

The Dynamics of Poverty

A common misconception is that those living in poverty constitute an unchanging stock of individuals who have always been in poverty and will remain in poverty in the future. The reality is more complex. For some poverty may well be a long-term almost permanent state from which it is difficult to escape, while for others it may be a more transitory phenomenon.

The Dynamics of Poverty, a study published by the Combat Poverty Agency in 1994, assesses for the first time short-term movements in income and poverty status in Ireland and identifies the most important factors underlying such change.

This analysis improves our understanding of the causes, nature and consequences of poverty and provides a basis for future policy development. The study focuses only on non-farm households and makes the important distinction between cyclical or short-term poverty and structural or long-term poverty. It concludes that the notion of a fixed and relatively unchanging stock of households below the poverty line must be revised.

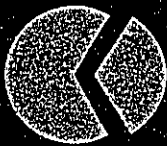
Key Findings

- ▶ While the majority of non-farm households experienced only a relatively minor degree of income change over the study period 1987-1989, the study clearly suggests that there were movements in and out of poverty, and that the group of households experiencing poverty was not static.
- ▶ Those households who were escaping from poverty were being replaced in approximately the same proportion by those who fell below the poverty line over the short-term.
- ▶ A sizeable percentage of households experienced a major reversal in their perceived ability to make ends meet over the study period. 15 per cent of households experiencing great/some difficulty in 1987 said they were able to make ends meet fairly easily, easily or very easily in 1989 while 13 per cent of households able to make ends meet with some ease in 1987 were, by 1989, experiencing great/some difficulty.
- ▶ At the 60 per cent relative income poverty line (ie those whose equivalent incomes¹ were below 60 per cent of the mean equivalent income of all households) nearly 10 per cent of all the households surveyed had fallen into poverty over the study period and 7 per cent had escaped from poverty. 17 per cent were experiencing poverty at both points of interview.
- ▶ 30 per cent of those households in the study whose incomes were under the 60 per cent relative income poverty line in 1987 were above the same line by 1989.
- ▶ Of the five EU countries² considered by the study, Ireland had the highest incidence of poverty and the lowest short-term poverty escape rate.
- ▶ The critical factors determining income mobility and poverty transitions in Ireland were changes in the employment status of the household head, from employment to unemployment and vice versa, and in the numbers of economically active members in the household.

¹ Equivalent household income refers to income adjusted to household structure, size and composition.

² Ireland, Netherlands, Belgium, Luxembourg and the Lorraine region of France

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Why this Research?

The Combat Poverty Agency commissioned this research to examine and identify short-term movements in and out of poverty and the factors influencing such change. An understanding of the distinction between long-term and short-term poverty is necessary in order to put forward policy prescriptions which adequately address poverty in every form. It is reasonable to assume that the prescription for alleviating short-term poverty may be quite different to that for long-term poverty.

Background

In recent years evidence from the USA suggests that there is quite a substantial degree of change in the population below the poverty line from one point in time to another. This evidence is based on results from 'panel surveys' which involve interviewing the same group of households or families in successive years over a prolonged period. Panel surveying has been running in the USA for 20 years and information gathered has helped make a distinction between cyclical or short-term and structural or more permanent poverty, and identify the events which trigger poverty transitions.

This distinction has not yet been as clearly addressed in Europe where panel based surveys have only recently come into operation. The purpose of this study is to present some findings from the first household panel survey ever undertaken in Ireland, using two waves of data collected in 1987 and 1989 for the ESRI Households Survey database³.

3 A Living in Ireland Panel Survey 1994-96 is currently underway.

4 In this study three relative income poverty lines are used, 40 per cent, 50 per cent and 60 per cent. Poverty is measured by examining whether or not equivalent household income is below 40, 50 or 60 per cent of the mean equivalent household income.

5 Income transition tables are used to compare a household's position on the income distribution at two points in time, and so to quantify the extent of income mobility over time. Households are sorted by income into quintile ranges containing twenty per cent of households in this study.

Methodology

This study by James Williams and Brendan Whelan of the ESRI, concentrates on non-farm households to examine the extent and causes of short-term income and poverty dynamics in Ireland.

The data was collected as part of a two-phase research programme initiated in 1987 under the EC Second Poverty Programme and included detailed information on the financial and economic circumstances of households in 1987. A subset of these was re-interviewed in 1989 with a view to assessing the short-term changes which had taken place.

The key issues relevant to poverty dynamics are the incidence of poverty transitions (eg escape rates and falls in and out of poverty), events associated with these poverty transitions, duration of poverty spell, and the characteristics of households which escape as compared to the characteristics of households which remain in poverty over extended periods.

This particular report assesses short-term movements over the study period by examining:

- *income mobility*, ie the extent of change in household disposable income over the study period
- *changes in household poverty status*, ie transitions above and below the poverty line as well as subjective perceptions of ability to make ends meet over the study period
- *escape rates*, ie the proportions of those households who are in poverty at one point but who have escaped poverty at the next point. The extent of escape depends on the poverty criterion chosen.
- *changes in material deprivation* over the period, and household poverty using a combination of material deprivation indicators and relative income poverty lines⁴.

Income Mobility

Just over 52 per cent of Irish households experienced a real increase in equivalent income over the study period. Almost one half of households (48 per cent)

experienced a real change in equivalent income in the order of + or - 15 per cent.

For more detail on the nature of the change in income, the study also measured *positional change*, the extent to which a household's position on the income distribution range changes over time. For this study households were sorted by income into five ranges each containing twenty per cent of households. Their positions on this income quintile transition table⁵ at either end of the study were then compared. It was found that 52 per cent of households did not move out of their equivalent income quintile range. Approximately equal proportions of the remainder experienced a deterioration or an improvement in quintile position.

Table 1

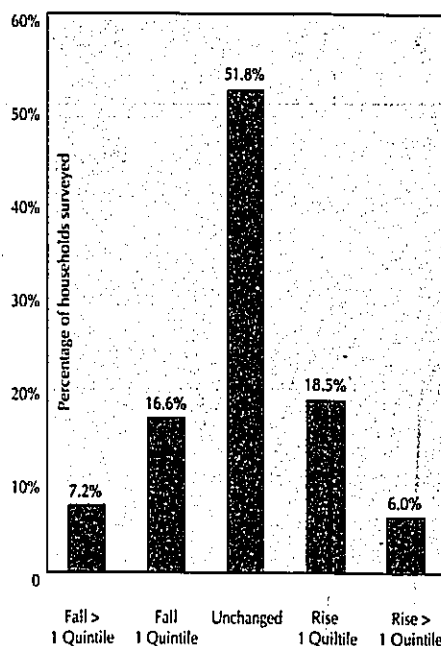


Table 1
Extent of Relative Income Mobility Based on Quintile Transition

The two most influential variables associated with household income mobility were change in the number of economically active members, and change in the labour force status of the household head.

The data suggests that a change in the employment status of household head from employment to unemployment is largely associated with a deterioration in income position, as is a loss of economically active members over the period in question. Table 2

This contrasts with data from the Panel Survey of Income Dynamics in the USA which suggests that the most important factor associated with changes in economic status are changes in family composition, notably marriage or marital disruption.

Because of the differences in labour market conditions, and the incidence of marital breakdown between the two countries, the study suggests that the economic circumstances of Irish households are more strongly influenced by the former.

Changes in Poverty

Status

Some trends in short-term poverty transitions over the period can be gauged from a subjective assessment of household's ability to make ends meet. The study showed a sizeable percentage of households who experienced a major reversal in their perceived ability to make ends meet over the period. A total of 15 per cent of households experiencing great/some difficulty in 1987 said they were able to make ends meet fairly easily/easily/very easily by 1989. In contrast 13 per cent of households able to make ends meet with some relative degree of ease in 1987 were by 1989 experiencing great/some difficulty.

Using the 60 per cent income line as an objective measure, approximately 65 per cent of households had experienced no poverty at either round of interviewing and 17 per cent were experiencing poverty at both points of interview. Nearly 10% of households had fallen into poverty and 7% had escaped from poverty over the study period.

The analysis based on both subjective and objective measures clearly suggests there is a dynamic aspect to poverty and deprivation. The important point is that those who are escaping from poverty are being replaced, in approximately the same proportion by those who fall into poverty over the short-term.

Table 2

Change in Household Equivalent Income Quintile Position, Classified by Changes in the Labour Force Status of Household Head in Phases 1 and 2

Employment Status Phases 1 & 2	Change in Income Quintile Position		
	Rise	Fall	No change
Employed → unemployed	0%	48%	52%
Remained employed	28%	23%	49%
Unemployed → employed	54%	13%	33%
Remained unemployed	13%	18%	69%

Escape Rates

One of the most important aspects of the study of poverty dynamics is the estimation of escape rates ie the proportion of those who were in poverty at one point in time and who have managed to escape from poverty at a subsequent point. The extent of movement depends on the poverty line chosen.

In terms of objectively measured poverty status the study found that 59 per cent of those households which were below the 40 per cent poverty line in 1987 were above the same line in 1989. Similarly defined escape rates were 38 per cent at the 50 per cent line, and 30 per cent at the 60 per cent line.

These figures, however, may inflate the rate of escape from poverty artificially as they include marginal shifts above and below the line chosen. For example, a household which moves at one point from 59 per cent of household income to 61 per cent a few years later has technically escaped from poverty using this definition, but in reality may not have experienced much of a change in living standards.

In this study, therefore, a second definition based on a household moving from a position below a given line to 10 percentage points above was also used. This resulted in an escape rate of only 18 per cent for those who moved from below

the 60 per cent poverty line in 1987 to above the 70 per cent line in 1989.

Deprivation and Poverty

The study also looked at poverty dynamics using a combination of material deprivation indicators and conventional relative income measures. Material deprivation is measured using three indices of deprivation developed by the ESRI -

The *Primary deprivation index*, ie, enforced lack of basic items such as food, clothes, heating etc.

Secondary deprivation, ie, enforced lack of items which are not essential but which are considered the norm for society in terms of relative living standards eg a car, a week's annual holiday, a hobby.

Housing and household capital deprivation ie, enforced lack of items to do with housing quality, eg central heating, indoor toilet.

Using a 60 per cent relative income poverty line, combined with a primary deprivation score of one or more, it was found that just over three quarters of households had not experienced poverty at either round of the survey. A further 8 per cent had fallen into poverty over the period, 5 per cent had escaped and 10 per cent were in poverty at both points of interview.

The Dynamics of Poverty

European Comparisons

The study reviewed poverty transitions in four other member states ie Belgium, the Netherlands, Lorraine Region France and Luxembourg. It found firstly that the rate of poverty in Ireland using a 50 per cent relative income poverty line, was substantially higher at both phases of interview than in any of the other four member states considered. At its most extreme it was just over two and a half times the rate in Belgium.

Secondly the comparisons showed that the poverty escape rate in Ireland was also substantially lower than in any of the other four countries included. In Ireland just over 38 per cent of households below the 50 per cent relative poverty line in 1987 were above it by 1989. This compared with 59 per cent for the Netherlands between 1985 and 1986, and 58 per cent for Belgium over the period 1985-1988.

Thirdly the international comparisons showed Ireland had by far the highest incidence of household poverty at both rounds of interviewing. For example using the EU poverty standard (equivalent to the 50% relative income line) over 15 per cent of households in Ireland were in poverty at both points of interview, compared with 6 per cent for Belgium, 7 per cent for the Netherlands, 10 per cent in Lorraine and 7.5 per cent in Luxembourg. Table 3

	% hds. in pov Phase 1	% hds. in pov Phase 2	Escape Rates Ph1 - Ph2
Ireland (1987-1989)	15	15	38
Belgium (1985-1988)	6	6	58
Netherlands (1985-1986)	7	7	59
Lorraine (1985-1986)	10	11	43
Luxembourg (1985-1986)	7.5	7.5	43

Despite the differences, the common feature illustrated by the figures from all the member states was that those households which escaped from poverty over the study period were being replaced on an almost one for one basis by those who were falling into poverty over the same period. In general there was a negative relationship between poverty rate and escape rate.

Implications of the Study

Policy

The analysis clearly demonstrates a dynamic element to poverty and deprivation over the study period 1987-1989.

The critical factors influencing movements in and out of poverty are changes in employment status of the household head and the number of economically active household members.

Appropriate measures for alleviating short-term poverty may be quite different to those necessary for addressing long-term or structural poverty. While the effects of poverty may be alleviated by social welfare transfers in the short-term, for those experiencing long-term poverty, measures other than or at least in addition to social welfare payments are required.

Research

Further longitudinal research is necessary as data from at least five rounds of panel interviews is required to establish the relative importance of cyclical as compared to structural poverty. This kind of panel surveying is expensive and difficult and involves collecting data on income and financial well-being as well as general classificatory information on all household members in the panel.

The Living in Ireland Household Income and Poverty panel survey 1994-96 will be an important source of new data on which to base further analysis of these issues.

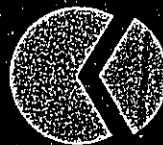


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Issues in Short-term
Poverty Transitions in
Ireland

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