The impact of COVID on the Irish social protection system

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Introduction

This paper considers the impact of the recent COVID-19 pandemic and the measures taken in response on the Irish social protection system. The paper provides a decomposition analysis of recent developments in social protection spending to identify the immediate impact of COVID-19 and compares these to the response during the 2008 Great Recession (Cousins, 2016) and in a comparative European context.

The impact of COVID on social protection expenditure in Ireland, 2019-2022

The social protection response to COVID-19 in Ireland consisted of two main schemes: the COVID-19 Pandemic Unemployment Payment (PUP) payable to people aged 18 years or over and under 66 (i.e. under pension age) who lost their employment as a direct consequence of the COVID-19 pandemic; and the extended Illness Benefit (IB) for COVID-19 absences (Cousins, 2020; Hick and Murphy, 2021)). At the height of the pandemic in May 2020, over 528,000 persons were in receipt of PUP (DSP, 2022) and, throughout its short existence, PUP provided support to around 880,000 individuals (Babaiee, 2022).[i]

In 2020, expenditure (9.87 % in 2019) on social protection rose – both as in total expenditure and as a percentage of GNI* – dramatically to 13.0% of GNI* (excluding expenditure on employment subsidies).[ii] Of course, this, in part, reflects the demand for support arising from the significant increase in unemployment in the period from 4.7% at the end of 2019 (seasonally adjusted) to a peak of 31.5% in April 2020, before falling back to 7.5% by December 2021 (CSO COVID-19 Adjusted Unemployment rate).[iii] However, it also reflects the commitment of considerable public resources to the social protection system. As these special schemes ended, expenditure returned to below pre-COVID levels by 2022 (8.71%).

To examine the determinants of spending in more detail, we need to analyse the change in social protection expenditure for different age groups looking at the influence of demographic changes, changes in eligibility, and changes in average benefits. In order to do this, we utilise the methodology developed by the OECD. As McCashin (2012:157) has pointed out this methodology 'can discern patterns of change and distil trends from the epiphenomenon of

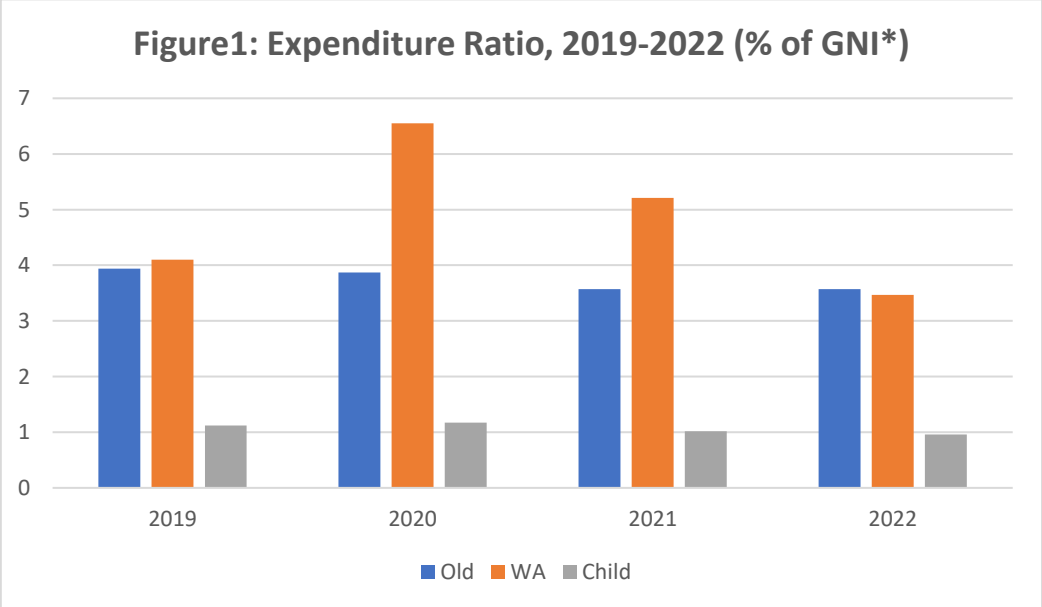
expenditure'. However, as he warns, analysis of such data 'is not a substitute for interpretative analysis'.

The variations in the share of national income spent on social protection to specific groups are the product of changes in *demography* (i.e. the size of the relevant population group), *eligibility* (the proportion of the relevant population who actually receive the payment), and the *level of benefit* (i.e. the average payment per person). Thus, changes in the *expenditure ratio* (i.e. the share of expenditure as a percentage of national income) can be decomposed into:

- a *demographic ratio* (the ratio of the relevant population to the total population)
- an *eligibility ratio* (the ratio of the beneficiaries to the relevant population), and
- a *transfer ratio* (the ratio of the average payment per beneficiary to national income[iv] per capita).[v]

Here, we analyse spending for all payments in the specific age groups (children (0-19);[vi] working age (20-64); and older age group (65 and over)) rather than for specific programmes.

We have taken 2019 as a starting date[vii] as this was the last year before the onset of COVID-19 in Ireland. We have taken 2022 as the end point as this marked the end of the main impact of Coronavirus, and schemes such as the Pandemic Unemployment Payment were terminated in 2022. However, it must be recalled that by 2022, Ireland, like many other countries, had entered into a period of a rising cost-of-living although the main social protection response to this did not appear until Budget 2023 (adopted in late 2022).



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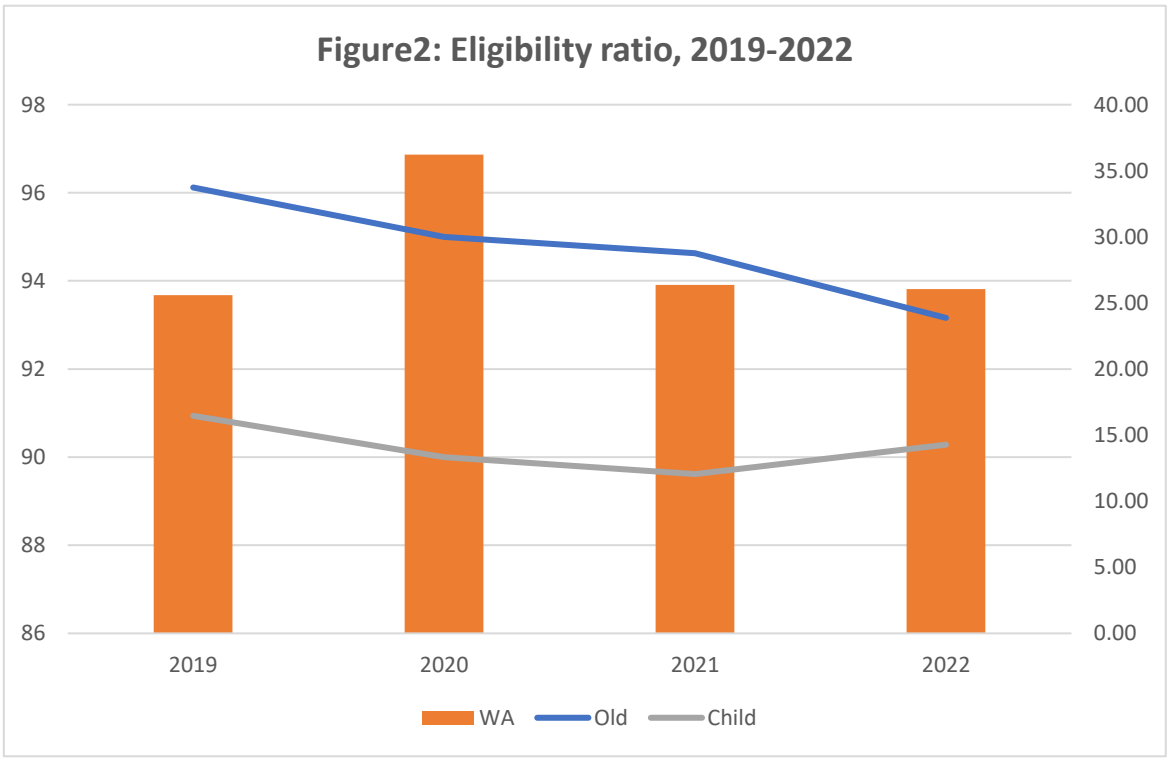
Overall, as set out in Figure 1 (above), the expenditure ratio *fell* for all groups over the period from 2019 to 2022 by between 9.4% (old age) and 15.4% (working age).[viii] However, this hides a sharp increase in the ratio for the working age group in 2020, falling back thereafter. In contrast the overall expenditure ratio for old age and child expenditure fell year-on-year.

What explains this pattern? As one might expect, the *demographic ratio* (e.g. proportion of total older age group to the total population) did not change dramatically over such a short period and makes relatively little difference to the outcome. In fact, the demographic ratio for older people grew from 2019 to 2022 by 6.5% while the child group fell by 2.2% with the working age group remaining unchanged.

In contrast, the *eligibility ratio* did make a significant difference, at least in the short term. As shown in Figure 2, while the ratio for old age (-3.1%) and children (0.7%) changed only slightly, that for the working age group (shown here on a secondary axis) increased by 41.6% between 2019 and 2020 before falling back to end up only marginally higher than it had begun by 2022 (1.8%). This reflects the introduction of the PUP and the (albeit short-term) significant rise in working age people on welfare payments. The numbers of working age on benefits *at the end of the year* peaked at 36.2% in 2020 marginally *below* the level reached during the Great Recession (37.5% in 2011). However, this percentage would have been surpassed had we used data for April-May 2020 at the height of the Pandemic.



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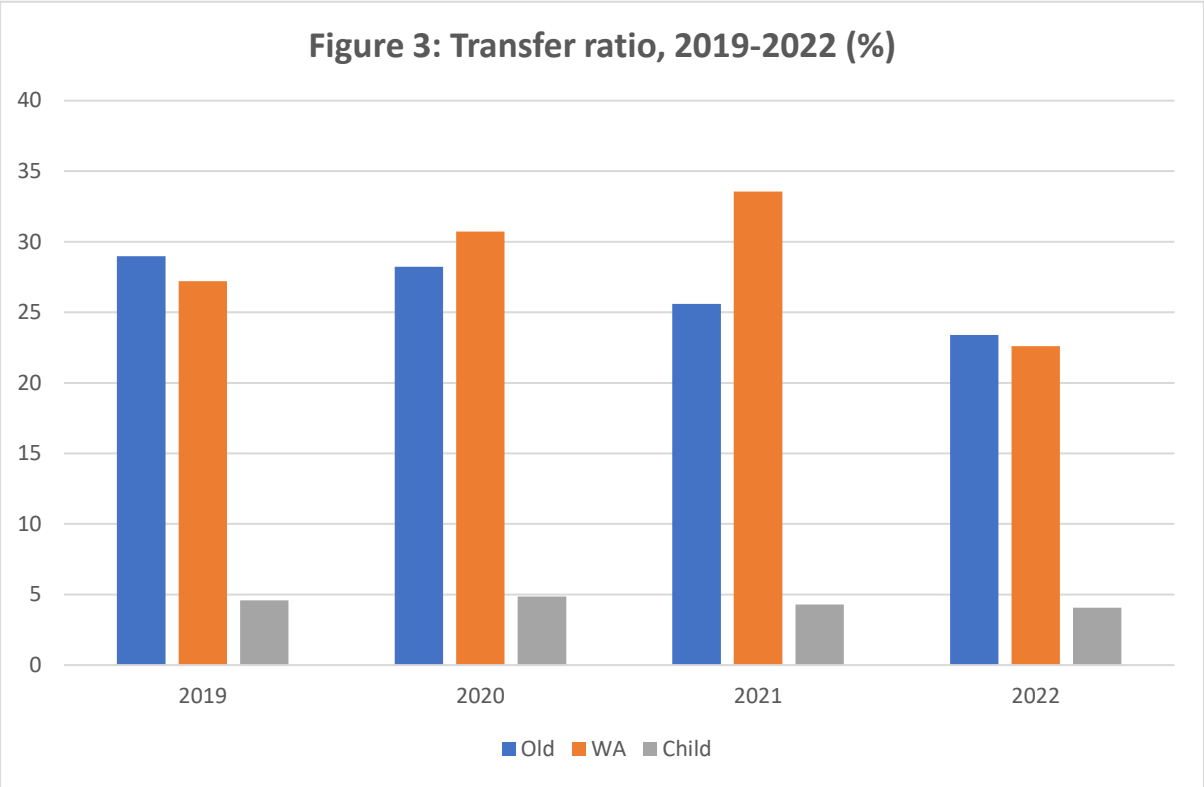
Finally, the *transfer ratio* (the ratio of the average payment per beneficiary to GNI* per capita) also played a significant role.



As can be seen in Figure 3 (above), and reflecting the historical position, the old age transfer ratio in 2019 was higher than that for working age, reflecting the generally higher rates of pensions compared to working age benefits. This position was reversed in 2020 and 2021 with the PUP being paid at a much higher rate than the standard working age or pension rates. The relationship returned closer to normal by 2022 but, for all groups, the transfer ratio fell from 2019-22 by between one-tenth and one-fifth (down 11.1% for children and 19.3% for pensions). This falling transfer ratio reflects the failure to increase pensions (in particular) and standard benefits in line with earnings and is a major contributor to the fall in the expenditure ratio for all groups (Figure 1). This is in contrast to the position during the Great Recession where the transfer ratio increased from 2007 to 2011 and (despite some fall back) was still higher in 2013 than it had been in 2007.

Studies of the impact of social protection spending on poverty are broadly in line with the decomposition analysis (CSO, 2024). Overall, income poverty (at-risk-of-poverty) did not vary greatly in the period from 2020 to 2022.[ix] PUP played a significant role in keeping income poverty down. The Central Statistics Office (CSO) estimate that poverty would have been 16.9-17.0% in 2020-21 (compared to the actual figures of 11.8-12,5%) without PUP.[x] Similarly consistent poverty would have been 5.7-6.1% in the period in contrast to the actual 4.2-4.9%.

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Clearly this would have impacted mainly on the working age group who received PUP. However, in contrast, income poverty for those aged 65 and over more than doubled from 9.8% in 2020 to 22.8% in 2022.[xi] Similarly, consistent poverty for the older age group increased dramatically from 2.8% in 2020 to 10.5% in 2022 (and remains high at 6% in 2023).

To what extent do these trends reflect movements in the longer *durée*? We can compare the data for this period to the end of the Great Recession in 2013 (Cousins, 2016).[xii] As can be seen in Table 1, the expenditure ratio (social protection expenditure as a proportion of national income (GNI*)) has fallen since 2013 (a trend already apparent from the annual data published by the Department of Social Protection (DSP) in its annual *Statistical Information on Social Welfare Services* report).

Table 1: Decomposition analysis by age group, 2013-2022

	2013	2019	2022	Change 2013-22
Older				
Expenditure ratio	4.5	3.9	3.3	-26.7
Demographic ratio	12.3	14.2	15.1	22.4
Eligibility ratio	104.4	96.1	93.2	-10.7
Transfer ratio	35.1	29.0	23.4	-33.3
Working age				
Expenditure ratio	7.4	4.1	3.5	-52.7
Demographic ratio	60.0	58.9	58.9	-1.8
Eligibility ratio	36.9	25.6	26.1	-29.3
Transfer ratio	33.4	27.2	22.6	-32.3
Children				
Expenditure ratio	1.5	1.1	1.0	-33.3
Demographic ratio	27.7	27.0	26.1	-5.8
Eligibility ratio	91.4	90.9	90.3	-1.2
Transfer ratio	6.0	4.6	4.1	-31.7

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There was a steady rise over time in the demographic ratio for old age (22.4%). This should, all things being equal, have led to an increased expenditure share for the old age group but, as we have seen, this fell from 4.52 in 2013 to 3.94 in 2019 and continued to fall to 3.3 in 2022. The fall in the old age *expenditure ratio* over the period from 2013 is due (i) to the fall in the *eligibility ratio* as the 2014 increase in pension age from 65 to 66 impacted, and (ii) in large part due to the steady fall in the *transfer ratio* by one-third (-33.3%).[xiii]

In contrast, the demographic ratio for children fell somewhat (-5.8%). It is interesting to note a fall in the eligibility ratio for children from 91.4% in 2013 to c.90% in more recent years. Given that there has been no major change in the qualification rules for Child Benefit, this may be due to the growing number of non-national children who do not qualify for Child Benefit due to the habitual residence rules.[xiv] A major factor the fall in the expenditure ratio for children was, however, the fall in the *transfer ratio* from 2013 to 2022 by almost one-third (-31.7%).

For the working age group, the demographic ratio also remained fairly stable. The eligibility ratio fell (outside 2020-21) as the high unemployment left over from the Recession was absorbed into the labour market. But the transfer ratio (again outside 2020-21) also fell by almost one-third (32.3%).

Overall, we can conclude that:

- Social protection expenditure increased rapidly for the working age group during COVID-19 and had an important impact in reducing both income and consistent poverty.
- However, even during COVID-19, the *expenditure ratio* continued to decline for the older age group and children, and poverty rose sharply for those over 65.
- In the longer-term (since 2013), the *expenditure* and, in particular, the *transfer ratio* has fallen for all age groups.

Comparison with the impact of the Great Recession

References to austerity and retrenchment abound in many analyses of the Irish social policy response to the Great Recession. However, looking at the period of the Great Recession overall (2007-13), Cousins (2016) found that those factors (to some extent) within the control of government generally did *not* show retrenchment in that period. The eligibility ratio (largely driven by economic factors in the case of those of working age) *rose* in all cases. The transfer ratio *rose* in the case of both working age and older persons and fell only in the case of child-related payments.[xv] This can hardly be described as retrenchment given the overall economic context. Of course, this analysis does not capture the potential long-term impact of changes such as changes in pension age made in the period. And this is not, of course, to suggest that many persons did not experience austerity in the period as the improvement in the transfer ratio

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has to be seen in the context of falling national incomes overall. Poverty analysis shows that the proportion of the population in consistent poverty rose from 5.1% to 8.2%from 2007 to 2013 (Cousins, 2016)

In contrast, the initial academic assessment of the response to COVID-19 has generally been more positive (Cousins, 2020; Hick and Murphy, 2021), although Hick and Murphy (2021:318) have emphasised the extent to which the Irish response has focused on 'middle-class voters, many of whom found themselves without employment for the first time'. The current analysis supports this view. The social protection response to COVID-19 (albeit very broad in numbers) has been, in certain ways, more selective than the response to the Recession and has focussed on the working age group and, within the focus on working age, PUP was paid to those already in employment and there were few specific measures for unemployed, disabled or caring claimants who were not at work at the time COVID-19 hit. This is arguably consistent with a productivist social protection policy driven by Fine Gael (identified by Cousins, 2024), albeit that the link to production is more political than economic.

The Irish social protection system in comparative context

How does Ireland compare in a European context? Here we can only provide a somewhat provisional answer due to availability of data and the need for a more detailed analysis at a national level. In this section, we draw on OECD SOCX social expenditure database (which is defined more broadly than that used in previous sections).[xvi] This database allows a comparison of levels of social protection both in 2019 and 2022 (OECD, 2023) and also looks at the extent to which social protection expenditure changed as a result of COVID-19. Given the distortions in Irish GDP data, we have replaced the OECD GDP denominator for Ireland with the Irish GNI.[xvii]

The OECD analysis (2023) indicates that the public social expenditure (as a percentage of GDP) increased from 20.1% of GDP in 2019 to 23.0% in 2020 on average and that this was largely (over 80%) due to an increase in spending rather than a decline in GDP. However, and in contrast to the Great Recession, the average public social expenditure fell rapidly to 22.0% of GDP in 2021 and was estimated to have been 21.1% of GDP in 2022.

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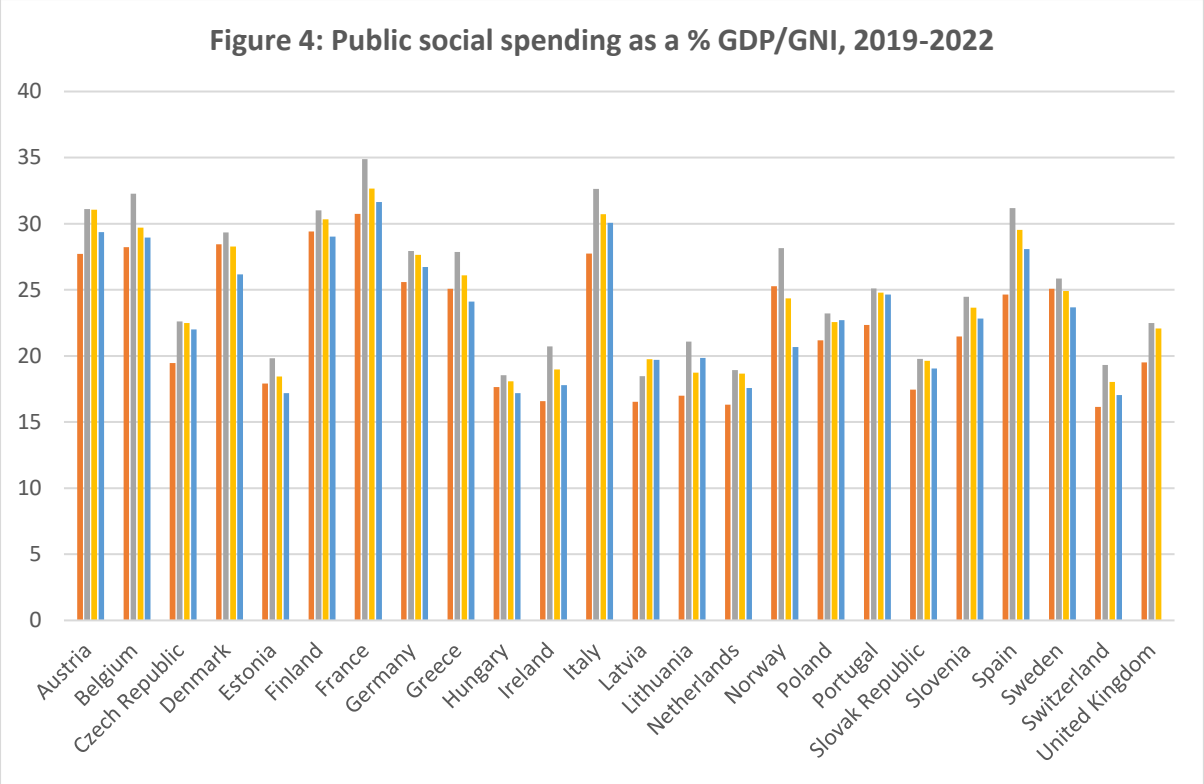

Irish spending (public social spending as a percentage of GNI) in 2019 was one of the lowest in European OECD countries at 16.6% (see Figure 4). Spending increased from 2019 to 2020 more rapidly than the OECD average (by 25.0% compared to 14.2%) and this represented a larger percentage increase than any European country except Spain.[xviii] But, as with OECD countries overall, Irish spending had returned close to the status quo ante by 2022.

We can identify a number of key facts from this data:

- In 2019, Ireland spent less (as a percentage of GNI/GDP) than most other European OECD countries (only the Netherlands and Switzerland spent less), and less than the OECD average.
- Irish social expenditure (as a percent of GNI) increased by more from 2019 to 2020 than in any other country except Spain.
- By 2022, Ireland's spending had returned to well below the OECD average and was lower than other European countries except Estonia, Hungary, the Netherlands and Switzerland.

Conclusion

In 2019, the Irish social protection system – despite significant increases in welfare rates in first decade of the new Millennium - remained a somewhat limited and segmented system (see

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Cousins, 2005). Although standard welfare benefits were often higher than in the UK (a common benchmark for commentators), overall spending on social protection was one of the lowest in Europe (ahead only of the Netherlands and Switzerland on the OECD SOCX database). Despite the introduction of new payments and significant increases in expenditure in response to COVID-19, by 2022 expenditure had fallen below the 2019 level and remains low in comparative terms. In contrast to the Great Recession, when welfare rates were broadly maintained in nominal terms and working age eligibility expanded dramatically, during the Pandemic, new schemes with higher benefit rates were introduced for those who had lost work as a result of COVID-19.

The use of a decomposition analysis helps to put social protection expenditure in the context of demographic and economic change in the broader society. This analysis leads to perhaps surprising conclusions. First, as discussed by Cousins (2016), the analysis of spending during the Great Recession suggests that social protection policy was broadly positive and the expenditure ratio increased and the eligibility and transfer ratios for most groups increased or had been maintained at 2007 levels to 2013.

In contrast, in the period of economic growth from 2013 to 2019, the expenditure ratio and transfer ratios fell. While the fall in the working age eligibility ratio reflected the positive return to employment and contributed to some extent to the fall in the expenditure ratio for the working age group, the fall in the transfer ratio (primarily related to pension and child benefit rates) is a key factor explaining the fall in expenditure on these groups.

Finally, the COVID-19 pandemic again saw a dramatic increase in the expenditure ratio for the working age group, albeit not to the same extent as during the Great Recession, although this does not take into account significant expenditure on employment subsidies. However, by 2022, the expenditure ratio had fallen to below the 2019 levels for all groups reflecting the much more rapid economic recovery after COVID-19.

The findings suggest a strongly counter-cyclical approach to social protection expenditure with major increases in the expenditure ratio during crises (during the most recent crisis focussed on those who lost employment) but falls in the expenditure and transfer ratios otherwise. There might be some logic for this in relation to the working age group during economic growth but it is not clear what might be the policy rationale for effective cuts in pension and child spending.

Overall, what we have seen during both the recession and COVID-19 is a further example of Ireland's welfare system 'surviving without changing' (Murphy, 2014). This is certainly consistent with Van Hooren et al's (2014:605) finding that economic crises rarely lead to fundamental welfare change and that a more likely response is 'incremental "crisis routines" based on existing policy instruments'. However, as we have seen, the social protection system has played an important role in alleviating poverty.

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[i] The Government also introduced an Employment Wage Subsidy Scheme (EWSS) (replacing the Temporary COVID-19 Wage Subsidy Scheme from September 2020) operated by the Revenue Commissioners. This is wage

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subsidy rather than a traditional social protection scheme and although it was funded by the Department of Social Protection it is not included in the data here. This exclusion makes an important difference to overall expenditure in the period 2020-22, for example in 2020 it reduces total expenditure as a percentage of GNI* from 15.01% to 13.0% and in 2021 from 12.98% to 11.01%.

[ii] Data in this section is based on total DSP expenditure as reported in the Annual Statistical Information on Social Welfare Services report *less* the spending on employment subsidies.

[iii] This assumes that all claimants of PUP are unemployed.

[iv] Here we use modified Gross National Income (GNI*) for the national income measure. The limitations of GDP in an Irish context are well known and previously GNP data was also used to minimise the distortions created by Ireland's multinational sector. However, since around 2014, GNP data has also become a weaker indicator of 'real' growth. The CSO has developed GNI* an indicator designed specifically to measure the size of the Irish economy by excluding globalisation effects. GNI* is GNI (GNP plus and minus subsidies received from/paid to abroad) minus the depreciation on Intellectual Property, depreciation on leased aircraft and the net factor income of redomiciled PLCs. See generally:
https://www.cso.ie/en/interactivezone/statisticsexplained/nationalaccountsexplained/modifiedgni/

[v] It should be noted that the average payment can be affected by changes in the number of dependents as well as by changes in relative 'generosity'.

[vi] This analysis does not include increases for qualified children paid with adult benefits as this data is not published separately. Thus, the main focus of expenditure to children is on child benefit.

[vii] In all cases, unless otherwise stated, the data refer to the position at 31 December in the relevant year.

[viii] The total expenditure taken into account in this analysis is somewhat less (spending included is about 90% of the total) than the total expenditure reported in the DSP annual data (again excluding employment subsidies). Some minor schemes (e.g. treatment benefits) are not social protection benefits while other costs such as administration cannot readily be allocated to specific groups.

[ix] Unfortunately, the CSO poverty data from 2020 onwards have been revised and it is not possible to compare directly with the 2019 (and earlier) data.

[x] The CSO also provide estimates for the impact on poverty of other social transfers and employment subsidies.

[xi] Income poverty for this group fell back to 11.6% in 2023 but the reasons for the significant fall are not discussed by the CSO.

[xii] That analysis used GNP data but have been adjusted to the now available GNI* figures.

[xiii] The old age eligibility ratio in the current period would be slightly higher if it was possible to include data for all working-age benefits paid to those aged 65 but this data is not published by DSP.

[xiv] The Census indicates that in 2022, 7.3% of the child population (0-17) were foreign nationals up 11.4% since 2016 (DCEDIY, 2024).

[xv] Cousins (2016) used GNP as the denominator but trends in GNP and GNI* moved quite closely together up to 2014 (diverging thereafter) so the overall trend should not be affected by the use of different data.

[xvi] SOCX presents public and private benefits with a social purpose grouped along the following policy areas: old age, survivors, incapacity-related benefits, health, family, active labour market programmes, unemployment, housing and other social policy areas. SOCX includes public spending on early childhood education and care up to age 6, but SOCX does not include public spending on education beyond that age.

[xvii] Unlike Ireland, most EU countries have GNI and GDP figures which are very close to each other. See
https://www.cso.ie/en/releasesandpublications/ep/p-mip/measuringirelandsprogress2022/economy/#:~:text=By%20country%3A%20GDP%20and%20GNI%20at%

20current%20market%20prices&text=France%20(101.8%25)%2C%20Belgium%20(,%2C%20after%20Luxembourg%20(67.4%25).

[xviii] Using the national data outlined in Figure 1, the increase was more rapid again.

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