



Pre-Budget Submission 2010

1 INTRODUCTION

The INOU is deeply concerned at the lack of large scale action to address the growing unemployment crisis and the implications for policy development and implementation of the on-going calls to drastically cut public expenditure. There is growing anger at the Government's willingness to unreservedly address the banking crisis. This willingness to find the very considerable resources the stabilisation of the banking sector will continue to absorb and to do so at the expense of the less well off and those dependent on the state for their income and needs is simply unacceptable.

Many unemployed people now find themselves in considerable debt: in many incidences following on from poorly conceived and ill advised pro-cyclical Government policies, bad planning and developments all underpinned by poor banking practice and inadequate regulation. What is very striking from the Exchequer Statement for the end of August 2009 is that the year-on-year €10bn increase in the Exchequer deficit is accounted for by the dramatic fall in tax revenues (16%) and the €6bn in support to the banking sector. Yet from the coverage of the economic crisis an outsider would be forgiven for assuming that it was 'out-of-control' public expenditure that was to blame for the increasing deficit. Total public expenditure increased by 3.5% over the same period: this figure includes the cost of servicing the national debt which accounts for 8.4% of public expenditure. In general when people discuss public expenditure they are talking about 'voted' expenditure which covers public services; wages and income supports. 'Voted' public expenditure was 1.6% higher in August 2009 in comparison to August 2008: hardly out of control when one considers that the Live Register had increased by 87% over the same period.

2 CONTEXT

The Quarterly National Household Survey for Quarter 2 2009 recorded a drop in employment levels by 8.2% in comparison to Q2 2008. With just a little over 1.9m in employment, employment has dropped back to Q1 2005 levels. However at that stage unemployment was only 4.2% and it is now 12%. Long-term unemployment has started to rise and now stands at 2.6% - a figure not seen since early 1999. Over the last year, 174,300 jobs were lost against 23,800 created. Out of the six categories where jobs were created, three are funded through the public purse and so future employment growth is doubtful.

Looking at it from a gender perspective, of the three categories that account for 44% of male employment in Q2 2009, employment levels fell by 21.9% over the year. These three categories include construction; industry; and wholesale and retail trade. The picture for women is different as two of the three categories that make up 49.7% of women's employment saw growth of 2.4% and these sectors are: education; and human health and social work activities. The proposed cuts in public expenditure will have a particular impact on women's employment rate. The third category, wholesale and retail trade, saw women's employment fall by 6.5%.

Redundancy and Live Register figures released for August 2009 show a decline in the rate of increase: however it must be noted that these figures are at an all time high of 54,887 and 428,800, respectively. The Standardised Unemployment Rate in August was 12.4%, while this is a figure Ireland has experienced before the numbers of people losing their jobs and coming on the Live Register are unprecedented. As a society we have never had

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to deal with the numbers of people looking for social welfare and employment services related supports. The scale of the unemployment problem alone presents an enormous challenge which is further exacerbated by the state of the public finances. At a time when the State needs to be stepping into the breach to counteract private sector retrenchment, the State finds itself under resourced to adequately address the unemployment crisis; and under pressure not to invest in Ireland's economic and social recovery through increased borrowing.

The INOU is calling on the Government to urgently review its priorities and to treat unemployment as the major crisis needing to be addressed. Social inclusion is not something to be pursued only in times of economic prosperity but must be striven for continuously. The language of economics and its concerns have dominated the public debate to-date and there is an implicit presumption that society must fall into place behind the economy. Society and the economy are intertwined and it is not feasible or advisable to ignore social policy in the pursuit of economic goals alone. Ireland must invest in its people: it will not be possible to realise a 'smart economy' unless we have a 'smart' and inclusive society. To that end it is vitally important the Government not only maintain but further develop its policies of poverty proofing so that informed and integrated policy decisions are made to protect the most vulnerable. Otherwise there is a real danger that structural long-term unemployment will become embedded presenting significant challenges and costs at the personal; communal; and societal levels well into the future.

As ForFas noted¹ *"Tomorrow's problems are developing today. Minor problems ignored today may have catastrophic consequences five years from now. Gradual changes or distinct trends and developments cannot be ignored. We cannot allow ourselves to become preoccupied with immediate concerns. The near future must be an integral part of current decision making."* (p27)

This pre-budget submission addresses both the immediate and longer-term aspects of the following issues: income adequacy; welfare to work and job maintenance; active labour market programmes; supporting employment including self-employment; education and training; and taxation policy.

In the course of the submission reference is made to two key reports issued over the past few months that are likely to colour the debate on this and future budgets and they are: the *Report of the Special Group on Public Service Numbers and Expenditure Programmes* (aka the McCarthy Report); and the *Report of the Commission on Taxation*.

3 INCOME ADEQUACY

The INOU challenges all calls to reduce the basic social welfare rate. The price deflation and other arguments used in the McCarthy report fail to take into account the reality facing many welfare recipients. For example, the changes to Rent Supplement in Budget 2009 and the Supplementary Budget saw rent costs increase for these welfare recipients by between €15 and €20 per week. The decision to bring in these changes arose from the information coming for the CSO monthly report on the Consumer Price Index. However, it is not clear how well these figures represent changes in rent supplement accommodation costs given how the data is sourced and how reluctant so many landlords, auctioneers, and estate agents are to deal with this type of accommodation. Feedback from unemployed tenants and others suggests that people are fearful of negotiating a rent reduction with their landlord as they feel they cannot threaten to leave as there may be no alternative affordable accommodation.



Overall the Consumer Price Index may be recording deflation however when one looks behind the headline figures, costs that would make-up a significant proportion of unemployed and less well off people's expenditure inflation is evident. For example, gas; education; health; and public transport have all increased in cost from 3.4% to 10.9%.

In response to calls from the INOU and other community and voluntary organisations social welfare payments were increased in recent years. The INOU and others had sought these increases to ensure people living on social welfare payments were lifted out of poverty. While these increases have been welcome the reality is that the current basic social welfare rate still lags behind the at-risk-of-poverty-threshold for 2007 of €228.65 per week. The INOU feels very strongly that impoverishing people who will face increasing challenges in securing employment in a rapidly changing labour market is not the way to proceed.

¹ ForFas Report: Sharing Our Future: Ireland 2025, Strategic Policy Requirements for Enterprise Development.

Therefore the INOU is calling on the Government in Budget 2010 to:

- Maintain the basic social welfare rate;
- Bring the Qualified Adult Payment up to 100% of the main claimant;
- Re-instate the Christmas Bonus which is an important support for more vulnerable welfare recipients at an expensive time of year;
- Re-instate the full rate for 18 and 19 year olds: and contrary to the advice of the McCarthy report no further age gradient should be considered;
- Restore the full Child Benefit payment in lieu of 18 year olds to ensure that its discontinuation does not exacerbate the issue of early school leaving;
- Not to reduce Rent Supplement (RS) supports any further;
- Provide supports to RS tenants to negotiate a rent reduction with their landlord;
- Ensure that everyone who is solely dependent on a social welfare payment automatically accesses a medical card;
- Increase the Fuel Allowance to €22: given rising gas and solid fuel costs;
- Increase the Back to School Clothing & Footwear Allowance to €215 for children aged 2-11; and to €330 for children aged 12-22: given rising educational costs;
- Increase the income limits for accessing the BTSCFA: in particular for One Parent Families and apply this upper limit to all income including Community Employment;
- Ensure that people remain on Jobseekers Benefit for a minimum of 12 months as less than twelve months duration reduces an unemployed person's eligibility for education; training; and employment schemes. The INOU is concerned that the recommendation in the McCarthy report to limit access to all education; training; and employment schemes to those in receipt of a welfare payment will negatively impact on people who may not be eligible for a means tested payment for family reasons. This development could particularly affect young people and women and their future participation in the labour market;
- Introduce further measures to improve social welfare systems so that people who become unemployed have their claims processed and paid as quickly as is possible. At the INOU Annual Delegate Conference in May a motion was past calling on the "Department of Social and Family Affairs to set targets for processing claims with a view to reducing the average waiting times for payment of Jobseekers Benefit to not more than 2 weeks and Jobseekers Allowance to not more than 4 weeks."

4 WELFARE TO WORK AND JOB MAINTENANCE

The rapid rise in unemployment and the very dramatic deterioration in the labour market presents not only a new dynamic for welfare to work issues but has the potential to compound issues not properly addressed for long-term unemployed people and others particularly distant from the labour market during the boom years. There is also the potential role of the social welfare system in supporting job maintenance or more crucially to support potentially unemployed people to maintain a foothold in the labour market.

These prospectively competing dynamics present particular challenges to the social welfare system. In many respects the social welfare system failed to adapt to the more flexible labour market that emerged over the past decade: in particular with regard to part-time or atypical working patterns. Will the arrangements for casual working based on the needs of manufacturing cycles be able to adapt to the opportunities for unemployed professionals who may be able to secure bits of work here and there? Given the importance placed on soft skills, networking and building up and maintaining contacts it is important to support people to secure employment that facilitates them to do this: while acknowledging that for the foreseeable future the prospect of securing a working wage from such engagement is very slim. All of this has implications for the understanding and implementation of 'Genuinely Seeking Work'. Calls have been made to develop a new understanding of what 'genuinely seeking work' should mean: one that acknowledges that not all work is full-time and that seeking to work for oneself is as valid as seeking to work for someone else.

Concerns have also been raised that in a more challenging labour market officials need to be realistic about people's employment prospects. To this end it is vitally important that people are offered proper supports to address their skills and experience gaps, while identifying for themselves a progression path from a welfare

Improve
access
to FIS

payment to sustainable employment. The discontinuation of the Back to Work Allowance (BTWA), which was closed to new entrants in April's Supplementary Budget, is a regressive step that should be reversed as BTWA was an important scheme in supporting those more distant from the labour market in accessing employment.

Facilitating people of working age to make the transition from dependency on a welfare payment to work is crucial to the development of a more inclusive and equitable society and economy. It is also in keeping with Government activation policy.

And so in Budget 2010 the INOU is calling on the Government to:

- Review and address all anomalies in the system to ensure improved consistency across schemes with regard to eligibility and the potential impact on secondary benefits. All such changes made should be upwards;
- Re-introduce the Back to Work Allowance and target it at the long-term unemployed and other long-term social welfare recipients. Profiling could be used to support earlier access to those assessed as more distant from the labour market. Properly resourced and well informed staff are crucial to such a development;
- Address 'in-work' poverty, by automating access to Family Income Supplement through a flagging mechanism within the tax/welfare systems. FIS could play an important role in maintaining people with families in work and should be fully utilised;
- Enable participants on the Back to Work Enterprise Allowance to apply for Family Income Supplement (FIS);
- The INOU is conscious that for many people on reduced hours, accessing a social welfare payment is particularly problematic because their hours of work are irregular. In the interest of job maintenance and retaining people in employment this dynamic should be explored;
- Arising from this issue the daily income disregard should really operate on the basis of hours worked not days worked. At present the daily rate of €20 with a max of €60 per week should be increased to the equivalent of €25 per day with a max of €75 per week, or working off the National Minimum Wage the equivalent of 8.5 hours work per week;
- Reduce the deduction (of net wages) from the welfare payment from 60% to 45% where a claimant has child dependents;
- Review the implementation of the Community Childcare Subvention Scheme (CCSS) and address the welfare to work issues arising;
- Promote the realisation of a truly accessible and affordable childcare system;
- Increase the income threshold for accessing a medical card to meet the National Minimum Wage level or a total of €18,300 i.e. strive to keep it consistent with the tax system specifically where low paid workers start to pay tax. In the interest of system consistency, such a development would ensure that the income limit would increase alongside the single tax credit;
- Not to eradicate any of what the McCarthy report termed 'double payments' until considerable work is undertaken to re-design a more flexible, modern, and client centred social welfare system. The INOU regards much of what they sought to cut as essential supports to facilitate labour market participation of particularly vulnerable groups, including lone parents and disabled people.

5 ACTIVE LABOUR MARKET PROGRAMMES

Active Labour Market Programmes (ALMP) have played an important role in creating access points for groups distant from the labour market including long-term unemployed people; lone parents; disabled people; people living in rural areas; and Travellers. One of the failings of ALMPs for these groups however has been the lack of progress from these programmes into the mainstream labour market. The INOU is concerned that in the ESRI's recent work on profiling on behalf of the DSFA, participation on Community Employment was seen as a potential indicator of long-term unemployment. This dynamic highlights an issue that was not addressed as it should have been during the Celtic Tiger years and that is the role of employers within ALMPs. Too often such programmes have focused on the potential employee while too little focus has been given to the potential employer: and in particular how best to ensure that participation will lead to positive long-term outcomes for participants. There is a challenge facing funders and current providers to persuade other

**Increase
Community
Employment**

employers that the work experience and training undertaken are transferrable to other elements of the labour market.

At a time of rising unemployment and with no immediate prospect in sight of a decline in same, ALMPs have a particular role to play. As noted under 'welfare to work' there is a degree of tension between the issues of long-term unemployment and labour exclusion and the issues arising from the recent dramatic rise in unemployment. A skills gap is growing in the labour market and it is vitally important that no group is left behind as Ireland strives for a 'smart economy'. Otherwise the long-term social and economic costs will be considerable.

The INOU would not agree with many of the recommendations made in the McCarthy report with regard to ALMPs. Well designed labour market programmes integrated into a more pro-active and client centred employment and related services have an important role to play in addressing socio-economic exclusion.

And so the INOU is calling on the Government to:

- Considerably increase the number of places on Community Employment and the Community Services Programme;
 - Rejuvenate the Jobs Initiative and to target it at particularly excluded groups including older unemployed people;
 - Seriously address the issue of progression and work with non-participating employers to open up new avenues of employment;
 - Continue working on the training and education elements of these programmes to ensure that people improve their skills base and provide them with marketable qualifications;
 - Not to reduce the additional supports for lone parents and disabled people. Indeed the INOU would argue that as CE constitutes employment
- then the concept of 'double payment' does not arise; and that the additional costs of participation are such that on equity grounds these payments should be maintained;
- Re-visit the new Work Placement Programme in particular to address the issue of participation costs for people. Going to work can be expensive in terms of transport, food and clothing costs and to maintain and enhance participation on this programme this issue should be addressed immediately. The INOU is also struck by the low take-up by employers and believes the Government must do more to sell this and other labour market programmes to employers if they want these programmes to succeed.

6 SUPPORTING EMPLOYMENT INCLUDING SELF-EMPLOYMENT

The INOU has welcomed recent developments in this area designed to generate increased access for unemployed people. However, the organisation is concerned that the manner in which the cost of these changes was covered will ultimately make self-employment, as a response to unemployment, untenable. Originally a participant could avail of the Back to Work Enterprise Allowance (BTWEA) for up to 4 years on a sliding scale. This time period was pulled back to 2 years for people who have been unemployed a year and are either in receipt of a Jobseekers Allowance or have underlying entitlement to JA. For people entitled to Jobseeker Benefit they can opt to access BTWEA instead of their JB payment for the length of time they were entitled to JB (9 months if they have less than 260 PRSI contributions; 12 months if they have more than 260 contributions). The INOU is concerned that in the current challenging economic context it will be extremely difficult for anyone to get a business off the ground in a year or less.

**Longer
BTWEA**

In the McCarthy report they recommend that all indigenous enterprise supports be consolidated under Enterprise Ireland and that subsequent offices be located in the Gateways identified through the National Spatial Strategy. There is a certain rationale to this recommendation from a macro perspective however for unemployed people and others distant from the labour market for whom self-employment may be their only option, such a development would be a retrograde step. How accessible would a regional support structure be when the current more localised one is struggling to cope with the level of demand? This would have implications for eligible unemployed people availing of the 2 year version of the BTWEA: as potential participants must have in writing from a Job Facilitator or Partnership Company that they are seeking to become self-employed in an approved business.

And so in Budget 2010 the INOU is calling on the Government to:

- Extend the duration a participant can stay on BTWEA to a more realistic time period. Most commentators say it takes at least three years for a business to become established;
- Ensure that the necessary supports are there locally for people to prepare their business idea and that the BTWEA would kick in from when they commence their business;
- Attend to the welfare implications for people addressing their unemployment through self-employment. The INOU is very conscious that a lot of people currently waiting for a welfare payment were technically self-employed and were unaware of the implications of this in terms of accessing an unemployment payment. The provision of clear information that highlights this situation for people is of crucial importance and the option should be created for people to pay a different class of PRSI payment if they should choose to take out such insurance.

7 EDUCATION AND TRAINING

Ireland has set itself a goal “a vibrant, knowledge-based economy and stimulating enterprise and productivity” (T16). To achieve this goal and in particular to do so in a truly inclusive manner requires a considerable increase in education and training provision if current and future labour forces are to be able to fill the employment opportunities flowing from the realisation of such a goal. It would be foolish of Ireland to think it can pursue a knowledge-based economy without such investment: the revenue must be found now if future revenue streams from income tax and related economic activities are to be secured. Such a development is crucially important given the strong links between education and employment status.

Link
Education
and Training
to
Employment

The INOU has welcomed recent developments in this area and in particular the links made between the part-time education courses and the potential employment opportunities arising from the knowledge-based or smart economy. However these initiatives are but a drop in the ocean when one considers the numbers of people unemployed and the re-emergence of long-term unemployment.

And so the INOU is calling on the Government to:

- Ensure a seamless transition from welfare to work/education/training. The INOU is conscious that current arrangements are not facilitating people moving from welfare to training and back and will ultimately discourage people from taking up opportunities that will improve their long-term employment prospects;
- Provide a broad range of quality and accessible training and education options that provide people with learning opportunities and clear progression paths to further education and training if required or potential employment;
- Ensure that people’s participation on training and education courses is voluntary. This is a key element of a pro-active client centred service otherwise there is real danger that people will end up on the wrong course. And that is not an efficient use of resources;
- Other key elements of a pro-active and client centred service include:
 - assisting unemployed people in identifying pathways to progression;
 - ensuring that employment related services meet the needs of unemployed people;
- improving the responsiveness and flexibility of training, education and employment services to more effectively link training and education to the workplace in a rapidly changing labour market.
- Not to implement the McCarthy report’s recommendation to eliminate the payment of €31.80 to support long-term unemployed people to engage in training. The INOU does not agree that such a payment is not justified as the report stated;
- Place a greater emphasis on the employers’ role in education and training: this is of particular importance for people in low skilled jobs who may find it very hard to secure alternative employment should they lose their job;
- Immediately publish the Action Plan for the National Skills Strategy to ensure that education and training developments are taking place within an overall vision / strategy for the labour market.

A range of issues have impacted negatively on the Irish economy and the level of public finances: not least amongst these was the over reliance on expenditure taxes which gave rise to a surplus in the boom and now a trickle in the bust. A broader tax base is essential if Ireland is to avoid such dramatic peaks and troughs.

The Commission on Taxation noted in its report that "The primary role of a tax system is to raise revenue to fund Government expenditure." Recently, the Minister for Finance has said that the tax burden will not be increased in Budget 2010. However, the INOU is deeply concerned that if addressing the state of the public finances is borne by public expenditure alone then unemployed people and other vulnerable people and communities will effectively be bearing the full impact of the cost of adjustment and will find it much harder to cope.

To this end the INOU would not agree with the Commission's call to tax all social welfare payments. In general those welfare payments that are not taxed are those that are means tested and which play an important role in supporting individuals and communities who are already living below the poverty threshold. A more progressive way to address the welfare to work issues would be to develop employment services more fully and to ensure that a pro-active, client centred, integrated service is designed and rolled-out locally. As part of this development, the improved integration of social welfare and tax systems is required. The labour market has become more flexible and atypical but the social welfare system and indeed the tax system are predicated on an earlier model of the labour market that for the most part no longer exists.

**Broaden
the
Tax Base**

And so the INOU is calling on the Government to:

- Not to introduce any further increases on income tax rates. The INOU would agree with the Commission that "A core principle of tax policy into the medium term should be to keep taxes on labour and the labour tax wedge low, in order to reduce the costs of employment, stimulate demand for labour and encourage labour force participation";
- Remove anyone earning less than National Minimum Wage from the tax net. This progressive policy decision was reversed in the Supplementary Budget with the application of the Income Levy from incomes greater than €15,028. The Commission on Taxation in their report noted "Our view is that the general aim should be to continue to exempt the minimum wage from taxation";
- From a broader policy perspective, and given the potential negative impact of climate change on future social and economic developments, the introduction of a carbon tax is inevitable. However, it is important that any developments in this area are poverty proofed and that alternative and constructive strategies are devised to support disadvantaged communities and others to reduce their carbon footprint. Such an approach is equally necessary should a property tax be developed;
- In order to broaden the tax base and raise additional revenues the INOU would urge the Minister for Finance to take immediate action on the Commission on Taxation's recommendations on tax expenditures. The OECD defines a tax expenditure "as a transfer of public resources that is achieved by reducing tax obligations with respect to a benchmark tax, rather than by direct expenditure." As the Commission notes tax expenditures have the potential for unequal distribution of public resources, can facilitate tax avoidance, lack cost restraints, lack visibility and are rarely reviewed. In the public discourse on NAMA it is evident that many people regard Ireland as an unfair society whose recent economic growth benefited a select few for whose mistakes the many will now pay. Addressing the issue of unfair and inequitable tax expenditures that have tended to favour the better off would help to redress this growing sense of inequity;
- However, the INOU would not agree with the Commission's call to tax Child Benefit for the following reasons. The Commission itself distinguishes between tax reliefs which may result in income forgone and those that are used to address other policy issues. Access to affordable childcare is crucial to support women's participation in the labour market and in particular lone parents for whom it is a significant welfare to work issue. Though the State has invested in its provision over the past decade considerable barriers remain. Not least the cost of childcare which in Ireland is comparatively high and can absorb a considerable % of workers' take home pay. Child Benefit plays an important role in supporting women to meet these costs and should therefore not be reduced.



And in conclusion:

In conclusion the INOU is very conscious that the best way to address unemployment is through job creation and facilitating people to move from a welfare payment to work. The interaction of the social welfare and tax systems play an important role in this regard. Of equal importance is the on-going development and maintenance of employment standards. INOU members are all too aware that many newly unemployed people find themselves without an entitlement because there was a lack of clarity as to the exact nature of their previous employment.

... 'smart' and flexible services are urgently required

At a time of economic difficulties and decreasing public resources it is vital that Ireland does not lose sight of its social inclusion and anti-poverty goals. When the vision for the labour market is one of increasing technology, innovation and skills levels it is crucial that every effort is made to create access points for unemployed people and others distant from the labour market. Rolling out the more labour intensive elements of the National Development Plan would be a welcome development and one for which the INOU is calling.

Building a more integrated and client centred employment service that actively strives to match the right person with the right opportunity is vital if we are to build a truly inclusive labour market and economy. Such a service is crucial to ensuring that the development of a 'smart' and greener economy provides employment opportunities for as many people as possible. If socio-economic exclusion is not to be exacerbated by such developments then 'smart' and flexible services are urgently required.



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The INOU is one of a number of charities, trades unions and community organisations which have joined forces to form **The Poor Can't Pay Campaign**. We are campaigning to make sure that:

- there is no cut in the basic social welfare payment for adults or children;
- there is no cut in the Minimum Wage;
- that the traditional Christmas Payment gets paid.

For further information visit www.thepoorcantpay.ie