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<b>Authors(s)</b>	McDowell, Moore
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**The Poverty Debate in Ireland:  
Measurement and Response**

by

**Moore McDowell**

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## THE POVERTY DEBATE IN IRELAND : MEASUREMENT AND RESPONSE

As the public concern with the state of the public finances abated over the last two years, the issues of poverty and policy to combat poverty have come to dominate political debate on economics. This has been helped by the continued pressure from a highly organised and articulate lobby group, of which an increasingly "socially conscious" Catholic hierarchy is an important member. In at least two opinion surveys during this period results have been reported which suggest that the electorate is well disposed to the Government taking measures to alleviate what is now perceived as a pressing social problem. Late last year the Combat Poverty Agency, an official body established by the 1982-1987 Coalition Government, published the results of a survey it had commissioned from the ESRI, together with a commentary on those results and a set of proposals which in its view constituted a necessary minimum response to the level of poverty which the report had uncovered (1).

The perceived drift of public opinion away from a concern for fiscal rectitude coupled to the intense lobbying of the various poverty groups and the virtually universal and uncritical media acceptance of the ESRI report (or, to be fair, to the interpretation of that report which was circulated by the poverty lobby) played a major role in shifting the emphasis of budgetary policy in 1989. The apparent political wisdom of this shift was underlined to the politicians by their experience in the June General Election campaign. "Social" rather than economic issues were dominant, with the provision of health care being the most important.

In July of this year the Economic and Social Review published an issue entirely devoted to an economic analysis of the problems discussed or raised by the CPA/ESRI document

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of 1988. For the first time, a considered reaction to the controversial contents of the 1988 report appeared. Doubts about the report's methodology which had been expressed in private by many economists now received a public airing. In a low-keyed survey of theoretical and empirical work around the world on poverty in terms of measurement, causation and policy response, Patrick Geary of St. Patrick's College, Maynooth, emphasised the critical dependence of empirical work on agreed and quantifiable definitions of poverty (2). In particular, he underlined the implications of relative and absolute approaches to defining poverty. He also pointed to the importance of longitudinal studies to give us an understanding of both the causes and the incidence of poverty, and to enable us to distinguish between transient, episodic poverty and permanent or structural poverty. In policy terms, the former can be treated as being much less of a problem than the latter. Yet cross-section, one-off studies will find it very hard to distinguish satisfactorily between the two, while the policy response which is appropriate in one case may be counter-productive in the other. Finally, he drew attention to the difficult policy choices implicit in the acceptance that it is possible to conceive of situations where policy measures designed to alleviate the consequences of poverty can have the result of exacerbating the underlying problem.

The other critical piece was an article by Sean Barrett of Trinity College, Dublin who could not, I think, take exception to being described as one of the more prominent of the Doherty & Nesbitt school of economists (3). This article was explicitly, and in some cases unfairly, dismissive of the ESRI report, although what he had to say about the selective use of the report by the Combat Poverty Agency was totally justified. The authors of the report replied to Barrett (4). While for the most part they were able to counter his arguments, nevertheless it is certainly my conclusion that in some respects the methodology and the conclusions reached in the report to which Barrett objected are indeed open to criticism. What might be surprising to a disinterested reader of this exercise in

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academic disputation is the tone adopted by both sides, which is that of contemptuous dismissal of the arguments of ones opponents in a manner which calls their competence or good faith into question. Why this bitter tone?

Of all contemporary issues in microeconomic policy, it seems to me that none is more contentiously, even acrimoniously, debated than that of policy to deal with poverty. The rancour of this debate is evident in the dispute in the ESR between Barrett and Callan et al. of the ESRI. The principal reason, I believe, is the politically sensitive conclusions reached by the protagonists, either in public or in private. Arguments about measuring, defining and comparing poverty levels are proxies for "positions prises" on the question of redistributive programmes in the areas of taxation and government spending. In a sense this is not surprising, since there seems to me to be little point in investigating the phenomenon of poverty unless one is concerned to do something about it. Research is policy orientated, and cannot avoid issues of taxation, government spending, distribution and market power.

Ethical views on distribution, political views on the role of government in ordering our affairs and economic views on the efficiency of markets and the impact of government intervention in the economy are intricately bound up with the policy recommendations of contributors to the debate. Indeed, they may even set the agenda for the debate.

It is this value laden, ideologically divided approach to what one might hope would be a serious exercise in social research which in my opinion is responsible for the unpleasant tone adopted by those involved. It is a great pity, since the acrimony only serves to hide the degree of common ground and results in an attempt to dress up prejudices in the raiment of scientific argument.

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The areas in which the debate is fiercest are those of defining and measuring poverty and of the impact of anti-poverty measures on economic activity, both within the "poor" cohort in the economy and in the economy as a whole. Where definition is concerned, the main dispute is between those who favour an "absolute" approach to defining poverty, and those who favour a "relative" approach. As it happens, those of an egalitarian disposition tend to favour the latter, since, by definition, policy to reduce poverty will necessarily involve a continued stress in government policy on measures designed to shift resources from the top of the income distribution to the bottom. Furthermore, even as material living standards of those in the lower income groups rise, this approach to defining poverty will continue to justify redistribution from upper income groups indefinitely, provided that the consequences of redistribution do not, by lowering GNP, result in an absolutely reduced living standard for the poor.

Those who adopt an absolute approach, on the other hand, treat poverty as a problem to which a "final solution" is economically feasible in principle. Once an agreed minimum standard in concrete terms is achieved for everyone either through his own resources or through transfers the problem is solved and the government has no further legitimate role as a redistributor of resources in the economy. That is obviously a comfortable position for those who do not count themselves as being egalitarians in principle.

Economic growth may have the effect of skewing the distribution of income towards the better off while at the same time increasing the incomes of those at the bottom of the income distribution. The relativist approach to poverty implies that in such circumstances poverty is held to have increased. Hence the argument by people like Barrett that the relativists are not really arguing about poverty but about the properties of a desirable income distribution; for concern about poverty, read a desire to level; the politics of action on poverty is really that of envy and begrudgerly; the attitude of the churchmen

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can be seen to be as much due to a hostility to material success as to an inability to understand how wealth is created in a market economy.

Whether one agrees or not with the perception of the motivation of their opponents I impute to those who are not relativists, one aspect of their argument is beyond contradiction: if the overall shape of the income distribution is not so distorted by anti-poverty measures that nobody ever has less than x% of some income defined in terms of a characteristic of the distribution (mean? mode?) poverty cannot be eliminated although it can be reduced. It is a definitional approach to poverty calculated to lend ex post justification to the New Testament saying that the poor you shall always have with you. The persistence of substantial though varying lower tails to income distributions in non-collectivist economies bears this out. For the absolutists this is equivalent to saying that even if successful anti-poverty programmes are put into effect, the poverty lobby we shall always have with us.

When we turn to look at the absolutist position, however, we find that this definition of poverty leads to conclusions which most people would reject even if they were not sympathetic to egalitarianism. First, to define poverty simply in terms of an absence or an inadequate enjoyment of concrete goods or services appears to most people to be unacceptable and in any case it is strictly speaking economically meaningless. To treat poverty in terms of an absolute and quantified bundle of goods without reference to population access to the goods concerned or to relative prices, or to the impact of time on technological substitutes is plainly silly. This can be seen to be the case by considering the following example: before the First World War even families of very modest means in Ireland had domestic servants. It would obviously be absurd to attempt to measure a household's real or relative income position today by reference to its consumption of the services of cooks or parlour maids. Yet, even if we were to substitute an absolute cash

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income we would find ourselves facing equally difficult problems. Clearly we would have to adjust the threshold income to take inflation into account. To do this we would be obliged to increase it in line with some price index. If we use the CPI we run into the problem that this is a weighted average of price changes so that the real income of the poor could rise, fall or remain unchanged depending on how their consumption patterns mirrored those of the country as a whole. Similar problems arise if we use other price indices. Hence, even to define an absolute poverty level in an unambiguous fashion is very difficult if relative prices and/or available goods and/or technological possibilities in consumption are subject to change.

Since all these things change with economic growth, attempts to define an absolute poverty level will in the end involve an element of relativism, since the cash value of the starting poverty level must be expected to change (and in all probability rise) as real incomes rise in the economy as a whole.

Accordingly, I think a rational approach to defining poverty must be eclectic, even ad hoc. It should start with a view of minimum absolute standards, given the society with which we are concerned. After that, it seems to me that the minimum standard should be adjusted to take into account a rise or fall in the income of society as a whole. Logically, this does not mean a pure relativist approach, but it does mean that the poverty threshold will rise with national prosperity, although not necessarily as fast. Indeed, for reasons of labour market efficiency, it may be necessary to stipulate that it should rise more slowly. Equally, however, this approach, especially when combined with labour market considerations, implies that the poverty threshold should be adjusted downwards if GNP falls, although less than proportionately. If this seems harsh, remember that to define poverty in such a way as to increase the costs of dealing with it when times are tough is not a recipe for constructive and committed policies to deal with the problem.

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Against this background it is interesting to examine the ESRI report and the CPA commentary on it. The CPA (p ii, para 2.4) observe that " the key trend that the percentage of people below the relative poverty lines increased considerably between 1980 and 1987". In an article in the ESR symposium, however, two of the ESRI team of researchers have this to say about the figures on which the CPA made that assertion (5) : "Using the headcount measure, then, and applying purely relative poverty lines to each year, we cannot reach entirely consistent or robust conclusions on the trend in poverty between 1980 and 1987 that hold across all the equivalence scales used" (p 322). In fact, it is evident from the researchers' results that ANY substantial trend towards an increased incidence of poverty on a relative income basis, at ANY objective relative income line, and on ANY method of weighting members of households, only emerges when children and adults are counted as equal for enumerating purposes.

An unambiguous trend across all definitional classifications is found by the ESRI report when the purely relative approach to defining poverty is dropped. Between 1980 and 1987 GNP per head in real terms in Ireland actually declined. If we take the 1980 relative poverty definitions and convert them into money and then increase them by the CPI rise 1980 - 1987 so as to maintain their real value at 1980 levels a robust, unambiguous trend does emerge. Two things need to be said about this finding.

First, in methodological terms it is a complete shift from a relative to an absolute standard, since it is defining poverty without any reference to changing income levels in the society under consideration. As I have already pointed out, I find this approach neither ethically acceptable nor economically consistent. It does seem to me, however, that if a standard is being used it should be used consistently. In fairness to the ESRI researchers, they signal clearly to the reader that they are using a new method of calculating poverty when they do so. Whether the implications of the change in methodology are

clear to a casual reader who is not an economist is another matter. This may to some extent excuse the inconsistency of the CPA in enthusiastically adopting a relative standard for measuring poverty and then going on to reach conclusions and make policy suggestions based on an absolute standard.

Second, the ESRI findings are extremely sensitive to the weighting system used to deal with the makeup of households and to the choice of objective relative poverty line. If we define serious relative poverty as an income level of 40% or less of the average income, the ESRI results suggest that the incidence of poverty has not increased by much or may even have fallen between 1980 and 1987, depending on how one weights the members of the household. At a higher level, with poverty defined as having an income of 60% or less of the average, the trend is clear: the incidence of poverty increased under any weighting system. It is also clear from the research reported in the July symposium that the intensity of poverty (the degree to which the incomes of those below a given poverty line fall below it) has increased much more relative to the 60% line than to lower cutoff points. What this suggests is that the poverty "problem" in the 1980s is less one of an increased incidence of serious deprivation, and more one of moderate deprivation. That conclusion is at variance with some of the more sensational comments, especially from ecclesiastical sources, on the poverty problem. So what? one may ask. The answer is to refer the questioner to the tale of the shepherd who cried wolf. Patent exaggeration of the increase in the incidence and degree of poverty serves in the end merely to undermine public support for tackling it.

The reason for the lower increase in the incidence and intensity of severe poverty than of moderate poverty is twofold. In the first place, between 1982 and 1987 the Coalition Government consistently raised the rates social welfare benefits by more than inflation. As a result, a household which depended on social welfare and was below a given relative

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poverty line in 1980 and in 1987 would have seen its absolute and relative income increase between those two dates. For such people, the 1980s were a decade of rising real incomes against a background of static or falling GNP per head. It is roughly true to say, then, that the perception of increased poverty is due to an increased number of people having lower incomes, while the real incomes of the lower income groups on average have increased relatively and absolutely.

The second reason lies in the impact of unemployment. During the 1980s unemployment rose from 8% of the labour force to over 18%. This was the single largest component contributing to the rise in the observed number of households and persons below the various poverty lines. When, however, we examine the relative income position of the unemployed, we observe that it has improved. In 1980 over 50% of the unemployed had an income less than 40% of the average income, and 78% had an income of less than 60% of the average. In 1987 only 32% of the unemployed fell below the 40% line, and 75% below the 60% line.

The picture which emerges is one of a growth in the number of families falling below the 60% poverty line being in the main caused by a rise in the numbers of the unemployed. At the same time, because among the poor the unemployed are on average among the better off (UB is higher than many other social welfare payments) and because the real absolute and relative level of SW payments rose steadily between 1980 and 1987, the average income of the poor, controlling for the numbers of poor people, actually rose. This is true both for absolute and relative definitions of poverty at the 60% cutoff point favoured by the poverty lobby.

What is clear from all of this is the central role of unemployment as a cause of an observed increase in the incidence of poverty coupled to a reduction in its intensity, and as a target for policy if policy aims at tackling the causes of poverty rather than simply being concerned with dealing with the consequences.

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It is at this stage that it is very hard to avoid the contention in debate that I described at the beginning of this article. As far as the ESRI report is concerned, it studiously avoids making recommendations for measures to reduce the poverty levels it reports. In part this may reflect the limits of the brief the researchers were given. It is also the case, however, that insofar as unemployment is concerned, the economics profession is far from agreed as to the correct overall strategy to follow. Even the most casual follower of debates on economic policy will be aware that there is a division between those who believe that the labour market suffers from fundamental defects making episodes of unemployment inevitable and those who believe that it is a combination of government intervention, high unemployment benefits and employment restrictions that are to blame.

I have little doubt, nevertheless, that whatever an economist's views on the basic causes of unemployment, he would be very unlikely to endorse the potentially lethal cocktail of policy measures advocated by the Combat Poverty Agency as a response to the problem of poverty in Ireland. In relation to poverty being the cause of an inadequate standard of living, they demand large, restructured and immediate transfers to poorer households. They also ask that takeup by poorer families of welfare entitlements be enhanced. Where poverty is seen as a consequence of unemployment they seek government intervention to retrain the unemployed, side by side with a demand for higher unemployment benefit. Observing that in some cases poverty is associated with low incomes in employment, they demand the introduction of a statutory minimum wage. This far from exhausts the list of recommendations they make, but are representative of the main thrust of those recommendations.

Leaving aside the problem that they are asking for higher government spending and in other cases for tax reductions without suggesting where the Exchequer is to find the funds, it doesn't seem to occur to them that there are internal contradictions in what

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they are seeking. For example, an effective minimum wage would have the straightforward effect of increasing unemployment. This is a fact of economic life accepted everywhere outside Liberty Hall in Dublin and Transport House in London. The fact that, as has been shown by the same ESRI researchers (6) the Irish social welfare system to a considerable degree wastes money by giving it to people outside the poverty target income suggests that benefits should be means tested rather than liberalised, and redirected as much as increased. They do not avert to the problem (a painful one) that higher social welfare payments may result in the end in higher dependency through disincentive effects. To be sure, the view of the ESRI researchers tends towards the position that such effects, if they exist, are likely to be small. This, however, seems to be based on reliance on research done in the UK. Studies done in the US and reported in a 1988 survey (7) support the view that these effects are significant not only in terms of overall impact on the labour supply but also at a disaggregated level, showing up as being related to other problem areas such as single parent family incidence.

It should be said, of course, that these findings are a matter for continued debate amongst researchers in the area, and in the future the consensus of opinion could back the low disincentive school of thought. This, however, is certainly not the case right now, and it seems to me to be foolish, to put it mildly, for those who are concerned to solve the problems of unemployment-related poverty to make such strong recommendations without having any expertise in the area.

In conclusion, if asked what should be the priority for research and action in relation to poverty, I would unhesitatingly put dealing with unemployment at the top of the list. Since there is still so much to be determined concerning the causes of the incidence and duration of unemployment in this country, it seems to me that theoretical and empirical work in the area should be given the support of state and voluntary groups alike. They

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must, however be prepared to face up to findings that may be unpalatable from an ideological point of view and difficult to sell politically. It would also help if those who can be described as the poverty lobby could tone down their demands both in terms of the actions they seek and the rhetoric they use to prosecute them in order to permit the necessary research to be carried out in as detached an atmosphere as possible. I suppose that also means asking the inhabitants of Doheny and Nesbitt's to abstain from their favourite sport of poking fun at the poverty lobby, too.

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