



## 1. Introduction

Budget 2001 was the biggest give-away budget in the history of the state. It presented a historic opportunity to redistribute the wealth and opportunities generated by our booming economy.

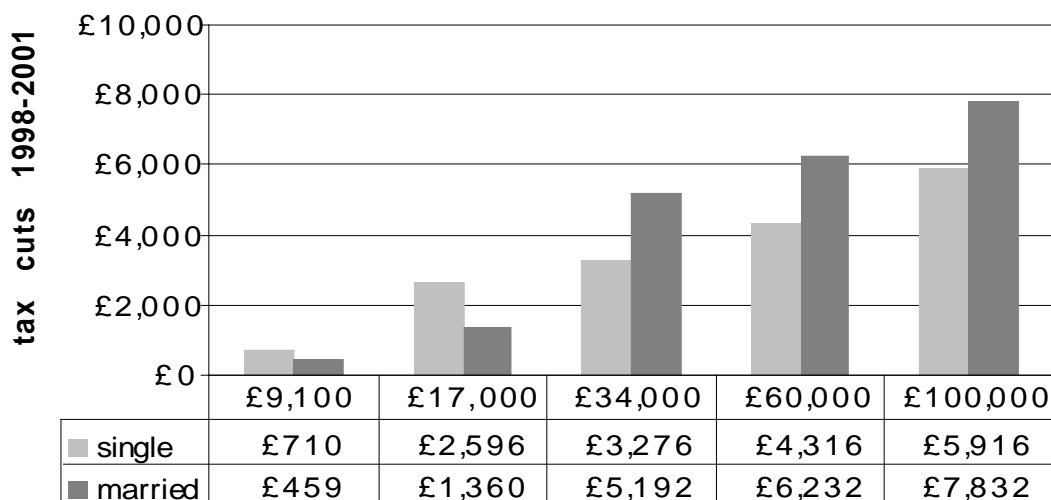
The INOU had clearly identified this Budget as the first crucial test of the Partnership for Prosperity and Fairness. The Programme’s “core objective” is to “build a fair, inclusive society in Ireland” and promises to address “the needs of people on low incomes by providing for significant improvements in their living standards”.

So how did Minister McCreevy fare in this test? In short, he scraped by with a pass. He had the potential to do so much, but he is not making anything like full use of this potential. The gap between the rich and the poor continues to widen, and McCreevy has literally done as little as possible for those still not benefiting from Ireland’s substantial prosperity.

Last year people on the lowest rates of social welfare got no increase, in real terms, on their basic payment – the measly £4 had been eaten up by inflation by the time it was paid. This year the Minister needed to compensate for that error, and to ensure that it would not be repeated. The INOU believes he has failed again. McCreevy’s ‘anti-inflation package’ has already been dismissed by one leading economist as “a one-off manipulation of the measure of inflation rather than a means of controlling the underlying problem” (Danny McCoy, economist with the Economic and Social Research Institute, p.6 of the Irish Times Budget Supplement).

McCreevy stated in his Budget speech that, over the course of his term as Minister he had “radically improved the position of the lower paid in the tax system. To listen to some commentators, one would believe that all the gains from tax reform have accrued to those they like to call high earners”. But the numbers (as seen in the graph below) tell a different story.

### Who has gained most from this government tax cuts?





## 2. Social Welfare

### Key INOU demands:

- \_ Raise personal rates by £10-£14
- \_ Raise qualified adult allowance to 70% of personal rate in 2001 (rather than 2002)
- \_ Bring forward payment date to January in 2001 (rather than 2002)

### PPF commitments:

- 3.2.2 “Substantial progress will be made over the period of this Programme towards a target of £100 per week for the lowest rates of social welfare.”
- 3.2.6 “All rates of social welfare will be increased in real terms over the life of this Programme. The rate of increase will reflect the availability of resources and increasing rates will have a high priority in the event that economic growth in excess of the expected rate on which this Programme is based generates additional resources.”

Given the high rate of inflation, which unemployed people are bearing the brunt of, and the huge additional resources at government’s disposal, there is no good reason why the INOU’s demand of a minimum increase of £10 could not be implemented.

### Budget 2001 delivered:

	Increase	Paid from	New STUA	New LTUA
Personal rate	£8.00	April 2001	£84.00	£85.50
Qualified Adult rate	£5.00	April 2001	£52.00	£52.00

Despite the suffering born by unemployed people due to high inflation, payment dates have not been brought forward to January this year. The Ministers confidence in his anti-inflationary measures seems misplaced – in a high demand economy, it is unlikely that VAT cuts will be fully passed on to the consumer. If the Minister is wrong, and inflation continues to rise, unemployed people will once again find themselves without a real increase in the level of their payments. And once again the Minister chose to make a distinction between the ‘deserving’ and ‘undeserving’ poor – there is certainly no financial justification for paying a lower rate of increase to non-elderly recipients.

The level of earnings at which the Qualified Adult and Child Dependent Allowances are withdrawn has been increased from £135 to £145, which will be of some small help to (mostly) women in part-time work. But once again, this is just another opportunity lost. The Minister removed the ‘limitation’ applying to couples where one partner is in receipt of Disability Allowance – from now on the full personal rate will be paid. He did not however, extend this to unemployment payments – a couple where both are looking for work will still only receive the reduced rate, retaining also the unemployment trap created by the earnings assessment for Qualified Adults. The government may say they want more women to come back to work, but they won’t put their money where their mouth is and pay such women the full rate of unemployment, and treat their earnings just like their partners.

To reach the PPF’s £100 target over the course of the programme an increase of at least £8 for each of the Programmes’ 3 budgets. Therefore, an £8 increase is the absolute minimum required to comply with PPF commitments. However, the Agreement does commit to accelerating progress towards the £100 target, in the event that economic growth generates additional resources. This government certainly has additional resources – a surplus of £3,900 million!



**Faster progress i.e. more than the minimal £8, was clearly warranted – the government had the money. What happened to this “high priority”? this minimal increase raises serious questions about PPF commitments.**

### 3. Children

#### Key INOU demands:

- \_ Increase Family Income Supplement (FIS) limits by £30
- \_ Increase income limits on Back to School Clothing and Footwear Allowance in line with FIS
- \_ Raise all Child Dependent Allowances to £17 per week
- \_ Increase Child Benefit by £10 per month, and introduce new taxable Parental Childcare Payment of £20 per week for 0-5's, and £10 per week for 6-14's
- \_ Introduce a specific scheme to support the childcare costs of all low income parents participating in training and education

#### PPF Commitments:

- 3.2.4 “Child Benefit, as a key mechanism to reduce levels of child poverty and to provide child income support, will be substantially increased over the period of this Programme, with a priority focus towards £100 per month for the third and subsequent children.”
- 4.1.11 “In order to address barriers to participation, progress will be made in improving the Back to School Clothing and Footwear Allowance with respect to tapering, rate of allowance and income thresholds.”
- 4.3.11 “The government, recognising the progress made in these negotiations, and following a completion process with the social partners, will adopt, before the end of 2000, an equitable strategy to support parents in meeting their childcare needs, for implementation in the period of this programme. This completion process will address proposals such as those put forward in these negotiations, which included proposals for direct payments per child.”

#### Budget 2001 delivered:

The increases in Child Benefit are welcome progress in the fight against child poverty, and are long overdue. The INOU called for CB increases to be paid at the same time as weekly payments, and the Minister made progress in this direction by bringing forward the payment date from September to June.

	Increase	Paid from	New CB
1 <sup>st</sup> & 2 <sup>nd</sup> children	£25.00	June 2001	£67.50
3 <sup>rd</sup> & subsequent children	£30.00	June 2001	£86.00

Also welcome is the clear signal from government that it has chosen a universal approach to the ‘demand side’ of childcare, which the INOU has campaigned for as part of the Childcare 2000 Campaign.

However, the rate of increase, while significant in terms of child welfare, is wholly inadequate to support the childcare costs of parents. In addition, as Child Benefit is not taxable, this is not a well-targeted payment. The INOU has argued that a universal childcare payment should have been taxable in order to ensure that those who need most would get most. By paying childcare support via Child Benefit, very rich parents will get the same amount as those dependent on social welfare.

The £100 target in the PPF is clearly no longer relevant, as it was only intended to cater for child welfare costs. Now that the Minister has clearly stated that Child Benefit also has to cater for childcare costs, the PPF Working Group charged with determining a Benchmark and Indexation Mechanism for social welfare payments must now determine a new Income Standard for Children, which takes account of this broader range of costs.

The INOU gives a qualified welcome to the £25 increase in the income thresholds for Family Income Supplement – as again, this is the absolute minimum that could have been expected. The INOU had called for a £30 increase. This increase was not sufficient to maintain current incentives for families. The INOU analysis shows this (see table ‘Who benefited from Budget 2001?’), and the Minister would have known this, if the Budget package had been properly poverty-proofed.

However, it is extremely disappointing, given the Ministers talk about creating a fairer society, that there has been no increase in Child Dependent Allowances (CDAs), which are well targeted at children in poverty. The increase in Child Benefit, substantial though it was, is simply not large enough to compensate for the fact that CDAs haven’t been increased since 1993, and cater for childcare as well. Finally, there is no excuse for not improving the Back to School Clothing and Footwear Allowance, which would help give disadvantaged children a fair chance in school. The reforms called for by the INOU are long overdue.

**This Budget’s social inclusion package betrays the fact that while McCreevy can talk the talk on social inclusion, he won’t walk the walk.**

#### 4. Taxation

##### Key INOU demands:

- \_ Increase personal allowances by £1,300 to £6,000 (for a single person, double that for one-parent families and married couples)
- \_ Increase PAYE allowance by £2,000 to £3,000. The combination of these two measures would take the minimum wage out of the tax net
- \_ No further band widening (except for one parent families, who should be brought into line with couples)
- \_ No cuts to tax rates
- \_ Poverty proof tax package

##### PPF commitments:

- 1.1.2 “The government and the social partners confirm their support for further tax reform and tax reductions to improve the position of all taxpayers, increase the take home pay of those covered by this Programme, especially those with below average earnings, and develop the structure of the tax system to deliver benefits and focus resources in an equitable manner.”
- 1.1.3 “The government and the social partners regard increases in tax credits and the development of the tax credit system as the priority areas for resources over the course of this Programme. It is an agreed policy objective ... that, over time, all those earning the minimum wage will be removed from the tax net.”
- 1.1.5 “Budget tax packages will be poverty proofed.”

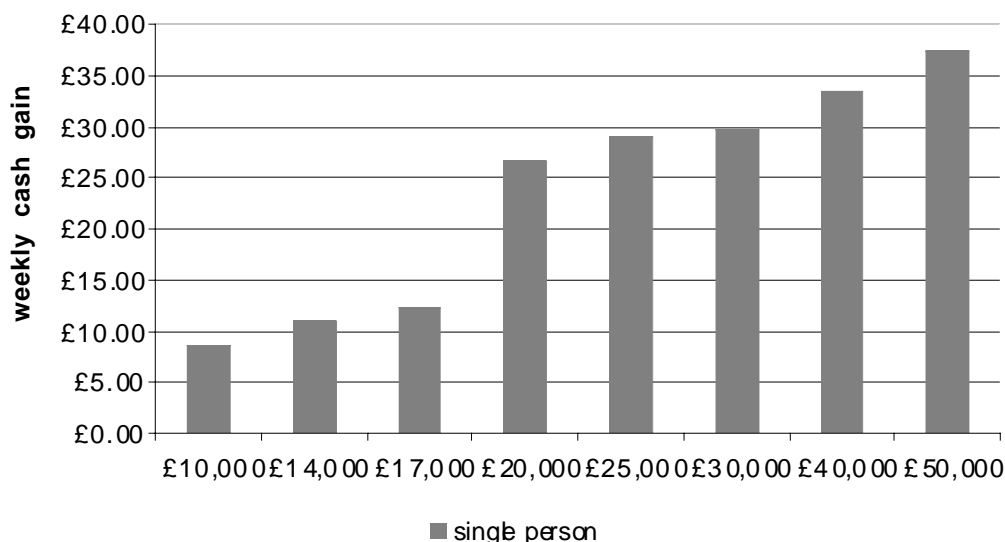
### Budget 2001 delivered:

The PPF makes clear commitments about the allocation of resources on tax cuts and tax reform – tax credits are cited as the “priority areas for resources over the course of this Programme”. How did McCreevy allocate his resources?

The income tax and PRSI package	£m
Increase in Personal & PAYE allowances	£540.0
Widening the Standard Rate Band	£278.0
Cutting 2% off standard rate of income tax	£162.8
Cutting 2% off top rate of income tax	£163.0
Cutting 0.5% off Class A PRSI	£63.0
Changes to PRSI for self-employed	-£21.0
Cutting 2% off standard rate of DIRT/PSWHT/Dividend Withholding Tax	£45.2
<b>Total tax expenditure:</b>	<b>£1,231m</b>

As can be seen from the table above, this “priority area” less than half of the resources – only 46% of the spend. As with social inclusion spending, this allocation raises serious questions about the value of commitments in the PPF.

### Who gained most from the tax c



Once again, McCreevy has delivered a tax package for the rich. Despite all his talk about helping out the low paid, the biggest beneficiaries will be the top 23% of tax payers. The graph below shows clearly, who got the largest cash amounts from Budget 2001 tax cuts – and it’s not the low paid. Even those on the average industrial wage, which is approximately £17,000 didn’t gain significantly. It is very obvious that the more money you have, the bigger the benefit from Charlie McCreevy’s tax package.

The Minister did indicate that next year (why is it that people on low incomes always seem to have to wait until next year while those on higher incomes benefit now?) that government intends “to increase the



entry point towards the level of the minimum wage”. But in the meantime, McCreevey couldn’t even bring himself to raise the Tax Exemption Limits – the only tax reform measure exclusively focused on the low paid – enough to take the Minimum Wage out of the tax net.

**Charlie McCreevy congratulated himself on taking 133,000 taxpayers out of the tax net. But this is really just cover for yet another lost opportunity – he could have taken a further 150,000 taxpayers out this year. But he chose to focus on the 23% of taxpayers at the top of the scale, instead of those who are suffering at the bottom.**

## 5. Training, education & employment

### Key INOU demands:

- \_ Increase the training allowance for CE and JI workers to a minimum of £600 a year, and apply no upper limit to specific skills training expenditure
- \_ Provide a guaranteed job offer to all persons over 35 and unemployed for five years
- \_ Expand the CE/Back to Education programme to provide at least one programme in each of the 33 VEC areas
- \_ Put in place an intensive basic education programme to cater to the needs of long term unemployed people. Establish a literacy fund to co-finance paid educational leave for literacy tuition, and develop workplace literacy programmes
- \_ Increase the third level grants for disadvantaged students to £2,000 and £4,000 respectively

### PPF commitments:

- 4.1.22 “There will be a rapid expansion of adult literacy services, and literacy/numeracy development will be integrated into ongoing education and training programmes as necessary.”
- 4.1.28 “Additional financial supports for disadvantaged students, including disadvantaged mature students, will be put in place, targeted at those most in need.”
- 4.2.5 “The Standing Committee on the Labour Market ... will examine, identify and develop appropriate supports to meet the needs of those people who, because of age, literacy or other barriers, are unlikely to succeed in getting and keeping a job in the open market.”
- 4.2.9 “In broad terms, spending on ALMPs will shift to training to better reflect market and individual needs.”

### Budget 2001 delivered:

The INOU welcomes the extension of eligibility for Back to Education Allowance to people aged between 18-20 from September 2001. We also welcome the fact that eligibility will be extended to people with disabilities who have completed a CE scheme.

Other welcome (though small scale) initiatives include funding for lone parents on training programmes run locally, and the establishment of a fund to assist people on Back to Work Allowance Enterprise with the costs of public liability insurance.

Yesterday also saw the announcement of a £25 weekly payment for all long term unemployed people and lone parents on specified training courses. However, to the INOU’s knowledge, this measure has been in place since last year.



But these small scale initiatives do nothing to hide the lack of vision and commitment to ensuring that unemployed people get the training and support they need to take advantage of the job opportunities that now exist. The INOU had made a range of demands for funding to allow people access the skills they need – and government didn't take action on any of them.

While McCreevy spoke of the £10million funding for Employment and Human Resource Development under the National Development Plan, the INOU says this is simply the same unimaginative programmes, complete with all their flaws, that have been in existence for some time. Details of this Programme were recently presented – but the Department of Enterprise Trade and Employment, which manages the programme, could show little evidence that this would make a meaningful contribution to taking people out of poverty.

**In sum, this government shows little commitment to providing unemployed people with access to quality training, education and employment opportunities.**