WORKING NOTES

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BUDGET '88

NO PROGRESS ON JOB CREATION

The recent Budget should have been a major step forward in implementing the "Proganme for National Recovery". Only two budgets remain between now and the expiry of the Programme at the end of 1990.

The 1988 Budget has taken many commitments in the Programme seriously, but not job creation. For example, it took steps to stem the growth in the national debt, to honour a pay deal with the public sector, to reform company taxation, to give concessions to the PAYE sector, to protect the living standards of social welfare dependents, and so on. It did not advance one inch, however, the intention in the Programme to create 20,000 jobs a year on average in manufacturing industry alone.

The Government might plead that it is doing this indirectly by helping bring about lower interest rates. It is certainly true that interest rates have begun to come down since the Government began borrowing less. However, to rely on the investment-response from Irish business to lower interest rates being remotely near the scale required to bring about 20,000 new manufacturing jobs a year amounts to passing the buck. Cheaper capital does not compensate for a depressed market (which is what Irish companies supplying the home market now face, largely due to Government cuts) nor for poor product quality and design (which is what many export markets think of Irish products). Also, cheaper capital can lead to labour-substituting investment as much as to labour-needing investment. The Government, therefore, cannot claim to be honouring its jobs commitment in the National Programme when it points to lower interest rates.

Since 1973 (when we've had access to EEC markets and the EEC has had access to ours), there have been only four years when 20,000 jobs or more were created by manufacturing industry. That was in the late 1970s ('77 to '80 inclusive). In each of those years, however, large numbers of manufacturing jobs were also LOST so that the NET gain only once exceeded 10,000. We should note that most of the jobs created in those years were by foreign companies and most of the jobs lost were by Irish ones. Irish companies lost jobs because they lost a large share of their home market to competing imports and because they failed to develop new export markets. Recapturing much of the home market and developing new export markets remains the principal challenge.

This challenge means bringing technological and marketing skills in Irish-owned companies to world standards. It means using the resources of the State to provide risk capital for projects that the private sector alone will not develop either because the length of time that will elapse before profitability is too long, or because the spin-off economic and social effects of the project do not enter directly into the project-developer's balance sheet. It means deliberately fostering strong, 'stand-alone' Irish companies whose market strength would enable them to fund on-going research and development of new products.

The Budget, and - more importantly - the Estimates which the Budget was effectively sanctioning, do not address this challenge. For example ; the National Development Corporation has been given a derisory £700,000 to carry out its work ; the State agencies which have been urged to practice a more "hands on" or interventionist approach to Irish companies are in disarray as they undergo shot-gun marriages and the haemorhage of some of their best staff through redundancy packages.

Nothing in our recent history should lead us to expect the Irish private sector on its own to create jobs on the scale required. The Budget meanwhile is actively adding to the scale of the challenge that is being left at its door. It has done this most obviously by letting go a further 9,000 public servants, for which it is paying out £80 millions in redundancy payments. More importantly, the Estimates which the Budget has sanctioned are seriously deflationary, that is, they are reducing the overall level of activity in the economy. For, in its attempts to get its own books in order, the Government will be putting £468 million less into the economy this year than last. And, sadly for job-creation enthusiasts, capital investment by the Government (down 13 per cent) is once again regarded as an easier area to cut than current spending (down 4.5 per cent). Unemployed people have little to welcome as this Budget is implemented. After July, there will be a few extra pounds for those who have been out of work the longest. The continuation of the Job Search programme, in the context of Estimates which show a marginal cut-back on training and schemes, means that that programme is, probably, becoming the principal channel through which the State will provide whatever training or temporary work opportunities there are. But as for there being jobs to search for, the Budget has made that less likely than ever.

PROVISION FOR THE UNEMPLOYED

One positive feature of the budget is the 11% increase in rates of Unemployment Assistance and Supplementary Welfare Allowance. A number of inconsistencies limit the positive impact of this measure. Though a single person on long-duration urban rate of Unemployment Assistance will receive an additional £4.20 per week the additional increase for an adult dependent is only 80p per week. This represents an increase for married couples of 7.7% compared to 11% for single people. Secondly, under the differential rents scheme in local authority housing, people's rent increases as their income increases. This could reduce the value of the social welfare increases by up to 50% in some cases. Unemployment benefit payments are being increased by 3% in line with inflation. Overall, the unemployment payment levels remain far below the minimally adequate income of between £53.55 and £64.26 at 1987 prices recommended by the Commission on Social Welfare and even far below the minimum payment of £48.00 sought by the Irish National Organisation of the Unemployed (I.N.O.U.) and Combat Poverty as a step towards the introduction of the rates recommended by the Commission.

The Government estimates for 1988 cut the allocation to FAS for training (i.e. training carried out up to now by AnCo) by 7%. Of the two temporary employment schemes, the SES has approximately the same allocation as last year while Teamwork is down 15% The Enterprise Scheme (formerly the Enterprise Allowance Scheme) is down 15% while the Community Enterprise Programme is down 16% These cuts will have the effect of reducing training and temporary employment opportunities for unemployed people. Also there has been no increase in the payment levels for participants on schemes.

A new development in State policy towards the unemployed in the last couple of years has been the entry of the Department of Social Welfare into the area of 'Programmes for the Unemployed'. The Budget confirms that the Jobsearch programme is to be continued in 1988. A further 50,000 people will be interviewed in 1988. Jobsearch interviewees (including those interviewed but not placed in '87) will get priority in the allocation of 42,000 places on mainline FAS schemes along with 14,000 Jobsearch course places. The Jobsearch programme is fast becoming the standard procedure for allocating places on State schemes. Despite widespread criticism the strong elements of compulsion and welfare investigation included in the Jobsearch programme have been retained.

The Part-Time Job Allowance Scheme, which has been operating on a pilot basis, is to be extended nationwide. It is open to anyone who has been signing on for 13 weeks or more. Participants in the PTJAS are allowed work up to 24 hours a week and pay tax and P.R.S.I on those earnings. They also receive a social welfare payment of £25 if single or £45 if married.

The Minister for Social Welfare has announced his intention to introduce a Pre-Retirement Scheme in the near future. Unemployed persons aged sixty or over who have been signing on for a minimum period (yet to be decided) would be re-classified as 'pre-retired'. What was their dole will then be paid to them as an early pension, paid by means of a pension book at the post office rather than having to sign on.

A SPOONFUL OF SUGAR HELPS THE MEDICINE GO DOWN

The Budget cannot be understood in isolation. The context is the Book of Estimates which was produced last October and which planned cutbacks of over £400 million for 1988. The Budget itself only sugared the pill. It can be understoood as an attempt to placate all the major interest groups so that opposition to the major elements of the 1988 estimates - namely massive cutbacks - might be muted.

Tax relief to the PAYE sector - £152 million in a full year - was designed to win acceptance from the 81% of the labour force who are still working. An extra £70 million in pay was designed to placate the public sector unions, although numbers in the public service were to fall by 9,000 due to an £80 millon redundancy payment.

The farmers and the self-employed became liable for PRSI payments for the first time. However, this also entitled them to social security benefits in the future, which in the long-term is their financial gain. The payment of 3% of income in 1988 rising to 4% in 1989 and 1990, while being criticised by the I.F.A., was substantially less than they feared.

Many of the 166 TDs are Fianna Fail backbenchers from rural constituencies.They were very opposed to the cutbacks in capital spending on educational projects as many schools were in need of repair or rebuilding. They were very pleased with the extra £6.5 million which was being made available to school building programmes mainly in rural areas. As the original estimates planned cutbacks of some £32 million in this area, the budget was still announcing cutbacks of some £25.5 million but in such a way as to win favour from those who might be expected to protest.

Increasingly vocal welfare groups, including the Irish National Organisation of the Unemployed (I.N.O.U.), Combat Poverty and several Church groups, such as the Conference of Major Religious Superiors and the Catholic Social Services Conference had demanded action in favour of the poor. Welfare payments in line with inflation, together with an 11% increase in long-term unemployment assistance, would hopefully mute their opposition to the cutbacks. In fact, however, the 'generosity' of this latter increase must be judged in comparison with other increases. It represents an extra £5 per week to a married couple on long-term unemployment assistance which is less than the increase (£5.40) which a married couple on a salary of £310 per week will receive due to the taxation changes.

The budget sought to stifle opposition to the massive cutbacks planned for 1988 by buying off those groups whose opposition might be expected.

TAXATION — FAIR SHARES?

This budget introduced a number of tax relief measures for P.A.Y.E. earners. The reliefs introduced are regressive as they give greater benefit to those on higher incomes. This regressive impact is compounded by the maintenance of discretionary allowances - mortgage interest relief and relief on V.H.I. and life assurance premiums - at their present levels. With each of these allowances the bigger your income the more you benefit. The underlying point here is that though the P.A.Y.E. sector as a whole carries more than its fair share of tax the same does not hold for each individual P.A.Y.E. taxpayer. Those on higher incomes have the greatest opportunities to reduce their tax liability through allowances and the budget does not change this.

In this budget P.A.Y.E. tax relief is not paid for by making other sectors pay their fair share of tax. The budget introduces some changes in the method of collecting tax from the self employed including farmers and from companies. So as a result of the budget we may hope that a greater proportion of the tax legally due from these sectors will actually get collected. It also adjusts corporation tax to make investment in jobs rather than capital relatively more attractive. However overall levels of tax to be levied on these sectors have hardly changed at all. In fact some companies notably high profit earners such as the banks will pay less tax as a result of the adjustments in corporation tax. Furthermore there has been no increase in taxation on wealth and property. The failure to broaden the tax base means the tax reliefs are in effect being paid for by increases in indirect taxation and by cutbacks in public services. But cutting services hits hardest at the less well off - those on welfare and lower wages. For many P.A.Y.E. taxpayers then, what is being given with one hand is being taken back with another. An equitable tax system is a just demand but this budget doesn't deliver on it.

BUSINESS RESPONSE

There are as many interpretations of what in the Budget is "good for the country" as there are groups expressing their views. Hardly surprising - nobody wants to lose out. And every group likes to feel that what is bad for it, is bad for the country.

Tom Clinton, the President of the I.F.A., finds the 5% P.R.S.I. to be levied on the farmers in 1990 as "unacceptable to my association". The C.I.I. (Confederation of Irish Industry) finds that "the overriding requirement by which ...(the) Budget should be judged is the commitment to reduce exchequer borrowing by a further 2% of GNP this year". This *could* pave the way for greater investment in Irish industry, since interest on borrowed capital *may* be lower. The F.U.E. (Federated Union of Employers) welcomes the honouring of the pay-policy agreed in the Programme for National Recovery, and finds the extra £5m levied on the Banks "not in conformity with the stated intention of encouraging the development of the financial services sector". The C.I.F. (Construction Industry Federation) claims that the beneficial measures of the Budget would not offset the huge £226m cut in the public capital programme.

In a world of competing and apparently mutually excluding claims, there is the attempt by some interest groups to equate their particular claims with the national interest. For example, the C.I.I. claims that "investment in industry leads to higher output which, in turn, leads to higher employment throughout the economy". True, investment in industry *can* lead to higher employment *in Ireland*, but only, in the first place, if this investment is made in Ireland. The "black hole" - the unaccounted-for export of Irish capital, which attracted so much attention not too long ago - seems to be ignored.

What does all this add up to? Just as each of us tends to judge the details of the budget in terms of "what's in it for me?", so too the interest groups judge it in similar terms. Politics is, of its nature, conflictual. Changes in the economy, which will benefit the less well-off, will not come about by pious aspirations: such changes will only be seriously on the agenda of the budget when the unemployed and social welfare claimants represent as strong a lobby as the other interest groups.

TRADE UNION RESPONSE

The Irish Congress of Trade Unions (I.C.T.U.) described the budget as 'middle of the road'. They welcome P.A.Y.E. tax relief, and see the shift in corporation tax in favour of jobs rather than capital as progressive. They welcome social welfare increases especially the higher increases for those on the lowest social welfare payments. They support the inclusion of farmers and the self employed in the P.R.S.I. system . They are however 'disappointed' at the low rate of 3%, they favoured the 6.6% recommended by the National Pensions Board. Also they believe that the level of corporation tax, company tax and capital taxes generally remains far too low. On the cuts overall they state "Congress regrets that the Government has not acceded to Congress demands for easing the more severe cuts in essential social services". They are 'disappointed' at the likely deflationary efffects on employment of the Budget and the absence of any major job creation initiatives.

This seems an extraordinarily muted response to a budget which sanctions some of the severest cutbacks in public spending on essential services such as health and education ever seen in this country and which hardly mentions the crisis of unemployment. The budget did make certain concessions to the I.C.T.U.'s most immediate constituency - employees - through P.A.Y.E relief and through providing for the pay increases for public sector employees agreed in the Programme for National Recovery. On the other hand it ignored just about all the wider demands of the Congress - it offered very little on broader tax reform and it confirmed the Governments abdication of any direct responsibility for job-creation.

The I.C.T.U state that "given the crisis of mass unemployment more radical measures were needed to create jobs. Job creation remains the top priority for the I.C.T.U. and it looks like we will have to fight hard to get the Government to implement the target of 60,000 jobs in manufacturing industry which were agreed in the Programme for National Recovery". At the moment the only strategy they have for 'fighting' is through negotiation around the Programme for National Recovery. On the evidence of this budget they have yet to show how these negotiations can make job creation a real priority of Government action.

CHURCH RESPONSES

"Irish people do not want to promote policies which benefit themselves while driving more people into poverty" (C.M.R.S., Conference of Major Religious Superiors). Yet in the Budget Ireland's overseas development aid (ODA) was reduced by £11m (26%). What has happened to our not-too-distant generosity shown in Bod Geldof's "Band Aid" ? It's 'strictly business', this time.

And it is not only 'strictly business' for Third World countries: what we do to others we do to ourselves: the £10 hospital charge remains, while tax relief on VHI remains unchanged; a wage earner on £5,000 p.a. will receive an increase of £1.00 per week, someone on long-term unemployment assistance, £4.20 - receiving an apparently enormous increase of 11%, - while, in contrast a £15,000 wage earner will gain £6.00 per week. This Budget "moves our society further in a direction where political priorities are more concerned with the demands of the better off than with the needs of the disadvantaged" (C.S.S.C., Catholic Social Service Conference, of the Dublin Archdiocese). For the unemployed especially, this Budget displays a feeble attempt to alleviate what the Government's own Commission on Social Welfare described as "the seriously impoverished situation of the unemployed". In gross terms - tax-payers will receive £91m in relief this year, public sector employees will receive £70m, while social welfare recipients get £45m. This budget is biased in favour of the better-off, and the Minister hardly disguises this: in the context of social welfare he refers to "fraud and abuse of the system", while he refers to tax evaders as those "who fail to meet their responsibilities" - yet the money lost throught the former is only a fraction of that lost through the latter.

Both the C.M.R.S. and the C.S.S.C. *WELCOME* - with the strong qualification mentioned above - some of the changes. For instance: the flat-rate increase of £4.20 for the long-term unemployed and those on Supplementary Welfare Allowance; the 6% increase in child dependent allowance; the general 3% increase in social welfare payments; the £3m allocation for the homeless, over 3 years.

Both organisations strongly *CRITICISE* the Government's failure to take what options were possible to tackle poverty. For instance, they criticise: the lack of consideration of low-paid employees outside the tax net; the poor delivery of social welfare services; emigration was ignored; the Homeless Persons Bill was ignored; no plans to create the 20,000 jobs promised in the Programme for National Recovery; no attempt to widen the tax base.

Both organisations rely for the strength of their claims on an appeal to morality. This appeal leads firstly, to a demand for *a fairer distribution* of resources. However, just as important as distribution is the right to participate in the creation of resources, i.e., jobs. An undue concentration on distribution may fail to directly challenge current developments: the ever increasing numbers of those excluded from participating actively in the economy (or emigrating) and the growing resentment of those who see themselves shouldering the economy.

Secondly, the appeal to morality of itself may not adequately value the bargaining world of politics. In a similar vein, "The Work of Justice" (Irish Bishops' Pastoral, 1977) appeals to employees to "respond positively to appeals for reasonable income restraint". And "these appeals should be accompanied by firm assurances that the real value of wages will be protected, that any access accruing profits will be ploughed back into new jobs..." (No.93). Are the Bishops adequately distinguishing charity from the concrete structures which facilitate justice? 'Firm assurances' are, for the most part, as firm as the bargaining power of a particular interest group.

Finally, one looks forward in the future not only to these two welcome submissions from agencies of the Catholic Church, but perhaps to submissions from the Catholic Bishops' Conference, the Church of Ireland and from the Presbyterian and Methodist Churches. ■