



POLICY SUBMISSION

Comments on the Proposed Review of Adequacy and Consistency of Social Welfare Rates

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Combat Poverty Agency
Bridgewater Centre
Conyngham Road
Islandbridge
Dublin 8

Tel: 01 670 6746
Fax: 01 670 6760

Email: info@combatpoverty.ie
Web: www.combatpoverty.ie

Introduction

The Commission on Social Welfare carried out the first major review of the Irish Social Welfare system in 1986 and its report has been the starting point for most subsequent debate on social welfare reform. One of the principles which the Commission identified was the need for adequate and consistent rates of payment. The Report stated : *'to be adequate, payments must prevent poverty, and in our view, must be judged in the light of actual standards of living in contemporary Irish society'*. The Commission held that all social welfare recipients should be entitled to a common basic payment which in 1985 was held to be £50-60 per week. Adjusting the Commission's recommendation to 1995 values any individual recipient ought to receive £66.74 to £80.08 to be in receipt of what the Commission termed minimally adequate payment levels.

Since the minimally adequate rates were set in 1985, incomes and prices have evolved to such an extent that what constitutes a basic payment needs to be uprated in the context of prevailing living standards. The Commission suggested that uprating could be achieved through five-yearly reviews of prevailing economic developments.

It is in this context that the commitment in the current programme of Government to undertake a review of minimum adequate income rates is welcome : *'We will commission the E.S.R.I to review the minimum adequate income rates recommended by the Commission on Social Welfare, with a view to recommending new rates in the light of improvements in social welfare and other changes since the report of the Commission was published, and taking into account changes agreed in the Programme for Government'*(Programme for Renewal, (s.114), p.32). The review provides an opportunity to advance the discussion of welfare adequacy and to develop suitable mechanisms for uprating. The purpose of this submission is to raise issues that might be considered as part of an overall review.

The Need for Debate on Adequacy

The Agency recognises the need for adequate social welfare payments as part of a strategy for ensuring that all citizens have at least a minimum income standard. The Agency, therefore, has undertaken to examine the issue of adequacy in some detail. Other recent Agency submissions make specific reference to adequacy of social welfare. These include the 1994 Submission to Government on the Budget entitled *'A Budget for Social Inclusion'* and the 1995 Submission *'Bridging the Divide'*.

Changes in Social Welfare since 1986

A number of changes have occurred in the levels and organisation of social welfare since 1986. In real terms the levels of social welfare rates have increased (see Table 1). Although there has been an increase, the *rate* of increase has been lower than the rate of increase in wages. There is no link between the main social welfare payments and the movement in earnings. However, if adequacy relative to previous living standards is to be achieved there is a need to recognise the necessity of maintaining an acceptable link between social welfare rates and general levels of income.

For the most part, larger increases in social welfare payments have been directed towards lower payments promoting convergence towards the minimally adequate rate. Thus the lowest payments such as Unemployment Assistance and Supplementary Welfare Allowance, starting at a very low level base, increased at a faster rate to enable them to catch up with other payments (see Figure 1).

Context for the Review of Adequate Income

The review of social welfare rates is important at the macro-level, in the context of social, political and economic changes that have taken place in the last decade. It is, therefore, important that these changes are considered. In particular, the following aspects should be included :

1. **The philosophical stance on social welfare.** The Agency has argued that welfare provision should be made on the basis of social rights. This would suggest the need to examine the range of universal and means-tested payments that exist as well as an examination of social insurance.

2. **A European social policy dimension** should be included which would take cognisance of the EU's recommendation on a minimum income and on standardisation of payments, the EU charter of worker's rights. Some consideration should be given to the possibility of intra-EU transfers to meet welfare costs as part of a move towards a single market.

3. Some account needs to be taken of the **link between families on social welfare and their labour market participation.**

4. Any review should undertake to examine and critically assess the **policy response to the Commission's report** since 1986.

Costs of Achieving Adequacy

Any discussion of social welfare improvements should be placed in the context of overall projections of social welfare expenditure. It is in this regard that the Agency commissioned a piece of work on projecting social welfare costs between 1992 and 2000. The findings reflect three major implications for the social welfare system (see attached tables) that will also require attention within any review :

- projected expenditure on social welfare as a percentage of Gross National Product will reduce between 1992 and 2000 if there are no improvements (Figure 2).
- overall, projected expenditure on social welfare will increase by about £1 billion between 1992 and 2000. However, most of this increase is due to inflation (Figure 3).
- increased spending on social welfare is projected for Family Income Support, Unemployment and Old Age payments (Figure 4).

An examination of projections for 1995 and their updating with current budget figures (Table 1) shows that increases in the majority of payments is linked with inflation. The exception to this is the increase in Child Benefit.

TABLE 1 : PROJECTED AND ACTUAL RATES OF SELECTED SOCIAL WELFARE PAYMENTS 1995*

	Projected 1995	Actual 1995
Unemployment Assistance (Long-term)	62.59 (2.6%)	62.50 (2.5%)
Old Age Pension	72.85 (2.6%)	72.80 (2.5%)
Child Benefit	20.50 (2.6%)	27.00 (35.0%)

* Percentage change 1994-95 in brackets

Concerns and Issues on Adequacy

1. *The Recalculation of the Minimally Adequate Rate*

The Commission used a relative formula to calculate a minimum income; this dimension has been lost in the natural focus on the gap between the absolute expression of the

minimum income (ie £50 at the time) and prevailing rates. It would appear logical to now repeat these calculations (as was allowed for by the Commission) in order to re-assess the relative component of a minimally adequate figure. This revised rate would set new goalposts for an adequate minimum income. However, it does not necessarily follow on that updating the Commission's calculations of a minimally adequate income would provide the basis for a new target rate. This may not produce a target that adequately links payments to developments in living standards. It may be feasible to try and improve the relative position of those dependent on social welfare through changes in areas other than the basic rate e.g. through child income support.

2. *Linkage of Social Welfare and Earnings*

The need to link changes in social welfare with changes in earnings is vital to ensuring that an adequate income level is achieved. However, in the Irish context this presents a difficulty given the lack of information that exists about income¹.

Linkage to earnings presently falls short as an objective because the current base is too low but adopting a cash target would only allow for a relative improvement in the position of those on social welfare. It can be argued that the living standards of those reliant on social welfare has moved too far away from the living standards of those at work. To redress this, it may be necessary to raise the base and then link to earnings.

3. *Convergence*

A related issue is the need for *convergence*, to an acceptable level, of the lowest incomes whether from social welfare or from earnings. To allow for this, these incomes must increase faster than average incomes. One concern from the viewpoint of anti-poverty policy is that more must be done to address low incomes among those at work. Thus, the provisions in the budget for those on low pay are welcome. Recent reports in Britain² have shown that the main changes in inequality have been between those on low incomes and those on high incomes as opposed to those on social welfare payments and those in low paid employment.

4. *Inflation-Proofing*

The practice of *inflation proofing* social welfare payments does not provide any direct relation to prevailing living standards which is a core concern of adequacy. Adjusting for inflation protects the living standards of beneficiaries. However, if the objective is that those dependent on social welfare should share in the increasing prosperity of the country as a whole some linking of changes in social welfare with changes in earnings needs to be considered.

In all of the above areas the issue of incentives will require consideration, in particular issues such as work incentives and benefit-earnings gaps for those who are unemployed. These issues have been well documented, for example see NESAC, *A Strategy for Competitiveness, Growth and Employment*, 1993. The Expert Working Group on the Integration of the Tax and Social Welfare Systems is specifically addressing these issues.

Other Issues for Consideration in the Review

Other aspects of social welfare provision have an influence on the adequacy of the living standards of those dependent on social welfare and require review. These include :

¹The 1994 Living in Ireland Survey undertaken by the E.S.R.I. may help to address this issue.

²See, for example, Glyn, A. and Miliband, D., (1994), *Paying for Inequality : The Economic Cost of Social Justice*, London : Rivers Oram Press.

- equivalence scales applied to payments to married couples - one of the weaknesses of the Commission's report was its assumption that 0.6 was the appropriate equivalence calculation based on a literature review. This figure is worthy of a re-examination, especially as it has become increasingly the bench mark for the adult dependant rate.

- the level and structure of child income support - the Commission was even vaguer in its proposal on welfare rates for children, requesting some research on appropriate equivalence scales based on a minimally adequate figure. This would be a fruitful issue to pursue, especially given the Agency's recent work on the basic costs of a child and other work by the ESRI on child equivalence ratios.

- provisions if any made for additional needs - an issue on which there has been little advancement, at least on the lines as proposed by the Commission. Again, a re-examination of this might suggest some important new targets in terms of enhancing welfare rates.

- a review of housing benefit - this is again a timely issue, given the scale of resources (£37.8m in 1993 (*Department of Social Welfare Official Figures*)) expended on rent supplements for private tenants in 1993, the controversial review of the differential rents scheme by Dublin Corporation, changes in mortgage interest relief, the growth in voluntary housing schemes and the property tax debate.

The Agency's main concerns would be in ensuring that the following issues are addressed :

- scales of payment **maintain their value** over time relative to non-welfare earnings
- there is **equity** between different categories of social welfare claimant
- scales **meet at least the basic needs** of recipients
- there is **comparability** with that part of the population which is not dependent on social welfare.

Choices about Adequacy - Uprating Formulae

The following strategies might be examined in the review as a means of uprating social welfare payments :

1. Uprating all benefits by movements in prices
2. Uprating benefits in line with earnings
3. Calculating an earnings or prices formula
4. Uprating benefits by movements in the net disposable income of those in work rather than by an earnings index.

Conclusion and Future Action

This submission outlines some of the key features which should inform the review of social welfare that will be undertaken on behalf of the Department by the E.S.R.I.. The submission is not conclusive but should be regarded as a basis for discussion which might inform the design and content of the review.

The Agency would welcome the opportunity to discuss this work in more detail with the Department with a view to developing the work in this area and assisting, where possible, in further identification of issues of relevance to the debate about adequacy.