THE POVERTY TRAP: WHAT CAN BE DONE?

Introduction

John and Bernie Murphy are a married couple with four young children. Bernie stays at home to look after the children, and John earns £192 gross a week as a storeman. After paying local authority rent of £26 a week, the family's disposable income, including all benefits, is £252 a week.

John is offered another job which pays £210 gross a week. On the face of it this offers £1,000 a year more. However if John takes the job, family disposable income after rent will actually *drop* by £12 a week to £240 a week. This phenomenon, whereby the more a person earns the less income his/her family have, is known as the *poverty trap*.

This is the situation as it will stand in September 1997, by which time all the relevant budget measures will be in place. The 1997 budget presented a good opportunity to do something radical in regard to the poverty trap. But the opportunity was missed, and the situation will remain at least as bad as it was five years ago. In 1992 the Industrial Policy Review Group calculated the extent of the poverty trap for a married couple and four children as extending between gross earnings figures of £8,000 and £14,000. It now extends from earnings of £10,000 to £17,000.

(*Note*: all figures in this article refer to the situation from September 1997. Net family income always refers to disposable income after paying local authority rent. Rent is brought into the picture because local authority rents rise as income rises.)

The poverty trap is distinct from the 'unemployment trap' which refers to the situation where individuals are little better off financially at work than they are on the dole. Because the number of unemployed people in Ireland remains stubbornly high, a lot of attention is focused on the unemployment trap. But the poverty trap also affects a great number of people, in fact most lower-income married (Note 1) couples with one or more children. Some of the policies that 'give rise' to the poverty trap are essential, such as the payment of Family Income Supplement to the lower paid. However, the rigid way in which they are implemented is a cause of serious injustice. It is clearly wrong that low-income people should be *penalised* for working harder or taking on more responsibility or for just being at the wrong place on an incremental pay scale.

In some cases, such as that of the Murphy family, the extent of the poverty trap is striking. The Murphy family net income first peaks at £13,089 per annum, when John is earning £10,000 gross (see Chart 1 and Table 1). From then on, as John's gross earnings rise, the family's net income will gradually fall and then slowly rise. John's gross earnings would have to reach almost £17,000 per annum before net family income exceeded the figure of £13,089 achieved when John's gross earnings were only £10,000. The poverty trap thus extends over an earnings band of £6,000. It is often stated that the poverty trap only affects families with large numbers of children, but even for the married couple with one child, poverty traps operates over a band of £4,000, from £7,000 to £12,000 gross earnings (see Chart 2).

Although the poverty trap is distinct from the unemployment trap, it is of immediate relevance to unemployed people who have some opportunity of employment, since it brings the whole lower end of the labour market into 'disrepute'. People on the dole might be prepared to go to work for a modest gain in income if there were some prospects of improving their situation over time. But the realisation that it will not bring about any difference in their family income (except perhaps to reduce it) whether their gross earnings are £192 a week or £308 a week, hardly improves the incentive to work. Of course some people get round the worst effects of the trap by arranging with their employer to be paid at the point on the earnings scale where there family income is maximised. In the case of a married couple with four children this is approximately £192 a week. Some people supplement this income by getting extra cash 'under the table' or working in the 'black economy', arguably an important loss of tax revenue to the government. Callan et al. (1995) raised the possibility that there may be few people in the poverty trap because those affected opt out of work. These are some of the reasons why surveys find relatively few people directly affected by the poverty trap. People make rational choices and avoid the trap by one means or another.

There has been much debate as to how many people are actually in the poverty trap. Selective quotations from various papers by the E.S.R.I., have given the impression that the poverty trap only affects about 3,000 families. There are various reasons why this figure can be considered to greatly understate the problem, as the E.S.R.I. themselves concede.

First of all, the poverty trap has tended to be defined too narrowly, as applying only to families who stand to lose money if they gain an increase in gross earnings. A family in this situation is said to be facing tax-cum-benefit withdrawal rates of more than 100%. But families are in the poverty trap not only when they are going *into* an income trough, but also when they are still climbing *out* of it. For instance, family income may decline from, say £13,000 to £12,500 a week as a result of tax-cum-benefit withdrawal rates of over 100%. But if, as a result of an increase in gross earnings, their net income now rises to £12,750 they cannot be said to be clear of the trap, since they are sill earning less than they were before. In fact families can also said to be in a trap if they are worse off than they *might have been* if their gross earnings were lower. For instance, if John Murphy begins work at earnings of £16,000 the family can be said to be in the poverty trap, since they would be better off if he was earning less.

The impression has also been given that the poverty trap is not an important problem because it only affects people claiming Family Income Supplement (FIS) and the take-up of FIS is low. But since it is a government policy to try to increase the number of people claiming FIS, a policy which has had some success, the government must expect (hope?) that the poverty trap will be an increasing problem. At any rate the poverty trap is not primarily caused by withdrawal of FIS, but by the withdrawal of a medical card and the sudden imposition of levies on *total* income.

Thirdly, the poverty trap potentially affects all the 367,813 families with children in the state (1991 census). Many families are not now in the trap, because their earnings are too high or too low, or they have taken other evasive action. But some circumstance, such as a pregnancy or a redundancy, can change the situation at any time. For instance, if John and Bernie Murphy were both working, with gross earnings of £30,000, they would be clear of the trap. But if Bernie Murphy lost her job, and the family were then dependent on the £15,000 earned by John, the family would be in the poverty trap. The poverty trap is a minefield awaiting any family in the state.

The poverty trap creates an enormous distortion in the labour market. For one thing it reduces the supply of labour:

> In some circumstances, the existence of the low income poverty trap may make certain job offers financially unattractive relative to income from unemployment benefits. While it may be the case that an individual could achieve a higher disposable income if a *lower* wage or shorter hours could be agreed, it seems unlikely that such renegotiation of job offers is common. (Callan et al., 1995, p.17-8)

One probable effect of this is that the poverty trap leads to the creation of dead-end jobs. In devising a rational pay strategy, employers have the choice at pitching wages at either £190 or at about £300. There is little point paying anything in between to married people with families, since it costs the employer more and it delivers less to the employee.

The poverty trap disproportionately affects the unskilled and poorly educated in our society. The young person leaving college is likely to be well outside the range of incomes affected by the poverty trap before starting a family.

Reasons for the Poverty Trap

There are two aspects to the poverty trap. One is the *very modest increase* in net family income over a very wide range of gross earnings (we will call this Trap A). For instance in the case of the Murphy family an increase in John's gross earnings from £10,000 to £17,000 brings about an increase of only £397 in net family income, meaning that the family receive only 5.6% of John's increased earnings.

The other aspect of the trap is the actual *reduction* in net family income as gross earnings increase (we will call this Trap B). For instance in the case of the Murphy family, their net disposable income is £14.77 a week *lower* when John is earning £14,000, than it was when he was earning £10,000. This is the aspect of the trap that causes most anger and disbelief.

It is easier and less expensive to eliminate Trap B than to make a huge difference to Trap A. However in eliminating Trap B some improvement inevitably occurs in Trap A.

Contrary to popular perception, poverty trap B (an actual reduction in net family income) is *not* caused by the withdrawal of Family Income Supplement (FIS). Nor is it caused by income-related increases in local authority rent. In the case of John Murphy and his wife and four children, for every £1000 increase in his earnings, up to £10,000, the family is £325 better off, even though rent is increasing and FIS declining over this range. The poverty trap is caused by the *abruptness* of various changes in benefits and taxes. The two main contributors to the trap are the total withdrawal of the medical card (estimated value about £600 per year (Note 2) for the Murphy family), and the health and education levies, which 'kick in' at almost £5 a week when earnings reach £10,250. The sudden appearance of a 40% marginal tax rate when earnings reach about £10,000, depending on family size, is also a big factor.

CHART 1

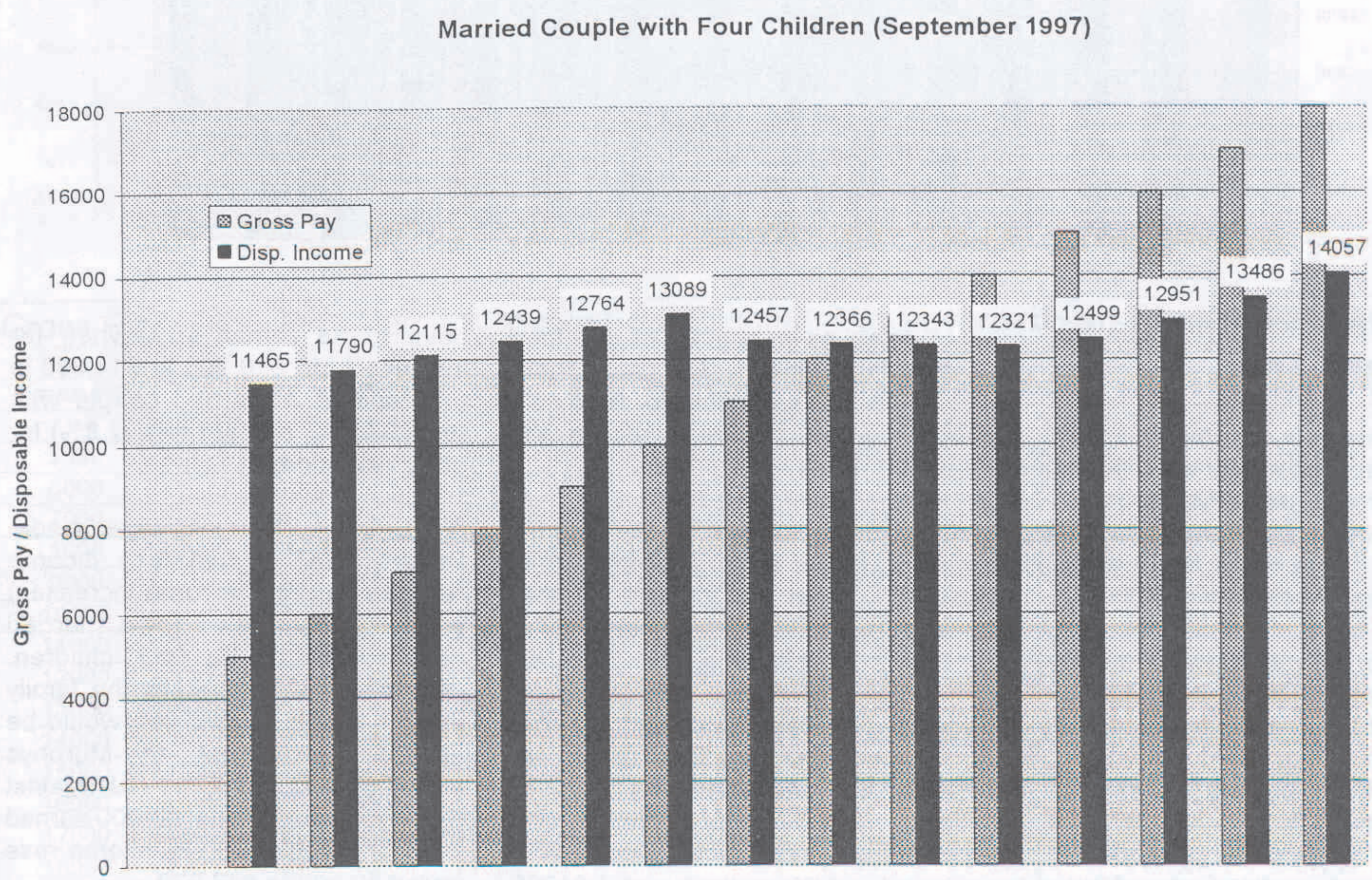
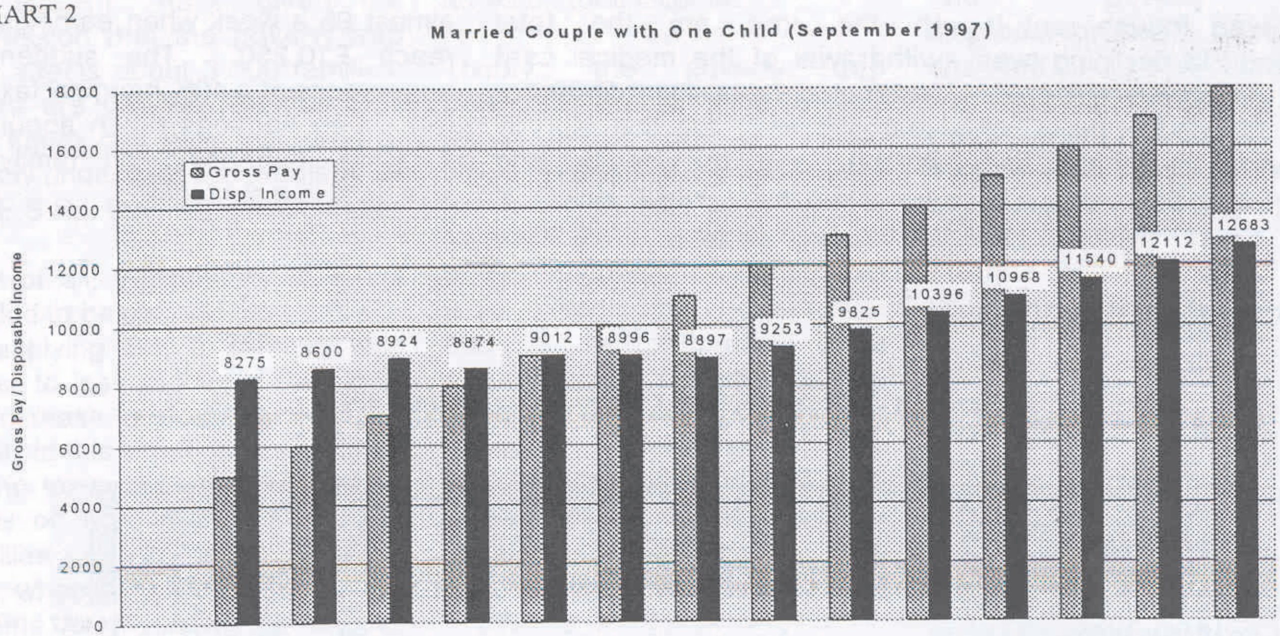


TABLE 1

Gross Pay and Disposable Income, Married Couple with Four Children (September 1997)

Gross Pay	Tax	PRSI	Levies	Net Pay	FIS	Med. Card	Child Benf.	Sub Total	LA Rent	Disp. Income
5000		38		4962	5291	600	1656	12509	1044	11465
6000		83		5917	4718	600	1656	12891	1101	11790
7000		128		6872	4145	600	1656	13273	1158	12115
8000		173		7827	3572	600	1656	13655	1216	12439
9000		218		8782	2999	600	1656	14037	1273	12764
10000		263		9737	2426	600	1656	14419	1330	13089
11000	320	308	247	10125	2001		1656	13782	1325	12457
12000	800	353	270	10577	1442		1656	13675	1309	12366
13000	1200	398	292	11110	882		1656	13648	1305	12343
14000	1600	443	315	11642	323		1656	13621	1300	12321
15000	2000	488	337	12175			1656	13831	1332	12499
16000	2400	533	360	12707			1656	14363	1412	12951
17000	2704	578	382	13336			1656	14992	1506	13486
18000	2964	623	405	14008			1656	15664	1607	14057

CHART 2



A Way to Eliminate the Poverty Trap

In order to eliminate Trap B, (whereby income actually goes down as gross pay increases) five separate changes would need to be made in the ways taxes are levied and benefits provided:

The abrupt withdrawal of the medical card needs to be addressed. The loss of the medical card is the central component in the poverty trap. The difficulty of costing it precisely, and the variability of that cost from one family to another, means that in practice it is often factored out of the discussion. The fact that medical card holders perceive their cards as insurance rather than something calculable in monetary terms has also to be taken into consideration, as has the higher incidence of illness among poorer communities.

It is difficult to give half a medical card, but it should be possible to give families who are slightly above the guidelines annual allowances (on the same lines as back-to-school allowances) for vouched medical expenses, up to a certain limit. For instance families whose gross income is less than £1,000 above the cut-off point could be given an allowance of up to £100 for each adult, and £50 for each child. This is about two thirds of the estimated value of the medical card. Families in the next £1000 earnings bracket could be given a grant of one third the value of the medical card. There are other possibilities too, such as a card which covers visits to the doctor only.

The second issue is the sudden imposition of a marginal tax rate of 40%. Most low-income families avail of General Income Tax Exemption Limits in paying tax, but are then subject to a 40% rate on the amount above the exemption limit. As part of eliminating Trap B, the 40% tax rate would need to be phased, in the case of families with children (10% on the first £1000 excess, 20% on the second £1000, and so on).

A further issue is the suddenness of the imposition of the levies. To eliminate one particular trap the point at which levies are imposed would need to raised, for marginal rate tax payers, to (say) the same point as the 40% marginal tax rate becomes operative, as outlined in the previous paragraph. Thus, John Murphy would only begin to pay the levies when his gross earnings reaches £15,000.

Next, family income supplement would need to be calculated with reference to income *after* tax, as is the medium-term intention of the present government.

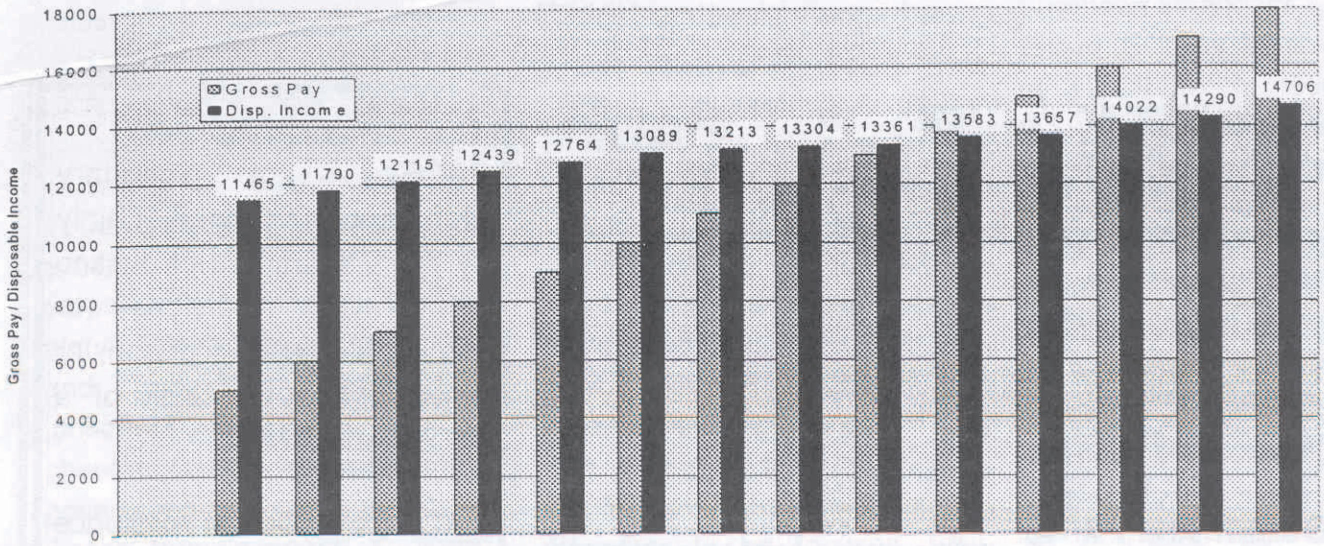
Finally, the exemption limits would have to be raised somewhat, for instance from £10,200 to £11,000 in the case of a married couple with four children, and pro rata (7.8%) for other categories.

If all these changes were made, Poverty Trap B (whereby income reduces as gross income increases) would be eliminated for a married couple with up to four children. Poverty Trap A (whereby the family income graph is very flat) would be alleviated somewhat: the Murphys would now retain 9.2% (as against 5.6%) of the additional £7,000 earned by John Murphy as his income rose from £10,000 to £17,000.

The effects of these changes on the incomes of couples with four children, are shown in Chart 3 and Table 2.

The main argument that will be made against the kind of changes proposed here is that they are too expensive. It is not possible at this time to access the data necessary to calculate all the amounts involved. Informal discussions with the Department of Finance suggest 'ballpark' figures for some of the changes. Raising the income tax exemption levels by 7.8% would cost about £28m. Raising the income levels at which levies are payable would cost about £24m. if applied to all tax payers. However, if this change were applied only to the

CHART 3 Married Couple with Four Children - No Poverty Trap



Gross Pay / Disp. Inc., Married Couple Four Children - No Poverty Trap TABLE 2

Gross Pay	Tax	PRSI	Levies	Net Pay	FIS	Med. Card	Child Benf.	Sub Total	LA Rent	Disp. Income
5000		38		4962	5291	600	1656	12509	1044	11465
6000		83		5917	4718	600	1656	12891	1101	11790
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9000		218		8782	2999	600	1656	14037	1273	12764
10000		263		9737	2426	600	1656	14419	1330	13089
11000		308		10692	1853	400	1656	14601	1388	13213
12000	100	353		11547	1340	200	1656	14743	1439	13304
13000	300	398		12302	887		1656	14845	1484	13361
14000	600	443		12957	494		1656	15107	1524	13583
15000	1000	488	337	13175	363		1656	15194	1537	13657
16000	1400	533	360	13707	260		1656	15623	1601	14022
17000	1800	578	382	14240			1656	15896	1606	14290
18000	2200	623	405	14772			1656	16428	1722	14706

11.85% of tax-payers who make use of exemption limits it would cost only about £3m. Relating Family Income Supplement to earnings net of tax, would cost about £25m. at present FIS take-up levels, but this cost has already been factored in for the medium term. The total cost of these three items is £53m. It has not proved possible to get estimates for the two biggest items, the cost of a phased-in marginal tax rate, nor the cost of partial medical subsidies.

While cost is clearly a factor in the discussion, we have to be clear that we are talking about what is removing an anomaly that is a considerable injustice and that should not have been allowed to arise in the first place. One would also need to take into account a possible considerable saving as people move out of the black economy, or even out of unemployment, into regular work, as the lower end of the labour market gains credibility. There could also be savings to the exchequer if smaller employers were discouraged from keeping wages low to maximise employees' family income.

Now that medium-term budgetary targets have become acceptable, the next government could perhaps set itself a target of removing the poverty trap within three years and removing a major source of cynicism and frustration among low-paid workers and their families.

Note 1: Because the revenue commissioners do not treat cohabiting couples and their children as 'families' for tax purposes, we have confined our analysis to married couples. A different set of 'traps' apply to cohabiting couples.

Note 2: The valuation of the medical card is based on an estimate in *Reform of the Irish Taxation System from an Industrial Point of View* (see full ref. below) uprated for inflation since 1992.

References

Callan et. al., 1995. *Supplementing Family Income*. Dublin, E.S.R.I.

Reform of the Irish Taxation System from an Industrial Point of View. A Report by Arthur Anderson and Co. to the Industrial Policy Review Group. Dublin, Stationery Office. 1992.

Approaches to Crime Reduction

Sean Redmond, Director of PACE

A very common assumption about crime is that it can be solved or substantially reduced simply by detecting crime more effectively and imprisoning more people. In this article I would like to suggest that this channel of policy is not sufficient solution alone. If pursued **alone** it will not succeed.

Better Detection and More Imprisonment a Sufficient Solution to Crime?

Crime, particularly property crime is on the increase(i). Indeed official figures show that recorded crime rose by 17% between 1990-5. Crime detection has improved significantly. Yet still only 38% of crimes on average are detected (i.e. criminal proceedings are instituted by the Gardai). Of this 38% only approximately half will result in a conviction(ii). Thus it is fair to say that four out of five recorded crimes are not 'cleared up'. This is a significant fact in itself. At the same time there is a growing recognition that a relatively small number of individuals are responsible for a disproportionate amount of crime. These people are often caught in the cycle of crime which leads from offence to imprisonment to re-offence.

That cycle not only undermines the benefit of detection but it also casts doubt on the claim that prison expansion alone can, through containment and deterrence, make any significant inroads into the level of crime experienced by ordinary members of the public. Official statistics indicate that 52% of individuals committed to prison in Ireland in 1992 had served at least one previous prison sentence(iii). Research in the UK confirms this picture. It finds that previous prisons sentences are a key determinant in the likelihood of future offending (along with age, sex and type of offence)(iv).

International data also indicates that locking more people up does not suffice as a solution. There are twice as many people per head of population in prison in the UK as in Ireland, and almost twelve times as many in the US. Yet crime is not deterred or prevented any more effectively in the US than in the UK, nor in the UK than in Ireland. Research in the UK indicates that you would need to increase the prison population by 25% to gain a 1% decrease in the level of crime.(v) It seems clear then that better detection and locking more people up will not **alone** be sufficient to reduce the amount of crime in Irish society.

A Wider View - the Social Profile of Prisoners

Crime, contrary to popular belief

PACE is a voluntary organisation, funded mainly by the Department of Justice to provide services to individuals leaving prison, or under the supervision of a Probation officer.

PACE has been in existence since 1969 and has two projects.

Priorswood House is a Hostel, based in Coolock which caters for up to 14 individuals. Priorswood aims to provide the people using our service with more than food and a roof over their heads. We aim to manage a difficult transitional time for individuals who may have been in prison for a long time and may need practical assistance in re-adjusting to life in the community.

Santry Workshop is a training establishment, dealing with up to 24 individuals, usually on temporary release from prison. The Workshop intends to provide an opportunity for the users of our service to acquire practical skills, to improve their literacy and numeracy, and thus hopefully be in a better position to find employment.

does not appear, at least **in value terms**, to be related to social class. The value of property 'stolen' through white collar crime such as tax evasion, abuse of Companies legislation to avoid payment of legal debt, VAT declarations etc., is thought to far exceed the value of common property theft through burglary etc(vi). Nevertheless, the social and economic profiles of 'prisoners' are typically characterised by unemployment, poverty, in some cases psychiatric illness, homelessness, addiction, under-achievement at school, or neglect and abuse and placement in public statutory care as a child.

On this evidence one may feel that the law appears to have been more effective at detecting and securing convictions in relation to common property theft where social class appears to be a factor(vii). The 'type' of individual committed to prison, and using the after-care services provided by PACE, particularly those convicted for property offences, is often characterised by multi dimensional disadvantage and a high level of social exclusion.

As Patrick Culligan, the outgoing Commissioner of the Garda Síochána, says in his opening remarks in the 1995 Garda Síochána Report to the Minister for Justice. "...Detection in itself cannot provide the full answer to crime and related social problems. This fact is becoming broadly recognised and is reflected in the endeavours of the many agencies combining to address these issues." Other complementary approaches are needed.

Community Approaches: What Helps Reduce the Likelihood of Re-Offending?

Any review of the types of community programmes seeking the most effective ways to reduce offending will broadly identify the importance of the following:-

a. The need for responses to offenders to be focused, well targeted and proportionate to the risk proposed by the offender to the public.

b. The need for programmes to be consistently applied.

c. The need for programmes to enhance offender's moral reasoning, for example their understanding of the effect of crime on victims.

d. The need for programmes to provide an offender with such a stake in *civic*society (a home, a career, a status, a relationship) that a return to offending would mean a great deal of personal loss.

e. The need for programmes to assess and treat 'other' personal problems (e.g. dependency, family relationships), where there is a link between these and the individual's offending behaviour.

If re-offending is to be reduced all of these areas require consideration. There are also particular difficulties with the issues raised under **d.**. Research carried out on behalf of the European Offender's Employment Group (EOEG)(viii) and published by NIACRO(ix) in 1996 reviewed the arrangements in all EU member countries relating to the control of and access to personal criminal records. The research identifies varying practices by employers in securing access to an individual's personal criminal records. Evidently these arrangements critically affect the chances for social re-integration of ex- offenders, that is if you accept the assumption that a criminal record counts against you in going for a job.

One central aspect of this is whether there is a rehabilitative period or a period after which the original offence becomes 'spent' and does not have to be declared when applying for jobs. All EU countries identify offences which may never be 'spent' (such as offences against children) *but only Ireland makes no provision for any offence to be wiped from a criminal record*. In effect this means that an individual convicted of a minor shoplifting offence aged 18 will still have a theft conviction on their record when applying for a job perhaps 20 years later. This often leaves an individual with a difficult dilemma of whether to disclose a conviction at the application or interview stage in going for a job and risk not being employed, or not to disclose and run the risk of being found out and sacked as a consequence. PACE staff can testify to the prevalence of both these phenomena in Ireland.

A balance has to be struck between the legitimate requirement for the State to protect (particularly vulnerable) citizens from dangerous individuals acquiring positions of trust and the right for an ex-offender to earn a livelihood after an appropriate period of good behaviour. Between these two 'relative risk' polarities lie a myriad of individual circumstances which require individual attention. If the opportunity to secure employment is denied then society may well be pushing the ex-offender into circumstances where crime once again seems an attractive option.

PACE attempts to enhance an offender's chances of gaining a real stake in mainstream society. The challenge however is extremely complex. Service providers (such as PACE) need to take into account the individual needs, interests and career ambitions of ex-prisoners, to work with the Probation and Welfare Service and Prison Authorities to reduce risk to the public, and to contribute to helping ex-prisoners construct a positive future away from crime. We also have to recognise, over and above the fear that many employers may have about recruiting an ex-prisoner, the **structural disadvantages** that ex-prisoners face in seeking employment and re-building their lives.

It would be inaccurate to say t[illegible] employment for ex-offend[illegible] holds the only key to general cri[illegible] reduction. Employment howe[illegible] can help to break the cycle [illegible] recidivism.(x) It is important therefore to address any undue structural disadvantage faced by ex-offenders when seeking employment to enable this contribution to be effective.

A way you may be able to contribute

PACE wishes to explore a number of ways to increase work opportunities and reduce the social exclusion of people leaving prison.

We are investigating the possibility of inviting community groups to commission and joint plan pieces of work (metal work, carpentry etc.), alongside our trainees at the Santry Workshop, in the hope that there will be reciprocal benefits for both the community groups and PACE service users.

If your community group would be interested in exploring the possibility of commissioning work from the PACE workshop, please contact Sean Redmond, Director PACE, at (01) 660-2870

(i) Garda Síochána figures plot a year on year increase in recorded crime for every year between 1990 and 1995. See *Garda Síochána Annual Report*, 1995.
(ii) *Garda Síochána Annual Report*, 1992.
(iii) *The Management of Offenders - A Five Year Plan*, 1994
(iv) *Explaining Reconviction Rates*, Home Office (UK), Research Study.
(v) R. Tarling, 1995, Home Office, summary of research.
(vi) *The Whitaker Report*, 1984, put a figure of between 300milllion and 1000 million on white collar crime, as against a figure of 34 million for ordinary theft
(vii) Douglas et. al., 1966, Walmsley et. al., 1990, cited in the Home Office (UK) Research Study 145, *Young People and Crime*.
(viii) *Regulating the Yellow Ticket*, 1996, European Offender Employment Alliance.
(ix) Northern Ireland Association for the Care and Resettlement of Offenders.
(x) Mc Ivor. G., "Sanctions for Serious and Persistent Offenders", 1990, University of Stirling, and Home Office Research Study 145, *Young People and Crime*.

POVERTY IN IRELAND: HOW ACCURATE ARE ESTIMATES OF 'AVERAGE INCOME'?

Introduction

The extent of poverty in Ireland is generally estimated in *relative* terms. Townsend's (1979) definition, which states broadly that people are in poverty when they are excluded from participating in activities customary in their society, is now widely applied in the developed West.

Taking this 'relative' approach, the extent of poverty is estimated by calculating the number of individuals or families whose income falls below some benchmark proportion of average income. This means that, firstly, the average income of, say, all families of a certain size in the state is estimated. An attempt is then made to calculate how many similar families in the state have an income below, say, 50 per cent of this average income. Such families can then be said to be living in poverty. This article looks at the first of these steps, the estimation of average income.

The current 'official' estimate of average household disposable income for a two-parent-two-child family is taken to be about £328 a week. (Note 1). Working Notes estimates that the true figure could be about £40 more than that.

Problems in Calculating Average Income

Obviously if the extent of relative poverty is to be estimated accurately, it is important that the estimate of average family income in the state be realistic. Unfortunately it is not that easy to determine average family income. The 1994-5 Household Budget Survey noted 'the difficulty of collecting consistent income data directly from private individuals in a household survey'.

In practice, more reliance is placed on patterns of family *expenditure*, as a way of estimating how well or badly off families are.

But there are some limitations relating to the use of Household Surveys to estimate expenditure. Since they also rely on people giving honest answers, they tend to understate expenditure on certain items, particularly drink, tobacco and gambling. Our analysis, detailed below, would suggest that they also understate expenditure on clothing and services. The amounts spent on drink in Ireland could not possibly be accounted for by the patterns of expenditure reported in Household Surveys. The amount of personal savings that can be calculated from Household Surveys is also unreliable, so they do not provide an accurate measure of *income*.

Other attempts to estimate average income have been problematic. In one important piece of work in the area, (*The Adequacy of Income and Family Expenditure*, 1992) Jo Murphy Lawless extracts from the Household Budget Survey information on two-parent-two-child families whose earned income approximates to the average adult male industrial wage. But the average industrial wage is probably less than the average income in the state as a whole. Attempts have also been made to calculate average personal disposable income from the estimates of income in the national accounts, but there are a number of problems involved in this approach.

Using the Personal Expenditure Estimates in the National Accounts

Another approach which can be used to estimate 'average income' is, to take the total amount of personal *expenditure* and *personal savings* in the state and divide them up among the number of families and other units. The main value of this method is that very little expenditure, such as that on drink and tobacco, is missed out. The main problem is that it is difficult to find an average *family* expenditure from this, since many people do not live in family units, and family sizes are different. Nevertheless the method has merits, and we have chosen to employ it here, with some refinements, because it can be said with some justification to account for *all* the expenditure and personal savings in the state. If families do not spend the money in the manner stated below, then who does?

It is easy enough to get estimates of total personal expenditure in our state, thanks to the Central Statistics Office. In 1994 residents of Ireland spent a total of £18,236,000,000 at home and abroad. This amounts to about £5,065 per year for every man, woman and child in the state, after tax, and not allowing for savings. This figure is, however, of limited value to us, since young children do not generate expenditure of anything like £5,000 per annum. So is there any way we can work out from the available statistics on personal expenditure how much money the 'average' Irish family has to spend?

We can certainly make a rough estimate of average family expenditure. In studying household income and expenditure it is usual to employ an *equivalence scale* in order to adjust incomes with respect to differences in the size of families. For instance the Irish Social Welfare system uses an implicit scale to distinguish between the needs of different members of a family, namely, 1.00 for the first adult in the household, 0.66 for other adults, and 0.33 for children of 14 and under. From this it is possible to calculate the number of population 'units', and estimate expenditure for different family sizes (see notes at end of article for detailed calculations).

We can also find out from the national accounts the amount of personal savings in any given year.

In the interests of consistency we have based our calculations on 1991 population *and* 1991 expenditure. The resulting figures have then been uprated to take inflation into account. Because GNP growth in the last few years has been greater than the rate of inflation *the estimates of expenditure are almost certainly lower than was actually the case in 1996*. Lack of data preclude more precise estimates.

The outcome of our calculation is that the 'average' family of two adults and two children under 14 spends weekly the amounts laid out in Table 1 (see Note 2 at end of article for detailed method of calculation).

TABLE 1

Estimates of income derived from national expenditure and savings figures

Weekly Expenditure in IR£
per two-parent-two-child family
(1991.amounts at 1996 prices)

Item	£ p.w.
Food	60.71
Non-Alcoholic Drinks	4.35
Alcoholic Beverages	29.84
Tobacco	10.86
Clothing and Footwear	22.55
Rent (Note 3)	25.54
Fuel and Power	15.56
Durable Household Goods	13.71
Non-Durable Goods and Services	9.21
Personal Transport Equipment	11.02
Operation of Same	15.47
Public Transport	10.44
Communication	5.48
Recreation, Entertainment and Education:	
Equipment and Accessories	14.43
Services (incl. Education)	22.94
Professional Services (incl. Medical)	21.88
Miscellaneous Goods	12.04
Miscellaneous Services	11.75
Expenditure Outside the State	10.87
TOTAL EXPENDITURE	328.65
Weekly Savings (Note 4)	36.85
TOTAL INCOME	365.50

Conclusions to be Drawn from Table 1

Estimates of income derived from national expenditure and savings estimates suggest a total average income for two-parent-two-children households which is about £40 higher than the income derived from Household Budget Surveys.

The amounts for some of the items are very close to those found in other surveys of a more conventional type, suggesting that the method has considerable validity. For instance the Household Budget Survey as interpreted in Murphy-Lawless (1992), uprated for inflation, suggests a figure of £69.09 for food and soft drinks for the 'average' family in 1990, which, allowing for inflation, is close to our figure of £65.08, and figures for fuel and power, durable goods, and transport are also close. But our figure for alcohol, at £30, is considerably higher than the mere £11 a week reported in Murphy-Lawless and figures for clothing, services and tobacco are also higher. The high figure for alcohol is disturbing, considering that many individuals and families do not consume any alcohol at all.

It is interesting to set out the Murphy-Lawless expenditure for an 'average' family against our own and this is done in Table 2 (note that savings are excluded).

TABLE 2

Comparison of Murphy-Lawless and *Working Notes* Estimates of Personal Expenditure (1996 prices)

Estimated Expenditure of 2-Parent-2-Child Family

Item	Murphy-Lawless (Note 5) £ p.w.	Working Notes £ p.w.
Food and Soft Drinks	69.09	65.06
Alcoholic Drink	10.40	29.84
Tobacco	9.71	10.86
Clothing and Footwear	11.83	22.55
Fuel and Power	16.44	15.56
Housing	52.50	25.54 (Note 6)
Durable Goods	10.58	13.71
Other Goods	15.78	21.25
Transport	36.35	36.93
Services and Related		
Expenditure	50.20	87.35
TOTAL EXPENDITURE	282.88	328.65

The addition of our figure for savings to the Murphy-Lawless uprated figure gives a total disposable income of £319.73. It can be seen that this figures is significantly lower than the income figure of £365.50 calculated from national personal expenditure and savings figures.

Conclusion

There is a strong case to be made for using figures based on total national expenditure and personal savings in assessing the adequacy of certain incomes, such as social welfare incomes. If it is decided to define poverty in relative terms, and to say, for instance, that any family living on incomes below 50% of the 'average' income is in poverty, then it is important to be clear what this 'average' is. It should have some reference to *all* the incomes in the state, those of the very rich as well as those of the very poor; and *all* the expenditure and personal savings, not just what people disclose in surveys. It should also not be confused with the word 'average' as meaning 'ordinary' or 'unremarkable'. And although the 'average industrial wage' is what the words say, it is not the average of all the incomes in the state. These caveats are important because it seems likely that some part of the sense of personal poverty is caused by seeing evidence of very public and conspicuous high living, not just by comparison with neighbours on the average industrial wage. A couple with two children living on social assistance, with secondary benefits, may not have an income less than 50% of that derived from the average industrial wage, but they do have an income less than 50% of the £365.50 which is probably nearer the true average after-tax income of all the families of similar size in our state.

Note 1: From Callan et. al.'s *A Review of The Commission on Social Welfare's Minimum Adequate Income* (E.S.R.I. Paper No.29, 1996, p.34) one can estimate an average income of £328 for a two-parent-two-child family (based on the 1994 Living in Ireland Survey). The 1994-5 Household Budget Survey gives an expenditure figure of £311.73 for *all* households in the sample.

Note 2: In the analysis from which Table I is derived we applied these scores to the entire population of Ireland, using the detailed breakdown given in the 1991 Census of Population. In the case of non-family units and non-private households we scored every person over 14 as 1.00. Using this method we calculated an artificial population figure of 2,433,218 'units'. Using the National Expenditure Accounts for 1991 we divided each item of expenditure by the total number of units, to arrive at an average expenditure per population 'unit'. We were then able to build up an expenditure profile for an average family. We chose a size of family often used in the literature, namely one with two adults and two children under of 14 or under. This family comprised 2.33 of our population 'units', made up of 1.00 for the first adult, 0.66 for the second adult, and 0.33 for each of the two children.

In the case of three items, viz. personal savings, alcohol, and tobacco, children under 15 were excluded in the calculation of population 'units'. These items have then been allocated to each family on the basis of 1.66 of the revised population units.

A few adjustments were required. Before dividing the items of expenditure by the number of population units, we reduced each item by 6.5% to allow for expenditure by non-residents. We also inflated each item of expenditure by 11.4% to allow for inflation between 1991 and 1996. (This creates a further degree of approximation, since because of economic growth total personal expenditure in 1996 was greater than in 1991 by more than the amount of inflation between 1991 and 1996. There were also population changes between 1991 and 1996. Lack of data does not allow greater exactitude.) Thanks to Una O'Sullivan for the complicated calculations required.

Note 3 *The CSO figure for rent, from which the *Working Notes* figure is derived, is an estimate of 'consumption' rather than 'expenditure'. It includes imputed rent based on estimates of the 'consumption' of owner-occupied houses. It does not include actual figures for mortgage repayment, either principal or interest. The CSO has recently revised the figure for rent upwards, to £1.9bn for 1991, rather than the £1.33bn in the 1995 *Statistical Abstract*, Table 11.6. This revision would increase the estimate for 'rent' in the above Table from £25.54 to £36.48 per week.

Note 4: The figure for Savings is derived from Table 11.5 of the Statistical Abstract 1995. For consistency the Personal Savings figure of £2,200m. for 1991 has been used, uprated by the rate of inflation. In practice, personal savings have been growing at a considerably faster rate. The personal savings figure has been allocated to families using the same equivalence scale as for expenditure, but excluding children under 15.

Note 5: The Murphy-Lawless figures, from *The Adequacy of Income and Family Expenditure*, Combat Poverty Agency, 1992, p.6 are uprated to allow for inflation.

Note 6: Recent revisions by the CSO would increase this figure to £36.48. The Murphy-Lawless sample is drawn from families on the incomes equivalent or close to the average industrial wages. Such families may be more likely to be paying mortgages than many on high incomes who own their own houses, and many on low income who rent from the local authority. The *Working Notes* figure is intended to include all households in the State.