POVERTY AND THE SOCIAL
WELFARE SYSTEM IN IRELAND:
POLICY IMPLICATIONS

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1. Introduction

Social welfare payments account for about 28 per cent of Exchequer current expenditure. How effective is this expenditure? To answer this question we must first know what the social welfare system is trying to achieve. Since the system in fact has multiple objectives, assessing its effectiveness is by its nature a complex exercise. However, one major aim is clearly directing resources to those in need, the alleviation of poverty: in this paper we concentrate on an assessment of the social welfare system in terms of this objective.

In doing so, we make use of the results of a major national household survey carried out by the ESRI. This allows us to first describe the background against which the social welfare system operates, in terms of recent trends in poverty and the characteristics of low-income households. This draws on our recently published research based on the survey, and for the present paper this is only briefly summarised to provide the context for the analysis of the social security system.

We begin that analysis by examining the performance of the system in meeting its own minimum income objective, as defined by the safety net scheme (Supplementary Welfare Allowance). We then consider some broader measures of the system's effectiveness and efficiency in reducing poverty as independently defined. The indirect costs associated with incentive effects of the social security system and its financing are then discussed. Finally we consider some current policy issues in the light of the foregoing analysis.

The data used in this paper are taken from the results of the ESRI national Survey of Income Distribution, Poverty and Usage of State Services, carried out in 1987. The project has been co-sponsored by the Institute, the Combat Poverty Agency, and the EC Commission, and forms the Irish element of a study on poverty and social security being carried out in a number of the Community countries. Only the briefest of descriptions of this database is given here: further details on the sampling procedure, data gathered, response and post-sampling reweighting are given in Callan et al., (1988, Ch.2). Detailed information on income from all sources and on other objective and subjective indicators of poverty, as well as on assets, debts, education and labour force participation, usage of health and education services and a variety of other topics was gathered. Responses were received from about 3,300 households, representing 64 per cent of effective sample - comparable with the results of the national Household Budget Surveys of 1973 and 1980. Information on the 8,200 adults in these households was obtained.

In order to correct for bias in the responding households, the sample was reweighted to accord with known national totals (from the 1986 Labour Force Survey) in terms of:

      (a)   the number of adults in the household,
      (b)   urban/rural location,
      (c)   age of household head,
      (d) social-economic group of household head.

When the reweighted sample was then compared with other independent national totals, for the distribution of households by number of persons at work and number of persons unemployed, there was close correspondence between the two, reinforcing confidence in the representativeness of the sample.

2. Measuring Poverty

It is now widely accepted that poverty in developed countries cannot be conceived narrowly in terms of an "absolute" minimum necessary for physical survival. There is a broad consensus that it must rather be measured in the context of the particular society being examined, and is in that sense relative. The most influential explicit statement of this relative basis is that of Townsend:

> Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the type of diet, participate in the activities and have the living conditions and amenities which are customary, or at least widely encouraged, or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities (Townsend, 1979, p.31).

Within this broad concept, though, there are many possible approaches to measuring the extent of poverty. (See Callan and Nolan, 1987, for a detailed discussion of absolute versus relative conceptions of poverty and for a survey of such approaches.) One widely used approach, applied in previous work on measuring poverty in Ireland by for example Roche (1984), Fitzgerald (1981) and Rottman, Hannan, *et al.*, (1982), takes as starting point the rates of income support provided by the social welfare system. These are taken to represent an "official" poverty line, in some sense the product of a social consensus on the minimum necessary income. However this approach has major shortcomings, both conceptually and in implementation. Most obviously, raising social security payments can paradoxically be reflected in a rise in measured poverty. More generally, changes in the extent of poverty over time can be masked or exaggerated by changes in the generosity of social security. This is not to say, of course, that the number of persons falling below the safety-net income level provided by the social security system is unimportant. It is clearly a very important indicator of the performance of the system in meeting its own targets: it cannot, though, provide an appropriate independent standard for assessing the extent of poverty or

changes in poverty over time.

While a variety of methods for deriving a poverty line independent of the social security system have been applied (elsewhere), no one method commands universal acceptance, and there is considerable scope for disagreement even in the application of particular approaches. It is not even clear that the view implicit in the search for "the" poverty line, namely that poverty is an "all or nothing" phenomenon, that "the poor are different", reflects reality in most developed societies. We intend to address this issue and assess a number of approaches to deriving poverty cut-offs in later work. This will, for example, use the considerable range of data on patterns of living and deprivation and on respondents' views about necessities and minimum income needs gathered in the ESRI survey.

However, given the considerable scope for legitimate disagreement about how a poverty line should be derived and whether a single line would adequately reflect the underlying reality, we have in this paper adopted an alternative approach. Rather than seeking to derive a particular poverty line and presenting results contingent on that line - which may then be considered of little relevance by those who favour a higher or lower line - we have applied a range of relative poverty lines. The major objective is then to see the extent to which conclusions can be drawn which are *not* sensitive to the particular line chosen. Clearly when this is possible the conclusions are considerably more valuable and firmly based than those contingent on a particular line - and it is encouraging that we have so far been able to identify some important results which are "robust" in this sense.

The scope for disagreement about the location of the poverty line extends not just to the needs of a particular family or household type - for example a single adult living alone - but also to the relationship between the needs of different family/household types. If, for example, a single adult "needs" £50 per week, how much does a couple with two children need? Again we have taken the approach that, given the absence of a consensus on the appropriate adjustment, a variety of figures should be used and the sensitivity of the results examined. The conventional procedure for adjusting for differences in needs across household types involves the use of "equivalence scales", which express different composition types in a common unit. Thus, if a single adult is taken to be one adult equivalent, a couple may be counted, for example, as 1.7 and a further 0.5 added for each child. (These particular values are used here for illustrative purposes, although they have also been applied in a cross-country poverty study for the EC Commission.) Dividing total household income by the number of adult equivalents then produces the income per equivalent adult, which can be compared across households of all types. Using a range of equivalence scales, we thus explore the effect of varying the allowance made for the "needs" of extra adults and of children.

3. Poverty in the ESRI Sample 1987

3.1: Aggregate Results Using Relative Poverty Lines

For the reasons outlined, we apply a range of relative poverty lines and explore in particular the implications for trends in the extent of poverty and the characteristics of "the poor". The relative poverty line approach not only has the appeal of simplicity, leading to easily interpreted results, it also has the considerable advantage of ready application to the CSO Household Budget Survey (HBS) data for 1980, so these trends can be examined. In calculating these lines, we adopt the following procedure.

(i)   The disposable weekly income of each household is calculated - i.e., gross income less income tax and PRSI contributions;

(ii)   the number of adult equivalent units on each household is calculated, for a particular set of equivalence scales (see below);
(iii)   average income per equivalent adult for each household is calculated;

(iv)   the mean adult equivalent income across households in the sample is derived;

(v)   three poverty lines are defined as percentages of this mean - at 40 per cent, 50 per cent and 60 per cent of mean disposable household equivalent income.

In addition to using these three different percentage cut-offs, a number of different equivalence scales were applied. We first present results on the basis of (a) the set of scales implicit in the current rates of payment of social welfare, notably in the Supplementary Welfare Allowance/ Unemployment Assistance schemes (including Child Benefit). These, broadly speaking, allow a married couple 166 per cent of the single adult's entitlement, and add a further 33 per cent for each child. We then discuss the difference made by using other scales which imply different relativities in needs.

Mean household income in the sample was £198 per week. When mean equivalent income and the three poverty lines are calculated using the equivalence scales described, mean equivalent income is £85.45 per week, so the three poverty cut-offs are about £34, £43 and £51 respectively for a single adult. For a married couple with two children, the cut-offs are £79, £99 and £119 respectively.

Concentrating first on the overall numbers falling below these lines, Table 3.1 shows the percentage of households and persons below each line for the ESRI sample and also for the 1980 HBS sample. Clearly the percentage involved varies very substantially depending on the cut-off used - with the percentage of households below the line in 1987 ranging from

7.5 per cent to 30 per cent. At each line, though, the percentage of persons falling below in 1987 is greater than the percentage of household - poor households are larger than average. This was not the case in 1980 for two of the three lines. Looking at the overall trend between 1980 and 1987 we see that there was an increase in the percentage of both households and persons below the 50 per cent and 60 per cent line, but not the lowest, 40 per cent line.

Table 3.1:   *Percentage of Households and Persons Below Relative Poverty Lines, 1980 and 1987*

	Equivalence Scale 1/0.66./0.33	
	1980 HBS	1987 ESRI
	Per Cent	
(a) Households		
40 Per Cent Line	8.0	7.5
50 Per Cent Line	16.8	17.5
60 Per Cent Line	27.6	30.0
(b) Persons		
40 Per Cent Line	8.5	8.2
50 Per Cent Line	16.2	19.8
60 Per Cent Line	26.7	31.4

To assess the sensitivity of these results to the equivalence scales used, we also applied a number of other sets of scales, including (b) the scale incorporating additions of 70 per cent of the single adult's needs for each extra adult and 50 per cent for each child - used in the EC study mentioned above; and (c) the scale incorporating 60 per cent for each extra adult and 40 per cent for each child (frequently used in UK studies). So both (b) and (c) allow more for the needs of children than the implicit social welfare scale we have used so far, while (b) allows more and (c) less for additional adults.

Using these scales, a higher percentage of households and persons was found under each line than in Table 1, with the difference being more marked for (b) than for (c). At the highest lines, for example, 33.5 per cent of all persons were below the line using scale (b) compared with 30 per cent in Table 3.1. Using these scales there is a larger increase between 1980 and 1987 in the percentages falling below the 50 per cent and 60 per cent lines, and an increase is now also seen at the 40 per cent line. On the basis of the scales used, then, we can conclude that the direction of the overall trend in the 1980s is only sensitive to the choice of scale at the lower end of the range of poverty cut-offs. At the 50 per cent line, for example, we find the percentage of persons in households below the line increases by 3-4 per cent between 1980 and 1987 irrespective of the scale used.

Before briefly discussing important changes in the composition of poor households over this period, a number of

other features of the overall results must be mentioned. First, it must be noted that mean household equivalent income actually fell by about 1.5 per cent in real terms between 1980 and 1987. This means that the relative poverty lines applied to 1987 are also below the 1980 lines by that percentage: a *lower* real standard is being applied to the latter year. If instead we apply poverty cut-offs to 1987 which represent the same real income as the 1980 relative lines, we thus find a greater percentage in poverty in 1987 than shown in Table 3.1 - about 1 per cent greater for persons - and an unambiguous increase in poverty between 1980 and 1987 at all poverty lines/equivalence scales combinations.

Even in the context of purely relative poverty lines, assessing the extent of poverty purely in terms of the percentage falling below certain income levels may not convey the full picture. Focusing purely on this measure of poverty, we may for example rate a situation where 20 per cent of households are just below the poverty line as worse than one where 18 per cent are well below the line - the *depth* of poverty for those below the line is missed. We therefore also applied measures which take into account both the numbers falling below the poverty line and the extent of their income shortfall. These measures showed a consistent increase in poverty between 1980 and 1987 across all the relative poverty line/equivalence scale combinations.

Finally, the recipient unit we have used so far has been the household. This may consist of a nuclear family of for example a single person or a couple with dependent children, but it may also comprise a couple with working children and/or elderly relatives. In the case of such "extended" families, the appropriate unit of analysis for the assessment of the standard of living of the individuals involved is not obvious *a priori*, since it depends on the extent to which income is actually shared between all the individuals. The tax and social welfare systems operate (for the most part) on the narrower recipient unit of single person/couple with dependent children, so that a household may contain a number of tax or benefit units. In looking at the operation of the social welfare system we will therefore also want to use the narrower unit, so it may be helpful at this stage to refer to the difference this makes to the overall extent of poverty. Applying relative poverty lines to 1987 using the narrower unit, we find in general a slightly higher percentage of persons in tax units below the poverty lines than were in households below the lines.

3.2: The Characteristics of Low-Income Households

Key questions for policy are who are the people in low-income households, what are the characteristics of these households, and how has this been changing over time? Our objective again is to particularly pinpoint findings which hold consistently across poverty lines and equivalence scales. The results which we summarise very briefly here are

fully set out in Callan *et al.,* (1988) and Callan and Nolan (1988).

Looking first at demographic characteristics, a number of results may be highlighted. First, households with children run a higher risk of being in poverty than those without children and children run a higher risk than adults - that is, they are over-represented among the poor compared with in the population as a whole. This is more pronounced using the equivalence scales which incorporate the larger allowance for the needs of children compared with adults, as we would expect, but remains true even for the social welfare implicit scales. For example, using the latter scales and the 50 per cent relative line, 59 per cent of poor households contained children compared with only 44 per cent of all households (defining children as aged under 14 to allow comparisons with the 1980 HBS). At this line, 26 per cent of all children were in poverty, compared with 17 per cent of adults.

Comparing 1987 with 1980, the risk for children and for households with children can be seen to have risen much more rapidly than for adults/households without children. While children were at higher risk of being in poverty than adults in 1980, the difference was not nearly as marked as in 1987. This high risk in 1987 can be seen to be concentrated largely among household with three or more children: those consisting of a couple with only one child actually have a relatively low risk, while couples with two children have a risk not very different from the overall average. (It should be noted though that the equivalence scales used here do not allow for any economies of scale with respect to children). Single adults with children also have a relatively high risk, though accounting only for a small proportion of the poor.

Looking at the characteristics of the household head (HOH), it is notable that where the HOH is elderly - 65 or over - the risk of being in poverty is well below average for all poverty lines. For example, at the 50 per cent line (and again using the social welfare implicit equivalence scales), 17.5 per cent of all households are in poverty, but only 9.5 per cent of households headed by an elderly person are below this line. This reflects the significant improvement in the relative position of the elderly which has been taking place since the 1970s.

Turning to the labour force status of the household head, Table 3.2 shows the composition of households under each of the relative poverty lines in 1987 classified by this variable (still using the social welfare equivalence scales). At each poverty line, households headed by an unemployed person or a farmer are the two largest categories, and combined they account for over half of all households below the 40 per cent and 50 per cent lines. Households headed by a retired or self-employed person are under-represented beneath each line. While employee-headed households make up only 8 per cent of those under the 40 per cent and 50 per cent line, this rises rapidly to almost 13 per cent of those under the 60 per cent line. As far as farm households are

concerned, it should be noted that our estimates of farm income are based on data for the calendar year 1986, which was a particularly poor year, with a significant recovery in farm incomes since then.

Table 3.2: *Sample Households and those Below Relative Poverty Lines by Labour Force Status of Head of Household, 1987*

Labour Force Status	Below Relative Poverty Line[a]			All Households in Sample
	40 Per Cent	50 Per Cent	60 Per Cent	
	Per Cent			
Employee	8.1	8.5	12.8	37.9
Self-employed (excluding farmer)	6.8	5.0	4.8	7.5
Farmer	37.8	24.6	18.2	12.4
Unemployed	17.1	33.2	25.2	10.3
Sick but Intending to Seek Work	4.8	3.5	2.6	1.2
Sick but Not Intending to Seek Work	4.2	6.9	10.0	4.8
Returned	9.4	9.3	10.3	14.4
Home Duties	11.3	7.6	15.9	11.3
Total	7.5	17.5	30.0	100.0

(a) Equivalence Scale 1/0.66/0.33.

Looking at the major changes in labour force status between 1980 and 1987, the most striking feature, as we would expect, is the increase in the importance of unemployment for low-income households. The overall national unemployment rate rose from 8 per cent to over 18 per cent during this period. This was reflected in the fact that, using the 50 per cent line for example, only 15 per cent of poor households in 1980 were headed by an unemployed person, compared with one-third of such households in 1987. Also, The declining importance of households headed by a retired person is significant: whereas in 1980 19 per cent of the households under the 50 per cent line had a retired HOH, by 1987 this had fallen to 9 per cent.

Having outlined the background against which the social welfare system operates, we now turn to an analysis of the effectiveness and efficiency of that system in reducing poverty.

4. Evaluation of the Peformance of the Social Welfare System in Reducing Poverty

The reduction or elimination of poverty would be widely regarded as the most important objective of the social security system. But it is also called upon to play other major roles. The most important of these would be horizontal or vertical redistribution above the poverty line, and income replacement: the provision of pensions, for example, may not be wholly for reasons of poverty reduction. The Commission on Social Welfare has noted that "the trend has been for less emphasis to be placed on the original, historical objective of poverty relief and increasing emphasis on income distribution and income replacement". However, we are going to neglect these other objectives in the present analysis, and concentrate simply on the performance of the system in reducing poverty. This means that we are presenting a partial evaluation of the system; the trade-offs against other objectives would also have to be considered in evaluating policy options. We are working on a model which will allow simulation of the effects of policy changes on the representative sample of households; this will provide a more reliable guide to the relative merits of different policy options in terms of poverty reduction and these broader goals. The present analysis can help, however, to identify some of the problems and possible directions for policy changes.

5. Effectiveness of the Social Welfare System in Providing a Safety Net

5.1 Outline of the Safety Net

We begin this analysis of the performance of the social welfare system with a simple measure of the effectiveness of the system in providing a safety net income; this has been widely applied in the UK and other countries as a key indicator of the system's performance.

The Supplementary Welfare Allowance was introduced with the provision of a safety net income as one of its main objectives; the level of income is the lowest provided by the system, equal to the Short-term Unemployment Assistance payment. This was £33 per week for a single person in the early part of the survey period, and £34 per week from July 1987 onwards. Our analysis of the performance of the system in providing this safety net does not imply any judgement concerning the adequacy of this payment; it simply takes the system on its own terms, and evaluates its performance in achieving one of its main objectives.

5.2 Basic Results

The details of the calculation are set out in our report to the Combat Poverty Agency (Callan et al., 1988). Here we need only summarise the main features. The first point to note is that the calculations are based on a conservative estimate of what the safety net aims to provide; the baseline estimate takes no account of additional payments which

families on the Scheme often receive, for housing costs,
dietary or special needs. The Supplementary Welfare
Allowance scheme, like most elements of the tax/transfer
system, works with a unit based on a single person or married
couple, together with dependent children. The precise
definition of a dependent child for the SWA scheme is simply
one under the age of 18. Our analysis of the safety net is
necessarily at this "benefit unit" level. We do, however,
take account of the "benefit and privilege" assessment, which
implies a one-sided income sharing arrangement from parents
to older, financially dependent children such as those
unemployed or in full-time education.

The results show that one person in ten falls below this
safety-net income level. Comparison with results from the UK
on the numbers falling below the Supplementary Benefit
standard suggests that the Irish system has a safety net with
rather more gaps; the UK figures tend to cluster around the 5
per cent mark.

5.3 Nature of the Gaps in the Safety Net

The obvious next question is, how can so many people be
falling below the safety net income? There are two broad
reasons. First, some persons are not eligible for the
safety-net income; and second, some of those who are eligible
for income support are not receiving it. It might be thought
that persons waiting for the processing of a claim might also
feature; but this group was found to be very small.

The specific exclusions on the Supplementary Welfare
Allowance are that it is not payable to persons in full-time
employment, or in full-time education. The latter exclusion
is not an important factor from our point of view: we still
find one person in 10 below the SWA income level, even if
benefit units comprising persons in full-time education are
excluded.

The implications of the exclusion of persons in full-time
employment need careful interpretation. Full-time employees
with children, who are on incomes below the SWA standard
would be eligible for income support through the Family
Income Supplement scheme. Farmers would also be eligible for
Unemployment Assistance, subject to a means test. Roughly
speaking, it is only full-time employees without children,
large farmers, and the self-employed who would effectively be
ineligible for any income support.

We have classified those falling below the SWA income
standard in a way which helps to identify their eligibility
or otherwise for income support. Whether or not a farmer
would be eligible for income support depends partly on a
longer term measure of income from the farm than our 1986
calendar year estimate. The group of persons ineligible for
income support, who fall below the SWA income standard, is a
significant one, but not a major part of the total. Depending
on the eligibility status of farmers, between 40 per cent and
70 per cent of those falling below the SWA income standard
are apparently entitled to income support, but are not

receiving it. This is not just a question of small amounts going unclaimed; the average entitlement is quite sizable (£20 to £30). A conservative estimate of the amount of benefit not taken up by those entitled to Supplementary Welfare Allowance or Unemployment Assistance payments suggests a lower bound of around £50m annually, or 10 per cent of the total potential expenditure.

5.4 Non-take-up of means-tested benefits

The phenomenon of persons entitled to income support, but not actually receiving it, goes under the broad heading of "non-take-up". There are many possible causes of this sizable non-take-up found in the ESRI survey, and their implications differ markedly.

The simplest cause is that potential claimants are not aware of their entitlements. For instance, young unemployed adults may believe that they have no entitlement because they are living with their parents; the rules of the system mean that they could be entitled to the full payment, if the parental income was a low one. This problem could be a serious one for the persons involved, but would have no implications outside this group.

There are other reasons for non-take-up which have important implications not only for the non-take-up group itself, but also for persons who do actually receive the benefits. Non-take-up may be caused by the fact that for some people the value of the benefit entitlement is outweighed by the costs of claiming the benefit. These costs would include the items such as time, travel and any stigma felt to be attached to the payment or associated means test. Atkinson (1984) emphasises that such costs may reduce the true value of the financial assistance given, even where the benefit is received.

In our report to the Combat Poverty Agency, (Callan et al., 1988) we examined the take-up of Family Income Supplement in greater detail. This scheme is an extreme example in two senses. First, it is thought to be the scheme with the lowest rate of take-up of benefit. But second, it is clearly the softest means test (there is no capital income test), and once qualified, there is no problem about earning more money in the next 12 months; on these grounds one would expect the reaction to the FIS means test to be much milder than towards the more intensive means test for Unemployment Assistance. Our results indicate that between 13 and 22 per cent of persons entitled to a payment actually receive it; most of the remainder did not even know of the schemes existence. While the rate of take-up might be expected to be lowest for small entitlements, this is not a major factor: between 18 and 30 per cent of those entitled to a payment of over £5 per week do not receive the payment. These figures compare unfavourably with the take-up rates of around 50 per cent in the UK, which themselves have given rise to concern about the effectiveness of the scheme's outreach. More radical measures, such as automatic payment of FIS through the wage packet (i.e., a partial integration of the tax and transfer

systems in implementation) may be necessary to improve outreach.

5.5 Conclusions

A significant proportion of persons falls below the safety-net income; probably somewhat more than in the UK. (Also somewhat higher than in Continental European countries involved in the EC research project). The UK measures are based on similar survey data to that used here. It seems likely that the UK measures include groups similar to those identified here (such as the self-employed, farmers would be a less important category) which are not eligible for Supplementary Welfare Allowance. The greater proportion of farmers in Ireland may partly explain the higher proportion of persons falling below the official minimum income standard. But the relative performances of the social security systems in providing an effective safety net, which reaches those in need, would also seem to play a role.

6. Measures of Poverty Reduction Effectiveness and Efficiency at Alternative Poverty Lines

6.1 Concepts of Poverty Reduction Effectiveness and Poverty Reduction Efficiency

We now move on to a broader evaluation of the effectiveness and efficiency of the social welfare system in reducing poverty at some of the independently derived poverty lines detailed earlier. In this analysis, we use the concepts and measures developed by Beckerman (1979a), and widely used since then (e.g., by Dilnot, Kay and Morris, 1984 in their review of the performance of the British system).

The Beckerman measures of poverty reduction effectiveness and efficiency are based on two building blocks; the first is the concept of pre-transfer income, and the second is the poverty gap.

Pre-transfer income is defined simply as actual net income less actual social security transfers received. There are two main drawbacks to this. First, it ignores the fact net pre-transfer income would also be affected by consequent reductions in tax liability. Second, it ignores behavioural responses to the existence of social security transfers and the taxes needed to finance them. The drawbacks of this are obvious, but the difficulties involved in estimating a counterfactual based on the absence of all social security are equally apparent. Given these difficulties, and the limited relevance of the zero social security counterfactual, it seems preferable to invest our efforts into estimating counterfactuals for more realistic policy changes, allowing for the effects of the income tax system, and for possible behavioural responses. In the interim, however, the Beckerman concepts can be used to provide a preliminary picture of the system's performance.

Given the concept of pre-transfer income, households or families can be classified into three types. Type 1, has income below the poverty line even after transfers; type 2 has a pre-transfer income below the poverty line, but a post-transfer income above the line; and type 3 has a pre-transfer income above the line.

The poverty gap for a family in poverty is the difference between its income and the poverty line. The aggregate poverty gap is simply the sum of these gaps for all households below the poverty line. It provides a measure of poverty which has certain advantages over the more familiar head count (the proportion of families or persons in poverty), in that it takes account of how far below the poverty line families are falling; an increase in the incomes of poor families which still left them below the line would be reflected in this measure as a reduction in poverty, while the head count measure would say poverty was constant. It is also particularly suitable for the analysis of the social security system, because it provides a measure of poverty in money terms, which can be related to social welfare spending.

The Beckerman measure of effectiveness is the percentage of the pre-transfer poverty gap which is eliminated after social security transfers are added: i.e. the ratio between total payments of type A_1 and A_2 on Figure 6.1, and the total pre-transfer poverty gap (which is equal to the sum of post-transfer poverty gaps, D, plus the total of payments of type A_1 and A_2). An alternative way of illustrating the concept is shown in Figure 6.2 where again it is represented by $(A_1 + A_2)/(A_1 + A_2 + D)$.

The Beckerman measure of efficiency is the percentage of total social security spending which goes towards the elimination of the poverty gap: in Figure 6.1, this is the ratio of the total of payments of types A_1 and A_2 to the total of all payments, including B and C. Again this can be illustrated in Figure 6.2 as $(A_1 + A_2)/(A_1 + A_2 + B + C)$. Implicitly this measure of efficiency takes the elimination of poverty at the particular poverty line chosen as the only goal of the social welfare system: it is in this sense that the amounts spent on raising incomes above that level are "wasted", either as "spillover" payments to those initially below the poverty line (payments of type B) or payments to those initially above the poverty line (payments of type C).

One can interpret these measures in several ways. Taken at their simplest, they are based on a view that poverty is not a matter of degree: at a certain income level, a person is in poverty, while at a slightly higher level he or she is not poor. Even if one accepted this view, one must allow that there is uncertainty and disagreement about where to draw the line: this alone would suggest that the analysis should be done for a range of levels of the poverty line. Our preliminary analysis of the standard of living indicators for households at different income levels also seems to suggest that poverty is not such a cut-and-dried phenomenon: there may well be degrees of poverty. This again supports examination of the efficiency and effectiveness measures at different poverty lines.

Figure 6.1 Classification of Households for Analysis
of the Effectiveness and Efficiency of Transfers
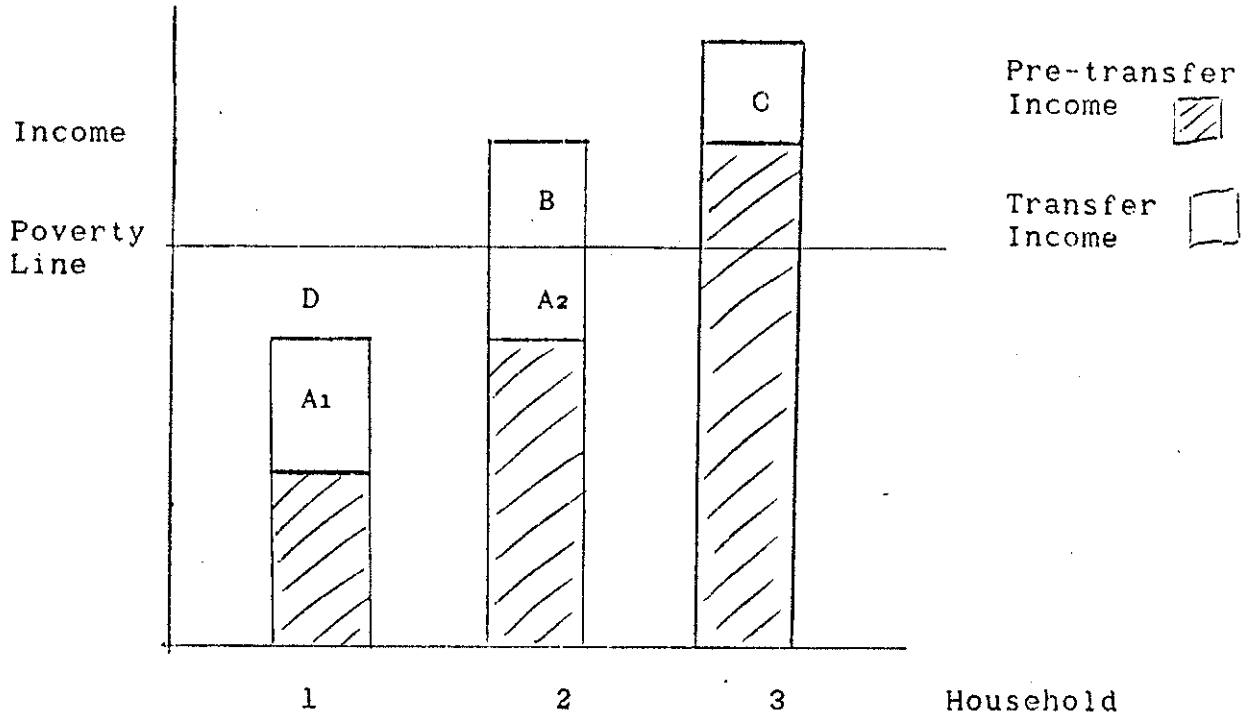
Note: Adapted from Dilnot, Kay and Morris, 1984

Figure 6.2 Poverty Reduction Effectiveness and
Poverty Reduction Efficiency
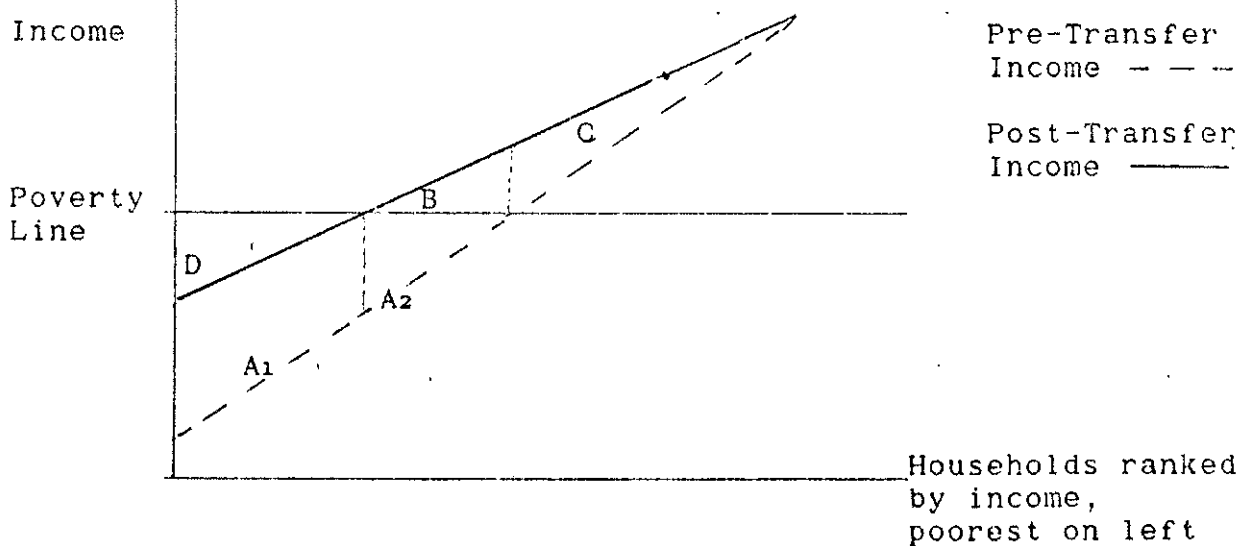
Note: Stylized representation of the income distribution and
income transfer system, adapted from Beckerman and Clark, 1982.

Poverty Reduction Effectiveness = $(A_1 + A_2)/(A_1 + A_2 + D)$

Poverty Reduction Efficiency = $(A_1 + A_2)/(A_1 + A_2 + B + C)$

6.2 Application of the Measures of Poverty Reduction Effectiveness and Efficiency to the Irish Data

The basic results on the "effectiveness" and "poverty reduction efficiency" of the social welfare system are given in Table 6.1 below. The analysis presented here is based on what is often called a tax unit i.e., a single person or married couple together with dependent children. The only difference from the benefit unit is that children aged 18 or over who are in full-time education are now counted as members of the parental tax unit (so a dependent child is one which would would have counted for purposes of the child tax allowance before its abolition in the 1986 Budget). We have also conducted similar analyses at household level, and will refer to these results later.

This table is based on the equivalence scale of 1 for the head of the tax unit, 0.66 for other adults, and 0.33 for children, implied by the payment structures of social welfare schemes. The use of other values could give rise to findings of inefficiency and ineffectiveness which would be wholly due to differences in equivalence scales. The results were, however, very similar when the equivalence scale was changed to 1 for the head of tax unit, 0.7 for other adults and 0.5 for children.

Table 6.1: Poverty Reduction Effectiveness and Poverty Reduction Efficiency at Different Income Standards

Equivalence Scale: 1, 0.66, 0.33

	40%	50%	60%
% of Mean Equivalent Income	40%	50%	60%
% of Tax Units Below Standard	12	22	31
Poverty Reduction Effectiveness (% of pre-transfer poverty gap eliminated)	79	76	70
Poverty Reduction Efficiency (% of social security which goes towards reducing poverty gap)	54	67	77

We will discuss the level of the results in the context of some international comparisons. First, however, we concentrate on interpreting the strong pattern which emerges: a rise in poverty reduction efficiency, coupled with a fall in poverty reduction effectiveness as the level of the poverty line rises.

Efficiency rises from 54% to around 77%, while effectiveness falls from 79% to 70%. The fall in effectiveness reflects the

fact that several important schemes provided rates of payment at or just above the lowest of these poverty lines; as the poverty line is raised, these schemes are necessarily less and less effective. The rise in efficiency also reflects the differentiated payment structure of the Irish social welfare system: payment rates vary not only between contributory and non-contributory schemes, but also between the elderly, widows and the unemployed, for example.[1] If one considers tax units which depend on a single social welfare payment for their income, it is clear that a poverty line set at the system's lowest rate of payment is likely to find a high poverty reduction effectiveness but rather low poverty reduction efficiency, while a poverty line set at the highest rate of payment must find more efficiency but less effectiveness.[2]

The results presented in Table 6.1 strongly reflect this general tendency. This can be demonstrated using the following classification of the sources of inefficiency.

1. Social welfare payments going to persons who have pre-transfer income above the poverty line. This is labelled "vertically inefficiency" by Beckerman, 1979a.

2. Social welfare payments which are themselves above the poverty line will involve an inefficiency even if the recipients have zero pre-transfer income. We will refer to that part of the inefficiency which arises solely from the excess of social welfare payments over the poverty line as the "excess payment" effect.

3. We will refer to the remaining sources of inefficiency as "pure spillover". This includes cases where the recipient has other income below the poverty line, and a social welfare payment less than the poverty line, but the two together exceed the poverty line; it also includes the full amount of pre-transfer income for cases where the social security payment itself is above the poverty line.

Beckerman uses the term "spillover" to refer to the total of items 2 and 3; but the distinction between what we have termed the "excess payment effect" and "pure spillover" is an important one. For those tax units which have social security payments in excess of the poverty line, we have calculated this excess, as an estimate of the excess payment effect. The inefficiency which results from failing to adjust the payment for the existence of other income, so that it is just sufficient to bring the family up to the poverty level is the "pure spillover" effect.

Most of the inefficiency in poverty reduction at the lowest poverty line is due to the fact that recipients under many schemes would be brought above that level, even if they had no other income i.e., the "excess payment" effect. As the poverty

line rises, the total of inefficient expenditure falls quite strongly, and the relative importance of other sources rises. But since the highest social welfare payment rates (Widows' and Old Age Contributory Pensions) are significantly above the highest poverty line, a significant part of the inefficiency remaining at this level is still due to persons with no other incomes being brought above the level of the poverty line. Vertical inefficiency is the most important source of inefficiency in poverty reduction only at the highest poverty line, at which 23 per cent of expenditure is "inefficient"; while the "pure spillover" effect is of minor importance at each poverty line.

The basic analysis does not allow for differential poverty lines for different groups (except on the basis of the number of adults and children in the tax unit or household). The social welfare system incorporates differences in payment levels which depend on several factors. Some of these are designed to approximate differences in the needs of different classes of recipient e.g., whether persons are likely to be dependent on it on a long-term basis, such as the elderly, or just for a short period, such as some of the unemployed. Viewed simply from a poverty reduction perspective, such differentiation according to need could be justified, and would not necessarily represent an inefficiency as the simple measures presented here imply. Improvements to existing methods of tailoring payments to meet such differences in needs may be possible, either in terms of re-jigging existing payment differences, or taking a different approach to the identification of relative needs; but the difficulties of tailoring payments to needs are widely recognised.

The differentiation of payments on lines which are not designed to relate to need, but to the "insurance principle" or "replacement function" adverted to earlier, are more severely at variance with the poverty reduction objective. This is part of a trade-off between the poverty reduction objective and the income replacement one, for a given level of the social welfare budget. The higher level of payments under Contributory (Social Insurance) schemes, and the lower level of payments under Non-Contributory (Social Assistance) schemes represents an inefficiency from a poverty reduction point of view, if the poverty line is set below the highest rate of payment. For a poverty line at or above the higher rate of payment, the differentiation is not inefficient; but it may be regarded as inequitable. If needs vary with a claimant's past PRSI record, it is more likely that those with irregular employment patterns have greater rather than smaller needs.

In interpreting the figures presented, one must bear several things in mind. First, the scale to which these percentages apply: a high effectiveness figure does not mean that the remaining problem is small, if, as is the case, the pre-transfer poverty gap is very large. Similarly, even the highest efficiency figure implies a very large aggregate amount spent on raising household incomes above the highest poverty line. Second, there is a tendency to underestimate the poverty reduction efficiency of the tax and transfer

system as a whole because the analysis does not take into account any income tax paid on long-term social welfare benefits. Third, the pattern of results is similar in the household based analysis. The level of effectiveness is somewhat higher, and of efficiency somewhat lower. The reasons for this difference are clear: social welfare schemes are aimed at supporting the incomes of tax units rather than households, which means that the tax unit level of analysis is more appropriate for evaluating the system's performance in terms of its own objectives. The limited international evidence now available on patterns of income sharing within households indicates that most income sharing is within tax units rather than between them, which would also argue for a tax unit level of analysis in terms of independent criteria; evidence for Ireland will be collected in the follow-up to the ESRI Survey. Most importantly, one must take into account the other objectives the social welfare system is being asked to achieve, such as income redistribution above the poverty line, and the income replacement function. Judgements on the relative importance of these objectives have to be made.

We now turn our attention to the level of the poverty reduction effectiveness and efficiency figures, rather than the overall pattern. The efficiency and effectiveness figures at the lowest of the relative poverty lines are very close to those which were found for an additional analysis based on the Supplementary Welfare Allowance level of income. This analysis can be compared with recent estimates in the UK at the Supplementary Benefit level. Dilnot, Kay and Morris (1984) found that 54 per cent of UK social security payments went towards reducing poverty at the SB income level; the system was over 90 per cent effective in meeting this safety net target. The Irish system seems on this basis to be less effective than the UK system in providing a safety net, but equally efficient in this role. Beckerman (1979b) estimated the efficiency and effectiveness of the safety nets provided by the Australian, Belgian and UK systems in the 1973/1974 period. The Irish figures are closest to the Australian ones, which showed less effectiveness but more efficiency than the UK; Belgium showed the highest effectiveness, but the lowest efficiency.

Comparisons of effectiveness and efficiency of the safety nets provided by different countries are fraught with difficulty, because of the heterogeneous nature of these schemes. An alternative would be to compare the effectiveness and efficiency of the systems in reducing poverty at comparable national standards derived independently of the respective social security systems. Preliminary analysis (at household level) in the EC Poverty Research Programme, of which the ESRI study forms a part, has been undertaken. It indicates that, compared with the Belgium, Luxembourg, and the Lorraine region of France, the Irish social welfare system is rather less effective in reducing poverty, but the most efficient in the poverty reduction it does achieve.

7. *Incentive effects as indirect costs of poverty reduction*

The existence of social security payments, and the taxes needed to finance them, have an impact on the structure of economic incentives. In particular, the combined effects of social security payments, income taxation, and non-cash benefits on the incentive to work have been widely studied in the UK, the US and elsewhere. How should such effects be taken into account in evaluating the performance of the system?

One framework for taking these incentive effects into account is to regard them as additional costs of poverty reduction. Much attention has been given to what is often called the "unemployment trap": a situation in which a person's net income is increased if he or she becomes unemployed. (This is sometimes called the poverty trap, but that can lead to confusion with other concepts, so we eschew that term here). In terms of the "replacement ratio", that is the ratio of net income out of work (determined by a package which may include not only unemployment benefit, but also lower rent for local authority tenants under the differential rent scheme, medical card benefits, and possible tax refunds) to net income may exceed 100 per cent. Even if the ratio is somewhat lower, it is argued, this may cause some persons to choose to enter unemployment, or to stay unemployed for somewhat longer. We might look on the costs imposed by the behavioural response to replacement ratios as one additional cost of poverty reduction under the present system.

How important is this cost? This obviously depends on the actual distribution of replacement ratios, and on the strength of the behavioural response to them. Evidence on the first of these factors will soon be available from the ESRI survey. UK evidence has suggested that the hypothetical calculations often used do not represent adequately the great variation between different groups in the population. Nolan (1987) has shown that this may also be the case for Ireland, contrary to the widespread view based on O'Mahony (1983). The implications for incentives of the evidence already presented on non-take-up of Family Income Supplement should also be noted. Prior to the introduction of FIS, employees with large families had been found to face the highest replacement ratios (Buckley, 1985). FIS was intended to reduce the replacement ratio not by cutting benefits, but by raising the net income of employees with large families. But the performance of FIS in reaching its target population (at least in terms of information, and arguably also in terms of payments) must be improved if the intended improvement in incentives is to be achieved. (Blackwell, 1988 has recently documented the other side of this coin: employees on FIS, may, if also affected by differential rents and other factors, face very high effective tax rates because of the progressive withdrawal of FIS. This could be described as a "tax trap": it pays to work rather than be unemployed, but after a point, increases in gross wages give no increase, or even a fall, in total net income. The low take-up of FIS limits the number of people actually facing this position.)

Evidence on the responsiveness of behaviour to the incentives summarised by replacement ratios will also be derived from the ESRI Survey, but will require rather more time for analysis. The UK evidence on this topic is summarised by Atkinson and Micklewright (1985) as "'mixed', but with agreement among the cross-section studies that there is no firm evidence of a quantitatively large disincentive effect", concurring with Chiplin's (1982) comment that "the general conclusion from cross-section evidence is that unemployment benefit has a significant, but quantitatively small effect on unemployment duration". More recently, increasing attention has been given to the incentive effects on the wives of unemployed men. Time-series studies have also produced mixed results, some of which would suggest rather larger effects (including Hughes and Walsh, 1983). Narendranathan, Nickell and Stern (1985) note the problems faced by time series analysis in disentangling the effect of benefits from a range of highly correlated regressors; this suggests that the inclusion of more recent evidence, when replacement ratios have fallen, will provide interesting results. Narendranathan et al.'s (1985) longitudinal (panel-based) study, found a smaller, but still significant, effect on unemployment duration than Nickell's (1979) earlier cross-section estimate. Hypothetical replacement ratios for Ireland are now quite high relative to other countries. Even if the UK tendency for hypothetical ratios to exceed the actual ones is found to hold for Ireland, the actual Irish rates may still be comparatively high. If so, the overall response may also be more important for Ireland than elsewhere. Narendranathan et al. have found, however, that the effect of unemployment benefit on duration of unemployment is related to the level of benefits, and the level of prospective earnings, rather than the replacement ratio (a point also taken into consideration by Hughes and Walsh, 1983). Thus the question of the influence of unemployment benefits on unemployment in Ireland is best regarded as an open one, pending further research along the lines pursued in the international literature on this topic.

There is, however, another set of additional costs, which is more indirect, but may be more important: the costs arising from the financing of the social security system, both through PRSI and general taxation, including income tax. (See, for example, Honohan and Irvine, 1987). These financing measures have a broader impact on the labour market, which tend to reduce labour supply, and increase the cost of labour to employers, leading to lower employment and output: poverty would be increased by this mechanism through involuntary unemployment, and income/welfare losses would also occur at higher levels of the income distribution.

Setting up a theoretical framework which encompasses all of these factors is relatively simple. The state of the world under the status quo is summarised by listing the income/welfare enjoyed by each family; the state of the world under an alternative policy, incorporating the changes in individual behaviour and labour market consequences can be summarised in a similar way. The two alternatives can then be ranked, on the basis of some weighted average of these

individual welfares.

Present practice is very far from this theoretical benchmark. Instead, a policy change is evaluated by examining its effects on supposedly typical households, with limited evidence on the implications for incentives. Atkinson et al. (1984) have shown the dangers of this approach in the UK. We propose to move towards the benchmark just described in a number of steps, some of which have already been taken in other countries. The first step, is to simulate the cash or first-round effects of policy changes for our nationally representative sample, and document the actual effects on incentives (marginal tax rates and replacement ratios, for example). This would represent a major step forward from what is currently possible. The second step is to estimate the responses of labour supply to the policy changes. The third step is to estimate the effects of the policy changes taking these behavioural responses into account. International experience has shown that the latter two steps involve considerable difficulties; attempts to incorporate estimated responses in the analysis of tax/transfer policy changes have been particularly scarce. The achievement of each of these steps will represent a major advance from the previous position, towards the theoretical benchmark procedure.

8. Policy Implications: Evaluation of Current Issues in the Light of the Analysis

There is no shortage of suggestions as to how the poverty reduction performance of the social welfare system could be improved. There has been, however, a shortage of evidence and analysis relevant to the assessment of the different proposals. We offer some initial evidence and analysis in this context.

8.1 Is more targeting needed?

One set of issues relates quite closely to the efficiency of the social welfare system in reducing poverty. There are conflicting views on whether a greater degree of targeting is needed, and if so, on how it should be achieved. Our evidence on the overall poverty reduction efficiency of the system is obviously relevant to the first question. The proportion of social welfare payments which goes towards poverty reduction was found to be around 55 per cent at the safety net level of income. Dilnot, Kay and Morris (1984) comment on a similar level of efficiency in the UK as follows: "If our principal objective is to boost low incomes to an acceptable level, this could be done more cheaply, and/or we could afford to be considerably more generous to the poor if payments to those who do not strictly 'need' the money were curtailed" (p. 55). This comment highlights the scope for reallocating an existing social security budget. But our analysis has also shown how small a role such reallocation can play at higher levels of the poverty line; at the 60% line, 77 per cent of social welfare expenditure goes towards poverty reduction. On the basis of these higher

lines, the need for greater targeting is much less.

Reallocation of the existing social welfare budget is
sometimes opposed on the grounds that, in the real political
context in which such decisions are made, it represents a
strict alternative to an increase in the social security
budget; to admit that there may be a role for reallocation
may, in effect, rule out any increase in the overall social
welfare budget. This may well be true, but in order to find
the best possible policy, it must be possible to consider
changes in both the size of the budget, and changes in the
allocation of a given budget. In the next section,
therefore, we consider some issues relating to the allocation
of the existing budget.

8.2 Which method of targeting - contingency or means test?

Suppose then, that we take the existing size of the social
welfare budget as a given. What would be the best strategy
for targeting assistance to those most in need? The
Commission on Social Welfare argued that "Contingency based
payments are an effective means of directing social security
payments to persons in need of an income without actually
undertaking means tests" because "The large majority of
recipients of the present contingency based schemes do not
have other incomes and their social welfare payment replaces
an income loss arising, for example, from unemployment,
illness or retirement" (p. 181).

We can test this argument by comparing the distribution of
payments under means-tested and contributory schemes over tax
units arranged in order of their pre-transfer income. The
results (see Table 8.1 below) show that non-means-tested
schemes are quite selective, even relative to means-tested
payments. 54 per cent of contributory payments go to tax
units with no other income, as against 66 per cent of
means-tested payments. At the other end of the scale, 6 per
cent of contributory benefits go to tax units in the top four
deciles, as against 1 per cent of means tested benefits.
Similar analysis at household level, and on the major
contributory and means-tested schemes revealed a similar
pattern; nor were these results sensitive to a change in the
equivalence scale.

This analysis does not take into account the fact that
non-means-tested benefits will tend to raise recipients
higher up the income scale than the corresponding
means-tested payments: this can be seen from Table 8.2, which
shows the distribution of payments over tax units arranged in
order of post-transfer income. However, the figures in Table
8.1 show that the differential in the payment structure is
the most important cause of this phenomenon, rather than the
failure to adjust the contributory benefits for incomes from
other sources by means-testing. (This reinforces the point
made earlier about the relative importance of the "excess
payment effect" and "pure spillover").

Table 8.1: Distribution of Main Types of Social Welfare
Expenditure over Tax Units Classified by
Deciles of Pre-Transfer Income per Adult Equivalent

DECILE	Total Social Welfare Benefits %	Means-tested Benefits %	Contributory Benefits %	Child Benefit %
Bottom 29% *	54.75	66	54	19
Next 1% ϯ	3.57	4	4	3
4th	20.28	20	23	8
5th	8.62	7	8	17
6th	4.79	2	4	16
7th	2.90	1	2	14
8th	2.11	0	2	9
9th	1.49	0	1	8
Top 10%	1.49	0	1	6
	100.00	100	100	100

* I.E. THOSE WITH INCOMES LESS THAN OR EQUAL TO ZERO

ϯ REMAINDER OF THIRD DECILE

Table 8.2 Distribution of Main Types of Social Welfare
Expenditure over Tax Units Classified by
Deciles of Disposable Income per Adult Equivalent

DECILE	Total Social Welfare Benefits %	Means-tested Benefits %	Contributory Benefits %	Child Benefit %
Bottom 10%	2.93	4	1	7
2nd	21.13	41	10	17
3rd	18.10	19	19	10
4th	15.04	13	18	7
5th	16.57	12	20	10
6th	11.81	6	15	14
7th	5.09	2	6	11
8th	4.41	2	5	9
9th	2.59	0	3	8
Top 10%	2.33	0	3	7
	100.00	100	100	100

This evidence broadly supports the Commission on Social Welfare's contention. The contingency basis for payments has been criticised on grounds other than lack of selectivity: for example, it has been criticised, as noted in Section 7, on the general grounds of increasing the incentive to fall into the contingent state (sickness, unemployment). But the evidence presented here suggests that simply means-testing the contingency based payments would do little to alter these incentives either.

8.3 How well targeted are Child Benefit Payments?

Some evidence on this topic is also shown in Table 8.2. The answer to this question is sensitive to the equivalence scale used. At the equivalence scale approximating the present structure of payments (including the present level of child benefit), child benefit is not very selective: the poorest 30 per cent of tax units receive 34 per cent of the payments under the scheme. But those who believe that the existing payment structure underestimates the costs of children (as might be suggested by the more generous child additions in the UK) will argue that the equivalence scale 1, 0.7, 0.5 is more appropriate. Under this scale, the proportion received by the poorest 30 per cent of tax units increases to 46 per cent. Even on this scale, however, over a third of expenditure goes to the top 50 per cent of tax units.

8.4 Targeting by taxation

Targeting is widely associated with means-testing; but we have seen that contingency based payments are an alternative method of targeting, and taxation can also be used for targeting purposes. It already is, to the extent that long-term social welfare payments are subject to income tax. Both the Commission on Taxation and the Commission on Social Welfare recommended the taxation of short-term social welfare benefits; the Commission on Taxation favoured a non-taxable child benefit, while the Commission on Social Welfare (p. 296) reports that it did not reach agreement on this issue. Proposals to tax various elements of short-term social welfare (such as child benefit, or disability benefit) have also been made from time to time.

Targeting through the tax system is not subject to the non-take-up objection to means-testing. The exact extent of administrative difficulties does, however, have to be established and taken into account. Recent work by Dilnot, Stark and Webb (1987) has illustrated that the scope for targeting by making benefits taxable is limited, and that the effects on incentives need to be taken into account. We will consider these issues in more detail in a Foundation for Fiscal Studies seminar in December, using a model of the Irish tax and benefit system to explore the implications of, for example, making child benefit taxable, and using the revenue to raise the level of payment.

8.5 Rationalization of the payment structure

The Commission on Social Welfare has suggested a move towards a single basic payment level (with a 10% differential in favour of contributory payments), starting by raising the lowest levels of payment to around £45. Others would suggest that the insurance/assistance differential be abolished, with either a "splitting the difference" or "levelling up" approach. (This proposal need not of itself be associated with a move towards generalized means-testing: qualification for the single level of payment could be on the basis of either income or contingency plus contribution record).

In terms of the analysis presented earlier, such changes would be likely to increase both effectiveness and efficiency at a poverty line equal to the uniform payment. This does not mean that there would be no losers: if the uniform payment was between the initial differentiated payments, in order to keep the change revenue neutral, those initially on the higher payment would lose. If, instead, the payments were "levelled up" to the higher level, the losers would be those affected directly or indirectly by the additional taxation needed to finance the increased expenditure.

A number of points relevant to such proposals emerge from the preceding analysis. Let us make two very large assumptions, in order to establish what the social welfare system could achieve if its existing budget were wholly devoted to reducing poverty. First, let us assume that other objectives of the social welfare system can be neglected; second, let us assume that the system can be made 100% effective and efficient. The analysis of the Survey figures then indicates that the level of payment which could be financed would be between 50% and 60% of mean income per equivalent adult i.e., around £45 i.e., everyone below that level of income could be brought up to that income, if payments were concentrated entirely on this group, and account was taken of their pre-transfer income. (This is not, therefore, an estimate of what could be financed under a basic income scheme, which fulfils neither of these conditions). Given that our results have also shown the existing safety net had considerable problems, that other objectives are politically important, and that this hypothetical scheme would involve effective marginal benefit withdrawal rates of 100% below the poverty line, we can safely say that this provides an upper

bound to what the existing budget could achieve.

The other main point relevant to these proposals has already been discussed: from a poverty reduction point of view, differences in payment must be justified by differences in needs. Differences in payment which do not relate to differences in needs can only be justified in terms of a trade-off between poverty reduction and other objectives.

9. Conclusions

The analysis presented here has outlined a broad picture of poverty in Ireland today, and of the role played by the social welfare system in reducing poverty. This helped to highlight certain areas of concern, and to throw new light on certain policy issues. A more detailed evaluation of policy proposals will soon be possible, by simulating the cash and incentive effects of policy changes for the ESRI's nationally representative sample.

Notes

1. The term differentiated payments is reserved to refer to differences based on these characteristics; it does not refer to the practice of making additions for adult dependants and dependent children.

2. If the system was 100% effective and efficient at some poverty line, then analysis of alternative poverty lines above and below this target poverty line would show a different pattern: effectiveness would be 100% up to the target poverty line, and decline thereafter, while efficiency would rise while effectiveness is constant, and then stay constant at 100% while efficiency was falling. Instead of this we observe rising efficiency while effectiveness is falling.

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