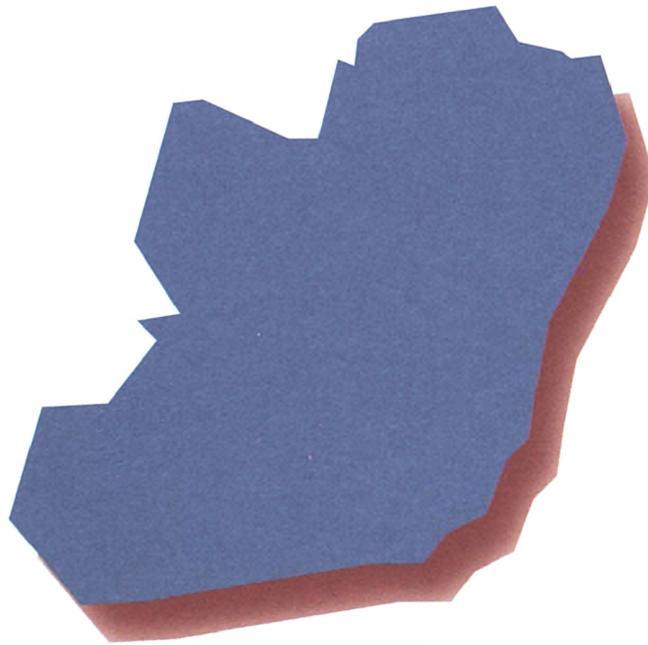


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Labour Market Studies

Ireland

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Preface and Acknowledgements

This study was commissioned by the Commission of the European Union, Directorate General V, Employment, Industrial Relations and Social Affairs. The Irish study is one of fifteen such studies, one in each member country, to review labour market developments in the individual member states. To ensure comparability between countries, each country study followed a common framework covering a range of topics specified by the Commission. As the report serves a dual purpose in informing EU administrators and a wider European readership as well as catering for national needs, many of the descriptive sections are, perhaps, more detailed than would have been the case if it had been written for an exclusively domestic readership.

We would like to thank the members of the monitoring committee, composed of representatives of Commission services, Donald Tait (DGV), Caroline Harris (DGV), Jenny Hopkins (DGXIV), Guy Jenkinson (DGII), and Frank Doheny from the Irish Department of Enterprise and Employment, for their valuable comments on earlier drafts. We also received valuable comments on earlier drafts from Pat Dowling of the Department of Education and from our ESRI colleagues, particularly John Bradley. Responsibility for the views expressed in the study remains, nevertheless, with the authors.

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LABOUR MARKET STUDY: IRELAND

SUMMARY AND CONCLUSIONS

Population Trends

While the total size of the Irish population is not at present subject to much variation (apart from a slight but gradual upward movement) its age structure is undergoing fundamental change. As in other EU member States the number of children is falling due to declining births and there is a growing bulge in the older population. The latter expansion is still concentrated in the “active” middle aged group but it will, of course, with the progression of time begin to affect the population aged 65 years and over. Current CSO projections¹ indicate that these trends are likely to continue in the coming decades. If there is a distinguishing feature involved *vis-à-vis* other EU states, it is that the changes are occurring at a somewhat later stage in Ireland. Thus the current proportion of young people in Ireland is higher. Many other member States are already facing, or about to face, the problems associated with an elderly ageing imbalance, but this will not present a serious problem in Ireland until after the year 2006.

Arising from these trends the total dependency ratio in Ireland has been falling, and is predicted to continue to decrease in the medium term.² Its current level is about 57 per cent but this is expected to fall to between 45 and 50 per cent over the next ten years. This favourable trend will allow some scope for living standards to rise, but there will be longer term problems as the ratio will begin to increase again after the year 2006 as a result of the increase in the population aged 65 years and over. This has obvious implications for areas such as health expenditure and the funding of pensions. It will be necessary to take account of this in planning in the intervening period, especially in view of the parallel constraints imposed on the economy in the run up to full membership of the EMU.

At present the changing age structure is having a profound effect in the educational sphere and is already having a gradual but growing impact in areas such as health and the pattern of consumer demand. The number of pupils in the primary education sector has been falling for many years and the underlying population trends are now beginning to significantly affect the numbers at second level as well. The number of students accommodated in third level education has continued to rise rapidly, arising both from demographic influences and increasing participation at this level, but here also the population pressures will begin to ease early in the next century and one can therefore, expect a stabilisation, if not a decrease in student numbers at this level. With respect to health, the ageing process which is occurring in the population (at present concentrated in the middle aged group) is likely to cause the demand for health services to ultimately rise. These trends

¹ Central Statistics Office (1995). *Population and Labour Force Projections 1996-2006*

² The total dependency ratio is defined as the population aged less than 15 years and aged 65 year and over divided by the population aged between 25 and 64 years.

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will call for a gradual reallocation of resources, even though any relative scaling down of the resources devoted to education should take account of the need to improve the quality of provision and the need to target greater resources on disadvantaged groups.

It is clear from the commentary in Chapter I (see Table 1.2 in particular) that Irish net external migration trends, which are significantly influenced by relative economic conditions in Ireland and in external labour markets, tend to be very volatile. They are, therefore, difficult to predict. After a period involving substantial outflows in the late 1980s, net migration has been minimal since the beginning of the 1990s.³ The 1994 ESRI Medium Term Review, even though it predicted quite significant employment growth in the period up to the year 2000, envisaged an annual net outflow of some 15,000 or more during this timespan. However recent employment growth has been greater than expected, suggesting that outflows of this magnitude are unlikely to occur, at least over the next few years. On balance the first of the two migration options presented in the current CSO Population Projections, assumption M1F1 which involves an annual net outflow of 7,500 in the period up to 2006, would appear to be the most plausible on the basis of current evidence.

Labour Force Trends

The aggregate changes in the Irish labour force over the past fifteen years have tended to be erratic, alternating between periods of very rapid growth (as at present) to times when it actually declined (as in the late 1980s when emigration was high). However despite these cyclical variations, the longer term trend has been upward. Between 1981 and 1995 the annual average increase was nearly 11,000, or 0.8 per cent of the total labour force.

Table 1
Labour Market Trends, Selected Years 1981-1995

	1981	1986	1991	1993	1995
	<i>Thousands</i>				
At Work	1,145.9	1,080.9	1,134.0	1,146.0	1,233.6
Unemployed	125.7	227.5	208.0	230.0	189.9
Labour Force	1,271.6	1,308.4	1,342.0	1,376.0	1,423.5
Net Migration	2	-28	-2	-6	-6
Unemployment Rate (%)	9.9	17.4	15.5	16.7	13.3

³ The recently published 1996 Census results indicate that there was a small net inward migration (of 3,200) in the period between April 1991 and April 1996.

Summary and Conclusions

It should also be borne in mind, however, that labour force growth in the period in question was reduced through the effects of emigration. The potential for much higher growth exists. Demographic simulations indicate that currently, in the absence of external migration, the Irish labour force has the capacity to expand by between 20,000 and 25,000 persons each year - over 1½ per cent of the total labour force.⁴ This presents a formidable job creation requirement if unemployment is to be reduced or even contained at its current levels.

The overall upward trend in the numbers in the Irish labour force has been the result of a number of very diverse underlying developments. Virtually all of this increase is attributable to the female labour force which rose by no less than 40 per cent over the period in question. This was due both to underlying population growth and, more particularly, to rising female participation in the work force, especially for women aged between 25 and 40 years. For males the underlying population growth also served to increase the male work force, but this was almost totally offset by declining labour force participation, due both to greater involvement in education by those aged less than 24 years and to an increasing propensity towards early retirement.⁵

The age structure of the Irish labour force for both males and females has changed significantly in this period, reflecting both underlying population trends and the changes in the pattern of participation as described. Persons aged 15 to 24 years constituted nearly 30 per cent of the Irish labour force in 1981, but this had fallen to less than 19 per cent by 1995. There was a notable expansion for those aged between 25 and 44 years, especially for women. Over 55 per cent of the female labour force were in this age band in 1995 compared with 35 per cent in 1981. The numbers in the labour force aged 65 years and over continued to decline, the actual proportion (for all persons) declining to as low as 2 per cent in 1995.

It is of interest to note that when the trends in the Irish labour force over the period in question are viewed globally in terms of all persons, it is the underlying population growth which has been instrumental in generating expansion as the participation influences for males and females have tended to cancel each other (see Table 1.8 in Chapter I). In fact the overall participation effect in this period was negative, as the declining involvement of males in the workforce more than offset the rising rate of participation for women.

It should not, of course, be inferred from the foregoing commentary that rising female participation was not an important factor underpinning recent labour force growth. Clearly it was important, and in the absence of such trends the labour force expansion which occurred would have been significantly less. It is of interest, therefore, to speculate on the causation underlying the rise in female participation in recent decades. As the main report indicates this is likely to have involved many influences, including the changing structure of employment demand, and attitudinal and institutional factors (such as equality legislation). Various studies have suggested further causes, such as increased female earnings, declining fertility and smaller family sizes and improvements in

⁴ The period between 1991 and 1995, when net external migration was minimal, reflects such a scenario. During this period the annual average labour force rise was over 20,000 (see Table 1.4 (b)).

⁵ These factors also contributed to a decline in the female labour force, but these were more than offset by rapidly rising female participation in the 25 to 44 year age band.

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the level of educational attainment.⁶ It is difficult, however, to determine to what extent any one factor influenced the position.

What then does the future hold in this regard? One is moved to conclude that the female labour force in Ireland will continue to increase, given that the current degree of participation is still quite low when compared with those prevailing in other EU member States, i.e., in this regard there is still a considerable amount of ground to be made up. Some further indication can be got by considering the causative influences discussed already, and how these may develop in the years ahead. The pattern of employment is likely to follow recent trends with a continuing emphasis on service sector activities and part-time work. There are also likely to be continuing advances in educational provision, especially at third level. As for institutional factors, most of the basic legislation (relating to equality provisions etc.) is in place and here progress is likely to concentrate more on the implementation of this legislation and changing attitudes and workplace practices. Fertility trends tend to be more volatile and therefore more difficult to predict; while the sharp declines of recent decades may not continue, some further more moderate decreases are likely to occur.⁷ In summary, therefore, the indications are that the levels of female participation in the Irish labour market will continue to rise, even if at a slower pace than in the recent past.

Current CSO labour force projections envisage further increases in female labour force participation and, as a consequence, further expansion in the female work force and in the labour force as a whole. These projections envisage an annual rise of 21,000 in the Irish labour force between now and 2001 of which 12,000 is predicted to relate to women. A somewhat smaller increase of 15,000 is envisaged between 2001 and 2006, of which some 9,000 will relate to the female work force.

Employment and Unemployment

There have been substantial variations in the level of activity in the Irish economy since the early 1980s which have caused the employment and unemployment totals to fluctuate significantly. The first half of the 1980s was a period of substantial employment decline, accompanied by a significant degree of structural readjustment. Between 1981 and 1986 the unemployment rate rose from less than 10 to over 17 per cent. The second half of this decade saw a recovery in employment, even though this did not completely offset the losses which occurred earlier in the decade. Employment expansion ceased under the impact of global recession in the early 1990s. While the numbers at work did not actually decline during this period, unemployment rose substantially, mainly due to pressure of labour force growth, which was in turn caused primarily by the cessation of emigration. After 1994 when the economy began to grow rapidly again there was a significant upsurge in the numbers at work. The net job creation performance in the last few years has been phenomenal in historical terms. In the two year period to April 1995 total employment

⁶ The main report indicates (Table 1.7) that levels of labour force participation for females of higher educational achievement are substantially greater than those with poor educational attainment.

⁷ It should be noted that the actual levels of fertility in Ireland are still significantly higher than those which prevail in other western economies.

Summary and Conclusions

rose by no less than 88,000 (over 7½ per cent) and the unemployment rate fell from over 16½ per cent to just over 13 per cent. All the current economic indicators suggest continuing economic buoyancy and the next Labour Force Survey estimates, which are due to be issued later this year, are expected to again indicate significant employment growth and a further reduction in unemployment in the year to April 1996.⁸

If one is to identify a number of significant features associated with employment change over the last twenty years, it relates to the following -

- (i) A substantial rise in the number of women in employment, in parallel with a reduction in male employment, except for the last few years.
- (ii) Concerning sectoral trends, there has been a continuation of the long-term secular decline in the numbers at work in agriculture. Manufacturing employment is now at much the same level as it was fifteen years ago, but it dipped significantly in the 1980s and has since recovered. Ireland is one of the few countries in the EU and in the Western hemisphere generally in which manufacturing employment is still expanding. This derives principally from continuing inward investment, prompted by a range of tax and grant concessions and a moderate cost structure (see Chapter IX). In recent years, however, after a long period of decline, indigenous industries have begun to make a contribution to employment growth. The latter is an important development as it may be increasingly difficult to maintain manufacturing investment inflows at a high level in the face of stiff competition from other global regions, such as Eastern Europe and the Far East. Employment in the building industry over the period under discussion has been closely related to the economic cycle. There has been a resurgence in the numbers at work in this sector in recent years, prompted not only by more favourable economic conditions, but also by the level of Structural Funds investment in this area. There has been a large and sustained increase in services employment throughout the entire period since the early 1980s, both in market and non- market services, but particularly in the former.
- (iii) The sectoral changes just described were accompanied by far reaching changes in the occupational structure of employment. The totality of those at work now involve much greater proportions of managers, professional and technical workers, and persons engaged in service related activities. Skilled and semi skilled manual workers (even if the actual numbers have not changed very much) now account for a much smaller proportion of total employment than in earlier periods, while the

⁸ Until relatively recently the numbers of registered unemployed (Live Register) could be taken as indicating the trend in unemployment, but this source has become increasingly unreliable in this regard. Appendix I contains an analysis of the differences between measures of unemployment estimated from the Labour Force Surveys and those derived from the unemployment register.

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numbers engaged in unskilled manual activities and in agricultural occupations have fallen greatly, in both absolute and relative terms.⁹

- (iv) There has been a substantial increase in non agricultural self employment in the Irish economy over the period under discussion. This expansion was most noticeable in the recessionary periods during the early years of the 1980s and 1990s when paid employment actually declined (especially for male workers). The evidence suggests that there are two elements involved. One involves a more fundamental shift towards self employment prompted by various influences such as a more liberal tax regime, which even if now subject to more restrictions than in the past, is still relatively benign when compared with the more rigid PAYE withholding system. There are also more opportunities to engage on own account within the economy according as firms exhibit an increasing tendency to purchase services rather than employ in-house personnel with the required skills. The second element is of a more cyclical nature involving a tendency for some of those at risk of unemployment to take up self-employment during recessionary periods. There has also been a growing tendency for governments to attempt to promote a greater "enterprise culture" not only by exhortation, but also by means of schemes and grants, especially for the unemployed.
- (v) Even though the incidence of part-time work in the Irish economy is relatively low when compared with other EU countries, it has increased significantly in recent years. The current (1995) proportion is just over 10 per cent, but it is as high as 20 per cent for females; the male proportion is about 4½ per cent. Part-time work tends to be especially associated with services activities, particularly for women. Nearly 50 per cent of females engaged in part-time employment are to be found in service type occupations, with a further 20 per cent engaged in clerical work.

Virtually all of the employment creation which occurred in the Irish economy in the ten year period to 1993 related to part-time work. In fact the numbers in full time employment actually declined during this period. There has, however, been a fundamental change in recent years. The substantial increase in employment which has occurred since 1993 has involved mainly full-time jobs. The sub-division of the total net rise of 88,000 in the numbers at work between 1993 and 1995 involved a full-time component of 63,000, with the remaining 25,000 relating to part-time employment (even though the latter still represents a faster rate of relative growth). A significant factor underpinning this change has been the growth in employment in manufacturing and in building and construction.

Chapter II also considers the employment outlook to the end of the decade. The most recent comprehensive analysis, published in the ESRI *Medium Term Review*, concluded that the Irish economy was in a strong position to benefit from the then emerging recovery of the European

⁹ There are, of course, certain activities within the skilled and semi skilled spheres which have expanded - for example skilled workers engaged in care and maintenance as distinct from core production activities, and also in the electrical/electronics area.

Summary and Conclusions

economy. The central forecast predicted that Ireland would experience rapid growth rates of the order of about 5 per cent per annum, accompanied by an annual expansion in employment of about 21,000, or 1.7 per cent. The forecast suggested that with emigration continuing, at an average of about 15,000 per annum, the predicted expansion of employment would be sufficient to reduce unemployment to about 13.5 per cent by the year 2000. While these forecasts were regarded as optimistic at the time they were made, the actual out-turn in recent years has, in fact, shown them to be somewhat conservative. Rapid growth in output and employment have meant that the level of employment predicted for 1997 (1,230,000) was already exceeded in 1995 and the unemployment rate has already fallen to the level forecast for the year 2000. With moderate growth in the world economy expected to continue, the performance of the Irish economy in recent years would therefore suggest that total employment will be higher than originally forecast, unemployment will be much lower, and there will be less unemployment in the intervening period.

Employment forecasts must also take account of the likely impact of joining the EMU. A recent study on the economic implications of EMU membership for Ireland conducted by the ESRI suggests that, on balance, membership will be favourable for Ireland. The most favourable scenario would occur if Ireland and the UK both join, under which circumstances, GNP should increase by about 1.4 per cent on average, with an additional 20,000 jobs being generated. If the UK remains outside the EMU, and assuming that the UK follows economic strategies consistent with the broad thrust of EU policy, it is estimated that EMU membership would nevertheless remain beneficial for Ireland, but that the net impact on Irish GNP would be about 0.4%, with a net increase in employment of about 10,000.

Further Aspects of Irish Unemployment

Causation

It is clear from the preceding comments that changes in the aggregate level of unemployment in the Irish economy derive from a complex relationship involving cyclical influences, changes in the size of the labour force and net external migration. A number of studies have attempted to explain the trend changes in Irish unemployment in broad macro economic terms using macro modelling techniques. Such studies typically involve broad categorisations of causative factors covering external (i.e. world) influences, domestic policy issues and demographic factors. In analyzing the sharp rise in Irish unemployment in the early 1980s work by Bradley and Barry (1991) indicated roughly equal measures of responsibility between external and domestic influences for the unemployment rise in question. Demographic influences (in the form of the natural increase in the population of working age) were shown to be minimal, largely because labour force growth was constrained during this period due to emigration, which thus exerted an indirect but important influence.¹⁰

However as the authors emphasise, much depends on the period chosen and furthermore it has to be borne in mind that causation attributable at a particular time may have its origins in an

¹⁰ It should be noted that external migration is endogenously determined within the model.

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earlier period. The restrictive policy measures which contributed to rising unemployment in the early 1980s were necessary to correct the financial imbalances in the economy caused by measures taken in the late 1970s which allowed public expenditure to rise rapidly at a time when tax concessions were also made.

The events of the late 1980's gave rise to an interesting debate as to whether the very restrictive measures imposed by the Government from 1987 onwards provided evidence of the positive effects of "expansionary fiscal contraction". Contrary to expectations the application of these measures was accompanied by a significant upsurge in economic activity, considerable job growth and a reduction in unemployment. On reflection, however, the collective wisdom at this stage suggests that while the regime of greater economic discipline helped to create a climate conducive to investment and enhanced levels of economic activity, this of itself was not the primary cause of the economic upturn. This was due largely to unanticipated rapid growth in the world economy, the impact of which outweighed the negative effects of the public expenditure cuts which were applied¹¹. The parallel negotiation of a moderate national wage agreement (the PNR - see Chapter V) would also have been a significant feature.

Recent Unemployment Trends: Long-Term Unemployment

Turning to the recent improvement in our economic circumstances, a heartening feature of these events is that young people appear to have begun to derive significant benefits therefrom. After a long period during which little improvement was evident (even in the late 1980s when unemployment fell overall) the youth unemployment rate has declined significantly in recent years¹².

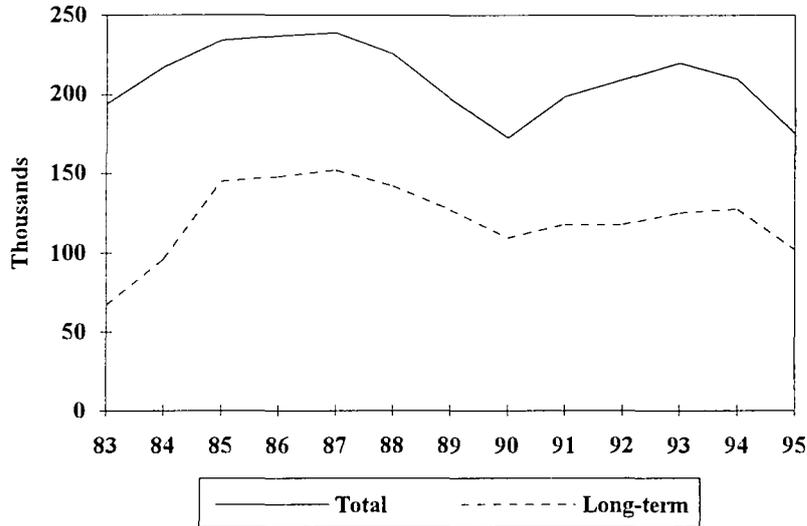
There has also been a noticeable fall in the number of long-term unemployed, even when allowance is made for the impact of publicly sponsored employment schemes targeted at this group. The most recent Labour Force Survey estimates indicate that the number of long-term unemployed declined by 25,000 in the year to April 1995 (from 127,000 down to 102,000). These Survey based data indicate that long-term unemployment is much more significantly affected by cyclical changes in the economy than had heretofore been thought. Perceptions in this regard have been heavily influenced by the trends indicated by the unemployment register, which has signalled an inexorable rise in long-term unemployment. It now appears, however, that the latter is due more to extensions and relaxations in the coverage of those eligible for benefit than to underlying economic trends, a conclusion which is supported by the recent CSO release comparing Labour Force Survey Unemployment estimates and the register-based data¹³.

¹¹ See, for example, Bradley and Whelan (1996).

¹² This is also evident from the 1995 School Leavers Survey organised jointly by the Department of Enterprise and Employment and the ESRI, which signals a marked improvement in the position of young people leaving second level education. Excluding those continuing to higher education, the proportions of 1995 school leavers who gained employment rose to 74 per cent, compared with 63 per cent for those who left second level education in 1994.

¹³ Central Statistics Office, 1996, "Unemployment Statistics: Study of the Differences between the Labour Force Survey (LFS) Estimates of Unemployment and the Live Register." Appendix I of the present

Figure 1
Total and Long-term Unemployment, 1983-1995



The foregoing should not, however, deflect attention from the fact that long-term unemployment still presents a formidable problem with a significant structural dimension. While it may be more susceptible to economic forces than previously envisaged, the reality is that the total has remained above the 100,000 figure since the mid 1980s. Furthermore, since it is the best equipped along the long-term unemployed who tend to find work first, it may be increasingly difficult to achieve further reductions as the remaining body of long-term unemployed persons will tend to have an increasingly disadvantageous education and skills profile. There will, therefore, be a need for continuing intervention on the part of the State, if the persons concerned are to be reintegrated into employment.

These results, nevertheless, have significant policy implications as the Live Register trend has been one of the principal factors which has led to a very large outlay of public resources in combatting the problem. While we are not questioning that substantial supports are needed to counter long-term unemployment, the results must give cause for some reconsideration, not only of the nature and effectiveness of current provision but also the need for targeting the most disadvantaged among the long-term unemployed.

study also contains an analysis of trends in long-term unemployment as measured by the two sources in question.

Wage and Salary Trends

These trends are analyzed in Chapter IV. While many economic and social factors have an impact on wages, in Ireland in recent decades the nature of wage negotiation frameworks has exerted a considerable influence, as for most of this time these involved national collective agreements (albeit of different kinds). The particular sub-periods selected for wage trend analysis have, therefore, been chosen with this particular aspect in mind as it was considered desirable to try and identify the effects of these agreements (including the period from 1981 to 1987 when no national agreement applied). The details of these national agreements, and other relevant aspects of industrial relations, are discussed in Chapter V.

Turning first to the 1970's real earnings increased very rapidly in Ireland during this period, in fact at a pace that the economy could not really afford, as these increases were instrumental in causing significant losses in international competitiveness. The 1970s saw a succession of national wage agreements which tended to be negotiated in a purely domestic context with little regard being paid to external or world marketplace factors. Furthermore, apart from the relatively generous increases in basic pay, they allowed for "above the norm" increases which were intended to cover exceptional situations (such as local plant productivity agreements) but, in effect, became a widespread and usual feature of these agreements, thus providing a further push to wage inflation. The consequential loss of competitiveness constituted a serious additional burden with the onset of global recession in the early 1980s, contributing to the heavy job losses which then occurred.

The deep recession of the first half of the 1980s and the associated sharp rise in unemployment caused a very noticeable moderation in the upward movement in wages, even in the absence of a national wage agreement. In fact the available evidence indicates that across the economy as a whole real earnings remained more or less static between 1981 and 1987, even though in manufacturing these showed a tendency to rise, especially towards the end of the period, causing some renewed erosion in competitiveness.

It is of interest to observe the variations in the earning trends for different sub-sectors of manufacturing in this period. Pay increases awarded in the multinational sector (where a global rather than a domestic agenda would apply) tended to be above average, as did those in the mainly indigenous beverages and tobacco industry which underwent very substantial rationalisation in the early 1980s, involving substantial automation and modernisation of plant, and in parallel, significant shedding of labour. The *quid pro quo*, for those employees who survived in this sector, was a substantial rise in real earnings, well in excess of the national norms which then prevailed. In contrast increases in other manufacturing sub-sectors (where they actually materialised) were much less.

National wage agreements were reinstated in 1987 with the negotiation of the Programme for National Recovery (PNR), followed in 1990 by the Programme for Economic and Social Progress (PESP), which lasted until the end of 1993, and the Programme for Competitiveness and Work, from 1994 to the end of 1996. These had a moderating effect on wage increases, and also promoted greater uniformity in pay arrangements across the economy, particularly in the private sector. Furthermore, unlike the 1970s, the terms of these agreements were complied with to a high degree and in so far as special arrangements were made, these tended to be well within the

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parameters allowed under the agreements. The competitive position of the Irish economy improved greatly during this period, which has been one of the significant features underpinning the employment increases in recent years, particularly in the manufacturing sector.

From 1989 onwards, however, the upward trend in public sector wage trends began to move significantly ahead of those in the private sector. This arose because of the payment of previously granted “special” pay awards, these having been postponed or held in abeyance for the duration of the 1987-1990 PNR agreement. Such awards may not at the time of implementation have a direct bearing on competitiveness, but they do represent an additional component which has to be funded from public resources which thus has implications for competitiveness in the longer run. While it is reasonable that agreements entered into should be honoured, this divergence represents a worrying trend and were it to continue, would create serious difficulties in the way of negotiating a further broadly based national agreement involving moderate pay provisions.

Industrial Relations: National Wage Agreements

As indicated earlier, these issues are considered in some detail in Chapter V. The regulatory framework for industrial relations in Ireland is based on “voluntarism” in that agreements between employers and workers are binding in honour only. However the Government does provide an institutional framework for settling disputes relating to the legal entitlement of employees, for example the Employment Appeals Tribunal, the judgements which are legally binding. The Labour Court also adjudicates in disputes arising from equality and anti-discrimination legislation, thereby introducing a legally enforceable dimension to its role.

The Growth of State Intervention in Labour Relations

By the late 1960s free collective bargaining had come to be identified as a source of many disadvantages including high inflation, high unit labour costs and high levels of industrial conflict; as a consequence, the poor public image of Irish industrial relations abroad was seen to endanger the prospects of attracting inward investment. These pressures forced the State to depart from its former non-interventionist strategy and to promote national wage bargaining.

The 1970s saw a series of national wage agreements which were, for the most part, negotiated on a bipartite basis between trade unions and employers, but with the active encouragement of Government. These agreements involved not only provisions for basic pay increases, but also for “above the norm” (ATN) increases which were to allow for plant-based productivity agreements to enhance competitiveness in industry, as well as to make reparation for serious pay anomalies. The provisions also allowed for “below the norm” increases, thereby providing an “inability to pay” element to wage settlements.

A more direct tripartite dimension to these national negotiations emerged in the latter half of the 1970s when the Government offered tax concessions in return for the acceptance of specific (moderate) pay increases. This move was prompted by a concern to relate pay increases to the needs of macroeconomic policy. These agreements were the “National Understandings” of 1979 and 1980. They involved a more concerted attempt at social partnership at national level, with

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direct government involvement in the negotiations. These agreements covered a broader range of social issues, including health, taxation, social welfare and employment. However this system of wage determination lasted for only two years, terminating in 1981.

While some advances were made in the area of social policy as a result of the agreements of the 1970s, the arrangements were not particularly successful in moderating wage increases. Wage rises above the norm became a matter of course rather than a means for buying out an efficient work practices and other work place inflexibilities. While these wage pressures were relatively easily absorbed in the profitable capital intensive multinational sector of the economy, indigenous industry in traditional segments of the market (e.g. textiles, furniture, engineering etc.) found it very difficult to compete. Thus, instead of improving Ireland's competitiveness, the national wage agreements worked to undermine the economy's competitive position. During this period industrial conflict rose to the highest levels in the history of the state, with the services of the Labour Court being pushed to its limits. Centralised bargaining ended in 1981 with a return to free for all collective bargaining.

From 1981 to 1987 wage negotiations were conducted at a workplace or company level in the majority of cases. During these years the Government rarely intervened in the wage bargaining process, preferring a non interventionist stance; it also maintained the social partners at arms length from most policy making processes, although the traditional practice of supporting collective bargaining and its associated institutions was maintained.

The period of decentralised bargaining from 1981 to 1987 had a number of discernible features. First the level of wage increases varied significantly from one company to another and from one bargaining group to another. Second, wage increases in the multinational sector were higher than in the indigenous sector. Third, the individual economic circumstances of organisations or companies played a crucial role in determining pay increases. Thus the traditional norms of conceding pay increases according to cost of living, comparability and wage relativity criteria became increasingly redundant as the competitive position of companies became more influential; in some sectors (e.g., clothing manufacture) employees were obliged to accept a reduction in real earnings. Despite the variations between groups, the overall position was that real earnings remained broadly static during this time, which can be attributed mainly to the prevailing economic situation which was sufficient to restrain employee wage expectations, even in the absence of a national agreement. However, towards the end of the period comparative wage levels were beginning to drift upwards again (especially in manufacturing), thus tending to offset some of the competitive gains which had been made.

For the trade unions decentralised bargaining had achieved little apart from for certain key skilled groupings who were strategically placed and in some sectors where employees were able to exploit their labour market strength. Otherwise, the trade union movement lost members through job losses and increasing unemployment. Wage increases won at local level were offset by higher taxes. There was also a fear that with increased competition employers would move to exploit their position locally and marginalise and by pass trade unions. For employers, on the other hand, in many sectors of the economy rising unemployment had in the long run proved a poor discipline on

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employee wage demands.¹⁴ Employers also complained that not enough had been achieved through decentralised bargaining to reform inefficient work structures. The period between 1981 and 1987 was a fractious one for industrial relations, with working days lost through industrial disputes remaining at a high level. The year 1987 thus saw a return to centralised bargaining in Ireland, a development which was largely due to the perception of all parties that there were advantages in following such an approach.

The main attraction for government in re-entering broadly based national agreements was the opportunity it presented for better management of the State finances. Targets were established for achieving greater control of public expenditure and stabilising the debt/GNP ratio. The wage provisions included in the first agreement concluded (the Programme for National Recovery -PNR) were quite modest, thus allowing improvements in competitiveness to materialise. The PNR also precluded any other form of wage negotiations other than basic pay increases. This was a deliberate attempt to prevent second tier bargaining which had become a questionable feature of the centralised arrangements in the 1970s. The rate of compliance in the PNR was quite phenomenal (including multinationals). The agreed regime was strictly adhered to, even though it should be noted that within the public sector existing special pay increases were only put “on hold” and left to be honoured later. The successor to the PNR, the Programme for Economic and Social Progress (PESP) provided for the award of additional wage increases to facilitate individual local circumstances but again, on the whole, the degree of compliance was very high, even when account was taken of the additional “local” dimension. This containment of second tier bargaining is in striking contrast to agreements of the 1970s which were effectively undermined by such arrangements, as the additional payments were often made without increases in productivity.

The current national wage agreement — the Programme for Competitiveness and Work (PCW) — which is due to run until the end of 1996, is similar to its predecessor the PESP in that it involves both arrangements for basic increases and the possibility for additional payments at local level to meet special circumstances. The evidence to hand, even though incomplete, suggests that this agreement has also involved a high rate of compliance. Indeed one of the striking features of the agreement has, on the contrary, been the implementation of wage freezes, wage cuts and the recruitment of new employees on lower entry pay scales. While this trend had become evident under the preceding PESP, it has accelerated notably during the currency of the PCW. These developments, which represent a major shift when compared with the circumstances of earlier periods, basically represent a pragmatic response by the social partners (and the trade unions in particular) in the face of intensified competition and an inhospitable labour market. Furthermore the moderation and compliance demonstrated by foreign owned companies in comparison to that which characterised this sector in the 1970s and early 1980s is a reflection, *inter alia*, of the impact of inter-subsidiary competition within multinationals.

However, the issue of public sector pay has been a notable point of controversy over much of the period in question. In the immediate post 1987 period public sector wages were subject to the same restrictions as applied elsewhere. Indeed the available data would suggest that between 1987 and 1989 average public sector pay levels (when viewed in relative terms) slipped slightly

¹⁴ In the first half of the 1980s earnings increased at a higher rate in Ireland than in any other EMS country (NESC 1990; Roche, 1994b).

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behind those in the private sector compared to what they had previously been. However, to a large degree this was achieved by postponing a range of previously granted “special awards” which applied over and above standard cost of living increases. From 1990 onwards, when these special increases were gradually paid, a very notable divergence between public and private sector pay became evident, with employees in the former sector gaining a distinct advantage.

Assessment of the Effects of Centralised Bargaining

Opinion on whether Ireland's experiences with centralised wage bargaining has been successful or not varies. It is worth mentioning at the outset, however, that the principal players involved, the social partners and the government, are still fairly strongly wedded to the concept even though there are dissenting voices. However the continuation of these agreements will depend, naturally, on the content of any new arrangements, and how these are perceived by the various interests involved (see below).

The views of independent observers tend to be more mixed. One of corporatism's most severe critics, Teague (1995), has claimed that tripartism in Ireland was and continues to fail as a social corporatist initiative. He points to a number of deficiencies: first where one might expect, *a priori*, centralised bargaining to represent a key constituent of social corporatism, in the Irish case it was not central to the state's economic management strategy but was rather an “adjunct” to a harsh and uncompromising competitive disinflation strategy: second it failed to create significant job growth and thirdly wage inequality remained persistently high by European standards, although the increase in wage dispersion has slowed when compared with the earlier period of free for all collective bargaining. Teague does, nevertheless, acknowledge that the Irish government did deliver on a number of commitments in the broad social policy area, such as increased investment in education, employment law and tax reductions. At the time of writing of Teague's paper it is true that employment creation in the Irish economy had been sluggish¹⁵ but, as described in Chapter II, job creation has been phenomenal since the beginning of 1993. While one cannot attribute all of this solely to the effect of recent national wage agreements, the moderation in labour costs and the consequential improvement in our competitive position achieved through these agreements must have played an important role, a line of reasoning supported by the fact of substantial increases in manufacturing employment. Furthermore Teague's claim that tripartism has not addressed wage inequality is hardly borne out by the evidence. Our analyses (in Chapter IV) showed that national agreements have been reasonably successful in restraining pay dispersion across industrial sectors at a time when one might have expected greater wage inequality to emerge. Furthermore these data indicate quite clearly that very significant dispersion occurred during the period of free for all collective bargaining between 1981 and 1987. Further benefits to derive from the national wage agreements relate to the absence of wage drift and declining industrial unrest.¹⁶ It should also be

¹⁵ The employment position in the Irish economy in the early years of the 1990s was still creditable given that the international economic scene was fairly dismal at this time. Employment levels were at least maintained during these difficult years, while in many other countries they underwent a significant decline.

¹⁶ This can be gauged by observing the aggregate number of working days lost through industrial disputes. In the 1970s the annual average figure was 570,000; between 1981 and 1987 it was 366,000; between 1988 and 1990 (the period of the PNR) it fell to less than 140,000 and it declined further to 113,000 between

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noted that the real disposable incomes of employees have increased in real terms during the currency of the agreements and that employees in part-time and temporary jobs have seen their positions made more secure by the enactment of special legislation.

The Prospects for a New Social Consensus

The current national programme, the PCW is due to terminate at the end of 1996. At the time of writing, September 1996, while there are obvious limits to discerning the parties bargaining positions regarding a new arrangement, certain features are identifiable. First while the employers and trade unions share the view that the benefits from social partnership have been significant and worthwhile, they are also agreed that they are not what they might have been. Both parties are united in their criticism of the Government's refusal to make significant tax concessions to employees, particularly in the most recent budget. Furthermore, the employers representatives have pointed to the rate of increase in public expenditure in recent years and the limitations which this has imposed on the possibilities for further tax reform.

When viewed from a trade union standpoint, however, the case for continuing with centralised bargaining is strong. The benefits of the three agreements have included an increase in workers' standard of living (albeit moderate), employment growth (especially in recent years), low inflation and, perhaps most importantly, direct trade union influence over national and social economic management. To refuse to participate in talks about a future agreement or to fail to accept one would be to risk reversing these gains.

In terms of issues which the unions would like to see in a new agreement, there would seem to be three key bargaining items. First there is a concern to see trade union participation in decision making extended from the national level to a local level. A significant consideration here are local trade union interests claims that they are being marginalised in the context of wider national agreements. In a more general way, there is the concern that national level partnership has no means of articulating the wider developments in industrial relations practice at local level and vice versa. Early discussions of such a provision centred around a Works Council type of arrangement. More recently, this term has been dropped in preference for a more general concept of workplace social partnership. This is not surprising given employers' (and development agencies) predictable objection to the former. The likely outcome may be some form of national framework agreement within which there would be scope for decentralised negotiations. Experimentation in this broad area is very much in embryonic form and there may be good reason to wait and see which practices might emerge which best suit Irish circumstances, which vary significantly from sector to sector.

The second area of concern for trade unions is closely related to the first: some statutory provision for trade union recognition. This has long been a preoccupation of the Irish trade union movement and has become a particular concern in recent years with the increased tendency for foreign owned companies, particularly in the electronics and software sectors, not to recognise

1991 and 1993 (PESP). The average for 1994 and 1995 was lower still at 78,000. Further details are given in Appendix Table A5.1 in Chapter V.

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trade unions. Again employers (and the development agencies) are likely to resist any moves in this direction. It is difficult, at this stage, to see how such a provision could be agreed to.

The third bargaining item which is likely to figure highly in the trade union agenda is the inclusion of a local bargaining clause. The trade unions will claim that the moderation which they have shown in past wage agreements, as well as their willingness to work with the introduction of new technology and new forms of organisation, has led to significant improvements in unit labour costs and increased profits for employers. The employers are likely to object to such a provision, especially if it is to involve a blanket extension to all workplaces and if it is not linked to some definite *quid pro quo*. The task for all parties will be to prevent the development of a second bargaining tier of a type which emerged in the 1970s which gave rise to productivity bargaining of a very dubious character. If such a process was to become widely diffused throughout the economy, this would inevitably lead to wage drift and new inflationary pressures which would endanger Ireland's strong economic performance of recent years.

The area of low pay is another item which is likely to loom large in trade union concerns. However neither the Government nor the employers are likely to favour any move towards instituting a national minimum wage (see Chapter V). The trade unions for their part are likely to press for special attention for low paid employees in the reform of the taxation system.

Employers are likely to afford high priority to obtaining moderate wage increases with a reappraisal and further reform of the existing tax regime. Other closely related items such as reductions in the growth of public expenditure are also likely to figure highly. In addition the employers are also likely to seek some commitment from the trade unions in the broad areas of functional and temporal flexibility; in regard to new working practices and new working time arrangements. If the trade unions agree to this, and they may well do so as long as certain guarantees are given (i.e., maintenance of employment levels and that the trade union's position will not be endangered) then this may present them with an opportunity to win some concessions from employers in the area of local social partnership.

The pressure on employers to deliver further employment in return for the wage moderation shown over the last ten years is likely to continue. While the recent improvements in job creation have been impressive, it is essential, given our demographic and labour market circumstances, to maintain employment creation at a high level over the coming years.

In summary this report argues that there is a compelling case for extending the life-time of the current series of national agreements - but not, of course, at any price. Ireland's international trading position is crucially dependent on maintaining competitive wage levels, low inflation, control over public expenditure - imperatives which are assuming greater importance as the prospect of EMU approaches. It is necessary, therefore, that the wage provisions in a new agreement should be moderate to the extent that they do not compromise our position in relation to these requirements. In so far as non-pay elements in any new agreements are concerned, it is essential to avoid excessive public expenditure commitments. If the experience of recent years can be taken as a guide, the trade-off should be a greater measure of employment creation which is desirable not only because it achieves an appropriate re-distribution of the proceeds of growth, but is also vitally necessary in view of the labour market challenges we face.

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While all the parties involved are clearly committed to attempting to achieve a new arrangement, such attitudes do not necessarily reflect a principled commitment on all sides for national social partnership, or for integrating labour market and industrial relations policies with overall economic policy. Until now national agreements have been concerned, in the main, with quantitative issues - pay, social welfare provision and so on. Agreements on more qualitative issues have been left in the realm of aspiration and "commitment". The trade unions concern on this occasion to press vigorously for a number of qualitative issues - particularly local level partnership - leaves them with the task of convincing the other parties of the desirability of broadening the scope of social consensus and national agreements.

Labour Market Legislation

Chapter VI contains a resumé of the principal legislative provisions and regulations governing labour market activities. The content of the chapter is sub-divided into three parts covering (a) employment protection (within which legislation on individual and collective dismissal are considered separately), (b) the regulation of working time and (c) minimum wage regulation.

The overall view to emerge from this review is that the Irish labour market has become more regulated in recent years. The introduction of new legislation (much of it enacted to comply with EU laws) has pushed the Irish industrial relations system further away from the voluntarism it inherited from the British tradition and more towards the Continental model of labour market regulation.

Nevertheless, previous research indicates that Irish employers do not consider themselves unduly constrained by labour law. Studies carried out by the ESRI in 1986 and 1991 (both conducted for the then Department of Labour) suggests that few firms saw such legislation as one of the main problems facing them and only a minority indicated it as having caused recent problems. Few of the firms surveyed identified labour legislation or its consequences as reasons for not expanding their labour force, or for not being able to reduce it when they wished to do so. Economic factors, such as lack of market for extra production, were highlighted as being of much greater importance. The report did indicate however that, in general, labour costs were of greater concern to larger enterprises, both in regard to actual wages and associated social insurance costs.

A further issue of relevance to note in this regard concerns the rapidly growing numbers of part-time employees, despite the introduction in 1991 of what could be considered to be (from an employer's standpoint) restrictive legislation. The Worker Protection (Regular Part-Time Employees) Act 1991 significantly extended the categories of part-time worker eligible for a wide range of employment provisions, which might have been expected to at least reduce the rate of expansion in part-time employment. No such outcome has occurred, in fact the number of part-time employees has continued to increase at an even more rapid pace, rising by no less than 60 per cent between 1991 and 1995 (see Table 2.6, Chapter II).¹⁷

¹⁷ This could, however, be partly due to extended eligibility provisions which allow persons who work part-time to apply for reduced or partial unemployment benefits.

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With regard to regulation or curtailment of working time it is inherently difficult to assess the effects on employment levels. Recent Irish research (Fynes *et al.*, 1996) suggests that any incremental increases in employment levels that arise from restricting working time are very limited. Surveys of enterprises carried out as part of this research indicated that only 8 per cent of private sector employers who had reduced working hours reported an increase in the number of full-time employees, and 4 per cent reported an increase in part-time employees. Results for the public sector tended to be somewhat more encouraging: 30 per cent of sampled public sector enterprises reported having increased employment as a result of reduced working hours.

This study did identify some evidence to suggest that employees would countenance some reductions in working time; some 70 per cent of surveyed workers said that they would sacrifice some overtime in order to increase employment. However it must be recognised that at local level trade union representatives frequently support demands for increased overtime. Even where trade unions (usually at national level) seek increased basic pay as a deterrent against excessive overtime, this is not always effective in terms of achieving this objective, given the high rates of pay associated with overtime.

The work of Fynes *et al.* (1996) also investigated the question of jobsharing which was found to have had only a minimal impact on employment creation, even though it was applied to a somewhat greater degree in the case of public sector enterprises. The study found that over 70 per cent of companies, employing 77 per cent of the private sector workforce saw no advantages in operating job sharing schemes. Such negative perceptions cannot be underestimated, and if job sharing initiatives are to be pursued to a greater effect then clearly significant measures will have to be taken by the social partners and Government to reverse such views. On the basis of the available evidence, it is questionable in any case as to whether the effort invested in such initiatives would be worthwhile.

With regard to minimum wage regulation the effectiveness of the Joint Labour Committee (JLC) system in combatting low pay has been analyzed by Nolan (1993) using data from a large scale household survey carried out by the ESRI in 1987. This identified certain occupations/sectors not covered by JLC which contained significant numbers of employees on pay rates generally below those set by the JLC system. The most important of these was retailing, and a JLC covering unskilled low paid employees in this sector has, in fact, subsequently been put in place.

There has been some debate in Ireland about the merits and disadvantages of instituting a national minimum wage. Advocates point to the potential benefits in terms of comprehensive coverage, much greater transparency for those covered and also argue it would contribute in the longer term to an improvement in output and efficiency through forcing management to adopt improved corporate strategies that would help to counter a low wage, low productivity spiral. Critics on the other hand point to the possible negative effects on employment. A review of the international literature indicates that there is little consensus on this issue. The recent strategy document "Growing and Sharing or Employment" produced by the Department of Enterprise and Employment took the available evidence to suggest that if a national minimum wage is set at a level not matched by the productivity achieved, it would have a potentially negative effect on jobs, and concluded that there were significant benefits in continuing to rely on the existing JLC system.

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Studies by Nolan (1993) and Callan and Nolan (1993) examined the immediate impact which a national minimum wage would have on low pay and poverty in Ireland. This work shows that the gains from a minimum wage would be spread across the income spectrum rather than concentrated towards the bottom, with the result that the impact on household poverty would be quite limited. This reflects the fact that many low pay workers are not the main income earner in their household, and the fact that in Ireland many households below conventional income poverty lines do not contain an employee, but rely on income from social security or self employment (especially farming).

Education and Training

Expansion and reform of the educational system over the past three decades have resulted in a substantial growth in the supply of well qualified and technically skilled workers, particularly among the younger age groups, and the availability of such a highly skilled labour force is widely regarded as one of the reasons why Ireland has been particularly successful in attracting foreign investment. The improvement in labour market conditions observed in recent years, which is forecast to continue, has the potential to create new opportunities for realising improved returns to education and training, both for individual students and trainees and for the economy as a whole. Our review of the education and training system identified a number of areas in which changes are needed in order to take full advantage of these opportunities.

Despite the overall achievements the educational system continues to produce an unacceptable number of poorly qualified early school leavers, ill equipped to compete in the labour market, although it should be acknowledged that the numbers have fallen significantly over the last decade. Improved labour market conditions have meant that in recent years there has been a significant improvement in the post-school labour market performance of those leaving second level education, but poorly qualified school leavers have not been able to take advantage of this improvement: the proportion of those with a Junior Certificate or less employed declined over the 1990s while the proportion unemployed increased. Both early school leaving and educational attainment is closely related to social class. Children from lower socio-economic groups face a much greater risk of leaving school with inadequate qualifications than the children of higher socio-economic groups, and children from manual and routine non-manual class backgrounds are significantly under-represented in third-level education while those from professional and managerial backgrounds are over-represented. At the same time, there are marked discrepancies in *per capita* expenditures between the levels of education, with expenditure per student at primary level, in which the mass of the population participates, being only one-third the corresponding expenditure at third level, (which is attended by a socially selective minority of the relevant age group). Comparative data shows that expenditure per student at primary level in Ireland represents about half of the average expenditure for OECD countries and that a comparatively large proportion of Irish expenditure is absorbed by teacher salaries and a smaller proportion allocated to educational equipment and facilities. With declining enrolments already realised at primary and imminent at secondary levels, a demographic dividend offers the opportunity to redress this imbalance in resources. Maintaining existing levels of expenditure at primary and secondary levels would result in increased *per capita* expenditure, which, if used to redirect educational resources

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towards lower socio-economic groups, could reduce inequalities of opportunity as well as raise the average level of human capital available to the economy.

In contrast to the improved performance of second-level school leavers, the most recently published HEA data on the first destinations of third-level award recipients, those relating to award recipients in 1994 who were surveyed in 1995, show no increase in domestic demand over the 1990s. The proportion of third-level graduates who found work in Ireland decreased, and while the proportion of sub-degree recipients who emigrated to find work decline between 1991 and 1995, the proportion of degree recipients emigrating to work abroad remained at about 16 per cent. While such substantial emigration raises concerns about the loss of human capital to the Irish economy, it is known that large numbers of graduate emigrants return to Ireland, giving rise to a “rotational” migration pattern whereby many young graduates initially work abroad for a number of years, accumulating experience in the international labour market before returning to work in Ireland. Such a rotational pattern is likely to have a positive impact on the national stock of skills and competencies. Moreover, recent indications from individual colleges would suggest that the number of graduates finding work in Ireland increased substantially in 1996, while the number emigrating declined, suggesting that the general improvement in the domestic labour market is now beginning to be felt at third level. Nevertheless, there remains room for concern about possible over-supply at sub-degree level, where the proportions finding work in Ireland continue to be lower than among degree recipients. The high and increasing rate of progression to further study among sub-degree recipients suggests that these courses, originally intended to provide vocational education linked directly to local labour market needs, are increasingly functioning as feeder courses to more advanced education. These trends among sub-degree recipients thus raise questions about the appropriate balance of provision between sub-degree and degree courses.

Our review of education and training also raises concerns about the extent to which skills needs are being adequately met in a growing economy. We noted that there are both qualifications and skills discrepancies between Ireland and competitor countries which have the potential to undermine Irish competitiveness, and that current levels of continuing training are unlikely to be sufficient to rectify those deficiencies. There is widespread agreement that there is insufficient commitment to management development in Irish enterprises. This serves to reinforce the Irish skills deficiency, since poorly trained managers are unaware of the inadequacies of the skills of both their own skills and those of their workers, are unlikely to identify those deficiencies as a constraint on growth, and unable to recognise the importance of investment in training.

Reforms in continuing training have been slow to develop. This is most obvious in relation to apprenticeship training, in which the urgent need for reform was identified over twenty years ago. While the majority of apprentices are now participating in a new standards based system, a number of crucial issues, concerning the duration of apprenticeship, assessment of training, in-firm training capacity, particularly in small and medium sized enterprises, and the training of trainers, have yet to be resolved. Moreover, the numbers participating in the official apprenticeship system have been declining steadily in recent years, despite the expansion of employment in technical areas of manufacturing and construction. This would suggest that employers and trainees have sought alternative solutions to their training needs, and that much of the required training must be taking place outside of the apprenticeship system. One of the alternative sources of workers with technical training is the Vocational Preparation and Training programme at senior cycle second-level and

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post Leaving Certificate level. While the expansion of this programme has led to a substantial growth in the proportion of second-level students taking vocational-technical courses, there would appear to be greater scope for increased provision in order to ensure that those not progressing to third level education are well prepared for entry to the labour market.

Labour Market Policies

This analysis (in Chapter VIII) is divided into two parts covering “passive” and “active” measures. The former relates principally to the provision of financial support for the unemployed while the latter includes training, employment schemes and measures designed to assist the unemployed to find work.

Passive Measures

Turning first to passive measures, most of the recent debate on this issue has focused on the relationships between incomes when in and out of work, and possible disincentive effects. These concerns were one of the factors which led to the appointment in 1993 of an Expert Working Group on the Integration of the Tax and Social Welfare System which has recently issued its report (1996). Frequently the arguments focus on the calculation of “replacement rates”, i.e., the ratio of the net amounts obtainable in the form of unemployment compensation to previous net earnings, or expected net earnings. The concept involved here is not a simple one, as ideally it should include not only direct unemployment compensation payments, but also the value of non-cash allowances such as medical entitlements etc., which are generally available to a non-employed person, but may (depending on income levels etc.) be withdrawn in the event of taking a job.

Broadly speaking the analyses of passive measures contained in Chapter VIII indicate that replacement rates in Ireland are not as high as in a number of other EU countries, though they are higher than in the UK. Furthermore the numbers facing high replacement rates have been decreasing in recent years, in response to specific measures undertaken to achieve this objective.

The commentary in Chapter VIII also deals fairly extensively with the question of the tax wedge, i.e., the gap between what it costs an employer to hire an employee and what the employee receives in take home pay. Even though comparative studies have indicated that the tax wedge in Ireland, when taken as a proportion of total employer wage related costs, is not unduly high in an international context, it did rise sharply throughout the 1980s. This is widely considered to have created pressure for compensatory increases in nominal wages and thus contributed to the decline in the employment which occurred early in that decade (an outcome which appears to be supported by econometric evidence). A series of measures introduced in the social insurance system in the 1990s has resulted in a significant decline in the relative extent of the tax wedge, even though it has not fallen back to the level which prevailed prior to the early 1980s.

Active Measures

In forming an overview on this aspect, some reference to the allocation of resources on different kinds of active measures (as given in the following table), is appropriate.

Table 2
Distribution of Activity on Active Labour Market Measures, 1994

Type of Measure	Throughput	Expenditure
General Training	20	29
Skilled Training	20	12
Employment Subsidies	23	8
Employment Schemes	38	51
Total	100	100

Note: The figures do not include Apprenticeship Schemes, which are discussed in Chapter VII.

International comparative data indicate relatively high expenditure in Ireland on passive measures (when taken as a proportion of GDP) which is hardly surprising in view of the high unemployment rate. Such expenditure is also relatively high in Finland and Spain which also have associated high rates of unemployment. However the outlay on active measures is also relatively high in Ireland, as it is in a number of other “high unemployment” countries. This is probably due to the fact that rising unemployment induces governments to expend more on active measures in the expectation of reducing unemployment, ultimately if not immediately. However recent research carried out by OECD (1994) indicates that there is no apparent direct relationship between expenditures and active labour market programmes and changes in the level of unemployment. A cross sectional analysis of 21 OECD countries found that growth in active labour market expenditures was negatively associated with employment growth, which was interpreted as reflecting the tendency by Governments to increase such expenditures during recessionary periods. The same study, however, found that growth in GNP generated higher employment growth rates in countries where training expenditures increased the most, suggesting that active measures may be more effective in increasing employment during periods of economic expansion. However, the OECD report goes on to suggest that employment enhancing effects are more likely to occur where training programmes are successfully targeted at meeting skills shortages in particular sectors and occupations.

With regard to assessing the impact of active measures, the international literature suggests the impact of such programmes in generating additional employment is limited, with the exception of direct job creation measures. Training policies can, however, promote additional employment under conditions of skill shortages, and this report contains some evidence to suggest that training may have had such positive effects in the Irish context.

Summary and Conclusions

Effective and well targeted measures can, however, redistribute employment opportunities to less advantaged labour market participants, thus fulfilling a worthwhile role in countering inequity.

There has been a number of Irish studies which have attempted to assess the impact of labour market schemes by tracking the post programme for performance of participants. The most recent such comprehensive analyses is that by O'Connell and Sexton (1995) which covered about 3,500 former participants across a wide variety of publicly funded schemes.¹⁸ This research, which covered performance over a period of up to some 18 months after leaving the schemes in question, revealed placement rates of 60 to 65 per cent for skilled training activities and employment subsidy programmes, rates of just over 30 per cent for general training schemes but as low as 25 per cent for employment creation activities. A subsequent paper by O'Connell (1996) took account of the individual characteristics of participants (such as age, education, etc.) and which included the use of "control group", i.e., addressed the question as to what might have happened if the programme participants had not participated in any scheme. This research found that in the short term participation in any type of programme increased the probability of employment. However over the longer term involvement in market oriented programmes such as specific skills training or employment subsidies, continued to result in a higher probability of employment, while participation in programmes with weak market linkages, such as general training or direct employment schemes, had no lasting effect on job prospects.

These findings should not, however, be interpreted to suggest that the latter programmes are of no value and should be discontinued. For many of the disadvantaged unemployed their educational qualifications or skills maybe so inadequate that participation in general or foundation level training, or in temporary work experience, offers the only hope of eventual re-integration into the labour market. The findings do suggest, however, that general training or temporary employment supports are of themselves unlikely to significantly improve the job prospects of participants unless they are followed by progression to more advanced schemes which have better linkages with the open labour market. This suggests the need for reintegration paths designed to allow the long-term unemployed and socially excluded to progress through a series of programmes tailored to their particular needs with the ultimate objective of securing sustainable employment. The development of such reintegration paths is one of the objectives of the newly established Local Employment Service (LES). It must be recognised however that such an approach will require more resources than are currently available for the reintegration of those most disadvantaged in the labour market, even though overall costs would be constrained by the adoption of more focused and selective targeting on the most disadvantaged and those genuinely in need of assistance.

A matter of particular concern is the development in recent years of a proliferation of employment subsidy type schemes run by different agencies aimed at different target groups, not all of which can be described as disadvantaged. Apart from schemes specifically designed as employment subsidies, it should be noted that certain aspects of the social welfare system

¹⁸ Other such studies include one by FÁS in 1991 (which covered only FÁS programme participants) and several surveys which related to particular schemes or were carried out in particular localities.

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can also function in this manner. Thus part-time workers working up to three days per week are entitled to claim unemployment benefit or assistance for an additional three days per week, resulting in a wage subsidy which is split between employers and employees. It is likely that this arrangement has facilitated the growth in part-time working over the past decade. In view of the well documented international evidence of deadweight and displacement associated with employment subsidies, it would be more appropriate if they were closely targeted on disadvantaged groups such as the long-term unemployed and unqualified school leavers. The current situation involves split responsibilities and overlapping, and is not in the best interests of the unemployed. Furthermore, it sends confusing signals to employers regarding the priority groups to be targeted. A more strategic and coherent approach would be to establish a single employment subsidy, implemented by a single agency, targeted specifically at the long-term unemployed and other clearly defined groups suffering from labour market disadvantages. As the objectives of such an approach would be clearly formulated on equity and distributional grounds, issues of deadweight etc., while continuing to apply, would be of substantially less concern.

Industrial Policy

When Ireland achieved independence in the early 1920s it had very little industry. Subsequently a policy of protection against imports was initiated from 1932 onwards and this met with a fair degree of initial success in developing an embryonic industrial framework. However this policy had its limitations, and it culminated in a decade of virtual stagnation in the 1950s. The key failure was the lack of development of exports (leading to a chronic shortage of foreign exchange), since the policy of protection did not result in the growth of internationally competitive industries.

When free trade and export oriented policies involving capital grants and tax concessions were introduced in the late 1950s exports began to expand rapidly, industrial and economic growth rates increased and manufacturing and total employment began to rise. However, most of the improvement which occurred was as a result of inward investment into Ireland by export oriented foreign owned enterprises. At the same time the formerly protected indigenous industries were losing out to competing imports in the home market as protection was gradually dismantled; they also had little success in developing exports. As a result, indigenous industry contributed little to the employment growth of the 1960s and 1970s and, as described earlier in Chapter II, employment declined substantially in this subsector during the recessionary period in the first half of the 1980s.

Since the mid-1980s however policies have increasingly focused on the specific issue of how to develop stronger internationally competitive indigenous firms and there are indications that some success has been achieved in this respect. Between 1988 and 1995 the output of indigenous industry increased significantly and employment in the subsector rose somewhat. While the latter increase was not large (about 3 per cent), it was, nevertheless, a distinct improvement on previous experience. There has also been a marked growth of exports from indigenous industry and a significant increase in the proportion of its output going to export markets since 1986, to a degree which was unprecedented for decades previously. Indigenous industry still sells most of its output in the Irish market, but by 1992 over 35 per cent of its output was exported, up from less than 27 per cent six years previously in 1986.

Summary and Conclusions

It is worthwhile to spell out what are the principal elements of the new policies involved. These include:

- (1) A more “selective” approach to policy generally, focusing support more on building relatively strong indigenous firms which would be most likely to grow and succeed in international markets.
- (2) A greater emphasis on more integrated strategic planning when providing assistance for company's development, rather than simply providing once-off grants to assist a particular individual investment or expenditure.
- (3) A variety of measures to strengthen the management and the quality of business planning.
- (4) Re-organisation and expansion of export marketing programmes.
- (5) Increased support from science and technology programmes, such as grants and assistance for technology acquisition and “technology audits” etc.

There has been much less change in policies designed to attract foreign investment as these are generally seen as being successful. Foreign owned industry has continued to make by far the greatest contribution to net employment growth in manufacturing in recent years; in the period between 1988 and 1995 the total numbers at work in this subsector rose by no less than 16 per cent.¹⁹

Foreign owned industry imports most of its material inputs and also withdraws substantial amounts of profits from Ireland, so that much of the value of the associated output does not accrue domestically. Nevertheless, it does purchase most of its inputs of services in Ireland and has helped to generate a significant amount of secondary or associated employment in Irish services. It has been estimated that for every 100 persons employed directly within foreign owned manufacturing in 1991, there were 56 employed in providing the services inputs which it required. This compares with a lower corresponding figure of 45 indirect services jobs per 100 direct employees within Irish indigenous manufacturing (O'Malley, 1995). The same study also extended the concept of secondary or associated services employment to include employment in Irish services purchased by industrial employees, and employment in services supported by the re-spending of taxes coming from industry and industrial employees. Using this broader measure of secondary or associated services employment, it was estimated that for every 100 persons directly employed within foreign owned manufacturing in 1991 there were 94 employed in providing all the associated Irish services. This corresponds with a lower figure of 77 associated Irish jobs per 100 direct jobs in indigenous manufacturing.

¹⁹ See FORFÁS Employment Report, 1996.

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Conclusions

Ireland has experienced a phenomenal growth in output and employment in recent years. While to a significant degree this was underpinned by ongoing moderate growth in the world economy, the substantial additional expansion in the Irish economy can be attributed to domestic factors. Foremost among these was moderation in cost increases (particularly labour costs) which led to an improvement in international competitiveness and prompted a sharp increase in exports. Apart from contributing significantly to overall growth in the economy, this enables manufacturing employment to rise, even in the indigenous sector after a long period of stagnation and job losses. The favourable circumstances of recent years have also given rise to an increased inflow of external investment in the manufacturing sector, thus contributing further to output and employment creation performance. In this context, however, factors other than costs etc. are important - such as the maintenance and improvement of educational standards (especially in relation to technical areas), and a reasonably peaceful industrial relations environment. Within the wider economy the maintenance of moderate costs, low inflation and enhanced competitiveness has had further beneficial effects. Tourism, for example, has experienced a boom in recent years thus contributing substantially to employment growth in services.

The positive developments were greatly facilitated by the negotiation from 1987 onwards of a series of national wage agreements which struck a reasonable balance between the requirements of the international market-place and the reasonable expectations of labour force members. Initially there was some impatience with these arrangements as it was not considered that job growth was sufficient, especially when output began to increase rapidly. However, this has changed over the last few years with the achievement of exceptional employment expansion. A further important factor in these agreements was the granting of income tax reliefs, which were instrumental in achieving increases in real disposable employee incomes. Clearly one cannot attribute all positive outcomes solely to the effects of the recent national wage agreements, but it is our view that the environment created by these arrangements have been a vital contributing factor. It is worth emphasising that the employment expansion, in effect, reflects a real re-distribution of employment opportunities and of the proceeds of growth, achieved in a much more direct and effective manner than through Government sponsored transfers.

Our experience suggests therefore that the negotiation of a further national agreement with moderate wage provisions and without undue public expenditure commitments is vital if we are to continue to take advantage of the expected continuation of growth in the world economy. A buoyant external environment is the essential base on which our progress depends, but the period from the mid-1980s onwards had demonstrated that it is within our capacity to achieve additional growth and employment creation above the international average. This additional increment is essential if we are to meet the challenges facing us, which reflect a combination of demographic, labour force and economic and social influences.

There are other more specific issues which are worthy of further comment. Firstly, our assessment does not suggest that, as of now, labour market legislation in Ireland constitutes a significant deterrent to employment creation. While acknowledging the need to have measures to protect workers in the context of changing labour market circumstances, our analysis should not, however, be taken to suggest that further regulation would not constitute a disincentive in so far as

Summary and Conclusions

employment is concerned, bearing in mind the less regulated conditions which prevail in many countries with whom we have to compete. Another major issue relates to the necessity to deal with the problem of certain disadvantaged groups, such as early school leavers and the long-term unemployed. As for the latter, recent evidence indicates that long-term unemployment is more susceptible to changes in economic conditions than previously thought, an aspect which calls for some rationalisation of existing policies. There remains, however, a large core group of unskilled long-term unemployed for whom the prospects for reintegration into employment are remote unless specific Government assistance continues to be provided. Recent initiatives, such as the Local Employment Scheme, are to be welcomed in this regard, even though at a more general level the entire range of publicly sponsored measures directed at the long-term unemployed lacks coherence (especially from an administrative point of view) and is not sufficiently focused on the most disadvantaged.

The question of investment in different sectors of education is another area worthy of consideration. Broad comparisons with other countries would suggest a deficiency in investment at first and second level, which not only has labour market implications, but contributes to inequity in access to higher education. A targeted increase in resources directed specifically at the disadvantaged and at lower socio-economic groups would be the most effective and efficient means of reducing inequalities of opportunity as well as raising the average level of qualifications of those entering the labour market from the educational system.

Some aspects of training are also a matter of concern, especially the level of management training relating not only to the essential functions of management, but also in instilling a greater perception of the value and necessity for training generally which should be looked upon as a necessary investment, rather than something which is externally provided or funded.

The Irish economy has performed exceptionally well in recent years, resulting in increased prosperity and living standards, and, assuming appropriate domestic policies and a continuation of moderate growth in the international economy, these trends are forecast to continue over the short- to medium-term. The most recent ESRI *Quarterly Economic Commentary* forecasts that the Irish economy will grow by about 6 per cent in 1996, a slight deceleration from 1994 and 1995 but still well above the likely EU growth of less than 2 per cent. In the aggregate, personal disposable income, which rose by 7 per cent in 1995 is forecast to increase by 6 per cent in 1996 and by a similar percentage in 1997. This exceptionally strong performance has resulted in phenomenal employment growth. Total employment increased by 11 per cent between 1993 and 1996, and the ESRI forecast is for a further 4 per cent increase in employment between 1996 and 1998. Accordingly, while demographic factors continue to increase the labour force, the rate of unemployment nevertheless declined from almost 17 per cent in 1993 to just over 12 per cent in 1996 and is forecast to fall to just over 11 per cent by 1998.

The marked improvement in the economic situation and in labour market conditions represents a new opportunity to maximise sustainable employment and to ensure that it is shared more equally throughout society. Realising these objectives involves both passive labour market policies to facilitate the transition from unemployment to employment, by removing unemployment traps which function as financial disincentives to taking up work, and active policies to improve the skills and competencies of the unemployed and support the search process in the labour market. In

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relation to passive measures, the main lines of debate have focused on the impact of the tax and social welfare systems on work incentives.

A number of reforms have been introduced in recent years to reduce the tax wedge for low-paid workers and reduce their burden of tax and social security contributions including lower social security contributions applied to the first tranche of income, contribution “holidays” for employers, and the raising of income tax exemption limits. The Expert Working Group, established in 1993 to investigate the possibilities for greater integration of the tax and social welfare systems, and which issued its conclusions recently (1996), did not recommend any fundamental changes, such as full integration of the two systems, or a switch to a full basic income system. The Group did, however, recommend that tax policies at the lower end of the income distribution should be directed towards limiting and eventually abolishing the system of exemption limits by increasing personal allowances at a rate faster than exemption limits.

Recent years have also seen considerable innovation in the area of active labour market policy. We have argued that there is room for a more strategic and coherent approach to policies to support reintegration in the labour market. We have noted that the recent proliferation of employment subsidy schemes run by different agencies and aimed at different target groups gives rise to split responsibilities and overlapping, and may not be in the best interests of the unemployed, particularly those most disadvantaged. With regard to training programmes, we have argued that general or foundation level training is often insufficient to significantly improve the job prospects of particularly disadvantaged participants unless they are followed by progression to more advanced training programmes which have better linkages with the open labour market. A more coherent and strategic approach would be to develop reintegration path designed to allow the long-term unemployed and other socially excluded groups to progress through a series of programmes tailored to their particular needs with the ultimate objective of securing sustainable employment. This may require more focused targeting of scheme than is presently the practise, and is likely to require greater resources than are presently available.

CHAPTER I

POPULATION AND LABOUR FORCE TRENDS

1. Changes in the Size and Structure of the Irish Population

Overall Trends

The trend in the total population of Ireland has been somewhat varied over the period under discussion (see Table 1.1). Starting from a level of 3,443,000 in 1981 the population rose by nearly 100,000 in the five years to 1986 (i.e. by 2.8 per cent) but then declined slightly (by about 14,000) in the period between 1986 and 1991. The upward trend resumed in the 1990s; in the four years between 1991 and 1995 the Irish population increased from 3,526,000 to 3,582,000, a rise of 56,000 or over 1½ per cent.

Table 1.1
Total Population 1981-1995

	Males	Females	Total
		(000)	
1981	1,729.4	1,713.5	3,442.9
1986	1,769.7	1,770.7	3,540.4
1991	1,753.5	1,772.3	3,525.8
1995	1,776.0	1,806.0	3,582.0

Sources: Censuses of Population and Labour Force Survey.

Even though a declining natural increase (i.e. births minus deaths)¹ exerted a consistent downward influence on the population throughout all of this period, these trend variations can be mainly attributed to net external migration. Table 1.2, which shows the basic components of population change, indicates that there were very heavy migratory outflows in the latter half of the 1980s. These exceeded the natural increase and caused the total population to fall during this period. After 1991 net emigration all but ceased and overall population growth resumed. An interesting feature of the migration pattern over the period from 1981 to 1995 is that the outflows

¹ This was mainly due to a sharp fall that occurred in the number of births from 1980 onwards. Births rose rapidly in the 1970s until they peaked at an annual level of 74,000 in 1980. Thereafter they declined continuously until relatively recently when the numbers appear to have stabilised (at least temporarily). The estimated number of births in 1995 was 48,500. The increases prior to 1980 were due not so much to trends in fertility (which was actually falling) but to burgeoning population growth in the fertile age groups.

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involved a significant majority of males, which resulted in a higher increase in the female population over the period in question.

This volatility in the pattern of migration immediately prompts questions regarding causation. The changes in migration flows are in fact closely related to changes in labour market conditions, especially changes relative to conditions prevailing abroad. However we will defer any detailed discussion of this aspect until labour market issues are considered in more detail later in the report.

Table 1.2
Components of Population Change for Subperiods between 1981 and 1995

Period	Natural Increase	Net Migration	Population Change
Annual Averages (000)			
Males			
1981-86	16	-8	8
1986-91	12	-15	-3
1991-95	10	-4	6
Females			
1981-86	17	-6	11
1986-91	12	-12	0
1991-95	9	-1	8
Persons			
1981-86	34	-14	19
1986-91	24	-27	-3
1991-9	19	-5	14

Sources: Censuses of Population and Labour Force Surveys

Age Trends in the Population

Table 1.3 indicates trends in the age distribution of the Irish population for the period between 1981 and 1995. The most notable features here relate to the reduction in the child population (i.e. persons aged less than 15 years) and the emergence of a bulge in the middle age and older age groups between 35 and 64 years. The absolute figures show that the child population declined from nearly 1,045,000 in 1981 to just over 880,000 in 1995; this represents a decrease in the share of the total population from 30 to 25 per cent. This decline can be attributed to the sharp reduction in the number of births which occurred from 1980 onwards.

Population and Labour Force Trends

The population aged 35 to 44 years rose by nearly 125,000 in this period (increasing its share from 10.4 to 13.5 per cent) and persons aged 45 to 64 years rose in number by more than 98,000, their proportion rising from 17.2 to 19.2 per cent. There was also a significant increase, of some 44,000, in the numbers of persons aged 65 years and over. The increasing size of the middle-aged and older age categories is essentially a reflection of trends in previous periods of rapid population growth. The Irish population expanded very rapidly in the 1970s not only because of the reduction in outward migration, but also due to a large return flow of former emigrants aged over 25 years. These enlarged cohorts are now some 20 years older, and represent a significant factor underpinning the expansion in middle-aged population groups.

Table 1.3
Population by Age 1981-1995, with Projections to 2006

Year	0-14	15-24	25-34	35-44	45-64	65+	Total
				(000)			
1981	1,043.8	602.6	478.1	359.7	590.5	368.2	3,442.9
1986	1,024.6	617.7	501.1	421.5	591.3	384.2	3,540.4
1991	940.5	601.6	495.5	463.6	621.7	402.9	3,525.8
1995	881.0	612.8	503.3	484.2	688.6	412.5	3,582.4
M1F1							
2001	772.9	646.3	548.9	484.4	775.6	420.7	3,648.8
2006	761.8	569.9	610.8	481.8	856.0	439.4	3,719.7
M2F1							
2001	767.2	626.3	521.6	481.4	774.9	423.8	3,595.2
2006	741.0	545.9	545.3	470.6	853.0	445.6	3,601.4
				(%)			
1981	30.3	17.5	13.9	10.4	17.2	10.7	100.0
1986	28.9	17.4	14.2	11.9	16.7	10.9	100.0
1991	26.7	17.1	14.1	13.1	17.6	11.4	100.0
1995	24.6	17.1	14.0	13.5	19.2	11.5	100.0
M1F1							
2001	21.2	17.7	15.0	13.3	21.3	11.5	100.0
2006	20.5	15.3	16.4	13.0	23.0	11.8	100.0
M2F1							
2001	21.3	17.4	14.5	13.4	21.6	11.8	100.0
2006	20.6	15.2	15.1	13.1	23.7	12.4	100.0

Sources: (a) Censuses of Population and Labour Force Surveys.
(b) CSO, 1995: *Population and Labour Force Projections 1996-2026*.

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Appendix Table A1.1 contains a subdivision by age and sex of the Irish population over the period from 1981 to 1995.

Population Projections

Table 1.3 also contains projections of the population by age for the years 2001 and 2006. These projections, which are taken from the CSO publication *Population and Labour Force Projections, 1996-2026*, are essentially based on two different external migration scenarios. The first of these (termed M1F1) assumed that total net external outward migration will be fairly modest in the period up to 2006, amounting to only 7,500 per year, a relatively low figure by historical standards. The second set of assumptions (M2F1) presume that net emigration will be much higher, at 17,500 per annum over the same period. For both scenarios there is an assumption that the total period fertility rate will decline at a constant rate from 1.93 in 1993 to 1.80 in 2026. The latter (fertility) assumption is not, however, of major significance in the context of the present study, as it will not affect the labour force over the time span covered.²

Under the first set of (low emigration) assumptions the Irish population would show a moderate increase (of some 12,500 per year) to reach a total level of 3,720,000 by the year 2006. There will, however, be significant changes in the age structure. The figures indicate a continuing fall in the child population, to as low as 760,000, or just over 20 per cent of the total population, by the year 2006. After the year 2001 there will also be a sharp fall in the numbers aged 15 to 24 years, according as the influence of the post-1980 births decline begins to affect the youth population. In contrast the numbers in the older age groups will expand rapidly, most notably for the 45 to 64 year age band which will account for nearly one quarter of the entire population (over 850,000) by the year 2006.

Under the second set of (high emigration) assumptions the rise in the level of the total population would be marginal in the period up to the year 2006 but there would, again, be significant changes in the age distribution. The assumed higher emigration would, however, result in smaller numbers in the younger and lower middle age groups, particularly for those aged between 35 and 44 years in 2006.

Dependency

These projections clearly imply significant changes in the level of dependency in the Irish population. Appendix Table A1.2 shows “young”, “elderly” and total population dependency ratios for the period from 1981 to 1995, along with similar rates calculated from the two sets of projections. The total dependency ratio, which is basically the population aged less than 15 years and aged 65 years and over divided by the population aged between 25 and 64 years, fell from

² Except of course to the extent that falling fertility would tend to increase the propensity for women to enter the labour force.

Population and Labour Force Trends

nearly 70 in 1981 to 57 in 1995 (a relative fall of 20 per cent). This decline was due entirely to a declining “young” dependency ratio. The figures based on the projections indicate that this downward trend will continue over the next ten years, to reach a level of less than 50 by the year 2006. One will, however, notice a small projected rise in the extent of “elderly” dependence in this period. This will become much more pronounced after 2006 according as the population aged 65 years and over begins to grow more rapidly and will in fact, be sufficient to cause the overall level of dependency to rise again. The population projections also have obvious implications for the labour force, an aspect which will be discussed in later in the report.

It is of interest to speculate as to which of the two population scenarios is the most plausible on the basis of recent evidence. The net population outflows have been low in recent years, which would suggest that the M1F1 scenario reflects the most likely outcome, especially in the light of the fall which will occur in the population aged 15 to 24 years after the year 2001 (an outcome which is, incidentally, certain to materialise because of current age structures). However the extent of net emigration in future years will depend very much on the performance of the Irish economy, especially in relation to job growth when viewed in the context of overall labour supply. It is of interest in this regard to note that the 1994 ESRI *Medium Term Review* envisaged an annual net population outflow of some 15,000 in the later years of this decade, even in circumstances where forecast output growth would be relatively high and annual net job creation was predicted to be about 18,000.

2. Developments in the Irish Labour Force and Adult Population

Overall Trends

In present day circumstances analyses of the labour market cannot be conducted in isolation from developments in the wider adult population of which the labour force (i.e., those at work and unemployed) forms part. The numbers in the labour force are, however, influenced not only by purely demographic trends, but also by factors such as the level of participation in education, changes in retirement patterns and the degree to which women are motivated either to seek employment or engage in domestic or family related activities. The boundaries between these different states have become increasingly blurred over time as different groups move in and out of the labour force depending on their personal circumstances, or in response to various inducements, or under the influence of more general economy wide changes in conditions. The increasing incidence of more flexible working arrangements (for example in regard to part-time and temporary work) has also facilitated these changes.

In this context Tables 1.4(a) and 1.4(b) give a sub-division by “principal economic status” of the Irish adult population (i.e., at aged 15 years or over) covering the period from 1981 to 1995.³ The tables provide information relating to the labour force, the numbers in education those

³ Throughout this paper the labour force (i.e., those at work and unemployed) is defined on the same basis as that used in Irish Labour Force Surveys and in the annual Labour Force Estimates published by the Central Statistics Office. The concept used is that of “principal economic status” (PES) which is based

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on home duties and “others”, the last mentioned category relating mainly to older persons who have retired from the work force. Table 1.4(a) contains absolute aggregate figures for selected years in the period in question, while Table 1.4(b) shows figures for annual average changes for selected sub-periods based on these years. A notable feature of the data are the low rates of overall labour force growth in the 1980s compared with the first half of the 1990s.

Table 1.4(a)
The Labour Force and the Non-Active Population aged 15 years or over

Year	Labour Force	Education	Home Duties	Others	Population 15+	Labour Force Part. Rate
			(000)			%
Males						
1981	912.5	97.3	1.0	183.1	1,193.9	76.4
1986	915.1	123.2	6.0	199.7	1,244.0	73.6
1991	903.0	146.0	7.0	215.0	1,271.0	71.0
1995	920.0	163.0	11.0	230.0	1,324.0	69.5
Females						
1981	359.1	103.0	661.5	82.1	1,205.7	29.8
1986	393.3	125.0	678.7	74.9	1,271.9	30.9
1991	439.0	146.0	646.0	84.0	1,315.0	33.4
1995	503.0	169.0	614.0	91.0	1,377.0	36.5
Persons						
1981	1,271.6	200.3	662.5	265.2	2,399.6	53.0
1986	1,308.4	248.2	684.7	274.6	2,515.9	52.0
1991	1,342.0	292.0	653.0	299.0	2,586.0	51.9
1995	1,423.0	332.0	625.0	321.0	2,701.0	52.7

Sources: Censuses of Population, Labour Force Surveys, Annual Labour Force Estimates.

The annual average expansion in the labour force between 1981 and 1991 was almost 7,000, compared with over 20,000 between 1991 and 1995. The difference is mainly due to the affect of

primarily on the Survey respondents' perception of their own personal circumstances. This (PES) concept covers not only employment and unemployment, but also other “non active” states such as “full-time education”, “home duties”, “retired”, etc.

This is not the only way in which the labour force can be defined. Other approaches (such as that recommended by the ILO) involve more precision in so far as they can take account of aspects such as hours worked, availability for work and search for work. However the PES concept used in this study has the advantage that it forms the basis of a consistent series of estimates extending back to the 1970s. Appendix I contains a more detailed description of these concepts.

Population and Labour Force Trends

emigration in the 1980s, even though early in the decade a slowing in the rate of growth in female labour force participation was also a factor.

The differences between these two periods provide a clear illustration of the profound affect which external migration can have on labour force trends in Ireland. The current structure of the Irish population is such that, in the absence of net emigration, the potential for labour force increase is very substantial. The number of births increased rapidly throughout the 1970s (until they peaked in 1980) and the effects of this are now evident in the form of a large inflow into the workforce from the educational system which far exceeds the outflows for other reasons (e.g., retirement). In present circumstances the Irish labour force has the capacity to expand by between 20,000 and 25,000 each year (i.e., by 1½ to 2 per cent), a situation which will continue to prevail until the end of the 1990s. Thereafter the pressure will begin to ease according as the outflows from the educational system decrease.⁴

Another feature to emerge from these tables relates to the numbers aged 15 years or over in education. Table 1.4(a) shows that the total numbers involved rose from just over 200,000 in 1981 to 332,000 in 1995, a rise of over 65 per cent. This is an aspect which often tends to be overlooked in analysing labour force trends. Given the difficult economic circumstances which prevailed in the period under discussion, in the 1980s in particular, one can only speculate as to what the increased levels of unemployment and emigration would have been had this increase not taken place. However of greater significance in this regard is that this rise in educational participation signalled a continuing augmentation in the level of human capital in the population as a whole, a factor which is discussed again later in the report.

Gender

The data in question exhibit significantly different trends in relation to gender. Observing first the data for males, the second table indicates diminishing growth rates in the male adult population over the 1980s, an outcome which was principally due to the effects of emigration. The male labour force expanded only marginally in the first half of the decade and actually fell (by some 2,500 each year on average) between 1986 and 1991 when net emigration was particularly high. However the male work force recorded a fairly significant increase after 1991. The number of males aged 15 years or over in education increased consistently throughout the entire period in question, involving an annual average rise of between 4,000 and 5,000. The figures also reveal fairly significant expansion in the "others" status category (which for males mainly comprises those in retirement) of between 3,000 and 4,000 per year, re-affirming a growing propensity for males to quit the labour force at earlier ages.

The female labour force underwent significant and increasing growth throughout the period under discussion. This applied even in the early 1980s when economic conditions were very

⁴ A more detailed analysis of these projections is contained in the National Economic and Social Council Report No. 90, *The Economic and Social Implications of Emigration*, published in March 1991.

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depressed. It is interesting to note that this expansion was to some degree matched by an offsetting fall in the numbers of women on home duties, indicating a growing degree of participation by women in the labour market. It was only in the early 1980s that the numbers on home duties increased somewhat, indicating a tendency for some women to remain outside of the workforce in adverse economic circumstances. The number of female adults in education also increased throughout the period in question, at a rate similar to that for males.

Table 1.4(b)
Net Changes in the Numbers in different Economic Status Groups
in the Adult Population 1981-1995

	Labour Force	Education	Home Duties	Others	Population 15+
Annual Averages (000)					
Males					
1981-86	0.5	5.2	1.0	3.3	10.0
1986-91	-2.4	4.6	0.2	3.1	5.4
1991-95	4.3	4.3	1.0	3.8	13.3
Females					
1981-86	6.8	4.4	3.4	-1.4	13.2
1986-91	9.1	4.2	-6.5	1.8	8.6
1991-95	16.0	5.8	-8.0	1.8	15.5
Persons					
1981-86	7.4	9.6	4.4	1.9	23.3
1986-91	6.7	8.8	-6.3	4.9	14.0
1991-95	20.3	10.0	-7.0	5.5	28.8

Sources: Censuses of Population, Labour Force Surveys, Annual Labour Force Estimates.

The fundamentally different trends for males and females in recent decades is perhaps best illustrated by referring to rates of labour force participation. These are given in aggregate form in the final column of Table 1.4(a). The aggregate male labour force participation rate decreased from over 76 per cent in 1981 to less than 70 per cent in 1995, while that for females rose from just under 30 per cent to 36½ per cent. These relative changes may not seem all that dramatic when viewed over such a long period, but their effects are quite significant when considered in absolute terms. For example the 1995 female labour force (503,000) would be some 90,000 lower if the 1981 rates of labour force participation continued to prevail. The offsetting participation trends for males and females gave rise to a situation where the overall aggregate rates for all persons have not changed very much over the period under discussion. The labour force participation rate for males and females combined was 53 per cent in 1981 and it was only marginally less than this in 1995, having varied slightly in the intervening period.

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Changes in the Age Structure of the Labour Force

Apart from the aggregate labour force changes indicated previously, there were compositional changes (other than gender related ones) in recent decades. Table 1.5 provides an age sub-division of the Irish labour force over the period since 1981.

Table 1.5
Labour Force classified by Age and Sex, 1981-1995.

	15-24	25-34	35-45	45-64	65+	Total
	(000)					
1981	207.6	235.3	177.4	253.0	39.2	912.5
1986	188.9	243.7	205.4	246.7	30.4	915.1
1991	166.9	226.4	225.2	257.4	27.1	903.0
1995	149.3	235.8	228.2	281.6	25.8	920.7
Females						
1981	157.5	85.7	41.1	64.5	9.8	358.6
1986	153.2	114.2	54.8	63.4	7.7	393.3
1991	134.7	138.3	82.5	76.4	7.1	439.0
1995	119.4	168.9	112.5	96.0	6.0	502.8
Persons						
1981	365.1	321.0	218.5	317.5	49.0	1,271.1
1986	342.1	357.9	260.2	310.1	38.1	1,308.4
1991	301.7	364.8	307.6	333.8	34.1	1,342.0
1995	268.7	404.7	340.7	377.6	31.8	1,423.5
	%					
Males						
1981	22.8	25.8	19.4	27.7	4.3	100.0
1986	20.6	26.6	22.4	27.0	3.3	100.0
1991	18.5	25.1	24.9	28.5	3.0	100.0
1995	16.2	25.6	24.8	30.6	2.8	100.0
Females						
1981	43.9	23.9	11.5	18.0	2.7	100.0
1986	39.0	29.0	13.9	16.1	2.0	100.0
1991	30.7	31.5	18.8	17.4	1.6	100.0
1995	23.7	33.6	22.4	19.1	1.2	100.0
Persons						
1981	28.7	25.3	17.2	25.0	3.9	100.0
1986	26.1	27.4	19.9	23.7	2.9	100.0
1991	22.5	27.2	22.9	24.9	2.5	100.0
1995	18.9	28.4	23.9	26.5	2.2	100.0

Source: Censuses of Population and Labour Force Surveys.

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These data are characterised by falling numbers in the youth labour force and for those aged 65 years and over, and increasing numbers in the broad middle age group covering those between 25 and 64 years (especially for females).

One needs, however, to observe the age related labour force participation rates (given in Table 1.6) to acquire a better understanding of the diverse trends involved. The declining numbers in the youth labour force can be mainly attributed to falling participation in the work force due to greater involvement in education, a feature which was highlighted in the preceding section. The labour force participation rate for those aged 15 to 24 years declined from nearly 61 per cent in 1981 to 44 per cent in 1995, resulting in an absolute decrease in the workforce for this age category from 365,000 to less than 270,000. In proportionate terms this represents a significant fall in the share of the total labour force from 29 per cent to less than 19 per cent. Broadly speaking these reductions applied equally to males and females.

Table 1.6
Labour Force Participation Rates by Age and Sex, 1981-1995

	15-24	25-34	35-44	45-64	65+	Total
	%					
Males						
1981	67.6	97.0	96.1	85.9	23.7	76.4
1986	60.2	97.0	95.8	83.4	18.0	73.6
1991	54.2	92.8	96.8	82.3	15.6	71.1
1995	47.8	95.0	94.9	81.3	14.6	69.5
Females						
1981	53.3	36.4	23.5	21.8	4.8	29.8
1986	50.4	45.7	26.5	21.4	3.6	30.9
1991	45.9	55.0	35.7	24.7	3.1	33.4
1995	39.8	66.2	46.2	28.1	2.5	36.5
Persons						
1981	60.6	67.1	60.7	53.8	13.3	53.0
1986	55.4	71.4	61.7	52.4	9.9	52.0
1991	50.1	73.6	66.4	53.7	8.5	51.9
1995	43.8	80.4	70.4	54.8	7.7	52.7

Source: Censuses of Population and Labour Force Surveys.

Table 1.6 shows that female participation in the work force rose substantially in all of the constituent age categories in the 25 to 64 year group, particularly for women aged between 25 and 34 years. This was the main factor underlying the doubling of the numbers in the female work force in this aggregate age band, from just over 190,000 in 1981 to 377,000 in 1995. The male work force in this age class also rose over this period (even though not for males aged between 25 and 34

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years) but, as we will subsequently show, this was due to population pressures rather than to changes in the relative degree of male involvement in the work force.

Labour force participation rates for persons aged 65 years and over fell significantly for both males and females between 1981 and 1995, due primarily to the rising incidence of early retirement. Indeed this trend is also evident to some degree for males in the 45 to 64 year age band. The actual numbers in the labour force aged 65 years or over fell from just under 50,000 in 1981 to 32,000 in 1995.

When viewed in relation to the labour force as a whole (for both males and females combined) the most notable compositional changes are those relating to the decline in the numbers in the youth age category (from nearly 30 to less than 19 per cent of the total) and the increase in the 35 to 44 year age category for which the share of the total work force increased from 17 per cent in 1981 to nearly 24 per cent in 1995. However, as already indicated, offsetting trends relating to gender and age gave rise to the situation where the aggregate labour force participation rate for all persons in 1994 was much the same as it was in 1981.

Labour Force Involvement for Persons of Different Educational Backgrounds

It is also of interest to consider the extent of labour force participation for persons with different levels of educational attainment. Table 1.7 shows such participation rates for 1988 and 1994 for persons aged between 25 and 64 years. The youth age group has been excluded from this calculation as the rates for each educational category tend to be distorted by the existence of large numbers of young persons actually in education at the levels in question.⁵

The data indicate a strong association between educational attainment and participation in the workforce. Greater levels of labour force involvement are indicated for those with higher levels of educational achievement, the pattern being much more pronounced for women than it is for men. In 1994 the labour force participation rate for women who had completed primary level education was as low as 19 per cent, but it increases steadily with higher levels of educational attainment to reach a level of nearly 77 per cent at the other end of the educational spectrum for women with third level qualifications. A corresponding differential also exists for males but it is not as marked, the relevant 1994 labour force participation rates being 73 per cent at primary level and 92 per cent for males with third level qualifications.

⁵ For example the labour force participation rate for persons aged 15-19 years who have completed the lower cycle of second level education is reduced by virtue of the fact that there are large numbers of persons in this age class of the population who have attained this level of education. However most of these are transient in the sense that they will progress to higher levels of educational achievement and, therefore, the calculated participation rate does not convey a completely representative picture.

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Table 1.7
Labour Force Participation Rates for Persons aged 25 to 64 years
with different Levels of Educational Attainment, 1988 and 1994.

	1988	1994
	%	
Males		
Primary	80.2	73.3
2nd Level (Lower)	76.7	74.7
2nd Level (Higher)	83.5	79.5
3rd Level	93.4	91.7
Total	81.2	78.0
Females		
Primary	17.6	19.1
2nd Level (Lower)	29.3	29.6
2nd Level (Higher)	50.4	53.5
3rd Level	72.5	76.8
Total	37.0	42.7
Persons		
Primary	51.2	47.9
2nd Level (Lower)	53.8	53.8
2nd Level (Higher)	64.7	64.9
3rd Level	83.7	84.5
Total	59.2	60.5

Source: Special tabulations from the 1988 and 1994 Labour Force Surveys.

As for changes between 1988 and 1994, for males there is evidence of a fall in labour force involvement for all educational categories. Those with the lowest educational level (primary) experienced the greatest decrease indicating that these workers (especially presumably the older ones) withdrew in significant numbers from the workforce over the period in question.⁶ For females the 1994 participation rates were higher than those for 1988 for all educational levels, even though for the lower cycle of second level the difference was marginal.

Decomposition of Labour Force Change

The foregoing discussion indicates that absolute changes in the overall size and structure of the labour force are dependent both on changes in the population in the relevant age groups, and on

⁶ This trend would have been reinforced by the introduction of retirement type options for older persons (i.e., aged 55 years or over) on the unemployment register.

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the propensity of the population within these age groups to participate in the labour market. It is of interest, therefore, to try and segregate these two effects in order to provide a clearer understanding of the degree to which each has an influence on variations in the size and composition of the labour force. This can be done by means of a simple mathematical formulation involving incremental elements based on population totals and participation rates. If p and r represent the population total and labour force participation rate respectively for a particular age group and if δp_t and δr_t are the respective changes over time t , then the base year labour force is $L = pr$ and the net change in the labour force may be expressed:

$$(p + \delta p_t)(r + \delta r_t) - pr = r\delta p_t + p\delta r_t + \delta p_t\delta r_t$$

The first component on the right hand side, which is the population increment multiplied by the base year participation rate, represents the labour force change that would have occurred over time t if participation rates had remained unchanged. This is called the *population effect*. The second component, which is the base year population multiplied by the incremental change in the participation rate (called the *participation effect*), represents the change that would occur in the labour force over the same period if the population remained unchanged but the participation rate varied. The final term represents an *interaction* between the two effects, and is usually fairly small.

Table 1.8
Decomposition of Labour Force Change in 1981-1995
in terms of Population and Labour Force Effects

	15-24	25-34	35-44	45-64	65+	Total
	(000)					
Males						
Population Effect	3.7	5.2	53.7	44.7	2.7	110.0
Participation	-60.9	-4.6	-2.2	-13.7	-15.1	-96.5
Interaction	-1.1	-0.1	-0.7	-2.4	-1.0	-5.3
Total Change	-58.3	0.5	50.8	28.6	-13.4	8.2
Females						
Population Effect	2.6	7.2	16.1	10.0	1.6	37.5
Participation	-40.0	70.1	39.7	18.6	-4.6	83.7
Interaction	-0.6	5.9	15.6	2.9	-0.8	22.9
Total Change	-38.1	83.2	71.4	31.5	-3.8	144.2
Persons						
Population Effect	6.2	12.4	69.8	54.7	4.3	147.5
Participation	-100.9	65.5	37.5	4.9	-19.7	-12.7
Interaction	-1.7	5.8	14.9	0.5	-1.8	17.7
Total Change	-96.4	83.7	122.2	60.1	-17.2	152.4

Sources: Labour Force Surveys and Censuses of Population.

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Table 1.8 shows the results of such a decomposition for the change between 1981 to 1995 for males and females, distinguishing the age groups used in the preceding analyses. Looking first at the figures for males these show that the population effect, which is significantly positive due to population growth in the age bands 35 to 64 years, is completely offset by a negative participation effect. The latter derives mainly from the negative figures associated with the 15 to 24 year age group (due to rising involvement in education), but also to falling participation in the older age groups. The overall result, as already observed, is that, despite the compositional changes, there was only a marginal change in the size of the male labour force over the period in question.

For females the population effect is positive, but so also in this case is the participation effect as the influence of rising participation for the age groups between 25 and 64 years greatly exceeded the negative trends evident for the female youth labour force and for females aged 65 years and over. The combination of these two positive influences resulted in a sizeable increase in the female labour force over the period concerned.

However, when all effects are taken into account in the context of the entire labour force, the aggregate participation effects for males and females cancel each other and in the final analyses the figures show that it was population growth which underpinned the expansion in the Irish labour force between 1981 and 1995. One must bear in mind however that the influences in question caused fundamental changes in the structure of the work force, resulting in a much greater proportion of females and a burgeoning share accounted for by the “middle age” group at the expense of falling proportions in the youth and retirement age categories.

3. Factors Influencing Participation in the Labour Force

While the preceding analysis isolates demographic from other causes underlying changes in the labour force, it is a purely statistical exercise and does not shed any light on the reasons for these changes. The causality underpinning the falling numbers in the youth labour force and for the age group 65 years and over is fairly clear, but this is not the case in regard to the complex issues effecting female participation in the 25 to 64 year age band. It is relevant therefore to comment further on this issue.

One factor which needs to be borne in mind in considering the question of female participation is the cumulative effect of past changes in institutional and regulatory provisions affecting women's involvement in the labour market.⁷ On reflection it may seem strange to be referring to these issues now, given that most of the legal and other overt impediments to female

⁷ Such as the removal of the marriage bar in the Public Service in 1973, the Anti-Discrimination (Employment) and Anti-Discrimination (Pay) Acts of 1974 and 1975, the Employment Equality Act of 1977, and the introduction of a statutory right to maternity leave in 1981.

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participation were removed in the 1970s. It must be borne in mind, however, that the removal of these obstacles came too late to be of any practical benefit to older women at that time. For the most part, they had felt obliged, or had been compelled, to leave the labour force years earlier. For many of them the possibilities for re-entry were not particularly good, even if they were so disposed. The principal beneficiaries at that time were younger female labour force members and those who entered in later years. It was inevitable, therefore, that the impact of the changes in question, which can be viewed as a combination of legislative, attitudinal and cultural influences, would initially be slow as the process gradually worked its way up through the age bands. Even to this day one will notice the much slower rate of change in labour force participation among older women. Results given in Walsh (1993) showed that the participation rate for women aged 25 to 34 years in 1971 was 28 per cent and it was still at this level for this age cohort in 1991 (then aged 45 to 54 years). However while the cohort/ageing affect is gradual, it is cumulative and it must have exercised an increasing impact as time progressed.

In considering this issue one must, however, also look to the demand side of the equation and the manner in which the structure of employment has changed in recent decades. Many of the job losses which occurred over the past twenty years, especially in the early 1980s, related to predominantly manual industry based activities which mainly involved males. Many of these displacements involved older workers who had poor prospects of regaining employment. Many drifted into long-term unemployment; others subsequently left the labour force altogether. On the other hand the areas of employment growth in recent decades involved mainly non manual tasks in the sphere of professional and personal services and in activities such as sales, which were more attractive to women. This arose not only because of the nature of the employment, but also because of the more flexible manner in which it was organised.⁸ A number of these aspects are considered in more detail in the analyses of employment trends in the next chapter.

There have been some research projects which have attempted to probe the causative factors underlying changes in female labour force participation. Callan and Farrell (1991), using data for a sample of 2,500 women collected in 1987, found that the probability of a married woman being in the labour force increased with actual or potential earnings and the local availability of suitable jobs; it decreased with age, the presence of children and husband's earnings. Educational level was also found to be a significant factor, a finding which is consistent with the results set out earlier in Table 1.7.⁹ On the basis of the results obtained these authors argue that increased female wages were a very significant factor explaining the growth in married female labour force participation between the early 1960s and the late 1980s. Walsh (1993) formulated a model of

⁸ There are, of course, disadvantageous aspects to this, in the form of insecure employment and lack of access to social insurance and benefits. This is considered further in Chapter II.

⁹ Some of the other findings in this study have been re-affirmed by more recently available data. Figures contained in the background analysis in the 1995 CSO publication *Population and Labour Force Projections 1996-2026* (Table 55, p. 54) indicate a close relationship between female labour force participation and the number of dependent children. These data show that women without dependent children have relatively high levels of participation but these are lower for women with children, and decline progressively with increasing numbers of children.

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female labour force participation based on an analysis of aggregate trend data relating to participation, net earnings, social welfare benefit levels and birth rates over the period from 1971 to 1991. His time series analyses indicated that two variables — the real level of unemployment benefits and birth rates — largely explain year to year variations in adult female participation.

There is no clear consensus, therefore, regarding the factors underlying the growth in female labour force participation over recent decades, or the degree of emphasis which should be given to the different influences in explaining this growth. It is likely that all of the aspects mentioned, including the cumulative effects of removing institutional barriers and cultural and attitudinal influences, had an impact, but the existing body of research does not allow us to determine clearly the relative importance of these different factors.

4. Labour Force Projections

It is of obvious interest to attempt to build on the population projections described earlier in the Report and use these as a basis for projecting the likely numbers in the labour force over the next decade or so. In fact this has been done as an extension to the demographic analysis in the previously mentioned CSO publication on population projections. This requires that, in addition to demographic assumptions, further assumptions be made regarding labour force participation rates. The CSO exercise involved just one set of labour force assumptions, basically involving a continuation of recent participation trends, moderated to some degree. Thus they involved continuing declines in labour force participation for the 15-19 and 20-24 year age groups because of rising involvement in education, but at a reduced pace compared to the 1990s. The assumptions also embody rising female participation in the middle-age band and an ongoing fall in involvement in the labour force for persons aged 65 years and over (especially for males). The demographic assumptions are, however also important in a labour market context. This applies particularly to external migration which, as we have indicated earlier in this chapter, can have a significant effect on changes in the labour force.

Table 1.9(a)
Labour Force Projections to 2006

Year	Males	Females	Persons	Males	Females	Persons
			(000)			
1995	921	503	1424	921	503	1424
2001	974	571	1545	950	556	1506
2006	1003	616	1619	954	583	1537

Source: CSO, 1995: *Population and Labour Force Projections 1996-2026*.

Tables 1.9(a) and 1.9(b) contain labour force projections to the year 2006 based on the M1 and M2 external migration scenarios as described previously, and on the participation assumptions

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just discussed. With the first set of projections based on M1, which involves quite modest net population outflows, the Irish labour force will rise on average by over 17,000 each year (about 1.2 per cent per annum) between 1995 and 2000 and at a somewhat slower rate (15,000 per year) between 2001 and 2006. The reduced rate of expansion after the turn of the century is mainly due to the decline which will occur in the youth labour force according as the fall in the number of births after 1980 begins to affect the flows leaving the educational system. With the M2 migration assumption (which involve quite significant emigration, 17,500 per year over the entire period in question) the projected labour force totals are obviously smaller, the annual average net increase in the two above mentioned sub periods being 12,000 and 6,000 respectively. Under both sets of assumptions the female labour force is set to increase more rapidly than the male workforce, even though under assumption M1 in particular fairly significant expansion in the male labour force is also projected to occur. With the second high migration scenario however (M2) the forecast rise in the male workforce is marginal, especially after the year 2001.

Table 1.9(b)
Net Annual Average Labour Force Changes 1994-2006

Period	Males	Females	Persons	Males	Females	Persons
			(000)			
1995-2001	7.6	9.7	17.3	4.1	7.6	11.7
2001-2006	5.8	9.0	14.8	0.8	5.4	6.2

Source: CSO, 1995: *Population and Labour Force Projections 1996-2026*.

Table 1.9(c) shows the projected aggregate labour force participation rates which emerge from this exercise. The rate for males is forecast to decrease slightly while that for females is expected to rise from 36.5 per cent in 1995 to nearly 45 per cent by 2006. As a result of the latter trend under the assumptions made the combined rate for males and females will rise by 2 percentage points from 52.7 in 1995 to 54.7 in 2006.

Table 1.9(c)
Aggregate Labour Force Participation Rates 1995-2006

Period	Males	Females	Persons
		%	
1995	69.5	36.5	52.7
2001	69.0	39.0	53.7
2006	69.1	40.9	54.7

Source: CSO, 1995: *Population and Labour Force Projections 1996-2026*.

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Appendix Tables

**Table A1.1
Population by Age and Sex, 1981-1995**

	0-14	15-24	25-34	35-44	45-64	65+	Total
	(000)						
Males							
1981	535.4	307.1	242.7	184.6	294.4	165.2	1,729.4
1986	525.6	314.0	251.3	214.4	295.7	168.7	1,769.7
1991	482.8	307.9	243.9	232.6	312.6	173.7	1,753.5
1995	452.5	312.5	248.1	240.5	346.4	176.5	1,776.5
Females							
1981	508.4	295.5	235.4	175.1	296.1	203.0	1,713.5
1986	499.0	303.7	249.8	207.1	295.6	215.5	1,770.7
1991	457.7	293.7	251.6	231.0	309.1	229.2	1,772.3
1995	428.5	300.3	255.2	243.7	342.2	236.0	1,805.9
Persons							
1981	1043.8	602.6	478.1	359.7	590.5	368.2	3,442.9
1986	1024.6	617.7	501.1	421.5	591.3	384.2	3,540.4
1991	940.5	601.6	495.5	463.6	621.7	402.9	3,525.8
1995	881.0	612.8	503.3	484.2	688.6	412.5	3,582.4
	%						
Males							
1981	31.0	17.8	14.0	10.7	17.0	9.6	100.0
1986	29.7	17.7	14.2	12.1	16.7	9.5	100.0
1991	27.5	17.6	13.9	13.3	17.8	9.9	100.0
1995	25.5	17.6	14.0	13.5	19.5	9.9	100.0
Females							
1981	29.7	17.2	13.7	10.2	17.3	11.8	100.0
1986	28.2	17.2	14.1	11.7	16.7	12.2	100.0
1991	25.8	16.6	14.2	13.0	17.4	12.9	100.0
1995	23.7	16.6	14.1	13.5	18.9	13.1	100.0
Persons							
1981	30.3	17.5	13.9	10.4	17.2	10.7	100.0
1986	28.9	17.4	14.2	11.9	16.7	10.9	100.0
1991	26.7	17.1	14.1	13.1	17.6	11.4	100.0
1995	24.6	17.1	14.0	13.5	19.2	11.5	100.0

Sources: Censuses of Population 1981, 1986, 1991; Labour Force Survey 1995.

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Table A1.2
Dependency Ratios, 1981-1995, with Projections to 2006

Year	Young	Elderly	Total
		%	
1981	51.4	18.1	69.5
1986	48.1	18.0	66.1
1991	43.1	18.5	61.6
1995	38.5	18.0	56.5
M1F1			
2001	31.5	17.1	48.6
2006	30.2	17.4	47.7
M2F1			
2001	31.9	17.6	49.5
2006	30.7	18.5	49.1

Source: CSO, 1995: *Population and Labour Force Projections 1996-2026*.

Note: The Young Dependency Ratio is the population aged 1-14 years divided by the population aged 15-64 years. The Elderly Dependency Ratio is similarly defined for the population aged 65 years and over.

CHAPTER II

AGGREGATE EMPLOYMENT TRENDS

1. Overall Employment and Unemployment Trends

Let us now extend our analyses beyond the aggregate labour force and review trends in terms of employment and unemployment. In this regard it is also necessary to cover external migration trends in view of the relationship that exists between migration and unemployment in an Irish context. Summary annual figures for the period between 1981 and 1995 are given in Table 2.1 which contains estimates of the labour force, those at work and unemployed as well as net external migration. These data are based on the "principal economic status" labour force concept as explained in some detail in Appendix I.

Table 2.1
Numbers at work, unemployed and net migration, 1981-1995.

Year	At Work	Unemployed	Labour Force	Unemployment Rate	Net Migration
	(000)			(%)	(000)
1981	1,145.9	125.7	1,271.6	9.9	2
1982	1,146.0	147.1	1,293.1	11.4	-1
1983	1,124.0	183.3	1,307.3	14.0	-14
1984	1,103.4	203.5	1,306.9	15.6	-9
1985	1,078.5	226.0	1,304.6	17.3	-20
1986	1,080.9	227.5	1,308.4	17.4	-28
1987	1,090.0	233.0	1,323.0	17.6	-23
1988	1,090.0	218.0	1,308.0	16.7	-42
1989	1,088.0	201.0	1,289.0	15.6	-44
1990	1,134.0	176.0	1,310.0	13.4	-23
1991	1,134.0	208.0	1,342.0	15.5	-2
1992	1,139.0	221.0	1,360.0	16.3	2
1993	1,146.0	230.0	1,376.0	16.7	-6
1994	1,182.0	218.0	1,400.0	15.6	-10
1995	1,233.6	189.9	1,423.5	13.3	-6

Sources: Censuses of Population and Labour Force Surveys.

Aggregate Employment Trends

The first half of the 1980s was a period of deep recession in Ireland. The figures show that total employment fell by some 65,000 (nearly 6 per cent) between 1981 and 1986. Unemployment escalated during this period, from a level of 126,000 in 1981 to 228,000 in 1986: this represents a rise from 10 per cent of the labour force to 17½ per cent. As we will subsequently explain, sharp decreases in employment in the manufacturing and buildings sectors contributed significantly to this deterioration. The downturn of the early 1980's caused severe structural readjustment in manufacturing. Many older and more traditional uncompetitive manufacturing enterprises were forced out of business and the job displacements which ensued added an extra structural element to an already difficult unemployment situation. While the building sector also faced readjustment problems cyclical considerations also played a significant role in precipitating the employment declines in this sphere.

The global recession of the early 1980s hit Ireland particularly hard, not only in its intensity, but also in terms of its duration. However, not all of these problems could be attributed to external effects, as they derived to a significant degree from injudicious fiscal and public expenditure policies followed the late 1970s.¹ These left the Irish economy with a huge overhang of public debt and the problems associated with correcting this resulted in Ireland languishing in recession on into the second half of the 1980s, well after other Western economies had recovered and had begun to achieve some employment expansion. Table 2.1 shows that while the employment levels stabilised in Ireland in the mid 1980s, it was not until 1989-1990 that any significant growth occurred. This situation created a sharp divergence in labour market conditions between Ireland and other countries, particularly the United Kingdom, which led to a resumption of emigration. This trend emerged somewhat slowly at first, as the economic difficulties were initially viewed as transient. However, as the prospect of early recovery receded and employment opportunities in the United Kingdom improved, the outward movement commenced in earnest. The net outflow reached almost 45,000 in 1988-1989 (13.0 per 1,000 of the population), a level which equates with earlier periods of very high emigration.

The employment increase that occurred in Ireland in 1989 was spectacular, but short lived. The total numbers at work rose by 46,000 (over 4 per cent) in 1989/90. Unfortunately the re-emergence of global recession in 1990 brought this expansion to an abrupt end. During the first few years of the 1990s annual real GNP growth declined to between 1 and 3 per cent compared with a rate of 7 per cent in 1990. However the renewed economic downturn did not cause a contraction in employment. The aggregate level, some 1,135,000 in 1990, was maintained (in fact it drifted slowly upwards) and when economic conditions improved after 1993 it heralded a resumption of rapid employment growth. Real GNP growth rose to 7½ per cent in 1994 and is estimated to have only been only slightly less than this in 1995. In response to this the total numbers as work in the Irish economy rose by no less than 88,000 (7½ per cent) over the two years between 1993 and 1995.

It is of interest to recapitulate on some aspects of labour force trends in the early 1990s as they served to highlight the relationships between external migration, labour force growth and unemployment. The recession of the early 1990s caused serious problems in external labour markets (especially in the United Kingdom) and this had a profound effect on Irish net migration

¹ These involved tax cuts and sizeable increases in public expenditure and public sector employment.

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flows. Even though the net outflows were very high in the late 1980's they all but ceased after 1990, which meant that the brunt of the problems associated with the economic downturn were borne in the domestic labour market according as the labour force rose rapidly in size. Apart from reduced outflows, the problem was compounded by a significant return flow of former emigrants. Thus even though the numbers at work did not fall, unemployment rose from 176,000 (13.4 per cent) in 1990 to 230,000 (16.7 per cent) in 1993. Thereafter the position improved under the impact of increased economic growth and the most recent estimates (for April 1995) indicate an unemployment level of 190,000, or just under 13½ per cent of the labour force.

The migration trends described in the preceding paragraphs have prompted analysts to try and establish or estimate quantitative relationships between Irish external migration and relative labour market conditions in Ireland and abroad (particularly in the United Kingdom). These typically take the form of estimating regression equations with annual Irish net external migration as the dependent variable explained in terms of variables such as relative indicators of Irish and British unemployment rates or earnings levels. Recent reviews of this work are to be found in NESC (1991) and O'Gráda and Walsh (1992). The qualifications which apply to these models (whether single equation analyses or whether formulated in the context of an econometric model of the economy) are well known. They have, however, over the years yielded fairly consistent results, which can be taken as being broadly compatible with the pattern of events as outlined in the preceding section. They do tend to reaffirm the counter cyclical aspect of Irish emigration, rising when the Irish labour market is relatively depressed and falling away, or even turning to a net inflow, when conditions are relatively buoyant in Ireland. They indicate further that the level of external migration is responsive to relative changes in labour market conditions, the net outward movement increasing as the size of the Irish/UK wage differential widens and/or Irish unemployment rates increase relative to those in Britain.

2. Aspects of Employment Trends, 1981-1995

Employment by Gender

The aggregate employment figures classified by size, given in Table 2.1, show that the number of males at work in the Irish economy fell between 1981 and 1995 (by over 30,000 or nearly 4 per cent) while female total employment rose by over a third, or by no less than 118,000.

It is more appropriate, however, to consider these trends exclusive of agriculture, as this large sector is predominantly male and has involved a long-standing secular employment decline largely unrelated to cyclical influences. This clearly has had a significant effect on overall male employment trends. Table 2.2 shows that male employment outside of agriculture fell sharply during the early 1980s, largely because of the decline in the manufacturing and building sectors. The numbers recovered somewhat between 1986 and 1990 but declined again during the economic downturn in the early years of the 1990s. However the number of males at work outside of agriculture increased significantly after 1993, largely because of a significant recovery in employment growth in manufacturing. The end result of these fluctuations is that the 1995 level for non agricultural male employment, 645,000, is somewhat higher than the 1981 figure, which was 633,000.

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Table 2.2
Males and Females at Work, 1981-1995.

	Males	Females	Persons
	(000)		
All Sectors			
1981	809.2	336.7	1,145.9
1986	741.4	339.5	1,080.9
1991	747.0	387.0	1,134.0
1992	740.0	399.0	1,139.0
1993	736.0	410.0	1,146.0
1994	752.0	430.0	1,182.0
1995	778.8	454.8	1,233.6
Excluding Agriculture			
1981	633.4	317.2	950.6
1986	588.4	325.0	913.4
1991	605.0	374.0	979.0
1992	598.0	387.0	986.0
1993	605.0	398.0	1,003.0
1994	624.0	418.0	1,042.0
1995	645.2	443.7	1,088.9

Sources: Censuses of Population and Labour Force Surveys.

Female employment trends are not particularly affected by events in the agricultural sphere as the number of females involved in this sector is small. Table 2.2 shows that the number of females at work outside of agriculture rose consistently throughout the whole period under discussion, even in the recessionary phases. The number in 1995 was 444,000, some 40 per cent higher than the 1981 level which was 317,000. However, as will subsequently be shown, a significant part of this rise related to part-time work.

Sectoral Trends

Employment trends by broad sector for the period from 1981-1995 are given in Table 2.3. The figures reaffirm the ongoing secular decline in the numbers at work in agriculture. The net annual average decline between 1981 and 1995 was just over 4,000, even though this has varied somewhat from year to year. On the basis of current evidence the indications are that this will continue.

Manufacturing employment underwent a severe decline in the early 1980s, the total numbers at work falling by some 28,000 (nearly 11 per cent) during the recessionary period

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between 1981 and 1986. There followed a modest recovery in the late 1980s, followed by a further slight dip in employment in the early 1990s when recession re-emerged. However recent years have seen fairly significant job gains in this sector, the numbers at work rising from an estimated 241,000 in 1993 to 261,000 in 1995. The changing fortunes in the industrial sector have tended to be offsetting in trend terms; as a result the final 1995 total employment figure referred to is of much the same magnitude to that which applied in 1981.

Table 2.3
Persons at Work by Sector 1981-1995

Year	Agri- culture	Manufac- turing	Building	Transport	Distrib- ution	Other Market Services	Non Market Services	Total
(000)								
1981	196.0	262.0	101.0	70.0	167.0	155.2	194.8	1,145.9
1986	168.0	234.0	72.0	65.0	163.7	167.8	210.3	1,080.9
1991	155.0	246.0	78.0	66.0	171.8	202.9	213.3	1,134.0
1992	153.4	244.4	73.9	67.7	173.9	210.0	215.9	1,139.2
1993	143.0	241.0	71.0	71.0	184.0	214.1	221.9	1,146.0
1994	140.0	253.0	77.0	73.0	179.3	225.1	234.6	1,182.0
1995	140.0	261.0	82.0	76.0	184.8	484.8		1,233.6

Sources: Censuses of Population and Labour Force Surveys.

There has, however, been significant compositional changes within the manufacturing sector. Irish manufacturing activities tend to be broadly subdivided into a traditional indigenously owned subsector and a more high-tech area in which multi-national enterprises tend to predominate. The former would include activities such as clothing and textiles and food processing while the latter would involve the engineering, instrumentation, computers and chemical industries. The multi-national sector has tended to account for an increasing proportion of total manufacturing activity over the years. CSO Census of Industrial Production figures show that the foreign owned enterprises accounted for less than 40 per cent of manufacturing employment in 1983 but this proportion had increased to nearly 46 per cent by 1990.²

Broadly speaking the more modern high-tech subsector has tended to expand continuously over the period under discussion, but the more traditional indigenous subsector has at times been subject to severe employment decline. This applied particularly in the recession of the early 1980s when many uncompetitive traditional enterprises were forced permanently out of business. However a hopeful sign associated with the recent resurgence of growth in manufacturing is that this expansion (in both employment and output terms) has occurred not only in foreign-owned industries, but in some subsectors of indigenous manufacturing as well. An indication of these changes is given in Appendix Table A2.1 which contains employment figures for manufacturing for

² Nationality of ownership in this context is determined on the basis of nationality of shareholders. Where more than 50 per cent of the shareholding in a company is held by foreign interests, the company is classified as foreign.

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the period from 1981 to 1994 involving a broad distinction into food and high-tech subsectors and a (mainly indigenous) “other” category.

The fortunes of the building industry in Ireland have for much of the time mirrored the experiences in the economy as a whole. There has been fairly significant employment growth in recent years but the total employment level (82,000 at the most recent count in 1995) still has not recovered to the level which prevailed in 1981, which was over 100,000. This is due to a combination of productivity gains and the nature of the building activities involved. These are not as employment intensive as in earlier periods when housing construction rather than infrastructural projects, for example, figured more prominently.

Employment increased strongly across the broad range of service activities over the period under discussion. Table 2.3 shows that total services employment in 1981 was 587,000, but this had risen to over 750,000 by 1995, a 28 per cent increase. Within this sector there was modest if somewhat erratic job growth in distribution and in transport and communications. A large proportion of employment in the latter subsector is in semi-state enterprises (for example in telecommunications) which are the subject of ongoing rationalisation and it is, therefore, unlikely that the recent employment increases recorded for this subsector will continue. Most of the employment expansion in services generally can be attributed to non-market services (i.e., mainly public sector activities) and to a residual category covering a wide range of professional, business and personal services. Employment in non-market services rose significantly in the early 1980s, by about 16,000, or 8 per cent, between 1981 and 1986. For a period thereafter public sector employment levels were subject to severe restrictions as part of more general measures to contain Government expenditure. The figures in Table 2.3 show that employment in non-market services rose only marginally between 1986 and 1992. However, employment expansion in this sector has resumed in recent years, the total increasing by nearly 19,000 (9 per cent) in the two years after 1992. Most of this increase related to the education and health areas. The 1994 level of employment in non-market services, about 235,000, was some 40,000 or about 20 per cent higher than that which existed in 1981, which was 195,000. Employment in the residual “other market services” category increased consistently throughout the entire period under discussion. The number at work in this sector was 155,000 in 1981, but this had risen by 70,000 (or 45 per cent) to 225,000 by 1994.

Changes in the Occupational Structure of Employment

The preceding sectoral analysis has illustrated the far reaching changes which have occurred in the structure of employment in the Irish economy over the past fifteen years. However, the changes run deeper than these figures indicate. Different industries have significantly different occupational or skill profiles and, therefore, the structural movements over recent decades have given rise to fundamental changes in the occupational/skill mix of the employed workforce. While in this context the influence of sectoral changes has been the dominant one, occupational profiles per se have also been evolving within industries. This has applied particularly to managerial and professional activities at all levels, which have assumed greater importance within enterprises, irrespective of the economic fortunes of these enterprises. Service related activities have also

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become relatively more important. In contrast, the extent of manual activities (particularly those which are unskilled) has been in decline.

The extent of these changes is illustrated in Table 2.4 (taken from Canny, Hughes, Sexton, 1995) which shows a classification of those at work by broad occupational groups for 1981 and 1991. Not surprisingly the figures indicate a decline in the share of total employment attributable to those with agricultural occupations, from 17 to 14 per cent. Similarly the figures indicate a decrease in share for manual workers (both skilled and unskilled), the overall proportion in this case declining from 33 to 29 per cent over the ten year period in question. However, the proportions related to managers and proprietors, and persons engaged in professional and technical activities, increased significantly. In the case of the former occupations the rise in share was from 8 to 10 per cent, while for the latter (professional etc.) occupations the 1981 proportion was 13½ per cent but this had risen to over 15 per cent by 1991. An increase in share of a similar order of magnitude was recorded in the case of service related occupations. In proportionate terms clerical workers were of equal importance in both the years in question. However, the analysis indicates that this was a purely a sectoral effect, and that within sectors clerical workers accounted for an increasingly smaller proportion of total employment over the period in question.

Table 2.4
Persons at Work classified by Occupational Group 1981 and 1991

Occupation	1981		1991	
	(000)	%	(000)	%
Agricultural	191.1	16.8	156.3	13.8
Managers, Proprietors	94.3	8.3	114.6	10.1
Professional etc.	152.4	13.4	183.7	16.2
Clerical	157.9	13.9	158.0	13.9
Service Occupations	167.1	14.7	194.5	17.2
Skilled Manual	215.8	19.0	198.3	17.5
Semi-Skilled, Unskilled	159.3	14.0	128.2	11.3
Total	1,137.8	100.0	1,133.6	100.0

Sources: Canny, A., G.Hughes and J.J.Sexton, 1995: *Occupational Employment Forecasts 1998*. FAS/ESRI Manpower Forecasting Studies, Report No.3. Dublin:ESRI.

These changes, which follow a similar pattern to those evident in many other Western economies, involved much more than just a shift from manual to non-manual activities. The new types of jobs on offer required either qualifications or personal skills (or both) and a degree of flexibility not characteristic of traditional forms of employment. The fact that these changes coincided with the removal of many impediments to female involvement in the labour market resulted in many of these new opportunities being availed of by women. It was also the case that many who suffered job loss from traditional areas (such as industry) could not adapt, or did not have the particular skills or aptitudes associated with the new vacancies. Therefore, for them unemployment, and eventually long-term unemployment, became the inevitable consequence,

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especially for older workers. It must be acknowledged, however, that many of the new job opportunities which emerged involved low wage or part-time work, features which are discussed later in the report.

Figure A2.1 (see Appendix) illustrates the above mentioned trends from an alternative perspective. It shows the percentage changes in the numbers within each occupational group between 1981 and 1991. These figures re-affirm the nature of the changes which have occurred, especially the increases recorded for managerial and professional activities, and the sharp decline in semi-skilled and unskilled occupations.

Self-Employment Trends

Another feature of interest to investigate in a labour market context concerns self employment, or more importantly, the extent to which this has changed over the period in question. In this regard it is necessary to view the trends in a wider employment context and in particular to make comparisons with parallel movements in the numbers of paid employees. Table 2.5 gives total figures for the numbers at work in the Irish economy between 1981 and 1995 classified according to employment status. These data indicate an increase of some 9 per cent in the numbers of self-employed persons over the period concerned, from 237,000 to 258,000. This represents a slightly faster rate of expansion than that for paid employment, which rose by 7 per cent, or just over 66,000, over this time span.

However, in considering this aspect it is again appropriate to exclude the agricultural sector. The great majority of operatives in this large sector are self employed and as total agricultural employment has been in long-term decline it exercises a significant impact on the overall self employment scene when viewed globally across the entire economy. For this reason the second half of Table 2.5 contains data with the agricultural sector excluded. The trends evident from these figures are very different. In the non-agricultural sector the number of self-employed persons rose from just over 90,000 in 1981 to nearly 149,000 in 1995 an increase of no less than 65 per cent. The corresponding rise for paid employees, while it totalled nearly 80,000, represents a much smaller relative increase (some 9 per cent) on the original 1981 base of 860,000 persons.

Non-agricultural self-employment increased considerably throughout the entire period concerned, even in the economic downturns of early 1980s and early 1990s, periods when paid employment actually fell. This suggests that, apart from changing socio-economic circumstances which rendered own account work more attractive, self employment seemed to some degree to have been engaged in as an alternative to unemployment. One must bear in mind, however, that such an option would only be feasible for those with the required capabilities, and would hardly present a viable opportunity for the unskilled unemployed.

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Table 2.5
Persons at Work by Employment Status 1981-1994.

	Self Employed	Employees	Persons
		(000)	
All Sectors			
1981	237.0	908.9	1,145.9
1986	232.7	848.2	1,080.9
1991	242.4	891.6	1,134.0
1992	255.1	883.9	1,139.0
1993	251.1	894.9	1,146.0
1994	251.9	930.1	1,182.0
1995	258.4	975.2	1,233.6
Excluding Agriculture			
1981	90.1	860.5	950.6
1986	102.5	810.9	913.4
1991	125.2	853.8	979.0
1992	134.2	851.8	986.0
1993	140.1	862.9	1,003.0
1994	142.5	899.5	1,042.0
1995	148.8	940.2	1,088.9

Sources: Censuses of Population and Labour Force Surveys.

When viewed in relative terms self-employment has risen more rapidly for females (see Appendix Table A2.2). The number of females working on own account more than doubled between 1981 and 1995, from less than 14,000 to over 29,000. The increase for males was also substantial during this time (some 44,000) but this represents a smaller relative rise (about 57 per cent) on the original 1981 base figure of 76,000. Despite this trend difference males continue to constitute a significant majority among the self employed, accounting for over 80 per cent of all non-agricultural own account workers in 1995.

The Appendix table (p.40) shows that the number of male paid employees outside of agriculture fell substantially over the period in question. The total declined by over 64,000 (almost 12 per cent) between 1981 and 1993, even though there was a marked recovery thereafter, the number rising by nearly 33,000 in the two years to April 1995. However, in contrast, the 1995 male employee level, 526,000, was still some 32,000 less than the 1981 total of 557,000. Female paid employees increased substantially in number throughout the entire period in question, from 303,000 in 1981 to almost 415,000 in 1995.

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One can advance a number of reasons for the continued rise in non-agricultural self-employment. The more liberal income tax regime which applies to the self-employed when compared with the rigid PAYE withholding system would be one incentive. This would have been more important in the early 1980's when the burden of income tax and employee social insurance payments were significantly increased. There has also been a growing practice for firms to purchase services rather than have in-house personnel with the required skills. Many of these services would have been purchased from smaller firms which operate on a self employment basis. There has also been a growing tendency for Governments to attempt to promote a greater "enterprise culture", not only by exhortation, but also by means of schemes and grants, especially for the unemployed.

Trends in Part-Time Work

Table 2.6
Total Employment 1983-1994, distinguishing Part-time Workers

Year	Total	Full-time	Part-time	Part-time Share
	(000)			%
Males				
1983	777.6	761.3	16.3	2.1
1986	741.4	725.8	15.6	2.1
1991	747.0	726.5	20.5	2.7
1992	739.9	717.2	22.7	3.1
1993	736.0	708.2	27.8	3.8
1994	751.7	720.7	31.0	4.1
1995	778.8	743.8	35.0	4.5
Females				
1983	346.4	306.6	39.8	11.5
1986	339.5	301.8	37.7	11.1
1991	387.0	331.6	55.4	14.3
1992	399.4	338.2	61.2	15.3
1993	410.2	339.2	71.0	17.3
1994	429.9	353.8	76.1	17.7
1995	454.8	365.6	89.2	19.6
Persons				
1983	1,124.0	1067.9	56.1	5.0
1986	1,080.9	1027.6	53.3	4.9
1991	1,134.0	1058.1	75.9	6.7
1992	1,139.3	1055.4	83.9	7.4
1993	1,146.2	1047.4	98.8	8.6
1994	1,181.6	1074.5	107.1	9.1
1995	1,233.6	1,109.4	124.2	10.1

Sources: Annual Series of Labour Force Surveys.

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Several references have already been made earlier in this report to part-time working, in considering, for example, aspects such as female employment and occupational change. This section provides some insights into this issue both in terms of the extent of the part-time phenomenon and how it has changed over time. Table 2.6 provides estimates of total employment from 1983 to 1995, distinguishing full-time and part-time workers.

These figures show that part-time workers accounted for some 10 per cent of the total number of persons at work in April 1995 (124,000 out of a total of 1,234,000). A significant majority, some 72 per cent or 89,000, of part-time workers in that year were female. Not surprisingly, therefore, the incidence of part-time working among women is significantly higher than it is for males, nearly 20 per cent of total female employment in 1995, compared with just 4½ per cent for males.

Part-time work tends to be concentrated in particular types of occupations, especially for women. Table 2.7 shows that not far short of 50 per cent of employed part-time women in 1991 were engaged in service related activities. Professional and technical occupations and clerical work accounted for most of the remainder. Males involved in part-time work tend to be more widely spread when viewed from an occupational perspective. It is noticeable here also however, that a fairly significant share of part-time work overall (nearly 25 per cent) is again associated with services activities.

Table 2.7
Distribution of Part-time Workers by Occupational Group, 1991.

Occupation	Males	Females	Persons
		%	
Agricultural	18.9	4.0	8.1
Managers, Proprietors	3.9	2.6	2.9
Professional etc.	10.7	21.1	18.3
Clerical	5.8	19.1	15.5
Service Occupations	23.8	46.3	40.1
Skilled Manual	17.0	3.8	7.4
Semi-Skilled, Unskilled Manual	19.9	3.1	7.7
Total	100.0	100.0	100.0

Sources: Canny, A., G.Hughes and J.J.Sexton, 1995: *Occupational Employment Forecasts 1998*. FAS/ESRI Manpower Forecasting Studies, Report No.3. Dublin:ESRI.

The incidence of part-time working has increased significantly since the mid 1980s. Table 2.6 shows that the share of part-time workers in total employment rose from 5 per cent in 1983 to over 10 per cent in 1995, or in absolute terms from 56,000 to 124,000. For males the proportion of part-timers rose from 2 per cent to 4½ per cent, while for females the increase was from 11½ per cent to nearly 20 per cent.

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These figures imply that part-time work accounted for all of the modest increase in the quantum of employment that occurred between 1983 and 1993; in fact the numbers in full-time employment declined during this time. Part-time employment rose by some 43,000 but this was partially offset by a fall of 21,000 in the numbers in full-time jobs,³ leaving a net overall rise of 22,000. However the situation has changed fundamentally in the past few years. The large rise of 87,000 in the numbers at work in the two years to April 1995 involved a full-time component of no less than 62,000, with the balance of 25,000 consisting of those who acquired part-time work. The position can be summarised as follows:

Table 2.8
Net Changes in Employment in 1983-1993 and 1993-1995,
distinguishing full-time and part-time components

	Full-Time	Part-Time	Total
		(000)	
1983-1993	-22	+43	+22
1993-1995	+63	+25	+88

Source: Labour Force Surveys.

Virtually all of the increase in part-time working over the period since the mid-1980s has occurred in the services sector. This is clearly evident from the data in Appendix Table A2.3 which shows the numbers of persons who were working part-time (and full-time) in 1988 and 1995 classified according to a broad sectoral subdivision.⁴ The numbers of part-timers in manufacturing and building also rose but the levels involved are relatively small and had little impact on the overall trend.

One can derive further insights into the changing pattern of part-time working by observing establishment based data. CSO enquiries into the retail trade reveal that the extent of part-time work for employees in this sector rose from just over 20 per cent in 1977 to 27 per cent in 1988, and to 38 per cent in 1993. During this period the total number of persons at work in this sector rose from 126,000 to 144,000, all of this increase occurring between 1988 and 1992 and virtually all of it attributable to part-time work.

³ The ongoing fall in agricultural employment is a factor to keep in kind here. This decreased by 45,000 between 1983 and 1993 which would imply that the numbers at work full-time outside of agriculture continued to rise during this period.

⁴ It should be noted that these data are based on International Labour Office (ILO) definitions and are thus somewhat different from those given in Table 2.6. This would not, however, affect trend indicators, which would be much the same irrespective of the labour force concepts used.

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An interesting additional feature of these data (see Table 2.9 in the next section) is that a comparison of the 1977 and 1988 figures indicates that part-time working actually declined in smaller retail outlets (i.e., those with up to 9 persons engaged) but increased in larger ones. The difference was particularly striking in very large establishments with more than 50 persons engaged; in these outlets the number of part-time employees rose sharply from less than 10 per cent in 1977 to as much as 45 per cent in 1988.⁵ This reflects an evolving pattern whereby larger retail firms, and supermarkets in particular, have engaged increasing numbers of young staff on a part-time basis, many of whom would have been still within the educational system with others holding jobs elsewhere in the economy. Part-time working is, of course, significant in sectors of the economy other than retailing, even though the available evidence suggests that it has increased more rapidly in the retail sector in recent years. Figures available from the 1988 Census of Services indicate that the incidence of part-time working was about 23 per cent across a wide range of commercial service activities; it was 30 per cent in the hotel, catering and recreational sphere and was as high as 80 per cent in office contract cleaning services, even though the last-mentioned would be exceptional in this regard.

It was against this kind of background that steps were taken in 1991 to extend legislative protection (relating to redundancy, social insurance, etc.) to a greater range of part-time workers.⁶ In effect, the position had been reached where the application of the legislation governing part-time work was being stretched to the limit. While this did not necessarily mean that illegal practices were involved, there were perceived disadvantages, especially for example in relation to young people entering the labour market. It is worth noting that the introduction of this legislation does not appear to have affected the increasing trend towards part-time working. A further aspect to note in this regard is the recent decision taken to regulate minimum wages for unskilled workers in retailing through the establishment of special Joint Labour Committees (JLCs) for the sector.

Employment Trends by Firm Size

This is a difficult issue to analyse as there are no comprehensive economy-wide data on this aspect. One can only derive partial insights from information for particular sectors, such as manufacturing and certain parts of the services area, for which specific establishment based inquiries have been carried out.

Table 2.9 shows the numbers of persons engaged in manufacturing classified according to size of enterprise for 1981, 1986 and 1992. As already indicated earlier in the Report, this was a period of substantial employment decline in manufacturing. The figures indicate that the decreases applied most noticeably at both ends of the size spectrum. Employment in enterprises with 500 or more persons engaged fell by nearly 30,000 from 83,000 to 54,000 over the period in question; the

⁵ It is not possible to track this trend accurately beyond 1988 as the data from more recent enquiries into this sector are based on enterprises rather than on establishments or local units. The data suggest, however, that the trend towards a greater volume of part-time working in larger firms has continued.

⁶ Through the Worker Protection (Regular Part-time) Employees Act, 1991. See Chapter IV.

Aggregate Employment Trends

decline in the smallest size category (less than 20 persons engaged) was about 11,000, from 34,000 down to 23,000. The numbers at work in the size classes intermediate between these two categories remained more or less stable. The job losses for the larger firms derived primarily from the difficulties faced during the 1980s by many older indigenous enterprises, a number of whom were quite large (at least by Irish standards). Many of them were forced out of business by competitive pressures during the recessionary years of the early 1980s, or else were compelled to effect severe reductions in their employment levels.

Table 2.9
Persons Engaged in Manufacturing by Size of Enterprise, 1981-1992.

Size of Enterprise (Persons)	1981	1986	1992
	(000)		
<20	33.6	26.2	23.4
20-49	27.6	25.4	28.3
50-99	29.7	29.4	28.3
100-199	37.1	31.7	36.0
200-499	42.0	38.4	47.0
500+	83.0	57.5	53.5
Total	253.0	208.7	216.5
	%		
<20	13.3	12.6	10.8
20-49	10.9	12.2	13.1
50-99	11.7	14.1	13.1
100-199	14.6	15.2	16.6
200-499	16.6	18.4	21.7
500+	32.8	27.6	24.7
Total	100.0	100.0	100.0

Sources: Censuses of Industrial Production, 1981, 1986, 1992.

Note: These data are available only for enterprises with 20 or more persons engaged. The smallest size category (less than 20 persons) was estimated as a residual by subtracting the figures for the other size categories from total manufacturing employment in the years concerned.

Table 2.10 shows a classification of total employment in the retail sector according to size of establishment or local unit for 1977 and 1988. In this instance the size categories used are quite different given the nature of the sector. The largest category shown relates to establishments with 50 or more persons engaged. The overall employment level for the two years in question was more or less identical (at about 127,000) but there is evidence of compositional change in relation to establishment size.

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Table 2.10
Persons Employed in Retailing in 1977 and 1988, classified by Size of Establishment.

Size of Establishment (year/persons)	Total Persons		Employees		
			Total	Part-time	Part-time Share
	(000)	%	(000)	(000)	%
1977					
1	7.0	5.6	0.7	0.1	14.9
2	18.2	14.4	4.5	1.5	33.0
3	17.1	13.5	7.2	2.3	32.1
4	13.7	10.9	7.3	2.2	29.6
5-9	28.9	22.9	20.1	4.9	24.4
10-14	9.8	7.8	8.9	1.6	17.7
15-19	5.5	4.3	5.3	0.9	16.8
20-49	14.2	11.3	14.1	1.7	11.9
50+	11.8	9.4	11.8	1.2	9.8
Total	126.3	100.0	79.9	16.3	20.4
1988					
1	7.4	5.8	0.7	0.0	4.2
2	19.1	15.0	6.1	1.4	22.4
3	16.1	12.6	8.4	2.2	25.8
4	12.4	9.7	8.0	1.8	23.1
5-9	26.9	21.0	21.4	5.0	23.4
10-14	9.9	7.7	9.3	2.0	21.8
15-19	5.3	4.1	5.1	1.1	21.9
20-49	12.3	9.6	12.2	3.1	25.0
50+	18.5	14.5	18.5	8.0	43.1
Total	127.9	100.0	89.7	24.6	27.4

Sources: CSO, 1977: Census of Distribution; CSO, 1988: Census of Services.

The largest concerns (i.e., those with 50 or more persons engaged) recorded a substantial employment increase, from less than 12,000 to over 18,000. However, this occurred at the expense of a spread of other size classes, none of which showed any significant drop in overall employment levels. It will already have been noted, that the employment increases for the largest establishments involved mainly part-time work.

Aggregate Employment Trends

One might summarise the foregoing by stating that in manufacturing medium sized enterprises (when viewed in an Irish size framework) are accumulating a growing share of total employment, while in services larger enterprises (basically those with 50 or more employees) are increasing more rapidly in terms of employment content.

3. Employment Outlook

Recent Reviews

We conclude this chapter with a brief indication as to how employment levels are likely to evolve in the period up to the year 2000. The most recent comprehensive assessment which dealt with this issue is that contained in the ESRI *Medium-Term Review* which was published in April 1994.⁷ The forecasts contained therein, which relate to both output and employment, were derived from the ESRI macro-economic model.

Underlying these forecasts were a set of assumptions concerning growth in the world economy, demographic change and the stance of domestic policy. The assumptions relating to world economic growth anticipated a modest rate of expansion — some 3 per cent in 1993 and 1996 with moderation to between 2 and 3 per cent annually in the period up to the year 2000. An external feature of particular importance to the Irish economy is the position in the UK labour market as this, when considered with Irish unemployment levels, can have a profound effect on Irish external migration flows. This feature has already been averted to earlier in this report. The forecasts envisaged a continuing if modest fall in the UK unemployment rate which would serve to stimulate outward migration from Ireland, but the final outcome would, of course, depend on the balance between this trend and the evolving labour market situation in Ireland.

With regard to changing demographic and labour force structures, the related assumptions can be broadly described as reflecting a continuation of the trends set out in some detail in Chapter I. These involve a declining dependency ratio due mainly to continuing decrease in the birth rate, falling labour force participation among the young (due to greater involvement in higher education) and, in contrast, rising labour force participation among women aged between 25 and 64 years.

As for the domestic policy stance, the assumptions were significantly influenced by the need to meet the Maastricht criteria. The basic assumption was to maintain the exchequer borrowing requirement in the range 0-2 per cent of GNP in the long term. It was assumed that some of the benefits of growth would be used to reduce rates of direct taxation and some to increase public services. However, the assumptions anticipated that the increase in public services would be slower than the rate of growth in the economy as a whole, thus allowing a significant reduction in the overall tax burden and in the share of public expenditure in GNP. Direct taxation as a share of GNP

⁷ Cantillon, S., Curtis, J., Fitz Gerald, J. (1994). *Medium-Term Review 1994-2000*, ESRI, 1994. Dublin.

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was assumed to fall from 24½ per cent in 1994 to 21½ per cent in the year 2000; other tax rates were assumed to be indexed to the inflation rate.

The assumptions also took account of the substantial Structural Funds receipts. In the period up to 1999 these were assumed, on average, to remain roughly unchanged at their 1993 level.

The *Medium-Term Review* analysis concluded that the Irish economy was in a strong position to benefit from the European recovery which was emerging at that time. The *Review's* central forecast predicted that Ireland would experience a period fairly rapid growth in the five years up to the year 2000, involving a significant expansion in employment. Annual average output growth during this period was anticipated to reach nearly 5 per cent accompanied by a corresponding employment expansion of 1.7 per cent which is equivalent to an annual average absolute increase of about 21,000. Impressive as these figures may be (especially the latter employment figure when viewed in an historical context) the potential for expansion in the labour force is even greater and the forecast therefore envisaged continuing emigration, at an annual average level of some 15,000 (net). The unemployment rate was predicted to fall somewhat, over to a level of about 13½ per cent by the year 2000.

Even though these forecasts were regarded as optimistic by some analysts at the time of publication, experience to date has shown them to be somewhat conservative. The phenomenal employment growth of recent years has resulted in the position whereby the forecast employment total for 1997 (1,230,000) has already been exceeded in 1995 and the unemployment rate is now as low as that forecast for the year 2000. Recent events, both domestic and worldwide, do not suggest that an economic downturn is imminent and that continuous albeit moderate world growth can be expected.⁸ This suggests that the employment total in the Irish economy in the year 2000 will be higher than originally forecast, unemployment will be much lower and there will be less emigration in the intervening period. The exact extent of the revisions required will become clearer later this year when a further *Medium-Term Review* is published.

The Impact of EMU

As the deadline for the introduction of the single currency approaches, the question of the likely impact on the Irish economy of EMU membership becomes increasingly relevant. The ESRI has recently carried out a major study of the economic implications for Ireland of EMU including, *inter alia*, estimates of expected changes in total employment in relation to different scenarios envisaged.⁹

⁸ Indeed recent experience would suggest that a number of the assumptions should involve a greater degree of optimism.

⁹ T. Baker, J. Fitz Gerald, P. Honohan (Eds), 1996. *The Economic Implications for Ireland of EMU*. ESRI Policy Research Series, Paper No. 28.

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Three main scenarios are considered in this study which are predicated on EMU becoming a reality with at least Germany, France, the Benelux countries and Austria as members. These scenarios relate to (1) both Ireland and the United Kingdom remaining outside the EMU (which is the benchmark scenario), (2) Ireland joining and the UK remaining outside and (3) both Ireland and the UK becoming members.

It is of interest to note that the study concludes that if EMU were to fail to materialise now or to involve merely a solidification of the existing DM zone, then the situation would be very different from that presented in the benchmark scenario. As interest rates currently "price in" a component in expectation of EMU, a failure to realise this objective could see interest rates rising in all EU member States. This, in turn, would give rise to significant instability on foreign exchange markets, with consequential disadvantageous implications for economic growth and employment, at least until a new equilibrium was attained.

The conclusion of this study is that, assuming prudent policies, EMU membership will be favourable for Ireland. Interest rates will be lower than if Ireland were excluded. The net benefit of this, coupled with savings and currency costs, will be more than enough to offset competitiveness losses.

This conclusion holds whether or not the UK also joins. Clearly the most favourable scenario is where the UK joins, as this would minimise exchange rate shocks and allow greater savings on currency costs. Ignoring unquantifiable effects, joining with the UK should raise GNP by about 1.4 per cent on average, and entail an additional 20,000 jobs.

If the UK remains outside EMU, provision has to be made for the competitiveness impact of likely sterling/euro exchange rate movements. The approach to quantifying effects in these circumstances begins with a simulation of the economy under relatively tranquil conditions, based on an assumption that the UK follows economic strategies which are largely consistent with the broad thrust of EU policy. If such tranquillity could be guaranteed, EMU membership, even with the UK outside, would still be significantly beneficial, especially because of the lower interest rates. However the ability of the economy to respond to external competitiveness shocks, such as a sharp depreciation in sterling, would be severely constrained. Thus the inevitability of some such shocks needs to be taken into account. The study assumes that the future, like the past, is neither wholly tranquil nor unremittingly turbulent. In order to weigh the benefits gained in tranquil times against the likely losses from turbulence, a quantification of continued "blustery conditions" is provided. This is based on the past frequency, intensity and cost of currency and similar shocks. The analysis concludes that, after making an annual provision sufficient to account for the likely average cost of shocks (including sterling related shocks) there would still be a net gain from membership in these circumstances. With the UK outside the EMU it is estimated that the net positive impact on the average level of Irish GNP would be about 0.4 per cent, which would be consistent with an net increment of about 10,000 jobs.

Appendix Tables

Table A2.1
Employment in Manufacturing classified by subsector, 1981-1994.

Subsector	Food	High-Tech.	Other	Total
			(000)	
1981	45.6	73.6	142.8	262.0
1986	38.4	72.1	123.5	234.0
1991	36.0	80.9	129.1	246.0
1994	39.2	89.2	124.6	253.0

Source: Censuses of Population and Labour Force Surveys.
Note: The "High-Tech." category includes Metals, Machinery, Transport Equipment and Chemicals. Mining etc., Utilities and Drink & Tobacco are included in the "Other" category.

Aggregate Employment Trends

Table A2.2
Persons at Work by Employment Status

Year	Self Employed			Employees			Persons		
	Males	Females	Persons	Males	Females	Persons	Males	Females	Persons
All Sectors			(000)						
1981	214.5	22.5	237.0	594.7	314.2	908.9	809.2	336.7	1,145.9
1986	208.5	24.2	232.7	532.9	315.3	848.2	741.4	339.5	1,080.9
1991	213.3	29.1	242.4	533.7	357.9	891.6	747.0	387.0	1,134.0
1992	221.3	33.8	255.1	518.7	365.2	883.9	740.0	399.0	1,139.0
1993	216.4	34.7	251.1	519.6	375.3	894.9	736.0	410.0	1,146.0
1994	217.5	34.4	251.9	534.5	395.6	930.1	752.0	430.0	1,182.0
1995	223.0	35.4	258.4	555.8	419.4	975.2	778.8	454.8	1,233.6
Excluding Agriculture									
1981	76.2	13.9	90.1	557.2	303.3	860.5	633.4	317.2	950.6
1986	86.1	16.4	102.5	502.3	308.6	810.9	588.4	325.0	913.4
1991	101.9	23.3	125.2	503.1	350.7	853.8	605.0	374.0	979.0
1992	107.7	26.5	134.2	490.3	360.5	851.8	598.0	387.0	986.0
1993	112.2	27.9	140.1	492.8	370.1	862.9	605.0	398.0	1,003.0
1994	114.3	28.2	142.5	509.7	389.8	899.5	624.0	418.0	1,042.0
1995	119.7	29.1	148.8	525.5	414.7	940.2	645.2	443.7	1,088.9

Source: Censuses of Population and Labour Force Surveys.

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Table A2.3
Persons at Work in different Sectors in 1988 and 1995, distinguishing those working part-time.

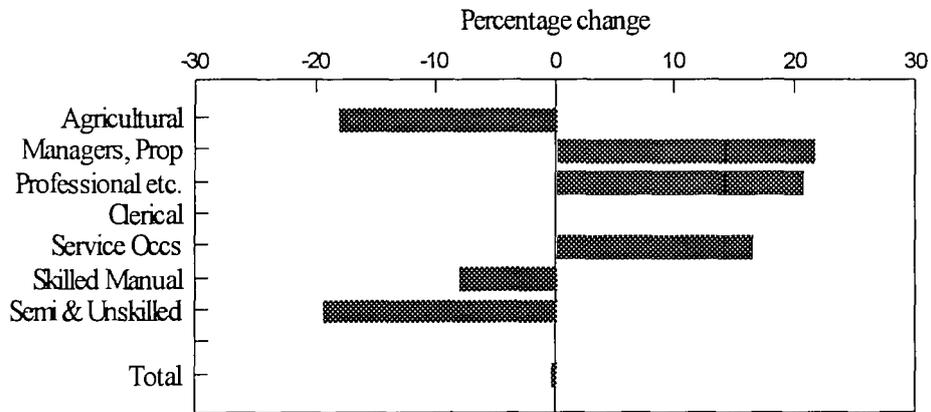
Sector	Part-time		Total		Percentage Part-time	
	1988	1995	1988	1995	1988	1995
		(000)			%	
Agriculture etc.	11.8	10.5	171.4	145.8	6.9	7.2
Manufacturing	7.6	11.6	231.3	264.2	3.3	4.4
Building	3.3	5.3	70.6	82.1	4.7	6.5
Commerce, Business	1.6	41.1	226.8	270.7	9.5	15.2
Transport etc.	2.9	3.9	64.2	76.5	4.5	5.1
Public Admin., Defence	2.6	4.5	71	73.2	3.7	6.1
Professional Services	21.5	39.1	187.4	223	11.5	17.5
Other Services	15.8	36.3	88.9	131.8	17.8	27.5
Total	87.1	152.3	1111.6	1267.3	7.8	12.0

Source: Labour Force Surveys, 1988 and 1995.

Note: These data are based on International Labour Office (ILO) labour force definitions. The figures are, therefore, somewhat different from those given in other tables in this report.

Aggregate Employment Trends

Figure A2.1
Persons at Work, classified by Occupational Group 1981-1991.



Source: Censuses of Population and Labour Force Surveys.

CHAPTER III

UNEMPLOYMENT

The principal aggregate trends in relation to unemployment over the period from 1981 to 1995 have already been described in the preceding chapter. In this section we probe the unemployment figures in somewhat more detail, particularly in relation to aspects such as age, gender and duration of unemployment.

1. Gender, Age

Tables 3.1 and 3.2 show classifications of the unemployed by age and sex over selected years between 1981 and 1994.

Table 3.1
Unemployment by Age, 1981-1995.

Year	15-24	25-44	45-64	65+	Total
			(000)		
Males					
1981	35.2	45.3	22.3	1.0	103.8
1986	55.7	79.7	37.1	1.2	173.7
1991	43.0	74.6	37.6	0.8	156.0
1994	41.7	75.0	43.6	1.5	161.8
1995	34.0	66.3	40.8	0.8	142.0
Females					
1981	15.2	5.1	1.7	0.0	21.9
1986	31.6	16.9	5.0	0.3	53.8
1991	28.6	18.2	4.8	0.4	52.0
1994	27.4	22.4	5.9	0.1	55.9
1995	22.3	20.1	5.4	0.1	47.9
Persons					
1981	50.4	50.4	24.0	1.0	125.7
1986	87.3	96.6	42.1	1.5	227.5
1991	71.6	92.8	42.4	1.2	208.0
1994	69.1	97.4	49.5	1.6	217.7
1995	56.4	86.4	46.2	0.9	189.9

Source: Censuses of Population, Labour Force Surveys.

Unemployment

One of the most notable features of these figures is the rise in youth unemployment throughout the period under consideration. The unemployment rate for persons aged between 15 and 24 years was 14 per cent in 1981 but it had risen to over 25 per cent by 1994. There were, however, signs of an improvement in 1995 when the rate decreased to 21 per cent. Nevertheless, the initial rise is notable given the increasing numbers which have been accommodated in education in recent decades and in view of the very high emigration which prevailed at times during this period. Basically what these figures signal is the increasing difficulties associated with initial transition into the labour force. The procurement of a job now requires that young people have more skills and qualifications than previously; prior experience is also frequently sought by employers in the knowledge that the labour market is over supplied at this level; former emigrants working abroad are also part of the potential pool, if they can be induced to return. The unemployment trends for the youth category for males and females are broadly similar, even though the rate of male youth unemployment actually fell in the late 1980s. This was, however, due to particularly heavy male emigration, rather than to enhanced job opportunities for young people in the domestic labour market.

Table 3.2
Unemployment Rates by Age, 1981-1995.

Year	15-24	25-44	45-64	65+	Total
			%		
Males					
1981	17.0	11.0	8.8	2.6	11.4
1986	29.5	17.7	15.0	3.9	19.0
1991	25.8	16.5	14.6	2.9	17.3
1994	27.8	16.3	15.8	5.5	17.7
1995	22.7	14.3	14.5	3.1	15.4
Females					
1981	9.7	4.0	2.6	-0.2	6.1
1986	20.6	10.0	7.9	3.9	13.7
1991	21.2	8.3	6.2	5.5	11.8
1994	22.2	8.4	6.5	2.0	11.5
1995	18.7	7.1	5.6	1.7	9.5
Persons					
1981	13.8	9.3	7.6	2.0	9.9
1986	25.5	15.6	13.6	3.9	17.4
1991	23.7	13.8	12.7	3.5	15.5
1994	25.3	13.4	13.5	5.0	15.6
1995	21.0	11.6	12.2	2.8	13.3

Source: Censuses of Population and Labour Force Surveys.

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The unemployment rate for persons aged 25 to 44 years rose rapidly in the early 1980s but has decreased somewhat since then, particularly in the case of females. The 1981 rate was 9 per cent for all persons; it had increased to over 15½ per cent by 1986, but has since fallen back to less than 12 per cent. The unemployment trend for persons aged between 45 and 64 years has been rather similar, rising sharply at the beginning of the 1980s and then stabilising thereafter.

2. Long-Term Unemployment

In this section we consider the question of long-term unemployment (LTU). As convention currently dictates, this is defined as constituting those unemployed for at least one year, even though the persistent nature of the problem has led to the situation where the LTU group now contains a high proportion of persons who have been out of work for much longer periods. Ireland suffers from an exceptionally high level of long-term unemployment; the proportion of the unemployed who have been out of work for a year or more is the highest in the EU. Estimates from the 1994 Labour Force Survey indicate that the share of LTU in total unemployment in Ireland was nearly 63 per cent, compared with an EU average of 48 per cent.

Table 3.3 summarises data on long-term unemployment taken from the 1994 national Labour Force Survey.¹ It shows a classification of the unemployed by sex, age and duration of search for work. The figures show that at the time in question 127,400 persons (nearly 63 per cent) out of the total unemployment stock of 210,000 were unemployed for one year or more. However within the former group, no less than 87,000 persons (or nearly 43 per cent of the overall total) were out of work for more than two years. The long-term unemployed involve a significant majority of males - to the extent of 85,000 or over 67 per cent of the total. Furthermore the incidence of LTU is also somewhat greater for males (67.7 per cent) than for females (55.6 per cent).

There is a notable association between duration of unemployment and age. LTU is much more prevalent among the older age classes. Table 3.3 shows that while the share of long-term unemployment in total unemployment was just over 50 per cent in 1994 for those aged less than 25 years, it rose to nearly 63 per cent of persons aged between 25 and 39 years and to well in excess

¹ The analysis in this section is based on unemployment figures defined according to ILO definitions rather than on the basis of Principal Economic Status (PES) as used in most of the other analyses contained in this chapter and in Chapter I. This is because an assessment of LTU involves estimating duration of search for work and it is only with ILO based data that this can meaningfully be done. It will be noted from the aggregate figures given in Table 2.12 that use of the ILO definition does not materially affect the overall size of the unemployment estimate, but it does give rise to a situation where the unemployment total contains more females and less males.

An alternative approach would have been to use figures derived from the unemployment register, but the reliability of these data as measures of unemployment have become increasingly questionable in recent years due to the sharp divergence in trend that has emerged between the figures based on the register and the Labour Force Survey estimates.

These issues are described in some detail in Appendix I.

Unemployment

of 70 per cent for persons aged between 40 and 54 years. The ratios were even higher for the older age classes, but it should be borne in mind that the absolute numbers involved are relatively small.²

Table 3.3
The Unemployed classified by Age and Duration of Unemployment, 1994.

Age	<1 yr	1-2 yrs	2 yrs+	Not stated	Total Unemployed	LTU	LTU Share
	(000)					(%)	
Males							
15-24	16.4	8.1	11.8	2.3	38.6	19.9	54.8
25-39	16.0	8.6	23.0	0.9	48.5	31.6	66.4
40-54	8.2	5.2	21.2	0.3	34.9	26.4	76.3
55+	1.7	1.2	5.6	0.2	8.7	6.8	80.0
Total	42.5	23.2	61.7	3.5	130.9	84.9	66.6
Females							
15-24	13.5	6.1	5.2	1.8	26.6	11.3	45.6
25-39	13.3	7.8	10.1	0.4	31.6	17.9	57.4
40-54	5.8	3.2	8.0	0.1	17.1	11.2	65.9
55+	0.4	0.5	1.5	0.3	2.7	2.0	83.3
Total	33.4	17.6	24.8	2.7	78.5	42.4	55.9
Persons							
15-24	30.1	14.3	17.1	4.1	65.6	31.4	51.1
25-39	29.2	16.4	33.1	1.4	80.1	49.5	62.9
40-54	14.2	8.3	29.2	0.4	52.1	37.5	72.5
55+	2.5	1.8	7.2	0.4	11.9	9.0	78.3
Total	75.8	40.8	86.6	6.3	209.5	127.4	62.7

Sources: (a) Special tabulations from the Annual Series of Labour Force Surveys.
(b) EUROSTAT (1993). Labour Force Survey 1983-1991.

Note: (a) These estimates are based on ILO definitions.
(b) LTU means long-term unemployed.

Apart from viewing the position within age groups it is also relevant to consider the age composition of the LTU group as a whole. In this context the data show that some 75 per cent of the total body of LTU persons in April 1994 was aged 25 years or over. However within the latter

² The fact that there are so few LTU in the older age classes (i.e. 55 years or over) is probably due to concessions applicable to the older registered unemployed which allow them to quit the register but retain their benefits. It is likely that this would condition the manner in which such persons would respond the Labour Force Survey questionnaire. There were 18,000 persons aged under 65 years either on the Pre-Retirement Allowance Scheme (PRETA) or the Pre-Retirement Credit Scheme (PRECS) in April 1994.

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group there was a significant proportion (comprising nearly 40 per cent of the total LTU) in what one might describe as a “lower middle aged” category embracing persons aged between 25 and 39 years. More than 35 per cent of long-term unemployed persons were aged 40 years or over.

The long-term unemployed exhibit a significantly poor educational profile. Appendix Table A3.2, which was taken from the 1991 Labour Force Survey, shows that not far short of 50 per cent of LTU persons had attained at most primary educational level. This compares with a corresponding proportion of 24 per cent for the short term unemployed and, notably, a somewhat similar proportion, 22 per cent, for those at work at that time. At the other end of the educational spectrum only 20 per cent of the LTU had qualifications equivalent to Leaving Certificate or higher compared with a share of 40 per cent of the short term unemployed and over 50 per cent of persons in employment.

In summary, therefore, one can say that the Irish long-term unemployment problem involves a majority of males and its age composition is weighted towards the middle aged and older age classes, and that the individuals involved have a markedly disadvantageous educational profile.

In addition to unfavourable characteristics relating to aspects such as age and low educational levels, many long-term unemployed also suffer from a further disadvantage in that the very fact of being unemployed for a long period militates against their regaining a job. It is a well established fact that employers tend to give preference to the more recently unemployed and younger persons with higher levels of educational attainment who can adapt to flexible working arrangements.³ In addition, the particular circumstances which have prevailed in the Irish labour market in recent decades, involving a continuous inflow of relatively well qualified young people, and increasing female participation, has rendered the situation significantly more competitive. In these circumstances, the existing unemployed, particularly those in the older age groups and those with low levels of educational attainment, tend to get pushed further down the queue of job seekers.

Recent Trends in Long-Term Unemployment

Turning to the question of time trends, Table 3.4 gives relevant data for the period from 1983 to 1995. These figures show that long-term unemployment reached very high levels in the mid-1980s, the total increasing from 67,000 (or 35 per cent of total unemployment) in 1983⁴ to over 150,000 (or 64 per cent) in 1987. Thereafter, however, the numbers declined, particularly after 1988 when economic conditions improved; by 1990 the LTU total had fallen to just under 110,000, even though this still constituted some 64 per cent of total unemployment as the overall numbers out of work were declining contemporaneously. LTU began to rise again in the early

³ See Whelan *et al.*, (1992). *A Study of Employment Possibilities of the Long-term Unemployed*. Report for the Department of Labour, Dublin.

⁴ Labour Force Survey data on unemployment classified according to duration of search for work are not available for years prior to 1983.

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1990s according as economic growth slowed. The numbers reached a level of 127,000 in 1994. By this time, however, the economy was again expanding rapidly and this carried through into a substantial decrease in long-term unemployment in 1995, the numbers falling to 102,000, or just over 58 per cent of total unemployment.

It is necessary to bear in mind, however, that the trend in long-term unemployment can be affected by the numbers on State sponsored employment schemes as most (but not all) of the persons accommodated on these schemes tend to be long-term unemployed. The numbers involved have increased very significantly in recent years; after remaining more or less constant since the mid-1980s the total number of persons on these schemes rose from 17,000 to 31,000 between 1993 and 1994, and by a further 10,000 in the year to April 1995.⁵ When the figures are viewed in association with the data in Table 3.4 they infer that LTU would have reached an even greater level than 127,000 in 1994 were it not for these schemes, and that some of the decline of 25,000 in LTU between 1994 and 1995 can also be attributed to this source. It is difficult to pinpoint precisely what the impact of these schemes on the decreasing LTU trend would have been in the most recent period referred to, but it would have been significantly less than 10,000, thus leaving a large share of the decrease to be explained by other causes.

These data indicate, nevertheless, that LTU is much more significantly affected by cyclical changes in the economy than had heretofore been thought. Furthermore, the implication is that not only is long-term unemployment susceptible to economic change, but in recent years at least the well known "ratchet" effect which applied in earlier periods did not occur; i.e., whereby each recessionary period tends to add to the existing stock of long-term unemployed persons as the numbers do not necessarily fall significantly during periods of economic buoyancy. It will be noted in this regard, for example, that the LTU level of 102,000 for 1995 was lower than the figure of 109,000 associated with the previous high point of economic activity in 1990.

These trends are significantly different from those indicated by the unemployment register which, as described in Appendix I, has been diverging significantly in magnitude from corresponding Labour Force Survey unemployment estimates. Given some of the reasons underlying this divergence, it is not surprising that it has become particularly marked. One of the primary causes of the growing difference between the two measures relates, for example, to the inclusion on the unemployment register of persons engaged in part-time work. The very nature of this arrangement would imply that such persons would remain on the register for a very long time, thus causing the numbers of long-term unemployed to increase.

⁵ These figures have been taken from the CSO Statistical Release *1995 Labour Force Survey. Preliminary Estimates*, published in October 1995. A description of the employment schemes in question is given in the section on Active Labour Market Measures in Chapter VIII.

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Table 3.4
Total Unemployment and Long-Term Unemployment, 1985-1995.

Year	Total Unemployment			Long-Term Unemployment			%LTU		
	Males	Females	Persons	Males	Females	Persons	Males	Females	Persons
	(000)			(000)			(%)		
1983	129.0	65.0	194.0	51.0	15.0	67.0	39.5	23.1	34.5
1984	145.0	71.0	217.0	73.0	22.0	96.0	50.3	31.0	44.2
1985	155.0	78.0	234.0	103.0	42.0	145.0	66.5	53.8	62.0
1986	156.0	82.0	237.0	104.0	44.0	148.0	66.7	53.7	62.4
1987	157.0	83.0	239.0	106.0	46.0	152.0	67.5	55.4	63.6
1988	146.3	79.1	225.5	98.5	43.7	142.2	67.3	55.2	63.1
1989	128.4	68.4	196.8	88.6	38.2	126.9	69.0	55.8	64.5
1990	108.4	63.9	172.4	74.5	34.9	109.4	68.7	54.6	63.5
1991	124.9	73.6	198.5	79.5	38.4	117.9	63.7	52.2	59.4
1992	133.6	75.5	209.1	80.7	37.3	117.9	60.4	49.4	56.4
1993	138.3	81.4	219.7	84.4	40.7	125.1	61.0	50.0	56.9
1994	130.9	78.6	209.6	84.9	42.5	127.4	64.9	54.1	60.8
1995	109.1	66.2	175.3	69.5	32.7	102.1	63.7	49.4	58.2

Sources: (a) Special tabulations from the Annual Series of Labour Force Surveys.
(b) EUROSTAT (1993). Labour Force Survey 1983-1991.

Note: These estimates are based on ILO definitions.

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It must be recognised, however, that a decrease in LTU cannot be taken as implying that all of those who left that state found a job. For the long-term unemployed in particular there is greater likelihood of withdrawal from the labour force as many such persons may tend to become “discouraged” in the event of lengthy and futile job search. It is relevant therefore to try and determine whether the causation underlying the decreases in long-term unemployment in the late 1980s and in 1995 related to job acquisition or labour force quits. While it is difficult to identify precisely such underlying factors with conventional employment and unemployment data (which relate to stocks of individuals), some inferences can be drawn by observing the parallel trends for persons marginally attached to the labour force. Such information is given in Appendix Table A3.3 which, in addition to showing conventional labour force aggregates for the period from 1985 to 1995, also contains data on the numbers of “discouraged” workers, other persons marginally attached to the labour force and other economically inactive persons aged 15 years or over.⁶

The figures in question do not support the proposition that the decreases in long-term unemployment during the periods in question resulted from flows out of the labour force. In fact, rather than offsetting one another (which would be consistent with this proposition) both the numbers of discouraged persons and those marginally attached to the labour force have tended to move in parallel with the long-term unemployment total. The changes in the latter aggregates were, in any event, quite marginal. Nor is there any evidence from the figures that those who left long-term unemployment moved into the “other inactive” category, i.e., did not even remain marginally attached to the labour force. The numbers in this large residual class did increase significantly between 1994 and 1995 when LTU declined, but a closer inspection of relevant Labour Force Survey data reveals that this arose because of a substantial rise (of some 10,000) in the numbers aged 15 years and over accommodated within the educational system. The indications are, therefore, that the fall in long-term unemployment in the two periods in question occurred mainly as a result of persons entering employment.

These results should not, however, deflect attention from the fact that long-term unemployment still presents a formidable problem with a significant structural dimension (see below). While these findings may indicate that it is more susceptible to economic forces than previously envisaged, the LTU total has remained above the 100,000 figure since the mid 1980s. Furthermore since it is the best equipped among the long-term unemployed who tend to find work first, it may be increasingly difficult to achieve further significant reductions in addition to those already attained, as the remaining body of long-term unemployed persons will tend to have an increasingly disadvantageous education and skills profile. There will, therefore, be a need for continuing intervention on the part of the State if they are to be re-integrated.

The results, nevertheless, have significant policy implications. Heretofore strategies in relation to long-term unemployment have been influenced primarily by the trend in the registered unemployed, which has signalled an inexorable rise in the scale of the problem. This has been one of the principal factors which has led to a very large outlay of public resources in combating the

⁶ The “other marginally attached” group includes persons on lay-off and those classed as “passively seeking work”, i.e., indicated that they were looking for work, but had not taken any specific steps or used any specific methods to find work in the four weeks preceding the survey interview.

problem. While we are not questioning that substantial supports are needed to address this problem (particularly in certain localities and for certain target groups), these results must give cause for some reconsideration, not only of the nature and effectiveness of active labour market policies, but also of the need for targeting the most disadvantaged among the long-term unemployed and the appropriateness of the unemployment register as the principal basis of eligibility for participation in such programmes.

Structural Aspects to Irish Unemployment

Despite the indications that long-term unemployment may be more responsive to economic conditions than previously thought, a summarisation of the body of evidence presented in this chapter indicates quite clearly that Irish unemployment involves a marked structural element. One can point to the poor educational attainment of the long-term unemployed, which when combined with the fact that many of them are in the older age groups places them at a severe disadvantage in finding employment in today's labour market, given the nature of the jobs on offer and the premium that is put by employers on flexibility, and on qualifications and skills. There is also a locational aspect to this problem, even though this has not been specifically studied in this report. A sizeable proportion of the long-term unemployed are concentrated in disadvantaged localities in large urban areas where unemployment rates of 40 per cent or even higher are not uncommon. In these circumstances LTU is not just a feature of those in the older age groups, it significantly affects young people as well. Under these conditions, given that job opportunities tend to be limited for people residing in these localities, unemployment tends to become an intergenerational problem with all of the associated social difficulties that this creates.⁷

3. Causative Factors in Relation to Unemployment

Identifying causation in relation to unemployment is a difficult task, given that there are so many different interacting socio-economic influences involved. The period over which causation is analysed can also significantly affect the outcome. As any broadly based attempt to identify causation in relation to unemployment has to be addressed on an economy wide basis, an approach based on macro-economic modelling is, essentially, the only way to achieve this. The most comprehensive studies of this kind are those by Barry and Bradley (1991) and Bradley and Whelan (1996, forthcoming) which used macro-economic models to test various simulations designed to isolate the effects of different influences on variations in Irish unemployment in different sub-periods over the timespan from 1970 to 1990. The analyses covering the first half of the 1980s are of particular interest as it was during this time that the initial large build up of unemployment occurred. While the results of these simulations are subject to the qualifications which apply to all macroeconomic modelling processes, they are of interest not only in helping to rank and quantify

⁷ Unemployment rates at the level of localities can only be derived from Censuses of Population. It is remarkable, however, that successive Census reveal very high unemployment rates for the same such localities, thus indicating the intractable nature of the problem.

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causative factors for the periods in question, but also in providing some useful pointers as to the effects underlying more recent unemployment trends.

The Period from 1970 to 1987

The first of these studies referred to, which dealt with the period from 1970 to 1987, was based on the ESRI macro economic model. This was used to test the effects of stylised scenarios which purported to reflect alternative circumstances to those which actually occurred, and to compare the results with actual historical outcomes. For the most part, particularly in the 1980s, these scenarios reflected a more advantageous set of circumstances than those that actually prevailed.⁸ The results of this exercise are summarised in Table 3.5, which shows a decomposition of the changes in the unemployment rate attributable to the external (i.e. World) environment, domestic policy factors and demographic influences. The periods covered relate to 1970/1980 and 1979/1986.

Table 3.5
Decomposition of the Changes in the Unemployment Rate for 1970/80 and 1979/86,
based on Macroeconomic Model Simulations

Causative Factors	1970/80	1979/86
	% Points	
External (i.e., World) Factors	1.09	3.00
Domestic Policy Factors	-2.53	4.41
Demographic	2.86	0.60
All Factors Combined	1.19	8.44
Historical Data	1.50	10.20

Source: Barry and Bradley (1991). "On the Causes of Ireland's Unemployment". *The Economic and Social Review*, Vol. 22, No. 4. July 1991, Dublin.

Note: (1) The historical data relate to the actual observed trend.
(2) It should be noted that the "demographic" factor relates to the natural increase in the population of working age. The impact of this can be attenuated by net external migration, which is endogenously determined within the model structure.

⁸ For example to investigate how the relatively low rate of growth in world output affected Irish growth (and hence employment) a synthetic measure of world growth was created which equalled actual growth up to 1970 and then proceeded at a constant rate of 3.6 per cent per annum (the average rate for the 1960s) out to 1987. With regard to domestic policy, the simulation was designed to capture a "neutral" stance on the part of government by means of a simple indexation of fiscal and public expenditure elements over this period. As for demographic aspects, the basic simulation eliminated both the trend growth in labour force participation and the expansion in the active population aged 15 to 64 years, but allowed migration effects to apply. The actual paper, published in the July 1991 edition of the *Economic and Social Review*, should be consulted for a more detailed explanation of the methodology.

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During the 1970s the two dominant influences were the stance of domestic policy and the demographic aspect. The fiscal and public expenditure policies followed in the 1970s were expansionary (particularly late in the decade) and the simulations presented suggest that these had the effect of reducing the net change in the unemployment rate between 1970 and 1980 by about 2½ percentage points. Demographic pressures on the other hand, which involved a rapid natural growth in the population of working age, further exacerbated by an (endogenous) net migratory inflow, contributed to a rise in the rate of much the same magnitude, as this underpinned substantial labour force growth. External factors played a relatively minor role during this period.

However as Bradley and Barry emphasise, the reduction in unemployment in the late 1970s was bought at a heavy price as the fiscal concessions and the increases in public expenditure were financed to a large extent by borrowing and a huge national debt was accumulated. This gave rise to the need for even greater retrenchment with the renewed onset of recession after 1980. This is reflected in the fact that in the first half of the 1980s the domestic policy stance (which now involved additional taxes on income, increases in social insurance contributions and cuts in public expenditure) contributed to a significant rise in unemployment, of some 4½ percentage points. However external factors were now also of considerable significance due to the depressed state of the global economy, contributing to a rise of some 3 percentage points in the same period. Demographic influences were quite minimal during this time.⁹

There were other studies which attempted to identify causation in relation to the unemployment rise in Ireland in the first half of the 1980s. Brown and McGettigan (1993) using a smaller-scale model (which did, however, involve a sub-division distinguishing four sectors of the economy) also analysed the 1979-1986 period and presented results which were very similar, in terms of the attribution of causation, to that of Barry and Bradley. Earlier Newell and Symons in a controversial paper published in 1990 had contended that in the same period both demographic and external factors had played a much more important role in influencing the unemployment rise and that domestic policy influences, even though they were present, were quite minimal.¹⁰ This research, was, however, criticised on the grounds that the modelling approach reflected an unduly simple representation of the Irish economy (did not involve any sectoral distinctions) and that it did not take account of the impact of external migration on the Irish labour force. McCarthy (1993) concluded that there was a disincentive effect due to the level of unemployment compensation, but the size of the effect was not large — which would be consistent with, for example, Atkinson and Micklewright's (1991) summary of the international evidence.

It is of interest to note that the Barry and Bradley study did, in the context of analysing the impact of domestic policies, attempt to separate out the effects of changes in taxation and public expenditure. The indications are that in the first half of the 1980s the impact of increases in taxation

⁹ See Note (2) to Table 3.6.

¹⁰ It is of interest, nevertheless, to note that Newell and Symons (1990) found that 11 per cent of the increase in Irish unemployment between 1979 and 1986 could be attributed to increases in the replacement ratio. However this result has been questioned by Barry and Bradley (1991) who found that the replacement ratio did not add to the explanatory power of their model.

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and social insurance contributions were much more significant in contributing to the increase in unemployment than cuts in public expenditure. The effect of these increases on the “wedge” between net home pay and total employee labour costs was of particular significance. It is true that the wedge in question increased dramatically during this period. If one takes the example of a single earner family with two children, the wedge, when taken as a share of total employee labour costs, rose by a factor of one half between 1980 and 1989 (from 22 per cent to 35 per cent).¹¹ Brown and McGettigan (1993) in their research concluded that over 40 per cent of the growth in Irish unemployment between 1979 and 1989 was accounted for by expansion in a combined tax and real exchange rate wedge.

Events in the late 1980s

A review of causation and unemployment covering the later part of the 1980s has to be widened to include further issues as the period in question (1987-1990) was characterised by some quite unique developments. In 1987, arising from the parlous state which the national finances had reached (the debt/GNP ratio had risen to nearly 140 per cent), the Government embarked on a course of severe cutbacks in public expenditure. While conventional Keynesian beliefs would have suggested that this would have had an adverse effect on growth, the reverse in fact happened. GNP began to rise at an increasingly rapid rate. Employment gains and reductions in unemployment were somewhat slower to follow, but eventually these emerged on a very substantial scale after 1988 (see Table 2.1). These events aroused much national and international interest. They were considered by some analysts as evidence of the positive effects of “expansionary fiscal contraction” (EFC) in the sense that positive rational expectations led to greater investment and higher levels of economic activity which more than offset the direct negative impact of the fiscal cutbacks. Examples of these views are to be found in papers by Giavazzi and Pagano (1990) and McAleese (1990). Others were, however, less convinced of these arguments principally because the phenomenal growth in the Irish economy occurred in parallel with an upturn in the world economy and during a period when international interest rates fell sharply. A further point of particular significance for Ireland was the introduction of an expansionary budget in the United Kingdom in 1987.

The research by Bradley and Whelan (1996, forthcoming) explores the effects of fiscal policies using a small structural model of the Irish economy. This study retains Keynesian orientations, but incorporates in addition a rational expectation mechanism relating both to enterprises and households.¹² The principal objective was, therefore, to explore how the addition of such additional features in the model would moderate Keynesian effects and to see if they could

¹¹ See *Growing and Sharing our Employment. A Strategy Paper on the Labour Market*. Department of Enterprise and Employment, Dublin, 1996 (Table 3.2, p. 56).

¹² For example, when the Government cuts expenditure the private sector agents expect tax rates to fall in the future. With static expectations this has no impact on current behaviour, however, with forward looking (or rational) expectations, private sector agents will react immediately in anticipation of future tax cuts. Thus in the latter circumstances private consumption is a function of present and future real disposable income and private investment is a function of present and future output and relative factor prices.

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outweigh these as a result of behaviour consistent with the EFC hypothesis. The exercise was carried out in a sequence of three simulations, all compared with the historical outturn. In the first simulation the model had traditional Keynesian mechanisms (e.g., backward looking expectation); in the second forward looking expectations were imposed on private consumption and investment behaviour; in the third simulation the higher than expected world growth from 1986 to 1989 was represented (in both model versions) as an unanticipated shock. The results of the first simulation indicated that the expenditure cuts were highly deflationary; in the second these deflationary effects were moderated, while in the third, almost all the higher Irish growth rate could be attributed to the unanticipated world output shock (for both the Keynesian and rational expectation models). Thus the positive world output effects completely dominated the negative public expenditure cut effects.

The authors conclude by stating that while their analyses can only be seen as representing a first attempt at assessing the effects of fiscal adjustment in a small open economy, they believe that they produce stronger evidence against an “EFC” explanation of Ireland's macro economic experience in the late 1980s than those of Giavazzi and Pagano and McAleese in favour of this hypothesis. These results would, therefore, suggest that Irish policymakers were fortunate in that their necessary fiscal adjustments were carried out at a time when international interest rates were falling and world (and particularly UK) growth became unexpectedly buoyant.

This exercise was not however, intended to discount the possibility that positive rational expectations played a role in the economic recovery of the late 1980s. There was certainly a determination on the part of the Government to see the restrictive measures through. Furthermore the parallel negotiation of a moderate national wage agreement (the PNR - see Chapter V) undoubtedly added to the perception that a regime of greater collective economic discipline was becoming firmly established which helped to create a climate conducive to investment and enhanced levels of economic activity. The issue being emphasised in the above-mentioned research is that these developments would not of themselves have been sufficient to induce an upturn in the economy, but it is quite plausible to suggest that the greater sense of confidence which permeated the economic scene at this stage re-enforced the effects of increased external buoyancy, and as a result, gave rise to faster growth and ultimately higher levels of employment creation.

More Recent Trends

It is of interest to speculate on what similar analyses to those described might indicate for more recent periods, for example between 1990 and 1993 when economic growth slowed and the level of unemployment rose significantly. It is unlikely that domestic policy factors would be shown to have exacerbated the problem, as during this time even though the budgetary situation was still being kept under fairly tight control, severe financial cutbacks were not applied; in fact some modest tax concessions were made. On the other hand it is likely that both external factors and demographic influences would be shown to have exerted a strong negative effect. In the case of the former, the scale and depth of the world recession obviously had a profound influence, while in a demographic context the deterioration in external labour markets caused an abrupt cessation of emigration (in fact many former emigrants returned), thus giving rise to rapid labour force growth in a period when employment levels remained largely static.

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Finally, it is relevant to comment again on some of the structural aspects associated with the rise in unemployment during the 1980s. As indicated in Chapter II, the sharp increase in unemployment in this period gave rise to the build up of a large body of disadvantaged unemployed. An important consequence of this is that a reversal of economic fortunes did not necessarily diminish the problem, since the individuals concerned, for reasons of age, lack of skill etc., could not avail of the new job opportunities on offer. As explained in earlier chapters this derived to a large degree from changes in the structure of labour demand, but in addition the position was exacerbated in periods of high labour force growth as this gave employers a wide choice in filling vacancies. Thus while factors such as age and low skills are not necessarily causative in creating unemployment in the first instance, they certainly contribute to its persistence, especially in regard to long-term unemployment.

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Appendix Tables

Table A3.1
Unemployment Rates by Educational Level, 1991.

Educational Level	Males	Females	Persons
		%	
Primary	25.7	22.9	25.2
2nd Level Lower	18.4	17.7	18.2
2nd Level Higher			
Vocational	16.9	15.3	16.6
General	9.0	8.4	8.7
Voc. & General	10.0	8.0	9.0
3rd Level			
Sub Degree	6.0	5.0	5.5
Degree	3.5	3.6	3.5
Total	16.5	11.6	14.8

Source: Labour Force Survey, 1991.

Note: The "Primary" category includes "education unknown".

Table A3.2
Persons at Work, Short-term Unemployed and Long-term Unemployed classified by Educational Level in 1991.

	At Work	Short-term Unemployed	Long-term Unemployed	Labour Force
			%	
Primary	21.7	24.3	46.9	24.6
2nd Level Lower	26.2	37.7	33.2	27.5
2nd Level Higher	30.7	26.9	14.9	28.8
3rd Level	21.3	11.1	4.8	19.0
Total	100.0	100.0	100.0	100.0

Source: Labour Force Survey, 1991.

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Table A3.3
Population aged 15 years and over, distinguishing persons in the Labour Force, Long-Term Unemployed and Marginally Attached to the Labour Force.

Year	At Work	Unemployed	Labour Force	LTU	Discouraged	Other Marginal	Other Inactive	Population 15+
1985	1099.0	221.6	1320.6	145.0	12.8	11.9	1160.9	2506.2
1986	1095.3	226.4	1321.7	148.0	9.3	11.6	1173.3	2515.9
1989	1111.0	196.8	1307.8	126.9	13.8	12.6	1201.9	2536.1
1990	1159.7	172.4	1332.1	109.4	13.2	12.1	1193.5	2550.9
1991	1155.9	198.5	1354.4	117.9	12.4	13.3	1205.1	2585.2
1992	1159.9	209.1	1369.0	117.9	13.4	16.3	1219.5	2618.2
1993	1177.5	219.7	1397.2	125.1	16.2	16.2	1216.1	2645.7
1994	1214.4	209.6	1424.0	127.4	15.9	13.6	1217.4	2670.9
1995	1267.5	175.3	1442.8	102.1	13.5	13.9	1231.2	2701.4

- Sources: (a) Special tabulations from the series of Labour Force Surveys.
 (b) Garvey (1988). What is the best measure of Employment and Unemployment in Ireland? *Journal of the Statistical and Social Inquiry Society of Ireland*. Vol XXV, Part V.
- Notes: (a) LTU means long-term unemployed.
 (b) "Other Marginal" means others marginally attached to the labour force.

CHAPTER IV

WAGE AND SALARY TRENDS

1. Data Sources

Any analysis of wage and salary issues is invariably constrained by the availability of relevant data, especially in relation to deriving consistent time series across different sectors of the economy. While Ireland is no exception in this regard, comprehensive data are available for the manufacturing and building sectors, involving series on earnings and hours worked compiled for the principal classes of workers involved. Similar information is also available for other smaller groups of workers (agricultural employees, persons engaged in the financial and insurance sector), but the coverage in these cases is more limited (particularly in regard to retrospective data) and reliance has to be placed on the information for the larger manufacturing and building sectors in order to obtain a more broadly based indication of national trends.

2. Overall Trends

Appendix Table A4.1 contains detailed information on the trends in real hourly earnings for certain classes of employees in the manufacturing and building sectors covering the period from 1970 to 1994. For manufacturing the figures relate to what are termed “industrial workers”, which basically covers all skilled and semi-skilled manual employees; in the case of the building sector the coverage extends to all manual workers and clerical employees (but not those at management level). The data for manufacturing are also available for a number of the principal sectoral subdivisions, the details of which will be commented on later in the chapter.

These figures are summarised in Table 4.1 following which shows annual average rates of change in real earnings per hour for the broad manufacturing and building sectors for selected sub periods in the time span extending from 1970 to 1993. The sub periods involved have been selected with a specific purpose in mind. The first interval, from 1970 to 1981 was for the most part a time of significant expansion, even if it involved a downturn in mid decade; the period from 1981-1987 was characterised by deep recession, but it is also of interest as it was unique in recent times as it did not involve a national collective agreement; the next period from 1987-1990 coincides with the period of the Programme for National Recovery (PNR), while the final period indicated, from 1990 to 1993, coincides with the successor agreement to the PNR, the Programme for Economic and Social Expansion (PESP). There are also some data available for years subsequent to 1993, but the time spans involved (up to 1994 and in some cases 1995) are too short to allow any indication of the effects of the current national agreement (the Programme for Competitiveness and Work - PCW) which, in any event runs until the end of 1996¹.

¹ The national agreements referred to here are described in detail in Chapter V.

Wage and Salary Trends

If one assumes that the trends evident from these figures reflect the position in the wider economy, they indicate that there were significant increases in real earnings in the 1970s – by as much as 2½ to 3½ per cent per year. This may have been initially beneficial to those involved, but these increases (especially those for the manufacturing sector) gave rise to a significant loss in competitiveness *vis-à-vis* other economies. While this would be disadvantageous in any circumstances, it proved to be particularly so after 1980 when the Irish economy had to face the rigours of deep global recession.

Table 4.1
Annual Average Rates of Change in Real Gross Earnings
per Hour in Manufacturing and Building, 1970-1993.

Period	Manufacturing	Building
	%	
1970-1981	3.3	2.5
1981-1987	1.5	0.0
1987-1990	1.5	0.8
1990-1993	2.4	4.3
1970-1993	2.5	1.5

Source: CSO Quarterly Earnings Series.

Note: (a) The GDP deflator was used to compile the series in real terms.

(b) The figures for Manufacturing cover industrial workers only, which is basically all manual employees. The data for Building covers both manual and clerical employees (but not management etc. staff.)

In the subsequent period indicated, covering 1981-1987, the rates of increase in real earnings fell markedly. The rate for those employed in manufacturing declined to 1½ per cent on an annual average basis, while that for the building sector actually turned negative, indicating a fall of over 1 per cent per year in real employee earnings in this sector over this period. This is hardly surprising given the prevailing economic circumstances. As demonstrated already in Chapter II, the first half of the 1980s was one of economic stagnation and recession, with job losses reaching record levels (especially in manufacturing and building) and unemployment rising to unprecedented heights. Irrespective of the existence of any national agreement, these circumstances were, of themselves, more than sufficient to dampen wage expectations. Indeed the size of the rise in real earnings indicated for employees in manufacturing is perhaps surprising in the circumstances, even though it was significantly influenced by the trend in certain subsectors where exceptional conditions prevailed (as explained later in this chapter). In the case of the building industry the fall in real employee earnings reflect the effects of the especially severe difficulties which beset that sector during this time. These arose not only because of the cyclical downturn, but also as a result of deep cutbacks in public expenditure. It is clear that those employees who managed to retain their

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jobs in the building industry during this period were obliged to endure a fall in real gross earnings.² There is also some information for this period relating to the earnings of permanent agricultural workers (see Appendix Table A4.3). These data show that real gross earnings per hour for these workers remained more or less constant between 1981 and 1987.

If one is to summarise the position and draw wider implications the evidence suggests that, on average, real gross earnings in the private sector remained more or less static between 1981 and 1987 even though in manufacturing they showed a tendency to rise towards the end of the period causing some erosion in competitiveness.

The figures in Table 4.1 indicate that real pay increases remained modest between 1987 and 1990 (the period of the PNR). The annual average rise in real gross earnings per hour for manufacturing remained as it was in the first half of the 1980s, at 1½ per cent, while that for employees in building was just under 1 per cent. The latter, however, represents an enhancement on the 1981/87 period. Real earnings levels rose more rapidly between 1990 and 1993, largely because the increases allowed under the terms of the PESP, which covered this period, were somewhat greater than those included in the preceding PNR.

It is of interest to attempt to summarise the trends in real earnings over the six year period from 1987 to 1993 which covered the two national agreements, the PNR and the PESP. This is done in Table 4.2, which sets out annual average increases in employee real gross earnings for four sectors, including, in this case, data for those engaged in financial and insurance enterprises for which relevant figures are available for most of this period.³ All of the increases lie in the 2 to 2½ per cent range. The evidence does signal, therefore, that the agreements imposed a significant degree of uniformity on private sector wage movements.

These increases can also be regarded as moderate and sustainable when viewed in the context of parallel increases in national output. The ratio of GDP to persons at work in the Irish economy rose by 3.3 per cent per annum on average in real terms between 1987 and 1993, thus implying that unit wage costs declined during this period.⁴ Furthermore, as indicated later in this chapter, the upward movement in Irish wage levels during this time were significantly less than in other countries, thus enhancing competitiveness in the international market place.

The increases also conveyed significant real after-tax wage benefits on employees, largely as a result of changes in personal income tax arrangements which were an integral part of the PNR

² However, many displaced building workers begin to work in a self-employed capacity. This was one of the factors which caused self-employment to rise during this period (see Chapter II).

³ The Central Statistics Office initiated a quarterly series on employment and earnings in financial and insurance institutions in 1988.

⁴ This is borne out by figures produced by the Department of Finance (in *Economic Statistics*, July 1995) which indicate that real unit wage costs in manufacturing declined by nearly 13 per cent between 1987 and 1993.

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and PESP. Recent work by Baker (1996)⁵ indicates that the real net-of-tax income of a single worker on the average industrial wage rose at a significantly faster rate than real gross earnings over the period from 1988 to 1996. For those on higher earnings the relative advantages were greater.

Table 4.2
Annual Average Rates of Increase in Real Gross Earnings between 1987 and 1993 for certain classes of worker in certain Sectors.

Manufacturing (Industrial Employees)	Building (Manual & Clerical Employees)	Permanent Agricultural Employees	Finance & Insurance (All Employees)
%			
2.0	2.5	2.6	2.0

Source: (a) CSO Quarterly Earnings Inquiries.
(b) Irish Statistical Bulletin (various issues)
(c) CSO. Banking, Insurance, Building Societies; Quarterly Employment and Earnings (various issues)

Note: The figures for employees in manufacturing, building and agriculture relate to hourly earnings. The data for earnings in the finance etc. sector are on a weekly basis.

3. Relative Trends in Private and Public Sector Pay

Any more extended economy wide implications drawn from the indicators discussed in the preceding commentary can only be taken to refer to earnings trends in the private sector. Public sector pay is clearly subject to a different set of influences, not all of them necessarily related in any direct fashion to events in the market economy. There is no series of earnings indexes for public sector workers⁶ and one is therefore obliged to rely on somewhat crude indicators in order to derive some view as to the movements in public sector pay rates and the trend in these *vis-à-vis* the private sector. In this regard Table 4.3 shows annual average employee earnings for the period from 1980 to 1993 for public administration and defence (PAD) and a broad industrial sector covering manufacturing, building and construction as well as mining and utilities. These figures have been derived by relating National Accounts remuneration aggregates for these sectors to total numbers of employees. Thus the ratios are not only of a rather general nature, but relate to workers across a wide range of occupations extending from management functions to unskilled manual

⁵ Baker, T. (1996), Irish Congress of Trade Unions Executive Council Briefing, March 1996, ESRI, Dublin.

⁶ The Central Statistics Office is at present in the process of compiling such an index with a view to ultimate publication.

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activities. Thus any trend movements in the figures are influenced not only by changes in pay rates, but also by shifts in occupational structures. The latter would not necessarily have much effect on short-term trends (unless the period covered involved significant structural changes), but it would be of much greater significance over a longer timespan, in effect rendering any such comparisons highly questionable.⁷

Table 4.3
Average Annual Employee Earnings for Public Administration & Defence and the Industrial Sector, 1980-1993.

Year	Public Admin & Defence	Industry	Ratio (2)/(3)
(1)	(2)	(3)	(4)
	£	£	
1980	7848	6765	1.16
1981	9859	7947	1.24
1982	10869	9060	1.20
1983	11949	10432	1.15
1984	13223	11562	1.14
1985	14201	13010	1.09
1986	15839	13601	1.16
1987	16621	14392	1.15
1988	16829	15502	1.09
1989	18472	16286	1.13
1990	21269	16849	1.26
1991	21452	17187	1.25
1992	22813	18164	1.26
1993	25758	19769	1.30

Source: ESRI/Department of Finance Databank (1995 Edition).

Note: The Industry category includes Building and Construction.

⁷ It will be recalled from Chapter II that there has been a longstanding tendency for persons with greater levels of qualification and skill (and, therefore, with associated higher rates of pay) to account for a growing share of the workforce. This change is likely to have been more rapid in the market sector, with consequential effects on any comparison of aggregate pay rates in the public and private sectors based on total employment and remuneration figures.

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While the actual figures given in Table 4.3 have to be viewed in the light of these qualifications, some useful indications can be derived from them by observing the relationship between the two sets of figures and how this has changed over time. This relationship is reflected in the ratio of the annual average earning figures for the PAD category and the broad industrial sector in question, as given in the final column of the table. At the beginning of the 1980s this indicator showed a tendency to rise, indicating that average annual earnings for PAD workers moved ahead of those employed in the industrial sector. The ratio varied somewhat throughout the rest of this decade, but according to a somewhat random pattern and not in a way that indicated any particular trend. However from 1989 onwards there is a noticeable increase in the ratio suggesting a relative gain for public sector employees. The ratio indicates that annual average earnings per PAD employee were about 15 per cent higher than those for an industrial worker in 1987, but the excess had increased to about 25 per cent by 1990 and to 30 per cent by 1993. This is not surprising as public sector workers were conceded significant "special" pay awards (i.e., over and above the norms included in national agreements) during this period, these having been postponed or held in abeyance for the duration of the 1987-1990 PNR agreement. However not all of the growing divergence can be attributed to this. There were significant changes in internal staff structures within the central Civil Service during the period in question (1987-93) involving a rise in the proportion of high grade personnel which would have had the effect of increasing the broadly based annual average earnings figure for that sector. However this would not, of itself, explain the divergence, leaving little room for doubt that public sector pay increases significantly outstripped these for private sector workers between 1987 and 1993. Adjusting for inflation, the aggregate pay averages given in Table 4.3 would suggest that annual real gross earnings for public sector employees rose by 4½ per cent per year over this period - significantly greater than the figure of 2 to 2½ per cent indicated for private sector workers in Appendix Table A4.2. While this comparison must be regarded as tentative, the size of the difference suggests a genuine divergence which cannot be attributed to differences in coverage or changing occupational structures.

4. Earnings Trends in Subsectors of Manufacturing

It is of interest to observe the earning trends for manufacturing industry in somewhat more detail. Appendix Table A4.1 provides, in addition to the aggregate data already discussed, figures on real earnings trends for seven industrial sub-categories. These provide evidence of significant variations in wage movements within the manufacturing sector. During the 1970s employees in all of the industrial sub-categories distinguished shared in the sizeable real earnings increases which occurred. However, during the recessionary 1981-87 period very substantial differences emerged. While the overall annual average rise in real earnings per hour for manufacturing as a whole was 1½ per cent in this period, employees in the drink and tobacco sub-category fared much better, achieving an annual rise of over 3½ per cent. Those engaged in the chemical industry also attained an above average increase, 1.8 per cent, whereas for most of the remaining sub-sectors distinguished the annual increases were of the order of 1 per cent. Employees in the clothing etc. industry fared particularly badly, having to endure a drop in real earnings, of about ½ per cent per year on average during this period.

The drink and tobacco industry underwent very substantial rationalisation in the early 1980s involving significant shedding of labour and, in parallel, substantial automation and modernisation

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of plant. The *quid pro quo*, for those who survived in the industry, was a substantial rise in real earnings, well in excess of the national norms which then prevailed. The chemical industry is, in a sense, another special case as it is dominated by multinational enterprises. Many such concerns in Ireland form an intermediate link in a wider supply process and in this context the maintenance of supply within the global enterprise tends to take precedence over local wage-setting issues. It has not been uncommon for multinational firms to award above average pay increases, a tendency which, has, however, put pressure on other (mainly indigenous) enterprises who could not endure such cost increases without risking of loss of market share. The evidence suggests that this pattern subsequently changed however, mainly because of the reintroduction of national wage agreements in 1987, which involved a high degree of compliance by all enterprises (see Chapter V), and also according as multinationals introduced more competitive within-company procedures (i.e. between plants).

There was a much greater degree of concordance in real earnings increases across all manufacturing sectors in both the 1987-1990 and 1990-1993 periods. However the drink and tobacco industry was again an exception in the latter 1990-1993 period; the annual average rate of real earnings increase for this subsector was over 3½ per cent, compared with a total manufacturing figure of about 2½ per cent.

5. Wage Competitiveness

While the foregoing analysis is important in providing a basis for understanding the pattern of wage trends in a national context, it must be viewed against a background of international competitiveness, given the importance to Ireland of exports as a contributor to overall economic growth. While this issue is obviously crucially important in a general sense, it is particularly important for indigenous manufacturing enterprises competing in the international marketplace. They cannot exert any influence on world price levels and therefore the containment of production costs is vital if they are to retain or expand market share. While Irish firms have become increasingly competitive in terms of wage costs in recent years, this was not always the case. This is illustrated by the graph at Appendix Figure A4.1, which shows the ratio of Irish to British wages covering the period from the early 1960s. These indicate that these ratios rose substantially in the 1970s. Thus the substantial increases in real earnings achieved by Irish workers in this period were bought at a price. The ratio dipped in the early 1980s but then quickly resumed its upward trend. The position improved noticeably with the restoration of national agreements after 1987; the figures indicate that the current position is that Irish wage levels appear to be somewhat below those prevailing in the UK. The improvement in Irish competitiveness evident in recent years would appear to be reaffirmed by the graphs given in Appendix Figure A4.2 (taken from a EUROSTAT 1995 publication) which show that between 1988 and 1992 hourly labour costs in Irish industry rose by 17 per cent when measured in 1988 ecu terms - significantly less than that which applied in other member States, except for the Netherlands. In the larger member States the increases were of the order of 25 per cent, and were very much higher for a number of other countries.

Wage and Salary Trends

Appendix Tables

Table A4.1
Real Gross Earnings per Hour in Manufacturing and Building, 1970-1994, at 1994 prices.

Year	Chemical	Metals & Eng.	Food	Drink & Tobacco	Textiles	Clothing etc	Paper, Print.	Total Manuf	Build -ing
					(£)				
1970	3.95	3.79	3.58	4.73	2.98	2.53	4.48	3.59	3.98
1971	4.19	3.99	3.72	4.91	3.25	2.61	4.51	3.80	4.18
1972	4.13	4.11	3.65	4.97	3.27	2.56	4.51	3.79	4.40
1973	4.66	4.25	3.96	5.20	3.66	2.95	4.55	4.07	4.25
1974	5.35	4.91	4.47	5.85	4.03	3.31	5.08	4.58	4.64
1975	5.57	5.04	4.95	5.97	4.32	3.39	5.53	4.90	4.50
1976	5.24	4.90	4.53	5.68	4.16	3.23	5.42	4.68	4.38
1977	5.43	4.96	4.65	5.80	4.23	3.20	5.58	4.71	4.58
1978	5.72	5.15	4.82	6.13	4.26	3.33	5.80	4.88	4.64
1979	6.02	5.18	4.91	6.26	4.28	3.45	5.99	4.98	4.94
1980	6.38	5.35	5.12	6.38	4.48	3.70	6.29	5.20	5.10
1981	6.40	5.18	5.09	6.41	4.45	3.65	6.29	5.14	5.24
1982	6.20	5.07	5.12	6.34	4.41	3.54	6.03	5.08	5.32
1983	6.22	5.03	5.25	6.52	4.58	3.60	6.06	5.13	5.11
1984	6.51	5.20	5.41	7.00	4.70	3.67	6.19	5.32	5.20
1985	6.83	5.35	5.33	7.32	4.63	3.55	6.28	5.42	5.11
1986	6.86	5.46	5.32	7.61	4.66	3.49	6.44	5.49	5.00
1987	7.12	5.54	5.37	7.96	4.74	3.57	6.69	5.61	4.88
1988	7.24	5.54	5.39	8.27	4.93	3.67	6.95	5.68	4.91
1989	7.06	5.48	5.32	8.12	4.90	3.60	6.96	5.61	4.78
1990	7.34	5.79	5.57	8.35	5.05	3.74	7.11	5.87	4.99
1991*	7.55	5.97	5.72	8.78	5.26	3.87	7.16	6.05	5.16
1992	7.68	6.04	5.83	8.97	5.37	3.96	7.36	6.21	5.55
1993	7.82	6.18	5.91	9.27	5.45	4.04	7.68	6.31	5.67
1994	7.95	6.15	6.02	9.40	5.44	4.12	7.59	6.32	5.91

Source: CSO Quarterly Earnings Inquiries.

Note: (a) 1991 refers to September figures.

(b) The GDP deflator was used in the series in real terms.

(c) The figures for Manufacturing cover industrial workers only, basically all manual employees.

The data for Building covers both manual and clerical employees (but not management etc. staff).

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Table A4.2
Annual Average Rates of Change in Real Gross Earnings per Hour in the Manufacturing and Building Sectors, 1970-1993.

Period	Chemicals	Metals & Engineering	Food	Drink & Tobacco	Textiles	Clothing etc	Paper, Printing	Total Manuf.	Building
					(%)				
1970-1981	4.5	2.9	3.2	2.8	3.7	3.4	3.1	3.3	2.5
1981-1987	1.8	1.1	0.9	3.7	1.0	0.0	1.0	1.5	0.0
1987-1990	1.0	1.5	1.3	1.6	2.2	1.6	2.0	1.5	0.8
1990-1993	2.1	2.2	2.0	3.6	2.6	2.6	2.6	2.4	4.3
1970-1993	3.0	2.2	2.2	3.0	2.7	2.1	2.4	2.5	1.5

Source: CSO Quarterly Earnings Inquiries.

Note: (1) The GDP deflator was used in the series in real terms.

(2) The figures for Manufacturing cover industrial workers only, basically all manual employees. The data for Building cover both manual and clerical employees, (but not management etc. staff.)

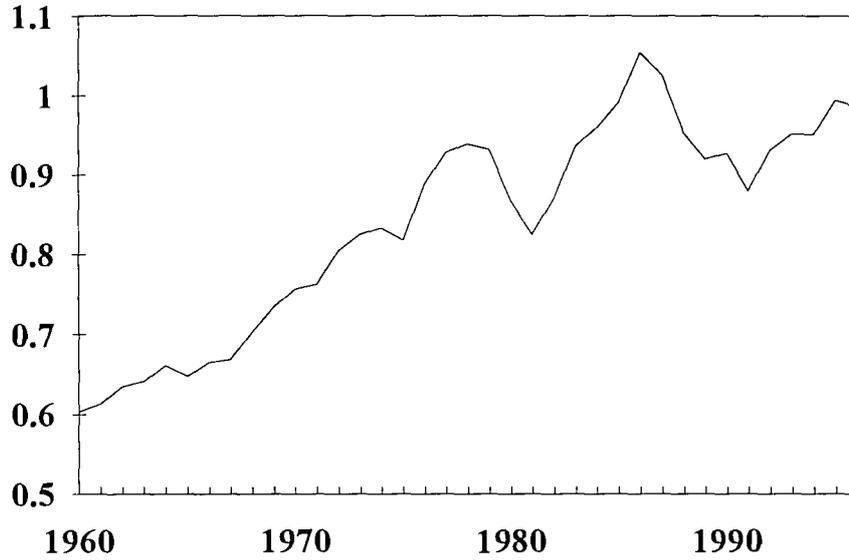
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Table A4.3
Earnings of Permanent Agricultural Workers

Year	Avg. Earnings per Week (Nominal)	Avg. Paid Hours	Estimated Nominal Rates per Hour	Estimated Real Rates per Hour (1994 prices)
		(£)		
1980	69.74	42.3	1.65	3.68
1981	78.69	42.3	1.86	3.52
1982	87.64	42.2	2.08	3.38
1983	96.48	42.4	2.28	3.35
1984	105.32	42.6	2.47	3.40
1985	113.07	42.6	2.65	3.45
1986	120.82	42.7	2.83	3.48
1987	125.43	42.5	2.95	3.54
1988	130.04	42.3	3.07	3.57
1989	na	na	na	na
1990	na	na	na	na
1991	na	na	na	na
1992	161.58	41.9	3.86	4.08
1993	169.95	41.8	4.07	4.13
1994	176.81	41.6	4.25	4.25

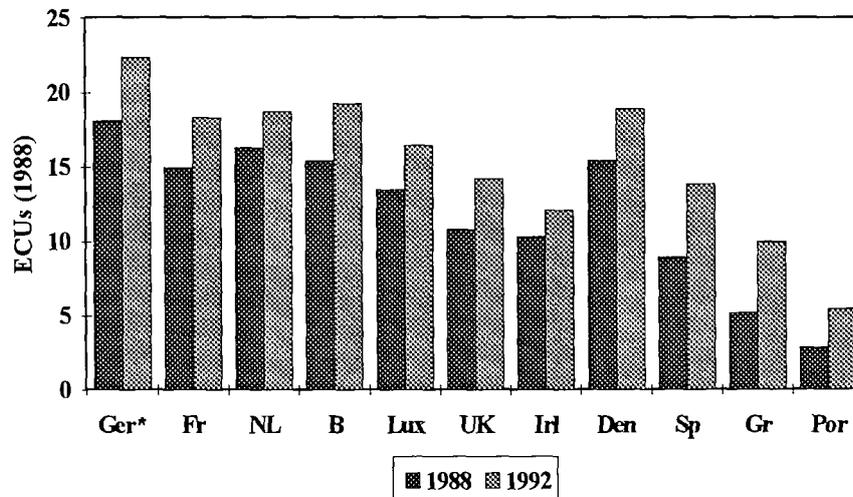
Source: CSO (1995). Earnings of Permanent Agricultural Workers, 1994.
 Note: The CSO source provided data for 1980, 1982, 1984, 1986, 1988, 1992 and 1994. The figures for 1981, 1983, 1985, 1987 and 1991 have been interpolated.

Figure A4.1
Relative Cost of Labour
Ratio of Irish to UK Labour Costs, 1960-1996



Source: Curtis, J. and Fitz Gerald, J. (1996): "Real Wage Convergence in an Open Labour Market" *Economic and Social Review*, Vol. 27, No. 4.

Figure A4.2
Labour Costs in Industry in the European Union - 1988 & 1992



Source: Eurostat (1995) *Population and Social Conditions: Labour Costs in Industry, 1992*. Luxembourg: European Commission.

CHAPTER V

INDUSTRIAL RELATIONS; COLLECTIVE WAGE NEGOTIATIONS

1. The Organisation of the Labour Market Parties in Ireland

Employers

The organisation of employers in Ireland includes both employers' associations and trade associations. While both types of organisations have similar objectives in terms of representing and promoting the interests of employers, the discernible difference between trade associations and employers' associations is the requirement for the latter to possess a negotiating licence. In practice, therefore, employer associations are also concerned with industrial relations and negotiating on behalf of employers.

The largest employer organisation is the Irish Business Employers Confederation (IBEC). It was founded in 1993, as a result of an amalgamation of the Federation of Irish Employers (FIE) (formerly the Federated Union of Employers (FUE)) and the Confederation of Irish Industry (CII). Its membership comprises approximately 4,000 enterprises (excluding the Agriculture sector and the self employed). As such, IBEC represents a broad range of employers in both the manufacturing and services sector.

On a national level, IBEC makes representations to the Government not only on issues of industrial relations and social policy, but also broader issues, such as trade, economics, finance, taxation, planning and development. IBEC (and formerly the FIE and the CII) were party to the negotiations for the National Pay Agreements. IBEC is also represented at international level, and acts as Ireland's business and employer representative within UNICE, the European employer representative body, the International Organisation of Employers and the International Labour Organisation. IBEC also acts in an advisory capacity for its members, providing support facilities (e.g. information and training) and represents members at mediation, conciliation and arbitration hearings.

In 1994, some of the membership of the Small Firms Association (SFA) which is incorporated into the IBEC structure, formed a separate employers association, the Irish Small and Medium Enterprise Association (ISME). ISME deals specifically with the needs of small businesses, but represents employers in every part of the private sector (excluding agriculture). The membership of ISME approximates 1,500 firms, although ISME has yet to become a negotiating party for the national pay agreements.

The remaining employers organisations tend to represent employers on a sectoral basis. The largest specialist employers association is the Construction Industry Federation (CIF). Its membership covers approximately 75 per cent of workers in the construction industry in Ireland. The CIF is chiefly involved in matters relating to industrial relations, provision of services and

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information for members, and like IBEC and ISME, provides representatives at conciliation and arbitration.

Remaining organisations concern themselves primarily with trade and commercial issues. They are almost all organised on a specific industry basis, and include such organisations as the Irish Hotels Federation; the Licensed Vintners Association; the Society of the Irish Motor Industry, and the Irish Pharmaceutical Union.

Employees

Trade unions and staff associations form the basis for the organisation of employees in Ireland. While trade unionism is the most prevalent form of employee representation, staff associations are present in a small number of firms, representing white collar employees. Unlike trade unions, staff associations are enterprise based and have no formal connections with outside trade union bodies. Their role has been confined in the main, to consultation. It has been considered that staff associations are formed in some cases by workers who are not traditionally unionised (e.g. professional and white collar employees), and who may be anxious to distinguish their agenda from the more political agendas associated with trade unions.

The central co-ordinating body for trade unions in Ireland is the Irish Congress of Trade Unions (ICTU), which operates in both the Republic and Northern Ireland. As a policy making body for its members, ICTU is a “monopoly” body, with affiliated unions representing approximately 95 per cent of trade union members in Ireland. Resolutions passed by the ICTU membership are binding amongst its member unions, and failure to comply with resolutions can result in expulsion or suspension from the organisation. The ICTU plays an important representative role for trade unions in Ireland, in terms of negotiations for National Pay Agreements. It also provides training and information for its member unions, as well as dispute settling machinery (Disputes Committee) between trade unions.

The organisation of employees within trade unions in Ireland, is largely differentiated on the basis of occupational groups. The three major trade union types are general unions; white collar unions and craft unions.

General unions were founded primarily to protect the interests of semi-skilled and unskilled workers, who were excluded from craft unions. Over the years, however, general unions have attracted a more diverse range of employees. At present, the country’s largest union, Services Industrial Professional and Technical Union (SIPTU) was founded as a consequence of a merger in 1990, between the Federated Workers Union of Ireland (FWUI) and the Irish Transport and General Workers Union (ITGWU). The membership of SIPTU is estimated to be in the region of 190,000. General unions as a whole represent approximately 45 per cent of all members of the Irish Congress of Trade Unions (ICTU). The other large general union in Ireland is the, British based, Amalgamated Transport and General Workers Union (ATGWU), with 19,500 members.

White collar unions showed the greatest growth levels throughout the 1960s and 1970s in Ireland, as many professional and clerical workers (previously non-unionised) joined trade unions.

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This growth was helped by public sector employment which increased significantly during this time.

Currently, most white collar union membership is drawn from the public sector (see below), and the largest white collar unions are all organised within the public sector, representing approximately 25 per cent of all members of the ICTU.

Craft unions have traditionally admitted workers on the basis of the possession of a basic skill or a trade where entry is restricted through apprenticeship. Many craft unions in Ireland have undergone amalgamations (see below), or have broadened their membership base to cater for several crafts, to offset the threats of diminished membership. A number of British craft unions have members in Ireland and, as a consequence of their greater financial resources, have been better able to adapt to a falling membership. The largest craft union in Ireland is the Technical, Engineering and Electrical Union (TEEU), with a membership of 22,000.

Public Sector Trade Unions

Although there are a number of unions which organise employees in the public and private sectors, the largest trade unions in the public sector are exclusively public sector unions. Among the largest unions in the public sector are the teachers' unions: the Teachers Union of Ireland (TUI); the Association of Secondary Teachers in Ireland (ASTI), and the Irish National Teachers Organisation (INTO), which together represent some 40,000 members. In public services, the Civil and Public Service Union (CPSU); the Irish Municipal and Public Sector Trade Union (IMPACT) and the Public Services Executive Union (PSEU) have between them a membership of 45,000; while the Communication Workers Union (CWU) and the Irish Nurses Organisation (INO) have a membership of 19,600 and 12,000 respectively. Union membership in the public sector has held well in recent years. There are a number of reasons for this: first, the increase in unemployment has not affected their membership to the same extent as other unions; job security is still a significant feature of public sector employment (notwithstanding restructuring in the semi-state sector, and the embargoes on recruitment in the public services). Second, union density in the public sector remains high. It currently stands at 80 per cent. Third, the recruitment of temporary and part-time employees has yet to make significant inroads on public sector employment. Finally, the essential nature of public sector functions (e.g. education and health), and the need for the state to appear to be a 'good employer' has increased the potency of the strike threat for these unions, and therefore enhanced their bargaining leverage.

2. The Regulatory Framework for Industrial Relations

The system of industrial relations in Ireland is based on voluntarism, and the primary means of settling disputes and reaching agreement on terms and conditions of employment (over and above statutory conditions) has been collective bargaining at workplace level.¹ Such agreements

¹ Even though the recent history of industrial relations in Ireland has been characterised by national agreements, these had to be ratified at local or plant level, even if this was essentially a formality. It should be noted, however, that ancillary features of these agreements, such as plant-based productivity arrangements, still had to be negotiated locally.

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reached between unions and employers in the workplace are, therefore, binding in honour only. The collective bargaining framework is based on pluralist traditions for the most part: there are no participatory structures which are institutionalised in law, with the exception of the Worker Participation (State Enterprises) Act, 1977, 1978, which requires all state sponsored bodies to include a number of directors on their Board of Management, which are elected by the workforce, and nominated by the trade unions and representative bodies.

The resolution of disputes, however, is aided by a number of state institutions, the purpose of these being the provision of advice and conciliation (e.g. the Labour Relations Commission) and recommendations for the settlement of disputes (the Labour Court). Some institutions provide instruction on issues relating to rights and entitlements in terms of legislation (e.g. the Employment Appeals Tribunal; Rights Commissioners). These will be discussed below. Finally, there also exist institutions whose role involves the provision of a forum for discussion on industrial relations issues (e.g. Employer-Labour Conference) but which have no official jurisdiction.

In addition to this existing framework of industrial relations, in recent years the social partners have negotiated a number of national pay agreements, designed to achieve moderate wage increases in all sectors and industries. Such national agreements have developed along corporatist lines. The outcome and implementation of such agreements are discussed below. In addition to these centralised agreements, there has been some scope for supplementary bargaining at local level.

Institutions for Solving Industrial Disputes

While the state accepts that it is the responsibility of local actors to resolve industrial disputes, it does nonetheless provide auxiliary services in order to promote industrial peace and the resolution of disputes. The Industrial Relations Act (1946) established the most prominent of these state institutions, the Labour Court, a tripartite body, originally established to provide conciliation and investigation services following the removal of wartime restrictions on wage increases, and the resumption of free collective bargaining, which, it was feared, would lead to increased industrial unrest (Murphy, 1994). The Court consists of a Chairperson; Deputy Chairperson and representatives of employers and employees. All members of the Labour Court are appointed by the Minister for Employment and Enterprise.

The duties of the Labour Court involve the investigation of industrial disputes on the basis of submissions made by both employer and employee parties, and the issuing of recommendations on the basis of the investigation. However, the Court's recommendations are not legally binding. Furthermore, the parties are not obliged to use the services of the Court in the event of an industrial dispute.

The Labour Court has generally been considered to be a successful institution for the settlement of disputes, and has been regarded by both trade unions and employers as an honest broker in the settlement of disputes. In recent years, the Court is also seen as having a "policing" role in terms of the implementation of National Agreements (Roche, 1994b).

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Access to the Labour Court is conditional on both parties to the dispute having exhausted all other means of solving the dispute. In this sense, the Labour Court is considered to be a “court of last resort”. Prior to gaining access to the Labour Court, both parties to the dispute must have gone through the process of conciliation. Conciliation involves a third party (i.e. an Industrial Relations Officer) in the negotiations for settlement of a dispute. The role of the industrial relations officer is that of facilitator, aiding the parties to identify and explore possible solutions. There is no obligation on either party to reach agreement at a conciliation conference. However, the success of conciliation has shown a steady increase since the mid 1980s, and in 1992, 74 per cent of disputes referred to conciliation were solved at this stage.

Since 1990, the Court’s conciliation service has been assumed by the Labour Relations Commission which was established under the Industrial Relations Act (1990). Its establishment was seen as a means of freeing up the Labour Court, and to allow it to resume its primary purpose as a court of last resort. The Labour Relations Commission also provides an advisory service for unions and employers, the aim of which being the provision of long term measures to improve industrial relations in the workplace. Other services provided by the Labour Relations Commission include the issuing of codes of practice and advice on their implementation; reviewing and monitoring of industrial relations issues (including research), and the administration of the functions of the Joint Industrial Councils, Joint Labour Committees and the co-ordination of the Rights Commissioners’ Equality Officers functions.

While the above institutions and procedures for resolving industrial conflict are based on voluntarist principles, the state also provides institutional back up for settling disputes relating to legal entitlements of employees, under individual and collective employee legislation: the Employment Appeals Tribunal deals with employment legislation, and operates under the auspices of the Labour Court. The judgements of the Employment Appeals Tribunal are legally binding.

The Labour Court also adjudicates in disputes arising from the Anti-Discrimination (Pay) Act (1974) and the Employment Equality Act (1977), thereby introducing a legally enforceable dimension to the role of the Labour Court. Under these two Acts, the Court can appoint an Equality Officer to investigate claims made in relation to the legislation. The Equality Officer issues a recommendation following investigation. An appeal of the recommendation can be made, or request for recommendation of its implementation, but judgements delivered by the Labour Court in this process are legally binding.

Public Sector Disputes Machinery

Approximately half of public sector employees do not have access to the conciliation services of the Labour Relations Commission or the mediation services of the Labour Court. Employees who work within the commercial semi-state sector do have, however, access to the services of the Labour Relations Commission and Labour Court as private sector employees, with the exception of employees from An Post and Telecom Éireann who have continued access to public service conciliation and arbitration schemes, as part of an agreement when these companies were established in 1984. Similarly, the Electricity Supply Board (ESB) have their own arrangements for dispute settlement. For the majority of the remainder of public sector employees

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(i.e. those working within the public service) there are special provisions for conciliation and arbitration. These schemes cover the majority of grades in the civil service, police force and health boards (excluding some of the highest grades). Teachers, vocational education committees and county committees of agricultural staff, postmasters and branch managers of employment exchanges all have access to conciliation and arbitration. The issues which may be discussed at conciliation broadly incorporate pay, allowances, overtime rates, hours, grading, principles guiding recruitment, promotion, discipline, superannuation and annual sick leave. If no agreement is reached at conciliation, the issues may then be referred to arbitration. The major difference between arbitration procedures for the public service and that provided by the Labour Court is that the former involves the presentation of the report of the arbitration board to the Minister for Finance, and finally to Dáil Éireann. Rarely have such provisions been rejected by either side to the dispute, or by the Government (Mc Ginley, 1994).

3. The State and the Labour Market Parties in Ireland

As indicated above, the State has traditionally maintained an arms length relationship with the parties in industrial relations. Its position, at least until the Second World War, was to let the parties themselves structure practices and resolve differences on their own. This minimalist position did not prevent, however, the State from pursuing its preferred pluralist model of industrial relations. Since its foundation, the State enshrined in the constitution the right of citizens to form associations and unions. There was no legal compulsion placed, however, on employers to recognise such associations or trade unions. None the less, the State did act to promote the orderly development of collective bargaining.

There were a number of ways in which the State sought to achieve its objectives. First, in the immediate aftermath of World War Two it established the Labour Court which intervened in industrial relations processes to promote and nurture collective bargaining. At times of trade union recognition disputes, for example, it intervened early, often, too, to the advantage of trade unions in encouraging employers to acquiesce to demands for recognition. The Court was thus philosophically predisposed to the development of pluralist industrial relations. Second, within the public sector the State as an employer worked to develop a model of “good industrial relations” along pluralist lines, recognising trade unions and establishing arbitration and conciliation machinery. Third, state development agencies, like the Industrial Development Authority (IDA) and Shannon Free Airport Development Authority (SFADCO) have traditionally encouraged foreign-owned companies to conform to indigenous industrial relations practices and recognise trade unions when establishing subsidiaries in Ireland. Very often these state agencies acted as brokers in concluding pre-employment agreements between unions and multi-national corporations, many of whom had a preference for establishing single union arrangements. Finally, through its membership of the International Labour Organisation, the State was obliged to protect freedom of association and promote collective bargaining.

While the State has been historically, philosophically and ideologically predisposed towards the development of pluralist industrial relations, this has not been matched by clear identifiable and distinctive industrial relations preferences among the major political parties. Labour, the party most sympathetic to trade unionism, has traditionally not commanded sufficient electoral support to

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effect significant outcomes for its particular policies on industrial relations. The dominance of broadly based parties in Irish politics (i.e. Fianna Fail and Fine Gael) and their need to reflect their respective and varied support base has inhibited the development of distinctive and consistent approaches to industrial relations. As a consequence, industrial relations has not been politicised as it has been in the UK, either in a class-partisan way or as a key electoral issue (Roche, 1994b).

Nonetheless clear differences in emphasis and style can be identified. Fianna Fail, as is evidenced for their preference for entering national wage agreements in the late 1980s, have favoured active involvement in industrial relations. Fine Gael, on the other hand, have been more equivocal in their support for the active involvement of trade unions in national policy making. But even here, Fine Gael's economic liberalism has not debarred them from permitting trade union involvement in the management of the economy. The threat posed by the formation of, and the early electoral support for, the Progressive Democrats in the late 1980s, an avowedly neo-liberal party, to the shape of state relations with unions did not materialise. It did, however, have the effect of alerting the trade union movement to the possibility of ideologically informed party politics in Ireland, and such a prospect can not be underestimated as a likely factor in prompting their early enthusiasm for co-operating with a national wage agreement in 1987.

As noted above, through much of the early and middle decades of this century, the State showed a clear preference for keeping industrial relations free from political interference. Notwithstanding various threats by the State to intervene in the wage bargaining process during this period, the State did not act decisively to reshape the conduct of collective bargaining until the late 1960s. Free collective bargaining came to be identified as a source of many ills, the most obvious of which were: high inflation, high unit labour costs, high levels of industrial conflict, and as a consequence, the poor public image of Irish industrial relations abroad was seen to endanger the development agencies' prospects of attracting inward investment into the country (Roche, 1994b). These pressures forced the State to depart from its former non-interventionist strategy and, in the course of the following decade, successive governments sought to promote national wage bargaining.

It is generally accepted that these early attempts at promoting centralised wage bargaining attained very limited success. One commentator has attributed this failure to the trade union movements' preference for acting as a pluralist pressure-group rather than engaging in neo-corporatist² political exchange (Hardiman, 1988). Notwithstanding the limited success of the national wage agreements of the 1970s, it is important, however, to emphasise the increasing politicisation of industrial relations during this period as successive governments sought to curb the disadvantages associated with free collective bargaining (Roche, 1994b). Nor has this state involvement in the wage bargaining process been an isolated experiment. Since 1987 there has been a return to the negotiation of national wage agreements between the State, employers and trade unions which continue today.

² "Neo-corporatism" is normally used to refer to a tripartite system of bargaining involving employers, trade unions and government. The involvement of Government in the pay determination process would be in exchange for allowing the other parties influence over national economic and social policy.

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In summary, the relationship between the State and the labour market parties has evolved and changed quite significantly over recent decades. The three most recent national pay agreements which have operated from 1987 until the present, and which are discussed below, point to the increasing importance attached by the parties for the “necessity” of political exchange. The reasons for this embedding of political exchange in the late 1980s and early 1990s were complex, but amongst the most salient were; the dire state of public finances; high levels of unemployment; intense market competition; declining trade union membership and a consequent weakening in their influence and power; and finally, a growing unease and scepticism amongst employers of the benefits of free for all collective bargaining. Under these circumstances the unions saw definite advantages in participating in tripartite bargaining (Roche, 1994b). Some might suggest that this strategy for political exchange was a course taken out of necessity for trade unions and may never be repeated, particularly if there is ever to be a return to low unemployment and more favourable economic conditions. However, more thoughtful reflection would suggest that the current generation of trade union leaders have taken up a new strategic position in favour of political exchange rather than free collective bargaining. Even though there has been the usual “marking of territory” in advance of substantive discussion concerning a further agreement, the broad trade union view still appears to see the prospect of achieving greater gains for their membership through national political exchange. It is not that such a posture remains uncontested within the movement, but the view in ascendancy at the moment does illustrate a preference for a partnership approach with employers and government.

4. The Relative Strength of the Corporate Partners

Trade unions

Like most European unions, Irish unions have seen a significant reduction in their membership during the 1980s. Notwithstanding this decline, however, union density in Ireland remains in the middle order of the unionisation range in Europe. From the 1930s to the late 1970s union density increased from 20 per cent to 60 per cent, peaking in 1980 at 61.8 per cent. (The measure used here is normally referred to as “employment density”, i.e. the proportion of unionised employees in the current active workforce, excluding the unemployed). Since then union density has consistently declined, and while figures for 1990 onwards have not yet been collated it is thought unions have begun to recover some of the losses experienced during the previous decade. The latest “official” figures are for 1990 and they indicate a union density of 54.6 per cent.

This decline in unionisation has been a key concern for the trade union movement in Ireland, given the high number of small unions with low membership. Craft unions, in particular, suffered a decline in membership, through skills obsolescence, the introduction of new technology and company closures. The multi-union structure at workplace level in Ireland, the relatively high number of unions in comparison to mainland Europe, and open competition between unions prompted ICTU in 1983, to establish a committee which sought to encourage amalgamations and mergers between unions. Since 1980, the number of unions has been reduced as a result of 38 mergers and amalgamations. The total number of unions in Ireland has declined from 120 in 1945, to 83 in 1980, to 58 in 1993.

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The decline in trade union membership in the 1980s can be attributed to a number of factors. Primary among these are: first, increasing unemployment as a consequence of job losses (especially in traditional industries which tended to be highly unionised) and changing occupational structures resulting in a decreasing share of total employment in areas with a relatively high trade union involvement (see Chapter II). Second, there has been a growing preference amongst employers, particularly amongst incoming American multinationals to manage their workforces without trade union involvement. Many such enterprises have also sought to avoid trade unions by using sophisticated human resource management practices (HRM). This preference for union avoidance is not however exclusive to foreign employers. Irish employers, too, are adopting a tougher stance to trade union recognition, especially in greenfield situations. Third, the increase in atypical forms of employment, in particular part-time and temporary employment, has made it more difficult for unions to recruit new members. Fourth, unions have encountered considerable opposition amongst employers in the private services sector where employment growth has been substantial. The recruitment embargoes in the public services, too, cut off one of the main entry points for new union members.

Most commentators are agreed that while the 1950s to the 1970s were years favourable to trade unions and which saw their organisations grow in size and influence, the 1980s have witnessed a reversal of fortunes. Most certainly, the 1980s and early 1990s have been the “years of management”; where employers have come into the ascendancy, with a new found confidence in their right to manage. This new assertiveness, combined with an inhospitable economic climate and rising unemployment, has made it difficult for trade unions to recruit new members, and to win recognition. Unions’ decision “to opt for politics” and to enter tripartite bargaining at a national level is seen by most analysts to represent a strategic re-orientation on the part of union leaders to offset union marginalisation at a local level.

At a national level, ICTU presides over a multiplicity of unions, each with varying mandates and agendas. In comparison to many other European countries, union structure in Ireland is complex, with a multiplicity of unions often present in one workplace. This fragmentation has often, therefore, been seen as a source of weakness within Irish trade unionism. But despite this fragmentation, ICTU has fared remarkably well in formulating a cohesive strategy for national pay agreements and that is in spite of having few sanctions, other than expulsion from membership, to ensure compliance with national agreements. The limits to ICTU’s ability to police agreements was cruelly exposed with the centralised pay agreements of the 1970s when some unions, particularly craft unions, broke ranks in order to maintain pay differentials. These inherent tensions remain today, but are, perhaps, less visible. It might be fairly claimed that this recasting of trade union orientations has been helped by the predominant influence exercised by a small number of large unions like SIPTU, IMPACT and MANDATE. Furthermore, the increasing willingness in more recent years of British based unions to vote in favour of tripartite bargaining - traditionally its most trenchant opponents - has facilitated ICTU in formulating a set of cohesive policies and in providing strong leadership. Significantly, British unions’ agreement to vote for national pay agreements has also included craft unions like the Manufacturing, Services and Finance union (MSF).

Notwithstanding these successes it remains a moot point whether such cohesion is a consequence of a strategic re-orientation on the part of individual trade unions and the ICTU leadership to formulate a new strategic vision for the movement as a whole, or whether economic

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circumstances and the difficulties encountered by unions generally have encouraged them to seek representation at a national level and thereby enhanced the role of ICTU.

Employers

Ireland's main employer organisation, IBEC, is, too, a movement characterised by fragmentation. The once homogeneous structure of businesses in Ireland, characterised by labour intensive, indigenous industries has been steadily eroded since Ireland became increasingly a base for foreign owned, capital intensive industries in the 1960s. For such companies, labour costs represent a smaller proportion of overall costs. While most multi-national corporations (MNCs) are IBEC members, the majority would tend to confine their use of its services to seeking information and advice, often to issues pertaining to labour law and have preferred, in the main, not to use IBEC representation in local negotiations with trade unions. (Roche and Geary, 1994). More recently, many of the non-union MNCs have not thought it appropriate to join IBEC. But perhaps the greatest challenge currently faced by IBEC is that from small and medium sized enterprises who have begun to voice, in a very articulate and forceful way, a distinctive set of interests. In 1994, many small businesses left IBEC to form an independent representative association, the ISME, claiming that IBEC gave undue emphasis to representing the interests of larger businesses. ISME is currently excluded from participating in national pay agreements. These differences, along with the often separate and unique interests of foreign employers has made IBEC's task of formulating a coherent strategy more difficult.

While there are many similarities in the agendas of both IBEC and ISME in terms of seeking changes to the structure of the labour market to increase labour flexibility, there are important differences in emphasis. The latter would be commonly regarded as favouring a more active labour market deregulation policy than IBEC, which would be more circumspect and cautious in its approach.

In spite of these tensions IBEC has participated actively in the formulation of national pay agreements and is likely to do so again when the term of the current agreement expires. But again, much like the situation faced by ICTU, IBEC's membership is fragmented and with the associated problems of formulating a coherent and agreed strategy, one cannot assume that any future agreements will be easily entered into.

5. Government Intervention in Wage Negotiations

In recent decades the level at which pay bargaining has been conducted in Ireland has oscillated back and forth between centralised national pay agreements and free collective bargaining at a local level. The 1970s, for example, saw, with the encouragement of Government, a series of national wage agreements which were for the most part negotiated on a bipartite basis between trade unions and employers (under the auspices of the Employer-Labour Conference). These agreements sought to introduce a pay agreement for employees in all sectors and industries. Each agreement included the following basic elements:

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- (i) provision for basic pay increases;
- (ii) provisions for above-the-norm (ATN) increases, which were to allow for productivity agreements to enhance competitiveness in industry, as well as to make reparation for serious pay anomalies (e.g. groups which had fallen behind other groups in pay terms, with whom they would have had an historic pay relativity);
- (iii) provision for below the norm increases, thereby providing an “inability to pay” element to pay settlement;
- (iv) conflict avoidance, whereby the parties agreed that strike action would not occur except where an employer refused to comply with the agreement without reason, or refused to implement a Labour Court Recommendation on the pay issue.

A more direct tripartite dimension to these national negotiations emerged in the latter half of the 1970s, when the government offered tax concessions in return for the acceptance of specific pay increases. This move by the government was prompted by a concern, made more necessary by the oil crisis of the early seventies, to relate pay increases to the needs of macro-economic policy. These agreements were then succeeded by the so-called “National Understandings” of 1979 and 1980. They involved a more concerted attempt at social partnership at a national level, with direct government involvement in the negotiations. These national understandings covered a broader range of social issues than before, including health, taxation, social welfare and employment. However, this system of wage determination only lasted for two years, terminating in 1981.

The 1970s

A review of this period of wage negotiations in the 1970s is important for acquiring an understanding of pay settlement processes in Ireland in the 1980s and after, and the government’s role therein. For most commentators the national wage bargaining experiments of the 1970s represent the first attempt in Ireland to adopt a neo-corporatist model of national economic management, as well as marking the first significant effort by the parties to shift the focus of industrial relations and wage bargaining from the workplace to a national level. This process received active support from the government, not only in encouraging the FUE³ and the ICTU in taking over the mantle of collective bargaining, but state institutions like the Labour Court were mobilised to police the terms of national agreements.

But it is also important to point to the limits of this neo-corporatist experiment: first, and perhaps most importantly, the social partners did not agree in advance to the measures necessary for tackling the country’s economic ills. The unions favoured an expansionist economic policy to tackle the growing unemployment problem, particularly through expanding employment in the public sector. The employers and government, on the other hand, rejected this view which they claimed would adversely affect Ireland’s competitiveness and ultimately make it more difficult to

³ Subsequently reconstituted as IBEC.

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create employment.⁴ These fundamental differences in approach always made it difficult to conclude, and make an agreement stick (Roche 1994b). Second, while some gains were made in the broad area of social policy, they were limited. Third, employers' strategy of using centralised agreements to restrain wage growth met with limited success, as wage increases above the norm became a matter of course rather than as a means for buying out inefficient work practices and other workplace restrictions and inflexibilities. Second-tier bargaining became the norm both in the private and public sector. While these wage pressures were relatively easily absorbed in the profitable, capital intensive multinational sector of the economy, indigenous industry in traditional segments of the market (e.g. textile, furniture, engineering, etc.) found it very difficult to compete. Thus, instead of improving Ireland's competitiveness the national wage agreements worked to undermine the economy's competitive position. Fourth, and perhaps not surprisingly, industrial conflict rose to its highest levels in the history of the state, with the services of the Labour Court being pushed to its limits. Fifth, the social partners failed to develop institutions within which a "home" for social partnership could be located. Furthermore, the talks rarely involved tripartite discussions: instead following negotiations between the unions and employers each side would then, in turn, negotiate with government, preserving what has been referred to earlier as pressure party politics (Hardiman, 1992). Finally, a key feature of corporatist structures was absent in the lack of a close affinity or relationship between the trade union movement in Ireland and a political party on the left. The Labour Party did not have the electoral strength and the broadly based nature of the other main parties gave rise to a pragmatic and, at times opportunistic, approach to trade unions and industrial relations generally. And as trade union strength had developed from its organisation of the labour market and much less from political exchange, unions' policies remained oriented in the main towards collective bargaining. Political organisation came later and, as a consequence, political exchange was a relatively recent development in trade union strategies, and was as yet relatively under-developed (Roche, 1994b).

It is for these reasons that the 'corporatist experiment' in Ireland during the 1970s and early 1980s must be regarded as a limited form of neo-corporatism. The inertia associated with the parties' policies and actions undermined any fundamental attempt to re-orient the shape and conduct of Irish industrial relations. Centralised bargaining ended in 1981 with a return to free for all collective bargaining.

Decentralised Pay Bargaining, 1981 to 1987

From 1981 to 1987 wage negotiations were conducted at a workplace or company level in the majority of cases. During these years the government rarely intervened in the wage bargaining process. Its preferred non-interventionist policy also kept the unions at arms length from most policy making processes, although the traditional practice of supporting collective bargaining and its associated institutions was maintained. But while active intervention was largely absent, much like the early post war decades, the government did exhort the parties to show moderation and restraint in making wage claims and in reaching agreements. At times, too, the government moved

⁴ While this may have been the Government's stance throughout most of the 1970s, policy changed late in the decade (from 1977 onwards) when the Government adopted an expansionist programme, including increases in public sector employment.

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to assume a tougher stance, which was most clearly demonstrated in the public service. Efforts were made to replace the former practice of determining pay levels by comparability criteria (i.e. with comparable occupations in the private sector) with the principle of the exchequer's "ability to pay". However, this principle was sometimes abandoned in the face of industrial action, for example in the case of the teachers in the mid-1980s. But the oft-remarked criticism of the structure of pay determination in the public services did little to move the Government from its ad hoc approach to a more fundamental review and reform. Perhaps not surprisingly, relations between the Government and the unions in the public services were difficult and at times turbulent.

In the private sector, Government attempts to establish a national pay norm by keeping pay increases in the public sector at a moderate level met with little success. While pay increases in the early years of decentralised bargaining were modest and did help to reduce inflation, towards the mid and later period, pay rises began to outstrip price increases. Wage determination in this period was influenced by companies who either settled their pay negotiations in advance of the majority of firms (i.e., early starters) or negotiated deals above the recommended levels and which influenced subsequent pay claims. Many of these companies were large, foreign owned firms some of whom were not members of the FUE. However, the lack of cohesiveness within the FUE itself, led to many of their own members exceeding recommended pay increases. This was exacerbated by a trade union strategy of focusing pay claims on "headline deals" or "early starters". However, it has been noted by a number of commentators that this period of pay bargaining differed significantly from previous "rounds" of decentralised bargaining from the mid 1940s to 1970 (Hardiman, 1994; Roche, 1994b; Sheehan, 1996).

This period of decentralised bargaining had a number of discernible features. First, the level of wage increases varied significantly from one company to another and from one bargaining group to another.⁵ Unions' ability to win catch-up increases in subsequent bargaining periods was substantially reduced and as a consequence, established relativities became increasingly difficult to maintain. Second, it became increasingly difficult to identify the beginning and end of wage rounds as it had been in previous decentralised bargaining periods. The notion of bargaining rounds thus lost much of its former meaning. Third, wage increases in the multi-national sector were higher than in the indigenous sector. Fourth, the individual economic circumstance of organisations came to play a crucial role in determining pay increases. Thus traditional norms of conceding pay increases according to cost of living, comparability and wage relativity criteria became increasingly redundant as companies' competitive position became more influential and in some sectors (e.g. clothing manufacture) employees were obliged to accept a reduction in real earnings. Despite the variations between groups, the overall position is that real earnings remained static during this time, which can be attributed mainly to the prevailing economic situation which was sufficient to restrain employee wage expectations, even in the absence of a national agreement. However towards the end of the period wage levels were beginning to drift upwards again and tending to offset some of the competitive gains which had been made (see Chapter IV). Finally, and perhaps most importantly, the 1980s witnessed a shift in the level at which bargaining was conducted. Multi-employer bargaining became an increasingly rare phenomenon as companies decentralised bargaining arrangements to the level of the workplace and/or company. An important consequence

⁵ Evidence for this is provided in Chapter IV in which the wide variations in rates of real increase in wages for different industrial subsectors is described.

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of many of these new developments was that recommendations made by the FUE, as with guidelines issued by the ICTU and the Government, held little sway with member companies (Grafton et al., 1983; Roche 1994b).

The Return to National Pay Agreements in 1987

The year 1987 saw a return to centralised bargaining in Ireland. To outside observers, that Ireland should seek to return to centralised wage bargaining as most European countries characterised by strong corporatist regimes were increasingly debating and questioning the merits of such arrangements, might appear quixotic. Yet the case for centralised arrangements was forcefully made again in 1987, albeit different arguments were put forward by each side. For the unions, decentralised bargaining had achieved little, apart perhaps for key skilled groupings who were strategically placed in some sectors and organisations and who were able to exploit their labour market strength. Otherwise, the union movement lost members through job losses and increasing unemployment. Wage increases won at a local level were eaten into by high tax levels. There was also the fear that with increased competition, employers would move to exploit their position locally and marginalise and by-pass trade unions. The lessons from Britain were not lost on Irish trade unionists, and there was a fear that a similar outcome could be possible here. In addition, low wage earners no longer had the protection afforded to them by minimum wage increases associated with national wage agreements. Their standard of living was significantly reduced as wage differentials grew between them and those more favourably positioned in the labour market. These outcomes from decentralised bargaining threatened to further fragment the union movement.

For employers decentralised bargaining had only been partially successful. Wage increases, while they had moderated, still outstripped inflation, thereby reducing firms' competitive position. In particular industrial sectors rising unemployment had proved a poor discipline on employee wage demands.⁶ From 1980 to 1986, hourly earnings increased at a higher rate in Ireland than in any other European Monetary System country (NESC, 1990; Roche 1994b). The failure of successive governments to reform the tax system - associated with the high levels of tax imposed on employers and employees - made wage costs uncompetitive, especially in comparison with the UK where many organisations sold their goods. The employers' organisation, FUE, also complained that not enough had been achieved through decentralised bargaining to reform inefficient work structures (Hardiman, 1992).

The State meanwhile was suffering from chronic fiscal problems; public spending had risen inexorably and together with high levels of government borrowing was seen to be in urgent need of reform. Following the 1987 election, a Fianna Fail administration was returned to power and set about hosting talks on a future national pay agreement.

The terms of this agreement, the Programme for National Recovery (PNR), were centrally focused on managing state finances: targets were established for achieving greater control of public

⁶ See Chapter III for a detailed discussion of the variations in wage movements across industrial sectors.

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expenditure and stabilising the debt/GNP ratio. These targets became more explicit in the two subsequent agreements. These, then, were the two key aims of the government who sought to place Ireland's currency firmly within the narrow band of the EMS. Considerable success was achieved: the debt/GNP ratio fell steadily, inflation was reduced and interest rates fell towards German levels.

Other commitments entered into under the PNR included: a commitment to reduce unemployment, to reduce the taxation burden on employees, to introduce employment legislation, to promote industrial development and to improve the opportunities for employee involvement at industry and enterprise level. Many of these commitments, which were rarely specified in terms of quantifiable targets, were repeated in the two following national agreements.

The PNR also established a Central Review Committee (CRC) to monitor and review the implementation of the programme. An important component of its responsibilities was to maintain an on-going dialogue between government and the social partners and to issue recommendations where it was thought appropriate. The establishment of this Committee is significant, in that, in contrast to previous national wage agreements (1970-1981), an institutional "home" was provided for national programmes. The CRC continued to operate under subsequent agreements (see below). Further, it is also important to draw attention here to the role of the National Economic and Social Council (NESC) which, through the formulation of its *Strategy* documents prior to negotiations on new national programmes, has provided an important "intellectual home" for the social partners and government. It is now widely acknowledged that the work of the CRC and NESC have been very important in developing the role and effectiveness of social consensus in Ireland.

The PNR was considered to have been a significant success and was followed by two further national pay agreements, the Programme for Economic and Social Progress (PESP) covering the period 1991 to 1993 and the most recent programme, the Programme for Competitiveness and Work (PCW) which commenced in 1994 and runs until the end of 1996. Notwithstanding major challenges and controversies that occurred during the life of these pay agreements, tripartism has survived well and has managed to restore substantial order to the state's finances and has contributed significantly to improving the economy's international competitiveness.

6. Recent National Agreements: Rigid Constraints or a Flexible Opportunity?

In this section the pay settlement terms of the three national pay agreements will be outlined and the levels of flexibility associated with each of the programmes will be discussed.

Under the PNR, the social partners agreed to institute particular pay norms for the private and public sectors. The first £120 of a person's salary would receive a 3 per cent increase and any remaining amounts a 2 per cent increase. Each employee was also assured of at least a £4 per week increase. Any other cost-of-living wage increases were prohibited under the programme. This was a deliberate attempt to prevent second-tier bargaining, which had become a problematic feature of centralised arrangements in the 1970s. Provision was made, however, to allow for local

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negotiations to bring together existing agreements negotiated under decentralised bargaining and future agreements under the PNR. It is remarkable that a wide spread in termination dates were successfully pulled together under this provision, thereby rendering collective bargaining patterns more orderly (Roche, 1994b). Provision was also made for employers to opt-out of making payments where sufficient justification could be made that the particular circumstances of the organisation made it impossible to pay. Such considerations were normally taken into account in any recommendations issued by the Labour Court.

In the vast majority of cases, the terms of the PNR were implemented at a local level. An Industrial Relations News (IRN) study of 1988 concluded that not only had 94 per cent of the 173 firms surveyed complied with the terms of the agreement, but that the remaining 6 per cent of companies had only agreed modest increases above the terms set by the PNR. This high compliance rate was also matched by a reduction in wage drift between foreign owned firms and domestic firms. Over the first twelve months of the programme, agreements in the former sector (for manufacturing) averaged 2.8 per cent as against 3 per cent for indigenous enterprises. Significantly, too, companies which had traditionally been “early starters” or negotiated headline agreements in previous years under decentralised bargaining were now abiding by the terms set down under the PNR. The level of compliance was particularly marked amongst MNCs in the chemical and pharmaceutical sector which had previously set headline agreements in the period 1981 to 1987. A recent study which tracks pay agreements among a number of companies which would have traditionally fallen within these categories reveals how their pay settlement patterns have increasingly fallen into line with pay norms established during the PNR, PESP and PCW (Sheehan, 1996). Furthermore, it is also demonstrated that key occupational groups, like craft workers and employees in the financial services were largely unable to win additional wage increases, as they had been able in previous years. In the public sector, too, there was strict adherence with the norms laid down by the PNR.

Under the Programme for Economic and Social Progress (PESP) the terms of the agreement provided for annual pay increases of 4 per cent; 3 per cent and 3.75 per cent. In contrast to the PNR a local bargaining clause was inserted into the agreement which was designed to permit local negotiations on an additional 3 per cent increase in the second year of the agreement. The terms under which such negotiations were to be conducted were left vague, perhaps intentionally, to be permitted only “exceptionally”. Similar arrangements were agreed for the public service where the additional 3 per cent was to be introduced in exchange for regradings and the introduction of flexible work practices. Further, only one “special” claim could be placed and this was not allowed to exceed the 3 per cent allocated, unless following third party discussion and recommendation.

The compliance rate identified with the PNR was also repeated for the PESP with the terms of the agreement being overwhelmingly adopted by private sector firms. An IRN survey of 550 companies, employing between them over 100,000 employees, found that 90 per cent of organisations complied strictly with the terms laid down under the PESP. This included firms which had negotiated agreements under the local bargaining clause. In only 37 cases were the parties found to breach the terms of the PESP and, in many cases, these agreements were concluded prior to the establishment of the PESP at a national level (Sheehan, 1996). A similarly high level of compliance was recorded by the country’s largest union, SIPTU.

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Data analysed in Chapter IV also reveals that annual average rates of increase in real gross earnings in four sectors - manufacturing, building, agriculture and finance and insurance - did not exceed 2.6 per cent between 1987 and 1993. This clearly demonstrates a considerable uniformity in pay settlements across a range of industrial sectors, and, adding emphasis to a point also raised in Chapter IV, these wage increases were a significant element in aiding the economy's competitiveness in the international marketplace. Between 1987 and 1993 unit wage costs declined by as much as 13 per cent.

In so far as the public sector is concerned initially in the immediate post 1987 period wages were subject to the same restrictions as applied elsewhere. Indeed the data presented in Chapter IV (Table 4.3) would suggest that between 1987 and 1989 average public sector pay levels (when viewed in relative terms) slipped slightly behind those in the private sector compared to what they had previously been. However to a large degree this was achieved by postponing a range of previously granted "special" awards which applied over and above standard cost of living increases. From 1990 onwards, when these special increases were gradually paid, a very noticeable divergence between public and private sector pay is evident, with the former gaining a distinct advantage. While some of this divergence could be attributed to relative changes in occupational structures in the two sectors in question, this is unlikely to have had a significant effect over such a relatively short period.⁷

As intimated above the inclusion of a local bargaining element to the PESP was to give rise to some conflict. Although designed initially to permit some flexibility to local negotiations, parties on the ground often read into the clause that which they wished to see. Thus employers saw in it the opportunity to win concessions from employees in the area of working practices or perhaps to reward employees for efficiencies already gained. But, crucially, this was only seen to be appropriate where exceptional gains had been made or were likely to occur. This view received the active support of the main employers' organisation. Unions and employees, on the other hand, saw in it the opportunity to win additional wage concessions from management without necessarily having to give anything in return. The view, often expounded, was that employees had shown commendable wage restraint in the past and now deserved some reward.

An IRN study estimated that some 20 to 25 per cent of companies had negotiated to pay the additional 3 per cent under the local bargaining clause by September 1992. It was found that only 14.6 per cent of cases made the additional payment without gaining any concessions from employees. Nearly half of the enterprises surveyed (48 per cent) had won "significant" concessions and 25 per cent involved minor concessions (IRN, 37, 1992). A significant number of cases also went before the Labour Court and the Labour Relations Commission for mediation and, in most instances, a recommendation for the payment of the 3 per cent was made.

Thus it would seem that there was considerable supplementary bargaining at a local level during the life time of the PESP and that, in the majority of cases, management successfully won

⁷ The index used in this context relates to the ratio of annual average employee earnings in public administration and defence and in industry (including building). This ratio (which covers all employees in the sectors concerned) was 1.15 in 1987, but it had increased to 1.30 by 1993.

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trade-offs for payment of the additional three per cent. It is important to note, therefore, that the boundaries set by the national agreement for the additional payments were, in the main part, adhered to. This containment of second-tier bargaining is in striking contrast with the national agreements and understandings of 1970 to 1981 where additional payments were often made without increases in productivity; wage relativities were more often the spur for additional wage claims (Roche, 1994b).

A further issue meriting consideration is the structure of bargaining units in the Irish economy. While the main mechanism for pay settlement is located at a national level (i.e., PNR, PESP and PCW), the means by which the terms of these national agreements are transposed to a local level have undergone significant change in recent years. The decentralisation in bargaining units to a company level which became strikingly evident in the early and mid-1980s continued into the 1990s and has now become established in many parts of the private sector. Multi-employer bargaining units do, however, remain in place in a number of sectors characterised by the presence of many small and medium sized enterprises operating in competitive markets, for example, contract printing, public houses and hotels, garages and the construction industry. Further, labour-intensive and low-pay industries remain regulated at a national industrial level by Joint Labour Committees. In the public sector, semi-State companies continue to negotiate at a company level and the negotiation of pay and conditions in the public service remains within the established conciliation and arbitration machinery. In this respect, while the three tripartite programmes have set down minimum and maximum wage increases, the bargaining structures under which they are implemented remain diverse (Roche, 1994b).

The Importance of the Programme for Competitiveness and Work, 1994-1996

In 1994, following the expiry of the PESP agreement, negotiations for a further agreement - the Programme for Competitiveness and Work (PCW) - commenced. A successful outcome was not, however, assured. At the outset of the negotiations, the trade unions made plain their objections to the government's implementation of a 1 per cent income levy and the introduction of social welfare cuts. Once the government assured the unions that these issues would be addressed and resolved, negotiations on the PCW began. Employers' main concern focused on the size of the public sector pay bill and the increasing wage disparities in public sector and private sector pay as previously described.

The terms of the PCW provided for a 2 per cent pay increase for private sector employees for the first year; 2.5 per cent for the following year; 2.5 per cent for the next six months of the third year and 1 per cent for the remaining six months. This compared to the public sector increases which contained an initial five month pay pause; followed by a 2 per cent increase for the next twenty-four months; 1.5 per cent for the following seven months, and the final six months of the agreement provided for a 1 per cent pay increase.

Early indications would suggest that most employers in the private and semi-state sectors have abided by the terms of the agreement. And while there is scope for additional payments at a local level arising from increases in productivity, the most striking feature of some recent agreements has been the implementation of wage freezes, wage cuts and the recruitment of new

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employees on lower entry pay scales. While this trend had become evident under the PESP, it has accelerated notably under PCW negotiations. It is significant also that these 'concession agreements' do not necessarily make provision for catch up wage increases once the fortunes of the organisation are reversed. A good example offered by Sheehan (1996) of this phenomenon is Waterford Crystal which, despite the presence of a traditionally strong trade union, was able to make 1,600 employees redundant, implement a wage freeze from 1987 to 1994 and with no agreement to have these losses made up for in subsequent years. Other companies that have introduced wage cuts or freezes include: De Beers, Krups, Bayer Diagnostics and Apple Computers. Nor were such wage freezes confined to the private sector. In the public sector too, management agreed wage freezes with employees, e.g. Irish Steel and TEAM Aer Lingus. Similarly in the banking industry management have introduced new lower entry pay scales for new recruits. A similar strategy was opted by management in the public sector for example, Aer Lingus and Dublin Bus. Thus while such agreements may be confined to a small number of companies, in relative terms they were significant and one cannot doubt that the precedent of concession bargaining has been firmly established in the Irish workplace. Furthermore, this represents a sharp contrast with earlier national wage agreements and understandings (1970-1981) and the period of free collective bargaining (1982-1986) where trade unions were the key drivers in determining wage increases (Sheehan, 1996).

Another significant feature of recent negotiations uncovered by Sheehan's research is the identification of "pockets" of companies most notably in the pharmaceutical and chemical sector in the Cork region which have paid wage increases above the terms of the PCW. Sheehan's tracking of pay agreements among a number of companies which would have traditionally paid higher wage increases during the decentralised bargaining period found, with one exception, that all companies continued to maintain their independence from national wage norms. Examples here include companies like, Pfizer Pharmaceuticals, Cara Partners and Abott Ireland. Interestingly, as well as being able to exceed national wage norms, some of these companies have also chosen to conform to wage norms at various points. This suggests first, that both management and unions in these organisations did, and can, act independently of national wage agreements; second, that when these companies choose to abide by national agreements, the unions did not possess the means to extract further concessions from management; and finally, this "bargaining independence" is perhaps better thought of as a pragmatic response to the benefits of abiding by, or diverging from, national wage norms and does not, in itself, reflect a principled commitment or opposition to centralised bargaining.

It is important to note, though, that these "above-the-norm" (ATN) increases have been confined to a small number of companies and that they have not had significant knock-on implications in other organisations either because unions have been unwilling or unable to exploit the opportunity afforded by such ATN wage increases. Furthermore, Sheehan's research shows that most companies which could have afforded to pay ATN increases did not do so.

The System's Capacity to Solve Conflicts in Relation to Wage Negotiations

Most commentators are agreed that the system of industrial relations has served the national wage agreements well in containing the potential for industrial conflict, and this in spite of

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a significant increase in the number of cases going to the Labour Court and the Labour Relations Commission. Such third party mediation has been crucial in preserving adherence to the terms of the three recent tripartite agreements. The system's ability to resolve such conflicts is perhaps best illustrated by using the example of the banks' dispute in 1992. The banks' staff union, the IBOA had sought a wage increase in excess of the terms of the PESP. Traditionally a well organised and supported union, the IBOA was not a member of ICTU and thereby felt justified in not adhering to the terms of the national wage agreement. The actions of the IBOA were, however, resisted by a hastily formed coalition between the government, ICTU and FIE. Considerable pressure was brought to bear on the union to attend the Labour Court and accept any recommendations therefrom. Thus, while there was and is no legal provision within the tripartite programmes to extend the terms of the agreements to non-member unions or companies, this rallying of the social partners clearly illustrates how the actions of one "wayward" union came to be closely policed and, in the end, thwarted. A quotation from the IRN aptly demonstrates the efforts made by the social partners to protect the integrity of the centralised agreement:

"Once again we have seen that when it comes to defending the PESP, the dispute settling agencies, the main employer and union bodies - ICTU and FIE - and, not least, the Government, will act to defend it" (IRN 17, 1992: 18).

An important caveat needs to be entered here, however. While the case of the banks' dispute and other disputes in the public sector, perhaps most notably in the ESB, demonstrate the very real attempts made by the social partners to defend the integrity of national pay agreements, it would be unwise to exaggerate their influence. While the influence of the government cannot be doubted especially where it is the employer and can impose severe sanctions and penalties on management, the power of IBEC and ICTU to influence the behaviour of individual members is not as significant as it is in other European economies. There is no sanction, for example, available to either party, other than expulsion from their representative body, if a company or union seeks to act independently. Collective agreements, whether negotiated nationally or locally are binding in honour only and there is no legal provision to extend the terms of such agreements to non-member organisations. Further, evidence from Sheehan's study would suggest that the adherence shown by the vast majority of companies to the terms of national wage agreements is not as a consequence of IBEC or ICTU being able to impose pay discipline on their members, but is rather a pragmatic response in the face of intensified competition and an inhospitable labour market. Finally, the moderation and compliance demonstrated by foreign-owned companies in comparison to that which characterised this sector in the 1970s and early 1980s is a reflection, *inter alia*, of the severity of inter-subsidiary competition within multinationals. In such circumstances, the need to be "good citizens" and adhere to the terms of a national wage agreement can provide management with a convenient excuse to concede moderate wage increases, even in instances where companies could have afforded to pay above the norm.

In each of the individual national agreements, there was at least an expectation that the parties would not use industrial conflict in the advancement of a pay claim. The PNR, for instance, banned industrial action in pursuance of wage claims which exceeded the terms of the national agreement. The vast majority of employers abided by national wage norms and there is very little evidence of conflict. Similarly, the PESP bound employers and trade unions to a peace clause during the term of the agreement and, in the event of any dispute with regard to pay negotiations or

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any other element of the agreement, as with the PNR and PCW subsequently, they were obliged to use the services of the Labour Relations Commission and/or the Labour Court.

Conclusions: Assessment of Strengths and Weaknesses of Centralised Bargaining

This review has examined the structure of collective bargaining in Ireland since the 1970s. This twenty-six year period can be broadly divided in three: (i) 1970 to 1980 saw nine national wage agreements followed by two national understandings; (ii) 1981 saw a return to decentralised bargaining arrangements which lasted until 1986; (iii) and since 1987 there has been a return to centralised collective bargaining which has continued with us to this day. Opinion on whether Ireland's experimentation with corporatism has been a success or not varies. This should hardly come as any surprise given the difficulties one faces in trying to identify the independent effects exercised by tripartism on the country's economic performance.

One thing is certainly clear: the recent return to centralised bargaining in Ireland was born out of crisis. Public finances were in a dire state, trade unions were in fear of marginalisation and employers had not yet been convinced of the benefits of free collective bargaining. Significantly, too, of the last twenty-six years, pay settlement and pay negotiations between the parties have been conducted at a national level for 20 years. Clearly, then, free for all collective bargaining has been a minority feature of Irish industrial relations and not the preferred option of the social partners. Tripartite negotiations, therefore, have shown themselves to be more durable and robust than many critics could have foreseen. Furthermore, the more recent agreements (PNR, PESP and PCW) have shown themselves to be more stable than the experiments of the 1970s.

It is agreed by most commentators that the Irish experience with tripartite bargaining does, at least, represent an experiment with corporatism, albeit of a limited kind. One of its most severe critics, Teague (1995) has claimed that tripartism in Ireland was and continues to fail as a *social corporatist* initiative. He points to a number of deficiencies: first, where one might expect, *a priori*, centralised bargaining to represent a key constituent of social corporatism, in the Irish case it was not central to the State's economic management strategy but was rather an "adjunct to a harsh and uncompromising competitive disinflation strategy" (p. 263); second, it failed to create significant job growth; third, wage inequality remains persistently high by European standards, although the increase in wage dispersion has slowed to that seen during the period of free for all collective bargaining (with the exception of the public sector where wage differentials between clerical staff and senior civil servants rose significantly); and finally, little attention was paid to correcting the inadequacies of a market system of training. Nevertheless, Teague does acknowledge that the Government did deliver on a number of commitments in the broad social policy area, like increased investment in education, public housing, transport, health, employment law and, in part, on tax reductions.

While we might see some merit in Teague's arguments, it is perhaps too harsh and detracts from some of the notable gains derived by the social partners from participating in political exchange. While it is always going to be difficult to isolate the discrete effects of tripartism, it can be said with some confidence that the unions' participation therein did help them to retain some significant influence and power which they might have otherwise lost through free collective

bargaining. For instance, the decline in trade union membership experienced during the 1980s would appear to have been halted, real disposable incomes have increased and employees in part-time and temporary jobs have seen their positions made more secure by the enactment of various pieces of legislation (see Chapter VI). There have also been substantial gains in employment since 1993 (after Teague wrote his paper). Furthermore his claim that tripartism has not addressed wage inequality is hardly borne out by the evidence. As our previous analyses (Chapter IV) have shown, the national agreements have been notably successful in restraining pay dispersion across industrial sectors at a time when one might have expected an increase in wage inequality. On the employers' side there has been a general and growing appreciation of the benefits that are to be derived from centralised bargaining, in particular the absence of wage drift, a general decrease in unit labour costs and declining strike activity.

7. What of the Future? The Prospects for a "New Social Consensus".

The current national programme, the PCW, is due to end at the end of 1996. At the time of writing, July 1996, while there are obvious limits to discerning the parties' bargaining positions regarding a new agreement, certain features are identifiable. First while the employers and trade unions share the view that the benefits from social partnership have been significant and worthwhile, they are also agreed that they are not what they might have been. Both parties are united in their criticism of the government's refusal to make significant tax concessions to employees particularly in the most recent budget. This delay has, moreover, given rise to considerable disaffection amongst rank-and-file trade union members in the private sector, many of whom have berated their union leaders for agreeing to moderate wage increases at a time of growing prosperity. SIPTU, the largest union in the country, whose membership is concentrated amongst low to middle income earners, has been, together with ICTU, particularly vocal in its criticism. The employers' organisations, IBEC and ISME, too, have shared the unions' concern with the government's failure to ease the tax burden on employees and have pointed in particular to the rate of increase in public expenditure in recent years and the limitations this has imposed on the possibilities for tax reform. The unions have been more circumspect in drawing the same connection. Here an evident tension has become apparent between union leaders in the public and private sectors. The difficulty for the latter is that the more successful their colleagues in the public service are in winning wage increases, the less scope there is for the government to make tax cuts. That this is a difficulty for the union movement is plain, but whether it constitutes a large enough problem to weaken their commitment to winning a new agreement is questionable.

Apart from this tension, however, the case for continuing with centralised bargaining is strong for trade unions. The benefits of the three agreements have included: an increase in peoples' standards of living, albeit moderate; employment growth (especially in recent years under the PCW); low inflation; low interest rates; and, perhaps most importantly, 'a place in the sun' involving direct trade union influence over national social and economic management. To refuse to participate in talks about a future agreement or to fail to accept one would be to risk reversing these gains.

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What is it going to take to get a new agreement?

If we look first at what the trade unions are likely to want, there would seem to be three key bargaining items. First, there is ICTU's concern to see trade union participation in decision-making extended from a national level to a local level.⁸ Early discussion of such a provision centred around a works council-type arrangement. More recently, this term has been dropped in preference for the more general concept of workplace social partnership. This is perhaps unsurprising given employers' (and development agencies') predictable objection to anything resembling continental works council systems being implemented in Ireland⁹. Nonetheless, the unions remain steadfast in their desire to secure some provision for employee participation. That they should seek some legislative provision for this is unlikely; much more likely is a preference for some form of national framework agreement within which there would be scope for decentralised negotiations. It is also unlikely that ICTU will call for the implementation of one uniform model. There are a number of reasons for this: one, as there is little experience of advanced forms of social partnership (à la works councils) in Ireland, it would seem unwise to prescribe one form of social partnership above others; two, there is already considerable experimentation in the broad area of employee involvement (usually involving weaker forms of employee participation), including direct and representational systems; and finally, as yet there has been very little discussion about what social partnership might look like at the level of the firm. As such, experimentation in this broad area is very much in embryonic form and there may be good reason to wait and see which practice(s) might emerge to best suit Irish circumstances. ICTU is also going to be aware that firms in different sectors face different competitive pressures and operate in different product markets and labour markets. It is, therefore, likely to advance a broad view of social partnership and may be willing, to a degree, to let models emerge incrementally and experimentally. While ICTU might be willing to agree to such a position, they are likely to press for some form of a framework agreement, which would detail forms of local partnership that it would find acceptable and the issues it would like to see enter such a forum. This would have the advantage of outlining a broad view of social partnership, but which would allow individual workplaces the freedom to mould it to their own particular circumstances. It would thus sit more easily with employers' preference for developing 'organisation-based employment systems'.

In past national agreements the social partners have agreed in principle to look at employee involvement, but this has resided, in the main, at the level of aspiration. In the PCW, for example, both parties recognised its importance for employee motivation and job satisfaction and its contribution to improving organisational performance. ICTU's desire to revisit this issue in a more

⁸ This issue will receive extended treatment as it is likely to be a key issue in the forthcoming talks.

⁹ Multinational companies which come under the remit of the recently instituted EU Works Council Directive will, of course, have to establish a Works Council to inform employees on company issues which are of a transnational nature. The legislation to provide for this is expected to become law by September. While reaction to the Bill has varied, most commentators are agreed that it does represent a significant development in Irish industrial relations. For the first time, apart from the Worker Participation (State Enterprises) Acts, of 1977 and 1988, employers will be legally accountable to an employee representative body. Further, the exchange of information between representatives may lead, if not to the development of formal collective bargaining at European-level within companies, then, at least to informal bargaining of an indirect or "arms-length" kind.

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determined fashion has been given added urgency by local union and rank-and-file claims that they are being marginalised by management at a local level. In a more general way, there is the concern that national level partnership has no means of articulating with wider developments in industrial relations practice at a local level or vice versa. This issue is likely to emerge as one of the most contentious issues in the upcoming negotiations. IBEC are likely to resist any attempt to regulate employee participation through a centralised agreement, particularly where it is seen to be too rigid and constraining.

There is an additional difficulty for IBEC. Up until the 1970s one could fairly claim that differences in the industrial relations practices of Irish employers were small and differed more in degree than kind (see Roche and Geary, 1994). More recently, however, and in line with international experience (Locke et al., 1995), Irish employment relations have begun to diverge and fragment (Roche, 1996). To a large degree, this reflects the different competitive postures, as between cost-based and high-value added, adopted by employers. As intimated above this has led to the development of human resource management strategies to suit the particular circumstances of individual employers. For organisations which have adopted the latter competitive strategy the notion of firm level social partnership may not be all that alien. Indeed, there is already some evidence to suggest that experiments on the ground, confined though they are to a small number of companies like Waterford Glass, ESB, Aughinish Alumina and Analog Devices, are considerably more advanced than the narrow conception of employee involvement currently being developed by IBEC.

The difficulty for IBEC, then, given the diverse nature of its membership, is to develop a coherent view of social partnership. Its position on this matter is further complicated by ISME's (the small- and medium-sized firms' representative body) reluctance to countenance any initiative which might permit employees and their representatives more scope to share in management decision-making. Thus any attempt to standardise arrangements in employee participation through a national agreement are likely to be resisted by employers.

In contrast to the employers, ICTU's thinking in this area is significantly more developed and, arguably, more coherent. In its recent papers, *New Forms of Work Organisation* (1993) and *Managing Change* (1995), ICTU has argued that the adoption of new work structures along with plant level partnership are necessary prerequisites for re-orienting employers' competitive strategies away from cost-based to high-value added postures. Pursuit of the former for competitive advantage is, it is argued, likely to lead to short-term gains which are achieved through reductions in pay and conditions of employment and which is likely to generate a self-perpetuating cycle of distrust and conflictual relations between employees and management. To break out of this cycle of adversarialism and to allow organisations to compete at the top end of the market, Congress argues, employers must permit the development of partnership arrangements at the workplace.

It is difficult to discern how the Department of Enterprise and Employment might respond to this desire to extend social partnership to the level of the workplace. While they may be willing to consider some greater participative role for employees, this is likely to be tempered by a requirement not to adversely affect the flow of inward investment.

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In sum, local partnership holds a number of attractions for ICTU. First, it is seen to constitute a good in itself - employee participation makes work more satisfying and rewarding; second, it offers the prospect of securing a role for employees and their representatives in discussions and decision-making processes with management; third, it provides a means for "attaching" national agreements to workplace industrial relations (at present national agreements have been seen to be too detached from day-to-day management employee relations); and finally, it offers the opportunity of correcting existing employee relations practice, which for many in the trade union movement, is seen not to encourage workplace innovation and commitment from employees. While the benefits of local partnership for ICTU are considerable, the obstacles in its way are also likely to be significant. Foremost amongst these are a reluctance amongst employers to permit employees a say in management decision making; the difficulty of identifying suitable models of local partnership; and finally, incentivising social partnership sufficiently to excite rank-and-file enthusiasm about the desirability of having it provided for in a new national agreement. Further, employees' conception of local partnerships and the mechanisms and issues that it may embrace is likely to vary significantly across occupations, sectors and companies. None the less, ICTU would seem to be determined to see some advancement made on this issue.

Thus, the most fundamental challenge facing employers, trade unions and government is to develop a view and conception of local social partnership which will be capable of residing with firms' competitive circumstance, differences in business strategies, varying employees' expectations and an already fragmented industrial relations system.

The second area of concern for trade unions is closely related with the first: some statutory provision for trade union recognition. This has long been a preoccupation of Irish trade unions and has become a particular concern in recent years with the increased prevalence and preference of foreign-owned companies, particularly in the electronics and software sectors, not to recognise trade unions. This is less a concern of public sector trade unions where traditionally union recognition and access to third party mediation has rarely, if ever, been a problem. In contrast, private sector employees have often found it, and are increasingly finding it, difficult to win recognition. Again, employers and development agencies are likely to resist any moves in this direction. It is difficult, at this stage, to see how such a provision could be agreed to.

The third bargaining item which is likely to figure highly in the union agenda is the inclusion of a local bargaining clause. The unions claim that the moderation they have shown in past wage agreements as well as their willingness to work with the introduction of new technology and new forms of work organisation has led to significant improvements in unit labour costs and increased profits for employers. It is likely that Congress will seek some provision for reward for their members where such local gains have been achieved. The employers are likely to object to such a provision, certainly if it is to involve a blanket extension to all workplaces and if it is not be linked to some definite exchange. If a local bargaining clause was to be agreed to, the task for all parties will be to prevent the development of a second bargaining tier of a type which developed in the 1970s and which gave rise to productivity bargaining of a dubious character. If such a process was to become widely diffused through the economy, it is likely that this would lead to wage drift and new inflationary pressures which would endanger Ireland's strong economic performance of recent years.

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The area of low pay is another item which is likely to loom large in union concerns. As indicated above, however, the employers and government are unlikely to favour any move towards instituting a national minimum wage. The unions for their part are likely to press for special attention for low paid employees in the reform of the tax system.

The employers for their part are likely to prioritise moderate wage increases with a reappraisal and a reform of the existing tax regime. Other closely related items like reductions in public expenditure are also likely to figure highly. In addition, they are also likely to seek some commitment from ICTU in the broad areas of functional and temporal flexibility; that is, with the introduction of new working practices and in new working time arrangements. If the unions agree to this, and they are likely to do so as long as certain guarantees are given (i.e. that employers are seen to be acting in good faith, that jobs will be made secure and that the unions' position will not be endangered), then, this may present Congress with some opportunity to win some concessions from IBEC in the area of local social partnership.

The pressure on employers to continue to deliver more employment in return for the wage moderation shown over the last ten years is again likely to be a feature of the forthcoming talks. While the recent substantial employment increases are acknowledged, long-term unemployment, in particular, continues to remain stubbornly persistent. Despite some recent signs of improvement, the indigenous manufacturing sector has not shown itself to be able to generate significant employment growth. Much of the increased industrial activity is still accounted for by incoming investment. Job creation is thus likely to remain an integral aspect of the forthcoming talks.

The Government is likely to actively support the completion of a new national agreement. The strictures imposed by "EMU criteria" will, more than ever, bear heavily on the government's position in the national talks. And while tax revenues have increased from the economy's buoyant performance, the room for manoeuvre may not be as large as some commentators have suggested. As a compromise the Government may be encouraged to look at the qualitative concerns of ICTU in a new light. Relatedly, the benefits which have accrued from past agreements, most principally, the facility to take strategic, non-pragmatic decisions (O'Donnell and O'Reardon, 1996), is certain to concentrate the minds of government negotiators. Aiding the government's position is the near unanimous agreement amongst all political parties, of the desirability of managing the economy through social partnership.

In summary, this report argues that there is a compelling case for extending the life-time of the current series of national agreements - but not, of course, at any price. Ireland's international trading position is crucially dependent on maintaining competitive wage levels, low inflation, control over public expenditure; imperatives which are becoming ever more real as the prospect of EMU approaches. It is essential, therefore, that the wage provisions in a new agreement should be moderate to the extent that they do not compromise our position in relation to these requirements. In so far as non-pay elements in any new agreements are concerned, it is also essential to avoid excessive public expenditure commitments. To date the benefits to the national economy and macro economic performance have been substantial. While all the parties involved are committed to attempting to achieve a new agreement, we should not be lulled into thinking, however, that this enthusiasm reflects a principled commitment on all sides for national social partnership, or perhaps, more accurately, for integrating labour market and industrial relations policies with overall

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economic policy. Up until now, national agreements have been concerned, in the main, with quantitative issues - pay, social welfare provision, and so on. Agreements on more qualitative issues have been left at the realm of aspiration and "commitment". The unions' concern to advance a number of qualitative issues - local level partnership and trade union recognition - in a more determined way in the run up to the current talks is likely to challenge the parties' commitment to social partnership in a very fundamental way. The challenge for ICTU in particular, both at a practical and intellectual level, is to convince the other parties of the desirability of broadening the scope of social consensus and national agreements.

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Table A5.1.
Working Days Lost Due to Industrial Disputes, 1970-1995

Year	Days Lost
1970	1,007,700
1971	273,800
1972	207,000
1973	206,700
1974	551,800
1975	295,700
1976	776,900
1977	442,100
1978	624,300
1979	1,465,000
1980	412,100
1981	434,000
1982	434,300
1983	319,000
1984	386,400
1985	417,700
1986	308,600
1987	264,300
1988	143,400
1989	50,400
1990	222,900
1991	85,500
1992	190,600
1993	61,300
1994	25,600
1995	130,400

Source: Irish Statistical Bulletin (various issues).

Note: Disputes involving a stoppage of work for less than one day are not included.

CHAPTER VI

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1. Employment Protection

Employment protection provisions provide us with the clearest example of State intervention in industrial relations in Ireland. The programme of legislative review undertaken and implemented since 1989 has proceeded on the basis of priorities established under the Programme for National Recovery (PNR) and its successor, the Programme for Social and Economic Progress (PESP) and international commitments especially in relation to our membership of the EU. Labour legislation which expanded considerably in the first half of the 1990s lays down minimum standards to which all employers and employees must adhere. As well as broadening the scope of employees covered by employment legislation, recent Acts have also increased the obligations of employers.

Terms of Employment

The Terms of Employment (Information) Act, 1994 which implements Council Directive 91/533/EEC on the employer's obligation to inform employees of the conditions applicable to the contract or employment relationship, came into effect on 16 May, 1994. The Act requires an employer to provide employees with a written statement of certain particulars of the employee's terms of employment. The Act, in general, applies to any person:

- (a) working under a contract of employment or apprenticeship;
- (b) employed through an employment agency; or
- (c) in the service of the State (including members of the Garda Síochána and the Defence Forces, civil servants and employees of any local authority, health board, harbour authority or vocational education committee).

The written statement, which is not, in itself, a contract must include particulars of the terms of employment relating to the name and address of the employer, the place of work, job title/nature of work, date of commencement of employment, nature of contract (temporary or fixed term), pay and pay intervals, hours of work (including overtime), paid leave, incapacity for work due to sickness and injury, pensions and pension schemes, notice entitlements, collective agreements.

The Act provides a right of complaint to a Rights Commissioner where an employee believes that his/her employer has failed to provide a written statement in accordance with the terms of the Act or has failed to notify the employee of changes to the particulars contained in the statement. There is a right of appeal by either party to the Employment Appeals Tribunal from a recommendation of a Rights Commissioner.

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Payment of Wages Act, 1991

The Act for the first time gave all employees a range of rights relating to the payment of wages. The main purpose of the legislation was to further the use of non-cash methods of payment which had been far less in use in Ireland than in other European countries. Security considerations were among the reasons for the need to change in this area. The Act gave the employee the right to a steadily negotiable method of payment, the right to a written statement of wages and deductions and the right to protection against unlawful deductions.

The Act applies to any person:

- (a) employed under a contract of employment;
- (b) employed through an employment agency or through a sub-contractor; or
- (c) in the service of the State

In the case of agency workers, the party who pays the wages is the employer for the purposes of the Act.

The Act obliges employers to give each employee with every wage packet a written statement of gross wages and itemising each deduction. If wages are paid by credit transfer, the statement of wages should be given to the employee soon after the credit transfer has taken place.

Employers may not make deductions from wages or receive payment from their workers unless:

- (a) required by law, such as PAYE or PRSI;
- (b) provided for in the contract of employment, for example, certain occupational pension contributions; or to make good such shortcomings as bad workmanship, breakages, or till shortages; or for the provision of goods and services necessary for the job such as the provision or cleaning of uniforms;
- (c) made with the written consent of the employee, for example VHI payment or trade union subscriptions.

Special restrictions are placed on employers in relation to deductions (or the receipt of payments) from wages. Employees have the right under the Act to complain to a Rights Commissioner against an unlawful deduction or payment.

Minimum Notice

The Minimum Notice and Terms of Employment Act, 1973, as amended by the Worker Protection (Regular Part-Time Employees) Act, 1991, provides that employees in continuous service with the same employer for at least 13 weeks and who are normally expected to work at least 8 weeks are entitled to a minimum period of notice before the employer may dismiss them. This period varies according to length of service from an employee with 13 weeks to 2 years

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service being entitled to one weeks notice to an employee with 15 years service being entitled to 8 weeks notice

The Act also provides that an employer is entitled to at least one week's notice from employees who have been employed by them for thirteen weeks or more. The Act does not affect the right of an employer or employee to terminate a contract of employment without notice due to the misconduct of the other party. Disputes about such matters as the right to notice, length of notice and calculation of continuous service may be referred to the Employment Appeals Tribunal.

Worker Protection (Regular Part-Time Employees) Act, 1991

This Act extends the benefits of a range of protective legislation to regular part-time employees. Regular part-time employees are those who are in the continuous employment of the employer for not less than 13 weeks, are normally expected to work not less than 8 hours per week and who, but for the above Act, would be excluded from benefits under the legislation which this Act amends.

The object of this Act is to extend to regular part-time employees the rights to minimum notice, holidays, maternity leave, redress for unfair dismissals, worker participation (where appropriate) and redundancy and insolvency protection.

All regular part-time employees also became entitled to public holidays on the same basis as full-time employees. The Act recognises the growing flexibility in work patterns and the need to ensure that people who work on a part-time basis have the protection of a law in relation to their work.

Legislation on Dismissal

The Unfair Dismissals Act, 1977 came into operation on May 9th, 1977. As there was no equivalent legislation prior to that date, the Act changed the law by providing an adjudication system and redress for an employee where dismissal has been found to be unjustified. The Act provided that thereafter dismissal would be regarded as unfair unless there were substantial grounds justifying such action. It provided a system under which claims of unfair dismissal could be investigated impartially by a Rights Commissioner or by the Employment Appeals Tribunal. As regards statutory remedies, the Act provides for re-instatement in the employees old job, thereby entitling the employee to benefit from any improvements in terms and conditions of employment which may occur between the date of dismissal and the date of re-instatement or re-engagement in a suitable alternative job on conditions which adjudicating bodies consider reasonable or financial compensation consisting in respect of such a loss a maximum of two years remuneration.

The 1977 Act therefore protected the employee from arbitrary dismissal and it was enhanced employment rights. It also provided an avenue of redress which was designed to be speedy. Thus, the 1977 Act was introduced to safeguard against a situation of instant dismissal without reason which could only be challenged by trade union action. Employees in non-union or

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weakly organised areas had little protection. The Act brought about some major changes: first, the management of employment, employment practices and the formulation of disciplinary and dismissal procedures became considerably more orderly. Second. The incidence of industrial disputes related to dismissal have declined, both in numerical terms and when expressed as a percentage of the total number of disputes.

In view, however, of the length of time the Act had been on the Statute Book, a review of its contents was considered necessary and a discussion document was issued in 1987. Following extensive discussions and arising from agreements on National Programmes, the Unfair Dismissals (Amendment) Act, 1993 came into effect in October, 1993.

In general, the Unfair Dismissals Acts, 1977 to 1993 apply to any person working under a contract of employment or apprenticeship or employed through an employment agency. The Acts do not apply to a person who is normally expected to work for the employer for less than eight hours a week or who has been in the continuous service of the employer for less than one year. The requirement of one year's continuous service does not apply where dismissal results from:-

- (a) an employee's pregnancy, giving birth or breastfeeding, or any matters connected therewith;
- (b) the exercise, or proposed exercise by an employee of a right under the Maternity Protection Act, 1994;
- (c) the exercise, or contemplated exercise by an employee of the right to adoptive leave, or additional leave under the Adoptive Leave Act, 1995;
- (d) an employee's trade union membership or activities.

In determining if an employee has the necessary service to qualify under the Acts, a Rights Commissioner, the Employment Appeals Tribunal or the Circuit Court, as the case may be, may consider whether the employment of a person on a series of two or more contracts of employment, between which there was no more than 26 weeks of a break, was wholly or partly for, or connected with the avoidance of liability by the employer under the Acts. Where it is so found, the length of the various contracts may be added together to assess the length of service of an employee for eligibility under the Acts. The Acts do not apply to individuals on a fixed term or fixed purpose contract.

Fixed Term/Specified Purpose Contracts

The Acts contain special provisions in respect of contracts for a fixed term or for a specified purpose of limited duration which could not be ascertained exactly at the time the contract was made. The Acts stipulate that a dismissal consisting only of the expiry of the fixed term (without renewal) or the completion of the specified purpose shall not be covered by the Acts, provided that:-

- (a) the contract is in writing,
- (b) it was signed by both parties, and
- (c) it contains a clause that the Acts shall not apply to such a dismissal.

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Second or subsequent Fixed Term/Fixed Purpose Contracts

A Rights Commissioner (the Employment Appeals Tribunal or the Circuit Court) may examine any second or subsequent fixed term or fixed purpose contract of employment and between which there was no more than a 3 month break and take a view as to whether the fixed nature or fixed purpose of the contract was wholly or partly for, or connected with the avoidance of liability under the Acts. Where it is so found, the length of the various contracts can be added together for the purpose of determining the length of service for eligibility under the Acts, and the service shall be deemed to be continuous.

In sum, in relation to fixed purpose or fixed term contracts and the break in service, the Unfair Dismissals (Amendment) Act, 1993 (Section 3) is intended to prevent employers using fixed term contracts to avoid liability under the legislation. Under the provisions, where an employee's second or subsequent fixed term contract (with no more than a 3 month break between contracts) is not renewed, the employee has the *opportunity* to have his/her employers justification of the fixed term nature of the contract tested before a Rights Commissioner. If it emerges from the test that the fixed term nature of the contract was designed to avoid obligations under the legislation, then the Acts will apply and the employees service under the successive fixed term contracts will be added together for eligibility under the legislation. However, where the fixed term nature of the contract is shown to be justified by the employer, the employees case fails and there is no entitlement to any redress.

The Acts provide that every dismissal of an employee will be presumed to have been unfair unless the employer can show substantial grounds justifying the dismissal. The Acts provide that if the employer can prove that dismissal occurred as a result of one or more of the following substantive reasons, then the dismissal is deemed fair. These reasons are:

- (a) capability, competence, qualifications of the employee for performing the work of the kind or which s/he was employed to do;
- (b) conduct of the employee;
- (c) redundancy;
- (d) the employee's continuation in employment would have resulted in contravention of statutory provisions.

The Acts, however, makes provision that "other substantive grounds" for dismissal can be justified, thereby illustrating that the above provisions in the Acts are not considered to be exhaustive. However, the Acts detail grounds under which dismissal will always be deemed unfair. These grounds are:

- (a) trade union membership/or activities;
- (b) the religious or political opinions of the employee;
- (c) the race or colour or sexual orientation of the employee;
- (d) legal proceedings against an employer, where the employee is a party or witness;
- (e) the unfair selection of the employee for redundancy;
- (f) pregnancy or matters connected therewith;

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- (g) the exercise (or proposed exercise) by an employee of leave under the Maternity Protection Act, 1994;
- (h) the exercise (or contemplated exercise) of the right to leave by the employee
- (i) under the Adoptive Leave Act, 1995;
- (j) the age of the employee;
- (k) the employee's membership of the travelling community.

While the minimum requirement for eligibility under the Acts is one year's continuous service of an employee, this requirement is waived if unfair dismissal is claimed under items (a), (f), (g), (h) above. Furthermore, the Acts make provision for unfair dismissal claims in cases where employment conditions were made so difficult that the employee felt obliged to leave. This is termed constructive dismissal.

Even if the employer has shown that dismissal was fair in substantive terms, there still exists procedural obligations on employers within the terms of the Acts. These obligations focus on the disciplinary procedures required to take place prior to the dismissal of an employee.¹ There are four basic procedural obligations of an employer:

- (a) investigation;
- (b) fair hearing: the employee has the right under natural justice to respond to the charges/claims made against him/her;
- (c) warning: the employee is entitled to be given an opportunity to improve performance;
- (d) proportionate penalties: dismissal can be deemed unfair if the penalty is considered too harsh.

According to Fennell and Lynch (1993), up to 20 per cent of the workforce are excluded from the jurisdiction of the Acts: members of the defence and police force; employees who have reached normal retiring age; officers of local authorities; health boards, vocational educational committees and committees of agriculture; and FAS trainees and apprentices are amongst the categories who cannot claim unfair dismissal under the Acts.

The Protection of Employees Act (1977)

The Protection of Employment Act (1977), which was enacted to meet the requirements of an EU Directive on "Collective Dismissals", requires employers, who are planning collective redundancies, to consult employee representatives at least 30 days in advance of the planned redundancies, in order to discuss the basis under which redundancies will be made. The issues in question relate to the basis on which employees will be selected for redundancy; whether the redundancies can be avoided or their effects mitigated, etc. The Act also requires the employer to

¹ There exist some exceptions to these obligations in the case where serious misconduct on the part of the employee is - in some cases - considered to justify instant dismissal.

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notify the Minister at least 30 days before the redundancies commence. A collective redundancy means the dismissal for redundancy reasons over a period of 30 consecutive days of at least:

- (a) five persons in an establishment normally employing more than 20 and less than 50 employees;
- (b) ten persons in an establishment normally employing at least 50 but less than 100 employees;
- (c) per cent of the number of employees in an establishment normally employing at least 100 but less than 300 employees;
- (d) persons in an establishment normally employing 300 or more employees.

The Protection of Employees (Employers' Insolvency) Acts, 1984-1991

The purpose of the Protection of Employees (Employers' Insolvency) Acts, 1984 - 1991 is to provide that, where an employee's employment contract is discontinued because of the employer's insolvency, certain outstanding pay related entitlements may be claimed by the employee from the Social Insurance Fund. The Act was made following the EU Directive of 20 October, 1980 on the protection of employees in the event of insolvency of their employer.

Under the Act of 1984, the following may be paid by the Department of Enterprise and Employment:

- (a) wages
- (b) holiday pay
- (c) sick pay minimum notice awards by the Employment Appeals Tribunal up to a maximum of 8 weeks
- (d) various other payments on foot of orders, e.g., under employment equality, unfair dismissals, maternity, adoptive leave and industrial relations legislation
- (e) limited amounts of pension contributions

In the case of a), b) and c), payment up to a maximum of 8 weeks can be made, if unpaid at the date of insolvency. The weekly limit is subject to a current amount of £300.

The Act applies to incorporated companies, friendly societies and to persons in employment (full/part time) which is fully insurable for all benefits under the Department of Social Welfare Legislation. Firms must be insolvent under the terms of the Act, e.g., be adjudicated bankrupt, in liquidation or receivership or have had a board resolution passed ordering liquidation or winding up. Payments are made to the insolvency employer's representative, usually a liquidation or receiver on foot of applications made on prescribed forms signed by the employees and the liquidation/receiver. The employer's representative then pays the employees and is responsible for making appropriate statutory deductions for Income Tax, PRSI, etc., and paying over same to the Revenue Commissioners.

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The Minister for Enterprise and Employment becomes a preferential creditor against any assets which the employer holds at a time of final winding in respect of certain amounts paid under the Act.

The Redundancy Payments Acts (1967-1991)

The Redundancy Payments Acts (1967-1991) provide for lump sum compensatory payments for eligible employees (i.e., who have worked for an employer for a minimum of two year's continuous service for not less than 8 hours per week, who are between the and who have been dismissed for reasons of redundancy). The employer can recover 60 per cent the sum from the Department of Enterprise and Employment, under the Employers Insolvency Fund.

A redundancy situation is said to arise when an employee's job ceases to exist, or where s/he is not replaced by the firm due to a lack of work, the closure of the firm or because of the firm's reorganisation.

An employee who has been made redundant has a statutory right to a redundancy payment consisting of:

- (a) a half week's pay for each year of employment between the ages of 16 and 41 years;
- (b) one week's pay for each year of employment over the age of 41 years;
- (c) one week's pay irrespective of service.

Under the Acts, the employer is also required to give written notice two weeks in advance of redundancy to the employee(s) concerned, and is required to give the employee reasonable time off to seek alternative employment.

In instances of redundancies it is not unusual for companies and, in particular, many foreign-owned firms and commercial semi-State bodies, to pay significantly above what is required under the legislation. This is perhaps an indication that the statutory arrangements are not sufficient of themselves to attain a reduction in employee numbers when economic circumstances may require this.

Legislation on Temporary and Fixed-Term Contracts

In order for any person to fall under the scope of employment legislation with regard to their contract of work, they must be working under a contract *of* service, as opposed to a contract *for* services. The former qualifies their status as employee, and the latter implies that the work is being carried out by a contractor, or sub-contractor. A person working under a contract for services does not fall within the scope of employment protective legislation.

In employment law, an employee is said to be temporary if his/her position is not permanent, i.e., employment is based on a temporary or defined period. This can arise when an employee is hired on the basis of a "fixed term" contract (such as when replacing an individual

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absent from work for a specified period); when employment is based on the duration of a task (fixed purpose contract); when employment is seasonal or casual; when the employee is on probation, or when the employee is carrying out work as organised by an employment agency.

In Ireland, the legislature has provided for a minimum level of protection, sometimes referred to as a 'floor' or 'threshold' of rights, for all employees, whether they are engaged on temporary or permanent contracts of employment, and regardless of whether such rights are explicitly stated in a contract. As such, both parties are prohibited from 'contracting out' of this minimum level of protection. In this regard the legislation has not explicitly distinguished between temporary or permanent employees, but many aspects of employee legislation requires certain prerequisites for eligibility for statutory employment protection, many of which would preclude part-time or temporary employees. This has led to a trend amongst some employers to employ individuals under such terms of contract such that employees would not qualify for statutory protection (Fennell and Lynch, 1993). The Worker Protection (Regular Part-time Employees) Act, 1991, attempted to redress this tendency, by broadening the coverage of eligibility for statutory protection to regular part-time employees, i.e., employees who are in continuous employment of an employer for not less than 13 weeks, and are normally expected to work not less than 8 hours per week. The Act reduced the numbers of hours employees are expected to work to qualify for certain statutory protection from 18 hours to 8 hours per week. Similarly, the Act reduced the number of weeks in continuous service for qualification for statutory coverage, from 52 weeks or more to 13 weeks or more. This does not, however, apply to all employment legislation, most notably Unfair Dismissals and Redundancy Payment Acts, which require continuous service for 52 weeks and 104 weeks respectively.

In terms of annual leave entitlements, the previously mentioned 1991 Act amends the Holidays (Employees) Acts, 1973 and 1991 to provide annual leave entitlements to employees who have at least 13 weeks continuous service with a single employer. In this regard, an employee with 100 hours service is entitled to 6 hours annual leave (or the same proportion if less than 100 hours has been worked). This substantially increases annual leave entitlements for such employees, who previously were required to have a minimum of 120 hours worked in each calendar month to qualify for any annual leave entitlements.

In determining if an employee has the necessary service to qualify under the Acts, a Rights Commissioner (or the Employee Appeals Tribunal) can consider whether the employment of an individual, who has been hired on the basis of two or more contracts of employment (with not more than a 26 week break between contracts) was wholly or partly for, or connected with the avoidance of liability by the employer under the Acts. Where it is so found, the length of the various contracts may be added together for the purpose of eligibility under the Unfair Dismissals Acts. The provision to extend protection to employees who are re-employed on successive temporary or fixed-term contracts was made under the recent Unfair Dismissals (Amendment) Act, 1993. Thus, an employer who seeks to avoid liability under the Acts, through continuous renewal of contracts after a short time has lapsed at the end of a contract, may still be liable under the terms of these Acts.

2. Regulation of Working Time

Legal and Contractual Limitations to Working Time

Working time limits under Irish employment legislation are covered under a number of Acts for industry, retail and certain parts of the services sector. Many of these Acts are quite old, their terms often modified and adapted at local level by collective agreements which have, *de facto*, determined working time arrangements in industry.

The Conditions of Employment Acts, 1936 and 1944 cover employees involved in industrial work. It excludes non-industrial work such as agriculture, fishing, domestic work and the provision of services. The Act provides that day work should not extend beyond 20.00 hrs for a full day (excluding overtime) and 13.00 hrs for a short day. The Act states that no worker shall be required to work any more than nine hours per day, and 48 hours per week, excluding areas of work such as printing and publishing of newspapers, broadcasting or the repair and installation of telephones. Shift work under the Act is only permitted in circumstances which require a continuous process of work (i.e. work that requires to be carried on uninterrupted, or work requiring to be carried out for no less than 15 hours). All shift work requires a licence granted by the Minister for Enterprise and Employment. The employer is required to state the maximum hours of work in a day, and controls are also imposed on the amount of overtime allowed. The licence may be granted subject to a number of conditions, such as the provision of certain facilities for shift workers, the requirement for a local level agreement to the working of shifts, and the option of pregnant women to work day shifts only. The Act itself specifies the following conditions for shift workers:

- (a) the shift must not exceed nine hours;
- (b) a worker must not work two consecutive shifts;
- (c) eight hours must lapse between shifts;
- (d) weekly hours must not exceed 48 hours (when averaged over a three week period);
- (e) a worker must not work in excess of 56 hours in any given week.

The Act includes provision for maximum overtime worked (2 hours per day, 12 hours per week, 240 hours per year) and overtime pay (minimum rate of time plus one quarter). Provision is also made for breaks (although there is no requirement for payment to be made for breaks). In brief, a worker is entitled to a 30 minute break every five hours. Furthermore, a worker commencing overtime is entitled to a 30 minute break if the overtime period is to last over one hour and a half. Finally, shift workers are to be given a rest period for at least 15 minutes in each shift.

The Shops (Conditions of Employment) Acts, 1938 and 1942 provides for conditions of work and working time restrictions for employees in the retail and wholesale sector, hairdressers, auction rooms, reception areas of industrial works, licenses premises cafés, licensed premises and hotels (for the borough of Dublin only). These include a provision for a meal interval of one hour between the hours of 1130 hrs and 1430 hrs for workers who work within these hours. A 30 minute rest period must also be provided for between the working hours of 1600 hrs and 1930 hrs. Each worker must be provided with a rest period of at least 30 minutes for each six hours worked. Other requirements include the provision of one seat for every three female members of staff.

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Finally, the Protection of Young Persons (Employment) Act, 1977 sets out strict criteria under which a child (i.e., between the ages of 14 and 15 years) and a young person (i.e., between the ages of 15 and 18 years) can be employed. Before employing a child, an employer must receive the written consent of the child's parent. Children under the age of 15 years must not be employed to carry out work which may interfere with education or health. Work can only be carried out during school holidays, unless it is sanctioned by the Department of Education or the Department of Enterprise and Employment, and is part of school work experience. Work must also not exceed 7 hours per day or 35 hours per week, and no night work between the hours of 2000 hrs and 0800 hrs is permitted.

A young person between the ages of 15 and 16 years must not work for over 8 hours per day (maximum 40 hours per week). A young person is not permitted to work in excess of 45 hours per week, or carry out night work between 2200 hrs and 0600 hrs. Such workers are also entitled to a 30 minute break for every five hours worked (though these breaks are not required to be paid for).

While these Acts provide the statutory requirements for limits to working time, they are, in practice, becoming increasingly obsolete, especially with regard to the length of the working week, as will be discussed below. In practice, collective agreements at local level or Joint Labour Committees regulate the standard hours of work and terms and conditions of employment.² The recent EU Working Time Directive (93/104/EC), which is required to be legislated for under Irish Law by November 1996, will include the establishment of a maximum legal working week of 48 hours (including overtime); a minimum of 11 days off per year; one full rest day per week; a minimum annual leave entitlement of 4 weeks; and a basic limit of 8 hours on night shifts.

In terms of annual leave entitlements for employees, the Holidays (Employees) Acts, 1973 and 1991 provide entitlements for employees for annual leave and public holidays. The statutory entitlement for annual leave is three working weeks. An employee with at least one month of service is entitled to paid annual leave. However, this provides a minimum of annual leave entitlements, and under normal collective agreements, most full time employees receive approximately 20 working days (or four weeks). Under the current legislation, an employee can qualify for annual leave under the following methods:

- (a) Qualifying month basis: an employee who works 120 hours in any month qualifies for one twelfth of statutory annual leave entitlements;
- (b) Full leave year: an employee who works a total of 1,400 hours in any leave year (e.g., 1 April to 31 March) qualifies for the full statutory entitlement (providing employment remains with a single employer);
- (c) Regular part-time employees: as revised under the 1991 Act (see Section II), regular part-time employees no longer need to have accrued 120 hours in a month to qualify for annual leave entitlements. A regular part-time employee with at least 13 weeks continuous service are entitled to 6 hours annual leave for every 100 hours worked (or

² An Hours of Work Bill was circulated in 1984 in order to bring the above Acts up to date. However, the Bill was not passed.

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the same proportion of annual leave for the number of hours worked if they do not exceed 100).

Trends in Working Time Flexibility

As noted above, notwithstanding the existence of statutory minimum requirements in Ireland, most working time arrangements are shaped by collective agreements rather than by legislation. Hours of work have traditionally been included on the bargaining agenda, and have tended to feature in general pay rounds. For instance, during the late 1960s, the 40 hour week increasingly became the norm in Ireland, following on from the successful campaign by maintenance craftsmen, to work a 40 hour week in 1966. A survey by the Federated Union of Employers, conducted in the mid 1980s, indicated that approximately 7 per cent of companies had a working week of less than 40 hours for manual workers. For clerical and white collar workers, the situation was dramatically different: only 38 per cent of companies participating in the survey operated a 40 hour week for workers, and 31 per cent operated a 37.5 hour working week.

With the return to national tripartite bargaining in 1987, working time became an issue of some significance, prompted in part by its importance at European level. The Programme for National Recovery (PNR) in 1987 provided scope for local negotiations on working time, which resulted in the emergence of the 39 hour working week for all workers in Ireland. This coincided with the publication of a "Framework Agreement" in 1989 between employers and ICTU, for a reduction in the working week. By 1991 most manual employers in Ireland worked a 39 hour week (or had alternatively achieved payment or increased annual leave in lieu), while white collar workers continued to enjoy a standard working week of shorter duration (varying within a broad range of between 35 hours to 37.5 hours). This transition was achieved relatively easily: only four strikes arose as a result of the issues of hours or holidays (Roche and Redmond, 1994).

Working time flexibility incorporates other elements of change in working duration, including paid and unpaid leave, early retirement, reductions in overtime working, and phased entry through extended training and education. Traditionally such changes (which exclude the general reduction in the working week) have received, at best, lukewarm support from trade unions. There is a fear that they may be introduced unilaterally by management, and also that their introduction would lead to reduced overtime earnings. Attempts to introduce changes in working time arrangements, for example, in the public sector have led to some problems. In 1992, the issue of introducing part-time and temporary workers in An Post (as part of a series of changes) was fiercely resisted by the workforce, and resulted in strike action.

Overtime working, in particular, remains a popular way of accommodating fluctuations in demand, for both employers and employees in Ireland. In a survey conducted on working time patterns in Ireland, Fynes *et al.* (1996) found that 88 per cent of public and private sector organisations who undertook overtime considered it essential in the running of their organisations. Some 80 per cent and 70 per cent of sampled private and public sector employees (respectively) worked overtime: 50 per cent and 40 per cent of sampled private and public sector employees worked overtime on a weekly basis. Overtime, therefore, represents a regular feature of the

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working week for a large number of employees: 31 per cent and 14 per cent of private and public sector employees considered overtime to be important in maintaining their standard of living.

While overtime remains an important feature of working time in Ireland, other aspects of working time flexibility have been important in order to facilitate fluctuations. For example, “flexi-time” and annualised hours schemes are considered to allow extra work to be accommodated, in return for extra time off, instead of increased overtime levels. However, this is a trend mainly found in large scale employment, in the services sector, and principally among white collar workers.

There are advantages associated with job sharing. These include increased productivity, reduced absenteeism, reduced turnover, greater continuity (one of the partners can cover for the other) and a wider range of skills. However these are often outweighed by the costs associated with employing two people, e.g., administration costs, the need for increased communication and management and new divisions of responsibility. This can lead to a reluctance on the part of employers to encourage job sharing opportunities for employees. In Ireland, as in mainland Europe, the take up of job sharing has not been widespread. Fynes *et al.* (1996) reported major differences in opportunities for job sharing between the private and public sector and between large and small employers. Over 30 per cent of private sector employees work in organisations with job sharing options; the corresponding figure for public sector employees is 90 per cent. However, the number of employees in the private sector who availed of such schemes was only 5,300, accounting for less than 1 per cent of total private sector paid employment. In the public sector, the estimated figure for job sharing was 8,000, or between 3 and 4 per cent of total employment.

The availability of leave, particularly in the public sector (where 82 per cent of enterprises provide extended leave options) has resulted in approximately 12 per cent of public sector employees sampled in the survey taking career breaks at some stage in their career. However, less than 10 per cent of private sector employers provide the facility for extended career breaks, and only 2 per cent of such firms actually had an employee on extended leave during the survey. Career breaks were most popular with female employees, especially those working in professional and managerial grades. The greater provision of flexible working time in the public sector also extends to early retirement schemes. Just under 40 per cent of public sector employees sampled worked in organisations providing early retirement options, while the corresponding private sector figure was only 6 per cent. In terms of popularity amongst employees, the survey revealed that 39 per cent of private sector employees over the ages of 56 years and 70 per cent of employees between the ages of 46 and 55 years said they would consider availing of early retirement. In the public sector, the corresponding figures were 49 per cent (for employees over 56 years) and 85 per cent (for employees between the ages of 46 and 55 years).

3. Minimum Wage Regulation

There is no national legal minimum wage in Ireland, but wage minima for certain occupations/sectors are set by Joint Labour Committees (JLCs) on which trade union and employer

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representatives sit with independent members nominated by the government.³ The rates of pay for specific occupations/sectors agreed and set by these JLCs are legally enforceable, and conditions of employment are also set out. In some cases hourly rates are set, in others weekly. At present, there are 15 separate Joint Labour Committees in operation, covering the following:

- agricultural labourers,
- contract cleaning (Dublin),
- law clerks,
- women's clothing,
- catering (outside Dublin),
- hotels (outside Dublin and Cork),
- retailing,
- hairdressing (Dublin),
- hairdressing (Cork),
- bottling,
- brush/broom making,
- milling,
- handkerchief/bed-linen/towels etc. piece goods,
- shirtmaking,
- tailoring.

Some JLCs cover the entire country while others apply only to certain geographical areas - for example contract cleaning in Dublin, hairdressing in Dublin and Cork, catering outside Dublin. A further JLC has been announced to cover those working in the catering sector in Dublin, but is not yet operational.

The various JLCs set minimum rates of pay which depend on the type of worker involved, their experience, the training element involved, etc. The rates set differ across JLCs; for example, the catering JLC sets different rates for cooks, waiters/waitresses, barmen/barmaids, and cleaners, while the retailing JLC sets rates for shop assistants which increase with experience. To give an example of the levels at which minima are set, the Catering JLC currently prescribe a weekly gross wage for experienced waiters and bar staff of £130 to £139 per week, whereas a trainee is entitled to £78 to £84. (To put these in comparative perspective, the average weekly wage in industry is currently about £270). JLCs also set statutory conditions of employment, such as working hours and holidays.

While a precise calculation of the coverage of the minimum wage regulations is not possible, it appears that at present about 65,000 workers, about 7 per cent of all employees, are covered by JLC orders. This will rise to about 75,000, some 8 per cent of all employees, when the new JLC for catering in Dublin comes into operation. These figures refer to the numbers working in the occupations covered by JLCs, rather than all those employed in the sectors affected.

³ The development and operation of the JLC system has been described by McMahon (1987), and see also Nolan (1993).

Labour Market Legislation

It will be clear from this description that, compared with most other EU member states, minimum wage regulation in Ireland has quite limited sectoral and occupational coverage. (The Irish system has much in common with the wages councils which operated in the United Kingdom for many years). However, since JLCs have been introduced in precisely those sectors where the need for regulation was perceived to be greatest - because of the nature of the employment offered and the relative weakness of trade union organisation - coverage in terms of the proportion of the "population at risk" being afforded protection is greater than this would suggest. Also, in some sectors not covered by JLCs, such as building and construction, voluntary wage agreements between employers and unions can be registered and take on statutory force.

4. The Effects of Labour Market Legislation

Employment Protection

As the foregoing review of employment legislation would suggest, the labour market in Ireland has become increasingly regulated in recent years. The enactment of this legislation has pushed the Irish industrial relations system further away from the voluntarism it inherited from the British tradition and more towards a continental model of labour market regulation. Nonetheless a survey of employers conducted for the then Department of Labour in 1986⁴ did not suggest that employment levels are being constrained by labour legislation. The study reported that "practically no firms saw the (labour) legislation as one of the main problems facing them and only a small minority cited it as having caused a problem in the past year. Few firms mentioned the legislation or its consequences as reasons for not expanding their labour force, or for not being able to reduce it when they wished to do so". The report went on to indicate that, in general, labour costs were of much greater concern to enterprises, both in regard to actual wages and associated costs such as PRSI payments. To the extent that concern was expressed about labour legislation the survey results indicated that it appeared to pose a greater problem for larger firms. In the course of a later study conducted by the ESRI in 1991⁵ which posed much the same questions to employers, similar responses were obtained. When questioned regarding reasons for not being able to expand employment, economic factors, in the form of lack of market for extra production, was indicated to be by far the most important consideration. Almost 60 per cent of employers found this to be "major impediment". Again labour costs generally were regarded as a significant constraint by some 40 per cent of employers. Inflexibility arising from labour legislation was considered to be an obstacle by only some 16 per cent of enterprises.

A further issue of significance in this regard concerns the rapidly growing numbers of part-time employees, despite the introduction in 1991 of what might be considered to be (from an

⁴ Department of Labour (1986). *Employer's Perceptions of the Effect of Labour Legislation*. Study carried out by the ESRI on behalf of the Department.

⁵ ESRI (1991) *A Study of the Employment Possibilities of the Long-Term Unemployed*, by B. Whelan, R. Breen, T. Callan, B. Nolan, a study carried out for the Department of Labour.

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employers standpoint) further restrictive legislation. The Worker Protection (Regular Part-Time Employees) Act 1991 significantly extended the categories of part-time worker eligible for a wide range of employment provisions, which might have been expected to at least reduce the rate of expansion in part-time employment. No such outcome has occurred, in fact the number of part-time employees has continued to increase at an even more rapid pace, rising by no less than 60 per cent between 1991 and 1995 (see Table 2.6 in Chapter II).

Another option open to employers is to increase their use of independent contractors in order to avoid liability under protective legislation. This is likely to be an impractical option, however, as the services provided by independent contractors are limited, and while there has been a trend in the use of contractors for some auxiliary services, such as transport and distribution, this is more likely to be a consequence of a business strategy in pursuit of labour flexibility, rather than a direct result of increased employment legislation. Similarly, the increasing preference of employees for temporary workers is seen as a trend towards increasing flexibility in the work place in order to increase capacity utilisation, cut costs and improve productivity (Roche and Redmond, 1994). This trend is particularly evident in the services sector.

Working Time Regulation

It is difficult to assess the effect the regulation of working time has had on employment levels in Ireland. It is not inevitable, even if working hours were further reduced (by earlier collective agreements or by legislation) that employers would take on more staff. Certainly, Irish research illustrates that the employment effects have not been proportional to the reduction in working time: only 8 per cent of private sector employers who had reduced working hours reported an increase in the number of full time employees, and 4 per cent reported an increase in part-time employees (Fynes *et al.*, 1996). Results for the public sector tend to be more encouraging with regard to job creation: 30 per cent of sampled public sector companies reported having increased employment as a result of reduced hours. Reducing standard working time in order to increase employment levels does impose additional costs, however, on employers in areas like holiday entitlements, sick benefits and recruitment costs. The costs of employment (including wage costs and PRSI) were cited by employers as impediments to recruiting additional employees in the previously mentioned 1991 ESRI study. Under these circumstances, there is a greater incentive to continue with overtime working. And while legislation has been considered as a possible remedy to this "overtime problem", the logistical problems of policing such legislation are considered great.

There does appear to be some evidence to suggest that employees would favour reductions in working time. In a recent study 71 per cent of surveyed workers stated that they would sacrifice some overtime in order to increase employment (Fynes *et al.*, 1996). However, at local level, trade union representatives are shown to support demands for increased overtime. Another survey on overtime practices reported that 60 per cent of firms in the production sector indicated that overtime arrangements were documented in trade union, employee and management agreements (UCG, 1980). Even where trade unions (usually at a national level) seek increased basic pay as a deterrent against excessive overtime, this is not always effective in terms of this objective, given the high rates of pay associated with overtime.

Labour Market Legislation

It has already been noted that the number of companies, particularly in the private sector, operating job share schemes is small, although the situation in the public sector is somewhat different. It was found by Fynes *et al.*, (1996) that employment in the private sector increased by only 1,200 as a consequence of the introduction of job sharing. In the public sector, employment increased by an estimated 2,500. On current evidence, then, it might seem that the employment effects of job sharing are not considerable. However, when one looks closer at the data, the picture becomes a little more promising. The main point that bears emphasis is that the 5 per cent of private sector organisations which currently offer job sharing arrangements account for 31 per cent of the private sector workforce. Obviously, while it is not always going to be suitable or convenient for employers to make all jobs open to job share, "there nevertheless appears to be significant scope for the further uptake of existing opportunities, if the incentives available - whether to employees, employers or both - were to be increased (Fynes *et al.*, 1996: 219). Nonetheless, against such optimism needs to be placed the considerable disadvantages, as seen by employers, associated with the introduction of job sharing. For instance, the study found that over 70 per cent of companies, employing 77 per cent of the private sector workforce, saw no advantages in operating job sharing schemes. Such negative perceptions of job sharing are not to be underestimated, and if the initiative is to be pursued some significant measures will have to be taken by the social partners and Government to reverse such views. With regard to extended leave, 22 per cent of employees on leave are replaced in the private sector, and all public sector employees on leave are replaced. The popularity of extended leave amongst employees in both sectors (over one-quarter of employees reporting an interest in extended leave) suggests that this is an area where employment effects could possibly be very positive, notably in managerial and professional areas where the schemes are most popular.

Early retirement has not been very successful in providing employment opportunities, due in part to the poor provision of such schemes in the private sector. Fynes *et al.*'s (1996) survey showed that many employees would consider early retirement, if the option was available to them. However, such responses reflect future intentions, and so may not be wholly accurate. A majority of the respondents also reported an interest in finding subsequent work following early retirement (75 per cent and 86 per cent of public private sector employees respectively). This would be likely to undermine any positive effects on employment levels.

Minimum Wage Regulation

The effectiveness of the Joint Labour Committee (JLC) system in combating low pay has been analysed by Nolan (1993) using data from a large-scale household survey carried out by the Economic and Social Research Institute in 1987. This identified certain occupations/sectors not covered by JLCs and containing a significant number of employees on pay rates below those generally set by the JLC system. The most important of these was retailing, and a JLC covering this sector has in fact been introduced. Domestic service, production industries and building and construction also contained significant numbers on low pay not covered by minimum wage regulations. Due to small numbers of cases in the relevant sectors/occupations, the study was not able to assess the extent to which the JLC regulations were effective in protecting those working in the areas they did cover.

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There has been some debate in Ireland about the merits and disadvantages of a National Minimum Wage compared with the current much more limited system of minimum wage regulation. Advocates of a National Minimum Wage point to the potential benefits in terms of comprehensive coverage and much greater transparency to those covered (McMahon 1992). As in other countries, proponents also argue that it would contribute in the longer term to an overall improvement in output and efficiency through forcing management to adopt improved corporate strategies and that it would help counter a low-wage, low productivity spiral. Critics in Ireland as elsewhere point to the possible negative effects on employment (Geary and McCarthy 1990). Recent studies from the USA suggesting that increases in the minimum wage did not impact negatively on employment levels there has been hotly disputed (Card and Krueger 1994, Neumark and Wascher 1995). In the UK much of the debate has focused on the importance of the precise level chosen for a minimum. In each case, a more nuanced theoretical underpinning has emerged to the debate than heretofore, with proponents emphasizing efficiency wage and rent-sharing perspectives and opponents highlighting the way in which a minimum may favour the more productive workers and further marginalise those with low skills and productivity. The recent strategy document "Growing and Sharing our Employment" produced by the Department of Enterprise and Employment took the evidence to suggest that, if a national minimum wage is set at a level not matched by the productivity achieved, it would have a potentially negative effect on jobs, and concluded that there were significant benefits in continuing to rely on JLCs.

Studies by Nolan (1993) and Callan and Nolan (1993) have examined the immediate impact which a National Minimum Wage would have on low pay and poverty in Ireland, without taking behavioural responses (in terms of labour supply and demand) into account. This showed that the gains from a minimum wage would be spread over the income distribution rather than concentrated towards the bottom, and so the impact on household poverty would be quite limited. This reflects the fact that many low-paid workers are not the main income earner in their household, and the fact that in Ireland most households below conventional income poverty lines do not contain an employee, but rely on income from social security or self-employment (especially farming). Since women comprise a majority of those who would benefit from a national minimum wage, however, it could be more effective as a means of promoting greater equality in earnings between men and women - abstracting from the possible impact on employment levels for women.

CHAPTER VII

THE IRISH SYSTEM OF EDUCATION AND TRAINING

The Irish educational system has expanded dramatically in the last 25 years. Educational expansion was one consequence of the strongly interventionist role adopted by the Irish state in pursuit of economic development since the early 1960s. The OECD-sponsored report on *Investment in Education: Ireland*, published in 1966, highlighted the importance of investment in education for economic growth and development, and marked a watershed in Irish educational development. Free second-level education from age 12 was introduced in 1966, and compulsory schooling was extended from age 14 to 15 years. The educational system expanded rapidly over the following decades: between 1965 and 1992 secondary school enrolments increased by a factor of 2.5 while the numbers at third level increased fourfold (OECD, 1995a).

Demographic factors have also exerted a strong influence on the pattern of expansion of the educational system. Increasing birth rates and population growth led to a marked expansion in the numbers in the system since the mid-1960s and the expansion of enrolments tapered off only in the late 1980s. Primary enrolments increased steadily until the mid 1980s, but an abrupt decline in the birth rate after 1980 led to a decline in primary enrolments from 1985. The decline in the numbers at second level is expected to begin towards the end of the decade while the decline in enrolments at third level will not occur until the next century.

I. The Structure of the System

Compulsory Education

(i) First Level

A schematic outline of the education and training system is presented in Figure 1, and enrolment data for the education system for the academic years 1989-90 and 1993-94 are presented in Table 1. Attendance at school in Ireland is compulsory between the ages of 6 and 15. Children may enter the system at the age of four and many do so, although the average age of entry is 5. In the 1993-94 academic year, 54 per cent of those aged 4 on January 1 were enrolled. In that year, participation rates increased to 100 per cent of the eligible cohort from age 5 through age 14, declining to 96 per cent of 15 year olds.

First-level (primary) education covers a period of eight years (4-12). The vast majority of National Schools (primary schools) are State-aided parish denominational schools, established under diocesan patronage. The National School curriculum is child-centred and the main components are: Irish and English languages, mathematics, social and environmental studies, art and craft, music, physical education, and religious instruction. In 1994, there were 514,200 pupils attending 3,200 National Schools, taught by 19,500 teachers. Total enrolment in 1994 was about 8 per cent lower than in 1989-90, reflecting the decline in the relevant population age group.

Figure 1
The Structure of the Education System in Ireland

Typical Ages	Levels and Institutions of Education					
23/24 22/23 21/22 20/21 19/20 18/19 17/18	Third Level <table border="1" data-bbox="375 604 1388 862"> <tr> <td data-bbox="375 604 885 862">Universities</td> <td data-bbox="885 604 1284 862">Technical Colleges & Dublin Inst. of Technology</td> <td data-bbox="1284 604 1388 862">Private Colleges</td> </tr> </table>			Universities	Technical Colleges & Dublin Inst. of Technology	Private Colleges
Universities	Technical Colleges & Dublin Inst. of Technology	Private Colleges				
19/20 18/19 17/18	Initial Vocational Education & Training <table border="1" data-bbox="598 952 1204 1064"> <tr> <td data-bbox="598 952 901 1064">Post Leaving Certificate Courses</td> <td data-bbox="901 952 1204 1064">Apprenticeship Training</td> </tr> </table>			Post Leaving Certificate Courses	Apprenticeship Training	
Post Leaving Certificate Courses	Apprenticeship Training					
17/18 16/17 15/16	Second Level Senior Cycle <table border="1" data-bbox="375 1142 1388 1254"> <tr> <td data-bbox="375 1142 885 1254">Voluntary Secondary Schools</td> <td data-bbox="885 1142 1125 1254">Community & Comprehensive</td> <td data-bbox="1125 1142 1388 1254">Vocational Schools</td> </tr> </table>			Voluntary Secondary Schools	Community & Comprehensive	Vocational Schools
Voluntary Secondary Schools	Community & Comprehensive	Vocational Schools				
15/16 14/15 13/14 12/13	Second Level Junior Cycle <table border="1" data-bbox="375 1332 1388 1478"> <tr> <td data-bbox="375 1332 885 1478">Voluntary Secondary Schools</td> <td data-bbox="885 1332 1125 1478">Community & Comprehensive</td> <td data-bbox="1125 1332 1388 1478">Vocational Schools</td> </tr> </table>			Voluntary Secondary Schools	Community & Comprehensive	Vocational Schools
Voluntary Secondary Schools	Community & Comprehensive	Vocational Schools				
11/12 10/11 9/10 8/9 7/8 6/7	First Level <table border="1" data-bbox="375 1568 1388 1780"> <tr> <td data-bbox="375 1568 1189 1780">National Schools</td> <td data-bbox="1189 1568 1388 1780">Private & Special Schools</td> </tr> </table>			National Schools	Private & Special Schools	
National Schools	Private & Special Schools					
5/6 4/5	Pre-Primary <table border="1" data-bbox="375 1870 1388 1948"> <tr> <td data-bbox="375 1870 1189 1948">National Schools</td> <td data-bbox="1189 1870 1388 1948">Private & Special</td> </tr> </table>			National Schools	Private & Special	
National Schools	Private & Special					
<i>Compulsory Schooling</i>						

The System of Education and Training

(ii) Second Level

The last three years of compulsory schooling usually take place in the junior cycle of one of the second-level schools: Secondary, Vocational, Comprehensive and Community. Education is free of charge in the latter three types of institution, and in about 95 per cent of secondary schools. Approximately 5 per cent of secondary schools charge fees, but also receive substantial state subsidies. In 1993-94, 210,000 pupils were enrolled in junior cycle second-level education, about 6 per cent more than in 1989-94.

Table 7.1
Number of Persons Receiving Full-Time Education by Gender and Type of Institution Attended

	Male		Female		Total	
	1989/90	1993/94	1989/90	1993/94	1989/90	1993/94
First Level	288,278	264,875	272,592	249,337	560,870	514,212
Second Level						
Junior Cycle	101,905	106,791	97,063	103,471	198,968	210,262
Senior Cycle						
(i) General	56,991	65,549	62,665	68,355	119,656	133,904
(ii) Vocational	8,596	10,761	15,144	16,865	23,740	27,626
Third Level						
(i) HEA*	19,140	24,236	18,326	27,107	37,466	51,343
(ii) Technological Colleges	14,811	19,902	10,498	14,771	25,309	34,673
(iii) Other**	1,260	3,526	1,914	3,053	3,174	6,579
Total	490,981	495,640	478,402	482,959	969,183	978,599

Sources: Department of Education, 1991: *Statistical Report 1989/90*. Dublin: Stationery Office.
Department of Education, 1991: *Statistical Report 1993/94*. Dublin: Stationery office.

Notes: * HEA refers to Higher Education Authority Institutions, mainly the University Sector.

** Other Third Level Institutions includes Teacher Training Colleges, Religious Institutions, National College of Industrial Relations, Royal College of Surgeons and Miscellaneous Schools and Colleges.

Secondary Schools enrol approximately two-thirds of second-level pupils. Traditionally, these schools emphasised academic education, but, in recent years, they have been moving increasingly toward a greater balance between academic and vocational subjects.

Secondary schools are privately owned and managed, mostly by religious communities. They must be recognised by the Department of Education and are subject to its regulations. They receive substantial financial assistance from the Department, which pays almost the entire cost of

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teachers' salaries, 90 per cent of approved buildings and equipment costs, capitation grants for each pupil, and payments in lieu of fees to the 95 per cent of secondary schools participating in the free education scheme. In 1993-94, 224,000 pupils were enrolled in 461 secondary schools, taught by 12,800 teachers (full-time equivalent (FTE)).

Vocational Schools are administered by the 38 regional Vocational Education Committees. Vocational schools were established to provide technical and commercial education and training. Since the 1960s, their curricula has been expanded to add similar courses to those offered in Secondary schools.

Most of the financing (93 per cent) of vocational education is provided by the Department of Education, with the balance contributed from the VECs' resources. In 1994, 95,000 students were taught by over 6,100 teachers (FTE) in 248 vocational schools.

Comprehensive Schools were first established in 1966 to provide second-level education in a broad curriculum combining vocational and academic subjects. Comprehensive schools were experimental in function. Only 16 were established, 15 between 1966 and 1972, and there are, apparently, no plans for further institutions of this type.

Community Schools are similar in most respects to comprehensive schools, differing mainly in the structure of their management boards. They are intended to cater for a wide range of aptitude and abilities and to offer a comprehensive programme of both academic and vocational courses. In 1994, Community and Comprehensive Schools enrolled almost 49,000 students in 73 schools, with over 3,100 teachers (FTE).

Up to 1991, pupils in junior-cycle second-level education followed either a two year course, leading to the Group Certificate (otherwise known as the Day Vocational Certificate) or a three-year course leading to the Intermediate Certificate. The Group Certificate was taken by all Vocational and some Secondary School pupils and the curriculum offered a broad range of practical training. The Intermediate Certificate was taken by pupils in nearly all secondary schools, and there was greater emphasis in the curriculum on academic studies.

In 1992, the new Junior Certificate examination was administered for the first time to the national cohort of students who entered the junior cycle in 1989. The new certificate replaces both the Intermediate and Group Certificates and is intended to provide a comprehensive range of courses in academic, vocational and technical subjects. The Junior Certificate marks an intermediate stage for those progressing to study for the Leaving Certificate, but it also serves as the terminal certificate for compulsory education.

Post Compulsory Second-Level Education

(i) Senior Cycle

At the end of compulsory schooling, students may take an optional one-year Transition Year between junior and senior cycles. The transition year is an interdisciplinary programme designed to cater both for those terminating their education after the transition year and for those

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progressing to senior cycle. Those continuing in Senior cycle take a further one-to two years in either general or vocational programmes. In 1993-94, 161,500 pupils were enrolled in the senior-cycle of secondary education, representing a 13 per cent increase over enrolment in 1989-93. A total of 64,800 pupils sat for the Leaving Certificate examination in 1994.

Following the publication of *Charting our Education Future: White Paper on Education* in 1995, the Leaving Certificate programme is being restructured into three components: the established Leaving Certificate Programme, the Leaving Certificate Applied Programme, and the Leaving Certificate Vocational Programme. The majority of senior cycle students will continue to follow the mainstream Leaving Certificate Programme, which retains an emphasis on general academic education, and continues to prepare students for entry to the labour market or to third level education.

Both the Leaving Certificate Vocational and Applied programmes form part of the Vocational Preparation and Training Programme (VPT-1). In the new Leaving Certificate Vocational Programme students follow a full Leaving Certificate programme including two mainstream Leaving Certificate courses in vocational/technical or business disciplines, a language, as well as work experience and enterprise modules. The Leaving Certificate Applied Programme provides greater emphasis on technical and vocational subjects with an emphasis active learning approaches to prepare students for the transition to adult and working life. Both of these new Leaving Certificate programmes are intended to strengthen the vocational and technical dimensions of senior cycle secondary education and encourage increased retention to completion of senior cycle, and between them are estimated to account for over 15,000 students in the 1996/97 academic year.

The second component of the Vocational Preparation and Training Programme (VPT-2) consists of Post-Leaving Certificate courses (PLCs) generally taken after completion of the senior cycle of secondary education. Their objective is to equip young people with the vocational and technical skills necessary for employment and progression to further education and training. PLCs consist of courses of one and two years duration which focus on technical skills, personal development and work experience. provide skills to meet the needs of the economy. In 1994/95 there were about 14,000 students enrolled on PLC courses. The Vocational Preparation and Training Programme is thus designed to bring about a substantial increase in the vocational and technical component of second level as well as further education.

(ii) Apprenticeship Training

Apprenticeship training, regulated by FAS, the national training and employment agency, provides training for apprentices in skilled craft trades mainly in engineering, construction, motor, electrical, printing and furniture, and is the traditional path to skilled employment in these sectors. Apprentices are recruited by employers and are employed for the entire duration of the apprenticeship, usually four years.

The apprenticeship system is currently undergoing reform and the new model is designed to provide a broad based training during the initial stages with opportunities to develop specialist skills in the later stages, and is based on the achievement of standards rather than on time served. Its

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modular approach is intended to allow for flexibility and cross-skilling where required and to provide for ongoing up-dating of skills. The new model consists of seven phases, interspersing off-the-job training modules in the theory and practice of the trade at a FAS or VEC college of technology, with periods of workplace experience combining work with on-the job training.

In 1994, about 2,000 apprentices were recruited. This represents the continuation of a declining trend in recruitment - the number of recruits was 4,000 in 1990 and 3,500 in 1991. (ESF Programme Evaluation Unit, 1995). The decline in recruitment appears to be due both to demand constraints - including industrial restructuring, reduction of recruitment by public sector organisations, and to some extent, increased subcontracting and outsourcing, as well as an increased supply of workers with technical training at second level, reflecting the expanded provision of Post-Leaving Certificate Courses (VPT-2) discussed above, as well as short cycle training in specific skills, discussed in the chapter dealing with active labour market policies.

(iii) Third Level

Most third level education is provided by the public authorities and regulated by the Department of Education. A small, but growing, proportion of education at this level is provided by private colleges, and in 1993-94 there were about 3,200 students enrolled in private third level colleges. Public sector provision of third level education is divided between three institutional sectors: (1) Higher Education Authority Institutions which include the seven universities (three of which, in Dublin, Cork and Galway, are constituent colleges of the National University of Ireland), the National College of Art and Design, Thomond College of Education, and the Royal College of Surgeons; (2) Vocational and Technological Colleges, comprising the Dublin Institute of Technology and 11 Regional Technical Colleges; and (3) Teacher Training Colleges, which include 5 primary teacher training colleges and 2 colleges for training of domestic science teachers.

The third level sector has expanded very rapidly in recent years: the total number of full-time students at third level increased from 66,000 in 1989-90 to over 92,500 in 1993-94 representing an increase of 40 per cent over the 4 years. In 1993-94 HEA institutions enrolled 51,300 students, Technological Colleges were attended by almost 35,000. In addition, there are about 22,000 students engaged in part-time studies at third level.

The distribution of students by field of study in HEA institutions in 1992-93 is presented in Table 7.2. Of the 55,331 students in HEA institutions in 1992-93, 87 per cent were full-time, 13 per cent part-time, 81 per cent were undergraduate and 19 per cent post-graduate students. 51 per cent of all students were female. Arts accounted for about one-third of undergraduates, followed in importance by natural science, commerce and engineering. Science accounted for the largest share (22 per cent) of full-time post-graduate students, followed closely by arts. The distribution of post-graduate part-time students differs somewhat. Education, commerce and engineering each accounted for nearly one-fifth of part-time post graduate students. The large number of students studying education at postgraduate level is due to the presence of those studying for the Higher Diploma in Education, which is required for full-time permanent teachers in secondary education. Most of those studying for the Higher Diploma in Education would have received primary degrees in Arts and Science.

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Table 7.2
Distribution of Students in HEA Institutions by Field of Study, 1992-93

Field	Undergraduate		Postgraduate	
	Full-Time	Part-Time	Full-Time	Part-Time
	%	%	%	%
Arts	31.3	33.8	21.2	12.0
Education	2.6	0.8	12.4	19.0
Art & Design	1.4	0.0	0.2	0.0
Economic & Social Studies	2.6	3.0	1.7	4.3
European Studies	2.1	2.6	1.4	0.2
Social Sciences	1.4	0.2	2.0	1.4
Communication & Information Studies	2.1	0.0	1.4	1.8
Commerce	13.2	33.9	14.9	18.7
Law	2.5	3.4	3.7	4.9
Science	14.1	1.0	22.5	9.2
Engineering	11.6	19.6	11.7	17.2
Architecture	0.5	0.1	0.6	0.0
Medicine	9.0	1.3	2.3	10.5
Dentistry	1.1	0.0	0.2	0.5
Veterinary Medicine	0.8	0.1	0.3	0.1
Agricultural Science & Forestry	1.7	0.1	2.0	0.2
Food Science & Technology	0.9	0.0	1.6	0.0
Combined Studies	1.1	0.0	0.0	0.0
Total	100	100	100	100
<i>Number</i>	<i>40,559</i>	<i>4,068</i>	<i>7,784</i>	<i>2,920</i>

Source: Information supplied by the Higher Education Authority.

Table 7.3 presents the distribution of full-time students in Regional Technical Colleges and Technological and Other Colleges by field of study in 1989. The largest percentage of students (30 per cent) was enrolled in Business Studies, with a further 26 per cent enrolled in Engineering studies. The aggregate distribution conceals significant sex differences in field of study. Males were heavily concentrated in engineering subjects (42 per cent), but less than 5 per cent of women were enrolled in any engineering course. Almost 42 per cent of females were enrolled in Business Studies, compared to 23 per cent of males. Business studies includes secretarial courses, an area traditionally dominated by women, and if it were possible to disaggregate Business Studies, it is highly probable that we would find significant gender differences reflecting the traditional labour market destinations of men and women.

Table 7.3
Field of Study of Full-Time Students in Regional Technical Colleges
and Dublin Institute of Technology by Sex, 1992-93

	Male	Female	Total	Female Share
	%	%	%	%
Engineering:	42.1	4.6	26.0	7.5
of which				
Civil & Construction	12.5	1.5	7.8	8.2
Mechanical	8.9	0.6	5.4	4.9
Electrical & Electronic	13.2	1.5	8.2	7.9
Other Engineering	7.4	1.0	4.7	8.9
Architecture	2.7	1.4	2.2	28.8
Science	18.0	25.1	21.0	51.2
Business Studies	22.9	41.5	30.9	57.6
Art	4.0	8.9	6.1	62.7
Other	10.3	18.4	13.8	57.2
Total	100	100	100	42.9
<i>Number</i>	<i>18,623</i>	<i>14,152</i>	<i>32,775</i>	<i>-</i>

Source: Department of Education, 1994. *Statistical Report*. Dublin: Stationery Office.

2. Rates of Participation

The expansion of the educational system over the past three decades has led to a marked increase in the level of education of school leavers and a more gradual increase in that of the population as a whole. Most of the increase in student numbers has taken place at post-primary levels, since primary enrolments were already virtually complete by the 1960s. Between 1965 and 1992 secondary school enrolments increased by a factor of 2.5 while the numbers at third level increased fourfold (OECD, 1995a).

Table 7.4 shows participation rates in full-time education by age in 1983-84, 1989-90 and 1993-94. Participation in pre-school is low by international standards - less than 60 per cent of 4 year olds participated in full-time education at any time over the period. Participation is virtually complete for the 5-14 year age group, increasing from 99.1 per cent in 1983-84 to over 100 per cent in 1993-94. The principal changes in participation rates have occurred at the post-compulsory stage, mainly including senior cycle secondary and third levels. Among 17 year olds, the participation rate increased from 61 per cent in 1983-84 to 83 per cent a decade later, while the

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rates for 18 year olds increased from 36 per cent to 64 per cent and that for those in the 20-24 year age group increased from under 9 per cent to over 30 per cent.

Female participation rates in post compulsory education in 1994 are significantly higher than those of males in the 15-19 year age group, but this gender differential disappears for the 20-24 year age group. These differential appear to be due to gender differences in the types and levels of post-compulsory courses chosen by young men and women. The ratio of women to men in senior cycle *general* education is 1.04, while the ratio for *vocational* education is 1.78. These ratio are reversed at third level, where the ratio of women to men is 0.94. Young women dominate in short-cycle Post-Leaving Certificate vocational courses, while young men show a somewhat greater tendency than women to enter third level.

Table 7.4
Participation Rates by Age, 1983-84 to 1993-1994

<i>Age on 1st January</i>	1983-84	1989-90	1993-94	1993-94	1993-94
	<i>Total</i>			<i>Male</i>	<i>Female</i>
	%				
3 and under	0.3	1.1	0.3	0.2	0.3
4	58.8	53.2	54.1	51.9	56.5
5-14	99.1	99.9	100.3	100.2	100.4
15	90.9	97.1	95.8	94.6	97.1
16	78.0	90.3	93.6	90.3	97.1
17	60.9	74.2	83.3	78.3	88.6
18	36.2	48.3	63.7	58.4	69.3
19	21.9	28.5	46.0	43.3	49.0
20-24	8.7	12.9	30.2	30.3	29.9

Sources: Department of Education, various years, *Statistical Report*.
Dublin: Stationery Office.

While there have been marked increases in post-compulsory participation rates in recent decades, Ireland nevertheless continues to lag behind other advanced industrial countries. In 1991, for example, about 50 per cent of 18 year olds were in full-time education in Ireland, compared with an OECD average of 54 per cent. The Irish eighteen-year-old participation rate in 1991 was well behind such European neighbours as Germany (80 per cent), Switzerland, France, Norway, Belgium, Finland, and the Netherlands, all of which had rates in excess of 70 per cent. Among European countries, Ireland only ranked ahead of Portugal (42 per cent), and the United Kingdom (26 per cent). Government policy is to continue the trend towards increased participation in post compulsory schooling, and has set a target of 90 per cent of the cohort to complete senior cycle

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secondary education by the end of the decade. In 1993, 45 per cent of the population at age seventeen entered higher education, and this is expected to increase to about 50 per cent of the age cohort by the end of the century.

Historically in Ireland there has been a strong relationship between social class origins and educational participation and attainment, with the children of more privileged social classes - including property owners and professional and managerial classes substantially more likely to complete both second and third level education (Breen, Hannan, Rottman and Whelan, 1990). One of the effects of a rapid expansion in educational participation such as that experienced in Ireland over the past three decades, particularly when that expansion is linked to the pursuit of economic development, is that the link between social class origins and education should weaken. Such an effect would be expected both because the expansion in the number of student places could result in a reduction in the competition for places, and because nations seeking economic development would be expected to make the optimum use of the talents of their population, and, therefore, to ensure that educational resources are allocated on the basis of merit rather than any other basis, such as social class.

Table 7.5
Proportion of Age Cohort Entering Full-time Higher Education
by Father's Socio-economic Group in 1980,1986 and 1992

Socio-Economic Groups	1980	1986	1992
Farmers	.24	.36	.49
Other Agricultural Occupations	.04	.12	.22
Higher Professional	.67	.75	.89
Lower Professional	.38	.54	.53
Employers and Managers	.48	.43	.67
Salaried Employees	.59	.58	.53
Intermediate Non-Manual Workers	.22	.30	.33
Other Non-Manual Workers	.09	.11	.26
Skilled Manual Workers	.09	.13	.26
Semi-Skilled Manual Workers	.09	.11	.16
Unskilled Manual Workers	.03	.04	.13
TOTAL %	.20	.25	.36

Source: Clancy, 1995, *Access to College: Patterns of Continuity and Change*. Dublin: HEA.

Clancy's (1995) survey data on new entrants to third level education allows us to examine the relationship between social class origins and access to higher education. Table 7.5 shows trends in the proportion of age cohorts entering full-time higher education by father's socio-economic group in 1980,1986 and 1992. The data reveals marked class inequalities in access to third level

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education. For example, in 1992, almost 90 per cent of the age cohort from professional backgrounds entered third level, as did 67 per cent of those whose fathers were in the employers and managers group. In contrast 16 per cent of the age cohort from Semi-skilled manual backgrounds, and only 13 per cent of those from unskilled manual backgrounds entered third level in 1992. Total participation for the age cohort increased from 20 per cent in 1980 to 36 per cent in 1992. As overall participation increased over time, so also did participation in each of the socio-economic groups, with the exception of salaried employees, which declined somewhat. Clancy compares the participation rates of the two groups with the highest participation rates (higher professionals and employers and managers) with the lowest rates (semi-skilled and unskilled manual) and finds that there was a twenty-two percent reduction in inequality over the period considered.

Breen and Whelan (1996), in their analysis of social mobility and class in Ireland, are rather less optimistic than Clancy. Their analysis refers to the entire educational spectrum, and covers a longer time period than that considered by Clancy. They distinguish between three birth cohorts; the first of which includes those born between 1922-1936 and entered the labour market between 1936 and 1947, and the last of which includes those born between 1950-1962, who would have entered the labour market between 1965 and the mid 1980s. Comparing the experiences of the three birth cohorts, they find that, when account is taken of the increase in educational enrolments over time, there has been very little change in the strong relationship between class origins and educational attainment, with the result that "Class origins are largely translated into educational qualifications which then determine the distribution of relative chances of access to more desirable classes." (p. 126)

Educational Expenditure

The expansion of the educational system has been matched by rising expenditures: total expenditure on education increased from 3.2 per cent of Gross National Product in 1965 to 6.4 per cent in 1993. Table 7.6 shows total and *per capita* expenditure on education in 1993. Total expenditure amounted to almost £1.8 billion in 1993, of which about 34 per cent was allocated to primary education, 39 per cent to second level, and 22 per cent to third level. The table reveals marked discrepancies in *per capita* expenditures between the levels of education. Expenditure per student at primary level, at £1,200 was about 65 per cent of the corresponding expenditure at second level and about one-third of that at third level.

A recent OECD report (1995a) argues that the share of GNP devoted to education in Ireland is about average for OECD countries, but that Ireland has twice the number of pupils relative to the number of people employed as in the rest of the OECD countries with the result that Irish expenditure *pre capita* much lower than the OECD average. Despite this, the ratio of teachers salaries compared to average income is relatively high in Ireland. Total expenditure on education has been limited by relatively high pupil-teacher ratios in Irish schools and by the low proportion of expenditure allocated to costs other than teacher salaries - administrative and other support staff and teaching materials etc.

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Table 7.6
Total and *Per Capita* Expenditure on Education, 1993

	Total Expenditure	Total Enrolment	<i>Per Capita</i> Expenditure
	<i>IR£,000</i>	<i>Number</i>	<i>IR£</i>
First Level	617,700	505,883	1,221
Second Level	696,000	368,198	1,890
Third Level	392,700	108,992	3,603
Administration	87,900		
Total	1,794,300	983,073	1,825

Source: Department of Education, 1995, *Statistical Report, 1993/94*.
Dublin: Government of Ireland.

Note: Enrolment data refer to students in institutions aided by the Department of Education. Enrolment data for Third Level includes 86,624 full-time and 22,368 part-time students.

Comparative expenditure data produced by the OECD (1995b) show that expenditure per student at primary level in Ireland in 1992 represented only 52 per cent of the average for OECD countries, while expenditures at second and third level were on a par with the OECD average. Thus, in Ireland, *per capita* expenditure in primary education, in which the mass of the population participates, was only one-third the expenditure at third level at third level, attended by a socially selective minority of the population age group.

The European Commission plays a significant role in supporting education in Ireland. Contributions from the European Social Fund amounted to IR£199 million in 1993, representing over 11 per cent of total public expenditure on mainstream education in that year. Under the Operational Programme for Human Resources Development, 1994-1999, most European Union support for initial education is directed at post-compulsory vocational education and training, and ESF funding is particularly important in supporting the Vocational Preparation and Training Programme at the senior cycle of secondary education, apprenticeship training in industry, sub-degree courses in the Regional Technical Colleges and Colleges of Technology, and vocationally oriented post-graduate courses in institutions of higher education. Structural funding is also provided for preventive strategies in early education to reduce early school leaving, and measures to improve the quality of education and training, including the training of trainers, reform of the certification system, promotion of equal opportunities between men and women, and investment in the education and training system infrastructure.

3. Continuing Training of Employed Workers

In Ireland, as in most countries, the bulk of state support for human resource development takes the form of funding for initial education and training - prior to entry to the labour force - and to the training and retraining of unemployed workers. We discuss training of unemployed workers under the heading of active labour market policies in a separate chapter. Training of employed workers a key element of human resources development, but is generally regarded as the principal responsibility for the private sector since the returns to training of workers accrue largely to private actors - employers and employees. State intervention to promote enterprise-related training is, therefore, generally limited to measures to correct for market failures which could result in level of training which fall short of socially desirable levels. The principal State measures to support enterprise-related training of employees in Ireland are: Apprenticeship Training, described above, the Training Support Scheme, and development agency Training Grants.

(i) The Training Support Scheme

The Training Support Scheme (TSS) was established by FAS in 1990 to encourage and promote training in small and medium sized firms. The broad objective of the TSS is to improve the skills of existing employees at all levels from operative to management. The scheme is open to firms engaged in manufacturing industry, internationally traded services and physical distribution. Construction firms which trade internationally are also eligible. The scheme is administered regionally, through the Services to Industry Section within each of the ten FAS regions.

Assistance takes the form of grant aid to eligible companies to purchase their training in the market. Companies which participate in the TSS must initially demonstrate that the training need has been clearly identified and is linked to a business development plan or strategy. In 1995 32,400 employees in 2,500 companies received training under the scheme. Average duration of training amounted to just under 8 days per trainee.

(ii) Training Grants

Training Grants implemented by the two development agencies Forbairt and SFADCo (Shannon Free Airport Development Company) are directed at skill needs arising from the location of new overseas investment in Ireland. Grants of up to 100 per cent of eligible cost are provided to carry out approved training of new employees. Courses are developed in conjunction with FAS. The measure complements the IDA Inward Investment Programme and training is designed specifically to meet employer needs. Training Grants delivered by Udaras na Gaeltachta¹ provides training for persons recruited to newly created jobs and those already employed in existing industries who require retraining because of changes in technology or management techniques. Development agency training grants provide support for the training of about 4,500 employees per year in both incoming and existing enterprises.

¹ Udaras na Gaeltachta is the development agency for the Gaeltacht - Irish speaking - regions.

Participation in continuing training

There are no official data on the incidence of training in Ireland, so we must rely on survey-based data to assess the rate of participation in continuing training. The latest such data are from Fox's (1995) survey of the training activities of 654 companies, from a sample of 1,000, conducted in 1993. The survey only included companies employing 10 or more persons, with the result that the survey is likely to overestimate the true incidence of training, given the low propensity to train among small firms. Fox's survey found that 77 per cent of companies engaged in some form of training in 1993. About 43 per cent of employees attended training courses while on-the-job-training was provided for 37 per cent of employees. Fox found that there were marked differences in the incidence of training by both firm size and occupation.

Figure 7.2
Firms Carrying out Training by Size

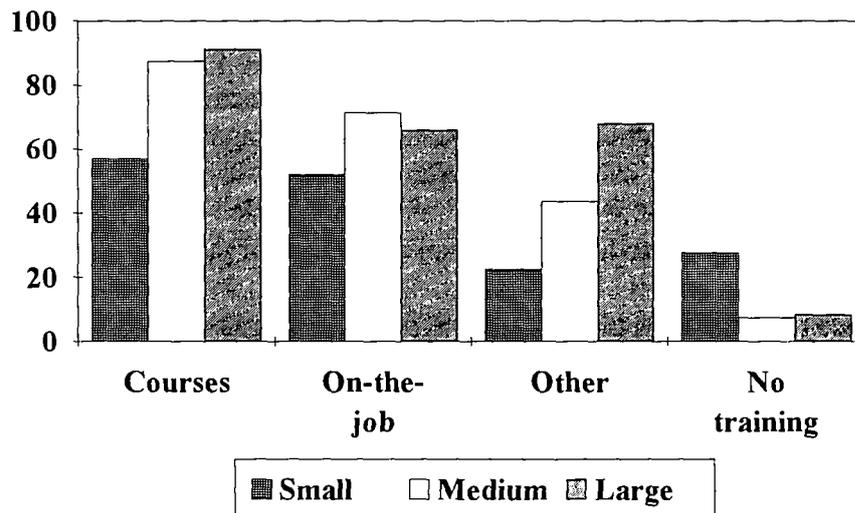
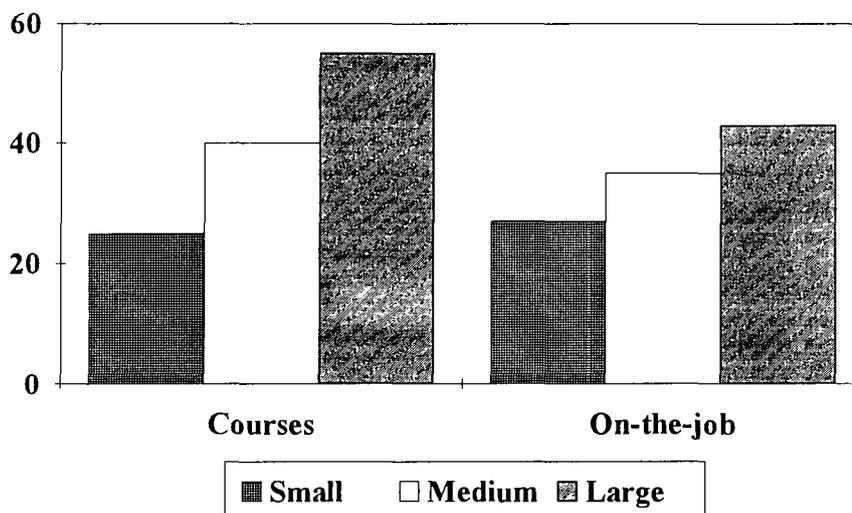


Figure 7.2 shows the percentage of firms carrying out training by firm size. About 57 per cent of small firms and 91 per cent of large firms provided formal training courses for employees in 1993, while 51 per cent of small firms and 66 per cent of large firms conducted on-the-job-training.² About 28 per cent of small firms conducted no training whatsoever in 1993, compared to only 8 per cent of large firms. Figure 7.3 shows the percentage of employees receiving training, by firm size. Overall, 43 per cent of employees received training in 1993, this was true of only 25 per cent of those in small firms, 40 per cent of employees in medium sized firms, and 55 per cent of those in large firms. Similarly, while 37 per cent of employees received on-the-job training, this was true of 27 per cent of employees in small firms, 35 per cent of those in medium firms, and 43 per cent of employees in large firms.

² Small firms were defined as those with 10-50 employees, medium firms had 40-249 employees, and large firms employed more than 250.

Figure 7.3
Employees Receiving Training by Size of Firm



The survey found that training costs amounted to 1.5 per cent of the total labour costs of companies, of which the largest component (42 per cent) was the labour costs of those undergoing training.

International comparisons of the incidence of training are fraught with difficulty. Nevertheless, the weight of evidence suggests that the level of training activity in Ireland falls behind that in other advanced industrial countries with whom Irish companies compete. There is, moreover, no evidence of any significant increase in the incidence of enterprise-related training in Ireland, in recent years despite the greater emphasis on the importance of investment in human resources and the increased investment in human resource development financed by European Union Structural Funds (O'Connell and Lyons, 1995).

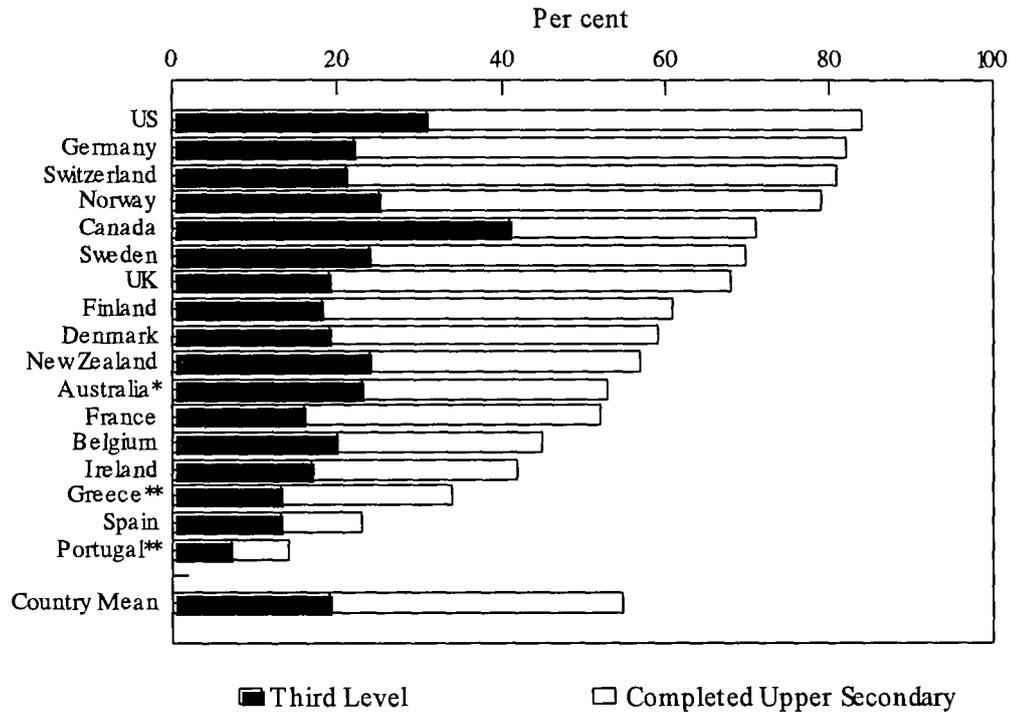
4. Supply and Demand of Skills

Figure 7.4 shows comparative data on educational attainment for the adult populations (aged 25-64 years) of 20 OECD countries, derived from various Household and Labour Force Surveys in 1991 (OECD, 1993). It should be stressed that international comparisons of the distribution of educational qualifications must be interpreted with some caution, given variation between countries both in the quality of education at different levels as well as in the point at which second level education is deemed to have been completed.

Ireland has a very high proportion of its adult population with qualifications below upper secondary level: only 42 per cent of the adult population have attained a Leaving Certificate standard. This compares unfavourably with the average of 55 per cent for all countries, and only 4 countries, mostly in the southern periphery of Europe - Spain, Italy, Turkey and Portugal - had lower proportions having completed upper secondary education. The 17 per cent of the adult

population with third level qualifications puts Ireland well behind the leading industrial countries, although it is not greatly different from other European countries.

Figure 7.4
Educational Attainment of Population Aged 25-64, 1991



Source: OECD, 1995, *Education at a Glance*. Paris: OECD

The figure shows the stock of education among the adult population and reflects the results of education over a 40-50 year period, one which saw a rapid expansion of participation at second and third levels in most countries. Ireland shared in the general growth of educational participation, but the rate of expansion in Ireland has not been sufficient to close the qualifications gap, due to continued expansion in other countries. Thus, if we compare educational attainment among more recent entrants to the labour force, those aged 25-34, only 50 per cent of Irish men, and 60 per cent of Irish women, have completed upper secondary education, compared with an average of 67 per cent of men and 73 per cent of women in the other OECD countries included in Figure 1.1 (OECD, 1993). This is not however the case with third level qualifications: the proportion of those aged 25-34 with third level qualifications in Ireland (20 per cent) is about equal to the international average.

International comparisons of the educational attainments of the population suggest that Ireland suffers from a qualifications gap relative to leading industrial societies. That qualifications gap relates not so much to the stock of highly qualified persons - the proportion of those with third level qualifications in Ireland is comparable with that in other European countries and the qualifications gap at this level has narrowed appreciably in recent years with the influx of new entrants from the expanding educational system. Indeed, the output of relatively highly qualified young people from the expanded educational system is often cited as one of Ireland's principal

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comparative advantages in attracting international corporations to locate high value-added operations in this country. Of greater concern, however, is the deficiency of qualifications at intermediate levels affecting the generality of the population. The relatively large proportion of the population in Ireland which has not completed upper secondary education reflects both delayed industrialisation and the lateness of the expansion of the educational system, and it poses particularly difficult challenges to labour market policies. First, the generally low level of educational attainment represents a poor basis for the upgrading of the skills of the workforce as a whole since workers with low levels of educational attainment are both less likely either to participate in, or to benefit from, further education and training.

Second, there are a very large number of long-term unemployed individuals in Ireland, many of whom were displaced by economic restructuring over the past decade, and the majority of whom have very low educational qualifications, rendering them ill-equipped either to compete in the labour market or even to benefit from retraining (NESC, 1993a; O'Connell and Sexton, 1994).

The rates of completion of upper secondary education and participation in third level education have increased rapidly in recent years and current educational policy is to continue this trend. These more recent trends should boost the qualifications profile of new entrants to the labour force and gradually improve the qualifications of the entire work force, although high emigration among third level graduates reduces the impact of the expansion at third level (Hughes and O'Connell, 1995).³ Nevertheless, notwithstanding the trend towards higher attainments of new labour force entrants, approximately 20 per cent of secondary school leavers continue to leave with either no qualifications whatsoever or with poor or inadequate qualifications, resulting in a continued inflow to the labour force of workers who are poorly prepared for either work or further training (NESC, 1993a; Honohan and O'Connell, 1994).

Second Level School Leavers

We can examine the relationship between supply and demand for qualifications by looking at the destinations of those leaving full-time education. Table 7.7 shows the economic status of second level school leavers about one year after they left school for those who left in the academic years 1989-90 to 1993-94. Throughout the period, just over half of all second level leavers entered the Irish labour market. In 1994, the 37,000 new entrants represented about 2.5 per cent of the labour force in that year. The proportion continuing in full time education increased substantially from 36 per cent of the 1989-90 cohort to 42 per cent of the 1993/94 cohort, reflecting the general increase in educational participation at third level.

The proportion employed in Ireland fell slightly from just under 37 per cent in 1991 to about 35 per cent in each of the following three years, before increasing to over 40 per cent in 1995, reflecting the recent general improvement in labour market conditions. Unemployment among school leavers

³ Graduate emigration from Ireland tends to rise during recessionary periods, particularly if domestic conditions are depressed relative to those overseas, but sizeable numbers of such emigrants subsequently return after accumulating experience in the international labour market. Such return migration is particularly strong during periods of expansion in the Irish economy (NESC, 1991).

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increased from 17 per cent of the cohort in 1991 to over 21 per cent in 1992 and 1993, but subsequently fell to just over 14 per cent in 1995. It should however be recognised that if we express unemployment as a proportion of those participating in the labour force - i.e. as an unemployment *rate* as conventionally understood - then the unemployment rate among school leavers stood at 38 per cent of labour force entrants in 1993 but fell to 26 per cent in 1995. Table 7.7 thus shows that while there has been a marked increase in progression to further education among leavers from second level education over the course of the 1990s, the employment prospects of those who entered the labour market have closely mirrored the general labour market situation, with a deterioration in job prospects for young entrants in the early part of the decade, followed by a substantial improvement in more recent years.

Table 7.7
Economic Status of Leavers from Second Level Schools, 1991-1995

Year Left School	1989/90	1990/91	1991/92	1992/93	1993/94
Year of Survey	1991	1992	1993	1994	1995
<i>Status</i>			%		
Employed	36.7	34.9	35.2	34.5	40.4
Unemployed - after loss of job (on schemes)	5.3 (0.6)	5.8 (0.7)	5.6 (0.4)	3.8 (0.2)	4.5 (0.7)
Unemployed - seeking 1st job (on schemes)	12.0 (2.8)	15.7 (4.6)	15.7 (3.2)	16.2 (4.0)	9.9 (2.5)
Student	36.0	33.7	37.4	37.8	41.9
Unavailable for work	1.9	1.7	1.6	3.1	1.9
Emigrateed	8.1	8.4	4.5	4.6	1.4
Total N	67,000	66,900	64,800	67,500	67,500

Sources: Department of Labour, 1993: *Economic Status of School-Leavers 1991*.
Dublin: Department of Enterprise and Employment.
McCoy, S. and Whelan, B.J. *The Economic Status of School Leavers 1993 - 1995*.
Dublin: ESRI.

The aggregate figures, however, conceal important variations by educational attainment both in the impact of education on labour market success. Table 7.8 shows the economic status of school leavers by their level of education when leaving. We must note first, that most of those who leave school with poor qualifications do so to enter the labour market. Almost 85 per cent of those who left with either no qualifications or with the Junior Certificate in 1993-94 were either at work or unemployed one year later in 1995. In contrast, almost half of those who left with the Leaving Certificate were in full time education the next year. Of those who left school without any qualifications in 1989-90 over 42 per cent were unemployed one year later in 1991, and 53 per cent of the 1993-94 school-leaving cohort were unemployed in 1995. Thirty per cent of those who left without qualifications in 1989-90 were still seeking a first job one year later, and this proportion increased to 45 per cent of the 1993-94 cohort.

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Those with the Junior Certificate fared rather better than those with no qualifications: in both years a substantially greater proportion were at work and substantially less were unemployed. Nevertheless, while labour market conditions improved significantly over the years 1994 and 1995, the proportion of those with Junior Certificate or less employed declined between 1991 and 1994 while the proportion unemployed increased.

The pattern of activity of those who left school with a Leaving Certificate was markedly different from those with no qualifications or the Junior Certificate. As noted above, 46 per cent or more of each cohort went on to further education. The percentage of the Leaving Certificate cohort at work increased from 33 per cent to 38 per cent, reversing the trend observed for the two less-educated categories. Unemployment also increased for this group, from 8.5 per cent of the 1989-90 cohort to 10 per cent of the 1993-94 cohort. Comparing unemployment *rates* - expressed as a proportion of labour market participants - across educational categories, we find that the rate of unemployment of those entering the labour market with a Leaving Certificate was 21 per cent, compared to a rate of over 60 per cent of those with no qualifications and 36 per cent of those with a Junior Certificate.

The disaggregation of the destinations of school leavers by attainments for 1989-90 and 1993-94 suggests not only that educational attainment is strongly related to labour market success, but also that it was mainly those who completed senior cycle secondary education who were able to take advantage of the improvement in labour conditions in 1994 and 1995. It should be noted that the numbers leaving school with no qualifications have declined steadily, from 6,800 in 1980/81 to 4,600 in 1989/90 and 2,200 in 1993/94, as a result of efforts by the Department of Education to increase participation in senior cycle secondary education. Labour market training programmes targeted on early school leavers have also increased over the 1990s, (as discussed in Chapter VIII) and this is reflected in the marked rise in the proportion of those with no qualifications who participated in active labour market programmes, up from 12 per cent of 1989-90 leavers to a quarter of the 1993-94 cohort. Nevertheless, there remains substantial under-provision of vocational education and training to early school leavers to equip them to compete in today's labour market (ESF Programme Evaluation Unit, 1996)⁴, and as can be seen from Table 7.8, their employment prospects in the absence of intervention on the part of the state are particularly poor. Breen shows that the disadvantages associated with early school leaving increase over time, since "poor qualifications lead a poor labour market record leading to long periods of unemployment and

⁴ The ESF Programme Evaluation Unit report suggests that almost 30 per cent of those leaving school each year do so with "inadequate qualifications". This estimate however includes some who have completed senior cycle secondary education. If we restrict the definition of early school leavers to those who left prior to the Junior Certificate, or who left having fared poorly in that exam, the proportion of early school leavers falls to less than one-third of that estimate - which is still, of course unacceptably high..

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Table 7.8
Economic Status of 1989/90 and 1993/94 Leavers by Level of Education at which they left School

Year Left School	No Qualifications		Junior Certificate		Leaving Certificate		Total	
	1989/90	1993/94	1989/90	1993/94	1989/90	1993/94	1989/90	1993/94
Year of Interview	1991	1995	1991	1995	1991	1995	1991	1995
				%				
Employed	45.0	33.8	60.9	53.7	33.4	38.3	39.4	40.4
Unemployed - after loss of job (on Schemes)	12.4 (1.8)	7.9 (3.1)	6.7 (1.3)	8.7 (1.3)	2.7 (0.6)	3.7 (0.5)	4.2 (0.9)	4.5 (0.7)
Unemployed - seeking 1st job (on Schemes)	30.0 (10.8)	45.1 (20.3)	16.9 (3.8)	21.4 (6.8)	5.8 (1.0)	6.5 (1.1)	9.5 (2.2)	9.9 (2.5)
Student	1.5	1.4	3.6	11.4	46.4	49.0	35.2	41.9
Unavailable for Work	6.4	11.6	1.9	3.5	1.4	1.2	1.8	1.9
Emigrated	4.6	0.2	9.9	1.4	10.4	1.4	9.9	1.4
TOTAL N	4,600	2,200	12,800	10,000	49,900	55,400	67,300	67,500

Sources: Department of Labour, 1991: *Economic Status of School-Leavers 1990*. Dublin: Department of Labour.
 McCoy, S. and Whelan, B.J. *The Economic Status of School Leavers 1993 - 1995*. Dublin: ESRI.

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Third-Level Leavers

Tables 7.9 and 7.10 present information on the first destinations of recipients of third level awards in 1990 and 1994. The data refer to their status in April of the year following graduation. Table 7.9 shows the destination of certificate and diploma recipients from the Regional Technical Colleges and Dublin Institute of Technology. By 1994, the majority of certificate recipients were progressing to further education - either at diploma or degree level. The proportion in employment declined from 41 per cent in 1991 to 35.5 per cent in 1995, and most of the decline was accounted for by the fall in the proportion at work overseas, down from 7 per cent to 2.5 per cent, reflecting adverse conditions in external labour markets. The proportion of certificate recipients who were unemployed also declined, from 7 per cent to 4.6 per cent.

Table 7.9
Patterns of First Destinations for all Sub-Degree Respondents, 1990 & 1994

First Destinations	Certificates*		Diplomas**	
	%	%	%	%
1990	1994	1990	1994	
At Work (Ireland)	33.9	33.0	50.6	39.5
At Work (Overseas)	7.0	2.5	11.5	5.5
Further Studies	47.7	55.6	22.7	44.4
Work Experience Schemes	2.9	3.4	3.0	3.5
Not Available for Work	1.3	0.9	1.4	1.2
Unemployed	7.2	4.6	10.5	6.1
Total N	3701	3942	1880	2522

Source: Higher Education Authority, 1991: *First Destination of Award Recipients in Higher Education (1990)*. Dublin: HEA. Higher Education Authority, 1995: *First Destinations of Award Recipients in Higher Education (1994)*. Dublin: HEA.

Notes: * Certificates include One Year Certificates, National Certificates, Advanced Certificates and Dublin Institute of Technology Certificates. ** Diplomas include National Diplomas and Dublin Institute of Technology Diplomas.

We find similar trends in the first destinations of Diploma recipients. The proportion progressing to further study almost doubled from 23 per cent in 1990 to 44 per cent in 1994. The proportion at work fell from 62 per cent in 1990 to 45 per cent in 1994, and this was due to a decline in both domestic overseas employment. The proportion of diploma recipients at work in Ireland declined from 51 per cent in 1990 to less than 40 per cent in 1994, while the percentage at work abroad fell from 11.5 per cent to 5.5 per cent. Unemployment among diploma recipients was higher than among certificate recipients in both years, although unemployment declined over time, from 10.5 per cent of the total in 1990 to 6 per cent in 1994. However, if we express unemployment as a percentage of those entering the domestic labour market, the unemployment

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rates of both certificate and diploma recipients were very similar and followed the same trend: the unemployment rate in respect of both certificate and diploma recipients was about 17 per cent of the 1990 and fell to about 12 per cent in 1994.

Table 7.10
Patterns of First Destinations for all Primary and Higher Degree Recipients, 1990 & 1994

	Primary Degree %		Higher Degree %	
	1990	1994	1990	1994
At Work (Ireland)	36.9	36.5	61.8	55.0
At Work (Overseas)	16.0	14.7	19.5	22.2
Study/Training	38.9	41.0	10.6	14.4
Work Experience/ Train. Schemes	1.4	1.8	1.4	1.1
Not Available	1.7	2.1	1.5	2.5
Unemployed	5.1	4.0	5.2	4.8
TOTAL N	6,955	8,896	1,315	1,757

Source: Higher Education Authority, 1991: First Destination of Award Recipients in Higher Education (1990). Dublin: HEA. Higher Education Authority, 1995: First Destinations of Award Recipients in Higher Education (1994). Dublin: HEA.

Table 7.10 shows the first destinations of primary and higher degree recipients in 1990 and 1994. The proportion of primary degree recipients at work in Ireland declined very slightly from 36.9 per cent in 1990 to 36.5 per cent in 1994, while that at work overseas declined from 16 per cent to 14.7 per cent. The proportion continuing to further study increased somewhat from 39 per cent in 1990 to 41 per cent in 1991. The proportion of primary degree recipients unemployed was about 4 per cent to 5 per cent in both years, while the proportion of those who entered the labour market who were unemployed fell from 12 per cent in 1990 to 9 per cent in 1994. Among higher degree graduates, the proportion employed in Ireland fell from 62 per cent in 1990 to 55 per cent in 1994, and, in contrast to the pattern for other third level graduates, the proportion at work overseas increased from 19.5 per cent in 1990 to 22.2 per cent in 1994. The proportion engaged in further study also increased from 10.6 per cent to 14.4 per cent, and the proportion unemployed was about 5 per cent in both years, and if we express those unemployed as a proportion of the labour force, the unemployment rate remained constant at about 6 per cent in both years.

The System of Education and Training

Table 7.11
Total Number of Recipients of Third Level Awards
and Entry to the Labour Force in Ireland, 1990-93

<i>Year of Graduation:</i>	1990		1993		1994	
	Number	% of Labour Force	Number	% of Labour Force	Number	% of Labour Force
Awards	18,200	1.4	22,700	1.7	24,900	1.8
At Work - Ireland	7,900	0.6	8,800	0.6	10,100	0.7
In Labour Force - Ireland	9,000	0.7	10,600	0.8	11,200	0.8
Emigrated	2,400	--	2,500	--	2,800	--
Total Labour Force	1,310,000	--	1,376,000	--	1,400,000	--

There is room for some concern at the decline in employment of all third level graduates over the 1990-94 period. Total employment in Ireland increased by almost 100,000 between 1990 and 1994, and it increased by 49,000 between April 1994 and April 1995. Table 7.11 presents summary data on the integration into the Irish labour force of those graduating in the years 1990, 1993, and 1994 - and interviewed in 1991, 1994 and 1995, respectively. The total number of award recipients was about 18,000 in 1990 and increased to 23,000 in 1993 and 25,000 in 1994. The number receiving awards represented about 1.4 per cent of the labour force in 1990 and 1.8 per cent in 1994. In 1990 9,000 award recipients entered the Irish labour market (just under half the total), and almost 8,000 obtained jobs in Ireland, representing about 0.6 per cent of the entire labour force. In 1994, 11,200 graduates entered the Irish labour market (about 40 per cent of the total) and just over 10,000 found employment, representing 0.7 per cent of the total labour force. Between April 1994 and 1995, the months when the 1993 and 1994 graduates were interviewed, respectively, total employment increased by 49,000, but employment of third level graduates increased by only 1,300 - from 8,800 to 10,100.

Part of the reason for this rather sluggish absorption of new graduates into employment in the domestic labour market may be due to the preferences of employers recruiting highly qualified workers for workers who have also already accumulated work experience. Such recruitment strategies are feasible in the short term, given the relatively large pool of graduate emigrants working abroad and willing to return to work in Ireland. Hughes and O'Connell (1995) show very high rates of both outward and return migration among higher level graduates. These supply conditions and recruitment strategies appear to give rise to a "rotational" pattern whereby many young graduates initially work abroad for a number of years, accumulate experience in the international labour market and then return. Such a rotational pattern is likely to have positive

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effects on the national stock of skills and competencies. To the extent that the recent expansion in employment continues, however, particularly among professional, technical and managerial occupations (Canny, Hughes and Sexton, 1995), the external pool of highly qualified workers can be expected to gradually diminish, leading to a higher rate of recruitment of young, recently qualified, graduates.

Supply and Demand for Skills among Employed Workers

Given the extent of unemployment in Ireland, it is hardly surprising that survey data reveal little evidence of shortages of skilled labour in Ireland (Sheehan, 1992). Such evidence must be treated with caution, however, since it merely indicates that there is no shortage of people to fill particular jobs. It does not ensure, however, that people have the right skills, or use them.

Qualitative studies comparing firms in Ireland and Britain suggest, however, that there are skills gap at all levels between Irish firms and best-practice firms in competitor countries and that competitive performance is adversely affected by poor quality human capital (O'Farrell and Hitchens 1989; NESF, 1993). Under-investment in training is most acute in small firms, reflecting not only resource constraints, but also the fact that the majority of small firms are in traditional industry or service sectors, drawing heavily on unskilled and semi-skilled labour (Roche and Tansey, 1992).

Most reports on training policies agree on the strategic importance of management training for enhanced growth and competitiveness (Industrial Policy Review Group, 1992; NESF, 1993), but most also agree that the level of commitment to management development in Ireland is unacceptably low. Roche and Tansey (1992) argue that Irish managers are not aware of the inadequacies of the skills of their own workers, do not identify such inadequacies as a constraint on growth, and are unwilling to recognise the importance of investment in training. The Report of the Advisory Committee on Management Training (the Galvin Report, 1988) noted that deficiencies in management training were particularly serious in small, in Irish owned, and in new companies.

O'Connell and Lyons (1995), in their review of qualifications, skills and training suggests that Ireland suffers from deficiencies in both qualifications and skills when compared with leading industrial countries. A relatively large proportion of the adult population has low educational qualifications, representing a poor basis for further education and training. The problem is principally at the level of intermediate skills, since the proportion of those at work with third level qualifications, particularly among the younger age groups, is on a par with other European countries. As we noted above, a substantial part of the qualifications gap is age-related, due to the relatively recent expansion in educational participation, with the result that the distribution of educational attainment among older workers falls behind that of other European countries, while that among young workers is comparatively favourable. There is, nevertheless, evidence of a skills gap at operative, supervisory and management levels, particularly in smaller indigenous firms, which adversely effect productivity, competitiveness and growth prospects. The incidence of training of employees is lower than the European average and is, therefore, unlikely to be sufficient to bridge the qualifications and skills gaps.

5. Expansion of Provision of Vocational and Technical Education

The Culliton Report on Industrial Policy argued that the Irish educational system suffered from an overly academic bias, and that the second level curriculum, in particular, is dominated by the Leaving Certificate examination, which functions as a selection mechanism for third level education. The Culliton Report called for the introduction of a separate vocational stream at secondary level. This has been rejected by the Department of Education in favour of a more specific and comprehensive vocational component in senior cycle second level education. In fact, the extent of vocationally oriented education in Ireland is understated, and the proportion of students following scientific, technical and applied languages within the general curriculum has been rising steadily in recent years. (OECD, 1995). The VPT programme described above has had a major impact in promoting this shift in emphasis toward vocational education at second level. The VPT programme was initiated in 1984, and has grown from 17,000 students in the 1984-85 academic year to 22,000 in 1989-90 and over 32,000 in 1993-94. Participation in VPT is forecast to continue to increase to the end of the decade, and the intention is that the proportion of second level students taking vocational-technical courses should increase from about 15 per cent of the total in the late 1980s to about 30 per cent by the end of the 1990s. Data on placement in employment from the annual *School Leavers Survey* suggests that students participating in the VPT programme, particularly in VPT-2, after completing senior cycle secondary level, fare better on the labour market than those who have not participated, suggesting that the programme is better linked to market needs.

With regard to apprenticeship training, we noted above that while the apprenticeship system is undergoing reform in the shift from a time-served to a standards-based system, recruitment of apprentices has fallen markedly in recent years.

We discuss the training of unemployed workers in the next chapter. In this regard it is necessary to distinguish between the short- and long-term unemployed. The single largest training programme run by FAS, the Specific Skills Training Programme (SST) provides training in specific marketable skills to unemployed workers. Most SST is delivered to those who are short-term unemployed, and SST programmes achieve comparatively high placement rates (over 60 per cent in recent years). Given the low level of training currently undertaken by Irish employers, skills training of unemployed workers can have the direct effect of gradually up-grading or up-dating the skills of the labour force - yielding long-term increases in productivity, and therefore, competitiveness and employment performance.

6. Assessment of the Strengths and Weaknesses of the System

The majority of students are well-served by the Irish educational system. The mainstream system is well established with high academic standards. Participation rates are virtually complete at compulsory schooling age, and while participation rates of older age groups fall behind those of other European countries, they have been rising rapidly in recent years. The relatively rapid growth of vocational technical education in recent years has increased the supply of those entering the labour market with vocational and technical skills and meets students needs. The quality of third

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level education is recognised internationally, as evidenced by the ease of migration of Irish graduates to both work and study abroad.

Nevertheless, the system continues to produce an unacceptable number of poorly qualified early school leavers, ill-equipped to compete in the labour market. Early school leaving is closely related to social class, with children from lower socio-economic backgrounds at much greater risk of leaving second level with inadequate qualifications than the children of higher socio-economic groups. Early school leaving is thus related to a further problem in the educational system - the poor access to third level education of those from the lower social class backgrounds. Students from lower socio-economic groups are significantly less likely to complete second-level education, those who sit the leaving Certificate tend to achieve lower grades, and those from manual working class and routine non-manual class backgrounds are seriously under-represented at third level while those from professional and managerial backgrounds are over-represented. Among students with modest levels of achievement in the Leaving Certificate, those from higher socio-economic groups have higher transfer rates to higher education, although there is little class variation in the transfer rate of those with high achievement levels (HEA, 1995). These disparities in access to third level education reveal underlying inequalities of opportunity which reproduce social class inequalities and deprive the economy of human potential.

It must, however, be acknowledged that inequalities in both completion of secondary schooling and access to third level education are not simply due to the functioning of the educational system, but relate to deeper and more complex processes of class reproduction (Breen and Whelan 1996). The complex nature of the process of reproduction of disadvantage has been recognised in initiatives of the Department of Education to combat disadvantage and under-achievement in schools and prevent early school leaving. Such initiatives include the Home/School/Community Liaison scheme, designed to counter disadvantage by involving parents and the wider community in the educational process in disadvantaged schools, and more, recently, in provision of pre-school education in disadvantaged areas and provision of additional financial and teaching resources to break the cycle of disadvantage targeted at schools suffering particularly acute levels of educational disadvantage. Such highly targeted redirection of educational resources specifically designed to redress underlying social disadvantages have the capacity to reduce inequalities of opportunity as well as to raise the average level of human capital.

With regard to training of employed workers, we have noted that there are both qualifications and skills discrepancies between Ireland and competitor countries which undermine competitiveness and that current levels of continuing training are unlikely to be sufficient to rectify these deficiencies. In this regard, there is a particular need to upgrade the skills of managerial and supervisory workers. We also noted that the apprenticeship system is currently undergoing a process of reform, but there is some concern with the slow pace of change. Reforms to the system were first mooted over 20 years ago, and currently, while the majority of apprentices are now in the new standards based system, a number of crucial issues - duration, assessment, in-firm training capacity, particularly of SMEs, and training of trainers - have yet to be resolved.

CHAPTER VIII

LABOUR MARKET POLICIES FOR THE UNEMPLOYED

Introduction

This chapter is concerned with labour market policies that affect the unemployed. It has become conventional to distinguish between passive measures, which provide protection for unemployed workers, and active measures, which are designed to improve the skills and competencies of the unemployed and support the search process in the labour market. In practice, the distinction between passive and active labour market policies is not clear-cut, since passive measures, while having the primary objective of providing financial support to the unemployed, may, nevertheless, function to either facilitate or hinder the return to work. Equally, while training and temporary employment programmes may have the primary objective of enhancing their participants' job prospects, they also provide financial support to their participants. Over the past two decades in Ireland, as in other European countries, labour market policies have undergone a shift in emphasis from passive to active measures to promote the reintegration of the unemployed into employment. This has meant that passive measures have been reformed in order to reduce the effects of unemployment traps and other barriers which derive from the structure of the taxation and welfare system and which can create disincentives for the unemployed to return to work, while active measures to provide training and subsidise employment have been expanded. Our discussion of passive measures below focuses mainly on issues of income adequacy as well the effects of the taxation and social welfare systems on work incentives. In our discussion of active measures, we focus mainly on the impact of active measures in assisting unemployed individuals to return to work.

Institutional Structure

The main government departments with responsibility for labour market policy are the Department of Enterprise and Employment, the Department of Social Welfare, and the Department of Education. The Department of Enterprise and Employment has primary responsibility for labour market policy, including industrial relations, occupational safety, and the provision of vocational training, employment and work experience programmes, and placement and guidance services. The Department of Social Welfare is responsible for the management of the social welfare system, including unemployment benefits and assistance, old age pensions, family support and support for the sick and disabled. The Employment Support Service was established in the Department of Social Welfare in July 1993. Its role is to co-ordinate and develop initiatives in the areas of providing support to the long-term unemployed and other long-term clients of the social welfare system. While the principal responsibility of the Department of Education is the administration of the initial education system, it also implements second-chance education for the long-term unemployed, and vocational education and training for young people, particularly early school leavers and other young people suffering disadvantages in the labour market.

FAS, the national training and employment authority is the largest of the state sponsored bodies with responsibility for the implementation of labour market policies. Its functions include the operation of training and employment programmes, the provision of an employment and recruitment service, an advisory service for industry, and support for co-operative and community based enterprise. FAS has a network of over 50 Employment Services Offices and 20 Training Centres throughout the country. CERT, the state tourism training agency, is the national body for co-ordinating the education, training and recruitment of personnel for the tourism and catering industry. CERT is responsible for the identification of personnel and training needs in the tourism sector, development of training structures and programmes, and recruitment and training of personnel - including initial craft training, industry-based training, and basic skills training for the unemployed. The National Rehabilitation Board administers training, employment and guidance services for people with disabilities. Teagasc, the Agriculture and Food Development Authority, provides research, education and training services to agriculture and the food industry.

A. PASSIVE LABOUR MARKET MEASURES

1. Unemployment Benefit and Unemployment Assistance

The twin pillars of income protection for the unemployed are provided by the social insurance and means-tested social assistance schemes, Unemployment Benefit and Unemployment Assistance. Over the past decade the number in receipt of Unemployment Benefit has fallen while from about 90,000 to 66,000, whereas the number in receipt of Unemployment Assistance has risen from 120,000 to 200,000.

The Financing of Unemployment Benefit

Unemployment Benefit payments, and other social insurance programmes, are financed through the Social Insurance Fund. Pay-Related Social Insurance (PRSI) contributions by employers, employees and the self-employed are paid into this fund and the State also makes an Exchequer subvention. Currently contributions from employers, employees and the self-employed account for about 97.5 per cent of total expenditure. Expenditure on Unemployment Benefit accounted for 6.5 per cent of all expenditure on social welfare in 1994.

Unemployment Assistance payments, like other social assistance rather than insurance programmes, are financed entirely by the Exchequer out of general taxation. Expenditure on Unemployment Assistance accounted for 22 per cent of all expenditure on social welfare in 1994.

Entitlements

To qualify for Unemployment Benefit one must, in terms of the regulations, be unemployed, capable of, available for and actively seeking work, and satisfy the PRSI contribution

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conditions. These contribution conditions are that one must have paid PRSI for 39 weeks to establish initial entitlement, and must have either paid or had credited 39 weeks contributions in the relevant tax year, which is in most cases the last complete income tax year (April-March) before the calendar year in which one is claiming. (Credited contributions are given for periods sick or unemployed to those who have previously worked and paid contributions). If benefit entitlement has been exhausted (see the discussion below regarding the duration of benefit), it is re-established by working and paying contributions for 13 weeks. The weekly payment made under Unemployment Benefit is a flat-rate amount for the individual, plus additional flat-rate amounts for an adult dependant and for each dependent child. An earnings-related supplement was payable with Unemployment Benefit for many years, but this was discontinued for new claims from mid-1994.

Those who do not qualify for Unemployment Benefit or who have used up their entitlement to benefit may receive Unemployment Assistance. To qualify for Unemployment Assistance, one must be aged between 18 and 66, unemployed, capable of, available for and genuinely looking for work, and satisfy a means test. The means test applies to any income which the individual or spouse/partner has, and takes into account assets other than the family home. The weekly payment made is a personal rate for the individual plus extra amounts for dependants, with maximum rates payable to those with no means and reduced amounts payable to those who have some means but less than the qualification thresholds. If an individual has been getting an unemployment payment for 15 months, he/she qualifies for the higher long-term rate of Unemployment Assistance.¹

Unemployment Benefit is payable for up to 15 months to those aged 18 or over and under 65, and for up to 6 months to those aged under 18 years.²

Unemployment Assistance is payable for as long as the individual is unemployed and satisfies the qualifying conditions. (On reaching age 55 years one may apply to transfer to a Pre-Retirement Allowance, which is payable to someone who has been in receipt of long-term Unemployment Assistance and wishes to retire from the labour market.

Recent Developments in the System

The recent emphasis of policy on unemployment compensation and its financing has been to target assistance towards the longer-term unemployed while at the same time trying to promote their reintegration into employment - goals which do not always sit easily alongside one another. In the past, it was seen as appropriate to maintain a differential in payment rates between Unemployment Benefit and Unemployment Assistance in favour of the former, contributions-based programme. In the last decade, however, rates of Unemployment Assistance have been raised

¹ The operation of UA and other social assistance schemes and their effectiveness in providing a minimum income guarantee for the unemployed have been described in detail in Nolan (1995), in the context of the 1992 Recommendation agreed by the Council of the European Communities on minimum income protection.

² It is payable up to age 66 years (when entitlement to Old Age Pension commences) for those aged 65 years or over).

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relative to Unemployment Benefit, in recognition of the greater needs of those unemployed long-term, and at present recipients of flat-rate Unemployment Benefit and the full long-term rate of Unemployment Assistance receive the same amount. In addition, the earnings-related supplement to Unemployment Benefit has been abolished. Unemployment Benefit payments had been exempt from income tax but are now being brought within the tax net. In order to increase the reward from returning to work, the long-term unemployed can now retain the child dependant element of their Unemployment Assistance for a period of 13 weeks after taking up employment. Under the Back to Work Allowance scheme, a long-term unemployed person can also retain a proportion of their Assistance for a time on taking up employment in certain sectors. The structure of social insurance contributions has been altered to assist those on low pay and reduce replacement ratios as described below.

2. Replacement Ratios

The relationship between incomes when in and out of work, and possible disincentive effects, have provoked considerable concern at policy level, culminating in 1993 in the appointment of a high-level Expert Working Group on the Integration of the Tax and Social Welfare Systems which has recently issued its report (1996). This report presents a range of calculations of hypothetical replacement rates for different situations, and draws on empirical analyses of micro-data looking at the extent to which high replacement ratios are observed in practice (Callan, O'Donoghue and O'Neill, 1994). Macroeconomic studies of the evolution of Irish unemployment which have included aggregate measures of replacement rates among the potential explanatory factors include Hughes and Walsh (1983) and Browne and McGettigan (1993), and a review is given in Barry (1991).

A comparative perspective on the level of replacement rates in Ireland is provided by replacement ratios calculated for hypothetical "typical" cases in the 1994 EU Report on Social Protection in Europe, the OECD jobs study and a recent study by the Netherlands Central Planning Bureau³ The calculations in the Report on Social Protection (for 1992) apply to a 40-year old single industrial worker on the average production wage during an initial period of unemployment, and show a replacement ratio for Ireland of 41 per cent. Among the member states only Greece, Spain and the United Kingdom had lower figures, while many of the others had figures of 70 per cent or higher. The Central Planning Bureau presents figures (for 1993) on a range of different situations but those closest to being comparable with the EU calculations show a very similar figure for Ireland (though there are major differences for some of the other member States). However, this study also presents replacement rates for one-earner couples without and with dependent children, and here the Irish figures are considerably higher. For a person at the average production wage with two children the replacement rate is 74 per cent, which is in the higher range of rates for different countries. The OECD Jobs Study shows an average replacement rate for Ireland of 37 per cent in 1991, but the Planning Bureau study presents an alternative average which is very much higher, at 67 per cent, because the OECD study does not take into account income taxation and social security contributions, or housing benefits and family allowances. None of these studies

³ Generally, a replacement rate is the ratio of out of work income to net earnings.

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include non-cash benefits or take into account the fact that the wages facing the unemployed may generally be well below the average industrial wage.

The Department of Finance regularly produces calculated replacement rates for hypothetical cases for Ireland, which include the impact of both unemployment compensation and non-cash benefits such as subsidised housing and free primary health care. The Department of Enterprise and Employment's recent (1996) strategy document *Growing and Sharing our Employment* presents estimates on this basis for the replacement rates facing a single-earner couple with 2 children, assuming full take-up of Family Income Supplement, at different earnings levels. This shows the replacement rate at about 77 per cent on gross earnings between £8,000 and £10,000 per annum, rising to 82 per cent on earnings of £11,000 (where £9,000 per annum is about two-thirds of average industrial earnings).⁴ The Report of the Integration Expert Working Group (1996) also presents calculated replacement rates for 1995/96 on a similar basis for different earnings levels: for a single-earner couple with 2 children in receipt of Family Income Supplement the replacement rate reaches 85 per cent on earnings of £10,000 per annum, and is still over 70 per cent at £14,000 per annum.⁵ Over time, the Report documents that net average earnings in manufacturing (for a single earner couple with 2 children) have risen by 18 per cent in real terms between 1977 and 1994, whereas the real value of Unemployment Assistance has risen by 48 per cent.⁶ The growth in Unemployment Benefit has however been rather less rapid.

Callan, O'Donoghue and O'Neill's (1994) analysis of the situation of the unemployed in a large household sample for 1987 provides the most detailed picture available of the level and distribution of cash replacement ratios in Ireland. This covered unemployed men and single women but not married women, and showed that about one in ten faced cash replacement ratios of 80 per cent or over, and one in three had ratios of between 60 per cent and 79 per cent. Of the unemployed who were married with children, about one-quarter had replacement ratios of 80 per cent or above, due to the additional support for dependants. This study also looked at replacement ratios facing men or single women who were employed when surveyed: about 4 per cent of employees had cash replacement ratios of 80 per cent or over and 17 per cent faced rates of 60-79 per cent.

Measures introduced in recent years with the aim of improving incentives of those facing high replacement ratios include enhancement of cash transfers to those in low paid employment (and with dependants) through the Family Income Supplement scheme, the elimination of Pay-Related Benefit with Unemployment Benefit, and a number of changes in income tax and social security contributions aimed at the low paid described in the next section. The impact these have had on cash replacement ratios has been analysed in Callan, Nolan and O'Donoghue (1996), using an up-rating of the tax-benefit model employed by Callan, O'Donoghue and O'Neill (1994) to 1994, and now including married women. This suggested that the numbers of unemployed facing very high replacement ratios - of 80 per cent or more - had fallen since 1987, but that the numbers with

⁴ Table 3.3, p. 61.

⁵ Appendix 3, p. 156.

⁶ Appendix 4, Table 1, p. 162.

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ratios of 70-80 per cent increased. This study also demonstrates that the level of wages predicted to be facing the unemployed on the basis of their education and experience (using estimated earnings functions) is considerably below average earnings, probably closer to two-thirds of average earnings. In addition to cash replacement ratios, the role of non-cash benefits available to the unemployed - notably entitlement to free primary health care - has received a good deal of attention from policy-makers, and pilot schemes have been introduced whereby someone moving from unemployment into employment may retain these "secondary benefits" for a time.

3. The Tax and Benefit Systems

The Income Tax System in Relation to Unemployment Benefits

Until recently, short-term social welfare transfers including Unemployment Benefit were not liable to income taxation. This was perceived to give rise to anomalies and incentive problems since net income from periods of employment and unemployment combined could be higher than from continuous employment even if gross income from the latter was a good deal higher. In 1992 legislation was enacted to enable these benefits to be made taxable, and in the 1994 Budget it was announced that Unemployment Benefit would come within the income tax net. This met with a good deal of resistance, and in 1995 the Child Dependant Additions payable with Unemployment Benefit (and Disability Benefit) were exempted from tax. A temporary exemption from tax of the first £10 per week in Unemployment Benefit, to be phased out over three years, and special relief for Unemployment Benefit payments to workers on systematic short-time were also announced at that time.

The Tax Wedge and the Burden of Income Tax and Social Security Contributions on Low-Paid Workers: Problems and Solutions

The tax wedge, the gap between what it costs the employer to hire an employee and what that employee receives in take-home pay, has been the subject of considerable concern in Irish policy debates for a number of years. A study carried out in 1992 by Arthur Andersen and Co. for the Industrial Policy Review Group compared the average and marginal tax wedge (made up of income tax, employer's and employee's social security contributions) at the average industrial wage for single persons and married couples in Ireland with a number of other countries. For a married couple the average tax wedge for Ireland, at about 32 per cent, was not particularly out of line with other EU countries. For a single person, the average tax wedge was higher than for a married couple (because the latter are treated more favourably by the income tax system) but again was not significantly out of line with other EU countries. However, the marginal tax wedge for a single person in Ireland was the second highest of the countries examined, at 61 per cent.

Alternative comparative estimates of the tax wedge have been produced in the OECD Jobs Study and by the Dutch Central Planning Bureau. The OECD results show an average tax wedge in the Irish case of 35 per cent, around the middle of the range for the countries included. No marginal wedge calculation is presented for Ireland. The Central Planning Bureau study presents both average and marginal tax wedges: the average for Ireland is 32 per cent, slightly lower than in the OECD Jobs Study, while the marginal wedge is 42 per cent, which is towards the bottom of the

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range of countries included. These figures are based on a range of family types and income levels rather than simply average earnings for single/married cases, and take family allowances.

Calculations of the tax wedge at the average industrial wage over time for Ireland show a rapid increase in the early/mid-1980s, a slowly declining trend in the early 1990s but a reversal in 1993 (NESC, 1993). The average tax wedge for a single person on these estimates reached 50 per cent by the mid-1980s but by 1993 had fallen to about 43 per cent, with the corresponding figures for a married couple being 49 per cent and 34 per cent (NESC 1986, 1993). Estimates presented in the Department of Enterprise and Employment Strategy Paper on the Labour Market (1996) show the tax wedge for a single person at average industrial earnings as 33 per cent of the employers' labour cost in 1980/81, rising to 40.5 per cent by 1989/90 but falling back to 37 per cent by 1995/96. The corresponding figures for a single earner with two children were 22 per cent in 1980/81, 33 per cent in 1989/90, and 31 per cent in 1995/96.

In addition, a series of measures has been introduced in recent years specifically to reduce the tax wedge for low-paid workers and reduce the burden of tax and social security contributions for such workers, which will not be captured by hypothetical calculations at the average industrial wage. Recent policy measures include the introduction of a lower rate of PRSI contributions to apply to the first tranche of income, the introduction in 1995 of an allowance applying to contributions whereby the first £50 of weekly wages (raised to £80 in 1996) is disregarded, contribution "holidays" for employers, the raising of general income tax exemption limits, and the introduction of additions to these exemption limits for those with dependent children. Calculations by the Department of Enterprise and Employment suggest that, as a result, the tax wedge has fallen more rapidly since 1989 at two-thirds average manufacturing earnings: for a single person at that lower earnings level the tax wedge has fallen from 34 per cent in 1989 to 27 per cent in 1995, and for a single earner with two children from 24 per cent in 1989 to 16 per cent in 1995.⁷ Callan, O'Donoghue and O'Neill's (1994) study based on micro-data suggest that such measures may have reduced the most severe unemployment and poverty traps, but at the cost of increasing the income range over which quite high marginal tax rates apply.

The Expert Working Group on the Integration of Tax and Benefit Systems, which reported recently (1996), considered the options for policy in this area. A radical switch to a full basic income scheme was not recommended because of the high level of tax rates required to finance it. Even a partial basic income scheme with additional top-up payments was deemed to merit at most further consideration in the future. The Group emphasised the importance for replacement rates and the poverty trap of the way child income support is structured, but could not agree on a particular approach to improving the present structure. Considerable attention was paid to the way in which income tax exemption limits in excess of personal allowances, and the associated system of marginal relief, now contribute to poverty and unemployment traps. The Group recommended that policy move towards limiting and eventually abolishing exemption limits, by increasing personal allowances more rapidly over time. The Group was divided on whether employee social insurance contributions should be retained or abolished, but recommended that the two additional levies

⁷ Department of Enterprise and Employment 1996, Appendix 3.4 and 3.5, pp. 104-5.

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administered with these contributions - the Health Contribution and the Employment/Training Levy - should be phased out as resources permit.

Assessment of the Labour Market Effects of the Tax Wedge.

Concern about the tax wedge arises because a high or increasing wedge increases the cost of employment to the employer while maintaining or reducing the take-home pay of the employee, tending to reduce the demand for labour at any given wage rate. If employees seek to resist a fall in take-home pay by compensatory increases in nominal wages, this will also tend to reduce the demand for labour. The econometric evidence suggests that, in the Irish case, wage setting behaviour is indeed influenced by the tax wedge. It has been estimated that in the traded sector each 1 per cent increase in the tax wedge is associated with a 0.24 per cent wage increase in the short term and 0.5 per cent in the long run (Bradley, Whelan and Wright 1993). Such wage increases tend to be transmitted to the other sectors of the economy. Murphy (1987) has estimated that a 1 per cent increase in the tax wedge reduces employment by 0.2-0.25 per cent. Barry (1991) and Walsh (1987) concluded that although the increase in taxation was not responsible for the bulk of the decline in employment and rapid increase in unemployment in the first half of the 1980s, it did make a significant contribution. McGettigan and Browne (1993) estimated that the growth in the combined tax and real exchange rate wedge in the first half of the 1980s accounted for over 40 per cent of the increase in unemployment over that period. Of course, given the state of the public finances at the time any alternative approach to reducing the budget deficit would also have had an adverse impact on employment.

B. ACTIVE LABOUR MARKET MEASURES

1. Active Labour Market Policy in Ireland

During the 1960s labour market policy in Ireland was mainly confined to the organisation of apprenticeship training and facilitating the efficient matching of supply and demand for labour. In the late 1960s two agencies were established; the National Manpower Agency, to facilitate placement, and AnCO, to provide and regulate training, but both were primarily oriented toward meeting the needs of employers and workers in employment. Active labour market policies as such, that is, designed specifically to meet the needs of the unemployed, were not developed until the onset of recession and the initial growth of unemployment in the 1970s. At that point employment subsidies and training schemes targeted on the unemployed were introduced (NESC, 1986). These were followed in the 1980s by temporary employment schemes, by which time, active labour market policies had taken centre stage in the state response to mass unemployment. These policies were based on the premise that structural difficulties on the labour market are primarily on the supply side of the market leading to a renewed emphasis on earlier policies to mobilise the supply of labour. This gradual shift in emphasis in Irish policy was consistent with the recommendations of the OECD (1990) and the European Commission (1995) to shift labour market expenditures from

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passive measures which provide protection for unemployed workers, to active measures which mobilise labour supply, improve the skills and competencies of the labour force, and strengthen the search process in the labour market.

2. The System of Labour Market Activation: Instruments

Table 8.1 presents a summary of active labour market programmes in Ireland, including the numbers of participants in 1994. A total of almost 93,000 individuals participated in such programmes in 1994, equivalent to 6.6 per cent of the labour force, or to almost 43 per cent of the total number unemployed, in that year.⁸

Programmes are divided into four programme types: two types of training programme - general and skills training, and two temporary employment schemes - subsidies to employment in the private sector and direct employment or job creation schemes.

General Training

General Training includes a range of measures to provide basic or foundation level training in general skills. Most of the programmes are designed for those with poor educational qualifications experiencing labour market difficulties. This category includes programmes designed for women returning to work after a prolonged absence (usually in home duties), and older long-term unemployed males; measures targeted at young school leavers; community training, oriented towards the development of community resources; and training for people with disabilities. The second chance education subgroup refers to programmes to provide second chance education to long-term unemployed adults run by the Department of Education. Most other General Training programmes are run by FAS, the national training and employment authority, or by FAS in conjunction with the Department of Education. Training for people with disabilities is administered by the National Rehabilitation Board. In 1994 there were almost 18,500 participants in general training programmes, representing almost 20 per cent of all active labour market participants in that year. This included almost 5,000 in training for people with disabilities, and over 2,000 in second chance education.

Specific Skills Training

Specific Skills training courses provide training in specific, employable skills. The courses are market oriented and usually in skills areas linked to local labour market needs. The category includes two courses run by FAS, Specific Skills Training, with nearly 14,000 participants and the Job Training Scheme, with over 2,500. The other courses in the category are run by CERT, the state tourism training agency. All these courses are characterised by high rates of placement in

⁸ These proportions are simply indicative of the scale of provision: a substantial proportion of participants in active labour market programmes are drawn from among those not actively participating in the labour force - including young labour market entrants, particularly early school leavers, and women returning to the labour force after a voluntary interruption in labour force participation.

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employment post-programme placement rates. They are open to all unemployed, although, in practice, many courses require minimum educational standards. In 1994 nearly 18,000 individuals participated, representing just over 20 per cent of all active labour market programme participants.

Table 8.1
Active Labour Market Programmes in Ireland.

Programme	Type	Target Group	Numbers in 1994
General Training	Range of training programmes - basic skills - community development	All unemployed (Incl. early school leavers, people with a disability)	16,328 ¹
	Second chance education	Mainly LTU Age: ≥ 21	2,118
Specific Skills Training	Marketable skills	All unemployed (subject to entry standards)	17,961
Enterprise/ Employment Support³	(a) Subsidies to Employers	All unemployed	14,071 ²
	(b) Subsidies to Employees	Mainly LTU	2,137
	(c) Subsidies to Self-Employed	All unemployed	4,812
Employment Schemes	Direct subsidised employment	Mainly LTU	35,498
Total			92,925

Sources: Office of the Tanaiste, 1995: *Report of the Task Force on Long-Term Unemployment*. Dublin, Stationery Office. CERT, 1995: *Annual Report 1994*. Information supplied by the Department of Social Welfare, the Department of Education and FAS.

Notes: (1) Data on courses run by FAS and the Department of Education refers to throughput, i.e. the number of participants who completed courses in 1994.

(2) Data on programmes run by the Department of Social Welfare and CERT refers to starts, the number who commenced training that year.

(3) The numbers receiving wage subsidies in 1994 is significantly larger than in 1993 and 1995. This is the result of a shift in the administration of wage subsidies in Ireland from FAS to the Department of Social Welfare. In 1993 most of the Department of Social Welfare Schemes were not yet in operation, and by 1995 many of the FAS schemes had been phased out.

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Employment Subsidies

Employment/Enterprise support measures provide subsidies to the recruitment or self-employment of unemployed workers in the private sector. In Table 8.1 they are divided into three categories: subsidies to employers, subsidies to employees and subsidies to self-employment. Subsidies to employers comprise direct payments to employers, and a social insurance contribution exemption scheme. The Social Insurance Exemption Scheme is operated by the Department of Social Welfare, and amounts to, on average, IR£15 weekly⁹, per employee, payable for two years. In 1994 approximately 4,350 individuals participated in the scheme. Direct payments to employers were administered by FAS through three schemes. The Employment Subsidy Scheme carried a subsidy of £54 per week for each additional employee. Both this scheme and Linked Work Experience were open to all unemployed. The Employment Incentive Scheme was targeted particularly at young people, who receive a subsidy of £45 per week, and the long-term unemployed, who received a higher subsidy of £60 per week. After 1994 both the Employment Incentive Scheme and the Employment Subsidy Scheme were phased out.

Subsidies to employees are administered by the Department of Social Welfare, are targeted at the long-term unemployed (or persons currently on the live register and unemployed for at least 2 of the last 3 years), and generally allow unemployed persons commencing work to retain a percentage of unemployment benefit. The largest of these, with 1,607 recipients in 1994, is the Back to Work Allowance (Employment) Scheme. Employees retain 75 per cent of their social welfare entitlement (IR£64.50 weekly for a single person) for the first year, 50 per cent for the second year and 25 per cent of their social welfare entitlement for the third year. On the part-time job incentive scheme, recipients receive a weekly supplement of IR£39.90 (if single). In 1994 530 previously long-term unemployed persons received this supplement.

Subsidies to self-employment are schemes which provides assistance to unemployed people who wish to become self-employed and set up a business. The Enterprise Scheme run by FAS entitles any unemployed person starting their own business to an enterprise allowance of £40 (£65 for those with dependents) and, although in 1994 1,653 persons received this allowance, this scheme was subsequently discontinued. The Department of Social Welfare schemes are targeted at the long-term unemployed. In 1994 3,159 participated in the Back to Work Allowance (Enterprise) Scheme, and 1,000 in the Area Allowance Scheme. In the Back to Work Allowance (Enterprise) the same conditions apply as for Back to Work (Employment); the Area Allowance is a slightly more generous allowance available in designated disadvantaged areas. (Recipients receive 100 per cent of their social welfare entitlements for the first year of the scheme.) Total participation in Employment/Enterprise Support measures accounted for over 21,000 individuals in 1994, 24 per cent of all participants in active labour market programmes.

Direct Employment Schemes

Direct Employment Schemes provide temporary part-time employment in community based work, together with personal and skills development opportunities. Community Employment is targeted mainly at long-term unemployed adults and, with over 32,000 participants,

⁹ Calculated using an estimated average wage of £180 per week.

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was the biggest single employment intervention in Ireland in 1994. The category also includes Teamwork which is targeted at unemployed young people, bringing the total who participated in direct employment schemes in 1994 to approximately 34,500, almost 40 per cent of all programme participants.

Preliminary indicators for 1995 suggest that Direct Employment Schemes continued to grow, and accounted for up to half of participants in programmes for unemployed people in that year, the number participating in Employment Enterprise Support measures declined to about half the 1994 provision, and the number receiving training increased somewhat. Thus, while the number of places in active labour market programmes for unemployed people continues to expand, the bulk of that growth is accounted for by Direct Employment Schemes, principally Community Employment.

3. The Financing of Active Labour Market Measures

The most recent year for which comprehensive data on expenditure on active labour market policies in Ireland have been published relates to the year 1991 (OECD, 1995(c)). Expenditure on active measures in that year accounted for almost 1.5 per cent of Gross Domestic Product, while spending on passive measures accounted for a further 2.8 per cent. In order to correct this gap in information, we present in Table 8.2 below our own estimates of active labour market programmes in Ireland in 1994. The data are derived from the financial tables prepared for the monitoring committee of the Human Resources Development Operational Programme, which combines European Union and Irish national public expenditures on human resources, supplemented with additional data from various national sources to account for expenditure in areas of activity not supported by the structural funds.

The single largest category of programme expenditure was Direct Employment schemes, which accounted for 51 per cent of total expenditure on active measures. This was mainly due to the Community Employment programme which provided temporary work for almost 33,000 people at a cost of almost IR£207m, representing a cost per participant of just over IR£6,000. Expenditure on General Training programmes amounted to IR£122.5m, almost 30 per cent of total expenditure, and supported the training of over 18,000 individuals, at an average cost per participant of over IR£6,600. Data on costs per participant differ substantially between programmes and should be interpreted with caution since they relate to programmes of widely varying durations. Thus, for example, the cost of the Vocational Training Opportunities Scheme (£10,900 per participant) refers to one year of a second chance education programme, while many other programmes are of substantially shorter duration (e.g. Reintegration Training schemes, costing £4,460 per participant, are of 4-6 months duration). Skills Training cost a total of IR£51.5m in 1994, representing 12 per cent of total expenditure at an average cost of just under £2,900. Expenditure on the various Employment Subsidy schemes amounted to £32.2m, which represented only 8 per cent of total expenditure on active labour market programmes, although they supported 21,000 or almost 23 per cent of all participants in such programmes. This reflects the fact that the average cost per participant of such schemes is relatively low - just over £1,500 in 1994.

Table 8.2
Estimated Expenditure on Active Labour Market Programmes, 1994

	Throughput	Total	Irish Public	EU Support	EU Subsidy Rate
	Number	IR£000	IR£000	IR£000	%
General Training					
Early School Leavers ¹	1,817	12,886	8,332	4,554	35.3
Community Training (Community Youth Training & Local Training Initiative) ¹	4,682	20,960	12,729	8,231	39.3
Reintegration (Return to Work, Skills Foundation, Community Training Workshops) ¹	3,792	16,912	10,108	6,803	40.2
Local Enterprise (Enterprise Training & Community Enterprise Programme) ^{1,2}	1,204	5,775	2,593	3,181	55.1
Vocational Training Opportunities ¹	2,118	23,086	9,434	13,652	59.1
Ex-Offenders Training ¹	48	301	192	109	36.2
Training for People with Disability ¹	4,785	42,612	15,040	27,571	64.7
Total	18,446	122,532	58,428	64,102	52.3
Skills Training					
Industry Training ¹	16,416	48,500	19,786	28,714	59.2
Tourism ³	1,545	3,036	826	2,210	72.8
Total	17,961	51,536	20,612	30,924	60.0
Employment Subsidies					
Linked Work Experience ²	472	2,105	1,258	847	40.2
Enterprise Scheme ⁴	1,653	2,123	953	1,166	54.9
Employment Incentive Scheme ⁴	3,214	3,016	3,016	0	--
Employment Subsidy Scheme ⁴	6,035	7,766	7,766	0	--
Part-Time Job Incentive ⁵	530	1,200	1,200	0	--
Pay-Related Social Insurance Exemption ⁶	4,350	3,461	3,461	0	--
Back-to-Work Allowance ⁵	4,766	12,530	12,530	0	--
Total	21,020	32,201	30,184	2,013	6.3
Direct Employment Schemes					
Community Employment ¹	32,670	206,904	195,365	11,539	5.6
Teamwork ⁴	1,828	2,870	2,870	0	--
Part Time Job Opportunities Programme ⁷	1,000	3,842	3,842	--	--
Total	35,498	213,616	202,077	11,539	5.4
Counselling, Guidance & Placement⁸		6,934	5,728	1,206	17.4
Total	92,925	426,819	317,030	109,784	25.7

Notes: (1) Expenditure data derived from financial tables for the monitoring committee for the Human Resources Development Operational Programme, 1994-99. Reporting date: 31 December, 1995.

(2) Local Enterprise includes the Community Enterprise Programme, Enterprise Training, and the Enterprise Scheme. Expenditure on the Enterprise Scheme, identified in FAS, *Annual Report & Financial Statement, 1994*, were deducted from the General Training Category and reallocated to the Employment Subsidies category.

(3) Data on CERT tourism training of the unemployed are from financial tables for the monitoring committee for the Operational Programme for Tourism, 1994-99. Reporting date: 31 December, 1995.

(4) Data on FAS employment subsidy schemes are from FAS, *Annual Report & Financial Statement, 1994*.

(5) Data on Department of Social Welfare employment subsidies are from Government of Ireland, 1995, *Revised Estimates for Public Services*. Dublin: Stationery Office.

(6) Calculated at 8.5 per cent of an estimated average wage of £180 per week.

(7) Data on the Part Time Job Opportunities Programme are derived as follows: Costs of education, materials, supervision and participant allowance: £2,484,000 (from Institute for Action and Research on Work and Employment) plus social welfare allowance estimated at £100 per week per participant for 26 weeks (The programme was launched in June 1994).

(8) Counselling, Guidance etc. includes £1.86m for the Local Employment Service and an estimated £5.07m cost for placement related activities in FAS employment offices.

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In order to render our estimates of expenditure on active labour market measures comparable with those produced by the OECD for other countries, we add two additional items to the total expenditure of IR£427m identified in Table 8.2. These include £35m for Apprenticeship training and craft training in the Tourism industry, discussed under the heading of initial education and training in Chapter VII, and development agency training and employment grants amounting to £22m in 1994.¹⁰ Each of these additional programmes qualified for European Social Fund Support at a rate of 75 per cent. Inclusion of these programmes increases our estimate of total expenditure on active measures to IR£484m, representing 1.37 per cent of Gross National Product in 1994. Funding from the European Union for all active measures, amounted to over IR£150m, about 31 per cent of the total expenditure on active labour market programmes. Support from the European Union is particularly important in the area of training of the unemployed, and in 1994, ESF contributions to training programmes amounted to £95m, 55 per cent of total public expenditure on training.

Table 8.3 shows standardised unemployment rates and expenditures on both active and passive unemployment measures expressed as a percentage of Gross Domestic Product for 18 OECD countries in 1993 or 1994, including our estimates of Irish expenditure on active and passive measures.¹¹ Sweden stands out as the leading country in the proportion of GDP allocated to active labour market policies; almost three times the country average, although standardised unemployment rate in Sweden was more than one percentage point below the average. Ireland, with the third highest unemployment rate, 14.7 per cent in 1994, ranked fourth in the proportion of its GDP allocated to active measures (1.36 per cent), and expenditure on passive measures amounted to a further 3.65 per cent, with the result that total expenditure on both active and passive unemployment related programmes accounted for over 5 per cent of GDP. Other countries with very high rates of unemployment included Finland, with 18 per cent of its labour force unemployed and active measures accounting for 1.7 per cent of GDP, and Spain, with almost 24 per cent unemployed and expenditure on active measures accounting for just over half of one percent of GDP.

More generally, there is no apparent direct relationship between expenditures on active labour market programmes and the level of unemployment. A cross-national analysis of 21 OECD countries found that growth in active labour market expenditures was negatively associated with employment growth (OECD, 1994), which was interpreted as reflecting the tendencies by states to increase such expenditures during recessionary periods. The same study, however, found that

¹⁰ Apprenticeship expenditure is from financial tables for the monitoring committee for the Human Resources Development Operational Programme, 1994-99; Tourism craft training data is from CERT, *Annual Report and Accounts 1994*; Development agency training grants are projected expenditures in the human resources components of the sub-programmes for indigenous industry and inward investment in Government of Ireland, *1994 Operational Programme for Industrial Development, 1994-99*. All of these programmes qualified for aid at the rate of 75 per cent from the European Social Fund.

¹¹ Expenditure on active measures includes total expenditure on Unemployment Benefit and Assistance, Pre-Retirement Allowance, and an estimated 50 per cent of Supplementary Allowance and 60 per cent of Rent and Mortgage Allowances related specifically to unemployment claims. Data are from Department of Social Welfare, 1995, *Statistical Information on Social Welfare Services 1994*. Government of Ireland.

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growth in GNP generated higher employment growth rates in countries where training expenditures increased the most, suggesting that active measures may be more effective in increasing employment during periods of economic growth, although such employment enhancing effects are more likely to occur where training programmes are successfully targeted at meeting skills shortages in particular sectors and occupations.

Table 8.3
Standardised Unemployment Rates and Expenditure
on Active and Passive Unemployment Measures, OECD Countries

	Year	Standardised Unemployment Rate	<i>Expenditure as % of GDP</i>		
			Active Measures	Passive Measures	Total
			%		
Sweden	1993-4	8.20	2.95	2.48	5.44
Finland	1994	18.20	1.70	5.03	6.73
Norway	1994	5.40	1.49	1.41	2.90
Ireland	1994	14.70	1.37	3.65	5.01
Germany	1994	6.90	1.32	2.52	3.84
Belgium	1993	8.60	1.26	3.07	4.33
Netherlands	1994	7.20	1.21	2.61	3.82
France	1993	11.60	1.21	2.10	3.31
Italy	1992	10.50	0.90	0.87	1.77
Portugal	1994	6.80	0.84	1.13	1.98
New Zealand	1992-3	10.40	0.82	2.05	2.87
Australia	1994	9.70	0.75	1.90	2.66
Canada	1994-5	10.30	0.63	1.57	2.20
United Kingdom	1993-4	10.50	0.59	1.59	2.18
Spain	1994	23.80	0.53	3.11	3.64
Switzerland	1994	3.80	0.45	1.42	1.87
United States	1993-4	6.70	0.24	0.45	0.69
Japan	1993-4	2.50	0.09	0.32	0.41
Country mean		9.77	1.02	2.07	3.09

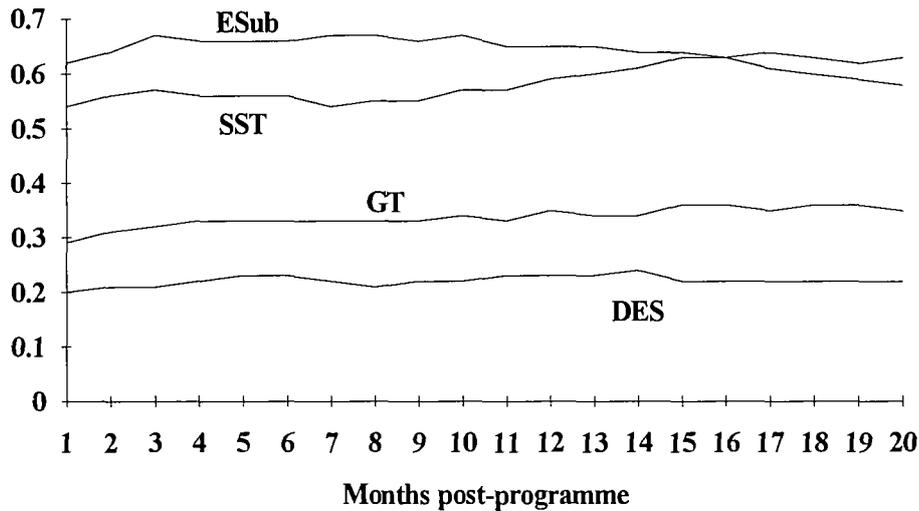
Sources: Ireland: Our estimates, see Table 8.2 and text;
Other countries: OECD, 1995, *Employment Outlook, July 1995*. Paris, OECD

4. Assessment of Irish Active Labour Market Policy

The international literature on active labour market policy suggests that the impact of such policies in creating additional employment is limited, with the exception of direct job creation measures. Training policies may generate additional employment under conditions of skills

shortages, and we present some evidence below to suggest that training may have such positive effects in the Irish context. Effective and well-targeted measures may, however, serve to redistribute employment opportunities to less advantaged labour market participants.

Figure 8.1
Proportion At Work by Programme Type



Note: ESub = Employment Subsidies SST = Specific Skills Training
 GT = General Training DES = Direct Employment Schemes

The employment effects of active labour market programmes in Ireland are addressed by recent research based on a follow-up survey of 3,200 individuals who left active labour market programmes in Ireland in 1992, and were interviewed in 1994.¹² The survey collected a wide range of information on individual's previous employment experience, educational attainment and other personal characteristics, as well as employment status for each month between the time a participant left a programme and the survey interview - usually about 20-24 months. Figure 8.1 shows the percentage of participants from each of the four programme types outlined in Table 8.1 who were in employment at each of the first twenty months after leaving their programmes. For each of the four programme types the proportion at work remained relatively stable throughout the period. The graph shows that a significantly higher proportion of participants in Specific Skills Training and Employment Subsidies found jobs than individuals who participated in General Training or Direct Employment Schemes. Nearly two thirds of participants in Employment Subsidies were at work at any point in the twenty months post-programme, compared to only one-

¹² P.J. O'Connell and J.J. Sexton, 1995, *An Evaluation of Measures to Assist Young People and the Long-term Unemployed under Objectives 3 and 4 of the 1989-1993 Community Support Framework*. Final Report to the Commission of the European Union, and the Department of Enterprise and Employment. Dublin: ESRI. See also: P.J. O'Connell, 1996 "The Effects of Active Labour Market Programmes on Employment in Ireland," ESRI Working Paper Series No. 72.

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third of those in General Training and one-fifth of those from Direct Employment Schemes. These outcomes suggest that programmes characterised by a strong orientation to the open labour market - Specific Skills Training and Employment Subsidies - achieved higher placement rates than those with weak market linkages.

We should note also that while placement rates generally increased somewhat over time, this was not true of Employment Subsidies, which declined somewhat over time, and converged with those of Specific Skills Training. Part of the short-term superiority of Employment Subsidies would be due to a proportion of participants being retained in their jobs for a period after the subsidy was withdrawn, suggesting that the longer term outcomes may be a truer measure of the impact of Employment Subsidies in the open labour market.

The graph shows employment status for each of the 20 months after programme participation. Table 8.4 provides summary data for employment status at two points in time. We can regard the proportion at work within 2 months of leaving a programme as the short-term employment effect,¹³ and the proportion at work after 18 months as the long-term effect. Table 8.4 shows similar levels of variation in employment by programme type to Figure 8.1. While 64 per cent and 58 per cent of participants on Employment Subsidies and Specific Skills Training respectively were at work within 2 months of leaving a programme only 32 per cent of participants in Foundation Training and 22 per cent of participants in Direct Employment Schemes were at work at this stage. Overall, the percentage of participants employed increased from 39 per cent within 2 months to 41 per cent after 18 months, but the rank ordering of programmes by employment was retained, with the significantly better performance of Employment Subsidies and Specific Skills Training persisting over time.

Table 8.4
Post-Programme Employment of Active Labour Market Programme Participants

<i>Programme Type</i>	<i>Short-term Effect At Work within 2 mths</i>	<i>Long-term Effect At Work after 18 mths</i>
<i>Percent employed</i>		
General Training	32	36
Skills Training	58	60
Employment/ Enterprise Subsidies	64	63
Direct Employment Subsidies	22	22
All Participants (N=3102)	39	41

¹³ Thus, the short-term effect measures employment in *either* of the two months after a participant left a programme.

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While it is believed that some types of programme are more effective than others in placing participants in employment, measuring the net effectiveness of programmes is difficult because outcomes for individuals are expected to vary not only by programme but also on the basis of the personal characteristics of participants - in particular educational qualifications and prior labour market experiences, including the duration of unemployment prior to programme participation. Raw "placement rates", indicating the proportion of participants acquiring employment at some specified point in time after leaving a programme, take no account of such personal characteristics, nor do they indicate the counter-factual - what might have happened in the absence of participation.

A paper by O'Connell (1996), applies multivariate analytic techniques to the same data source in order to take account for individual characteristics of programme participants such as educational qualifications, age, and previous labour market experience and duration of unemployment likely to affect labour market success. He found that, when such individual characteristics are controlled for, participation in Specific Skills Training or in Employment Subsidies improved participants' chances of employment in both the short and long-term, while the effects of basic or general training or direct public job creation measures were confined to the short term and have no significant measurable long-term impact on employment.

For younger programme participants, those aged under 23, the paper compared post-programme employment with a comparison group of young people who had not participated in a training or employment programme but who had been unemployed in the Summer of 1992 when the participants had exited their programmes. That analysis addressed the question of what might have occurred if the programme participants had not participated in any education, training or employment programme. The paper found that, in the short term, participation in any programme type increased the probability of employment. However, over the longer-term, participation in market oriented programmes - Specific Skills Training or in Employment Subsidies continued to result in a higher probability of employment, while participation in programmes with weak market linkages - General Training or Direct Employment Schemes had no lasting effect on employment prospects.

These findings provide strong evidence that active labour market programmes with strong linkages to the labour market are more likely to confer long-term benefits on their participants. These findings should not, however, be interpreted to suggest that programmes with weak market linkages are of no value and should be discontinued. For many of the unemployed, their educational qualifications or skills may be so low, and their labour market experience so poor, that participation in general or foundation level training or in a temporary work experience scheme may be an essential element in a process of reintegration to the labour market. The findings do suggest, however, that general training, or temporary employment supports are themselves unlikely to improve the job prospects of participants unless they are followed by progression to training or employment programmes which have strong linkages with the open labour market.

5. The Effects of Activation on Long-Term Unemployment

On the basis of present policies and even under the most optimistic forecasts, long-term unemployment is likely to remain at unacceptably high levels for the foreseeable future. Among the long-term unemployed there is a high concentration of low qualifications and poor labour market experiences, with the result that the long-term unemployed are ill-equipped to compete for jobs in the open labour market. While the review of unemployment trends in Chapter III suggests that recent improvements in labour market demand have had the effect of reducing long-term unemployment, the educational and labour market disadvantages of many of those remaining long-term unemployed are such that they are likely to continue to experience severe difficulties in securing employment without decisive intervention on the part of the State.

In this context we should also note that about 10 per cent of those leaving school each year do so either with no qualifications whatsoever, or having failed to achieve a minimum of 5 D grades in the Junior Certificate examination. These young early school leavers, as well as those who leave the education system with only a Junior Certificate and receive no further education or training (e.g. apprenticeship or other vocational training), are ill-equipped to compete in today's labour market and face a high risk of becoming long-term unemployed.

Those most disadvantaged in the labour market - including the long-term unemployed, young early school-leavers, and women seeking to return to work - are more likely to participate in basic level training or in direct job creation measures than in skills training or in measures which subsidise employment/self-employment in the private sector. Relatively low placement rates from such programmes are partly due to the low qualifications and poor previous labour market experiences of participants, but they also reflect the quality of the programmes, and where it is provided, the level of training. The Community Employment scheme is the largest programme targeted on the long-term unemployed and socially excluded, and currently provides temporary half-time employment for over 32,000 individuals. The scheme includes a training module, but in 1994 less than half of participants were receiving training. While a target of 100 per cent of participants receiving training was set for 1995, it should be noted that training on the programme typically amounts to 20 days. It is difficult to imagine how 20 days of training could be expected to counteract the educational disadvantages of most Community Employment participants.

A second, and related issue concerns progression. In general, programmes targeted on marginalised groups suffer from a general weakness in not providing adequate certification and not facilitating progression to further education and training - despite the fact that most participants in such programmes are in greater need of such progression opportunities than any other group of labour market participants. Recent reforms in certification systems have led to some improvement in progression options at foundation level training, although there remain strong elements of segregation between the training and educational system - rendering it difficult, for example, for an early school leaver who has completed a training course to access further education, rather than further training. Ultimately, removing barriers to progression problems is a matter of ensuring both adequate standards and certification arrangements to facilitate participants to gain access to further education and training opportunities.

Improvement of the effectiveness of measures targeted on the long-term unemployed and other socially excluded groups is a matter of recognising: (1) that participation in a single programme, particularly in training at basic skills level or in a direct public job creation measure, is unlikely to be sufficient to enable the most disadvantaged to compete in the labour market; and (2) that many of those marginalised from the labour market require either basic level training or work experience, or a combination of both before they can benefit from more advanced training or insertion in private sector employment with subsidies. These considerations suggest the need for reintegration paths designed to allow participants, particularly the socially excluded, to progress through a series of programmes tailored to their particular needs and with the ultimate objective of securing sustainable employment. Development of such reintegration paths is one of the objectives of the newly established Local Employment Service, described below. It must be recognised that reintegration paths would require substantially more resources than are presently available for the reintegration of those most disadvantaged in the labour market.

6. The Effects of Activation on the Skill Levels of the Workforce

The international literature suggests that the impact of active labour market policies in creating additional employment is limited, with the exception of direct job creation schemes, although effective and well-targeted measures may redistribute job opportunities to disadvantaged labour market participants, and our review of recent Irish research would suggest that certain categories of programme - those with strong linkages to the market - do improve the long-term employment prospects of their participants.

Training policies may generate additional employment under conditions of skills shortages. Until the very recent years of employment growth, one of the effects of mass unemployment was to ensure that there was little evidence of skills shortages in Ireland. Thus, Sheehan (1992) reported that a survey of Irish employers found that they experienced little difficulty in recruitment, although in Chapter VII we noted concerns with a "skills gap" between the skills and qualifications of Irish workers with their counterparts in other European countries. Under the more recent conditions of rapid employment growth the potential for skills shortages is greater, particularly in rapidly expanding sectors such as electronics and computer software. Provision of education and training to meet emerging skills needs is an essential element in the pursuit of sustained economic development and employment growth, and it has been argued that one of the reasons of the success of the Irish development agencies in attracting foreign investment has been the availability of a highly skilled labour force. Moreover, there are additional grounds for believing that skills training of unemployed workers may contribute directly to enhanced competitiveness, and thus to enhanced job creation. It is known that there are very substantial movements in and out of unemployment among the short-term unemployed (O'Connell and Sexton, 1994). Most Specific Skills Training is delivered to those who are short-term unemployed, and Specific Skills Training programmes achieve comparatively high placement rates (over 60 per cent in recent years). Given the low level of training currently undertaken by Irish employers, discussed in Chapter VII, skills training of unemployed workers can have the direct effect of gradually up-grading or up-dating the skills of the labour force - yielding long-term increases in productivity, and therefore, competitiveness and employment performance.

7. The Overall Impact of Recent Reforms

There has been a dramatic increase in the numbers participating in active labour market programmes in Ireland in recent years. Total participants in all active labour market support measures increased from about 55,000 in 1992 to almost 93,000 in 1994, or from 4 per cent of the labour force in 1992 to 6.6 per cent in 1994. Most of this increase was due to the expansion of temporary employment schemes, since the numbers in training programmes increased only by about 3,000 - from 33,000 to about 36,000 - and virtually all of the increase was accounted for by Skills Training.

Participation in employment subsidies increased from under 4,000 in 1992 to over 21,000 in 1994. This expansion in temporary employment subsidies should, however, be interpreted with caution. In 1993 a number of schemes were introduced by the Department of Social Welfare to assist the reintegration of the unemployed. These include the Pay Related Social Insurance Exemption Scheme to encourage employers to recruit from among the unemployed, and the Back to Work Allowance Schemes, which allow long-term unemployed individuals to retain a proportion of their social welfare income for a period of up to two years when they become employed or self-employed. After these schemes were introduced the employment subsidies implemented by FAS, mainly the Employment Incentive and Employment Subsidy Schemes discontinued.¹⁴ This shift in the administration of employment subsidies from FAS to the Department of Social Welfare led to some overlap in provision in 1994, and the numbers receiving employment subsidies in 1994 was significantly higher than in either 1993 or 1995. In 1993, most of the Department of Social Welfare schemes were not fully operational and by 1995, most of the FAS schemes had been phased out. Preliminary estimates would suggest that the numbers receiving employment subsidies in 1995 were about 12,000.

The rationale for this shift in responsibility for provision of employment subsidies is not clear. A division of responsibility for implementation of training and employment schemes between two separate agencies is likely to lead to problems in co-ordinating services, particularly since FAS remains the principal employment referral agency. This does not appear to serve the best interests of the unemployed client. Moreover, it is well established that employment subsidies suffer from high levels of deadweight, whereby a substantial proportion of recruits would have found employment even in the absence of the subsidy (Breen and Halpin, 1989). Targeting of employment subsidies to groups particularly hard to place (without subsidies) may serve to reduce that deadweight (OECD, 1993). The new employment subsidy schemes implemented by the Department of Social Welfare were originally intended for those at risk of long-term unemployment, rather than those who are already long-term unemployed (Office of the Tanaiste, 1995), although we understand that they have subsequently been targeted specifically at the latter. This would suggest that policy formation in Ireland has been slow to take account of international experience relating to targeting and deadweight. Moreover, the current proliferation of employment subsidies designed for differing target groups is likely to send confusing and, sometimes contradictory, signals to employers regarding the differential incentives to recruit from the short- *versus* long-term unemployed. A more strategic and coherent approach would be to

¹⁴ In a further policy shift, a new employment subsidy scheme, Jobstart, providing a subsidy of £80 per week to encourage employers to recruit those who have been registered as long-term unemployed for three or more years, was launched in June 1996. The scheme is being implemented by FAS.

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establish a single employment subsidy, implemented by a single agency, targeted specifically at the long-term unemployed and other clearly defined groups suffering labour market disadvantages. If the objectives of such a measure were clearly formulated on equity and distributional grounds, issues of deadweight and substitution, while continuing to apply, would be of substantially less concern.

Direct employment schemes have also expanded dramatically in recent years - from 17,600 in 1992 to 34,500 in 1994. Expansion is primarily due to the discontinuation of the Social Employment Scheme, which provided temporary part-time employment in community based work for the long-term unemployed, and its replacement by the Community Employment. The main reforms introduced to Community Employment, which consists of employment of a similar nature to the earlier Social Employment Scheme, include: (1) development of a training component amounting to about 20 days per year; and (2) retention by participants of secondary benefits (including access to housing and medical benefits). Total participation increased from just over 15,000 in the Social Employment Scheme in 1992 to over 32,000 in Community Employment in 1994. Community Employment appears to be far more popular with clients than its predecessor, and the scheme has supported a substantial amount of work in community development and provision of community services than would have taken place in the absence of the scheme. Nevertheless, preliminary research findings suggest that the rate of placement in employment from Community Employment is low (Dublin Inner City Partnership and Scheme Workers' Alliance, 1995). These disappointing results are consistent with the findings of O'Connell and Sexton (1995) which found low placement rates from the Social Employment Scheme: less than 20 per cent of participants obtained jobs after leaving the programme. A substantial improvement in placement rates from the Community Employment scheme is unlikely, since the introduction of a twenty-day training component is unlikely to counteract the accumulated educational and labour market disadvantages experienced by the majority of the long-term unemployed - the principal client group for direct employment schemes of this type.

Recent changes in active labour market policies have entailed a substantial increase in the resources committed to programmes for the unemployed. However, most of the additional resources appear to have been used to achieve an expansion in the quantity of provision rather than an improvement in the quality of programmes. Our discussion of the effectiveness of programmes suggests that there is a need to improve the quality of programmes, particularly those targeted at the most disadvantaged, as well as to ensure progression to effective programmes in the final phase of reintegration paths which have the ultimate objective of securing sustainable employment. Such an approach would require the allocation of substantially greater resources targeted specifically at those most disadvantaged in the labour market, an issue which raises major political decisions about how the fruits of the recent economic growth are to be distributed in society.

In 1996 a new Local Employment Service was established on a pilot basis in 14 areas to provide a locally based integrated service to unemployed clients to facilitate access to active labour market programmes and employment opportunities. The service is to provide an access point to the range of services available to assist unemployed clients to return to work, including: guidance, training, education and temporary employment programmes. The main target groups are those registered as unemployed for more than six months, dependent spouses of the unemployed, the young unemployed, and lone parents. The new service has the potential to ease problems

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concerning the quality of programmes accessed by the socially excluded and progression to further education or training. If the new service is to operate effectively it must act as a broker for the client, enabling its clients to progress through a reintegration path - a series of programmes appropriate to the needs of the individual client. If the new service does work effectively, however, it is likely to increase the demand for quality education and training opportunities for both the long-term unemployed and for those at risk of long-term unemployment, with the result that the capacity of the present system to provide high-quality education, training and work experience opportunities will have to be expanded substantially.

CHAPTER IX

INDUSTRIAL POLICIES

The basic objective of industrial policy in Ireland is to help to create and maintain employment. Official statements about industrial policy generally stress that this objective is to be achieved by building internationally competitive enterprises. For example a recent official statement of objectives begins by saying that:

The essential objective of industrial development policy is to promote the development of a strong internationally competitive enterprise sector in Ireland comprising both indigenous and non-indigenous companies which will make the maximum contribution to self-sustaining employment growth. (*Operational Programme for Industrial Development 1994-1999*, p.5)

1. The Evolution of Industrial Policy

This emphasis on building internationally competitive enterprises was not always a part of Irish industrial policy. Beginning in the early 1930s, a policy of strong protection against imports was introduced in order to encourage industrialisation. This protectionist “inward-looking” policy met with a fair degree of success for about 20 years, in terms of growth in industrial employment. But the 1950s was a decade of serious economic crisis in Ireland and this led, in the late 1950s and the 1960s, to a change in policy towards a free-trading, “outward-looking” approach. The background to this policy change was the economic crisis of the 1950s, which was basically caused by the emergence of a chronic shortage of foreign exchange. The protected industries which had developed since the early 1930s mostly served the domestic market and mostly failed to export. Consequently they could contribute little to increasing the country's earnings of foreign currency.

In view of the nature of the difficulties of the 1950s, the major policy objective began to shift towards developing internationally competitive firms which would increase exports. To this end, new tax concessions and grants were introduced to encourage and assist firms to develop production for export markets. In addition, active steps were taken to seek out and attract investment by foreign enterprises which would produce in Ireland for export markets. And finally, beginning in the 1960s, the protectionist measures against imports were gradually dismantled, opening up the home market to more direct foreign competition.

Under this new outward-looking strategy, exports expanded very rapidly, and industrial and economic growth rates increased considerably in the 1960s and 1970s compared with the 1950s. Industrial and total employment also grew much more strongly than in the 1950s. However, industrial employment reached its peak level in the late 1970s and it then declined substantially in the first half of the 1980s (see Chapter II). It was also becoming increasingly evident by the early 1980s that most of the industrial growth which had occurred since the 1960s was a result of new

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investment in Ireland by highly export-oriented foreign enterprises. Meanwhile, Irish indigenous industries had lost out to competing imports in the home market as protection was dismantled, while they also had rather little success in developing exports. Consequently indigenous industries contributed little to the employment growth of the 1960s and 1970s, and by the first half of the 1980s their employment was declining rapidly.

At the same time, by the early 1980s, questions were being raised about the real value of foreign-owned enterprises for the Irish economy. It was recognised that while they had certainly contributed to employment growth and particularly to export growth, much of the value of their output did not accrue as incomes to Irish people. This was because they imported most of their inputs and recorded very large profits which were mostly being withdrawn from Ireland.

Against this background, industrial policy began to exhibit an increasing concern with addressing the weaknesses of indigenous industry and developing more indigenous enterprises which could succeed in international markets. Such an emphasis on developing indigenous industry was recommended by the report of Telesis (1982) to the National Economic and Social Council (NESC), and by the NESC (1982) itself. Subsequently, the Government's White Paper on *Industrial Policy* (1984) stated that the future direction of policy would "entail the concentration of resources on internationally traded manufacturing and services, particularly Irish-owned firms". This did not mean that there would be an end to the policy of attracting foreign investment, but rather it indicated a shift in emphasis.

A number of new policy measures were introduced in the 1980s to address weaknesses which would be most typical of Irish indigenous rather than foreign multinational firms, particularly as regards management, export marketing and technological capability. It was decided to shift industrial policy expenditures from largely supporting capital investment towards improving technology, export marketing and management capability.¹ The aim of developing internationally competitive indigenous firms also led to a concern with developing companies of a sufficiently large scale. Thus policy came to focus more on the objective of building on relatively strong and substantial existing Irish firms, rather than simply encouraging a high rate of start-ups of new small companies.²

In the early 1990s, the Industrial Policy Review Group (1992) recognised that greater efforts had been undertaken by then to promote indigenous industry, but still considered that there had not been a "full commitment" to this process. The Group called for a more decisive shift in the focus of policy towards developing indigenous industry, and this objective has since been re-emphasised. Whereas previously a single state agency, the Industrial Development Authority (IDA) had been responsible for promoting the development of both indigenous and foreign-owned industry, a new State agency, Forbairt, is now charged with concentrating on the task of supporting the development of indigenous industry; this is intended to ensure that a substantial organisation

¹ Department of Industry and Commerce, 1984 *Industrial Policy*, 1984, Chapters 1 and 5.

² See O'Malley (1989) for a more detailed review of experience until the late 1980s.

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gives its full attention to the indigenous sector. The task of attracting foreign direct investment is now a separate function carried out by IDA Ireland.

Since the early 1980s, too, policy has had the objective of, not only attracting foreign enterprises to produce in Ireland, but also aiming to strengthen their linkages or their degree of integration with the domestic economy, by means of measures such as the National Linkage Programme. The objective is to have them purchase more of their inputs from Irish sources, and also to carry out in Ireland functions such as research and development and marketing rather than production alone.

Finally, it should be mentioned that, in addition to manufacturing industry, internationally traded services have been included as a valid focus for industrial policy efforts, beginning in the mid-1980s.

2. The Level and Nature of State Intervention

As was mentioned above, Irish industrial policy aims to build competitive enterprises which can succeed in international markets. The approach to assisting industrial development can involve somewhat selective intervention in the operation of market forces, by assisting investment in equipment, technology, marketing, skills, etc., in companies which are considered to have good prospects for being internationally competitive. In intervening in this way, the general intention is not to resist market forces indefinitely, but rather to provide companies with the characteristics and strengths required to survive and grow in a competitive environment.

Direct state intervention, in the form of the use of state-owned enterprises to develop industries themselves, has not been a very significant feature of Irish industrial policy in recent decades. Most state enterprises are involved in sectors such as transport, communications and energy, rather than in manufacturing industry. A small number of manufacturing state enterprises were established, mainly in the 1930s or 1940s. But within the past decade a number of these have been wholly or at least partially privatised so that use of manufacturing state enterprises is not generally seen now as a very significant part of overall industrial policy.

The principal measures used in industrial policy include tax concessions, a range of grants and other financial assistance, and advisory and supportive services. The major tax concession is a low rate of tax of just 10 per cent on profits of manufacturing and specified internationally traded services. The major areas of expenditure on financial assistance and advisory services are supports for capital investment, science and technology measures, international marketing, expansion of employment, training and management development.

Expenditure on supporting capital investment was traditionally much the largest area of spending, but this has declined as a proportion of the total while the proportion going to science and technology, marketing, etc., has increased since the mid-1980s. The share of the industrial policy budget going to support capital investment declined from 61 per cent in 1985 to 47 per cent in 1992. At the same time, the share of the budget going to support marketing increased from 11 to 17 per cent, and the share going to science and technology measures increased from 11 to 21 per

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cent. It is worth noting, too, that supports for capital investment are normally paid at a rate which is related to the employment potential of a project. For this reason, supports for capital investment do not necessarily favour more capital-intensive projects over labour-intensive projects. Rather, it is claimed that they would normally be about equally supportive of employment generation in any type of project. Until the mid-1980s, supports for capital investment were nearly always provided in the form of non-repayable grants. Since that time, however, public support has increasingly been provided through repayable forms of finance, particularly through a greater use of equity, while the proportion of grant-aided investment has declined.

Plans for expenditure on industrial policy measures for the period 1994-1999 are set out in the *Operational Programme for Industrial Development 1994-1999*. The Operational Programme is made up of eight sub-programmes and Table 9.1 shows planned total expenditure and planned public expenditure on each of these sub-programmes. Note that the planned total programme expenditure includes both (a) "structural expenditure" which is co-financed by the EU, the Irish government and the private sector, and (b) non co-financed expenditure, which is funded by the Irish government and the private sector without EU co-financing. Of the planned total programme expenditure of 4,423 million ECUs, 2,844 million ECUs is "structural expenditure" funded by the Irish government and the private sector together with EU co-financing, while the remainder is to be funded by the Irish government and the private sector without EU co-financing.

Table 9.1
Planned Expenditure on Operational Programme for Industrial Development 1994-1999

Sub-Programme	Total Programme (million ECU)	Public Expenditure (million ECU)	Public Expenditure %
Indigenous Industry	725	332	18.2
Inward Investment	1,608	455	24.9
Research and Development	502	325	17.8
Marketing Development	552	201	11.0
Gaeltacht Development	148	66	3.6
Food Industry	793	350	19.2
Land and Buildings	85	85	4.7
Technical Assistance	10	10	0.5
Total	4,423	1,824	100.0

Source: Derived from *Operational Programme for Industrial Development 1994-1999*.

Note: The public expenditure figures in Table 9.1 are the sum of all planned spending by the Irish government and the EU.

Besides showing the planned total programme expenditure, Table 9.1 also shows planned "public expenditure" figures. These figures are the combined figures for spending by the Irish government and the EU under the "structural expenditure", as well as spending by the Irish government under

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non co-financed expenditure. In other words these figures show all expenditure from public sources (EU and Irish government, whether co-financed or not), which is the same as planned total programme expenditure minus the private sector component. These “public expenditure” figures, therefore, without the private sector component, seem to be the most relevant indicator of the pattern of allocation of public resources to industrial policy measures. Note, however, that the actual spending of the planned public expenditure budget can be dependent on complementary private sector spending actually occurring.

As regards the EU funding, 70 per cent of this comes from the ERDF, with 15 per cent coming from the EAGGF (for the food industry sub-programme) and 15 per cent coming from the ESF. The ESF funding, for training measures, is spread over five of the eight sub-programmes, but it is worth bearing in mind that further ESF funding for industry-related training is included under the Operational Programme for Human Resources Development, discussed in Chapter VII .

As Table 9.1 shows, the largest of the eight sub-programmes, in terms of public expenditure, is the programme to encourage inward investment by foreign-owned enterprises. This accounts for 25 per cent of public expenditure, whereas the sub-programme for indigenous industry development accounts for 18 per cent. However, this does not mean that more is to be spent on supporting foreign-owned industry than Irish indigenous industry. This is because the food industry sub-programme, with 19 per cent of public expenditure, covers a sector which is very largely indigenous, while the marketing development sub-programme, with 11 per cent of public expenditure, is also targeted at indigenous industry. Expenditures under the remaining sub-programmes could benefit either foreign-owned or indigenous firms.

3. Attracting Foreign Investment

For most of the period since the beginning of the 1960s, direct investment in Ireland by overseas or foreign-owned firms has made the major contribution to industrial growth. The overseas industrial firms which have come to Ireland in that time have mostly been highly export-oriented. Rather than being attracted to invest in producing for the small Irish market, they have seen Ireland as a suitable location in which to produce goods for other larger markets. Following the establishment of the Anglo-Irish Free Trade Area in the mid-1960s, and then the accession of both Ireland and the United Kingdom to the EU in 1973, companies producing in Ireland have had ready access to the markets of the UK and the EU.

Thus, overseas manufacturing firms investing in Ireland have mostly chosen Ireland as a location for selling into European markets. Compared with other potential European locations, Ireland has had the attraction of consistently low taxes on profits (currently a 10 per cent rate for manufacturing and internationally traded services). Ireland has also had attractive financial incentives to support investment and generally competitive labour costs by the standards of most western European countries (see Chapter IV). In addition, the Irish education system has produced a good supply of people with certain key types of qualifications at times when these were in strong demand for some rapidly growing industries internationally, e.g., electronics, pharmaceuticals and software. More generally, the fact that the Irish labour force is English-speaking has been a further attraction for many overseas investors, particularly those from the USA. Overseas firms in Ireland

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have come to account for some 45 per cent of manufacturing employment, 55 per cent of manufacturing output and 76 per cent of manufactured exports.³

According to the current *Operational Programme*, inward investment is regarded as important for a number of reasons:

- as a source of productive employment,
- as a means of transferring technology, marketing and management skills to Irish industry,
- as a source of new capital investment, and
- as a means of providing significant market opportunities for indigenous industry which can supply industrial inputs.

The main objectives of present policy with regard to overseas industry are to attract new inward investment in both manufacturing and internationally traded services, to generate expansion projects by overseas firms already in Ireland, to foster the role of overseas firms in stimulating the development of the indigenous sub-supplier base, and to improve the level of value-added functions such as marketing and R&D carried out by overseas firms in Ireland. It is also a policy goal to achieve the sub-programme's objectives within a context of balanced regional development.

As regards the principal policy measures which are applied, the low rate of taxation on profits continues to be an important attraction for inward investment. Investment in fixed assets can be supported by way of non-repayable grants at a rate of up to 60 per cent of the cost of a project's eligible fixed assets. However, the actual rate of grant applied, as a percentage of fixed assets, varies considerably depending mainly on the employment potential and the location of a particular project. The 60 per cent figure is the maximum rate allowed and in practice the rate of grant-aid is well below this for most projects, with a rate in the region of 30 per cent being typical. Apart from grant-aid, the provision of equity is an alternative form of support for investment. Under the current *Operational Programme*, it is expected that support for investment will be about equally balanced between new inward investment and investment by existing foreign-owned firms already in Ireland.

Financial supports and incentives are also available for recruiting additional employees and for training of employees. Recruitment incentive grants of up to £10,000 can be provided towards the cost of employing each additional employee. However, the level and availability of such recruitment incentives depends on the extent of financial support for capital investment which may also have been agreed for a project. Financial support for training of employees, for both general and company-specific training, is also available in the form of grants of up to 100 per cent of eligible training costs.

Of the 455 million ECUs allocated to the Inward Investment sub-programme from public sources for the period 1994-1999, 374 million ECUs, or 82 per cent, is for support for capital investment with the remainder going to recruitment incentives and training grants. Overseas firms

³ *Census of Industrial Production, 1990.*

may also be eligible for some measures under other sub-programmes, such as Research and Development, which are not specific to inward investment.

4. Developing Indigenous or Irish-Owned Industry

When viewed over the long run since the 1950s, the performance of Irish indigenous industry has been relatively poor in terms of trends in employment, output or exports. This performance has shown an improvement since the late 1980s, but it is generally agreed that Irish indigenous industry is still relatively underdeveloped compared with most EU member countries. Consequently, quite an intensive approach to industrial development policy for the indigenous sector is being undertaken. This is being done over a wide range of business functions including investment, marketing, innovation, technology, business skills and production.

Official statements on industrial policy commonly stress that improving competitiveness also involves important aspects of national policy which do not come within the scope of industrial policy as such. These aspects, which were highlighted in the report of the Industrial Policy Review Group (1992), include areas such as the tax system, provision of adequate infrastructure, the education system and having competitive public utility costs. A number of these issues are dealt with in other chapters of this report.

However, to focus on industrial policy *per se*, the sub-programme for Indigenous Industry Development contains four main elements or measures:

- Development of competitive capability,
- Human resource capability development,
- Capacity expansion, and
- Venture support and traditional industry adjustment.

The “Capacity Expansion” measure accounts for the largest share of the 332 million ECUs in public expenditure allocated for the indigenous industry sub-programme, with 39 per cent of the total. Apart from grant-aid for capital investment, the provision of equity is another form of support. This can be applied to all aspects of investment including, for example, market penetration, technology acquisition, product design or working capital, as well as capital investment. Indigenous firms have increasingly been supported by equity investment rather than grant aid in recent years.

The “Development of Competitive Capability” measure in the indigenous industry sub-programme contains elements which are mostly new to industrial policy since the mid-1980s. An important element here is the Company Development Programme; this involves the state development agencies working with selected Irish indigenous companies which have the potential for significant growth and which have a firm commitment to achieving it. The aim is to help companies to analyse their competitive position and to prepare strategic development plans for the companies which can be implemented with the support of a range of State assistance measures. Another significant programme here is the National Linkage Programme, which involves the agencies working with selected sub-suppliers of components, particularly to subsidiaries of foreign-owned multinational companies in Ireland, in order to strengthen local purchasing “linkages”. The

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“Development of Competitive Capability” measure also includes strategic studies of sectors offering development opportunities, the Business Innovation Centres to help small firms, consultancy support services, subsidised placement of graduates in companies, and the Mentor programme which provides experienced business people as temporary advisers to help companies to overcome obstacles to growth. The measure also includes specific programmes of support for the film and software industries.

The “Human Resource Capability Development” measure provides management development grants to strengthen the quality of management and to assist with recruitment of managers with necessary skills. It also provides grants for training of workers at a rate of up to 100 per cent of training costs. In addition, it provides employment grants for recruiting additional employees. Employment grants of up to £10,000 can be provided towards the cost of each additional employee.

The fourth measure in the indigenous industry sub-programme, namely “Venture Support and Traditional Industry Adjustment”, aims to facilitate the provision of seed/venture capital. It aims to support schemes whereby co-financing for seed/early stage equity investment in growth-oriented firms will be made available with 50 per cent of funding coming from public sources and the balance coming from the private sector.

Apart from the sub-programme for Indigenous Industry discussed above, there are other sub-programmes within the overall Operational Programme which have a significant bearing on the development of indigenous industry. The sub-programme for Marketing Development is targeted at the indigenous sector, and it includes three principal measures:

- Market information and promotion,
- Marketing expertise and advice, and
- Marketing investment.

The first of these incorporates a number of services provided by An Bord Trachtala (the Irish Trade Board) and it aims to assist firms to identify and take advantage of market opportunities. It involves identification of market opportunities suitable for Irish companies; support for promotional events, attendance at trade fairs and buyer and seller missions; a regional markets programme to establish trading links with fast-growing European regions; and provision of wide-ranging market information services.

The “Marketing Expertise and Advice” measure focuses mainly on existing exporters which are engaged in market expansion. It provides a variety of marketing consultancy and advisory services to such firms and assists with placement of marketing graduates in them. Finally, the “Marketing Investment” measure provides financial assistance to firms to invest in strengthening their own marketing, through market entry grants (for firms entering markets for the first time), and through market expansion grants.

The “Research and Development” sub-programme is another component of the overall Operational Programme which is important for indigenous industry, although it is also of benefit for overseas firms. It includes four principal measures:

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- Industry R&D initiative,
- Industry/third level co-operation services,
- Human resource development, and
- Research support.

The “Industry R&D Initiative” supports R&D projects in industry by providing funding for up to 50 per cent of costs incurred on approved company-led R&D projects.

The “Industry/Third Level Co-operation Services” measure includes quite a number of different sub-measures which aim to (1) increase the technological capability within industry, (2) improve the technological supports and services provided to industry and (3) increase third/level industry co-operation. Included here are (1) supports for acquiring licensed technology, assistance for companies in developing an R&D strategy, assistance with the patenting process, subsidies for employment of graduates and experienced technologists, technology audits and advisory services for individual firms; (2) specialist design and consultancy services, technical information services, testing and certification facilities; and (3) campus-based technology service centres, and Programmes in Advanced Technology in key technological areas which undertake industrially-oriented R&D with a significant component of projects funded on a contract basis by companies.

The “Human Resource Development” measure comprises three distinct actions: provision of research and development training for graduates in strategic technological areas; training of technical graduates in entrepreneurial and business skills; and programmes for established companies to enhance their ability to plan and implement all aspects of the innovation process.

The fourth measure in the Research and Development sub-programme, “Research Support”, provides a research support fund which can be flexibly deployed in support of high quality college-based research projects.

Finally the sub-programme for the Development of the Food Industry is also highly relevant to indigenous industry since the food sector is very largely Irish-owned. The policy measures included in this sub-programme are generally similar in nature to those already outlined, e.g., capital investment grants, supports for research and development, for marketing and promotion and for development of human resources. But they are specifically tailored for the food sector and they can be linked to quite specific targets and objectives within that sector.

Before concluding this account of policy instruments for developing Irish indigenous industry, it is worth pointing out that since the mid-1980s, the principal state agencies concerned have generally aimed to adopt a more selective approach than formerly to supporting the development of indigenous companies. It is intended that support should be focused mainly on building on relatively promising indigenous firms which would be most likely to grow and to succeed in international markets. There has also been a greater emphasis by the agencies on encouraging strategic business planning when providing assistance for companies, rather than simply providing once-off grants to assist a particular individual investment or expenditure. The agencies commonly require to see a plan for the overall development of a company when

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considering whether to assist the company under some of the more important policy measures. The Company Development programme and the National Linkage Programme are obvious examples of this effort to encourage and assist longer-term strategic development planning by companies, but the agencies also require appropriate company development plans as part of applications for other forms of assistance.

To conclude this section, it will be appreciated from the brief outline provided above that the system of industrial policy to support indigenous industry is quite wide-ranging, with many different programmes or elements involved. In this section we have attempted to summarise briefly the principal elements. Further details on individual measures and sub-measures can be found in the *Operational Programme for Industrial Development 1994-1999*.

5. Irish Policy on SMEs

Unlike some member states of the EU, Ireland does not have a very distinctive set of policies which are specifically focused on SMEs and identifiable as "SME policy". Instead, most of the institutions or instruments of industrial policy are applicable to SMEs, just as they are applicable to larger firms. However, some policy measures, by their nature, may be relevant only to small firms in practice, even though there may be no rule which says that they are confined to firms of a particular size. In addition, there are a few policy measures and differences in legal requirements which are specific to small firms (usually defined as firms employing up to 50 people).

Most of Irish indigenous industry consists of SMEs, whereas most of foreign-owned industry in Ireland is made up of subsidiaries of large multinational enterprises. Consequently, the industrial policies which apply to SMEs are very largely those outlined earlier for indigenous industry. Some of those policies, by their nature, would only be relevant for SMEs in practice. As regards additional policy measures which are specifically targeted at small firms, a quite significant measure is the Access to Finance initiative. This allows small firms to apply for loans of £20,000 to £500,000 for a seven-year term, at a rate of interest which is subsidised by public funds. In addition, certain reporting or administrative requirements, for example relating to company accounts, are less onerous for small firms.

6. Restructuring Policies

Ireland was never very significantly involved in some of the large-scale traditional industries which have been declining in recent times in a number of the older industrial regions of Europe. For instance, Ireland was never very heavily engaged in the steel, shipbuilding or mining industries. To that extent, there has not been much call for systematic restructuring policies to cater for the decline of such major industries. However, as indicated in Chapter II, there are some other sectors, such as drink and tobacco, textiles, clothing and footwear, which have undergone rationalisation and restructuring and in which employment has declined.

In an earlier period, during the 1960s and 1970s, substantial attention was given to the need for restructuring the formerly protected industries during the shift from a policy of protection

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against imports to a policy of free international trade. Restructuring policies at that time included encouragement of co-operation rather than competition among firms in activities such as purchasing materials, marketing, selecting areas of specialisation and promoting the amalgamation of firms. As well as this, a grants scheme was introduced in 1963 with the aim of helping to meet the costs of the necessary structural changes. The grants helped to support investment in new, more up-to-date equipment. However, this grants scheme ended in the early 1980s.

As regards present policies, the present *Operational Programme* includes a sub-measure which aims to promote adjustment in traditional industries whose production is stagnant, declining or threatened. This sub-measure involves the relevant state agencies working with firms or groups of firms to assist their efforts to make fundamental adaptations or to introduce innovations in their business-, product- or customer-strategy so as to improve their prospects. It is intended that improved performance and productivity should come from a combination of improvements in existing activities (e.g. by cost reductions, quality improvements, improved product technology and better market focus) as well as from movement into higher productivity industry segments.

Under this sub-measure, aid is provided towards costs incurred by firms in their efforts to make adjustments and to begin to operate in more demanding and sophisticated product and market segments. Assistance is at a maximum rate of 50 per cent of costs incurred. The primary focus of the sub-measure is intended to be promotion of innovation, change and corporate repositioning, rather than simply to finance re-equipment or the acquisition of assets. Consequently, the main focus is on acquisition of the specific knowledge and competence required to make new or better and more sophisticated products to serve new, more demanding markets. Assistance for the purchase of equipment etc. is meant to be considered only where this is an essential but ancillary element in a programme for adjustment and increased innovation and productivity. It is recognised that such strategies for competitiveness and change may result in more efficiency and automation, as a way of securing the continuance of some jobs and avoiding the loss of larger numbers of jobs.

7. Conclusion and Assessment

In looking for lessons concerning the strong and weak points of the industrial policies applied in Ireland, we can make a few general observations about the impact of the broad thrust of policies in different periods.

First, Ireland began as an independent state in the 1920s with very little industry. The policy of protection against imports which began in the 1930s met with a fair degree of success in developing industry for a period of about twenty years. But this policy was ultimately unsuccessful, since it culminated in almost a decade of virtual stagnation in the 1950s. The key failure was the lack of development of exports since the policy of protection did not result in the development of internationally competitive industries.

When free trade and export-oriented policies were introduced after the late 1950s, exports expanded rapidly, industrial and economic growth rates increased considerably and industrial and total employment grew more strongly than in the 1950s. However, most of the improvement which occurred was a result of new investment in Ireland by highly export-oriented foreign-owned

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enterprises. At the same time, the formerly protected Irish indigenous industries were losing out to competing imports in the home market as protection was dismantled, while they also had rather little success in developing exports. As a result, indigenous industry contributed little to the employment growth of the 1960s and 1970s, and employment declined substantially in this subsector in the first half of the 1980s. Consequently, the period from the 1960s to the mid-1980s could not really be regarded as a period of great success for policy concerning indigenous industry.

Until the 1980s, therefore, Ireland had experienced a long-standing difficulty in developing a strong, internationally competitive, indigenous industrial sector. Since about the mid-1980s, policies have increasingly focused on this specific issue of how to develop stronger internationally competitive indigenous firms, and there have been indications that some greater success is at last being achieved in this respect. Between 1988 and 1995, employment in indigenous industry increased by just over 3 per cent. While this increase is not large, it is nevertheless a distinct improvement on the experience of the previous two decades. It was also a better employment performance than was experienced in most other EU countries, since their industrial employment declined on average over the same period.

It seems likely that the new policy initiatives introduced since the mid-1980s have contributed to this improvement. This can be inferred from the fact that, while the new emphasis of policy was on developing indigenous industry, the employment record of existing indigenous firms which were assisted by grants improved by more than that of existing foreign-owned firms (i.e., excluding new start-ups) which were assisted by grants (O'Malley, Kennedy and O'Donnell, 1992, Chapter 3). This reversed a long-standing pattern whereby the grant-assisted foreign-owned firms used to contribute most to employment growth. This seems to show the differential impact of policy measures focusing more on indigenous development in recent years.

The focus of policy for indigenous industry has also been on selectively developing stronger firms which would be internationally competitive and capable of exporting successfully. In fact there has been a marked growth of exports from indigenous industry and a significant increase in the proportion of its output going to export markets since 1986, to a degree which was unprecedented for decades previously. Indigenous industry still sells most of its output in the Irish market but, by 1992, 35.6 per cent of its output was exported, which was up from 26.6 per cent six years previously in 1986 (*Census of Industrial Production* data). The value of indigenous manufacturing exports, in current dollar terms, increased by an average of 16.9 per cent per year in the period 1986-92, compared with an average annual increase of 11.0 per cent for the manufacturing exports of the European Union, also valued in current dollars. Thus, in this respect too, it seems that the new policy initiatives introduced since the mid-1980s have been having some success in promoting the development of indigenous industry.

The indications are, therefore, that since the introduction of new policy initiatives began in the 1980s to focus on the development of internationally competitive indigenous firms, these policies have met with somewhat greater success than was previously experienced. It would be difficult to say, however, just which aspects of these policies are most effective and which aspects of them may be of little value. It would require quite detailed research to make reliable judgements on this.

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However, it may be worthwhile to spell out what appear to be the principal elements of the relatively new policy initiatives focusing on indigenous firms, since these have been part of what looks like a fairly significant overall improvement in the effectiveness of policies for indigenous firms. These relatively new initiatives since the 1980s have included:

- a variety of measures to strengthen management and the quality of business planning;
- reorganisation and expansion of export marketing programmes, and a focusing of these primarily on relatively promising indigenous firms;
- increase of support for science and technology programmes, with new elements such as grants and assistance for technology acquisition, and “technology audits” of firms with advice to them on how best to use the most appropriate technology (rather than just grants for R&D, which had been available previously);
- a more “selective” approach in policy generally, aiming to focus support more on building on the relatively strong indigenous firms which would be most likely to grow and to succeed in international markets;
- a greater emphasis on more integrated strategic planning when providing assistance for companies' development, rather than simply providing once-off grants to assist a particular individual investment or expenditure.

Apart from the policies to support the development of indigenous industry, there has been much less significant change in policies to attract foreign investment; these were generally seen as being a good deal more successful from an earlier date. And indeed foreign-owned industry has continued to make much the greater contribution to net employment growth in manufacturing in recent years, with an employment increase of over 16 per cent from 1987 to 1995 stemming mainly from new first-time investment in Ireland.

Foreign-owned industry imports most of its material inputs and also withdraws substantial amounts of profits from Ireland, so that much of the value of its output does not accrue as incomes to people in Ireland. Nevertheless, it does purchase most of its inputs of services in Ireland and this helps to generate a significant amount of secondary or associated employment in Irish services. It has been estimated that for every 100 persons directly employed within foreign-owned manufacturing in 1991, there were 56 employed in providing all the Irish services inputs which it required. This compares with a lower corresponding figure of 45 indirect services jobs per 100 direct jobs within Irish indigenous manufacturing (O'Malley, 1995). The same study also extends the concept of secondary or associated services employment to include employment in Irish services purchased by industrial employees, and employment in services supported by the repaying of taxes coming from industry and industrial employees. Using this broader measure of secondary or associated services employment, it is estimated that for every 100 persons directly employed within foreign-owned manufacturing in 1991, there were 94 employed in providing all the associated Irish services. This compares with a lower corresponding figure of 77 associated Irish services jobs per 100 direct jobs within Irish indigenous manufacturing.

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Taking indigenous and foreign-owned industry together, total Irish manufacturing employment has shown relatively strong growth, with an increase of 14 per cent in the period 1987-1995, compared with an overall decline for the EU. (Note that Table 2.3 shows an increase of 12 per cent for manufacturing employment between 1986 and 1995. This is consistent with the figure of 14 per cent for 1987-1995 because employment declined from 1986 to 1987 and because the "manufacturing" employment in Table 2.3 is defined slightly differently, including electricity, gas and water). Obviously, industrial policy is by no means the only factor which could have accounted for this outcome. But it seems reasonable to conclude that industrial policy was quite effective in this period. There has not yet been a large-scale evaluation of the present Operational Programme for industry, but the external evaluators of its predecessor, the Operational Programme for 1989-1993, were broadly satisfied with it. These evaluators, Deloitte & Touche (1991), found the various sub-programmes "to be working as intended, with few misfits", and they suggested "that major changes in the structure of the Operational Programme are not required". Results to date under the present Operational Programme suggest that it has been working with about similar effect.

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APPENDIX

DIFFERENT MEASURES OF EMPLOYMENT AND UNEMPLOYMENT: THE LABOUR FORCE SURVEY AND THE REGISTERED UNEMPLOYED (LIVE REGISTER)

Introduction

This Appendix contains a more detailed explanation of the measures of employment and unemployment which are available from the Labour Force Survey. With regard to unemployment the Appendix also contains a description of the reasons why these differ from the monthly Live Register count of persons covered by Department of Social Welfare employment income support schemes. This description draws extensively on an explanatory paper prepared by the Central Statistics Office for the National Economic and Social Forum in January 1996.¹

The measurement of employment and unemployment is now an issue of critical economic, social and political concern. From the statistical perspective the first aspect to clarify is what is meant by these entities and how they should be measured. This has become more difficult as the labour market has become more complex - due to technological and social developments, changes in the nature of work (more part-time, casual and seasonal work), early retirements, more developed social welfare services and state involvement in training programmes and employment schemes. The reality is that there is now a wide spectrum of states between being completely inactive and completely employed. Complex issues such as under-employment, discouragement and potential labour supply are also relevant to any detailed consideration of the labour market. Because of this complexity it is not surprising that there is often ambiguity and confusion, especially in relation to the level of unemployment, given that a number of different measures are available.

As is the norm internationally, the definitive measures of employment and unemployment in Ireland are derived from the Labour Force Survey (LFS). This survey has been carried out according to the same methodology for some twenty years and as such is the only source of consistently defined statistics on employment and unemployment. It is a sample survey covering over 45,000 households carried out by the Central Statistics Office during April/May each year. The information collected in the survey relates mainly to the demographic and labour market circumstances of household members.

The two relevant classifications available from the survey are based on:

- Principal Economic Status (PES), which is the main classification used nationally and

¹ Central Statistics Office (1996). "*Measurement of Unemployment*". Paper prepared for the National Economic and Social Forum, Dublin.

Appendix

- the International Labour Office (ILO) classification used mainly for international comparisons.

With regard to *principal economic status* the categorisation of a survey respondent is based on the respondent's personal perception of their situation in response to questions put by the survey interviewer. The categories distinguished are:

- at work
- unemployed
- student
- on home duties
- retired
- other

This approach provides the most commonly used Irish estimates of employment and unemployment. Its main advantages are that it provides a consistent series on employment and unemployment extending back to the 1970s and, as it necessitates only one survey question, estimates can be processed and produced quickly. Preliminary Labour Force Survey estimates on this basis are available within six months of the taking of the actual survey.

The measures of employment and unemployment based on *ILO definitions* involve distinguishing the following groups:

Economically Active Population:

In employment: all persons who worked in the week before the survey for one hour or more for payment or profit, including work on the family farm or business and all persons who had a job but were not at work because of illness, holidays etc. in the week in question;

Unemployed: all persons who, during the week before the survey, were without work, available for work and had taken specific steps to find work in the preceding four weeks;

Inactive Population: (not in the Labour Force):

All persons not falling into the above two categories.

The ILO classification is derived from answers given by LFS respondents to questions relating to their working situation in the week prior to the survey and to a range of questions relating mainly to job seeking activities. In the context of this classification the survey's results also distinguish more details of particular groups e.g., persons employed part time, those under-employed, persons unemployed seeking full-time work, persons not economically active but marginally attached to the labour force etc.

Appendix

Comparisons

Comparative data for the two types of measure are given in Tables 1 and 2. The first table contains summary data for the number of persons in employment and unemployed in each year since 1986 classified according to PES and ILO definitions. Table 2 contains a more detailed comparison of PES and ILO estimates for 1994 involving a simultaneous classification according to both sets of criteria involving a gender sub-division and also distinguishing the population classified as economically inactive.

Table 1
Numbers at Work and Unemployed according to Principal Economic Status (PES) and ILO Definitions, 1986 to 1995

Year	PES			ILO		
	At Work	Unemployed	Labour Force	At Work	Unemployed	Labour Force
	(000)			(000)		
1986	1,081	227	1,308	1,095	226	1,321
1987	1,090	232	1,322	1,111	226	1,337
1988	1,090	218	1,308	1,111	217	1,329
1989	1,088	201	1,289	1,111	197	1,308
1990	1,134	176	1,310	1,160	172	1,332
1991	1,134	209	1,343	1,156	199	1,354
1992	1,139	221	1,360	1,160	209	1,369
1993	1,146	230	1,376	1,178	220	1,397
1994	1,182	218	1,400	1,214	210	1,424
1995	1,234	190	1,423	1,268	175	1,423

Source: Central Statistics Office (1995): *Measurement of Unemployment*. Paper prepared for the National Economic and Social Forum, Dublin.

At an aggregate level, the overall totals for employment and unemployment under the PES and ILO approaches are relatively similar. Nevertheless Table 2 shows that there are persons who are employed or unemployed under one definition, but not necessarily under the other. The main difference for males is in relation to unemployment. The ILO based estimate of unemployed males in 1994 at 131,000, is some 31,000 below the PES estimate - i.e., a net total of 31,000 men who described their situation as "unemployed" were not so classified according to the international standard definitions, mainly because they did not fulfil the requirements relating to job search.

Appendix

Table 2
Detailed Comparison of PES and ILO based Labour Force Estimates for 1994

ILO Economic Status	Principal Economic Status			Total
	At Work	Unemployed	Inactive	
Males				
In employment	750.6	2.8	7.5	760.9
Unemployed	0.2	123.6	7.2	130.9
Inactive	0.9	35.5	382.7	419.1
Total	751.7	161.9	397.3	1,310.9
Females				
In employment	429.2	1.2	22.9	453.2
Unemployed	0.1	39.7	38.9	78.6
Inactive	0.7	15.0	812.2	827.9
Total	429.9	55.9	873.9	1,359.7
Persons				
In employment	1,179.8	3.9	30.4	1,214.1
Unemployed	0.3	163.3	46.0	209.6
Inactive	1.5	50.6	1,194.9	1,247.0
Total	1,181.6	217.8	1,271.3	2,670.6

Source: Central Statistics Office (1995): *Measurement of Unemployment*. Paper prepared for the National Economic and Social Forum, Dublin.

For women the differences between the self-assessment PES classification and the ILO based results are more marked. Concerning employment, there were 23,000 more women in employment according to the ILO concept than were classified as “at work” on a PES basis. Of these, nearly 16,000 described their PES as “on home duties”.

The number of women classified as “unemployed” on the ILO basis was 79,000, while the corresponding PES estimate was much lower at 56,900. Some 44,000 women who were categorised as “inactive” under PES who were classified as unemployed according to the ILO basis, while on the other hand about 15,000 women who described their PES category as “unemployed” were classified as “not economically active” under the ILO definition.

It should be noted, therefore, that even though the overall aggregate figures for the two systems are similar, for the reasons as stated, the composition of the ILO based totals for employment and unemployment involve higher proportions of females.

Appendix

The Unemployment Register (Live Register)

The Live Register covers only those persons falling within the scope of certain Department of Social Welfare schemes and is not a definitive measure of the absolute level of unemployment. The categories covered by the Register are:

1. Claimants for insurance-based Unemployment Benefit (UB), excluding systematic short-time workers;
2. Applicants for Unemployment Assistance (UA) excluding smallholders (i.e., small farmers) and self-employed persons. These benefits are not insurance based, but applicants must satisfy a means test.
3. Other registrants including applicants for credited social welfare contributions, but excluding those directly involved in an industrial dispute.

While the end of month Live Register count is widely known because of its monthly frequency and timeliness of publication, its main statistical use heretofore has been as a trend indicator of short-term sub-annual changes in unemployment. The Central Statistics Office has always emphasised that the Live Register does not provide a measure of the absolute level of unemployment.

The Live Register total has always exceeded the Labour Force Survey estimate of unemployment. The differences were relatively small until the mid-1980s but they have grown significantly since then (see Table 3). The latest figures, for April 1995, show that the Live Register total exceeded the LFS PES estimate of the number unemployed by some 84,000.

With regard to this widening divergence, it is of interest to note the following aspects in Table 3.

Under 25 years: In 1986 there were 15,700 fewer persons aged under 25 years shown as unemployed on the Live Register than in the LFS. However, by 1995 the Register figure exceeded that for the LFS by 16,800.

Females aged 15-64 years: In 1986 the Live Register total for this group exceeded that from the LFS by some 12,500 and this widened steadily over the years to reach a total of 40,900 by 1995.

Males aged 25-64 years: In 1986 the Register total for this group exceeded the LFS figures by 7,900 but by 1995 this had widened to 27,600.

Appendix

Table 3
Net Differences between the Live Register and the LFS-based PES Unemployment Measure

Year	Males		Females		Total
	Under 25	25-64	Under 25	25-64	
<i>000</i>					
1986	- 9.9	+ 7.9	- 5.8	+ 12.5	+ 4.7
1987	- 7.0	+ 11.5	- 5.1	+ 20.5	+ 18.6
1988	- 7.4	+ 11.5	- 3.0	+ 23.8	+ 23.8
1989	+ 4.6	+ 11.7	- 2.0	+ 27.6	+ 31.8
1990	+ 1.2	+ 15.2	+ 0.5	+ 29.9	+ 45.5
1991	- 1.4	+ 14.7	- 1.1	+ 28.3	+ 39.3
1992	+ 5.0	+ 18.5	+ 3.1	+ 34.6	+ 59.9
1993	+ 6.6	+ 19.7	+ 3.4	+ 36.5	+ 64.9
1994	+ 6.3	+ 20.9	+ 5.1	+ 36.2	+ 66.7
1995	+ 9.4	+ 27.6	+ 7.4	+ 40.9	+ 84.1

Source: Central Statistics Office (1995); *Measurement of Unemployment*. Paper prepared for the National Economic and Social Forum, Dublin.

Note: The actual differences relate to the Live Register figures minus the LFS estimates.

In so far as PES measures are concerned the Labour Force Survey has followed a consistent methodology since 1975. On the other hand, changes in the administrative rules and practices governing the schemes on which the Live Register is based have had a significant impact on the total numbers involved, thus creating the divergence as indicated. Relevant developments in this regard involve:-

- the Social Welfare (No. 2) Act 1985 (implementing EU Social Welfare provisions) which resulted in an increased number of women signing on, without any change in their labour force status:
- the necessity to be on the Live Register as an eligibility requirement for subsequent participation in employment and training schemes:
- the increasing number of part-time and occasional workers (other than those on systematic short-time) who sign on in respect of days when they are not employed:

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- changes in the rules and practices in relation to means testing (e.g., for unemployed persons resident with parents):
- changes in the levels of UA and UB payments:
- arrangements for splitting of entitlements between spouses.

These factors tended, in the main, to exert an upward influence on the Live Register total. It is not possible, however, to quantify the exact impact of any one of these factors. However, additional information from the 1994 Labour Force Survey gives some indication of the possible effect of occasional working/signing on and of equality legislation. The detailed 1994 Survey results indicate, for example, that 28,000 people who describe themselves as “at work” also said that they were on the Live Register. This reflects the number of persons who work part-time or occasionally and who legitimately “sign on” in respect of days when they are employed. The 1994 Survey also indicated that some 23,000 persons who described their status as “home duties” also said that they were on the Live Register. This is indicative of the impact of equality legislation introduced in the mid-1980s.

Long-Term Unemployment

It is also relevant to consider measures of long-term unemployment (LTU) derived from the above-mentioned sources. In this context for the Labour Force Survey the ILO based concept is the only one considered as this includes search for work as a basic criterion, and long-term unemployment can only be defined on the basis of the duration of this search.

Figures for the numbers of LTU persons measured both from registration sources and the LFS are given in Table 4 for each of the years from 1985 to 1995.

In the earlier part of this period the Live Register LTU totals were smaller than those associated with the Labour Force Survey and constituted a much smaller share of total unemployment. In 1985, for example, the number of persons on the Live Register for over a year was 95,000 (41 per cent of the total) compared with an estimate of 145,000 unemployed persons derived from the Labour Force Survey who would have been searching for work for over twelve months. The latter figure constituted 62 per cent of total unemployment as measured from that source.

There are a number of possible reasons for this difference. In relation to the registered unemployed, a significant aspect concerns the manner in which breaks are recorded in the duration of registration because of illness, short periods of employment or other reasons. After each such break or interruption, a person can be recorded, from an administrative point of view, as starting a new period of registration which thus prevents the build up, or accumulation of an extended unemployment duration. Another relevant feature is that if a person leaves a job voluntarily there can be a waiting period before eligibility for the receipt of Unemployment Benefit is established. During this time the person may not be on the Unemployment Register, but from a Labour Force

Appendix

Survey point of view, the respondent's perception could be that this was a period of unemployment, particularly if active job search was engaged in.

In the Labour Force Survey, on the other hand, the determination of a period of job search is dependent primarily on the memory or recall capabilities of the respondent and one can envisage situations where this could lead to longer duration of search periods *vis-a-vis* Register based methods. The period may embrace several areas of unemployment, interspersed by short spells of illness or employment - i.e., the opposite effect which applies in the case of the Register based unemployment figures.

Table 4
Long-Term Unemployment (LTU) as derived from the Live Register and the Labour Force Survey (LFS)

Year	Live Register (April)		LFS (ILO Concept)	
	LTU (000)	Share of Total Unemployment (%)	LTU (000)	Share of Total Unemployment (%)
1985	95	41.2	145	62.1
1986	104	44.3	148	62.9
1987	111	44.4	152	63.8
1988	109	44.9	142	64.5
1989	105	44.7	127	64.5
1990	100	44.9	109	63.5
1991	104	42.4	118	61.9
1992	119	42.3	118	56.4
1993	132	44.3	125	58.5
1994	135	47.3	127	62.7
1995	134	48.2	102	58.2

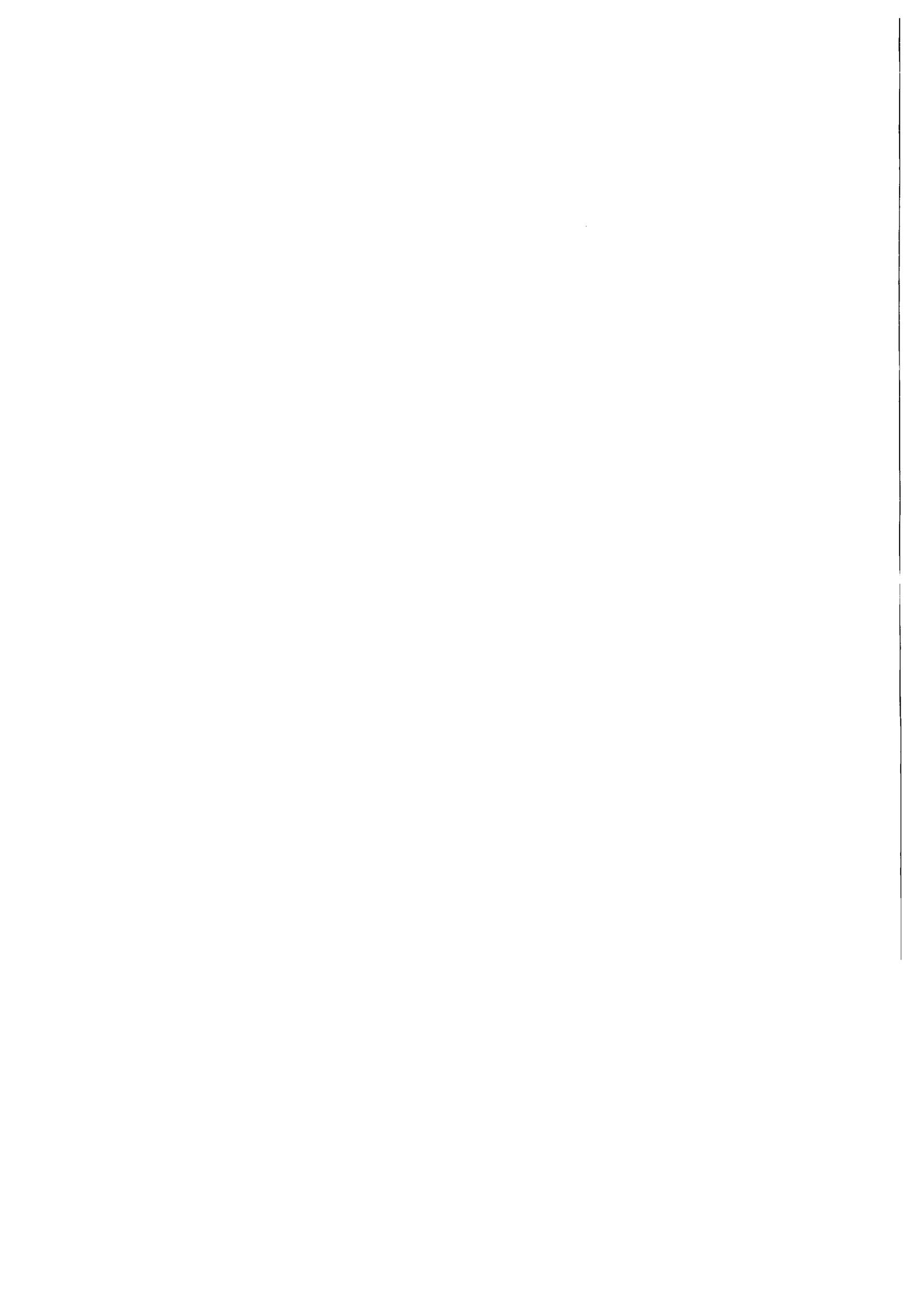
Sources: (1) Special tabulations from Annual Series of Labour Force Surveys.
(2) Eurostat (1993). Labour Force Survey, 1983-1991

The figures in Table 4 show that gradually over the years the Live Register LTU total has increased much more rapidly; by 1995 the Register based figure was 134,000 (or 48 per cent of the total Live Register) compared with a much lower figure of 102,000 associated with the Labour Force Survey. The latter figure accounted for 58 per cent of total LFS unemployment, still higher than the corresponding Live Register proportion, but lower than that for earlier years.

The divergence between the two measures has been particularly marked in recent years. In 1990 the two totals were broadly similar (between 100,000 and 110,000) but by 1995 the Live

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Register figure had increased by over one third, whereas the Survey based LTU estimate had actually fallen slightly. This is perhaps not surprising given the nature of some of the changes to the Live Register, particularly those relating to accommodating greater numbers of persons working part-time. The very nature of this situation suggests that such persons are likely to remain on the Register for a very long time, thus causing the measured extent of long-term unemployment to increase.





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