

PAPER UNEMPLOYMENT: THE IRISH EXPERIENCE

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1. Introduction

When asked to give a paper at this conference I choose “Incentive to encourage youth employment” but very soon into my research I felt that the overall approach to unemployment by successive Irish Governments offered more valuable insights into this serious problem and the lack of recognition of how serious this problem is. This is particularly so for small economies and regions on the periphery of the EU.

Unemployment is a word being used more and more by politicians in the EU in recent times. It is only reasonable that this is so as **there are nearly 20 million persons unemployed in the EU at present**. However in view of the economic priorities of these same EU governments this concern appears more rhetorical than real as very little is being done to solve this very serious problem. A problem which has far reaching implications not only for the commercial but also for the

economic, social and political activity within the Union and for its relationship with other economies.

My opinion is based on the EU governments approach to the following developments:

1. The priority for most EU governments is Monetary Union. It is not without significance that **level of Unemployment** is not a criterion for membership of this union whilst inflation, debt, budget, interest rate and exchange rate are. In fact the Social Charter as a requirement is no longer deemed necessary e.g. Ireland and United Kingdom.

2. Most EU governments are moving from an interventionist economic model to a more market driven model. e.g. reduction of the welfare state and privatisation.

3. Globalisation of markets with the free flow of capital, enterprise and labour seem to demand lower labour costs in order to compete in these markets.

4. Technology seems to mean less labour intensive production. The ever changing technology itself creates a mismatch of skills in employees being made redundant.

Governments responses to these developments and these are but a few seem to be lower taxes and wages which they **hope** will enable **private enterprise** to solve all employment problems.

The basis of this paper is to point out how this approach is myopic in the extreme and governments must examine in far more detail the implications of unemployment in modern society and regard full employment as a social necessity rather than an idealistic economic objective.

I intend to use the Irish response to endemic unemployment over the years to make this point but first let me give you my definition of employment and unemployment.

Employment may be defined as undertaking work for payment. However this payment must be of sufficient value as the vast majority of adult beings rely on this payment to provide for themselves and their family and to achieve their ambitions. This value must be determined by the society in which people live and work and must maintain the dignity of the human condition as defined by that society. I stress this point as many economic commentators have stated that the lowering of the wage rates will solve all employment problems.

Unemployment may be defined as those people who are seeking legitimate work for payment but cannot find it at a suitable rate. Remember there is always work for those who work for nothing. Whilst most western countries have a short term basic welfare their re-employment recently govnts are examining the economic cost of this paymen (£10,200 per unemployed)¹ (Task Force on the Long-Term Unemployment.) Unfortunately they are not examining in more detail the social impact of this unemployment on the individuals, their families and society itself. In fact this social cost far outweighs the economic cost. Initially the individual and their family suffer from a diminishing self esteem as they are cut off from the means by which they can provide for their needs and achieve their ambitions.

They miss the social contact and organisation of work and the social recognition of their achievement. Very quickly they feel alienated from the society yet are utterly dependent on its welfare payments. This leads to a dual value system which overtime creates a black economy, violence, crime and a growing instability in society. Mr. Klaus Hansch, President of the European Parliament, stressed this very point in a speech to the tripartite conference on employment last June stating that long term unemployment actually undermines the confidence in justice and democracy.

This frightening scenario is now apparent in the urban centres of Ireland and I am sure in urban areas of unemployment throughout Europe. It is vital that if private enterprise cannot provide enough suitable employment in the time-scale required to prevent this social alienation, governments must provide a more dignified alternative to mere payment of social welfare.

2. Economic Strategies.

1850/1960

DECLINE

Traditionally Ireland did not seem to have an employment problem. All surplus labour, in particular the youth, emigrated to Britain, United States and Australia. In fact emigration was so great and prolonged that the Irish population declined continuously from 1845/46 to 1960 even though we had the highest birth rate in Western economies during that time.(we now have the lowest). The Republic of Ireland gained independence in 1922 however emigration continued for 40 years thereafter.

1. Task Force on Long term unemployment

Thus in this era emigration appeared to solve the unemployment problem in particular youth unemployment.

1961/1970.

BOOM

In 1959 a complete change in economic strategy i.e. from a self sufficiency closed economy to a more open and planned economy, was introduced. The population trend was reversed and Ireland's population grew for the first time in 110 years.(see table 1) Ireland then enjoyed the economic boom of the 60's with an unprecedented level of economic growth of 4.2% on average over the decade. Thus even though emigration and employment in agriculture dropped substantially, unemployment remained at 5% at the end of the decade.

Thus in this era economic growth, world economic boom, economic planning and Multi-National foreign investment just contained unemployment during this decade.

1971/1981.

RECESSION

In the 1970's emigration turned to immigration and the population grew substantially.465,000 including 97,000 immigrants(see table 1.)There was an economic recession in both US and UK at his time. The labour force grew by 162,000 (see table 1) and the economy grew by 3.5% on average which was more than the European average during the period, but still not enough to provide employment for those coming on to the labour force. Unemployment increased to 9.9%. Ireland joined the EEC in 1973 which promised the solution of all problems but with the Oil shocks in 1973 and 1979 this panacea was not to be. At the end of this decade the Exchequer borrowing was 6% and the national debt had risen from 50% to 87% of GNP, the Bal. Of Payt. Deficit 15% of GNP and inflation 18.2%. Even state employment grew substantially during this decade. The economy was in stagflation and out of control and still unemployment, though rapidly growing, was not a priority. It was also felt that unemployment was a only a temporary phenomenon caused by a lack of emigration.

Thus in this era the rapid fiscal expansion, joining the EEC and relatively high economic growth was insufficient to create enough jobs for the Irish economy.

1981/1990.

DEPRESSION

1981/1986 Containment

A new Government introduced a **Fiscal Contraction** policy and increased taxation and attempted to curtail expenditure(**including an embargo on state and**

semi-state employment. This situation still prevails.). However by 1986 the budget deficit reached 8.3%, the national debt reached 129% of GNP (it was costing 30% of tax revenue to service it), unemployment reached 17.5% with an average economic growth of only .4%. Inflation had now dropped to 3% and there was a Balance of Payment surplus.

Thus in this era fiscal contraction had reduced inflation but also employment. Unemployment was still not a priority.

1987/1990 Adjustment.

Another new Government introduced a Monetarist economic policy and the budget deficit was reduced dramatically to 1% of GNP and Nat Debt to 100% of GNP. Economic growth rose to 5.5 % on average, inflation remained at 3% and Balance of Payments surplus improved but employment continued to drop.(Table 1.) Unemployment stood at 16% even though rapid emigration had returned. (250,000 in 6 years) The UK and US economies boomed. Perhaps emigration would again solve our unemployment.

Thus at the end of this era all economic criteria seemed to be in order, even emigration had returned, but massive unemployment still persisted.

1991/1996.

BOOM

All economic criteria continued to improve and the Irish economy is sometimes used as an example for other economies hoping to join the EMU. The economic growth is over 7%, inflation only 1.5%, and a surplus Bal. Payt. But still official unemployment is at 13% (Live Register 18%) even though over 100,000 jobs were created.

It is only now, at a time of unprecedented economic success that the real problem of unemployment is being recognised. The 10 years of economic growth, 5% on average a year, has not been sufficient to solve or reduce sufficiently the level of unemployment in Ireland.

3. Responses

Just like the EU politicians of to-day the Irish politicians over the years, of all shades from left to right, have stated unemployment as their economic priority. Yet over the years economic policies adopted have not indicated this concern. In fact many of these policies implemented compounded the problem. I wish to stress that this was due to ignorance of or lack of interest in the real cost of unemployment, the opinion that the small peripheral economy could never create enough jobs

for the people and the traditional view that emigration would eventually solve the problem.

Over the years comments during the different eras which seem to indicate this attitude were as follows:

In the 50's our Taoiseach is said to have stated when asked about the sad state of the Irish Economy

“There are more important things than economics.”

In the 60's A usual comment

“.. A rising tide lifts all boats”

In the 70's A response to the question of planning

“There are too many variables to plan”

In the 80's A despairing response

“There is nothing we can do unless they emigrate”

In the 90's What is happening?

“We must do something before it is too late”

These attitudes abounded with a growing level of unemployment for which piecemeal schemes were being introduced instead of a long-term, planned and holistic approach to solve a very serious problem.

4. Effects

Emigration

Emigration as a solution created the problem where the young, energetic and in the 80's educated left to work and pay their taxes in other lands. From 1960 to 1990 over 300,000 net migration. It also created an unbalanced demographic make up where there was a very high dependency rate of 62% in 1991 with relatively large sections of very young and very old people. The movement of people has also depopulated the countryside creating further regional unbalance in the economy. Almost 30% live in Dublin 33% in urban structures and remainder in a rural setting.

Foreign Investment

The reliance of the state on foreign owned companies to create employment in the industrial sector has been very successful and an enormous benefit to the economy creating at present 90,000 jobs. It is also the area of greatest growth at present but all profits and royalties tend to be repatriated to the countries of origin reducing the return to this economy. (£4 billion 1995. C B report Aut. 1996.) This sector has developed very few links with the indigenous sectors and is very capital intensive and potentially transient. It's presence may in fact have diminished the development of an indigenous applied technology sector.

EU

In the 70's the unwillingness or inability to plan the economy in order to exploit the opportunities of the EEC was a fundamental error. It was presumed that joining was all that was required and all benefits would flow. It is only in recent times that planning has again being introduced. We have had various programmes of development but they were mainly aspirational as opposed to clear cut economic objectives with strategies to achieve the objectives. In 1993 we have at last introduced a National development Plan through which the state will invest £20 billion in infrastructure to create 200,000 jobs by 1999. This is funded with 40% EU, 40% State and 20% private sector. This represents our first attempt at comprehensive planning since 1963. Yes! We are the best at extracting funds from the EU. Our funds per capita being the highest in Europe. We have tended to concentrate on subsidies and grants, which are not and never will be the real opportunities of the EU. In fact a Minister recently stated that farmers should farm their land instead of the subsidies.

Fiscal Expansion

The utter fiscal irresponsibility of the late 70's and early 80's created a national debt which is still costing the taxpayer over £2.3 billion a year. The rapid increase in taxation, due to an already narrow tax base, fell most heavily on the PAYE sector and especially on the lower paid. Efforts to extend this tax base have been half-hearted and futile. This strategy created employment, poverty and wage traps which act as a substantial disincentive for people on social welfare to take up employment, which still exist to-day. (NESC. A Strategy for Competitiveness, Growth and Employment 1993).

Employment Trap. A single person being offered a job at £120 a week has £29 more working than staying on the register.

A married person with two children at £260 (industrial wage) has £38 more for working.

Poverty Trap. In some cases people on low wages can be poorer when they receive more income and their benefits are removed.

Tax wedge. This is the difference between the employer cost and the net disposable income of the employee. This wedge increased by 30 % between 1979 and 1986 and even though it has improved slightly it still amounts to £90 approx. including VAT on a labour cost of £226 in 1994/5.

Employment

In the 80's there was a complete embargo on all state and semi-state employment. (still partially in place to day) This measure particularly affected youth employment. This combined with changes in technology reduced jobs for the under 25's by 100,000 in this decade alone.

At present we have 281,000 people claiming unemployment benefit, which is 50% greater than our official Labour Force Survey figures of 185,000. This official figure is expected to fall to 169,000 this year but there is very little change in the live register. (Central Bank Report Autumn, 1996). It is only recently this difference and what a difference? is being examined. A recent unofficial report created controversy when it stated that a large incidence of abuse existed as some people who were claiming benefit were also in full employment. We shall have to wait the results of a further inquiry set up by the Minister of Social welfare on this point. The reasons for the difference are at present a matter of extreme controversy and arise due to the lack of monitoring of the system over the years.

Whatever the explanation Ireland has the third highest level of unemployment in the EU even after 10 years of economic growth. It has the highest level of long term unemployed, 48% of unemployed are out of work over two years. (CSO. Live Register Oct.1995.) **Whilst unemployment is dropping the long term unemployed is increasing.** This section appears to be least affected by the growth in jobs and by the schemes set up by the state to reintegrate the unemployed to the work force. It is important to note that the longer a person is unemployed the less likely a person is going to get a job. From 70% in year one to 20% in year three. (OECD Employment outlook 1995). There is also a strong correlation between leaving school early and qualification and length of time unemployed. Those with lowest qualifications or none being most vulnerable.

Youth unemployment is also very high at 25% of unemployed but the European average is in this context 22%. This category has twice the rate of unemployment of the over 25's which in Ireland is 13.2%. However this is the group most

likely to emigrate once there is an upturn in the economies of UK and US. They are most likely to enter the job market and for whom the training schemes introduced by the state are most appropriate. The growth in this sector has also been considerably reduced by the increase in Third level places from 20,000 in 1970 to 97,000 in 1996. In the youth unemployment there is also the correlation between education and unemployment. Those who leave early and particularly those with no qualifications are those most vulnerable. (46% unemployed 1991) They are also the least motivated and skilled and tend to drop out of training courses. They seem also to come from backgrounds of unemployment compounding the problem of long-term and localised unemployment.

There is evidence that a lot of the recent job explosion is in part time, short term, dead end and lowly paid jobs into which these people drift.

At last the Irish government has accepted the tragic problem of long term unemployed and is trying to introduce more focused schemes to solve it. At present to reduce the long-term unemployed (154,000 people over 1 year) of which 25,000 are under 25 will require approx. 10,000 jobs a year to 2006 to reduce it to the European average.

In table 2. We identify the trend common to all Western economies. The move away from the primary based agriculture to industry and services. However this facility is not as available to every economy particularly one so depended on agriculture as in Ireland. There is a second dimension that the industrial base which, as already stated, is dominated by foreign companies is not necessarily suitable to absorb the outflow from agriculture. Whatever the reason the economy must provide jobs for those leaving the traditional agriculture sector. The rate at present is 3000 (CB report Aut.1996) and should continue over the coming years.

Demography

At present the population is expected to rise to 3.7 million in 2006. However due to emigration and lifestyle changes there will be over 100,000 less people under 15 and 230,000 people more in working adult section. (See table 3). This prediction will reduce the dependency ratio for the Irish population from 61% as recorded in 1991 to 48% in 2006. This will dramatically reduce the numbers coming on to the labour force at that time. However we now have to create jobs for those coming on to the workforce at present. This figure is forecast as 22,000 a year to 2001 and 15,000 a year to 2006. This figure includes a growth in the participation rate of woman which traditionally left work on marrying. In fact the rate of growth of women in the work force is forecast as 2% whilst the corresponding increase for males is .8% over this period. (CSO Population and Labour Force projections 1996-2006.

Access to Jobs

Many schemes and training supports have been introduced to help individuals who may not have the education, training, skills and facilities to find a job in an increasingly changing jobs environment. To date these schemes have proved helpful in some case but totally inadequate in all. The purposes of the schemes were two fold.

- A. Making the individual more attractive to the employer and
- B. Giving the individual more incentive to seek work.

They proved particularly ineffective with the long term unemployed and the unqualified. Schemes whereby the employer was subsidised to employ people proved successful for the length of time the subsidy lasted. Enterprise scheme for a self employment scheme has a success rate but is quite limited. Youth-reach aimed at early young school-leavers and whilst a good scheme has not reached its target market and many participants drop out. In 1994 a Community Employment Programme to replace a range of programmes was introduced and is used to provide training and work experience for long term unemployed. The programme which incorporates helping voluntary groups and public sector bodies carry out work which would not be done without them. Participants on all schemes are 51,000 Aug. 1995 of which the CE scheme has 38,657. However the success rates to-date, which is very early for CE, indicate a 22% entering the work force, 29% return to the register and 44% return to the scheme (Data April 1995) (Dept. of Enterprise and employment. These schemes are vital in providing training, skills and help to some but unfortunately few. It is essential that unless more resources and more importantly more co-operation from the private sector these schemes will never alone provide the solution. Individuals on these courses are not included in the official figures and thus if these courses are not successful these then these figures are understated. In fact in some quarters these courses have been cynically seen as a means of manipulating the figures.

5. Summary

Now the Irish economy according to the above calculations must generate approx. $(10,000 + 3,000 + 22,000)$ 35,000 jobs to 2001 and 28,000 jobs to 2006 to bring us to 5% of the projected workforce in 2006 of 1.6million. It is vital that the long-term unemployed will be gainfully employed at that stage.

Despite the rhetoric over all these years (see table 1.) the economy only created 6,000 jobs a year, 3,000 up to 1991, when approximately 20,000 were

coming on to the labour force. It is therefore rational that if the economy is going to create 35,000 jobs in the coming decade there must be radical change in the thinking of politicians and changes in the structures if this goal is to be achieved.

There are grounds for hope but not complacency. The present Government has stated a belief in the long term objective of full employment. The National Development Plan has a job target of 200,000 between 1993-1999 as already mentioned. This is not enough for our figure but greater than ever before. We have lower unit wage costs than our trading partners for many years, our taxation regime is benign (10% manufacturing tax and income tax avoidable for self employed), substantial support to the private sector in investment and subsidy, far less labour protection legislation than our European partners, an educated and skilled workforce and low levels of pay and industrial unrest created by agreement between the employers, unions and government over the years.

However in the 90's, the economy has boomed and 100,000 more jobs were created but still the figures are not reducing the long-term unemployed which is still growing. Almost half of the Irish population receive some form of social welfare payment. Total £4.500 billion or 38% of total revenue was paid out 1995. There is a growing level of violence, drugs, crime, general black economy activity and general social de-generation. There are serious unemployment black spots where a person working is the odd one out. In fact there is a growing evidence of demands for "Law and Order" and the diminishing of rights which it may entail. At present we are preparing for a Referendum on the restriction of the right of Bail for certain criminals. This is a diminishing of the constitutional right of "Innocent until Proven Guilty" which has major implications for all citizens.

It has taken a long time and a total cycle of economic experience to prove that unemployment must be regarded as more than just an economic objective. That governments must ensure growing levels of unemployment are examined sooner rather than later. If the private sector is not responding and in many cases it cannot, will not or should not. Than government must intervene and take on the responsibility of maintaining a full employment economy. It is vital to realise that full employment will not just happen. It requires planning and a total social commitment to achieve it. Therefore governments should and must demand the co-operation of all vested interest in the society to pursue it.

6. Conclusions

1. A lack of comprehensive economic planning particularly with a priority to create sufficient jobs for those coming on to the labour force market. Without a

clear objective and a long-term plan to achieve it successive governments have tended to resort to crisis management to solve economic problems.

2. Economic policies implemented in this fashion have tended to exacerbate employment problems particularly in the long term.

3. The private sector has not and will not solve all employment problems particularly the long-term unemployed. The longer governments wait for it to do so the more serious the problem becomes. The continuance reliance of successive Irish Governments on this sector to solve the problem is now obvious to all.

4. Emigration may relieve short term pressure but it is not a long term solution. It diminishes a society and a culture. It creates a demographic unbalance. In Ireland it provides a hidden reserve of workers who return whenever the economies they emigrate to decline. A 1% increase in UK growth has a much greater effect on Irish unemployment than a similar rise in Irish rates. However the opposite will also apply.

5. Too much reliance on external forces to generate economic activity within the economy. e.g. Foreign Companies, EU Funds and subsidies, Intervention etc. All these forces have contributed to the Irish economy but overall there has been a lack of development of indigenous resources and external markets.

6. A policy of benign neglect where handing out money on social welfare to a growing number of people, tended to meet short term political goals. However the amounts being handed out (£4.5 billion) and the manner in which they are handed out have caused serious structural problems in the overall system. There has been a total lack of monitoring and co-ordination of the services being offered. Over time this neglect has created poverty and wage traps. It has also caused an alienated and dependency culture, many of whom have no faith in the democratic process and pursue life accordingly.

7. A growing realisation, due to the present position of our society, not too late, I hope,

- a. That full employment is a necessary and not an optional objective.
- b. It can only be achieved by a pro-active economic plan.
- c. That all efforts to solve unemployment must be co-ordinated and constantly monitored.
- d. That the solution will require a much more comprehensive commitment not only from the government but all members of society including the private sector.

7. Recommendations

Whilst these are just some of the recommendations I wish to make to the Irish Government concerning unemployment they may be of value to others who's economies have not yet developed the long-term problem which years of semi-neglect has created in Ireland. It is important to stress that many supports already exist but they are not co-ordinated in a manner to achieve the ultimate objective.

1. Total commitment of all forces of the state to full employment. It is essential that this should not diminish the overall competitiveness of the economy. However it will require a more holistic examination of the social costs involved and a more comprehensive economic plan to achieve it.

2. Removal of anomalies in taxation which diminish incentives to work. Little is being done in this regard but in view of the level of the traps and the present economic boom a lot more could be done.

3. No individual will be allowed on the live register for more than six months without some intervention in the form of courses, training, work experience and or work places and or counselling. Every effort to ensure that the youth do not enter the long-term unemployed queues.

4. A young person cannot enter the labour force without certain minimum training or skills. Particularly if that individual has opted out of school at an early age and without qualifications.

5. A much greater co-ordination between the institutions and agencies of the state in solving all unemployment. e.g. Educational, Social Welfare and FAS the government training agency. This should include not only access to the institutions but also their suitability of courses.

6. A commitment to a certain basic wage which gives dignity to the working person and opportunities for the advancement of their ambitions. An examination of short-term, part time and lowly paid jobs is immediately required because they do not represent a real job in the context of developing a career or even in some cases an economic living. The evidence is that these are the people who will drift on to the live register when they cannot find worthwhile employment and will tend to rely on social welfare all their lives.

7. Long term unemployed given access to full time education on full benefits and an opportunity to develop new careers. Others placed on suitable and appropriate training courses and then employed fully on community schemes and or self employment activities.

8. The decentralisation of employment responsibility to local authorities throughout the country. These authorities will have the responsibility and accountability for developing local employment schemes and co-ops in co-operation with chamber of commerce, industrial and farming groups. Resources and facilities must be available to assist these groups in marketing and developing markets both home and abroad.

9. Macro and micro plans to develop indigenous industry and services by the exploitation of natural resources e.g. fisheries, forestry farming and tourism. These plans will require the processing of goods under fully enforced regulations to ensure optimum use and quality of production and developing markets for the value added goods.

10. Recognise the benefit of co-operation with other economies on the periphery of Europe in regional and market development. This co-operation to begin sooner rather than later as the single European market is already creating a dynamic from the periphery to the centre.

11. A recognition that the growing levels of social unrest can be attributed to poverty and alienation caused by years of unemployment and neglect rather than a break in the social order, which if these conditions persist, will happen anyway.

12. Finally I stress that every effort must be made by all concerned to renew the peace process in the North which had created such obvious benefits, for the social, economical and political lives of all people on the island.

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Table 1.
THE IRISH ECONOMY

Date	1850	1926	1961	1971	1981	1991	1996
Pop. No. (millions)	6.6	2.97	2.82	2.98	3.44	3.52	3.61
At work (000)			1,018	1,049	1,146	1,125	1,234
Unemployed (000)			50	61	126	208	190
Labour force (000)			1,068	1,110	1,272	1,333	1,424
*Unemployed %			5	5	9.9	15.6	13

* These are taken from the official labour force survey figures. The actual number who sign on the live register of unemployment represent approx.18% of the labour force. There are 281,000 people actually signing on for unemployment benefit. The difference may be due to people who may not be technically available for work, are seeking places on work and training schemes or black economy.

Table 2.
IRISH EMPLOYMENT SECTORS
%

date	agriculture	industry	services
1926	53	13	34
1961	36	25	39
1981	17	32	51
1991	15	32	53
1996	11	29	6

Table 3.

POPULATION PROJECTIONS

Year	1991	1995	2006
Under 15	940	881	762
15-64	2,182	2,289	2,519
over 64	409	413	439