Independent research, challenging inequality and promoting a flourishing society

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RE: TASC Briefing for the Budgetary Oversight Committee

As part of this year's budgetary consultation process, TASC makes recommendations based on research it has conducted and its areas of competence. To increase the social resilience of Ireland and to maintain its economic prosperity, TASC recommends:

- An increase of spending on social housing by €1.1 billion
- An allocation to publicly provided childcare of €200 million

Among the revenue-raising mechanisms, the following could be adopted:

- Raise revenue of €1billion by reducing pension tax relief to 20%
- Raise €294 million by adding a 3rd rate of income tax for incomes above €120k.

<u>Need for greater social provision</u>

The recovery of the Irish economy from post-crisis stagnation presents the government with policy options that did not exist in the immediate aftermath of the crisis. Though being a high-income country, there are several areas of social deficit that need to be addressed. In particular, because lower-income groups earn so little of their income through the labour process, they have to rely on a system of government transfers to make ends meet. The level of social provision in Ireland is low, as many services which are publicly provided elsewhere are provided privately in Ireland. In this regard, TASC recommends increasing the level of social provision so as to increase the living standards of lower-income groups. Targeted interventions in areas such are childcare will also increase the employment rate, which would help raise labour income of the less well-off. Reducing property costs would enable businesses in lower margin and lower pay sectors to more easily raise the earnings of their workers. A longer-term strategy should put greater emphasis not only on increasing labour income indirectly but also enable the workforce to bargain for greater pay directly, in those sectors that can afford to pay more.

In terms of distribution, the share of income that accrues to middle-income groups is remarkably similar across countries. In particular, groups below the top 10% and above the bottom 40% tend to receive about 55% of national income in all countries in the EU (TASC, forthcoming). Figure 1 below show the income sources of the top and bottom groups in Irish society. Ireland is compared to other successful small, open economies and the UK. The countries are arranged in order of increasing inequality as measured by the ratio of the top 10% to the bottom 40%.

	Finland	Belgium	Sweden	Netherlands	Austria	Denmark	Ireland	UK
Income 10%								
Labour	0.79	0.84	0.79	0.84	0.78	0.78	0.77	0.80
Capital	0.13	0.07	0.07	0.07	0.07	0.15	0.06	0.05
Transfers 10%								
Received	0.08	0.09	0.14	0.09	0.15	0.07	0.17	0.14
Paid	0.35	0.30	0.35	0.38	0.35	0.40	0.29	0.32
Income 40%								
Labour	0.42	0.39	0.52	0.59	0.52	0.50	0.25	0.34
Capital	0.10	0.02	0.01	0.02	0.01	0.01	0.01	0.03
Transfers 40%								
Received	0.48	0.60	0.47	0.39	0.46	0.49	0.74	0.62
Paid	0.17	0.16	0.18	0.24	0.18	0.28	0.04	0.12

Table 2.2: Components of household equivalised disposable income per person by income group.
Source: TASC calculations based on EU-SILC microdata 2016.
Note: Income, especially capital income of the top 10% suffers from large underreporting.

What is striking about Ireland is that the top 10% simultaneously pays the least and receives the most in transfers out of all the countries. Transfers received comprise mostly state transfers such as old age pension, unemployment benefit, family and children allowances, and others. The largest component for the top 10% is family and children allowances. This reflects Ireland's fertility rate, which is the highest of the eight countries. Transfers paid comprises taxation, especially the category 'tax on income and social insurance contributions'. The low share of transfers paid by the top 10% in Ireland reflects the low levels of social insurance contributions.

For the bottom 40%, Ireland is an outlier. For most countries labour income comprises a significant share of income. Labour income is close to half of pre-tax income in many cases. In Ireland it is only a quarter. Even the UK, the most inegalitarian country listed, the bottom 40% earn just over a third of their income through the labour market. The low share of income gained through the labour process in Ireland is predominantly due to the prevalence of very low and relatively low pay. Ireland also has a low employment rate, including among women.

The flipside of weak earning power through the labour market is high levels of transfers received, and also low levels of transfers (taxes) paid. Again, this is what we see in Ireland. The bottom 40% receive almost three quarters of their income in transfers from the state and pay just 4% of their income in transfers. The unusually weak earning power of workers in the lower parts of the income distribution means that they are dependent on the state for transfers and can only contribute little to the public coffer lest they live in poverty.

Given the benefits of universal welfare in that payments that benefit society at large tend to be less stigmatising to the poor, redistribution from the top 10% through reducing state supports is not desirable. What is desirable is an expansion of universal provision in other areas, including childcare, housing, and healthcare. This would also have desirable knock-on economic effects.

Deficits in social provision

Childcare

Childcare provision is currently being discussed at both a national and a European level. The European Pillar of Social Rights has included the provision of childcare services as one of its 20 principles. Furthermore, the European Commission has proposed a work life balance directive, and as part of this are looking at parental leave and childcare services. Ireland's childcare provisions have also come under scrutiny from the EU commission in 2016, having recommended that there needs to be an improvement in the provision of quality, affordable full-time childcare. Access and quality of childcare services depend both on how the sector is regulated and the support parents receive from the state and employers regarding childcare, including flexible working hours, subsidies, and local provision.

Childcare and early years' education is privatised; approximately 70% are for profit and approximately 30% are community creches that are privately governed by organisations. Childcare providers tend to be small, and many are one-woman operations, with high levels of precarious employment. While large chains do exist, they occupy a small percentage of the childcare sector. Childcare fees in these centres and creches are not controlled, making costs very expensive for parents. According to Pobal, 'the cost of full-time childcare has increased. The average cost of full-time childcare (per week) has increased from 167.03 euros to 174.16 (4.3%)'. Furthermore Pobal found that, 'fees are higher in affluent areas than in deprived areas (205.56 and 153.32 respectively), higher in urban areas than rural areas (182.76 and 158.84) and higher in private services than community services (181.52 and 154.89)' (2017, p. 7).

As well as the social benefits, increasing access to affordable childcare would also have desirable economic effects. Most directly, it would help raise the employment rate of women, a disproportionate number of whom are low-paid or do not participate at all in the labour process. NESC (2015), for instance, lists a lack of affordable childcare as among the central impediments to raising the employment rate.

In particular, TASC recommends increased investment for the childcare and early years' sector Public investment in early childhood education was 0.1 per cent of GDP in 2013, and the OECD average was 0.8 per cent of GDP. The government should aim to increase investment up to UNICEF's international target of 1 per cent of GDP.

Housing

Home ownership has continued to fall, and in 2016 this figure stood at 68 per cent nationwide. Meanwhile the private rental sector has continued to grow. This trend is illustrated by the following table:

Table: Tenure types, 2006-2016

	2006	2011	2016
Owner occupied	73%	70%	68%
Rented from private landlord	10%	19%	18%
Rented from a Local Authority	7%	8%	8%
Rented from a Voluntary Body	3%	1%	1%
Occupied free of rent	1%	2%	2%
Not stated	3%	1%	3%

Source: CSO

During the recession, rental prices decreased significantly. However, since the recovery, these patterns have completely reversed and rental prices are now almost reaching Celtic Tiger levels (for existing tenancies), or have already exceeded these levels (for newly advertised properties).

According to government figures, there are nearly 92,000[1] people on the social housing waiting list. Rather than building more social housing, government social housing policy is directing public money to private landlords primarily through the HAP scheme, (and also RAS). And this is also adding to the pressure on the private rental sector. According to the government's recent *Rebuilding Ireland* progress report, just over 19,000[2] social housing properties were delivered in 2016. However, as the table below demonstrates, most of this figure is made up of HAP, RAS and leasing:

Final Social housing output 2016

Type of social housing	Total number of accommodation delivered
HAP	12,075
RAS	1,256
Leasing	792
Refurbishments	2,308
Acquisitions	1,959
Builds	665
Total	**19,055**

Out of the 19,055, only 665 were new builds. This has a negative knock on effect for the private rental sector because people on the HAP scheme still have to find the rental property themselves, making them private tenants rather than local authority tenants. Consequently, many people who should be living in local authority housing are being forced to rent in the private rental sector; the lengthy waiting list gives many no alternative but to apply for HAP, and when they do they are removed from the waiting list. While such schemes are aimed to assist low-income families, not all of them guarantee a security of tenure (Hearne and Murphy, 2017).

As well as having obvious adverse social consequences, rising property prices also has undesirable economic effects. Dublin now ranks as one of the most expensive cities in Europe, for which its property sector plays a significant role. This puts pressure on Ireland's ability to

[1] https://www.housingagency.ie/Housing/media/Media/Publications/Summary-of-Social-Housing-Assessment-Needs-2016.pdf
[2] www.housing.gov.ie/housing/social-housing/social-and-affordble/overall-social-housing-provision

attract FDI. Rising property costs also put pressure on smaller businesses, including in areas such as the hospitality sector, where margins are often low. Addressing Ireland's dysfunctional property system, in addition to reducing intermediate costs more generally, would allow greater space for employer's to increase wages or lower-to-middle income workers.

TASC thus recommends increasing the supply through capital investment in social housing. There should also be support for the emergence of businesses or agencies that could build housing for rent at a reasonable price, and be in a position to control their costs and to support their access to finance at a reasonable cost. Fundamentally, a carrot and stick approach is needed so that the decisions in relation to the type of housing that is going to be provided are not exclusively made by the developers. TASC therefore recommends public investment in social housing amounting to €1.1billion. A longer-term solution would entail adopting a cost rental model as outline by Healy and Goldrick-Kelly (2017), for instance.

Health

Access to healthcare services is an important issue, and universal healthcare needs to be prioritised. While we welcome the work that has been done so far by the all-party parliamentary committee, (established in 2016), and the subsequent report released in 2017, it hasn't progressed any further.

As TASC's report revealed, (Living with uncertainty: the social implications of precarious work, 2018) precarious workers are unable to afford GP costs, yet are not covered by the public system. According to Connolly and Wren (2017), of those reporting an unmet healthcare need in Ireland, 59% attributed this to affordability, particularly in relation to GP care. Burke and Pentony (2011) identified three main groups who access the Irish health system: those with medical cards, those with private health insurance and those who have neither. The latter are the people who are the most disadvantaged. Connolly and Wren (2017) also make similar conclusions, also arguing that this group is made up of people who have a low income but who are just above the income threshold.

For those who are on a low income and who live with their family, the means-test assesses the income of the household, which can also preclude them from being eligible for a medical card. As long as we have a means-tested medical card system in place, it means that there will always be sections of the population who just miss the threshold. The only way to avoid this is through universal healthcare coverage.

There are many different types of universal healthcare models. While it is outside of the remit of this document to recommend a particular type of universal healthcare model, on the basis of our research, it would need to include free primary care services, with a particular emphasis on GP care. It is this much needed healthcare service that precarious workers have reported as having to avoid because of affordability issues. The Slaintecare Report is a well-researched and thought out document that embodies the elements that are necessary for a fully-functioning universal healthcare system in Ireland that is free at the point of access. This report also includes provision for universal primary care services in Ireland. We welcome this and also recommend the roll out of a universal primary care service.

TASC welcomes the free GP care scheme for the under 6s and we call for further investment with the aim of full universal GP coverage. While we have not costed for this, we wanted to highlight this as an important area for further investment.

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