

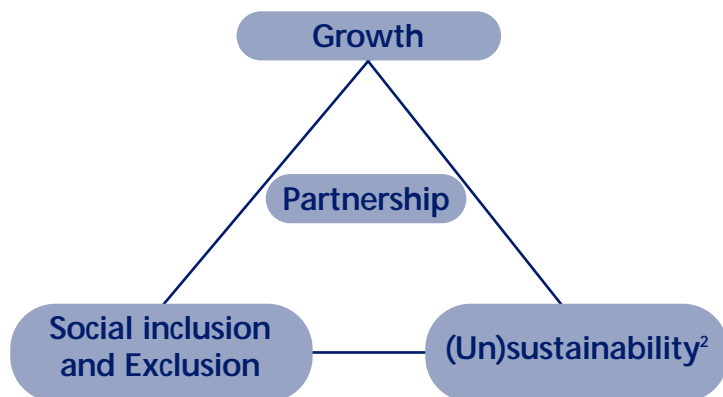
Poverty & Policy

Securing Progress: Delivering Inclusion Submission on the New Social Partnership Agreement Combat Poverty Agency

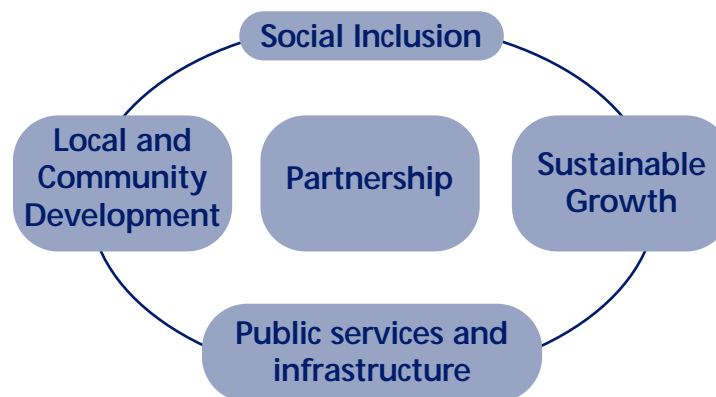
The aim of the Combat Poverty Agency is to promote a just and inclusive society by working for the prevention and elimination of poverty and social exclusion in Ireland. The recommendations in this submission are intended to advance this aim through CPA's statutory functions of policy advice to government and public education.

While Ireland has had remarkable economic success for the last decade, the institutions and policies which facilitated economic convergence with Europe now need to be remodelled to ensure continued prosperity and greater social progress. Under Ireland's old "trickle-down, catch-up" model, economic growth was given priority and patterns of social inclusion and exclusion flowed from that.¹ There is now a need to move to a new "virtuous cycle" of mutually reinforcing growth and inclusion. This will require both wage moderation, to maintain competitiveness, and taxation reform to fund social inclusion measures and public services.

Old "Trickle Down, Catch-Up" Model



New "Virtuous Cycle" Method



These diagrams are illustrative, rather than explanatory.

In a more difficult economic environment, the new agreement must maintain employment, social expenditure and income supports. It must also ensure that those who benefited least from the recent economic boom do not bear the burden of economic adjustments.

The new agreement should:

- Commit to achieving the targets in the *National Anti-Poverty Strategy (NAPS)*.
- Eliminate consistent poverty.
- Reduce relative income poverty.

¹ The growth model generated both social inclusion and exclusion. For example, the development of the information society and high technology included some people, whilst further marginalising others (M. Castells [1996], *The Rise of the Network Society*, Oxford: Blackwell).

² Recent economic growth has used additional natural resources and created pollution. However, economic growth also creates additional revenue for environmental clean-up. The aim should be to move towards production processes which do not require environmental clean-up.



- Achieve the minimum welfare rate of €150 per week over the course of the agreement. (set at 2002 values).
- Enhance child income support to ensure its adequacy in meeting the costs of child rearing.
- Meet the *NAPS* education targets and provide universal access to early childhood education.
- Meet previous targets on housing starts and completions for local authority and social housing.
- Reduce health inequalities between the rich and the poor.
- Ensure any taxation changes redistribute income towards those on lower incomes.

Economic and Social Context

In the last decade Ireland has experienced unprecedented economic growth and job creation. Both reduced unemployment and additional revenue for real increases in welfare payments contributed to substantial reductions in consistent poverty, which fell from 15% in 1994 to 5.5% in 2000.³ To a significant extent these achievements are the result of social partnership. However, the economic boom also created new challenges. Substantial social and infrastructural deficits remain.⁴

There is an acute housing shortage⁵ in Ireland and new causes of poverty, such as racism, have emerged. Relative income poverty has also increased, with the proportion of the population falling below 60% of median income rising from 16% in 1994 to 22% in 2000. As the Irish *National Action Plan against Poverty and Social Exclusion* (*NAPs incl.*) notes, inequalities can cause and perpetuate poverty and therefore must be urgently addressed.

The new agreement must achieve the twin objectives of maintaining international competitiveness and further enhancing social inclusion. Previous agreements were based on a bargain whereby wage restraint was agreed in

return for tax reductions. However, the scope for further tax reductions is now very limited and the partnership process must evolve to accommodate this reality. Given that economic convergence has been achieved, it is now an opportune time to take stock and examine where future priorities should lie.

Appropriate macro-economic management is critical to sustained poverty reduction. There is consequently a need for a planned and multi-annual approach to fiscal strategy.⁶ Also, too often economic and social development have been viewed as being in competition, however there are significant complementarities between the two. The new agreement should take advantage of these synergies to achieve "win-win" outcomes.

The short-term economic context is changing. Ireland's exceptional economic growth since the mid-1990s has slowed and the government's budget is consequently tighter. Unemployment has increased to 4.3% in September 2002 from 3.6% in January 2001.⁷ In the short-term the new agreement should protect those who benefited least from the economic boom from the impacts of the slowdown.

Why Social Inclusion?

Ireland's economic success during the 1990s was driven in part by its low tax regime, while the European Union significantly funded social and infrastructural expenditure. Now that Ireland will become a net contributor to EU structural funds this formula will have to be revised. This requires increasing the rate of domestic investment in infrastructure and social expenditure.⁸

Policy commitments to social inclusion are spelt out in the revised *NAPS*, *NAPs incl.*, the *National Development Plan* and the *Programme for Government*. Reasons for prioritising social inclusion include:

- Income inequality may reduce economic growth.⁹ Consequently investment in social inclusion is money well spent as it has high social rates of return.

3 This measure is based on a combination of relative income and lack of basic necessities.

4 Ireland is currently investing at a higher rate than the EU average. However, at the current rate Irish infrastructure will still be inferior to the EU average in 2010 (D. Duffy *et al.* [2001], *Medium Term Review 2001-2007*, Dublin: ESRI).

5 Average earnings to average house prices were in the ratio 1:7.4 in 2000 (Sile O'Connor [2002], *Benchmarking the Programme for Prosperity and Fairness*, Dublin: NESI). Escalating house prices contribute to rent inflation and make rent allowances more expensive.

6 The UK government has a rules based approach to fiscal policy (See C. Emmerson and C. Frayne [2002], "The UK Government's Approach to Setting Fiscal Policy" in T. Callan *et al.* [eds.], *Budget Perspectives 2003*, Dublin: ESRI and FFS).

7 Increasing unemployment will automatically raise the level of social expenditure.

8 This necessity is recognised by social partners, such as IBEC (2002), *Social Policy in a Competitive Economy*, Dublin: IBEC. The challenge is to achieve this in a way which enhances rather than undermines competitiveness.

9 T. Persson and G. Tabellini, "Is Income Inequality Harmful to Growth?", *American Economic Review*, Vol. 84, 3 (1994): 600-621.

- Social inclusion enhances competitiveness, by building both human and social capital.¹⁰
- It creates cost efficiencies by enhancing social cohesion and reducing remedial expenditures.¹¹
- A more competitive economy in turn generates resources for increased social investment.
- A just and inclusive society based on access to social and economic rights empowers people to achieve their capabilities.

Policy Issues

Between 1994 and 1998 national surveys show half of all individuals experienced relative income poverty at some point.¹² High income inequality means higher social expenditure is required to achieve the same poverty reduction targets in Ireland as in countries with more equal distributions of income. However, Ireland currently has a relatively low level of welfare effort with expenditure on social benefits at 15.3% of gross domestic product (GDP). This compares to an EU average of 26.6%.¹³ Nonetheless, there is a very high level of popular support for social policy programmes in Ireland at 95.9%.¹⁴ In order to achieve a higher quality of life, enable people to achieve their capabilities and work towards greater social justice it is necessary to increase the level of social expenditure. This could be achieved through either higher tax revenues and/or the reallocation of current expenditure.

Welfare and Child Income Support

Combat Poverty recommends that the new agreement should:

Given that 65% of those in relative income poverty live in households headed by a person who is not in the labour force, welfare payments will continue to play a key role in alleviating poverty.¹⁵ There is

also a strong case to be made for targeting resources on children to break inter-generational cycles of poverty.

■ **Index welfare to wages.** In order to ensure that welfare recipients do not fall further behind the rest of society in their living standards, benefits should be indexed against wages. There is a commitment in the *NAPS* to raise the minimum welfare payment to €150 per week, in 2002 value, by 2007. Given the pressing needs of families living on welfare,¹⁶ this target figure could be achieved in three years over the course of the next agreement if welfare payments were increased in real terms by 8% p.a. (as compared to the proposed 5%).

■ **Review child income support.** The risk of poverty for families is up to three times that of couples without children. Recent increases in child benefit have had positive impacts by improving living standards for those on low incomes, and increasing labour supply.¹⁷ However they are still not meeting the cost rearing of a child. Child income support should be reviewed to ensure that it is adequate to meet the costs of rearing children for low-income families.

Wages, Employment and Competitiveness

The new agreement should reverse the tendency towards greater income inequality and relative income poverty which have been driven by both the evolving nature of the economic structure and government tax and welfare policies. There is thus a need to think strategically about how to promote a more egalitarian economic structure, through, for example,¹⁸ skills development across the economy. Investment in education and infrastructure will be crucial to Ireland's movement into higher value added economic activities.¹⁹ The challenge is to achieve this in a way which benefits those who are currently disadvantaged.

10 Estimates suggest improved labour quality as a result of education in the 1980s and 1990s accounted for almost 20% of the total growth in output (J. Durkan *et al.* [1999], "Education and Growth in the Irish Economy", in F. Barry [ed.] *Understanding Ireland's Economic Growth*, London: Macmillan). Social capital has also been found to be higher where income is more equally distributed (Alesina and La Ferrara [1999] cited in S. Bowles and H. Gintis [2000], "Social Capital and Community Governance", submitted to the *Economic Journal*).

11 In 1999 the State had spent €61,712 on a young person who had completed a four year programme at third level versus €88,000 for one year on a young person in a Youth Detention Centre or Prison (Aine Hyland, "Looking to the Future – Ending Disadvantage?", National Forum on Primary Education, St. Patrick's College, Drumcondra, 3rd July, 2002).

12 Based on 60% of average income (Richard Layte *et al.* [2001], *Monitoring Poverty Trends and Exploring Poverty Dynamics in Ireland*, Dublin: ESRI).

13 Based on 1998 figures (V. Timonen [2002], "Irish Social Expenditure in International Context", draft report for Combat Poverty Agency). There are a number of reasons why Irish expenditure is lower, such as a relatively youthful population and the large difference between GNP and GDP as a result multi-national profit repatriation from Ireland. However, even accounting for these Ireland still has a low level of welfare effort.

14 M. Peillon (2001), *Welfare in Ireland: Actors, Resources and Strategies*, Westport, CT: Praeger.

15 This includes those who are unemployed and is based on the 60% of median income figure. Calculated from B. Nolan *et al.* (2002), *Monitoring Poverty Trends in Ireland: Results from the 2000 Living in Ireland Survey*, Dublin: ESRI.

16 M. Daly and M. Leonard (forthcoming 2002), *Against All Odds: Family life on low income in Ireland*, Dublin: IPA and CPA.

17 Duffy *et al.*, *ibid.*

18 Phillip Brown *et al.* (2001), *High Skills: Globalisation, Competitiveness and Skill Formation*, Oxford and New York: Oxford University Press.

19 Kieran O'Donoghue, Forfás, "An Enterprise Policy Perspective on Regional Development in Ireland" presented to "A New Agenda for Regional Development", UCC September 12th and 13th, 2002.

- **Increase housing supply.** The current housing shortage undermines the competitiveness of the economy. House prices continue to escalate as a result of supply deficiency; particularly affecting those on low incomes. Estimates suggest there are 150,000 people with acute housing needs²⁵ and homelessness remains a critical issue. Having fallen from the mid-1990s, local authority completions need to be raised to meet commitments under the *Programme for Prosperity and Fairness*.
- There is also a need to make the RAPID programme more effective to address the infrastructural deficits in suburban public housing estates.
- Given the social and economic importance of housing, and to facilitate effective co-ordination, the establishment of a national Social Housing Agency with responsibility for the production, delivery and management of social housing should be considered.
- **Redress health inequalities.** Low-income groups are most disadvantaged by ill health and difficulties in accessing appropriate care. The NAPS sets the goal of reducing the gap in premature mortality between the lowest and highest socio-economic groups by at least 10 per cent for circulatory diseases, cancers, injuries and poisoning by 2007. In order to achieve this greater focus should be placed on preventive strategies, primary care, and enhanced access for people who are disadvantaged through community development health approaches.
- **Ensure quality education for all.** There is a significant link between educational disadvantage/early school leaving and long-term unemployment and poverty. Consequently resources should be focussed, particularly at the early education and primary levels, on those who are disadvantaged. Such targeting will be essential to meet the literacy targets set out in the *NAPS*. Commitments to educational disadvantage programmes, such as Breaking the Cycle, should be secured and enhanced rather than pared back. Successful initiatives to tackle educational disadvantage should also be mainstreamed and additional supports provided to reduce class sizes. An integrated child

focussed approach should be adopted and curricula should emphasise process skills which facilitate life-long learning. Ultimately individuals from poorer socio-economic backgrounds should achieve to equivalent levels as those from middle- and higher-income backgrounds.

- **E-inclusion should be targeted on the disadvantaged.** E-inclusion is vital but should be viewed as a means to an end: the enhancement of social inclusion, rather than an end in itself. To achieve this there is a need to co-ordinate supports and responsibilities provided by the state and voluntary sectors through the CAIT programme, for example. Taking a long-term approach, training in information and communication technology for people and groups not linked to technology can also reduce future labour shortages in the sector.²⁶

Local Regeneration and Community Development

One of the problems in disadvantaged areas is not just a lack of income, but that so much spending "leaks" out of the local economy.²⁷ If there are incentives to source inputs and reinvest in local communities substantial economic multipliers can be generated, as the retained money continues to circulate through the community. Two ways to achieve this are through the promotion of community development finance institutions and legislation promoting community reinvestment.

- **Promote community development finance.** One of the brakes on entrepreneurship for people who are socially excluded is lack of access to credit. Around the world there have been examples of successful microcredit schemes which have improved the lives of millions of people. Ways to incentivise these should be introduced.²⁸
- A number of social inclusion programmes are being absorbed within the broader ambit of community and voluntary programmes. There is a need to ensure a continued anti-poverty focus in this work and to build up the anti-poverty community infrastructure.

25 P.J. Drudy and M. Punch (2001), "Housing and Inequality in Ireland", in S. Cantillon *et al.* (eds.), *Rich and Poor: Perspectives on Tackling Inequality in Ireland*, Dublin: Oak Tree Press.

26 "Telecom market liberalisation may lead to under-investment in electronic infrastructure in deprived areas" (W. Van Winden, "The End of Social Exclusion? Information Technology Policy as a Key to Inclusion in Large European Cities", *Regional Studies*, Vol. 35, 9 [2001]: p. 867).

27 M. Shuman (1998), *Going Local: Creating Self-Reliant Communities in a Global Age*, New York: Free Press.

28 Credit unions serve this function in Ireland to some extent, but there is a case for more dedicated schemes.

- **Maintain competitiveness and raise the social wage.** In setting incomes policy there is a need to reconcile the demands of competitiveness, needs and equity. While there is a need for wage moderation to maintain international competitiveness, workers' real incomes can be raised by improved access to, and higher quality, public services.
- Combat Poverty welcomes the government's recent decision to increase the minimum wage. However, the widening in earnings dispersion, despite centralised wage bargaining, suggests the necessity of further targeting the needs of the working poor.²⁰
- While there is a tighter budgetary situation in the short-term, over the course of the new agreement taking minimum wage earners out of the tax net would make it cheaper to employ them, while also increasing their take-home incomes. It may also increase productivity as higher wages may increase worker effort. The needs of the working poor can also be addressed by training and providing better access to public services.
- Equity in pay in the new agreement could be ensured by using "cash floors" or guaranteed increases set in euros for low paid workers. Flexibility could be provided through limited local bargaining provisions.
- **Reduce unemployment.** There is a strong link between poverty and long-term unemployment. Active labour market policies reduce the mismatch between supply and demand for labour. The government's commitment to these should be enhanced and programmes reviewed to ensure they prevent people from falling into long-term unemployment.
- There is also a need for a continued focus on the reintegration of the currently long-term unemployed. One element of this would be enhanced support for local employment schemes.
- The Community Employment scheme has recently been subject to cutbacks in excess of those agreed in the *Programme for Prosperity and Fairness*. However, CE enables communities

to up-grade their infrastructure and provides opportunities for those who are disadvantaged to make a first step towards employment. Given the upward trend in unemployment no further cutbacks should be made in CE until FÁS's review of the scheme is completed.

- **Improve access to childcare.** It is increasingly recognised that quality childcare and early education are vital to children's long-term educational development. Affordable childcare also increases the labour supply, thereby contributing to wage moderation. It creates jobs directly and indirectly as double income families create further demand for services. It also contributes to higher fertility and the reproduction of the labour force.²¹ Despite recent initiatives and investment, the scarcity of quality affordable childcare is still a significant barrier to routes out of poverty and unemployment, particularly for women.²²
- Improving this situation will require additional resources on both the supply and demand sides through subsidised childcare payments for those who could not otherwise afford it and additional capital grants for new facilities.²³ The new agreement should ensure that all who require it can access quality, affordable early education and childcare.

Public Services

Improving the living standards of those on low incomes depends significantly on improved provision and access to quality public services.

- Public services should be delivered in democratic, transparent, participatory and efficient ways as laid out by the European Commission. As the Commission notes:

*The overarching challenge for public policy ... is to ensure that the main mechanisms which distribute opportunities and resources – the labour market, the tax system, the systems providing social protection, education, housing, health and other services – become sufficiently universal in the context of structural changes to address the needs of those individuals, both men and women, who are most at risk of poverty and social exclusion and to enable them to access their fundamental rights.*²⁴

20 Thirty four per cent of those experiencing relative income poverty, based on the 60% of median income figure, were either employed, self-employed or farmers in 2000, up from 29% in 1994 (Calculated from Nolan *et al.*, *ibid*).

21 G. Esping-Andersen (1999), *Social Foundations of Post-industrial Economies*, Oxford and New York: Oxford University Press.

22 R. Layte and P. O'Connell (1999), *Moving on? The Dynamics of Unemployment in Ireland during the 1990s*, Dublin: CPA.

23 Goodbody Economic Consultants in association with The Economic and Social Research Institute, the Department of Psychology, University College, Dublin and The Policy Studies Institute, U.K. (1998), *The Economics of Childcare*, unpublished report prepared on behalf of the Expert Working Group on Childcare.

24 European Commission (2002), *Joint Report on Social Inclusion: Social Security and social integration*, Luxembourg: EU, p. 11.

Tax Reform: Broadening the Revenue Base

A successful society is built on the interaction between institutions and incentives which enhance peoples' capabilities to create and access resources. In Ireland the taxation system needs to be progressively reformed to achieve a fairer distribution of income, and a more competitive and sustainable economy. Ireland is currently a low tax country. Achieving our potential as a society will require raising additional revenue for social investment. In this regard consideration should be given to the following:

- Property taxes should be revisited.²⁹ A clawback tax on windfall profits from land rezoning to fund the costs of infrastructure needs, or a land rent tax could also be introduced.³⁰ In addition to raising revenue, a land rent tax would release additional land for housing development.
- The reductions in capital gains tax should be reversed. There is also a need to tighten collections to ensure that the wealthier sections of Irish society pay their fair share.
- "Green taxes" can reorient the economy towards sustainability and generate additional revenue for social and environmental investment. Taxes on pollution, and heavy usage of water and energy could be introduced.
- Given the government's commitment that 80% of income tax payers should pay tax at the standard rate, income regressive tax allowances for private pensions and health care should be standard rated. Tax relief on private medical insurance premia cost over €75m in 1998/9.³¹
- Under some elements of the taxation system those on higher incomes pay proportionately less than those on lower incomes in social contributions. On equity grounds there is a case for the abolition of employee PRSI ceilings.³² Benefits-in-kind could also be subject to taxation.
- The reduction in corporation tax from 16% to 12.5% should be stopped. In the medium term

the moderate raising of corporation tax would raise revenue without discouraging investment.³³ Alternatively, to ensure continued investment in high quality human capital formation, the introduction of a training levy could be considered.

Institutional and Policy Reform

In order to deliver effectively the institutions of partnership should be strengthened. This would include:

- Agreeing what proportions of additional economic growth would go to what sectors should the international economy improve, thereby enabling greater progress on social investment to be achieved.³⁴
- Ensuring the delivery of the *NAPS* targets.
- Poverty and equality proofing the agreement to ensure that its elements do not increase poverty or discriminate against particular groups.
- Committing to the development of better poverty data and indicators. The new agreement should undertake to revise the basic deprivation indicators, as this will be crucial in monitoring future poverty trends.³⁵
- Enhancing the role of the community and voluntary sectors as a voice for the excluded.

Conclusion

The Irish socio-economic model, which was so successful in the past, is now under strain. The institutions and policies which facilitated our economic convergence with the rest of Europe now need revision to secure our economic progress and achieve greater social inclusion. This will require an integrated multi-faceted approach, including the reduction of relative income poverty. The next partnership agreement presents the opportunity to achieve this.

29 Local taxes produce just 2% of revenue in Ireland (International Monetary Fund [2002], *Ireland: Selected Issues Country Report No. 02/171*, Washington, D.C.: IMF). Property taxes might be introduced on luxury and second homes.

30 Duffy *et al.*, *ibid.*

31 Timonen, *ibid.* Proposals on how to make the housing market more equitable can be found in Drudy and Punch, *ibid.* Some level of tax allowance for the pension system remains justified given the need to supplement state provision.

32 The reduction of employer's PRSI contribution from 12 to 10% cost €347m (Combat Poverty Agency [2002], *Targeting Poverty in Budget 2002*, Dublin).

33 Duffy *et al.* (*ibid.*) suggests there is space for a phased increase of the corporation tax to 17.5% now that employment levels are much higher.

34 Sean Healy and Brigid Reynolds (2002), "Social Partnership after the Celtic Tiger: Challenges and Opportunities" in *Choosing a Fairer Future: An Agenda for Social Partnership after the Celtic Tiger*, Dublin: CORI. The technical details of how to achieve this would also need to be worked out.

35 Comprehensive assessments of the merits and drawbacks of different indicators are T. Atkinson *et al.* (2002), *Social Indicators: The EU and Social Inclusion*, Oxford and New York: Oxford University Press, and G. Palmer and M. Rahman (2002), *Monitoring Progress on Poverty: A Policy Guide on the Use of Social Indicators*, Dublin: Combat Poverty Agency.