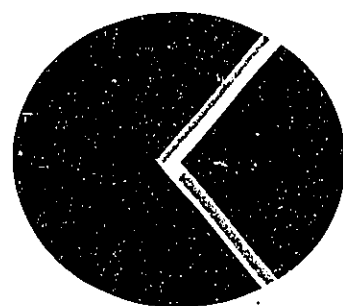




**TACKLING UNEMPLOYMENT THROUGH
TAX AND SOCIAL WELFARE REFORM**

**Submission to the
Minister for Social Welfare and
the Government on the 1997
Budget**

Combat Poverty Agency
December 1996



COMBAT POVERTY AGENCY

The Combat Poverty Agency Act, 1986, outlines four general functions for the Agency.

- Advising and making recommendations to the Minister for Social Welfare on all aspects of economic and social planning in relation to poverty in the state.
- The initiation of measures aimed at overcoming poverty in the state and the evaluation of such measures.
- The examination of the nature, causes and the extent of poverty in the state and for that purpose the promotion, commission and interpretation of research.
- The promotion of greater understanding of the nature, causes and extent of poverty in the state and the measures necessary to overcome such poverty.

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Foreword

The mission of the Combat Poverty Agency is to promote a fairer and more just, equitable and inclusive society by working to prevent and decrease poverty and social exclusion and to reduce inequality. The Agency provides a statutory centre of expertise on poverty issues, policies and practices, with one of its key roles to advise the Minister for Social Welfare on all aspects of economic and social planning pertaining to poverty. Government fiscal strategy, as formulated in the Budget, is obviously crucial to tackling poverty, not alone in terms of income support, but also in fostering access to work and equality of opportunity.

This submission focuses on enabling people to get back to work through careful reform of the tax and social welfare systems. The submission was presented to the Select Committee on Finance and General Affairs in August 1996, in accordance with the new procedures for considering pre-budget submissions announced by the Minister for Finance earlier this year. The Agency also made an oral presentation to the committee and prepared a supplementary note on the impact of its proposal for an integrated child benefit on poverty traps.

Many commentators have highlighted the potentially positive role that tax and welfare policies can play in boosting employment. There is less agreement on prescriptions, with options ranging from lower welfare payments and workfare to the creation of a single tax/transfer system such as basic income. Following careful review of the issues and informed by our participation in the Expert Working Group on the Integration of the Tax and Social Welfare, the Agency outlines in this submission its approach to pro-work reform of tax and welfare policy. Central to this are increasing personal tax allowances and introducing an integrated child benefit (in effect, a taxable basic income for children). These reforms should be prioritised over other options such as lower tax rates or a wider tax band.

Another core feature is to ensure that social welfare payments are minimally adequate to maintain people's participation in normal social life. By being long-term unemployed, people's resources become eroded so that they accumulate debt, curtail jobsearch activities, and are less likely to avail of training and educational opportunities. All of this reinforces their detachment from the labour market due to skill and educational deficiencies. A minimum welfare payment can thus provide a springboard for people to seek employment. However, such a payment must operate in a context where there is a clear reward for working and the transition to work is facilitated. An adequate welfare payment goes hand in hand with tax and welfare measures which promote participation in the labour market.

As a nation, we have a unique opportunity to address these issues and thereby secure the economic and social viability of the country in the years ahead. In essence, we have the capacity, if we have the will, to tackle our endemic problems of unemployment, poverty and social exclusion.

Social solidarity now will also sustain economic competitiveness in the future by increasing labour force participation and reducing welfare costs. This opportunity should be grasped by government, with the support of the social partners and the public in general, in the 1997 Budget, in a new national agreement and in the National Anti-Poverty Strategy ■

Summary

The submission outlines six tax and welfare reforms which would enhance the job prospects of the unemployed and other social welfare recipients, especially those with children. These proposals are summarised in the table below. The submission also makes six proposals of a more general nature, which relate to the National Anti-Poverty Strategy and to anti-poverty programmes of individual government departments. The combined cost of these would be circa £15m per annum.

Table 1. Summary of Agency's Tax and Welfare Recommendations

Issue	Proposal	Cost	Funding
1. High marginal tax rates for lower paid;	increase personal tax allowances to £3,975/£7,150;	£227m (this includes £32m for inflation-proofing)	combination of tax buoyancy and standard-rating of tax allowances/introduction of tax credits;
	increase employee PRSI allowance to £100;	not available	increase employee PRSI ceiling;
	introduce an allowance for the levies;	not available	
2. Work disincentives for unemployed families;	increase child benefit by £7 and make it taxable; consider introduction of a universal medical card for children;	£90m, less tax yield £60m	combination of tax buoyancy and taxing additional component of child benefit; abolish employee PRSI ceiling;
3. Inadequacy of social welfare payments;	increase all payments by rate of inflation; increase the personal rate to a minimum of £69.67 per week;	£36.8m/ £66.1m £51.2m/ £86.1m	tax buoyancy;
4. Clawback of income from part-time work;	improve work disregards and enhance FIS;	maximum £10m	tax buoyancy;
5. Withdrawal of rent/mortgage supplements;	introduce national housing income support scheme with tapered withdrawal;	not available	tax buoyancy and relocate budget for social housing;
6. Regressive structure of employer PRSI;	introduce allowance for employer PRSI;	not available	increase (or abolish) employer PRSI ceiling.

Introduction

Getting people back to work, in particular those in greatest need - the long-term jobless - should be the priority for Budget 1997. In this context, the Agency focuses in this submission on a series of work-friendly tax and welfare reforms. These do not represent a single panacea for unemployment; parallel labour market measures to boost the job prospects of the unemployed are also required. The Agency has decided to concentrate on the single issue of pro-work tax and welfare reform for a number of reasons:

- the cumulative negative effect of *ad-hoc* tax and welfare changes over recent years;
- the requirement for a comprehensive and strategic approach;
- the publication of the expert group report on this issue;
- the relevance to recent public concern about welfare fraud;
- the opportunity presented by tax buoyancy to undertake reform.

The need for reform of tax and welfare from a jobs' perspective has been highlighted in a number of recent official reports from international and national government bodies (eg OECD, EU, NESC, Forfás), along with a wide range of sectional interests, from businesses and workers to welfare groups and economic commentators. Indeed, this theme has attracted inordinate interest as compared to the empirical evidence of its importance in tackling unemployment. The issue was considered in detail by the government-appointed Expert Working Group on the Integration of the Tax and Social Welfare Systems, which reported in June 1996. While the extent of poverty and unemployment traps is limited, and their impact on employment behaviour uncertain, the group found sufficient grounds for a major revamp of the tax and social welfare systems in order to enhance the overall employment potential of the economy and the job prospects of particular categories of the unemployed.¹

Pro-work measures have featured in recent budgets, with tax changes aimed at rewarding work; for example the £80 PRSI allowance, and welfare measures designed to ease the transition to work, such as the three-year retention of medical cards. To-date, however, most of these reforms have been piecemeal and *ad-hoc* - tinkering with existing systems rather than instituting structural change. A more radical approach is required if the institutional flaws that have developed within the tax and welfare systems over recent years are to be addressed. While the components for such a strategic approach are flagged in the Expert Working Group Report, the Agency's submission goes a step further in recommending specific measures which can be instituted in the 1997 Budget.

There are other contextual reasons why reform of tax and social welfare should be addressed now. First, the positive state of the public finances provides a somewhat unique opportunity to undertake this task. Rather than fritter away the fruits of economic growth on short-term rewards for those already in work, it would be more sensible to use these resources to underpin the long-term competitiveness of the economy. Indeed, this should be the benchmark for the forthcoming negotiations on a new national programme between the government and social partners. Second, the recent closures of large low-tech firms, such as Packard and Semperit, highlight the challenge of maintaining low-skilled employment in an era of industrial change. Reducing the labour costs of such industries, along with efforts to upgrade skills, must be central to government industrial policy. Finally, recent suggestions about widespread welfare fraud have revived the debate about the link between welfare and work. Rather than going down the dubious path of greater scrutiny of claimants or of mandatory participation in labour market programmes, which carries with it the danger of further alienating the unemployed, a better strategy would be to address those aspects of the tax and welfare codes which institutionalise unemployment.

The submission focuses on six aspects of the tax and welfare systems:

- i) the high marginal tax rates faced by low paid workers;
- ii) the work disincentives faced by unemployed people with children;
- iii) the inadequacy of social welfare payments;
- iv) the limited gains for welfare recipients from part-time work;
- v) the withdrawal of housing income support upon take-up of employment;
- vi) the regressive structure of employer PRSI.

These negatively impact on the employment options and rewards of many low income households, both employed and unemployed. Those with children, the long-term unemployed and recipients of housing income support are especially vulnerable to various unemployment and poverty traps. It is these households where additional earned income can make a significant difference in terms of reducing the risk of poverty and social exclusion. Welfare and tax policy reform in Budget 1997 should focus primarily on addressing these issues.

Adopting a strategic approach to reform of the tax and welfare systems has a number of implications. First, many of the proposals are relatively expensive or involve a significant redistribution of existing resources. Also, because of the scale of resources required and the

administrative complexity of the reform package, a three or even five year timeframe is desirable. Against that, the proposals are designed to be cost-effective in the longer-term, with major benefits forecast for individuals, in terms of enhanced job opportunities, and for the state, through reduced welfare costs and higher work-related tax revenues. The proposals are also carefully targeted, directing existing and new resources (from economic growth and from demographic and labour market changes) to those most in need. Targeting is also evident in our proposal for an integrated child benefit, where the tax system is used to channel a work-neutral child income package to low income families. This combination of cost-effectiveness and targeting more than justifies the substantial costs involved. Second, a number of the proposals are inter-linked to form a single reform package. Thus, an integrated child benefit must be accompanied by improvements in personal tax allowances, which in turn could be financed by standard-rating allowances or, better still, converting them into tax credits.

Given that this is likely to be the last Budget of the present government, this may seem an inappropriate time to recommend such structural change. However, not alone is there considerable support for the measures that the Agency propose, but policy structures such as the new national agreement, the National Anti-Poverty Strategy, the Strategic Management Initiative and Economic and Monetary Union provide a government framework for implementing a long term perspective on tax and welfare return ■

1. Expert Working Group Report on the Integration of the Tax and Social Welfare Systems (1996), Integrating Tax and Social Welfare, Dublin: Government Publications. The Agency was represented on the Expert Working Group.

1. Context

The unacceptably high and persistent levels of unemployment, in particular the 140,000 people who are long-term unemployed (half of whom are three years without work) remains the main stumbling block of the economy. Despite record levels of job creation, new jobs are not being accessed by those on the live register.

1.1 Record economic growth

The economy continues to record exceptional rates of growth, measured at 7.75 per cent of GNP in 1995 and forecast at 6 per cent in 1996 and 5 per cent in 1997.² Economic growth is being translated into high levels of job creation, with an additional 43,000 at work in 1995 and 36,000 more expected in 1996. Living standards are also rising, with an increase in personal incomes of 7 per cent in 1995 and a forecast of 6.5 per cent in 1996. Inflation is predicted to remain just above 2 per cent for the year. As a consequence of economic growth, the public finances show a strong out-turn, with an undershoot in the Exchequer Borrowing Requirement in 1995 and a reduction in the debt ratio. For 1996, tax receipts are expected to rise by over 10 per cent, and the predictions are that the government borrowing requirement will come in £350 million below the target of £729 million, or 1 per cent of GNP. Together with expected savings on servicing of the national debt and careful control of public expenditure, the government finances will be in a very healthy position at the year's end. The scope for tax reductions and increased public expenditure in Budget 1997 is estimated at up to £400m.

1.2 High and persistent levels of unemployment

The unacceptably high and persistent levels of unemployment, in particular the 140,000 people who are long-term unemployed (half of whom are three years without work) remains the main stumbling block of the economy. Despite record levels of job creation, new jobs are not being accessed by those on the live register. Indeed, there is an inverse relationship between duration of unemployment and prospects of getting a job. The depth of the unemployment crisis is much worse than the headline figures suggest due to the unequal distribution of joblessness. First, unemployment is clustered in certain families and communities and, second, there is a concentration in the time spent unemployed, with the 4 per cent of the population who have been without work for 5 years or more experiencing half of all the years of unemployment.³ These statistics translate into a massive waste of economic resources and a situation of widespread poverty and social exclusion, affecting up to a fifth of Irish households, including a quarter of all children.⁴

1.3 Anti-work features of the tax and social welfare systems

There is ample evidence that the tax and welfare regimes have failed to adjust to recent patterns of employment and unemployment. On one hand, the labour market is changing, with a growth in atypical and female employment. On the other hand, the altered composition of the welfare population (more families), together with the extended duration of dependency, undermine the effectiveness of traditional income support remedies as a transitory response to unemployment. Furthermore, the legacy of uncoordinated and incremental changes in the tax and social welfare systems has resulted in many anomalies between, and within, the two codes. Their interaction with the financial parameters of government training, education and employment programmes has created a further realm of confusion and uncertainty for those seeking to (re-)enter the labour market. In sum, the unintentional outcome of recent policy is to institutionalise welfare dependency and to create an atmosphere where welfare fraud and the black economy are encouraged.

1.4 National Anti-Poverty Strategy

Last year, the government committed itself to drawing-up a national anti-poverty strategy, with the aim of incorporating anti-poverty measures into the mainstream policy framework. Following an intensive round of research and consultation, five themes have been identified as the basis for formulating this strategy: income adequacy, unemployment, educational disadvantage, disadvantaged urban areas and rural deprivation. Crucial to this process is an identification of policies which may inadvertently contribute to the production and/or perpetuation of poverty and a review of procedures whereby the work of discrete government departments is coordinated. Budget 1997 is an important forum through which this process can begin by focusing on government fiscal policy, in particular tax and social welfare. It is important to note that the National Anti-Poverty Strategy does not necessarily imply additional government expenditure, but a redistribution of resources and a review of the positive or negative effects of existing tax and spending decisions on poverty.

1.5 New national agreement

Negotiations on a new national agreement to replace the Programme for Competitiveness and Work (PCW) commenced in October, following publication of the NESC strategy document. Successive agreements since 1987 have been instrumental in achieving a consistent approach to macro-economic policy, incomes, and structural adjustment in the economy. The results can plainly be seen in terms of improvement in the public finances, high rates of economic growth and rising living standards for those in work, especially those who have recently secured employment. These achievements are blighted, however, by the continuing reality of widespread unemployment, poverty and social exclusion. The prevailing policy consensus has demonstrably failed to address this reality, with the result that public credibility in the social partnership model is damaged. By contrast, the local development partnerships and the National Economic and Social Forum demonstrate the potential for a common approach to long-term unemployment and local renewal. This approach should now be incorporated into the core of national policy-making in the successor to the PCW, if social solidarity is to be maintained.

1.6 Economic and monetary union

Economic and monetary union (EMU) is due to come into effect in 1999, with Ireland expected to be one of the founding members. In anticipation of this, fiscal policy is increasingly oriented towards meeting the convergence criteria for EMU (ie government deficit below 3 per cent of GDP, a debt ratio approaching 60 per cent of GDP, low inflation and interest rates). The core challenge of EMU will be to establish a consistent and effective relationship between fiscal policy on one hand and incomes policy on the other. In this regard, unemployment and poverty pose a major challenge to government policy for EMU and cannot be treated as a residual item to be addressed only if additional resources become available ■

2. This and other information is taken from T.J. Baker et al *Quarterly*

Economic Commentary, Dublin: ESRI

3. Department of Enterprise and Employment (1996),

Growing and Sharing our Employment, Dublin: Stationery Office;

Nolan, B. et al (1994), *Poverty and Time, Perspectives on the Dynamics of Poverty*, Dublin: ESRI

4. Nolan, B and T Callan (eds) (1994), *Poverty and Policy in Ireland*,

Dublin: Gill and Macmillan

2. Issue One: High Marginal

The Agency's proposal for Budget 1997 is to increase personal tax allowances (inclusive of the PAYE allowance) to £3,975 for a single person and £7,150 for a couple for the first year, as part of a two-year strategy of equalising tax allowances and exemption thresholds.

2.1 Background

Tax exemption thresholds have widened significantly in recent years as a targeted and cost-effective policy instrument for minimising the tax liability of lower earners, especially those with children. The down-side of this has been to greatly increase the number of workers facing a potential tax liability of 40 per cent (the marginal relief rate) - 174,000 or one in six.⁵ For those also in receipt of Family Income Supplement, the combined effect can be a severe poverty trap, losing 100 per cent of additional income. The loss can be greater where PRSI/levies are deducted, differential rent is increased or eligibility to a medical card is lost.

High marginal tax rates can increase the cost to businesses of hiring workers, in that employees may seek wage increases in order to compensate for high marginal tax rates. In turn, this can act as a disincentive to employment creation, especially at the lower end of the labour market. Ironically, this is where the need for jobs is greatest - among the long-term unemployed, whose main hope of work is lower skilled (and lower paid) jobs. It also undermines government policy of reducing employers' PRSI on lower paid work. Another side-effect of high marginal tax rates is the impact on short-term social welfare recipients. The problem here is that, where a person has sufficient other income to put him/her above the exemption threshold, he/she could be liable for tax on their unemployment benefit. This could represent a significant income loss at the end of the tax year.

The problem of high marginal tax rates on an increasing number of lower earners is directly attributable to two factors:

- a growing divergence in the value of exemption thresholds and personal allowances for taxpayers with child dependants, following the introduction (and subsequent increase) of child additions to exemption thresholds in 1989;
- the reduction in the marginal relief tax rate to 40 per cent in 1994, thereby expanding the range of income over which it was applicable.⁶

Table 2 summarises the current situation. There is a 28 per cent difference between the tax exemption thresholds and personal tax allowances for a married couple. This differential rises considerably where taxpayers have child dependants, up to 53 per cent for three children and 85 per cent for six children. Meanwhile, marginal relief ends at £22,100 for taxpayers with six children, doubling the range of the exemption threshold. There is also an issue of principle involved here as high tax exemption thresholds create a second income tax system. This dual tax structure is the cumulative result of *ad hoc* reforms of personal taxation, where short-term expediency, such as reducing tax rates, has taken priority over long-term reform based on social equity.

Tax Rates for Lower Paid Workers

Table 2. Comparison of Exemption Thresholds and Tax Allowances, 1996/7

Household Type	Exemption Threshold	Personal Allowance	Marginal Relief
Single	3,900 (14.7%)*	3,450	4,835
Married	7,400 (27.9%)	6,100	11,331
+1 Child	8,250 (35.2%)	6,100	12,715
+2 Children	8,700 (42.6%)	6,100	14,100
+3 Children	9,350 (53.3%)	6,100	16,100
+4 Children	10,000 (63.9%)	6,100	18,100
+5 Children	10,650 (74.6%)	6,100	20,100
+6 Children	11,300 (85.2%)	6,100	22,100

* Percentage by which exemption threshold exceeds the personal allowance

The problem of high marginal tax rates can be addressed by re-balancing and eventually equalising the value of tax exemption thresholds and personal tax allowances. This will greatly reduce the number of lower earners which fall within the system of tax exemption/marginal relief. This still leaves the wider issue of lower earners with children - their situation will be considered in the context of reform of child income support. Two other measures are also required as part of this package: (i) substantially increasing the allowance for employee PRSI and (ii) introducing an allowance against the levies, which would replace the exemption threshold.⁷ The latter is required to address the discontinuity in net income at the threshold of £188 per week. It would also be a less expensive option than abolishing the levies completely.

2.2 Proposal

The Agency's proposal for Budget 1997 is to increase personal tax allowances (inclusive of the PAYE allowance) to £3,975 for a single person and £7,150 for a couple for the first year, as part of a two-year strategy of equalising tax allowances and exemption thresholds. This would cost £227 million in a full year, reduced to £195 million if the traditional indexation of exemption thresholds and tax allowances at the rate of inflation is omitted.⁸

Increased personal tax allowances would have the following benefits:

- improve the incentive to work;
- remove the poverty trap from the income schedule;
- increase the incomes of lower paid (non-tax exempt) workers;
- promote employment, especially among the long-term unemployed;
- reduce welfare dependency;
- simplify and rationalise the tax system;
- align tax allowances and welfare payments.

Increasing personal tax allowances could be seen to have the following drawbacks:

- the cost of the reform;
- the redistributive effects for higher rate taxpayers;
- the negligible gains for currently tax-exempt lower earners.

The first two drawbacks could be remedied by either narrowing the standard rate band or restricting the increase in the allowance to the standard rate of tax. The first option is not realistic, given the already low threshold at which people enter the 48 per cent tax band. Standard rating of personal allowances, as has been done for health insurance, mortgage and local service charges relief, is both practicable and socially progressive. There are some technical problems with standard rating in an interim range of income between the standard and higher rate bands. To overcome this, a system of tax credits could be introduced, which would have the same effect as standard rating of allowances, but without any discontinuities across the income schedule. Tax credits also carry the bonus of being transparent and easily understood. The third drawback - negligible gains for tax-exempt households - is unavoidable in any tax reform package, where those not paying tax cannot benefit from changes. Their main benefit will be a lower marginal rate of tax on additional income. Low income households with children will also gain from our proposals to increase child benefit (see next section).

2.3 Funding

The proposal could be funded in the first instance through additional receipts from tax buoyancy. In the longer-term, the cost of the proposal would be considerably reduced, if not made negligible, through knock-on effects of lower wage demands, reduced welfare costs and higher tax take from more people in work.⁹ The alternative and more radical approach - standard rating personal allowances or introducing tax credits - would yield in the region of £419 million, almost double the estimated cost of our proposal. These additional resources would fund an increase in personal allowances of £1,315/£2,630, effectively abolishing exemption thresholds for the self-employed as well as the employed. However, because of the losses faced by higher taxpayers from standard rating or tax credits, an equivalent extension of the standard rate band would be desirable, at a cost of £160 million. Meanwhile, increasing the PRSI allowance could be funded through raising the employee PRSI ceiling. Finally, reform of the scale outlined here would entail major administrative changes, which would require a substantial lead-in time, along with a public information campaign ■

5. At a cost of £112 million in the current tax year Expert Working Group Report (1996).
6. The enhanced tax exemption thresholds and reduced rate of marginal relief were premised on a desire to improve employment incentives, in conjunction with an expanded family income supplement. While this has been achieved in a relatively cost-effective manner, it has had the negative consequence of greatly worsening the poverty trap faced by low income earners.
7. The Expert Working Group on the Integration of the Tax and Social Welfare Systems estimated that the cost of introducing an allowance of £80pw against the levies would be £68m on a full-year basis (see p. 140 of the Expert Working Group's Report).
8. Based on costings of the Expert Working Group on the Integration of the tax and Social Welfare Systems.
9. It could also minimise the need for an in-work benefit for single people, as recently proposed by the Department of Enterprise and Employment in its strategy paper on the labour market

3. Issue Two: Work Disincentives

The Agency proposes that child benefit is increased by £7 per month and that the increase is made liable for taxation, as part of a five-year strategy of introducing an integrated and adequate child benefit.

3.1 Background

Families on welfare encounter the greatest disincentives to taking up employment. This is primarily due to the payment of child dependant allowances to unemployed families under the social welfare system, while income from work is not similarly differentiated. Currently, a married couple with two children on long-term unemployment assistance face replacement ratios in excess of 80 per cent on annual earnings of between £5,000 and £12,000. The numbers facing such high replacement ratios are estimated to be 9.5 per cent of the unemployed (23,000) and 5.8 per cent of employees (37,000) - 60,000 individuals in all.¹⁰ While the behavioural response to high replacement ratios is not researched in Ireland, nonetheless, they are undesirable in a country with extremely high rates of joblessness. Government policy has sought to avert the welfare/wages discrepancy through the provision of in-work benefits for low paid workers with children - notably, family income supplement and child additions to tax exemption thresholds. However, these responses are problematic in two regards: take-up is considerably less than 100 per cent (only 40 per cent for FIS), and a poverty trap is created as benefits are withdrawn and/or income is taxed for those in work. An alternative approach is thus required which will lessen the financial difficulties in taking-up work.

One increasingly canvassed solution to tax/welfare discontinuities in the treatment of children is a basic income for children. The main instrument here is a reformed child benefit, which would combine all forms of child income support¹¹ into a single enhanced payment, though with some degree of selectivity required to minimise the costs and to target its impact. This would guarantee to all families a basic payment for children which would be neutral as to parental work status. (Another option, an enhanced FIS, with administrative changes governing the retention of child dependant allowances, is not favoured because of the endemic take-up problems associated with this form of in-work benefit.)

Changing the way child income support is delivered, without increasing its value, would fail to address the problem of child poverty. On-going research by the ESRI, supported by the Agency and the Department of Social Welfare, suggests that upwards of a quarter of children can be found in poor households, with larger families facing the highest risks of poverty. Merely transferring existing child dependant allowances into an enhanced child benefit would therefore not improve the position of the poorest in society, though undoubtedly easing their transition into work where such opportunities arose. The Agency's proposal is thus to amalgamate existing payments and to enhance their overall value. The required level at which a combined payment should be

Faced by Unemployed People with Children

set to meet the basic childrearing costs is in the order of £34.50 per week, with the precise figure varying according to a child's age.¹²

The cost of an adequate child benefit would be considerable, while the main beneficiaries would be middle and upper income families. In order to address these related issues of cost and targeting, the option of an integrated or taxed child benefit is advocated. This would cut the cost of implementing the proposed change by up to half, while targeting resources at lower income families. Taxing child benefit would require some parallel reforms of the tax system, on the lines of those previously outlined. In addition, in order to minimise the impact on larger families, it would be desirable to phase in the taxing of child benefit by initially only making the additional component of child benefit liable to tax. The option of an integrated child benefit has been supported by various government agencies in recent times, including Forfás, the Expert Working Group and NESC.¹³ Indeed, NESC sees an integrated child benefit as a priority reform, viewing it as 'a benchmark against which incremental changes in the tax and benefit system should be evaluated' (p48).

Reforming child income support on the lines advocated above would have major legal and administrative implications. On the tax side, legislation would be required to make child benefit taxable as parental income and to restrict the use of the PAYE allowance by a stay-at-home spouse. Administratively, a bi-monthly payment would have to be considered, while taxing the payment would require a considerable lead-in time.

3.2 Proposal

The Agency proposes that child benefit is increased by £7 per month and that the increase is made liable for taxation, as part of a five-year strategy of introducing an integrated and adequate child benefit. Once an adequate level of child income support is achieved, CDAs could then be clawed back, so easing the transition from welfare to work. However, it is important that CDAs are not withdrawn until an adequate level is achieved through increases in child benefit, otherwise families dependent on welfare will lose out at the expense of better off families. The long-term goal would be to reach a child benefit of £100 over a five year period.

A related proposal of benefit to unemployed households with children would be to introduce a universal medical card for children. While the Expert Working Group on the Integration of the Tax and Social Welfare Systems did not recommend this approach on the grounds of cost, they did consider it to have merits in terms of equity, administrative cost efficiency and simplicity. They also agreed that a universal medical card for children would help to ease the disincentive effects which some families face on taking up employment or receiving a pay

increase. The potential benefits of this change warrant serious consideration. It would cost £90 million to increase child benefit by £7 per month, though a proportion of this could be clawed back through taxing the additional proportion. A universal medical card for children would cost £60 million, which could be part-funded through abolishing the employee PRSI ceiling.¹⁴

A higher (and taxable) child benefit would have the following benefits:

- improve the incentive to work for households with children;
- remove the poverty trap from the income schedule;
- improve the potential financial independence of mothers;
- increase the incomes of lower and middle income families;
- bring child payments for welfare families closer to an adequate level;
- reduce welfare dependency;
- simplify the system of child income support;
- dampen demand for the reintroduction of child tax allowances.

The drawbacks of the reform would be:

- additional public expenditure;
- an increase in the tax burden;
- redistributive gains for middle income families;
- legal and technical changes required.

The legal and administrative changes required to implement this policy should be seriously considered.¹⁵ Child benefit is by nature an expensive policy instrument which assists all households with children regardless of income. By taxing it, these features are significantly ameliorated, though at the expense of increased taxes. The impact of higher taxes would be minimised by phasing in the taxation of child benefit and by increasing personal allowances. An illustration of the cumulative impact on families' living standards of an integrated child benefit and higher tax and PRSI allowances is provided in Appendix 1.

3.3 Funding

The cost of an increased child benefit could be met through buoyancy in the public finances. Again, it is probable in the long-term that this cost will be minimised through higher participation in the labour market, leading to attendant savings in welfare expenditure and additional tax returns. There would also be substantial gains from reduced levels of child poverty, eg higher educational attainment and improved health and nutritional standards. The demographic situation is also favourable with a reduction in the number of births projected in the next few years. A possible timescale and phasing for a reform of this magnitude is outlined in the report of the tax/welfare integration group ■

10. Expert Working Group on the Integration of the Tax and Social Welfare Systems (1996), *opcit.*

11. This includes social welfare child dependant allowances, family income supplement for low paid workers with children, child additions to tax exemption thresholds, and universal child benefit (which incorporates the previously distinct children's allowances and child tax allowances).

12. Carney, C et al (1994), *The Cost of a Child, A Report on the Financial Costs of Child-rearing in Ireland*, Dublin: Combat Poverty Agency.

13. Forfás (1996), *Shaping our Future, A Strategy for Enterprise in Ireland in the 21st century*, Dublin: Forfás; NESC (1996), *A Strategy into the 21st Century*, Dublin: NESC; and Expert Group Report (1996).

14. The employee PRSI ceiling, currently £22,300, is a regressive feature of the PRSI system and its abolition would ensure proportionality across the income range. Its removal would provide the resources to fund an enhanced employee PRSI allowance (see last section) and/or a children's medical card. The drawback would be to increase marginal tax rates for high earners.

15. For further discussion of this point see Chapter 4 of the report of the Expert Working Group on the Integration of the Tax and Social Welfare Schemes

4. Issue Three: Inadequacy

All social welfare personal payments should be increased to a minimum of £69.67 (as recommended by the Commission on Social Welfare), with pro-rata increases for adult dependants. Payments in excess of this should be increased by the rate of inflation.

4.1 Background

The Commission on Social Welfare identified the adequacy of payments as an underlying principle of the social welfare system. According to the Commission, an adequate payment should prevent poverty, as determined by prevailing living standards. It recommended a rate ranging from £69.67 to £83.60 (projected 1997 values) for a single adult, with a pro-rata payment (60 per cent) for an adult dependant. This principle has been endorsed by various government programmes, including the Programme for Competitiveness and Work and the Programme for a Government of Renewal. Considerable progress has been made since the Commission's recommendation in 1986, with all payments now within 90 per cent of the minimum figure. Budget 1997 should now bridge the remaining gap. The Commission's proposal for a minimum adequate welfare rate can also be seen in the context of the recommendation by the European Commission to national governments for the adoption of a minimum income standard.¹⁶ Specifically, it urges member states to

*"recognise the basic right of a person to sufficient resources and social assistance to live in a manner comparable with human dignity as part of a comprehensive and consistent drive to combat social exclusion"*¹⁷

Adopting a minimum income standard sets out a principled mechanism for symbolising society's commitment to minimum standards of decency. Ideally, such a standard should be inclusive of social welfare payments and personal tax allowances. This would help overcome the often negative debate between welfare advocates and employment groups on this issue. An adequate minimum welfare payment is required to ensure that people who cannot take up employment opportunities, in the short-term or long-term, have a dignified quality of life. It is needed to enable welfare dependants to access the necessary resources to break-out of a cycle of poverty, depleted resources and, ultimately, long-term welfare dependency.¹⁸ For example, welfare households are often - forced to turn to moneylenders or to go into arrears on their rent or utility bills in order to purchase essential goods. These debts confine people's lifestyles when their choices are severely restricted and they become unable to access supports which may become available to them. People's

of Social Welfare Payments

nutritional status may also suffer due to a shortage of income; with mothers, in particular, willing to compromise their own diets for the benefit of their children.¹⁹ This can have knock-on effects on the health of poor households, increasing their risk of long-term illness and thus their dependence on public health services, such as the medical card. Inadequate income is especially destructive for families with school-going children, where the hidden costs of education pose a major barrier to continued participation in school, especially beyond the mandatory attendance age.

The job search activities of unemployed people can also be hampered by reliance on welfare, especially where this extends over a long period of time. The expenditure of scarce resources on job applications and interviews has to be weighted against the resultant financial stress on the household budget. Furthermore, people on welfare are inclined to withdraw from social networks which involve a financial outlay.²⁰ Yet, many employers rely on such networks to recruit staff, especially for lower skilled positions, by using existing employees as informal job-brokers. Inadequate payments can also restrict people's participation in education and training programmes, as well as in community self-help initiatives.

4.2 Proposal

All social welfare personal payments should be increased to a minimum of £69.67²¹, with pro-rata increases for adult dependants. Payments in excess of this should be increased by the rate of inflation. The cost of up-rating personal rates for inflation (2.3%) is as follows:

29 weeks	52 weeks
£36.8 million	£66.1 million

The additional cost of up-rating personal rates to a minimum of £69.67 is as follows:

29 weeks	52 weeks
£51.2 million	£86.1 million

Increasing basic welfare payments to £69.67 would have the following gains:

- meet the minimum adequate rate set by the Commission on Social Welfare;
- improve the financial situation of those on the lowest incomes;
- target some of the fruits of economic growth to those most in need;

- strengthen public commitment to social solidarity;
- signify an integrated (tax/welfare) minimum income standard;
- reduce welfare dependency;
- enable welfare dependants to pursue self-help opportunities.

The drawbacks to the proposal are:

- its cost;
- its effect on replacement ratios in the absence of other tax initiatives.

An increase in public expenditure is warranted because of its direct impact on the living standards of welfare dependants, thereby ensuring that some of the gains of economic growth reach those outside traditional market mechanisms for redistributing resources (employment, property, shares, etc.). Increasing welfare payments in conjunction with raising personal tax allowances, as outlined earlier, would avoid worsening unemployment traps.

4.3 Funding

The additional public expenditure should be paid for from tax buoyancy ■

16. See Nolan, B (1995), *Ireland and the 'Minimum Income Guarantee'*, Dublin: Combat Poverty Agency, for an indepth review of Irish social assistance provision in the light of the EU recommendation.

17. 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*, 22 August, 1992.

18. Nolan, B and Whelan, C (1996), *Resources, Deprivation and Poverty*, Oxford: Clarendon Press.

19. Lee, P and Gibney, M (1989), *Patterns of Food and Nutrient Intake in a Suburb of Dublin with Chronically High Unemployment*, Dublin: Combat Poverty Agency.

20. Dawes, L (1993), *Long-term Unemployment and Labour Market Flexibility*, Leicester: Centre for Labour Market Studies, University of Leicester.

21. This figure is based on up-rating the Commission on Social Welfare's recommendation of a minimum adequate rate of £50 in 1985 in line with inflation to 1995, and assuming an inflation rate of 2.2% in 1996 and 2.3% in 1997.

5. Issue Four: Clawback

The social welfare system could be more supportive of beneficiaries who wish to take up full-time or part-time work opportunities.

5.1 Background

The social welfare system could be more supportive of beneficiaries who wish to take up full-time or part-time work opportunities. The decision to move from welfare to work involves recipients in a number of cross-cutting decisions around the financial rewards of taking up employment, the start-up costs associated with a new job, the comparative insecurity of work payments, the temporary loss of income while moving from one payment system to another, and the loss of secondary benefits. These problems have been acknowledged and responded to in the form of the back-to-work allowance and the retention of secondary benefits, such as a medical card, for those returning to work.

The social welfare system has been slower to respond to the growing pattern of households with combined (ie welfare and work) income sources, with numerous add-on schemes patching up an archaic system. A more structured approach is required to adequately deal with modern work patterns, especially as it is likely that the number of welfare recipients who rely on welfare and work on an ongoing basis will increase. The key issue here is to reform the earning disregards for recipients of means-tested payments. This could be achieved by:

- bringing them in line with entitlements currently available to lone parents;²²
- simplifying procedures and making them more transparent;
- tapering the withdrawal of the adult dependent allowance;
- including an earnings disregard for a working adult dependent under the FIS scheme.

5.2 Proposal

The earning disregards for people on social welfare should be improved and FIS should be enhanced for working adult dependants. The cost of these would be relatively modest, less than £10m, though a precise estimate would depend on the specific details being adopted.

Encouraging the transition from welfare to work and acknowledging welfare/work combinations would allow welfare recipients to take advantage of emerging work opportunities, while secure in the knowledge that they have an income safety net. Such an approach would also be relevant to the growth in seasonal work, particularly in rural areas.

22. This allows lone parents to earn up to £12,000 per annum and still retain a portion of their payment.

of Income from Part-time work

5.3 Funding

The introduction of these changes would require additional public resources. However, in the long-term they could be self-financing as, by facilitating welfare recipients to take advantage of work opportunities, they would cut the cost of welfare and increase revenue from taxation ■

The Agency proposes the introduction of a statutory, means-tested scheme of housing income support, which would be open to employed and unemployed people.

6. Issue Five: Withdrawal

6.1 Background

Currently, 39,000 households are in receipt of rent and mortgage supplements under the Supplementary Welfare Allowance (SWA) scheme, representing 30 per cent of all households in receipt of social housing.²³

This form of housing income support has gained increased importance in recent years due to the reduced availability of public rented housing in the late 1980s and early 1990s and to people's desire for alternative housing options. Yet, SWA rent and mortgage supplementation was never designed as a mainstream housing income support - its primary intention was as a residual scheme catering for unmet needs within the general ambit of the social welfare system. It is therefore not surprising that the growth in SWA as a housing income support has been described as 'unanticipated, unplanned and unmonitored'.²⁴

Not surprisingly, increased demand on the scheme has led to a number of problems, including the creation of unemployment and poverty traps.²⁵

These arise from

- (i) the exclusion of full-time employees from eligibility for supplements;
- (ii) the withdrawal of supplements on a £1 for £1 basis where additional income is secured; including that earned by an adult dependant;
- (iii) the claw back of any welfare income above the basic SWA rate, which is the lowest of all welfare payments and only 92 per cent of the minimally adequate rate proposed by the Commission on Social Welfare in 1986.

Not alone are these features undesirable from an employment perspective, they also are inconsistent with the treatment of claimants under comparable social housing subsidies (e.g. differential rents or rent subsidy schemes). These issues have been acknowledged by two recent government bodies - the review group on SWA and the tax/welfare integration group, which have added their concerns to those of other social policy bodies, including NESC, NESF and Threshold.²⁶

The introduction of a statutory, means-tested scheme of housing income support, which would be open to employed and unemployed people, would address these issues. Such a scheme would incorporate a tapered withdrawal of benefit, where income exceeded the eligibility threshold. It is also advisable that the new

of Housing Income Support

scheme would be comparable to and, in the longer-term, incorporate other similar forms of housing assistance currently operated by the local authorities (eg rental subsidy, differential rents). This would bring a long-awaited rationalisation across housing income support schemes, to the benefit of both claimants and administrators. It would also be in keeping with the proposal to centralise the administration of all forms of housing income support in the local authorities.

6.2 Proposal

A statutory means-tested scheme of housing income support should be introduced. It is not possible to estimate the cost of a statutory means-tested scheme of housing income support without further analysis of the likely additional level of demand, as compared to existing provision for social housing needs.²⁷

A reformed scheme of housing income support would:

- improve the incentive to work;
- remove the poverty trap facing households on welfare;
- reduce welfare dependency;
- simplify the system of housing income support;
- eliminate anomalies between schemes of housing assistance;
- make public subsidisation of housing more transparent;
- provide a greater choice to households in need of housing;
- strengthen the social housing sector in general.

Its drawbacks would be the additional costs involved and the extension of poverty traps up the income schedule, especially where rent and mortgage payments were quite substantial.

6.3 Funding

The additional costs arising from a statutory scheme of housing income support would be met as part of the government's on-going commitment to enlarged public expenditure on social housing. There may be scope to effect some economies in terms of the relative cost-effectiveness of existing social housing options. In this regard, a study by Goodbody Economic Consultants for the Review Group on SWA has shown that rent supplementation is a less expensive option than public rented housing or, in certain situations, voluntary housing, for single people.²⁸

Furthermore, private rented housing is a more suitable accommodation option for many households, offering flexibility and choice. The expenditure which would arise from ameliorating the poverty traps endemic in the present scheme could be outweighed in the longer-term by increased employment ■

23. Social housing is housing which meets the needs of households whose resources are insufficient to provide them with access to suitable and adequate housing. It includes local authority housing and housing provided by voluntary and non-profit housing agencies (see Fahey, T and Watson, D (1995), *An Analysis of Social Housing Need*, Dublin: Economic and Social Research Institute.

24. Fahey, T and Watson, D (1995), op cit.

25. Other issues relate to the delivery of the scheme, the criteria for assessing need and determining rents, and the lack of links with mainstream social housing policy, such as on the quality and quantity of housing.

26. Review Group on the Role of Supplementary Welfare Allowance in Relation to Housing (1995), *Report to the Minister of Social Welfare*, Dublin: Stationery Office, and Expert Working Group (1995), op cit.

27. Other recent housing studies have not costed this proposal. However, see funding section below for a discussion of the possible cost implications of this reform.

28. Review Group on the Role of SWA in Relation to Housing (1995), op cit.

7. Issue Six: Regressive

An employers' PRSI allowance should be introduced, on the lines of the employees' PRSI allowance. This should operate on a weekly basis, and be set at a minimum of £75.

7.1 Background

There has been much debate about the effect on employment of the tax wedge, that is the gap between the value of take-home pay and gross labour costs. High wages costs, it is argued, can create a disincentive to employers to create or maintain jobs. However, there is little research to validate this viewpoint. Two Irish studies suggest that a general cut in wage costs is likely to have very limited impact on employment levels. More promising, though, would be reductions in taxes on low to middle incomes, in effect those in less skilled employment. This would have the added advantage of targeting those with the greatest risk of unemployment and poverty.²⁹ Our previous proposals for increasing personal allowances and the PRSI allowance are quite relevant in this context. Also at issue is employers' PRSI, which is currently levied at 8.5 per cent on incomes up to £13,000 and 12 per cent on incomes exceeding £13,001, subject to a ceiling of £26,800. Recent budgets have given some attention to reducing the rate of employers' PRSI on lower paid jobs, with the introduction of a lower rate based on an income threshold. This is to be welcomed. However, the regressive nature of PRSI remains largely unchanged, while new weaknesses have been introduced.

First, there remains a substantial bias in the system in favour of better paid employees, due to the existence of a ceiling. For example, the effective rate of employers' PRSI due on an income of £37,600 is 8.5 per cent, the equivalent of the lower rate. Furthermore, paying a higher earner more generates no additional costs to the employer in terms of PRSI. Second, the recently introduced low income threshold results in a discontinuity in the amount of PRSI payable on income just over £13,000 or £250 per week: here, an additional £1 per week to an employee can cost an employer £8.87 in increased PRSI. Such a cost rise is very undesirable. Third, the lower rate does not distinguish the hours worked, so that a full-time but low paid employee costs the same to an employer as a part-time but highly paid worker.

What are the reform options? The simplest would be to introduce a single lower rate of contribution with no ceiling. This would improve the employers' PRSI system on the basis of equity, efficiency and administrative simplicity. However, it would not be very targeted from an income perspective and would thus have a much diluted employment creation impact, especially at the

Structure of Employers' PRSI

lower end of the market. Another option would be to continue down the recent government route of incremental reform, using a threshold (or thresholds) mechanism. Thus, the lower rate could be cut further or a super low rate be introduced, eg 4 per cent below £125 per week. This is at least targeted, though using a very crude instrument. It might also run the risk of institutionalising low pay. A superior strategy would be to introduce an employers' PRSI allowance, similar to that now in operation for employees' PRSI. The additional cost of this measure, so as to maintain the benefit of the lower rate, could be met by increasing the ceiling or, better still, abolishing it altogether. Such a move would necessitate a review of fringe benefits and how employers' PRSI is currently applied to these.

7.2 Proposal

An employers' PRSI allowance should be introduced, on the lines of the employees' PRSI allowance. This should operate on a weekly basis, and be set at a minimum of £75.

7.3 Funding

The additional costs of this measure should be funded by increasing (or, in order to finance a higher allowance, by removing) the ceiling on employers' PRSI ■

29. O'Connell, P and JJ Sexton (1994), *Labour Market Developments in Ireland, 1971-1993*, in S Cantillon et al (eds), *Economic Perspectives for the Medium Term*, Dublin: ESRI

This section of the submission outlines six anti-poverty measures which, though falling outside of the parameters of tax and welfare reform, still merit consideration in the context of the 1997 Budget.

This section of the submission outlines six anti-poverty measures which, though falling outside of the parameters of tax and welfare reform, still merit consideration in the context of the 1997 Budget. These involve additional government expenditure in specific policy areas which are of relevance either to the development of the National Anti-Poverty Strategy or to particular departmental initiatives which address key aspects of poverty.

8.1 Supporting the voluntary and community sector

In recent years, the Agency has supported a pilot programme of support for national organisations which represent the views of local anti-poverty initiatives.³⁰ These networks have greatly enhanced the contribution of local initiatives to the national policy making process, notably through the National Economic and Social Forum and, more recently, the National Anti-Poverty Strategy. From this experience, the Agency recommends that core support is provided for a number of national networks, characterised by clear criteria and mechanisms for inclusion, monitoring, review and evaluation, and which includes a support and development budget. The programme should meet core costs so as to enable the national networks to broaden and develop their membership, provide information on relevant issues, represent the particular sectoral interest concerned on national policy fora and initiate research and policy development.

- Funding should be provided for up to eight networks over a three year programme of support at a total cost of approximately £300,000 per year.

8.2 Enhancing measures to tackle educational disadvantage

Improving educational performance amongst those who otherwise would be at risk of school failure is a key mechanism to prevent poverty in later life. Recent research suggests that an important tool for tackling educational disadvantage is to target additional resources to the most disadvantaged schools, in order to reduce class sizes and to encourage well planned and systematic interventions.³¹ It also noted the need to distinguish between urban and rural schools. The projected demographic changes (ie. a reducing birth rate) and economic growth should mean increased resources are available for this purpose. In this regard the Agency welcomes the decision by the Department of Education to introduce a more focused programme of action to counter educational disadvantage, *Breaking the Cycle*. We believe that, with additional resources and a wider coverage of schools, a major impact could be made under this initiative to tackle educational disadvantage at its root.

Another sector where there is much potential to tackle educational disadvantage is in second chance and community education. Local adult educational courses

have a key role to play in encouraging adults to take the first tentative steps to return to formal education and in strengthening the capacity of parents to contribute to their childrens' education.

- The *Breaking the Cycle* programme should be further resourced to enable additional disadvantaged schools to be included in the programme.
- Additional resources should be made available for second-chance and community education.

8.3 Promoting tenant participation in housing management

There is a growing recognition of the value of tenant participation in estate management. Tenant participation has the potential to provide substantial long-term benefits in terms of improved methods of estate management, a rejuvenated community structure and an enhanced quality of life. However, it requires a fundamental reshaping of traditional tenant-management relations based on a community development approach. This would incorporate five core principles: tenant empowerment, bottom-up responses, participatory democracy, partnership between tenants and local authorities, and integrated measures.³² These changes require external support, including the establishment of a national tenant participation support agency and the provision of financial and training support for locally-based tenant groups. Already, the Department of the Environment has established a £100,000 fund for tenant initiatives. This should be expanded and be made directly available to voluntary and community groups.

- Tenant participation initiatives, which are accessible to voluntary and community groups, should receive additional government funding.

8.4 Incorporating a social component in urban renewal schemes

Successive tax-based urban renewal schemes have been implemented in order to revive the physical infrastructure in run-down urban areas. These schemes are currently being reviewed by the Department of the Environment. A major weakness in these schemes to-date has been their absence of a social component, such that few benefits have accrued to the many unemployed and other low income inhabitants of these areas. This is a serious oversight, not alone from a viewpoint of the equitable use of scarce public resources, but also in order to ensure the long-term sustainability of these schemes. In line with the government's commitment to 'poverty-proof' all public expenditure under the anti-poverty strategy, any future renewal schemes should be required to have a social, as well as an economic, benefit. This could be done by, for example, reserving a percentage of urban renewal housing for low cost accommodation and

incorporating public services and facilities in renewal schemes.³³

- Urban renewal schemes should have, as a policy goal, the enhancement of the living conditions of the original inhabitants of designated areas.

8.5 Improving measures to tackle fuel poverty

The problem of fuel poverty - defined as the inability to afford adequate warmth in the home - has attracted growing concern, arising from recent research.³⁴ There are two main aspects to this issue: lack of income and inefficient heating systems. Fuel poverty imposes significant costs on affected households in terms of living conditions and quality of health. It also generates societal costs due to pollution, decline in housing stock and energy waste. Fuel schemes are an important step in tackling this issue. However, much more needs to be done to address what is often the root cause of fuel poverty, namely inefficient heating systems. This complex issue requires an action programme to enhance energy efficiency, including practical energy conservation measures and a targeted public awareness campaign, along with ensuring adequate basic welfare payments and reforming fuel subsidy schemes.³⁵

- A multi-agency action programme to enhance energy efficiency, including energy conservation measures and a targeted public awareness campaign, should be launched.
- The fuel subsidy scheme should be uprated in line with inflation, and eligibility to and delivery of the scheme should be reviewed.

8.6 Strengthening the capacity of the Combat Poverty Agency

A review of the Agency was recently completed by Goodbody Economic Consultants on behalf of the Department of Social Welfare.³⁶ The review concluded that the Agency had established itself as a significant source of expertise in anti-poverty policy and research in Ireland and has been effective in supporting the development of an anti-poverty infrastructure. It went on to recommend that the effectiveness of the Agency could be enhanced by strengthening the Agency's policy advice role and its administrative capacity. This is of immediate importance given the Agency's key role in developing and subsequently monitoring the National Anti-Poverty Strategy. Along with internal reorganisation, the review calculated that a minimum of four extra permanent posts were required if the Agency was to effectively carry out its remit (these would be in policy research and administration).

- The recommended additional posts for the Agency should be approved and resourced in order to enable the Agency to effectively carry out its remit ■

30. Organisations currently supported include the Community Workers Cooperative, the European Anti-Poverty Network, the Irish National Organisation of the Unemployed, Irish Rural Link and the Irish Travellers Movement.

31. Kellaghan, T et al (1995), *Educational Disadvantage in Ireland*, Dublin: Combat Poverty Agency, Department of Education and Educational Research Centre.

32. For further discussion see the Agency's submission on the Review of Housing Management Policy and Practice by the Housing Management Group (May 1996).

33. For more detail see the Agency's recent submission to the KPMG study of urban renewal schemes (March 1996.)

34. Quinn, P (1993), *Energy and Equity, Fuel Poverty Policy Study* unpublished report to the Irish Energy Centre.

35. More details are contained in Social Welfare's review of the National Fuel Scheme.

36. Goodbody Economic Consultants (1996), *Review of the Combat Poverty Agency*, Report to the Minister for Social Welfare.

Conclusion

Budget '97 provides an unprecedented opportunity for a programme of action to enhance the job creation impact of the tax and social welfare systems. This submission has advocated six tax/welfare reforms that are immediately affordable and are sustainable in the longer-term.

Budget '97 provides an unprecedented opportunity for a programme of action to enhance the job creation impact of the tax and social welfare systems. This submission has advocated six tax/welfare reforms that are immediately affordable and are sustainable in the longer-term. Implementing policies which improve the job prospects of the long-term unemployed or those in low paid work is the optimum means of tackling poverty. These policies will also, in the long-term, contribute to the competitiveness of the Irish economy and the stability of the public finances, especially in the stringent conditions arising under EMU. The submission also outlines six more general anti-poverty measures which pertain to individual government departments. These would support the implementation of the National Anti-Poverty Strategy.

Tax buoyancy means that upwards of £400 million is available for reform of the tax and social welfare systems and other measures. There is also scope for redistributing existing resources, such as standard-rating of tax allowances or taxing child benefit, which can both reduce the cost and enhance the social equity impact of the Agency's proposals. The resources needed to face the challenge of unemployment and poverty have never been, and perhaps never will be, as readily at our disposal.

The real challenge is in fact one of political leadership and our commitment, as a nation, to delivering on social solidarity. The submission has identified priority issues for attention which have support from a range of government studies, in particular the report of the Expert Working Group. Our proposals are also relevant to the negotiations on a new national programme, to our membership of EMU and, in particular, to the implementation of a National Anti-Poverty Strategy. It is also an opportunity to finally complete the agenda set down for government over ten years ago by the Commission on Social Welfare in regard to an adequate social welfare payment ■

Appendix 1

Illustrative examples of impact of Agency's integrated child benefit and tax proposals

Illustrated below are the financial benefits that would accrue from the Agency's main tax and welfare reform proposals (increase child benefit by £7 to £36/£41, make additional £7 taxable, raise personal tax allowances by £1,050 for a couple to £7,150 per annum (incl PAYE allowance) and increase PRSI allowance by £20 to £100 per week). Examples for three income levels (£200, £300 and £400 per week) and three family sizes (two, four and six children) are given. Estimates of the overall incentive and distribution impacts of a complete reform package are contained in the report of the tax/welfare integration group.

The key points to note from the illustrative examples are:

- All families are better off by between £3.04 and £11.27 per week (or 1.6 per cent to 3.6 per cent of current household income).

- Families within the standard tax system experience a fall in their income tax burden, averaging £5, thereby improving work incentives. Some families (those on marginal relief) experience a slight fall in their take-home pay of 1 per cent (£1 - £2). This this will reverse as personal tax allowances are further increased, as we have proposed.
- The PRSI burden for workers in all families is cut by £1.10 per week.
- Marginal tax rates are improved for some families from 40 per cent to 27 per cent (£300, four child, and £400, six child), while for no family are they worsened. Thus, the poverty trap for those on low wages is significantly reduced.
- Work incentives are slightly improved for those on welfare, as child benefit accounts for a larger proportion of the overall child income support package; major change will only occur when child dependant allowances are withdrawn.

(COUPLE, ONE EARNER £200.00 PER WEEK WITH 2, 4 AND 6 CHILDREN)

	two children	four children	six children
current tax deductions	£24.18	£14.18	£11.10
current take-home pay	£175.82	£185.82	£188.90
current pay + child benefit	£189.18	£214.90	£233.67
increase child benefit	£3.23	£6.46	£9.69
tax on child benefit	£1.29	£2.58	£0.00
reduced tax burden	£1.10	£1.10	£1.10
net household gain	£3.04	£4.98	£10.69
% change in take-home pay	- 0.11	- 0.80	+ 0.58
% change in household income	+ 1.61	+ 2.32	+ 4.57

(COUPLE, ONE EARNER £300.00 PER WEEK WITH 2, 4 AND 6 CHILDREN)

	two children	four children	six children
current tax deductions	£68.18	£61.93	£51.93
current take-home pay	£231.82	£238.07	£248.07
current pay + child benefit	£245.20	£267.15	£292.84
increase child benefit	£3.23	£6.46	£9.69
tax on child benefit	£0.00	£2.54	£3.88
reduced tax burden	£5.68	£1.10	£1.10
net household gain	£8.91	£5.02	£6.91
% change in take-home pay	+ 2.45	- 0.60	+ 1.12
% change in household income	+ 3.63	+ 1.88	+ 2.36

(COUPLE, ONE EARNER £400.00 PER WEEK WITH 2, 4 AND 6 CHILDREN)

	two children	four children	six children
current tax deductions	£102.93	£102.93	£99.68
current take-home pay	£297.07	£297.07	£300.32
current pay + child benefit	£310.49	£326.15	£345.09
increase child benefit	£3.23	£6.46	£9.69
tax on child benefit	£0.00	£0.00	£0.00
reduced tax burden	£5.68	£4.81	£0.69
net household gain	£8.91	£11.27	£10.38
% change in take-home pay	+ 1.91	+ 1.65	+ 0.23
% change in household income	+ 2.87	+ 3.46	+ 3.01

* Family Income Supplement has been omitted from these calculations

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