

Combining Retrenchment with Reform in Social Policy

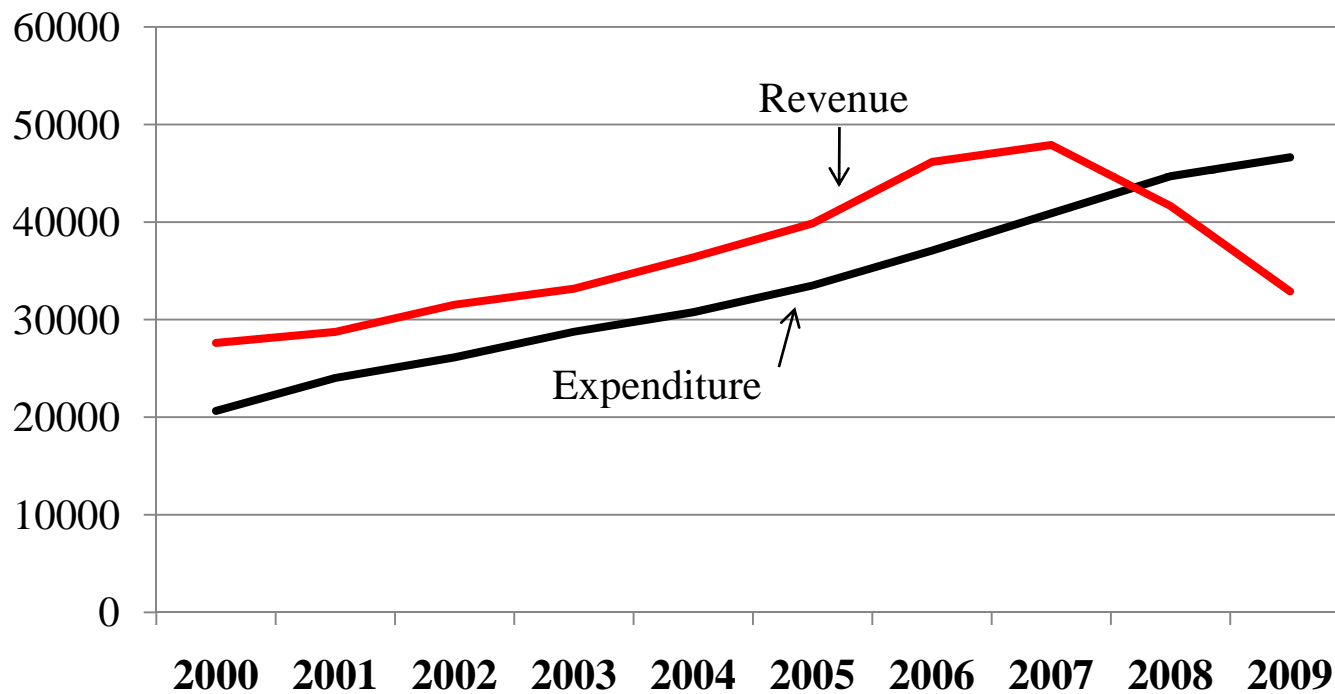
John Sweeney,
NESC Secretariat,
4th November 2009

An economic downturn...swifter and deeper than the 1980s...

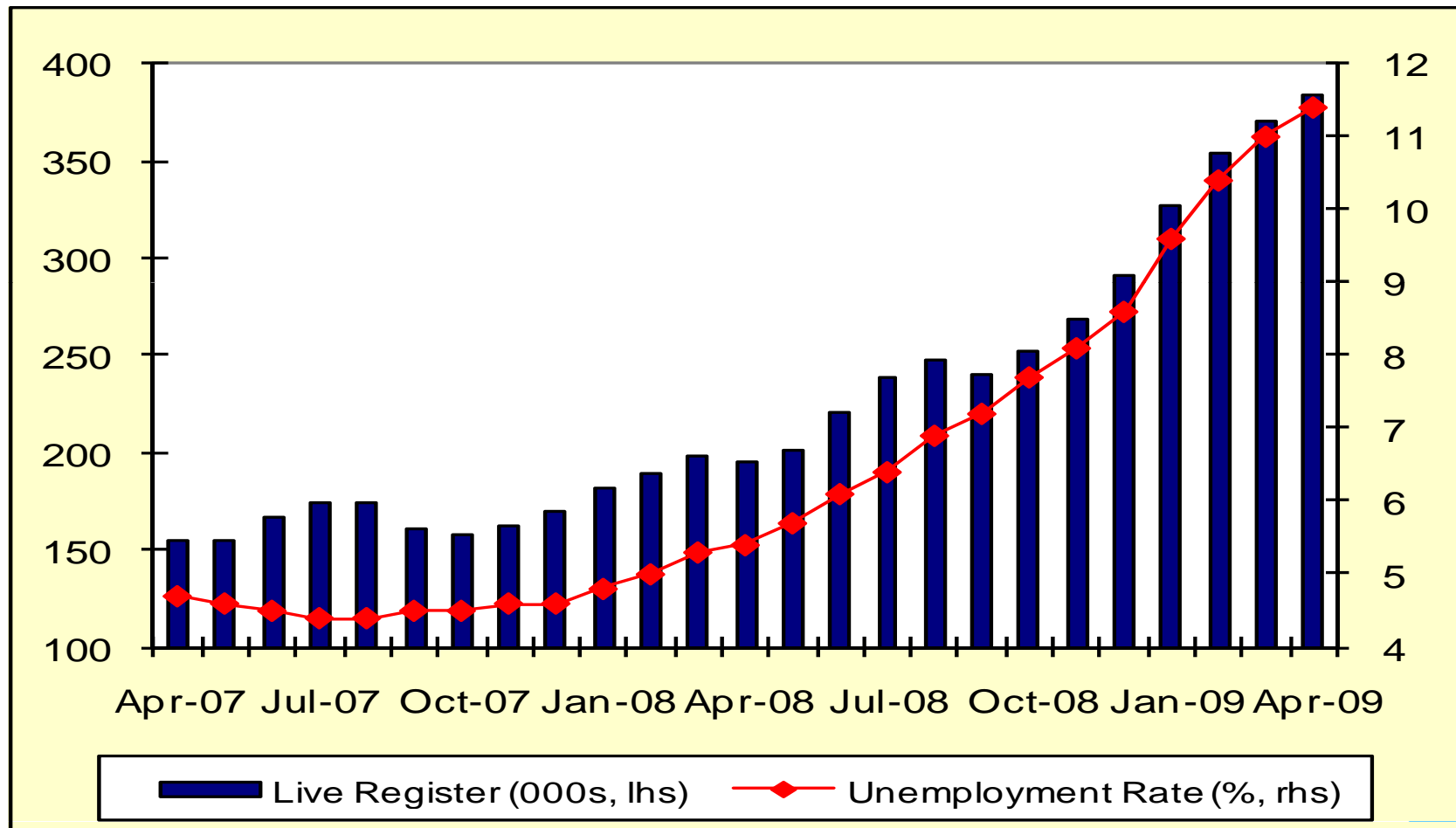
| | 1978-'83 | 2007-'08 |
|-----------------------|--------------------------|--------------|
| | Annual GDP volume change | |
| Peak | 7.2 | 6.0 |
| | 4.2 | -3.0 |
| | 2.9 | -7.2 |
| | 2.5 | |
| | 1.5 | |
| <i>Trough</i> | -0.7 | |
| Drop in growth | -7.9 | -13.2 |

...with a major impact on the public finances

Exchequer Current Revenue and Expenditure, (€m)

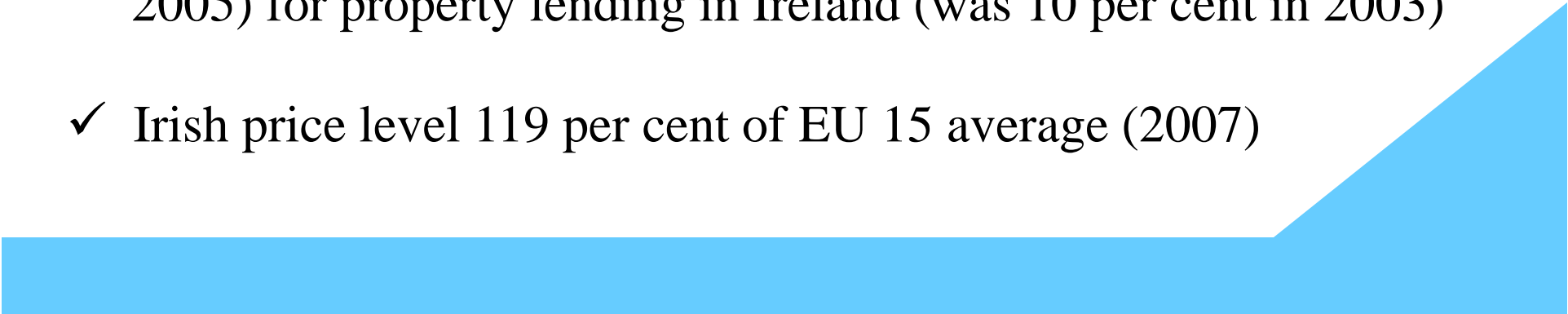


...and on the level of unemployment



Source: Jim O'Leary (CIPD Conference 2009)

The not-so 'smart' economy...

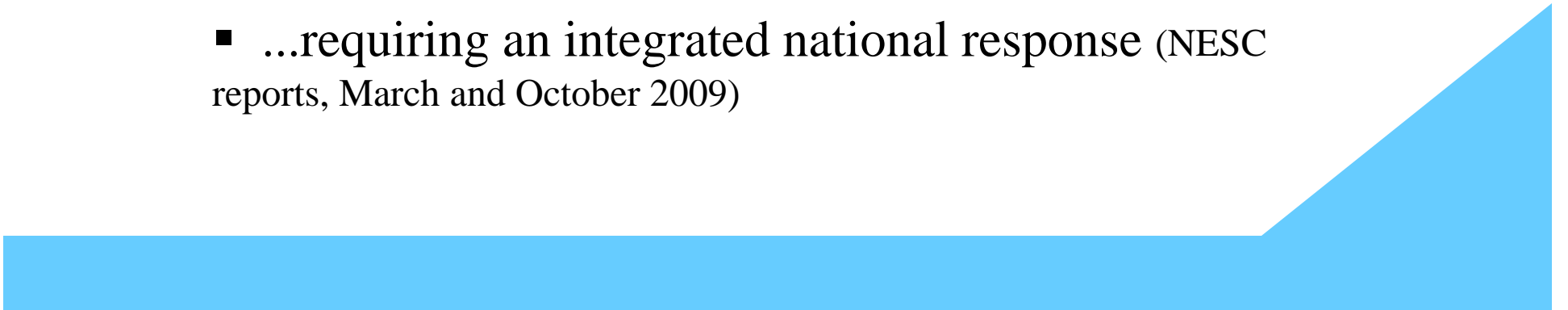
- ✓ Construction activity reaches 24.5 per cent of GNP (2006)
 - ✓ 15 per cent of the housing stock vacant (Census 2006)
 - ✓ Unsustainable tax receipts from the housing boom fund expansion of public services
 - ✓ Balance sheet of Anglo-Irish Bank averages an annual growth rate of 36 per cent, 1998-2007 (20 per cent in one year = conventional warning sign)
 - ✓ Banks borrow 41 per cent of GNP on interbank markets (end 2005) for property lending in Ireland (was 10 per cent in 2003)
 - ✓ Irish price level 119 per cent of EU 15 average (2007)
- 

...hit the unforeseeable ('unknown unknowns')

- ✓ Freeze on wholesale money markets (Sept 08)
- ✓ Decline in world trade, global recession

...and the consequence is a complex crisis

- A five-part crisis – banking, fiscal, competitiveness, social, and reputational -
- ...requiring an integrated national response (NESC reports, March and October 2009)

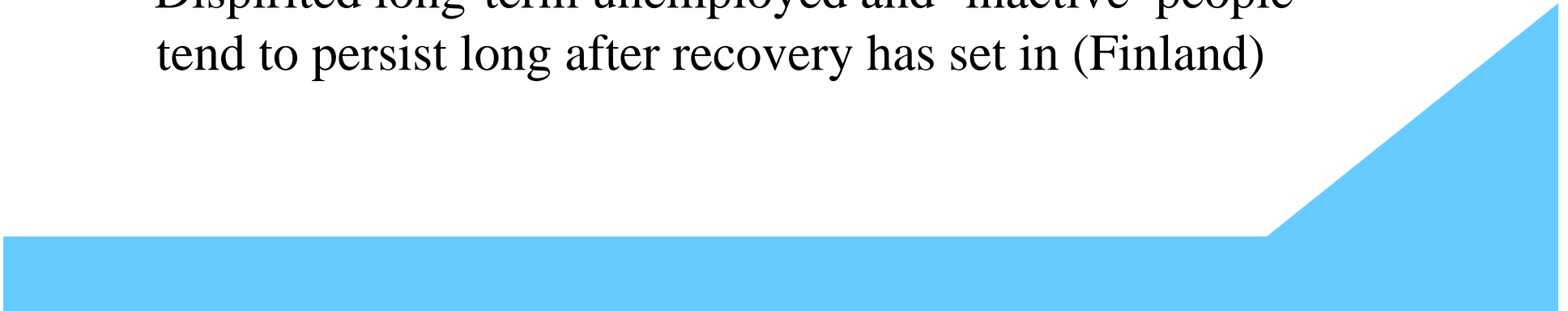


The heart of the *social* crisis is activation

- It is the duration of unemployment, not the level it reaches, that will matter most

‘A critical issue for Ireland’s social and economic future is whether the labour market will [experience] a full cyclical recovery or return to the persistently depressed conditions of the 1980s and 1990s’
(Grubb *et al*, 2009, *Activation Policies in Ireland*, OECD)

- Dispirited long-term unemployed and ‘inactive’ people tend to persist long after recovery has set in (Finland)



The Activation Challenge (1)

- We did **not** do well during the boom years

‘A flood of money...made reforms move at a slower pace than they might otherwise have done. It has been easier to do things in the old way, and just do more of them. I used to believe reform was easier when you had more money to oil the wheels. But a period of relative austerity may actually encourage a further development of reforms rather than a rolling back. I suspect that occurs across the public sector.’

Julian Le Grand (LSE)



Reciprocity rates for working-age benefits: Ireland and other English-speaking countries

| | | Levels and percentage of the working-age population (15-64) | | | | | | | |
|-----------------------|---|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
| Ireland | Incapacity | 5.99 | 6.22 | 6.47 | 6.68 | 6.89 | 7.14 | 6.98 | 7.2 |
| | Unemployment | 4.57 | 4.89 | 5.2 | 5.38 | 4.78 | 4.54 | 4.35 | 4.67 |
| | Lone Parents | 2.92 | 2.98 | 2.98 | 2.93 | 2.91 | 2.85 | 2.86 | 2.85 |
| | Safety net | 0.99 | 1.13 | 1.21 | 1.15 | 1.08 | 0.99 | 0.87 | 0.92 |
| | Total | 14.47 | 15.22 | 15.86 | 16.14 | 15.66 | 15.52 | 15.06 | 15.64 |
| Australia | <i>Total</i> | 13.22 | 13.36 | 13.58 | 13.00 | 12.83 | 12.49 | 12.11 | 11.47 |
| New Zealand | <i>Total</i> | 13.50 | 12.98 | 12.45 | 11.95 | 10.91 | 10.11 | 9.60 | 8.80 |
| United Kingdom | <i>Total</i> | 13.27 | 12.89 | 12.68 | 12.53 | 12.17 | 11.93 | 11.94 | 11.50 |
| | Average A, NZ, UK | 13.33 | 13.08 | 12.90 | 12.49 | 11.97 | 11.51 | 11.22 | 10.59 |
| | Difference (IE - three countries average) | 1.14 | 2.14 | 2.96 | 3.65 | 3.69 | 4.01 | 3.84 | 5.05 |

Source: Grubb *et al* (2009: Table 4.1), updated by Grubb for ESRI Conference, Dublin, 30/04/09

The Activation Challenge (2)

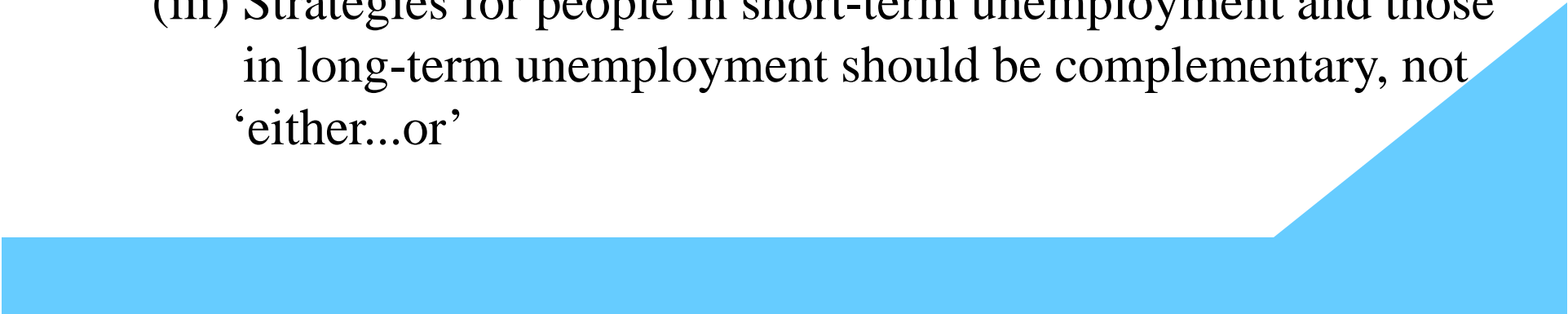
- The level of ambition is right

‘Activation (should be)...on a level with service delivery and control as a central part of the core business of the DSFA

(The Social and Economic Participation Programme of the NDP 2007-2013 will be) ...an active, outcome-focused, individual case management of all social welfare customers of working-age’ (*Towards 2016*, 51 and 57)



The Activation Challenge (3)

- Some of the building blocks are clear
 - (i) Even modest levels of income support need to be matched by modest levels of activation
 - (ii) Inflows to unemployment are triggered by events; outflows are slowed by marginal tax benefit withdrawal rates and diminishing job prospects
 - (iii) Strategies for people in short-term unemployment and those in long-term unemployment should be complementary, not ‘either...or’
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The Activation Challenge (4)

- (iv) Ireland's income supports compare well internationally, its activation measures do not
- (v) Activation requires inter-departmental working, local government engagement and the participation of the Community and Voluntary sector
- (vi) Someone must be able and willing to play the role of 'employer of last resort'



The next 5 years will represent a **crossroads**

The downturn will either result in...

critical shortfalls in public service-quality as lower spending increasingly fails to meet higher public needs and expectations, or

drive radical transformation across the business of government.

