

Solving the Irish Unemployment Problem

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Introduction

In Ireland, it seems less attention is focussed on the chronically high unemployment rate than the gravity of the problem merits. Indeed the reason it is more or less tacitly tolerated may be its permanent character - it is very much an inherent feature of the Irish economy. It has been seen that in Irish conditions, there is no necessary connection between increases in employment and decline in unemployment at the rates of economic expansion prevailing in recent years. As a consequence it would appear that to cope with the problem of high unemployment, more must be done than just expanding the economy. Heaney having already examined (in this volume) the concept of full employment within an Irish framework, it is instructive at this juncture to suggest possible cures to the unemployment problem. Unemployment may be regarded as a social as well as an economic problem. Employment and unemployment are not one problem but two. This paper shall probe possible solutions to the problem. However the present situation cannot be taken in isolation from its historic context, and the factors determining unemployment in the '60's are still present today.

Outlining the problem

In the light of the current unemployment situation, the '60's and '70's are crucial foundation years in the core of our current problem. Ireland's population has grown at a steady rate in this period, and it is a fact that growth in job opportunities has not been able to soak up the natural increase in the population (consider the high proportion in the 10-30 age bracket). This effect has acted in conjunction with changes in employment to exacerbate the high levels of unemployed persons. Agriculture declined in relative importance, while industry actively grew, albeit at an insufficient rate to stem the flow of job losses from the agricultural sector. Unemployment would have been worse were it not for the effects of emigration which acted as a 'safety-valve' - releasing to some extent the pressures on the Irish economy. Although an attractive proposition in the '60's, the worsening world recession is likely to see unemployment hit an all time high. This will lead to an increase in unemployment not associated with a lack of job opportunities. Participation rates help to explain why there is no one-to-one correspondence between employment and unemployment - increased rates (especially among

women) made unemployment worse than appeared at first sight. Whatever about the rights and wrongs of same, it has contributed to unemployment.

Theoretical framework

It is time to consider the economic issues in a theoretical framework. Much work has been done on what the problem is not as opposed to what it is. Walsh (1974) found little conclusive evidence that the problem of unemployment was structurally based, although he conceded that this was a generalisation, and hence policies aimed at certain regions would not be viable operations if worked in isolation. An incorrect corollary would be the implementation of demand management policies as a means to an end, since demand for Irish goods is exogenously determined. Energies must be devoted to the supply side. Workers are hired up to the point where MRP equals the real wage, and it is the latter over which we can exert discretion. Our small open economy construct immediately undermines this, as prices are given and hence wages do not matter; however prices affect profitability, a concept intimately linked with employment.

A cursory glance would indicate that Ireland and the UK form a common labour market, and thus our smallness and openness result in wages being exogenously determined. Consequently, unemployment will co-exist with rising money and real wages, irrespective of labour demand conditions, since demand for labour in Ireland is not an important factor in

determining the wage rate. If we take it that there is no means by which we can influence the factors determining wage increases then the Irish unemployment problem boils down to one dependent on the supply of new jobs from new investment. This is so because, given that demand is to a great degree exogenous, and the wage rate is independent of the supply of labour, the only factor remaining by which we can control unemployment is investment. The above statement therefore implies that supply factors are chiefly responsible for our unemployment problem. This, by itself is no great statement i.e. that the supply of jobs is inadequate, but has major policy implications when the constraints under which we work are considered.

Before I proceed, I must qualify further the assumption of exogenously determined demand, which admittedly appears extreme. Government expenditure, which is high in Ireland, forms a crucial subcomponent of internal demand, although much of it entails a transfer of resources which has no effect on employment. The main expansionary effect comes from expenditure of tax revenue on investment but this has tended to act in a pro-cyclical fashion, thus worsening domestic demand when it should have improved.

Consideration of policy

The above analysis points at three factors with relevance for policy:

- (i) labour costs
- (ii) emigration

(iii) investment

These shall be evaluated in the light of our model.

We have seen that the demand for labour in Ireland plays a passive role in the determination of the domestic wage rate, and the wages-profitability-employment relationship has been stressed. In the absence of emigration and investment there is no controllable mechanism in the supply and demand for labour. It would perhaps be desirable if existing levels of unemployment became important factors in determining future wage charges. There seems little to be gained from fantasising on the outcomes of wage restraint. The Programme for Economic and Social Progress, with all its good intentions for job creation, has suppressed the idea of wage restraint; the latter is unacceptable (socially and otherwise).

The most effective and quickest way to reduce unemployment is through emigration. Labour mobility is an integral feature of the Irish labour market, particularly in relation to the UK, and to a lesser extent the continent. Wage differentials, relative unemployment rates and costs of migration are prime determinants of emigration to the UK. We have failed consistently to produce jobs to reverse that flow, otherwise there would not be such massive emigration. Currently the push factor is outweighing the pull factor due to declining international prospects. It is agreed that many emigrate voluntarily; however the distinction between this group and those who are forced out is important; if it is possible to identify the latter should we

not financially support them and encourage them in foreign job search? One wonders if Mr. Ahern is praying for emigration for fear his budget arithmetic may prove incorrect as world recession escalates.

To judge from statements by politicians and trade unionists, the most socially acceptable means for reducing unemployment is through increased investment. I consider investment from two angles; (a) private investment, and (b) public investment and its influence on private investment.

Private investment depends on the level of profitability and the price of capital. We have seen that wages are exogenously determined and that wage restraint is not a viable means of increasing profitability and investment. The profitability of firms depends mainly on demand conditions in the product market, although a major part of this is again exogenously determined. As the price of capital is given, we reach the conclusion that unless the public authorities intervene, increased employment from increased investment in the private sector will depend on the growth in international demand. Although I do not know the strength of the relationship between growth in world trade and growth in domestic investment and employment, I suggest that as in the past, future growth in world demand is unlikely to solve our unemployment problem, although it may well have an appreciable effect on the level of unemployment.

Next I will consider public investment (direct and indirect). The indirect thrust is provided by such bodies as the Industrial Development

Authority which influences investment by way of grants and reliefs. The Strategy for Industrial Development (NESC 1986) has been insufficient to match the needs of the economy and in all probability it seems that the IDA has been given all the money it needs. The recessions '73 -'74 and '79 are too convenient as excuses, and it appears that capital may have been too cheap relative to labour. Grants may have been too generous, although the IDA is effectively in competition with other economies in promoting Ireland as an attractive location for industrial endeavours. There is insufficient evidence as to whether labour subsidises would work.

Direct investment in housing, schooling, hospitals, etc. generates a return to society in excess of the financial cost to the state (in terms of interest payments and other costs). Such expenditure does not lead to adequate returns, and recourse to foreign borrowing has proven most dangerous. Money pumped into the system simply leaks out and cutbacks will be on the cards if the attainment of a reduction in the national debt remains an absolute priority. The net effect on long term unemployment will not be realised.

Conclusion

It seems, therefore, that unless we are willing to pay more taxes (and we are not) to increase state investment in building/construction and other areas such as improving social amenities and hence increase employment in the public sector, under present arrangements there is little scope for

government action to lower unemployment - perhaps "governments are not here to create jobs"¹. As we are not prepared to pay for job creation, a thorough re-evaluation of expenditure is required. Lack of commitment to the unemployed leads me to the conclusion that emigration will be our primary solution. With the unemployment rate perhaps close to its natural rate in Ireland, the problem has become the ticking time-bomb of our economy - we are not willing to pay the cost of creating jobs by any means.

¹ Infamous words of Albert Reynolds during his 1991 budget speech.

References

- National Economic and Social Council (1986) "A Strategy for Development 1986-90". Dublin: NESC.
- Walsh, B. (1974) "The Structure of Unemployment in Ireland 1954-72". Dublin: ESRI.

(iii)

Tomorrow