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GLENTIES JULY 28TH 2011**

‘TRANSFORMING SOCIAL PROTECTION’

An interesting item caught my eye in a recent New York Times. Its title was “As Government Aid fades, so may the recovery”. The article had a telling point. In the USA an extraordinary amount of personal income comes directly from Uncle Sam’s Treasury. Close to \$2 out of every \$10 in American wallets come from jobless payments, social security and disability benefits. Some of these payments are under threat as public spending is trimmed severely. US economists have expressed concern that this lost income will cramp consumer spending and act as a brake on recovery.

Things aren’t much different here.

On the one hand, there is a continuing gap between the Exchequer’s revenue and spending that remains as acute as it was at any time in the past few years. There is no getting away from the necessity to reduce that deficit both in scale and in the percentage of GDP. Welfare spending, which now exceeds €20 billion, is the biggest ticket item in any Budget and has to take its share of spending adjustments and cuts.

On the other hand, there is the undoubted economic impact of such cuts apart altogether from their social justice and equality impacts. Welfare spending has a very direct stimulus effect in that it feeds very immediately into consumer spending. People who live principally on benefits have little choice but to spend the money, rather than to save it. So any reduction in social benefits will take money out of circulation and will have a ripple effect on the wider economy.

So welfare spending cuts have to be approached with care and caution with due regard to the economic consequences. If recovery is dependent on domestic demand then excessive austerity could make a bad situation worse. And, as my mathematician husband never tires of reminding me, it is a simple mathematical fact that any decline in GDP makes any reduction in the percentage deficit more problematical.

On the other hand, there is the clear, however unpalatable, demand of the EU-IMF programme which doesn’t leave too much room for debate or argument as long as we are dependent on the Troika for day to day funding.

Ladies and gentlemen, we are living through an economic recession the likes of which we have not witnessed since the 1930s. We must use this crisis as an opportunity to bring about the reform and transformation of our country that should have taken place in the good times. No individual, group or sector can argue that they should not be affected. We must all join together in the common purpose of building a society that enables people to achieve their full potential.

Why transform?

Transformation of our system of social protection is key to preserving our way of life in this country.

First there is the fiscal situation. I need not remind such a well-informed audience that the gap between what we take in taxes and spend in the provision of public services is in the region of €19 billion this year.

Of course part of this deficit is cyclical and will be reduced once the economy recovers and activity increases. However there is a significant part that is structural. This structural deficit exists because the state is still largely bound by spending commitments made in the good times while the sources of tax revenue to fund these commitments have simply disappeared.

The social protection budget grew in a particularly dramatic fashion over the past decade. In 2001 spending on social protection stood at €7.84 billion; by last year this had grown to €20.85 billion – an increase of 266%. Inflation increased by around 30% during the same period.

So while some of the expenditure increase is clearly due to the dramatic rise in unemployment since 2007 the most significant factor is a surge in both rates and the number and size of schemes over a very long period of Fianna Fail government. Frankly, the increases in social protection payments were often cynically timed to help Fianna Fail win elections.

As a result, we have inherited a level of social expenditure that is completely out of sync with the funding base of the state. It is clear that we need to put it on a more sustainable footing.

Secondly, while our social protection system is successful in providing a basic level of income support and a threshold of decency, it does not sufficiently enable people to get themselves back on track, in to work, or, in the absence of jobs, to go back to education or training, and ultimately to achieve their full potential.

Our social welfare system has taken a largely passive approach. We allow people to receive certain benefits indefinitely. Traditionally there were only very limited sanctions for those who refused offers of work or training.

Internationally a number of the cash benefits schemes we provide are outliers; for example universal child cash benefits whereas other countries place emphasis on childcare and pre-school education. The Troika are asking very hard questions about the extent to which we can preserve such benefits when they are way in excess of what is provided to their own citizens by the countries that are keeping our state on life support.

Our system has also had very limited success to date in what is known as activation; in other words assisting people in getting back to work, education or training as soon as possible by providing advice, placement and training referral services.

Over the past decade most OECD countries have successfully introduced such policies, while in Ireland there has been hardly any movement at all in this area.

More is the pity, for the OECD has estimated that we would have entered the recession with 100,000 fewer on the live register if Fianna Fail governments had introduced such policies during the good times.

Finally, given the significant increases in rates over the past decade, the so-called ‘replacement rate’ or the proportion of their former wages that unemployed people receive in benefits has increased in the case of some recipients to levels where it may discourage them from seeking work.

I have always had a strong belief in the power of self-improvement and development. While responsibility for such personal transformation lies largely with each individual, citizens also need the right kind of support and encouragement from the family, community and ultimately the state.

Many in our society are fortunate enough to be born and raised in circumstances which are favourable to this; however a very significant minority is not. For them, we have to ensure that our education and social protection systems act as a catalyst for self-improvement and the full achievement of their potential. We have to focus on people’s capabilities: what are people actually able to do and to be? What real opportunities are available to them?

A hand up rather than a handout

Strong systems of social protection are at the heart of the world’s most successful and dynamic economies. Countries like Denmark, Sweden, Finland and the Netherlands, some comparable in size to ours, have over time developed systems that enable citizens to cope with the economic risks of modern life; they provide sufficient income to deal with unexpected circumstances like unemployment, illness or disability or support for particular stages of life like childhood, the birth of a child and old age.

The system contains built-in incentives to ensure that citizens experiencing unexpected circumstances are motivated to view the support of the state as temporary until their situation improves. And in return they ask their citizens to act responsibly; to contribute to the extent that they can during their working life; not to view the state’s support as a permanent entitlement, but instead to see it as conditional on them taking the necessary action to put themselves back on the right track.

These countries view social security as a collective insurance mechanism for redistribution over the life cycle – the so-called ‘piggy-bank’ function of the welfare state. It is a social contract between the state and the citizen; and like all contracts it imposes duties and obligations on both parties.

However we should not confine our search for effective systems to the Nordics. Some of the most radical and innovative transformations of social protection have taken place in what were

once called developing countries but are now the rising nations of the world – for example Brazil and Mexico.

Conditional cash transfer (CCT) programmes have been the centrepiece of reform in these countries. Brazil and Mexico provide money to poor families on condition that those transfers are used as an investment in their children's development such as regular school attendance and basic preventative health care.

In the last ten years, these conditional cash transfers have become popular to ensure that children in poor families go to school and enjoy proper health care.

When we compare our current system of social protection to the contributory-based social contract that exists in the Nordic countries and the highly successful system of conditional payments in Latin America, we see that they require the recipients of state assistance to do something in return, whereas we rarely do.

Whether they require people to contribute when they are working, to agree to improve their circumstances or to see the state's assistance as a temporary platform for their future development and re-entry into the workplace, they act as a hand up rather than a handout. Our system of social protection must do the same.

The implied social contract in our contributory system is that people contribute during their working lives. In return, the state supports them in retirement, unemployment and illness.

What is the government doing to achieve transformation?

The Programme for Government commits us to maintaining social welfare rates while implementing a radical programme of reform of social protection, in order to create a fiscally sustainable system that is targeted, actively engages with people and makes work more attractive than welfare.

These reforms build on the very clear commitments in our EU/IMF programme. And as you are all well aware, that programme commits us to an adjustment of at least €3.6 billion in Budget 2012, including expenditure reductions of €2.1 billion. As one of the largest spending departments, it is clear that Social Protection will have to make a major contribution to these reductions – a task that is made infinitely more difficult by the ongoing increase in the live register.

The reform agenda has already begun. We have conducted the Comprehensive Review of Expenditure, we have set up The Advisory Group on Tax and Social Welfare, we have begun a crackdown on fraud and we have launched the JobBridge internship scheme.

The National Employment and Entitlements Service: One stop shop

But the key element of our transformation from a passive system of income support to a more pro-active model is the establishment of the new National Employment and Entitlements Service (NEES) approved this week by Cabinet.

The service will merge FAS employment services and community employment programmes as well as community welfare into the Department of Social Protection. The idea is to create an integrated service providing a one stop shop for people seeking to establish their benefit entitlements, looking for a job and seeking advice on their training options.

The service will engage with people on the live register in a radically different manner. Instead of a one size fits all approach, the service will use data-driven techniques to segment recipients based on their probability of finding a job. The system is currently being piloted in Dun Laoghaire.

Anti poverty mission

I want to turn now to a more fundamental question as to how the present Welfare State succeeds in its primary anti poverty mission.

I'm not at all convinced that many of the existing programmes are quite as fit for purpose as is generally assumed. Nowhere is this more evident than in the outcomes that concern children. I share the view that the emphasis ought to shift away from the provision of cash support for children towards services that genuinely enhance life chances.

The fact that Ireland has comparatively generous child benefit rates in no way guarantees that our children fare better when they come towards adulthood. The many billions that have been transferred to families through a variety of cash supports over the years have not remotely succeeded in meeting their anticipated poverty reduction targets. Poor children tend to become poor adults. There are exceptions of course, many exceptions, but the general trend of outcomes points to that inconvenient truth and the necessity to look again at how we spend welfare billions.

There is compelling international evidence that by the age of 3, before primary education starts, that the life chances of many children are already firmly established. Disadvantage then tends to remain firmly rooted and there is little sign that schools close the attainment gaps with children who arrive in the bottom range of ability tending to stay there through all the years of public education.

Accordingly I take the view that resources ought to be ploughed into early childhood services including support for parenting skills. In my view, foundation years ought to rank equal to primary and secondary education. That is a tall order at any time and is particularly difficult just at this moment of national crisis but I take encouragement from the historical fact that the greatest social advances in the 20th century came from policies developed by Beveridge and his team during the second world war years.

Hidden subsidies and tax shelters

The Social Protection Budget, large as it is, actually represents just one component of income support. The advantage lies in its transparency. The cost of child benefit or Old Age Pensions is clearly itemized and is explicitly listed for examination and comment.

Not so the wide variety of hidden subsidies to housing and pensions that come from so called tax expenditures where the public support and subsidy is much less transparent. It is one thing to list the direct cost of state pensions for senior citizens in the Social Protection estimates. It is just as important to reveal and scrutinize the cost of tax shelters for pension provision and the huge disparity in the value of those subsidies between the very well off and those on low and modest incomes.

Let me say one thing without ambiguity. If any direct welfare item is on the table for a cut, then so must these discreet hidden items that so distort our tax system. There is a zero appetite for looking at entitlement programs unless there is an equivalent commitment to substantial reform of tax based shelters as well.

One other sign I want to see is this. In October the so called tax exiles will have to make their first payments of the new levy introduced by the late Brian Lenihan as a way to insist on some degree of transparent tax contribution from this very wealthy group. I will be watching very closely the total amount this Lenihan levy will yield. There cannot be one set of rules that demand sacrifices from pensioners and children in disadvantaged families while a seriously wealthy elite procrastinate again as to their responsibility to take their fair share of the national burden.

The original Freedom of Information Act had many successes in its initial five years but was emasculated as soon as Bertie Ahern's second Government took office. I was amazed at the subdued reaction to this among journalists. Again the deep seated values of an old political culture both among political leaders and public servants lead to the destruction of a valued law.

The one single feature of that culture that has caused the most damage is the sense of impunity it has created and sustained for decades. This is when people think that they can get away with doing what is wrong without serious penalty. It bewilders the ordinary citizen to witness the scandals and to see no one punished. The wrong doers get away with it and are confident that they can delay and frustrate enquiries to the point of exhaustion.

Another reform I want to see enacted in the 31st Dail is an overhaul of company law and a ruthless determination to punish white collar crime and malpractice. Our standards of Corporate Governance are woeful. The same tiny golden circle dominates the boards of Irish companies, a self-perpetuating oligarchy drawn from an extremely narrow group of well-connected individuals.

Obviously the law as it stands must take its course without political interference but I do wonder how adequate and effective company law is and how vulnerable it is to evasion and manipulation. After the DIRT scandals it did seem that a new culture of compliance had taken hold. Alas, that has turned out to be an illusion.

We cannot lecture people on benefits about responsibility if we do not also address the problem at the top -- in both the public and the private sectors.

But I am optimistic that this government has already begun the process of transformation.

I am heartened too not just by what my own Department has achieved, but also by the achievements of my cabinet colleagues who have secured interest rate reductions on the bailout loans, launched the jobs initiative and issued a strong response to the Cloyne report that did this Republic proud.

We are of course all constrained in what we can achieve by the fact that we are living on borrowed money. I wish I could promise that restoring our economic sovereignty would be quick, I wish I could promise that restoring our economic sovereignty would be painless. But this much I can promise you: I will never forget that that the vast majority of people who turn to my Department for protection played no role in causing this financial crisis. And I will do my best to ensure that the burden of resolving the crisis does not fall disproportionately on their shoulders.

During my term as Minister for Social Protection, we will transform our system of social protection so that it is fiscally sustainable and responsive to the needs of recipients. We will ensure that benefits are targeted to those who are most in need and to those who have contributed to the system. We will move from a passive model of income support to a pro-active 'work first' system that enables people to get back to employment, training or education as soon as possible. And we will ensure that it is always more attractive to work than remain in receipt of benefits.

Thank you very much for your attention.

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