The Collins Institute

The Enabling State

CITIZEN FOCUSED WELFARE REFORM

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Welfare Reform Series: Paper 1

THE COLLINS INSTITUTE

The Collins Institute is a political think tank.[1] It is supported by Fine Gael but operates independently of it.

The Institute's name recognises the crucial role which Michael Collins[2] played in the creation of the Irish state and the special position which he occupies in the affections of many citizens today. Collins has been variously described by current Fine Gael members of the Government as "the father of Irish democracy" (Michael Noonan); an "ideas person, as much as a soldier and a political leader" (Simon Coveney); and a man who "has given us a compelling inheritance of politics and leadership as they should be" (Enda Kenny).

The Institute is examining how a new, more Just Republic might be established in Ireland as we approach 2022, the centenary of both the founding of the state and the death of Collins. By Just Republic we mean a modern citizen focused republic which is built around two key Fine Gael propositions: its long held belief that Ireland must become a fairer and more Just Society;[3] and its more recent calls for the creation of a New Republic in our country "where trust is restored in our democratic institutions."[4]

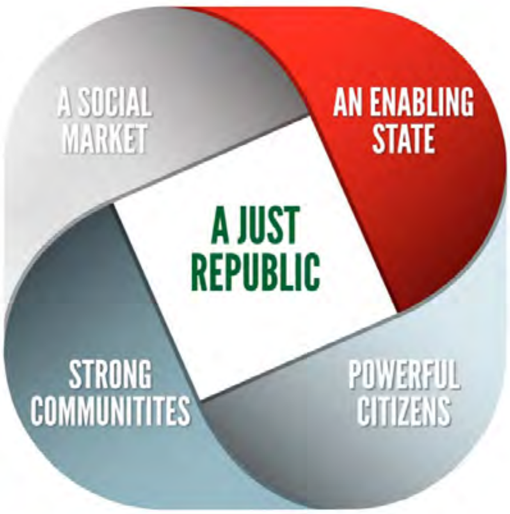
In seeking to explore these ideas the Institute will focus on four key pillars of any modern republic:

- **Powerful Citizens:** In our view the key goal of public policy in any republic should be to create fully empowered individuals who, with the right supports and capabilities, can exercise as much control over their own lives as possible, either as individual citizens or as part of wider communities.
- **A Social Market:** The Institute will examine a range of policy options which can help deliver both a full employment economy and a more just society in Ireland, the two core building blocks of any fair and efficient economic system.
- **An Enabling State:** Public services in a modern welfare state should be judged by the extent to which they help enable and build the capabilities of its citizens, particularly the most vulnerable, and facilitate the provision of cost effective localised and personalised delivery wherever and whenever possible.
- **Strong Communities:** The Institute will suggest different ways to support the growth of a wide range of communities and organisations across Ireland, taking into account the various and differing challenges facing rural and urban citizens, and the potential impact of new virtual communities supported by social media.

As part of its work the Collins Institute has also identified six key principles which we believe can help support the creation of a Just Republic in Ireland. Our starting point is Fine Gael's Just Society document and the three fundamental principles which it promoted: ***Freedom*** of the individual, ***Equality*** of opportunity and social ***Solidarity***. In examining the possible architecture of a Just Republic the Institute will also focus on three more modern principles which were largely ignored during the Celtic Tiger: institutional ***Accountability***, economic ***Sustainability*** and ***Subsidiarity*** within government.

All papers published by the Institute are intended for discussion purposes only and do not represent Fine Gael policy.

Figure 1: The Just Republic



1 The Institute's launch document - *The Just Republic* (December, 2014) - can be accessed at www.collinsinstitute.ie.

2 Irish revolutionary leader and Minister for Finance who became Chairman of the Provisional Government and Commander-in-Chief of the National Army in 1922. He was killed in an ambush in August of the same year during the Irish civil war.

3 2015 is the fiftieth anniversary of the publication of Fine Gael's 1965 manifesto, *Towards a Just Society*.

4 Fine Gael's *New Politics* document, published in 2010.

1. THE ENABLING STATE: WELFARE REFORM IN A JUST REPUBLIC

The creation of the welfare state was one of the great achievements of the 20th century. Across Europe a range of different welfare systems helped lift millions out of destitution, provided education and healthcare to those who could not afford it, and created an essential safety net for society during periods of recession.

But while these achievements cannot be underestimated it is also clear that the traditional model of the welfare state – particularly in Ireland - is now under significant pressure. A combination of an ageing population, increased expectations and a more polarised jobs market is raising significant questions about its long term sustainability. At the same the demand from many citizens for a greater say in how services are delivered to them is undermining the overly centralised, command and control approach to welfare which has dominated since the Second World War.

Over the last few years the Irish Government has introduced a series of reforms which have started to make the Irish welfare state both more active and responsive. In our view the goal over the longer term should be to build on these reforms to create a new and more proactive Enabling State, as part of the creation of a much more citizen-focused republic in Ireland. A state which is focused on improving the Social Capability of its citizens, so that they can reach their full potential, instead of the rather passive idea of Social Security (where the state provides an essential safety net but does very little to actually change people's real prospects within society). The principal task of the Enabling State should be to manage a network of different providers - state, private and social - to deliver services in a way which improves the capabilities of its citizens within the constraints imposed by the public finances.

Our thinking about the need for a proactive Enabling State has been informed, in part, by the United Nation's 1967 definition of social welfare:

> "Social welfare as an organized function is regarded as a body of activities designed to enable individuals, families, groups and communities to cope with the social problems of changing conditions. But in addition to and extending beyond the range of its responsibilities for specific services, social welfare has a further function within the broad area of a country's social development. In this larger sense, social welfare should play a major role in contributing to the effective mobilization and deployment of human and material resources of the country to deal successfully with the social requirements of change, thereby participating in nation-building."[5]

A report from the UK based 2020 Public Services Trust has argued that three key "shifts" are required in order to create the kind of system which can deliver such a proactive welfare system:

1. **A shift in culture.** "Public services must engage and enrol citizens, families, communities, enterprises and wider society in creating better outcomes as partners. The state, market or society alone cannot achieve this. So our goal must be a new culture of democratic participation and social responsibility."

   This report argues that the Irish welfare system must be made much more citizen focused with Social Enterprises, for instance, playing a greater role in service delivery.

2. **A shift in power.** The traditional, over centralised approach "cannot deliver the integrated and personalised public services that citizens need. We need to invert the power structure, so that services start with citizens."

   We recommend that there should be a shift in the focus of welfare policy from Redistribution (policies which seek to reduce inequality and poverty through social transfers and taxation) to Predistribution (policies which tackle the underlying causes of poverty and inequality). While the former remains essential much more needs to be done to tackle the root causes of inequality within society, particularly by focusing on the challenges posed by Jobless Households.

3. **A shift in finance.** "It is time to reconnect the financing of public services to their purposes, levering existing and new resources to improve the outcomes that they achieve." The Commission suggests that public service financing needs much greater transparency; a new methodology that focuses on outcomes; a new partnership model of financial support; and new financial instruments to "provide new sources of money and increase effectiveness."[6]

   We suggest that the Contributory principle, which holds that benefits should be more related to payments, should play a much stronger role in the Irish welfare system.

5 http://web.hku.hk/~hrnwlck/introsocwelfare/welfareconcepts.htm
6 2020 Public Services Trust, *From Social Security to Social Productivity*, 2010.

Any reformed system must also, in our view, be built around the key principle of Solidarity - the idea that all of us as citizens have both rights and responsibilities. On the one hand, the Enabling State has a clear duty to protect its most vulnerable citizens and to help strengthen their capabilities so that they can exercise more control over their own lives. On the other hand, the Enabling State should also insist that citizens have an obligation to do everything they can to become both more independent and self-sufficient, and to open up service delivery to as many different types and forms of provider as possible.

Recommendations

The Collins Institute is publishing three separate papers on welfare reform, including this report. Future papers will examine other key issues in welfare policy, such as the role which education policy can play in improving welfare outcomes, and new ways in which business can help people back into work. We will also examine how public policy can best tackle multi-dimensional poverty in Ireland by focusing on individuals and families who are experiencing multiple levels of deprivation through low income, bad health, poor education, etc.

Paper 1

This paper identifies some of the key reforms which we believe are needed to empower citizens within the Irish welfare system.[7] Its key recommendations are:

- We propose that that the Department of Social Protection's Intreo Service should become more localised and be given much greater flexibility. The OECD has argued that one of the key challenges facing the delivery of welfare in Ireland is its limited flexibility at local level. We recommend that all offices be asked to suggest new and innovative ways in which to tackle the problems of long term unemployment and Jobless Households, working in close cooperation with local businesses, communities and CSOs (Civil Society Organisations). A similar-type scheme in Germany gave all successful applicant offices more flexible budgets.
- The Social Enterprise Sector, both profit and non-profit, should play a much stronger role in the Irish welfare system, driven in part by the issuance of Social Impact Bonds and the creation of a Social Action Fund. Ireland's Social Enterprise sector is relatively small by international standards.
- A Single Assessment Tool should be rolled out across government with the goal, among other things, that welfare clients need only need submit their information once. That information should then be used, with all essential safeguards in place, by any authorised agency or body from which the client wishes to receive a service.

This paper also argues that welfare policy in Ireland has focused too much on Redistribution and too little on Predistribution.[8] Its key recommendations are:

- Full employment, which typically means an unemployment rate of 6% or below, should be a key goal for the next government, building on the current Government's very successful *Action Plan for Jobs*. OECD analysis has confirmed that Ireland's taxation and welfare system has been very successful in maintaining European levels of Net Income Inequality. However, Market Income Inequality (Income Inequality before transfers and taxation) has increased, largely driven by unemployment. Falling unemployment should have a positive impact on inequality over the next few years.
- Ireland's In Work Benefit system should be reformed further to help ensure that working families are always better off in work than on welfare. Various measures to reduce possible poverty traps, including a smoothing of the tax system so that individuals and families on low to middle pay do not face "undesirable jumps" in the marginal effective tax rate as they return to work or improve their hours, should be considered.

Paper 2

Our second paper, entitled *Jobless Households*, argues that the next Government should deliver an evidence based ***Action Plan for Jobless Households***, as part of an overall strategy of making work pay and reducing the impact of intergenerational poverty.[9] The goal should be to reduce the rate of Jobless Households in Ireland to the European average within a decade at most. Any such plan should, at a minimum, address the following key issues:

- Jobless Households and Disability;
- Jobless Households and Childcare;

7 See Section 2 of this paper.
8 See Section 3.
9 Our analysis is summarised in Section 4 of this paper.

- Jobless Households and NEETs (young people Not in Employment, Education or Training) and
- Jobless Households and Geography.

Paper 3

Our third paper, *The Contributory Principle*, argues that Ireland should deliver further long term reforms of the welfare system by directly ***Linking Benefits to Contributions*** in two distinct stages:[10]

- **Stage 1: Introduce Tapered Benefits.** This is essentially a reform of the current welfare system; and
- **Stage 2: Integrate Welfare around Personal Welfare Accounts.** This would require a much more significant reform of the existing model of welfare.

10 See Section 5 for a summary.

2. CITIZEN FOCUSED WELFARE: GREATER LOCALISM AND MORE FLEXIBILITY

The Irish welfare state is one of the most centralised in Europe. Historically, it has been underpinned by a rather passive and paternalistic approach to service delivery, with citizens essentially receiving what others think is good for them. It is an approach which has ended up, all too often, disempowering the very people which it seeks to help. We believe that this model is incompatible with any notion of a citizen-focused republic and should be replaced by a more devolved approach which localises welfare delivery to the maximum extent possible. CSOs generally and Social Enterprises in particular should also play a much more significant role in service delivery than is currently the case.

Local Welfare Delivery

The OECD has argued that one of the key challenges facing the delivery of welfare in Ireland is its limited flexibility at local level. This lack of local control is a particular problem for any strategy which seeks to tackle the issue of Jobless Households, given that the rate of joblessness varies significantly by geography. In order to address this issue we have included below a series of proposals to make local services much more flexible and to give Social Enterprises a much greater role in service delivery.

A More Localised and Flexible Intreo Service

Intreo is a relatively new service from the Department of Social Protection which acts as a single point of contact for all employment and income supports. We propose that its local offices should be given much more control and flexibility, following the model developed by the German "Perspective 50 Plus" plan. This plan identified two strategic priorities:

- Tackling the challenge of long-term unemployment of older workers; and
- The need for greater involvement of local stakeholders in tacking this problem.

Rather than mandating a specific approach, the Ministry of Labour and Social Affairs launched a call for proposals from all 453 job centres across the country. Sixty-two employment pacts with 93 joint agencies or local authorities (job centres) were chosen. The successful projects received a total of €250 million in grants to implement their ideas and schemes. Subsequent evaluations of this initiative have been very positive indicating that the programme managed to re-integrate substantial numbers of long-term unemployed workers (in excess of 22,000 in 2 years). Evaluations of the programme have pointed to three elements that were identified as key drivers of success: a) a relatively free budget; b) a regional and local approach; and c) high flexibility of the instruments.[11]

We propose that a similar type scheme be rolled out across Ireland's network of Intreo office, working closely with local agencies, businesses and CSOs. As in Germany successful applicants should be given more flexible budgets. However, we recommend that the concept should be expanded beyond the long term unemployed and be used to help deliver innovative new policies to reduce Ireland's exceptionally high rate of Jobless Households. It should focus, in particular, on three groups besides the long term unemployed:

1. NEETS;
2. People with Disability; and
3. Single Parents.

However, it is clear that any increased flexibility at local level will also require at a minimum:

- A reduction in the ratio of clients to case officers which currently stands at around 500:1; and
- A reporting system which will allow the performance of local offices, with respect to specific targets, to be assessed.

We also propose that a Single Assessment Tool should be rolled out across government with the goal, among other things, that welfare clients need only need submit their information once. That information should then be used, with all essential safeguards in place, by any authorised agency or body from which the client wishes to receive a service. Such a system will, in our view, help ensure that a more decentralised system can work as efficiently as possible

11 See, for instance, www.oecd.org/employment/leed/37729545.pdf.

Developing the Social Enterprise Sector

With their combination of social and economic goals, we believe that Social Enterprises are potentially well placed to reach out to marginalised groups of citizens at local level. In the UK, for example, social enterprises are very heavily concentrated in its most deprived communities: 38% of all social enterprises work in the most deprived 20% of communities compared to 12% of traditional SMEs. Not surprisingly, the Action Plan for Jobs has also identified Social Enterprise as an opportunity sector within Ireland.

It is estimated that there are 1,420 Social Enterprises in Ireland employing 25,000 people with a total income of around €1.4 billion.[12] However, while these numbers may appear impressive they are relatively low compared to other countries. Social Enterprises in Ireland account for 0.75% of the SME sector. In the UK, by contrast, there are approximately 70,000 Social Enterprises accounting for 6% of the SME sector. Research has also shown that while the Social Enterprise sector in other European countries represents 7% of GDP, the relevant figure in Ireland is less than half that amount.[13]

We believe that one of the best ways in which to further develop the Irish Social Enterprise sector is through the rollout of Social Impact Bonds and the creation of a Social Action Fund.

Social Impact Bonds: Under this model investors fund the costs of an individual welfare project or service, with clearly identified social targets, and are paid back based on the outcomes achieved. The evidence from the UK and elsewhere suggests that this approach can deliver positive results.[14]

The Government has already tasked Clann Credo, the Social Impact Investment Fund, with managing Ireland's first social impact investing project. It is focused on replacing private emergency accommodation for families who are homeless in the Dublin region with sustainable tenancies. However, while this is an important step forward, we believe that the concept of Social Bonds should be rolled out in a much more comprehensive manner. We propose that the Department of Social Protection establish a Social Innovation Fund to test new social investment and delivery models to help reduce Jobless Households in Ireland. It should be 100% based on payment by results and be commissioned by open competition. External investment of up to €25 million should be sought initially, supporting a range of different Social Impact Bonds.

A Social Action Fund. In a previous report the Collins Institute called for the Government to publish a national strategy for volunteering.[15] As part of this strategy we recommend that the Government create, as in the UK, a Centre for Social Action to support and grant aid programmes which encourage both formal and informal volunteering at a local level, working closely with Clann Credo. In the UK the Centre provides funding in the form of grants between £50,000 and £500,000 to local social enterprises with the potential of national scaling. The grant is managed in a similar way as a venture capital investment with additional non-financial support provided as required.

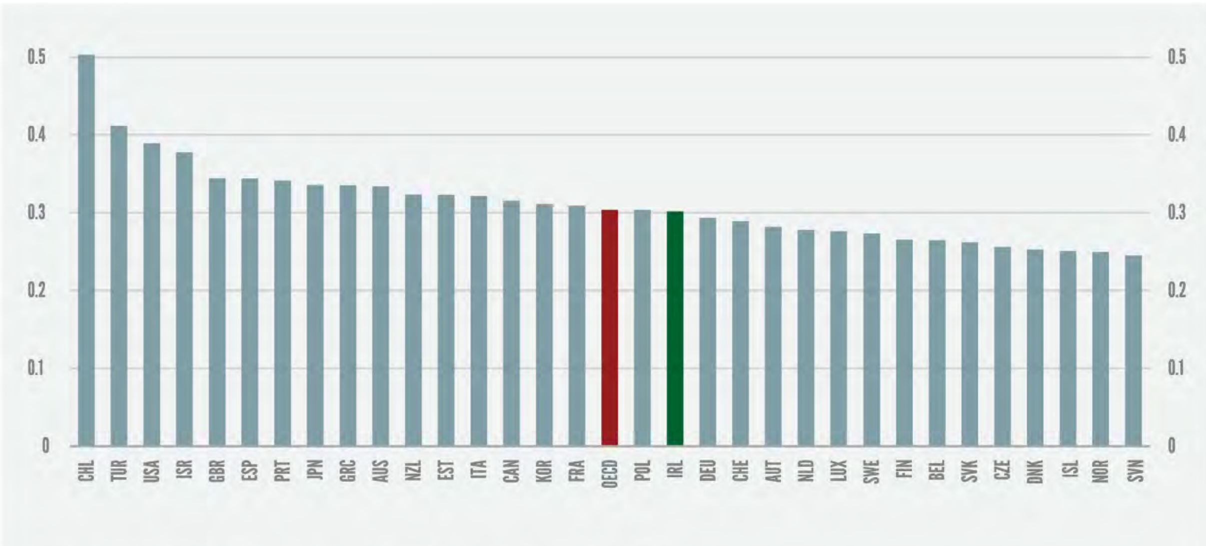
12 Forfas, *Social Enterprise in Ireland*, 2013.
13 Speech by Minister Sherlock at the Launch of New Social Enterprise Initiative Mentor Iontach Nua
14 Collins Institute, *Citizen Government, 2015.*
15 Ibid.

3. TACKLING INEQUALITY: FROM REDISTRIBUTION TO PREDISTRIBUTION

Perhaps the most remarkable feature of Net Income Inequality in Ireland – by which we mean the distribution of income after taxation and welfare transfers - is its relative stability. Global inequality has been rising for the past twenty to thirty years, prompting organisations such as the OECD to warn about its potentially negative consequences for the global economy.[16] In Ireland, by contrast, the Gini[17] coefficient for Net Income Inequality has roughly ranged between 0.30 and 0.32 over the last two decades, with the odd exception like 2009 when it improved to 0. 288. Given that there is some sampling variation in measuring the Gini, "it would be difficult to reject the null hypothesis that it is unchanged from year to year (apart from occasional year on year changes such as 2008-2009)."[18]

The level of inequality in Ireland is not just stable. It is also slightly better than the OECD average, as Figure 2 shows. This finding is backed up by another measure of inequality - the S80/S20 ratio.[19] The most recent figure for this ratio in Ireland was 4.5 compared to the European average of 5.0.[20] As importantly, recent data also suggests that Ireland's distribution of wealth is "roughly average with other developed countries."[21]

Figure 2: Inequality in Ireland



1. With 0 = perfect equality and 1 = perfect inequality. *Source: OECD Income Distribution Database*

The role played by Ireland's taxation and welfare system in helping maintain European levels of equality in Ireland cannot be underestimated. A recent analysis of Ireland's income distribution before taxation and welfare payments (also called Gross or Market Income) confirms that it is the most unequal in the OECD.[22] Ireland has only been able to generate average European levels of Net Income Inequality because of a very progressive system of welfare and taxation, which transfers significant amounts of income from the better off to the worse off in society. While Market Income Inequality increased during the recession, "owing to the dramatic rise in employment losses", Net Income Inequality "did not rise."[23] In recent years only Portugal has been able to make such a large impact on inequality through redistribution.[24] A key driver of this very progressive result has been Ireland's tax system, which imposes a significantly lower tax burden on the low paid, compared to other countries, and a tax take which

16 OECD, *In It Together: Why Less Inequality Benefits All*, 2015.
17 The Gini coefficient is the most commonly used measure of income inequality. The coefficient varies between 0, which reflects complete equality and 100, which indicates complete inequality (one person has all the income or consumption, all others have none.
18 David Madden, irisheconomy.ie, *Inequality in the Irish Context*, 30 July 2014. See also by the same author: *Winners and Losers on the Roller-Coaster: Ireland, 2003-2011*, WP13/15, September 2013.
19 The S80/S20 (the 'inequality of income distribution – income quintile share ratio') is the ratio of the total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income. The higher the ratio, the greater the inequality.
20 European Anti Poverty Network, *Inequality*, 2015.
21 OECD *Economic Surveys: Ireland* 2015.
22 Tasc, *Cherishing All Equally*, 2015.
23 OECD *Economic Surveys: Ireland 2015.*
24 ESRI, *The Distribution of Income and the Public Finances*, July 2014.

is close to the OECD average for the higher paid. Figure 3 shows the tax burden borne by individuals earning 67% of median wages across the OECD.

Figure 3: Low Taxed for the Low Paid

Much the same result can be seen when one measures relative poverty in Ireland. In 2012 Ireland's rate of at-risk-of-poverty (before social transfer) was 39.3. After social transfers it was 15.7, below both the EU28 and EA17 average which were both at 17.0. The conclusion seems obvious:

> ***"Ireland has the most successful tax and transfer system at reducing poverty in the EA. It brings us from worst in class to below the EU average."[25]***

However, while the Collins Institute believes that a progressive taxation and welfare system must be at the heart of any Just Republic, it is clear that tackling inequality and poverty through redistribution is simply not sufficient. Market Income Inequality must also be directly tackled for two key reasons:

- First, high Market Income Inequality suggests that large sections of our population are simply unable to look after themselves financially, severely limiting their ability to participate fully in society as equal citizens. This is confirmed by social mobility[26] statistics for Ireland which show that mobility "is limited at both the low and high ends of income distribution..."[27]
- Second, high levels of social transfers are placing very significant pressures on Ireland's welfare system, raising serious questions about its sustainability over the longer term, particularly as the population ages.

A recent review of a century of anti-poverty policies in the UK and other countries has confirmed that redistribution policies alone cannot tackle deep seated problems of inequality or poverty. Instead it argues that policies which focus on "predistribution" must be at the heart of "future strategies to reduce poverty and inequality."28

Tackling the Causes of Inequality and Poverty

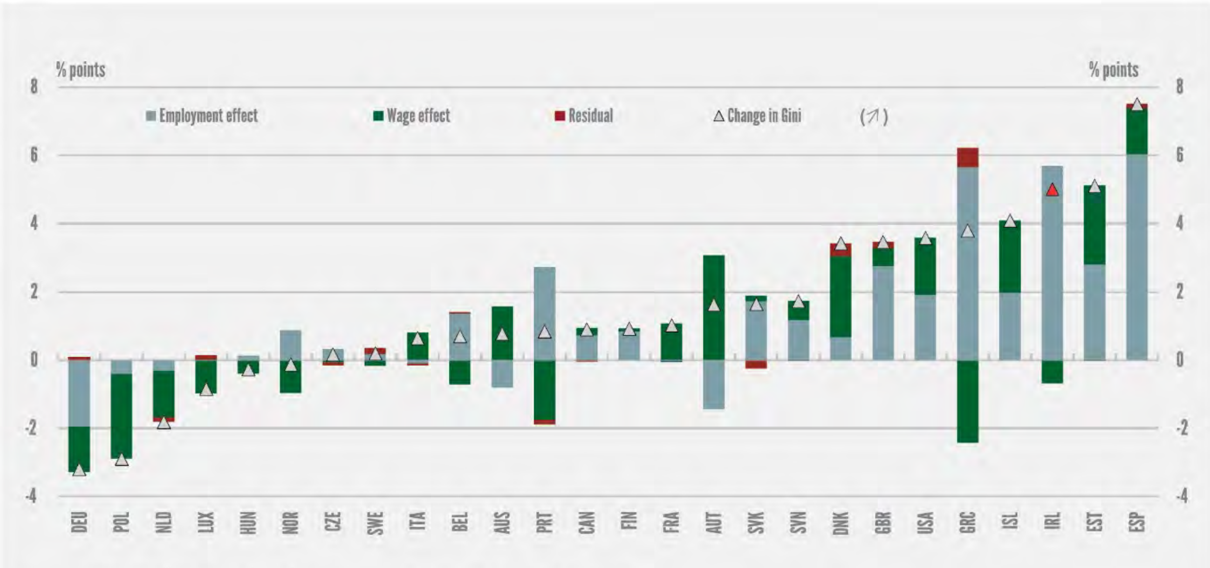
Predistribution, at its simplest, is about tackling the underlying causes of poverty and inequality – and not simply addressing their symptoms through additional or greater social transfers. It requires the creation of a truly Enabling State which empowers its citizens, so that that they have the necessary tools and skills to look after themselves to the maximum extent possible. Our analysis suggests that predistribution policies in Ireland should focus on three key areas.

25 Seamus Coffey, *Butchering Poverty Statistics*, 8 October 2014.
26 The probability of individuals changing income group over time.
27 See OECD *Economic Surveys: Ireland 2015.* See also Dan O'Brien, *Independent*, 10 Dec 2015.
28 *The Smith Institute, From the Poor Law to Welfare to Work*, 2012. The Smith Institute is a progressive, left of centre think tank based in the UK.

Towards Full Employment

A recent OECD report has concluded that Ireland's "high structural unemployment and low labour-market participation results in large groups of households being left without labour income and relying almost exclusively on social transfers to make ends meet."[29] Its analysis shows that recent increases in Market Income Inequality were driven largely by employment effects. Figure 4 presents the percentage impact on GINI rates of three different drivers.

Figure 4: Inequality and Unemployment



Source: OECD (2015), "In It Together: Why Less Inequality Benefits All", Chapter 3, Figure 3.2

The good news is that unemployment in Ireland is below 9% for the first time since 2008. As importantly, the Government is targeting a return to full employment during the next Oireachtas supported by a range of new activation measures, strong growth and a comprehensive Action Plan for Jobs. The ESRI has confirmed that full employment, which is generally defined as an unemployment rate of 5-6% or below, is achievable by 2020.[30]

Job Polarisation: Making Work Pay

Various analyses have identified increasing polarisation within the jobs markets of developed countries as a major source of Market Income Inequality. A polarised or U-shaped jobs market is one where jobs which either require greater / lower skills are created at the higher / lower end of the wage scale, while jobs which require moderate skills are in decline in the middle. This divergence in performance can be explained as follows:

- ***High End.*** A host of factors, including globalisation and the digital revolution, are driving higher paying job creation in certain sectors of the global economy where skills are both mobile and specialised (financial services, IT, professional sorts, etc.).
- ***Low End.*** At the same time more jobs are being created in service industries, such as caring and hospitality, which tend to be lower paying and often involve non-standard work arrangements, e.g., temporary or part time contracts.
- ***Mid End.*** Finally, new technology generally and robotics in particular is reducing job creation in the middle, e.g., in car manufacturing and engineering. It has been estimated that the introduction of driverless cars, for instance, could directly reduce the number of jobs in the US by 3 million alone.[31] In 2013, researchers at the Oxford Martin School predicted that in the next two decades 47% of US jobs would be in danger of being lost to automation, while the McKinsey Global Institute research suggests that 140 million knowledge workers worldwide are at risk of the same fate.[32]

29 OECD *Economic Surveys: Ireland 2015.*

30 See comments by John Fitzgerald, *thejournal.ie*, 8 October 2014.

31 Chris Johns, *Irish Times*, 31 June 2016. The 3 million figure is a gross figure. It does not take into account new jobs which may be created or other benefits such as better fuel consumption or potentially lower accident rates.

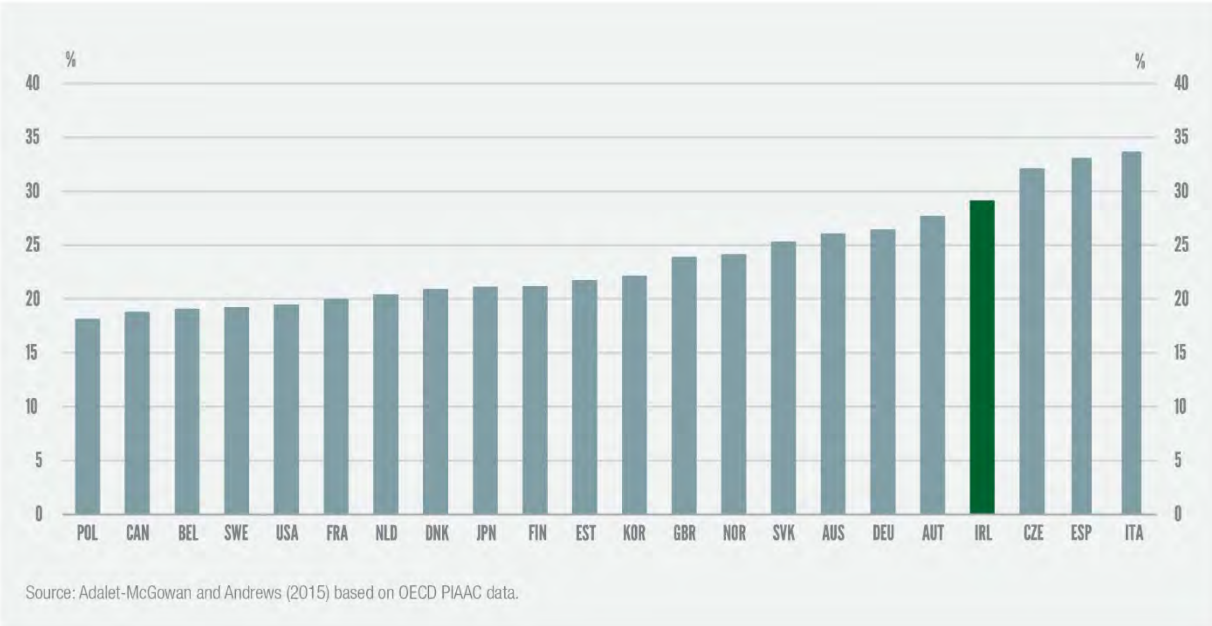
32 Paul Mason, *Guardian*, 1 February 2005.

It is clear that Ireland is already experiencing the direct impact of polarisation. "Labour's share of national income has declined in Ireland, as it has in many other OECD countries, largely reflecting technological changes." Indeed, the country's success in attracting multinational enterprises has increased "the reward for high skills and the penalty for poor skills."[33]

While it is vital that Ireland's overall competitiveness is not compromised by unjustified pay increases, it is important that the minimum wage helps address the challenge of low pay. However, raising the minimum wage by itself will not address the structural issues which underpin low pay in Ireland. Systemic reform is also required, in two key areas:

1. Ireland's In Work Benefit system should be reformed further to help ensure that working families are always better off than on welfare. The Irish welfare and tax system, according to the OECD, "does a generally good job at supporting those on lower incomes, but a side-effect of the system is that the beneficiaries of social transfers may face high effective marginal tax rates upon return to work, or when they want to increase their hours."[34] Its most recent report contains a series of recommendations to reduce possible poverty traps, including a smoothing of the tax system so that individuals and families on low to middle pay do not face "undesirable jumps" in the marginal effective tax rate as they return to work or improve their hours. The report argues that this can be done without raising the average effective tax rate.
2. There is ample evidence that the skill base of many low paid Irish citizens is weak. Indeed, Ireland has one of the highest skill mismatches of any OECD country (see Figure 5).[35] The skills gap index is computed based on the gap between the proportion of the low, medium and high skilled in the working population and the corresponding proportion in employment. The Government has responded with supply side measures such as funding a number of new targeted skills programmes that support jobseekers to reskill and upskill for areas where sustainable employment opportunities are emerging (e.g. Springboard, Momentum, ICT Skills, Conversion Programmes). The Collins Institute will offer additional proposals in this regard in a future paper dealing with Education Reform.

Figure 5: Ireland's Skill Gap



33 OECD, *Economic Surveys: Ireland, 2015.*
34 Ibid.
35 Ibid. See also Accenture, *Closing the Skills Gap in Ireland*, 2013.

4. JOBLESS HOUSEHOLDS: IRELAND'S BIGGEST WELFARE CHALLENGE

Jobless Households are, according to the most common definition used, households in which no one under 60 is in employment.[36] Household joblessness, as a measure of economic in activity, is calculated using the CSO's labour force survey and differs from traditional measures of unemployment in two important ways:

- It includes people who do not have a job but may not be formally be categorised as being unemployed, e.g., carers or those who have an illness or disability; and
- It takes into account whether other adults in the same household are also out of work.

The number of Jobless Households has consistently been much higher in Ireland than in other European countries, even during the boom, suggesting that there are deep-seated structural problems which have never been adequately addressed. In 2014, for instance, 16% of children and 14% of adults under the age of 60 lived in a Jobless Households in Ireland (the second highest level in Europe), compared to an EU-15 average of 11% for both adults and children.[37] This gap between Ireland and the rest of the EU is crucially important because research very clearly indicates that household joblessness is "a major risk factor for poverty and welfare dependency" generally, and has a major negative impact on intergenerational poverty and Irish child poverty rates in particular.[38] Any strategy to tackle the underlying causes of poverty in Ireland cannot, in other words, succeed unless it also directly and comprehensively addresses the challenge posed by Jobless Households.

It is also clear that jobs growth will not by itself solve the problem, unless some of the disincentives and barriers to key groups of people getting back to work are tackled, e.g., the lack of affordable childcare and the potential impact of income supports being removed as people take up a job. In a 2014 report, for instance, the ESRI examined the impact on individuals within a Jobless Household by looking at what is called the "replacement rate", i.e., the ratio of out-of-work income to in-work income. "While a high ratio is positive in terms of the income support function, it reduces the financial gain from employment." Its work showed that there is "a strong contrast between unemployed individuals in jobless and non-jobless households. Unemployed individuals in the former are more than 2½ times more likely to face a high replacement rate (over 70 per cent) and 3½ times more likely to face a very a very high replacement rate (over 90 per cent)."[39] A more recent report concluded that the rate of Jobless Households in Ireland was likely to decline much more slowly than the decline in the unemployment rate as the economy strengthens.[40]

Not a New Problem

The challenge of Jobless Households is, unfortunately, not a new one. The ESRI, as far back as 2003, was warning that individuals in such households would, if action was not taken, "become increasingly detached from the labour market as their connections with social networks of employed people breakdown, leading to long spells of unemployment and persistent non-employment at the household level."[41] Its warnings were largely ignored:

> "Between 2004 and 2007, a period of very low unemployment and rapid jobs growth, the share of the State's households defined as jobless recorded a double-digit increase to reach 15% of the total."[42]

A 2012 NESC analysis identified the following risk factors for Jobless Households:

The Householder

- Has never worked
- Is in the unskilled manual/service social class
- Has no educational qualifications
- Is living in rented accommodation
- Has a disability

36 A second definition is based around the idea of low work intensity, where a household is considered jobless if the total time in work in the past year by all working-age adults, excluding students, is less than 20% of their working time

37 The Central Statistic's Office Survey of Income and Living Conditions (SILC) in 2011 suggested that nearly one quarter of households in Ireland could be described as jobless based on their work intensity.

38 Economic and Social Research Institute (ESRI), *Transitions Into and Out of Household Joblessness, 2004 to 2014*, September 2015. See also the evidence given by the National Economic and Social Council (NESC) before the Joint Oireachtas Committee on Education and Social Protection, 15 January 2015.

39 ESRI, *Welfare Targeting and Work Incentives*, 2014.

40 ESRI, 2015.

41 ESRI, *The Dynamics of Household Joblessness in a Booming Economy*, 2003.

42 Michael Hennigan, *One Quarter of Irish Households Jobless*, 19 June 2014.

The Household Type

- One-person household
- Lone-parent household[43]

A later report also pointed to the complex and diverse nature of jobless households:

> "Children make up nearly one-third of those in jobless households. About one-fifth are unemployed, 18% are in home duties and 12% are sick or disabled. A further 13% are students over sixteen or are adults who are otherwise inactive in the labour market."

The risk of being in a jobless household was, NESC stated, also related to:

- **Employability.** Those who live in jobless households are more likely to have no educational qualifications, to have never worked or to be in the unskilled social class.
- **Geography.** Jobless households are not equally distributed throughout the State, reflecting variations in unemployment and participation in the labour market at regional and local level, and between and within counties and towns. Thus, any response will require a spatial dimension with a role for local organisations and communities.
- **Household structure.** Individuals at risk of joblessness are more likely to be renting their accommodation, to be single or parenting alone, and to either have a disability or to live with someone with a disability.[44]

Recommendations

Given the complexity of Jobless Households we believe that the right way to respond to the challenge is for the next Government to put in place a comprehensive, evidence based Action Plan for Jobless Households. Any such plan should, at a minimum, address the following key issues:

- Jobless Households and Disability
- Jobless Households and Childcare
- Jobless Households and NEETs, and
- Jobless Households and Geography

The goal should be to reduce the rate of Jobless Households in Ireland to the European average within a decade at most (see Paper 2 for detailed recommendations related to each of these areas).

43 NESC, *Jobless Households: An Exploration of the Issues*, June 2014
44 Ibid.

5. THE CONTRIBUTORY PRINCIPLE: LINKING BENEFITS TO CONTRIBUTION

Most European social welfare systems impose some link between benefits paid and contributions made. This so called "contributory principle" was also at the heart of the proposals which William Beveridge, the father of the UK welfare state, produced in 1942 and which had an "immediate" impact in Ireland.[45] Welfare, he proclaimed, should provide "benefits in return for contributions, rather than free allowances from the State..."[46] Beveridge knew full well:

> "that unless any welfare system is based on the contribution principle – citizens pay in and earn the benefit as their due desert – the principle of welfare soon gets degraded. The more taxpayers contribute, the more they will ask if welfare beneficiaries really deserve what they are receiving…
>
> Philosophers and psychologists now recognise what Beveridge knew in his bones: that human beings intuitively believe we are all, to some extent, responsible for our actions – the sentiment that the anti-welfare state brigade tap when they want to differentiate between the deserving and undeserving poor. The only way to trump that thinking is a system of social or national insurance, which the … left has been as guilty as the right in allowing to be abused as just another tax."[47]

The Contributory Principle in Ireland

The potential importance of social insurance, which embodies the contributory principle, was addressed by the Commission on Social Welfare in 1986:

> "We regard the system of social insurance as an expression of social solidarity and citizenship in which the risks, costs and benefits should be shared as widely as possible in the community. Social insurance creates a sense of entitlement to benefits and generates support among the public for their benefits …In our view, the system of social insurance should be as comprehensive as possible, and all income earners should contribute to, and benefit from, the system." [48]

A later review in 1996 noted that social insurance had to be based around two principles, both of which create a healthy tension within any welfare system:

- "The Contributory Principle whereby there is a direct link between contributions paid or credited and entitlement to a varying range of benefits which are payable, if and when particular contingencies arise; and
- The Solidarity Principle whereby contributions paid by insured persons are not actuarially linked to benefits at the individual level but can be redistributed to support other contributors. It is therefore an expression of solidarity between different earning groups and different generations."[49]

It is clear that the Irish approach has tended to promote the latter at the expense of the former with the result that Irish welfare system has, as Minister Burton has stated, become "somewhat divorced from this contributory principle."[50] There is, as a consequence, very little reciprocity in many key parts of Ireland's welfare state. For example, people who are employed for a long time but have lost their jobs, and people who have never worked, are entitled to broadly similar levels of assistance.

The lack of reciprocity in Irish welfare is problematic for two key reasons:

1. There is a risk that higher earners will, over time, become increasingly sceptical of a system where they contribute the great bulk of funds – through both taxation and PRSI – but receive relatively little back (compared to their contributions) when they find themselves requiring assistance. Irish people have traditionally been much more positive about social welfare than their British neighbours. However, developments in the UK should serve as a warning to those who, like the Collins Institute, believe that a strong social welfare system is a key part of any Enabling State. Opinion polls have been charting a slow but gradual decline in support for the welfare system in the UK for well over a decade.[51] By contrast, the evidence suggests that welfare systems, where there is some link to contributions, tend to be much more "resilient"[52] as they are perceived to be fairer.

45 Adrian Kelly, *Social Security in Ireland, 1922-52*, PhD Thesis, Department of Modern History, St Patrick's College, 1995.
46 Social Market Foundation, *Beveridge Rebooted: Social Security for a Networked Age*, 2013.
47 Will Hutton, *Guardian*, 23 October 2010.
48 Quoted in Department of Social and Family Affairs, *Developing a Fully Inclusive Social Insurance Model, December*, 2014.
49 Ibid.
50 Joan Burton, *Welfare in a Time of Austerity*, Tom Johnson Summer School, 2 July 2012.
51 Six in ten people in the UK think that benefits are "…too high and discourage [the unemployed] from finding jobs", more than twice the proportion that thought the same thing 20 years ago. Policy Exchange, A Welfare Manifesto, 2014.
52 Ian Mulheirn, *Guardian*, 26 May 2013.

2. Any decline in support for the welfare system in Ireland would be deeply problematic given that demands on the welfare system are likely to increase as our population ages. The last Actuarial Review of the Social Insurance Fund (SIF), which is carried out at five yearly intervals, found that the Fund in 2011 had a shortfall of approximately €1.5bn. This deficit was forecasted to double to €3.0bn by 2019 based on forecasts at the time. In the medium to long-term, pension related expenditure is projected to become the predominant component of Fund expenditure, rising from 57% in 2011 to 85% in 2066. [53] In the absence of major reductions in expenditure significant additional subventions will be required to meet ongoing requirements, either in the form of tax increases or increases in PRSI income.

Recommendations

In order to strengthen the role played by the Contributory Principle a third paper, published with this report, recommends that benefits should be linked much more directly to contributions, in two distinct stages:

Stage 1: Introduce Tapered Benefits. This is essentially a reform of the current welfare system; and

Stage 2: Integrate Welfare around Personal Welfare Accounts. This would require a much more significant reform of the exiting model of welfare.

53 2010 Actuarial Review of the Social Insurance Fund.

6. CONCLUSION: NOW IS THE TIME FOR MAJOR WELFARE REFORM

Welfare reform is not easy. While this may seem like an obvious statement it has profound implications for how any welfare system should be changed. In particular, it suggests the need for a phased approach to reform which allows for learning at each stage of the process. Too many vulnerable citizens depend on welfare for any Government to take on a major reform project without both comprehensive policy preparation and robust project management.

But while reform may be difficult and should not be undertaken lightly, the experience of many other countries suggests that properly managed change can deliver significant benefits to the individual citizen, their families and local communities. Moreover, no one should be in any doubt about the cost of maintaining the status quo: vulnerable citizens unable to alter their life chances in any meaningful way, and a welfare system which will simply not be sustainable over the longer term.

The Collins Institute is strongly of the view that the best time for welfare reform is when unemployment is falling, as is currently the case, but more work is still required to bring the economy back to full employment. Welfare reform is, for obvious reasons, extremely difficult to implement when unemployment is high and jobs are scarce. What is not always recognised, however, is that meaningful change is also very difficult to introduce when an economy is at full employment. The temptation in these circumstances, as happened during the Celtic Tiger when little or no reform was introduced, is to throw money at problems and to avoid tackling the underlying issues. It is vital, as Ireland returns to strong growth and reaches full employment over the next few years, that the country does not make the mistakes of the past.

The Collins Institute is convinced that major phased reform, which seeks to tackle the systemic and structural weaknesses of the current system, can deliver a new model of welfare which is sustainable and citizen focused; which is focused on tackling the causes of poverty; and gives individuals and families much more control over how their services are both financed and delivered. The goal, in our view, should be nothing less than the creation of a welfare system which is fit for purpose in a modern, 21st century Just Republic.

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