

National Economic  
Social Council **NESC**

# The Developmental Welfare State

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# **The Developmental Welfare State**

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## Abbreviations

### **ABPs**

Area Based Partnerships

### **ALMPs**

Active Labour Market Programmes

### **A&E**

Accident and Emergency

### **CB**

Child Benefit

### **CDA**

Child Dependant Allowance

### **CSO**

Central Statistics Office

### **DCRGA**

Department of Community, Rural and Gaeltacht Affairs

### **DoELG**

Department of Environment and Local Government

### **DES**

Department of Education and Science

### **DETE**

Department of Enterprise, Trade and Employment

### **DF**

Department of Finance

### **DHC**

Department of Health and Children

### **DJELR**

Department of Justice, Equality and Law Reform

### **DSFA**

Department of Social and Family Affairs

### **DWS**

Developmental Welfare State

### **ECHP**

European Community Household Panel

### **EMU**

Economic and Monetary Union

### **EU**

European Union

### **FIS**

Family Income Supplement

### **GAIE**

Gross Average Industrial Earnings

### **GDP**

Gross Domestic Product

### **GNP**

Gross National Product

### **GNI**

Gross National Income

### **GP**

General Practitioner

### **HSE**

Health Services Executive

### **NESC**

National Economic and Social Council

### **OANCP**

Old Age Non-Contributory Pension

### **OACP**

Old Age Contributory Pension

### **OECD**

Organisation for Economic Co-operation and Development

### **QNHS**

Quarterly National Household Survey

### **OPFP**

One Parent Family Payment

### **PAYG**

Pay as You Go

### **PPSN**

Personal Public Service Number

### **PRETA**

Pre-retirement Allowance

### **PRSA's**

Personal Retirement Savings Accounts

### **PRSI**

Pay Related Social Insurance

### **RP**

Retirement Pension

### **UK**

United Kingdom

### **US**

United States

## Preface

In its 2003 strategic overview, *An Investment in Quality*, the NESC reviewed and interpreted Ireland's long-run economic and social development and vulnerabilities. It argued that the remarkable economic progress of the past decade and a half results not only from obvious factors, such as inward investment and fiscal correction, but also from Irish policy and institutional adaptation. Among these was the creation of a flexible or 'networked developmental state'—a web of agencies and policies that create the conditions in which international enterprises locate in Ireland and Irish enterprises connect with global markets.

The Council argued that Ireland should aspire to create an equally effective and world-class set of institutions and policies in the social sphere—a developmental welfare state. The term 'developmental welfare state' was chosen for two related reasons. First, the task of the social policy system should, first and foremost, be to support and facilitate the development of each person, enabling them to reach their full potential. Second, a key challenge for Ireland is to devise a welfare system that not only addresses social risks, needs and inequalities more adequately, but also connects more fully with the dynamic economy. While the role of the state in the economy has changed, the way in which it remains important is well captured in the term 'networked developmental state'. While the state retains a critical role in meeting social needs, the direction it must take to support individual, social and economic well-being is captured in the term 'developmental welfare state'.

In sketching the idea of a developmental welfare state, the Council suggested that the welfare system should be seen as consisting of three overlapping elements: tax and welfare transfers, the provision of services and activist initiatives. It asserted that this way of thinking is helpful both in studying the evolution of the Irish welfare system and in thinking about future options. This report demonstrates that this new way of thinking of the welfare system does, indeed, increase our understanding and provide a framework for reform.

This report provides a revised account of the evolution of the Irish welfare state and a redescription of the serious social deficits that remain despite Ireland's remarkable economic progress. The Council's analysis balances a focus on income transfers with increased recognition of the role of services in providing protection against risks and of the important place that innovative social policy initiatives play in achieving reform. Most important of all, it suggests a recasting of the social debate in a way that does not distinguish between the economic and the social and can, therefore, build consensus—across the social partners, government and the wider society—on the need to urgently and radically address Ireland's social deficits.

While the report is sceptical of the application to Ireland of the standard international textbook models of the welfare state, it engages closely with current international thinking on what a new welfare state might look like. This is particularly so in exploring the critical role that services must now play in addressing social exclusion, enabling participation, enhancing capabilities, supporting work/life balance and meeting care needs.

Indeed, the Council's decision to undertake an over-arching study of Ireland's welfare system can be seen as part of Ireland's participation in the European 'open method of coordination'. The open method of coordination is intended to create a disciplined comparison of member states' policies for employment, social inclusion and economic reform. It asks Ireland to look beyond *total employment growth* and *unemployment reduction*, goals on which we score well, to re-examine the effectiveness of our activation measures, the adequacy of our training and life-long learning, our achievement of flexible working arrangements, whether we are creating equal opportunities in the labour market and the effectiveness of our social inclusion and anti-poverty policies. That examination shows that Ireland's employment miracle has coincided with continuing high levels of benefit dependency, the persistence of significant social problems and the build-up of new pressures. This forces us to ask whether Ireland yet has a welfare, education and training system capable of supporting our aspiration to an inclusive society based on a high-participation, high-skilled, high-performance economy. While the European process of comparison and coordination asks countries with more entrenched welfare traditions to look beyond 'system' to assess the effectiveness of their individual welfare and labour market measures, it prompts Ireland to undertake a holistic examination of its overall social policy system.

## Acknowledgements

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## Introduction

Ireland's strong economic performance is a new context within which to seek major improvements in social protection. The challenge is both to facilitate as many people as possible in playing a role in the economy *and* provide tangible proof—in the form of improvements in the quality of life for everyone—that good economic performance is leveraging the creation of a more just and attractive society.

Ireland's stronger economy is already supporting a much higher level of social spending and there has been a significant amount of innovation and change in institutions and policies. Ireland's welfare state and social policies, however, need to change further if they are to (i) address the deep rooted social disadvantage of a section of the population that is showing little mobility off means-tested social assistance, (ii) support people at work as they seek to maintain and improve their participation in the economy, and (iii) set and reach wholly new standards in how persons with disabilities and people in institutional care are supported.

A significant gap remains between what social actors see as necessary and what is accomplished in practice. The implementation of formally agreed strategies can be weak, leadership is frequently contested, the data that would permit evaluation of the effectiveness of programmes is lacking, and social policy as a whole is not sufficiently aligned with the economic policies being pursued by the state. There are signs of process fatigue, uneven progress and even contradictory developments in the formation and implementation of social policy.

Progress in reinventing and repositioning Ireland's social policies and welfare state will require the same determination and some of the same processes that improved the country's economic policies over the last two decades

## Economic performance and social protection

The international evidence is that good economic performance and improved social protection are neither intrinsically opposed nor compelled to occur together in some automatic way. Rather, they *can be made to support each other* – where there is sufficient shared understanding and commitment on the part of those who shape and implement economic and social policies respectively.

Social policy is not simply an exercise in redistributing a surplus there to be creamed off *after* successful economic performance. The composition and manner of social spending are as significant as its level. Poorly-designed social protection

can damage employment and reduce individuals' participation in the labour market; well-designed social protection enables people to embrace more change and take more risks than they would otherwise do. Social policy, therefore, must assume its appropriate share of responsibility for the economic policies that enable the widest possible number in the population to earn their livelihoods in a decent and humane way.

Significant social progress is, in fact, inherent in the successful unfolding of Ireland's core economic development strategies. For example, raising the employment rate further requires focussing attention on the obstacles faced—and supports needed—by relatively neglected groups in the working-age population; raising skill levels increases the likelihood of people having satisfying jobs; providing opportunities for lifelong learning makes education no longer the prerogative of youth; fostering entrepreneurship means cultivating problem-solving skills, and so on.

At the same time, several of the major improvements in social protection now required to address peoples' needs more effectively will prove to be economic assets and contribute directly to 'reinventing the economy'; for example, ending child poverty, stemming educational disadvantage, tackling social exclusion, supporting people in their caring responsibilities, more flexible pension arrangements, and higher standards in publicly provided health care and education. In fact, the boundaries between traditionally separable economic and social policy domains have become increasingly blurred.

Political judgement is needed to identify when imbalances between dynamism in the economic sphere and security in the social sphere require correction, just as policy flexibility is needed to produce it. The interaction between economic and social policies is a key consideration in how Ireland's welfare state continues to change but, of course, it is not the only one. A society *is* more than its economy, and there are legitimate and important objectives for social policy that have nothing to do directly with fostering employability or productivity

## A hybrid welfare state undergoing multiple changes

Seeking to chart a course for the welfare state is, in part, an exercise in trying to understand what is happening to the family and civil society, and how the market is being led by regulation, incentives and voluntary codes to deliver social protection. Ireland's welfare state relies to a high degree—by international standards—on the involvement of non-profit bodies. However, while the State is not the sole actor in providing social protection, it is the principal one.

The heart of social protection by the State is frequently considered to be the social welfare it pays to ensure people have adequate money incomes. Access to services—in health, education, housing and other areas—is also integral to social protection and, in some instances, more important to securing people's living standards and participation in society than having a higher money income.



Major changes have taken place in the composition of social spending over the last 15 years. For example, spending on Child Benefit rose from 6 per cent of all social welfare spending in 1993 to 15 per cent in 2002; welfare receipt on the part of people of working-age did not decline despite the dramatic expansion in employment and fall in unemployment—the composition of their welfare payments altered in a major way and receipt is of extremely long duration for a significant number of people; the cost of tax reliefs in support of occupational pensions was considerably greater than spending on social welfare pensions by 2002—the combined cost of reliefs and allowances supporting pensions and the incomes of people in their older years rose from 1.7 per cent of GNP in 1993 to 3.4 per cent in 2000.

Significant changes have also taken place in public spending on services. Health and educational spending is particularly important in enabling individuals to be self-reliant. Health spending, in real terms and as a percentage of GNP, rose substantially after 1997. Users' experiences of public health services has not improved in line with the rise in spending and, in key instances, deteriorated. This makes the extent to which reform accompanies the allocation of further resources to the health services critical to their effective and efficient development and to public confidence in public services generally. Public educational spending per student at primary, secondary and third level in real terms also rose significantly; as a percentage of GNP, however, it was lower in 2002 than in the 1980s. Educational institutions are being challenged to look to hitherto neglected constituencies; the provision of early childhood education and of adult education (second chance education and continuing education) are far behind what the country will require if it is to deliver on core social and economic objectives.

If Ireland's current welfare state were not showing significant resilience and adaptability, there would probably be a greater sense of crisis and it would be easier to explore and accept radical changes. Yet Ireland's welfare state *is* being challenged—to revise systems that embody low expectations and achieve low outcomes for a minority, to support its population more adequately in changed times, and to institutionalise wholly new standards of participation and care for its most dependent and vulnerable members. In many instances, additional resources do not guarantee the outcomes sought. New ways of working, new policy instruments and institutional innovations are required if additional resources are to be effective in significantly improving on social outcomes.

It has never been more important to have some framework that would support the identification and prioritisation of social spending, reduce oversights and imbalances to a minimum and give people a strong sense that fairness and justice are being applied to the allocation and use of the public resources produced by their involvement in the country's economic success.

## Ireland's welfare state in a comparative context

Ireland's welfare state—by EU 15 standards—uses a moderate to low proportion of national resources in providing services and a low proportion in providing cash transfers. This is despite Ireland having a level of wealth—whether measured in GDP, GNP or GNI per capita—that compares favourably with other EU member states. The reasons for the particularly wide gap between Ireland's relative wealth and its relative social spending within the EU are a legitimate object of inquiry.

Some of the gap is due to having a young population and near full employment. Some of it is because growth in the economy has been so rapid that a declining share of GNP was still sufficient to finance large increases in social spending. And some of it *is* due to sections of the Irish population not enjoying the standards of social protection which their counterparts in other advanced countries have in some areas. Significant policy developments are under way that will contribute to raising Irish standards in key areas.

Cash transfers as a percent of GNP are low compared to other countries principally because of the lower bill for pensions but also because of the Irish welfare state's high reliance on means-testing. Ireland is exceptional within the EU for the high proportion of its social spending which is means-tested. The contrast in Ireland between trends in absolute poverty (steadily declining) and relative poverty (steadily rising) is a striking aspect of the economic and social changes that have taken place since the mid-1980s. It is not clear how these contrasting trends should be reconciled. The evaluation of Ireland's social welfare transfers in the light of these trends, in particular, is not a straightforward exercise. Few countries pay social welfare at rates sufficient on their own to raise people above 60 per cent of median income, yet most have lower proportions of their populations below this line than Ireland. Differences in the level of social welfare payments across countries need to be viewed in conjunction with eligibility conditions, conditionality, and compensatory or supplementary access to services. Low at-risk-of-poverty rates tend to result from a combination of factors: the extent to which transfer income is combined with market income, the distribution of employment across households, the net wage to be had in low productivity jobs, the rates of social welfare payments, and short rather than long durations in receipt of social welfare.

Current public spending on health in Ireland is broadly comparable to other countries in the share of national resources being devoted to it. That Ireland, nevertheless, has poor relative health outcomes suggests better use can be made of the resources being devoted to health. This is not just a challenge to the management of health organisations and the ethos of health professionals but underlines the need for co-responsibility for health to be exercised right across Irish society (in use of alcohol, diet, etc.).

Current public spending on education in Ireland accounts for a comparatively small share of GNP by EU 15 standards. There are some grounds for satisfaction that this spending is efficient in attaining outcomes, but largely when outcomes for young people from non-disadvantaged backgrounds are considered. By contrast, educational disadvantage has, so far, not been significantly reduced by higher spending and low levels of spending by international standards are being incurred on behalf of pre-school children and older age groups.

Higher social spending is a means to an end and not, in itself, an achievement. In each society, including Ireland, unique circumstances determine the relationship between social outcomes and levels of state spending. Several key variables interact with public spending to determine the outcomes achieved. These include the roles of the family and of the voluntary and community sector, established behavioural patterns, the quality of management, the level and quality of training of staff, the ethos of public service in the professions, workplace practices, the ease of combining partial welfare support with some degree of earnings. It is important that strategies for social spending in each area reckon with the factors that co-produce the outcomes being sought.

### Learning well from other countries

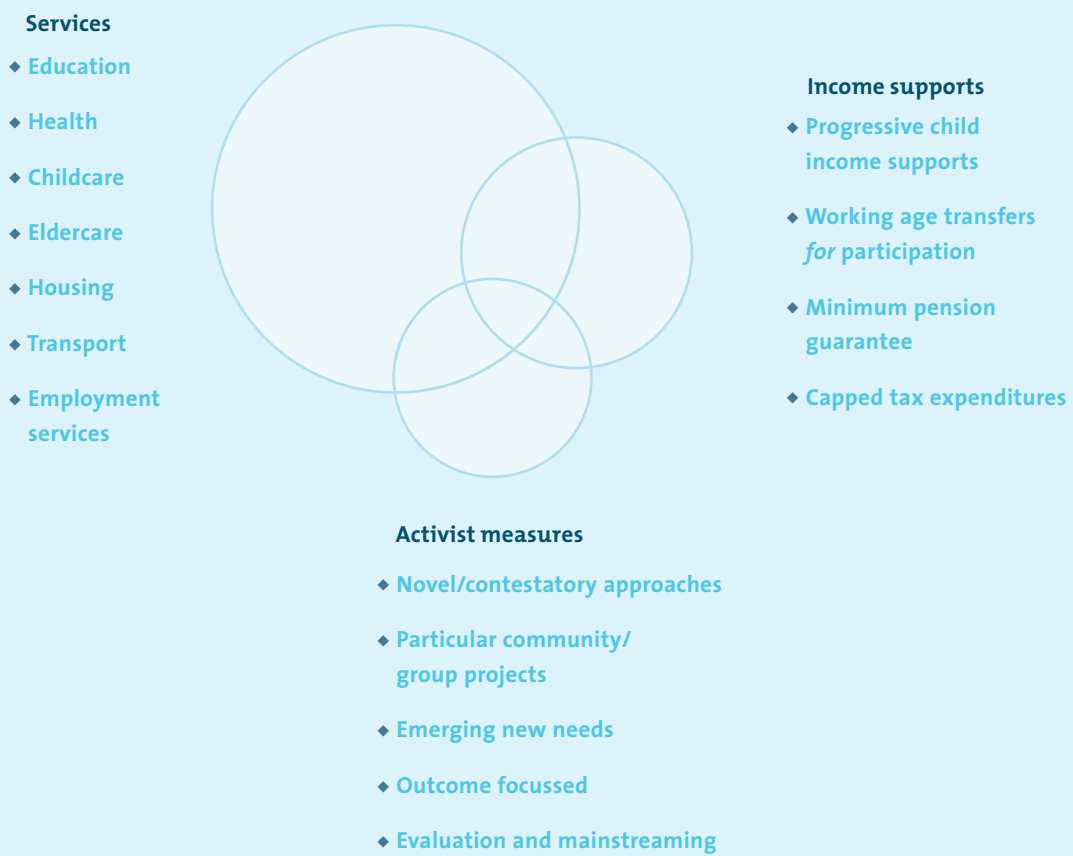
Ireland's current welfare state has disparate elements that resemble, respectively, the citizen-based Nordic welfare model, the social-insurance Continental European model and the residual Anglo-Saxon welfare model. A case can validly be made that the necessary reform of Ireland's welfare state requires deliberately choosing to be more like one of these models. However, the welfare states of other countries are based on characteristic cultures and institutions as much as, or more than, on defined ideologies. There is also considerable ferment and the adoption of mixed elements within their current reform programmes. Some close observers now describe them as hybrid also.

Significant learning from the more sharply defined welfare models of other countries *is* possible and important in specific instances. In the new economic and social circumstances in which Ireland now finds itself, however, the hybrid character of the Irish system is, more than ever, a potential strength. The challenge in formulating an overarching strategy for Ireland's welfare state is to identify where and how elements of further universalism, extended social insurance and redesigned targeting are required, with emphasis on improved outcomes rather than greater ideological clarity. Institutional weaknesses and maladapted design still characterise many of Ireland's arrangements for providing social protection and are responsible for poorer outcomes than it is possible to achieve even with the same level of resources.

## The Developmental Welfare State

The core structure to Ireland's welfare state, advocated in this report, would consist of three overlapping areas of welfare state activity - services, income supports and activist or innovative measures. Its essential character derives from the approaches taken within each sphere and the integration of the three in ways that are developmental for individuals, families, communities and the economy. This is evoked in the following figure:

### The Developmental Welfare State



**Services.** Access to the wide set of services listed in the figure is essential to attaining the workforce quality that underpins a competitive, knowledge-based economy, to maintaining social cohesion and combating social exclusion. The Developmental Welfare State (DWS), therefore, regards the radical development of services as the single most important route to improving social protection. The first public policy challenge is to ensure that every member of Irish society has access to the level and quality of service she or he needs, with quality and equity being assured. Government's primary role, then, is to act as the regulator and guarantor of diversified, high quality and equitable regimes for each type of service. This requires that it harness the characteristic contributions of non-profit organisations and the commercial sector. A subordinate challenge is to identify the appropriate scale and nature of direct public service provision.

Social protection that is paid for by the state does not have to be provided by the state. A combination of strong public sector organisations and competition from private and non-profit organisations is most likely to achieve the best balance between accountability, innovation and efficiency. Successful experiences in other countries point to the need to accord service deliverers—in whatever sector they operate—more autonomy to decide how they use resources in the pursuit of agreed outcomes and more incentive to innovate in the search for improvements, while structuring their accountability to service users and central government in new ways.

In the DWS, which this report advocates, direct public provision of social services remains one route among others, but subject to accountability based on outputs and to being challenged by research on how its outputs relate to outcomes. This does not mean assigning a residual role to public sector providers within service systems. Public sector providers can be characterised by low transaction costs (less need for regulators), equitable access, good working conditions, high levels of staff commitment and strong public trust. When these latent characteristics in a public sector organisation are developed, with neither efficiency nor service quality deteriorating, society has a particularly valuable asset.

The Developmental Welfare State envisages a 'services dividend' for Ireland's population from the country's strong economic performance. The vast majority of the population then use the same set of services and this strengthens social cohesion. This is possible when the services themselves are not uniform outputs but capable of gradation and adjustment to help diverse groups attain similar outcomes. Mainstream providers adopt an approach of 'tailored universalism' and adjust their services to accommodate a more diverse public, including people who are socially disadvantaged. This route is consciously preferred to the alternative of developing completely separate services for atypical groups. This increases the role of services in combating social exclusion, as people who are socially disadvantaged have access to high quality mainstream services which contributes significantly to their mobility out of poverty.

**Incomes.** It is a feature of the DWS that differentiated thinking is brought to bear on income supports for individuals at different stages in the lifecycle.

Children receive priority because of the greater awareness of the later problems that result from a poor start in life for individuals and from birth rates maintained at a low level for society. It is accepted that parental circumstances should not be the cause of any child being denied access to key developmental opportunities; while all children are supported, some are supported more than others (progressive universalism).

Older people receive priority because of their growing numbers and the realisation that, in old age, there is effectively nothing individuals can any longer do if their income from all sources is insufficient to keep them from poverty. It is accepted that the basic state pension has to be the major bulwark for keeping retired people from being at-risk-of poverty and that access to it, or its equivalent, has effectively to be open to every person in retirement.

For people of working age, the generalised improvements in education, health and other social supports lead to the expectation of a labour market that is steadily more inclusive, while the attainment of higher employment rates, in turn, helps to place the whole edifice of social protection on a firmer foundation. Tailored progression pathways become the rule rather than the exception for welfare recipients; payment *rates* raise all people to a minimum threshold of income adequacy while payment *arrangements* facilitate as many people's eventual participation as possible in employment or other social activities. Disincentive effects, where they arise, are addressed by intensifying recipients' engagement with selected service providers rather than by depressing payment levels.

**Activist or innovative measures.** Innovative, pro-active measures are akin to the R&D sphere of the Developmental Welfare State. Through them organisations—in the community and voluntary, public and private sectors—respond to unmet social needs, initially in a particular and once-off manner but with implications for mainstream service provision that are systematically identified. Their once-off and particular nature leads to a number of possible outcomes. A specific challenge is met and the initiative is stood down (e.g., after the successful regeneration of an area). The responsibility and key design elements which the initiative pioneered are adopted into a mainstream programme. The pilot nature of the initiative is succeeded by a settled status as it becomes a niche service, with the organisation behind it enjoying autonomy and long-term funding in return for meeting agreed performance targets.

In many areas—helping jobless people to participate in the open labour market, stemming educational disadvantage, combating social exclusion and area disadvantage, responding to homelessness, etc.—the collective challenge to Ireland's social partners is not a minor one of how to retain and make small adjustments to current schemes. Minimally, it is the deeper challenge of recognising the extent to which current features of programme design and delivery need to be altered to meet the increasingly complex and multifaceted needs of individuals, families and communities. Maximally, it is the challenge of re-conceptualising what the programmes are for and how they should be delivered.

This requires giving greater recognition to community and voluntary groups who pioneer ways of addressing the marginalised positions of individuals, families and communities—creating the right framework for their continuing emergence while engaging them in networks and processes which raise their standards, increase their effectiveness and ensure transparency and accountability in return for medium to long-term security in funding. The Developmental Welfare State fosters the willingness and ability of government departments and public agencies to plan and implement pilot projects that experiment with new approaches and procedures. It is pro-active in extending a radically greater degree of autonomy to local actors and developing new forms of public-voluntary and public-private partnerships. These feature a strong emphasis on performance and accountability, provision for systematic learning and evaluation, and new forms of centre-local relationships. A central aspect of these new relationships is agreement on the outcomes being sought, how progress towards them is to be measured, the rights of the centre to the necessary data for evaluation and to intervene in certain circumstances, and the possibility for local actors of greater autonomy and security in funding. All this requires statutory service providers to reconfigure their own budgets and models of delivery.

## Strategic and operational requirements for moving forward

**Governance and leadership.** Coalitions are needed to ensure comprehensive responses to social deficits. This requires ‘joined-up’ government to ensure effective coordination across the public sector and the exercise of governance to integrate the contributions of non-public bodies. The need for governance is a recognition that even the full exercise of state powers in many areas cannot guarantee the outcomes sought. Governance, however, throws up the challenge of leadership and makes it particularly likely to be contested.

**Rights and standards.** Complexities and tensions *within* the rights tradition throw light on how Ireland’s welfare state needs to develop. Vindicating socio-economic rights—or even specifying what they mean—is not in the power of courts or of governments acting on their own, but requires wide societal engagement in creating the policies and institutions that establish their content and meaning in a specific context. It becomes of paramount importance to concentrate on specifying, attaining and monitoring the standards that should govern the various areas of service provision (health, education, social welfare, housing, employment services, etc.).

Standards are both statements to service users and statements by service deliverers. They allow service users to see the content of their social and economic rights in the context in which they are living, and express what the individual has a right to expect *and* what she or he is committed to support being provided on her/his behalf for others. Standards also express how service deliverers understand what it is within their competence to provide (based on current technological, knowledge and organisational frontiers) and what constitute the hallmarks of doing so professionally.

**Integration at the local level.** The agency of local actors (the primary care team, the school, the area partnership, the estate management body, etc.) can and should be enhanced through bolder innovations featuring new types of relationships between central and local bodies. This is not the same as decentralising the operations of central bodies. It requires a centre that is strong but not simply because it has a large network of regional or local offices or can use its funding power to influence what recipient organisations do. The strength in question is the ability to acquire, process and disseminate knowledge on feasible standards and how they can be attained, and to promote their adoption throughout a network of diverse and autonomous service providers

**Operational requirements.** Strategic requirements are one thing and the capacity to implement them another. Particular challenges have to be faced and overcome if implementation deficits are to be addressed. In particular, high-level political decisions and social partnership procedures must be supportive of the necessary changes at the operational level; significant improvements in the management of public expenditure are still required; public administration must develop its capabilities to activate, orchestrate and modulate networks of interdependent actors; management and workers must achieve a greater integration of the consultation and deliberation characterising partnership with organisational changes that are effective in modernising service delivery and improving its efficiency.

**Supporting people across the life cycle.** A fundamental standpoint from which to judge the adequacy and effectiveness of overall social protection is to assess the risks and hazards which the individual person in Irish society faces and the supports available to them at different stages in the life cycle. The life cycle also provides a good framework for choosing among competing priorities and mobilising the social actors to implement the Developmental Welfare State as the following chart shows:

## Monitoring Progress Towards the Development Welfare State

Who?	What?	How?	
		Governance and leadership	Standards and rights
0-17	Integration of services, income support and activist measures		
18-29			
30-64			
65+			
People challenged in their personal autonomy			



With respect to children, priority must be given to the poorest children in the state in the allocation of further resources for child-income support. In addition, no child should be denied access to services critical to her or his development because of inadequate parental income. With respect to people of working-age, the several contingency-based, social assistance payments should eventually, as a long-term project, be merged into a 'participation income'. Its rate would ensure adequacy to cover basic needs while supplements and supporting services would foster progression. Meaningful participation is a legitimate expectation of people of working-age (their expectation of society and society's expectation of them) and, only in rare cases, does an individual have no capacity to develop a greater degree of self-reliance. With respect to people in retirement, there is need for a regular, authoritative and comprehensive review of their evolving needs and of the efficiency, effectiveness and responsiveness of the social protection extended to them through services and income supports of every type. While the adequacy of state social welfare pensions cannot be divorced from the sustainability of the arrangements for providing them, priority needs to be given to increasing the rates of social welfare pensions.

### Recasting the Irish social debate

Those debating Ireland's social progress risk being at cross purposes. One group believe Ireland's economic development has sacrificed compassion, social standards and solidarity; another that an increased emphasis on social protection must necessarily erode the economy's cost competitiveness. The Council is convinced that the development of a dynamic, knowledge-based economy has inherent social implications that can serve social justice and a more egalitarian society, *and* that the development of Ireland's welfare state as outlined in this report is integral to sustaining the dynamism and flexibility of its economy. In a globalised world, the strength of Ireland's economy and the attractiveness of its society will rest on the same foundation – the human qualities of the people who participate in them.

# 1

## Reasons For Revisiting and Reforming Ireland's Welfare State

## 1.1 Introduction

In its 2003 Strategy, the Council provided an account and understanding of Ireland's economic and social development. An important part of that understanding is that the state through its economic development institutions played a significant role in enabling the economy to internationalise with a high degree of success. In that Strategy report, the Council posed the challenge of bringing a similar focus and creativity to Ireland's welfare state. It stated its conviction that 'a new kind of welfare state, more suited to the economic, social and technological realities of the 21st century' is now an emerging possibility for Ireland (2002: 51).

In the first place, this is because we have a stronger economy. It is already supporting higher levels and new forms of social expenditure. More importantly, it makes the ambition of achieving major improvements in the standards of social protection that characterise Irish society a wholly reasonable one. It makes radically reducing or altogether eliminating the more damaging social deficits that still exist feasible and a stronger moral imperative. The 'social dividend' of strong economic performance must, however, take forms that are supportive of the country's on-going ability to trade advantageously in the world economy. If the social policies adopted are not supportive of continued economic strength, the eventual result will be a return to poor social protection. Part of the challenge to social policy, therefore, is that it facilitate as many people as possible playing a role in the economy and that it provide tangible results — in the form of parallel improvements in the quality of life for everyone — that good economic performance is leveraging the creation of a more just and attractive society.

Progress in reinventing and repositioning Ireland's social policies and welfare state can benefit from a similar determination and some of the same processes as have the country's economic policies over the last two decades — the shared understandings; the focus on outcomes; the on-going re-conceptualisation and re-analysis of the basis of Ireland's comparative advantage; the networking role of the state and its agencies. While there are profound differences between achieving social progress and a strong economic performance, some lessons are transferable. The country's economic resurgence from 1986 onwards was not due to imitating what other countries had done but the consequence of forging a uniquely Irish path to the internationalisation of its economy: 'it (was) the willingness and ability to change policies, arrangements and institutions that ultimately underlies Ireland's (economic) success' (NESC, 2003: 147). The manner in which we will realise

our social ambitions will, similarly, not be through importing a social model from another country or region but by developing a shared understanding of the strengths and weaknesses of Ireland's current welfare arrangements and of the organisational, technological and performance frontiers which can be explored through coordinated action.

In addition to the need to respond to economic success, a new kind of welfare state is needed because Irish society itself is radically different to the society that existed only a few decades ago. The population is significantly larger now and continuing to grow, people are better educated, more fully employed and they are living longer. The average household size is smaller and the types of families formed are more diverse. More of the population live in or near large settlements, and these include a larger number of ethnic and cultural minorities. Not surprisingly, the values and expectations that people hold are also changing. There is a stronger appreciation of the individual and of her/his life as something to be personally shaped. A significant erosion has taken place in the legitimacy of traditional sources of authority — religious, political, business and professional. There is stronger social awareness and a growing unease at the extent of social disparities within Ireland, an increased exposure to other countries' standards and practices and greater access to information as a result of the new ICT technologies.

## 1.2 Social Challenges

In the face of such deep social and economic transformations, the Council believes it is both opportune and necessary to re-visit the basic architecture and core objectives of Ireland's social policies and welfare state, and in several key respects to reform them. The Council sees three sets of social challenges as providing the immediate motivation for doing so.

*(1) Significant minorities in Ireland's population are currently experiencing one or multiple forms of social disadvantage, and present strategies and policies are not proving adequate in helping them.*

This is evidenced particularly by the scale of educational disadvantage, the long duration of dependence on means-tested social welfare of a large number of people, and the extent to which people are found in similar predicaments in the same areas from one generation to the next. At a time when Ireland's economy and society are benefiting from the participation of increasing numbers of people from overseas, a significant section of the Irish population remain singularly ill-equipped to participate in the economy themselves. If Ireland is to create a learning society and a knowledge-based economy, it cannot give up on these people. As learning disadvantage, entrapment on low incomes and other social deficits persist, their consequences for the individuals, families and communities concerned become more and more serious because the thresholds to competence, skills and income which give access to Ireland's economy and society are continuing to rise.

*(2) Significant numbers of people at work need access to a wide range of services if they are to attain and retain the lifetime employability, flexibility and adaptability required of them as members of Ireland's workforce in an internationalised economy.*

This is particularly evident in the scarcity of available and affordable childcare, the need for new services to support the growing number of people at work who have responsibilities for eldercare, and the challenge of making a reality of life long learning. In other areas too a radical improvement in services is needed to ease the significant stress and wear of holding employment in Ireland. For example: parental entitlements and protection at work need significant improvement; access to public health services for people on low earnings should be less costly (currently, they lose entitlement to a medical card and have to pay a significant proportion of their net weekly income to visit a GP and buy medication); the reach and quality of public transport needs to be improved (Irish workers currently rely heavily on the private car and have long journey lengths by European standards). Attaining and sustaining high levels of employment has implications for services provision that, in many instances, are being too slowly addressed.

*(3) Values are changing, standards are rising, and attitudes and expectations are different with respect to what constitutes acceptable provision for persons vulnerable to social exclusion, for whatever reason.*

This is particularly evident in the new understanding and approach being taken to provision for persons with disabilities in the National Disability Strategy and to provision for children in the 2001 Children's Act. The greater awareness of human rights generally is throwing light on the fact that Ireland has had assumptions, practices and standards in several areas of social protection that are simply no longer acceptable (e.g., in its mental health institutions, children's homes, prisons). The self-respect of a society — as well as its societal cohesion, social peace and potential economic growth rate — is intimately related to the extent and standards of social provision made for its most vulnerable members. Attempts to raise significantly the reach and standards of social protection for vulnerable individuals and groups have already had, and will continue to have, significant implications for social policy and resource allocation in every area — mainstream social welfare, housing, health, education, training, and employment policies, and tailored social inclusion measures.

These three sets of social challenges originate from and within Irish society. To a significant extent they are bequeathed to us as unfinished business by the inherently uneven nature of economic and social development and by the particular history, traditions and circumstances which have influenced Ireland's social progress. In addition, Ireland's welfare state faces challenges common to all European welfare states because of profound demographic, social and economic changes affecting the Western world. Many other countries are embarked on processes of welfare reform that are more deliberate and radical than anything proposed for Ireland. There are good reasons why that is so. Frequently, their welfare states are more mature and more demonstrably under threat from new developments. For example, the ageing of their populations is more advanced than Ireland's; their pension systems are under-funded and paid for almost wholly by

the generation currently at work; their birth rates have bottomed out at very low levels; a greater part of their edifice of social security is built on social insurance making it difficult to employ profitably people with low levels of skill; early retirement has developed on a large scale, induced by measures designed to ease economic restructuring; immigrant populations are larger and have unemployment rates much higher than for the indigenous population; couple relationships are unstable and a growing proportion of the population are living alone. For different combinations of these reasons, there is a realisation in many EU and OECD countries that their welfare states and national systems of social protection must undergo a fundamental 'recalibration' if they are to meet the challenge of new economic and social conditions.

Several of these challenges and pressures are already present in Ireland and likely to grow in strength. Re-conceptualisation and reform of social protection and Ireland's welfare state cannot, therefore, be postponed indefinitely. Rather, Ireland needs to participate actively in the search going on within the EU and throughout the industrialised world for the forms of social protection which better equip people and their societies to meet the demographic, social and economic challenges of the 21st century.

### 1.3 Improving Responses

This is not to imply that policy-making and institutions in Ireland have been passive in the face of existing social deficits and emerging social needs. On the contrary, social spending has risen significantly in absolute terms and there has been a significant amount of innovation and change in institutions and policies. Several holistic frameworks have been drawn up which seek to take a comprehensive view of how social protection should be delivered to major sub-groups of the population<sup>1</sup> while other national strategies address specific dimensions of the successful society in an attempt to bring policies and programmes on stream that will provide the social protection a more employed, educated and diverse population requires. Individual government departments have undertaken or commissioned reviews of specific policy areas and programmes in a bid to ensure that what was developed for, and proved useful in, a previous Ireland is adjusted or superseded in whatever way is required by the new social and economic circumstances that now characterise the country.

In all this, there is frequent acknowledgement that effectively addressing the 'old' and 'new' social needs requires more 'joined-up' government and the more effective co-ordination of responses across government departments and public agencies. The need is also frequently adverted to for new approaches to governance that will integrate the expertise and diverse contributions of the public, private and voluntary sectors and effectively align actions horizontally

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1. The National Anti-Poverty Strategy (1997), the National Children's Strategy (2000), the National Disability Strategy (2004).

across government departments and vertically from the national to the local level.<sup>2</sup> Social partnership and public sector modernisation are regarded as essential prerequisites for successful change strategies and there is an openness to entertain wider roles for the voluntary and private sectors in the delivery of publicly funded social protection.

However, a significant gap remains between what social actors see is necessary and what is accomplished in practice. The implementation of formally agreed strategies can be weak, leadership is frequently contested, the data that would permit evaluation of the effectiveness of programmes is lacking, and social policy as a whole is not sufficiently aligned with the economic policies being pursued by the state. There are signs of process fatigue, uneven progress and even contradictory developments in the formation and implementation of social policy.

The Council believes that major improvements in implementing national strategies and following through on departmental policy reviews will be much more likely to occur if they can be situated within a shared understanding of what should now constitute the basic architecture of Ireland's welfare state, and if it is recognised that changes to it must be commensurate with the depth of change that is taking place in the economy and society itself. The Council notes that there are validly argued and sincerely held views on several specific questions concerning Ireland's social policies which are sharply divergent. For example:

- ◆ Whether the current level of public social spending is, or is not, below the standards appropriate to a country at its level of economic development;
- ◆ Whether higher taxes to fund improved public services would damage the economy's competitiveness by triggering compensating wage and price increases, or so improve the quality of life that people would accept lower disposable incomes in return;
- ◆ Whether reducing inequality in post-tax incomes, *when* the lowest incomes are nevertheless rising in real terms, is a legitimate objective for budgetary policy or creates an unnecessary risk of restraining entrepreneurship and business dynamism;
- ◆ Whether managerial, organisational and other reforms in how services are currently provided could produce major improvements in service levels and service quality within existing budgets, or whether increased budgets are essential to extending and improving services;
- ◆ Whether the number of people turning to privately provided social services (health, education, childcare) and with a negative perception of the quality of publicly provided services is now so large that no government in the foreseeable future can expect an electoral mandate to fund more and better public services by raising taxes;

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2. Responding in its own way to these needs and concerns, *Sustaining Progress* (2003) commits the social partners to developing new approaches to providing social protection in seven key areas: i.e., access to housing and accommodation; the provision of an infrastructure of care; supporting people who are long-term unemployed, newly redundant or in low-skilled employment; tackling educational disadvantage; tackling alcohol and drug abuse; including everyone in the Information Society; and ending child poverty. It anticipates that 'different combinations of new analyses, consultations, experimental policy initiatives, joint action by Government and the social partners, and deliberation based on experience' will be brought to bear in finding satisfactory solutions (2003: 18).

- ◆ Whether the state’s responsibility for providing childcare is confined to ensuring its provision to children at risk of social exclusion and the payment of Child Benefit, or whether parents taking employment should receive public subsidies towards their expenditure on childcare;
- ◆ Whether the state should remain the key provider of essential social services or whether more public money should be channelled (under new arrangements for accountability) to private and not-for-profit bodies;
- ◆ Whether increased income transfers are at the heart of alleviating poverty or can only produce better outcomes if they are linked to improved support services and clearer conditionality to reduce people’s duration on welfare-only incomes;
- ◆ Whether income transfers to people of working-age should be indexed to trends in earnings or to changes in the cost of living;
- ◆ Whether socio-economic rights are self-evident and should be made justiciable in order to force the pace of necessary reform in institutions and policies, or whether what they mean can only be clarified in interaction with institutional and policy reform, the development of standards and practical demonstrations of what is feasible;
- ◆ Whether priorities are currently appropriately balanced as between protecting living standards in old age and living standards in childhood;
- ◆ Whether additional resources for the educational budget should go to third level education as a priority or to early childhood and primary education;
- ◆ Whether the instruments in use are the right ones to achieve the objectives set (e.g., Community Employment, Child Benefit).

Some difference of views on these issues is healthy and guarantees the on-going evolution of policy. However, in stark terms, it can be argued that some people are suffering unnecessarily because disagreement on specific social issues is being allowed to block the overall scale and pace of reform needed in Ireland’s social policies and welfare state. A shared understanding of the depth, reach and strategic directions of the long-term reforms needed in current arrangements for providing social protection — which is what this report provides — can contribute to ‘unblocking’ disagreements on single issues.

The perspectives advanced in this report are not intended as a top-down blueprint for welfare reform in Ireland. They do, however, express a significant convergence of views on the Council on what the core social challenges in Ireland now are and the lines along which Ireland’s welfare state needs reform<sup>3</sup>. The perspectives:

- ◆ Point to the institutional frameworks and operating procedures which the complexity of social issues today require in order to be effectively addressed;
- ◆ Build on what has been learned from innovations seen to be successful in the specific cultural and historical contexts in which they operate;

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<sup>3</sup> Throughout this report the Secretary General of the Department of Finance did not consider it appropriate to comment on budgetary policy.



- ◆ Are not tied closely to any one ideological viewpoint or political programme but make explicit values which are already widely subscribed to;
- ◆ Do not obviate the processes of consultation, partnership and participation which have developed to date but feed into them to make them more effective and satisfying for the participants.

The Council is committed to creating consensus on the strategic directions that reform of Ireland's welfare state should take but its experience has taught it that this will have to be anchored in a wider, shared vision for Ireland's society and economy. For such a vision to be effective, it must be partly an understanding of the type of society that is aspired to and partly an understanding of the route that will connect the present with the desired future. The latter critically involves an appreciation of how economic and social developments interact, and of how economic and social policies have to align if the sought-for outcomes are to be realised. On the one hand, it is important that social policy and the parameters of the welfare state should not be wholly subordinated to the requirements of improving economic performance — a society *is* more than its economy, and there are legitimate and important objectives for social policy that have nothing to do directly with fostering employability or productivity. On the other hand, it is important that the objectives and strategies for social protection should be informed by a vision that does not take good economic performance for granted but assumes appropriate responsibility for complementing the policies that ensure it. *Ireland is being called, by its economic success, to accelerate the development of its social supports, across their entire spectrum, but in a manner that is aligned with the characteristics of its economy.*

This report seeks to provide a vision that meets both these concerns and an overview of how that might be done. Its intention is to provoke a re-conceptualisation of the objectives of social policy and of the role and basic architecture of Ireland's welfare state that matches Ireland's new economic and social realities, and which can serve as a route map for the social partners and across the public sector. As the Council emphasised in its 2003 Strategy report, 'willingness to adopt the best arrangements is the central test of social partnership' (NESC, 2003: 177).

# 2

## Economic Performance and Social Protection

## 2.1 Introduction

Deciding where and how to improve the quality and cover of social protection in Ireland over the coming years must be based on a thorough understanding of how economic and social policies interact in the conditions and circumstances facing small industrial nations in the 21st century. This does not mean restricting developments in social protection to what most evidently fits a social ‘investment’ perspective. It means recognising that the boundaries between what have, traditionally, been thought of as separable economic and social policy domains have become increasingly blurred.

Formerly, advances in social protection were largely thought of as a societal dividend which democratic political processes extracted *after* the event from successful economic performance. The most widely recognised direct economic function to social spending was its role as an automatic stabiliser over the course of the business cycle. Increasingly, however, the factors that underpin economic and business success in Ireland in the medium- to long-term will depend directly on **human qualities** — the hard and soft skills which people bring to the workforce, their learning capabilities and opportunities, the life-work balance they maintain, the autonomy and commitment they assume in their workplaces, the quality and child-friendliness of their built environments. It is this wider set of conditions which will sustain and nurture the adaptability and flexibility of the Irish workforce over the coming decades, keeping skilled workers in the country, and enabling labour productivity to rise by more than enough to compensate Irish business for having to operate in what is already — by the standards of some of their competitors — a high cost environment.

For much of Ireland’s independence during the 20th century, people were its greatest asset, but in literary, religious and political discourse only. There was little proof of this perspective in the economic and social realities of the time. On the contrary, many people of working age could find no satisfactory employment and emigrated; many of the fortunate ones who found employment in Ireland were underemployed or engaged in low-skilled, unsatisfying work; most women were confined to domestic work in the home; many children, particularly those in large families, were reared in poverty and many young people, particularly those whose fathers were unskilled workers, received no education beyond primary level; a large number of people with a physical, mental or social disability were treated as liabilities to society.

This social history is invoked to throw Ireland's new economic and social realities into sharper relief. Today, such is the strength of demand for labour, many employers rely on immigrant workers; more employments require high levels of knowledge and skill; women are as, or more, educated than men and there is a strong commitment to offering them employment on equal terms to men; nearly six out of ten young people enter third level education and the search is on to make education a lifelong activity beginning in early childhood and extending through working life; there is a growing recognition that more Irish workplaces need to reflect and enhance people's creativity and responsibility; national strategies have been developed to help afford all children the opportunity to develop their full potential, to minimise disability as a social obstacle and to ensure that social disadvantage does not become lasting social exclusion; a new legislative and institutional framework has been developed to ensure universal regard in Irish life for the dignity of the human person and protection from discrimination. Ireland, in short, is more entitled now than at any time since its Independence to claim that people *are* its greatest asset. Its economic and social policies in the first decade of the 21st century are doing more to treat them as such than ever before.

### Box 2.1 Aligning Economic and Social Policy

Turbulence — economic, social, and technological — is a long-standing attribute of human society, as is the capacity to survive it. Indeed, the (20th) century ... provides ample evidence of how people can adapt and even thrive in a world of rapid and pervasive change. However, profound and unanticipated transformations are not a virtue per se. Nor are tests of human adaptability. Rather, it is safe to assume that most people prefer a world where life is characterised by stability, continuity, predictability, and secure access to material well-being.

Societies with these attributes garner more easily the commitment and adherence that sustain societal cohesion over time. ... Competition and structural change are not fundamentally incompatible with societal cohesion. On the contrary, they are a motor of the economic growth and prosperity on which cohesion can thrive. Reciprocally, a strong social fabric provides a secure basis for the flexibility and risk-taking which are the lifeblood of vibrant economic activity and wealth creation. Striking a sustainable balance between dynamism and security constitutes one of the primary missions of the political processes. The capacity to find the appropriate balance, thereby avoiding both stagnation and social fragmentation, is one of the key strengths of OECD democracies.

*Michalski et al (1997), Societal Cohesion and the Globalising Economy. What does the Future Hold?, OECD.*

The relation between economic performance and social policy .. is the key to the future prosperity and well being of the European Union. ...The European economy needs to adapt to new competition and new technological possibilities, but this adaptation must be achieved while strengthening social inclusion. Europe has social as well as economic objectives. ...Economic and social policy should be made in conjunction, to avoid a situation where the problems in one domain are exacerbated by the solutions adopted in the other.

*Report of the High Level Group on the Future of Social Policy in an Enlarged European Union (2004), DG for Employment and Social Affairs.*

However, recognising where economic and social advances have mutually supported each other does not mean there are areas where they have not. Trade-offs can and do exist between good economic performance and social policies. Economic and technological turbulence can damage social cohesion and fracture society unless social policy responses are intelligently designed and well resourced. Ill-designed social policies can undermine people's cooperation with economic change and contribute to undermining economic performance and, ultimately, the social protection that a country can provide its citizens in the long-run.

The following sections explore the evidence that good economic performance and improved social protection are neither intrinsically opposed nor compelled to occur together in some automatic way. The conclusion is, rather, that they *can be made to support each other* — where there is sufficient shared understanding and commitment on the part of those who shape and implement a country's economic and social policies respectively.

## 2.2 Improving the Synergy Between Social and Economic Policies

The question as to which comes first in the life of a society, economic or social progress, is largely a theoretical one. Social and economic history more usually shows they are deeply intertwined. At the micro level, the tensions and trade-offs between helping people in need, fostering their self-reliance and matching the costs of social programmes to available resources are never wholly resolved by even the most cleverly designed and efficiently administered programmes for social protection. On the contrary, some trade-offs between dynamism in the economic sphere and security in the social sphere nearly always exist and political judgement is needed to identify when imbalances require correction, just as policy flexibility is needed to produce it. One of the operative premises of this study is that policy reform in both the economic and social spheres should be guided by the goal of making them mutually beneficial in the circumstances in which Ireland now finds itself. This section offers perspectives from research that can guide the pursuit of this goal. The review is of selected research and not exhaustive. Its purpose is to demonstrate the importance of re-conceptualising the boundaries between what are 'economic' and 'social' policies respectively in Ireland.

### Research on the macro level

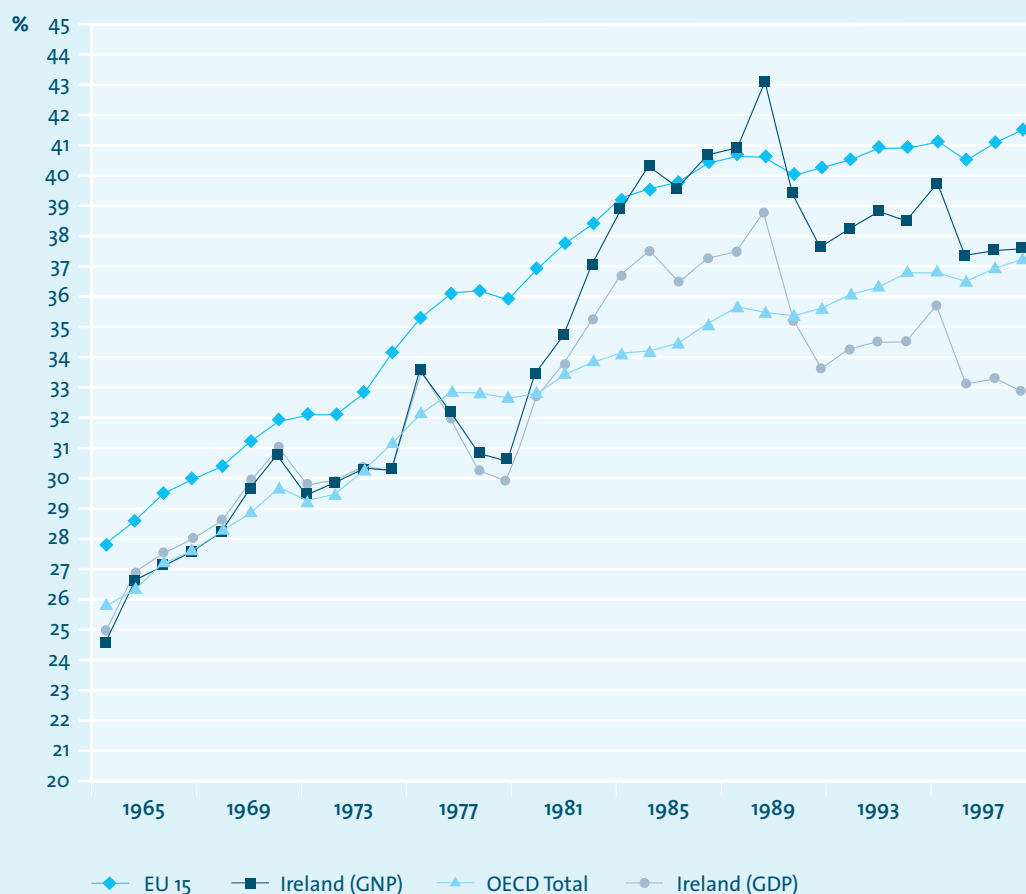
Chapter 4 will review evidence that a close and positive correlation exists between measures of wealth and levels of social spending within the EU 15. This is also noted by the OECD for industrialised countries generally (OECD, 2003: 25).

This correlation says nothing about trends nor can it throw light on the issue of causality. For example, it is frequently argued that countries with relatively high standards of social protection are being led by globalisation and increased international competition to lower those standards and engage in a 'race to the bottom' in an effort to reduce social charges on enterprises and maintain the competitiveness of their economies. This perspective sees the welfare state as having to cede place to a 'competition state'. The latter seeks to protect the competitiveness of enterprises located in its territory by reducing the legislative and tax demands it makes on them, including by intervening minimally in the labour market. In sharp contrast to this thesis, counter arguments are made that the welfare state is particularly complementary to globalisation for small, open economies such as Ireland's. The welfare state, in this perspective, assumes the role of a 'compensatory state', balancing a commitment to the internationalisation of the economy with policies of domestic compensation that reduce risk and assist workers and companies in becoming involved with on-going adaptation to structural and workplace changes.

The core mechanism invoked by the competition state hypothesis is that growing competition for markets, inward investment and skilled workers between regions with very different social standards makes taxation at the levels required to fund social protection in regions with high standards un-sustainable. This suggests that the level of tax receipts and/or social spending in regions with high standards come under pressure as economic ties grow with countries or regions where social standards are lower. However, the empirical evidence in support of this has been surprisingly difficult to unearth, either for tax receipts or social spending.

For example, the competition state thesis suggests that the deepening and widening of European economic integration would have put downward pressure on tax rates particularly in those countries where high taxation was funding high social spending. Baldwin and Krugman (2000) examined the trends in the tax rate within the EU in terms of a 'rich core' of advanced countries which they defined as Germany, Belgium, Luxembourg, France and Italy and a 'poor periphery' defined as Greece, Portugal, Spain and Ireland. They identified these two groupings of countries in the mid-1960s to see whether pressure from the lower tax countries in the periphery in fact led to a 'race to the bottom'. They found that, while tax rates in the rich core were initially much higher than in the periphery, the gap widened further from the mid-1960s until the late 1970s and narrowed from the late 1970s until the early 1990s. However, this narrowing of the gap came about not due to declining tax rates in the core countries but to increases in the periphery. Baldwin and Krugman refer to this as a 'race to the top' rather than a 'race to the bottom'.

Figure 2.1 Total Tax As Percentage Of GDP, 1965- 1997



Source: OECD Revenue Statistics of the Member Countries. NESG calculations.

Figure 2.1 confirms that the decades of deepening economic integration and intensifying competition have generally witnessed a rise in the tax-to-GDP ratios of rich countries. Despite successive enlargements, which gave poorer countries access to the markets of the richer EU core, the tax-to-GDP ratio characterising the EU as a whole increased steadily over the period, 1965-1997. In the OECD world generally, the tax-to-GDP ratio also followed a rising trend over decades characterised by growing economic integration.

**Table 2.1 Total Taxes (including Social Contributions)  
as a per Cent of GDP**

	Annual average, 1995-2002	Annual % change, 1995-2002	Difference 1995-2002 (percentage points)
Denmark	49.9	0.0	-0.4
Sweden	52.2	0.3	1.1
Finland	46.6	-0.1	-0.1
Austria	44.1	0.5	2.1
Germany	41.4	-0.2	-0.7
Netherlands	40.6	-0.2	-1.1
Belgium	45.9	0.4	1.5
France	44.9	0.1	0.2
UK	36.3	0.7	0.5
<b>Ireland</b>	<b>31.9</b>	<b>-1.9</b>	<b>-4.8</b>
Italy	42.8	-0.1	0.6
Greece	35.7	2.0	3.6
Spain	34.8	1.1	2.7
Portugal	35.2	1.1	2.8
EU 15	41.4	0.0	-0.1

Source Eurostat (2004).

Table 2.1 shows the levels and trends in the tax-to-GDP ratios that have characterised EU countries for a more recent period, the eight years covering, 1995-2002. (The countries are grouped into the four 'welfare families' explained and used in Chapter 4). It is clear that, in the most recent years, the tax rates have continued to rise in the EU 15's periphery, with the notable exception of Ireland. Elsewhere in the EU, the tax-to-GDP ratios have been fairly stable. This stability over the 1995-2002 period, however, is compatible with the beginning of a downward trend after the year 2000. Good economic growth until the year 2000 contributed an element of revenue buoyancy which concealed a swing in the political pendulum in some countries from the mid-1990s onwards that favoured lowering the tax-to-GDP ratio. Where this is identified, however, it is usually traced to concerns about a rising pensions bill associated with ageing and to efforts to address significant non-employment on the part of people with low skills rather than to heightened international competition (Eurostat, 2004).



The absence of evidence for any general downward trend in tax revenue across OECD countries until 2000 at least may be due to agglomeration economies. Baldwin and Krugman (2000) conclude that, while profit maximising firms — other things being equal — seek the lowest cost location, the level of taxation is only one influence on their decision. Countries with generous welfare states and high taxation tend to be wealthy countries. They have a range of advantages for mobile investors such as excellent infrastructure, established customer and supplier bases, accumulated experience, well trained workforces and so on. Within limits, this allows rich countries to retain mobile factors of production despite having higher tax rates than poorer countries. In the latter, lower tax rates can help attract mobile investment, which helps them to attain convergence with richer countries. As the poor countries become richer, the demand for public services tends to increase so countries may be willing to accept higher tax levels. As noted above, there is some evidence that this occurred in the EU. It should also be noted that Ireland's relatively recent status as a country generating a high level of GDP per capita does not mean it can yet count on these agglomeration economies.

A large literature explores the link between economic performance and levels of social spending. Again, the competition state scenario of intensifying international competition leading to lower social spending finds little empirical support. De Grauwe and Polan (2003), for example, find no evidence that social spending in OECD countries has declined with globalisation or that its level impacts negatively on a country's economic performance in the global economy. They look for evidence that successful economic performance came first and enabled higher social spending as a subsequent political choice (the 'grow first, spend later' thesis), but their econometric work points to the causality running in the opposite direction. Their preferred explanation is that higher social spending supports good economic performance in OECD countries because it is associated with effective administrations that use it in ways which reduce industrial conflict and increase the willingness of populations to cooperate with change.

This perspective on social spending found strong support earlier in the work of Cameron (Cameron, 1978). Cameron studied a group of 18 OECD countries and showed that the best single predictor of the increase in an OECD government's tax revenue (as a share of GDP) between 1960 and 1975 was the economy's openness in 1960 (exports plus imports divided by GDP). The correlation coefficient was 0.78. By way of explanation, Cameron argued that more open economies have higher rates of industrial concentration, which tend to foster higher unionisation, greater scope for collective bargaining, and stronger labour confederations. These in turn result in larger demands for government transfers — social security, pensions, unemployment insurance, job training, etc. — which mitigate external risk.

Subsequently, Rodrik (1998) studied a much larger group of countries which included many developing ones. He believed Cameron's explanation for his finding would not be applicable to developing countries (which are dominant in the 100 plus included in his study) where it was implausible to attach such importance to the role of trade unions in most of them (see Kapstein and Milanovic, 2002, for developing countries where it does apply). His own finding was that the empirical

relationship between an economy's openness and the level of government spending held primarily for *government consumption* in developing countries while, in advanced countries, just as Cameron had found, it was primarily spending on social security and other transfers that correlated with exposure to external risk. He, too, concluded that small countries, in particular, appear to benefit from higher social spending and 'bigger government'. This is because, being small, they tend to have open economies that are vulnerable to fluctuations in the level and terms of international trade. "Societies seem to demand (and receive) an expanded government role as the price for accepting larger doses of external risk. In other words, government spending appears to provide social insurance in economies subject to external shocks", (Cameron, 1978).

Cameron and Rodrik, therefore, are in agreement that the evidence suggests public spending is a risk-reducing instrument on which there is greater reliance in more open economies.

More open economies have greater exposure to the risks emanating from turbulence in world markets. Larger government spending can be viewed in such economies as performing an insulation function, insofar as the government sector is the 'safe' sector (in terms of employment and purchases from the rest of the economy) relative to other activities, and especially compared to tradables. Hence, in countries significantly affected by external shocks, the government can mitigate risk by taking command of a larger share of the economy's resources. .... One might object that the government's risk-reducing role would be best played through the establishment of a safety net, in which case it would show up mainly in government spending on social security and welfare, and not in government consumption. This prediction is borne out in the case of the more advanced countries, which have the administrative capacity to manage social welfare systems. In these countries, government consumption is uncorrelated with exposure to external risk, while spending on social security and welfare is strongly correlated. ...In most developing countries, however, income-transfer schemes tend to be rudimentary for reasons of administrative capacity. Consequently, their governments tend to rely on a broader set of instrumentalities – public employment, in-kind transfers, and public-works programs – all of which show up in government consumption-in order to broaden safety nets. (Rodrik, 1998).

Lindert (2004) examines the origins and course of public social spending in today's industrialised countries from the late 19th century onwards. He concludes: 'nine decades of historical experience fail to show that transferring a larger share of GDP from taxpayers to transfer recipients has a negative correlation with either the level or the rate of growth of GDP per person' (2004: 18). He articulates two general principles that serve as an explanation as to why the welfare state appears to have done no net damage to growth in GDP per capita.

(i) Democracies with large public sectors show more care in designing taxes and transfers so as to avoid compromising growth. For example, he finds evidence for ‘a style of taxation that few have noticed when debating the effects of the welfare state’ (31), viz., countries with large welfare states like Sweden tend to have a more pro-growth and regressive mix of taxes. Behaviour with a low elasticity bears the brunt of taxation — labour’s earnings are taxed more than income from capital; consumption is taxed (e.g. VAT) more heavily than savings; and addiction goods (alcohol, tobacco, etc) are taxed heavily. These high-spending countries have also fine-tuned the work incentives of their welfare and unemployment compensation programmes so as to limit welfare dependency, principally among young adults; several of their ‘transfers’ to the unemployed and poor are in effect purchases of behaviour and investments in job qualifications. This leads him to formulate ‘the budget-stakes principle’ by which, the larger the budget, the greater the stakes in designing social programmes in ways that minimise the unit costs of the extra transfers and taxes. High-budget welfare states, he believes, have done more to address the dangers of getting taxes and transfers wrong than have low-spending countries like the US - their administration costs are lower (there is a small reliance on means-testing) and their broad-based consumption and income taxes create little distortion.

(ii) In second place, Lindert argues that a broad universalism in taxes and entitlements fosters growth better than strict means testing and complicated tax procedures. This is for three principal reasons. The wide tax bases to which taxes are applied (such as a general consumption tax) and the non-conditionality of the social protection provided mean nothing is gained by changing behaviour; tax avoidance is a starved industry as all alternatives are taxed at the same rate, basic life choices (to take employment, parent alone, etc.) do not influence the level of social support received, and marginal tax-cum-benefit-withdrawal rates are low. The administrative costs per euro collected and spent are low because procedures are simple and there is little need for intrusive inspection or close monitoring. Finally, several of the universal services providing social protection also serve to make people more employable and productive, e.g., public education, public health, childcare, maternity and parental leave.

### Research on the micro level

While there is no empirical support for the hypothesis that high social spending, in an increasingly competitive global economy, is inherently damaging to economic performance, there are many examples of how poorly designed social protection can damage employment and reduce individuals' participation in the labour market.

For example:

- ◆ Levying high social insurance on the wages of low skilled workers significantly reduces the demand for them. It has been a characteristic reform strategy of Continental European welfare states in particular to target reductions in social insurance on low skilled workers (Drèze and Malinvaud, 1994).
- ◆ If social protection is concentrated on people in existing jobs, new entrants to the labour market shoulder disproportionate responsibility for ensuring some flexibility in the labour market, a dual labour market develops and considerable talent remains underdeveloped or is lost to the economy (Saint-Paul, 1997).
- ◆ Reliance on disability benefits can become a form of disguised unemployment and grow to absorb more resources than unemployment compensation if the policing of unemployment benefits is allowed to substitute for tackling the deeper underlying issues of low skills and poor employment prospects.
- ◆ Sickness payments can become so attractive that taking time off for sickness becomes quasi built-in to employees' expectations of a normal working year (Henrekson, 2004).
- ◆ Continuing with wholly unfunded pension arrangements whereby people at work pay the pensions of those currently retired would be unfair to future workers whose numbers, relative to those in retirement, will be much smaller.
- ◆ While there is little evidence that people are attracted into long-term welfare dependency because of its availability, there is considerable evidence that leaving it for employment can be made difficult by high marginal benefit withdrawal rates.

While there are multiple examples from the international literature of what *not* to do, much more can be learned from the literature which points to how social protection can be designed so as to support people's engagement with economic restructuring. For example, a theoretical (Sinn, 1995, 1996) and empirical literature (Bird, 2001; Blanchflower, 2000) has explored the hypothesis that people protected by benefits may embrace more change and take more risks they would otherwise do, with outcomes that are positive for the functioning of the labour market and economic performance. Some examples are:

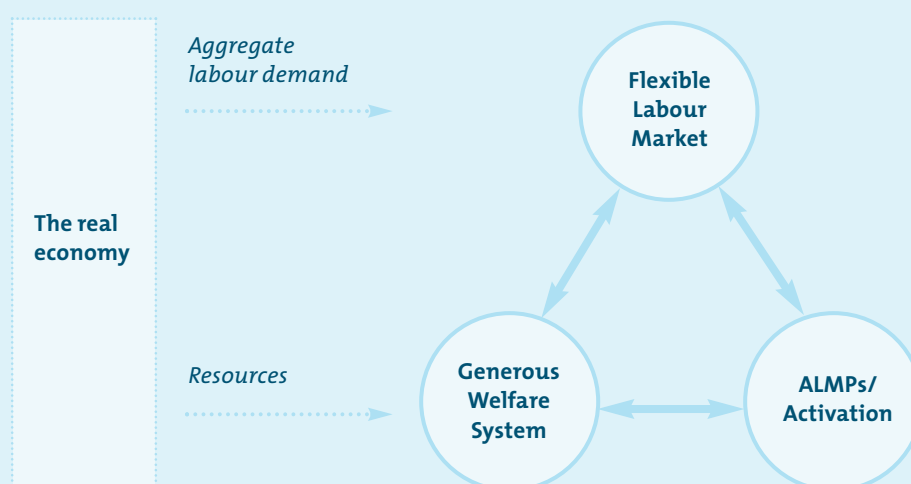
- ◆ a generous level of unemployment benefit for an interval of time enables people to hold out for a better job match than they would do if means-tested assistance immediately beckoned;

- ◆ mobility between jobs is easier if individuals know that being in transit will not entail a large drop in their standard of living;
- ◆ maternity benefits, parental leave, access to childcare and flexi-time can strengthen attachment to the labour force over a person's life-time, preventing more definitive breaks with employment by facilitating temporary breaks for caring purposes.

Lundvall (2002: 82)<sup>4</sup> sees the high replacement rate and long period for which benefits can be drawn that characterise unemployment compensation in Denmark as integral to the country's successful innovation system rather than as handicaps to the efficient functioning of its labour market. Their generosity, he argues, contributes to the workforce being willing to practice a high level of mobility between jobs and employers, and to the population at large valuing a permanent (if periodically interrupted) attachment to the labour force.

The OECD (2004: 96-98)<sup>5</sup> also cites Denmark as successfully combining the provision of high net replacement incomes (as high as 89 per cent to 96 per cent for low-income groups) for a long period (up to four years) for people becoming unemployed with a range of activation measures that procure their effective preparation for new employment. The Danish system (termed 'flexicurity') features moderate employment protection legislation, generous income protection on becoming unemployed, and strong activation measures preparing and requiring unemployed people to seek new jobs. These features support each other in a dynamic way as Figure 2.2 (below) illustrates.

Figure 2.2 The 'Golden Triangle' of Flexicurity



Source Adapted from OECD (2004: 97).

4. Lundvall (2002), *Innovation, Growth and Social Cohesion. The Danish Model*. UK: Edward Elgar.

5. OECD *Employment Outlook 2004*, Chapter 2: 'Employment Protection Regulation and Labour Market Performance.'

From the perspective of the individual employee, the security provided is not against the loss of their existing job but against struggling to manage on a low income if unemployed and being without a new job for long. The OECD notes evidence that Danish employees have a strong feeling of security despite the high level of job mobility and low average job tenure in their economy. This policy of 'flexicurity' does not come cheap. No country spends as high a proportion of its GDP on unemployment compensation and labour market programmes as Denmark, but the country has consistently maintained the highest employment rate in the EU 15. It is noteworthy in this regard that Denmark also has one of the highest rates of adult participation in further education and learning in the OECD.

Goodin *et al* (1999)<sup>6</sup> exploited the opportunity provided by the availability of longitudinal data sets (covering 10 years) in the US, West Germany and the Netherlands to track movements in the level and composition of people's incomes over time. A major interest was whether receipt of state transfer payments was associated with a greater or lesser likelihood of an individual improving her or his income from market sources over time (the theory of welfare dependency would suggest it should lessen it). They found clear evidence that the state which intervened most promptly and vigorously to alter the distribution of market income was also the state in which those on low incomes were most likely to improve their market earnings over time, viz., the Netherlands.

Table 2.2 presents an example of their findings. Column 3 suggests that some 18 per cent of those poor in a given year in the USA on the basis of their market income alone earned their way out of poverty over the next five years and 31 per cent over ten years; this was in a country where taxes and transfers made virtually no impact on the proportion below the poverty line (column 4). By contrast, some 42 per cent of those below the poverty line on the basis of their market income in a given year had earned their way above it within five years in the Netherlands and some 53 per cent did so over ten years; the context in this case is of a Dutch welfare state which redresses income poverty promptly and sees a dramatic drop in the likelihood of the same individual being below the poverty line the longer the time period that is considered.

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6. Goodin, R.E., B. Headey, R. Muffels & Henk-Jan Dirven (1999), *The Real Worlds of Welfare Capitalism*. Cambridge University Press.

**Table 2.2** The Proportion of the Population Living in Working-Aged Households (Head aged under 60) Whose Equivalent Income is Below 50 per cent of Median Equivalent Income

Country	Income aggregated over...	Per cent poor <i>before</i> taxes and transfers (3)	Per cent poor <i>after</i> taxes and transfers (4)
USA	Continuous 12 months (1985) <sup>1</sup>	17.5	17.8
	Continuous 5-year period (1983–1987)	14.3	13.9
	Continuous 10-year period (1983–1992)	12.0	12.0
Germany	Continuous 12 months (1987) <sup>1</sup>	9.8	7.6
	Continuous 5-year period (1985–1989)	7.9	5.6
	Continuous 10-year period (1985–1994)	6.1	5.2
Netherlands	Continuous 12 months (1987) <sup>1</sup>	10.5	3.6
	Continuous 5-year period (1985–1989)	6.1	0.8
	Continuous 10-year period (1985–1994)	4.9	0.3

**Source** Goodin *et al.*, 1999 (Appendix A2, Table Pov 1B).

**Note** 1. The single years — 1985 for the USA and 1987 for Germany and the Netherlands — are chosen because they are the mid-years in the five-year period over which the data are aggregated; they also correspond to the mid points in an economic upswing in each country.

This type of evidence suggests that the relatively generous Dutch transfer payments did not weaken other correcting mechanisms which strengthened the market position of poor households in the long-term. The findings for the US, on the other hand, gave no support to the view that financial poverty, if allowed to persist, spurs ‘market discipline’ and greater self-reliance such that, over time, more poor households exit poverty through their own means. Americans who were poor and received meagre benefits by Dutch or German standards were much more likely to remain poor over longer periods than people below the poverty line in either the Netherlands or Germany. This study can be interpreted as further support for the argument that it is the interaction between the level of cash transfers and their design which is most critical to addressing poverty. On its evidence, the government that most ‘looked after’ poor people turned out to be the country where the poor were most able to ‘look after’ themselves in the long run.

### Learning from human resource policies in parts of the private sector

It is evidently more complex to understand and seek to influence policies for social protection in a national economy than to develop human resource policies for a business enterprise, even a very large one. Nevertheless, some of the reasons why private sector enterprises, obliged by definition to pursue profit, nevertheless, invest in different forms of social protection are revealing because the employers are responding directly to motivational issues. Their reasons include that:<sup>7</sup>

- ◆ prompt access to high quality health care reduces time off work on the part of key employees;
- ◆ access to childcare and eldercare enables employees to maintain less interrupted work records, increasing their productivity in the long-term;
- ◆ access to counselling (e.g., for addiction, marital difficulties) may prevent lengthy work absences or long periods of reduced productivity;
- ◆ access to study leave and FET opportunities can increase an employee's capabilities to contribute to the company;
- ◆ investing in programmes making health and safety a priority and shared concern can lead to a more efficient and effective management of risk (e.g., in chemical companies, construction, etc.);
- ◆ employees can be motivated by good Corporate Social Responsibility activities and a higher calibre of recruit is also attracted;
- ◆ corporate image is one of a company's most important assets and becoming increasingly difficult to develop without a strategy for social investments;
- ◆ a company that is good to its employees will be one whom employees in turn support when difficult decisions and trade-offs are imposed by outside circumstances on management.

Experience and direct feed-back on costs and benefits lead individual enterprises to decide on the level and nature of their spending on social or welfare programmes for their employees. No comparable transparency attaches to the benefits to the national labour force that arise from better coverage and higher standards in public health care, public education, social housing, public transport, social benefits and programmes for social inclusion. The clearest evidence attaches to specific forms of public health and educational spending but the wider contribution of other forms of public social spending to societal cohesion generally, though unquantifiable, should not be dismissed.

Looking at a number of different examples of healthy egalitarian societies, an important characteristic that they all seem to share is their social cohesion. They have a strong community life. Instead of social life stopping outside the front door, public space remains a social space. The individualism and the values of the market are restrained by a social morality. People are more likely to be involved in social and voluntary activities outside the home. These

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7. See, for example, Report of the Round Table on 'Improving knowledge about CSR and facilitating the exchange of experience and good practice', April 2004, European Multi-Stakeholder Forum on CSR.



societies have more of what has been called 'social capital' which lubricates the workings of the whole society and economy. There are fewer signs of anti-social aggressiveness, and society appears more caring. In short, the social fabric is in better condition. (Wilkinson, 1996).

### Higher social spending as inevitable

It is instructive to summarise the reasons why higher social spending and good economic performance can be expected to go hand in hand and why rising levels of public social spending, far from being a threat to economic growth, can variously confirm and support it.

- ◆ A significant part of social spending in many countries is insurance-based and income related. The more people previously earned, the higher are the cash transfers paid to them in retirement, during illness, while unemployed, etc.
- ◆ With higher employment rates comes a switch from unpaid caring, largely carried on within families, to the purchase of caring services from the market and/or their provision by public bodies (childcare, eldercare, etc.).
- ◆ With higher levels of educational attainment and higher incomes generally comes an increased demand for more and better social protection. Many forms of health care, in particular, have this status of being a luxury good.
- ◆ With higher employment and incomes, the opportunity costs to society of child poverty, educational disadvantage, juvenile crime, teen parenthood, addiction, social exclusion, etc., are greater and the return to social spending which helps avoid them is greater also.
- ◆ With higher regard for individual autonomy and rights comes an expectation of, and demand for, a wider range of supports at higher standards to be provided members of society who face particular obstacles in achieving social and economic participation (people with disabilities, those being discharged from institutional care, members of ethnic minorities, etc.).
- ◆ With greater openness to international trade and exposure to risks exogenous to the national economy comes a stronger demand and rationale for government, particularly in small countries with relatively homogeneous societies, to protect groups dislocated by economic restructuring. Where this 'compensation' takes certain forms of social spending rather than subsidies to inefficient industries or other protectionist measures which retard economic performance in the long run, it can 'buy' greater industrial peace, faster economic restructuring and a higher economic growth rate than would otherwise occur. 'Corporate welfare' also takes new forms such as supports for networking, links between research and innovation, and the acquisition of new marketing and technical skills.
- ◆ With the growing importance of knowledge and innovation if enterprises in advanced industrial countries are to remain competitive in international markets, greater attention is being paid to a wider range of working conditions (family friendliness, supplements to pensions, access to FET, health care, etc.) in order to recruit and retain knowledge workers, and to the design of

unemployment supports which maintain worker flexibility and productivity over the long term.

Ireland is currently a low social spender by international standards but this is destined to change for some if not all of the reasons listed above. The contemporary context of Ireland's ambitions to develop a dynamic, knowledge-based economy should give new impetus to the search for appropriately designed and well-resourced social policies that are integral to this economic strategy.

### 2.3 Building a Social Model on High Levels of Employment

The most evident way in which successful economic performance improves social protection is through providing available and satisfying employment opportunities. This has been an undeniable aspect of Ireland's social progress since the mid-1990s. However, higher employment rates and improved social protection do not automatically accompany each other. As employment rates move upwards, more of the people holding employment will have educational and skill attainments that are low by the standards of the full workforce and be vulnerable to lower earnings and poorer working conditions as a consequence. For this reason, one of the key distinguishing features of welfare state 'families' is their respective treatment of low skilled employment.

The Scandinavian welfare model sets a high floor to wages for low skilled workers and compensates for the low demand for them on the part of the private sector by employing large numbers (principally women) in local government to supply social services (e.g., childcare). The Continental European welfare state levies significant social insurance on all workers including the low skilled and responds to the high non-employment among them by providing significant passive income transfers (as lightly monitored disability or unemployment benefits or as early retirement benefits). The Anglo-Saxon model lets wages for the low skilled fall to levels that price them into private sector employment and provides wage subsidies in one form or another to address the worst forms of poverty among them (the Earned Income Tax Credit in the US, the Working Family Tax Credit in the UK).

While it is clear that Ireland has not followed the Scandinavian model, it is less evident that it can be fairly described as having taken the Anglo-Saxon or Continental European routes. On the one hand, low skilled employments in the private sector have come on stream, and in-work poverty has grown in significance despite the existence of an in-work subsidy (FIS) and the institution of a minimum national wage (2000). On the other hand, social welfare payments have improved significantly in real terms, and there is evidence that earnings inequality makes only a very minor contribution to the proportion of the population being recorded as at-risk-of-poverty (Callan *et al*, 2004). In fact, while private services have come on-stream at the bottom end of the labour ladder, the highest poverty risks in Ireland still attach to being non-employed rather than in employment at a low wage, and significant non-employment continues to characterise groups in the population while employers have increasingly sourced low skilled workers overseas.

### Low skilled jobs have not gone away

The scale of employment growth in Ireland during the 1990s has justifiably received wide attention; the 50 per cent increase in total employment recorded over the period 1993-2001 was the highest in the OECD world (OECD, 2003b). It is less adverted to that this growth occurred across the productivity and earnings spectrum. While growth in high-productivity, high-earning occupations led the way, there was substantial growth also in the numbers of *jobs of moderate and low productivity*. Recent Irish and OECD data serve to make this point.

The joint FÁS/ESRI series of occupational employment forecasts identifies the median educational level of workers in each occupation (yielding what is termed the 'educational profile of employment') and has done so annually since 1991. The series makes clear that, over time, those occupations requiring higher levels of education have grown most rapidly and that there has been an upward drift of educational attainment within every occupation. The most recent edition (Sexton *et al*, 2004) summarises trends over the 11-year period since the series began. As Table 2.3 and Chart 2.3 show, the number of jobs typically filled by a person with a third level qualification more than doubled over the period, 1991-2001, and grew from 20 per cent to account for 29 per cent of all jobs in the Irish economy by 2001. At the same time, however, one-half of all the new jobs created over the 11-year period were for people who did not have a third level qualification and for whom either a completed secondary schooling was sufficient (45 per cent of all new jobs) or who did not even have to have completed their secondary schooling (5 per cent of new jobs). Jobs in occupations typically held by people with less than upper secondary schooling dropped from 43 per cent of all jobs in 1991 to 32 per cent in 2001 but they still grew by 26,000 in absolute terms.

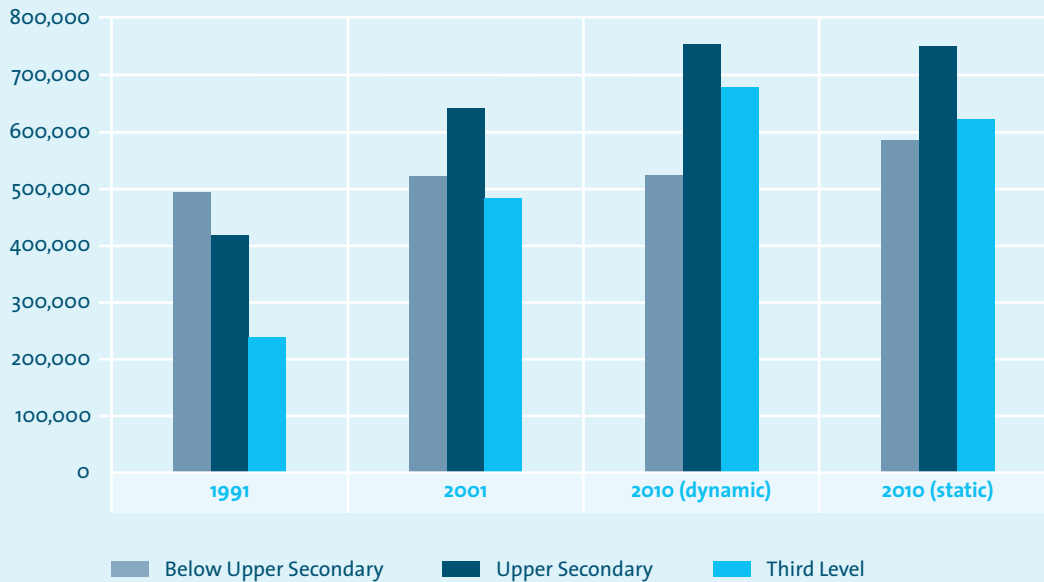
**Table 2.3 Educational Profile of Employment in the Irish Economy**

Median Educational Attainment of Occupations	1991		2001		2010 (dynamic) <sup>1</sup>		2010 (static) <sup>2</sup>	
	000	%	000	%	000	%	000	%
Less than upper secondary <sup>3</sup>	498	43	524	32	528	27	587	30
Upper secondary	417	36	640	39	756	39	752	38
Third level	235	20	483	29	679	35	624	3,2
<b>Total</b>	<b>1,149</b>	<b>100</b>	<b>1,648</b>	<b>100</b>	<b>1,963</b>	<b>100</b>	<b>1,963</b>	<b>100</b>

Source Sexton *et al* (2004)

- Notes
1. The dynamic forecast assumes educational attainment *within* occupational subgroups continue to rise in line with trends observed over the period 1991-200, in addition to occupations already characterised by high educational levels having the fastest growth rates.
  2. Static forecast assumes educational shares within occupational subgroups remain constant at values observed in 2001 so that the requirement for a more highly educated workforce comes solely from the high growth rates of occupations currently associated with high levels of workers' educational attainment.
  3. Not all these job-holders can be considered unqualified; a minority will have acquired vocational qualifications, including apprenticeships (before a Leaving Certificate was required). Not all can be termed low skilled; a significant minority may have acquired skills through on-the-job training.

Chart 2.1 Employment in the Irish Economy by Median Education Of Job-holders



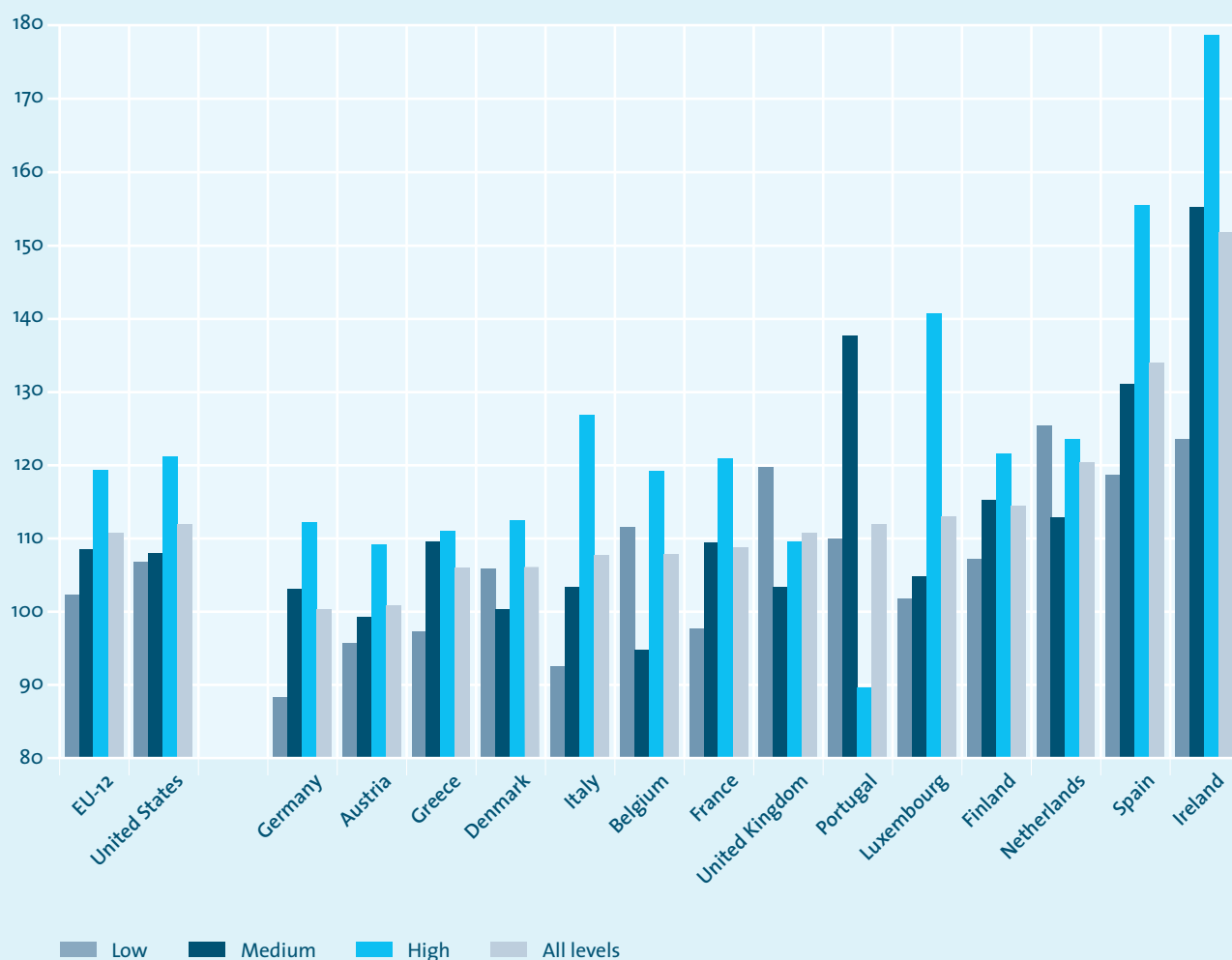
Looking forward to 2010, this pattern of growth across the educational profile of employment is expected to weaken but not to be broken. The FÁS/ESRI occupational forecasts see the number of jobs for which less than a completed secondary schooling is required most likely remaining at the same absolute level over the decade 2001-2010, and still accounting for more than one quarter of all jobs in the Irish economy by the decade's end. In this scenario, the educational profile of *every* occupation is assumed to continue rising at the same rate to 2010 as was observed for the decade 1991-2001 (for which reason it is termed the 'dynamic' forecast). If the upward drift in the educational attainment of workers in every type of job should stop (unlikely), the resulting static forecast is that there would be 63,000 *additional* jobs in 2010 being carried out by workers with less a completed secondary schooling and that these jobs would constitute 30 per cent of all employment in the economy.

#### OECD comparative analysis of 1990s employment growth

OECD analysis independently confirms that Ireland in the 1990s was noteworthy not just for the strength of its aggregate employment creation *but also for the spread* of that employment growth across the productivity and earnings spectrum.

It found that Ireland comfortably led the field when employment growth in 15 countries was studied over the period, 1993-2001; the country recorded substantially the highest total employment growth and, within that, substantially the highest growth in jobs that were relatively high-paying (Chart 2.4). However, growth in the Irish economy in occupations which are relatively low-productivity

**Chart 2.2** Employment growth by wage level<sup>1</sup>  
in Europe and the United States, 1993-2001.<sup>2</sup>  
Index (1993=100)



Source OECD Employment Outlook 2003, Chart 1.8.

- Notes
1. For each country, jobs (i.e., employment in 76 industry/occupation cells) have been ranked by the OECD secretariat on the basis of average hourly earnings in 1996 and then placed into three groups of equal size in terms of employment shares. The growth in employment in the same jobs at each level is then calculated.
  2. The EU-12 average excludes Austria and Finland; 1995-2001 for Austria; 1997-2001 for Finland; 1993-1999 for the US.

and low-paying was considerable too. In fact, Ireland recorded the second highest growth in the number of low-paying jobs over the 1993-2001 period (after the Netherlands) at the same time as it recorded the highest growth in the numbers of medium- and high-paying jobs. This gave the Irish labour market a feature of balanced growth in jobs across the earnings spectrum that was matched by few other countries. In Germany, for example, the supply of high-earning jobs grew by just over 10 per cent but low-earning jobs contracted by approximately the same

amount; in the UK, the number of low-earning jobs expanded by some 20 per cent, almost double the rate of expansion of high-earning ones.

The contribution and role of jobs of lesser productivity in raising employment rates, providing a wide range of moderately priced services, widening the tax base, reducing welfare dependency and strengthening social cohesion is, frequently, not adverted to either in accounts of Ireland's economic resurgence or of its ambitions to become a dynamic, knowledge-based economy. Looking back, most of the reduction in unemployment, particularly long-term unemployment, can be attributed to the growth in relatively low productivity employments rather than in high-paying ones, and to the policy changes (lower taxes, retention of secondary benefits, higher entry level wages, etc.) that increased the attractiveness of holding such jobs. The switch from unemployment and welfare dependency to employment, in turn, contributed significantly to reducing the level of consistent poverty and the severity of social exclusion.

Looking forward, it may seem that acknowledging — let alone welcoming — an on-going role for relatively low-productivity, low-earning jobs in the economy weakens or contradicts the core strategy of moving enterprises, workers and the economy generally further up the value-added chain through higher investments in R&D and raising the skills and competences of the workforce. Yet the positions are not contradictory. High-productivity enterprises and workers benefit from the contributions of lower productivity workers in multiple ways. In fact, dynamic regional and national economies frequently resort to immigration to meet shortages of low skilled workers, a route which Ireland has already demonstrated some capacity for taking (FÁS, 2004). This is not to deny that challenges of a new order are posed to restraining inequality and fostering social cohesion, particularly during economic downswings when the low productivity workers are particularly exposed to unemployment.

The drive to achieve a more knowledge-based and innovative economy through higher levels of investment in R&D and a more skilled workforce can be considered a precondition for successful economic performance and prosperity, but it is far from a sufficient condition for attaining the high employment rates such as those to which Ireland is committed in the Lisbon process. Attaining a total employment rate of 70 per cent or more by 2010 does not hinge on increasing the numbers studying at third level or taking science or maths at secondary and third level. It does not hinge, in fact, on anything directly affecting the careers and labour market choices of high-productivity workers or those in a position proximately to become such. Rather, it hinges primarily on the labour market choices of such groups as people with caring responsibilities, people with less than upper secondary education, older workers generally and people with disabilities.

The Lisbon process goes part of the way in acknowledging this by having subordinate targets of a 60 per cent employment rate for women and 50 per cent for older workers. The significance of the experience of relatively weaker groups to attaining high employment rates is confirmed by Table 2.4. It presents the employment rates for subgroups in the populations of the four countries with the highest, and the four with the lowest, total employment rates in the EU 15 in 2002. (Ireland is included separately for informational purposes).

Table 2.4 Employment/Population Ratios, Total Population and Defined Sub Groups, Selected Countries, 2002.<sup>1</sup>

	Employment/ population ratio (all persons aged 15-64)		Men & Women 15-19 <sup>2</sup>		Men & Women 20-24 <sup>2</sup>		Men 25-64 less than Upper Secondary Education		Men 25-64 Upper Secondary Education		Men 25-64 less than Upper Secondary Education		Women 25-64 Upper Secondary Education		Women 25-64 Tertiary Education	
	Men 15-64	Women 15-64	Men & Women 15-19 <sup>2</sup>	Men & Women 20-24 <sup>2</sup>	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Men 25-64 Upper Secondary Education	Women 25-64 Tertiary Education	Women 25-64 Tertiary Education
<i>High performers</i>																
<b>Denmark</b>	76.4	80.2	99.6	96.3	71.9	84.4	89.3	89.3	51.3	77.9	85.3	64.2	49.9			
<b>Sweden</b>	74.9	76.3	98.3	94.0	73.8	83.5	87.2	87.2	61.0	80.1	85.8	70.7	65.9			
<b>Netherlands</b>	74.5	82.9	98.3	97.9	75.1	86.9	91.1	91.1	45.0	72.1	82.1	54.9	29.0			
<b>UK</b>	72.7	78.9	95.6	94.5	59.1	84.4	89.7	89.7	47.5	73.3	85.6	62.1	44.7			
<i>Average I</i>	74.6	79.6	98.0	95.7	70.0	84.8	89.3	89.3	51.2	75.9	84.7	63.0	47.4			
<i>Low performers</i>																
<b>Italy</b>	55.6	69.2	95.7	88.2	70.5	82.1	87.6	87.6	30.0	61.8	76.8	41.2	17.3			
<b>Greece</b>	56.9	71.7	96.4	86.4	77.0	83.6	85.9	85.9	37.4	48.3	75.0	55.1	24.4			
<b>Spain</b>	59.5	73.9	95.5	90.3	77.1	85.0	87.2	87.2	34.7	57.7	74.2	58.6	22.0			
<b>Belgium</b>	59.7	68.1	98.1	91.1	62.9	83.3	87.5	87.5	34.6	63.6	80.1	35.1	16.7			
<i>Average II</i>	57.9	70.7	96.4	89.0	71.9	83.5	87.1	87.1	34.2	57.9	76.5	47.5	20.1			
<b>Difference I – II</b>	-16.7	-8.9	-1.5	-6.7	1.9	-1.3	-2.3	-2.3	-17.0	-18.0	-8.2	-15.5	-27.3			
<b>Ireland</b>	65.0	74.7	97.6	95.8	73.9	90.1	91.2	91.2	38.1	65.1	82.3	65.1	30.7			

Source OECD Employment Outlook, 2004; OECD Education at a Glance, 2004.

Notes 1. Ratios refer to persons in employment divided by total number in working age population or subgroup.

2. For this age group, (employment + education)/population ratio. Figures are the inverse of the percentages not in education and unemployed (Education at a Glance, OECD Indicators, 2004).

In 2002, Denmark, Sweden, the Netherlands and the UK had the highest employment rates in the EU 15 and each comfortably surpassed the 70 per cent Lisbon target; Italy, Greece, Spain and Belgium did least well and had employment rates below 60 per cent. On average, there was a gap of some 17 percentage points separating the employment rates attained by the top four and those attained by the bottom four. What contributes to this gap becomes clearer when employment rates by gender, level of educational attainment and age are considered separately. What separates the countries with high employment rates from those with low employment rates is, principally, that women are much more likely to be in employment; for women in general the gap is 24 percentage points, for women with less than an upper secondary education it is 17 percentage points while for older women the gap is the widest of all, at 27 percentage points. The position of men differs much less between the two sets of countries, except for older men where more than 15 percentage points separates the employment rates on average. Otherwise, men fare similarly and are even marginally *more* likely to be in employment when low skilled in the poorly performing countries than in the better performing ones. Young adults (aged 20-24) also are more likely to be in either employment or education in the top four performing countries than in the bottom performing four, with a margin of almost seven percentage points in their favour.

This evidence, therefore, suggests that the groups whose transition into or out of employment makes the difference to employment rates reaching 70 per cent or higher are not prime aged, well educated males but older people, women, and persons with low levels of formal education. Each of these latter groups can be considered, in turn, to exhibit significant heterogeneity with specific constraints potentially facing — for example — lone parents, people with disabilities, members of ethnic minorities, etc. These tend to be people for whom access to worthwhile employment of any sort can be significantly constrained by the absence of support services and/or the high withdrawal rates of welfare support they otherwise receive only in recognition of a status outside the labour force. These are the areas where Irish policy may need to concentrate if further significant progress in raising the employment rate is to be recorded. Table 2.4 indicates that employment rates in Ireland for men, no matter their level of educational attainment or age, and for women with a third level education, compare favourably with the best in Europe but that women in general are accessing employment considerably less, especially when they have lower levels of educational attainment and/or are older.

During Ireland's impressive employment expansion, women's employment rates, in broad terms, remained low for those who did not complete secondary school while they were high at the outset for those with a third level education. The rise in the female employment rate was on the part of those who completed secondary school, a group which also grew steadily as a proportion of the female population (NESC, 2003: 382-387). Looking forward, there is still potential for higher employment rates among women with a Leaving Certificate or equivalent but it is particularly strong among women with low levels of education. However, more of these women are being constrained by the lack or high cost of childcare facilities (mothers of young children, lone parents, women with modest earning power). For example, a second earner in a couple family with two young children using



childcare, with earnings at two-thirds of average salary, has no net return from work after childcare costs (OECD, 2003c). Not surprisingly, employment rates among women drop particularly sharply in Ireland compared to other countries after the birth of a first and second child.<sup>8</sup>

Other groups in the population also face specific constraints to accessing employment that is otherwise within their capability. These include older, low skilled males who have been made redundant, persons with disabilities, early school leavers, those needing treatment for an addiction, people discharged from institutional care (including ex-prisoners) and the members of disadvantaged minorities (the Traveller community, those granted refugee status, etc.).

In summary, the maintenance and modest expansion of employments requiring moderate to low levels of skills has been an integral feature of Ireland's recent economic resurgence. Where people on long-term social welfare were able to access these jobs, they have contributed significantly to reducing poverty and social exclusion. Changes in tax and social welfare, in PRSI and employment legislation have helped to protect the profitability of offering these jobs and the attractiveness of holding them.

However, a significant number of the low skilled who remain jobless are finding that a lack of services and still unreformed aspects of the tax and welfare codes make it difficult for them to access available employment or the vocational and educational programmes that would enhance their prospects of doing so. In several respects, Ireland's welfare code is not particularly 'employment friendly' (see 3.4.4 below). This contributes to a situation in which employment rates have remained low for members of households reliant on social welfare, even though significant low skilled immigration has been needed to fill large proportions of the vacancies occurring in hotels and catering, factory production, childcare and other areas (FÁS, 2003).<sup>9</sup> It is likely that many of the immigrants willing to do low skilled work in the Irish economy do not face the same constraints as Ireland's low skilled jobless — for example, more of them are single, without the family roles or fixed residence that makes people strongly prefer local labour markets and regular working hours, most are not on social welfare and unaffected by high benefit withdrawal rates, etc. Some have additional incentives such as the motivation to learn English, the purchasing power of the remitted euro in their home country, the push factor of the bleak alternatives they faced before emigrating, etc.

The juxtaposition of significant demand for immigrant workers to perform relatively low skilled jobs alongside high non-employment rates among groups in the Irish population has the potential to weaken the link between economic and social development in the coming years. Low skilled immigration lessens the need to identify and enhance the workforce skills of social welfare recipients of working age; it contributes to moderating wage increases at the lower end of the labour ladder to the benefit of consumers but reducing the incentive to leave social

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8. DES (2004)

9. The major concern to protect the level of placements available on an on-going basis in the Community Employment Scheme is, in part, a recognition that many barriers still effectively block people with weak labour market skills from accessing the mainstream labour market.

welfare; it adds to housing demand and congestion; it is vulnerable to unemployment and more likely than skilled migration to add to demand for social and health services. Appreciating that there *is* an on-going role in the Irish economy for workers with relatively weak levels of educational attainment, to which a growing inflow of migrants has been responding but which a growing proportion of the working-age population in receipt of social welfare face specific obstacles in doing so, suggests that a more pro-active approach is now needed to integrating social welfare, access to services, and training and education programmes so that worthwhile employment is a genuine option for *all* people with low skills. It is likely that this integration will require simultaneous and balanced progress in raising social welfare rates, ensuring that positive expectations of recipients are reflected in their administration, and improving the services that support them in work.

## 2.4 Conclusions

People who believe Ireland's economic development model has sacrificed compassion, social standards and solidarity need to be convinced that the successful pursuit of current economic objectives has inherent social implications that will directly serve social justice and a more egalitarian society. For example:

- a) Pushing the employment rate higher implies focussing attention on hitherto relatively neglected groups in the working-age population, the obstacles they face and the supports they need;
- b) Raising skill levels, other things being equal, will enhance more people's standard of living, work satisfaction and degree of control over their working lives;
- c) Concentrating on lifelong learning implies giving increased attention to people at work and not assuming public support for learning ends once youth is over;
- d) Seeking flexibility in the workplace requires a deeper appreciation of the worker as an agent of change rather than a reluctant subject compelled by successfully designed supervision and reward systems to behave in a manner that management can predict;
- e) Higher real incomes, wider markets and greater competition will further extend consumer choice and continue the process by which goods and services hitherto associated with elites (e.g., overseas holidays in the 1960s) become accessible to wide groups in the population;
- f) Emphasising entrepreneurship means cultivating problem-solving skills, individuality and respect for responsible risk-taking, particularly where their opposites — rote learning, conformity and fear of failure — are most entrenched.

In short, it is important to see social policy as not simply an exercise in redistributing a surplus which is there to be creamed off after successful economic performance, but as assuming its appropriate share of responsibility for the economic policies that enable the widest possible number in the population to earn their livelihoods in the marketplace in a decent and humane way. Significant social progress is inherent in the successful unfolding of the Ireland's current core economic development strategies. Taking a historical perspective, there may be a need to acknowledge that Ireland has still to abandon vestiges of using state consumption as an instrument of social policy (best exemplified in the decades when subsidies were paid to protected industries) and shift more deliberately to providing social protection through protecting workers rather than jobs.

On the other hand, people who think that higher public social spending will only compound an already significant erosion of the economy's cost competitiveness need to be convinced that there are direct and positive economic consequences from improving social protection in several areas. For example:

- a) Eliminating childhood poverty will enable children to benefit more from schooling, increase their employability and productivity when they reach working-age and reduce spending on means-tested social benefits on their behalf when they are adults;
- b) Stemming educational disadvantage, among young people and the adult population, will increase people's employability and productivity and strengthen their attachment to the world of work;
- c) Tackling social exclusion effectively adds new groups to the demand for education and increases their mobility within the world of work (for example, ensuring that the low-skilled migrants of today do not become the welfare-dependants of tomorrow);
- d) Services which support people in their caring responsibilities for family members (childcare, eldercare, etc.) help them maintain an attachment to the workforce and avoid long absences from it during which their skills deteriorate;
- e) Reforms in pension arrangements could remove the obligation and incentives for some people to retire even when they are able to and willing to continue working, improve the public return on tax expenditures, and ease the pressure on occupational pension schemes;
- f) High standards in public health care and educational systems increase worker productivity and reduce workplace absences on the part of those who have only public services on which to rely.

It is important to accept that the organisation of the economy is not a value-free or pre-social zone, and that successful economic performance is not prior to, or independent of, social progress. Rather, in how people earn their livelihoods, the quality of a society is already largely determined. Several of the major improvements in social protection now required to address peoples' needs more effectively will also prove to be economic assets and contribute directly to 'reinventing the economy'.

# 3

## Social Protection in Ireland: A Hybrid System

### 3.1 Introduction

Expressed at its simplest, social protection is about the cover against adverse living circumstances that members of a society are willing to extend to each other and which they expect of each other. It is provided largely but not exclusively by the State; it takes the form of income transfers and services, and is about prevention as well as cure.

The hybrid nature of Ireland's arrangements for providing social protection is one reason why it is difficult to identify a particularly Irish pattern in how its population is being, respectively, incentivised and supported to take part in the country's increasingly internationalised economy. By contrast, authors have been able to see clearer patterns in how, for example, Denmark and the Netherlands have combined adaptability to a changing economic environment with solidaristic welfare systems (Madsen, 2002, 1999; Visser and Hemerijck, 2001, 1997). 'Hybrid' usually refers to Ireland's mix of means-tested, insurance-based and universalist income support and service arrangements. However, it can also be taken to apply to the constellation of actors necessarily and currently involved in providing services that are key to social protection, from self-employed family doctors through not-for-profit church organisations to salaried public employees. Ireland is a good example of how 'historical contingency, internal heterogeneity and innovative hybridisation' (Zeitlin and Trubeck, 2003: 14) have produced a 'mongrel' welfare system of mixed parentage. This may, in fact, be proving more robust in adapting to globalisation and shifts in values than purebred 'pedigree specimens' of welfare states with more accentuated regime characteristics (Crouch, 2001). On the one hand, it should be acknowledged that describing it as a 'system' risks implying the ensemble has more internal logic than is the case. On the other hand, it is possible that the resilience and capacity to adjust which it has demonstrated might not have been forthcoming if it were a welfare state with more defined characteristics.

## 3.2 The ‘Welfare Society’ and the Welfare State

Most social protection in advanced industrial societies is organised through the State. However, the nature and manner of State interventions have always to be viewed in the context of how other, non-State pillars of social protection are performing and developing, viz., the family, not-for-profit associations in civil society, and the market. Seeking to chart a course for the welfare State, therefore, is also, in part, an exercise in trying to understand what is happening to the family, to civil society and the extent to which the market is being led by regulation, incentives and voluntary codes to deliver social protection. While the primary focus of this paper remains the State and public policy, these need to be placed within the broader context of changes in Ireland’s ‘welfare society’.

### 3.2.1 The family

When large numbers of women remained in the home, the family was arguably the single most important pillar of Ireland’s national system of social protection. In a large number of instances, the care of young children, older people and other household members with special needs hinged around the full-time presence of a fit and capable household member, usually a woman. Relatively residual roles were played by the State and organisations in civil society, and an even lesser one by commercial bodies. The rise in women’s employment rates from the 1970s onwards began to weaken this pillar of caring and, during the 1990s, the rates jumped further<sup>1</sup> to open a significant deficit between the diminished capacity of families to provide care and the development of new caring capacity on the part of the state, not-for-profit bodies and commercial interests. Changes in the location and cost of housing have also placed new constraints on the caring capacity of the family; the option to live within easy travel time of elderly parents has diminished, while urbanisation has reduced the number of households in a position to build a ‘granny flat’ or adjacent bungalow for the older generation. A steady rise in lone parent households has increased the instances where, if household income is to be earned, support for children has to be forthcoming to the family from another pillar.<sup>2</sup> By the year 2000, one third of all births in Ireland were to single mothers (ESRI, 2004).<sup>3</sup>

Demographic changes have also added to pressures on the caring role of the family. Parents and people with severe disabilities are living longer, while smaller family sizes mean people have fewer siblings with whom to share arrangements for ensuring their aged relatives living alone or in care receive family attention. The number of households in which a person aged 70 or over is living alone is increasing steadily, a growing proportion of whom also need support to assist their independent living.<sup>4</sup>

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1. In the eight years prior to 1994, women’s participation rate (ILO basis) in Ireland rose by four percentage points; in the eight years after 1994, it rose by ten percentage points.

2. In the 2002 Census, 10.2 per cent of all private households were composed of a lone parent and children and no other adult, up from 8.8 per cent in the 1991 Census.

3. It was 15.5 per cent in 1991.

4. Private households composed of one person aged 70 or over living alone increased by 26 per cent between 1991 and 2002; one third of all people aged over 70 were living on their own in 2002 (up from 29 per cent in 1991).

In a separate development, the proportions of Irish households formed of couples without children and of people under 65 living on their own are rising sharply. These two categories of household grew the fastest during the 1990s; their combined share of all private households rose by 6 percentage points between 1991 and 2002 to reach 29 per cent.<sup>5</sup> This has been a contributing factor to the strong demand for housing in recent years. It may also reflect, at least in part, the higher value being placed on the individual and on independent living. While the individualisation of Irish life is occurring within and across households of every type, the growing incidence of small households is a particular reminder of the need to ensure that concepts of ‘family’, ‘household’ and ‘community’ adjust in line with the emerging realities of Irish society. For example, new types of social interaction in addition to those traditionally generated across households by their children may need to be facilitated in neighbourhoods.

The number of births has risen in recent years reflecting the growing proportion of women of child-bearing age in the population, but women are still having fewer children on average than is needed to maintain the population in the absence of immigration. The total fertility rate in Ireland remains the highest in the EU but fell rapidly to below the replacement level during the 1990s and a gap has opened between the preferred and actual family size in Ireland as in other countries.<sup>6</sup> Women are increasingly postponing the birth of their first child and the mean age of mothers at childbirth in Ireland is one of the highest in the EU; it passed 30 for the first time in 1999. The factors influencing couples to postpone childbirth or never to become parents are complex. It is clear that the provision of social protection in Ireland going forward will have to forestall a situation arising where the accumulation of difficulties in accessing housing, balancing the care of young children with employment, ensuring the security of children in their neighbourhoods and their welcome in public places, etc., would lead to the type of demographic crisis currently confronting the systems of social protection in other EU Member States.

### 3.2.2 Civil society

Since the beginning of the State in 1921, public authorities in Ireland have been able to build public social services around the multiple contributions of private-non-profit organisations. Church bodies and movements were particularly prominent in education, health and social caring. Into the 21st century, many key institutions continue to deliver social protection which are not owned by the State but receive substantial public funding while having significant degrees of autonomy. Ireland’s welfare state is not unusual in relying extensively on the involvement of non-profit organisations. For example, in the Netherlands and Belgium, many people receive publicly subsidised education, health care and social services through private institutions organised as three ideological ‘pillars’ (liberal, social democratic, Christian); in the US, a cultural mistrust of central government is reflected in strong popular support for channelling public funds through private institutions rather than state providers. However, it is noteworthy that without having had the fierce

5. 16 per cent of all private households were childless couples in 2002 (up from 12 per cent in 1991), while 13 per cent were single persons under 65 (up from 11 per cent).

6. The ‘total fertility rate’ is the number of children a woman can be expected to bear if the current age-specific fertility rates of women were to apply to her throughout her childbearing years (ages 15-49). ‘Birth rates’ are expressed as simple ratios of the number of births in a given year to each 1000 in the population.

ideological conflicts that characterised some European countries when the foundations of their welfare states were laid or as distinctive a mistrust of central government as characterises American culture, the role of private non-profit bodies in Ireland's welfare state is major by international standards.<sup>7</sup>

These bodies mobilise resources additional to what the State provides (prominent examples include the public voluntary hospitals, many secondary schools, most primary schools and multiple agencies providing services to vulnerable groups).<sup>8</sup> Significant parts of the budgets of major government departments providing social protection (Health and Children, Education and Science) are channelled through these private-non-profit institutions. In the past, their major involvement contributed to a higher level of education, health and other social outcomes that State resources alone would have procured. Change, however, has been emphatic here too.

A rapid decline in church personnel has reduced their presence in the operations of their own institutions, in some cases hastening their transformation into new types of foundations or trusts, in others occasioning retrenchment or closure. The higher levels of expertise and professional accreditation needed to provide practically every type of social protection have contributed to the emergence of a much greater role for the professional and the specialist in influencing how services are designed and delivered. A more educated and less deferential society is demanding greater transparency, accountability and impartiality on the part of all service-providers receiving public monies, including church bodies. Higher employment rates and more consumer-oriented lifestyles are reducing the time for volunteering in Irish society (partly offset by a higher general level of educational attainment, as more educated groups appear to have a higher propensity to engage in community involvement and volunteering). The cumulative impact of these changes is that this pillar of social protection has also been undergoing a major reconstitution; new types of associations have emerged (non-governmental organisations (NGOs) and local and community organisations), all non-profit institutions rely more on paid specialists than volunteers, and some church bodies have refocused their work to address more directly the needs of disadvantaged social groups.

### 3.2.3 The market

Significant commercial providers of health services, medical insurance, childcare, eldercare, schooling and other forms of social protection now exist in Ireland. Employers also provide significant levels of social protection, particularly in the form of occupational pensions and by supporting the health, work/life balance and skill levels of their employees as well. For example, 20 per cent of the value of all health insurance premiums is estimated to be paid by employers as employee benefits (Department of Health and Children, 1999). Employers can also legitimately claim that the higher standards under which enterprises now operate throughout the Single Market (on health and safety, working time and work/life

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7. Their share of total employment in 1999 was the second highest (after the Netherlands and ahead of Belgium and the US) of 22 countries studied (Salamon *et al*, 1999).

8. As an example, Ireland has 63 per cent of its upper secondary students enrolled in privately managed institutions (2001) and, of these, 10 per cent are in institutions receiving more than 50 per cent of their funding from private sources. Along with Flanders (northern Belgium), Ireland was an outlier in this respect among 13 European countries studied (OECD, 2004: 162).



balance, equality legislation, etc.) have further increased the significance of occupational welfare in people's lives. Changes in the level and composition of private social expenditure (what households and employers spend), therefore, are an integral part of how a national system of social protection develops over time, though frequently a difficult one to document. As incomes rise, and in so far as people believe the choice and standards they want are not forthcoming from publicly provided services, the commercial market for social protection can be expected to get bigger. Traditionally, Ireland had a number of large employers who had well-earned reputations for providing extensive welfare arrangements to their existing and retired employees (Guinness, some banks, etc). The surge in the private sector with the economic boom of the 1990s has made the expression of social responsibility by enterprise, and the legal and financial mechanisms for encouraging it, of greater potential importance going forward. Several companies have embraced — as part of a strategy for corporate social responsibility — a proactive engagement with instances of social need, in partnership with local and community interests, seeing the advantages of tailored and innovative actions not just for disadvantaged communities and social groups but for their corporate images, and the morale and productivity of their workforces. On the other hand, more companies are limiting their liabilities in pensions, in response to advancing longevity and uncertain returns on their pension funds, by offering defined contribution rather than defined benefit schemes to new employees and ceasing to offer final salary schemes.

### 3.3 A Broad View of Social Protection

While the State is not the sole actor in providing social protection, it is the principal one and has important functions in regulating, supporting and complementing what the other pillars are doing. It alone can guarantee standards and coverage in social protection for the entire population and is expected to display resolution and flexibility in levying the necessary resources and seeing that they are used to maximum effect. In focussing on the role of the State, however, it is important to adopt a broad conception of what constitutes social interventions on its part. This is for three principal reasons.

The heart of social protection as provided by the State is frequently considered to be what it does by way of income transfers to ensure people have adequate money incomes (social security). However, access to services — in health, housing, social inclusion and other areas — is also integral to enjoying social protection and, in some instances, more important than having a higher money income. It is noteworthy, in this context, that spending on programmes tackling educational disadvantage, is typically not included in conventional definitions of social protection (such as those adopted by Eurostat and the OECD<sup>9</sup>). Yet, a growing number of social problems in advanced industrial countries require significant educational interventions if they are to be satisfactorily addressed, and the quality of mainstream educational provision is critical to minimising social risks in later

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9. See Chapter 4, footnote 6.

life.<sup>10</sup> Types of educational spending, therefore, have to be candidates in deciding the priority uses of further public funds for social protection on behalf of several groups, e.g., children, young people, the members of ethnic minority groups, lone parents. It could even be argued that *all* public spending on education up to the compulsory school leaving age<sup>11</sup> should be included in social spending. An intermediate position is adopted in this section between doing that and ignoring educational spending altogether; educational spending with the clear objective of combating social disadvantage or fostering equity (procuring inclusion) is included.

Social protection includes a lot of what is done for people who are not poor in order to prevent them falling into poverty, though it is most exemplified in programmes exclusive to people currently in poverty.<sup>12</sup> In the former, programmes are preventative and geared to keeping the number of people who become victims of adverse circumstances as low as possible (for example, child immunisation programmes, childcare). In the latter case, the State undertakes to remedy deficits that have arisen and are undermining the quality of people's lives (for example, income poverty, educational disadvantage, etc.). Social spending on preventative programmes from which the non-poor benefit frequently takes the form of tax expenditures (it is easy to 'give' money to the non-poor by reducing their tax liabilities). Tax expenditures, therefore, are included in this review. A final observation on what lies within the parameters of social protection is that it can take the form of capital spending which is creating or modernising the infrastructures (social housing, day-care centres for people with intellectual or physical disabilities, etc.) that will bring on stream a higher level and/or improved standard of services in the future.

Following on these observations, the full spectrum of interventions currently undertaken by the State for social purposes in Ireland is captured, as in a snapshot, by Table 3.1 for the year 2002. The focus is on public current spending only; a later Table (3.8) summarises the principal forms of capital spending. The Table classifies public current spending on social protection as follows:

1. **Cash transfers**, distinguishing those that are means-tested, insurance based and universal;
2. **Services**, distinguishing health, education, housing, active labour market policies, and a miscellaneous set grouped under social inclusion; and
3. **Tax Expenditures** with a social purpose (a full list is provided in Appendix Table B).<sup>13</sup>

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10. The OECD describes basic education, which it sees as continuing to completion of the senior cycle of secondary, as 'the last stage in a basic schooling system whose key objective is to ensure that young people leave education with at least the minimum qualifications required for employability and for further education and training' (OECD, 2004: 8).

11. 16 in 2005. It is 18 in some EU member states.

12. The Council of Europe has opted to develop a strategy for social cohesion rather than a strategy for social inclusion. It argues that societies have 'not only to find ways of dealing with the problems of those who find themselves excluded from society but, also, more ambitiously, to see how to build more cohesive societies in which the risks of social exclusion will be minimised.' It describes social cohesion as 'the capacity of a society to ensure the welfare of all its members, minimising disparities and avoiding polarisation'. (Council of Europe, 2004, 2000)

13. While the tax treatment of low earnings is considered by this paper to be an important part of Ireland's system of social protection and discussed in the text, no attempt is made to cost it for inclusion in the Table.

Table 3.1 Public Current Expenditure On Social Protection In Ireland, 2002<sup>1</sup>

Form of Social Protection	Public Expenditure 2002 (€m)	Govt Dept
<b>1. Cash transfers</b>		
Social assistance payments <sup>2</sup>	3,217.4	DSFA
Social insurance payments <sup>2</sup>	4,066.0	DSFA
Child Benefit <sup>2</sup>	1,463.0	DSFA
Maintenance Grants Schemes for Post Leaving Certificate and Third Level students <sup>3</sup>	132.0	DES
<b>2. Services</b>		
<b>Health</b>		
Community Protection Programme <sup>4</sup>	275.2	DHC
General Hospital Programme <sup>5</sup>	3,661.6	DHC
Drugs Payment Scheme <sup>6</sup>	192.4	DHC
Long Term Illness Scheme <sup>7</sup>	61.6	DHC
Pre-school support services	19.5	DHC
Family planning and pregnancy counselling	12.6	DHC
General Medical Services Scheme (Medical Card holders) <sup>8</sup>	877.5	DHC
Dental, Ophthalmic and Aural Services <sup>9</sup>	149.0	DHC
Home Help and Meals-on-wheels Services <sup>10</sup>	104.0	DHC
Welfare homes for older people <sup>11</sup>	71.6	DHC
Contributions to patients in private nursing homes	121.3	DHC
Diagnosis, care and prevention of mental illness <sup>12</sup>	563.7	DHC
Disability Programme <sup>13</sup>	962.9	DHC
Domiciliary care allowances for children with disabilities	32.6	DHC
Boarding out of children & other childcare services including residential care	281.7	DHC
Home nursing services	75.2	DHC
Grants to Voluntary Welfare Agencies	63.8	DHC
<b>Education</b>		
Learning Support/ Resource Teachers <sup>14</sup>	190.0	DES
Special Needs Assistants <sup>14</sup>	104.7	DES
Free School Transport	96.0	DES

Form of Social Protection	Public Expenditure 2002 (€m)	Govt Dept
National Educational Psychological Service	11.1	DES
Educational disadvantage schemes for schools <sup>55</sup>	43.3	DES
Alleviation of Disadvantage at Third Level <sup>16</sup>	24.0	DES
Adult Literacy	16.4	DES
<b>Housing</b>		
Local Authority Housing <sup>17</sup>	59.8	DELG
Accommodation for Homeless/Travellers	47.5	DELG
Subsidies to Rent on Voluntary & other Housing	17.8	DELG
<b>Active Labour Market Policies</b>		
FÁS Training and Integration Supports <sup>18</sup>	199.7	DETE
FÁS Employment Programmes	408.7	DETE
Youthreach	34.1	DES
Vocational Training Opportunities Scheme	48.5	DES
<b>Social Inclusion</b>		
Local Development/ Social Inclusion Measures, Drugs Initiative	63.8	DCRGA
Grants for Community and Voluntary Service	30.5	DCRGA
Information, advocacy services for vulnerable individuals, groups and areas <sup>19</sup>	44.4	various
Childcare	35.0	DJELR
Centres for Young Offenders <sup>20</sup>	23.4	DES
Asylum Seekers' Accommodation	83.8	DJELR
Refugee and Asylum Seekers - Reception, Processing, Legal Aid, etc.	45.7	DJELR
Probation and Welfare Services, Educational Services	29.7	DJELR
Free Legal Aid	17.6	DJELR
Free schemes <sup>21</sup>	215.6	DSFA
Information, advocacy services for general population <sup>22</sup>	20.9	various
<b>3. Tax Expenditures<sup>23</sup></b>		
Tax expenditures on private pension provision	2,544.5	DF
Tax expenditures on private health insurance & expenses	129.1	DF
Other tax expenditures for social purposes	524.0	DF

## Notes

1. Only expenditures of €10m and over are recorded. All figures are rounded to one decimal point. Unless otherwise stated, costs are from the *Revised Estimates for Public Services 2003*.
2. Source: *Statistical Information on Social Welfare Services, 2002*. The Social Assistance and Insurance totals are net of administration costs and the free schemes (with the exception of the Fuel Allowance, see note 21).
3. Department of Education and Science, *Annual Report 2002*.
4. This includes prevention of infectious disease, child health examination, food hygiene and standards, health promotion, and other preventative services.
5. Regardless of income, people ordinarily resident in the state and certain visitors to Ireland are entitled to maintenance and treatment in the public wards of health board and public voluntary hospitals (net of a maximum annual amount a person can pay), to specialist out-patient services at public clinics and to attendance and treatment at A & E Departments (net of a set charge). The cost figure includes ambulance services (€78.8m) but is net of charges recouped by hospitals for maintenance in private and semi-private accommodation (€139.9m).
6. Under the Drugs Repayment Scheme persons without a medical card may for apply for a refund of monthly expenditure on prescribed medicines in excess of a set amount.
7. On approval by Health Boards, persons who suffer from a scheduled illness are entitled to receive, without charge and irrespective of income, necessary drugs, medicines and appliances under the Long Term Illness Scheme.
8. The General Medical Services Scheme covers the costs of services supplied by General Practitioners and Pharmacists (including the cost of prescribed drugs, medicines and appliances) to holders of a medical card.
9. Adult medical card-holders are entitled to free dental, ophthalmic and aural services, but so are those who acquired Hepatitis C from contaminated blood products and all pre-school and primary school children referred from the child or school health services.
10. These are potentially available to anyone, depending on the availability of personnel and allocation of resources by Health Boards but charges borne by the user differ widely — medical card holders may receive them free or be asked for a contribution, while people without a card may have to pay their full cost (with the Health Board assuming employer liabilities).
11. Also known as Extended Care or Community Nursing Units. These are institutions run by the Health Boards that provide accommodation for older people who are in need of care for medical or other reasons. In general, people are expected to pay what money they have, except for a small weekly sum retained for personal expenses.
12. The Mental Health Programme of the Department of Health and Children.
13. It encompasses the care of persons with intellectual disabilities (in special homes, psychiatric hospitals, and day centres); the assessment and care of the visually impaired, of the hearing impaired and of people otherwise disabled; rehabilitation services. An estimated 360,000 people in Ireland live with a disability.
14. The DES *Annual Report 2002* identifies the separate costs of providing these teachers and assistants.
15. Special assistance for schools in disadvantaged areas (*Giving Children an Even Break Programme*, €11.6m), aids towards costs of school books (€3.7m); aids for educating children of migrant workers and refugees (€1.8m); equipment for special education (€1.8m). Special initiatives for disadvantaged pupils at Secondary Level (€12.0); School Retention Initiative (€6.2m); school books (€6.2m).
16. Access Fund only. Maintenance grants are recorded separately.
17. Total current expenditure on local authority stock (€221.6m) less rental income (€161.8m). *Annual Housing Statistics Bulletin 2003*.
18. Included €79.9 from National Training Fund for training people for employment.
19. Money Advice and Budgeting Service (MABS) (€9.3m), Family Services DSFA (€9.1m), Combat Poverty Agency (CPA) (€4.8m), Equality Authority (€4.5m), Information Society — Community Initiative (€4.2m), National Disability Authority (NDA) (€3.7m), Status of People with Disabilities (€2.8m), Anti-Racism Campaign and National Consultative Committee on Racism and Interculturalism (NCCRI) (€2.6), ODEI (€1.6m), Western Development Commission (€1.4m) and HRC (€0.6m).
20. These five special schools will become known as Children Detention Schools following implementation of the Children's Act, 2001.
21. Free Travel on public transport for all pensioners and certain social welfare recipients. The Free Electricity Allowance, Free Bottled Gas, Free Natural Gas, Free TV License and Free Telephone Rental are paid to qualifying households as credits off their bills. As the Fuel Allowance is a cash supplement to welfare payments, it is included in the total for Social Assistance payments.
22. Comhairle (€14.4m), Gender mainstreaming (DJELR, \$6.5m).
23. See Appendix 3.B. All figures are for tax year 1999/2000.

In effect, the Table encompasses practically the entire current expenditure of two government departments (Social and Family Affairs, and Health and Children)<sup>14</sup>, and varying parts of the spending of five others (Education and Science; Justice, Equality and Law Reform; Finance; Community, Gaeltacht and Rural Affairs; Environment, Heritage and Local Government). The Table allows the relative weights of the component elements of social protection to emerge clearly, and conveys the complexity of the challenge entailed in identifying priorities for allocating additional resources, as they become available, to improving social protection. The spread of government departments involved also prepares us for the emphasis that will emerge in later chapters on the importance of joined-up government if resources are to be used effectively and complexity, duplication and imbalances in meeting the needs of the same individuals, families and communities are to be reduced to the extent possible.

## 3.4 Income Support Arrangements

### 3.4.1 An Overview

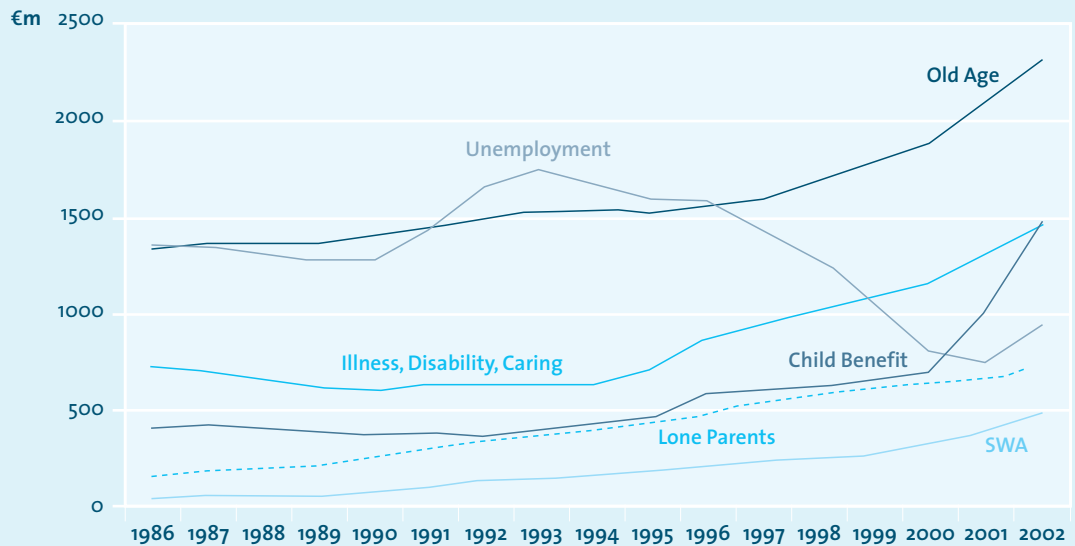
Public spending on cash transfers (social assistance and social insurance payments, and child benefit) rose by 90 per cent in real terms between 1986 and 2002. Savings due to falling numbers claiming unemployment compensation, fewer dependants on average to each welfare recipient and fewer children in the population were more than offset by rising payment rates on all schemes, a growing number of pensioners, larger numbers of people in receipt of disability and one-parent family payments, and wholly new forms of coverage (principally, carers and in-work supports).

When the level of total spending on cash transfers is decomposed into six major programmes<sup>15</sup>, what is driving growth in spending on income support appears clearly (Chart 3.1). Spending on unemployment compensation peaked in 1993, after which major savings were recorded under this heading until 2001 when a slight increase took place. Spending on Illness, Disability and Caring has been moving steadily upwards since 1994, largely because of the introduction and steady improvement in the Carer's Allowance and a large increase in the number of recipients of the Disability Allowance. Spending on social welfare pensions began to trend swiftly upwards after 1997, reflecting principally increases in payment rates rather than any large increase (yet) in their numbers; the increase in rates has been fuelled by the growing proportion of pensioners becoming entitled to the (slightly) higher contributory pension. The significant hike in Child Benefit in the Budgets of 2001 and 2002 also make an impact on the chart, rising by €800m in those two years. Trends in spending on the other programmes are less dramatic but, nevertheless, significant. Spending on lone parents has been the most

14. Social and Family Affairs as given in *Statistical Information on Social Welfare Services, 2002*; Health and Children as given in the Department's itemised Programme Expenditure (the General Supports Programme reflecting some 4-5 per cent of Departmental spending is excluded).

15. Over the long time period in question, the Department of Social and Family Affairs has reclassified some social welfare payments across programmes, created new payments and added a new programme (Employment Supports). The six 'programmes' on which this Chart is based are simplified to allow for these changes. See Appendix 3.A.

Chart 3.1 Real Expenditure on Social Welfare, Selected Programmes, 1986–2002 (€m)



Source: Statistical Information on Social Welfare Services, NESC calculations.  
Note: 2002 prices.

consistently but slowly growing programme across the entire period, while expenditure on Supplementary Welfare also trends upwards with an acceleration after 2000 caused by the growing recourse to supplementary rent allowance.

To advance further in understanding what is constant and what is shifting in the demand for social welfare payments, changes in the numbers and composition of the people depending on them at either end of the decade, 1993–2002, are analysed in the following section.

### 3.4.2 Social Assistance and Social Insurance Payments

#### Social Assistance

Over the ten-year period, 1993–2002, the total number of people dependent on means-tested social assistance (recipients along with their adult and child dependants) fell in absolute numbers by 11 per cent and, as a proportion of the total population, from 24.6 per cent to approximately 20 per cent (Table 3.2). The composition of the population dependent on means-testing changed more markedly. In 1993, it was dominated by the beneficiaries of Unemployment Assistance (51 per cent), while a further 14 per cent were beneficiaries of the Non-Contributory Old Age Pension, 11 per cent of Lone Parent schemes,<sup>16</sup> 4.6 per cent of the Family Income Supplement and 4.4 per cent of the Disabled Persons Maintenance Allowance (the precursor of Disability Allowance). By 2002, only 16 per cent of the means-tested population were the beneficiaries of Unemployment Assistance.

The dominant programme had become the One-Parent Family Payment, which accounted for 27 per cent of the means-tested population; 13.5 per cent were receiving the Family Income Supplement or benefiting from one of three other programmes that had joined it under the generic title of ‘Employment Supports’,<sup>17</sup> while the Non-contributory Old Age Pension and Disability Allowance accounted for a further 12 per cent and 11 per cent respectively.

Innovations in Social Assistance underlie some of these shifts in composition. In 1993, an Employment Support Service was established inside the Department of Social Welfare to adopt a more proactive approach to providing additional support measures for long-term welfare recipients to access employment. Since then, a significant set of employment supports developed that increased the financial incentive to move from receipt of a means-tested welfare payment into employment<sup>18</sup>. These still account for only a small part of the total social welfare budget (2.8 per cent in 2002), albeit a major increase on 1993 when only 0.45 per cent was devoted to employment supports. The other significant extension of the means-tested system occurred in 1990, viz., the introduction of the Carer’s Allowance. Its impact is recorded in the Table, rising from just under 1 per cent of the means-tested population in 1993 to 5 per cent in 2002.

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16. In 1993, these were the Lone Parent’s Allowance (unmarried parent, separated spouse, widowed, prisoners’ spouse), Deserted Wife’s Allowance and Prisoner’s Wife’s Allowance.

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17. Principally the Back to Work Allowance with smaller numbers on the Back to Education Allowance and Back to Work Enterprise Allowance.

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18. The Family Income Supplement is an earnings subsidy to low-paid workers rearing children - it was introduced in 1984 and made significantly more generous in 1998 when the basis of calculation switched from gross to net earnings. The Back to Work Allowance Scheme, introduced in 1993, allows people to retain a proportion of their welfare payment, which declines over a three-year period, with their earnings from employment (there is a more generous version for people entering self-employment); in addition, at low earnings they retain their secondary benefits (rent supplement, medical card, fuel allowance, Christmas bonus, etc.). The Back to Education Allowance, introduced in 1996, enables people to pursue full- or part-time education courses at second, further or third level and to receive a non-means-tested allowance in lieu of their former welfare payment and to retain secondary benefits. Finally, when payments to lone parents were reorganised in 1997, a relatively generous earnings disregard was introduced (its generosity, however, has steadily eroded through not through not being adjusted).



Table 3.2 Population Dependent on Social Assistance and Social Insurance, 1993 and 2002

Payment Type	1993 <sup>1</sup>		Payment Type	2002 <sup>2</sup>	
	Beneficiaries	Share of All Assistance		Beneficiaries	Share of All Assistance
<b>Assistance</b>			<b>Assistance</b>		
Old Age Pension (non-contributory)	121,908	13.9	Old Age Pension (non-contributory)	92,563	11.9
Pre-Retirement Allowance	27,147	3.1	Pre-Retirement Allowance	17,086	2.2
Widow's Pension (non-contributory)	18,881	2.2	Widow/er's Pension (non-contributory)	16,318	2.1
Deserted Wife's Allowance <sup>3</sup>	2,059	0.2	Deserted Wife's Allowance <sup>3</sup>	1,584	0.2
Lone Parent's Allowance	95,611	10.9	One-Parent Family Payment	206,241	26.5
Orphan's Pension (non-contributory)	223	0.0	Orphan's Pension (non-contributory)	1,328	0.2
Disabled Person's Maintenance Allowance	38,643	4.4	Disability Allowance	83,562	10.8
			Blind Pension	2,668	0.3
Carer's Allowance	7,581	0.9	Carer's Allowance	38,931	5.0
Unemployment Assistance	448,614	51.3	Unemployment Assistance	125,959	16.2
Family Income Supplement	40,408	4.6	Family Income Supplement	38,574	5.0
			Back to Work/ Enterprise/ Education Allowances	65,857	8.5
			Part-Time Job Incentive Scheme	336	0.0
Smallholders	36,660	4.2	Farm Assist/Smallholders	22,117	2.8
Supplementary Welfare Allowance	36,600	4.2	Supplementary Welfare Allowance	63,709	8.2
Rent Allowance	866	0.1	Rent Allowance	383	0.0
<b>Total Social Assistance</b>	<b>875,201</b>	<b>100</b>	<b>Total Social Assistance</b>	<b>777,216</b>	<b>100</b>
As per cent of population <sup>4</sup>	24.6%		As per cent of population	19.8%	

Continued overleaf &gt;

Table 3.2 continued

Payment Type	1993 <sup>1</sup>		Payment Type	2002 <sup>2</sup>	
	Beneficiaries	Share of All Insurance		Beneficiaries	Share of All Insurance
<b>Insurance</b>			<b>Insurance</b>		
Old Age Pension (contributory)	91,191	14.1	Old Age Pension (contributory)	131,905	18.3
Retirement Pension	80,585	12.5	Retirement Pension	109,611	15.2
Widow's Pension (contributory)	99,646	15.4	Widow's Pension (contributory)	117,438	16.3
Deserted Wife's Benefit	34,943	5.4	Deserted Wife's Benefit	20,787	2.9
Maternity Benefit	3,651	0.6	Maternity Benefit	9,603	1.3
			Heath & Safety/ Adoptive Benefits	117	0.0
Orphan's Allowance (contributory)	675	0.1	Orphan's Allowance (contrib.)	1,680	0.2
Disability Benefit	98,879	15.3	Disability Benefit	106,835	14.8
Invalidity Pension	73,800	11.4	Invalidity Pension	84,144	11.7
Injury Benefit	1,658	0.3	Injury Benefit	1,536	0.2
Interim Disability Benefit	1,900	0.3	Interim Disability Benefit	707	0.1
Disablement Benefit	9,024	1.4	Disablement Benefit	12,600	1.8
Death Benefit Pension	789	0.1	Death Benefit Pension	862	0.1
			Carer's Benefit	1,351	0.2
Unemployment Benefit	149,628	23.1	Unemployment Benefit	120,322	16.7
<b>Total Social Insurance</b>	<b>646,369</b>	<b>100</b>	<b>Total Social Insurance</b>	<b>719,498</b>	<b>100</b>
As per cent of population <sup>4</sup>	18.2%		As per cent of population	18.4%	

**Notes** 1. All figures for 1993 are from *Social Statistics 1993*, with one prominent addition. In 1993, there were 30,049 recipients of the Disabled Persons Maintenance Allowance (DPMA) — the precursor to today's Disability Allowance — who received their means-tested payment from the Department of Health through the Health Boards. They are not in the statistics of the Department of Social Welfare for our base year but are included in our calculations. On 30 September 1996, the administration of the DPMA passed from the Health Boards to the Department of Social, Community and Family Affairs.

2. All figures for 2002 are from *Social Statistics 2002*.

3. Includes Prisoner's Wife's Allowance (8 in 1993, 2 in 2002).

4. National population: 3,559,068 (1993, est.); 3,917,336 (2002, Census)

The purchasing power of these payments steadily improved over the decade, by as much as 21 per cent for a single person on long-term unemployment assistance. However, as a proportion of gross average industrial earnings, the lowest social assistance payments have largely maintained the same relative position from as far back as 1987 (approximately 24 per cent). As a proportion of net average earnings, their relative position deteriorated as tax reductions on earnings were particularly significant over the period (NESC, 2003: Table 2.4). In 1999, a milestone was reached when the lowest social assistance payments reached the threshold of adequacy set by the 1986 *Commission on Social Welfare*. The Revised National Anti-Poverty Strategy (NAPS) of 2002 has set a new threshold for the lowest social assistance adult rate, viz., the achievement of a weekly €150 in 2002 terms by 2007.

There have been few general reforms discussed, much less implemented, for the system of Social Assistance as a whole since the mid-1980s (changes specific to children, people of working age and retired people are discussed separately below). Despite the case being made for the indexation of payment rates, their general adjustment continues to be part of the annual budgetary process. The case has also been made for individualising the welfare code so that it would better reflect new labour market realities by which one-and-a-half or two earners rather than one ('male breadwinner') are increasingly the support system of a household. However, while several measures give increased recognition to the autonomy of the 'adult dependant', the means-test continues to be administered on the basis of a couple's 'household' income.

### Social Insurance

As the population dependent on social assistance fell in absolute terms and as a proportion of the national population, the numbers dependent on the receipt of insurance-based payments rose by 11 per cent over the ten year period. There were some 501,000 direct recipients of these benefits in 2002 with 218,000 dependants — together constituting 18.4 per cent of the total population, little changed from the 18.2 per cent a decade earlier (1993). However, a larger share was made up of the beneficiaries of contributory pensions in 2002 than in 1993 (34 per cent as against 27 per cent); the share accounted for by the beneficiaries of unemployment benefit dropped from 23 per cent to 17 per cent. The most significant changes in recent years have been, on the contribution side, the admission of the self-employed, part-time workers, civil and public servants (recruited from 1995 onwards) and CE workers to the system.<sup>19</sup> On the expenditure side, all payment rates have increased significantly in real terms; entitlement to maternity benefit has been extended to the self-employed (not originally covered), increased in duration from 16 to 18 weeks for everyone and is to be restored to 80 per cent of reckonable earnings (it had been reduced to 70 per cent in 1984)<sup>20</sup>; a Carer's Benefit was introduced (2000) and interruptions to employment for caring and parenting are treated more sympathetically in computing individual's contribution records

19. Proof of a reasonable level of attachment to the workforce is required and considered met if part-time workers are earning in excess of €38 a week and self-employed in excess of €3,174 a year. Because these thresholds have not been raised in line with average earnings, it has become progressively easier for people with very low earnings to gain admittance to the Fund.

20. 7th Progress Report, *Sustaining Progress*, February 2005.

(via disregards and credits). The only significant tightening of eligibility has been flagged for contributory pensions after 2012, when the threshold of paid contributions establishing entitlement to some level of pension is to be doubled.

Ireland's Social Insurance Fund can fairly be described as strong on solidarity but weak in its claim to be designated 'insurance'. The income of the Fund does not cover the expected benefits to be paid on an actuarial basis, as pure insurance logic would require. (Though, when the self-employed were first brought into the scheme in 1988, their lower contribution rate was based on their restricted access to benefits.) After a threshold of individual contributions (minimum duration) and a low minimum earnings level are reached, there is little proportionate link between the cumulative value of what a person has contributed to the Fund and the payments to which he or she becomes entitled<sup>21</sup>; all pay-related features have been phased out. Solidarity, by contrast, among those who are economically active, is a strong feature of the Fund, arising from several aspects of the code governing it. In the first place, longer contribution records, after a certain threshold is reached, do not bring proportionately higher entitlements; this is an implicit transfer from workers with long careers to those with shorter ones. In second place, payments from the Fund are flat-rated although contributions are based on percentages of income (up to a ceiling); this is an implicit transfer from high-earners to low-earners. In third place, payments out attract additions for qualified adult and child dependants, a transfer - this time - from single to married people. Yet other features reinforce the nature of the Fund as solidarity rather than insurance in a true sense; for example, contributions in certain circumstances can be 'credited' rather than paid while, in other circumstances, periods outside the workforce are disregarded when it comes to computing the yearly average of contributions over a person's career.<sup>22</sup>

Notwithstanding — or because of — this major element of solidarity, there is widespread support for the central role of the Social Insurance Fund in Ireland's overall arrangements for protecting people's incomes. Even without fundamental questioning of its contributory basis (e.g., the suggestion that employee contributions to the Fund should be phased out altogether and replaced with a corresponding Exchequer subvention [McArdle and de Buitlear, 2003]), significant challenges still attach to continuing the levels and types of support it provides. In the first instance, population ageing is set to have major implications for the payment level of the contributory pension that will be sustainable in the future as the ratio of pensioner beneficiaries to current contributors steadily rises. For example, if current benefits do no more than keep pace with prices, the percentage of benefit outgo accounted for by pensions will rise to 51 per cent in 2031 and 61 per cent in 2056 from 38 per cent in 2002 (Department of Social and Family Affairs, 2002). The debate here centres on whether and how the funding of the contributory pension can be placed on a broader basis than PRSI, and on the moral case and financial mechanisms for bringing workers to ensure that they will have a supplementary pension or savings to complement their contributory old-age pension.

21. For weekly earnings below a minimum threshold (€150 in 2004), the level of payment is reduced approximately in line with earnings.

22. A survey carried out in 1999 estimated that 12.5 per cent of those receiving a contributory pension would not have qualified save for credits and that a 'significant number' were receiving a higher payment than they would otherwise have received (DSFA, 2000).

A second significant challenge to the social insurance system arises from evidence that changes in the labour market are putting identifiable groups of workers at a distinct disadvantage in building up the contribution records that secure them entitlements to adequate insurance-based payments. The rapid acceleration in women's employment rates have exposed the extent to which postponement of labour market entry or interruptions in employment for caring purposes (of young children, household members with disabilities or older persons) unduly weaken a worker's contributions record under the current social insurance code. While women with caring responsibilities are — by far — the largest single group affected, the issues raised touch on other groups as well. Early school leavers, older workers, low skilled migrant workers and people with disabilities can also experience difficulties in building up their contribution records. In their case, it can be argued that engaging in further education or training has merit as an interruption in employment during which contributions could either be credited or the time disregarded when their contributions are averaged.

### 3.4.3 Child Income Support

One universal cash payment, Child Benefit, is paid on behalf of over one million children (2002). It has acquired a more major profile since Budget 2001 when a significant hike in its value was initiated. By 2002, expenditure on Child Benefit accounted for some 15 per cent of total social welfare expenditure, as against 6 per cent a decade earlier (1993). As early as 1994, however, a major shift began in the structure of State income support to children. A larger than normal increase in universal monthly Child Benefit was partly funded by not extending the general increase in social welfare payments to the weekly Child Dependant Allowances (supplements to weekly social welfare payments in recognition of child dependants, or CDAs). This had first been done in 1986 but, in 1994, the CDAs were frozen on an on-going basis (an intention to balance this with a targeted Child Benefit Supplement was not proceeded with). By 2002, the monthly rates of Child Benefit were 4.6 (lower rate) to 5.0 times (higher rate) higher in nominal terms than in 1993, whereas the weekly rate of CDAs were relatively unchanged. As Table 3.3 shows, the impact on the composition of State income support to children over a ten-year period has been remarkable. There has been a fundamental shift in the structure of income support provided children in low-income households.

**Table 3.3 Child-contingent State Income Support:  
Number of Child Beneficiaries and Expenditure Totals,  
1993 and 2002**

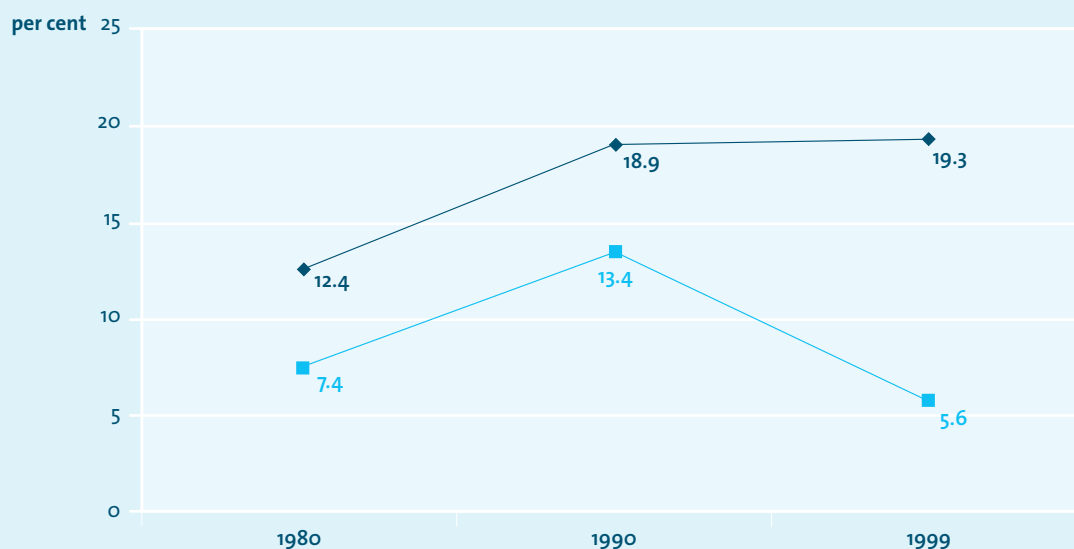
Payment Type		1993	2002	2002/ 1993
Child Benefit	Children benefiting	1,074,735	1,019,551	0.95
	Rate (€monthly, 1st child)	25.40	117.6	4.63
	Total Expenditure (€m)	293.8	1,462.8	4.98
Child Dependant Allowances	Children benefiting <sup>1</sup>	489,886	405,158	0.87
	Rate (€ weekly)	16.30	16.80	1.03
	Total Expenditure (€m) <sup>2</sup>	363.4	322.8	0.85
Family Income Supplement	Children benefiting <sup>3</sup>	30,803	26,531	0.86
	Total Expenditure (€m)	20.9	42.4	2.03
<b>Total Children</b>		<b>1,595,424</b>	<b>1,451,240</b>	<b>0.92</b>
<b>Total Expenditure (€m)</b>		<b>678.1</b>	<b>1,828.08</b>	<b>2.66</b>
... as per cent of total DSFA expenditure		14.7%	19.2%	

**Source** Department of Social and Family Affairs

- Notes**
1. Full-rate and half-rate Child Dependant Allowances are aggregated to capture the total number of children receiving support through them. The child dependants of the precursor to Disability Allowance, i.e. the Health Board's Disabled Person's Maintenance Allowance (DPMA), are included in the 1993 figure.
  2. Expenditure on CDAs is not recorded separately in the DSFA's annual report, *Statistical Information on Social Welfare Services*. The figures are Secretariat calculations, based on a 53-week year (i.e., including the 'Christmas bonus').
  3. The number of Child Beneficiaries of FIS is estimated by the DSFA.
  4. This expresses the ratio of the total number of equivalent full-rate CDAs (two half-rate CDAs are counted as one full-rate) to the total number of (adult) recipients of a weekly social welfare payment. FIS is not included. DPMA recipients and child dependants are included in the 1993 calculation.

In 1993, expenditure on CDAs was 25 per cent greater than expenditure on Child Benefit while, ten years later, expenditure on Child Benefit was nearly five times greater than expenditure on CDAs. The number of children benefiting from Child Benefit declined by 5 per cent over the 10-year period and by 13 per cent in the case of CDAs. The proportion of the total child income support that a welfare-dependent, unemployed parent receives for a child through monthly Child Benefit increased from 26 per cent to 63 per cent between 1993 and 2002; conversely, the proportion received as a CDA supplementing their weekly welfare payment fell from 74 per cent to 37 per cent. Expenditure on the Family Income Supplement (FIS, a subsidy to low wage earners with child dependants) doubled over the ten years, though the number of children benefiting declined by 14 per cent. A major revamping of the FIS was completed in 1998 when the basis for its calculation was switched to net from gross income.

Chart 3.2 Unemployment and Benefit Reciprocity Rates, Ireland – 1980, 1990 and 1999



Source OECD (2003)

Other more minor changes in income supports for children have accompanied these major developments. The different rates at which CDAs were paid have been rationalised. A Back to School Clothing and Footwear Allowance was introduced in 1990 (replacing two older schemes) which, by 2002, was benefiting some 172,000 children in low-income families at a cost of €15.2m. The higher rate of Child Benefit has been paid to progressively smaller families<sup>23</sup>, to older children engaged in full time education or training and at a premium rate for twins. The period of payment of Maternity and Adoptive Benefits out of the Social Insurance Fund was extended by 4 weeks to 18 weeks in 2001. The tax code also plays a role in providing child-contingent income support and is considered in section 3.7 below.

#### 3.4.4 People of working age

An important perspective on developments in income support to people of working age is provided by consideration of Ireland's 'benefit dependency rate'. As used by the OECD, this expresses the proportion of people of working age who receive a public income-replacement benefit (OECD, 2003b: 174).<sup>24</sup> During the 1980s in Ireland, the proportion of people of working age in receipt of any type of weekly social welfare payment increased from 12.4 per cent to nearly 19 per cent (Chart 3.2), driven by the rise in the unemployment rate from 7.4 per cent to 13.4 per cent. During the 1990s, however, Ireland's unemployment rate fell to 5.6 per cent, below its 1980 level, but the proportion of people of working age in receipt of a weekly social welfare payment did not decline and even inched upwards.

23. In 1988, only a 6th and subsequent children attracted the higher payment — by 1994, it was being paid for a 3rd and subsequent children.

24. 'Benefit reciprocity rate' may be a more neutral term. The OECD classifies the welfare payments to which people of working age can be entitled into eight types: those tailored to older workers; survivors (widows and orphans schemes); sickness; disability; maternity and parental; care and labour market leave; lone parent and non-categorical social assistance; unemployment.

Behind this apparent puzzle is the profound change in the composition of the working age population who receive social welfare, to which Table 3.2 already drew attention. During the 1980s, the number and composition of people of *working-age* in receipt of social welfare (thus, excluding pensioners) was overwhelmingly driven by growth in the numbers of people receiving unemployment assistance or benefit. By 1990, these were as numerous as all the working-age recipients of other types of benefit put together (lone parents, disability, carers, pre-retirement, supplementary welfare). During the 1990s, however, a large reduction in the numbers being compensated for their unemployment was more than offset by an increase in the numbers receiving these other types of social welfare, in particular, the one parent family payment and disability allowance. By the year 2000, the recipients of these last two payments alone outnumbered those being compensated for unemployment. It is significant that growth in their numbers has been a constant over the two decades. When a significant fall in unemployment took place, it was sufficient for the numbers in receipt of the one parent family payment and disability allowance to *continue growing at a slightly lesser pace* for their combined influence to more than compensate for the fall in unemployment.

These two observations — of relative stability in the proportion of the population of working age receiving social welfare during Ireland’s economic boom and of profound change in its composition — are evidence of important social trends and present a major challenge to Ireland’s current arrangements for administering social welfare. Different interpretations of this challenge will be provided in Chapter 6 below where these developments in Ireland are compared with those of other countries.

There have also been some notable innovations in how the programmes are delivered. An important milestone was the eradication from the social welfare code of discrimination against married women. Tentative steps have also been taken towards a degree of individualisation in the code (e.g., couples can split their main payment and adult allowance for certain payments, the benefit and privilege rule has been eased). The most sustained development, however, has been the spread of measures designed to increase the attractiveness of holding employment (see footnote 18 above). The referral process introduced in the context of Ireland’s employment action plan is particularly significant here.<sup>25</sup> Under this, individuals crossing a threshold of duration on the Live Register are referred by the Department of Social and Family Affairs to the Public Employment Service (FÁS) for interview. Starting in 1998, individuals aged under 25 and crossing a 6-month threshold on the Live Register were referred for interview; by 2000, the process had extended to embrace all 20-54 year olds crossing a 9-month threshold. The main departure from this emphasis on encouraging employment was the introduction of the Carer’s Allowance in 1990 and its rapid consolidation over the ten years as a major contingency-based payment.

The disincentive effect of benefit withdrawal continues to be a serious concern. In the worst case, heads of households who leave welfare for work find that their money incomes net of tax, work-related expenses and newly acquired exposure to different charges (medical expenses, higher rent, bin charge, etc.) are lower than

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25. For example, *OECD Employment Outlook*, 2003: 204.



they when they were reliant on social welfare and had a living standard protected by secondary benefits as well as tax-exempt transfer incomes. Such ‘poverty traps’ were extensively investigated in earlier years (e.g., Expert Working Group, 1996) and several measures taken to reduce them (e.g., the decision to freeze CDAs and rely on higher CB instead, placing the calculation of FIS on a net rather than gross income basis, allowing the retention of secondary benefits on a tapering basis to categories of former welfare recipient). However, significant disincentive effects have crept back in. For example:

- ◆ As access to local authority housing became more strictly rationed and rents in the private rental sector rose, more people on social welfare have had recourse to the supplementary rent supplement. However, entitlement to it is confined to those in receipt of social welfare and lost on taking employment.
- ◆ The income threshold eligibility for the medical card has not kept pace with the growth in earnings. As a result, the medical card is held by fewer and fewer people on low earnings and increasingly associated with welfare dependency. The going rate for consulting a GP and the capped charges that govern access to public health services have risen (more below), making the loss of the medical card a significant deterrent to leaving welfare for work.
- ◆ The different earnings disregards designed to provide people leaving welfare with a financial cushion to cover back-to-work expenses have not been raised to reflect the growth in either costs or general earnings levels. For example, on earnings up to €293 a week, lone parents can retain some of their former welfare payments.<sup>26</sup> This level of disregards corresponded to 80 per cent of Gross Average Industrial Earnings (GAIE) when it was first introduced (1997) but to 55 per cent of GAIE by 2003; as general earnings rose, the level of the earnings disregard was not adjusted. If its level had been indexed to the rapidly escalating costs of childcare over the period (a back-to-work expense to which lone parents are particularly prone), the earnings disregard would have been raised substantially.<sup>27</sup>
- ◆ The attempt to buttress the living standards of people on disability benefits by extending ‘Free Schemes’ originally designed for pensioners to them also has unambiguously benefited persons with no employment potential or interest in rejoining the workforce. However, it has also created a disincentive for those among them who would like to do so, even in a partial capacity, as their entitlement to the ‘Free Schemes’ is conditional on their remaining outside the workforce (DSFA, 2003). Similarly, seeking to target training or employment programmes on people with long durations on social welfare, where the programmes in question are seen to be desirable, has created an incentive to remain longer on welfare in order to ‘qualify’.

These are aspects of Ireland’s social welfare code which suggest it is still not ‘employment friendly’ for a significant number of people. The code itself may be

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26. The first €146.50 is completely disregarded; half of the next €146.50 is assessed as means and deducted from the welfare payment on a euro for euro basis.

27. In similar fashion, the gross income level at which all entitlement to supplementary rent allowance — and all entitlement to secondary benefits for a lone parent in employment — is lost was £250 a week in 1992, approximately equal to GAIE at the time. This has not been raised since, with the result that — by 2003 — this support extended only to those earning less than 60 per cent of GAIE. People going back to work under the BTWA, however, retain a tapering portion of their rent allowance over a 3-year period.

contributing to the duration of welfare receipt, by fostering the scenario of ‘once in, hard out’ (altogether different from the scenario of a ‘cushioned life’ on welfare for which the evidence on the composition of the population in consistent poverty is to the contrary (CSO, 2005). They point to the need to strengthen and make more systematic procedures which rigorously monitor and redress high benefit withdrawal rates.

Re-emerging benefit withdrawal traps, however, are probably secondary in accounting for long durations of welfare receipt by people of working age to deeper issues such as the very contingency basis to their payments. These encourage people to see an aspect of their current situation (being a lone parent, having an illness or disability, being aged over 55, being out of work a long time) as a disadvantage confirming their inability to be self-reliant and yet to adhere to it as their guarantee of a secure income (discussed further in 6.3 below). Most social assistance payments are of an indefinite duration and the evidence is disturbing that significant numbers of recipients are, effectively, ‘parked’ on them. For example, the average duration of receipt of the One Parent Family Payment was of 6 to 8 years (2003); 48 per cent of the recipients of Disability Benefit in 2002 — intended as a short-term payment — were in receipt of the payment for more than 1 year, over 16 per cent for 5 years and 8 per cent for more than 10 years (2002); significant numbers receiving Supplementary Welfare Allowance (the emergency payment of last resort) because of sickness were claiming it for more than a year and some for more than 5 years (2002).<sup>28</sup>

A second fundamental issue is the erosion of self-confidence and self-esteem that can result from struggling to live on a low income over a long period of time. The evidence is that social welfare payments are critical to low income groups, frequently constituting almost the entire income of the poorest households (CSO, 2005). This is not only a challenge to raise the level of social welfare payments (discussed in 4.4.2 below) but to improve the design of the system which delivers them and to integrate it more with access to services. The evidence on the extent and severity of low incomes is also a reminder that many people on social welfare should not be assumed to be in a strong position to compete for employment or succeed in training and educational programmes. Many of them may be struggling with debt, poor health and low self-esteem. A third fundamental issue is the operation of the household means-test which can make spouses/partners unwilling to exploit new opportunities in the labour market and assume the role of secondary earners, despite the fact that the diversity of employment opportunities (by hours, type of contract, location, level of skills required, etc.) has steadily widened.

In summary to this section, some insufficiently adverted to trends are a major part of the new context inviting a major re-appraisal of how social assistance payments serve people of working age in Ireland today. Welfare receipt on the part of people of working age did not decline despite the dramatic expansion in employment and fall in unemployment, but the composition of their welfare payments altered in a major way and receipt is of extremely long duration for a significant number of people. The directions that responses to these issues should take are discussed further in chapters 6 and 7 below

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28. DSFA sources — One Parent durations for 2003, Disability Allowance durations for 2002 .

### 3.4.5 Pensions

At the opposite end of the life cycle to children, significant changes have also occurred in pensions over the period under consideration. The hybrid nature of Ireland's welfare state is particularly evident in its core arrangements for providing pensions. The state takes direct responsibility for setting a floor to pensioners' incomes and alleviating poverty among them; it takes only indirect responsibility for shielding people from a drop in their accustomed living standards on retirement (income replacement). Ireland, in fact, is the only EU 15 Member State with no mandatory, income-related state pension scheme (*Joint Report by the Commission and the Council on Adequate and Sustainable Pensions*, 2003: 41). It relies, instead, on regulation and the provision of subsidies in the form of tax expenditures to promote the voluntary provision and take-up of supplementary private sector occupational and/or personal pensions.

The floor to pensioners' incomes is provided by social welfare pensions, viz., the Old Age Non-Contributory Pension (OANCP) and the Retirement and Old Age Contributory Pensions.<sup>29</sup> OANCP is potentially available to anyone in the state but on the basis of a means-test; this disregards the value of the pensioner's own home and a first €12,700 (2004) in savings but income from other property and savings above that threshold reduce the payment. Practically every person in employment is obliged to contribute to the Social Insurance Fund so as to become eligible for a non-means tested Retirement or Old Age Contributory Pension, the payments of which are not affected by other income. These payments, however, are flat rated, reflecting their 'poverty prevention' objective rather than an 'income replacement' one. As a result, only low-paid workers in Ireland have high levels of their earnings 'replaced' in retirement by social welfare pensions; by contrast, their replacement value has little significance for higher paid workers.<sup>30</sup>

Workers on low earnings or interrupted employment records also benefit from the significant degree of solidarity that is internal to the Social Insurance Fund. This is because they can establish their entitlement to the maximum pension payment on the basis of contribution records and levels of payment that are significantly lower than others who, nevertheless, receive the same pension. This is inherent to general features of the Social Insurance code — pensions are flat-rated while contributions are proportional to income (up to a ceiling), contributions can be credited in certain instances rather than paid — and because of the operation of the two main qualifying conditions for the OACP itself, viz. the low minimum of contributions that governs entitlement to some pension in the first place and the manner of calculation of the average of annual contributions that governs its amount.<sup>31</sup> As an example, of two people retiring in 2002, if one had worked for 30 years on low earnings and with short bouts of unemployment while the other had worked continuously for 40 years and been a high earner for half of her career, each would receive the same pension.

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29. The Retirement Pension is payable at 65 on condition that full-time employment has ceased and the Old Age Contributory Pension at 66 with no prohibition on continuing full-time employment.

30. To compare the replacement rates at different levels of earning achieved by social welfare pensions in different countries, see the UK report, *Pensions: Challenges and Choice. The First Report of the Pensions Commission* (2004: 59-60).

31. Namely, to have at least 260 full-rate, paid contributions (rising to 520 in April 2012) in order to be entitled to a pension in the first place, with the calculation of the yearly average of one's paid or credited contributions since 1953 determining whether the maximum pension is paid or a proportion of it.

The rates of payment of all social welfare pensions have increased by significantly more than inflation since 1987. They have not kept pace with growth in after-tax earnings, however, a fact that has contributed to the proportion of retired people at-risk-of-poverty growing steadily. Their relative living standards, however, are higher than relative income alone would suggest as retired households typically have lower financial commitments than other households.<sup>32</sup> The Government is now committed to increase social welfare pensions to at least €200 by 2007 (Department of the Taoiseach, 2005).<sup>33</sup> Given the higher at-risk-of-poverty rates among women in old age than men, it is also significant that a commitment has been made to raise the Qualified Adult Allowance for pensioner spouses to the same rate as the OANCP. A further significant support to the standard of living of pensioners has been the incremental growth and extension of the ‘Free Schemes’, some of which are more accurately termed ‘Household Benefits’.<sup>34</sup> These services are provided to older people in Ireland to support their independent living and alleviate pressure on their money incomes. A significant addition was the extension of the medical card to all people aged 70 or over in 2001. All people aged 70 or over have entitlement to the full set regardless of income or who lives with them, while access for retired people under 70 to the subset which constitute Household Benefits is generally conditional on their living alone and on a low income.

Trying to ensure that more people will be entitled to the OACP when they retire has been a significant policy objective for the principal reason that, not being means-tested, it has no disincentive effect on having other income sources in old age but functions as a platform on which people can build supplementary sources of income (from private pensions, property, financial assets and earnings). When an OACP is paid rather than an OANCP, it also means that some contribution at least has been made to its cost and that administration costs are lower.<sup>35</sup> Table 3.2 testifies to the growing role of the OACP and decline in that of the OANCP in setting a floor in pensioners’ incomes in Ireland.

By contrast to lower paid workers, it is primarily private occupational and personal pensions which offer other workers some prospect of a high replacement income and continuity of living standards in retirement. Taking out these pensions remains wholly voluntary in Ireland. By 2004, some 40 per cent of employees aged 20-69 in employment had an occupational pension only, 6.3 per cent had a personal pension only and a further 7.7 per cent had both. This means that 54.4 per cent of employees in employment had some form of tax-subsidised, private pension. Among the self-employed, the figure was 43 per cent (by definition, all personal pensions) (Quarterly National Housing Survey [QNHS], 2004).

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32. A significant number of households headed by retired people incur no rent or mortgage repayment (at that stage in life, more people are homeowners), have no expenses associated with employment or the rearing of children, and benefit from the household benefits package and ‘free schemes’ of the Department of Social and Family Affairs.

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33. The National Pensions Policy Initiative Report (1998) recommendation was that they reach 34% of average industrial earnings over a 5-10 year period.

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34. The Electricity or Natural Gas Allowance, Telephone Allowance and Free Television License.

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35. A motivating reason behind the extension of PRSI to the self-employed was concern that significant numbers of self-employed people — then 20 per cent of the workforce — were becoming reliant on the means-tested pension when they retired. Contributing PRSI, even at a low rate, meant they were making a direct contribution to the support that would eventually be provided them, as well as be free of means-testing in their retirement.

Since the early 1990s, the proportion of occupational pension schemes that guarantee a pension whose level is uncertain and dependent on the return secured by the pension fund (defined contribution schemes) has been rising and the proportion guaranteeing a particular pension payment (defined benefit schemes) falling (Hughes, 2003). Contributing to an occupational pension is made attractive by favourable tax treatment in Ireland as in other countries: contributions by individuals and employers attract tax relief at the marginal rate, the investment income of the pension funds are tax exempt as are the once-off lump sum benefits paid to individuals at the time of retirement. Only the pension income itself is subject to tax (on age exemptions in the income tax code see 3.7 below). The cost of tax expenditures in support of occupational pensions has risen markedly over the last 10 years. By 2002, they were considerably greater than social welfare spending on the Contributory and Non-Contributory pensions combined (€2.5bn as against €2.3bn). This constitutes a profound shift in the structure of the public funding of pensions. Analysis of the beneficiaries of these tax expenditures in 1994 confirms their strongly regressive character: the top 20 per cent of the population ranked by income received 60 per cent of the tax expenditures on employee pension contributions; the value of tax relief alone to the top 10 per cent of employees contributing to occupational pensions was, on average, significantly greater than the value of most other people's pension contributions and tax relief (Hughes, 2003).<sup>36</sup>

A personal pension is sometimes described as the third tier of pension cover, coming on top of a state welfare pension and an occupational pension. The introduction of Personal Retirement Savings Accounts (PRSAs) in 2002 is an attempt to meet the target set by the National Pensions Policy Initiative in 1998 that 70 per cent of the workforce aged 30 or over should have some form of private pension cover supplementary to their OACP. In 2004, an estimated 59 per cent of this group had such cover. Employers are legally obliged to facilitate their employees in having access and making their personal contributions to PRSAs, but are not obliged to contribute themselves. Accordingly as PRSAs are successful, tax expenditures on pensions can be expected to rise further.

While Ireland's welfare state is not currently under the same pressure as elsewhere in the EU from population ageing and a rising bill for pensions, the pressure will inexorably come. The elderly dependency ratio (those aged 65 and over as a percentage of the population of working age) is set to rise from 20 per cent in 2002 to 25 per cent by 2016 and to 50 per cent by 2050. This can be expected to put pressure on the level at which state welfare pensions are paid, the length of the contributions record required for entitlement to a contributory pension, the rate of PRSI levied to fund them, the age at which the pensions can first be drawn, and the very concept of a mandatory retirement age. It should also lead to an in depth examination of the cost and equity of tax expenditures on private pensions. It is commendable that a major element of pre-funding was introduced in 2000 (see below).

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36. The top decile of employees with occupational pensions were putting aside an average of £35 a week for their future pensions in 1994 (inclusive of tax relief); pensioners with no other means were then receiving £61 a week (the personal rate of the OANCP). [Hughes, 2003]

In summary to this section, given the focus of state welfare pensions on alleviating poverty in old age, it is challenging that people aged 65 or over currently face at-risk-of-poverty rates that are very high in a national and an international context.<sup>37</sup> Where there is most reliance on the means-tested pension — viz., women aged 65 or over, and both men and women aged 75 or over — the risk is higher still (Callan *et al*, 2004). As outlined above, developments are already in train that can be expected to reduce significantly the percentage of retired people having to live on very low incomes. Even in the absence of major new policy commitments, therefore, the gradual increase in the proportion of retired people entitled to the state contributory pension, the continuing drop in the proportion subject to means-testing, implementation of the commitments to increase rates of payment, and growth in the proportions of retired people receiving a private occupational and/or personal pension, can be expected to have a significant cumulative impact in raising pensioners' incomes over the coming years. The question of whether more should be done to raise the lowest pension incomes will be returned to in Chapter 7.

## 3.5 Services Providing Social Protection

### 3.5.1 Health

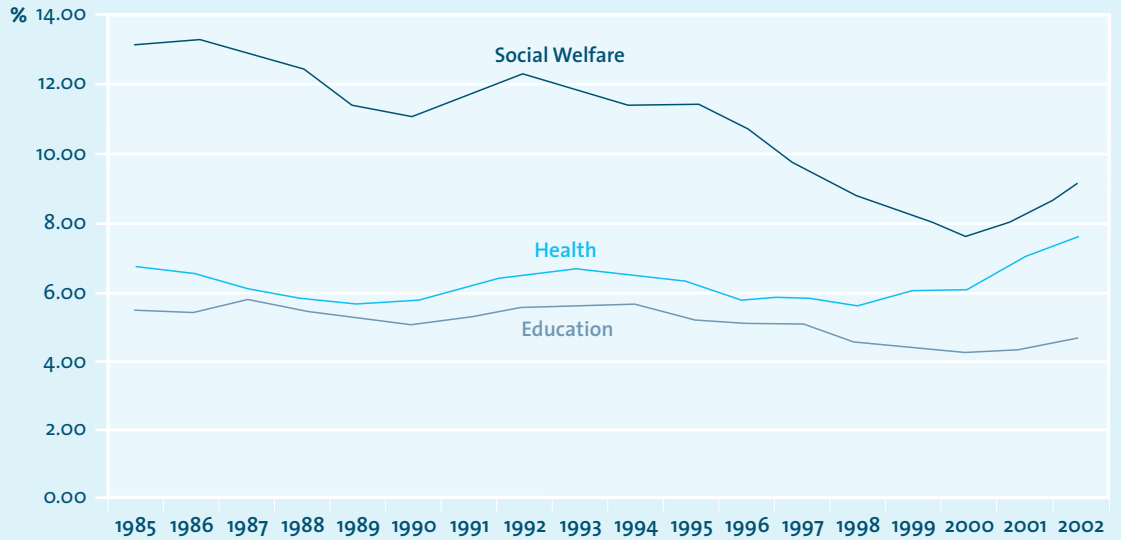
If income support arrangements (or 'social security') are frequently considered the core of social protection provided by the State (e.g., Council of Europe, International Labour Organisation [ILO]), health services are in second place. Access to health services — along with access to educational opportunities (addressed in next section) — is an essential requirement of a social model based on a high level of employment. Developed health and educational infrastructures can be described, in effect, as the conditions of possibility of self-reliant individuals and societies (Schmidt, 2000). Unlike spending on social welfare transfers where some components of the total (e.g., unemployment compensation) mean higher spending is an ambiguous indicator of social progress, rising levels of health spending in OECD countries are generally not an indicator of deteriorating health but of a population exercising the option to spend more on living longer and healthier lives. In this sense, health is a 'luxury' item — people spend a growing proportion of their incomes on it as their incomes rise. This phenomenon only began to assert itself strongly in Ireland around 1997. Over the following six years to 2003, voted current health spending alone increased by some 250 per cent (see Appendix 3.A).<sup>38</sup> When spending on social welfare, health and education as proportions of GNP are viewed together, it is notable that spending on health is rising to assume almost the same significance as spending on social welfare (Chart 3.3).

When some of the main health programmes into which services are organised are considered separately (Chart 3.4), the dominance of spending on hospitals emerges clearly. Growth on other programmes (Community Health Services which

37. At the 60% of median income line, it rose to a high level during the economic boom; from 5.8% (1994) to 24.2% (1997) to 33.4% (2000) to 36.4% (2003). [OSI, 2004; CSO, 2005].

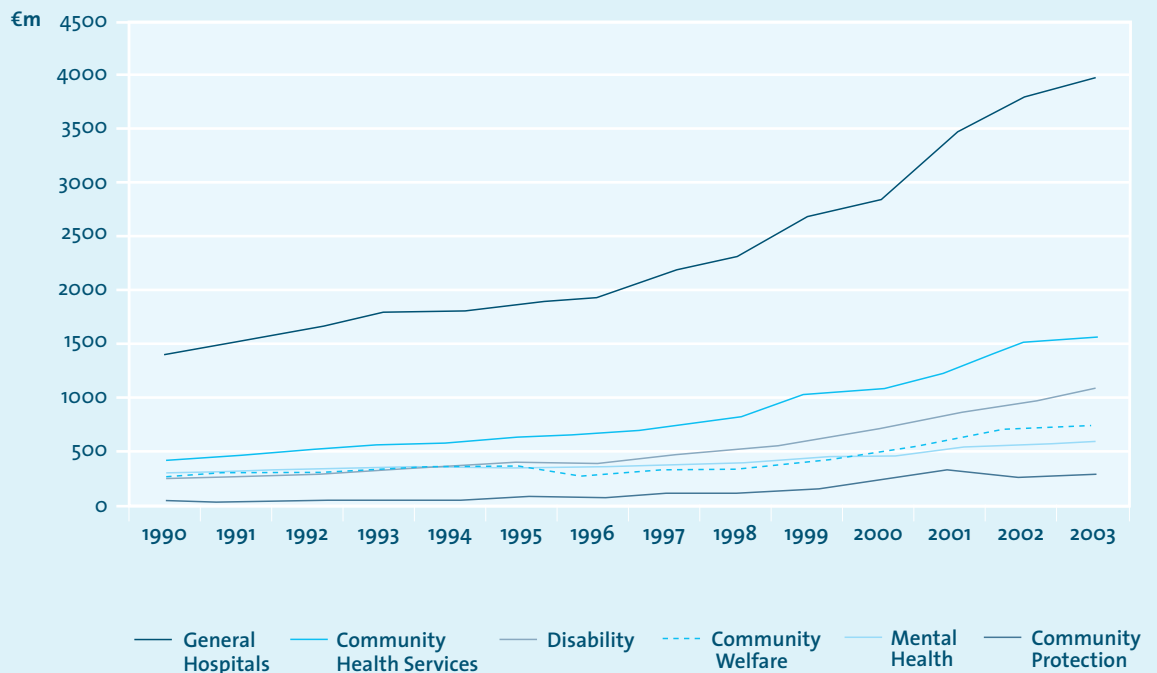
38. In nominal terms. Inflation has been higher in health services than generally, but there is no separate health services deflator. The significance of this higher inflation also needs careful interpretation — higher salaries can reflect more qualified personnel and an increment in service; inflation may reflect the attempt to do much too quickly.

Chart 3.3 Current Spending on Social Welfare, Health and Education — As Per Cent of GNP, 1985-2002



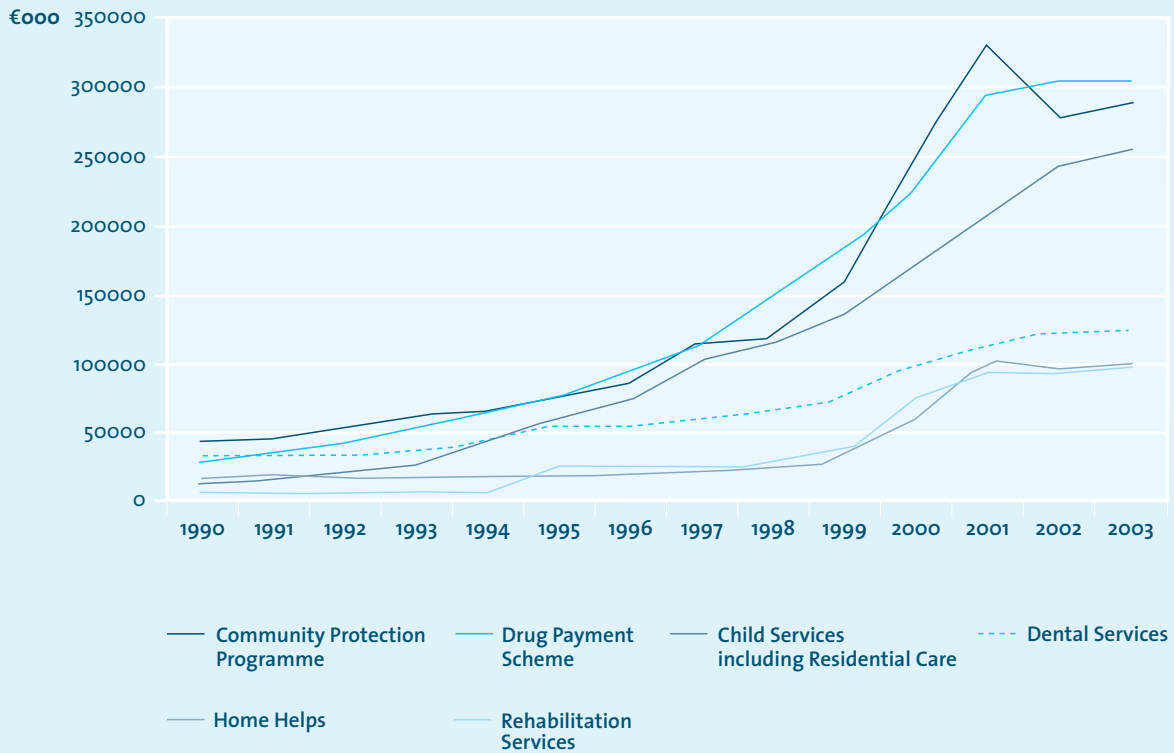
Source Appendix 3A below.

Chart 3.4 Current Real Public Expenditure on Health, Main Programmes, 1990-2003



Source Department of Health and Children. NESC calculations.  
Note: 2002 prices.

Chart 3.5 Current Real Public Expenditure on Selected Health Services, 1990-2003



Source Department of Health and Children. NESC calculations.  
Note: 2002 prices.

includes the Medical Card Scheme, and the Disability Programme) has been strong since 1998 too. Consulting a selection of more detailed types of service, the pattern of increasing spending across a broad spectrum of medical and caring services is confirmed (Chart 3.5). On community protection, the drug payment scheme and child services, the rate of growth in spending outpaced even that on hospitals.



## Hospital Care

Hospitals provide the most visible universal health service in Ireland.<sup>39</sup> Everyone ‘ordinarily resident in the state’ can avail of medical care in the public wards of hospitals, regardless of their income and independently of whether they have private insurance or a medical card<sup>40</sup>. This cover was extended to the entire population by the Health (Amendment Act), 1991 which also instituted a cap on the maximum that people with neither medical cards nor private insurance pay for their maintenance.<sup>41</sup> Medical treatment in the Accident and Emergency Units of hospitals is also free though a fee is charged for attendance without a doctor’s referral note.<sup>42</sup>

The universal medical protection provided through public hospitals had the volume of resources applied to it more than doubled over the seven-year period, 1996-2003 (Chart 3.4). It, therefore, provides something of a test case as to whether and how additional resources can guarantee improved outcomes. Since 1980, Irish hospitals have become increasingly busy. The same number of inpatients is being served by a bed stock which has been reduced by one-third, while there has been a 37 per cent increase in outpatient activity and the volume of hospital-based care provided on a day basis has increased nearly forty-fold.<sup>43</sup> Attendance at A&E departments alone increased by 22 per cent between 1988 and 2000, though the national population increased by only 7 per cent (DHC, 2002). Evidence that equity of access and the quality of patient care were deteriorating for public patients in the face of this surge in demand was part of what prompted the huge increase in public investment.

A number of studies have diagnosed a key fault in how the system is currently operated, viz., the excessive reliance on junior doctors insufficiently supported by consultants. Yet medical staffing arrangements did not change substantially as the extra resources were deployed. To paraphrase one report:

Junior doctors continued to deliver most medical care, and their numbers continued to rise without a clear plan for future workforce requirements. Services had to cope as best they could, relying on stopgap measures at local level. Patients continued to have limited access to consultants, and speedy access to senior clinical decision-making became increasingly difficult. Many junior doctors were not in recognised training programmes and their work was dominated by service requirements with little regard to longer-term career development (Hanly, 2003: 41).

The necessary deep correction remained elusive and the larger volume of resources was put through a hospital system insufficiently altered. Though several studies had called for a step improvement in the ratio of consultants to junior doctors, the large increase in public spending after 1996 saw a further deterioration in the ratio

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39. The most universal health services of all have a large element of invisibility to the ordinary person because they are public health measures preventing the emergence or spread of infectious diseases, maintaining food hygiene and providing other preventative services, including immunisation of the total child population in the State. These are provided under the Community Protection Programme of the Department of Health and Children and account for some 3 per cent of total public health spending.

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40. An estimated 26 per cent of the population aged 18 and over had neither private health insurance or a medical card (QNHS, 2001).

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41. Raised to €55 per hospital bed night for a maximum of 10 days in a year (Budget 2005).

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42. Also raised to €55 in 2005. If the same complaint requires multiple visits, the charge is levied for the first attendance only).

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43. Day cases refer to patients admitted to hospital for care and/or treatment but do not require the use of a hospital bed overnight.

Table 3.4 Approved Consultant and NCHD<sup>1</sup> Numbers, 1990–2003

	1990	1992	1994	1996	1998	2000	2003	2003 (FIN) <sup>2</sup>
NCHDs	2,193	2,320	2,451	2,582	2,775	3,238	3,932	2,600
Consultants	1,122	1,158	1,186	1,270	1,327	1,440	1,731	5,200
Consultant/ NCHD	1 / 1.95	1 / 2.00	1 / 2.07	1 / 2.03	1 / 2.09	1 / 2.25	1 / 2.27	1 / 0.5

Source Hanly (2003: 40,188)

Notes 1. NCHD = Non-Consultant Hospital Doctor.

2. FIN = Finland. The average basic salaries of consultants and NCHDs in the public sector in Finland were €45,500 and €30,960 respectively (a ratio of 1.45/1.00), but €133,051 and €43,231 in Ireland (a ratio of 3.08/1.00) [Hanly, 2003:188].

(Table 3.4). Public hospital care in Ireland, thus, provides a key example of how reform, in many instances, must accompany increased investment if a proportionate improvement in outcomes is to be forthcoming.

A major initiative to cut waiting lists for hospital treatment was the establishment of the National Treatment Purchase Fund in 2002, a new agency empowered with public money to obtain hospital treatment for public patients with excessive times on waiting lists in private facilities in Ireland or abroad. Its undoubted success, however, in providing a practical response to the dilemma of thousands of public patients has not solved the deeper issues in Ireland's health system that generated the waiting lists in the first place. In the final analysis, public funds are being routed through private facilities (€31m in 2003) on behalf of public patients whom it is acknowledged are receiving an inadequate service from the public health service.

### Primary care

Next to hospital treatment, access to the services of a family doctor is probably the most widely valued form of medical protection. Family doctors in Ireland are self-employed. They see patients of two sorts, those on whose behalf the State pays them an annual capitation fee independently of how often the patient presents for attention and 'private' patients whom they charge for each visit at a rate they themselves can determine. A significant exception are pregnant women; the Maternity and Infant Care Scheme provides an agreed programme of care to all expectant mothers ordinarily resident in the state; at a minimum, this includes seven examinations by a GP during pregnancy, alternated with visits to a maternity unit/hospital and two post natal examinations.

The doctor does not charge patients themselves but receives a subvention from the State for those who hold medical cards. People 'who are unable without undue hardship to arrange general practitioner medical and surgical services for themselves and their dependants, and all persons aged 70 years and over, receive a free general medical service' (General Medical Services (Payments) Board) and are

issued medical cards. The inclusion of persons aged 70 or over began in 2001, but does not include their dependants. Otherwise, the identification of persons eligible for the medical card is based on social welfare receipt or on falling below an income guideline set by the government.<sup>44</sup> They are then entitled to visit their family doctor and pharmacist and receive prescribed drugs free of charge. In addition, they do not have to contribute to their maintenance in public wards of hospitals, and receive free specialist out-patient services at public clinics, and dental, ophthalmic and aural services.

The medical card scheme was first introduced in 1972 and the proportion of the population covered by it peaked soon after, at 39 per cent in 1997. By 2002, 29.4 per cent of the total population had medical card cover and the cost of administering the scheme per eligible person was €679.<sup>45</sup> The erosion of the percentage of the population covered is mainly because the income guidelines have been adjusted over time with an eye to inflation but not to the rise in earnings (*Health Statistics*, 2002). The extension of the medical card to older people regardless of income pushed the proportion of the population up slightly (to 31.2 per cent), but the trend decline reasserted itself thereafter. By employment status, the vast bulk of the population now covered by the medical card are outside the labour force or unemployed members of it: 55 per cent of all people aged 18 or over who were not economically active had medical card cover in 2001 and 48 per cent of all people who were unemployed, as against only 11 per cent of those in employment (QNHS, Third Quarter, 2001).

The differential rewards to family doctors of seeing patients — receiving an annual capitation grant for someone who may not come to them at all during the year (a medical card holder) versus charging a fee per visit to someone else — has problematic aspects. At one extreme, the medical card-holder has no incentive to consult the doctor only when necessary and is likely to consume a higher volume of services than their health status justifies. At the other extreme, a low paid worker with children, may be deterred by the significant cost involved from consulting a doctor even where it is necessary. On the other side, the family doctor has a large incentive to practice in areas where the number of medical card-holders is low and the likely pool of private patients high.<sup>46</sup>

The costs of medicines can impact on people much more than the cost of consulting a doctor. The Drugs Payment Scheme introduced in 1999 set a cap to the maximum that any individual or family must pay in a month for approved drugs, medicines or appliances for themselves or their families.<sup>47</sup> The Long Term Illness

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44. By 2005, the income guidelines were a gross weekly income [net of PRSI and the Health Contribution] of €153.50 for a single person aged under 66 living alone and of €220 for a married couple. Further allowances for children, adult dependants without an income, some house expenses and travel to work expenses introduce a considerable element of discretion at the local (formerly Health Board) level where eligibility is determined.

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45. General Medical Services (Payments) Board, report for year ended 31st December 2002. Excluding those aged over 70 newly admitted to the Scheme, just under 28 per cent of the population qualified for medical card cover in 2002.

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46. Wren observes that, in 2002, the going rate for a visiting family doctor was between €40–€45, almost equivalent to the entire annual capitation grant the doctor received for an adult male medical card holder (€45.44) (Wren, 2002: 208).

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47. Raised to €85 a month in 2005. To benefit from this scheme, a person must register themselves and their dependants with the health authorities; in 2002, 1,319,395 persons were registered and the net cost of the scheme per person was €148.50 and per claimant €935.73.

Scheme means that persons suffering from one or more of a schedule of illnesses are entitled to obtain, free of charge and irrespective of their income, the drugs, medicines and appliances that they need.<sup>48</sup>

### Caring services

Several forms of caring, some involving significant medical services and others not, constitute part of Ireland's health budget. The public health authorities have, to a significant extent, had to respond to the major diminution of families' capacities to carry out unpaid caring for housebound and incapacitated members as the number of women remaining in the home has fallen sharply. The expansion of publicly funded caring has also been in response to a greater insistence by society on the rights of children and of persons with disabilities and a concern that public provision for them should embody higher standards. The growing number of elderly people living alone, many with the health and capacity to enjoy a wide range of activities if minimal supports are forthcoming, is also creating a strong demand for new forms of domiciliary care and supports to facilitate 'active ageing'. All these services have the significant added dimension that they enable people of working age more easily to reconcile employment with responsibility for ageing parents or other kin.

Overall, the two major influences on health spending are ageing and the expectation of and demand for higher standards. For example, it is clear that older people use hospitals more than younger people. In 2000, they had admission rates to hospital (per 1000 in their age group) much higher than younger people and average lengths of stay four times longer than people of active age (16-54) (DHC, 2002). Estimates, in fact, suggest that the growing number of older people in Ireland's population alone will require a 14 per cent increase in the number of acute hospital beds over the period 2000 to 2011, while the generally rising demand for health care will add a further 11 per cent to the increase necessary. The factors behind a generally rising demand for health services can be summarised as:<sup>49</sup>

- ◆ Previously unmet need. Medical conditions that lower social groups, in particularly their older members, and other people discouraged by lengthy waiting times and the expense of treatment 'put up with' is translated into demand for health services accordingly as the services improve;
- ◆ The availability of new services (technological advances in diagnosis and treatment; the development of new services [e.g., magnetic resonance imaging, non-invasive surgery, etc.]; the availability of new drugs and medicines);
- ◆ Increasingly accessible health information through public bodies, the media and the internet;
- ◆ The increasing demand for the active treatment of chronic conditions;

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48. In 2002, 92,754 persons were eligible under this scheme. The cost per eligible person was €677.73 and per claimant €1,961.55.

49. See the multiple references in DHC (2002).

- ◆ Higher per capita income. As people become wealthier, they place more priority on avoiding discomfort as well as alleviating pain, on preventative health measures as well as on curative, on personally tailored and immediate health services rather than on standardised treatments for which they may have to wait; and
- ◆ A larger, more educated, more self-confident and assertive population. This is largely a positive development as increased awareness and vigilance by patients contributes to driving up standards. However, it also entails a more litigious health system and rising medical insurance premiums.

Each of these factors has already played a part in increasing the demand for health services in Ireland. However, it should be noted that the major increases in public expenditure which Charts 3.5 and 3.6 illustrate have taken place over a period when the Irish population profile did not age significantly. Ageing will become a further factor raising health spending in the years ahead in addition to the factors outlined above. In addition to older people's greater recourse to hospitals already mentioned, consumption of medicines and the likelihood of living with a disability increases sharply with age. Factoring out the increased demand coming from a wealthier and more demanding population, one estimate of the impact of population increase and population ageing alone on health spending is that it will rise by 1 per cent per annum between 2002 and 2050, implying that the non-capital expenditure of the Department of Health and Children will rise from some 6 per cent of GDP in 2002 to 8.8 per cent in 2050. It would then absorb 26.5 per cent of the workforce's aggregated salaries (Bennett *et al*, 2003).

The cumulative impact of a much larger elderly population on both health care and pensions will be formidable, as Table 3.5 demonstrates.

**Table 3.5 Projected Costs of Health Care and Pensions**

	2002	2025	2050
<b>Costs as Per Cent of GDP</b>			
Health care	6.0	6.3	8.8
Pensions	2.9	4.5	7.9
<b>Costs as Per Cent of Working Population Salary</b>			
Health care	18.1	19.0	26.5
Pensions	8.9	13.6	23.8

Source Bennett *et al* (2003)

These projections are based on several assumptions which only the future can test for accuracy. For example, it is becoming apparent that the degree of usage of health services by people aged, for example, 66-74 today may prove to be a poor guide to the level of usage by people aged 66-74 in the future (Seshamani, 2004). As people live longer, they are also living healthier. A large part of older persons' usage of health services is concentrated in their final years and, if this pattern holds into the future, then the age to which they live will be less significant for health spending than the range and sophistication of the health services that attend them in their final years.<sup>50</sup> It is also the case that if a growing proportion of people aged over 65 in the future remain in employment because their health allows them to and they want to (pension policy could be redesigned to provide them with a higher pension in return for postponing their entitlement), then the current estimates of future pensions costs as a percentage of GDP will prove to have been on the high side.

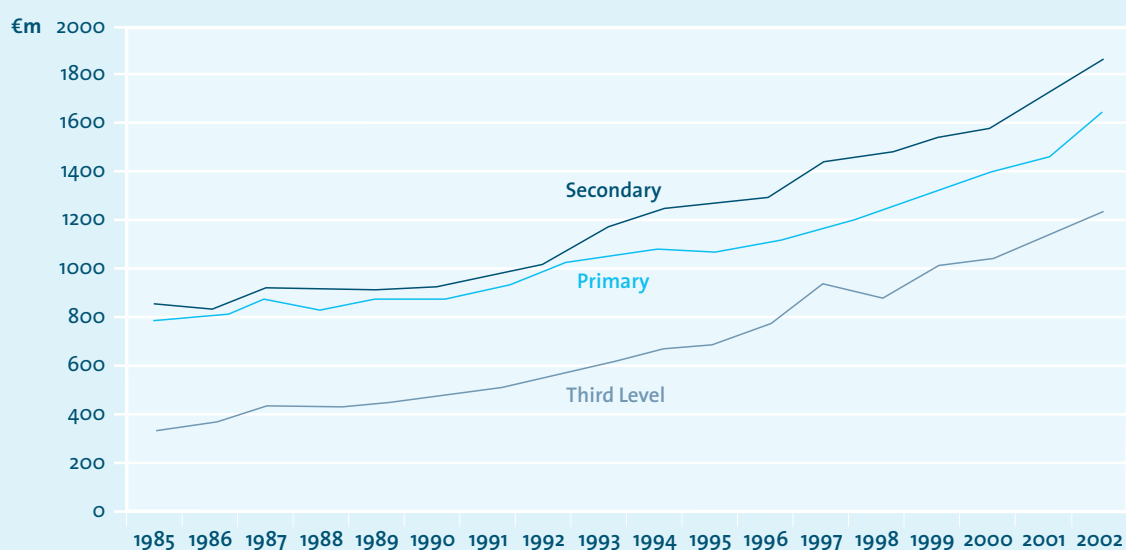
As illustrated above, current public spending on health has soared since 1997. There has been extensive dismay that user's experience of public health services (e.g., public patients' waiting times for elective surgery and other treatments, conditions in A&E casualty departments, conditions within hospitals, the level of charges, instances of medical malpractice, etc.) has not only not improved in line with the rise in spending but, in key instances, deteriorated. In 2005, what is described as the 'biggest change process ever undertaken in the state' (Health Services Executive, HSE, 2004) got underway in the health services which are to be managed, for the first time, as a single national system. An evaluation of the extent to which reform and additional resources have proceeded sufficiently in tandem must wait for some years. It is clear that the effective and efficient development of a major part of Ireland's welfare state is at stake and, with it, to a significant degree, public confidence in public services generally.

### 3.5.2 Education

As a share of GNP, current public expenditure on education over the period, 1985-2002, has trended downwards from a high of 5.8 per cent in 1987 to 4.6 per cent in 2002 (Chart 3.3 above). When the absolute level of spending is distinguished by the level of the educational system where it is incurred, it has more than doubled at primary and secondary levels and tripled at third level (Chart 3.6). There have been markedly different developments in the number of students at each level; it has fallen significantly at primary level, increased marginally at second level and risen rapidly at third level. The net result is that spending *per student* has increased by a multiple of 2.8 at primary level, 2 at secondary level and 1.3 at third level between 1985 and 2002 (Table 3.6 and Chart 3.7).

50. It is even possible that, as the very old (in excess of 85 or 90 years) have less capacity to put up a long fight against new illnesses that interrupt their otherwise good health, the coming older generation may consume less health costs in their final months than the current older generation. The new Population Directorate in the Health Services Executive is to acquire the expertise and competence to improve Ireland's ability to anticipate these types of development.

**Chart 3.6** Real Current Expenditure on Primary, Secondary and Third Level Education, 1985–2002 (€m, 2002 Prices)



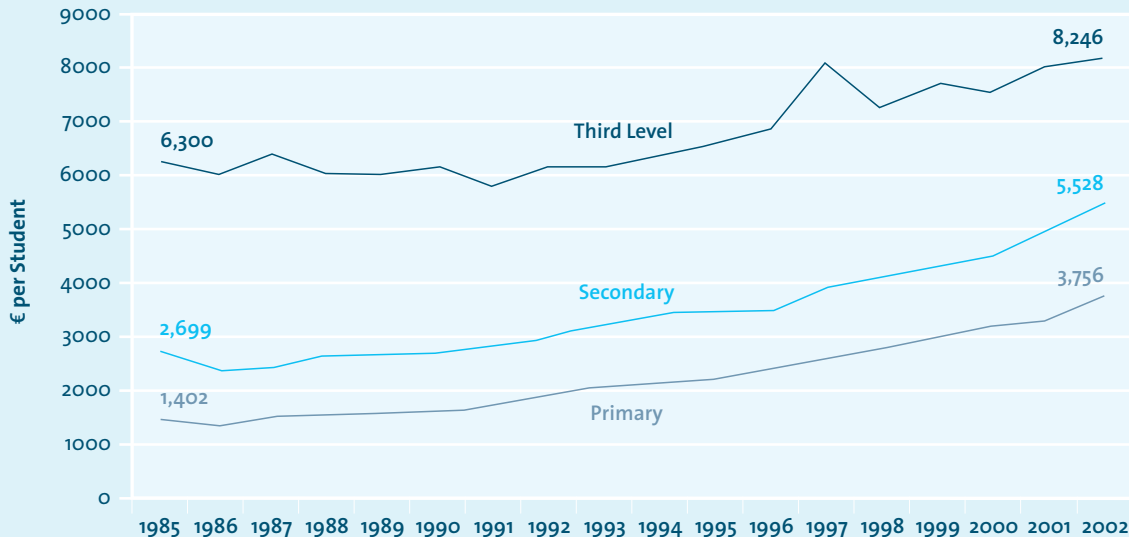
Source Department of Education and Science. NESC calculations.  
 Note: 2002 prices.

**Table 3.6** Students (Full-time Equivalents) and non-capital Public Expenditure per Student, 1985 and 2002

	1985	2002
<b>Primary Level</b>		
Number of Students	566,289	441,065
Non-Capital Public Expenditure per Student (2002 prices)	€1,402	€3,756
Pupil-Teacher Ratio	27.0	18.4
<b>Secondary Level</b>		
Number of Students	329,000	340,078
Non-Capital Public Expenditure per Student (2002 prices)	€2,699	€5,528
Pupil-Teacher Ratio	17.3	15.8
<b>Third Level</b>		
Number of Students	50,836	124,589
Non-Capital Public Expenditure per Student (2002 prices)	€6,300	€8,246

Source Department of Education and Science

Chart 3.7 Real non-capital Public Expenditure on Education per Student (Full-time Equivalent), 1985–2002



Source: Department of Education and Science. NESC calculations.  
Note: 2002 prices.

The case for the systematic provision of early childhood education has only recently come into focus in Ireland and public spending there is currently on a small scale and highly targeted. However, two infant classes at primary level bring children into the school system at a relatively early age (between four and five). Attendance at school is obligatory until the age of 16, though post-compulsory schooling until the completion of the senior cycle at secondary level is now the norm, with some 82 per cent of each cohort sitting for the Leaving Certificate or its equivalent. With the exception of fees for public exams and books which parents are expected to pay, the essential costs of primary and secondary schooling (including transport in rural areas) are covered by the State regardless of parental income. For parents with low incomes, help is forthcoming through the school with the cost of books and from the Department of Social and Family Affairs through the Back to School Clothing and Footwear Allowance (see section 3.4.3 above). Any other costs, such as those for extra-curricular and other discretionary additions to the school programme, are at the discretion of school managements and parents practice a high degree of school selection. Over one-half of students who complete the senior cycle of secondary school transfer into third level education where, since 1997, their tuition fees are paid, regardless of parental income. Other costs (including an annual registration charge which has grown steadily in significance since 1997) are met by the student and her/his family or the family applies for a means-tested maintenance grant.

Maintaining a rising level of real expenditure in the face of declining (primary) or near static (secondary) numbers has enabled a higher level of service to be



provided in primary and secondary schools (for example, the pupil-teacher ratio has been cut by 32 and 9 per cent respectively between 1985 and 2002, Table 3.6). Special measures have multiplied to combat educational under-performance and reduce school absences and early school leaving. New cadres of support teachers and assistants are present throughout the school system to help children/youth with particular learning difficulties (see the educational items chosen for inclusion in Table 3.1). However, there is clear evidence that some schools at both primary and secondary level struggle with particularly disadvantaged social intakes and are not succeeding in stemming, let alone closing, the gap between their students' achievements and those of more socially advantaged ones (Eiveas, Shiel and Shortt, 2004; ERC, 2004; Morgan, 2000.)

There is even less evidence of a substantial improvement in the quality of third level where the growth in student numbers has been large. There is widespread agreement that funding to third level institutes has not kept pace with their needs but disagreement as to how the extra funding that will have to be forthcoming should be split between seeking contributions from the direct beneficiaries of third level tuition (students themselves) and third level research (the private sector), on the one hand, and the Exchequer, on the other. A core objective with major implications for the State's educational budget remains opaque, viz., the proportion of the cohort completing secondary school who should transfer to third level. It is clear that equity of access is a desirable objective (and Table 3.1 included costs in pursuit of this as a part of social protection) but not clear that choosing *not* to progress after completing secondary level should be viewed as failure (as not completing the senior cycle of secondary schooling effectively is). The validity of alternative paths to adult self-reliance and labour market integration at that stage in the life cycle are not lessened by the advent of the knowledge economy and learning society.

There is also an awareness that two major new educational challenges are challenging educational institutions to look to hitherto neglected constituencies. The provision of early childhood education and of adult education (both second chance education and continuing education) are far behind what the country will require if it is to deliver on core social and economic objectives. Each type does not yet have strong institutions to make its case but should, nevertheless, enter the equation as a factor likely to significantly influence the level of public spending on education in the future. It has been argued, for example, that any likely savings on young people's ordinary schooling as youth numbers fall will be offset as public policy interests in raising the educational participation rates of people from socially disadvantaged backgrounds and of older age groups are implemented (Barrett, 2003).

### 3.5.3 Housing

Current public spending on housing services is a relatively small figure (estimated at €125m in 2002, between subsidised local authority accommodation, rental subsidies for voluntary housing and measures for the homeless and travellers, Table 3.1). Twice as much was spent on a cash transfer, the Supplementary Welfare Rent Allowance, which operates as a type of housing benefit for those who are in the private rented sector (€252m in 2002 on behalf of 54,213 persons).

Approximately 104,700 households were being provided with local authority housing in 2002 by satisfying a means-test and other criteria establishing their need and inability to procure housing through the market.<sup>51</sup> With an average of 3.3 persons per household (ERSI, 2003), this implies that almost 9 per cent of the population were being housed in this way. This housing is not free. A differential rent system sets rents at 15 per cent of households' eligible income with variation in what is deemed eligible income taking place across local authorities subject to Departmental guidelines. Estimates of the average rent paid in 2002 vary widely (€42.46 *Census*; €26.33 *Housing Statistics Bulletin*) but, compared to existing rents in the private sector (€125.68 unfurnished), it is clear that local authority tenants enjoy a huge subsidy to their housing. Leaving aside the cost of capital, local authorities in 2001 were charging rents that covered some 70 per cent of the cost of maintaining and managing their housing stock.<sup>52</sup>

The rapid escalation in the market price of houses and market rents since the mid-1990s has increased the need for more State intervention in ensuring access to satisfactory accommodation. This has largely been exercised through the public capital programme (see below) and by providing income supports to assist people with rents or mortgages, rather than by an expansion of local authorities' role as landlords (which is where a public housing service exists in its purest form).

#### 3.5.4 Active Labour Market Policies

Services whose objectives include helping disadvantaged job-seekers improve their labour market skills and/or gain fairer or preferential access to employment are an important part of social protection. Spurred by the high unemployment of the 1980s, Ireland developed a wide array of active labour market programmes (ALMPs) which provided, variously, general training, specific skills training, direct employment of a tailored sort, employment subsidies and assistance with job search (Indecon, 2002). The principal public bodies involved have been FÁS and its parent department, Enterprise, Trade and Employment, but significant roles also developed for the Department of Social and Family Affairs, the Department of Education and Science and a minor role for the Revenue Commissioners (Job Assist). In addition, the Community and Voluntary sector became an important actor, activating many services and working closely with FÁS. In conventional measures of what constitutes public spending on ALMPs, Ireland has tended to emerge as a high spender in international comparisons (OECD, 2004).

Several ALMPs sought to generate the 'double dividend' of creating meaningful work experience and training for unemployed people with the provision of needed services at the local level. The largest of those programmes continues to be the Community Employment Scheme, which a wide variety of organisations — public or voluntary and community — have activated since its establishment. By the beginning of the 1990s, a network of area-based partnerships to tackle unemployment through a community development as much as a labour market approach had developed, and the Public Employment Service (FAS) now works in partnership with them aided by a Local Employment Service structured at the local level.

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51. *Housing Statistics Bulletin*, September 2002.

52. *Housing Statistics Bulletin*, March 2003.

As unemployment has sharply reduced, public spending on ALMPs has not, and the per capita spend has accordingly risen. It is also of interest that the annual number of participants on ALMPs first came to exceed the stock of unemployed people in 1999 and has become nearly four times as great as the number of the long-term unemployed, both of whom were target groups whose needs particularly motivated the creation of many of these programmes (Table 3.7). The effectiveness of this expenditure on ALMPs has been the subject of a large number of studies (see the summary in section 7, Indecon, 2002). One conclusion is that participants on programmes with good labour market linkages have enjoyed better progression rates into unassisted employment than participants on programmes with weak linkages (e.g., ESRI, 2000). A further finding is that the programmes have frequently brought together actors whose objectives on behalf of participants were sometimes quite different, even opposed, and that strategies were sometimes not shared even across government departments (discussed

**Table 3.7 Costs of Almps and Numbers of Participants, 1998–2002**

Costs (€m)	1998	1999	2000	2001	2002 <sup>1</sup>
FÁS	587.5	625.6	688.2	771.2	608.4
DSFA (BTWA, BTWEA)	151.1	180.8	196.8	188.1	164.5
DES (VTOS)	23.2	24.1	31.3	34.7	48.5
DF (Job Assist)	0	1	2.7	?	?
<b>Total</b>	<b>761.9</b>	<b>831.5</b>	<b>919.0</b>	<b>994.0</b>	<b>821.4</b>
<b>Participants</b>					
FÁS Training & Employment	56,097	55,370	52,196	51,500	50,395
BTWA, BTWEA	24,253	37,600	39,091	32,191	26,232
VTOS	4,407	4,580	5,174	5,305	5,443
Job Assist	950	2,600	4,200	3,300	1,650
<b>Total</b>	<b>85,707</b>	<b>100,150</b>	<b>100,661</b>	<b>92,296</b>	<b>83,720</b>
<b>Total Unemployed</b>	<b>126,600</b>	<b>96,900</b>	<b>74,900</b>	<b>65,400</b>	<b>77,200</b>
Total ALMP as % of Unemployed	67.7%	103.4%	134.4%	141.1%	108.4%
Total Long-Term Unemployed	63,500	41,600	27,400	20,500	21,600
Total ALMP as % of Long-Term Unemployed	135.0%	240.7%	367.4%	450.2%	387.6%
Average Cost per ALMP Participant (€)	8,890	8,303	9,130	10,770	9,811

Source Indecon (2002); Revised Estimates Volume 2003; Revenue Commissioners.

Notes 1. Cost figures for 2002 are from Table 3.1. Participant figures for 2002 apply to July.

more in Chapter 6). There is also concern that using age or duration of welfare receipt to determine eligibility in a bid to target programmes more effectively has produced perverse incentives. If a programme is considered attractive, the individual has an incentive to ‘wait’ until attaining the age or duration of welfare receipt that determines eligibility even though work habits and skills thereby deteriorate further. (In the case of educational programmes with only an annual September enrolment, the ‘wait’ to attain a 6-months threshold could be of 16 months.)

Major points of discussion currently surround aspects of their future development. It is proving particularly difficult, for example, to find agreement on how the scale and nature of the Community Employment Programme should be adjusted to the new circumstances of a near full-employment economy. There is also concern that the multiplicity and overlap of the programmes has made their evaluation difficult if not impossible. The working relationships and allocation of responsibilities between the local offices of centralised public agencies and autonomous local organisations is frequently unsatisfactory. It is not always clear where responsibility lies if injections of public resources into a local area over a sustained period are not seen to be having a significant impact in reducing the need for which they were made available in the first place.

Looking to the future demand these programmes might make on public funds, it is clear that rather than an inexorable growth (as with pensions or health care) savings could be anticipated. The strategic policy issue may be the extent to which the client groups for these services should continue to be widened to include steadily more of the people of working age in receipt of welfare and the related issue as to whether the opportunity of low unemployment should be seized to occasion a step improvement in the quality of ALMPs.

### 3.5.5 Social Inclusion

A wide range of services have been developed in Ireland which share the objective of procuring the social inclusion of, variously, individuals, families, social groups and local communities who run particular risks of social exclusion. A significant number of publicly assisted bodies have been created since 1986 engaging in advocacy and/or providing services that are exclusive to identified client groups or potentially available to anyone in the population (see Appendix 3.C, The Growing Complexity of Ireland’s Social Policy Institutional Framework). A major procedural innovation involving many of these bodies is the National Anti-Poverty Strategy, adopted in 1997 for a ten-year period and revised in 2002; it has entailed the development of new structures within and across government departments — principally a Cabinet Sub-Committee, an Inter-Departmental Working Group and, in 2002, the National Office of Social Inclusion — to give coherence and impetus to the Strategy.

The onset of a drugs problem also stimulated a programme structured around services provided within, and by, local communities (the Local Drugs Task Forces), while the Department of Social and Family Affairs has developed a strong community programme through which family supports, money and budgeting advice, and other services are provided. The Department of Education and Science

has also developed a range of programmes tackling school under-performance and early school leaving several of which are targeted on schools in disadvantaged areas. Finally, much of the State's funding of pre-school and out-of-school childcare has concentrated on providing them in disadvantaged areas, on the grounds that this focus helps provide 'equal opportunity', prevents educational failure and secures social cohesion.

When the different programmes providing services largely within disadvantaged communities are aggregated, it is clear that this approach to combating social exclusion has become a major and characteristic part of Ireland's welfare state (Sabel, 1996).

### 3.6 Public Capital Spending and Social Protection

Consideration of public current spending on social protection gives an incomplete picture of the scale of the Irish State's social interventions and of developments in them since the mid-1980s. While a variety of pressures have combined to increase the need and demand for various types of services to come on stream immediately providing social protection, the capacity to deliver those services has been constrained in several instances by inadequate infrastructures. Expanding or creating infrastructures is a slower process than increasing services, and requires sustaining a high level of capital spending on carefully selected projects. Table 3.8 identifies the principal items of public capital expenditure that were delivering social protection in 2002.

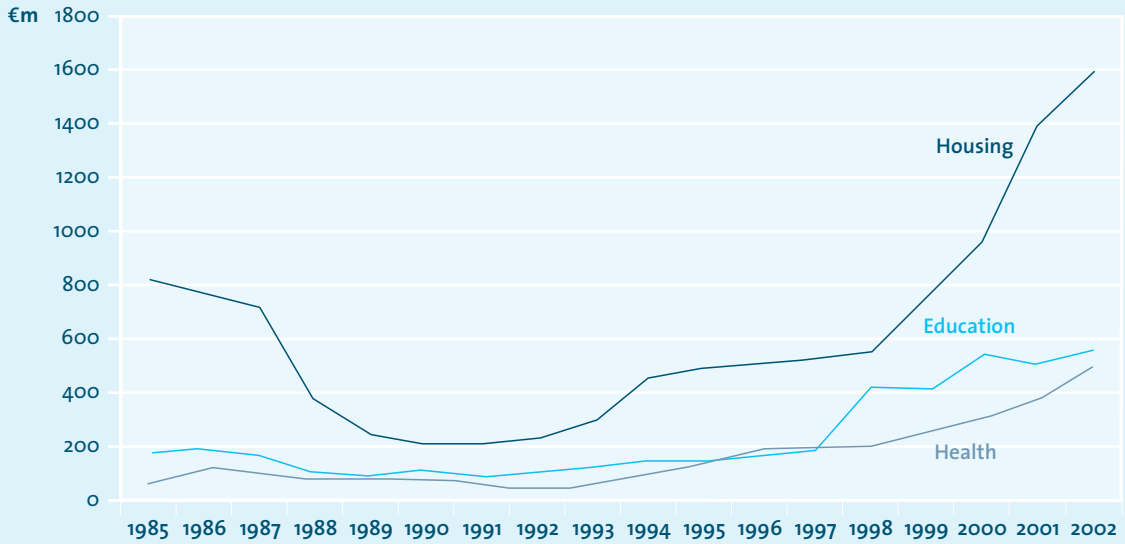
**Table 3.8 Public Capital Expenditure on Social Protection in Ireland, 2002**

Type of Social Protection	Department	Public Expenditure €m
Local Authority Housing, Voluntary Housing and Shared Ownership	Environment etc.	1,364.6 <sup>1</sup>
Pre-funding of Future Pension Liabilities <sup>2</sup>	Finance	1,035.0
Schools and other Educational Institutions	Education & Science	564.2
Hospitals and other Health Facilities	Health & Children	504.6
Prison Building and Equipment, Courthouses, Probation centres	Justice, Equality & Law Reform	61.5
Childcare (EOCP)	Justice etc.	23.0
Asylum Seeker Programme	Office of Public Works	7.1

**Sources** Revised Estimates 2003; DHC website; Annual Housing Bulletin.

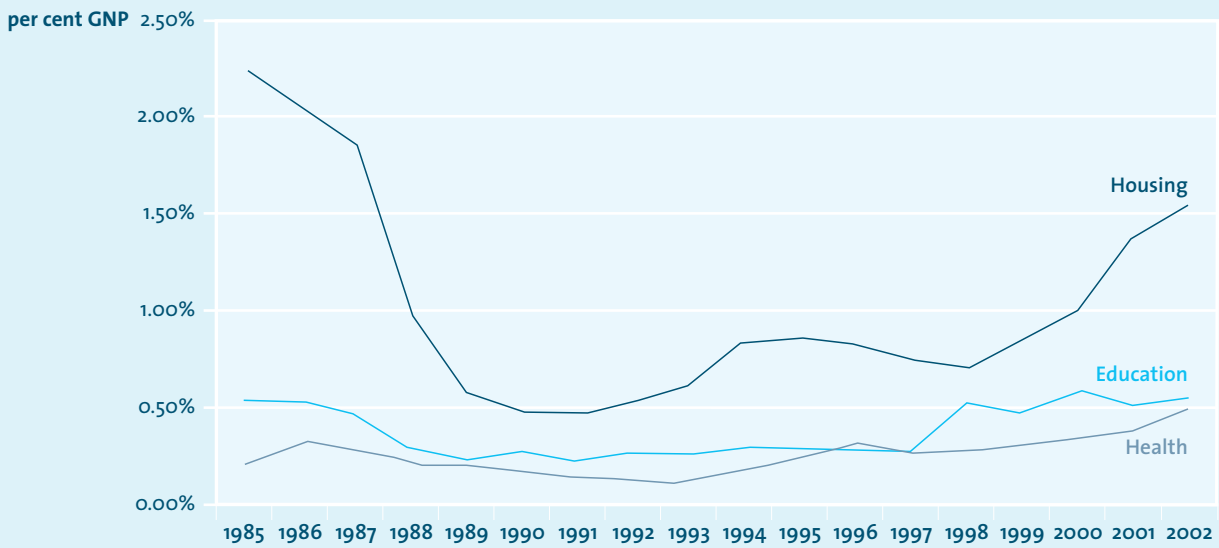
**Notes** 1. This includes voted and other sources of capital funds (e.g., Local Authority capital receipts provided €104m in 2002).  
2. It is classed as a non-voted capital expenditure. Budget 2003, Department of Finance.

**Chart 3.8** Real Capital Expenditure on Health, Education and Housing, 1985–2002 (€m)<sup>1</sup>



Source: Departmental Statistics. NESC calculations.  
 Note: 2002 prices.

**Chart 3.9** Public Capital Expenditure on Housing, Education and Health as per Cent of GNP, 1985–2002<sup>1</sup>



Source: Departmental Statistics. NESC calculations.

**Note 1.** Voted capital expenditure only for Health and Education; Voted plus capital expenditure financed from departmental receipts for Housing.

The largest item is investment by the Department of the Environment, Heritage and Local Government in providing local authority housing, voluntary housing and shared ownership. In second place is the investment, begun in 2000, of 1 per cent of GNP in the National Pension Reserve Fund; this is a financial investment being made in order to increase the capacity of the State to meet pension liabilities from 2025 onwards. The intention is that this reserve fund will be capable from 2025 onwards of meeting 30% of the Government's obligations to fund public service and social welfare pensions. The other significant programmes of investment are those carried out by the Departments of Education & Science and Health & Children respectively.

When the levels of public capital investment in housing, education and health (in constant 2002 prices) are examined from 1985 onwards, the contrast between two periods appears dramatically (Chart 3.9). Until the early 1990s, investment levels fell, precipitously in housing but significantly in education and health as well. This reflects the extent to which the public capital programme bore the brunt of fiscal retrenchment at that time. In housing, there was strong demand and incentives to leave local authority housing for owner-occupancy and, aided by emigration, housing lists fell. There was a marked shift from public to private provision of mortgage lending at the lower end of the market. Public capital investment swung increasingly towards the refurbishment of the existing local authority housing stock in a bid to improve its quality and away from new building (Blackwell, 1988). In education, though student numbers were still increasing at secondary and third levels up to the early 1990s, investment levels were almost halved in real terms between 1986 and 1991. In health, investment levels were more than halved with the effect that, at hospital level for example, 4,000 inpatient beds were removed from the system between 1984 and 1988 and a further 2,000 between 1991 and 1993 (DHC, 2002); the in-patient bed capacity in place in 1980 was reduced by one-third.

The resurgence in the economy after 1993 and the longer time frame and greater protection afforded capital spending through the National Development Plans (1994-1999, 2000-2006) contributed to a strong recovery in investment spending under all three headings. A recovery phase in public investment in housing gave way in 1998 to a step-change in investment levels, with funds being channelled through a variety of new programmes as well as significant additions being made once again to the stock of local authority housing. The level of real capital spending in education attained its 1985 level in 1997 but more than doubled in that year and surged again by almost 50 per cent in 1999, driven largely by building programmes on third level campuses. Real capital spending on health reached its nadir in 1992 and 1993 but recovery has been steady since then and it was approaching ten times its lowest level by 2002.

When these levels of capital spending are expressed as a percentage of GNP, the swing from decline to recovery in 'effort' is even more apparent (Chart 3.9). By 2002, public capital investment in housing was beginning to approach the proportionate effort that had last been made in 1986 before the precipitous decline of 1987; in education, the 2002 investment level had returned to its level relative to GNP of 1985-86; in health, wholly new levels of 'effort' were being registered and twice the proportion of GNP was being voted for capital spending than had occurred before the fiscal retrenchment of 1987 onwards.

## 3.7 Tax And Social Protection

Fundamental changes to Ireland's taxation system have accompanied its strong economic performance since the early 1990s. As a proportion of GNP, the total tax take declined from 40 per cent in 1986 to 33.7 per cent in 2002.<sup>53</sup> Ireland's low corporation tax attracts significant international attention and has made a significant contribution to its successful economic performance.<sup>54</sup> Another contribution of the tax system to the Celtic Tiger experience was its role in enabling the economic growth that occurred to become steadily more employment-intensive. Tax reforms helped achieve this by hugely reducing the tax-take out of earnings, and out of low earnings in particular. By 2005, the objective of removing those earning the minimum wage from the tax net altogether was achieved. This was regarded as an integral part of ensuring that employment growth contributed to reducing poverty and reliance on social welfare and, for this reason, changes in the tax treatment of low earnings are now summarised.

### 3.7.1 Tax and low earnings

Personal income tax plus employee and employer social security contributions capture the difference between what an employer must pay to employ someone and the disposable income the person receives. They constitute a 'wedge' driven by the tax code between employer labour costs and employee take-home pay. The Irish tax code has one of the smallest tax wedges in the OECD world and not only in the EU (*Taxing Wages 2003-2004*, OECD, 2005). The tax wedge on low earnings (two-thirds of average) fell from 26.5 per cent to 16.7 per cent between 1996 and 2002; over the same period, the same ratio for the EU-15 as a whole marginally declined from 40.6 per cent to 37.8 per cent (Eurostat/New Census). The tax wedge on average earnings was also the lowest in the EU and fell by more than in any other member state (European Commission, 2002). In addition, significant pieces of employment legislation have reinforced the reduction in taxation to make earning on the lowest rungs of the labour ladder more attractive. Social insurance was extended to cover part-time workers in 1991 and an employee PRSI Allowance was introduced in 1994. A national minimum wage was introduced in 2000 and, by 2004, Ireland was one of the few countries where the minimum adult rate was above 50 per cent of median earnings (next to Australia, France and New Zealand<sup>55</sup>). Despite the introduction of some new legislative measures, Ireland's labour market still counts as one of the least regulated in the OECD: its employment protection legislation was the fifth least strict of 28 countries examined by the OECD in 2003 (OECD, 2004b).

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53. Total tax take means exchequer tax revenue plus PRSI contributions and the proceeds of the Health and Training Fund Levies. Department of Finance (2004), *Budgetary and Economic Statistics*.

54. The report of the Enterprise Strategy Review Group (2004) identified Ireland's low corporation tax, but also its transparency (in most other countries, the posted rates and the effective marginal tax rates on business differ widely), the double taxation treaty network and the major reductions in income tax, as all contributing to the economy's strong performance.

55. UK Low Pay Commission Report (2005), *National Minimum Wage*. Table A4.2. See also Eurostat (2004) *Minimum Wages: EU Member States, Candidate Countries and the US, 2004*. Statistics in Focus, 10/2004.



This maintenance and further development of measures that make it easy to employ people with relatively weak earnings power has been based on the conviction that access to employment is the single most important route to reducing poverty and social exclusion. High unemployment had fuelled both in the 1980s and the expansion of employment has certainly worked to erode them from the mid-1990s onwards. The quite vigorous reduction in the tax-take out of low incomes, however, has had other indirect consequences for Ireland's welfare state. While they contributed significantly to 'making work pay' for people with modest skill levels, the reductions for low earners have been part of a wider movement towards lower income tax for everyone. Other things being equal, this has reduced the resources available to the welfare state and altered the relationship between its parts. For example, in 2002, the full tax liability of a married person on the average wage with a stay-at-home spouse and two children was, in effect, being returned to that person in the form of Child Benefit. The implication of this observation is that a modest measure to strengthen a universal cash transfer has been enough to make some workers on the average manufacturing wage net beneficiaries rather than net contributors *in cash terms* from the current tax and welfare codes. By contrast, in the UK and the US, a worker in a similar position contributed approximately 11 per cent of his or her gross earnings to the Exchequer (Table 3.9).<sup>56</sup>

**Table 3.9 The Taxation of Earnings in Ireland**

<b>Average Tax Rates at Multiple of the Average Manufacturing Wage (Single Employee)</b>			
	50 per cent	100 per cent	250 per cent
<b>1987/88</b>	22.0	35.4	50.8
<b>1993/94</b>	21.2	32.4	44.9
<b>2002</b>	2.4	16.1	32.8

<b>Married Couple (One Earner on Average Wage), with Two Children: Income Tax plus PRSI Contributions less Cash Benefits as Percentage of Gross Wage</b>			
	1987	1996	2002
<b>Ireland</b>	22.1	14.6	-0.8
<b>Germany</b>	21.2	21.9	18.6
<b>UK</b>	17.8	17.3	10.9
<b>US</b>	20.2	18.4	11.3

Source: NES (2003: 294), Lane (2003).

56. In 2004, a married couple with 2 children relying on one spouse earning the gross average production wage fared best in Ireland of 30 countries examined by the OECD. (*Taxing Wages, 2003-2004*: Chart 1.2).

A second indirect consequence arises from the fact that individuals rather than households are the basis of the income tax code; they are, thus, the direct beneficiaries of tax reductions. While low earners have benefited proportionately the most from tax reductions, the effect of that on income distribution depends on the distribution of low earners across households. Some of the poorest households have no-one earning, while some households with a high earner have a secondary earner and, thereby, also benefit from tax reductions privileging low earners. Because of this, and the fact that income tax was significantly reduced for everyone<sup>57</sup>, the wider tax and welfare packages that have characterised budgets during the modern period have had an uneven impact in reducing income inequalities across the population as a whole. When the distributive impacts of Budgets since 1987 are compared with the ‘distributionally neutral’ benchmark of imaginary Budgets that indexed all tax parameters (bands, rates, allowances/credits) and social welfare payments in line with annual wage growth, the changes in disposable income per adult equivalent produced by Budgets are as shown in Table 3.10.<sup>58</sup>

Table 3.10 The Distributive Impact of Budgets

Budgets Covered	Quintiles of Disposable Income Per Adult Equivalent (per cent change over the benchmark)				
	Bottom	2nd	3rd	4th	Top
1987–1989	4.2	-2.5	-1.9	-0.2	1.0
1990–1992	3.7	0.0	0.3	1.9	3.7
1993–1994	1.3	1.1	0.4	-0.4	-0.7
1995–1997	-1.9	-1.0	2.0	3.0	1.9
1998–2002	2.3	6.4	11.5	10.9	10.6
2003	0.0	0.4	-0.4	-0.5	-0.7
2004	3.4	2.0	0.5	0.2	-0.2
2005	4.1	1.9	1.1	0.7	0.4

Source Callan *et al.* (2002: Table 3.6); Callan *et al.* (2004: Table 1)

57. Between 1997 and 2003, the standard rate was reduced from 28% to 20% and the top rate from 47% to 42%.

58. This comparison is carried out using the ESRI's SWITCH model which simulates the social welfare entitlements and tax liabilities of a large-scale, nationally representative sample of households.

In the late 1980s, Budgets were generally harsh but protected the incomes of the lowest quintile: they reduced incomes everywhere except for the lowest quintile where they raised incomes significantly. During the first decade of the 1990s (to 1994), Budgets were more benign in their overall impact but preserved a mild redistributive thrust with marginally higher increases in disposable income for the lowest quintile than for other groups. From 1995 to 2002, a regressive pattern was dominant with Budgets improving the disposable income of the top three quintiles by significantly more than for the bottom two quintiles. Finally, after a Budget that almost marked time in 2003, a redistributive thrust has re-emerged with higher increases being occasioned for the lowest quintile than for other groups in the Budgets of 2004 and 2005.

### 3.7.2 Tax reliefs and allowances

A second important way in which the tax code affects social protection in Ireland is through reliefs and allowances granted for social purposes. Ireland has a tradition that began in the late 1950s of using its tax code to stimulate industrial and economic development. Tax reliefs and allowances, however, have also been used to support people in recognised situations of social need and to stimulate private spending on social protection. These have not been extensively studied and, indeed, there is no commonly accepted definition of what constitutes a tax relief or allowance for a social purpose. It is possible to identify 22 operating against income tax and corporation tax during the 1990s.<sup>59</sup> They were, respectively, supporting parents in caring for their children, helping to provide retirement pensions, subsidising health expenditures, supporting access to or the provision of accommodation, helping workers who became unemployed, and encouraging philanthropic organisations.

Over the seven year period, 1993-2000, the total value of tax reliefs and allowances for social purposes rose from 3.2 per cent to 4.3 per cent of GNP (Table 3.11). By the year 2000, their value was equivalent to 51 per cent of the total expenditure of the Department of Social and Family Affairs, up from 27 per cent in 1993. As a percentage of the value of tax reliefs and allowances granted against income and corporation tax for all purposes (industrial and economic as well as social), those for social purposes increased from 20 per cent to 29 per cent. Driving this increase was the cost of reliefs and allowances supporting pensions and the incomes of people in their older years. These rose from 1.7 per cent of GNP in 1993 to 3.4 per cent in 2000, and from some 11 per cent of the estimated cost of total tax reliefs and allowances for all purposes to 23 per cent. By the year 2000, they were equivalent to 41 per cent of the total expenditure on social welfare by the Department of Family and Social Affairs, as against 14.4 per cent in 1993. By contrast, the more modest tax supports for housing dwindled in their absolute value and relative to GNP and direct social welfare expenditure. The tax supports for parenting and children, and for health, increased in absolute terms but not significantly in relation to GNP or overall welfare spending.<sup>60</sup> When tax

59. Against income and corporation tax only. The 'cost' of zero-rating children's clothing and shoes for VAT, and the exemption of sales of people's homes from Capital Gains Tax, are not included.

60. An estimated 1.9 million persons, or approximately 49 per cent of the population, were covered by private medical insurance in 2002. Those who take out private cover tend disproportionately to be in employment, married and aged between 35 and 54 (QNHs, 2001). The largest private insurer (VHI) had over 1.5 million members, collected €647m in premiums and paid out €494m on claims for medical expenses (mainly for hospital treatment) that same year.

**Table 3.11** Estimated Cost of Tax Allowances and Tax Reliefs<sup>1</sup> for Social Purposes, 1993/94 – 1999/2000 (€m).

	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99	1999–00
Total Tax Allowances and Reliefs for Social Purposes (€m)	1252.9	1406.7	1585.5	1883.0	2249.3	2584.9	3197.61
...as per cent of all Allowances and Reliefs	20.2%	20.4%	21.5%	23.1%	23.7%	25.1%	29.0%
...as per cent of Total Social Welfare Expenditure	27.2%	29.4%	29.7%	33.9%	39.1%	42.8%	50.9%
...as per cent of GNP	3.2%	3.4%	3.4%	3.7%	3.8%	3.8%	4.3%
Total Tax Allowances and Reliefs supporting Old Age (€m) <sup>2</sup>	665.6	858.6	1003.3	1334.9	1640.6	1978.8	2572.8
...as per cent of all Allowances and Reliefs	10.7%	12.4%	13.6%	15.8%	17.3%	19.2%	23.3%
...as per cent of Total Social Welfare Expenditure	14.4%	18.0%	18.8%	23.2%	28.6%	32.7%	40.9%
...as per cent of GNP	1.7%	2.1%	2.2%	2.5%	2.8%	2.9%	3.4%

**Source** Revenue Statistical Reports (see Appendix 3B)

**Note** 1. Against income tax and corporation tax.

2. These are the estimated costs of the Exemption Limit for Income Tax (for 65 years+), the Age Allowance, Employees' Contributions to Approved Superannuation Schemes, Employers' Contributions to Approved Superannuation Schemes, Exemption of Net Income of Approved Superannuation Schemes and Retirement Annuity Premiums

expenditures on private pensions are stripped out, the cost of the remaining tax reliefs and allowances for social purposes is 1 per cent of GNP (2002). Significant changes have taken place within this set of tax allowances and reliefs, however. Some have been cut back (mortgage interest tax relief, child additions to income tax exemption limits) while the cost of others has grown rapidly (the lone parent's tax allowance, health expenses relief, private rental relief) (See Appendix 3.B to this Chapter).

### 3.8 A Provisional Balance Sheet

This chapter has sketched the arrangements in place in Ireland to provide social protection. The expedient adopted was to track the current scale and nature of public spending, both on direct public service provision and what is channelled to families, voluntary organisations and to subsidise commercial provision. Many of the policy changes since the mid-1980s suggest that Ireland's hybrid system of social protection is **performing well**. For example:

- ◆ Ireland combined rapid and employment-intensive economic growth with increases in the level and coverage of income support provided to those without jobs. Unlike the USA or Britain, no fall in the real wage or cutbacks in income support accompanied its extremely rapid employment creation.<sup>61</sup> Absolute and per capita levels of social welfare spending, in real terms, increased significantly;
- ◆ A significant number of measures were introduced to support the family in its caring role as rising female employment rates wholly changed the basis on which it had traditionally done so (the Carer's Allowance, Carer's Benefit, Respite Care Grant, Employment of Carer Tax Allowance, etc.; for children, the extension of maternity benefit, increase in Child Benefit, etc);
- ◆ Through the above and in other ways significant progress was made in attaining gender neutrality;
- ◆ The need for people with disabilities to have greater access to mainstream services, their right to enjoy the autonomy of which they are capable, and higher standards for people in every form of institutional care, are being promoted and advanced;
- ◆ The income tax and social insurance codes interfere minimally with employer's decisions to recruit low-skilled workers. The tax wedge (income tax and PRSI contributions) on average and low earnings is the lowest in the EU 15;
- ◆ A set of in-work benefits or employment supports have been developed that increase the incentive for groups of working-age welfare recipients to take employment and/or better their skills;
- ◆ The hardship associated with the lowest money incomes has been significantly reduced through the combination of a higher floor to real incomes and improved benefits-in-kind (e.g., the 'Free schemes'). The high-profile measure of 'consistent poverty' records a steady decline from 17.7 per cent in 1987 to 4.7 per cent in 2001 in the percentage of persons living on below 60 per cent of mean income and in a household experiencing enforced deprivation;
- ◆ The rise in educational participation by young people and the standards they are attaining are good by international standards. Public expenditure per student at primary and secondary levels has begun to rise appreciably;

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61. For example, it is cited as an example of a country which successfully forged an alternative path to the labour market deregulation and social welfare stringency advocated by the OECD Jobs Study of the mid-1990s, Schneider (2003).

- ◆ The social insurance code has been extended to embrace more groups of workers (part-time, self-employed and new public service workers) and to provide cover for new types of risk (caring, adopting a child);
- ◆ A strong legislative and institutional framework to promote equality has developed, and a national minimum wage has been introduced;
- ◆ Social partnership arrangements at national and local level have allowed more actors to access the social policy formation process;
- ◆ Innovative arrangements at local level have helped to mobilise local communities and alter the manner in which some key social and employment services are delivered in their areas;
- ◆ Action has been taken to position Ireland's welfare state to meet the rising pension bill of the future (the National Pension Reserve Fund). In addition, premature retirement on a large scale has not developed in Ireland; the country currently has the highest average exit age from the workforce in the EU 15 (Amitis *et al*, 2003);
- ◆ Significant progress has been made in recovering ground lost during a period of severe fiscal retrenchment and the quality of the infrastructures through which services are provided is being significantly improved.

If Ireland's current welfare state were not showing this resilience and adaptability, in all likelihood a greater sense of crisis would now characterise social policy and it would be easier for the social partners to explore and accept radical changes. The mature welfare states of other countries are experiencing significantly greater pressures for reform, leading some authors to speak of a 'new era of austerity' for Western populations (Pierson, 2001). By comparison, Ireland is fortunate. Its lower investment in social protection over the decades and late qualification as an advanced economy have kept it from building a heavy welfare edifice, while its public finances, low unemployment and expansion of private services employment, including at the lower productivity end, are good by EU standards. But Ireland's welfare state *is* being challenged — to revise systems that model low expectations and achieve low outcomes for a minority, to support its population more adequately in changed times, and to institutionalise wholly new standards of participation and care for its most dependent and vulnerable members. Ireland's social partners and political system need to bring greater focus to welfare reform in Ireland both by appreciating how much has been achieved and by facing the seriousness of current needs. In and through the national system of social protection that has been sketched above, **three sets of social deficits** and emerging challenges are proving particularly difficult to address.

One set is the experience of a minority characterised by low educational attainment and long durations on means-tested social assistance.

- ◆ Children enrolling in primary schools designated as disadvantaged show significant lags in their school preparedness (their reading literacy score compared to national average) and the gap is still there five years later. Schools with larger numbers of students from poor backgrounds have higher levels of absenteeism and, when of an age to do so, such students are more likely to engage in levels of part-time work that impact negatively on their school performance.
- ◆ At a time when some 55 per cent of young people are entering third level education, another 18 per cent are not completing secondary school. 38 per cent of male students are not taking the Leaving Certificate in Dublin, with the proportion as high as 60 to 65 per cent in disadvantaged areas. More of the employment needs of new ICT and financial services companies are having to be met by skilled immigrants.
- ◆ Socio-economic inequalities in health are deeply rooted, beginning at birth. The proportion of low birthweights rose during the 1990s (from 4.2 per cent of all births to 5 per cent), with socially disadvantaged mothers most involved. Death rates in later life are significantly higher for people in the lowest socio-economic group than for those in the highest (e.g., twice as high when male deaths from circulatory disease are compared).
- ◆ Though unemployment has been massively reduced, dependence on means-tested social welfare by people of working-age has actually increased. More than a quarter of a million people of working-age are being means-tested at a time when the economy is pulling in a substantial number of workers from overseas. In some instances, a person may become entitled to social welfare while still in their teens and remain on it until they are reclassified as early retired. Significant disincentives to taking employment arising from benefit withdrawal have re-emerged (e.g., rent supplement, medical card).
- ◆ The combination of low educational attainment and early exposure to life on means-tested social assistance risks causing the inter-generational transmission of disadvantage when young people reduce their expectations and goals in life to protect themselves from further failure. Socially disadvantaged young people are disproportionately exposed to a growing spectrum of risks, from depression to crime. Despite more than a decade of attention to and support for area-based strategies, there are still high local concentrations of multiple disadvantage compounding the danger of its intergenerational transmission.
- ◆ The proportion of the population living on money incomes significantly below the levels characterising Irish society in general has grown steadily. Some 22.7 per cent of the population were below the 60 per cent of median income line in 2003, a rise from 19.8 per cent in 1998 and 15.6 per cent in 1994.

A second set is experienced by people in employment but without sufficiently large earnings to be in a position to purchase the additional social protection they need over and above what they can currently access through public services.

- ◆ The speed with which women's employment rates rose in Ireland has few international precedents. It has been a major factor behind the country's impressive economic performance, and its development of the services sector in particular. Many of these women also bear and rear young children, yet childbirth-related leave is not particularly generous by European standards, while childcare facilities remain patchily available and cost Irish workers more than almost anywhere else in Europe. Employment rates among women drop particularly sharply in Ireland compared to other countries after the birth of a first and second child.
- ◆ In other instances, workers combine their job commitment with responsibility for an elderly parent or housebound relative living alone, a phenomenon set to grow markedly as the number of people aged 80 or over rises from 90,000 in 1996 to an estimated 200,000 by 2031, and as persons with severe disabilities live longer. Supports to workers in their dual role as carers have made a rapid appearance in Ireland but the scale of what will be needed in the years to come constitutes a major challenge.
- ◆ The ease and cost of access to public health services for employees on modest earnings have deteriorated in recent years. Eligibility for the medical card has been restricted and the charges they face have risen.
- ◆ A growing number of people have only been able to afford satisfactory housing at a considerable distance from their place of work and poorly served by public transport networks. Reliance on the car and commuting times have risen.
- ◆ Ireland's success in educating its young population is a justly celebrated feature of its economic resurgence. The workforce, however, includes a significant number of people who did not complete their secondary education. Many are concentrated in employments vulnerable to the economy's restructuring (traditional manufacturing, low-skilled jobs in semi-State bodies, etc.). Without tailored supports, innovative pedagogies and effective co-ordination between employers and education and training bodies, the 'innovative, knowledge-based economy' risks being harsh to them and kind principally to younger cohorts.



The third set faces the entire community as the rights of neglected minorities and sub-groups in the population become articulated and society addresses, often for the first time, its collective responsibility for persons with special needs. Thus:

- ◆ There is a greater, including State-assisted, vigilance for human rights and recognition of the social evils of discrimination and racism. It is accepted that the role of the State is not just to see that people's individual rights are not interfered with but goes further to ensure that each person has access to the social and economic resources that underpin the individual's development and participation in society. Prominent examples are in the area of disability and special needs education for children.
- ◆ There has been a shift from a medical interpretation of disability as an 'evident' impairment arising from an individual's physical or intellectual traits to a social interpretation, which sees the impairment arising largely from prevailing attitudes and practices in society. The responsibility on the State to provide tailored educational services to people with special needs has come sharply into focus. It is no longer considered acceptable that the family should shoulder alone the care of vulnerable members. In a similar fashion, the opportunity for more autonomy and independent living is sought for and needed by people with chronic health conditions and the elderly.
- ◆ A higher professionalism, more holistic approach and much improved amenities are sought for and needed in every type of institution where individuals are the responsibility of the State (children's homes, welfare homes for older people, psychiatric institutions, asylum seekers accommodation, centres for young offenders, prisons, etc.).

As important as these needs are, there is the realisation that additional resources in many instances do not guarantee the outcomes sought. New ways of working, new policy instruments and institutional innovations are required if additional resources are to be effective in significantly improving on social outcomes.

The weaknesses rather than the strengths of the incremental, diverse and ad hoc way in which public spending on social protection has evolved in Ireland came more to the fore when new fiscal pressures materialised for a period from mid-2001 onwards. Arguably, it was easier to overlook the lack of an overarching rationale to social policy when additional resources could be provided across the entire system than when resources were everywhere being pared back. It can be argued that the cumulative impact of many priorities that have been acted upon in recent years — extending the medical card to all aged 70 or over rather than to children, increasing tax expenditures on private pensions rather than increasing the State's contributory pension, purchasing hospital treatment for public patients from private hospitals when public hospitals need further investment, providing major increases in Child Benefit while a significant number of children remain below the poverty line — shows a 'system' for social protection that is much less systematic than it has the potential for becoming.

It is opportune to seek an overview now of what it is intended to achieve and how across the spectrum of current and emerging social needs for several reasons:

- ◆ the complexity of Ireland's hybrid and mixed welfare state;
- ◆ the multiple groups and interests that are involved in providing services and in seeking them;
- ◆ the degree of consultation and participation to which there is already a formal commitment;
- ◆ the extent of disagreement and fatigue that has dogged much of the search for more effective social policies on several fronts;
- ◆ the unevenness of the progress that has been made on different fronts;
- ◆ the inability of substantial increases in resources at times to produce commensurate improvements in outcomes;
- ◆ the need to balance capital with current spending and to adopt multi-annual budgets for developing services as well as for rolling out capital infrastructures; and
- ◆ the necessity of close interdepartmental and cross-agency working if expenditure programmes in several instances are to be evaluated by outcomes.

### Appendix 3A Public Expenditure on Social Protection, Principal Government Departments, 1985-2002

Year	Old Age <sup>1</sup>	Unemployment <sup>2</sup>	Child Benefit	SWA	Illness, Disability & Caring <sup>3</sup>	Lone Parents <sup>4</sup>	Total Current Spending:		Total Voted Current Spending:		Voted Capital Expenditure		Total Capital Expenditure	
							DSFA <sup>5</sup>	DHC <sup>6</sup>	DSFA <sup>5</sup>	DHC <sup>6</sup>	DES <sup>7</sup>	DHC <sup>6</sup>	DES <sup>7</sup>	DHC <sup>6</sup>
1986	836	844	261	37	453	97	3,149	1,553	1,281	126	75	490	23,675	
1987	877	865	273	41	456	114	3,293	1,557	1,464	119	73	472	25,380	
1988	900	858	268	44	434	129	3,320	1,564	1,451	78	54	256	26,702	
1989	931	869	264	46	420	145	3,382	1,674	1,549	69	57	172	29,598	
1990	990	897	266	62	431	181	3,568	1,859	1,627	85	56	155	32,174	
1991	1,054	1,054	274	79	454	212	3,927	2,071	1,771	79	46	157	33,595	
1992	1,128	1,245	278	114	469	251	4,357	2,323	1,966	94	42	182	35,542	
1993	1,171	1,331	294	124	479	278	4,607	2,561	2,164	104	42	241	38,576	
1994	1,205	1,309	337	137	495	308	4,775	2,725	2,353	126	69	354	41,785	
1995	1,223	1,274	382	152	586	344	5,332	2,919	2,462	129	117	405	46,692	
1996	1,262	1,284	477	174	711	379	5,558	2,989	2,618	141	147	427	51,545	
1997	1,315	1,173	506	200	793	442	5,744	3,443	2,971	162	161	442	59,059	
1998	1,425	1,071	532	223	856	487	6,046	3,819	3,077	356	179	484	68,187	
1999	1,525	909	565	240	935	530	6,283	4,574	3,333	362	228	652	76,552	
2000	1,707	734	638	295	1,049	572	6,713	5,359	3,684	513	291	878	87,933	
2001	1,987	721	965	364	1,233	631	7,842	6,739	4,166	498	371	1,328	96,802	
2002	2,296	935	1,463	485	1,454	711	9,520	7,867	4,765	564	505	1,597	103,429	

#### Notes to Appendix 3A

- OACP, OANCP, RP and, from March 1990, PRETA. Up to and including 1994, the Blind Pension is included (it was then transferred to the Illness, Disability and Caring Programme).
- Includes Unemployment Benefit, Pay-Related Unemployment Benefit and Unemployment Assistance.
- Includes Disability Benefit; Invalidity Pension and Occupational Injuries Benefit from 1986 onwards; the Carer's Allowance from its introduction in 1990; the Pay-Related elements to Disability and Injury Benefit until discontinued from April 1992; the Carer's Benefit introduced in 2000.
- Widow/er's Contributory and Non-Contributory Pensions not included. Included are Deserted Wife's Benefit and Allowance, Unmarried Mother's and Prisoner's Wife's Allowances; Lone Parent's Allowance introduced November 1990 and discontinued December 1996.
- From successive editions of Statistical Information on Social Welfare Services.
- Estimated Non-Capital Health Expenditure by Programme and Service, Department of Health and Children. [www.doh.ie/statistics](http://www.doh.ie/statistics).
- Summary of Education Statistics, Department of Education and Science.
- Department of Environment, Heritage and Local Government: Annual Housing Statistics Bulletin; Budget Speeches; 1983-1992. Capital spending financed by the Exchequer and Local Authority Capital Receipts.
- ESRI data bank.

## Appendix 3B Tax Allowances and Tax Reliefs for Social Purposes, 1993/94 to 1999/2000

Costs of Allowances and Reliefs <sup>1</sup>	1993-94 £m	1994-95 £m	1995-96 £m	1996-97 £m	1997-98 £m	1998-99 €m	1999-00 €m
<b>Supporting Children/Parenting</b>							
Child Additions (to Exemption Limits for Income Tax)	36.8	28.9	26.8	28.8	24.0	17.9	5.5
Additional Personal Allowance for Lone Parent	16.7	24.7	32.2	37.0	50.3	84.2	111.4
Additional Allowance for Incapacitated child	1.9	1.9	2.0	2.4	2.4	3.3	3.5
Exemption from Tax of Child Benefit	58.9	66.5	76.5	91.8	91.2	116	127.2
Exemption from Tax of Maternity Allowance	3.4	4.4	5.6	5.9	6.1	7.9	7.6
<b>Supporting Old Age</b>							
Addition to Exemption Limit for Income Tax (for 65 years+)	30.3	27.7	16.8	17.3	12.8	16.1	12.4
Age Allowance	6.0	5.8	6.3	6.5	14.1	17.7	15.9
Employees' Contributions to Approved Superannuation Schemes	58.0	87.0	113.0	154.0	202.0	328.9	456.0
Employers' Contributions to Approved Superannuation Schemes	142.0	160.0	198.0	266.0	343.0	533.4	645.0
Exemption of Net Income of Approved Superannuation Schemes	245.2	344.0	399.0	500.0	648.0	966.5	1274.0
Retirement Annuity Premiums	42.6	51.6	56.9	71.3	71.9	116.2	169.5
<b>Health</b>							
Relief in Respect of Medical Insurance Premiums	63.4	69.2	62.2	53.3	57.3	75.1	86.9
Health Expenses Relief	9.3	14.4	17.3	20.5	22.6	31.6	38.4
Contributions under Permanent Health Benefit Schemes, after deduction of Tax on Benefits received	2.1	2.2	2.2	2.5	2.7	3.5	3.8

*continued >*

Costs of Allowances and Reliefs <sup>1</sup>	1993-94 £m	1994-95 £m	1995-96 £m	1996-97 £m	1997-98 £m	1998-99 €m	1999-00 €m
<b>Housing</b>							
Loans relating to Principal Private Residence	216.1	160.0	162.2	151.5	143.6	178.4	158
Rent paid in Private Tenancies	1.2	1.1	5.6	7.6	9.0	11.9	13.0
Rented Residential Accommodation	17.6	21.5	24.4	25.2	25.4	32.3	31.3
<b>Unemployment</b>							
Exemption of Statutory Redundancy Payments	9.7	8.9	8.3	6.4	7.8	8.1	11.6
Revenue Job Assist Allowance	0	0	0	0	0	1	2.7
<b>Education</b>							
Third Level Education Fees	0	0	0	1.5	2.0	2.6	3.0
Allowance for School Donations	0	0	0	0	0	0.004	0.005
<b>Other</b>							
Exemption of Income of Charities, Colleges, Hospitals, Schools, friendly societies, etc.	25.3	27.8	33.1	33.2	34.9	32.3	20.9
<b>Total Tax Allowances and Tax Reliefs for Social Purposes</b>	<b>£986.5</b>	<b>£1,107.6</b>	<b>£1,248.4</b>	<b>£1,482.7</b>	<b>£1,771.1</b>	<b>€2,584.9</b>	<b>€3,197.6</b>

Source: Office of Revenue Commissioners. Statistical Reports.

Note 1. Against Income tax and Corporation tax only; VAT not included (thus, zero rating of children's clothing and shoes not costed); exemption of principal private residence from Capital Gains Tax not included.

## Appendix 3C The Growing Complexity of Ireland's Social Policy Institutional Framework

Lead Department (current name)	Institutional Development (year established)
<b>Social and Family Affairs</b>	Combat Poverty Agency (1986) Pensions Board (1990) Money Advice and Budgeting Service (1997) Cómhairle (2000) National Committee on Volunteering (2000) Family Support Agency (2001) Office of Social Inclusion (2002) NAPS Social Inclusion Forum (2003)
<b>Health and Children</b>	Health Research Board (1986) Health Promotion Unit (1988) National Council on Ageing and Older People (1997) Institute of Public Health (1998) Social Services Inspectorate (1999) Eastern Regional Health Authority (2000) Crisis Pregnancy Agency (2001) Health Insurance Authority (2001) National Children's Office (2002) National Children's Advisory Council (2002) National Treatment Purchase Fund (2002) Ombudsman for Children Office (2004)
<b>Education and Science</b>	National Council for Vocational Awards (1991) National Council for Curriculum and Assessment (1998) National Educational Psychological Service Agency (1999) Action Group on Access to Third Level Education (2000) National Educational Welfare Board (2001) National Qualifications Authority (2001) Further/Higher Education and Training Awards Councils (2001) Centre for Early Childhood Education and Care (2001) Educational Disadvantage Committee (2002) National Adult Learning Council (2002) National Council for Special Education (2003) State Examinations Commission (2003) National Office for Equity in Third Level Education (2003)

*continued >*

Lead Department (current name)	Institutional Development (year established)
Enterprise, Trade and Employment	FÁS (1986) County Enterprise Boards (1993) Local Employment Service (1996) Territorial Employment Pacts (1997) Skillnets (1998) National Training Fund (2000)
Justice, Equality and Law Reform	Refugee Agency (1991) National Consultative Committee on Racism and Interculturalism (1998) National Coordinating Committee on Childcare (1999) Equality Authority (1999) National Disability Authority (2000) Office of the Refugee Applications Commissioner (2000) Refugee Appeals Tribunal (2000) Childcare Directorate (2001) National Crime Council (2001) Reception and Integration Agency (2001) County Childcare Committees (2001)
Community, Rural & Gaeltacht Affairs	Local Drugs Task Forces (1997) Western Development Commission (1999) National Advisory Committee on Drugs (2000)
Environment and Local Government	Housing Unit (1998) National Traveller Accommodation Consultative Committee (1999) National Housing Forum Local Authority Anti-Poverty Network (2000) City and County Development Boards (2001) Private Residential Tenancies Board (2003)
Taoiseach	Area-Based Partnerships (1991, 1994) Area Development Management Ltd. (1992) National Economic and Social Forum (1993) National Centre for Partnership and Performance (2001) Human Rights Commission (2002) NESDO (2002)
Finance	National Pensions Reserve Fund (2001) National Development Finance Agency (2003)

Note Only institutions created since 1986 are included.

# 4

## Ireland's Social Protection in a Comparative Context



## 4.1 Introduction

This chapter uses the principal international data sets on countries' social spending to highlight characteristics of Ireland's welfare state (4.2). Several factors in addition to the specific social policies a country adopts can impact strongly on the level of social spending — principally the age structure of a population and the level of unemployment — and these are explored in section 4.3. Finally, the links between given levels of social spending — particularly the public part of it — and the attainment of satisfactory social outcomes are explored in section 4.4. A fifth section concludes.

## 4.2 Welfare State Differences in Practice

### 4.2.1 Differences in expenditure patterns

#### The balance between cash transfers and services

The member states of the European Union are usefully regarded as constituting four welfare state clusters or 'families', a Nordic group, a Continental European group, an Anglo-Saxon group and a Southern European group.<sup>1</sup>

There have been frequent attempts to distinguish between these families by the degree of their respective emphases on providing cash transfers and services. For example, it is frequently assumed that the Nordic welfare model is strong on services and the Continental European one strong on cash transfers. Generally, the empirical evidence has supported these characterisations. However, it has been less clear as to which patterns are assumed to prevail in the Anglo-Saxon and Southern European welfare families, or indeed whether the dichotomy between transfers and services is of major importance to capturing what most characterises them in the first place.

In what follows, use is made of Eurostat's system for gathering and classifying social protection expenditures. We take advantage of the distinction made between benefits in kind and cash benefits, and — within each category —

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<sup>1</sup> Ferrera and Hemerijck, 2003; Ferrera et al, 2000; Esping-Andersen, 1990. Where no other ranking is suggested by specific subject matter, tables for members states of the European Union in this report are grouped by these welfare state clusters.

between expenditure that is means-tested and that which is not.<sup>2</sup> When this was done for data covering the period 1990-1997, three clusters of countries were identified within the European Union in terms of their redistribution strategies (Kautto, 2002). The analysis below uses newer data for the period, 1993-2001, in an attempt to capture what some of what currently characterises Ireland's welfare state in the European context.<sup>3</sup>

### Service effort and transfer effort

When social expenditures on benefits in kind and cash benefits respectively are expressed as a proportion of a country's GDP, the resultant ratios are conventionally termed indicators of the 'service effort' and 'transfer effort' being made through that country's welfare state. When expenditure on benefits in kind is expressed as a proportion of a country's spending on both benefits in kind and cash transfers, the resultant ratio can be regarded as an indicator of the 'service emphasis' in its welfare state. On the basis of these three indicators and with data for 1990 and 1997, Kautto identified three groups of countries as follows (*op. cit.*, p.62):

- ◆ A 'service approach' group characterised by high service effort, and average or high transfer effort (Sweden, Denmark, Norway, Finland and — by 1997 — Germany and the UK);
- ◆ A 'transfer approach' group characterised by high transfer effort, average or low service effort and low service emphasis (Belgium, the Netherlands, Austria and Italy);
- ◆ A third group characterised by low service effort and low transfer effort (Ireland, Greece, Portugal and Spain).

This characterisation of Ireland solely on the basis of GDP ratios and without reference to service emphasis or degree of reliance on means-testing can be improved on. Table 4.1 uses data for 1993 and 2001 and presents the indicators of 'service effort' and 'transfer effort' for fourteen EU member states.<sup>4</sup>

Several points are worth noting in Table 4.1.

- i. No country — in either year — devoted a greater proportion of its GDP to providing services than to providing cash benefits.
- ii. In 1993, the three Nordic countries had the highest levels of 'service effort', followed by France and the United Kingdom. By 2001, the picture had become more diverse. France, the United Kingdom and Greece had overtaken Finland, while Sweden and Denmark retained the top two rankings.

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2. *Benefits in kind* are benefits granted in the form of goods or services. They may be provided directly or by way of reimbursement. Direct provision refers to a good or service granted to meet a social need or help avoid a social risk and for which the full cost is not charged (public health services, access to housing, access to public transport, etc.). A reimbursement is a benefit that compensates wholly or in part for certified expenditures made on specified goods or services (e.g. the Drugs Payment Scheme in Ireland). *Cash benefits* include all income supports — periodic payments and lump sums, contributory, means-tested and universal — which are supporting individuals or households experiencing need or at risk of doing so. For the full definitions see *Esspros Manual* (1996).

3. The analysis here also incorporates the data on means-testing, not used in Kautto, *op. cit.*

4. The social protection expenditures are analysed net of administration costs and other miscellaneous items.

Table 4.1 Service Effort and Transfer Effort in European Welfare States, 1993 and 2001

	Service effort: expenditure on benefits in kind as % GDP				Transfer effort: expenditure on cash benefits as % of GDP			
	1993	Rank 1993	2001	Rank 2001	1993	Rank 1993	2001	Rank 2001
Denmark	11.0%	2	11.0%	2	20.0%	6	17.6%	7
Sweden	14.7%	1	13.0%	1	23.0%	2	17.6%	7
Finland	9.8%	3	8.6%	7	23.8%	1	16.4%	11
Austria	8.1%	7	7.9%	9	20.2%	5	19.7%	2
Germany	8.2%	6	8.7%	6	19.1%	8	20.0%	1
Netherlands	7.7%	8	8.0%	8	23.0%	2	17.7%	6
Belgium	6.0%	14	7.2%	10	21.5%	4	18.7%	3
France	9.7%	4	9.8%	3	19.4%	7	18.5%	4
United Kingdom	9.1%	5	9.4%	5	18.6%	10	16.9%	9
Ireland (GDP)	7.3%	9	6.9%	12	12.1%	13	7.1%	14
<b>Ireland (GNP)</b>	<b>8.2%</b>	<b>(6)</b>	<b>8.2%</b>	<b>(8)</b>	<b>13.6%</b>	<b>(13)</b>	<b>8.4%</b>	<b>(14)</b>
Italy	6.1%	12	6.3%	13	19.1%	8	18.2%	5
Greece	6.9%	10	9.6%	4	14.3%	12	16.9%	9
Spain	6.1%	12	5.9%	14	17.3%	11	13.7%	13
Portugal	6.5%	11	7.2%	10	12.0%	14	13.8%	12

Source: European Social Statistics. Social Protection: Expenditure and Receipts. Data 1992-2001.

- iii. Overall, stability characterised the 'service effort' across the EU (including in Ireland when GNP is used). The variance between countries was lessened as Sweden and Finland witnessed some retrenchment while there was a notable increase in Greece and, to a lesser extent, in Belgium.
- iv. By contrast, there was a more generalised reduction in 'transfer effort' over the period, driven by reductions in unemployment and policy changes, and an increase in the variance between them.

- v. In 1993, the two highest levels of 'transfer effort' were also in Scandinavia, viz., Finland and Sweden, with the Netherlands in third place. By 2001, differential reductions in unemployment and policy changes combined to alter the rankings quite considerably – countries in the Continental European group occupied the top positions and the top three in 1993 had middle rankings.
- vi. Only Greece significantly increased its 'transfer effort' over the period; in the majority of countries (excepting Portugal, Germany and Austria), there was a significant reduction with Ireland posting a particularly large decrease. In fact, by 2001, Ireland was the only country where its respective levels of spending (as a proportion of GNP) on cash benefits and benefits in kind were of a similar magnitude.

### Service emphasis and means-testing

The indicator of 'service emphasis' (expenditure on benefits in kind as a percentage of total social protection expenditure) and a measure of the degree of reliance on means-testing (expenditure on means-tested cash benefits and benefits in kind as a percentage of total social protection expenditure) are presented in Table 4.2. The top three countries on 'service emphasis' are the same in 1993 and 2001, viz., Sweden and Denmark and, somewhat surprisingly, Ireland. Over the eight years, there was either little change in 'service emphasis' (4 countries) or clear growth, with Ireland leading the way (an increase of 11 percentage points); expressed the other way around, no country registered an increase in 'transfer emphasis'.

At both the beginning and the end of the period, Ireland is exceptional for the high proportion of its social protection expenditure which is means-tested. The degree of reliance — 24.5 per cent of all social protection expenditure was means-tested in 2001 — was more than nine times greater than in the country which least resorted to it (Belgium) and ahead of the United Kingdom, the second heaviest user of means-testing, by a full nine percentage points. It did not notably decrease in Ireland over the eight years to 2001. Countries with very low degrees of reliance on means-testing (below 5 per cent) are found in each of the 'welfare families' other than the Anglo-Saxon one, viz., Denmark and Sweden, Belgium, and Italy.

#### 4.2.2 Differences in taxation structures

The levying of tax has important functions other than funding the welfare state, many of which (running the civil service, defence, building physical infrastructures in the national interest, education, etc.) predate by far its advent in the late 19th century. However, especially since the 1960s, the welfare state has assumed such a major role in public consumption that its requirements have exercised a major influence on the level and manner in which states raise tax revenue. Increases in the tax-to-GDP ratio in many European countries up to the early 1990s can be explained primarily by the need to finance social welfare commitments (in pensions, health care, etc.). While this study is not concerned with a detailed study of taxation, some stylised facts about the structure of national taxation systems as they appear to accompany different types of welfare state are briefly presented. Some of them can fairly be argued as integral to the level and nature of social protection that countries choose to provide.

**Table 4.2 Service Emphasis and Reliance on Means-Testing in European Welfare States, 1993 and 2001**

	<b>Service emphasis: expenditure on benefits in kind as % of social protection expenditures</b>				<b>Reliance on means-testing: expenditure on means-tested cash benefits + benefits in kind as % of social protection expenditures</b>			
	<b>1993 %</b>	<b>Rank 1993</b>	<b>2001 %</b>	<b>Rank 2001</b>	<b>1993 %</b>	<b>Rank 1993</b>	<b>2001 %</b>	<b>Rank 2001</b>
<b>Denmark</b>	34.6	3	37.4	3	2.8%	13	2.8%	13
<b>Sweden</b>	38.5	1	41.7	2	6.2%	8	4.3%	11
<b>Finland</b>	28.4	9	33.3	6	12.8%	4	12.0%	4
<b>Austria</b>	27.9	10	27.9	12	4.1%	12	5.4%	10
<b>Germany</b>	28.9	8	29.1	10	9.7%	6	8.9%	7
<b>Netherlands</b>	23.9	12	29.1	10	7.4%	7	10.9%	5
<b>Belgium</b>	20.6	14	26.2	13	2.4%	14	2.6%	14
<b>France</b>	31.4	4	32.7	7	10.5%	5	10.7%	6
<b>United Kingdom</b>	31.3	6	34.4	5	18.0%	2	15.0%	2
<b>Ireland</b>	<b>35.9</b>	<b>2</b>	<b>47.2</b>	<b>1</b>	<b>23.2%</b>	<b>1</b>	<b>24.5%</b>	<b>1</b>
<b>Italy</b>	23.1	13	24.7	14	4.4%	11	3.9%	12
<b>Greece</b>	31.4	4	35.2	4	6.0%	9	8.3%	8
<b>Spain</b>	25.4	11	29.5	9	13.6%	3	12.3%	3
<b>Portugal</b>	31.0	7	30.2	8	5.9%	10	7.0%	9

Source: European Social Statistics. Social Protection: Expenditure and Receipts. Data 1992-2001. (NESC calculations).

The brief evocation of the differences in the structures of taxation systems, which accompany different welfare states, presented below uses the estimates of implicit tax rates in EU member states calculated by the European Commission (European Commission, 2004). These rates provide approximate answers to the question as to what shares, in effect, of the spending of consumers, of the income of labour and of the income of capital are taken in tax revenue. The methodology employed uses solely macro-economic data. The numerators aggregate all tax revenues which can reasonably be attributed to, respectively, the activity of spending, the exercise of labour and the employment of capital; the denominators use national accounts data to form an estimate of the total potential base the economy in question provided for each set of taxes. This approach, as all alternatives, is far from fool proof and requires reasoned assumptions at several stages. The implicit tax rates calculated for corporation income, for example, may bear little resemblance to countries' statutory corporate tax rates, but it is well known that statutory tax rates are a poor guide to effective tax rates as corporation tax codes typically contain depreciation allowances, credits of different sorts, rules for offsetting losses, etc. It is possible, for example, for reductions in high profile tax rates to be accompanied by an increase in implicit tax rates if the former are accompanied by reductions in tax allowances and reliefs, which mean that the lower rates are applied to wider tax bases.

Table 4.3 presents the implicit tax rates on consumption and labour for fourteen EU member states. It is immediately clear that the Nordic group is to the fore in taxing consumption. The already high rates in Denmark and Sweden in 1995 had increased further by 2002 and remained stable in Finland. Ireland has consistently been in fourth position; stability rather than growth characterised its implicit tax rate on consumption over the eight years in question.

Two members of the Nordic family (Sweden and Finland) and two of the Continental European one (Belgium and France) lead the way in taxing the income of labour. The remaining Nordic state, Denmark, is in fifth position because its low social contributions offset to some degree its high income taxes. The 'Anglo-Saxon' duo stand out for having particularly low implicit tax rates on labour and a full four percentage points (in 2002) separated second placed Ireland from Spain, the country with the third lowest implicit tax on labour. Some convergence is apparent across the welfare families in this instance with the implicit tax rate on labour rising in Southern Europe, showing little change in Continental Europe and falling in Scandinavia over the period, 1995-2002. Quite exceptionally, although Ireland already had the third lowest rate in 1995, this dropped by four percentage points by 2002, a significantly greater fall than recorded elsewhere in the EU 15.

Implicit tax rates on capital are particularly difficult to estimate in a standardised way across countries; they are complex aggregate indicators and the interpretation of trends in them is far from straightforward. They attempt to divide aggregate tax revenues on capital by a measure of potentially taxable capital and business income in the economy (whether received by corporations, households,

**Table 4.3** Implicit Tax Rates on Consumption and Labour  
in European Welfare States, 1995–2002

	Implicit Tax Rate on Consumption <sup>1</sup>				Implicit Tax Rate on Labour <sup>2</sup>			
	1995 %	Rank 1995	2002 %	Rank 2002	1995 %	Rank 1993	2002 %	Rank 2002
<b>Denmark</b>	31.3	1	33.7	1	40.7	5	39.9	5
<b>Sweden</b>	28.4	2	30.6	2	48.4	1	46.6	1
<b>Finland</b>	28.2	3	28.0	3	43.9	3	43.9	2
<b>Austria</b>	20.6	8	22.0	6	38.7	7	39.2	7
<b>Germany</b>	18.8	10	18.3	10	39.5	6	39.9	8
<b>Netherlands</b>	22.6	5	24.2	5	35.1	9	31.9	11
<b>Belgium</b>	20.8	7	21.7	7	44.2	2	43.5	3
<b>France</b>	18.3	11	17.4	12	42.2	4	41.8	4
<b>United Kingdom</b>	21.8	6	21.3	8	25.7	14	24.6	14
<b>Ireland</b>	<b>25.2</b>	<b>4</b>	<b>25.8</b>	<b>4</b>	<b>29.8</b>	<b>12</b>	<b>25.9</b>	<b>13</b>
<b>Italy</b>	17.6	12	17.1	13	37.8	8	41.1	5
<b>Greece</b>	17.5	13	18.1	11	34.1	10	37.8	9
<b>Spain</b>	14.3	14	16.3	14	28.9	13	30.0	12
<b>Portugal</b>	19.5	9	20.1	9	31.0	11	33.7	10

**Source** Eurostat (2004), Structures of the Taxation Systems in the European Union, Data 1995–2002

**Notes** 1. The implicit tax rate on consumption is defined as all consumption taxes divided by the final consumption expenditure of private households in the economic territory.

2. The implicit tax rate on employed labour is defined as all direct and indirect taxes and employees' and employers' social contributions levied on employed labour income divided by the total compensation of employees working in the economic territory.

the self-employed or voluntary organisations). Neither the numerator nor the denominator is trivial to estimate from national accounts. A narrow definition focuses approximately on profits, dividends and property income; a broader definition includes taxes that are related to stocks of wealth, as well as on transactions in those stocks — this includes, therefore, all the fees, levies, licenses and the like charged on stocks of wealth and which can be regarded as prerequisites to earning the profit (Irish examples include stamp duties, commercial rates, motor vehicle duties paid by enterprises). More hazards attend comparisons based on the broad definition so estimates of the more narrowly defined implicit tax rate on capital are used in Table 4.4 below (left hand side). As one of the most important taxes on capital is corporation tax, Table 4.4 also includes the implicit tax rate on corporation profits (right hand side).

Again, the intention here is to tell a story in broad outlines and not enter a detailed discussion of taxation. The broad story is that implicit tax rates on capital and business income do not match welfare typologies as closely as either taxes on consumption or labour. For example, each of the three countries with the highest implicit tax rates on capital in both 1995 and 2002 belongs to a different welfare ‘family’. Ireland was in third place in 2002, a significant rise in ranking on its eight position in 1995. With the exception of Denmark and Germany, the implicit tax rate on capital and business income was higher everywhere in the EU 15 in 2002 than in 1995. However, trends in this rate are particularly difficult to interpret. They reflect changes in tax policy most obviously but are also sensitive to other factors — to the business cycle and likely to rise (with a lag) as a pick-up in economic growth is sustained, (e.g. Ireland), to shifts in company policies towards more or less dividend payments, and to booms or slumps in the stock market. Eurostat, who compiled these figures, also considers that the 8-year period, 1995-2002, falls into two distinct sub-periods, one of sustained growth to the year 2000 and the other the 2001-02 slowdown, which make it difficult for policy changes favouring lower implicit tax rates on capital to yet emerge.

Focussing in on the implicit tax rate on corporations, the story is similar. The countries with the highest rates are to be found in each welfare ‘family’ and in most countries (Denmark excepted), the rate has increased, sometimes substantially so. These developments in the implicit tax rates on corporations (or effective tax-take out of their profits) are concealed rather than flagged by what has been happening to the effective top statutory tax rates on corporate income; these fell everywhere in the EU 15 (except Finland) by an average of 5.4 percentage points over the period, 1995-2002, and particularly dramatically in Ireland (from 40 per cent to 16.0 per cent).<sup>5</sup> However, the general profitability of enterprises (including the lesser role played by offsetting losses from previous periods), the restriction of reliefs and allowances and other developments in how tax codes define taxable income appear to have been more significant and to have contributed to increasing the implicit tax rate on corporations even though top statutory rates declined.

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5. *Structures of the Taxation Systems in the European Union, Data 1995-2002*. p. 116.



Table 4.4 Implicit Tax Rates on Capital and Business Income and on Corporations in European Welfare States, 1995-2002

	Implicit Tax Rate on Capital and Business Income <sup>1</sup>				Implicit Tax Rate on Corporations <sup>2</sup>			
	1995	Rank 1995	2002	Rank 2002	1995 %	Rank 1995	2002 %	Rank 2002
<b>Denmark</b>	17.6	4	16.1	13	21.6	1	16.8	11
<b>Sweden</b>	12.4	13	21.0	4	15.7	7	29.0 <sup>2</sup>	2
<b>Finland</b>	22.4	1	25.4	1	16.7	4	22.7	7
<b>Austria</b>	17.9	3	24.1	2	16.0	6	23.0	6
<b>Germany</b>	16.9	6	16.9	12	n.a.	n.a.	n.a.	n.a.
<b>Netherlands</b>	16.1	7	20.3	8	19.0	2	21.7	8
<b>Belgium</b>	15.7	9	18.9	11	14.3	10	21.0	9
<b>France</b>	15.1	10	19.6	10	16.4	5	26.0	3
<b>United Kingdom</b>	18.8	2	20.8	6	17.4	3	29.4	1
<b>Ireland</b>	<b>15.9</b>	<b>8</b>	<b>21.8<sup>3</sup></b>	<b>3</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>
<b>Italy</b>	17.3	5	20.9	5	14.0	11	15.8	12
<b>Greece</b>	9.1	14	13.5	14	15.1	8	23.4	5
<b>Spain</b>	13.7	11	20.5	7	12.7	12	25.5	4
<b>Portugal</b>	12.9	12	20.2 <sup>3</sup>	9	14.9	9	20.6 <sup>3</sup>	10

Source Eurostat (2004), *Structures of the Taxation Systems in the European Union, Data 1995-2002*

Notes 1. The implicit tax rate on capital and business income is defined as all taxes levied on income earned from the activities of private sector investment and saving divided by a measure of potentially taxable capital income in the economy within national accounts.

2. The implicit tax rate on corporation income can be understood as all taxes levied on the income or profits of corporations divided by a measure of their potentially taxable income in the economy within national accounts.

3. 2001 figures

### 4.2.3 Ireland's differences summarised

In summary, Ireland's welfare state — by EU 15 standards — is characterised by a moderate to low 'effort' in providing services (the ranking here is sensitive to choice of GDP or GNP) and a very low 'effort' in providing transfers (this ranking is insensitive). The reasons why Ireland has low ratios of social spending to GDP/GNP relative to other EU countries are explored in the next section. What may be less widely appreciated is that Ireland, consistently during the 1990s, has had a relatively strong emphasis on services within its social spending (though Table 3.1 was, in fact, already evidence of this). This reflects two principal factors, the country's low level of spending on pensions and the dominance of spending on health. In 1993, and by a much wider margin in 2001, spending in Ireland on the sickness/health care function as a proportion all social protection expenditure was higher than anywhere else in the EU 15<sup>6</sup>. The most unusual characteristic of Ireland's welfare state in a comparative context, however, is its high degree of reliance on means-testing (whether of cash transfers or services). Ireland's welfare state is also associated with a taxation structure that is light on labour by EU 15 standards and rests significantly on consumption. For example, taxes on labour accounted for 38 per cent of total tax receipts in Ireland over the period, 1995-2002, as against an EU average of 51 per cent; taxes on consumption contributed 38.5 per cent of total tax receipts as against an EU norm of 28 per cent (European Commission, 2004: 276). Ireland also has a tax-take out of capital and business income that has grown significantly during its economic boom and is relatively high by the standards of the EU 15. In fact, Ireland relies on corporate income taxes for its tax receipts more than most other EU member states; they contributed 10.8 per cent of total tax receipts over the 1995-2002 period on average, as against 7.0 per cent in the EU 15 as a whole (*op. cit.* 284).

## 4.3 The Adequacy of Public Social Spending in Ireland

There is a lively interest in the question as to whether social spending in Ireland is currently at — or below — the level appropriate to the country's means and the population's needs (e.g. O'Reardon, 2004; Timonen, 2004, 2003; Lawlor & McCarthy, 2003; de Buitleir & McArdle, 2003; Healy and Reynolds, eds., 2002 and 1998). There is a lack of agreement, variously, over what the evidence is, how it should be interpreted, and whether and under what conditions higher *public* social spending would be effective in procuring a sufficiently commensurate improvement in outcomes. This section explores these issues. Ireland's social spending is examined in three contexts — the country's own recent historical context (since the start of the current partnership period, 1986), the EU 15 context as presented by Eurostat, and the OECD context as elucidated by a framework designed by that Organisation to capture the diverse forms that social spending takes in advanced industrial countries.

6. In 1993, expenditure on the function Sickness/Health Care was 34.8 per cent of all social protection expenditure in Ireland as against an EU 15 average of 28 per cent; by 2001, it was 43.4 per cent in Ireland as against an EU 15 average of 28 per cent. (*European Social Statistics. Social Protection: Expenditure and Receipts. Data 1992-2001*).

**Table 4.5** Social Spending per capita and GNP per capita, Ireland  
€, constant 1995 prices

Year	Social spending per capita	GNP per capita	Ratio
1992	2,512	11,035	0.23
1993	2,526	11,345	0.22
1994	2,600	12,021	0.22
1995	2,669	12,967	0.21
1996	2,769	13,882	0.20
1997	3,097	15,086	0.21
1998	3,057	16,090	0.19
1999	3,230	17,336	0.19
2000	3,361	18,899	0.18
2001	3,666	19,359	0.19

Source Eurostat (2004: Table b 1.3); Department of Finance (2004: Table 21)

### Ireland's social spending in recent historical context

It is a remarkable feature of Ireland's recent economic performance that despite large increases in social spending since 1986, they nevertheless accounted for declining shares of GNP until about the year 2000 (Chart 3.3). This is because growth in the economy outstripped growth in the principal forms of social spending.

Using the definition of social spending employed by Eurostat (on the significance of this, see below), Table 4.5 shows that Ireland was spending 23 per cent of its GNP per capita on social protection per capita in 1992 but that this had fallen to 19 per cent by 2001. Such was the growth in the economy, this drop of four percentage points in proportionate terms, nevertheless, allowed an increase of 46 per cent in real terms in per capita social spending over the same period. Social spending as a ratio of GNP is frequently used as an indicator of a country's 'welfare effort'. In this sense,

the evidence is that Ireland made a greater ‘welfare effort’ in the late 1980s than in the opening years of the new century. This expression, however, risks misrepresenting the extent to which several forms of social spending in the past were driven by high unemployment, and also the sheer scale of the increases in real spending per capita that have been documented above in several areas of social protection.

#### 4.3.2 Ireland’s social spending within the Eurostat framework

Eurostat gathers data on social spending, according to a wide definition, though not as broad as that adopted in Chapter 3. It defines social spending as ‘all interventions from public or private bodies intended to relieve households and individuals of the burden of a defined set of risks or needs’ which, generally, are those conventionally considered as social.<sup>7</sup> The Eurostat data, thus, covers spending by private and public bodies in providing cash transfers and services when households and individuals experience social need arising from sickness or poor health, disability, the loss of a main breadwinner, old age, responsibilities for children or family, unemployment, or social exclusion. Considerable effort is made to ensure the comparability with which the data from diverse national systems is classified (Esspros Manual, 1996).<sup>8</sup> Several methodological points, however, are important to understanding what the data can capture, and not capture, when comparing countries. Social spending is recorded gross of any taxes (direct or indirect) which may be levied.<sup>9</sup> All capital spending on social infrastructure and all current educational spending are excluded. Private spending by households and individuals which is not reimbursed by an institution (to become, then, spending by a public or private body) is not included but remains private consumption expenditure. In Ireland’s case, Eurostat’s pension data does not include spending by private sector occupational pension schemes because of their non-availability. Finally, most tax expenditures are excluded.

With these caveats, Chart 4.1 shows the absolute levels of social spending per capita across the EU in 2001 adjusted for differences in the cost of living (i.e., in a common purchasing power standard, PPS). Ireland was estimated to be spending 3,875 PPS units per person on social expenditure whereas the average for the EU as a whole was 6,405 units.

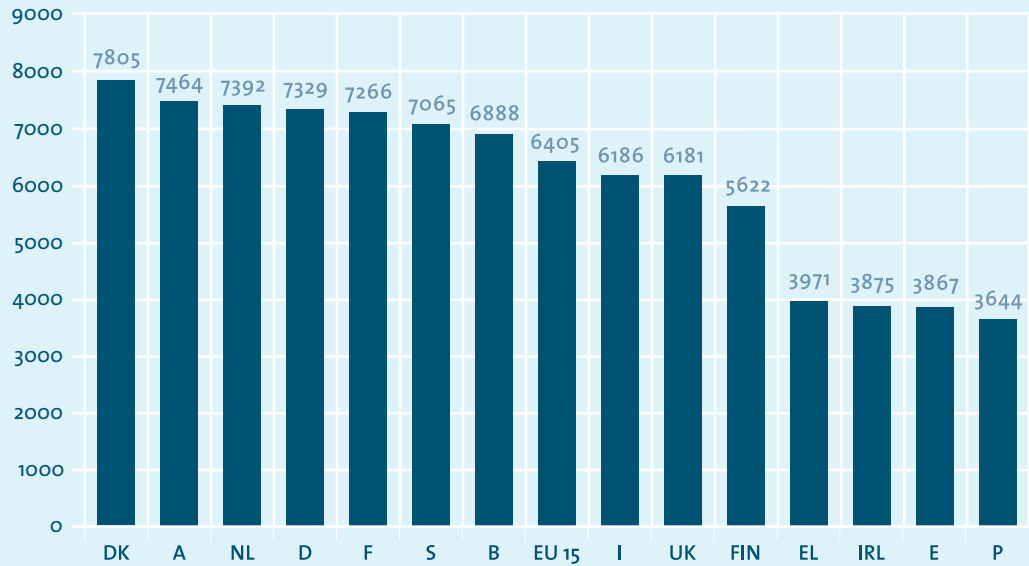
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7. Two of the principal sources of comparable data on social expenditure across industrial countries are Eurostat’s European System of Integrated Social Protection Statistics (Esspros), on which the Commission’s periodic review, *Social Protection in Europe*, is based, and the OECD’s Social Expenditure Database. The Esspros data are for gross spending (i.e., they do not allow for taxes and social charges levied on social benefits, though a special module on net expenditures is in preparation), exclude ‘tax expenditures’ and imperfectly cover private social spending. These are significant shortcomings, to which the authors of *Social Protection in Europe* themselves frequently draw attention. The OECD’s Social Expenditure Database allows the tax treatment of social benefits and tax expenditures to be more clearly distinguished. Otherwise, both systems encompass comparable sets of social interventions. Eurostat defines social protection as ‘interventions ...intended to relieve households and individuals of the burden of a defined set of risks or needs’ and lists them as: sickness/health care; disability; old age; survivors; family/children; unemployment; housing; and social exclusion. The OECD defines a benefit as social if it is a support received by households or individuals in ‘circumstances adversely affecting their welfare’. They, therefore, list: old-age cash benefits and services to the elderly; disability cash benefits and services to people with disabilities; occupational injury and disease benefits; sickness benefits; unemployment compensation and active labour market policies; housing benefits; public health expenditure; and other contingencies (e.g., cash benefits to people on low incomes).

8. A further useful feature, the distinction between means-tested and non-means tested supports, will be explored in a later chapter.

9. Eurostat is currently preparing a module on net benefits.

Chart 4.1 Expenditure on Social Protection in PPS per capita, 2001, Selected Countries



Source: Statistics in Focus, 6/2004. Eurostat.

It is clear that, compared to other EU Member States, Ireland was a low spender on social protection in 2001 along with Greece, Spain and Portugal. This was despite Ireland having a level of wealth — whether measured in GDP, GNP or GNI per capita — that was significantly ahead of the three southern European countries. Its GNI per capita in constant purchasing power standards (PPS) was 99.8 per cent of the EU 15 average GDP per capita in 2001, whereas GDP per capita in Greece, Spain and Portugal did not rise above 84 per cent of the EU average (Table 4.6). Social spending per capita in Ireland in 2001 was 60.5 per cent of the EU 15 average. Greece, by contrast, had similarly low proportions of average wealth per person and of social spending per person. The reasons for the particularly wide gap between Ireland's relative wealth and its relative social spending within the EU

**Table 4.6 Social Expenditure per Capita and GDP Per Capita, in PPS, EU 15 Member States, 2001**

Country	Social Expenditure per capita, in PPS	Social Expenditure per capital, in PPS, as per cent of EU 15 average	GDP per capita <sup>1</sup> , in PPS, as per cent of EU 15 average
Denmark	7,805	121.9	114.3
Austria	7,464	116.5	112.0
Netherlands	7,392	115.4	114.3
Germany	7,329	114.4	103.0
France	7,266	113.4	103.1
Sweden	7,065	110.3	101.8
Belgium	6,888	107.5	108.0
EU 15	<b>6,405</b>	<b>100.0</b>	<b>100.0</b>
Italy	6,186	96.6	102.5
United Kingdom	6,181	96.5	102.7
Finland	5,622	87.8	103.1
Greece	3,971	62.0	64.4
<b>Ireland</b>	<b>3,875</b>	<b>60.5</b>	<b>99.81</b>
Spain	3,867	60.4	83.8
Portugal	3,644	56.9	68.9

Source Eurostat, Statistics in Focus, Theme 3 — 6/2004; CSO (2003), Table 1.3

Note 1. GNI for Ireland

are a legitimate object of inquiry. Table 4.6, overall, presents a clear positive correlation between levels of social spending and economic performance across the EU 15; Ireland, however, is the country whose relative wealth is the least guide to the relative level of its social spending.<sup>10</sup>

The areas of greatest relative under-spending by Ireland compared to other EU Member States emerge when the component areas making up the Eurostat data are considered separately. Table 4.7 attempts to relate actual social spending in

10. With data for 1998, the OECD observes that Ireland, along with the USA, Japan and Korea, spends significantly less than might be expected, given its level of wealth — see *Society at a Glance. OECD Social Indicators*. Edition 2002. pp 24-25.

Table 4.7 Expenditure on Social Benefits by Function, 2001,  
PPS per Head of Relevant Population Sub-group

Social Expenditure Per Person in PPS by Function, 2001					
	Sickness/ Health Care, per person aged 15+	Disability, per person aged 15–64	Old Age, per person aged 65+	Family/ Children, per person aged 0–14	Unemployment, per person unemployed
Denmark	1,894	1,426	19,516	5,476	33,062
Sweden	2,486	1,339	14,840	3,596	15,020
Finland	1,637	1,118	12,050	3,643	11,653
Austria	2,158	871	18,648	4,590	21,492
Germany	2,414	805	17,837	4,656	15,286
Netherlands	2,606	1,188	18,592	1,655	27,917
Belgium	1,976	895	13,048	3,317	27,218
France	2,579	658	16,916	3,598	13,356
United Kingdom	2,087	867	16,495	2,132	6,962
<b>Ireland</b>	<b>2,102</b>	<b>294</b>	<b>6,439</b>	<b>2,154</b>	<b>17,436</b>
(rank)	6th	13th	14th	8th	5th
Italy	1,821	506	17,199	1,661	2,451
Greece	1,178	285	10,782	1,763	5,442
Spain	1,360	427	9,771	656	10,376
Portugal	1,241	575	10,167	1,109	5,658

Sources Social Expenditure figures from *European Social Statistics, Data 1991-2002*; Population figures for year 2000 from *The Social Situation in the European Union 2003*; Unemployment figures for 2001 from *Employment in Europe 2003*

PPS to the size of the populations most likely to generate the need for the spending in the first place.<sup>11</sup> It is clear that Ireland's relative spending appears in a very different light depending on the area of social expenditure being considered. Of the 14 countries examined, Ireland was in 5th, 6th and 8th place respectively for spending per person in PPS on unemployment<sup>12</sup>, sickness/health care and family/children; it was in last and second last place for per person spending on old age and disability.

11. This can only be approximate. Each country's spending on Sickness/Health Care and on Disability is related to the number of people aged 15-64, that on Old Age to the number of people aged 65 or over, and expenditure on Family/Children to the number of people aged 0-14 in that country.

12. Note that the count of unemployed people is based on the ILO definition (comparable across countries) and not on claimant counts such as Ireland's Live Register (very difficult to compare across countries).

While the Eurostat data establishes a relatively low level of per capita social spending by Ireland in 2001, it also records the rapid growth in spending which has taken place over the preceding decade. Per capita social expenditure in Ireland in PPS increased by over 51 per cent over the period, 1992-2001, a rate surpassed only in Portugal and Greece.<sup>13</sup> When spending on unemployment compensation in each country is excluded (in recognition of the particularly rapid fall in unemployment in Ireland), the annual percentage rise in total social expenditure (real terms) on benefits, excluding unemployment, was higher in Ireland than elsewhere in the EU over the ten years to 2001. Spending on health care, disability and sickness grew particularly strongly in Ireland compared to the rest of the EU during the 1990s.

#### 4.3.3 Ireland's social spending in an OECD context

Adema (1999, 2001) pays particular attention to the question of the extent to which data on public social expenditure is a reliable indicator of the resources actually devoted within a country to social purposes.<sup>14</sup> His framework for comparing social spending across countries has several advantages over that employed by Eurostat. It distinguishes between social spending gross and net of taxes, it includes tax expenditures (termed 'tax breaks with a social purpose') and it presents data for private and public social spending separately. It further distinguishes between private spending that is mandatory and required by law (e.g., compulsory private health insurance in some countries), and that which is voluntary. The OECD data also extend to a wider group of countries than the EU member states alone. However, the data are not broken down by function as in the case of Eurostat, nor are they available on as regular a basis.

Table 4.8 presents a selection of findings from Adema's work (2001) in which the data apply to 1997. It focuses on two sets of countries that may be considered to be of particular interest in understanding Ireland's current situation and future options, viz., the smaller northern EU member states and Anglo-Saxon countries with liberal welfare states. Some of the characteristic features of national systems for social protection emerge quite clearly.

The Table illustrates the importance of distinguishing between gross and net social spending, and the different mixes of public and private social spending that are occasioned by countries' respective welfare regimes. The differences in what countries devote to gross public social expenditure are wide but differences in net total social expenditure are much narrower. For example, gross public social expenditure in Denmark accounted for 36 per cent of GDP (factor cost) in 1997, more than double the 16 per cent recorded in the US. The gap between the two countries in net total social expenditure, however, was only 4 percentage points. Two factors serve to close the gap substantially. Firstly, one quarter of public social expenditure in Denmark returns to the Exchequer through direct and indirect

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13. Statistics in Focus — Theme 3, 6/2004, Eurostat.

14. The most recently published data here are for 1997. Newer data, when they appear, are unlikely to change the patterns revealed in this section or the analytical points made, as they pertain to the relatively stable structures of countries' taxation systems.



Table 4.8 Taxes and Social Spending in Ireland and Selected Comparator Countries (1997)

	per cent of GDP at factor cost								
	Country								
	DK	S	FIN	B	NL	UK	IRL	AUS	USA
<b>(a)</b>									
<b>Gross public social expenditure</b>	35.9	35.7	33.3	30.4	27.1	23.8	19.6	18.7	15.8
<i>less direct taxes and social contributions</i>	5.1	4.4	4.4	1.8	4.4	0.4	0.3	0.3	0.4
<i>less indirect taxes</i>	4.1	2.8	4.2	2.8	2.4	2.3	2.5	0.8	0.4
<i>plus net tax breaks for social purposes (ex. pensions)</i>	0.0	–	0.0	0.5	0.1	0.5	0.4	0.3	1.4
<b>Net current public social expenditure</b>	26.7	28.5	24.8	26.3	20.3	21.6	17.1	17.9	16.4
<i>plus net current mandatory private social expenditure</i>	0.2	0.2	0.1	1.3	0.5	0.3	0.0	0.9	0.3
<i>plus net current voluntary private social expenditure</i>	0.6	1.9	0.8	0.9	3.3	2.9	1.5	3.1	7.8
<b>Net total social expenditure</b>	27.5	30.6	25.6	28.5	24.0	24.6	18.4	21.9	23.4
Net tax breaks towards pensions (where calculable)	–	–	–		1.2	2.7	2.7	1.6	1.1
<b>(b)</b>									
<b>Direct tax and social security contributions paid as a percentage of gross public transfers</b>	23.9	22.1	19.5	9.0	23.0	2.8	2.5	2.9	4.0
<b>Implicit average indirect tax rate on consumption out of benefit income</b>	25.5	17.9	23.1	15.5	16.3	14.9	20.7	7.5	5.2

Source: Adema (2001)

taxes (only 5 per cent in the US); private social expenditure in the US adds one-half again to the country's public social spending (it is relatively insignificant in Denmark). It is noteworthy, however, that Ireland's low ranking on gross public social spending falls even lower when total net social expenditure is estimated. Among the Anglo-Saxon cluster of welfare states, Ireland was estimated to have the lowest level of private social spending. This relative position is not changed when tax breaks for pensions (particularly generous in Ireland) are included.

Secondly, in some countries, governments levy significant direct tax (income tax and social security contributions) on social welfare payments. For example, direct taxation 'claws back' for the Exchequer some 19 to 24 per cent of gross expenditure on cash transfers in the Scandinavian countries and the Netherlands. By contrast, Ireland and other Anglo-Saxon countries tax cash transfers lightly or exempt them altogether (as when they are means-tested). It was estimated that only 2.5 per cent of gross public expenditure on transfer spending returns directly to the Exchequer in Ireland (principally from taxation on sickness benefits and private pension benefits). However, indirect taxation also impacts on welfare incomes (VAT and excise duties). In general, the same countries that levy significant direct tax on welfare incomes also have the highest incidence of indirect tax on the same incomes. On this front, however, the liberal welfare states of the English-speaking world divide between those where indirect taxes impact very lightly on consumption out of welfare incomes (USA and Australia) and the UK and Ireland where their impact is significant (despite the zero rating of many basic foodstuffs, children's shoes and clothes in the latter).

The reasons for the very different tax treatment of welfare incomes deserve some exploration. Direct taxation of welfare payments is significant in some countries because their rates of payment vary widely enough to allow the progressivity of the income tax code effect a second round redistribution among welfare recipients themselves. Welfare payments, in turn, vary significantly largely because an earnings-related element to benefit payments has been retained. This is considered worthwhile as it attaches high-earning groups more strongly to the public insurance system and minimises their incentive to secede from it. It is also likely that countries where transfer payments attract significant taxation make those payments at a higher level to compensate recipients for the tax and charges they must meet. This, however, can be considered worthwhile and not inefficient because it lowers the withdrawal rate that benefit recipients would otherwise face on moving into employment. It also serves to maintain their attachment to the social insurance fund for other contingencies and their status as income taxpayers.

On indirect taxation, it is the case that, in so far as expenditure on social protection is funded by it rather than through higher PRSI, a wider tax base is being used, and in a way that occasions less damaging consequences for employment. However, it remains true that indirect taxes, generally, are regressive, i.e., take a larger slice out of low incomes than out of high incomes. The regressive nature of indirect taxes is to some extent addressed when and as welfare payments are indexed to the Consumer Price Index, but it can happen that rises in the CPI underestimate increases in the cost of living for those on the lowest incomes.

The most important reflection to make on the patterns revealed in Table 4.8, however, may relate to the varying mix of public and private social spending across countries. Very different distributional consequences can attach to resources being devoted to private social spending rather than to public social spending. The social compositions of the groups benefiting from public and private social spending respectively tend to be very different.<sup>15</sup> For example, the US was estimated to be devoting as much of its GDP to social services and benefits as the EU-15 on average in 1997 but almost one half of the US spend was private social expenditure. As a result, a much larger percentage of those who are poor in the US remain without social protection than in Europe where almost all social spending is done by the public sector.<sup>16</sup> The main question the OECD accounting framework sets out to answer, viz., what part of a country's resources are devoted to social protection, may not, in the final analysis, be as important as the distributional question, viz., what are the minimum standards of social protection that members of a society are guaranteed even if they have little or no independent income? Several forms of higher private social spending can completely bypass people in the weakest market positions (e.g., rises in tax expenditures for social purposes) while forms of higher public spending (e.g., rises in means-tested benefits) can be wholly confined to them.

In summary, on the basis of 1997 data, the OECD framework points to Ireland as a particularly low spender on social protection by EU and OECD standards, even though the framework seeks to contextualise the public part of social spending. Low levels of public social spending by international standards were not offset to a significant extent by higher private social spending in 1997. In fact, one had to go outside the EU to find a country that devoted a similarly small share of its national resources, public and private, to social protection at that time. Only Korea, Japan and New Zealand spent a smaller proportion of their GDP on net total social expenditure than Ireland in 1997 out of the 18 OECD countries examined by Adema (*op. cit.*, 2001).

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15. Social insurance schemes in some countries are complex and tailored to specific groups of sometimes relatively privileged groups of workers. This tempers the assumption that public social expenditure is inherently more distributional than all its private counterparts (e.g., the funding of early retirement in Austria).

16. This point is also made in the background report prepared for the Greek Presidency of the EU in May, 2003 (Amitsis *et al.*, 2003)

#### 4.3.4 Why Ireland's social spending appears low in international rankings

The most important reason why social expenditure levels in Ireland are low compared to many other advanced industrial countries is that Ireland has a much smaller proportion of older people in its population than many of them. Only 15 per cent of Ireland's population were aged 60 or over in 2002, a proportion which hardly changed on 1980 (Table 4.9). The contrast is particularly stark with other EU Member States, particularly those in southern Europe. For example, almost ten per cent more of the Italian population were aged 60 or over in 2002 than in Ireland, a proportion which had grown by 50 per cent since 1980.

Large elderly populations significantly increase the need for spending on pensions but also on health, disability and other social services. It is estimated that over one-half of total public social expenditure in the EU is accounted for by the needs of the elderly.<sup>17</sup> Ireland's relatively low pensions bill is further helped by the fact that the principle State pension scheme is flat-rated rather than income-related as in most other EU countries, and lower as a percentage of average earnings than elsewhere in the EU.<sup>18</sup> These factors combine to make pension spending in Ireland — however expressed, as a proportion of GDP/GNP or per person aged 65 or over in the population (Table 4.7) — by far the lowest within the EU. Pension expenditure, however, is currently increasing steadily in absolute terms (Chart 3.1) and the ageing of Ireland's population (the pensioner support ratio is projected to fall from 5.9 in 2002 to 2.0 by 2050<sup>19</sup>) will inexorably increase it as a proportion of GDP/GNP also. The estimates vary with the assumptions made but the scale of increase is substantial: Bennett et al (2003) calculate that paying the Contributory Old Age Pension alone at the rate of 34 per cent of average industrial earnings (the National Pension Policy target) would need 5 percentage points more of GDP by 2050 — they project costs as rising from 2.9 per cent of GDP in 2002, 4.5 per cent by 2025 and 7.9 per cent by 2050. Barrett (2003) estimates that funding total public spending on pensions will need 4.4 more percentage points of GNP, rising from 4.6 per cent of GNP in 2000 to 9.0 per cent by 2050. It will rise elsewhere in the EU too, of course, but growth in Ireland is projected to be above the EU average (a rise of 4.4 percentage points as against an average rise of 3.2 points), narrowing but not closing the gap between Ireland other EU member states (this is for public pension spending only).

Adjusting comparisons of social spending between countries to account for the age structure of their populations is more intricate than simply factoring out pensions. As people get older they are much more likely to use community health services, purchase medicines, consult specialists and spend periods in hospital; they are also much more likely to acquire a disability as a result of longer exposure to the risks and vicissitudes that are inherent to human living. Bennett et al (2003) estimate how much more is currently spent by the public health services in Ireland on disability care, medicines, community health services, and acute hospital care for each person aged 65 or over compared to each person aged under 65; they

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<sup>17</sup> *Social Protection in Europe 2001*.

<sup>18</sup> National Pensions Policy Initiative (1998: Appendix H).

<sup>19</sup> Number of people aged 15 to 64 per person aged 65 or over, Bennett et al (2003).

Table 4.9 Proportions of National Populations Aged 0–19 and 60 plus in 2002, and Changes in Those Proportions 1980–2002

Country	Proportion of Total Population aged 60+			Proportion of Total Population aged 0-19		
	1980	2002	Change (percentage points)	1980	2002	Change (percentage points)
Denmark	19.3	19.9	0.6	28.7	24.0	-4.7
Sweden	21.8	22.3	0.5	26.5	24.0	-2.5
Finland	16.2	20.4	4.2	28.5	24.3	-4.2
Austria	19.1	21.5	2.4	29.3	22.3	-7.0
Germany	19.2	24.1	4.9	27.2	20.9	-6.3
Netherlands	15.6	18.3	2.7	31.5	24.5	-7.0
Belgium	18.1	21.8	3.7	28.4	23.4	-5.0
France	17.0	20.6	3.6	30.6	25.3	-5.3
United Kingdom	19.8	20.4	0.6	29.5	25.0	-4.5
<b>Ireland</b>	<b>14.8</b>	<b>15.1</b>	<b>0.3</b>	<b>39.9</b>	<b>29.4</b>	<b>-10.5</b>
Italy	16.8	24.5	7.7	30.6	19.5	-11.1
Greece	17.5	23.5	6.0	30.6	20.9	-9.7
Spain	15.0	21.7	6.7	34.5	20.5	-14.0
Portugal	15.4	21.7	6.3	34.8	22.3	-12.5

Source: *Population Statistics*, 2004 Edition, European Communities.

conclude it costs 6.8 times more. This is an order of magnitude, not a precise figure — several uncertainties surround projecting current spending differences into the future; on the one hand, the health of older people can be expected to improve but, on the other, the population aged 80 and over is to grow and so may the cost of many treatments. However, any exercise that seeks to adjust health spending in EU member states for the proportions of elderly people in their populations will see Ireland's ranking for 'health effort' (health spending as a proportion of GDP or GNP) improve notably. Bennett et al (2003: 24), for example, estimate that public health spending in Ireland as a per cent of GDP, when it was 18 per cent below the average for the EU 15 in 2001, could be recalculated as 7 per cent below the EU 15 average when adjusted for the age structure of each country's population. In similar fashion, when a Canadian study adjusted Ireland's relative spending on health in 2001 to reflect its relatively young population, Ireland moved from being ranked the 6th lowest spender among 27 OECD countries to a middle ranking (14th) (Esmail and Walker, 2004).

What accounts for differences in per capita social spending across countries is more complex still than allowing for different proportions of elderly people in national populations. Differences in levels of wealth, unemployment rates, the role of the family and the specifics of policy also contribute significantly to variations in spending levels. The latter two factors, in particular, can interact in important ways. Eurostat cites the example of unemployment spending in Finland and Italy in 2001; when each had the same unemployment rate (of 9 per cent), Finland spent 4.4 times as much per unemployed person (in PPS) as Italy (*Statistics in Focus*, 6/2004).

The reasons, therefore, why Ireland's relative per capita wealth in 2001 was a poor guide to its relative position on per capita social spending within the EU need careful attention. For example, while Ireland's economic performance has been exceptional, the extent of reliance on the family for caring is still more similar to the southern European countries than the higher spending northern EU member states. Also, Ireland's economy has only recently generated per capita income levels at or above the EU 15 average and a lagged response in social spending may be inevitable as the expansion or creation of the necessary social infrastructures takes place; Ireland's public capital programme is currently running at 5 per cent of GNP, more than twice the EU average. Furthermore, the trend in several areas of social spending is decisively upwards, being pulled by demographic factors, the erosion of family caring and policy decisions. These are benign considerations. More controversial explanations are also available. Some argue that Ireland's standards of social protection have lagged growth in the country's economic strength, that Irish standards are lower than those of many of its EU neighbours and that this is what the comparative data show (for example, in spending on pensions and services for the disabled). Others argue that Ireland's economic and social model has *had* to take different paths to those taken by its European neighbours (if a small open economy with little indigenous industry was to combat high unemployment) and that the comparison of social spending with longer established welfare states is unfair.

## 4.4 Public Social Spending and Outcomes

Differences across countries in social spending — as a proportion of GNP but also even in per capita spending by social function — are not reliable indicators of similar differences in outputs (what is produced, e.g., teaching hours) or in outcomes (what is attained, e.g., students' reading achievements). In the first place, as discussed above, expenditure data may not capture actual differences in the levels of inputs being used (as when spending is not computed net of tax). In second place, the relative costs of service professionals and other inputs and the efficiency with which they are managed may differ across countries, such that it takes more of one nation's resources to run — for example — a school or a hospital than of another's.<sup>20</sup> In third place, and most important of all, many institutional and cultural features that are specific to a society and its welfare system intervene in the process by which inputs are transformed into outputs, and explain why similar levels of outputs are associated with quite different levels of final outcomes (such as longevity). The efficiency and effectiveness of organisations in using funds may be different. The roles of the family and voluntary organisations in undertaking unpaid caring may be different. Rises in social expenditure may be driven in one country by increasing economic and social risks (e.g., rising unemployment, higher consumption of alcohol and drugs) and in another by genuine improvements in social standards (e.g., the extension of support to hitherto unprotected groups).

Assessing the relative efficiency and effectiveness with which public social spending in Ireland supports the attainment of desired social outcomes, and establishing the level of improvement in outcomes that additional spending might achieve, is particularly difficult where spending on services is involved. The issues arising can be briefly illustrated for health and education, but it is beyond the scope of this report definitively to settle them.

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20. As examples, Table 3.4 above drew attention to the different relative costs of medical consultants in Ireland and Finland; *OECD Education at a Glance* shows the very different percentages of countries' GDPs per capita, which salaries to teachers of 15 years of experience constitute (e.g., 2004: Table D3.1).

#### 4.4.1 Health and educational outcomes in Ireland relative to spending

##### Health

As already adverted to in Chapter 3, the rise in public health spending in Ireland since 1997 has been dramatic, yet there is a generalised concern that the public health services have not only not improved but deteriorated. Partly as a result, a major reform programme began in 2005 whose impact will need some years before it can be assessed. By 2002, as Table 4.10 illustrates, public spending on health as a proportion of GDP/GNP put Ireland in the top third of EU 15 member states, while its per capita spending in constant purchasing power terms was the 6th highest of the 14 countries shown (cols. 1 & 2). Ireland's health care expenditure was similar to those of Finland, France and Italy in the balance it struck between public and private spending; it was more public than in five other countries and less public than in four (col.3). People's estimated out of pocket payments amounted, on average, to 13 per cent of the total per capita expenditure, lower than in 5 of the 9 countries for which data were available (col. 4).

The actual health status of Ireland's population that results from this level and composition of spending on health is influenced by multiple aspects of what it actually buys, viz., the quality and quantity of what constitute the outputs of the health system (medical consultations, drug prescriptions, hospital discharges, average in-patient stays, domiciliary visits, etc.). These outputs of the health system are, in turn, inputs which individuals, families, communities and Irish society are using to 'co-produce' the health outcomes that are their ultimate objective. Individual traits, lifestyle choices, social and community networks, and wider socio-economic and cultural factors all mediate the individual's need for health services (DHC, 2001) and, thus, the levels of health service usage that support any given health outcome. Major changes in socio-economic conditions and lifestyle over the past two decades have accompanied the large increase in public health spending that has occurred. Falling unemployment, lower levels of deprivation, rising educational attainment, more self-direction in the workplace and less smoking, for example, can be expected to have made major contributions to improving people's health status. On the other hand, the very ability to keep people with severe disabilities alive longer, the growing number of advanced elderly people, the rise in alcohol consumption<sup>21</sup>, rising obesity levels, higher immigration from developing countries, growing relationship instability and the higher incidence of people living alone — are some factors which can be expected to be making even a population more intensive in its use of health services even to maintain its health status.

21. Alcohol consumption in litres per capita (population aged 15+) rose by 29 per cent between 1993 and 2001, raising Ireland from a middle EU ranking to second place after Luxembourg. The increase levelled off in 2002.



Table 4.10 Expenditure on Health in Ireland and EU Member States, 2002

Country	Public Expenditure on Health as % GDP	Total Expenditure on Health per Capita US\$ PPP	Public Expenditure as % Total Expenditure on Health	Out of pocket payments per Capita US\$PPP
	(1)	(2)	(3)	(4)
Denmark	7.3	2,580	83.1	396
Sweden	7.9	2,517	85.3	n.a.
Finland	5.5	1,943	75.7	389
Austria	5.4	2,220	69.9	388
Netherlands	n.a.	2,643	n.a.	266
Germany	8.6	2,817	78.5	292
France	7.4	2,736	76.0	268
Belgium	6.5	2,515	71.2	n.a.
United Kingdom	6.4	2,160	83.4	n.a.
<b>Ireland<sup>1</sup></b>	<b>6.9</b>	<b>2,367</b>	<b>75.2</b>	<b>311</b>
Italy	6.4	2,166	75.6	439
Greece	5.0	1,814	52.9	n.a.
Spain	5.4	1,646	71.4	388
Portugal	6.5	1,702	70.5	n.a.

Source OECD Health Data, 2004 edition.

Note 1. GNP is used for Ireland.

It is clear that health-related outcomes in Ireland leave considerable room for improvement by international standards. For example, life expectancy in 2001 was the lowest in the EU 15, the infant mortality rate the highest, and standardised death rates from diseases of the circulatory system, cancer and diseases of the respiratory system (collectively accounting for three quarters of all deaths in the EU) consistently among the highest for both men and women.<sup>22</sup> When a Canadian study in 2004 accorded a cumulative ranking to the health care systems of 27 countries on the basis of seven key outcomes, Ireland was ranked 4th last.<sup>23</sup> Yet, it

22. *The Social Situation in the European Union, 2003.*

23. The outcomes were: disability free life expectancy; infant mortality; perinatal mortality; mortality amenable to health care; potential years of life lost; breast cancer mortality; colorectal cancer combined mortality. (Esmail and Walker, 2004).

should also be clear — from Table 4.10 and the earlier Charts 3.4. and 3.5 — that Ireland is not lagging behind the health standards of other countries because it is devoting a particularly low proportion of its resources to health or because it has not been increasing health spending at a rapid rate. The contrast between these poor relative health outcomes and relatively good ‘health effort’ suggests that Ireland could make better use of its existing resources being devoted to health. This is not just a challenge to the management of health organisations and the ethos of health professionals but as much one to embrace co-responsibility for health right across Irish society (in use of alcohol, diet, etc.).

## Education

Chapter 3 established that public spending per student at primary, secondary and third level of the educational system rose substantially in real terms between 1985 and 2002 (Chart 3.7), but that falling numbers in the primary school system and the huge growth in the economy allowed this to be achieved with a marginally lower proportion of GNP (Chart 3.3).<sup>24</sup> Total public expenditure on education was equivalent to some 4.9 per cent of GNP in the year 2001, lower than that achieved by 7 other countries in the EU 15 (Table 4.11). When public spending on educational institutions is expressed per pupil/student in common purchasing power standards, internationally comparable data for 2001 show that Ireland was spending relatively large sums for each student in third level and particularly small sums per student at the primary and secondary levels (Table 4.11). The 15 per cent of GNP per capita being spent per pupil at primary level in 2001 and 21 per cent per pupil at secondary level were the lowest proportionate investments in the EU 15. By contrast, the 32 per cent of GNP per capita being spent on each third level student (excluding spending on R&D) was the highest; accordingly, the ratio of spending per student at third level to primary level was significantly the highest in the EU 15. However, as seen in Chapter 3, a substantial shift began in 1997 that is reducing this gap. Current public spending per student in real terms increased by approximately 30 per cent at primary and secondary level over the 5-year period, 1998-2002, but by only 8 per cent at third level (Chart 8, Chapter 1).

In the light of this evidence, it is worthwhile reflecting on the fact that educational outcomes for young people in Ireland currently rank from average to good in international terms. For example, the OECD’s Programme for International Student Assessment (PISA) placed the attainments of Ireland’s 15-year olds in the year 2000 in 5th place of 26 countries for reading literacy, 9th place for scientific literacy and 15th place for mathematical literacy.<sup>25</sup> In addition, anecdotal evidence attests to a high level of recognition being accorded the Leaving Certificate by third level institutes in other countries. It can be argued, then, that Ireland is attaining particularly good outcomes for its level of public investment.<sup>26</sup> It is, indeed, the case that important qualitative aspects of a national educational system are not

24. In similar fashion, the OECD comments: ‘the strong growth of GDP in Ireland hides significant increases in spending on educational institutions when spending on education is expressed as a proportion of GDP.’ This is borne out by a comparison of Finland and Ireland: between 1995 and 2001, public spending on education as a proportion of GDP declined by similar amounts (0.5 and 0.6 of a percentage point respectively). However, in constant money terms, public expenditure on educational institutions was 48 per cent higher in Ireland in 2001 than in 1995, and 17 per cent higher in Finland. *Education at a Glance. OECD Indicators 2004* (224, 229, 232.)

25. The same 26 countries are used for these rankings.

26. ‘Strong educational outcomes have been produced with limited resources’ observes the National Competitiveness Council. (The Competitiveness Challenge 2003, p. 12).

Table 4.11 Annual Public Expenditure on Educational institutions  
in Ireland and EU Member States (2001)<sup>1</sup>

Country	Total Public Expenditure on Education (% GDP)	Public and Private Expenditure on Education per student (\$ PPS)			Ratio Tertiary/ Primary	Expenditure as per cent of GDP per capita		
		Primary	Secondary	Tertiary <sup>3</sup>		Primary	Secondary	Tertiary
DK	6.8	7,572	8,113	10,771	1.42	25.9	27.8	36.9
S	6.3	6,295	6,482	8,356	1.33	23.4	24.1	31.1
FIN	5.7	4,708	6,537	7,061	1.50	17.9	24.8	26.8
A	5.6	6,571	8,562	7,388	1.12	23.2	30.2	26.0
NL	4.5	4,862	6,403	8,075	1.66	16.9	22.3	28.1
D	4.3	4,237	6,620	6,370	1.50	16.6	26.0	25.0
F	5.6	4,777	8,107	6,956	1.46	17.8	30.2	25.9
B	6.0	5,321	7,912	8,084	1.52	19.6	29.2	29.8
UK	4.7	4,415	5,933	8,101	1.83	16.5	22.2	30.3
<b>IRL <sup>2</sup></b>	<b>4.9</b>	<b>3,743</b>	<b>5,245</b>	<b>8,086</b>	<b>2.16</b>	<b>14.9</b>	<b>20.9</b>	<b>32.3</b>
I	4.9	6,783	8,258	5,064	0.75	26.7	32.5	20.0
EL	3.8	3,299	3,768	3,534	1.07	19.4	22.1	20.8
E	4.3	4,168	5,442	5,951	1.43	19.5	25.5	27.9
P	5.8	4,181	5,976	5,199	1.24	23.3	33.4	29.0

Source *Education at a Glance, OECD Indicators 2004.*

Notes 1. In equivalent US dollars converted using PPPs, based on full-time equivalents

2. Excluding R&D activities

3. GNP used for Ireland (was 84% of GDP in 2001)

easily captured in how inputs are measured and that they can significantly influence the conversion factor that translates educational inputs into improved outcomes. These aspects include the professionalism and dedication of teaching staff, the leadership exercised within schools, the calibre of people being attracted into teaching as a career, the status of teachers in society, the support parents provide to their children's schooling, and the quality of the links between parents and their children's schools. The large contribution of the churches and religious orders to Irish schools and the high status attached to teachers suggest that Ireland may continue to have some particularly advantageous features in securing educational outcomes higher than spending levels alone would indicate.

However, there are other aspects of Ireland's educational system where the relatively efficient use of inputs to support outcomes is little apparent. Along with most other EU and OECD countries, Ireland faces a strong challenge of educational disadvantage among its school-going population. Despite significant attention and rising expenditure, little progress is being recorded in addressing it. Schools are designated as disadvantaged on the basis of the socio-economic characteristics of their student intakes (e.g., parents' possession of a medical card) and allocated additional resources accordingly. It is not yet possible, however, to identify schools as underperforming on the basis of how effectively they use whatever resources they get to achieve advancement for their respective student intakes. Yet the school practices needed to produce the same advancement for pupils from a disadvantaged as from a middle class area may be quite different.<sup>27</sup>

More significantly still, Ireland's educational system is being challenged — by need and international comparisons — to look to some quite new sections of its population, viz., pre-school children and adults. It is particularly the case that the educational system has not considered pre-school children as a client group and, accordingly, public spending on education and care there is low by international standards (OECD Thematic Review of Early Childhood Education and Care Policy in Ireland, 2004). When this tradition of leaving pre-school children's needs largely to their families, informal childminders or the community and voluntary sector is combined with the relatively low public spending per child in infant classes, public spending per child aged 0-6 in Ireland constitutes a small part of GDP compared to other countries.<sup>28</sup> It was estimated to be €2,075 (PPP) per child aged 0-6 in 2002 or some 3.8 per cent of Ireland's GDP per capita as against, for example, \$4,050 (PPP) per child in Austria or the equivalent of 6.9 per cent of its GDP per capita (OECD, 2003: Table 5.2).

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27. Teachers in schools serving a middle class intake may relate more easily to parents than teachers in schools serving disadvantaged areas. The use of suspension as a pupil discipline device may achieve the intended effect in a middle class school but the opposite in a disadvantaged area.

28. The *OECD Thematic Review of Early Childhood Education and Care Policy in Ireland* (July, 2004) believe Ireland 'is approaching a decisive moment where funding is concerned' (p.34) with the level of private costs being borne by parents 'unsustainable even in the medium term', and the nature and scale of the current EOCP yet to be decided upon in the context of a new NDP post 2006.

In serving age groups beyond the typical age (18) for completing secondary school, the Irish educational system also appears as underdeveloped in an international comparative context.<sup>29</sup> Enrolment rates in Ireland (understood as the numbers of full- and part-time students in public or private institutions as a percentage of the age group in question) in 2002 were average by OECD standards for 15-19 year olds (13th place of the same 26 countries for which the PISA scores were compared above) and very low for older cohorts (21st place for 20-29 year olds, etc.). Ireland's adult population (aged 25-64), in fact, is one of the most polarised in the OECD world by educational attainment. While the proportion that have a third level education attainment is above the OECD mean (by 9 per cent in 2002), the proportion that did not complete secondary education is above the mean too (by 21 per cent). For example, similar proportions of Irish and Swiss 25-64 year olds had a third level attainment in 2002 but the proportion of Irish 25-64 year olds with less than a completed secondary education was 2.66 times greater in Ireland than in Switzerland (40 per cent versus 15 per cent).

In summary, this brief review of spending on education in a comparative context provides some grounds for satisfaction that spending is efficient in attaining outcomes, but only when outcomes for a traditional clientele (young people and middle class young people at that) are consulted. Educational disadvantage among working class young people has, so far, not been reduced by higher spending, while only low levels of spending by international standards are being incurred on behalf of pre-school children and older age groups. It can fairly be said that there is no evidence of a higher 'educational effort' in Ireland being undertaken in response to, for example, the country's young age profile, its relatively low spending on pensions or the height of ambitions for its economy.<sup>30</sup>

#### 4.4.2 Ireland's social welfare transfers in a comparative context

A major and, arguably, the core function of any and every national system of social protection is the provision of money income when the need arises. Systems differ significantly in the degree of responsibility they take for — respectively — replacing income (a characteristic concern of Bismarkian, insurance-based systems), restricting inequality in the distribution of income (characteristic of the citizen-oriented, Nordic systems), and raising the lowest incomes by setting a floor to income (the principal concern of Anglo-Saxon systems).

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29. The following data are from OECD (2004), *Education at a Glance*.

30. 'While the focus must remain on educational outputs rather than inputs, it is not clear that the existing level of spending by Ireland on education will be sufficient to meet the needs of the knowledge economy' (*National Competitiveness Council, op. cit.*).

Table 4.12 Indicators of Income Poverty for 2001

	DK	S	FIN	A	D	NL	B	F
<b>At-risk-of-poverty rate (60% threshold)</b>								
<b>(% of persons)</b>								
<i>After all social transfers</i>	10	9	11	12	11	11	13	15
<i>After pensions only</i>	29	17	19	22	21	21	23	24
<i>Before social transfers</i>	36	34	30	38	39	36	38	40
<b>60% threshold (PPS)</b>								
<i>One adult household</i>	9,747	8,502	7,680	9,468	9,492	8,309	9,286	8,765
<i>2 adults – 2 children household</i>	20,469	17,854	16,128	19,883	19,933	17,449	19,501	18,407
Relative median at-risk-of-poverty gap	13	17	17	19	19	20	15	19
Persistent risk-of-poverty rate	6	:	6	7	6	5	7	9
At-risk-of-poverty rate anchored at 1998	9	6	9	10	9	10	11	13
(Reduction on 1998 rate, percentage points)	(-1)	(-2)	(0)	(-3)	(-2)	(0)	(-3)	((-2)
Income quintile share ratio (S80/S20)	3.0	3.4	3.5	3.5	3.6	3.8	4.0	4.0
<i>Gini coefficient</i>	22	24	24	24	25	26	28	27
	UK	IRL	I	EL	E	P	EU 15	
<b>At-risk-of-poverty rate (60% threshold)</b>								
<b>(% of persons)</b>								
<i>After all social transfers</i>	17	<b>21</b>	19	20	19	20	15	
<i>After pensions only</i>	29	<b>30</b>	22	23	23	24	24	
<i>Before social transfers</i>	40	<b>36</b>	42	39	37	37	39	
<b>60% threshold (PPS)</b>								
<i>One adult household</i>	8,984	<b>7,934</b>	7,044	5,443	6,527	4,967	8,253	
<i>2 adults – 2 children household</i>	18,866	<b>16,662</b>	14,793	11,431	13,706	10,431	17,332	
Relative median at-risk-of-poverty gap	23	<b>24</b>	28	28	24	22	22	
Persistent risk-of-poverty rate	10	<b>13</b>	13	14	10	15	9	
At-risk-of-poverty rate anchored at 1998	13	<b>13</b>	15	17	12	16	12	
(Reduction on 1998 rate, percentage points)	(-6)	<b>(-6)</b>	(-3)	(-4)	(-6)	(-5)	(-3)	
Income quintile share ratio (S80/S20)	4.9	<b>4.5</b>	4.8	5.7	5.5	6.5	4.4	
<i>Gini coefficient</i>	31	<b>29</b>	29	33	33	37	28	

Source Eurostat, Statistics in Focus, 16/2004

Notwithstanding the different objectives public authorities set for their tax and transfer activities, the EU Member States have adopted common indicators of what constitutes income-based evidence of being at-risk-of-poverty.<sup>31</sup> Nine of the 18 indicators<sup>32</sup> adopted to monitor progress by Member States in combating poverty and social exclusion relate to income, viz., the prevalence, severity, persistence and other characteristics of low money incomes. Table 4.12 presents the income situations in the Member States of the EU 15 in the year 2001. The threshold adopted to define being at risk of poverty is 60 per cent of median equivalised household disposable income. Not too much should be made of the precise rankings in a given year but the overall distinctions between groups of countries are relatively robust from year to year.<sup>33</sup> The data clearly place the countries of the EU 15 into two broad camps. The Scandinavian and Continental European countries (top half of Table 4.12) have lower at-risk-of-poverty rates, smaller poverty gaps and greater equality in income distribution than the four countries in Southern Europe, the UK and Ireland (bottom half of Table 4.12).

Ireland had the highest at-risk-of-poverty rate in the EU 15 in the year 2001, closely followed by Greece and Portugal. The actual income threshold constituting the poverty line in Ireland, however, at €7,934 PPS (euro of a constant purchasing power), was significantly higher than in Southern Europe (higher too than in Finland). In fact, despite having the highest at-risk-of-poverty rate in 2001, Ireland recorded one of the fastest improvements in raising the purchasing power of its lowest incomes of the EU 15. When the at-risk-of-poverty threshold is anchored in 1998 and up-rated solely for inflation, 6 per cent of the populations of the Ireland, the UK and Spain had moved above it by the year 2001. The significance of this is that general economic growth in these countries was pulling up median incomes faster than elsewhere. (When the income threshold is anchored earlier, in 1996, the strength of this factor is illustrated even more strikingly for Ireland.)

The contrast in Ireland between trends in absolute poverty (steadily declining) and trends in the at-risk-of poverty measure based on relative income (steadily rising) is a striking aspect of the economic and social changes that have taken place since the mid-1980s, and it is not clear how these contrasting trends should be reconciled. The detail provided in Table 4.13 helps to outline what is involved.

31. Because having an income below 60 per cent of median income is neither a necessary nor a sufficient condition of being in a state of poverty, the EU's Social Protection Committee consistently refers to it as a measure of poverty risk.

32. Collectively known as the Laeken indicators. See *Report on Indicators in the Field of Poverty and Social Exclusion*, October 2001. Social Protection Committee.

33. Particularly in comparing relative income poverty rates, attention should be paid to the specifics of how the data have been collected and treated (such as the equivalence scale used, the definition of income, the poverty line sets, etc.). It should be noted here that researchers in several countries (notably, Finland, Belgium and Sweden) find significant discrepancies between the data in their national registers and the European Community Household Panel (ECHP) on which Eurostat relies. The ECHP, furthermore, is a panel data set and attrition rates have been higher in some countries (e.g., Ireland) than in others; it is likely that subsequent attempts to re-weight the samples will have had differential effects.

In the period from the mid-1980s to the mid-1990s, the growth in disposable real income per person in Ireland was the highest in the EU 15 and followed a slightly redistributive pattern (panel 'a', Table 4.13). Equivalised disposable income at the bottom of the income distribution (in the lowest 20 per cent of households ranked by income) grew by 3.1 per cent per annum in real terms, an improvement in the financial situation of the poorest households only matched by Spain and significantly ahead of that recorded elsewhere. From the mid-1990s to 2000, households in Ireland across the income scale experienced increases in their disposable incomes that were much higher than in the previous period and still further ahead of that recorded in other countries (panel 'b', Table 4.13). For example, equivalised disposable income in real terms in the bottom two deciles increased at an annual rate of 5.2 per cent, as against the 3.1 per cent in the previous period when redistribution was particularly in evidence. However, in the

**Table 4.13 Trends in Real Household Income at Different Points of the Income Ladder**

	Annual rate of growth in equivalised disposable income in real terms %							
	(a) Mid-1980s to mid-1990s				(b) Mid-1990s to 2000			
	All households	Bottom 2 deciles only	Middle 6 deciles	Top 2 deciles only	All households	Bottom 2 deciles only	Middle 6 deciles	Top 2 deciles only
Denmark	0.7	1.0	0.7	0.4	1.1	0.6	1.0	1.6
Sweden	0.8	0.4	0.7	0.9	3.2	1.3	2.7	4.5
Finland	1.1	0.8	0.8	1.6	4.0	2.3	3.6	5.4
Austria	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Germany	1.3	0.6	1.3	1.4	0.6	0.4	0.7	0.6
Netherlands	1.5	0.5	1.5	1.7	2.3	2.6	2.3	2.1
Belgium	0.7	1.1	0.5	1.0	n.a.	n.a.	n.a.	n.a.
France	0.9	1.2	0.8	1.1	0.0	0.0	0.1	-0.2
United Kingdom	1.6	0.8	1.5	1.9	3.0	2.3	2.6	3.6
<b>Ireland</b>	<b>2.5</b>	<b>3.1</b>	<b>2.5</b>	<b>2.4</b>	<b>6.6</b>	<b>5.2</b>	<b>7.7</b>	<b>5.4</b>
Italy	0.5	-1.5	0.3	1.0	2.0	2.8	1.8	2.2
Greece	0.1	0.3	0.1	0.1	3.3	3.0	2.9	3.8
Spain	2.3	3.1	2.4	1.9	n.a.	n.a.	n.a.	n.a.
Portugal	n.a.	n.a.	n.a.	n.a.	4.3	5.0	4.1	4.4

Source: Förster and d'Ercole (2005: Table 3)



mid-1990s to 2000 period, the growth in incomes was not as redistributive as in the earlier period: the 60 per cent of households in the middle of the income distribution experienced the most rapid increase while the two tails (bottom and top two deciles respectively) had smaller increases of a similar magnitude. Ireland's pattern of income distribution in the second half of the 1990s, therefore, favoured neither of its two tails but the large middle. Table 4.13, in fact, shows no country maintaining a clear redistributive pattern throughout the two periods, and a clear deterioration becoming particularly marked in the Nordic countries during the second half of the 1990s.

The evaluation of Ireland's social welfare transfers on the basis of such figures is not a straightforward exercise. This is because the prevalence, intensity and persistence of low incomes at any point in time is the net outcome of market incomes (principally labour market earnings) and of the tax and transfer activities of the State. Lower at-risk-of-poverty rates in one country than in another do not necessarily imply more generous social welfare transfers in the former. For example, Ireland's social transfers of 'last resort' (i.e., assuming no means from any other sources) to a lone parent with 2 children are at a higher level relative to median disposable household income than in Sweden (OECD, 2004: 83) yet Swedish lone parents face much lower at-risk-of-poverty rates. The reason is that many more Swedish lone parents have employment. In fact, across the different 'families' of welfare states, the net incomes provided by social assistance of last resort in the absence of any employment or other market incomes are generally insufficient to ensure incomes above the 60 per cent 'poverty line' (OECD, 2004: 81-86). Low at-risk-of-poverty rates tend to result from a combination of factors: the extent to which transfer income is combined with market income, the distribution of employment across households, the net wage to be had in low productivity jobs, the rates of social welfare payments and short rather than long durations in receipt of social welfare.

It is possible to identify how well Ireland's system of social welfare payments contributes to improving on the primary (or 'market') distribution of income compared to the welfare states of other countries. This can be done because the ECHP data<sup>34</sup> and Laeken indicators allow household income to be distinguished before and after social transfers. Chart 4.2 shows the position for the EU 15 Member States<sup>35</sup> ranked by order of their post-transfer at-risk-of-poverty rates.

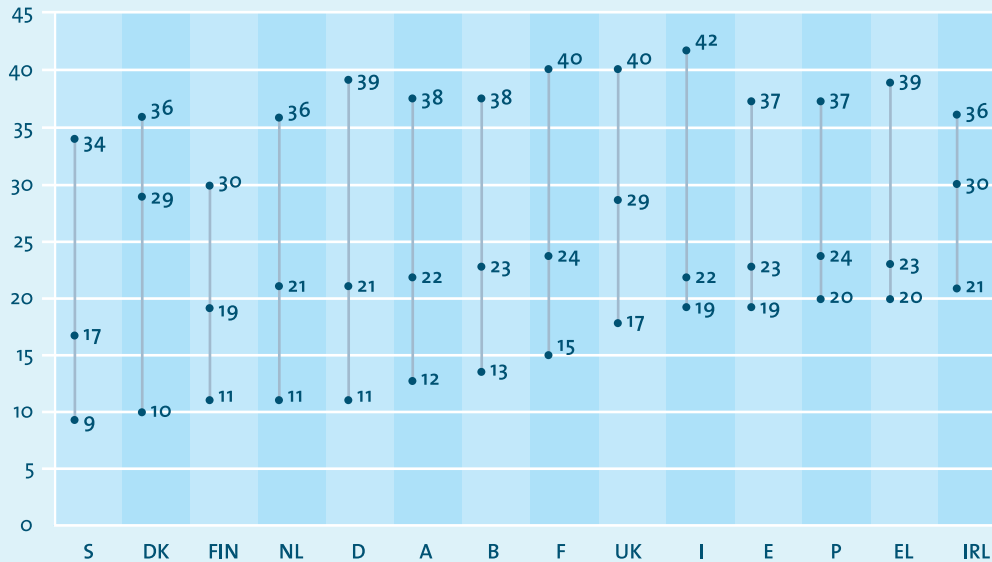
For illustrative purposes, it shows the final position being arrived at in two steps — the reduction in the percentage of the population below the 60 per cent threshold achieved by pensions (e.g., from 34% to 17% in Sweden) and then by other social welfare transfers (e.g., from 17% to 9% in Sweden). While Ireland's 'opening position', meaning the at-risk-of-poverty rate when market income alone is considered prior to any social transfers, is reasonably good by EU standards (only Finland and Sweden start with lower rates), it is — along with Denmark — the country in which pensions make the least impact on the at-risk-of-poverty rate.

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34. And the data provided by the successor to the ECHP, viz., EU SILC.

35. Luxembourg excepted.

Chart 4.2 At-Risk-of-Poverty Rate Before any Social Transfers (top), After Pensions (middle) and After All Social Transfers (bottom), 2001



Pensions contribute to reducing the at-risk-of-poverty rate by 17 per cent in Ireland (from 36% to 30%) whereas, in the EU 15 on average, pensions reduce the ‘opening’ at-risk-of-poverty rate by 38% (as high as 50% in Sweden). On the other hand, when it comes to reducing poverty among the non-pensioner population, Ireland’s social transfers reduce the at-risk-of-poverty rate by 30 per cent (from 30% to 21%), which is significantly better than in the Southern European ‘family’ but less than elsewhere, including the UK.

#### Pensioners’ incomes in an international context

The relatively poor achievement — by EU 15 standards — of pensions in reducing the at-risk-of-poverty rate in Ireland cannot be attributed wholly to the country’s favourable demographics and the relatively small proportion of its overall population aged 65 or over. A more detailed EU study of the incomes of pensioners for the year 1998 points to features of Ireland’s pension arrangements which are also contributing factors.

Table 4.14 first confirms the highly individual nature of pension arrangements within each country. This is evidenced by the considerable diversity of outcomes to be found within each ‘welfare family’ and not just across them. Ireland was not alone in having people aged 65 or older face an at-risk-of-poverty rate much

Table 4.14 At-Risk-of-Poverty Rate, People Aged 65 Years and Over, 1998<sup>1</sup>

	50% of median	60% of median	At-risk-of- poverty rate for people aged 0–64 (60% of median)	Income of people 65 or over as percentage of income of people aged 0–64	Inequality of income distribution among people aged 65 or over <sup>3</sup>
Denmark <sup>2</sup>	12 (5.0)	31 (24.8)	7 (6.8)	68 (74)	3.5 (2.6)
Sweden	3	8	10	83	2.9
Finland	6	17	10	78	2.9
Austria	10	24	10	84	4.1
Germany	6	11	11	97	3.6
Netherlands	4	7	11	93	3.7
Belgium	12	22	11	76	4.3
France	10	19	14	90	4.1
United Kingdom	11	21	19	78	4.1
<b>Ireland</b>	<b>14</b>	<b>34</b>	<b>17</b>	<b>69</b>	<b>4.5</b>
Italy	8	14	19	96	4.2
Greece	25	33	18	74	7.0
Spain	7	16	19	91	4.2
Portugal	22	33	18	76	5.8

Source Joint Report by the Commission and the Council (2003)

- Notes
1. This study, EC (2003), observes that the income data the ECHP collects do not capture some important determinants of older people's living standards such as benefits-in-kind, home ownership (there is no imputed rent) and wealth. This may particularly affect comparisons of poverty risks between younger and older people. It should also be noted that people living in institutions — most of whom are elderly — are not covered.
  2. In the case of Denmark, calculations using a national register-based data set yield significantly lower poverty rates than the ECHP.
  3. Ratio of total income received by the 20% of people aged 65 or over with the highest incomes (top quintile) to that received by the 20% of people aged 65 or over with the lowest incomes (lowest quintile).

greater than that of people aged 0–64 (at the 60% line) nor in having a markedly lower rate at the 50% of median line than at the 60% line (confirming that the poverty gap at the 60% line was not large). However, Ireland had the highest at-risk-of-poverty rate in the EU 15 for people aged 65 years in 1998 (34%, at the 60% of median income threshold) and the income of such people, on average, was 69 per cent that of people aged 0–64, a lower proportion than in any other Member State.<sup>36</sup>

36. Joint report by the Commission and the Council on adequate and sustainable pensions (2003), Council of the European Union. Table 2.

Three structural features were underlying the relatively high prevalence of low incomes among pensioners in Ireland in 1998: (i) a still high proportion of pensioners were relying on the means-tested non-contributory pension, so they could have little supplementary income sources to that provided by their pension; (ii) Ireland's flat-rated contributory state pension was the lowest in the EU as a percentage of net average earnings;<sup>37</sup> and (iii) occupational pension schemes and personal private pension plans had limited coverage and were held largely by people in the upper half of the income distribution.

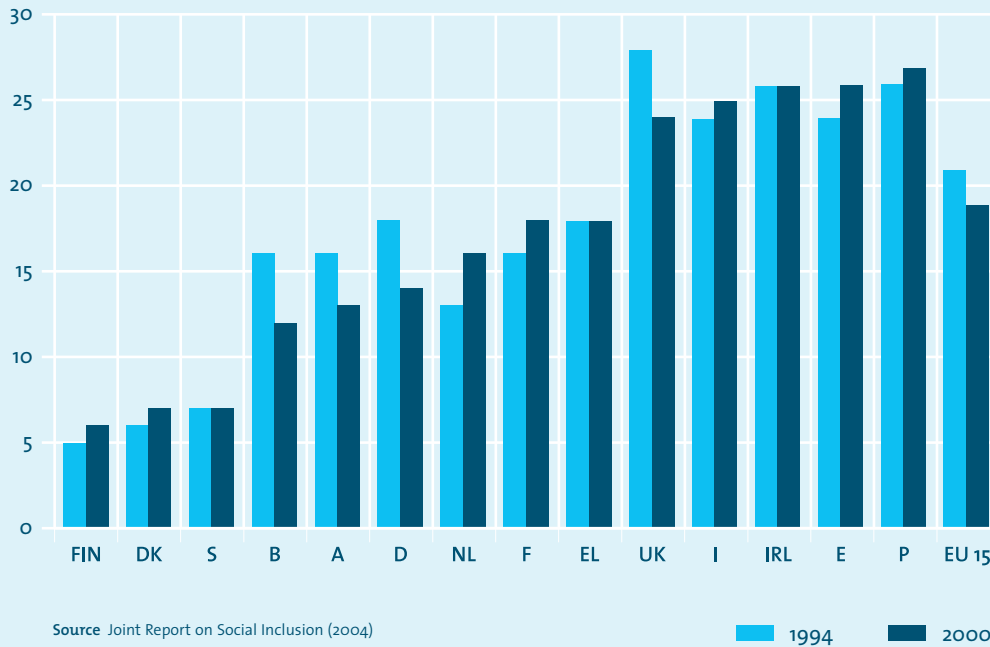
Significant changes have taken place since 1998 (reviewed in Chapter 3) that have contributed to softening or changing at least the first two of these features. (It is a general drawback to the use of international data sets that their availability can lag policy developments to a significant extent.) A growing proportion of Ireland's pensioners are receiving the contributory pension and being kept free of means-testing; by 2002, 60 per cent of the new pensions being issued were contributory and it is reckoned that 86 per cent of pensions will be insurance-based by 2016. The rate of payment of the non-contributory old age pension has been increased by 67 per cent over the seven year period, 1998-2004, and a commitment made to raise it further to €200 by 2007, implying a further cumulative increase of 30 per cent on its 2004 level (€154). The qualified adult allowance for a retired spouse or partner has been raised by 94 per cent (1998-2004) in response to the higher poverty rate among elderly women. These developments have already improved the adequacy of Ireland's lowest pensions and will continue to do so. However, though ensuring pensions do not lag incomes in society generally is not a policy objective of the same order in Ireland as reducing pensioner poverty; as already pointed out, Ireland is the only EU 15 Member State with no earnings-related element in its mandatory pension scheme for workers.

As things stand, if people wish to have pensions that shield themselves from a significant drop in their living standards after retirement, they have to rely on an occupational pension or/and a personal private pension. As outlined in 3.4.5 above, the State gives them significant tax support if they do so but the initiative lies with individuals and employers. By 2004, over one-half (54.4 per cent) of 20-69 year olds in employment had tax-subsidised supplementary pension coverage. For workers in traditionally low-paying sectors ('hotels and restaurants', 'wholesale and retail trades') or in small enterprises, however, the rates were much lower (QNHS, 2002). The target is to have 70 per cent of the workforce covered for a supplementary pension and the 2003 introduction of PRSA's is to provide the impetus. As the EU Joint Report observes: 'this extended coverage is important for ensuring the effectiveness of the income replacement function of (Ireland's pension system) and it remains to be seen whether this can be achieved via the current purely voluntary approach' (2003: 141).

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37. National Pensions Policy Initiative (1998), *Securing Retirement Income*, Appendix H.

Chart 4.3 At-Risk-of-Poverty Rates, 0–15 Year Olds, 1994 and 2000



### Child income supports in an international context

Data are available, though in a less detailed manner, on how children are affected by the distribution of income in the EU Member States. As Chart 4.3 illustrates, Ireland's relative standing within the EU 15 is poor: 26 per cent of children in Ireland in the year 2000 were estimated to be in households where the equivalised disposable income was below 60 per cent of the median (only Portugal had a higher rate). A similar proportion of children had been at risk in Ireland in 1994. Several countries had improved on their 1994 position, notably the UK, Germany and Belgium, while in some the situation facing children had deteriorated (principally the Netherlands).

It cannot be unambiguously concluded from Ireland's internationally high child poverty rates that low levels of child income support are the problem. In fact, as regards child poverty in Ireland and several other members of the Anglo-Saxon 'welfare family', the problem, at heart, may not be a low level of child income supports but the number of parents/ guardians with no market earnings, the low level of welfare support to these adults and the fact that a large proportion of it is means-tested. Some studies point in this direction. Callan et al (2004) have expressed the value of child income supports in 1998 in Ireland, the Netherlands and Denmark as a percentage of average industrial earnings in each country. They found that Ireland was making a proportionate effort in child income support that compared favourably with the other two countries and, in certain instances, comfortably surpassed them (*op. cit.*, Table 6.3). However, in that same year, 23 per cent of Ireland's children (under 16 year olds) were estimated to be at-risk-of-poverty (at the 60 per cent of median threshold) as against 17 per cent in the Netherlands and 3 per cent in Denmark (The Social Situation in the European Union 2003).

Bradbury and Jäntti, (2001) found that, while Ireland had a much higher poverty rate than the Netherlands, public cash transfers per child were at approximately the same level in both countries; the lower Dutch child poverty rate was because market income per child was three and a half times greater in the Netherlands than in Ireland. The authors concluded: 'In the English-speaking countries, with the prominent exception of the US, social transfers to the families of the poorest one-fifth of children are quite substantial. Instead, the reason for their high levels of child poverty lies in the low levels of market incomes received by the most disadvantaged families' (*op. cit.*, 28).<sup>38</sup> This observation, in fact, it will be argued below, reaches beyond child income support to constitute something of a leit-motif for how to improve Ireland's social welfare arrangements for people of working age.

Research, carried out by the University of York for the Department of Work and Pensions (UK), allows Ireland's child income supports in 2001 to be viewed in comparison with those of 22 other industrialised countries.<sup>39</sup> It is important to bear in mind that this is a study of inputs rather than of outcomes – it identifies the level and composition of public support to households with children across countries, a task of considerable complexity. The subsequent step of relating the differences in these child benefit packages across countries to such differences in child poverty or to other indicators of child well-being was not part of its remit. Nevertheless, given Ireland's poor ranking on child income poverty, it is surprising that Ireland's cash transfers on behalf of children are found to be at a high level

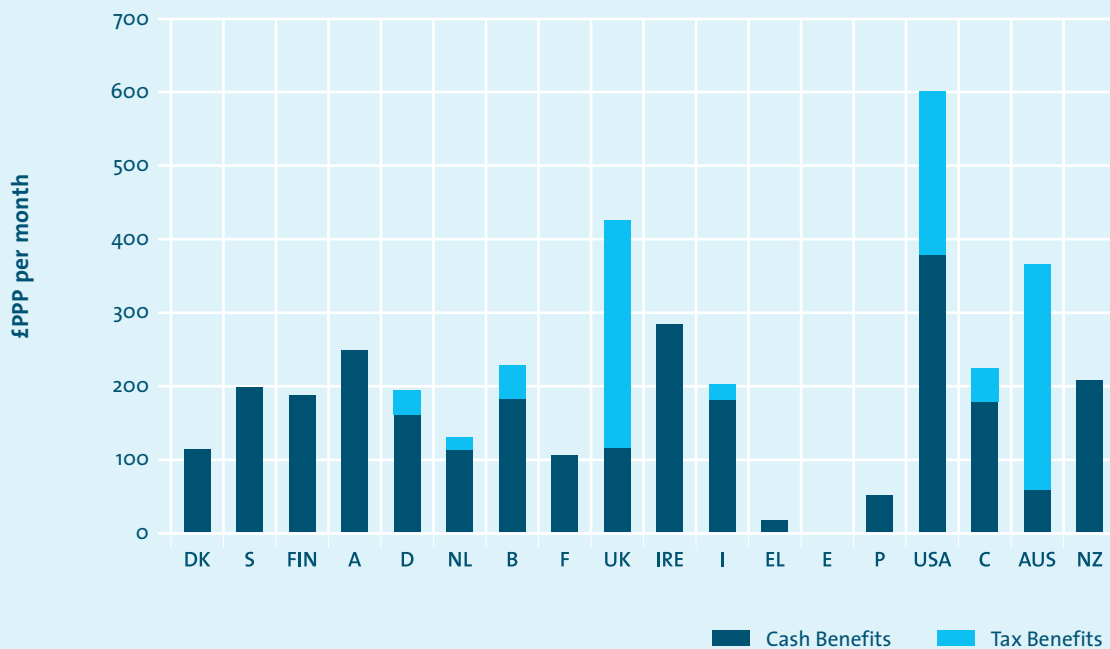
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38. Förster (2000) had also found that, in the mid-1990s, an exceptionally large number of households with children in Ireland were generating little market income; the proportion of total market income generated by the bottom 30 per cent of households was the lowest in Ireland of all the countries he studied.

39. Bradshaw and Finch (2002), A Comparison of Child Benefit Packages in 22 Countries. A study carried out on behalf of the DWP, University of York. The countries are the EU 15 Member States, the Anglophone four (USA, Canada, Australia and New Zealand), Norway, Israel and Japan - the comparable data obtained applied to the situation as of July, 2001

that same year by international standards.<sup>40</sup> The following Charts give the University of York findings for the income support that a couple and a lone parent respectively, in each case a one-earner household on half average male earnings, received on behalf of two children.<sup>41</sup> The comparable monthly value (in £s sterling of a comparable purchasing power) of both cash transfers on behalf of the two children and allowances/credits for children given through the tax code (not used in Ireland but major in some countries) are distinguished separately.

**Chart 4.4 Value of Child Cash Benefits and Child Tax Benefits, £PPP per Month, July 2001: Couple, 2 Children, One Earner on Half Male Average Earnings**



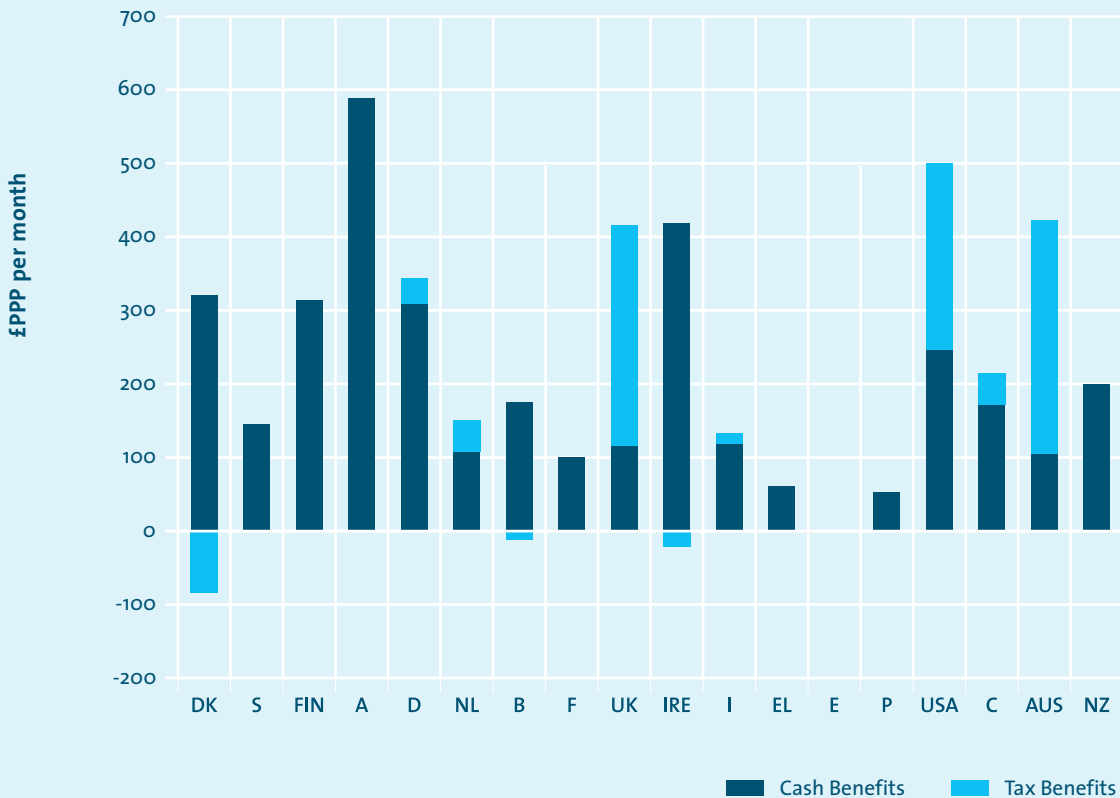
Ireland's cash transfers on behalf of children were found to be good by international standards. They were higher for a low earning couple with 2 children in Ireland than in all other countries in the study except for Luxembourg<sup>42</sup> and the USA, and higher for the lone parent than every else save for Austria. The juxtaposition of these two findings — relatively high child income poverty and relatively generous cash transfers on behalf of children in the same year — confirms that the level of child income supports in Ireland is not the whole of the problem, much less the whole solution, when addressing child income poverty.

40. Child Benefit, Child Dependant Allowances, Family Income Supplement and the One Parent Family Payment were the cash supports on behalf of children in Ireland which the study compared with similar supports in other countries.

41. The methodology employed was to identify the package of public supports that would be received by each of nine different households (family types), considering each one in eight different earnings circumstances. This large number of 'representative' situations allowed the authors to isolate the difference that the presence of children made to the benefits being received by otherwise identical households, and how the level and composition of support for children changed as household circumstances changed.

42. Luxembourg is not included in the Charts

Chart 4.5 Value of Child Cash Benefits and Child Tax Benefits, £PPP per Month, July 2001: Lone Parent, 2 Children, Earning Half Average Male Earnings



### Services which support children in an international context

The York University research is useful for raising another major question about the structures and priorities of Ireland's welfare state. While it shows Ireland's level of cash transfers on behalf of children to be capable of giving Ireland a top ranking out of 22 countries in certain instances (as when there are no household earnings or only very low earnings), it identifies other parameters of public support to children on which Ireland's ranking switches to the bottom of the 22. The study's purpose was to compare the full range of supports which countries provide children; cash transfers, therefore, feature prominently as do tax reliefs and allowances, but all measures supporting children's access to housing, childcare, health, education and (where applicable) maintenance from a non-resident parent were identified and ascribed their monthly value also. The study, in fact, is a prominent example of recognition being given to the breadth of ways in which public social spending provides social protection.



Where Ireland's overall support for children compares least favourably with other countries is that key services on which children depend — principally childcare but also, to a lesser degree, education and health — are both expensive and attract no state subvention (be it in the shape of a tax allowance, voucher or priority access to a public service). While households where no parent is employed are relatively the most shielded, when parents earn at even modest levels they are exposed to — by international standards — high net costs. The exposure of lone parents in particular to high net costs of childcare accounts for a quite dramatic difference in ranking of the overall level of support extended to them, depending on whether they remain in home duties or are earning. While Ireland's package of supports for a lone parent with one child on social assistance was the best of the 22 countries studied (*op. cit.*, p. 131), it swung to last position when the lone parent was earning average female earnings and paying for childcare. In fact, help with childcare in Ireland was at the lowest level in the 22 countries studied — its very high cost (second highest after the UK) was not offset by any tax allowance or other subsidy (139).

An OECD review team have independently assessed Ireland's publicly funded supports for young children (DES, 2004). Their report makes clear the extent to which current Irish practice lags developments in other countries: the short duration of paid maternity leave by international standards, the extreme paucity of childcare places for children aged 0-3 years, the informal and uneven quality of much childminding, the slow adaptation of Ireland's infant classes to reflect new insights and best practice in how young children learn, the unrealised potential of schools as local centres in which out-of-hours services for 3-6 year olds are provided, the inadequate weighting given early childhood in national educational spending, and the room for significantly improved coordination across government departments and with the community and voluntary and private sectors in developing and providing services to young children.

Giving an overall cross-country ranking to child benefit packages, which comprise income supports and services and vary differently by earnings levels, family types and age of children, may have limited value; for example, it is difficult to weight one country's more generous supports for lone parents against another countries more generous subsidies to low earning parents generally. For such as it is worth, Ireland's total package of publicly funded supports for children is accorded a median ranking in the University of York Study. As already mentioned, the ranking improves markedly when cash supports for children are considered in isolation, and tops the table where parents who are not employed or earning at very low levels are the only cases compared. However, as the picture is widened to embrace supports to parents with other than very low incomes, the withdrawal rates in Ireland are shown to be high by international standards, while the inclusion of services reveals the low level of subsidies to the costs of childcare, schooling and health in Ireland. The relative generosity of Ireland's child benefits package, therefore, slips.<sup>43</sup> The study remains, however, as a strong example of the need to view any social welfare payment levels in conjunction with eligibility conditions, conditionality, and compensatory or supplementary access to services.

43. The report's authors acknowledge that the 'representative' earnings circumstances they focussed on were biased towards households on low incomes — the 'richest' household considered had two earners, one on the country's average male earnings and the other on average female earnings. This means that countries which engaged in more targeting of child supports were likely to emerge with a better ranking than countries where child supports more usually assumed a universal nature.

## 4.5 Conclusions

Ireland's welfare state — by EU 15 standards — uses a moderate to low proportion of national resources in providing services and a low proportion in providing cash transfers. Its welfare state is associated with a taxation structure that is light on labour by EU 15 standards and rests significantly on consumption. Key features of the contemporary Irish context make the question of the adequacy of Ireland's current levels of social spending a complex one and international comparisons, in particular, should be approached cautiously.

The finding that Ireland is by international standards a 'low spender' does not apply to health spending which, for a 'young' country, is broadly comparable to other countries in the share of national resources being devoted to it. It does apply, however, with more force to education. Educational spending accounts for a comparatively small share of Ireland's GNP considering, in particular, the underdeveloped state of provision for early childhood and adult education. Cash transfers are also low compared to other countries principally because of the lower bill for pensions but also because of the Irish welfare state's high degree of reliance on means-testing.

It can be argued that several forms of social spending require higher priority if Ireland is to advance its economy and society in the directions it wishes to. For example, it is difficult to see how employment rates will rise significantly further, particularly among women, unless spending is increased on key services which support people in employment (childcare, eldercare, etc.). It is difficult to see skill levels rising among people in work without much greater recourse to second-chance and further education and training. It is difficult to see the significant minority of children and young people who are underperforming in the school system being saved for the knowledge economy and information society without greater and more effective investment in tackling child poverty and educational disadvantage. It is difficult to see metropolitan centres developing in Ireland which are attractive to internationally-mobile knowledge workers without the investments that reduce social exclusion and make urban areas safe and attractive.

At the same time, there are considerable built-in factors (principally population ageing) that are likely to increase public social spending as a proportion of GNP anyway, without new spending commitments being undertaken. This makes it all the more important to improve the efficiency of social spending, particularly in health but also in tackling educational disadvantage, and to make more transparent the routes which connect public spending to outcomes.

### Appendix 4.A Ireland's 'means'

An issue frequently raised is the choice of measure which should be used as an indicator of Ireland's economic 'means'. The principal candidates are GDP, GNP and GNI.

### GDP or GNP?

Gross Domestic Product (GDP) includes the value of the economic activity undertaken by multinational companies in the Irish economy, which Gross National Product (GNP) does not. The gap between these two measures is, by far, the widest in the European Union with GDP exceeding GNP in 2002 by some 20 per cent.<sup>44</sup> Furthermore, the already substantial margin of 12 percentage points by which GDP exceeded GNP in 1993 approximately doubled over the ensuing decade reflecting the major contribution inward investment made to Ireland's economic boom. It is argued that using GDP exaggerates Ireland's true wealth position and that ratios incorporating it impart a downward bias to Ireland's 'welfare effort'. This is because extensive payments of royalties and license fees take place out of the production value of multinationals while the remaining profits contribute only once to the tax base (through the 12.5 per cent corporation tax) before being repatriated; they are not subject to further rounds of taxation as would happen if they took the form of dividend payments to Irish residents that funded higher domestic consumption.

While these observations are valid, concluding that GNP is the better measure of the tax base available to fund social protection overlooks the significance of the tax revenue which multinationals are contributing. The Enterprise Strategy Group estimated that foreign-owned companies in Ireland assisted by the development agencies accounted for approximately €2.4bn (47%) of all corporation tax revenue in 2003 (ESG, 2004: 10), enough to fund, for example, Child Benefit and the One Parent Family Payment in that year, and more than enough to run the country's primary and secondary schools. Using GNP rather than GDP therefore typically reduces the extent of Ireland's relative underspending in comparison with other EU countries. Converting to GNP, however, is 'kind' to Ireland as it underestimates the income base available to support social spending, though not by as much as GDP exaggerates it.

### GNP or GNI?<sup>45</sup>

Gross National Income adds to GNP the value of net receipts from the EU. These peaked at 7.0 per cent of GNP in 1991 but declined steadily as a proportion of GNP after that to 1.3 per cent in 2003. This decline was in net terms and due to rising out-payments to the EU Budget; the absolute level of incoming-payments was much the same in nominal terms in 2003 as in the peak year of 1991. While the vast bulk of these receipts are not spent on social protection — receipts from the European Social Fund (ESF) are of most significance to social protection but are a small part of total receipts from EU sources (averaging 6 per cent of the total in recent years — they clearly contribute to easing pressure on the public finances. Using GNP rather than GNI as a measure of the resource-base available to fund social protection mildly understates the position in the opening years of the current decade. The understatement becomes more significant as one moves further back into the 1990s when net receipts from the EU were at their height; in 1991, GNI was greater than GNP by 7 percentage points in 1991 and the part of total EU receipts accounted for by ESF receipts was also greater.

44. Indicators of the scale of multinational activity within the Irish economy are that the stock of foreign direct investment per capita in Ireland was the highest in the world next to Hong Kong and that foreign companies employed more people in Ireland in 2003 in manufacturing and internationally-traded services than Irish companies. See the Enterprise Strategy Group (2004), *Ahead of the Curve: Ireland's Place in the Global Economy*.

45. The data used here are in the Department of Finance (2004), *Budgetary and Economic Statistics*. Tables 10 and 11.

# 5

The Structure of Ireland's current Welfare State and the Principal Strategies advanced for its Reform

## 5.1 Introduction

The previous chapter viewed Ireland's welfare state in an international context; the data suggest Ireland is a member of an Anglo-Saxon welfare cluster or family. In reflecting on international differences, scholars have gone further and developed typologies of welfare states that reflect the most salient manner in which industrialised countries built their respective systems for providing social protection.<sup>1</sup> These clarify how some countries concentrate on providing universal benefits funded with significant tax revenue, others on insurance based benefits paid for by employment contributions, and others on targeted benefits funded with modest tax revenue. The most usual conclusion is that Ireland has taken the third route and is a variant, therefore, of the liberal or Anglo-Saxon model. In support of this, such factors can be cited as:

- ◆ The concentration on providing basic levels of services and weak commitment to reducing inequalities;
- ◆ The high degree of reliance on means-testing (of income transfers and access to services);
- ◆ The low proportion of resources devoted to social spending;
- ◆ The emphasis within social insurance on solidarity and very limited practice of income replacement;
- ◆ The fact that middle and higher income groups are encouraged to supplement basic provision by using their own resources and drawing on tax expenditures;
- ◆ The limited services facilitating the participation of women in employment;
- ◆ The lightly regulated labour market.

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1. The seminal study was Gosta Esping-Andersen's *The Three Worlds of Welfare Capitalism* (1990).

However, the Council is aware that Ireland's welfare state — like most others when they too are examined closely — resists easy classification. A classification should be adopted cautiously, if at all, when features thrown into the background are as significant as features the classification highlights. For example, Ireland's welfare arrangements also show features of a 'solidaristic' approach and provide significant points of similarity with the Nordic and Continental European models. For example:

- ◆ The purchasing power of social welfare payments has consistently been increased;
- ◆ National partnership arrangements have adopted consensual approaches to wage-setting, paid particular attention to increasing the lowest wages and facilitated consultation on a widening set of government policies;
- ◆ Rapid employment creation was not accompanied by a widening dispersion of earnings;
- ◆ A significant set of active labour market programmes have been developed. Ireland's public spending on them (as a per cent of GDP) is closer to Nordic and Continental European levels than to those in other Anglo-Saxon countries;
- ◆ Policies and programmes to tackle social inclusion and local concentrations of social disadvantage have been innovative and widely participated in.

This chapter does not set out to clarify the 'type' of welfare state to which Ireland's arrangements for social protection currently belong or should belong. Its perspective is that welfare states differ more in the combinations they effect of three routes to providing social protection — i.e., protection to people as citizens funded from general taxation, protection to people as workers funded through employment contributions, protection restricted to people in need funded out of general taxation — than in the exclusivity with which they adopt one route.<sup>2</sup> The more mature welfare states of other European countries have more defined ideological contours than the Irish welfare state for historical reasons. They are all hybrid to some degree, however, and, like Ireland, are engaged in on-going attempts to achieve greater efficiency and effectiveness in responding to endogenous and exogenous economic and social changes through rebalancing their respective degrees of reliance on the three routes.

The next section briefly conceptualises the current core structure of Ireland's welfare state. The following three sections examine arguments for and against Ireland's welfare state becoming decidedly more committed to developing universal benefits, or more reliant on social insurance, or more engaged in targeting as an overarching strategy. A final sixth section briefly reflects on the EU context to welfare state reform and on the need for a new architecture to Ireland's welfare state to benefit from, and contribute to, the manner in which the EU supports and encourages member states to ensure that high levels of social protection are attained and maintained in the 21st century.

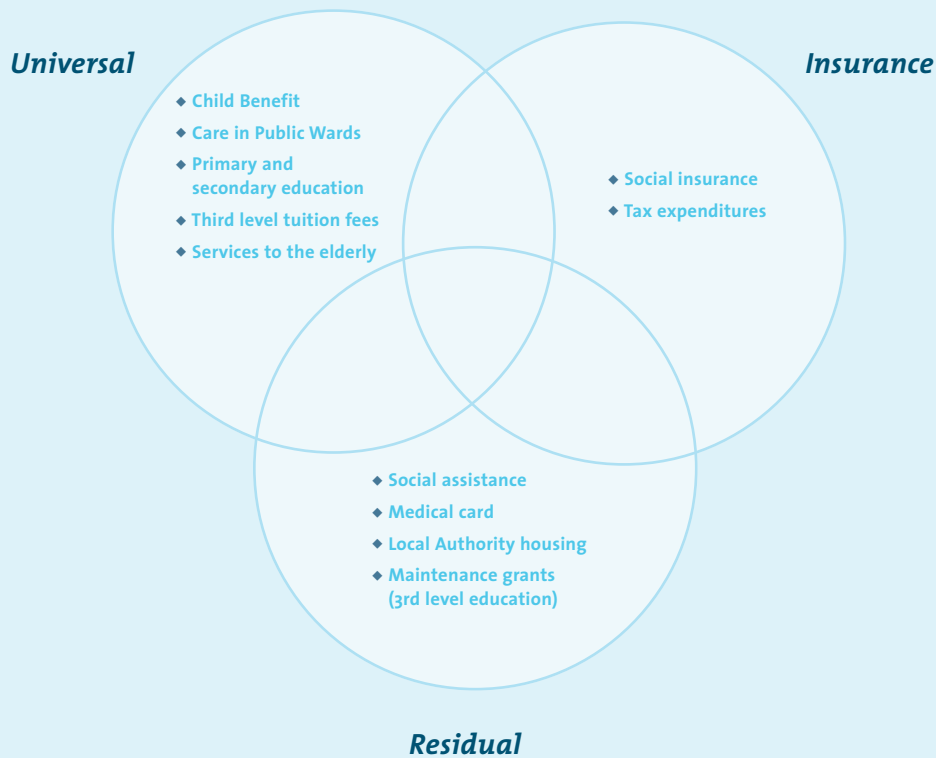
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2. For example, the generous universal benefits funded from high general taxation in Nordic countries receive more attention than the conditionality, means-testing and less generous benefits that attach to people with no employment record also typical of those countries.

## 5.2 Ireland's Welfare State As Differentiated

There is a core structure to Ireland's welfare state that has been built up over the decades (Figure 5.1). In this core structure, the social support which the state delivers or subsidises takes one of the three routes referred to above, i.e. access to the support is (i) universal and simply by virtue of membership of Irish society, (ii) conditional on a record of insurance contributions from employment or on the status of being an income tax-payer, (iii) targeted on people in need and who establish that they are by satisfying a means-test of their household's resources or verifying that they are below an income threshold. The state's role in each case is different and people's experiences of state involvement correspondingly so. The welfare state, viewed in this way, can be termed 'differentiated' (Mishra, 1990) or 'clientelist' (Peillon, 2002).

Figure 5.1 The Differentiated Welfare State



Understandably, this structure to the current activities of the Irish welfare state tends to lead to the choice of strategic options for its further development being framed as (a) strengthening its universalism (borrowing from the Scandinavian, social democratic model), or (b) strengthening its insurance-based supports (borrowing from Continental Europe's Christian democratic model), or (c) becoming more decidedly a residualist welfare state (borrowing further from the Anglo-Saxon, liberal model).

For example:

- ◆ Some of those who focus on combating inequality and poverty favour unconditional access to a wider set of quality public services and a guaranteed basic minimum income;
- ◆ Those who focus on supporting people in employment underscore the mutuality and majority appeal of social protection based on insurance and seek to widen the risks that are insurable;
- ◆ Those who focus on a dynamic economy generating jobs and tax revenue as the foundation of sustainable social programmes argue that improved standards for those not attached to the labour force are best provided by targeting public social expenditure on those with clearly established needs.

However, changed circumstances are undermining the validity of overly relying on any one of them as a dominant response to improving social protection going forward.

- ◆ The trouble with universalism is that, unless it is properly resourced, it spreads resources too thinly either to alleviate the needs of the poor on its own or to meet the standards which the non-poor want. The latter then treat what they receive as subsidies to private arrangements and lose interest in, or even seek to secede from, public systems. Adequately resourced universalism, on the other hand, requires taxation at high levels and a strong willingness to pay on the part of the population;
- ◆ The trouble with social insurance is that building the necessary contributions record through employment remains beyond the reach of a significant minority of the population, while the payroll taxes and sense of entitlement to which they give rise are out of step with contemporary labour market developments and risk creating immobility rather than fostering flexibility;
- ◆ The trouble with means-testing is that it perpetuates a fundamental divide within society where, on the one side, a minority remain dependent on systems which effectively constitute a parallel world ('closed circuits') out of which there is limited mobility while, on the other, suspicion of a 'non-deserving' poor and sense that resources are being abused lead, periodically, to unilateral changes being imposed on people's lives.

The following sections explore in more detail the case for adopting, respectively, universalism, insurance or residualism as a template for developing Ireland's welfare state.



### 5.3 The Case For More Universalism

This section examines the contention that welfare reform should set out to provide improved income support and better public services for everyone in Irish society, on a basis of need, out of general taxation

This model has always had a strong appeal. It needs a population that is both highly employed and willing to pay taxes at the level necessary to resource an efficient public system. It needs a private sector that remains competitive even in a high tax environment. Finally, it needs a public system to deliver services and income transfers in ways that both support high employment rates and protect the living standards of those not in employment.<sup>3</sup> For quite some time, the Scandinavian countries were regarded as providing tangible evidence that the model was feasible, even for countries with different cultural characteristics. However, as elsewhere, the internationalisation of the Scandinavian economies has given direction to social welfare reform that is softening their strong egalitarianism, the monopoly role of their public sectors as service providers, and the generosity of their income transfers (Geve, 2004). These reforms are being undertaken to protect and retain the essentials of their system, not to change it for a different one. In fact, the Scandinavian countries continue to demonstrate that high levels of public social expenditure, when efficient and effective in delivering services and transfers, retain the support of taxpayers and employers, and do not impede economic performance. Nevertheless, the direction of their reforms points to reasons why Ireland would be immensely challenged if it were to adopt further universalism as a template for its welfare state.

- ◆ The private sectors in Scandinavia are increasingly concerned that taxation is at a level which undermines their international cost competitiveness.
- ◆ Tax-payers are increasingly critical of the quality and level of public services which they are obtaining in return for paying high taxes.
- ◆ The expansion of private services employment is being constrained by a tradition of strong wage egalitarianism. This is particularly a constraint on the growth of small and medium-sized enterprises.
- ◆ The ageing of their populations is prompting new methods for determining the level of contributory pension to which people are entitled (linking it more to the individual's own contributions).<sup>4</sup>
- ◆ Higher unemployment is introducing elements of targeting that ensure the more effective allocation of services.
- ◆ A strong work ethic has consistently been reflected in an effective conditionality being attached to the administration of long-term unemployment assistance at the municipal or local level.

3. It is a remarkable fact that the Scandinavian countries have among the highest employment rates in the OECD world in the late 1990s and that most of the remaining one-quarter of their populations of working age are in receipt of social welfare (Madsen, 2002; Nordic Council of Ministers, 2000).

4. For example, the Swedish pension reform means that there are no longer any promises about the level of future benefits, not even as a ratio of earlier income. The level of the pension benefit is *contingent* on the growth of real wages and changes in life expectancy after retirement.

- ◆ There is an acknowledged need to address high levels of recourse to sickness and early retirement benefits.
- ◆ Immigration is increasing the diversity of their populations and creating a new challenge to the 'citizenship contract' on which their welfare states are based. Non-nationals in the Nordic countries have much higher non-employment rates than nationals.

These challenges to the Scandinavian welfare model are a reminder that it, too, is engaged in implementing significant reforms to meet the changed economic and social conditions facing EU member states in the 21st century. However, their low at-risk-of-poverty rates, high female employment rates and containment of income inequality remain remarkable features. They are also in the vanguard of countries showing success in developing a knowledge economy and learning society. The normative appeal of the Nordic model for Ireland, however, has to be tempered by the taxation levels on consumption and labour income which accompany them as well as by Ireland's greater economic dynamism of recent years, which has produced a remarkable closing of the gap with levels of economic activity in Scandinavia. Only a decade ago, the Irish policy-system accepted that Scandinavian and Alpine countries provided Ireland with a learning opportunity because of the evident superiority of their economic performance (NESC, 1993). This economic superiority is no longer so evident today (Table 5.1).

This economic backdrop can be used to support two arguments. Ireland's strong economic performance means that we can now ambition emulating what are, still, superior Scandinavian welfare outcomes on many fronts (lower child poverty, lower poverty among women, greater female participation, etc.). However, it also increases Ireland's confidence that the social deficits it faces can be addressed in ways that explicitly align with its successful economic model and that Ireland's routes to improved welfare outcomes need to be created rather than replicated from other countries. The previous chapter (Table 4.11), for example, summarised evidence that trends (as distinct from levels) in the distribution of income in Ireland since the mid-1980s have been decidedly more egalitarian than in the Nordic countries.

**Table 5.1 Economic Performance:  
Ireland and Comparator Countries Selected in 1992**

	GDP per capita (PPP) US=100		GDP per capita (PPS) EU-15=100	
	1970	1997	1970	2002
Sweden	78	69	123.3	100.0
Finland	59	69	90.7	103.1
Denmark	72	83	124.6	118.7
Austria	62	79	96.0	111.8
Switzerland	104	88	n.a.	n.a.
Ireland	38	69	61.6	119.2

Sources: Scharpf & Schmidt (2000); European Economy No.6/2002

A strategy to make Ireland's welfare state 'more Nordic' would have to reckon with some clear specifics of the Irish situation.

- ◆ The scale of reliance on inward investment is high, even by small country standards, and has been developed to a significant extent by keeping corporate taxation low.
- ◆ The enterprise sector is already under strong competitive pressures despite low corporate taxation.
- ◆ Strong commitments have been made to take low earners out of the tax net.
- ◆ The proven mobility of higher earners is a significant constraint on increasing the top rate of income tax.
- ◆ Investing in universal schemes (e.g., abolishing third level fees, raising Child Benefit, extending the medical card to those over 70) brought substantial wind-falls to people who do not need them in a society where significant social deficits continue to exist.
- ◆ Universal measures, by virtue of the fact that wide and politically influential strata of the population benefit, are particularly difficult to adjust downwards. Their extension risks reducing the flexibility with which fiscal policy can respond to adverse economic conditions.
- ◆ A succession of studies on the introduction of a universal income transfer for everyone suggest that it required a higher level of taxation and did not generate wide support.

- ◆ The universal services which are currently provided (e.g., medical attention in public wards of hospitals, school education at primary and secondary level, public transport) are widely acknowledged to need substantial further investment, which makes the introduction of wholly new public service infrastructures (e.g., childcare) more questionable.

In short, the specifics of Ireland's situation and the thrust of reforms to the Scandinavian welfare model caution against adopting the high levels of taxation, public social spending and public service provision, which characterised the golden years of the Nordic model, as a template to guide the next phase of development in Ireland's welfare state. This is not to rule out any further development of universal measures. Overcoming the deep dualism in health services by significantly improving the public health services to which residency in Ireland gives entitlement, for example, may be insufficiently appreciated for the role it would play in strengthening labour market mobility and societal cohesion. If current policies prove unable to bring sufficient affordable childcare places on stream so that female employment rates begin to stagnate or slip, the costs and benefits of different ways of instituting a public system may have to be considered. The experience of several countries in making their main public pensions universal by basing their eligibility on residence rather than work contributions may deserve thorough comparison with Ireland's combination of a low level contributory pension, the escalating cost and regressive nature of subsidies to supplement it, and high pensioner poverty.

## 5.4 The Case For A Stronger Insurance System

This section examines the contention that welfare reform in Ireland should centre around strengthening the social insurance system so as to embrace groups and risks not currently covered.

The social insurance model is based on the fact that defined populations share common risks. The logic of pooling contributions to provide protection for the randomly generated victims of these risks is, then, quite compelling. Individuals make their contributions governed by neutral, actuarial formulae and, should any one of them fall foul of a covered risk, she or he receives a replacement income as an entitlement and not as charity. For over one hundred years, valued attributes of this mechanism have included that individuals receive social protection 'as a right' and free of means-testing, that employers are enlisted and co-ordinated to discharge some of their social obligations to their workers, and that its logic is relatively free of political ideology and, thus, from manipulation by the government of the day. In contrast to charity or means-tested social assistance, social insurance has always retained the strong connotation that people, on the basis of their equal status as workers, are doing something for each other.

The insurance system, to some extent, is at its best when the population engaging in mutual insurance is composed of relatively high-productivity individuals. In these ideal circumstances, the levels of risk are low and the income generated by modest contribution rates are substantial, with the result that generous cover can

be provided to the subscribing members who fall victims of a risk. The level of payment can even be linked to previous earnings and seek to protect the victim's established status and standard of living.

Two types of national insurance systems can be distinguished. In Continental Europe, countries with a strong 'Bismarkian' tradition developed high levels of social protection for insured workers (and their families) but tended to keep the less productive groups in their populations from membership of the workforce (e.g., by prolonging education, emphasising domestic duties for women, giving disability a labour market meaning, encouraging early retirement, etc.). The historical development of their national social insurance systems is partly the story of how a variety of occupationally-based insurance funds came to be aligned or merged with each other (e.g., Palier, 2002, for France). This was frequently conflictual. Relatively privileged groups of workers resisted occupational groups with lower productivity and higher risks than themselves being admitted to their insurance funds. Groups with precisely those characteristics struggled to be accepted as workers with sufficient productivity and prospects for steady employment as to be capable of becoming net contributors to insurance funds, rather than 'free riders' threatening their solvency.

Countries with a 'Beveridgian' tradition have emphasised broad national, rather than specific occupational, solidarity as the basis of the insurance contract and sought to keep the levels of cover and contribution rates consistent with scheme membership on the part of workers with relatively modest productivity and weak market positions. Their funds, by contrast with those in 'Bismarkian' countries, are wholly managed by public authorities without participation by workers or employers, pay flat-rate benefits for relatively short periods, and — thus — feature a large element of redistribution as low paid workers receive proportionately more than higher paid workers.

Several developments have softened the strong reliance on social insurance in Continental European welfare states.

- ◆ Social insurance contributions have been reduced or exempted on low wages in a bid to raise employment rates among low productivity groups. 'Special' employments have been created where social contributions are not required.
- ◆ The entitlements to which insurance gives rise have been pared back — and/or the contributions record giving access to them increased — as a rising pensions bill squeezes the funds available to cover other contingencies.
- ◆ New, means-tested schemes have been introduced to address the needs of a growing number of people unable to access insurance-based systems or whose entitlement has been exhausted by long unemployment durations.
- ◆ There is also evidence that the internationalisation of national economies has been particularly difficult for heavily insurance-based systems to deal with. High 'tax wedges', to which contribution rates contribute, have impacted negatively on the competitive position of exporting enterprises.

- ◆ The counter-cyclical effect of paying high insurance-based unemployment compensation during a recession has largely been lost in leakage to imports.
- ◆ The high level of benefits and the degree of involvement of workers' representatives in managing insurance funds increased the incentive and power of workers to resist change.

Ireland's social insurance fund is in the Beveridgian tradition. It is managed primarily by the Department of Social and Family Affairs<sup>5</sup>, has a small variation across very broad occupational groupings in the contribution rates paid (there are seven main contribution classes) and a similarly small variation in the range of risks covered for each occupational grouping. The benefits paid are the same for everyone independently of the level of their previous earnings (a pay-related element in unemployment benefit was discontinued in 1994; maternity and adoptive benefit replaces 70 per cent of previous earnings but up to a low ceiling). Changes to these features are the prerogative of government. Contributors have no guarantee of the level of payment to which their contributions entitle them. Indeed, the contractual obligations, on both sides, are vague. Currently, the levels of payments are not significantly higher than their means-tested social assistance counterparts. Nevertheless, the fact that insurance benefits are free of means-testing and paid in recognition of a contribution record makes the extension of insurance-based cover attractive to groups with weak earnings power.

Significant changes have been made to Ireland's social insurance system over the last 20 years, which have made it more inclusive, more comprehensive and less likely to impact negatively on relatively low paying jobs. Since 1988, the self-employed, part-time workers, newly recruited civil servants and Community Employment workers have become required to contribute to the Fund and eligible for its benefits; greater use has been made of credited contributions and credit disregards (periods of time omitted when calculating a person's annual contributions average) to minimise the reductions in the levels of benefit to which people who interrupt work records for valid reasons (e.g., caring) become entitled; new benefits have been added for contributors (dental and optical benefits for spouses, Widower's Contributory Pension, Carer's Benefit) and existing benefits improved (e.g., extension of maternity benefit); an exemption from employee contributions was introduced for those with very low earnings and, later, on a small first tranche of everyone's earnings, while a lower employer rate was introduced for the low paid.

These changes testify to the dynamism of the Social Insurance Fund in Ireland and the high level of interest surrounding it. The growing significance of immigration to Ireland's economy adds a further dimension to its attractiveness. Where entitlement and access to benefits are acquired largely on the basis of employment contributions, high levels of social protection exercise less of a 'pull factor' than when provided through generous universal or means-tested benefits and there is more of a guarantee that immigration will contribute to social revenues in proportion to, or even more than, it adds to social spending.

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5. Any surplus of contributions over payments is transferred to an investment account, managed by the Department of Finance (through the National Treasury Management Agency).

However, further improvements to insurance-based social protection in Ireland are unlikely to be on a scale or have a reach as to impact, on their own, in a decisive way on the population's evolving social needs. This is for several reasons.

- ◆ The pensioner population is set to grow and their income needs will absorb an increasing share of expenditure from the Insurance Fund.
- ◆ The most productive workers are already in the insurance system and including further groups (e.g., carers in the home, farm women, the spouses of self-employed workers, people seeking only part-time work, etc.) will increase demands on the Fund more than its resources. In fact, some of the current discussions in Ireland today echo the arguments which have taken place in Bismarkian countries for and against extending social insurance to groups of workers with relatively weak labour market positions (Murphy, 2003b; NWCI, 2002).
- ◆ While setting, and even strengthening, contribution thresholds before a person gains access to cover is essential to the solvency of Insurance Funds, some groups of workers will continue to have difficulty attaining these thresholds (low-skilled new entrants, casual workers, young mothers, illegal workers, etc.).
- ◆ Workers already in the system would ideally like the cover they receive extended and improved, e.g., a further extension of paid maternity leave, the introduction of a period of paid parental leave, a part-time unemployment benefit for parents with young children, some recognition for higher earners of the level of payments they make into the fund, etc.
- ◆ Raising PRSI contribution rates (for employers and/or employees) or removing the ceiling to employee contributions would have implications for the competitiveness of enterprises and worker's take-home pay which those involved in wage-bargaining and social partnership would have to agree to address. This is the mild Irish variant of a feature of social insurance reforms in many countries, viz., that they proceed at a pace and in a direction which favour those funding the current system (Kapstein and Milanovic, 2003).

The main drawback, however, to the social insurance model being accepted as the template to guide further welfare reform in Ireland remains the very foundation of the system. It 'basically insures those who make their living from the labour market against the risk of losing that income' (DSCFA, 1996) and is not designed to protect those who cannot access paid work.

If further developments of social insurance are not the main answer to meeting the old and new social deficits requiring urgent redress, nevertheless, greater use of the Fund can be integral to social progress over the coming years.<sup>6</sup> For example, once the support services that free more women to take employment are in place, further significant increases in female employment can be expected to strengthen the Fund and reduce the high at-risk-of-poverty rates among women in retirement. The Fund may also be expected to play an enhanced role in improving the family-friendliness of an Irish labour market where maternity and parental leave entitlements lag considerably behind the standards set by the more advanced

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6. FISIM, 2004

knowledge economies and learning societies in the European Union. Finally, and perhaps most importantly, the contributory pension — even when no longer paid for wholly by the Fund (the National Pension Reserve Fund will begin to part-fund it after 2025) — may be expected to grow in significance in the coming years. Central arguments in support of seeing this happen, and winning agreement for whatever measures are chosen to enable it, include: the rapidly escalating cost of tax expenditures for occupational and private pensions and their highly regressive incidence; the lack of interest in and support for the contributory pension among high earners because of the major imbalance between the amount of their contributions and the level of their entitlement; the alleviation of pressure on those company pension schemes where benefits are defined as supplementary to the contributory pension; the direct impact of a higher contributory pension in reducing pensioner poverty; the beneficial impact on workers of knowing that, through their employment, a major and not minor part of their standard of living in retirement is being secured.

## 5.5 The Case For More Targeting

This section examines the contention that welfare reform in Ireland should primarily be about increased targeting and travelling further down the road of a residual welfare state.

There are several reasons why, despite Ireland's strong economic performance of the 1990s, maintaining a strongly residualist welfare state appears a reasonable template to guide future reforms.

- ◆ Substantial additional resources for social protection cannot be presumed on. The sensitivity of Ireland's economic model to higher taxes, the trend within the EU (especially after the most recent enlargement) towards lower corporate tax and the significant deficits in physical infrastructure which the economic boom of the 1990s exposed, other things being equal, increase the attractiveness of an approach which reserves additional resources for social protection to those with the greatest need.
- ◆ The more recent innovations which eschewed a targeted for a universal approach to addressing social disadvantage have each been seen to entail significant deadweight effects (abolishing fees at third level, raising Child Benefit, extending the medical card to all aged 70 or over). While each innovation was worth more to people on low incomes (had a larger proportionate impact on their circumstances and provided public support in a manner easy to access and free of stigma), significant proportions of the resources used went to people on high incomes.
- ◆ Even where universal and/or insurance-based social protection measures are extensively developed, the need remains for tailored, high-support programmes to target people experiencing multiple disadvantage.



- ◆ Services motivated by the needs of people in exceptionally difficult circumstances need constantly to be innovated, evaluated and revised. This is more successful with the participation of beneficiaries and the involvement of voluntary and community groups. This is good for democracy. It is also a notable feature of Ireland's current practices which merits being further strengthened.
- ◆ Ireland has developed public institutions with extensive experience in delivering means-tested income transfers and services (principally the Department of Social and Family Affairs). By and large, they achieve reductions in poverty and social disadvantage with commendable efficiency in their use of taxpayer resources.

Other considerations, however, suggest that Ireland's welfare state has reached — or surpassed — the limit for relying on means-tested supports.

- ◆ Throughout the 1990s, the proportion of social spending (cash transfers and expenditure on services) in Ireland that was means-tested was three times the average for the EU-15 (European Commission, 2002).
- ◆ Means-tested benefits can entail high marginal tax-plus-benefit-withdrawal rates with significant disincentive effects for their recipients; this extends to their spouses/partners as means-testing is based on household means.
- ◆ As the mainstream of the population becomes more heavily focussed on employment, there may be a decline in voters' willingness to fund income transfers to people of working age.<sup>7</sup> This would make it easier for the political system to allow the relative living standards of this group decline.
- ◆ The discretionary and unpredictable way in which payment levels and other parameters (earnings disregards, etc.) of social assistance payments are adjusted can increase frustration with, rather than appreciation of, the system. Means-tested social supports can be easy targets when fiscal economies are urgently needed as their adjustment downwards occasions less formidable political resistance than alterations to programmes from which wide strata in the population benefit.
- ◆ There is evidence that dependency survives, if not thrives, in Ireland's residual welfare arrangements. A security is attached to benefit receipt which, though providing a lower income, does not attach to the potential market earnings of low skilled people. Several categorical payments to people of working-age are, effectively, of indefinite duration.
- ◆ Targeted schemes (combating educational disadvantage, area disadvantage, focussed on specific groups, etc.) have multiplied leading to growing difficulties in ensuring their effective co-ordination, proper evaluation and value for money. New schemes are introduced more easily than low-achieving ones are identified and discontinued, or mainstream programmes altered in the light of learning from high-achieving ones.

7. While there is no comparable data for Ireland, *British Social Attitudes: the 20th Report* (2003) suggests that voters in a heavily employed society become more willing to pay higher taxes for improved public services but less willing to fund cash benefits to poor or unemployed people of working-age.

If targeting cash benefits and services were, indeed, the best answer to deprivation in Ireland, it would be reasonable to expect much less poverty than is currently the case. Whether in providing cash transfers or services, however, targeting can be seen as part of the problem. For example, efficiency in ensuring that taxpayers' money is received only where categorical conditions are fully complied with and assessable household income is below a certain threshold requires active monitoring and supervision of recipients' circumstances. Perversely, this continues to distance the households in question from the rest of the community. Their reduction in status is not ameliorated by rises in the real value of the cash transfers they receive. Public bodies find it particularly difficult to discharge their statutory responsibilities to people on low incomes and/or to those residing in areas demarcated as disadvantaged; a dynamic can set in that results in 'poor services for poor people' unless imaginative and highly resourced efforts are undertaken to arrest it. It is notable how access to public services, at specified standards of services, has emerged as a strong objective in both Ireland's Anti-Poverty Strategy and National Disability Strategy. When the administration and delivery of services for low income groups are carried out by area-based or specialist organisations in the voluntary and community sector, stigma may be reduced and service quality improved but other challenges can arise. People may become 'locked in' to their deprived neighbourhoods; the outcomes being sought for individuals may be vague; the transparency and accountability with which resources are used may be below the standards of the public and private sectors.

It is a sobering observation that, despite the huge economic and social changes which Ireland has experienced in recent decades, there has been little improvement in relative social mobility. While the need undoubtedly remains to continue with an extensive set of targeted programmes, their contribution to empowering people and restoring equality of opportunity will need to be stronger. The issue of resources will always be important but is seldom as paramount as the challenge of understanding the complex family, peer, neighbourhood, ethnic group and inter-generational dynamics which contribute to shaping people's aspirations, expectations, values and beliefs. Ireland's targeted programmes for tackling disadvantage need to be informed by deeper contextual and qualitative research into the causes and transmission processes giving deprivation its tenacity and resilience.

## 5.6 The European Context

The European Union provides a hugely important institutional and policy context for the restructuring of countries' welfare states, even though the main planks of social policy remain firmly the competence of the nation state. The recent enlargement of the Union, with its inclusion of member states whose living standards on entry were far below those of most of the existing members, has sharpened the need to examine the bases on which access to social benefits is granted and the manner in which they are funded (Sinn, 2004). Furthermore, the very success of the European Union in a world where many regions have become more insecure

and impoverished poses acute challenges in balancing protection for citizens of the Union with global solidarity. Through the OMC process being applied to social inclusion and pensions in particular, but also through the search for labour market reforms that redress unemployment, the development of common policies on immigration and asylum seekers, the jurisprudence of the European Court of Justice, and in other ways, social policy formation in Ireland is influenced by and, in turn, influences developments throughout the Union.

The Council believes that the diversity and complexity of changes to welfare states within the EU are poorly captured by suggesting there is a fundamental choice to be made between a US model and a 'European' one ('Boston or Berlin'). Neither should analyses of the degree of convergence to which reforms in EU welfare states are contributing be limited to a choice between 'levelling up' or 'levelling down.' To maintain and improve the social protection extended to its population, each European welfare state is having to ensure that employment is protected and fostered, that meeting the pension and other needs of an ageing population is placed on a sustainable footing, and that solidarity is exercised more effectively with much poorer populations within and beyond the Union.

The conclusion to this chapter is that European welfare states are increasingly prizing a higher degree of hybridity because of the agility it provides. The future development of Ireland's welfare state, therefore, needs to be guided by the appreciation that significant learning is possible from each of the more sharply defined welfare families in Europe *while maintaining the hybrid character of Ireland's system that now, more than before, is a potential strength*. This is not a green light for 'muddling through' or accepting an interest-group determined line of uneven advance. The social deficits which exist, the lack of an overarching strategy for social protection and failures in implementing even what has been agreed — motivating factors behind this Council study — are too serious to permit an acquiescence with a process of social development where a pattern, if any, can only be discerned in retrospect. The challenge in formulating an overarching strategy for Ireland's welfare state can be expressed, in part, as identifying where and how further universalism, extending social insurance, and redesigning targeting are now required by Ireland's society and economy, with paramount respect being accorded to improved outcomes rather than greater ideological clarity. If such creative integration is not to be reduced to clientelistic-driven development under a new name, it needs an appropriate conceptualisation of what is being attempted and how — the subject matter of Chapter 6. It is also imperative to pay close attention to maximising the positive interactions between the country's core economic strategy and social policies, as was discussed in Chapter 2.

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8. For example, Sinn, H-W. (2004), *EU Enlargement, Migration and the New Constitution*. CESifo Working Paper No. 1367. December.

# 6

## Re-conceptualising Ireland's Welfare State

## 6.1 The Developmental Welfare State in Outline

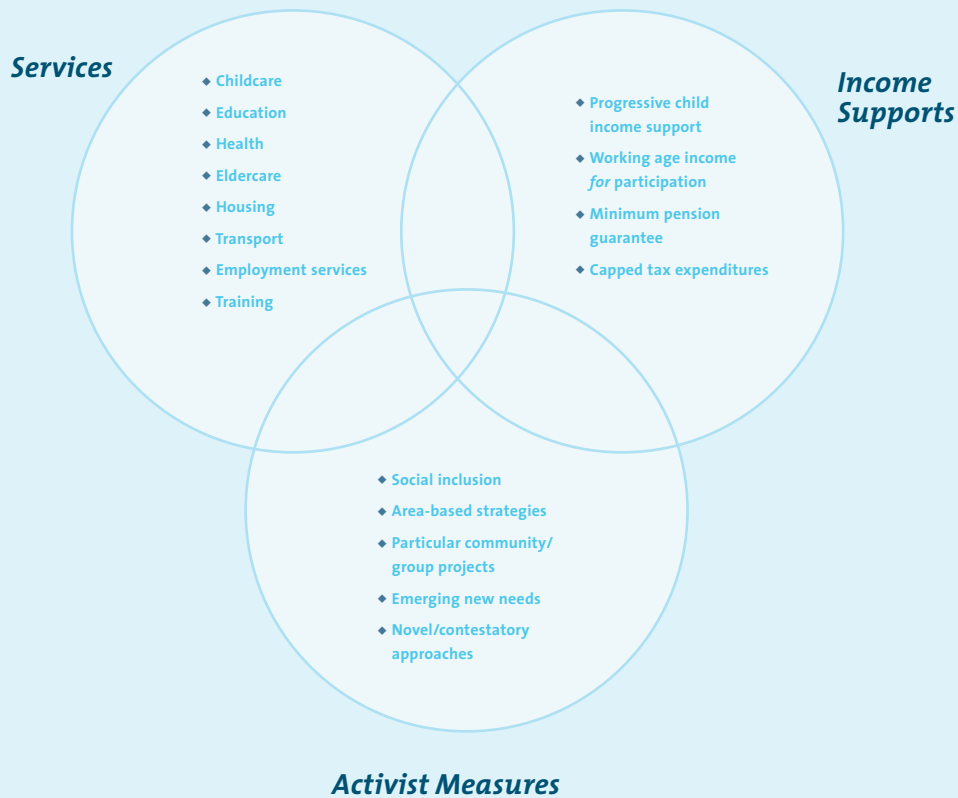
The recognition that changes to Ireland's welfare state cannot be guided by large-scale borrowing from the more defined regimes of other countries is, implicitly, acceptance that 'historical contingency, internal heterogeneity and innovative hybridisation' (Zeitlin and Trubeck, 2003) should be embraced as assets rather than regarded as liabilities in improving Ireland's standards of social protection. Chapter 5 has argued that elements of the three routes which have hitherto given an individual access to social support in Ireland (citizen-based, insurance-based and means-tested) need to be combined in a more deliberately integrated fashion than before if Ireland's welfare state is to complement the continuing transformation of the economy and secure social cohesion.

In recognition of the need for a more deliberate break with the habitual analyses, mindsets and procedures governing how social deficits are addressed in Ireland, the NESC *Strategy* for 2003-2005 proposed an alternative conceptualisation of the core structure to the welfare state as better suited to guide future reforms. It provisionally termed this new structure, 'the developmental welfare state'. This conceptualization posits three overlapping areas of welfare state activity. What is contained within each area is summarily evoked in Figure 6.1 and the thrust of policy for each area in Figure 6.2. They are expanded on further in sections 6.2 to 6.4.

A first area is a set of core services which the state undertakes responsibility for ensuring are available to all members of society, at high standards and in ways that are equitable but tailored to people's circumstances (including their ability to pay) rather than uniform. These services range from familiar ones such as schooling and hospital access to newer ones such as childcare and adult learning. The services themselves are not uniform outputs but are capable of gradation and adjustment to help diverse groups attain similar outcomes. Needs of 'non-traditional' client groups, which were previously addressed outside the formal system, if at all, are accepted as the responsibility of mainstream service providers who must now diversify and modulate their services to ensure equitable opportunities (e.g., access to housing for those on low incomes or with special needs, education for children with special needs and satisfactory school performance in disadvantaged areas, access everywhere for people with disabilities, knowledge of and preparation for employment vacancies in disadvantaged areas). In the changed economic and social circumstances in which people now find themselves, access to this wide set of services has acquired a wholly new resonance; they underpin the social and economic participation of an increasingly diverse population and enhance labour market flexibility and competitiveness. Bringing these services on stream involves,

alternatively, revamping and refocusing extensive infrastructures already in existence (e.g., health, education, transport) and accelerating the development of infrastructures still in their infancy (e.g., childcare, eldercare).

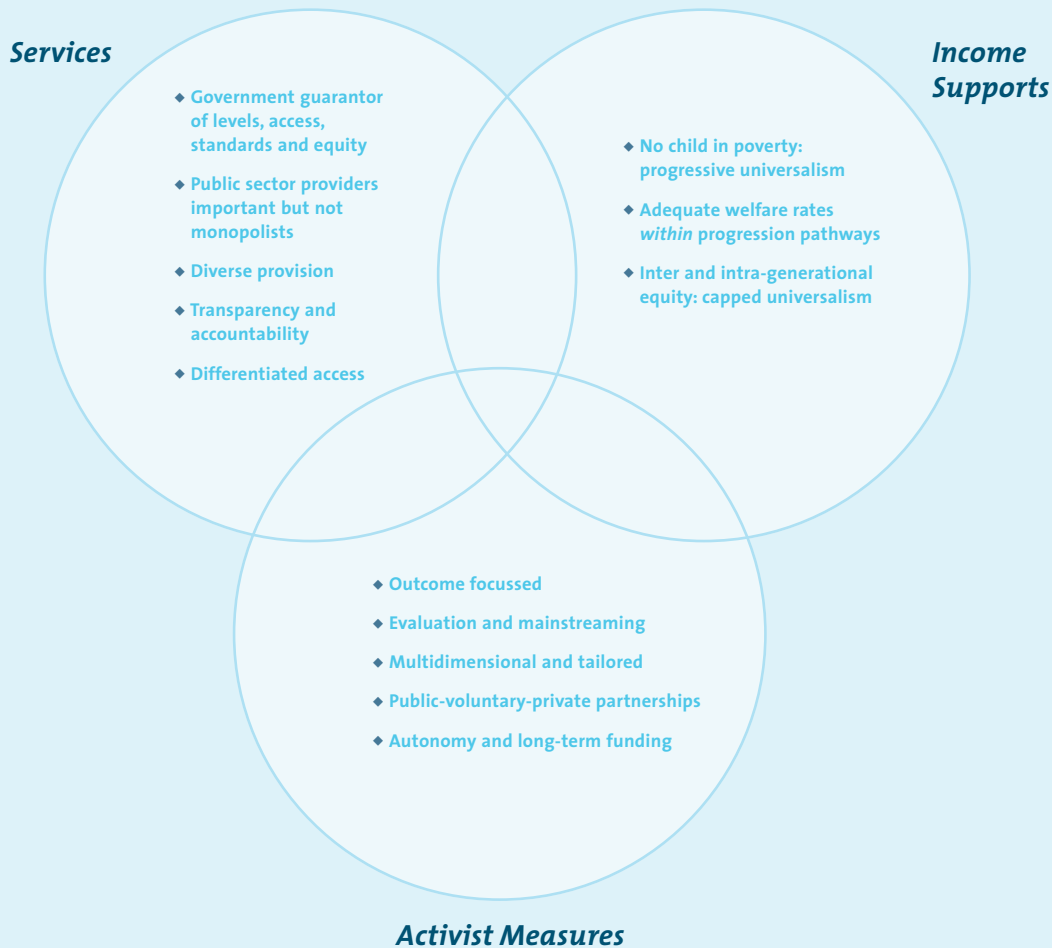
Figure 6.1 The Developmental Welfare State: Core Structure



A second area is a set of income support arrangements which build on the political acceptance and economic capability to ensure minimum payment rates are adequate not just to cover basic subsistence needs but also to buttress satisfactory social participation. Disincentive effects, where they arise, are addressed by intensifying recipients' engagement with selected service providers rather than by depressing payment levels. Differentiated thinking is brought to bear on individuals at different stages in the lifecycle. Children receive priority because of the greater awareness of the later constraints that attach to a poor start in life for individuals and to birth rates camped at a low level for society. Older people receive priority because of their growing numbers and the realisation that, in old age, there is effectively nothing individuals can any longer do if their income from all sources is insufficient to keep them from poverty. By contrast, the generalized improvements in education, health and other social supports lead to the expectation of a labour market that is steadily more inclusive for people of working age with the attainment of high employment rates helping to place the whole edifice of social protection on a firmer foundation. These different orientations underpin specific objectives. In childhood, it is accepted that parental circumstances should not be the cause of any child being denied access to key developmental opportunities; while all children are supported, some are supported more than others (progressive universalism). In retirement, it is accepted that the basic state pension has to be the major bulwark for keeping retired people from being at-risk-of poverty and that access to it, or its equivalent, has effectively to be open to every person in retirement. For people of working age, tailored progression pathways become the rule rather than the exception for welfare recipients and payment *rates* raise all people to a minimum while payment *arrangements* are designed to facilitate as many people's eventual participation as possible in employment or other social activities.

The third area is made up of new, pro-active measures through which organizations — in the community and voluntary, public or private sector — are responding to unmet social needs in a particular and once-off manner, the implications of which for mainstream service provision are not yet apparent. The initiative lies frequently with the community and voluntary sector where many organizations arise precisely because a population sub-group proves too small for large public bodies to be able properly to focus on their characteristics and needs. In other instances, the population sub-groups may be large and the new initiatives are bypassing established procedures and mindsets in public bureaucracies which have prevented action. It is also possible that the initiative is taken by large public organizations themselves who deliberately undertake pilot programmes with a view to identifying more clearly how acknowledged shortcomings in their current services might be more effectively addressed. A private sector body may also take the initiative and apply its resources (of personnel and know-how as much as finance) to a particular issue, usually in partnership with voluntary and community interests. The issues which activist measures address and the specific groups they serve change from decade to decade. Their once-off and particular nature leads to a number of possible outcomes: the solution of a specific challenge and standing down of the initiative (e.g., after the successful regeneration of an area); the adoption of the responsibility and key design elements which the initiative pioneered into a mainstream programme; or the settling down of the initiative as a niche

Figure 6.2 The Developmental Welfare State: Policy Thrusts



service with the organization behind it enjoying autonomy and long-term funding in return for meeting agreed performance targets. A pattern that was important in the history of the development of Ireland's hybrid welfare state should not be presumed to be over either: the expertise and dynamism initially brought to serve a population sub-group may develop and diversify transforming the organization behind the small initiative into a relatively mainstream provider itself.



## 6.2 Service Delivery in the Developmental Welfare State

### 6.2.1 State leadership in developing services

A radical development of services is the single most important route to improving social protection for Ireland's population in the years ahead. The services listed in Figure 6.1 are essential to attaining the workforce quality that underpins a competitive, knowledge-based economy, maintaining social cohesion and combating social exclusion. In some instances, a service is largely associated with public sector provision (e.g. education, health, employment services) and, in other cases, peripherally so (e.g. housing, childcare, transport). However, even in the latter instances, the regulatory powers of the state and its responsibilities to ensure minimum service levels, quality standards and equitable access are major influences on the provision of services by for-profit and non-profit private organisations. The state influences each service system through a wide variety of instruments — regulation, capital grants, grants-in-aid, tax expenditures, programme funding, licensing arrangements, cash reimbursements, loan guarantees, public private partnerships, etc. — as well as by undertaking direct public service provision. Each service system has its own set of public bodies and agencies, alternately involved in regulating, planning, supporting and monitoring the service provision of others or undertaking direct service provision themselves. The first public policy challenge, therefore, is to ensure that every member of Irish society has access to the level and quality of service they need *from the system*, with quality and equity being assured. A subordinate challenge is to identify the appropriate scale and nature of direct public service provision.

The Irish state has long relied on a wide variety of 'third parties' to deliver social protection which the taxpayer funds in total or in part (recall the brief discussion in 3.2.2). Traditionally, church bodies and religious organisations were significant recipients of public funds for public purposes. In more recent years, the set of third parties has significantly widened with the state using very different instruments or tools to enlist their involvement in meeting the goals of public social policy (e.g., the Community Employment Programme to enlist community and voluntary groups in activating the unemployed; PRSAs to enlist for-profit financial organisations in providing pensions; Part V of the 2000 Planning and Development Act and the long-term contracting of private rental accommodation to enlist private developers and landlords in providing social and affordable accommodation). Government today faces an increasing challenge in activating, orchestrating and modulating the activities of a wide variety of actors to ensure that services of different types are delivered comprehensively and fairly to the Irish population. This is not the same as saying that the public sector is too large and needs to relinquish some of its activities to the private sector ('privatisation') or that it has inherent inefficiencies which the introduction of overt or managed competition can overcome ('reinventing government'). Rather, as social challenges grow in diversity and complexity, the state is having to have recourse to the expertise, niche positions, trust with client groups, flexibility and resources of for-profit and non-profit private bodies to complement what it is able to achieve by funding direct public service provision.

Perhaps the central reality of public problem solving for the foreseeable future (is) its collaborative nature, its reliance on a wide array of third parties in addition to government to address public problems and pursue public purposes. ...Under these circumstances... 'network management' rather than either public management or market dynamics comes closest to describing the central realities involved. This form of management involves mutual adaptation through bargaining and interaction rather than the command-and-control characteristic of public administration or the independent action characteristic of markets. (Salamon, 2002, *The Tools of Government. A Guide to the New Governance*, pp.8, 601)

One of the core requirements of public administration in the early 21st century, therefore, is to increase its expertise in 'network management' so as to facilitate diversified regimes for delivering services in each of which the state has responsibility for procuring comprehensive coverage, maintaining standards and ensuring equity.<sup>1</sup> Direct public provision of social services remains one route among others but, in the DWS, it too will be subject to accountability based on outputs and to being challenged by research on how outputs relate to outcomes. Its operating premise will be that a combination of strong public sector organisations and competition from private and non-profit organisations is most likely to achieve the best balance between accountability, innovation and efficiency. The core challenge to public sector providers is to replace a vicious circle between slow change, unsatisfactory service standards, declining public support and low investment with a virtuous one between successful change, leading standards, strong public support and high investment. In selected areas within a system, there may be a case — and wide public support — for providing access to all members of society on the basis of unconditional universalism (i.e., services free to users other than that they contribute to general taxation, e.g., schooling to age 16). More generally, however, the state undertakes to ensure a set of differentiated routes of access, tailored to people's needs and circumstances, whereby no person is deterred by limited income from using the service while capped charges remind users of the resource consequences of their level of usage.

The structure of access to public health services is a case in point: medical care in public hospital wards is free to everyone normally resident in the state but with a charge per bed-night (subject to an annual ceiling) levied on the section of the population considered to be in a position where they can pay a contribution to their hospitalisation over and above their contribution to general tax revenue. It is consistent to support this structure while believing that the standards of public medical care (e.g., waiting times), the income threshold below which there is free access, and the level of the charges for patients above the income threshold, each need significant revision.

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1. A case in point is the Council's 2004 housing study, *Housing in Ireland: Performance and Policy*. Though less than one in ten households has their housing provided directly by the state, the study underlined how every household has been, and is, vitally affected by the quality, foresight and timing of public policy decisions in such areas as land management, spatial planning, infrastructural investment, building regulation and its enforcement, and social housing. The study sought to accelerate a process whereby public authorities, at every level, have been slowly, unevenly but eventually understanding and managing Ireland's housing system as a whole and discharging their complex and widening responsibilities in this area. It recommended greater pro-activity on the part of the public authorities in many areas while also concluding that an enhanced role is needed for the direct provision of housing by the public sector.

Generally, there is surprisingly little research into how people in Ireland weight the relative importance of the different services on which they rely and whether, and to what extent, general taxation and user charges should be combined in funding each. For example, we do not know just how strongly the Irish public value their own access, and every other person's access, independently of income, to GP and hospital services in health. An exception has been a 2004 survey of the Irish public's views on education, which show it as supporting different routes of access depending on the level and type of education being accessed (Kellaghan *et al*, 2004).

### Box 6.1 Views of the Irish Public on Education

There is strong support that government should meet all the costs of primary and secondary education and, consistently, a high degree of support that public funds should continue to be provided to fee-paying schools. There is also strong support that government should fund additional educational spending on children with learning difficulties and alternatives to school for young people who lose interest in it or are in poor areas. At other educational levels — pre-school, third level and second chance — the support is significant but less strong for the service to be wholly funded by government, with significant minorities supporting the payment of contributions by relevant stakeholders (parents at the pre-school level, parents and students at 3rd level, and employers and students in second chance education). Intriguingly, these views were expressed in the context of significant opposition being recorded to increasing taxation specifically to provide more money for education. Kellaghan *et al* (2004). *Views of the Irish Public on Education*

The Council believes that, in so far as possible, the service systems integral to social protection in the coming years should be characterised by payment arrangements in which service professionals, at the key point of service delivery, have no monetary incentive to select some clients for a superior service. If prioritisation is needed, it should be solely on the basis of need and the service provided should not avert to the differentiated support arrangements that give clients access to their professional services in the first place. A simple example is the driver of public transport to whom it makes no difference (nor to other passengers) whether a passenger is paying the full fare, a concessionary fare or has a free pass — the service to be provided is the same for everyone. In similar fashion, it makes no difference to the third level lecturer (or to other students) that some in the lecture hall have gained access through maintenance grants and/or in-house support programmes while others have not. In the public wards of hospitals, it makes no difference to the doctors and nurses whether their patients are being paid for by government, private health insurance or paying for themselves. There are, however, levels of medical attention currently available only to those with the capacity to pay for it and which the Council considers are a major challenge for the new Health Services Executive to find ways of delivering purely on the basis of need alone in the future.<sup>2</sup>

2. The Council has in mind particularly those instances where waiting times for essential medical treatment is vastly affected by income.

### 6.2.2 Challenges facing public sector providers

When the service systems that will be such a major part of social protection over the coming decades are considered as a whole, the scope and quality of direct public provision recur as a constant theme. While it is true that social protection that is paid for by the state does not have to be provided by the state, and probable that many people now consider the quality of the service they receive more important than who provides it, it is also the case that there can be an important — even leadership — role for public sector providers within services systems. Specific difficulties attend this scenario (see below) but their operations can be characterised by low transaction costs (less need for regulators), equitable access, good working conditions, high levels of staff commitment and strong public trust. When these latent characteristics in a public sector organisation are developed, with neither efficiency nor service quality deteriorating, society has a particularly valuable asset. A UK study reflected: ‘In many public services, citizens value the service received by others, as well as the service they themselves benefit from. In other words, fair distribution in itself creates value’ (Kelly and Muers, 2002: 14).

#### The residualisation of public sector service providers

In reality, the ability of existing public sector service providers in Ireland to satisfy users and retain the confidence of the public has come under unprecedented strain and there is evidence of a drift of the public from using them where the option exists.

- ◆ In health, private hospitals and private facilities within public hospitals are being used by a growing proportion of the population, partly to avoid the long waiting times and more crowded facilities associated with public health provision. At the same time, a significant proportion of consultants’ time (though they receive full-time public sector salaries) is devoted to private practice, while a declining proportion of GP’s time (whose status is self-employed) is devoted to public patients as the percentage of the population eligible for a medical card has declined.
- ◆ Within education, a growing number of parents are taking advantage of higher incomes to choose fee-paying schools for their children where the alternative exists.<sup>3</sup> A large proportion of students, by international standards, continue to enrolled in privately managed schools (non-fee paying and fee paying and discretionary private spending by their parents has been increasing (OECD, 2004).
- ◆ Within housing, local authority dwellings have declined significantly as a proportion of the national housing stock and, as tenancy of these dwellings became increasingly associated with severe social disadvantage, better-off tenants redoubled their efforts to quit the sector and home-owners became more determined to avoid proximity to public housing. Satisfaction with housing and neighbourhood conditions is particularly low among local authority tenants (Watson and Williams, 2003).

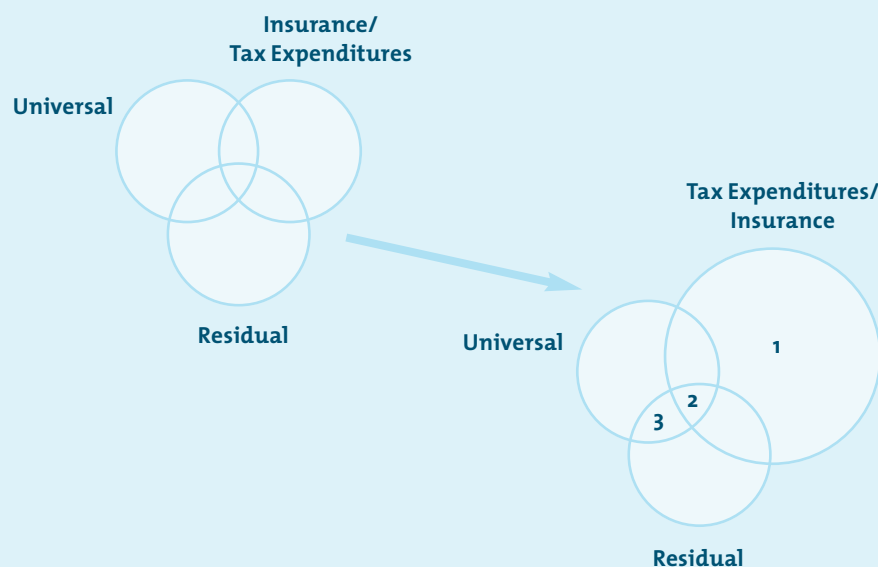
3. The number of pupils in fee-paying schools in Dublin increased as a proportion of all secondary school students from 24 per cent in 1983-84 to 32 per cent in 2002/03.

- ◆ Within transport, there has been a continuing and losing struggle to move commuters from reliance on the private motor car to avail of public transport. Quality bus corridors, in some instances, and Dublin's light rail system (LUAS) show small areas of success but other groups of public transport users believe they have experienced a deterioration in the service.<sup>4</sup>
- ◆ As employment mobility increases and, with it, the demand for further education and training, private employment and training services are being used increasingly in preference to public services, which are regarded as associated with a more disadvantaged clientele and poorer results.

### 6.2.3 Deepening dualism in Ireland's welfare state

The Council does not believe the type of service systems which Ireland needs should assign a merely residual role to public sector providers. Support for a greater diversity of service providers is not support for segmented division, much less acquiescence in a deepening dualism. It is possible to foresee a dualism deepening in Ireland's welfare state between, on the one hand, a growing majority who are able to supplement very basic levels of public service provision with additional protection they purchase for themselves and, on the other, a significant minority who rely near entirely on public provision, and in doing so are further removed from the mainstream of Irish society and less likely to experience mobility into it. This scenario, which this Council study seeks to help avoid, is illustrated in Figure 6.3.

Figure 6.3 Deepening Dualism in the Differentiated Welfare State



4. Particularly in disadvantaged urban areas where the public bus service is the sole option for many residents

The movement depicted in this Figure (from the top left hand corner to the bottom right) and growth in relative size of the insurance/tax expenditures circle depicts several developments.

1. There is growing private social spending as more people come to rely on tax-subsidised (e.g., occupational and personal pensions, private health insurance), work-based (e.g., access to childcare, health insurance) or wholly unsubsidised (e.g., school fees, grind schools, neighbourhood security) social protection for themselves and their families and less on what is publicly provided. The universal benefits available to them out of general taxation (e.g., child benefit, medical treatment in public wards, etc.) and even their PRSI-based entitlements (e.g., unemployment benefit, the contributory pension) are insignificant to them and scarcely feature in their planning for themselves and their families.
2. The proportion of people at work who yet experience the universal benefits and flat-rated insurance benefits to which they are entitled as significant bulwarks to their personal security grows smaller (2 and the overlap above), as does the proportion of them who are in receipt of some form of means-tested support (e.g., a medical card, local authority housing) because their earnings are so low that they qualify for benefits targeted on those with very low incomes (2 and the overlap below).
3. There is a growing identification between being in receipt of means-tested social supports and being reliant on universal public services, a development which reduces the effectiveness of public services in helping people to overcome social marginalisation and secure satisfying work.

It should be noted that the unfolding of the scenario outlined in this way would be satisfactory for a large number of people. The quality of education, standards of medicine, attractiveness of neighbourhoods and security in retirement which they would purchase could be higher than what they enjoy today and their sense of control would certainly improve. However, the Council does not support the deliberate pursuit of greater reliance on higher private social spending as an overarching strategy for Ireland's welfare state. It considers that such a strategy for Ireland would deepen rather than alleviate the dualism already characterising – to varying degrees – people's access to health services, housing, pensions, education and much else. The strategy carries other risks too. It is extremely vulnerable to individual's employment careers and can be fairly said to undervalue the significant role of public service provision in combating social exclusion and fostering social cohesion.

#### 6.2.4 Challenges to the public sector

In avoiding this scenario, it is important to understand some of the structural factors with which public sector modernisation efforts are contending and to distinguish valid critiques of public service standards from those based on partial perceptions or exaggerated expectations.

Public sector service providers are frequently large. Very large organisations face particular challenges in identifying and responding to new developments on the supply side and demand side, which niche organisations may be in a better position to exploit. In Ireland, public service bodies tend also to be very centralised. Size and centralisation make them particularly prone to adopt a 'one size fits all' approach and less likely to respond to diversity. Public bodies may enjoy a full or near monopoly position and not, therefore, be compelled by competition to generate or rapidly adopt new procedures for improving efficiency and effectiveness. Public services are labour intensive and particularly prone to see their costs rise faster than the rest of the economy ('Baumol's disease') as innovation occurs disproportionately in manufacturing and wherever processes are standardised; the difficulty of measuring improvements in service quality can make the rise in relative cost appear greater than it is. Public bodies can inherit and transmit a risk-averse and conservative culture where predictability and financial accountability within short time frames are valued to the detriment of innovation. Public bodies can have had their efficiency and effectiveness reduced by past political interventions that, alternatively, influenced the level and quality of recruitment, caused a dearth of funds seriously undermining service provision (LA housing in the early 1990s), or occasioned a surge in funding that ran ahead of their absorptive capacities (health spending after 1997). Public bodies may be called to respond to social needs where no prior experience exists in the public sector for dealing with them (refugees and asylum seekers) or which spill across boundaries more rapidly than innovation takes place in ways of working jointly.

A final difficulty is not unique to public service providers but experienced in a major way by them. Service providers across a wide spectrum (doctors, teachers, social workers, transport workers, call centre workers, etc.) face a better educated, more informed and more demanding public. Service users, through ombudsmen or the courts, acting singly or organised as associations or local communities, are insisting on entering into a dialogue, hitherto largely confined to government and service providers, as to how public services should be provided and at what cost. The prospect of litigation has become a major consideration — and, sometimes, a baneful influence — on service professionals and their organisations in several fields. It is argued that, if taxpayers choose not to rely on a publicly provided service because they are dissatisfied with its quality and purchase a private alternative instead, their expenditure should be tax-subsidised.

Understandably, existing public service providers stress the extent to which perceived deficiencies on their part are primarily due to inadequate levels of public investment and argue that extra resources allocated to them would be effective in raising the levels and standards of public services. However, it is inadequate to hold that current failures can be attributed primarily to an insufficient volume of resources being channelled through existing systems. As often as not, the design

of systems is also at fault. Innovation and radical organisational change frequently need to accompany the extra investment if the public are to receive the services they seek and staff to experience a sustained improvement in job satisfaction and working conditions. Some public service providers face a major contraction in demand for their traditional services (e.g., post) but most face higher demand as Ireland's population rapidly increases. Yet the shared understanding between management and workforce is too often lacking which would enable them to seize the favourable context of rising demand to accelerate restructuring and innovation, and improve the service and how workers experience their role. The workforce profile of several public sector service providers suggest that they should be leaders in innovating on-the-job training and adult learning opportunities and bringing the country to make a reality of its ambitions in the area of life-long learning. This is seldom the case and management in several public bodies has been unable to initiate a virtuous circle between reform and higher investment. At the extreme, reluctance grows even on the part of government to make new services a public sector activity because of concerns that cost effectiveness, responsiveness and flexibility will thereby be less than can be achieved through alternative delivery arrangements. Public service providers should be more proactive in ensuring 'value for money', leading the way in particular on programmes for up-skilling and retraining workers.

Notwithstanding these structural features, public sector providers can — and do — play leadership roles in instituting new types and standards of service provision. There are several lines along which even large public service providers can be successfully 'reinvented':

- ◆ Through being at the forefront in assimilating advanced technology and introducing its benefits to the public;
- ◆ Through the management having the ability – and being given the freedom — to lead a workforce through painful restructuring to improved job satisfaction and greater security;
- ◆ Through central government divesting itself of operational functions — sometimes routine, sometimes specialised — so as to concentrate more on policy formulation and entrusting policy implementation to appropriately regulated executive agencies;
- ◆ Through accepting that non-public bodies can deliver social protection that is publicly paid for and innovating new forms of principal-agent relationships in order to enlist the characteristic talents of commercial and not-for-profit providers (the public voluntary hospitals, privately managed schools, etc.) in doing so.



There is a particularly rich international literature on the organisational changes in public services in many countries which have given deliverers more autonomy to decide how they use resources in the pursuit of agreed outcomes and more incentive to innovate in the search for improvements, while structuring their accountability to service users and central government in new ways. Among the most promising new arrangements are those described as 'democratic experimentalism' (Dorf and Sabel, 1998), 'empowered deliberative democracy' (Fung and Wright, 2001), and 'accountable autonomy' (Fung, 2001). In these approaches to public administration, local actors are given freedom to set goals for improvement and the means to achieve them. In return, they must propose measures for assessing their progress and provide rich information on their own performance. The centre pools the information and ranks local actors by reference to periodically revised performance measures. This approach increases local innovation, but makes the local transparent. The centre acquires two new functions while surrendering all attempts to micro-manage what is happening at the interface between service professionals and service users. A first function is to increase the capacity of local actors to act autonomously by providing different supports; a second is to hold them accountable through monitoring and, where necessary, sanctioning and intervening. But the latter function is exercised to complement, not undermine, local autonomy (Fung, 2001; Leibman and Sabel, 1999; Sabel and O'Donnell, 2000).

These organisational innovations go deeper than the new public management (NPM) reform agenda, which was largely based on the scope that existed for applying organisational and financial systems developed in the private sector to public bureaucracies. Significant developments took place. There was more separation of policy formation from its implementation, more use of executive agencies, tighter performance management systems, more frequent and improved data flows, etc. However, downsides also attended the practice of seeking to apply private sector management techniques to public services (Kelly and Muers, 2002):

- ◆ Efficiency was not the only, nor even the most important, consideration for the public who also valued the quality of a service (e.g., its treatment of the 'whole person') and equity;
- ◆ What could be measured influenced the formulation of objectives while what could not be measured tended to be overlooked;
- ◆ Piecemeal improvement was the norm and it was difficult to have the case for larger scale innovation seriously considered;

- ◆ There was a tendency to micro-manage which reduced discretion for front-line workers while transactions costs increased because of the detailed supervision required by the centre;
- ◆ The ability to separate policy formation and policy implementation was overstated. Executive agencies, through their experience of actually dealing with the situations to be addressed, developed insights into what policy should be and increased their power over the centre;
- ◆ Insufficient value was set on democratic engagement by service providers with service users and other stakeholder groups.

By way of learning, there is now much greater attention:

- ◆ To privilege outputs with clear links to desired outcomes in the formulation of targets, sacrificing detail if necessary in order not to exalt narrower outputs or activity measures and, thus, make instrumental outputs into ends;
- ◆ To have floor targets in order to keep the variation in performance to a minimum and thus enhance the priority given to combating social exclusion;
- ◆ To develop sophisticated performance metrics which throw light on the value being added by publicly funded interventions (see box);

### Box 6.2 Performance Measurement

The following example is suggestive only and does not support adopting the particular performance metric it describes in Ireland's schools. It serves to illustrate how good performance metrics can reveal high standards in surprising places and protect service providers — in this instance, good teachers — from unfair criticism rather than expose them to it.

In order to assess the effectiveness of reforms in the management of Chicago's public schools, a metric of school productivity was developed that attempts to isolate the impact of school factors — such as teaching, curriculum, atmosphere — on student learning while discounting factors that cannot be controlled through what is done within the school itself such as the preparedness of children at the moment of entering school.

First, the subset of children who have attended class for the entire year is identified. Second, comparable standardized test scores of this subset of students in a test administered at the beginning of the year are subtracted from their year-end test scores. This method discounts students who attend classes for only part of the year and also controls for differences in the preparedness of students prior to enrollment in the class. Annual 'productivity gains' (or losses) that result from school specific factors can then be measured by subtracting one year's productivity from that of the preceding year.

Using this metric, it was found that, while the students entering Chicago's public school system between 1987 and 1997 had become increasingly disadvantaged and less well prepared, the majority of schools had become more effective in educating them.

*Archon Fung (2001), 'Accountable Autonomy: Towards Empowered Deliberation in Chicago Schools and Policing'.*

- ◆ To incorporate some element of quality-related funding in payment arrangements, with particular attention being given to ratings of user satisfaction as a relatively unambiguous indicator of developments in service quality.

In broad summary, the shift in paradigm governing service delivery that accompanies the emergence of the Development Welfare State is set out in Table 6.1.

**Table 6.1** Overview of the Shift  
in Paradigm Governing Service Delivery

<b>Former Welfare State</b>	<b>Developmental Welfare State</b>
Service defined by agency	Service jointly defined by centre, agency and user
Crisis-oriented	Seeks balance between prevention and intervention
Centre sets detailed directives	Centre sets strategic objectives
Service deliverer accountable for inputs and compliance	Service deliverer accountable for outputs and quality
Compliance with rules	Attainment of standards
Annual budget	Multi-annual budgeting
Provides categorical services	Provides integrated services
Services delivered through credentialed professionals	Services delivered through teams of professionals, non-professionals and users' representatives
Funds isolated projects	Leverages local innovations into improvements in mainstream services
Public bodies with customer service ethos	Autonomous bodies with public service ethos
'One size fits all'	Assumption of need for diversity
Insulation from competition	Exposure to competition

### 6.2.5 Conclusion

Advancing this perspective on service delivery gives valid grounds for concern. On the part of existing public service providers, there is understandable suspicion that the emphases on service quality, diversity of service providers, outcomes rather than inputs, joint setting of standards, agreement on accountability, etc., are an alternative to needed increases in resources for current public services. There are disturbing examples from other countries (particularly Britain) of how attempts to introduce managed competition between service providers (managed markets) or recourse to subcontracting have not improved service standards, lowered public sector morale, reduced 'diversity' in service provision to 'creaming', effectively jettisoned the most socially disadvantaged, and fuelled profiteering. There is also the concern that formally adopting the perspective of 'network management' will make it too easy to multiply agencies of one form or another and more difficult than ever to achieve their rationalisation and simplification when that is required. A tendency to co-opt or otherwise respond to issue-groups with the establishment of a new body may heighten the profile of an issue and ensure a new corps of workers emerges that is dedicated to highlighting it, but it does not necessarily advance the core reform of mainstream services that may be needed or make it easier to achieve a more agile and co-ordinated services system.

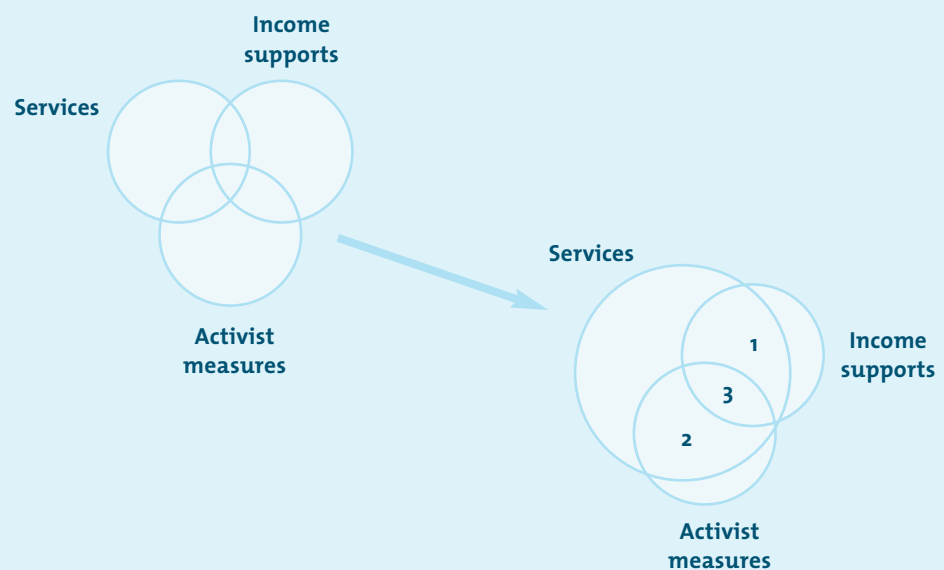
On the part of new service providers, there is the fear that government will exploit its power of being a single buyer (monopsonist) in the new system, just as it did that of being a single seller (monopolist) in the old, and that non-profit organisations will have standards and levels of service dictated to them that are unrealistic in the light of the resources they are given. There is already experience in Ireland that, in the process of becoming more significant players and service providers, community and voluntary organisations are professionalizing and employing more full-time paid workers; this makes higher demands of their remaining volunteers and can endanger the unique cultures on which they rely to attract volunteers in the first place. The non-profits can also fear that the contractual arrangements between them and government will not reflect their need to build capacity, be put on a sufficiently long-term basis or have evaluation procedures built into them that are appropriate to their organisations. There is, finally, the fear that the culture of large public organisations and agencies will not change, and that they will operate in the 'new order' with the intention, and ability, to swing resource flows in their favour, and protect privileged working conditions, which characterised them in the old regime.

The stakes, however, of failure are too large to allow defence of the status quo to veto change. The development of integrated services systems, in which the primary role accorded government is as regulator and guarantor of a diversified, high quality and equitable regime, requires harnessing the characteristic contributions of direct public provision, non-profit organisations and the commercial sector. The end result can be termed the 'services dividend' of the Developmental Welfare State and is illustrated in Figure 6.4.

The movement in the Figure (from the top left hand corner to the bottom right) and growth in relative size of the 'services' circle depicts several developments.

1. In the first place, the vast majority of the population now use the same set of services — they are of such a quality and access to them is so tailored (capped charges for some, wholly free to others) that they constitute a type of 'services dividend' accruing from membership of a society where the economy has been internationalised and the social model is built on high-employment. Services which large cross sections of the population use in turn receive strong public support — a support which extends to their personnel and staff — while the breadth of public interest helps to maintain standards at high levels. These services also play a significant role in strengthening societal cohesion, constituting public spaces where people are citizens first and only secondly belong to different social classes, ethnic minorities, neighbourhoods, etc.
2. The second development is that people at risk of social exclusion also become major users of these high quality mainstream services, which contributes significantly to their mobility out of poverty. Their greater use of mainstream services is possible because more tailored supports are now available to overcome specific obstacles to access that arise from people's disadvantaged social circumstances (e.g., low floors and access ramps on public transport, Part V social housing, the support services in third level institutions for students from non-traditional backgrounds, etc.) and because the services themselves have become capable of significant gradations (e.g., the addition of learning support and resource teachers as standard features in all schools, the modularisation of third level courses and introduction of distance learning, the design of special needs housing, etc.).

Figure 6.4 The 'Services Dividend' in the Developmental Welfare State



3. A third development is the more frequent recourse to tailored packages of supports combining access to services, income supports and — where necessary — unique activist measures that are designed to constitute multi-faceted responses to the complex situations of people in acute need (e.g., participation packages for persons with disabilities, high support packages for people with employment potential but far distant from the labour market, personal care packages for older people living alone, etc.).

It can also be noted that the more successful services systems become at providing a gradation or spectrum of services to meet the needs of a diverse public, the less prominent become new programmes which are exclusive to the needs of distinct groups who have fallen through the nets of mainstream service providers (the area of the circle representing activist measures that is outside both the other circles gets smaller). Some 'stand alone' or once-off projects, however, will always continue to be needed and merit public support either because their client groups are particularly small or because they are deliberately run as 'pilots' and evaluation leading to the decision either to discontinue them or mainstream them has not yet been completed. The Developmental Welfare State, in fact, should be strongly committed to supporting 'pilots' and expert in their evaluation as a key strategy for ensuring the dynamism and effectiveness of its service and income support systems.

## 6.3 Income Supports in the Developmental Welfare State

### 6.3.1 The debate on income transfers in Ireland

The debate in Ireland as to whether and how income support systems should be fundamentally altered is not as strong as in other EU member states. Part of the reason is that trends in the lowest incomes have been positive, the sustainability of current arrangements is not under such immediate threat from ageing or high unemployment as elsewhere in the EU, while the administration of payments is highly centralised and generally regarded as carried out with commendable efficiency and impartiality.

There have been significant discussions *within* the system rather than about its basic architecture. There has been on-going interest and success in including new groups in the social insurance fund, and improving the risks against which insured people are covered. A long debate as to whether social welfare payments should be indexed to earnings rather than left to discretionary increases in annual Budgets has proved inconclusive. Concern is expressed at Ireland's high at-risk-of-poverty rates and high measures of income inequality in the EU comparative context. Progress towards a greater measure of individualisation in the social welfare code is proceeding tentatively. The conditions and obligations attached to welfare payment are separately visited from time to time, but there has been no comprehensive review of what the payments are intended to achieve and how. In general, there is no demand for a fundamental review of social welfare such as was

conducted in 1986 when adequacy was the key concern (*Commission on Social Welfare*) and in 1996 when it was increasing incentives to take employment (*Integration of the Tax and Social Welfare Systems*).

### 6.3.2 The debate on income transfers in mature welfare states

Challenges to rethink and redesign income support arrangements at each stage of the life cycle, however, are prominent among the challenges currently facing the mature welfare states of other countries. Most evidently, there is the need to rethink and redesign policies on pensions in order to respond to increasing longevity and the growing proportion of **older people** in national populations. At the opposite end of the life cycle, there is an acceptance that income support for **children** is a new priority, not because children are growing as a proportion of the population (they are shrinking in most OECD countries) but because the poverty risk they face is increasing, as is our knowledge about the damaging and long-term consequences of poverty in childhood. Consequently, it is accepted that ending child poverty is, more than ever, in the national interest and an ethical imperative. Finally, new perspectives on providing income support to **people of working age** are also characteristic of contemporary debates on income transfer policies. These transfers have been growing, even in states where unemployment has fallen. The concept of an 'active' welfare state has become widespread, there has been a retreat from using passive income transfers to facilitate labour market withdrawal and economic restructuring, and greater attention is being given to the conditions, supports and assumptions surrounding income transfers to people of working age.<sup>5</sup>

The intention in this section is not to undertake a fundamental review of Ireland's income support arrangements, nor even to argue that one should now be undertaken. Chapters 3 and 4 contained significant information on how Ireland's social welfare payments affect incomes, and identified several key challenges — in the areas of pensioner incomes and child income supports in particular. Responses to these challenges will be outlined in Chapter 7. This section gives more extensive treatment to income supports for people of working age.

#### Income transfers to people of working age

The OECD (2003) has adopted and refined data first developed by the Dutch authorities as they sought to understand the nature and significance of benefit dependency among people of working age in the Netherlands.<sup>6</sup> Table 6.2 ranks the ten EU-15 countries on which data are available by descending order of their benefit dependency rates in 1999. It also ranks separately the English-speaking countries outside the EU that are considered to have 'liberal' welfare states. For the purposes of the Table, all people aged 15-64 in each country are classified as either

5. The notion of 'reciprocity' is sometimes used here, suggesting that the state and the individual should mutually articulate their understandings of the purpose and conditions under which income support is being provided and accepted. However, the enormous imbalance in power between the state and an individual with limited or no resources means the concept is inappropriate for governing relationships between a welfare recipient and the state; the former frequently has no fallback position whatsoever. For this reason, the text does not adopt reciprocity as a concept for guiding welfare reform.

6. Several important steps were taken in ensuring the data were comparable. For example, working-age is defined as 15-64 years; benefit dependant numbers are counted in full-time equivalents; benefits were grouped into seven types; survey data and administrative records alike were consulted and harmonised where possible and necessary; etc. The reader is referred to Annex 1, OECD (2003), for more details.

claiming a weekly social welfare payment, or in employment, or being supported by another/others in their households (e.g., housewives and young adults).

Table 6.2 shows that benefit dependency rates differ widely within the EU and across the OECD.

**Table 6.2** Benefit Dependency Rates and Employment Rates among the Working-Age Population, and Unemployment Rates 1999.

	Benefit Dependency Rate	Employment Rate	No Benefit, No Work		Unemployment Rate <sup>1</sup>
France	24.20	55.50	20.40	100	10.70
Belgium	23.60	52.90	23.50	100	8.60
Denmark	23.10	69.70	7.20	100	4.80
Germany	22.40	58.90	18.80	100	8.40
Austria	21.50	64.00	14.50	100	4.00
Sweden	20.00	66.20	13.80	100	6.70
<b>Ireland</b>	<b>19.30</b>	<b>56.30</b>	<b>24.40</b>	<b>100</b>	<b>5.60</b>
United Kingdom	18.90	60.70	20.40	100	5.90
Netherlands	17.80	58.20	24.00	100	3.20
Spain	11.20	51.70	37.10	100	12.80
Canada	18.00	62.60	19.30	100	7.60
Australia	17.50	56.40	26.10	100	7.00
New Zealand	16.80	59.90	23.20	100	6.80
United States	13.70	67.00	19.30	100	4.20

Source: OECD, 2003.

Note 1. The benefit dependency rate, employment rate and 'no benefit, no work' rates are percentages of the entire population aged 15-64; the unemployment rate is a percentage of the 15-64 population deemed in the labour force.



The Table shows, for example, that more than twice as many people of working age in France, Belgium and Denmark receive a weekly social welfare payment from the state than in Spain. The inclusion of Spain — the sole representative of the southern Europe in the Table — is important for it highlights that one of the key societal factors which influences the benefit dependency rate is not the unemployment rate but intra-household sharing. Spain has the highest unemployment rate of the fourteen countries but the lowest benefit dependency rate because of its high proportion of people of working age who depend on someone else's income in their household (earnings or welfare). The proportion of the population of working age neither in work nor receiving a benefit is more than five times as great in Spain as in more individualised Denmark.

Ireland is in a mid-way position in Table 6.2. It has the highest benefit dependency rate of the English-speaking world and was providing roughly the same proportion of its working population with a weekly social welfare income as Sweden, even though the Irish employment rate was some 10 percentage points lower.

Some light on why countries have very different benefit dependency rates is provided by Table 6.3. This shows the levels of benefit dependency rates at the beginning, middle and end of the 20-year period, 1980-1999, and the composition of these aggregates by the types of benefits received. It is the cumulative impact of three types of benefit — viz., those for older workers, disability and unemployment, in that order — which pushes countries to the head of the ranking.<sup>7</sup> Trends differ from the first to the second decade. The total benefit dependency rate rose everywhere in the EU during the 1980s; Spain and Ireland had an increase of more than 50 per cent and most countries experienced a rise of 20 per cent or more. The decade of the 1990s saw sharply contrasting experiences: benefit dependency rates dropped in the Netherlands and Spain, but in neither case by sufficient to regain their 1980 levels; the UK, Denmark and Belgium were similar to Ireland in experiencing near stability in their aggregate rates; Germany, Austria, France and Sweden experienced further significant increases.

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7. A wide literature documents the reasoning behind the introduction of early retirement schemes, the way in which they eased industrial restructuring, and the pessimistic assumptions about the labour market prospects of older workers that supported them. A new consensus, however, is emerging quite rapidly that types of employment are feasible and desirable for older workers. Ireland's low benefit rate in this regard should probably be interpreted as a fortunate accomplishment.

Table 6.3 Benefit Reciprocity Rates in the Population of Working Age, by Types of Benefit Received, 1980, 1990 and 1999

Benefit type	Year	EU countries										
		France	Belgium	Denmark	Germany	Austria	Sweden	Ireland	UK	Netherlands	Spain	United States
<b>Total</b>	1980	13.85	16.97	19.90	15.24	15.54	16.09	12.36	15.04	16.05	8.07	16.49
	1990	20.11	24.27	23.15	18.23	17.96	16.97	18.91	18.32	19.95	12.08	15.58
	1999	23.65	23.45	22.91	21.96	21.57	20.11	19.31	18.39	17.69	11.26	13.70
<b>Unemployment</b>	1980	3.13	5.43	5.22	1.95	0.94	1.12	4.52	4.67	2.92	2.80	2.52
	1990	4.29	7.31	7.60	3.92	2.96	1.25	9.29	3.96	5.01	5.02	1.59
	1999	4.70	6.94	4.35	6.64	3.79	3.96	6.72	2.88	4.10	3.91	1.25
<b>Disability</b>	1980	5.04	3.00	5.74	5.15	4.11	5.07	1.61	2.72	6.90	3.04	5.50
	1990	4.60	3.27	6.35	4.38	4.00	5.79	2.77	4.78	7.64	3.85	5.58
	1999	4.79	3.58	6.70	4.08	3.46	6.46	3.88	6.38	7.21	3.86	6.30
<b>Older workers</b>	1980	2.15	4.00	1.21	2.72	3.34	1.81	0.00	3.45	0.00	0.41	1.84
	1990	6.59	8.02	2.09	3.20	4.27	0.75	0.25	3.64	0.59	0.99	1.98
	1999	7.03	7.21	4.00	4.63	7.41	0.42	0.49	3.38	0.76	1.07	1.76
<b>Assistance</b>	1980	0.19	1.48	2.50	0.90	0.57	0.17	0.96	0.99	1.16	0.00	3.42
	1990	1.48	2.05	1.83	2.12	0.58	0.48	2.21	2.88	1.55	0.16	3.61
	1999	3.04	2.37	1.62	2.24	0.80	1.14	4.17	2.80	1.22	0.26	1.68
<b>Sickness</b>	1980	2.39	1.38	4.32	2.72	2.42	4.84	3.35	1.24	3.29	0.26	1.93
	1990	1.77	1.03	4.27	2.66	2.05	4.76	2.55	1.26	3.37	0.31	2.11
	1999	1.82	1.06	4.61	2.51	1.99	5.76	1.86	0.84	3.39	0.36	2.13

Source: OECD Employment Outlook 2003.

Note: Three remaining classes of benefits (survivors, maternity and care) are relatively minor and are omitted from the Table.

Tables 6.2 and 6.3 do not support the thesis that high welfare dependency among people of working age is an indicator of poor economic performance. While the combination of a high employment rate and low benefit dependency in the United States may seem to point in that direction, the combinations of high employment rates with high levels of benefit dependency achieved by the Scandinavian countries suggest that welfare arrangements can be supportive of high employment. Denmark, for example, has the highest employment rate of the 14 countries and one of the highest benefit dependency rates.

### Different interpretations

Three lines of interpretation can be distinguished as to why some advanced industrial countries, even in years when unemployment is low, have up to one fifth of their working age populations in receipt of social welfare.

1. A first line of interpretation sees the numbers receiving welfare as a problem. It is 'dependency', at levels which were unintended and unforeseen at the time at which programmes were introduced. Growth in this benefit dependency is subject to a ratchet effect whereby — once the numbers have grown — it is extremely difficult to achieve significant reductions. Current levels need to be reduced, because of the pressures on the welfare budget coming from ageing and the need to spend more on services rather than income transfers. Two variants can be discerned in this line of interpretation. A first emphasises the hang-over effects of an era when high unemployment fuelled fatalism about the employment prospects of certain groups (e.g., as when early retirement schemes were used to lubricate economic restructuring). A second emphasises the resistance of groups to realign their expectations with the fundamentally changed relative position of their company, sector, region, etc., in more integrated and competitive world markets.
2. A second line of interpretation regards the growth in income support expenditure on people of working age as responding to real and rising hazards which people face as they attempt to remain employable and attached to the labour market over their working lives. These hazards include parenting alone (particularly in the wake of a divorce or separation), caring for a housebound family member, social exclusion (of members of ethnic minorities but also of people living in regions dependent on traditional industries), skills obsolescence (in rapidly developing fields such as IT as well as in traditional occupations) and health problems (many of them induced by stress — a significant element of it work-related — or arising from harmful lifestyles).
3. A third line of interpretation points to a general movement to have higher standards of social protection and greater autonomy for the individual and to which the social welfare state is responding. For example, it can be regarded as a social achievement if people with long employment records whose productivity has been sharply reduced by economic restructuring or a deterioration in health have the option to retire early rather than be forced to accept significant downward mobility in the labour market, that young mothers or unemployed young people are not considered to be wholly the responsibility of their parents, and that the state embrace a role for itself in supporting households to care for infirm or very elderly members.

It is, of course, not necessary to adopt one of these interpretations to the exclusion of the others. Elements of each can be recognised within the same country. The challenge of modernising or recalibrating social welfare payments can be expressed as trying to minimise the degree to which the first interpretation is correct and maximise the extent to which the other two apply. The task of achieving this is helped by having a deep understanding of how and why social welfare payments can act in each of the three different ways.

Problematic levels of welfare dependency among people of working-age are attributed to various manifestations of ‘moral hazard’, i.e., people adjust their behaviour in a way that reduces their attempts to avoid a contingency simply because social welfare is available to provide cover should the contingency materialise. Stark presentations of this view suggest that young women become single parents because of the welfare to which they then become entitled, and that people who dislike their employment options develop medical complaints in a bid to secure disability status. It is not necessary, however, to believe that people take potentially life-altering steps in a bid to secure the quality of life that a means-tested welfare payment affords. More complex processes can be at work than rational choice based on income calculation. The family and community in which a person has been reared and is living contribute to shaping the range of options that person regards as feasible — they influence where the boundary runs between the familiar and the risky, their flows of information, their role models, their patterns of socialisation and how they perceive status. The limited effectiveness of policies which seek to alter people’s life trajectories with financial inducements alone (to stay on in school, to participate in education or training, to take a job, to have children, etc.) should caution against attributing a major efficacy to financial calculation operating in the reverse direction — i.e., it is unlikely that people get into situations of welfare dependency because of a perverse financial incentive alone.

It is a fairer summary of the evidence to say that the availability of welfare is not a significant influence on why people first have recourse to it (become unemployed, lone parents, ill or disabled, etc.) but that the conditions for its continuing receipt can be significant in explaining their reluctance to leave it.<sup>8</sup>

Social welfare transfers to people of working-age function as an investment when they provide the space within which people cope with major life and family events (sickness, pregnancy, job loss, career change, etc.) in a way that protects and strengthens their lifetime attachment to the workforce. It is because the economy and workplaces are being transformed by internationalisation and increasing competition, and because marital relationships are less stable, that more people experience temporary difficulties in maintaining continuous employment.

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8. Irish studies in support of this conclusion include DSFA (2000), *Review of the One-Parent Family Payment*, and Callan *et al* (2003), *Taxes, Benefits and Labour Market Responses: New Evidence for Ireland*. Policy Research Series No. 48, ESRI. The DSFA study reviews the Irish evidence for a link between improved state support for lone parents and their growing numbers. It points out: women whose experience of pregnancy is negative (unexpected, a shock, a crisis) are much more likely to be single than married; interviews with lone parents in a disadvantaged urban area produced no significant evidence that knowledge of their welfare entitlements influenced their becoming pregnant; the number of teenagers becoming pregnant has not risen appreciably since the social welfare schemes for lone parents were introduced. As none of this supports the view that the number of lone parents has been pulled up by the improved support available to them, the DSFA study concludes that public policy has more surely been responding to their growing numbers than accounting for them. The ESRI study is the most sophisticated econometric study yet carried out on Irish data of the impact of unemployment benefit/assistance on the duration of unemployment. It finds that unemployment benefit has a positive but modestly sized effect in prolonging a person’s unemployment spell, which it suggests should be interpreted as individuals using the resources provided by benefits for more effective job search and thus a better more stable job. It found no evidence whatsoever that Unemployment Assistance has a disincentive effect.

A significant proportion might experience a welfare spell but typically it will be of short duration. A generous level of payment supports meaningful repositioning (job-search, re-entry to education, etc.) and contact with the welfare system provokes the formulation of personal plans and forward movement. The Nordic countries have consistently achieved high employment rates over several decades not despite but because they have concentrated a considerable part of their welfare expenditure on serving the needs of people of working-age.

Social welfare transfers to people of working-age can also be regarded as the expression of ethical and moral values for which there is, and should be, the 'willingness to pay'. Just as the payment of unemployment benefit/assistance became widely supported as societies became more aware of the employment consequences of business cycles and of structural changes in national economies, in a similar way, contemporary social and economic changes are prompting a moral revaluation of the remit of the welfare state. For example, societies are having to accept that separation and divorce are swelling the numbers of lone parents and leaving the social welfare system with effectively two choices — to allow poverty among them grow or to enable more of them to function as independent households. It is not in the power of the social welfare system to stem the incidence of divorce or separation. As a second example, the demands of the modern workplace for demonstrable individual productivity, and the adaptability over time to sustain it, are higher today than in the past — fewer workplaces now shelter people whose individual presence adds more to costs than to revenue. But people are not infinitely malleable and some will simply not reach the threshold of skills and competences required for entry to the flexible workforce in the modern economy. In other words, there are groups of working-age people whose potential productivity even after extensive retraining remains so low that economics on its own would suggest that passive income transfers are more cost efficient than investing in training in order to return them to the labour market (Heckman, 2000; Phelps, 1997). The welfare state must include income arrangements for them also.

In summary, there is an emerging concern in mature welfare states that public income transfers to people of working age should avoid any assumption that recipients have no future as potential members of the workforce. Rather, they should reflect, wherever possible, positive expectations of their recipients and remain open to support developmental trajectories. This concern has, in part, a budgetary dimension, i.e., more 'active' measures can reduce welfare case-loads and free public resources for other urgent uses. However, the concern is also a recognition of the fact that the majority of welfare recipients of working age now receive their payments in confirmation of a status outside the workforce rather than as unemployed members of it, and that the very arrangements for paying them risk converting their status outside the labour force into a more permanent status than need be the case.

### 6.3.3 Advancing the debate in Ireland

In 2002, 25 per cent of the population aged 16–64 were recipients of some type of weekly social welfare payment (approximately 577,000 recipients and 73,000 adult dependants) (DFSA, 2003a). For some 42 per cent of the recipients, their payments were insurance-based and, in most cases, short-term by nature and of finite duration (e.g., maternity benefit, unemployment benefit). In other instances, however, insurance-based payments were long-term, both intentionally so (e.g., invalidity pension is paid to former workers who are considered to be permanently incapable of work) and unintentionally (e.g., disability benefit, though intended to be a short-term payment, has a high proportion in receipt of it for more than a year).

One quarter of a million people of working age, however, are the direct recipients of Ireland's lowest, means-tested social welfare payment. They receive the same weekly rate of payment through six contingency-based schemes (the one parent family payment, unemployment assistance, disability allowance, supplementary welfare allowance, the pre-retirement allowance and farm assist).<sup>14</sup> Some of the main features of each scheme — principally the qualifying conditions and how they are monitored but, sometimes, the level of any earnings disregard, the additional benefits to which recipients are entitled, and the benefit withdrawal rates they face should they begin earning — differ to a significant extent. From the point of view of the individual, therefore, the category she or he is placed in has far-reaching implications. She is treated according to the rules governing the contingency through which she qualifies and not according to her individual needs, capabilities and circumstances. The administrations of the schemes also run in parallel.

There are new grounds and possibilities for adopting a more personal and individualised approach to providing income support and assuming less about an individual's true needs, capabilities and prospects from such common traits as — for example — being a lone parent, of a mature age, living with an disability, being jobless for a long time, etc. The relatively small number of water-tight categories into which working-age, non-employed people are currently classed for purposes of income receipt conceal significant heterogeneities in their populations which household-based means tests are not designed to capture and on which, in fact, no information is gathered in the process by which people qualify for the income support. Yet people experiencing the same contingency can differ hugely in their need and capability for participating in society, the real prospects they face of changing their situation and moving forward in their lives, the tailored supports which would enable them to achieve that form of social and economic participation of which they are capable and which they want. No information is gathered on these aspects as responsibility for encouraging and supporting a greater degree of self-reliance is not a major objective of the programmes.

14. The Qualified Adult Allowance is identical also and the Child Dependant Allowance with the exception of the higher rate attached to the One Parent Family Payment (€19.30 as against €16.80 on the other five schemes).

It is important that the assumptions and conditions attached to social welfare transfers do not reduce the expectation or incentives for a person to better their position. There is considerable empirical evidence that income alone seldom secures satisfactory economic and social participation for people of working age. More people are, fact, moving in and out of the workforce at several stages in their lives, confirming that detachment from the workforce is not fixed, nor is exiting it irrevocable.<sup>9</sup> Advances in health, improved medical aids and health appliances, new types of workstation and job descriptions which are less physically demanding have diminished the implications of specific health conditions and of age for a person's ability to participate in the economy and in society.

At the same time, developments in instruments of programme management have widened what it is possible to offer people. More sophisticated and reliable instruments are available to assess individuals' capabilities and aptitudes ('profiling'). Information technology and improved information retrieval systems now enable shared access on acceptable grounds of confidentiality to the unique circumstances of individuals on the part of diverse service providers. Wider opportunities can be made available for people to avail of pedagogies in further education and training that are tailored for them. Innovation in such pedagogies is an important form of social innovation when they effectively address the blocks to learning in individuals whom long years on means-tested assistance may have served to underline what they are considered deficient in rather than their strengths.

This greater potential to combine income support with activation measures is inadequately focused as a strategy to boost labour supply. It is primarily about enhancing individual well-being and the quality of people's lives. Within the EU, the Minimum Income Recommendation includes that welfare benefits for employable people (i.e., whose age, health and family situation permit labour market participation) should be conditional on availability for work, vocational training or other economic and social integration measures — 'not as a punishment but as an opportunity to improve their labour market perspectives' (Amitsis *et al*, 2003: 207). In a similar vein, the OECD points to 'a paradigm shift taking place within OECD countries in the approach taken towards disability, with more emphasis on separating the concepts of 'disability' and 'ability to work'. Integration into the workforce rather than passive compensation for loss of income is becoming the more important policy objective in almost all OECD countries' (OECD, 2002: 107). It continues:

Merely looking after the financial needs of disabled people through cash benefits is insufficient; this would still leave many excluded from the labour market and sometimes even from society generally. Therefore, each disabled person should be entitled to a 'participation package' adapted to individual needs and capacities. This package could contain rehabilitation and vocational training, job search support, work elements from a wide range of forms of employment

9. A case in point is the Invalidity Pension which is intended for people who are assessed as *permanently* incapable of working due to an illness or disability. By 2002, some 6.5 per cent of its 52,000 recipients had come forward to avail of employment supports (DSFA, 2003b).

(regular, part-time, subsidised, sheltered) and benefits in cash or in kind. It could also in some circumstances contain activities that are not strictly considered as work, but contribute to the social integration of the disabled person. (OECD, 2003: 11)

The concept of 'participation packages' which embrace income and tailored support services is implicit in how policy developments are seeking to address the needs of other groups such as early school leavers, lone parents, the long-term jobless, and older workers with low skills. A major review of Australia's welfare state states it simply: 'A nation's social support system must be judged by its capacity to help people participate economically and socially, as well as by the adequacy of its income support arrangements' (Reference Group on Welfare Reform, 2000, *Participation Support For a More Equitable Society*, p.8).

There are several areas where income support as currently provided in Ireland could be contextualised more strongly within a wider package of supports intended to restore equality of opportunity and promote meaningful participation.

The One Parent Family Payment embodies no dynamic or evolution in expectations of the recipient as the youngest child gets older. This, in effect, means it can support a lifetime dependency on social welfare.<sup>10</sup> In several other countries, as the youngest child passes various age thresholds, employment and training service providers contact the parent to ensure that entry to part-time employment and eventually to full-time employment become more rather than less likely as time passes. Periodic interviews with recipients need not be focussed only on employment and vocational training but, particularly where recipients' educational attainment is low, can explore a return to more general education or the conditions for increasing participation in the wider community.<sup>11</sup> It is particularly challenging to Ireland's current practice that some countries with much lower poverty rates among their lone parents do not see parenting alone as requiring a special income maintenance payment at all. For example, by effectively addressing needs which are common across all family types (access to childcare, subsidies to the costs of parenting, training/further education for people with low skills), Sweden has provided a general framework that has removed many of the social disadvantages associated with parenting alone (confirmed by its low poverty rates and high employment rates for lone parents).

The introduction of the One Parent Family Payment (OPFP) in 1997 incorporated a significant earnings disregard which, in effect, allowed some element of the payment to be retained until earnings were higher than average female earnings in industry at the time (but see 3.4.4 above). This provided a much higher level of encouragement to take employment than the programmes the OPFP replaced, while still supporting parents to remain in the home if that was their wish. The contribution of this generous earnings disregard to raising employment rates among lone parents is difficult to disentangle from the simultaneous influence of

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10. DSFA (2000), *Review of the One-Parent Family Payment*. n. 8.15. See also 2.33 - 2.34 and 1.13.

11. Almost 60 per cent of Ireland's lone parents have only primary level education (op. cit.).



other factors. On the one hand, the employment rate of lone mothers had been rising anyway — more rapidly than that of married mothers — in the buoyant labour market prior to 1997 and the expansion of the Community Employment Scheme alone served to bring a significant number of them into work. On the other hand, the unavailability and cost of childcare, the growing reliance of lone parents on Rent Supplement which they lose on taking employment and the weak earnings capacity of many of them remained obstacles beyond the power of the OPFP on its own to address. Currently, it is estimated that some 60 per cent of the recipients of the OPFP have some earnings but that most of them earn below the threshold (€146 weekly) above which partial withdrawal of their payment begins. The Irish evidence to date would suggest that the work ethic among lone parents is at least as strong as among the general population,<sup>12</sup> and that the policy challenge is to facilitate them more effectively by — for example — increasing their earnings power, ensuring childcare, providing some degree of housing support in work, and directing them into training and employment programmes with good progression prospects.

Similarly to the OPFP, the duration of receipt of illness and disability payments triggers no interviews much less systematic contact points with the providers of rehabilitation, education, training or employment services as the duration of receipt grows longer. Where a disability or illness is severe, this will be irrelevant but for a proportion of recipients with the potential for at least partial employment (a number impossible to determine on the basis of the information currently gathered as they qualify for their payments) it means that nothing is systematically structured into the payment arrangements to stem a slide from a short term illness or shock at the onset of a disability into discouragement, the erosion of work habits and skills and a conviction that the world of employment is irretrievably beyond their reach. Some supports are in place to encourage recipients to identify and take up opportunities for self-development, further education, training or employment<sup>13</sup> but they are considered to have poor outcomes and to be undermined to a significant degree by other features of the current social welfare code — for example, its ‘all or nothing’ classification of people’s capacity for work with no possibility of a partial payment to accompany the taking of limited employment, the restriction of entitlement to secondary benefits to those who remain wholly outside the workforce, and the impact of the earnings disregard (€120 weekly for recipients of the Disability Allowance with a euro for euro withdrawal of their payment after that) in promoting a view of employment as primarily for ‘topping up’ welfare even where people have the capacity to pursue more substantial employment options.

The numbers of people in receipt of illness and disability payments have grown rapidly in recent years. A significant number of those who left the Live Register have moved to receipt of the Disability Allowance.<sup>14</sup> In areas of disadvantage, they

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12. Noted also in some other countries — Phipps (2001) for Norway, Forssén and Hakovirta (1999) for Finland. Employment rates among lone parents have risen significantly since 1994, though the quality of the employment may be poor (Russell *et al.*, 2004). Other things being equal (e.g. educational attainment, access to childcare), lone parents have the incentive to earn a head of household and can value time out of the household.

13. These include: exemptions from the prohibition on working when employment or training is classed as ‘rehabilitative’ or ‘therapeutic’ and for self-employment, income disregards in the former case, transfer to the Back to Work Allowance Scheme if former recipients take up full time employment in the open labour market, the services of Jobs Facilitators, and exemptions from all PRSI contributions in certain instances.

14. 15 per cent is the estimate in DSFA (2003b).

now regularly outnumber those who are classed as unemployed. It fails these people in the first place, while also not helping their communities or the Exchequer, if their medical disability is too easily equated with incapacity for work. The Council endorses the recommendations in the Report of the Working Group on the Review of the Illness and Disability Payment Schemes (DSFA, 2003b) that some meaningful assessment should become possible of recipients' potential for employment and other forms of participation, that there should be recognition that recipients can have a partial capacity for work or other development opportunities, and that active engagement should take place with those who have such a capacity.

#### 6.3.4 Conclusion

This discussion of income transfers to people of working age in contemporary Ireland, in the context of developments in mature welfare states overseas, leads to the following conclusions:

- ◆ The composition and circumstances of the people of working age receiving social welfare of potentially long duration have changed, and can be expected to change further;
- ◆ The distinction between being 'unemployed' (in the labour force as unemployed members of it) and 'inactive' (outside the labour force) is not a reliable guide to people's interest in and capacity for employment;
- ◆ There is considerable diversity of circumstances and potential for eventual employment among the recipients of the one parent family payment, of the different illness and disability payments, and — most probably — of other payments also (the pre-retirement allowance, farm assist, supplementary welfare allowance);
- ◆ Social welfare transfers to people of working-age function as an investment when they provide the space within which people cope with major life and family events (sickness, pregnancy, job loss, career change, etc.) in a way that protects and strengthens their lifetime attachment to the workforce;
- ◆ More is lost than gained when attempts to enforce entry into employment result in people finding themselves below the poverty line;
- ◆ The income support they receive should avoid any aspect of being an 'exclusion wage'. The availability of welfare is seldom a significant influence on why people first have recourse to it (become unemployed, lone parents, ill or disabled, etc.) but the conditions for its continuing receipt can be significant in explaining their reluctance to leave it;
- ◆ More systematic attention should be given to ensuring that the necessary supports with which recipients can progress to fuller social and economic roles are always present;
- ◆ The recognition that support services should be provided to recipients of unemployment benefit/assistance should be extended to other groups of working-age welfare recipients also.

The implications of these secular trends in welfare receipt and their interpretation for how income support to people of working age should be delivered by a welfare state that is more in tune with people's circumstances and needs are outlined in Table 6.4 below. The Table is partly summarising the discussion above and partly anticipating what will be developed in the next chapter as strategic requirements.

**Table 6.4 Overview of the Shift in Paradigm Governing Income Support Systems for People of Working Age**

<b>Former Welfare State</b>	<b>Developmental Welfare State</b>
Household-based means test	More individualised welfare code
Priority to contingencies	Priority to individual tailoring
Maximum payment based on means-test or contributions record	Maximum payment based on requirements for participation
Seeks integration of tax and welfare codes	Seeks integration of income support and services
Seeks rationalisation of payment rates	Seeks rationalisation of terms and conditions
Adequacy refers to basic needs	Adequacy refers to basic needs and participation
Markedly different treatments of unemployed people and those outside the labour force	Personally gradated differences in treatment across multiple non-employed statuses
Priority to out-of-work benefits	Priority to in-work benefits
Vigilance against high replacement rates	Vigilance against high benefit withdrawal rates
Service entitlement based on qualifying contingency	Service entitlement based on individual need and capacity to benefit
Vigilance against paying illegitimate claimants	Vigilance against deterring legitimate claimants

## 6.4 Activist Measures in the Developmental Welfare State

Activist measures are essentially innovative and start as particular projects. They are responses to unmet needs not being addressed by established providers through existing programmes. Some are conceived at the outset as unique, stand-alone projects for providing a particular service, some as pilots to be evaluated with a view to altering mainstream services. The issues they address and population sub-groups they serve change over time. Rather than being grudging, surprised or indifferent at their presence, the Developmental Welfare State openly relies on activist measures for ensuring its own continuing vitality and improvement. Hence, the budgets of public bodies allow for the funding of what appears, initially, as unusual and untried, evaluation is a developed practice, the internal capabilities of public bodies to conduct research and interact with academic research are developed, autonomy and a sufficiently long period of funding security is given to initiatives in order to allow their merits to be identified. In this sense, activist measures are akin to the R&D sphere of the Developmental Welfare State.

The essentially innovative nature of activist measures means it is not possible to identify beforehand what they should be. Rather, the particular success and failure with which Ireland's welfare state has been allowing activist measures to perform their R&D function in shaping social policies are more easily examined retrospectively. This is done below for initiatives that addressed unemployment and educational disadvantage respectively.

### 6.4.1 Activist measures in response to unemployment

Some major developments in fighting social exclusion were spurred by the Irish experience of high unemployment during the 1980s. New institutions and policies were introduced and existing ones reshaped, new procedures were set in place and a growing volume of resources was channelled to alleviate the worst effects of entrenched unemployment, improve the hard and soft skills of the unemployed, increase their incentives to seek and hold jobs, and 'build capacity' in local communities. Major landmarks in the 1990s alone include the establishment of area-based partnerships (1992, 1994), the introduction of the Community Employment Programme (1994), the creation of the Local Employment Service Network (1995), the drawing up of the National Anti-Poverty Strategy (1997), and the adoption of the referral process in the National Employment Action Plan (1998).

The community and voluntary sector participated actively in the European Union's three Anti-Poverty Programmes. The European Commission, in turn, influenced the shape of many anti-poverty initiatives in Ireland bringing them to concentrate on the link between unemployment and social exclusion, develop a multidimensional understanding of exclusion, adopt a programmatic approach and regard participation and partnership as characteristics of good programmes. By the end of the 1990s, 'across Ireland there was an almost nationwide programme of locally driven projects tackling unemployment and social exclusion funded by the EU' (Langford, 1999: 109). Ireland, in fact, is regarded as a 'good performer' internationally for the level and variety of supports provided social partnership at the local level and for the share of public social expenditure going on active labour market programmes (ALMPs).

It is clear that these activist measures on a large scale contributed to the major reductions in unemployment and poverty which occurred during Ireland's economic boom. It cannot be assumed, however, that measures which obtained results in the context of high unemployment will continue to do so in the new conditions which now surround Irish society's most disadvantaged members. The reality is more complex.

As strong aggregate labour market demand effectively dealt with the issue of short-term unemployment itself, an underlying heterogeneity among the unemployed was revealed and narrowly employment-focussed programmes proved unable to address the complex social needs of a growing proportion of the remaining jobless. The number and variety of services needed at the local level increased steadily — e.g., welfare information and advice, information on training, education and employment, money advice and debt management, personal and vocational counselling, parenting advice, childcare, elder and sick care, physical and mental services, addiction counselling, etc. The public sector was challenged to find new ways of ensuring that multiple Government Departments and agencies coordinated their services to the same individuals, families and communities more effectively. Voluntary and community groups secured funding — at levels undreamt of in the 1980s — to tackle social exclusion, educational disadvantage and area development but experienced the problems more intractable than their initial analyses had suggested. The traditional weakness of local government in Ireland came to the fore with greater force as local authorities were recognised as the most obvious actors for ensuring the improved coordination and servicing of the increasingly complex and numerous set of local initiatives. It became clearer that the availability of EU funding allowed an infrastructure to expand at local level in a manner that was more juxtaposed to, rather than integrated with, local government and central state services. The expansion had been possible without making major demands on the budgets of centralised service deliverers and, thus, without them being obliged to align their core activities with the new local infrastructures.

Several of Ireland's ALMPs were seen to have contributed more surely to reducing unemployment and poverty than boosting labour supply. Evaluations of individual programmes and of their cumulative impact typically found only modest labour supply effects and, if anything, tended to highlight aspects of programme design considered to be ill-suited to the new conditions of the Irish labour market and to reflect a previous era when the challenge was primarily to manage unemployment rather than facilitate entry into the open labour market (Indecon, 2002; O'Connell, 2002). For example, there was ground for concern that the people most in need of training because of their weak capabilities in the open labour market had more incentives to enter public work-type programmes with poor progression prospects rather than training programmes with better prospects, that support was being channelled to the stronger rather than the weaker candidates in the pool of jobless causing significant deadweight and contributing to the neglect of those in most need, and that employment conditions on some ALMPs made progression to the open labour market relatively unattractive.

The collective challenge to Ireland's social partners in the area of activist measures, therefore, is not a minor one of how to retain and make small adjustments to a winning set. Minimally, it is the deeper challenge of recognising the extent to which current features of programme design and delivery need to be altered to meet the increasingly complex and multifaceted needs of individuals, families and communities. Maximally, it is the challenge of re-conceptualising what the programmes are for and how they should be delivered. This last is proving difficult to do. The intensity and duration of debate about the Community Employment Programme is a case in point. Its rapid expansion in the 1990s was facilitated by funding from the European Social Fund monies and a Public Employment Service (FÁS) that saw few alternatives in the open labour market for many of its participants. The 'employment' in question was largely created by groups in the community and voluntary sector who were intent on filling gaps at the local level in service provision that a centralised public sector was proving unable to meet. In more recent years, all this has changed. FÁS is more aware of labour market scarcities and the desirability of routing more CE participants into the open labour market, community and voluntary groups are keen to maintain the types and levels of service provision developed using CE while the opportunity cost to the Exchequer of funding the CE programme has grown (as EU monies have fallen).

There is a genuine sense, on the part of statutory and public workers and voluntary and community activists, that activity tackling such issues as social exclusion, educational disadvantage and area deprivation has increased much more than results. An important part of the way forward is indicated by the evidence that activist measures, for improved effectiveness, need to accord genuine agency to the local level (the school, the community, the project, etc.). This is essential to ensuring that additional resources made available by central bodies (the amount determined by clear national criteria) are used with the flexibility and responsiveness that situations on the ground demand. The primary responsibility of local actors, statutory or voluntary, is, then, to procure improved outcomes using public funds in a transparent and accountable way and with the freedom to tailor their use of resources as local knowledge and expertise dictates. Combining autonomy and accountability in the design of activist measures has major implications for central bodies and local actors. The centre needs to stimulate planning at the local level, allocate scarce national resources in an effective way and provide those support services which enhance the capabilities and competences of local actors but are best provided at the national level. The local level needs to draw up clear plans and agree on how progress is to be monitored, outcomes measured and performance evaluated.

Several things can go wrong. (i) Schemes for local interventions over which central bodies nevertheless retain detailed control risk replicating the more negative aspects of bureaucracy at the local level as people are led to respond more to the requirements of the centre than to the demands in front of them. This line accountability running outside the area can lead to a lack of effective working together, thinly disguised by the discourse of 'task force', 'partnership' or 'networking'.<sup>15</sup> (ii) Eligibility for public funds can be structured in a way that penalises

<sup>15</sup> 'The brownie points are for doing what is required to ensure you are achieving the targets in your own plan. There's no system to measure what you might be contributing to other people's work and — you might say — there's no value placed on it.' This comment, from an unpublished survey of inter-organisational contacts in one partnership area, captures the experience of many staff in statutory agencies attempting to work in local partnership.

success. If funding levels are tied solely to indicators of need (e.g., levels of unemployment, early school leaving, etc.) and not also to performance, then success in reducing need can result in funds being withdrawn rather than freed for reallocation in ways that good evaluation suggests. (iii) Central agencies can see the budget being allocated to local actors and their activities as a threat to their own budget and standards of performance. This can lead to an inappropriate view that local actors are there to implement schemes for which central bodies have responsibility.

Chapter 4 highlighted the particularly high degree of reliance of Ireland's welfare state on means-testing. It is engaged in targeting not just income transfers but a large amount of services also. However, what Ireland is doing a lot of, it is far from expert at. Many of the key ingredients for ensuring the effectiveness of targeting are significantly absent. For example, data at a sufficiently disaggregated level are frequently simply not collected or not available to the service providers who need to it to identify their target group and monitor progress. The base line data which national surveys provide is often lacking, though it is needed to ground meaningful comparisons of the situation and achievements of targeted groups with those of society in general. The sophistication of techniques for measuring and monitoring inputs, outputs and outcomes and for carrying out thorough evaluations is patchy and, in many instances, lags far behind best international practice. The dominant concept of evaluation is heavily influenced by financial accounting and budgetary control and less by a commitment to 'learning by doing' and a desire to innovate. Relationships between the local level where interventions actually occur and central bodies which supply public funding are frequently unsatisfactory, not helped by Ireland's traditionally weak local government structures; they are also understandably complicated by the depth of changes occurring to the family, communities, voluntarism and the composition of the voluntary and community sector. The processes through which particularly valuable social innovations are, respectively, identified, put on a secure financial footing, used to improve local interventions elsewhere and/or to alter existing public services are haphazard; insufficient learning takes place from what is a wealth of local experimentation and experience.

### Area-based partnerships

These observations on the requirements for improving the effectiveness of activist measures summarise, in fact, many of the experienced frustrations and suggestions for development in current Irish practices. Area-based partnerships provide one example. Area-based partnerships (ABPs) for tackling entrenched local concentrations of unemployment and deprivation have been in place since the early 1990s. Their mission today can be expressed as seeking to improve the inclusiveness of Ireland's labour market by appropriately supplementing or influencing active labour market policies at the national level so that more of their clients in deprived areas can access Ireland's stronger economy. However, it is not clear if they primarily constitute a further layer of administration required if central funds

are to be properly targeted, or are there to innovate complementary activities which enhance the local take-up of centrally-directed programmes, or are major players which central bodies are there to support. For example:

- ◆ The greater part of the resources available to them comes to them through national programmes and has to be used, therefore, in accordance with centrally set and uniform criteria. The ABPs, for example, have had little scope to use public monies to choose among training providers those with the pedagogies and track records indicating they were particularly likely to benefit their clients. [see Box] At the same time, many of the public programmes to which they direct their clients are subject to no regular or transparent assessments of their effectiveness (ESRI, 2003: 168-169).
- ◆ Central agencies are in danger of regarding the local partnerships more as delivery vehicles for national programmes whose level and conditions of use are determined by the centre, rather than conceiving of their role at the centre as providing supports to local agents who are in the best position (because of local knowledge, commitment and acquired specialist expertise) to determine how to translate any given level of public resources into outcomes. For example, the conception of the Local Employment Service (LES) as a 'gateway' enabling disadvantaged job seekers to access ALMPs was not meant to imply that much of what lay beyond the gateway (the programmes to which the LES would grant access) were to remain tightly specified by the centre, with local innovation largely confined to developing relatively minor 'bridging' programmes.
- ◆ Frequently, ABPs experience that the national programmes available to them as instruments for use at the local level have design features limiting their usefulness and which they, the local partnership, have neither the autonomy nor authority to tailor to individual circumstances. When the perverse effects of designs in national programmes are pointed out, there is no agreed – much less speedy – procedure for translating local learning into programme redesign.<sup>16</sup> Examples include the growing extent to which people making the transition from welfare receipt to employment have seen most of the financial reward for doing so eaten up by higher rent payments<sup>17</sup>, and the incentive that is created for people to remain unemployed longer when participation in certain programmes is restricted to individuals who are older or with longer unemployment durations<sup>18</sup>.
- ◆ It is also the case that, while more than 12 years experience with ABPs has produced a considerable body of research into many aspects of their functioning, few firm and widely agreed conclusions have been drawn about whether some have been more successful than others, why that is so, how user

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16. Northside Partnership (2004), *Policy Issues Inhibiting the Client Base of Northside Partnership*. November; PLANET/LESN Co-ordinators' Network (2000), *Local Employment Service Network: Core Part Of The Dual Stranded National Employment Service*; INOU (2000), *Combating Prejudice against the unemployed*; NESF (2000) *Enhancing the Effectiveness of the Local Employment Service*; Eustace and Clarke (1998), *Evaluation of the Local Employment Service*. Report Commissioned by the Policy Unit on Unemployment, DETE.

17. In 1992, a person on welfare and in receipt of supplementary welfare rent allowance could retain a portion of her rent allowance for up to 4 years (the amount paid tapering off). The amount she could receive became zero once her gross income exceeded \$371.50 weekly (£250), after which a 100 per cent withdrawal rate began. Though private rents have soared since 1992, and earnings levels increased substantially, this income ceiling governing eligibility for rent allowance has not been changed.

18. One of the ways in which it has been sought to ensure the more effective targeting of active labour market policies on the 'hard to employ' has been to limit programme entitlement to individuals over a certain age or with longer than a specified duration of unemployment. The more attractive and effective the programme to which only older or long-term unemployed individuals are entitled, the greater is the incentive for individuals to 'wait' until time makes them also eligible.



satisfaction is to be measured and what weight to accord it in evaluations, how their strategies have evolved as high unemployment gave way to a tight national labour market, which of the different forms that private sector and employer involvement in them has taken has been most effective, and how their relationships have evolved with central agencies (including in the wake of the establishment of the LESN).<sup>19</sup>

### Box 6.3 Employment Services

Several countries are surmounting a situation in which the expertise of the private sector serves relatively privileged job-seekers only and is rarely engaged to serve weaker groups. They are developing new structures in order to provide greater transparency on when and how outcomes are achieved, harness commercial providers more to serve the interests of disadvantaged job-seekers, stimulate the community and voluntary sector to develop new skills and areas of expertise, involve local government more in monitoring and supporting welfare-to-work transitions in the context of local labour markets, and re-energise monopolistic public agencies to address changed labour markets and changed populations. Australia and the Netherlands, for example, have restructured their public employment services retaining a central role for them in registering job-seekers, monitoring income support and procuring reintegration supports tailored to the individual, but making their public training bodies one among other providers which low skilled individuals can access with public support. The centre acquires the new responsibility of monitoring and publishing indicators of performance on the part of all training providers with a view to promoting best practice and empowering individuals to make more informed choices.

*OECD (2001), Innovations to Labour Market Policies: the Australian Way; Scruyven and Strups (2003), The Competitive Market for Employment Services in the Netherlands.*

#### Active labour market policies

Consensus has been building around several directions which ALMPs should take over the coming years (ESRI, 2003; Fitzpatrick Associates, 2003; Indecon, 2002). For example:

- ◆ the decline of long-term unemployment and recent rise in job losses justify a greater emphasis on assisting the short-term unemployed so as to minimise the number who become the long-term unemployed of the future;
- ◆ the quality of interventions targeted on the now smaller pool of long-term unemployed and socially excluded should be increased and genuine prospects of progression for them entertained;
- ◆ individuals of working age outside the labour force and previously discouraged from seeking employment should rank with those in open unemployment as candidates for ALMPs;

<sup>19</sup> It is, surely, an invitation to serious evaluation when research conducted in 2001 in a large disadvantaged urban area in which an ABP was established in the early 1990s reports a finding practically identical to that of a 1986 local study, viz., a local unemployment rate of 3 to 4 times the national average.

- ◆ further education and training for adults with weak labour market skills should receive a priority at least equal to what has been accorded the early school leaver.

At the same time, in the face of the greater opportunities and need for currently jobless people to participate in the open labour market, it is important not to forget insights acquired during the painful years of high unemployment. While the term ‘unemployable’ was used too liberally in the past (now superseded by ‘not progression ready’), employment in the open labour market is not attainable in the short- or even medium-term for everyone; the cumulative impact of disadvantage in some people’s lives has been too great. Forms of participation other than employment in the open labour market remain valid for some people of working age (in the social economy, youth and community work, etc.). This implies, for example, that, if the progression purpose of the CE programme were to become dominant, an alternative channel of support for these other forms of participation will be needed.

#### 6.4.2 Activist measures in response to educational disadvantage

Consensus has also been building around what is needed to improve the effectiveness of programmes tackling educational disadvantage. The fragmentation of current schemes, their limited effectiveness and growing cost are a cause of deep concern and have been debated for some time. Studies already published contain important pointers to what is entailed if greater coherence and effectiveness are to be achieved. The types of recommendation they make to improve programmes can be regarded as having application to areas other than educational disadvantage as well (training for unemployed people, rehabilitation of addicts, non-school programmes for early school leavers, etc.).<sup>26</sup> For example:

- ◆ Agreed national frameworks should provide for greater flexibility to respond in a more planned and integrated way to identified needs at the local level;
- ◆ There should be a substantial shift away from schemes understood as stand-alone programmes. Current schemes should be regarded as a menu of approaches from which a local actor (e.g., a school) can draw and not as determining what is done;
- ◆ A single pool of financial resources should be available to local actors who should have the freedom to prioritise expenditure to meet local needs in accordance with an agreed plan;
- ◆ Planning, monitoring progress and measuring outcomes are critical to ensuring that additional resources have a real and sustainable impact on the groups targeted;
- ◆ More investment is needed in gathering and making available the data for effective monitoring and evaluation;

26. For example, DES (2005), *Literacy and Numeracy in Disadvantaged Schools: Challenges for Teachers and Learners*. An Evaluation by the Inspectorate of the Department of Education and Science; Eivers, E., G. Shiel and F. Shortt (2004), *Reading Literacy in Disadvantaged Schools*. Dublin: Educational Research Centre; Educational Disadvantage Committee (2003), ‘A more integrated and effective delivery of school-based educational inclusion measures’, Submission to the Minister for Education and Science, December.

- ◆ Local actors should ensure that their own interventions are integrated with other service providers and, in particular, recognise that multiple services can impinge on the same family and household.

Focussing on primary schools serving areas of disadvantage, the evidence is that children in them continue to have 'dramatically low achievement levels' in literacy and numeracy — with underachievement more evident in senior than junior classes (suggesting a decline rather than improvement in relative achievement as the school years unfold) so that significant numbers of children progress to secondary school unable, for example, to read fluently or understand what they read.<sup>27</sup> This is despite their primary schools being the beneficiaries of special programmes, support initiatives and low pupil-teacher ratios.<sup>28</sup> Formidable socio-economic factors and adverse home circumstances, of course, undermine many of these children's capacities to benefit from their schooling; indeed, it is precisely the impact of such factors which educational disadvantage programmes are designed and funded to redress. However, an evaluation by the Inspectorate of the Department of Education and Science concludes that much more can still be done from *within* schools to combat educational underachievement. It points to significant weaknesses in how the full resources that make up school communities are currently mobilised and co-ordinated in pursuit of change and improvement. Many of its recommendations underline the potential and need for greater autonomy to be exercised within the school — for example, boards of management and in-school management teams doing more to provide strategic leadership and systematically monitor the quality of educational provision in their schools; whole-school plans being engaged with more and reflected in individual teacher's plans; teachers using assessment to a much greater extent as an integral part of the teaching and learning cycle. Other recommendations require the improvement or redesign of supports provided by central bodies — for example, more in-career professional training, more training geared to teaching in deprived areas, specific incentives to reduce staff turnover in schools where it is high. Greater parental involvement and improved links with the local community remain core challenges also and there too further initiatives, their design, accountability in using resources and transparency in their evaluation need to be driven by the local level and supported by the Department of Education and Science and other central bodies, rather than the other way around.

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27. While 43 per cent of children in a sample of 'disadvantaged' schools scored at or below the 20th percentile mark in standardised literacy tests, it was 47 per cent in fifth and sixth classes; 64 per cent overall scored at or below the 20th percentile in numeracy, but 73 per cent in fifth and sixth class. (DES, 2005)

28. In the 12 'disadvantaged' primary schools studied by the Inspectorate of the Department of Education and Science in May 2004, the overall pupil-teacher ratio was 11:1; 119 'mainstream teachers' were backed up by a further 75 teachers in a variety of support roles. (DES, 2005)

### 6.4.3 Conclusion

A characteristic of the Developmental Welfare State is that it recognises and embraces the role of activist measures in ensuring its own vitality and development. Initiatives in providing local services are fostered and examined. It accords, in particular, greater recognition to the community and voluntary sector for pioneering ways of addressing the marginalized position of individuals, families and communities — and seeks to create the right framework that allows this to happen while also engaging community and voluntary groups in networks and processes which raise their standards, increase their effectiveness and ensure transparency and accountability in return for funding security in the medium to long-term. It also fosters the willingness and ability of government departments and public agencies to plan and implement pilot projects for experimenting with new approaches and procedures. This entails pro-actively fostering a radically greater degree of autonomy for local actors and experimenting with new forms of public-voluntary and public-private partnerships. These feature a strong emphasis on performance and accountability, provision for systematic learning and evaluation, and new forms of centre-local relationships. A central aspect of these new relationships is agreement on the outcomes being sought, how progress towards them is to be measured, the rights of the centre to the necessary data for evaluation and to intervene in certain circumstances, and the rights of the local actors to greater autonomy and security in funding. All this requires statutory service providers to reconfigure their own budgets and models of delivery. The overall shift in perspective and strategy is summarised in Table 6.5.

**Table 6.5** Overview of the Shift in Paradigm  
Governing Activist Measures

<b>Former Welfare State</b>	<b>Developmental Welfare State</b>
Nature of disadvantage obvious	Nature of disadvantage problematic
Disadvantage relatively fixed	Disadvantage a matter of degree
Homogenous subgroups	Heterogeneous individuals
Compensating for individual's lacks	Realising rights
Special services	Quality services
Clients meet programme criteria	Clients dictate programme specifications
Line accountability outside of area	Accountability to area
Ownership of part of problem	Ownership of whole problem
NGOs primarily 'voices' or running 'pilots'	NGOs also integral to service delivery
Low intensity	High intensity
Redistribution now	Restore equality of opportunity
Local as universe	Local as springboard

# 7

## The Developmental Welfare State: A Framework For Reform

## 7.1 Introduction

This chapter brings the Council's conceptual discussion of Ireland's Developmental Welfare State to a conclusion. The argument which the report has unfolded in the first five chapters for major reform to Ireland's social policies and welfare state is first summarised. A separate section summarises the essential framework and more novel perspectives contained in Chapter 6. The next two sections then develop the strategic and operational requirements respectively of implementing the Council's vision for Ireland's welfare state and social policies. A sixth section clarifies priority areas in the medium term for achieving the greater integration of services, income supports and activist measures to which the Developmental Welfare State points for children, people of working age and older people respectively. A seventh section sketches a comprehensive framework for guiding the evolution of social policies in the longer term which the work programme of the Council and those of many other bodies must share responsibility for specifying further. An eight section concludes.

## 7.2 The Argument of this Report

### 7.2.1 Motivation for the report (Chapter 1)

The Council's starting conviction is that Ireland's strong economic performance is a new context within which to seek major improvements in social protection. As important as the higher level of social spending which economic strength makes possible is the manner in which the resources are used. The Council believes that the modernisation and reinvention of social policies and Ireland's welfare state can benefit appreciably from reflecting on how success has been achieved in the area of economic policy. There is wide recognition of the need to improve social protection on several fronts — in addressing the deep rooted social disadvantage of a section of the population showing little mobility off means-tested social assistance, in supporting people at work as they seek to maintain and improve their experience of employment, and in setting and reaching wholly new standards as to how people compromised in their personal autonomy are supported. At the same time, there is evidence that much of the current thinking and approaches characterising social policies are not leading to sufficient progress. The implementation of formally agreed strategies is weak and there is a growing 'process fatigue' in attempting to apply a social partnership approach to the solution of existing social deficits. It is an opportune time to attempt a re-conceptualisation of the

objectives of social policy, and of the role and basic architecture of Ireland's welfare state, in order to align Ireland's new economic and social realities better with each other. A new framework will serve as something of a route map to guide social reform for the social partners and across the public sector.

### 7.2.2 Aligning economic and social policies (Chapter 2)

Ireland's strong economic performance has made a huge contribution to social progress, principally by vastly improving employment prospects and reducing enforced emigration, raising real incomes and providing the state with a greater level of resources. At the same time, it has been associated with widening inequalities in several areas (e.g., incomes and housing) and occasioned new forms of social vulnerability (e.g., among immigrants). The international evidence is that a positive relationship between good economic performance and improved social outcomes does not occur or reach a satisfactory level in an automatic way. Trade-offs can and do exist. On the one hand, economic and technological turbulence can damage social cohesion and fracture society unless social policy responses are intelligently designed and well resourced. On the other hand, ill-designed social policies can undermine people's co-operation with economic change and contribute to undermining economic performance and, ultimately, the social protection that a country can provide its citizens. The conclusion is that good economic performance and improved social protection are neither intrinsically opposed nor compelled to occur together in some automatic way, but that they *can be made to support each other*. This requires sufficient shared understanding and commitment on the part of those who shape and implement a country's economic and social policies respectively. A primary mission of the political process is to strike a sustainable balance between economic dynamism and social security, between fostering the competition and structural change that improve economic performance and ensuring the protection that increases people's cooperation with on-going economic 'reinvention'.

The availability and quality of employment is, simultaneously, an economic and a social achievement. The maintenance and net expansion of jobs requiring moderate to low levels of skills has been a valuable feature of Ireland's recent economic resurgence. However, a significant number of the low skilled who remain jobless are prevented by the insufficient development of services and still unreformed aspects of the tax and welfare codes from accessing available employment or vocational and educational programmes. The juxtaposition of significant demand for immigrant workers to perform relatively low skilled jobs alongside high non-employment rates among groups in the indigenous Irish population has the potential to weaken the link between economic and social development in the coming years. A more pro-active approach is now needed to integrate social welfare, access to services, and training and education programmes so that employment with progression prospects becomes a genuine option for the significant number of people who continue to have low skills.



### 7.2.3 A hybrid system undergoing multiple changes (Chapter 3)

Ireland has developed a hybrid set of arrangements for providing social protection in which the state is everywhere present but seldom in an omni-competent role. Indeed, without the strong involvement of religious and other voluntary organisations during the first half century of the state's existence, social protection would have been much more limited than was the case. There has been major growth and change in the state's role over the last 20 years, and spending — particularly on health — has increased hugely. But much remains to be done. Deeply rooted disadvantages in educational and health attainments still strike deeply at people's capabilities to participate in the new Ireland. Welfare dependency among people of working-age has not reduced in scale despite the economic boom and employment expansion of the 1990s, but altered decisively in its composition. For example, people in receipt of lone parent's and disability allowances today typically outnumber those in receipt of unemployment assistance by two to one (the relationship was the inverse in the early 1990s). People in work receive less support from publicly funded services than in EU countries that have been prosperous for longer than Ireland. For example, Irish workers at low levels of earnings pay more for accessing public health services and much more for childcare than in other EU countries, their participation in training is far below the levels that constitute best international practice, and many also commute long distances to their places of work. A step-improvement in standards is also needed in many areas if institutions are to reflect our stronger contemporary awareness of the worth of each human person — for example, to support the participation of people with disabilities in Irish life and improve conditions in centres of institutional care of every type (prisons, psychiatric units, etc.). It has never been more important to have some framework that would support the identification and prioritisation of social spending, reduce oversights and imbalances to the minimum and give people a strong sense that fairness and justice are being applied to the allocation and use of the public resources produced by their involvement in the country's economic success.

### 7.2.4 Social protection in Ireland in a comparative context (Chapter 4)

There is currently a significant gap between Ireland's 'welfare effort' as conventionally measured and that of comparator countries. Some of this is due to factors such as having a young population and near full employment. Some of it is because the ways in which the statistics are gathered and compared make it easy for Ireland to appear to 'under-perform'. And some of it is due to sections of the Irish population not enjoying the standards of social protection which their counterparts in other advanced countries receive. In these last areas, some policy developments are under way that will contribute to raising Irish standards significantly (e.g., the National Disability Strategy). Higher social spending, however, is a means to an end and not, in itself, an achievement. In each society, including Ireland, unique circumstances determine the relationship between social outcomes and levels of state spending. It is revealing, for example, that some educational outcomes of Ireland's 15-year olds compare well with those of several other countries that are devoting higher proportions of their resources to public spending on primary and secondary education; there is also broad public satisfaction with schools in Ireland. But it is also revealing that a major increase in the

proportion of public resources being devoted to health spending has, so far, not been associated with significant improvements in Ireland's relatively poor health outcomes or higher levels of public satisfaction with health services. In a similar fashion, specific features of Ireland's current arrangements for providing income support deserve close scrutiny in cases where the levels of transfers in Ireland bear comparison favourably with other countries but those countries have much lower at-risk-of-poverty rates for the groups concerned. Several key variables interact with public spending to determine the outcomes associated with it — e.g., the roles of the family and of the voluntary and community sector, established behavioural patterns, the quality of management, the level and quality of training of staff, the ethos of public service in the professions, workplace practices, the ease of combining partial welfare support with some degree of earnings. It is important that strategies for social spending in each area reckon with the factors that co-produce the outcomes being sought.

### 7.2.5 Learning well from other countries (Chapter 5)

The structure of Ireland's current welfare state has disparate elements that resemble, respectively, the citizen-based Nordic welfare model, the social-insurance Continental European model and the residual Anglo-Saxon welfare model. A case can validly be made that the needed reform of Ireland's welfare state involves moving strongly in one of these directions. However, the Council is impressed by the evidence that the welfare states of other countries are based not so much on pure ideologies as on characteristic cultures and institutions, that there is considerable ferment and the adoption of mixed elements within their reform programmes, and that an overly 'pure' embodiment of any one model on Irish soil would still leave some serious social issues un-addressed. The conclusion is reached, therefore, that, while significant learning is possible and important in specific instances from each of the more sharply defined welfare models, the hybrid character of the Irish system is more than ever, in the new economic and social circumstances in which Ireland now finds itself, a potential strength. The challenge in formulating an overarching strategy for Ireland's welfare state is then expressed as identifying where and how elements of further universalism, extended social insurance and redesigned targeting are required by Ireland's new society and economy, with paramount respect being accorded to improved outcomes rather than greater ideological clarity. However, the report also finds that institutional weaknesses and maladapted design characterise many of Ireland's arrangements for providing social protection and that they are responsible for poorer outcomes than it is possible to achieve even with the same level of resources.

## 7.3 The Essential Framework (Chapter 6)

### 7.3.1 A new core structure

Welfare states are conventionally analysed as being made up of universalist, insurance-based and means-tested programmes with some countries having much more of one type than another. This type of analysis was used in Chapter 5 (Figure 5.1) to capture the core structure to Ireland’s current welfare state as it emerges from historical analysis. Chapter 6 suggested an alternative depiction of the structure to Ireland’s welfare state as better able to point reform efforts in the required directions. This drew both on experience in improving social protection in Ireland over the last two decades and on international experience. Figures 6.1 and 6.2 from the previous chapter are now combined in Figure 7.1 below which encapsulates the Council’s recommendation of what Ireland’s welfare state should seek to become over the coming years.

Figure 7.1 The Developmental Welfare State

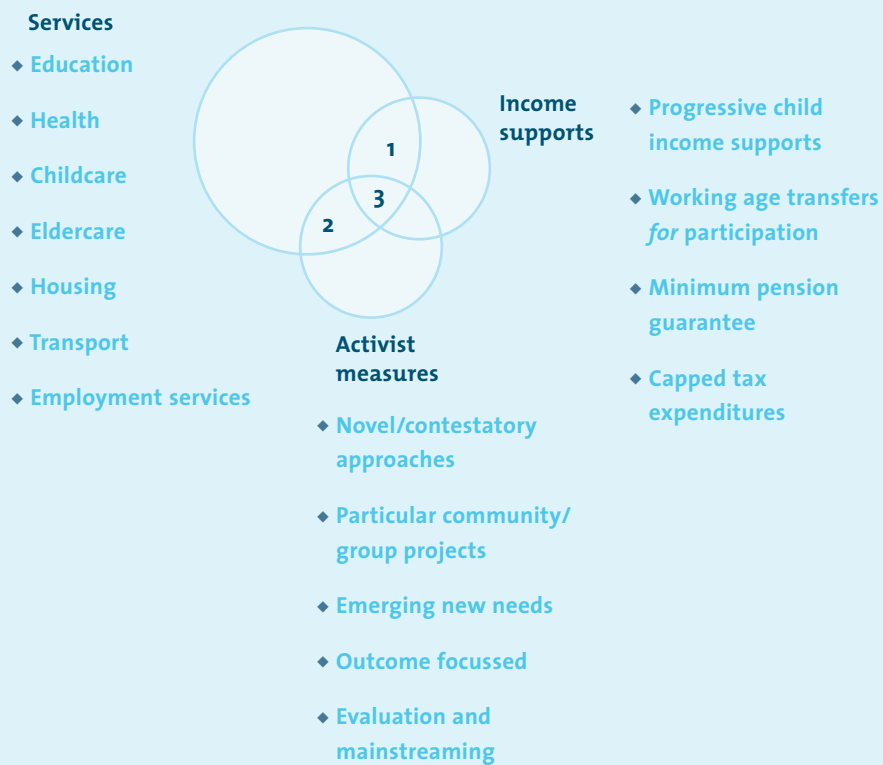


Figure 7.1 identifies a wide set of **services** which are needed to provide social protection in contemporary Ireland, views all **income supports** provided by the state (including tax expenditures) together, and highlights the need for **activist measures** that ensure social innovation constantly occurs and is learned from. The circle representing the set of services is deliberately bigger than the other two. This reflects the strategic value placed on bringing the vast majority of the population to use the same set of services. The services, therefore, have to be of such a quality and access to them so tailored (capped charges for some, wholly free to others) that they come to constitute, in effect, a ‘services dividend’ accruing from membership of a society where the economy has been internationalised and the social model is built on high-employment. Services which a diverse population use then receive strong public support, and play a significant role in strengthening societal cohesion.

### 7.3.2 The services dividend

The Council believes that the development of services is the key to improving social protection for Ireland’s population in the coming years. Adequate money incomes remain, everywhere, a necessary condition for satisfactory participation in society and the economy but they are not a sufficient condition. The principal requirements for widening participation today are of a nature which increases in social welfare alone are inadequate to address — e.g., access to childcare by lone parents, education and training for people with low skills, affordable and available health services and housing, secure and attractive housing areas, the return to education of early school leavers (both young and adult), public services and public places that are accessible to persons with disabilities, rehabilitation facilities for people recovering from an addiction.

The Council believes that the population’s continuing cooperation with economic change will have to be accompanied by improved services providing social protection. Previous chapters have highlighted the pivotal significance — to achieving societal cohesion, social inclusion and good economic performance — of high quality services to which there is universal access but where the means of access are tailored to individual’s specific circumstances. The primary role of the state is to orchestrate the consolidation of service systems that support these outcomes, systems that may be characterised by more or less diversity of service providers, in which the state has the responsibility for procuring comprehensive coverage, maintaining standards and ensuring equity. There is widespread concern, which the Council shares, that the speed with which services deficits in key areas are being addressed is insufficient (e.g., childcare, eldercare, life long learning). This, it believes, will continue to be the case until networked management is developed and embraced more decisively by the multiple actors involved, the state’s role is redefined and it is re-equipped adequately to discharge its new role in each system. This is spelt out more in section 7.4 below.

The changes needed in service provision in Ireland frequently involve achieving significantly more dynamic roles for public sector service providers within these systems.<sup>1</sup> The Council emphasises that one critical requirement is that public sector providers embrace proactively the management, organisational and technological

1. All these points are exemplified in the Council’s study, *Housing in Ireland: Performance and Policy* (2004), NESR Report No. 112.

changes that are necessary to provide high quality services and halt the current erosion in the take-up of public services by individuals who have the means to purchase private sector alternatives. The public response to Dublin's LUAS can be taken as an encouragement to seek a scale of improvement in quality across the spectrum of public services — in public hospital wards, non-fee paying schools, local authority housing, etc. — that would have the effect of making people willing to pay for inclusive public services rather than for exclusive private ones.

### 7.3.3 Tailored universalism

Inclusive public services, however, need not be — and, in many instances, should not be — accessed by all people on the same terms. On the contrary, the Council supports an approach that can be termed 'tailored universalism'. This means that, in so far as possible, mainstream providers embrace the challenge of adjusting their services to accommodate a more diverse public, including a public whose individual members have different requirements if they are to have an equal opportunity to benefit from the service. This route is consciously preferred to the alternative of developing wholly separate service provision for atypical groups.

Ireland's welfare state to date has shown a strong ability to create new services that are specific to the circumstances of vulnerable minorities (ALMPs, educational disadvantage programmes, etc.). It has been less successful in increasing the capabilities of mainstream services, public and private, to tailor what they provide so as to ensure access and proportionate benefit to socially disadvantaged users. Targeted services exclusive to poor people, however, remain difficult to evaluate and easily deteriorate so as to embody low expectations of their clients.

The ideal the Council proposes for publicly-funded service provision is that, at the key point of interface between a service professional and the person using the service, there should be neither an incentive nor a reason for the provider to take account of the income circumstances of the client but only of the person's need. Individual professionals should not be publicly subsidised effectively to auction their services to the highest bidders. Rather, the public funding of service professionals' salaries should ensure their freedom to accord individuals seeking their services treatment that is impartial with respect to the clients' income circumstances. The need to ensure that demand for publicly-funded services is tempered by awareness of the cost of supplying them is better met through arrangements such as differentiated charges through which the public system recoups some of its operating expenses. Tailored universalism is already achieved or anticipated in many developments: the third level lecturer need take no account of the diverse arrangements that support students present in the lecture hall; it makes no difference to the driver of public transport that passengers travel on different terms and conditions.

Two complementary strategies can be distinguished for strengthening inclusive service provision; a first focuses on the challenge of so enhancing the responsiveness and quality associated with public service providers that people who could purchase private sector alternatives lose interest in doing so; a second supports measures that give people on low incomes access to privately produced services, through vouchers, licensing conditions, regulation and other measures and without introducing a two-tiered service on the part of the private providers.

In so far as a ‘services dividend’ to Ireland’s stronger economy is realised along these lines, some specific positive developments can be anticipated. More of the non-poor will find that transitions between jobs or between employment, caring, study, career breaks and self-employment are supported rather than penalised. Their lifetime attachment to the labour force and life-time productivity will be enhanced to the benefit of the economy’s long-term growth path. They will accept that their taxes and not just their take home pay bring them benefits in return for their work. They will, in effect, come to have a higher ‘social wage’ (area 1 in Figure 7.1).

Where differentiated routes give people access to the same services, a significant commonality is established that strengthens social cohesion and the scenario of ‘poor services for poor people’ is avoided. This can contribute powerfully to diluting the problem of social exclusion (area 2 in Figure 7.1). It is notable, in this regard, that access to quality public services became a major plank in the revised anti-poverty strategy, and that the Charters of Service Standards drawn up by Government Departments are embracing the implications of a public which is increasingly diverse and, in particular, the obstacles to access that confront people who are socially disadvantaged.

As the threshold of competencies and skills giving access even to the simpler jobs has risen and family and other support networks come under increasing pressure, more of the people who are unable to be self-reliant exhibit multiple needs. As this report has highlighted, the most innovative measures for supporting them are taking the form of ‘high support’, ‘personal care’, and ‘participation’ packages in which the different service providers come together to offer holistic and tailored responses to the situations of individuals (area 3 in Figure 7.1).

#### 7.3.4 Income as necessary but not sufficient

The overarching challenge to Ireland’s welfare state can be described as attaining the more effective integration of the services, income supports and activist measures which provide social protection to people at each stage in their life cycle. This requires reinforcing new perspectives which are emerging on the provision of income support to people of working age.

Improving the adequacy of social welfare payments in Ireland has been — and remains — a key feature of social policy and social progress in Ireland since 1986 (the publication of the Report of the Commission on Social Welfare). A minimum money income is essential to live life with dignity as an adult in contemporary Ireland. Delivering on the commitments entered into by government, therefore, remains integral to the Council’s vision of a just and successful society.<sup>2</sup> Indeed, there is a need, on an on-going basis, to continually improve the mix of policies that enables the floor to money incomes to continue rising in Ireland. The Council believes, however, that this will require a new perspective on what social payments are meant to achieve. The participation of people in society is not secured by income alone, even a satisfactory one. Filling the role of a consumer is far from exhausting what is meant by ‘participating in activities which are considered the norm for other people in society.’ The latter also requires motivation and self-

2. The lowest social welfare payment reaching €150 a week (in 2002 terms) by 2007.

esteem, skills, competences and learning ability, interests and social networks. It is even possible that the very arrangements through which a person has access to a stream of income can damage these other attributes that normally ensure income is a springboard to participation. This is already recognised and allowed for in the case of paying unemployment assistance where it is accepted that some integration of the payment arrangement with service providers (job placement, training and education) is needed to ensure that a person does not give up altogether on a future as a worker. The prevention and activation ('referral') process under the National Employment Action Plan systematically links the payment arrangements of the DSFA with the employment services of the DETE and has been a notable innovation in this regard, but it remains a somewhat isolated case.

## 7.4 Strategic Requirements for Effective Reform: How

This report emphasises several **strategic requirements** if reform is to be effective and significant implementation deficiencies in the Irish context are to be overcome. Significant procedural and institutional innovations have already taken place that are advancing the Irish social policy system in the direction of the Developmental Welfare State. The Council considers that what is being learned in and through, for example, efforts to progress the National Children's Strategy, the National Disability Strategy and the National Anti-Poverty Strategy can contribute in an important way to reshaping Ireland's entire welfare state. The following strategic requirements are partially anticipated in these strategies but require a much fuller expression though them if they are to bear fruit:

- i. Governance and leadership;
- ii. Rights and standards;
- iii. Integration at the local level;
- iv. Accountable autonomy.

### 7.4.1 Governance and leadership

The interventions of several government departments and public agencies are typically required to respond effectively to the same social issue (e.g., educational disadvantage, child poverty, health inequalities, etc.). Increasingly, therefore, one public body needs to assume a lead role and to innovate new ways of working across the public sector that are interdepartmental, cross-agency and multidisciplinary. This is demanding of a public sector culture where the boundaries of jurisdiction and competence have been clearly drawn between departments and agencies and are the basis of accountability. However, the Irish public system shares this challenge with many other countries and there has been extensive international discussion and experimentation from which Ireland can benefit.

A comprehensive response to many social needs also typically involves the engagement of a wide range of actors outside of the public sector – on the part of individuals themselves, of their families and communities, of groups in the community and voluntary sector, and of the private sector. The outcomes sought in many social areas are essentially co-produced, so much so that, in some instances (e.g. health), the return to a given level of public spending is hugely augmented or offset by behavioural patterns, peer group and community influences. Thus:

- ◆ many social problems have significant behavioural components and it is patronising and, ultimately, ineffective to factor out personal responsibility and personal agency from the design and operation of programmes addressing social needs. These must recognise the extent to which solutions in many instances are co-produced by individuals, families and the intervening bodies;
- ◆ the arenas where unmet social needs have their most damaging consequences are, frequently, the family and local community, and it is within them that commitment and the potential to remedy a situation can be the strongest. Strengthening the capacity of families and communities to address social need has to be a core dimension in social programmes;
- ◆ civil society constantly throws up groups and organisations with specific insights into and, frequently, accumulated expertise in addressing the needs of specific social groups. These insights extend into how services should be delivered and public policies altered;
- ◆ the majority of people spend their working lives in the private sector and many are willing — sometimes for profit and sometimes for solidaristic reasons — to apply some of the organisational know-how, networking ability, profits, employment and outsourcing opportunities of their companies to addressing social needs.

Consequently, the coalitions that can — and should — now be formed to ensure comprehensive responses to many of Ireland’s social deficits need to be broad. Their composition should combine actors with insights into the impact on workers, companies and the economy of the deficit in question, and of remedies that are proposed for it, as well as those aware of the impact on individuals, families and communities. The coalitions need to realise that the outcomes, which the relevant actors jointly and genuinely seek, are beyond the competence of any one of them to deliver singly (including central government), even if that actor had access to unlimited resources.

Ireland’s public interventions for social protection are provided by a highly centralised state, which — at the same time — is not a strong state. This means that there can be a major focus on what the state should do while, at the same time, state measures are significantly limited in their effectiveness. The contrast between government and governance recognises limitations in the competence of government and seeks the engagement of all stakeholders with the significant changes that are needed in the state’s capacity to steer society and the methods it must use to do so.



As the range of actors whose roles need to be coordinated widens (statutory and non-statutory bodies; professionals of different disciplines, para-professionals, voluntary workers and service users), the formation, implementation and review of policies for social protection sphere become, increasingly, an exercise in governance. Governance is a recognition that, because even the full exercise of state powers in many areas cannot guarantee the outcomes sought, more progress is made (with less wastage of resources on surveillance, enforcement and other transaction costs) when all the parties whose actions constitute part of the needed response actively cooperate with the manner in which their diverse contributions are to be governed in order to reach the desired outcomes.

Governance throws up the challenge of leadership and risks making it particularly likely to be contested. It is the state's role to set the framework, ensure universal coverage to the necessary standards and with the required degree of diversity, and exercise a leadership that respects the characteristic contributions of the private and the voluntary sectors. This requires striking a balance between providing funding and ensuring accountability, levying charges and guaranteeing universal access, exercising leadership in a transparent and fair way and not allowing partial interests to veto progress, engaging in consultations and making timely decisions.

#### 7.4.2 Rights and standards

The growing diversity and sophistication of Irish society has set a dynamic under-way involving setting standards and framing social and economic rights.

The Council has emphasised that there are complex philosophical, political, legal and practical issues involved in the identification, creation, legislation and vindication of social and economic rights.<sup>3</sup> It believes that complexities and tensions that are within the rights tradition throw an important light on how social policies and Ireland's welfare state need to develop. It has argued that vindicating socio-economic rights — or even specifying what they mean — is not in the power of courts or governments acting on their own but requires wide societal engagement in creating the policies and institutions that establish their content and meaning in a specific context. It becomes of paramount importance, therefore, to concentrate on specifying, attaining and monitoring the standards that should govern the various areas of service provision (health, education, social welfare, housing, employment services, etc.).

On the one hand, society's attainment of higher general standards (of educational attainment, life expectancy, median income, standard of housing, individual autonomy, etc.) influences the perception and articulation of just what it is that the individual has a right to. What otherwise are vague rights (to 'employment', an 'income', 'housing', 'health care', etc.) become specified in terms of what is necessary to a person's development in a given context and in terms of what well-functioning systems can actually deliver. Stronger institutional and policy capabilities, which are in part the fruit of an increase in resources, thus, enrich the content and meaning of rights and lead to the formulation of new ones. On the other hand, the

3. Section 8.4 in *An Investment in Quality: Services, Inclusion and Enterprise* (2003). NESC report No.111. See also O'Donnell, R. (2003), *Beyond Justiciable Rights — Standards and Quality*.

articulation of rights propels the development of institutions and policies. A greater appreciation of the human person and of the conditions that constitute the essential framework for personal development (including as a social being) in a given context results in the articulation of the individual's social and economic rights. The moral need to realise these rights and, where appropriate, the legal obligation to do so, then spurs and is inseparable from the development of institutional and policy innovations for doing so.

Standards not only give content and meaning to rights but help to make a vision concrete and to operationalise principles. For example, the vision might be to 'cherish all the children of the nation equally' and the principle to have a 'child-centred approach' to primary education. A standard that accords with this vision and principle, however, would take the form 'that children who enter primary school with a literacy disadvantage are to experience rates of improvement above the median'.

Standards are both statements to service users and statements by service deliverers. On the one hand, they allow service users to see the content of their social and economic rights in the context of the actual society in which they are living. They express what the individual has a right to expect *and* what she or he is committed to support being provided on her/his behalf for others in Irish society. On the other hand, standards express how service deliverers understand what is within their competence to provide (based on current technological, knowledge and organisational frontiers) and what constitute the hallmarks of doing so professionally. They 'translate', for example, mission statements into concrete undertakings.

In this context, it is instructive that the major attempt Ireland is making — through the National Disability Strategy, the Disability Bill and its associated sectoral plans — to ensure that persons with disabilities can participate on an equal basis in society and the economy is, in effect, involving the articulation of 'new' rights:

- ◆ the right that public services provided for in legislation should be responsive, flexible, person-centred and accountable;
- ◆ the right that the resources voted by the Oireachtas should be allocated fairly and transparently, used efficiently and evaluated on the basis of outcomes achieved;
- ◆ the right that the assessment of the needs of persons with disabilities, their individual service statements and the services they receive be subject to fair systems of appeal, review and remedy.

If standards are to realise social and economic rights and give dynamism to Ireland's welfare state, they need to:

- ◆ Be jointly and provisionally set — a deliberative process has to be co-ordinated by an organ of the central state which elicits agreement among stakeholders as to what those operating at the technological, knowledge and organisational frontiers are currently able to achieve and which can serve as standards to improve practice and performance throughout the service system;

- ◆ Be measurable in a way which allows degrees of performance to emerge (this generally requires scaled rather than binary performance metrics) and be validly compared across diverse service providers (this requires standardisation). This requires the willing disclosure by service providers of information on their processes and performance;
- ◆ Be used as tools for systematic learning – the purpose of asking service deliverers to provide the data that enables them to be compared with each other and ranked (an activity undertaken by the centre) is to improve the performance of each one while respecting its ethos and particularity. Standards include *performance* standards that allow service providers to see how well or not they are doing and *process* standards that guide service providers in improving their performance. Both sets of standards emerge from the system of which they are a part and from their own ‘profession’ and are not the arbitrary demands of central government in return for funding;
- ◆ Be the basis of intervention by central authorities and affect the allocation of public resources. Two different but complementary approaches are to reward top performers with additional funds on the evidence that the public is receiving a high rate of return, and to use additional funds to support reforms where clear room for improvement constitutes grounds for also expecting a good return on scarce public resources.

#### 7.4.3 Integration at the local level

The key point of interface between people using services and the organisations delivering them is local, i.e., in or near the communities where people live. It is at this level that feedback between service deliverers and service users needs to be generated and learned from, that service deliverers need to coordinate their operations more and where greater autonomy should be granted and exercised. There are key areas where a greater responsiveness of public services to local needs, including their integration, could significantly improve outcomes. In health, for example, more services in people’s communities provided through local networks of primary care teams and more community bases for specialist service providers could ease pressures on the hospital system, keeping some people from the need for hospitalisation and improving the service for A&E attendees. If schools worked more with local communities and deliberately fostered the role of parents as co-educators by developing as learning centres for their surrounding communities, children’s underperformance at school and adult educational disadvantage might improve together. The Council welcomes as particularly significant the establishment by local authorities of City and County Development Boards with their remit to support and enhance the multiple initiatives at local level through which people are seeking to exercise responsibility for improving standards and services where they live, including in disadvantaged areas. Indeed, frequently, it is in disadvantaged areas that the need and quest for more locally based and better integrated services has been most evident and innovations taken place — or been urged — that give insights into how to improve service delivery throughout the entire system.

Many challenges remain. Ireland has a tradition of weak local government structures. Indeed, much of the difficulties with implementing agreed strategies arise from the insufficient empowerment, coordination and performance of local actors. The Council believes that the agency of local actors (the primary care team, the school, the area partnership, the estate management body, etc.) can and should be enhanced through bolder innovations featuring new types of relationships between central and local bodies. This is not the same as decentralising the operations of central bodies. It requires a centre that is strong but not simply because it has a large network of regional or local offices or is able to use its funding power to influence what recipient organisations do. The strength in question is, rather, its ability to acquire, process and disseminate knowledge on feasible standards and how they can be attained, and to promote their adoption throughout a network of diverse and autonomous service providers.

#### 7.4.4 Accountable autonomy

This report has drawn (Chapter 6) on the rich international literature on the organisational changes in public services in many countries. Successful experiences in other countries point to the need to accord service deliverers more autonomy to decide how they use resources in the pursuit of agreed outcomes and more incentive to innovate in the search for improvements, *while* structuring their accountability to service users and central government in new ways.

More effective implementation requires that local service deliverers and the central bodies monitoring their performance see themselves as jointly engaged in a social learning network and committed to raising the standards that give meaning to rights. For example:

The centre fosters mutual learning among the local deliberating units by collecting and distributing information on experiences gathered within the network. The most important task of the (network acting in coordination) is (then) to convert information on multiple parallel experiments into performance standards based on the best practice found. These performance standards help local units to locate a large number of similar experiences and draw lessons from them. They stimulate discussion on the reasons for shortcomings and possibilities for improved performance. Such performance standards are constructive in that they not only entail an implicit criticism of sub-standard performance, they also show ways of improving performance. [Eberlein and Kerwer, 2004: 132]

There is the potential as well as the need for this new type of relationship between the centre and regional or local service deliverers to develop in Ireland. The health services reform process features significant centralisation and, with it, the opportunity to pool and compare key information on the operation of individual hospitals and primary care teams. The thrust of this report supports greater autonomy being accorded hospitals and primary care teams *within* the new centrally coordinated and serviced national health service, so that commitment and learning at the key point of service delivery is maximised, best practice is identified and disseminated, minimum standards are adhered to and resources allocated in a fair and transparent manner. The Department of Education and

Science should develop a process through which the rate of progress made by children can be fairly compared across schools, practices and procedures in the schools recording the best progress be communicated to schools making the least, and incentives and supports be provided to poorly performing schools to help them close the gap with those that are performing well. The Housing Unit, a joint venture of central and local government, is a further example of where and how accountable autonomy can be promoted; its brief is to identify and disseminate best practice in the management of local authority housing.

The Council fully supports these developments and recommends their more vigorous and deliberate development across the entire spectrum of services providing social protection (area-based strategies, drugs task forces, employment services, etc.).

## 7.5 Operational Requirements

Strategic requirements are one thing and the capacity to implement them another. It is useful to distinguish four levels, on each of which challenges to established Irish practices have to be faced and overcome if implementation deficits are to be addressed and Ireland's welfare state develop along the lines indicated above.

### 7.5.1 National government and partnership

High-level political decisions and social partnership procedures must be supportive of the required changes. Where a clear strategy and priorities are agreed at the national level, maximum scope needs to be accorded the autonomy and initiative of management and staff at the different operational levels to implement the strategy, subject to the appropriate accountability. Otherwise, the small scale of Irish society and its developed social partnership arrangements risk affording different interests the opportunity to push government towards micro-management, exercise vetoes on developments in the national interest and make local industrial relation matters into national concerns.

### 7.5.2 Joined up government

If greater collaborative action between public bodies and across government is to be attained, significant improvements in the management of public expenditure are still required. The Council addressed some of these issues in an earlier study (NESC, 2002). It concluded that a stronger strategic focus needed be given to expenditure allocations across and within government departments than is currently achieved through the Annual Estimates/Budgetary process. It argued that the formulation of strategic priorities (such as those which could be adopted for social protection in line with this report) should have a more transparent impact on the allocation of public spending, both in the adequate funding of new departures and the trimming or closure of existing programmes. To this end, the Council recommended that the Department of Finance and key line departments should jointly engage in a structured and deliberate way in evaluating options for attaining new strategic objectives and adopting a clear strategy. The Council

reiterates the importance of such a development. The allocation of additional resources for social protection will always necessarily be influenced by Cabinet deliberations and the composition of government. However, a stronger cross-departmental view and agreement on where and how significant advances towards a focussed objective could be achieved by applying additional public resources would significantly reduce fluctuations in policy, the duplication of initiatives and the spreading of resources too thinly for the desired impact to materialise.

The Council's earlier work also found that the current management of public expenditure is highly focussed on establishing that spending remains within the limits set and is incurred on the items for which it was sanctioned. The question of what the spending is intended to achieve — both in terms of levels of services output and their effectiveness in contributing to the outcomes that ultimately motivate the spending in the first place — is rarely articulated. Without diminishing the importance of financial control and efficient cost management, the strategic requirements for the new type of welfare state to which this study points underline the importance of incorporating into departmental reporting systems measures of the outputs being produced and evidence of their contributions in supporting the attainment of outcomes (which are frequently co-produced with other actors, as discussed in 4.4 above). While the requirement to report on outputs and outcomes has major implications for the expertise and internal resources of Departments, it will enable quite a new approach to be taken to allocation within Departments and across them. For example, greater awareness of how inputs are translated into outputs and outputs used to support outcomes would allow line Departments to have greater autonomy in reallocating resources across programmes. It would also increase the likelihood of agreement being reached between the Department of Finance and line Departments as to how programmes and services competing for resources should be prioritised in pursuit of a single focussed objective.

### 7.5.3 The public management of networked systems

It has been emphasised that the state shares public authority and public resources with a large number and wide diversity of 'third parties' in order to attain public objectives. The manner in which they are supported, regulated and monitored by public bodies is critical to satisfactory outcomes being produced. It is clear that, in past decades, the state paid insufficient attention to monitoring the standards and accountability governing the exercise of public authority and use of public funds by third parties. However, in the very different society of today, the challenge to government is to become more expert in the management of complex networks and not to attempt extending the 'command and control' management characteristic of traditional public administration systems to what are autonomous for-profit and non-profit private institutions. The latter have been significantly involved in providing social protection since the foundation of the state and, as the analysis in this report makes clear, their role is only likely to increase. Public administrators must now neither surrender the public interest and allow 'interest group capture' nor weaken trust and collaborative action through initiatives that are experienced as high-handed or inconsistent. The Council believes that major challenges face public administration today in developing its own capabilities to activate, orchestrate and modulate networks of interdependent actors delivering

social protection in the years ahead. This will require new forms of principal-agent relationships and their contractual expression (in public-private partnerships, public-voluntary partnerships and the like), improved evaluation skills and a stronger performance culture.

#### 7.5.4 Management and workforces

The quality of management at senior level, particularly in the public sector, is also pivotal to generating the 'services dividend'. Management and workers alike in several areas of the public sector face a more critical and sceptical public. They are being challenged to achieve a greater integration of the consultation and deliberation characterising partnership with organisational changes that are effective in modernising service delivery and improving its efficiency. The public sector, generally, has a particularly highly educated workforce and, arguably therefore, exceptional potential to benefit from the shift to a more participative management culture and away from a top-down, hierarchical style. Yet an informed judgement is that too few of its workplaces 'are introducing the types of high involvement human resource management practices', 'the improvement of information flows and consultation' and the 'effective communication' that are 'essential to harnessing the collective and individual knowledge and expertise of employees' (NCP, 2005: 77).<sup>5</sup> The public sector has led the way in introducing job-sharing, part-time working, flexible hours, career breaks and the like. A strong commitment to the interests of service users on the part of management and workers is required to ensure that these leads support improvements in service quality and efficiency rather than their opposite. The degree of change already underway in the culture and management of the public sector, however, should not be overlooked, and its management and workforce have much less reason than in the past to fear tests of how well they achieve knowledge management, value for money, improved customer service, more open recruitment and a greater degree of 'accountable autonomy' for their own operating units.

At the local level and key point of interface with the service users, trust and unity of purpose between workers and management which are capable of generating innovations and not just of implementing changes decided on at higher levels are of key importance. The generation of a 'services dividend' is severely threatened if workers/staff regard management as an adversary, work as a relatively fixed 'lump' to be husbanded, innovation as an opportunity to lever compensation for having to change, and current jobs with their terms and conditions as entitlements divorced from service standards and output levels rather than justified by them. Yet workers also need to have their grounds for fearing the new and unknown and for mistrusting management addressed. Effective workplace leadership, skilled management, proactive unions (where unions are present) and timely public supports from outside the company/organisation are needed if people are to see that their security lies in updating their skills rather than in seeking to freeze their current job descriptions. The same factors are required if workforces are to embrace innovation as a route to serving clients better and developing greater autonomy and flexibility for themselves, and a collaborative approach with management as

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5. Forum on the Workplace of the Future (2005), *Working to Our Advantage. A National Workplace Strategy*. National Centre for Partnership and Performance.

the best guarantor that their current employments have a bright future. Worker commitment to — even enthusiasm for — new practices can be elicited in response to leadership at the local level which is trusted because it has made transparent what is to happen and why, and how fairness in sharing pain and gain is to be guarded. Workers and staff in many different workplaces have a collective interest in embracing innovation, to strengthen their market position (private sector), improve public confidence and support (public sector) and underpin more autonomy and the options for a better work-life balance (both sectors). Their collective interest is not always expressed as strongly as the interests of a few in resisting innovation.

## 7.6 Getting there: Priorities and Time Frame

This report has sought to provide outline thinking on the reach, nature and implications of the social protection people living in Ireland over the coming decades need and deserve. It has made clear that Ireland's current welfare state and social policies are currently advancing in several respects in the required directions. Indeed, the framework advanced in the report reflects, to an important extent, the thinking and experience being acquired through the more successful developments. However, it is also evident that much remains to be done and that simultaneous, substantial and immediate advances on all fronts is a resource and organisational impossibility. While intending this report as a discussion document rather than a focussed study grounding detailed policy recommendations, the Council, nevertheless, proposes the following broad priorities and time frame for accelerating and reinforcing the required transformation of Ireland's welfare state.

### 7.6.1 Children

The Council is unhesitating in reaffirming its view that a poor start for any child is an ethical challenge and undermines Ireland's economic and social aspirations (see NESC, 2003: Section 8.7). Research in many disciplines continues to point to the benefits for children, families, employers, communities, the Exchequer and society at large of public support for high quality, integrated services for young children (e.g., Shonkoff and Phillips, 2000; DES, 2004). Yet it is clear that a great deal still needs to be done if all children in Ireland 'are to enjoy a fulfilling childhood and realise their potential' (NCS, 2002) and the country become 'the best place in the world to be a child' (Barnardo's, 2005). The Council wholeheartedly endorses this level of ambition. It continues to be a major challenge, however, to move from the National Children's Strategy (2000) to a plan or plans that would be adequate to its vision and, more so, to the institutional developments that would ensure they were implemented.

Quite specific challenges arise in addressing the challenge of better integrating child-contingent income supports with the services and activist measures that are directed at children.



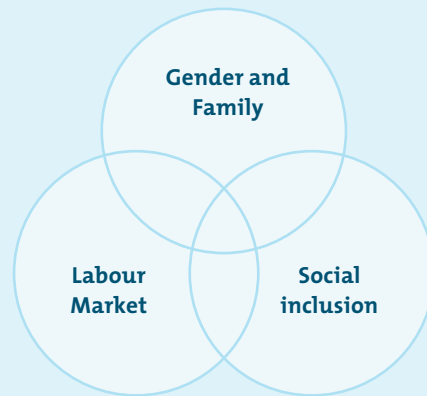
Chapter 3 drew attention to the major emphasis that has been put on child-contingent income support (in effect, Child Benefit) in recent years and how this has profoundly altered the way in which children in the poorest households are supported (with almost 70 per cent of that now being accounted for by Child Benefit as against less than 25 per cent in 1992). The appropriate level at which to pay Child Benefit remains of critical importance to expressing society's recognition of children as a social good and willingness on the part of households without children to support those in which children are being reared.

The Council is committed to helping explore ways in which supplementary income support could be provided on behalf of the poorest children in the state in more targeted ways than through Child Benefit. It is aware that, despite the widespread adoption of the term 'children's incomes', it is the case that children do not have incomes but rely on the level and internal allocation of the income of the household in which they are being reared. Children do not experience disadvantage on their own but in the context of their family. Such evidence as is available of the damaging effect on their development of low household incomes points to parental stress, inattention, depression and other unsatisfactory coping mechanisms as the primary factors linking low household incomes to the impairment of children's development. The challenge of ensuring no children are reared in households which place them below the at-risk-of-poverty income line is primarily a challenge to ensure the adequacy of their parents' incomes.

However, there is telling evidence that — by the standards of other welfare states — the services on which children rely are particularly underdeveloped in Ireland's current welfare state [Bradshaw and Finch, 2002; DES, 2004; OECD, 2003a]. This report has referred several times to the pivotal significance of services on which children rely and to the strategic economic and social value of ensuring ready access to them on the part of all children, particularly those in need. No children should be denied access to services which they need because of their parent's income situation. As Figure 7.2 seeks to highlight, where services to very young children are concerned, the range of benefits suggest they can be justified simultaneously as (i) supporting the family and promoting gender equality, (ii) strengthening social cohesion and stemming social exclusion, and (iii) widening participation in the labour market and raising productivity.

In considering the needs of young children (0-6 years) alone, the Council is struck by the range of evidence as to how and where the experience of childhood in Ireland can be improved. This includes the significant proportion of low birth-weights and paucity of arrangements for tracking these infants, the relatively short duration of childbirth-related leave in Ireland compared to other countries, the large number of children being reared in households which mean they are in 'consistent poverty' or 'at-risk-of-poverty', the exposure of some children to housing and neighbourhood conditions that place them at physical risk (particularly Traveller children), the rationing of childcare places in these disadvantaged areas and the high cost of childcare elsewhere, the large degree of reliance on informal childminding arrangements of uneven quality, the cost to parents on modest incomes of accessing even basic medical services for their children, the

Fig 7.2 The Benefits of a Concentration on Early Childhood



#### Labour Market

- ◆ Mothers' return to work after childbirth
- ◆ Mothers' hours of work
- ◆ Intellectual/social development or school-readiness of all children
- ◆ Influence on career decisions of girls/young women
- ◆ Work-family balance
- ◆ Equality of women's position in the labour market

#### Gender and Family

- ◆ Mother's health
- ◆ More gender-equal parental roles
- ◆ Children's health
- ◆ Parent-child relationships
- ◆ Child-child relationships
- ◆ Encouraging fertility
- ◆ Permitting free parental choice amongst different employment and care options

#### Social inclusion

- ◆ Intellectual/social development of children at risk
- ◆ Employment of lone parents otherwise on social assistance
- ◆ Integrating Traveller and immigrant children and families

high pupil-teacher ratios in infant classes and insufficient adaptation of their teaching methods to new knowledge about the learning patterns of young children and the working hours of contemporary parents.

Not surprisingly, such multiple and varied risks facing young children mean that several government departments, a large number of public agencies and a wide range of community and voluntary organisations are working to redress one or several of these challenges. This means that no one need is without its champion(s) but that progress can be erratic and uneven. As already stated, the Council is aware that simultaneous, substantial and immediate advances on all fronts is a resource and organisational impossibility. It therefore urges government to respond as a matter of urgency to the type of suggestions the OECD review team has offered to the Department of Education and Science as to how to improve early childhood education and care policy in Ireland (DES, 2004).

In particular, the Council recommends:

- i. Strengthening the coordination of departments, agencies and public resources in addressing the needs of 0-6 year old children;
- ii. To this end, establishing a clear leadership role for one department for 0-3 year olds and of another for 4-6 year olds;
- iii. Giving both departments joint responsibility for drawing up a National Plan for the Development of Early Childhood Services;
- iv. Devolving the implementation of this plan to integrated local agencies in a way that enhances the potential of the City and County Development Boards, the City and County Childcare Committees and the Family Centres supported by the DSFA;
- v. Planning for a significantly higher emphasis within departmental budgets on strengthening childhood services;
- vi. Ensuring the involvement of the expertise of the community and voluntary sector is an integral part of the National Plan and departmental budgeting;
- vii. Enlisting the support of the corporate and business sectors in investing in the well-being of children.

### 7.6.2 People of working age

As Ireland's social model and 'activities considered the norm' in its society become more influenced by the population's growing engagement with employment, the relative position of the large minority of its population of working-age who rely on a weekly social welfare payment is changing markedly. Minimally, some 20 per cent of the 16-64 year old population is typically in this position. Though the rates of their social welfare payments are regularly increased by more than the cost of living, their relative income position has been deteriorating as the earnings of their employed counterparts increase faster. Their relative position is changed in other ways also, however. The society in which they live is characterised by improved longevity and health, a higher general level of education and a stronger sense of esteem for the individual and respect for her or his choices. While these do not in any way justify less generous support for people of working-age who need social welfare on a long-term basis, they enormously increase the importance of ensuring that how that support is given does not contribute to lowering people's expectations of themselves or make it more difficult for them to set personal life goals and pursue them.

As discussed in chapter 6, contingencies form the current basis to social welfare payments to people of working age. These specify a set of situations in each of which it is accepted that a person of working age is unable to secure an adequate income from employment (lack of suitable employment offers, temporary or permanent incapacity for work arising from an illness or disability, having sole responsibility for rearing a child, being of an age that disadvantages a person in seeking employment or being retrained, etc.). This contingency-basis to social

welfare receipt by people of working age has significant strengths: they provide a clear-cut basis for paying most people when they need income support and are reasonably easily understood; most people who need a social welfare payment fit into one of the established contingencies, most of the time; payments made on their basis are well targeted. The Council also notes, however, weaknesses which will become steadily more serious as Ireland's economy and society develop.

As it is through a contingency that an individual becomes entitled to a social welfare income in the first place (e.g., being a lone parent, being permanently incapable of work because of an illness or disability, etc.), remaining covered by that contingency becomes the basis of the person's financial security. A perverse incentive is provided to people to remain attached to their qualifying condition (current family structure, medical status or length of time out of work) and to concur with the social welfare code in seeing it as a fixed disadvantage (including their age when they are in receipt of the pre-retirement allowance) which is robbing them of their capacity for greater self-reliance. In society at large, however, people's adult lives are becoming increasingly characterised by multiple transitions — between jobs, between periods in and out of employment (for child rearing, study, career breaks, etc.), between family types, between periods in and out of the country, between places and types of residence. It contributes to further marginalising people in receipt of social welfare when transitions are made more difficult for them rather than facilitated by how they receive their income support.

The contingencies currently identify sub-groups of people as entitled to similar levels of support under similar terms and conditions when there are, in fact, significant differences within these sub-groups (lone parents, persons with disabilities or an illness, etc.) in the potential of individuals to develop a degree of self-reliance. However, being accepted as meeting a prescribed contingency does not currently include any assessment of the individual's capacity to benefit from — for example — personal development, counselling and social skills courses, participation in providing community services, vocational education or training, job search and interview skills. Neither do the payment arrangements entail any automatic or sequenced contact with interviews through which recipients are alerted to options and advised of personal strategies.

The Irish labour market is offering steadily more diverse employment options — more part-time work, casual employment, seasonal work, wider choice of hours, more sedentary and less physically demanding workstations, opportunities for tele-work (including from the home), etc. — while also maintaining a high level of aggregate labour demand for a wide spectrum of skills. Groups not hitherto regarded as potential components of the workforce — e.g., secondary school students, women in the home, persons with disabilities — have been responding to the new opportunities for tailored employments that suit their individual circumstances. Contingencies based on establishing that a person is 'unable to work' risk, therefore, becoming increasingly anachronistic because they are based on an outmoded concept of work as full-time and packaged in a standardised format.

Recognition of these weaknesses supports three strategic directions for the design of income support to people of working age. (i) The significance of the current 'contingencies' should be downplayed in favour of regarding all people of working age as basically equal but differing in their current positions and potential for

mobility on a spectrum that runs from being irreversibly and completely undermined in their capacity for self-reliance to being proximately able to enter employment and become self-reliant. (ii) A level of basic payment should be pursued that meets each individual's need to live life with dignity in contemporary Ireland but realises that the basic rate of payment is a blunt instrument for helping individuals to surmount the specific barriers (particular medical expenses, mobility needs, costs of accommodation, accumulated debts, need for childcare, return to education, etc.) blocking their path to greater self-reliance and that personally tailored packages featuring additional payments and access to services should become the norm rather than the exception<sup>6</sup>. (iii) Both the basic payment and the additional tailored package should be provided in ways which encourage the partial and sporadic take-up of employment opportunities as well as entry into more formal employment relationships.

### Participation income

As a long-term goal, the Council envisages the eventual merging into the one programme of the several contingency-based, social assistance payments which currently provide welfare transfers to people of working-age. This could be termed a 'participation income' as the underlying purpose would be to ensure that each payment arrangement to people of working age acknowledges that meaningful participation of some form is a legitimate expectation of people of working age (both their expectation of society and society's expectation of them) and that, only in rare cases, should it be accepted that an individual does not have some capacity to develop a greater degree of self-reliance. The level of this payment should reflect that all people alike need a similar money income to guarantee them access to the basic necessities of life. Its precise level will continue to be difficult to determine in an objective manner and the Council welcomes the commitments in the Revised Anti-Poverty Strategy and Programme for Government (2002) as the minimum justified by the current circumstances.<sup>7</sup> Ideally, however, the income support arrangements governing people of working age over the coming years will also see the erosion of differences in how people in the contingencies are treated, with rationalisation extending from the rates (already well advanced) to include similar treatment in individuals' liabilities to tax, the earnings disregards they can avail of, their access to secondary benefits, the benefit withdrawal rates they face and those other features which currently differentiate them.

### Tailoring

Paradoxically, treating people of working age in receipt of social welfare more equally will involve the personal tailoring of additional payments and entitlements to services that address the specific barriers preventing people from realising their potential. Personally tailored packages of additional payments and service entitlements would reflect the fact that undoubted differences in people's needs arise, not primarily from the nature of their qualifying contingency as the current welfare code implies, but from more individual sets of circumstances which require, and would be more effectively addressed by, the tailored provision of services and

6. The features of some current programmes point in this direction: for example, the basic Supplementary Welfare Allowance adult rate can be augmented by weekly supplements and once off special needs payments.

7. The lowest weekly social welfare payment is to reach €150 in 2002 terms by 2007.

income support. For example, where an individual of working age is prevented from realising their potential for participation by costs associated with responsibility for children, a health condition, disability, private rental accommodation or whatever, these should be treated by the social welfare code in a way that is equitable to people with similar net incomes. The support available should not be conditional on employment status or sharply differentiated by contingencies.

Increasing the degree of tailoring permissible in Ireland's social welfare code would have major implications. Strengths in the current system should not be lost. Current payment arrangements, for example, are thoroughly centralised, delivered as entitlements (the number of recipients is not allowed to affect the rate of payment — in this instance, at least, resources follow need) and the efficiency and effectiveness of their administration command wide respect. There is an extent to which these positive attributes of Ireland's current arrangements for paying welfare could be diluted by making tailored and, therefore, variable personal support packages more widespread features of Ireland's welfare system. However, the Council considers that the downsides to the present system (the inability of the basic payments to address the real cost barriers facing many people, the incentives for people to remain in their contingencies, the long durations on welfare, the lack of engagement with people who have the potential capacity to progress to greater self-reliance, the differences in how people with similar net incomes are treated) require more resolute development in this direction.

Paying greater attention to individual circumstances and tailoring additional supports and service entitlements on that basis will have resource implications that are difficult to estimate. On the one hand, significant administrative savings can be anticipated when several programmes are successfully merged into one bringing such benefits as the similar treatment of earnings disregards and other features. On the other hand, the greater individual attention, wider engagement with service providers and retention of a tapering level of in-work support to a greater number of people imply a net cost increase associated with the new approach. There is already considerable relevant experience as personal assessments of need, access to advisors/facilitators and a generally active case management approach have developed in some of the employment supports currently being provided to people in receipt of welfare. An overly static view of costings should be avoided, also. Dynamic savings associated with shorter life-time durations on social assistance and stronger attachments to the workforce can be anticipated but are particularly difficult to estimate. However, the Council recommends exploring this strategic orientation not primarily to reduce demands on the Exchequer but because it believes it is an orientation that will better serve many current welfare recipients. The current contingency-based programmes do not embody sufficiently positive expectations of recipients or ensure access to the services which would enable people to realise new ambitions.

### **Flexicurity and conditionality**

The Council supports the deliberate development of an Irish form of Denmark's 'flexicurity'. In this, against the backdrop of a successful economy in which innovation is welcomed and where company and sectoral re-structuring are facilitated rather than blocked, generous rates of welfare payments in the short term are

combined with high quality employment services to support smooth and frequent transitions between jobs. An alternative — which the Council does not support — is to rely on employment legislation to support one set of people in their current jobs and welfare payments of long duration to support another set of people who are long-term jobless. It believes that a concern to avoid the disincentive effects of high replacement rates (for which there is little Irish evidence, see chapter 6) should not inhibit exploring ways in which higher rates integrated with access to services would do more to facilitate progression than minimally adequate welfare incomes.

The Council adverted in an earlier report to the challenge this poses to public sector leadership and governance:

The payment of relatively high social welfare payments and the provision of practical supports to enable recipients progress is a strategy for which the Council would like to see the full range of social actors in Ireland share responsibility in helping to design and implement. The required evolution in designs and systems may require degrees of decentralisation and levels of participation by organisations closely involved with client groups which would be quite novel by Irish standards. (NESC, 2003: 319).

The advocacy of a ‘participation income’ in this report incorporates the type of conditionality which the Council finds acceptable and which earlier strategy reports variously termed ‘supportive conditionality’ (1999) and ‘sensitive activation’ (2003). This conditionality is not based on time limits or coercion but on the obligation and need for welfare recipients and public authorities alike to periodically review the extent to which recipients’ best interests are being facilitated by the arrangements governing their access to an income. The taking of employment, if coerced, seldom leads to a lasting job match or provides employers with the quality of employees they seek. What can be required of welfare recipients is participation in interviews where the range of public supports available to them are explored and they are offered every assistance to identify their personal goals and seek the means to realise them.

### 7.6.3 Older people

#### Adopting a comprehensive plan

The challenge of ensuring that people in their retirement experience Irish society as an attractive, supportive and secure place in which to live requires some form of regular, authoritative and comprehensive review of the evolving needs of older people and of the efficiency, effectiveness and responsiveness of the social protection extended to them through services and income supports of every type. The changing demography of the elderly in Ireland — their weight in the population, their internal age distribution, their improving health status, their living arrangements, etc. — provoke challenges that are being acknowledged by multiple government departments and public agencies. Significant progress is being made in extending to older people a set of services which enables them to enjoy a higher standard of living at any given income level. Housing and health service improvements are seeking to ensure that older people’s accommodation has the features and back-up domiciliary care and supports, which enable them to

remain living in security and with the greatest degree of independence of which they are capable. A wider diversity of residential accommodation to suit the varied needs of older people is beginning to develop. The concept of ‘personal care packages’ is potentially powerful for bringing the different service providers together to tailor and align their supports to ensure key outcomes (security, participation, etc.) are attained with and for older people.<sup>8</sup>

The National Disability Strategy (NDS) could yet become a headline example in some respects as to how planning and provision for older people might be developed. A Strategy for Older People would do well if it were to replicate, with the due changes, the NDS’s ambitions to tailor attention to the individual, identify where and how service systems need to change, require sectoral plans of key government departments, provide tailored statements to individuals of key services they will receive, and develop institutional arrangements around an equivalent to the National Disability Authority in order to ensure the implementation and evaluation of a holistic strategy for older people<sup>9</sup>. The major provisions which the Health Service Executive and Local Authorities in particular must make for Ireland’s growing and changing population of pensioners, in co-operation with the community and voluntary sector, commercial interests and older people’s families, would be better anticipated and come on stream more effectively if all relevant actors were appropriately engaged in drawing up a National Plan for Older People.

### Ensuring adequate and sustainable incomes in retirement

Ensuring adequate and sustainable incomes in retirement for a much larger population of older people, while not the only challenge of an ageing society, is the dominant one which the Developmental Welfare State must address in protecting older people. The review of public spending on pensions above in earlier chapters pointed to **adequacy** as a major dimension to this challenge in Ireland. Though alleviating poverty in old age is a major objective of public policy, a growing proportion of the current population in retirement is at-risk-of-poverty (falling significantly below median income). While it is true that their relative living standards are higher than measures of relative income alone capture, EU 15 data suggests that Ireland’s pensioners have particularly low money incomes in their national context. The adequacy of state social welfare pensions, however, cannot be divorced from the **sustainability** of the arrangements for providing them. Though Ireland’s favourable demographic position means it is a low spender on pensions by EU 15 standards, its elderly dependency ratio (people over 65 as a proportion of the population of working age) is set to rise in a major way over the coming decades. Policy, therefore, must improve the adequacy of pension cover without compounding the problem of its sustainability. In this context, the Council welcomes and underlines the importance of the full review of Ireland’s pension system being currently carried out by The Pensions Board.<sup>10</sup>

8. An example is the Choice Programme developed by the then North West Health Board. This holistic programme was developed after structured listening to the views of older people which challenged assumptions of frailty and dependence. It provides graduated services ranging from people receiving support in their own homes, to accessing day centres and day hospitals, with medical supports in their own homes, and, when they eventually need it, to moving to full-time residential care for respite periods or indefinite stays.

9. There would, presumably, not be the same controversy in defining ‘old’ as has emerged in defining ‘disability’. Another criticism of the NDS, viz., that a comprehensive strategy is only as good as the volume of resources provided to implement it, applies, of course, to every plan but an effective one is more likely to attract the level of resources required to produce the outcomes.

10. Required by the Pensions (Amendment) Act, 2002, the date for its completion was brought forward to mid-2005. For an outline of its scope and main components, see [www.pensionsboard.ie](http://www.pensionsboard.ie)



There are, in fact, few grounds for believing there is particular complacency in Ireland at the implications of population ageing for its welfare state and public finances. Nevertheless, the implications of growing longevity are difficult for most of us to comprehend. Already, some 25 per cent of a man's *adult* life and over 28 per cent of a woman's are being lived — on average — in retirement; should Ireland achieve the levels of life expectancy that pertain in Sweden (the current top performer in the EU), this would become 26.4 per cent and 30 per cent respectively.<sup>11</sup> These figures make clear the scale of provision that people at work need to make, in one way or another, in anticipation of their retirement (assuming no change in the balance between years spent at work and years spent in retirement). Expressed simply, major change is unavoidable if a larger population in retirement, living longer, are to have adequate incomes. At the extreme, the combination of delayed entry into the workforce as first education is prolonged, recourse to early retirement and increased life expectancy at age 65 has the potential to make the level of what people must save during their working years and/or pay in taxes to fund adequate pensions quite unsustainable.<sup>12</sup>

The Council believes that the protection of retired people's incomes should be based on as broad a front as possible and that developing the type of welfare state outlined in this report is integral to ensuring it. There are some key factors to enabling Irish society fund adequate pensions in a sustainable manner. In the first place, people of working age need to be as productive as possible and in employment as steadily as possible. Secondly, the age at which people consider their working life is over will have to respond to their increased life expectancy, improved health, and interest and capacity in working longer. In third place, pension schemes will ideally have to incorporate some reward for people who choose to defer receiving a payment because they wish to work longer; minimally, incentives to withdraw from the workforce early will have to be ended. Finally, in how pensions are funded, the roles and respective merits of *both* pension income funded from current taxes (PAYG) *and* pension income funded from invested savings (pre-funded) will have to be respected and enhanced. Each are routes through which a current generation sacrifices a degree of control over current resources in order to ensure themselves an income in retirement. It is quite valid to anticipate that some of this sacrifice will be made by channelling more tax revenue to improve Ireland's PAYG pensions and that some of it will occur by people and the state saving and investing more in pension funds.

The choice of the balance to be struck by the state between PAYG funding and pre-funding of pensions in meeting its pension obligations is beyond the scope of this study to settle.

PAYG funding has low administrative costs, is particularly beneficial to low earners and is easily understood. However, it can impact disproportionately on labour costs (as when PRSI is relied upon), bets heavily on the size and productivity of the future workforce and requires people to trust government in deciding the level at which

11. This is based on life expectancy at age 65 in the year 2002 and the assumption that people are adults at 18 and retire at 65. More rigorous estimates would use the average age of exit from the labour force (usually lower than the official retirement age) and life expectancy at that age; when this is done for the UK, the percent of adult male life spent in retirement in 2004 was 30.5 per cent, up from 18 per cent in 1950. UK pensions Commission (2005: 35).

12. If retirement ages remain as they are now, longevity alone is estimated to increase the cost of providing an average pension in the EU by 25 to 30 per cent over the period 2000-2050. *Joint Report by the Commission and the Council on Adequate and Sustainable Pensions* (2003).

they are taxed during their working life to support pensioners and what they will receive as pensioners in turn during their retirement.

Pre-funding social welfare pensions offers the potential to transfer part of the burden of financing pensions from the earnings of future workers to the returns on capital. It brings the current generation to make an additional contribution to its own pensions (i.e., the 1 per cent of GNP going into the National Pension Reserve Fund from tax revenue is additional to PRSI pension contributions); other things being equal, this will reduce the rise in taxes that future generations will pay. It is a form of provision for future pensions that impacts less on labour costs than PAYG as it is funded out of general tax revenue. However, financial markets are being relied upon with their uncertain returns, and the current generation is being asked to make a double contribution to their future pensions raising intergenerational equity issues that are quite opaque.

A separate and related question, also deserving more detailed examination than is possible in this study, is the appropriate level of state support to private occupational and personal pensions. Through them a large and growing number of people in Ireland are relying on the pre-funding of their pensions. Their main advantages are that they give people more say in the level of replacement income they have in retirement (because they are voluntary and allow different levels of contribution) and, in the case of occupational pensions, engage employers in making direct contributions. However, they easily reproduce or widen income inequality among the retired population, can lead to complex and opaque arrangements, have high administrative costs and require people to trust financial markets and financial institutions.

In the final analysis, the balance to be struck between current tax revenue and investment income in funding pensions — though important — is secondary to the deeper changes needed if society is to meet the challenge of ageing. This is because, whether a higher pension bill is funded from taxes or from invested savings, some core economic facts remain the same. In the first place, the population in retirement uses its pension income, wherever it comes from, to lay claim to a share of the economy's current output — only a productive economy can support this without inflation and a general reduction in living standards. In second place, the tax revenues generated by any given tax rates (significant where pensions are funded on a PAYG basis), and the returns on pension funds invested (significant where pensions are pre-funded), alike depend on a healthy economy in which both labour and capital are put to their most productive use. In third place, both routes — PAYG and pre-funding — have major implications for the Exchequer; the first increases the bill for social welfare pensions and the second that for tax expenditures.

In conclusion, there are several specific questions which can be raised as to how Ireland's pension arrangements might develop in the medium to long term and which deserve particular examination from the specialist bodies that monitor them. These include:

- ◆ whether people should have the choice of postponing their retirement in exchange for a higher pension when they do retire;
- ◆ whether the contributory pension should include an earnings-related component which would reflect the value (and not just the number) of an individual's contributions over her working life. Some other countries ensure (Singapore) or are proposing (USA) that their citizens have personal accounts within national insurance funds over which individuals have some discretion as to how their savings are invested and used;
- ◆ whether Ireland should remain with an entirely voluntary approach to all pension provision above the flat-rate contributory pension or make some second tier pension cover mandatory. Experience with the take up of PRSAs will throw important light on this issue;
- ◆ whether the contributory pension should be transformed into a citizen's pension based on residency (on the lines of Denmark and New Zealand) in recognition of the large number of people in Ireland whose periods of employment overseas (young workers in particular) or interruptions in employment (for study, caring and other purposes) will make the establishment of a satisfactory contributions record difficult;
- ◆ whether the right balance is being found as defined benefit schemes in which businesses bear the risk are increasingly replaced by defined contribution schemes which transfer the risk to individuals.

The broad objective of this study means it is not the place to analyse these issues in depth and clarify the options for developing Ireland's pension arrangements in line with emerging needs and resources. It is in keeping with its outline of an overarching architecture to Ireland's welfare state to point out that, across the life cycle, it is in retirement that income transfers have least or nil disincentive effects on recipients' labour market participation. In other words, retired people living in poverty can do almost nothing anymore to avoid poverty. In the light of the evidence that people in retirement in Ireland currently face a high risk of poverty, the Council endorses the high priority being given to increasing the rates of the contributory and non-contributory pensions. Those dependent on the means-tested pension include many whose working lives were scarred by an era of high unemployment. Maintaining the non-contributory pension at a lower rate than the contributory pension could be revisited in the light of the hugely improved circumstances facing the current population of working age. They are unlikely to be deterred from following a steady employment career or feel aggrieved if people not in a position to have done so were to be given entitlement to a state pension at a similar level. At the same time, the Council notes that the rate of payment of the old age contributory pension will remain the single greatest influence on the adequacy of pensioners' incomes in Ireland.<sup>13</sup> Increases in its rate would also have the merit of alleviating pressure on occupational pension schemes in the significant number of cases where the pensionable income on which their payments are

13. Even when the target of 70 per cent of people aged 30 or over in employment having a private occupational or personal pension is reached, a significant number will rely on the OACP for the greater proportion of their income in retirement.

based are calculated net of the OACP. Finally, introducing a lower ceiling to the amount of tax relief any one individual can claim in support of their private pension could be one way to fund raising social welfare pensions and contribute to lessening income inequality among the retired population.

## 7.7 Towards a More Comprehensive Approach

Privileging the perspectives and experiences of the persons who need social protection (the 'service user', 'citizen', 'client', 'customer') requires that organisations — public, private and non-profit — give much greater priority to finding ways of better integrating disparate delivery systems. Otherwise, the same persons can experience them as fragmented and pulling them in different directions

A quite fundamental standpoint, therefore, from which to judge the adequacy and effectiveness of overall social protection is to assess the risks and hazards which the individual person in Irish society faces and the supports available to them at different stages in the **life cycle**. It provides a simple but comprehensive framework to ensure no population group is overlooked, and facilitates a more reasoned adjudication between competing priorities. The members of Irish society are children, adults of working age or aged 65 and over. At each stage, the hazards and risks which confront the individual person have specific features and the individual has characteristic capabilities and constraints in facing them. In addition, the Council believes it is useful to distinguish and give separate consideration to people of working age who are radically challenged in their personal autonomy by a disability or long-standing health problem, and to distinguish — within the long period during which a person is reckoned to be of working age, — between young adults (18-29) who must make several key transitions (into the labour market, independent living, parenthood) and, what we might term, 'anchor' adults (30-64) who typically bear a core set of responsibilities (mortgage, child rearing, eldercare, saving for retirement). This is illustrated in Figure 7.1.

**Table 7.1** Monitoring Progress Towards the Development Welfare State

Who?	What?	How?	
	<b>Integration of services, income support and activist measures</b>	<b>Governance and leadership</b>	<b>Standards and rights</b>
0-17			
18-29			
30-64			
65+			
<b>People challenged in their personal autonomy</b>			

For each of these groups in the population, the Council believes there should be formal and authoritative overviews conducted at regular intervals that would:

- ◆ Articulate the key social outcomes and developmental objectives for individuals of that age/condition by which Ireland’s social policies and welfare state wish to be judged;
- ◆ Be informed by a clear view of the principal risks, current and emerging, which confront the person in Irish society at that age/in that condition;<sup>14</sup>
- ◆ Be based on an on-going analysis and evaluation of the services, income supports and activist measures which Ireland’s welfare state is currently providing to persons at that age/condition;
- ◆ Articulate the rights and responsibilities that attach to members of this group/ in this condition and the current standards giving meaning to those rights.
- ◆ Identify the current institutional weaknesses and design flaws which it is urgent to address;
- ◆ Specify the arrangements facilitating implementation of change strategies and governance of the needed social supports.

The implementation and effectiveness of public spending plans should be an integral part of these overviews and it could become the objective of the appropriate bodies to develop multi-annual ‘programmes’ for current social spending, similar to what has been developed for public capital spending under the National Development Plans, in which the implementation of spending plans across government departments would be linked to the outputs and outcomes being sought for the population group in question.

14. The new Population Health Directorate, serving the Health Services Executive, would have an integral role to play here.

This is, effectively, what the National Children’s Strategy and National Children’s Office are attempting for the 0-17 age group, what the National Disability Strategy and National Disability Authority are attempting for persons with disabilities, and what the National Anti-Poverty Strategy and National Office for Social Inclusion are attempting for people at risk of social exclusion. The Council believes that significant learning is possible from reflecting on the differences in the institutional arrangements being relied upon to implement these different strategies. The framework in Table 7.1 both helps to situate the huge significance of these strategies for Ireland’s hybrid welfare state and points to areas of relative underdevelopment. For example, changes in behaviour and life styles among young adults (18-29) — their growing difficulty in accessing housing, postponement of parenting, the impact on young males of less defined economic and social roles, the prolongation of education, different employment contracts, vulnerability to risky lifestyles, growing mobility, etc. — are, arguably, relatively poorly focussed and understudied in Ireland.<sup>15</sup> In identifying, ‘anchor adults’ (30-64) as a single group, the framework might also be taken as supporting the integration of what is best in the Council of Europe’s focus on social cohesion and the European Commission’s focus on social inclusion, thus reinforcing those elements in Ireland’s National Action Plans against Poverty and Social Inclusion which address the tailoring of universal services rather than the creation of special ones.

## 7.8 A Successful Society

A successful economy requires a successful society, in a double sense. It is a **moral** requirement because the population whose learning, work, entrepreneurship, flexibility, discipline and collaboration underpin on-going economic success deserves to live in an attractive society characterised by fairness, inclusion, strong families, safe communities and high standards of social protection. And it is a **functional** requirement because a small economy will only remain agile and competitive in this international age if it is supported by a society characterised by trust, low social conflict, the retention of skilled workers, the embrace of life-long learning and wide participation in employment. The Developmental Welfare State (DWS), outlined in this study, is the framework which the Council sees as necessary for providing greater impetus, strategic direction and effectiveness in developing the social policies that will reflect and build a successful society in Ireland.

In the first place, it is a support and a reward for the people whose competencies, skills and work effort are the mainstay of the Irish economy. Ireland has had a long history of adapting to a chronic labour surplus, and to the selective labour market and homogeneous society which resulted from it. It is being challenged now to reshape its welfare state to support a growing, more diverse and near fully employed population. The type of welfare state to which this study points specifically embraces the challenge of facilitating and supporting the lifetime attachment of people to the workforce — through the different transitions in and out of employment that mark their lives and across the spectrums of age, skill

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<sup>15</sup> E.g., *Report of the High Level Group on the future of social policy in an Enlarged European Union* (2004). DG for Employment and Social Affairs; *Proposals for a Dynamic and Solidary Society* (2003). White Paper on the Welfare State. Italian Ministry of Labour and Social Affairs.

levels and availability for employment that characterise those who seek it. The perspective of the DWS is that satisfying employment, tailored to people's capabilities and needs, is a social achievement as much as an economic one.

In second place, the Developmental Welfare State is confirmation and proof of the final eradication of all vestiges of the view that some groups in Irish society are redundant in building the economy and shaping social life. High emigration and unemployment and the highly homogeneous society of a previous Ireland proved to be a context in which personal traits such as being low skilled, an unmarried mother, a child in institutional care, a member of the Traveller community, living with a disability, and much else, easily became the basis for low expectations — on the part of society of those individuals and, often, internalised by the individuals themselves — of the social and economic roles that the individuals should aspire to hold or be supported in preparing for. These low expectations were frequently embodied in the institutional arrangements that responded to these individuals when they were in need. The new welfare state, by contrast, builds on tolerance, a welcome for diversity, a commitment to equality and respect for the individual. The Council believes these values are now espoused by contemporary Irish society which expects them to be embodied in its mainstream social policies. Part of the route to the DWS lies precisely through identifying and revamping any arrangements for social protection that embody low expectations or assume unnecessarily that some people's social disadvantage is innate.

In third place, the developmental welfare state is a celebration of the fact that sound economic performance is not an end in itself but valued because it provides a better framework for people to pursue fuller and more satisfying lives. This is particularly apparent when it channels part of the higher level of resources that accrue from economic and social success into increasing the quality and length of life of people whose health, age, severity of disability or other circumstances render unable to hold employment of any type. Irish society at large should take pride when its welfare state lifts the burden of caring for people in such circumstances from their families and provides the health and caring services, the living arrangements, social supports and — where necessary — institutionalisation that allow people compromised in exercising their personal autonomy to live their lives with dignity.

In fourth place, the developmental welfare state is the expression and institutionalisation of genuine and respectful interdependence between the several pillars and multiple actors, among whom collaboration is indispensable if the required high levels of social protection across Irish society are to be forthcoming. Ireland has traditionally had a welfare state that is highly reliant on non-public bodies which government has learned to incentivise, guide and support in making their contributions to public social goals. Historically, this arose because extremely limited state resources made it impossible to develop satisfactory social protection otherwise. In the Developmental Welfare State, a transformed and refined public administration is instrumental in enabling sets of actors to form networked systems through which the needed levels, quality, diversity and responsiveness of services are forthcoming. Space is deliberately created for social innovations — on

the part of public and private bodies — in order to ensure that the Developmental Welfare State continues to change in line with the needs and potential of the population it serves.

The Council is committed, through its own work programme and close working relationships with other bodies, to refining and implementing the objectives and principles for Ireland's social policies and welfare state which are outlined in this study.





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