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Unemployment: the Need for Change

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UNEMPLOYMENT
THE NEED FOR CHANGE

Edited by: Anto T. Kerins

Dublin College of Catering
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Foreword

The Dublin College of Catering is one of the six constituent colleges of the Dublin Institute of Technology. The college prepares young people for employment, by providing education and training at degree, diploma, certificate and apprenticeship levels in hotel & catering management, environmental health, environmental management, food science & technology, and home & social sciences.

In this difficult period of unemployment, our particular experience is that a high proportion of our students succeed in obtaining suitable employment upon graduation.

This special publication is based mainly on revised and updated papers presented to a recent conference on unemployment held in the college. The objective of the publication is to create a greater understanding of the problem of unemployment, and to provide a range of useful ideas and proposals on this economic and social problem.

As part of our broader role as a teaching and academic body, the college is happy to have these important papers published, in the hope that they will have a stimulating effect on the search for practical solutions to this difficult problem.

Robert J. Lawlor
Principal
Dublin College of Catering

Preface

Unemployment is the most important problem facing Ireland today. Politicians and public servants, employers and employees, academics and ordinary citizens are becoming increasingly concerned at the large number of people without work. Most countries throughout the world share this problem with us but Ireland's level is high even by international standards. Consequently, practical and useful solutions are urgently needed.

This publication brings together a number of specialists from Ireland and abroad who provide insight and proposals on various aspects of the problem. The material in the following chapters is provided by two different groups of people — academics and public representatives.

Part I introduces the topic by looking at the size of the problem, its effects and the demographic factors at work. Part II deals with whether we should opt for more public or more private sector involvement in job creation. The evolving role of employers and employees is considered in Part III. Part IV looks at the sharing of employment through such mechanisms as work and profit sharing. Then follows the issue of third-level education and the employment contribution of tourism in Part V. In Part VI the question of community-based job creation is studied. Finally, Part VII goes beyond the sectional ideas of the other chapters and provides a broad role for the academic community and the political/institutional structures.

There are other approaches to unemployment which are not included in this volume but it was felt these were adequately covered elsewhere. My thanks are due to the authors who wrote and rewrote their papers to meet stringent deadlines. I am also grateful to Sean Byrne and Paul Cullen who helped me on two of the chapters; to the staff of the Central Statistics Office and the EC Office, Dublin for updating the data; to Pat Henry, Joseph Hegarty, Joe Erraught, Marlene Proctor, Michael Ganly and Brendan Keyes and their staff; to Paul Nevin, Carmel Collier, Nuala O'Connor and Peg Egan.

A particular thanks must also go to Ruairi O'Floinn and
Hilary Haugh of the Bank of Ireland and Jim O'Donnell and Iain MacAulay of the Institute of Public Administration. Finally, a special thanks to Margaret, my wife, who took up the slack at home and fully supported me throughout this project.

Anto Kerins
Dublin College of Catering
February 1988

Contributors

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Dr Richard Breen is a senior research officer in the ESRI. He has researched and written extensively on such topics as unemployment and work, education policy, demography and the sociology of crime.

Chris Brooks is director of the OECD programme on local employment and economic development. He has worked in investment banking and formed Youth Aid (UK). He has written widely on employment and economic development and is an EC adviser.

Mr John Bruton, TD, is deputy leader of Fine Gael and opposition spokesperson on Industry and Commerce. He is a former Minister for Industry, Trade, Commerce and Tourism and Governor of the IMF and is a barrister and farmer by profession.

Brian Deane is a group manager in Bord Failte and is the author of a major report on tourism for NESC. He has undertaken consultancy assignments on tourism for various governments throughout the world.

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Editor

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The Extent of Unemployment

ANTO KERINS

Unemployment in Ireland is extremely high, both by past standards and by present international levels. At present there are 250,083 people registered as unemployed. This is equivalent to 19.4 per cent of the labour force and is the second highest rate since records began. The highest was in January 1987. Ireland's unemployment is also the largest in the European Community (see figure 1 below). Ireland's rate is more than 4.5 per cent above the next highest level — Italy — and one and three-quarter times the EC average.

Figure 1: Unemployment in nine EC countries

Irish unemployment has been increasing in recent years, especially since 1980. European unemployment has also been growing and figure 2 shows the annual European and Irish unemployment rates since 1973.1

It is interesting to note that whereas Irish unemployment has continued to increase since 1985 and is expected to do so until the end of the decade the European Community average has levelled off.

Apart from the large number of unemployed people in Ireland, unemployment is often spread unevenly among different groups in society. For example, the proportion of those unemployed in the different occupational groups varies considerably, as we can see in figure 3.

As we can see in figure 3 unemployment among labourers and unskilled workers is almost ten times greater than among professional and technical workers and five times greater than among clerical workers.

Another interesting comparison is to look at unemployment variations among the different industrial groups. As figure 4 shows the building and construction industry has a 25 per cent unemployment level as against the very low figures in public administration and defence and professional services. This difference can be explained partly by present difficulties in the building and construction industry allied to the lower skill level in that industry. Another factor could be the greater job permanency in the public administration and defence sectors.

Unemployment also varies throughout the different regions as is shown in figure 5. Unemployment in the north-west is almost seven per cent higher than in the midlands. A further point on this regional aspect is that the duration of unemployment varies by region. For example, the east, midlands, and south-east regions have, on average, a lower proportion of long-duration unemployed people (i.e. those over 53 weeks) than in the west and north-west regions.
Unemployment also varies by age. In figure 6 we can see that 25 per cent of those between the ages of 15 and 24 are unemployed, as against almost 14 per cent of those aged between 45 and 64.

This makes youth unemployment a particularly pressing problem. However, the data show that there exists a greater movement in and out of the youth labour market than in the market for older workers. The average unemployed young person will normally be out of work for considerably less time than his or her older colleagues. Young workers are far more likely to leave the dole queues because, for example, they get a job, emigrate or go back to college. In contrast, the possibility of the older groups becoming unemployed is less. However, once an older worker becomes unemployed, he or she is likely to be out of work much longer (Walsh 1985 p. 163). Youth unemployment in Ireland is possibly a less urgent problem than in some of the other EC countries. Walsh (1985 p. 165) says that youth unemployment is likely to decline in relative importance throughout the rest of the decade to be replaced by a concern for the waste represented by long-term unemployment among people of all ages.

The above data indicate the numerical extent of the problem. The following chapter considers the effects of unemployment on society and the individual.
Notes to chapter
1 Spain and Portugal are not included because the unemployment rates which are commonly published in these countries are not based on the number of registered unemployed. Greece is also excluded from the calculation of this average because the Greek registration and benefit system for unemployed persons differs considerably from that in other Community countries, so that the number of persons registered as unemployed does not reflect the true level of unemployment.
2 The geographical sub-divisions used in the table are based on the planning regions. The composition of these regions are as follows:

Region and Composition
East: Counties, Dublin, Kildare, Meath, Wicklow, Dublin County Borough.
Midlands: Counties, Laois, Longford, Offaly, Roscommon, Westmeath.
Mid-West: Counties, Clare, Limerick, Tipperary North Riding, Limerick County Borough.
North-East: Counties, Cavan, Leitrim, Monaghan.
North-West and Donegal: Counties, Leitrim, Sligo and Donegal.
South-East: Counties, Carlow, Kilkenny, Tipperary South Riding, Waterford, Wexford, Waterford County Borough.
South-West: Counties, Cork, Kerry, Cork County Borough.

West: Counties, Galway, Mayo.


4 The bulk of the data on Irish unemployment is derived from the operation of the social welfare acts and the unemployment assistance acts both administered by the Department of Social Welfare. The total registered at all employment exchanges is called the Total Live Register. Persons on the live register fall broadly into two groups: claimants for unemployment benefits and applicants for unemployment assistance. In principle, someone who registers as unemployed is: 'capable of work ... available for employment and ... genuinely seeking ... employment suitable for him having regard to his ... circumstances' (Social Welfare Act, 1985). In practice, however, registration is affected by, among other things, the eligibility conditions for unemployment assistance and benefit.

An important additional source of data is the annual Labour Force Survey which is now carried out as part of a simultaneous exercise in the EC member states. Another source of information is the Census of Population which comes out every few years. See Kirwin and McGilvray (1983) for a useful discussion of Irish unemployment statistics.

References
The Costs of Unemployment

RICHARD BREEN

In attempting to assess the costs of unemployment, it is usual to begin by drawing two distinctions. The first of these is between the costs of unemployment to the individual and the costs to society more generally: so, for example, the loss of income brought about by job loss and unemployment is a cost borne by the unemployed individual or by his or her family, while the financing of unemployment assistance and benefit is a cost that falls on the broader community. The second distinction lies between the economic costs of unemployment on the one hand (as in the above examples), and what we might term the social and psychological costs on the other.

These two distinctions are not always very clear: the same set of consequences of unemployment can entail costs for individuals as well as for society at large and may lead both to economically quantifiable and non-quantifiable costs. So, these two distinctions do not purport to yield a means of classifying the effects of unemployment; rather, they provide a loose, but convenient, framework in which to seek to cost the phenomenon.

I cannot (for reasons that, I hope, will become clear) offer a definitive answer to the question of what unemployment in Ireland is currently costing us as individuals and as a society. Rather, I give some broad indications of the costs and suggest why it proves difficult to make a reliable estimate of them. I conclude by drawing together my findings and indicating what they imply for government policy.

This review of the costs of unemployment is, of necessity, selective, but I focus on what I believe to be the major issues. On the non-economic side, these are the costs of unemployment in terms of health, marital stability and crime, and, on the economic side, the costs to the economy as a whole in lost output, the costs to the Exchequer, and the costs to the individuals who are unemployed. Essentially, I will review the existing literature. Ideally, I would have liked to review Irish research on these issues, but this is relatively scant. In some cases, however, although it would be desirable to have our own research, its omission is made less serious by the fact that we can reasonably assume that what has been found to hold in other countries regarding, say, the relationship between unemployment and health, will hold, given comparable circumstances, in Ireland too.

In looking at costs, then, I want to begin with the non-economic costs of unemployment, concentrating initially on the effects of unemployment on physical health.

Unemployment and health

The meaning of work is broader than the mere earning of a wage. A large number of authors (for example, Hayes and Nuttman 1981, pp. 38-43; Jahoda et al 1979, pp. 494-95) have identified several other functions served by work; these include the structuring of time, the affording of opportunities for social interaction, and the provision of a basis for one's social status, self-respect and personal identity. The absence of work, then, results in far more than a loss of income. Numerous writers (Eisenberg and Lazarsfeld 1938; Gould and Kenyon 1972; Harrison 1976; Hayes and Nuttman 1981; Hill 1977; Jones 1972; Marsden and Duff 1975; Sinfield 1970) have suggested that the unemployed typically pass through four phases: an initial shock at the loss of their job, then optimism in the early period of looking for employment, gradually giving way to pessimism at their failure to secure work and, finally, fatalism, at which stage the unemployed become resigned to their situation.

Unemployed adults come under considerable pressure from neighbours, family and society at large to get a job, and this can lead to considerable stress, particularly when attempts to find work continually meet with no success. The process of looking for work itself often becomes humiliating, and this humiliation may be compounded by those who regard the unemployed as 'social welfare scroungers' or 'defrauders'. The result is the stage of fatalism, when the individual ceases to look for work and becomes resigned to joblessness. This resignation is self-fulfilling, since, as the intensity to seek work declines with the increasing duration of unemployment, so does the likelihood of getting a job. 'Prolonged unemployment', as one writer (Harrison 1976,
p. 340) has noted, "brings many people face to face with acute personal dilemmas and fundamental questions about their identity and value to society."

Thus, the negative effects of unemployment on individuals and their families may arise not simply through the decline in their income and their relative poverty, but through the stress generated by the fact of being unemployed. However, while there is no doubt that unemployment leads in many cases to a loss of self-respect and to feelings of depression, hopelessness and even despair, the question of whether, and to what extent, unemployment can be held responsible for measureable declines in physical and mental health (in the sense that the unemployed person exhibits clinical symptoms that require professional attention) is much more contentious.

A good deal of research (for example, Jahoda et al 1971; Gardner et al 1969; Brenner 1977, 1979; Cobb and Kasl 1977; Hakim 1982, pp. 444-45) has shown an association between unemployment and ill health: the unemployed suffer, on average, much poorer health than those in work. At the extreme, some studies point to a link between unemployment and mortality rates: for example, Brenner (1979) found that the unemployment rates and the standardised mortality rates for English counties in 1971, showed a high (.51) positive correlation. However, to show that the unemployed are more likely to be ill — or even to die — is not the same as demonstrating that unemployment is the principal or even a partial cause of ill health. So, some of the most influential studies of the effects of unemployment have been based on small-scale research, in which the samples were too small and whose rigour was not sufficient to enable us to draw conclusions about causation (Jackson 1985, p. 83; Bolger et al 1983, pp. 24-25). On the other hand, in those instances where large samples have been used or where aggregate data have been employed, problems of a different kind arise (Hakim 1982; Bolger et al 1983; Cook 1985).

For example, in so-called cross-sectional surveys, in which the health of a sample of the unemployed is compared with that of a sample of people at work, the direction of causation may be unclear. Rather than unemployment causing ill health, it may be that ill health is the cause of unemployment — if, for instance, employers prefer to lay off workers who are less productive because they are ill. Of course, if this were so, then as the level of unemployment rises, the proportion of the unemployed who have become so because they are ill similarly should decline; thus, the relationship between ill health and unemployment should diminish over time. The fact that it has not seems to indicate that employment may indeed be responsible for poorer health (Hakim 1982, p. 445), rather than the reverse.

However, there are other problems associated with trying to determine the direction of causality in the relationship between health and unemployment. For example, even if studies interview people before and after they become unemployed, there is the danger that a deterioration in the health of the respondents may be an artefact of the research itself. It has been suggested, for example, that unemployed people will tend to emphasise health problems to a greater extent than those at work, possibly as a means of rationalising their lack of a job (Hakim 1982, p. 445; Fagin 1979). Thus, self-reports of health status by the unemployed may not be very reliable. A further difficulty arises because simple comparisons of the health status of those at work and those who are unemployed fails to take into account the issue of what sorts of people are most likely to be unemployed. Put crudely, since the unemployed — and particularly the long-term unemployed — are drawn from those social classes and age-groups that, in any event, tend to report the highest levels of certain types of ill health, it is often unclear whether unemployment itself is leading to ill health or whether the relationship arises because the unemployed come from the least healthy sections of the community. So, for example, in a British study, White (1983, pp. 53-57) noted that long-term unemployed men and women reported much higher levels of ill health than did the population as a whole. However, once allowances were made for the age and social class composition of the long-term unemployed, these differences between them and the general population in their reports of ill health either disappeared entirely (in the case of women) or became quite small (in the case of men).

On the other hand, research in Britain (Moser et al 1984), following up a one per cent sample from the 1971 Census, showed that unemployment had a very clear effect on the health of the unemployed. For example, throughout the 1970s un-
employed men were found to have higher rates of mortality than
the male population of working age as a whole. This difference
persisted even when the age and social class composition of the
unemployed were taken into account. Likewise, this research
found that unemployment affected the wives of unemployed
men, who had higher rates of mortality than in the equivalent
age segments of the female population as a whole.

In a well-known study of factory closure in Michigan (Cobb
and Kasl 1977, based on 1967 data), the health of a group of a
hundred men aged 40-59 was monitored before and after the
closure of the factories in which they worked, and then was com­
pared with the health of a control group of seventy-four other men. Although the study found that the health — both physical
and mental — of those men made redundant did indeed deteriorate
in several respects when compared with that of the control
group (there were suggestions of an increased risk of diabetes,
ulcers and heart disease), the study is not wholly convincing.
This is, in part, because it is difficult to generalise from the study
of workers in only two factories, and in part because the small
size of the sample, together with the large number of health out­
comes measured, made it impossible to reach firm conclusions
(Cook 1985, p. 79).

Another avenue of research in this field is exemplified by the
work of Brenner (1977; 1979). He used data at aggregate levels
(e.g. unemployment rates and mortality rates for English coun­
ties in 1971; or in another study [Brenner 1973] mortality
rates from heart disease and unemployment rates in the state of
New York between 1915 and 1967) and attempted to find a relation­
ship between such things as death rates and rates of
unemployment. While this research has tended to show a relation­
ship between levels of mortality and measures of economic
change, this method of approaching the issue is open to many
criticisms (Gravelle et al 1981; Cook 1985, p. 80). Perhaps the
most telling is that the models that Brenner uses to account for
the relationship between health and economic variables, such as
the unemployment rate, are almost certainly deficient since they
omit factors such as smoking and diet, which are strongly related
to health but measures of which are not available at the
aggregate levels at which Brenner's models are operationalised.

If these measures could have been included, then the statistical
relationship between health and unemployment might well
have been changed.

Until recently, there was no Irish research into the costs of
unemployment on physical health. The only data relating to the
question were those presented by Corrigan (1980), who noted
that a growth in consumption (under the General Medical
Scheme) of sedative/tranquilliser drugs in Ireland between
mid-1974 and mid-1975, coincided closely with the rise in
unemployment in the same period (Corrigan 1980, p. 297).
However, at other periods, his data show no relationship
between prescribing rates and unemployment. Work on the
relationship between health and unemployment is in progress at
the Irish Foundation for Human Development. Part of this
research, comparing the health of the young unemployed with
the health of a sample of young white collar workers, has shown
that the former have poorer health in several respects, and that
the unemployed smoke more and have poorer dietary practices
(Ronayne et al 1986, p. 16).

One difficulty, common to the whole question of the effects
and costs of unemployment, is that these effects may be different
for different people. So, for example, although some people may
suffer ill health as a result of being out of work, the health of
other individuals might actually improve if their previous work
had been in industries associated with relatively high levels of
occupational illness. What this suggests is that a greater aware­
ness of the processes by which employment status might influence
health is called for, and that the techniques by which we go
about unravelling these processes should be correspondingly
more discriminating.

However, let me conclude this section by noting that some of
the best evidence that physical health is influenced by unem­
ployment actually comes from studies that have concentrated
on the health of the families of the unemployed, as in the study of
Moser et al (1984) to which we referred earlier. In another
British study, Brennan and Stoten (1976) found that, among
children aged 0-4 years, unemployment of the household head
was an important determinant of mortality, even when allow­
ances were made for social class background. Likewise, their
rates of hospitalisation were double those of children from
families not suffering from unemployment. In a study of babies
in Glasgow, (Cole et al 1983) it was found that the mean birthweight of those whose fathers were unemployed was significantly less than those whose fathers were at work.

While both these studies are open to criticism (e.g. Cook 1985, p. 77), they point to a fairly clear mechanism by which unemployment affects children’s health. Since young and unborn children presumably are relatively unaffected by the stress factors associated with unemployment, and since ‘neonatal and infant health remain the most sensitive indicators of deprivation’ (Cook 1985, p. 81), these results identify the financial consequences of unemployment as the causal factor underlying these particular costs. The loss of income leads to a reduction in expenditure on food, heating and so forth, thus increasing the risk of neonatal and infant ill health (see Hakim 1982, p. 448). In this respect, however, the unemployed are like any other group experiencing poverty: babies and children from poorer families are smaller and less healthy, regardless of whether their father is in work or not. Thus, these British studies indicate that poverty is the immediate cause of children’s ill health, but in Britain at least, the most common cause of poverty nowadays is unemployment.3 If the same is true in Ireland — if unemployment leads to poverty — then we should expect to find very similar consequences.

Turning to the relationship between unemployment and mental health, there is no doubt that the experience of unemployment causes the kinds of demoralisation we described earlier, although research has shown that not everyone suffers to the same extent. Thus ‘the severity of the psychological consequences of job loss is determined by the degree of attachment to paid employment and/or occupation as a central focus of personal identity’ (Hakim 1982, p. 449). It has been suggested that, for ‘those in employment, high commitment [to work] is related to good psychological health; for those who are unemployed the opposite is true — high commitment to work is related to poor psychological health’ (Jackson 1985, p. 90).4

Such demoralisation and loss of self-respect may well entail costs; for instance, the individual may become less employable as a result. However, there is also increasing evidence regarding the extent to which unemployment leads to psychiatric disorders (in the sense, again, that the jobless require the attention of the health services). The issues involved in establishing unemployment as the cause of psychiatric problems are much the same as those we discussed in relation to the unemployment/physical health link: however, a growing number of studies seem to point to a causal explanation. Research involving school leavers in Sheffield (Banks and Jackson 1982, Jackson 1985) showed that those who were unemployed several months after leaving school reported higher levels of symptoms of poor psychological health than did those who had a job or were on a state training scheme. Conversely, at a second interview, among those who had been unemployed but had then got a job, symptom levels declined markedly, whereas among those who were still unemployed, the levels remained high.5

Suicide and parasuicide (deliberate but non-fatal attempts at self-harm) can be regarded as an extreme manifestation of psychological ill health. In a study carried out in Edinburgh by Platt (1983), it was found that between 1968 and 1982, the unemployed were at least nine times more prone to parasuicide than the employed, with the greatest risk found among those who had been unemployed for more than a year. Within areas of Edinburgh, the parasuicide and unemployment rates were strongly related, and this relationship has grown in strength as unemployment has increased. Finally, Platt estimates that in 1979, 37 per cent of parasuicides were attributable to unemployment; by 1982 this had risen to 58 per cent.

As Cook (1983, pp. 76–77) writes, in reviewing Platt’s study, there are questions relating to these data and results that remain unanswered: nevertheless, the possibility cannot arise (as it does with other symptoms of ill health) that the symptom caused unemployment: that is, the argument that people become unemployed because they are potential parasuicides is not really convincing. Platt’s findings, therefore, appear to suggest that the increased risk of parasuicide is attributable to unemployment.

Irish findings on the effect of unemployment on psychological health come from a study carried out in 1982 and 1983 (McCarthy and Ronayne 1984; Ronayne and McCarthy 1983), using a sample of around 200 registrants (unmarried and aged 15–25) at the two Dublin city centre offices of the National Manpower Service. Among this group, the experience of unemployment
... was accompanied by considerable psychological distress.... It was... accompanied by high levels of anxiety, depression and hostility. Indeed, for approximately two-thirds of the sample the levels of negative affect... were similar to what, on average, one would find among a psychiatric patient sample. (McCarthy and Ronayne 1984, p. 31)

In later interviews it was found that the sub-sample which meanwhile had obtained employment evinced less anxiety and depression, while those who were still unemployed continued to experience acute worry and despair. The fact that at the initial interview there had been no difference in levels of psychological distress between those who subsequently got jobs and those who did not, does indeed suggest that entry into work had helped to alleviate these symptoms.

**Unemployment and the family**

In a study of twenty-two British families, Fagin (1981) reported that unemployment of the household head was associated with a worsening of marital relationships, leading, in some cases, to permanent separation between the partners. Similar results have been found in other studies carried out in the United Kingdom (Sinfield 1958; Marsden and Duff 1975; Collodge and Bartholomew 1980) and in the USA (see the review by Moen et al 1982). Again, however, the picture is not entirely straightforward. For example, in Britain unskilled manual workers have the highest risk of becoming unemployed, but they also have the highest divorce rates, regardless of their employment status. Thus we should expect to find an association between divorce and unemployment, even if there is no causal link.

Nevertheless, some studies do provide evidence that unemployment is a contributory factor — if not the sole cause — of marital difficulty. For example, in interviews, (e.g. Fagin 1981) the unemployed often state that unemployment is one of the causes of family stress. A study in the USA (Liker and Elder 1983), which followed families over a period of two decades, indicated that unemployment led to increased marital stress. However, the precise effects of unemployment varied according to the initial quality of the marital and familial relations. Broadly speaking, where close-knit, good relations prevailed before the onset of unemployment, unemployment itself could strengthen these bonds, whereas unemployment puts a strain on an initially poor relationship.

Other studies have pointed to further consequences of unemployment for the families of the unemployed. We have already discussed the issues of neonatal and infant health and physical and mental health of spouses: work in the USA (Moen et al 1982; Steinberg et al 1981) has suggested a link between unemployment and child abuse, and studies in the USA and Britain (Eisenberg and Lazarsfeld 1938; Sinfield 1968) have shown an association between parental unemployment and their children’s educational attainment. Irish data (Breen 1984, p. 104) show that, among recent cohorts of school leavers, even when we allow for social class differences in the propensity to leave school early, parental unemployment is a very strong indicator of the likelihood that children will drop out of school without qualifications.

**Unemployment and crime**

It is often stated that increased unemployment leads to higher levels of crime and delinquency. However, much of the difficulty in assessing the nature of the relationship between unemployment and criminal behaviour arises because those who are most likely to come before the courts are, in any event, young and of lower working-class backgrounds — precisely the characteristics of those most likely to be out of a job. Thus, this coincidence of unemployment and crime may help strengthen the perception that the two are linked. This link has also been attested to by numerous pieces of research (see Hakim 1982, p. 420). For example, in a review (chiefly American) of the evidence, Phillips and Votey (1981, p. 170) write ‘most of the empirical studies find that the unemployment rate has a positive impact on the crime rate.’ This is not to say, however, that it is necessarily the unemployed who are committing this extra crime, although other evidence indicates that the unemployed feature prominently among those apprehended by the police.

Rottman’s (1984, p. 118) study of the Irish criminal justice system showed that 72 per cent of males apprehended for indictable offences in the Dublin Metropolitan Area in 1981 were recorded as unemployed. The causal processes underlying such statistics are far from transparent, however. One important con-
sideration is that employers are reluctant to hire people who have criminal records. Therefore most recidivist criminals are likely to be classed as unemployed (and, of course, their inability to get a job creates an incentive for previous offenders to turn to crime).

In her review of the evidence, Hakim (1982, p. 450; see also Rottman 1985, p. 46) claims that research has shown that, in addition to increasing recidivism, unemployment increases juvenile delinquency, possibly leading to criminality in adulthood. It has been argued that those most likely to engage in criminal activities are individuals with a limited stake in conventional society. To the extent that unemployment — and particularly prolonged unemployment — weakens the individual’s bonds of attachment to conventional society, this may explain the link between juvenile crime and unemployment.

The social costs of unemployment
So far I have looked at some of the costs of unemployment — to individuals, families and to society as a whole. Clearly, and necessarily, I have been selective; for example, I have said nothing about the political costs of high unemployment, nor have I touched on issues such as the effects of high unemployment on equality of labour market opportunity between men and women. However, what is significant about the three areas I have examined is that, as well as constituting social and psychological costs in themselves, greater ill health, poorer family relationships and rising crime rates all imply costs to the Exchequer in the additional use of health and social welfare provisions and in an increased burden on the criminal justice system. We now turn to a more detailed examination of the economic costs of unemployment.

Financial costs of unemployment
The financial cost of unemployment to the individual is often defined as the difference between his or her net income when in work and income derived from unemployment compensation (Unemployment Assistance (UA) or Unemployment Benefit (UB)). Ideally, however, other cash income should also be taken into account, such as redundancy payments, and other changes in circumstances that may, in some cases, act to the benefit of the unemployed (eligibility for free medical care under the General Medical Scheme, reduced rent under the Differential Rents Scheme; absence of transport costs to and from work, and so on). Clearly the exact economic circumstances of unemployed individuals will vary considerably, but in theory, it ought to be possible to arrive at an average figure of the ratio of income when unemployed to income when at work. Economists call this figure the ‘average replacement ratio’. Recent estimates (Blackwell 1985) of 1984 average short-run unemployment ratios are, for married persons, 79 per cent on UB (including the pay-related component) and 51 per cent on UA. For a single person, the figures are 60 and 27 per cent respectively. Broadly speaking, replacement ratios are higher among those who have low pre-unemployment incomes, who have recently become unemployed, and who have large families. These variables ensure that there is a considerable variation in replacement ratios. However, since the majority of those claiming benefit or assistance are unmarried (around 58 per cent, with a further 8 per cent being married without children), a high average replacement ratio for the unemployed as a whole seems to be the result either of much low paid pre-unemployment work and/or short durations of unemployment.

Such evidence as we have shows that the unemployed are, relatively, very poorly off. The maximum weekly rates of UB, for example, (excluding the pay-related component as of September 1986), vary between £41.40 for a single person, to £67.70 for a childless couple, to £113.70 for a married couple with five children. Rates of UA are, of course, lower. Data on the position of the unemployed in the overall income distribution are available only for the 1980 Household Budget Survey (HBS) and therefore are somewhat out of date. On the other hand, this method of approaching the question of how well or how poorly off the unemployed are has the advantage that it concentrates not on individuals, but on households, and this is likely to be very important to the extent that unemployment is concentrated in specific households. There is much evidence that this is indeed the case. For example, in a study of the long-term unemployed among the youth population, carried out for the Youth Employment Agency (YEA) in 1985, it was found that
The unemployment rate among fathers of respondents, excluding those outside the labour force, was 47 per cent, three-and-a-half times the rate for all adult males aged 45 to 64. Furthermore, of the four-fifths of respondents to this survey who were living in their parental home, the unemployment rate among siblings was 58 per cent (YEA 1986). In other words, high levels of youth and adult unemployment tend to be found together in the same households.

Some indication of the extent to which households are wholly dependent on welfare payments comes from Garvey's (1983, p. 124) analysis of sample data from the 1981 Census. Of those households with at least one person unemployed, just over half had no one at work, and these were probably totally dependent on welfare payments.

The 1980 HBS data show that half of all expenditure on Unemployment Assistance and Unemployment Benefit went to the poorest 20 per cent of households, and over three-quarters to the poorest 40 per cent. However, in cases where the head of household was unemployed, 70 per cent were in the bottom fifth of the direct income distribution and, even allowing for social welfare payments, over 60 per cent were in the bottom fifth of the disposable income distribution.

The extent of financial hardship among the unemployed is likely to depend crucially on two things: firstly, whether or not there are other income earners in the household (or, more generally, the ratio of earners to dependants); and, secondly, the duration of unemployment, with those who are unemployed for long periods or who have a history of moving rapidly in and out of unemployment (a group termed the 'subemployed' by Norris [1978a and b]) likely to suffer the greatest hardship. The relationship between financial hardship and unemployment duration or frequency arises not only because the rates of the generally available assistance are lower than those of contribution-based benefit, but also because of the cumulative effects of low income. It may be relatively easy for a family to manage on a reduced income for a short period; it is infinitely more difficult to do this over the long term.

The available data (albeit rather dated) reveal that the majority of the unemployed are in households where there is no earned income, while more recent data show that just less than half of the males on the Live Register have been there for over a year. The conjunction of these two circumstances is likely to cause considerable hardship. Some indications of this can be obtained from Roche's (1984, p. 82) findings (again based on the 1980 HBS). For example, he shows that, in 1980, while households headed by an unemployed person made up only 4 per cent of the total of all households, they accounted for between one-quarter and one-fifth of households below the poverty line (as Roche defines it).

That many of the unemployed are financially poorly off is inescapable, and it also appears that a large proportion of the unemployed move from badly paid jobs into more badly remunerated unemployment. In very many — probably the majority — of cases, unemployment simply makes the already poor poorer.

Finally I want to turn to that aspect of the cost of unemployment that perhaps springs most readily to mind when we think of this matter: namely, the costs to the economy as a whole and the costs to the Exchequer, and thus, ultimately, to the taxpayer (whether this cost falls on current or future taxpayers). First I shall present some estimates that have been made of these costs, and then discuss what they might mean and what they might imply for a job creation policy.

Probably the best known attempt to assess the cost of unemployment to the economy as a whole was the OECD's (1982, p. 17) estimate of a loss of output in all the OECD countries equivalent to the combined GDP of Canada and Denmark (or £US$340 billion). The only estimates for Ireland come from Bolger et al (1983, p. 7): their figures, for 1982, vary between a low estimate of £639 million (5.4 per cent of GDP) and a high of £848 million (7.2 per cent of GDP). These estimates relate to the costs of a level of unemployment over and above an assumed 'natural' frictional rate of unemployment of 4 per cent. My own estimates for 1984 (using a slightly simpler methodology) put the output cost (again net of assumed natural rate of unemployment) in the region of £1.1 billion, of 6.6 per cent of GDP.

Bolger et al (1983) also make estimates of the costs of unemployment to the Exchequer. To arrive at these estimates, they add the direct costs to the state (UA, UB, pay-related and
redundancy payment) to the revenue forgone (in terms of direct and indirect tax and social insurance), to the net costs of special employment schemes and to administrative costs. This, of course, excludes costs deriving from some of the things we have discussed earlier, such as increased costs to the health service and higher costs of coping with crime, as well as the costs of other benefits that the unemployed may not have been receiving when in work, such as free medical care and reduced rent. In this respect, then, Bolger et al’s estimates may be presumed to err on the side of conservatism.

The most recent year for which they present a relatively complete estimate of Exchequer costs is 1980: in that year Bolger et al estimate the direct costs to have been £170 million, with forgone tax revenue adding a further £190m., and costs of administration and special employment schemes coming to £33m., yielding a total of £392.5m. Their estimates for 1981 and 1982 exclude the costs of redundancy payments, special employment schemes and administration. Even so, in 1982 the estimated cost had increased to £742m. My estimates for 1983, 1984 and 1985 (which include the costs of those items that Bolger et al excluded in 1981 and 1982) are shown in Table 1.10

For all three years the tax forgone figure is an estimate; all other figures come from the relevant volume of Comprehensive Public Expenditure Programmes (CPEP) although the administrative costs are an estimated proportion of the totals given there for the various programmes and sub-programmes. All the expenditure figures for 1985 are estimates given in CPEP 1985 and they assume an average of 217,600 people on the Live Register over the year. In fact the average was approximately 230,000, so these estimates probably err on the low side. The estimate of tax lost in 1985 was based on the larger figure. Finally, not all of these costs are met by the Exchequer; the manpower programmes, in particular, receive a considerable subvention from the European Social Fund. Receipts from the ESF in respect of the specific sub-programmes included in these calculations are shown at the foot of Table 1, although not all of this sum can be offset against the expenditure figures.11 The estimates in Table 1 show that, in 1983, the costs of unemployment exceeded one billion pounds; by 1985 they exceeded one-and-a-half billion pounds, or roughly, 8½ per cent of GDP.

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**Table 1: Costs of unemployment (estimate) 1983–85 (in £000s)**

<table>
<thead>
<tr>
<th></th>
<th>1983</th>
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<tbody>
<tr>
<td><strong>Direct costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Welfare</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>UA</td>
<td>187,896</td>
<td>257,424</td>
<td>278,710</td>
</tr>
<tr>
<td>UB</td>
<td>216,360</td>
<td>220,120</td>
<td>252,020</td>
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<tr>
<td>Pay-related</td>
<td>48,280</td>
<td>39,300</td>
<td>46,755</td>
</tr>
<tr>
<td>Redundancy</td>
<td>17,850</td>
<td>25,040</td>
<td>28,340</td>
</tr>
<tr>
<td>Training and job creation</td>
<td>86,222</td>
<td>95,293</td>
<td>146,368</td>
</tr>
<tr>
<td>Administration</td>
<td>32,610</td>
<td>35,584</td>
<td>39,180</td>
</tr>
<tr>
<td><strong>Indirect costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total tax revenue forgone</td>
<td>473,428</td>
<td>614,003</td>
<td>711,233</td>
</tr>
<tr>
<td>Total costs</td>
<td>1,062,596</td>
<td>1,286,764</td>
<td>1,502,606</td>
</tr>
<tr>
<td>ESF receipts</td>
<td>52,708</td>
<td>66,381</td>
<td>78,525</td>
</tr>
</tbody>
</table>

Source: Comprehensive Public Expenditure Programmes 1984 and 1985

1 Programme 39 items A and C (excluding payments to smallholders), Programme 5, items D, F, G, H, and parts of B and G; administrative costs are estimated as a proportion of total administration budgets.

2 Author’s estimates following Bolger et al 1983.

3 Includes receipts under the general heading of Programme 5, plus all payments to AnGO, CERT and YEA.

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**The economic costs of unemployment: what do they imply?**

In our discussion of the costs of unemployment to the economy (in the form of lost output) and to the Exchequer, we referred to the practical difficulties of making such estimates.12 But of greater importance is the question of the usefulness of these estimates and how they should be interpreted. For example, even if we could create, say, 125,000 jobs (roughly equal to half the number of the currently unemployed), unemployment would not fall by half because of the fluid nature of the Irish labour force. Rather, the labour force itself would grow in response to the creation of jobs, and the Exchequer costs of unemployment consequently would not fall by as much as we might have anticipated.13

Some of the problems in arriving at an estimate of the costs of
unemployment derive from the fact that the question is counter factual: we are asking what would the economy have been like, and what costs would the Exchequer have incurred, if, instead of the present level of unemployment, we had something approaching a more ‘normal’ level. We are forced, therefore, to specify not only what the ‘normal’ level might be, but also to suggest what costs might be entailed in reaching it. For example, we can make estimates of the Exchequer costs of unemployment at its present level, and compare these with the Exchequer costs at a rate of 4 per cent, or 6 per cent, or whatever we feel is the normal ‘frictional’ level of unemployment in Ireland. But, in addition, we ought also to allow for the costs to the Exchequer of maintaining unemployment at this lower level. So, if the policies of the late 1970s, which entailed direct job creation in the public sector, had been pursued, then these would have incurred costs (to present or future taxpayers), estimates of which ought to be offset against the present costs of unemployment.

If similar arguments are applied to the present position, then the debate about the costs of unemployment moves inexorably towards the question of whether these costs are in any sense avoidable. In other words, are there policies that would reduce unemployment without incurring increased costs? There have been a number of studies, as well as actual schemes, concerning the provision of short-term employment through some form of state involvement (see, for example, National Planning Board 1984, p. 269). These include schemes in which the wage costs of participants are met by the Exchequer — for example, the Work Experience Programme (WEP), Teamwork and the Social Employment Scheme — and those in which the state writes off some of the cost of taking on new employees, such as the Employment Incentive Scheme (EIS).

Such schemes entail a net Exchequer cost. In some cases this is very small (for example, my own estimates of the net cost to the Exchequer of each WEP place, is approximately £12 per week) but in general it exceeds the cost of maintaining individuals on social welfare. For example, estimates made by the National Planning Board (1984, p. 265) indicate that a net expenditure of £1 million per annum would yield 175 jobs at a wage of £145 per week in the various types of local authority and other projects which the Board considers. Estimates by the Department of Finance (1984) of the costs of direct job creation in the public sector suggested that a gross expenditure of £1 million per annum would support 95 jobs so created. This can be compared with the numbers that could have been supported by the expenditure of an equivalent amount on social welfare: 560 single persons on UA, or 255 married persons with one adult and two child dependants on UA, or 218 of the equivalent families on UB.

The costs of Irish unemployment: conclusions
In this review I have discussed some aspects of the social and psychological — as well as the financial — costs of unemployment, as these are experienced by individuals, families, and society at large. From the quantity of research carried out into this topic, one thing is clear: there is great variation among the unemployed in the way unemployment affects them. There are two, apparently simple but often neglected, sets of reasons why this should be so. Firstly, because of the different circumstances in which the unemployed find themselves. So, for example, whether you become less healthy after the loss of a job depends on the extent to which that job itself entailed health risks; likewise, the influence of unemployment on marital stability seems to depend very much on the pre-existing quality of the marital relationship. In terms of financial costs, the extent to which unemployment leads to hardship depends upon a variety of factors: whether there are other income earners in the household, the ratio of earners to dependants, whether or not family and kin can be called on for help, and whether or not opportunities are present and are taken up for the unemployed individual to earn extra income in the ‘black’ economy. The second set of reasons for the variability in the effect of unemployment derives from the fact that unemployment is not the same thing for all the unemployed. For some it is a short-term and possibly a singular phenomenon, whereas for others it has become an almost permanent state; for yet others, a pattern of employment interspersed with periods out of work may have been a feature of their entire adult life. Such differences inevitably give rise to variations in the effect of unemployment. Research into the costs of unemployment ideally should help us to identify who (in terms
of these two sets of factors) is most likely to suffer the most severe consequences.

Turning to these specific costs, there is, I believe, increasingly persuasive evidence of the deleterious effect of unemployment on the physical and psychological health of the unemployed and their families, on the quality and nature of familial relationships and on the level of crime. In my review of this literature I sought to approach these studies critically, but it seems to me that while various methodological and other difficulties may lead us to be sceptical of the findings of earlier work, there is now a growing body of more discriminating research that points less equivocally to a causal link between unemployment and such factors as ill health.

The unemployed are, for the most part, among the poorest members of Irish society is an inescapable fact; and those households most severely affected are the ones in which there are no other income earners and where unemployment is prolonged. The evidence relating to the effect of unemployment on physical health suggests that financial hardship is one of the factors leading to the poorer health of the unemployed and their families. As we noted earlier, faced with a low income, families may cut back on expenditure on food and heating, which in turn can be the immediate cause of ill health among children and other family members.

While the financial costs of high unemployment to the economy and to the Exchequer are substantial, there appears to be widespread agreement that direct job creation or job subvention by the government is not feasible as an immediate solution to the problem. Although such schemes are in operation, they generally give rise to a net Exchequer cost and are, by their nature, limited in both the number of jobs they can create and, for the most part, in their duration. In many cases — the WEP being a good example — such schemes depend upon placing participants in jobs at the margin, where non-labour costs are low or effectively absent and where the wage paid is considerably below the rate for the comparable permanent employment.

Most of these schemes are designed for specific groups within the labour market. However, given our growing knowledge of which individuals among the unemployed, run the most risk of suffering major adverse consequences in terms of ill health, financial hardship, and so on, consideration might be given to aiming these schemes more precisely at those whose risk is greatest. Given the limitations of such schemes, they cannot pretend to provide a solution to the unemployment problem; however, properly targeted, they may be able to act as a palliative against some of its more severe consequences.

Notes to chapter
1 Some writers, (for example, Sinfield 1981) have criticised this depiction as an oversimplification of a situation in which the responses to unemployment are diverse.
2 In statistical terms, the correlation between unemployment and ill health can arise for any of three reasons: unemployment may cause ill health; ill health may cause unemployment, or there may be what is termed a common prior cause or intervening variable, which accounts, or is related to, the incidence of both ill health and unemployment.
3 This may seem an unsurprising statement, but until the late 1970s, the most common causes of poverty in Britain were old age and ill health. In the mid-1980s, low pay and unemployment were identified as the major causes of poverty (Pond and Burghes 1986).
4 Commitment to work showed a curvilinear relationship with age: the youngest and eldest members of the labour force showed the least, the middle age range the greatest.
5 Similar results have been found among school leavers in Leeds (Laurence 1986).
6 If, for example, a young person cannot obtain a job, he or she may then be unable to marry, establish an independent household, have children, and so on; in other words, may be unable to take on many of the responsibilities that society regards as normal.
7 Yet in order to quantify these costs, we would need to know not only whether unemployment led to, for example, increased ill health, but how much of the use of the health services could be attributed to this source.
8 Bolger et al (1983) attempted to estimate the pre-unemployment wage of the unemployed: this was found to be approximately 85 per cent of the average industrial wage in the case of males, and 95 per cent in the case of females. In the present case these percentages were applied directly; otherwise, our method of calculation is identical with that of Bolger et al. Thus output lost is given by (number of unemployed males x average male industrial wage x 49 x .85) + (number of unemployed females x average female industrial wage x 49 x .95), where the number unemployed includes all persons on the Live Register except those signing for credits. Broadly speaking, our estimates are most closely comparable with the 'low' estimates presented by Bolger et al.
9 Making no allowance, in this case, for a 'natural' rate of unemployment.
Bolger et al (1983) appear to have estimated the gross costs of social welfare payments, but give a net figure for Special Employment Schemes (allowing for monies returned to the Exchequer via indirect taxation). In the estimates presented here, the latter figure is for gross expenditure. The estimate of tax lost is a net figure, being an assessment of the difference in revenue that would have accrued (via income tax, indirect taxes and social insurance) had the unemployed been at work, with that which is estimated to have accrued (via indirect taxes) under actual conditions.

This is because the ESF receipts shown there are total receipts of certain agencies that are involved in some training for the unemployed. However, in the case of an agency such as AnCo, only a proportion of its expenditure goes on schemes for the unemployed; thus we may assume that only a proportion of its ESF receipts are so spent.

In estimating the costs to the Exchequer, we have already referred to some omitted areas of probably increased expenditure, such as health, but there are others. For example, high unemployment may lead to increased educational participation: if this is so, then some share of the education budget should be regarded as a cost resulting from unemployment. In regard to the costs to the economy in terms of lost output, there are obvious difficulties in trying to assess the marginal product of labour and in arriving at a figure for the frictional level of unemployment (see Sexton 1982). Additionally, there are other ways in which high unemployment may lead to lost output: for example, it could be argued that high unemployment forces high tax rates, which in turn act as disincentives to workers or possibly lead to a loss of highly trained manpower from the economy.

Consider a further example (Sexton 1982, p. 2): even if demand increased sufficiently to create 250,000 jobs, moving the unemployed back into work would still entail substantial costs because the skill and other requirements of new industries probably would be quite different from those in the older, declining industries from which many of the unemployed are drawn. Thus, extensive retraining of the workforce would be needed.

That is, over and above present expenditure on social welfare.

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The Impact of Demographic Variables on Unemployment*

BRENDAN WALSH

In 1817 Thomas Malthus wrote to David Ricardo that he considered "a population greatly in excess above the demand for labour" to be "the predominant evil of Ireland" (cited in Walsh 1968). However, attention has recently been drawn to the curious lack of empirical evidence on the Irish situation in Malthus's writing. While he busied himself instead in collecting evidence from the remoter areas of the world, he remained relatively ignorant of the situation in Ireland (O Grada 1984). Moreover, quantitative economic historians have found little support for the Malthusian view that the poverty of Ireland in the early nineteenth century was due to population pressure (Mokyr 1985).

Nonetheless, the idea that population pressure contributes significantly to Ireland's economic problems enjoyed a renewed vogue as the level of unemployment began to rise to new heights in the 1980s. Indeed, I may have contributed to this fashion by arguing that the rise in marriage rates that became evident in the 1960s would, in the absence of a fall in family size, contribute either to higher emigration or higher unemployment or both. This conclusion was based on the belief that "there is no tendency for the supply of labour in Ireland to generate its own demand for labour" (Walsh 1968, p. 1).

The increase in unemployment during the 1980s to levels never previously recorded has given this topic a renewed interest. It is therefore timely to review the arguments and evidence on several aspects of the way in which demographic variables may affect the labour force and the economy.

**Population growth and economic welfare**

Economists are not unanimous about the impact of population

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and labour force growth on unemployment and living standards. The Malthusian view is that, even if population growth is translated into employment growth, it depresses living standards because of the growing pressure on land or some other input whose supply remains as fixed as population increases. Resources have to be diverted from capital-deepening to capital-widening. But there is an alternative view, most recently championed by Julian Simon, according to which major economic benefits can be derived from rapid population growth. The arguments advanced in support of this view may be summarised as follows:

- **Economies of Scale.** As the size of an economy increases, it may move down along a declining long-run average cost curve. In a country like Ireland, in the past at least, commentators often stated that the small size of the domestic market and the low density of population resulted in diseconomies of small scale. Population growth would help to overcome these drawbacks.

- **Increased aggregate demand.** Rapid population growth of itself and through its effects on the dependency ratio tends to depress the savings ratio. The prospect of population growth would also stimulate a higher level of investment in anticipation of a burgeoning domestic market. If the economy is 'demand constrained', these effects of population growth would lower rather than raise the level of unemployment.

- **The brain drain.** If a population is declining because of heavy emigration, those leaving may be among the most enterprising and the best educated. This selectivity has increased because the authorities in the receiving countries have restricted entry to the skilled and the qualified. The emigration of these people results in a loss to the state, which reaps no return from the funds invested in educating them. If emigration is halted, this loss is eliminated.

- **Social-psychological effects.** Rapid population growth results in pressure to change traditional social structures and to increase mobility within a country. A stagnant population leads to the country feared by French demographic — old men thinking old thoughts in old houses.

If the population is declining because of emigration, the ageing of the population is compounded by the selective migration of the more enterprising, referred to above.

It is interesting to ask why in Ireland, despite a persistently high potential population growth rate, these benefits do not seem to have materialised. The following considerations are relevant:

- **The potential growth of the population has rarely been translated into actual growth.** Migration has acted as a buffer between ex ante and ex post population and labour force growth. Even in periods of employment and real income growth, 'pull' factors attract young Irish people abroad.

- **In Ireland, demographic growth, even when it is retained within the country, has tended to be reflected in increased unemployment rather than in increased employment.** The sequence of events envisaged in the anti-Malthusian scenario requires a degree of labour market flexibility that has not been evident anywhere in Europe in recent years.

- **Economists have analysed in depth the reasons for the failure of European labour markets to absorb the post-war baby boom into employment.** There is a degree of consensus about the contribution of real wage rigidity to the European problem. The real wage gap that emerged in Europe during the 1970s was considerably greater than that recorded in the United States (Bruno 1985). In the USA the adjustment to the entry of the post-war baby boom on the labour market was mainly through a decline in the relative earnings of young workers, whereas in Europe the crowding caused by the large numbers in this generation has increased youth employment more than it has depressed earnings (Bloom and Freeman 1986). In many European countries, rigidities in the labour market have been increased by a policy of expanding public sector employment as a means of absorbing the growth of the labour force.

- **The relevance of the size of the domestic market to the attainment of the optimal scale of production has dimin-
lished with Ireland’s increasing economic integration into the wider European and world economies. Apart from a few notable exceptions (e.g., electricity generation and internal transport and communications), the absolute size of Ireland’s population, or population density, is rarely mentioned today as a source of cost penalties.

- The contribution of demand deficiency (as distinct from structural rigidities and cost constraints) to Ireland’s unemployment problem may not be very significant. However, certain sectors of the economy should benefit from population growth because the demand for their products is linked to demographic variables. The most significant example is the construction industry, where demographic projections are an important input in projections of housing ‘needs’. But the rate of household formation is only one (and by no means the most dominant) consideration in the complex interaction of factors determining the demand for housing. The growth of real incomes, the tax advantages of saving through house purchase, financing costs and the relative price of housing are more important considerations. Thus, the net impact of population growth per se on even those sectors where demographic variables are important is probably much smaller than is commonly believed.9

- Rapid population growth may generate external diseconomies, such as pollution and congestion. In fact, individual regions and areas of the country can experience the negative effects of population growth even if the national total is not growing. The physical environment of Irish cities and towns, and of the countryside, deteriorated significantly over the years of resumed population growth in the 1960s, but much of this was due to a redistribution of population from the inner cities to low density suburban areas. Thus, it is difficult to disentangle the effects of environmental and economic mismanagement from those of population growth per se.

- Some social problems may be aggravated by population growth. Growth implies an increase in the proportion of population in the young adult age-groups, and this in turn has tended to be associated with an upsurge in crime and other signs of social disintegration. The United States and many countries in Europe went through serious upheavals in the late 1960s, which was when the concentration of population in the 15-24 age-group was at its peak. While cause and effect have not been established, the possible link between a youthful population and social unrest is the dark side of the rejuvenation so strongly desired by the anti-Malthusian school.

The debate on the economic costs and benefits of population growth is inconclusive. In the particular circumstances of the Irish economy today, it seems more plausible to argue that the high rate of natural increase of our working-age population has tended more to exacerbate our emigration and unemployment problems than to claim that the demographic stimulus is a net benefit to the economy. However, this conclusion is a reflection on the inflexibility of the Irish (and indeed the European) labour market and economy rather than an inherent consequence of rapid population growth. That this is so may be seen by recalling that the rate of employment growth required to absorb all the potential growth of the Irish labour force into employment has been attained and surpassed throughout the post-war period in the United States (see Figure 4).

**Potential and actual population growth in Ireland**

The main thrust of the argument in my 1968 paper was that fluctuations in the supply of labour tend to affect emigration rather than actual population growth. The most important evidence advanced to support this thesis was cross-section (county) data, showing a tendency for variations in the age-specific rate of natural increase of the population (that is, the growth that would occur in the absence of net migration) to be reflected in the migration rate, rather than in the rate of actual population growth.

It is interesting to look at the time series evidence on the relationship between *ex ante* and *ex post* population and labour force growth. The remainder of this section is concerned with describing the interactions between these variables during the post-war period in Ireland.

In Table 1 and Figure 1 the potential growth rate of the
Table 1: **Intercensal growth rate (% per annum)**

<table>
<thead>
<tr>
<th>Intercensal period</th>
<th>Population aged 15-64</th>
<th>Labour force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Natural increase</td>
<td>Actual growth</td>
</tr>
<tr>
<td>1946-51</td>
<td>1.0</td>
<td>-0.3</td>
</tr>
<tr>
<td>1951-56</td>
<td>1.1</td>
<td>-0.9</td>
</tr>
<tr>
<td>1956-61</td>
<td>1.9</td>
<td>-1.0</td>
</tr>
<tr>
<td>1961-66</td>
<td>1.5</td>
<td>0.4</td>
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<tr>
<td>1966-71</td>
<td>1.5</td>
<td>0.7</td>
</tr>
<tr>
<td>1971-81</td>
<td>1.5</td>
<td>1.7</td>
</tr>
<tr>
<td>1981-86</td>
<td>1.6</td>
<td>0.9</td>
</tr>
<tr>
<td>1986-91</td>
<td>1.6</td>
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</tr>
</tbody>
</table>

Note: 'Natural increase' refers to the growth in the population aged 15-64 that would have occurred in the absence of net migration.


Figure 1: **Natural increase of the working-age population**

Annual average growth rates

Figure 2: **Growth of the working-age population**

Annual average growth rates
underlying population because of significant changes in labour force participation rates. Over the entire period 1946-81, the natural increase of the working-age population averaged about 1.5 per cent, while the actual rate of population growth was only 0.3 per cent and the labour force on average declined by -0.06 per cent annually (see Figure 2). The gap between the potential population growth rate and the actual growth of the labour force was at its highest in the late 1950s, when large-scale emigration transformed a potential growth of 1.9 per cent into a decline of 1.0 per cent (see Figure 3). On the other hand, during the 1970s the growth of the labour force slightly exceeded the natural increase of the population because of significant net immigration. It is obvious, therefore, that the supply of labour in Ireland is extremely elastic with respect to the balance of economic conditions and opportunities at home and in neighbouring countries.

The effect of changes in labour force participation rates on the labour force is taken up in a later section of this paper.

Figure 3: Actual growth of the labour force
Annual average growth rates

The age structure of the labour force
The age structure of our population changed radically in the 1960s and 1970s because of the dramatic change in migration patterns. In the stable age distribution implied by 1978-80 fertility and mortality rates, 61.4 per cent of the population would be in the 15-64 age-group, compared with 58.2 per cent in 1979. However, the fertility rate has declined significantly since then, so that the stable age distribution towards which the population will eventually tend has a higher proportion of elderly and a lower proportion of young dependants than that implied by the vital rates prevailing in 1978-80.

Dramatic changes in the age structure of the population have taken place since 1961. The median age of the population aged eighteen and over has fallen by six years, from forty-seven to forty-one years. The numbers aged 20-29 have increased by 72 per cent while the adult population as a whole grew by only 23 per cent. The ageing of the bulge of population now aged 20-29 will be the dominant feature of the population structure over the remaining years of this century.
There is a growing literature on the economic significance of changes in population age structure of the type we are currently experiencing. Assuming the economy is flexible and absorbs a spurt of growth in the labour force into employment, what are the implications for the lifetime earnings of the cohort? There are two ways in which such a bulge may affect the productivity of the labour force. On the one hand, an influx of a large number of young and inexperienced job-seekers to the labour market might be expected to lower the average rate of productivity to the extent that this depends on experience and ‘learning by doing’. On the other hand, as young people with higher educational attainment replace older workers, the rejuvenation of the labour force might be expected to raise average productivity.

The nature of the trade-off between experience and education in the changing Irish labour force has not been evaluated empirically. In the absence of such studies, it is not possible to quantify how the demographic changes described above have affected the growth of output per worker. On balance, the net effect has probably been much less dramatic than might appear at first sight, or than is claimed by commentators who concentrate on only one possible effect of the change.

The fluctuations in the size of successive cohorts in the labour force have been very large because the high rate of emigration during the 1950s was replaced by net in-migration in the 1970s. Once again, there are two ways in which such fluctuations may affect the lifetime employment and earnings prospects of members of different cohorts. On the one hand, a relatively high population density in the young age-groups increases the competition for complementary inputs (capital, land, experienced workers) and hence lowers the productivity and earnings of the cohort in question. On the other hand, to the extent that earnings depend on rank, and an individual’s rank depends on the proportion of the population older and younger than him/her, those in the labour force ahead of a demographic bulge will experience more rapid advancement and promotion, while those who are behind the bulge will be penalised throughout their working lives by the abnormally large proportion of the labour force that is older than they are. However, the effect of these purely demographic forces can be modified by the manner in which jobs and promotions are allocated in an economy. If access to jobs and promotion depends more on ability and education than tenure, age and seniority, then talented members of even the most crowded generation will progress rapidly through the employment hierarchy. Strict adherence to traditional rules for allocating jobs will prevent such leap-frogging.

The importance of this issue to Ireland today is clear from the age structure of the (male) labour force (Figure 5). There is approximately a two-to-one ratio between the numbers in each five-year age-group between twenty and thirty-four years and those in the age-groups between forty-five and sixty-four years. To the extent that we have been successful in absorbing an increasing number of school leavers into the labour force and employment, we have created another, secondary, but by no means trivial, problem: providing promotional opportunities for them. To the extent that promotion is operated on the rank rule described above, the sudden expansion of the labour force in the 1960s and 1970s would have led to an unexpectedly rapid progression through the job hierarchy of those now aged over forty-five. Those now aged 20–34 are facing the other side of this
phenomenon: they are members of a swollen age-group in a static labour force. In order to minimise the frustration and waste of talent to which this situation could give rise, we need to discard promotion rules based mainly on age and seniority and replace them with freer access and promotion to senior positions on the basis of ability. Early retirement, which has frequently been advocated on the grounds of job creation, could make an important contribution to the efficiency of the labour force by facilitating the type of mobility called for by the present age structure of Ireland's labour force. The need for such measures is greater in the public than in the private sector, where rigid tenure and seniority rules are less prevalent.6

The effects of changing labour force participation rates

In the steady state, the age distribution of the population stabilises and the total population and the population of working age grow at the same rate. In the absence of changes in labour force participation rates, the labour force would also grow at the same rate as the population. We have noted that Ireland's population age structure is at present very different from that implied by the underlying or intrinsic growth rate, which is itself changing as the birthrate declines. In addition, changes in labour force participation rates have significantly affected the growth of the labour force. The major trends in these rates over the post-war period have been similar in Ireland and internationally. Among the most significant changes have been:

- A very marked decline in participation among young adults of both sexes, as people stay on longer in the educational system.
- A significant decline in participation among the elderly, reflecting earlier retirement. This has been due to improved pension provisions and the continuing decline in the proportion of agricultural employees in total employment.
- Some decline in the participation rate among 'prime age' males.
- A noticeable increase in participation rates among 'prime age' women. Underlying this is the rise in participation among married women, but participation rates have also risen among single women aged 25-54.

The effects of these changes in participation rates over the period 1961-84 are summarised in Table 2. It may be seen that, relative to the numbers enumerated as unemployed, changes in participation rates have made a significant impact on the labour force. If male participation rates were still at their 1961 level, the male labour force would be 129,000, or 12 per cent larger than it actually is. On the other hand, if female participation rates were at their 1961 level, the female labour force would be 39,000 or 10 per cent lower than it actually is. The total labour force is therefore 90,000, or 8 per cent smaller today than it would be on 1961 participation rates.

Table 2: Labour force participation rates, 1961-84

<table>
<thead>
<tr>
<th>Effect on the 1984 labour force of changes in participation rates since 1961</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Single</td>
<td>Married</td>
</tr>
<tr>
<td>15-24</td>
<td>-52.4</td>
<td>-38.2</td>
</tr>
<tr>
<td>25-54</td>
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<td>+14.3</td>
</tr>
<tr>
<td>55+</td>
<td>-64.6</td>
<td>-7.1</td>
</tr>
<tr>
<td>All ages</td>
<td>-126.8</td>
<td>-31.0</td>
</tr>
</tbody>
</table>


The feature of these changes that has attracted most attention, especially in the context of the unemployment problem, has been the growth in the participation of married women in the measured labour force. The increase in married women's participation rates has been dramatic, from 4.8 per cent in 1961 to 26.5 per cent in 1984, among those aged 25-34 for example.7 Table 2 shows that the increased participation of married women added 77,000 to the labour force. Some increase in participation by married women was required merely to offset the effects of the rise in the proportion of the female population that is married, but most of it represents a net increase in the number of women in the labour force. Irish female participation rates remain very low by European standards. If they were to rise to the European Community average, the labour force would increase by about 100,000.
The proportion of the labour force comprised of women grew from 26 per cent to 29 per cent between 1961 and 1984. The proportion of the labour force consisting of 15-24 year-olds increased, while that of older workers of both sexes decreased significantly.

The increased participation of married women has had a significant effect on the composition of Ireland's labour force. Figures 6 and 7 show that, despite the increase in participation, married women accounted for only 9 per cent of those at work in 1981, compared with just over 2 per cent in 1961.

Figure 6: **Percentage distribution of numbers at work in 1961**

In a period of high unemployment, it is of interest to explore how this has affected the employment prospects of other demographic groups. If, for example, women and younger workers of both sexes were substitutes in the labour market, the increase in the supply of women would reduce the demand for younger workers, causing their relative earnings and/or employment to decline.

The question of substitution or complementarity between different groups in the labour force has received some attention internationally (Hamermesh 1985), but this research is still at a preliminary stage. In Ireland we have a wealth of data from Census of Population sources on the distribution of the population by occupational and demographic group, but no comparable detail on earnings, while the information available on unemployment falls somewhere between these two extremes. Naturally this limits the analysis that can be undertaken. However, some interesting patterns emerge from a study of the changing demographic structure of the 68 occupational groups for which the Census provides a breakdown by age, sex and marital status. Table 3 shows the composition of the labour force (employed and unemployed) for twenty-two occupations in which the proportion of married women is (i) high and (ii) rising. There are three distinct groups among these twenty occupations. In the first group, as the share of married women in the total increased, the share of women as a whole **declined**, although usually by a relatively small proportion. The following
Table 3: **Percentage distribution of labour force by occupational and demographic group 1971 and 1981**

<table>
<thead>
<tr>
<th>Occupational group</th>
<th>Male</th>
<th>Demographic group</th>
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<td></td>
<td>15-24</td>
<td>25+</td>
<td>Married</td>
<td>Other</td>
<td>25+</td>
<td>Other</td>
<td>TOTAL</td>
<td>15-24</td>
<td>25+</td>
<td>Married</td>
<td>Other</td>
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<td>Telephone, telegraph</td>
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<tr>
<td>and bottlers, warehouse staff**</td>
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<tr>
<td>Proprietors and managers</td>
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<td>4.8</td>
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<td>20.3</td>
<td>100</td>
<td></td>
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<tr>
<td>and managers</td>
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<td>49.4</td>
<td>1.0</td>
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<th>1971</th>
<th>1981</th>
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<td>3.1</td>
</tr>
<tr>
<td>Office cleaners</td>
<td>2.8</td>
<td>3.1</td>
</tr>
<tr>
<td>Laundry workers, pressers</td>
<td>13.5</td>
<td>14.3</td>
</tr>
<tr>
<td>Hospital and ward attendants</td>
<td>9.7</td>
<td>8.8</td>
</tr>
<tr>
<td>Professional and technical subdivision: Teachers</td>
<td>6.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Nurses</td>
<td>3.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Pharmacists/ dispensers</td>
<td>1.1</td>
<td>2.4</td>
</tr>
<tr>
<td>Other medical workers</td>
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<td>3.3</td>
</tr>
<tr>
<td>Social workers</td>
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<td>5.6</td>
</tr>
<tr>
<td>Professional workers (NES)</td>
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<td>2.9</td>
</tr>
<tr>
<td>Authors, editors, journalists</td>
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<td>7.7</td>
</tr>
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In these occupations, the growth in the proportion of married women was not accompanied by a noticeable change in the proportion of the labour force consisting of women. The occupations in this group are:

- Typists
- Waitresses/waiters
- Shop and bar assistants
- Clerks
- Other professional workers
- Proprietors and managers in services
- Housewives/householders
- Hospital and ward attendants
- Other medical workers
- Authors, journalists, and editors
- Social workers
- Other professional workers
- Proprietors and managers in the retail and wholesale trade

In the third group of occupations, the increased share of married women was not accompanied by a noticeable change in the proportion of the labour force. The occupations in this group are:

- Typists
- Waitresses/waiters
- Teachers
- Nurses
- Proprietors and managers in the retail and wholesale trade
- Shop and bar assistants

In the second group, the growth in the share of married women was part of a significant increase in the proportion of the labour force consisting of women. The most important instances where this occurred are:

- Barbers/hairdressers
- Hospital and ward attendants
- Pharmacists and dispensers
- Other medical workers
- Authors
- Journalists and editors
- Social workers
- Other professional workers
- Proprietors and managers in services
women could be viewed mainly as a replacement or displacement of single women. Further insight into the dynamics of this process is gained by considering the change in the female population during the 1970s. The population of single women aged 15–34 increased by 23.9 per cent between 1971 and 1981, while that of single women aged 35–64 declined by 21.9 per cent. Hence, increased participation by married women may have tended to displace younger single women in the labour force and replace older single women. This interpretation of events is consistent with the rise in labour force participation rates among older single women, and the fall among younger single women. The fact that participation rates among both married and single women aged twenty-five and over increased over this period is consistent with the view that the demand for adult women increased — for example because of the growth of the service sectors — at the same time as the supply increased because of increased educational attainment and the decline in family size.

It is difficult to say whether the displacement of younger women by the increased labour force participation of married women has been significant. The decline in participation among the former has been mainly due to increased educational participation, but there is some evidence that the reduced outflow of women from the labour force at the time of their marriage has impaired the employment prospects of younger women in clerical occupations (Hannan and Halpin 1986).

Thus, the changes that have taken place in the composition of the labour force cannot readily be summarised in terms of a displacement of one category of worker because of an increase in the supply of another category. It is clear that different factors have been at work in different occupations and it is difficult to generalise. A good deal more research will be needed in order to shed light on the forces behind the changing structure of the labour force. Data on relative earnings for the individual categories of workers would be very helpful in this research.

Conclusion
We have surveyed a number of the more important ways in which demographic factors might be expected to affect Ireland's labour market.

On the broad issue of how a fast-growing population affects unemployment and employment, there has been plenty of speculation but little hard evidence. On balance, though, demographic variables are probably much less important than is widely believed to be the case. Blaming the rate of growth of our labour force for the high level of unemployment, or its recent increase, diverts attention from the deeper structural problems behind Ireland's chronically high unemployment rate. The American experience throughout the post-war period shows that it is possible to absorb rapid labour force growth into employment.

The changing age structure of the population and the labour force affects the employment and earnings experience of individual cohorts. The present unusually large concentration of population and the labour force in the 20–34-year-old age-group calls for more flexibility in promotion.

The increase in the labour force participation of married women has markedly altered the composition of the labour force in certain occupations. In some cases, the increase in the numbers of married women who are working appears to be a substitution for a declining number of single women; in others there appears to have been some displacement of males. Much further research is required to clarify the manner in which the labour market is adjusting to the shifts in the supply and demand for different categories of labour.

Notes to chapter
1 The antipathy of traditional demographers to 'Malthusianism' is exemplified in Alfred Sauvy's writings. To cite one example: 'Demographic stagnation brings a country to a moral and material crisis that is never foreseen in economic analysis' (Sauvy 1969, p. 299).
2 For a review of the impact of population growth on the UK economy, see Reidaway (1977). He concludes that the effects of modest population growth on living standards have been slight.
3 In Ireland it is estimated that about 40 per cent of the new housing units built between 1971 and 1981 were to meet the increase in headship rates and 60 per cent to meet changes in the size and structure of the population. (I am grateful to John Blackwell for these estimates.)
4 This rate has been calculated using standard cohort-survival techniques. The relevant data are provided in Volume 2 of recent Censuses of Population. The key factor is the ratio of the number of 15–19
year-olds to the number of 60-64 year-olds—the 'entry/retirement ratio'.

Young workers may also be substitutes for some categories of older workers. This possibility has been raised in connection with the increased supply of married women to the labour force. This issue is discussed in the next section.

For a formal discussion of these issues, see Arthur (1983).

It is, however, not without irony that in the United States such measures were not necessary to facilitate the absorption into employment of the post-war baby boom.

Some of the increase in the recorded level of participation may reflect changes in the way the data are recorded, following the introduction of the Labour Force Sample Survey in the 1970s.

References


Employment: A Private Sector Approval

JOHN BRUTON

Background
Over the past hundred years and more, our economy has been a poor provider of jobs. The number of persons at work in Ireland was declining, over this timespan, more often than not. By any standards, this country’s record on employment creation is an unenviable one. Except for a few brief interludes, the pattern has been that thousands of our people have been forced to go abroad for work. This disguised the high level of unemployment, but did not conceal the failure to provide employment.

Independence brought many benefits, but the control which it gave us over our own destiny did not change previous trends fundamentally. Many approaches and policies have been tried, some quite radical in their thrust, but none has been notably successful. There is, I feel, a certain irony in the fact that foreign enterprises have made such a large contribution to employment gains here whereas our indigenous firms have been lacking in this respect.

With the very rapid growth of our labour force, we will not bring unemployment down much below the present unacceptable level unless we can become high-achievers on the job-creation front. Growth in the economy on its own, will not suffice. Even if we manage sustained economic growth, it will not, on the basis of past relationships between output and employment, give us the employment growth we require. These relationships are not, however, rigid. We can, and must, seek to alter them.

Spending on direct job-creation can often be a futile and even counter-productive exercise. Disbursing borrowed money to this end cannot be justified except where it induces a greater input from the private sector or where it yields an economic return in itself. Financing jobs by increased domestic borrowing leads inevitably to higher interest rates which are a strong disincentive to investment.

Without investment new jobs cannot be created, and existing jobs will be threatened by obsolescence. Borrowing abroad to finance job creation means, with certainty, higher taxation to cover the interest which has to be repaid.

Higher taxation reduces incentives for entrepreneurs, who see diminishing rewards for their enterprise, and for workers, who see an increasing disparity between their gross and take-home pay. We cannot hope to reduce unemployment if taxation continues to rise. Employment creation financed by higher taxes is a contradiction in terms.

International experience is enlightening, in particular the contrasting performance of Europe and the United States over the past decade. Both economies grew, in conventional terms, at much the same rate between 1976 and 1983 but the USA delivered a 17 per cent increase in the number of jobs over this period while Europe saw employment fall. There are clearly lessons to be learned from this.

Analyses of their respective employment records show up certain features of the European economy, which are not as much in evidence in the USA. Two which stand out are the relative inflexibility of the job market in Europe judged on a wide range of criteria, and the favourable climate for enterprise in the USA. Another feature which is illustrated by the relatively strong employment performance of the United States — not just in recent times but for generations past — is that jobs are not created by government.

Government
Government has a role to play, and an important one, in improving employment performance. But we should be clear about the nature of that role, the limits to it and the pitfalls to be avoided. The most important dimension is, and will remain, the development of an economic, financial and social environment which favours the creation of jobs by the market. The 1982-87 Government of which I was a minister, had this as a central tenet of its policy.

This strategy has, at its centre, the objective of putting the economy in a position where it can deliver the jobs needed. Only a healthy and well-balanced economy will be able to do this. A great deal of progress was made during this period. Inflation was down to a relatively low level, and the balance of payments improved far beyond the expectations of most commentators.

There is no inherent contradiction between getting the public finances in better shape and encouraging employment growth.
We know that this is because other countries in the European Community are pursuing such policies and getting good employment results.

An excellent example is Denmark where there has been a net increase in employment well in excess of 100,000 over the past few years despite a policy stance which, in conventional terms, would be described as inimical to job-creation. Unemployment in Denmark in fact, fell by about 18 per cent in 1986.

The policy of the Danish minority government, which took up office in 1982, has been commented upon favourably on television and in political circles here. Some might see comparisons with the position of the present Irish government in 1988.

There are two important differences:
1. The Danish minority government went for a freeze in public service and social welfare pay rates. The present Irish government, in accordance with its Programme for National Recovery, will increase both.
2. The Danish government did not seek to reduce expenditure through public service redundancies.

**Private sector**

The major contribution to expanding employment will be that which derives from the initiative and resources of the private sector of the economy. The main thrust of government policy should be to release that potential and to create the macro-economic framework in which it can succeed. A key element in the achievement of a good employment performance is the way society is organised, its ability to respond to change and the attitudes which prevail.

Since the oil crisis in the early 1970s there has been a fundamental structural change in the international economy. In the Western world, old industries have declined in the face of shifting demand patterns and competition from the newly-industrialised countries. At the same time, new high-technology industries and the services sector in general have become employment growth areas. These changes are seen by some as a fundamental threat to employment, but this applies only if we fail to adapt to them. If attitudes remain fixed, we cannot respond positively to the considerable opportunities which change presents.

A key change in attitude which is needed is the development of a real spirit of enterprise in this country. In Ireland — and it must be said, in Europe generally — we often do not think well of the entrepreneur. In the USA by contrast, successful businessmen are admired and are seen as models to be emulated. The average American believes that by hard work and initiative he or she can become a millionaire.

This very positive attitude extends to business failure which is not seen as a stigma where an honest effort has been made. Indeed, according to a major survey carried out by Professor David Birch of the Massachusetts Institute of Technology, the total number of business failures in the USA in a year is two-thirds of the total of new businesses formed. Significantly, the regions with the highest failure rate were also those with the best job-creation record.

**Small business sector**

I believe strongly in the development of a healthy small business sector in Ireland. A widespread and dynamic network of small businesses throughout the country would foster the spirit of enterprise. It would also have the effect of enhancing attitudes of independence. These have been undermined by the immature passivity and dependence which result from over-centralised decision-making and from over-reliance on others to do things for us, instead of doing them ourselves.

Small businesses also create most new jobs. This was another finding of Professor Birch’s study which showed that firms with fewer than 20 employees accounted for two-thirds of all the new jobs realised in the USA between 1969 and 1976. Over the study period 80 per cent of all jobs in the USA was created by companies less than five years old.

This adds up to a very strong argument in favour of encouraging new small businesses. I would therefore ask school-leavers, the unemployed and employees to think strongly of setting up in business for themselves. There is no need to be afraid of starting on a modest scale: most successful businesses had very small beginnings. Those who are determined, decisive and inventive possess three important qualities to be successful entrepreneurs.

If such persons decide to go into business, they will not have
to struggle unaided to become established. There are available, through a wide range of agencies, schemes and incentives which cater for businesses of all sorts and sizes. I need only mention the services of AnCO — the Industrial Training Authority (now part of the training organisation, FAS); CERT — the training body for the hotel, catering and tourism industry and the IDA — the Industrial Development Authority.

As a result of legislative changes made by the 1982-87 government there are also very generous tax incentives to encourage private investment in new small businesses. These include:

- A tax break under the Business Development Scheme
- Tax incentives for investment in research and product-development companies
- A reduction in tax on dividend income for manufacturing companies
- Reduced taxation of capital gains.

The majority of small businesses will remain small, particularly where expansion is limited by the size of local demand. We must accept this as a fact of commercial life. Yet, we must take a critical view of rules and regulations which can have an adverse impact on employment and can hinder the setting up and administration of small businesses. While I do not suggest that all rules and regulations of this kind should be abolished, I believe that greater flexibility and simplicity in their application, cognisant with the public interest, can be achieved.

It is also a fact that there are many Irish businesses which could be a lot bigger but, their owners, for various reasons, choose voluntarily to restrict their size. In some cases, this is because owners avoid seeking equity finance for expansion as, by doing so, their control over the business they established would diminish. In other cases, there is an understandable fear that going public is too big a step to take. I would recommend strongly that owners of even relatively small businesses consider going public, or bring in outside shareholders within an existing private company structure.

The process of going public forces a business to assess its prospects, to make plans covering several years, to look at its management structure and to establish a rigorous financial control system. Going public gives a company extra prestige, a different perspective and the confidence and resources to enlarge its horizons and take on new markets. The tax incentives available to those investing in shares, enhanced by the 1986 Finance Act, are so attractive that no company with good prospects should have any trouble in finding enough people to invest in it. It is also worth looking at the royalty basis for funding innovation which has been pioneered by the British Technology Group. This body does not become a shareholder in the firms it supports, but recoups its investment through royalties, and operates on a profitable basis. The National Development Corporation (NADCORP) might look at this.

Not everybody can, or should, be an entrepreneur but a great number of people can become shareholders in the businesses in which they work. If this practice were to become widespread, it would have a considerable impact on reducing employer-labour conflict, enhance worker and management motivation and be a key agent in securing greater labour flexibility. By these means businesses would become more dynamic and competitive and be better able to make secure existing jobs and create new employment.

In a later chapter Professor Weitzman writes about his ideas on profit-sharing by employees. Profit-sharing in lieu of rigid pay structures provides a great opportunity to reshape our economy. Professor Weitzman’s ideas represent a challenge to trade unionists in particular to demonstrate their concern about sustaining jobs and making a contribution to job creation. In Britain a new tax incentive for profit-related pay has been introduced. This supplements existing incentives for employee shareholding.

The notion of labour market flexibility is crucial in the context of tackling Ireland’s unemployment problem. Its key element is a quantum change in attitudes towards all aspects of work. Accepting shares in part-payment of wages is only one example of flexible responses by workers.

Another area where there is scope for increased flexibility is working time. At present, working time is characterised by rigid arrangements. These may well result in sub-optimal use of capital and excessive overtime, instead of extra employment. Perhaps
management and employees would give this aspect more consideration in collective bargaining.

Existing employment protection legislation, despite its laudable intentions, may well be having the opposite effect in that its existence may inhibit many employers from taking on extra workers when it would be appropriate to do so. While I have no wish to see the existing framework of this legislation dismantled, I believe that it is worthwhile asking the question whether it should be examined with a view to modifying it, where necessary, so as to improve the employment prospects of the young unemployed.

These are only some of the many ways in which the environment for employment could be enhanced through increased labour market flexibility. This, in turn, is only part of the wide spectrum of measures needed to facilitate a better employment future for our people.

Employment: Markets and Managed*

ANTO KERINS

Economics forms the academic base of much of the advice on unemployment being provided by different Irish commentators. These commentators may not be economists; indeed, they may never even have taken an economics course or read an economics text. They may of course have been briefed by economists or read their advice or heard about their proposals or some other such tenuous link. However, ‘real’ economists are rare and all the more important for their price. They carry with them a package of theoretical analysis that has a significant impact on the policy advice on unemployment that is subsequently preferred. Articles written by economists in learned texts and journals are passed on to students and others. This stock of knowledge is then disseminated to members of the bureaucracy, the political parties, the media, the unions and the employees.

In Irish society these are the main groups that take points of view on unemployment. I have also included the churches, who now and again make statements on unemployment, but this is more as part of their concern for general social issues rather than as a particular focus on the problem of unemployment per se.

Economic theory provides a significant source of policy advice for these different groups and is therefore an influential constraint on new or unorthodox policies. The theory itself is not, of course, a unified stockpile that can be drawn from as required. To the newcomer it may seem a complex and non-uniform set of analyses and policies. In this paper I shall consider the two alternative approaches to unemployment provided by mainstream economics — the classical/neoclassical ‘market’ approach and the Keynesian/neo-Keynesian ‘managed’ alternative. I shall also consider the policy advice of certain Irish economists on unemployment. Finally, some proposals are set forth.

*Helpful comments on an earlier draft were received from Dermot McAleese, Sean Byrne and Sean Barrett.
Market
The labour market contains buyers and sellers of the commodity 'labour'. According to classical economists such as Adam Smith, an 'invisible hand' ensures that a free working market results in the best outcome for all participants. The wage rate is the price of labour. Employers demand the labour input and workers supply the work.

The price of labour balances the demand and supply for labour. If a surplus of unemployed workers occurs, then the wage rates falls. This causes the demand to expand and the supply to decline; the extent of the changes however depends on the elasticities. Similarly, if there is a shortage of labour, the wage rate will rise and the market will again balance out. This simple exposition can be summarised diagramatically by Alfred Marshall's demand and supply curves.

The Irish economist J. E. Cairnes (1823-75) contributed to our understanding of the labour market mechanism by introducing the concept of non-competing groups. Labour is not a homogeneous product like beans or butter. Rather, it is composed of a variety of non-competing groups, such as clerical, unskilled and skilled workers, engineers, vets, and so on. Mobility within these groups is high, but between groups it is low.
groups, where entrance may be easier, rather than the high skill sector, where entrance is more difficult. One gets the impression that in this scenario the brunt of the unemployment problem is resolved by a relatively greater adjustment among the lower skilled work groups.

The widespread unemployment of the 1930s brought disarray into the ranks of the classical economists: either classical theory was incorrect and labour markets could not solve unemployment, or something was preventing the labour markets from working. Whichever view was correct, the time was ripe for a new approach.

In *The General Theory of Employment, Interest and Money*, J. M. Keynes advised that, if all else failed, governments faced with large-scale unemployment should inject extra demand into the economy. This could be done by fiscal policy. Here government either increases expenditure or reduces taxes in order to increase the economy's aggregate demand. Depending on the size of the leakages into such areas as savings and imports, this demand injection has a somewhat greater total output effect, which helps to reduce unemployment. Keynesian policy advice to government held the high ground, especially during the 1960s and early 1970s, but with the failure to contain inflation and the inadequacies of incomes policies the classical approach discovered a new lease of life.

Economists like Milton Friedman in recent years have moved nearer the centre of academic focus on the unemployment debate. Friedman argues that when we make labour more expensive, we reduce the amount of employment. He states that higher wages to one group must come primarily from other workers and argues that trade unions raise the wages of their members by keeping down the number of available jobs. Friedman also contends that the unemployment rate among teenagers is largely a result of minimum wage laws and that when the US minimum wage rates were raised sharply, the teenage jobless rate shot up. Like other market economists, Friedman is also unhappy about the growth of governments: 'these two aspects of the growth in government's role — the expansion of transfer payments and the growing rigidity of the price system — are ... fundamental reasons why the level of unemployment has been trending up' (1985, p. 109).

**Neo-classical theory**

In recent years classical theory has been reconstituted into a type of new classical macroeconomics. At one level things are as they always were — free market forces, minimum government intervention, and so forth — but this new approach goes further. It points out that government's involvement in the economy is either ineffective or actually harmful. The two major arguments for this idea are the rational expectations hypothesis and the 'crowding out' approach.

The rational expectations hypothesis argues that the choices people make are based largely on their expectations of the future. In forming these expectations, people use all the available information. They will also take account of their previous track record in predicting events and therefore will not continue to make the same errors. In making decisions, people will consider, among other things, any new government policy. Therefore the actual effectiveness of a government's policy will be significantly influenced by the expectations people have for it.

The expectations hypothesis states that if government injects extra demand into the economy, people will come to expect inflation and will realise that such inflationary price rises do not reflect real increases in demand. This approach argues that successful Keynesian intervention is not possible unless people make an error; for instance, people could mistake the consequent inflation for a real increase in demand. Employers will think that the demand is expanding for their particular product and employees will think that an increase in their wage rate is an increase in real wages. According to this hypothesis, both these assumptions are wrong. However, as long as they are unaware of the real situation, employers will expand output and increase employment, and more people will be enticed to work by the higher wages.

Once these people realise their error and recognise the situation for what it is, then real output and employment will fall back to their original levels. When people know that the government is 'pump-priming' the economy, they will have learned from previous experience that this just causes inflation, which does not affect real output or wage rates. According to the expectations model, this realization renders fiscal policy ineffective.
The ‘crowding out’ thesis argues that the growth of the public sector has had a smothering effect on the ‘real’ economic activity of the private sector. For example, if government increases its spending by borrowing through, say, the sale of bills, people will spend money on these government bills, money that otherwise might have been spent in the private sector. Thus the extra government expenditure ‘crowds out’ the private sector and the net result is zero. If the government increases its expenditure and borrows more, it will increase interest rates. This will raise the borrowing cost to the private sector, and firms will reduce their level of investment. Thus both output and employment fall.

If government increases its expenditure by raising taxes, this reduces income to the private sector. If the employees take the full brunt of the tax increases, then their expenditure will fall and be compensated for by the extra government expenditure. If this occurs output and employment will remain unchanged.

If, however, the private sector employees seek a compensating wage increase and the employers raise prices, then the non-sheltered sector of the economy suffers and employment falls. Alternatively, if the cost of the extra government expenditure is borne by the private sector’s profit margins, private investment will suffer and so will employment.

**Irish economists**

We now look briefly at the policy advice of some Irish economists. The ones chosen could be considered to have got their policy approach at least partly from the classical/neo-classical paradigm.

Patrick Geary (1978, p. 14) expressed concern about the cost of labour and its effect on unemployment. He argues that increased employment is not ‘facilitated by a battery of policies which seem largely to be directed at making labour as unattractive … as possible.’ More recently, after a detailed analysis of Irish data, Geary and Murphy stated that real factor prices were shown to have large, though not well-determined, effects on employment. They conclude that ‘the neo-classical labour demand functions are not rejected by our data’ (Geary and Murphy 1987, p. 20).

Sean Barrett (1985, p. 17), in an article on the jobs problem, refers to the bureaucratic burden that employers face. He states that the labour market should be freed of the government’s intrusive administration and suggests that we can create jobs in Ireland if we ‘remove the scores of government obstacles to enterprise and employment by deregulating for jobs.’ Deregulation, according to Barrett, means first freeing markets and increasing the opportunities for competition; secondly, it means lifting the administrative and legislative burdens that divert time, energies and resources from fundamental business activity. In an 1986 paper he added that those in employment have acquired job security and redundancy payments at the expense of the unemployed.

At the Dublin College of Catering 1985 conference on Government Policy on Industry and Services, Brendan Walsh read an interesting paper on employment, in which he takes a private sector approach. Having studied unemployment in other countries and how it relates to the size of the public sector, Walsh considers the view that, in the medium to long term, increased public sector employment actually contributes to the growth of unemployment. He argues that extra taxation (caused by an expanded public sector) increases labour costs, which reduces employment to a degree that depends on the price elasticity of demand for labour. In his view increased government borrowing has had the traditional crowding out effect in Ireland. He informs us that in the United States the private sector was the main source of new jobs and that this was attributable to wage flexibility and a high elasticity of demand for labour. Like Barrett, Walsh is keen on deregulation and says that its contribution to employment in America ‘deserves to be emulated in this country’. Elsewhere, in the context of a discussion on public sector employment, Walsh (1986, p. 96) argues that ‘the scope for privatisation should be explored’.

Dermot McAleese (1985, pp. 25–26) has also entered into the debate on employment and the labour market mechanism. However, his approach is slightly more incorporative; while he argues that increased labour market flexibility is a necessary condition for an increased demand for labour, in his opinion it is not a sufficient one. Employment also depends on other factors — growth, business, climate, aggregate demand, capital/labour ratio, for example. McAleese argues that a negotiated fall in real
wage demands has to be converted into an increase in aggregate demand for labour. Indeed he reaches near the boundaries of exactness in pointing out that some of the smaller European countries have maintained ‘high levels of employment without being noticeably labour market flexible’. Nevertheless, McAleese states that ‘although labour market flexibility may not be the whole story, it . . . has helped the adjustment process.’ Thus, despite his reference to other factors, he returns to the cardinal point on which all the above economists agree — that ‘labour market regulation in Ireland . . . discourages employment.’ Besides the above economists, others have also been making similar points on labour costs and unemployment.2

Outside the mainstream of the economics profession in Ireland certain significant commentators have been echoing some of these basic arguments on unemployment. It is not possible to provide even a brief résumé of their advice here, but we shall simply refer to three of the more notable ones.

The Governor of the Central Bank stated in 1981 that durable job creation depends much more on the evolution of relative labour costs than on increased budgets (Murray 1981, p. 50). A related point was made in 1986 when his successor, Thomas Ó Cofaigh, stated that the ‘best support for self-sustaining employment lies in correcting the disincentives which flow from excessive levels of taxation and borrowing.’ He adds that the removal of these disincentives would give the private sector greater access to resources and this would provide employment in a more efficient way than by state intervention (Ó Cofaigh 1986). However, competitiveness is more than simply a question of wage restraint; ‘the burden of the adjustment must be shared equitably by all employers and employees’ (Ó Cofaigh 1982, p. 49).

Ivor Kenny (1984, p. 18) stated that market signals at the time were not strong enough to call forth the required amount of job creation: ‘market forces are to blame, not the market mechanism and private enterprise.’

From the above summary it is clear that many influential Irish economists and commentators maintain that unemployment can be reduced by greater labour market flexibility. If market forces are being restricted by regulations or by public ownership, then deregulation or privatisation will act as a kind of socio-economic tin opener that will release the market’s job-creating powers. Although there are differences in the degree to which these economists are attracted to this idea, it still forms the touchstone of much recent policy advice. There are, it is fair to say, detractors from this idea; those who say that the private sector cannot be relied on to create the extra jobs on its own and this has to be done through the public sector. Irish socialists economists argue that the failure to create adequate employment in Ireland is due to the narrowness of the industrial base of the economy rather than to high wage costs. They see a greater role for direct sale involvement in job creation. For the moment, however, we shall consider this market approach to unemployment. To consider its merits, we shall discuss it under the following headings:

1. The economist’s market — is it real?
2. Government deregulation — is it possible?
3. Free markets — will they reduce labour costs?
4. The technological constraint.

The economists’ market — is it real?
Economists argue that we should take the letters off the labour market to allow it to operate more freely and thereby create more employment. Some economists may believe that a concrete reality called the free labour market actually exists. This market which at present is encumbered by regulations, will create more employment when these are removed. It might be better to argue that what is at issue is the concrete reality consisting also of political, sociological and other aspects and of which the economist’s market is only a partial explanation. When the classical economists were developing their understanding of the market, they were creating an analytical concept distilled from a complex series of forces. This concept was developed into a powerful and useful explanation of how the microeconomy works. However, some of the important assumptions built into this abstraction — perfect knowledge, price flexibility and perfect competition — are unreal or non-existent. Allied with the problem of externalities, it is evident that the concept of a free labour market is somewhat limited in its ability to explain reality.4

From a political science perspective, the economists’ market
Government deregulation — is it possible?

Deregulation will not be easy. Charles Schultze (1962, p. 63) contends that economists are prone to underestimate the problems generated by specific institutional circumstances. Indeed Friedman (1985) admits the same point when he speaks of the 'tyranny of the status quo'. In essence Friedman says that the employed and other interests groups have organised a system of regulations that puts the unemployed at a disadvantage. To resolve this problem, he suggests that Americans will have to elect the 'right' president and give him adequate powers to limit government spending. The only difficulty with this idea is what happens if the 'wrong' president is elected and things start moving in the other direction?

Others who take a political science or sociological perspective are not so enthusiastic about the possibility of deregulation. Political institutional analysis sees the trend towards organising markets as an irreversible one and part of democracy (Lindberg 1962, pp. 14–27). Similarly, the sociologist Max Weber felt that the trend is for bureaucracies to expand as markets become inadequate (Seidman and Gruber 1977, pp. 506–07).

Those who call for deregulation therefore should realise the significant political and sociological constraints of such a policy. However, it is fair to say that many economists would accept a marginal approach whereby some of those regulations that most inhibit employment are removed slowly and tactfully.

Free markets — will they reduce labour costs?

We shall assume for our present purpose that those who call for deregulation refer to government regulations. Suppose the government has successfully removed those items of legislation, such as minimum wage and redundancy laws, that affect the labour market. What happens if employers and employees build up agreements that reduce the deregulated market's ability to expand employment? Why would both parties still benefit from so organising their relationship?

First, wage rates may not fall all that much in a deregulated market. For a start, employees would negotiate through their trade unions to at least maintain their employment benefits; furthermore, although it may seem that employers may now be keen to reduce wage rates and eradicate job permanency, organisational requirements may entice them to do otherwise.

Employers buy labour in the market like any other input and, although they are reasonably sure of the expected productivity of the capital or raw material input, they are never so certain of the labour quality. In order to maximise labour's input, they must secure its cooperation. Thus it is expected that they would build up pay and benefit structures that would maximise labour's productivity and minimise its cost. In this respect, classical market theory discounts the problems of industrial relations and work organisation that employers have to face (Nolan and Brown 1983, pp. 269–84).

Certain economists have recently begun to realise the complexities of wage setting and have referred to the advantages that employees ('insiders') have over the unemployed ('outsiders'). Classical economics gives the impression that, with a free labour market, the existence of outsiders will reduce the price of labour and thereby increase employment. The 'insider-outsider' theory of Lindbeck and Snower (1986, pp. 235–39)
gives employees greater labour market power than the unemployed. This is so because insiders will make it difficult for firms to attempt wage reduction and outsiders will find it almost impossible to encourage.

Not only might employers be interested in providing reasonable basic wages in a deregulated market, they may also wish to provide attractive seniority payments. This will occur particularly where firms use complex production systems (Collier and Knight 1986, pp. 77 and 92). Here the employers’ desire to retain a body of experienced employees will entice at least some of them to provide an incentive for workers to stay, especially if the industry is very competitive.

Apart from the question of wage rates, we have to acknowledge that the labour market could not possibly work like a stock market with workers rushing from job to job, making production very difficult to perform (Towling and Wilkinson 1982, pp. 43-44). In a legislation-free economy, the labour market would most likely build up employment rigidities, which would be difficult to eradicate, especially in such an openly competitive economy as Ireland’s.

The technological constraint

As technology develops, the production of different goods becomes increasingly complex, sometimes requiring only a certain number of key workers. Appelbaum (1979, pp. 42-47), who takes a neo-Keynesian approach, refers to what she calls the ‘core industry’ sector. This includes those industries in the United States that are oligopolistic high-wage industries with strong trade unions and a literate and stable workforce. The production process in the core section has become increasingly complex, hierarchical and interdependent, and many specific skills can be learned only by continuous experience with a certain firm or in a particular job. Appelbaum argues that core firms require only a fixed number of overhead employees for each of its plants or plant segments; employment therefore varies with output and by discrete amounts.

Although Appelbaum’s approach seems exaggerated and technologically deterministic, it adds another aspect to the earnings employment debate. Classical economics gives the impression that, as wage rates vary, the labour-capital mix will alter to minimise costs. With today’s complex technology, the labour-capital mix is not always that easy to change, especially in the short or medium term.

To summarise, it seems that government deregulation will be anything but easy. However, even if the government succeeds in scrapping its regulations, the social and political benefactors of the present system could carry their relatively privileged labour market position into the non-regulated system. The consequent effect on unemployment would not be that certain.

There is an interesting point in the deregulation thesis that must be mentioned. The deregulators appear to assume that the free market is a sufficiently strong agent of change both to reduce the relative power of the employed vis à vis the unemployed and to alter the technical coefficients. This has shades of a type of economic determinism that may not adequately reflect real world constraints. My feeling is that a government deregulated market could go anyway and the status quo would at least partially reassert itself. Are we to be left then with no alternative but to return to Keynesian policies to solve unemployment?

Managed

The course of Keynesian policies had a chequered career in Ireland during the 1970s. It is not necessary to go over that here; suffice it to say that because of Ireland’s present financial difficulties, its small open economy status and the problems of executing a successful incomes policy, we must be very wary of a simple pump-priming approach. Even the neo-Keynesians do not have a lot that is new to offer, except to say, possibly, that Austria and Sweden were successful at organising their incomes policies and therefore we should try again, but this time with greater discretion. In fairness, however, the neo-Keynesians have become more aware of the socio-political aspects of incomes policies. In countries where these were successful, the industrial relations system has been cooperative, according to Cornwall (1984, p. 17). He says that their success was due to good political leadership and recommends that countries should work towards an international coordination of demand expansion, backed up by measures to prevent inflation. In effect Cornwall is calling for a new international order. While he is right
about the urgent need to eradicate stagflation, it is difficult to see how we are going to get a coordinated reflation of the world economy, backed by a simultaneous and workable world incomes policy. Cornwall points out that the successful implementation of this crucially relies on the socio-political structures of different countries and on good political leadership.

Are not Cornwall and other neo-Keynesians leaving our political leaders too much to do? Are we in a quandry? Have we to take sides between two theories, both of which have certain advantages and disadvantages? Or should we take Oscar Wilde's advice when he said that the worst thing to do was to take sides:

This is the true sign of sincerity, which soon becomes earnestness and very soon you become a bore.

**Markets for employment**

Economically markets can help reduce unemployment as long as they are embedded in a suitable socio-political structure. Robert Gordon's (1982) article in *The Economic Journal* is instructive in this respect. He feels that Japan's labour market institutions seem much more suitable for maximising employment than those in Britain or the United States. As we can see below, the data indicate the relatively low unemployment rate in Japan.

**Comparative unemployment rates**

<table>
<thead>
<tr>
<th></th>
<th>1986</th>
<th>1987</th>
<th>1988</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ireland</td>
<td>18.2</td>
<td>19.2</td>
<td>19.3</td>
</tr>
<tr>
<td>UK</td>
<td>11.8</td>
<td>11.25</td>
<td>10.75</td>
</tr>
<tr>
<td>USA</td>
<td>7.0</td>
<td>6.75</td>
<td>6.5</td>
</tr>
<tr>
<td>Japan</td>
<td>2.8</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

*Sources: (i) OECD Economic Outlook, June 1987, (ii) CSO (1987); (iii) ESRI (1987)*

Quarterly Economic Commentary, July.

Why has Japan such a suitable labour market structure? First, the earnings system is organised differently. Wage negotiations take place annually and occur roughly simultaneously during what is called the 'spring wage offensive'. As well as this, the Japanese workforce has a greater uniformity, with less categories of employment. These two factors reduce inter-occupational tension over income increases and wage queue jumping. Workers are also frequently paid on the basis of seniority and this can encourage a greater attachment to their company. On top of this seniority payment, there is a sizeable profit share component, which can vary according to the firm's prosperity.

Second, there is the lifetime employment system, for which Japan is well known. Firms are reluctant to lay off workers and are known to shift employees from low to high season firms so as to keep them employed throughout the year. It is fair to say, however, that this system predominates in larger companies and it is sometimes the subcontracting firms that act as employment buffers when demand falls.

Nevertheless, Gordon states that many American workers also hold what is essentially lifetime employment. Interestingly, he adds that manufacturing wages in Japan and Britain are five to ten times more responsive than in the United States. This partly because of the three-year wage contract in the USA. According to Gordon, the point here is that economists have sought purely economic explanations of wage inertia and have provided only economic solutions.

Coleman (1984, pp. 84–88) indicates that in Japan there is a higher level of inter-firm trust than in the United States. This allowed Japan to develop an industrial structure with a greater number of independent firms, all forming part of one complex production process. This point refers to the problem of cooperation in the market, which should not be taken for granted and yet classical economics does not include it in its theoretical matrix.

We have summarised above some of the institutional underlay to the Japanese labour market that helps to maximise employment. McCleese (1985, p. 21) makes the sobering point that the success of the countries of the Far East in creating jobs may be largely due to cultural differences. Similarly Dunn (1986) argues that the Japanese system is not susceptible to relevant imitation in Britain because it forms part of an institutional framework that has evolved over time. Japan, according to Dunn, has defined the problem of British wage fixing and productivity, but gives little assistance towards its solutions, through emulation at any rate' (1986, p. 36). However, studies such as Gordon's and others have extracted some of the cultural mystique from their system, indicating that
markets in suitable institutional settings can be more efficient job creators. Such changes take time as Andrew Gordon’s (1987) study indicates. His historical analysis concludes that the Japanese right to work was a response to labour’s refusal to accept dismissal and this only emerged gradually. If we cannot carbon-copy the more employment efficient Japanese market structures, perhaps we can focus on our own structures to see if we can suggest tentative changes that would be both more employment efficient and reasonably capable of development. We shall look now at different economic groupings in the economy and relate these to the question of flexibility.

**Sectoral flexibility**

Let us assume that the economy (excluding agriculture) is divided into the following approximate sectors:

**Figure 3: Sectors and labour market flexibility**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Characteristics</th>
<th>Flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established Manufacturing Industry (1)</td>
<td>(1)-(2) Relatively long-established firms with well-organised work and employment structures. Relatively strong trade unions and reasonably good employee remuneration, to some extent regardless of company prosperity.</td>
<td>Relatively inflexible labour market.</td>
</tr>
<tr>
<td>Established Services Sector (2)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Manufacturing Industry (3)</td>
<td>(3)-(4) Relatively new firms with evolving employment, work and trade union structures. Employee remuneration varying to some extent, depending on the company’s prosperity.</td>
<td>Reasonably flexible labour market.</td>
</tr>
<tr>
<td>New Services Sector (4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Third Sector (5)</td>
<td>(5)-(6) Relatively recent work and employment structures (especially S). Little or no trade unions. Employee earnings average to low.</td>
<td>Flexible labour market.</td>
</tr>
<tr>
<td>Part-Time Work (6)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Market flexibility and employment efficiency vary among the above sectors. As we move from (1) to (7), industries and employment systems become less structured and established and market flexibility increases. In sectors (1) and (2) employment will not expand to any significant extent unless demand expands more than labour productivity.

The slightly greater market flexibility in (3) and (4) and more especially in (5) and (6) provides some scope for extra employment. In other words, it is in these less established and as yet less structured sectors that the labour market could be better organised to maximise employment. As these areas become more established over time, it is necessary to ensure that the developing structures and work agreements that emerge are geared towards greater employment efficiency.

A firm’s size can also influence its market flexibility. It is quite likely that even in the more established sectors smaller firms have a relatively more flexible labour market than their larger equivalents. But even in the smaller firm segment, it is expected that labour market flexibility will increase as we move from (1) to (7).

Since the above approach was first outlined, some research on a sectoral approach to labour market flexibility has appeared in the literature. Holly and Smith (1987), drawing a distinction between the manufacturing sector and the non-manufacturing, non-public sector, found that the responsiveness of employment to real wages in the two sectors is significantly different. Their analysis leads them to state that the non-manufacturing demand for labour is more responsive to real wage costs than the manufacturing demand for labour. They conclude by stating that the evidence presented in their paper supports the argument for a disaggregated sectoral approach (1987, p. 97).3

**New patterns**

Recent trends in the organisation of work indicate that more and more companies will run their operations with a core of skilled employees and will achieve flexibility by (i) contracting out some of the firm’s work to specialist firms in areas such as marketing, technical processes, pension arrangements, catering and security, and so on and (ii) by the use of part-time and leased employees and also by the transfer of workers to sister companies.
(Banks 1986). This development could be made more use of in the least established sectors. As time passes and the practice becomes more widespread, it could provide the labour market with greater flexibility even in the established sectors.

The possible development of such employment structures as networking might also be considered. This is where people work from home or a local network office and use a microcomputer to communicate with head office. Hornby (1986) argues that most managers in firms where costs have to be saved will see salaries as the largest element of their departmental budget. The exception will be the house services manager who has a huge building budget that could swamp all other costs. Therefore, every time people think about reducing costs, they will invariably consider cutting staff. This can often be a mistake because what is being reduced is the productive element of the organisation, instead of cutting down to some extent at least on the expensive building input. Hornby (1986, p. 21) admits, however, that such developments will require a 'whole mind and culture change.'

In regard to the difficulty posed by modern technology, there is a particular problem for future employment and income levels. As technology becomes more advanced, it can cost labour out of employment. Leontief, however, in looking at the problem of work and distribution, suggests that we need ways of supplementing labour market earnings from other income sources. He refers to the fact that although the family income of Iowa farmers has not changed over the last hundred years, their living standards are now much higher. This is because the fall in their income is more than fully offset by the income earned on their enormous capital investment (Leontief 1985, p. 158). Thus we can see that a possible way out of the income-technology-unemployment bind could develop in the area of new structures to develop more self-employment with suitable investment in new technology. One could see here a particular role for developments such as local community projects, intrapreneurs (Hornby 1986, p. 20), high technology cottage type industries.

Finally, the growth in the informal economy could also be tapped to help reduce the dole queues. In Italy this sector has posed an enormous problem. Part of the Italian government's response was to entice these firms out into legitimate production by exempting companies with less than fifteen employees (five in agriculture) from having to comply with official employment and wage regulations.

**Summary**

Markets can be more employment efficient. However, the crude process of deregulating an economy may not create any substantial amounts of extra employment and might possibly damage the market's capacity to generate employment. Deregulators who point to the employment efficiency in the United States might note that much of this efficiency occurs in the more flexible sectors, especially the new services sector (see Figure 3 above). Thus the deregulation argument that the USA has more flexible markets (it is more employment efficient — thus flexibility is the secret, therefore we should deregulate) may be flawed on the basis that, although it is one thing for the United States to have an expanding and flexible new services sector, it is quite another to argue that Ireland should deregulate its private sector. Rather, we should adopt a more cautious strategy to improve the private sector's employment efficiency.

In the established sectors it may be more advisable to regard slightly some of our present employment arrangements as follows:

- Retiming of wage negotiations, as in Japan, so as to get a greater bunching of agreements; this might help to reduce intergroup wage competition and lessen some of the pressure on labour costs.
- A reduced number of work categories to lessen the interoccupational wage conflict; again, this will help to control labour costs. A reduction of job categories would also provide employers with greater organisational flexibility in regard to labour use.

We might also consider the possibility of moving away from a fixed wage employment structure to a profit-share element. Recent American evidence has indicated that workers who have entered into profit-sharing arrangements have subsequently voted for wage rises. This return was part of a general trend in profit share deals made by ailing companies. As soon as the crisis was over, workers voted against profit-sharing and returned to 'free collective bargaining' (Thompson 1987). Thus, to use
profit-sharing as an employment generator in Ireland, will first require some review of the experience of other countries. Weitzman will deal in a later paper in this issue with what Blanchflower and Oswald (1987) classify as the macroeconomic argument for profit-sharing.

In the less established sectors, employers, unions and government should try to ensure that the new employment structures that will develop are employment efficient.

In Ireland employer-employee relations appear to lack the same level of trust and cooperation that seems to exist in Japan. It may be worthwhile, therefore, to study the Japanese developments that foster this cooperation. Perhaps a more suitable labour-management institutional structure could be usefully developed in Ireland.

Conclusion
The debate about whether or not the economists’ market is or is not employment efficient is to some extent slightly sterile; it may be or it may not be, depending on the particular socio-political institutions that bind it together. We now must look at these institutions and determine how they could evolve to make the market a greater job creator. If we succeed in improving the market’s institutions and unemployment still remains, then we must seek additional solutions. The following paper covers one such approach and provides a role for publicly funded employment. The remaining papers consider other aspects of the solution.

Notes to article
1 This paper was later published in the Irish Banking Review, June 1985, p. 47, as "Employment: A Private Sector Strategy."
2 For example, Joe Durkan, DM Consultants: "The revenue path adopted by the Government has almost certainly led to the worsening of labour costs and increasing unemployment in the private sector" in "Jobs and Borrowing — Where the Right is Wrong" Eoin O’Malley, Paul Sweeney, et al (1985), p. 9. This point echoes Brendan Walsh’s view on the crowding-out effect.
3 It is probably fair to say that this point of view is a minority one among Irish economists. See O’Malley and Sweeney, op. cit., pp. 61, 69.
4 See, among one of many economists on these points, Smith (1984), pp. 144-49.
5 See Friedman (1985), especially chapters 1, 6 and 9.
7 Geary and Murphy (1987); also state that the labour market function is sensitive to the level of aggregation. They state that their aggregate labour supply elasticity is smaller than the sectoral manufacturing equivalent. However, too much should not be made of this since their level of disaggregation is limited to the non-agricultural economy and the manufacturing sector.

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Employment: Industrial Policy and the Public Sector

KIERAN KENNEDY

The necessity for economic development
It is well known that Ireland not only has one of the highest unemployment levels in the European Community but also faces a large natural increase in the potential labour force in the years ahead. Accordingly, leaving aside emigration, a high rate of increase in employment is necessary even to keep unemployment from rising further, let alone reducing it. Furthermore, Ireland is now one of the poorest countries in the European Community: among the twelve member states, only Greece and Portugal ranking lower. There is therefore an understandable desire to raise living standards closer to levels elsewhere in the Community. It is inevitable that this will involve a continuing upward pressure on incomes, so that any solution to the unemployment problem that required a sustained reduction in wages is not likely to be acceptable. The only way by which the goals of higher employment and higher living standards can be accommodated simultaneously is through economic growth.

The point may be underlined by considering some of the alternative proposals to reduce unemployment. A great variety of proposals has been made to redistribute work: worksharing, a shorter working week, an overtime ban, elimination of double-jobbing, career sabbaticals, and so on. Inherent in all these proposals, if they were to succeed, is the need for a reduction in current income levels by those already in employment. The only way by which the goals of higher employment and higher living standards can be accommodated simultaneously is through economic growth.

The labour force can be reduced in various ways. By far the most significant of these is emigration. But whatever the objective merits and demerits of emigration, it is most improbable that any Irish government would espouse emigration as an explicit policy, since such an approach would be widely interpreted as an admission of failure in economic and social management. The labour supply might also be reduced by longer educational participation or by early retirement. Both of these approaches are expensive, and their scope is limited in relation to the scale of the unemployment problem. No doubt, if unemployment remains high, the future labour supply will adjust itself partially to the prevailing labour market, but the scope for deliberate policy measures is limited.

Finally, there is a vocal body of opinion implying that 'work is dead' and that young people should be prepared for a leisure society. This seems to me to be economically ill-founded and psychologically dangerous. Ireland is still at best only a semi-developed country, with large-scale poverty. To solve these problems, what is needed is not less work, but more and better work — as well as a better distribution of the fruits of work. The idea that the total volume of work to be done is rationed is hardly sensible, given that there are so many socially valuable things that need to be done. The real problem is to find the resources to finance even a fraction of the additional work that could usefully be done; and for that purpose, a necessary, though not sufficient condition, is to increase the total level of economic activity.

Policies to raise the growth rate
Because of the small scale of the Irish economy and its dependence on imports, economic growth must be founded in the first instance on the traded goods sectors — agriculture, natural resources, manufacturing and various services — and especially on export expansion in these sectors. Expansion in the non-traded sectors of the economy, if unaccompanied by expansion in traded goods, would give rise to balance of payments difficulties. As regards fiscal expansion financed by borrowing, this is further ruled out already by the state of the public finances.

The expansion of output in the traded goods sectors depends
on the state of the world economy and on domestic supply conditions. The external economic environment for the Irish economy has improved in the last year or so as a result of the collapse in oil prices and the fall in the value of the dollar. Some of the benefits have shown up domestically in the form of lower inflation and somewhat lower interest rates. Moreover, with similar developments taking place in Europe, the prospects for industrial exports have improved.

The outlook for the coming years, however, is still too uncertain to suggest that Europe now faces a strong resumption of economic growth. There are no grounds for reducing the discipline on the public finances — which remain precarious — especially if a renewed downturn took place in world economic activity. But Ireland has been given some breathing space, even if only temporarily, to take measures to establish a more secure foundation for economic development, both by restoring order to the public finances and by improving domestic supply conditions.

Domestic supply conditions embrace the availability, quality and cost of productive resources and the efficiency with which they are combined — in other words, competitiveness in the widest sense. Competitiveness is often spoken of only in the sense of prices and costs, and indeed sometimes only in terms of the price of labour. But while these factors are important, it would be wrong to ignore the non-wage aspects, such as management, technology and marketing, where arguably Ireland may be at an even greater disadvantage. The nature and extent of such disadvantages are likely to differ from sector to sector, and it would be unwise to assume that free market forces alone can combat them. Indeed, as I shall argue below, the satisfactory development of the traded goods sectors is likely to require additional Exchequer resources, including the provision of satisfactory infrastructural facilities.

The question whether such resources can be found depends crucially on the way in which the public finances are to be put in order. The time is ripe to begin thinking about a new national plan. In such a plan it seems essential to make better progress towards eliminating the current budget deficit, while at the same time searching for new investment opportunities that will contribute to the longer-term development of the economy.

This search should begin with the key traded goods sectors, and the infrastructure needed to support them.

**Agriculture**

There is now much pessimism about the prospects for agriculture because of the food surpluses in the European Community. Yet the degree of pessimism may not be fully warranted. It is true that the outlook for expansion in dairying over the next five to ten years is not bright, but the position is not quite as bleak in regard to beef and sheep, where there are some prospects that major new markets can be developed. There remains considerable scope for the development of food processing.

At the domestic supply end, there are major structural barriers at the farming level — associated with land tenure, land immobility and demographic structure — that inhibit expansion of supply. Successive governments have largely ignored recommendations to deal with these problems. Major changes are also required in food processing, and in particular in regard to R&D and marketing. If action on the required scale were to happen, there would undoubtedly be need for a greater commitment of public capital expenditure, accompanied by a reorganisation of the structure of the food processing sector. Certain anomalies in the Common Agricultural Policy also create uncertainty, which inhibits the expansion of processing. The emphasis laid by the new government on an integrated approach to developing food processing offers hope of a new determination to overcome the various constraints on expansion.

Apart from the major products (milk, cattle and sheep), there is further scope for developing intensive pig and poultry production, which do not require much land. Mushroom and cut flower production have possibilities also, as well as the growing of fresh vegetables. There are also many openings for small businesses to process meat into high value-added products for special markets. Good markets are available at home and abroad for vacuum-packed beef, hamburgers and cooked meats of various kinds.

A point of some importance is that although numbers engaged directly in agriculture continue to decline, there is an increasing tendency for people to remain living in, or adjacent
to, rural areas. Moreover, the degree of part-time farming has been rising, and non-farm income in farming households, whether from employment or welfare, has tended to increase as a proportion of total income. This development gives further support to the case for developing suitable industrial and service activities in small towns and rural areas.

Other natural resources

The other natural resources consist chiefly of fisheries, forestry, base metals, other industrial minerals and fuels (natural gas, coal, turf and, possibly in the future, oil). Although this is a very diverse group, there are nevertheless some common factors. The extraction process is capital intensive in many cases and cannot realistically provide much direct employment. The downstream processing is often even more capital intensive, requires substantial R&D, and the selling of the output poses major marketing challenges. These factors, of course, do not rule out downstream processing in all cases. But, especially for a small country, they do suggest concentration of major development efforts on a selected number of the more promising downstream possibilities, rather than aiming at resource-based processing across the board. For the remainder, the optimal course would be to maximise the revenue from royalties or taxes and use this money for other forms of development.

The prospects for forestry production and processing are particularly good if management inadequacies, in regard to timber quality and the flow of supplies to processors, can be overcome. For this purpose, many agencies have recommended that a commercial state body be established to take over the management of this natural resource from the civil service department. The announcement in June 1987 that legislation is to be introduced in the autumn to establish such a body is welcome. In regard to fishery development, it can be said that although Ireland was slow compared to other countries, like Norway, to become involved in aquaculture, this deficiency is now being repaired, and there are good prospects for expansion.

In this paper, I can do no more than mention some of the natural resource areas in which the scope for development looks promising. What is badly needed is a comprehensive inventory of specific activities within the framework of a national plan, rather on the basis undertaken by Dr T. K. Whitaker in Economic Development. Within that framework judgments should be made about the more likely prospects, and the resources needed to develop and market the output. Some of the subsequent plans were far too general, emphasising broad policies rather than concrete opportunities.

Manufacturing

Much of the growth in Irish manufacturing during the 1970s was attributable to the fact that it attracted an increasing stream of new foreign enterprises, and created and expanded a large number of small industries. The weak link in the chain was the medium and large indigenous enterprises, many of which owed their existence to the protectionist period. In the depression of the 1980s, these enterprises continued to decline, while at the same time the flow of new foreign enterprise diminished greatly and many of the foreign companies established earlier declined or closed down. In addition, a very substantial outflow of the profit or surplus earned by foreign enterprise has developed — to the tune of £1,350 million in 1986. This has greatly attenuated the impact of increased manufacturing output on domestic activity, and the impact of increased manufacturing exports on the balance of payments.

The scope for attracting more foreign enterprise in the next five years is likely to revive. In the last five years, the combination of stagnation in European demand and buoyant US demand was particularly unfavourable to Ireland as a location for foreign enterprise aimed at the European market. With the revival in demand in Europe, the flow of new foreign enterprise should pick up again. However, we cannot depend on that alone to solve our problems. In the first place, competition in the attraction of foreign enterprise has greatly intensified: the richest nations of Europe are now giving incentives to foreign firms that in some cases match or even exceed those offered by Ireland. Second, foreign companies are unlikely to locate the key functions of technology and marketing here, so that the attraction of such companies cannot be regarded as a satisfactory substitute for developing these talents in indigenous firms.

It is difficult to escape the conclusion of the Telesis Report,
published in February 1982, about the need to build up a selected number of large export-orientated Irish companies, capable eventually of providing the full range of functions, such as R&D and marketing, needed for competitive success. But side by side with this approach should go a far greater emphasis on maximising the potential of small industry than was contained in the Telesis Report, particularly in high-skilled sub-supply to larger companies in the domestic or overseas markets.

This strategy is now widely accepted in principle, and no doubt the industrial development agencies are doing their best to implement it. But there are three major implications of the approach that I think are not adequately recognised either at government level or in the community at large. First, industrial development is a high-risk business, and inevitably there will be failures. If the development agencies are to be sufficiently enterprising, then there must be in the community at large both a wider tolerance of failure and a willingness to accept the consequences at an early date so as not to continue to throw good money after bad in an attempt to prop up obvious lame ducks. Second, and related to the first point, the development of indigenous industry is likely to be costly in the initial years. While the Telesis Report was frank in admitting that ‘creating and sustaining jobs in indigenous firms is far more difficult and expensive than doing so in foreign-owned firms’, the message was not properly acknowledged in the subsequent White Paper on Industrial Policy. Third, there is need for a much greater sense of urgency in tackling the problems than has been displayed by governments in recent years. More than two years elapsed after the publication of the Telesis Report before a White Paper on the subject was published in July 1984, while it took three years to establish the National Development Corporation, promised in the Programme of Government in 1982.

**Services**

The scope for expanding traded services has received far less attention than it deserves. The services sector as a whole now employs more than half of the total workforce, and the three-fifths of this that is not in the public sector receives only cursory attention generally or is not even considered. International trade in services, though substantial, is by no means free from market imperfections and entry barriers. On the contrary, it is often highly regulated and protected, and the substantial post-war liberalisation of trade in manufactured goods has not been extended nearly as much to services. Nevertheless, a number of areas have potential.

Tourism is one of the few exportable services that has received sustained attention, and I need say no more about it here since it will be the subject of Brian Deane’s paper in this issue. A few organisations, such as the Electricity Supply Board and Aer Lingus, have been quite successful in marketing design and consultancy, and providing ancillary services to overseas clients. Moves have been made recently to develop a financial services export sector. But what about education (including training) and health, which employ such large numbers at present in supplying domestic needs, and the export of which would be particularly suitable to the aptitudes and aspirations of the Irish labour force? I have no doubt that there is a market potential that we have the capacity to supply. This has become all the more pressing in view of the recent public sector expenditure constraints in this area.

The obvious target markets for health are the oil-rich Arab states, and for education the more highly developed countries. The real challenge is to translate a general market potential into concrete market opportunities, and to mobilise the resources to realise these opportunities. In short, it is primarily a matter of organisational capacity. On the demand side, it would call for detailed and specific market research with a view to designing suitable packages. On the supply side, it involves offering appropriate incentives to the individuals and institutions that currently deliver these services, and creating new institutions.

If Ireland is to make a major impact in exporting services, then a strong degree of commitment and involvement by government is essential. Government-to-government contacts are often vital in opening up market opportunities. Moreover, only a state body with the appropriate responsibility and authority can weld together the many diverse elements. The task is too large to be made the responsibility of the Industrial Development Authority, which already has a formidable enough mission in regard to manufacturing. Moreover, the IDA has operated best in dealing with private commercial enter-
prizes, whereas services exports would embrace a much more varied range of suppliers, public and private, commercial and non-commercial. Although the present climate is averse to the notion of yet another state-sponsored body, I believe there is a strong case for the establishment of a Services Export Development Authority to organise, encourage and co-ordinate the export of services from indigenous institutions.

**Infrastructure**
The development of the traded goods sectors cannot proceed satisfactorily without adequate infrastructural facilities, especially in regard to energy, transport and communications. The public capital programme, which in the main provides the bulk of these facilities in Ireland, has had a bad press in recent years, especially among economists. I believe that the criticisms have gone much too far, and that if proper account were taken of the key developmental functions of infrastructure, it would be clear that the benefits were greater than is commonly admitted. To some extent, the potential benefits were not fully realised, because of the prolonged nature of the economic depression, which was not predicted by those who now pontificate so wisely with hindsight. Be that as it may, however, there can be no doubt that significant further infrastructural investment will be needed to support the development of the economy. As in the past in Ireland, and as the experience of most other countries shows, this is unlikely to happen without substantial investment by the public sector.

**Employment implications**
While I have argued that economic growth is a necessary condition for a major assault on unemployment, I now turn to the question of whether or not it is a sufficient condition. If not, then there is a need for further measures to ensure that the fruits of economic growth are directed towards providing enough jobs.

Let us consider first the direct employment impact of growth in the traded goods sectors. No one doubts that employment in agriculture will go on falling. While there is scope for expanding the processing of agricultural output, the resulting employment increase is unlikely to be on a scale that would offset the decline in farming. The direct employment in the exploitation of natural resources would not be large either. In manufacturing, some believe that changes in the relative price of labour and capital could reduce substantially productivity growth relative to output growth, involving a better employment performance for any given output performance. Against this, however, it should be noted that the much higher growth of output and productivity in Europe than in the United States in the quarter century following World War II was due to other influences apart from capital intensity, such as improved allocation of resources, economies of scale and the reduction of the lag in the application of knowledge. Because of its lower state of development, these influences are likely to continue to generate high productivity growth in Irish industry for quite some time into the future, thereby limiting the direct impact on employment growth of any given growth of output in manufacturing. Considerable potential remains for relatively rapid productivity growth in indigenous enterprises, while mobile foreign firms tend to use standardised technological processes rather than altering techniques in response to local factor price relativities. Moreover, Irish wage costs are already at such a level that the manufacture of very labour intensive products can be ruled out.

The development of services exports in some cases (like education and training) would be employment intensive, but in other cases (like banking and telecommunications) they would be necessary simply to maintain existing employment, for reasons that are mentioned below. The picture then of the most optimistic expansion in the traded sector that reasonably can be envisaged, is that while it will raise productivity and national income considerably, and help to protect the balance of payments, its contribution to direct employment growth is likely to be limited.

Of course, expansion of output and incomes in the traded goods sectors, apart from the direct jobs it would create in these sectors, would also automatically induce more jobs in the non-traded market sectors. This would happen both through purchases of producer goods as inputs to traded goods, and through consumer purchases out of higher incomes. Clearly, these effects are important and depend on the growth not merely of direct employment in traded goods but also of productivity in these
sectors. Undoubtedly extra jobs would arise in the non-traded branches of industry, services and building, with positive effects on domestic sales of traded goods. The real question, however, is whether these induced effects on employment, when added to the direct effects, would suffice to meet the jobs target. In this connection, there are a number of constraints on the scale of the induced employment expansion in Ireland that cannot be ignored. The first is the high import leakage resulting from the small and very open nature of the Irish economy. We buy abroad most of our machinery and equipment and many of our materials inputs, and will continue to do so for the foreseeable future, while the income elasticity of demand for imports out of discretionary income is accepted as being very high. In this connection, the relatively closed nature of, for example, the US and Japanese economies place them in quite a different situation as regards induced effects on the demand for output of non-traded market activities.

There is the added constraint on the expansion of employment in the non-traded market sector that there is already overmanning and spare capacity in a number of these services, while in others substantial labour-saving technological developments are being put in place. In this connection, it is useful to look at the trends in employment in the different components that make up the services sector over the twenty-year period 1961-81 (Table 1). Four of the seven branches have shown rapid growth in employment: public administration and defence, professional services, insurance and finance, and recreational and other. The first of these is entirely a public non-market activity, and the second largely so, with health and education accounting for the bulk of the employment involved. The remaining two of the four rapidly growing sectors are mainly in the private market sector, but they are still small groups, accounting in 1981 for just 11 per cent of total services. The increase in employment in banking and finance included a sizeable once-off rise to cope with the EMS. Moreover, technological developments in banking, such as automatic tellers, will greatly reduce labour requirements for present output levels. The same is true of communications, where by common consent there is overmanning, as also in transport. In distribution, employment in the large retail section has risen little over the last twenty years, and a considerable

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<table>
<thead>
<tr>
<th>Industrial Branch</th>
<th>1961</th>
<th>1971</th>
<th>1981</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
<td>140.2</td>
<td>146.8</td>
<td>163.7</td>
</tr>
<tr>
<td>of which: wholesale</td>
<td>109.9</td>
<td>117.1</td>
<td>120.7</td>
</tr>
<tr>
<td>of which: retail</td>
<td>30.3</td>
<td>37.5</td>
<td>42.9</td>
</tr>
<tr>
<td>Insurace, finance, business services</td>
<td>23.6</td>
<td>27.6</td>
<td>43.3</td>
</tr>
<tr>
<td>Transport, communications, storage</td>
<td>59.5</td>
<td>69.3</td>
<td>70.0</td>
</tr>
<tr>
<td>Defence</td>
<td>39.9</td>
<td>48.4</td>
<td>72.0</td>
</tr>
<tr>
<td>Public administration and other services</td>
<td>48.4</td>
<td>60.0</td>
<td>126.1</td>
</tr>
<tr>
<td>Professional services</td>
<td>62.2</td>
<td>49.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Personal services</td>
<td>14.2</td>
<td>13.2</td>
<td>24.8</td>
</tr>
<tr>
<td>Recreational and other</td>
<td>12.3</td>
<td>13.2</td>
<td>24.8</td>
</tr>
<tr>
<td>Total</td>
<td>405.2</td>
<td>445.3</td>
<td>507.0</td>
</tr>
</tbody>
</table>

Sources: Census of Population and Labour Force Surveys. Figures for 1961 and 1971 have been adjusted for comparability with later years.
further increase in throughput could be handled without much growth in the number of workers engaged. On a more optimistic note, employment in recreational and personal services could be expected to increase rapidly, given expansion in the rest of the economy in general and in tourism in particular. The increase would be augmented by the fact that the secular decline in private domestic service, which for long swamped growth in other components, has now just about ceased. As against this, however, it should be noted that part of the recorded increase taking place in some services is due to contracting-out services formerly supplied in-house in other sectors. While this no doubt increases efficiency, it does not directly add to the overall level of employment.

On the basis of the foregoing analysis, the direct and induced growth of market sector employment would at best hardly be sufficient to match the natural increase in the labour force, let alone begin to bring down the level of unemployment. But could this scenario be modified to secure a better employment performance in the market sector without specific job-creating measures? One escape from the limiting factors would be to aim for a far higher growth rate of output in the traded goods sectors than is commonly envisaged. If, for instance, we could realistically contemplate a Korean-type expansion in manufacturing (15½ per cent output growth rate and 8 per cent employment growth rate during the 1970s), then of course the other limitations noted above would be irrelevant. No one has yet advanced this, however, as a feasible option for Ireland.

An alternative escape would be to try to raise employment growth relative to output growth in the market sector, implying a reduced rate of productivity growth. The demand for labour is influenced not only by the level of output, but also by the composition of output and by the techniques used in its production. The last two factors are in turn influenced by technology and by relative factor prices. It might, therefore, be argued that by lowering the price of labour relative to other factors, both the choice of output and of techniques of production could be modified in such a way as to secure a much higher employment growth for any given output growth. As already indicated, however, there are cogent reasons for questioning the scope for significantly influencing the output/employment relationship in the market sector in Ireland by altering relative factor prices. To say this is not in any way to deny the importance of income restraint, which is a necessary feature of any strategy for improving the Irish unemployment situation. Rather it is to say that income restraint will raise employment primarily through its effect on the overall growth of output, rather than on the mix of products and factors of production. The possibility sometimes mooted that, in the face of sustained unemployment, people will eventually be absorbed into low-paid service occupations, seems implausible unless social benefits are drastically changed. And the outcome of such drastic changes might well be a considerable acceleration in the growth of what is already in the last decade one of the fastest growing areas of public sector employment — defence and security!

Publicly funded job creation
The argument so far is that, while economic growth is essential to provide extra resources, these resources will not automatically give rise to sufficient extra jobs. But some of the extra resources can be absorbed by the public sector and used to increase output and employment within that sector. Alternatively, the Exchequer could use the resources to fund activities performed by the private sector, which would not otherwise take place in Ireland if the resources were left in private hands, because of the high marginal propensity to import. Another alternative is the 'third sector' which Chris Brookes writes about later in this issue. All these have the common characteristic of requiring state funding, which must be paid for sooner or later out of tax revenue, and which is channeled directly or indirectly towards domestically supplied, relatively labour-intensive, goods and services that would not otherwise be demanded and supplied to the same extent.

This approach recognises the central relationship between employment policy and the wider issue of income distribution and redistribution. To the extent that the market system can provide enough jobs for all who are willing and able to work, this will go a long way towards widely distributing the fruits of economic progress. In that case, the state's redistribution activities could be confined to measures for moderating disparities in after-tax incomes, helping those with many
dependents and taking care of those who are unable to work. When, however, the market system, even if it is given the maximum feasible encouragement by the state, still leaves a large and growing minority unemployed, the state is confronted with a more acute distributinal problem. In essence, the state can either go on paying unemployment compensation, or it can create or fund jobs. The latter requires more tax revenue than the former, but can add to the supply of useful goods and services.

Several reasons have been given above for the view that expansion of the market sector in Ireland, while providing the indispensable basis of job creation, may not on its own yield enough extra jobs. To these reasons can be added a more subtle consideration related to income distribution. The high productivity growth in the traded goods sector, which is likely to accompany higher economic growth, must result in higher real factor incomes. Even if price competitiveness is maintained, there will still be upward pressure on real wages, which will be generalised to the rest of the economy through comparability claims. A wealth-creating strategy that involves little direct employment growth may therefore give rise to forces that will also limit the induced employment growth in the non-traded sectors.

The result is that the distribution of income shifts in favour of those lucky enough to secure jobs, but in a way that makes it harder to employ the remainder. Consequently the state must intervene to ensure that the resultant growth in real incomes is moderated in such a way as to ensure that its fruits are shared by all. Incomes policy directed at factor incomes may not be enough to achieve this on its own. If not, then becomes necessary to further moderate the growth of after-tax real incomes to ensure a fairer distribution. Employment creation is a much better way of doing so than paying more dole. The latter can be degrading to the recipients; it must always be kept at a relatively low level to avoid both disincentives and protests from the employed; and it yields no output. It should also be emphasised that support for the incomes, industrial and other policies needed to expand the traded goods sector may not be maintained without assurance of progress on job creation.

Clearly, the adoption of such an approach depends on the success of measures to develop the traded goods sectors, since otherwise tax rates would become prohibitive. It therefore cannot be the driving mechanism in the strategy, but rather is contingent on progress with the other elements. It is also very important that efficiency considerations be kept to the forefront in all publicly funded employment schemes. What constitutes useful work in this context is of course a matter of social decision rather than market-testing, and there is no problem in finding enough activities that would generally be viewed as socially useful. The real challenges lie in finding resources to finance them, in deciding the priorities among them, and in organising them effectively. In this connection, ideological prejudices about the respective roles of the public and private sectors are most unhelpful. What we need is not the dominance of one over the other, but rather a constructive partnership between the two that will emphasise performance. It would be foolish to ignore, for instance, that at local level, the local authorities often possess the most developed infrastructure of managerial and technical expertise for the organisation of employment schemes. Equally the local authorities should encourage and co-operate with private and community initiatives. In the short-term a major priority in such schemes should be to address the harshest features of unemployment, such as the situation of the long-term unemployed.

But will more publicly funded employment of whatever form not simply add to inefficiency and the retention of outmoded public services? This is a possible outcome, but not an inevitable one. Restructuring is something that should go on all the time, regardless of whether the level of unemployment is expanding or contracting. In practice, it is not at all clear that restructuring is done any more effectively when the overall level is being reduced. No one would deny the need to improve the effectiveness of public services, but such improvements offer the possibility, if the society so desires, to have more and better public services.

**Conclusion**

Both the market and the non-market sectors have a vital role to play in seeking a solution to the unemployment problem, and neither on its own is likely to be successful. Both have weaknesses
Employers and Unemployment: The UK Experience

KEITH MacMILLAN

Unemployment in the United Kingdom is higher now than at any time in the post-war period, yet strangely there is little sense of crisis. For over ten years current levels have been forecast and as they have been attained the British people have become conditioned to the continuing upward trend. Attempts to stem these increases have been unsuccessful, and this must include the efforts by employers, a matter on which this paper concentrates. Indeed, since it is employers who decide to lay off people, or not to hire or replace, some might say that they 'cause' the problem. Yet we all know that if a business's survival is at stake, redundancies are almost inevitable. New technology and intense competition create their own imperatives of change and adaptation. Moreover, it has become easier for management to shed labour, as unemployment levels have risen and trade unions have become weaker. Today only large-scale redundancies make news and commentators tell us that our recent experience of full employment must be seen as a post-war aberration.

As far as employers are concerned, high unemployment has become less of a problem but more of an issue. The social costs of unemployment are all too apparent, although less so in the south of Britain where so many policy decisions are made. Most areas may have suffered unemployment during the inter-war years, but today if one lives in the most prosperous parts of the country it is all too easy to feel distanced from the problem. On the other hand, unemployment has become more of a political than a managerial issue; it is manifest in people's consciences rather than in their day-to-day businesses. The unemployed themselves do not have much political power; for the most part they are disorganised, dispirited and poor.

While there is ever less tolerance among employers to maintain surplus labour, an increasing number of companies in the UK are engaging in initiatives designed to help mitigate some of the social costs of unemployment. These initiatives mostly are of two types; to develop the economic base of communities by local
enterprise agencies and to help train the young unemployed. Employers appear not to be under any compulsion to do anything, so why do they engage in these activities? If it is because of some notion of corporate social responsibility, what does this really mean? Is it mere tokenism? And if there is some underlying business logic of self-interest, why do all firms not undertake such initiatives?

The answers to these questions could be of considerable significance to policy-makers, yet our knowledge is patchy. We do know, however, that the scale of involvement by employers is growing apace. In 1979 there were only three local enterprise agencies; by the end of 1987 there could be three hundred. ‘Business in the Community’ (BIC), the umbrella organisation for local enterprise agencies, claims that over 50,000 jobs a year are generated this way, while helping to maintain a further 25,000. Over 4,000 companies are apparently sponsoring these agencies, the number growing by 50 per cent in twelve months.

The Youth Training Scheme (YTS) is a government initiative, but employers are not obliged to collaborate. Some 360,000 places are planned. Many projects that hitherto were purely voluntary have now been swept up into the scheme. It must also be said that a lot of orthodox apprenticeships and much in-company training have also been incorporated in the scheme at public expense. But in addition to the YTS, many employers are participating in an increasing number of initiatives concerned with developing pre-employment life and social skills and with encouraging young people to become self-employed. No doubt such projects are not unique to the United Kingdom, but the significance to the initiating firms is not at all well documented, nor are the managerial problems that the scheme presents. Understandably, as unemployment has risen, few communities are eager to look a gift horse in the mouth but, as Troy discovered, it may well be worth examining its other attributes a little more closely. This paper reviews the development of several types of company initiative and speculates on their significance for policy-makers in business and elsewhere.

**Early development of local enterprise agencies**

By the time Business in the Community was established in 1980, some useful experience already was emerging from earlier experiments of various kinds, all involving companies seeking to mitigate the adverse social effects of redundancies in local communities. In the early 1970s the merger between the National Provincial Bank and the Westminster Bank, to produce what is now NatWest, also produced a surplus of managers who were too young to retire. The bank imaginatively thought that these people could be loaned out to charitable projects, which might benefit from their financial and managerial expertise. This idea of secondment had long been a feature of the community policies of several American companies, such as IBM, and became institutionalised in the UK with the creation of the Action Resource Centre as a secondment clearing house in 1973. But it was not until later that secondments became an essential means of staffing local enterprise agencies. Now two in every five agency directors are on secondment from their employers.

The early 1970s also saw large-scale redundancies in the British Steel Corporation and management and unions expressed concern about the future of the communities where the Corporation had been the predominant employer. The Corporation established a subsidiary, British Steel Industry Ltd, in 1975, to work with local authorities to attract new industries to the worst affected areas. The counselling of staff who were being made redundant also became a regular feature in attempts to enable workers to transfer smoothly to other employers, occupations and localities. These policies were not without their managerial problems, but they were sustained as a result of commitment at the highest level within the Corporation. Most of the old BSC sites that were closing down were located in regions of the country that already were suffering from acute unemployment. Almost two decades of regional policies, which had been intended to correct such imbalances, had not had the desired effect, so how could one company make the difference? There was also competition between the regions to attract the most mobile employers. Much of the inward investment was capital, rather than labour, intensive and the generous financial incentives encouraged the development of the 'branch factory syndrome', marginally viable operations that probably would be the first to be shut down when there was a downturn in the market.
By 1978 it was clear that these policies were not enough and an effort was made to encourage the development of smaller businesses, if possible growing from within the locality. Research into the constraints on the growth of such businesses revealed that there was a shortage of suitably sized premises, of between 500-1,000 square feet, for business start-ups. It was also concluded that it would be difficult to raise the required finance, largely, it appears, because of inadequate financial expertise on both the demand and the supply sides. It was therefore decided to establish mini trading estates on former steel plant sites, converting existing buildings and adding new ones of the requisite size. There are now eight such sites; local managers act as business advisers. The British Steel Corporation also provides financial assistance, mainly in the form of unsecured loans.

Similar conclusions had been reached in St Helen's, Lancashire by Pilkington Brothers. The company was the major employer in the town, yet was planning to install new capacity, both in St Helen's and abroad, and knew that this would mean considerable redundancy. As in the British Steel case, Pilkingtons had been in St Helen's for over a century and there was a strong family tradition of community involvement. The company was instrumental in establishing the St Helen's Trust, which became the first really successful company-sponsored local enterprise agency and set the pattern for most of the others. One of the main reasons for its success was its first director, who had many of the classical characteristics of an entrepreneur: very independently minded, boundlessly enthusiastic and energetic, excellent at gaining commitment and in doing deals so that he could get the most from anyone. Set up in 1978, the Trust was the first to use secondments from other companies systematically to support the central advisory staff, as well as using all possible public funds, particularly from the Manpower Services Commission.

While the St Helen's Trust was conspicuously successful in attracting public interest, other companies too were concerned about unemployment and the impact of their staff redundancies. As particular divisions of ICI became affected by recession and market change, great efforts were put into redundancy counselling, secondments to charities, and into seeking jobs for surplus staff with other employers. In one division up to twelve full-time staff were engaged solely to undertake these activities. ICI was also one of the first companies to investigate the scope for spin-off ventures, using surplus R&D ideas. Local business advice centres were established, based on divisions in the north-west and the north-east of England. While there were some attempts at coordination from the centre, the company's traditional decentralisation meant that some divisions were more committed than others, a situation that still pertains today.

Lucas Industries was also experimenting with attempts to stimulate new business ventures to take up extra manpower capacity, although here it was really forced on the company by the actions of a shop stewards' committee in one of its divisions, Lucas Aerospace. This combined committee had produced an 'alternative corporate plan' to counter plans by the company's management to rationalise its productive capacity, which would create redundancies. The alternative corporate plan proposed many 'socially useful' new products that would obviate the need for the redundancies. This captured the imagination of the media. Over a period of four years in the late 1970s the shop stewards were able to build up considerable pressure on management, and also on the official union system and on the Labour government, to the point where an official Union/Company New Ventures Group was set up in 1979, just before the general election.

At this stage the political environment changed. The new Conservative government set out to reduce the power of the unions and was aided by the deepening recession. By 1980 the rest of the company was in much greater trouble than Lucas Aerospace, and there had been a change of leadership in the company. These factors, together with the dramatically changed industrial relations climate, brought an end to the New Ventures Group before any new products could be produced. Meanwhile, the orders for Lucas Aerospace had picked up, with the result that the shop stewards could claim with some justification that they had successfully delayed the planned redundancies until a time when the company had actually become short-staffed. This was a precedent that most employers were not at all keen to see repeated elsewhere and it is noteworthy that similar efforts, particularly among companies associated with the motor industry, proved to be unsuccessful.
Establishment of Business in the Community

The new Conservative government was faced with a dilemma. It wished to reduce public expenditure at a time when increasing unemployment and urban deprivation prompted demands for even greater government spending. The government noted several examples of companies becoming involved in urban regeneration programmes in the United States, Detroit Renaissance for one. In 1980 meetings were held with senior industrialists, culminating in a conference at Sunningdale and Marlborough House, in which the government sought a collaborative approach with the private sector to the local re-development of Britain's large inner cities. Business leaders and community workers were brought from the United States to relate their experiences. On the whole, the British company chairmen were not greatly impressed, but by then there was the shining example of the St Helen's Trust and one or two other ventures, including the London Enterprise Agency — established in 1979 by the London Chamber of Commerce — and Birmingham Venture, established in the same year. In addition, a number of successful workspace schemes were underway, such as that in the Barley Mow, which showed how older buildings could be converted to provide premises for new, small businesses.

Sir Alistair Pilkington emerged as the major protagonist for the business community's involvement, quoting the distinctly British approach Pilkington Brothers had taken. He pointed to the internal company benefits that had been achieved as a result of its involvement in the St Helen's Trust. There had been an improvement in employee morale and motivation and in workplace communication. Sir Alistair suggested that it also helped to recruit better quality staff and there had been an immense public relations benefit: in the space of a few months both the prime minister and the Prince of Wales publicly commended the company and the Trust for their pathfinding efforts. Over the years the Trust had prompted a number of tangible financial benefits, such as the reduction of local rates, to help the development of local businesses, and Pilkington Brothers had made adept use of government grants and various kinds of financial assistance. By then the company and the Trust had also set up Rainford Venture Capital, a subsidiary company to help channel funds to small independent businesses that, in the fullness of time, might prove profitable acquisitions to aid Pilkington's diversification programme.

Business in the Community (BIC) was eventually established with thirty major companies participating. It was not, however, until the summer of 1981 that the movement got a major if tragic boost. The riots in Brixton, Toxteth and areas in twenty-six other cities caused damage of over £45m. and led to 4,000 arrests. This threat to law, order and property galvanised major employers into action, particularly those companies in the retail, oil, financial and leisure sectors, whose staff and property were most at risk.

Now local enterprise agencies are part of a major national network, yet BIC is still seeking to clarify its role. Officially it sees this as:

1. To set up and support business led local partnerships, usually enterprise agencies which aim to identify or create opportunities for job and wealth creation.
2. To disseminate information about successful local initiatives so that others can learn rapidly and effectively.
3. To represent the interests of agencies in discussions with political parties and national organisations.
4. To act as the link for a wide range of issues, including youth training opportunities for the handicapped or ethnic minorities and other organisations especially in the voluntary sector.

This is a very wide range of roles indeed. BIC can move only as fast as its sponsors will allow; one of its difficulties is that most of its core full-time staff have been seconded for a short term, and so there is very little continuity of philosophy or expertise. BIC has grown because more and more sponsors have joined the 'club' and from what one gathers there is quite a wide variation in their expectations. Some see it purely as a channel and clearing house for the amounts of resources they wish to dedicate to community purposes, wishing to minimise the impact on their mainstream businesses. Other sponsors may well see much greater potential for BIC, particularly in its representational role with government and other institutions. Yet others may see in it a new means of revitalising or reinvesting something akin to
chambers of commerce, and there is a further view that sees the potential of this national network as an alternative conduit for channelling central government funds to local communities and bypassing antagonistic local authorities. Increasingly local enterprise agencies are participating in training schemes and are beginning to use quite a lot of money from the Manpower Service Commission, particularly as they add training for the young unemployed to their activities.

**Youth unemployment initiatives**

I have referred already to the Youth Training Scheme (YTS) and the way it is tending to absorb many earlier initiatives by employers to mitigate youth unemployment. Project Fulfillment is one such initiative, set up in 1973 through a collaboration between banks and City of London institutions to assist the transition to working life of the least able inner-city young people, who often suffer the double disadvantage of racial discrimination. It has proved very successful and many other schemes have been modelled on it.

Employers participate voluntarily in the YTS. A recent survey indicated that 25 per cent of all employers were taking part in the scheme, ranging from 37 per cent in high unemployment areas to 18 per cent in areas of lower unemployment (Sako and Dore 1986). The survey also revealed that larger employers were more likely to be participating in YTS than small firms, as were firms that recently had experienced labour shortages. The companies quoted several reasons for taking part in the YTS. Smaller employers were more likely to stress advantages to the firm, while larger employers emphasised purely social reasons. Of those who cited both reasons for participation more said that social reasons were the more important. More specifically, the wish to ‘do something to help young people’ was mentioned by 45 per cent of the YTS participants; the seriousness of the ‘youth unemployment problem’ was mentioned by 22 per cent and ‘obligation to society to help deal with serious social problems’ was cited by 15 per cent. One interesting observation to emerge was that the total number of such social reasons given by participating employers was not greater in those areas with high levels of youth unemployment; employers in all areas seemed to be equally concerned. Among the advantages to the employer for taking part in YTS, 42 per cent mentioned that it provided a very good screening mechanism for recruiting employees and 32 per cent said that it reduced their labour costs.

Many companies train more young people than they might ever need to employ after the end of the scheme. It is also well-known that many employers claim that it costs much more per trainee to run a good scheme than the Manpower Services Commission provides in the form of allowances. Under the new funding arrangement, this problem is likely to be exacerbated. Managing agents are compensating for this shortfall by ‘renting out’ trainees (for a fee) to other businesses who provide work experience. Such a possibility is less open to the very large employers, who undertake all the training themselves. Employers and the government have still not resolved this issue.

A number of youth unemployment initiatives are in place outside YTS, however, and these seem to have become more popular in recent months. Apart from those ventures that help school leavers to make the transition to working life, the schemes to encourage young people to become self-employed are of special interest. Two are particularly noteworthy. Youth Business Initiative (YBI) was established in 1984, with funding partly from the Queen’s Silver Jubilee Trust, the Manpower Services Commission, and industry, under the chairmanship of the Prince of Wales (who is also chairman of Business in the Community). YBI has funds of around £2.5m available in 1987. Some companies provide secondments, training or experience; these have included ICI, British Airways, Thorn, Bass, United Biscuits, Marks & Spencer, Unilever and Marley. This scheme provides grants averaging £800–£900 per person to young people who wish to set up their own businesses. Conditions of eligibility are that the recipient must be young (18–25), unemployed and from a disadvantaged background. In 1985, 2,000 applications were considered and 456 awards were made. Eighty per cent of the business enterprises thus assisted were continuing well after one year and some were beginning to employ other young people.

By contrast, the Youth Enterprise Scheme (YES) provides loans of around £2,000 (and up to £3,000) to young people who want to become self-employed. Loans are interest-free in the first year; interest is usually 5 per cent in the second year and 10
per cent in the third year, but arrangements vary. Recipients are expected to provide monthly progress reports and to be linked with someone who will give them help throughout the early years of their enterprise, particularly in preparing business plans and cash flow projections. For these reasons the scheme is linked in to the local enterprise agency system. Initially the scheme was confined to six regions, but it is now becoming national. It is funded in two separate ways: Investors in Industry has provided £500,000 to fund the commercial side of the scheme, while the YES Foundation has raised over £1m. from industry to cover the running costs of the scheme and some of the high risk loans. Angus Ogilvy has been particularly active in raising money for this purpose.

The Prince of Wales is chairman of another scheme in the north-east of England that currently is attracting much attention. The Youth Enterprise Centre in Newcastle was established by Project North East and is supported by Marks & Spencer, Legal and General and Levi Strauss. It provided workspace, business information and entrepreneurial training for young people. Out of this has also developed the Prince of Wales Community Venture Scheme, in which twenty-five companies have put up funds for what might be regarded as pre-YTS training. Originally intended to provide voluntary community service, the scheme is now being extended to provide useful life and social skills of a broader nature, for example by instilling people with enterprise and drive. Private sector industry tends to provide the administrative and running funds for the project, while the participants themselves receive allowances from the Manpower Services Commission. If this scheme proves successful, it probably will be given further support to provide national coverage.

A great many other schemes could be cited; to a large extent it may be unfair to quote some without the others, which are worthy in their own right (Conference of British Industry, 1983). It appears, however, that these initiatives are growing: more companies are participating and more resources are being committed. It is of course very easy to criticise such schemes. Few, even in the business sector, would claim that they are going to solve the problem of unemployment either in the short or the long term. The interesting question is why they are undertaken at all.

Significance of voluntary initiatives by employers
While some of the behaviour outlined above can be justified on the grounds of short- or long-term commercial self-interest, one suspects that, when examined coolly and objectively, the majority cannot. It is very difficult to understand what really motivates any kind of behaviour. Most people are perhaps too cynical to believe that the motives are solely altruistic. Yet if commercial reasons are also not wholly convincing, altruism cannot be ruled out. After talking to the senior managers, it is possible to discern a number of reasons. There may be the desire to be thought well of, to gain social esteem or even national honours, to save one's conscience, to keep up with the behaviour of one's peers, to associate with royalty, to make life more interesting and worthwhile, to feel sympathy for the friends of one's children or grandchildren, and so on. Very few economic, business or managerial theories incorporate such motivations. Therefore new theories may be necessary.

Many arguments may be cited against such initiatives however. To what extent do senior managers have the permission of company shareholders to expend corporate resources on these schemes? Have shareholders ever been asked? Are the true costs actually known, even internally? Milton Friedman (1970) has argued that in so far as these projects divert resources from orthodox commercial purposes, they may be regarded as taxes imposed unilaterally by the management on the firm's employees, customers, or investors in the form of lower wages, higher prices and lower returns than might be the case without them. Friedman also argues that, in so far as profits may thus be reduced and lower taxes paid, the schemes may be diverting resources away from the state and its social services, which may have more legitimacy and expertise in dealing with social problems. Other queries arise. Do the recipients of such aid actually value it? Do they regard the sponsors in a more favourable light for providing financial aid. Does it stave off criticism of some of the companies' other activities? Do employees within the companies actually place much value on these policies, or are they as cynical as many people outside? If this is so, might the support be withdrawn if the firm has a change of leadership who have different values and priorities?

In the absence of much information on motivations or on the effect of these ventures, observers tend to divide themselves into
supporters on the one hand and cynics on the other. On the whole it is probable that the above questions rarely get asked. In so far as there are beneficiaries from any social project, then surely it must be a 'good thing'. It is possible to become highly analytical about the comparative marginal social utility of different business activities, but ultimately judgments turn on the view that one takes about the most appropriate role for business in society. If one takes a very narrow view, equating commercial self-interest with greed, these social activities by companies make little sense. By contrast, if the view is accepted that business's main role is to generate community well-being, with profit being only a means to that end, these activities seem both legitimate and logical. I have argued elsewhere in support of this wider role, which need not necessarily be inconsistent with taking a hard-headed view of business behaviour (MacMillan 1984). A business can be run to enhance community well-being without turning itself into a charity. The well-being of a business is increased if the people with whom it interacts feel better off as a result of such exchanges. The extent to which the business people themselves feel better off, as recipients of monetary or non-monetary rewards, is an indicator of their enterprise and creativity.

What relevance has such a business philosophy to the problem of unemployment? First, it should lead business to question whether it can better enhance community well-being through pursuing its orthodox commercial activities or by expending resources on policies specifically intended to mitigate the social costs of unemployment. If it views its commercial role widely enough, there should be no need for special social programmes. On the other hand if, because of the business's special expertise or situation, the top management feels that it can enhance a particular aspect of the community's well-being better than another firm or social agency, then it should do so. For example, a food manufacturer may be able to offer a special deal to schools and hospitals; a high-tech firm may be capable of bringing unique skills to the training of young people; a bank may earmark some of its funds for high risk, low return community projects. Part of the return the managers of such firms may seek from these activities may thus be non-monetary. It does not necessarily make them charities or soft touches. They

need be no less astute in their other business dealings. It may well be necessary, however, from time to time to explain to both internal and external audiences why they offer different terms to different people. These are complex managerial and communications issues, but they are not incapable of resolution. However, one also expects management to be sufficiently skilled to avoid the risk of such discriminatory policies threatening the financial viability of the enterprise.

It thus much depends upon how one sees the role of business in society. Unemployment can be increased by employers reducing their workforces. It can be mitigated to some extent by adopting community policies of a kind that has been described here. While undoubtedly beneficial in some respects, these are unlikely to resolve the unemployment problem. Having a wider view of the social role of business, as well of course as having more competent management, may well have the desired effect.

Notes to chapter

1 Some of these responses are discussed in MacMillan (1989).
2 See, for example, others described in Confederation of British Industry (1986).

References

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Sako, Mari and Ronalk Dore (1986), 'Employers and the Youth Training Scheme', Employment Gazette, June.
Unions and Unemployment: An International Perspective

M. F. O’SHEA

In this paper I shall consider the threats and opportunities that unemployment and economic change have brought to trade unions in Western Europe. The article also outlines how trade union movements show varying capacities to respond to unemployment.

Maintaining membership

Recession and unemployment threaten the bargaining power of trade unions. Economic change opens up new areas for recruitment, while membership falls off in declining sectors. If we look at the membership of European trade unions between 1979 and 1983, the following pattern of increase and decline emerges:

<table>
<thead>
<tr>
<th>Country</th>
<th>Workforce density* 1979</th>
<th>Workforce density* 1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>77.3</td>
<td>79.2</td>
</tr>
<tr>
<td>Denmark</td>
<td>76.0</td>
<td>77.6</td>
</tr>
<tr>
<td>Belgium</td>
<td>61.8</td>
<td>60.7</td>
</tr>
<tr>
<td>Austria</td>
<td>56.6</td>
<td>57.9</td>
</tr>
<tr>
<td>Norway</td>
<td>58.1</td>
<td>58.2</td>
</tr>
<tr>
<td>UK</td>
<td>54.8</td>
<td>45.7</td>
</tr>
<tr>
<td>Italy</td>
<td>43.4</td>
<td>39.6</td>
</tr>
<tr>
<td>Switzerland</td>
<td>34.7</td>
<td>33.8</td>
</tr>
<tr>
<td>West Germany</td>
<td>34.6</td>
<td>32.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>37.6</td>
<td>31.7</td>
</tr>
<tr>
<td>France</td>
<td>22.4</td>
<td>19.3</td>
</tr>
</tbody>
</table>


*Percentage of the labour force that is unionised (including the unemployed)

Union membership has declined in Belgium, the United Kingdom, Italy, Switzerland, West Germany, the Netherlands and France. Membership of Irish trade unions also declined from 52.1 per cent of the workforce in 1980 to 46.4 per cent in 1984 (Roche and Larvag 1986). In the United States union membership declined from 34 per cent of non-agrarian employment in 1953 to 19 per cent in 1984. US unionisation levels are now at their 1936/37 levels (Visser 1985, p. 6). Since unemployed workers retain their union membership in Denmark and Belgium, this has kept membership levels high in those countries. Danish and Belgian unions provide benefits and services to their members, a policy not generally adopted by unions in Ireland, but one that the British Trade Union Congress (TUC) has recently implemented through a network of Unemployed Work Centres (UWCs) throughout Britain. Moreover, British unions have been advised by the TUC to retain the unemployed as members wherever possible. 1

Although early trade unionism in Britain and Ireland provided a number of welfare benefits to members, including unemployment benefit (Webb 1903), for the most part this is no longer the case. I have calculated that, as a percentage of annual members’ contributions to Irish unions, unemployment pay to members declined from 5.5 per cent in 1945 to less than 1 per cent in 1980. 2

Unions retain members who are unemployed in an attempt to control the wage rate for union labour — to uphold the common rate and prevent a fragmentation of the wage structure and a diminution of the union’s influence in the labour market. It also places the union in the direct role of representing the interests of the unemployed in society. The fact that unemployed members represent 10 per cent of the membership, as in Dutch unions, or 24 per cent, as in Belgian unions (Visser 1985, p. 7), indicates that unemployment is a vital concern to unions there and that employment goals such as working-time reduction and planned rationalisation have made an impact on the traditional functions of trade unions. Where the union does not take an active part in retaining its unemployed members, high unemployment tends to weaken the role and position of unions in the wider society, as happens in the United States.
Influence on government policy
Levels of unionisation, the ability of union organisations to overcome sectional interests, and the degree of integration of organisational form all have a significant bearing on a union movement’s ability to influence state economic policy. Swedish trade unionism, for example, has been able to formulate and implement a successful incomes policy over thirty years, a period when the economy grew rapidly and high employment levels were maintained. A similar pattern of union involvement in state economic policy is evident in Norway and Denmark.

On the other hand, more fragmented union movements (in Britain, Ireland, France and Italy) shows less capacity to participate with industry and the government in achieving a successful incomes policy. Instead of union wage demands being co-ordinated, the tendency is for groups to ‘free-ride’ on wage norms, undermining centralised attempts to bargain with the state for employment expansion programmes in return for moderate wage claims. These industrial relations systems also display less ability to maintain the wage structure during a time of recession, or to extend the range of collective bargaining. Unions also may be highly resistant to change. Such centralised systems of industrial relations have been described as ‘decomposed’ (Tarantelli 1986). They have higher costs in terms of inflation and unemployment than more highly regulated systems.

In the last few years the ability of trade unions to influence government economic policies in general has been undermined by the fact that full employment is a receding policy goal of Western European governments, and market criteria have been reasserted as the means of solving the unemployment problem. In the first instance, co-operation with the state to achieve some form of incomes policy is only feasible for a union movement when there is an exchange between the parties. In Sweden, for example, it has been observed recently that ‘the unions could carry out their wage policy of solidarity only if the government accepted responsibility for full employment through a strong manpower policy which guaranteed and alleviated the adjustment of the labour force to constantly changing conditions’ (Meidner 1986, p.87). Failures of governments to create jobs and the failures of unions to maintain wage stability undermine centralised bargaining arrangements. In the last few years a trend towards decentralised bargaining has been evident in West Germany, Britain, France, Ireland and has recently tended to undermine centralised policy in Sweden (Lash 1985). The reassertion of market criteria as the orthodox solution to the unemployment problem in many countries has meant that unions have had to abandon their reformist goals. An example of this was the German government’s decision to reduce social security (Sengenberger 1984).

Employer resistance
The economic recession has necessitated a redistribution of power from labour to capital, and employers are now much more resistant than previously to the demands of trade unions. A significant threat for unions has been the desire of employers for more flexible terms of employment: increased part-time working, fixed-term contracts, sub-contracting, and so on. These have weakened the unions’ bargaining powers to obtain the common rate and has led to a segmentation of the labour market between those in secure and well-paid jobs and those in low-paid, unprotected employment. Although union recruitment imitates this segmentation of the labour market — between skilled and unskilled workers, between public sector and private sector workers — the less sectionalised union movements have been able to respond to some of the implications of economic change. German industrial unions have formulated strategies (considered below) for resisting the employers’ preferences between different types of labour (Weiss 1986). More sectionalised union movements are less capable of resisting fragmentation of this sort and may promote it to the extent of representing the interests of stronger over weaker groups.

Another aspect of employer resistance has been the inability of unions to make general wage advances in recent years. In the early 1980s in Norway, Sweden, the UK, West Germany, Belgium, Denmark, Italy and the Netherlands, real hourly wages in manufacturing fell (Visser 1985, p.12).

Content of bargaining
High levels of unemployment challenge the ability of trade union movements to adjust collective bargaining strategies in favour of their employment content. Have European unions succeeded in shifting the focus from wages to employment?
Workplace industrial relations

In conjunction with the trend towards decentralisation in collective bargaining, unions have begun to participate in all forms of decision-making at the level of the industrial enterprise. The collective agreements negotiated at industry level in West Germany on both working-time reduction and the introduction of new technology have been adapted to the specific conditions of individual firms. The Swedish trade union movement, too, has shifted its focus to this level in recent years after decades of concerted centralised responses (Meidner 1986, pp. 92–93).

This emphasis on involvement at the level of the individual enterprise has been necessitated by rationalisation and technical change. Union decisions and strategies at enterprise level are said to complement the broader strategy of the union movement in the current crisis (Weiss 1986, p. 76). In West Germany, Holland and Denmark, workers are legally entitled to elect a 'works council' for three years, which has statutory rights on management information and co-determination. In the past few years these bodies have played an increasingly important role in protecting jobs and generating employment. They have a particular vested interest in the firm's efficiency and viability. Because they represent all the workers in the enterprise, not just the union members, the interests they express tend to be the firm's economic survival and competitiveness (Streeck 1981, p. 157). They are thus often seen as accommodating technical change, rationalisation and other developments in ways that are responsive to market pressures.

This kind of arrangement can be juxtaposed against responses to change in fragmented or pluralist bargaining systems. Here individual work groups bargain with their employer. If they command sufficient bargaining power, they can extract concessions from the management on wages and on the organisation of work. Job control of this kind protects sectional interests not only against industrial change, but also against the adverse effects of such protection on the firm's or the economy's overall productivity' (Streeck 1981, p. 157).

The lack of information and the weak system of representation inhibit the negotiation of change in a fragmented bargaining system. A recent study of workplace industrial relations in Ireland, by Wallace and O'Shea, has highlighted significant difficulties for management and workers in negotiating the transition from one form of work organisation to another; these difficulties have led to disputes in both the public and private
sectors. These disputes tend to follow from unilateral decisions by management, which workers respond to by non-cooperation. In some instances, disputes have arisen over more stringent managerial supervision following external market pressures on the firm. These disputes are noteworthy for a number of reasons. First, workers tend to emphasise their fears for employment rather than their desire for inhibiting costs on the employer. Furthermore, they are often ignorant of the employment effects of these changes. Secondly, workers tend to object less to the change itself than to the non-negotiation of the change. Thirdly, in cases where the management's decision arise because of a particular crisis for the firm, lengthy conflicts with workers may influence a management decision for even more extensive rationalisation than was previously thought necessary. This may extend to the closure of the firm. Fourthly, where the dispute is protracted, it may injure the firm's long-term competitiveness (Wallace and O'Shea 1986).

The above points can be restated in terms of a market or managed approach. Systems of industrial relations in Western Europe are generally highly institutionalised; that is they are to a large extent 'managed'. The differences lie, however, in the systems' ability to respond to economic change, to facilitate economic performance, and in the ability of trade unions to respond to unemployment and rationalisation. Highly regulated systems, with integration between various levels of the union movement and a small number of large industrial unions, have lower costs in terms of strikes and adjustment to both technical and market changes. Fragmented or pluralist industrial relations systems in Britain or Ireland for instance, tend to display quite different characteristics. Moreover, the union movements within such systems may fail to develop any effective 'community of interest' between themselves and the unemployed, which in turn may weaken trade unions.

Future scope for union action on employment

Three different union strategies to effect employment levels can be summarised as follows:

- influencing government policy
- changing the content of bargaining from wages to employment
- influencing management decision-making at the level of the individual firm.

We have stated that the scope for adopting all three strategies is greater in highly regulated systems of industrial relations. As high unemployment persists, a number of factors impede the scope for union action in all countries. First, employers resist employment bargaining more than wage bargaining. Secondly, unions find it more difficult to maintain solidarity on employment issues, even where organisational size and composition facilitates this (Erd and Scherrer 1985). Thirdly, demand management, which unions favour, has become a less feasible policy option and may only be possible in a few highly regulated systems of industrial relations. Fourthly, investment decisions that lie outside the firm are vitally important to future employment levels, but the unions' ability to influence these depends on a much greater national and transnational organisational capability than currently exists.

With respect to differences between countries, a model of fragmented interest representation, in which small groups of actors in protected labour market segments coalesce to maximise their own wage and job protection advantages and who resist economic change, will tend to increase social inequality and contribute to the decline of union aspirations to represent class interests (Goldthorpe 1984). This tendency is less marked in neo-corporatist systems of industrial relations.

From an economic perspective, all systems of interest representation involve rigidities in the labour market and significant costs for management in the encroachment on managerial prerogative and the price of labour. In neo-corporatist systems, this is offset by the systems high manageability, predictability and accommodation to change within a co-operative framework. Pluralist or fragmented systems entail costs in terms of their opposition to change and their unpredictable restrictions on an industry's development.

Within a pluralist framework, the future scope for union action on unemployment is narrowed to selective responses to decisions made by individual enterprises — policies against voluntary redundancies to maintain 'job stock' or the adjustment of redundancy rules from last-in/first-out principles to rules favouring greater labour market participation of short-
service workers and/or the negotiation of early retirement schemes and the reduction of working hours. (More broadly aggregative policies across industries or at national level depend very much on the trade union movements' transcending their own organisational limits — an unlikely current development.) Closed shop arrangements in the enterprise also appear to be non-optimal responses and, from the point of view of economic change, cannot but impede necessary reorganisation. The fall in the level of unofficial strikes since the ending of national wage agreements and understandings in Ireland in 1980 cannot be perceived as a symptom of greater accommodation to general interests, but may be more related to the depth of the recession.\(^7\) The formula for transforming sectional interests into more general interests at the level of the individual enterprise may be to coopt works councils, which have a capacity to engage in ‘qualitative’ bargaining relating to productivity, new technology, skill ratios, worksharing, retirement schemes, and so on. However, the adoption of such an institution would have to be set against its effects on labour costs, external competitiveness, union control and employer response.

At a constitutional level, the ability of unions to be or to become a focus of identity for the unemployed in pluralist or fragmented systems seems to be declining as recruitment follows the patterns of labour market segmentation. The concern of employed union members also seems to diverge from those of the unemployed, except to the extent that they are influenced by family, community or ethical considerations. The concern of union members may be confined to the issue of controlling the supply of high level skills in tight labour markets. Union leaders are constrained by the dictates of sectionalism and job creation funds, formed on the basis of levying members, have tended to suffer from a lack of interest among those members. In this regard, an Irish trade union leader recently admitted that he had to travel 33,000 miles around Ireland to convince members not to leave the union over a 10 pence levy for a job creation fund.

**Notes to chapter**


2. Speaking of Britain, they conclude, 'the vast majority of the unemployed do not see good reason for staying in or joining a trade union.' This is in contrast to some of the successful retention policies of European unions. See also F. Forrester and K. Ward (1986), 'Organizing the Unemployed: The TUC and the Unemployed Work Centres', *Industrial Relations Journal*, Vol. 17, No. 1.


5. For a discussion of the relation between institutional forms and economic performance of European states, see F. W. Sellarph (1980), *The Political Economy of Inflation and Unemployment in Western Europe*.

For a discussion of the same relation in a theoretical manner, see Tarantelli (1986).

6. The performance of British trade unions in the recession has been described as 'in disarray, impotent and on the defensive, they failed to provide either effective opposition or constructive alternatives.' D. Sokse (1984), 'Industrial Relations and the British Economy 1979-1983', *Industrial Relations*, Vol. 23, No. 3, p. 328.

7. Austria and Sweden have been able to maintain more effective incomes policies, which have helped to prevent some of the inflationary impact of demand management policies.

8. Statistics on unofficial strikes from the Department of Labour, Dublin.

This was reported in the *Irish Independent* during 1986.

**References**


Employers, Unions and Unemployment

BERTIE AHERN

In this chapter, I wish to consider the evolving roles of employers and unions in the light of our severe unemployment problem and to comment on the current debate on the role of legislation in our industrial relations system.

The last decade has been one of dramatic and even traumatic change for both trade unions and management alike. The results of low-cost imports from the Far-East and some third world countries flooding into the EC, the technological revolution and most importantly, the massive growth in unemployment throughout the western world has turned the industrial scene as we knew it, on its head. The bitter truth of the matter is that we in Ireland, who often boast of our young (meaning flexible and willing to change) population, have not responded appropriately or effectively to these new challenges.

Background

The 1986/1987 Report of the European Management Forum on International Industrial Competitiveness ranks Ireland 22nd out of 28 OECD countries in industrial relations and 23rd in labour absenteeism — not a very satisfactory position. On the union side we still have the incongruity of 43 of the smallest unions (which account for 50% of the total number of unions) representing 23,400 workers (4.7% of union membership). These statistics are comment enough on the parlous fragmentation of unions in Ireland which is a real obstacle to the rapid change and flexibility that our present economic difficulties demand.

It seems quite clear to me that industrial relations reform must be directed towards enhancing the process of negotiation, conciliation and arbitration by encouraging the involvement of both management and unions, taking full account of the inadequacies of both sides and determining the role of government vis-à-vis both. In other words, change must be directed towards the achievement of industrial peace within the context of overall economic policy and in a rapidly changing market place, by supporting both management and unions to
step out of their traditional roles and to deal with the real issues that face our country at this time. For too long our industrial relations system, like our politics, has been based on the adoption of entrenched positions — often just for the sake of appearances. There is a growing awareness of the need for co-operation and goodwill. We need this kind of team effort if industry is to prosper and the same spirit can also serve to put our national affairs on a proper footing. I take hope from the recent signs that employers, trade unions and individual workers seem to be coming to the realisation that it is no longer acceptable to concentrate on narrow sectional interests — while ignoring the broader responsibility to society and in particular to those people who find themselves without a job.

The negotiation of the Programme for National Recovery (1987) has meant that Government and the social partners — farmers, trade unions and employers — have had to take a new look at what rights and responsibilities each side should realistically expect the other to have and to take. Under the terms of the programme it is my responsibility as Minister for Labour to have immediate discussions with the social partners about changes in industrial relations.

These changes will be aimed at creating a better framework for collective bargaining and dispute settlement, thereby helping to create the right conditions for investment in new jobs. The parties to the programme commit themselves to the aim of concluding these discussions as soon as possible. The purpose of the exercise must be to reform and reshape industrial relations so as to enable us to move forward into the 1990s and to provide the type of industrial environment which will encourage investment and job creation. The commonsense reality which is at the root of the Programme for National Recovery is the starting-point for getting things right.

Four areas that warrant my particular attention in this period of high unemployment are:

- the fragmentation and dissipation of union membership and energy;
- the establishment of a better framework for dispute resolution;
- the absence of a systematic approach to management development;
- the balance to be struck between the pursuit of greater flexibility and the maintenance of basic labour standards.

**Unions**

I have been struck by a new and positive approach towards direct action to assist the unemployed which is being adopted by some trade unions at national level and by many trade councils at local and regional level. In my view the most notable of these new developments is the Special Jobs Fund established by the Federated Workers' Unions of Ireland in 1985 to assist the unemployed on the basis of a levy imposed for a three-year period. Already it has assisted a number of projects throughout the country including the recently established Ballymun Unemployed Centre.

It still remains, however, a disappointing reality that much union energy has been dissipated in internecine strife and in protecting and maintaining procedures and practices that belong to an age already part of history.

It is ridiculous that it should require 38 trade unions to represent 96,000 craft and non-white collar areas, as the report of the 1981 Commission on Industrial Relations demonstrated, while at the same time five general trade unions represent almost a quarter of a million members. Such fragmentation is and has been a recipe for industrial disaster.

By pooling resources, unions could give their members a more professional service and realise their aims more effectively. I recognize a role for the state in facilitating this process by updating and improving the law on trade unions amalgamations. The merger of two or more trade unions is by nature a long and costly process and the state should be in a position to assist these bodies in efforts to complete the process successfully.

**Framework for dispute resolution**

The institutional framework for resolving industrial relations disputes is clearly in need of review. While the hopes placed in the Labour Court at the time of its establishment in 1946 have not been realised fully, it has, nonetheless, an impressive record in dispute settlement.
The intention of the Oireachtas in 1946 was that the Labour Court would be used as a Court of last resort. The chairman of the Labour Court (Horgan 1985) has expressed concern about the surprising level of recourse to third party involvement in disputes in Ireland. The pattern he identified in 1985 is still very much alive. The Labour Court and its conciliation service, the Employment Appeals Tribunal and the Rights Commissioner service continue to deal with over 10,000 cases on an annual basis (Department of Labour 1986). While in some cases the same issue may be dealt with by more than one service, this is nonetheless a staggering figure. There is a danger that we may be losing the art of solving our problems by negotiation; third party adjudication is the order of the day.

Are Irish firms and unions doing enough to sustain confidence in collective bargaining at local level? There is sometimes a mystique allowed to develop around collective bargaining. Those involved in it sometimes demonstrate a certain defensiveness. This is understandable and is part of any institutionalised process. But we must never allow that process to become a self-sustaining ritual in its own right—a ritual which loses sight of the objective and the economic reality behind it. The days of collective bargaining as an exercise in ambiguity—if they ever existed—should be long gone.

We have seen new issues added to the agenda and new approaches, in this country and throughout the Western world. These new issues include alternative working arrangements, the introduction of new technology, profit-sharing and the development of equal opportunity programmes for women and the freely negotiated agreement not to take industrial action in return for benefits deemed worthy of that concession. I do not see this latter development as a sign of weakness on the part of workers, rather it is a sign of maturity, strength and above all, confidence in what they are about.

The role of the law
There are few today who hold the view that the law has no role to play in industrial relations. I do not believe, however, that legislation can of itself produce a formula for good industrial relations. Any practitioner knows full well that legal intervention can prove to be a very clumsy instrument in a trade dispute.

Industrial relations is fundamentally about human relations at the workplace.

The main objective of the law, and therefore of the legislators who enact it, is to provide a framework within which to regulate relations between management and unionised labour in the public interest. The Trade Dispute Act, 1906 is the main statute governing trade disputes and is now over 80 years old. At the time of its enactment, the balance of power weighed heavily in favour of the employer, and the act provided a legal framework under which unions grew and developed.

The act has served trade unions well and has contributed to the development of collective bargaining between trade unions and employers. The operation of the act gives rise, however, to some concern. It would seem there is confusion about the extent to which the protections of the act can be relied upon to apply in different situations.

I am fully conscious of the fact that legislative reform can only make a partial contribution to improving our industrial relations procedures. What is important, however, is that this area is one which is within my own control and influence. We all have a contribution to make and we all have a responsibility to make the most of the opportunities for change.

There is a need to keep the issue of industrial relations reform at the centre of future policy making. Legislative action is necessary and success on that front will require a clear political lead. I intend to give that lead in so far as industrial relations, trade union and trade dispute law is concerned. I also intend to see that our industrial relations institutions are attuned to the needs of Irish enterprise in the last decade of the 20th Century.

When the Department of Labour was first established in 1966, the minister of the day appealed to the trade unions and employers to strive for consensus on a package of proposals which he had formulated. The Industrial Relations Bill which was subsequently enacted in 1969 was a greatly modified version of his original proposals. We now have the best chance for 20 years to achieve a sensible adjustment within the framework of the National Recovery Programme.

There are obviously desirable amendments which can be made to smooth the way for trade union amalgamations, modernise the joint determination of minimum wage rates and develop the
potential of codes of practice. At the same time the discussions which are to take place in the context of the programme should also examine new proposals on secret ballots and injunctions, as well as the functioning of industrial relations institutions in general.

The real work in improving industrial relations lies with Irish management and Irish workers. Management is prone to say that it is the trade unions and workers who are at fault and in turn the unions will blame management. There is some heart-searching to be done on all sides. It is unrealistic, however, to expect the degree of change that is necessary to come about spontaneously. That is where government can make its contribution.

Management development
Weak management is, of course, a contributory factor in job losses and a drawback to be overcome in the national recovery effort. This problem cannot be tackled in a piecemeal way. Far too often management development has been left to chance. Most managers receive neither training nor education, let alone a qualification in management. Even where business education is favored and training is provided, the practice is uneven. Management development must be treated as a continuous process, not as a one-off or occasional activity.

As part of this government's National Recovery Programme, I recently established an advisory committee on management training to coordinate the present effort which is spread across industry, colleges, training agencies and the Irish Management Institute (IMI). The Government is committed to examining the funding arrangements for management training and to ensuring that resources are used to provide the best return.

The decline in strike activity and the alienation of workers from what they sometimes see as very inward, partisan and incomprehensible squabbles on the part of unions at plant level — some of the features of what is termed the 'new realism' — only serve to emphasize the importance of the industrial relations function within management and the role it can play in planning for a more co-operative, harmonious and strike-free work environment. The creation of good industrial relations is primarily the job of management. In my experience, where you find good management you will also find good industrial relations.

Labour market flexibility — striking a balance
A considerable debate is in progress within the European Community and in other bodies such as the OECD on the subject of labour market flexibility (OECD 1986). Central to this debate is the question of how responsive the regulations, institutions, and practices in the labour market are to changing conditions. The range of topics covered is substantial and varied, including working time, training, payment systems, dismissal procedures and systems of communication between employers and workers.

With such an open field for debate, it is not surprising to find that the issue of labour market flexibility means different things to different people: one person's business flexibility can look like a threat to someone else's job security. The current concern about how firms adapt to the changing business environment is no passing fad. The debate is likely to become more intense with the progressive removal of the trade barriers in the European market.

The debate in this country has tended to focus on a single aspect: the extent to which worker protection legislation and particularly the Unfair Dismissals Act constitutes a disincentive to employers to hire workers (Department of Labour 1987). From time to time economic commentators and others have argued that this legislation prevents employment creation.

A survey commissioned by the Department of Labour and carried out by the Economic and Social Research Institute (ESRI) suggested that the scale of these alleged effects is not significant (Department of Labour 1986). What is not generally known — and certainly not highlighted by those who call for the dismantling of protective legislation — is that the regulation of working time, and conditions of employment, collective dismissal, etc., in this country is generally less onerous than in other EC member states. This was recently acknowledged in a comparative study by the European Management Forum.

While the last twelve years have seen fairly extensive — by our standards — legal intervention in employment, we have also seen considerable reliance on securing improvements in conditions through collective agreement. Many of the basic entitlements...
in our conditions of employment legislation have been improved upon by collective bargaining. As a result, the possibility of making adjustments to the organisation of work and production is much less likely to run up against legal barriers in Ireland than in other continental countries.

The removal of the ban on night work for women in 1987 is a practical example of how we have replaced a blanket prohibition with a permissive provision. We did so to improve equality of opportunity between men and women; to free industrialists from restrictions on how they make use of their manpower and machinery; and because it is necessary to check from time to time whether protections introduced on social grounds are still relevant to current conditions.

In the face of so much misapprehension surrounding the concept of 'flexibility', I believe that there is no sense in labelling flexibility proposals as necessarily good or bad for employment. Instead such proposals for more flexibility need to be examined from the point of view of their impact on employment levels, their compatibility with general labour standards and whether the change process is to be negotiated or to be unilaterally determined. On this point the earlier chapter by Kerins is instructive. He argues that greater labour market flexibility may or may not expand employment — it all depends on the circumstances.

The improvement in working conditions and the better management of the production apparatus does not need to rely on detailed regulation. In many employments there is scope for pursuing a more pragmatic and flexible approach to current problems. In fact the difficulties experienced in the current recession have highlighted the need to take account of workers’ aspirations, to secure co-operation at all levels and to achieve a sense of common purpose among all who work in the enterprise.

The challenge of unemployment
In all the industrialised economies there is a growing concern that the long-term unemployed may be carrying an unfair share of the burden of economic adjustment and recession. New policy initiatives are needed to avoid a labour market divided into two separate compartments — one reserved for the regularly employed and the other for those normally unemployed. In 1987, the government through the Job Search Scheme, took a first step towards an integrated plan to assist the longer term unemployed. This approach essentially involves making an assessment of a person’s needs to see whether he or she can be referred to a short job search course or to more long-term skills training or work experience programmes. The intention is to break the cycle of recurring unemployment and to avoid dependence on social welfare payments becoming the sole form of income support for many.

The scale of the unemployment problem and particularly the high levels of long-term and youth unemployment and emigration will be an immediate focus of attention for An Foras Aiseanna Saothair (FÁS) — the new tripartite authority which will have responsibility for training and employment creation measures. The services and programmes provided by FÁS will need to be tailored to these special groups on the basis of local needs.

This government has confirmed its commitment to a regionalised structure for the delivery of manpower services. I envisage FÁS building up a close working relationship with local education, welfare, employer and trade union interests. It will have to develop a range of client-centred services to satisfy the needs of school-leavers, the unemployed, the educationally and socially disadvantaged and other groups needing help in each region and each locality. FÁS will also have as a priority task the development of an integrated set of services to encourage enterprise development.

It is essential that we immediately take steps to not only promote the growth of small businesses but to ensure the continued health and vitality of those already in existence. I know from my experience of helping individuals and groups set up their businesses, that their relief at receiving whatever state aid is made available at the outset is often short-lived. The duty of all of us must be to help people to develop these management and marketing skills which are indispensable to the long-term survival of small firms. Training must also be given to ensure the proper exploitation of plant and machinery so that the maximum return can be gained from the investment.

The Programme for National Recovery has identified the means of realising employment growth in the horticultural, food, marine-related industries, forestry and a host of service industries.
Worksharing and Unemployment Reduction

WILLIAM K. ROCHE

Worksharing involves the use of a variety of measures to create jobs by redistributing work between those in employment and those who are unemployed. The central measures of any worksharing policy are shorter normal working hours, controls on the level of overtime working, sabbaticals and other forms of paid and unpaid leave and 'job sharing', which usually involves two people sharing one job and the pay and benefits which come with it. Measures of a somewhat different character, which are also commonly regarded as worksharing, are postponing entry into the labour market by raising the age at which compulsory education ends and/or increasing the level of participation in education above this age, and lowering the statutory retirement age and/or promoting early retirement.

All such measures attempt in essence to redistribute employment among a greater number of people than can find jobs at existing levels of labour supply. As such, worksharing derives its rationale from the concern for the pursuit of social justice which represents one of the potent elements of the trade union tradition. Worksharing necessarily involves income sharing in that those who accept reduced normal working hours are foregoing the opportunity to earn more at existing levels of working time. This holds whether or not trade unions agree to reductions in basic wages to offset the cost of shorter working hours. Normally, unions or their members will refuse to accept lower wages for shorter hours. While this may point to a limit in their preparedness to trade wages for jobs it cannot, as is sometimes alleged, be taken to represent bad faith in their attitude to the unemployed. Unions also resist wage cuts in such circumstances for reasons of a more strategic nature. These include concern to avoid the creation of a precedent which might be used to promote a spiral of downward wage adjustments and a rejection of the general thesis that wage cuts are the key to job creation.
Union support

Worksharing can be seen to represent a variant of the managed markets approach to reducing unemployment. It would, of course, be absurd to regard this strategy as the major solution to unemployment. Those who advocate worksharing measures argue only that they can make a not insignificant contribution to reducing joblessness, while at the same time increasing leisure and, perhaps, making working time regimes more flexible and responsive to the preferences of employees. For worksharing to receive support from union members it is necessary that they be prepared to adopt a broad view of the role and responsibilities of trade unions. Specifically, it is necessary that they regard unions as having a responsibility for all those in the labour force, whether employed or unemployed. A number of unions have followed a policy of resisting the inclusion of ‘natural wastage’ proposals in new technology and productivity agreements on the grounds that such proposals entail in effect the sale of jobs by their holders. These unions encourage members instead to respond to employer claims that they must shed labour by pressing claims for reduced working hours. If such a policy is to succeed, however, it is necessary that an even more inclusive view of union responsibilities be held by members. For if members are to resist trading jobs for pay rises and cash incentives, in situations where alternative approaches are economically viable, they must first accept that where possible jobs — and therefore job opportunities — should be preserved in the general interest of all those dependent on the labour market for their livelihood. In effect, therefore, if not in explicit terms, worksharing espouses a concept of social justice which places a high value on the reduction of inequality and on solidarity between those with power in the labour market and those who have been rendered powerless by the labour market as a result of unemployment.

Trade unions outside Ireland have in some cases turned to the supply side option represented by worksharing for reasons other than the poor record of orthodox employment policies in the international recession. The widespread introduction of micro electronic technology also led a growing number of union officials and activists to believe that unemployment would continue to rise even in the event of an economic recovery. While unions were developing firsthand experience of the labour displacing capacities of new technology, the claim that counterbalancing areas of employment would also be created by the technological revolution seemed remote or unfounded. In short, the view developed, which is now widely held, that rising unemployment was due not alone to a downturn in the business cycle but also to a remarkable transformation in technology which posed a major threat to existing patterns of employment. In developing measures for redistributing access to the labour market unions are attempting to gear their policies to what by now has become their day-to-day experience of new technology.

The idea of worksharing is now supported by most West European trade union movements. Working hours have already been reduced by legislation in France, and through collective bargaining in Great Britain, The Federal Republic of Germany, Belgium, and the Netherlands. Selective measures to promote worksharing have also been introduced by governments in these countries. The idea has been supported by the EC Commission since the late 1970s. Elements of worksharing have been introduced by Irish governments through measures such as job sharing schemes in the public sector and extended leave of absence arrangements in the public service. However, an Hours of Work bill introduced in 1984, which contained proposals to limit overtime working and multiple job holding, lapsed before becoming law.

Worksharing is also supported by the Irish Congress of Trade Unions (ICTU). Since 1984 the ICTU has been urging its affiliated unions to press claims for reduced working hours in pay round negotiations. In line with the policy of the European Trade Union Confederation, the ICTU is seeking the introduction of the 35-hour week throughout the Irish economy.

The ICTU remains skeptical of the employment benefits of job-sharing. Existing job-sharing schemes, such as those in the civil service, Aer Rianta, An Co, the IDA, and RTE have tended to be introduced following pressure on management and unions by employees. With the exception of the civil service scheme, which involves several hundred job sharers, the take up of job sharing schemes has been very low. Practically all those who have opted out of full-time work onto job sharing schemes are young women with child-care responsibilities. Congress believes that
for people in this situation job sharing frequently represents a poor substitute for adequate child-care facilities. In putting the onus on women to adjust work life to family responsibilities job sharing also threatens to reinforce their existing position of disadvantage. There is also the danger that employers may promote job sharing to evade the controls imposed by employment protection legislation.

**Reductions in hours in historical perspective**

While no overall evaluations of the employment effects of recent European hours reductions are available, it is generally accepted that the results of reductions in normal working hours have been disappointing (Hinrichs, Roche and Wiesenthal, 1986; Visser, 1986). We will consider some of the reasons for this when we discuss trade union bargaining strategy below. The rounds of reductions in normal hours negotiated through collective bargaining in several countries in recent years are nevertheless historically unprecedented. Never before have trade union movements managed to mobilise support for cuts in working time in economic circumstances such as those prevailing in the late 1970s and early 1980s. Hitherto, *hours round*, as we may term economy-wide reductions in normal working hours, have occurred either as part of the labour market readjustment which followed the World Wars or during periods of economic prosperity and rapidly rising wages (Roche, 1987). The common thread running through these hours rounds is the fact that they have occurred in periods of rapid technological change.

The last general round of cuts in normal working hours to occur in Ireland took place over a period of years between the mid 1960s and mid 1970s. This round resulted in the general introduction of the 40-hour week for all manual workers. The majority of white-collar workers, however, enjoy standard working weeks considerably shorter than this. The only other general round of hours reductions to have occurred in this country took place in the years immediately after the First World War, again under the influence of an international trend. Less general instances of cuts in normal hours have, of course, been recorded at other times; a significant movement in the years after the Second World War appears again to have echoed developments abroad (Geoghegan, 1985).

The institutional influences exerted by hours rounds in other countries in the past have decisively affected developments in Ireland only when labour market conditions were also conducive to a shift in the bargaining priority of unions and their members from wages to hours. So, for example, Ireland appears to have missed out on the economy-wide hours round which occurred in Britain after the Second World War. This was due in large measure to a divergence in the labour market conditions of both countries during and immediately after the war. During the Emergency (Second World War) money wages virtually stagnated in Ireland while real wages fell sharply. This contrasted with the sharp rise in money wages and the significant rise in real wages experienced in the UK. Also unions in Britain faced the problem of labour market adjustment presented by demobilisation, whereas the economic revival of the late 1940s presented unions in Ireland with the opportunity to recover living standards severely eroded by wartime inflation and wage control.

The British hours round which occurred between 1959 and 1966 had a counterpart in the Irish hours round which commenced in the mid 1960s. Labour market conditions in Ireland at this time were similar to those that had proved conducive to cuts in hours in other West European countries. Unemployment was low, money and real wages were rising steadily, business was buoyant and unions feared that automation was set to reduce significantly the demand for labour.

**Current possibilities**

The *Programme for National Recovery* (1987) agreed between Government and the Social Partners in October 1987 has placed reductions in normal working hours on the negotiating agenda of unions and employers for the next three years. In accordance with the terms of the agreement the social partners will meet in October 1988 to discuss a general framework within which local negotiations will be held on reductions in the 40-hour normal working week. It is anticipated that these reductions will take place before the expiry of the three-year programme. The *Programme for National Recovery* makes no reference to reductions in the case of employees currently enjoying normal hours shorter than the 40-hour standard that prevails for the vast majority of manual workers. It does state explicitly that any developments
on the hours front must have regard to the competitive implications, the effect on jobs, on production and services and the need for flexibility. It also states that local agreements on hours reductions will include arrangements for the efficient use of human resources, plant, equipment and machinery.

There are strong negative reasons why Irish trade unions have put strong bargaining pressure behind claims for reduced hours. Firstly, the magnitude of the unemployment problem is such that public confidence in more orthodox measures has been shaken. Secondly, the projected rate of workforce growth over the coming decade is such that there will seem little room for optimism regarding the likely future success of these measures. Thirdly, the high incidence of unemployment among young people brings the problem of unemployment — literally — home to a large number of those with jobs. Fourthly, the prodigious job shedding capabilities of new technology are now becoming clear to people across a wide range of employment settings.

Whether there are more positive sources of motivation for a shift in bargaining priorities from wages to a combination of wages and hours reductions, and whether these will intensify or weaken over time, is a more difficult issue to resolve. In an MRBI survey conducted in 1987, 62 per cent of those interviewed favoured job sharing as a response to limited employment opportunities and one-third said they would prefer an extra half day’s leave to an increase in wages. Moreover, the number expressing a preference for more leave instead of wage rises had increased from 26 per cent since 1983 (Irish Times 1987). Like all survey results dealing with complex attitudinal issues which involve priorities among alternative possibilities and courses of action, these findings must be treated with caution. Nevertheless, they clearly indicate that some significant degree of support for worksharing exists among the workforce. This support, combined with the present low level of inflation, and the revival in real living standards, has given some leeway for a change in the bargaining priorities of trade unions. Additionally, the pattern of unemployment is such that many employees will face the prospect of a rise in household income if the job chances of young people are improved.

The obstacles for unions which wish to turn hours reductions into new jobs and win further reductions in normal hours remain formidable. The Programme for National Recovery does not envisage further reductions within the currency of the three-year agreement on pay and conditions. As such, it will be 1990 at the earliest before unions will be in a position to resume pressure on normal hours. Currently, real net take-home pay stands below the level achieved in the early 1970s (Murphy, 1966). The pay proposals in the Programme for National Recovery seem likely to result in average wage rises lower than the rate of inflation over the next three years. The proposals on taxation will partly offset a real fall in the value of wages. However, for the great majority of employees real take-home pay is unlikely to have increased appreciably by 1990. Unemployment has strengthened the bargaining power of employers and, in many instances, tightened management’s grip over working practices and productivity. The level of confidence in unions has also waned significantly as a general outcome of the recession and falling membership. Union bargaining power is therefore unlikely to have increased greatly by 1990 when normal working hours again become negotiable.

Criticisms and constraints

Worksharing remains a controversial policy for reducing unemployment. Employers invariably argue that reductions in working time damage efficiency and endanger existing employment by increasing labour costs. In addition, cuts in normal working hours are seen to require radical reorganisation of production schedules and considerable changes in staffing levels with attendant industrial relations frictions and difficulties. Insofar as unions attempt to put pressure on management to block up lost time into new jobs, questions of management prerogative may arise to complicate an already problematic industrial relations situation. Employers will also tend to regard reduced standard hours as introducing a further inflexible constraint to employment, as historically, cuts in normal hours have by and large proved irreversible.

It can hardly be surprising then that some of the largest and most dramatic strikes in labour history have arisen at the outset of trade union campaigns for the reduction of working time. The British engineering dispute of 1979 which resulted in the destruction of the 40-hour week barrier involved a loss of more working days than the general strike of 1926. Similarly, the West
German metalworkers' dispute of 1985, which breached the 40-hour barrier in that country, was the biggest strike in the labour history of modern Germany. The first significant breakthrough towards the 40-hour week in Ireland in 1964 also occurred after a major strike in the construction industry. Following these initial disputes, however, hours rounds have tended to spread without further industry-wide conflict.

**Economists**

Economists tend to be particularly critical of worksharing and commonly view changes in working time as a hazardous, or, in any event, defeatist, means of combating unemployment. In part this position reflects certain technical objections to measures which seek to create employment by controlling labour supply. In part also, it may reflect a philosophical objection against certain lines of intervention in the labour market — though it is seldom presented as such in implicit terms. Among Irish economists, Brendan Walsh and Colm McCarthy regard worksharing as a 'defeatist' response to the Irish unemployment problem; McCarthy actually refers to it as 'throwing in the towel'. Whether a policy may be 'defeatist', however, depends on the availability of effective alternatives; and here it has to be said that the more orthodox measures pursued since the economic crisis of the mid 1970s have hardly met with a major degree of success. It could therefore be argued that policies which augment existing measures are worth reasonable consideration, especially since there are few grounds for optimism regarding the likely future success of traditional economic measures alone.

The indifferent record of orthodox economic measures for reducing the level of unemployment may in part account for the high level of fatalism regarding unemployment revealed in opinion polls. A *Eurobarometer* survey conducted in 1983, for example, when unemployment was significantly lower than its current level, found that 80 per cent of respondents believed that the problem of unemployment would still not be solved if the Irish economy recovered. It could thus be concluded that a significant proportion of the population appear to have all but despaired of the present policies for combating unemployment. Economists can, of course, reply that their advice has never been vigorously acted upon because of political pressures on governments. But this merely raises again the question of the viability of these policies and whether it might not be more reasonable and advisable to implement a wider range of policy responses.

Walsh and McCarthy also argue that reductions in working hours would prove inefficient in that workers would seek outlets for their frustrated desire to work longer hours in second jobs or forms of employment in the black economy. This is indeed a possibility which must be faced, and for which perhaps appropriate measures might be developed. On the face of it, however, it remains no more than a hypothesis. It is also difficult to square with the circumstances following previous general rounds of reduction in normal working time when significant actual reductions in working time were indeed recorded everywhere hours rounds occurred.

Walsh (1977) refers to the problem of adjusting to reduced hours in industries subject to seasonal and cyclical patterns of production. He declines, however, to discuss inefficiencies arising from systematic overtime working, being satisfied with a general reference to problems which might arise 'in certain types of industry where two men working 45 hours a week may be more efficient than three working 30 hours'. Policies to promote early retirement from the labour force also receive little support. Walsh notes that in 1975 there were only 23,000 persons in the Irish population aged 65 and over at work outside agriculture, with the result that even if all were induced to retire, the impact on job opportunities would be marginal despite the considerable cost in increased pensions. The 1981 population census (vol. 7, table 16) gives a total non-agricultural employee workforce of less than 17,000 in the age range 65-74. However, if the target group for early retirement is widened to include non-agricultural employees in the 60-64 age range the relevant number of employees rises to close on 53,000. This number is hardly insignificant when it comes to considering the practicability of measures to promote early retirement in Ireland.

Nor should the suggestion of Walsh and others that early retirement might prove very costly be accepted uncritically. To the extent that early retirement can be linked to job creation, the resulting savings in unemployment payments, combined with the gain in wage taxation, might go some way towards offsetting the cost of a bigger pensions bill.
Walsh is correct regarding the very limited scope for creating employment by replacing farmers and self-employed induced to retire early from the labour force. However, there seems little reason for this supposition that many employees who might be induced to retire early would hold poorly paid jobs which might have little attraction for the unemployed or little productive capacity. In the absence of findings to the contrary it seems reasonable to assume that those in the later stages of their working lives, who might be prepared to retire early, are distributed across well-paying and poorly-paying jobs much in the same proportions as the workforce generally. Besides, it is unlikely in many cases, particularly in white-collar employments, that those who might gain jobs as a result of early retirement would occupy the same positions as those who chose to retire.

A more serious set of constraints is considered in the ESRI document on employment and unemployment (Conniffe and Kennedy, 1984). Here it is suggested that the operation of natural wastage schemes in many employments might operate against staff replacement in cases of early retirement, while those who retire early might take up jobs which would otherwise have gone to unemployed persons. The former problem might be tackled through the negotiation of collective agreements which exempt from natural wastage job vacancies that arise from early retirement — much in the way that vacancies arising from job sharing and career breaks are exempted from the embargo on recruitment in the public service. Measures such as this could form part of a more general trade union policy regarding the advocacy of worksharing measures over the sale of jobs as a response to employer demands for reductions in labour supply. More generally, in European countries a variety of measures have been developed to link early retirement directly with job creation and their applicability to Irish circumstances might usefully be considered.

Walsh (1977) argues that worksharing would have little or no impact on the level of unemployment ‘unless a great deal were spent to induce employers to cooperate in such a programme.’ This conclusion hardly seems valid. Payroll tax incentives might indeed be used to make worksharing more attractive to employers. However, as we will suggest below, if worksharing is to be implemented in Ireland it will come about mainly through collective bargaining between unions and employers, in which unions shift their negotiating priority from wage rises to cuts in normal and actual working hours. Such a change in bargaining priority might be backed up in certain respects by legislative controls and inducements. But it is through the normal process of negotiation between unions and employers that worksharing will have to be achieved rather than through indirect fiscal incentives.

McCarthy (1983) criticises worksharing on the grounds that it may be ‘inequitable’ to deny those willing to work longer hours, and employers willing to offer extra pay for this purpose, an opportunity of doing so. This position is based on a value judgement which is philosophically rather than technically grounded. The principle involved here would seem to be that those who trade in the labour market express ‘preferences’ which must be regarded as part of the order of things. McCarthy grants that the inequity involved in impinging on existing preferences might be ‘compensated by over-riding societal concerns’. Given such a predisposition to engage in debate on normative or ‘moral’ grounds — and leaving aside the question of the efficacy of worksharing proposals — many would find strange the fact that McCarthy fails to weigh this ‘inequality’ in the balance with the ‘societal concern’ that surely arises when the live register contains in the region of 245,000 persons while involuntary emigration continues at a very high level.

Econometric evidence

More empirically grounded is Bill O’Riordan’s (1984) paper ‘The effect of variations in hours worked per week in Irish industry, 1956-1971’. On the basis of an econometric analysis of the effects of variations in working time and employment on output in 23 Irish manufacturing industries between 1956-71 O’Riordan concludes that overall a reduction in hours would necessitate a more than proportional increase in employment for the level of output to be maintained. A 10 per cent cut in hours involves an estimated fall in output of 7 per cent, whereas a 10 per cent rise in employment would raise output by only 2 per cent. Thus even assuming that cuts in hours involved equivalent cuts in wages, extra labour and/or capital would be necessary in order to maintain output. This, of course, would raise costs per unit of output.
O’Riordan concludes that his research weakens the case for worksharing in the Irish context. While this analysis indeed provides a useful indication of the constraints which may operate on worksharing strategies, there are a number of reasons why it may be invalid to use it to argue that worksharing would be impractical or damaging in Ireland.

Firstly, in the equation which O’Riordan regards as being most valid, the standard error on the estimate of the effect of variations in hours on output — a measure of the statistical reliability of the overall estimate — is consistently large. At a 95 per cent level of probability the actual value of the estimate of the effect on output of a reduction of 10 per cent in hours could fall anywhere within the range of 2.7 to 9.6 per cent. The validity of the upper limit of this range seems questionable given research in other countries on the probable effects on output of hours reductions (Cuvillier, 1984). The reliability of the estimated effect of variations in employment on output is greater: the actual value falling within the range 1.6 to 2.4 per cent.

A further feature of this analysis is the remarkable instability across different equations of the estimated effect of changes in hours on output. When variables designed to capture differences between industries in efficiency and the rate of technological change are introduced into the output equation (by the method of constructing so called ‘dummy’ variables which are normally assigned the value of 1 when the effect is held to exist and 0 otherwise), the sign on the hours coefficient becomes negative: suggesting that reductions in hours actually result in a net rise in output. (The statistical properties of at least one of these equations seem little different to those of the equation regarded as most valid by the author).

O’Riordan finds this result ‘suspect’ and ‘difficult to accept’ (1984). He nevertheless offers the explanation that it results from the effect on output of the improved efficiency that may result from reorganisation in some industries following on from reductions in average hours. As such, it is argued that this finding could conceal the ‘true relation’ between output and hours worked. The influence of this putative efficiency effect on the output equation then appears to be neutralised by further analysis with dummy variables, giving the equation considered above in which the author reposes his trust. Just how these variables are constructed, however, remains unclear, and so, therefore, is the provenance of the final output equation.

A further problem with this research is that the data available allow only for an analysis of the effect on output of variations in gross working time. Given the poor quality of working time statistics in Ireland it is not possible to isolate the effects of variations in different facets of working time, such as, overtime working, short-time working, holiday entitlements and normal weekly hours. This leaves open the possibility, and indeed what seems more likely the probability, that different methods of reducing working time might have different effects on output and different implications for recruitment. Worksharing involves the use of specific measures for shortening working hours such that any attempt to consider its effects would require some knowledge of the effect on output of selective methods of reducing hours. This becomes especially important where hours rounds involve a commitment on the part of unions to review existing working time practices and cooperate with the introduction of more flexible working time regimes. Such a commitment has been forthcoming during recent hours rounds in Western European countries and it will be a condition of reductions in normal working hours in Ireland.

It seems reasonable to conclude, therefore, that further research, employing more refined measures of working time reduction, would be necessary before it could be concluded with confidence that Ireland deviates from findings in other West European countries that output will not fall if working time is cut and the numbers at work increased proportionately.

Finally, even if hours reductions were to involve full wage compensation, the effect of reductions in working time on competitiveness vis-a-vis trading partners in the EMS would depend on the trend in relative labour costs. The competitiveness of Irish manufacturing goods exported to Britain would be affected by relative labour costs and currency values (Conniffe and Kennedy, 1984). As such, competitiveness need not be damaged by a shift in bargaining priority from wage-round rises to hours reductions. Certainly more substantial evidence would be necessary before it could be concluded with any degree of confidence that a shift of union priority to ‘hours rounds’ would necessarily be more damaging to competitiveness than the usual
pattern of 'wage rounds'. The attempt to co-ordinate working time campaigns internationally through the European Trade Union Confederation is expressly directed towards the end of protecting the competitiveness of individual countries. Trade unions have as little interest as employers in damaging the cost competitiveness of Irish goods and services. It may be relevant to note also that such a shift of priority in the policies of unions in the Netherlands, resulting in the achievement of a 38-hour week, had little effect on the competitiveness of Dutch industry (Visser, 1986).

The arguments ranged against worksharing in the Irish context then lack cogency in that they appear to be based on assertion, research findings of a largely exploratory character and value judgement. In the light of the existing unemployment problem and the high projected labour force growth rate, more telling evidence against worksharing would be necessary before it could reasonably be dismissed. Any philosophical objections to curtailing employees' freedom to work as long as they wish must be weighed in the balance with the involuntary unemployment experienced by hundreds of thousands of people. To do otherwise is to moralise in a vacuum.

**Union policy and bargaining strategy**

Unions find compelling moral reasons why measures to promote worksharing should be adopted in the present situation. They will also accept that the pursuit of fairness through such measures has important economic implications and important implications for bargaining priorities and bargaining strategies. While job sharing, controls on systematic overtime working and early retirement can make a significant contribution to worksharing, the greatest potential for redistributing access to the labour market in the short-and medium-term rests with the reduction of normal working hours.

Whether job sharing gains in popularity will depend for the most part on the preferences of employees. Unions themselves are unlikely to push strongly for the introduction of job sharing schemes throughout Irish industry. Judging by the numbers taking up existing schemes it seems that few employees can afford the loss of income involved in sharing work, even though for many the fall in pay which would result would be significantly less in proportionate terms than the cut in hours as a result of lower levels of taxation. Job sharing might be made more attractive if the state undertook a review of existing legislation on employment protection and existing pension and social insurance systems with a view to protecting job sharers and safeguarding their entitlements. Currently the protection provided by the social welfare codes and employment legislation extends only to those who work a minimum of between 18 and 21 hours per week for the same employer. Essentially the same problem arises in the case of other forms of part-time work, though here unions must also grapple with the problem of organising and protecting those who work on the basis of non-standard types of employment contracts.

In other respects, the state could bolster the efforts of unions to promote worksharing by using its own considerable weight as a consumer of a wide range of professional and other services. The burden of worksharing might be more fairly spread if the state considered measures to promote job creation among the main professional groups whose services it contracts. For example, unemployment and emigration among medical graduates represents a waste of public investment in education and co-exists with over-loaded general practices. There may be scope for altering the general medical service to distribute patient loads over a greater number of practitioners. Similar possibilities may exist in the case of other professions whose services the state contracts, such as veterinary practitioners, solicitors and barristers. The expanding field of extra-mural education also holds out possibilities for job creation in an area of high unemployment and extensive multiple jobbing. Of course, there are strong vested interests in these areas. But those vested interests also claim to adhere to norms of professional responsibility which should surely lead to some degree of concern for the position of unemployed colleagues, particularly where unemployment co-exists with large areas of unmet need.

The development of more regulated schemes for extended leave would also increase job opportunities across a wide range of industries, while, at the same time, increasing the career flexibility of employees.

This is an area in which unions might be expected to show increasing interest as there is evidence to suggest that existing
provisions are popular. There is also less scope in such schemes for ploys which might erode the conditions or prospects of those who might avail of them. Much obviously remains to be done to develop guidelines to ensure the satisfactory implementation of career break schemes and to extend the concept as far as possible beyond its current vogue in white-collar occupations and industries. As an option, however, it clearly has major potential. If career breaks were to become a common feature of working life, significant additional employment opportunities would accrue.

**From wages to hours in trade union policy**

Regarding the option of reducing normal working hours, the problem that arises in the first instance is how such an objective can be given expression in the policies of trade unions. Two options present themselves: the first involves a total shift of priority in round negotiations from pay rises to cuts in normal hours; the second involves a combination of both pay rises and reduced hours.

The first option would involve unions submitting demands for reductions in normal hours with a view to precipitating an hours round in place of the usual pay round. This would entail the maintenance of existing rates of pay — that is, full wage compensation — but a reduction in real pay equivalent to the rate of inflation during the currency of agreements. Clearly, this option was not one that Irish unions were prepared to press in the negotiations that led to the *Programme for National Recovery*. As such, it seems a very unlikely prospect when hours reductions can again be negotiated in 1990. In effect, however, this was the option accepted by trade unions in the Netherlands. The fact that the Dutch government threatened legislative measures in the event that worksharing was not introduced through collective bargaining played no small part in the decision of unions to press for an hours round in place of pay rises, and, perhaps, in the decision of Dutch employers to concede union demands.

The second option, in which unions attempt to target their pay claims to maintain real wages and to negotiate hours reductions *in lieu* of the additional element of pay increases usually sought on grounds of productivity growth and profitability is, in effect, the option evident in the *Programme for National Recovery*.

Even when reductions in normal hours are negotiated unions will still have to face the problem of trying to ensure that the lost time is blocked up into new jobs. The slower the pace of reductions in normal hours, the easier employers will find it to offset the resulting fall in labour supply by improvements in productivity and other measures to improve plant utilisation. The fact that unions are expected to agree to flexibility in working time arrangements as a condition for the one-hour reduction in normal hours envisaged in the *Programme* makes this a particularly difficult problem to resolve. The failure of unions in Britain and West Germany to press for the blocking up of lost time into new jobs was one important reason for the disappointing employment outcome of recent hours rounds in these countries (Hinrichs, Roche and Wiesenthal, 1986). Employers might also react by reducing output, as appears to have happened in many instances in the Netherlands (Visser, 1986). This makes it imperative that unions be prepared to follow up on any cuts achieved with flexible and constructive proposals on time blocking and the creation of new jobs.

For many this will present a daunting prospect, considering the underdeveloped character of trade union organisation at enterprise and plant levels in many areas of Irish industry compared with the highly developed shop steward systems of Britain and the even more highly developed works council systems of countries like West Germany and the Netherlands. Perhaps, the most effective strategy that Irish unions could now pursue would be for the Irish Congress of Trade Unions to develop general guidelines on the re-organisation of working time and for individual unions to operate them at the levels at which pay is currently negotiated in different industries. Agreements on changes in working hours, and on changes in existing working time *regimes* will be made at these levels. As such, it is at these levels that adaptation to reduced hours must be monitored and influenced if the objective of working time reductions in return for employment maximisation is to be achieved.

**Conclusion**

This paper has presented a general and non-technical discussion of worksharing and has attempted to outline the contribution
it can make to reducing unemployment and furthering the ideal of distributive justice. It rejects the idea that worksharing must be considered defeatist and views it instead as a means of regulating the labour market in the interest of social justice. For some, and in particular for orthodox economists, this represents introducing exogenous and even mischievous forces into the labour market, where, it is argued, people are best left alone to sort matters out for themselves. However, solid research data showing that worksharing measures are indeed mischievous have yet to be produced. And given the poor record of orthodox measures for reducing unemployment, and the scale of the challenge with which we are faced, perhaps orthodoxy is part of our problem and we should cast the net much wider in seeking solutions for mass unemployment.

References
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Geoghegan, M. (1985), An Analysis of Working Time in Ireland During the Twentieth Century, unpublished MBS dissertation, University College, Dublin, Department of Industrial Relations.
Employment and Profit-Sharing

MARTIN WEITZMAN

The Irish economy today is a hostage to stagnation. While unemployment is at levels not seen since the Great Depression, policy-makers are scared of precipitously relalling the economy lest inflation once again rear its ugly head. Pessimism is rampant. People do not have confidence that there actually exists some workable long-term strategy for reconciling full employment with low inflation.

The biggest single issue in the ‘future of employment’ is making sure that employment has a future. At present many ‘European-style’ economies seem unable to reconcile reasonably full employment with reasonable price stability. Expansionary policies dissipate themselves, to an excessive degree, in too large wage and price increases rather than in expanded employment and output.

One school of thought blames the adverse situation on a high ‘natural rate of unemployment’. For reasons no one has been able to make clear, the ‘non-accelerating-inflation-rate-of-unemployment’ has apparently deteriorated. This explanation amounts to a tautology. It is tantamount to saying that the unemployment rate is high because the unemployment rate is high.

Another non-starter is the au courant explanation that European-style unemployment is of the classical rather than Keynesian variety, caused by ‘too high’ real wages. The problem with this argument is that real wages no more cause employment levels than the other way around. Both are simultaneously determined within the economic system. Given money wages and aggregate demand, companies choose employment levels and prices. Hence, the real wage (the money wage divided by the price level) is no less determined by the decisions of firms than is employment.

What, then, is causing the unemployment? There is only one answer, but, like a coin, the answer has two sides. Side one is that unemployment is caused by insufficient aggregate demand (relative to money wages). Side two is that unemployment is caused by too high money wages (relative to aggregate demand). Sometimes it is useful to stress one side of the coin; sometimes the other. But it is always the same coin. In either case, the key to non-inflationary full employment is an economic expansion that holds down the marginal cost to the firm of acquiring more labour. Pure macroeconomic policy alone — the purposeful manipulation of financial aggregates — is no longer sufficient to guarantee full employment without inflation because labour costs begin to rise well before the economy starts to strain at full capacity.

How did we get into this impasse, and what is the way out? For answers it is necessary to turn back to the Great Depression of the 1930s and the towering influence on economic thought of John Maynard Keynes’s *The General Theory of Employment, Interest and Money*, published in 1936.

**Economic theory**

Before the Depression, mainstream economic theory held mass unemployment to be impossible. When the impossible actually happened, the most common response of economists to an obvious malfunctioning of the labour market was to declare, somewhat antiseptically, that the supply of labour exceeded demand because the price of labour was stuck at ‘too-high’ levels. The complacent implication was that there is not much more to do than sit around waiting for wages to come down.

Keynes disagreed fundamentally, almost violently, with the classical approach. While it is logically equivalent to describe unemployment as being caused by ‘too high money wages relative to aggregate demand’ or by ‘too low aggregate demand relative to money wages’, there is, Keynes pointed out, a world of practical difference between the policy implications of the two viewpoints. Changing wage contracts is at best a slow and unreliable way of maintaining full employment. Discretionary fiscal and monetary policy represents a far more useful approach. Thus was born one of the most spectacular disappearing acts in history. Like a great magician, Keynes removed the malfunctioning labour market from everyone’s eyes and replaced it with discretionary government policy to manage aggregate demand.
When, after an initial period of success, Keynesian policies for spending ourselves into full employment were blamed, rightly or wrongly, for the double-digit inflation of the 1970s, the stage was set for the monetarist version of what is essentially a very similar optical illusion. The basic message of monetarism is that, if the economy concentrates on achieving price stability by rigidly controlling the supply of money, at worst there may be a few awkward transition years when slightly less ambitious targets for full employment will have to be accepted. But when the system finally settles down at a stable low rate of inflation, a steady slow growth of the money supply will yield no more unemployment over the long run than discretionary Keynesian interventionism. Aside from the incredible difficulty of relying on unstable monetary aggregates in a technology that includes plastic and electronic money tied to deregulated financial institutions, the deep recession of 1981-83 is widely viewed, rightly or wrongly, as discrediting simple-minded monetarism.

Where do we go from here? To begin with, it is high time to recognize that, for all the wealth of practical and theoretical insights they may have inspired, for all the approximate truths their doctrines contain and the actual ways they might (or might not) have improved past or present economic performance, both the Keynesian policy revolution and the monetarist counter-revolution are essentially dazzling digressions from the main problem. The common defect of both is the vain hope of successfully skirting the key market that is malfunctioning — the labour market — by skillfully adjusting one or another financial aggregate, whether the money supply, government spending, tax receipts, or something else. This detour around the main problem may be perfectly justified as a temporary expedient, but it hardly commends itself as a long-term solution.

The major macroeconomic problems of our day can be traced back to the wage system of paying labour. We try to award every employed worker a predetermined piece of the income pie before it is out of the oven, before the size of the pie is even known. Our 'social contract' promises workers a fixed number of green pieces of paper, independent of the health of their company, while the company chooses the employment level. This stabilizes the money income of whomever is hired, but only at the considerable cost of loading unemployment on low-seniority workers and inflation on everybody — a socially inferior, risk-sharing arrangement that both diminishes and makes more variable the real income of workers as a whole. An inflexible money wage system throws the entire burden of economic adjustment on employment and the price level.

Economic policy should focus more directly on the labour market itself, to build in automatic flexibility and to remove structural rigidities, so that we do not have to rely so exclusively on macroeconomic sledgehammers to cure inflationary full employment. What is required is a bold institutional change in incentive structures to make it strongly in an employer's self-interest automatically to maintain high levels of output and to keep down prices. There are many possibilities here, including two-tiered wage systems, employee ownership and profit-sharing. I am in favour of maintaining a positive attitude in these measures, but as an economist I must say that profit-sharing is the most solidly based of the options and, I believe, holds by far the most promise.

**Share economy**

A profit-sharing system, where some part of a worker's pay is tied to the firm's profitability per employee, puts in place exactly the right incentives to resist unemployment and inflation. If workers were to allow their pay to be more flexible by sharing profits with their company, this would improve macroeconomic performance by directly attacking the economy's central structural rigidity. The superiority of a profit-sharing system is that it has enough built-in flexibility to maintain full employment even when the economy is out of balance. If workers' compensation were shifted to a lower component of base wages and a higher component of profit-sharing, then an employee's average cost (or pay) could stay the same, while the employer's marginal cost of hiring another worker would be lowered. Because of the automatic profit-sharing cushion, employers are slower to lay off workers during a recession and quicker to hire more of them when conditions are good. A profit-sharing system is not anti-labour and does not rely for its beneficial effects on lowering workers' pay. The key thing is not to reduce total worker pay — it could even go up — but to lower
the base wage or marginal cost component while raising the profit-sharing component accordingly.

Let me give a concrete example. Suppose that Irish Widgets Ltd (IWL) is paying wages plus fringe benefits of £6 per hour. IWL will then be motivated to take on (or lay off) workers to the point where the additional value added per worker is no more nor less than £6. Average value added per worker will naturally be higher — say £9 per hour — to provide a margin for covering overheads, depreciation, interest, profits, and so on.

Now change the labour contract to a form where IWL workers are receiving a base wage of £5 per hour and a 25 per cent share of the gross operating profits of £4 (=£9-£5) per worker-hour. It looks as if everything is the same as before. Yet IWL’s incentive to hire or fire is subtly but dramatically altered. If IWL now hires an extra worker, its value added goes up by £6 (as before), but its total labour cost only increases by £5 plus 25 per cent of incremental gross operating profits of £1 (=$6 - £5), or a total of £5.25. IWL thus clears a profit of 75 pence per hour on the extra worker, and understandably is more eager to hire and less eager to fire. There is a secondary effect: in order to sell the extra widgets, IWL has to reduce its prices.

In a profit-sharing economy, firms acting in their own self-interest will tend automatically to create a tight labour market, high output, and low prices. This will not happen overnight. But if the incremental, hardly noticed decision at the margin has more of a bias, under profit-sharing, to lean towards letting go of fewer workers during bad times and taking on more of them during good times, then gradually the system will ratchet itself toward an ever-tighter labour market. Moreover, standard macroeconomic policy is much more effective in an environment of widespread profit-sharing because it is essentially the base wage, not total pay, that in conjunction with the usual macroeconomic policy variables, determines the essential characteristics of the system such as unemployment and the price level.

**Japan**

Japan has a significant bonus system with strong profit-sharing overtones. A typical Japanese worker in an average year receives a bonus that constitutes about one-third of the base wage. While it is difficult to quantify the exact magnitude of its contribution out of a host of reinforcing tendencies, the bonus system is probably one major reason (although far from the only one) why Japanese firms are able to maintain such consistently high employment rates; and, as a very import side-benefit, Japanese workers have a direct incentive to increase their firm’s productivity and profitability because part of their salary depends on it. (This pattern of profit-sharing workers being more motivated than wage workers to cooperate with their company in order to improve its economic performance has been observed almost universally.)

In Japan young school leavers are being readily recruited by companies, while in Ireland they are not. Why? This is a complicated issue, with many answers, but one of them is almost surely that the method of labour payment is very different in the two countries. In Japan, regular workers receive about 25 per cent of their total pay in the form of a bonus with strong profit-sharing overtones. The young Japanese school graduate looking for work comes with an implicit message to the employer saying: ‘Employ me. I am reasonable. Your only absolute commitment is to pay me the base wage. This is my marginal cost to you. The bonus is a variable cost, depending to some extent on how well the company is doing.’ By contrast, the young Irish school leaver looking for work comes to a potential employer with the implicit message: ‘Think very carefully before you employ me. I am expensive and inflexible. You will have to pay me a fixed wage independent of whether your company is doing well or poorly, and you will not easily be able to lay me off if your business goes bad.’ Is it difficult to deduce in which country companies eagerly recruit new employees and in which country new employees are avoided if at all possible?

I believe that we in the West should consciously tilt our economies toward the superior profit-sharing variant of capitalism. We ought to adopt a new social contract that promises our working people full employment without inflation but asks, in return, that workers receive a significant fraction of their pay in the form of a profit-sharing bonus. Ireland is in great need of such measures.

Any economy is full of uncertainty. There are no absolute guarantees, and if the uncertainty does not come out in one
place, it will show up in another. I am saying that it is much better, much healthier, if everyone shares just a little bit of that uncertainty right at the beginning rather than letting it all fall on an unfortunate minority of unemployed workers who are drafted to serve as unpaid soldiers in the war against inflation. It is much better if people will agree that only 60 per cent of their pay is going to be tied directly to the funny looking pieces of paper currency — which are themselves an illusion, although a very useful illusion — and 20 per cent will be tied to company profits per employee. Then the economy can be much more easily controlled to have full employment and stable prices. Society will be producing, and hence consuming, at its full potential. If people will face up to the uncertainty at the beginning, and if everyone accepts some small part of it, then society as a whole will end up with higher income and less uncertainty.

This much-needed reform will not come about easily. Persuading workers and companies to change fundamentally the way labour is paid, in the name of the public interest, will demand political leadership of a very high order. Cooperation among people of differing political views will be indispensable. Material incentives, such as favourable tax treatment of the profit-sharing component of a worker's pay, will probably be required to persuade existing employees to acquiesce in a profit-sharing scheme with no restrictions on hiring. (Once a labour contract is agreed upon, insider workers should not have the right to block unemployed outsiders from joining the firm if management wishes to expand employment.) Calculations show that even a quite ambitious tax break for profit-sharing income would more than pay for itself if it reduced unemployment by just one or two percentage points.

**Conclusion**

When all is said and done, no matter how well designed are the incentives, such change will require genuine consensus, cutting across left-right political lines, that the broad social gains of permanent full employment without inflation are worth more than the narrow private losses that inevitably will be incurred here and there. Yet the benefits of inflation-free full employment are so enormous, the increased national income is so great, that my recommendation is to move decisively in the direction of profit-sharing. If these ideas are wrong, little will have been lost by trying them out. At least, we shall be able to say to future generations that we were not so paralysed by fear of the unknown that we did nothing. And if the ideas are correct, a serious move toward widespread profit-sharing would help greatly to make involuntary unemployment an obsolete concept.
Employment and Third-level Education

MICHAEL O’DONNELL

In this chapter Irish third-level education is examined in the context of the present unemployment situation and observations are made as to how it is being developed in response. While depressed economic conditions lead to reduced activity in most areas they tend to have the opposite effect on the demands for fulltime higher education and training courses. It is widely accepted in Ireland that the possession of a third-level qualification enhances the prospects of finding a job and consequently many young people wish to follow a third-level course after completion of their second-level studies. However, due to the shortage of places in Irish higher education institutions, there is keen competition to gain entry to most courses and especially to the more popular ones.

The Minister for Education (1984) has given the following breakdown of the level of qualifications held by second-level school leavers in 1982:

<table>
<thead>
<tr>
<th>Qualification</th>
<th>No.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>No qualification</td>
<td>5,500</td>
<td>8.9</td>
</tr>
<tr>
<td>Group or intermediate certificate</td>
<td>16,000</td>
<td>26.8</td>
</tr>
<tr>
<td>Leaving certificate</td>
<td>39,900</td>
<td>64.3</td>
</tr>
<tr>
<td>Total:</td>
<td>62,000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

The fact that 64.3 per cent of the age cohort take the Leaving Certificate Examination at an age of 17-18 years is remarkable when compared with the figures for other European countries where the proportion of young people pursuing common-core senior-cycle programmes is much lower. Generally, in most of these countries there is greater variety in second-level education provision and the majority of students at this level pursue vocationally oriented programmes rather than more academic ones as in Ireland. Special reference is made to this aspect because it highlights one of the roles which Irish third-level institutions and training agencies have to play in preparing second-level school leavers for employment.

The employment pattern of 1982 Irish school leavers is illustrated by Figure 1 which shows the findings of sample surveys conducted in late 1982 and again in late 1984 some two-and-a-half years after they had left school. It will be seen that just over 20,000 had taken up employment at the time of the first survey while a rather similar number had embarked on either higher education or training programmes. Nearly 15,000 were unemployed and about 3,000 had emigrated or had some other occupation.

Figure 1: Employment pattern of Irish school leavers 1982-84

It will be evident that over the two-year period an increasing proportion of the 1982 school leaving cohort found employment and there were corresponding decreases in the other categories. Their work status in November 1984 was estimated as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>In employment</td>
<td>58</td>
</tr>
<tr>
<td>Unemployed</td>
<td>18</td>
</tr>
<tr>
<td>Fulltime students</td>
<td>18</td>
</tr>
<tr>
<td>Living outside of Ireland or unavailable for work</td>
<td>6</td>
</tr>
</tbody>
</table>
Accepting the shortage of job opportunities in Ireland it may be inferred that the enrolments in third-level education reduce significantly the numbers of unemployed persons on the live register if only because they delay their entry onto the labour market.

Table 1 gives comparative data for the level of participation of 16-19 year olds in fulltime education across 22 OECD countries in 1980. It will be seen that Ireland ranks rather high on this table, probably reflecting the nature of the Irish second-level education provision and the shortages of job opportunities for its young people.

### Table 1: Percentage of 15-19 year olds enrolled in any form of education in twenty-three OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Enrolment %</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>73.7</td>
</tr>
<tr>
<td>Japan</td>
<td>70.9</td>
</tr>
<tr>
<td>Switzerland</td>
<td>70.1</td>
</tr>
<tr>
<td>Canada</td>
<td>64.9</td>
</tr>
<tr>
<td>Norway</td>
<td>63.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>62.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>61.3</td>
</tr>
<tr>
<td>Finland</td>
<td>60.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>57.4</td>
</tr>
<tr>
<td>Sweden</td>
<td>56.3</td>
</tr>
<tr>
<td>France</td>
<td>54.6</td>
</tr>
<tr>
<td>Ireland</td>
<td>50.0</td>
</tr>
<tr>
<td>Greece</td>
<td>45.4</td>
</tr>
<tr>
<td>Australia</td>
<td>45.0</td>
</tr>
<tr>
<td>New Zealand</td>
<td>44.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>44.6</td>
</tr>
<tr>
<td>Italy</td>
<td>43.9</td>
</tr>
<tr>
<td>West Germany</td>
<td>41.5</td>
</tr>
<tr>
<td>Spain</td>
<td>35.1</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>33.5</td>
</tr>
<tr>
<td>Portugal</td>
<td>33.4</td>
</tr>
<tr>
<td>Austria</td>
<td>32.0</td>
</tr>
<tr>
<td>Turkey</td>
<td>12.7</td>
</tr>
</tbody>
</table>

Source: Handy (1985).

**Fulltime enrollments in Irish higher education**

Figure 2 shows the growth of Irish fulltime third-level enrollments over the period 1972-86. It will be seen that the total enrollment more than doubled from 26.2 thousand to 55.5 thousand over those years and the growth rate was particularly sharp over the latter years. A further examination of the figure shows that the rate of growth in the technological colleges was higher than that in the university sector. University enrollments increased by some 36 per cent from 19.5 to 26.6 thousand during that period. By contrast, the total enrollment in technological colleges increased by over 700 per cent from a modest 2.7 thousand to 19.0 thousand over the same period, with the sustained growth rate in the Regional Technical Colleges (RTCs) being particularly significant. Enrollments in the national institutes of higher education (in Limerick and Dublin) and the National College of Art and Design have also increased and in the 1985/86 session they accounted for 4.73 thousand or 8.5 per cent of the national total of fulltime third-level enrollments.

![Fulltime enrollments in Irish higher education](image-url)
While there are no comprehensive statistics available on the actual demand for higher education in this country, one measure is the number who apply annually through the Central Applications Office (CAO) for entry to the various primary degree courses offered by Irish universities, the national institutes (since 1978) and Dublin Institute of Technology (since 1982).

Table 2: Total numbers of applicants

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>13,457</td>
<td>15,398</td>
<td>16,961</td>
<td>17,165</td>
<td>19,129</td>
<td>20,339</td>
</tr>
<tr>
<td>No.</td>
<td>21,799</td>
<td>21,949</td>
<td>22,856</td>
<td>24,441</td>
<td>25,229</td>
<td></td>
</tr>
</tbody>
</table>

Source: CAO, 1988 (Unpublished at time of writing).

These numbers do not include applicants to the regional technical colleges, the teacher training colleges (other than Thomond College of Education) and the non-degree courses conducted by Dublin Institute of Technology (DIT), but if such data were available it is likely that there would be a large element of duplication. Overall it is evident that there has been strong growth in the demand for places and, as indicated earlier, a significant part of this is not satisfied each year. The selection process for many of the courses is based on a 'points' system related to leaving certificate or matriculation performance and generally there has been an upward trend in the minimum points level necessary to gain entry, reflecting the increasing competition.

Effects of manpower demand on higher education

In recent years especially, there has been a growing awareness in Irish higher education institutions of the importance of manpower demand considerations. This was brought into sharp focus in the late 1970s through the work of the Manpower Consultative Committee. This committee was established by the Minister for Labour in 1978 in response to concern being expressed about shortages of key manpower including certain categories of engineers, scientists and computer personnel as well as specific types of craftsmen.

In 1979, the Higher Education Authority (HEA), working closely with the Departments of Education and Labour, approached each of the universities, the national colleges of higher education (NIHEs), colleges of technology and regional technical colleges inviting them to make proposals for the expansion of their outputs in specific disciplines, commencing in the 1979/80 session. They were asked to provide details of the additional costs envisaged, including staff and equipment costs, and other expenses likely to be incurred.

The response from the institutions was positive in that most of them were willing to mount new or conversion programmes or expand existing ones commencing in September/October 1979 which was only months ahead. In all, responses were received from 15 of the 18 colleges contacted, with some of them making proposals in a number of areas. These may be summarised as follows:

1. increasing intake to 22 existing courses;
2. introducing additional options to 5 existing courses;
3. establishing 30 new courses;
4. introducing 15 conversion courses for existing graduates as a short term measure.

After the various proposals were examined by the Higher Education Authority (HEA) a comprehensive package embodying most of them was presented to the Minister for Education through the Manpower Consultative Committee. In May 1979, the minister announced his approval of the proposals including the appointment of 140 additional teaching staff and 94 support staff and the provision of additional capital to meet the cost of equipment and other necessary expenditure.

The overall effect of this programme was a significant increase in the output from specific engineering and scientific disciplines and especially in key areas such as electronics, production/manufacturing engineering and computer science. The increase in the annual degree outputs in these disciplines became evident in 1983. The HEA projections prepared in 1983 show that the total annual output of engineering graduates will have more than doubled between 1980 and 1990 with a marked shift in the balance of specialisations showing an increasing proportion of graduates in the electronic, production/manufacturing and computer fields.
Technological colleges
Clancy (1982) presents some interesting data on first-year students who entered higher education institutions in 1980. It shows that 6497 students entered HEA-designated institutions (universities and national institutes) while 6863 entered the non-HEA section (colleges of technology, regional technical colleges and teacher training colleges). Table 3 gives a breakdown of the distribution of first-year entrants in the two sectors and shows some striking differences.

Humanities was the dominant discipline in the HEA sector, accounting for more than 30 per cent of entrants. About twice as many students entered both technology and commerce based disciplines in the non-HEA sector compared with the HEA sector while the science and computing numbers were somewhat similar in both sectors.

Table 3:

<table>
<thead>
<tr>
<th>HEA sector</th>
<th>Non-HEA sector</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Humanities</td>
<td>30.5</td>
</tr>
<tr>
<td>Education</td>
<td>2.0</td>
</tr>
<tr>
<td>Social science</td>
<td>4.5</td>
</tr>
<tr>
<td>Law</td>
<td>3.4</td>
</tr>
<tr>
<td>Commerce</td>
<td>13.5</td>
</tr>
<tr>
<td>Hotel and catering</td>
<td>—</td>
</tr>
<tr>
<td>Art and design</td>
<td>1.9</td>
</tr>
<tr>
<td>Technology</td>
<td>15.7</td>
</tr>
<tr>
<td>Science and computing</td>
<td>16.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.6</td>
</tr>
<tr>
<td>Medical</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Figure 3 shows the trends in enrollments of whole-time students in Irish universities and technological colleges (colleges of technology and regional technical colleges) between the 1976-77 and 1983-84 sessions in the three broad categories of technology (which includes engineering and construction disciplines), science, and business studies or commerce. It will be evident that the rate of growth for each of them was higher in the technological colleges and this has been particularly so in more recent times. It also shows that while the total numbers of students in both the technology and business-related disciplines were broadly comparable in 1976-77 the numbers in these disciplines were much higher in the technological college sector by 1983-84. The universities had significantly more science students in 1976-77 but the gap between them had closed by 1983-84.

The factors influencing these trends are many and complex, ranging from accommodation and other available resources in the different types of institutions to their ability to respond to changing demands and employment opportunities.

Technological colleges are vocational in their mission and they maintain close links with industry, commerce and the professions which help to ensure that their programmes are responsive to the changing needs of the job market. A significant influence on most of these colleges in recent years has been the availability of funding from the European Social Fund for certain categories.
of programmes. Typically these programmes are of two years' duration and have a strong emphasis on training, the more applied aspects of a discipline and include appropriate elements of new technology. Students receive a weekly allowance that is not subject to a means test and they are provided with free tuition which make these courses attractive to many participants.

While universities continue to discharge their traditional role they too have been responsive to changing demands and employment opportunities. They continue to have a strong commitment to educating young people for many of the established professions and they have also responded to demands from newer disciplines such as computing and the developing branches of science and engineering. An interesting feature of their work is an increasing emphasis on new programmes leading to diploma rather than degree awards, some of which are offered on a part-time basis.

Graduate employment patterns
The initial employment pattern for degree graduates in general between 1976 and 1984 is given in part (a) of table 4. This reveals rather surprisingly that only about one-third of them found employment in Ireland by the January of the year after they graduated. A somewhat similar proportion, however, embarked on 'other vocational and professional training' and about a further sixth of them was engaged in research or further education. The number still seeking employment was less than 10 per cent but no doubt this was reduced by the somewhat similar percentage who found employment outside of Ireland. The fact that on average about half of the graduates either embarked on other vocational and professional training or undertook research or further studies could be said to raise fundamental questions about the relevance of some of the programmes offered. However, in specific areas there is an established route to be followed and it is difficult to move away from this (e.g. to obtain a post as a registered secondary school teacher it is necessary to take the higher diploma in education after graduation; to become an accountant, solicitor or barrister it is necessary to embark on further studies and training to meet the requirements of the relevant professional bodies).

The employment patterns vary from one discipline to another as shown by the data given in sections (b) and (c) of table 4. At least two-thirds of engineering graduates go directly into employment either in this country or overseas and very few of them engage in other vocational or professional training. In areas such as medicine virtually 100 per cent of the graduates find employment but this is arranged as part of their professional training in the teaching hospitals.

An increasing proportion of Irish graduates are finding employment in industry as shown from the data given in table 5. This is a welcome trend and is of greater significance in engineering than in business, science or other disciplines. Obviously, however, the main career outlets for graduates other than engineers have been in areas such as commerce, teaching or the public sector.

The pattern of employment of those holding sub-degree third-level awards such as national certificates and diplomas differs somewhat from those with primary degrees as shown by table 6. It will be seen that in 1984, 41.8 per cent of those holding national certificates continued their studies for at least a further year to achieve a national diploma but many probably regarded this as the natural progression. By contrast, only 20.7 per cent of those holding national diplomas remained in full-time education which is significantly less than the proportion of degree graduates who continued. This data shows that national diploma holders were on the whole fairly successful in finding direct employment when compared with primary degree holders. This probably reflected the applied nature of the programmes and their relevance to the job market. Not surprisingly, those holding higher degrees were even more successful but normally they are the very able and resourceful young men and women.

Higher education and unemployment
Apart from raising the general education level of young people and giving them specific skills which enhance their prospects of finding a job, higher education contributes in other ways towards improving the employment situation. It can assist general economic development and facilitate scientific and technological change, all of which are important in enabling a country to advance and remain competitive in the world market.
Table 4: Pattern of graduate employment, 1976-1984 (primary degree graduates — January after graduation)

(a) All Graduates

<table>
<thead>
<tr>
<th>Year of graduation</th>
<th>Employed Ireland</th>
<th>Overseas</th>
<th>Seeking employment</th>
<th>Not available for employment</th>
<th>Research and further education</th>
<th>Other vocational education</th>
<th>Total number of graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>29.8</td>
<td>8.6</td>
<td>6.2</td>
<td>0.7</td>
<td>12.1</td>
<td>42.6</td>
<td>4,102</td>
</tr>
<tr>
<td>1977</td>
<td>33.6</td>
<td>7.2</td>
<td>5.7</td>
<td>0.8</td>
<td>11.4</td>
<td>41.3</td>
<td>4,286</td>
</tr>
<tr>
<td>1978</td>
<td>36.8</td>
<td>5.5</td>
<td>3.5</td>
<td>1.0</td>
<td>12.1</td>
<td>41.1</td>
<td>4,321</td>
</tr>
<tr>
<td>1979</td>
<td>39.2</td>
<td>6.2</td>
<td>2.9</td>
<td>1.1</td>
<td>12.7</td>
<td>37.8</td>
<td>4,394</td>
</tr>
<tr>
<td>1980</td>
<td>36.8</td>
<td>5.7</td>
<td>4.7</td>
<td>1.3</td>
<td>13.7</td>
<td>38.0</td>
<td>4,323</td>
</tr>
<tr>
<td>1981</td>
<td>36.2</td>
<td>4.9</td>
<td>6.4</td>
<td>1.4</td>
<td>14.7</td>
<td>36.4</td>
<td>4,410</td>
</tr>
<tr>
<td>1982</td>
<td>35.2</td>
<td>5.3</td>
<td>7.4</td>
<td>1.4</td>
<td>14.5</td>
<td>36.2</td>
<td>4,630</td>
</tr>
<tr>
<td>1983</td>
<td>35.8</td>
<td>6.5</td>
<td>9.6</td>
<td>0.8</td>
<td>15.3</td>
<td>32.0</td>
<td>4,972</td>
</tr>
<tr>
<td>1984&lt;sup&gt;1983&lt;/sup&gt;</td>
<td>34.5</td>
<td>11.4</td>
<td>6.1</td>
<td>1.3</td>
<td>16.7</td>
<td>34.0&lt;sup&gt;10&lt;/sup&gt;</td>
<td>5,746</td>
</tr>
</tbody>
</table>

(b) Engineering graduates %

<table>
<thead>
<tr>
<th>Year of graduation</th>
<th>Employed Ireland</th>
<th>Overseas</th>
<th>Seeking employment</th>
<th>Not available for employment</th>
<th>Research and further education</th>
<th>Other vocational education</th>
<th>Total number of graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>55.1</td>
<td>20.7</td>
<td>12.1</td>
<td>—</td>
<td>12.1</td>
<td>—</td>
<td>322</td>
</tr>
<tr>
<td>1977</td>
<td>61.3</td>
<td>19.0</td>
<td>7.3</td>
<td>—</td>
<td>12.1</td>
<td>—</td>
<td>349</td>
</tr>
<tr>
<td>1978</td>
<td>70.4</td>
<td>15.8</td>
<td>3.4</td>
<td>1.0</td>
<td>9.1</td>
<td>—</td>
<td>425</td>
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<tr>
<td>1979</td>
<td>74.7</td>
<td>15.8</td>
<td>1.7</td>
<td>0.5</td>
<td>7.4</td>
<td>—</td>
<td>448</td>
</tr>
<tr>
<td>1980</td>
<td>66.2</td>
<td>16.0</td>
<td>3.5</td>
<td>0.5</td>
<td>11.5</td>
<td>2.3</td>
<td>420</td>
</tr>
<tr>
<td>1981</td>
<td>56.4</td>
<td>9.5</td>
<td>12.2</td>
<td>0.7</td>
<td>16.6</td>
<td>4.4</td>
<td>419</td>
</tr>
<tr>
<td>1982</td>
<td>53.9</td>
<td>13.1</td>
<td>12.6</td>
<td>0.2</td>
<td>14.7</td>
<td>5.5</td>
<td>443</td>
</tr>
<tr>
<td>1983</td>
<td>49.6</td>
<td>12.4</td>
<td>14.9</td>
<td>0.2</td>
<td>18.0</td>
<td>4.9</td>
<td>642</td>
</tr>
<tr>
<td>1984&lt;sup&gt;1983&lt;/sup&gt;</td>
<td>43.2</td>
<td>26.9</td>
<td>8.0</td>
<td>—</td>
<td>17.3</td>
<td>4.6&lt;sup&gt;10&lt;/sup&gt;</td>
<td>827</td>
</tr>
</tbody>
</table>

(c) Science graduates %

<table>
<thead>
<tr>
<th>Year of graduation</th>
<th>Employed Ireland</th>
<th>Overseas</th>
<th>Seeking employment</th>
<th>Not available for employment</th>
<th>Research and further education</th>
<th>Other vocational education</th>
<th>Total number of graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>21.2</td>
<td>5.5</td>
<td>4.4</td>
<td>1.0</td>
<td>29.7</td>
<td>38.2</td>
<td>528</td>
</tr>
<tr>
<td>1977</td>
<td>27.1</td>
<td>5.5</td>
<td>6.6</td>
<td>1.3</td>
<td>30.6</td>
<td>38.8</td>
<td>579</td>
</tr>
<tr>
<td>1978</td>
<td>23.2</td>
<td>2.1</td>
<td>4.7</td>
<td>1.1</td>
<td>30.0</td>
<td>38.9</td>
<td>661</td>
</tr>
<tr>
<td>1979</td>
<td>23.9</td>
<td>4.4</td>
<td>1.8</td>
<td>1.6</td>
<td>32.2</td>
<td>36.1</td>
<td>696</td>
</tr>
<tr>
<td>1980</td>
<td>21.0</td>
<td>2.7</td>
<td>5.3</td>
<td>1.9</td>
<td>35.5</td>
<td>36.6</td>
<td>684</td>
</tr>
<tr>
<td>1981</td>
<td>23.9</td>
<td>2.9</td>
<td>4.6</td>
<td>1.5</td>
<td>32.4</td>
<td>34.8</td>
<td>777</td>
</tr>
<tr>
<td>1982</td>
<td>20.3</td>
<td>3.1</td>
<td>7.5</td>
<td>1.3</td>
<td>33.7</td>
<td>34.1</td>
<td>702</td>
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<tr>
<td>1983</td>
<td>20.7</td>
<td>3.9</td>
<td>7.7</td>
<td>1.0</td>
<td>35.8</td>
<td>31.2</td>
<td>778</td>
</tr>
<tr>
<td>1984&lt;sup&gt;1983&lt;/sup&gt;</td>
<td>24.4</td>
<td>7.1</td>
<td>5.3</td>
<td>0.5</td>
<td>34.8</td>
<td>27.8&lt;sup&gt;10&lt;/sup&gt;</td>
<td>1,033</td>
</tr>
</tbody>
</table>

Note 1. Includes Ireland and Overseas
Note 2. Includes graduates of colleges of Dublin Institute of Technology
Note 3. Data relates to April after graduation
Note 4. Includes graduates on work experience programmes previously classified as employed
Source: NESC (1985) Manpower Policy in Ireland No. 82 Table A20.
Table 5: Pattern of industrial recruitment by academic discipline

<table>
<thead>
<tr>
<th>Year</th>
<th>Engineering</th>
<th>Commerce &amp; business studies</th>
<th>Science</th>
<th>Other</th>
<th>All graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>42.9</td>
<td>15.2</td>
<td>28.0</td>
<td>4.3</td>
<td>15.5</td>
</tr>
<tr>
<td>1977</td>
<td>36.4</td>
<td>12.5</td>
<td>17.7</td>
<td>5.4</td>
<td>13.0</td>
</tr>
<tr>
<td>1978</td>
<td>35.6</td>
<td>17.5</td>
<td>23.3</td>
<td>5.5</td>
<td>15.8</td>
</tr>
<tr>
<td>1979</td>
<td>40.5</td>
<td>17.7</td>
<td>31.0</td>
<td>5.7</td>
<td>17.5</td>
</tr>
<tr>
<td>1980</td>
<td>34.9</td>
<td>11.7</td>
<td>32.5</td>
<td>4.5</td>
<td>14.2</td>
</tr>
<tr>
<td>1981</td>
<td>40.2</td>
<td>16.0</td>
<td>20.6</td>
<td>5.5</td>
<td>15.1</td>
</tr>
<tr>
<td>1982</td>
<td>51.8</td>
<td>20.6</td>
<td>27.8</td>
<td>5.1</td>
<td>18.4</td>
</tr>
<tr>
<td>1983</td>
<td>63.8</td>
<td>22.0</td>
<td>32.3</td>
<td>4.9</td>
<td>21.5</td>
</tr>
<tr>
<td>1984</td>
<td>64.6</td>
<td>29.7</td>
<td>37.9</td>
<td>8.9</td>
<td>27.0</td>
</tr>
</tbody>
</table>

*Primary and Higher Degrees

Source: NESC (1985) Manpower Policy in Ireland No. 82 Table A21.

Table 6: Pattern of employment of graduates and technicians 1984

<table>
<thead>
<tr>
<th></th>
<th>Employed</th>
<th>Seeking employment</th>
<th>Further studies</th>
<th>Further training or work experience</th>
<th>Others</th>
<th>Total respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>One year certificate</td>
<td>13.4</td>
<td>3.3</td>
<td>76.2</td>
<td>6.3</td>
<td>0.8</td>
<td>239</td>
</tr>
<tr>
<td>National certificate</td>
<td>36.1</td>
<td>10.4</td>
<td>41.8</td>
<td>11.1</td>
<td>0.6</td>
<td>1,956</td>
</tr>
<tr>
<td>National diploma</td>
<td>60.0</td>
<td>10.2</td>
<td>20.7</td>
<td>8.4</td>
<td>0.7</td>
<td>788</td>
</tr>
<tr>
<td>Primary degree</td>
<td>45.9</td>
<td>6.1</td>
<td>34.5*</td>
<td>12.2</td>
<td>1.3</td>
<td>4,952</td>
</tr>
<tr>
<td>Higher degree</td>
<td>81.2</td>
<td>3.4</td>
<td>8.7*</td>
<td>2.9</td>
<td>2.7</td>
<td>756</td>
</tr>
<tr>
<td>Higher dip in education</td>
<td>84.1</td>
<td>7.8</td>
<td>7.6</td>
<td>7.6</td>
<td>0.7</td>
<td>974</td>
</tr>
</tbody>
</table>

*Includes Teacher Training

Source: NESC (1985) Manpower Policy in Ireland No. 82 Table A23.
As already indicated, at the most basic level, participation in higher education delays the entry of young people into the labour market. Hence it can be argued that if say, an additional thousand young people participate in fulltime higher education programmes for a year, then this should reduce the live unemployment register by a somewhat similar number over the period. While Irish participation in fulltime third-level education is reasonable by European standards it is much lower than that in the USA or Japan. The age at which young people complete second-level education here at present is on average about a year below that in many other countries. Also, the duration of some of our courses is less than corresponding courses on the European mainland (e.g. engineering) and this obviously also affects the age at which they enter the labour market.

Irish third-level institutions in common with their sister institutions in other developed countries are giving increasing attention to the unemployment situation and endeavouring to make their courses more relevant to the job market and the needs of the economy. Many of them provide a placement service and monitor closely the success of their graduates in finding their first jobs. A period of work experience is an important built-in element in an increasing number of courses and this provides useful feedback as well as enhancing the graduate’s prospects of finding a job.

In a similar context, most higher education institutions are giving more attention to promoting business innovation and new product development. Significant numbers of their staff engage in research and consultancy work and in many cases they work closely with industrial or commercial sponsors. Since in some disciplines as many as 10 per cent of the more qualified Irish personnel are engaged in the higher education sector and have access to many of the best laboratory, computing, library and other specialised facilities in the country, they constitute a very significant resource and can make a major contribution to business and employment creation.

Science and innovation parks are linked to third-level institutions in several countries and this aspect is also receiving attention in this country. We have the Plassey Technological Park in Limerick, the Micro Electronics Centre at University College, Cork, Incubator Units at University College, Galway, the Industry Centre at University College, Dublin and embryo units at Trinity College, Dublin and the National Institute of Higher Education, Dublin, in addition to the Dublin Institute of Technology (DIT) Project/Product Development Centre.

It may be appropriate if I digress to trace briefly DIT’s involvement in this area. Up to a few years ago, all DIT graduates were in keen demand by Irish employers and as already indicated there were acute shortages of technically qualified personnel in some areas. However, this changed significantly with the recession and the severe cut-backs in public sector employment. Cognisant of these circumstances and realising that at least some of our graduates had been working on the development of new products and markets as part of their coursework which were seen to have potential for commercial development, the Institute decided that it should exploit this situation.

Following discussions with the Industrial Development Authority in late 1982 an agreement was reached whereby one of its advance factory units in the Prussia Street complex in Dublin was made available on a lease basis. This facilitated the establishment of the DIT Project/Product Development Centre which became operational there in the later part of 1983.

Essentially this has provided a base where graduates work for a period of about six months while developing their project or new product ideas towards commercial feasibility. With initial assistance from the Youth Employment Agency and some private sponsors DIT was able to provide them with a modest weekly allowance similar to those available from the manpower agencies while at the same time providing them with advice and assistance by drawing on the staff expertise and making use of the general facilities of the Institute.

So far, about 100 young people have used the facilities of the centre. While none of them had a job when they entered it those who have left are all now employed or have established their own businesses or are in the process of doing so. Several of their product ideas are in production and hopefully are beginning to generate wealth for the Irish economy. The centre is providing valuable training for potential entrepreneurs at a critical phase in their development.

In 1985 DIT began to examine various schemes with a view to developing the activities of the centre and it became aware
of the business and innovation centre (BIC) concept. This is a new EC initiative which has been successful in several cities across Europe and it was felt to be particularly appropriate to Dublin.

An ad hoc working group was established with representation from Dublin Corporation, Dublin Chamber of Commerce and DIT and arrangements were put in hand for the establishment of a business and innovation centre for Dublin. This has the active support of the local authorities, the chamber of commerce, various business and industrial organisations and higher education institutions in the Dublin area. It is hoped that this will add an important new impetus to job creation in this region and encourage more graduates and other young people with entrepreneurial talent to consider establishing their businesses. Generally it can be said that greater contact and involvement between the educational sector and the commercial and industrial worlds is now essential in educating and preparing young people for the competitive world of tomorrow.

**Future considerations**

Part of the solution to unemployment may involve a redefinition of terms such as ‘work’ and ‘a job’ and a restructuring of the way in which the economy functions. This will probably result in shorter working hours, shared jobs and greater opportunities for personal development and leisure time activities. Young people may have to be encouraged to remain longer in the education and training systems before entering the job market and older employees may have to retire early. Changes such as these will be difficult and expensive to implement and will only be possible if sufficient wealth can be generated by productive activities to meet society’s desire for an ever increasing living standard.

We are of course witnessing progressive and dramatic changes in the nature of work itself. Labour based industries are being replaced by skill based industries and in turn these are likely to be replaced by knowledge based industries. Already countries such as Japan and the USA are finding that knowledge based industries are important new sources of wealth generation.

The Institute of Manpower Studies survey published in 1986 on a wide range of employments in Britain identified some of the profound changes that were taking place there. The general conclusion was that the movements within the workforce due to the changing requirements for higher level skills and the reorganisation of many employments were having a major impact on the unemployment situation. The study found that production industries and agriculture are likely to reduce their workforces by an average of 2 per cent per annum between now and 1990. A large part of this reduction will result in a greater use of subcontracting, effectively displacing labour from the manufacturing to the services sector. While services industries will increase their employment they will do so in a large measure by using more part-time workers. The overall findings are summarised in figure 4.

**Figure 4: The changing occupational balance**

![Figure 4: The changing occupational balance](image)

What impacts are these changes having on Irish third-level education institutions and how should they be responding?

1. Third-level institutions must be sensitive and responsive to the changing world and the general employment situation. On the one hand they should be preparing young people
for the jobs that are available now or are likely to emerge in the near future; on the other hand with the pace of change it is difficult to predict the situation which young people will experience over their careers. Overall, the emphasis probably should be on well balanced programmes which provide participants with a good general education that will teach them to think and will provide them with the skills and motivation to continue learning.

2. Third-level institutions should give more emphasis to preparing young people for self employment and entrepreneurship and should acknowledge the important role which these play in the general employment situation. Product development-oriented project work and special courses in business and entrepreneurship can be very helpful in this context. In the past, the main emphasis in many programmes was to prepare young people for entering appropriate employment and while this is still a valid goal, it should be broadened to allow for other possibilities. Third-level institutions should be encouraged to interact more with the community which they are established to serve and this increased interaction will present them with new challenges.

3. Third-level education institutions will have to give increasing attention to continuing education. The era when graduates could finish their studies in their early twenties may have ended. In the future it will probably be necessary for them to return to the classroom at different stages during their working lives or careers to acquire new skills and to prepare for new roles in society.

4. Emigration has again emerged as a significant option for young Irish people. To date, Irish third-level graduates who have emigrated have been very successful in finding jobs, indicating that their general standards are well up to international levels. However, some commentators are beginning to question the wisdom of investing large sums in providing third-level education for those who are not likely to make their working careers here. It is estimated that it costs the state, on average, about £5,000 per participant per annum to provide third-level education and for courses which extend over three or four years this amounts to a cost of £15,000-£20,000 for each graduate. However, most graduates see emigration as an imposed and temporary phase in their careers and believe that they (and the state) will benefit from the experience of any period they spend abroad.

5. In a broader context, all our young people are citizens of Europe. The EC is giving increasing attention to encouraging the mobility of workers at all levels but especially those with professional and higher-level qualifications. Some EC countries have negative population growth rates and in future they are likely to offer good employment prospects for Irish young people who have relevant skills or expertise. The EC has launched a number of new initiatives such as the COMETT and ERASMUS programmes to facilitate and encourage greater movement in the higher education sector. Foreign language teaching should be further developed in third-level education institutions to assist in this process.

6. Finally, third-level education institutions will have to give increasing attention to preparing people for lives of greater leisure, early retirement or periods of unemployment.

In conclusion, it may be said that never were higher education institutions faced with greater challenges than today. They are being called upon to cater for larger numbers of students and to provide more diverse courses that have to be relevant and cost effective. Often they have to operate with very restricted budgets and reduced staff levels and it is becoming more difficult to provide the types and range of services that are being demanded of them. Whatever about some higher educational institutions in the past meriting an ivory tower image, this is no longer true. Indeed it is very far from being appropriate today when they must all be fully attuned to the needs of the market place. It is now generally recognised that the higher education sector has a vital role in ensuring the future wellbeing of our society and must respond effectively by preparing young people to meet the challenges of the new technological era.

Note to chapter
1 The West German and Austrian figures are misleading because they do not include the vocational courses which ninety per cent of those leaving school attend as part of their apprenticeship. Only six per cent of West German youth enter a job which does not involve further training.
Tourism in Ireland: An Employment Growth Area*

BRIAN DEANE

Defining tourism
There is a tendency to think of tourism as a self-contained industry with neatly defined borders. From the individual tourist's point of view, tourism is a set of activities that starts from the time a holiday-maker leaves home, includes everything that takes place during the period away from home and ends on the return. It is a bundle of loosely linked services.

From the point of view of the providers, each service is an entity in itself. What they sell is purchased by several different markets. Thus a hotelier, for example, provides a service to tourists, local businesses, wedding parties and provides entertainment (by running discos, for instance).

Employment in tourism
The nature of tourism provides a number of difficulties for the compiler of employment data on the industry. This is due to some of the following factors. First, a high proportion of employment in tourism is seasonal or part-time, particularly during the summer months. This makes it difficult to estimate the true numbers of people who are employed in the tourist industry.

The second problem arises because tourist-related employment usually constitutes a proportion of manpower engaged in services that serve the tourist and non-tourist markets alike. To identify accurately what proportion of manpower should be attributed to tourism, and what proportion to ordinary domestic consumption, is difficult, if not impossible.

The third problem arises because a proportion of employment in the goods-producing sectors (such as the food, drink and clothing industries) and the service sectors (such as hairdressing, medical care, banks, garages and county council services), in principle, also can be included.

*The views expressed in this paper are the author's and do not necessarily reflect the opinions of the organisation for which he works.
The fourth difficulty associated with determining what precisely constitutes tourism employment arises because induced employment effects need to be taken into account. When national resources are not fully used, as is the case in Ireland, the provision of jobs and incomes in one sector has an impact on employment and incomes in other sectors because of the additional spending that is taking place.

The operation of the tourist multiplier can be traced through the effects of an initial increase in tourist expenditure. There are a number of different ways in which income is generated. First, some businesses (hotels, for instance) are the direct recipients of tourist expenditure. Second, these businesses purchase tourist-related goods from other firms in Ireland: this could be termed an indirect income effect. Third, consumption out of these increased incomes takes place, some of which is on goods and services produced in Ireland: this might be termed an induced income effect. The new expenditure will be received as income (wages, salaries and rents). Consequently, an initial injection of tourist expenditure can lead to successive increases in income, and in expenditure out of income, which would lead to a new and higher level of income and employment. The effects of additional expenditure on employment will depend on whether there is an underutilisation of capacity at the time when the increase in expenditure occurs. If there is, and this is certainly the case in Ireland, then an increase in employment naturally will follow.

The multiplier effect does not, however, maintain its momentum from round to round. It is dampened by a number of 'leakages'. Imports give rise to leakages in the form of wages and salaries, rents, interest payments and profits to non-residents. Savings, since they are not spent, also constitute a leakage as, of course, does taxation. It has been argued that, in the longer term, taxation should be taken into account and treated as part of the overall income-expenditure process.

Numbers employed
It is possible to determine a broad approximation of the numbers employed in tourism by ascertaining the proportion of Gross Domestic Product attributable to tourism and then applying this proportion to the total number of people employed in the economy. Taking both out-of-state tourism and domestic tourism, and excluding any induced or multiplier effects, some 51,000 people were employed full-time as a result of tourism in Ireland in 1985. However, this approach suffers from an obvious disadvantage since it assumes a single average level of output per person across all sectors of the economy.

A further and much more detailed approach is to employ input-output analysis. Input-output analysis is concerned with the structure of the production relationships in an economy, the set of relationships between sectors that are concerned with the production and distribution of goods and services. It thus provides estimates of the level of employment associated with various levels of activity in each sector. This approach allows for the direct, indirect and induced effects of tourism on output and employment, taking into account the fact that, at any particular time, various parts of the non-tourist economy can be said to be dependent upon tourist activity. Nevertheless, there are limitations to the validity of this approach. First, in any economy all sectors are interrelated. Tourism, for example, benefits from other sectors and vice versa. Second, the Keynesian 'multiplier' effect, which is generally used in these analyses, is a dynamic marginal concept rather than a static or average one. That is, it concerns the ultimate effect of an autonomous injection of additional new (tourist or other) expenditure into an economy, i.e. the ultimate effect on income or employment of a new expenditure of, say, £1 million. With these limitations in mind, input/output analysis results are shown in Table 1.

The table indicates that, in 1983, combined direct employment in tourism was 36,250 man-years. Indirect effects increase the man-years by a further 7,000 to 43,250 and induced effects by a further 8,600 to approximately 52,000. If government tax receipts from tourist expenditure are treated as being repaid and the government sector is treated as fully reacting with all other sectors (assuming a balanced budget), then 30,600 man-years may be attributed to tourism. Thus, the total employment impact of tourism, calculated on the above basis, is 82,450 man-years. Bord Fáilte has estimated that employment arising from export tourism is somewhat higher at 68,000 man-years and that for domestic tourism somewhat lower at 9,000, while estimates for access transport are almost the same. The differences
between the estimates are not great, considering the problems that are inherent in the data. What is more important is that both indicate that tourism has an important effect on employment in Ireland.

Expenditure and employment

One valuable characteristic of input-output analysis for our purposes is that it provides an insight into the relationship between tourist income and expenditure. This relationship is demonstrated in Table 2. The data in the table is derived from the 1982 input-output analysis.

The table shows £32.41 million of final demand arising from tourist expenditure fell within the food sector. This sector generates the equivalent of just over a hundred jobs for each one million pounds of final demand. Thus, within the food sector there were 3,260 jobs dependent upon export tourism. Similarly, in the trade margin and services sector, which includes hotels, final demand amounted to £152.39 million; with an employment multiplier of 115.4, 17,586 jobs within this sector result from export tourism. If government interaction is included, the job dependency rises to 4,190 for the food sector and 25,800 for trade margin and services.

It should not be overlooked that capital investment in tourism also gives rise to jobs in the construction sector. It is estimated that the full employment impact on this sector is equivalent to 91 man-years for every one million pounds invested.

To place the expenditure-employment relationship in perspective: for each additional £13,600 spend by tourists, one additional job will be created. This falls to £7,500 if you accept the argument that government expenditure is recycled. Whatever figure is taken does not detract from the point that an increase in tourism expenditure creates more jobs.

Factors supporting tourism as an employment-generating sector

It is clear that tourism is of particular relevance in attempts to increase employment in Ireland at the present time. First, the market for world tourism is an expanding one. Edwards (1985) predicted that world tourism will grow by 93 percent during the period 1985 to 1995. If Ireland were to do no better than maintain the share of the market that it currently holds, it would imply an increase in expenditure by out-of-state tourists from

<table>
<thead>
<tr>
<th>Category of Tourist</th>
<th>Direct</th>
<th>Indirect</th>
<th>Induced Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export (£520.0)</td>
<td>20,500</td>
<td>3,600</td>
<td>6,000</td>
</tr>
<tr>
<td>Access (£175.0)</td>
<td>7,000</td>
<td>600</td>
<td>2,600</td>
</tr>
<tr>
<td>Domestic (£269.2)</td>
<td>8,750</td>
<td>2,800</td>
<td></td>
</tr>
<tr>
<td>Total (£964.2)</td>
<td>36,250</td>
<td>7,000</td>
<td>8,600</td>
</tr>
</tbody>
</table>


Table 2: Impact of export tourist expenditure on employment (1982)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Excluding government interaction</th>
<th>Including government interaction</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Expenditure (£m)</td>
<td>Employment Numbers</td>
</tr>
<tr>
<td>Agriculture</td>
<td>1.45</td>
<td>139.4</td>
</tr>
<tr>
<td>Food</td>
<td>32.41</td>
<td>100.6</td>
</tr>
<tr>
<td>Drink &amp; Tobacco</td>
<td>6.88</td>
<td>60.0</td>
</tr>
<tr>
<td>Textiles</td>
<td>1.68</td>
<td>64.9</td>
</tr>
<tr>
<td>Clothing &amp; Footwear</td>
<td>14.86</td>
<td>93.6</td>
</tr>
<tr>
<td>Clay, Cement, Glass</td>
<td>4.62</td>
<td>71.8</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>1.81</td>
<td>60.1</td>
</tr>
<tr>
<td>Transport Purchases</td>
<td>36.05</td>
<td>74.7</td>
</tr>
<tr>
<td>Trade Margin &amp; Services</td>
<td>152.39</td>
<td>115.4</td>
</tr>
</tbody>
</table>

£695 million in 1985 to £1,340 million in 1995. Because of the close link between expenditure and employment, it can be anticipated that the number of jobs will increase broadly in line with increased expenditure.

Second, when labour costs are increasing, there is a tendency to substitute capital for labour. This at least partly explains why in the past five years employment in Ireland’s manufacturing industry declined by 3.5 per cent per annum, while output increased by 6.0 per cent per annum (Bacon 1986). Tourism is not as amenable to capital substitution since service is frequently the very essence of the product.

Third, the Irish economy is a very open one. Last year exports of goods and services amounted to nearly £11 billion, or about 63 per cent of GDP. Imports of goods and services were of almost the same magnitude. One of the consequences of this openness in the economy is that attempts by successive governments to stimulate total demand, and thereby employment, have resulted in consumers spending money on imported goods rather than on home-produced products. The result has been a rapidly deteriorating balance of payments position and a proportionately small increase in national output. Because of this, it is obviously desirable to seek ways in which total demand can be increased without damaging the balance of payments. Tourism presents one such way. Visitors from outside the state who purchase Irish tourism are contributing to export earnings. Only a small proportion of these moneys, about 6.5 per cent, leaks out in the form of direct imports to meet the needs of tourists. The remainder represents an addition to total demand, and through the resulting output, a higher level of employment.

Domestic tourism is not subject to the same potent additive impact. This is because payments for goods and services by domestic tourists represent mainly a movement of expenditure from one sector of the economy to another. It can be argued, however, that in those circumstances where an Irish person is persuaded to take a holiday at home rather than abroad, it results in a saving of foreign exchange and will give rise to the same beneficial impact on employment as does export tourism.

In addition, tourism has a relatively low import content. To the extent, therefore, that expenditure is used for home holidays rather than for purchasing goods with a greater import content, such as consumer durables, it leads to a higher level of economic activity and consequently increased employment. Tourism thus provides a very important means of stimulating employment without precipitating a direct deterioration in the balance of payments.

Fourth, in many parts of Ireland, income-earning opportunities are extremely restricted. One of the benefits of tourism is that it provides employment opportunities in those regions that tend to face the most serious disadvantages — areas of poor communication and scattered populations, which make it particularly difficult for industry to prosper. These are also the regions that provide that characteristic much sought after by tourists - beautiful scenery. For this reason, tourism in Ireland has tended to be active in the rural areas of the south-west, west and north-west, areas where employment has been most difficult to foster. The NESC report, Tourism Policy (1980), indicated that 11.5 per cent of personal income in the north-west derived from tourism.

Fifth, many sectors in tourism have flexible structures that make them responsive to the market place and employment expansion. Tourism, in most countries including Ireland, is traditionally an industry that experiences considerable job mobility. As a result, wages tend to be relatively flexible. Furthermore, tourism is a sector that sets few barriers in the way of those wishing to enter it, unlike many established trades and professions. Tourism also tends to promote a large number of small businesses such as crafts, guesthouses and specialised retail outlets. The relatively small scale of operation does not act as a barrier to new entrants, and individuals are encouraged to establish their own enterprises.

Sixth, in attempting to find employment for a growing population, Ireland has to face the fact that the agricultural sector has lost jobs continuously over many years. Since 1974 employment has declined from 244,000 to 182,000; a loss of 62,000 jobs. O’Neill (1985) has pointed out that “in the normal course, if real incomes are rising, a dynamic economy will see a shift out of Agriculture as resources are reallocated to increase economic activity.” Her study concludes “that the decline in the agricultural labour force is set to continue.”

During the same ten-year period (1974–84) the numbers employed in Irish industry have fallen from 349,000 to 320,000,
Constraints on tourism expansion

It seems reasonable to ask, in the light of the foregoing, why tourism has not until recently received the same intense interest as other sectors of the economy. One reason that is often put forward relates to the scale and highly diffuse nature of the industry. Few tourist operations in Ireland employ a sufficient number of people to excite political interest and so jobs lost or gained attract little public attention. The loose association of the different types of operation that contribute to tourism provides a poor basis for establishing the presence of a strong pressure group. Hence tourism has been unable to make the same demands on central policy-making as agriculture, industry or even some well-organised groups within the public sector. Apart from this political factor, other issues act to constrain the development of tourism in Ireland.

Firstly, Ireland does not have the same climatic attraction as the Mediterranean or the same cultural attraction as, say, Paris, London or Rome. The competition has a considerable advantage over the Irish tourist industry.

Secondly, the seasonal pattern of demand in Ireland is excessively peaked. Almost exactly half the tourist days fall within just two months — July and August. A highly peaked tourist season means that for these operators mainly serving the holiday market, return on investment must be recouped in a very short period. This can lead to an inadequate return on investment, high prices and relatively low standards.

Thirdly, Ireland is regarded as a relatively expensive destination. This perception, combined with comparisons of the tourist possibilities offered by our competitors, has tended to lead people to think that Ireland provides poor value for money.

The extent to which prices in Ireland have changed relative to those of the source markets in which we compete can be seen from Table 3. The table shows the changes in the general price level between Ireland and the main source markets for tourism, taking both currency alignments and inflation into account. The base year of 1979 was chosen since it was a peak year for Irish tourism and, therefore, one in which prices presumably were not a deterrent.

<table>
<thead>
<tr>
<th>Year</th>
<th>USA</th>
<th>Canada</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1980</td>
<td>105</td>
<td>108</td>
<td>104</td>
<td>111</td>
<td>110</td>
<td>92</td>
</tr>
<tr>
<td>1981</td>
<td>90</td>
<td>93</td>
<td>111</td>
<td>123</td>
<td>123</td>
<td>89</td>
</tr>
<tr>
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<td>89</td>
<td>124</td>
<td>130</td>
<td>128</td>
<td>98</td>
</tr>
<tr>
<td>1983</td>
<td>82</td>
<td>81</td>
<td>127</td>
<td>128</td>
<td>129</td>
<td>105</td>
</tr>
<tr>
<td>1984</td>
<td>74</td>
<td>77</td>
<td>128</td>
<td>131</td>
<td>132</td>
<td>107</td>
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<tr>
<td>1985</td>
<td>74</td>
<td>81</td>
<td>128</td>
<td>137</td>
<td>138</td>
<td>108</td>
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<tr>
<td>1986</td>
<td>95</td>
<td>104</td>
<td>127</td>
<td>133</td>
<td>134</td>
<td>121</td>
</tr>
<tr>
<td>1987</td>
<td>102</td>
<td>107</td>
<td>122</td>
<td>125</td>
<td>128</td>
<td>118</td>
</tr>
</tbody>
</table>

Sources: Quarterly Bulletin, Central Bank of Ireland, Dublin; Economic Outlook, OECD, Paris.
Table 3 shows, for example, that in 1987 Ireland is about 2 per cent higher in price for Americans than it was in 1979, although it has been considerably less so in very recent years. Continental European visitors have experienced a substantial increase in the general level of prices: Ireland is now 22 per cent more expensive for French visitors than in 1979 and 25 per cent more expensive for Dutch tourists. Relative to Britain our prices are now 18 per cent higher.

Policy considerations

It has been argued that employment is directly linked to the level of tourist expenditure. There are two primary ways in which tourist expenditure can be increased. One is to attract more visitors to Ireland. The other is to raise the level of expenditure of those who do visit. To attract more visitors, Ireland must overcome or minimise the impact of the constraints that were alluded to earlier. One obvious way of attracting more visitors, assuming the funds exist, is through more intensive promotion. However, any proposed action that requires an additional outlay by the Exchequer is unlikely to be viewed favourably at present.

An alternative approach arises out of the perception that the existing product, which is largely based on the scenery, relaxed ambience and friendly people, is not sufficient to provide a strong incentive to visit Ireland. Consequently, it would be advantageous to extend the range of the Irish tourist product and then promote it to specific market segments. The range of the product could be extended by developing Ireland as a major centre for leisure activity within Europe. Most of what is required by way of the various product elements exists either in whole or in part.

Seasonality constrains tourists because operators are forced to recoup their investment over a very short period of the year. This tends to lead to high prices, and in some cases, a poor quality product since standards are compromised in an effort to reduce overheads. To overcome this constraint, it should be noted that almost half of all tourist nights during July and August are accounted for by the domestic market. One way of reducing the excessive seasonality of Irish tourism would be for domestic holidays to be taken over a longer period of time. Consequentially, it would be a great help if trade, industry and the services were to agree to stagger their holidays from May to October and away from the concentration in August.

The problem of seasonality would also be reduced by greater success in our efforts to attract visitors who are prepared to come to Ireland at times besides July and August. To this end, developing leisure activities along the lines suggested above seems to be an appropriate course of action. Indeed, some leisure activities, such as game angling, are at their best in the off-season.

A further approach to ameliorating the current excessive pattern of demand and securing a better use of plant throughout the year is for operators to adopt marginal cost pricing, a course that many Irish operators have been unwilling to follow. There also seems to be an opportunity to institute a system whereby price movements would be made simultaneously, so that there is an obvious seasonal benefit for the consumer to holiday at particular periods of the year. A single producer, acting alone, will make very little impact on the price of a holiday, whereas if all act together a clear price differential can be demonstrated. There would be little point in one operator, whose product component accounts for 5 per cent of the total cost of a holiday, reducing his price by 10 per cent unless other operators providing different components took similar and simultaneous action. One producer lowering prices on his own would result in an overall reduction of half of one per cent, which would be of little benefit.

The deterrent of high prices may be overcome in a number of ways, the more important of which are: Firstly, through direct government intervention in the form of reduced taxes. During the last couple of years, the government have striven to make Irish tourism more competitive and more attractive to visitors. The level of VAT has been reduced from 23 per cent to 10 per cent on a range of product components including hotel accommodation, car hire, cruiser rentals and (recently) eating out. These reductions appear to have been of some assistance to tourism.

Secondly, high prices can be reduced if there is a better use of plant and resources. Where there is underemployed plant and personnel an increase in the volume of business will lead to lower
average costs and an increase in revenue. The increase in revenue can go either to higher profits, lower prices or some combination of the two.

Small improvements in the level of utilisation will create a significantly better return on investment. The seasonal pattern of demand for Irish tourism is such that plant is greatly underused for much of the year. It is therefore of the greatest importance to improve the seasonality of Irish tourism, which is excessively peaked at present.

The extent to which volume can be increased by price reductions depends upon the price elasticity of demand, which varies from one product to the next. Generally in leisure consumption the price elasticity of demand appears to be relatively elastic, and a reduction in prices results in a proportionately greater increase in demand. For an increase in utilisation to support a reduction in prices, the effects of the tourist industry must be better coordinated.

Thirdly, it is obvious that if a producer is able to operate more efficiently and reduce his costs, he can offer lower prices to the consumer.

Fourthly, high prices can be reduced through increased competition. Tourism, with the important exception of access transport is not generally sheltered from competition. It is a matter of concern that the price of access to Ireland on some routes is high and that Ireland as a holiday destination is, therefore, at a competitive disadvantage. Recent developments have increased the level of competition and this has helped to reduce the cost of access to Ireland with consequent increases in the number of passengers that are being carried.

Fifthly, and less obviously perhaps, high prices can be ameliorated by improving standards. There is a strong relationship between price, quality and the consumer’s perception of value for money. If prices are high and quality is low, then perception of value is clearly going to be poor. However, if prices and quality are equally high, perception of value is usually good. Some improvement in the value for money of the tourist product in Ireland is possible through a general improvement in standards. That is not to say that many operators are not performing already at an acceptable level, but there are many who are not, and they are pulling down the general level.

There appears to be considerable scope for encouraging tourists to spend more during their stay in Ireland. The average level of expenditure by overseas visitors to Ireland is only 64 per cent of that of a visitor to Britain. The things that need to be done to attract more visitors to Ireland need to be done also to overcome the relatively low level of expenditure. Both are subject to the same constraints.

Conclusion

The level of employment arising from tourism activity is directly linked to tourist expenditure. The expenditure of tourists from outside the state is of particular importance, since it results in additional economic activity. Domestic tourism, on the other hand, is largely a transfer between sectors, although it is argued that it provides a greater contribution to economic activity than many other forms of expenditure. Not least among these, of course, is the employment arising from the demand for services by home holiday-makers.

The private services sector has demonstrated, even in the relatively depressed economic circumstances between 1980 and 1985, that it has the capacity to provide additional jobs. If the problems that presently constrain Irish tourism are tackled and overcome, and there is no reason why they should not be, then there is every reason to believe that the private services sector will take the opportunities that present themselves and invest in tourism. In these circumstances, the tourism sector can indeed be a major growth area for employment.

References


Treaty of Rome, Article 85, European Communities.
Irish Experience of Community-based Job Schemes

RUAIIRI QUINN

The experience of Irish communities setting themselves goals or strategies in relation to either employment generation or economic development has been fraught with contradictions. Too often when we put together a tableau of great events we tend to sweep under the carpet or utterly ignore the reality of the very struggles which resulted in the reversal of some prospects for progressive development.

The co-operative community ideals of Robert Owen had only a brief lifespan at Ralahine, Co Clare in the 1820s. A century later Horace Plunkett prompted farmers to see in the application of co-operative principles to agriculture and farm-based industry a means of improving their economic situation. But it was precisely in his efforts to build up rural communities that Plunkett encountered his greatest disappointment. His efforts to mobilise communities failed for the same reason that Ralahine failed — prospects for change were undermined by landlordism and the acute traditional individualism which the system fostered.

We have certainly retained a tradition of community-based action in Ireland. Its oldest form — the meitheal — has not survived the transition to mechanised agriculture and the movement away from co-operation and communal work to household self-sufficiency.

In the frugal, self-sufficient, arcadian Ireland that Mr de Valera dreamed of in a famous speech, mutual aid was a means of coping through exchanges of labour with an occasional or temporary labour shortage at the level of the household. The effect was not directed to some common goal which would benefit the community as a whole. Instead a common store of surplus labour was available to be drawn on to sustain the basic household unit and help it in such tasks as harvesting, thatching or working on the bog. This complex system of mutual aid disappeared about 30 years ago.

This eclipse of communal activity and interdependence was the target of a new drive by Muintir na Tire in the 1950s which sought to regenerate a consciousness of community and to harness parish loyalty to achieve economic and social improvement.

The eb and flow over the last ninety years of the mainly rural-based movements dedicated to community development is evidence of the difficulties encountered in getting ideas of community involvement or community development to take root in Irish social and economic life. At the best of times it is not easy to pin down what the ‘real ingredients’ are of a community’s view of any activity. Community action is never a constant. Job creation has not necessarily been to the fore in many such local initiatives in the past. It is only recently that high levels of unemployment have prompted a community response embracing the unemployed themselves in efforts to find alternative means of creating sustainable employment in their localities.

A commitment to the values of self-determination and participation has triggered new forms of organisation and new activities based on an analysis that working together to confront the problems of unemployment in practical ways is a worthwhile process regardless of whether the outcomes are always successful in themselves.

The promotion by the state of employment initiatives at local level provides a context in which to consider first, the level of state commitment to community involvement; second, the kind of community involvement supported or encouraged; and third, the extent to which positive and complementary relationships have developed between local organisations and the state in facing the challenge of unemployment. State-supported activities in job creation, temporary employment and training at community level have been initiated in recent years.

Community job-creation

The development of the state’s interest in the potential for community enterprise reflects the world-wide growth of local employment initiatives in EC and OECD countries. Also, both of these international organisations have established specific support programmes for the promotion of local employment initiatives and community enterprise. For example, the European Social Fund, as a result of lobbying from Ireland and other member countries, now gives important financial recognition
to community enterprise. State attention was not directly focused upon the promotion of community enterprise as a major policy objective until the establishment of the Youth Employment Agency in 1982. The agency was given a mandate to promote ‘the development of local community responses to employment creation’ (Youth Employment Agency, 1982).

In 1983, the agency launched its Community Enterprise Programme (CEP) setting as its objective the harnessing of goodwill and expertise at community level towards the creation of jobs and ensuring that the combined resources of a range of state bodies are co-ordinated to assist viable community enterprise ventures.

Under the CEP planning grants were offered to local groups to enable them to come up with plans for job creation. There were grants available to cover the employment of an Enterprise Worker to assist a community with the development and translation of business ideas into sustainable jobs. In addition, there were ‘start up’ grants available to commercially viable projects.

The CEP has been accepted as the national focus of community enterprise, including community and worker co-operatives, by the main state agencies involved in the industrial development and manpower services sectors. Co-ordination of both general policy and grant approvals for specific projects occurs under the auspices of a joint CEP Approvals Committee, comprising representatives of the main agencies and of individuals with experience of community enterprise and commercial business.

The various state agencies actively engaged under the CEP assisted 350 local employment groups in 1985 (Youth Employment Agency, 1985). The programme has something to offer these youth groups and community groups which find themselves held back at different stages of development for lack of resources, advice and technical support. This level of activity represented a seven-fold increase over the number of groups active in 1983.

These groups ranged from parish committees to community co-operatives and worker co-operatives. Many were at the research and development stage and a growing number now actually own and manage small commercially-oriented community businesses.

In the first four years of its existence the CEP has approved some 130 ‘start up’ projects. In addition, about 30 small ‘workspace’ and business-advice projects directed towards unemployed people were approved for assistance between 1983 and 1986. Allowing for failures, and discounting jobs approved but not yet on stream, some 370 directly-assisted new jobs in businesses and business support facilities were in existence by December 1987.

Projects providing ‘workspace’ and hand-holding to unemployed young entrepreneurs assisted about 230 jobs by the end of 1987. An important aspect of the growth of the programme is the increasing number of groups coming to the start-up stage and the process of research and development in the early years begins to bear fruit.

Co-operative enterprise

Small business co-operatives form an important part of the community enterprise sector. Under the CEP, community co-operatives and worker co-operatives are identified as the two main forms of small business co-operatives.

Community co-operatives are assisted on the basis that they are open to all of the people from a particular community, whether by locality or of a particular activity or sector of interest and aim to provide a range of benefits to the members of the community. They can generate two types of economic activity:

- specific community businesses operating as commercial entities engaged in training operatives who recruit full-time management and workers (largely young and unemployed) as employees;

- an entity which, rather than starting new enterprises directly, provides a business advice and support service to those unemployed who wish to start their own businesses — such ‘hand-holding’ usually taking the form of provision of workspace, advice panels and seed-capital funds.

Worker co-operatives

Worker co-operatives are also assisted under the CEP as business entities which are controlled by the workforce but with specific internal management responsibilities clearly defined. They must
be ‘Phoenix’ type co-operatives springing up in place of companies rescued by redundant workers or totally new start-ups. Worker co-operatives are emerging increasingly as an option chosen by unemployed people and redundant workers to maintain or create sustainable commercial employment.

The CEP has to date supported the development of 30 worker co-operatives and has allocated over £0.6 million in start-up funds. It has assisted the launch of worker co-operatives such as Carrighdoun Pottery at Carrigaline, Co Cork; Dundalk Footwear Co-operative which employs workers affected by the closure of Clark’s Shoes; Kingswear Co-operative Society Ltd., in Naas, Co Kildare and, most recently, Winstanley Shoes in Dublin’s inner city.

There are signs recently that the trade union movement is beginning to take a more positive look at worker co-operatives as a form of social ownership within the private rather than the state sector of the economy. Much of the stimulus for this interest has come from the continent since we in Ireland, and the British to some degree, lag behind other industrialised countries in the creation of co-operative enterprises.

The Irish Congress of Trade Unions (1986) in reviewing the experience of worker co-operatives in Ireland acknowledged that the trade union movement had not been actively involved in the promotion or formation of worker-owned enterprises. There was no point, according to Congress, in exaggerating the contribution they could make to alleviating the unemployment crisis.

The small number of worker co-operatives developed to date, their size — the 200 jobs created compared to the 20,000 new jobs required annually just to prevent unemployment from raising further — and the sectors in which they have developed only serve to emphasise how much further development is needed to achieve a viable and expanding worker co-operative sector. Despite their limited economic impact in the short term, I agree with Congress that worker co-operatives can play an important role in re-structuring local economies and offer a valuable opportunity to extend the concept of industrial democracy.

The Programme for National Recovery (1987) took cognisance of the renewed interest in the creation of employment through worker co-operatives. Legislative provision has now been made to enable the form of support provided in recent years by the Youth Employment Agency and AnCO to continue under the new umbrella agency — An Foras Aiseanna Saothair (FAS) — which will have wide powers to assist and encourage the development of worker co-operatives. The programme acknowledges that worker co-operatives can make a significant contribution to employment maintenance.

It is interesting to note that the present government has undertaken under the terms of the programme to request FAS to consider urgently proposals for the establishment of a co-operative development council.

Employment creation requires wealth creation and the equitable distribution of that wealth will improve our economic performance. The creation of co-operatives and the acquisition, by employees, of shares in the companies which employ them — where this is coupled with rights to promote employee participation — are wholly consistent with the objectives of achieving a more equal distribution of power and wealth. As an effective form of economic enfranchisement for working people, a worker co-operative can, in many circumstances, represent a more appropriate form of social or community ownership than a centrally owned and controlled state body.

Impact of co-operatives

The social impact of co-operatives is particularly significant. They tend to be located in economically marginal areas, such as urban unemployment blackspots or peripheral rural areas. The employment they provide tends to be for people who have been unemployed previously. In the case of co-operatives arising out of redundancy situations, they provide employment for workers many of whom were facing long periods of unemployment.

Co-operatives are frequently used as vehicles for providing social and economic services and benefits for the locality that would not otherwise be available through, for example, the provision of group water schemes, cultural activities, etc.

Generally, co-operatives provide practical opportunities for learning the skills of enterprise, organisation and participation. While the original co-operative established in Glencolumcille did not survive, the spirit of enterprise did and resulted in a number of flourishing local businesses.

Particularly amongst communities with experience of high
unemployment, the 'demonstration effect' of a co-operative venture can significantly boost local morale and help to get more things done. A key factor in the rapid development of co-operatives is the ready availability of specialist advice and support on a flexible basis, linked to the supporting state agencies.

**Enterprise Scheme**

Under the Enterprise Scheme 18,000 unemployed people had been provided with the opportunity by the end of 1987 to build on their own skills and talents and to create full-time work for themselves. The scheme provides the essential financial back-up needed at the most crucial stage for any small business — its first year of operation — and is designed to encourage a spirit of entrepreneurship among the unemployed.

The scheme can complement other local community responses to unemployment by providing assistance to groups wishing to operate on a co-operative or joint basis.

**Temporary employment schemes**

The temporary employment schemes — Teamwork for the under 25s and the Social Employment Scheme for those aged over 25 — were set up to meet different needs to those catered for under the enterprise programme and are accordingly quite different in structure and content. In addition to providing locally based means of enabling unemployed persons to acquire work experience they also provide community groups with much needed person power which would not otherwise be available.

The special attraction for local community organisations lies in the opportunity to use the temporary employment schemes to complement other programmes. Initial research into community job creation can, for example, be done under these schemes.

The Social Employment Scheme which commenced in 1985 represents a highly successful response to the problem of long-term unemployment, that is, for persons who have been out of work for a year or more. The scheme has been extremely successful from a number of viewpoints and both sponsors and participants have been enthusiastic about its benefits. To date about 9,500 people are employed in about 2,500 projects.

The Department of Labour's Teamwork Scheme is a community-managed scheme designed to help local organisations provide temporary community-based employment. The scheme gives an ideal opportunity for young people under 25 years of age to obtain up to a year's work experience. In 1987 about 1,400 young people were employed on this scheme.

**Training as a community response**

The importance of relevant and good quality training to the creation of sustainable local employment must not be overlooked. It is vital that local initiatives, in whatever form they take, are supported and facilitated by the availability of a well-trained workforce and by ready access to ongoing training.

The Community Youth Training Programme was designed to provide basic training and work experience for unemployed young people on projects which are of benefit to local communities. There are currently 154 projects providing training for just under 2,000 persons.

Community Training Workshops are located in the cities and major towns throughout the country. The workshops are managed by community-based management committees while AnCO provides technical and financial assistance. Over 10,000 persons have participated in these workshops and there are 1,750 currently in training. In 1987 there were about 450 persons training at 28 Travelling Peoples Workshops located country-wide.

AnCO, through its external training division, has also developed and designed training programmes which facilitate the establishment of businesses as co-operatives or group-owned enterprises. By training groups in the skills of collective enterprise and co-operative skills the overall characteristics required of the enterprise can be established. The overall effect will stimulate the development of group entrepreneurial ability which exceeds the sum of the individuals' abilities.

**Link between manpower and industrial policy**

Manpower agencies are primarily concerned with the unemployed, their skill levels and their integration into the labour force. Small business co-operatives in general work from the same basis and motivation and provide opportunities for unemployed people or those threatened with unemployment.
Industrial policy, on the other hand, is concerned with mainstream industrial development and job creation. Industrial development agencies are prepared to support small business co-operatives as business entities at project feasibility stage and at the stage of commercial start-up within the normal guidelines.

In developing the linkages between manpower and industrial development agencies, the particular contribution of the manpower agencies, now incorporated in FÁS, has been to concentrate on building up the skills' level and professional competence of projects from an early stage of development in order that they could qualify for the range of business incentives available from industrial development agencies such as the IDA, the Shannon Free Airport Development Company (SFADCo) and Udaras na Gaeltachta.

The white paper on manpower policy which was published in 1986 envisaged the development of a closer alignment between training and industrial strategies. This objective was also endorsed in the Programme for National Recovery with its emphasis on directing training grant expenditure to help in equipping Irish companies with marketing, management, technological and commercial-language skills. I expect that FÁS — the new manpower authority — will have to implement new policy measures to give effect to this objective.

**Conclusion**

Thirty years ago the Swedish sociologist Gunnar Myrdal (1960) observed that the sum of ad hoc Government interventions in any area can be wasteful and contradictory and that consequently planning is necessary for rationality, economy and effectiveness. The inauguration of the Community Enterprise Programme provided community groups with a vehicle which helped them to overcome many of the difficulties which community-based operations experienced in the past in relating to state agencies. It also facilitates a means of back-to-back linkages between community efforts to promote local enterprise and special intervention measures such as the Enterprise Scheme, the Social Employment Scheme and Teamwork.

These measures are necessary to help to cope with the reality of unemployment. They are justified because they provide an opportunity for practical work experience at community level and make better use of economic resources by transferring expenditure away from the passive side of the labour market services — the social assistance payment.

We are witnessing another phase in the transformation of industry, enterprise and the organisation of work — what has been identified as the ‘third sector’. This sector comprises elements of private, public and informal markets. It is characterised by initiatives which are locally-based, self-reliant and co-operative in the broadest sense. It also brings together individuals, groups and institutions, in pursuing a commonly shared goal that transcends sectoral boundaries, involves new evaluation criteria and promotes objectives over and above creating jobs.

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The Third Sector as a Job Creator in the OECD*

CHRIS BROOKS

General developments
The recent period has seen an exponential growth in initiatives for local employment (ILEs) that has been not altogether free of problems. Associated with the rapid growth in local employment initiatives in many countries, various attempts have been made to harmonise them with other aspects of local economic development that are perhaps different in nature but similar in objective and purpose. It is useful to recall some of the influences, still somewhat unresolved and contradictory, that have moved ILEs and local economic development closer together than they were four years ago. The first new stimulus to local economic development was the emergence of the so-called third sector. This sector borrows some of its characteristics from the private sector: autonomy, private initiative, drive for efficiency and competitiveness, decisions based on cost benefit considerations, but its aims are collective in nature and similar to those of public services. So argued the Direct Committee of OECD's Initiatives for Local Employment Programme in its 1985 report Creating Jobs at the Local Level. It is also characterised by the financial, bureaucratic and psychological obstacles that it has to overcome. It may well not be an exaggeration to note now that the third sector was more commonly held together by the motivations of the people working within it, than by any particular aspect of its commercial or legal form. This motivation - a need to create jobs, and a commitment to widen the definition of enterprise and the scope of who could be entrepreneurial - provided key flexibility for local employment initiatives and so they have continued to grow.

Second, new technology has been important. As the OECD's Business and Industry Advisory Committee (BIAC) remarked during the 1983 OECD Conference on Employment Growth and Structural Change, 'modern technology favours decentralisation, furthers small and medium-sized enterprises and tends to encourage people towards more self-employment'. In this respect, Booz, Allen and Hamilton, a leading American industrial information company, distinguish between three different categories of manufacturing and service unit:

- standard products, relatively stable design, mass production, where the critical factor is price.
- variable products, batch or low volume production, where the critical factor is flexibility.
- customised or 'one-off' products, meeting varied and specific market demands, where the critical factor is innovation.

The latter two groups of products and markets are the growing ones and they suit the new or small unit rather well. The first type tends to be less flexible and that is why more and more market gaps are revealed that cannot be filled by mass market products. Finally, periods in which new technology develops fast put a premium on innovation and are good for new and small firms - an important source of new jobs.

So a variety of factors are influencing the growth of local employment initiatives, but their growth has not been without problems. The rate of survival of these initiatives is not as high as it might be and is particularly precarious in the United States. Therefore, in addition to a continuing public policy response of encouraging a range of local employment initiatives, governments have been examining what can be done to reduce the failure rates of local initiatives so that the net addition to employment and growth will be greater. New enterprises, whether public or private, need midwives and guardians: the midwives are the banks and venture capital companies and government departments that put up money, the guardians are the organisations that have grown up in recent years, bringing together government, private industry, trade-unions and professions at the local level, to offer advice and help.

These developments have been reflected in the work of the OECD; for example, the May 1985 conference on 'Woman — Job Creation — ILEs', the June 1985 conference on 'The

*The views expressed in this paper are the author's and do not necessarily reflect the opinions of the organisation for which he works.
Role of Cities and Towns in Stimulating Employment Creation and Economic Development', and more recently in the high-level meeting on 'The Role of Large Firms in Job Creation and Entrepreneurship'. Furthermore, the planning and research work of the OECD has reflected this in its activity on 'Education, Training and Support Needs of New Entrepreneurs and Local Employment Initiatives' and in its work on elaborating local employment development strategies in less developed regions and countries. The conclusions emerging from these activities have been incorporated into the general considerations below.

ILEs, job creation and local economic growth

Recently, the OECD has discussed the relationship between local employment initiatives, local economic development and job creation on a number of occasions, firstly at its board meeting in Madrid in October 1984, and more indirectly in the various conferences and meetings it has sponsored during the past two years. Clearly, building the linkages between ILEs and economic development and job creation is a long, and for some, a tenuous exercise. However, it might be useful to recall some of the thinking behind the committee's reflections and work.

Unemployment has been in the forefront of the minds of policy-makers in most OECD countries throughout most of the post-war period, but at present, with the jobless rate in many industrialised countries at, or near, its highest level since the 1930s, the political sensitivities associated with the issue are particularly acute. The cyclical aspect of this synchronised unemployment is generally recognised and is common to most OECD countries, although there may be some disagreements regarding its relative importance in the wider problem. However, there are important differences of view about the causes of, and the cures for, the structural component of unemployment.

The issue of structural unemployment takes on added urgency in the light of the widespread fear that the current wave of new technology may lead to permanently high joblessness in all OECD countries. Concerns about machines displacing human labour go back at least to the Luddite outbursts that marked the early days of the industrial revolution in Britain. Throughout history, apprehension and in some cases outright hostility have greeted the introduction of labour-saving technical advances. Such responses are, of course, predictable and understandable from workers threatened with displacement from their jobs, and fearful of the premature obsolescence of their skills. Leontief believes that the electronic revolution is qualitatively different from those that have gone before. He argues that, while previous technological advances have replaced human physical labour, electronic innovations will instead replace mental effort, threatening the human brain itself with technological obsolescence. But if past patterns offer any reliable guide, the technological revolution on which the world is currently embarking may be seen rather as the latest in Schumpeter's wave of 'creative destruction', in which innovation acts as a catalyst for a new era of economic growth.

Although the conventional views of leading economists about the impact of new technology on job creation come closer to those of Schumpeter than Leontief, unemployment will present a formidable challenge for policy-makers in the remainder of the 1980s and into the 1990s.

Unemployment policies within countries are conditioned, of course, not only by the severity of the challenge but by different perceptions of the problem, its causes and its proposed cures. These disparities in turn are grounded in different experiences with employment growth in the various regions of the OECD over the past decade, as well as in the differences in analytical predispositions and in the structure of economic and political institutions. Suggestions for alleviating unemployment must be judged not only in terms of their economic efficiency but also in terms of their implications for the broader relationships between developed countries. All this becomes considerably more complicated when we recognise the emergence of increasingly different and diverse social and economic aspirations by new groups and individuals in our economies.

During the past decade the markedly different trends in North America and Europe concerning both unemployment and job creation are likely significantly to influence their policy responses in the future. First, although the unemployment rate in the United States during the last ten years has generally been higher than in the major European countries, it has risen and fallen cyclically in North America. In OECD Europe, the
pattern of unemployment has been asymmetric over the business cycle — rising during recessions and tending to level off rather than to fall during expansions. The unemployment rate rose rapidly in both regions after the first oil crisis, but it came down just as rapidly in the United States once the recovery began, while it remained close to its recession peaks throughout OECD Europe. Although the US unemployment rate is still at historically high levels, it declined rapidly and significantly during 1983/4, the first year of recovery. The major industrial economies in Europe are, however, trailing well behind the North American recovery. There is considerable concern that the slow pace of the European recovery will not reduce European unemployment.

Second the contrast between OECD Europe and the United States in job creation is even more pronounced than the contrast in the cyclical behaviour of unemployment rates. Employment has risen in the United States since 1973, while in the major European countries it has actually declined. And even between 1973 and 1983 the average level of US employment was about two million, or two per cent up, while it was down slightly in Europe. Much of the employment increase in the United States was concentrated in the service sector. In fact, the American economy was able to respond to the rapid labour force expansion engendered by the post-war baby boom and the sharp rise in participation rates of women during the past decade, largely because of the rapid expansion of service sector employment. Moreover, the large concentration of women and minorities in the US service sector provided some protection against the displacement of these groups in the last recession. In the United States, for the first time at a recessionary trough, unemployment rates were higher for men than for women, and even though the chronically high unemployment rates for minorities rose even higher, the largest proportional increase in unemployment was among white males. This pattern may reflect the latter group's relatively high unemployment in heavy manufacturing — the sector most vulnerable to the energy crisis and the attendant policy responses.

The above considerations are illustrated by the findings of an ILE European study tour made by a group of American experts in 1984. They noted that banking and financial institutions, especially in the United Kingdom, tended to focus the greater part of their attention on large-scale, indeed international, markets, to the detriment of the small firm in need of risk capital or the medium-sized firm in need of capital for restructuring. In general, the experts thought that job creation in Europe was too little the concern of the private sector, and drew attention to the responsibility towards the local economy that could be exercised by an enterprise when it was contemplating redundancies. On the other hand, the experts were impressed with certain European achievements — for example, in the field of training programmes for entrepreneurial management. They also recognised the importance of public support in mobilising the full range of strategies necessary for effective economic development. The general interest in the situation of women and minority groups in the United States was reflected in the experts' surprise that these were not more actively involved in enterprise creation in Europe.

Indeed, most OECD labour markets will be confronted with an even greater challenge to their job-creating capacities if women follow the Scandinavian and American examples. For instance, some 53 per cent of American women over the age of sixteen are currently in the labour force, up from 37 per cent in 1960. In most other OECD countries, however, the participation rates of women have risen at a much slower pace. But the participation rates of women in many countries have continued to rise historically, suggesting that the differences are primarily a matter of degree and of timing.

The OECD seminar on 'The Role of Women in the Development of ILEs' (May 1985) showed that of the many obstacles encountered by women during the setting up of their businesses, the most important are lack of access to capital, information and expertise. Women find these obstacles more difficult to overcome because of their lack of credibility in the economic arena and their unfamiliarity with business language. Women often do not have the informal sources (family, friends and associates) to obtain seed capital, nor do they find their way easily through the maze of business support organisations to secure reliable information. Suggested solutions to these problems included raising women's self-esteem through education, media coverage and promoting the image of women entrepreneurs and
their activities. Specific training courses should further help them to build confidence, to acquire entrepreneurial skills and to become accustomed to business support networks and business terminology.

The job creation record of the United States also appears to be one of the factors that is holding the average duration of unemployment there below that of OECD Europe. In the United States during the recent recession, the average duration of unemployment was about four months, compared to seven to ten months for most European countries. In several European countries those unemployed for more than a year account for 30 per cent or more of total unemployment, more than double the proportion in the United States.

Although several of the troubled industries in both Europe and the United States appear to have significantly higher cost structures than their competitors, many observers regard low mobility of labour and capital as a more significant factor underlying the persistence of high unemployment. One recent study, for example, concluded that much of the rise in the American unemployment rate for prime age males, from 3.1 per cent in 1972 to 5.5 per cent in 1981, reflects the fact that unemployment grew at an uneven pattern across geographical areas. European explanations have tended to stress institutional and geographical impediments, which are much less important in the United States and Canada. Although the legal and institutional barriers to the inter-country movement of labour and capital have diminished somewhat in Europe, language and cultural factors still make it more difficult for a worker to move his job and his family from, say, Glasgow to Grenoble than from Toronto to Los Angeles. The recent meeting of industrialists on ‘The Role of Large Firms in Job Creation’, to which further reference is made below, underlined the importance of a European market to stimulate job creation, and further made the point that small firms are becoming increasingly international.

The most important reason for the difference among regions in the degree of factor mobility appears to lie in industrial history and composition. Any advanced industrial economy is, of course, subject to conflicting pressures: those that tend to increase rigidities by protecting established privileges, such as high wages and worker seniority, and those that tend to loosen them, such as government incentives to mobility. However, the most effective solvent for built-in rigidities appears to be the growth of new business, unhampered by large sunken costs in existing facilities or by accumulated restrictions on movement and work practices. Long-established industries, such as steel, are inevitably less flexible and more resistant to mobility and adaptation.

A higher concentration of long-established industries in some countries in OECD Europe in fact may have resulted in a larger accumulation of disincentives to factor mobility and correspondingly greater difficulty in establishing new industries than in the United States, or even more so, in Japan. These differences may not be entirely a matter of history. Public policies in Europe appear to have been more orientated towards existing jobs than those in the United States. As a result, it has been both more expensive and difficult to dismiss workers or to relocate or close plants in Europe than in North America.

As the conference on ‘The Role of Towns and Cities’ (June 1985) made clear, for some years there has been a de facto involvement of local authorities in economic development and more particularly in job creation. In some degree this has come about because of disillusionment with national employment policies and with outside support in general, e.g., from big companies. The record has proved positive, notably in terms of innovation and morale: the sense of local identity has enabled energy and personal qualities latent in the voluntary and private sectors to be mobilised; the individual profit motive has been channelled towards consensus measures and community well-being, and dormant procedural and legal instruments, have been reactivated. Nevertheless, some change in local powers and resources may be necessary if local authorities are to do significantly more than implement policies decided at national level. There is of course a potential area of conflict with central government that need not in itself be unproductive, especially if it leads to a sounder appreciation of the role of each of the parties. It has to be accepted that large-scale structural unemployment is not susceptible to local treatment. Moreover, central government and the general public view local authority activity with a better eye the more it appears to be orientated...
towards practical achievement and the less towards political gain. Finally, some evaluation of such activity seems desirable, but there is little evidence of its taking place, except perhaps in Canada.

Reducing structural unemployment

As has been argued, even if cyclical recovery becomes more widespread and is sustained, structural unemployment will still pose a major problem for policy-makers. Remedies to alleviate the structural aspect will need to be carefully tailored to the political, social and economic environment and institutions of specific countries and regions. Because European unemployment is made worse by the institutional and structural rigidities already discussed, the search for solutions must tackle those rigidities as well. The secret of a successful micro-economic strategy probably lies in combining many objectives within one coherent policy that can be applied flexibly at the local level. Local employment initiatives are a useful umbrella for achieving this integration.

It is instructive at this point to explore the relationships and the differences between ILEs and the traditional regional development policies relating to employment. In the latter there is a current focus of interest on the operation of local economies as units, and it must be observed that ILEs are not necessarily, or even mainly, working to supply local markets. They are involved in social policy, and since social and economic policy come together in the longer term, there may be an opportunity here for progress to be made towards a new concept of what is economically acceptable in the social framework. In considering such ideas, Finland may be cited as an example. There is a two-fold problem of rural depopulation, or at least the risk of it, and agricultural over production, together with a long-standing tradition of self-help and mutual aid, which survives only in a small-scale environment. The imposition of government ceilings on production makes it difficult to attain an adequate income from a small farm, and it is the Finish Government’s policy not to increase the size of farms. ILEs offer a way out of the impasse. By facilitating the addition of an external source of income to the family unit, they make survival in the countryside practicable, and tap the latent motivation traditional in the rural areas.

The OECD economies require a different approach if they are to yield the maximum number of permanent real jobs. In companies producing internationally traded goods, the most important contribution to creating jobs lies in the rapid dissemination of technical knowledge, the development of flexible modern training schemes, the education of young people in basic information technology skills and in basic self-employment and business development skills. There is unlikely to be a net gain in jobs, but jobs will be lost if there is not an adequate supply of skilled people at every level from post doctoral to post basic training. Many young people who dislike school take to information technologies like ducks to water.

One of the main conclusions from the ILE study of industrial diversification in Sardinia, undertaken jointly with ENI, was that, in smokestack industries, we should modernise what we can and stop producing what we cannot. Money spent on sustaining obsolescent industries is likely to be money wasted; they should be protected only for short periods of time to allow restructuring to take place. It is less expensive to pay training and removal expenses for employers or to help them set up their own small businesses or co-operatives. Adjustment is best approached through building up consensus and support at local level for initiatives that will lead to job and enterprise creation, and the ILE movement is thus in a position to promote the necessary change in the public mind from preoccupation with the past to concern for the future. Here the action of large firms in external job creation strategies is worth considering.

In this connection it is interesting to note some of the conclusions of the international discussion on 'The Role of Large Firms in Job Creation' (November 1985), which may be summarised as follows:

1. A range of motives spur large firms to create jobs: government pressure, enlightened self-interest and a sense of social responsibility. Training, research and work experience are favoured areas for intervention. Industrialists generally take the view that broad education is a factor in innovative capacity.

2. The jobs that are created must reflect the activity’s genuine potential profitability. High technology is not an essential
ingredient; simple processing and agriculture can be growth areas. Small units are more likely to be innovative and their association with a larger unit gives them access to capital and expertise.

Many jobs can be created in traditional service industries because this sector is labour intensive. Creating jobs in rehabilitating houses, in neighbourhood energy conservation and environmental improvement schemes, and in recycling materials is relatively inexpensive when measured in the capital investment per job. A certain school of thought holds that all job creation in infrastructure is liable to be inflationary, but it can be argued that this applies only where the firms involved and their unions are in a position substantially to influence prices or wages and if they are uniquely publicly financed. Many of the businesses started by unemployed workers, using schemes that allow unemployment benefits to be used for business start-up, are working in new markets.

There is plenty of work to be done in the public services, especially in health care and personal social services, but the crisis over public expenditure makes governments feel unable to finance them. It is unlikely, therefore, that the numbers of public service jobs will increase a great deal unless new ways can be found of incorporating public policy objectives into the creation of new types of firm or association. This is an important area for LEIs, in which many new businesses have already grown up.

Note to chapter
1 'External' in this context means outside the normal process of running its own business; for example, supporting financially or otherwise local employment initiatives.

An Agenda for the Future

ANTO KERINS

The intention of this publication is to produce a greater understanding of the unemployment problem and to provide a range of useful ideas and proposals on the subject. It is hoped that it will bring unemployment a little nearer the centre of people's attention and show that it is possible to do something about it.

Each of the papers presents certain proposals or insights relevant to different aspects of the problem. When you have finished reading them, you may say, 'Well, fine, but what should be done next?' This chapter provides a broad agenda for the academic community and the social partners.

Academic community
The academic community has an important role to play in finding solutions to unemployment, yet one suspects that the public may be a little tired of reading further research on the effects of unemployment, the accuracy of unemployment statistics, the analysis of its causes, and so forth. Many people are a little impatient that the academic community is not spending more time seeking practical solutions. To be fair, useful and fruitful work has been produced, but on balance the exceptions are notable because the majority in academia is busy elsewhere. Let us look briefly at the different disciplines.

Sociology
Sociology provides an excellent insight into society and how it functions, but the discipline offers few proposals for change. Most of the international sociological literature contains no significant proposals for solving unemployment. The few articles one comes across in the sociological journals refer to such aspects as the effects of unemployment and its social distribution.1

Sociologists might argue that it is not their job to present proposals for reducing unemployment; their function is to explain and to leave solutions to others. In this respect they could point to the work done in such hybrid disciplines as industrial sociology, but even here there is a dearth of recommendations.
Industrial Relations
One need do nothing here except quote Hyman (1981): 'until very recently, few writers on industrial relations have regarded unemployment as an issue relevant to their area'. A partial explanation for this is that industrial relations has been more concerned with those in employment than with those who are out of work.

Political Science
Since this discipline studies power in society, it is relevant to unemployment. Again there appears to have been no major policy proposals by political scientists to deal with unemployment. Weir (1987) considers unemployment from a political science perspective and while not offering proposals for reducing unemployment she considers the political conditions necessary to create a politics of full employment.

Economics
Economics seems to be the only social science that produces structured solutions to unemployment. On the rare occasions that other disciplines offer solutions, they concentrate mainly on the economic solutions. Kindleberger (1986) refers to the 'imperialism' of economics that is invading the political sciences, law and sociology. In regard to unemployment at least, these disciplines almost deserve to be colonised unless they can strengthen their own academic position in this field.

However, it is as well to exercise caution about economics. Although it provides a relatively developed set of proposals, it sometimes fails to take account of important considerations from the other social sciences. Keyssar (p. 195-217) in explaining the American tolerance of unemployment argues that public discussion on the topic has come to concentrate on technical matters rather than fairness or social justice. On this he states that the economics profession has 'appropriated' the issue. An obvious consequence has been to generate a public perception of the problem as being one best left to experts. Keysser (p. 215-217) also argues that certain branches of economics have developed concepts suggesting that unemployment should not necessarily be considered a particularly important problem.

The academic community is advised to increase its focus on providing workable solutions to the unemployment problem and the different academic disciplines should work together on an interdisciplinary basis so as to improve the quality of proposals to deal with unemployment. Economics needs the political and social insight of the sociologist and the political scientist just as much as these disciplines need to confront the financial constraints that economics best clarifies.

The social partners
The trade unions are concerned mainly with the well-being of their employed members; although they speak out sincerely against the scourge of unemployment, understandably they focus their main energies on the needs of their working members. Employers in the private sector are for the most part concerned about the profitability of their organisation and its workforce. Although they too occasionally may express concern about unemployment, their main efforts are given over to serving the needs of their organisation and its members.

The activities of government on the question of unemployment are best considered by looking at two variables — demands and supports. First, demands are directed at the authorities to encourage them to make certain changes. These demands are numerous and therefore must be managed and responded to selectively; finance, manpower, government time and resources are scarce. Demands are regulated both by the structure of the political system and by the modification of these demands as they move through this structure. The various interest groups, political parties, legislators and administrators in society act as 'gatekeepers'. The majority of demands move from one group to another and at each point of their journey can be modified or rejected. Sometimes very powerful demands can result in policy changes without filtering through this web of specialists; for example, they may be communicated directly from the grass roots to the authorities, or they may be initiated by the authorities themselves and meet with no opposition. All groups have to examine the demands that are put to them in the light of their own resources and the effects these will have on their own support. Therefore, a group is not advised to champion too many demands that will not be at least partly successful.

A significant difficulty concerning the demands of the
unemployed is that they are not well structured or organised compared to the highly organised proposals of the CII and ICTU in, for example, their pre-budget submissions. We can say of course that the unemployed have a very clear and specific demand — they want work. In some ways, however, this is almost as limited as the ICTU or the CII demanding lower taxes or higher grants. The unemployed lack a cohesive interest group to organise and articulate a set of systematic and well-argued proposals that are capable of surviving the complex reduction process of legislators and administrators.

Governments take into account their own specific support base when they are introducing policies. Therefore, if the unemployed are not seen as a major source of political support, this may provide another reason why they do not have an adequate impact on the activities of various governments. According to Hall et al (1985), however, governments like to underpin their specific support by nurturing their image as prudent, fair and legitimate rulers.

A proposal

Throughout this volume the contributors provide a wide range of ideas and suggestions. None of these are entirely new and many have been advanced before in different contexts. However, to help resolve the scourge of unemployment, we not only require useful proposals, we also need a determined and concentrated effort by all groups in society to implement them.

Everyone calls on government to solve their various problems. However, Fogarty (1976) says that the last thing we need is any intensification of the tendency to look to government for a lead. He argues that the long-term problems of the economy lie at the bottom and not at the top. Kenny (1984) makes the point that for change to be enduring, we must get to the core, not the edges, of how organisations are run. The solution that works must affect the culture of the organisation. While we can agree with both these views, it must be admitted that government is in a strong tactical position to respond to the unemployment problems, even if this is as an initiator or catalyst. The state of the Irish public finances has recently engaged much of the energies of government. However, we now seem to be on target to stabilise the debt by 1990 and therefore the government is better able to make a fuller response to the unemployment problem.

Could the government, the opposition parties and the main social partners now consider the urgent need for a new mechanism for facilitating the dissemination and implementation of proposals on unemployment? If the social partners, including the government and opposition parties, are serious about reducing unemployment, they must work together and not just superficially. To work together is to come together and this calls for a new and powerful structure that will bind together employers, unions and the body politic. Anything less would be inadequate.

At present no such structure exists. There are committees and organisations with representatives from the unions, employers and government. High level negotiations also take place between the unions, employers and government. However, there is no present structure that includes government and opposition, along with unions and employers, working together on any major social or economic issue. Such a structure or forum could be initiated by government and the Oireachtas. Its purpose would be:

1. to provide a major and combined focus of attention on the effects of unemployment and the benefits of reducing it;
2. to enlarge people’s understanding of the causes of unemployment;
3. to inform people of the various solutions.

All these objectives could be achieved as the members of the forum report back to their respective organisations and groups, as the media covers the public sessions, and as the documents and reports are published. This process of communicating the proceedings would play a significant role in changing things. If the information is properly communicated, it should expand peoples’ knowledge, influence their attitudes and therefore affect the very culture of individual organisations.

It is not necessary to provide a detailed set of procedures for something that would tend to evolve as a result of debate and discussion. However, the following major areas should be covered:

1. the costs of and the benefits to society of reducing unemployment;
2. the participants in the forum would be briefed on proposals for reducing unemployment. There could be at least two general types of briefing:

(a) academics from the major institutions and elsewhere could provide proposals on various aspects of unemployment. Some of these proposals would be the results of coordinated interdisciplinary work and discussion.

(b) a variety of organisations and interest groups could provide their particular proposals on unemployment after a full discussion within each organisation.

It would be helpful if each organisation provided proposals that impinged at least partly on its own operation and structures, rather than simply pointing out what others should be doing. Since, conceivably, a whole host of organisations could provide proposals, it would be necessary to channel and organise their submissions. The larger groups might be given an opportunity to provide a short oral as well as a written proposal. The smaller groups might be required to provide only a written submission, unless their contributions were considered sufficiently important to warrant a brief oral hearing.

It would be inadvisable to impose a detailed structure on something as important as a forum on unemployment. However, some outline format is necessary to provide an insight into how it might operate. The forum would include the government, the main opposition parties, and the representatives of employers and unions. It might also be advisable to include some representation from the unemployed but at present no major body speaks for this group. It would also include a chairperson, backed up by a secretariat. The figure below is a tentative proposal for the composition of such a body. It is important to note, however, that the numbers representing the different groups are merely given for the purpose of illustration.

Some of the possible comments that might be made on the above proposal will be briefly dealt with.

1. We do not need such an elaborate structure. A slight reshaping and improvement of the present job-creating methods and institutions would be adequate.
A forum on unemployment

<table>
<thead>
<tr>
<th>Fianna Fáil</th>
<th>Labour Party</th>
<th>Workers Party</th>
<th>Irish Farmers Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>(15)</td>
<td>(3)</td>
<td>(1)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

Irish Congress of Trade Unions (8)
Fine Gael (6)
Progressive Democrats (3)
Federated Union of Employers (6)

Chair (Incl. two vice-chairmen) (3)

Total: 45 members

union and government level either here or abroad. Thirdly, she argues that if full employment is to maintain a place of central political importance, there must be a stable political coalition supporting it. Such a coalition could be fostered across party and pressure group lines by a forum on full employment. As we come to grips with our national debt and after the recent experience of the government working in a structured way with other political parties and the social partners the time is now ripe for such a forum to be initiated.

Conclusion
As a society we are obliged to respond adequately to our extremely high level of unemployment. The response must match the challenge and therefore must be significant. There is no longer time for further analysis. We have nearly all the ideas we need. What we now require is courage and will; the courage to stifle cynicism and the will to act. Albert and Ball (1983) state that there is no longer the whiff of gunpowder about unemployment because it has been replaced by the whiff of decay. This decay is all the more insidious since it is weakening our ability to respond. The need for change has arrived.

Notes to chapter
1 After a brief search through some of the major sociological journals, the most relevant article found was by Gould (1952). However this was a review article which referred mainly to economic proposals.
2 See, for example, the earlier paper by Kerins, who argues that the simple deregulation thesis fails to take adequate account of socio-political factors.
3 The following analysis draws heavily on Hall et al. (1978), especially Chapter 3.
4 Any organisation with an interest in reducing unemployment would be included, for example, state-sponsored bodies, private companies and voluntary organisations.

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