



## Unemployment 2011: What's happening?

### 1 INTRODUCTION



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What hope does 2011 hold for unemployed people? The tone of the debate coming up to last December's Budget and reflected in the National Recovery Plan and the documentation underpinning the EU/IMF Financial Assistance to Ireland was one of getting tough, cutting social welfare payments, and forcing unemployed people back to work. It was extraordinary for a country that is going through its worst unemployment crisis with little or no job growth in sight to adopt such a tone; and it begs the question into what exactly does the Government, the EU and the IMF wish to push unemployed people other than long-term poverty and socio-economic exclusion. Such an approach flies in the face of the EU's own strategy entitled 'Europe 2020' which seeks to ensure that growth is smart, sustainable and inclusive.

To-date the Government has tried to address the unemployment crisis through existing resources, the term used is 'cost' or 'revenue neutral' and it is not working. Ministers have made much of recent drops in the Live Register using it as one of their indicators that the economy is turning the corner. The INOU queries this analysis for the following reasons: the drop is arising because more people are going into or staying on in education; more people are emigrating; and more people are not making the transition from Jobseekers Benefit to Jobseekers Allowance because of their family circumstances. There is also a marked increase in the numbers of people on the Live Register for more than a year: to a point where this number is now greater than the entire Live Register at the beginning of 2007.

In the National Recovery Plan, the Government talks about a 'cumulative increase' in jobs of 90,000 over the four year period. Such an increase is insufficient to keep pace with job losses yet alone to get unemployed people back to work or provide hope of a job prospect for young people leaving school and college over the next four years. Though the drop in the rate of increase in redundancies has slowed there were still 58,731 in 2010: the second highest figure ever and more than twice the average during the Celtic Tiger boom years.

The latest Quarterly National Household Survey covers the third quarter July to September 2010. At that stage there were 1.85m people employed; 299,000 unemployed of which 140,400 were long-term unemployed. Long-term unemployment has doubled over the past year and its rate now stands at 6.5%. Given the employment forecasts, the lag between economic recovery and employment recovery, the lack of a stimulus in the domestic economy, long-term unemployment will continue to rise. The negative social and economic costs of such a development at the personal and communal level are horrendous.



In our pre-Budget submission the INOU made four key demands to Government: demands that the organisation will be calling on any future Government to incorporate into their Programme for Government and to act on. The INOU believes delivery on these demands is crucial for unemployed people if they are to be able to cover life's essentials and ultimately get back to work. And so we are calling on the Government to start to properly address the unemployment crisis by:

- Investing the necessary additional resources;
- Maintaining social welfare payments and supports;
- Producing an integrated Jobs Strategy;
- Broadening the tax base based on the principle that those who can, pay.

This publication explores what has happened and what needs to happen if Ireland is to come to grips with this crisis and start to give hope to the hundreds of thousands of unemployed people and young people who will be entering the labour market over the next four to five years. The National Recovery Plan; the roll-out of Europe 2020; the terms and conditions of the EU/IMF Financial Assistance package will all have a big impact on unemployed people, their lives and their prospects.

## 2 ADDRESSING THE UNEMPLOYMENT CRISIS



“Helping the unemployed” was the phrase used in the Minister for Finance’s Budget speech and it probably highlights more than anything else the inadequate approach adopted by this Government in addressing the unemployment crisis. The four key actions contained in “Helping the Unemployed” in Budget 2011 are:

- *“Refocus the National Employment Action Plan to provide opportunities for education, training and work experience placements.*
- *Additional 15,000 activation places and supports for the unemployed.*
- *Extension of Employer Job (PRSI) Incentive Scheme to end-2011.*
- *Transformation of the Business Expansion Scheme into a new Employment and Investment Incentive to boost job creation by SMEs.”*

At present the NEAP is little more than a mechanism whereby the local Social Welfare Office refers unemployed people down to their local FÁS office where their employment, training and education options should be discussed. Feedback from unemployed people is very mixed about this experience. Given that FÁS Employment and Community Services are now coming in under the umbrella of the Department of Social Protection, to whom and within what agency will unemployed people be referred over the coming period? Neither this Budget nor the legislative change bringing FÁS<sup>1</sup> in under DSP gives any clear indication how services will be properly improved to meet the needs of unemployed people. This is a crucial issue to be addressed if public sector reform is to be a meaningful and positive development for unemployed people.

Though an additional 15,000 ‘activation’ places were announced in the Budget, FÁS training places were also reduced by 15,410 – effectively a net loss. These activation places will be split between three schemes, two of which will be overseen by the Department of Education and Skills (DES) and the other by the Department of Social Protection (DSP). One of the two schemes controlled by the DES is called the *Skills Development and Internship Programme* and will take place primarily in the private sector – and the Department hopes within sectors with reasonable prospects of job growth. A welcome top-up pay of €100 will be paid on this scheme to unemployed people. Training will also be provided under this scheme either by the employer or supported through their contribution to a training fund. Without a doubt this should be the standard for activation options offered to unemployed people.

The other DES scheme is the extension of the Work Placement Programme into the public service: an extension called for by unemployed people. However, the concerns the INOU has with this scheme persist: there is no additional payment to support people to work on what is a full-time nine month programme. Under the Back to Work Allowance (BTWA)<sup>2</sup> long-term unemployed people were facilitated to take up employment and maintain their Jobseekers payment on a sliding scale for up to three years. As this was allowable under Social Welfare legislation the INOU queries the Department of Social Protection’s position that an additional payment cannot be made to Work Placement Programme participants under existing

1 Social Welfare (Miscellaneous Provisions) Bill No 2 2010

2 New entrants to the BTWA were stopped in the Supplementary Budget April 2009: in part to pay for the changes made to the Back to Work Enterprise Allowance.

legislation. The INOU is aware that many employers were also uncomfortable with the existing arrangement.

TÚS is the name of DSP's programme and it will provide work opportunities in the community and voluntary sector. This scheme will be rolled out like the Rural Social Scheme through the Local Development Companies. The pay and conditions for the unemployed person will be similar to Community Employment: €20 in addition to the personal jobseekers payment and 19.5 hours per week. Though welcoming this scheme and the additional places it will provide the INOU is concerned at the manner of its introduction and in particular the on-going linking of this scheme to the issue of addressing social welfare fraud. It appears that DSP has made this link as it must be demonstrated to the Department of Finance that the scheme will be cost or revenue neutral. Its roll-out has the potential to be an absolute logistical nightmare as potential participants will be picked through a lottery system nationally by the Department. Then it will be the job of the local partnership company to match up the right person with the right job from the list of potential job opportunities they will have from local community and voluntary organisations. The community and voluntary organisation will also have to be happy with their prospective new employee; and this will be a crucial consideration if the work involved is in the area of care or youth work. Given that demand for places is currently outstripping supply the INOU recommends that potential participants should be able to apply in the same way they do for the Rural Social Scheme and Community Employment. Affiliates are also deeply concerned that there is no training budget associated with this programme.

What is very striking about the National Recovery Plan is the language used around job creation: it ranges from the type of vague language that begs the question 'what does it really mean' e.g. promoting competition between professional services to improving "performance, productivity and competitiveness" of SMEs to the developing an innovation fund to reforming the "welfare system to incentivise work and eliminate unemployment traps" (p10) to very real actions e.g. cutting wages<sup>3</sup>. There is no guarantee that the "Government's strategy for an enterprise-led return to economic growth" which "seeks



*to bolster the private sector to promote all areas of economic activity" will actually lead to a return to significant or indeed sufficient job growth. The INOU seriously questions their argument that "The labour market reforms contained in this chapter will have the effect of reducing unemployment and benefitting those most severely affected by the downturn, thereby fulfilling our national and EU commitments to combat social exclusion." (p51) <sup>4</sup>*

The National Recovery Plan fails to acknowledge that without actual jobs there is ultimately nothing to activate people into: this question is raised regularly by unemployed people and others working on the ground and one government has failed to answer.

In the Memorandum of Understanding between Ireland and the EU / IMF it notes that "At each subsequent review of the programme, the government will submit reports containing an assessment (including by means of quantitative indicators) of the management of activation policies and on the outcome of job seekers' search activities and participation in labour market programmes." (p5)<sup>5</sup> The production of more useful data on activation would be very welcomed: it is an area that government has failed to address adequately and which Europe should have picked Ireland up on sooner through the National Employment Action Plan and subsequent National Reform Programme processes. However, the INOU is very concerned that in the interests of 'seeing to be a doing' that unemployed people will continue to be sent on the merry go-round that is the current employment services / social welfare

3 In particular the National Minimum Wage which will be set at €7.65 from 1st February, 2011.

4 To download a copy of the National Recovery Plan visit [www.finance.gov.ie](http://www.finance.gov.ie)

5 To download a copy of these documents visit [http://ec.europa.eu/economy\\_finance/articles/eu\\_economic\\_situation/2010-12-01-financial-assistance-ireland\\_en.htm](http://ec.europa.eu/economy_finance/articles/eu_economic_situation/2010-12-01-financial-assistance-ireland_en.htm)

system. Feedback not only from unemployed people but officials on the ground is that there are insufficient places to meet current demand, let alone manage increased activation.

The INOU welcomes the extension of the Employer Job (PRSI) Incentive Scheme to the end of 2011: a scheme explained in the INOU's information leaflet *"Employer Incentives to Recruit Unemployed People"*.<sup>6</sup> Another scheme which is described in this leaflet is the Revenue Job Assist (RJA) which has existed since 1998 but has not received the same publicity push from the state. Under RJA employers may claim a double deduction in calculating their taxable income on the qualifying employees' wages and the employer's PRSI contributions for these employees for up to 3 years. Unlike the Employer Job (PRSI) Incentive Scheme there is no upper limit on the number of qualifying positions. The attraction of this scheme for unemployed people, in particular if they have children, is that they get additional tax credits for up to 3 years though it should be noted that these are on a sliding scale.

Another potentially positive announcement on Budget Day and expanded on in Section 33 of the Finance Bill is the revamped Business Expansion Scheme entitled the "Employment and Investment Incentive" (EII). It is intended that EII will ensure that this tax relief is fully targeted at job retention and creation and that the scheme will become available to the majority of small and medium sized trading companies and that companies carrying on green energy activities should qualify. It will be interesting to see how much of this good intent will actually be realised.

However, the INOU was not impressed with the other initiative, announced initially in the National Recovery Plan, included in the EU/IMF Financial Assistance documentation and then carried through to implementation in Budget 2011: and that is the reduction in the National Minimum Wage by 11.6%. It is nothing short of perverse to cite such a development as necessary to 'reform' the labour market and to 'remove barriers' to job creation. And it is really adding insult to injury to the youth of Ireland to tell them that these changes are being brought in to give them a job! Yet as the following quote illustrates there is not only a dearth of constructive thinking within the Irish Government at the time but it is equally lacking within the thinking of the European Union and the IMF *"To facilitate adjustment in the labour market*

*The government will introduce legislation to reform the minimum wage in such a way as to foster job creation notably for categories at higher risk of unemployment and prevent distortions of wage conditions across sectors associated with the presence of sectoral minimum wages in addition to the national minimum wage. Measures will be as follows:*

- *Reduce by €1.00 per hour the nominal level of the current national minimum wage.*
- *Enlarge the scope of the "inability to pay clause" permitting firms to invoke this clause more than once;" (p5)<sup>7</sup>*

This 11.6% wage is compounded by the introduction of the Universal Social Charge which if, for example, someone is working a forty hour week he or she will see his or her wages reduced by 13.5%. And yet there is no 'inability to survive clause' available for low paid workers!

### 3

## MAINTAINING SOCIAL WELFARE SUPPORTS



This emphasis on placing the burden of adjustment on the less well off and linking low pay and social welfare rates is also evident in the sections of the Memorandum dealing with social welfare. For example, *"To reduce long-term unemployment and to facilitate re-adjustment in the labour market, we will reform the benefits system and legislate to reform the national minimum wage. Specifically, changes will be introduced to create greater incentives to take up employment."* (p7) As one unemployed participant in recent activation workshops run by the INOU noted: "what jobs?" Unemployed people and those working on the ground are crying out for increased supports and options: the big stick approach so strongly promoted in the range of documents published late last year failed miserably to address this issue. For example, the ForFás report also carried through on these arguments and in particular examined Replacement Rates urging the Government to address these in Budget 2011. Replacement Rates look at the income an unemployed person and someone in receipt of another social welfare payment would need to earn post tax to replace the income and supports through their social welfare payments. Invariably when this type of work is carried out the subsequent public discussion focuses in on the examples of families with 2+ children presuming that they live in accommodation that attracts the maximum level of Rent Supplement

6 To download a copy visit [www.inou.ie/download/pdf/employer\\_incentives\\_to\\_recruit\\_unemployed\\_people.pdf](http://www.inou.ie/download/pdf/employer_incentives_to_recruit_unemployed_people.pdf)

7 Ref: Ireland Memorandum of Understanding on SPECIFIC ECONOMIC POLICY CONDITIONALITY 3 December, 2010

support. However what is not taken into account in the resulting public discourse is that these examples represent less than 3% of the Live Register. The other popular myth that informs the discussion is that social welfare payments = unemployment or jobseekers payments when in fact these payments only account for 20% of social welfare expenditure.

This thinking was also reflected in EU/IMF financial assistance documentation as the following quote demonstrates: *"To reduce the risk of long-term unemployment*

*The government will reform the unemployment benefit system in such a way as to provide incentives for an early exit from unemployment. This reform of unemployment and social assistance benefits will be part of overall reforms in the welfare system designed to reach budgetary savings of €750m in 2011.*

*Legislative measures will be introduced with a view to: Taking steps to tackle unemployment and poverty traps including through reducing replacement rates for individuals receiving more than one type of benefit (including housing allowance)." (p5)*

With long-term unemployment already standing at 140,400 or 47% of the overall unemployed figure<sup>8</sup> this quote reads like so much of this documentation as if it comes from another era. The era of technical full-employment: a time we are unlikely to return to if the Finnish experience is any guide or if we do it will be at a much higher rate of unemployment. This quote also raises an interesting question: was the Irish Government at the time as backed into as tight a corner as they would like most of us to believe or did they use the EU/IMF bailout as a means of pursuing an agenda they had not pushed as far as they would like during the current crisis. This agenda uses wage reductions and reduction in social protection to people of working age to address the competitiveness issue. Competitiveness is no doubt an issue that Ireland must address but to do so through wage and related mechanisms only is very short sighted and fails to take into account the social and economic impact of the resulting increase in poverty. The lack of domestic demand and the need to stimulate it is raised by many commentators in particular as the employment kick-back is usually greater than export lead growth. Continuing to impoverishing people in low paid work or people who are reliant on social welfare to meet their needs will only further impact negatively on

domestic demand and on local economies as people with less disposable income invariably spend it all in their own communities.



In Budget 2011 the Government cut Jobseekers and other social welfare payments to people of working age by 4.1% as they did in Budget 2010. This has brought the personal social welfare rate for most payments down to €188, back almost to 2007 rates. The Qualified Adult Allowance was cut by €5.30 giving a loss of €13.30 to an unemployed couple with no children. The cut to Child Benefit was not off-set by an increase in the Qualified Child Allowance, or QC Increase as it's curiously now called, it was left unchanged at €29.80 per child. A compensatory increase had been made in Budget 2010 to offset the drop in CB. Under Child Benefit there was a cut made of €10 per child for each child except the third where the cut made was €20 for some strange reason. This means there are now three different rates per child for Child Benefit: €140 for the first two; €167 for the third; and €177 for any subsequent children. This Budget introduced further anomalies to the social welfare system. Already there are three different age related payments for people in receipt of the means tested payment Jobseekers Allowance. Young people aged 18-21 who would be entitled to a full JA payment

will receive a maximum payment of €100; while young people aged 22-24 will receive a maximum payment of €144. Now the weekly personal rate of Supplementary Welfare Allowance will differ from the basic social welfare rate as SWA was cut by 5.1% or €10. Further cuts to Rent Supplement are likely as it is proposed to reform it further and that *“This will include an additional €2 per week contribution by certain welfare recipients towards the cost of rent, consequential on the reduction in the personal rate of Supplementary Welfare Allowance.”*<sup>9</sup>

Given the savings identified in the National Recovery Plan of €2.8bn in the Social Protection budget there is a real danger that social welfare rates will be cut back down to those last since in the mid-noughties. As inflation is starting to creep up again, as social services are being undermined, and as so many social welfare recipients are currently struggling to meet their basic needs,<sup>10</sup> a significant increase in poverty and social exclusion is one likely outcome from this recovery plan. Ireland had set itself a target of eliminating consistent poverty by 2016 in the National Action Plan for Social Inclusion 2007-2013. This begs the question: who exactly is the National Recovery Plan for? It is clearly not for the less well off and those dependent on social welfare and related services to meet their daily needs. It is also not for those seeking to find employment and work their way out of poverty and social exclusion as there are only 90,000 additional jobs identified in this plan. Such a number is insufficient when one considers the numbers of people on the Live Register; the ongoing numbers of job losses; the numbers of people who will leave school and college over the coming four years. The only way the Government’s unemployment target of < 10% can be reached is if emigration takes place on a massive scale. The loss of so many people of working age will be to Ireland’s detriment especially in the face of a looming pension’s crisis.



*Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.”* It should be remembered that before the crisis the Stability and Growth Pact was the very EU mechanism under which Ireland was judged to be doing ever so well! Over the past two years the Irish Government has pursued the objective contained in this quote and to what end? The banking crisis appears to be a bottomless pit and while the country struggles to bail out the banks the public finances will only worsen: a situation compounded by so many people out of work and looking to the state to meet their basic needs.

In ‘Towards 2016’ the concept of building services around the person was incorporated and was to form an integral part of public service reform: where is all that thinking now? Without jobs there is ultimately nowhere for unemployed people to go: it is demoralising for unemployed people to be sent on courses that offer them little or no hope. It is also not a cost effective or efficient use of what are now very limited resources. There is also a real danger that with the big stick approach being promoted from the top, be it Irish, European or IMF that the experience on the ground will become even poorer for unemployed people. Unemployed people are calling for the system to be geared towards the individual’s needs and be more

## 4 INTEGRATED JOBS STRATEGY

It is appalling that at over three years into an unemployment crisis Ireland still does not have an integrated Jobs Strategy. What is even more disconcerting is that there is no external pressure on Ireland to produce one. For example, the “COUNCIL RECOMMENDATION with a view to bringing to an end the situation of an excessive deficit in Ireland” on the issue of employment states that *“The Stability and*

<sup>9</sup> Department of Social Protection’s Budget Factsheet available on [www.welfare.ie](http://www.welfare.ie)

<sup>10</sup> Visit the Vincentian Partnership for Social Justice’s website on Minimum Essential budgets called [www.budgeting.ie](http://www.budgeting.ie)

innovative in its responses. Unemployed people felt very strongly that this demands a different thinking within the systems and that, for example, the culture in Social Welfare Offices needs to shift from an authoritative and processing role to one that truly assists people to move from welfare to work.

In meetings with the INOU, service providers have noted the need for a smoother transition between social welfare, employment, education and training options. Such a transition requires improved quantity and quality of person centred guidance coupled with a proper and robust assessment of individuals' abilities and their possible future areas of employment. They called for improved integration between services and for a more proactive rather than reactive approach to service design and delivery. To that end they agreed that the system needs to: be client focused; think outside of the box; and move away from being rules based.

An integrated and inclusive Jobs Strategy must be developed that will provide the vision, clear goals and ambitious targets that explores all aspects of the labour market and the role of all potential employers from the private sector to the state to the community and voluntary sector. A Strategy that will not only aim to get Ireland out of this unemployment crisis but one that critically examines where jobs could and should be developed. An integral part of such a strategy is the urgent development and roll-out of a person centred employment and related service. The incorporation of FÁS Employment and Community Services into the Department of Social Protection should be used as an opportunity to develop such a service.

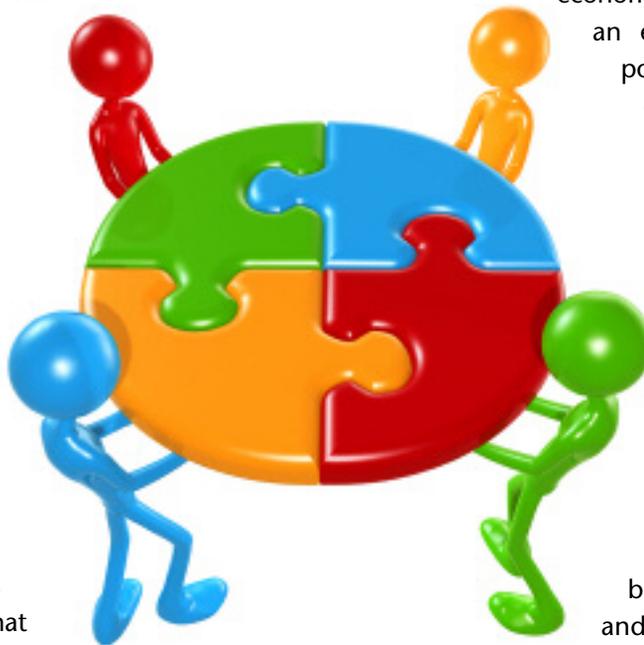
'Implementation deficit disorder' has chronically undermined Ireland's proper social and economic development and to ensure that no such fate befalls a Jobs Strategy clarity is required as to who would be in charge of driving it. Ever since the Taoiseach re-arranged the Departments of Enterprise, Trade and

Innovation; Education and Skills; Social Protection<sup>11</sup> in March 2010, it has not been clear who has responsibility for labour market policy development and its implementation. Up to last March that responsibility lay with the Minister of State for Labour Affairs at DETI but with the removal of FÁS from this department to DES last May and the removal of the Labour Force Division from DETI to DES last September it is evident that active labour market policy is no longer part of this Ministry's brief. So who is in charge to ensure that the programmes unemployed people are 'activated' under will have any connection with where jobs are likely to be created? One senior official informed the INOU that the Cabinet Committee on the Smart Economy was seen as having this role but as unemployed people have noted if and when these jobs emerge they will not be available

for everyone. Local service providers have also raised questions about the 'smart economy' and whether or not it is an employment strategy or a policy objective and noted that either way it lacks implementation and funding on the ground to become meaningful.

This inconsistency in Government thinking in 2010 and subsequent developments is also evident in enterprise supports. For example, the Book of Estimates shows further cuts in the budgets of Enterprise Ireland and the City and County Enterprise Boards – respectively by 5.4% and 3.8% which runs contrary to the pro-enterprise tone of the National Recovery Plan *et al.* The INOU is conscious that few unemployed people seeking to address their unemployment through self-employment qualify for these supports anyway – the Back to Work Enterprise Allowance and the technical supports the local Social Welfare Office and local development company can give are more accessible. Further development of these supports would be crucial in an integrated and inclusive jobs strategy.

Though the DES budget was not cut as much as others a number of changes raise serious questions about who



11 Formerly the Departments of Enterprise, Trade and EMPLOYMENT; Education and Science; Social and Family Affairs.

exactly the Government mean when they talk about “specific priority groups”. Within these groups the Government are rightly including the low skilled, people under 35 and the long-term unemployed and yet they have cut the additional training payment made to long-term unemployed people by €11.80 per week. This additional payment was an on-going support while developments like the Labour Market Activation Fund, though welcome, are time limited. Progression into better education and training options are vital to ensure that long-term unemployment does not once again become embedded in Irish society. A consistency of approach with regards to development and roll-out of responses must be established. Key questions remained to be answered e.g. how will FÁS training be incorporated into the range of education options under the remit of DES? Who will ensure that unemployed people are fully aware of their further or higher education options? Will that be the responsibility of a revamped local FÁS / Social Welfare Office? Such questions must be answered if a Jobs Strategy is to provide answer to a key question currently raised by unemployed people and officials working on the ground: activated into what? It is imperative that principled practice is developed to ensure that progression is into better, appropriate and relevant education and training options, which seek to provide people with skills for employment, and ensures that people are offered the most meaningful education and training option for them.



welcomes some progress made on addressing the tax expenditures issues raised by the Commission on Taxation back in their 2008 report. However, we were disappointed to see that in the Finance Bill some of these proposals were rolled-back. Even after all the damage rampant property development has done to this State it is extraordinary the power of this lobby to stop changes to increasing their tax liabilities (Section 23) when workers and in particular workers on low pay and social welfare recipients are expected to live with cuts to their incomes in the national interest.

Ireland desperately needs an equitable and sustainable tax system that supports its development as a modern economy and society. It is not feasible to get this country back on its feet with a tax take that is only 30% of GDP. The decision facing Ireland right now is very stark: do we want lower and lower incomes; less and less public services or are we willing to pay the necessary taxes to ensure Ireland’s development in the 21st Century.

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## 5 TAXATION



A striking feature of the National Recovery Plan and Budget 2011 was the increased tax burden placed on income coming from employment. It seems an extraordinary and illogical thing to do in the middle of an unemployment crisis. When the INOU called for a widening of the tax base it did not mean the inclusion of those on very low incomes within the tax net. Such a development is regressive and even more so when the progressive nature of the Income Levy was replaced by a flat rate of 7% on incomes over €16,016. Instead we were calling on the State to look beyond income coming from employment to income generated from other sources and wealth arising from assets.

On the positive side the INOU welcomes the abolition of the PRSI ceiling: a development sought in our last two pre-Budget submissions. The organisation also