



BUDGET SUBMISSION 2000

ACHIEVING & MAINTAINING FULL EMPLOYMENT

Irish National Organisation of the Unemployed, Araby House, 8 North Richmond Street, Dublin 1. Tel: (01) 856 0088 Fax: (01) 856 0090 E-mail: inou@iol.ie

"A full employment society is one in which every adult who wishes to can find employment with decent conditions within a reasonable time. The challenge that faces Government in Budget 2000 is to make full employment in Ireland a reality".

Mike Allen, General Secretary, INOU

KEY RECOMMENDATIONS:

- Over £750 million in personal tax cuts, targeted at the lower paid through increases in tax credits and increases in the standard rate band.
- The goal of tax policy to be that workers earning the minimum wage should be outside the tax net and those earning below the average wage to be taxed only at the lower tax rate.
- An increase in basic social welfare allowances to 50% of average incomes.
- Conversion of Family Income Supplement into a refundable tax credit, to ensure that all low earning families benefit from the measure without bureaucracy or stigma.
- A Job Offer Guarantee to all those who have been unemployed for five years and over
- A new PRSI funded programme to provide free general medical care for all children.
- A new Housing Benefit for the private sector, to remove all employment and poverty traps and ensure that those in private rented accommodation receive the same support as those in other forms of housing
- All incentives to invest in private rented housing should be linked to guarantees of the quality of housing and security of tenure
- A range of childcare measures including a new Parents Childcare Payment to be introduced at a rate of £20 per week for children aged 0-5 and £10 per child for aged 6-14. This new payment would be taxable.
- Interim funding should be provided for the Area Partnerships and their National Strategic Support organisations, so that the momentum and expertise of these organisations can be maintained in the gap between the outgoing and incoming National Development Plans.

Copies of the full text of the INOU submission are available from Noeleen Hartigan, Press Officer, INOU.

1. PERSONAL TAXATION

Reform in personal taxation continues to be a key element not only in driving the economy forward and encouraging people to take up employment but also in policies to relieve poverty. While there are increasing levels of complaint about the level of taxation on higher paid workers, the INOU believes that policy should continue to focus on lower and average earners. This is not only for reasons of equity, but also because these are the areas where the greatest problems of recruitment and of wage demands are building up.

Much of the recent debate about taxation has characterised the current position as a conflict between a strategy which

favours lower paid workers through increases in tax allowances, and a strategy which favours higher paid through cuts in tax rates.

In the conventional debate the former is backed by the National Economic and Social Council (NESC) and by the agreements set out in Partnership 2000, while the latter has the mandate of the electorate through being included in the Government's "An Action Plan for the Millennium".

The Government's electoral mandate results at least as much from the confidence imbued by these assurances as the technical details of its tax package.

It is essential that the Minister builds on the tax credit system introduced in the last budget in his forthcoming budget, completes the move to tax credits, and channels most of the available funding for tax cuts into increased credits. Taxation policy is the key to ensuring that there is a reward from work, ensuring that there is a reward from work is key to achieving full employment. The way to deliver this equitably and fairly is to focus reform on allowances and bands, and not on cuts in tax rates.

Reductions in personal taxation in the order of £768 million are both necessary and possible.

• Personal Tax Credits

The primary target of personal tax reform should be to remove full-time workers on the minimum wage from the tax net. As a step toward this there should be personal tax-cut package worth approximately £600 million, to be spent as follows:

* The personal allowance should be increased by £1,000 per annum (to £5,200) or £2,000 for the married person's allowance (to £10,400)

* The PAYE allowance should be increased by £200 per annum to £1,200.

• Standard rate band

A person working full-time on the average industrial wage should not pay tax at the higher rate. The standard rate band must be increased by £1,000, to £15,000 (double this band, i.e. £30,000 would apply to a married couple) at a cost of £144.6 million.

• Personal allowances

Standard-rating of single parent and widowed peoples allowances to ensure that no top rate taxpayers lose out. These will be of benefit to 84,100 people, 33,000 of whom are parenting alone. This involves providing additional allowances as follows:

	Increased allowance	Cost £m
Widowed person	£458	5.4
Widowed parent	£2,429	3.7
Single parent	£2,887	15.1
	Total cost	24.2

• Discretionary Allowances

The same approach can be applied to the remaining secondary allowances which have not been standard rated. This will achieve an "even playing pitch" from which to base further tax reform.

Allowance	Increased allowance	Cost £m
Age - Single	£367	3.70
- Married	£733	5.10
Incapacitated child (max.)	£733	1.60
Dependent relative	£100	0.60
Blind person - 1 person	£1,375	0.25
- 2 people	£2,750	0.13
Rent relief for over 55's		
- Single	£916	0.60
- Married	£1,833	0.36
Incapacitated taxpayer	£7,791	0.90
Widowed parent bereavement allowance		
- 1st year	£4,583	0.77
- 2nd year	£3,666	0.61
- 3rd year	£2,750	0.45
- 4th year	£1,833	0.31
- 5th year	£916	0.14
	Total cost	15.52

If the move to tax credits was progressed in this way, it would result in gains to in excess of 110,000 taxpayers who are disadvantaged in some way – through ill health or disability, old age, or bereavement.

• Refundable tax credits

The conversion to a system of tax credits allows the introduction of new allowances. A review of refundable tax credits must be undertaken, and specifically, Family Income Supplement (FIS) should be converted to a refundable tax credit. This would effectively provide a minimum income guarantee to working families.

• Discretionary reliefs

Discretionary reliefs should be subjected to a systematic evaluation, and if they are to be retained, they should be restructured to ensure that every tax payer availing of them benefits to an equal degree.

• Corporation Tax

Taxation measures should be introduced to claw-back the windfall benefits of reductions in Corporation Tax from the financial services sector.

• Poverty Proofing

Budget tax packages should be comprehensively poverty-proofed.

2. THE WELFARE SYSTEM

The changes required in our system include substantial increases in basic welfare payments to reflect the rising standard of living in our society and the targets set in the National Anti-Poverty Strategy. Irish society has not yet achieved Full Employment, and it would be premature to restructure our welfare system towards the demands of such an economy at this point. In particular, the needs of the long-term unemployed forced to live on below poverty incomes for long periods must still be recognised until we have delivered the policies which can eliminate this persistent evil. Nevertheless, the sort of welfare system required by a modern, high employment society must be examined and the first steps toward this can be taken in this budget.

• Basic payments

Those living on social welfare should be guaranteed an income of no less than half the average. The most recent data available is from 1997, which would give a minimum personal rate of £78.50 – equivalent to a weekly increase of £6.50. This baseline rate should be adjusted in line with increases experienced in average income since 1997.

The NAPS definition of consistent poverty is that person is living in consistent poverty if their income is below the 50/60% poverty line and they are experiencing enforced basic deprivation. There has been a dramatic increase in relative income poverty over recent years, with considerable growth in the percentage of Irish households living on less than 40% of average income. This is because social welfare payments are currently at or around the 40% poverty line.

• Updating of payments

Increases in social welfare payments must be linked to average increases in income.

There has been a significant increase in the percentage of households living on less than 40% of average income because wages have increased at a considerably faster rate than social welfare payments. If we are to use Ireland's recent economic growth to deliver a just society, we must ensure that all citizens benefit. For those at work this means tax reductions and appropriate increases in wages, for those not at work this can only be delivered by increases in welfare payments or – where appropriate – increased access to work.

• Qualified Adults

As a step toward the phasing out of the "qualified adult" category, the INOU recommends that 70% of the personal

rate of payment should be the benchmark of QA payments, instead of 60%.

The Commission on Social Welfare recommended that the QA rate should be 60% of the personal rate. However, new research conducted by the ESRI, based on the rationale underlying the NAPS definition of poverty (i.e. what level of income is required to ensure that basic deprivation is avoided), concludes that the appropriate scale is 70%.

- **Child income support**

Child Benefit should be increased by £8 per child per month, at a cost of £100 million. This would mean a rate of £42.50 per month for the 1st and 2nd child, and £54 for the 3rd and subsequent child.

Child support is an important dimension of adequacy. Child poverty is remarkably persistent, especially in families with three or more children, or those headed by a lone parent.

- **Family Income Supplement**

Thresholds for the payment of Family Income Supplement should be increased in line with changes in personal taxation.

Since the welcome shift to calculating FIS payment on the basis of net earnings, any boost to the income of low earning families through tax cuts will – in the absence of other changes – be clawed back through an equal reduction in the level of FIS. In order for such families to get the benefit of tax cuts, the threshold for FIS payments must be increased in line with the level of tax cuts.

- **Social Insurance**

A pay related element to the Unemployment Benefit paid to recently unemployed workers should be re-introduced, paid through the social insurance system.

A modern full employment society is characterised by substantial levels of job turnover, and despite high levels of employment growth Ireland currently experiences very high levels of redundancy. This reflects the high levels of flexibility required from the workforce to maintain competitiveness and wealth generation in a modern economy. Such flexibility must be underpinned by guarantees of security, and some of these guarantees must come from the welfare system. Social insurance against unemployment should provide a guarantee that Unemployment Benefit will replace a proportion of lost earned income for a period of time, subject to a minimally adequate rate.

3. TRAINING AND EDUCATION

As a legacy of fifteen years of mass unemployment, a large number of Irish people suffer from long-term unemployment and the poverty and social exclusion that go with this. Many people do not show up in the “official” long-term unemployment statistics because they have been unsuccessful in job seeking so often they have ceased to seek work, yet they still hope for a decent job. Many appear as short-term because they have recently been on an employment scheme or in a short-term job. Others have grown up in a community and a family where getting a job was not a prospect they could look forward to – and Irish society in general nurtured them in these bleak expectations. Our aspiration of achieving full employment must include a particular focus on the needs of this group and a particular sensitivity to the barriers and problems they face.

- **Jobs offer guarantee**

A commitment must be made to provide specific high quality training, and a guaranteed job offer, to all persons unemployed for over five years.

A significant group of very long-term unemployed men and women have been so marginalised from the labour market that it is very difficult for them to re-enter employment. Even within targeted schemes they tend to be the last to be recruited. A once-off guarantee of employment and training options would ensure that they can, at last, benefit from the end of the jobs famine.

- **Employment Service**

A substantial increase in commitment to staffing in both the Local Employment Service (LES) and the FAS Employment Service.

Despite substantial increases in resources to the employment service, staffing levels are still well below European averages and this is reflected in the time available to each client. FAS's new remit for providing employment services for people with a disability must also be reflected in increased levels of staff and resource. Both the image of FAS and the morale of its staff suffered greatly during the period of mass unemployment, this legacy must be overcome by a period of high investment. In particular the unique and innovative services of the LES require consistent and adequate resourcing if they are to deliver.

- **Employment Action Plan**

Adequate resources must be provided to FAS to ensure that 50% of participants on the Employment Action Plan are offered an employment or training opportunity within a month of interview.

The proportion of people called for interview on the EAP who end up in a job or training one month after the interview has consistently fallen since its launch. This reflects the lack of available options appropriate to the needs of the clients. A new investment is needed to ensure that such opportunities can be provided at a high level of quality if the EAP is to gain credibility.

- **Community Employment**

The numbers on Community Employment should not be further reduced, except where CE places are reallocated to the new Social Economy programme.

While CE has many limitations as a programme for the unemployed, and it a low quality employer for essential community services, it has established itself as a crucial element in the lives of many disadvantaged communities. The INOU supports a shift towards more quality training options for long-term unemployed and advocates the transformation of CE-based services into quality jobs. This transition must be managed carefully with the maximum amount of local participation and planning, and must not be imposed as a series of cutbacks. Maintenance of current CE levels is a key element in insuring that such participation and planning can occur.

- **Literacy programme of employed and unemployed**

Literacy training at both a basic and more developed level, both in the workplace and for those not in work must be developed.

- **Re-integration enterprises**

A major new programme to develop “Integration Enterprises” should be established. Such enterprises employ long-term unemployed people to produce goods or services which are traded in the market.

- **Ring-fencing of VTOS and BTEA places**

5,000 places in VTOS must be ring-fenced for the most disadvantaged.

Recent changes in access to VTOS have opened up the programme to a wider group. Wider access should be underpinned by greater provision, not displacement.

- **Regional Boards in FAS**

Boards should be established for each of the FAS regions, and should include unemployed representation.

4. MAKING JOBS REWARDING

During the decades of mass unemployment, the desperation of Irish people to obtain any job led to a distinct fall in the quality and rewards that could be expected from employment, particularly for the lower or average paid worker. This was not only reflected in wage levels and take home pay, but also in “secondary benefits” such as the returns on paying PRSI and in broader terms and conditions. While there has been a

profound rethinking of the need to make employment rewarding by some employers, many still lag behind and simply complain about recruitment problems. Public policy in general still reflects the attitudes of the past, with an exclusive (though in itself welcome) emphasis on the purely financial rewards from work. There is an urgent need to review broader public policies to ensure that workers at the average and lower wages feel they are gaining broad social rewards through employment.

This issues is made even more serious by the extensive use of "bridging mechanisms" in which certain welfare benefits are retained by the long-term unemployed to support their transition into lower paid work. While these are important and should be retained they are not an alternative to extending social benefits to all lower paid workers, and indeed sharpen the sense of resentment felt by many lower paid workers.

- **Health Care for Children**

A new benefit which would provide medical cover for the children of all insured workers – Children's Health Benefit.

Fear of loss of a medical card has long been recognised as a major barrier to long-term unemployed people taking up work. This fear is largely confined to unemployed people with children, who fear the high cost of medical care. To date, the policy response to this problem has concentrated on allowing the long-term unemployed retain their medical cards for up to three years after taking up a job. Not only has this policy been dogged by implementation problems, but misses the central issue – ordinary workers are concerned about the very high costs of childcare for their children. For those who have been long-term unemployed this reflects itself in reservations about taking up work, for those in work it is reflected in anxiety, resentment and in aspirations for higher wages.

- **A Major new "Skilling up" Programme**

Establish a major new programme to provide access to quality accredited training for those in low skilled employment.

Given the number of previously unemployed people now in low-skilled work, we propose a new programme targeted at the low skilled in employment.

- **Introduction of the Minimum Wage**

The £4.40 rate set by the Commission should be updated through the negotiation of the new national agreement.

5. HOUSING

The housing crisis has now replaced the unemployment crisis as a key focus of public and media attention. Attention however focuses largely on the problems faced by those seeking to buy their own home and the homeless. The problems faced by those in private rented accommodation or public housing, or the barriers which housing support creates for those seeking to take up work are largely ignored by the media and by public policy. Yet it is in this area that the deep resentments felt by ordinary workers against greedy landlords and the employment traps experienced by unemployed people represent the greatest threat to our prosperity.

- **Housing benefit**

A Housing Benefit must be urgently introduced for the private rented sector that is neutral in relation to labour-market status, in order to properly address the long established, and well-documented poverty and unemployment trap created by the operation of the SWA Rent Supplement scheme.

INOU further recommendations on the current housing crisis, as outlined in full text of Budget Submission 2000 are: consolidating responsibility for housing within local authorities, a 20% social housing quota, funding schemes for Voluntary Housing Associations, investment in the private rented market, the linking of investment support to quality. The INOU calls on the government to radically overhaul current housing policy so as to develop vibrant mixed communities, where real choice exists, and cost of accommodation is affordable.

6. INFRASTRUCTURE AND DEVELOPMENT

- **Poverty proofing mainstream investment**

Mainstream infrastructural investment package should be poverty proofed.

- **Strategic infrastructural package**

A strategic infrastructural package should target investment in physical infrastructure in geographical areas of concentrated disadvantage. Facilities would include: school premises, adult educational premises, leisure and recreational facilities, community and social meeting areas, libraries/IT access centres.

- **Rural investment package**

A rural infrastructural package should be established to tackle the specific infrastructural deficits which lead to/deepen rural exclusion. These would include rural public transport, school premises, provision of mobile libraries/IT centres.

- **Local development**

The current round of funding under the Operational Programme for Local Urban and Rural development ends this year. The organisations funded through the programme have permission to carry over underspends in their budgets until June 2000. However uncertainty about the next funding period is having an unsettling effect on staff levels and morale. A clear commitment in this year's budget, that sufficient funds will be allocated to local development in the year 2000 to ensure a smooth transition from the current funding round is necessary.

7. CHILDCARE

The lack of affordable childcare is now widely recognised as a major constraint on the ability of women to re-enter the labour force, and so a major threat to our continued economic growth. Policies to address these problems should also reflect the extent to which childcare also has an educational and development role for children, particularly those from disadvantaged background.

- **Parents Childcare Payment**

A new Parents Childcare Payment to be paid to parents in respect of children. This payment would be taxable and paid to recipients of child benefit. This would ensure that all parents receive both their child benefit payment, plus a new taxable supplement, while guaranteeing that those most in need of an additional payment will receive a proportionally larger amount.

Children aged 0-5 £20 per child per week

Children aged 6-14 £10 per child per week

- **Childcare costs of low income families**

A specific scheme to support the childcare costs of low income parents participating in training or education courses. Childcare is currently not provided with most mainstream education and training programmes.

- **Investment in Disadvantaged Areas**

The investment of IRE10 million to support the supply of existing, and the establishment of new, quality childcare in disadvantaged areas. This investment should be made over a period of three years. The lack of actual facilities in many areas, means that childcare is provided by the community and voluntary sector.

8. CONTINUING TO DEVELOP JOBS

- **A commitment to maintain the level of increase in Government investment in R&D to the 1998 figure and in particular for provision to be made to meet any foreseeable shortfall in the contribution for the Structural Funds.**

- **Continued funding for the development of the indigenous sector through Forfas.**



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This publication is intended both as a supplement to the INOU Budget Submission 2000 and as a tool for journalists and commentators in understanding and accessing the INOU.

THE MEANING OF FULL EMPLOYMENT

The central objective of the INOU has always been the achievement of a Full Employment society. For much of our existence this has seemed a remote prospect and has been derided by people from all walks of Irish society. Achievement of full employment is now within our grasp, but the legacy of fifteen years of mass unemployment in our very recent past, means that achieving this goal will not simply happen.

The idea of what should be considered "full employment" rose as unemployment rose. In 1967 the then National Economic Council defined 2% unemployment as full employment, by 1975 they gave a figure of 4%. In 1977, full employment was defined as 5% unemployment. This numbed acceptance of high levels of unemployment has led a number of commentators to declare that we have now achieved full employment. It is worth noting that some employer's organisations declared that we had achieved full employment when unemployment was 50% higher than it is today. The voices that declare victory too early are as dangerous to us as those who, in the past, declared that we could never win.

A full employment society is one in which every adult who wishes to can

find employment with decent conditions within a reasonable time. It is not just a matter of achieving a certain percentage of unemployment as measured by economists, but it is certain that anything resembling full employment will require an unemployment level much closer to the 2% aspired to in the past, than the 6% we experience today.

More significantly, a society which has achieved full employment will have a negligible level of long-term unemployment. Neither will it have tens of thousands confined to joblessness because of their lack of literacy or other skills, their age, their disability or the accident of where they were born.

For the last twenty-five years, the goal of full employment has been rejected by most Governments because of the prevailing economic orthodoxy that low unemployment led to rising inflation. Recent experience in the US and the UK has led to a profound questioning of this orthodoxy. The experience in Ireland in the last few years puts a further nail in the coffin of this bleak economic ideology. In particular in the Irish context of a small open economy with effective social partnership, fears of inflation being generated by low unemployment should not be exaggerated.

The task of achieving full employment must include a strong emphasis on supporting those who have borne the brunt of the "jobs famine". People who have suffered long periods of unemployment should be offered guarantees of quality training, or where appropriate guarantees of offers of suitable employment. Certain communities, both in large and small towns, have suffered particular concentrations of unemployment, and these communities must be targeted for investment and regeneration.

Finally, as we move towards full employment we must create room to discuss how we can make the experience of employment more rewarding for all workers. During the jobs famine it became a cliché to say that we needed to "redefine the meaning of work". The need for such a redefinition to ensure that work is financially, socially and personally rewarding is even greater today.

It would be safe to assume that the sort of welfare, labour market and employment policies that were appropriate to the highest level of unemployment in the world will need to be changed for to accommodate a full employment society.

Mike Allen, General Secretary INOU.