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# Astonishing success: Economic growth and the labour market in Ireland

Philip J. O'Connell

Employment and Training Department

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## **Foreword**

The present study is part of the ILO's follow-up to Commitment 3 of the Declaration and Programme of Action of the World Summit on Social Development in Copenhagen in 1995. Commitment 3 reiterates the importance of full, productive and freely chosen employment, as a basic condition for social progress among UN organizations. The ILO has a specific responsibility for monitoring the progress made by countries in the fulfilment of Commitment 3.

In addition to the preparation of Country Employment Policy Reviews (CEPRs) in the developing and transition countries the ILO also decided to review progress of some OECD countries towards full employment. Among the countries experiencing improvements in their labour markets in recent years, four smaller European countries (Austria, Denmark, the Netherlands and Ireland) were selected. Contrary to some of the bigger European countries, these four countries have been experiencing an impressive labour market recovery, or have maintained a low level of unemployment over the long term. For each of these countries, a national CEPR was prepared in consultation with the social partners and the governments.

The present CEPR shows the remarkable achievement of Ireland in regard to the reduction of unemployment and the growth of employment. While this is certainly due to the exceptional high economic growth rate of the Irish economy which was spurred by foreign direct investment and European structural funds, factors such as the social dialogue, a stability oriented macroeconomic policy and labour market policy have also contributed to the Irish success. However some labour market problems remain, in particular youth and long-term unemployment. Moreover, although the gender balance of the labour market is also improving, Ireland is still lagging behind other countries in this regard.

While Ireland has certainly not overcome all its problems it has made remarkable progress towards to goal of full employment.

Gek-Boo Ng,  
Employment and Labour Market Policies Branch,  
Employment and Training Department

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## **Executive Summary**

The Irish economy has grown rapidly over the past decade, far outstripping the growth performance of its European neighbours. Since 1993 the economy has grown at annual rates in excess of 8 per cent. This exceptional growth has entailed high employment intensity, with the result that employment grew by about 25 percent between 1993 and 1998. Performance on the unemployment front, while positive, has been slower and somewhat less satisfactory, with a reduction in the unemployment rate from its high levels of almost 18 per cent in 1987 and almost 17 per cent in 1993 to less than 8 per cent in 1998. The decline in unemployment thus lagged behind the dramatic increase in total employment, largely due to strong growth in the labour market due to both demographic factors and increased labour force participation among women.

### **Principal labour market developments**

The period since 1981 has seen dramatic fluctuations in trends in employment and unemployment. Total employment contracted by about 6 per cent between 1981 and 1985 and unemployment increased from less than 10 per cent in 1981 to a peak of almost 18 per cent in 1987. While impressive growth has been achieved over the 1987-98 period as a whole, the rate of growth was uneven, and three sub-periods are identified in Chapter 2.

1. Recovery, 1987-1990, aided by strong export growth and public sector cutbacks. Total employment increased by 4 per cent over the sub-period and unemployment fell to 13 per cent of the labour force in 1990.
2. Sluggish growth, 1991-93, reflecting the downturn in international activity. Employment grew by about 1.5 per cent over three years, and with strong labour force growth, unemployment climbed again to almost 17 per cent in 1993.
3. Very rapid growth, 1993-1998. Since 1993 the Irish economy has expanded very rapidly, with annual rates of growth in excess of 8 per cent averaged over the 1993-1997 period. Total employment grew by 25 per cent between 1993-1998 and unemployment fell to less than 12 per cent in 1997. By 1998 the standardised unemployment rate had fallen to less than 8 per cent - below the EU average. Continued growth is forecast in the medium term.

### *Gender and employment*

Women's employment has been far more buoyant than men's. Over the decade 1988-1998 women's employment increased by an average of 6 per cent *per annum* – compared to a growth rate of less than 2 per cent for men. By 1998 the number of women at work was more than two-thirds greater than in 1981. Total employment among men fell during the 1980s and increased in the 1990s, but in 1997 the number of men at work was only marginally greater than that in 1981. Because of these diverging trends there was a marked change in the gender balance of employment: women's share of total employment increased from 29 per cent in 1981, to 33 per cent in 1993, and to almost 40 per cent in 1998.

### *Sectoral and occupational change*

Sectoral trends in employment have been quite divergent over the period since 1981. Employment in agriculture continued its long-established decline, falling from 17 per cent of total employment in 1981 to 10 per cent in 1997. Employment in manufacturing went through a severe

decline in the early 1980s – occasioned by a shakeout of uncompetitive indigenously owned industries. Manufacturing employment has grown rapidly in the 1990s, however, by about 3 per cent *per annum*. This is a trend which distinguishes Ireland from other developed economies, where manufacturing employment is in decline. The growth of manufacturing in Ireland is mainly due to the continued influx of foreign direct investment, prompted by a range of tax and grant concessions, as well as a plentiful supply of young well-educated labour earning relatively low wage levels. Trends in manufacturing notwithstanding, the largest growth in employment took place in services. Total employment in services grew by 40 per cent between 1981-1997, with most of the growth taking place in the 1990s and concentrated in market services.

Sectoral restructuring has combined with changes in the organisation of production and service delivery to generate a significant up-grading of the occupational structure. Over the 1981-1997 period the strongest growth took place among professional, technical and managerial occupations, but also in clerical and sales occupations. Expansion at the upper-end of the occupational structure was accompanied by a decline in the demand for semi- and unskilled manual workers, although there has been some growth in employment in these categories in the 1990s.

#### *Part-time work*

There has been a significant increase in the incidence of part-time work, which almost doubled its share of total employment, from 6.7 per cent in 1983 to 12.3 per cent in 1997. The large majority of part-time workers are women, and in 1997 women accounted for over three-quarters of all part-time workers. The incidence of part-time working among women increased from under 16 per cent of all women at work in 1983 to 23 per cent in 1997. The incidence of under-employment (i.e. part-time workers indicating that they would prefer a full-time job) among part-timers fell from 18 per cent in 1992 to 13 per cent in 1997, reflecting the tightening of the Irish labour market. In 1997 about one quarter of male part-timers were under-employed, compared to about 8 per cent of women working part-time. The most recent data from the new *Quarterly National Household Survey*, relating to the first and second quarters of 1998, show that part-time working accounts for almost 17 per cent of total employment-about 8 per cent of men and 30 per cent of women at work. However, it is difficult to compare these most recent data on working time with earlier years because of changes in survey methodology.

#### *Unemployment*

Total unemployment increased from under 10 per cent in 1981 to a peak of almost 18 per cent in 1987. Unemployment fell during the brief recovery of the late 1980s but increased again to 16.6 per cent in 1993. Rapid growth since then has reduced unemployment to 7.8 per cent in 1998. The dramatic growth in employment since 1993 has not been matched by a commensurate fall in unemployment, largely because of strong growth in the labour market due to the influx of new entrants, itself a function of Ireland's distinctive demographic structure, the marked increase in women's labour force participation, and a reversal of emigration.

#### *Long-term unemployment*

Long-term unemployment has fallen in recent years, following the trend in total unemployment. This suggests that long-term unemployment may be more responsible to cyclical

labour market changes than had heretofore been believed. However, Chapter 2 argues that our measures of the balance between long- versus short-term unemployment probably underestimate the true incidence of long-term unemployment because of the large scale of active labour market programmes and because participants who return to unemployment after completing their programmes are counted as new entrants to unemployment, even where they were long-term unemployed before entry to the programmes. Long-term unemployment remains a formidable problem with a significant structural dimension. Long-term unemployment is particularly prevalent among older age categories – particularly among men aged over 45. There is also a strong concentration of poor educational qualifications among the long-term unemployed, and educational disadvantage is particularly marked among the older long-term unemployed. As the unemployment rate falls the stock of skills among the unemployed are likely to fall as the best equipped to compete for jobs are likely to be hired first. This will leave a residual group of increasingly hard to place long-term unemployed - which will not be able to compete in the labour market without extensive and effective state intervention.

### *Youth unemployment*

As total unemployment soared over the course of the 1980s and again in the 1990s, so also did unemployment among young people. The unemployment rate among young people, aged under 25 reached its peak in 1993, when at over 27 per cent of the young labour force, it was almost double the unemployment rate among older labour force participants (14 per cent). Unemployment among young people did respond to the tightening of the labour market and fell to less than 19 per cent in 1997, still substantially above the adult rate. Over the period from 1983-1997 the number of young people at work fell by 22 per cent, and the employment-population rate for young people fell from 47 per cent to 34 per cent. Young people accounted for 25 per cent of all jobs in 1983 but less than 17 per cent in 1997. The decline in the number of young people at work, and the continuation of relatively high rates of unemployment despite falling labour force participation, suggests that over time young people have found it increasingly difficult to find a foothold in the world of work. Young people, moreover, have benefited less from the employment expansion of recent years than their older counterparts.

The marked growth in participation in education among the younger age groups has meant that the supply of well-qualified candidates for jobs has increased. In a crowded labour market, young people with low or intermediate levels of qualification compete for jobs with somewhat older candidates who have higher levels of qualification, or work experience, or both. Young people with poor educational attainments thus face very high risks of unemployment. Thus, for example, 58 per cent of young labour force participants (aged 15-24) with no educational qualifications were unemployed in 1993, compared to 27 per cent of those aged over 25. The unemployment rate among young people who had completed the upper cycle of secondary education was 20 per cent, compared to 8 per cent of adults with a similar level of education. Furthermore, analysis of annual survey data of leavers from secondary education shows that between 1990-1995 while the employment prospects of those who completed the senior cycle of secondary education improved, the labour market prospects of those who left school with inadequate qualifications actually deteriorated, with lower employment and higher unemployment rates in 1995 than in 1990, despite the economic boom.

Given changes over time in the demand for labour, resulting in a general up-grading of

positions, as well as extended educational participation among younger labour market entrants, educational attainment and skills have become the most significant labour market currency. Accordingly, young people entering the labour market with inadequate qualifications, as well as older displaced workers with skills rendered obsolete by structural change, are marginalised. Neither group can be expected to share in the fruits of rapid growth without extensive and effective intervention by the State to enhance their skills and hence their capacity to compete in the labour market.

### **The distributional consequences of success**

Assessment of the distributional consequences of Ireland's economic and labour market successes presents a somewhat mixed picture, but one that suggests that much remains to be done if the fruits of success are to be distributed evenly across all sections of Irish society. There was a moderate increase in the average wages and salaries of those at work over the decade 1987-1997. However, the effects of these wage gains, combined with low inflation and tax reductions over the decade 1987-1997, were to add significantly to the disposable incomes of those at work. The numbers at work also increased dramatically over the same period. All of this means that economic success has been successful in generating substantial improvements in the material living standards of workers in Ireland.

However, rapid economic growth has coincided with an increase in inequality. The incidence of low-paid employment increased between 1987 and 1994. So also did the incidence of poverty. Lack of data prevents us from assessing trends in inequality over the full period 1987-1998. The increase in low-pay is mainly due to market forces: a growth in sectors with high demand for low skilled workers. The growth in poverty is largely attributable to the failure of social welfare payments to keep pace with the rate of growth in average incomes during the period of rapid economic growth.

Despite the dramatic increase in women's paid employment, married women and women with children face a series of interrelated obstacles to entering paid work. These include low wages, the lack of state support for child care, and disincentives in the taxation and welfare systems.

### **Interpreting the growth phenomenon**

Following a period of virtual stagnation in the first half of the 1980s the Irish economy expanded rapidly after 1987. In Ireland, growth over the decade from 1987-97 averaged over 5 per cent *per annum*, compared with 2.3 per cent in the EU and 2.7 per cent in the OECD (OECD, 1997). Real GDP growth in Ireland averaged 8 per cent *per annum* in the years 1994-97, about three times the average rate of growth in either the OECD or the EU, and Irish growth is forecast to continue at close to its current pace over the medium term. Total employment grew by almost 35 per cent between 1987 and 1998 and by about 25 per cent in just five years from 1993-98. Thus in terms of both output and employment growth, Irish performance is well ahead of the average performance of the EU and OECD groups of countries.

Most interpretations of the Irish success have sought an explanation in terms of a fortunate conjuncture of factors combining to generate rapid growth since about 1987.

### *Domestic policy*

Bradley *et al.* (1997) argue that the maintenance of a stable macroeconomic environment, combining low inflation, low public deficits and surplus in the Balance of Payments have fostered a stable environment for business and have been crucial to the success of the Irish economy since 1987. They identify three elements of domestic policy as being of particular importance to success: (i) industrial policy; (ii) fiscal policy; and (iii) institutional reform.

First, foreign direct investment has played an unusually important role in the Irish economy and represents the major dynamic force in the Irish economy, accounting for about 45 per cent of manufacturing employment. Policies to attract mobile investment have been actively pursued since the late 1950s, offering a package of grant- and tax-based incentives to export-oriented manufacturing firms. The success of the strategy has resulted in significant economic restructuring, particularly in manufacturing, giving rise to marked gains in international competitiveness for the economy as a whole. In more recent years there has been some reorganisation of industrial policy to promote the development of indigenous firms and that sector has expanded over the past 5 years or so.

Second, over the course of the late 1970s and up to the mid-1980s, Irish public finances went out of control with high budget deficits and a burgeoning public debt. Fiscal imbalance was one of the main causes of the recessionary period in the early to mid-1980s. Restoring order to the public finances was achieved by severe cutbacks in public expenditure in 1987-90. Current public spending fell by over 10 per cent in constant terms between 1987 and 1989 and public sector borrowing fell from over 14 per cent of GNP in 1986 to 2.4 per cent in 1990 (Tansey, 1998). Budget deficits have been maintained at 3 per cent or less ever since then.

Third, fiscal crisis, mass unemployment and soaring emigration in the 1980s led to a fundamental re-evaluation of policy making, creating the conditions for a consensual approach to national policy-making that was more appropriate to the needs of a small open economy.

### *Demographic structure*

Ireland has a distinctive demographic profile, with a strong increase in its population of working age and a secular increase in women's labour force participation. These two factors combined mean that the labour force has the potential to grow by about 2 per cent per annum throughout the 1990s. These demographic trends have also generated a sharp fall in the dependency ratio.

### *Investment in human capital*

The Irish educational system has expanded dramatically over the past three decades, giving rise to a gradual increase in the human capital of the workforce. Three decades of investment in education has increased the supply of skilled labour while reducing that of unskilled labour. Over the same period the demand for labour has changed, with a substantial increase in demand for skilled and a fall in demand for unskilled labour. Empirical evidence indicates that the returns to education have increased in recent years, suggesting continued demand for skilled labour. Nevertheless, comparative evidence suggests that skilled labour remains relatively cheap in Ireland, compared to other EU countries. This is likely to be a factor in the continued attractiveness of Ireland as a site for mobile international capital.

### *International economic integration*

Since the late 1950s the Irish State has actively promoted closer integration with the international economy. This has entailed progressive dismantling of trade barriers and the active promotion of foreign direct investment in manufacturing. This outward looking strategy has resulted in economic restructuring, modernisation and diversification, as well as marked gains in productivity and international competitiveness, and to marked expansion of exports: the proportion of Irish output that is exported has more than doubled in the past two decades.

### *Investment aid from the EU*

As a relatively underdeveloped region of the EU, Ireland has benefited substantially from the transfer of funds from Brussels since the mid-1970s. Total net transfers from the EU under the Community Support Framework (CSF) and the Common Agricultural Policy (CAP) rose from about 5 per cent of GNP in 1986 to a peak of 7 per cent in 1991 and fell back to around 5 per cent in 1994 and 1995. The growth in EU transfers from the structural funds made a significant direct contribution to the development of the Irish economy at a crucial period of economic change, but their impact should not be exaggerated. Empirical analyses suggest that the long-run effects of the Structural Funds investments over the period from 1989-1999, is to raise the level of GNP by about 2 percentage points above what it would have been without the transfers.

### *Social partnership*

In the midst of the crisis of the mid-1980s, it became clear that regaining and maintaining international competitiveness represented an essential ingredient for economic growth. This required a particular mix of policies to promote a stable macro-economic environment, including appropriate macro-economic and exchange rate stances, but also, and crucially, low inflation and moderate wage increases, buttressed by the tax cuts which could only come about with fiscal restraint. Arguably, the Irish variant of social partnership, which in essence, entailed an exchange of wage moderation in return for tax-cuts, provided the institutional framework to achieve the combination of policies which transformed a failing economy into one of the fastest growing economies in Europe over the course of a decade.

The exchange of tax-cuts for incomes restraint in pursuit of international competitiveness was achieved through public sector cut-backs. Compared to many other European countries, the ratio of State expenditures to Gross Domestic Product are relatively low in Ireland. Averaging across the 15 EU countries, both total government expenditures and spending on social security transfers increased as a proportion of GDP between 1987 and 1994, as did government receipts. In Ireland, however, total government spending fell by 9 percentage points and both spending on social security transfers and receipts also fell somewhat over the period. In terms of both total government and core social security spending, Ireland bears closer resemblance to the United Kingdom, where the quality of social citizenship rights has declined to a point well below many of the other more prosperous European countries. The comparatively low ratio of public expenditure to GDP is partly reflected in the increase in poverty between 1987-1994, mainly affecting households dependent on social welfare payments, which have lagged behind increases in average incomes in recent years. It is also reflected in growing dissatisfaction with the quality of public services in Ireland; including the absence of state support for child care, the lengthening waiting lists in the public health system, resource constraints in the education system, and the quality of physical infrastructure, particularly in the transport system.

As Ireland's average income per capita converges with that of its more prosperous European neighbours, major strategic social questions are beginning to emerge about the appropriate role of the State, about whether the ratio of public expenditures and taxes should remain relatively low, following a UK/US model, or whether the quality of social citizenship should rise to levels achieved in other European countries following a more inclusive social model, such as the Netherlands, Denmark or Austria. Emulating the more inclusive European model may prove more conducive to the maintenance and strengthening of the social partnership arrangements which have underpinned the Irish successes to date, but this would require strategic social and political choices which in several vital respects would depart from the principles guiding policy formation, particularly fiscal policy, over the past decade.

### *Labour market policy*

While rapid economic growth generated unprecedented growth in employment in the 1990's, reductions in unemployment were achieved more slowly, although by 1998 unemployment had fallen to well below the EU average. There is now growing evidence that the surge in employment over the past 5 years is beginning to exhaust the available supply of labour. Emerging labour shortages, which are now appearing across a wide range of occupations, can be expected to lead to increased pressure on wages. There is already evidence of growing dissatisfaction among workers, particularly the low paid, who do not see sufficient evidence of the fruits of growth in their wage packets. Average wages are forecast to increase by over 6 per cent during 1998, although substantially higher increases are anticipated in particular sub-sectors experiencing severe skills shortages. Various commentators, including the ESRI and the Central Bank have cautioned that wage increases above those in other *Euro* countries could undermine Irish competitiveness and threaten growth prospects.

One strategy to ease wage pressure is to implement policies designed to increase the supply of labour. The introduction of a national minimum wage scheduled for the year 2000 is expected to raise the wages of substantial numbers of low-paid workers, and should, therefore, contribute to easing labour shortages, although the demand-side impact of the minimum wage on low-paid employment is not yet known. State intervention in child care could also help reduce labour shortages while alleviating the financial burden on working mothers.

Given that labour shortages are now emerging in low-skill occupations, it is also useful to consider the role of labour market policies in stimulating labour supply. Here at least part of the problem is that many low-skill, and low-paid, jobs are not sufficiently financially rewarding.

Over the past two decades, Ireland has followed an international trend in which labour market policies have undergone a shift in emphasis to active measures to promote the reintegration of the unemployed into employment. This has meant that passive measures have been reformed in order to reduce the effects of unemployment traps and other barriers which derive from the structure of the taxation and welfare system and which can create disincentives for the unemployed to return to work, while active measures to provide training and subsidize employment have been expanded. In relation to unemployment compensation through the social welfare system, the empirical evidence suggests that neither replacement rates nor the tax-wedge are substantially higher in Ireland than in other EU countries, although tax- and welfare-based disincentives do exist for some low-paid workers. Moreover, in recent years the Irish authorities have been particularly innovative in introducing a series of reforms in both the tax and social welfare systems to reduce the tax wedge and ease the transition of the unemployed back to work. Carefully targeted

measures such as these can have the effect of mitigating unemployment traps, and the numbers making the transition from unemployment to employment has grown rapidly in recent years. The success of these programmes serve to highlight the importance of further progress in reducing the tax burden on the low paid, and the potential of tax reforms targeted specifically at the lower paid for further reducing unemployment. The 1999 budget, which targets substantial tax cuts on those on low and middle incomes and removes the very low paid from the tax net altogether, can be expected to lead to further reductions in work disincentives.

The State in Ireland has been particularly active in developing active labour market policies, and over the last decade such measures have become central to the policy response to unemployment. Ireland is one of the leading countries in the share of national income devoted to active labour market policies and operates a wide range of differing programmes catering to a diversity of target groups among the unemployed and other socially excluded groups. Empirical assessment of the impact of active labour market programmes in Ireland shows that programmes with strong linkages to the labour market - training in specific employable skills and subsidies for real jobs in the market place - do enhance the subsequent employment prospects and earnings of their participants. Programmes with weak market linkages, including general programmes as well as subsidised employment in the public or voluntary sectors are much less effective in improving participants' job prospects. Recent years have seen a substantial increase in activity on active programmes to combat unemployment. However, most of the additional resources appear to have been used to achieve an expansion in the quantity of provision rather than an improvement in the quality of programmes. The evidence on the effectiveness of programmes suggests that there is a need to improve the quality of programmes, particularly those targeted at the most disadvantaged, as well as to ensure progression to effective programmes with close linkages to the open labour market, leading to the final phase of reintegration paths and to sustainable employment. Such an approach would require the allocation of substantial resources targeted specifically at those most disadvantaged in the labour market, particularly the long-term unemployed, although it should be recognised that the cost of tackling the problem would decline with the success of the strategy.

Current policy developments adopted in response to EU wide policy guidelines, however, represent a shift in the priorities underlying labour market policies. These guidelines, which call for preventative measures to minimise the inflow to long-term unemployment, rather than to provide interventions to assist the stock of long-term unemployed, represent a dilution of the commitment to the most marginalised in the labour market. In Ireland according priority to the long-term unemployed in active labour market provision has been a long- and well-established axiom of practice. This approach to policy seems particularly appropriate to current conditions, given both the substantial reduction in total unemployment achieved over the past five years, and the strong probability that in a buoyant labour market the best equipped among the unemployed are hired first, leaving a residual group of particularly disadvantaged long-term unemployed, unlikely to make the transition to work without assistance. The new approach, however, targeting young entrants to unemployment appears to entail a shift in the balance of resources and interventions away from those already long-term unemployed- the most marginalised in the labour market. These shifts in the balance of resources are, of course, partial, and the long-term unemployed continue to be eligible to participate in labour market programmes. Moreover, a strong case can be made for early intervention on behalf of poorly qualified young people, whose labour market prospects remain grim, even in the booming labour market. Nevertheless, while a preventative approach may make strategic sense in other European countries – particularly those

with sluggish employment growth and relatively low rates of long-term unemployment – a similar policy prescription may be inappropriate in the Irish case where employment is growing rapidly, but long-term unemployment remains unacceptably high. Rapid employment growth and the emergence of labour shortages mean that the market is sufficiently buoyant to absorb the “short-term” unemployed without State intervention. In the Irish case prioritising the long-term unemployed could serve both efficiency and equity goals – representing a better investment of public resources while combatting social exclusion.

## Chapter 1

### Introduction

#### **Astonishing Success: Economic Growth in Ireland**

The Irish economy has been transformed over the last decade. In the late 1980s Ireland was an economy in crisis. In 1987, with mass unemployment, falling employment levels, a fiscal crisis of the State and living standards well below the European average, it was widely regarded as “a sick man of Europe.” A decade later the economy was performing at exceptional levels. Gross National Product grew at an astonishing rate of over 8 per cent in 1998 - a continuation of more than a decade of rapid growth. Unemployment had fallen to less than 8 per cent - well below the European average. Employment had been growing at over 4 per cent *per annum* for the previous five years. Instead of incurring heavy deficits in order to keep the economy and society afloat the government was able to report a public budget surplus for the first time in decades.

Tansey (1998:249), reviewing the transformation writes:

*The Irish economy has enjoyed a decade of unparalleled economic progress. Irish economic growth has been unmatched in the European Union. Material living standards have risen appreciably for the majority of Irish citizens. Social safety nets have been strengthened. The exodus of people from the country has ceased. The population is growing....*

Popular accounts of the transformation have referred to Ireland as the ‘Celtic Tiger’, evoking comparison with the rapidly growing newly industrialising countries in Asia - no longer such a welcome title following recent Asian difficulties. The decade of growth in Ireland compares well with the Netherlands, which was dubbed the “Dutch Miracle” on the basis of annual growth rates of 2.2 per cent in GDP, and 1.5 per cent in employment between 1991-1996, and the reduction of unemployment to 6 per cent (Visser and Hemerijck, 1997). Ireland’s rates of output and employment growth have been higher than those of the Dutch, and its fiscal balance is healthier, but the unemployment rate remains higher in Ireland than in the Netherlands. However, much unemployment in the Netherlands is hidden by exceptionally high proportions of the adult population in receipt of disability payments (and thus counted as outside the labour force) and moreover, large numbers of workers are in subsidised employment. Nevertheless, continued high long-term unemployment in Ireland undermines its strong performance on other fronts and represents the unfinished business of the Irish transformation.

The Irish economy has grown rapidly over the past decade, far outstripping the growth performance of its European neighbours. Since 1993 the economy has grown at annual rates in excess of 8 per cent. This exceptional growth has entailed high employment intensity, with the result that employment grew by about 25 per cent between 1993 and 1998. Performance on the unemployment front, while positive, has been slower and somewhat less satisfactory with a reduction in the unemployment rate from its high levels of almost 18 per cent in 1987 and almost

17 per cent in 1993 to less than 8 per cent in 1998. The decline in unemployment was thus slow to match the dramatic increase in total employment. This is largely because of strong growth in the labour force due to the influx of young labour force entrants, increased labour force participation among women, and the reversal of the long-standing pattern of emigration to one of net immigration.

This study focuses on the Irish labour market. Chapter 2 presents a detailed account of the principal trends in the labour market over the period 1981 to 1998. That section shows the remarkable turnaround in the labour market, beginning with crisis in the mid 1980s, a hesitant recovery in the late 1980s and buoyant growth since about 1993. It also shows that long-term unemployment remains a significant structural problem affecting in particular the older long-term unemployed displaced by economic restructuring and young early school leavers ill-equipped to compete in today's economy.

Chapter 3 discusses the distributional consequences of success in the economy and the labour market. It shows that rapid growth has coincided with increased poverty and low paid work. It also shows that despite the dramatic increase in the number of women at work in Ireland achieved during the 1990s, married women and women with children continue to be confronted by a series of barriers to participation in paid work.

Chapter 4 examines social partnership in Ireland. The chapter traces the roots of current partnership arrangements in the crisis confronted by Irish society in the mid-1980s and provides a detailed description of the complex processes of negotiation and interaction that it entails. Our interpretation of the Irish growth phenomenon suggests that social partnership provided the essential framework for the development and implementation of a mix of policies in a small open economy, which allowed a sustained improvement in international competitiveness.

While social partnership played an important role in the Irish story, most commentators refuse to accord success to one single factor, arguing instead for a conjuncture of fortunate trends which have come together in Ireland during the past decade. Chapter 5 examines the elements of that fortunate conjuncture. It also discusses unfinished business, in particular the further reduction in long-term unemployment and poverty, and reflects on the sustainability of the Irish success as well as the challenges facing Irish society.

## Chapter 2

### Principal Developments in the Labour Market

#### 2.1 Population Trends

The trend in the total population of Ireland has been somewhat varied over the past fifteen years. The population grew by about 2.8 per cent between 1981-86, fell slightly between 1986-91, and resumed its growth in the first half of the 1990s. These population trends have been mainly driven by two underlying factors: declining natural increase and fluctuating trends in migration.

Table 2.1 shows total population for each of the Census years between 1981-1996 as well as the components of annual average changes in the intercensal periods. Although declining, natural increase due to a sharp decline in the number of births since 1980, has exerted a consistent downward influence on population growth throughout the period, the trend variations can be largely attributed to net external migration. There were substantial net migratory outflows throughout the decade from 1981-91, particularly in the latter half of the 1990s, when the average net annual outflow amounted to 27,000, equivalent to about 0.8 per cent of the population annually. These migration patterns are closely related to labour market conditions, and with the improvement in labour demand in the 1990s, the migratory flow has turned positive.

The decline in the birth rate was one of the most important demographic changes to occur in Ireland in recent decades. The birth rate fell from 22 per thousand of population in 1980 to 13.7 per thousand in 1996 due to marked increases in the educational attainment of the population and far greater participation in the labour force by women of all ages. The decline in the birth rate, which brought Ireland into line with European fertility patterns, is expected to continue, although at a more gradual rate of descent, well into the next century (Fahey and Fitz Gerald, 1997).

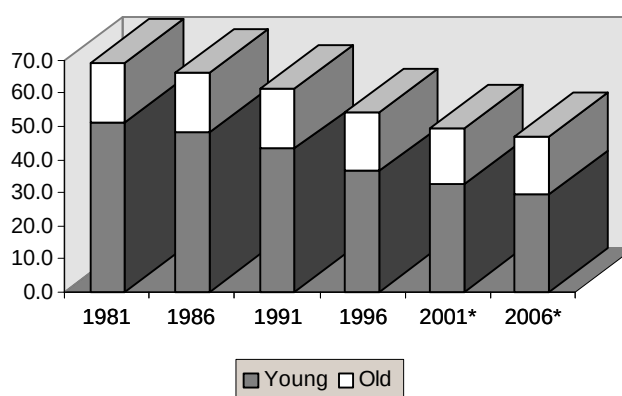
**Table 2.1**  
**Population levels and intercensal natural increase, net migration**  
**and population change, 1981-1996 (Thousands)**

| Population  | Intercensal<br>Period           | Natural<br>Increase | Estimated<br>Net<br>Migration | Change in<br>Population |
|-------------|---------------------------------|---------------------|-------------------------------|-------------------------|
| (1,000s)    | <i>Annual averages (1,000s)</i> |                     |                               |                         |
| Men         |                                 |                     |                               |                         |
| 1981        |                                 |                     |                               |                         |
| 1986        | 1981-86                         | 16                  | -8                            | 8                       |
| 1991        | 1986-91                         | 12                  | -15                           | -3                      |
| 1996        | 1991-96                         | 10                  | 0                             | 10                      |
| Women       |                                 |                     |                               |                         |
| 1981        |                                 |                     |                               |                         |
| 1986        | 1981-86                         | 17                  | -6                            | 11                      |
| 1991        | 1986-91                         | 12                  | -12                           | 0                       |
| 1996        | 1991-96                         | 9                   | 1                             | 10                      |
| All Persons |                                 |                     |                               |                         |
| 1981        |                                 |                     |                               | gG                      |
| 1986        | 1981-86                         | 34                  | -14                           | 19                      |
| 1991        | 1986-91                         | 24                  | -27                           | -3                      |
| 1996        | 1991-96                         | 18                  | 2                             | 20                      |

The decline in the birth rate has given rise to a fall in the numbers of children (aged less than 15 years), offset by a growing bulge in the older age groups, particularly those aged 35-64). The number of children fell from 1,044,000 in 1981 to 859,000 in 1996, representing a decrease in their share of the total population from 30 per cent to fewer than 24 per cent. Over the same period the numbers in the 25-64 year age group increased by almost 292,000, or from 41 per cent to 47 per cent of the total population. The increase in the numbers aged 25-64 is a reflection of population trends, particularly heavy outward migration in the from the end of the Second World War to the mid-1960s and substantial return migration, particularly of those of childbearing age, in the 1970s.

**Figure 2.1**

**Child and elderly dependency ratios in Ireland, 1981-2006**



Note:\* Projections

Sources: 1981-1996: Central Statistics Office, 1997

2001-2006: Fahey and Fitz Gerald, 1997

These population movements have given rise to a population structure, which differs in two important respects from most other European countries. First, the proportion of young people is larger in Ireland, although this is no longer concentrated in the youngest age group (less than 15 years) which is in decline. Second, the proportion of the population aged 65 and over has remained very stable since the 1960s and is not projected to show any substantial increase until after 2010. These two trends are depicted in Figure 1, which shows the dependency ratios for both children (the population aged under 15 divided by the working age population, aged 15-64) and the elderly (the ratio of the population aged 65 and over to the working age population) from 1981 to 1996 with projections to 2006. The child dependency ratio has already fallen from 51 per cent in 1981 to 36 per cent in 1996 and is projected to fall to less than 30 per cent by 2006. The elderly dependency ratio fluctuates between 17 per cent and 18 per cent throughout the observed and forecast period. The combined dependency ratio, fell from almost 70 per cent of the working

age population in 1981 to 54 per cent in 1996 and is expected to fall to 47 per cent by 2006. Ireland is thus in the middle of a demographic transition, which entails a very substantial decrease in the dependency ratio at a time when population ageing is exerting upward pressure on dependency ratios in most other European countries.

## 2.2 Labour force

Labour force trends over the past decade and a half have been erratic, alternating between periods of very rapid growth, as at present, to periods of contraction, as during the late 1980s. Trends in the labour force reflect not only underlying demographic trends in the adult population, but also changes in women's labour force participation, levels of participation in education, retirement patterns, and, particularly in the Irish case, migration. Table 2.2 shows adult population by principal economic status from 1981 to 1996, distinguishing between those in the labour force; in education, engaged in home duties and an "other" residual category which mainly consists of those who have retired from the work force.

The numbers in the labour force grew slowly at an annual average of about 11,000 per annum between 1981 and 1991, and very rapidly by almost 30,000 per annum between 1991-96. These labour force trends can be attributed to four principal factors. First, there was strong underlying growth in the adult population over the entire period. Second, however, growth in both the labour force and the adult population was reduced by net emigration, which, as discussed above, peaked in the latter half of the 1980s. The reversal of net migration since 1991 has meant that the adult population grew unhindered by 7 per cent between 1991-1996.

**Table 2.2**

### **The labour force and economically inactive population aged 15 or over, 1981-96**

|                              | 1981    | 1986    | 1991    | 1996    |
|------------------------------|---------|---------|---------|---------|
| <b>Men</b>                   |         |         |         |         |
| Total in labour force        | 912495  | 920300  | 911200  | 960310  |
| Student                      | 97306   | 121373  | 140072  | 166914  |
| Home duties                  | 1041    | 445     | 2698    | 4138    |
| Other                        | 183103  | 201926  | 216610  | 227418  |
| Total aged 15 years and over | 1193945 | 1244044 | 1270580 | 1358780 |
| LFPR                         | 76.4    | 74      | 71.7    | 70.7    |
| <b>Women</b>                 |         |         |         |         |
| Total in labour force        | 358627  | 409246  | 471670  | 573654  |
| Student                      | 103010  | 123837  | 142992  | 172682  |
| Home duties                  | 661510  | 653398  | 592771  | 549077  |
| Other                        | 82584   | 85417   | 107132  | 112470  |
| Total aged 15 years and over | 1205731 | 1271898 | 1314565 | 1407883 |

|                                         |         |         |         |         |
|-----------------------------------------|---------|---------|---------|---------|
| LFPR                                    | 29.7    | 32.2    | 35.9    | 40.7    |
| <hr/>                                   |         |         |         |         |
| All Persons                             |         |         |         |         |
| Total in labour force                   | 1271122 | 1329546 | 1382870 | 1533964 |
| Student                                 | 200316  | 245210  | 283064  | 339596  |
| Home duties                             | 662551  | 653843  | 595469  | 553215  |
| Other                                   | 265687  | 287343  | 323742  | 339888  |
| Total aged 15 years and over            | 2399676 | 2515942 | 2585145 | 2766663 |
| <hr/>                                   |         |         |         |         |
| LFPR                                    | 53      | 52.8    | 53.5    | 55.4    |
| <hr/>                                   |         |         |         |         |
| Source: Central Statistics Office, 1998 |         |         |         |         |

Third, there has been a marked increase in women's labour force participation. Historically, women's labour force participation in Ireland has been low, and, it has been argued, lagged behind what might be expected from the rapid industrialisation of the economy since the 1960s (O'Connor and Shortall, forthcoming). The female labour force participation rate was less than 28 per cent in 1971, and it remained under 30 per cent a decade later (O'Connell, forthcoming). The growth in female labour force participation continued to be sluggish through the mid-1980s (32 per cent in 1986), but it increased dramatically thereafter, to 35 per cent in 1991 and to almost 41 per cent in 1996. The Irish pattern of sluggish growth followed by rapid increase in female labour force participation rates has been attributed to the lagged effects of the removal of discriminatory labour market practices and regulations, particularly in the 1970s, increased educational attainment, and rapid expansion in demand, particularly in the services sector and in part-time working (O'Connell, forthcoming). Men's participation in the labour force has been moving in the opposite direction: the participation rate fell from 81 per cent of adult males in 1971 to 76 per cent in 1981 and 72 per cent in 1991. Even with the upturn in the labour market in the 1990s the declining trend continued - to 71 per cent in 1996. These countervailing trends in men's and women's labour force participation meant that the overall labour force participation rate remained virtually unchanged over the 1980s - 53 per cent in 1981 and 53.5 per cent in 1991 - although it increased to 55.4 per cent of the adult population in 1996.

A fourth underlying factor influencing labour market trends results from increased educational participation. The total numbers engaged in education increased from 200,000 in 1981 to 283,000 in 1991 and to 340,000 in 1996. Thus the numbers in education increased by 70 per cent over the 1981-96 period, and by 40 per cent in the decade from 1986-96. This had two countervailing effects: (1) It radically reduced the number of young people in the labour force (the labour force participation rate for the 15-24 year age group fell from 61 per cent in 1981 to about 45 per cent in 1996; and (2) as noted above, it led to increased labour force participation among women. Sexton and O'Connell (1996) note that increased participation in education among younger age groups, as well as increased retirement among older age groups, and the dramatic increase in women's labour force participation meant that the apparent near stability in labour force participation rates over the past 15 years entailed fundamental changes in the structure of the labour force entailing a much greater proportion of women and a burgeoning share accounted for by the 'middle age' group.

### 2.3 Employment and unemployment

The decade of the 1980s was particularly severe for the Irish economy. Table 3 shows how the numbers at work declined over the first half of the 1980s while the size of the labour force increased, due both to natural population growth and increasing labour force participation by women. Contraction in employment combined with labour force growth resulted in an increase in the unemployment rate from just under 10 per cent of the labour force in 1981 to a peak of almost 18 per cent in 1987. The decade from 1987-97 saw a remarkable turn-around in Irish economic fortunes, with growth in GDP amounting to 79 per cent over the decade, giving rise to substantial increases in employment, and in the 1990s, to a marked fall in unemployment.

While impressive growth was achieved over the decade as a whole, the rate of growth was, in fact, uneven, and three sub-periods can be identified. Table 2.3 shows trends in numbers at work, unemployed, and the labour force, as well as net migration over the years 1987-1998.<sup>1</sup>

**Table 2.3**

**Numbers at work, unemployed, labour force and net migration, 1981-1998**

| Year | At Work | Unemployed | Labour Force | Unemployment Rate | Net Migration |
|------|---------|------------|--------------|-------------------|---------------|
|      | -1000   | -1000      | -1000        | %                 | -1000         |
| 1987 | 1110    | 226        | 1336         | 16.9              | -23           |
| 1988 | 1111    | 217        | 1328         | 16.3              | -42           |
| 1989 | 1111    | 197        | 1308         | 15.1              | -44           |
| 1990 | 1160    | 172        | 1332         | 12.9              | -23           |
| 1991 | 1156    | 199        | 1355         | 14.7              | -2            |
| 1992 | 1165    | 207        | 1372         | 15.1              | 7             |
| 1993 | 1183    | 220        | 1403         | 15.7              | 0             |
| 1994 | 1221    | 211        | 1432         | 14.7              | -5            |
| 1995 | 1282    | 177        | 1459         | 12.1              | -2            |
| 1996 | 1329    | 179        | 1508         | 11.9              | 8             |
| 1997 | 1380    | 159        | 1539         | 10.3              | 15            |
| 1998 | 1495    | 127        | 1622         | 7.8               | 22            |

Source: Central Statistics Office, various years, *Labour Force Survey*.  
and Central Statistics Office, 1998, *Quarterly National Household Survey*:  
*First and Second Quarters 1998*.

<sup>1</sup> The data from 1987-1997 are drawn from the annual *Labour Force Survey*. From 1997, the Irish Central Statistics Office switched from its annual survey to a quarterly household survey. In so doing the CSO introduced some changes to the questions relating to employment, with the result that in the second quarter of 1998 an additional 20,000 individuals were recorded as part of the labour force: an estimated 8,000 men and 12,000 women. The adjustment is confined almost exclusively to part-time workers in the services sector, with the result that data relating to part-time working in 1998 are not comparable with earlier years. In Table 2.3 we report the total number employed as recorded in 1998, however, in estimating percentage changes in total employment, we adjust the 1998 total downwards by 20,000 to render the 1998 data comparable with earlier years. This adjustment is consistent with the practice adopted by CSO (1998) in its reporting of change over time in total employment.

1. Recovery, 1987-90. A period of recovery from 1987-1990, with strong growth in investment and exports and curtailment of public spending. In the labour market, these aggregate growth trends generated a brief employment boom between 1989-90, when total employment increased 4 per cent and unemployment fell to 13 per cent.
2. Sluggish growth, 1991-93. A downturn in international activity, initially in Britain in 1990 and throughout Europe in 1992 and 1993, which coincided with dramatic increases in interest rates and an exchange rate crisis, meant that growth faltered in Ireland. In Ireland sluggish growth led to employment declines in 1991 and 1992, and with burgeoning growth in the labour force, to increased unemployment, which reached almost 17 per cent in 1993.
3. Very rapid growth, 1993-1998. Since 1993 the Irish economy has expanded very rapidly, with annual rates of growth in excess of 8 per cent averaged over the 1993-1997 period, stimulated by both accelerated export growth and by increased domestic demand. These growth rates have given rise to a rapid and dramatic improvement in labour market conditions. Total employment grew by over 290,000, or about 25 per cent, in the five years from 1993 to 1998. By April 1998 the employment rate had declined to 7.8 per cent - below the European average and lower than at any time in the last two decades. All forecasts are for a continuation of rapid growth for the foreseeable future, with unemployment levels continuing to decline.

Emigration has fluctuated in accordance with demand in both domestic and external labour markets. It rose dramatically in the late eighties and peaked in 1989, when net emigration (in-migration minus out-migration) rose to 44,000 individuals, representing almost 3.5 per cent of the labour force in that year. Net emigration subsequently fell, and in 1998 inward migration exceeded out-migration by about 22,000.

## 2.4 Employment by gender

Table 2.4 shows employment by gender for the years 1988, 1993 and 1998. Total employment increased by an average of 3 per cent per annum over the entire period, although this entailed slow growth in the 1988-93 period, followed by growth of almost 5 per cent per annum between 1993 and 1998.

**Table 2.4**  
**Total employment by gender, 1981-1997**

|                                 | Total   | Men     | Women   | Female Share |
|---------------------------------|---------|---------|---------|--------------|
|                                 | (1,000) | (1,000) | (1,000) | %            |
| 1988                            | 1111.8  | 747     | 364.7   | 32.8         |
| 1993                            | 1183.1  | 749.4   | 433.7   | 36.7         |
| 1998                            | 1494.5  | 899.9   | 594.6   | 39.8         |
| <i>Annual percentage change</i> |         |         |         |              |
| 1988-93                         | 1.3     | 0.1     | 3.8     | 2.4          |
| 1993-98                         | 4.9     | 3.8     | 6.9     | 1.6          |
| 1988-98                         | 3.3     | 1.9     | 6       | 2            |

Source: Central Statistics Office, various years, *Labour Force Survey*

Note: In order to render the 1998 data comparable with earlier years, annual percentage changes are estimated on adjusted data, which reduce the total number employed in 1998 by 20,000 (8,000 men and 12,000 women) to take account of changes in measurement (see footnote 1 above).

Employment trends have differed between men and women, with total employment among men falling strongly in the first half of the 1980s (Sexton and O'Connell, 1996), and increasing only marginally between 1988-93. It was only in the 1990s that men's employment levels picked up - increasing by 3.8 per cent per annum in the 1993-98 period. As a consequence of these fluctuating trends, male employment in the late 1990's was only marginally above its level in 1981, although as we shall see, the composition of that employment has shifted markedly in the intervening period.

Total employment among women grew strongly - by an average of 6 per cent per annum over the 1988-1998 period. Women's employment was also influenced by labour market conditions, with the result that in the early 1980s, while total employment did not fall, as it did among men, employment growth was negligible. Growth in women's employment increased to 3.8 per cent per annum from 1988 to 1993, and then took off, averaging an annual increase of 6.9 per cent between 1993 and 1998. By 1998 the total number of women at work was more than two-thirds higher than it had been in 1981. Because of these diverging trends between men and women, there was a marked change in the gender balance of employment, and women's share of total employment increased steadily from 29 per cent in 1981 (Sexton and O'Connell, 1996) to 33 per cent in 1988 and to almost 40 per cent in 1998.

## **2.5 Employment by economic sector**

Sectoral employment trends have been quite divergent over the period since 1981. Employment by sector is presented in Table 2.5, and annual average changes for 1981-91 and 1991-97 are shown in Figure 2.2. Employment in agriculture continued its long-established decline: total employment in the sector fell by 55,000 from 189,000 in 1981 to 134,000 in 1997. The share of agricultural in total employment accordingly fell from 17 per cent to 10 per cent.

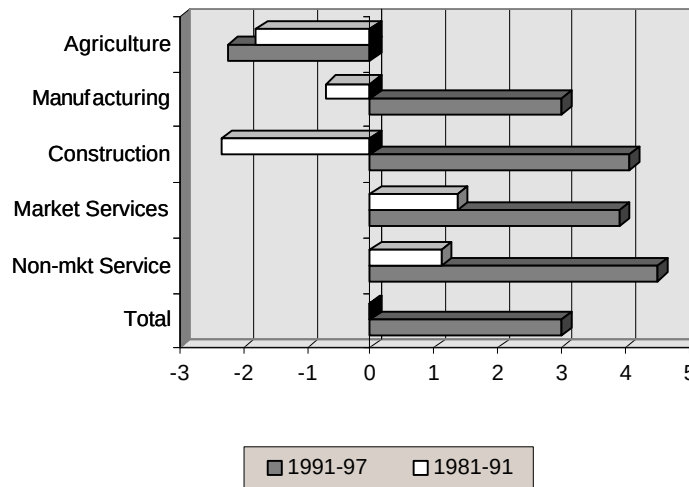
Manufacturing employment went through a severe decline in the early 1980s, and even after some recovery in the late 1980s the numbers employed in the sector fell by 20,000 between 1981-1991, and its share of total employment fell from 23 per cent to less than 22 per cent. Manufacturing employment has grown rapidly in the 1990s, by an annual average of 3 per cent, a similar rate of expansion to that of employment as a whole, with the result that manufacturing employment maintained its share of almost 22 per cent of the total between 1991-97. The expansion of employment in manufacturing marks Ireland as an exception to trends elsewhere in the developed world, where industrial employment is in decline (Sexton and O'Connell, 1996). The growth of manufacturing in Ireland is mainly due to the continued influx of foreign direct investment- prompted by a range of tax and grant concessions, a moderate cost structure, and the plentiful supply of young well-educated workers. Krugman (1997) notes that US direct investment in Ireland is 50 per cent higher per capita than in the UK, and 6 times as high as in France and Germany.

**Table 2.5****Employment by economic sector, 1981-1997**

|                     | 198  | 199       | 1997 |
|---------------------|------|-----------|------|
| <i>Number</i>       |      | <i>10</i> |      |
| Agriculture         | 189  | 155       | 134  |
| Manufacturing       | 264  | 245       | 289  |
| Construction        | 102  | 78        | 97   |
| Market Services     | 376  | 427       | 527  |
| Non-market services | 206  | 229       | 291  |
| Total               | 113  | 113       | 1338 |
| <i>Share</i>        |      | <i>%</i>  |      |
| Agriculture         | 16.6 | 13.7      | 10   |
| Manufacturing       | 23.2 | 21.6      | 21.6 |
| Construction        | 9    | 6.9       | 7.2  |
| Market Services     | 33.1 | 37.7      | 39.4 |
| Non-market services | 18.1 | 20.2      | 21.7 |
| Total               | 100  | 100       | 100  |

Source: Sexton, 1998

Underlying these trends have been significant compositional changes within the manufacturing sector. Irish manufacturing activities can be broadly subdivided into a traditional indigenously owned subsector and a more high-tech area in which multi-national enterprises tend to predominate. The former would include activities such as clothing and textiles and food processing while the latter would involve the engineering, instrumentation, computers and chemical industries. In general, the more modern high-tech subsector has tended to expand continuously over the period under discussion, while the more traditional indigenous subsector has at times, been subject to severe employment decline. This applied particularly in the recession of the early 1980s when many uncompetitive traditional enterprises were forced permanently out of business. Sweeney argues that “there was a massive shake-out in industry between 1973 and 1994” (1998:129). He shows that the indigenous sector suffered particularly heavily, and between 1973 and 1996 total employment in Irish indigenous manufacturing firms fell by 25,000 (18 per cent ). In contrast, total employment in foreign owned manufacturing grew by 43 per cent over the same period, with the result that by 1996 foreign owned firms accounted for over 45 per cent of all manufacturing employment. However, in recent years the resurgence of growth in manufacturing has occurred in both indigenous as well as foreign owned firms, and employment in the former grew by 8,400 between 1993-1996.

**Figure 2.2****Average annual percentage change in employment by sector,  
1981-91 and 1991-97**

The fortunes of the construction industry in Ireland have tended to reflect cyclical conditions in the economy as a whole. There was significant employment decline over the 1980s but strong recovery, of the order of about 4 per cent growth per year over the period 1991-1997.

The largest growth in employment took place in services. Employment increased across the broad range of service activities over the entire period from 1981-1997: slowly during the 1980s and rapidly during the 1990s. Total services employment grew from 582,000 in 1981 to 818,000 in 1997, an expansion of over 40 per cent. Most of the employment expansion in services generally can be attributed to market services, which increased by 100,000 (or 23 per cent) from 427,000 in 1991 to 527,000 in 1997. Within the market services sector, employment trends in transport, communication and distribution have been erratic, and most of the growth in the sector has been concentrated in a range of professional, business and professional services (Sexton and O'Connell, 1996).

Figure 2.2 shows that the highest percentage rate of growth in the 1991-97 period occurred in non-market services (mainly public sector activities). However, this exaggerates the contribution of this sector, and overstates the relative share of public versus private sector employment growth, since the percentage increase is calculated on a lower base than in the case of market services, and the numerical increase in non-market services was a more modest 62,000 between 1991-97. Within non-market services, the bulk of the growth took place in education and health services (Duggan, Hughes and Sexton, 1997). Tansey (1998) shows that public sector employment actually declined due to budgetary austerity measures between 1987 and 1989, with a slow recovery thereafter, with the result that public sector employment grew by only 2.3 per cent in the decade from 1987 to 1997. He notes that private sector employment grew by almost 32 per cent over the same period.

## 2.6 Changes in occupational structure

We have seen the far-reaching changes in the sectoral structure of employment over the past decade and a half above. However, the changes run even deeper than these figures suggest. Different industries have significantly different occupational or skill profiles and, therefore, the structural movements over recent decades have given rise to fundamental changes in the occupational/skill mix of the employed workforce. While the influence of sectoral change has been dominant, occupational profiles *per se* have also been evolving within industries. This is particularly true of managerial and professional activities, which have assumed greater importance within enterprises across all sectors. Service related activities have also become relatively more important. In contrast, the extent of manual activities (particularly those which are unskilled) has been in decline.

The extent of these changes is shown in Table 2.6 (taken from Duggan, Hughes and Sexton, 1997) which shows a classification of those at work by broad occupational groups for 1981-1995. Consistent with sectoral trends, the share of agricultural workers in total employment fell from almost 16 per cent in 1981 to 11 per cent in 1995. The proportion of manual workers also declined over the period, although for both skilled and unskilled manual workers, Figure 3 shows that the fall in the numbers employed during the 1980s was followed by some expansion during the 1990s. Employment of semi- and unskilled manual workers also fell from 1 per cent in 1981 to fewer than 12 per cent in 1997, although, as Figure 2.3 shows, there was some growth in the number of semi- and unskilled workers during the 1990s.

**Table 2.6**

### **Employment by main occupational group, 1981-1995**

|                       | 1981   |      | 1991   |      | 1995   |      |
|-----------------------|--------|------|--------|------|--------|------|
|                       | -1000  | %    | -1000  | %    | -1000  | %    |
| Agricultural          | 177.4  | 15.6 | 143.9  | 12.7 | 135.3  | 11   |
| Managers, Proprietors | 94.6   | 8.3  | 113.7  | 10   | 124    | 10.1 |
| Professional etc.     | 155.9  | 13.7 | 189.1  | 16.7 | 223.5  | 18.2 |
| Clerical              | 157.9  | 13.9 | 158    | 13.9 | 169.8  | 13.8 |
| Service Occupations   | 92.3   | 8.1  | 110.6  | 9.8  | 127.1  | 10.3 |
| Sales                 | 74.2   | 6.5  | 82.7   | 7.3  | 98.3   | 8    |
| Skilled Manual        | 213.6  | 18.8 | 195.6  | 17.3 | 205.2  | 16.7 |
| Semi- & Unskilled     | 171.8  | 15.1 | 139.1  | 12.3 | 145.2  | 11.8 |
| Total                 | 1138.8 | 100  | 1133.5 | 100  | 1233.6 | 100  |

Source: Duggan, Hughes and Sexton, 1997

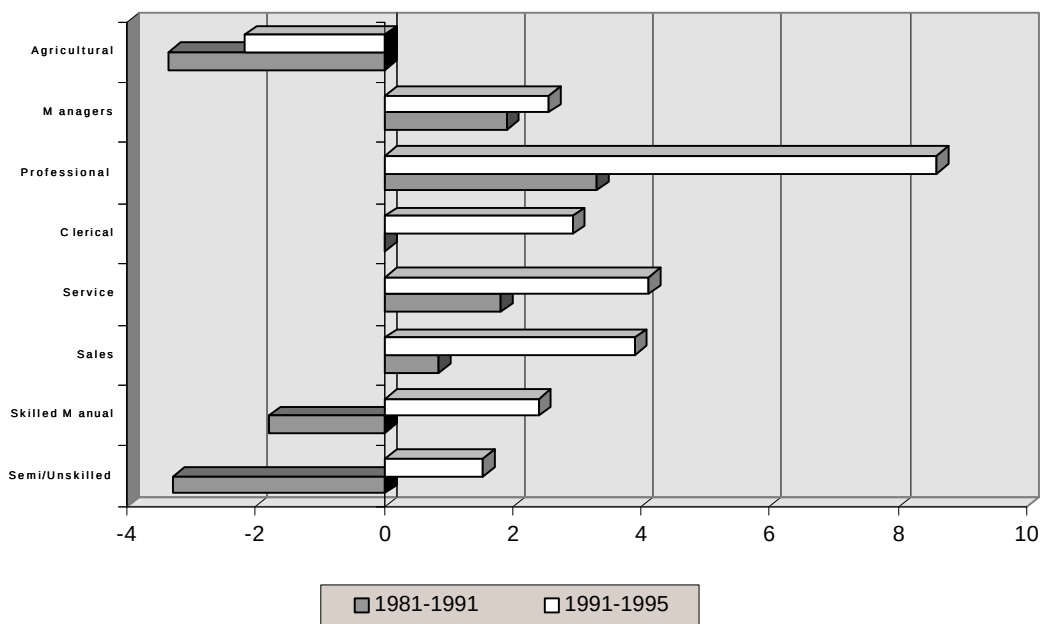
The strongest growth took place among professional occupations, which expanded their share of total employment from 14 per cent in 1987 to 18 per cent in 1995. Service and sales workers also increased their share of the total, as did managers, while the share of clerical workers in total employment remained a constant 14 per cent throughout the period.

These changes in the occupational structure reflect a long-running trend towards upgrading of positions in the labour market - a process which has been taking place since the early 1960s (O'Connell, forthcoming). The Irish pattern of occupational change follows a similar pattern to

those evident in many other Western economies, and involves much more than just a shift from manual to non-manual activities. In general, the types of jobs and occupations which are growing tend to require either qualifications or personal skills as well as a degree of flexibility not characteristic of traditional forms of employment.

**Figure 2.3**

**Annual changes in employment by occupation, 1981-91, 1991-95**



In Ireland, the fact that the changes in occupations as well as in working arrangements coincided with the removal of many impediments to female involvement in the labour market resulted in many of these new opportunities being availed of by women. It was also the case that many of those who suffered job loss from traditional areas (such as industry) were not equipped with the appropriate qualifications, skills or aptitudes associated with the newly emerging vacancies. As we discuss below, the inevitable consequence for those displaced by economic restructuring is unemployment, and eventually long-term unemployment, this is particularly true of older workers. It is also shown below, however, that many of the new job opportunities, which emerged, involved low wage or part-time work.

## **2.7 Self-employment**

At first sight there would appear to be remarkable stability in the proportion of those at work who are self-employed in Ireland, with about 20 per cent of those at work self-employed throughout the period from 1981-96 (Table 2.7). In Ireland, however, the vast majority of those working in agriculture are self-employed, and historically, farmers have accounted for a substantial share of self-employment. If we exclude the declining agricultural sector (In Panel B of Table 2.7),

we find that the apparent stability in self -employment has, in fact, been maintained by a substantial expansion in self-employment outside of agriculture. In the non-agricultural sectors, self-employment increased from 90,000 in 1981 to 149,000 in 1996, representing less than 10 per cent of total employment at the start of the 1980s but 13 per cent in the mid-nineties. Most of that expansion in self-employment took place during the decade after 1986.

**Table 2.7**

**Numbers at work by employment status, 1981-1996**

|                          | Self<br>Employed | Employees | Total | Self<br>Employed<br>Share<br>% |
|--------------------------|------------------|-----------|-------|--------------------------------|
|                          | (1,000s)         |           |       |                                |
| A. All sectors           |                  |           |       |                                |
| 1981                     | 237              | 909       | 1146  | 20.7                           |
| 1986                     | 233              | 848       | 1081  | 21.5                           |
| 1991                     | 242              | 892       | 1134  | 21.4                           |
| 1996                     | 257              | 1028      | 1285  | 20.0                           |
| B. Excluding Agriculture |                  |           |       |                                |
| 198                      | 90               | 861       | 951   | 9.5                            |
| 198                      | 103              | 811       | 913   | 11.2                           |
| 199                      | 125              | 854       | 979   | 12.8                           |
| 199                      | 149              | 996       | 114   | 13                             |

Source: Central Statistics Office, various years, *Labour Force Survey*

The increased popularity of self-employment, particularly during the latter half of the 1980s may have been due to a resort to self-employment as an alternative to unemployment in a slack labour market, and the growth of self employment may be partially a response to state programmes providing a range of supports to assist the unemployed to start their own businesses. Such an option would only have been feasible for those with particular skills and competencies on demand in the market place: in general self employment would rarely count as a viable option for the poorly skilled unemployed. Sexton and O'Connell (1996) argue that the growth of self-employment may also be due to the more liberal income tax regime which applies to the self employed, compared with the more rigid PAYE withholding system for employees.

## **2.8 Part-time work**

We noted above that there has been a significant increase in part-time working, particularly amongst women. Table 2.8 shows the trend in part-time working over the period 1983-1997 on the ILO classification. The share of part-time workers rose from under 7 per cent of total employment in 1983 to over 12 per cent in 1997. For men the proportion of part-timers rose from under 3 per cent to over 5 per cent in 1997 while among women, the increase was from under 16 per cent to 23 per cent .

**Table 2.8**  
**The incidence of part-time working, 1983-1997**  
**(ILO basis)**

|      | Men | Women<br>% | All  |
|------|-----|------------|------|
| 1983 | 2.7 | 15.6       | 6.7  |
| 1990 | 3.4 | 17.6       | 8.1  |
| 1993 | 4.8 | 21.3       | 10.8 |
| 1994 | 5.1 | 21.7       | 11.3 |
| 1995 | 5.4 | 23.1       | 12.1 |
| 1996 | 5   | 22.1       | 11.6 |
| 1997 | 5.4 | 23.1       | 12.3 |
| 1998 | 7.8 | 30.1       | 16.7 |

Source: Eurostat *Labour Force Survey*,  
and Central Statistics Office, 1997b and 1998

Sexton and O'Connell (1996) show that part-time work accounted for all of the modest increase in total employment that occurred between 1983 and 1993 and that the numbers in full-time employment declined during this time. However the balance between growth in full- *versus* part-time work has altered again with the recent surge in employment. Measured on the ILO basis, total employment increased by 197,000 between 1993 and 1997, of which 42,000 (22 per cent) were part-time. However, even if the absolute increase in employment since 1993 consisted mainly of full-time jobs, the *rate* of increase in part-time employment was higher, with the result that the share of part-time working in total employment continued to rise gradually. The 1998 data, as we have noted before (see footnote 1 above) are not comparable with earlier years because of changes in the measurement of employment in 1998, which yield a more precise, but much higher number of part-time workers. The 1998 data show that almost 17 per cent of employment was part-time, accounting for almost 8 per cent of men at work and 30 per cent of women.

The large majority of part-time workers are women and in 1997 they accounted for well over 70 per cent of all part-time workers. Women's labour force participation has thus partly increased in response to an increase in the demand for part-time workers, an arrangement which allows women greater scope to combine working with child rearing and other domestic work - a particularly important factor in Ireland, given the absence of public provision of, or even support for, child-care services.

**Table 2.9****Part-time employment by gender and under-employment, 1992, 1997 and 1998**

|       | Total<br>Part-time<br>(1,000s) | Not<br>Underemployed<br>(1,000s) | %    | Underemployed<br>(1,000s) | %    |
|-------|--------------------------------|----------------------------------|------|---------------------------|------|
| 1992  |                                |                                  |      |                           |      |
| Men   | 28.7                           | 18.4                             | 64.1 | 10.3                      | 35.9 |
| Women | 75.7                           | 66.9                             | 88.4 | 8.8                       | 11.6 |
| All   | 104                            | 85.3                             | 81.7 | 19.1                      | 18.3 |
| 1997  |                                |                                  |      |                           |      |
| Men   | 45.4                           | 33.8                             | 74.4 | 11.6                      | 25.6 |
| Women | 124                            | 114                              | 91.8 | 10.2                      | 8.2  |
| All   | 169                            | 148                              | 87.2 | 21.8                      | 12.8 |
| 1998  |                                |                                  |      |                           |      |
| Men   | 70.4                           | 64.8                             | 92   | 5.6                       | 8    |
| Women | 179                            | 174                              | 97.4 | 4.7                       | 2.6  |
| All   | 249                            | 239                              | 95.9 | 10.3                      | 4.1  |

Source: Central Statistics Office, 1997b, *Labour Force Survey*,  
and 1998, *Quarterly National Household Survey, First and Second Quarters 1998*.

Table 2.9 presents an analysis of part-time workers by gender and ‘under-employment’ for 1992, 1997 and 1998. Part-time workers are considered to be under-employed if they indicate in response to the Labour Force Survey or the Quarterly National Household Survey that they were looking and available for another part-time job or a full-time job. The table suggests that most part-time working is a matter of preference: in each year well over 80 per cent of all part-time workers were not under-employed - i.e. they were not working part-time because of an inability to find a full-time job. The table also indicates that the incidence of under-employment among part-time workers fell. Between 1992 and 1997 the proportion underemployed fell from 18 per cent to 13 per cent, reflecting the tightening of the Irish labour market. One of the noteworthy features of the table is that while the total number recorded by the QNHS in 1998 as working part-time increased dramatically, both the absolute number as well as the proportion of those underemployed fell very substantially.

Table 2.9 also reveals interesting gender differences, with men who are working part-time being far more likely than women to indicate that they were under-employed: in 1997 over one-quarter of men working part-time reported that they were under-employed, true of only 8 per cent of women working part-time.

**Table 2.10****Part-time and total employment by economic sector, 1991 & 1997**

| Sector                                     | Part-time |       | Total Employment |        | Part-time Share |      |
|--------------------------------------------|-----------|-------|------------------|--------|-----------------|------|
|                                            | 1991      | 1997  | 1991             | 1997   | 1991            | 1997 |
|                                            | (1,000s)  |       | (1,000s)         |        | %               |      |
| Agriculture etc.                           | 9.1       | 9.5   | 158              | 141.5  | 5.8             | 6.7  |
| Manufacturing                              | 7.8       | 12.8  | 245.6            | 292.8  | 3.2             | 4.4  |
| Building                                   | 2.5       | 4.4   | 78.8             | 97.6   | 3.2             | 4.5  |
| Commerce, Insurance,<br>Finance & Business | 23.1      | 45.5  | 235.7            | 295.6  | 9.8             | 15.4 |
| Transport &<br>Communications.             | 2.6       | 4.5   | 65.5             | 84.6   | 4               | 5.3  |
| Public Administration &<br>Defence         | 5.1       | 4.9   | 70.7             | 75.1   | 7.2             | 6.5  |
| Professional Services                      | 24.8      | 43.8  | 190.8            | 244.2  | 13              | 17.9 |
| Other Services                             | 20        | 44.5  | 102.2            | 148.5  | 19.6            | 30   |
| Total                                      | 95        | 169.9 | 1147.4           | 1379.9 | 8.3             | 12.3 |

Source: Central Statistics Office, various years, *Labour Force Survey*

Table 2.10 shows total employment and part-time working by economic sector in 1991 and 1997. The most important sectors for part-time working are all in services, including commerce, insurance, finance and business, as well as professional and other services. In 1997, part-time workers accounted for 30 per cent of those working in 'other services' and 18 per cent in professional services, but only 4 per cent of manufacturing. The growth of part-time working in Ireland is thus largely a function of the expansion in the services sector in recent years.

## 2.9 Unemployment

We have already discussed the aggregate trends in unemployment over the period from 1981 to 1998 above (see Table 2.3). This section provides a more detailed breakdown of unemployment by age, gender and duration. Table 2.11 shows unemployment by age and gender. The number of unemployed men, 97,000 is substantially higher than that of women, 62,000. The unemployment rate among women is lower than that among men. In this regard Ireland differs from gender-related patterns of unemployment in many other countries, where women tend to suffer higher rates of unemployment than men. O'Connell and McGinnity (1997) argue that the true level of women's unemployment may be underestimated by survey-based data, since women who are not in employment may be more likely than men to report that they are engaged in home duties. This latter effect may be particularly strong in Ireland with its comparatively low rate of female labour force participation.

**Table 2.11**  
**Unemployment by age group, 1997**

| 1997                                                                | 15-24   | 25-44 | 45-64 | Total |
|---------------------------------------------------------------------|---------|-------|-------|-------|
| Number unemployed                                                   | (1,000) |       |       |       |
| Men                                                                 | 27.2    | 46.2  | 23.3  | 97.1  |
| Women                                                               | 20.0    | 31.2  | 10.3  | 62.0  |
| All                                                                 | 47.2    | 77.4  | 33.6  | 159.0 |
| Distribution by age group                                           | %       |       |       |       |
| Men                                                                 | 28.0    | 47.6  | 24.0  | 100.0 |
| Women                                                               | 32.3    | 50.3  | 16.6  | 100.0 |
| All                                                                 | 29.7    | 48.7  | 21.1  | 100.0 |
| Unemployment Rate                                                   | %       |       |       |       |
| Men                                                                 | 16.9    | 9.8   | 8.4   | 10.4  |
| Women                                                               | 15.2    | 9.3   | 8.2   | 10.3  |
| All                                                                 | 16.1    | 9.6   | 8.4   | 10.3  |
| Source: Central Statistics Office, 1997, <i>Labour Force Survey</i> |         |       |       |       |

The largest number unemployed are those in the prime working-age group 25-45; this age group accounted for almost half of all unemployment in 1997. Young people, those aged under 25, account for 30 per cent of total unemployment (table 2.11). Sexton and O'Connell (1996) show that unemployment among young people increased very dramatically over the course of the 1980s and early 1990s. In 1981 almost 14 per cent of labour force participants in the 15-24 year age group were unemployed, compared to about 9 per cent of those aged over 25. The unemployment rate among young people reached its peak in 1993 when, at over 27 per cent it was almost double the unemployment rate among older labour force participants (14 per cent). This sharp increase in youth unemployment occurred despite a sharp fall in the numbers of young people participating in the labour force - due both to marked increases in educational participation and to high levels of migration, particularly in the second half of the 1980s. Since then, however, youth unemployment has fallen - to 16 per cent in 1997 - following the general improvement in labour market conditions, although the unemployment rate among young people remains considerably higher than among those aged over 25.

## 2.10 Long-term unemployment

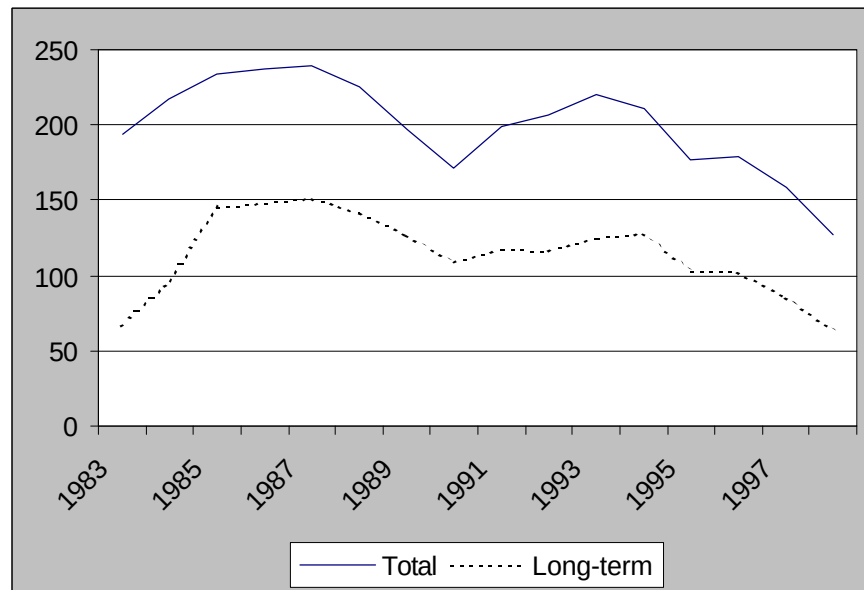
Ireland suffered from an exceptionally high level of long-term unemployment from the mid 1980s to the mid 1990s. As recently as 1996, 11.8 per cent of the Irish labour force was unemployed, and 60 per cent of these, equivalent to 7 per cent of the labour force, had been unemployed for one year or more. This was one of the highest rates of long-term unemployment in Europe. The average unemployment rate in the EU in that year was 10.9 per cent, and 48.2 per cent of these were long-term unemployed - equivalent to 5 per cent of the labour force.

Figure 2.4 shows the trend in total and long-term unemployment from 1983-1998. Total unemployment increased from 194,000 in 1983 to 239,000 in 1987. Over the same period, long-

term unemployment increased rapidly from 67,000 to 152,000, with the result that the proportion of the unemployed who were long-term unemployed increased from 35 per cent of the total in 1983 to almost 64 per cent in 1987. Thereafter, however, the numbers long-term unemployed declined, particularly after 1988 when economic conditions improved. By 1990 the numbers long-term unemployed had fallen to just under 110,000, even though this still constituted 64 per cent of total unemployment due to a concomitant decline in the overall numbers out of work. However, with the economic downturn of the early 1990s, there was an increase in both total and long-term unemployment, and the latter increased to 128,00 in 1994. As unemployment increased rapidly over the first half of the 1980s, so did long-term unemployment.

**Figure 2.4**

**Total and long-term unemployment in Ireland, 1983-98 (1,000s)**



The rapid expansion of the economy since 1993 gave rise to a further substantial decline in long-term unemployment, particularly in 1994-5 and again in 1996-7. O'Connell (1997) argues that these trends suggest that long-term unemployment in Ireland is rather more responsive to cyclical changes in the economy than had been thought to be the case. Previous analyses of trends in long-term unemployment up to the early 1990s, which were based on unemployment register data, suggested that the total number long-term unemployed tended to increase following recessionary periods, but that the number did not fall to any significant degree when economic conditions improved (O'Connell and Sexton, 1994; Breen and Honohan, 1991).

The *Labour Force Survey* data above suggests that such a hysteresis effect may have been operative during the early part of the 1980s, when the number long-term unemployed increased very dramatically, as did its incidence. Since then, however, the trend in long-term unemployment has been much closer to the trend in total unemployment, and thus more responsive to fluctuations in macro-economic conditions.

**Table 2.12****Unemployment by duration, 1983-1998**

|      | Total<br>unemployed | Less than<br>1 year<br>-1000 | 1 year<br>or more | Long-term<br>share<br>% |
|------|---------------------|------------------------------|-------------------|-------------------------|
| 1983 | 194                 | 127                          | 67                | 34.5                    |
| 1984 | 217                 | 121                          | 96                | 44.2                    |
| 1985 | 234                 | 89                           | 145               | 62                      |
| 1986 | 237                 | 89                           | 148               | 62.4                    |
| 1987 | 239                 | 87                           | 152               | 63.6                    |
| 1988 | 226                 | 84                           | 142               | 62.8                    |
| 1989 | 197                 | 70                           | 127               | 64.5                    |
| 1990 | 172                 | 63                           | 109               | 63.4                    |
| 1991 | 199                 | 81                           | 118               | 59.3                    |
| 1992 | 207                 | 85                           | 117               | 56.5                    |
| 1993 | 220                 | 95                           | 125               | 56.8                    |
| 1994 | 211                 | 76                           | 128               | 60.7                    |
| 1995 | 177                 | 68                           | 103               | 58.2                    |
| 1996 | 179                 | 72                           | 103               | 57.5                    |
| 1997 | 159                 | 67                           | 86                | 54.1                    |
| 1998 | 127                 | 63                           | 64                | 50.4                    |

Sources: (a) Special tabulations from the Annual Series of Labour Force Surveys.

(b) EUROSTAT (1993). Labour Force Survey 1983-1991,

(c) C.S.O. (1998) *Quarterly National Household Survey*

The most recent data from the *Quarterly National Household Data* for 1998 show a decline in total unemployment to less than 8 per cent of the labour force and in long-term unemployment to about 4 per cent, representing 50 per cent of total unemployment. These outcomes are very encouraging, but they should be interpreted with some caution. Over the two years from 1996-1998, long-term unemployment fell by 39,000 but the reduction in the number unemployed less than one year fell by only 9,000. This appears to confound our conventional understanding of the labour market. We would expect that during an employment boom the 'short-term' unemployed would be hired first both because the long-term unemployed are likely to be more disadvantaged in terms of skills and work experience than the 'short-term' unemployed, and because of the effects of 'state dependence' which suggests that the longer an individual has been unemployed the lower the probability that that individual will escape from unemployment and re-enter work (Heckman and Borjas, 1980). In Ireland, however, most of the reduction in unemployment in recent years has occurred in respect of long-term unemployment. O'Connell (1998) argues that much of the reduction in long-term unemployment achieved in Ireland in the 1994-1997 period may be attributable to labour market training and temporary schemes. The Quarterly Household Survey shows that the numbers participating in the schemes at the time of the survey was 41,000. However, the 'throughput' from labour market schemes, which is a flow measure of the number of individuals completing schemes and re-entering the labour market, was about twice that number (O'Connell, 1998). If we assume that half the throughput between 1997-1998 (40,000) had been recruited from among the long-term unemployed, and make the further, generous, assumption that

one half of them found jobs after completing their training or temporary employment schemes,<sup>2</sup> this means that about 20,000 would have re-entered unemployment after completing a labour market scheme. On re-entering unemployment these formerly long-term unemployed individuals would be measured as short-term unemployed. If we were to adjust the estimates of short- versus long-term unemployment to reflect this influx of formerly long-term unemployed – i.e. shift the 20,000 from short-term to ‘adjusted long-term unemployed’ our estimate of the share of long-term unemployed in total unemployment would rise to about 65 per cent.<sup>3</sup> These admittedly rough estimates, which are however, based on the best available data on both participation and placement rates, suggest that the very large scale of labour market programmes in Ireland may have a very strong influence on our measurement of the balance between short- and long-term unemployment.

Cyclical fluctuations notwithstanding, long-term unemployment remains a formidable problem with a significant structural dimension. There is a strong relationship between duration of unemployment and age. Long-term unemployment is much more prevalent among the older age categories. Table 2.13 shows that whilst the share of long-term unemployment in total unemployment was just over 40 per cent in 1997 for those aged 15-24 years, it rose to nearly 58 per cent of persons aged 25-44, and to 66 per cent of those aged 45 years and over. In each age group, the incidence of long-term unemployment was higher among men than among women and this gender disparity intensifies with age.

**Table 2.13**

**Incidence and distribution of long-term unemployment, Ireland 1997**

| <i>Age-group:</i>                            | 15-24 | 25-44 | 45 or over | Total |
|----------------------------------------------|-------|-------|------------|-------|
| <b>Incidence</b>                             | %     |       |            |       |
| % Long-term unemployed                       |       |       |            |       |
| Men                                          | 45.6  | 64.1  | 71.6       | 60.6  |
| Women                                        | 33.0  | 48.7  | 53.7       | 44.4  |
| All                                          | 40.3  | 57.9  | 66.0       | 54.3  |
| <b>Compositon</b>                            |       |       |            |       |
| % of total within gender                     |       |       |            |       |
| Men                                          | 21.1  | 50.3  | 28.7       | 100.0 |
| Women                                        | 24.0  | 55.3  | 21.1       | 100.0 |
| All                                          | 22.0  | 51.9  | 26.3       | 100.0 |
| % of total long-term unemployed              |       |       |            |       |
| Men                                          | 14.4  | 34.3  | 19.6       | 68.1  |
| Women                                        | 7.6   | 17.6  | 6.7        | 31.9  |
| Source: Central Statistics Office, LFS, 1997 |       |       |            |       |

If we focus on the age composition of long-term unemployment, we find, first, that over half of all long-term unemployment is concentrated in the 25-45 year age group, and, second, that

<sup>2</sup> Follow-up survey data of placement rates from labour market raining schemes in Ireland show that about 37 per cent of those participating in schemes targeted on the long-term unemployed subsequently obtain jobs, while the placement rates from skills training programmes, mainly, but not exclusively, accessed by the short-term unemployed are about 70-80 per cent .

<sup>3</sup> This re-estimation leaves the total number unemployed unchanged and simply entails shifting individuals from short- to long-term unemployment.

a further 22 per cent of the long-term unemployed are aged less than 25. Thus, almost 75 per cent of the long-term unemployed are in age categories in which their expected labour force participation extends over two to four decades, rendering it particularly imperative to promote their reintegration into the world of work. The remaining 26 per cent of the long-term unemployed are aged over 45, and by virtue of their age alone, are likely to face severe difficulty in finding work. When we disaggregate the distribution of long-term unemployment by age and gender we find that males aged over 25 account for well over half of all long-term unemployment.

One of the main impediments to effective labour market participation by the long-term unemployed is their generally poor educational qualifications. Table 2.14 shows educational qualifications by employment situation in 1994.

**Table 2.14**

**Educational qualifications of those at work,  
unemployed and long-term unemployed, 1994**

|                     | At Work |          | Unemployed |           |
|---------------------|---------|----------|------------|-----------|
|                     |         | All<br>% | Short-term | Long-term |
| None                | 18      | 28       | 20         | 37        |
| Junior cycle second | 25      | 36       | 36         | 37        |
| Senior cycle second | 33      | 26       | 30         | 21        |
| Third               | 25      | 10       | 14         | 5         |
| Total               | 100     | 100      | 100        |           |

Source: Tansey, 1998 (derived from *Labour Force Survey* data).

Over 40 per cent of those at work had at best, a Junior second-level qualification, one-third had taken the Leaving Certificate examination- thus completed second level, and a quarter had attended third level education. The distribution of qualifications among the unemployed was a great deal less favourable, with 28 per cent having no qualifications, and about 36 per cent having completed second level education, including 10 per cent who had attended third level. The aggregate data for the unemployed, however, conceal important differences between the short-term and long-term unemployed. The long-term unemployed had a particularly poor educational profile - 37 per cent had no qualifications whatsoever, and a further 37 per cent had only a junior level qualification. O'Connell and McGinnity (1997) show that there are important differences in education even within the long-term unemployed - those aged over 35 years of age were particularly disadvantaged: in 1991 65 per cent had no qualifications and a further 22 per cent had completed the junior secondary cycle - only 12 per cent had completed the senior secondary cycle.

The analysis of educational qualifications of the unemployed helps to explain why long-term unemployment increased to such alarming levels in Ireland. In a situation of constant excess supply, caused partly by an influx of young new labour force entrants, the existing unemployed (particularly those who are older or disadvantaged), get pushed further down the queue of jobless and into long-term unemployment. The position has been exacerbated by the process of industrial restructuring which has caused the displacement of sizeable numbers of older workers, many with outdated skills. This "queuing" phenomenon tends to further re-enforce the problem, since a

person who is marked with the stigma of long-term unemployment becomes less employable in the eyes of employers and it becomes increasingly difficult to escape from that state.

Our review of the age composition and educational qualifications of the long-term unemployed suggests that long-term unemployment represents a formidable problem with a significant structural dimension. While discussion of trends over time in long-term unemployment may indicate that it is more susceptible to economic forces than previously envisaged, the total number of long-term unemployed remained above 100,000 from 1980-1996 and only fell below that level in 1997 (to 97,000). Furthermore, since it is the best equipped among the long-term unemployed who tend to find work first, it may be increasingly difficult to achieve further significant reductions in addition to those already attained, as the remaining body of long-term unemployed persons will tend to have an increasingly disadvantageous education and skills profile. There is, therefore, a need for continuing strenuous and well-targeted intervention on the part of the State if they are to be reintegrated into the labour market.

Long-term unemployment represents one of the remaining problems in the Irish 'success story'. If the long-term unemployment problem is not tackled during the current period of rapid economic growth it is highly unlikely that the resources or opportunity could be found when macro-economic conditions deteriorate.

### 2.11 Youth unemployment

As total unemployment soared over the course of the 1980s and again in the 1990s, so also did unemployment among young people. In 1981 almost 15 per cent of labour force participants in the 15-24 year age group were unemployed, compared to about 9 per cent of those aged over 25. The unemployment rate among young people reached its peak in 1993, when at over 27 per cent of the young labour force, it was almost double the unemployment rate among older labour force participants (14 per cent ) (O'Connell and Sexton, 1994). This sharp increase in youth unemployment occurred despite a fall in the numbers of young people participating in the labour force.

**Table 2.15**

#### **Labour force and population trends among those aged 15-24, 1983 & 1997**

|                                                         | <b>1983</b>      |          | <b>1997</b>     |          |
|---------------------------------------------------------|------------------|----------|-----------------|----------|
| <i>Principal Economic Status</i>                        | <i>(1,000's)</i> | <i>%</i> | <i>(1,000s)</i> | <i>%</i> |
| At Work                                                 | 287              | 47       | 224             | 33.6     |
| Unemployed                                              | 72               | 11.8     | 51              | 8.6      |
| Labour Force                                            | 359              | 58.8     | 276             | 42.2     |
| Education                                               | 220              | 36       | 346             | 54.5     |
| Other Non-Active                                        | 32               | 5.2      | 22              | 3.3      |
| Population 15-24                                        | 610              | 100      | 643             | 100      |
| Unemployment Rate                                       |                  | 20.1     |                 | 18.6     |
| Youth Employment as a<br>Percentage of Total Employment |                  | 25.5     |                 | 16.8     |

*Source: Labour Force Surveys, 1983 and 1997*

Table 2.15 shows labour force and population data for young people in 1983 and 1997. The total population aged 15-24 increased by about 5 per cent over the period, although the rate of growth was slowed by high rates of emigration, which peaked in the late 1980s.<sup>4</sup> Over the same period, however, the number of young people participating in the labour force declined by almost one-quarter, from 359,000 in 1983 to 276,000 in 1997. This decline in the labour force participation rate - from 59 per cent to 42 per cent of the population age group, was due to a dramatic increase in educational participation - from 36 per cent of the population age group in 1983 to almost 55 per cent in 1997.

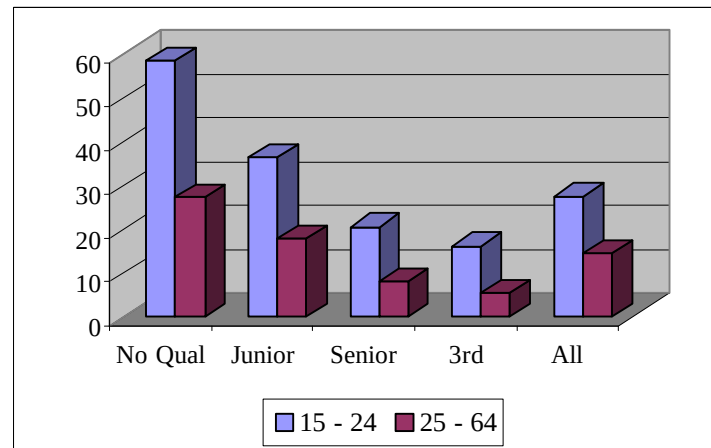
Over the entire period from 1983-1997, the number of young people at work fell by 22 per cent, from 287,000 to 224,000, representing 47 per cent of the population age group in 1983, but only 34 per cent in 1997. While the absolute number of young people who were unemployed fell substantially between 1983 and 1997, the decline in labour force participation meant that the fall in the unemployment *rate* among young people was only from 20 per cent in 1983 to under 19 per cent in 1997, although the rate in 1997 was substantially lower than it had been at its peak level of 27 per cent in 1993.

The decline in the number of young people at work, and the continuation of relatively high rates of unemployment among the 15-24 year age group, despite falling labour force participation, suggests that over time young people have found it increasingly difficult to find a foothold in the world of work. In 1983, workers aged 15-24 accounted for over 25 per cent of total employment, but by 1996, their share of total employment had fallen to less than 17 per cent. This fall in youth employment was mainly due to a closing off of the traditional ports of entry for young people, particularly in the case of clerical and junior professional openings, and skilled and semi-skilled work. O'Connell and Sexton (1994) show that young people benefited little from the employment surge of the late 1980s: between 1989 and 1991 youth employment actually fell while employment among those aged over 25 increased by 57,000. Young people have benefited more from the more recent expansion since 1993, although not to the same extent as older workers: employment of those aged 15-24 increased by 5.7 per cent between 1993 and 1996, while employment among those aged over 25 increased by 13.5 per cent. In this respect Ireland differs from other countries, such as the United Kingdom and the United States, where young people have been recruited in disproportionately greater numbers than adults during economic upturns (Freeman and Wise, 1982; Makeham, 1980).

The marked growth in participation in education among the younger age groups has meant that the supply of well-qualified candidates for jobs has increased. In a crowded labour market, young people with low or intermediate levels of qualification compete for jobs with somewhat older candidates who have higher levels of qualification, work experience, or both.

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<sup>4</sup> Net outward migration amounted to over 200,000 between 1983 and 1995. Net migration is emigration less inward migration. The former tends to be concentrated among the younger age groups, while inward migration is more evenly spread across age groups, so net migration data is likely to underestimate the extent of out-migration among young people.

**Figure 2.5****The risk of unemployment by age group and educational attainment in 1993**

*Source: Labour Force Survey, 1993 (Special tabulation)*

The problems confronting young labour force participants are very evident from Figure 2.5 which compares the proportion unemployed in each educational group for the younger age group (15-24) and those aged 25-64. The figure shows that at each level of educational attainment, young people were at very substantially higher risk of unemployment than their older counterparts. Those most at risk were young people with no qualifications, 58 per cent of whom were unemployed, compared to 27 per cent of the older age group. Young people with the Junior Certificate faced a higher risk of unemployment than older people with no qualifications whatsoever. The unemployment rate of young people who had completed senior cycle secondary education (20 per cent) was well over twice that of the older group with a similar level of qualification (8 per cent), and the unemployment rate of young people who had attended third level was over three times the corresponding rate for the older age group.

Figure 2.5 highlights the strong associations between labour market prospects and both educational attainment and age in a year characterised by particularly high unemployment. While the employment situation improved considerably in recent years, the benefits of employment growth have not been distributed equally. Analysis of annual survey data of leavers from secondary education shows that between 1990-1995 while the employment prospects of those who completed the senior cycle of secondary education improved, the labour market prospects of those who left school with inadequate qualifications actually deteriorated, with lower employment and higher unemployment rates in 1995 than in 1990 (O'Connell, 1997).

Young people leaving school with inadequate qualifications are heavily disadvantaged in the labour market and their labour market prospects have deteriorated over the 1990s, even during a period of economic boom. The educational system produces an unacceptable number of poorly qualified early school leavers, ill equipped to compete in the labour market, although it should be acknowledged that the numbers of such poorly qualified school leavers have fallen substantially over the past decade. Labour market training programmes targeted on early school leavers also increased over the 1990s (O'Connell, 1997). Nevertheless, there remains substantial under-

provision of vocational education and training to early school leavers to equip them to compete in today's labour market (ESF Programme Evaluation Unit, 1996), and as we have seen, their employment prospects in the absence of intervention on the part of the state are particularly poor. Current and historical under-provision of training has, moreover, led to the build-up of a substantial backlog of relatively young people with inadequate educational qualifications who have not had the opportunity to participate in post-school education or training, who face severe difficulties in the labour market and are at a very high risk of entering the ranks of the long-term unemployed. Breen shows that the disadvantages associated with early school leaving are enduring and increase over time, since "poor qualifications lead a poor labour market record leading to long periods of unemployment and to employment in unstable jobs, both of which further worsen a young person's labour market record." (Breen, 1991, p. 3).

Both low educational attainment and early school leaving are closely related to social class and children from lower socio-economic groups face a much greater risk of leaving school with inadequate qualifications than the children of higher socio-economic groups (Breen, Hannan, Rottman and Whelan, 1990; ESF Programme Evaluation Unit, 1996). Thus, despite the dramatic expansion of educational participation achieved in recent decades, class inequalities continue to be reproduced in the educational system, thus generating inequalities which then determine the distribution of opportunities in the labour market.

Breen and Whelan (1996) show that unemployment is very strongly related to social class. They found that the incidence of unemployment among the professional and managerial class is close to zero and is relatively modest among non-manual workers. Among skilled manual workers, however, the risk of unemployment at a given point in time increases to 20 per cent, and this increases to over 40 per cent among the unskilled manual group. Focusing on the duration of unemployment, they found that the average number of weeks of unemployment over the previous year was less than 1 week in the case of the professional and managerial group, but that this increased to 19 weeks in the case of the skilled manual group and to over 19 weeks in the case of the unskilled manual group. Both the risk of unemployment and the incidence of long-term unemployment are thus heavily concentrated toward the lower end of the social class hierarchy.

We have shown above that the Irish economy has performed exceptionally well in recent years, resulting in increased prosperity and living standards and in phenomenal employment growth. Economic forecasts suggest that rapid growth is likely to continue for a number of years to come. While unemployment grew rapidly, unemployment has fallen, albeit at a slower rate, and further reductions in long-term unemployment represent the major unresolved problem in the Irish economy. This chapter has identified two groups facing particular disadvantages in the labour market; (1) the long-term unemployed displaced by economic restructuring; and (2) young early school leavers. Given changes over time in the demand for labour, resulting in a general up-grading of positions, as well as extended educational participation among younger labour market entrants, educational attainment and skills have become the most significant labour market currency. Accordingly, young people entering the labour market with inadequate qualifications, as well as older displaced workers with skills rendered obsolete by structural change, are marginalised. Neither group can be expected to share in the fruits of rapid growth without extensive and effective intervention by the State to enhance their skills and thus their capacity to compete in the labour market.

## **2.12 Labour market policies for the unemployed**

It has become conventional to distinguish between passive measures, which provide protection for unemployed workers, and active measures, which are designed to improve the skills and competencies of the unemployed and support the search process in the labour market. Over the past two decades, in the Republic of Ireland, as in most other European countries, labour market policies have undergone a shift in emphasis to active measures to promote the reintegration of the unemployed into employment. This has meant that passive measures have been reformed in order to reduce the effects of unemployment traps and other barriers which derive from the structure of the taxation and welfare system and which can create disincentives for the unemployed to return to work, while active measures to provide training and subsidize employment have been expanded.

Most of the debate in recent years in relation to passive measures has focused on incentives and the relationship between incomes when in and out of work. Studies comparing Irish replacement rates - the ratio of out of work income (mainly from social welfare) to previous or potential net earnings, with those in other European countries have found that Irish replacement rates are not as high as in other European countries, although they are higher than in the United Kingdom. Such comparisons are, however, extremely sensitive to the income base for the comparison and the number of dependents involved (OECD, 1994). Similarly, comparative studies of the tax wedge - the gap between what it costs an employer to hire an employee and what the employee receives in take-home pay - suggests that Ireland is not significantly out of line with other European countries (NESC, 1993; OECD, 1994). Nevertheless, the tax wedge did increase rapidly in the early to mid-1980s, and may have created pressure to increase nominal wages and thus contributed to the decline in employment discussed earlier in this paper. Econometric evidence confirms that wage setting is influenced by the tax wedge (Bradley, Whelan and Wright, 1993). Recent initiatives in taxation and social welfare policy have sought to remove work disincentives by reducing both the numbers facing high replacement rates and the relative extent of the tax wedge, particularly for those on low incomes.

The State in Ireland has been particularly active in developing active labour market policies, and over the last decade such measures have become central to the policy response to unemployment. By the end of the 1980s the Republic of Ireland was one of the leading countries in the share of national income devoted to active labour market policies and operated a wide range of differing programmes catering to a diversity of target groups among the unemployed and other socially excluded groups. In 1994 a total of almost 93,000 individuals participated in active labour market programmes, equivalent to about 6.5 per cent of the labour force or over 40 per cent of the total number unemployed in that year. Expenditure on such programmes amounted to 1.7 per cent of GNP, compared to an OECD average of 1 per cent (O'Connell and McGinnity, 1997).

The international literature on active labour market policy suggests that the impact of such policies in creating additional employment is limited, with the exception of direct job creation measures (OECD, 1993). The research on the impact of such policies on the employment prospects of their participants shows a great deal of confusion, with empirical results often appearing to contradict each other (O'Connell and McGinnity, 1997a; Fay, 1996). Training policies may generate additional employment under conditions of skills shortages, and there is some evidence to suggest that training may have such positive effects in the Irish context, mainly because of the relatively low level of in-company training in Irish firms (Sexton and O'Connell, 1996), but also

because of the emergence of skills shortages in the booming economy. Effective and well-targeted measures may, however, serve to redistribute employment opportunities to less advantaged labour market participants.

Empirical assessment of the impact of active labour market programmes in Ireland shows that programmes with strong linkages to the labour market - training in specific employable skills and subsidies for real jobs in the market place - do enhance the subsequent employment prospects and earnings of their participants (O'Connell and McGinnity, 1997). Programmes with weak market linkages, including general programmes as well as subsidised employment in the public or voluntary sectors are much less effective in improving participants' job prospects.

Reviewing recent policy developments O'Connell (forthcoming) argues that despite a substantial increase in the numbers participating in active labour market programmes in recent years there is a marked absence of a strategic approach to combating unemployment, and moreover, some lack of co-ordination among responsible state agencies. First, those most disadvantaged in the labour market - including the long-term unemployed, young early school-leavers, and women seeking to return to work - are more likely to participate in basic level training or in direct job creation measures than in skills training or in measures which subsidise employment/self-employment in the private sector (McGinnity, 1996). Relatively low placement rates from such programmes are partly due to the low qualifications and poor previous labour market experiences of participants, but they also reflect the quality of the programmes, and where it is provided, the level of training.

Second, direct employment schemes have expanded dramatically in recent years, but such schemes have been found to achieve low rates of placement in employment (O'Connell and Sexton, 1995; O'Connell and McGinnity, 1997a and 1997b). The Community Employment Scheme is the largest such programme targeted on the long-term unemployed and socially excluded, and currently provides temporary half-time employment for over 50,000 individuals. The scheme includes a training module, but the training component typically amounts to 20 days, hardly sufficient to counteract the educational disadvantages of most Community Employment participants. With emerging labour shortages it becomes increasingly difficult to justify a scheme which provides little more than subsidised employment. Moreover, the provision of large scale programmes to absorb large numbers of the long-term unemployed in temporary job creation measures represents a policy choice for an expansion in the quantity of provision rather than an improvement in the quality of programmes. Such a policy appears to be predicated on an assumption that long-term unemployment does not respond to cyclical movements in the economy and improvements in labour market demand. Our review of trends over time in long-term unemployment above suggests that this assumption is unwarranted. If long-term unemployment declines during upturns in the labour market, as occurred in the late 1980s and again between 1994-95, then it is likely that a creaming-off process occurs, whereby the best-equipped among the long-term unemployed find work first. Such a creaming-off process leaves a residual group of long-term unemployed with particularly poor labour market prospects. If this group is to be reintegrated then it would require particularly well-targeted interventions of a substantially more intensive nature than is currently available to most of the long term unemployed.

Third, programmes targeted at marginalised groups suffer from a general weakness in not facilitating progression to further education and training - despite the fact that most participants in such programmes are in greater need of such progression opportunities than any other group of labour market participants. Recent reforms in certification systems have led to some improvement

in progression options at foundation level training, although there remain strong elements of segregation between the training and educational system - rendering it difficult, for example, for an early school leaver who has completed a training course to access further education, rather than further training. Ultimately, removing barriers to progression problems is a matter of ensuring both resources and adequate training standards and certification arrangements to facilitate participants to gain access to further education and training opportunities.

Finally, in recent years there has been a proliferation of employment subsidy programmes targeted at differing groups with shifting responsibilities between differing agencies, leading to difficulties in co-ordinating services and confusion among both the unemployed and potential employers regarding availability, eligibility and administration of the various subsidies. Moreover, it is well established that employment subsidies suffer from high levels of dead-weight, whereby a substantial proportion of recruits would have found jobs in the absence of subsidies (Breen and Halpin, 1989). Targeting of employment subsidies to groups particularly hard to place (without subsidies) may serve to reduce that dead-weight (OECD, 1993). Policy formation has been slow to take account of such evidence, with the result that some of the new employment subsidies have been targeted broadly (at the unemployed in general) rather than specifically targeted on the long-term unemployed and other hard to place groups, running the risks of creaming off the more advantaged among the unemployed, and thus excluding the most marginalised, and incurring high dead-weight costs.

Recent changes in active labour market policies have entailed a substantial increase in activity on active programmes to combat unemployment. However, most of the additional resources appear to have been used to achieve an expansion in the quantity of provision rather than an improvement in the quality of programmes. The evidence on the effectiveness of programmes suggests that there is a need to improve the quality of programmes, particularly those targeted at the most disadvantaged. There is also the need to ensure participants' progression to effective programmes in the final phase of reintegration paths which have the ultimate objective of securing sustainable employment. Such an approach would require the allocation of substantially greater resources targeted specifically at those most disadvantaged in the labour market, an issue that raises major political decisions about how the fruits of the recent economic growth are to be distributed in society. In April 1998 the Irish Government published its Employment Action Plan, which outlined its policy approach to implementing the EU Employment Policy Guidelines agreed at the 1998 Luxembourg summit. The EU guidelines stipulate: (1) That young people under the age of 25 should be offered employment, training, work experience or some other employability measure before reaching an unemployment duration of six months; (2) That unemployed adults should be offered similar opportunities to those at (1) above before crossing a threshold of 12 months unemployment; and (3) That these interventions should be combined with measures to reintegrate those already long-term unemployed. The implementation of these guidelines, which call for preventative measures to minimise the inflow to long-term unemployment, rather than to provide interventions to assist the stock of long-term unemployed, represents a reversal of priorities in Irish policy formation, where according priority to the long-term unemployed in active labour market provision is a long- and well-established axiom of practice. There are two problems with the new approach. First, the Irish government committed itself to implementing the first element of the EU guidelines – targeting young entrants to unemployment – within the first twelve months of the planning period. It undertook to phase in the second preventative component – targeted at adults before they cross the twelve month threshold into long-term unemployment – over the following

five years, as resources permit. Given the lack of any additional expenditure commitments in the Employment Action Plan, it appears that the implementation of the guidelines in Ireland entails replacing the existing commitment to the long-term unemployed, a commitment which was renewed under the national Partnership 2000 agreement in 1997, with an alternative commitment to the new preventative strategies (O’Riordan, 1998). In the absence of additional resources, this refocusing of interventions represents a shift in the balance of resources and interventions toward the young and relatively short-term unemployed and, therefore, away from the long-term unemployed, particularly the older long-term unemployed. This threatens to push the most disadvantaged in the labour market to the rear of the queue for access to labour market programmes.

Second, while a preventative approach may make strategic sense in other European countries – particularly those with sluggish employment growth and relatively low rates of long-term unemployment – a similar policy prescription may be inappropriate in the Irish case. Our review of the Irish labour market suggests that Ireland differs sharply in a number of important respects from its European neighbours. Its rate of economic growth is among the fastest in the developed world, it is experiencing an unprecedented employment boom, unemployment is falling, and it has a history of high and persistent long-term unemployment. The booming labour market, with emerging labour shortages, is sufficiently strong to reduce short-term unemployment by reducing the inflow and increasing the outflow from short-term unemployment. The long-term unemployed, on the other hand, face severe barriers to reintegration, and the past scale of the problem exacerbates the difficulty of reducing long-term unemployment – with a core of individuals with a very long history of unemployment who are very difficult to place. A comparatively high incidence of long-term unemployment provides a clear indication of where resources are most needed. In practice, initial reports on the preventive strategy targeted on the young short-term unemployed suggest that a substantial proportion of those covered by the new policy are failing to attend the initial interview and withdrawing from the Live Register of unemployment. Part of this may be due to the current buoyancy in the labour market, and in the light of the low take-up on the programme it is planned to extend the programme - earlier than anticipated - to cover young people crossing the twelve months unemployment threshold.

O’Connell (1998) argues that abandoning well-established policies which prioritise the long-term unemployed in order to conform with EU wide policy initiatives that are designed for very different labour market conditions suggests the absence of a strategic approach to tackling specifically Irish problems. A strategic approach would entail focusing active labour market programmes on the most disadvantaged in the labour market, primarily the long-term unemployed, and ensuring that they have privileged access to effective programmes. Such a refocusing of interventions could serve both efficiency and equity goals – representing a better investment of public resources while combating social exclusion. A successful strategy to reintegrate the long-term unemployed could also increase the effective supply of labour and thus ease skill shortages that are already evident.

### Chapter 3

## The Distributional Consequences of Rapid Growth

*Philip J. O'Connell and Vanessa Gash*

We have seen in Chapter 2 that Ireland achieved unprecedented growth in output and employment over the decade since 1987, and that this success is expected to continue, at perhaps a more modest pace, over the medium term future. The economic performance of a nation must be judged, however, not in terms of rates of growth in output, but on the extent to which such performance translates into improvements in the material living standards of its people. Arguably, the most important factors that can generate enhancements in living standards are employment growth, advances in real incomes, and increased equality in the distribution of incomes. In Chapter 2 we have seen that rapid growth in output has led to substantial employment gains although the reduction in unemployment has been more limited. The present chapter turns to the question of the extent to which growth in output and employment have contributed to improvements in living standards. We are thus concerned with the distributional impact of our 'astonishing success'.

### 3.1 Wage trends

Figure 3.1 shows indices of average earnings in industry and the public sector from 1988-1997. In nominal terms average earnings increased steadily by about 50 per cent over the period, with the rate of growth in the industrial sector slightly ahead of that in the public sector.<sup>5</sup> Adjusting for inflation, average earnings increased by about 20-25 per cent over the period in question.

These earnings increases can be regarded as moderate given increases in output achieved over the same period. Figure 3.2 shows annual changes in unit labour costs between 1988 and 1997 for Ireland, the United Kingdom, and the average for the EU. For most years, except 1991-93 changes in Irish unit labour costs have been below zero and well below those in the rest of the EU, indicating that wage increases have been sufficiently moderate to maintain international competitiveness. In this context, it should be noted that average wage costs in Ireland are substantially below those in most European countries, and that recent increases have done nothing to narrow the gap. Figure 3.3 shows average hourly labour costs in industry in ECUs from the Eurostat Labour Costs surveys for 1988 and 1995. Average hourly labour costs in Ireland were higher only than in Greece and Portugal. Between 1988 and 1995, moreover, while labour costs increased by an average of 40 per cent across the countries reported in Figure 3.3, the corresponding increase in Ireland was only 24 per cent, with the result that Irish labour costs fell relative to the average.

It should be emphasised, of course, that these trends in gross wages underestimate income growth in Ireland since 1987. A central element of national collective bargaining has been a trade-off between wage restraint and tax reductions. Table 3.1 presents a summary of changes in the

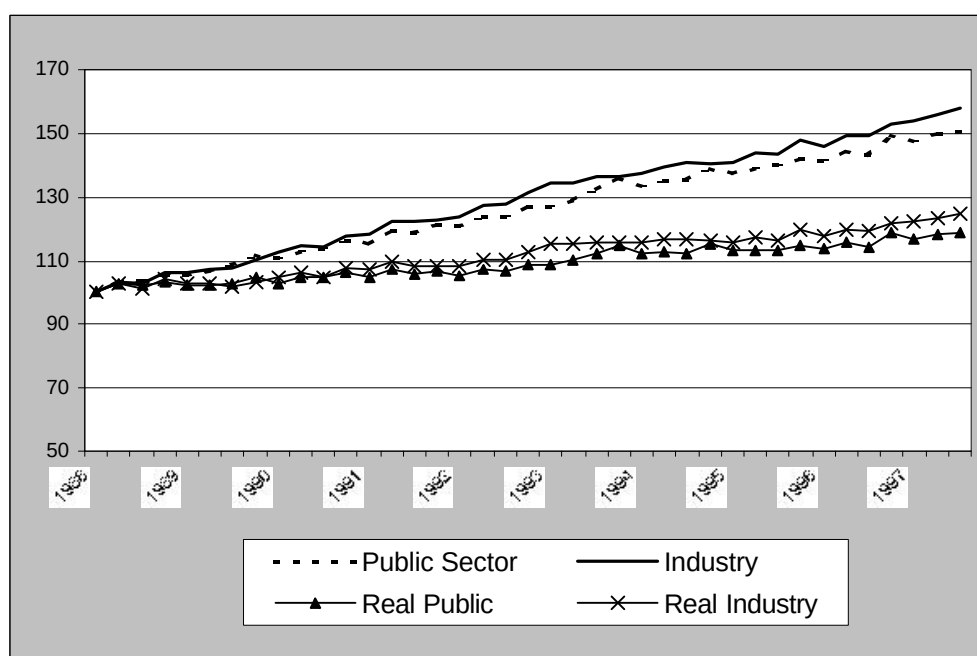
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<sup>5</sup> Tansey (1998) produces alternative estimates of average earnings in the public sector, excluding public authorities, which suggest that average public sector earnings increased by over 70 per cent in nominal terms (about 35 per cent in real terms), substantially above the rate of growth in the private sector.

effects of taxation (including both income tax and social insurance contributions) on a series of hypothetical earners derived from Tansey (1998). Average industrial earnings increased by 43.8 per cent in nominal terms between 1987 and 1997. Inflation over the period was 26.4 per cent, with the result that the real value of average industrial earnings increased by 12 per cent over the decade. Table 3.1 shows the effects of these average changes in gross earnings for the net disposable incomes of hypothetical household types.

**Figure 3.1**

**Average wage trends in industry and the public sector, 1988-1997 Index: 1988=100**

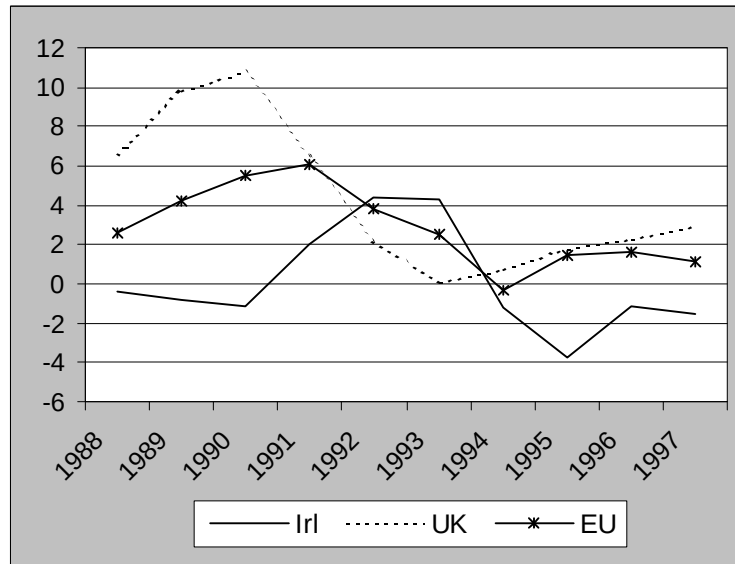


Sources: Central Statistics Office: "Public Sector Average Earnings Indices"

Central Statistics Office: "Industrial Earnings and Hours Worked"

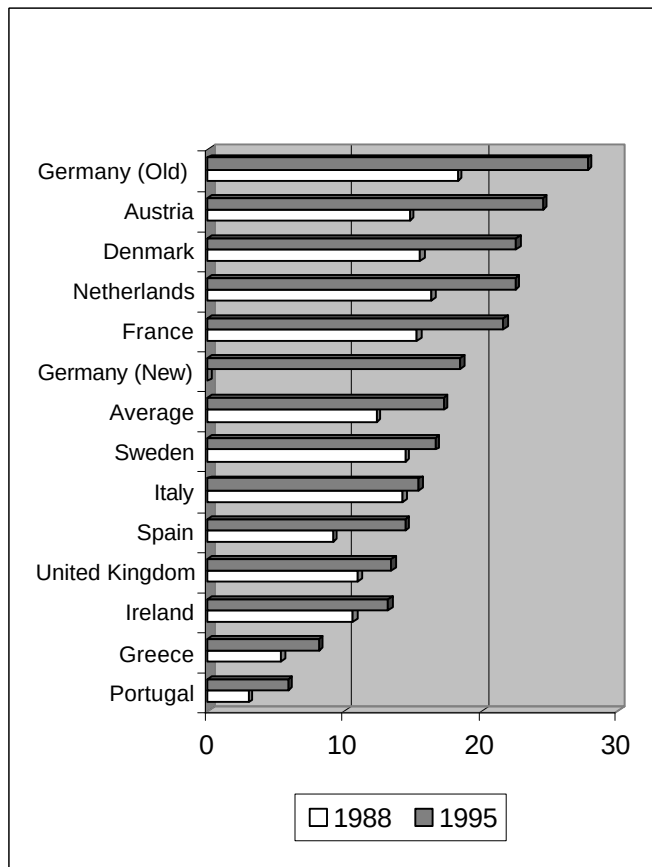
Note: Public sector index relates to average annual incomes of public sector workers, including the civil services, defence forces and education, and excluding health sector workers.

Industry index refers to average weekly earnings in industry.

**Figure 3.2**

Annual percentage changes in Unit Labour Costs, 1987-1997  
 Source: OECD, Economic Outlook, 1997.

**Figure 3.3**  
**Average labour costs in Europe, 1988 & 1995**



Source: Eurostat, *Labour Costs Surveys, 1988 and 1995*

Table 3.1 shows that the combined effects of pay increases plus tax reductions between 1987-1997 were to increase the real purchasing power of all household types – by between one-fifth and one-third. About 12 percentage points of this increase was attributable to the increase in the real value of average industrial earnings, the remainder was due to tax reductions. Those who made the largest gains in real disposable income (28-32 per cent ) were those who had paid the largest effective tax rates in 1987 and whose taxes were subsequently reduced – all those on twice the average industrial wage and single people at the average. Those who had paid lower effective tax rates in 1987, those earning half the industrial average, and married couples at the average rate, made more modest gains in real disposable income (19-22 per cent ). Thus, over the full-period from 1987-1997, the combined effect of increased incomes, sluggish inflation, and tax reductions, has been to increase the disposable income of the higher paid more rapidly than of those on low pay. Between 1993-1997 there was some redirection of policy to improve the relative position of the lower paid, but the gains at the bottom have been modest. This has led in very recent years to calls from the social partners, as well as from most political parties, for much more dramatic cuts in taxation of those on low incomes, both to improve labour market incentives and to achieve greater equality in the distribution of incomes. The budget announced in December 1998 provides very substantial cuts in taxation directed at those on low earnings.

**Table 3.1**  
**The effects of taxation and real purchasing power on selected household types,**  
**1987-1997**

|                                                  | Average effective<br>tax rate, 1987       | Average effective<br>tax rate, 1997 | Change in average<br>tax rates | Change in real<br>purchasing power,<br>1987-1997 |
|--------------------------------------------------|-------------------------------------------|-------------------------------------|--------------------------------|--------------------------------------------------|
| Single person earning<br>average pay             | 35.5                                      | 26.2                                | -9.3                           | 28.2                                             |
| Single person earning<br>half average pay        | 22                                        | 14.6                                | -7.4                           | 22.6                                             |
| Single person earning<br>twice average pay       | 48.8                                      | 39.6                                | -9.2                           | 32.3                                             |
| Married couple, one income,<br>average pay       | 25.4                                      | 19.6                                | -5.8                           | 20.7                                             |
| Married couple, one income,<br>half average pay  | 7.8                                       | 1.9                                 | -5.8                           | 19.1                                             |
| Married couple, one income,<br>twice average pay | 36.3                                      | 27.2                                | -9.1                           | 27.9                                             |
| Source:                                          | Derived from Tansey (1998) Tables 8.1-8.8 |                                     |                                |                                                  |

Table 3.2A provides comparative data on movements in gross, after-tax and take-home pay for selected European countries between 1991-1994. In Ireland, average gross earnings of the average production worker increased by 13 per cent between 1991-1994, 1 percentage point behind Austria, and slightly ahead of the Netherlands. The effects of tax reductions over those years were that average take home pay increased by 15 per cent in Ireland, compared to increases of about 9 per cent in the Netherlands, 12 per cent in Denmark and 13 per cent in Austria. This

increase in average take-home pay was 8 percentage points higher than the rate of inflation, compared with a differential of 7 percentage points in Denmark and Austria, and no real change in the Netherlands. These data suggest that in comparative terms, Irish production workers may have made very slight gains in average take home pay relative to their counterparts-other small European countries-over the years 1991-1994. However, these gains are unlikely to have made a substantial impact on the wage differences underlying the comparative data on wage costs in Figure 3.3 above.

**Table 3.2A**  
**Indices of gross earnings, after-tax pay and take-home pay**

| Country                  | Year | Gross earnings | After-tax pay | Take-home Pay | Consumer prices |
|--------------------------|------|----------------|---------------|---------------|-----------------|
| <i>Index: 1991 = 100</i> |      |                |               |               |                 |
| Ireland                  | 1    | 110            | 111           | 109           | 104             |
|                          | 1    | 113            | 115           | 115           | 107             |
| Austria                  | 1    | 106            | 106           | 106           | 103             |
|                          | 1    | 114            | 114           | 113           | 106             |
| Denmark                  | 1    | 106            | 106           | 105           | 103             |
|                          | 1    | 109            | 121           | 112           | 105             |
| Netherlands              | 1    | 109            | 108           | 106           | 106             |
|                          | 1    | 111            | 116           | 109           | 109             |

Source: OECD, 1995, *Taxes and Benefits of Average Production Workers*.

### 3.2 Low pay

These trends in the tax treatment of the low paid take on added significance when viewed in the context of changes over time in the distribution of incomes. Nolan and Hughes (1997) in their comparison of national survey data relating to 1987 and 1994 show that 'from 1987 to 1994 there was a consistent widening in dispersion for both weekly and hourly earnings, particularly at the top of the distribution' (p4). The ratio of average hourly earnings in the bottom decile to median earnings fell from 47.1 per cent in 1987 to 46.5 per cent in 1994, while the corresponding ratios for the top income decile increased from 196 per cent to 226 per cent. They argued moreover that increased income inequality can not be attributed to gender or age differentials, though gender is a feature in so far as the increase in income dispersion was greater among men than for the distribution as a whole.

**Table 3.2B**  
**Percentage of employees below low pay thresholds, 1987 and 1994**

|                               | 1987              | 1994 |
|-------------------------------|-------------------|------|
|                               | % below threshold |      |
| 50% of median Hourly Earnings | 11.0              | 11.4 |
| 50% of median Hourly Earnings | 11                | 11.4 |
| 66% of Median Hourly Earnings | 19.8              | 23   |

Source: Nolan and Watson, 1998, Table 5.4

Table 3.2B shows the percentage of employees with hourly earnings below 50 per cent and 60 per cent ratios to median earnings in 1987 and 1994 (Nolan and Watson, 1998). The percentage of employees below half the median remained virtually unchanged between 1987 and 1994, but the percentage below the 66 per cent threshold increased from 20 per cent to 23 per cent of all employees. Ireland has one of the highest incidences of low paid employees among OECD countries for which comparable data are available (Barrett, Callan and Nolan, 1997).

**Table 3.3**  
**Extent of low pay in Ireland compared with selected other countries, about 1994**

| Country     | % of full-time employees<br>below 66% of median<br>weekly earnings |
|-------------|--------------------------------------------------------------------|
| USA         | 25                                                                 |
| Ireland     | 23.9                                                               |
| Canada      | 23.7                                                               |
| UK          | 19.6                                                               |
| Austria     | 13.2                                                               |
| Germany     | 13.3                                                               |
| France      | 13.3                                                               |
| Netherlands | 11.9                                                               |
| Finland     | 5.9                                                                |
| Sweden      | 5.2                                                                |

Source: Nolan and Hughes, 1997, Table 4

Table 3.3 shows data on the extent of low pay for a selection of countries. In Ireland, Canada and the US about one-quarter of full-time employees earn less than 66 per cent of median weekly earnings. About 20 per cent of employees in the UK fall below this threshold, but in most other countries for which data are available, the rate is lower than 15 per cent.

Table 3.4 shows low pay by gender. Women face a substantially higher risk of being low paid than men – over 30 per cent of women are below the two-thirds-median threshold, compared to less than 15 per cent of men. Women account for 52-54 per cent of those earning low pay, although they account for only 41 per cent of all employees.

**Table 3.4**  
**Low pay by gender, 1994**

|       | ½ Median                            | 2/3 of the median |
|-------|-------------------------------------|-------------------|
|       | <i>% below threshold</i>            |                   |
| Men   | 9.2                                 | 17.8              |
| Women | 14.6                                | 30.5              |
| All   | 11.4                                | 23.0              |
|       | <i>% of all those below cut-off</i> |                   |
| Men   | 47.9                                | 45.9              |
| Women | 52.1                                | 54.1              |
| All   | 100                                 | 100               |

Source: Nolan and Watson, 1998, Table 5.6.

**Table 3.5**  
**Low pay for full-time and part-time women versus men, 1994**

|                                                | $\frac{1}{2}$ Median |       | $\frac{2}{3}$ Median |       |
|------------------------------------------------|----------------------|-------|----------------------|-------|
|                                                | Men                  | Women | Men                  | Women |
| <i>% Below hourly Earnings Cut-off.</i>        |                      |       |                      |       |
| Under 18 Hours                                 | 19.0                 | 24.4  | 39.2                 | 51.3  |
| Under 30 Hours                                 | 16.5                 | 18.3  | 30.0                 | 38.3  |
| 30 +                                           | 8.7                  | 13.0  | 17.0                 | 27.2  |
| <i>% of labour force within each category.</i> |                      |       |                      |       |
| Under 18 Hours                                 | 2.1                  | 12.2  | 2.2                  | 12.7  |
| Under 30 Hours                                 | 5.1                  | 19.6  | 4.5                  | 20.3  |
| 30 +                                           | 42.8                 | 32.6  | 41.3                 | 33.8  |
| Source: Nolan and Watson, 1998, Table 5.8.     |                      |       |                      |       |

The risk of low pay is strongly related to working time. Table 3.5 shows the incidence of low pay by working time and gender in 1994. In general, a greater proportion of part-time workers falls below hourly low-earnings thresholds than is the case among full-timers. This has an important influence on male-female wage differences because a large majority of part-time workers are women. In the 1994 *Living in Ireland Survey*, upon which the data in Tables 3.4 and 3.5 are based, about 16 per cent of employees worked less than 30 hours, true of 30 per cent of women but only 6 per cent of men. The risk of being in low pay is substantially higher for women than for men, and more women are in part-time employment than men. Thus, 38 per cent of women working less than 30 hours fall below two-thirds of the median, compared to 30 per cent of men. However, women working full-time are also at greater risk of low pay – 27 per cent of women working 30 or more hours per week fall below the threshold, compared with 17 per cent of men.

**Table 3.6**  
**Composition of employees below hourly earnings thresholds, and all employees,**  
**1987 and 1994**

|                          | <i>% of all employees below 2/3<br/>median hourly earnings</i> |      | <i>% of all employees</i> |      |
|--------------------------|----------------------------------------------------------------|------|---------------------------|------|
|                          | 1987                                                           | 1994 | 1987                      | 1994 |
| Part-time All (30 hours) | 15.4                                                           | 24.8 | 10.3                      | 15.7 |
| Women                    | 56.4                                                           | 54.1 | 36.8                      | 40.7 |
| Under 25 years           | 56.1                                                           | 49.9 | 24.3                      | 20.1 |
| Men < 25                 | 25.1                                                           | 27.4 | 11.3                      | 10.6 |
| Women < 25               | 30.9                                                           | 22.5 | 13                        | 9.5  |
| Men > 25                 | 18.5                                                           | 18.5 | 51.9                      | 48.7 |
| Women > 25               | 25.4                                                           | 31.6 | 25.5                      | 31.2 |
| Married men              | 11.6                                                           | 10.9 | 42.9                      | 37.5 |
| Married women            | 18.2                                                           | 21.9 | 15.9                      | 21.3 |
| All Employees            | 19.8                                                           | 23   | NA                        | NA   |

Source: National Minimum Wage Commission, 1998, Tables 7 and 25.

Further information on the dynamics and composition of low pay is available from the Report of the National Minimum Wage Commission Vol. 2 (1998). This report was commissioned by Government to advise on the proposed introduction of a minimum wage. The Government subsequently adopted a national minimum wage set at two-thirds of average median hourly earnings, to be implemented in the year 2000. Table 3.6 shows the proportion of all employees falling below the proposed national minimum wage level in 1987 and 1994 and compares their composition with that of all employees. The analysis is based on gross hourly earnings of the 1994 Living in Ireland Survey and the 1987 Survey of Income Distribution, Poverty and Use of State Services.

Looking first at all employees, in columns 3 and 4, it is clear that part-time working has increased substantially, from 10.3 to 15.7 per cent, as already shown in Chapter 2, as has the percentage of women at work, whilst the proportion of young workers (aged under 25) has fallen. When we turn our attention to the incidence of low pay amongst these statistics we can offer a qualitative interpretation of the situation. The incidence of low pay, as we have already observed, increased between 1987 and 1994 from 20 to 23 per cent by this measure. When we focus our attention on part-time workers the increased incidence of workers on low pay is more remarkable with an increase of 5.4 per cent from 15 to 20 per cent. Decreases were found in low pay amongst women workers in general and amongst young people-though these decreases are solely attributable to young women workers amongst whom the proportion low paid fell from 31 per cent in 1987 to under 23 per cent in 1994. The situation of older women is much different whilst they have increased their share of total employment the proportion amongst them who are low paid has already increased.

### 3.3 Poverty

An assessment of overall trends in poverty rates between 1987-1994 provides an additional measure of the quality of Ireland's economic transformation. According to Nolan and Hughes (1997) the numbers in poverty in Ireland have increased significantly between 1987 and 1994 (see Table 3.7 below). In 1987 at the 60 per cent mean equivalent income, 28 per cent of households were living below the poverty index, in 1994 this was found to have risen to almost 35 per cent. At the 50 per cent level the proportion of households in poverty rose from 16 per cent to over 18 per cent. Nolan and Hughes note, however, that the extent to which the income of these households falls below the poverty lines has decreased over time.

**Table 3.7**  
**Households in poverty in Ireland, 1987 and 1994**

| % of households below:         | 1987 | 1994 |
|--------------------------------|------|------|
| 50% of mean equivalent income  | 16.3 | 18.5 |
| 60% of mean equivalent income  | 28.5 | 34.6 |
| Source: Nolan and Hughes, 1997 |      |      |

Nolan and Hughes also show that only a small minority of the low paid are in poor households and only a small minority of poor households contain a low paid employee. Most low paid employees are not in poor households because the low pay income threshold is substantially higher than the relative poverty line for a single adult or couple, so the earnings of even a low paid individual are sufficient to raise a small household above the poverty threshold. Moreover many households containing a low paid individual are not dependent on his or her earnings as the main source of income.

Most poor households are headed by individuals who are not working – either unemployed or not economically active – and are heavily dependent on social welfare incomes. The modal category for the labour force status of the heads of households living below the poverty threshold were the unemployed at the 50 per cent level in both 1987, 1994 and also at the 60 per cent level in 1987. By 1994, however, female headed households on home duties, had replaced the unemployed as the largest single category living in poverty below the 60 per cent poverty index, accounting for 28 per cent of all poor households in 1994 (Nolan and Hughes 1997).

Nolan and Watson (1998) examine gender differences in poverty in 1987 and 1994. They show that while the poverty risk for couples remained substantially unchanged between 1987 and 1994 the poverty risk for women living alone increased substantially, from 4 per cent in 1987 to 24 per cent in 1994. Moreover, between 1987 and 1994 the poverty risk increased sharply for female lone parents who were household heads, with the result that such households had the highest poverty risk of identified household types at the 60 per cent poverty index.

Nolan and Watson (1998) attribute about one third of the increased poverty risk facing female headed lone parent households to demographic changes – mainly the decline in the number of adults, particularly working for low pay, in these households, and the increase in the number of female heads who were younger, single or separated, and with young children. Much of the remainder of the increase in the risk of poverty is due to changes in social welfare payment rates,

which for female headed households lagged behind average incomes. In contrast, social welfare payment rates for other schemes, for which other household types were eligible, including unemployment and retirement schemes, increased at rates closer to average earnings, thus reducing the poverty risks of these household types.

**Table 3.8**  
**Risk and incidence of poverty by gender of household head, 1987 and 1994**

|                                | 1987                          |                                | 1994                          |                                |
|--------------------------------|-------------------------------|--------------------------------|-------------------------------|--------------------------------|
|                                | Per cent<br>below 50%<br>line | Per cent of poor<br>households | Per cent<br>below 50%<br>line | Per cent of poor<br>households |
| Male Head                      |                               |                                |                               |                                |
| One person                     | 22.5                          | 9.9                            | 20.7                          | 11.8                           |
| Lone parent                    | 17.3                          | 1.8                            | 11.4                          | .0.9                           |
| Female Head                    |                               |                                |                               |                                |
| One person                     | 3.8                           | 2.2                            | 24.4                          | 14.6                           |
| Lone parent                    | 17.4                          | 7.6                            | 31.7                          | 16.5                           |
| Source: Nolan and Watson, 1998 |                               |                                |                               |                                |

We have noted above that women are much more likely than men to be working for low pay. Thus, Nolan and Watson (1998) show that women comprised 41 per cent of all employees in 1994, but 54 per cent of those earning less than two-thirds of median hourly earnings. These gender differences in the incidence of low pay are related to age, with little differences in the proportion of low-paid men versus women in the under 25 age group, but pronounced differences for older age groups – to the disadvantage of women. They also show that low-paid women are more likely than low-paid men to be married. Between 1987 and 1994, increased female participation in paid employment was particularly pronounced for women married to men on below average earnings, although for women married to unemployed men, the percentage actually fell over the period. Nolan and Watson argue that the establishment of the minimum wage set at 2/3rds of median hourly earnings would increase the gross earnings of the low paid by an average of 39 per cent, seeing some, though not the majority, lifted out of poverty. However, they also note that whilst women would be the majority of beneficiaries of the implementation of the minimum wage it would also be women's jobs which could be placed at risk if their employers do not feel compelled to increase their pay and chose rather to abandon the low pay sector or the country all together.

### **3.4 Barriers to women's employment**

While the number of women in paid work in Ireland has increased very dramatically in Ireland in recent years, this has occurred in spite of a series of obstacles to their participation. In addition to low wages, additional barriers include the lack of childcare, the education and training system, and disincentives built into the tax and social welfare systems. The lack of available childcare, and the absence of public financial support for childcare, is widely recognised as a major barrier to women's participation in paid employment. Consensus breaks down, however, on solutions to the problem. Fahey (1998) argues that the debate on the issue in Ireland is divided by conflicting objectives, between promoting the interests of mothers in the labour force, versus

providing supports to parents wishing to look after their children in the home, and between provision of childcare as one element in an anti-poverty strategy versus the economic rationale for subsidising employment through supporting childcare. Fahey also argues that taxation-based support, such as tax allowances for either children or childcare costs would be regressive and have little impact on the incomes of poor households. Direct state provision of childcare, on the other hand is likely to be extremely expensive.

Women seeking to re-enter employment following a voluntary interruption also face difficulties in access to active labour market programmes. O'Connell and McGinnity (1997) show both that training and temporary employment programmes with strong links to the labour market are more likely to enhance the employment prospects of their participants, but also that women seeking to re-enter the labour market are more likely to participate in less effective programmes. While many women seeking to return to work may be in need of either foundation level general skills training, temporary work experience, the research suggests that general training or direct employment schemes are of themselves unlikely to significantly improve their job prospects unless they are followed by progression to more advanced schemes that have stronger linkages to the open labour market. This suggests the need for reintegration paths designed to allow women returning to the labour force, as well as other severely disadvantaged groups, particularly the long-term unemployed, as argued in Chapter 2, to progress through a series of programmes tailored to their particular needs.

The taxation and welfare systems can also act as barriers to women entering paid employment. In Ireland, couples are assessed jointly for income taxation and personal tax allowances and bands are transferable from non-working to working spouses. Given relatively low allowances and bands, which result in relatively modest incomes being liable to tax at the top rate of 46 per cent at the margin, non-working spouses contemplating entry to work face an effective tax rate of over 50 per cent when social insurance contributions are added. Reform of the tax system to restrict the transferability of allowances and bands could remove this disincentive, although reforms in this area are difficult because of interpretations of the privileged legal position of the family in the Irish Constitution. Elements of the social welfare system, particularly in relation to means tested social assistance schemes, also create disincentives for spouses entering work by withdrawing payments as spouses' earnings increase. Recent reforms in the social welfare system have, however, sought to remove such disincentives by integrating social insurance payment systems and, to some extent reducing the role of means testing in social insurance entitlement.

### **3.5 Conclusions**

Assessment of the distributional consequences of Ireland's astonishing economic and labour market successes presents a somewhat mixed picture, but one that suggests that much remains to be done if the fruits of success are to be distributed evenly across all sections of Irish society. We have seen that there was a moderate increase in the average wages and salaries of those at work over the decade 1987-1997. We have also seen that the effects of these wage gains, combined with low inflation and tax reductions over the decade 1987-1997, were to add significantly to the disposable incomes of those at work. In Chapter 2 we showed that the numbers at work increased dramatically over the same period. All of this means that economic success has been successful in generating substantial improvements in the material living standards of workers in Ireland.

We have also seen, however, that rapid economic growth has coincided with an increase

in inequality. The incidence of low-paid employment has increased over time. So also has the incidence of poverty. We should acknowledge that our measures of income inequality and poverty relate to the 1987-94 period, because of the inevitable delay in collecting and processing appropriate data, and this means that we cannot yet capture the full implications of the changes over the entire decade of growth since 1987. The increase in low-paid employment can be attributed to market forces: it reflects the fact that much of the increase in employment has been in low-paid sectors and occupations, and our information on occupational and sectoral trends in employment would suggest that a substantial proportion of the more recent growth in employment is also likely to have entailed an increase in the numbers in low paid employment. The increase in poverty is more complex and is due to the combined effects of demographic change, changes in employment, and in the social welfare system. We noted above that most poor households are headed by individuals who are not working – including the unemployed and those not economically active. Increased employment at adequate wages should reduce poverty. However, Callan, Nolan and Walsh (1998) argue that increases in welfare rates for the unemployed have lagged behind the growth in average earnings during the years of rapid economic growth. If the benefits of growth are to be distributed across society in a manner which does not at least prevent an increase in poverty, social welfare rates would have to rise in line with incomes from the marketplace.

We have also seen that despite the dramatic increase in women's paid employment, married women and women with children face a series of interrelated obstacles to entering the workforce. These include low wages, the lack of state support for childcare, and disincentives in the taxation and welfare systems.

## **Chapter 4**

### **Social Partnership: Principles, Institutions and Interpretations**

Rory O'Donnell

#### **4.1 Introduction**

As noted in Chapters 1 and 2, Ireland has been one of the fastest growing economies in the European Union or the OECD in the 1990s. Since 1987, Ireland has conducted economic and social policy by means of social partnership between the state and major economic and social interests. This has involved periodic agreement on the main lines of economic policy and active dialogue and negotiation on implementation and short-term management. This experiment requires careful consideration in the wider European context. It constitutes an important experiment on how a small, and extremely open, economy can be managed in the European Union.

The background to the revival of social partnership is outlined in Section 2. Section 3 summarises the main features of the four social partnership programmes, covering the period 1987 to 2000, and outlines the institutions of social partnership. Section 4 notes Ireland's strong economic and employment performance under social partnership. In Section 5, we consider two conflicting evaluations of Irish partnership—the positive view of the social partners and government and the negative view of a small number of prominent academic economists. Section 6 considers the interpretation of Irish social partnership. It begins by reporting the view, advanced by industrial sociologists, that Ireland is structurally unsuited for the type of neo-corporatism developed in certain Northern European countries in the post-war period. The Irish experiment is then briefly compared with developments in other European countries in the more turbulent decades of the 1980s and 1990s. The chapter finishes by considering how the partnership experiment has been analysed and understood by those most actively involved in it. Such characterisation has been necessary in order to develop and extend the partnership approach. This underlines the extent to which the categories and concepts commonly used to analyse classic Northern European neo-corporatism in the post-war period, are inappropriate in understanding Irish social partnership. Indeed, it is possible that the Irish case is aiding the emergence of a new view of social partnership that may have relevance in other European countries.

#### **4.2 Background**

Despite the slowdown in the world economy and adjustment to EC membership, the Irish economy performed relatively well through most of the 1970s. However, attempts to maintain growth in the face of international recession involved increased government borrowing. Rapidly increasing deficits pushed the overall exchequer-borrowing requirement to almost 16 per cent of GNP in the late-1970s and early 1980s. Ireland joined the European Exchange Rate Mechanism (ERM) on its establishment in 1979, hoping to achieve a switch from British to German inflation rates. Ireland experienced the Thatcher recession, but not the resumption of economic growth in the mid-1980s. The period 1980 to 1987 was one of

prolonged recession, falling living standards and a dramatic increase in unemployment. Total employment declined by almost 6 per cent and employment in manufacturing by 25 per cent. The length and depth of this depression reflected Ireland's sharp balance of payments and public finance adjustment and adherence to the ERM. In addition, this weak real performance coincided with increasing public sector deficits and debt. By 1987, the debt/GNP ratio was approaching 130 per cent and real fears of national insolvency emerged. Fifteen years after joining the EC, Ireland's ability to manage in an increasingly global environment had been tested and found wanting.

In a context of deep despair in Irish society, the social partners, acting in the tripartite National Economic and Social Council (NESC), hammered out an agreed strategy to escape from the vicious circle of real stagnation, rising taxes and exploding debt. The NESC is an advisory body - in which employers, trade unions, farmers and senior civil servants analyse policy issues (see Section 3 below). Its *Strategy for Development* (1986) formed the basis upon which a new government and the social partners negotiated the Programme for National Recovery (PNR), to run from 1987 to 1990. This was to be the first of four agreements which have brought Ireland through more than a decade of negotiated economic and social governance. Following the influence of *A Strategy for Development* (1986), the negotiation of each subsequent social partnership agreement has been preceded by a NESC *Strategy* report, setting out the shared perspective of the social partners on the achievements and limits of the last programme and the parameters within which a new programme should be negotiated. This chapter draws on those reports and other studies of the Irish experiment in social partnership.

### 4.3 The social partnership agreements and institutions

#### *The Four Agreements, 1987 to 2000*

The Programme for National Recovery, 1987-1990 (PNR) involved agreement between employers, trade unions, farming interests and government on wage levels in both the private and public sectors for a three-year period. Moderate wage growth was seen as essential to international competitiveness and to achieving control of the public finances. That agreement, and its successors, also contained agreement on a wide range of economic and social policies—including tax reform, the evolution of welfare payments, trends in health spending, structural adjustment, Ireland's adherence to the narrow band of the ERM and, subsequently, the Maastricht criteria. Each partner agreed that they would not generate inflationary pressures which would warrant devaluation and would not seek devaluation when external problems arose. The PNR also established a new Central Review Committee (CRC) to monitor implementation of the programme and ensure ongoing dialogue between government and the social partners on key economic and social policy issues (see below).

The social partnership programmes enlisted trade union support for a radical correction of the public finances. In return, the government accepted that the value of social welfare payments would be maintained, and that public spending cuts would not be extended to these transfer payments. In addition, it undertook to introduce reforms in income tax of benefit to trade union members. This is an important feature of the Irish social partnership model for a number of reasons, which should be noted. The period of unrestrained public borrowing, in the late 1970s and early 1980s, was accompanied by a distinct narrowing of the Irish tax base, due particularly to the abolition of the domestic 'rates', the form of property tax traditionally used to fund local services. The special 10 per cent rate of corporation tax applied to manufacturing—and numerous other fiscal and financial incentives to business—also

narrowed the tax base. For many years farmers were virtually excluded from the income tax system, an exemption which has been corrected over time. As a consequence, the burden of Irish tax falls primarily on earned income, particularly the earned income of employees. The attempt to contain the spiralling level of public deficit and debt initially took the form of increased taxation. Workers on average income or below experienced a huge increase in taxation in the early and mid-1980s, many being driven into the top tax rate. As a result, tax reform and tax reduction became a major concern to the average working family—particularly in a context where increases in wage rates were low or non-existent. In Ireland in the 1980s and 1990s, pressure for tax reform and reduction is not necessarily a reflection of a swing to neo-liberal politics, as it might have been in some other countries. In addition to welfare and taxation, the agreement set out the general direction of government policy in a number of areas, with the broad parameters having been agreed between the social partners.

The three subsequent agreements—the Programme for Economic and Social Progress (PESP) 1990-1993, the Programme for Competitiveness and Work (PCW) 1994-1996, and Partnership 2000, 1997-2000—had a broadly similar form. Each has covered a three-year period, and has set out agreed pay increases for the period covered. They also contained agreements on a variety of policy areas, including commitments to social equality and tax reform. While the macroeconomic strategy has been adhered to consistently since 1987, subsequent agreements contained policy initiatives which are worthy of note.

The PESP (1990-93) initiated an experimental new approach to long-term unemployment. Partnership companies were established, on a pilot basis, in 12 areas of particular disadvantage in order to design and implement a more co-ordinated, multi-dimensional, approach to social exclusion. These were complemented by the EU's LEADER programme, which involves a partnership approach to rural development. This approach has been examined and strongly supported by the social partners, through the NESC (see NESC 1995). Indeed, a recent OECD evaluation of Ireland's local economic development policies considered that the partnership approach constituted an experiment in economic regeneration and participative democracy which is, potentially, of international significance (Sabel, 1996). This pilot initiative was subsequently extended to a larger number of areas. The existence of national-level social partnership would seem to have been a condition for the emergence of new, experimental, approaches at local level. There continues to be a complex relationship between the national-level arrangements—including both social partnership and the national civil service—and the innovative local development initiatives of recent years.

An important feature of Irish social partnership has been a concern to widen the partnership process beyond the traditional social partners. We describe this in the next subsection, where institutional arrangements are considered.

Partnership 2000 continues the process of policy innovation. Following the recommendations of the NESC report *Strategy into the 21st Century* (1996a), it includes an action programme for greater social inclusion. In addition to the general pay and tax provisions of the programme—which are designed to promote employment—this consists of a National Anti-Poverty Strategy, reforms of tax and welfare (to improve the incentives for and reward from work), an expansion of targeted employment measures, further measures to address educational disadvantage and consolidation of the local partnership approach to both economic and social development.

Partnership 2000 also marks some progress in addressing what was seen by many as a weakness in current Irish social partnership. It had been argued that the high level of partnership at national level was not adequately reflected at enterprise level. In addition to

weakening the perceived benefits of social partnership, from a trade union perspective, this might also confine the economic benefits to the macroeconomic and public finance areas. It was argued that the high degree of consensus could also be used to address Ireland's deeper developmental challenge, in product development, innovation, training and the introduction of new work and organisational patterns. Reflecting recommendations in the 1996 NESC *Strategy* report, Partnership 2000 has given rise to the establishment of a National Centre for Partnership to develop partnership at enterprise level by benchmarking and disseminating best practice.

The new programme also contains a significant measure of agreement on action to modernise the public service. This enlists the social partners in support of the Strategic Management Initiative developing in the past two years. This is potentially an important aspect of the most recent social partnership agreement for two reasons. First, it was felt by many that the pay moderation and improved performance delivered by the private sector since 1987, was not matched in the public sector (see NESC 1996b). Second, given the constraints on macroeconomic policy—arising from EMU membership and the need for debt reduction—increased efficiency in public utilities and public services is seen as one of the few policy instruments available.

#### **4.4 The institutions of social partnership**

The opening of the Irish economy and the emergence of growth in the 1960s were accompanied by the development of a distinct tripartism in aspects of Irish public policy. Representatives of trade unions and business were appointed to the wide range of public bodies established during those years. While some efforts at national pay determination were made during the 1960s, this approach became dominant in the 1970s, with a series of National Wage Agreements and national Understandings. These efforts at national-level pay determination had varying and limited success (Roche, 1992; NESC, 1996b, chapter 5). Our concern here is with the institutional arrangements that underpin the re-emergence of Irish social partnership since 1987. We briefly describe four institutions:

- C The National Economic and Social Council (NESC)
- C The Central Review Committee (CRC)
- C The National Economic and Social Forum (NESF)
- C The Partnership 2000 Monitoring Process

These are the main bodies involved in national-level social partnership. In addition, as noted above, the period of social partnership has seen the emergence of 'partnership' approaches in various policy spheres: local development, rural development, education and, more recently, crime.

##### *The National Economic and Social Council (NESC)*

The NESC was established by the government in 1973 to provide advice on the development of the economy and the achievement of social justice. It replaced the National Industrial and Economic Council, which had existed since the 1960s. The membership of NESC has traditionally consisted of nominees from the Irish Congress of trade Unions (ICTU), the Irish Business and Employers Confederation (IBEC), and a range of farm organisations. In addition, the Council contains the Secretary General of five key government departments and a number of independent experts appointed by government. The Council has normally been chaired by the Secretary General of the Department of the Taoiseach (Prime Minister) and advises government through that Department. It has a small secretariat of economists and

social policy analysts (numbering no more than four in total). The Council prepares and publishes reports on various economic and social policy issues, relying on drafts from its secretariat of outside consultants. Since 1974 it has prepared over 100 reports. These studies present government with the shared view of the social partners and senior civil servants. Council works by deliberation and consensus rather than votes, and it is rare for reports to contain minority opinions or reservations. While the Council sets its own agenda, the presence of the senior civil servant in the Prime Ministers Department as its chairperson, tends to keep its work relevant to public policy concerns. On occasion, the government requests the Council to undertake a study of a particular policy question; for example, such a request led to the Council's study of the Single European Act and the internal market programme (NESC, 1989).

The Council plays an important role in the current social partnership experiment. As noted above, it was a report from the Council in 1986 which led to the first of the recent partnership programmes, the Programme for National Recovery (PNR) in 1987. The success of *A Strategy for Development* (1996), led the Council to more consciously identify its role as the analysis of strategic policy issues, and building of consensus on these, rather than advice on specific policy measures. Since then, the negotiation of each social partnership agreement has been preceded by a NESC *Strategy* report. The Council takes approximately a year discussing economic and social performance and identifying key issues and parameters for the next programme. These reports—*A Strategy for the Nineties: Economic Stability and Structural Change* (1990), *A Strategy for Growth, Competitiveness and Employment*, (1993) and, *Strategy into the 21st Century* (1996a)—have been important inputs to the negotiation of social partnership agreements.

In 1994, the membership of NESC was widened to include a representative of the Irish National organisation of the Irish National organisation of the Unemployed (INOUE) among the government nominees. In 1998, the membership was further widened, to include the range of groups from the community and voluntary sector, involved in the National Economic and Social Forum (see below).

#### *Central Review Committee (CRC)*

The revival of social partnership in 1987 included the establishment of a new Central Review Committee (CRC). Its task was to review implementation of the Programme for National Recovery. The Committee contained representatives of each of the social partners. It met frequently with civil servants and, occasionally, Ministers, depending on the subject under review. This was an important development in a context where cuts in public expenditure were being undertaken and severe adjustment was necessary. In addition to monitoring the implementation of the PNR, the CRC provided ongoing contact between government and the social partners, which facilitated resolution of unforeseen crises.

However, the growing complexity of the social partnership programmes—with more ambitious policy initiatives replacing crisis management—has raised questions about the ability of the CRC to monitor implementation and effectiveness. While national representatives of unions or employers, aided by a few senior civil servants, can monitor progress on certain fronts, complex policy initiatives—such as active labour market policies to assist the transition from welfare to work—cannot be adequately tracked at that level. Likewise, the widening of the partnership process, described below, greatly increases the number of interests involved in monitoring the social partnership programme, and raises doubts about the CRC-type structure. The issue of monitoring was a central theme in a recent report from the NESF *A Framework for Partnership* (NESF, 1997). Some aspects of that report are discussed in Section 6, below. Current efforts to implement the NESF's proposals for a new approach to

monitoring can be described in a later draft of this study.

### *The National Economic and Social Forum (NESF)*

In 1993, the government established a new partnership body, the National Economic and Social Forum (NESF). Its membership encompassed what are sometimes referred to as the 'traditional social partners'—trade unions, employer associations and farm organisations—and representatives of the community and voluntary sector and of the main political parties in the Oireachtas (Parliament), who had previously been outside the partnership arrangements. The representatives of the community and voluntary sector—referred to as the 'Third Strand'—come from the National Women's Council (NWC), the Irish National Organisation of the Unemployed (INOUE), the Community Workers Coop, the Irish Traveller Movement, the national Youth Council (NYC), the National Council for the Elderly, groups representing people with disability and environmental interests. The Forum is Chaired by an academic psychologist and serviced by a small secretariat, seconded from various government departments.

The role of the NESF is to develop economic and social policy initiatives, particularly initiatives to combat unemployment, and to contribute to the formation of a national consensus on social and economic matters. Since its establishment, the Forum has published 16 reports and 8 opinions. Its report number 4, *Ending Long-term Unemployment* (1994), played an important strategic role in the development of active labour market policy. This is widely seen as having prompted the development of the Local Employment Service, which aims to actively assist the transition from welfare to work.

The Forum appointed in 1993 finished its work with an overview of Irish social partnership, *A Framework for Partnership - Enriching Strategic Consensus through Participation* (1997). That study analysed the strengths and weaknesses of social partnership arrangements, and proposed new arrangements for a more inclusive and effective partnership approach. We draw on that report in Section 6, when we discuss interpretations of Irish social partnership.

### *Negotiation of partnership 2000*

The third of the recent social partnership programmes, the Programme for Competitiveness and Work, was negotiated in 1993 by the traditional social partners and government—although there was consultation with other groups. At the same time, a range of groups representing more marginalised sections of society were active through the 'Third Strand' of the Forum. Groups such as The Irish National Organisation for the Unemployed (INOUE), The Community Workers Co-operative and the Conference of Religious of Ireland (CORI) articulated the view that their involvement was effectively 'participation without power' and that their relative inability to exert any discernible influence on the direction of public policy was institutionalised and perpetuated by the lack of full social partner status and their continued exclusion from the formal negotiations process for the national agreements. Elsewhere, it was recognised that participation in the Social Partnership process remained unevenly developed. (NESC, 1996a; NESF, 1994, 1996).

In response to this pressure and these arguments, the negotiation of the most recent programme, Partnership 2000, was undertaken in a new manner, with a wider range of social and economic interests involved. This development was encouraged by the growth in stature and standing of the third pillar groups, as a result of the performance of INOUE within the NESC and of a range of groups in the NESF and in local level partnership initiatives. They

had, moreover, garnered considerable support for national level inclusion amongst the key players, including the leadership of ICTU, the senior civil servants in the Departments of the Taoiseach and Tanaiste and also critically from across the political spectrum, as all of the party leaders had articulated the need to develop a broader based national consensus (O'Donnell and Thomas, 1998).

The negotiations opened with a plenary session, in which each group set out its view, in the context of the NESC's report *Strategy Into the 21st Century* and the NESF report *Post PCW Negotiations—A New Deal?* Thereafter, negotiations were conducted bilaterally, between government representatives and the various 'pillars' or 'rooms': the 'business room', the 'union room', the 'farming room' and the 'community room'. The government, the main employers organisation, IBEC, and unions had major responsibility for the negotiation of the pay and tax elements of the agreement. The 'social pillar' is critical of the fact that this precludes any substantive three-way negotiation of the distribution of resources between pay, tax and social exclusion measures.

**Table 1**

**The four 'pillars' for negotiation of partnership 2000**

|                                              |                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Farm Organisations</b>                    | IFA (Irish Farmers Association)<br>ICMSA (Irish Creamery and Milk Suppliers Association)<br>Macra Na Feirme<br>ICOS (Irish Co-operative Organisation Society)                                                                                                                                                   |
| <b>Trade Unions</b>                          | ICTU (Irish Congress of Trade Unions)                                                                                                                                                                                                                                                                           |
| <b>Community and Voluntary Organisations</b> | INOU (Irish National organisation for the Unemployed)<br>NWCI (National Women's Council of Ireland)<br>NYCI (National Youth Council of Ireland)<br>CORI (Committee of Religious Superiors)<br>Centres for the Unemployed<br>Society of St. Vincent de Paul<br>Protestant Aid<br>Community Platform <sup>1</sup> |
| <i>Employer and Business Organisations</i>   | IBEC (Irish Business and Employers Confederation)<br>CIF (Construction Industry Federation)<br>CCI (Chambers of Commerce of Ireland)<br>ITIC (Irish Tourist Industry Confederation)<br>IEA (Irish Exporters Association)<br>SFA (Small Firms Association)                                                       |

The implications of this widening of the national partnership process have yet to be ascertained. The rationale for affording social partner status to such a disparate and diverse range of groups was not fully articulated, and may not have accorded fully with the principles set out by NESC (NESC, 1996a).

#### 4.5 Economic and employment performance under social partnership

The social partnership approach produced the much-needed recovery from the disastrous early and mid-1980s and has underpinned a sustained period of growth since then. As outlined in more detail in Chapter 1, in the decade 1986 to 1996, Irish GDP has grown by an average of 4.9 per cent a year, compared to an OECD average of 2.4 per cent. While total employment had fallen by an average of 0.82 per cent per annum between 1980 and 1987, since then it has grown by 1.8 per cent per year, compared to an OECD average of 1.0 per cent and an EU average of 0.3 per cent. More recently, growth of output and employment has reached unprecedented levels. From 1993 to 1996, Irish national output has risen by 7.5 per cent a year, and employment by a remarkable 4.0 per year. Social partnership has also produced a transformation in Ireland's public finances. The general government deficit as a per cent of GDP declined from 8.5 per cent in 1987, to 2.3 per cent in 1994. The debt/GDP ratio, which reached 117 per cent in 1986, has fallen steadily, to 76 per cent in 1996. Inflation has remained significantly below the EU average and, having reduced inflation in the 1980s, Ireland did not need a second bite of the cherry (and a second deep recession), as the UK did. Low and predictable inflation has underpinned the three year wage agreements which have, in turn, freed both management and trade union energies for issues such as corporate strategy, technical change, training in the workplace, working practices and other important influences on international competitiveness. However, the performance on unemployment has been much less satisfactory. Indeed, unemployment actually increased in the early 1990s, and has only begun to fall significantly in recent years. Despite the recent fall in unemployment, the single greatest problem facing Irish society remains the high proportion of long-term unemployment and the associated poverty and social exclusion.

Social partnership would seem also to have aided Ireland's successful participation in the European Monetary System (EMS) and transition to EMU. After considerable initial difficulties, it was recognised that satisfactory participation in EMS and EMU requires not only recognition of the macroeconomic policy conditions, nor only acceptance of the implications for wage increases in the private sector, *but also* consensus on the management of the public finances, especially taxation (NESC, 1989, pp.216). Partnership provided the context in which Ireland maintained low inflation and reaped the benefits of lower interest rates and improving competitiveness. Since the loosening of the ERM in 1993, the social partners have remained committed to a credible, non-accommodating, exchange-rate policy (and membership of EMU). While technical arguments suggest that this is the best exchange rate regime for a country such as Ireland (compared with a crawling peg or free float—see Honohan, 1993), the Irish case shows that technical mechanisms can only be effective where the *political economy* of inflation, incomes and public expenditure is resolved.

The return to social partnership in 1987 has also yielded considerable benefits in terms of industrial peace. By and large, the pay agreements have been implemented without conflict. The number of days lost in strike actions has fallen considerably, while recent disputes have tended to focus on issues such as union recognition and the restructuring of enterprises, rather than on pay. The agreements have also resulted in the introduction of a number of changes to labour law, including changes to the law on unfair dismissal, employment agencies and conditions of employment. Social protection was also extended to part-time workers.

It should be noted, however, that in the early years of the current social partnership experiment, the positive impact on employment was not evident. Indeed, in the late 1980s and early 1990s the NESC was concerned about the possible phenomenon of 'jobless growth'. The continued strong growth of output and exports by TNC's, at a time of falling or stagnant

employment, suggested so some that Ireland had arrived at a state in which economic growth would occur without employment growth. This led the Council to undertake a study entitled *The Association Between Economic Growth and Employment growth in Ireland* (NESC, 1993b). Careful investigation of the ‘jobless growth’ hypothesis, by means of sectoral decomposition, yielded interesting results. The impression of jobless growth was created by the increasing share of high productivity sectors in the economy. Nevertheless, this clarification served to highlight the fact that increasing employment intensity, necessary if employment and social needs were to be met, required an increased share of the relatively labour intensive, Irish-owned sectors. This served to illustrate, once again, the challenge of balancing inward investment with indigenous enterprise development. Since the early 1990s, Ireland’s growth has been more balanced, relying on strong home demand and export by indigenous companies, as well as rapid export growth by the TNCs (see Chapter 1 and 2 above).

#### **4.6 Conflicting views on the merits of partnership**

There are conflicting views on the achievements of the system of social and political concertation developed in Ireland since 1987. The NESC—reflecting the shared perspective of the social partners—sees considerable benefits in an approach which allows the resolution of conflicts in the context of coherent strategic approaches. This is a view that has come to be shared by all political parties of any significance. However, a number of prominent academic economists have opposed the social partnership arrangements and argued that they were positively harmful. This section assesses the current state of this debate.

##### *The social partnership perspective*

The tripartite NESC has been the protagonist in articulating the case that Ireland’s economic and social performance could be enhanced by the development of a more sophisticated and a wide ranging system of social consensus. The production, within the context of the NESC, of a common analysis of Ireland’s economic crisis in 1986, and the agreement on a programme to avert further disaster, is widely acknowledged to have been instrumental in facilitating the formulation and implementation of government policies to tackle the public finance crisis. This common analysis of the domestic crisis was followed by the development of a shared analysis of Ireland’s experience, prospects and strategy in the EC (NESC, 1989)—a perspective which quickly became a matter of consensus between the main political parties. In addition, the success of the PNR seems to have heightened NESC’s interest in a possible link between three elements: the formulation of an agreed analytical understanding of economic and social problems, the implementation of a consensual approach to distributional issues and the ability of government to adopt a strategic as opposed to a short-run perspective (NESC, 1990). Following a decade of political drift, the ability of government to take strategic, non-opportunistic decisions, seems to have increased considerably under this new regime of social partnership.

In its second *Strategy* document, 1990, the NESC set out a framework which has informed its subsequent work, and which underlies the commitment of the social partners to the process. It argued that there are three requirements for a consistent policy framework in a small, open, European democracy:

- (i) The economy must have a macroeconomic policy approach that guarantees low inflation and steady growth of aggregate demand.

- (ii) There must be an evolution of incomes, which ensures continued improvement in competitiveness, and which handles distributional conflict in a way that does not disrupt the functioning of the economy.
- (iii) There must be a set of complementary policies that facilitate and promote structural change in order to maintain competitiveness in an ever-changing external environment.

The manner in which a consistent and effective overall approach is developed varies considerable across countries. Consideration of how various countries, with different structures and political traditions, operate economic and social policy suggest that the system must be internally consistent, and must be suitable for the economy and society to which it is applied.

The Council argued that, in the Irish case, the first of these requirements is best met by adherence to the ERM and transition to EMU. It argued that the second of these requirements is best met by a negotiated determination of incomes and that, to be really effective, such a negotiated approach must encompass not only the evolution of pay, but also taxation, the public finances, exchange rate and monetary policy, the main areas of public provision and social welfare. In pursuit of the third requirement, the Council advocated a major programme of structural reform in taxation, social welfare, housing, industrial policy, manpower policy and the management of public enterprises. It argued that such reforms can only succeed with the active consent and participation of those who work in the agencies and institutions concerned. This participation is more likely in the positive industrial relations atmosphere which can be created by national policy which, on the one hand, minimises the scope for conflict over pay and, on the other, lays down rights and duties which foster and encourage security and flexibility.

The conduct of policy along these lines since 1987 allows us to identify some of the core elements of the emerging Irish model of economic and social governance (NESC, 1996a). The first element is an overall orientation, which begins from the belief that the widest participation in social life, economic activity and policy-making are inseparable and fundamental requirements for the well-being of Irish society. This is combined with an unambiguous recognition and acceptance of Ireland's participation in the international economy and the European Union. This implies that the competitiveness of the Irish economy is a precondition for the pursuit of all other economic and social goals. The second element of the emerging Irish model is the fact that the achievement of a consistent approach to macroeconomic policy, incomes and structural adjustment has been strongly associated with negotiated programmes. These align the social partners to consistent and competitive actions and provide a framework within which government can adopt a strategic perspective on important policy issues.

It is argued in the most recent NESC *Strategy* report (1996a), that the foundations for Irish economic and social policy may be further clarified by considering globalisation. While globalisation has undoubtedly undermined many elements of national economic policy, even in large countries, there remain several areas where national policy remains crucial, and may even have become more significant. National policies that influence corporate governance and investment, innovation, the labour market and industrial relations, still have a significant effect on national prosperity. In addition, study of current economic conditions clarifies the policy approaches that can be most effective in a small, open, European democracy like Ireland:

- (i) Most of the policies that affect national prosperity are *supply-side* policies;

- (ii) Given rapid economic change, national policies must produce *flexibility*;
- (iii) Successful national supply-side policies, directed towards innovation and competitiveness, depend on 'the high level social cohesion and co-operation that the state can both call upon and develop' (Hirst and Thompson, 1992).

The NESC argues that this view on globalisation has implications for the three elements of a consistent policy framework, outlined above. It underlines the importance of consensus—across both the social partners and the political parties—on macroeconomic and monetary policy. It suggests that once such a consensus is in place, and is reflected in government policy, wage bargaining and management, there is little value in active discussion of macroeconomic matters, or in agonising over the transition to, or terms of, European monetary union. The main focus of policy analysis and development should be the supply-side measures that influence competitive advantage, and the institutional arrangements which encourage discovery and implementation of such measures (NESC, 1996a, 1996b).

In assessing the merits and potential of the social partnership experiment, note should be made of the political context. It might once have been believed that the social partnership model was dependent on the dominant position of the centre-left, catchall, political party, Fianna Fail. However, since 1987, the party composition of Irish government has gone through rapid change, such that all political parties of any significance have been in government in various coalitions. The social partnership approach has not only survived this, but also gained the support of the Labour Party and the second largest party, Fine Gael. Indeed, the evolution of social partnership has seen a co-evolution in Irish party politics—towards a system of permanent, but frequently re-negotiated, coalition. This brings Ireland even nearer to a European system of governance, which does not have the 'winner takes all' and 'oppositional' characteristics of the British system.

### *Liberal criticisms of social partnership*

While the evolution of Irish economic policy in the past decade has been marked by a high level of consensus—between the social partners and across the political spectrum—the more neo-liberal economists have stood outside the consensus. Some have objected to the politicisation of industrial relations because it 'adds to the bargaining power of trade unionism on an ongoing basis' (Durkan, 1992, though see Durkan and Harmon, 1996). Other have argued that the social partners are 'insiders', whose pay and conditions have been protected at the expense of 'outsiders who would work for less', and that social partnership has had the effect of 'raising the level of unemployment and emigration' (Walsh and Leddin, 1992). In its recent assessment of the achievements and limits of the social partnership approach, NESC argued that these criticisms require careful consideration. It suggests that at least two qualifications seem warranted.

First, the proposition that centralised agreements have prevented the unemployed undercutting the wage of existing workers, and has thereby increased unemployment, is both conceptually and empirically questionable. In *The Labour Market as a Social Institution*, Nobel Prize-winning economist Robert Solow identifies as one of the fundamental features of labour markets, observed almost everywhere, the absence of wage under-cutting by unemployed workers. He develops a conceptual framework, which explains why wage under-cutting is no more in the interests of firms, than it is in the interest of workers and unions. In normal labour markets, there are norms which prevent wage under-cutting. Consequently, it seems inaccurate, on the part of the opponents of Irish social partnership, to attribute the absence of

wage under-cutting to the centralised agreements of the past decade (NESC, 1996b, p. 111-2).

Second, in arguing that social partnership arrangements are maintaining a high level of unemployment, these economists ignore the fact that, without national agreements, income determination will remain a non-competitive, highly collectivised, process, with tendencies to monopoly power on both sides of industry (O'Donnell 1993; O'Donnell and O'Reardon, 1997). Ireland is unlikely to move to the atomistic bargaining which would seem to underpin the analytical argument, and the political preference, for decentralised bargaining. It remains to be explained how, in a world of decentralised, sectional and non-political bargaining, agents acting in their own self interest will take *greater* account of the problems of the unemployed and other marginalised groups.

Indeed, the poorly specified analytical argument against the experiment can be contrasted with the analysis advanced by the social partners themselves. This is an analysis which begins by noting the small scale and open nature of the Irish economy, the structure of industrial relations, high levels of taxation and social provision and the significant outstanding national debt. In this context, a negotiated consensus—with a non-accommodating exchange rate as the sheet-anchor of macroeconomic policy—must include agreement on the evolution of pay, taxation, the public finances, the exchange rate and monetary policy, and the level of publicly provided services and social welfare. Four arguments underlie this position. First, that internationalisation of financial markets renders active manipulation of the exchange rate impossible in a small and extremely open economy. Second, this macroeconomic argument was underpinned by a new perspective on the regional effects of economic and monetary integration, which emerged from the shared analysis of Ireland's experience, prospects and strategy in the EC. This involved a revision of the view that it is the *monetary* stage of integration which presents weaker regions and countries with the greatest problems, and instead, a focus on the *economic* forces unleashed by free trade and the mobility of labour and capital (O'Donnell, 1994). Third, the social partnership agreements underpin the credibility of a non-accommodating exchange rate policy, by enlisting support for it as a long-term policy and ensuring that the 'fixed' exchange rate gives the right signal. As Soskice (1990) notes, depending on the institutional arrangements, a fixed exchange rate can either encourage moderate wage growth (when unions and employers jointly favour a low real exchange rate), or high nominal wage growth (when unions seek higher real wages in the short-term). Fourth, if the social partnership agreements underpinned the exchange rate policy, the reverse is also true: adherence to the ERM narrow band (and transition to EMU) guaranteed low inflation to such a degree that unions were willing to enter three year wage agreements.

Adopting this approach, Ireland has made major advances in economic management and economic performance. In particular, consensus on this long-run strategy has taken the exchange rate, and therefore inflation, outside day-to-day party political competition and industrial relations conflict. This can be contrasted with an approach in which short-termism rules in economic policy, business decisions and wage setting. It has led, in the UK, to short bursts of fast economic growth, followed by deep recessions imposed in order to reduce inflation. Ireland's experiment since 1987 has, for the first time in its history, partly inoculated it from the, strikingly unsuccessful, combination of macro policy and income determination pursued in Britain for many years. Ireland has finally escaped the most negative effects of Britain's political business cycle and, in the process, also rejected the neo-liberal approach to social policy and regulation adopted in Britain since 1979. As a result, it has preserved a much higher level of social solidarity, which seems an essential pre-requisite to sustaining redistributive policies and addressing issues of structural change and reform in a

non-conflictual way.

### *Social partnership and inequality*

While the neo-liberal critique of Irish social partnership has found few supporters, another line of criticism concerns inequality. Many social scientists and others are struck by the fact that social partnership has not achieved a significant reduction in inequality and, in some respects, has seen an increase in inequality. There are complicated empirical and interpretative issues involved here and these have yet to receive adequate treatment.

We can distinguish a number of dimensions of equality/inequality – all of which are cited in debate on the role of social partnership. The distribution between wages and profits has undoubtedly moved sharply in favour of capital. But that does not seem to be the major source of criticism. Concern focuses more on the distribution between earnings and the ‘social wage’ (i.e. welfare, health, education etc). Taxation is a major element in income distribution, and many feel that it remains excessively heavy on low and middle income groups. A fourth dimension of inequality is that within earnings – where percentage increases and market forces have certainly favoured higher earners. A fifth dimension of inequality is that within the ‘social wage’ – the way in which spending on welfare, health, education etc is allocated across social groups. The concern here is that partnership has not achieved enough focus on the poor and disadvantaged. A final aspect of inequality concerns the distribution of life chances – many of which are influenced by the nature public policy. Concern has been expressed that the pervasive inequalities which are connected with early school leaving, drug-addiction and other disadvantages have not been adequately tackled during the years of social partnership.

In each of these areas there are complex empirical issues to be resolved, before strong statements about the trend of inequality can be made. To date, the debate has suffered from some inattention to these difficulties. Once the trends in various dimensions of inequality have been identified, there remain questions of causation. Here we need some way of distinguishing between the effects of market forces (for example, on the relative earnings of skilled and unskilled workers), various policies which shape income distribution, and other public policies, and a way of analysing the impact of social partnership and national politics on these. While the social partnership agreements have certainly shaped government policy in many key areas, party politics, and the preferences of elected government, remain a determining influence (see O'Donnell and Thomas, 1998).

## **4.7 Interpreting Irish social partnership**

How should we interpret the emergence, success and persistence of social partnership in Ireland since 1987? While it is clearly tempting to see it as a version of ‘neo-corporatism’, there are several difficulties with this view. Industrial sociologists have raised questions about Ireland’s ability to sustain such arrangements—given the structure of our industrial relations organisations and the nature of our political parties. In addition, some scholars of industrial relations have argued that the Irish approach cannot be compared to the ‘social corporatism’ developed in certain continental European countries during the post-war period. Having summarised and discussed these views, I then consider some alternative interpretations. One arises if we compare developments in Ireland with approaches to social concertation in other European countries in recent years, rather than in the heyday of post-war neo-corporatism. Perhaps the most interesting interpretations are those which have emerged within the partnership process itself, in response to perceived difficulties and opportunities. I summarise

these and suggest that they take us well beyond the conventional categories used to understand and characterise post-war European neo-corporatism.

*Ireland's structural unsuitability for neo-corporatism*

Industrial sociologists have raised important questions about the potential of corporatist governance in Ireland. Hardiman compared the Irish centralised pay bargains in the 1970s with the patterns of neo-corporatist 'political exchange' in Austria, Sweden and Norway (Hardiman, 1988). Important conditions that facilitated concertation in those countries—such as a dominant social democratic party, cohesive employers organisations and a trade union movement with a high degree of authoritative centralisation—were not met in Ireland. Thus, her study explained the limited success of national agreements from 1970 to 1981 and raised doubts about the potential for future development. Her doubts were shared by some other students of industrial relations. Some dispute that the Irish experiment can be viewed as *social corporatism*, arguing that the trade union elite agreed a programme of severe measures to adjust the Irish economy, first to fiscal crisis, and then to European integration. In addition, it was pointed out that social partnership at national level is weakly reflected in workplace industrial relations (Teague, 1995; Taylor, 1996). These contributions are part of an interesting debate on the correct way to characterise and interpret the development of Irish social partnership since 1987 (Hardiman, 1992; Roche, 1992, 1994; O'Donnell, 1993, 1995; O'Donnell and O'Reardon, 1997; O'Donnell and Thomas, 1998; Teague, 1995; Sheehan, 1996; NESF, 1996; NESF, 1997).

There can be no doubt that structures and procedures which sustain national tripartite arrangements were weak in Ireland *when compared with the classical neo-corporatist models*. However, developments since 1987 strongly suggest that this may not preclude the development of a significant form of social partnership. Ireland has not seen an increasingly sectionalised trade unionism, fragmented by occupational interests and progressively less capable of conceiving of itself as a movement transcending the immediate priorities of its many component groups (Roche, 1992). Amalgamations of Irish trade unions have proceeded apace in recent years, assisted by state grants. The trade union movement has entered four agreements covering a wide agenda—including pay, taxation, social policies, public finance management and the Maastricht criteria. The partnership approach has prompted important institutional developments—particularly the establishment of central monitoring system—that has improved the effectiveness of tripartite concertation and that goes some way to overcoming the indecisiveness which can arise within the Irish party political system. Unlike the 1970s, the agreements of the 1980s and 1990s have been based on a shared understanding of the problems facing the Irish economy and society and the main lines of policy required to address them. While the Irish case involves an unusual balance between national-level and enterprise-level partnership, the current agreement, Partnership 2000, has given rise to a potentially significant initiative on enterprise-level partnership.

In any case, comparison with the classical, Northern European, neo-corporatist cases may have lost some of its relevance. International developments suggest some revision of traditional ideas on both the *conditions for* and the *nature of* neo-corporatism (O'Donnell, 1993; O'Donnell and O'Reardon, 1997). Furthermore, as I discuss below, the practical development of Irish social partnership has, in the past year, led participants and observers to seek a new conceptualisation of partnership.

*Irish social partnership in a comparative European context*

It is natural to begin by contrasting the Irish and British policy approaches—partly because of the historical significance of Britain for Ireland, and partly because the British approach stands at one end of the spectrum. However, I would not make that contrast in traditional terms, such as ‘state versus market’ and ‘centralised versus decentralised’ bargaining. Instead, I would contrast alternative approaches to solving the same problem: how to control inflation and maintain social cohesion in a highly competitive international environment, without sacrificing economic growth. The elements of the Irish approach—ERM membership, agreed pay norms, and agreed approaches to taxation and social provision—are inter-related, and constitute an institutionalised approach to economic and social management. Likewise, the British approach to macroeconomic policy, wage bargaining and public expenditure control, are related, attempting to make behaviour consistent with market forces by means of de-institutionalisation. These concepts—institutionalisation/de-institutionalisation, encompassingness, social partnership and co-ordination—are more useful than the contrast between ‘state-imposed incomes policy’ and ‘free collective bargaining’, and between ‘state control’ and *laissez faire* (Crouch, 1994). These concepts also allow the Irish case to be compared with other European countries’ response to the difficulties of the past two decades.

The Irish approach has been encompassing in two senses: it encompassed a large enough share of the economic actors to produce low inflation and increased competitiveness; and it encompassed enough of the things that concern these actors—prices, pay, taxation, welfare and social provision—to make the overall strategy coherent. The Irish approach bears some similarities with other cases: as in Germany, there is a de-politicisation of exchange rate policy, combined with a politicisation, or at least institutionalisation, of other policy areas; it bears some similarities to the emergency packages undertaken in Belgium, the Netherlands and the Nordic countries; it may, also, involve some ‘social promotion’ of trade unions, in pursuit of wider social goals, such as occurs in Spain, Italy, Greece, Portugal and France.

A comparative approach also throws light on the unusual features, some might say weaknesses, of the Irish experiment. The most successful approaches to co-ordination—in Germany, Austria and Switzerland—involve similar macroeconomic policies, but less reliance on centralised, and particularly state-led, incomes policy. These countries are notable, less for national *pacts* than for a rich institutional framework that links company-level market sensitivity and flexibility with coherent national-level behaviour. As noted earlier, one challenge facing Irish social partnership is to address the weakness of indigenous Irish enterprises and the problems of long-term unemployment and social exclusion. This requires institutional developments below the central level at which the social partners and the state have recently developed expertise in dialogue and negotiation. While considerable institutional innovations have been undertaken—in policies addressing long-term unemployment, rural development and urban development—important challenges remain. A lot turns on the ability of the National Centre for Partnership to promote partnership at enterprise level. While this requires development of institutions below the national level, it may still involve some state role. As Crouch notes, given international pressures towards a loosening of institutional structures, attempts to sustain various forms of co-ordinated bargaining, will in future, need more or less ‘artificial’, (i.e. state-generated), rather than institutional, support. In addition, the increased pressure of international markets ‘reinforces the need to co-ordinate and the rewards to be gained from co-ordination’ (Crouch, 1994).

The lessons to be learned from contrasting the Irish and British approaches, depend on one’s overall perspective on the economy, politics and society. By contrast, the Irish

experiment may contain definite lessons for countries, such as Belgium, which have attempted to follow a similar path, i.e. to compete as small countries in the European internal market on the basis of a 'fixed' exchange rate and full participation in European integration. In contrast with these countries, Ireland has achieved faster growth and a larger correction of the public finances, while unemployment is broadly similar. The reasons for the greater success of the Irish experiment in this respect remain to be fully explained.

They would seem to include the following. First, after 1987, Ireland achieved consensus—across both the social partners and the political parties—on the requirements for successful participation in the European economy and on the view that there was no way of escaping these requirements. Second, Ireland achieved a high degree of wage co-ordination; in Ireland's case, this was done by means of centralised bargaining, which relied primarily on a cohesive trade union movement and strategy. However, it is clear that elsewhere wage co-ordination is achieved in a less centralised way, and is led by employers' associations. Third, Ireland achieved a sufficient degree of consensus on public finance. This is necessary not only because of the Maastricht criteria but, more fundamentally, because of the way in which taxation and public provision interact with both wage bargaining and the exchange rate. In this respect, Ireland definitely joined those European countries in which the political economy of inflation, incomes and public finance is resolved (such as Germany, Denmark and the Netherlands). Fourth, Ireland had a set of supply-side characteristics that ensured international competitiveness and encouraged fast economic growth.

#### 4.8 Key features of the Irish partnership system

The development of social partnership since 1987 has involved a wide range of economic and political actors in a complex process of negotiation and interaction. Detailed, shared, analysis of economic and social problems and policies has been a key aspect of this process. Indeed, that analysis has, for a variety of reasons, focused on the partnership system itself. In order to assess the applicability of the partnership approach in the new economic context of EMU, it was necessary to thoroughly assess the effects of the centralised system of wage bargaining and the consensual approach to management of the public finances (NESC, 1996a). In order to develop the overall approach, and make it more inclusive, it was necessary to characterise the nature, purpose and goals of partnership. In its 1996 report, *Strategy into the 21st Century*, the NESC offered the following characterisation of social partnership, as it has developed in the past ten years.

- (i) The partnership process involves a combination of *consultation, negotiation and bargaining*.
- (ii) The partnership process is heavily dependent on a *shared understanding* of the key mechanisms and relationships in any given policy area;
- (iii) The *government* has a unique role in the partnership process. It provides the arena within which the process operates. It shares some of its authority with social partners. In some parts of the wider policy process, it actively supports formation of interest organisations;
- (iv) The process reflects *inter-dependence* between the partners. The partnership is necessary because no party can achieve its goals without a significant degree of support from others;
- (v) Partnership is characterised by a *problem-solving* approach designed to produce consensus, in which various interest groups address joint problems;
- (vi) Partnership involves *trade-offs* both between and within interest groups;

- (vii) The partnership process involves *different participants* on various agenda items, ranging from national macroeconomic policy to local development (NESC 1996b, p66).

This list can be seen as both a *description* of the partnership process, as it is, and a set of *conditions* for effective participation in the process. Indeed, most of these principles were explicitly adopted by both the ‘traditional’ and ‘new’ social partners in the current agreement, Partnership 2000. However, for a number of reasons, the participants have continued their self-reflexive examination of Irish partnership. This has yielded a further characterisation of the process, and underlines the view that Irish partnership should not be understood in classic neo-corporatist terms.

### *A new view of social partnership*

The participants’ examination of partnership continued in the preparation of an overview of Irish social partnership prepared by the National Economic and Social Forum in 1997. It can be found in the Forum’s recent report, *A Framework for Partnership - Enriching Strategic Consensus through Participation* (1997). That study analysed the strengths and weaknesses of social partnership arrangements, and proposed new arrangements for a more inclusive and effective partnership approach. Our concern here is with the characterisation of Irish social partnership—particularly its difference from classic neo-corporatism—rather than the proposed new institutional arrangements. (These can be discussed in a subsequent draft if that is considered desirable).

The Forum’s examination was motivated by the widespread sense that the existing arrangements are not adequate. It identified seven problems, which it summarised as follows:

- C The limits of ‘consensus’
- C The limited terms of inclusion
- C The difficulty of linking national representation to local action
- C Limited effectiveness in achieving real change
- C Problems of monitoring
- C The relationship between social partnership and representative democracy

An important finding is that many of these problems—particularly the problems of linking to the local level, limited effectiveness and proliferation—are experienced by all social partners, both ‘traditional’ and ‘new’. Furthermore, these problems are serious enough and diverse enough to warrant significant change in national partnership arrangements. In proposing new arrangements, the Forum drew on a ‘renewed vision of social partnership’, derived from analysis of the Irish experience and important international trends. My focus here is on four central arguments that have a bearing on the way in which Irish social partnership should be interpreted.

The first argument concerns the very nature of partnership—as expressed in the seven principles listed above—and the preconditions for its success. The argument is developed by distinguishing initially between two different conceptions, or dimensions, of partnership:

- C Functional interdependence, bargaining and deal making.
- C Solidarity, inclusiveness and participation.

Effective partnership involves both of these, but cannot be based entirely on either. To fall entirely into the first could be to validate the claim that the process simply reflects the power of the traditional social partners, especially if claims for the unemployed and marginalised are not included in the *functional* inter-dependence, and are seen as purely *moral*. To adopt a naive inclusivist view would risk reducing the process to a purely consultative one,

in which all interests and groups merely *voiced* their views and demands. While these two dimensions are both present, even together they are not adequate.

There is a third dimension of partnership, which transcends the two discussed above. Although the concepts of 'negotiation' and 'bargaining' distinguish social partnership from more liberal and pluralist approaches, in which *consultation* is more prominent, they are not entirely adequate to capture the partnership process. Bargaining describes a process in which each party comes with definite preferences and seeks to maximise their gains. While this is a definite part of Irish social partnership, the overall process (including various policy forums) would seem to involve something more. Partnership involves the players in a process of deliberation that has the potential to shape and reshape their understanding, identity and preferences. This idea, that identity can be shaped in interaction, is important. It is implicit in the description of the process as 'dependent on a shared understanding', and 'characterised by a problem-solving approach designed to produce consensus' (NESC, 1996b, p. 66). This third dimension has to be added to the hard-headed notion of bargaining, (and to the idea of solidarity), to adequately capture the process. It is relevant to the question of exclusion, and to wider discussion of the nature of partnership.

The final element in this argument is that the key to these features of partnership would seem to be the adoption of 'a problem-solving approach'. As one experienced social partner put it, 'The society expects us to be problem-solving'. A notable feature of effective partnership experiments is that the partners do not debate their ultimate social visions. This problem-solving approach is a central aspect of the partnership process, and is critical to its effectiveness. This suggests that rather than being the *pre-condition* for partnership, consensus and shared understanding are more like an *outcome*. It is a remarkable, if not easily understood, fact that deliberation which is problem-solving and practical produces consensus, even where there are underlying conflicts of interest, and even where there was no shared understanding at the outset. It is also a fact that using that approach to produce a consensus in one area facilitates the same approach in other areas. The key may lie in understanding what kind of consensus is produced when problem-solving deliberation is used. It is generally a provisional consensus to proceed with practical action, as if a certain analytical perspective was correct, while holding open the possibility of a review of goals, means and underlying analysis. This type of agreement certainly involves compromise. But the word compromise is inadequate to describe it. 'Compromise' so often fudges the issues that need to be addressed. This view, that there are limited pre-conditions to social partnership, is then combined with observation of three trends which demand a further revision of conventional ideas of neo-corporatism.

The nature and role of social partners is changing, in ways that require a new view of what a social partner is now. In international studies of neo-corporatist systems, there was a very clear idea of what a social partner is. It was argued that social partners must have 'social closure' or a monopoly of representation of a given social group, must have a functional role in the economy (preferably in production) and must be hierarchically organised and concentrated. This made them 'peak organisations', capable of representing and disciplining their members. The key activity was bargaining, with each other and, particularly, with government, given extensive state intervention in the economy. The recent NESF study argues that this traditional conception of a social partner has lost much of its relevance in Ireland.

Careful observation of the participants in Irish partnership, both 'traditional' and 'new', paints a different picture. Social partners are continuously mobilising citizens who have problems that need to be dealt with. Organisations cannot take for granted their role as representatives of a given group, with defined and stable economic or occupational roles.

Rather than relying on fixed functional roles, their strength is in co-ordination: they assist in defining and co-ordinating functions. While the success of a traditional social partner in bargaining depended on their power resources, *information* is the key resource that a modern social partner brings to the table. In the place of the old form of bargaining, there are new forms of public advocacy: *analysis*, *dialogue* and *shared understanding*. The final characteristic is that a new social partner is an actor, not just a voice. Mobilising, organising, delivering and solving problems (with others) seems to be a feature of effective social partners.

We are also witnessing an historical shift in the role of the centre and national government. The complexity, volatility and diversity of economic and social problems, and of social groups, is undermining the ability of central government to allocate public resources, direct the operation of government departments and public agencies, and administer complex systems of public delivery and scrutiny. They are now unwilling, or unable, to underwrite the monopoly representation exercised by business associations and trade unions. These traditional centre roles are being replaced by new ones. Policy entrepreneurship seems an important characteristic of successful policy at both Irish and EU level. Central government has an enhanced role in obliging and assisting monitoring, and in facilitating communication and joint action between social interests/organisations. Another emerging role of central government is protection of the non-statutory organisations that have enhanced responsibility in many policy spheres. The Irish government also has a role in supporting interest group formation. National-level partnership arrangements cannot be effective if they are premised on an outdated view of the power, autonomy and effectiveness of central government.

The final argument is that the relationship between policy making, implementation and monitoring is changing, in ways which place monitoring, of a new sort, at the centre of policy development, and requires a new combination of all three. For a variety of reasons, national-level partnership, which focused on national-level *policy-making*, is unlikely to solve the complex and diverse problems which Irish people confront. Agreement on a strategic approach, and even on specific policies, means little if these are not implemented effectively. In many areas of policy, implementation and monitoring are now the crucial requirements. What is required is examination of the practical successes and failures of policy, which is used to revise both the *methods* and *goals* of policy. This demands a new fusion of policy-making, implementation and monitoring. It is difficult to find the institutional arrangements to make this happen. Social partners have a central role to play, since they should be able to identify and mobilise the appropriate people to involve. Social partnership institutions are one obvious place to organise and co-ordinate the practical deliberation which is required.

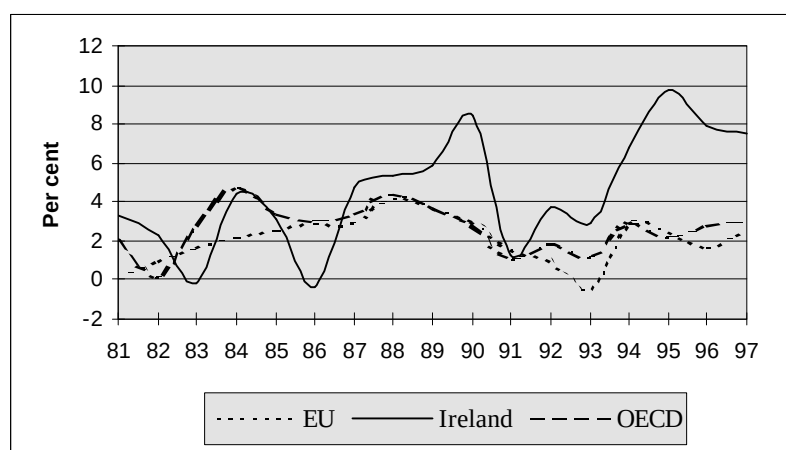
This discussion of the nature and preconditions of social partnership, when combined with the three trends outlined above, provide a new view of social partnership as it is developing in Ireland. The Forum's concern was to find institutional arrangements which address the problems it identified, and provide a basis for further development of the Irish model (see NESF, 1997). Our concern here is to draw attention to the alternative characterisation of social partnership that is implicit in the analysis. In particular, the categories and ideas found in earlier studies of classical North European neo-corporatism seem inappropriate in understanding the Irish experiment. Indeed, it is possible that the Irish case might assist the emergence of a new view of social partnership that has relevance in other European countries.

## Chapter 5

### Interpreting the Irish Growth Phenomenon

Following a period of virtual stagnation in the first half of the 1980s the Irish economy expanded rapidly after 1987. Figure 5.1 compares real GDP growth in Ireland with the averages for the OECD and EU countries from 1981 to 1997. In Ireland, growth over the decade from 1987-97 averaged over 5 per cent *per annum*, compared with 2.3 per cent in the EU and 2.7 per cent in the OECD (OECD, 1997). Real GDP growth in Ireland averaged 8 per cent *per annum* in the years 1994-97, about three times the average rate of growth in either the OECD or the EU, and Irish growth is forecast to continue at 7.5 per cent or above in 1998 (Baker, Duffy and Shortall, 1998).

**Figure 5.1**  
**Real GDP growth rates, Ireland, EU and OECD countries, 1981-1997**



Source: OECD, 1997 *Economic Outlook*, December 1997.

As we have seen in Chapter 2, total employment grew by almost 35 per cent between 1987 and 1998 and by about 25 per cent in just five years from 1993-98. Thus, in terms of both output and employment growth, Irish performance is well ahead of the average performance of the EU and OECD groups of countries. Popular accounts of the Irish success have accordingly begun to refer to the “Celtic Tiger”; evoking comparisons with the Asian newly industrial countries, and officials of the European Commission like to point to Ireland as the success story of the cohesion strategy. The scale of the transformation in Irish fortunes can perhaps be gauged from the fact that as recently as the 1980s Ireland, then suffering from chronic unemployment, sluggish growth and severe fiscal imbalances was popularly referred to as a “sick man of Europe”.

Most interpretations of the Irish success have sought an explanation in terms of a fortunate conjuncture of factors combining to generate rapid growth since about 1987. Bradley, Fitz Gerald, Honohan and Kearney (1997:35) argue:

*The interpretation of the underlying causes of the most recent period of strong growth is complex. There is no single theory that stands out clearly from a range of possible contributory factors which have been put forward by various commentators. These factors include the tightening of fiscal policy in the 1980's; the successive national pay agreements from 1987 on; the devaluations of 1986 and 1993; the adherence to a strong currency policy from 1987; improvements in competitiveness; the increasing level of average educational qualifications; and the inflow of structural funds. We argue that no one of these factors can in isolation explain the economic turnaround.*

Bradley *et al.* identify five main factors which have made a considerable contribution to the growth of the economy and whose effects have been mutually reinforcing: (1) Demographic structure, (2) Investment in education, (3) Economic openness, (4) Investment aid from the European Union, and (5) Domestic policy.

### **5.1 Demographic structure**

As discussed in Chapter 2 above, Ireland has a distinctive demographic profile, with a strong increase in its population of working age and a secular increase in women's labour force participation. These two factors combined mean that the labour force has the potential to grow by about 2 per cent per annum throughout the 1990s. These demographic trends have also generated a sharp fall in the dependency ratio (see Figure 2.1).

### **5.2 Investment in human capital**

The Irish educational system has expanded dramatically over the past three decades. Expansion of the system followed the introduction of free second level education in 1967, which represented an explicit acknowledgement of the importance of investment in education for economic growth and development. Educational expansion resulted in a gradual increase in the stock of human capital of the workforce, a process of upgrading which is still in progress.

Fahey and Fitzgerald (1997) note that older workers approaching retirement are characterised by relatively low levels of educational attainment: about two-thirds left school with only a primary education and less than 10 per cent attended tertiary education. Among those born in the late 1960s, and entering the labour market in the early-1990s, about 60 per cent have completed upper secondary education and about a quarter have attended third level. Moreover, participation in third level education has continued to rise in the 1990s, and currently almost half of those leaving the educational system have experienced tertiary education and over 80 per cent have completed the upper cycle of secondary education. The continued increase in educational participation in the 1990s has meant that Irish levels of participation in tertiary education are on a par with other more advanced industrial societies.

Three decades of investment in education has increased the supply of skilled labour while reducing that of unskilled labour. Over the same period the demand for labour has changed, with a substantial increase in demand for skilled and a fall in demand for unskilled labour. Barrett, Callan and Nolan (1997), analysing micro-data on earnings, show that the returns to education increased between 1987 and 1994, particularly the premium paid for third level qualifications, suggesting that the demand for skilled labour increased over that period. Bradley *et al* conclude that the growth in the stock of human capital peaked in the first half of the 1990s and that at this point investment in human capital was contributing to over 0.6 percentage points to the annual growth rate. They also examine comparative data showing that unit labour costs in the computer sector are lower in Ireland than in most other EU countries,

suggesting “that skilled labour is relatively cheap in Ireland, and that this is a factor in attracting major investment in the high technology sector to Ireland.” (1997: 52).

### **5.3 Economic openness**

Since the late 1950s the Irish State has actively promoted closer integration with the international economy. This has entailed progressive dismantling of trade barriers, beginning in 1965 with the Anglo-Irish Free Trade Agreement, continuing with entry to the European Community in 1973, and culminating in its participation in the Single European Market process in 1992. Dismantling of trade protection was one element of an export led growth strategy, and the proportion of Irish output that is exported has doubled since 1970. Over the past four decades exports have shifted from a heavy dependence on agricultural exports to Britain to a wide variety of product ranges selling into diversified overseas markets.

The second component of the outward reaching strategy has been the active promotion of foreign direct investment in manufacturing. Initially the strategy to rely on foreign direct investment to promote export-led growth relied on a generous combination of capital grants and tax exemptions. A number of commentators argue that in more recent years the importance of grant and tax incentives for locating investment in Ireland has receded while the availability of highly qualified labour at reasonable cost has increased in importance.

Foreign direct investment transformed the Irish economic structure. We noted above that foreign direct investment in Ireland by US multinational corporations is substantially higher, on a per capita basis than in any other EU country. Foreign owned firms now account for over 45 per cent of total employment in manufacturing. As we noted in Chapter 1, foreign direct investment in Ireland is heavily concentrated in modern high-tech product sectors such as engineering, instrumentation, computers and chemical industries. The indigenously owned sector is mainly involved in more traditional industrial sectors such as clothing, textiles and food processing, and is of smaller scale. With the development of the Financial Services Centre in Dublin in the 1990s foreign direct investment has also become more important in financial and business services. Closer integration into the international economy resulted in a shake-out of uncompetitive indigenous industries, particularly during the 1980s, when total employment in manufacturing declined. Recent years have seen a recovery in manufacturing employment driven both by continued inward investment by multinational enterprises, and in the 1990s, by a surge of growth also in the indigenous sector. This has meant that Ireland is one of the few EU countries in which manufacturing employment has grown over the past decade.

Bradley *et al.* argue that in addition to increasing the demand for skilled labour, foreign direct investment imported new management skills and technologies which were not generated in the indigenous sector and which in recent years have begun to be transferred to local smaller firms. Leddin and Walsh however sound a note of caution: while acknowledging the contribution of foreign direct investment to the economic growth and restructuring, they argue that “dependence on a narrow range of industrial exports has yet to be tested by, for example, a major recession in microelectronics.” (1997:15).

### **5.4 Investment aid from the EU**

As a relatively underdeveloped region of the EU Ireland has benefited substantially from the transfer of funds from Brussels since the mid-1970s. The structural funds were reformed and expanded in the late 1980s, driven by concerns that the less developed regions would benefit less from the impending single market and monetary union than the developed economies at the European core. Total net transfers from the EU under the Community Support Framework (CSF) and the Common Agricultural Policy (CAP) rose from about 5 per

cent of GNP in 1986 to a peak of 7 per cent in 1991 and fell back to around 5 per cent in 1994 and 1995. This represents a substantial contribution to current income. The crucial question in accounting for the Irish growth rate, however, concerns the contribution of these investments to the growth rate and it is clear that the growth in EU transfers from the structural funds made a significant direct contribution to the development of the Irish economy at a crucial period of economic change.

The ESRI evaluation of the first round of CSF funding over the 1989-93 period estimated that on the demand side of the economy the net impact of the CSF had been to raise the level of GNP by up to 3.5 per cent in 1992-1993 above what it would have been in the absence of the transfers. The subsequent demand side impact has, however, fallen due to the reduction in the level of transfers since then. Nevertheless, the long-term supply side impact, associated with the increase in capital stock brought about by investment in education and training supported by the European Social Fund, and the investment in physical infrastructure brought about by the regional fund, resulted in an ongoing enhancement of the economy's productive capacity, the effects of which are continuing. Bradley *et al* (1997) argue that the long-run effects of the two Community Support Frameworks, running from 1989-1999, is to raise the level of GNP by about 2 percentage points above what it would have been without the transfers. They conclude that "(i) the CSF process can only directly explain a limited part of the buoyancy of the Irish economy, and (ii) the impacts of the Single European Market are likely to have been much more significant than the CSF in boosting the level of GDP over the longer term." (1997:58)

## 5.5 Domestic policies

Bradley *et al.* (1997) argue that the maintenance of a stable macroeconomic environment, combining low inflation, low public deficits and surplus in the Balance of Payments have fostered a stable environment for business and have been crucial to the success of the Irish economy since 1987. They identify three elements of domestic policy as being of particular importance to success: (i) industrial policy; (ii) fiscal policy; and (iii) institutional reform.

First, as we have noted above, foreign direct investment has played an unusually important role in the Irish economy. Foreign direct investment represents the major dynamic force in the Irish economy, accounting for about 45 per cent of manufacturing employment, and is the principal reason why Ireland is one of the few European countries in which manufacturing employment continues to expand. Policies to attract mobile investment have been actively pursued since the late 1950s, offering a package of grant- and tax-based incentives to export-oriented manufacturing firms. The success of the strategy has resulted in significant economic restructuring, particularly in manufacturing, where a traditional indigenous sector, mainly oriented to the domestic market has been replaced by largely foreign owned dynamic high-tech and high-growth firms oriented mainly to export markets and concentrated mainly in electronics and pharmaceuticals.

In more recent years there has been some reorganisation of industrial policy to promote the development of indigenous firms and that sector has expanded over the past 5 years or so in response to increasing demand in both domestic and foreign markets, as well as improved linkages with the multi-national sector.

Second, over the course of the late 1970s and up to the mid-1980s, Irish public finances went out of control. With high budget deficits annually - the exchequer-borrowing requirement was over 10 per cent of GNP in 1986 - public debt soared to over 110 per cent of GNP in 1987. At that stage simply servicing the public debt represented a heavy burden on taxation, which in Ireland, is levied heavily on personal incomes. Fiscal imbalance was one

of the main causes of the recessionary period in the early to mid-1980s. As described in Chapter 3, gaining control over the public finances was one of the key objectives in the first of the current partnership agreements, the Programme for National Recovery, which ran from 1987-1991. Restoring order to the public finances was achieved by severe cutbacks in public expenditure in 1987-90. Current public spending fell by over 10 per cent in constant terms between 1987 and 1989 (Walsh and Leddin, 1997), and public sector borrowing fell from over 14 per cent of GNP in 1986 to 2.4 per cent in 1990 (Tansey, 1998). Budget deficits have been maintained at 3 per cent or less ever since then and in 1997 there was a surplus in the government current account for the first time in decades (Baker, Duffy and Shortall, 1998). As a consequence of both fiscal contraction and strong economic growth the public debt was reduced from over 100 per cent of GNP in 1987 to about 66 per cent in 1997.

Restoration of order to the public finances and the reduction in public indebtedness meant that tax cuts could be offered in exchange for wage moderation - the central bargain in the national partnership process. The coincidence of high growth with severe public-sector cutbacks has given rise to an "expansionary fiscal contraction" explanation of the Irish growth - an interpretation at odds with Keynesian type expectations of the deflationary effects of public expenditure cuts. The essence of this hypothesis is that public sector cut-backs signalled future tax-cuts to the private sector, which responded by expanding activities at such a scale as to counterbalance deflationary effects of the cut-backs. Bradley and Whelan's (1997) empirical assessment of the thesis suggests that while private sector expectations of future tax-cuts may have mitigated the contractionary effects of public sector cutbacks, they are unlikely to have removed them entirely, since the impact of such cuts was still to decrease both private consumption and GNP. Their interpretation emphasises the importance of fortunate external factors. As Bradley, Fitz Gerald, Honohan and Kearney (1997:63) put it: "Irish policy makers were lucky since the timing of the essential fiscal adjustment in the late 1980s was carried out at a time when world interest rates were falling and world growth became unexpectedly buoyant."

Third, economic failure led to changes in attitudes, behaviour and institutions. It is worth emphasising the degree of national crisis perceived by most economic actors in the late 1980s, manifested most obviously in the fiscal imbalance, mass unemployment and soaring emigration. Most observers believe that this resulted in a fundamental re-evaluation of policy making and that the air of crisis created the conditions for a consensual approach to national policy-making that broke with past ways of doing things. Bradley *et al.* (1997) argue that this broad political consensus enabled the fiscal crisis to be tackled in a manner which would not have been possible 5 years previously.

The shift in attitudes was also evident in the willingness of the trade union movement. Their participation in a series of national partnership agreements, based on a national consensus which defined the parameters of both the definition and the solutions to national problems, enhanced national competitiveness through moderate wage increases, delivered a substantial fall in industrial strife, and eased the way for restructuring and reform in both the public sector as well as in semi-state enterprises.

Bradley *et al.*'s (1997) interpretation of the past decade of growth thus emphasises the mutual interaction of several favourable trends, all of which emerged at the same time. Tansey (1998) presents a similarly eclectic interpretation of the decade of growth. Citing a similar conjuncture of fortunate trends as Bradley *et al.*, he argues that the Irish economy has been transformed by a supply side revolution. There are five elements to this: (1) Education; (2) Foreign direct investment; (3) EU Infrastructural inflows; (4) Competitiveness; and (5) Government policy on exchange rates, incomes policies, and fiscal restraint. Both interpretations regard the regaining of international competitiveness as an essential ingredient

for economic growth. As Tansey puts it (1998:253) “for small open economies such as Ireland, if the price is right, demand will take care of itself.” Regaining and maintaining international competitiveness required a particular mix of policies to promote a stable macro-economic environment including appropriate macro-economic and exchange rate stances, but also, and crucially, low inflation and moderate wage increases, buttressed by the tax cuts which could only come about with fiscal restraint.

## 5.6 Sustainability of success

Chapter 4 shows how the Irish variant of social partnership provided the institutional framework to achieve the combination of policies which transformed a failing economy into one of the fastest growing economies in Europe over the course of a decade. The Irish solution represents one approach to economic steering - one that carries with it the advantage of preserving greater levels of social cohesion than other solutions to economic crisis and declining competitiveness, such as the liberal market oriented experiment conducted in Britain over the past two decades.

Chapter 2 documents the unprecedented growth in output and employment achieved in Ireland since 1987. Despite the dramatic successes in generating employment, the fall in unemployment lagged behind the employment gains, and long-term unemployment continues to represent a formidable problem confronting the most disadvantaged in the labour market. We have also shown in Chapter 3, that rapid economic growth has coincided with an increase in inequality. The incidence of low-paid employment has increased over time. So also has the incidence of poverty. Moreover, despite the dramatic increase in women’s paid employment, married women and women with children face a series of interrelated obstacles to entering the workforce, including low wages, the lack of state support for childcare, and disincentives in the taxation and welfare systems.

**Table 5.1**  
**Elements of state expenditures and receipts, 1987 and 1994**

| Country                                              | Social Security Transfers |      | Total General Government Outlays |      | Total General Government Receipts |      |
|------------------------------------------------------|---------------------------|------|----------------------------------|------|-----------------------------------|------|
|                                                      | 1987                      | 1994 | 1987                             | 1994 | 1987                              | 1994 |
| <i>Percent of GDP</i>                                |                           |      |                                  |      |                                   |      |
| Austria                                              | 20.9                      | 22   | 52.4                             | 52.9 | 47.2                              | 47.4 |
| Denmark                                              | 16.2                      | 22.1 | 57.3                             | 64   | 58.8                              | 59.5 |
| Ireland                                              | 16.7                      | 14.6 | 50.8                             | 41.6 | 41.7                              | 39.3 |
| Netherlands                                          | 25.7                      | 25.5 | 62.4                             | 55.9 | 55.6                              | 51.8 |
| UK                                                   | 12.8                      | 15.4 | 42.9                             | 45.1 | 40.4                              | 37.3 |
| Total EU 15                                          | 17.4                      | 19.7 | 40.9                             | 42.4 | 44                                | 45   |
| Source: OECD, 1997, Historical Statistics, 1960-1995 |                           |      |                                  |      |                                   |      |

The persistence of these social problems is not unrelated to successful economic and employment growth. A central element in the strategy to boost international competitiveness, the essential spur to growth in a small open economy, was the trade off between incomes restraint and tax cuts achieved through public sector cut backs. Table 5.1 compares public

expenditures and receipts in Ireland in 1987 and 1994 with those in Britain and the other European cases of labour market success. Here also Ireland represents an exceptional case. Averaging across the 15 EU countries, both total general government expenditures and spending on social security transfers increased as a proportion of Gross Domestic Product, and so also did government receipts, mainly from tax revenue. In Ireland, however, total government spending fell by 9 percentage points, and both spending on social security transfers and receipts also fell somewhat over the period.

Moreover, in terms of spending on either social security or total government expenditure, Ireland lags well behind the other European examples of labour market success. For example, social security transfers accounted for 15 per cent of GDP in Ireland in 1994, but 25 per cent in the Netherlands. In the same year, total government spending amounted to 42 per cent of GDP in Ireland, and 56 per cent in the Netherlands, and 64 per cent in Austria. In fact, in terms of both total government and core social security spending, Ireland bears closer resemblance to the United Kingdom, where the quality of social citizenship rights has declined to a point well below many of the other more prosperous European countries. Given the heavy reliance of most poor households on social security transfers, it is perhaps not surprising that despite real increases in the value of social welfare payments over the period 1987-1994, the decline in the share of GDP accounted for by social security transfer spending coincided with an increase in the incidence of poverty.

The comparatively low ratio of public expenditure to GDP is also reflected in growing dissatisfaction with the quality of public services in Ireland. In Chapter 3 we discussed the lack of state provision, or even support for, childcare, which creates severe barriers for women seeking to participate in paid employment. However, in recent years there is a growing dissatisfaction with the quality of public services particularly in relation to: lengthening waiting lists in the public health system, resource constraints in the education system and to the quality of physical infrastructure, particularly in the transport system. As Ireland's average income per capita converges with that of our more prosperous European neighbours, major strategic social questions are beginning to emerge about the appropriate role of the state, about whether the ratio of public expenditures and taxes should remain relatively low, following a UK/US model, or whether the quality of social citizenship should rise to levels achieved in other European countries following a more inclusive social model, such as the Netherlands, Denmark or Austria. Emulating the more inclusive European model may prove more conducive to the maintenance and strengthening of the social partnership arrangements which have underpinned the Irish successes to date, but this would require strategic social and political choices which in several vital respects would depart from the principles guiding policy formation, particularly fiscal policy, over the past decade.

In this context, it should be noted that while the public finances are in an exceptionally healthy state, reflected in large current budget surpluses, the severe reduction in EU transfers after the current Community Support Framework – itself a consequence of economic success – is likely to generate a significant shock to public sector finances after 1999. This is likely to increase the strains on the current strategy of maintaining relatively low tax and expenditure to GDP ratios. Structural funds are particularly important in education and in labour market programmes, and there is a danger that the commitment to labour market training for the unemployed – Ireland has been a comparatively big spender on active labour market policies in the 1990s – may dwindle with the reduction in funding from the European Social Fund. This would have its greatest impact on the most disadvantaged in the labour market.

We have seen in Chapter 2 that while rapid economic growth generated unprecedented growth in employment, reductions in unemployment were achieved more slowly, although by the end of the period, unemployment had fallen to well below the EU average. The slow

decline in unemployment can be attributed to a number of factors. First, the labour force has grown strongly, due to the influx of young entrants, increased labour force participation among women, the ending of emigration, and, particularly in recent years, significant inward migration.

There is now growing evidence that the surge in employment over the past 5 years is beginning to exhaust the available supply of labour. Emerging labour shortages are, moreover, not simply confined to high skill occupations, but extend also to unskilled and semi-skilled workers. Labour shortages can be expected to lead to increased pressure on wages, and there is already evidence of growing dissatisfaction among workers, particularly the low paid, who do not see sufficient evidence of the fruits of growth in their wage packets. Interpreting the evidence of pay trends in industry and the public sector, together with scheduled increases under *Partnership 2000*, and the probability of wage drift in a number of service areas, Baker, Duffy and Smyth (1998) forecast an increase of over 6 per cent in average non-agricultural earnings for 1998. However, severe labour shortages in particular sub-sectors are expected to generate substantially higher increases. Baker *et al.* caution that excessive wage increases, substantially ahead of those in other *Euro* countries would reduce Irish competitiveness and undermine long-term growth prospects.

One strategy to reduce wage pressure is to seek to increase the supply of labour. We have already noted above that the absence of State provision or financial support for child-care represents a barrier to mothers' participation in paid work. State intervention in child-care could relieve the burden of paid child-care on working mothers and thus help alleviate labour shortages. Given that labour shortages are now emerging in low-skill occupations, it is also useful to consider the role of labour market policies in stimulating labour supply. Here, at least part of the problem is that many low-skill, and low-paid, jobs are not sufficiently financially rewarding. The introduction of a national minimum wage scheduled for the year 2000 is expected to raise the wages of substantial numbers of low-paid workers, and should, therefore, contribute to easing labour shortages, although the demand-side impact of the minimum wage on low-paid employment is not yet known. In relation to unemployment compensation through the social welfare system, most of the debate on incentives concerns the relationship between incomes when in and out of work, and the possible disincentive effects of unemployment compensation. On the supply side, empirical analyses of replacement ratios - i.e. the ratio of income from unemployment compensation payments to potential earnings work - indicate that replacement rates in Ireland are not as high as in other European countries. On the demand side, analyses of the tax wedge - i.e. the gap between the labour costs faced by an employer and the amount the employee receives in take-home pay - is not out of line with other European countries. The tax wedge did, however, rise sharply during the 1980s, a factor, which is considered to have contributed to the decline in employment up to 1987 (Sexton and O'Connell, 1996).

In recent years the Irish authorities have been very innovative in introducing a series of measures in both the tax and social welfare systems to reduce the tax wedge and to ease the transition of unemployed, particularly the long-term unemployed, back to work. These have included both tax breaks to the long-term unemployed as well as the Back-to Work Allowance scheme, which withdraws income support on a gradual basis over three years from the long-term unemployed returning to work, as well as allowing continued access to important secondary benefits, such as free medical care (Department of Enterprise and Employment, 1996). These carefully targeted measures can have the effect of mitigating unemployment traps and the numbers making the transition from unemployment to employment has grown rapidly in recent years. The success of these programmes serve to highlight the importance of further progress in reducing the tax burden on the low paid, and the potential of tax reforms

targeted specifically at the lower paid for further reducing unemployment. In practice, recent taxation policies have pursued varying objectives. There was widespread disappointment that the 1998 budget did not take advantage of a fiscal surplus to target tax reductions at the low paid, opting, instead, to lower tax rates in a manner which benefited higher incomes most. However, the 1999 budget veered in quite the opposite direction, targeting substantial tax cuts on those on low and middle incomes and removing the very low paid from the tax net altogether.

In terms of active labour market policies, labour shortages can be regarded as an opportunity to reintegrate the most disadvantaged in the labour market. Unemployment is forecast to continue its decline over the medium term. As discussed in Chapter 2, our measures of the balance between long- *versus* short-term unemployment probably underestimates the true incidence of long-term unemployment because of the large scale of active labour market programmes and because participants who return to unemployment after completing their programmes are counted as new entrants to unemployment, even where they were long-term unemployed before entry to the programmes. As the unemployment rate falls the stock of skills among the unemployed are likely to fall as the more skilled are likely to be hired first. This will leave a residual group of increasingly hard to place long-term unemployed - which will not be able to compete in the labour market without extensive state intervention. With total unemployment already below 8 per cent, the relatively low and falling level of short-term 'frictional' unemployment can be expected to intensify wage pressures. A successful strategy to reintegrate the long-term unemployed thus carries with it the advantage of increasing the effective supply of labour and easing skill shortages. However, if the employability of the poorly skilled is to be enhanced this will require considerable investment in education and training specifically targeted on those experiencing the greatest disadvantages in the labour market. Empirical analysis of such active labour market programmes in Ireland suggests that well-targeted programmes with strong linkages to market needs do improve the employment prospects of their participants (O'Connell and McGinnity, 1997). For those most difficult to place this may require the development of individual pathways combining, work experience, general education and training in specific employable skills. Given the scale of structural unemployment in Ireland, such intervention requires considerably greater resources than are provided at present, but it should also be recognised that the costs of tackling the problem will decline with the success of the strategy. Failure to intervene effectively now, however, at a time of rapid economic growth, a booming labour market, and fiscal surpluses, represents a missed opportunity to enable a large segment of society to become more productive and independent and both contribute to, and reap the benefits of economic and social progress.

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