



Social Welfare Rates and Budget 2021

Department of Employment Affairs and Social Protection



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Introduction

This paper makes proposals regarding current social welfare rates and indexation and Budget 2021. It also reviews the process by which the basic social welfare payment became benchmarked to 30 per cent of Gross Average Industrial Earnings. This material underpins the development of many of the key policy priorities we outline on income distribution in Social Justice Matters 2020¹.

Budget 2021 and social welfare rates

The Covid-19 crisis has highlighted a number of aspects of the welfare state and the importance of properly provided and funded public services in countries across the world. Among the many lessons in this country, the crisis has highlighted the importance of the social safety net that is our social welfare system. For many, the experience has also illustrated the substantial challenges of life on a low income; even when that income is considerably higher than the value of core social welfare payments that many unemployed people, pensioners and people with long-standing illness and disabilities struggle with persistently.

Over a decade ago, Budget 2007 benchmarked the minimum social welfare rate at 30 per cent of Gross Average Industrial Earnings (GAIE). Today that figure is equivalent to 27.5 per cent of the new average earnings data being collected by the CSO. Applying this benchmark using CSO data for 2019 and ESRI projections for wage growth in 2020 allows us to compare this benchmark with current welfare rates.

In 2020 the updated value of 27.5 per cent of average weekly earnings equals €221, implying a shortfall of €18 between current minimum social welfare rates (€203) and this threshold. Given the importance of this benchmark to the living standards of many in Irish society, and its relevance to anti-poverty commitments, the current deficit highlights a need for the new Government, and Budget 2021, to further increase minimum social welfare rates and commit to converging on a benchmark equivalent to 27.5 per cent of average weekly earnings.

Social Justice Ireland suggests increasing core social welfare rates by €7 per annum over the next three years, in order to meet this benchmark (accounting for likely earnings increases) by 2023. Alternatively, government can increase core rates by €10 per annum over the next two years to meet this target by 2022.

Social Justice Ireland welcomed the increases in core social welfare rates made since 2016, however we regret the decision not to increase social welfare rates in Budget 2020. **Average earnings to the end of Q2 2020 increased by 6 per cent, whereas core social rates have seen no increase since Budget 2019. The gap between those reliant on social welfare and those on average weekly earnings is growing.** Social welfare rates must be increased in Budget 2021, in line with a movement towards 27.5 per cent of average weekly earnings in order to address this growing problem. If not, then this Government will leave those who are most vulnerable behind.

A lesson from past experiences of economic recovery and growth is that the weakest in our society get left behind unless welfare increases keep track with increases elsewhere in the economy. Benchmarking minimum rates of social welfare payments to movements in average earnings is therefore an important policy priority. Since 2016 average weekly earnings have

¹ <https://www.socialjustice.ie/content/publications/social-justice-matters-2020-guide-fairer-irish-society>

increased by 16 per cent, this is double the rate by which social welfare rates have increased in this period.

Budget 2020 failed to deliver an increase to the minimum social welfare payment. *Social Justice Ireland* regrets this decision. **Benchmarking minimum rates of social welfare payments to movements in average earnings is therefore an important policy priority.**

Just over a decade ago Budget 2007 benchmarked the minimum social welfare rate at 30 per cent of Gross Average Industrial Earnings (GAIE). This was a key achievement and one that we correctly predicted would lead to reductions in poverty rates, complementing those already achieved and detailed earlier. Since then the CSO discontinued its *Industrial Earnings and Hours Worked* dataset and replaced it with a more comprehensive set of income statistics for a broader set of Irish employment sectors. A subsequent report for *Social Justice Ireland* found that 30 per cent of GAIE is equivalent to 27.5 per cent of the new average earnings data being collected by the CSO. A figure of 27.5 per cent of average earnings is therefore the appropriate benchmark for minimum social welfare payments and reflects a continuation of the previous benchmark using the current CSO earnings dataset.

Table 1.1 applies this benchmark using CSO data for 2018 and 2019. The data is updated using ESRI projections for wage growth in 2020 (4.0 per cent). In 2020 the updated value of 27.5 per cent of average weekly earnings equals €221.34, implying a shortfall of €18 between the minimum social welfare rates being paid in 2020 (€203) and this threshold.

Given the importance of this benchmark to the living standards of many in Irish society, and its relevance to anti-poverty commitments, the current deficit highlights a need for the new Government, and Budget 2021, to further increase minimum social welfare rates and commit to converging on a benchmark equivalent to 27.5 per cent of average weekly earnings.

Table 1.1: Benchmarking Social Welfare Payments for 2020 (€)

Year	Average Weekly Earnings	27.5% of Average Weekly Earnings
2018*	747.45	205.55
2019**	773.91	212.83
2020**	804.87	221.34

Notes: * actual data from CSO average earnings.

** simulated value based on CSO data/trends and ESRI QEC wage growth projections.

Social Justice Ireland would argue that it is, in fact, now time to look beyond 30% of GAIE / 27.5% of average weekly earnings as the benchmark and to develop a programme to move it towards a higher target (e.g. 30% of average weekly earnings) so as to bring it closer to the Minimum Essential Standard and the EU-recognised poverty line.

Indexation – a proposal for Budget 2021

Social Justice Ireland welcomed the introduction of the COVID-19 unemployment and illness payment of €350 per week. The increase in the emergency social welfare payment is an acceptance that the rate of €203 per week is simply not enough for people to survive on. The COVID-19 illness payment was introduced as part of the [Health \(Preservation and Protection and other Emergency Measures in the Public Interest\) Act 2020](#) (the 2020 Health Act), while the unemployment payment is governed by pre-existing emergency social welfare legislation.

A two-tiered payment structure for people receiving the Pandemic Unemployment Payment was introduced in July 2020, and this was expanded to a three-tiered structure in September

2020. Since July employees whose average weekly earnings in 2019 or January and February 2020 (whichever is the higher) were less than €200 gross received a weekly Pandemic Unemployment Payment of €203 a week and employees with average earnings of €200 or more a week continued to receive €350 Pandemic Unemployment Payment. Since the 17th September employees who earned over €300 per week - will now receive a Pandemic Unemployment Payment of €300 per week; employees who earned between €200 and €300 per week - will now receive a payment of €250 per week; if they earned less than €200 per week - the rate of the Pandemic Unemployment Payment will be €203 per week (there is no change to this rate). Since July one quarter of those in receipt of the Pandemic Unemployment Payment had a reduction in their payment since the introduction of this two-tiered structure². This number will increase as a result of the recent changes to the payment.

Social Justice Ireland is of the view that rather than focusing on reducing the COVID-19 unemployment and illness payment to the basic Jobseekers Benefit/Allowance which is €81 below the poverty line, we should take this opportunity to reform the social welfare system and to truly deliver a fair and sustainable economy.

In Budget 2021 Government should begin the process of indexing social welfare rates to the minimum essential budget standard, something that *Social Justice Ireland* has long been calling for. To start with social welfare rates should be benchmarked to 27.5 per cent of Average Weekly Earnings as the first step in a five-year process to index them to the Minimum Essential Budget Standard. This would be a more appropriate resolution of the two tier social welfare system that has been created, and it improve the performance of the social welfare system, improving it to adapt to the challenges we now face.

Indexation and estimated impact on poverty

Social Justice Ireland supports the indexation of minimum social welfare payments to ensure recipients do not fall behind the rest of society. We propose the **benchmark should start at 27.5 per cent of average earnings as a minimum, with a set pathway to rise over time until it reaches the Minimum Essential Budget Standard** as produced by the Vincentian Partnership for Social Justice. *Social Justice Ireland* is happy to meet with the Department to discuss this proposal further and examine how it might be progressed and developed.

We estimate that more than 12,000 working age adults would have been raised out of poverty in 2016 had minimum social welfare payments been benchmarked at this proposed level. 28,000 would have been raised out of poverty had the benchmark been 28.5 per cent. By moving this benchmark gradually towards the Vincentian Partnership's Minimum Standard, poverty among households without children would gradually be eliminated completely.

In general, fluctuations in the poverty rates of those largely dependent on the welfare system has correlated in the past with policy moves that allowed the value of welfare payments to fall behind wage growth before eventually increasing these payments to catch up. If those dependent on social welfare are not to fall behind the rest of society at times of economic growth, the benchmarking of welfare rates to wage rates is essential.

² <https://www.gov.ie/en/press-release/20c1b-update-on-payments-awarded-for-covid-19-pandemic-unemployment-payment-and-enhanced-illness-benefit/>

Poverty Line

In Ireland 689,000 people are living in poverty. This means that they are surviving on incomes below the poverty line. The Central Statistics Office calculates the poverty line which is 60% of median income, adjusted to take account of family size and composition annually.

Table 1.2 shows what income corresponds to this poverty line for a number of household types in 2020. The figure of €284.46 is an income per adult equivalent figure. It is the minimum weekly disposable income (after taxes and including all benefits) that one adult needs to live above the poverty line. For each additional adult in the household this minimum income figure is increased by €187.74 (66 per cent of the poverty line figure) and for each child in the household the minimum income figure is increased by €93.87 (33 per cent of the poverty line)³. These adjustments reflect the fact that as households increase in size they require more income to meet the basic standard of living implied by the poverty line. In all cases a household below the corresponding weekly disposable income figure is classified as living at risk of poverty. For clarity, corresponding annual figures are also included.

Table 1.2: The Minimum Weekly Disposable Income Required to Avoid Poverty in 2020, by Household Types

Household containing:	Weekly poverty line	Annual poverty line
1 adult	€284.46	€14,843
1 adult + 1 child	€378.33	€19,741
1 adult + 2 children	€472.20	€24,639
1 adult + 3 children	€566.07	€29,538
2 adults	€472.20	€24,639
2 adults + 1 child	€566.07	€29,538
2 adults + 2 children	€659.94	€34,436
2 adults + 3 children	€753.81	€39,334
3 adults	€659.94	€34,436

Source: *Social Justice Ireland* calculation based on CSO and ESRI data.

One immediate implication of this analysis is that **most weekly social assistance rates paid to single people are €81 below the poverty line.**

How many have incomes below the poverty line?

Table 1.3 outlines the findings of various poverty studies since detailed national poverty assessments commenced in 1994. Using the EU poverty line set at 60 per cent of median income, the findings reveal that 14 out of every 100 people in Ireland were living in poverty in 2018.

³For example, the poverty line for a household with 2 adults and 1 child would be calculated as €284.46 + €187.74 + €93.87 = €566.07.

Table 1.3: Percentage of Population Below Various Relative Income Poverty Lines, 1994-2018

	1994	1998
50% line	6.0	9.9
60% line	15.6	19.8
70% line	26.7	26.9

Source: CSO SILC reports (various years) and Whelan et al (2003:12).

Note: All poverty lines calculated as a percentage of median income.

The table shows that over time poverty rates have fluctuated. In general, decreases have occurred in periods where national budgets have given greater attention to improving minimum welfare payments. Conversely, poverty has increased in periods where welfare payments were less of a policy priority and therefore gaps opened between those benefiting from tax and earnings changes and those household dependent on support from the social transfer system.

Because it is sometimes easy to overlook the scale of Ireland's poverty problem, it is useful to translate these poverty percentages into numbers of people. Using the percentages for the 60 per cent median income poverty line and population statistics from CSO population estimates, we can calculate the numbers of people in Ireland who have been in poverty for a number of years between 1994 and 2018. These calculations are presented in table 1.4. The results give a better picture of just how significant this problem is.

Table 1.4: The Numbers of People Below Relative Income Poverty Lines in Ireland, 1994-2018

	% of persons in poverty	Population of Ireland	Numbers in poverty
1994	15.6	3,585,900	559,400
1998	19.8	3,703,100	733,214
2001	21.9	3,847,200	842,537
2005	18.3	4,133,800	756,485
2010	14.7	4,554,800	669,556
2013	16.2	4,614,700	747,581
2017	15.7	4,792,500	752,423
2018	14.0	4,857,000	679,980

Source: See Table 1.2 and CSO online database of population estimates.

Note: Population estimates are for April of each year.

The table's figures are telling. Looking over the past 25 years, despite a reduction in the headline poverty rate (from 15.6 per cent to 14 per cent) there are over 120,000 more people in poverty. Notably, over the period from 2004-2008, the period corresponding with consistent Budget increases in social welfare payments, almost 140,000 people left poverty. Despite this, the cumulative impact of the recession and subsequent recovery has been that the number in poverty has increased once again, rising by 40,000 since 2009.

The fact that there are almost 680,000 people in Ireland living life on a level of income that is this low remains a major concern. As shown in table 1.2 these levels of income are low and those below them clearly face difficulties in achieving what the NAPS described as "*a standard*

of living that is regarded as acceptable by Irish society generally”.

Poverty and social welfare recipients

Social Justice Ireland believes in the very important role that social welfare plays in addressing poverty. As part of the *SILC* results the CSO has provided an interesting insight into the role that social welfare payments play in tackling Ireland’s poverty levels. It has calculated the levels of poverty before and after the payment of social welfare benefits.

Table 1.5 shows that without the social welfare system just over 4 in every 10 people in the Irish population (40.9 per cent) would have been living in poverty in 2018. Such an underlying poverty rate suggests a deeply unequal distribution of direct income; an issue we address further in the income distribution section of this chapter. In 2018, the actual poverty figure of 14.0 per cent reflects the fact that social welfare payments reduced poverty by 26.9 percentage points.

Looking at the impact of these payments on poverty over time, the increases in social welfare over the period 2005-2007 yielded noticeable reductions in poverty levels. The small increases in social welfare payments in 2001 are reflected in the smaller effects achieved in that year. Conversely, the larger increases, and therefore higher levels of social welfare payments, in subsequent years delivered greater reductions. This has occurred even as poverty levels before social welfare increased.

A report by Watson and Maitre (2013) examined these effects in greater detail and noted the effectiveness of social welfare payments, with child benefit and the growth in the value of social welfare payments, playing a key role in reducing poverty levels up until 2009. The CSO have also shown that in 2009 poverty among those aged 65 and older reduced from 88 per cent to 9.6 per cent once social welfare payments were included. The same study also found that social welfare payments (including child benefit) reduced poverty among those under 18 years of age from 47.3 per cent to 18.6 per cent – a 60 per cent reduction in poverty risk (CSO, 2010:47)⁴.

These findings, combined with the social welfare impact data in table 1.5, underscore the importance of social transfer payments in addressing poverty; a point that needs to be borne in mind as Government forms policy and priorities in the years to come.

Table 1.5: The Role of Social Welfare (SW) Payments in Addressing Poverty

	2001	2004	2007	2010	2013	2018
Poverty pre-SW	35.6	39.8	40.9	50.2	49.5	40.9
Poverty post-SW	21.9	19.4	16.5	14.7	16.2	14.0
The role of SW	-13.7	-20.4	-24.4	-35.5	-33.3	-26.9

Source: CSO SILC Reports (various years) using national equivalence scale.

Analysis shows that many of the groups in Irish society that experienced increases in poverty levels over the last decade have been dependent on social welfare payments. These include pensioners, the unemployed, lone parents and those who are ill or have a disability. Table 1.6 presents the results of an analysis of five key welfare recipient groups performed by the ESRI

⁴ This data has not been updated in subsequent SILC publications.

using poverty data for five of the years between 1994 and 2001.

These were the years that the Irish economy grew fastest and the core years of the ‘Celtic Tiger’ boom. Between 1994 and 2001 all categories experienced large growth in their poverty risk. For example, in 1994 only five out of every 100 old age pension recipients were in poverty. In 2001 this had increased ten-fold to almost 50 out of every 100. The experience of widow’s pension recipients is similar.

Table 1.6: Percentage of Persons in Receipt of Welfare Benefits/Assistance Who Were Below the 60 Per Cent Median Income Poverty Line, 1994-2001

	1994	1997	1998	2000	2001
Old age pension	5.3	19.2	30.7	42.9	49.0
Unemployment benefit/assistance	23.9	30.6	44.8	40.5	43.1
Illness/disability	10.4	25.4	38.5	48.4	49.4
Lone Parents allowance	25.8	38.4	36.9	42.7	39.7
Widow’s pension	5.5	38.0	49.4	42.4	42.1

Source: Whelan et al (2003: 31).

Table 1.6 highlights the importance of adequate social welfare payments to prevent people becoming at risk of poverty. Over the period covered by these studies, groups similar to *Social Justice Ireland* repeatedly pointed out that these payments had failed to rise in proportion to earnings and incomes elsewhere in society. The primary consequence of this was that recipients slipped further and further back and therefore more and more fell into poverty. In 2020, as talk of wage increases and income tax cuts continues, it is important that adequate levels of social welfare be maintained to ensure that the mistakes of the past are not repeated. We outline our proposals to achieve this later in the chapter.

Indexation and Older people

According to the CSO’s 2016 *Census Results* there were 637,567 people aged over 65 years in Ireland in 2016. The CSO noted that this age group experienced the largest increase in the population since the previous Census in 2011. Of those in this age group, more than a quarter live alone, comprising almost 98,000 women and 59,000 men (CSO, 2017). When poverty is analysed by age group the 2018, figures show that 11.4 per cent of those aged above 65 years live in relative income poverty.

Among all those in poverty, the retired have experienced the greatest volatility in their poverty risk rates. As table 1.7 shows, in 1994 some 5.9 per cent of this group were classified as poor; by 1998 the figure had risen to 32.9 per cent and in 2001 it peaked at 44.1 per cent. The most recent data record relatively stable poverty rate, of almost one in ten pensioners, with the reduction over the last decade driven by increases in old age pension payments. While these decreases are welcome, it remains a concern that so many of this country’s senior citizens are living on so little.

Table 1.7: Percentage of Older People (65yrs+) Below the 60 Per Cent Median Income Poverty Line, 1994-2018

	1994	1998	2001	2004	2008	2012	2018
Aged 65 +	5.9	32.9	44.1	27.1	11.1	12.4	11.4

Source: Whelan et al (2003: 28) and CSO online database.

Benchmarking Social Welfare Payments, 2001-2011

Here we examine the transition to benchmarked social welfare payments. That process centred on three elements: the 2001 *Social Welfare Benchmarking and Indexation Working Group* (SWBIG), the 2002 *National Anti-Poverty Strategy (NAPS) Review* and the *Budgets 2005-2007*.

Social welfare benchmarking and indexation working group

In its final report the SWBIG agreed that the lowest social welfare rates should be benchmarked. A majority of the working group, which included a director of *Social Justice Ireland*, also agreed that this benchmark should be index-linked to society's standard of living as it grows and that the benchmark should be reached by a definite date. The working group chose Gross Average Industrial Earnings (GAIE) to be the index to which payments should be linked.⁵ The group further urged that provision be made for regular and formal review and monitoring of the range of issues covered in its report. The group expressed the opinion that this could best be accommodated within the structures in place under the NAPS and the *National Action Plan for Social Inclusion* (now combined as *NAPinclusion*). The SWBIG report envisaged that such a mechanism could involve:

- the review of any benchmarks/targets and indexation methodologies adopted by government to ensure that the underlying objectives remain valid and were being met;
- the assessment of such benchmarks/targets and indexation methodologies against the various criteria set out in the group's terms of reference to ensure their continued relevance;
- the assessment of emerging trends in the key areas of concern, e.g. poverty levels, labour market performance, demographic changes, economic performance and competitiveness, and
- identification of gaps in the area of research and assessment of any additional research undertaken in the interim.

National Anti-Poverty Strategy (NAPS) review 2002

In 2002, the NAPS review set the following as key targets:

To achieve a rate of €150 per week in 2002 terms for the lowest rates of social welfare to be met by 2007 and the appropriate equivalence level of basic child income support (i.e. Child Benefit and Child Dependent Allowances combined) to be set at 33 per cent to 35 per cent of the minimum adult social welfare payment rate.

⁵The group recommended a benchmark of 27 per cent although *Social Justice Ireland* argued for 30 per cent.

Social Justice Ireland and others welcomed this target. It was a major breakthrough in social, economic and philosophical terms. We also welcomed the reaffirmation of this target in *Towards 2016*. That agreement contained a commitment to 'achieving the NAPS target of €150 per week in 2002 terms for lowest social welfare rates by 2007' (2006:52). The target of €150 a week was equivalent to 30 per cent of Gross Average Industrial Earnings (GAIE) in 2002.⁶

Table 1.8 outlines the expected growth rates in the value of the minimum rate based on this commitment and indicates that the lowest social welfare rates for single people should have reached €185.80 by 2007.

Table 1.8: Estimating Growth in €150 a Week (30% GAIE) for 2002-2007

	2002	2003	2004	2005	2006	2007
% Growth of GAIE	-	+6.00	+3.00	+4.50	+3.60	+4.80
30% GAIE	150.00	159.00	163.77	171.14	177.30	185.80

Source: GAIE growth rates from CSO Industrial Earnings and Hours Worked (September 2004:2) and ESRI Medium Term Review (Bergin et al, 2003:49).

Budgets 2005-2007

The NAPS commitment was very welcome and was one of the few areas of the anti-poverty strategy that was adequate to tackle the scale of the poverty, inequality and social exclusion being experienced by so many people in Ireland today. In 2002 *Social Justice Ireland* set out a pathway to reaching this target by calculating the projected growth as per table 1.5 above between 2002 and 2007 when it is indexed to the estimated growth in GAIE.

Progress towards achieving this target had been slow until Budget 2005. At its first opportunity to live up to the NAPS commitment the government granted a mere €6 a week increase in social welfare rates in Budget 2003. This increase was below that which we proposed and also below that recommended by the government's own tax strategy group. In Budget 2004 the increase in the minimum social welfare payment was €10. This increase was again below the €12 a week we sought and at this point we set out a three-year pathway (see table 1.9).

Table 1.9: Proposed Approach to Addressing the Gap, 2005-2007

	2005	2006	2007
Min. SW payment in €'s	148.80	165.80	185.80
€ amount increase each year	14.00	17.00	20.00
Delivered	✓	✓	✓

Following Budget 2004 we argued for an increase of €14 in Budget 2005. The Government's decision to deliver an increase equal to that amount in that Budget marked a significant step towards honouring this commitment. Budget 2006 followed suit, delivering an increase of €17 per week to those in receipt of the minimum social welfare rate. Finally, Budget 2007's decision to deliver an increase of €20 per week to the minimum social welfare rates brought the minimum social welfare payment up to the 30 per cent of the GAIE benchmark.

⁶GAIE is calculated by the CSO on the earnings of all individuals (male and female) working in all industries. The GAIE figure in 2002 was €501.51 and 30 per cent of this figure equals €150.45 (CSO, 2006: 2).

Social Justice Ireland believes that these increases, and the achievement of the benchmark in Budget 2007, marked a fundamental turning point in Irish public policy. Budget 2007 was the third budget in a row in which the government delivered on its NAPS commitment. In doing so, the government moved to meet the target so that in 2007 the minimum social welfare rate increased to €185.80 per week; a figure equivalent to the 30 per cent of GAIE.

Social Justice Ireland warmly welcomed this achievement. It marked major progress and underscored the delivery of a long overdue commitment to sharing the fruits of this country's economic growth since the mid-1990s. An important element of the NAPS commitment to increasing social welfare rates was the acknowledgement that the years from 2002-2007 marked a period of 'catch up' for those in receipt of welfare payments. Once this income gap had been bridged, the increases necessary to keep social welfare payments at a level equivalent to 30 per cent of GAIE became much smaller. In that context we welcomed the commitment by Government in *NAPinclusion* to 'maintain the relative value of the lowest social welfare rate at least at €185.80, in 2007 terms, over the course of this Plan (2007-2016), subject to available resources' (2007:42). Whether or not 30 per cent of GAIE (or equivalent values) is adequate to eliminate the risk of poverty will need to be monitored through the SILC studies and addressed when data on persistent poverty emerges.

Indexation and estimated impact on poverty

Social Justice Ireland supports the indexation of minimum social welfare payments to ensure recipients do not fall behind the rest of society. We propose the **benchmark should start at 27.5 per cent of average earnings as a minimum, with a set pathway to rise over time until it reaches the Minimum Essential Budget Standard** as produced by the Vincentian Partnership for Social Justice. *Social Justice Ireland* is happy to meet with the Department to discuss this proposal further and examine how it might be progressed and developed.

We estimate that more than 12,000 working age adults would have been raised out of poverty in 2016 had minimum social welfare payments been benchmarked at this proposed level. 28,000 would have been raised out of poverty had the benchmark been 28.5 per cent. By moving this benchmark gradually towards the Vincentian Partnership's Minimum Standard, poverty among households without children would gradually be eliminated completely.

In general, fluctuations in the poverty rates of those largely dependent on the welfare system has correlated in the past with policy moves that allowed the value of welfare payments to fall behind wage growth before eventually increasing these payments to catch up. If those dependent on social welfare are not to fall behind the rest of society at times of economic growth, the benchmarking of welfare rates to wage rates is essential.

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Online databases

CSO online database, web address: <http://www.cso.ie/en/databases/>