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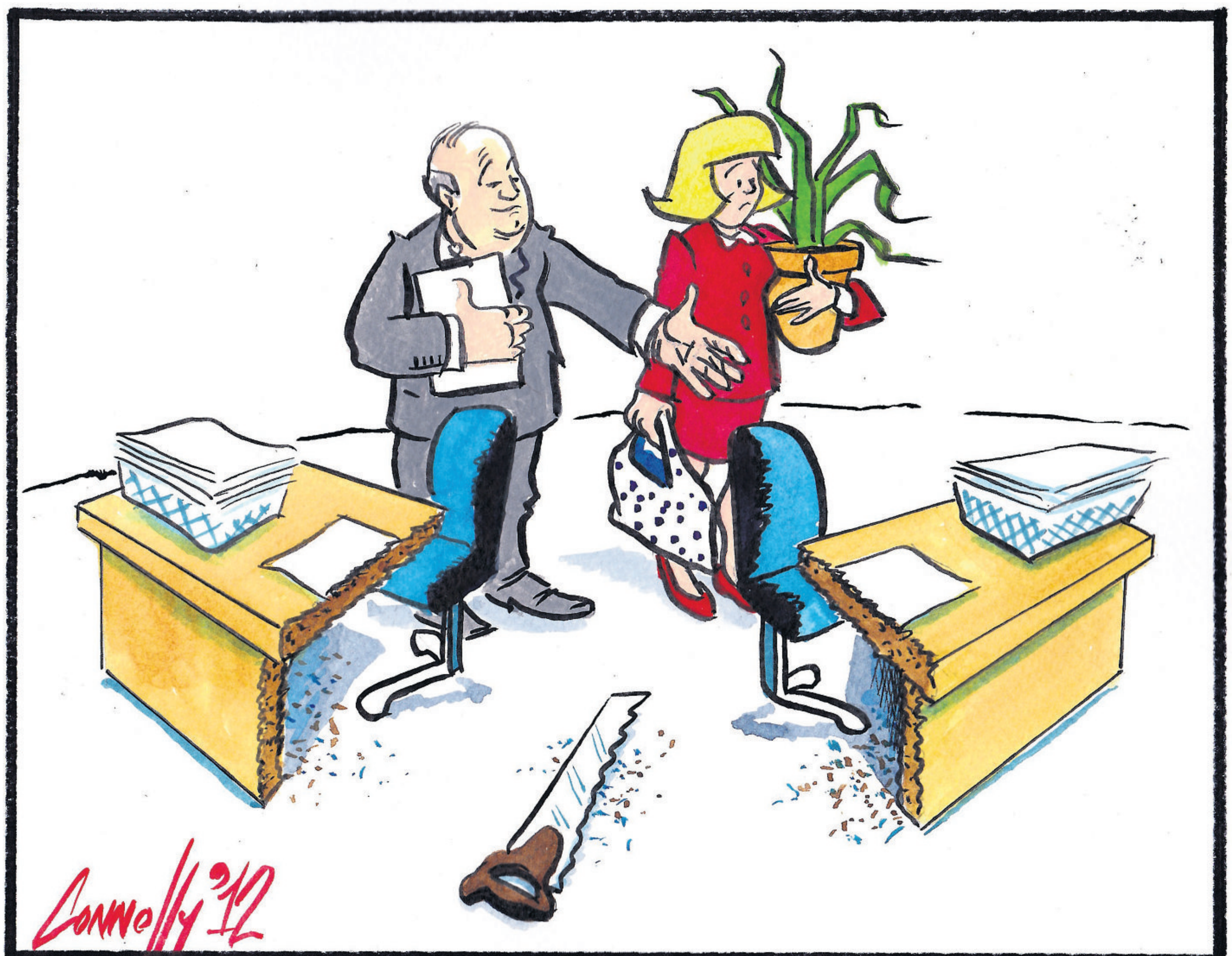
Radical new thinking required if we're to create jobs we need



BICYCLES. That was the solution proposed by the British politician Norman Tebbit to the high unemployment of the 1980s. There was always a job somewhere if you looked hard enough.

Except there isn't always. Not even in a country as big as Britain. Now, 30 years later, it is easier to get on an aeroplane, and the scope for job-seeking is that much greater.

Perhaps it should be regarded as part of the economic natural law that people from a small country like Ireland treat the rest of Europe, and the world beyond, as their labour market.

That's how it is done in the United States, a very big country indeed. The great annual Thanksgiving Day rush, made famous by several movies, is all those millions who work away from their place of birth going back to see their families.

One consequence of such "labour mobility" is that something like 80pc of Americans live within 200 miles of the sea. That is an uncomfortable thought for a European country which might become one of the empty bits.

Economic policies

It may be unrealistic to expect that Ireland can provide satisfying careers across today's immensely varied world of work. But if we wish to maximise the number of jobs at home, and the chances of emigrants returning, it will be necessary to change the way we measure economic success, and the policies required to achieve it.

That would be the case even in better times than these. Right now, the economy is not generating even the employment that it theoretically could. That requires different labour policies than those appropriate to a growing economy.

Above all, it requires some fresh thinking on what we are trying to achieve, including a recognition that there is no policy which can produce Mr Tebbit's bike, where enough effort will match the supply of jobs to the desperate demand for them.

Such thoughts were prompted by some of the sideline blogs and comments in the controversy over the ESRI working paper on the costs of going to work. A fairly common one is that people want to work, and would not be deterred even by a modest reduction in disposable income.

Recent experience seems to support that view. Unemployment fell to 4pc during the boom. Among those, the proportion out of work for more than a year fell by more than a half to 30pc. Less than 2pc of the workforce could be said to be unemployable, or truly unwilling to work.

The social welfare argument as a work deterrent also seemed to take a knock. During the bubble years, the lowest rate of social welfare was increased faster than average earnings, without any apparent effect in reducing employment.

But it may also be the case – in line with the fashionable new area of behavioural economics – that people's response to financial incentives and disincentives may be different when jobs are scarce than when they are plentiful.

We can say with confidence that jobs will remain scarce. It is not only foolish, but perhaps even cruel, of politicians to suggest that it is within their power to make the unemployment problem go away.

Last week's economic report from Ernst & Young suggested it would be 2030 before employment regains 2007 levels. The official view is that recovery begins next year (there's always next year!) but even that sees only half the lost jobs restored by 2017.

At the beginning of the crisis, the OECD worried about a return to the persistent high unemployment of the 1980s and warned about the damage this does to the potential of the economy and society in general.

History suggests that Ireland has always struggled with what the old song called, "the want of employment". Economic theory suggests that this is not entirely surprising in a small economy, most of whose consumer goods must be imported.

> "The latest report from Ernst & Young says it'll be 2030 before employment is back at 2007 levels"

That leaves services. They are the most employment-friendly activity, which makes them even more important in an economy like Ireland's. The emphasis must be on growth in the native exporting sector, as the main source of adding value, and on conditions in domestic services, as the main source of jobs.

Wages are a central part of that process, as are regulation and competition. There is also a case for looking anew at community employment. The present scheme is too often just a slush fund, and efforts to scrap it are resisted furiously. Scrapping it in favour of something wider and better might make it easier to overcome the opposition.

One of the many depressing things about the crash is that, despite its severity, it has had virtually no effect on the content of public discourse.

Perhaps the worst example of the walking dead in current politics is the idea that growth and employment will come from more consumer spending. That was done in the 1990s, when the surplus with the rest of the world was reduced and the proceeds flowed into the pockets of consumers.

It was then grossly overdone, until there was a large external deficit. That money is flowing out again as the deficit is reduced but, even when it stops, the days of large rises in real disposable incomes will not return.

Jobs will come from making it easier and cheaper to employ people in services, not by waiting for sales to rise to the extent that it becomes necessary to hire.

That other zombie, the Croke Park debate, was shaking its hoary locks again this week. Note the word "debate", not "agreement". It is the emphasis on Croke Park as a protector of incomes, rather than the agreement itself, which awakens fears of a return to more or less permanent high unemployment and lack of opportunities.

Government is the largest provider of domestic services and directly employs about one in six workers. We are going to need every job which can be paid for from the economy's private earnings. Cutting public employment in such circumstances amounts to self-mutilation.

The value of the agreement – apart from preventing strikes – is that it could make the public sector more efficient. The customers badly need that, and so do those who will be looking for work.

There will be nothing in it for either if the efficiencies are used to continue to provide government workers with real incomes which grow in line – or slightly more than – the growth in the economy.

It's still a bit of a secret, but not everybody in the past thought emigration was really such a bad idea.

BOOK REVIEW

A GOOD READ BUT LITTLE IN THE WAY OF ADVICE FOR INVESTORS

THE LITTLE BOOK OF EMERGING MARKETS
By Mark Mobius

John Mulligan

INTERVIEWED by this newspaper last week, veteran investor Mark Mobius gave some interesting insights into his thoughts on investing in what he describes as 'Frontier Markets'.

They include nations such as Nigeria and Vietnam, where he hopes high risk will equal high returns. Mobius, who is executive chairman of the Templeton Emerging Markets Group, oversees about $50bn (€40bn) in funds.

He's also written a book on investing in emerging markets and how the average punter can take advantage of what he says are exciting opportunities.

But there's really one big issue with all this. While Mobius cautions potential investors to do their homework and learn as much as they can about possible investment targets, the absolute reality is that the vast majority of people in developed countries who are interested in investing in emerging markets will only ever be able to do so by investing in a fund or other vehicles such as exchange-traded funds.

Hence, a lot of the advice Mobius gives about getting a feel for what's happening in a target country or reading as much information about a company, is going to be largely redundant for most small investors.

What they really need to be doing is researching the performance and ability of the fund manager they're considering giving their hard-earned cash to.

Despite this, though, Mobius's book – even leaving aside its stated aim of how to make money from emerging markets – offers useful glimpses at historic financial crises in nations such as Russia, Thailand and Mexico and why they happened.

It also provides good pointers on why investors should take a long-term investment approach and avoid panicking when things look grim.

If you're still satisfied with the reasons why you invested in a stock in the first place, don't succumb to the herd mentality to sell if it happens to suffer in a bear market. And buy when things look their worst. The value will eventually be outed by the market.

Mobius's book may not help you make your millions, but at least you'll get a good read.

Available with free P&P on www.kennys.ie or by calling 091 709350.

BusinessBrain

Shane Healy

Nuclear option of firing a director is fraught with hidden traps

Shane Healy

DID you watch 'Mad Men' the other night? Poor Lane, one of the partners in the fictional US advertising firm Sterling Cooper Draper Pryce got into a spot of financial difficulty with the Inland Revenue.

To surmount this he awarded himself an "11-day loan". Unfortunately, to avail of his own short-term financing model he felt compelled to forge the signature of the anti-hero Don Draper on a cheque made out to himself.

Draper found out, but rather than fire him on the spot Draper asked Lane to think of a dignified exit. Well, I'm not going to tell you what happened next.

This reminded me of the real life sorrowful tale of W and R Morrogh, a once proud Cork stockbroking firm which had served the people of Cork for over 100 years.

One of the partners, Stephen Pearson, lost millions by gambling on futures and options. And, surprise, surprise, to cover these losses he dipped into the client account to cover these losses. Mr Pearson went to prison.

The sting in the tail here, though, is that in 1993, on a considerably smaller scale, Mr Pearson used client monies to buy stocks without client authorisation.

They didn't fire him then? Nope. His father made good the losses and he was allowed to continue – eventually bringing the firm crashing down less than 10 years later.

I'm not going to deal with the obvious moral hazard here of giving someone a second chance, but rather the nuclear option of firing someone and more particularly when that someone is a director of a company.

A director can be automatically removed if they are the subject of a disqualification order; they become bankrupt; or go insane. They can also be removed by their former buddies on the board by resolution.

This must be done in the interests of the board and not because he never gets his shout in at the 19th hole. Of course, the errant director may still have rights under a contract of employment, so be careful.

Now for the fun bit. Say the company's finances are in the toilet and the shareholders want to remove a director or maybe all the directors. Start thinking Gordon Gecko here in 'Wall Street'.

It is a basic principle of company law that the shareholders of a company can dismiss or remove a director by passing an ordinary resolution (a simple majority) at a general meeting.

The implications of this are enormous. It gives Gordon the power to sack the board of directors and take over the company if he can influence 51pc of the shareholders.

Stephen Pearson was jailed for three years for fraudulently converting £4.5m of clients funds between November 1995 and April 2001 while he was a junior partner in W&R Morrogh stockbrokers. A dishonest director is a tricky problem for fellow directors. RONAN QUINLAN COLLINS

So how does the director shore up his position? Well, he could invoke a special clause in the articles of association (the rules of the company) to load his voting rights.

Or this clause may be contained in a shareholders agreement which would deal with how the company is run. Alternatively, the director might ensure that he retained enough shares to keep control.

So we got rid of that director. What happens next? Sadly, he may be entitled to compensation.

Or worse still, he may say that he was oppressed and seek an injunction preventing his dismissal.

Shane Healy is head of Commercial, Employment and Insolvency at Healy O'Connor Solicitors, Cork and Dublin. www.hoc.ie

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