An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

The Social Dimensions of the Crisis: The Evidence and its Implications

Executive Summary

An Oifig Náisiúnta um Fhorbairt Eacnamaíoch agus Shóisialta
National Economic & Social Development Office NESDO

Executive Summary

The economic crash of 2008 has had profound social impacts, exacerbated by the subsequent fiscal adjustments. This report focuses on the social impacts of the economic crisis and the subsequent fiscal adjustments in Ireland, drawing together a broad range of elements, such as unemployment and poverty.

Unemployment has increased

The greatest social impact has undoubtedly been the large and sustained increase in unemployment. Many sectors of employment and areas of the country have experienced unemployment, but some have been more affected than others. Men in the construction industry have been particularly affected with low-skilled workers bearing the brunt of the decline. However, the unemployment figures are also notable for the number of people with third-level qualifications. Long-term unemployment remains high, with six out of ten people now unemployed for more than one year. The largest group of people who are long-term unemployed are men aged 25 to 44, who make up four in ten of the long-term unemployed.

Young people are experiencing high levels of unemployment, with many of them now long-term unemployed. Unemployment among young people is particularly detrimental to the young people themselves and to wider society, and often has long-term consequences.

Unemployment is just one outcome of the loss of a job. Some people may withdraw from the labour market while others emigrate. A large number of people have emigrated—initially it was mainly people who had recently come to Ireland to work, but more recently it has mainly been young Irish people.

Other notable aspects of Ireland’s economic crisis are the high rate of jobless households, especially those containing children, the particular circumstances of the self-employed, and people who are underemployed or in precarious employment situations.

Income and wealth have fallen

The majority of households in Ireland have experienced a drop in wealth and/or disposable income since the economic crash in 2008, both as the result of the crash itself (loss of/or reduction in employment and/or assets) and of measures taken as a result of the economic crash (tax increases, social security contribution increases, pay reductions, and welfare reductions). The biggest income drops have been experienced by those who are unemployed, households with children, and students. However, those on the lowest incomes and most vulnerable to poverty are those households where no-one is working. Where these households contain children there is the danger of the transmission of intergenerational poverty, creating a longer-term issue of disadvantage and poverty.

Measures show that there was a decline in income inequality from 2004-2009, followed by a slight increase and then a fall/levelling out thereafter. These fluctuations in recent years reflect the variability in income and wealth changes over this period.

Pensions—mixed impact

Pensioners, in general, have been less affected by the economic crash than other groups. A key reason is the maintenance of the state pension. Occupational pension funds, however, have been hugely impacted by the economic crisis with a large proportion of defined-benefit schemes now in deficit. In addition, pension coverage rates have fallen since the onset of the crisis.

Identifiable patterns of economic vulnerability

A number of aspects of economic vulnerability have been identified: 7 per cent of the population can be classified as 'poor and vulnerable' (people who are long-term unemployed, people who are ill and disabled, and lone parents); 7 per cent as 'poor but not vulnerable' (many older people and some of the self-employed); and 11 per cent as 'non-poor but vulnerable' (people with debts whose outgoings exceed their current income). The 'non-poor but vulnerable' is a new 'at risk' group that has emerged with the economic crisis, (based on work by Whelan and Maître, 2010).

Increase in poverty

Closely aligned with the 'poor and vulnerable' are those in consistent poverty, whose numbers have increased since the onset of the economic crisis. Particularly notable is the increase in deprivation among those who are consistently poor, but also among households not at risk of poverty, reflected in the finding that four-fifths of households have cut back on their spending on at least one of a number of items as a result of the economic climate.

Overall, children have a comparatively high exposure to poverty, with older people having less exposure, although older people living alone (mainly women) and those with ill-health or disabilities have higher poverty levels. Some households where someone is working can also be at risk of poverty, often referred to as the 'working poor'.

Annual Budgets have been broadly progressive

Since the economic crash in 2008 successive governments have made fiscal changes to redress the impact of the crisis. Over the four-year period (2009–2012) the distributional impacts were broadly progressive. Measures to increase income tax and reduce pay in line with income are mainly progressive, while reductions in social welfare payments and increases in indirect taxes, such as VAT, impact those on low incomes most. In relation to Budget 2013, changes to children's allowances impacted most on households with children, especially lone parent families. Households where no-one is working or without children are least affected. [1]

Household consumption has fallen

On the expenditure side, household consumption has fallen since the economic crash. The composition of spending has also changed with an increase in the proportion of spending on housing, as well as an increase in expenditure on fuel and light. At particular risk are households where expenditure exceeds income, especially where this could make the household vulnerable. This risk is most likely for those on the lowest incomes, even though others may have higher levels of debt or had larger reductions in their incomes.

Over-indebtedness has increased

The economic crisis has also had an effect on the level of indebtedness, and especially over-indebtedness in some households. In 2010, nearly one-quarter of all households were in arrears with at least one bill or loan, and by June 2012 just over 10 per cent of all mortgage accounts for principal dwelling houses were officially in arrears, with just over one-quarter of these restructured. It is noteworthy that those living in consistent poverty are many times more likely to be in general arrears than the overall population. There is a strong correlation between low income and over-indebtedness with lone parents, people who are unemployed and people who are ill or disabled showing a persistent lack of resources leading to over-indebtedness. There is also a strong association between low educational level, poverty and over-indebtedness, especially among families with children. Recent figures do show, however, an increase in well-educated people finding themselves in arrears particularly where they have a high level of expenditure in relation to their income but they remain less likely than people with low educational levels to be over-indebted.

Importance of public services—some increases but mainly reductions and reform

Good-quality, accessible and affordable public-service provision can protect and support all citizens but especially those who are vulnerable. There has been an increased demand for public services as a result of the economic crisis, while at the same time public expenditure on service provision, in terms of budgets, staffing and programmes, has been reduced. These reductions have had an impact on the provision of public services, although information to assess this is limited. The available headline indicators show demand-led schemes, such as numbers in receipt of the medical card, have increased, while expenditure on the provision of other services such as school transport and primary care have reduced.

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[1] Basic welfare rates and income tax rates remained unchanged in Budget 2013. The introduction of a local property tax will impact on those who own their properties (outright or with a mortgage). Those who own higher-value properties will pay a higher amount. In addition, rates of DIRT, capital acquisitions and capital gains tax increased, and an additional levy was introduced on the use of property reliefs.

For example, in relation to education the picture that emerges is of a mix of reductions in some aspects of services and staffing and increases in others, with stories of hardship from individual schools and communities. So, despite the education budget being largely protected there are some concerns about how the specific reductions in the education system are impacting on low-income families with children, particularly if the children have special needs.

On health, there has been a reduction in the budget for key service areas provided by the HSE, with variations by category of expenditure. The largest absolute falls in expenditure have been in primary care and the medical card scheme, grants to outside agencies, and clinical spending. Reductions in grants to outside agencies are likely to affect service provision at the micro level, but it is not possible to assess this with the available data. Overall, it is a mixed picture with declines in some HSE service areas, but with improvements in others.

With regard to housing, there are now just under 100,000 people on local-authority housing waiting lists and nearly 4,000 homeless people. There is an association between low income and housing need so that if incomes continue to fall, it can be expected that housing need may rise. However, there have been changes in the provision of social housing with a move to leasing housing rather than local-authority construction, and providing local-authority housing and other social housing rather than paying rent supplement for private rented accommodation. There are also moves to accommodate people in some of the properties in the unfinished housing estates, where these are suitable.

What is notable across the service areas of education, health and housing is the extent and impact of reform. Some of these reforms are in direct response to the economic crisis, others are the result of the requirement for fiscal adjustment, but others are driven by a desire to restructure service provision.

The community and voluntary sector severely impacted

The community and voluntary sector—which has been active in implementing pilot projects, complementing public-sector provision and advocacy—has been severely impacted by the crisis. In the face of increased demand for their services many organisations have seen their budgets cut, with many making adjustments to ensure continued provision. Nevertheless, many services have been diminished or closed down.

Population changes alongside the economic crisis

Alongside the economic crisis, there have been significant changes in the composition of the population which may also be impacting on some people's lives and access to services. For example, at both ends of the life cycle there have been increases in the birth rate and in the number of older people living alone, especially women, both of which have implications for the provision of the relevant services. There has also been increasing urbanisation, particularly in the commuter belts surrounding the large cities, especially Dublin. The increase in the number of non-Irish nationals living in Ireland in recent years has led to a growing ethnic mix among the population. This increased diversity of the population is a marked feature of this recession compared to previous ones.

Spatial dimensions of the economic crisis

Most areas throughout the country have been impacted by the recession, with some areas more affected than others. The areas most affected by the economic downturn are the outer reaches of the Dublin commuter belt, particularly in the Border, Midlands and South-East regions. Other disadvantaged inner-city areas and deprived urban estates remain relatively deprived with high levels of unemployment and low levels of education.

Some areas of rural Ireland, such as Donegal and Mayo, also show up as very deprived with high dependency ratios. Loss of people and jobs have led to difficulties in many, particularly rural, communities.

Impacts on psychological and physical health

All these impacts of the economic crisis and subsequent fiscal adjustments have been shown to affect some people's psychological and physical health. Unemployment, debt and other financial difficulties have been shown to negatively impact on family relationships and mental health. Financial stress can also affect people's physical health when there is less money to spend on nutritional food and on heating.

Recognition of resilience

Nonetheless, the impact of financial and other stress on individuals and their families is mediated by their resilience. An overwhelming majority of the population in Ireland remain satisfied with their lives although this percentage has declined since the onset of the economic crisis, with 1 in 7 indicating that they were not satisfied with their lives in 2012. Many commentators have argued for the need for a broader understanding and measurement of economic and social progress in future. This would involve measures of social well-being and environmental sustainability as well as economic growth.

Implications

- **Most people have been impacted, at least to some extent, by the crisis.** For some the impact has been minimal, but others have experienced a catastrophic change in their circumstances. In these circumstances, people become more dependent on public services such as social protection, employment services, education and training, health and social housing. While the public services have been impacted by the economic crisis and fiscal adjustments it remains vital that they provide an adequate service for all citizens who require them, but especially those who are vulnerable as a result of the current economic situation. In this context, it will be critical that the public services can provide support when the economic situation improves by supporting people to take up the available jobs.

- **Those who were least well off prior to the economic crisis remain so.** This is particularly the case for people and families who are long-term unemployed or jobless, have low levels of education and skills, and have children. Particular attention needs to be given to these households to ensure that they are able to take up job opportunities when the economy improves, that they are adequately supported if for some reason they cannot work, and especially that their children are supported to exit intergenerational poverty. Early education and care, and the education system in general, have a central role to play here. Also important is the distribution of jobs—so that the proportion of jobless households is reduced. This goal will require the collaborative efforts of the social welfare system, the education and training agencies, and the job creation/promotion organisations.

- **Those who have lost jobs, had business failures, seen large falls in income or wealth, or who carry a large excess debt burden, are experiencing an effect of a different order.** Some of these households and individuals may have bought properties at the height of the boom and now find the property is in negative equity and they are unable to meet their debts. Some of these individuals and households have/had been working and have some skills and qualifications. They require supports of a more short-term nature, both: a) in terms of use or enhancement of their skills so that they are well positioned to take up a job when the economy recovers, and b) supports to assist them to manage their debts. Others, however, may be in danger of falling into long-term unemployment and poverty. They will require additional supports and training, with special attention being paid to children in these households to avoid the transmission of intergenerational poverty.

- **Policies and institutions matter.** To date, Ireland's social welfare system has been reasonably successful in ameliorating the worst effects of the recession, demonstrating that poverty and vulnerability are not intractable problems. For example, many older people and people in poverty have been helped by policies and institutions in recent years. However, it is a valid question to ask whether the policies and institutions in place before the crisis can continue to meet the demands made of them in the current recession. As outlined in this and other NESC reports, various reforms are ongoing in relation to Irish public services. A critical factor will be the extent to which they can ameliorate the social consequences of the economic crisis, while putting in place a modern system of public services. Some relevant factors here are that: a) it may be some time after the economy begins to grow before we see an increase in employment (sometimes referred to as 'jobless growth'), so that extra efforts will be required on the job creation front; b) the skills requirements for the future economy may be somewhat different from the past so that education and training agencies will be required to adapt accordingly; and c) the crisis has highlighted the importance of good governance arrangements and the requirement for having accountability mechanisms in place.

Thus, it may be timely to revisit the developmental welfare state approach, which NESC advocated eight years ago (NESC, 2005), to review its appropriateness in the current circumstances and what changes and reforms might be necessary to ensure that it can protect and support both society and the economy in the recovery years ahead and thereafter.