

# NERI Research inBrief

November 2013 (no 8)

## Do the Young Unemployed Need the Incentive of Reduced Social Welfare?

Rory O'Farrell

ISSN 2009-5848

### SUMMARY

Budget 2014 introduced significant cuts to Jobseeker's Allowance (which is means tested) for young workers. The payment to new entrants aged 22-24 is reduced from €144 to €100 per week, and for those aged 25 the payment is reduced from €188 to €144 per week. The stated aim is to "ensure that young people are better off in education, employment or training than claiming", and the Government hopes to save €32 million from the measure.

Despite being portrayed as work-shy, 82% of those aged 18-24 are not on the Live Register, 85% of those who are have previously worked, and almost half of young people on the Live Register have been claiming for less than 6 months. As there are 32 unemployed people for every job vacancy, the issue is one of a lack of jobs, rather than a lack of motivation.

### KEY POINTS

- Jobseeker's Allowance is cut by 30% for new entrants aged 22-24, and by 23% for those aged 25.
- The Government aims to save €32 million with this measure.
- 82% of those aged 18-24 are not on the Live Register.
- 85% of those aged 18-24 who are on the Live Register previously worked.
- 41.8% of those aged 18-24 are at risk of poverty or social exclusion.

#### Nevin Economic Research Institute (NERI)

31/32 Parnell Square  
Dublin 1  
+ 353 (1) 8897722

e-mail: [info@NERInstitute.net](mailto:info@NERInstitute.net)  
Web: [www.NERInstitute.net](http://www.NERInstitute.net)

Carlin House  
4-6 Donegall Street Place  
Belfast  
BT1 2FN  
Northern Ireland  
+ 44 28 90247940



*Research for new economic policies*

### How are young unemployed affected by Budget 2014?

In the Republic of Ireland there are two main methods by which unemployed workers can gain financial assistance from the State: Jobseeker's Allowance and Jobseeker's Benefit. To be entitled to Jobseeker's Benefit a worker must have made sufficient PRSI contributions (sometimes referred to as a 'stamp'). The money received is not linked to a person's age, but it is linked to their employment history. There were no major changes to Jobseeker's Benefit in Budget 2014.

However, changes were made to Jobseeker's Allowance. To receive Jobseeker's Allowance the recipient must first pass a 'means test'. To pass this test the person's resources must be sufficiently low. In effect this restricts the payment received by those with high savings. When making an assessment, the income of a partner or spouse is taken into account. Of particular relevance to young unemployed is that for those aged 24 or under the 'benefit and privilege' of living with parents is included.

Jobseeker's Allowance is also linked to a person's age. In 2013 the maximum personal rates of Jobseeker's Allowance are €100 per week for those aged 18-21, €144 for those aged 22-24, and €188 for those aged 25 and over. In 2014, the rates will change for new entrants. Those aged 22-24 will have their Allowance reduced from €144 to €100 per week and the Allowance for those aged 25 is reduced from €188 to €144. People must now wait to the age of 26 to receive the full rate.

The rationale for the changes given by the Government was to "ensure that young people are better off in education, employment or training than claiming."<sup>1</sup> Clearly the emphasis is on incentivising young people to take up work or training. The Department of Public Expenditure and Reform (2013) estimate that €32 million will be saved by the changes in 2014.

<sup>1</sup>

<http://www.welfare.ie/en/pressoffice/Pages/pr231013.aspx>

### Is youth wasted on the young?

It is worth examining to what extent young people need to be pushed into taking up work. Any analysis must take into account the poor state of the Irish labour market, with only one job vacancy available for every 32 unemployed workers (NERI, 2013). Fortunately the Live Register figures published by the Central Statistics Office (CSO, 2013) give a wealth of information regarding those in receipt of Jobseekers Allowance. It should be noted that being on Jobseeker's Allowance or Benefit does not necessarily mean a worker is unemployed. They may be working part time, but receive a social welfare payment for the days they do not work.

During the recession there has been a massive increase in the number of people on the Live Register (the Live Register includes those on Jobseeker's Allowance, Jobseeker's Benefit, and also some on different programmes). In January 2007 only 30,800 people aged under 25 were on the Live Register, and 126,900 aged 25 and over (seasonally adjusted). By October 2013 this had more than doubled for those under 25 (to 64,400), and almost tripled for those aged 25 and over (to 345,500). Though Jobseeker's Benefit is not linked to a person's age, younger workers are less likely to have the job history that would entitle them to Jobseeker's Benefit. In January 2007 27.2% of under 25s on the Live Register received Jobseeker's Benefit, rising to 36.8% in January 2009. This is due to job losses amongst younger workers who had a sufficient job history to claim Jobseeker's Benefit. By October 2013 this had fallen to 6.3%, reflecting how the recession denied younger workers the opportunity to build up the job history necessary to qualify (a similar pattern emerges for those aged 25 and over).

Although it is difficult for young workers to find employment, the vast majority of than 25s on the Live Register have worked in the past. As shown in Chart 1, 85% have previously worked, and only 15.2% are classed as having no previous occupation. It should be noted that this group includes those that never worked, but also those that

simply did not state what previous occupation they held. This is evidence that the young unemployed already have an incentive to work, as they vast majority have already worked.

Also, young workers are not likely to have been on the Live Register for a long period of time. During the first half of 2013, for those aged under 25, about one third (35%) have been on the Live Register for under 3 months, and roughly half (46.9%) for under 6 months (this compares with figures of 32.8% and 41.6% respectively for those aged 25 and over). Only about one third (34.6%) have been on the Live Register for over a year (compared to 46.4% for older claimants).

Of course these figures are for those on the Live Register, and obviously there are many under 25s not on the Live Register. The CSO estimates that in 2013 359,489 18-24s live in Ireland (and 2,484,034 aged 25-64). This shows that 82.1% if those aged 18-24 are not on the Live Register (compared with 86.1% for those aged 25-64).

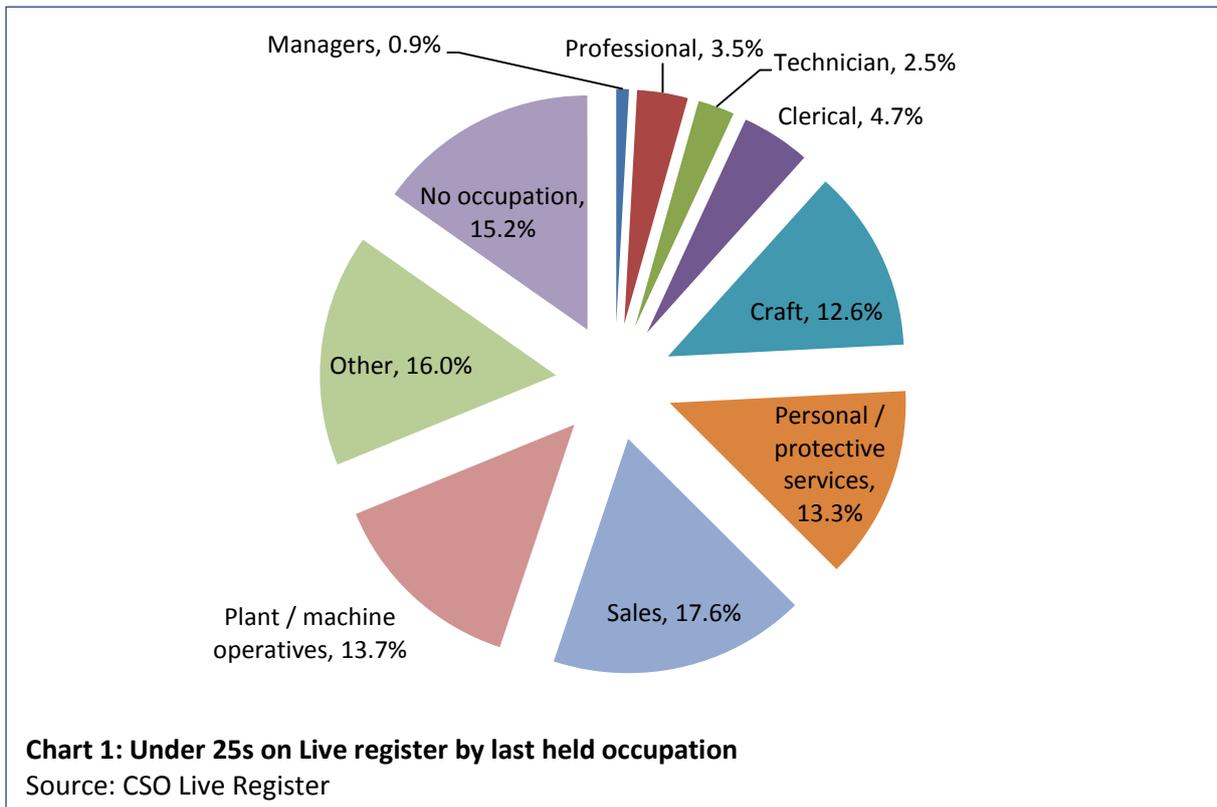
The evidence suggests that the problem is not one of younger workers being unwilling

to work, but younger workers are finding short-term temporary employment.

With regard to further education, the scope for pushing young people to take further training appears limited. According to the 2011 Census, 59.5% of those aged 20-24 (the age group 18-24 is not available) are either still in education or completed third level education. 9.5% of this age group have left education without finishing secondary school (2.2% are 'not stated'). The benefit of back to education schemes for those who have already completed third level education appears limited, and a more focused approach could be considered for those who need to improve their skills. In September 2013 17,702 people of all ages received the Back to Education Allowance.

**How will the new measures affect job mobility?**

It is the nature of labour markets that young workers from some regions need to migrate to regions where more jobs are being created. According to the 2011 Census unemployment rates (as a percentage of the labour force aged 20-24) for those aged 20-24 range from 40.3% in the Border region (25.9% of that age group) to 30.2% in



Dublin (17% of that age group). Job growth has also been somewhat uneven. Between Q2 2012 and Q2 2013; 10,000 jobs were created in the South-West, 3,700 jobs were lost in the Mid-Eastern region (and 7,700 were created in Dublin).

For a young person to establish themselves in another region, and move away from parents, substantial costs are involved. According to the Daft (2013) rental report, renting a single room costs €433 in Dublin City Centre, and €286 in Cork City Centre per month. If a young worker moves to Dublin City Centre, and then becomes unemployed, €100 per week is not sufficient to support themselves without some other assistance. Unemployed young workers may need to move back to their native region, and search for work again. This can affect inter-regional mobility for three reasons. 1) When deciding to take up employment outside of their native region, workers may realise that given the precarious nature of employment there is a strong possibility that they will become unemployed at some point. Given moving costs, it will enter the workers calculation that they will most likely have to move back home if they become unemployed and the moving costs may not be worth the effort. 2) Building social and professional networks are an essential part of finding work and developing a career, with more casual acquaintances being very important (Brady, 2013). Forcing young workers to break these connections, by leaving a region they have worked in to return to their parent's home, can damage their career and hits those from regions with high unemployment particularly hard. 3) Finally, for some schemes (such as JobBridge) pay is linked to social welfare payments. Those on JobBridge will receive €50 per week in addition to their other social welfare. This means a worker may have to survive on €650 per month, which would be extremely difficult without other support. The new measure therefore reduces the incentive to move regions.

### Youth poverty?

According to Eurostat (data code: ilc\_peps01), in 2011 41.8% of those aged

18-24 were at risk of poverty or social exclusion (up from 21.2% in 2006), compared to 29.4% of the whole population. Clearly young people are already a vulnerable group. It remains to be seen how the new measures will impact on youth poverty. It should be noted that Jobseeker's Allowance is already means tested, showing that recipients are in need of the payment. Also, although young people tend to have less dependents, the system already gives payments (such as child benefit) to deal with such dependents. This measure will most likely increase poverty among the young.

### Conclusion

Budget 2014 introduced major changes to the level of Jobseekers Allowance, with a 30% cut for those aged 22-24. This is a blunt instrument. The stated aim was to ensure younger workers are 'better off' working or in further education. The notion that the young are work-shy is clearly not supported by the evidence. 82.1% of those aged 18-24 are not on the Live Register, and of those who are, 85% have worked previously.

### References

Brady, G. (2013). Network social capital and labour market outcomes: Evidence for Irish fiscal and labour market policy, paper presented at *Dublin Economic Workshop*, 18<sup>th</sup> October 2013.

CSO (2013). Live Register. Cork, CSO.

Daft (2013). Daft.ie Rental Report, 2013 Q2, Dublin: Daft.ie.

Department of Public Expenditure and Reform (2013), *Expenditure Report 2014*, Dublin: The Stationery Office.

NERI (2013), *Quarterly Economic Facts: Autumn 2013*, Dublin: NERI.

The views expressed in NERI *Research inBrief* documents are those of the author(s) and do not necessarily represent those of the NERI.

Previous editions of this series are available on the institute's website [www.NERInstitute.net](http://www.NERInstitute.net)