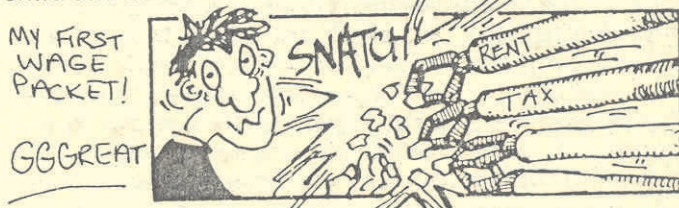


# Do unemployment traps cause unemployment?

'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 accommodation. 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.