Budget 2016

Equality Analysis

November 2015

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Summary

Budget 2016 was the second Budget in a row that included both tax cuts and spending increases. In the aftermath of the financial crisis and a series of Budgets that included severe cuts, this Budget is a sign of a more positive economic outlook.

Given the scale of the adjustments that have taken place, it is important as we enter a period of economic upturn that we ensure that the recovery is both equitable and sustainable. This paper is an equality analysis of Budget 2016 based on TASC's research on economic inequality in Ireland, most notably through the first analysis of economic inequality in Ireland *"Cherishing All Equally"* published in February 2015.

In line with the "Equality Lens" formulated by TASC this paper analyses Budget 2016 in terms of income, wealth, public services, taxation, family, personal capacities and the cost of living.

Budget 2016 affected income in three ways: changes to social protection payments, changes to income tax and the USC, and an increase in the minimum wage. However these changes need to be understood in the context of changes to market incomes. According to figures released by Revenue, the total income of those liable for income tax was €77 billion in 2011. By their calculations, this is expected to rise to €98 billion in 2016. The most startling thing about these figures is how unequal the gains have been. Of the €21 billion in extra cash, about €12 billion, more than half, has gone to the top 10% of earners.

Similar to Budget 2015 the changes to USC rates gives the biggest cash return – in absolute and relative terms – to those earning €70,000: which we named the Budget 'Sweet Spot'. Revenue's analysis of income tax cases showed that a gross income of €75,000 puts someone in the Top 10% of earners in Ireland - which highlights the regressive nature of tax changes that give the greatest benefit so high up the income distribution.

The minimum wage increase of 50c in the Budget is welcome, as is the PRSI credit system which gets rid of the PRSI step effect, something that TASC had previously proposed[1]. However, this increase falls far short (more than 25% below) of the Living Wage of €11.50 per hour which is required to help lift the 350,000 people in the workforce (19.2 percent) suffering multiple deprivation experiences out of poverty.

On the expenditure side, while there has been an overall increase in public spending, Budget 2016 does not change the fact that Ireland has one of the lowest levels of public spending and investment in the EU at 36% of GDP (against the Euro area average of 49.5%). Budget 2016 continues the low public spending and investment model, with heavy reliance on direct income transfers to address the fact that we have one of the highest levels of income inequality and living costs in Europe.

In addition, cutting taxes weakens the base for public spending to provide investment which is essential for sustainable social and economic recovery for all.

[1] TASC 2014: PRSI Step Effect http://www.tasc.ie/publications/tasc-prsi-step-effect-for-low-income-workers/

Government spending in 2016 will be €51.4bn, almost €2bn short of what was being spent in 2008. Yet the social needs have risen dramatically since 2008. For example, 1.4 million people are experiencing deprivation which is an increase of 128% since 2008. The proportion of children living in consistent poverty doubled from 6.8% in 2008 to 11.7 per cent in 2013. One in 6 children and one in 10 people aged over 65 are at risk of poverty.

The projections for spending increases in key areas of housing, health, social protection, education and transport do not undo the damage from the austerity period nor are they likely to address the multiple demands that will be faced in coming years from on-going deprivation and the fall-out from the austerity period, demographic changes and higher economic growth.

It is unclear, therefore, how the positive developments in Budget 2016 (particularly in the area of health and early childhood education) can be translated into meaningful improvements in our public services and social and economic infrastructure in the medium term. This suggests a form of permanent 'austerity-lite' in public services and spending in coming years.

This approach will leave Ireland extremely vulnerable and unprepared for the inevitable slow-down in economic growth which could come sooner than currently projected given the fragility of the international economic context and rising global inequality.

The following sections provide a more detailed break-down of the key areas that TASC identified as affecting the potential to achieve a more equal and sustainable recovery, while the final section provides some alternative approaches.

The analysis begins with a look at how Budget 2016 affected incomes, looking at changes in social protection payments, the minimum wage and income tax. Changes to capital taxes are addressed in the section on wealth inequality. A section on public services looks at capital spending, debt interest, healthcare and community development. A cost of living section looks at housing and how inequality is affected by family composition through the changes announced around childcare. The final section on personal capacities looks at education, disabilities and mental health.


Income
Wealth
Cost of Goods and Services
Public Services
Economic Inequality
Capacities
Taxation
Family Composition

Income

Budget 2016 affected income in three ways: changes to social protection payments, changes to income tax and the USC, and an increase in the minimum wage. However these changes also need to be understood in the context of changes to market incomes.

According to figures released by Revenue, the total income of those liable for income tax was €77 billion in 2011. By their calculations, this is expected to rise to €98 billion in 2016. This €21 billion in new income represents an increase of more than a quarter in just five years. This includes 355,000 new tax cases (either couple or individuals), a rise of 17% from just over two million to 2.4 million (see appendix of this paper for all calculations).

The most startling thing about these figures is how unequal the gains have been. Of the €21 billion in extra cash, about €12 billion, more than half, has gone to the top 10% of earners. Two thirds of it - €14 billion - has gone to people who earn more than €70,000, despite the fact that they make up less than 15% of Revenue's income tax cases.

On the other hand, less than a third (€6.5 billion) has gone to the middle 60% of earners, with only 6% of all the increase going to the bottom 50%.

This represents a fundamental shift in how the market distributes income. From 2011 to 2016 the share of income going to middle income earners fell from 52% to 46% which is a loss of more than 10% of the share of all income. At the same time, the Top 1% went from having 9% of all income to having 11% of all income – a gain of more than 20%.

Social Protection Income

While there is some welcome (partial) restoration of some areas of cuts to social welfare, particularly to lone parents (although the allocation to the One Parent Family Payment has been reduced from €607m in 2015 down to €500m in 2016, an 18% reduction), there was no increase in the basic rate of social welfare which remains the same as it was in 2011, while cuts to welfare assistance for those under 25 remain in place. This is despite the fact that inflation has increased 4.5% since 2011 and thus erodes the value of the basic social welfare payment. The restoration of the Christmas bonus will provide only an extra €1.81 per week to a jobseeker (on top of 90 cent in Budget 2015).

Furthermore there have been reduced budget allocations to some areas of welfare, particularly housing, children and education, which suggest that these will be more difficult to obtain. The allocations to the Back to School clothing & footwear scheme were cut by €44.3m to €35.5m (-20%) and the Back to Education Allowance allocation was reduced from €146m to €121m (-17%). Rent Supplement allocation was reduced from €298m to €266m (-11%)[2].

The importance of social welfare payments is shown by the fact that 49.8% of Ireland's population would be at risk of poverty (up from 43% in 2008) without such payments. The basic social welfare rate for a single person is almost €20 a week below the poverty line[3].

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[2] Brian Harvey, The Wheel Budget 2016 Analysis (October 2015)
[3] Social Justice Ireland, Budget 2016 Analysis and Critique (October 2015)

Note also that only 15% of Social Protection spending is for those who are unemployed (€3bn out of €19bn). 80% of people who currently receive social protection payments would be better off in work rather than on welfare[4]. What traps people 'on welfare' is the withdrawal of benefits when people enter work (medical card, housing support). This is because of low wages and high cost of housing, medical and other costs, not 'generous' welfare. What stops people entering the labour force is the lack of services such as childcare, elder-care and support for people with disabilities.

Minimum Wage

The minimum wage increase of 50c in the Budget is welcome, as is the PRSI credit system which gets rid of the PRSI step effect, something that TASC had previously proposed[5].

However, this increase falls far short (more than 25% below) of the Living Wage of €11.50 per hour which is required to help lift the 350,000 people in the workforce (19.2%) suffering multiple deprivation experiences out of poverty.

A living wage is intended to establish an hourly wage rate that should provide employees with sufficient income to achieve an agreed acceptable minimum standard of living. In that sense it is an income floor; representing a figure which allows employees to afford the essentials of life.

Income Tax

These figures are based on TASC's income tax model which we have used successfully to analyse both planned and actual tax changes in previous Budgets.

The government also published some indicative figures which can be used to verify our model. This analysis looks at changes in take home pay in absolute terms (how much cash difference) and in proportional terms (as a % of the take home pay). For simplicity these figures are all for single people under PAYE.

TASC's analysis of Budget 2015 noted a 'triple effect' of changes to tax bands, tax rates and USC rates. It found that Budget 2015 gave the biggest cash return – in absolute and relative terms – to those earning €70,000: which we named the Budget 'Sweet Spot'.

Revenue's analysis of income tax cases showed that a gross income of €75,000 puts someone in the Top 10% of earners in Ireland - which highlights the regressive nature of tax changes that give the greatest benefit so far up the income distribution. Simply put: these tax cuts were not targeted at lower and middle income earners. Looking at the changes to USC and tax introduced in Budget 2016 we see a very similar outcome.

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[4] ESRI, *Tax Welfare and Work Incentives* (2012)

[5] TASC PRSI Step Effect (2014) http://www.tasc.ie/publications/tasc-prsi-step-effect-for-low-income-workers/

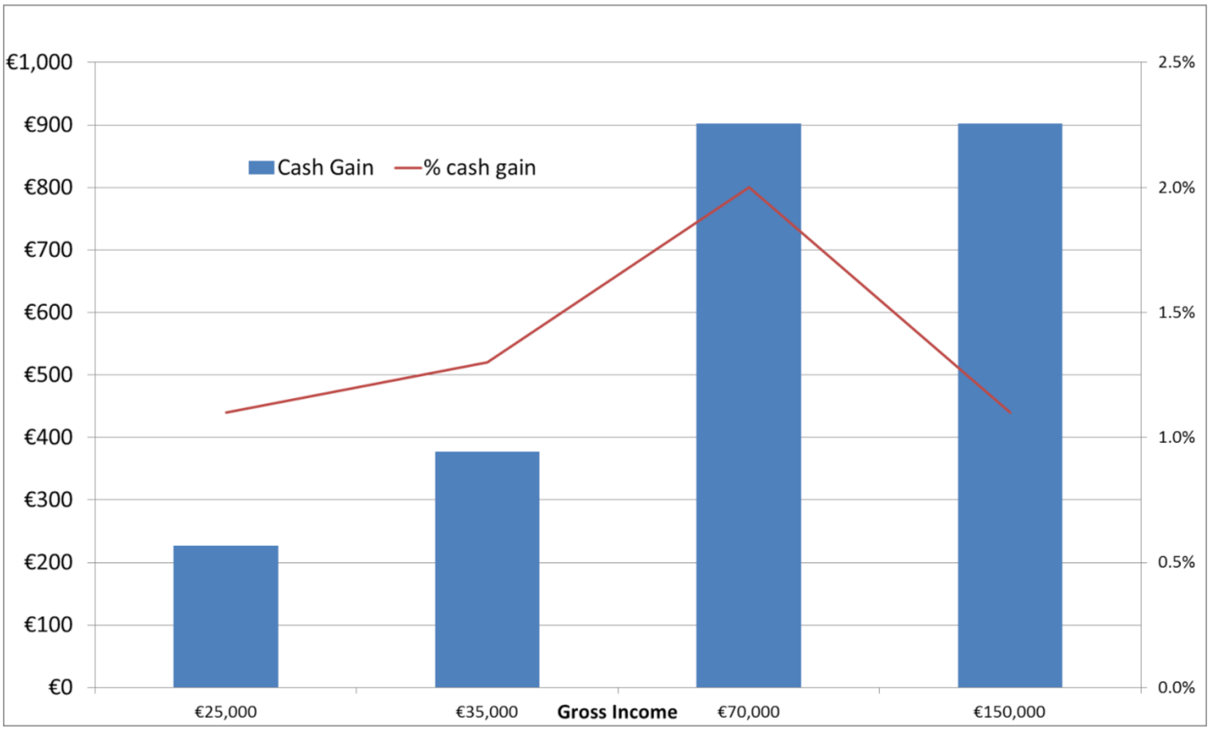

Chart 1: Cash Benefits of Budget 2016 by income level (Source: TASC tax model)

Minimum Wage

The analysis of tax changes at the minimum wage assumes the minimum wage increase of 50c per hour on a full-time, annual basis. A person currently on the hourly minimum wage full time will see their annual income rise from approximately €17,542 per year to €18,556 per year. They are better off by over €1,000 in gross terms, while the net benefit is €708.

Budget 2016 also included a 'tapered PRSI credit' along the lines suggested by TASC[6] which will smooth out the step effect, benefiting those on (and slightly above) the minimum wage, but without 'cascading' the benefits to higher earners. Without this measure, that person would actually have been financially worse off, as full PRSI of 4% would have been applied to all of their income.

Lower incomes

It is important to note that not everyone currently earning a low annual salary will benefit from the minimum wage increase. A person earning €9.10 per hour, working 30 hours per week will earn approximately €14,000 per year. As they are above the new minimum wage hourly rate they will not see an increase in gross income as a result of the Budget, but will benefit from USC changes.

The USC rate cuts and changes to the threshold (up to €13,000) will give €84 per year to someone with a gross income of €13,000 – less than €10 per month. This is less than a 1% increase in their take home pay.

[6] TASC 2014: PRSI Step Effect http://www.tasc.ie/publications/tasc-prsi-step-effect-for-low-income-workers/

Average Incomes

As people earn more they benefit more – this is because of a reduction in the 7% USC rate to 5.5% which applies to those from €17,000 to those on €70,000. The benefit is not just greater in cash terms – they also get proportional benefit that is greater than those on lower incomes.

A single person on a middle income of €25,000 will gain €227 for the year, about 1% of their take-home pay. A person on €35,000 will gain €377 – just over €30 per month or 1.3% of their take home pay.

High incomes

Although there is no change to the higher rates of tax and USC, everyone earning above €75,000 will benefit from changes to lower rates of USC. The benefit will be the same for everyone above this level in cash terms, though as a portion of their income it will decline as incomes rise.

A single earner on €70,000 will gain €902 per year (€75 per month) which is 2% of their take home pay. Someone on €150,000 will get a benefit of €902. In proportional terms this is similar to a person on the median income of €25,000 (1.1%) – though in cash terms it will be almost four times as big.

Income inequality

The effect of Budget 2016 on income inequality is difficult to predict but with cuts to taxes for those on highest incomes greater in relative terms to those on average incomes, and no increases in core social welfare rates it will be down to what happens in the labour market.

Changes in taxes also need to be understood in the context of rising market inequality. According to figures released by Revenue, the total income of those liable for income tax was €77 billion in 2011. By their calculations, this is expected to rise to €98 billion in 2016. The most startling thing about these figures is how unequal the gains have been. Of the €21 billion in extra cash, about €12 billion, more than half, has gone to the top 10% of earners.

Two thirds of it - €14 billion - has gone to people who earn more than €70,000, despite the fact that they make up less than 15% of Revenue’s income tax cases.

On the other hand, less than a third (€6.5 billion) has gone to the middle 60% of earners, with only 6% of all the increase going to the bottom 50%.

From 2011 to 2016 the share of income going to middle income earners fell from 52% to 46% which is a loss of more than 10% of the share of all income. At the same time, the Top 1% went from having 9% of all income to having 11% of all income – a gain of more than 20%.

This is a fundamental shift in how the market distributes income in Ireland.

An increase in the minimum wage will help, but it would require significant wage rises for those in the middle of the earnings distribution (€25,000-€30,000) to off-set the unequal nature of the tax cuts and rising gross-income inequality.

Child poverty and deprivation

Budget 2016 provided some welcome investments in children and families. For example it increased Child Benefit by €5, provided an additional €38m to Tusla, the Child and Family Agency, extended the free pre-school year and additional places in community childcare schemes. However, the scale of the crisis in levels of child poverty and deprivation where one in six children now experiences food poverty and almost one in four children (23%) in a one-parent family experience poverty, suggests rising inequality.

Indeed children are likely to be negatively affected by the cuts to allocations to rent allowance and allocations to Back to School clothing and footwear allowance.

Additional funding for Tusla, while an important support for many at risk children is still insufficient to ensure the Child and Family Agency can adequately meet the level of need that is there in regard to child welfare. The structural issues that reinforce and enshrine child inequality such as inequalities in health, education, housing and community supports remain to be addressed in a consistent and coherent manner.

Wealth

There were two changes in Budget 2015 that will affect wealth inequality.

On Capital Taxes, the Capital Acquisitions Tax now has an increased tax-free threshold from €225,000 to €280,000 on gifts/inheritances from parents to children. On Capital Gains Tax, the rate on disposals of business assets has been reduced from 33% to 20% (subject to an overall limit of €1m in chargeable gains).

Capital Taxes are one way to combat the rising wealth inequality experienced in Ireland[7]. These measures reduce the effectiveness of Ireland's tax system in tackling rising wealth inequality.

Public Spending

Public spending and investment are central to achieving socio-economic equality through raising living standards and ensuring all members of society can fulfil their potential and live with dignity.

Public services are key to achieving sustainable and equitable economic growth in all parts of our cities and regions across the country. Reducing inequality therefore requires the provision of high quality affordable and accessible public services (health, education, transport, housing). However, Ireland's public spending is one of the lowest in the EU at 36% of GDP against the EU average of 45.2% (see Chart 1) and a Euro area average of 49.5% and with the second lowest level of public capital investment in the EU.

[7] TASC Analysis of Distribution of Wealth in Ireland (forthcoming, November 2015)

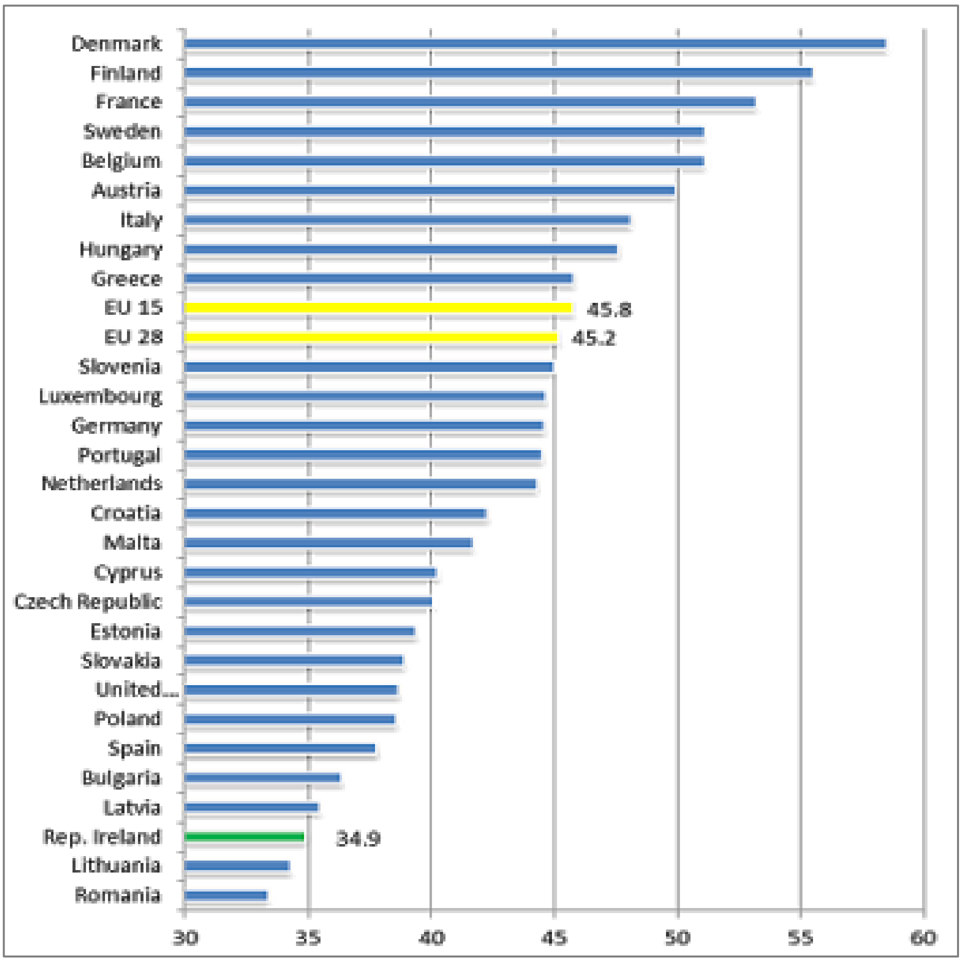

Chart 2: Public Spending in Europe as percentage of GDP (Source; NERI)

Even using GNP Ireland is less than 40%; still at the bottom with UK, Spain and East European countries. We would have to increase spending on public services, social protection and investment by over €12 billion to reach the EU average.

It is to be welcomed that, rather than further austerity, the government has decided to increase public spending and investment, particularly in the area of childcare, education and health.

However, the increase in spending is insufficient to address the various social crises and austerity related underinvestment. The spending allocations set out for future years show that there are no plans for significant spending increases in coming years – particularly given the acceptance of the EU's disallowance of supplementary budget allocations.

The Budget continued Ireland along the path of spending reductions as a proportion of GDP so that by 2019 we are likely to end up with the lowest government expenditure in the EU falling to just over 30% of GDP, against a Euro area average that will be closer to 50% (see Chart 3). Ireland also has to pay for higher debt service payments than other countries, which is explored in more detail later.

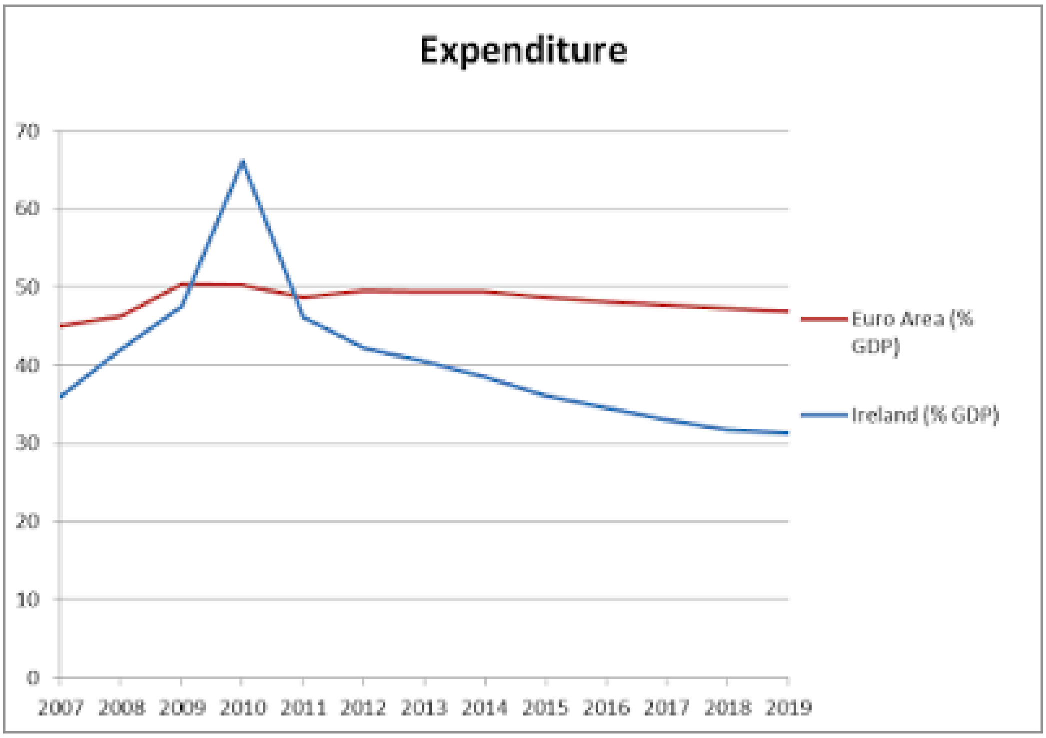

Chart 3: Expenditure as a % of GDP in Ireland and EU 2007 - 2019 (Source TASC)

Budget 2016 maintains the low level of public spending as a significant contributory factor to Ireland's high levels of deprivation and poverty and the multiple infrastructural deficits such as inadequate health facilities, housing, childcare, broadband, education and skills, water, sewage/environmental services and transport which are becoming major barriers to achieving sustainable economic growth and social equality.

The increase in spending in this Budget of €750 million should also be put in the context of the €21bn reduction in expenditure over the period of 2008 to 2014. The increase in Budget 2015 is just 1/30th (just under 4%) of the austerity cuts to spending. And that doesn't take into account the increased demand and requirement for investment due to changing demographics and people's needs. The following sections provide analysis of some of the key areas of spending in Budget 2016 and their implications for achieving an equality-based sustainable recovery.

Capital Spending

In regard to investment in social and economic infrastructure the Budget presents no significant change on what was announced in the Capital Investment Plan. In this capital spending will only increase by €400 million between 2016 and 2018 (from €3.8bn per annum in 2016 to 4.2bn in 2018) and reaching only €5bn in 2020. This is still only half the levels of pre-austerity capital investment (for example capital spending was €9 billion in 2008). Furthermore, it means that public capital investment will remain at 2% of GDP by 2021.

In the seven years to 2009, Irish government capital investment averaged 3.9 per cent of GDP a year. This was over twice the current level. Thus it would be reasonable – to help catch up – to seek a figure of 3.5 per cent a year. This is equivalent to public investment of €7.6bn of GDP for 2017. Thus for the next five years the total public investment should be in the region of €38Bn as opposed to the planned €27bn which is clearly inadequate[8].

The capital investment plan also includes 15bn of private sector and PPP investment. This model is reliant on private commercial investment in public services and infrastructure through Public Private Partnerships. This model has been shown to provides huge profits to speculative finance at the expense of tax payers and poor quality services and infrastructure.

Health

The 2016 Budget provides an increase of 2% on 2015's health allocation - €280m in new money goes forward to next year's health budget. It is very difficult to see how the aims of achieving a 'universal single-tiered health service, which guarantees access based on need, not income' can be achieved with this level of funding[9]. The enforcement of private health insurance through penalising people over 35 for not taking it out exacerbates the two-tier health system.

As health analyst, Sara Burke has highlighted "Ireland is unique in Europe, and extremely unusual in a high-income country context, because we do not have a universal healthcare system…high numbers and long waits on trolleys in emergency departments remain". For instance in September 7,630 people were on trolleys across the hospital network, a 17 per cent increase on the same month last year. We also only have 3 hospital beds per 1000 population in Ireland compared to the average of over 5 in EU28.

Community inclusion and development

Community and voluntary organisations provide a key role in combatting poverty and inequality and enhancing the capacity of vulnerable and excluded groups and wider civil society to participate in Irish society. The austerity budgets disproportionally affected funding for these groups resulting in the closure of organisations like the Combat Poverty Agency, the Equality Authority and locally based Community Development projects. Funding for community and voluntary organisations was reduced on average by 35% over this period; with local community development cut by 44%; drug prevention 37%; family support 31%; and youth services 20%.

Budget 2016 leaves these cuts largely in place and, therefore, we are likely to see the long-term social impacts of these cuts in further social exclusion, particularly affecting young people in disadvantaged areas. Issues of drugs and crime are likely to worsen. For example, spending on the amalgamated Irish Human Rights and Equality Commission is 20% below what the budgets for the Equality Authority and Irish Human Rights Commission were in 2007 (at €6.19m; versus Equality Authority € 5.459m and Irish Human Rights Commission €2.342m). Furthermore, the funding for SICAP (the follow on to the Local Community Development Programme) in 2015 was 22% less than that assigned in 2011 and LEADER funding was reduced by 32%. It appears from Budget publications that the allocation to SICAP is further reduced from €48 million in 2014 to €45 million in 2016. The move towards outsourcing, competition and privatisation in SICAP is also worrying.

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[8] Paul Sweeney, *Investment in Ireland*, forthcoming

[9] Sara Burke, *Universal Health Care Was Promised But Has Not Been Delivered*

Cost of Debt Interest

The Budget includes an allocation of €6.6bn to interest repayments on our national debt. This is almost double the entire capital spend and three quarters of the entire annual education budget. This means that we are spending an additional 4.6bn per annum on debt interest over what was being spent at the height of the boom. It is absorbing 18% of all tax revenue which is a massive increase on €2bn (3.4% of tax revenue) in 2007. Ireland has the third highest expenditure on debt interest as a proportion of GDP out of EU – at 4.7% versus Greece at 4.8%, Spain spends 3.5%, Germany 25, Finland 1%.

This debt interest payment is a significant drain and loss of potential spending on public services. The recent Comptroller & Auditor General report showed that around €2.3 billion of debt interest is directly related to bailing out the banks and developers[10].

These interest payments reduce the capacity of the state to invest in public services and tackle inequality for the coming decade. This shows the necessity of pursuing the debt deal involving a restructuring/write-down of our debt that was promised from Europe.

[10] Comptroller & Auditor General, Report on the Account of the Public Services 2014 (2014 Report)

Cost of Living

The cost of living – relative to means – is the basic substantive test of income adequacy. 'High' and 'low' incomes are not only relative to each other, but also they relate to the cost of essential goods and services.

Poverty and deprivation are indicators of economic inequality, but only part of a larger issue. An important indicator of economic inequality is the extent to which people are able to meet their basic material needs; i.e. the goods and services they need for a decent life.

Cost of living is also an indicator of how well the economy is being regulated and governed to serve society as a whole.

The low level of public spending and the highly marketised nature of the Irish economy and society mean that Ireland remains an expensive place to live– Irish price levels are 16.8% above the euro area. In 2013, Ireland was the 3rd most expensive location in the euro area for consumer goods and services[11] . Notable areas include high costs of childcare, health care, housing, education and other necessities.

Housing

Government expenditure on building or purchasing new social housing (capital expenditure) is only increasing by approximately €56million in Budget 2016 compared to the 2015 allocation. Indeed, the Capital Investment Plan shows total annual social housing investment decreasing from €580m in 2018 to €450m in 2019 (see Chart 3). This is a third of what was being spent on social housing in 2007. This allocation will only provide approximately 1400 new units nationally next year with fewer than 300 of those in Dublin City.

Table 6: Housing, € million

	2016	2017	2018	2019	2020	2021	Total
Allocations [1]	500	570	580	450	400	400	2,900

[1] This is predominantly Exchequer funded. It also includes €77 million per annum of Local Authorities through own-resources.

Table 1: Investment in social housing construction and purchase (Source: Capital Investment Plan 2016-2021)

Indeed those in housing distress (hundreds of thousands of households – most notably those reliant on rent supplement, in emergency accommodation, in mortgage arrears or the housing waiting lists) were not addressed in any substantial way in this Budget.

It is disappointing that neither rent certainty nor an increase in rent supplement were included. Indeed the Rent Supplement allocation was reduced from €298m to €266m (-11%). In a context of rising demand for rent supplement this is difficult to understand and the impact is likely to be

[11] National Competitiveness Council, *Cost of Doing Business in Ireland 2015*

further housing distress and possibly homelessness for low income renters in the private rented sector.

The serious crisis faced by heavily indebted households in mortgage arrears remains a major problem. Despite the fact that the number of households in arrears over 320 days has increased to 38,000 the take up of the personal insolvency arrangements remains extremely low.

Of the 110,000 social housing units in the social housing plan 75,000 are to come from an already overheated and dwindling supply of private rented accommodation. The increase in funding for emergency accommodation is welcome but is unlikely to address the increase in numbers becoming homeless. Again, social housing is a good example of the size of the catch up required as a result of the lost years of austerity. Over the period of austerity, we effectively lost 25,000 social-housing units.

The 20,000 units the government has outlined NAMA will provide in order to address supply will not be social units but are to be delivered on a 'commercial basis' and are more likely to be sold to international investment funds rather than as 'starter homes'.

The housing crisis is a national emergency and without a significant shift in policy the crisis will only worsen. Almost 5,000 people were homeless in July 2015, including 1,495 children. At the current rate of families becoming homeless there will be more than 6,000 children in emergency accommodation by 2017. The housing crisis is impacting on other areas, for example, Tusla, the Child and Family Agency, reported that up to 80 per cent of women fleeing domestic violence were turned away from Dublin refuges in the first quarter of this year because of the crisis in accommodation in the capital city.

The high cost of housing is also a problem for people taking up employment in Dublin and other cities. It is affecting business competitiveness and ability to attract skilled labour. And it takes money out of people's pockets that they could spend in the local economy.

Housing policy is continuing to prioritise the private 'free-market' approach which treats housing primarily as a commodity and speculative investment asset. It is unlikely to be successful.

Childcare

The extension of the free pre-school programme is a welcome start to addressing the area of early childhood education and care. The additional support for children with disabilities is also very welcome as is the additional 8,000 childcare places on the Community Childcare Subvention programme.

However, these additions are limited in regard to their impact on childcare costs and providing a high quality, affordable universal childcare and early education system. It does not deal with the issue of childcare for under-threes which is the most expensive stage of childcare for parents. The pre-school year sessions are only for 3 hours a day, 5 days a week, over 38 weeks (September to June).

Providing a high quality, affordable, universal, public early childhood care and education system would be a key way to address multiple issues including poverty, freeing up household income for lower and middle income households to be spent in the local economy, guaranteeing quality care and proper working conditions for childcare staff. This would drive jobs and growth. UK research points to savings of over £9 for every £1 invested in early intervention.

The €3m capital fund allocation to support childcare providers is insufficient for the development of infrastructure in this area. While the Budget measures are the first steps towards securing quality childcare and early education the fundamental problem is that there is no allocation for the necessary increase in funding to continue to extend this in coming years' spending allocations.

It is extremely difficult for low income parents (particularly lone parents) but also many middle income households to take up work due to the prohibitive cost of childcare. If we are to seriously ensure equality of access to employment opportunities, then providing affordable quality and flexible childcare and early childhood education is key.

Personal Capacities

It is important to recognise that economic inequality is affected by everyday social practices and structures. Capacities operate at several levels: they affect people's potential market incomes, their access to material goods, and the types and levels of material goods that they need for flourishing.

They include differences in people's education and skills, in their ability to access to financial services, in their likelihood to be discriminated against, in their access to social networks, and in their disabilities (including mental health disabilities). Properly designed public policies can help to promote economic inequality by addressing these differences.

Disability and mental health

Key support services for people with disabilities and in the area of mental health also remain underfunded and under-resourced despite their key roles in enhancing the capacity of vulnerable groups. The recession and austerity has had a devastating impact on the mental health of families and children the recent Growing up in Ireland research has shown[12].

People with a disability experience higher everyday costs of living because of their disability when compared to others in society. They also suffered disproportionately from the cumulative cuts in recent Budgets. Apart from a half week Christmas bonus there was no improvement in their income in Budget 2016. Many people with disabilities depend on social welfare payments which have been static since 2011 although inflation is up 4.5%[13]. Inequality will increase for this group. It should be noted that an additional €15million of funding was provided in the Budget to enable children with disabilities to take up the extension of the early childhood education scheme.

Education

Access to third level education remains severely unequal across Ireland with poorer areas having much lower participation rates. Between 2008 and 2014 spending on third level has fallen by 32%.

[12] The Irish Times, *Recession Damages Mental Health of Families* (October, 2015)
[13] Social Justice Ireland, *Budget 2016 Analysis and Critique* (October 2015)

The student registration fee, which is now at €3,000 per annum and the lack of sufficient financial supports for students, fail to address these unequal participation rates.

School support given through National Child Educational Psychological services for those with intellectual and behavioural problems had its spending frozen despite the increase in demand for such services.

The increase in investment in the Budget to address teacher-pupil ratios is welcome and it is hoped that this can address the issue of the cuts to guidance counsellors at secondary level given the requirement for increased mental health supports for teenagers. In 2012 the guaranteed minimum guidance provision in every school was removed.

Allocations in Budget 2016 to children and education were reduced in certain areas, which suggests that these will be more difficult to obtain. This includes the Back to School Clothing and Footwear Scheme and the allocation to the Back to Education Allowance.

Recommendations

Significant public investment in sustainable and equitable growth

The tax and expenditure set out in Budget 2016 and up to 2021 is not the best approach to achieve sustainable and equitable growth and achieve a society and economy based on equality. TASC has outlined alternative choices available that would prioritise equality, by increasing public investment in a number of ways.

For example, rather than cutting taxes, the government should maintain and extend the tax base and ensure a fair taxation system that provides sustainable revenue to high quality public services.

As within the period of austerity, there is choice as to the various policy measures that can be taken within the existing frameworks. These are not inconsequential and can make a significant difference. For example, the EU fiscal rules such as the 3% deficit rule and structural surplus have within them the flexibility on the manner in which the outcome (e.g. structural surplus) is achieved.

The following section sets out a pathway and rationale for a dramatic increase in public spending and investment in social, economic and productive infrastructure. Firstly, it is necessary to address inequality and raise the living standards of those at the bottom and the middle and secondly, to provide the foundation for an equal and sustainable recovery in economic growth.

Changing the Model of the Irish Welfare State

Given the multifaceted nature of economic inequality, TASC has argued that Ireland should be moving towards a public welfare model where public services play a much greater role in Ireland rather than the current over reliance on direct welfare payments to access necessary goods through the private market. Ireland's current model of low spending on public services means that people face very high costs to access basic goods which in other European countries are available either at much lower cost or free of charge.

These high costs of living require higher welfare payments and a structural problem of welfare payments constantly falling behind rising costs. Without structural intervention by the state in the markets to ensure access for people to basic goods through measures such as the increased provision of public services and goods, regulation of costs, or raising the minimum wage, then levels of poverty and inequality will continue at their current high levels. Irish citizens lack much of the protections offered by more developed welfare states such as early education and childcare, after school care and services for those with disabilities, extensive and affordable public transport.

Investment is a key driver of productivity and long-term sustainable growth but Ireland has one of the worst rates of investment in the Euro area. The Berlin's Institute for Economic Research found last year that Ireland's investment gap is the highest in the Euro Zone at 9.4 per cent of GDP[14]. Their study compared Euro zone countries' current total investment with the total needed to generate stable growth. Ireland's deficits are also much worse than other European countries due to historic underinvestment in public infrastructure and the impact of the lost years of austerity.

[14] Irish Times, *German Think Tank Advocates EU Bonds to Boost Growth*

Increased investment spending results in a strong multiplier effect. This means that such public spending can return multiples of the original investment, is in some instances self-financing and can be effective reducing budget deficits– because it provides direct employment growth and consumption but also by improving the overall social capital/standards of living and the productive capacity of the economy.

Therefore, a dramatic increase in public spending is required in the area of investment in infrastructure and innovation to provide the foundation for an equal and sustainable recovery in economic growth. Particular focus is required in areas such as social and economic infrastructure: Health, childhood care, housing, elderly facilities, transport, broadband, water and waste infrastructure, green energy and technology, and skills based training. Indeed infrastructural deficits are one of the important barriers to increasing the housing supply. Ireland's younger population requires investment in early childhood and education (with long-term benefits).

TASC will shortly be publishing a deeper examination of the investment needs for Ireland. It makes the case that investment should have been increased in the Budget to the region of €6bn per annum, and increasing annually thereafter.

There is also a need to develop new approaches for raising finance for investing in public infrastructure such as public bonds as opposed to using various packages of 'off-balance sheet schemes' of financing that are overly reliant on speculative private investment.

In the area of housing for example, a State Homes and Housing Agency, similar to the Northern Ireland Housing Executive, should be formed to deliver a historic social, cost rental and affordable house building and refurbishment programme of well-planned, sustainable, and mixed communities. This would be a partnership between local authorities, government departments, housing associations, NAMA and the Housing Finance Agency. It would have access to land, finance and institutional expertise. It should have €3bn of annual capital funding from the state and could draw on finance from the European Investment Bank.

EU fiscal rules

There is a need to understand that we have flexibility within the EU targets to alter our approach to taxation and expenditure once we remain within the overall targets in the fiscal frameworks. Furthermore, there is the space for the development of innovative approaches to public investment that can draw on funds from the European Investment Bank such as the case with housing.

We are at a current expenditure surplus (or very close to it) in this Budget. Ireland is also well within EU targets (tax revenue this year will be €2.3 billion ahead of original targets and the deficit will be 2.1 per cent, well below the 2.9 per cent required under EU Commission rules). This means that the government had an additional €800 million to invest if it stuck to, rather than over achieved, the EU rules. Next year the headline deficit will be just 1.2% of GDP. It is therefore possible to invest and spend more while staying in the EU rules.

Furthermore, the need for investment means the Government has to strengthen its legitimate demand to the EU Commission that it becomes more realistic on the need for investment and that it excludes investment in its rulings on *gross* national debt ratios under the Growth and Stability Pact. These rules are not just wrong, but deeply counterproductive[15].

Equality Proofing and Open Debate

Equality and poverty proofing the Budget (through Equality Impact Assessment of expenditure and taxation across all departments) would have been very useful to engage in an overall analysis of the impact of the measures introduced in this Budget. In its absence meaningful public debate on the Budget is diminished.

As Fintan O'Toole argued recently, equality impact analysis of the Budget should be "worked out and presented to the public before, not after, (the Budget) is passed"[16]. O'Toole highlights how the government has not implemented its commitment "to open up the budget process to the full glare of public scrutiny" and that "neither before nor after the budget" is even a basic analysis of whether the budget measures as a whole are progressive or regressive is produced.

A public debate on the budget could have suggested very different priorities and identified alternative solutions.

For example, recent opinion polls undertaken by Behaviour and Attitudes commissioned by TASC in June 2015 showed that almost 70% felt the government should prioritise investing in public services rather than spending money to cut income taxes. In the recent Irish Times poll a majority of people cited investment in health care and housing as their priorities for the Budget before tax cuts.

The Budget is a key mechanism through which we indicate as a country where our priorities lie. It is therefore essential for democracy, public engagement and social inclusion that the budgetary process is as accountable and participative as possible. Participative initiatives along the lines of the constitutional convention could provide useful fora for progressing initiatives in this regard into the future.

In advance of Budget 2016, TASC commissioned market research which showed that 69% of Irish people favoured increases in public spending over tax cuts. This highlights the importance of a public dialogue on the proposed budgetary measures prior to the Budget being finalised. Included within this is a necessity of Equality proofing and analysing the impacts of the various measures, particularly on lower income and vulnerable groups. Such reform of the budgetary process should be implemented for Budget 2017.

[15] Paul Sweeney, *Paper on Investment in Ireland*, Forthcoming
[16] Fintan O'Toole, *The Minister for Finance and his Know Nothing Budget*

Appendix – Data on Gross Incomes in Ireland 2011-2016

Ireland has experienced a remarkable increase in market incomes in the last five years. This is attributed to improved economic performance since the financial collapse, including greater levels of employment, as well as wage rises and increases in self-employment incomes.

However, it is important that we understand to whom this 'new' income has gone if we are to understand the nature of the economic recovery. As TASC showed through our work in *Cherishing All Equally* Ireland has the highest level of income inequality before taxes and transfers in the OECD (figure 1).

While tax policies and redistribution (for example through social protection payments) play a vital role in determining overall income inequality, the policy decisions around tax and redistribution have to be made in the context of how the market distributes income. In recognition of this, it is important to understand the changing nature of market incomes in Ireland from 2011 to 2016.

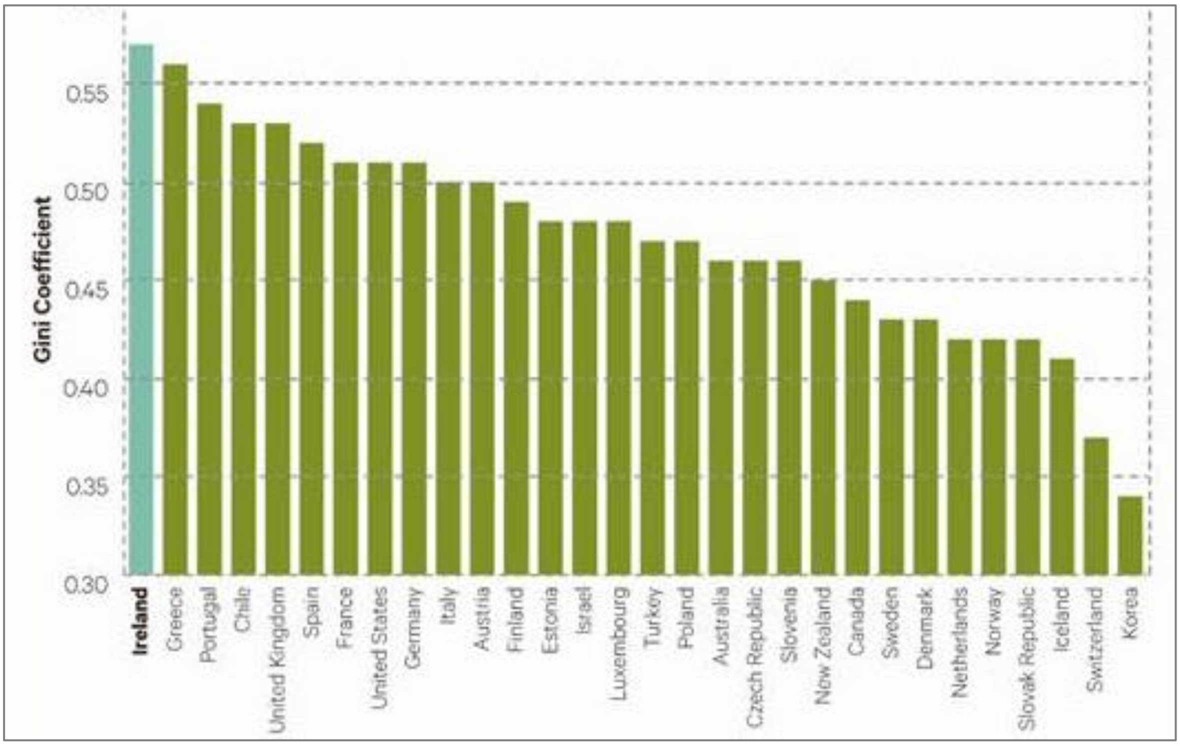

Figure 1: Gini Co-efficient of Gross Income (Source: OECD Stat)

Data on Incomes

In order to analyse changes in market income, this paper analyses data on gross taxable incomes in Ireland in 2011 and in 2016. It comes from Revenue's administrative data for 2011[17] and their estimates for 2016[18]. This data is reproduced in Table 4 and Table 5.

This data covers all persons liable for income tax and is grouped by a series of given income ranges. For each income range, the data shows:

- the total gross taxable income received for that group
- the number of tax cases in that income range
- the total income in that income range
- and the total tax (including USC) paid in that income range

A tax case can be either an individual or a couple. Gross income is all taxable income including salaries and wages, self-employment income. It also includes investment income that is subject to income tax, as well as some social welfare payments that are subject to income tax (e.g. pensions, some unemployment benefits).

It is then possible to analyse the changes in gross incomes and tax paid for four distinct groups[19]:

- The Bottom 50% - the bottom half of the income distribution (under €27,000)
- The "Middle 60" – everyone except the Top 20% and the Bottom 20% (€15,000 - €60,000)
- The Top 10% - the Top 10% of the income distribution (above €75,000)
- The Top 1% - the Top 1% of the income distribution (above €200,000)

Gross Income

From 2011 to 2016 a number of significant changes occurred in gross incomes in Ireland. The total value of all gross income increased from €76.8 billion to €97.8 billion (27.4%) – see Table 1.

The number of tax cases increased by 355,320 (17%) from 2,049,617 to 2,404,937 (See Table 6). The average income per tax case went up from €37,412 to €40,648 (9%) – See Table 6).

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[17] Revenue (2012) Income Distribution Statistics 2011 (Table IDS 20) http://www.revenue.ie/en/about/publications/statistical/archive/2012/income-distribution-statistics.pdf

[18] Revenue (2015) Budget 2016 Ready Reckoner Page 4 http://www.revenue.ie/en/about/statistics/ready-reckoner.pdf

[19] Because of the nature of the Revenue data, the groups are approximate. In 2011 the bottom 50% was 49% of all tax cases, the Middle 60% was 58%, the Top 10% was 9.8% and the Top 1% was 0.91%. In 2016 the bottom 50% was 46.3% of tax cases, the middle 60% was 56.4%, the Top 10% was 11.8% and the Top 1% was 1.2%. This will account for some variation in the data.

The change for each group was as follows:

Table 1:

	Total income (€m)		
	2011	2016	Change (€m)
Bottom 50%	13,676	14,889	1,213
Middle 60%	38,654	45,031	6,377
Top 10%	26,058	37,913	11,855
Top 1%	6,996	10,710	3,714
All	76,803	97,842	21,039

This is largely explained by changes in the number of cases in these ranges and is therefore not necessarily significant. However, what is significant is that for all tax cases, total gross income increased by €21bn. Of this, more than half (11.8bn) went to the Top 10% and nearly 18% of the total went to the Top 1% (see Table 2).

Table 2

Group	Percentage of total increase in gross income received
Bottom 50%	5.77%
Middle 60%	30.31%
Top 10%	56.35%
Top 1%	17.65%

Income share

Even more significant is the change in income share (Table 3).

Table 3:

	% share of income 2011	% share of income 2016	percentage point change in income share	percentage change in income share
Bottom 50%	17.81	15.22	-2.6	-15%
Middle 60%	52.26	46.02	-6.2	-12%
Top 10%	33.93	38.75	4.8	14%
Top 1%	9.11	10.95	1.8	20%

The starting point in 2011 showed that gross incomes were distributed highly unequally. The Bottom 50% of tax cases only had 18% of gross income, while the Top 10% had 34% and the Top 1% had 9%.

Since then, gross income inequality has risen. From 2011 to 2016, the bottom 50% lost 15% of their share of all income (2.6 percentage points), while the middle 60 lost 12% (6.2% points).

At the same time, the Top 10% increased their share of income by 14% (4.8 percentage points) and the Top 1% has increased their income share by 20%.

Table 4:

2011 Income Distributions Statistics (IDS20)								
Gross Income Range		Number of cases	% of cases	Income (m)	% of gross income	Tax/USC (m)	% of tax/USC
€0	€10,000	364,617	17.79	€1,602	2.09	44.26	0.3
€10,000	€12,000	65,718	3.21	€723	0.94	18.87	0.13
€12,000	€15,000	109,367	5.34	€1,479	1.93	37.77	0.26
€15,000	€17,000	75,413	3.68	€1,208	1.57	34.25	0.24
€17,000	€20,000	120,048	5.86	€2,222	2.89	92.43	0.64
€20,000	€25,000	198,931	9.71	€4,474	5.83	272.72	1.88
€25,000	€27,000	75,696	3.69	€1,967	2.56	150.26	1.04
€27,000	€30,000	102,700	5.01	€2,925	3.81	258.71	1.78
€30,000	€35,000	152,955	7.46	€4,962	6.46	520.63	3.59
€35,000	€40,000	133,914	6.53	€5,015	6.53	660.98	4.55
€40,000	€50,000	196,559	9.59	€8,778	11.43	1436.05	9.89
€50,000	€60,000	129,987	6.34	€7,102	9.25	1357.8	9.35
€60,000	€75,000	123,910	6.05	€8,286	10.79	1757.93	12.11
€75,000	€100,000	100,673	4.91	€8,623	11.23	2113.6	14.56
€100,000	€150,000	63,198	3.08	€7,505	9.77	2177.21	15
€150,000	€200,000	17,190	0.84	€2,934	3.82	965.39	6.65
€200,000	€275,000	9,221	0.45	€2,135	2.78	748.65	5.16
€275,000	above	9,520	0.46	€4,861	6.33	1867.51	12.87
Total		2,049,617	100	€76,803	100	14,515.00	100

Table 5

2016 Income Distribution Statistics (2016 Budget Ready Reckoner)							
Gross Income Range		Number of tax cases	% of cases	Total income (€m)	% of income	total tax/USC	% of tax
€0	€10,000	413,823	17.21%	€1,822	1.86%	2.7	0.01%
€10,000	€12,000	75,165	3.13%	€829	0.85%	3.4	0.02%
€12,000	€15,000	117,738	4.90%	€1,595	1.63%	33	0.17%
€15,000	€17,000	82,646	3.44%	€1,324	1.35%	31	0.16%
€17,000	€20,000	132,484	5.51%	€2,453	2.51%	94	0.48%
€20,000	€25,000	209,952	8.73%	€4,720	4.82%	284	1.46%
€25,000	€27,000	82,537	3.43%	€2,146	2.19%	158	0.81%
€27,000	€30,000	117,182	4.87%	€3,338	3.41%	283	1.45%
€30,000	€35,000	177,165	7.37%	€5,754	5.88%	584	3.00%
€35,000	€40,000	150,974	6.28%	€5,653	5.78%	693	3.55%
€40,000	€50,000	236,002	9.81%	€10,544	10.78%	1648	8.45%
€50,000	€60,000	166,411	6.92%	€9,099	9.30%	1732	8.88%
€60,000	€70,000	114,186	4.75%	€7,392	7.56%	1544	7.92%
€70,000	€75,000	44,998	1.87%	€3,260	3.33%	724	3.71%
€75,000	€100,000	137,627	5.72%	€11,806	12.07%	2908	14.92%
€100,000	€150,000	92,250	3.84%	€10,989	11.23%	3199	16.41%
€150,000	€200,000	25,801	1.07%	€4,408	4.51%	1460	7.49%
€200,000	€275,000	13,753	0.57%	€3,180	3.25%	1124	5.77%
€275,000	Above	14,243	0.59%	€7,530	7.70%	2990	15.34%
Total		2,404,937		97,842		19,494	

Table 6: changes 2011-2016

	2011	2016	Change	% Change
Number of Tax Cases	2,049,617	2,404,937	355,320	17.3%
Total Income (€m)	€76,802	€97,842	21,039	27.4%
Income per tax case	€37,472	€40,684	3,212	8.6%
Total Tax (€m)	€14,515	€19,494	4,979	34.3%
% Tax per case	18.9%	19.9%	1.02%	