Social Transfers and Poverty Alleviation in Ireland 2004-2011

Dorothy Watson,
Bertrand Maître

Social Transfers and Poverty Reduction in National and International Perspectives,
ESRI, 11th December 2013
Introduction

• Role of Welfare State and social transfers
  • Social transfers => reduce poverty & income inequality (together with taxation)
  • Adjust income to economic needs & life cycle circumstances (child benefit, pensions)
  • Buffer to consequences of economic shocks (unemployment)

• Ireland: economic growth (2004-2007) and recession (2008-?)
  • GDP growth 5.4% (2007), -5.5% (2009), -0.9% (2012). Unemployment rates: from 4.7% (2007) to 14.6% (2011)

• Poverty reduction effectiveness & efficiency of social transfers
  • Analysis of SILC data, 2004 to 2011
### Definitions and Measurement (1)

<table>
<thead>
<tr>
<th>Item</th>
<th>Wording or components</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Social transfers</strong></td>
<td>Include means-tested (e.g. jobseeker allowance) &amp; non-means tested (e.g. child benefit, state pension, contributory) payments, occupational and foreign pensions (public or private sector)</td>
</tr>
<tr>
<td><strong>Market income</strong></td>
<td>Income from employment, self-employment, interest &amp; dividends from savings &amp; investments, property income</td>
</tr>
<tr>
<td><strong>Poverty threshold</strong></td>
<td>60% of median income from all sources (adjusted for household size and composition)</td>
</tr>
</tbody>
</table>
| **Market income poverty gap** | Gap between the (household) market income and the poverty threshold  
(expressed as weekly € at household level in 2011 prices)                                                                                                     |
## Definitions and Measurement (2)

<table>
<thead>
<tr>
<th>Item</th>
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</table>
| **Poverty reduction effectiveness (%)** | Extent to which social transfers reduce poverty (compared to market income alone). Two indicators:  
1. Reduction in the poverty rate (% of people below poverty threshold)  
2. Reduction in the market income poverty gap (average distance below poverty threshold) |
| **Poverty reduction efficiency (%)** | Proportion of social transfers that reduce the market income poverty gap.  
**Indicators focus on income poverty reduction only (not other policy goals).**  
100% efficiency may not be desirable as it would create problems in achieving other goals (e.g. Encouraging labour market participation, avoiding basic deprivation) |
Research Questions

1. How did Irish social transfers and market income change from 2004 to 2011?

2. By how much did the poverty reduction effectiveness of social transfers improve?

3. Why did the poverty reduction effectiveness of social transfers increase?

4. Did the impact of social transfers on poverty vary by lifecycle group?

5. How do social transfers in Ireland compare to those in the EU15?

6. What are the implications for policy?
1. Social transfers and market income change 2004-2011
Changes over time in beneficiaries of weekly social welfare payments, and expenditure on social welfare and poverty threshold, 2004-2012
## Trends in market income and social transfers, 2004-2012

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2007</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As share of total gross income</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market income</td>
<td>80%</td>
<td>78%</td>
<td>70%</td>
</tr>
<tr>
<td>Social transfer income</td>
<td>20%</td>
<td>22%</td>
<td>30%</td>
</tr>
<tr>
<td><strong>Percentage receiving any</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market income</td>
<td>76%</td>
<td>80%</td>
<td>71%</td>
</tr>
<tr>
<td>Total Social transfer income</td>
<td>85%</td>
<td>85%</td>
<td>87%</td>
</tr>
<tr>
<td>Child Benefit</td>
<td>43%</td>
<td>46%</td>
<td>42%</td>
</tr>
<tr>
<td><strong>Average weekly amount in 2011 prices, where receive any</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>(household level, gross)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market income</td>
<td>€1,044</td>
<td>€1,061</td>
<td>€939</td>
</tr>
<tr>
<td>Social transfer income</td>
<td>€233</td>
<td>€277</td>
<td>€327</td>
</tr>
</tbody>
</table>
2. Change in poverty reduction effectiveness 2004-2011

- 2004: 25% reduction, 22% poor after social transfers
- 2007: 30% reduction, 18% poor after social transfers
- 2011: 39% reduction, 16% poor after social transfers

The graph shows a trend of increasing percentage reduction in poverty rate, with a significant rise from 2004 to 2011.

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty gap after social transfers</th>
<th>Reduction due to social transfers</th>
<th>% reduction in poverty gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>€101</td>
<td>€19</td>
<td>84%</td>
</tr>
<tr>
<td>2007</td>
<td>€116</td>
<td>€17</td>
<td>87%</td>
</tr>
<tr>
<td>2011</td>
<td>€136</td>
<td>€19</td>
<td>88%</td>
</tr>
</tbody>
</table>
3. Why an improvement in the poverty reduction effectiveness?
Reasons for improvement in poverty reduction effectiveness

1. Substantial increase in the amount spent relative to the poverty gap
   • Average social transfers amount was 1.66 times poverty gap in 2004 and 1.84 times in 2011.

2. Increase in the rates of social benefits until 2009

3. During the recession
   a. Increase unemployment & in receipt of unemployment-related payments
   b. Reduction of market income => fall of poverty threshold => poverty gap increased more slowly that it would have otherwise
   c. Social welfare rates fell less than the poverty threshold
      • Rates for older adults mostly held constant
Changes over time in beneficiaries of weekly social welfare payments, and expenditure on social welfare and poverty threshold, 2004-2012

Index values (2004 = 100)

- Beneficiaries
- Real Expenditure
- Expend per beneficiary
- Poverty Threshold

Rates per beneficiary
4. Did the impact of social transfers on poverty vary by life-cycle group?

- **Male**
  - 2004: 8% (85% reduction)
  - 2011: 8%

- **Female**
  - 2004: 12% (88% reduction)
  - 2011: 12%

- **Children (under 18)**
  - 2004: 20% (87% reduction)
  - 2011: 20%

- **Working-age (18 to 64)**
  - 2004: 11% (84% reduction)
  - 2011: 11%

- **Retirement age (65+)**
  - 2004: 0% (95% reduction)
  - 2011: 0%

- **Disability (limited activity)**
  - 2004: 4% (92% reduction)
  - 2011: 4%

- **Jobless households**
  - 2004: 14% (87% reduction)
  - 2011: 14%

Legend:
- **Blue** = 2011
- **Red** = Change 04-11
5. Social transfers in Ireland and the EU 15
At risk of poverty (%) before and after social transfers, EU 15 in 2011
Effectiveness and efficiency of social transfers in alleviating poverty in EU15, 2005
Effectiveness and efficiency of social transfers in alleviating poverty in EU15, 2010
Policy implications (1)

- **Poverty reduction effectiveness and efficiency**:
  - Poverty reduction **effectiveness** is high by EU standards & has improved over time --> little scope for improvement overall.
  - Poverty reduction **efficiency** needs to be weighed against other policy goals (e.g. support labour market participation).

- **Child poverty**:
  - Average poverty reduction effectiveness (lower than over 65s).
  - Given negative consequences of child poverty, emphasis in the *National Social Target for Poverty Reduction* is appropriate.
  - Child poverty must be understood in broader context of working-age household circumstances (unemployment etc).
    - 2/3 of social transfers going to households with children are not specifically child related.
Policy implications (2 rev)

• **Jobless households:**
  • Ireland has highest level of joblessness in EU, 24% (2011)
  • Need for labour market activation, tailored training and support services (unemployed, lone parents, people with disability) as we exit the recession.
  • Need household perspective in designing social welfare system that considers impact on entitlements of other people in household moving into work (means testing)
  • Preserve focus on income protection: half of individuals in jobless households are people with disability or children =>can’t rely solely on activation.
  • Social transfers to jobless households are not ‘too generous’: average level of effectiveness and very high efficiency (little ‘waste’).
Thank you!