

## II

# THE LINK BETWEEN POVERTY AND UNEMPLOYMENT

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I wish first to say something about the measurement of poverty. Poverty is a complex phenomenon and any measure is bound to be somewhat arbitrary. Some people think that the term should be confined to those below a subsistence level and that this level remains the same over time and place. Such a concept of poverty, however, would have limited meaning for human beings. Man is a social animal and his minimum needs cannot be specified in the same way that they can for cattle or sheep. Man has a great variety of material needs that are influenced by the society and the times in which he lives. Moreover the way in which he can meet those needs and the prices he must pay are likewise socially determined.

There is therefore wide agreement among scholars internationally that in societies like Ireland, which have achieved a reasonable level of economic development, poverty is best regarded as a relative concept, i.e. relative to the conditions prevailing in that society at a given time. A person then is regarded as being in poverty when his (or her) material resources are so much below average that he cannot participate with dignity in the ordinary life of that society.

This still leaves an arbitrary element in deciding at what point below the average a person can be said to be poor. The most common figure adopted internationally is at 50 per cent or less of average income. The ESRI in its work on poverty is fully cognisant of the arbitrariness of any single measure and therefore decided to use three different indicators, namely, at 40, 50 and 60 per cent of average income. We recognise that opinions will differ as to where the cutoff point should lie. It seems to us, however, that agreement on a single poverty line is less important than an understanding of the situation of persons who are at low incomes, what their characteristics are, how their numbers are changing over time and what can be done to help them.

### **The Extent of Poverty in Ireland**

It is of interest first of all to look at what level of income we are talking about in the case of the three poverty lines used in the ESRI survey. Table 1 shows the weekly disposable income at the three poverty lines for two different types of households: a household consisting of one person, and a household consisting of two adults and two children. Here again another arbitrary element enters in, namely, how to treat persons equivalently when the size of household differs. It is generally agreed that two adults living together are better off than one adult living alone where the former have twice the income of the latter. This is so because of economies of scale in consumption. It is also generally agreed that children cost less than adults. But the precise equivalence scales that should be used are a matter on which there is no full agreement. In Table 1 the additional adult is regarded as needing extra income equal to two-thirds of that of the first person, while each child is regarded as needing one third.

**Table 1: Poverty Lines and Associated Income, 1987**

Proportion of Average Income	Weekly Disposable Income of Household	
	1 person	2 adults, 2 children
40%	£34	£79
50%	£43	£99
60%	£51	£119

What Table 1 means then is that at the 60 per cent poverty line one regards as poor a household consisting of one person with disposable income below £51 a week, and similarly a household of two adults and two children with an income below £119 a week. These can hardly be regarded as particularly generous income levels, though some would not consider them as constituting poverty and would favour a lower poverty line such as the 50 per cent or 40 per cent level.

Table 2 shows the proportion of all households and all persons falling below each of the three poverty lines in 1987. These figures indicate that at the 40 per cent poverty line less than one-tenth of all persons would be regarded as poor, at the 50 per cent line about one-fifth of all persons, and at the 60 per cent line almost one-third of all persons. It will be noted that for all three poverty lines a higher proportion of persons than of households are in poverty. The main reason is that households with 3 or more children tend to be most vulnerable to poverty, and this is true whichever poverty line is used.

**Table 2: Poverty Rates 1987**

Poverty Line	% Below Poverty Line	
	Households	Persons
40%	7.5	8.2
50%	17.5	19.8
60%	30.0	31.4

There are a number of other ways of assessing the proportion in poverty which can be used as a cross check on the above method. The ESRI survey asked people to specify what they considered to be the lowest income needed to make ends meet. The answers, when analysed, indicated a figure of about £125 a week for a household of two adults and two children, and 32 per cent of all households in the survey fell below this poverty line. These results are remarkably close to those for the 60 per cent poverty line given above, which provides some independent support for that position. In what follows, however, I shall adopt a more restrictive measure of poverty and confine myself to the 50 per cent poverty line.

Table 3 shows the trend over time in the percentage of persons falling below the 50 per cent poverty line. It will be seen that the proportion in poverty increased, particularly in the 1980s.

**Table 3; Poverty Trend over Time**

Year	%Persons below the 50% Poverty Line
1973	14.8
1980	16.2
1987	19.8

Table 4 makes a comparison with Great Britain. Some critics of relative poverty measures believe that in all countries much the same proportion will be found to lie below any given relative poverty line. This is simply not true as the figures in Table 4 indicate. The proportion below the 50 per cent poverty line in Ireland in the mid-1980s was nearly twice that in Britain.

**Table 4: Comparison with Great Britain**

	% Below 50% Poverty Line
Great Britain (1985)	9.2
Ireland (1987))	17.4

**Poverty and Unemployment**

I would now like to turn to the relationship between poverty and unemployment which is the main focus of your conference. Table 5 shows for households classified according to the labour force status of the head of household, the proportion of each type falling below the 50 per cent poverty line. It will be seen that the poverty rate is low in households where the head is an employee. A sizeable proportion of farmers (over one-third) fall below the poverty line, but this figure is somewhat exaggerated because farm incomes were suffering a severe temporary depression at the time of the survey. The most startling figure in the table relates to households where the head is unemployed, with three in every five of such households falling below the poverty line.

**Table 5: Poverty and Labour Force Status 1987**

Status of Head of Household	% of these Households below 50% Poverty Line
Employee	4
Self-employed	12
Farmer	36
Unemployed	59
S i c k	51
Retired	11
Home duties	12
Total	18

Table 6 gives another perspective on the link between poverty and unemployment. It shows figures for different years on the proportion of all households below the poverty line which represented households where the head was unemployed. In 1973 households with an unemployed head constituted only a small part (10 per cent) of the total number of households in poverty. By 1987, however, their share had risen to over one-third.

**Table 6: Poverty and Unemployment: Trend over Time**

Year	House with an Unemployed Head as % of all Households below 50% Poverty Line
1973	10
1980	15
1987	34

It is clear therefore that the link between poverty and unemployment is a very strong one. The unemployed have always been highly vulnerable to poverty, so that the huge rise in unemployment in the 1980s has pushed up the total numbers in poverty and greatly increased the share of the unemployed among those who are poor. The change arises not because the unemployed have become more vulnerable but simply because there are far more of them now.

These findings have major implications for poverty policy. If one is really concerned about tackling poverty, then reducing unemployment must be a major priority. Success in reducing unemployment through job creation would alleviate poverty in two ways: it would take households directly out of poverty, and it would create more resources to deal with other forms of poverty.

#### *Towards a Strategy for Full Employment*

We are unlikely to solve the problem of unemployment unless we can persuade the people at large to treat employment as central to the destiny of our nation. At present, Ireland lacks a purposeful vision of its future and this lack is immobilising national effort. It is not unfair to say that, apart from the accepted need to restore order in the public finances, Ireland is in a state of drift. There is a widespread fatalistic acceptance of our inability to provide enough jobs for all who would wish to work at home, with emigration providing the only escape. Some welcome emigration, others deplore it, but few believe that we can do much about it. The truth is that a lot can be done about it over time if the people can be mobilised for an enduring effort towards a goal which will catch their imagination. A first step is to give them a realistic vision of what can be attained. It should be noted that such national visions are a feature of the most successful economy in the world, Japan.

This vision should be such as to enlist the goodwill and effort of all the people of the Republic. Ideally it should also leave the door open to a counterpart vision for Northern Ireland, and should command the support of our EC partners. Given that scarcity of jobs has been the most serious and enduring economic and social problem, North and South, and since the solution of this problem would alleviate many other economic and social problems, I believe that employment should be at the heart of our vision. There are, of course, dangers in making employment the central goal in that it could generate pressures to maintain or create jobs at any cost. But a key part of the process I have in mind is to educate the public to the reality that increased employment can last only if certain fundamental conditions are met. Thus, for example, it can be demonstrated that economic development and wealth creation are essential to provide soundly-based jobs. However, goals like 'economic development' or 'wealth creation' on their own are unlikely to grip the popular imagination. For that purpose we need to get across a motivating central theme, such as 'Ireland at work'.

I have been arguing for some time that in order to develop such a mobilising vision, we should consider having the equivalent of the New Ireland Forum in regard to long-term economic strategy. I believe that a forum on the economy could help to marshal broad support for a vision of Ireland fully employed, and to win agreement for the measures needed to realise that vision. Some will dismiss this notion as simply another 'talking shop'. But we need to talk purposefully about the problem in order to hammer out an acceptable strategy to deal with it effectively. Since the problem cannot be solved all at once, that strategy must be a longer-term one. But that is not the same as putting the problem on the long finger. Rather the strategy would force us to establish our priorities now and to begin to take the actions needed for ultimate success.

I am not going to try to outline such a strategy, since believe that it should emerge from a process of informed debate and negotiation among the major interests in our society. What I can do most usefully is to sketch some of the major issues which should form the agenda of that

#### **1. Will the problem go away of its own accord?**

Some people believe that when strong economic growth resumes, as it is likely to do in Ireland over the next five years, the unemployment problem will be solved automatically. Others feel that in the new Europe emigration will provide a satisfactory solution. In my opinion, neither of these viewpoints would stand up in a reasoned debate. The link between economic growth and increased employment in Ireland, though positive, is not strong enough to make a major impact on the problem on the basis of current projections of economic growth. We must therefore seek to change established patterns to secure either a

larger employment impact or a substantially higher rate of economic growth: probably a combination of both is needed. Moreover about half the unemployed are now long-term unemployed and many of them are in their thirties or older. They are not likely to emigrate, and they will not be drawn back into employment readily as a result of economic growth without special measures in regard to retraining, etc. Moreover even if we could solve the unemployment problem through emigration, this would not be very satisfactory since it would restrict our potential to develop our economy to European levels.

## **2. Who is to provide the employment?**

It needs to be emphasised that in developed countries the overwhelming majority of people at work are employed by some firm or agency. In the United States, which is often regarded as the heartland of enterprise, 91 per cent of total civilian employment in 1986 was made up of employees and only 9 per cent represented employers or self-employed. If therefore we are ever to reach full employment, someone will have to employ the bulk of the people: it will not happen through people creating their own job. The main employers in this country can be divided into three broad categories: government, foreign business and Foreign Enterprise. The government is in process of reducing its employment and has indigenous business in Ireland can make an added contribution, but everyone who has studied the matter agrees that they will not provide anything like a full solution. As regards indigenous business, a worrying new development of the last ten years is that, as they become successful, they tend to expand abroad by acquisition rather than by the traditional pattern of growth at home through exporting.

I do not in any way wish to deny the benefits to Irish firms of expanding abroad, which nowadays may be a necessary condition of their survival at home. But I do want to point out the resulting gap in national employment strategy. The issue simply has to be addressed, and there are a number of possible ways of filling the gap which might be seen as complementary rather than competitive. We might look at whether incentives can be altered so as to encourage the successful indigenous firms to expand at home (through exporting) as well as abroad. We might consider the scope for new initiatives in the state-sponsored commercial sector - either on their own or in joint venture with the private sector - while making sure to learn from mistakes of the past which have made state-sponsored enterprises less effective than they might have been. Even as regards the non-commercial part of the public sector, we have to think again about what role it can play in reintegrating the long-term unemployed, which is unlikely to happen in the first instance through commercial activity.

## **3. Which sectors are to produce the extra jobs**

Industrial employment in several Western countries has been in decline since about the mid-1960s, and in almost all of them has been falling as a proportion of total employment. Ireland of course is less developed than these countries so that its scope for industrialisation remains greater. Accordingly it would be premature and unwise to write off the scope for further jobs in industry here. Nevertheless, even in Ireland it is highly probable that the greater part of any substantial future gains in employment will take place in services. Such a prospect, though it is already taking place, is one that has not been adequately integrated into the public consciousness or into economic policy. Should we not be looking more systematically, for instance, at the possibility of transforming some of the skill-intensive services activities typically regarded as non-traded (such as education) into substantial direct export-earners? Such an approach would have implications for the existing educational institutions that would need to be planned on a long-term basis. Might we not need a Services Development Authority to complement the work of the Industrial Development Authority?

## **4. The EC dimension**

What happens at EC level has a vital bearing on how successfully we in Ireland can address our own problems. The fact of the matter is that in the period since 1973 the EC has been rather a disaster area as regards unemployment. The increase in unemployment since 1973 has been greater in all EC countries (except Luxembourg) than in any other part of the

OECD, including the European countries outside the EC. Moreover in the course of the Greece sluggish growth in Europe since 1973, convergence by the poorer countries (Ireland, Portugal and Spain) towards living standards of the richer European countries ceased. It appears that convergence is unlikely to resume as long as the EC as a whole is experiencing low growth. Ireland has a vital interest therefore in ensuring that EC policy for growth and employment is favourable. While Ireland has only a small voice in determining such issues, it can enlarge its influence by forming alliances with countries in a similar position. In addition, attention needs to be given to the question whether other special concessions, apart from the structural funds, are required during a transition period while Ireland is trying to tackle its problems of unemployment and low income.

### **5. The taxation issue**

The view is often advanced that our tax levels are too high and that it will be impossible to make progress on employment until the tax burden is lowered. On the other hand, there is the danger that reduced taxation could lead mainly to the creation of jobs abroad through greater consumption of imports. Also it is doubtful if any modern economy can enjoy low taxes as long as one-fifth of the labour force is unemployed and has to be supported from the public purse. It would be my opinion therefore that we must first solve the unemployment problem before we can contemplate major reductions in the tax burden. But since not everyone shares this opinion it is important that the issue be debated with a view to arriving at an informed consensus. Moreover regardless of whether or not tax cuts are feasible and necessary, there are major questions of tax reform that need to be settled.

### **6. The pay issue**

While I am not one of those who believes that cheap labour is a necessary condition for economic progress, I do recognise that in particular circumstances there may be a trade-off between pay increases and jobs. Certainly in Sweden where there is a strong commitment to using the public sector to maintain full employment, the corollary has been accepted that on occasions this may require pay cuts for public sector workers. At a time when Irish public sector employment is being cut despite massive unemployment, it is alarming that we still seem to be faced with a continuing stream of special pay demands in the public sector. The Unions will say they have no assurance that restraint will be transformed into more jobs. But in the public sector at least, satisfactory mechanisms could be negotiated to give effect to such an approach. The question of pay restraint does not apply only to unionised workers. My remarks apply with equal force to the many professional workers (doctors, lawyers, accountants etc.) who, though nominally self-employed, draw much of their income from the public purse.

### **Conclusion**

To the process of formulating a long-term employment strategy, whether through a forum or otherwise, I believe that the trade union movement brings with it enormous assets. I would like to remind you of some of the assets you possess. First, the trade union movement has always had a strong idealistic commitment, and without idealism no national economy can be successful. Second, trade unions are accustomed to finding workable solutions through negotiation with other parties. Third, the trade union movement is supportive of strategic planning without which I believe we cannot fruitfully tackle our problems. Fourth, the trade union movement has no hang-up about the public sector playing a greater role in arriving at solutions: indeed if I would criticise the unions for anything in this regard it is that they may sometimes be too sanguine about how much the public sector can do! Fifth, the unions value work and have not been deceived by the dubious views we have heard in recent years about the so-called leisure society. Sixth, the unions have links with their colleagues in the trade union movement in Europe and this is important given that any solutions for Ireland must be set in a European context. Lastly, the trade unions, along with the other social partners, have shown great leadership in hammering out the Programme for National Recovery which has underpinned the achievements of the past two years.

I say these things not to flatter you but rather to challenge you to take a leading role in mobilising the country to tackle the unemployment problem. I believe that you will have to play an even more decisive role than you played in the Programme of National Recovery. In the latter case all the social partners were fully convinced about the imperative need to forestall the then impending financial crisis. I am afraid that your conviction in regard to the goal of full employment is less widely shared. Unless the unions press strongly for solutions they are unlikely to be sought on the scale required.

Finally I would say that it is becoming a matter of extreme urgency that we begin to tackle the employment issue adequately. As the momentum towards harmonisation strengthens in the EC in the years ahead, we will have less scope for solving our problems in the way we would want to solve them. It seems to me inevitable that in due course Ireland's living standards will converge towards the EC average, but this process could come about in two quite different ways. On the one hand it could happen through increased emigration and continuing hand-outs from the EC. On the other hand it could be achieved through rapid growth of output, population and employment in Ireland. It matters a great deal which of those two courses materialise, and I believe I share with the trade union movement a strong preference for the second course. But if we are to follow that course, we may have only a limited time in which to accomplish it.