

The Welfare State & Redistribution

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Outline

1. Introduction
2. Direct Income
3. Low Pay
4. Redistribution: Taxation
5. Redistribution: Public Services/Welfare State
6. Future Challenges
7. Conclusion
8. References and Links

1. Introduction

- A sweeping look at the role of the state
- Why get involved?
 - unhappy with market outcome
 - fairer outcomes preferred
 - supply a social safety net for those who (might) need it
 - welfare economics: a more optimal outcome is possible via some government intervention which redistributes resources....
- Here, looking at starting points, methods of intervention, role of the welfare state, challenges...

2. Direct Income

- Starting point
- 'Market Income'
- Some recent NERI studies on this
- Data
 - CSO SILC 2013

- Market income or 'direct income'

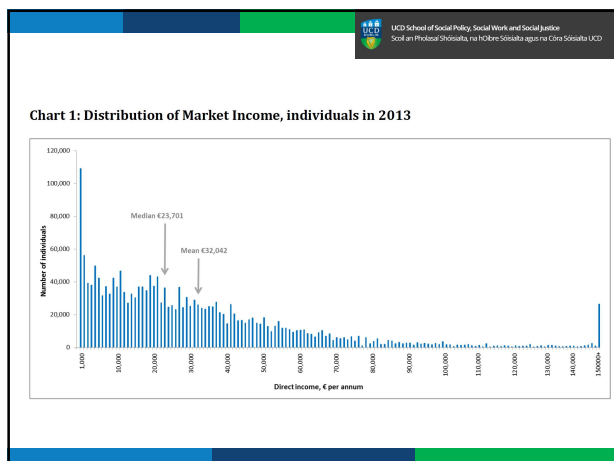
Table A2: Composition of Direct Income

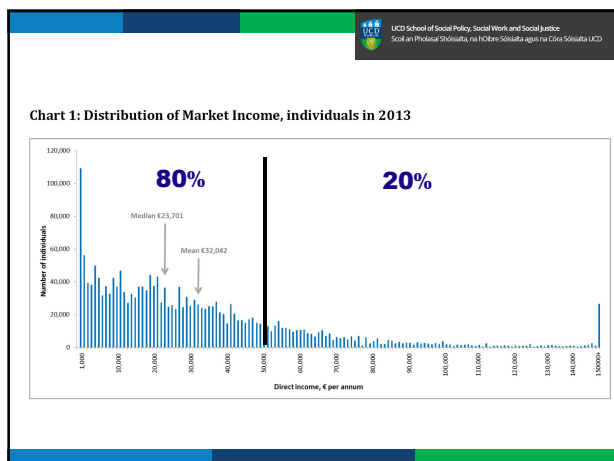
Employee income
Employee cash income
Employee non-cash income
Self-employment income
Other direct income
Value of goods produced for own consumption
Income from private pensions
Income from rental of property or land
Investment income (including interest, dividends and trusts)
Income received by people aged less than 17 years
Income from regular inter-household transfers

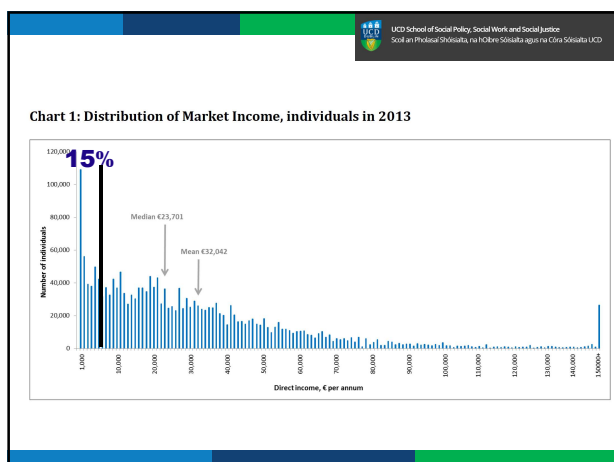
- leaving out employers PRSI contributions
- pensions...
- Looking at:
 - all individuals aged 17 years or more
 - excluding those with no market income

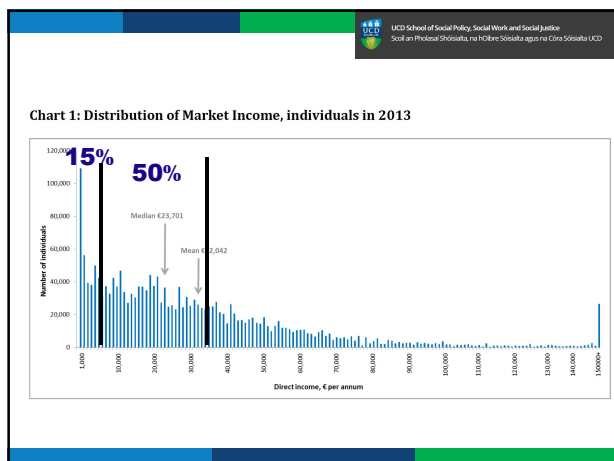
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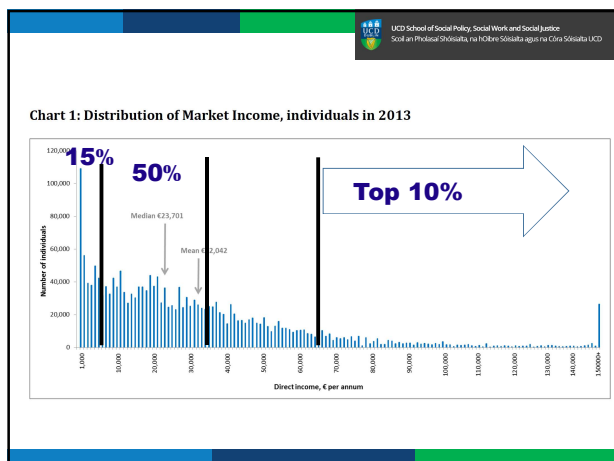
- Earnings x3
 - Overall
 - Employees
 - Self Employed
- Chart
 - each bar = €1,000 range of income
 - height = no of individuals
 - merge all those with €150,000+

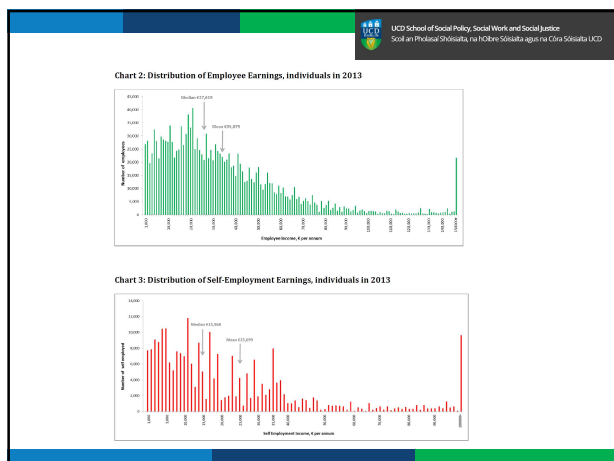
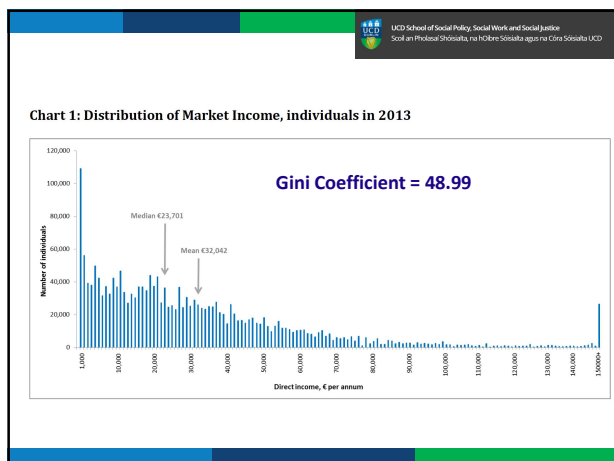
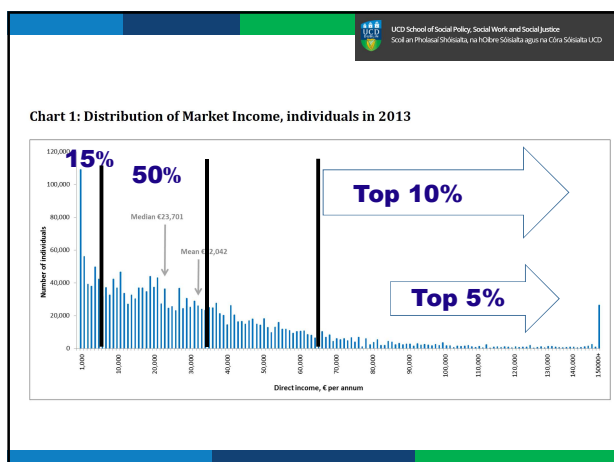












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Table 3: Distribution of Employee and Self-Employed Earnings, 2013

Income Range		% of those with	% of those with
From	To	Employee income	SE income
€1	€5,000	8.5%	18.0%
€5,000	€10,000	8.9%	15.1%
€10,000	€15,000	8.8%	15.0%
€15,000	€20,000	10.0%	11.5%
€20,000	€25,000	9.9%	5.8%
€25,000	€30,000	7.9%	7.4%
€30,000	€35,000	7.6%	4.2%
€35,000	€40,000	6.6%	7.3%
€40,000	€50,000	10.3%	4.4%
€50,000	€75,000	14.2%	3.8%
€75,000	€100,000	3.8%	4.6%
€100,000 +		3.5%	2.9%
		100.0%	100.0%
Mean		€35,079	€25,699
Median		€27,619	€15,968

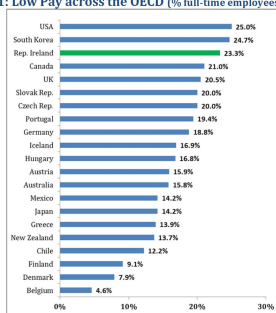
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- The distribution of employee income roughly divides into quarters:
 - 26% earn less than €15,000 per annum;
 - 28% earn between €15,000 and €30,000;
 - 24.5% earn between €30,000 and €50,000; and
 - 21.5% earn more than €50,000.
 - At the top of the distribution, 5% of employees earn more than €85,000 and 3.5% earn more than €100,000.

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- The distribution of self-employment income roughly divides into thirds:
 - 33.1% earn less than €10,000;
 - 32.3% earn between €10,000 and €25,000; and
 - 34.6% earn more than €25,000.
 - 7.5% of the self-employed earn more than €75,000 and 3% earn more than €100,000.
 - 1 in every 5 working households receive income from both employee and self-employment sources

3. Low Pay

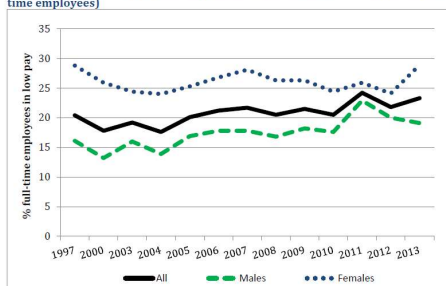
- Low Pay an element of this
- Some recent NERI studies on this
- Ireland:
 - not examined for some time
 - a low pay nation
 - gender divides

Chart 4.1: Low Pay across the OECD (% full-time employees in 2013)

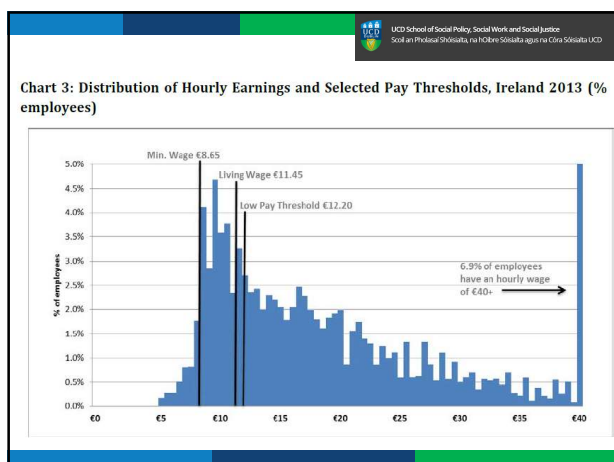


Source: OECD online database (OECD.stat)
 Note: Low pay is defined as those earning less than two-thirds of the median hourly pay received by full-time workers.

Chart 4.2: Low Pay in the Republic of Ireland, 1997-2013 (% full-time employees)



Source: OECD online database (OECD.stat)
 Notes: Data unavailable for 1998, 1999, 2001 and 2002. Low pay is defined as those earning less than two-thirds of the median hourly pay received by full-time workers.



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Distribution of Hourly Earnings by Selected Pay Thresholds, Ireland 2013 (% employees)

Threshold	% above	% below
Below €8.65	94.4%	5.5%
Below €10.00	86.2%	13.8%
Below €11.45	74.3%	25.6%
Below €12.20	69.7%	30.3%

Approximately:

- 345,000 employees below €11.45
- 400,000 employees below €12.20

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Who are the low paid?

- 60% of the low paid are women = 207,000
- Almost 3 in 10 women are low paid (men = 2 in 10)
- Across the age groups; but concentrated in under 40s
- 60% in three sectors
 - Wholesale and Retail (24%)
 - Accommodation and Food (19.7%)
 - Health and Social Work (18.4%)
- Temporary contract: 1 in every 2 are low paid
- Regional: lowest concentrations in SE, W and Midlands

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Living Standards and the Income Distribution		
	All Employees	The Low Paid
Living below the poverty line	3.2%	7.4%
Difficulty making ends meet	27.5%	35.9%
Unable to afford unexpected costs	45.9%	66.1%
Borrowing for ordinary living expenses over last year	15.2%	20.7%
Experiencing Deprivation	19.4%	31.6%

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4. Redistribution: Taxation		
• Why do Governments tax? 1. Raise revenue to run the state, provide public services and redistribute via welfare system 2. Corrective tool to alter behaviour of individuals, firms and the economy • Going to look at first of these • A €70 billion system per annum • Worth looking at more often		

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5. Redistribution: Public Services / Welfare State		
• 4 views on this role: • Social Welfare payments • Poverty reduction • Automatic stabiliser • Public services		

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- **Social Welfare Payments**
 - Scale is of note
 - DSP date from 2014
 - 1,440,876 people in receipt of weekly DSP payment
 - = 2,219,600 beneficiaries
 - Add child benefit (1,177,589 children) & remove double counting
 - Overall: 2,812,00 = 61% of 2014 population

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- **Poverty reduction**
 - 2014 CSO poverty data
 - poverty line for 1 adult = €210 per week
 - pre social transfers: 49.3% of pop in poverty
 - post social transfers: 16.3% of pop in poverty
 - Keeping up or slipping back
 - lessons from the past
 - recovery in the late 1990s
 - earnings increases and income taxes reduced
 - welfare moved at a slower pace...and poverty rocketed
 - 1994: 5.3% of pensioners in poverty
 - 2001: 49% of pensioners in poverty
 - only reduced again once welfare increases (2005-07)

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- **Automatic Stabiliser**
 - for people and the economy in general
 - economic recession in 2008 = a telling lesson
- **Public Services**
 - 'important source of income in kind'
 - roughly = 50% of welfare states transfers to individuals and households
 - A few studies looking at the € value of these
 - reduced inequality and poverty as skewed towards those on lower incomes

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6. Future Challenges

- **Limited understanding of the role of redistribution**
 - tax system poorly understood
 - welfare system poorly understood
 - value of public services poorly understood
- **Probably need to pay more over time for the current levels**
 - sustainable
 - where to collect from
 - probably all need to pay more
 - social insurance increases for employees and employers

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- **Public Services are a key area of the welfare state**
 - need to understand these better
 - more work and appreciation of their role
 - e.g. childcare....
- **Funding redistribution**
 - to stand still we need to collect more
 - to enhance it, we need to collect much more
 - How?
 - more mature approach to broadening the tax base needed
 - more mature approach to funding public services needed

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7. Conclusion

- The Welfare State has many parts
- Plays a core role in producing better/fairer outcomes
 - not the only tool....
- Key, yet limited detailed appreciation of it
- Core part of current socio-economic model
- Sustainability questions
- Populist reductions and impact on minorities
- Challenges ahead

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8. References & Links

- NERI papers
 - <http://www.nerinstitute.net/research/earnings-and-low-pay-in-the-republic-of-ireland/>
 - <http://www.nerinstitute.net/research/employees-on-the-minimum-wage-in-the-republic-of-ireland/>
 - <http://www.nerinstitute.net/research/income-taxes-and-the-earnings-distribution/>
 - <http://www.nerinstitute.net/research/the-distribution-of-market-income/>
 - <http://www.nerinstitute.net/research/quarterly-economic-observer-spring-2015/>
 - <http://www.nerinstitute.net/research/quarterly-economic-observer-spring-2016/>
- Attached chapter on *Income Taxation and Social Policy*
- Others:
 - SILC: <http://www.cso.ie/en/silc/>
 - SII SER: <http://www.socialjustice.ie/content/publications/type/socioeconomic-review>

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