, and the impact of income and asset accumulation/erosion over a longer period on households' current situations. Progressively lengthening the time horizon we proceeded to look in turn at income mobility and poverty dynamics going from current to annual income, at income/poverty dynamics over a period of 18 months/2 years, at the relationship between poverty and long-term labour force experience, and at the deep-seated factors structuring the relationship between poverty and social class, including mobility across the generations. In this concluding chapter we first highlight the main findings of the study and then bring out the implications for the design of anti-poverty policy.

8.2 *The Key Findings*

Previous research on poverty using the 1987 survey has concentrated primarily on current household income as the measure of resources and as the indicator of living standards. The range of information obtained in that survey allowed the complex relationships between current income, wider resources, and deprivation to be analysed here. From a broader set of indicators of life-style and possessions, a set of 8 indicators of basic material deprivation were selected. This included items such as not being able to afford a warm overcoat or a second pair of shoes, things that most people in the sample clearly regarded as necessities, in the sense that no-one should have to do without them due to lack of money. Comparing the extent of basic deprivation with current household income, it was found that about half those with incomes below the 60 per cent relative income line were also experiencing basic deprivation of this type.

Information was also available on the level of savings which households reported in the survey, and on the value of the houses (net of outstanding mortgage) if they were owner-occupiers. It was seen that those on low current incomes but not apparently experiencing basic deprivation had much higher levels of savings in the form of deposits at banks, building societies, etc., than those on similar incomes who were experiencing such deprivation, and also higher levels of assets in the form of housing. Possession or absence of durables such as a washing machine, or indicators of housing quality, were not very highly correlated with the indicators of current basic deprivation or with current income, suggesting that they may be more strongly influenced by the evolution of income over a long period, as well as life-cycle factors. More generally, experiences over a long period, leading to accumulation of resources or conversely of debt, may play a central role in determining the relationship between a household's current income and its standard of living, including the extent to which it is experiencing deprivation.

While these findings illustrate the importance of long-term dynamics in understanding differences across households in current living standards, they also highlight central questions about how we think of poverty and how it is best measured. The most widely-used definition of poverty in a developed country context, that put forward by Townsend, sees poverty in terms of exclusion due to lack of resources. The results of our analyses serve to demonstrate that low income alone does not always involve basic deprivation, and that current income may not adequately reflect differences in living standards between households. The distinction between poverty conceived in terms of living standards versus a concern with minimum rights to resources is therefore crucial. Following through the measurement approach proposed by Ringen, which incorporates both low income and deprivation, serves to illustrate how restrictive the Townsend definition of poverty can be. The implications for policy of this distinction are among the issues taken up in the next section.

Generally, household surveys measure income in the most recent week (or fortnight/month, for those paid less frequently) for most income types. (For self-employment income, which often fluctuates a good deal, and for interest and dividends where receipts are often "lumpy", the average weekly amount received over a longer period, usually a year, is generally used.) This means that, using current income, someone who has just lost their job and is on social welfare but spent most of the last year in work will be categorised as in the same situation as someone who has been unemployed all year. The data collected in the 1987 survey included information on the number of weeks spent in work or ill/unemployed in the previous year, on the last wage for those currently ill/unemployed but in work during the year, and on the social welfare received from different schemes. Using this information, annual incomes for individuals and households in the sample could be estimated, and the incidence of poverty using this longer accounting poverty could be compared with that using current incomes.

The results showed that there was a good deal of mobility between current and annual income, with one-fifth of sample households moving at least 1 decile in the (equivalent) income distribution when annual rather than current income was used. However, there was little change in the shape of the income distribution despite this re-ranking, as "gains" and "losses" largely cancelled each other out in terms of income shares. Similarly, the numbers falling below relative income poverty lines were little changed when annual rather than current income was used, but there was some mobility *vis-à-vis* these lines. For example, about 10 per cent of those with current incomes below the 50 per cent relative income poverty line were not in that position using annual income, and correspondingly about 13 per cent of those below half average annual income were above the 50 per cent current income line. Significant differences between annual and current incomes could account for only about 10 per cent of the households on low current incomes not experiencing basic deprivation, and the same percentage of those on relatively high current incomes apparently experiencing deprivation.

Research carried out elsewhere in recent years using panel data, following a specific set of individuals over a number of years, has shown that those below income poverty lines from one year to another do not constitute a fixed group – there is some mobility out of, and into, poverty. The limited follow-up survey carried out in 1989, re-interviewing some of the households in the 1987 ESRI survey, provided the first data of this kind for Ireland. The sampling strategy adopted, which sought to re-interview all those who were on low incomes in the original survey but only a proportion of those who were not, means that the data are most reliable as a basis for measuring "escapes" from poverty between 1987 and 1989. The results (described in detail in Williams and Whelan, 1994) showed that about 30 per cent of the households which were below a 60 per cent relative income poverty line in 1987 were not below such a line in 1989. This is broadly in line with the escape rates found in the available studies for other countries, though somewhat higher than the USA and lower than The Netherlands or Canada. It is clear both from the international and Irish results that the extent of mobility out of poverty depends crucially on the underlying poverty rate – the higher the poverty rate, the lower the escape rate. This also means that the lower the poverty line used for a particular country, the more mobility out of poverty one will find – in the Irish case, for example, 38 per cent of those below the 50 per cent relative income line in 1987 were no longer below such a line in 1989.

Caution must be exercised in drawing strong conclusions from these results about the extent to which poverty is a transitory or permanent phenomenon for particular households. The follow-up survey, covering just two points in time, represents only a beginning in terms of opening up the potential of panel data for analysing poverty in Ireland. One of the advantages of long-running panel data sets is that the dangers of focusing simply on poverty transitions *per se* can be explored. For example, US panel research has shown that most poverty "spells" there are relatively short, with almost half lasting less than 1 year. However, the same people may experience more than one spell over a number of years, and some of the "escapes" may not move too far above the poverty line. When one focuses on individuals rather than spells, even if most of those who ever experience poverty spent only a relatively short time poor, a majority of those counted as poor at any point in time would be in poverty long term. Panel data running over a long period allows these complex relationships to be clarified, and the characteristics of those experiencing poverty long term and the key processes involved to be identified. The "Europanel" survey which has recently been initiated in all European Union member states by Eurostat, being carried out in Ireland by the ESRI, opens up the exciting prospect that longitudinal data on a substantial set of Irish households will soon become available.

The analysis of those on low current incomes, of current-annual income mobility, and of mobility between 1987 and 1989 all pointed to the importance of experiences in the labour market over time as key determinants of "permanent income" and thus of current living standards. Retrospective data obtained in the 1987 survey provided the basis for analysis of labour force experiences of respondents during the year prior to interview and during their careers to date. This showed that while experience of unemployment is reasonably widespread, the burden is very unevenly distributed. About 1 in 4 of those who were employees or unemployed when sampled had experienced unemployment in the previous year, but it was those who had been out of work all year who had two-thirds of all the weeks of unemployment. Likewise, about 28 per cent of all adults in the sample had experienced unemployment at some point in their careers, but the small group with over 5 years of unemployment had experienced almost half all the years of unemployment. The distinguishing characteristic of those bearing most of the burden of unemployment was a low level of educational attainment. Most of those with more than 5 years of unemployment experience had no second-level qualification, and over half did not even have a Primary Certificate.

The risk of being in poverty currently was clearly seen to depend not only on current labour force status but also on the extent of unemployment experienced in the past. The risk of being in a household below relative income poverty lines, or poor in terms of combined income plus deprivation criteria, was seen to rise sharply as the extent of unemployment in the previous year increased. Two-thirds of those who were unemployed all year were in households below the 60 per cent relative income line, and almost half were also experiencing basic deprivation, about twice as high as the figures for those who were currently unemployed but had spent most of the previous year in work and had little career unemployment. The risk was highest for those who were out of work all year and also had substantial career unemployment: over 70 per cent of those unemployed all year who had more than 2 years unemployment in the year were in households below the 60 per cent line, and 53 per cent were also experiencing basic deprivation. What is particularly interesting is that those with long career durations faced almost as high a risk of current poverty even where they had not been out of work all year, showing the importance of long-term labour market experiences in determining current living standards.

The resources available to a household are influenced by the way incomes and assets have evolved over a long period. Social class provides a measure which attempts to capture the long-term rewards associated with different occupations. An analysis of the relationships between social class and the risk of being in poverty – whether measured in terms of income alone or both income and basic deprivation – in the 1987 sample shows the extent to which current poverty risk varies with class. Those in the unskilled manual class face a poverty risk which is as much as twenty times as high as those in the professional and managerial classes.

What is perhaps even more striking, though, is the strength of the relationship between the risk of being in poverty and the social class from which the person originally came. Controlling for the class someone is in, the risk of poverty is seen to be strongly related to class of origin. For those both in the unskilled manual class *and* coming from that class, the risk of poverty is very high indeed, and significantly higher than for those in that class now, but originally from a higher one. Education plays a central role in the process of reproduction of disadvantage, and the way in which the advantages associated with higher class origins are translated into access to desirable class locations. Whereas about two-thirds of those in the sample from unskilled manual backgrounds obtained little or no educational qualifications, this was true of fewer than 1 in 10 of those coming from the professional/managerial social classes. The risk of poverty in turn varies sharply with the level of educational attainment, and is about five times as high for someone with no qualifications as it is for someone with a Leaving Certificate. Education has become increasingly important over time in determining life chances, and the consequences of failing to acquire any educational qualification for successful participation in the labour market have become much more pronounced.

8.3 *The Implications of the Findings*

The findings amply demonstrate the importance of the time dimension for understanding poverty, but in this final section we focus on the implications of a dynamic perspective for policy. The first point to be made is that very fact that the circumstances of individuals and households are seen not to be static but to change over time itself leads to a concentration on the *processes* at work. Policies aimed at addressing the structural factors which create and transmit disadvantage, rather than ones which are primarily palliative, are therefore highlighted. While the findings have important implications for social welfare and taxation, they serve to focus attention on labour market policies and, even more so, on education and training as crucial areas for intervention.

As far as income support through the social welfare system is concerned, the extent to which different households relying on social welfare in 1987 were found to be experiencing basic deprivation is of particular relevance, since it is helpful in trying to address the key issue for income maintenance strategy of the adequacy of the levels of support provided by various schemes. Focusing on households which appeared to be essentially dependent on their current social welfare income, we saw that certain groups, such as those relying on Unemployment Assistance, had a very high proportion experiencing basic deprivation, whereas those relying on Old Age Pensions had a much lower proportion. This serves to reinforce the emphasis in previous research on the 1987 sample on the improved situation of the elderly and the need to give priority to raising income support levels for those relying on UA.

At the time the survey was carried out, support rates for the long-term unemployed on UA were considerably lower than UB, while short-term UA was lower still. Since that date there have been substantial increases in long-term UA, so that it has in fact exceeded flat-rate UB for several years up to 1994 and from mid-1994 will be at the same level. This policy of giving priority to the needs of the long-term unemployed is validated by the extent to which they are seen to have been experiencing basic deprivation in 1987. However, reliance on targeting social welfare support towards those most in need via means testing can create disincentive effects and unemployment traps when the "targets" are active in the labour market. Obviously, the way the social welfare system meshes together with the income tax and PRSI systems is crucial in this context, as recognised by the setting up of the Expert Working Group on the integration of these systems. Even more fundamentally, the limitations to what can be achieved via income support alone have to be accepted.

It also needs to be emphasised in this context that although information on both income and levels of deprivation helps us to identify groups of households in particular need, such as the long-term unemployed, this does not mean that the social welfare system should aim to assist *only* those on low income and currently experiencing such deprivation. The principal aim of social welfare support is to bring people with incomes below the minimum adequate level up to that level. In general, current income is the basis on which "need" for support is decided, irrespective of the availability of support from family or friends or the capacity to run down savings or borrow to maintain living standards – though capital assets available to the household are sometimes taken into account in assessing whether support is to be paid. One would not wish to restrict support only to those actually experiencing exclusion – rather, the objective is to help those on low incomes avoid such exclusion. Whether in measuring poverty we wish to call households on low incomes but not at present experiencing exclusion "poor" is a separate issue.

Labour market experiences have been shown here to be the key influence on the risk of poverty over time, with educational attainments in turn the key determinant of labour market outcomes. Within an overall strategy for employment creation, special education and labour market measures are required to assist those identified in this study as most in need. One of the most consistent findings of our research has been the impact of low levels of educational attainment on life-chances. It is therefore worth drawing attention here to the conclusions of recent research in that area. The priority for policy must be targeting specially-designed programmes at those who have already left school with little or no qualifications, and introducing measures to reduce the numbers leaving school each year in that position. Recent evaluations of the effectiveness of

EC Structural Funds expenditure in the human resources area have made clear that training *per se* does not address the needs of many of the long-term unemployed, and have emphasised the importance of what is effectively second-chance education as a prelude to training (Sexton and O'Connell, 1993). While aimed at reducing the flow of the unqualified early leavers from education, special assistance targeted at schools in disadvantaged *areas* will reach only a small proportion of the students at risk: (Hannan, 1992) thus argues that a strategy focusing on "disadvantaged schools" and on reducing selectivity between schools on the basis of social class and ability which leads to the creation of "dump" schools would be more effective.

Focusing on labour market measures, recent evaluations of the main training and employment schemes in operation up to the present suggest that they have not been effective in creating jobs and reducing unemployment (Breen, 1994). Special programmes mostly subsidise jobs which would have been created anyway, displace other firms/jobs, or offer only a temporary respite from unemployment. General training programmes can have only a limited effect on unemployment, certainly in the short to medium run. Even without a significant impact on net jobs, however, special programmes could alleviate poverty by helping those most in need to get jobs and in effect spreading the burden of unemployment – which we have seen here to be very unequally distributed – more evenly. Targeted employment subsidies so far seem to have had little success in overcoming employers' reluctance to hire the long-term unemployed (see Whelan et al., 1993). While reformulated subsidy schemes targeted at the long-term unemployed with a clear and explicit equity objective could make some contribution to improving the prospects of the most disadvantaged, the subsidy per worker would therefore have to be relatively high.

The role of direct State job creation schemes has also been a recent focus of attention. Schemes like the SES offering only short-term (6 months) low-wage employment do little or nothing for the longer-term prospects of beneficiaries, and even in the short-term they fail to alleviate poverty to any great extent. The main obstacle to direct provision of permanent employment by the State at "normal" wage levels is of course the cost. However, given the particular problems facing the Irish labour market over the next decade or so, a temporary direct employment programme providing jobs for a significantly longer period than the SES and at higher wages, targeted at the very long-term unemployed, merits serious consideration. Pilot schemes currently in place will provide a firmer basis for assessment of the potential contribution of this approach.

The dynamic perspective developed in this study has shown that the position of individuals and households can change markedly over time, and that those in poverty at a particular point in time do not inevitably remain in that situation indefinitely. From that point of view a focus on dynamics can be a basis for optimism. However, it has also revealed just how unevenly the burden of unemployment and poverty is distributed, and how difficult it is to escape the consequences of a disadvantaged start to life. This demonstrates above all the need to look beyond the social welfare system – essential though it is in alleviating the effects of disadvantage – in framing anti-poverty policy.

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