Progressive Democrats

AN PÁIRTÍ DAONLATHACH

Ireland *Can* Work

Action Plan for Jobs

A new deal for Ireland

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Summary

The Problem

- The total number of people unemployed in Ireland, even allowing for welfare fraud, is about 230,000, or 16% of the workforce.
- The total cost of unemployment to the Exchequer is £3.5bn per year, or £70m a week. The dole is swallowing up all our EU structural funds.
- There are now 120 different state agencies involved in job creation; these employ 4,000 people, more than brewing and distilling combined.
- The total cost of our industrial policy, including administration and grants, now amounts to £600m per year.
- Since 1992 the state has spent almost £1.5bn to create 34,000 full-time jobs (excluding scheme places). This works out at over £40,000 per job.

The Solution

- We must encourage firms to create jobs by reducing the rate of employers' PRSI to 7%.
- We must encourage people to take up those jobs by cutting the basic rate of tax to 20% and the higher rate to 40%, by abolishing levies and employees' PRSI, and by increasing allowances and bands.
- The number of job-creation agencies needs to be rationalised, with just two industrial development agencies at national level, and with each county having its own one-stop-shop for local development.
- Subsidised loans for small firms should be increased. Venture Capital Trusts should be fostered to provide development capital for these firms. Grants should be reduced and targeted more into seed capital.
- There must be a major overhaul of the state training system, with much greater emphasis on in-company training. The remit of FÁS has grown too wide: the agency needs to be refocussed and given clear policy goals.

1. Unemployment: Our Chosen Option

Opting for Unemployment

We in Ireland have chosen high unemployment.

Mass unemployment in the Irish context cannot be explained away as some unfortunate calamity that has befallen us, such as drought, or flooding, or an earthquake: it is the result of political decisions.

We did not set out to create high unemployment but that has been the unintended outcome of our actions.

Consider the main components of Irish employment policy and the way in which they operate:

- ***Personal Taxation:*** We penalise work, imposing four separate taxes on earned income, with people on modest wages facing marginal rates of up to 56%. A person on £200 per week pays almost a quarter of their wages to the government in taxes and levies.

- ***Payroll Tax:*** Employers pay PRSI at rates of up to 12% on employees' wages. This is effectively a tax on jobs in a country where jobs are scarce. Coupled with high levels of personal taxation, payroll taxes have a negative impact on job creation: in Ireland, it costs an employer £2.53 to give an average worker an extra pound in take-home pay.

- ***Social Welfare:*** We pay a billion pounds a year to unemployed people on the express condition that they do not work. This marginalises and isolates people, prevents them from gaining worthwhile work experience and bars them from the job market.

- ***Education:*** Our education system fails to meet the needs of large sections of Irish society, particularly the major areas of urban deprivation. Many young people are now condemned to a life of unemployment from a very early age.

- ***Agency Approach:*** We continue to adhere to a misguided philosophy that governments can create jobs by channelling huge sums of public money through state agencies and schemes.

We are not the only ones to practise these policies. Most European Union countries do so also: they too are wrestling with enormous unemployment problems.

We are unwilling or unable to look beyond the European model. Outside of Europe, an altogether different approach has been adopted. Unemployment in the United States, for example, is less than half the European average. In New Zealand, 180,000 jobs have been created in the last three years and, even though the workforce is increasing due to immigration, unemployment has fallen by 50,000 over the same period.

It is time we in Ireland opened our minds to new ways of tackling the problem.

The Real Level of Unemployment: 230,000

Estimating the real level of unemployment in Ireland is a difficult business.

The Live Register is the basic indicator of unemployment. Everybody who signs on is, by definition, available for work and looking for work. Otherwise they would be guilty of fraud. There are about 19,000 people, however, who sign on, not for unemployment compensation, but to maintain their welfare credits: these can be deducted from the Live Register figure.

Excluded from the Live Register are those working on state-sponsored employment schemes. There are some 41,000 people in this group. Taking account of these people, the total number of people without a normal job would rise to well over 300,000.

This is not the full story, however. A recent government survey casts serious doubt on the accuracy and reliability of the Live Register as a measure of unemployment. The survey indicates that there is widespread abuse of the system, with people claiming unemployment benefits who are not entitled to them.

Even a conservative interpretation of the survey would suggest that there are some 80,000 people on the Live Register who are either not available for work or not seeking work.

Adjusting for all these factors, we can estimate that the real level of unemployment in the Irish economy is of the order of 230,000, almost identical to the Labour Force Survey figure (when under-employed persons and discouraged workers are included).

On this basis the real unemployment rate in Ireland is over 16%, more than the twice the level in Britain and well above the government's officially stated figure of 12.5%. By any standards unemployment in Ireland is running at an unacceptably high level.

Estimating Irish Unemployment:
The Situation at Mid-1996

Live Register		288,000
Add:	State-Sponsored Employment Schemes	41,000
Deduct:	Signing on For Credits	(19,000)
	Defrauding the System	(80,000)
Total		230,000

A Threat to Social Cohesion

Unemployment now poses a major threat to the cohesion of Irish society.

Large-scale joblessness has a destabilising impact on Irish society and is giving rise to a whole host of problems, with devastating consequences for the individuals and families affected:

- mass unemployment gives rise to ***social exclusion*** and those without a job are effectively cut adrift from normal society

- the unemployed are more likely to suffer from ***illness*** and other problems

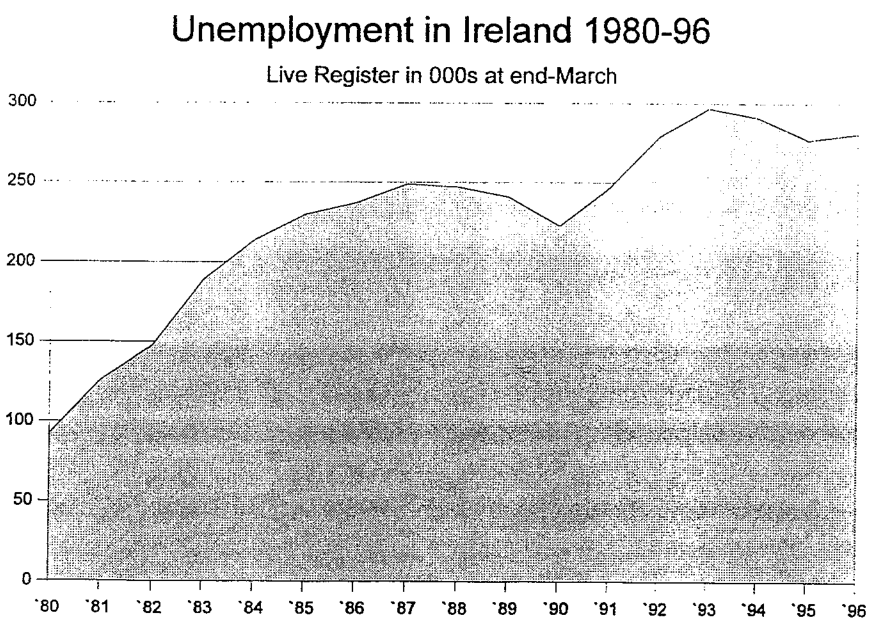
- the young unemployed are often drawn into a culture of ***drugs and crime*** through a sense of hopelessness and the lack of opportunities to improve their own lot

- the children of the unemployed suffer ***a lack of educational opportunity***, creating a vicious cycle of deprivation and disadvantage.

Our failure to create jobs is effectively condemning a substantial part of the population to second-class citizenship and is denying them to right to full participation in the Irish economy.

Unemployment: A Rising Trend

The Irish economy has grown by 75% in real terms since 1980. Yet, over that same period, the level of unemployment actually trebled, with the number of jobless peaking at new highs in each successive economic recession.



This is a disturbing trend and suggests that the level of unemployment may reach unprecedented levels once the current period of economic growth runs its course.

It is vital that we reverse this long-term rise in joblessness if we are to avoid catastrophic social problems in the years ahead.

The Cost of Unemployment: £70m per Week

Unemployment represents an enormous burden on the Irish economy.

We incur major costs as a result of our high level of joblessness:

- ***the lost output is significant:*** the 69 million man-days lost through unemployment is a thousand times greater than the 69,000 lost through strikes in a typical year

- ***the loss of revenue is enormous:*** fewer people at work means fewer people paying income tax.

- ***the cost to the Exchequer is huge:*** in 1995 total spending on dole, employment schemes and similar measures amounted to £1.5bn.

It is a staggering thought that all of the money which we receive in structural, social and cohesion funds from the EU is effectively swallowed up just paying our annual dole bill. In fact, in the last five years alone we have spent £5.5bn on unemployment compensation.

The final report of the government's Task Force on Long-Term Unemployment estimated the total cost of unemployment to the state, in both direct compensation and taxation foregone, at £10,200 per unemployed person per year.

On the basis of the current numbers on the Live Register, on Community Employment Schemes, and on Pre-Retirement Schemes, the total annual cost of unemployment is now running at about £3.5bn, or £70m per week.

2. The Mirage of Employment Growth

Are We Creating Jobs ?

The government tells us that we are creating jobs at a record rate. Yet, the real level of unemployment, even allowing for fraudulent claims, remains stubbornly high. Why is this ?

The headline figures for employment growth are impressive. However, they flatter to deceive. The figures are artificially boosted by the rapid expansion of part-time working and a big increase in the numbers participating in state-sponsored employment schemes in recent years.

Total employment in the Irish economy has grown by 107,000 since 1992 but only 34,000 of these were full-time jobs. The rest of the growth, as can be seen from the table below, was accounted for by part-time jobs and government schemes.

The number of people on schemes has more than doubled in the last three years. There are now more people working on schemes than in the entire food-processing industry, and scheme places have accounted for a quarter of all jobs created since 1992.

When allowance is made for part-time posts and schemes, it is clear that our job-creation performance is a lot less impressive than it first appears.

The fact is that economic growth is not translating into rapid growth in full-time employment: consequently, the level of unemployment remains stubbornly high.

Employment Trends in Ireland 1992-95:
Growth in Various Categories of Employment*

April	*1992*	*1993*	*1994*	*1995*	*Change*
		(000s)			
State Schemes	16	17	31	41	+25
Part-Time	104	127	137	152	+48
Full-Time	***1,040***	***1,034***	***1,046***	***1,074***	***+34***
Total Employment	1,160	1,178	1,214	1,267	+107

* *compiled on International Labour Organisation (ILO) basis*

We are creating jobs, but at a very modest rate. We must recognise that our present policies are never going to deliver jobs growth on a sufficiently dramatic scale to make any real impact on the unemployment problem.

Growth in Part-Time Work

Part-time jobs now account for 11% of total employment in Ireland, compared with just 7% five years ago.

Part-time working plays an important role in the economy and provides many people with an opportunity of participating in the workforce who might not otherwise be in a position to do so. It is also clear, however, that there are tens of thousands of people who are working in part-time jobs simply because they cannot find full-time work.

One of the main reasons for the increase in part-time working is the casualisation of what were previously full-time jobs. In the major supermarket chains, for instance, there has been a big switch towards part-time working and it is estimated that more half of all employees in that sector are now part-timers.

We must interpret our employment statistics accurately. If a supermarket replaces one full-timer with four part-timers we cannot count that as the creation of three new jobs. Official statistics must be expressed, not in raw numbers, but in terms of full-time job equivalents.

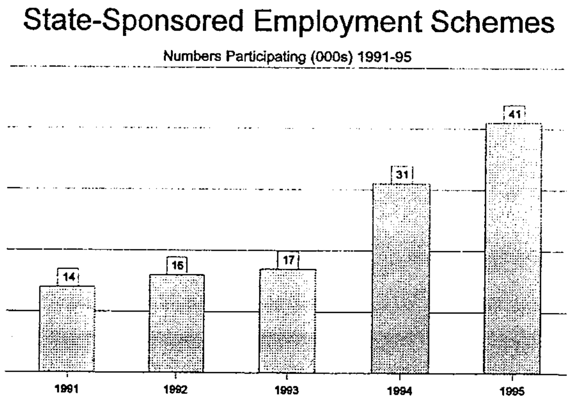
State-Sponsored Schemes

State-sponsored schemes play a valuable role in providing employment opportunities for people who are out of work. Valuable as they are, however, places on schemes are not real jobs.

These schemes, such as the Community Employment Scheme, now form an integral part of our employment system. They give unemployed people a chance to re-integrate into the workforce, while the work undertaken is very valuable for local communities around the country.

The number of people participating in schemes has risen by 27,000 in the four-year period up to April 1995, with a particularly steep increase in 1994 and 1995.

Total numbers now stand at 41,000. This means that the schemes are now the single biggest employer in the Irish economy. In fact, scheme places have accounted for a quarter of all the jobs created in Ireland in the last four years.



Behind the apparently impressive headline figures lurks a very serious under-employment problem.

3. The Casualisation of Irish Employment

The Trend Towards Casualisation

There are now about 150,000 casual workers in Ireland.

There has always been a high level of casual employment in the services sector, particularly in a seasonal industry such as tourism. However, there is now evidence to suggest that casual employment is increasing in the manufacturing sector also.

Figures published by Forfás show that the number of casualised workers in manufacturing industry (including international services) has risen sharply in recent years. In fact, the number has doubled since 1991.

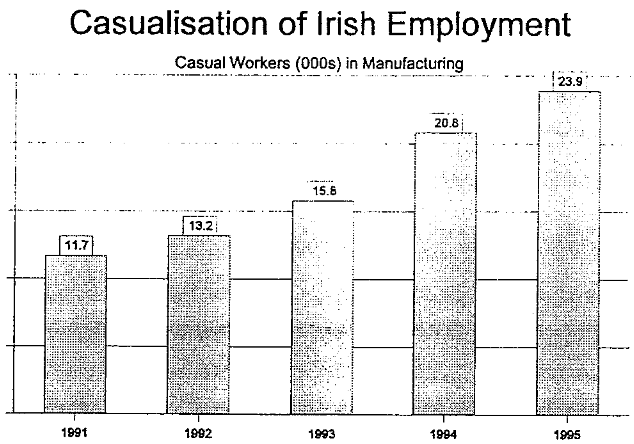
There are now 24,000 people in the manufacturing sector classified as temporary, permanent part-time, or sub-contract employees. Casual workers now account for almost 10% of total employment in manufacturing industry, compared with less than 6% three years ago.

There has been particularly sharp growth in the area of sub-contract employment. Many labour-intensive transnational companies now make extensive use of sub-contract workers. These tend to be employed by intermediaries on fixed contracts of nine months duration in order to circumvent employee-protection legislation. This kind of employment is increasing while we are losing good, permanent industrial jobs such as those in Semperit and Tambrands.

In accordance with the law of unintended consequences, increased labour-market regulation is causing a deterioration in job quality and job security. The more cost obligations we attach to full-time employment, the more employers will seek to avoid them. Labour-market regulation is protecting permanent jobs in the public sector while destroying them in the private sector.

Ironically, the situation of many workers is probably worse than if we had no labour legislation at all.

We must tread carefully, therefore, in the area of labour market regulation. Government, in its efforts to enhance employment quality, may be achieving the exact opposite.



It is wrong that official policies should encourage employers to substitute casual jobs for permanent, full-time positions. The government must not institutionalise casualisation.

The Problems Faced by Casual Workers

Casual workers are at a considerable disadvantage relative to those in full-time and permanent positions.

Their terms of employment are, by definition, less generous than those applying to permanent employees. However, their employment status tends to put them at a disadvantage in a number of other ways also:

- ***Access to Pensions:*** The normal eligibility clauses for occupational pension schemes generally exclude most categories of casual worker.

- ***Access to Finance:*** Financial institutions tend to be unwilling to advance home loans or term loans to casual workers.

- ***Access to Education and Training***: Education and training services are not delivered in a way that makes them easily accessible to people in casual employment, many of whom have to work very unsocial and irregular hours. Yet, further education and training could enable them to improve their lot and move into better-quality jobs.

Increasing the obligations on employers is unlikely to solve these problems - increased casualisation is largely the result of increased regulation. A different strategy is required.

Coping with Casualisation

Casual workers now outnumber farmers in Ireland. Yet, despite their increasing numbers, their interests are being largely ignored.

Government must take action to reduce the burden of disadvantage on casual workers. To this end, it should enter into discussions with both the pensions sector and the banking sector and ensure that both tailor their services to meet the needs of a changing labour market.

Equally, the state's own education and training system must take cognisance of the needs of casual workers and develop programmes specifically for their needs. This will entail a much more flexible approach to service delivery than is currently the case.

Above all, government should recognise that a continuation of present labour-market policies will lead to a further increase in casualisation.

We cannot go on accepting more and more labour-market regulations from a Brussels bureaucracy that is presiding over the highest unemployment levels in the developed world.

If we continue to import regulations from Europe we will exacerbate our competitive disadvantage vis-a-vis the UK, which has opted out of the EU's job-destroying Social Chapter. We should be encouraging employers to hire people, not penalising them for doing so.

4. Job Creation: A Growth Industry

The Culliton Approach

Four years ago the Culliton Review Group made clear and simple recommendations for the management of Irish industrial policy.

The Culliton report placed particular emphasis on the need for far-reaching tax reforms to support job creation. The report called for a fundamental and systematic reform as a matter of urgency. According to Culliton there was no other area in which government could make a more significant contribution to improving the competitiveness of Irish business.

Culliton also highlighted the lack of coordination and duplication of services among the state agencies at that time. The report recommended that government promotional and developmental effort be concentrated in two agencies, one to support indigenous industry and the other to attract foreign investment into Ireland.

In the intervening three years we have seen no such concentration but rather a veritable explosion in the number of state agencies involved in industrial development. As far as tax reform is concerned, there has been little evidence of the urgency demanded by Culliton: instead, the whole process appears to have ground to a halt.

The Agency Approach

Irish industrial policy is now firmly based on the belief that the state creates jobs. In particular, we place great faith in the belief that employment creation results from the efforts of bureaucrats working in state development organisations.

To this end, we have established a whole range of agencies, boards, committees and quangos, a veritable alphabet soup of state bureaucracy, all with the express purpose of generating employment in the private sector of the economy.

The recent emphasis has been on involving local communities more in this official job-creation effort. In fact, all of the new local bodies are dependent on central government for their funding and are effectively run by remote control from Dublin. Democratically elected local government is afforded no role in this highly centralised job-creation effort.

What we now have is a bureaucratic nightmare - the County Enterprise Boards, alone, have almost 500 directors, all appointed by the Minister for Enterprise and Employment. The failure of this state-based approach to employment creation can be gauged from the fact that the level of unemployment is now 200,000 higher than it was fifteen years ago.

There is no reason to believe that the job creation which has taken place would not have materialised anyway due to economic growth, even without the efforts of the agencies.

Clearly, the whole network of state development agencies is in urgent need of rationalisation.

The Job-Creation Industry

Job creation is one of the fastest-growing industries in Ireland, with development agencies sprouting at an alarming rate. We now have:

- ***35 County Enterprise Boards***
- ***34 Leader Groups***
- ***12 Area Partnership Boards, rising to around 33 over the next two years***
- ***several different central government agencies, including Forfás, Forbairt, IDA Ireland and FÁS.***

Add in other bodies such as the Western Development Partnership Board, the National Coordinating Team for local initiatives, promotional bodies such as An Bord Tráchtála, An Bord Bia and An Bord Glas, plus Bord Fáilte and half-a-dozen regional tourism organisations, and it can be seen that we will soon have 120 different state agencies beavering away at the job creation business.

This burgeoning bureaucracy is overseen by half-a-dozen government departments and ten different ministers or ministers of state.

The Numbers Involved

The state industrial development agencies now employ almost 4,000 people.

That is greater than the numbers working in the brewing and distilling industries put together, and is set to rise further as yet more state-funded boards come on stream over the next few years.

The Industrial Development Agencies: Numbers Employed*

Forfás	280
Forbairt	810
IDA Ireland	230
Údarás na Gaeltachta	115
Shannon Development	200
FÁS	2,000
County Enterprise Boards/Leader	325
Total	3,960

* excludes Area Partnership Boards which are still at embryonic stage

5. The Cost of Irish Industrial Policy

Attractive Incentives

Different countries use different policies to attract mobile investment and encourage industrial development. Essentially, these policies are based on some mix of corporate tax incentives and grants.

Most European countries pay out very generous grants to foreign companies. They depend on grants because their corporate tax rates tend to be high: all the major European economies have corporation tax rates well in excess of 30%, with the German rate being over 40%.

Ireland long ago saw the importance of tax incentives in attracting foreign investment. Our special 10% manufacturing rate is the lowest in the developed world. This is a major incentive which has succeeded in attracting hundreds of mobile investment projects into this country.

Given the importance of this incentive, it is vital that we clarify our longer-term intentions in relation to corporate taxation. We must dispel any uncertainty among existing and potential investors and make it clear that the 10% rate will be maintained for manufacturing activity.

An Unattractive Personal Tax Regime

We in Ireland recognise role of taxation in influencing investment decisions. The problem is that we fail to recognise role of taxation in influencing employment decisions.

We operate a wide range of tax incentives to stimulate economic activity in different sectors. As well as the 10% special manufacturing rate, there are also incentives to promote film production, urban renewal and tourism development, for instance.

Why is it, then, that we fail to recognise the need to reduce the burden of taxation on earned income if we are to stimulate employment growth and not just economic growth ?

For the last number of years Britain has pursued a personal taxation policy designed to reduce labour costs relative to its European competitors.

Irish industry competes with British industry not just in the British market, and third-country markets, but also in the Irish market. For instance, we already import Irish whiskey, Irish beer, Irish spring water, Irish pork, Irish chicken - even Irish stew - from the U.K.

We must reform our taxation system so as to put ourselves at a competitive advantage vis-a-vis the U.K. in terms of labour cost competitiveness.

An industrial policy cannot succeed if it fails to recognise the importance of labour costs in stimulating employment growth.

Counting the Cost

The total cost of maintaining our network of industrial development agencies and developmental supports is now running at almost £600m per year.

This figure excludes the £250m per year spent by FÁS on the Community Employment Scheme, and the money spent on promoting tourism and trade. It also excludes the direct costs of the various government departments - Taoiseach, Enterprise and Employment, Arts, Culture and the Gaeltacht - which oversee the work of the job-creation agencies under their control.

In the last three years we have spent roughly £1.5bn to create just 34,000 full-time jobs (excluding the Community Employment Scheme). This works out at over £40,000 per job.

Projected Industrial Development Expenditure 1996

	£m
Forfás	17
Forbairt	94
IDA Ireland	146
Údarás na Gaeltachta	27
Shannon Development	31
FÁS (excl. Community Employment)	161
Other Schemes*	120
Total	596

* *Leader, Interreg, County Enterprise and other programmes*

The financial resources being devoted to industrial policy are increasing at a rapid rate. The total annual budget for industrial support has risen by £250m since 1990.

There is clearly scope to reduce this enormous level of expenditure without damaging the overall job-creation effort. Specifically, we should aim to:

- ***reduce substantially the overall grants budget***
- ***reduce the number of industrial development agencies***
- ***reduce the amount of bureaucracy involved in delivering assistance to industry.***

The savings generated could then be applied to cutting employment taxes. This would boost the overall competitiveness of Ireland as an industrial location and help all those providing employment in the economy, not just those currently in receipt of grant assistance from the state agencies.

Attracting Foreign Industry

Foreign investment is vital to the Irish industrial development effort.

It is estimated that 40% of those employed in manufacturing industry work for foreign-owned firms, while tens of thousands of other jobs are indirectly dependent on these firms.

IDA Ireland competes in the international field with other bodies - such as Locate in Scotland and the IDB for Northern Ireland - to attract mobile foreign investment to Ireland. Despite its title, it is essentially a marketing agency rather than an industrial development agency.

The IDA's trump card is Ireland's 10% tax rate on manufacturing profits. This is of enormous importance to transnational corporations and must be recognised as the single most important factor in attracting foreign investment into this country.

Grant aid pales into insignificance by comparison. The annual benefit of the special tax rate to the transnationals could be as much as £2bn, more than twenty times greater than the IDA's total grants budget of £95m.

There must be a case for a less liberal IDA grants regime, given the extraordinary generosity of our corporate tax regime by international standards. This option was favoured by Culliton and would be all the more feasible if, through tax reform, we were in a position to offer reduced labour costs as a substitute for grant assistance.

The International Grants Competition

With unemployment remaining stubbornly high in Europe, the competition to purchase inward investment with ever-larger grants will intensify.

Big economies such as Germany, France and the Netherlands will pour increasing amounts of money into grant aid in an effort to compensate for their high taxes and high costs. This is a competition which Ireland, with its limited financial resources, is not equipped to win.

Ireland, more than any other European country, should be pressing at EU level for a grants-free Europe.

We enjoy no competitive advantage in our ability to pay grants. We do enjoy competitive advantage in our ability to offer low corporation tax rates and, provided we adopt the right policies in the area of personal taxation, we could enjoy a substantial competitive advantage in terms of labour costs also. Let us work to our strengths, therefore, not to our weaknesses.

If New Zealand, thousands of miles from anywhere, can attract £1.5bn per year in foreign direct investment without paying any grants to transnationals, then there is no reason why Ireland, a few hundred miles from the heart of Europe, cannot better that performance.

Supporting Indigenous Industry

Our policy for supporting indigenous industry is based on the mistaken belief that the state can pick winners.

We levy huge sums in employment taxes on the indigenous sector as a whole; this money is then recycled on a selective basis by a vast and expensive state bureaucracy through the grants system. In this way the state confers substantial benefit on the fortunate few.

The basic problem with this discretionary approach is that the state has no ability to pick winners. In an open, competitive economy it is the market which decides which companies succeed and which companies do not.

Direct state interference in the management of industrial development gives rise to a number of problems:

- ***Unfairness:*** The grants system discriminates in an arbitrary fashion in favour of particular companies and particular sectors. This can have a distorting effect on competition, with the state favouring one company at the expense of others competing in the same sector.

- ***Inefficiency:*** Grants are paid to projects that would go ahead anyway. Grants are also paid to commercially unviable projects that are doomed to failure without continued state support.

- ***Bureaucracy:*** The proliferation of agencies has spawned a huge bureaucracy, with business people running around from one agency to another in search of assistance. Incredibly, a separate tax-clearance certificate is required for dealing with each agency.

- ***Distraction:*** Management energy that should be channelled into running businesses is diverted instead into chasing state assistance. Expertise in exploiting the state support system is now a valuable commodity in Irish business.

It is noteworthy that the giants of the computer industry - Apple, Gateway, Intel and Microsoft - did not exist twenty-five years ago. All grew into huge international corporations from tiny beginnings in a free-market economy without state support.

It is ironic that the Irish government is now giving grant-aid to these firms to locate here, none of whom would have grown to anything like their present scale in a culture as hostile to enterprise as ours.

We must radically alter our strategy for the promotion of indigenous industrial development. We need to cut agencies, cut grants and cut bureaucracy. The state must reduce its direct involvement in the business of job-creation and concentrate instead on ensuring that the economic conditions exist in which private enterprise can generate increased employment.

6. A New Approach to the Funding of Industry

Changing the Culture

We must set out to change the whole culture of Irish business.

There is an over-reliance on grants as a means of funding industrial development in this country which is unhealthy in a private-enterprise economy. What Ireland needs is entrepreneurs, not grantrepreneurs.

Our political culture needs to change also. We must abandon the philosophy that job creation is the result of bureaucrats in development agencies doling out state grants.

How do we explain the success of other countries that pursue an entirely different strategy ? The New Zealand government pays out just £5m a year in grants compared with our £250m; yet, the New Zealand economy has created 180,000 jobs in the last three years.

Could it be that we too could be creating tens of thousands of extra jobs with fewer agencies and less grants ?

Private Funding for Private Industry

The private sector should fund the private sector as far as possible.

We should remove the barriers which currently inhibit private-sector involvement in the funding of Irish industry and reduce the level of dependence on grants. Several major ventures have been successfully launched in Ireland in recent years without grant aid. We have seen:

- ***the purchase of the £25m supertrawler Veronica by Killybegs businessman Kevin McHugh***
- ***the rapid expansion of the FEXCO financial services group in Killorglin, far from the main financial centres***
- ***the tremendous performance of Ryanair in the face of cut-throat, subsidised competition from the state-owned Aer Lingus.***

None of these enterprises, all substantial employers, was funded by the Irish taxpayer.

Cutting capital gains tax and the rate of corporation tax paid by lenders and venture capital companies would encourage greater involvement by private-sector organisations in the provision of both development capital and seed capital. The existing subsidised loan schemes, which are operated by private-sector financial institutions on behalf of the government, should be continued and expanded.

The Irish Stock Exchange

The central role of a stock market in a Western economy is to act as the main provider of risk capital for industry and commerce.

Irish companies have not been going to the Dublin Stock Exchange for funding. Flotations of new companies have practically dried up and only one new manufacturing company has been listed in the last five years. This is not, in the main, the fault of the Exchange itself: instinctively, an Irish entrepreneur in search of funding goes to a bureaucrat, not a stockbroker.

Effectively, state intervention has frustrated the normal workings of an enterprise economy. Clearly, there is money available to fund even high-risk ventures, and it is ironic that 14 of the 44 most recent flotations on the Dublin market have been of exploration companies.

Irish investors are financing oil and mineral exploration ventures in exotic locations from Senegal to Syria, from Myanmar to Mozambique. Yet they have virtually no opportunity to invest in developing businesses at home.

A major initiative should be taken to encourage the development of Venture Capital Trusts (VCTs). These would be publicly quoted vehicles which would raise money from institutional investors such as pension funds and channel it into developing companies too small to attract equity in their own right.

Reductions in the standard rates of corporation tax and capital gains tax would be needed to stimulate the emergence of VCTs: these funds could play a significant role in plugging the `equity gap' for small firms, while shifting the financing burden away from the state..

Reforming the Grants System

The level of direct state involvement in the funding of industry must be reduced.

The funding needs of established companies should be met primarily by private-sector institutions. A substantially reduced grants budget should be targeted more closely at the areas of greatest need. A new approach to funding would seek to:

- ***concentrate grants more on the seed capital needs of small businesses rather than on the development capital requirements of more established businesses***
- ***increase the availability of cheap capital to industry and commerce through subsidised loan schemes.***

It should be noted that the biggest capital injection of all for private industry would come from tax cuts. Each cut of 1% in the rate of employers' PRSI puts approximately £100m back into the corporate sector.

7. Developing a Competitive Economy

The Role of the State

Competitive industry can only thrive in a competitive environment.

The state has a dominant role in the provision of essential services to industry and commerce in Ireland. The government is a major player in several key sectors, including

- ***telecommunications***
- ***energy (electricity and gas)***
- ***postal services***
- ***transport services, such as ports, airports and aviation.***

Progress has been made in fostering competition in some of these areas in recent years. This has come about almost entirely as a result of directives from Brussels, however. The general approach of government here has been grudging, with every possible tactic being used to limit or delay the introduction of greater competition.

This is largely because of the dual role which the government - through the Department of Transport, Energy and Communications - occupies as both owner and regulator of these industries. Traditionally, the introduction of competition has been resisted, allegedly in order to protect employment in the state-owned companies.

It is time now to reassess this dual role: the Minister for Transport, Energy and Telecommunications can no longer act as both owner *and* regulator.

As a first step, the roles of owner and regulator should be split. All shares in state companies should be transferred to the Department of Finance, which would be responsible for monitoring the financial and operational performance of these organisations.

The Department of Finance should also pursue an active programme of privatisation for all state companies operating in a competitive environment; natural monopolies such as electricity transmission and water supply would remain in state ownership.

The Department of Transport, Energy and Communications - the key department in this whole area - could then concentrate on enforcing a regulatory regime that ensured the maximum degree of value for money for consumers of all these services, whether in state or private ownership.

Irish industry and commerce must be able to purchase essential services at competitive prices. Failure to introduce competition will greatly frustrate the capacity of the private sector to deliver a significant increase in employment.

Promoting Competition

The Competition Authority has a major role to play in the promotion of competition in the Irish economy.

It can detect and root out uncompetitive practices, monitor and control the impact of mergers on competition, and ensure that dominant market positions are not abused.

The new Competition Bill is welcome in that it will significantly strengthen the power of the Authority to deal with uncompetitive practices and take action against the companies involved.

A major problem with the new legislation is that it provides for full-scale criminal prosecutions in cases where the Competition Authority suspects that there has been a breach of the Competition Act.

This places an almost impossibly heavy burden of proof on the Authority. It means that each case would have to be proved beyond a reasonable doubt in front of a jury as if the company involved was being charged with a serious criminal offence.

This heavy-handed approach - designed with the admirable objective of strengthening the Authority's powers of enforcement - could actually achieve the opposite. By making successful prosecutions difficult to the point of impossibility, the new legislation may actually diminish the powers of the Competition Authority.

The legislation should be amended to take account of these difficulties, which were ignored during the recent Committee Stage debate in the Oireachtas.

8. Training: A Gateway to Employment

Training for Jobs

There is now a major question in the Western economies as to whether state training programmes have any role to play in equipping people to take up jobs.

The pace of change in modern technology and industry is very rapid: many young graduates in high-technology industries, for instance, now work at jobs that did not even exist when they entered college. In many areas developments are happening too quickly for government-controlled training bureaucracies to keep up with them.

In this fast-changing environment a state training certificate is no guarantee of a job. Germany is widely regarded as having the best developed training system in Europe; yet, some two million of Germany's four million unemployed have been through that system.

Accordingly, we must refine our industrial training strategy so as to ensure that it meets the demands of trainees and employers. We need to focus on:

- ***In-Company Training:*** The emphasis must be placed on in-company training on industrial sites, with appropriate government supervision and regulation. This means that the bulk of the state training budget should be channelled into supporting long-term apprenticeship programmes run by individual companies.

- ***Job-Seeking Skills:*** Any training programme must ensure that all job-seekers have basic skills which can no longer be taken for granted among school-leavers. These are skills such as completing application forms, self-presentation and interview technique.

- ***Fewer Short-Term Courses:*** The short-term courses currently offered by FÁS do not play a major role in preparing people to participate in the employment market and the resources dedicated to these courses should be scaled back.

We must ensure that training is seen as a gateway to employment and not as an end in itself.

Unfortunately, it falls to the training regime to compensate for the failings of our educational system. This will have to be the case until we reform our overly academic schooling system which largely ignores the needs of those not pursuing third-level qualifications.

It is a matter of considerable concern that an estimated 26,000 students leave school every year classified as educationally disadvantaged. This represents 40% of the annual cohort of school leavers. In other words, our school system fails to meet the needs of almost half the children who go through it.

The Role of FÁS

FÁS has grown rapidly over the last five years.

The organisation's budget of £430m for the current year is twice what it was in 1991. It now employs 2,000 people and has a network of offices which covers every county in Ireland. The FÁS remit is now very wide indeed:

- ***it is the state training authority***
- ***it is the state employment service***
- ***it manages the Community Employment Scheme.***

In addition, the organisation has a deepening involvement in the wider job-creation area. The new development agencies, such as County Enterprise Boards, are closely linked to FÁS, with many of their staff operating on secondment from FÁS.

As its role has expanded FÁS would appear to have lost much of its original focus. The public now has no way of ascertaining whether the organisation is delivering value for money or not. Government statistics, for instance, show that FÁS is responsible for filling only 7.7% of all private-sector vacancies, and only a third of those notified to it.

It is important, therefore, that FÁS management is given clear direction by government as to what the organisation is supposed to achieve.

- ***Mission Statement:*** FÁS must have definite goals and definite targets. What are its training objectives and what are its employment objectives ?
- ***Performance Indicators:*** The organisation's performance must be measurable on a yearly basis. How successful is it in achieving its stated objectives ?
- ***Regionalisation:*** Management should be decentralised so that local employers could be more involved in the design and delivery of services at a regional level.

One of the organisation's tasks is to find jobs for its clients find work. At present, only 15% of FÁS staff work in the agency's job placement division, formerly National Manpower.

The government's admission of huge fraud in the unemployment benefits system highlights the need for better control measures. A significant step towards reducing the level of abuse would the amalgamation of the FÁS job placement service with the unemployment benefits division of the Department of Social Welfare.

Two separate state bureaucracies are not required to deal with the needs of the unemployed. On the basis of present performance, a single agency would probably be able to do the job better.

9. Making it Worthwhile to Work

Why Work ?

The interaction of the tax and social welfare systems can have a severely damaging impact on a person's willingness to move off the dole and into paid employment.

The following example illustrates the position of a single man on unemployment assistance. This person qualifies for extras such as a medical card, butter vouchers and an annual Christmas bonus, with a combined weekly value of £4.50. He also qualifies for an allowance to cover the cost of private rented accommodation.

It is assumed that the person incurs job-seeking expenses of £5 per week while out of work; and job-related expenses (travel, food, clothes) of £20 per week while in work.

The panel shows the net gain to the individual from taking up employment at different wage levels. This difference between his net wages and the dole represents his reward for working.

Penal taxation on low levels of income means that it is hardly worthwhile for a person in these circumstances to move into paid employment. Even on a weekly wage of £170 per week the individual would gain only £18.06: in other words, he would, effectively, be going out to work a forty-hour week for the equivalent of just 45p per hour.

The Reward for Working:
Take-home Pay for Single Worker at Different Levels of Gross Income

	Unemployed	*Working*	*Working*	*Working*
Gross Weekly Pay	64.50	150.00	160.00	170.00
Income Tax	-	(22.59)	(25.28)	(27.99)
PRSI	-	(3.85)	(4.40)	(4.95)
Sub-Totals	64.50	123.56	130.32	137.06
Welfare Extras	4.50	-	-	-
Rent Allowance	35.00	-	-	-
Job-seeking Expenses	(5.00)	-	-	-
Job-related Expenses	-	(20.00)	(20.00)	(20.00)
Take-home Pay	99.00	103.56	110.32	117.06
Reward for Work	-	***4.56***	***11.32***	***18.06***

Encouraging Work

Tax reform can transform the dynamics of the Irish labour market.

The Progressive Democrats want to reduce the burden of taxation on low-paid jobs so as to make it attractive for people to work for a living. This would be achieved by:

- ***cutting the standard rate of tax from 27% to 20%***
- ***increasing tax-free allowances***
- ***abolishing employees' PRSI.***

Employee PRSI is a particularly unfair tax which is levied disproportionately on those on relatively modest incomes: PRSI takes 4% of total income from a person on £250 a week but only 1% of total income from a person on £2,500 a week.

The panel shows how these tax changes would tilt the balance in favour of work. Using the same example as before, it is clear that the incentive would be much greater for a person to abandon the dole and take up paid employment, even at relatively modest levels of gross wages.

Increasing the Reward for Working:
Take-home Pay for Single Worker under Reformed Tax System

	Unemployed	*Working*	*Working*	*Working*
Gross Weekly Pay	64.50	150.00	160.00	170.00
Income Tax	-	(14.62)	(16.62)	(18.62)
PRSI	-	-	-	-
Sub-Totals	64.50	135.38	143.38	151.38
Welfare Extras	4.50	-	-	-
Rent Allowance	35.00	-	-	-
Job-seeking Expenses	(5.00)	-	-	-
Job-related Expenses	-	(20.00)	(20.00)	(20.00)
Take-home Pay	99.00	115.38	123.38	131.38
Reward for Work	-	***16.38***	***24.38***	***31.38***

10. Ten-Point Plan to Tackle Unemployment

How Can We Create Jobs ?

Our employment strategy must recognise that the government cannot create jobs. It can, however, ensure through its social and fiscal policies that an economic climate prevails which is conducive to the development of new employment. The main pillars of a new pro-jobs, pro-enterprise employment policy would be:

- ***Income Tax:*** Reduce the basic rate from 27% to 20% and the higher rate from 48% to 40%. Increase allowances and bands so that nobody earning less than £270 per week, the average industrial wage, pays tax at the higher rate.

- ***Other Personal Taxes***: Abolish the 1.0% training and employment levy, the 1.25% health levy and the 5.5% employees' PRSI levy.

- ***Payroll Tax:*** Reduce the rate of employers' PRSI from the present 12.0% and 8.5% to a single rate of 7.0%.

- ***Enterprise Tax:*** Reduce the standard rate of corporation tax from 38% to 25% and cut the rate of capital gains tax on risk investments from 40% to 25% in order to stimulate investment and reward risk-taking.

- ***Bureaucracy:*** Reduce the amount of state bureaucracy involved in the whole job-creation effort so that the available grant assistance can be distributed speedily and easily to qualifying applicants.

- ***Rationalisation of Agencies:*** There should be just two job-creation agencies at national level - IDA Ireland for foreign industry and a single organisation for indigenous industry.

- ***Local Initiatives:*** We must support local development at local level. We need a system of `one-stop-shops' in each county to assist local development and encourage local enterprise. This can be achieved by streamlining existing agencies and giving local authorities responsibility for local development. Where regional bodies already exist - Shannon Development, Údarás na Gaeltachta - they could fill this role in their areas.

- ***Venture Capital Trusts:*** Encourage, via tax breaks, the creation of Venture Capital Trusts as a means of channelling Stock Exchange funding into developing companies.

- ***Subsidised Finance:*** Increase the availability of subsidised loans from the main financial institutions to small and medium enterprises.

- ***Competitive Services:*** Competition must be fostered in the provision of essential services such as energy and telecommunications. The state should act as regulator, not owner.

Together, these measures should transform the economics of job creation in this country.

Funding the Programme

The programme of measures outlined here can be implemented without the necessity for any increase in public spending.

Instead, it is based on tax reductions which can be comfortably accommodated within the budgetary arithmetic of an expanding economy. The essential requirement is that the government control its insatiable appetite for increased taxation.

Keeping taxation under control depends on keeping spending under control. It is essential in this regard that the problem of dole fraud is tackled head on. The elimination of fraudulent claims could reduce the cost of unemployment compensation by up to £500m.

Furthermore, by taking people out of the black economy it could boost tax receipts by a further £500m. Eliminating welfare fraud, therefore, could give the Exchequer a total boost of £1bn per year, enough to fund a very radical programme of tax reforms.

The economic capacity to deliver tax reform is there: what has been missing so far is the political will to implement it.

A New Departure

This strategy represents a major departure from existing job-creation policies.

Instead of floundering about in a morass of agencies and commissions, programmes and schemes, we must pursue a policy which makes it attractive for firms to employ people and attractive for people to take up employment.

For the first time in thirty years the state would be making a clear statement that it was going to use its tax system, not to punish work, but to reward effort. The number of taxes on earned income would be cut from four to one. A single worker earning £250 per week would see his take-home pay rise by £32. The message to people on the dole would be clear: it is now worthwhile to work.

Failure to recognise the vital link between high taxation and high unemployment will condemn yet another generation of Irish people to a life-time of joblessness and social exclusion.

11. Conclusion

Mass unemployment does not have to be our chosen option: there is an alternative.

This document has endeavoured to spell out how that alternative might be realised. We in Ireland have the capacity to generate substantial new employment and to reduce the social exclusion arising from long-term joblessness. If we are to do so, there must be:

- a willingness to tackle the vitally important issue of labour taxation
- an acceptance that governments cannot create jobs.
- a major rationalisation of our present network of development agencies.

The document does not set out to cover the whole canvass. Other factors must also be taken into account. We need more research and development; we need improvements to our educational system; and we need improvements to our road infrastructure.

None of these things will be worth much, however, unless we are willing to make a start down the pro-enterprise, pro-employment route mapped out in this document.