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# THE TRUE COST OF AUSTERITY AND INEQUALITY

## Ireland Case Study

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After 14 years of spectacular economic growth, the Irish economy entered one of the deepest recessions in the Eurozone, with its economy shrinking by 10 per cent in 2009. House prices plummeted and banks stopped lending, as the international financial crisis brought an end to cheap, plentiful credit. The government was forced to turn to the European Central Bank, the European Commission and the International Monetary Fund for €67.5bn to finance the budget and recapitalise its banks.

Known as the 'Troika', these three institutions provided bail-out funds contingent on a range of measures designed to reduce the budget deficit from a then EU-high budget deficit of 14.3 per cent (as a percentage of GDP) in 2009 to 3 per cent by 2015. So far the programme is ahead of target, with the 2012 budget deficit of 7.16 per cent better than the forecast figure of 8.6 per cent.<sup>1</sup> However, the measures have had a devastating impact on people already struggling with rising unemployment and levels of indebtedness.

Since Ireland has by far the highest level of income inequality in Europe before taxes and benefits are taken into account, the cuts to its public sector and to levels of social welfare are likely to seriously impact on its net income inequality over the long-term.

### The poorest hit hardest

*'If you take balancing of the budget in isolation, as a project it is going in the right direction. But it has suppressed domestic demand, hammered consumer confidence and hurt those with the least hardest.'*

John Mark McCafferty, Head of Social Justice at the St. Vincent de Paul, the largest, voluntary, charitable organisation in Ireland

By the beginning of 2013, Ireland had become the fifth most expensive country in the EU, with prices 17 per cent above the European average.

The average monthly rent, for example, was €1,131 a month in Dublin city centre and €815 a month nationwide, a rise of 5.9 per cent and 2.7 per cent respectively on 2012, according to the Daft.ie Rental Report.<sup>2</sup> Soaring housing costs and the rising cost of living have meant that the government has had to play a significant role in supporting incomes.

However, since 2008 the government has introduced a shocking array of welfare cuts and tax increases that have driven more and more people into debt and poverty.

In particular, many low-paid workers have been brought into the tax net, further reducing their ability to cope with rising costs. Low and middle-income earners are paying tax on a lower base of income, with the standard rate tax band reduced from €36,400 to €32,800. Meanwhile, their personal tax credits have fallen from €1,830 to €1,650 and from January 2012 the standard rate of VAT increased from 21 per cent to 23 per cent.

As a result, a survey in 2012 found that four in 10 people<sup>3</sup> were left with €100 or less each month after their bills were paid. A further 602,000 adults had no disposable income at the end of the month after all their bills were paid. As of the last quarter of 2012, 18.16 per cent of all mortgages were in arrears.<sup>4</sup>

## **Unemployment**

This is at a time when the unemployment rate has risen from 4.2 per cent in 2007 to 13.7 per cent in April 2013 – a level not seen for almost two decades (the last time unemployment was higher was in 1993 when it reached 15.6 per cent). Unemployment among men is considerably higher than among women, with the male rate 17.7 per cent compared to a female rate of 11 per cent.

Like many other European countries, Ireland is stricken with the twin problems of youth unemployment and chronic long-term unemployment. As of February 2013, 30.8 per cent of the country's under-25s were unemployed– and those in chronic long-term unemployment accounted for close to 62 per cent of the total number of those out of work. At the same time, state support has been halved for those aged 20 to 21, with unemployment benefit (known as Jobseeker's Allowance) cut from €204.30 to €100 per week and to €144 per week for those between 22 and 24 years of age.

As a result, many of Ireland's young adults are planning to emigrate. In the last four years, more than 300,000 people have emigrated from Ireland, four in 10 of whom were aged between 15 and 24.<sup>5</sup>

## Families and minorities

*'Many families don't have enough money to buy food, which impacts on children going to school. We have seen some families move the food around their cupboards so their children think they have been to the shops to buy food.'*

June Tinsley, Policy Officer with Barnardos, Ireland's leading children's charity

The personal rate of social welfare has been cut from €204.30 to €188 a week.<sup>6</sup> Social support payment to those with children (known as Child Benefit) has seen a €10 a month reduction for one child, €20 a month for two children, €38 a month for three children and €58 a month for four children. There is no subsidised child-care for parents returning to work. These cuts, alongside significant tax increases on the poorest, are pushing families further into poverty.

The majority of clients seeking assistance from the government's budgetary advice service MABS (Money Advice and Budgeting Service) are women aged between 26 and 40, of whom 60 per cent have children, according to the St. Vincent de Paul.

## Rising inequality

Income inequality in Ireland is four times the OECD average.<sup>7</sup> Ireland has therefore undertaken an enormous effort to redistribute incomes through taxes and social transfers, but the financial crisis and subsequent austerity measures threaten to dismantle Ireland's system of social protection and to widen inequality.

Almost everyone has been affected by the austerity measures imposed by the Troika. However, statistics would suggest that the top tier of society has been hurt least. In 2010, those in the lowest income band saw their disposable income fall by more than 26 per cent, while those in the highest income band saw their disposable income rise by more than eight per cent.<sup>8</sup>

The 2013 budget led to a 1.3 per cent increase in taxes for a worker on an annual salary of €20,000. Meanwhile a worker on €100,000 experienced a 0.2 per cent increase in taxes. Those on €200,000 or more paid 0.1 per cent more. As a result, even when tax increases are chosen over cuts to social support as a means to reduce the budget deficit, those on lower incomes are the ones hit the hardest.

On this basis, despite success in cutting its budget deficit, Ireland is likely to see rising inequality over the coming years, as it struggles to maintain the redistributive mechanisms in place prior to the financial crisis.

*'The whole range of cutbacks is cumulative. In Ireland we have a history of internalising anger, which leads to suicide, drug addiction and alcoholism. We are probably coming to a period of industrial unrest that will lead to social unrest. Yet there are still three more austerity budgets to come.'*

Father Peter McVerry, of the Peter McVerry Trust<sup>9</sup>

# Northern Ireland

Northern Ireland has not suffered an economic contraction comparable to the Republic of Ireland.

There has been a gradual decline across Northern Ireland's economy since 2007. Between 2007 and 2012, unemployment rose from 4.1 per cent to 7.2 per cent.<sup>10</sup>

Northern Ireland is the UK region with the third lowest living standards, about 80 per cent of the average, with a poverty rate of 22 per cent. The overall flat economic picture is expected to continue into 2014, with a growth rate of 0.8 per cent and a continued rise in unemployment.

Poverty is on the increase. The number of adults of working-age living in poverty increased from 18 per cent to 20 per cent between 2002 and 2010, according to the Nevin Economic Research Institute. Relative child poverty is expected to rise by 5 per cent between 2010 and 2013 compared to 3 per cent for the rest of the UK, according to the Institute for Fiscal Studies.<sup>11</sup>

## NOTES

<sup>1</sup> 'Time to ease off on austerity', IBEC, May 2013, <http://www.ibec.ie/IBEC/Press/PressPublicationsDocLib3.nsf/vPages/79C3EE9565B2382580257B6300351B3F?OpenDocument>

<sup>2</sup> 'Rent inflation a clear signal of supply constraints' The Daft.ie rental report, 2013 Q1, <http://www.daft.ie/report/ronan-lyons-2013q1-rental>

<sup>3</sup> C. O'Sullivan (2011) 'Pay packets to feel the pinch from income tax changes and new levies', *Irish Examiner*, 7 January 2011, <http://www.irishexaminer.com/ireland/pay-packets-to-feel-the-pinch-from-income-tax-changes-and-new-levies-141344.html> (1.8 million people out of a population of 4.45 million, according to the Irish League of Credit Unions 'What's Left' Tracker for 2012)

<sup>4</sup> Dr. C. Gurdgiev (2013) 'Irish Mortgage Arrears Q4 2012', true economics, <http://trueeconomics.blogspot.ie/2013/03/732013-irish-mortgages-arrears-q4-2012.html>

<sup>5</sup> M-C McAleer (2013) 'Time to Go: A Qualitative Research Study Exploring the Experience & Impact of Emigration on Ireland's Youth', National Youth Council, National Youth Council, [http://www.youth.ie/emigration\\_research](http://www.youth.ie/emigration_research)

<sup>6</sup> Social Justice Ireland (2012) 'Budget 2013: Analysis and Critique', <http://www.socialjustice.ie/sites/default/files/file/Budget/Budget%202013%20Analysis%20and%20Critique.pdf>

<sup>7</sup> OECD (2013) 'Crisis squeezes income and puts pressure on inequality and poverty', <http://www.oecd.org/els/soc/OECD2013-Inequality-and-Poverty-8p.pdf>

<sup>8</sup> Central Statistics Office (2012) 'Survey on Income and Living Conditions 2010', [http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc\\_2010.pdf](http://www.cso.ie/en/media/csoie/releasespublications/documents/silc/2010/silc_2010.pdf)

This is supported by statistics from the Think Tank for Social Change (TASC), which calculates that the lowest income earners experienced a fall in disposable income of 18.6 per cent in 2010. However, those in the top bracket of income earners experienced a 4.1 per cent rise in the same year.

<sup>9</sup> A Dublin-based homeless charity that works with young people

<sup>10</sup> NERI Institute (2013) 'Quarterly economic observer, January 2013', <http://www.neriinstitute.net/research/quarterly-economic-observer-january-2013/>

<sup>11</sup> J. Browne, A. Hood and R. Joyce (2013) 'Child and Working-Age Poverty in Northern Ireland from 2010 to 2020', Report R78, Institute for Fiscal Studies, <http://www.ifs.org.uk/comms/r78.pdf>

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This case study was written by Jody Clarke. Oxfam acknowledges the assistance of Natalia Alonso, Emer Mullins, Sorcha Nic Mhathúna, Jon Mazliah and Kevin Roussel in its production. It is part of a series of papers and reports written to inform public debate on development and humanitarian policy issues.

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The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-423-7 in September 2013. Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

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