



**UCD GEARY INSTITUTE
DISCUSSION PAPER
SERIES**

**Preferences for Specific Social
Welfare Expenditures in Ireland**

**Dr. Liam Delaney, University College Dublin, Geary Institute
Dr. Francis O'Toole, Trinity College Dublin**

25 May 2006

Liam Delaney is a postdoctoral research fellow at the Geary Institute in University College Dublin.

Francis O'Toole is a lecturer in economics at Trinity College Dublin.

ABSTRACT

Many papers examine general level preferences for redistribution. However, few papers examine preferences for specific forms of redistribution. This paper examines the decomposition of demand for three major categories of social welfare expenditure in Ireland: unemployment payments, old age pensions and child benefit. The determinants of preferences are found to be fairly consistent with a self-interested economics perspective with respect to the utilisation and financing of these three specific schemes. In addition, the split sampling procedure used in the nationwide survey indicated that the provision of information on the schemes' costs did not have a significant effect on preferences.

I - INTRODUCTION

Several recent papers have examined preferences for government spending and for redistribution (e.g. Benabou and Ok 2001, Corneo and Gruner 2002, Fong 2001, Gemmell et al 2003, Hardiman, McCashin and Payne 2006, Kemp and Willetts 1995, Tarzwell 2003). However, the empirical papers to date examine very general attitudes to redistribution drawing from questions in international social surveys such as the World Values Survey. By examining preferences with respect to specific categories of redistribution, there is an opportunity to conduct more refined tests of the determinants of preferences. For example, preferences of different demographic groups can be examined across programmes that clearly distinguish between demographic groups in terms of utilisation.

Delaney and O'Toole (2006) examined preferences from a nationwide survey for three major types of government expenditure in the Republic of Ireland ("Ireland"), namely, health, education and social welfare. However, this paper examines preferences for three specific forms of social welfare expenditure: unemployment payments, child benefit and old age pensions. In addition, this paper examines the results from the split-sampling procedure, under which the nationwide survey was conducted, whereby only one half of the respondents were given information about the cost of the three schemes. If respondents were processing only the desirability of schemes (i.e. "cost neglect"), it is likely that the provision of macro-level cost information would alter, and in particular decrease, the respondent's view of the appropriate micro-level of these payments.

II - SOCIAL TRANSFERS IN IRELAND: UTILIZATION AND FINANCING

The history of the provision of income maintenance in Ireland has been traced in a number of different works which generally begin with an examination of the codified system of family relations exemplified in the Brehon Laws, then examine the colonial activities of the British authorities and finally examine Ireland's welfare experience pre-, and post-, WWII.ⁱ The current social welfare system, which is administered by the Department of Social and Family Affairs, is involved in distributing approximately €13.6b annually (2006).ⁱⁱ The social welfare system consists of three main types of transfers, social insurance schemes funded by employer and employee contributions, which distribute approximately €6.3b annually, social assistance schemes which are means-tested, which distribute approximately €5b annually, and universal schemes which depend on claimant characteristics (e.g. the presence of children) but which are not means-tested, and which distribute approximately €2b annually.

Child benefit is a transfer to households with children. The rate (€150 per month from May 2006) increases to some extent with the number of children and there are extra payments for multiple births and for childcare expenses (€1,000 annually) associated with children below the age of six. Child benefit payments represent the largest item of social welfare expenditure in Ireland, amounting to approximately €2 billion in 2006. The Irish child benefit system is a universal system, i.e., it is not means-tested. Therefore, significant income effects with respect to preferences for child benefit payments would not be expected from a self-interested economics perspective.

However, given that women represent the main care-providers and furthermore that women are generally the direct recipients of child benefit payments in Ireland, a positive effect associated with being female on support for child benefit payments would be expected.

State old age pension provision in Ireland takes the form of a small number of schemes financed either through the general exchequer and paid out as means-tested payments (e.g. old age non-contributory pension; approximately €730m in 2006), or financed through contributions to a social-insurance fund and administered by the Department of Social and Family Affairs (e.g. old age contributory pension; approximately €1.6b in 2006).ⁱⁱⁱ The highest contributory old age pension is €203.30 per week (2006) and the highest non-contributory old age pension is €192.00 per week (2006). A self-interested economics perspective predicts that those who perceive that they will financially benefit from higher rates of old age pension provision will be more supportive of higher levels. As such, those who are older and hence closer to receiving the payments and with less time left in the tax system, and those outside the tax system or on lower incomes, would be expected to demand higher levels of old age pension payments.

Payments to the unemployed take two major forms in Ireland. Unemployment assistance payments (approximately €750m in 2006) are financed through the general exchequer and paid out as means-tested payments while unemployment benefit payments (approximately €450m in 2006) are financed through contributions to a social insurance fund and administered by the Department of Social and Family Affairs.

The highest (contributory and non-contributory) unemployment payment is €165.80 per week (2006). Unemployment spending is consistently marked as a controversial issue in industrial economies. Unemployment benefit cheating in particular consistently creates tension and is a popular source of outrage stirring. Therefore, we include measures of punitive sentiment and perception of welfare cheating to control for negative attitudes to the unemployed. A self-interested economics perspective predicts that risk factors associated with unemployment would be positively associated with a preference for high unemployment payments. Conversely, non-exposure to this risk would predict preferences for lower payments. Thus, we would expect higher skills as proxied by higher levels of education and income to be negatively correlated with preferences for increasing unemployment spending.

From a financing perspective, it is noteworthy that the Irish tax system is relatively heavily dependent on excise and expenditure taxes, neither of which tend to be progressive in design or effect. In addition, employee contributions to the social insurance fund are basically regressive by design. As such, it is reasonable to suggest that the financing of these three forms of social welfare expenditures is probably only mildly progressive in total and that a self-interested perspective should focus primarily on utilization considerations.

III - SURVEY

As outlined in Delaney and O'Toole (2006), Lansdowne Market Research administered the nationwide survey to a sample of 1,159 people employing quota controls to match the sample characteristics by sex, social class, region and age to the 2002 Population Census. Pre-testing took the form of an online survey of 298 respondents, mainly undergraduate and postgraduate students. Lansdowne Market Research also conducted a number of pilot-tests on the scales used in the survey in order to reduce unnecessary complexity and encourage interview completion. The administration took the form of face-to-face interviews during July 2004. The specific questions relevant to this paper are described below.

In question 6 of the survey, respondents were given a table ("Showcard") listing the 15 most expensive social welfare schemes and asked to decide on a seven-point scale whether they thought government spending in each of these areas should be decreased, left the same or increased. Only 50 per cent of the respondents were given information as to the macro level cost of each of these 15 schemes. However, all respondents were made aware of the implicit budget constraint through the wording of the question, "The Department of Social Welfare and Family Affairs spends money on various social welfare schemes. For each social welfare scheme I read out, please use this card to tell me whether you think that the scheme should be allocated more money or less money, either through changes in taxation or moving resources from one scheme to another."

Respondents were next (question 7) asked to choose between pensions, child benefit, benefits for unemployed people, benefits for disabled people, benefits for single parents or none of these as to which was their highest priority for extra government spending on social benefits. Respondents were later asked to provide their views with respect to the appropriate level of the monthly child benefit payment (question 9), weekly unemployment payment (question 11) and weekly old age pension payment (question 13).

Respondents were asked (question 3) to choose between more government spending and taxation; less government spending and taxation; and, an unchanged level of government spending and taxation. Respondents were asked (question 15a) to choose between “A society with extensive social welfare but high taxes” or “A society where taxes and welfare are low and people take responsibility for themselves” and (question 15b) “An egalitarian society where the gap between rich and poor is small regardless of achievement” or “A competitive society where wealth is distributed according to one’s achievement”. Respondents were also asked (question 16) for their level of agreement/disagreement with the following statement: “Large numbers of people falsely claim social welfare benefits these days”.

IV - RESULTS AND DISCUSSION

When asked their highest priority for extra social welfare spending, Table 1 indicates that 30.2 per cent of respondents chose pensions, 26.7 per cent chose benefits for the disabled, 14.4 per cent chose “none of these”, 11.7 per cent chose child benefit, 8 per cent chose benefits for unemployed people and 6 per cent chose benefits for single parents.

Insert Table 1 about here

In terms of the three specific social welfare categories, the mean response for the appropriate level of child benefit was €147.47 per child per month. The mean responses for the appropriate level of unemployment payment and old age pension payment were €163.62 per week and €203.08 per week, respectively.

Table 2 displays the results of SUR regressions of the determinants of stated preferences for the appropriate level for these three social welfare benefit categories. Several models were estimated. The model displayed in Table 2 includes the standard demographic variables, but also includes ideological and attitudinal variables as controls for underlying sentiment toward government spending/taxation.

Insert Table 2 about here

The contents of Table 2 appear to be significantly influenced by utilisation considerations. For example, the results demonstrate substantial income effects with those on higher incomes being particularly negatively disposed towards higher unemployment payments. Those in full time employment were also more negatively disposed towards the appropriate level for unemployment payment. Those with dependent children were supportive of relatively high payments for all three categories. Males were more supportive of higher unemployment payments, while perhaps surprisingly females did not differ from males with respect to the appropriate level of child benefit payment. In addition, neither age nor for the most part education appeared to influence respondents' views.

Unsurprisingly, respondents who favoured a low government spending/taxation model for the economy also favoured relatively low social welfare payments. Perception of cheating negatively impacted on all three categories of payments, while those who favoured a competitive as opposed to egalitarian ideology favoured lower unemployment and child benefit, but not old age pension, payments. Indeed, when the attitudinal controls are removed, the most noticeable effect is that the age coefficient on preferences for pensions becomes significantly positive. Surprisingly, at least to the authors, the provision of macro level data with respect to the cost of all of the major categories of social welfare payments had no discernable effect on the respondents' views of the appropriate levels of any of the three social welfare payments.

V - CONCLUSIONS

The recent literature on preferences for distribution and redistribution has operated on too general a level. This paper has attempted to move the literature in the appropriate direction by examining the demand for three important categories of social welfare expenditures in Ireland. It is noteworthy that the determinants of preferences for the different social welfare schemes diverge in ways that could be predicted fairly well by the self-interested economics perspective.

REFERENCES

- BENABOU, R., and E. OK (2001), "Social Mobility and the Demand for Redistribution: The POUM Hypothesis," *Quarterly Journal of Economics*, 116, 447-487.
- CORNEO, J., and H.P. GRUNER (2002), "Individual Preferences for Political Redistribution", *Journal of Public Economics*, 83, 83-107.
- CURRY, J. (2003), *Irish social services*, Fourth Edition, Dublin: Institute of Public Administration.
- DELANEY, L., and F. O.TOOLE (2006), "Decomposing Demand for Public Expenditure in Ireland", *Applied Economic Letters*, (forthcoming).
- DE VAUS, D., GRAY, M., and D. STANTON, (2003), "Measuring the value of unpaid housework, caring and voluntary work of older Australians", Australian Institute of Family Studies, Research Paper No.34.
- FAHEY, T., FITZGERALD, J., and B. MAITRE (1997), "The Economic and Social Implications of Demographic Change", *Journal of the Statistical and Social Inquiry Society of Ireland*, 1997/1998.
- FONG, C. (2001), "Social Preferences, Self-Interest, and the Demand for Redistribution", *Journal of Public Economics*, 82, 225-246.
- GEMMELL, N., MORRISSEY, O., and A. PINAR (2003), 'Tax Perceptions and the Demand for Public Expenditures: Evidence from UK Micro Data', *European Journal of Political Economy*, 19, 793-810.
- HARDIMAN, N., MCCASHIN, T., and D. PAYNE (2006), "Attitudes towards Inequality" in J. Garry, N. Hardiman, and D. Payne (eds) *Irish Social and Political Attitudes*, Liverpool University Press.
- KEMP, S., and K. Willetts (1995), "The Value of Services Provided by the New Zealand Government", *Journal of Economic Psychology*, 16, 23-37.
- TARZWELL, G. (2003), "The impact of diverse preferences on government expenditures", *Applied Economics Letters*, 10, 695-8.

Table 1: Respondents' Priority for Extra Social Welfare Spending

	Frequency	Percent
Pensions	350	30.2
Benefits for Disabled People	309	26.7
None of These	167	14.4
Child Benefit	136	11.7
Benefit for Unemployed People	93	8.0
Benefits for Single Parents	70	6.0
Missing	34	2.9
Total	1,159	

Table 2: SUR Determinants of Preferences for Level of Benefit Payment

	Unemployment Payments		Child Benefits		Pension Payments	
	B	SE	B	SE	B	SE
Dependent Children	0.27***	0.11	0.47***	0.11	0.31***	0.11
Household Size	-0.10***	0.03	-0.02	0.03	-0.02	0.03
Male	0.19***	0.09	0.02	0.09	0.05	0.09
Married	0.02	0.11	0.10	0.10	-0.14	0.10
Age	0.03	0.02	0.02	0.02	0.03	0.02
Age Squared	0.00	0.00	0.00	0.00	0.00	0.00
Full-time Employed	-0.21***	0.10	-0.05	0.10	0.07	0.10
Education						
Primary						
Secondary	0.01	0.14	-0.01	0.13	-0.15	0.14
Some College	-0.23	0.18	-0.15	0.17	-0.15	0.17
Degree	0.26	0.24	0.42**	0.23	0.20	0.24
Income						
< €30,000						
€30,000 - €60,000	-0.19*	0.10	-0.29**	0.10	0.16	0.10
> €60,000	-0.33**	0.15	-0.20	0.14	0.18	0.14
Government Spending						
More	-	-	-	-	-	-
Same	-0.06	0.11	-0.08	0.11	0.15	0.11
Less	-0.29***	0.11	-0.40***	0.11	-0.36***	0.11
Competitive Ideology	-0.10***	0.02	-0.08***	0.02	0.00	0.02
Perception of Welfare Cheating	-0.19***	0.02	-0.10***	0.02	-0.10***	0.02
In Favour of Low Taxes	-0.06***	0.02	0.01	0.02	-0.03	0.02
Version	.08	0.08	0.03	0.07	0.08	0.07
_cons	6.46	0.40	5.68	0.38	5.42	0.39

Equation	Obs	Parms	RMSE	"R-sq"	chi2	P
Ue	764	14	1.209968	0.1358	120.03	0
Cb	764	14	1.08246	0.127	111.19	0
Oap	764	14	1.10454	0.0942	79.44	0

***: Statistically significant at 1% level; **: Statistically significant at 5% level; *: Statistically significant at 10% level.

ⁱ Coughlan (1966), as cited in Curry (2003), in reviewing the development of social service provision provides a quote that is illustrative: *“Most people are aware of the ad hoc and fragmentary way in which the social services came into being; they were largely a piecemeal growth, introduced at different times to cover different categories of need and in response to different pressures, the result of a wide variety of motives – humanitarianism, social idealism, political expediency, the desire to damp down social discontent, the response to the spread of democracy and universal suffrage, the need to provide an environment conducive to industrial development. Seldom were they the expression of a coherent philosophical outlook”*.

ⁱⁱ See the Department of Social and Family Affairs’ website (<http://www.welfare.ie/>) for more details.

ⁱⁱⁱ The State old age pension system is operated on a pay as you go system. An important aspect of the system is the sustainability of higher levels of pensions in the face of an ageing population. While Ireland’s demographic pyramid is more robust than many other European countries (e.g. France or Germany), it is still the case that the country faces an increasing pension bill. De Vaus, Gray and Stanton (2003) review some of the potential consequences of increasingly ageing populations, among them increasing age polarisation and age group consciousness and conflict between generations undermining social cohesion. Fahey, Fitzgerald and Maitre (1997) in an Irish context argue that the increased pension bill going forward will be offset by favourable employment trends.