



Society of St Vincent de Paul



# The Hidden Cost of Poverty

Estimating the Public Service  
Cost of Poverty in Ireland

EXECUTIVE SUMMARY



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## Estimating the Public Service Cost of Poverty in Ireland

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# Executive Summary

Living life on a poverty income is common in Irish society. It is the reality for around 700,000 people living in 270,000 households across the state. By necessity living life on such a low income imposes costs on these individuals and families. Making ends meet involves personal sacrifices, restricts options and limits opportunities; for many it is not always possible to find ways to make ends meet. These individual costs of poverty are large scale and leave effects that last years and at times generations.

Alongside these individual costs, poverty is responsible for other costs. In particular, the presence of poverty in a society triggers demands on the public purse. These costs derive from the identification of poverty as a determining factor in the need for, and demand for, a wide range of public services and policies ranging across almost all areas of public policy. Poverty triggers needs and responses by the state, not always at the ideal level of adequacy, but nonetheless involving resources that are allocated to addressing the fallout from current and past experiences of poverty.

## Redistribution and Poverty

The redistribution system, working through taxation and social welfare transfers, plays a key role in reshaping income in Ireland. It transforms the distribution of income from a highly inequitable earnings (or market income) distribution to a fairer distribution of post-tax and transfer income. The latest OECD data shows Ireland possessing the most unequal market income of all its member states, but that following redistribution this falls to below average levels of inequality.<sup>1</sup> In and of itself, this is a key role that the state plays in preventing or minimising income inequality and poverty.

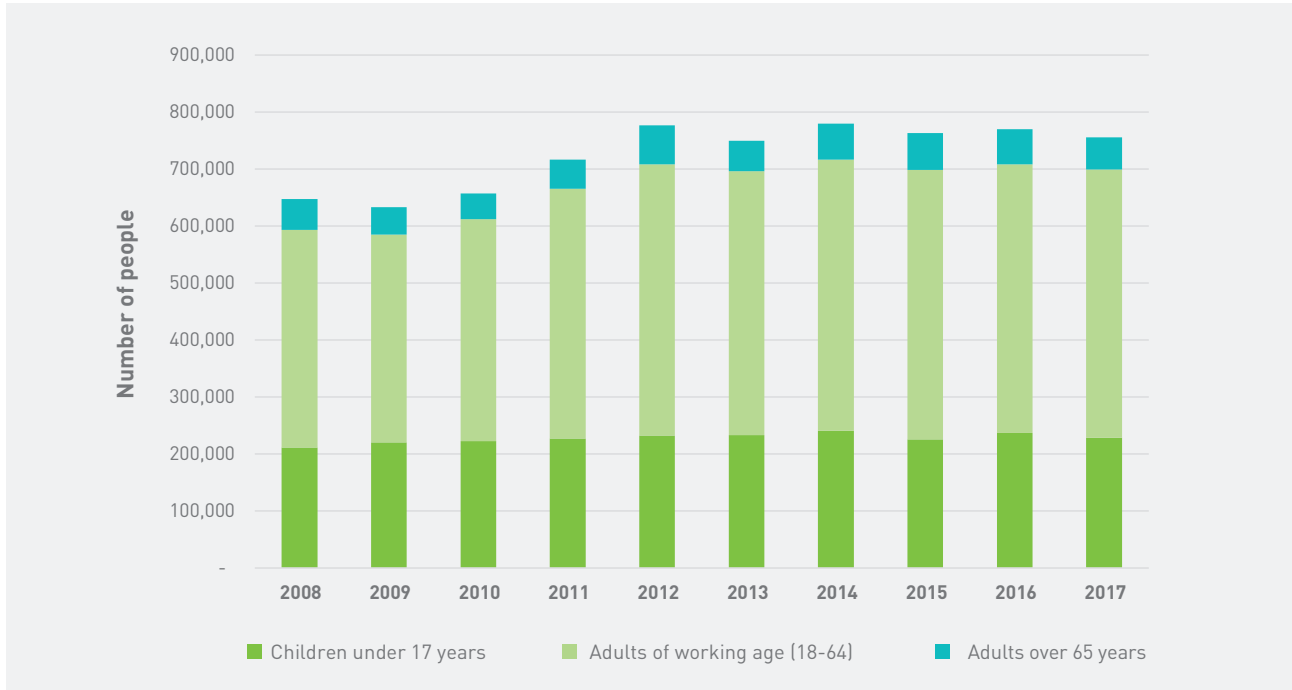
However, despite this role, one in every seven people in Ireland lives on an income below the poverty line.

Using the standard definition of poverty, those living below a 'poverty line' set at 60% of median equivalised disposable income, shows that over the last decade between 14% and 17% of the population each year has been living on an income below that line.<sup>2</sup> While most of those living in poverty are of working age there are a large numbers of children living with these adults in poverty (See Figure 1). About 30% of all those in poverty are aged 17 years and under, averaging about 225,000 children each year. This illustrates the phenomenon of low-income families living below the poverty line and points towards some of the current and intergenerational personal and public policy challenges that poverty represents. At the other end of the age distribution poverty is less common among those aged over 65 years. About 55,000 pensioners live on an income below the poverty line and represent approximately 8% of the poverty population.

<sup>1</sup> The OECD statistical database records Ireland as having a direct income Gini coefficient of 0.535 in 2018; this decreases to 0.295 for disposable income (accessed June 2020).

<sup>2</sup> Disposable Income is income after receipt of all earnings, social transfers and the payment of income taxes. Poverty lines are calculated on the basis of household income and adjust for household size and composition to ensure comparability.

**Figure 1** Composition of those living below the poverty line, 2008-2017

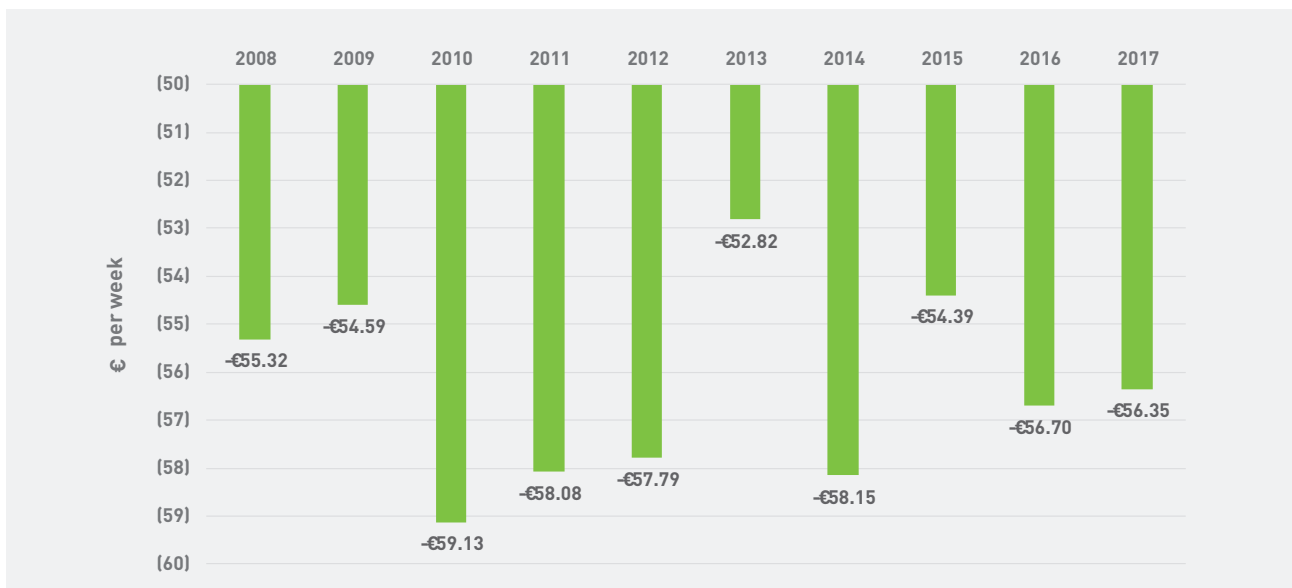


Source: Calculated by author from CSO SILC data

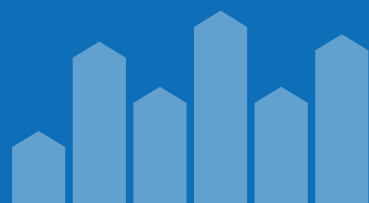
While the poverty threshold is in itself interesting, many live on an income well below that level. Figure 2 shows the average distance below the poverty line threshold (the depth of poverty) since 2008.

On average those in poverty have an income around €55 per week (€2,900 per year) below the poverty line; in other words, they are some distance below the poverty threshold.

**Figure 2** Average Depth of Poverty per week, 2008-2017



Source: Calculated by author from CSO SILC data



Overall, poverty is a common occurrence in Irish society. Life on a low income is the norm for large numbers of adults and children. The experience of poverty triggers individual and societal responses necessitating choices to be made so that households can attempt to make ends meet. These choices, and their immediate and longer-term consequences, trigger both individual and societal costs that are reflected in much of the research literature estimating the cost of poverty.

## Estimating the Public Service Cost of Poverty

The purpose of this report is to highlight the additional public service costs that Irish society carries as a result of current and past experiences of poverty. It does so to establish a heretofore absent benchmark for the recurring annual costs to the state of poverty, and to highlight for all members of society, whether they are above or below the poverty line, the costs incurred by society as a result of poverty.

The costings presented throughout this report are driven by available statistical and administrative data from the Central Statistics Office, various Government departments and agencies, answers to parliamentary questions and the published results of related studies both nationally and internationally. Data on the outcomes and incomes of the population has also been analysed using microdata from the CSO's Survey on Income and Living Conditions.

The report uses this data to establish a main, low and high cost of poverty estimate for each category of public expenditure. As the analysis demonstrates, uncertainty coupled with data limitations means that the determination of an accurate point estimate for the public service cost of poverty would be difficult, and most likely misleading. Thus, the report has determined an indicative main estimate, built around the evidence, data and international literature. The main estimate is determined simultaneously with a low-estimate, which reflects a more conservative approach

to determining the cost of poverty, and a high-estimate reflecting the likely upper-limit of these costs. Collectively, the estimates give a range for the overall public service cost of poverty.

Importantly the figures produced by the analysis are estimates. They are not intended to be measures of precision and are somewhat tied to the adequacy of current public expenditure commitments to address poverty and disadvantage. Where these are deficient, current expenditure by the state is lower than ideal, giving a mirage of poverty costs that are lower than what should be their true level. However, as the objective of this study is to determine an indicative cost of poverty, the general scale of the overall poverty cost estimate is unlikely to be very different to that determined.

This report examines the cost of poverty categorised into six broad areas of public policy and expenditure:

- Health Care
- Children and Families
- Education and Training
- Housing
- Gardaí, Criminal Justice and Emergency Services
- Certain Welfare Supports

Within these broad areas the report examines a total of twenty-five individual areas or expenditure programmes, accounting for a total of €27.9bn in annual state spending.

## The Public Service Cost of Poverty

Table 1 summarises the overall findings of the report. The main estimate approach finds that the annual public service cost of poverty to Ireland is almost €4.5bn. Using a more conservative set of costing assumptions the low estimate determines a cost of €3bn per annum. As an attempt to determine the likely upper limit of these costs the high estimate provides a value of just over €7.2bn per annum.

**Table 1** Summary of the Public Service Cost of Poverty in Ireland – three estimates

	Main Estimate	Low Estimate	High Estimate
<b>Public Service Cost of Poverty</b>	€4,491m	€3,077m	€7,245m

**Note:** See more comprehensive details in Tables 5.2-5.4 of the main report.

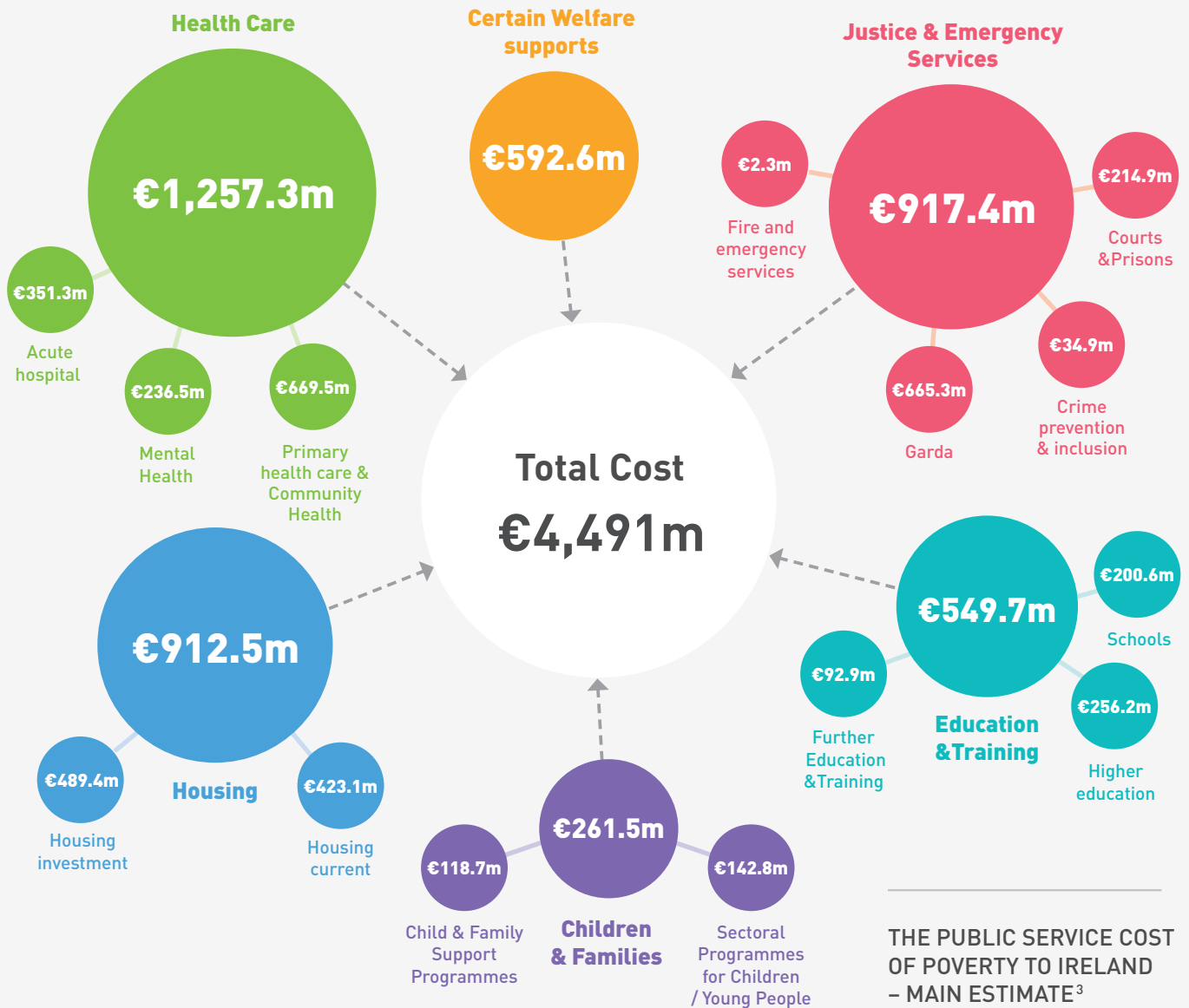
Focusing on the main estimate, the infographic and Table 2 provides a decomposition of the estimates established for each of the areas of public expenditure examined by the report.

Figure 3 also summarises these results by each of the six broad areas of public policy examined in the costing analysis.

**Table 2** The Public Service Cost of Poverty to Ireland – main estimate

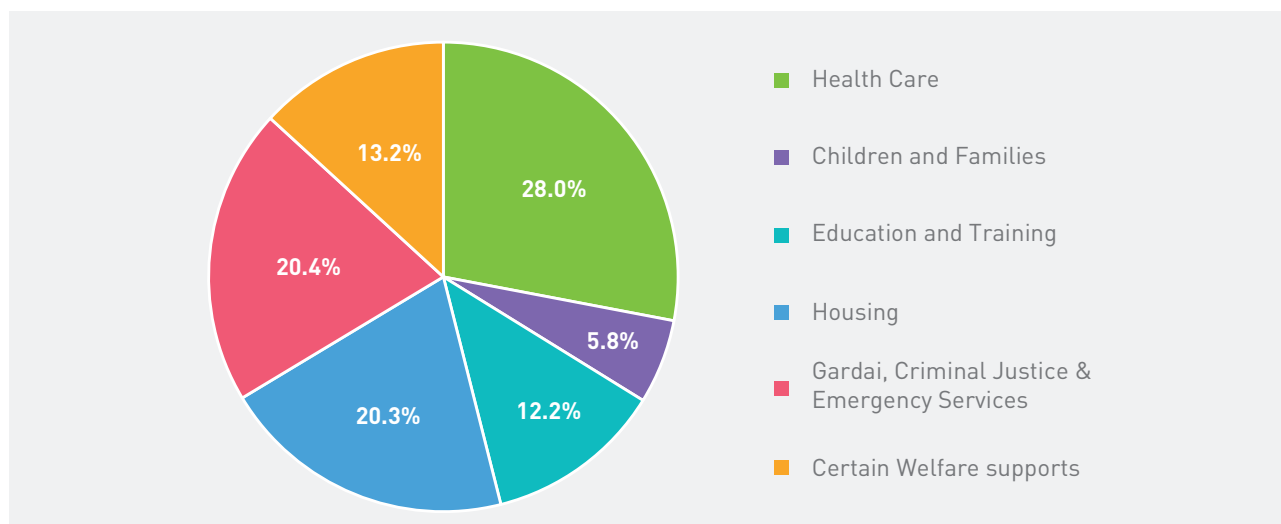
Expenditure heading	Annual Expenditure €m	% associated with poverty	Estimated Poverty Cost €m
<b>Health Care</b>			
Acute hospital	5,243	6.7%	351.3
Primary health care & Community Health	4,009	16.7%	669.5
Mental Health	860	27.5%	236.5
<b>Children and Families</b>			
Child and Family Support Programmes	786	15.1%	118.7
Sectoral Programmes for Children / Young People	649	22.0%	142.8
<b>Education and Training</b>			
Schools	7,312	2.7%	200.6
Further Education and Training	610	15.2%	92.9
Higher education	1,572	16.3%	256.2
<b>Housing</b>			
Housing investment	1,288	38.0%	489.4
Housing current	1,113	38.0%	423.1
<b>Gardaí, Criminal Justice &amp; Emergency Services</b>			
Garda	1,760	37.8%	665.3
Courts and Prisons	497	43.2%	214.9
Crime prevention and inclusion	185	18.9%	34.9
Fire and emergency services	12	18.9%	2.3
<b>Certain Welfare supports</b>	2,022	29.3%	592.6
<b>Total Public Service Costs</b>			<b>4,491.0</b>

**Notes:** Figures have been rounded for the purpose of presentation. The main report presents a more detailed decomposition of this costing alongside those for the low and high estimate. Certain welfare supports includes an analysis of eleven individual welfare programmes.



<sup>3</sup> The report establishes a main, low and high cost of poverty estimate for each category of public expenditure. Uncertainty coupled with data limitations means that the determination of an accurate point estimate for the public service cost of poverty would be difficult. Using a more conservative set of costing assumptions the low estimate determines a cost of €3bn per annum. As an attempt to determine the likely upper limit of these costs the high estimate provides a value of just over €7.2bn per annum. Figures have been rounded for the purpose of presentation.

**Figure 3** Composition of the Main Estimate of the Public Service Cost of Poverty to Ireland (€4,491m per annum) – by expenditure areas



Source: Calculated by author from CSO SILC data

## The Public Service Cost of Poverty in Context

One purpose of this report is to highlight the hidden nature of these public service costs, which while often visible individually are infrequently considered cumulatively and compared to other demands and priorities that the state must meet. Therefore, it is worth putting the findings in some context.

Table 3 considers the findings of the report in a number of different ways. Expressed in per capita terms the main finding of almost €4.5bn implies that poverty imposes a public service cost equivalent

to a sum of €913 per person in the state each year. Relative to the number of households in the state, the annual public service cost of poverty is just over €2,600 per household. Compared to the overall income and expenditure of Government, the main public service cost of poverty estimate is equivalent to 5.1% of total General Government Revenue and 5% of total General Government Expenditure. Put another way, €1 in every €20 collected by the state from taxes, social insurance and charges ends up being allocated by the state to make up for the way that poverty damages people’s lives.

**Table 3** The Public Service Cost of Poverty in Context

	Main Estimate	Low Estimate	High Estimate
<b>Public Service Cost of Poverty</b>	€4,491m	€3,077m	€7,245m
<b>per capita cost</b>	€913	€625	€1,472
<b>per household cost</b>	€2,638	€1,808	€4,256
<b>as a % Total Gov Revenue</b>	5.1%	3.5%	8.2%
<b>as % Total Gov Expenditure</b>	5.0%	3.4%	8.0%

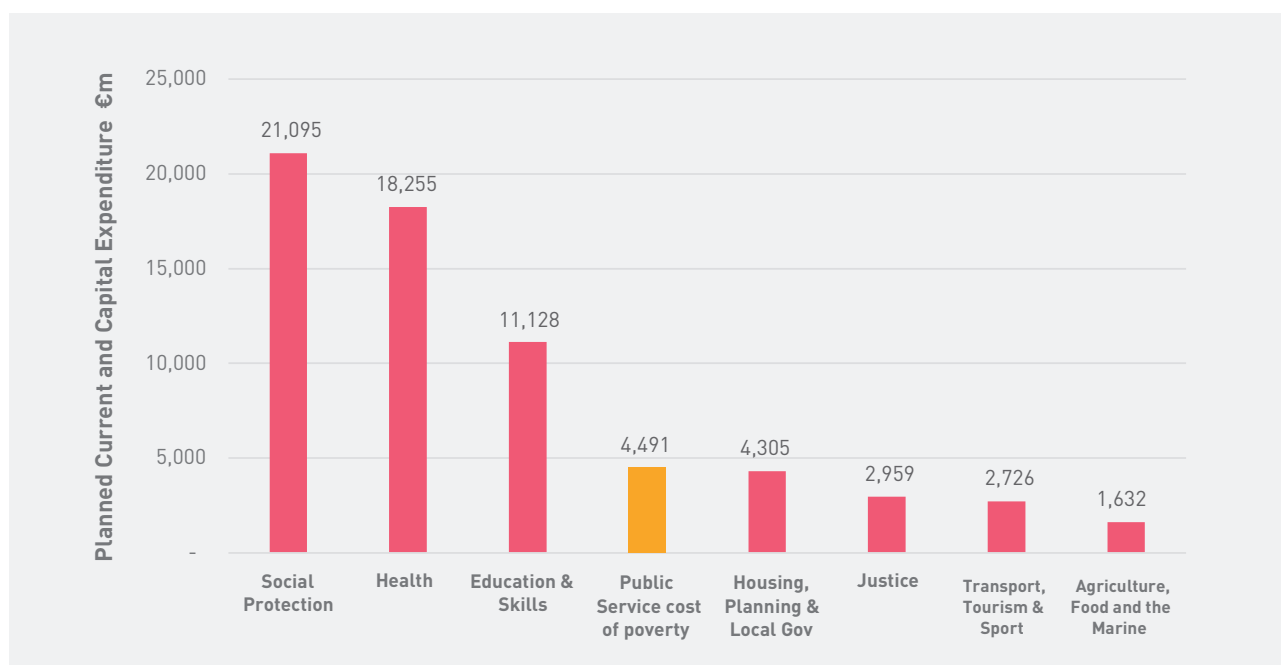
Notes: Calculated using CSO population projections for April 2019, CSO household count from Census 2016 and Budget 2020 projections for (pre Covid-19) general government revenue and expenditure (Department of Finance, 2019: 58).



Figure 4 compares the main public service cost of poverty in another way. It places the annual figure of almost €4.5bn next to the total allocated current and capital expenditure of the seven highest spending Government departments following Budget 2020. The total annual public service cost of poverty comes fourth, standing at less than total spending at the Department of Employment Affairs

and Social Protection, the Department of Health and the Department of Education and Skills but larger than annual spending in the Department of Housing, Planning and Local Government, the Department of Justice and Equality, the Department of Transport, Tourism and Sport, the Department of Agriculture, Food and Marine and all other Government Departments.

**Figure 4** The Public Service Cost of Poverty in the Context of Departmental Expenditure (current and capital)




**Notes:** Calculated from DPER Budget 2020 Expenditure Report (2019: 9-10) based on pre Covid-19 expenditure allocations. Comparison is with the main estimate of the public service cost of poverty.

## Some Policy Implications

This report has not set out to provide a precise measure of the impact of current and previous experiences of poverty on the demand and need for public services in Ireland. As alluded to earlier, such precision is impossible and it is for that reason that the costing approach has been set out as a range from a conservative low estimate to an upper-limit high estimate. Between these, the main estimate is intended to be a reasonable indication of the poverty related costs currently experienced by the state.

The scale of annual state expenditure identified as being associated with the current and past effect of poverty is substantial and carries a number of policy implications. First, the results of the report highlight that the existence of poverty is impacting everyone in Irish society and not just those on incomes below the poverty line. In particular, a large amount of the money raised and spent by the state every year is associated with the ways that poverty damages peoples' lives. Second, the results point towards the potential for a new suite of public policies focused on addressing and reducing



the current experiences of poverty and their past consequences. These have the potential to create a virtuous circle for society, where the lives of the least well off are improved while simultaneously freeing up government resources to focus on other public policy priorities. Some of these savings have the potential to arise in the short-term while others, in particular those associated with legacy impacts of poverty and disadvantage, will take time to appear. In some areas the state will need to ‘invest to save’; by increasing commitments and spending so that the substantial medium to longer-term savings can be realised.

Year after year poverty imposes substantial costs on all of Irish society. While these fall heaviest on those

living on the lowest incomes within our society, this report highlights that there are substantial costs borne by all. Consequently, there are benefits for all associated with a coherent national strategy to address and successfully reduce poverty and its consequences. For many years Ireland was an international leader in the adoption of National Anti-Poverty Strategies which were targeted at addressing the challenges highlighted throughout this report. Regrettably, in recent years this focus has slipped but as this report demonstrates there are substantial benefits for all to be gain from a renewed national policy focus on addressing and reducing the number of people in our society living life below the poverty line.

This publication has been produced by  
SVP National Office

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