

Full Employment for Ireland

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Introduction

Optimal allocation of economic resources at a point in time would appear desirable under the weak condition of Pareto-efficiency. If it is assumed that the aim of policy-makers is the maximisation of social welfare (and not political gain), and that this depends on the aggregation of welfare of individuals from their consumption of goods and services, then this dictates that policy-makers (and in particular the Irish government) should maximise use of resources for production - one such resource being labour. Maximum utilisation of labour is full employment. Definitional difficulties with this concept are compounded by theories which show that the stable rate of unemployment may consistently diverge from full employment. Thus, if it cannot be defined, it must follow as an immediate corollary that measurements of the latter can at best be indicators. However theoretically desirable for efficiency, if attaining full employment is not viewed as a feasible ideal, or if the costs of reaching it in terms of other objectives are too great, its desirability and the political commitment to it may waver.

Definitional difficulties

Full employment is, in essence

the full utilisation of all labour resources. A definition with a more empirical content is that it is a level consistent with zero involuntary unemployment.

Unemployment is measured as:

unemployed

unemployed+employed

In an Irish context, categorisation problems immediately arise. When is a person employed? Does job sharing, for example, constitute the employment of two persons? Can the underemployment of Irish actors (say) be viewed as equivalent to unemployment? Problems are compounded by the presence of emigration. It is likely that emigration will reduce the numbers of unemployed, though it is often the case that emigrants form part of the employed. Indeed such is the stigma associated with unemployment that registration may be curbed.

With regard to the definition of full employment, one proposition can be made with definitive certainty: full employment is not synonymous with zero unemployment for three primary reasons:

- 1) frictional unemployment
- 2) seasonal unemployment
- 3) voluntary unemployment

Thus the full employment rate in any economy depends on the matching of

skills with available jobs, the degree of mobility - geographical (this is high, given our small open economy construct) and occupational, and the ready availability of information. Furthermore, certain dimensions of economic policy may result in high levels of voluntary unemployment, such as for example, the high Irish replacement ratio. In Ireland, thus, the full employment rate may be pitched at a high rate (relative to our E.C. neighbours). Identified as 2% in the 1960's its revision has consistently been in an upward direction.

Granted that full employment cannot be defined as a tangible target, the target is certain to be lower than the existent one. Available measures can be used as useful proxies in the quest for full employment. In Ireland, data is acquired from three sources: social insurance records, the labour force survey and the census of population. The rate given by each is non-homogenous due to varying mensuration techniques. Thus, not only is specification of a full employment rate difficult but, subject to a suitable choice of measure we may or may not be close to attaining the 'desirable rate'.

Desirability

There is much consensus, professional and otherwise, that unemployment is undesirable and thus full employment is adopted as a policy objective. However, New Classical economists deny Keynesian (demand deficient) unemployment exists, and argue that wages and prices should adjust instantaneously so that all unemployment may be seen as

unnecessary. Problems impinge when the full employment rate is high, due to structural constraints such as skills matching to jobs. Thus it is perhaps more suitable to target policies at reducing the natural rate of unemployment and increase potential output.

Desirability also depends on the costs of living with unemployment. In Ireland unemployment benefits cost the government £3m for every 1,000 extra persons on the Live Register (*Irish Times* Feb 8, 1992), which compounds problems with the National Debt. There are also associated income and output losses. The objective of full employment needs further qualification in the context of the Irish unemployment scene. The enormity of the unemployment problem and high level of unemployment has resulted in aims to 'bring down the level of unemployment'. This aim is a recognition of the fact that reductions in unemployment levels will come long before any attainment of full employment. Although often not explicitly stated, full employment is implicit in this aim as it is the ultimate objective of the Irish government, and the ensuing eradication of unemployment and its associated costs can only be seen as desirable. The dedication and commitment to full employment depends on the costs of unemployment relative to the costs of trying to achieve it. Full employment at any cost should not be regarded as an objective of government policy.

Conflicts

The costs outlined of living with

full employment can be compared with the costs of achieving it. Full employment inherently requires inequalities of income as supply of and demand for skills are equated in each sector. Expenditure to alleviate demand deficient unemployment necessitates a higher percentage increase in expenditure than the corresponding increase in employment (Begg et al, 1987). Furthermore, expansionary policies requiring financing, for example by taxes, may distort work patterns. Growth is seen as a necessary condition for increased employment, but if specifically channelled towards labour intensive as opposed to capital intensive growth, it is doubtful if Ireland would have attracted high-tech multinational companies. Economic growth and labour force turnover are positively correlated, and thus growth will entail an increase in the full employment rate. If growth is achieved via fiscal expansion, it may be inflationary, thus lessening the commitment to full employment.

Conclusion

In an Irish context I believe that full employment has limited applicability as a proximate objective because correcting demand deficient unemployment is not a viable policy option, given the state of the public finances. The potential to move towards full employment is constrained further by an integrated labour market with the U.K. It is more constructive to speak of reducing the full employment rate, at which only voluntary/frictional unemployment exists, via tax reform,

training to provide a better matching of skills to jobs and other supply-side policies. This essay is not, however concerned with policy prescriptions; I simply suggest that the degree of integration of our labour market and the numbers of Irish emigrants, as well as a large potential labour force of married women, tends to mean that job creation may increase the labour force as it increases employment - and the divergence from full employment widens. ...

NB

References

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