WORKING NOTES

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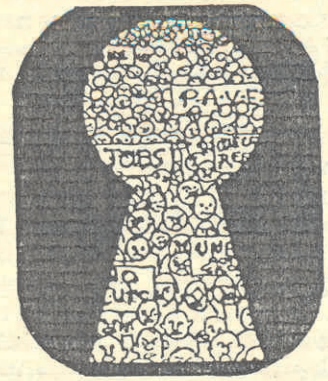


FACTS AND ANALYSIS OF EMPLOYMENT AND UNEMPLOYMENT

THE **BIG** *PLAN*

If Ireland is to share in the benefits to the European Community of the Single Market after 1992, then companies based in Ireland need a level playing field That is what the Plan submitted by the Irish Government to the European Commission in March is all about. It sets out how Irish and European money should be spent in the Irish economy to ensure that companies are not at a specific disadvantage with respect to the rest of Europe because they have to cope with an inadequate road network, congested port facilities, or whatever.

The STAKES are big. The increased competition associated with 1992 wil ruthlessly expose weaknesses in the Irish economy. Capital and mobile workers will head to where the pickings are richer. Already, we can see investment overseas by Irish companies rapidly increasing (publicity quoted companies spent nearly £1 bn overseas in 1988 alone). We have witnessed too the emigration of many of our graduates (up from 6 per cent of those graduating in 1983 to 19 per cent in 1987). Some of this mobility is a good thing - Irish companies positioning themselves to capture export markets and to weather downturns in the our small home market, and Irish workers seeking experience overseas that they cannot get at home. But will there be even larger inflows of capital and skills to compensate for what is leaving our economy and to see that it expands rather than shrinks, as our high unemployment so desperately requires ? Will there be companies investing on a significant scale in the Irish economy, and experienced Irish people returning to work here ? That is what the Plan is seeking to ensure.

First, we have to ask : is the Plan on an adequate SCALE ? It envisages total expenditure of some £9 bn. in the Irish economy over the five years, 1989 - 1993. It is hard for the person in the street to know if that is a lot or a little in the context. In plain language, the Irish Government is undertaking NOT TO SPEND LESS on the economy (further cuts in public expenditure, therefore, are to be on non - economic expenditures), the European Funds are being asked to spend TWICE AS MUCH and the Irish private sector is forecast to IMPROVE its investment performance by about one third. Their respective totals, therefore, come to approximately £3.5 bn. and £2 bn.

It is really not a lot to shout about. It is a tragedy that the Irish public finances should be so strait - jacketed by past financial mismanagement at a time when decisive public intervention in the economy would be so important. But they are, and that is fact The European Funds have been doubled in size in anticipation of 1992 so a doubling of Ireland's receipts from them is fair, all other things being equal. The Irish private sector, in the light of the sacrifices being made by the entire community to keep interest rates, inflation and the general business environment attractive, is still offering a performance that the private sectors of the other member States would consider unexceptional.

If the scale of the Plan is no cause for wonder, what of its QUALITY ? Where and how is this £9 bn. to be spent ? Much, in fact, most of what is in this Plan is not new. It is pulling together - for the European Commission's benefit - all that is already underway on the macro - economic policy level and within specific sectors of the economy. It isubstantially re-echos, for example, the Programme for National Recovery and specific policy documents on the food industry (IDA), fisheries (BIM), tourism (Bord Failte), etc.

What is new, and most characteristic, of the Plan is the composite set of measures it puts forward for improving our communication networks with the rest of Europe. The improvements it seeks in our national road network, airports, ports, sea and air services make interesting reading. In particular, it argues that the hour of our roads has arrived ; after the massive investments in electricity generation and telecommunications of the recent past, it is now the turn of our road network to make up its leeway with the standards prevailing in Europe. The PLAN wants £1,152 m. invested in our roads, ports, and the like, over the next five years. The increased average road speed of lorries and the faster through - put of cargo at ports, etc. etc., that this will make possible, it is estimated, will reduce costs to industry by £300 m. each year. "Transport costs for Irish exporters to Europe are approximately twice those incurred by Community countries trading with one another on the European mainland", says the Plan. The argument is that European money can help rectify this and, thus, level the playing field.

The argument may be overstated. No other major document on the Irish economy has ever emphasised so much its "peripherality", i.e. our geographical location on the edge of Europe. There is even the poignant observation that, with the construction of the Chunnel, Ireland will be the only Community member without a land-link to other members. There is a large dose of special pleading here. Even the Confederation of Irish Industry appears to have become aware that the emphasis on "peropherality" could backfire, by discouraging incoming investors. They now point out that "Ireland is closer to the wealthy, densely populated areas of the Community than Portugal, Central and Southern Italy, Southern Spain and Greece" ; and that "130 million people live within 700 miles or a two-day delivery period by surface transport from our east coast ports."

IRELAND

National Development Plan 1989-1993

Submitted to the European Commission on 22 March 1989

Clearly, substantially improved roads and air/sea services can only help companies exporting from Ireland. But, of themselves, they will not create more such companies. There is a danger that the discovery of "peripherality" is going to provide the excuse for an extension of life being granted the passive industrial policies of the past in which the State is the handmaid of the private sector, offering incentives (the new one being first - class transport and communications networks) which - as in the past - primarily foreign companies will come forward to grasp. If this is so, the net will be a surge of jobs in construction but then a settling down to dependence on a foreign-dominated industrial sector whose linkages with the rest of the economy are weak.

It is a pity the Plan did not have as much to say about " late development " as a factor inhibiting our industrial development as it did about 'peripherality' Then, it might have spelt out the type of industrial structure we need to have with the same conviction that it spells out the future road network.

Spelling out our industrial structure would mean facing squarely our need for more large and medium sized, Irish owned companies engaged in exporting. It would mean accepting that the advantages enjoyed by established competitors in the other European countries make joint action by the State, private sector and trade union movement, in fostering specific companies in targetted industrial sectors, imperative if Ireland is to develop an economy that can grow and adapt on its own.

Just which are the Irish industries whose exports are to be enormously facilitated by improved transportation networks ? The Plan is largely silent. With the exception of food processing, no manufacturing industry gets even a paragraph of attention. The Programme for National Recovery had mentioned tool-making, automotive components, mechanical engineering, electronics, clothing, craft products and DIY products - but the new Plan gives no evidence that, since 1987, further progress has been made in identifying measures that would give Irish companies break-throughs in these areas.

Bearing out our suspicion that the industrial policy in the Plan is still too psssive was the subsequent press statement by the Minister for Industry and Commerce. He said that 45,000 of the 100,000 jobs expected from industry and internationally - traded services in the Plan are to come from foreign firms. The remainder, he said, are to come from small industry and medium - sized Irish industry. This is statistical confirmation that we are still relying on foreign firms to be the real motor force in our economy. The industrial promotion activities of the Taoiseach in the USA and Japan bear this out. Such reliance has not brought us sustained growth nor an integrated economy to date. It has not produced a healthy economy anywhere in the world. We should ambition - in the interest of jobs - to be more self-reliant and to have a stronger Irish manufacturing sector.

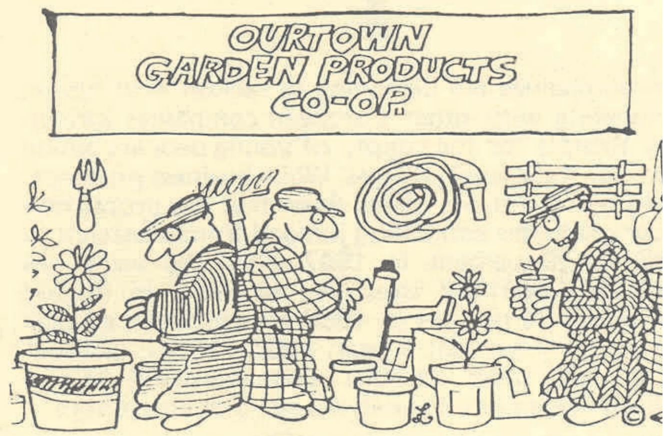
Community Enterprise

A conference report on a meeting held at St. Patrick's Dumcondra, to explore how COMMUNITY ENTER–PRISE actually operates gives a very useful summary of what is happening at present, and the potential for job creation at this level. Pauline Faughnan (U.C.D. Social Science Research Centre) gave a detailed presentation on her research into COMMUNITY ENTERPRISE in Tallaght and in Dublin's North Inner City. She outlined how the groups involved setting up COMMUNITY ENTERPRISES face many difficulties at various stages. Tom Collins (Maynooth) gave a very lively presentation on the struggle facing community groups when they move into COMMUNITY ENTERPRISE work.

The conference attracted a very big turn - out, which indicated a high level of interest among community groups in developing community enterprise. However the conference report brought out by Jim Walsh of the COMBAT POVERTY AGENCY highlights a range of difficulties which are facing groups.

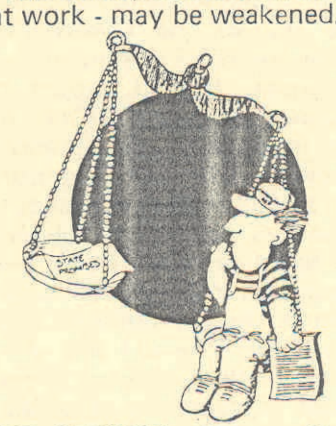
The main difficulties are these:

1) There is a huge drop in income for those on soc welfare, if they try to move into community ent prise; our social welfare system is not linked prope to the needs of those trying to move into commun enterprise;
2) Wages in community enterprises tend to be lo
3) Support from state agencies does not prov enough financial support: it is often given on a ye to - year basis - but needs to be much longer: up three years is recommended;



The conference highlighted the way COMMUNI ENTERPRISE has developed in other places; STRATHCLYDE, a special agency has b established to help with training and funding community enterprises. In Pittsburg, the Univer provides training and specialized support. The w "community" is often presumed to be wo promoting. In association with the word enterp "community enterprise" is presented as a desir goal, as a way for creating enterprises and for crea employment at local level. This seminar report by Combat Poverty Agency has highlighted the w spread interest in the idea of community enterpris

However, it also teaches several important lesso There is a need not to expect local communities create enormous numbers of jobs: the numbers jobs capable of being created by local communit is relatively small, in comparison with the jobs th can be created through private enterprise and t state sector. A further point which the seminar hi lighted is that there is a danger that by channel a great deal of local energy into enterprise devel ment, many other important community activiti community education, community care, commun development work - may be weakened.



CONFERENCE REPORT: Community Enterpris An adequate response to unemployment ?
By Combat Poverty Agency,
8 Charlemont Street, Dublin 8.

Do unemployment traps cause unemployment ?

'Unemployment traps' have got some media attention recently following a much publicised statement by Jim Mitchell T.D., Fine Gael Spokesperson on Labour According to Mitchell "the employee cannot afford to take up the job" because in certain cases the income he or she receives from social welfare is close to or even exceeds the income he or she would receive from work after deductions, work expenses etc. are taken into account. He believes that it is the very structure of our tax and social welfare systems which creates the greatest impediment to jobs". So what is the 'unemployment trap' and how does it affect unemployment ?

It is clearly not true in general that people are 'better off on the dole'. But it may be true in certain cases that income from welfare can come close to income from work, particularly where the unemployed person has a large family. Such a situation can arise because social welfare payments are adjusted according to the number of dependent children while wages are not. But this affects only a minority of the unemployed. Only one in ten of the unemployed receive full allowances for four or more children and six out of ten unemployed claimants do not receive any child allowances.

And, even then, not everybody with a larger family is in the unemployment trap. Other factors also must be taken into account. For example, in his statement Deputy Mitchell suggested that a married man with four children has a higher disposable income on long-term unemployment assistance than in a job paid at the average industrial wage (201.88 gross per week at June 1988). But his calculations depend on certain other crucial assumptions. In his example the person is living in local authority accomodation. This has the effect of increasing the costs of taking a job because of rent increases through the operation of the differential rents scheme. However, if this person was paying a mortgage, they would not face this additional cost of taking a job and, in addition, would have greater benefits from being in work through the operation of mortgage interest tax relief.

So whether or not someone is affected by the 'unemployment trap' depends on the interaction of a number of specific factors (family size, housing etc.) And of course it also depends on the wage that the unemployed person might expect from a job. Those most affected by the trap are those who are unable to compete for better paid jobs.

What is the actual effect of the unemployment trap on unemployment ? Firstly, we should not assume that people affected by the trap will, by definition, not take jobs because of the limited direct financial gain. Other factors enter into this decision. There may be indirect financial benefits from being in work. For example, when claiming unemployment assistance, other family members may be discouraged from working because of the negative effect of such earnings on entitlement to assistance. By moving into employment it may become easier to increase overall household income even where there is no significant change in the income of the head of household. Or one may reason that being in employment increases opportunities to subsequently improve income through, for example, improved chances, of finding a better job.

Also, the vast majority of people prefer to be at work rather than unemployed for other non-financial reasons - having something to do, increased self-esteem, the social contact etc. The very fact that many people with family responsibilities are actually working in low paying jobs, suggests that calculations about disposable income are not the only factors motivating peoples actual (as against hypothetical) behaviour in the labour market.

Secondly, is the unemployment trap an 'impediment to jobs' ? Common sense would suggest that where someone affected by the unemployment trap does not take up a job opportunity, someone else who is not in the trap will do so. So the unemployment trap may affect the composition of unemployment rather than its overall level. It will determine who remains unemployed, not how many.

Thirdly, the unemployment trap is a version of the 'incentive to work' argument. Increasing the incentive to work (however defined) does not of itself increase the opportunity to work, i.e. the number of jobs on offer. Given the miserable job creation record in this country it seems more reasonable to define the problem of unemployment as primarily a lack of opportunities to work rather than a lack of incentives to do so.

To summarise, unemployment traps do exist but for a minority among the unemployed. Even where they do exist they are not an 'impediment to jobs' and removing them will not significantly affect the level of unemployment. Nevertheless for the people in them they are an obstacle to entering employment. As the people affected are likely to be among the most disadvantaged in the labour market, unemployment traps must be tackled. But there is no simple solution to this problem. Certainly any measures that reduce low pay will lessen the likelihood of unemployment traps, as will measures to reduce the tax burden of those on lower incomes through, for example, raising the tax exemption threshold. More generally, the unemployment trap has to be tackled in the context of improved income support for families. However, provision in this area has, if anything, disimproved recently as child tax allowances were eliminated some years ago but nothing was introduced to take their place.

Better Times Ahead:

FOR WHOM

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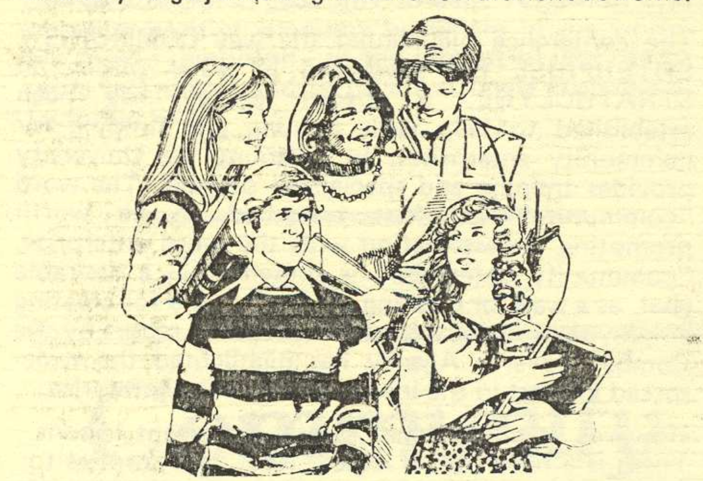
Irish companies are beginning to reckon with having to compete with other European companies (principally British) for the supply of young people coming from our third level colleges. While business prospects were poor it did not alarm them that the proportion of our graduates emigrating jumped from 6 percent in 1983 to 19 percent in 1987. Now the scene has changed. Advertised executive vacancies in Ireland shot up by 30 percent in 1988 (as against an average increase of 4 percent a year, 1983 - 1987). October figures will show whether this translated into a similarly large jump in graduate recruitment at home.



Since 1983, some patterns have been built up which Irish companies will either have to emulate or break, e.g. the recruiting visits to Irish campuses by overseas companies where they scatter incentives like the IDA; the awareness among Irish graduates of the much lower personal taxation in the UK; the pull of friends overseas - "sure, all my class is there", etc.

In this regard, it is disturbing to see personal taxation moving to the top of the Confederation of Irish Industry's hit list for 1989 (President's address to CII Annual Conference). Ireland should not want to import the yuppie class of the UK nor that country's degree of social inequality. The CII and the Union of Students of Ireland (USI) should ensure that those graduating are as fully informed about the cost of mortgages abroad as about their levels of taxation. Ireland's low interest rates are worth several percentage points in taxation to the home-owner, not to talk of the difference in quality between what is on offer here and in London. The CII and USI should also educate graduates to the incidence of taxation on the lowest paid which is where any relief the country can afford should be targetted.