

Budget 2011: How has the burden been shared?

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OPINION: WAS BUDGET 2011 fair? What about the combination of budgetary responses to the economic crisis since October 2008? Answers to these questions depend in part on social and political values; but first we need to get the facts right, so that debate can be based on solid evidence. How big are the losses facing families at different income levels?

Our analysis suggests the average loss will be of the order of €100 per month.

This is well below yesterday's headlines for the loss facing "the average family", which were based on overly simplified calculations for families assumed to represent the average.

An accurate picture of the impact of the far-reaching tax and welfare changes in yesterday's Budget must be based on a nationally representative sample of actual households, rather than a small number of constructed examples.

The ESRI tax-benefit model (known as Switch) estimates the impact of budgetary changes on households using anonymised data from the Central Statistics Office's 2008 Survey on Income and Living Conditions, with incomes adjusted to represent the 2011 situation. At this stage, our analysis includes direct effects of the major tax and welfare measures.

These include cuts in welfare and child benefit payment rates, reductions in tax credits, tax bands and age-related tax exemption limits. We also include the new universal social charge replacing the health and income levies, removal of the Pay Related Social Insurance ceiling and an increase in the contribution rate for the self-employed, and changes in the treatment of employee pension contributions.

Our analysis does not include the wage or employment effects of the reduction in the national minimum wage.

As in past years, we assess the impact of policy against a neutral baseline i.e., one in which all incomes rise or fall by the same percentage. This is achieved by indexing existing policy for 2010 in line with an expected fall in average wages in 2011 of around 1 per cent.

The chart shows broadly similar percentage losses in incomes – between 2 and 3 per cent – across both low and high income groups. The second lowest income group, which contains large numbers of pensioners, fares somewhat better, with losses of less than 2 per cent.

Further analysis by family type and income source showed that those who are retired, whether single or married, are set to experience average losses of about 1 to 1½ per cent, as against losses of 2 to 3 per cent for other welfare recipients and those in employment or self-employment.

What of the broader picture of budgetary response to the crisis?

This has been strongly progressive, as shown in the chart. Policy changes have reduced top incomes by close to 10 per cent, and middle incomes by about 5 per cent. The protection afforded to the State pension means that incomes of the second poorest fifth of the population have fallen by less than 2 per cent, as against 3 per cent for the poorest group.

Elderly persons have, for some years, been at a lower risk of poverty, whether measured simply in terms of income or using measures of deprivation as well to examine consistent poverty. Public perceptions seem to lag somewhat behind this reality, and may be a factor in decisions regarding the level of the State pensions.

Up to now, public service pensioners have had the benefit of a one-way bet: pensions increased when pay rose, but did not fall when pay was cut. This Budget has introduced cuts in public service pensions with a similar structure to the cuts in pay – but the pension reductions are not as great as the cuts in pay.

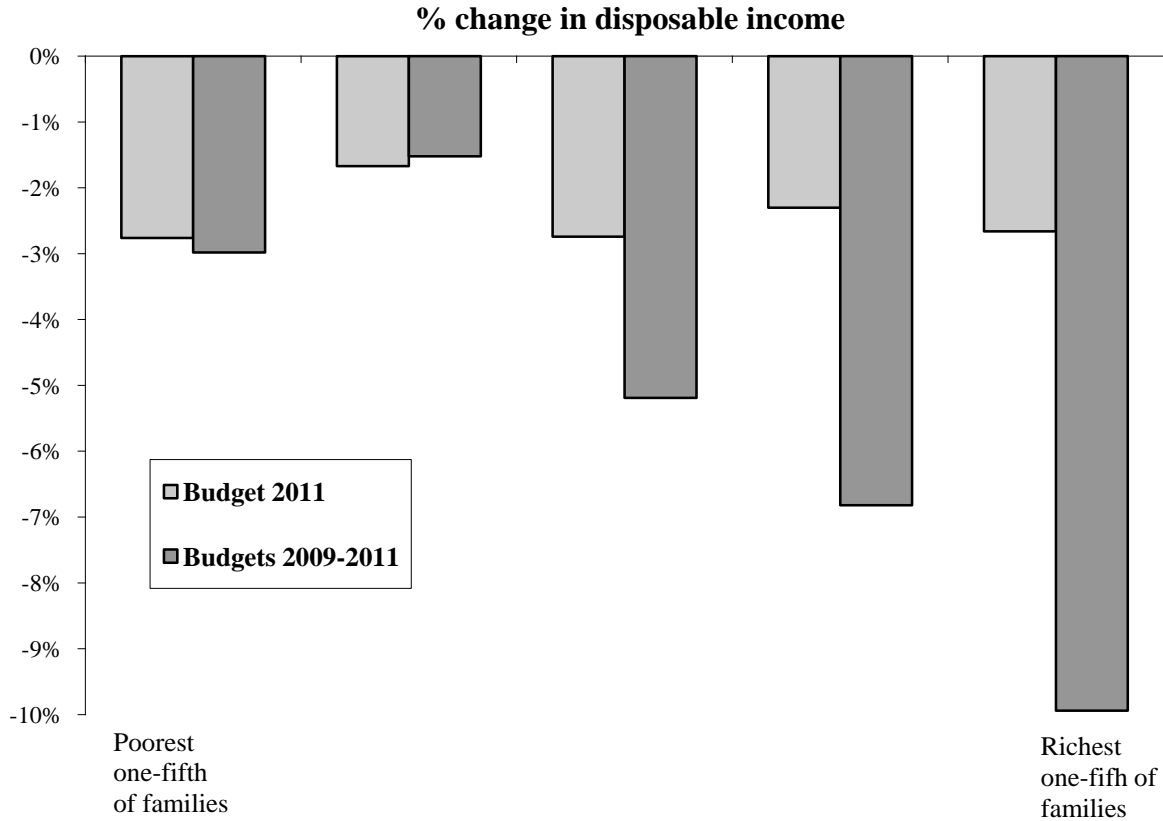
Budget 2011 takes the first steps towards restricting reliefs on employee pension contributions, while continuing to give full relief on employer contributions. This raises two questions.

In terms of fairness, why should the tax bill be heavier, for a given total contribution, because more of it is labelled an employee contribution?

Perhaps more urgently, does this approach allow employers and employees to collaborate in maximising tax relief (and undermining the projected yield to the exchequer) by a combination of salary sacrifice and increased employer contributions? This may be more feasible for higher income groups, where the benefit to be obtained will outweigh the administrative costs. Greater clarity on these points is needed.

Much remains to be analysed in terms of the impact of Budget 2011, and the options for future policy. The broad context needs to be kept firmly in mind. Ireland's national income per capita is almost one-fifth lower in 2010 than in 2007. This goes far beyond the normal range of business cycle changes, and the challenges for policy are correspondingly greater.

Distributional impacts of Budget 2011 and Budgets 2009-2011



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