From Celtic Tiger to Crisis:

Progress, problems and prospects for social security in Ireland

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Abstract

This paper provides an assessment of the impact of changes to social security in Ireland during both the Celtic Tiger and Crisis periods, comparing change in social security rates relative to prices and to median equivalised net income. It is argued that, contrary to some commentary, there *was* progress in terms of social welfare generosity during the Celtic Tiger years, despite Ireland adopting a low-tax economic model. However, in the latter years of the Celtic Tiger period, this progress was increasingly leveraged against precarious property-related taxes. Following the collapse of the housing bubble, the bank guarantee and the bailout, there has been substantial retrenchment of social security, both in terms of cuts to some of the primary social welfare payments, tightening of scheme rules as well as more direct cuts to less visible schemes. The paper provides an assessment of these changes, ending on a cautionary note in arguing that the prospects for the future do not augur well given Ireland's continued commitment to a low-tax economic model.

Keywords

Crisis; Ireland; Celtic Tiger; social security; IMF

Introduction

While the reach of the ongoing financial crisis is global, the reasons for Ireland's prominent role within this crisis are primarily domestic, and relate to its banking sector. During a period of unprecedented economic growth, the Irish economy became over-dependent on its construction sector, as a housing boom, which reflected the country's newfound wealth, evolved into a housing bubble. Ireland's banks over-extended themselves in making property-related loans, while households acquired substantial debt in the belief that housing represented a secure store of wealth. With the credit crunch which followed the bankruptcy of Lehman Brothers, the banks found it increasingly difficult to raise funds on the money markets and, faced with the prospect of the collapse of one or more of Ireland's banks, in September 2008 the government issued a blanket guarantee on all liabilities held by Irish banks, in effect nationalising the banking losses which would subsequently emerge. In November 2010, following a period of market instability which saw sovereign bond yields rise substantially, Ireland was forced to resort to an EC/ECB/IMF 'troika' bailout and has, as part of its bailout agreements, had to impose a number of painful austerity budgets on a nation already reeling from a severe economic contraction.

In this paper, I assess the impact of the financial crisis – thus far – on the structure and generosity of social security in Ireland. A number of previous assessments of the impact of the crisis on social security in Ireland have pointed towards 'the rapidity with which Ireland turned to retrenchment' as the crisis hit (Considine and Dukelow, 2012: 268; see also 2011), in supposed contrast to other nations, and have suggested that there have been attempts to use the crisis to 'establish Ireland as an ungenerous social welfare model and a more neoliberal welfare state' (Murphy, 2010, in Considine and Dukelow, 2012: 262). Some accounts of the period which preceded the crisis were similarly critical, with Allen (2012: 429) noting how, during the preceding 'Celtic Tiger' years, 'the Irish state had been developing a policy bias towards the neoliberal agenda'. In these accounts, the themes of neo-liberalism and, subsequently, of retrenchment loom large, with the austerity imposed by the Irish government since the start of the crisis described by Farnsworth and Irving as 'true to type' (2011: 272).

This paper provides a rather different assessment, offering a broader perspective than most recent contributions in two important ways. First, I seek to understand changes to social security in a somewhat longer-term perspective, allowing for changes during the pre-crisis 'Celtic Tiger' period as well as during the crisis itself. This paper covers the period 1997 – 2014, with the start of this period coinciding with the first of three consecutive Fianna Fáil-led administrations coming to power. These governments served for fourteen years, as the Celtic Tiger reached its apogee, and as it imploded, only to be replaced by a Fine Gael – Labour coalition in 2011, shortly after Ireland's bailout with the troika was agreed. This longer-term perspective is especially important given the incremental nature of social security change in Ireland (see below).

Second, rather than discuss cuts to social security in isolation, I provide a comparison of the value of key social welfare payments relative to prices, gross average earnings and median equivalised net income. The former provides an assessment of the real value of social welfare payments over time, or the degree to which there have been absolute (dis)improvements in the purchasing power of social welfare payments. Comparing social welfare rates relative to median net income, on the other hand, acts as a proxy for the ability to maintain oneself adequately outside of the market (cf. Esping-Andersen, 1990), and provides a relative perspective between social welfare claimants and all individuals. As we will see, adopting both absolute *and* relative perspectives is essential to understanding social security change during the Celtic Tiger and Crisis periods.

Major structural changes to Ireland's social security system have largely been absent, with politicians favouring incremental reforms (Murphy, 2012; Daly and Yeates, 2003). Any assessment of social security change in Ireland therefore rests on a judgement about the cumulative impact of incremental change. It is the argument of this paper while there are many current problems, and many recent painful measures, there was, prior to this, some degree of progress with respect to social security, especially in the latter years of the Celtic Tiger period. However, this progress occurred during a period where exchequer receipts became increasingly dependent on property-related taxes, which dried up once the housing bubble burst. Importantly, there is no prospect of these revenues returning to their previous levels and this, when combined with Ireland's continuing commitment to a low-tax economic model and on-going demographic change, raises difficult questions about the prospects for social security in the future as Ireland emerges from its bailout programme.

This paper contains four sections. The first section provides an overview of economic developments during the Celtic Tiger years, and the growing exchequer dependence on the property sector in the latter years of the boom. The second section discusses the two decisive events of the Crisis in Ireland: the decision to guarantee the liabilities of all domestic banks in September 2008, and the application for an EC/ECB/IMF bailout in November 2010. In the third section, I discuss changes in the value of social security during both the Celtic Tiger and the Crisis years, relative to prices, average earnings, and median net income. The conclusion summarises the four findings which emerge from the preceding analysis.

I - From Celtic Tiger to Crisis

The 'Celtic Tiger'-era boom (1994 – 2007), which preceded the ongoing crisis, constituted the culmination of Ireland's catch-up with its richer neighbours, with Ireland's GDP rising from 90% of the EU-15 in 1995 to a peak of almost 130% in 2007 (OECD, n.d.). Analysing Ireland's belated economic success, Honohan and Walsh (2002: 1) argue 'the salient feature of Ireland's catch-up has been an increase in the proportion of the population at work'. A new generation of workers with higher qualifications than their predecessors found employment in higher-productivity, non-agricultural sectors, while women began to enter the labour force in greater numbers (Honohan and Walsh, 2002). In a recent contribution, Donovan and Murphy (2013) argue that these predominantly domestic explanations, while necessary, do not offer a *sufficient* explanation for the emergence of the Celtic Tiger economy. They argue that two international developments require greater emphasis; namely, 'the US revolution in information technology centred in Silicon Valley and the progressive economic and monetary unification across Europe' (2013: 26). These two developments enabled Ireland to reposition itself as a 'peripheral' economy, and allowing it to capture a disproportionate share of US multinational investment into Europe (Donovan and Murphy, 2013).

Ireland embarked on a low-tax economic model, the desirability of which became the subject of much national debate, epitomised by a remark by the then Tánaiste,[1] and leader of the free-market Progressive Democrats, Mary Harney (2000), that while Ireland was geographically closer to Berlin than Boston, 'spiritually, we are probably a lot closer to Boston than Berlin'. In his first budget in 1997, Minister for Finance Charlie McCreevy announced that there would be a phased reduction in corporation tax from 36% to 12.5%, in what would become a central plank of Ireland's economic policy. Income tax rates were cut from 48% and 27% in

[1] Irish for Deputy Prime Minister

1997 to 42% and 20% in 2002 (IMF, 2012b: 29) and by the end of the 1990s, real GDP was growing by almost 10% a year (Donovan and Murphy, 2013: 16).

The substantial rise in household incomes, the return of former emigrants and arrival of new migrants, when combined with cheap access to credit, resulted in a significant increase in housing demand (Bergin *et al.*, 2011: 48). What followed was an astonishing rise in the price of housing, which quadrupled between 1996 and 2006 (Whelan, 2010: 234). In the new millennium, the construction sector began to account for an increasing share of a growing workforce (Honohan, 2009), comprising 13.3 per cent of employment by 2007, a full five percentage points more than every OECD nation bar Spain and Portugal (Whelan, 2010). Indeed, the housing boom not only provided employment, but also helped to fill the government's coffers. In the pre-crisis years, and unlike some other European countries, Ireland's central government debt had fallen consistently, from 95% of GDP in 1993 to 24% in 2006 (CSO, 2012: 157), as governments had registered modest surpluses in most years (Avellaneda and Hardiman, 2010).

Two relatively peripheral sources of tax revenue, capital gains tax and stamp duty, began to contribute a growing share of overall government revenue, rising from 8 per cent of total current account receipts in 2000 to 15 per cent in 2006 (author's calculations from budget.ie website; see also Whelan, 2010: 240; 2011). These sources of revenue were heavily dependent on the property boom and, crucially for a public spending perspective, they are both sources of revenue which have little prospect of returning to their former levels. By early 2007, house prices began to fall and the economy more generally began to deteriorate. This led to a great deal of discussion in Ireland about the likelihood of a 'soft landing' for the economy in general, and for house prices in particular.

II - The bank guarantee and the bailout

The soft landing did not happen. As Honohan (2009: 208) notes, 'the underlying cause of the problem was domestic and classic: too much mortgage lending (financed by heavy foreign borrowing by the banks) into an unsustainable housing price and construction boom'. The Irish banks had become dependent on short-term money markets to finance their property-related loans, leaving them exposed to any shock in the system (Bergin *et al.*, 2011).

Following the credit crunch in the wake of the collapse of Lehman Brothers on 15th Sept 2008, the banks approached the government claiming that they faced a liquidity crisis, assuring the authorities that theirs was not a problem of insolvency (Whelan, 2011; Barrett, 2011). Faced with the prospect of a systemic threat to Ireland's banking sector and wider economy, and believing that there was no underlying solvency issue at the Irish banks, on the night of 29th September 2008, the Irish Government issued a blanket guarantee on the liabilities of Ireland's six domestic banks. In the period following the guarantee, a series of official estimates of the losses incurred by Irish banks were released, with each release constituting an upward revision on the previous figure, as the as the scale of these losses emerged (Whelan, 2011).

In a period of market volatility, the spread on ten-year sovereign bonds between Germany and other Eurozone countries, such as Greece, Ireland, Portugal and Spain, which had been close to zero before the crisis, began to rise, with Greece's spread rising in late 2009, followed by a rise in the Irish spread in 2010, triggered by concern at the state of the Irish economy. The ECB was providing funding to Irish banks to make up for the loss of deposits which they were experiencing and was becoming concerned about the extent of its involvement in Irish banks.

By November 2010, rumours that Ireland would follow Greece into a troika bailout programme abounded, and government issued repeated denials that Ireland would require a bailout. It was left to the Governor of the Central Bank, Patrick Honohan, in a live radio interview from Frankfurt on 18th November, to announce that troika staff would be arriving in Ireland that very day to agree bailout terms with Ireland.

Just six days after the announcement that the troika were arriving in Ireland to agree the terms of a bailout, Ireland published a National Recovery Plan 2011 – 2014. This argued that to return to sustainable growth, a €15b budgetary adjustment was required over four years, of which one-third would come from taxes and two-thirds from spending (Government of Ireland, 2010b: 9). Social protection would contribute €2.8b of these spending cuts, representing a 13% reduction from the 2010 spending level (2010b: 61). The then Minister of Finance, Brian Lenihan (2010), claimed that the Plan was 'our work, and our work alone', but it is widely believed that it was agreed or approved by the troika.

This plan formed the basis for the Memorandum of Understanding between Ireland and the troika (Government of Ireland, 2010c), with the bailout providing €85b of funding, comprised of loans from the Eurozone countries, UK, Sweden and Denmark (€45b) and IMF (€22.5b), with a further 17.5b raised by acquisitioning Ireland's National Pension Reserve Fund (Barrett, 2011: 53). The Fund had been established in 2001, with the government investing 1% of GNP per annum with the intention of pre-funding for Ireland's state and public pension liabilities from 2025 onwards. The bailout allocated €35b to deal with the banks and €50b for the public finances (Barrett, 2011). Having set the scene in terms of economic and political developments during the Celtic Tiger and Crisis years, we now turn to social security change during these periods.

III – Social security change in Ireland

The origins of Ireland's social security system lie in the period of British rule in Ireland and, indeed, the dominant influence of the UK has continued post-independence, not simply because of the institutional legacy which was inherited, but because of Ireland's 'propensity to look to Britain for policy direction' many decades later (Daly and Yeates, 2003). Ireland's social security system is comprised of flat-rate, contributory and non-contributory benefits which cover a range of contingencies, as well as a universal Child Benefit payment. There are, in addition, certain benefits in kind: older people over the age of 70, for example, are provided with Electricity and Gas Allowance, Telephone Allowance and a Free TV licence on a universal basis, collectively known as the 'household benefits' package.[2]

Ireland's political system is characterised by an absence of the typical left-right cleavage found in most European countries, with the historical division between the two main parties, Fianna Fáil and Fine Gael, being based on their opposing positions taken on the terms of independence from Britain. Both parties both seek to garner cross-class support, and both adopt something of a populist orientation (Dukelow, 2011).

While Ireland is often described as having a liberal welfare model, and is often discussed in relation to the UK, the difficulty of satisfactorily classifying the Irish system in comparative

[2] Budget 2014 announced the discontinuation of the Telephone Allowance from 1st January 2014.

terms has previously been noted (e.g. McCashin, 2012). In her analysis of Irish social expenditure data between 1980 and 2007, Dukelow (2011: 411) argues that 'consideration of Ireland's pattern of social expenditure over time demonstrates the limits of its departure from liberal strictures', suggesting the absence of change during Celtic Tiger years.

However, the argument *against* adopting an aggregate expenditure approach has been convincingly outlined by Esping-Andersen (1999: 19-20; see also Korpi and Palme, 2003): an aggregated approach tells us nothing about who receives the spending in question – some benefits may be targeted at the middle-classes, others on the lowest incomes; and because spending is as much a function of the number of claimants as benefit generosity.

Indeed, the latter is particularly apposite in the case of Ireland, which has a distinctive demographic profile, with the second lowest old-age dependency ratio and the highest young-age dependent ratio in the EU-27 (Eurostat, 2013), which might be expected to reduce the 'demands' on Ireland's social security system. Furthermore unemployment has fluctuated significantly over the medium term (falling from 9.9% to 3.9% between 1997 and 2001, and rising during the crisis to a high of 14.7% in 2012), raising questions about the ability to draw inferences about welfare generosity from data on aggregate welfare effort alone.

This relates to the debate within the literature regarding the 'dependent variable problem' when analysing change over time (e.g. Green-Pedersen, 2004; Starke, 2006). Two broad approaches to understanding social security focus on *systemic change* and *programme generosity*, respectively, with the former relating to structural reforms which reflect changes in the goals and/or policy instruments of a welfare state (e.g. Palier and Martin, 2007), and the latter to changes to the generosity of particular social welfare payments (which may occur with, or without, systemic change; see Green-Pedersen, 2004).

In this paper, I primarily adopt the latter approach, focussing on changes to the generosity of three of the main social welfare payments: the State Pension (Contributory), Jobseeker's Benefit and Child Benefit, providing supplementary information regarding the rates of payment for other schemes and amendments to the scheme rules, where necessary. The State Pension (Contributory) is selected because it is the primary social welfare payment made to older people. Jobseeker's Benefit is a primary payment for working-age claimants, and is intended to represent working-age support more broadly, since a number of other important working-age payments, such as Illness Benefit and Disability Allowance, are paid at the same rate. Despite much debate about whether to tax or means-test Child Benefit, it remains a universal payment, paid to the parents (usually the mother) of all children under the age of 16, or under age 18 if the child is in full-time education.

In what follows, I discuss changes in the nominal value of these payments during the Celtic Tiger and Crisis years, and their value relative to prices, which provides a measure of real, absolute change over time; gross average earnings, which provides a comparison relative to those in employment; and median equivalised net income, which provides a relative comparison between the value of social welfare payments and the median income of all individuals. Indeed, since relative income poverty lines are based on median equivalised net income figures, this final comparison is intended to represent one aspect of a poverty perspective. Amendments to eligibility rules are discussed separately, rather than being aggregated with data on generosity (cf. Esping-Andersen, 1990).

Social security change during the Celtic Tiger years

The absence – and indeed the improbability – of major systemic change in social security policy in Ireland has been noted by Murphy (2012) and, with some notable exceptions, such as the introduction a contributory Carer's Benefit in 2000 (Daly and Yeates, 2003: 93; Appendix 1 below), Ireland's social security system broadly maintained its structure during the Celtic Tiger years. However, in terms of *programme generosity* something significant *did* happen: the value of social welfare payments rose considerably, and over a prolonged period (see Figure 1). Table 1 demonstrates the evolution of the rates of selected social security payments, prices, earnings and the poverty threshold over the period in question, using 1997 as the base year. Between 1997 and 2009, social welfare rates more than doubled, and Child Benefit quadrupled, representing a real increase of 65 - 70% in the value of the State Pension (Contributory) and Jobseeker's Benefit, and a trebling of the value of Child Benefit in real terms (author's calculations). Furthermore, the value of these payments rose more rapidly than gross average earnings during the boom years.

But median net income, which is used to set the income poverty line, rose more rapidly still, at least in the first half of this period, reflecting *inter alia* the reductions in income tax between 1998 and 2002, and the growth of two-earner households (Author A). These reductions in income tax increased the fiscal pressure of financing social security, since they raised net incomes, thus raising the 'target' which social security, in this relative perspective, is attempting to meet, while also depriving the exchequer of the means by which such investments might be funded.

Indeed, this period of the boom years can be broken down into two distinct phases. In the first phase, from 1999 to about 2002, improvements to social welfare rates were especially concentrated on Child Benefit, which almost tripled in value over four budgets between 2000 and 2003. The second period, from about 2002 to 2009, placed greater weight on what are considered the primary weekly rates of payment, Jobseeker's Benefit and the State Pension, although Child Benefit continued to receive significant year-on-year increases, too. The substantial rise in Jobseeker's Benefit, against a backdrop of a stable unemployment rate of 4-5% between 2002 and 2007 demonstrates that an expansionary welfare policy need not substantially increase unemployment, at least when sufficient jobs are available.

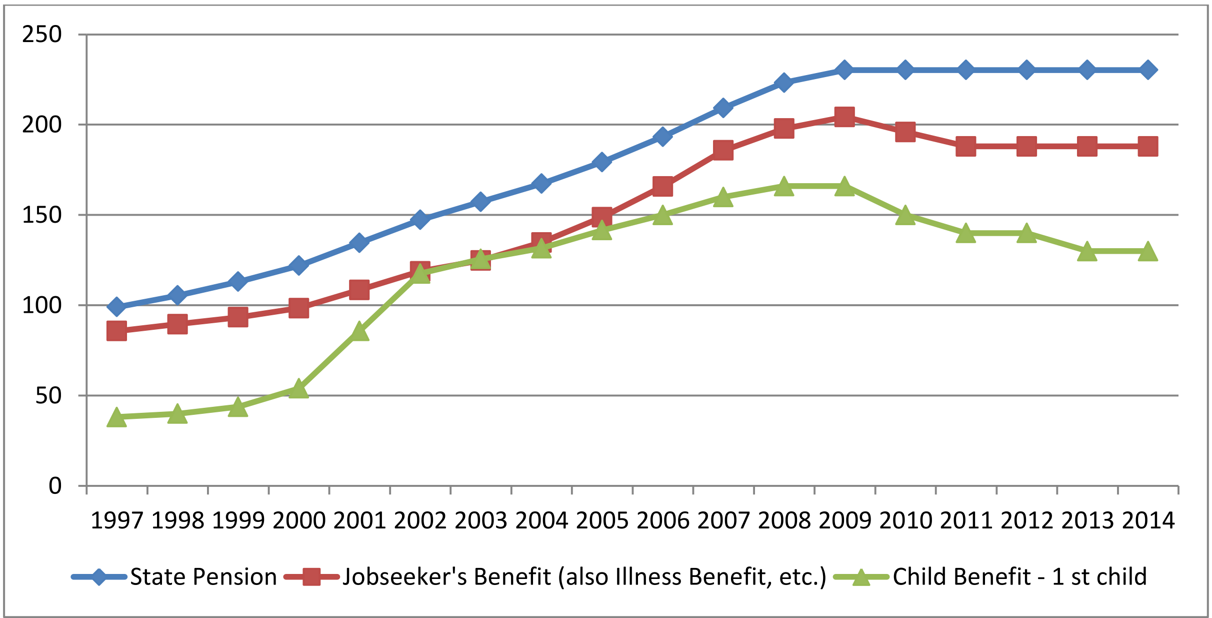
Amendments to scheme rules followed a similarly expansionary trajectory, with numerous improvements to the generosity of capital disregards in means-tests (e.g. the treatment of living with one's parents, or Benefit and Privilege, for the assessment of Jobseeker's Allowance); extension of the household benefits package to recipients of Carer's Allowance, and the introduction and extension of Respite Care Grant for Carer's Allowance claimants, as well as particular increases in payments for certain vulnerable groups, such as the widow(er)'s pension and qualified adult payments (see Author A; Appendix 1).

During the Celtic Tiger years, Ireland's social security system was characterised by a relative absence of systemic change, but year-on-year, cumulative increases in payments, and enhanced generosity in terms of the scheme rules. In these years, Ireland pursued a low-tax economic model but, contrary to some commentary, also improved the generosity of social security payments.

These increases in the nominal social welfare values were not guaranteed by legislation, but resulted from political pledges. The 1997 government between Fianna Fáil and the Progressive Democrats promised 'substantial social welfare increases' (Dept of the Taoiseach, 1998: 9) while their 2002 Programme for Government noted the desire to work towards a 'new benchmark level of €150 for social welfare payments' by 2007 (Fianna Fáil and the Progressive Democrats, 2002: 21), and to raise the State Pension to €200 per week (2002: 26).

Indeed, Michael McDowell, then the leader of Ireland's free market party, the Progressive Democrats, was accused of 'buying votes' when, in the lead-up to the 2007 election, he pledged to raise the State Pension from €209 to €300 per week by 2012 (O'Brien, 2007). This from the party which had argued that Ireland was spiritually closer to Boston than Berlin! Before long, all of the main political parties had either matched or improved on this pledge, demonstrating the widespread political support for incremental expansion of social welfare payments, at least by the end of the Celtic Tiger period.

Figure 1. Nominal value of three social security payments, € per week/month, 1997 to 2014



Source: Constructed based on data from www.budget.gov.ie. Values for the State Pension (Contributory) and Jobseeker's Benefit are paid weekly; Child Benefit is paid monthly.

Table 1. Change in value of selected social security payments, prices, earnings and the poverty threshold (60% of median equivalised net income), 1997 to 2011

	1997	2001	2005	2009	2011
State Pension (Contributory)	100	136	181	233	233
Jobseeker's Benefit (also Illness Benefit, etc.)	100	127	174	238	219
Child Benefit (1st child)	100	225	372	436	368
Prices (CPI)	100	115	131	142	144
Gross average earnings	100	128	156	188	181
Poverty threshold	100	155	205	245	215

Source: author's calculations based on data from www.budget.gov.ie; CSO (n.d. a; b; c); Eurostat (n.d.). Gross average earnings data for 1997 – 2005 relate to manufacturing sectors, and for 2009 and 2011 to all sectors bar agriculture, forestry and fishing.

Social security changes during the crisis

Just six months after Budget 2009, the government were forced to announce another full Supplementary Budget. The bursting of the housing bubble deprived the exchequer of the revenues it had increasingly become dependent on, leaving a gaping hole in the public finances. In this Supplementary Budget of 2009, a series of harsh expenditure cuts and tax rises were announced, including that the double-payment, discretionary Christmas Bonus payment would not be paid in 2009, for the first time since 1985; that the Early Childcare Supplement, worth almost €1,000 per year, would be abolished by the year-end; that the Back to Work Allowance, which provided a three-year taper of social welfare payments for the long-term unemployed who moved into employment, would be cancelled, and that new, substantially reduced rates of income support for young unemployed people would be introduced (see below and Appendix 1).

The three social welfare payments presented in Figure 1 again provide a useful starting point to consider social security changes since the Crisis began. Of these, pensioners have received the greatest protection from the cuts, with social welfare rates frozen since 2009, representing a 3% real terms cut by 2012. However, there have been reductions in the rate of pro-rata pensions for claimants with incomplete contribution records (see the changes to scheme rules discussed in Appendix 1), an increase in the retirement age from 65 to 68 in three steps by 2028 is planned under the National Pensions Framework (Government of Ireland, 2010a) and, as discussed, the National Pensions Reserve Fund was acquisitioned to contribute to the cost of bailing out the banks, which will enhance the fiscal pressure associated with future demographic transition.

Second, working-age respondents have seen their social welfare payments cut in nominal terms by around 8% between 2009 and 2014 (representing an 11% real terms cut by 2012). These cuts to the nominal rates of payments for working-age claimants were all imposed by the Fianna Fáil – Green Party Coalition who governed during the period of the bank guarantee and the bailout. In contrast, the Fine Gael – Labour coalition which replaced them in March 2011 pledged to 'maintain social welfare rates' in their Programme for Government (Fine Gael and The Labour Party, 2011: 52). In practice, this commitment has been interpreted as 'No cuts to *primary weekly* social welfare payments' (Department of Social Protection, 2012, emphasis added), and while the primary social welfare payments for older people and most working-age adults have indeed been frozen, the Fine Gael-Labour Coalition have turned to the scheme rules in search of savings, with the period of entitlement to contribution-based Jobseeker's Benefit reduced, as well as many cuts made to more peripheral payments for working-age claimants (see below and Appendix 1).

Moreover, and third, the reduced rates of means-tested Jobseeker's Allowance for claimants under the age of 20 which were first announced in the 2009 Supplementary Budget have been incrementally extended; the latest change announced in Budget 2014 affecting all new claimants below the age of 25 who do not participate in approved training programmes and do not have children (see Appendix 1 for further details). Younger jobseekers without entitlement to contribution-based Jobseeker's Benefit have thus seen substantial reductions in their social security entitlements.

By 2014 – and fourth – Child Benefit had been retrenched very substantially, with cuts of between 20% to 30% since 2009 depending on the number of children (the greatest cuts have been for large families). These cuts to Child Benefit have been made by both the Fianna Fáil-Green Party and Fine Gael-Labour coalitions.

In addition to the cuts made to these three payments, many other cuts have been made, including curtailing the eligibility period for the One Parent Family Payment and the Back to School Clothing and Footwear Allowance, the tightening of means-tests, and the abolition of the Cost of Education Allowance, the Bereavement Grant and the Telephone Allowance (see also Appendix 1). Thus, while older people have largely been spared from the cuts to social welfare, there have been severe cuts made to the primary payments for children and working-age adults, as well as tightening of scheme rules and direct cuts to less visible schemes. These cuts have largely been imposed with a short lead-in time, reflecting the immediacy of the required fiscal adjustment.

One way to understand the magnitude of these cuts is to consider how much of the previous gains in terms of generosity have now been lost. Returning to the three primary payments considered here, and adjusting for inflation, by 2012 the real value of Child Benefit was lower than its value in 2002; the real value of Jobseeker's Benefit was below its value in 2007, while the State Pension, despite being frozen since 2009, remained more generous than its 2008 value. Thus, in terms of the primary payments for older people and most working-age claimants, many of the gains of Celtic Tiger years have – thus far at least – been preserved.

Extent of cuts relative to the poverty line during the Celtic Tiger and Crisis

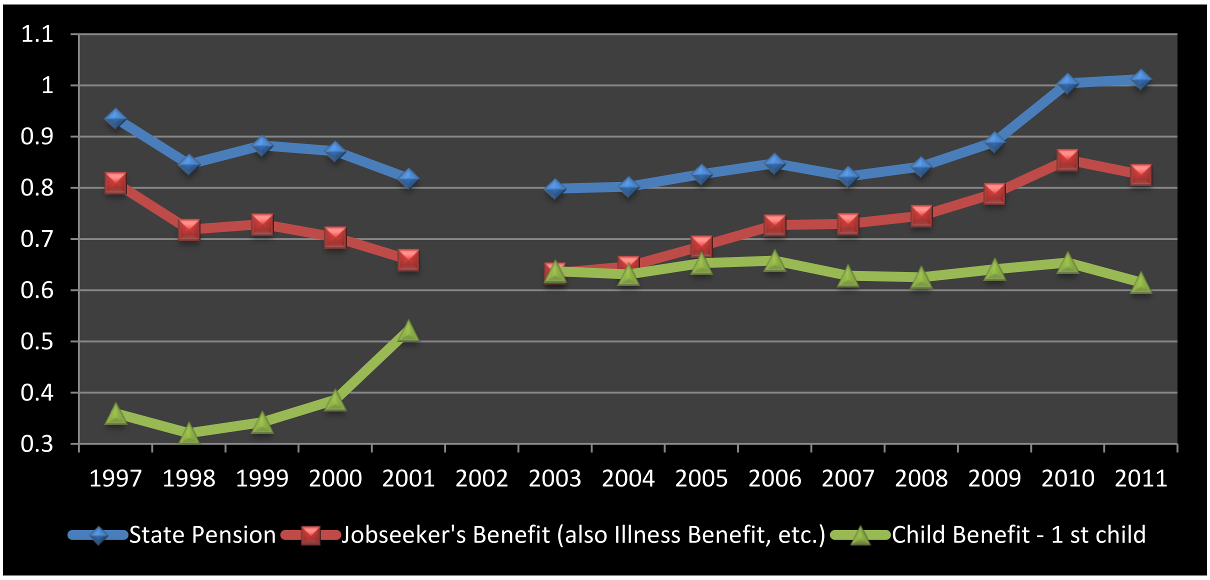
In this penultimate section, I assess the value of the three primary payments as a proportion of the 60 per cent of median income poverty line (see Figure 2). Again, the three phases of Ireland's social security trajectory can be clearly seen. In the period 1997 to 2001, when income tax rates fell significantly, the rises in the adult social welfare payments fell behind net median net income, and thus the poverty line.

But the second period, from about 2003 to 2009 is also crucially important. During this period there was considerable progress in terms of the generosity in terms of social welfare rates, and especially for the adult social welfare rates. It was at this time, however, that the government was becoming increasingly dependent on revenues from the property sector. This is not to suggest that these spending increases were unsustainable; but the property bubble, and associated government revenues, weakened the fiscal pressure to accept a trade-off between more (personal) taxation and higher spending, or a low-tax and low-spend model, allowing 'successive Irish governments a freedom from the normal fiscal constraints faced by governments around the world' (Whelan, 2010: 239).

This dependence on property-related taxes created considerable fiscal problems when the housing bubble burst, since a crucial revenue stream disappeared. In terms of social security, the period since 2009 has seen substantial real-terms cuts to Child Benefit and Jobseeker's Benefit, with a modest real terms cut to the State Pension (Contributory). However, for these adult rates at least, this represents a *rise* relative to the poverty line, at least for the initial years of the crisis (see Figure 2). Child Benefit is the exception, falling in value relative to the poverty line, with this trend likely to continue given the further cuts in nominal Child Benefit rates in subsequent years (see Figure 1 and Appendix 1).

Thus, the Celtic Tiger period saw social welfare rates rise significantly in real terms, though these rates fell behind median net income during the early years when income tax was falling, only to catch up in the period to 2009. In contrast, the crisis has seen substantial real terms cuts to social welfare rates since 2009 (with particularly large cuts for some vulnerable groups), but cuts to the payments considered here have been less severe than wider fall in median net income, at least for the years 2009 – 2011.

Figure 2. Value of selected social security payments as a proportion of the poverty line



Source: author's calculations based on data from www.budget.gov.ie (various years) and Eurostat (n.d.). The poverty line is set at 60 per cent of median equivalised net income.

Conclusions

In this paper, I have argued that in order to understand the impact of the crisis on social security in Ireland, it is important to offer an assessment which, first, takes a somewhat longer-term perspective, considering both the pre-crisis boom, as well as the current bust; and second, moves beyond considering the cuts in isolation to consider their magnitude relative to prices, earnings and median net income.

A number of previous assessments of the impact of the crisis on social security in Ireland have been critical both of Ireland's performance during the crisis, as well as of the in the preceding Celtic Tiger period. In levelling criticism at Ireland's performance during the Celtic Tiger years, attention focussed on Ireland's stable welfare effort over time (e.g. Dukelow, 2011: 411) and high rates of relative income poverty (e.g. Murphy and Millar, 2007; Murphy, 2012: 355). If welfare effort and relative income poverty measures are right measures of progress, then the crisis has been a success: spending on social protection has doubled (from 8.8% in 2006 to 16.9% in 2011), while income poverty has fallen by one-fifth (from 18.5% in 2008 to 15.2% in 2012). The lessons from the Irish experience are, I believe, that welfare effort is not a *necessary* measure (for the reasons outlined above), and that relative income measures cannot be considered a *sufficient* one. In particular, the Irish experience, in both good times and bad, demonstrates that an approach which is sensitive to changes relative to both prices *and* to net incomes is required.

In absence of major structural reform of Ireland's social security system, any assessment rests on a judgement about the cumulative impact of incremental change. From the preceding analysis, there are, I believe, four central conclusions. First, contrary to some recent accounts, there *was* progress in terms of the generosity of Ireland's social security system during the Celtic Tiger years, both in terms of rates of payment and expansionary changes to the scheme rules (see Appendix 1). This progress is particularly apparent if one considers the value of social welfare rates relative to prices or to gross average earnings, though their value relative to median net income, and thus the poverty line, also rose during the latter years of the boom, if only making up ground lost during the tax cutting years between 1998 and 2002.

If there was a problem with Ireland's performance in terms of social welfare during this period, it was not that social spending was insignificant, but rather that government spending became increasingly reliant on precarious property-related revenues, which dried up as the crisis hit. Indeed, for those who have become unemployed since 2007, the pre-crisis improvements in the social welfare rates have been very important.

Second, since 2009, there have been substantial cuts to Child Benefit and working-age social security payments, as well as a significant reduction in the value of Jobseeker's Allowance for younger claimants, and an enormous number of less visible changes to scheme rules and direct cuts to more peripheral payments. Given the artificial nature of final years of the economic boom, some correction to social welfare rates was likely to be required, and despite the cuts to the primary social welfare payments considered here, many, if not all, of the gains of the pre-Crisis period have been preserved, thus far at least. Indeed, the direct cuts to some of the more peripheral schemes are perhaps of greater concern, given the absence of public discussion preceding their announcement, their relative lack of visibility, and the requirement of positive legislative change in order to overturn them.

Third, while there have been cuts to of many welfare payments and amendments to scheme rules, the 'crisis' of social security in Ireland is perhaps less significant to the crisis in the wider economy. Recipients of the key social welfare payments have seen them fall by less than median net income, reflecting the severe distress of the Irish economy and household finances since 2009. While there have not been public sector job redundancies, salaries have been cut substantially, and a new public sector pension levy has been introduced. In the private sector, wage reduction has not followed the same pattern, but employment has fallen. Unemployment now stands at 12.5%, and mass emigration has returned. A range of new taxes have been introduced, and others are planned. A growing number of households have fallen behind on their mortgage payments – as of September 2013, one in eight private residential mortgages were in arrears of 90 days or more (Central Bank of Ireland, 2013). In this context, Ireland's social security retrenchment should be seen in terms of a response to the crisis, and not as part of some ideological effort to retrench social protection, as is sometimes suggested.

Fourth, and finally, is the question of prospects for the future. In planning for a future for social security, Ireland needs to look beyond Britain in terms of drawing comparisons and policy inspiration, since the UK has embarked on a major project of welfare retrenchment and of stigmatising welfare claimants in a way which, thus far at least, has not occurred in Ireland. This relates very directly to questions about Ireland's social and economic orientation. The Celtic Tiger years allowed Ireland to increase social welfare payments without making difficult choices about whether and how to raise the revenues to finance these. Given the continued adherence to a low-tax economic model, and facing an impending demographic transition (Taylor-Gooby, 2013) – albeit from a relatively favourable base – this arguably does not augur well for the future of social security in Ireland. As Ireland emerges from its bailout programme and regains economic sovereignty, the question of whether it should look towards Boston or Berlin will become crucial once more.

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Appendix 1. Selected changes to social security entitlement rules and payment rates during boom and bust

Scheme	Change
	The boom
Older people	Priority increases in Widow(er)'s pension for claimants aged 66+ as part of move to equalise rates with contributory State Pension (announced 2001; achieved 2004)
Widow(er)s Parent Grant	Introduction of Widow(er)'s Parent Grant (2000), initially paid at €1,269, with subsequent annual increases to €6,000 (2008).
Household Benefits package	All people aged 75 and over will be entitled to Free Electricity Allowance, Free Telephone Rental Allowance and Free Television Licence, regardless of their circumstances (2000). Extended to claimants aged over 70 (2001), and to pensioners under 70 in certain circumstances (2003).
Means-tests	Capital disregards for assistance schemes other than Unemployment Assistance (later JSA) and Supplementary Welfare Allowance increased from IR£2,000/€2,540 to IR£10,000/€12,694 (2000), and subsequently for all schemes (except Supplementary Welfare Allowance) from €12,694 to €20,000 (2005). Capital disregard for Disability Allowance increased from €20,000 to €50,000 (2007).
Carer's Benefit	New contributory Carer's Benefit announced in Budget 2000. Increase of €120 in the earnings limit to €270 (2005). Extension of period of recipt increased from 15 months to 2 years (2006). Increase of allowable hours of employment from 10 to 15 (2006).
Carer's Allowance	Free travel pass extended to all recipients of Carer's Allowance (1998). Introduction of new annual component, Respite Care Grant, paid as a contribution towards respite care for recipients of Carer's Allowance (1999). Initial rate €254, with annual increases to €1,700 (2008). A double payment of the grant was introduced for carers looking after more than one person (2001). Free telephone rental allowance extended to all claimants (1999). Extension of free electricity and telephone allowance to recipients (2000). Increase of allowable hours of employment from 10 to 15 per week (2006).
Qualified Adult Allowance	Announcment to increase QA rates from about 60% to 70% of main rates over three years (Budget 2000; increase to 66% achieved by 2002).
Maternity Benefit	Entitlement period increased from 14 to 18 weeks (2001), and subsequently to 22 weeks (2006). Payment calculated increased from 70% to 75% (2005), and subsequently to 80% of reckonable earnings (Budget 2006).
Jobseeker's Allowance	Assessment of Benefit and Priviledge abolished for claimants aged 29+ (2003), falling incrementally to 25+ (2006).
	The bust
State Pension	Maximum pension achieved at yearly average of 48 or more PRSI contributions. Rate for 20 average contributions reduced from 98% to 85% of full rate, with minimum entitlement at 10 average contributions reduced from 50% to 40% of the full rate (2012). Contributions can either be paid or credited for home making activities. From 2012, the minimum number of paid contributions increases from 260 to 520 (i.e. from 5 to 10 years of contributions) (2012). Number of contributions for Widow(er)'s Contributory pension to increase from 156 to 260 contributions (2012). State Pension (Transition) abolished (2014; in practice, raises retirement age from 65 to 66).
Jobseeker's Benefit	Minimum qualifying contributions for new claimants increased from 52 to 104 (2009); Entitlement for Jobseeker's Benefit reduced from 15 to 12 months where more than 260 contributions paid, and from 12 to 9 months where less than 260 contributions paid (2009). Duration reduced for new claimants from 12 to 9 months with more than 260 contributions paid, and from 9 to 6 months for less than 260 contributions (2013).
Jobseeker's Allowance	The rate of JSA for new claimants under the age of 20 reduced from €204.30 to €100 per week where not participating in an approved education or training scheme (2009-S). Rate of JSA for new claimants reduced to €100 for claimants between 20-21, and to €150 for new claimants between 22-24 (2010). Rate of JSA reduced for claimants between 22 - 24 to €144 p.w. (2011). Rate of JSA reduced to €144 for new claimants aged 25 and to €100 for claimants 18-24 (2014). Recipients of age-reduced payments receive €160 if partipating in approved education or training scheme (2014). Reductions do not apply for claimants with children.
Christmas Bonus	The double-payment, discretionary Christmas Bonus payment has not be made since 2008 (announced 2009S)
One Parent Family Payment	Amount of earnings disregard reduced from €146.50 to €130, with further reductions planned over four years (announced 2012). Temporary, half-rate payment when earnings rise above €425 to be discontinued (2012; existing claimants not affected). The upper age limit qualifying children reduced from 18 in 2011 to age of 7 by 2015 (2012).
Back to Education Allowance	The Cost of Education Allowance grant, paid as part of the Back to Education Allowance, reduced from €500 to €300 (2012) and subsequently discontinued (2013).
Child Benefit	Announcement that higher-rate payments for third and subsequent children to be discontinued (2013); discontinued for fourth and subsequent children from 2013 and for third child from 2014.

Note: Changes announced in annual budgets; budget year in parentheses; 2009-S indicates the supplementary budget for that year.