



# POLICY SUBMISSION

**Sharing the benefits: Submission on the  
1996 Budget to the Minister for Social  
Welfare and the Government**

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## Summary

The submission, while acknowledging Ireland's impressive economic performance, highlights the endemic nature of long-term unemployment and poverty in Irish society. These problems will persist unless directly tackled by government through the measures outlined in this submission. The public expenditure required to implement these measures is carefully designed to maximise the long-term impact on individual life chances, and thereby to improve the competitiveness and efficiency of the economy.

There are three main themes in the submission:

- employment measures for the long-term unemployed;
  - recruitment incentives
  - lower rates of employers' PRSI
  - direct employment programme
  
- tax and welfare reforms based on a minimum income standard;
  - basic welfare payment of £65 per week
  - personal tax allowance and PRSI allowance of £71 per week
  - higher child benefit of £40 in two key months
  - increased maternity grant of £100
  
- taxation changes which make the system fairer and more socially beneficial.
  - abolish employers PRSI and employees PRSI ceilings
  - standard rate personal tax allowances and discretionary reliefs
  - widen threshold for an inclusive property tax
  - social impact statement for all tax incentive schemes

The submission also contains proposals relevant to particular government departments. These include welfare reforms to bring about a better alignment of welfare and work, measures to tackle educational disadvantage and initiatives to promote the empowerment of socially excluded groups and communities. The submission concludes by outlining the revenue costs and savings attached to the various proposals in the submission.

## Foreword

The Agency's submission on Budget '96 is in accord with its statutory function to advise on all aspects of economic and social planning pertaining to poverty. Its starting point is the urgent need to address the persistence of high levels of unemployment and poverty in Irish society, despite record levels of economic growth and job creation. Groups such as the long-term unemployed, lone parents on welfare, low paid employees and small farmers, and including a quarter of all Irish children, are largely excluded from the benefits and opportunities associated with the economic mainstream. It is by now abundantly clear that the complacent expectation of a rising economic tide automatically lifting all boats is incorrect.

Budget '96 presents an critical opportunity for government to share the benefits of economic growth with those most in need. The Agency strongly advocates such a redistributive approach, not alone for reasons of social justice, but also on the grounds that current levels of long-term unemployment and poverty are a millstone around the Irish economy, damaging competitiveness and undermining the potential for sustainable development.

Next year has been designated the UN international year for the eradication of poverty. It is also the year when the government's national anti-poverty strategy will be presented, in line with a commitment given at the recent UN social summit in Copenhagen. This strategy proposes an all-embracing effort by the many facets of the state, together with civil society, to tackle poverty and social exclusion. To turn these impressive aspirations into meaningful actions, Budget '96 must change the way income, employment, wealth and educational credentials are distributed in Irish society. Such change must be introduced now at a time of general economic wellbeing, when it is far more palatable to the non-poor majority.

This submission outlines realistic measures whereby a sharing of society's expanding resources and job opportunities can be brought about, in a way that is both socially beneficial and economically productive. The alternative, maintaining or slightly adjusting recent economic policy directions, is a recipe for continued unemployment and poverty. The priority must be to direct existing and new resources towards those most in need, ahead of the various other demands and restrictions on government spending.

## **Introduction**

The economy continues to expand at an impressive pace, thanks to successive government programmes of fiscal reform and the on-going transfer of EU resources. In 1995, economic growth is expected to be between 5 and 6 per cent, inflation is predicted to remain under control at 2.5 per cent and total employment is forecast to rise by up to 40,000. On a wider front, Ireland is dramatically out-performing most other EU countries and should easily fall within the parameters set down for economic and monetary union. This pattern is to be welcomed, not least in that it is easier to address poverty and its attendant causes when the economy is growing and resources and jobs are more plentiful. Unfortunately, the share out of the benefits of economic growth, whether through employment opportunities, improved services or through tax/welfare transfers, has been highly selective. For example, while employment increased by 50,000 between April 1994 and April 1995, the impact on registered unemployment, in particular, long-term unemployment, was minimal. Similarly, the gap between earned incomes and basic welfare payments (most of which are inadequate anyway), has increased.

There are two main reasons why the government must rectify this pattern: first, as a matter of social justice, it is patently unfair to have such a maldistribution of societal resources and, second, from a viewpoint of economic efficiency, there is a major waste of human resources and public expenditure associated with the current socio-economic structure. The commitment by government earlier this year to the development of a national strategy to tackle poverty represents a potential major breakthrough in this regard. Critically, the strategy recognises that poverty is not just a social welfare issue; it is equally the remit of education and employment programmes, the taxation system, and macro-economic policy. While the strategy is still being drawn-up, Budget '96 presents a major opportunity for government to begin to give effect to its new policy approach, in particular as 1996 has been designated as the international year for the eradication of poverty. The sharing of the benefits of economic boom among all citizens must be a policy priority, especially since much of this boom has been underpinned by government policies and resources in the first place.

This main message of this submission is that poverty cannot be treated as a residual matter, to be left to a combination of a rising tide of economic growth and income support measures. Poverty is now so entrenched that its removal requires a multifaceted approach across all policy areas, whether employment, taxation or public services and the involvement of all sectors of society, including employers, unions and the non-governmental sector. While the Budget is but one vehicle of government policy, it sets a headline for the remainder of the year. It is vital that a message prioritising anti-poverty action is sent out on Budget day, which will resonate throughout the year at all levels of government. The key features in this message are the promotion of work opportunities for the long-term unemployed, the application of a minimum income standard in the welfare and taxation systems, and the implementation of equitable and socially beneficial tax reforms.

### **1. Review of economic policy, performance and outlook**

Budget '95 was introduced by the incoming coalition government of Fine Gael, Labour and Democratic Left. It had three main objectives: to reward work; to promote enterprise and to strengthen social solidarity. The main measure introduced to achieve the latter objective was a substantial and welcome improvement (+33%) in child benefit. A disappointing feature of the '95 Budget was the 2.5 per cent increase in basic welfare payments - which barely kept payments in line with inflation, though the decision to bring forward the timing of the increases was a positive step. This meagre increase also had the effect of once again postponing the implementation of the minimally adequate

welfare rates as proposed almost 10 years ago by the Commission on Social Welfare. Other policy decisions, such as the abolition of undergraduate third level fees and the widening of the standard rate tax band, had a minimal poverty impact, while consuming large amounts of scarce public resources. Another disappointment in last year's Budget was the absence of any specific initiative problem of long-term unemployment, besides the £6m provided for the new local employment service.<sup>1</sup>

During 1995, there was additional funding for the community employment programme, to maintain an average throughput of 40,000. Against that, planned increases in other key employment-related measures were deferred, notably the capping of the Vocational Training Opportunities Scheme at 4,000 (instead of the planned 5,000). This was particularly hard to understand given the multitude of research which highlights the very low educational attainments of the long-term unemployed. At an EU level, the coming on stream of the Programme for Local Urban and Rural Development and the Programme for Peace and Reconciliation were important features of 1995, especially their focus on long-term unemployment and social exclusion. By far the most significant development in 1995, at least in terms of long-term policy, was the announcement of the government's intention to draw-up a national anti-poverty strategy. Under this strategy, all government departments and state agencies will be expected to include the reduction and prevention of poverty as key objectives in their policies and programmes. Evidence of the government's long-term commitment to tackling poverty and social exclusion should be reflected in Budget '96.

The government's economic outlook for 1995 indicates that the economy will perform well, with GDP and GNP growing by 6.25 and 5.25 per cent respectively. It also predicts that inflation will remain low at 2.5 per cent and employment will grow by about 34,000. Recent quarterly returns suggest that government income and expenditure targets are on line, leaving exchequer borrowing comfortably inside the 3 per cent criterion for economic and monetary union. Meanwhile, the Economic and Social Research Institute forecasts average earnings to rise by 3.25 per cent, and personal disposable income by 8 per cent. Looking to 1996, the ESRI predicts that economic conditions will remain favourable for growth and increased employment. It warns, however, that the numbers registered as unemployed are unlikely to fall substantially over the next year without remedial action. Finally, the book of estimates for 1996 reveals significant scope for manoeuvre in the public finances next year, despite the constraints imposed by increases in public sector pay and social welfare, various one-off contingencies and the 3 per cent limit on government borrowing required for economic and monetary union.<sup>2</sup>

## **2. Priority issue one: special employment measures**

The experience of unemployment, whether current or over time, is the key influence on the risk of poverty: almost half of those who were unemployed all year were in households below the poverty line. Those who also had substantial career unemployment faced an even higher poverty risk: 54% were in poor households.<sup>3</sup> Thus, strategies to tackle poverty must incorporate a labour market component if the *process*

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<sup>1</sup>In last year's pre-Budget submission, the Agency proposed the following five-point package: enhance the employment prospects of the long-term unemployed; ease the transition from welfare to work; ensure the welfare system prevents poverty; invest in people and communities; and share the tax burden equitably and efficiently.

<sup>2</sup>Department of Finance (1995), *Economic Review and Outlook 1995*, Dublin: Stationery Office and TJ Baker and C O'Reardon (1995), *Quarterly Economic Forecast (Summer 1995)*, Dublin: ESRI

<sup>3</sup>B Nolan *et al* (1994), *Poverty and Time: perspectives on the dynamics of poverty*, Dublin: ESRI. (Poverty is defined as 50 per cent of average household income.)

of impoverishment, as distinct from its effects, is to be addressed.<sup>4</sup> Maintaining work incentives, as is frequently argued, is in itself a minimalist response to unemployment, and more direct intervention in the labour market is required if current difficulties are to be addressed. The starting point, from an anti-poverty perspective, must be to alter the unequal burden of unemployment. A recent study has revealed that those who were out of work all year had two-thirds of all weeks of unemployment. The situation is even worse in terms of career unemployment, with those out of work for over 5 years (accounted for by 4 per cent of adults) having almost half of all the years of unemployment.<sup>5</sup> Obviously, as the duration of unemployment has grown, it has become concentrated on a minority who are out of work on a long-term basis.<sup>6</sup> Reversing this pattern, and its accompanying higher risk of poverty, should be a policy priority.

Clearly, the current package of training and employment programmes is failing to address the particular difficulties faced by the long-term unemployed. Indeed, it can be argued that the overall effect of government intervention, including increased investment in third level education, is to relatively worsen the job prospects of the long-term unemployed. Something new is required to ensure that those who have been unemployed for longest and are in the greatest need have an improved chance of acquiring the jobs that are available. Hence, the need for a focused employment policy which would have the express aim of targeting the long-term unemployed over other labour market categories. Such a positive discrimination policy would complement recent welcome innovations in labour market policy for this group, including the local employment service and the programme of integrated development in disadvantaged areas.<sup>7</sup> Three measures are proposed: recruitment incentives; reform of employers' PRSI and a direct employment programme.

## 2.1 Recruitment incentives

The long-term unemployed, regardless of their skills, face major difficulties in competing for available jobs. Their high age profile, lack of recent work experience and often 'undesirable' addresses, together with lack of access to informal recruitment networks, can leave them at a disadvantage vis-a-vis other labour market categories.<sup>8</sup> One way to counter this inferiority would be to provide a financial incentive to employers to recruit from among the long-term unemployed. Indeed, such a measure, under the general guise of employment subsidies, has long been part of labour market policy. However, these have been characterised by a lack of clarity in terms of their objectives: to create

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<sup>4</sup>Educational attainment and social class are, in turn, the main determinants of labour market outcomes - thus, the importance of special educational interventions which both prevent incipient learning failure and tackle low educational qualifications. On the former issue, the Agency has recently prepared a report at the behest of the Department of Education which makes detailed proposals for action at the national level and at the level of individual (national and secondary) schools, as part of a reformed scheme of assistance to schools in designated areas of disadvantage. In regard to the latter, the Agency has advocated the expansion of second chance education (differentiating between recent and adult early school leavers) as a prelude to training and temporary employment programmes.

<sup>5</sup>B Nolan *et al*, *op cit*.

<sup>6</sup>The long-term unemployed (ie a year or more out of work) accounted for 48 per cent (133,996) of the total registered unemployed (278,279) in April 1995. This represented an increase of 14 percentage points on the 1980 figure and 6 percentage points on the 1992 figure. Meanwhile, 67,955 were jobless for three or more years, the equivalent of a quarter of all unemployed and a half of the long-term unemployed. Again, this is up 5 percentage points on the 1992 share.

<sup>7</sup>The adequate resourcing and the extension nationwide of the local employment service should be addressed in Budget '96.

<sup>8</sup>T Ronayne and M Creedon (1993), *When Skills Are Not Enough, the recruitment practices, views and attitudes of employers regarding the long-term unemployed*, Dublin: Tallaght Centre for the Unemployed.

new jobs or to fill work vacancies from among the long-term unemployed. Their failure on the former score has resulted in employment subsidies falling into disrepute as a policy instrument. Their impact in terms of job redistribution has also been limited, for two main reasons: inadequate targeting and insufficient level of incentive (both financially and in terms of training/guidance back-up) to encourage recruitment. With the introduction of the back-to-work allowance, employment subsidies were effectively ended, with the exception of the employers' PRSI exemption.<sup>9</sup>

Despite this rather negative Irish experience, the evidence from Europe suggests that wage subsidies are a means of improving the effectiveness of other reintegration measures if used effectively and their deadweight and displacement outcomes regarded as the price of redistributing limited work opportunities to those in greatest difficulties.<sup>10</sup> This would directly alleviate poverty by ensuring those most in need get a job. However, recruitment incentives can only be justified if a more targeted approach is taken than heretofore, ie the goal of spreading the burden of unemployment is made paramount. An effective recruitment incentive programme would incorporate the following features:

- it would be paid to the employer;
- it would not require that a new job is created;
- it would target the most vulnerable of the long-term unemployed, ie 2/3 years plus (and not particular welfare or age categories);
- it would be set at a relatively high amount and for a sufficient duration to promote take-up among employers;
- it would be linked to pre- and post-employment interventions, such as job placement and on-job-training, to maximise the long-term benefit;
- it would replace the PRSI exemption and the back-to-work allowance (employment option) so as to strengthen its equity impact.<sup>11</sup>

## 2.2 employers' PRSI

The use of the tax system, in particular employers' PRSI, to promote the employment chances of the long-term unemployed represents a second strategy to redress the imbalance in the distribution of unemployment. As with employment subsidies, there is considerable doubt as to the effectiveness of general reductions in payroll taxes to create jobs, especially given the significant costs involved.<sup>12</sup> Furthermore, Irish employer payroll tax is already among the lowest in Europe and a general reduction cannot be justified, especially given the existence of generous tax concessions for business. However, it is as an instrument of job distribution that is of particular concern in this submission. There would appear to be some scope to restructure employers' PRSI in order to promote the creation (and retention) of less skilled employment, the erosion of which has disproportionately contributed to the growth of long-term unemployment.

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<sup>9</sup>The back-to work allowance scheme has two components: employment and self-employment, with the latter strand predominating. The employment strand has some features of a recruitment incentive, in that it lowers the cost of employing someone on the live register. However, its impact for employers is indirect rather than direct, in that people are willing to work for less. How sustainable this 'cheap wage' approach is in the long-term is questionable. The lack of any connection with training also undermines its likely long-term impact. Furthermore, the allowance can create friction between categories of employees as some earn more than others for doing the same work. A final danger is that of employers replacing existing employees by workers on the allowance who are willing to work for lower wages.

<sup>10</sup>CEC (1992), *ERGO Programme Phase One Final Report*, Luxembourg: Office of Official Publications.

<sup>11</sup>This would also result in savings which could be used to fund the new programme.

<sup>12</sup>J Fitzgerald and D McCoy (eds), (1994), 'The microeconomic implications for Ireland', in *The Economic Effects of Carbon Taxes*, Dublin: ESRI.

Such a strategy would also be in keeping with EU policy on the reduction of labour costs for the low paid, as outlined in the employment white paper and at the Essen Summit.<sup>13</sup> At the same time, any restructuring of employer PRSI should maintain the current overall employer contribution to the social insurance fund.

Currently, employer's PRSI is skewed against the employment of low paid (and hence low skilled) workers in that wages in excess of £25,800 per annum are not liable for employers' PRSI, making it less expensive to employ one person for £30,000 than two people at £15,000 or three people at £10,000. Recently, the government has introduced a modest differential (9% as compared to 12.2%) in the rate of employers' PRSI for workers earning below £12,000. However, this lower rate does not distinguish the weeks or, more importantly, the hours worked, so that a full-time but low paid employee is treated the same as a part-time but highly paid worker. Much could be done to make employers' PRSI more supportive of low skilled work, beginning with the removal of its pro-higher paid bias. A more substantial change would be to tilt the payment structure in favour of lower paid employees. These reforms should be possible without reducing the overall contribution of employers to the social insurance fund.

It is therefore proposed to introduce two new lower rates of employers' PRSI: 4% per cent for employees earning less than £115 per week and 8% for those on less that £231 per week.<sup>14</sup> These changes would be paid for by removing the ceiling on employers' PRSI, so that the reform is self-financing and does not dilute the social insurance contribution of employers. It is also proposed that the lower rates would operate on a non-cumulative weekly basis or, if administratively feasible, on an hourly basis. This would enhance the targeting of the lower rates, thereby generating savings on the gross cost.

### 2.3 Direct employment

The provision of direct employment, albeit of a temporary nature, has long been recognised as an instrument for tackling long-term unemployment and labour market exclusion. The current manifestation of this policy is the community employment programme, which has a throughput of 40,000 per annum.<sup>15</sup> However, this enormous 'catch-all' programme is, of necessity, a limited response to meeting the intensity of needs among the longer-term unemployed (ie three years or more). The short duration of the programme, together with its limited training component, militates against it having a sustained benefit for the more disadvantaged participants. Furthermore, the low payment rate and the limited availability of additional income opportunities, mean that participants' exposure to poverty is only marginally (and temporarily) reduced by taking-up the programme.

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<sup>13</sup>CEC (1993), *Growth, Competitiveness and Employment*, Luxembourg: Office of Official Publications and CEC (1995), *The European Employment Strategy: Recent Progress and Prospects for the Future*, Com (95) 465, Luxembourg: Office of Official Publications.

<sup>14</sup>There are other ways in which employers' PRSI could be made more favourable to the lower paid: by having different rate bands, as with income taxation, or by introducing a weekly allowance, as with employee PRSI. These options avoid the poverty traps associated with a thresholds approach, but are far more expensive. Also, thresholds are the current policy instrument used to target the lower paid.

<sup>15</sup>It is interesting to note how the long-term unemployment focus of the community employment programme has been diluted in recent years, with considerable evidence that sponsors are selecting the better educated, younger and less long-term unemployed. Consideration should therefore be given to introducing quota systems to ensure the longer-term unemployed are not overlooked.

The major problem with temporary employment is the multitude of objectives it seeks to deliver: support for social services; provision of work experience; and development of new skills. For the most severely long-term unemployed, the latter objective is only realistic over an extended timeframe, perhaps up to 5 years. A higher payment rate is also essential if they are to escape from poverty - this can be justified by making the programme full-time over the longer period.<sup>16</sup> These changes would not apply to the community employment programme in its entirety; rather, a strand of the programme would be refined to meet the needs of a specific sub-group. There remains the question as to how best to deliver a direct employment programme and, specifically, whether the voluntary/public sector, the traditional source of temporary employment, is the most suitable vehicle in this case. The key criterion in this case should be what offers the best means of enhancing the skill base of participants, so that they have greatly improved employment opportunities when their extended contract is finished. A possible option here is to link extended work placements with 'social enterprises', ie firms which combine social purposes with economic means. These would both enhance participants' 'tradable' skill base and offer the possibility of unsubsidised employment in the longer-term. In many European countries, notably France, Germany and Italy, social enterprises are a well established method of re-inserting vulnerable groups into the labour market.

This approach would also be in keeping with recent EU policy which advocate the potential of the social economy for the creation of new markets and, hence, new employment.<sup>17</sup> In Ireland, despite a long history of local/community enterprise, we seem as yet unable to combine a social product with a commercial regime. In part, the availability of a large supply of 'free' temporary workers, together with a ban on support for commercial projects, has inhibited the development of this sector. Another factor is a reluctance to use public funding for social services in an entrepreneurial manner, eg school meals, childcare, etc. Interestingly, some of the local development partnerships, supported under the Poverty 3 and the Area Based Response to Long-term Unemployment programmes, have begun to address this by developing enterprises to develop new markets, eg services to air passengers, home insulation, while at the same time providing employment for the long-term jobless. Tying a revamped employment programme for the severely disadvantaged long-term unemployed with social enterprises developed by these partnerships offers considerable potential for sustainable employment opportunities in the longer-term.

#### *proposals*

- Provide an incentive to employers to recruit from the longer-term unemployed by paying £100 per week for between 12 and 18 months, depending on the needs of unemployed person. This incentive would be delivered as part of the new local employment service, with skills training to be provided under the Job Training Scheme. All other job subsidies (PRSI exemption and back-to-work allowance - employee strand only) would be terminated.
- Reform the structure of employer's PRSI by abolishing the current income ceiling and by introducing two new rates (8% and 4%) for lower paid workers. The lower rates would operate on a non-cumulative weekly or, ideally, hourly

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<sup>16</sup>There is, at the moment, some provision for the retention of older longer-term unemployed on a community employment programme for a second or third year. However, this is on an *ad-hoc* basis and does not get around the issue of low payment rates.

<sup>17</sup>CEC (1993), *op cit*, and CEC (1995), *A European Strategy for Encouraging Local Development and Employment Initiatives*, Com (1995) 273, Luxembourg: Office of Official Publications.

basis. The measure would be self-financing so as not to diminish the social insurance fund.

- Introduce a full-time employment option for the longer-term unemployed, for between 3 to 5 years, depending on the time required to equip an individual to compete in the labour market. The gross cost of the programme would be £185 per week, including a wage of £170 and employers' PRSI. The programme would be supported by the local employment service and the Job Training Scheme. Special efforts would be made to target this initiative at social enterprises, with the support of the various local development partnerships and LEADER groups.

### **3. Priority issue two: a minimum income standard**

A second priority issue in this submission is the provision of a minimum income, both for those on welfare and those in work. Increasingly, it is clear that the long-standing goal of a minimum welfare payment cannot be isolated from other income policies, such as taxation or in-work welfare subsidies. Not alone do some poor households pay income tax and/or PRSI, but also the interaction of welfare and tax can undermine work incentives and create poverty traps.<sup>18 19</sup> The latter issue has attracted considerable attention in recent years, due to the *ad-hoc* manner in which tax and welfare policies have developed. The perceived narrowing of welfare-work differentials has consequently been advanced as an argument to maintain welfare payments at their current inadequate levels. Much of this rather negative debate could be avoided if an inclusive view is taken of welfare and taxation policies. Indeed, the establishment of the expert working group on the integration of the tax and welfare systems is a welcome institutional recognition of the need for an inclusive approach to welfare and tax reform.

To implement such an inclusive approach requires the adoption of a minimum income framework or standard. Such a minimum income standard would represent a principled mechanism for symbolising society's commitment to minimum standards of decency for everyone, relative to the norm. It would also be a practical instrument in providing a benchmark to judge the effectiveness of public policies in pursuit of this commitment.<sup>20</sup> The concept of a minimum income standard has already been endorsed by the European Union, which recommended in 1992 the establishment by national governments of a standard to

*recognise the basic right of a person to sufficient resources and social assistance to live in a manner compatible with human dignity as part of a comprehensive and consistent drive to combat social exclusion.....(and to fix) the amount of resources considered sufficient to cover essential*

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<sup>18</sup> A work disincentive (or employment trap) occurs when someone on welfare is at least as well-off, in financial terms, as someone at work. The replacement ratio is used as an indicator of the proportion of take-home pay which is replaced by income from social welfare. A poverty trap refers to situations where there is a marginal or no net income increase, as an employee moves up the income schedule, due to withdrawal of welfare benefit and/or tax deductions (as measured by the marginal tax benefit rate).

<sup>19</sup> There are other reasons for approaching tax and welfare reform in an inclusive way: the level of income taxation influences the revenue available for income support; the tax structure can help or hinder job maintenance and creation; and the perceived fairness of the income tax system can affect public support for existing or additional welfare programmes.

<sup>20</sup> John Veit Wilson (1994), *Dignity not Poverty, a minimum income standard for the UK*, London: Commission on Social Justice/IPPR.

*needs with regard to respect for human dignity, taking account of living standards and price levels in the member state concerned.*<sup>21</sup>

Income support for both adults and children can be approached from a perspective of a minimum income standard. This would enable policy to alleviate poverty, while at the same time maintaining work incentives and minimising poverty traps. Adopting a minimum income standard would also help to address many of the anomalies within the welfare system, as between cash payments and the expanding range of secondary benefits.<sup>22</sup>

### 3.1 a minimum income standard for adults

The benchmark for a minimum income standard was first established by the Commission on Social Welfare in 1986, primarily in the context of a basic social welfare payment. It defined an adequate minimum welfare payment as being 'relative to incomes and living standards in society generally'.<sup>23</sup> Using a range of measures (food budgets, average earnings, medical card eligibility, tax allowances, minimum wage), the Commission proposed a minimum income standard of between £50 to £60 per week (£67 - £80.50 in 1995 values). Since then, various government policy statements, including the Programme for Competitiveness and Work, the Programme for a Government of Renewal, and those of government-sponsored bodies such as the National Economic and Social Forum, have endorsed the notion of a minimum income standard. A further acknowledgement of the principle of a minimum income framework is the decision of the current government to ask the ESRI to review the rates as defined by the Commission on Social Welfare, 'with a view to recommending new rates'.

Table 1 outlines the extent to which welfare and tax policies uphold the minimum income standard as defined by the Commission on Social Welfare (taking the lower figure as the reference point, ie £67). It reveals a major division in these various payments/allowances, with only half falling within the minimum range recommended by the Commission (ie tax exemption, contributory old age pension, medical card and community employment). Only one payment, community employment, actually exceeds the higher minimum income standard band of £80.50. The table also reveals the huge variation in the relative value of payments/allowances *vis-a-vis* the Commission's minimum figure, ranging from a low of 90% (PRSI exemption and supplementary welfare allowance - SWA) to a high of 121.4% (community employment). A first step, then, should be to ensure that all payments/allowances meet the minimum income standard.

**Table 1: Various adult welfare payments, tax allowances/exemptions and non-cash benefit means tests as % of CSW MIS<sup>24</sup>**

<sup>21</sup>CEC (1992), 'Council recommendation on 24 June 1992 on common criteria concerning sufficient resources and social assistance in social protection systems [92/441/EC].' *Official Journal of the European Communities*, 26 August.

<sup>22</sup>For example, within the supplementary welfare allowance scheme, where a recipient is above the basic SWA rate, their entitlement to a rent supplement can be effectively 'devalued'. Another problem is the existence of a two-tiered system of eligibility for secondary benefits. The decision to allow participants on a community employment programme or the back-to-work allowance scheme to retain their secondary benefits on a transitional basis, while in principle welcomed, creates a dual system of eligibility as between categories of people on similar incomes but from different sources. A similar two-tier structure is apparent in the tax structure, where a significant proportion of taxpayers face high marginal taxes as a result of the tax exemption framework.

<sup>23</sup>*Report on the Commission on Social Welfare* (1986). Dublin: Government Publications Office.

<sup>24</sup>This table combines (i) actual welfare and training/temporary employment rates, (ii) the value of various tax allowances and exemptions and (iii) the income threshold for the medical card means test.

SWA	UB/ LPA	OAP (c)	FAS All	CEP	Tax All	PRSI All	PRSI Ex	Tax Ex	Med Card
£60.40	£62.50	£72.80	£62.50	£81.30	£66.15	£50	£60	£71	£74.50
90.2%	93.3%	108.7%	93.3%	121.4%	98.8%	74.6%	89.6%	106%	111.2%

The disparity in the value of basic payments and allowances exhibits little logic or consistency. In particular, there is no clear division between welfare payments and tax allowances, which could be justified given the additional costs associated with work and the need to provide some degree of incentive. Thus, the value of PRSI, tax, medical card and community employment allowances and payments varies considerably, though all are work-related. This leads to a multiplicity of changes as earned income increases, creating numerous and unexpected poverty traps along the income schedule. A more consistent approach to work-related payments is required, within the framework of a minimum income standard.

How might a minimum income standard across the welfare and tax systems be implemented? The most radical option is represented by a basic income scheme, which has been advocated by policy analysts from various political perspectives.<sup>25</sup> The major weaknesses in such an approach are the cost (especially if the minimum income standard is to be achieved), the administrative demands and the scale of redistribution of resources required, with the attendant fall-out in terms of winners and losers. A more practicable way of achieving a minimum income standard would be through an incrementalist reform of the existing welfare and taxation regimes. Even then, there are important choices about the method of tax reform -whether one goes the route of increasing standard tax allowances (thereby benefiting all tax payers and costing more) or of extending tax exemptions (thus confining benefits to low income tax payers and minimising costs). The latter option, while superficially attractive, entails the further dualisation of the income tax system, with the number of earners subject to a high marginal tax rate significantly increased. When combined with the withdrawal of family income supplement (FIS), the outcome is a greatly increased exposure to poverty traps for low/medium earners, something totally at odds with prevailing policy which seeks to reduce marginal tax benefit rates. For that reason, the preferred option is for increased personal tax allowances, leading to the elimination of the current gap between the personal tax allowance and the basic exemption threshold (currently, £4.85 per week). A similar policy choice exists with regard to employee PRSI. Again, the preference here is for an extension of the weekly PRSI allowance introduced in last year's Budget.

There are particular aspects of a minimum income standard as they might apply to means-tested benefits, eg SWA or the medical card or differential rent. First, people in full-time employment, whatever their income, are not eligible for SWA, eg rent or mortgage supplements. This is an artificial exclusion in the absence of any test of means. A second problem concerns the position of people who are slightly above the eligibility threshold. In these cases, no entitlement is conferred, even though the income limit is only marginally breached. A more equitable approach would be to provide a reduced level of benefit - in much the same way as marginal relief operates for those above the income tax threshold. For instance, under the medical card scheme,

<sup>25</sup>B Reynolds and S Healy (eds) (1994), *Towards an Adequate Income for All*, Dublin: Conference of Religious in Ireland and B Reynolds and S Healy (eds) (1995), *Ireland for All*, Dublin: Conference of Religious in Ireland

entitlements could be restricted to only doctor's fees or medicine costs. In other schemes, a reduced rate of payment could apply. Finally, integral to a minimum income standard would be the alignment of tax and welfare changes, so that all citizens, whether on welfare or in work, would benefit at or around the same time.

### 3.2 a minimum income standard for children

The principle of a minimum income standard is equally applicable to child income support. The Commission on Social Welfare did not set out a minimum income for children, beyond recommending a rationalisation of CDAs at £10 per week and an increase in child benefit, with a higher payment for older children. The Agency subsequently commissioned research on the cost of a child using a budget standards methodology. This study estimated £33.05 (1995 values) as an average minimum income standard for children per week.<sup>26</sup> (The £33.05 figure represents the mean of a range between £22.25 and £40.20, depending on the age of the child.) Table 2 compares this average with the value of various child welfare payments and tax exemptions, including child benefit.<sup>27</sup> There is a wide disparity in the value of the

**Table 2: Various child welfare payments, tax exemptions and non-cash benefit means tests (plus child benefit) as % of CPA MIS<sup>28</sup>**

	SWA/ UA/UB	LPA/ OAP	WP/ DWB	FAS/ CEP	FIS	Tax Ex	Diff Rent	Med Card
	£13.20	£15.20	£17	£13.20	£12	£8.65	£11.72	£14.50
+ cb	£19.43	£21.43	£23.23	£19.43	£18.23	£14.88	£17.95	£20.73
	58.9%	64.9%	70.3%	58.9%	55.2%	45.0%	54.3%	62.3%

various child welfare payments, tax exemptions and means test allowances, from £8.65 (tax exemption) to £13.20 (SWA/UA/UB) to £17 (widow's pension). In no case does the combined payment/allowance and child benefit exceed the minimum income standard (though the widow's pension exceeds the basic figure for a 0-6 year old child). Where households can avail of both a FIS payment and a child tax exemption, the combined value of £26.88 is still short of the minimum income standard threshold. In percentage terms, combined payments/ allowances range from 45% to 70.3% of the minimum income standard.

There is clearly much scope for standardising child-related payments within a minimum income standard. The selection of policy instrument to achieve such a standard is much more complex in the case of an adult minimum income standard, because of the high

<sup>26</sup> C Carney *et al* (1994), *The Cost of a Child, a report on the financial cost of child-rearing in Ireland*. Dublin: CPA.

<sup>27</sup> There are no tax allowances for children, except under residential property tax, where a deduction of 10% is allowed for each dependant child. Similarly, there is no PRSI allowance or exemption for children.

<sup>28</sup> This table illustrates welfare payments (based on the three rates of CDA as represented by SWA, LPA/OAP and WP/DWB), training/temporary employment rates, the maximum FIS payment, the addition to the tax exemption for the first or second child, and the income thresholds for the medical card and the differential rent (Dublin Corporation) schemes. The second line gives the total value of the particular payment/allowance and child benefit; the percentage figures are based on the second line totals.

risk of work disincentives and poverty traps associated with households with children. Hence, a straightforward strategy of higher CDAs and increased child tax allowances, as proposed in relation to an adult minimum income standard, is unlikely to succeed in the instance of children, not least because child tax allowances have been replaced by child benefit. This leaves four main policy options: child benefit, integrated (taxed) child benefit, child benefit supplement (a means-tested payment), and in-work benefits (eg FIS and child additions to the tax exemption) for strengthening child income support. The Agency has consistently favoured the child benefit route as the optimum way of delivering child income support. However, it has its drawbacks, in particular its high cost as a universal payment, with the further complication that a high proportion of the additional expenditure required for a minimum payment would benefit 'non-poor' families.<sup>29</sup> For this reason, the possibility of targeting child benefit, through taxation or means testing, has attractions. This, however raises major policy issues, which are currently being examined by the expert group on the integration of the tax and welfare systems. Hence, the Agency has decided to defer making any substantial recommendations regarding the mechanisms for achieving a minimum income standard for children for Budget '96 until the report of the group is published.

There remains the interim issue as to the uprating of child income support in line with inflation, as well as specific child income support needs, which must be addressed. The optimum way of inflation-proofing child income support, without creating distortionary effects, is by increasing child benefit. In the context of specific needs, the additional costs associated with (i) return to school, (ii) Christmas, (iii) older children and (iv) maternity, should be compensated for under the existing mechanisms of child income support.

#### *proposals*

- Adopt a minimum income standard as a guideline in formulating welfare payments, tax allowances/exemptions and means tested benefits for adults and children;<sup>30</sup>
- As part of an adult minimum income standard,
  - increase the lowest welfare rates to £65 per week in this Budget, with a commitment to reach the minimally adequate figure of £68 next year (all other welfare payments should be inflation-proofed at a minimum);
  - raise standard tax and PRSI allowances to £71 per week, to be funded through the standard rating of personal allowances and abolition of the PRSI ceiling;
  - review the exclusion of employees from entitlement to SWA payments - a generic means test should be used, with tiered levels of entitlement;
  - examine the introduction of a tapered withdrawal of the medical card by gradually restricting entitlements, eg pay only doctor's fees or medicine costs;
  - align annual changes in the taxation and welfare systems.
- As interim measures towards a minimum income standard for children,
  - maintain the value of child income support by increasing child benefit in line with inflation;

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<sup>29</sup>There is also the issue as to how an enhanced child benefit would interact with existing mechanisms for minimising work disincentives.

<sup>30</sup>The uprated Commission for Social Welfare's figures are adopted, pending the results of the ESRI updating exercise.

- increase child benefit to a standard rate of £40 per month in the key months of August and December;
- increase the basic child dependant allowance to £15.20 for older children (12 years and over);
- increase the maternity cash grant for medical card holders to £100 (from £8).

#### **4. Priority issue three: taxation reform**

A third priority theme of this submission relates to taxation reform. Taxation policy is a critical component in tackling poverty for a number of reasons: first of all, to generate sufficient resources to fund anti-poverty measures; second, to redistribute income from higher to lower earners; and third, to promote private investment in socially beneficial projects. There are three key issues here in terms of an anti-poverty strategy:

- # the tax liability of the lower paid;
- # the share out of the tax burden;
- # and the social impact of discretionary tax reliefs.

##### **4.1 tax liability of the lower paid**

Reform of the tax liability of the lower paid has already been discussed in the earlier section on a minimum income standard. The main conclusion in this regard is the need to increase personal tax allowances and the recently introduced PRSI allowance. These reforms are linked with changes in the share out of the tax burden, notably the standard-rating of personal allowances and the abolition of employers' and employee's PRSI ceilings.

##### **4.2 share-out of the tax burden**

The capacity of government to support existing and additional public expenditure is a function of the tax base and the effectiveness of collection methods. In addition, the fairness of, and hence public support for, the instruments of taxation is an equally important consideration. There is a clear need to improve the current share-out of the tax burden, primarily by widening the tax base. Three issues present themselves in this regard: the regressive impact of tax reliefs and allowances; the low tax threshold on property assets; and the structure of employee PRSI and the two levies.

A feature of the income tax system is the prevalence of discretionary tax reliefs. Whatever their economic rationale, these reliefs are particularly objectionable because of their 'topsy-turvy' distributional effects, whereby higher rate taxpayers gain more than other earners. This imbalance is not justifiable on equity, efficiency or administrative grounds, and should be a priority for taxation reform. In recent years, the government has introduced important changes in this area, notably by standard-rating mortgage and VHI reliefs. A logical next step should be to standard-rate BES, section 35, pension and urban renewal tax reliefs. Also, it is time to consider restricting personal tax allowances to the standard rate. These changes would free up large resources to be used to raise standard allowances and thus to further improve the progressivity of the system. This should be the priority over other headline measures, such as lower tax rates or wider tax bands.

At a broader level, the changes in the residential property tax in last year's Budget have had the effect of reducing the already minimal tax take from this source and hence of narrowing the overall tax base. Excessively high valuation and income thresholds are

the main problems here. While recognising the perceived weaknesses of the residential property tax, from an equity viewpoint it is critical that the tax is, at a minimum, retained and, ideally, enhanced.<sup>31</sup>

Another negative aspect of the current tax schedule is employee PRSI and, to a lesser extent, the health and training levies. Employee PRSI is, in its current form, a quite regressive tax. The introduction of a £50 PRSI allowance in 1995 was thus a welcome move. This should be extended as part of a minimum income standard approach, as outlined previously. This reform could be funded by abolishing (or significantly increasing) the income ceiling for employee PRSI, which would also have the benefit of making PRSI more neutral as between higher and lower earners.<sup>32</sup> Recent reductions in the two levies for lower paid households are also welcomed. However, the chosen method - an exemption threshold set at £9,000 - has created a poverty trap. Converting this exemption into a basic allowance, as happened with PRSI, or integrating the levies into the income tax system, would be a less problematic way of assisting low earners.

#### 4.3 social impact of tax reliefs

Traditionally, the government has relied on discretionary tax allowances to promote private investment in economic activity, eg pension funds, business expansion, films, urban renewal, housing. In last year's Budget, two new schemes were introduced, covering the scrapping of older cars and the renewal of seaside resorts. These tax incentives have a significant cost in terms of reducing the tax base (costing up to £0.5 billion), as well as redistributing income in an upward manner. For these reasons, it is reasonable to expect certain social outcomes from these incentives, in order to compensate for their dis-benefits in taxation terms. For example, to what extent do enterprises supported under the BES employ long-term unemployed people? how accessible to low income groups is the housing provided under section 23 relief? could the urban renewal scheme be used to improve services and facilities for socially excluded groups and communities living in disadvantaged urban areas?

To-date, such criteria have not formed part of the performance indicators used to assess the outcome of these tax incentive schemes. This should be changed immediately and, as part of a wider government commitment to poverty-proofing all public expenditure, such schemes should be required to have a social, as well as economic, benefit. This could be done in a number of ways: reserve a percentage of urban renewal housing for low cost accommodation; link BES funding with a commitment to recruit from the long-term unemployed or reserve a percentage for investment in social enterprises; or designate areas with high rates of unemployment and poverty as urban renewal areas. It may be argued that the economic logic of private investment incentive schemes cannot be altered. This is not a tenable argument on two counts: first, these schemes are in fact premised on distorting the prevailing economic rationale (ie from savings or consumption to investment); second, restrictions are already imposed in terms of other criteria (eg size and type of accommodation, type of businesses).

#### *proposals*

- # Restrict all tax allowances and reliefs to the standard rate;

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<sup>31</sup>In order to improve the transparency of property tax, mechanisms to allow a proportion of the additional revenue raised to be retained for discretionary funding by local government should be considered in the context of the current review of local government financing.

<sup>32</sup>An alternative would be to abolish the PRSI tax allowance, which would also improve the progressivity of the tax system.

- # Increase the threshold for property tax, to include all types of property.
- # Abolish the ceiling for employee PRSI and reform the employment and health levies.
- # Require a 'social impact statement' for all activities supported under the various discretionary tax incentive schemes.

## 5. Other issues

This final section outlines a number of reforms which relate to the policies of specific government departments, notably Social Welfare and Education. Two relate to ways in which a rather complex social welfare system could be more supportive of recipients who wish to avail of full-time or part-time work opportunities. A third proposal relates to the persistent problem of educational disadvantage and how additional resources can best be directed to address this, both within the formal school system and through second chance education. The other issues relate to government support for the voluntary and community sector and for the Combat Poverty Agency, in the context of enhancing existing anti-poverty organisations.

### 5.1 **Moving from welfare to work**

Moving from welfare to work is about more than knowing that there is a clear financial reward. There are other considerations: the start-up costs associated with a new job; delays in knowing and then receiving entitlements under FIS; the insecurity of work payments compared to welfare benefits; the temporary loss of income as people move from one payment system to another; and the loss of secondary benefits. Similar issues can arise with regard to participation on labour market programmes, especially with regard to secondary benefits and to the additional costs of travel, clothing and meals. Social welfare policy has not been immune to these difficulties, as exemplified by the (recently enhanced) back-to-work allowance and the retention of secondary benefits under the community employment programme. These reforms are undoubtedly a positive response, but are limited in terms of eligibility and comprehensiveness. There thus remains scope for making the welfare system more responsive to transition situations in general.

#### *proposals*

- Provide a written statement of FIS entitlements in advance of someone taking up a job. Pay FIS as soon as possible upon securing a job, allowing child dependent allowances to be retained until it is paid. Also, continue to promote the take-up of FIS and examine the inclusion of earning disregards for childcare and a working adult dependent under the scheme.
- Allow all means-tested long-term welfare recipients to keep their payment for one week when taking up full-time work or labour market programmes;
- Compensate participants on labour market programmes in full for any additional travel, clothing and meal costs;
- Introduce a passport-type structure to facilitate the retention of secondary benefits. All government departments and agencies would be bound by this, and a central appeals office should be designated to hear any grievances.

(For example, the Office of the Ombudsman or the National Social Services Board, with local assistance provided through welfare advice agencies, local development partnerships and the new local employment service.)

## 5.2 Combining welfare and work

An enlightened approach to income support strategies is required to address the growing pattern of households with combined (ie welfare and work) income sources. This arises from (i) the increasing number of part-time, temporary and casual jobs and (ii) the higher levels of female participation in the labour force. Welfare dependence has also changed, both in absolute terms, but also in regard to the growing proportion on means tested payments, such as unemployment assistance. Despite these developments, the social welfare system is still premised on providing a temporary support to an economic system based on full-time and largely male-oriented employment. The response of the Department of Social Welfare to this changing reality has been less than clearcut, preferring minimalist, selective and often inconsistent changes rather than a more systematic reform which would reflect emerging work and welfare patterns. Hence, the much altered means test regulations remain extremely difficult to follow and can discourage welfare recipients from taking up part-time work opportunities<sup>33</sup>; the recently introduced childcare allowance is confined to lone parents; the income threshold for the adult dependant allowance, though increased by £5, is still not tapered, thereby maintaining a severe poverty trap at what are very low income levels.

There has also been a tendency to use transitional mechanisms, such as the back-to-work allowance, to address what is likely to be a long-term pattern of welfare/work combination. This simply defers action to address what is a structural problem for two or three years. A bolder and focused strategy, which recognises that an growing number of welfare dependants will rely on welfare and work, is thus required from the Department of Social Welfare.

### *proposals*

- Review the part-time job incentive scheme as a longer-term response to combined welfare/work situations;
- Improve earnings disregards on means-tested payments by
  - simplifying procedures and making them more transparent;
  - allowing calculations on a weekly basis;
  - incorporating a childcare element;
  - tapering the withdrawal of the adult dependant allowance.

## 5.3 Tackling educational disadvantage

Education has a central role in determining people's life chances, both in terms of access to employment and long-term earnings potential. In recognition of this, the state (and private households) invest substantial resources in education provision. Yet, educational outcomes remain highly inequitable, with children from lower socio-economic groups exhibiting a high risk of educational failure. Meanwhile, the main consequences of educational failure are substantially greater risks of unemployment and of poverty. Indeed, the connection between unemployment and poor educational qualifications has become more pronounced over time, creating a cycle of poverty and inequality. As well as limiting career options, educational failure also curtails personal

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<sup>33</sup>National Economic and Social Forum, *Delivery of Social Services*, 1994

development and leads to low confidence levels and a poor sense of morale. There is also a cost in terms of curtailed economic growth, as was pointed out by the OECD in their recent review of the Irish economy.<sup>34</sup> The OECD notes that the convergence of incomes between Ireland and other economies can only be achieved if the educational levels of disadvantaged groups are improved. The most obvious way to do this, it suggests, is to reduce the numbers who leave school early. In policy terms, this signals the need for special measures and resources targeted at incipient early school leavers.

It is recognised that addressing educational disadvantage is only one facet of a multi-dimensional programme to tackle poverty, something which is currently being considered as part of the national anti-poverty strategy. Meanwhile, there is much that can be done within the education sector to reduce inequality in educational outcomes. Recent research commissioned by the Agency, at the request of the Minister for Education,<sup>35</sup> has reviewed the effectiveness of in-school measures to tackle educational disadvantage. Arising from this, the following actions are suggested:

#### *proposals*

- Reform the *Scheme of Assistance to Schools in Designated Areas of Disadvantage* by targeting resources at a limited number of schools with high concentrations of pupils from disadvantaged backgrounds. Intervention should be comprehensive and coordinated, with additional funding also needed to maximise its effectiveness;
- Make separate provision for cases of disadvantage which are dispersed in rural areas. Aspects of this scheme will need to focus more on the needs of individuals than of schools and the provision of resources should be graded to match the extent of a schools's need;
- Allocate additional funding to the school books scheme and the school meals scheme in schools designated as disadvantaged;
- Enhance second-chance education, in particular the Vocational Training and Opportunities Scheme. Provision should be made in the Budget for the expansion of this Scheme by a minimum of 1,000 places. Consideration should also be given to opening the Scheme to educationally disadvantaged young people between the ages of 18 and 21 years and to providing a counselling service within the Scheme.
- Provide additional resources for adult education in recognition of the importance of parental education in influencing children's education, particularly that of the mother. The main vehicle here is the Adult Literacy and Community Education Scheme - a priority need is for the employment of additional adult literacy organisers and tutors and for greater monetary recognition of the contribution tutors and organisers make.

#### **5.4 Empowering socially excluded groups and communities**

As part of its statutory role in developing anti-poverty activity, the Agency has supported three pilot programmes involving local groups over the last three years. The three

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<sup>34</sup>OECD (1995), *OECD economic surveys 1994-1995. Ireland*, Paris: OECD.

<sup>35</sup>T Kellaghan *et al* (1995), *Educational Disadvantage in Ireland*, Dublin: Department of Education and the Combat Poverty Agency

programmes are: regional networks of local women's groups; national networks of anti-poverty groups (unemployed, community groups, travellers, rural groups and people with disabilities); and local and national community arts initiatives (the latter was co-funded with the EU Horizon programme). These programmes combine action, research and policy components in an endeavour to develop good practice and to identify policy issues. They have now been assessed and a number of important benefits have been identified.<sup>36</sup> The next stage is to begin to mainstream these programmes as part of government support for voluntary and community activity. The following are the specific recommendations:

*proposals*

- Incorporate support for regional networks of local women's groups as part of the Department of Social Welfare's programme for women's groups. This should include core funding, with additional resources for development work and for policy initiatives. A figure of £200,000 should be set aside for this purpose in 1996.
- Establish an annual fund of £150,000 to meet the core costs of national networks of anti-poverty groups which provide an independent voice for this sector.
- Enhance support for community arts for disadvantaged groups/areas, including particular recognition for community arts under the Department of Social Welfare's community development programme.

## 5.5 **Resourcing the Combat Poverty Agency**

The strategic role of the Agency in advising on and assisting with government policy to tackle poverty has expanded considerably in recent years. In 1995, this included supporting the development of the national anti-poverty strategy and implementing aspects of the EU Programme for Peace and Reconciliation. It is also likely that new challenges will be identified in 1996, arising from the current review of the Agency commissioned by the Minister of Social Welfare and the implementation of the national anti-poverty strategy. The move to bigger premises in 1996 will also increase the demands on the Agency, in particular in relation to the provision of information on poverty. This on-going expansion of the work of the Agency, while in itself to be welcomed as a recognition of its value, has severe implications in terms of resources and, in particular, staffing. It is hoped, therefore, that the requirements of the Agency in this regard will be fully considered in the budgetary allocation of the Agency's parent department, the Department of Social Welfare.

*proposals*

- Match additional demands on the Agency in 1996 with an adequate increase in staff and resources.

## 6. **Revenue Implications**

It is clear that the measures proposed in this submission will require significant additional public resources, which may limit tax reductions or curtail other public

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<sup>36</sup>The assessment reports on these programmes are available from the Agency.

expenditure increases. The following points should be borne in mind in assessing these budgetary implications:

Long-term unemployment and poverty imposes a very high price on its victims (and their families) in terms social deprivation and exclusion, a price often passed on to the state in health costs, indebtedness, housing needs, early school drop-out and crime.

Taxpayers already pay a huge subsidy to the unemployed, in order to maintain them in unemployment; a far better return in terms of human capital and economic growth would accrue from using this money to promote labour market participation.

The redistribution of income suggested in this submission would specifically target the poorest groups in society and would also assist families raising children, a key societal resource which has been much talked about in recent public debates.

There are many mainstream public programmes in support of job creation, training and education which have a much higher cost than what is being proposed here. Yet, the potential impact of the Agency's proposals, in terms of a reduction in unemployment and poverty, is enormous, both for the individuals concerned and for society.

Making the long-term unemployed and other groups excluded from the labour market more effective competitors in the jobs market may also have some impact on the rate of pay increase and, hence, on the total numbers employed in the economy.

The submission identifies a number of strategies to increase government income, by curtailing tax allowances and reliefs and by increasing property taxation. These foregone revenues should be re-directed for selective public expenditure purposes, as proposed in the submission.

The economic and demographic changes forecast over the next few years (principally, less unemployment and fewer children) will reduce the cost of welfare provision. This dividend should not be treated as savings, but should be redirected to other needs.

In sum, the costs arising from this submission are marginal in the context of current funding on welfare support and on job creation and training. Yet, their impact in terms of reducing unemployment and poverty would be much greater than the programmes currently in place.

<b>Item (£m)</b>	<b>Net</b>	<b>cost/savings</b>
introduce recruitment incentive (10,000 @ £100pw)		11.5
change employers' PRSI (8% and 4% rates)		56
provide direct employment (5,000 @ £185pw)		17.1
uprate social welfare by inflation (2.5%)		80.1
increase lowest payments to £65 per week		35
align welfare payments		e9
increase employee PRSI allowance (£71)		46
increase personal tax allowance (£71/£142)		115
uprate child benefit by inflation (2.5%)	6.6	
increase child benefit to £40 for two months		21.7
pay higher CDA (£15.20) for older children		12
increase maternity grant to £100		0.34
abolish employee PRSI tax allowance		28
abolish employers' PRSI ceiling		92
abolish employee PRSI ceiling		63
standard rate personal allowances		455
standard rate discretionary tax reliefs		145
increase take from property tax		e100
ease welfare/work transition		10
facilitate welfare/work combination		10
tackle educational disadvantage		10
enhance voluntary/community support		0.5

**Item****Cost/savings**

increase employee PRSI allowance to £71pw (non-cumulative)  
(= £3692 per annum)

increase employee PRSI exemption to £75 pw (non-cumulative)  
(= £3692 per annum)

increase single person tax allowance to £71pw  
and married couple tax allowance to £142pw  
(= £3692/£7384 per annum)

increase single person tax exemption to £75pw  
and married couple tax exemption to £150 pw  
(= £3900/£7800 per annum)

introduce new employer PRSI thresholds (non-cumulative):  
     < £115.40 pw @ 4%  
     < £230.76 pw @ 8%

increase basic CDA for older children (12+ yrs) to £15.20

increase maternity grant for medical cardholders to £100

abolish employer PRSI ceiling

abolish employee PRSI tax allowance

raise employee PRSI ceiling to £25,000

abolish employee PRSI ceiling

standard rate personal tax allowances

standard rate discretionary tax reliefs  
(ie BES, section 35, pension, covenants, medical expenses, etc,  
but excluding mortgage and medical insurance/VHI)

what is average payment to long-term UA recipient?

1995 PBS

PBS is premier policy statement of Agency (outside of research reports and submissions on particular issues).

Major demand on staff time and resources (c 2 months ft, 1 month others).

This had two sections: a review of trends and an outline of reforms.

Reforms covered six themes:

- work for ltu
- welfare-work transition
- welfare payments
- services
- tax

In all, 37 proposals were made.

Follow-up meetings were held with government departments.

In general, a small number of our proposals were acted upon. Why?

- not enough elaboration of proposals
- too many proposals made
- too costly
- more background work needed in advance
- proposals more relevant to other fora (eg tax/integration group)
- not sufficient link with government policy

Questions must be posed as to return to Agency from this exercise.

1996 PBS

Improvements might include:

- review government policy since last Budget, identify policy issues, have more engagement in where govt is at
- focus on a fewer issues, but in greater detail (c 3/4 main proposals)
- (eg labour market measures for ltu, income adequacy and tax/PRSI integration)
- have sustained lead-in on PBS, with seminars, presentations, papers etc
- be rigorous in terms of what is achievable in a Budget
- try to reflect more work of Agency in previous year (summative).

## Agency's 1996 Pre-Budget Submission

### *Draft framework*

This note sets out in outline form the proposed approach to the Agency's 1996 Pre-Budget Submission. Drawing on last year's experience, it is planned to have a more concise document and a greater engagement with existing public policy. The submission will thus have 2/3 major budget-specific themes (largely expanding on last year's submission), as well as some minor proposals primarily directed at the Department of Social Welfare.

1. **Introduction:** what the Agency called for last year, what was done (idea here is to emphasise continuity)

2. **Review of economic performance:** what scope for action in 1996, what are the main challenges in the year ahead (based on a synopsis of ESRI and other quarterly reviews, plus information from other sources)

3. **Macro-themes** (discussed in context of government and EU policy):

- child income support - identifying the best strategy to target resources at children (child benefit, taxed cb, means tested cb or enhanced cdas/fis/tax exemptions)
- distribution of income - using the tax and welfare systems to ensure a basic income;
- distribution of employment/unemployment - developing measures which shift the burden of unemployment (and hence poverty).

4. **Subordinate issues** (focused on DSW in the main):

- measures to ease the transition from welfare to work;
- reform of education-related welfare provision for low income households;
- measures to make participation on government programmes more attractive;
- reform of the school meals scheme.

5. **Strategy:**

- circulate note to Board in July
- commission two background papers (tax and social rights)
- aim for September for rough draft
- desk-based research only
- identify options for publicising submission from September on