

Investing in People and Jobs

INOUE Pre-Budget 2002 submission.



Introduction

Budget 2002 is being formulated against a backdrop of a totally changed economic environment from that which pertained for Budget 2001. The Minister for Finance is no longer in a position of almost unlimited choice in respect of the resources he has available to him. However he still has options open to him about the type of Budget he frames and we believe his priorities should be to deliver on outstanding commitments to the poorest in society and to continue to invest in improving our ability to compete for jobs and investment.

In the current climate, with tax revenue receipts coming in below forecast and with the expectation that economic activity will be considerably reduced next year, it is more necessary than ever that the infrastructural investments outlined in the National Development Plan continue to be made. This is a key issue if jobs that have been lost are to be replaced and if major job losses in the construction sector are to be avoided. The Government should therefore be prepared to borrow, if necessary, in order to keep the NDP on track.

This Budget also represents the last opportunity for the current Government to deliver on commitments entered into in relation to the Programme for Prosperity and Fairness. It will provide the first opportunity to test the Governments commitment to a revised National Anti-Poverty Strategy and the response to the report of the PPF working group on Benchmarking and Indexation of Social Welfare Payments. While we accept that the current economic climate and forecasted fall in the projected Government surplus will restrict room for manoeuvre in this Budget, it is nevertheless both possible and necessary to deliver a Budget that will make a meaningful impact on the lives of unemployed people and their dependants.

Key INOUE demands for Budget 2002

- Increase the lowest social welfare payment by £14p.w.
- Increase personal tax credits by £600, which will be sufficient to lift single earners on the minimum wage, at £5 per hour, out of the tax net.
- Increase Child Benefit by £35 per month for the first and second child, and £40 per month for the third and subsequent children.
- Extend medical card coverage to all children under 18
- Establish a major new programme to provide access to quality accredited training for those in low skilled employment.

1. Social Welfare payments

1.1 Basic payments

One of the core objectives of the PPF is *"to ensure that the real value of social welfare payments is maintained and where possible enhanced to ensure that all share in the fruits of economic growth"*. The PPF also committed to an examination of the implications of setting a benchmark and indexation mechanism for social welfare payments. This resulted in the establishment of a working group on benchmarking and indexation, whose final report is now public. The report contains a majority recommendation which is as follows: *"A target of 27% of Gross Average Industrial Earnings (on a current year basis) is a not unreasonable policy objective. Given current uncertainties in relation to the short term economic position, it was difficult to be proscriptive about the precise time frame, although it would not be unreasonable to expect that the target would be met in full by 2007 (i.e. the Budget announced late in 2006)"* This does not of course rule out setting a higher target e.g. 30% of GAIE, in the context of the review process.¹

27% of GAIE is estimated in the report to be £101 pw for the lowest level of social welfare payment in 2001 and in the region of £110 pw in 2002. We believe that this Budget needs to make very significant progress in relation to moving towards 27% of GAIE for the basic level of Social Welfare payment. Therefore we recommend an increase of £14 per week for the lowest level of Social Welfare payments this year, which would bring the lowest rate to £98 pw in 2002.

Recommendation: Increase the lowest social welfare payment by £14 pw.
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1.2 Qualified Adults (QA)

The 2000 budget made a commitment to increase the QA payment rate to 70% of the personal rate over the course of three years. We recommend that this target be achieved this year. Based on a lowest level of Social Welfare payment of £98 this would mean that the QA rate for 2002 should be £68.60, an increase of £14.60.

Recommendation: Raise QA payment rates to 70% of the personal rate in Budget 2002.

1.3 Child Benefit

In Budget 2001 the Government made a commitment to increase Child Benefit rates to £117.50 for the first and second child, and £146 for the third and subsequent children, over three years. The rate of increase was welcomed by the INOU as significant measure on child welfare. The outstanding increase should be front loaded in Budget 2001, as evidence of this Governments commitment to reducing child poverty.

¹ The INOU is of the view that the ultimate benchmark for Social Welfare payments should be 30% of GAIE.

Recommendation: Increase Child Benefit by £35 per month for the first and second child, and £40 per month for the third and subsequent children.

1.4 Payment of child benefit

Budget 2002 will complete the move to synchronising tax and welfare changes from the first of January. While the INOU welcomes this move we would ask that the date also apply to child benefit increases, as there is no reason why this payment, which is crucial to combating child poverty, should not come in line with other payments.

Recommendation: Commit to bringing the payment date for increases in Child Benefit into line with weekly social welfare payments.

1.5 Increasing social solidarity through the Social Insurance system

The Irish Labour Market is increasingly characterised by substantial levels of job turnover, reflecting the high level of workforce flexibility required 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. The effective elimination of long-term unemployed as committed to by the PPF will not mean the end of unemployment. Rather it means that there will be fluctuating numbers of people unemployed for short periods of time, dependant on the economic cycle. Social insurance against unemployment should guarantee replacement of a proportion of lost earned income (for a period of time, and subject to a minimally adequate rate).

Recommendation: (Re)introduce a guarantee that Unemployment Benefit will replace a proportion of lost income.

1.6 Supplementary Welfare Allowance

The Social Welfare Act 2000 allows the DSCFA to pay 'interim payments' (for people awaiting decision on their claim) and Rent/Mortgage Interest Supplement directly, rather than repeating applications for the Health Boards. This would improve the efficiency of the service, for both claimants and the Department, and should be extended to include all weekly SWA supplements. However, the Minister hasn't yet issued the order required to bring this change into effect. In addition, the illogical situation whereby a homeless person can be refused SWA because they don't have an address must be remedied.

Recommendation: All weekly basic SWA and SWA supplements should be administered directly by the Department of Social, Community, and Family Affairs.

1.7 Retention of Secondary Benefits

Given that the gross household income limit of £250 pw for the retention of secondary benefits has not increased since 1994 we propose that it be increased in line with the general costs of living in the intervening period. We calculate that the Consumer Price Index has increased by approximately 27% since 1994 and therefore ask that the income limit be increased by an equivalent amount i.e. £70 (on a rounded up basis).

Recommendation: Increase the income limit for the retention of secondary benefits by £70.

1.8 Child Dependent Allowance (CDA)

CDA's are paid at different rates, ranging from £13.20 to £17.00. Standardising these rates is an outstanding recommendation of the 1986 Commission on Social Welfare. CDA rates have not been increased since 1996; instead, there were to be significant increases in Child Benefit². The intention was to remove an unemployment trap from the system. However, these increases haven't been sufficient to compensate for the lack of increase in CDA's, exacerbating child poverty.

Recommendation: Standardise CDA payment rates by raising all rates to £17.00.

1.9 Back to School Clothing and Footwear Allowance (BSCFA)

The PPF states that *"in order to address barriers to participation"* BSCFA will be improved *"with respect to tapering, rate of allowance and income thresholds"*. Eliminating educational disadvantage is a priority of the NAPS, and will play a key role in achieving a full employment society. BSCFA plays a vital role in addressing educational disadvantage in low-income households. However, the current payment rates are totally inadequate, and the eligibility criteria create significant poverty and unemployment traps.

Recommendation: Raise the BSCFA income limits in line with those applying to FIS, remove the requirement that claimants be in receipt of a CDA, and increase the payment rates to £100 and £150 (for younger and older children respectively).

1.10 Family Income Supplement (FIS)

FIS plays a vital role in increasing the reward from work and in providing low paid households with additional income. The income limits for FIS need at the very least to keep pace with rises in average earnings, but in order to counter any possible disincentive effects of implementing our recommendations in relation to basic Social Welfare payments, we recommend that the FIS income limits be increased by 21%.

Recommendation: Raise the income limits for Family Income Supplement by 21%.

1.11 Back to Work Allowance.

For those long-term unemployed people who have availed of the Back to Work Allowance Enterprise Scheme (BTWAES), self-employment has offered the chance to create their own jobs. Family Income Supplement is currently available to those on BTWAS as employees,

² Following a recommendation of the Expert Working Group on Integrating the Tax and Social Welfare Systems

but not to the self employed, which we regard as devaluing their attempts to create their own employment. We therefore recommend that those self-employed people on the BTWAES be included as an eligible group for FIS.

Recommendation: Extend Family Income Supplement to the Self-employed on the BTWAES

1.12 Medical Card for Children

The importance of the Medical Card to low income families is by now well understood. The single most significant barrier to unemployed parents taking up work is the fear of being unable to meet the costs of medical care for their children. This fact has been recognised through the temporary retention arrangements which apply to the medical card in relation to participation on Active Labour Market Programmes such as the Back To Work Allowance. However the problem is ongoing for those cannot command wages much in excess of the guidelines which apply for the medical card. This fact was recognised by the Expert Working Group on Integrating the Tax and Welfare systems : *“while retention of the Medical Card eases the unemployment trap it does not remove it.... The incidence of the problem has been shifted rather than removed”*

Recommendation: Extend medical card coverage to all children under 18.

2. Taxation

Poverty Proofing

Recommendation: The Budget should be comprehensively poverty-proofed, and the results published on Budget day.

2.1 Personal tax credits

The PPF states that *“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 ... all those earning the minimum wage will be removed from the tax net”* (p.11). Increasing personal tax credits, unlike increasing the standard rate band or cutting tax rates, results in tax cuts that are fair, in that they are not biased towards higher earners, and, crucially, increase the reward from work, particularly for low paid workers.

Recommendation: Increase personal tax credits by £600, which will be sufficient to lift single earners on the minimum wage, at £5 per hour, out of the tax net

2.2 Discretionary reliefs

There are a variety of discretionary reliefs available through the tax system. As these are not standard rated, they disproportionately favour the wealthy. The PPF states that *“the Government will continue to systematically evaluate discretionary tax expenditures to ensure that they meet their objectives in an efficient and equitable manner and make the results of such evaluations publicly available”*.

The INOU calls on the Government to publish evaluations completed to date in advance of the Budget.

Recommendation: Standard-rate efficient discretionary tax reliefs in Budget 2002, so that every tax payer availing of them benefits equally. Abolish inefficient reliefs immediately.

The provision of quality affordable housing, especially for low income earners, continues to be a major challenge for policy. The major focus continues to be on home ownership as a solution. However many individuals and families will continue to rely on the private rented sector to meet their needs. The following recommendations are therefore being made with a view to improving supply and to bring some measure of equity to bear between tenants and owner occupiers in relation to state support for housing costs.

2.3 Tax allowance for private tenants

The tax system discriminates against private tenants. First-time buyers get a tax-free allowance of £2,500, whereas the allowance for private tenants is only £1,000. Removing this discrimination would help alleviate the high cost of rent, and could help reduce demand for house purchase.

Recommendation: Raise the tax-free allowance for private tenants to £2,500 for single people, and pro rata for widowed and married people.

3. Training and Education.

In the current climate of economic uncertainty and escalating job losses, it is vital that opportunities are in place to provide new skills to unemployed people in order that they can maximise their chances of gaining new employment. However the focus of attention on those recently unemployed should not lead to a shift away from measures for the long-term unemployed. Fifteen years of mass unemployment has left as its legacy a significant number of Irish people still suffering from long-term unemployment and the poverty and social exclusion that go with this. Many people do not show up as “officially” long-term unemployed because, unable to bear another rejection, they are no longer held to be ‘actively seeking work’; yet they still hope for a decent job. Others appear as short-term, because they have recently been on an employment scheme or in a short-term job. Others have grown up in families and communities where getting a decent job was not a prospect

they could realistically look forward to – and Irish society in general nurtured these bleak expectations.

Full employment is still a realistic aim of public policy, but only if that policy continues to include a specific focus on the needs of this group and a particular sensitivity to the barriers and problems they face.

3.1 Building an effective Employment Service

An effective and adequately resourced employment service is fundamental to attempts to bring the long-term unemployed back into the workforce. Irish employment service staffing levels are still well below European averages, which is reflected in the time available to each client. FÁS's remit for providing employment services for people with a disability must also be reflected in increased levels of staff and resources. Both the image of FÁS 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.

Recommendation: Substantially increase staffing levels and development resources in the Local Employment Service (LES) and in the FÁS Employment Service, so that every unemployed person has access to an 'LES type' service.

3.2 Employment Action Plan (EAP)

The proportion of people called for interview on the EAP who end up in a job or training one month after the interview has fallen consistently since its launch, due to the lack of available options appropriate to the needs of its clients. A new investment is needed to ensure the provision of high quality opportunities if the EAP is to gain credibility.

Recommendation: Resource FÁS to ensure that 50% of participants on the EAP are offered a quality employment or training opportunity within a month of interview.

3.4 Literacy programme for employed and unemployed people

OECD figures show that 1 in 4 Irish adults suffer literacy difficulties, substantiating the view of many community organisations that this is a significant problem. Literacy should be seen as a right in a developed society. Furthermore, literacy is fundamental to developing other skills required in the labour market, so high levels of literacy problems create a very real limit to economic growth. A major new programme is required to provide literacy training, at both a basic and more developed level, to unemployed people and low skilled workers.

Recommendation: Put in place an intensive basic education programme to cater to the needs of long term unemployed people. Establish a literacy fund which could be used to co-finance paid educational leave to allow employees get part-time literacy tuition, and could also support employers and trade unions in developing workplace literacy programmes.

3.5 A Major new “Skilling up” Programme

The PPF *“sees lifelong learning as the key to a future of sustained economic growth and social development”* and has the objective of developing a lifelong learning culture in the workplace. A lot of what is nowadays described as labour shortages can more accurately be accounted for as shortages of necessary skills. As a large number of previously unemployed people are now in low-skilled, insecure work, we propose a new programme targeted at those in low skilled employment, to support them in acquiring the skills they need, and so increase both productivity and their own earning capacity. The programme’s main features should include:

- The right to attend courses
- Training vouchers to pay for courses
- Training not provided by employers, but through release from work
- Compensation for employers (perhaps through PRSI relief)

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