

PART III

EMPLOYMENT AND THE LABOUR MARKET

THE LABOUR MARKET 1986 TO 1990

1. INTRODUCTION

A general survey of developments in the Irish economy since 1986 was provided in Chapter 1. In this chapter we focus on the main developments in the labour market. The labour force magnitudes in which we are most interested – employment and unemployment – are determined simultaneously with population, the labour force and migration. Consequently, we begin by reporting developments in population, the labour force and migration and then proceed to consider employment, unemployment, earnings and competitiveness. We finish the chapter with a statistical profile of the unemployed.

2. POPULATION, LABOUR FORCE AND MIGRATION

Table 13.1 shows population change and its two determinants, natural population increase and migration. The whole decade of the 1980s was one of strong natural increase in population. It can be seen in the table, that this increase was greater in the first half of the decade – with annual increases of over 1 per cent in the early years. However, the decade was also characterised by a remarkable resurgence of emigration. The data in Table 13.1 shows that emigration increased steadily through the decade and, in recent years, has exceeded the natural increase in population. Thus in 1988 and 1989 total population has fallen.

To identify labour market developments we must determine the rate of participation. Table 13.2 shows the evolution of total population and the labour force since 1980. The effects of emigration, and of rising unemployment on labour force participation rates, ensured that, despite strong population growth, the labour force levelled off towards the mid-decade and declined slightly in 1989.

3. EMPLOYMENT

In Chapter 1 we reported that the period since 1986 has been one of growth in the Irish economy – in marked contrast to the years 1980 to 1986. This contrasting macroeconomic performance has, been reflected in employment. As measured by the CSOs Labour Force Surveys, total employment in Ireland fell by 6.5 per cent between 1980 and 1986 (see Table 13.3). The fall in total employment stopped in 1987 and employment increased by almost 40,000, or 3.6 per cent, between 1986 and 1990 – much of this growth occurring in 1990.

Table 13.1
Natural Population Increase, Net Migration
and Population Change, 1980-89

Census Year	Natural Increase (000)	Net Migration (000)	Total Change (000)
1980	41	-8	33
1981	40	2	42
1982	38	-1	37
1983	38	-14	24
1984	34	-9	25
1985	31	-20	11
1986	28	-28	+1
1987	29	-27	+2
1988	27	-32	-5
1989	23	-46	-23

Table 13.2
Population and Labour Force Participation Rate
1980-89

Census Year Total (000)	Population (000)	Labour Force (000)	Participation Rate %
1980	3401	1247	36.6
1981	3443	1272	36.9
1982	3480	1293	37.1
1983	3504	1307	37.3
1984	3529	1307	37.0
1985	3540	1305	36.8
1986	3541	1308	36.9
1987	3543	1312	37.0
1988	3538	1310	37.0
1989	3515	1293	36.7

These trends in total employment mask different developments in sectoral employment. Table 13.3 shows the percentage change in employment in agriculture, industry and services. Employment in agriculture has continued to fall since 1986 – but at a much slower rate. Industrial employment stabilised in 1987 – after a sharp decline from 1980 to 1986. Strong growth in industrial employment in 1989 and 1990 means that employment in industry is almost 5 per cent higher in 1990 than in 1986. The service sectors have experienced fairly continuous growth through the 1980s. It is notable however that between 1986 and 1990 – and especially in 1989 and 1990 – service sector employment grew less rapidly than industrial employment. The strong growth of both industrial and service employment, and the high proportion of service employment in the total, meant that total non-agricultural employment increased by 3.6 per cent from 1986 to 1990.

A more detailed record of employment change since 1980 is provided by Table 13.4. This shows that the increase in non-agricultural employment in the second half of that decade results from contrasting trends in different branches of economic activity. The three largest branches – manufacturing, commerce, insurance and finance, and other non-agricultural activity (i.e. services) – showed growth in employment. By contrast, employment in the building industry showed no increase until 1990 and employment in the public sector declined continuously since 1982.

(i) Manufacturing Industry

Changes in employment within manufacturing industry can be ascertained from the Census of Industrial Production. Table 13.5 shows employment in 1986 and in 1989 and the percentage change between the two years. It is clear from this table that the strong economic recovery since 1987 has led to very modest increases in employment and a number of sectors – notably non-metallic minerals, food, drink and tobacco, and clothing, footwear and leather – continued to lose employment. It will be of considerable interest to see whether the growth in overall manufacturing employment in 1990, as shown in the preliminary estimates of the Labour Force Survey, includes employment growth in these traditional sectors.

4. UNEMPLOYMENT

Unemployment is, by definition, the difference between the total labour force and the total number in employment. Although this statement is obvious, its explicit restatement reminds us that in studying unemployment we are implicitly studying labour force participation and employment. Figure 13.1 shows the total number unemployed each year since 1980, as measured by both the monthly live register and the annual labour force survey. It shows that unemployment peaked in 1987 and has fallen since then. The number on the Live Register has fallen from 246 thousand in 1987 to 221 thousand in September 1990 – a fall of over 10 per cent. The number of unemployed as measured by the annual Labour Force Survey fell from 232 thousand in 1987 to 183 thousand in 1990 – a fall of over 21 per cent.

Table 13.3
Change in Employment Per Cent

	1980-86	1986-90
Agriculture	-19.6	-1.8
Industry	-17.3	+4.9
Services	+5.2	+4.5
Total	-6.5	+3.6

Source: CSO Labour Force Surveys.

Table 13.4
Labour Force Estimates and Persons at Work, Classified by Sector, 1980-90 (Mid-April)

Economic Activity	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
<i>1. At Work</i>											
Agriculture, Forestry & Fishing	209	196	193	189	181	171	168	164	166	163	165
Mining, Quarrying, Turf Production	11	11	11	10	10	10	8	7	7	7	8
Manufacturing	243	237	233	220	211	205	211	208	209	215	221
Building & Construction	103	101	96	86	83	76	72	71	70	70	77
Electricity, Gas and Water	14	14	15	15	15	15	15	14	14	14	13
Commerce, Insurance & Finance	202	207	209	211	210	210	212	213	222	223	221
Transport, Communication & Storage	70	70	70	70	69	68	65	66	64	66	68
Public Admin & Defence	71	72	75	73	72	73	71	70	70	66	64
<i>Other Non-Agricultural</i>											
Economic Activity	233	238	244	250	252	251	258	267	270	266	27
Total at work of which:	1156	1146	1146	1124	1103	1079	1081	1080	1091	1090	1120
- Agriculture	209	196	193	189	181	171	168	164	166	163	165
- Industry	371	363	355	331	319	306	307	300	300	306	322
- Services	576	587	598	604	603	602	606	616	626	621	633
<i>2. Unemployed</i>	91	126	147	183	204	226	227	232	219	203	183
<i>3. Labour Force (1+2)</i>											
	1247	1271	1293	1307	1307	1305	1308	1312	1310	1293	1303

Source: CSO Labour Force Surveys.

Table 13.5
Manufacturing Employment 1985, 1989 and Percentage Change 1985-89

	1985 Total (000)	1989 Total (000)	1985-89 Percentage Change
Non-Metallic Mineral Products	12.2	11.1	-9.0
Chemicals	11.9	12.6	+5.9
Metals & Engineering	58.1	62.3	+7.2
(Office and Data Proc. Machinery)	(6.0)	6.8	+13.3
Food	37.3	35.7	-4.3
Drink and Tobacco	7.4	6.5	-12.2
Textile Industry	10.7	10.7	0
Clothing, Footwear and Leather	15.4	13.1	-14.9
Timber and Wooden Furniture	7.5	7.5	0
Paper and Printing	13.3	13.7	+3.0
Miscellaneous Industries	10.5	11.4	+8.6
Total Manufacturing Industries	184.1	184.5	+0.2

Source: Census of Industrial Production.

Figure 13.2 shows the rate of unemployment as measured by both the Live Register and the Labour Force Survey. It is clear that the rate of unemployment also peaked in 1987. The Live Register peaked at 18.8 per cent in 1987, but remains at the remarkable level of 17.1 per cent in September 1990.

Unemployment does not, in general, consist of a completely stable stock of people from month to month and year to year. There are continual flows into and out of unemployment. The level of unemployment, and changes in that level, are

Figure 13.1
Numbers Unemployed 1980-1990
Live Register and Labour Force

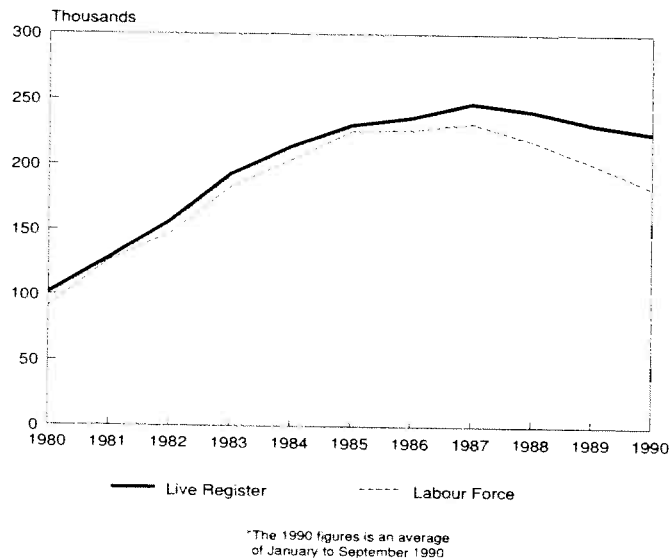
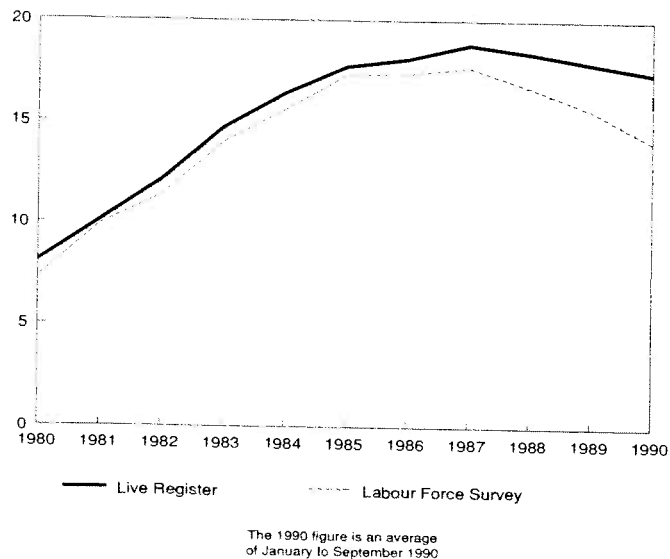
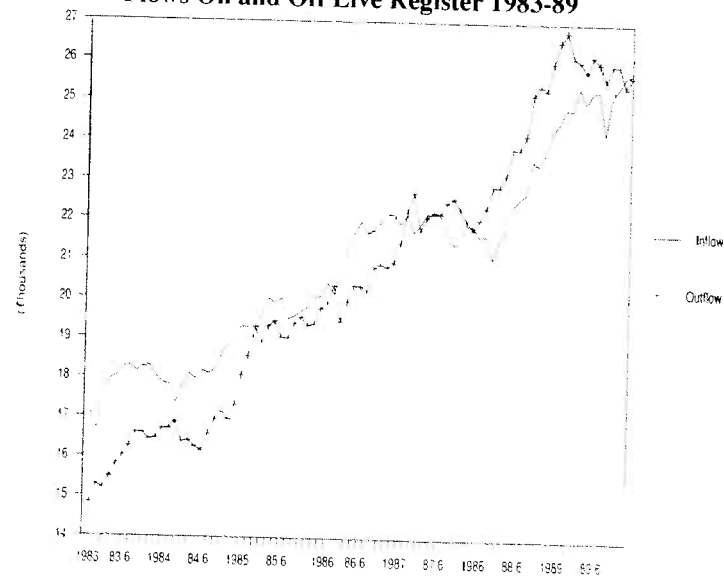


Figure 13.2
Rate of Unemployment 1980-1990
Live Register and Labour Force



determined by the relative size of flows into and out of unemployment. There are several sources of data on these flows. One of these is the Central Statistics Office's monthly analysis of flows on and off the Live Register. Figure 13.3 shows an 11 month moving average of these flows for males. These data reveal the significant gap between inflows and outflows in 1983, 1984 and 1985 – when unemployment was rising sharply, and also confirm the convergence of a gap in 1989 and 1990 – when unemployment is falling.¹

Figure 13.3
Flows On and Off Live Register 1983-89



5. LABOUR COST COMPETITIVENESS

Cost competitiveness is one determinant of industrial output and employment. Labour costs are an important determinant of overall cost competitiveness. Changes in international labour cost competitiveness are determined by relative earnings and relative productivity growth. Measurement of national labour cost competitiveness is an exercise fraught with difficulty, due to problems which arise from averaging the very different experience of individual sectors and firms. In Ireland these difficulties are compounded by the practice of transfer pricing by foreign-owned firms. In consequence of these difficulties we confine our discussion of cost competitiveness to a brief report on the evolution of earnings in manufacturing industry and a look at some suggestive data on productivity growth.

1. There is a discontinuity in the series shown in Figure 13.3 at January 1989 (August 1988 in our 11-month moving average) due to a change in the CSO's methodology. The introduction of an improved method of compilation gives a more comprehensive picture of flows than the former approach. This probably accounts for much of the sharp increase in both inflows and outflows shown from mid-1988 in Figure 13.3. The longer run upward trend in both inflows and outflows from 1983 to 1988 is a different matter. At present we can offer no explanation for this.

The severe recession and associated rise in unemployment, combined with the slow-down in price inflation in Ireland's main trading partners, served to moderate increases in earnings and wages in Irish manufacturing industry in the first six years of the 1980s. In the later years of the decade, when economic growth resumed, the Programme for National Recovery succeeded in limiting wage demands at a time of rapidly increasing labour productivity. As a result labour's share of added-value in industry has declined steadily since 1980 (Bradley and Fitzgerald, 1989). This, of course, is not to suggest that the 1980 share was, in any sense, optimal.

Figure 13.4 shows the evolution of hourly earnings – calculated in common currency – in manufacturing in Ireland, all EMS countries, narrow-band EMS countries and Ireland's main trading partners taken as a whole. These data show that through most of the 1980s hourly earnings increased faster in Ireland than in other EMS countries. However, after 1986 there was a distinct slowing of earnings growth in Ireland, which suggests an improvement in labour cost competitiveness. Indeed, these relative earnings data probably understate Ireland's labour cost competitiveness and the degree of improvement in competitiveness in recent years. This is so because the earnings data take no account of relative productivity growth – but there is some evidence that productivity growth has been higher in Ireland than in other countries. One way to incorporate this factor would be to compare the trend in unit wage costs rather than in earnings. Such a comparison would show declining unit wage costs in Ireland since 1982, and rapidly falling unit costs since 1986. However, if earnings data tend to underestimate Ireland's cost competitiveness, it is widely agreed that unit wage cost data overestimate the improvement in competitiveness. This is because the aggregate data tend to exaggerate the amount of productivity growth in Irish industry. The significance of this can be seen by considering separately productivity growth in the 'modern' sectors, resource-based traditional sectors and other traditional sectors of manufacturing (see Figure 13.5). This confirms that productivity growth is much slower in the traditional sectors and, depending on earnings growth, suggests that gains in labour cost competitiveness have been much more modest.

6. A STATISTICAL PROFILE OF THE UNEMPLOYED

In Ireland there are essentially two sources of statistics on unemployment: the annual Labour Force Surveys and the monthly Live Register. In this section we use both sources in order to build up a profile of the unemployed and the unemployment problem in Ireland. We concentrate on the structure of unemployment in Ireland in 1988 and 1989 rather than on the evolution of Irish unemployment or comparisons between unemployment in Ireland and in other countries. Section (i) explains the conventional approach used in the Labour Force Survey. In subsequent sections we use labour force data to consider participation rates, the age, sex and regional pattern of unemployment, the family status of the unemployed, and the duration of unemployment. Finally, in Section (vi) we outline

an alternative approach to labour force analysis proposed by the International Labour Organisation (ILO) and recently incorporated in the Irish Labour Force Survey. We contrast this alternative approach with the conventional approach by examining the application of both approaches to the 1988 labour force survey. The new approach leads to some significant revision of the nature of unemployment and, in general, yields a richer profile of labour force behaviour. Section (vi) contains a discussion of the main features of Irish unemployment and some comparison of current Irish unemployment with earlier patterns and with those found currently in other countries.

(i) The Conventional Labour Force Survey Approach

The Labour Force Survey is undertaken each April/May as a part of a simultaneous harmonised exercise in EC member states. The survey consists of a sample of about 45,000 households – about one in every twenty-three in the country. This sample covers almost 155,000 persons – about 4.4 per cent of the population. Because estimates are derived from a sample they are subject to sampling errors. In general, the magnitude of this error, in percentage terms, is lower for the larger and more widely spread estimates, such as the total at work and is greater for smaller and more concentrated estimates, such as the number unemployed in a particular age group in a given region. This should be borne in mind when considering statistics derived from this source.

Figure 13.4
Hourly Earnings in Manufacturing
Common Currency (ECU) Terms

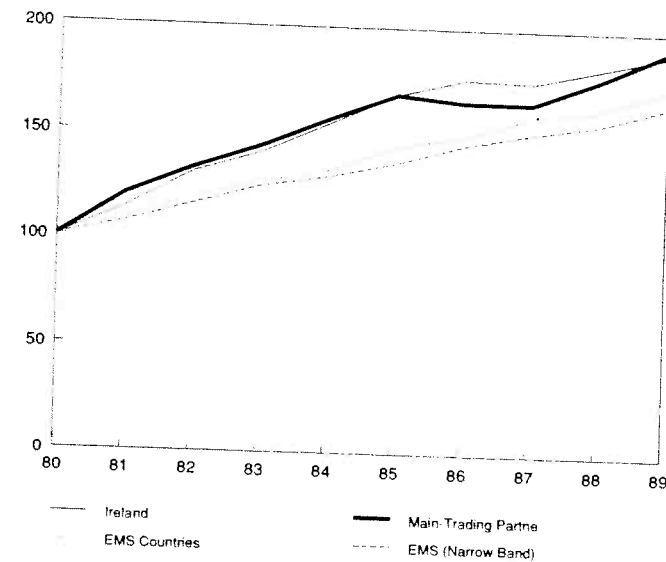
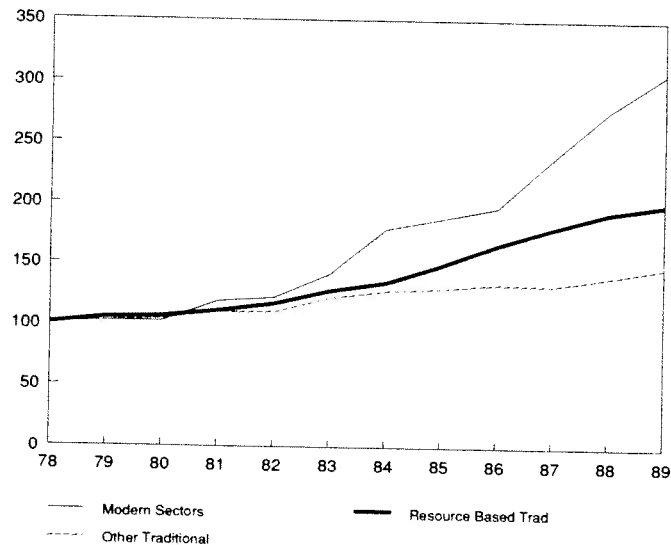


Figure 13.5
Productivity 1978-1989
1978 = 100



To date the main estimates of the labour force, the numbers at work and the numbers unemployed have been based on classification of each person by their Principle Economic Status. This classification is done by asking respondents 'What is your usual situation with regard to employment?' and offering them the following list of options from which to choose:

- At work
- Looking for first regular job
- Unemployed, having lost or given up a previous job
- Actively looking for work again after voluntary interruption of working life (of 12 months or more) for personal/domestic reasons (this category is included among the unemployed in the tables)
- Student
- On home duties
- Retired from employment
- Unable to work due to permanent sickness/disability
- Other

If the respondent chooses one of the first four options he/she is deemed to be in the labour force. If he/she chooses options two, three, or four, he/she is classified as unemployed. Anyone who chooses any of the remainder is classified as inactive. It will be noted that the identification of each person's Principle Economic Status (PES) is largely based on each respondents own assessment of his or her circumstances and is, consequently, mainly subjective.

In a later section we will consider some drawbacks of this approach and briefly mention an alternative proposed by the International Labour Organisation (ILO). Indeed, it is possible to compare the measures of employment and unemployment yielded by the two approaches. In this section we present some basic data on employment and unemployment derived from the Census of Population and Labour Force Surveys using the conventional PES approach discussed above.

(ii) Participation

In the study of labour market behaviour the difference between the sexes are of major significance. Consequently, throughout this statistical profile of the unemployed it will be appropriate to consider males and females separately. The most striking contrast is the very large difference in the labour force participation rates of men and women. Male labour force participation averages 72.5 per cent and does not differ very much with age, marital status or across regions. Consequently, we can find out little about male unemployment by studying changes or variations in participation. Female participation has increased over time and varies with age, marital status and region. Figure 13.6 shows the female population in each age group and how these are divided between those in employment, unemployed and inactive. The figure confirms the low overall participation rate and reveals striking differences in participation, employment and unemployment between age groups. Our immediate focus is on the difference in participation. It can be seen in Figure 13.6 that this falls consistently and rapidly with age.

Female labour force participation also differs across the nine IDA planning regions of the country. Figure 13.7 shows that participation is much the highest in Dublin, and lowest in the south-east and north-west. It is probable that these regional differences in participation rates reflect differences in the age profile of the female population in different regions. Indeed, the strong inverse relationship between age and female labour force participation itself probably reflects the underlying relationship between women's marital status and labour force participation.

(iii) Unemployment and Age

It is common to express the severity of unemployment by reference to the rate of unemployment, i.e. unemployment as a percentage of those in a given labour force. While this is an important measure of the severity of the unemployment problem it can be informative to consider the number of unemployed as well as the rates. This is so when we study the age profile of the unemployed.

Figure 13.6
Female Labour Force by Age 1989 (PES)

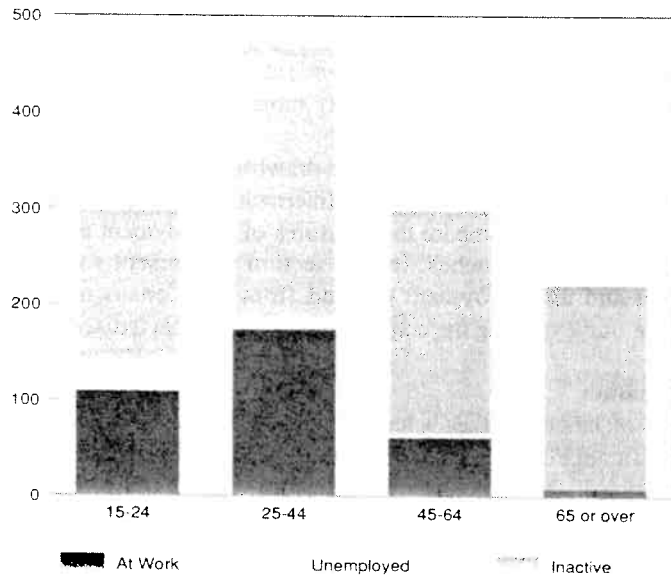
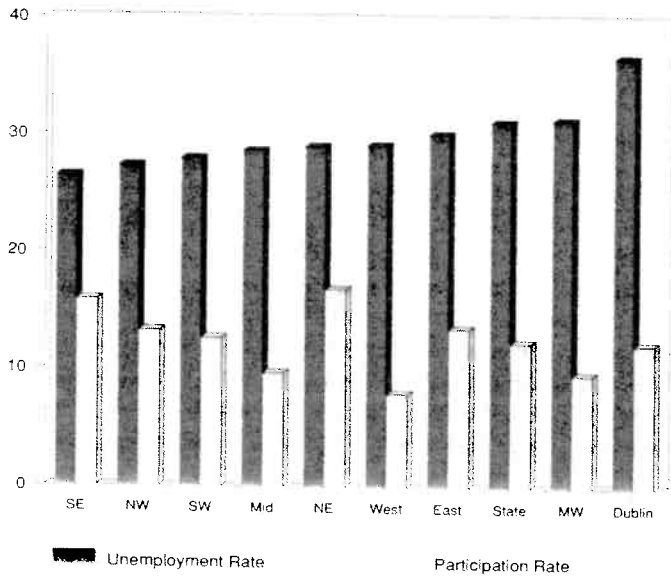


Figure 13.7
Female Labour Force Participation by Region 1988



In the published Labour Force Survey the unemployed are divided into four age categories: 15 to 24, 25 to 44, 45 to 64 and 65 or over. Figure 13.8 shows the number of unemployed males and females in these four age categories. It is clear that there are considerably more men than women unemployed. It is also clear that the relationship between age and unemployment is different among men and women – at least when we consider total numbers unemployed. A very large part of Ireland's unemployment problem afflicts men between the ages of 25 and 44. Furthermore, almost as many men over 45 years of age are found among the unemployed as men under the age of 25.

This difference in age profile is illustrated graphically in Figure 13.9. Almost 60 per cent of unemployed women are under the age of 25 – only 29 per cent of unemployed men are. By contrast, almost 50 per cent of unemployed men are between 25 and 44 – only 30 per cent of unemployed women are.

In considering these Labour Force Survey data on unemployment and age, and especially in viewing their graphical representation, it is important to be aware that the data is divided into age categories of unequal length, 15 to 24 being a ten year span while 25 to 44 covers twenty years. There are two ways to correct any misleading impressions which might arise from this method of presentation. The first is to consider data from other sources than the Labour Force Survey; the second is to study the rate of unemployment rather than the levels in different age groups.

Figure 13.8
Unemployment and Age 1988 (PES)

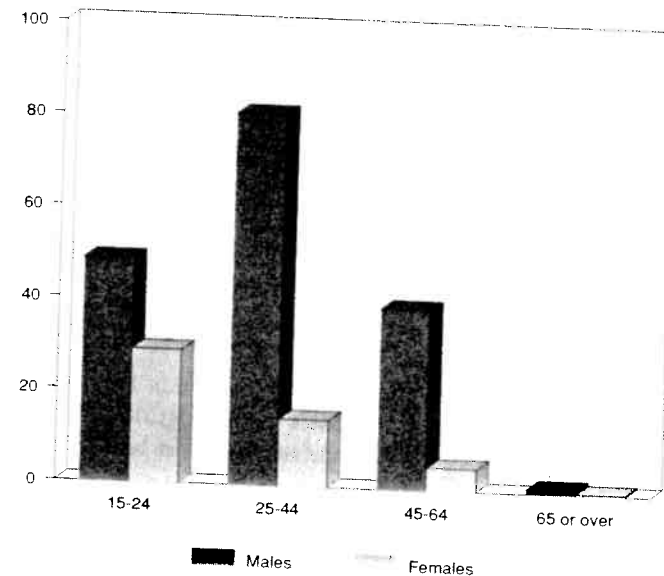
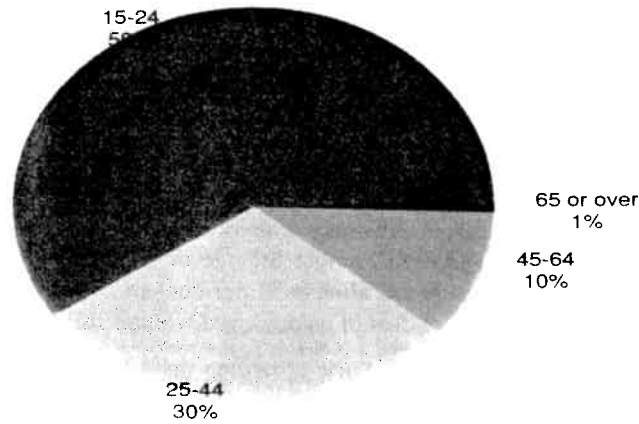
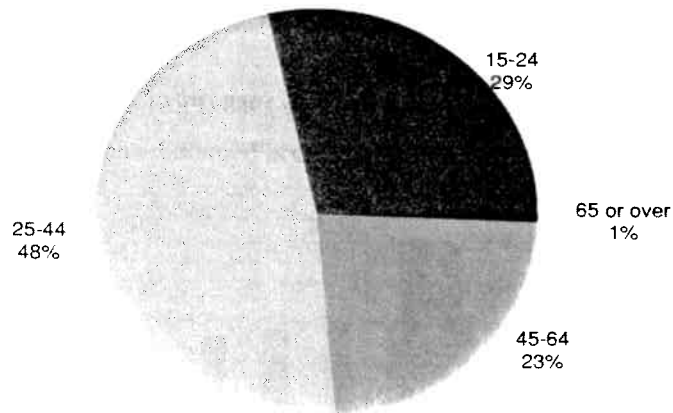


Figure 13.9
Age Distribution of Females 1988 (PES)



Age Distribution of Males 1988 (PES)

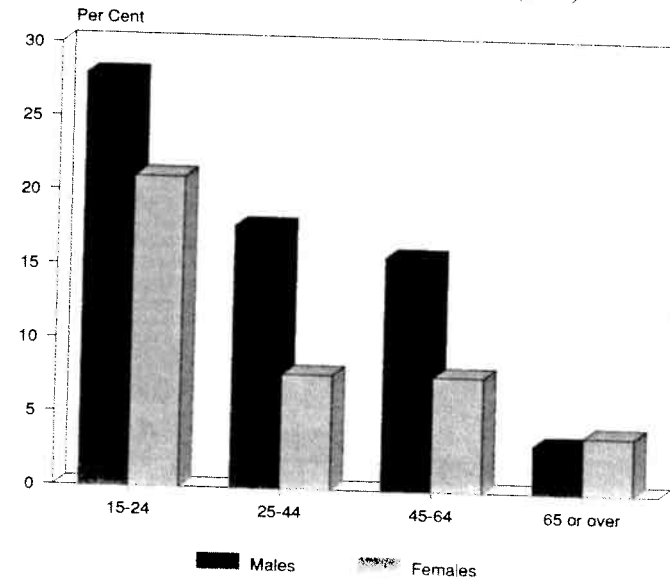


The alternative source of information on the age profile of the unemployed is the monthly Live Register. A study of these data would confirm that the relationship between unemployment and age is different among males and females. However, by breaking the twenty year age span, 25 to 44, into two ten year spans the live register data would reveal that there are almost as many unemployed aged between 16 to 24, as there are between 25 and 34 or between 35 and 44.

The severity of youth unemployment is further underlined when we consider rates of unemployment. Figure 13.10 shows the rates of unemployment of males and

females across four age categories based on the 1988 Labour Force Survey. The average rate of unemployment is clearly higher among males than females. While the greatest number of unemployed men are between 25 and 44, much the highest rate of unemployment occurs among younger men. Indeed, the rate falls steadily with age. In the case of women the unemployment rates reflect more closely the age distribution of the numbers of unemployed studied above – the highest rate occurring among the youngest women. As a result the difference between male and female rates of unemployment is much smaller among younger workers than among others. But, among workers aged 25 to 64 the rate of male unemployment is more than twice as high as the rate of female unemployment.

Figure 13.10
Unemployment Rates by Age 1988 (PES)



We now have some idea who the unemployed are. The most typical unemployed man is between 25 and 45, but there are a large number both younger and older than this. The typical unemployed woman is under 25. We must now ask: where are the unemployed?

(iv) The Regional Pattern of Unemployment

Once again it is useful to report both levels and rates of unemployment. The regional distribution of male unemployment is shown in Figure 13.11. This shows that there are very significant numbers of unemployed men in Dublin, the South-West and the South-East – 57 per cent of male unemployment occurs in these three regions. A similar regional pattern occurs in female unemployment (see Figure 13.12). The three regions, Dublin, South-West and South-East, account for over 61 per cent of national unemployment.

Figure 13.11
Male Unemployment by Region 1988 (PES)

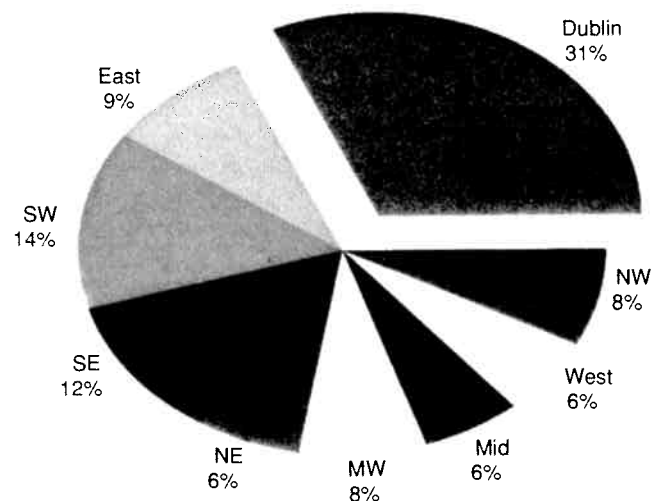
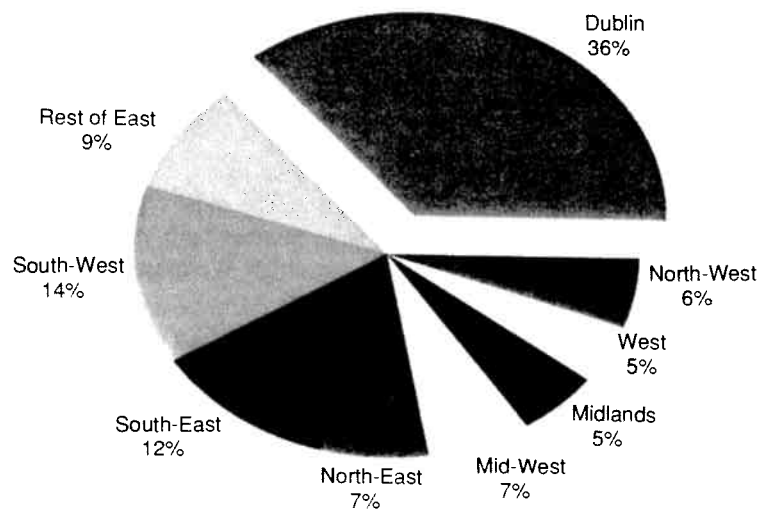
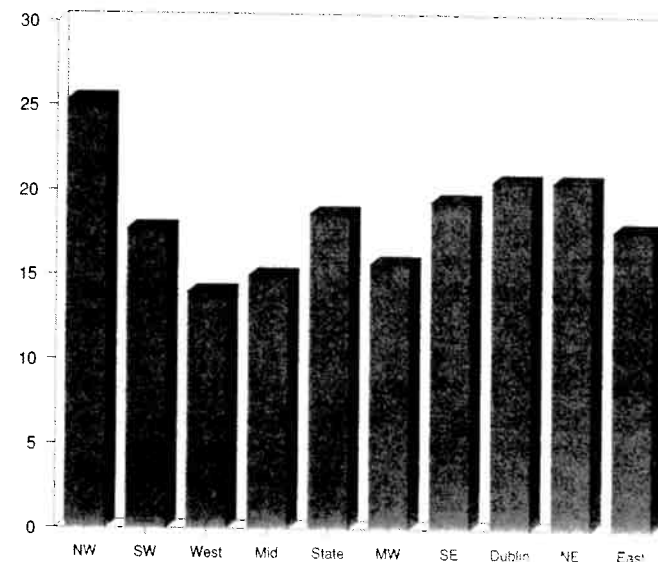


Figure 13.12
Female Unemployment by Region 1988 (PES)



A somewhat different regional pattern emerges when we assess the intensity of the unemployment problem as measured by the rate of unemployment. In Figure 13.13 it can be seen that the North-West – containing only 7.8 per cent of the unemployed men in the country – has much the highest rate of unemployment. Both Dublin and the North-East show male unemployment rates of over 20 per cent. The lowest rates are found in the West and the Midlands.

Figure 13.13
Male Unemployment Rates



Among women also the lowest rates of unemployment occur in the West, the Mid-West and Midlands (see Figure 13.7). However, the regions with the highest rates of female unemployment are slightly different from those with the highest rates of male unemployment. The North-East has the highest rate and other eastern regions figure prominently.

(v) Family Status of the Unemployed

A distinction is sometimes drawn between unemployment as a labour market problem, representing wasted resources, and unemployment as a welfare problem, giving rise to poverty and deprivation. For example, the greatest welfare effects of unemployment probably arise from the unemployment of husbands in families with children and the unemployment of single parents. However, such people may constitute only a small minority of the total unemployed – i.e. the total problem of wasted human resources. To assess the relevance of this distinction between the labour market and the welfare aspects of unemployment we must identify the position which unemployed people occupy in the family.

The 1988 Labour Force Survey contains estimates of private households and family units. This shows that 180,300 households, contained one or more persons unemployed. This represents 17.2 per cent of all households. Of these 180,300 households experiencing unemployment 102,000, or 56.6 per cent, had no person at work. Thus almost 10 per cent of all households in the country in 1988 contained at least one person unemployed and nobody at work. Clearly the welfare dimension of unemployment is very significant indeed.

This picture is confirmed when we consider what position the unemployed occupy in the family unit. Table 13.6 shows what percentage of the unemployed are 'heads of households', 'spouses', 'children' and 'non-family members'. This shows that in 1988 over 41 per cent of all unemployed people were heads of households, while almost another 40 per cent were children living with one or both parents. The table also reveals some interesting differences between the sexes. Among males an even higher proportion, 51.6 per cent, of the unemployed are heads of households. A second striking difference is in the proportion of male and female unemployed who are 'children' living at home. A much greater proportion of unemployed women than unemployed men are in this category. We saw earlier that the average age of unemployed women was lower than that of unemployed men. The high proportion of unemployed women who are 'children' living at home confirms and reinforces our earlier observations.

Table 13.6
Unemployed People by Status in Family Unit
Per Cent of Unemployed 1988 (PES)

	Head	Spouse	Child*	Non-Family Member	Total
Total	41.9	7.3	38.8	12.0	100.0
Male	51.6	4.5	33.1	10.8	100.0
Female	8.2	17.4	58.5	16.2	100.0

*The CSO define a 'child' as any never-married person of any age living with one or both parents.

The 1989 OECD Employment Outlook contains a discussion of the labour market and welfare dimensions of unemployment and some comparative international data for 1986. The OECD identify three patterns of family status among the unemployed in OECD countries. The first applies to the United States, Central and Western Europe, and Australia. In these countries, about one-fifth of the unemployed are married men, one-fifth married women, and one-fifth the children of married-couple families. The main exceptions to this are Belgium, where two-fifths of the unemployed are married women, and Luxembourg and Denmark,

where the share of married men is lower. A second pattern applies to Japan, where the share of married men is higher than elsewhere, while that of children is lower. The third pattern is that of Southern Europe, where unemployment rates are relatively high, and about half the unemployed are children (or other relatives of the family heads) in married-couple families. As a result, spouses in married-couple families constitute a lower proportion of the unemployed, with married men in Italy, and married women in Spain, constituting a particularly low share of unemployment.

Although the OECD includes Ireland in the first of these groups and names only Luxembourg and Denmark as exceptions, the data it presents show that Ireland is quite exceptional also. Ireland differs from other Central and Western European countries because a much higher percentage of the Irish unemployed are husbands in families, and a higher percentage are 'children' living with one or both parents. In Ireland a relatively small percentage of the unemployed are single parents or persons not a member of a family. Neither could Ireland be allocated to either the second or third groups identified by the OECD. While the percentage of unemployed who are 'children' is very high in Ireland relative to other countries in Western Europe, it is still much lower than in Southern Europe – where over 50 per cent of all unemployed people are in this category.

Our conclusion must be that in the case of Ireland there is not a very sharp distinction between the labour market and the welfare dimensions of unemployment. In other words, much of the wasted human resources that result from unemployment gives rise to the major welfare problem.

(vi) The Duration of Unemployment

The ratio of long-term unemployment to total unemployment is often called the incidence of unemployment. To see why this ratio can provide a measure of the incidence, extent, or frequency of unemployment note that when unemployment is constant the number of people who are unemployed at any time equals the number who become unemployed each week times the average number of weeks they remain unemployed (Layard, 1986).

$$\text{Unemployment} = \text{Entrants per week} \times \text{weeks unemployed}$$

Layard draws the analogy that the number of students equals the number of first year students times the length of the course. We would like to know whether in the school of unemployment the number of unemployed has increased because of an increased number of new entrants or because of an increase in the length of the course.

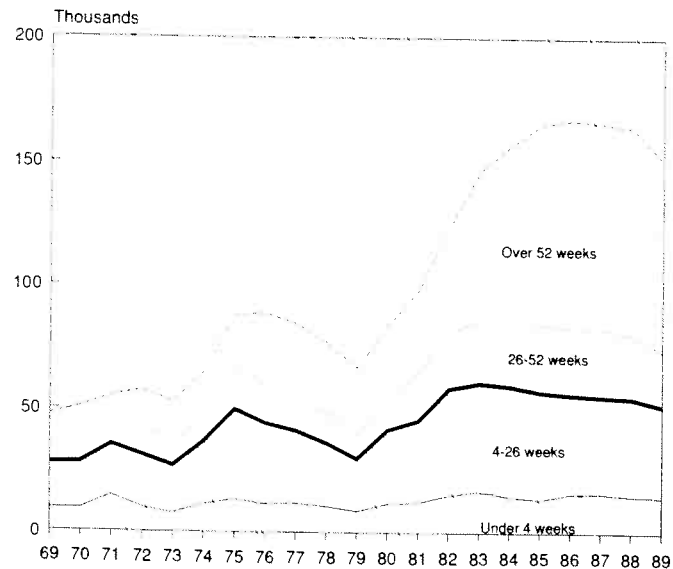
The formula above makes it clear that 17 per cent unemployment is consistent with many quite different possibilities. At one extreme 17 per cent unemployment could reflect the fact that everybody in the workforce becomes unemployed once a year, for an average of 17 per cent of the year. At the other extreme, only 17 per cent of

the workforce become unemployed each year and remain unemployed for a year on average. The duration of unemployment is a measure of the incidence of unemployment because it tells us which of these possibilities is nearest to the truth. The ratio of long-term to total unemployment is, of course, an inverse measure of incidence: the higher the proportion of long-term unemployment the lower is the incidence or extent of unemployment in the labour force.

To study the duration of unemployment we move from Labour Force Survey data to the Live Register. The age and duration analysis of the October 1989 Live Register shows that over 51 per cent of unemployed men are long-term unemployed (i.e. unemployed for over one year). Thirty-five per cent of unemployed women have been unemployed for over a year. This suggests that there is a small incidence of unemployment – i.e. that the majority of people are never unemployed but most of those who become unemployed remain unemployed for a very long time.

How has it come about that over half the unemployed males are long-term unemployed? Figure 13.14 shows the evolution of total male unemployment and the structure of duration from 1969 to 1989. It shows, first, that unemployment more than trebled between 1969 and the late 1980s. But this trebling has not involved a proportionate increase in short-term and long-term unemployment. It can be seen on Figure 13.14 that the number of people with 1-4 weeks unemployment experience has increased very little indeed since 1969.

Figure 13.14
Duration of Male Unemployment 1969-89



An explanation of why the amount and proportion of long-term unemployment has increased so much may depend on us finding an explanation of why total unemployment increased or, at least, an understanding of how total unemployment increased.

The identity which links the stock of unemployment to the underlying flows is

$$\text{Change in stock of unemployment} = \text{inflow} - \text{outflow}$$

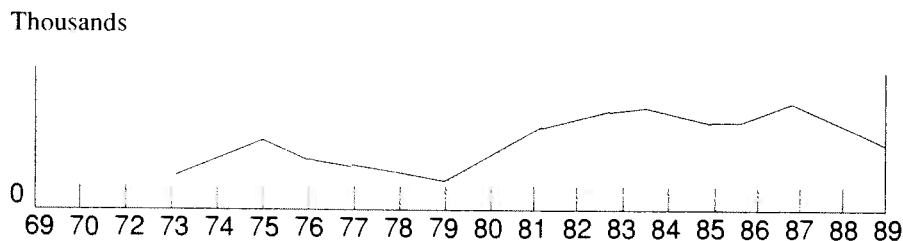
Unemployment rises when inflows to unemployment rise or outflows fall, or both. Ideally, we would study changes in inflows and outflows to trace how unemployment rose and then consider the connection between the rise in total unemployment and the increase in average duration of unemployment. However, we saw in Section 4 that Irish statistics of flows on and off the Live Register date only from 1983. Consequently, the data do not cover the two main periods when male unemployment increased rapidly and the duration structure changed radically (1974-75 and 1979-84). As a result, these statistics on flows do not greatly enhance our understanding of how Irish unemployment trebled and such a large proportion of it became long-term. A second source of data on flows into unemployment is also very limited. This consists of data on the number of redundancies notified by employers to the Department of Labour for payment under the Redundancy Payments Scheme. These statistics are limited in a number of ways. They relate to proposed and not actual redundancies. Some redundancies notified by employers do not materialise. Furthermore, they only include redundancies which employers expect will be qualified for payment under the scheme (i.e. those who work more than 18 hours per week and have at least two years eligible service). Nevertheless something can be gleaned from these data and Figure 13.15 shows the level of notified male redundancies in each year from 1973 to 1989. The figure is drawn to the same scale as Figure 13.14 in order to allow a visual assessment of the relative size of the stock of male unemployment and this particular segment of the flow into unemployment.

This comparison of Figures 13.14 and 13.15 shows, first and foremost, the very significant difference between the stock of male unemployment and the annual flow into male unemployment in the 1970s, and especially in the mid to late 1980s. While male unemployment exceeded 160,000 in the latter period, notified redundancies were below 30,000 per year. The monthly statistics of flows on and off the Live Register essentially confirm this point. For example, in 1986 flows of men on and off the Live Register were roughly equal, at around 20,000 per month, while the level of unemployment was over 160,000.

It is highly probable that the disastrous unemployment experience of the 1980s arose because of both an increase in inflows and a fall in outflows. However, the limited data which are available suggest, and we can put it no stronger, that unemployment trebled not primarily because flows into unemployment increased

enormously but because flows out declined dramatically at some stage. This is suggested, first, by the fact that the number of males with 1-4 weeks unemployment experience has increased very little indeed since 1969 and, second, by the relatively small increase in redundancies shown in Figure 13.15. If this is correct then it is likely that the increased inflow into unemployment, which undoubtedly occurred in the recessions of 1974-5 and 1980-4, would not have been sufficiently large, on their own, to increase unemployment by the amount actually observed.

Figure 13.15
Redundancies Notified for Payment



Consequently, we have to turn to outflows in order to trace how unemployment increased so much. It turns out that the story of how unemployment increased can probably shed some light on why long-term unemployment increased disproportionately. It is almost certain that outflows from unemployment fell in the mid-1970s and early-1980s, although we cannot be certain – given the absence of outflow data before 1983. However, it is likely that initially the fall in outflows from unemployment would not have been sufficient to create the huge increase in unemployment. If neither the rise in inflow nor the initial fall in outflow were sufficiently large to increase long-term unemployment by the amount actually observed, the question arises: how did the amount and proportion of long-term unemployment rise? In the NESC report *Manpower Policy in Ireland* reference was made to the observed international tendency that the outflow rate from unemployment is always very much lower for those with longer duration of unemployment. Layard and Nickell point out that it follows from this that when long-term unemployment piles up, the overall outflow rate falls, even if the outflow rate of each duration cohort stays the same. Applying this idea to the British case they point out that before 1981 there was no increase in the proportion of long-term unemployed and they show that the fall in the overall outflow rate was due entirely to the sharp fall in each duration-specific outflow rates (Layard and Nickell, 1987). But they stress that this fall in outflow rate at each duration was not sufficient to explain the fall in the overall outflow rate necessary to increase unemployment from 1 to 2.5 million. What happened was that the fall in outflow for each duration led to an increase in the proportion of the unemployed who were long-term unemployed. “Because the outflow rates are lower for the

long-term unemployed than for those with shorter durations, an equip proportionate fall in all outflow rates leads to a more than proportionate fall in the average outflow rate”. They deduced from this that if there were a major economic recovery, the inflow into unemployment would fall sharply and so would short-term unemployment. But it is most unlikely that long-term unemployment would fall at all rapidly, unless specific measures were taken to encourage employers to hire the long-term unemployed (Layard and Nickell, 1987).

In the Irish case we do not have data on flows before 1983 and we have no data which shows the outflows from unemployment by duration of unemployment experience. Consequently, we cannot confirm that events in Ireland took the same course as in the UK. However, the pattern shown in Figure 13.14 is remarkably similar to that found in the UK.

The Recent Pattern of Duration

We have seen from Figure 13.14 that since 1982 a very large proportion of unemployed males have been unemployed for more than a year. Figure 13.16 shows the number of males in each duration category from 3 months to 3 years and over. This reveals that of the 77,470 long-term unemployed 38,330, almost exactly 50 per cent, have been unemployed for more than three years. A further 15,000 (19 per cent) have been unemployed for between 2 and 3 years.

The duration of unemployment is somewhat different for females, as can be seen in Figure 13.17. Not only is there a smaller proportion of long-term unemployed (35.1 per cent) but fewer of these have been unemployed for 3 years, or for more than two years. Over 30 per cent of all unemployed women have been unemployed for less than 3 months, whereas only 22 per cent of unemployed men are in this category.

To identify the long-term unemployed, in the context of the total unemployment problem, Figures 13.18 and 13.19 show total male and female unemployment in each age group, with an indication of the numbers unemployed for more than one year. Figure 13.18 shows clearly that the bulk of the problem of long-term unemployment is experienced by men in the prime age group (25-44). We saw above that a large proportion of unemployed men were married with families and we now see that a large proportion of these have been unemployed for a very long time indeed. Any policy approach which will deal with long-term unemployment and poverty must be able to re-integrate a large number of prime-age men into productive activity.

Figure 13.19 shows that among women long-term unemployment is generally experienced by a somewhat younger age group than among men. This accords with our earlier finding that the average unemployed woman is younger than the average unemployed man.

Figure 13.16
Duration of Male Unemployment 1989 (LR)

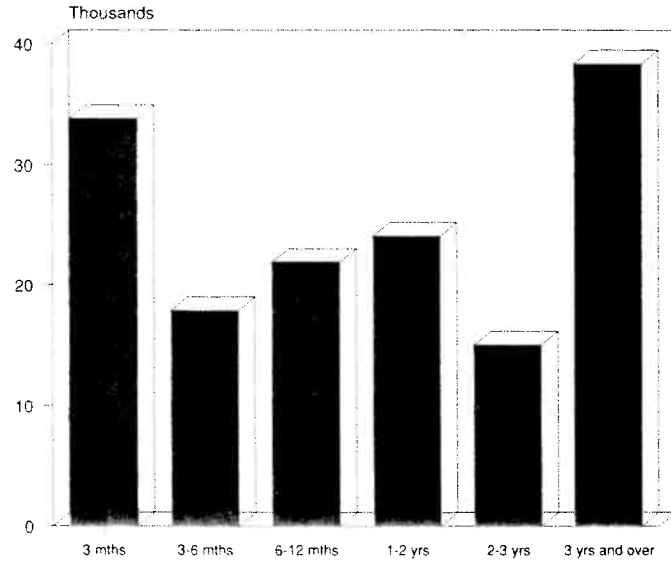


Figure 13.17
Duration of Female Unemployment 1989 (LR)

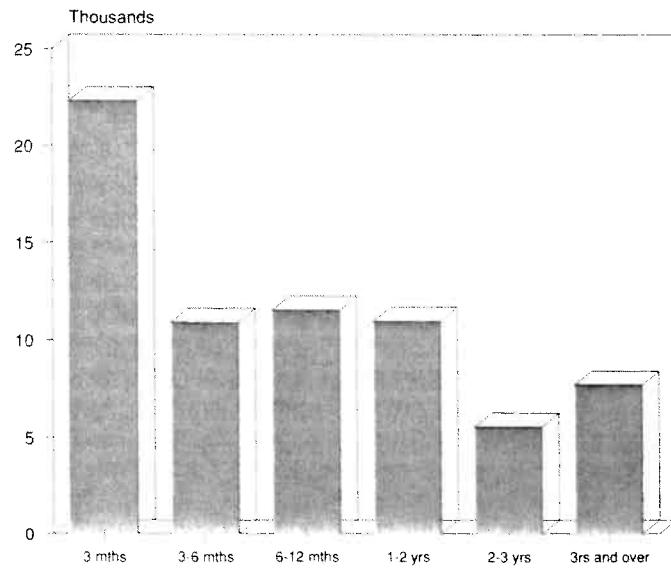


Figure 13.18
Duration of Unemployment by Age Male (LR)

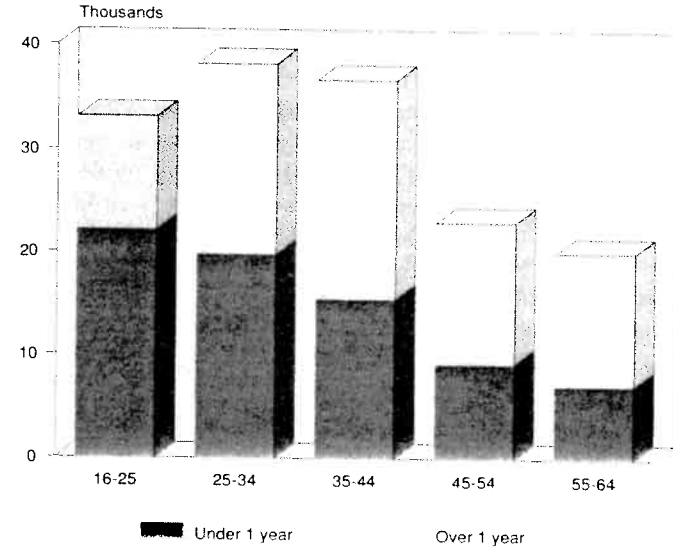
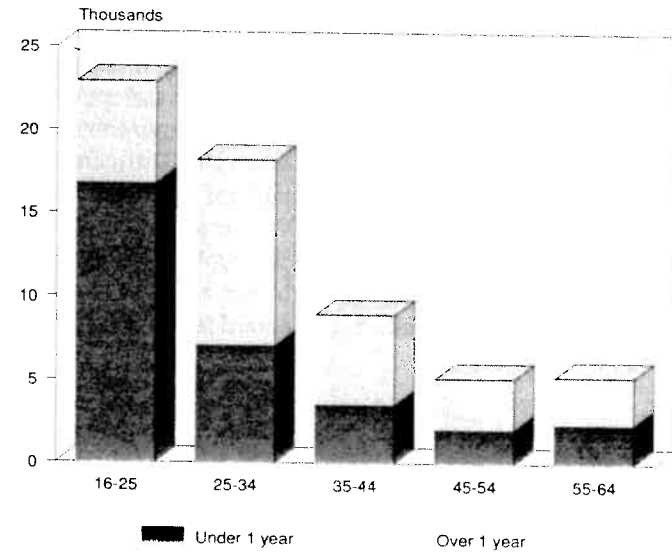


Figure 13.19
Duration of Unemployment by Age Females (LR)



We noted several times that numbers of unemployed and unemployment rates can convey different pictures. This is definitely the case when considering the relationship between long-term unemployment and age. Although the greatest number of long-term unemployed men are in the prime age group the highest rates of long-term unemployment occur among older men. Figure 13.20 shows long-term unemployment as a per cent of total unemployment in each age group. It is clear that the proportion of long-term unemployment rises with age. This accords with the traditional view that long-term unemployment arises as structural change displaces older workers who find it difficult to regain a foothold in the labour market. While there is clearly some truth in this, what is striking about Figure 13.20 is that the rate of long-term unemployment does not rise rapidly with age. In other words, very high rates are experienced by men in the age groups 35-44 and 45-54. It follows that we cannot see long-term unemployment as a primary problem associated with the age and industrial experience of older workers made redundant from traditional industries.

Despite the fact that the largest number of long-term unemployed women are in the younger age groups, the rate of long-term unemployment increases with age (see Figure 13.21). Indeed, comparison of Figure 13.21 with Figure 13.20 shows that the rate of long-term unemployment increases more sharply with age among women than among men.

(vii) The ILO Approach To Labour Force Analysis

During the late 1970s and 1980s traditional measures of labour force aggregates became the subject of intense debate internationally. A major reason for this was the widespread feeling that the concepts of employment and unemployment required clarification in the face of the spread of mass-unemployment and rapid changes in the structure of firms and the working environment. After much discussion in national and international bodies the Thirteenth International Conference of Labour Statisticians, meeting under the auspices of the International Labour Office (ILO) in Geneva in October 1982, agreed a "Resolution concerning statistics of the economically active population, employment, unemployment and underemployment". The Resolution, which was adopted as an international standard in 1983 superseded earlier standards agreed in 1954 and 1966.

In a paper to the Statistical and Social Inquiry Society of Ireland in May 1988, Mr Donal Garvey of the Central Statistics Office illustrated the application of the new international standard to Ireland and devised a new framework for analysis of Irish labour force aggregates. This has now been incorporated in the Labour Force Survey and the 1988 survey contained data derived using both the traditional Principle Economic Status approach and the new ILO approach. In this section we draw on Garvey's presentation of the new approach and in the next section we discuss how estimates of employment, unemployment and non-participation differ between the PES and ILO approaches.

As Garvey notes the traditional approach reflects the view that work and unemployment are completely transparent concepts with few associated measurement problems. The approach to labour force aggregates used in the Census of Population and the Labour Force Survey – that is, the approach based on each persons subjective assessment of their principle economic status, makes no allowance for the possibility that people are:

- (a) partly inactive and partly at work;
- (b) partly inactive and partly unemployed;
- (c) partly at work and partly unemployed.

As a result the conventional approach maintains and accentuates the impression of a rigid distinction between those in the labour force and inactive persons and also between work and unemployment. In this regard the approach in Ireland, although lagging behind countries such as Australia, Canada and USA, has been no different to that followed in many other countries.

Garvey argues that a sound theoretical framework for thoroughly analysing labour force aggregates, in both the national and international contexts, can be elaborated on the basis of the ILO Resolution – provided the impact of part-time working, underemployment and discouragement are not ignored. Indeed he considers that it is unfortunate that international comparisons focus so much on the unemployment rate, "since this type of analysis provides no information on the differing national structures of part-time working, under-employment or discouragement" (Garvey, 1988, p.9).

Figure 13.20
Long-Term Male Unemployment by Age

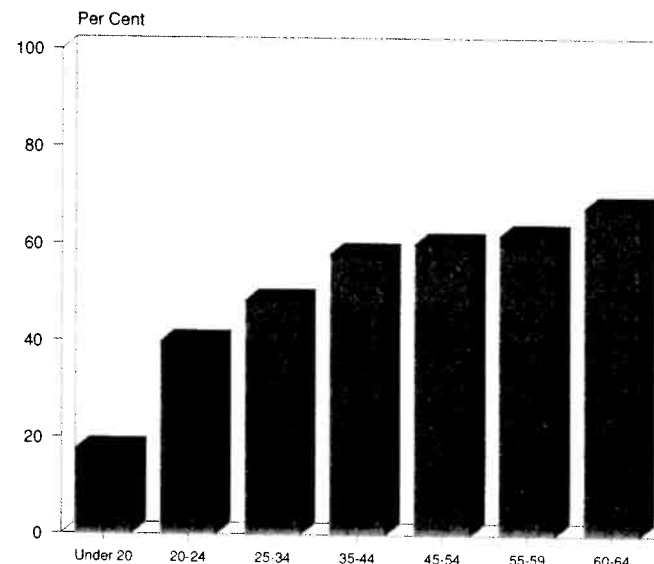
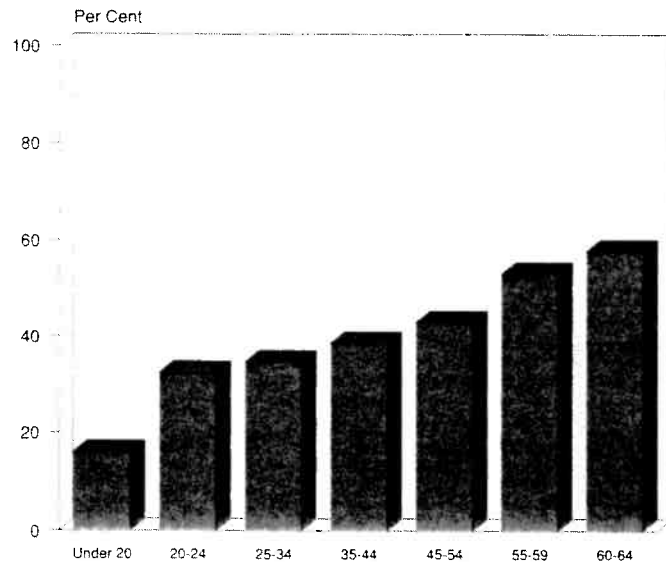


Figure 13.21
Long-Term Female Unemployment by Age



The framework developed by Garvey and now incorporated in the Labour Force Survey distinguishes and measures the following labour force groupings:

In Employment

- Full-time
- Part-time but not underemployed
- Part-time and underemployed

Unemployed

- Seeking full-time work
- Seeking part-time work

Non Economically Active

- Marginally attached to the labour force
 - Lay-offs not looking for work
 - Discouraged workers
 - Available and passively seeking full-time work
 - Available and passively seeking part-time work
- Other persons not economically active

These 11 categories are formed on the basis of detailed questions which go beyond the identification of who is working, unemployed, or inactive, and identify the

desired quantity of work, the extent and intensity of search for work, and the reasons for engaging or not engaging in search activity. In fact his study of the answers to these questions led Garvey to identify twenty-seven population groups. The final categories are formed by allocating each of these 27 groupings to the categories 'in employment', 'unemployed' and 'not economically active'.

This approach to labour force measurement constitutes a considerable advance over conventional approaches. Its introduction to the Irish Labour Force Survey by Garvey allows Irish analysis to take account of the significant changes which have occurred and are occurring in the nature of work and participation in the workforce.

Contrasting the ILO and the PES Approaches

On first presenting this approach using 1986 data Garvey pointed out that the vast majority of the population are classified in the same way under both approaches. The main differences between the two approaches (at least when we are talking of males plus females) arises with respect to persons who described themselves as unemployed or inactive. Although the two approaches yielded almost the same number of unemployed each approach counted different people among the unemployed. This can be of considerable significance in our attempt to identify the unemployment problem and devise approaches to its solution.

Considerable further insight into the contrast between the two approaches is gained when the calculations for males and females are considered separately.

For males the main difference between the two approaches relates to the measure of unemployment. Of the 169.5 thousand who described themselves as unemployed, 30.3 thousand were reclassified as inactive and 2.7 thousand as in employment. This removal of 30 thousand from the unemployed is clearly a very significant change. Below we will examine why 30 thousand males were subtracted from the unemployed and 4.7 thousand were added.

The differences between the two approaches are further clarified when females are considered. More women were found to have some paid employment than the number who described their principal economic status as being at work. Most of this difference consists of women who described themselves as being on home duties but who had a job in the week before the survey.

While some women who described themselves as inactive were found to have some paid work, more women who described themselves as inactive were found to be unemployed – that is, seeking either full-time or part-time employment. Finally, some women who described themselves as unemployed were considered, using the ILO approach, to be in fact inactive.

The result of these recalculations is that the unemployment rate for females increases from 12.3 per cent (under the PES approach) to 17.2 per cent (under the

ILO approach). Likewise the participation rate increases from 31.1 per cent (PES) to 34.3 per cent (ILO).

This breakdown into males and females reveals that comparison of the two approaches when applied to the total labour force can be quite misleading. We noted that the two approaches yielded almost the same number of unemployed. We can now see that this was the result of several off-setting differences – particularly a reduction in the number of males counted as unemployed and an increase in the number of females.

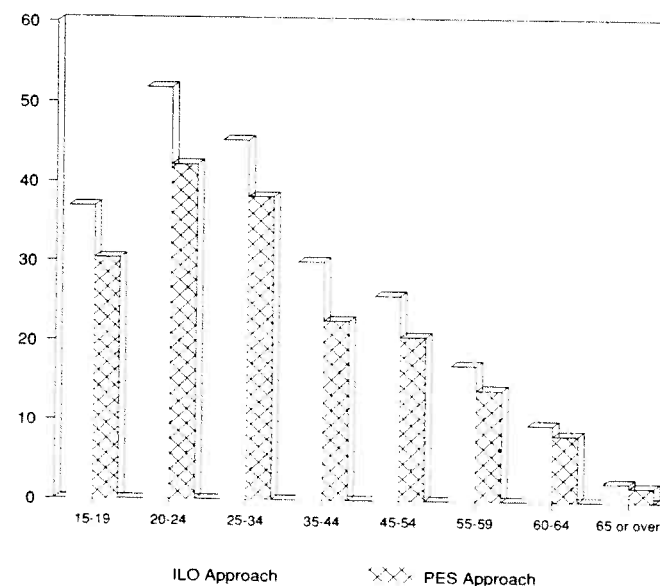
Summary of Reasons for Contrasting Estimates

We noted that in the case of males much the most significant difference between the two approaches concerned the measurement of unemployment. This difference arises because a certain number who described themselves as unemployed failed the 'active job seeking' or 'availability' criteria of the ILO approach. However, others were found to be marginally attached to the labour force. As a result of these reclassifications the overall rate of male unemployment in 1988 is reduced from 18.6 per cent, on a PES basis, to 15.9 per cent, on an ILO basis. Garvey found a similar 'reduction' in the unemployment rate for the years 1983-86.

We have now to ask why the ILO approach reclassified a considerable number of females from the categories they stated as their PES. Much the most significant reclassification was the 'movement' of almost 40,000 women from the category 'inactive to' the category 'unemployed'. This arises mainly because a considerable number of women who describe their PES as 'home duties' were also seeking employment. The rate of female unemployment in 1988 was 12.3 per cent when measured according to the PES approach, but 17.2 per cent when measured according to international recommendations. The contrast between the two approaches is even more striking if we consider only married and separated women. The rate of unemployment among such women was only 6.8 per cent in 1988, when measured by stated PES, but was almost three times as high, 19.5 per cent, on the basis of the ILO approach. Garvey found a similar contrast for the years 1983 to 1986. Other differences between the ILO and PES approaches arise because some women who describe their PES as 'on home duties' in fact have part time employment.

When we combine these new measures of unemployment and the numbers at work we get a significantly different picture of female participation in the labour force. The overall female participation rate was 31.1 per cent in 1988, on the PES basis, but 34.3 per cent on an ILO basis. Again the contrast is greater when we consider only married and separated women. According to the PES approach only 23.6 per cent of married and separated women participate in the workforce. The ILO approach yields an estimated of 29.2 per cent. Figure 13.22 shows that this higher participation applies at all ages. However, the absolute difference between the PES and ILO estimates is greatest for younger women.

Figure 13.22
Participation of Married Women



(viii) Discussion

This section has presented a preliminary profile of unemployment in Ireland. It has dealt primarily with the pattern of unemployment revealed in the 1988 Labour Force Survey and the October Live Register 1989 returns. For certain purposes this profile of the current or recent pattern of unemployment could usefully be supplemented with an analysis of the evolution of Irish unemployment and a comparison of Irish unemployment with that in other countries.

The Significance of Gender

One consistent theme in this document, and in international literature on the labour market, is the significant difference between male and female labour force behaviour. In the case of males, study of participation behaviour across age, region or marital status offers little insight into unemployment. In the case of females, unemployment can scarcely be understood without study of participation. Furthermore the difference recurs throughout our study of the structure of unemployment. That is, it is relevant also when we consider the age and regional pattern of unemployment, the duration of unemployment, and the position of unemployed people within the family.

When identifying the size and nature of the unemployment problem it is vital to consider the number unemployed and not just the unemployment rate. This practice is followed throughout this document.

Unemployment and Age

An important example of this arises when we consider the age of the unemployed. Much the highest rates of unemployment occur among young people – both males and females. But much of the problem of male unemployment – in terms of absolute numbers and, indeed, duration of unemployment – consists of men aged between 25 and 44. By contrast, the bulk of the problem of female unemployment – at least when measured by the conventional labour force survey approach – consists of women below the age of 25. In as much as we can talk of the 'typical' unemployed person we can say that the typical unemployed man is between 25 and 44 while the typical unemployed woman is younger, between 15 and 25.

Although we have not, in this paper, undertaken a detailed analysis of how the age structure of Irish unemployment evolved over time we can identify evidence of some interesting changes since the 1960s. In his paper *The Structure of Unemployment in Ireland, 1954-72* Walsh included the following statement among his major findings:

An analysis of the age-structure of the unemployed revealed a significant growth in unemployment rates among older men. The proportion of the Live Register consisting of older men has grown considerably since 1954, and has also tended to increase as the overall unemployment rate falls. This unfavourable experience among older men was the most striking and disquieting evidence of structural unemployment revealed in the present study. There is some evidence to suggest that the problem is especially acute among older unmarried labourers, who experience extremely high unemployment rates (Walsh, 1974).

In his 1978 book *The Unemployment Problem in Ireland: Background Analysis and Planning Options* Walsh reviewed developments – including those resulting from the severe 1974-75 recession. Apart from the increase in unemployment to unprecedented levels he drew attention to the fact that "young adults bore the brunt of the adverse repercussions of the recession on employment". The evidence for this lay in the sharp rise in unemployment rates recorded among those aged under 30. Walsh also noted that the unemployment rate among women rose proportionately more than the male rate. This too was most marked among the young, with unemployment rates among women aged 14-19 more than doubling in this four-year period. Walsh's conclusion was that "In terms of either the numbers unemployed, or the rate of unemployment, the problem is now most severe among young people, and teenagers in particular" (Walsh, 1978).

Our examination of the evidence for 1988 and 1989 suggests that as a result of the massive increase in unemployment in the 1980s the age profile of unemployment has shifted again. We found that, among males at any rate, it would no longer be entirely correct to say, as Walsh did in 1978, that the problem is most severe among young people, and teenagers in particular. However, this remains a more accurate statement of the situation of female unemployment. The age profile of

male unemployment would seem now to lie between those identified by Walsh for 1970-72 and for 1971-76 – that is, although the rate of unemployment is definitely highest among young men, much the greatest numbers are prime-aged. These changes in incidence and extent of unemployment among different age groups may provide clues to the causes of unemployment in the late 80s and, at the same time, pose a problem to be addressed by various contending explanations.

The Regional Pattern of Unemployment

When we consider the regional pattern of unemployment there is also some evidence of change. Reviewing developments from 1954 to 1972 Walsh (1974) considered that the

evidence points to a worsening of the structural problem in its regional dimension, with all areas other than Dublin and Munster experiencing a significant upward trend in their unemployment rates relative to the national average over the period 1954-72. This finding is consistent with that of other researchers more explicitly concerned with regional problems in Ireland.

Although the North-West continues to have the highest rate of male unemployment we found that Dublin, the North-East and the South-East now had very high rates relative to most other regions, and the West had the lowest rate of any region. While we have not undertaken a systematic study of the regional pattern of unemployment since 1972, the data surveyed in this paper, when compared with Walsh's findings, suggests that the recession of 1974-75, and especially the recession of 1980-84, hit some regions more severely than others and, thereby, increased unemployment in Dublin and the East Coast disproportionately.

Family Status of the Unemployed

We have also considered the family status of the unemployed. The preponderance of heads of households among the unemployed suggests that in the Irish case, unlike those of the Mediterranean countries, no very sharp distinction can be drawn between unemployment as a problem of unused human resources and unemployment as a problem of welfare and poverty. Indeed, we found that Ireland has a very particular pattern of unemployment – not easily classified with either Western or Southern European countries. However, an important finding of international comparative research, probably not taken sufficient account of by the OECD in classification of countries into three broad types, is that patterns of labour force participation, work practice, job demarcation and unemployment display significantly different national characteristics (Therborn, 1986). This must be kept in mind when moving from identification of the facts of unemployment, to analysis of the causes and design of policy approaches for its solution.

Duration of Unemployment

In this chapter we have undertaken as much description of the duration of unemployment as Irish data will allow. The centre-piece of this description is the

remarkable increase in long-term unemployment depicted in Figure 13.14. We have presented a tentative discussion of how changes in inflows and outflows have 'caused' the average duration of unemployment to rise. It must be stressed that this is not an explanation of why unemployment increased and remains so high.

Contrasting the ILO and PES Approaches

In Section 6 (vii) we explain the approach to labour force analysis proposed by the ILO and recently inserted into the Irish Labour Force Survey by Garvey (1988). This approach allows statistical classification take greater account of developments in the labour force resulting from the international spread of mass- unemployment, increased female labour force participation and changes in work practices. We briefly contrasted the ILO and PES approaches using the data from the 1988 *Labour Force Survey*.

Although there are numerous interesting differences between the results of each approach, four significant points emerge from the introduction of the new methodology.

First, the amount and rate of male unemployment is seen to be significantly lower than that estimated by the conventional approach. The application of the active jobseeking and availability criteria meant that the ILO approach removed over 33,000 men from unemployment who had described their PES as unemployed. As a result the overall rate of male unemployment in 1988 is reduced from 18.6 per cent, on a PES basis, to 15.9 per cent, on an ILO basis.

Second, the ILO approach yielded a considerably higher estimate of the number of women at work than the conventional approach did. This arose because about 14,000 women who considered their principle economic status as 'home duties' had paid work in the week before the labour force survey.

Third, the most striking difference between the two approaches concerns unemployment among women. Nearly 40,000 women who described their PES as inactive were found to be unemployed – that is, seeking either full-time or part-time employment. As a result the rate of female unemployment in 1988 is seen to be 17.2 per cent – and not 12.3 per cent, as estimated using the conventional approach. Switching to the ILO methodology increases the estimated rate of unemployment of married or separated women in 1988 from 6.8 per cent to 19.5 per cent. Not surprisingly, these increases in the estimated number of women at work imply higher estimates of the overall rate of female labour force participation. It should be noted that these higher estimates of female participation, and especially female unemployment, serve to reduce the differences between Ireland and other European countries. In the majority of European countries the rate of unemployment among women now exceeds that among men.

Finally, the ILO approach introduces an important new category by identifying, among those 'not economically active', a sub-group who are 'marginally attached

to the labour force'. Four categories are classified as being marginally attached to the labour force: those on lay-off not looking for work; discouraged workers; those available and passively seeking full-time work; and those available and passively seeking part-time work. Garvey estimated that over the four years period 1983 to 1986 the number of persons marginally attached to the labour force varied from about 16 to 25 thousand. This group is split almost evenly between males and females. The 1988 Labour Force Survey estimates that 25,100 were marginally attached to the labour force. Of the 12,200 men in this group over 10,000 would have been classified as unemployed using the conventional PES approach. This contrasts with the 13,000 women classified as marginally attached to the labour force. Of these, only 2,600 would have been classified as unemployed using the PES approach while almost 10,000 would be classified as on home duties.

The introduction of the category of marginally attached, and the sub-categories included in it, is important in three respects. First, as Garvey notes, any international comparisons of unemployment levels which fail to take account of them are not complete and could lead to misleading conclusions (Garvey, 1988). Second, national labour market policy should take account of the people included in this group and failure to do so is likely to lead to failure to address the unemployment problem adequately. Third, the approach allows for a systematic and scientific estimate of the extent of non-job search and non-availability for work among the unemployed. This facilitates an objective and dispassionate evaluation of various important but, to date, unverifiable claims and beliefs about unemployment.

POLICIES FOR EMPLOYMENT AND UNEMPLOYMENT

1. A NEW STRATEGY FOR ECONOMIC AND SOCIAL DEVELOPMENT

(i) A Strategy of Reform for Employment

The Medium-Term Outlook

In Chapter 3 we presented our outlook for the economy in the medium-term. This consists of a projection of the likely path of the economy from now to 1994 based on a continuation of current policies. It is projected that, with a continuation of current policies, employment would increase by about 9,000 annually over the period 1991 to 1994. Emigration is projected to decline gradually towards 16,000 in 1994, but to average 19,000 per annum over the period. When account is taken of the likely increase in labour force participation and natural increase in population, these employment and emigration predictions imply a fall in unemployment of 2/3,000 per year over the period to 1994.

Council Unwilling to Accept this Scenario

The Council considers that the evolution of the economy which is likely if there is no policy change is entirely unacceptable. Growth of employment of 9,000 per year implies continued involuntary emigration and only a modest fall in the level of unemployment. Not only would this be a failure to achieve the central aim of rapid employment growth but it would imply a comprehensive failure to overcome the gross inequalities in Irish society which, as the Council has stressed, are linked to unemployment.

It is rejection of this scenario that motivates the Council to propose the new strategy for economic and social development set out in this report. If we do not want the scenario set out in Chapter 3 then the only alternative is to reject the idea of no policy change which underlies that outlook. The need to increase employment by much more than 9,000 a year, and to reduce unemployment well below 200,000 by 1994, underlies all the policies proposed in parts II, III and IV of this report.

Macroeconomic Policy

Maximisation of employment growth, and the consequent minimisation of unemployment and involuntary emigration, requires that macroeconomic policy be executed in a way which maintains the long-term growth potential of the economy. For the reasons outlined in Chapter 2, and elaborated in Chapter 4, this implies that

fiscal policy not be used to stimulate the short-term growth of the economy, and that monetary and exchange rate policy be set to maintain the value of the punt within the EMS. In this area of policy, and in this area only, does the Council support the idea of no policy change. It follows that if Ireland is to avoid the unacceptable scenario set out in Chapter 3 – based on no policy change – then great use must be made of those policy instruments which can be changed. It is for this reason that the Council recommends that maintenance of macroeconomic policy on a steady course must now be accompanied by a fundamental programme of structural reform. The principles which should guide that programme of reform have been the subject matter of Part II of this report.

Employment Effects of Reform

The reforms proposed in Part II have the ultimate objective of enhancing the wealth producing potential of the Irish economy and reducing inequities in Irish society. These objectives necessarily involve increased employment and significant reductions in both unemployment and involuntary migration. Many of the reforms will have beneficial effects on employment and unemployment – and this is one of the fundamental reasons why the Council proposes them. Since the effect of these structural reforms on employment and unemployment may not be obvious it should be briefly explained how they are likely to occur.

In Chapter 6 we proposed a programme of tax reform which will involve a reduction of average and marginal rates of tax on earned income and a widening of the tax base. The next phase of tax reform must also involve approximation of VAT and DIRT taxes to those in other Community countries. The reduction of marginal and average rates of tax should reduce the disincentive effects in the labour market, while the widening of the base will remove incentives which draw mental and financial resources away from productive, wealth and employment creating activities. The changes in VAT and DIRT taxes will reduce cross border shopping and enhance the ability of the Irish financial industry and the distribution sector to compete.

The changes in social welfare proposed in Chapter 7 are strongly motivated by employment and unemployment considerations. In particular, the move to a single, lower, rate of employee's PRSI, the assessment of short-term social welfare benefits for taxation and the reform of Child Benefit are designed, among other things, to reduce the disincentives in the labour market which can arise from the interaction of the social welfare and taxation systems.

In Chapter 8 the Council has set out a comprehensive housing policy. While the reforms proposed in housing policy have internal equity and efficiency objectives, they are also intended, indirectly, to have beneficial effects on employment and unemployment. For example, the fact that future housing policy – if it follows the Council's advice – will avoid the ghettoisation which occurred in the past is an important contribution to avoiding the creation of self-perpetuating unemployment

blackspots. The introduction of a domestic property tax would also improve employment prospects in a number of significant ways. First, it would redress the excessive incentives which exist in favour of investment in property. Second, it would allow reductions in the tax burden on earned income and thus reduce the tax wedge between what employers pay and workers receive. Third, by allowing reductions in the taxes on earned income it would lighten the tax burden on the most mobile elements of the labour force and reduce the incentive to emigration. As the Council indicated in a recent report – people are mobile, property is not (NESC, 1989B).

The reforms in the management of public enterprises, proposed in Chapter 12, could have a beneficial, if indirect, effect on employment and unemployment. This would occur through the more efficient and cheaper provision of essential services to the exposed internationally trading sectors of the economy, thus enhancing their international competitiveness. The reforms proposed would also enhance the possibility of state-owned enterprises playing a dynamic, employment creating, role in the economy.

(ii) Further Policies for Employment Creation and Unemployment Reduction

This chapter sets out further elements of the strategy proposed by the Council – in particular, policies which more directly affect employment and unemployment. Four areas of policy are considered: the role of incomes policy in a consistent policy framework, industrial policy, agricultural policy and manpower policy.

2. INCOMES POLICY IN A CONSISTENT POLICY FRAMEWORK

(i) Introduction

To succeed, a modern economy must have a consistent and effective overall approach to economic policy. It is possible to identify a number of elements in this overall approach. First, the economy must have an appropriate macroeconomic policy approach. The appropriate approach for Ireland in regard to the fiscal, monetary and exchange rate elements has been addressed in Part I of this report. The second strand of the overall approach must be an evolution of incomes which ensures continued improvements in competitiveness, and an income determination system which handles distributional conflicts in a way which does not disrupt the functioning of the economy. Third, especially in open economies, there must be a set of complementary policies which facilitate and, where necessary, promote structural adjustment in order to improve competitiveness.

The manner in which a consistent and effective overall approach is developed varies considerably across different countries. It is relevant to consider how a number of countries, with different political traditions, achieve this consistency.

Austria has for many years adopted a macroeconomic approach centred on a peg to the DM. This determines monetary policy, greatly constrains fiscal policy and

takes inflation out of the domestic political and industrial relations arena. In this context, conflicts over distribution would either have direct and immediate effects on competitiveness and trade or lead to bitter and disruptive conflicts within industry. For this reason, the Austrians have a highly centralised but consensus based system for determination of both incomes and prices. Finally, since the DM peg is a difficult regime for Austrian industry, being somewhat less productive than German industry, they deal with this pressure by an element of state intervention to both support and adjust the industrial structure.

By contrast, the Swedish have a macroeconomic policy centred on an independent currency and a restrictive fiscal policy in order to restrain inflation. Again in contrast with Austria, the state plays little role in income determination – but powerful and highly centralised unions operate a ‘solidaristic’ wage policy – involving equal pay for equal work in all firms and organisations. Such a wage policy, combined with restrictive fiscal policy and changes in the international environment, inevitably puts certain firms and sectors under severe pressure. The final element of the overall policy framework is the complementary policy to ensure adjustment: in the Swedish case this is to actually welcome the restructuring, but to deal with it by means of a labour market policy and an industrial policy which maintains full employment.

Other countries have quite different, but nevertheless consistent and successful, sets of policies. In the post-war period, the US had a macro-policy centred on the dollar as the dominant world currency. Incomes were determined in a decentralised way by a multitude of autonomous and comparatively weak unions or individuals. Distributional conflicts were purely local and did not intrude on prices or national efficiency. Being a much less open economy, the US has had less need for complementary policies consciously intended to promote adjustments, but management of demand, military procurement and, for many years, wage growth in line with productivity, helped to secure this.

Research on different systems of economic management shows that the key effects lie in employment and unemployment. Countries with systems of macro-policy, income evolution and adjustment policy, which are consistent, have high employment and low unemployment – regardless of whether the system is highly centralised – as in Austria and Sweden – or decentralised, as in the US. The important requirements are two: first, that the overall system be consistent and, second, that it be suitable for the economy and society to which it is applied.

(ii) A Consistent Policy Framework for Ireland

It can be argued that over the long-run Ireland has not had a fully consistent and effective combination of policies. However, in recent years, progress has been made towards achieving two of the three elements which are necessary, namely, a stable macroeconomic policy approach, and a system for income determination which is both consistent with the macro approach and delivers improvements in

competitiveness. The purpose of this section is to argue, first, that continued moderation in the growth of incomes is necessary in the context of the objective of increased employment growth and, second, that a negotiated consensus at national level is desirable given Ireland’s particular circumstances.

The Macroeconomic Policy Approach

For many years Irish macroeconomic policy was centred on the link with sterling. While a very large proportion of Ireland’s trade was with the UK, this provided a relatively effective monetary anchor. However, it did not prevent structural differences making themselves felt in balance of payments crises, and these were, on occasion, dealt with by contractionary domestic fiscal policy. In addition, the tendency for the UK to operate a stop-go macroeconomic policy, subjected Ireland to pronounced short-run cycles. The failure of the British combination of macro-policy and income determination to control inflation became acute at just the time when Ireland’s trade relations were shifting away from the UK. This produced threats to Ireland’s wider competitiveness and imparted an inflationary bias to Ireland’s income determination process. To this already dysfunctional system was added a domestic attempt to solve deep structural problems by means of expansionary fiscal policy based on foreign borrowing. A severe downturn in the external economy was sufficient to push the system into an unprecedented fiscal and unemployment crisis.

Severing the link with sterling and joining the EMS provided the basis for a more suitable macro-policy approach. However, it is now clear that membership of the EMS was a necessary but not sufficient condition for a successful macroeconomic approach. At first, domestic monetary and fiscal policy and the evolution of incomes were inconsistent with the exchange rate policy. Subsequently, the severe public finance position undermined some of the expected benefits of the exchange rate link – such as low interest rates – and also necessitated an unusually deflationary stance of fiscal policy. For these and other reasons, the adjustment to EMS membership has taken at least ten years to become established.

It is striking that the new exchange rate anchor became, more or less, established when the public finances were set towards correction, the evolution of incomes resulted in an overall improvement in competitiveness and both the public finances and income determination were the subject of a negotiated consensus. The role of public finance correction has been discussed in earlier chapters. Our purpose in this chapter is to discuss the evolution of incomes and the role of negotiated consensus in the widest sense.

3. FUTURE INCOME DEVELOPMENTS

(i) What Evolution of Incomes?

The Programme for National Recovery represented a major development in Irish wage bargaining, partly because it reintroduced national bargaining but mainly

because it set the parameters for wage growth over a period of three years. It was also significant in that it linked agreement on wages to agreement on the evolution of taxation and social security. It is clearly of considerable importance to ascertain, as far as possible, the effects which the Programme had – especially on employment and unemployment. What data are available suggest that the Programme did influence the rate of growth of wages and earnings. This effect may have been small in the first year of the programme – when rising unemployment and a very poor domestic economic climate would have implied low wage settlements, even without a national wage bargain. However, by 1989 the economy had been growing rapidly for some time and the associated revival of labour demand and fall in unemployment could have been expected to increase the rate of wage settlements. In this context, adherence to the wage growth elements of the PNR right to the end of the three years has, almost certainly, reduced the rate of wage increase below what it would have been in the absence of the PNR.

It is more difficult, as yet, to identify how big an impact the undoubted wage moderation has had on employment and unemployment. We saw, in Chapter 13, a distinct resumption of employment growth after 1987 and there can be little doubt that the gain in competitiveness was a major factor. However, the fall in unemployment was not commensurate with the increase in employment – reflecting the importance of migration in the Irish labour market, and other features of the macroeconomy.

The Council's objective of ensuring that the rate of employment growth contained in our projections is exceeded will require continued moderation in income developments right across the economy. Next we must ask what system of income determination can deliver this and, more generally, what system is best suited to our overall macroeconomic approach and to Ireland's situation generally?

(ii) What Income Determination Process?

The major argument for the continuation of a negotiated national consensus is that, once a macro-policy centred on the EMS is in place, consensus on the evolution of incomes prevents conflicts over incomes disrupting the economy, and thus facilitates employment growth. Adherence to the EMS removes inflation from the domestic political and industrial relations arena. With inflation determined externally, conflicts over incomes will either be highly contentious, and therefore disruptive, or affect competitiveness and profitability in a direct and immediate way. In either case the ability to create jobs and reduce unemployment would be impaired.

The risk of disruption of the economy – in the absence of a negotiated consensus on the evolution of incomes – is high, given that Irish wage bargaining is not conducted by individuals or thousands of local unions. Absence of consensus would not matter so much in a large and highly decentralised economy. But in the Irish context wage conflict, which has sufficient spread effects to feed on itself, is

entirely possible – and has, indeed, been experienced in the past. Some recent international research focussing on the degree of centralisation of wage setting is interesting in this regard:

The main conclusion is that extremes work best. Either highly centralised systems with national bargaining (such as in Austria and the Nordic countries), or highly decentralised systems with wage setting at the level of individual firms (such as in Japan, Switzerland and the US) seem to perform well. The worst outcomes with respect to employment may well be found in systems with an intermediate degree of centralisation (such as in Belgium and the Netherlands). This conclusion is reasonably well supported by the available empirical evidence (Calmfors and Driffill, 1988).

If there is conflict over incomes and international competitiveness is damaged, then the structure of the Irish economy is such that it will quickly result in reduced output and employment. The extremely high trade dependence of the Irish economy means that national output and income are highly sensitive to international competitiveness. Furthermore, in different ways both the foreign-owned and indigenous sectors of industry are sensitive to *cost* competitiveness specifically. Although many multinationals are in industries in which price is a minor dimension of competitiveness, *on the market side*, the extreme mobility of production means that costs are a significant determinant of location *on the production side*. In addition, a large part of indigenous manufacturing remains in industries or products in which price competition is severe and costs are an important determinant of competitiveness.

Our conclusion is that macroeconomic policy centred and the EMS and negotiated consensus is a desirable combination for achievement of the Council's objectives.

(iii) The Necessary Content of Negotiated Consensus

The PNR covered both exchange rate policy and the evolution of incomes. The commitment of the parties to the PNR to maintenance of the punt's value in the EMS was a strong guarantee against pressures to pursue an accommodating exchange rate policy. The PNR also involved a consensus on a range of other policy areas. We now ask why this was so and what range of subjects must be included in future negotiations?

Public Finances

The PNR reflects a consensus on the management of the public finances, including taxation. In part this reflects the fact that the PNR was negotiated in the context of severe fiscal crisis. But there are more general reasons why taxation was covered in the PNR and will have to be included in future national contracts – even when a debt crisis is not present. Even a bipartite agreement between employers and unions – on the evolution of wage and profit shares – would be unable to ensure industrial peace and competitiveness, if either workers or employers were seeking

to use wages or prices to compensate for increased taxation by the state. Indeed, the Council has previously argued that attempts to recoup tax increases underlay some of the wage inflation of the early eighties. It was precisely the study of this episode which led the Council to the view that:

satisfactory implementation of the decision to join the EMS required not only recognition and acceptance 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, 1989B).

The PNR broke this negative cycle in a number of ways – one of which was that, because of agreement on the evolution of taxation, firms were no longer squeezed in a distributional conflict between taxpayers and the government.

Social Welfare

Given its commitment to reduction of inequalities in Irish society, the Council is in no doubt that the development of social welfare should be a part of any negotiated national consensus – as it was in the PNR. The Council's insistence on this reflects its overall view of the role of consensus: a consensual approach to economic and social management is in the *general* interest of Irish society, not just the interest of the groups – employers, trade unions and farmers – who actively negotiate it. The most important sense in which this is true is that a national agreement is necessary to achieve employment growth which will provide jobs for those currently unemployed. But it is also true that agreement on the evolution of incomes and the public finances is the best guarantee against social welfare being the factor which yields in the inevitable conflict over distribution.

The Argument So Far

If a negotiated national approach is desirable in the Irish context, an important question is: what range of policies needs to be included in the consensus? The answer is that to be really effective in promoting employment and resolving conflicts, a social contract must include, at least, the evolution of pay, taxation, the public finances, exchange rate and monetary policy, the various publicly provided services and social welfare. Together with the correct macroeconomic approach, such a social contract can create the conditions in which it is possible to make a serious attack on the problem of unemployment. There are two additional benefits of an agreed approach which are worth mentioning.

Suspension of Distributional Conflict

The effect of an agreement – such as the PNR – which covers monetary policy, taxation and incomes, is to suspend distributional conflict. This encourages employment growth in a direct way by enhancing cost competitiveness, and there seems little doubt that this aspect of PNR played a major role in the resumption of employment growth after 1987. However, agreements which suspend distributional

conflict can enhance competitiveness in a more general, but less tangible, way. Such agreements free industrial relations energies to address other issues – such as corporate strategy, technical change, training and working practices which also influence international competitiveness.

The Context of Structural Reform

The Council believes that continuation of current macroeconomic policy must be combined with a vigorous programme of microeconomic reforms. In the Council's view, the significance of a negotiated national consensus is greatly enhanced by the urgent agenda of microeconomic reform spelt out in this report. Reforms, such as those outlined in Chapters 6 to 12, 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.

(iv) The Third Element of a Consistent Policy Framework

The Need for Development and Adjustment Policies

Countries which have achieved high employment and low unemployment have not only a suitable macroeconomic approach and a method for resolving distributional issues, but also a set of policies which complement these two by creating the structural conditions for development and facilitating economic change. As in the case of the first two, this third element of a successful policy framework varies from one country to another, but the important points are two: first, all successful countries have such policies and, second, they must be consistent with the macroeconomic and distributional approaches.

Ireland has, in recent years, broadly achieved the first two elements of a consistent policy approach. An urgent task now is to develop the third element. It is important to realise that policies for development and adjustment are not an optional extra, which might or might not be added to macroeconomic policy and incomes policy. There are two reasons why this is so.

First, development and structural adjustment simply do not take care of themselves. Countries which have neglected them have invariably fallen behind.

Second, although a suitable macroeconomic approach and a system for resolving distributional issues are *necessary* for development and adjustment, they are not *sufficient*. Adherence to a clear macroeconomic policy and adoption of a national agreement will certainly assist price competitiveness and encourage employment growth in the short and medium-term, but will not overcome barriers to long-run development and will eventually be undone by shifts in the international pattern of competitiveness.

The structure of the Irish economy may set limits to the employment growth which can be achieved by income moderation, on its own. In the foreign-owned sector a significant proportion of higher profits are repatriated. While indigenous manufacturing firms tend to be in segments where costs are an important determinant of competitive advantage, they face barriers to entry or other competitive disadvantages, so that there may be a limit to the amount of investment and employment creation they will undertake in response to income restraint.

The Nature of Policies for Development and Adjustment

We noted that, depending on their circumstances, successful countries adopt different kinds of policies to create the structural conditions for development and to promote economic adjustment. In many countries, and in Ireland in the past, active trade policies are used in this way. In others, state support or ownership of industry plays an important role. Larger and more powerful countries use military research and procurement to stimulate development. Some countries use fundamental scientific research. Successful smaller open economies tend to use industrial policy and manpower policy as the third element in a consistent policy framework.

It is clear that Ireland is not in a position to use trade policy, defence policy or fundamental science policy to promote development. It is, however, possible and necessary to use industrial policy, agricultural policy and manpower policy if employment growth is to be brought well above 9,000 per year and unemployment is to be significantly reduced. We outline these policies in the remainder of this chapter.

4. STRUCTURAL POLICY FOR INDUSTRY

(i) Introduction

In this and other reports it has been demonstrated that the maintenance of a stable macroeconomic environment and achievement of income settlements which ensure competitiveness are necessary, but not sufficient, conditions for industrial development and increased industrial employment in Ireland. This is so because the Irish economy has long contained structural characteristics which require active developmental policies. These structural characteristics include the small size of the domestic market, the distance from large and concentrated centres of population, and Ireland's technological backwardness relative to the more advanced economies of North America, Europe and Japan. To these underlying impediments must now be added the challenge of a much increased rate of technological change, greater internationalisation of economic activity and the completion of the internal European market.

In all its work on the Irish economy, the Council has consistently found that these features of the economy imply a strong case for an active industrial development strategy. Its current work confirms this and, indeed, identifies policies for development and structural change as the third essential element of a consistent policy framework – as outlined in Section 2 above.

In this short section we outline the main elements of the Council's approach to industrial policy.

(ii) The Basic Perspective: Developmental Constraints

The basic perspective which has informed all the Council's work on structural policy is that policy should be aimed at removing the constraints on the development of the Irish economy. This perspective has, in the past, led the Council to be critical of Irish policy approaches and instruments.

While the Council stands over these criticisms and its own recommendations for policy it is aware that the principle binding constraint on Irish development can change over time. This requires that policy making in this area be continually informed by thorough analysis of changes in the economy. In its recent study of Ireland's performance and prospects in the European Community, the Council drew attention to important changes in industrial organisation and the regional patterns of production (NESC, 1989B). From these trends and from a study of the pattern of developmental and regional policy internationally, it derived two conclusions about the direction of Irish industrial policy. The first is that continued emphasis be placed on *indigenous* enterprises and resources, rather than reliance on the attraction of mobile investment projects from abroad. The second is that developmental policy should aim to increase the innovation potential of the economy.

(iii) The Content of Industrial Policy

Policy for Indigenous Development

A number of considerations have each independently led researchers and policy makers to be sceptical of the value of using regional policy funds to attract mobile manufacturing projects to designated regions. Prolonged recession has meant that the effectiveness of conventional regional policy in influencing the location of manufacturing industry was greatly reduced, since there were few mobile investments available. Analysis of changes in the world economy indicate that there has been a secular slowdown in demand for standardised manufactured products and that the success of regional policy in the 1960s was probably contingent on a set of conditions which no longer hold. Research on the economic impact of grant-aided branch-plant investments on the regions in which they are located demonstrated that they had not greatly stimulated industrialisation (NESC, 1981 and 1982A). Work in development economics and economic history revealed that industrialisation depended in large part on the indigenous social and economic structure. Together, these developments have stimulated interest in what has been called an 'indigenous' growth approach to regional and industrial policy.

This move towards the indigenous growth approach to regional policy has been reflected in Community regional policy and, to an extent, in Irish industrial policy also. The Council reiterates its opinion on the significance of indigenous resources in overcoming Ireland's relative underdevelopment.

The second new direction in developmental policy internationally, innovation-oriented policy, was also prompted by diverse developments in the real economy and in economic thinking. An era of price competition in the mass production of standardised products has given way, first to recession, and then to competition based on technological change and innovation. This has simultaneously weakened the impact of traditional industrial policy and brought to light a new bottleneck inhibiting the development of poorer regions. In addition, empirical and theoretical research on economic development shifted the emphasis from the investment constraint to the knowledge and skills constraint.

Research has shown that there are considerable regional differences in the rate of innovation, with poorer and peripheral regions showing less ability to innovate. On further investigations, it emerged that regional differences in process innovations – which tend to threaten employment – were much smaller than regional differences in product innovations – which tend to create employment opportunities. Indeed, in its previous work the Council identified as one of the three ‘basic features’ of the Irish economy – which create the need for an active industrial policy – the “absence of a well-developed infrastructure of research institutes, universities and firms engaging in the development and application of new technologies” (NESC, 1986B). The causes of these regional differences in innovation potential have not been fully explained – though considerable progress has been made as a result of an upsurge of research on innovation and technical change generally.

These factors make it urgently necessary that Irish policy address the innovation requirements of industrial development in a small peripheral region of the EC.

Scale

In its analysis of Ireland’s experience and prospects on the EC the Council found that its concern with the scale and strength of Irish enterprises was confirmed (NESC, 1989B).

(iv) Instruments and Control

In its previous work, the Council set out clear opinions on the instruments, monitoring and control of industrial policy. The overriding requirement in deploying industrial policy instruments is that they be selective. Research has identified limitations to the effectiveness of capital grants and the Council has previously suggested that other instruments, addressed at the specific competitive disadvantages which indigenous businesses face in competing internationally, should be used.

Monitoring and Control

Industrial policy should be articulated by government in such a way as to obviate undue discretion in the interpretation of that policy by State agencies whose statutory function is confined to policy execution. The Council recommended the

institution of a set of monitoring and control mechanisms comprising the following elements:

- an industrial policy budget;
- regular published reviews of industrial policy achievements in relation to objectives and;
- the application of performance criteria to State agencies.

It felt that this would form a solid foundation for the articulation and control of industrial policy. The Council looks forward to the forthcoming three year review of industrial policy in order to assess the extent to which the intentions declared in policy statements have been translated into action.

5. STRUCTURAL POLICY FOR AGRICULTURE

(i) Introduction

The agricultural sector faces a series of challenges and adjustments which will require that new policies be formulated at both national and Community level. In this section we identify the main problems and policy issues and outline the broad approaches which the Council considers to be necessary.

The three fundamental and related issues in agricultural policy that must now be addressed are: the reform of the CAP; the persistence of low and volatile farm incomes for a sizeable segment of Irish farmers; the further development of the food industry.

(ii) Reform of the CAP

There are two reasons why further reform of the CAP is inevitable and this is a major factor conditioning the development of the Irish agricultural sector. First, from within the Community, pressure for reform of the CAP will continue, driven by budgetary limitations and the cost of large-scale subsidised storage and disposal of excess production. Second, in recent years, pressure has built up outside the Community because of the trade implications of EC agricultural expansion. As a result, agricultural supports are now a major topic in the Uruguay round of GATT negotiations.

The Community has adopted a ‘prudent’ price policy for the past thirteen years in a determined effort to achieve greater market balance. The data in Table 14.1 show that the EC has reduced support prices in nominal terms in each year since 1985 and that Irish farm prices in real terms have declined by 32 per cent since 1980.

The EC Commission’s proposals on agriculture to GATT (October 1990) involves a commitment to reduce EC support (as measured by the Aggregate Measure of Support method – AMS) by 30 per cent from 1986-1996. In addition, specific commitments are offered by the EC on border protection, export competition and export refunds.

Table 14.1
EC and Irish Farmgate Prices 1980-1990

	Changes in Prices Fixed by EC	Deflated Index of Farmgate Prices (Base 1980=100)	
	EC	Ireland	
1980	+4.9	100	100
1981	+9.3	100	100
1982	+10.3	99	99
1983	+4.3	95	87
1984	+0.4	93	82
1985	+0.1	89	76
1986	-0.3	86	73
1987	-0.5	82	73
1988	-0.1	80	79
1989	-0.2	82	80
1990	-1.1		68*

*Forecast

Sources: Eurostat and EC Commission.

Having regard to the demands of the US, and the other GATT partners, for greater liberalisation of international trade in agricultural products, and having regard to the decision already reached at GATT (at the Mid-Term Review in Geneva in 1989) to achieve 'substantial progressive reductions in agricultural support and protection', the EC Commission's proposals to GATT are probably the minimum reduction in support that will be required by the final agreement under GATT. The US negotiating stance now is for a reduction of 75 per cent in total agricultural supports and a 90 per cent reduction in export subsidies. From an Irish perspective the following points are vitally important:

- Ireland is significantly more dependent on agricultural exports to third country markets than any other EC Member State, thus the scale and rate of dismantling of export refunds is of the utmost importance to Ireland;
- The Commission's proposals, generally, only quantify the aggregate reduction in supports. No firm policy changes or initiatives have yet been proposed by the Commission to achieve the proposed 30 per cent reduction in AMS;
- The economic impact of further reform of CAP will broadly be in direct proportion to the relative importance of agriculture to the economies of the various Regions or Member States.

The NESG shares the Community's rejection of the 'free trade' solution advocated by the United States. It favours instead a solution which derives from the

Community's traditional approach to market adjustment – that is, an approach which recognises the social dimension of markets and the social costs and benefits which are generated by adjustment to the exigencies of market forces.

However, the Council also stresses that there are great advantages to achieving an agreed global approach to the reform of agricultural support systems in the context of the general trade negotiations now underway. The Community's approach in global negotiations must strike a balance between the European approach to market adjustment and the European judgement on the desirable pattern of rural economy and society, on the one hand, and the advantages of achieving an agreed global reduction in distortive agricultural supports and protection on the other.

The Council recommends that Ireland should immediately seek a full comprehensive analysis of the effects of further CAP reform, arising in particular from GATT commitments, on the various regions and member states. The results of this analysis should form the objective basis for consequential adjustments to EC policies, including the CAP. Any adjustments must be evaluated in the context of the Community's commitment to economic and social cohesion.

The present reshaping of the CAP presents opportunities as well as threats. Ireland must seize the opportunities and ensure that the future CAP policies and schemes are more appropriate and fine-tuned to the problems and characteristics of Irish farming. For example, further adjustments to the beef and milk price support regimes should, as far as possible, be such that would provide for soundly based farm production on a more even pattern throughout the year.

The medium to long-run adjustments in European agriculture present a profound challenge to the Community and to the member countries. The Community's rejection of the United States' proposed free trade solution is only tenable on the basis of a new balance between prices and market policies and socio-structural policies. The greater is the pressure on systems of agricultural price support worldwide, the more the Community will have to view these two strands of policy as parts of an integrated whole. But this has important implications for Ireland's approach to agricultural policy. The existing large market support or 'Guarantee' policies of the EC are inevitably set uniformly at Community level (though preferential elements can be introduced); but the currently much smaller Guidance or structural policies are more dependent on national input, both financially and from a policy formulation perspective.

Given the virtual inevitability of long-run adjustment, and hence of a different balance between strands of agricultural policy, Ireland has the greatest possible interest in being a leader in the analysis and solution of these problems. This interest derives from the necessity of devising new Community approaches to securing the prosperity of Europe's rural regions. Such leadership can only be achieved on the basis of a proven ability to foster rural economic development in the broadest sense.

(iii) The Persistence of Low Farm Incomes

To some extent a radical reform of CAP may reduce the income problems of certain farmers. However, because of structural problems and demographic factors, an underlying and growing poverty problem is now a definite characteristic of the farming sector. The proportion of households below the 50 per cent 'poverty' line (as defined by ESRI) which are headed by a farmer, increased from 13.2 per cent in 1973, to 23.7 per cent in 1987 (Callan *et al.*, 1989). In 1987, farmer-headed households accounted for around 1 in 4 of all households below the poverty line – the largest group apart from households headed by an unemployed person.

Two qualifications must be noted concerning these data on farm incomes. First, in the ESRI survey the farm incomes data refers to 1986. In 1987 farm incomes rose; consequently, the survey overestimates the risk of poverty among farmers. However, farm incomes have declined significantly since 1987 and the extent of poverty and low incomes in farming must now be viewed in that light. Second, as is pointed out in Chapter 7, the use of *income* as a measure of resources is limited: for example, ownership of assets, as well as generating income, can directly affect consumption and living standards, and households may also benefit from non-cash services (as well as social welfare transfers) which also affect their living standards.

Solution to the problem of low farm incomes, and of other problems in the agriculture and food industries generally, requires that greater progress be made in solving the structural weaknesses. This in turn requires new approaches at both Community and national level.

At Community level, the main requirement is further increases in the role of socio-structural measures. In particular, there is a strong case for a vigorous Community role in the policies of direct income aid and structural measures which are necessary for maintenance of a viable rural economy in many areas of the Community including parts of Ireland.

However, the Community's rural development policy is largely dependent on approaches devised and suggested at national and regional level. Four general types of agricultural policy can be identified: price policy, productivity policy, structural policy and programmes outside agriculture (Matthews, 1987). In formulating a new combination of productivity policy, structural policy and programmes outside agriculture, the guiding principles must be cost efficiency and the effective use of land.

There have been many measures of productivity policy in the past. The major requirements for the future policies to improve productivity are that such policies become much more cost effective, that they gear agriculture to the requirements of a more competitive marketplace, and that the recent movement towards concentration on human resources be continued. The unfavourable age structure of

farmers in Ireland, and its association with low productivity and low incomes, must also be taken into account in devising structural policies. There is likely to be a case for a community input into retirement or pre-retirement schemes. The land thus released should be used to reform the structure of holdings.

In the case of structural policy, a more thorough re-evaluation is required. The formulation of an effective structural policy therefore requires that the objectives of the policy be clarified. They can only be clarified at national level. The Community's rejection of the objective of 'economic production units' in favour of maintaining a viable rural population does *not* resolve the conflict in structural objectives for Ireland. In the NESCC's view, future Irish structural policy should give priority to achieving effective land use rather than to maintaining the maximum number of holdings at inadequate income levels. But it recommends this structural priority only within the context of complementary productivity policies and non-agricultural programmes.

Two broad types of non-agricultural programmes are available: the creation of off-farm employment and direct income aids. The increase in part-time farming in recent years constitutes a major structural change. The continuation of this trend depends on the success of general rural development programmes. But off-farm employment cannot solve the income problems of some farmers, and cannot completely solve the income problems of others. It is in this situation that there is a strong case for direct income aids and structural reform measures.

(iv) Development of the Food Industry

There is both an industrial and an agricultural dimension to the development of Ireland's food processing industry. The industrial constraints are those which face all indigenous firms and which require industrial policies of the type advocated by the Council in this and previous reports. The agricultural constraints on the development of the food processing industry derive from a number of sources, among which are the seasonality of supply of primary agricultural products, and from the incentives created by the prevailing prices and markets policy.

There has, in recent years, been increased concentration in the food processing industry. This is vital if Irish food processing firms are to be capable of competing internationally. In a recent report on the completion of the European internal market, the Council concluded that in the food processing sector the small scale of Irish businesses relative to their European competitors was a cause for concern. While there has been some restructuring in the industry, the process may not be complete yet and may require Irish firms to either merge or form alliances with other firms, both domestic and foreign.

Restructuring and rationalisation may also be required in the spread of responsibility between the Government departments and the various agencies involved in the formulation and implementation of public policy for the food

processing sector, including marketing. This issue needs to be addressed in the context of the Council's overall views on the formulation and implementation of industrial policy.

We are concerned in this section with the agricultural constraints which inhibit the development of the Irish food industry. Research has shown that the incentives created by the prices and markets policy of the CAP have not favoured adding value to agricultural produce in Ireland. Some of the anomalies in the system of agricultural support have eventually been sorted out (for example MCAs). Others may take many years to be dealt with.

The Council has previously argued that overcoming the supply constraints, in particular the seasonality of supply requires a strengthening of the structure of Ireland's farm businesses. Given the nature of the market for land this can only occur under the guiding hand of a clear and much more vigorous national structural policy. Once again we stress that this must be complemented by productivity policies – especially those which focus on the development of human resources – and non-agricultural programmes aimed at employment creation and income support.

(v) Concluding Remarks

The Council has again highlighted the strategic issues that must be addressed. It is not feasible, or appropriate, for the Council to set out the details of the programmes required. The Council would like to draw attention to its previous recommendation that a national agricultural programme, including rural development and the requirements for an internationally competitive food sector, be devised and implemented. The Council notes that a Policy Review Group was established to this end, and urges that its findings and recommendations be published as soon as possible. Given the significant changes now underway, the Council intends to return to this issue in its future work.

6. MANPOWER POLICY

(i) Introduction

In this section we consider the role of manpower policy in creating employment and reducing unemployment. Our main focus is on training and education and special employment measures. In considering the role of these policies in creating employment and tackling unemployment it is most important to distinguish between long-run structural improvements and measures which create employment immediately or bring about an early reduction in unemployment.

In Section (ii) we identify an important long-run role for training and education in creating employment. This derives from the fact that education, skills and technology can now be important sources of competitive advantage. In Section (iii) we focus on the role of training in solving the problem of unemployment. Training

can have a number of quite different roles and we argue that it is most important to distinguish these and assess each carefully. One of our conclusions is that to reduce Ireland's unemployment, training needs to be combined with measures to increase the demand for labour in both the short and the long-run. This leads us to the final section, Section (iv), in which we consider the role of special employment measures in the battle against unemployment. We conclude that there are strong arguments for a large extension of temporary special employment measures which would create employment for a large proportion of the long-term unemployed.

Discussion of the unemployment problem in Ireland, and in particular of its human resource dimensions, is constrained by the absence of information and research. As demonstrated in Chapter 13 limited information is available on the age, sex, region and other descriptive characteristics of the unemployed. In addition, some macroeconomic analyses and evaluations of specific manpower schemes have been undertaken. However, there is a marked dearth of detailed research on the unemployed, on the experience of unemployment and on the impact of education, training, social welfare and other policies. A central element in a programme to combat unemployment must be a comprehensive analysis of the problem.

(ii) Education, Training and Economic Performance

The collapse of the post-war "golden age" of economic growth has brought about a number of profound changes in the most advanced economies. These changes include a move away from mass production industry, the rise of newly developed economies, an increased pace of technological change, the increasing integration of world markets and changes in the structure of firms and industries. One effect of these changes has been to throw into sharper focus the role of education and training. Indeed education and training, and their reform, have become one of the major issues in many developed countries.

This concern reflects a belief that education and training play a crucial role in international competitiveness. This role is widely considered to operate at both the macroeconomic and microeconomic levels. At the macroeconomic level, training and education are seen to facilitate the movement of the workforce between industries, as economic structures change rapidly. At the microeconomic level a well-qualified workforce is often said to be essential to the modern firm which, in contrast to traditional firms, produces high quality, specialised goods and services and relies on continual innovation in both products and processes. In short, education and training are widely viewed as an important determinant of economic performance.

While assertions about the role of education or training are widespread, it is much more difficult to find clear argument or hard evidence about the precise mechanisms through which education and training influence economic performance. Nevertheless, the presumption that links do exist between education, training and economic performance is reasonable (Keep and Mayhew, 1988). The

challenge for public policies, therefore, is to upgrade the skill level of the labour force through both the education and training systems.

Given this, our first conclusion is that education and training policy must, indeed, be part of Ireland's development policies. However, it must be recognised that improvements in the level or suitability of the education of the labour force can only influence employment and unemployment in the medium to long-run. Training in high technology or other 'modern' skills should not be seen, or proposed, as a solution to Ireland's immediate unemployment crisis (the conditions in which training can bring about a direct or immediate reduction in unemployment are discussed below).

(iii) Training and the Reduction of Unemployment

Introduction

In this section we consider the role of training as a policy to reduce and avoid unemployment. We note at the outset that in Ireland, as in other European Community countries, training has become one of the main anti-unemployment policies. Our purpose is to evaluate this as an approach to reducing unemployment, in particular, to identify the conditions in which training can reduce unemployment and the accompanying policies which are necessary.

The Switch to Training the Unemployed

Just as manpower policy has become more significant in the sphere of employment/unemployment policies so training has become more prominent within manpower policies. Throughout the 1960s and 1970s all European Community countries had significant training policies, but these were not seen as instruments to reduce existing unemployment. They were seen as instruments to improve overall productivity and to prevent structural or technical change causing unemployment. Other policies – such as demand management, incomes policy, employment subsidies, and public works – were used to address unemployment, which was seen as temporary. With the limited achievement of these policies in the late 1970s and the 1980s, most Community countries, including Ireland, relied more and more on training for the unemployed, including the increasing number of first time job seekers (Breen, 1990).

It is most important that this change in policy emphasis be evaluated. While the Council cannot undertake a detailed evaluation in this report, we can identify some of the main questions which should be asked, and offer answers to some of them. The evaluation should begin by asking why Community countries have moved towards training for the unemployed as their main policy to reduce unemployment. Did this happen by default or was there an analytical foundation for it? The most plausible analytical foundation would be a widespread belief that much of the unemployment in the Community was caused by a mismatch between the unemployed and the posts which are, or will be, available. Another reason frequently put forward was the wish to use unemployment compensation in a more

positive way. The second question which must be asked is: what *effects* has this change of policy had? This question has two dimensions. First, what effect has training the unemployed had in reducing unemployment? Second, what effect has the move to training for the unemployed had on the training and manpower agencies and systems, which previously had a quite different role.

Unemployment and Skills Mismatch

In a recent report on policies for combating long-term unemployment in the European Community, Rajan and Walsh argue that special labour market measures, among which training has played an increasing role, have only achieved a modest reduction in unemployment. This is "partly because of the newness of the recent measures and partly because of the limited coverage of all the measures currently in operation" (Rajan and Walsh, 1989). In addition, account has to be taken of an increasing labour force due to increasing female participation. Indeed, in its latest *Employment Outlook* the OECD corroborates this when it says that "compared with total unemployment, the training effort appears modest in most countries" (OECD, 1990B). Rajan and Walsh's principle policy conclusion is that the scale of education, training and counselling measures should be considerably augmented. However, having noted the limited scale of the training effort, compared to the total unemployment problem, the OECD point out the central issue which must be considered:

this observation has to be seen in relation to available job openings. Training for the unemployed should generally aim at well-identified vacancies which they can take up when they are retrained for them. It is possible, in some countries, that low numbers of suitable job vacancies have for some time represented an effective constraint on training efforts (OECD, 1990B).

The rationale for training on its own as a policy response to unemployment must be that the unemployment is structural, and is *structural* unemployment of a particular type, namely, due to a mismatch between the skills of the unemployed and jobs which are or will be *available*. Where this is the case then training is indeed the appropriate policy response. Where unemployment has causes other than a skills mismatch, then training the unemployed will not reduce total unemployment. (But see below for discussion of a general mismatch). The reason is that nothing will have occurred to create or increase the demand for newly trained workers' labour.

While it can certainly be argued that much of Ireland's unemployment is structural (though this would need to be carefully defined) it is quite implausible that the extremely high level of current unemployment is due to a skills mismatch. In short, it is extremely implausible, that there would be jobs *available* for over 200,000 unemployed people, *if only they* had the correct skills. Since most unemployment is not due to skills mismatch, training, if it is to function as an anti-unemployment policy, will need to be accompanied by some policy measures which increase the demand for the labour of those undergoing training (Layard, 1986).

Mismatch Between the Unskilled and Employment

These comments on the limited ability of training, *per se*, to reduce unemployment do not imply a rejection of training. The reason is that even where a *specific* skills mismatch cannot be identified, it is possible that a *general* mismatch can exist between a whole category of citizens and the requirements of many jobs. For example, a percentage of unemployed young people have low educational attainment and limited skills. Likewise, the long-term unemployed have, in many cases, lost even the most basic work-related skills. These can be viewed as types of structural or mismatch unemployment – though different from what we normally think of as a skills mismatch.

In regard to young unemployed school-leavers, a first priority is simply to discourage young people from dropping out of school and to encourage them to return to regular education and training. Likewise, training of the long-term unemployed may be intended, not at filling an identified skills shortage, but to get them into the first rungs of the occupational ladder.

The issue of demand for labour remains relevant. If there is an existing or potential shortage of unskilled labour, then training will, on its own, reduce unemployment. If there is not, then training targeted on the young unemployed or the long-term unemployed will, in effect, be a policy for *redistribution* of job chances rather than a policy for reducing aggregate unemployment (though see our comments on ‘hysteresis’ below). Of course, training will reduce unemployment if it is combined with other policies which increase the demand for unskilled labour.

Training in an Active Labour Market Policy

These somewhat negative conclusions are not the full story and should not be read as a rejection, by the NESC, of the role of training in combating unemployment. The critical approach adopted here, and indeed to be found in the latest OECD *Employment Outlook*, (OECD, 1990B) is intended to identify the correct approach to training and the accompanying policies which are necessary. Indeed, far from rejecting training, we stress that the list of countries which have long used training of jobless adults as a major strand of labour market policy – Austria, Canada, Finland, France, Germany, Norway and Sweden – contains several of those with the lowest levels of unemployment in the OECD. The question is how this has been achieved, and are Ireland and other Community countries learning the correct lessons from it.

In fact, recent evidence suggests that, having initially increased training of the unemployed as a response to the failure of other policies, many Community countries are now developing some of the accompanying policies which are necessary. One of the most important developments in member states would seem to be increased emphasis on the assessment and counselling which precedes the entry of an individual into a training programme. Indeed, in several countries an attempt is made to link individual counselling and assessment to the very first

application for unemployment benefit. This reflects the belief that “the main cause of long-term unemployment is the fact of becoming unemployed in the first place” – an idea often summarised in the term ‘hysteresis’ (Rajan and Walsh, 1989).

This new emphasis on intervention at the moment of job-loss would seem to be something learnt from the Swedish approach to manpower policy which has traditionally been far more ‘active’ than in most Community countries and in which training is a core element. Study of the international experience of the past twenty years shows that the best ways to achieve low unemployment is to prevent unemployment ever becoming very high in the first place (a further example of some hysteresis effect). While the new emphasis on early intervention (in the form of counselling) by the manpower authority is definitely welcome, it is also most important that member states are prepared to take sufficient policy action to ensure that retrained people are actually re-absorbed into the working population. Of course, this will happen automatically after retraining if the *only* cause of unemployment is skills mismatch. This is unlikely to be the case; and it is noticeable that Swedish labour market policy consisted of far more than just training and retraining. Indeed, the Swedish approach combines very early retraining with policies on the demand side, *and* a much less liberal system of unemployment benefit.

There is a strong case for movement towards a Swedish style labour market policy – with training as one of its central elements. It is clear from the Swedish experience that this policy can fight unemployment. However, it is most important to recognise that – precisely because it works by *preventing* unemployment – this approach cannot be a policy for eliminating Ireland’s very high and deeply entrenched long-term unemployment. This urgent task – which the Council sees as central in the coming years – requires other policies.

Education – Some General Issues

Central to any understanding of the training dimension to unemployment is the character of the mainstream formal education system. Any definitive comments on this relationship between education, training and the labour market would require basic research. However, a number of general preliminary observations are valid.

First, the Irish education system in quantitative terms is not generally underdeveloped. The proportion of GDP allocated to education is not out of line with economies at comparable or higher levels of development. Participation rates at post compulsory schooling also compare favourably in international comparisons. We can draw a preliminary conclusion, therefore, that the *size* of the educational system is not, in itself, an important determinant of the level of unemployment.

Second, if the *scale* of the formal education system is not an underlying source of labour market problems, then it impels us to consider the nature and content of

education. In particular, the long standing issue of the balance between 'vocational' and 'academic' education at second level is probably crucial. Some progress towards the attainment of a more integrated second level system has been made. However, as the Council observes in Chapter 10 on education policy, the vocational sector is still underdeveloped relative to 'traditional' academic secondary education.

A commonplace observation about second level education and its role in the wider education system and the labour market is that it is, in considerable measure, driven by the academic competition among pupils to procure limited places in the third level system. It is not clear that this pattern of education necessarily results in the appropriate level and mix of skills, given the requirements of the Irish economy. A further concern here is the absence of specific incentives in the third level system to direct students towards training and studies which maximise their employment possibilities¹

Third, a recurring problem in the educational systems of many modern economies is that of early school leavers, overwhelmingly from lower socio-economic groups, who exit from the formal educational system with minimal education and training. The employment record and labour market experience of this group is generally poor. It follows, therefore, that within the resources available to the second level education system, disproportionate attention be paid to these categories of students and schools likely to record high rates of early school leaving. A further policy implication is that within the education system as a whole, avenues of 'return' education or 'second chance' education should be widely available (this has begun to take place to some extent in Ireland in recent years).

Fourth, in Ireland the education and the training systems are somewhat separate. In other countries, however, the senior cycle second level education system is more closely intertwined with training and occupational development. Training (in the form of apprenticeships, training schemes, on-the-job training) in Ireland takes place for many students *after* they have left the mainstream education system. Future education and training policy may have much to learn from how other countries co-ordinate their education and training and utilise their education and training systems to combat unemployment.

Conclusions on Training and Education as an Anti-Unemployment Policy

To conclude our discussion of education and training as anti-unemployment policies we recap the following points. It is important to emphasise that we are looking at these policies as anti-unemployment measures. We do not address the more fundamental questions of education and training for long-run development.

1. EC Social Fund grants to students at third level are confined to particular areas of study.

First, where there is a specific and identifiable skills mismatch between the unemployed and available jobs then training is *the* solution to unemployment. In all other cases some accompanying policies are needed (see point 3 for conclusions on a general mismatch).

Second, in general, training will need to be accompanied by some policy measures which increase the demand for the labour of those undergoing training (see Layard, 1986).

Third, even where a specific skills mismatch cannot be identified, it is possible that a general mismatch can exist between a whole category of citizens and the requirements of many jobs. For example, the long-term unemployed have, in many cases, lost even the most basic work-related skills. The aim of education and training in this case is not to fill an identified skills shortage but to get these groups into the first rungs of the occupational ladder. If there is an existing shortage of unskilled labour, this policy will reduce unemployment. If there is not, then training, which is targeted on young people or the long-term unemployed will be a policy for *redistribution* of job chances, rather than for reducing aggregate unemployment. Training will reduce unemployment if other policies simultaneously increase the demand for unskilled labour.

Fourth, the ability of training to fight unemployment can be enhanced if training is part of an active labour market policy which includes intervention at the moment of job loss. Well chosen training at that point, when combined with policies which maintain labour demand, can avoid some of the most damaging and self-perpetuating aspects of unemployment. Swedish labour market policy, for example, consists of more than just training and retraining. It combines very early retraining with policies on the demand side and a much less liberal system of unemployment benefit. This enhances the ability of training to *fight* unemployment because it is essentially an approach which will deal with job losses which arise in the *future*, rather than a policy for reducing current unemployment.

Fifth, the formal education system has a role in tackling unemployment and other labour market disadvantages. It is crucial, in particular, that the content and orientation of senior cycle second level and third level is geared to the employment needs of the economy. An increase in participation at these levels of education could have some impact on unemployment if the increased participation is selective and directed at fulfilling specific skill requirements. Further, if the problem of early school leaving and associated social problems can be effectively addressed, it will contribute both to an overall improvement in the education and skill levels in the labour market and to enhanced equality of attainment in education.

(iv) Special Employment Measures

Introduction

In this section we consider special measures designed to create employment and reduce unemployment. We stress again the distinction between Ireland's long-run employment problems – which requires developmental policies – and the immediate crisis of massive long-term unemployment. We consider labour subsidies, direct job creation schemes and enterprise schemes. Each of these schemes have drawbacks which limit their ability to create permanent employment. However, these drawbacks can be minimised if such special employment measures are strongly targeted on the long-term unemployed and on local communities in which unemployment is extremely high. Indeed, a massive extension of special employment measures, strongly targeted on the unemployed, is a proposal which is in keeping with – indeed, derives from – the best available theories of unemployment.² In the context of these arguments, the Council proposes that the macroeconomic policy, incomes policy, structural policies in industry and agriculture and training policy need, as soon as possible, to be complemented by a radical approach to the problem of long-term unemployment using targeted special employment measures.

Employment Subsidies

By employment subsidies are meant payments to a firm linked to the employment of individual workers. We make this rather obvious statement in order to distinguish between employment subsidies and the wide range of financial (and fiscal) supports provided by the state to firms. Financial and fiscal aids to industry usually have the objective of saving or creating jobs but should not be classified as employment subsidies. We are concerned in this section with labour subsidies in the narrow sense.

General employment subsidies are best seen as a cyclical measure to ameliorate the impact of output fluctuations on employment (Layard and Nickell, 1980). In the 1970s, many governments responded to the recession by introducing labour subsidies on a fairly wide scale. As the recent OECD report on manpower policy says “when the expected recovery did not materialise, these types of measures soon became discredited” (OECD, 1990B). It was felt that subsidising existing jobs to forestall unemployment was preventing structural change. In addition, general employment subsidies were viewed as equivalent, in some respects, to export subsidies, and were seen as contrary to the Treaty of Rome.

Subsequently, most employment subsidy schemes acquired two new features: they subsidised *additional* employment and they subsidised *targeted* groups of workers. In their report on *Policy Measures for Combating Long-Term Unemployment in*

2. A technical annex describing and evaluating the various theories of unemployment has been prepared by the NES Secretariat and is available on request.

the European Community since the 1984 Council Resolution, Rajan and Walsh point out that job creation schemes, such as labour subsidies, play a significant but declining role in national labour market policies (Rajan and Walsh, 1989). Indeed, in Ireland, as in other countries, the total outlay on employment subsidies is a tiny fraction of the total state support to firms via tax expenditures, grants and other measures.

In evaluating special employment measures, it is important to take account of the reaction of firms to the incentives offered. These can combine to undermine the benefits of the scheme. Four effects should be considered. First, the *deadweight* effect refers to the fact that some of those hired under the subsidy scheme would have been hired in any case. Second, *displacement* effects arise when subsidised employment or activity simply replaces employment in existing firms. Third, where additional subsidies are paid to compensate for the effects of payments to other firms, a *domino* effect is said to arise. Fourth, where the scheme induces employers to swap subsidised workers or hours for non-subsidised hours, a *substitution* effect is said to arise.

Evaluation studies have shown that most recruitment subsidies carry heavy deadweight costs, i.e. many subsidised jobs would have been created anyway (OECD, 1990B; Layard, 1979; O'Donnell and Walsh, 1978; Breen and Halpin, 1989). Consequently, an OECD evaluation panel, studying measures for the long-term unemployed, concluded that the main effect of recruitment subsidies is the *advantage* they give to the *targeted* persons over other job seekers (OECD, 1990B). So long as this *redistribution* function is understood and correctly evaluated, the failure to create additional permanent jobs need not constitute a compelling case against job subsidy programmes. However, if the primary effect of job subsidy schemes is to redistribute job chances within the workforce, it does imply that they should be *targeted* on particularly disadvantaged groups, such as the long-term unemployed. Job subsidy schemes generally have quite small net exchequer costs – due to the reduction in welfare payments and receipt of taxes which result. The issue, then, is whether they can help address the unemployment problem.

Drawing on both macroeconomic and microeconomic arguments, Layard and others – who have developed the most widely accepted explanation of British unemployment – developed a strong case, in the mid-1980s, for a massive extension of special employment measures, including labour subsidies targeted on the long-term unemployed (Layard, Metcalf and O'Brien, 1986; Layard, 1986). The case turns on a number of key propositions which have been verified in both British and Irish cases:

- (i) The long-term unemployed play no role in restraining wage pressure. High long-term unemployment does not create the downward pressure on wages which might help eliminate it;
- (ii) For a variety of reasons there is a strong element of *hysteresis* in

unemployment, i.e. if unemployment becomes high it will tend to stay high and if it becomes low it will tend to stay low (Bradley and Barry, 1990).

It is these two propositions which underly the case for an all out attack on long-term unemployment using targeted special employment measures.

The first fact implies that a growth in the demand for labour which is targeted on the unemployed will provide very little upward pressure on wage bargaining. By contrast, a general stimulus to demand will do little to reduce long-term unemployment, but still tighten the labour market. The second point implies that anything which reduces long-term unemployment will tend to remove some of the underlying causes of long-term unemployment:

The principle we want to emphasise at this stage is that any measure which increases the overall escape rate from long-term unemployment will reduce, over a period of years, the numbers of long-term unemployed, while leaving the level of short-term unemployment unchanged (Jackman, *et al.*, 1987).

This argument, and the analysis which underlies it, does not imply a rejection of the idea that labour subsidies have deadweight effects. What it suggests is that against these deadweight effects must be counted the hysteresis effects – which could not be picked up in the existing evaluation studies because of the small scale of most of the schemes in existence. The idea of deadweight is that the subsidy scheme reduces unemployment by less than the number of workers registered – since some of them would have been hired anyway. “But to look no further than this is to assume that a person who spent a year on a programme has no better job prospects than if he or she were still unemployed” (Jackman *et al.*, 1987). Because of the hysteresis effects in unemployment, this is not the case. It follows from this that the total effect of a special employment measure is greater than its impact effect. Another way to put this is that, in the medium-term, the substitution and displacement effects disappear. This can occur because where the long-term unemployed do displace other workers, the displaced workers do contribute to the effective labour supply and do produce the normal market adjustments of lower wage pressure which increases employment (Adnett, 1989).

Direct Job Schemes

In the 1930s many governments undertook large investment projects to employ the jobless. Although no large scale response of this sort occurred in the recent major crisis, it was still the case that up to the mid-1980s a relatively large part of labour market budgets was spent on special public employment programmes for the unemployed. But these differed from earlier programmes in concentrating on service jobs and maintenance of local infrastructure. Since the mid-1980s there has been some move away from public works programmes. Most European countries still have schemes but these are very limited in scope and are almost always

temporary. The OECD finds that the largest programme for direct job creation is in Belgium where unemployed people are offered regular work contracts with local government (OECD, 1990B).

Job creation programmes do not create *deadweight* effects (the jobs would definitely not exist without the programme), nor do they displace existing employment. As Breen says, the obvious problem with schemes of this sort, such as the Social Employment Scheme (SES), is that they are temporary: “to put it crudely, SES gives the long-term unemployed a job for a year, but at the end of the year they are back in the same position as they were” (Breen, 1990). Two comments may be made on this. First, it may ignore the hysteresis effects which all available research shows to be present – the effect of which is that after a year working, a person is not back in the same position. Second, Breen’s comment may reflect features of Ireland’s special employment schemes which could be improved upon. In particular, if the long-term unemployed receive subsidised employment for a year they are less likely to be “back in the same position as they were” if other elements of the economic and social environment are simultaneously changed by a comprehensive area based strategy of intervention – as described in Chapter 2.

A second difficulty with direct employment measures, again mentioned by Breen, is that of cost. While temporary direct employment schemes tend to pay low wages it is not feasible to offer these for permanent schemes. Breen cites figures which suggest that an expenditure of £1m annually could support 95 directly created jobs. He notes that “this compares unfavourable with the numbers that could be supported by the expenditure of the same amount on social welfare: 560 single persons on UA or 255 married persons with one adult and two child dependents or 218 equivalent families on UB” (Breen, 1990).

Two comments can be made on these observations concerning cost. First, to the extent that there are hysteresis effects – and especially if these can be maximised by implementing comprehensive area-based programmes – then *temporary* job creation (which is not expensive) will be beneficial. Second, the comparison of the cost of directly created permanent jobs with the cost of social welfare is hardly relevant – or interesting.³ What is relevant is a comparison of the cost of direct job creation with the cost of reducing unemployment by other means – IDA grants, tax reductions or public infrastructural investment. Later we cite British evidence that special employment measures compare very favourably indeed.

Enterprise and Self-Employment Schemes

Another very widespread type of targeted job scheme is the provision of financial support to unemployed persons in order that they can establish their own

3. If this calculation is to be done – and if only budgetary costs are to be counted – the cost of unemployment should include not only social welfare but also additional health, law and order and prison outlays.

enterprises. Most member states in the European Community provide financial support of this sort. The largest such schemes can be found in France, Greece, Ireland, Spain and the United Kingdom.

Schemes of this sort need to be carefully evaluated because of the possibility of deadweight and, more importantly, displacement effects. The OECD reports that evaluation studies in France and the United Kingdom have shown that between 50 and 60 per cent of participants remain in business for over three years. British evaluations also suggested that about one quarter of the surviving enterprises would not have been started without support. Hence, a sustained net effect may be of the order of 15 per cent of total participation (OECD, 1990B). However, in the case of enterprise schemes, the *deadweight* problem is not as significant as the *displacement* problem, i.e. that those who are encouraged by the scheme to set up their own enterprise are in competition with existing domestic firms. An evaluation study of Ireland's Enterprise scheme found that a large proportion of those in the scheme set up in businesses in services or building. The researchers estimated that around 90 per cent of the business was taken from other Irish firms, and that, as a result, for every 100 full-time jobs created by the scheme, about 60 were lost elsewhere in the Irish economy (Breen and Halpin, 1988).⁴

These findings do not suggest that enterprise schemes should form part of Ireland's major attack on long-term unemployment. Nevertheless, the observation that most businesses set up under enterprise schemes are in services, and even non-traded services, should not be seen as a reason to reject such schemes out of hand. While it was correct to ensure that major IDA grants do not go to businesses in non-traded sectors, this has led some people to draw excessively strong conclusions about the concept of tradability. First, unless the economy is facing a balance of payments constraint there is no problem with an expansion of non-traded activities. Second, it is sometimes forgotten that services – even non-traded ones – can be substitutes for traded goods – especially luxuries. What these observations suggest is that enterprise schemes should be incorporated in a general policy for development of the service sectors.

Conclusion on Special Employment Measures

The Council believes that special employment measures have an important role to play in the battle against unemployment. It is important to distinguish between two somewhat different roles which such measures can play. First, in the long-run, the maintenance of high employment and low unemployment will require, among other things, an active labour market policy. Special employment measures, such as *temporary* subsidised employment and *temporary* direct hiring, are part of an effective labour market policy. Second, special employment measures are vital to achieving an early large reduction in Ireland's current long-term unemployment.

4. The Department of Labour indicated that negligible complaints had been received regarding the displacement effects of the Enterprise Programme.

However, the actual special employment measures which are needed (on a small scale in the long-run and on a large scale in the immediate future) are similar in both cases. Indeed, the design of the Swedish special employment measures is not unlike the programmes already in operation in Ireland (and many other countries). "Sweden differs only in the scale of the enterprise" (Jackman, 1987). This suggests that while developing a long-run active labour market policy, Ireland can, and should, reduce long-term unemployment by an extension of special employment measures. Sweden, of course, is also different in some other important respects. Cash unemployment benefits constitute the very last resort. Unemployment benefits are given only for a limited period, and are cancelled for a month should the unemployed refuse to accept appropriate work or an offer to enter into a labour market policy activity.

The Council's proposal is completely consistent with the analysis of the causes of unemployment which the Council has considered. That analysis highlights the difference between the long-term and the short-term unemployed in their influence on wage pressure and wage settlements. It also reveals a strong element of hysteresis in unemployment. It also brings to light a very powerful migration mechanism in the Irish economy. The analysis suggests that the solution to unemployment requires both buoyant demand and action on the supply side of the labour market. The need for action on the supply side derives from the fact that strong demand can generate wage pressure – even with very high long-term unemployment. What is required is increased labour demand which is targeted on the long-term unemployed.

By means of public finance correction, wage moderation and a buoyant international economy, Ireland has, in the past three years, engineered economic growth and a strengthening demand for labour. However, these policies cannot *channel* labour demand towards the long-term unemployed, and all the evidence suggests that slowly rising general demand for labour will not reach into that particularly disadvantaged group. What is needed now is policies which target labour demand on areas of high long-term unemployment. Special employment measures – particularly subsidised job creation and temporary direct hiring – are the policies which can achieve this. However, their effectiveness, in achieving a permanent improvement in job prospects and life chances, can be greatly enhanced if they are part of a comprehensive area-based package of economic and social interventions.

A major issue is, of course, the cost of achieving a substantial reduction of unemployment by this means. The Council rejects the idea that the cost of expanding special employment measures should be calculated by comparing them with the cost of social welfare. The relevant cost calculation is a comparison of the cost of special employment measures with the cost of *other ways of achieving a similar reduction in unemployment*. A British study calculated that a £1b outlay devoted to reductions in VAT and employer's national insurance contributions

would reduce unemployment by about 17,000; income tax cuts would reduce unemployment by about 21,000; public infrastructure investment by about 38,000; increased current public spending by about 65,000; while expanding special employment measures by the same amount would reduce unemployment by 480,000 (Davies and Metcalf, 1985). Indeed, "simulations on most major UK macroeconomic models and for various costings generally, confirm the attractiveness of expanding Special Employment measures, especially when targeted at the long-term unemployed" (Adnett, 1989; Budd, Levine and Smith, 1987; Turner, Wallis and Whitley, 1987). While the parameters of a model used to make such estimates would be different in Ireland, these studies give some idea of the relative cost of different approaches to reducing unemployment.

One argument which needs to be addressed, in the context of these recommendations, is that Ireland already has a number of schemes that are broadly targeted on the long-term unemployed, and these are sometimes undersubscribed despite the level of long-term unemployment. While the Council accepts that there may be difficulty in filling positions on the schemes, it wishes to link its recommendations in this area with its recommendation on taxation and social welfare, which address disincentives in the labour market. It also draws attention to the way in which Swedish system links unemployment payments and participation on labour market programmes.

The Council also wishes to emphasise that it is not simply recommending more of the same. The Council wishes to see these schemes operated in an integrated fashion in the context of its area based strategies (see Chapter 2). The special measures should be integrated with local employment and economic development initiatives giving a comprehensive decentralised approach. These initiatives are likely to be more effective if they follow an assessment of local potential and build on the capacity of local actors, such as people in business, banks, trade unions or educational establishments.

The Council also wishes to address more directly the financing of these initiatives. It is clear that the relative cheapness of reducing long-term unemployment by special measures does not fully address the issue of cost. The Council has recommended that current public expenditures should not increase in real terms in the period up to 1993, effectively implying no real increase in overall public sector activity. In addition, the Council recommends that where real increases are desired in particular areas they should be offset by real expenditure reductions in other areas. This radical approach to the problem of long-term unemployment must, therefore, be accommodated within this overall expenditure framework.

While the Council is not in a position to indicate how each public expenditure programme should evolve, it wishes to indicate the broad financial frame within which reallocations can take place. The ultimate objective of many programmes of public expenditure, or tax incentives, is the creation of employment – in the areas

of industry, tourism, and services etc. Many of these areas could potentially offer reallocation possibilities. In fact, a reallocation from capital grants to labour subsidies is often advocated by commentators on the labour market. In the Council's view, the very high priority which it attaches to tackling the problem of long-term unemployment must be operationalised by devoting resources to it.

PART IV

INSTITUTIONAL ISSUES

INSTITUTIONAL ASPECTS OF ECONOMIC AND SOCIAL POLICY

1. INTRODUCTION

The Council's analysis of the Irish economy in this report and in *Strategy for Development* is one which is concerned with Ireland's constraints as a small open economy. This starting point, however, is not a justification for poor economic performance nor a rationale for modest expectations. Rather the recognition of Ireland's economy as being small, and open impels the Council to the conclusion that to learn lessons for economic and social policy Ireland should learn from successful small, open economies in Europe. Arguably, Ireland's developmental efforts have been retarded by a failure to focus on those countries from whom Ireland has most to learn. In the words of Kennedy and his colleagues in their overall assessment of the Irish economy in the 20th century:

It (Ireland) should above all be concerned with learning from other, more successful, small countries. Ireland did indeed import many ideas, policies and institutions from abroad but it relied almost exclusively on the UK as the model. Apart from the fact that the British model has not been a particularly successful one during the period under consideration the disparity in its size, economic structure and level of development were unlikely to make it always the most relevant model.What is surprising, and undoubtedly damaging, is that it has taken an inordinately long time for Irish awareness of European experience to develop and that even yet there are few enough systematic attempts to draw on that experience (Kennedy, Giblin, McHugh, 1988).

2. SOME PRELIMINARY COMPARISONS

It is clear that other small open economies in Europe have experienced (both historically and recently) higher levels of economic growth and associated economic achievements, notably low levels of unemployment. Some of these economies, like Ireland have small populations, they are small geographically and culturally homogenous: moreover they lack, as does Ireland, any outstanding natural resource endowment which confers significant economic advantage – such as unlimited energy supplies. These countries include Finland, Sweden, Denmark, Austria and Switzerland, and they comprise the countries included in a comparative study currently being undertaken by the Council. It is notable that these countries have more developed economies and significantly higher living standards – underpinned by a higher levels of economic growth and full

employment. Further, these economies, as recent analyses reveal, more successfully confronted the economic crises of the 1970s and 1980s than did Ireland, and pursued long-term strategies of industrial adjustment and restructuring.

It is important to recognise that any comparisons drawn between Ireland and these other countries are necessarily somewhat tentative. In particular, the discussion here emphasises the *superior* economic performance of Sweden, Denmark, Finland, Austria and Switzerland. A fuller account of these countries' economic experiences would obviously be necessary to describe the difficulties and constraints faced by these economies. In future work the Council will offer a more extended and analytical comparison between Ireland and these selected European economies. At this stage, however, the Council draws attention to certain institutional features of these economies which may help to explain, in part, their relative economic success.

First, as recent authoritative surveys have shown, all of these economies have not only coped with economic openness, but have positively and actively supported a liberal world trade regime. Sweden and Switzerland, for instance, have played leading roles in the institutional pursuit of free trade (UNCTAD, GATT) and have made a disproportionate contribution to the growing liberalisation of trade after the Second World War in particular (Katsenstein, 1985). These economies have defined themselves, therefore, not as small "dependent" or peripheral economies focussed on one or two major trading partners, but as trading economies in an increasingly internationalised world economy.

Second, the institutional and social implications of the commitment to the continuous flexibility and adaptability required for competitive success are made explicit. All of these countries have found an institutional mechanism for consultation and agreement on key economic and social policies. Crucial to this process is the recognition that the costs and the benefits of economic change must be identified and shared. For example, industrial restructuring in Sweden was facilitated by a process of consensual planning and decision making and, more importantly, by a careful integration of income maintenance, training, regional and industrial policies. The distinction between 'economic' and 'social' policies, between 'equity' and 'efficiency' is not one which informs policy debates in these countries. For example, 'high' welfare benefits, combined with significant training and labour mobility policies are seen as one set of policies directed at sustaining the overall efficiency of the economy and maintaining employment.

It is important to note that the intertwining of 'equity' and 'efficiency' considerations has not precluded some retrenchment in these countries' welfare states (Mishra, 1990). In these economies the economic costs and distortions due to welfare state provisions have been recognised and have resulted in specific curtailments. However, these cutbacks have been undertaken within the framework

of a clear commitment to the continuation of the Welfare State/mixed economy rather than an ideological campaign for a 'return to the market'. Furthermore, it is of interest to Ireland that the emphasis on consensus (described in Katsenstein's study, in relation to Austria and Switzerland, as "a national passion") is expressed through very different organisational and institutional arrangements. Switzerland, for example, is politically decentralised, has a limited Welfare State and a low level of trade union membership. On all of these criteria Austria stands in marked contrast to Switzerland. The implication is that no *specific* political/ administrative/ organisational system is necessary to underpin the formation of consensus.

Thirdly, among the Nordic countries the goal of full employment is consistently reflected in the policy priorities of government and the main economic institutions. Studies of Sweden in particular show a high degree of policy co-ordination across policy domains directed at sustaining and increasing employment. Economic policies, and the institutions which express and implement those policies, are closely co-ordinated – monetary policy, industrial policy, labour market and training policy and so on. The significant comparative point is *not* that all these economies pursue very similar policies but that within each economy there is a high degree of internal policy *consistency*. This point has been made in relation to macroeconomic policy in Chapter 14. The contrast documented by Scharpf between Austria and West Germany in the mid 1970s offers an example (Scharpf, 1984). Austria pursued a 'hard' currency policy, by linking its currency to the DM. This exchange rate regime was combined with modest monetary expansion to sustain aggregate demand and employment, and a rigorous incomes policy to control inflation.

In Germany, by contrast, conventional monetary control was pursued to contain inflation and incomes policy to sustain employment. There is a degree of contrast in the specific policies chosen but the strategic choices were, in each country, internally consistent as policies, and institutionally appropriate. Austria's social partners, for example, could formulate and rigorously pursue an incomes policy because of the strength and comprehensiveness of its corporatist institutions.

The emphasis on employment in the Nordic countries extends into policy domains which, in other countries including Ireland and Great Britain, are deemed "social policy". For example, in Denmark and Sweden labour force participation is deemed the key element in preventing poverty among lone mother families. Comparative analysis of income maintenance for lone mothers in different countries reveals that in the Nordic countries, in contrast to Ireland, these policies *presume* labour force participation among *all* women, including lone mothers, (Brown, 1989; Millar, 1989). The lower levels of poverty in Sweden, Germany and Norway among lone mothers is attributable to their higher rates of labour force participation, which in turn derives from the fusion of income maintenance provisions with active, positive policies to facilitate employment.

This discussion of employment as a “social” policy instrument is a reflection of the general consensus – driven approach to public policy. The employment orientation of social policy in fact reinforces, as well as reflects, the consensus approach. A policy geared toward the disabled and lone parents working in the labour market is not only more effective, but is also less divisive. It is not predicated on defining the problem as one of income maintenance, funded by general taxation, requiring political support for such non productive expenditure. The beneficiaries, for their part, experience both the rigours of labour market requirements but also the practical supports to meet such requirements.

Finally, Ireland’s well documented failure to develop strong, large scale, indigenous manufacturing industry is in marked contrast to the industrial profile of these economies. A number of elements make up this contrast. First, the Nordic countries more quickly and more successfully developed high value added industrial sectors on the basis of natural resource endowments than did Ireland. Denmark’s earlier development of an exporting food sector, and Sweden and Finland’s establishment of a timber/forestry sector on the basis of its forestry resources are good examples of this. Second, the industrial strategy of these small European states, to quote from Katsenstein’s survey:

stresses specialisation in export markets. These states have generally succeeded in establishing comparative advantage in selected market niches where demand is relatively stable (Katsenstein, 1985).¹

Third, all of these economies, in varying degrees, display a pattern of relatively rapid, flexible adjustment in industry in the face of changing international and technological conditions. In both Austria and Switzerland, for example, as the case studies of these industrial sectors show, the textile industry was quickly restructured in response to high import penetration of low cost goods from developing economies. In the Swiss instance, the pressure on the sector was intensified by a national policy of currency appreciation and a national restriction on the availability of low paid foreign employees. These two national policies were not changed to accommodate representations from the sector. The sector made three strategic changes – it increased investment and focussed on high quality, high technology goods; it engaged in a sustained export drive, and it reduced the number of firms through restructuring and mergers. Government’s role in this was limited and inexpensive: the structure of Trade Delegations and embassies’ trade functions abroad were improved to facilitate the export drive.

The costs of these changes were in some measure borne by the banks and financial institutions. The banking system was the prime beneficiary of the interest rate/exchange rate regime, an active participant in the sector itself, and therefore a potential beneficiary of the enhanced productivity and profits which arose. Correspondingly, the banking system gave significant financial support (export insurance, exchange risk guarantees, low interest loans etc) in the process of

restructuring. This process was a conscious national policy of “compensation” by a dominant interest, the banking system, for the losses and costs imposed by economic change (Katsenstein, 1985).¹

Austria’s adjustment in textiles was slower and less effective, but impressive by the standard of industrial adjustment processes in Ireland the UK or the US. At first, Austria attempted to use State banks and holding companies to induce mergers and concentration. This process was not resulting in redeployment and was, moreover, expensive. The policy however was recognised as a failure and abandoned. In its place unions, companies and government quickly agreed on a programme of preserving key competitive companies, reducing total employment and retaining the high skill/high wage employment. This process was facilitated by significant pension and welfare provisions. Identifying the key patterns which ran through structural adjustments in many sectors Katsenstein observes the following feature:

the capacity of political actors to conceive of their self interest in broad rather than narrow terms, and to resist the temptation of sacrificing long-term interests to short-term considerations (Katsenstein, 1984).

The paragraphs above offer a tentative identification of contrasts between the Irish economy and the economies of selected small European countries. These contrasts in summary are:

- an active commitment to free trade;
- a strategy of sharing equitably the costs and benefits of change;
- a pre dominant emphasis on employment and labour market participation as a strategy for preventing poverty and income inadequacy;
- an industrial strategy of export specialisation in market niches.

In the discussion below two features are discussed separately – the role of corporatism in these economies and the effectiveness of their policy making systems.

3. POLICY MAKING

It is useful to record the extent to which analytical policy studies undertaken by the NESC (and by various Commissions and others) reveal apparent deficiencies in Ireland’s policy institutions. The absence of long-term strategically determined policies in taxation, housing and manpower policy – to take examples of policy areas analysed by the Council – is prima facie evidence of the need to contrast the Irish policy making system with its counterparts in the small successful European economies. A number of issues might stand out in such a comparison.

1. A broadly analogous story can be revealed in the case of the Swiss watch industry which became transformed from a traditional semi craft industry to a high-tech electronic sector in response to competition from Japan.

First, comparative studies of the policy process point to a much greater integration of research and planning with policy making and administration in the Nordic economies (Hecló, 1974; Hecló, Heidenheimer and Adams, 1983; Lee, 1990). This integration is particularly marked in the fields of social and economic policy. Research and analysis, and the practitioners of these disciplines, are closer to the policy making system and more influential within it. Relative to their size Sweden, Finland, Norway and Denmark have made significant pioneering contributions in economics, sociology, economic planning methodology and in a range of specialities in the social sciences.

In Ireland by contrast the more *elementary* requirement of basic statistics and routine information on key issues is by no means fulfilled. Consider for instance the data on earnings. Official publications and analyses of earnings report average industrial earnings data based on surveys of industrial sectors – but these data refer to a fraction of the labour force. There is, in fact, no routine official compilation of representative data on the level and pattern of earnings. A further instance concerns unemployment. Despite the drastic rise in unemployment in Ireland since 1979 no overall authoritative, representative surveys have been undertaken of unemployment – the skills and education of the unemployed, their past income and occupational profiles, their responsiveness to training and income maintenance initiatives, and so on.

Second, the comparative dearth of statistical raw material may be a symptom of a deeper limitation on the policy formation system – its relative secrecy and lack of *strategic* orientation. Taxation policy – the subject of extensive commentary in Chapter 6 and elsewhere in this report – is one instance. Over a period of five years from 1980 to 1985 a Commission on Taxation published five reports, amounting to an authoritative and detailed analysis (with recommendations) of the Irish taxation system. An official discussion document by a political party, a “White Paper” containing a long-term direction for reform, or a Departmental Green Paper containing critical discussion of options and strategies, has yet to be published. A similar absence of informed debate and analysis characterises other crucial areas of public policy – education (as pointed out in Chapter 10), agriculture, and local government, for example.

Sweden’s policy making process as described in case studies and in descriptive overviews of its public administration is more open, analytical, and long-term in focus (Hecló, 1974; Milner, 1990). The system is more open in that Parliamentary Committees are extensively used, with wide participation from outside Parliament and routine publication of discussion documents and proposals. A more routine and committed application of expertise and analytical inputs also shapes the policy process – a process which, on occasion, blurs the distinction between “political” and “academic” debate. The long-term focus of much policy debate and analysis is also outstanding. For example, at many levels in their policy systems Sweden and other Nordic countries have been examining the recent evolution of economic and political events in Eastern Europe. In particular, they have *already* completed

research on the strategic, trade, and other economic implications of various scenarios in Central/Eastern Europe. Such an international and long-term perspective on Ireland’s place in the European economy is not apparently represented in official policy. On the contrary, references in Ireland to Eastern Europe have commonly referred to the short-term “losses” to Ireland of EC funds (‘diverted’ to Eastern Europe for developmental purposes) or of “losses” of protected agricultural markets in the EC.

Third, certain specific organisational dimensions of Ireland’s policy and public administration system warrant some comparative scrutiny. In particular, the diffuse and ‘at one remove’ structure of some government and administration must be noted. In Chapter 9 on health policy, for instance, the difficulties of controlling health care costs and of actually monitoring and managing the health care system were recorded. This occurs in a context where approximately 7% of GNP is spent on publicly financed health care. Yet the ‘delegated’ structure of control leaves policy makers with a diminished capacity to ensure implementation of policies. Perversely, central administrators *can* intervene in local minutiae. Likewise in education, Chapter 10 notes the failure to achieve widely agreed educational objectives – a failure which is not attributable in general to lack of public expenditure. In short, Ireland’s ‘big’ state which expends a significant element of national income is *not* automatically a ‘strong’ state which has both the capacity and the autonomy to formulate and achieve national strategies. By ‘capacity’ here is meant the *specific* dimensions and requirements relevant to the attainment of particular objectives. Autonomy refers, approximately, to the independence of the State from dominant interests.

4. SOCIAL PARTNERSHIP

In popular comparisons between Ireland and the small European economies the strength and comprehensiveness of their corporatist institutions is taken as being *the* defining institutional contrast. Corporatism here refers to social corporatism entailing the concerted search for consensus among the social partners and the Government in the framework of a mixed economy and a political democracy. This form of corporatism is to be distinguished from the totalitarian variant of corporatism which existed in some European countries in the nineteen thirties. It is also to be distinguished from the form of government, based on the principle of ‘subsidiarity’, which closely integrates ‘vocational organisations’ into the formal political system. Corporatism in this discussion therefore means a combination of all of the following:

- a philosophy of social partnership and consensus;
- centralised and concentrated interest groups of Trade Unions and employers;
- stable and continuous co-ordination of policies and bargaining in relatively institutionalised settings.²

2. The concepts of ‘capacity’ and ‘autonomy’ here follow the formulation in Evans, Scockpol, Rueschemeyer (eds.) 1985.

It will be clear from the above that corporatism takes a variety of guises in the countries under discussion. Austria, as one example, has a remarkably stable and formal system embodied, at the peak, in the *Commission on Wages and Prices*. The latter in turn represents the sub sets of highly concentrated interest groups (for example the Trade Union Federation which incorporates all the Trade Unions – only 15). A large part of the work of the Commission takes place in two sub Committees – one on wages, one on prices. If consensus on specific issues cannot be agreed at Sub Committee level then the Presidents of the four key interest groups decide (Unions, Employers, Chambers of Labour and Chambers of Agriculture). This structure has no legal basis: it was established by agreement in 1957 and works on a consensual basis (Pelinka, 1988).

Commentaries and descriptions on these Austrian arrangements point to a number of factors which secure their continuation and success:

- the remarkably high level of concentration among the relevant interest groups – each ‘side’ being able to ‘deliver’ comprehensively on agreements;
- the lower level active participation of employers, employees and producers in their respective organisations: for example all Austrian employees, civil servants and agricultural workers excepted, must be members of local Chambers of Labour – these are directly represented on the Commission as is the centralised Trade Union Federation;
- the participation of key members of political parties in the Commission – the Federal Chancellor, for instance, is Chairman of the overall Commission but has no *legal* authority.³

The Austrian system sketched above is the most explicit and most centralised of the corporatist arrangements found in the small European economies. It should be noted that this institutional regime contributed to Austria’s quicker and more successful adjustment to the economic crisis of the late 70s and early 80s. In his comparison of the adjustment experience of Ireland and Austria McAleese points out:

Austria responded more promptly and more effectively to the external shocks than Ireland. It had a programme of adjustment in hand even prior to 1979 and it acted quickly when deficits began to rise early in the 1980s. *Its institutional system provided flexibility in wages, taxation and government expenditure at a critical time (Mc Aleese, 1988; emphasis added).*⁴

Ireland’s experience with corporatist mechanisms has been well documented (O’Brien, 1981; Hardiman 1987). During the 1960s and 1970s – periods of considerable industrial and distributive conflict – successive national pay rounds,

3. The structure, it will be seen, leads some key actors to adopt *multiple roles* – as party members, members of government and members of the Commission. This reinforces the tendency to consensus.

4. Other factors also contributed to Austria’s superior adjustment experience. See McAleese (1988).

national wage agreements, and then national understandings were instituted. In the late 1970s and early 1980s the content of these agreements were broadened to include social and taxation policy and general endorsement of specific policies in health and social welfare. When the second national understanding was terminated in 1980 subsequent ‘rounds’ of collective bargaining devolved to industry or firm level – this lasted until 1987 when the current Programme for National Recovery was agreed.

In considering the future of centralised agreements between the social partners and the future role of a Programme for National Recovery, the origins and context of the PNR should be recalled. First, during the 1980s the economy stagnated – the public finances deteriorated, many workers’ real disposable incomes declined, and unemployment reached unprecedented levels. Second, the absence of centralised agreements limited the influence of the Union movement at a time when the economic situation of employees was worsening – the ICTU, for instance, had relatively limited access to public policy formation during this period. Third the proximate impetus for the PNR arose, from a number of sources:

- (i) the impact of the NESc’s *Strategy for Development* report, agreed by the social partners, which provided an analytical context in which Government and social partners could discuss a strategy for economic and social policy;
- (ii) the political imperative to reduce current public expenditure and the consequent need to secure consensus on retrenchment policies;
- (iii) the concern of the ICTU to re-establish a consultative input to public policy, a concern which was brought sharply into focus by the perceived social division and social conflict pervasive in the UK at the time.

The PNR was similar to the earlier national understandings in scope. However, its main contents were different: a minimum increase for low paid employees; a tapered pay increase over three years; a commitment to income tax reductions, and an agreement on the scale of the Exchequer Borrowing Requirement to be attained in three years. The PNR, unlike earlier national understandings, was implemented in a context of significant, cumulative retrenchment in public expenditure (see Chapter 3).

The evolution of the economy in the period 1987-1990 was described earlier (Chapter 1). It was pointed out that the reason for the improvement in overall performance was due to a combination of internal and external factors, with the internal policy-driven factors all incorporated in the PNR covering fiscal, monetary and exchange rate policy and agreement on income developments. The wider, more indirect role of the PNR should also be recorded: it helped to minimise distributive conflict by operating an agreed framework of retrenchment, combined with measures to protect those on low incomes (via social welfare policies), and to reduce employees’ tax burdens. The establishment of a central mechanism (Central Review Committee) institutionalised the consensus and provided a forum in which the programme could be monitored and specific commitments implemented.

Against this backdrop then, what should be the future role of centralised arrangements between government and the social partners? First, the immediate role for a renewed Programme in structuring wage developments is unquestionable. The maintenance and improvement of competitiveness must be a prime policy objective as the economy becomes increasingly integrated in the Single European Market. Further, the continued importance of controlling current public expenditure, will require an agreed policy in relation to public sector pay. Second, the wider distributive issues of protecting the disadvantaged and those on low incomes (by means of taxation, social welfare and other policies) still remain. Aside from the widespread agreement on the need to pursue social equity the lessons of experience elsewhere should again be noted: consensus on pay and incomes, and the economic benefits of this consensus, is strengthened by redistributive social policies. Conversely, the absence of such policies can weaken commitment to centralised arrangements on pay and incomes.

Finally, however, the role of corporatism in relation to the long-term structural development of the economy must be raised. The small European economies to which we have referred have structurally more developed economies, and enhanced welfare states, and a long history of virtually full employment. To what extent can centralised agreement between the social partners in Ireland contribute to wider economic and social development – in particular to full employment? A reconsideration of recent Irish experience and of the research evidence on the preconditions for corporatism point to a number of constraints (Hardiman, 1988; Maier, 1984).

First, the extent to which centralised agreement on the quantification of employment 'targets' can itself directly improve employment levels is limited. The developmental strategy in place is one which relies on the attraction of foreign investment and the development of the indigenous industrial and service sectors. While the nature and scale of foreign investment can be influenced to a degree by Irish incentives, the level of employment creation from this source is not *directly* influenced by an agreement. Equally, the level and nature of indigenous investment and employment will be influenced by the economic environment, which can of course be shaped, in part, by centralised agreements. In the final analysis, however, conventional centralised agreements do not provide a specific mechanism by which the social partners directly discuss and agree on investment and employment decisions. It is suggested, therefore, that for future centralised agreements to enhance their role in relation to employment, long-term developmental strategy should be part of the collective agenda.

Second, the comparatively limited strength and comprehensiveness of the social partners' respective peak organisations must be recognised. In international terms Ireland's key economic interest groups are less 'encompassing'. This arises for historical reasons, but it is compounded, as Hardiman points out, by the structural consequences of Ireland's development strategy. With a somewhat dualistic,

industrial economy (traditional indigenous industry and the modern foreign sector) the more profitable foreign sector is less committed to, and constrained by, centralised agreements. In turn this diminishes the effectiveness of the wage solidarity provisions of national agreements. These two factors, therefore, combine to attenuate the effective implementation of collective agreements: the historical fragmentation of both employer and employee interest groups, and the marked variation in the economic constraints and circumstances which exists in a developing, industrialising economy.

Third, the well documented 'populist' and 'centrist' orientation of public policy can place limits or contradictions in the way of attaining collectively defined objectives. For instance, in the 1970s the avowed commitment to restructure the tax burden and improve the position of employees ran up against the populist commitment to reduce property taxes, increase home ownership and improve health and social services *for all*. In other words, public policies in relation to expenditure and taxation in particular cannot *simultaneously* address the distributional requirements of workers as a socio-economic group and also seek wider support across the entire population. Hardiman revealed, for instance, that in the late 70s and early 80s the broad sweep, populist policies ultimately undermined the redistributive and solidarity elements of central agreements. The diminished tax base and higher public expenditure eventually spilled over into a rapidly escalating tax burden on all employees – including the low paid. For the future, therefore, it is important that social partners and government formulate and implement mutually consistent and reinforcing policies.

Finally, and on a qualitative note, the social partners must recognise that the corporatist regimes in successful, small European economies exist in significantly different socio political contexts than Ireland's. The emphasis on consensus and solidarity is a common denominator in all these economies – however variable its institutional expression. Successful corporatism reinforces consensus and, conversely, an ideology of consensus can sustain the search for consensus. Irish history and social structure is not conducive to the emergence and preservation of a consensus ethos. This implies that the social partners and governments must themselves create and sustain this ethos in the future.

5. CONCLUSIONS

The Council believes that a sophisticated understanding of the constraints and opportunities facing a small open economy in Europe is a pre-requisite to the formulation of appropriate economic and social policies. In particular, the Council recognises the relative economic success of specific countries such as Finland, Denmark, Sweden, Austria and Switzerland. The search for policy lessons and institutional models relevant to Ireland should, in the Council's view, focus on these countries. In future comparative work the Council will address these issues more fully.

A feature of all these countries, the Council has observed, is the continuous creation of consensus as the basis of economic policy making – in some of the countries the consensus is arrived at, and sustained in very formal, institutionalised contexts. The role of consensus and of institutionalised corporatism may be one of the key factors contributing to the economic success of these small, open economies. Therefore, the Council considers that in Ireland considerable attention should be devoted to the strengthening and deepening of consensus between the social partners. In the short-term, consequently, the Council endorses the current steps to build on the 1987-1990 PNR and the consensus it has created and sustained, and to renegotiate a further agreement. In the long-term, the Council suggests that the constraints on the further development of Ireland's corporatist institutions be examined and debated in the light of the experience of the successful small European economies.

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