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2010: Where is Ireland going?

1 INTRODUCTION



The nature and the scale of the problems facing Ireland were well reflected in Budget 2010: the debate which took place beforehand, its content, and the direction in which the country is heading. It is a debate that community and voluntary organisations and those committed to a more equitable and inclusive society lost. What was very striking for an unemployment perspective was the undermining of unemployed people's standard of living alongside the on-going failure to adequately address the unemployment crisis.

In the preparation and delivery of Budget 2010 the role of the media needs to be questioned. They assisted the government in softening up the public for a hard budget, for the supremacy of the argument "it's the economy stupid". Yet it is worth reminding people that it is only four years since 'Towards 2016', when the Government and the social partners agreed to nurture "the complementary relationship between social policy and economic prosperity" and that "a dynamic, internationalised, and a participatory society and economy with a strong commitment to social justice, where economic development is environmentally sustainable and is internationally competitive" was key to securing Ireland's future.



Does this inclusive vision all hinge on the word 'prosperity'? It is extremely doubtful that Ireland can develop a 'smart' or knowledge-based economy if it does not also develop smart social policies. 'Smart' social policies must be well informed and underpinned by a vision of an inclusive and equitable Ireland. These principles must also inform our economic development otherwise there is a real danger that decent good quality employment will be for the few and social welfare payments and/or low paid employment will be for the many. Proper investment is urgently required if Ireland's future is to be secured.

In March 2009 the National Economic and Social Council issued a report entitled "Ireland's Five-Part Crisis: An Integrated National Response" which urged Ireland "to formulate an integrated national response to the current crisis". The five parts of the crisis identified were: banking, fiscal, economic, social and reputational. NESCC saw these parts as closely related. In October, NESCC issued an update which emphasised the need to combine retrenchment with reform¹ and that a "more integrated approach can be achieved by combining ideas and action at three levels" including a "vision of the kind of society and economy that Ireland wishes to become".

Yet what was so striking in the development of Budget 2010 and subsequent public debates is how little the Government have moved beyond the first two parts of this five part crisis. Media commentators and other opinion makers have assumed that

¹ "Next Steps in Addressing Ireland's Five-Part Crisis: Combining Retrenchment with Reform" NESCC No 120 October 2009

people will live with Budget 2010 and its implications for them because they did not take to the streets. It is too simplistic to make such an assumption – so overwhelming and lopsided has been the public discourse that it's hardly surprising there is a public air of resignation.

The INOU is firmly convinced that it is not possible to address the deficit in the public finances unless a proportionate and targeted response to unemployment is also developed – an issue that straddles the economic and social parts of NESC's five part crisis. Where is the vision for Ireland's labour market and where is the plan to get people back into work? Unemployed people need to know that the Government has a plan with a timescale and that the training and education courses they are being encouraged to go on will actually secure them a job. To-date such planning is not in evidence.

The INOU is also deeply concerned at the overall cumulative effect of this Budget on those communities that never fully benefited from the 'Celtic Tiger' years. Funding into these communities has been cut across a range of measures including: social welfare payments; community development; educational disadvantage; additional supports to assist unemployed people and others distant from the labour market to access education and training.

2 CONTEXT

According to the Quarterly National Household Survey covering Quarter 3 (July-September) 2009, 1,922,400 people were in employment which represented an annual decrease of 184,700 or 8.8%. Over the same period full-time employment fell by 202,400 (-11.8%). The largest decreases occurred in the *Construction* (-86,800), *Industry* (-43,500) and *Wholesale and retail trade* (-32,500) sectors. These three sectors account for 80% of the jobs lost. There was a slight increase in part-time employment, of 17,700. 279,800 people were unemployed – an increase of 120,400 (+75.5%) over the year. Given this increase it is not surprising to see that the unemployment rate rose to 12.7% from 7.0%. This brings the unemployment rate back to levels last recorded in the mid-nineties. The long-term unemployment rate was 3.2% in Q3 2009 compared to a rate of 1.7% in Q3 2008.

Looking at the figures over a longer perspective, unemployment increased by 276% between Q3 2000

and Q3 2009; while long-term unemployment rose by 180%. Interestingly employment is higher now than that in 2000, by 11%. However, growth in the labour force was even greater, by 21.7%. Employment was at its highest in Q3 2007 when there were 2,149,800 employed. At that stage there were 103,300 people unemployed of which 28,800 were long-term unemployed. Since Q3 2007 Ireland has seen employment drop by 10.6%, unemployment increase by 171% and long-term unemployment grow by 148%.

At the end of February 2010 there were 432,400 people on the Live Register: this represents an increase of 84,300 or 24% over February 2009. The Standardised Unemployment Rate is now 12.6%; a year ago it was 10.1%; two years ago it was only 4.9%.

3 WELFARE

In Budget 2010, the Minister for Finance, Brian Lenihan, TD, set a very dangerous precedent by cutting social welfare rates for people of working age (18-64). The rationale adopted by Government, and put

forward by many commentators, was that given overall deflation unemployment payments could be cut and the unemployed would be no worse off.

However, what this line of argument failed to take into account was that deflation had impacted differently on different income groups with the better off benefiting most from this development. It also failed to acknowledge the impact of other Government policies on the standard of living of social welfare recipients. For example, the changes to rent supplement left many of these tenants with a higher cost of living. And though the overall Consumer Price Index experienced deflation in January 2010, inflation was evident in, for example, transport (3.5%), bus fares (4.4%), petrol (28.6%), diesel (19.9%), insurance (6.9%) and education (11.3%). Inflation was highest in third level education at 20.5% – hardly conducive to the emergence of a 'smart' economy.

Studies undertaken to ascertain the minimum essential budgets required to live life with some dignity illustrate



how difficult that was on social welfare rates in 2009. The Vincentian Partnership for Social Justice's work in this area showed that a single unemployed male would need a budget of €370.52 but his income would be €302.30 giving a shortfall of €68.22. A two parent family with two teenage children would need a budget of €579.24 but had an income of €478.23 giving a shortfall of €101.01. The cuts made in B10 will make the challenge of living on social welfare even more difficult.

According to the Survey on Income and Living Conditions (SILC) 2008 the at-risk-of-poverty threshold was €238.69 per week or €34.39 higher than the basic social welfare rate in 2009. It is also interesting to note that though the at-risk-of-poverty and consistent poverty rates have come down in recent years, the deprivation rate has not to the same extent. Looking at these figures from an unemployment perspective in 2008 the at-risk-of-poverty rate for unemployed people was 23.0%; the consistent poverty rate was 9.7%; and the deprivation rate was 37.0%. In the table below the positive impact of social transfers on people's experience of poverty is shown in the second line which shows how much higher the at-risk-of-poverty rate would be without them. For example, in 2008 it would have been 43% instead of 14.4%.

Poverty & Deprivation Rates

	2005	2006	2007	2008
	%	%	%	%
At-risk-of-poverty	18.5	17.0	16.5	14.4
Excluding all social transfers	40.1	40.3	41.0	43.0
Consistent poverty	7.0	6.5	5.1	4.2
Deprivation (experienced 2+ deprivation items)	14.9	13.8	11.8	13.8

RATES

The basic social welfare rate was cut by €8.30 or 4.1%. The Qualified Adult rate was cut by a similar percent or €5.50. This means that for a couple their income has dropped by €13.80 per week. The Qualified Child rate was increased by €3.80 to €29.80 to compensate families for the loss of €16 per month in Child Benefit. There is an interesting gender dimension to this development: Child Benefit is usually paid to the mother, while social welfare payments go to the main claimant, and traditionally that has been the man, the

father. Family Income Supplement (FIS) was also increased, by €6 per child. These supports for social welfare recipients and low income families are to be welcomed. However, the application process for FIS needs to be streamlined if families are to be supported to make the transition from welfare to work.

These cuts to social welfare payments were carried through to education, training and employment programmes including the Back to Education Allowance; Vocational Training Opportunities Scheme; FÁS training programmes; and Community Employment. Participants on Community Employment (CE) were particularly badly hit as they not only lost the social welfare related portion of their payment but also a portion of their own training allowance giving a cut of 5.6%. As a consequence of this the differential between CE and the basic social welfare rate has dropped from €24.40 to €20. This development has implications for participation as going to work costs money and runs contrary to the aim of Community Employment to assist unemployed people "to re-enter the active workforce".

YOUNG PEOPLE

Young people were hit particularly hard in this budget. In April's Supplementary Budget the maximum Jobseekers Allowance² was reduced to €100 for all new claimants aged 18 and 19 years who previously would have been entitled to a full payment. In Budget 2010 this rate was extended to new claimants aged 20 and 21; while new claimants aged 23 and 24 year olds will be eligible for a maximum payment of €150 per week. The rationale behind this move is to ensure that young people do not become long-term unemployed and to encourage them to engage in education and training where they will receive a full payment.

The INOU queries this approach for two reasons. Firstly, this age group and in particular those over 21 are probably the best educated age group in the country already: so outside of post graduate courses what has the state to offer these young people? Very little, other than the Work Placement Programme. The resounding message being sent to this group at present is 'emigrate'. This is an appalling development. Ireland badly needs this age group to get itself back up on its



2 Jobseekers Allowance is the means test unemployment payment which takes into account the claimant's family circumstances and assessable means.

feet; it needs the energy and ideas of young people to find alternative ways of developing Ireland both economically and socially.

Secondly, in disadvantaged areas where early school leaving is more prevalent and where young people and their families query the value of education, a more proactive and planned approach is required. In the past when pilot projects have been run that linked education and training opportunities to clear employment outcomes, there has been no shortage of participants. Developing such courses at a time of private and public sector retrenchment is particularly challenging. However if Ireland fails to engage with these young people in a constructive and considered way then the long-term socio-economic exclusion costs will be considerable.

RENT SUPPLEMENT

Budget 2010 proposes further changes to Rent Supplement. Again using the deflation argument revised lower rent limits will apply to new applicants and to existing recipients whose lease is renewed after April 2010. It is crucial that rent supplement tenants are supported to negotiate lower rents: otherwise they will take the hit again and now out of a reduced social welfare payment.

The INOU is also concerned at recent developments in the administration of Rent Supplement. Basically a pilot has been run whereby people apply to a PO Box for Rent Supplement and are given a '1800' number to ring if they have any queries, a number that is not always answered. Applicants have been informed that it could take between 2 – 9 weeks to receive feedback on their application which will create significant difficulties for people in maintaining a roof over their heads.

The INOU understands that this pilot arrangement may be rolled out nationally in 2010 and would urge Government to build in a face-to-face element to support more vulnerable recipients to meet their accommodation needs. This would be in keeping with the DSFA's Customer Charter, where they have undertaken to:

- *"Serve you in a fair, courteous and timely manner*
- *Provide you with full and clear information*
- *Use modern technology to improve our service to you*
- *Inform you of your rights and entitlements"*

Indeed given this undertaking it is difficult to ascertain how this 'faceless' service accessible only by telephone, experiencing significant processing delays could be seen as an improvement.

DEBT

An increasing number of queries to the INOU's Welfare Rights Section focus on the issue of debt and in particular how people can meet their mortgage repayments. Mortgage Interest Supplement, the current supplementary payment, was designed as a short-term support for a limited number of people. In the current context this equates with dressing a major wound with little more than a sticking plaster. Yet most of these people are in this predicament because houses prices were allowed spiral out of control – way beyond the realistic reach of people and yet they were facilitated to take on unsustainable mortgages. This is not only an issue for unemployed people but also an issue



for people in low paid and increasingly precarious employment. The relentless drive from employers and well-heeled commentators to drive down wages, and by default welfare payments, means that the State will be playing an increasing role in providing accommodation to a growing number of its residents. In its review of Mortgage Interest Supplement it is extremely important that the Government properly assesses the impact of its withdrawal from people and whether it is more cost effective for the State to assist people to keep their homes rather than provide them with an alternative through Rent Supplement, Rental Accommodation Scheme or in the worse case scenarios through homeless supports.

OTHER ISSUES

It is interesting what was and wasn't included in the Social Welfare bill that was rushed through the Dáil before Christmas to become the 'Social Welfare and Pensions (No. 2) Act 2009' (SWPA). For example, the additional powers of investigation were given to Social Welfare Inspectors so that they can establish checkpoints with either Custom Officials or Gardaí but not both as was previously the case. Likewise they have been given additional powers to seek and access financial information and compel financial institutions to comply with their requests. It will be interesting to



see what these developments mean in practice for unemployed people and other welfare recipients. The INOU is conscious that some long-term unemployed people have experienced difficulties in accessing bank accounts. There is a danger that financial institutions may become less accessible if they perceive a potential additional burden being placed on them by the state. In the long-term such a development would certainly contribute to an increasing sense of socio-economic exclusion.

On Budget Day two other measures were announced that were not included in the SWPA and so have not come into effect yet. The INOU understands that both of these measures are due to be introduced later on in the year through the Social Welfare Miscellaneous Bill. Considerable more thought will be required on both of these proposals if positive outcomes for unemployed people are to be realised.

One was the proposal to reduce unemployment payments to people over 25 years of age who refuse a 'reasonable offer' of a job, education and training place. What constitutes a reasonable offer needs to be teased out. The INOU has called on the Government to introduce a more pro-active, better informed and integrated employment and related service. Such a development should be built around the unemployed person and meeting his or her needs as effectively as possible: this would be in keeping with a range of Government policy documents that discuss the issue of 'activation'. Introducing the big stick approach without considerably improving the service delivered to unemployed people will be unhelpful and unfruitful at either the personal, organisational or national level.

The other measure not included in the Act was the new 'Employer Job PRSI Incentive Scheme'. This is seen by Government as a jobs stimulus measure. To be eligible for this scheme an employer must create a new full-time job and take on a person who has been unemployed for 6 months or more. The employer would then be fully exempted from the liability to pay PRSI for the first year of that employment. Each participating employer will be limited to 5% of their workforce or 5 people. The Government expect that this would give employers an 8%-10% saving on employment costs for each new job created. It will be interesting to see what the take-up of this scheme will be once it comes on stream: in particular as so many full-time jobs have been lost and where job creation has recently taken place it has been primarily part-time.



'**Activation**' is a term that has been used increasingly in recent years. What exactly does it mean? At a basic level it happens when an unemployed person is sent by their local Social Welfare Office to FÁS to discuss their employment, education and training options. It should happen in an integrated way so

that if FÁS cannot make an unemployed person a 'reasonable offer' they are in a position to recommend someone who is, either the Local Employment Service, the VEC, an institute of higher or further education. When unemployed people are referred in this way they have been put through the National Employment Action Plan process. This is an EU wide initiative and one on which the Irish Government reports to the EU Commission as part of the National Reform Programme or Lisbon Strategy.

The Lisbon Strategy is coming to an end and on 3rd March the EU Commission issued a communication entitled "EUROPE 2020 a strategy for smart, sustainable and inclusive growth".³ This document "puts forward three mutually reinforcing priorities:

- **Smart growth:** developing an economy based on knowledge and innovation.
- **Sustainable growth:** promoting a more resource efficient, greener and more competitive economy.
- **Inclusive growth:** fostering a high-employment economy delivering social and territorial cohesion."

The Commission had identified seven flagship initiatives under this strategy including 'youth on the move'; 'an agenda for new skills and jobs'; and 'European platform against poverty'.

On the national front a number of piece-meal initiatives have been introduced in the last number of budgets. To the uninitiated these developments look very impressive however there are considerable gaps between the rhetoric and the reality on the ground. For

³ http://ec.europa.eu/commission_2010-2014/president/news/documents/pdf/20100303_1_en.pdf

example, it is claimed that there are now 180,000 education and training places for unemployed people to access. Yet quite a bit of this provision has emerged from FÁS changing the nature of their courses from longer term to shorter term courses. Shorter-term courses in a functioning labour market where job losses are in particular sectors and people need re-skilling or receive official recognition of their existing skill set to access alternative employment makes sense. But does such a development make sense now when there is so little job creation?

Education will be playing an increasing role if a 'smart' economy is to be little more than a pipe dream in Ireland. Ensuring long-term unemployed and others gain access to the right education and training options will be crucial if socio-economic exclusion is not to become more entrenched. In August the Minister for Education announced 1,500 part-time education places for unemployed people as well as 1,000 places for unemployed graduates. Such opportunities are crucial as Ireland seeks to build its economy of the future. Yet with over 432,000 people on the Live Register it is but a drop in the ocean. Looking to future developments in 2010 and the possibility of expanding on such initiatives what is so striking from the Book of Estimates for 2010 is that Education's overall budget is down 6% and within that funding to third level is down 3%. There is a strong link between a person's education status and their employment status and even though this unemployment crisis is more socially spread than previous ones it still affects those with fewer educational qualifications harder. From a social inclusion perspective the €140m that has been taken out of programmes and initiatives targeting disadvantage communities does not bode well for building access routes to a participatory labour market.

In the Minister for Finances speech he talked about how "our investment projects will focus on **labour-intensive areas** such as schools building and maintenance". This would be a welcome development as it would upgrade the physical school infrastructure, save the State money on renting prefabs for classrooms provide, and from an unemployment perspective provide badly need work for unemployed construction workers. However according to the Book of Estimates the Department of Education and Science Capital Services budget has been cut by 19.4% and the primary schools capital budgets has been cut by 27%.

A welcome announcement in the Budget was of an €20m **Activation Fund** which according to the



Tánaiste's speech would "would fund an open call for proposals target the low skilled and those suffering from unemployment in declining sectors including construction". A question the INOU is regularly asked when the topic of activation is being discussed: "into what will unemployed people be activated?" This is a very hard question to answer without a proper Jobs Strategy which would provide some vision of where the Irish labour market is going. This isn't just a challenge for any emerging initiative under this new fund: this is also an issue for any employment, education or training programme and particularly so at a time of significant job loss.

An issue that is raised regularly with the INOU by unemployed people is that **FÁS** have nothing to offer them. At recent meetings people who were unemployed a few years back and are unemployed again have noted that nothing has changed and courses which they found useful previously would be of little use in the current climate. FÁS have informed the INOU that they are focusing on those unemployed people and others who are furthest from the labour market. There is a certain rationale to this approach but it does beg the question: what will happen to the currently more able unemployed people and how soon before they find themselves distant from the labour market?

The Work Placement Programme (WPP) and an increasing emphasis on volunteering are seen as one way of addressing this issue. The WPP was announced in the Supplementary Budget in April 2009, formally announced in May and then revised in November. This programme is now targeted at people unemployed for at least three months and then facilitates them to work

with a participating employer for 9 months while maintaining their welfare payment. There are 2,000 positions on this programme and it has two streams: one aimed at graduates and one aimed at everyone else. IBEC recently announced a similar programme also targeting graduates. Though initially welcoming this development the INOU has reservations about this programme as it does not provide any additional supports above the participants social welfare payment yet going to work costs money. It is an initiative that has something to offer young people who often find their lack of job experience goes against them when the labour market becomes more competitive. However, it is debatable what it has to offer other unemployed people and could quickly run into similar challenges that have dogged CE: non-participating employers not recognising the experience gained as relevant.

Similarly **volunteering** can be useful for people contemplating a career change or seeking new employment avenues but it requires organisations that have the resources to manage volunteers and ensure that volunteering is a positive experience all-round. Managing volunteers well is particularly important if the organisation concerned main focus is the provision of services to vulnerable people. Cuts across a range of funding lines will impact on organisations ability to provide these opportunities.

The **Community and Voluntary sector** is a big employer in its own right and has been an important initial access point to the labour market for long-term unemployed people and others distant from the labour market. To-date this access has been critical to the State's activation policy and implementation: the most obvious example is Community Employment where most of the sponsors are in this sector. A number of developments post B10 raise very serious questions about this sector's ability to continue playing this role. Firstly, the closure of some Community Development Projects and their proposed absorption into the local

development infrastructure will have an impact on local independent community infrastructure. Secondly, the proposed reduction in the materials and training grants to Community Employment projects to fund the increased number of places on CE. An argument put forward by the State was that not every project was using its full allotment anyway. However, the most productive use of this money would be to pool it to support an increased number of CE participants to access the type of education and training that could get them a job in the 'smart economy'. Thirdly, some programmes, for example, the Community Services Programme, have had their budgets pared back to the employment costs only which will present considerable challenges for groups to keep their projects up and running as they have little or no funding for core costs.

Another development in B10, and one that follows on from a recommendation in the McCarthy report, is the removal from people who do not have an entitlement to a social welfare payment in their own right of the opportunity to participate on a **FÁS training course**. This has particular implications for women who

accessed a range of return to work courses funded, for example, through the Local Training Initiative. Women, who experience particular disadvantage, for example Traveller women, will now find the limited avenues that were open to them being blocked off. Given the increased number of couples who worked during the Celtic Tiger years this development will not only impact on women but on an increasing number of men who fail to make the transition from Jobseekers Benefit to Jobseekers Allowance one due to their family circumstances. Yet all of



these men will see themselves as unemployed even though they will not appear in official unemployment statistics. If Ireland is serious about developing an integrated and inclusive society and economy then these developments must be re-visited to ensure that the system is as accessible as possible to all those wishing to improve their employment prospects.

5 TAXATION

There is no doubting that a large part of Ireland's current difficulties stem from its narrow tax base, coupled with a false illusion created at the end of the Celtic Tiger that increasing public expenditure while maintaining a particularly low tax base was sustainable. It will be interesting to see if and how this dilemma will be addressed in 2010. The 'steady-as-she-goes' Finance Bill 2010 gives little grounds for optimism that the Irish tax system will be re-structured to create, to quote NESAC, "a participatory society and economy with a strong commitment to social justice".

It is also interesting to note that in the discussions that took place before the Budget how often the Minister for Finance steered the discussion away from the impact of our low tax regime on our public financial deficit to the issue of how little tax people on low incomes pay. And what was even more striking was how little the media picked up on the fact that some people pay very little income tax because they have such a low income. In his budget speech the Minister announced the introduction of a "new universal social contribution" which will replace employee PRSI, the Health Levy and the Income Levy. Very little information is yet available on this development other than that it "will be paid by everyone at a low rate on a wide base as a collective contribution to public services."

The introduction of the income levy and its application to wages below the National Minimum Wage (NMW) brought low paid workers back into the income tax net and reversed a policy of keeping them out of same. The INOU is a strong believer in employment as a good route out of poverty but this is only a successful route if unemployed people can gain access to sustainable and decent employment, with the current drive to push down the NMW and include lower income earners in an expanding tax net, significant welfare to work issues will emerge. At a time of unprecedented unemployment levels it is extraordinary that Government policy is exacerbating the cost of employment for the unemployed person while encouraging the employer to employ through an exemption for them from PRSI. A lack of consistency across the public policy domain continues to undermine progress in Ireland.

6 IN CONCLUSION

The INOU strongly believes that the Irish Government must move beyond its focus on just two aspects of the multi-faceted crisis facing Ireland, otherwise the current unemployment crisis will move to a long-term and potentially intractable problem. Failing to invest now in Ireland's future development will store up very considerable social and economic costs which Ireland alone will struggle to solve. And which Europe may be unable to assist unless it manages the not insignificant tensions between the themes of value from knowledge, competitiveness, empowerment and inclusion within its emerging "EU2020 Strategy". In the meantime it is imperative that no further erosion of unemployed people's living standards occurs and proper provision is put in place to support people to move from welfare to work.

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