



Combat Poverty Agency

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Budget Analysis '88

Implications for Poverty

Preface

The Combat Poverty Agency has a statutory obligation to advise the Government on all aspects of economic and social planning in relation to poverty and to promote greater public understanding of the nature, causes and extent of poverty and the measures necessary to overcome it. In this capacity, the Agency presented a Pre-Budget Submission to the Government entitled 'An Anti-Poverty Programme' in December 1987. This is an initial review of the Budget in the light of that submission.

In undertaking this review the Agency has been most concerned to consider the likely contribution that the measures announced in the Budget will make to increasing social equity and so reducing the currently unacceptable levels of poverty in Irish society. It is intended to highlight both the positive steps that have been taken, and which need to be further developed, and to identify continuing blocks to the achievement of greater social equity.

The Agency remains convinced that, even in today's difficult economic climate, it is possible to make significant adjustments to the distribution of income and resources. It is essential that the problem of poverty be tackled at the same time as pursuing the Programme for National Recovery.

29th January, 1988

Introduction

Control of the public finances is the dominant theme of this Budget. In all, there will be £374m. less Government expenditure this year compared to 1987. The expenditure changes announced in the Budget are confined mainly to the social welfare and taxation systems.*

The Agency wishes to draw attention to the most significant feature of the Budget: the larger proportional increase (11%) for those on the lowest levels of welfare payments, Unemployment Assistance and Supplementary Welfare Allowance. This is a most significant policy shift. However, in financial terms, the amount of money involved is relatively small and falls well short of the Agency's recommendation of £48 as an interim step towards the Commission on Social Welfare's recommended minimum of about £55 - £65. This is a trend which, if built on in subsequent budgets, will make a major contribution to reducing poverty.

In spite of this important policy development in relation to social welfare, the Agency considers that the overall policy framework of the Budget will not significantly change the existing scale of poverty. There are a number of reasons for this. First, the Budget will not bring about any major redistribution of income and resources between different groupings of the population; at best, it will effect small shifts here and there in the economy. Secondly, the Budget will not significantly reduce poverty because it does not provide a comprehensive programme of reform of the taxation and social welfare systems. Thirdly, the Budget will not reduce the continuing high levels of unemployment even if the job targets in the Programme for National Recovery are achieved. A job - the main outlet from poverty apart from emigration - will still remain beyond the reach of many of those who are currently poor.

* Table 1 sets out the main expenditure and revenue changes in the Budget.

Considering the social equity implications of the Budget means looking at the implications of welfare, tax and employment changes and this will be done in subsequent sections of this review.

1. Changes in Social Welfare

There are three key points to be made about the social welfare changes announced in the Budget:

- . a number of progressive measures are planned;
- . some of the measures will result in new inconsistencies;
- . there are major omissions.

(i) Progressive Measures

It is within the social welfare system that the most socially progressive and welcome changes have been made. As expected, payments will be kept in line with the cost of living with a 3% increase from July. There are also a number of additional measures that represent significant new departures in policy.

The single most important of these is the extra 8% increase in personal rates of Unemployment Assistance and Supplementary Welfare payments, on top of the 3% indexation addition. This is a most welcome policy trend on two counts: it breaks with the recent practice of granting across the board percentage increases and it applies one of the best features of the Programme for National Recovery (additional payments for the lowest paid) to the social welfare system.

A second progressive development is the move towards simplification of the child dependant allowances and, related to this, a 6% increase for the children of Unemployment Assistance and Supplementary Welfare Allowance recipients. Hopefully, this heralds a full rationalisation of child dependant allowances, since this move alone has

halved the number of different child rates: from 40 to 20.

A third progressive feature which results from the above simplification is that there is especially favourable treatment for families with 6 or more children: for example, the rate of increase for the 6th and all subsequent children of Unemployment Assistance recipients is 31%. This will benefit something in the order of 5,000 families.

(ii) Inconsistencies

The changes announced in the Budget will result in some inconsistencies in provision. The increases in the basic payments for Unemployment Assistance and Supplementary Welfare favour single recipients: a single person on long-duration urban rate will get a weekly increase of £4.20 while the additional increase for an adult dependant is only 80p extra a week. This represents an increase for married couples of 7.7% compared to 11% for single recipients.

A related outcome is the narrowing of the differential between unemployment insurance and assistance payments: from July there will be only £1.20 difference between the rate of Unemployment Benefit and some Unemployment Assistance payments. This level of differential (3.5%) leads to a new inconsistency as it is at variance with that for other schemes.

The continuation of the Job Search programme, with expected savings of £10m. in 1988, also has serious implications. First, it is not clear how most of these savings are to be achieved since it would appear that savings made within the social welfare system often result in increased costs elsewhere. Secondly, there is no extra provision made for training and placement within the budget of the Department

of Labour (in fact, this Department is to lose a further £2.8m. on top of the cuts made in the Estimates of £11.5m.). It would appear, therefore, that people referred for training through the Job Search programme will displace other potential users of manpower services. The fact that there has been no increase in the payments for employment schemes makes participation in these schemes less attractive.

Some of the changes introduced will also have effects that are not immediately obvious. For example, the actual increases in Unemployment Benefit will in fact be lower than 3% in some cases because of the claw-back effect of the 85% wage stop rule in lowering pay-related benefits. In addition, while the continuation of the alleviating equality payments is welcome, it should be pointed out that the recipients of these payments will receive no cost of living increase in their rates of payment in 1988, because of the corresponding downward adjustment in the alleviating payment from July.

(iii) Omissions

Finally, some comment must be made about what the Budget does not contain in the way of social welfare improvements and reform, especially in the light of the Agency's comprehensive Pre-Budget Submission.

Apart from the simplification of the child dependant allowances, there are no known major changes to be introduced in how the social welfare services are organised and delivered. It is noteworthy, for instance, that any simplifications made were done within schemes rather than across schemes. The most urgent administrative and delivery measures sought by the Agency include a review of the Supplementary Welfare Allowance scheme, the introduction of a single comprehensive means test and the

reform of the appeals system (promised in the Programme for National Recovery). These measures may involve little additional cost and would greatly benefit the recipients and the administrators of the schemes. The failure to extend the existing free travel, electricity and television licence provisions, at a total cost of £12m., to families of the long-term unemployed is also regretted.

The failure to raise child benefit levels is also disappointing because: (1) this is a highly significant payment for those at lower income levels, (2) it is an important and often the only transfer to women, (3) since it applies to both employed and unemployed families, it does not constitute a poverty trap. The current debate on targetting, which raises the issue of some people receiving benefits who don't need them, must be carried on in the context of the reform of the whole taxation and social welfare systems. The debate should not be applied to child benefit in isolation.

The qualifying limits for Family Income Supplement should be reviewed in line with increases in other rates of payment.

It is to be hoped that these omissions will be addressed in the forthcoming Social Welfare Bill.

2. Taxation Changes

Those within the tax system will all benefit from this Budget by virtue of the indexation of allowances and widening of the tax bands. However, while there have been some welcome moves to broaden the tax base, overall the taxation changes will have little redistributive effect. Roughly the same proportion of tax revenue will be derived from the same sources, with some slight adjustments at the margins.

In the interests of social equity, the Agency had hoped for four major tax reforms in the Budget:

- . greater tax relief for the low paid;
- . a widening of the tax base;
- . the phasing out of tax reliefs that most benefit those on higher incomes;
- . rigorous tax assessment and collection.

Of the four, the Budget makes important progress in improving the assessment and collection procedures. It takes some initial steps in widening the tax base through the extension of PRSI to farmers and the self-employed. Least progress is made on phasing out the tax reliefs that most benefit those on higher incomes and granting significant tax relief for the low paid.

The PAYE tax system is critical to the relief of poverty in two ways: because of the potential it offers for transfers to those on low pay and because of its potential redistribution effect.

(i) Implications of the Tax Changes for the Low Paid

Within the tax structure, there is an immediate mechanism available to benefit those on the lowest incomes: the general tax exemption limit. In this Budget the exemption limit was increased by only £100 for a single person and £200 for couples. This is estimated by the Government to have the effect of removing 16,000 people from the tax net. However, the savings to these individuals, is minimal: on average about a £1 a week for a couple. By failing to significantly raise the tax exemption limits, the Budget missed the opportunity to improve greatly the position of those on low pay without affecting total tax revenues or the tax liabilities of the remainder of the PAYE population. Given the additional £61m. devoted to tax improvements other than indexation, there was considerable scope in this Budget, largely unused, for major reliefs specifically for the lowest paid. Additionally, tax exemption limits could

have been adjusted for increasing family size - a measure with small loss to the Exchequer but of significant gain to the individual.

Interestingly, in contrast to the taxation changes, those made in social welfare specifically favoured those on the lowest rates.

While the band and allowance concessions to the PAYE sector exceeded those necessary for pure indexation, essentially these measures are regressive:

- . increases in the tax allowances (both personal and PAYE) are of most benefit to those at higher income levels: indexing allowances gives an additional annual relief of £116 to a married taxpayer at the 58% rate while at the 35% rate the corresponding gain is only £70.
- . widening the tax bands by definition affects those with incomes at the top ends of each band and only benefits those on middle and high incomes.

Overall then, the indexation and tax band changes have little or no impact on the equity of the PAYE taxation system. A more equitable approach would be to reduce the lowest rates of tax and amend the bands accordingly.

(ii) Implications of the Budget for Redistribution

Inequities exist in the PAYE taxation system. The complex system of tax allowances and reliefs has a regressive impact, especially mortgage interest, VHI, and life assurance reliefs. There was scope to reduce these in the Budget. For example, the reduction that has taken place in interest rates provided the Government with a unique

opportunity to further adjust mortgage interest relief without great net effect on homeowners.

Another means of increasing the redistributive impact of taxation is through the broadening of the tax base. The introduction of a property tax and a wealth tax in the Budget would have gone a long way to achieving redistribution and greater equity. In addition, there was considerable scope for increasing capital acquisitions tax. The failure on these fronts means that some major sources of wealth in this country continue to be largely untaxed. In particular, a double inequity is perpetuated by the existence of mortgage interest relief in the absence of a property tax. In addition, the persistently low yield in taxation from the corporate sector is unlikely to be significantly changed by this Budget.

However it is presented, the imposition of VAT on electricity is still a tax. Furthermore, it is a tax that bears disproportionately heavily on those on low incomes since electricity is a necessary commodity. While those in receipt of free electricity allowances are largely protected from this tax, only approximately 173,000 (23%) of all social welfare beneficiaries are currently eligible for this scheme. The extension of this scheme to families of the long-term unemployed, as sought by the Agency in its Pre-Budget Submission, is even more urgent now.

A more effective tax system also contributes to greater social equity. This Budget gives a significant priority to improving administrative procedures and controls, although the expected yield (£30m.) from these measures is disappointingly low. This serious attempt to improve collection methods and pursue defaulters is welcome. Another welcome measure is the inclusion of VHI in the 35%

withholding tax which will mean that payments made to medical consultants under this scheme are now taxed at source.

The inclusion of farmers and the self-employed in the PRSI system is a welcome development as a social policy measure but the planned rate of contribution and the base on which it is to be calculated (gross income less capital allowances) are lower than expected. It is worth pointing out here that were the rate of 6.6%, as recommended by the National Pensions Board, applied, the extra yield to the Social Insurance Fund this year would be in the order of £17m. In addition, by changing the calculation base for PRSI and the other levies, a further £5m. in revenue has been lost.

3. Employment

This Budget contains no specific expenditure to create employment apart from a small additional grant to tourism. In the absence of any direct expenditure provisions in the Budget for job creation, there is no tangible sign at this stage that there will be a growth in employment this year. Indeed, authoritative opinion would suggest that the deflationary effects of the Budget would lead to an increase in unemployment. Furthermore, the Budget's provisions seem to be framed on the assumption of a continuing very high unemployment level: 253,000 on average for 1988. In its Pre-Budget Submission, the Agency clearly indicated the need to introduce a specific job-creation programme if poverty is to be tackled. A programme of rights for the unemployed which would help them to play a more active role in the community was also sought.

The Budget did make reference to the need to redress the undue favouring of capital investment by firms rather than the hiring of labour. This is a welcome and potentially

important measure. However, while depreciation allowances for capital were reduced in the Budget, this has not been matched by parallel measures to employ extra workers.

4. Public Services and Community Development

The Agency in its Pre-Budget Submission identified a whole range of practical measures in Education, Health, Housing and the Law that are an essential part of any anti-poverty programme. Most of these received no mention in the Budget. The implementation of these recommendations is particularly important given the impact of cutbacks on basic services, especially for those on low incomes. There is also an urgent need to introduce a comprehensive programme of integrated community development in both urban and rural areas and to provide for more tax incentives to encourage increased business and private support for poverty projects. It is also to be hoped that some of the additional funds available from the National Lottery will be used to assist community development projects.

The recognition of the plight of the homeless with the allocation of £1m. per annum for three years is welcome, and it is to be hoped that this will be followed up by a Homeless Persons Bill. The Agency also welcomes the decision to retain the Community Drug Refund Scheme and the Long-Term Illness Scheme.

5. Overview

The aggregate impact of the taxation and social welfare measures announced in the Budget will not improve overall social equity and redistribution. Even within the constraints imposed by the need to reduce the National Debt, there was still £74m. available to spend beyond the amount required for pure indexation of tax allowances and welfare payments. Only a proportion of this amount has been directed at those at the lowest income levels: £14m. is to

be spent on the special extra increases for Unemployment Assistance and Supplementary Welfare Allowance recipients, the cost of raising the tax exemption limits will be £2m., and £1m. has been directed to the homeless. Thus, only £17m. (23%) of the money available has been directed to those most in need.

It is noted that several of the taxation changes in the Budget are announced in the context of the recommendations of the Commission on Taxation. The Agency would point out that the report of the Commission on Social Welfare offers a more than adequate blueprint for reform of the social welfare system. It is to be hoped that future changes will relate explicitly to the Commission's recommendations.

Although there is some movement towards broadening the tax base, the opportunity for significant reform was not availed of in this Budget. Thus, corporate and capital acquisitions taxation are largely unchanged and there is no property or wealth tax.

There still remains an urgent need to introduce a comprehensive Anti-Poverty Programme as part of the overall programme for economic recovery. In its Pre-Budget Submission, the Agency outlined that there are five key elements in such an Anti-Poverty Programme:

- . Reform of the taxation system
- . Programme of community development
- . Better access by the poor to public services
- . Programme of rights for the unemployed
- . Social welfare reform*

The overall objective of current Government policy is to create growth. The Anti-Poverty Programme proposed by the

* Details of the key proposals are available from the Agency.

Agency would work to ensure that the benefits of this growth are distributed equitably and that a permanent underclass of people living in poverty is not created in Irish society. Many of the necessary measures can be developed outside of the Budget and the Agency is intent on pursuing them over the coming year.

Major Changes in the Budget and their Estimated Costs and Yields for 1988.

Change	Cost (£m)	Yield (£m)
1. Social Welfare and Health Changes		
3% general increase	30.6	
Additional 8% increase in UA & SVA	11.5	
Additional 3% increase for UA & SVA child dependants	1.35	
Simplification of child dependant allowances	1.35	
Alleviating 'equality payments'	20.0	
PRSI: Change of definition of income for levy receipts for self-employed	3.0	
Mobility assistance for the physically disabled	2.8	
Drug refund scheme	11.0	
Housing for the homeless	1.05	
PRSI: Introduction of 3% rate for self-employed		15.0
Improved collection of arrears		6.0
Job Search and other accounting adjustments		15.4
2. Taxation		
Income tax reliefs	91.0	
Reduction of Stamp Duty	0.7	
Increased capital allowances for company cars	0.6	
5% VAT on electricity		10.0
0.4% reduction on VAT refunds for farmers		7.0
Excise duty increase (cigarettes, petrol, diesel)		26.0
Once-off 6% tax on Pension Funds		15.0
Stamp Duty on ATM cards		6.0
Bank Levy increase		5.0
Improved collection of tax arrears		24.0
Withholding tax on VHI payments		6.0
3. Miscellaneous		
Stock relief for farmers	0.2	
Young Farmers Installation Grant	1.4	
School transport	3.8	
School building	6.5	
Tourism marketing	4.0	
Full repayment of ESB loan		29.3