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From Poverty Relief to Universal Entitlement: Social Welfare, Minimum Income and Basic Income in Ireland

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In Ireland there are a range of income supports for people in specific situations such as unemployment or in specific groups such as children. This system is usually called the "social welfare" system. Until 1997 the Government department responsible for making most of these payments and administering the system was called the Department of Social Welfare. Since then it has changed its title to the Department of Social, Community and Family Affairs.

1.1 From small beginnings

The system as it exists today has been evolving for almost a century. Schemes have been introduced at various times in response to particular perceived needs and/or demands. Nobody would claim that the system has had a coherent evolution and, although it has been much improved in recent years, it is still a far from fully integrated system.

The Poor Law system was introduced in 1838. This was not an income support system and was never intended by its initiators to be such. However, it was drawn into this area over time. This was the only support available to people on low incomes at the beginning of the twentieth century.

The first social welfare scheme introduced to provide income support was the old age non-contributory pension. This began in 1909 and followed the passing of the Old Age Pension Act in the British parliament in 1908.[1] The pension for the blind was the next payment introduced in 1920. Ireland became independent in 1922. Unemployment assistance was introduced in 1933. Other schemes followed. Of special significance was the introduction of the Children's Allowance in 1944. Today this is called Child Benefit. The Department of Social Welfare was established in 1947. It was 1961 before the contributory old age pension was

[1] Ireland was, at that time, under direct British rule and decisions on issues of this nature were taken in the British parliament in which there were elected Irish members.

introduced. This was an insurance-based payment. We will return to the distinctions between assistance and insurance-based payments in the next section.

A range of schemes has been introduced since the 1960s. There is no particular underlying philosophy to the pattern of their introduction and it is clear that there was no coherent plan for the development of social welfare schemes. With each new payment there were specific circumstances that led to its introduction. Different needs were highlighted and different schemes were developed in response. For example, we already pointed to the fact that there had been an unemployment benefit scheme introduced in 1911. This provided payments for a short period to those who became unemployed. The prolonged and extensive unemployment of the 1930s led to the introduction in 1933 of the unemployment assistance scheme, which provided payments (at a lower rate and subject to a means test) to those whose entitlement to unemployment benefit had been exhausted.

1.2 The income support system today

Today there are three main kinds of income support payments in the Irish social welfare system. These are social insurance, social assistance and universal.

Social insurance schemes have been developed on the basis of social insurance contributions being paid. They are financed by compulsory contributions from both employers and employees (including the self-employed). Once the insurance payments have been made, the entitlement has been established and the social insurance scheme payments are made irrespective of any other income the person may receive.

The use of the term insurance is a misnomer in this context. The social insurance system is not insurance in the commercial or actuarial sense in which that term is usually applied. There is no proportional link between the contributions paid by individual insured persons and what these individuals receive in payments under any of the social insurance schemes. In practice, the schemes are based on the principle of solidarity and are organized on a pay-as-you-go basis.

The State provides the additional funding required if there is a shortfall between what has been provided by employer and employee payments and the total cost of the schemes in any particular year. In reality, the social insurance fund represents a tri-partite arrangement between employers, employees (including the self-employed) and the State. For a number of years in the late 1990s and following, there has been an exceptional situation. The performance of the Irish economy has meant that the State has not been required to provide any funding to pay for social insurance payments in those years. The years since 1994 have seen reductions in the main rates of social insurance contributions paid by employers and employees as well as the introduction of a threshold below which an employee pays no social insurance contribution.

In 2002 the social insurance contribution threshold for an employee is • 38,740 a year. Below that level the employee pays a social insurance contribution (plus a levy) of 6 per cent (with the qualifications listed later in this paragraph). Above that level the employee pays no social insurance but does pay a levy of 2 per cent. If a person's income is • 287 a week or less he/she pays no social insurance payments. If a person's income is between • 287 and • 356 a week he/she pays no social insurance payments on the first • 127 and pays a rate of 4 per cent on the balance. On incomes above • 356 a week a rate of 2 per cent is paid on the first • 127 and 6 per cent on the balance.

For an employer there is no ceiling and the rate is 10.75 per cent. However, there is a lower rate of 8.5 per cent for employers of people who earn less than • 356 a week**.**

The rates paid in 2002 for the main categories of social insurance are listed in Table 1. For single people they range from • 153.70 a week for an (contributory) old age pensioner over 80 years of age to • 118.80 a week for a person receiving unemployment benefit. For couples, they range from • 267.50 a week for a pensioner over 80 years of age with a qualified adult over 66, to • 197.60 for a couple on unemployment benefit.

Table 1. Maximum weekly rates of social insurance from 2002[2]

Personal and qualified adult rates	Euro
Retirement pension/old age contributory pension:	
(i) Under 80:	
Personal rate	147.30
Person with qualified adult under 66	245.40
Person with qualified adult 66 or over	261.10
(ii) 80 or over:	
Personal rate	153.70
Person with qualified adult under 66	251.80
Person with qualified adult 66 or over	267.50
Widow's/widower's contributory pension:	
(i) Under 66	123.30
(ii) 66 and under 80	144.80
(iii) 80 or over	151.20
Invalidity pension:	
(i) Under 65:	
Personal rate	123.30
Person with qualified adult under 66	211.30
Person with qualified adult 66 or over	228.70
(ii) 65 and under 80:	
Personal rate	147.30
Person with qualified adult under 66	235.30
Person with qualified adult 66 or over	252.70
(iii) 80 or over:	
Personal rate	153.70
Person with qualified adult under 66	241.70
Person with qualified adult 66 or over	259.10
Carers benefit	
Personal rate	132.70
Occupational injuries benefit - death benefit pension:	
i) Personal rate under 66	146.60
ii) Personal rate over 66	151.70
Occupational Injuries benefit - disablement pension:	
Personal rate	148.90
Disability / unemployment benefit:	
Personal rate	118.80
Person with qualified adult	197.60
Injury benefit/health and safety benefit:	
Personal rate	118.80
Person with qualified adult	197.60
Orphan's contributory allowance	91.00

[2] Sources: Tables 1-4 are developed from tables contained in budget documents 2002, Department of Finance.

The total number of recipients of social insurance payments in 2000 was 440,057 and the total number of beneficiaries was 649,463. Details of the numbers of recipients and beneficiaries in each of the sub-categories of social insurance payments are listed in table 5.

For **social assistance,** eligibility is determined on the basis of an assessment of needs. These are means tested schemes. The claimant becomes eligible for payments from these schemes only if his/her means are less than the threshold set for accessing the scheme. People receiving payments from these schemes have either no social insurance record, or have used up their entitlement or their social insurance payments are inadequate, e.g. their contributions had not been paid for an adequate period of time.

The rates for social assistance payments for single people range from • 118.80 for long-term unemployed people to • 140.40 for old age non-contributory pensioners 80 years and over. For couples they vary from • 197.60 for the long-term unemployed to • 228.90 for non-contributory old-age pensioners. The full details of the various rates of social assistance in 2002 are contained in Table 2.

The detailed number of recipients and beneficiaries in the social assistance system in the year 2000 are contained in Table 5. The total number of recipients was 429,937 and the total number of beneficiaries was 783,311.

Combining social insurance and social assistance in the year 2000 there were a total of 869,994 recipients and 1,432,774 beneficiaries.

Universal schemes require neither insurance contributions nor a means test. Payments are made without reference to the income of either the recipient or the beneficiary (where these are not the same such as in the case of child benefit).

Table 2. Maximum weekly rates of social assistance, 2002

Personal and qualified adult rates	Euro
Old age non-contributory pension:	
(i) Under 80:	
Personal rate	134.00
Person with qualified adult under 66	222.50
Person with qualified adult 66 or over	222.50
(ii) 80 or over:	
Personal rate	140.40
Person with qualified adult under 66	228.90
Person with qualified adult 66 or over	228.90
Blind person's pension:	
(i) Under 66:	
Personal rate	118.80
Person with qualified adult under 66	197.60
Person with qualified adult 66 or over	207.30
(ii) 66 and under 80:	
Personal rate	134.00
Person with qualified adult under 66	212.80
Person with qualified adult 66 or over	222.50
(iii) 80 or over:	
Personal rate	140.40
Person with qualified adult under 66	219.20
Widow's/widower's non-contributory pension:	
(i) Under 66	118.80
(ii) 66 and under 80	134.00
(iii) 80 or over	140.40
One-parent family payment: (including one child)	
(i) Under 66:	138.10
(ii) 66 years and over	153.30
Carer's allowance:	
(i) Under 66:	122.60
(ii) 66 years and over	137.80
Disability allowance	
Personal rate	118.80
Personal with qualified adult	197.60
Supplementary welfare allowance:	
Personal rate	118.80
Person with qualified adult	197.60
Unemployment assistance (short-term):	
Personal rate	118.80
Person with qualified adult	197.60
Unemployment assistance (long-term):	
Personal rate	118.80
Person with qualified adult	197.60
Pre-retirement allowance / farm assist	
Personal rate	118.80
Person with qualified adult	197.60
Orphan's non-contributory pension	91.00

Child benefit is the most important universal social welfare scheme in Ireland. It is paid in respect of all children under the age of 16. It is also paid in respect of 16, 17 and 18 year-olds if they are in full-time education or has a physical or mental disability. The payments are made on a monthly basis. The rates in 2002 are • 117.60 a month for the first and second child and • 147.30 for the third and subsequent child (Table 3). In the year 2000 there were 510,840 families receiving child benefit in respect of 1,018,175 children.[3]

Table 3. Monthly rates of child benefit, 2002

Child Benefit	Euro
First and second children	117.60
Third and subsequent children	147.30

Table 4. Maximum weekly rates of health allowances, 2002

Supplementary allowance payable to blind persons	Euro
In receipt of a blind pension	
(i) Blind pensioner	36.90
(ii) Blind married couple	73.80
Infectious diseases maintenance allowance	
(i) Personal rate	118.80
(ii) Persons with qualified adult	198.80

While these numbers are very substantial, the actual level of payments is not adequate to address the issue of poverty. In fact, in recent years, with the dramatic economic growth Ireland has experienced, the percentage of people living with incomes below the poverty line has increased quite substantially. The next section presents the reality of poverty in Ireland given the present income support system. We will go on from there to present the basic income debate in Ireland and outline the pathways we see this taking in the period ahead.

[3] Source: Department of Social, Community and Family Affairs, *Statistical Information on Social Welfare Services*, Table D7, page 39.

Table 5. Number of recipients and beneficiaries of weekly social welfare payments by payment type and insurance or assistance 2000[4]

Type of payment	Recipients	Beneficiaries
Old age (contributory) pension	86 217	109 832
Retirement pension	78 370	104 244
Widower's (contributory) pension	100 374	116 030
Deserted wife's benefit	12 654	25 174
Maternity benefit	6 130	6 130
Health and safety benefit	30	54
Adoptive benefit	10	10
Orphan's (contributory) allowance	1 148	1 148
Disability benefit	46 940	95 038
Invalidity pension	48 663	83 271
Injury benefit	828	1 643
Interim disability benefit	488	914
Disablement benefit	10 925	11 888
Death benefit pension	665	893
Carer's benefit	50	114
Unemployment benefit	46 565	93 080
TOTAL SOCIAL INSURANCE	440 057	649 463
Old age (non-contributory) pension	90 652	96 828
Pre-retirement allowance	12 521	19 675
Widow/er's non-contributory pension	17 367	17 367
Deserted Wife's allowance	1 613	1 613
Prisoner's Wife's allowance	3	3
One-parent family payment	74 119	192 755
Orphan's non-contributory pension	749	749
Disability allowance	54 303	70 885
Blind person's pension	2 229	2 910
Carer's allowance	16 478	30 901
Unemployment Assistance	69 504	132 212
Family Income Supplement	13 062	44 336
Back to work allowance	34 506	87 481
Back to work enterprise allowance	4 503	11 510
Back to education allowance	4 237	5 932
Part-time job incentive scheme	474	474
Farm assist/smallholders	8 051	21 760
Supplementary welfare allowance	25 094	45 448
Rent allowance	472	472
TOTAL SOCIAL ASSISTANCE	429 937	783 311
GRAND TOTAL	869 994	1 432 774

[4] Source: Department of Social, Community and Family Affairs, 2000: Statistical Information on Social Welfare Services, Tables A10 and A12.

2. Poverty and the present income support system in Ireland

2.1 The extent of poverty

The extent of poverty in Ireland has been highlighted by the United Nations Human Development Report.[5] Of seventeen industrialized countries, Ireland is ranked sixteenth on the poverty index. Only the USA has a higher percentage of its population living in poverty. The United Kingdom is ranked fifteenth, while Sweden, Norway and the Netherlands are the countries with the lowest levels of poverty. The variables used in this measurement of poverty are the percentages of people likely to die before age 60, people who are functionally illiterate, people with disposable incomes less than 50 per cent of the median, and those unemployed for more than a year.

In the context of sustained levels of record economic growth, the scale of poverty in Ireland can surprise many. Taken as a whole, the Republic of Ireland has become a much more prosperous place. However, the distribution of that prosperity has been such that the 'Celtic Tiger' dividend has been non-existent for a large number of this country's people.

2.2 Who are the poor?

How many people are poor? On what basis are they classified as poor? In trying to measure the extent of poverty, the most common approach has been to identify a poverty line (or lines) based on people's incomes. The most commonly used one in Ireland is ***a line, which is half average income, adjusted for family size and composition.*** Alternatives set at 40 per cent and 60 per cent of average income are also used fairly often to clarify and lend robustness to conclusions that could impact on policy. The major studies on lines such as these in Ireland have been conducted by the Economic and Social Research Institute.

[5] United Nations Development Programme (2001), *Human Development Report - 2001,* New York, United Nations Publications.

- In financial terms the ESRI discovered [6] that the income-per-adult equivalent averaged over households in 1998 was • 237.73 (£187.23). Consequently, the income poverty lines for a single adult derived from this average were:

    - 40 per cent line - • 95.09 (£74.89) a week
    - 50 per cent line - • 118.86 (£93.61) a week
    - 60 per cent line - • 142.64 (£112.34) a week

- Updating the more generally accepted poverty line (i.e. 50 per cent of average income) to 2002 levels, using actual (Central Statistics Office, 98-2001) and predicted (Department of Finance, 2002) increases in average industrial earnings, produces a relative income poverty line of • 157.71 (£124.21) for a single person. This is • 38.91 (£30.65) more than the current level of most social assistance rates.

The most up-to-date data available on poverty in Ireland come from the 1998 Living in Ireland Survey, conducted by the ESRI, and is shown in Table 6.

Table 6. Percentage of households and persons below relative income poverty lines 1994/1997/1998

	Households			Persons		
	1994	1997	1998	1994	1997	1998
40% line	4.8	6.3	10.5	5.2	6.3	9.1
50% line	18.6	22.4	24.6	17.4	18.1	20.0
60% line	34.1	34.3	33.4	30.4	30.1	28.6

- Overall the 40 and 50 per cent lines show a continued increase in the numbers below those lines for the whole period. Only the 60 per cent line shows a minor decrease.

[6] Layte, R., B. Maitre, B. Nolan, W. Watson, C.T Whelan, J. Williams and B. Casey (2001), *Monitoring Poverty Trends and Exploring Poverty Dynamics in Ireland,* Dublin, ESRI.

- Using the more generally accepted poverty line (50 per cent) the percentage of persons under this line rose from 17.4 per cent in 1994 to 18.1 per cent in 1997, and increased further to 20 per cent in 1998.
- Similarly, households experiencing poverty increased, with the equivalent numbers being 18.6 per cent, 22.4 per cent and 24.6 per cent respectively.
- In summary, we can use the 50 per cent line to conclude those one in four households and one in five persons live in relative income poverty.

The depth of poverty experienced by people and households declined between 1994 and 1998. Even though people remain relatively poor, they do have more money in their pockets. Therefore, those below relative-income poverty lines are now a good deal closer to these lines than in the past. Consequently, the share of national income needed to bridge that gap, to bring everyone up to these lines, has been greatly reduced.

The National Anti-Poverty Strategy, published by government in 1997, adopted the following definition of poverty:

> People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living that is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalized from participating in activities that are considered the norm for other people in society.

This definition of poverty is, effectively, ignored by government when it focuses principally on reducing '*consistent* poverty' and does not give priority to providing poor people with sufficient income to live life with dignity.

What does 'consistent' poverty mean?

Income, alone, does not tell the whole story concerning living standards and command over resources. As we have seen in the National Anti-Poverty Strategy definition of poverty, it is necessary to look more broadly at people's exclusion from the life of a society because of a lack of resources. This would involve looking at other areas where 'as a result of inadequate income and resources people may be excluded and marginalized from participating in activities that are considered the norm for other people in society'.

What are these activities? In seeking to answer this question, the ESRI, in various poverty studies, has measured people's access to 23 non-monetary indicators. These have subsequently been divided into three subsets, focusing on the basic dimension, the housing/services dimension and the secondary dimension. In the 'basic dimension' the indicators included by the ESRI are:

- a meal with meat, chicken or fish every second day;
- a warm, waterproof overcoat;
- two pairs of strong shoes;
- a roast joint of meat or its equivalent once a week;
- new, not second-hand clothes;
- going without a substantial meal;
- going without heat;
- going into debt for ordinary living expenses.

Table 7. Percentage of households below the 50 per cent income line and experiencing basic deprivation in 1994/1997/1998

	1994	1997	1998
50 per cent line	9.0	6.7	6.2

Source: Derived from Layte et al. (2001: 35)

The proportion of households experiencing income poverty who are also experiencing basic deprivation declined from 9 per cent in 1994 to 6.2 per cent in 1998. This percentage is likely to have fallen further in the period since then. While improvements in these figures are welcome, they should not be excessively praised. The group being measured as 'consistently' poor is a sub-set of those who live in poverty. The ESRI studies identify this group as having a series of psychological characteristics that set them apart from others who live in relative income poverty. The challenge facing the Irish government is not simply to reduce the proportion of the population living in 'consistent' poverty but to eliminate all relative income poverty. The resources to do this have existed in Ireland for some time.

2.3 Risk and incidence of poverty

When poverty is being analysed it is important to distinguish between the risk facing a particular type of household (i.e. the proportion of households of that type found to be in poverty) and the incidence of poverty (the proportion of all those in poverty who belong to that group).

Table 8 provides a breakdown, for the period 1973-98, of those below the 50 per cent poverty line (i.e. *incidence* of poverty), classifying them by the labour force status of the head of household.

- § This shows that 60 per cent of households who experience poverty are households whose head is either on home duties (39.2 per cent) or retired (21.2 per cent).
- § Households headed by an unemployed person make up the next largest group at 15.4 per cent.

Table 8. Composition of households under 50 per cent relative poverty line by labour force status 1973–1998

	1973[a]	1980[a]	1987[b]	1994[c]	1997[c]	1998[c]
Employee	9.0	10.3	8.2	5.3	7.3	4.0
Self-employed	3.6	3.5	4.8	6.6	6.2	5.2
Farmer	26.0	25.9	23.7	8.0	5.0	6.2
Unemployed	9.6	14.7	37.4	30.3	18.9	15.4
Disabled / ill	10.2	9.3	11.1	9.6	9.1	8.8
Retired	17.0	18.9	8.1	10.1	17.9	21.2
Home duties	24.6	17.4	6.7	30.2	35.7	39.2
Total	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Derived from Nolan and Callan (1996: 95) and Layte et al. (2001: 24)
Notes:a: Household Budget Survey Data
b: ESRI Data
c: ESRI Living in Ireland Survey Data

The *risk* of poverty for each of these categories over the same 1973–98 periods is outlined in Table 9.

- Table 9 shows that since 1997 the overall risk of poverty has increased further to 24.3 per cent.
- It also shows that the risk of poverty has increased for five out of the seven classifications. Households whose head is a farmer, unemployed, ill/disabled, retired or on home duties have all seen an increase in their risk of being exposed to poverty.
- Since 1997 only households whose head is an employee or self-employed have experienced reduced risk.
- The risk of poverty has decreased dramatically since 1987 for households headed by a farmer. In the same period, however, the number of full-time farmers has decreased substantially.

Table 9. Risk of relative income poverty by labour force status 1973–1998 (50 per cent relative poverty line)

	1973[a]	1980[a]	1987[b]	1994[c]	1997[c]	1998[c]
Employee	3.9	3.7	3.5	2.8	4.0	2.3
Self-employed	10.1	8.6	10.5	15.1	17.1	15.8
Farmer	21.2	27.0	32.8	21.5	16.3	22.0
Unemployed	61.9	63.1	57.2	57.3	54.9	56.2
Disabled / ill	42.8	48.2	33.7	50.0	60.4	72.6
Retired	29.5	23.3	9.1	10.2	23.3	28.7
Home Duties	42.2	32.2	9.8	33.2	48.6	58.4
Total	18.3	16.8	16.3	18.6	22.3	24.3

Sources: Derived from Nolan and Callan (1996: 96) and Layte et al. (2001: 24)
Notes:a: Household Budget Survey Data
b: ESRI Data
c: ESRI Living in Ireland Survey Data

Additional research on poverty risk by the ESRI has also identified:

- Between 1997 and 1998, the risk of falling below half average income rose for single-person households, notably where the head was aged 65 or over. In 1997, this risk was 40.1 per cent, and in 1998 it was 50.8 per cent. By 1998, single-adult households had become the highest risk group, with a risk figure more than twice that of the next highest group.

- The poverty risk attached to households of one adult with children also increased sharply between 1997 and 1998. These households now have a 42.4 per cent chance of experiencing poverty.

2.4 Children

The 1998 ESRI poverty data indicate a further decrease in the number of households with children who experience poverty. In 1994, households containing children accounted for 55 per cent of all households below the 50 per cent relative income poverty line; in 1998, this was 28 per cent. In general, between 1994 and 1998, there was a narrowing of the gap between the risks facing children and those facing adults. While this is clearly an improvement, the overall figure remains very high.

2.5 Gender

The 1998 ESRI poverty data clearly indicate that women in Ireland experience a greater risk of poverty than men. Table 10 outlines these trends and displays a gap between the percentage of men and women in poverty. This is particularly noticeable in the age group 65 and over. In that age group, 43.5 per cent of women are at risk of experiencing poverty, compared with 25.9 per cent of men. The greater dependency of elderly women on social welfare payments, whose growth has lagged behind average income growth, is a central part of the reason behind this trend.

As noted earlier, in Table 9, the 1998 data record an increased risk of poverty for single-adult households and households headed by someone working full-time in the home. Both these classifications comprise primarily households headed by women and help to explain further the growth in female poverty risk.

Table 10. Risk of relative income poverty by gender and adult's age 1994–1998 (50 per cent relative poverty line)

	1994%		1997%		1998%	
	Men	Women	Men	Women	Men	Women
All adults	14.5	16.7	15.5	21.6	16.8	22.2
Adults aged 18–64	15.6	17.9	15.3	18.3	15.3	17.6
Adults aged 65+	8.4	8.4	16.9	38.5	25.9	43.5

Source: Layte et al. (2001: 28)

2.6 Poverty proofing

As part of the implementation of the National Anti-Poverty Strategy (NAPS) the social partners (employers, trade unions, farmers and the community and voluntary sector) have been involved in a dialogue led by the Department of Social, Community and Family Affairs to develop mechanisms for poverty-proofing policies of government departments. A document was agreed that sets out how civil servants responsible for policy should assess policies for:

- impact on poverty;
- contribution to achieving the NAPS targets;
- ability to address inequalities leading to poverty.

This is an important development that has the capacity to give a new direction to policy and the distribution of resources. A recent review by the National Economic and Social Council (NESC) has identified a number of areas within the existing poverty-proofing process that require improvement. It is clear that such improvements are necessary as, to date, the implementation of poverty proofing in areas such as the annual budget leaves a great deal to be desired.

2.7 How does Ireland compare with the European Union (EU) on social protection expenditure?

The convergence of Irish incomes with the EU average has fuelled a growing expectation that Ireland should provide a EU level of services. One measure of such services is the level of social protection expenditure. Table 11 provides the most recently available figures for countries in the EU.

The percentage of GDP spent by Ireland on social protection continues to be lower than any other country in the EU, and it is decreasing. At 15.3 per cent of GDP, the Irish figure is more than 5 per cent lower than the allocation in Portugal, the next lowest-spending country. Sweden, the country with the highest social-protection expenditure, spends more than twice as much as Ireland. While some of the difference may be explained by the fact that Ireland does not have as large a proportion of its population in the pension age group, the figures are still dramatic.

Table 11. Social protection expenditure in the EU between 1996 and 1998 as a per cent of GDP

	1996	1997	1998
Belgium	28.8	28.5	26.9
Denmark	32.5	31.4	29.1
Germany	30.6	29.9	28.2
Greece	23.1	23.6	23.7
Spain	21.9	21.4	21.0
France	31.0	30.8	28.9
Ireland	18.5	17.5	15.3
Italy	25.3	25.9	24.3
Luxembourg	25.2	24.8	23.2
Netherlands	30.8	30.3	26.8
Austria	29.6	28.8	27.5
Portugal	21.6	22.5	20.4
Finland	32.3	29.9	26.4
Sweden	34.6	33.7	32.6
United Kingdom	27.7	26.8	26.0
EU-15	28.7	28.2	26.6

Source: Eurostat, February 2000 and September 2001.

2.8 An examination of low-income families

An examination by the Vincentian Partnership for Social Justice of the current social welfare and minimum wage rates underscores their inadequacy. The study concludes that, ‘these rates do not reflect the current cost of even the most frugal standard of living. There is an urgent need to increase them to a realistic level at which people can live with some dignity and without the burden of a continuous shortfall'[7] (2001: 156).

The study was conducted during 2001 and involved 118 people in twelve community centres in seven parts of Dublin city completing a detailed questionnaire on their weekly income and expenditure. Each of these people represented a specific household. The study found that housekeeping and food were the most costly items for the majority of households, regardless of income. It also identified that people on social welfare experienced shortfalls because of the inadequacy of their income, rather than because of bad management of their income. The resulting financial pressure diverted family attention away from allocating enough time, commitment or money to areas such as education. Consequently, children may even leave school early to avoid further financial pressure on their parents.

Based on the survey and its findings, the Vincentian Partnership identified a number of key recommendations; these are (pp. 159–161):

- Raise the single adult social welfare rate to • 184 (£145).
- Lone parents with two children need • 254 (£200) a week to live life with some dignity.
- Increase child dependant allowance to a minimum of • 25.40 (£20) a week for low-income families.
- Increase the provision of state-supported, affordable, child care so that more people can avail of training and work opportunities.
- Encourage employers to adopt greater flexibility to working hours so that parents can work during school hours.
- Increase the back-to-school clothing and footwear allowance to a more realistic level.

[7] Vincentian Partnership for Social Justice (2001), *One Long Struggle, a study of low income families,* Dublin, p. 156.

2.9 Towards benchmarking social welfare payments

The sustained high rates of poverty and income inequality in Ireland require greater attention. Tackling poverty effectively is a multi-faceted task. It requires action on many fronts ranging from healthcare to education, from accommodation to employment. However, the most important requirement in tackling poverty is the provision of sufficient income to people to enable them to live life with dignity. No anti-poverty strategy can possibly achieve any success without an effective approach to addressing low incomes.

The poorest people in Irish society are expected to live on • 118.80 a week in the year 2002. This sum is far from adequate, and those who depend on it can expect to experience only the most frugal of living standards.

Despite the failure to date to address low incomes on an adequate scale, there has been some progress on benchmarking social welfare payments. In its final report, published in September 2001, the Social Welfare Benchmarking and Indexation Working Group agreed that the lowest social welfare rates should be benchmarked. A majority of the working group also agreed that this benchmark should be index-linked to society's standard of living as it grows, and that the benchmark should be reached by a definite date.

The working group chose Gross Average Industrial Earnings (GAIE) to be the index to which payments should be fixed. A majority agreed that the benchmark for social welfare payments by 2007 should be 27 per cent of GAIE. In 2002 terms this would mean that the lowest social welfare payment (at • 118.80 a week in 2002) should be • 138.85.

This marked a major breakthrough in the struggle to tackle poverty and social exclusion in Ireland. If the recommendations are implemented, the lowest social welfare payment would rise dramatically, the target would be reached within a definite time frame, and social welfare payments would continue to increase in line with the improving living standards of the wider society.

The Community and Voluntary Pillar of Social Partners and the Trade Union Pillar both argued, that the benchmark should be set at 30 per cent of GAIE, with the 27 per cent proposed acting as an interim target.

In accepting the GAIE index, the working group was following a precedent set by the Pensions Board, which had recommended that contributory old age pensions be benchmarked at 34 per cent of GAIE.

All members of the working group agreed that basic child income support (i.e. Child Benefit and Child Dependant Allowances combined) should be set at 33–35 per cent of the minimum adult payment rate.

The National Anti-Poverty Strategy Review 2002 set the following as key targets:

> To achieve a rate of • 150 per week in 2002 terms for the lowest rates of social welfare to be met by 2007 and the appropriate equivalence level of basic child income support (i.e. child Benefit and Child Dependent Allowances combined) to be set at 33 per cent – 35 per cent of the minimum adult social welfare payment rate.

The target of • 150 a week is equivalent to 30 per cent of Gross Average Industrial Earnings (GAIE) in 2002. This means that social welfare rates will be benchmarked to increases in average industrial wages from now on. It also means that the gap between the present level of the lowest social welfare payments and 30 per cent of GAIE will be bridged between now and 2007. If this new target is honoured there will be a substantial reduction in the numbers of people living below the poverty line. However the issue of low pay has not been addressed in the review.

We now move on to review the basic income debate in Ireland.

3. The basic income debate in Ireland

3.1 What is basic income?

In the general debate about the topic in Ireland basic income is defined as an income paid unconditionally to everyone on an individual basis, without any means test or work requirement. In a basic income system every person would receive a weekly tax-free payment from the Exchequer and all other personal income is taxed, usually at a single rate. For a person who is unemployed, the basic income payment would replace income from social welfare/social security. For a person who is employed, the basic income payment would replace their tax-credit in the income tax system.

3.2 Why a basic income?

There has been a wide range of arguments provided to support the introduction of a basic income system. Among these are its positive impacts in areas such:

- liberty and equality;
- efficiency and community;
- common ownership of the earth;
- equal sharing in the benefits of technical progress;
- flexibility of the labour market;
- the dignity of poor people;
- tackling poverty traps and unemployment traps;
- the fight against unemployment and inhumane working conditions;
- the need to reverse the desertification of the countryside;
- interregional inequalities;
- the viability of co-operatives;
- the promotion of adult education;
- autonomy from bosses, husbands and bureaucrats.

All of these reasons, and more, have been invoked in favour of introducing a basic income system in Ireland and beyond.[8]

3.3 Early empirical work on basic income in Ireland

In the late 1970s, the National Economic and Social Council (Ireland's Government-appointed think-tank which includes representatives of social partners, government appointees and key civil servants) commissioned a report on how personal income tax and transfers might be integrated. This report[9] examined three broad options, one of which was basic income. Subsequently, the report generated very little discussion about basic income. However, it did provide the basis for a wide-ranging debate about tax reform that culminated in the establishment of the Commission on Taxation.

The First Report of the Commission on Taxation (1982) contained a cursory examination of basic income that it rejected, mainly on cost grounds. Similarly, the Commission on Social Welfare (1986), quoting the Report of the Commission on Taxation, rejected basic income on cost grounds, but also because basic income might represent a detour from the priority objective, according to the Commission, of increasing social welfare rates to adequate levels.

Both of these major reports, commissioned by Government are characterized by a marked failure to analyse basic income on any serious level. This failure is difficult to justify, even if it is understandable given the focus of both of these reports and the contexts in which they were produced. However, for many years afterwards these two reports were quoted, by those opposed to analysing a basic income approach, as sufficient reason for rejecting basic income. By such cursory analysis and casual dismissal is policy often made!

[8] For a much fuller treatment of this topic cf. Philippe Van Parijs (1992) and Sean Ward (1998).

[9] Brendan Dowling (1977).

3.4 From 1987 onwards

From 1987 onwards there have been two approaches to studying basic income in Ireland. The first approach preserved key elements of the existing tax and spending systems[10]. The second approach substituted basic income for the existing tax and welfare systems and some other government spending[11].

The models developed by Honohan and Callan was similar. According to these models each adult of working age would receive an untaxed payment equivalent to that paid as unemployment assistance (in the social welfare system); this was seen as a "full basic income". Elderly people would receive somewhat higher payments and children would receive smaller amounts. All social welfare payments would be discontinued. Existing "discretionary'" tax relief (such as mortgage interest, employee pension contributions, etc.) would be retained. All government spending programmes would also be retained.

Both authors found that a very high tax rate would be required to fund this type of proposal. Tax rates in excess of 65 per cent would be required on all personal incomes. It was suggested that such a high tax rate could act as a disincentive to people taking up employment. In addition, Callan found that the income distribution effect of this proposal was not advantageous for significant numbers of low-income households. Honohan and Callan concluded that these models of basic income should be rejected.

A series of official reports in 1996 reviewed the findings of Callan, notably the Department of Enterprise, Trade and Employment,[12] Forfas[13] and the Expert

[10] For details on this approach cf. Honohan, 1987; and Callan et al, 1994.

[11] For details on this approach cf. Ward 1994, CORI 1994, 1995, and 1996, Healy and Reynolds 1995, Clark and Kavanagh 1995, Clark and Healy 1997.

[12] ETE report.

[13] Forfas report.

Group on the Integration of the Tax and Social Welfare Systems.[14] These reports endorsed Callan's conclusion that this model of basic income was not viable.

3.5 The CORI approach

(Version one)

CORI Justice Commission agreed with the Honohan and Callan assessment that this model of basic income was not viable in the Irish context. CORI, however, wanted to achieve the main benefits of basic income, while reducing the cost, so that the tax rate (including social insurance contributions) required would be no more than 50 per cent - which was lower than the top combined income tax and social insurance rate in Ireland in the mid-1990s.

Sean Ward had followed this approach in his 1994 study[15]. The main characteristics of this alternative approach were:

- A “full” basic income for older people and for children
- A substantial 'partial' basic income for adults of working age. This would be topped up to the level of unemployment assistance for people who were unemployed.
- The abolition of all discretionary tax relief.
- A range of public expenditures would no longer be required.
- Employers' social insurance contributions would be abolished.
- Government support for industry would be reduced.

This new model had several advantages over the current systems. According to Ward it:

- Provided more equity, both horizontal and vertical.
- Improved incentives to recruit labour and seek work.

[14] TWIG report.

[15] Sean Ward, 1994.

- Provided greater simplicity and certainty.

CORI Justice Commission adapted and developed this approach.[16] CORI proposed a number of variations on how it might be implemented in practice. A set of principles for evaluating these proposals against the status quo position were outlined and applied.[17]

One of the most significant aspects in this period was the fact that the various Government studies already referred to gave this particular approach very little consideration. Neither the Department of Enterprise, Trade and Employment[18] nor Forfas[19] gave the proposal any consideration. The Expert Working Group on the Integration of the Tax and Social Welfare Systems considered the CORI proposal. The methodology used by the Expert Group, however, was seriously flawed methodologically.[20]

The CORI approach updated (version two)

The two major objections consistently being put forward as the basis for rejecting basic income were that it would (a) result in tax rates that were too high and (b) there was no practical way of implementing such a system. The last few years have produced changed contexts on both of these objections.

The economic growth in Ireland in recent years has substantially reduced the tax rate necessary to fund a "full" basic income for everyone in Ireland. As a result of this CORI developed its original proposals further. Instead of having a substantial "partial" basic income for adults of working age it was possible to pay everyone a full basic income. From 1997 onwards all CORI proposals were for the introduction of a "full" basic income. In the interest of clarity, this is referred

[16] CORI 1994, 1995, 1996, Healy and Reynolds, 1995.

[17] Healy and Reynolds, 1995

[18] Department of Enterprise, Trade and Employment 1996

[19] Forfas 1996

[20] Healy 1996

to here as the CORI approach, version two. It maintains all elements of version one but pays a full basic income to recipients.

At the same time CORI commissioned research to look at how it's proposals for basic income could be implemented. Charles Clark and John Healy did this work.[21] They came up with a recommendation on how to proceed to implementation of a full basic income system for all, over a three-year period.

Of equal importance was the issue of financing a basic income system. For years there had been arguments about the actual tax rate required to finance a basic income system. During that period CORI had sought mechanisms that would produce agreement on this issue. Government refused to study the topic or to provide the funding for such a study to be conducted independently. However, a solution was found in 1997.

3.6 Government-appointed Working Group on Basic Income

In Ireland, since 1987 Government has negotiated with employers, trade unions and farming organizations to develop three-year national plans. In 1996 an additional pillar of social partners was added to this partnership structure representing the voluntary and community sector. CORI Justice Commission was one of the organizations which was recognized as a full social partner as part of this pillar. In the course of the negotiations for the new programme called *Partnership 2000* (covering 1997 - 9), CORI was successful in getting agreement from the other social partners and government to include in the agreement a section on Basic Income which read as follows

> Further independent appraisal of the concept of introducing a Basic Income for all citizens will be undertaken, taking into account the work of the ESRI, CORI and the Expert Group on the Integration of Tax and Social Welfare and international research. A broadly based steering group will oversee the study.

[21] Charles Clark and John Healy, 1997.

A working group was established to implement this commitment. CORI was part of this working group. The working group decided to divide its work into two phases. Phase 1, examined the tax rate needed to fund Basic Income and the distributional implications of introducing Basic Income with this tax rate. Phase 2 looked at the dynamic effects of the proposal, including its effects on employment, effects on economic growth, short and long-term budgetary implications and the gender dimensions of all of these. These studies were completed and published by Government along with the working group's report.

The ESRI study done for the Working Group found that a Basic Income system would have a substantial impact on the distribution of income in Ireland in that, compared with the present tax and welfare system it would:

- Improve the incomes of 70 per cent of households in the bottom four deciles (i.e. the four tenths of the population with lowest incomes) and
- Raise half of the individuals that would be below the 40 per cent poverty line under 'conventional' options above this poverty line.

According to the Report, these impacts would be achieved without any resources additional to those available to 'conventional' options.

The Working Group's Report also found that the tax rate (including PRSI - i.e. social insurance - replacement) required to finance Basic Income, based on January 1999 estimates, would be 47 per cent. Since then the economy has grown significantly and the revised rate, based on the most recent Revenue Commissioners estimates of the tax base available at the time of writing, is 42.7 per cent. It should be noted, of course, that the effective tax rate would be substantially lower than this as these calculations do not include the actual Basic Income payment received by the individual or household.

The Final Report of the Working Group on Basic Income was very significant. In particular the fact that the Report vindicated CORI Justice Commission's claims that a Basic Income system would have a far more positive impact on reducing poverty than the present tax and welfare systems was very significant. This report showed that a Basic Income system would be far more effective at tackling poverty and could form part of a comprehensive strategy to totally eliminate income poverty in the years immediately ahead.

With reference to the losers identified in the Report, two key issues need to be borne in mind:

- Over a three-year implementation period of a Basic Income system all the 'losers' would be better off than they are at present. They would simply not gain as much under Basic Income as they would under the present system.
- The losers in the bottom four deciles identified in the Report can be easily targeted and compensated through the Social Solidarity Fund that forms part of the Basic Income structure.

The first of these issues is very important as the ESRI study insists on identifying as "losers" people who would, in fact, gain under the proposal. They would simply gain less under the Basic Income system than they would under the present tax and welfare arrangements.

The second issue is important, as the Working Group did not have much opportunity to refine the proposals it was using as a means of testing the impact of the introduction of a Basic Income system. The losers identified in the lowest income deciles would be relatively easy to target and proposals on how this could be done are available for testing.

On the macro-economic aspects the Report itself acknowledges that the findings were very tentative, speculative and hard to quantify. Despite this, the Report's conclusion that a basic income system could encourage some people to move from the unofficial economy into regular employment was a welcome finding as it reversed some untested claims that had been made up to this point.

There are many tests to check the efficiency etc. of the tax and welfare system. For the present authors the critical test of any tax and welfare system is its impact on people with lower incomes. While many poor people have benefited from developments of recent years in Ireland, especially through growth in employment, the fact remains that the gap between poor people and the rest of society has been widened considerably over the past decade and a half.

The effective conclusion of the Working Group's work was that the choice between a Basic Income system and ‘conventional’ tax/welfare options is a trade off between greater equity and a risk of lower economic growth versus less equity and less risk to higher economic growth. At a time when so much concern has been expressed about Ireland's growth rate of recent years being unsustainable, the argument in favour of introducing a Basic Income system is further strengthened.

3.7 Towards a Green Paper

In the build up to the 1997 Irish general election CORI canvassed all political parties to include a commitment on Basic Income within their election manifestos. The incoming Government ***(Fianna Fail / Progressive Democrats coalition)*** made a commitment to introduce a Green Paper on Basic Income within two years. This was a further breakthrough as it ensured that the work being done on Basic Income would be considered within the official policy making process of Government and the results of that consideration would be published for public consideration.

The normal procedure in Ireland is that a Green Paper is a means of generating a major discussion on the topic under consideration. This, in turn, is followed by a White Paper outlining what Government proposes to do which then forms the basis for Government policy. It may also be followed by the introduction of a Bill that goes before the Oireachtas (both houses of Parliament).

Because of the late completion of the working group’s studies, publication of the Green Paper was delayed. According to Ireland's Taoiseach (Prime Minister) it is now scheduled for publication in June 2002.

4. The changing taxation situation in Ireland

There has been a range of changes in the Irish tax system in recent years. The most important change, in terms of the possible introduction of a Basic Income system has been the introduction of tax credits. In the tax year commencing April 6, 2001 a full tax credits system was introduced by Government to replace the tax-free allowance system that had been in place up to that point.

Under this tax credits system a person is entitled to tax credits depending on his/her personal circumstances e.g. married person's tax credit, employee (PAYE) tax credit etc. The main tax credits in the system at present are:

Category	•
§ Single person	1,520
§ Married couple	3,040
§ One parent family	1,520
§ Age credit single (65+)	205
§ Age credit married (65+)	410
§ Incapacitated child	500
§ Blind person	800
§ Home carers	770
§ PAYE credit	660
§ Widow/widower	1,520
o Widowed parent	
Bereaved in 2001	2,600
2000/2001	2,100
1999/2000	1,600
1998/1999	1,100
1997/1998	600

In this tax credits system a person's tax is calculated from the first cent they earn and the tax credit is deducted from the total tax bill thus producing the amount of tax a person is to pay the State. This means that the benefit is the same for all those whose tax bills are high enough to benefit from the full tax credit. However, there is one problem with this. Those whose tax bills are not large enough, and who owe the State no tax, do not benefit from an increase in tax credits in the Government's annual Budget. This produces an unfair situation in which those on the lowest pay may not benefit from tax cuts while those with higher incomes do benefit. To counteract this there has been a move toward making tax credits refundable.

4.1 Making tax credits "refundable"

The pressure to make tax credits refundable is growing in Ireland as more than one third of those who are in paid employment are outside the tax net and, consequently, do not benefit from tax reductions in the Government's annual Budget.

The most recent national agreement, entitled *The Programme for Prosperity and Fairness* (2000-2002), contains a commitment to establish a working group to look at the viability of making tax credits refundable. This working group is nearing completion of its work as we write. Its report should be published in late-2002.

Most of the work to date in the Refundable Tax Credits Working Group has focused on the administration difficulties that could be faced by the Revenue Commissioners and employers. Many believed that it was not possible to administer a refundable tax system without putting huge burdens on employers and the Revenue Commissioners. CORI Justice Commission produced the following idea designed specifically to overcome this problem. (The Working Group is considering this proposal as we write.)

The central idea

The central idea recognizes that most people with regular incomes and jobs would not receive a cash refund of their tax credit because their incomes are too high; they would simply benefit from the tax credit as a reduction in their tax bill. No change is proposed for these people and they would continue to pay tax via their employers, based on their net tax liability after their employers have deducted tax credits on behalf of Revenue.

For other people on low or irregular incomes, they would have the option to request that their tax credit be paid directly into their bank account by the Department of Social, Community and Family Affairs (DSCFA) which administers the current social welfare system. In these cases employers would not subtract the tax credit from the gross tax liability of these people.

Eligibility

In order to qualify for direct refund of tax credits by DSCFA, a person must satisfy the following criteria:

- must be 21 years of age or over and;
- if under 65 must be currently working for at least 12 months for the equivalent of at least eight hours per week, as evidenced by tax/PRSI returns.

Employees and self-employed, including farmers, are encompassed within the proposal. Eligibility would last for a year or for the same length of time as the Family Income Supplement. Thus, if someone loses a job, becomes invalided, retires etc eligibility is retained for the remainder of that year.

Further groups of people would be eligible, including spouses working in the home. Spouses could opt to receive the “married” part of the personal tax credit and the Home Working Spouse tax credit directly from DSCFA.

Merits

- Every beneficiary of tax credits can receive the full value of the tax credit.
- It would improve the net income of the workers whose incomes are lowest, at modest cash cost.
- It would improve the net income of the pensioners whose incomes are lowest, at modest cash cost.
- No additional administrative burden is placed on employers or Revenue.

The administrative burden of paying tax credits directly to those who select this option is left with DSCFA, who have long experience of making direct payments and are currently experiencing a fall-off in business with a reduced Live Register.

The move to a tax credits system was completed in Ireland in 2001.

The introduction of a refundable tax credit system would take this process a step further and would produce a situation where every person in the country had the right to some form of payment from the State. Viewed from an age-based perspective it would mean that:

- child benefit would be paid for every child;
- refundable tax credits or a social welfare payment would be available for every adult up to the age of 65;
- An old age pension would be paid to every adult over 65.

5. The challenges facing Government

The economies of the world are changing radically at the present time. Whether these changes are simply a continuation of the process of development experienced over the past two centuries or whether they mark a more substantial and deeper transformation remains to be seen. Either way, the Irish economy has been one of the fastest changing of the past decade. Dramatic economic growth has moved Ireland from a situation of being one of the poorest nations in the European Union to being one of the better off, measured in terms of income per capita.

5.1 A major paradox

However, there is a major paradox at the heart of Irish development. Despite the unprecedented economic growth of the Irish economy in recent years and its accompanying prosperity there has been a marked failure to address adequately the issues of social cohesion and infrastructure deficit that are still problematic throughout the country. While Ireland now has a per capita income well above the EU average its infrastructure and social provision are far below the EU level. At the same time Ireland's tax-take is far below the EU average and this is seen as a virtue to be protected at all costs. This combination of circumstances raises the question: how can Ireland have a EU level of infrastructure and social provision if it is not prepared to pay EU levels of taxation? Or alternatively, is Ireland satisfied to continue with levels of infrastructure and social provision well below the EU average and live with the lower quality of life that accompanies such lower levels of provision?

There have been many positive developments to record in recent years. Economic growth has been at unprecedented levels. Despite the recent slowdown it is still higher than most EU and OECD countries. The numbers employed have grown dramatically. There has been a substantial fall in the numbers unemployed. The rate of long-term unemployment is much lower today than it was a decade ago.

Many argue, however, that in recent years Ireland has had prosperity without fairness. While the wealth of the nation has grown dramatically, the proportion of the population with incomes below the poverty line (set at half average income, adjusted for family size and composition) has also grown. The proportion of households below the same poverty line has also grown. The gap between the better off and the poor has widened dramatically. There is growing social polarization between these two parts of society. This situation has been exacerbated by most of the recent Budgets which saw those who were already better off gaining most when the available resources were allocated.

There has been a growing debate about the model of society that Irish people wish to see evolve. This has been encapsulated in the rather misleading phrase "Boston or Berlin" which has been used to contrast the "European" model with the "American" model. It could be argued that Ireland has been moving towards the American model of socio-economic development which is characterized by low taxation, more emphasis on the responsibilities of individuals, less social provision and growing inequality.

We now have a situation where the share of GNP going on wages is much lower than it was a decade ago. At the same time the share going on profits is markedly higher. Likewise, the share of GNP going on social welfare payments is markedly lower than it was before the advent of the economic boom. While this in part is a consequence of the decline in the numbers unemployed, it is also a consequence of the failure to use the available resources to raise the standard of living of Ireland's poorest so as to bring them above the relative income poverty line. Despite claims to the contrary from a range of sources the reality is that Ireland's rate of relative income poverty has risen during the boom years and is one of the highest in the EU.

A reversal of recent trends in these areas seems more than desirable if Ireland is to have a *fair* distribution of its new resources. A major challenge facing policy makers, the social partnership process, political parties and the political process generally is to address this key issue of the lack of fairness in the distribution of the fruits of economic growth. If these various processes do not give a much higher priority to social spending than has been the case heretofore then the unfairness of the present situation will deepen, the gaps in society will widen even further and we will be left with a deeply divided two-tier society.

Fairness does not emerge spontaneously or automatically. It has to be worked for and developed in concrete policy initiatives rooted in a strategy that acknowledges that fairness is a desired outcome. While there has been much favourable rhetoric in this area concrete initiatives and strategies have been lacking. For the most part the strategies and policies followed to date have taken a minimalist approach focusing on the eradication of ***absolute*** or ***consistent*** poverty. Such an approach ignores core issues of equality and distributive justice and will not produce a fair society

The substantial commitment contained in the recently published review of the National Anti-Poverty Strategy on raising the lowest social welfare payment to 30 per cent of average industrial income by 2007 is most welcome. However, much greater progress towards reaching such a target could have been made during the recent years of great economic growth.

Irish society is faced with substantial opportunities, challenges and choices at this time. The future that emerges will result from the decisions taken at this time. In these final pages we will look at a number of key issues that Irish policy makers must address in the period immediately ahead. In doing this we will reflect on whether these are best tackled by the current tax and welfare systems or by a basic income system. In doing this we will also outline the most likely politically viable pathway towards the introduction of a basic income system in Ireland in the short to medium term.

5.2 Tackling the related issues of income distribution, equity and poverty alleviation

We have already outlined the failure to address these related issues during the years of dramatic economic growth. What we have seen is some slight improvement in real terms (i.e. measured against inflation) in the standard of living of most people. At the same time, however, the income of those in poverty has not kept pace with the growing wealth of the society in general or of the better off among the population. The percentage of people and of households below the poverty line has continued to rise. It is clear that the institutions of the State that are meant to facilitate the fair distribution of resources, such as the social welfare system, have not been effective in distributing the benefits to those with lowest incomes. The adjustments in the tax system have seen the benefits moved towards the corporate sector and to capital. Within the income tax system those on the lowest earnings now find themselves in a position where they do not benefit in any way from income tax reductions contained in the Government's annual budgets. It could be said that the institutional changes being put in place by Government to support the development of the new economy have cost the poorest most.

The challenge facing Irish policy makers at this time is to ensure that the recent trends in developing these institutions should be adjusted to ensure that those who are weakest are treated fairly and to move towards building a society clearly focused on securing economic development, social equity and sustainability. According to Charles Clark[22]:

> Ireland can choose to skip the pain and suffering and simultaneously adjust its social and economic institutions along with the changes brought about by globalization and technological change, to share both the costs and the benefits of the new economy. It is just this goal that Basic Income systems are designed to do.
>
> In many ways, something like a Basic Income system is inevitable if Europe seeks to achieve the dynamic economy that technological change and globalization offer while maintaining the commitment to social justice and a civil and humane society. Ireland can take the lead in showing how best to achieve a dynamic economy that maintains its commitment to social justice and a civil and humane society.

In practical political terms the most likely next step the Irish Government could take would be to make tax credits refundable. This would have a number of very positive effects. Among these, the following would be the most important, from the perspective of addressing issues of income distribution, equity and poverty alleviation:

- § It would have an immediate positive impact on the incomes of those who are lowest paid, thus moving them closer to the relative income poverty line.
- § It would reduce the gap to be bridged by policy makers seeking to eliminate relative income poverty in Irish society.
- § Equally importantly, it would put in place a system that could easily be adjusted to become a straightforward Basic Income system.

[22] Charles M. A. Clark, 2002, *The Basic Income Guarantee: Ensuring Progress and Prosperity in the 21st Century,* Dublin, The Liffey Press, pp.39-40.

We will address other positive aspects of making tax credits refundable in the next section of this paper.

5.3 Tackling the issue of competitiveness

The need to ensure competitiveness is a recurring theme in economic debate in Ireland. How to ensure the economy is competitive, however, is not an exact science. What can be done is that all the issues can be analysed in a clear and coherent manner and then they can be assessed to see what role, if any, a Basic Income system might have in improving the competitiveness of the Irish economy. In his recent book on ***The Basic Income Guarantee,*** Charles Clark devotes two chapters to this issue. He uses the criteria developed by the National Competitiveness Council in Ireland in its Annual Competitiveness Reports. In these reports the Council has set out what it calls "critical competitiveness priorities" which are arranged into seven categories: Social Partnership; People; Costs; Infrastructure; Telecommunications and E-Business; Competition and Regulation; and Science and Technology. Clark points out that the issue of Basic Income is relevant to the first three of these and he analyses these in some detail. We provide a short outline of some of his conclusions, as the total work is too large to include in a paper of this length. We strongly urge readers to read the full Clark text as it is, by far, the most comprehensive analysis of basic income and competitiveness in Ireland published to date.

On the issue of social partnership Clark addresses a number of issues. The NCC identified the national agreements negotiated between social partners and Government since 1987 as key elements in producing the reality that is Ireland's new economy. However, the trade-off of tax reductions for moderate wage increases has run its course. The danger is that a much more confrontational model will replace the negotiated approach of the past 15 years. Such an approach could be characterized by the all-or-nothing approach to worker/employer relations. Clark argues that the introduction of a Basic Income system "would make work a much more voluntary act, based on free choice and not the condign power of material need. This would completely change the worker/employer relationship, making it more of a partnership and less based on the ‘confrontational’ model of labour relations”.[23]

In the same context Clark also addresses the focus on economic growth that has been a primary component of previous national agreements between Government and Social Partners. He points out that Ireland can produce more economic growth by forcing every adult to work full-time but questions if that is the type of society Ireland really wants. Given the growing pressures on people that have accompanied recent economic growth in Ireland it seems reasonable to suggest that people might prefer to work less, not more. Clark argues, “A Basic Income allows both men and women more freedom in making the choices of how they wish to participate in society, using the criteria of where they feel they can make a contribution and where they feel the need is greatest, and not merely avoiding destitution”.[24]

The heading of 'people' was the second of the criteria outlined by the NCC when focusing on competitiveness. Education is the first aspect identified under this heading. The new economy will demand greater levels of education and training and greater flexibility to move over and back between employment and education during their working lives. A Basic Income system reduces the need for young people to leave school early to support their low-income families. But a Basic Income also provides far greater opportunity for people to be involved in education and training at all points in their life cycle. It also allows parents to be more involved in their own children's education if they so choose.

Another part of the 'people' sub-heading listed by the NCC in its approach to competitiveness concerns work incentives. A Basic Income system would reduce the tax wedge on low and middle-income workers. It would have a minimal impact on the tax/GDP ratio. It would reduce the effective tax rate for most employees and it would involve a marginal tax rate that would not act as a disincentive to taking up a job or increasing the hours a person worked.

[23] Clark, ibid. pp 65-66.

[24] Clark, ibid. p. 68.

The third criteria identified by the NCC that has implications for Basic Income is 'costs'. There are two opposing positions taken by advocates and opponents of Basic Income under this heading. Some economists argue that a Basic Income system would allow wages to fall (because it would lead to wage substitution) and this would promote full employment. They argue that this would happen because the demand for something is expected to increase as its price falls. Those on the left see this as a criticism of Basic Income while those on the right see it as a major point in its favour. A very different approach to the issue of Basic Income can be seen in the argument that it would lead to an increase in wages for those at the lowest end of the wage-earning spectrum because it gives people in this situation greater leverage. This, in turn, is seen as leading to a reduction in income inequality.

As Ireland now has minimum wage legislation there is no danger that the introduction of a Basic Income system would produce a reduction of wages below the minimum legal level. On the other hand there is little danger that employees as organized as those in Ireland are would allow the Basic Income payment to become, in effect, a wage substitute. Given the current tight state of the labour market (cf. Next section) there is little likelihood of a Basic Income system having negative effects in Ireland under either of the headings identified under this heading.

5.4 Tackling the issues of employment, flexibility and meaningful work for all[25]

A growing labour force and increased employment

The Irish labour force and the numbers employed have been growing dramatically in recent years. In 1990 the total number of people in the labour force was 1,332,000 of which 1,160,000 were employed. By 2001 this number had risen to 1,866,100 (see Table 12) of which 1,786,600 were employed. This means that the numbers employed had grown by more than 600,000 in that period

[25] For a detailed analysis of these and related issues see: Standing, Guy, (1999), *Global Labour Flexibility*, London: Macmillan Press.

while the numbers in the labour force had risen by more than 530,000. The overall labour force participation rate averaged 59.8 per cent in 2001 up from 59.4 per cent in 2000. Male participation in the labour force averaged 71.5 per cent unchanged from the previous year. Female participation increased from 47.8 per cent in 2000 to 48.5 per cent in 2001.

The year 2001 witnessed the first significant increase in Irish unemployment rates since 1993. A minor increase of 0.1 per cent occurred in 1997; however, it was short-lived. At the end of 2000, unemployment, as measured by the Quarterly National Household Survey (QNHS), stood at a rate of 3.9 per cent (68,800 people), and by the year 2001, 79,500 people were classified as unemployed, giving an unemployment rate of 4.3 per cent (see Table 12). During 2001, unemployment dropped to 3.7 per cent, before the slowdown in the international and Irish economy began to have an impact. The QNHS unemployment data use the definition of 'unemployment' supplied by the International Labour Office (ILO).

Table 12. Labour force changes, 2002 - 2001

	Sept–Nov 2000	June–Aug 2001	Change
Labour Force	1 779 100	1 866 100	+87 000
In Employment	1 710 300	1 786 600	+76 300
Unemployed	68 800	79 500	+10 700
of whom LT Unemployed [a]	24 200	22 100	-2 100
Unemployment Rate	3.9%	4.3%	+0.4%
LT Unemployment Rate [a]	1.4%	1.2%	-0.2%

Source: QNHS November 2001, p14

Note: a: LT = Long Term

A study of the profile of the individuals who became unemployed in late 2001 provides some interesting results. The predominant source of the newly unemployed is in the age groups 15–19 and 20–24. These age groups saw their unemployment rates increase from 8.25 to 11.2 per cent, and from 4.9 per cent to 7.2 per cent respectively. While some of these new unemployed are likely to be accounted for by seasonal factors, such as third-level holidays, the scale of the increase is significant. In particular, included in the under 25s are early school-leavers who, with low skills, may find it difficult to get new employment given the economic conditions and the greater number of competing job-seekers. Predictions for 2002 are that unemployment will rise towards 4.6 per cent in 2002 and fall to 4.4 per cent in 2003.[26]

Fall in the level of long-term unemployment

Of the 79,500 people unemployed in August 2001, 57,200 were unemployed for less than one year, while 22,100 were long-term unemployed. Long-term unemployment fell by 2,100 between the end of 2000 and August 2001. It should be noted that the level of long-term unemployment has consistently reduced since 1988, when it stood at 10.4 per cent, and that the major decline has been since 1996. The 2001 rate is only one-third of that recorded in mid-1998. This is a major decrease in the level of structural unemployment, and illustrates the extent to which Irish unemployment levels are now dominated by frictional factors.

Need to recognize all work

A major question being raised by the current labour-market situation concerns assumptions underpinning culture and policy making in this area. One such assumption concerns the priority given to paid employment over other forms of work. Most people recognize that a person can work very hard even though they do not have a job. Much of the work done in the community and in the voluntary sector fits under this heading. So too does much of the work done in the home. The need to recognize such work has been acknowledged in the Government's White Paper, *Supporting Voluntary Activity*.[27]

The policy challenges arising in the areas of work, unemployment and jobs

The developments of recent years present policy makers in Ireland with major challenges in the area of work. There are constant demands for increased

[26] McCoy, D., D. Duffy, J. Hore and C. MacCoille, (2002), Quarterly Economic Commentary, The Economic and Social Research Institute, Table 1. P. 15.

[27] *Supporting Voluntary Activity - White Paper on a Framework for Supporting Voluntary Activity and for Developing the Relationship between the State and The Community and Voluntary Sector,* (2000), Government Publications, The Stationery Office.

flexibility in the labour force. Government is being pressurized to reduce the cost to employers of paying social insurance payments (which, in Ireland, are well below the EU average). Likewise, there are constant demands on the State to adjust its education and training programmes to support the development of the skills required by employers in the labour market.

What is often ignored in this situation is that the State provides substantial subsidies to employers through, for example, adjusting the educational system to provide trained workers. Likewise, social insurance pays a large share of the protection costs of production in Ireland. In practice these are shifts from employers costs to State costs. A Basic Income can be seen as a compensation for this shifting of costs. Charles Clark points out[28] that:

> The benefits of flexible labour costs generally go to the firm. Part of this benefit is the ability to make adjustments to new market conditions, but part of this is merely a shift in the costs of production away from the firm and onto the worker, consumers and society as a whole, simply because they have the power to do so. This sort of labour flexibility is neither good for society nor necessary for the technological aspects of the new economy, but is brought about by the increased capital mobility of globalization and thus is a reality that must be dealt with.

Clark goes on to point out that other forms of labour market flexibility - adaptability, mobility and work time and scheduling - have all become important ingredients in the new economy. They follow from the need for flexible production to be competitive. These also lead to a shift in costs away from the corporate sector and towards the State and employees. A counter-balancing system is required to ensure that the benefits of these new developments are fairly distributed and don't go disproportionately to one sector. Increased flexibility means that people in paid employed will be required to move from job to job more frequently. But they must be supported all the time, including during these transitions.

[28] Clark, ibid., pp. 80-81.

A basic income system offers Government a mechanism to ensure that all those inside and outside the labour force can be supported in a fair and systematic way that is consistent with the developments in the new economy to which they must all adjust. It does this while maintaining the incentive to take up employment or to work longer hours. In a basic income system there is a guarantee that when a person takes up employment or works additional time he/she will always retain a large part of the pay they receive. It thus removes the many poverty traps and unemployment traps that have been major problems in the present tax and social welfare systems. Eliminating these traps continues to demand substantial time and effort from Government every time it seeks to adjust the present systems.

At the same time basic income supports unpaid work that is critically important for society but which is in danger of being seriously undermined in the transition to the new economy of the twenty first century. The need to recognize unpaid work has become a major issue in Ireland in recent years. One reason for this is the tight labour market that has substantially reduced the previously high levels of volunteering. Another is the growing realization of the vast amount of unpaid caring work that was done on an unpaid basis both in the home and in the wider community. The need to recognize the value of unpaid work has been accepted by Government and by social partners and is actively discussed in various policy-making arenas. Not much has been done, however, in terms of developing and/or implementing practical policies.

Basic income provides a system of support that recognizes the value of unpaid work. It does this by putting a relatively modest floor of support under all people and allowing them the freedom to give at least a part of their time to caring, community or voluntary work from which Irish society has always been a major beneficiary.

6. Conclusion

Basic income has been around for almost 25 years in Ireland. In the 1970s it was not addressed seriously. From the mid-1980s to the mid-1990s it was dismissed in official reports as unworkable and/or too costly and/or less important than tackling tax reform or social welfare inadequacy. We have seen that these assessments were made on the basis of very little evidence.

More recently the Report of the Working Group on Basic Income, and its accompanying studies, show that basic income could be financed in the Irish context. CORI's work on implementation mechanisms has shown that a basic income system could be implemented in practice. It is clear that the model proposed by CORI Justice Commission (i.e. a full basic income for all) can be implemented in practice and can be financed without resorting to a unacceptable level of taxation.

There is a range of reasons why a Basic Income system would be more appropriate to Ireland at this time than the present tax and welfare systems. A Basic Income system would address issues of income distribution, equity, poverty alleviation, efficiency competitiveness, employment incentives and access to meaningful work, among others.

There have been positive developments in Ireland with the introduction of a tax credits system in recent years. The implications of making tax credits refundable is currently being studied by a Government-led working group which includes the various pillars of social partnership.

The next phase of this process in Ireland will see the publication of the Government's Green Paper on Basic Income in mid-2002. Later this year the Working Group on Refundable Tax Credits is expected to publish its report. Both of these documents should lead to a much more informed public debate on the issue of basic income in Ireland.

We have seen that making tax credits refundable would be a major positive development in the present system. This seems the logical next step in the development of an income tax system more appropriate for the new economy of the twenty first century. Taking the final step towards the introduction of a Basic Income system would then be simply a question of political choice as the basic structure of State support would have a provision for universal entitlement. In effect it would have moved from its early days focused on poverty relief in the nineteenth and early twentieth centuries to a system of universal entitlement more appropriate to the twenty first century.

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