

DID IRELAND BECOME MORE UNEQUAL DURING THE BOOM?

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The Irish economy almost doubled in size between 1990 and 2000 in terms of Gross Domestic Product (GDP), leading to a rapid convergence of GDP per capita with the EU average, and dramatic growth in employment and incomes. Economists writing about the impact of technology on the labour market in recent years have tended to emphasise the idea that as an economy grows, technology is biased in favour of skilled workers and against unskilled workers (This is termed skill-biased technical change, SBTC.) A large body of evidence documents a striking correlation between the adoption of computer-based technologies and the increased use of university-educated labour. The idea of SBTC has primarily been used to explain rising wage inequality in, for example, the UK and the US. Has rapid growth in Ireland led to a similar rise in wage inequality, favouring higher educated workers – and if not, what factors have tended to offset the influence of skill-biased technological change? These issues have been investigated by Seamus McGuinness, Frances McGinnity and Philip O'Connell in a recent paper.[†] They draw on data from the Living in Ireland Survey for 1994, 1997 and 2001 to examine the consequences of the boom for wage dispersion and returns to education in Ireland.

The structure of the Irish labour market changed radically over the 1994 to 2001 period. First, employment grew very rapidly, by almost 500,000 or 40 per cent between 1994 and 2001. Consequently, the employment rate, expressed in proportion to the population aged 15-64 years, increased from 53 per cent in 1994 to 66 per cent in 2001. Second, there was a sharp and sustained increase in women's employment. Total female employment increased by 60 per cent between 1994 and 2001, almost twice the growth rate among men. These differential growth rates resulted in a shift in the balance of employment between men and women, and women's share of total employment increased from 37 per cent in 1994 to over 42 per cent in 2001. Third, unemployment fell from just under 15 per cent in 1994 to less than 4 per cent in 2001. Long-term unemployment fell precipitously: from 125,000 in 1994 to 20,000 in 2001 – a net decline of almost 105,000.

However, from a sectoral perspective it is not at all clear that growth was heavily concentrated in industries employing a high concentration of skilled

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labour. Among women, employment growth was most rapid in Transport and Communication, and Finance and Business, sectors largely characterised by medium to high skills. Among males, the most rapid growth occurred in Construction, where employment doubled, but which is largely characterised by low to medium skills. The other expanding sector was Finance and Business services, where medium to high skill levels are in demand.

What happened to wage inequality during this period of rapid economic growth? Within the Irish labour market as a whole, the level of wage inequality fell markedly over the period but most particularly between 1997 and 2001. When the data was split according to gender some disparities again emerged. While earnings inequality fell within the male distribution over both periods, inequality increased slightly in the female labour market from 1994 to 1997 before falling dramatically between 1997 and 2001. Thus, it would appear that a central prediction of SBTC, that income inequality will tend to increase during periods of rapid economic growth, failed to transpire in the case of Ireland.

Rates of return to schooling did not change markedly over the period, counter to the predictions of the skill biased technical change hypothesis. Specifically, for men the study found largely stable returns to education throughout the period, partly explained by a strong growth in demand for unskilled labour, which helped maintain low-skilled wages. For women, while relative demand grew more quickly for educated labour, the rapid increase in the numbers of educated females entering (or re-entering) the labour market over the period was such, that the increase in labour supply actually exceeded the growth in demand, consequently, the premium to a university degree actually fell somewhat.

What are the implications of our findings? The Irish case suggests that high levels of economic growth did not lead to a growth in inequality, at least not in this period. For men, demand did not grow more for highly skilled labour, as might have been expected. Demand grew for both high and low-skilled male workers. For women, demand for high skilled labour did grow more rapidly than for low skills, but because of rapid increases in supply, the premium for high skills did not rise as expected. The Irish example shows that one needs to take account of both the specific changes in the nature of labour demand and the nature and extent of concomitant changes in labour supply in any theoretical approach relating economic growth to inequality

[†]McGuinness, S., F. McGinnity and P.J. O'Connell. "Changing Returns to Education during a Boom? The Case of Ireland". *LABOUR: Review of Labour Economics and Industrial Relations*, 2009, Vo. 23, pp. 197-221.