

## THE IRISH LABOUR MARKET AND THE GREAT RECESSION

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### Introduction

Since the middle of the 1990s, the Irish economy has undergone periods of extraordinary growth and extraordinary contraction. As shown in Figure 1, growth rates in real GDP averaged nine percent between 1996 and 2000. While the rate of growth moderated between 2001 and 2007, it averaged five percent, a rate of growth that was remarkably high when compared to the norm across the OECD over this period. This rate of growth in real GDP was mirrored in the labour market, where the number employed rose from approximately 1.4 million at the beginning of 1998 to just over two million by the end of 2007, an increase of almost 50 percent.

In 2007, the first signs of a change in economic fortunes began to emerge as GDP began to contract on a quarter-on-quarter basis. The reasons for the downturn have been explored elsewhere (for example,

Whelan 2010) so we will provide just a brief overview here. In the latter years of Ireland's economic boom, the economic growth was increasingly characterised by rapidly rising property prices, a surge in credit and high levels of house-building. As the global credit crunch took hold in 2007/08, the Irish economy was highly exposed. House prices began to level off in 2007 and then to decline, and this led to a swift fall in house-building and subsequently in other building activity. The fall in house prices also led to a more generalised fall in property values.

As a result of their highly concentrated lending activities during the boom, the banks in Ireland were faced with huge losses and an inability to borrow on international markets in the wake of the property market collapse. This, in turn, led to the government guaranteeing the liabilities of the Irish banks in September 2008. As the full scale of the banking losses emerged over the course of 2009, the full extent of the government's exposure became apparent. When combined with the large fiscal deficit that arose from the abrupt slowing of the economy, the government's financial position weakened to such a degree that a rescue package from the IMF, the EU and the ECB was sought in late 2010.

The economic downturn between 2008 and 2010 was dramatic. Real GDP fell in each of these three years, with a cumulative fall of over 10 percent. Although growth returned to the economy in 2011, with real GDP increasing by 0.7 percent, a somewhat different picture is portrayed when the economic performance is viewed in terms of gross national product (GNP). GNP differs from GDP because it accounts for the repatriation of the profits made by foreign multinationals. For most countries, GDP and GNP are similar but for Ireland, the difference is large with GDP being some 25 percent larger. Based on GNP, the Irish economy continued to contract in 2011, by 2.5 percent.



Figure 1



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In the remainder of this paper, we explore the labour market dimensions of the economic downturn. In the next section, we show how the downturn has impacted in terms of trends in employment, unemployment and participation. Then we take a closer look at two specific issues, namely, migration and earnings. Both of these provide possible avenues of adjustment to the dramatic economic shock of 2008/10 and, as will be seen, while outward migration has re-emerged as a feature of Ireland's labour market adjustment, earnings do not seem to have declined in the private sector. Thereafter, we discuss one policy initiative that has been taken by the government. Given that the government is operating a severe austerity programme, policy initiatives relying on increased spending are generally not possible. The government has, however, attempted to improve its strategy with regard to activation measures for the unemployed. Finally, we offer some conclusions.

### Broad labour market trends

In the Introduction, we set out the scale of Ireland's economic collapse between 2008 and 2010. In Table 1, we show how this collapse was manifest in the labour market through falls in the numbers employed, falls in participation and increases in unemployment.

Looking firstly at the numbers employed, this peaked in 2007 at a level of 2.114 million. By Q2 2011, the number employed had fallen to 1.821 mil-

lion, a fall of almost 14 percent. Such a huge and rapid fall in employment inevitably had to lead to an increase in unemployment and this is seen in the last line of Table 1. The rate of unemployment had been relatively constant at around 4 to 4.5 percent between 2000 and 2007, but the jump between 2007 and 2009, from 4.6 percent to 12 percent was another striking feature of the downturn. The rate continued to increase beyond 2009 and now stands at over 14 percent. Although the trend in the participation rate tends to attract less attention, the figures in Table 1 are noteworthy. From a peak of 64 percent in 2007, the participation rate fell to 60.7 percent in 2011. This fall in the participation rate contributed to a decline in the labour force of 5 percent between 2008 and 2011.

The increase in unemployment shown in Table 1 tells a story, but additional insights emerge from a look behind the 2011 unemployment rate of 14.3 percent. In Table 2 we show the breakdown by age and gender. As can be seen, the rates of unemployment decline across the different age groups and are higher for men. The rates of unemployment among the younger groups could be described as worryingly high. With almost a half of male labour force participants aged 15-19 unemployed, and a third of those aged 20-24 in this situation, concerns now exist about the longer-term outlook for this group if the labour market is to remain depressed and this group fails to get a foothold in the labour market at this crucial stage of their lives.

**Table 1**

#### Ireland's labour market trends, 2005 to 2011

	Q2 2005	Q2 2006	Q2 2007	Q2 2008	Q2 2009	Q2 2010	Q2 2011
Labour force (thousand)	2,040	2,133	2,217	2,240	2,203	2,153	2,126
Participation rates (%)	62.1	63.2	64.0	63.7	62.5	61.3	60.7
In employment (thousand)	1,945	2,035	2,114	2,113	1,939	1,859	1,821
Unemployment rates	4.7	4.6	4.6	5.7	12.0	13.6	14.3

Source: Central Statistics Office.

**Table 2**

#### Unemployment rates by age and gender, Q2 2011

Age	15-19	20-24	25-34	35-44	45-54	55-59	60-64	Total
Males	46.1	33.7	21.5	14.8	13.3	11.8	11.0	17.5
Females	33.7	21.8	11.0	9.1	7.0	5.7	5.1	10.4
All persons	40.1	27.7	16.5	12.4	10.6	9.2	8.7	14.3

Source: Central Statistics Office.

Table 3

## Total and long-term unemployment rates, 2005 to 2011

	2005	2006	2007	2008	2009	2010	2011
Long-term unemployment rate	1.4	1.4	1.3	1.5	2.6	5.9	7.7
Total unemployment rate	4.7	4.6	4.6	5.7	12.0	13.6	14.3
Ratio	0.30	0.30	0.28	0.26	0.22	0.43	0.54

Source: Central Statistics Office.

In Table 3, we show the rates of total unemployment (already shown in Table 1) and also the rate of long-term unemployment, where this is defined as a period of unemployment exceeding one year. In the last row of Table 3, we show the ratio of these two rates, which reveals another worrying aspect of the economic collapse. In 2005, the long-term unemployed represented 30 percent of the total unemployed. As the recession took hold in 2007 and 2008, the share of long-term unemployed people in the total pool of unemployed people fell. This is likely to have resulted from the large-scale job losses that were occurring, resulting in a large rise in the number of new entrants to this labour force category. Between 2009 and 2010, the proportion of the unemployed who were long-term unemployed doubled, from 22 to 43 percent. This upward trend continued into 2011 and over half of the unemployed have now been out of work for more than one year. Given the wide range of studies that have shown the damaging impacts of long-term unemployment and the difficulties of returning to work after increasingly long absences, the possible impacts of the trend shown in Table 3 are well understood.

### Paths of possible adjustment: migration and wages

#### Migration

In Figure 2, we show the pattern of net migration to and from Ireland for the period from 1990 to 2011. Based on a rough comparison with Figure 1, it is readily apparent that population movements to and from Ireland reflect the state of the economy to a certain degree, but there is not a perfect correlation and this requires an explanation.

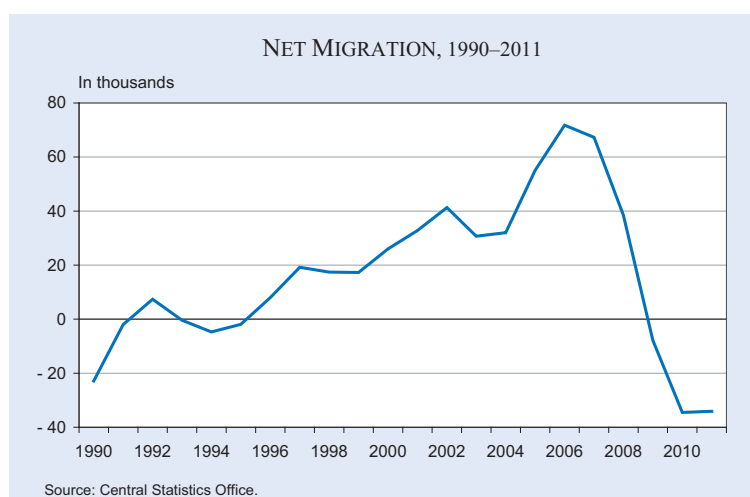
Although Ireland experienced its strongest rates of growth between 1996 and 2000, the surge in

inward migration occurred after this. One reason for this is the following. In May 2004, when the EU expanded with the entry of eight new member states, Ireland was one of only three countries that allowed full access to its labour market for the citizens of the new member states.<sup>1</sup> Given the strength of economic growth in Ireland at that time and the limited number of countries that took a liberal approach to the labour market dimension of EU enlargement, it is perhaps unsurprising that a large number of citizens from the new member states migrated to Ireland. The impact on Ireland's population and labour force was large. Between the third quarter of 2004 and the third quarter of 2007, the number of non-nationals (aged 15 and over) grew by 85 percent. This meant that the proportion of the population aged 15 and over that was non-national increased from 7.7 to 13.1 percent over the same three-year period, with the bulk of this increase being due to immigration from the EU's new member states.

By the second quarter of 2007, about 15 percent of those employed in Ireland were non-Irish nationals (316,300 out of a total employed of 2.1 million). Of the 316,300 non-nationals, 152,800 were from the

<sup>1</sup> Sweden and the UK were the other two countries.

Figure 2



EU's new member states – this was almost 50 percent of the total non-national group. As the vast majority of these people were relatively recent arrivals into Ireland's labour market, it was likely that they were in relatively vulnerable employment situations as the recession hit in 2007/08. High rates of employment loss among them was to be expected and the data show that this was indeed the case.

Using data from a number of waves of the Quarterly National Household Survey (QNHS)<sup>2</sup> Barrett and Kelly (2012) looked firstly at unadjusted figures on employment losses for Irish national and non-nationals and striking differences were found. In the year ending Q3 2009, the rate of job losses among Irish nationals was seven percent. While this was a remarkable pace of loss, the corresponding figure for non-nationals was almost 20 percent. These different rates of job loss translated into a divergence in the paths of unemployment between the two groups. As shown by Barrett and Kelly (2012), the gap between national and non-national unemployment rates had fluctuated between one and three percentage points in the quarters between 2004 and 2008. In the first quarter of 2009, however, the gap jumped by five percentage points.

As Barrett and Kelly point out, it was possible that the higher rate of job losses among non-nationals around 2009 was partly related to their age as opposed to their migrant status. The recession has impacted heavily upon younger workers and as migrants are generally younger, it was necessary to undertake multivariate analysis to isolate the “immigrant” effect. By combining data from the QNHSs of Q2 2008 and Q2 2009, Barrett and Kelly were able to establish if the probability of being employed declined for non-nationals relative to nationals between 2008 and 2009 when the recession was at its most severe. The results showed that non-national employment probabilities had declined over the course of the recession relative to natives. However, when looked at by immigrant groups, it emerged that this effect was only present for immigrants from the new member states of the European Union. There was no relative decline for immigrants from the EU, the rest of the “old” EU or from the rest of the world.

Given the substantial job losses among immigrants, it was likely that a net outflow of this group would emerge and this again is shown by Barrett and Kelly.

<sup>2</sup> This is Ireland's labour force survey and the official source of unemployment and other labour market statistics.

They estimated, based on the QNHS data, that the number of non-nationals employed in Ireland fell by almost 90,000 between Q1 2008 and Q4 2009.<sup>3</sup> They also estimated that the population of this group fell by 60,000 and that the numbers unemployed only rose by just over 20,000. As there was only a small increase in the numbers of non-nationals who declared themselves as being “inactive” (under 3,000), it seems that job losses did lead to outflows.<sup>4</sup>

Referring back to Figure 2, the outflows for the years 2010 and 2011 have been estimated at around 35,000 per annum. Both Irish national and non-nationals are now represented among this outflow and so emigration, so long a feature of Ireland's demography, has returned in the wake of this recession.

### *Earnings*

As the full-scale of the recession began to manifest itself in Ireland, economists increasingly spoke of the need to achieve an “internal devaluation”. As Ireland was part of the Euro zone, a boost to competitiveness through a currency devaluation was not possible. However, it was argued that wage reductions within Ireland could have a similar effect. While wages in the public sector represented a policy tool that the government could manipulate, this was not the case in the private sector. As discussed below, this contributed to somewhat differing outcomes with regard to wages across the public and private sectors.

Following the emergence of the fiscal deficit, the Irish government embarked on a series of initiatives aimed at curtailing the earnings of public sector workers whom, it was estimated, earned a premium in excess of 20 percent relative to their private sector equivalents (Kelly, McGuinness and O'Connell 2009). On the grounds that most public servants had access to non-contributory pensions, from March 2009, the Irish government imposed a pension levy on gross earnings which ranged from between five and 10.5 percent on earnings over EUR 15,000. From January 2010, public sector pay levels were cut by between five and 10.5 also on a progressive scale. Finally, in March 2010, the Irish government and public sector trade-unions also negotiated a three year pay freeze in return as part of a package of pub-

<sup>3</sup> This amounted to a decrease of 25 percent.

<sup>4</sup> Barrett and Kelly do caution about drawing too strong a conclusion based on a cross-section as opposed to panel data. Nevertheless, the figures are persuasive.

Table 4

**Average gross hourly and weekly earnings and hours worked for both public & private sector workers, 2008 and 2011**

	Average hourly pay	Percentage change	Average weekly pay	Percentage change	Hours worked
Public sector					
2008	29.2		930.5		31.9
2009	29.9	2.4	947.9	1.9	31.7
2010	28.6	-4.3	903.1	-4.7	31.6
2011	28.6	0.0	895.7	-0.8	31.3
Private sector					
2008	19.3		636.9		33.0
2008	19.3		636.9		33.0
2009	19.5	1.0	622.7	-2.2	32.0
2010	19.5	0.0	616.6	-1.0	31.7
2011	19.4	-0.5	611.5	-0.8	31.6

Source: Constructed from Earnings, Hours and Employment Costs Surveys (EHECS), 2008–2011, CSO.

lic sector reform.<sup>5</sup> However, despite all of this, those public sector workers who had not reached the top of their pay scales continued to receive annual salary increments over the period; therefore, the overall direction of public sector pay remained somewhat uncertain.

Data from the Earnings, Hours and Employment Costs Survey (EHECS), which is enterprise-level data collected by the Irish Central Statistics Office (CSO), shows that despite a sharp decline following the 2010 pay cuts, as a whole, nominal hourly pay fell by just over two percent between 2008 and 2011. However, due to a decline in the average hours worked, mean weekly pay in the public sector fell by almost four percent over the same period, presumably as a consequence of restrictions in overtime that were introduced after 2008. Nevertheless, despite the existence of a very substantial public sector pay premium and a large fiscal deficit, hourly rates of public sector remuneration appear to have fallen only marginally since the onset of the crises.

The situation with respect to private sector workers indicates that nominal rates of hourly pay also remained largely unchanged between 2008 and 2011, with the evidence suggesting that employers have opted to curtail the number of hours worked as opposed to rates of remuneration (Table 4). However, the use of such aggregate data when exam-

ining private sector earnings is potentially misleading as it will hide any compositional movements in the data. For instance, if unemployment has been heavily concentrated among low earning employees, average earnings could appear static, despite a decline in the average pay of surviving workers. Detailed studies of both the EHECS data from 2009 to 2011 (Walsh 2012) and the National Employment Surveys (NES)<sup>6</sup> from 2006 to 2009 (Bergin, Kelly and McGuinness 2012) have both concluded that the impact of compositional change on earnings has been relatively minor and, therefore, that private sector earnings have also remained relatively stable since the onset of the crises (Bergin et al. 2012; Walsh 2012).

Further evidence of the incidence of private sector wage cutting is available from the employer component of the 2009 NES. In the 2009 NES questionnaire, firms were asked to indicate if they had implemented changes to a number of employment conditions in that year.<sup>7</sup> In particular, they were asked if they had implemented cuts in i) staff numbers, ii) rates of pay/salary, iii) hours worked, iv) paid leave, v) bonuses, vi) allowances/premiums or vii) overtime. Overall, almost 62 percent of firms indicated that they had introduced some type of cut in employment conditions in 2009. However, the incidence of cuts for each is quite low, especially given that the economy was in the depths of the recession at that time point.

<sup>5</sup> In return for commitments on pay and productivity the Irish Government agreed not to seek involuntary redundancies within the public sector.

<sup>6</sup> The NES is a nationally representative linked employee / employer survey.

<sup>7</sup> Specifically between October 2008 and October 2009.

**Table 5**  
**Changes in employment conditions**  
**among private sector firms in 2009**

	Percent
Overall	61.8
Type of cut:	
Staff numbers	34.0
Hours worked	29.0
Bonuses	26.1
Pay	23.2
Overtime	21.6
Allowances/Premiums	15.7
Paid leave	2.3

Source: National Employment Survey (2009).

Reducing staff numbers and hours worked were the main methods implemented by firms to cut costs (Table 5). Less than a quarter of firms targeted pay rates, a pattern consistent with the movements in employee earnings observed in table 4.

### The labour market activation challenge

The scale of the unemployment problem in Ireland is daunting to say the least and the situation is made all the more difficult as fiscal constraints dictate that any initiatives taken to tackle unemployment must be cost neutral. Against this background, Ireland's response to the unemployment crises must, by definition, be focused around its range of labour market activation measures. Unfortunately, the evidence suggests that, prior to the recession, Ireland's labour market activation policies fell well short of international best practice and efforts to date have been concentrated around attempts to reform the system.

Ireland was one of a small number of OECD countries where the placement function of the Public Employment Service (PES) was separate from the benefit function (Grubb, Singh and Tergeist 2009). It later transpired that communication failures between the PES and benefits organisations led to large numbers of qualifying claimants falling through the activation net (McGuinness, O'Connell, Kelly and Walsh 2011a). Notwithstanding this, individuals were only activated after three months on the live register (the Irish register for unemployment assistance/benefit); however, somewhat counter intuitively, claimants who had been interviewed during a previous unemployment spell were automatically excluded from the activation system during subsequent claims. For

those that did qualify for assistance, attendance at the initial activation interview was the benefit recipient's only quasi-compulsory contact with employment services (Grubb et al. 2009). Any subsequent activation measures were purely voluntary in nature. Consequently, the Irish system lacked what are widely accepted as the two essential pillars of an effective labour market activation strategy i.e. regular monitoring of job-search activities and the imposition of sanctions for non-compliance.

Perhaps not surprisingly, an evaluation of labour market activation in Ireland found that the system was highly ineffective in influencing exits from the live register. Specifically, relative to a control group, and after accounting for both selection and dynamic bias, activated individuals were found to have a lower probability of exit to employment (McGuinness et al. 2011a). The authors of the evaluation attribute the negative intervention effect to claimants reducing their job-search activities upon discovery of the "light touch" nature of the activation process.

The situation with respect to training programmes for the unemployed was somewhat more positive. Around 40 percent of spending on training programmes for the unemployed is allocated to community employment programmes with the remaining 60 percent distributed across a range of specific skills programmes. McGuinness et al. (2011a) found that specific skills training raised the probability of a sustained exit from the live register by nine percent. However, a more detailed analysis of the data revealed that the impact of training was not evenly distributed with the pay-offs highest for job search training (17.9 percent) and specific high skills training (22.4 percent) (McGuinness, O'Connell and Kelly 2011b). Based on a sample of training participants, it was estimated that the majority of the training effort was concentrated in the provision of less effective low level and general skills (Table 6). Furthermore, consistent with research findings in other countries, community employment schemes in Ireland have been found to have little impact in reducing the incidence of unemployment. Thus, despite some positive aspects, the evidence suggests that a great deal of restructuring was also required with respect to the composition of training opportunities available to the unemployed.

The Irish government responded to these challenges with the launch of its "Pathways to Work" initiative in February 2012. Despite many positive aspects



such as the provision of an additional 21,000 training places and partial reform of community employment programmes, the central flaws in the activation system have yet to be addressed. The three month time lag from the point of claim to activation persists. Furthermore, neither new nor existing claimants are subject to regularised contact with employment services and the proposed sanction regime appears weak. Community employment schemes continue to account for the largest single component of the training budget and there is little evidence of any sustained effort aimed at re-orientating training away from relatively ineffective low and general skills initiatives.

## Conclusions

Although much of the world suffered the consequences of the Great Recession of 2008/09, Ireland suffered more than most. In terms of the labour market, employment fell steeply (14 percent decline between 2007 and 2011), the rate of unemployment soared (an increase of 10 percentage points between 2007 and 2011) and net outward migration resumed. These developments now present Ireland with a number of challenges. If the economy remains depressed for a significant period of time, the increase in long-term unemployment, which is already evident, could escalate further. Similarly, population outflows could continue.

As some degree of fiscal austerity is likely to remain in place for the medium-term, the scope for stimulus-type policies is severely limited. The most promising route for Ireland to emerge from its labour market challenges is for export demand to boost aggregate demand and for economic growth to

lift labour demand. Even then, difficulties may arise if the growing number of long-term unemployed people become part of a structural unemployment problem. Hence, the use of effective activation measures seems critical. However, this also presents real challenges given the ongoing need for structural reform within Ireland's activation system.

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**Table 6**  
**Distribution of government-sponsored training programmes for the unemployed by training weeks and estimated impact on exits from unemployment**

	% Distribution of training	Impact of exits from unemployment
Job search training	5	17.9***
General training	38	9.0**
Specific skills training - low	31	2.0
Specific skills training - medium	17	10.2*
Specific skills training - high	9	22.4***
Total	100	

Note:  $p < 0.01^*$ ,  $p < 0.05^{**}$ ,  $p < 0.1^{***}$ .  
Source: McGuinness et al. (2011b).