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# THE TRUE COST OF AUSTERITY AND INEQUALITY

## Northern Ireland Case Study

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Following many years of political and sectarian conflict, the signing of the Good Friday Agreement in 1998 saw Northern Ireland experience a decade of relative peace and a growing prosperity. Northern Ireland created around 124,000 new jobs in the decade to 2008 – a remarkable performance and on par with US rates of job creation.<sup>1</sup> In 2008, however, the recession, which engulfed the global economy, brought unprecedented change to almost every economy in the world. In Northern Ireland any economic gains from the preceding decade were eroded, with a crash of the housing market, the collapse of the construction sector and a reduction in exports, and the resulting impact on unemployment which grew from 4.3% in December 2007 to 7.5% in October 2013.<sup>2</sup>

Northern Ireland is already one of the UK's most disadvantaged regions, with some of the lowest wages and one of the lowest labour productivity rates. Much of this is owed to a number of unique circumstances, not least the legacy of the recent protracted conflict. Political and sectarian violence has lessened in the past decade but has not been eliminated. This diverts attention from social and economic problems and has a subsequent negative effect on the international reputation of Northern Ireland and investment in the region.

Despite the advances over the past decade, poverty in Northern Ireland has increased from 18% in 2002 to 22% in 2013. There are very real concerns about the future, as Northern Ireland is now facing continuing UK government-led austerity, public sector cuts and welfare reform. The levels of inequality we are now witnessing in the UK overall have not been seen since the 1920s<sup>3</sup>, driven by a growing share of income going to the richest, in particular the top 1%. Since 1975, income inequality among working-age people has risen faster in the UK than in any other Organisation for Economic Co-operation and Development (OECD)

country, including the United States<sup>4</sup>, such that the UK now ranks as one of the most unequal countries in the OECD.<sup>5</sup>

*“We are seeing the divide widen between rich and poor. Many young people have nothing and are struggling while they see others pampered. We are witnessing a growing inequality, the gap is widening.”*

Joanne McCourt, Manager, Belfast Central Mission's Armagh & Dungannon Housing Support for Young People

## **UK Policy of Austerity**

In 2010 the UK government announced its four-year austerity budget with plans to aggressively cut public expenditure and increase taxes in order to reduce the national deficit, give confidence to the markets and therefore strengthen and deliver growth to the economy. After three years of austerity, however, the government's fiscal policies have delivered little growth. Public debt has risen from 56.6% of GDP in July 2009<sup>6</sup> to 90% of GDP (£1.39 trillion) in 2013.<sup>7</sup> Unlike the Republic of Ireland, where austerity measures were forced upon the Ireland government in return for bail-out funds, the UK debt was not out of control. There have been times when the debt has been significantly higher. Additionally, the debt was more long-term and did not need to be paid down quickly.

## **Northern Ireland Policy of Austerity**

In Northern Ireland the power-sharing government worked co-operatively with Westminster to push through austerity plans. Northern Ireland's discretionary spending comes in the form of a block grant with provisions for current and capital spending. The austerity measures in the 2010 Spending Review and resultant budget require that day-to-day spending in Northern Ireland be cut by 8% and the capital spend by a massive 40% to 2015. The total cuts over this period represent a cumulative real term decrease of £4 billion compared to the baseline in 2010-11.<sup>8</sup> The Comprehensive Spending Review in June 2013 further deepened the cuts by 2% of its revenue budget for 2015-16. This equates to approximately £350 million in further cuts for Northern Ireland. These targets are being met through cuts to education, agriculture, justice, regional development, culture and the protection of the environment. In addition, a public sector pay freeze was introduced and a sale of publically-owned assets is being rolled out, with Royal Mail being privatised and the sell-off of the student loan book to a private company being implemented in stages. The cuts in the UK overall have been described as the biggest since World War II.<sup>9</sup> Cuts will hit Northern Ireland the hardest as the region depends on public spending for 62.2% of its output, compared to a figure of 39.8% in the UK. It is clear that Northern Ireland is being disproportionately affected by the cuts.

# Unemployment

The promised growth and employment increases from these cuts have failed to materialise.

While the unemployment rate has fallen slightly in recent months, economic inactivity and long-term unemployment are climbing despite the overall fall in joblessness. Unemployment in Northern Ireland now stands at 7.5%<sup>10</sup> which is below the UK average of 7.7%. However, these statistics do not show the whole story. The number of people classed as “economically inactive” is still increasing. The Office of National Statistics defines economically inactive people as those who are not in work and do not meet the internationally agreed definition of unemployment.<sup>11</sup> They are people without a job who have not actively sought work in the last four weeks and/or are not available to start work in the next two weeks. The numbers include those fulfilling other roles outside the paid labour market, such as carers.

The rate of economic inactivity is 27.4%<sup>12</sup> – the highest of the UK regions and well above the UK average of 22.2%.<sup>13</sup> In fact, Ulster Bank economist Richard Ramsey calculates that, for the most part, the latest quarterly decline in the unemployment rate was due to a rise in economic inactivity rather than a growth in employment<sup>14</sup>.

In the most recent Quarterly Economic Observer dated December 2013, the Nevin Economic Research Institute cautioned “if this trend continues there is a possibility that it will drive down headline unemployment rates although limited progress would be made in achieving additional employment and activation”.<sup>15</sup>

Like many other European countries, Northern Ireland is stricken with the twin problems of growing long-term unemployment and youth unemployment. Unadjusted figures show that 47.2% of the unemployed have been unemployed for one year or more.

Youth unemployment is rising, with the rate of unemployment for those between the ages of 18-24 standing at 23.8%.<sup>16</sup> The lack of effective measures to counter growth in youth unemployment is leaving a generation behind.

Since 2007, youth poverty increased considerably in 19 OECD countries. In Estonia, Spain and Turkey, an additional 5% of young adults fell into poverty between 2007 and 2010. In the United Kingdom and Ireland, the increase was 4%.<sup>17</sup>

According to a recent report by the Nevin Economic Research Institute, the consequences of youth unemployment are of even greater concern and more acutely felt in a post-conflict society such as Northern Ireland.<sup>18</sup> Youth unemployment has far reaching personal, community and societal consequences. The article concluded that it is far from certain whether a recovery in the economy will be sufficient to reverse it. Young people can face ongoing problems, including health effects and lower wages, when in future employment.

*“We are seeing a difference in types of referrals from eight years ago. At that time the majority of our referrals were care leavers or people with drug or alcohol abuse problems but now it is more young people who are educated, with no drug or alcohol problem, no abuse problem but for one reason or another find themselves homeless and struggling.”*

Joanne McCourt, Manager, Belfast Central Mission’s Armagh & Dungannon Housing Support for Young People

Northern Ireland has only enjoyed relative peace for 15 years; in this post-conflict society large numbers of youths detached both from the labour market and from training or education should be a major concern for policy makers. Civil disturbances have the capacity to escalate to more serious conflicts if a cohort of young people feel socially excluded and marginalised in society.

Even being in employment isn’t always enough to lift people out of poverty. Across the UK there has been an increase of in-work poverty.<sup>19</sup> A recent study<sup>20</sup> by KPMG shows that Northern Ireland has the highest proportion of underpaid workers in the UK, with one in four earning a salary that fails to support a basic standard of living.

By 2010 only half of children in poverty in Northern Ireland lived with a working parent. Young people, again in the 18-21 age bracket, are most affected in this area. Women are also significantly more affected than men, as are part-time workers when compared with those in full-time positions.

## **Welfare reform**

The proposed welfare reforms, which originate for the most part from the UK government, aim to simplify the benefits system, improve work incentives to encourage claimants to move from benefits to work and to reduce administration costs. The impact of the reforms, however, will vary considerably in different areas of the United Kingdom.

In Northern Ireland implementation will have a huge impact on a significant percentage of the working population. A recently launched research paper titled *The Impact of Welfare Reform on Northern Ireland* shows that Northern Ireland will be the most affected region in the UK, with £750 million a year taken out of the local economy. This is the equivalent of £650 a year for every adult of working age, which is substantially larger than in any other part of the UK. A key effect of the welfare reforms will be to widen the gap in prosperity between Northern Ireland and the rest of the UK, as well as richer and poorer parts of Northern Ireland.<sup>21</sup>

The exceptionally large impact of the reforms on Northern Ireland owes much to UK-led cuts to incapacity benefits and Disability Living Allowance (DLA), which affect some of Northern Ireland’s most vulnerable people.

*The Impact of Welfare Reform on Northern Ireland* report identifies Northern Ireland as something of an extreme case. The overall incapacity claimant rate in Northern Ireland in November 2012 was one-in-10 of all adults between the ages of 16 and 64. This puts Northern Ireland well ahead of the UK average of 6.5% and ahead of all other UK regions.

Likewise, Northern Ireland has the highest DLA claimant rate among adults of working age at 10.1% in May 2012. This compares to 6.2% in Scotland, 6.8% in Wales and an average of 4.9% across Great Britain as a whole. One of the reasons identified for this significantly higher level of claimants is the long-term impact of the conflict, with a high rate of claimants diagnosed with mental health illnesses.<sup>22</sup>

The Northern Ireland government has not yet implemented the legislation necessary to facilitate these reforms. The UK government is warning that Stormont's failure to implement welfare reforms will mean a £200 million cut to the block grant by 2015. They are warning a £5 million-a-month reduction is to commence from January 2014.

The impacts of such reforms will be clearly substantial for Northern Ireland and the knock-on effect for local spending and local unemployment will be negative. The UK government has recently announced plans for another £25 billion in cuts after the next election in 2015.

*"Welfare reform will badly affect the working poor. The debate draws a false picture of people who need benefits."*

John O'Farrell, Irish Congress for Trade Unions (Northern Ireland Committee)

## Women

These cuts and reforms are taking place against the backdrop of rebalancing the Northern Ireland economy from public to private sector. The impact of such efforts will not affect women and men equally.

Women make up two thirds of the public sector workforce and are likely to bear the brunt of job losses.<sup>23</sup> Half of all employed women work in public administration, education and health services.<sup>24</sup> While a degree of progress on women's position in the Northern Ireland labour market had been made pre-economic crisis, these reforms could see women's equality gains slipping backwards. More jobs held by females were lost in the recession than those held by males and from 2012-2013 there was a marginal decrease in women's wages from 91% of the male average to 90%. Current research demonstrates that the UK's progress on women's economic empowerment has come to a halt since the recession started.<sup>25</sup>

Along with the cuts to the public sector, proposed welfare reform will have a very serious effect on women. The lack of childcare infrastructure in Northern Ireland combined with a growing number of single parents

being required to seek work has pushed women's unemployment up over the past few years to a 25-year high.<sup>26</sup> Whilst overall levels of unemployment have been improving recently, the combination of the factors above has meant that women only account for 24% of those benefiting from the fall in overall unemployment levels since they began falling in the final quarter of 2011.

*“Women are acting as shock absorbers for the cuts, bearing the brunt of job losses, reduced benefits and the rollback of public services.”*

Anna Bird, Acting Chief Executive of the Fawcett Society<sup>27</sup>

## Inequality

There can be little doubt that Northern Ireland is becoming a more unequal society. The gap between rich and poor is widening with the UK having a pre-tax income inequality index of 0.52, greater than the United States at 0.49<sup>28</sup>. The only people benefiting from austerity are the richest 10% of Europeans, who have seen their wealth rise. In Britain, the richest 1,000 individuals saw their wealth increase by £138 billion in real terms between 2009 and 2013.<sup>29</sup>

When all austerity measures are taken into account, including cuts to public services and changes to taxes and welfare, in the UK overall the poorest tenth of the population are by far the hardest hit, seeing a 38% decrease in their net income over the period 2010-15.<sup>30</sup> By comparison, the richest tenth percentile will have lost the least, comparatively, seeing a 5% fall in their income.<sup>31</sup> In Northern Ireland incomes below the median have not grown in recent years while higher earners' income have grown, though at a slower rate than in the rest of the UK.

The UK, Ireland, Greece, Italy, Portugal and Spain – countries that are most aggressively pursuing austerity measures – will soon rank amongst the most unequal in the world if their leaders don't change course. For example, the gap between rich and poor in the UK could become the same as in South Sudan or Paraguay.<sup>32</sup>

## Conclusion

In 2012, the IMF admitted that austerity was not having the desired effect. The World Economic Forum has for the past two years identified rising inequality as a major risk to the world. As the consequences of the UK-led austerity measures unfold, we are bearing witness to how Northern Ireland is becoming a poorer, more unequal society.

Oxfam offers alternatives to austerity policies; drawing lessons from the calamitous periods of austerity cuts to social spending in Latin America, South East Asia and Africa throughout the 1980s and '90s. Some countries in these regions took two decades to claw their way back to

square one. Oxfam is asking the Northern Ireland and UK governments to champion a new economic and social model that invests in people, strengthens democracy and pursues fair taxation. Governments could raise billions for public services, such as health and education, by increasing tax on the wealthiest, and also cracking down on tax loopholes and avoidance schemes. The cost of Northern Ireland's stolen future will be too high to bear for future generations if we don't act now.

# NOTES

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<http://www.nisra.gov.uk/index.html>
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- <sup>4</sup> OECD (2011) 'Divided We Stand: Why Inequality Keeps Rising. Country Note: United Kingdom',  
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- <sup>10</sup> Northern Ireland Statistics and Research Agency (2013), August-October 2013  
<http://www.nisra.gov.uk/index.html>
- <sup>11</sup> A quarter of the inactive were sick or disabled, just over a quarter were looking after family, 27% were students, 12% were retired and 9% were economically inactive for some other reason.
- <sup>12</sup> Northern Ireland Statistics and Research Agency (2013), August-October 2013,  
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- <sup>13</sup> Region and Country Profiles, Key Statistics, December 2013  
<http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-337674>
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- <sup>23</sup> B. Hinds (2011) 'The Northern Ireland Economy: Women on the Edge, A Comprehensive Analysis of the Impacts of the Financial Crisis' Women's Resource and Development Agency, July 2011.  
<http://www.wrda.net/Documents/The%20NI%20Economy%20%20Women%20on%20the%20Edge%20Report.pdf>
- <sup>24</sup> Northern Ireland Statistics and Research Agency (2013) 'Women in Northern Ireland', Labour Market Statistics Bulletin, September 2013.  
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- <sup>25</sup> The UK has regressed from 14th to 18th out of 27 OECD countries on women's employment since 2007.
- <sup>26</sup> ONS (2012) Statistical Bulletin: Labour Market Statistics, December 2012:  
[http://www.ons.gov.uk/ons/dcp171778\\_287888.pdf](http://www.ons.gov.uk/ons/dcp171778_287888.pdf).



<sup>27</sup> The Fawcett Society is an organisation in the United Kingdom that campaigns for women's rights. The organisation's roots date back to 1866, when Millicent Garrett Fawcett dedicated her life to the peaceful campaign for women's suffrage.

<sup>28</sup> See <http://stats.oecd.org/#> (Table: Inequality, by country) The OECD Income Distribution database (IDD) has been developed to benchmark and monitor countries' performance in the field of income inequality and poverty. It contains a number of standardised indicators based on the central concept of "equivalised household disposable income", i.e. the total income received by the households less the current taxes and transfers they pay, adjusted for household size with an equivalence scale. While household income is only one of the factors shaping people's economic well-being, it is also the one for which comparable data for all OECD countries are most common.

<sup>29</sup> The combined wealth of the 1,000 richest individuals in the UK in 2009, as calculated by the Sunday Times Rich List (<http://features.thesundaytimes.co.uk/richlist/live/>, NB. paywall), was £258bn (R. Nikkah (2009) 'Sunday Times Rich List 2009 – Analysis', The Telegraph, 25 April, <http://www.telegraph.co.uk/finance/5220243/Sunday-Times-Rich-List-2009-Analysis.html>) and £450bn in 2013 (The Telegraph (2013) 'Sunday Times Rich List: Alisher Usmanov is Britain's wealthiest man', 21 April, <http://www.telegraph.co.uk/finance/10008314/Sunday-Times-Rich-List-Alisher-Usmanov-is-Britains-wealthiest-man.html>). £450bn in 2013 is approximately £396bn in 2009 GBP, based upon a total rate of inflation of 13.5% since 2009.

<sup>30</sup> T. Horton and H. Reed (2010) 'The distributional impact of the 2010 Spending Review', Radical Statistics 103, pp.13-24, <http://www.radstats.org.uk/no103/HortonReed103.pdf>

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<sup>32</sup> N. Alonso (2013) Head of Oxfam's EU Office, Press Release 13 September 2013. <http://www.oxfam.org/en/eu/pressroom/pressrelease/2013-09-12/25-million-more-europeans-risk-poverty-2025-if-austerity-drags-on>

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