

**NESC REPORT NO. 61**

**IRISH SOCIAL POLICIES: PRIORITIES FOR  
FUTURE DEVELOPMENT**

**Price: £2.20**



***nesc***

National  
Economic and  
Social Council

An Chomhairle  
Náisiúnta Eacnamíoch  
agus Sóisialach

**Irish Social Policies:  
Priorities  
for  
Future Development**

No. 61

July 1981



**NATIONAL ECONOMIC AND SOCIAL COUNCIL  
CONSTITUTION AND TERMS OF REFERENCE**

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Taoiseach on their application. The Council shall have regard, *inter alia*, to:

- li) the realisation of the highest possible levels of employment at adequate reward
- lii) the attainment of the highest sustainable rate of economic growth
- liii) the fair and equitable distribution of the income and wealth of the nation,
- liiii) reasonable price stability and long-term equilibrium in the balance of payments,
- lv) the balanced development of all regions in the country, and
- lvii) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

3. Members of the Government shall be entitled to attend the Council's meetings. The Council may at any time present its views to the Government, on matters within its terms of reference. Any reports which the Council may produce shall be submitted to the Government and, together with any comments which the Government may then make thereon, shall be laid before each House of the Oireachtas and published.

4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council,

*Ten* persons nominated by agricultural organisations,

*Ten* persons nominated by the Confederation of Irish Industry and the Irish Employers' Confederation,

*Ten* persons nominated by the Irish Congress of Trade Unions,

*Ten* other persons appointed by the Government, and

*Six* persons representing Government Departments comprising one representative each from the Departments of Finance, Agriculture, Industry, Commerce and Tourism, Labour and Environment and one person representing the Departments of Health and Social Welfare.

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5. The term of office of members shall be for three years renewable. Casual vacancies shall be filled by the Government or by the nominating body as appropriate. Members filling casual vacancies may hold office until the expiry of the other members' current term of office and their membership shall then be renewable on the same basis as that of other members.

6. The Council shall have its own Secretariat subject to the approval of the Taoiseach in regard to numbers, remuneration and conditions of service.

7. The Council shall regulate its own procedure.

# NATIONAL ECONOMIC AND SOCIAL COUNCIL

## *Irish Social Policies Priorities for Future Development*

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## Summary

### Chapter 1: Introduction

The Council has issued two reports on the question of universality and selectivity in social policy. These indicated that distinguishing between social services solely on the basis of eligibility is simplistic: one must also take account of how services are financed and which groups actually benefit from social expenditure. This report is an attempt to state the principles which should guide the development of social policy in the light of the distributive consequences of the existing policies.

### Chapter 2: The Aims of Social Policy

Social policies are concerned with the distribution of resources, status, opportunities and life chances among social groups. The social services are the most visible, but not the only instruments of social policy. The effects of the taxation system are particularly important.

It is useful to consider welfare as having three dimensions:- social welfare: services provided from public expenditure; fiscal welfare: the allowances and deductions provided within the taxation system, and occupational welfare: the non-pay benefits provided by employers for employees, generally subsidised through the taxation system. The three dimensions of welfare interact yet they have tended to develop independently.

The Council suggests that social policy should pursue certain aims: the reduction of inequalities of income and wealth; the elimination of inequalities of opportunity; the provision of employment for those seeking work; the provision of access for all to certain specified services; the development of citizenship.

In the light of these aims three principles should guide the development of social policy: first, the distributive consequences of existing and proposed policy developments should be taken into account by policy-makers; second, the interaction of the three dimensions of welfare as well as of individual policies should be considered and, third, the manner in which services are provided should encourage recipients to participate in normal social life as equal citizens.

In addition, the adequacy of services provided should be continually reviewed by reference to average levels of expectation in the community and to international standards.

### **Chapter 3: Social Expenditure Trends**

Increased social spending does not necessarily imply progress towards the achievement of social policy goals. Public funds are scarce relative to the demands for social expenditure and should therefore be allocated in accordance with social priorities.

Social expenditure represents a large proportion of public spending, which has been growing significantly in recent years. Taxes and other revenue have not kept pace with this growth and as a result the level of Government borrowing, including foreign borrowing has risen substantially. The abolition of domestic rates and motor taxation removed sources of substantial revenue, while the provision of tax incentives to the corporate sector and tax allowances to income tax-payers removes a considerable proportion of the community's taxable capacity.

Proposals to increase tax revenue should be assessed by reference to their distributive consequences for different groups and the likely response of tax-payers to their imposition.

The Council identifies a number of factors underlying increased social expenditure in recent years. Their continued influence requires that expenditure programmes and taxation policy be monitored for their efficiency as well as for their adequacy and equity.

### **Chapter 4: Universality and Selectivity Reassessed**

Services are usually classified as universal or selective on the basis of whether or not they are provided following a means-test. This is inadequate, since the source of finance and the actual utilisation of services must also be considered. The distribution of the tax burden is of key importance in determining the selectivity of any service. Indirect taxes are generally considered to be regressive, i.e. bearing proportionately more heavily on lower income groups. Services which are available free of charge to the whole community may be used disproportionately by higher income groups and, in view of the lack of progression in the tax system, this entails a regressive subsidy.

Fiscal welfare benefits higher income groups most because the value of tax allowances increases with rising marginal tax rates. Furthermore, higher income groups are more likely to have expenditures which attract

tax relief. Occupational welfare, including pension and sick pay schemes, are more common in the case of higher income employees.

Arguments in favour of and against means-testing in the social services are discussed. Difficulties which arise from the practical administration of means-tests are also discussed. The distributive effects of the taxation system which finances social services may, in some circumstances, frustrate the intention of channelling resources to those in need through means-testing.

Greater selectivity is required in distributing the net benefits of public spending programmes but this can be achieved only after examination of the distributive consequences of the funding and utilisation of services and of the effectiveness and efficiency of services in reaching those in need.

### **Chapter 5: Conclusions and Recommendations**

Priority in the future development of social policy should be given to the redistributive impact of policies, in particular by ensuring that the net benefits of direct and indirect transfers are concentrated on those most in need.

The distributive consequences of all proposals for change in expenditure and taxation programmes should be published by the Government. Adequate information about the distribution of income and wealth in the country should be gathered as a matter of urgency.

A number of recommendations are made concerning the issues which the Council believes should receive priority within the principal social services, on the basis of available evidence.

On fiscal welfare, it is considered that the options in regard to the integration of the tax and transfer systems outlined in NESC Report No. 37 still merit detailed examination. The benefits of tax allowances should not flow disproportionately to the higher income groups as at present.

A number of recommendations are made with regard to means-testing in the delivery of services, in order to minimise the difficulties to which it gives rise. The impact of means-tests and other aspects of services on users of services should be continually reviewed by the responsible agencies. It is recommended that a working party be established by the Government to examine how the recommendations on means-testing in

this report might be implemented.

The pursuit of social policy aims in times of economic difficulty requires a willingness to share resources, through taxation and other means, and political leadership to develop that willingness. The wider discussion of the issues raised in this report: the direction of social development and the requirements for a more equitable society, is necessary in order to promote action in their pursuit.

## CHAPTER 1

### INTRODUCTION<sup>1</sup>

#### Background to this Report

1.1 The Constitution and Terms of Reference of the Council provide that it has as its main task the provision of "a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice". The Council must have regard *inter alia*, to:

"the fair and equitable distribution of the income and wealth of the nation . . ."

1.2 The definition of social policy adopted by the Council in furtherance of its terms of reference is that suggested by Professor Donnison in his study, *An Approach to Social Policy*:

"social policies are those actions (of Government) which deliberately or accidentally affect the distribution of resources, status, opportunities and life chances among social groups and categories of people within the country, and thus help shape the general character and equity of its social relations."<sup>2</sup>

1.3 The Council has prepared a number of reports on the extent to which particular policies have influenced the distribution of resources and opportunities between different groups and categories of people.<sup>3</sup>

<sup>1</sup> Following discussions in the Social Policy Committee a first draft of this Report was discussed at a seminar in December 1980 attended by persons engaged in the formulation and analysis of social policy. Successive drafts were prepared by Dermot McCarthy of the Council secretariat following discussion in the Social Policy Committee and the Council.

<sup>2</sup> NESC Report No. 8 *An Approach to Social Policy*, (Dublin, 1975).

<sup>3</sup> See: *Income Distribution: A Preliminary Report*, NESC Report No. 11; *Educational Expenditure in Ireland*, NESC Report No. 12; *Some Aspects of Finance for Owner-Occupied Housing*, NESC Report No. 16; *Rural Areas: Social Planning Problems*, NESC Report No. 19; *Report on Housing Subsidies*, NESC Report No. 23; *Towards a Social Report*, NESC Report No. 25; *Some Major Issues in Health Policy*, NESC Report No. 29; *Universality and Selectivity: Strategies in Social Policy*, NESC Report No. 36; *Integrated Approaches to Personal Income Taxes and Transfers*, NESC Report No. 37; *Universality and Selectivity: Social Services in Ireland*, NESC

1.4 Besides commissioning a number of studies of particular issues – such as income distribution and educational expenditure – in the light of the framework provided by NESC Report No. 8 *An Approach to Social Policy*, the Council decided to examine the more general issues of social policy development, particularly the principles which should govern social policy in Ireland. An issue which became increasingly debated was whether the growth of social expenditure might be contained and its efficiency increased by greater selectivity in the provision of services. The Council was aware of the dangers which could result from acceptance of a crude distinction between universal and selective services. To assist in the clarification of the distinction, the Council asked Mr Mike Reddin, Lecturer in Social Administration at the London School of Economics to prepare a background study of the issues involved. This study was published as NESC Report No. 36 *Universality and Selectivity: Strategies in Social Policy*. The Council saw Mr Reddin's study as the next logical step in the development of the broad concept of social policy set out in NESC Report No. 8.

1.5 The Council published the study by Mr Reddin to support a wider debate on the issues involved in eligibility for and in the provision, finance and use of social services. It provided a framework whereby both the public and policy-makers could see individual changes in social services in a wider context and assess their full implication.

1.6 It is clear that there are two main dimensions to any assessment of the relative merits of universal and selective strategies and services:

- (i) what benefits are provided, to whom are they directed and to what extent are they used by those for whom they are provided;
- (ii) who pays for the costs of these benefits, how they pay and the distributive, incentive and other effects of the way in which the cost is met.

A subsidiary issue is that of time: how long are the services to be paid for and the benefits received, and what changes are likely as time passes in the composition of those who pay and of those who might benefit? In all these questions, it is difficult to distinguish the apparent and immediate effects of payments and benefits from their "true" or "ultimate" incidence. Ultimately it is not possible to resolve these issues without stating the values of the community underlying our welfare system: the ultimate criteria we use in allocating subsidies.

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Report No. 38; *Rural Areas: Change and Development*, NESC Report No. 41; *Alternative Strategies for Family Income Support* NESC Report No. 47; *Major Issues in Planning Services for Mentally and Physically Handicapped Persons*, NESC Report No. 50; *Urbanisation: Problems of Growth and Decay in Dublin*, NESC Report No. 55.

1.7 The conventional distinction between "universal" and "selective" services is whether or not they are provided following a means-test. Mr Reddin's report demonstrated that it is not possible to take a position for or against means-testing in the social services without answering a number of questions about the way services are funded and the pattern of their use by different groups. The many aspects of this issue point to the fact that simplistic use of the terms "universal" and "selective" obscures the debate about social policy strategies.

1.8 To supplement Mr Reddin's study, a detailed examination of the basis on which social services are provided in Ireland appeared to be necessary. The Council asked Ms Eithne Fitzgerald to examine the "universal" and "selective" aspects of Irish social services using, as far as possible, the framework provided by Reddin. Her detailed description of Irish social services – published as NESC Report No. 38 *Universality and Selectivity: Social Services in Ireland* – paid particular attention to take up rates, selection mechanisms and the problems and costs of providing the various services. The detailed description and analysis presented therein clearly supported the theoretical arguments in Reddin's study that "universality" and "selectivity" are frequently over-simplified terms. In conventional use, they focus attention on only one aspect – whether or not means-tests are used in providing the visible services of the public welfare system. Such a view ignores the issue of who pays for the benefits provided. It also ignores the question of who actually uses the services provided and so benefits from the expenditure involved. The concern with means-tests also overlooks the impact of indirect benefits e.g. the extent to which different groups are subsidised through the tax system.

1.9 The debate on universality and selectivity raises central questions of social policy: what should be the objectives of policy which would guide policy-makers in setting priorities for public expenditure;

what principles should govern the design of social services;

how do we establish priorities among different services;

how are services to be financed so that a real redistribution of resources occurs and the net benefits flow to those who are most in need;

and how is the effectiveness of services to be measured?

These are fundamental issues which require decision at a political level within the community.

1.10 The development of Irish social policy in recent years has been characterised by pragmatic piecemeal reaction to perceived needs, often those advocated by organised interest groups. There has been relatively little consideration of the principles which should inform the rational development of social policy. Some statements of general principles can, of course, be found in the Directive Principles of Social Policy contained in Bunreacht na hEireann and in international agreements to which Ireland has subscribed e.g. the European Social Charter of the Council of Europe. However, the basic issues in social policy have not featured prominently in political debate in this country. Furthermore, judgements on social policy depend crucially on ideological and philosophical assumptions about the merits and demerits of provision by the State and by the market respectively. In Ireland, as elsewhere, there are wide differences about where the boundaries of these two spheres should lie. The institutional arrangements for the provision of Irish social services have their origins, to a considerable extent, in the Poor Law. Despite the considerable development in the range and standard of social services, many of which were designed to eliminate Poor Law connotations, there has been no coherent social philosophy to guide policy-makers.

1.11 This report is concerned with issues in social policy development in the period ahead and not solely with current policies. However, the rapid growth in public expenditure, with attendant high and, in the opinion of many, unsustainable levels of public borrowing has tended to focus attention on ways of reducing, or at least containing expenditure, including expenditure on the social services. In the absence of a widespread understanding of the distributive impact of both public revenue and expenditure policies, attention is generally confined to the direct recipients of welfare under income maintenance programmes and to the direct beneficiaries of education, health and housing programmes. This reaction ignores the question of inequities which may arise in the raising of revenue – who really pays for the services – and the indirect benefits provided through the tax system. In reviewing our priorities for social policy development, issues arising from expenditure on the social services and eligibility for public services cannot be separated from issues of:

- who pays for that expenditure;
- how equitably that burden is distributed;
- the extent to which services reach those for whom they are intended;
- and the relative significance of the "visible" welfare programmes as against "hidden" or indirect welfare provisions.

1.12 A proposal for the adoption of either universal or selective strategies in social policy therefore, is not a technical issue concerned solely with the efficiency or effectiveness of means-tests but raises fundamental issues of a distributive nature. The Council does not have all the necessary information at its disposal to reach conclusions and make specific recommendations about priorities in social expenditure. Even if it had this information the selection of strategies for social policy is an essentially political act which involves political judgements as well as adequate information. The Council hopes that this report will help to clarify the issues involved in determining policy in this area. The questions of:

- how much should be spent on the social services;
  - what services should be publicly provided and for whom;
  - how much taxation should be raised, in what forms and at what rates;
- are basic political questions. The amount of poverty or inequality which can be tolerated and the importance attached to preserving incentives to work in policies to provide for those in need, depend upon the values of the community. These issues are at the heart of policy-making, whether on an annual basis as in the Budget, or on a more long-term basis. Relatively little public discussion of these issues has occurred in Ireland and the result has been an *ad hoc* approach to the development of social policy, with consequent anomalies and little analysis of the impact of policy.

1.13 In its reports on social policy issues, the Council has attempted to stimulate public debate about the objectives and consequences of Irish social policy and of particular social services. In particular, the two reports on universality and selectivity were published in an attempt to clarify the terms of one of the most important debates in the development of the social services. In this report, the Council is responding to the arguments outlined by Reddin and exemplified by Fitzgerald's survey of Irish social services. The report is, therefore, not simply a commentary on the use of means-tests in the social services but rather an attempt to place the arguments about eligibility for services within the broader context of the aims of social policy and of the distributive consequences of the provision of services.

1.14 In this report, the Council outlines its views on the nature of the choices involved in selecting universal or selective strategies in social policy and the principles which should inform that choice, in the light of the perceived aims of Irish social policy and the communal values which give rise to those aims. In providing a model of social service

provision, the Council believes that it is possible to assist the achievement of a more coherent approach to the future development of Irish social policy. The Council believes that the distributive consequences of policy and practice should receive greater attention than in the past and in this report, it presents some evidence on how these consequences differ from the objectives of social policy.

## CHAPTER 2

### THE AIMS OF SOCIAL POLICY

#### Nature of Social Policy

2.1 The definition of social policy accepted by the Council is that proposed by Professor Donnison,<sup>1</sup> and quoted in paragraph 1.2. Social policies are therefore concerned with fairness in the distribution of resources, status, opportunities and life chances among social groups. Almost all actions of Government have some implications for distribution in this sense and therefore almost all Government agencies and programmes can be assessed in terms of their contribution to the achievement of national social objectives.

2.2 Indeed, the concept of the modern welfare state embraces not only the extensive provision of social services to those in need but also the acceptance by Government, on behalf of the whole community, of a responsibility, at least in part, for the general well-being of the people. In this context, fiscal and monetary policies designed to facilitate the achievement of full employment are just as relevant to social policy as the provision of social security benefits. More obviously related to social policy aims is the framework of legal rights and obligations which underpin social relations and which serve to maintain the dignity of the individual. Nevertheless, particular public programmes, the social services: health, education, housing and welfare, have been regarded as of central importance for social policy since traditionally, they have been seen as the most visible instruments of achieving the distributive aims of Government. Their effectiveness in achieving these aims requires careful evaluation, particularly in the context of the distributive consequences of taxation policy and other less obviously social policies which may reinforce or negate the effects of services received by different groups in the community.

2.3 While recalling that all aspects of Government policy have distributive consequences, it is useful to discuss welfare in terms of three

<sup>1</sup>NESC Report No. 8.

salient dimensions: first, there are the benefits which derive from public expenditure on the social services, generally referred to as social welfare. Second, the tax allowances and deductions provided within the taxation system result in revenue foregone and the distributive effect of this sum on tax-payers is generally known as fiscal welfare. Third, there are non-pay benefits provided to employees by employers frequently with a subsidy through the tax system and these are generally referred to as occupational welfare.<sup>2</sup> This typology draws our attention to the fact that the objectives of social policy – distribution of resources, status, opportunities and life chances – can be achieved in a variety of ways. The legal system supports and develops the rights of individuals and groups, and is another important dimension to “welfare”. However, in this report the Council is concerned only with these three modes of welfare which are discussed in greater detail in Chapter 4. The concept of fiscal welfare is primarily concerned with the effects of tax allowances, such as relief on interest paid, life assurance premia etc. which are given to those taxpayers who claim them. These allowances moderate, at least in part, the progressivity of the tax system. Occupational welfare is a significant influence on the distribution of life chances between different groups in the community, particularly when considered over the life-cycle. Occupational groups differ systematically in the extent to which they benefit from occupational pension schemes and “fringe benefits” of all kinds, and the security with which these benefits are enjoyed. Occupational welfare forms part of total income and therefore varies as between occupational groups largely in line with pay differentials. The significance of occupational welfare for social policy derives: first, from the fact that many of the states of dependency which social policy aims to meet are also catered for through occupational welfare, e.g. sickness, retirement, and second, from the fact that the provision of occupational welfare is subsidised through the tax system. Therefore, the effects of occupational welfare must be taken into account when making an assessment of the impact of social policy.

### Rationale of Social Policy

2.4 Insofar as social policy objectives involve the transfer of resources in a conscious fashion by Government, social policy is a response to four factors:

First, a market economy of itself does not generate a socially acceptable distribution of income and other resources. Thus, the market does not guarantee an income for those unable to earn a living in the

<sup>2</sup>This typology was originally suggested by R M Titmuss, “The Social Division of Welfare”, in *Essays on the Welfare State*, (1958).

labour market, while the distribution of incomes generated by the market reflects the influence of institutional factors, of custom and accident whose results are perceived to be inequitable.

Second, the socially desirable level of provision of some particular goods and services and of their consumption by particular groups of people would not be achieved through the market. There are particular categories of goods for which the social costs and benefits differ from private costs and benefits. Thus, the enjoyment by all individuals of a certain level of income and their consumption of particular services e.g. health services, confers benefits, not only on the individuals concerned, but also on the community as a whole because poverty and ill health are social, as well as personal problems. Prices charged in the market generally do not reflect the value of these external, social benefits and therefore fewer resources are devoted to the production of these goods and services than is socially desirable. Furthermore, there are goods and services where the consumer is not in a position to judge the quality of service provided by suppliers, e.g. health services and therefore the consumption of these goods and services, if left to market forces, is likely to be less than optimal.

Third, the states of dependency in which people find themselves e.g. unemployment, illness, are social risks which are a hazard for all of the community and are not usually brought on by the acts or omissions of the individual. Many forms of dependency are imposed by society e.g. through compulsory retirement. Public policy can ensure that the burden of dependency is shared by the community as a whole.

Fourth, the concept of “citizenship” in Western European societies has developed from being seen as a legal status to membership of a political community which confers rights to participate in the well-being of that community, including social services provided as an expression of communal solidarity.

2.5 In response to these considerations, public social policy clearly includes taxation, both direct and indirect; transfer payments to particular groups; subsidies, including tax reliefs, on particular goods and services supplied in the market place; direct income support, and the direct provision of particular goods and services by the State. Social policy, and in particular the methods chosen to implement policy in Ireland, has been developed on an incremental and piecemeal basis when compared to that of many other West European countries. This has resulted in a highly complex set of interacting policies whose overall impact at any particular time is difficult to assess.

## Aims of Irish Social Policy

2.6 To ascertain what the precise aims of social policy are at any particular time is always difficult. The nature of the policy-making process is such that heavy emphasis is placed on balancing the demands of different interest groups for increased expenditure on programmes of particular concern to them. As a result of this pattern of development of social policies, their objectives are difficult to ascertain.

2.7 It is possible, of course, to ascertain the implicit aims of policy by inference from actual developments in the provision of services. An alternative approach is to examine the statements of Government and of individual Ministers about the social services which sometimes set explicit aims for specific services. Given that different interest groups have differing and sometimes conflicting views about policies, it may well be that agreement on the precise aims of social policy is considerably more difficult to achieve than agreement on the provision or expansion of particular services. In any event, better understanding of the effects of policy is likely to improve the quality of policy-making.

2.8 The development of national planning in Ireland in the late 1950s was marked by a concern to promote economic development, and in particular to reduce the level of unemployment and attendant emigration. It was the Government's view at the time that this required "deferring further improvements in the social services until a steady growth in real national income is well established."<sup>3</sup> Despite the apparent conflict between the requirements for economic growth and increased social spending, the pursuit of economic development, including policies for full employment, does of course, come within the concept of social policy stated in Chapter 1. The intimate connection between economic and social policy was explicitly acknowledged in the Third Programme for Economic and Social Development.<sup>4</sup> Noting that economic growth did not, of itself, cater for the needs of all members of the Community, the programme stated: "a rise in economic prosperity is of little value for its own sake; it is only valuable if it makes possible, and is used for, an improvement in the quality of life."<sup>5</sup> The principal social objectives identified in that Programme were the achievement of full employment and an equitable sharing in national progress by all sections of the community.

<sup>3</sup>*Economic Development* (1958), page 24.

<sup>4</sup>*Third Programme: Economic and Social Development, 1969-1972*.

<sup>5</sup>*Ibid.*, page 7.

2.9 Political parties generally contest elections on the basis of proposals for policy changes in accordance with their aims. These statements have formed the basis of action of Governments on their election over the past number of years and have frequently set out objectives for social policy. In the White Paper *Programme for National Development 1978-81* the Government re-emphasised that the creation of full employment is the primary social target.<sup>6</sup> In the same White Paper, three further elements of a comprehensive social policy were identified: first, the work of tackling inequalities, including inequalities of opportunity which can arise in the operation of the economic system; second, the encouragement of community development, creating a sense of community without which the value of many social and economic policies is diminished; and third, the development and administration of services which protect the rights and dignity of the individual and which are delivered with the greatest degree of simplicity consistent with proper management and control.

2.10 The aims of policy which are pursued at any time reflect the values accepted by policy-makers. In setting out what the aims should be, therefore, it is desirable to state the system of values from which they arise. The Council suggests that, in the Irish context, these values include belief in:

- the dignity and right to personal development of the individual;
- the value of bonds of mutual obligation between all members of the community;
- the importance of fair shares within the community, including in particular the right of access of all people to adequate income, housing, education and health services;
- and the securing of these rights within a democratic framework.

2.11 In the light of these value judgements and statements by Governments about social policy,<sup>7</sup> it is possible to suggest what the principal aims of Irish social policy should be:

- the reduction in inequalities of income and wealth by transferring resources to those in need and by equitably distributing the burden of such support;
- the elimination of inequalities of opportunity which arise from inherited social and economic differences;

<sup>6</sup>*Programme for National Development 1978-1981*.

<sup>7</sup>For a discussion of the implicit aims of social policy, see F Kennedy, *Public Social Expenditure in Ireland*, ESRI Broadsheet No. 11, (1975).



- the provision of employment for those seeking work;
- the provision of access for all, irrespective of income, to certain specified services;
- the development of services which make provision for particular disadvantaged groups in the community;
- the development of responsible citizenship based on an explicit recognition of the network of mutual obligations within the community.

The continual development and improvement of the social services may be seen as an inherent aim of social policy. Improvements in standards may not, however, improve access to services and their distributive effects require careful monitoring where substantial levels of expenditure are involved.

#### Reduction in Inequalities

2.12 The reduction of income inequalities can be pursued by redistribution through the taxation system (and social insurance contributions) and through transfer systems (social security and social assistance). The extent to which the interaction of these systems actually results in a narrowing of inequalities can be judged only following a careful examination of the net flow of resources to different groups in the community. The adequacy of payments to those dependent upon income maintenance services is one indicator of the reality of a commitment to the reduction of income inequalities. In his report for the Council, Professor Donnison<sup>8</sup> has identified five principal causes of inequality:

- (i) the life-time cycle of income, as families tend to be least well off when children are young and during old age;
- (ii) inherited class inequalities, which significantly determine life chances;
- (iii) urban-rural and inter-regional inequalities;
- (iv) intra-urban inequalities;
- (v) discrimination, on the grounds of sex, creed or some other characteristic.

Policies other than transfer of income through the tax/welfare system are necessary to counteract and eradicate inequalities arising from these causes. For example, incomes policies and the setting of minimum income levels have, with varying degrees of success, been employed

<sup>8</sup>NESC Report No. 8, Chapter III.

to reduce income equalities. Indeed, the basic premise of the National Committee on Pilot Schemes to Combat Poverty in Ireland was that "the elimination of poverty would involve long-term structural reform, requiring a redistribution of resources and power in society which implied basic changes in the social, economic and political systems."<sup>9</sup> The Council believes that "the equality to which it may be rational to aspire is not uniformity but a state of affairs in which differences due to taste, talent or luck are as nearly as possible randomly distributed."<sup>10</sup> The substantial reduction of inequality is thus the main aim of social policy and the redistributive activities by which it is expressed.

#### Inequalities of Opportunity

2.13 The reduction in inequalities of opportunity is primarily concerned with access to certain services which are of crucial significance to the quality of life: education, health, and to other desirable assets, such as housing and secure employment. The educational system plays a key role in the allocation of life chances and educational attainment is therefore of central importance to the attainment of equality of opportunity. Equalising access to the educational system, however, requires not only developments in the education services but also policies relating to the social and domestic circumstances of families which influence educational performance. Reducing inequalities of educational and economic opportunity therefore requires progress towards eliminating other dimensions of inequality.

#### Provision of Employment

2.14 In Irish circumstances, the provision of employment opportunities is the most important economic and social challenge facing the community as it has been for many decades. The labour force has been growing in recent years and the rapid growth which will occur over the coming years will exacerbate current difficulties arising from structural changes in the economy and international developments. Social policy operates to promote economic development and full employment in a variety of ways:

- the provision of education and health services aims to ensure that a healthy, literate, numerate and adaptable work force is available to take advantage of employment opportunities;
- housing services attempt to ensure that homes will be available for workers in appropriate locations;

<sup>9</sup>National Committee on Pilot Schemes to Combat Poverty, *Final Report*, page 79, (1980).

<sup>10</sup>NESC Report No. 8, page 32.

the linkages between economic and social development are explicitly made in the area of manpower policy where the orientation and content of educational, training, and rehabilitation services are specifically geared towards the perceived manpower requirements of the economy;

In a more general sense, it can be argued that the provision of a wide range of family support services, including income support, facilitates conventional employment arrangements and wage structures, which would otherwise be under pressure to take specific account of employees' family commitments.

In addition, the regulations applicable to the payment of many benefits reinforce incentives to work, insofar as payment is conditional on availability for work and willingness to accept suitable employment. The incentive to work is also maintained through the fact that important social insurance benefits can only be obtained by those who can demonstrate a record of employment. Given the likely increase in the numbers seeking employment in coming years the approach which has been relied on in recent times of seeking to increase employment primarily through expanding industrial and service activities may not be adequate to provide full, or near-full, employment. Circumstances may require the consideration of more radical approaches with a view to achieving an equitable distribution of available employment. Social policy-makers would be deeply involved in any such innovations in policy and would also be concerned to ensure that the standard of living of those outside employment is acceptable.

#### Access to Services

2.15 The values accepted in Irish society are such that members of the community are seen to have rights in regard to access to certain important services, irrespective of their ability to pay for such services. Thus provision is made to ensure that all who need them can avail themselves of health, housing and basic educational services. Access to the courts is also seen as an important right, and legal aid for those unable to secure this from their own resources is provided in certain circumstances by the State. In addition, public transport services are subsidised for reasons of social policy, as well as other considerations. In most of these services, it is the stated aim of policy to ensure that the best possible service is provided to the individual, irrespective of his ability to pay.

#### Particular Disadvantaged Groups

2.16 The elderly, the physically and mentally handicapped, the chronically ill and those on low income do not have the same economic

or political power as other groups. Social policy in their regard aims to afford them priority in the provision of services, whether of a general nature or designed to cater for their particular needs. The relative position of these, the most vulnerable groups in the community, is an indicator of the achievement of the ends of social policy. A particular difficulty in determining performance in this sense arises from the problems of identifying those most in need in a way which facilitates the delivery of appropriate services to them.

#### Citizenship

2.17 The aim of generating greater awareness of the rights and obligations of citizenship reflects the importance of strengthening the bonds of community based upon a shared sense of social justice. Such a form of citizenship would enable persons entitled to receive publicly provided services to perceive them as their right, while at the same time facilitating a positive approach in the community to the need for social services and for redistribution, and to the consequential need for taxation. It would also imply strong social disapproval of as well as legal penalties for evasion of tax and fraudulent claims for benefits. The strengthening of the mutual bonds of citizenship is facilitated by a commitment to equity in relations between individuals and the State — notably in the political, legal, taxation and transfer systems — which are crucial influences on citizenship. Such relations should enhance the individual's self-image as a citizen and should influence positively his attitude towards these systems. Social justice is reflected in the extent to which the rights of citizens are recognised and defended in the legislative system and in the administrative procedures governing relations between public agencies and the individual. A more just society can be pursued through these means without increased public expenditure. The extent to which this level of citizenship and social justice has yet to be achieved has been commented upon by the Combat Poverty Committee: "lack of resources, self-confidence, discrimination and the stigma associated with poverty made it difficult for poor people to play a full part of the life of the community. They tended to feel that they were passengers, that their situation was hopeless, and that they had little control over their lives or over decisions that affected them."<sup>11</sup>

2.18 In this report, the Council is primarily concerned with distributive issues rather than with the broader contribution which social policy may make to the quality of life. In this context, and having

<sup>11</sup>Combat Poverty, *op. cit.*

stated the aims which should be pursued in Irish social policy (paragraph 2.11), it is possible to derive certain broad principles which should govern the detailed planning of services. First, the distributive consequences of existing and proposed policy developments should be estimated and taken into account fully by policy-makers. In particular, the impact of policy measures on the position of the most vulnerable groups in the community should receive special consideration. The assessment of proposals for the extension or reduction of services should involve examination of their effects on inequalities between different income groups and across the life cycle. Second, the interaction of the three dimensions of welfare provision: public social welfare, fiscal welfare and occupational welfare (as defined in paragraph 2.3) as well as of individual policies, must be considered when assessing the performance of any one component. Third, the manner in which services are delivered should encourage the incorporation of recipients into normal social life as equal citizens.

#### Adequacy of Provision

2.19 Adoption of the principles outlined above should result in a redistributive and socially just tax system, and subject to the important proviso that resources are adequate, result in guaranteed access to adequate housing, education and health services and an adequate income for those unable to provide this for themselves. However, a further set of guiding principles are necessary if the adequacy of provision at any particular time is to be assessed. The level of provision at any particular time may be the result of a variety of different influences on policy-makers. It is important that there should be a conscious attempt to ensure that this level is adequate to the needs of those for whom services are provided. Adequacy should be assessed in relation to average levels of expectation within the community and also by reference to comparisons with other EEC Member States, taking into account differences in levels of income per head and in dependency ratios. Having considered the overall aims and guiding principles of social policy in Ireland and some of the means by which they are pursued, it is possible to consider the role of means-testing in the social services. Chapter 4 develops a model of universality and selectivity and assesses the main implications of the alternative strategies. However, it is appropriate first to consider the background to the development of services in recent years and, in particular, the rapid increase in public social expenditure since this has provided the context for debates about greater selectivity in social services. This is done in Chapter 3.

## CHAPTER THREE

### SOCIAL EXPENDITURE TRENDS

#### Introduction

3.1 Some of the aims of social policy were set out in Chapter 2. The pursuit of these aims involves many aspects of public policy which impinge on the three dimensions of welfare: public, fiscal and occupational. In regard to public welfare programmes, i.e. the social services, one of the principal constraints on the achievement of policy objectives is that of finance. This is not to say that increased social expenditure necessarily facilitates the achievement of social policy goals. However, insofar as additional real resources for social services or increased transfer payments are desirable, the non-availability of public finance will impede social policy development. Indeed, one of the main issues in social policy in recent years has been the level and rate of growth of social expenditure, i.e. expenditure by public authorities on the social services. The selection of strategies for the development of social policy therefore requires that there be a set of priorities for the use of scarce resources. Such planning can be effective only if the influences on expenditure are understood. In this Chapter, trends in public expenditure and revenue are discussed, together with the reasons for the significant increase in social expenditure in recent years.

#### Recent Expenditure Trends

3.2 Table 1 shows the level of public social expenditure (i.e. expenditure by central and local authorities on the social services) in real terms (based on national income data) between 1971/1972 and 1977, the latest year for which figures are available. This expenditure has grown in real terms at an average of 5.8 per cent per annum since 1971. For most of this period public expenditure grew at a faster rate than gross national product. The trend of increased spending on the social services has continued to the present, as is shown by movements in Government expenditure figures. Table 2 shows capital and current expenditure by central Government on the principal social services in recent years. The increase in social expenditure has

occurred at a time when the level of total Government expenditure has been rising in real terms. Table 3 shows the level of Government current expenditure as a proportion of GNP since 1971. The rate of increase has averaged 4.4 per cent per annum. Public current expenditure as a proportion of gross national product has risen from 29.5 per cent in 1970/1971 to an estimated 39.5 per cent in 1979.

3.3 It is desirable to distinguish between public social expenditure which involves a direct claim on resources and increases the share of output going to the public sector, and expenditure on transfer payments which redistribute command over resources – goods and services – between private households. The transfer element (capital and current) in public expenditure, including social welfare payments, higher education grants etc. grew at an average annual rate of 6.3 per cent per annum between 1971 and 1977, that is faster than total public expenditure. While transfer payments and public expenditure on goods and services have different implications for resources available to the private sector, they are both financed from taxation and borrowing and have similar effects on public finances.

3.4 The increase in current public expenditure has not been matched by increased revenue from taxation and other sources. Public borrowing to meet the deficit has, therefore, been rising with consequent increases in provision for debt servicing in the current budget each year. Debt servicing in general pre-empts the allocation of substantial funds within the public sector as well as limiting the scope for redistribution through social transfer payments. Foreign borrowing by Government, which has become more significant in recent years, has the added disadvantage that consequent debt servicing involves the transfer of real resources outside the community. The problem of foreign borrowing was discussed in NESC Report No. 53 *Economic and Social Policy 1980-83: Aims and Recommendations*.

3.5 Table 4 shows the share of taxation and income tax in GNP in recent years. The failure of tax revenue to increase in line with public expenditure has resulted in the deficit and borrowing problems outlined above. It will be noted that the "burden" of taxation (taxes as a proportion of GNP) has been stable in recent years. Furthermore, the tax burden in Ireland is relatively low by EEC standards; in 1978, for example, it was 33 per cent of GDP compared with an average of 40 per cent for the EEC.<sup>1</sup> However, the perceived burden of taxation

<sup>1</sup>OECD, *Revenue Statistics of OECD Member Countries, 1965-1979*.

may have been rising over time as marginal tax rates (including social insurance contributions) increased. For example, the marginal tax rate for a one-earner family with two children at the average income level of production workers increased from 26 per cent in 1972 to 35 per cent in 1979.<sup>2</sup> Marginal tax rates for married couples were substantially reduced by income-splitting arrangements introduced in the 1980 Budget.

### Scope for Increasing Revenue

3.6 The factors which have led to increased social expenditure in the past, and which are discussed in some detail below, are likely to persist. It is therefore necessary to consider whether sufficient revenue can be found to meet the costs of attaining social policy objectives, as well as other demands upon the Exchequer. Changes in taxation in recent years have removed substantial sources of tax revenue. The abolition of rates on dwellings and of motor taxation for example have had the effect of reducing the tax base. Thus, in 1978 it was estimated that rates on domestic dwellings would have raised £63.25 million. In 1981 prices, this is equivalent to £100.5 million. In 1977, motor taxation on cars up to and including 16 horse power was abolished at a cost of £27 million in 1978, equivalent to £40 million at 1981 prices. The increase in motor car registration fees announced in the 1981 Budget has restored less than one-quarter of this revenue. The revenue foregone from domestic rates, without taking account of factors which might have made for particular buoyancy in this area, is equivalent to almost one-fifth of the 1981 budgeted current deficit.

3.7 The Revenue Commissioners estimate that taxation of employees' wages and salaries accounted for approximately 70 per cent of total income tax receipts in 1977-1978. Measures to increase tax revenue from the self-employed have been taken in recent years. Nonetheless, there is a widespread belief among salary and wage earners that they bear an inequitably large share of the burden of income tax. This may be in part a reaction to increased marginal tax rates on employees and it is difficult to verify the claim that their tax burden is excessive by reference to other sectors. While the share of wages and salaries in national income in 1978, at 62 per cent, was less than the proportion of income tax paid from this source, it is not possible to conclude that this was inequitable without having regard to the distribution of income and the tax structure in each sector. In particular, the use of tax allow-

<sup>2</sup>OECD, *The Tax/Benefit Position of Selected Income Groups 1972-1976* (Paris, 1978), 1974-1979, (Paris, 1980).

ances as incentives in the industrial and commercial sector reduces potential yield in order to stimulate economic activity. However, there is a widespread belief among PAYE tax-payers that the self-employed and other groups make extensive use of their ability to evade income tax. The continuation and improvement of measures to increase the yield from other sectors, in particular through limiting the scope for avoidance and detecting cases of evasion, are therefore of considerable value in securing a balanced approach to taxation.

3.8 The taxable capacity of the community includes corporate income, in addition to the earnings of employees and the self-employed, including farmers. Substantial reliefs from corporation tax are provided as a means of stimulating investment in Ireland. Many firms currently enjoy tax relief on profits from export sales. All manufacturing firms have the option of paying corporation tax at a standard rate of 10 per cent from January 1981. Other forms of tax incentive, such as generous capital allowances, are provided for manufacturing firms. While it is possible that many enterprises would not have been established here without these tax incentives, the substantial reduction in taxable capacity which these incentives imply make it most important that their effectiveness in increasing the volume of private investment and stimulating the level of economic activity be kept under review. The tax liability of certain financial institutions, has given rise to public debate. The Council notes that this issue has been referred to the Commission on Taxation for consideration.

3.9 Three further points may be made with regard to the scope for increasing revenue. First, substantial allowances can be claimed by income tax-payers in respect of certain liabilities and expenditures. The distributive consequences of these tax expenditures constitute the fiscal welfare system and are discussed in greater detail below. It may be noted that the non-personal allowances, i.e. relief on particular forms of income and expenditure, were estimated to cost £64 million in foregone revenue in 1979/1980. A comprehensive tax base would not exclude these expenditures and, as they benefit higher income groups more, the tax system would then be more progressive and therefore more equitable. Such a change would increase revenue without increasing tax rates. Second, certain non-tax revenue is received by the Exchequer in the form of licence fees, charges for services etc. The scope for increasing revenue from these sources might be considered but their consequences for the pattern of use of services would require careful examination. The amount of revenue involved would be relatively small: in 1980 non-tax revenue (other than post office charges) represented 6.4 per cent of total current revenue. Third, a very small con-

tribution is made to tax revenue by capital taxation – less than 1 per cent in 1979. The distribution of wealth is generally considered to have an important bearing on the inequality of distribution of income. Therefore, the pursuit of greater equality and the need to increase tax revenue would appear to warrant more extensive use of capital taxation. The Council has discussed the issues involved in NESC Report No. 2 *Comments on Capital Taxation Proposals*. The likely consequences for equity of any capital taxation proposals can only be estimated if our knowledge of the distribution of wealth is greatly increased.

### The Social Wage

3.10 The acceptability of taxation measures, existing or proposed, is based on the perceived equity of the tax system and the extent to which the individual associates his tax payments with desired public expenditure programmes. The concept of the social wage, which is the value of public services to the average household, has received little attention in Ireland. Thus, for example, public expenditure on the social services in 1980 is estimated to represent a provision of £650 per head of population. The benefits accruing to children and the aged would be higher than the average in respect of many services. The wider appreciation of the concept of the social wage might facilitate necessary increases in tax revenue although it will never be possible or desirable to ensure that benefits received equal taxes paid, for each individual. For the social wage to affect the behaviour of individuals it would be necessary to have the concept institutionalised in wage bargaining procedures and reflected in incomes policy. In the absence of a strong mechanism for ensuring that the social wage is taken into account when income levels are being set, individuals and groups have no incentive to moderate their demands for increased post-tax income in the light of the social wage unless they see that all other groups are doing likewise.

3.11 The elimination of the current budget deficit and the pursuit of the aims of social policy may require the raising of additional revenue from taxation if suitable adjustments in other public spending programmes cannot be made. Proposals for increased taxation must be assessed in the light of two factors: first, their distributive consequences for different groups in the community and second, the likely response of tax-payers to their imposition.

- Thus, for example, increases in indirect taxation might be regressive, i.e. proportionately more of the income of low income groups would be paid in tax than that of high income groups. Over 52 per cent of tax revenue in Ireland in 1979 was derived from indirect taxation. Table 5 shows the proportion of tax

revenue which is derived from various sources in EEC Member States. It will be seen that Ireland is one of the few EEC Member States with a heavy reliance on indirect taxation. Not all indirect taxation is regressive. Indeed the VAT system in Ireland is graduated in such a way as to avoid substantial regressive effects. Even specific regressive indirect taxes have other socially desirable effects: to promote efficient resource allocation (e.g. the excise duty on petrol) or to reduce consumption of certain products (e.g. alcohol and tobacco).

If tax-payers seek to maintain their real, post-tax disposable income they may seek wage increases to compensate for higher taxes. This would create difficulties for policies to combat inflation and increase employment. Increased taxation could also affect incentives for work effort and also for savings in the economy. These disincentive effects are generally attributed to high marginal tax rates, i.e. tax paid on each additional unit of income. However, the amount of revenue raised from a given base depends upon the average rate of tax paid. High marginal rates can be accompanied by low average rates of tax on all income, because of the impact of tax allowances etc. Marginal rates could be lowered, thus avoiding possible disincentive effects, while maintaining or increasing average rates of tax on gross income (and thus the amount of income available for redistribution), by reducing the amount of income excluded from taxation.

#### Factors underlying increased social expenditure

3.12 The distributive consequences of social expenditure programmes will be considered later in this report. However, it is clear that if the rate of growth of social expenditure in recent years were to continue into the future, its financing would require an increase in tax revenue, more than is likely to be realised from any feasible expansion of taxable capacity. The level of borrowing which would be required in the absence of this revenue would be unsustainable. It is therefore necessary that there be an understanding of the factors which have led to the present levels of social expenditure and their recent rate of growth and an examination of whether these factors are likely to continue to operate in future. The selection of strategies for the development of social policy in Ireland in the future can be made on a rational basis only if the major influences on social expenditure are clearly understood.

3.13 The Council has already described the principal reasons why public expenditure levels have risen in recent years.<sup>3</sup> Briefly these

<sup>3</sup> NESR Report No. 21 *Report on Public Expenditure*, (Dublin, 1976).

factors include:

the competitive nature of politics in a democracy, where the allegiance of voters and of party members may be sought through the promise or development of expenditure programmes;

the continued absence of systematic analysis of the effectiveness of expenditure programmes;

the power of interest groups associated with expenditure programmes in securing their continuation or expansion;

and the fact that expenditure proposals rarely enable discussion to take place concerning the long-term implications for public expenditure or the revenue requirements associated with proposals.

3.14 These factors are equally applicable to social expenditure. In addition, however, there are particular aspects of the social services which must be taken into account in any explanation of expenditure trends. Attempts to explain how decisions are made in the arena of public policy will, of course, heavily reflect ideological positions on the nature of the social structure and the role of Government. Different views of the reasons for the growth of social expenditure or "the welfare State" can therefore be found, reflecting different political and social philosophies. Furthermore, the factors listed here relate to social expenditure levels in aggregate; the explanation of why expenditure on particular programmes has risen requires a detailed analysis of the various interests and issues involved.

3.15 First, social expenditure has risen in the light of the growing necessities of an urbanising industrial society such as Ireland. Transition to conditions of modern industrial society generates problems and dependencies which are no longer adequately provided for in the context of the family and the local community and have therefore to be met through State provision. These problems are particularly associated with migration to urban centres, where the need for collective services is seen most clearly. The definition of "needs" to be met by collective provision is greatly influenced by awareness of services provided elsewhere, particularly in Britain. This awareness often results in expectations of increased provision here. An attendant factor, of course, has been the increasing income of societies such as Ireland which has enabled the public authorities to acquire the necessary resources to provide collective services.

3.16 Second, the general awareness of economic and social issues, has been greatly heightened by the media and domestic welfare issues have

acquired a heightened political significance. Expenditure programmes have thus become an effective method of attracting political support. Third, the dominant economic ideology in recent decades has conferred a leading role on Governments in the attainment of social and economic objectives, and this role has been accepted by Governments in almost every country, including Ireland. The capacity of Governments to perform the all-embracing role of promoting community welfare has been questioned. There is little evidence, however, to suggest that Irish people have lower expectations of the role of Government now than during the last few decades when social expenditure was undergoing such rapid expansion.

3.17 Fourth, demographic factors play an important part in the growth of social expenditure. Many social services are particularly concerned with the needs of two dependent groups: children and the elderly. Thus, the demand for education and health services is influenced by the numbers of children and old people, among other factors. Income maintenance services are also dominated by support of the elderly and of children, whether as dependants of social welfare recipients or covered by universal children's allowances. In most cases, social services are provided on an open ended basis, i.e. all of those who are in the circumstances covered by a service and meet any eligibility criteria which may be in force, will receive the service on application. Thus, even if the quality or level of provision of a service is held constant, an increase in the numbers eligible will result in an increase in the real level of expenditure on that programme. Ireland's demographic structure is unique in Europe, with the highest dependency ratio within the European Community. Table 6 shows Ireland's demographic structure relative to the other Member States. In 1978, each member of the active population (working or seeking work) in Ireland supported an average of 1.9 dependants, compared to an average of 1.4 in the EEC as a whole. This is mainly accounted for by the large proportion of children in the Irish population, almost one-third in 1978. Indeed, the proportion of the population aged 65 years and over in Ireland is relatively low, though the numbers in this age group are increasing in absolute terms. In these circumstances, it is likely that the relative demand for expenditure on social services, and indeed the need for such expenditure, will be greater than in the other Member States.

3.18 Fifth, changes in the level of take-up of services can have a substantial effect on expenditure trends. Services, whether or not provided without a means-test, will usually not be utilised by all of those eligible. Variations in the level of take-up can arise for a number of reasons: the perception of the service, the extent of promotion of its availability

by the authorities, the ease of application, the relative generosity of the benefit. In the context of expenditure trends, the most important increase in the level of take-up has been the increased participation rate in education at second and third levels. The increased numbers have posed problems for the funding of education which has shown a rapid increase in recent years. A further example of the possibilities of increasing the level of take-up is in the area of personal and social services. Social work and other community care services are concerned, at least in part, to seek out individuals who may require services but have not applied to use them. Furthermore, such services frequently act as a referral point for other, unrelated services of which the client may be in need, e.g. social workers may identify clients in need of medical care.

3.19 Sixth, the level of expenditure on services will rise in real terms if the numbers eligible to avail themselves of the service increase. The extension of "free" secondary education in the 1960s constituted an example of this in the recent past. Similarly, the extension of coverage for social insurance purposes has resulted in a significant expansion in the level of expenditure under this heading. It is noteworthy that the major examples of this trend in the recent past have involved the extension of services which were formerly confined to low income groups under arrangements which in many cases, stemmed from Poor Law times, to the better-off sectors of the Community, e.g. the extension of eligibility for hospital services. The distributive consequences of this trend are discussed below.

3.20 Seventh, an improvement in the quality of the service being provided to eligible groups may also have an effect on the real cost of provision. Thus, for example, the replacement of the dispensary system with a choice of doctor scheme for those eligible for free medical services greatly improved the quality of the service and led to an increase in the cost of provision. The replacement of old buildings and institutions with more modern facilities may coincide with the provision of a higher level and more costly form of service. The improved quality and attractiveness of a service may result in higher costs if it leads to an increase in take-up rates.

3.21 Finally, many social services are labour intensive and insofar as labour costs rise faster than prices generally, there is likely to be a relative price effect increasing their costs of provision. This will occur if increased labour costs are not matched by increased productivity, but the definition of productivity in most social services presents great difficulty. In any event, the scope for reducing the numbers employed in the social

services is probably very limited. It is estimated that public sector remuneration accounted for 36.4 per cent of total current Government expenditure in 1980 while for example, remuneration accounted for 68 per cent of current expenditure on health services in the same year.

3.22 All of the above factors have been in operation in the recent past and their aggregate result is the substantial increase in the real level of expenditure on the social services. It is very difficult to separate out the influence of each individual component. An analysis of the growth in social expenditure in OECD member countries<sup>4</sup> concluded that increases in the coverage of social programmes, i.e. the proportion of the population eligible for services, was the most significant influence on the rate of growth. With regard to income maintenance expenditure, an OECD study<sup>5</sup> concluded that it was unlikely that this would increase in Ireland in the foreseeable future as a result of changes in eligibility or of demographic change, but that it could increase noticeably as a result of increases in the real value of benefits. For the purpose of this report, what is of most concern is to emphasise the importance of identifying those factors which are likely to be relevant in the future and which are susceptible to planning and control. The operation of these factors in the future will heighten the need:

- (i) to develop clear principles for the development of the social services;
- (ii) to plan for the appropriate level of tax revenue.

3.23 Given the demand for continuing high levels of public social expenditure, it is imperative that the use of scarce resources within the social services, as in other areas of public expenditure, be as efficient as possible. This implies that the aims and objectives of expenditure programmes be specified and their performance be evaluated for effectiveness. Tax expenditures, i.e. the tax revenue foregone by granting allowances against tax in respect of certain liabilities and expenditures, have a similar effect on the public finances as conventional expenditure programmes and should also be subject to evaluation. This is discussed in more detail in Chapter 5.

<sup>4</sup>OECD, *Public Expenditure Trends*, (Paris, 1978).

<sup>5</sup>OECD, *Public Expenditure on Income Maintenance Programmes*, (Paris, 1976).

## CHAPTER 4

### UNIVERSALITY AND SELECTIVITY REASSESSED

4.1 Conventionally a distinction is drawn between services which are provided to persons without reference to their means (universal services), and those which are provided to persons whose income is less than a stipulated amount (selective services). The use of means-tests in these selective services is based on the assumption that the ability to provide services from their own resources declines as their income falls. As Reddin has pointed out, this conventional distinction only takes account of the conspicuous benefit end of the finance and benefit arrangements which constitute each service: "It should be obvious that just to consider the benefit with no reference to how that benefit is financed, and by whom, is short sighted."

4.2 The categorisation of services as universal or selective can be made only when three dimensions have been assessed:

- (i) the source of finance;
- (ii) the formal criteria for eligibility; and
- (iii) the actual pattern of utilisation.

The difficulties which can arise in identifying the evidence necessary to assess these dimensions do not justify crude judgements on the basis of formal eligibility criteria alone. As Reddin points out "it is this composite pattern of finance and utilisation, the inputs and the policy outcomes, which can be most validly described in universal or selective terms rather than but one conspicuous part of the programme, its rate of benefit" (page 26).

4.3 The provision of services to all people in similar social circumstances without a means-test may be regarded as "universalist" in a crude sense. If such services are financed from progressive taxation then a significant redistribution in favour of the poor may occur depending on whether or not they use the service. The revenue sources may, however, be regressive (i.e. taking proportionately more from the less well off), in which case redistribution may not occur. Similar issues arise with



services provided following a means-test. The position is further complicated by the fact that services which are formally available to all without a means-test may be used more extensively by one section of the community.

4.4 The relevant dimensions of the finance and provision of benefits may be used to establish a formal model which enables the universality or selectivity of any particular service to be assessed. The model, which does not include the fiscal or occupational dimensions of welfare, is as follows:

Method of Finance	Eligibility Criteria for Benefits and Free Services			
	All members of social category i.e. persons in similar social circumstances	Social category membership		All persons, irrespective of social category or means
		+ means test	+ insurance conditions	
General Taxation	Children's allowances. Some health services (a) e.g. child health  Free travel (for those over 66 years) First and second level education.	Most health services (a). Third-level education. Public housing (b)		Public goods, e.g. defence, law and order, environmental health services. Hospital services (other than consultants' fees)
Social Insurance (supplemented by general taxation)			All social insurance programmes e.g. contributory pensions.	
Hypothecated Taxes (i.e. taxes imposed to raise revenue for a specific purpose)				

Notes: (a) All but a small proportion of health expenditure is financed from general taxation.

(b) Public housing is provided on the basis of housing need which embraces factors other than means.

4.5 It will be seen from the above model that the only services which are provided on a "universal" basis, in the traditional sense, are pure public goods (e.g. defence, public order), and hospital services (other than consultants fees). All other services are provided to particular client groups. However, those services financed from general taxation and provided to all of a particular client group may be regarded as universal for policy purposes, i.e. children's allowances, primary and second level education. Certain health services e.g. child health services may also be included in view of the relative unimportance of health contributions as a source of finance for health services. All other services are selective to a greater or lesser degree both in regard to finance and eligibility.

#### Finance of Services

4.6 The way in which services are financed is a crucial aspect of the question as to whether a service results in a redistribution in favour of the less well-off. As will be seen from the model in paragraph 4.4, most services are financed from general taxation. Hypothecated taxes have relatively little importance in the Irish revenue system. In 1981, it is estimated that tax revenue will amount to £2,450 million, while the social insurance fund is expected to yield an income of £479 million and health contributions will yield £48.6 million. The borrowing which may be required to finance expenditure not covered by revenue is itself serviced from general taxation.

4.7 Table 7 shows the proportion of total tax revenue which it is estimated was received from various sources in 1980. It is estimated that over 50 per cent of revenue was received from indirect taxation. Indirect taxation is generally regressive, i.e. the proportion of income taken in taxes declines as income rises (although this is not necessarily the case). The most recent evidence available for Ireland is an analysis based on the 1973 Household Budget Survey.<sup>1</sup> Table 8 shows the incidence of taxes on households of two adults and two children. Indirect taxes in 1973 accounted for 30 per cent of the disposable income of persons in the lowest income group, while they accounted for less than 13 per cent in the highest income group.

4.8 Given the extent to which services are financed from general taxation in Ireland, the distribution of the tax burden is of key importance in determining the degree of selectivity of any service i.e. the

<sup>1</sup>CSO *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973*, (1980). Not all taxes and expenditures can be allocated in an exercise of this kind and the results are subject to the usual limitations associated with household budget surveys.

extent to which the net benefit of a service is concentrated on those most in need. If the tax system is significantly progressive, i.e. taking relatively more from higher income groups, either "universal" or "selective" delivery systems could entail a transfer to those more in need. If the tax system is regressive, a means-tested service may have very slight transfer effects while a "universal" delivery system could involve a negative transfer away from low income groups if the service is used extensively by high income groups. Analysis of the net effect of benefits provided therefore requires data on the distributional consequences of the tax system. Data in respect of 1973 (the most recent available) indicate that the tax and expenditure systems are progressive.<sup>2</sup> Table 9 shows the distributive impact of taxes and transfers on households of different composition and income levels.

#### Patterns of Utilisation

4.9 The effective degree of selectivity of any particular service is influenced by the way in which the service is used by different groups in the community. Fundamentally, the provision of services on a universal basis is advocated on the grounds that it will affect levels of uptake: either to ensure that particular services are consumed by as many people as possible or to ensure that use of services as a badge of citizenship will affect the sense of solidarity in the community. While the removal of financial and other barriers may be assumed to encourage the uptake of services, the conventional argument for universalist provision fails to take account of the fact that the capacity to avail of services may vary systematically between social groups. For example, the provision of free education beyond minimum school-leaving age only benefits those who can afford to remain on in full-time second-level education.

4.10 Systematic variations in the utilisation of services by income groups is of particular significance in determining the distributive effects of any particular service and, therefore, its effective selectivity. Available evidence suggests the more affluent and articulate who fare relatively better in the market tend also to be more able and willing to avail themselves of certain social services to greatest advantage. The prime example of this has been the extension of education services where participation rates vary systematically with social class. Table 10 shows participation rates at different educational levels. This indicates that the formal availability of services without a cash price is not sufficient to ensure equal use by different groups.

<sup>2</sup>CSO *op. cit.*

4.11 Furthermore, indicators of educational attainment, in some sense the output of the educational system, are also shown to vary systematically with social class despite the universal nature of the method of provision. Table 11 demonstrates the variation in educational attainment by class. There is also some evidence to suggest that higher income groups are more likely to make effective use of health services, particularly preventive services, and that the utilisation by lower income groups of health services may be less than their level of morbidity experience would require.<sup>3</sup>

4.12 The more effective use by the higher income groups of services provided without a means-test may have serious distributional consequences where their consumption of services involves high levels of public subsidy. Thus, for example, the higher participation rates by higher income groups in the educational sector involves a regressive subsidy in view of the higher resource costs of more advanced education. A student at university receives an annual subsidy from public funds which is more than five times the amount spent on a national school pupil in the same period. The university student is, however, likely to come from a better-off background. This apparent inequity would not be resolved by abolishing all fees for university attendance because the social factors which tend to make academic achievement more common in better-off groups would not be affected. Similarly, the opportunity cost of attendance by a student from a low income family at third level institutions, i.e. the income foregone to the family, would not be significantly reduced by the abolition of fees. As Reddin remarks, "the extension of new facilities, even of equal opportunities to people with unequal capacities to respond, may lead to a widening of the inequalities of use, at least in the short term".

#### Fiscal Welfare

4.13 The income tax system contains allowances and reliefs which exclude certain types of income and expenditure from tax. Some of these allowances, the personal allowances, are structural in that they exclude those on the lowest income from tax while providing an additional element of progression below the higher rates of tax. Other allowances are specifically designed to meet personal needs of a kind supported by the parallel social welfare system e.g. responsibility for children, medical expenses. While it is these latter allowances which have traditionally been identified as constituting the fiscal welfare system, all tax expen-

<sup>3</sup>For a discussion of the evidence in Britain see DHSS *Inequalities in Health*, (London, 1980), Chapter 4.

ditures, i.e. the cost of excluding part of income from tax in terms of revenue foregone, have the same effect on the public finances as public expenditure programmes and they have different consequences for tax-payers with varying levels of income.

4.14 The fiscal welfare system operates within a formally progressive tax system and has the effect of moderating its progressivity. The highest marginal income tax rate in 1978/1979 was 60 per cent on taxable income of £7,000 and above, while the average tax rate on married couples with no children with an actual income of £7,000 was 25 per cent. Couples with an income of £50,000 paid tax at an average rate of 55 per cent. The existence of extensive tax allowances reduces the base of taxable income considerably: personal allowances removed 24 per cent of gross income from the scope of income tax while the principal personal deductions (including interest relief) removed a further 10 per cent of gross income. The resulting narrowness of the tax base means that high marginal tax rates are necessary to raise the required level of revenue with relatively low average rates. If high marginal rates reduce incentives, they thus reduce the gross income and therefore the taxable capacity of the community. On the other hand high average tax rates are necessary if substantial redistribution is to occur. Average rates could be increased and marginal rates reduced, without loss of revenue, if the exemptions from taxation were reduced. Alternatively, additional revenue could be raised by reducing or abolishing these exemptions, while maintaining existing nominal rates. The scope for raising additional revenue in this way is limited relative to total tax revenue, particularly in view of the constraint involved by the need to minimise, or avoid, adverse effect on tax-payers in the lower tax brackets; the additional revenue could, however, have a significant effect if spent on a limited number of specific services.

4.15 From the point of view of the individual household, there is no difference between the effects of receiving a cash payment through a public agency and a subsidy through the tax system. The effects on the public finances are also identical. For example, a social welfare children's allowance of £6.80 per month is payable in respect of the first child of each family (from July 1981) while the child tax allowance at the standard rate is worth £5.68 per month. The distributive effects of these allowances are therefore of great importance for social policy. Being linked to a progressive tax structure, the value of tax allowances increases as income rises. Thus, the child tax allowance is worth £9.75 per month to a family at the highest marginal tax rate. Certain forms of tax allowance are more likely to be of benefit to high rather than low income tax-payers. Thus in 1977/1978 tax-payers whose total income

(income after deductions for expenditure on interest paid, insurance premia etc.) exceeded £10,000 represented 1.5 per cent of all tax-payers.<sup>4</sup> Thirty-seven per cent of those with total income of £10,000 or more claimed a tax allowance for interest paid, at an average value of £405. This was equivalent to an average grant of £243. On the other hand, tax-payers with a total income of £2,500 or less represented 58 per cent of all tax-payers. Only 6 per cent of these claimed for interest paid at an average value of £271. This was equivalent to an average grant of £68. Tax allowances on life assurance and medical insurance premia have similar distributive consequences. It is difficult to envisage the introduction of a direct, visible public expenditure programme which would give, for example, nearly four times as much to households with income of over £10,000 as to those with £2,500 or less; yet this is the net effect of the existing system of tax allowances.

4.16 Tax-payers in the lower income brackets also benefit from tax-allowances (although the value of the allowances declines with lower marginal rates). The need to exempt those on very low incomes from taxation while retaining progressivity could be met without the distributive consequences of current tax allowances. Thus, prior to 1920, tax allowances could be claimed only by low income tax-payers. In 1920 tax allowances could be claimed by any tax-payer but only at the standard rate. It was only subsequently that allowances could be claimed at the tax-payers marginal rate of tax. It is thus possible to exempt low income households from income tax without granting extensive subsidies to the highest income groups. The wish to find a progressive fiscal welfare system underlies the discussion about tax credits and the proposals outlined in a report commissioned by the Council on methods of integrating the tax and transfer system.<sup>5</sup>

#### Occupational Welfare

4.17 An increasingly important dimension of welfare provision is that provided in association with employment. Occupational pension and sick pay schemes are the most important forms of occupational welfare. In addition, large numbers of employees now enjoy considerable non-cash income in the form of benefits in kind and subsidies on particular forms of consumption, including supply of cars and accommodation, subsidised loans, subsidies for insurance, education etc. The provision of these benefits is more common in the case of higher income employees

<sup>4</sup> 56th Annual Report of Revenue Commissioners, (1978).

<sup>5</sup> NESC Report No. 37 *Integrated Approaches to Personal Income Taxes and Transfers*, (Dublin, 1978).

and they are a conventional method of increasing the real income of staff while attracting less tax liability than equivalent cash payments. The cost of providing these benefits is generally deducted from a firm's income for tax purposes. Their provision is therefore subsidised by tax-payers. However, they are generally regarded as a taxable benefit in the hands of recipients. It is generally held that the tax paid on such benefits is less than would have been paid on the additional earnings necessary for the individual to pay for such goods from his own resources. Occupational pensions are regarded as a form of deferred income and are taxed as income when paid to pensioners. The significance of occupational welfare for social policy is the fact that benefits are systematically concentrated in certain parts of the labour force: higher rather than low-paid employees.<sup>6</sup>

4.18 The three dimensions of welfare are closely interwoven. For example, a person retiring from work may receive a social insurance pension if the contribution conditions are met (social welfare), an occupational pension and/or gratuity if his employer operates such a scheme (occupational welfare); while the contributions to a pension scheme by employer and employee are exempt from tax and the pension when paid is subject to a lower marginal tax rate than would have been paid on the contributions (fiscal welfare). It is therefore necessary to take the operation of all three aspects of welfare into account when assessing the operation of any one policy.

#### Means Testing – Arguments in Favour

4.19 The aspect of the "universality"—"selectivity" debate which receives most attention is the question of means-testing as a method of establishing eligibility for a service. In general, those who argue for the provision of social services following a means-test, do so on the basis that this involves less waste, i.e. that any given level of expenditure, rather than being spread thinly over all people in a certain category will be concentrated on those most in need by reference to their income. Such assertions ignore the questions of (i) how such services are financed, (ii) the effects of a means-test on the likely utilisation of the service. All those concerned with the provision of social services, irrespective of whether or not they advocate means-testing, would support the aim of socially efficient resource allocation and transfer systems, with no waste of resources on those who do not

<sup>6</sup>In Britain, the Royal Commission on the Distribution of Income and Wealth found that the cost to an employer of occupational welfare provided to the average employee was 18 per cent of salary for employees earning £5,500 per annum but 29 per cent of salary for those earning over £24,000. Royal Commission, *Report No. 3, Cmnd 8383*.

require the service and with maximum benefit for those who do. As Reddin points out, this concern for efficiency does not necessarily imply any particular strategy, because "in practice (and it is only in practice and in specific instances that this point can be made) efficiencies might be achieved via either universal or selective strategies. In other words, it is necessary to identify the precise concomitants of efficiency and effectiveness of given policies in particular contexts".<sup>7</sup>

4.20 A second argument used in favour of means-testing is that it involves less public expenditure, in that payments or services are provided to a smaller group of people and consequently the level of tax required to finance services and the cost of administration of taxes and transfers will be lower. Intuitively this appears more efficient than raising money from all tax-payers and returning it to them in cash or in kind. Whether means-testing is actually more efficient depends upon the costs which arise in administering means-tests and the extent to which they reach the target group. It is also doubtful that the costs of administering the tax system would fall if the yield were somewhat lower (but simplification of tax legislation can produce significant staff savings).

4.21 An important critique of services provided free for all at the point of use is that those who are better off and articulate are likely to make greater use of them than less articulate groups whose needs may receive less attention. Thus, education at senior levels has higher levels of participation from high income groups. It has also been suggested that the standard of "free" services received by more affluent groups from those employed in public services is higher than in the case of low income groups, reflecting the influence of shared education and cultural background on the perception of clients. Means-testing can be advocated as one way of restraining the demands of higher income groups and ensuring that services are received by the less well-off.

#### Arguments for Services without Means-Tests

4.22 If means-testing is advocated on the grounds of target efficiency, i.e. concentrating resources on those most in need, availability of services to all is advocated on a number of grounds. First, it is argued that such services are available to all who need them without the imposition of financial barriers or means-testing arrangements (with the disadvantages outlined in paragraph 4.25 *et seq*) which could deter those in need from using them. They should therefore have a high take-up

<sup>7</sup>NESC Report No. 36 *Universality and Selectivity: Strategies in Social Policy*, (Dublin, 1978), page 29.

rate by those in need of the service. Second, services provided for all are believed to prevent the emergence of double standards, where one level of provision is available for those deemed to be poor enough to qualify for publicly provided services, with the higher quality of service available to those who can pay from their own resources, directly or indirectly. The general experience in such situations has been that "a service for the poor is a poor service". This is most likely to be found in situations where means-tested services are provided separately from those purchased by the consumer, whether by different personnel or in different locations or under different institutional arrangements. Third, a related consideration is the belief that making services available to all members of the community engages the interest and capacity of the better-off and articulate to ensure the quality of service provided to all. Services provided to the less well-off, exclusively, are less likely to have the stimulus of client influence in the maintenance of standards.

4.23 Fourth, it is argued in favour of the provision of services without means-tests that the experience of receiving services, which are provided on the same basis for all members of the community, is a right of citizenship. Furthermore, some would argue that the act of receiving such services serves to develop the very concept of citizenship and strengthens the bonds of communal solidarity without which welfare services are merely technical arrangements. It must be pointed out, however, that such phenomena as solidarity and community are difficult to demonstrate empirically. Their significance must be viewed in the context of the extent of inequality of income in Ireland, with the top 9 per cent of households by gross income in 1973 having over 24 per cent of disposable income (after taxes and transfers) while the lowest 20 per cent received 5 per cent of disposable income.<sup>8</sup> The common experience of receiving publicly provided services may have little relevance to the willingness of the community to surrender resources in the form of taxation to substantially reduce the degree of inequality.

4.24 Finally, provision of services to all can be advocated on the grounds of efficiency and convenience. Thus, it is argued that services which are provided for the community as a whole enable benefit to be taken from economies of scale where they exist while facilitating the planned development of services in the light of resources and future demands. Furthermore, the provision of services to all is argued to reduce the real cost of administration, both the costs of time and effort imposed on the applicant and the expenditure involved in ad-

<sup>8</sup>B. Nolan, "The personal distribution of income in the Republic of Ireland", *JSS/ISI*, (1977/8).

ministration of means-tests. It is also argued that, as public services, they are subject to consumer response through the political process and that this ensures that the planning of services can be made to respond to the wishes of consumers, even in the absence of a price mechanism.

#### Difficulties of Means-Testing

4.25 Much of the debate about means-tests reflects the fact that there is great concern at the problems which means-testing may create for individuals and the consequent danger that the take-up of services would be less than socially desirable. The principal difficulties with means-tests include: first, the possibility that individuals will be socially stigmatised in applying for means-tested benefits. This may result from objective characteristics of the means-testing arrangements whereby the applicant is led to feel inferior, or it may be a subjective process deriving from the very act of applying for a benefit therefore admitting, to others and to one self that one is in some sense inadequate as a provider and accepting the loss of privacy which the consequent means-testing involves. The evidence for the existence of stigma in relation to means-tested benefits is considerable and has been discussed in a number of Irish studies.<sup>9</sup>

4.26 Second, the selection of the appropriate income unit whose means is to be tested can create difficulties, i.e. whether the individual, family or household. In practice, all of these are the subject of means-testing in different services. A related issue is the definition of income which is to be used for any particular means-test. Such definitions determine the treatment of capital assets, income in kind and the level of income, if any, which can be disregarded for the purposes of establishing eligibility to a service. Where a number of means-tested benefits are available, different approaches to those questions will generate great uncertainty as to whether or not particular individuals are eligible for the service. This uncertainty constitutes a risk of rejection of the applicant and it is considered that the greater this perceived risk the lower the take-up rate of any particular means-tested service is likely to be.

4.27 Third, in times of inflation the rate of change of eligibility conditions, of applicants' circumstances and of rates of benefit can be significant and in these circumstances a person's eligibility status can

<sup>9</sup>For example M. Shaheen, *The Meaning of Poverty*; S. O'Connell, *A Law for the Poor*, H. Donoghue, *The Supplementary Welfare Allowances Scheme in Practice*.

change dramatically. Where an application has been rejected, however, it may be unlikely that an application will be submitted again, even where eligibility would now be established. A related factor is that rejection of an application for one benefit may lead the applicant to conclude that applications for other services would be similarly refused. With differing eligibility criteria this may not be the case.

4.28 Fourth, even where the eligibility criteria for selective services are widely known, the extent to which potential applicants are aware of their precise circumstances may be questioned. As Reddin points out, housewives may not be in a position to know the family income and yet may be the family member most likely to apply for benefit. For similar reasons, the authorities responsible for the management of a service may be unable to establish satisfactorily the level of take-up where the identification of potential beneficiaries is difficult. These difficulties will be greater, the more complex the eligibility criteria.

4.29 The level of take-up of means-tested services, having regard to the problems described, is likely to vary in accordance with two dimensions of the benefit in question: its acceptability and its perceived generosity. For sub-cultural or other reasons, application for particular means-tested benefits may not involve any loss of status or any perceived risk. Indeed, application for some means-tested benefits may enhance the status of the individual, e.g. higher education grants or local authority loans for house purchase. Once again, issues of acceptability require a specific understanding of the particular services and client groups and generalisations are of limited value. The relative generosity of any particular benefit, and in particular the consequences of not receiving the benefit, may provide sufficient motivation for the negative aspects of submitting to a means-test to be overlooked or overcome.

4.30 One of the most significant problems with regard to means-tested benefits is that of the poverty trap. This relates to a situation where a person, formerly in receipt of means-tested benefits loses entitlement on obtaining a higher income from employment and, in addition, becomes liable for income tax and social insurance contributions. The cumulative effect of these withdrawals from disposable income can represent marginal tax rates in excess of 100 per cent. Similar difficulties can arise where a person moves into employment, having been in receipt of a social insurance (non-means-tested) benefit. In such circumstances, it is argued, not surprisingly, that the individual has no incentive to increase his earnings from employment. The erosion of the tax threshold through inflation resulted in the exacerbation of

this problem in recent years. For large families dependent on social welfare payments, the payment of allowances in respect of child dependants means that the poverty trap continues as these allowances are lost on entry to employment. The problem is particularly acute for those whose employment opportunities are limited to low paid sectors. Payments made without means-tests are not subject to this problem, since they are payable irrespective of the level of income, whether or not from employment. The poverty trap exists in its strongest form where entitlement to any service or subsidy is lost on reaching a certain level of income. Its effects can be moderated by graduating the means-test, so that entitlement is gradually reduced over a range of income.

4.31 By definition, means-tested services are available only to the lower income groups. To that extent their distributive effect is progressive. However, account must also be taken of the extent to which means-tested benefits are actually received by the target group. If the difficulties of means-testing are substantial, then many people for whom the services are intended may not receive them and services designed to be concentrated on those most in need may be an inefficient method of reaching the target group.

4.32 Furthermore, the revenue which finances selective services may be raised from a progressive, neutral or regressive tax system. Once again, it is necessary to establish the direction of these flows in order to assess the distributive outcome. It is quite possible that the net outcome would be the financing of services for the poor from revenue supplied by the poor.

#### Principles regarding Universality and Selectivity

4.33 From the foregoing discussion and in the light of the aims of social policy set out in Chapter 2, the Council believes that precise strategies of delivery should be selected for particular services only after assessment of the distributive consequences of the proposed methods of finance and the likely patterns of utilisation. Within the broad area of social policy, there is clearly scope for the utilisation of both universal and selective strategies. Indeed, as Titmuss remarks "the challenge that faces us is not the choice between universal and selective services. The real challenge resides in the question: what particular infrastructure is needed to provide a framework of values and opportunity bases within and around which can be developed socially acceptable selective services able to discriminate positively with the minimum risk of stigma in favour of those whose needs are greatest."<sup>10</sup>

<sup>10</sup> R M Titmuss, *Commitment to Welfare*, page 136, (London, 1968).

4.34 In view of the aims of social policy, particularly the reduction of inequalities and the priority of the needs of the most disadvantaged groups, the Council suggests that social policy should involve selectivity, in the sense of promoting a redistribution of resources from high to low income groups. Such redistribution should involve the three dimensions: social, fiscal and occupational welfare. It is suggested that a fundamental requirement for this to occur is the achievement of selectivity in the tax system. The tax system can be used to ensure that the net benefits of public services are selective, i.e. concentrate on those most in need, in two ways: first, by ensuring that tax payments are progressive, taking more than proportionately from those with higher incomes, and second, in the case of cash benefits, by taxing the benefits received through the operation of transfer mechanisms. In this way, even though services may be provided to all irrespective of means, their benefits are concentrated on the most needy groups. A progressive tax system would enable delivery systems to be developed in ways appropriate to the objectives of services with least risk of regressive transfers.

#### Positive Discrimination

4.35 The Council suggests that concentration on the needs of those most in need requires a greater use of positive discrimination. This involves developing services in which those most in need receive a more than proportionate share of the relevant resources. Such discrimination involves identifying those most in need and this can be done, in many cases, in a non-personal manner, avoiding the proven disadvantages of means-tests and focusing instead on areas where there is evidence of multiple deprivation. Thus, communities can be identified, for example, whose housing, health status and educational performance are particularly low and extra resources can be channelled to appropriate services in such areas. This can be done within a framework of services available to the community at large, thus avoiding stigmatisation. This form of territorial justice is an established feature of economic policy, where differential incentives are provided for industrial development in various regions of the country. For such strategies to be successful greater use must be made of non-personal indicators of need. Positive discrimination in the delivery of services has been most extensively applied in education and in housing rehabilitation schemes. Positive discrimination can be actively applied on a personal level also, whether or not means-tests are employed. This would involve seeking out those known to be in need of a service but who may not apply to use it, and devoting more than proportionate resources to their needs, e.g. "at risk" groups in the health services. The scope for promoting policies of positive discrimination is likely to be significant, since many services and benefits are now provided for the community as a whole. As Reddin

points out, services available to all could be used to facilitate the identification of those whose needs require the provision of additional, selective services. There are difficulties in applying area-based positive discrimination to income maintenance and other personal services, since some of those residing in priority areas might be better-off than many living in areas which would not qualify for special measures. It must also be recalled that spending additional money on services for the most disadvantaged is misguided if the services are irrelevant to their needs. It is therefore necessary to analyse the causes of multiple deprivation and to develop policies appropriate to those factors.

4.36 The Council believes that the finance and delivery of services will meet the aims of social policy only if we have a better understanding of the distributive consequences of policy. A more activist approach to the delivery of services to those in need is also required, rather than relying on them to come forward and, for example, submit to means-tests. The precise arrangements for delivery of particular services must take account of the likely utilisation patterns and the consequent direction of flow of public subsidies if social policy aims are to be achieved.

## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATIONS

5.1 The Council in this report has attempted to outline the aims of social policy in Ireland (Chapter 2). It has done so in the light of what it perceives to be the dominant values which should inform public policy. It has outlined the background to the present level of public social expenditure and the problems of financing current levels of expenditure (Chapter 3). The Council has outlined the extent to which particular forms of social expenditure may not meet the over-riding aims of social policy which are the reduction of inequality and the promotion of social justice.

5.2 The Council believes that the conventional distinction between "universal" and "selective" services (on the basis of whether or not means-tests are used) is simplistic and misguided. It is the combination of methods of financing social services, the eligibility criteria which apply and the actual patterns of utilisation which together determine whether they meet the objectives of social policy and whether the net benefits are received by those most in need. Using these criteria, only a small percentage of services can be unequivocally denoted as "universal" or "selective". The Council therefore concludes that while greater discrimination (in favour of those most in need) in distributing the net benefits of public spending programmes is necessary, such selectivity can be achieved only after careful examination of:

the distributive consequences of the methods of funding services, of the eligibility criteria for services and their patterns of use;

the effectiveness of delivery mechanisms in reaching those in need and their efficiency having regard to the total costs of administration including the real costs imposed upon consumers (Chapter 4).

These criteria for greater selectivity are the basis for strategies to achieve social policy objectives.

5.3 The Council believes that priority in the future development of social policy should be given to the redistributive impact of policies in particular by ensuring that the net benefits of overall "welfare" (both

direct transfers, such as social security payments and indirect transfers, such as the relief provided by allowances in the tax system) are concentrated on those most in need. For this to occur four principles should be applied in the development of social policy:

- (i) the need to evaluate the distributive consequences of services, subsidies, direct and indirect transfers and their funding for different income and social groups in the community;
- (ii) the need to take cognisance of the different dimensions of welfare: public, fiscal and occupational;
- (iii) the need to examine the effects of methods of delivery of services on consumers, and
- (iv) the need to develop positive discrimination in the allocation of resources in favour of those whose needs are greatest.

5.4 The first requirement is that there should be a clear understanding of the distributive consequences of existing and proposed policies. This requirement acquires even greater importance in the light of the extent of demands for social expenditure and the difficulties in funding public expenditure which were outlined in Chapter 3. In its first report on social policy, the Council urged that:

"when important changes in policies, programmes and procedures are proposed the Government should publish estimates of the amount and the distribution of the benefits likely to be conferred. These estimates are necessary if rational decisions about social matters are to be made."<sup>1</sup>

Similar recommendations were made in a later report on public expenditure (NESR Report No. 21). In the White Paper, *National Development 1978-81*, the Government accepted the need for this distributional data to be made available. There is little evidence that this basic requirement for effective social policy-making is any nearer to being met. A recent report<sup>2</sup> has estimated the distributive consequences of revenue and expenditure programmes for households at different income levels. However, this material related to 1973 and a delay of this order renders the information of limited value for policy purposes. The Council recommends that an analysis of the distributive impact of taxes and transfers, based on the Household Budget Survey of 1979, be undertaken as a matter of urgency, with a view to publication by mid-1982 at the latest.

<sup>1</sup>NESC, Report No. 8, page 14.

<sup>2</sup>CSO, *op. cit.*



5.5 The Council urges most strongly that priority be given to the clear identification of the distributive consequences of taxation and expenditure programmes. Proposals for changes in policy should be accompanied by estimates of such consequences and how the Government sees these consequences as meeting:

- (a) the aims of the specific policies in question and
- (b) the overall aims of social policy.

The rigorous analysis and planning which this exercise and the subsequent public debate would require are indispensable to rational planning and the development of a coherent social policy.

5.6 The necessity to examine the distributive consequences of policies requires that the impact of services provided by different public agencies be compared to establish a set of priorities in the allocation of resources. It may be that the level of unmet need in one service area may require additional resources, even if this requires that expansion in other social services be deferred. The Council proposes to comment, in the context of a report which it has commissioned, on the institutional arrangements which may be necessary for social planning. In particular, the Council proposes to comment on the question of a central mechanism which would facilitate the comparative assessment of proposals from different functional areas in terms of their social priority and which the Council considers would be extremely valuable. The need to formulate a set of priorities is heightened by the problems of public finance which are likely to continue for the foreseeable future.

5.7 A related pre-requisite for achieving redistribution is that we should have adequate data concerning the distribution of income and wealth in this country. The absence of acceptable minimum information in this area prevents any evaluation of trends in inequality and therefore any overall assessment of the impact of social policy. The compilation of this material should be accorded the same importance as the collection of data on levels of total output in the community. The Council recommends that the preparation of this data be undertaken by the appropriate authorities as a matter of priority.

5.8 From existing data it is possible to demonstrate the distributive consequences of certain social expenditure programmes and to make certain recommendations accordingly. The Council is unable to make more specific recommendations on priorities both within and between services without considerably more detailed information and analysis. However, in the light of the available evidence it is possible to conclude, for example, that expenditure on education benefits higher income

groups more than proportionately because of their relative participation rate in the senior cycle of second level and third level education. The Council in previous reports<sup>3</sup> has recommended that priority in the educational sector should be given to the primary and junior cycle of the second level sectors. The Council reiterates that recommendation, while recognising that many aspects of third level education are very important for economic and social development and that this importance must also be reflected in educational policy. The Council also recommends that serious attention be given to policies designed to increase participation by low income families beyond the minimum school leaving age. Consideration might be given to measures to lower the real cost to low-income families of education of their children beyond minimum school-leaving age.

5.9 With regard to housing policy, it is clear that the existing system of subsidies does not concentrate benefits on those most in need. The Council has already discussed the inequitable consequences of housing policy in its *Report on Housing Subsidies*, Report No. 23. Owner occupiers receive subsidies through the payment of grants to first time purchasers of new houses, the exemption of interest payments from tax at the tax-payer's marginal rate and the exemption of imputed rent from taxation. Local authority tenants pay rents in accordance with their income which in many cases are less than an economic rent for the property concerned. Furthermore, tenants who purchase their home from the local authority receive an additional subsidy. Tenants of private landlords, who include some of the poorest groups in the community receive no subsidy towards their housing costs.<sup>4</sup> The Council recommends that the system of housing subsidies including tax reliefs, be revised to concentrate on those whose needs are greatest. In an earlier report the Council recommended that consideration be given to "confining tax relief on interest payments to tax at the standard rate only or for a limited period, or the fixing of a lower maximum on loans eligible for tax relief."<sup>5</sup> The Council believes that this proposal still merits consideration.

5.10 With regard to income maintenance services, the distributive consequences of the system is largely a function of coverage and

<sup>3</sup>Report No. 12, *Educational Expenditure in Ireland*, (Dublin, 1976); NESC Report No. 53, *Economic and Social Policy 1980-83: Aims and Recommendations*, (Dublin, 1980).

<sup>4</sup>However, supplementary welfare allowances may be claimed in respect of rent expenditures by those who satisfy a means-test.

<sup>5</sup>NESC Report No. 23, *Report on Housing Subsidies*, (Dublin, 1977), page 22.

methods of funding. At present a number of categories of employee are excluded from the scope of social insurance, of whom the most numerous are relatives assisting in a family farm or business. Furthermore, public servants, doctors and dentists are liable only for a limited form of social insurance. The self-employed are excluded from social insurance and are dependent upon means-tested social assistance payments, which are financed exclusively from general taxation. Since social insurance is generally regarded as a form of tax,<sup>6</sup> it might be argued that all employees and the self-employed should be brought within its scope.

5.11 Another aspect of the distributive consequences of income maintenance services is the effect of income-related social insurance benefits. These are now paid in the case of unemployment, maternity and disability benefit. It is expected that a White Paper concerning the introduction of a national income-related pension scheme will be published later this year in accordance with the terms of the Second National Understanding. The introduction of pay related benefits has been widely welcomed as they reduce the distress caused by interruption or cessation of earnings from employment. However, they serve to perpetuate inequalities generated in the labour market and therefore benefit the better-off most (within certain limits). This highlights the need to make political judgements about the forms of inequality, the elimination of which should be given priority within social policy: over the life of an individual, when pay related benefits are more effective, or between occupational groups at any given time, when flat rate payments benefit the low paid most, proportionately. At the very least, the distributive consequences of existing arrangements should be kept under careful review and the level of flat rate payments should be continually up-graded.

5.12 With regard to health services, the Council is concerned that some forms of expenditure entail a regressive subsidy of the higher income groups. Thus, subsidies to patients in private hospitals amounted to £8.8 million in respect of general hospitals and £3.5 million in respect of psychiatric hospitals in 1980. Private hospitals cater almost exclusively for the higher income groups and do not normally treat Category I patients (i.e. those who are eligible for all medical care free of charge). Although the net effects to the Exchequer of abolishing such subsidies would be negative if a significant proportion of patients in private hospitals were to exercise their right to treatment in public

<sup>6</sup>The payments made by employers and employees are formally designated as contributions to the social insurance fund, from which insurance benefits are paid.

hospitals, the balancing of such pragmatic cost considerations against the obvious equity dimension merits continuing review. In the tax year 1978/79 the premium income of the Voluntary Health Insurance Board was £20.3 million,<sup>7</sup> the payment of which was claimable against income tax in 1979/80 at the marginal rate: the relative value of tax relief claimed flows disproportionately to the upper income groups. The revenue foregone from this source was, however, estimated to cost £4 million<sup>8</sup> — a surprisingly low figure in the circumstances. On the basis of these figures, however, the net effect is that in 1979 subscribers, who represented 22 per cent of the population, paid £16 million (net of tax relief) through the VHI mainly to cover optional private hospitalisation and they received a £4 million subsidy from the Exchequer for this purpose. The extension of eligibility for hospital services free at the point of use in 1979 (and consequently of the financing of the services by the Exchequer and compulsory health contributions) has substantially altered the context in which tax relief for medical insurance was introduced. Only those earning more than £8,500 per annum are obliged to meet direct at point of use any costs (i.e. consultants fees) arising from treatment in a public ward. In 1979/80 less than 3 per cent of persons insured with the Voluntary Health Insurance Board were insured solely for those costs: the remainder were insured to meet the costs of treatment in private accommodation of various kinds.<sup>9</sup> The Council recommends that future developments in the health services should reflect the distributional aims of social policy. In this context, for example, the extension of eligibility for free consultant treatment may be of less priority than other needs in this sector. Furthermore, the desirability of continuing the subsidy of medical insurance premia through the tax system may be questioned in view of the distributive consequences of how the relief is actually used and the existence of entitlement to free hospital treatment.

5.13 The interaction of the three dimensions of welfare: social, fiscal and occupational is of great importance for the achievement of a more equitable society. At present, the fiscal welfare system of tax allowances and deductions is of most benefit to higher income groups. The desire to achieve greater equity in this system, in particular by extending its benefits to those whose incomes are too low to benefit from tax allowances, led the Council to commission a report on proposals for integra-

<sup>7</sup>Voluntary Health Insurance Board, *Annual Report 1979/80*.

<sup>8</sup>*Interim Report of the Government — ICTU Working Party on Taxation, 1980*.

<sup>9</sup>VHI, *op. cit.*

tion of the income tax and social welfare systems.<sup>10</sup> Both the income tax and social welfare systems involve the transfer of resources between different groups in the community. At present, large sums of money are paid into the Exchequer for redistribution to designated groups. In many cases, the beneficiaries are also substantial tax-payers. Three options are outlined in NESC Report No. 37 *Integrated Approaches to Personal Income Taxes and Transfers* for the integration of these services in order to ensure that they operated effectively in the same direction. The three options were:

*a non-refundable tax credit scheme:* tax credits would be introduced to replace the present tax-free allowances, the higher income tax rates would be reduced and there would be no change in the administration of social welfare payments;

*a refundable tax credit scheme:* as in the first scheme with the addition that those with tax liabilities less than their allowable tax credits would receive a refund equal to the difference, income tax rates would be raised and short-term social welfare payments would be taxed;

*an individual grant and tax scheme:* all tax free allowances and social welfare payments would be abolished and all persons would receive a non-taxable cash grant varying with age and employment status, while all income would be subject to direct tax at a standard rate.

5.14 These schemes represented progressively more integrated arrangements. On the assumption that introduction of these arrangements should cause no loss of income to tax-payers and benefit recipients as compared with the present situation, a refundable tax credit scheme and the grant and tax scheme were estimated to involve substantial additional expenditure from public funds. The administrative arrangements which would be necessary to implement these schemes would require a degree of sophistication and complexity greater than is available at present. The Council was not in a position to comment on the administrative feasibility of these proposals; however, the proposals represented in the Council's view:

"a framework within which discussion (and indeed action) about the relationship between income tax and social welfare could develop fruitfully".

These proposals still merit detailed examination by the competent authorities. The Council believes that it is not possible to recommend the introduction of any particular strategy without a careful examina-

<sup>10</sup>NESC Report No. 37.

tion of the precise distributive and administrative characteristics of the arrangements to be implemented. The Council notes that some aspects of these proposals are under examination in the context of the Second National Understanding and recommends that proposals based on this examination be published for public discussion. Even should proposals for full integration of the tax and welfare systems prove difficult to implement in the short term, the Council recommends that the benefits of the allowances and reliefs provided in the tax system, in particular the allowances for interest paid, life assurance and medical insurance premia, should not flow disproportionately to the higher income groups. The Council recommends that the implications of giving effect to this recommendation be examined by the Commission on Taxation. Reductions in the level of income exempt from tax could enable marginal rates of tax to be reduced, with possible increases in incentives, or tax thresholds to be raised.

5.15 A most pressing argument for greater integration of the tax and social welfare systems is that their interaction at present can generate a poverty trap, such that the effective marginal tax rate on persons moving from social security payments to employment earnings can be greater than 100 per cent. This can arise when a person in receipt of, say, unemployment assistance returns to work, losing a tax-free income in the form of transfer payments for himself and his dependants and receiving, instead, earnings which are liable to income tax and social insurance payments. If his earnings are above the income limit, he may lose entitlement to means-tested benefits, e.g. medical card and, in addition, he may face unavoidable employment-related expenses. In the light of the income splitting arrangements introduced in 1980, the tax threshold for families has been significantly raised with the result that the problem of the poverty trap has been eased considerably. However, it remains a difficulty for a minority of large families where the payments in respect of child dependants in the social welfare system can be substantial.

5.16 The Council therefore considers that the introduction of a substantial child benefit payable irrespective of earnings and the abolition of child tax allowances would remove the principal cause of the poverty trap. The Council has recommended the introduction of a child benefit scheme on a planned basis as a long-term development in family income support, (NESC Report No. 47, *Alternative Strategies for Family Income Support*).<sup>11</sup> This move, which would involve the elimination of

<sup>11</sup> Senator Whitaker and Mr O'Coifigh do not join in the recommendation in paragraph 5.16 that a child benefit be paid in respect of all children, to replace children's allowances and child tax allowances. They reiterate their view, as explained in NESC Report No. 47, *Alternative Strategies for Family Income Support*, that aid should be confined to families in need.

the child tax allowances, would ensure that the value of the benefit did not increase with income while removing possible disincentives. The Council recognises that this is a partial response to the challenge of integrating income tax and social welfare systems. Nevertheless, it is considered that it is this aspect of their interaction which gives greatest cause for concern and therefore should be acted upon in advance of more far-reaching and therefore more long-term development. The Council recognises that substantial extra costs would arise if the proposed benefit were paid to those who do not currently benefit from child tax allowances. It therefore recommends that such a benefit be introduced gradually, over a period of years.

5.17 The Council believes that the achievement of a progressive tax system forms the basic requirement for greater selectivity in social expenditure. The work of the Commission on Taxation is expected to provide guidelines as to how greater progressivity may be achieved and the distributive consequences of the tax system continually evaluated. In particular, the Council would wish to see a situation where distributive changes effected by the tax system would be the result of positive decision making and not the passive consequences of inflation. The effects of inflation on the tax system are demonstrated in NESC Report No. 47 to have had a substantial impact on the welfare of poor families. The Council would be anxious that the operation of fiscal drag should not result in such negative redistribution without public debate in the future.

5.18 The Council believes that it is desirable that we develop a clearer understanding of how the consumers of social services are affected by the arrangements made for the delivery of social services. Much of the discussion about the impact of services on consumers is not based on empirical research. In view of the importance of this issue and the international evidence for low levels of take-up of some social services by those for whom they are provided, the Council recommends that the responsible Departments should commission research into these effects and should change services in accordance with their findings. Attention should be paid to the image of individual services among different groups of consumers, the effects of procedures and administrative arrangements on the self-image of clients and the real costs which these arrangements impose on clients. These costs should be reflected in the estimates of expenditure published in respect of each new policy proposal. The concern with the impact of services on users is directly related to the pursuit of social justice and responsible citizenship. The Council believes that substantial progress can be made in this field without additional public expenditure.

5.19 The concern about the negative effects of means-testing stems from a concern about their effects upon clients obliged to undergo such tests. The difficulties which means-tests can pose for potential applicants were outlined in Chapter Four. Furthermore, NESC Report No. 38 (*Universality and Selectivity: Social Services in Ireland*), outlined the anomalies and difficulties which can be created through the operation of numerous means-tests devised and administered under different administrative arrangements. It is recognised that many services will continue to be provided on the basis of a means-test. The Council believes that the effectiveness and acceptability of means-tests could be heightened if some specific principles were adopted in their regard.

5.20 Therefore, the Council recommends:

- (a) *definition of means*: standard methods of calculating income (in particular treatment of capital assets, the value of benefits in kind and outgoings on household and other expenses) should be used, even where the levels of income which constitute the means-test vary;
- (b) *treatment of dependants*: account should be taken of commitments in respect of dependants in all social services and a consistent approach should be taken to relating the expense of rearing a child to the expenses of adults;
- (c) *maintenance of real value and means limits*: the level of means limits should be automatically increased in line with changes in the level of average adult male industrial earnings, to ensure that their relative value is maintained;
- (d) *appeals procedures*: simple, accessible and effective appeals procedures should be available in respect of all services, the reasons for refusal of an application for a benefit should be provided automatically to the applicant and the possibility of appealing should be drawn to their attention.

#### Co-ordination of Benefits

5.21 Much of the real cost of administering services on a means-tested basis falls on applicants, in terms of the time, travel, delay and discomfort which multiple means-testing can occasion. Insofar as benefits are provided on a means-tested basis, every opportunity should be taken to minimise the number of occasions on which an individual's means are investigated. There are two principal methods by which this objective could be accomplished and the Council recommends that they receive urgent attention from the agencies in question. First, the extension of the "passport principle" would assist in many cases. Under

this system, persons who have established eligibility to one particular service, e.g. medical card, may automatically qualify for other services without a means-test. In fact, this principle is already in operation for some services, principally using the medical card as a passport. Its extension to other areas should be considered. One possible disadvantage is that refusal of an applicant for one particular benefit may result in his exclusion from a range of others. However, it should be possible to establish at one means-test whether an applicant is eligible for benefits, other than the one applied for, if different eligibility criteria apply, and to inform applicants of their entitlement to such benefits.

5.22 The second method of co-ordinating means-tests is through the proposal, outlined in Reddin's study, of introducing a general eligibility test. In such a test no particular benefit is applied for but a person may apply to have his means investigated and to be given a list of the benefits to which he is entitled, irrespective of the sponsoring agency, and the reasons why he does not qualify for other benefits, e.g. the amount by which his means exceeds the limit. By pooling the testing arrangements for high and low status services, the risk of stigma attaching to means-testing could be reduced. Furthermore, if benefits to which the person is entitled were supplied automatically after the eligibility test (unless the applicant specifically stated that he did not wish to receive them), the problem of low take-up could be considerably improved. The administrative arrangements which would be necessary to enable this test to be introduced would require careful consideration. However, the development of highly sophisticated data handling facilities should permit the bridging of gaps between functional areas in the interests of simplicity and ease of access.

5.23 The Council recommends that a working party composed of representatives of the Departments of Social Welfare, Health, Education, Environment, Finance and independent members with appropriate expertise be established to review the operation of means-testing in the delivery of services. They should be asked to examine the steps necessary to implement the recommendations outlined in the preceding paragraphs. They should be empowered to commission research in this area and their conclusions should be published.

#### Information about entitlements

5.24 People cannot apply for benefits, whether or not they are means-tested, of which they are unaware. It is therefore of the greatest importance that appropriate methods be used to draw the attention of

potential beneficiaries to the existence of services and to the means of receiving them. The attempts made to publicise the availability of services are an indication of the attitude which those responsible for administering programmes have towards the potential beneficiaries. The publicity chosen, in addition to being effective in reaching the target group, must also ensure that the image of the service portrayed encourages potential beneficiaries to apply. As Reddin points out, "the format, style, location, tone and presentation of information can be crucial to its impact... Does the publicity appear in media which the poor significantly read or watch? What level of literacy does it presume?... Does the promotional message offer encouragement or dissuasion". The Council recommends that the expertise which is available in the market sector for promoting goods and services should be fully employed by public authorities in promoting social services. The Council stresses the importance which informal methods of communication have in transmitting information and opinions about available services. The potential of Community Information Centres and voluntary groups in the community in assisting take-up of services should be fully utilised. It is recommended that the relevant authorities sponsor research on the means of increasing knowledge about entitlements to services.

#### Conclusions on Means-Testing

5.25 The Council believes that some services will continue to be delivered on an income-related basis. These include in particular many income maintenance services (although the extension of social insurance coverage would reduce the use of means-testing in this area). The Council believes that, for the foreseeable future, the elimination of means-testing to determine access to services free at the point of use would be undesirable since it would result in a regressive subsidy i.e. the higher income groups would benefit most. The achievement of a comprehensive and progressive tax system, embracing direct and indirect taxes, would, however, substantially alter the role of means-testing in determining the net flow of resources. A non-progressive tax system can have perverse distributive effects which prevent the concentration of the net benefits of social expenditure on those in greatest need and which substantially outweigh the distributive effects of means-tested public services. For that reason, the achievement of an equitable tax system is just as important as the provision of public services for the attainment of social policy objectives. Nevertheless, the Council believes that the recommendations in the preceding paragraphs would substantially improve the situation of these using means-tested services.

## Administration of Services

5.26 The image of services may have an appreciable impact on the level of take-up, and this may be quite independent of the effects of formal eligibility criteria, including means-testing. This image can derive from the manner in which means-tests are conducted or the perceived attitude of public officials involved or the complexity of administrative procedures. The Council recommends that the design of application forms, the location and layout of buildings in which applicants are seen and the behaviour and perceived attitudes of staff should encourage application by potential beneficiaries and assure both simplicity and dignity. Those who are familiar with the reaction of consumers to the existing range of services have commented upon "the apparent inability of those responsible for some statutory services and structures to respond readily to the needs of disadvantaged people".<sup>12</sup> The very variety of services available and the number of agencies involved in their administration generates confusion and uncertainty. For example, in the area of income maintenance there are 13 social insurance benefits and 10 means-tested social assistance schemes as well as the children's allowance scheme administered by the Department of Social Welfare and there are 10 means-tested schemes administered by health boards.

5.27 The Council recommends that the relevant Departments give urgent consideration to the simplification of services and procedures in the social services. Some of the recommendations on means-testing contained in this Chapter are relevant to this but substantial administrative streamlining is necessary. Simplicity and dignity in the administration of services constitute one of the aims of social policy.<sup>13</sup> The Council recommends that all possible action be taken in pursuit of this aim.

### Positive Discrimination

5.28 As the fourth principle for the development of a more equal society, the Council believes that the future development of selectivity should highlight the role of positive discrimination, i.e. focusing more than proportionately on those whose needs are greatest. In many instances, needs are shared by groups and communities and the response to those needs must take account of the collective character of the need. In such instances, services attuned to those needs may be more appropriately delivered to groups and communities rather than to

<sup>12</sup> *Combat Poverty, op. cit.*, page 246.

<sup>13</sup> *Programme for National Development 1978-1981.*

individuals. In particular, it is recommended that the planning and delivery of education, health, and personal social services should take account of the needs of particular groups and residents of areas whose needs are known to be particularly great. Planning should attempt to ensure that the delivery of services is appropriate and acceptable to the groups in question and will encourage take-up of the service.

5.29 The development of social indicators has already been advocated by the Council.<sup>14</sup> The use of indicators would facilitate the identification of those areas or groups to whom particular attention and a more activist approach to the delivery of services (rather than one of waiting for applications to be received from individuals) would be appropriate. The identification of communities in need in the inner-city and outer suburbs has been the subject of a Council report<sup>15</sup> and similar methodologies are applicable in rural areas. However, positive discrimination need not be solely related to areas. For example, consideration should be given to whether resources for school might not be weighted on the basis of the educational needs of children rather than the total number of pupils per school, or whether transfer payments for child support might not vary with the age of the child, since the costs of child-rearing are known to vary with age.

### Recommendations on Social Expenditure

5.30 The Council has outlined the factors which have led to the present levels of public social expenditure and the factors which will lead to demands for increasing levels in the future (Chapter 3). The volume of expenditure and the difficulties of raising revenue to meet it are such that every programme of expenditure and every item of fiscal welfare (tax allowances) should be subject to systematic evaluation as to its efficiency and effectiveness. The Council has already outlined its views on how this might be done in respect of public expenditure in general.<sup>16</sup> These recommendations apply equally in the social area and include: the necessity to specify objectives for each item of expenditure, to monitor performance in each sector by reference to agreed indicators of output; to assess total cost of feasible alternative methods of providing services in order to maximise efficiency, and to incorporate the evaluation of established services into the routine of policy-making. In view of the labour intensity of many social services, the Council recom-

<sup>14</sup> NESC Report No. 17 *Statistics for Social Policy*, (Dublin, 1976).

<sup>15</sup> NESC Report No. 55 *Urbanisation: Problems of Growth and Decay in Dublin*.

<sup>16</sup> NESC Report No. 21 *Report on Public Expenditure*, (Dublin, 1976).

mends that particular attention be paid to methods of measuring and increasing productivity, for example by ensuring that only those tasks are assigned to staff for which their level of training and skill are required, thus releasing skilled and expensive manpower from routine activities which can be performed at lower cost.

5.31 The Council believes that the present economic difficulties should not deflect the community from the pursuit of social aims. The Council has already endorsed Professor Donnison's view that:

"We should not assume that in times of inflation, scarcity, and crisis, the nation cannot 'afford' equalising social policies. It was precisely in such times, during the last world war, that many countries adopted their most radically equalising policies. If such times came again Governments may be unable to retain the support and social cohesion of the governed unless they adopt similar policies."<sup>17</sup>

The Council is aware that the financing of social and other forms of public expenditure can prove more difficult when the total level of income in the community is not increasing in real terms. However, if social priorities were abandoned, this would merely serve to aggravate the effects of recession on the most vulnerable sectors of the community.

The Council therefore believes that levels of support for those most in need and the degree of redistribution within the community should at least be maintained in times of economic difficulty.<sup>18</sup> It follows that in periods of recession, those in employment or otherwise in receipt of a secure income have an even greater obligation to contribute to the support of those in need through taxation.

5.32 Equally, the Council believes that the securing of a sound economic base is of vital importance for the achievement of social policy objectives: indeed, the provision of employment in itself constitutes an aim of social policy. The Council has noted above the scale of the problem of providing jobs for those likely to be seeking work over the coming years. Just as economic difficulties should not be allowed to erode the progress made towards achieving a more just society, the pursuit of, for example, redistributive policies must take account of the possible consequences for wealth creation and employment. As in all areas of policy-making, the striking of a balance between possibly conflicting

<sup>17</sup> NESC Report No. 8, page 26.

<sup>18</sup> The Council notes the statement in the 1981 Budget Speech of the Minister for Finance: "The Government intend that those in need should not suffer by reason of changing economic conditions over which they have little or no influence."

objectives is a matter of political leadership. The Council believes, however, that apparent conflicts can be minimised if there is a political will to develop a more equitable society.

5.33 The Council stresses that the achievement of social policy aims requires measures in addition to high levels of public expenditure. The existence of discrimination on the grounds of age, social origin and address, as well as restrictive practices in the labour market, operate to stifle equality of opportunity for many groups. The Council has already drawn attention (paragraph 2.14) to the possible need to ensure that employment opportunities are equitably allocated in view of the rate of growth of the labour force. Appropriate legislation and education programmes to respond to these problems may be necessary and they are not substantially dependent upon expenditure levels and therefore should be pursued irrespective of economic conditions. Improvements in some dimensions of inequality can be brought about with relatively little expenditure allocated in an effective manner. The Council notes that the Combat Poverty Committee reported that:

"given support by way of personnel, small financial aid, information training and co-operation, disadvantaged people can:

- (a) do things for themselves and their communities;
- (b) they can participate effectively;
- (c) they can come to terms with the complexities of official services and structures;
- (d) they can provide insights in to accepted practices."<sup>19</sup>

The Council recommends that policies for the development of participation by disadvantaged groups in the making of decisions which affect them should form an important element in the strategy for social policy development.

5.34 The achievement of a more equal society can only occur with at least the acquiescence of public opinion. Public awareness of the extent of inequality and deprivation is therefore necessary. The Council urges that public education about the living conditions of disadvantaged groups, such as those dependent on social welfare payments, should be considered as a means of facilitating the development of social policy. The Council recognises that action in accordance with the social priorities outlined in this report may appear to run counter to the trend in public pressures and policies of recent years. For example, the size of

<sup>19</sup> Combat Poverty, *op. cit.* page 241.

the current budget deficit appears to indicate that the community as a whole is unwilling to pay for the high level of public spending, including social spending, which it desires. A willing readiness to share income through redistribution with those most in need must be fostered. Political leadership is necessary if the public support for necessary social development is to be forthcoming. This development of an enlightened public concern for the well-being of all our citizens should be a priority for those responsible for social policy-making, particularly in times of economic difficulty.

5.35 The Council believes that more public debate on the objectives of social development would help to generate the environment within which progress towards greater equality will be possible. The provision of adequate data on the distribution of incomes, the extent of poverty, the level of real transfers to different income groups and the choices available to promote greater equality should be made available by Government for informed debate. This debate involves the selection of priorities for our development as a community. It is therefore not solely a matter for Government or administrators but must be of concern to every sector. The Council would wish to see these issues receive the attention of all appropriate institutions and organisations in Irish life.

5.36 The choice between universality and selectivity in particular circumstances is a decision about who should pay for and who should use services which are provided by collective effort. This involves the setting of priorities for the allocation of resources within society and their distribution between different groups. In this report, the Council has attempted to outline the fundamental issues which are raised by these questions. It believes that they have received too little attention in Irish society, and that the time has now come when the energy, imagination and analysis which has been applied to the economic and industrial development of Irish society should be matched with equal effort and concern to ensure that all Irish people have an equitable share in the fruits of economic development.

TABLE 1

EXPENDITURE OF PUBLIC AUTHORITIES ON SOCIAL SERVICES 1971/2-1977 AT CONSTANT (1975) PRICES

	1971/2	1972/3	1973/4	1974	1975	1976	1977
Education	177,256	192,827	209,711	213,461	255,887	231,612	241,435
Health	167,470	189,208	211,171	230,676	240,503	249,153	270,088
Social Security and Welfare	250,726	260,821	311,307	337,311	395,409	406,275	409,148
Housing	96,483	105,235	128,363	152,314	152,331	116,862	106,471
Total	691,935	748,091	860,552	933,762	1,014,130	1,003,902	1,027,142
Of which: Transfers	361,230	370,916	474,051	516,972	577,375	560,935	554,310

AVERAGE ANNUAL % INCREASE  
1971-7

Education	4.5
Health	7.1
Social Welfare	7.3
Housing	1.4
Total	5.8
Transfers	6.3

Source: *National Income and Expenditure 1978*

Notes: (a) These figures represent expenditure by central and local government on goods and services, current and capital transfers and capital formation.

(b) The deflators used were: for current expenditure, the implicit deflator for net expenditure by public authorities on goods and services; for current transfers, the implicit deflator for personal expenditure on consumers' goods and services and for the remaining components, the implicit deflator for gross domestic fixed capital formation.



TABLE 2

## GOVERNMENT EXPENDITURE ON THE SOCIAL SERVICES, 1976 TO 1980

	Expenditure (current prices)				As % of Government Current Expenditure					
	1976	1977	1978	1979	1976	1977	1978	1979	1980	
	Provisional									
<b>Current Expenditure</b>										
Education	223.6	260.1	302.1	378.9	461.4	13.4	13.3	12.6	13.1	12.5
Health	252.4	307.2	370.9	455.5	617.2	15.2	15.7	15.5	15.7	16.7
Housing (a)	29.7	30.7	45.0	53.0	62.5	1.8	1.6	1.9	1.8	1.7
<b>Social Welfare (b)</b>										
(a) social insurance fund	198.5	234.6	265.7	297.5	382.0 (c)	—	—	—	—	—
(b) exchequer	246.9	274.5	314.4	376.4	485.9	14.8	14.0	13.1	12.9	13.1
<b>Total (excluding social insurance fund)</b>	752.6	872.5	1032.4	1262.8	1627.0	45.2	44.8	43.1	43.5	44.0
<b>Capital Expenditure</b>						As % Public Capital Programme				
Education	28.0	37.4	46.9	53.1	60.8	5.1	5.6	5.9	5.3	4.8
Health	11.2	16.0	21.5	27.5	35.0	2.0	2.4	2.7	2.7	2.8
Housing	107.1	100.7	135.5	159.3	201.4	19.5	15.2	6.9	15.8	15.9
<b>Total</b>	146.3	154.1	203.9	239.9	297.2	26.6	23.2	25.5	23.8	23.5

Sources: Budget 1981, Report of the Department of Social Welfare 1976-78, Department of Finance.

Notes: (a) This is the amount voted as a subsidy for houses provided by housing authorities for letting, and other minor subsidies.

(b) The expenditure shown for the social insurance fund is only that portion derived from contributions from employers and employees and other, non-exchequer, income. The exchequer figures include grants to the social insurance fund.

(c) The social insurance fund figure for 1980 is an estimate; an out-turn figure is not yet available.

TABLE 3

## MAIN HEADS OF CURRENT GOVERNMENT EXPENDITURE AS % GNP, 1971-8

	1971/2	1972/3	1973/4	1974 <sup>a</sup> (Apr.-Dec.)	1975	1976	1977	1978	1979	1980 provisional
Service of Public Debt	6.1	5.7	5.5	6.5	6.5	7.5	7.5	8.2	8.6	9.5
- of which service of foreign debt	0.3	0.4	0.3	0.4	0.9	1.2	1.5	1.5	1.4	2.0
Economic Services	6.7	6.4	4.9	4.8	4.6	4.4	4.0	3.9	4.2	4.2
General Services	4.5	4.9	4.9	5.5	5.9	5.8	5.5	5.6	5.8	6.8
Social Services	11.2	11.1	12.6	13.9	15.8	16.0	15.8	15.8	16.8	18.8
Other expenditure	1.7	1.7	2.1	2.5	2.7	3.2	3.7	4.9	4.9	5.2
<b>Total</b>	30.2	29.7	28.9	33.2	36.0	36.9	36.5	38.4	40.3	44.5

Sources: Budget book, various years.

Note: <sup>a</sup> Figures are estimates based on 9 months expenditure.

TABLE 4

TAX REVENUE AND INCOME TAX REVENUE AS PROPORTION  
OF GNP, 1977-80

	Total tax revenue as % of GNP	Taxes on income and wealth as % of GNP
1977	32.0	16.5
1978	31.6	16.2
1979	32.2	17.2
1980	35.7	19.5

Sources: Annual Budget Booklets (national income classification of the budget).

TABLE 6

DEMOGRAPHIC CHARACTERISTICS OF EEC MEMBER STATES 1978  
- AGE DISTRIBUTION AND DEPENDENCY RATIO

Per cent	Under 15 years	15-64 years	65 years +	Dependency ratio
Belgium	20.9	64.9	14.2	54.1
Denmark	21.8	64.2	14.1	55.9
France	22.9	63.2	13.9	58.2
Germany	19.6	65.1	15.3	53.8
Italy	21.8	66.3	11.9	50.8
Luxembourg (a)	19.8	66.8	13.4	49.7
Netherlands	23.5	65.2	11.2	53.2
United Kingdom	22.0	63.5	14.5	57.5
Ireland (a)	31.4	57.8	10.8	73.0

Source: OECD, Labour Force Statistics 1967-78, (Paris, 1980).

Note: (a) Figures relate to 1977.

TABLE 5

SOURCES OF TAXATION (%) - EEC MEMBER STATES 1978

	Income and profits	Social security	Employer payroll	Property	Goods services	Other
Belgium	41.06	30.02	-	2.8	26.13	-
Denmark	54.17	1.34	-	6.11	38.25	0.13
France	17.88	42.04	2.26	3.33	31.27	3.22
Germany	35.68	33.9	0.69	2.95	26.05	0.74
Ireland	33.64	13.73	-	5.88	46.64	0.11
Italy	29.33	40.71	-	3.68	26.28	-
Luxembourg	47.98	28.47	0.77	5.15	17.63	-
Netherlands	32.7	37.3	-	4.13	25.62	0.25
United Kingdom	41.1	18.33	2.93	12.19	26.54	0.21
EEC	37.06	27.31	0.74	5.14	29.23	0.52

Source: OECD; Revenue Statistics of OECD Member States 1965-1979.

TABLE 7

SOURCES OF CENTRAL GOVERNMENT TAX REVENUE 1980

	£m.	%
Income Tax	1,014.3	38.7
Excise Duties	898.2	34.3
VAT	471.6	18.0
Corporation Tax	139.8	5.3
Capital Taxes	14.4	0.55
Other	81.4	3.1
	2,619.7	100

Source: Budget 1981.

TABLE 8

PROPORTION OF INCOME TAKEN THROUGH TAXES: HOUSEHOLDS WITH 2 ADULTS AND 2 CHILDREN, 1973

Direct Weekly Household Income		Direct taxes as % of direct income (including social insurance contributions)	Indirect taxes as % of disposable income
In 1973	Relative position (£30 to £35 = 100)		
Under £7	Under 22	0.4	30.0
£7 and under £15	22-46	11.1	29.4
£15 and under £20	46-62	5.6	30.7
£20 and under £25	62-77	7.4	27.5
£25 and under £30	77-92	8.7	23.8
£30 and under £35	100	10.8	26.3
£35 and under £40	100-108	9.4	31.1
£40 and under £50	108-154	11.7	21.4
£50 and under £60	154-185	11.7	20.7
£60 and under £80	185-246	15.1	17.0
£80 and over	246+	12.4	12.7
All households		11.3	21.8

Source: *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973: Estimated from the 1973 Household Budget Survey, Stationery Office, (Dublin, 1980).*

Notes: Indirect taxes are: rates, motor taxation, VAT, fiscal duty, licences. Total Benefits are: (i) cash benefits: children's allowances, social welfare pensions, unemployment benefits and assistance, other cash benefits; (ii) estimated non-cash benefits: medical services, education, housing, other.

TABLE 9

FINAL WEEKLY INCOME AFTER ALL TAXES AND BENEFITS AS A PROPORTION OF DIRECT INCOME OF ALL HOUSEHOLDS IN STATE, 1973 CLASSIFIED BY HOUSEHOLD COMPOSITION AND DIRECT INCOME  
(ratio of 1.00 or greater denotes average "net" gain - i.e. benefits exceed taxes)

Household Composition (a)	Direct Weekly Household Income (b)														STATE
	Under £7	£7 and under £15	£15 and under £20	£20 and under £25	£25 and under £30	£30 and under £35	£35 and under £40	£40 and under £50	£50 and under £60	£60 and under £80	£80 and over	†	†	†	
1 adult	5.82	0.98	0.86	0.74	0.77	0.84	0.86	0.71	†	†	†	1.13			
2 adults	5.56	1.26	0.92	0.88	0.79	0.75	0.74	0.72	0.74	0.71	0.71	0.79			
3 adults	6.84	1.84	1.19	1.06	0.94	0.88	0.83	0.77	0.77	0.75	0.75	0.77			
4 adults	8.59	1.72	1.40	1.17	1.12	1.03	0.93	0.84	0.79	0.75	0.76	0.76			
Other households without children	†	†	1.55	1.27	1.20	1.09	0.91	1.09	0.85	0.84	0.79	0.88			
2 adults with 1 child	7.31	1.19	0.90	0.79	0.75	0.73	0.68	0.72	0.69	0.69	0.83	0.78			
2 adults with 2 children	7.07	1.68	1.02	0.88	0.89	0.80	0.74	0.79	0.76	0.75	0.79	0.81			
2 adults with 3 children	17.46	†	†	1.01	1.00	0.96	0.87	0.87	0.84	0.76	0.82	0.91			
2 adults with 4 or more children	29.66	2.71	1.47	1.30	1.22	1.12	1.11	1.02	0.96	0.90	0.93	1.11			
2 adults with children	15.13	1.91	1.08	1.02	0.98	0.93	0.88	0.86	0.83	0.78	0.86	0.92			
3 adults with children	27.90	2.48	1.55	1.33	1.18	1.14	1.05	0.98	0.95	0.91	0.90	1.07			
4 adults with children	10.82	3.11	1.79	1.48	1.27	1.10	1.13	1.07	0.94	0.91	0.90	1.06			
Other households with children	17.19	2.29	2.60	1.98	1.58	1.44	1.29	1.14	1.07	0.98	0.87	1.05			
ALL HOUSEHOLDS IN STATE	7.22	1.51	1.16	1.07	0.99	0.95	0.91	0.90	0.86	0.84	0.83	0.96			

Source: CSO, *Redistributive Effects of State Taxes and Benefits on Household Incomes in 1973*.

(a) A "child" is defined as a person under 14 years of age.

(b) Direct household income is regular weekly income before taxes and benefits.

† Estimates not shown because of the small number of sample households involved.

TABLE 10

RELATIVE RATES OF PARTICIPATION IN UNIVERSITY EDUCATION  
(NATIONAL), AND IN FIRST YEAR OF THIRD-LEVEL EDUCATION  
(DUBLINERS ONLY) IN 1978/9 BY SOCIAL GROUP

	All full-time university undergraduates 1977/8	Dubliners in first year		
		DIT (a)	Colleges of education (b)	All third level
Higher professional	6.0	13.2	7.1	21.2
Lower professional	6.8	7.3	10.1	7.2
Managerial and executive	17.4	30.8	36.9	29.7
Senior salaried employees	9.6	12.9	6.6	13.8
Intermediate non-manual workers	13.0	11.0	18.5	10.5
Other non-manual workers	3.1	4.2	6.4	3.5
Skilled manual workers	8.0	10.2	4.8	6.7
Unskilled manual workers	1.8	1.0	—	—
Farmers	1.4	1.6	—	—
Other agricultural workers	18.2	1.3	3.0	1.2
	0.7	—	0.6	0.4

Source: P Clancy and C Benson, *Higher Education in Dublin*, Higher Education Authority (1979).

Notes: (a) Combines data for 5 colleges of the Dublin Institute of Technology, Kevin Street, Bolton Street, Rathmines, Parnell Square, Cathal Brugha Street.  
(b) Combines data from all colleges involved in the training of primary teachers and teachers of physical education, home economics and rural science.

TABLE 11

PROPORTION OF CHILDREN OF EACH OCCUPATIONAL GROUP FALLING  
INTO THE "BACKWARD" AND "ADVANCED" READER CATEGORIES

Occupational group	% Backward (a)	% Advanced (b)
Farmers, farm managers	22.2	9.2
Other agricultural, fishermen	21.4	11.1
Higher professional	1.2	44.9
Lower professional	3.0	34.7
Employers, managers	5.7	32.9
Salaried employees	8.9	29.8
Intermediate non-manual	11.4	24.7
Other non-manual	17.3	11.4
Skilled manual	15.8	13.4
Semi-skilled manual	19.1	6.9
Unskilled manual	29.4	4.4
Total	15.9	46.3

Source: T.D. Swan, *Reading Standards in Irish Schools*. The Educational Co. of Ireland, (Dublin, 1978), p. 60.

Notes: (a) "Backward" is defined as those with a "raw" reading score of less than one standard deviation below the grade mean on a test of reading achievement (National Survey Form Six).  
(b) "Advanced" is defined as those with a "raw" reading score of more than one standard deviation above the grade mean.

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