

The Irish Labour Market

- Time to Reassess Supply Side Policies

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Despite sustained recovery from recession, Ireland continues to suffer unemployment rates far in excess of our European Community partners. In Stamp (1990), the mechanism by which inappropriate welfare policies spawn chronic unemployment was outlined. In this essay, the case for supply side policies in the labour market at a disaggregated level will be argued¹.

The discussion is divided into three broad sections. In the first, the changes that have taken place in the Irish labour market over the last decade will be described. Following this, section two briefly examines a number of the implications arising from these changes. Finally, section three will contrast the policy approaches to labour markets in the US and Sweden with those pursued in Ireland.

Labour market trends

There are three broad structural changes which have taken place in the Irish labour market in the 1980s which are particularly relevant. These relate to the overall labour force, sectoral trends, and the shift away from traditional full-time permanent employment. Each of these is examined in turn below.

Overall labour force trends

In the period 1980 to 1988, total employment fell from 1,156,000 to 1,091,000 (Department of Finance, 1981, 1989). The unemployment

rate rose from 6.9% (April 1979) to 16.7% (April 1988) (*Labour Force Survey*, 1979, 1988). These figures in themselves are startling, but they conceal some important underlying issues.

Firstly, the traditional mobility of the labour force has continued. Net emigration, close to zero in 1980, was 14,400 per annum on average in the period 1981-86, and 35,000 per annum on average in the period 1986-89 (Foley and Mulreany, 1990:351). These figures demonstrate the extent to which the unemployment figures underestimate the potential size of the Irish labour force. It is worth noting that the propensity to emigrate is highest in the 20-24 age cohort, and third highest in the 15-19 age cohort, the two groups from which the least return has been gained from expenditure on education and training (*The Irish Times*, 1991).

Secondly, the duration of unemployment continues to compare unfavourably with that obtaining in other EC countries. Ireland and Spain share the worst record in Europe for long term unemployed, with over two thirds registered as unemployed for more than two years, against an EC average of 33%, and 8% in the U.S.A. and Sweden (*The Economist*, 1990).

Sectoral changes

The nature and extent of sectoral changes are summarized in the table below.

Once again, there are issues concealed by the aggregation. For example, whilst manufacturing employment fell by 6%, employment in textiles, clothing, footwear

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ESTIMATED EMPLOYMENT BY SECTOR		
	Thousands	
	1980	1988
Agriculture	209	166
Industry	371	300
Services	576	625
Total at work	1,156	1,091

Sources: Dept of Finance, Economic Review and outlook 1981, 1989.

Table I

and leather, all labour intensive and traditional industries, fell by 41%, due primarily to an inability to compete at home and abroad (Foley and Mulreaney, 1990).

Changes in employment patterns

Finally, there has been a drift away from traditional "permanent full time" employment, reflecting firms' attempts to circumnavigate labour legislation in order to maintain a flexible labour force. This is partly in response to uncertainty of, and fluctuations in, demand. Between 1983 and 1987, the number of employees in temporary employment increased by 38%, while the total number employed declined by 2%. Over the period 1980-1988, part-time employment as a percentage of total employment rose from 5.1% to 8.1%, in contradistinction to a change in the EC average from 11.2% to 12.8%. Another aspect of this trend is the growth of non-agricultural self employed workers from 63,400 to 71,900, many of whom are employed by high-tech firms on a contract basis (*Labour Force Survey, 1988*).

Implications

What then are the implications of these

changes. Clearly, the Irish labour force continues to be mobile. As Walsh (1977) notes, despite the narrowing of the gap in industrial earnings between Ireland and Britain, there is still a considerable difference in the overall level of income between the two countries, and between Ireland and the rest of the E.C. Given the increasing acceptance of emigration as an automatically considered option for graduates and highly skilled young workers, their departure can, and does, lead to skills-shortage bottlenecks in the Irish economy. This in turn restricts secondary employment, and contributes to keeping the level of unemployment at its present level.

It is a feature of the Irish economy that inflationary bottlenecks can coincide with high unemployment. The long term unemployed do not, in reality, form part of the competitive labour market and hence do not exert downward pressure on wage rates. This is evidenced by Table II below.

Admittedly, competitiveness depends on a multiplicity of factors, such as labour costs per unit of output, the quality and quantity of the capital stock, and on the non-wage costs of employing workers. However, one would still expect a marked improvement in relative wage costs in the presence of high unemployment rate differentials. This improvement clearly has not manifested itself in the Irish economy.

In relation to sectoral change, the continued fall in the numbers employed in agriculture is marked, at 41,000 over the period 1980-88. It should be noted that this decline follows on a decrease of 85,000 in agricultural employment in the decade 1971-81 (Department of Finance, 1981, 1989). Although this trend can be expected to continue, it is likely that it will do so at a slower rate. Indeed, in 1989, agricultural employment actually increased by a small amount. The consequence of this should be higher overall employment figures in future

Nominal unit labour costs in Ireland relative to 19 industrial countries (1980 = 100)

Year	Index
1980	100
1981	94.8
1982	97.9
1983	100.1
1984	97.1
1985	98.0
1986	103.6
1987	100.1
1988	95.5

Source: European Commission 1989.

Table II

years, as in the past, improvements in the secondary and tertiary sectors have been largely offset by the decline in the agricultural sector.

The change in the composition of the workforce towards part-time, temporary and self employment reflects an EC wide trend, as more women enter employment, and as firms react to protective labour legislation and market uncertainties. This has implications for trade union membership as these groups' priorities - child care, equal opportunity, flexible working hours - differ from the traditional concerns of trade union members. This combined with a shift towards higher skilled employment in service industries has resulted in a decrease in union membership.

The policy debate

So far, this essay has empirically examined aspects of the Irish labour market. A number of the implications of these changing features have also been discussed. The question that remains is what, if anything, can be done to redress the situation.

The Irish economy is continually modernizing, and the labour market must adapt to the new circumstances. However, it is essential that government policy be concomitantly modified. Irish unemployment, at close to 18%, is far in excess of the EC average of 9%. In the US, some one in four of the workforce change jobs every year, yet the average duration of unemployment is only 3 months. In Ireland, the average duration of unemployment is a staggering 28 months (*The Economist*, 1989).

There is a clear need for a reassessment of active labour market policies. Information flow needs to be improved in order that frictional unemployment can be mitigated. Training programmes also require refurbishment. In 1989, only 11% of those trained by AnCO went on to permanent employment (*The Irish Times*, 1991). Work experience and employment incentive programmes of various names have also been shown by Breen (*The Irish Times*, 1991) to have resulted in little additional employment. Employers have claimed payroll subsidies for employees they would have hired anyway. It is clear that Irish policies have been less than successful.

Contrast this with the experience in the USA, where there is less generous welfare, combined with strict availability criteria, weak trade unions and high labour mobility. More comparable, perhaps, as an interventionist economy, is Sweden, where less than 8% of those unemployed remain so for more than 12 months. Sweden's approach is often cited as the "Carrot and Stick". The carrots include placement and counselling, retraining, temporary public sector employment, recruitment subsidies to companies, and mobility allowances to workers. There is also the stick - a maximum 300 days welfare, and an immediate loss of entitlement if employment is not accepted.

The success of these policies is beyond

question. Perhaps they have been too successful. With inflation at 8% and wage inflation at 11%, Sweden's economy appears to be overheating. However, their experience shows how an interventionist economy can tackle unemployment, and the experience of the US shows how similar results can be obtained through lack of intervention. Ireland appears to have taken the welfare policies of Sweden and combined them with the non-intervention policies of the US. The Irish Government seems content to avoid industrial unrest through an epidemic of Baumol's disease (Finneran, 1990).

Set against labour market flexibility expenditure by the exchequer, we must consider Ireland's heavy expenditure on social welfare unemployment schemes, labour market training (FAS, CERT), industrial development agencies, and tax breaks². It is reasonable to suggest that this range of schemes is an ineffectual substitute for the employment growth achieved in the U.S. through industrial growth measures, or the low unemployment achieved by Sweden by active intervention. Note that these measures have been successful in countries with relatively high public sector shares (*The Economist*, 1991). Diverse root and branch policies, yet successful outcomes.

The Swedish programme is costly, demanding an expenditure of 2% of GDP on active labour market intervention. However, a lower dole queue means a

lower dole bill. This level of expenditure compares favourably with a European average of 1%, and 0.4% in Ireland. No doubt the Irish Government would claim that it cannot afford such levels of expenditure. Can it afford not to?

Conclusion

This essay has reviewed the main characteristics of the Irish labour market. The implications of the changes that have occurred over the last decade have been considered. It was concluded that if a more effective policy regime is to be put in place, cognizance must be taken of the alternatives that have worked in other countries such as the US and Sweden. The current ominous forecasts of an unemployment level that is still well above 200,000 by the turn of the century will otherwise turn out to be prophetic.

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2. Readers' attention is drawn to an article in the Irish Times of 7/3/91 entitled "Moves to help low paid leave £8000 to £10000 wage earners in new poverty trap", especially the accompanying table. As was argued by the author in the 1990 edition of the *SER, Family Income Supplement, though an official recognition of the existence of the welfare trap, and its negative incentive effects, is an inefficient means of dealing properly with the problem. The reported "furore in the Department of Finance and Social Welfare" (sic) may have the positive effect of a proper evaluation of a Basic Income System.*