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The Irish Benefit System: Inputs and Outcomes

Published recently on www.publicpolicy.ie by Paul Redmond, The Survey of the Irish Benefit System 2012 helps put public spending on social transfers into a wider context. The Survey breaks down our benefit system into its constituent programmes and analyses each in terms of their cost to the government, the numbers in receipt of the benefit, how rates have changed over the last number of years, and how rates and eligibility compare with corresponding benefits in the UK system.

Social payments were valued at around 22% of GNP in 2011. At 37% of government expenditure, social payments are the single largest government outlay. In 2011, we spent €28.1 billion[1] on social payments. Around 1.4 million people were estimated to be in receipt of some form of regular payment, with 2.1 million people benefiting from these payments when qualified adults and children are included.

Given the scale of the benefit system, it is important to understand how this money is spent. In 2011, over half of the money spent by the Department of Social Protection went to people of working age, a further 30% went to older and retired people and 15% was aimed at children. This composition is markedly different from what we experienced during the boom years, when unemployment was between 4% and 5% and thus transfers to working aged people were far lower and spending on pensions and children predominated.

Not only has the composition of social expenditure changed since the boom period, but the rates at which benefits are paid out have changed also. In response to the recession, rates have been cut down to 2007 levels for jobseekers, one-parent families, and those on disability. However, both contributory and the non-contributory state pensions have been left unchanged in nominal terms since 2009. In real terms, the contributory pension is 8.9% greater than in 2007 and the non-contributory pension is 8.4% higher.

Price developments have played an important role in the real change in benefits over recent years. Falling price levels in 2009 and 2010 meant that a single euro of benefit payment went further in 2011 than in 2009, and dampened the negative impact of cuts in the rate of benefits in 2010 and 2011. This of course assumes that the price level faced by the country as a whole has changed in line with the price level that is faced by those receiving social payments. The creation of price indices for separate income groups would shed light on the real purchasing power of a euro of benefit payment and

[1] This figure is greater than the budget of the Department of Social Protection as it includes social payments on education, scholarships and prizes, redundancy payments, payments of medical goods supplied to households by pharmacists and transport services for children.

represents an avenue of future research. Regardless, the return of price inflation in 2011 has meant that even those benefits for which nominal rates remain unchanged will start to see a deterioration of their purchasing power over time.

Another issue that is highlighted in the Survey is the disparity between rates of benefit in Ireland and the corresponding rates in the UK. For instance, the maximum rate of weekly unemployment benefit in Ireland is €188.00, compared to €81.00 in the UK. The first caveat when interpreting these rates is the difference in the cost of living between Ireland and the UK; Eurostat calculations for 2010 show that the Irish price level is roughly 20% higher than the UK price level. Even with this adjustment, Irish weekly unemployment benefits are more than twice the UK rate. The second caveat is that the gap between us and the UK should not be assumed to be a negative aspect of the Irish system. Social payments are designed to be redistributive, but the extent to which they transfer income from the haves to the have-nots is essentially a societal preference.

Effectiveness of Social Spending

This raises the question of just how well our benefit system performs at its assigned task of reducing inequality. The Survey provides us with our inputs in to the system – the different amounts being spent on different programmes – but the outcomes of our benefit system are less well understood.

One way of looking at the effectiveness of our social benefit system is to see how well it corrects our society's underlying income inequality. A 2010 Eurostat publication, *Income and Living Conditions in Europe*, measures income inequality of both original income (pre-tax income gained from employment or from investments) and gross income (original income plus any social benefits received) using European data available for 2007. The change in the level of inequality between these two measures of income is therefore an indicator of how well the social benefit system is performing.

Inequality is measured using the Gini coefficient, whereby a higher score indicates greater levels of inequality. Ireland's distribution of original income is the second most unequal of the 24 European countries included in the study, with a Gini score of 47.2 compared to an average of 39.3. When income from social benefits are included, Ireland's score improves dramatically by 20% to 37.7, compared with an average of 34.6, and we move from second last place to eighteenth in the rankings. Ireland's score means it is still more unequal than the average, but the improvement of the Gini score is among the highest in the sample. The only countries who post a higher rate of improvement are Sweden (20.7%), Finland (21.7%), Norway (22%) and Denmark (27%).

Comparative figures from the OECD (only available up to 2007) show that Ireland ranks 21st out of 25 European countries in terms of social expenditure as a percentage of GNP. And yet the money we do spend would appear to be relatively quite successful at reducing inequality.