

EMPLOYMENT CREATION AND UNEMPLOYMENT PROBLEMS IN IRELAND IN THE 1980s

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INTRODUCTION

In the recent National Economic Plan (*The Way Forward*, 1982) it is stated that:

“Unemployment in our country poses a particular peril and problem. Our population and labour force are increasing at a faster pace than anywhere in the industrialised world. Our task of providing jobs for our children is, therefore, greater than in other countries and our failure can result ultimately in heavier unemployment and deeper social disorder than in other countries. We have abated temporarily, through deficit financing, the growth of unemployment during the worst of the recession, but we can now look only to the slow recovering international markets for the growth which will give new employment on the scale we need”.

These are sobering words and need to be weighed carefully by everybody concerned with our economic and social welfare. But even since “*The Way Forward*” was issued, conditions have deteriorated further and the situation is now very grave indeed. The latest figures show about 190,000 unemployed, not counting those seeking employment for the first time, out of a total labour force of about 1,284,000. The unemployment rate is, therefore, about 14 per cent and growing.

The purpose of this paper is to look at the development of employment and unemployment patterns in the state in recent years, to consider the numbers which will be coming on the labour market over the coming decade and to determine how we can deal with this inflow, both in the short and long term, within the current national financial constraints. Unfortunately, I have few, if any, original solutions to offer. My purpose is to raise some of the main issues for discussion at the meeting and hope that the informed opinions expressed will generate useful ideas for policy makers.

The paper has been organised in four broad sections. Part I deals with the role of manufacturing and other primary industry in modern economies, on their linkages with other sectors and on the implications of these for employment policy. It goes on to outline the employment patterns in a number of OECD countries over the past twenty years and shows how the proportions in the different sectors have changed; in particular, how service sectors have grown relative to agriculture and industry. The stage of development of different countries and the constraints which might differentiate Ireland from them are noted.

In Part II, the long-term employment situation in Ireland is discussed and labour force projections are given for the years 1986 and 1991. It is shown that most of the increase in the labour force over the coming years will be in the 25-44 year group, a feature which, according to Sexton (1981), has particular socio economic implications. The prospects of employing the total numbers both in the short and long term and the

sectors in which they may be employed are discussed. It is shown here that there will be considerable unemployment up to 1985 at least, and possibly after that if world economic conditions do not improve. Part III, focuses on the short-term unemployment situation. It outlines the pros and cons of the more important unemployment schemes in use both here and elsewhere and deals in some detail with a recent Belgian experiment aimed at coping with the long-term unemployed. This section concludes by suggesting a method for putting the long-term unemployed to work on part-time projects.

The final section contains, in addition to a summary and conclusions, some thoughts on counter-cyclical policies and on the role of the social partners in employment creation.

PART I

The Role of Manufacturing Industry in Modern Economies

In considering the scope for employment creation in Ireland it is necessary to form some idea of the broad sectors where employment gains are possible, given that some sectors are likely to shed labour no matter what realistic policies are pursued. Trends in employment patterns in other countries may help to delimit the range of possibilities, although regard would have to be had to the stage of development in these countries and to the constraints which might differentiate Ireland from them.

In the past, manufacturing industry was considered to be the main generator of growth and employment in developing countries. It was believed that the jobs must be created there in the first instance and that these would then automatically induce other jobs in the economy. Commenting on this idea Kennedy and Foley (1978) state that this approach may lead to dangerous over-simplification in devising development policies. Their views might be summarised in the following way:

In examining the role of the manufacturing sector in the context of an overall full employment objective it is important to consider not only the employment position within the sector itself but also the contribution that the sector can make to employment expansion elsewhere in the economy. A sector may contribute to employment expansion in the economy when its output expands even though its own employment may be falling. This can happen for three reasons, namely, (i) the linkage effect, (ii) the multiplier effect and (iii) the accommodating effect.

The Linkage Effect: Increased production in a sector requires purchases of materials and services that may induce additional output in other firms. The magnitude of this impact for a country depends not only on the volume of purchases, but on their distributions as between imports and home production, so that the linkage effect may vary substantially between different activities. Linkages are possible not only in a backward direction through the firm's purchases but in a forward direction where the firm's sales give rise to new domestic activities, e.g., farm output can supply the raw materials for food processing, mining for smelter plants, etc. Because of our high propensity to import, backward linkages in Ireland are relatively weak, nevertheless, they do contribute to output and employment in complementary enterprises, particularly in transport, communications and in some cases in the manufacturing of spare parts for machinery.

The Multiplier Effect Proper: The creation of new value added gives rise to additional incomes and the spending of these gives rise to the classic multiplier effect. In an

economy as open as Ireland a relatively high proportion of income is spent on imports and these leakages tend to reduce the multiplier considerably. In addition there are what are also regarded as leakages in the form of saving and taxation. By definition, an income multiplier cannot be less than unity but it may not rise much above this level in an open economy.

The Accommodating Effect: Although so called leakages in the form of taxation and savings reduce the multiplier effect they may in the longer run permit extra activity in the economy. The taxation collected by the government goes towards the payment of salaries of increasing employment in the public sector. Equally, additional savings are usually invested and in this way give rise to further incomes and employment. These accommodating effects are, however, not automatic. They require other decisions to bring them about. Nevertheless, a decision to spend by the government, or to invest by investors, might not have been made without the availability of additional revenue.

Implications: Some important points relevant to employment policy may be noted from the above discussion. The first is that a sector's contribution to total employment cannot be judged solely in terms of the employment arising directly in the sector. The income and profits created may crucially affect the scope for increasing employment in other sectors. Primary industries such as agriculture, manufacturing and mining must form the main driving force in providing the money for increased employment. But these industries need not create all the employment directly themselves. Indeed, if they were to attempt to do so the overall effect could be perverse.

For example, if labour were to be substituted for capital in either agriculture or industry, output and productivity could be less, firms could become uncompetitive and go bankrupt, possibly resulting in a decline in overall employment. On the other hand, if firms adopt the most modern techniques, their chances of remaining in business may be enhanced. In this situation, though the industrial labour force may decline, employment may be created in ancillary industries and services and overall employment may be higher.

It should be noted (as stated above in connection with accommodating effects), that all the wealth created in an industry will not automatically go towards the creation of employment in the same or other sectors. Conscious decisions will have to be made by the government or some other body to bring this about. The form these decisions take is a study in itself. Suffice it to say here that the availability of wealth either in the form of wages, savings or taxation is a necessary, though not a sufficient condition, for employment creation, assuming that reasonable living standards be maintained (i.e. at worst, not much below present levels).

The International Scene: The employment patterns in a number of OECD countries are given in Table 1 to illustrate the relationship between the different sectors, in both highly developed and fairly underdeveloped countries.

This table shows that in all the countries listed, except Austria, the total labour force increased between the early 1960s and 1980. The increases varied from 78 per cent in Canada through 51 per cent in USA, 34 per cent in Norway, down to 0.06 per cent in West Germany. Looking at the different sectors it can be seen that agriculture, forestry and fishing has been declining steeply in all countries, but figures from FAO and other sources show that despite these declines there has been a steady growth in agricultural output in the various countries over the years, (NESC 1977). In other words, increased output has been obtained as a result of greater labour productivity rather than from extra labour inputs, and this trend is bound to continue. Indeed as J. Davis (1949) says:

“History reveals a trend most conspicuous in countries of advanced standards of living towards a smaller place of agriculture in national economies. This has been

Table 1: Proportion of people at work in different sectors in selected countries 1960-'80 and changes in total labour force over these years

	Agriculture, Forestry, Fishing			Industry			Other (a)			Change in (b) Total L.F.
	1960/63(c)	1970	1980	1960/63(c)	1970	1980	1960/63(c)	1970	1980	1960-80
Percent										
Austria	22.7	18.3	10.5	42.8	41.0	40.3	34.5	40.7	49.2	-1.5
Belgium	6.5	4.8	3.0	46.7	44.7	34.8	46.8	50.5	62.2	+13.0
Canada	12.1	7.7	5.5	34.7	31.4	28.5	53.2	60.9	66.0	+77.7
Denmark	18.5	11.4	8.1	39.8	38.5	28.6	41.7	50.1	63.3	+28.2
France	20.7	14.0	8.8	40.1	38.9	35.9	39.2	47.1	55.3	+17.0
W. Germany	13.5	9.0	6.0	49.0	50.3	44.8	37.5	40.7	49.2	+0.6
Ireland (d)	35.4	26.2	18.2	24.8	30.1	32.0	39.8	43.7	49.8	+14.9
Italy	27.0	19.6	14.2	41.2	43.7	37.8	31.8	36.7	48.0	+7.5
Japan	28.1	17.4	10.4	31.5	35.7	35.3	40.4	46.9	54.3	+25.3
Netherlands	9.9	7.2	6.0	42.1	41.0	31.9	48.0	51.8	62.1	+18.7
Norway	21.6	13.9	8.5	36.3	37.3	29.7	42.1	48.8	61.8	+33.6
Spain	41.9	29.6	18.9	31.6	37.4	36.1	26.5	33.0	45.0	+12.9
Sweden	12.9	8.1	5.6	41.4	38.4	32.2	45.7	53.5	62.2	+20.5
U.K.	4.0	2.9	2.6	48.0	46.5	38.0	48.0	50.6	59.4	+5.0
United States	8.2	4.4	3.6	32.8	32.3	30.6	59.0	63.3	65.8	+51.1

Source: OECD Observer December 1964, February 1972, March 1982 and OECD Labour Force Statistics for 1959-70 and 1969-80.

- (a) Other includes, Wholesale and Retail trade, Transport, Storage and Communications, Finance Insurance, Business Services, Community, Social, Personal Services and other.
- (b) LF = total labour force, i.e., employed plus unemployed.
- (c) Figures were not available for all countries for 1960. For some they were available only for 1961, 1962 or 1963.
- (d) Figures for Ireland are from The Central Statistics Office.

going on for centuries, at times slowly, again with quickened pace. It has been conspicuous since 1850 and especially so in the first decade after the war. Though the trend is sometimes interrupted or temporarily reversed, major reversals are rare ... One may even venture to state as a law of economic history that economic progress, broadly viewed tends to be accompanied by a decline in the relative importance of agriculture. This has been true, if not universally, of most nations, in most periods and of the world as a whole". (Davis, 1949).

In view of this and various similar views it can be stated that the agricultural industry per se (i.e., farming) is unlikely to maintain any extra employment over the coming decade.

When we look at industry the outlook is not very promising from the direct employment point of view. In West Germany, Ireland, Italy, Japan, Norway and Spain the proportions employed in industry increased somewhat between the early 1960s and 1970 but in subsequent years the proportions employed in all these countries except Ireland declined. Granted the proportional declines were not great in most of the countries listed, but the absolute drops were substantial and would appear to be the forerunners of steeper declines because, in all the other countries listed the proportions employed in industry have been decreasing steadily since the early 1960s.

In contrast to agriculture and industry, the proportion of the labour force in the services has been increasing steadily in all countries over the past 20 years or so. In about half the countries listed in Table 1, over 60 per cent of the numbers at work are now employed in the services, with about 66 per cent in Canada and the USA. The countries with less than 50 per cent in services are Austria and West Germany (49.2 per cent), Ireland (49.8 per cent), Italy (48.0 per cent) and Spain (45.0 per cent). It is interesting to note that four of the countries with the lowest proportions in the services, Ireland, Italy, Spain and Austria have the highest proportions in agriculture. West Germany is somewhat of an exception, in this regard, having relatively low proportions in both the services and agriculture.

The above examination almost forces the conclusions that future employment creation in Ireland will have to come mainly in the services. Indeed there has been a remarkable increase in this sector in recent years as the figures in Table 2 show, from 493,000 in April 1975 to 598,000 in April 1982, (105,000 or 21.3 per cent).

Nor was all of this increase in the public service. Ross, (1982), has established that over the period 1976 to 1981 the number of whole-time employees in the public service (broadly defined) increased by about 36,000 which, although substantial, was only about one-third of the increase in those employed in non-agricultural economic activity in those years. As Sexton (1982) has shown, a big increase (35,000) also took place in the public sector between 1971 and 1975, when education and the health service were expanding.

The discussion would indicate that, even though industry may grow somewhat in the coming years, it cannot be expected to employ the major proportion of those coming on the labour market. The objective now, even more so than in the past, must be to increase the income earning powers of the primary industries so that, through multiplier and other effects, they can induce jobs in the other sectors. This, of course, is a long-term operation. It takes time to get industries into production and further time for the induced effects to become operative, particularly during depressions when demand is curtailed and industries everywhere are under pressure to survive.

At the present time, therefore, we are faced with two problems, a short-term one to alleviate the current high unemployment situation and a longer term one to devise a stable pattern for the coming years. Let us look first at the long-term problem in order

Table 2: Total labour force and number of people at work in main branches of economic activity in mid-April 1975-1982

Branch of Economic Activity	1975	1977	1979	1980	1981	1982
			(000)			
Mining, quarrying and turf	10	10	11	12	12	12
Manufacturing	224	226	239	243	236	232
Building and Construction	89	87	101	103	97	92
Electricity gas and water	14	13	14	14	15	16
Total industry	337	336	365	372	360	352
Commerce, insurance, finance	181	188	197	201	205	208
Transport, communication, storage	69	67	68	70	70	70
Public Adm. and Defence*	60	65	70	74	77	79
Other services	183	199	224	234	238	241
Total services	493	519	559	579	590	598
Agriculture, forestry, fishing	238	228	221	212	201	196
Total at work	1068	1083	1145	1163	1151	1146
Unemployed	73	89	74	76	113	137
Total Labour Force	1141	1172	1219	1239	1264	1283
Percentage of Labour Force unemployed	6.4	7.6	6.1	6.1	8.9	10.7

Source: Central Statistics Office, Dublin, 21 December 1982.

*Public Administration and Defence includes only central civil servants less P and T employees, plus Garda and Army plus local authority administrative staff.

to put the short-term one in perspective.

PART II

LONG-TERM EMPLOYMENT SITUATION

Projections of the labour force are obtained by combining projections on population with assumptions about future trends in activity rates and migration patterns. These assumptions in turn are influenced by economic conditions, particularly female labour participation. If conditions are good, many married women take paid employment on a whole or part-time basis, but if conditions are depressed, they tend to withdraw from the "official" labour force. Also, within age groups, participation rates may change due to longer time spent at school by young people, early retirement by older workers, etc. Out-migration affects the labour force to an even greater extent than these factors, particularly in Ireland, and the magnitude of the workforce in future years will depend crucially on the level of this movement.

In discussing this issue there are many who would hold that emigration will no longer provide an easy solution to our employment problems. Two reasons are advanced:

- (i) In the past the emigrants were mainly the poorly educated who obtained lowly positions abroad. With more schooling facilities now available, the pool of such labour is contracting; fewer will take the dirty jobs offered abroad and it is quite difficult to get clerical or professional positions outside one's own country.
- (ii) People are getting married younger now than in the past thus making the problem of emigration more difficult. In former days you packed your bags and you were gone; today you may have to take a spouse and perhaps children along, which is a different matter altogether. The pressure to stay at home now is much greater.

As against these arguments, the most recent population projections published by the EEC (1980) indicate that within the present EEC states, other than Greece, the number in the 15-24 year old age group will rise from 40 million in 1980 to 41.2 million in 1985 and decline to 39 million by 1990. In the second half of the decade, therefore, there will be less young workers on the Continent than in the past. Accordingly, if demand picks up towards the end of the decade there will be a shortage of young workers in all occupations leaving openings not only in unskilled jobs but in clerical and administrative posts for people who have the necessary language abilities. Many Irish people who have learned foreign languages are likely to avail of these jobs and indeed increased emphasis should be placed on the teaching of such languages in our schools.

Labour Force Projections: Numerous projections of the population and labour force have been made by different workers and organisations in recent years. In this paper I have relied on Sexton's most recent figures (Sexton forthcoming) given in Table 3 which are based on an assumption of zero out-migration. I am aware that these projections are larger than those produced by Blackwell and McGregor (1982), in NESC Report No. 63 (also based on nil net out-migration). Both projections are based on much the same population growth but the female participation rate in the NESC report is much lower than Sexton's. Opinions differ as to which rate is likely to be the more realistic but in my view the NESC rates for older women are rather low and, accordingly, I have taken the Sexton projection which indicates an annual increase in

Table 3: Labour force past and future classified by age group (1971-1991)

Age group	1971	1979	1986	1991	Changes*		
					71/79	79/86	86/91
				(000)			
15-24	293	346	368	376	+53(+7)	+22(3)	+8(1.6)
25-44	383	505	617	704	+122(+15)	+112(16)	+87(17)
45-64	338	318	314	333	-20(-3)	- 4(-.6)	+19(4)
65+	66	51	46	42	-15(-2)	- 5(-0.7)	-4(-0.6)
Total	1080	1219	1345	1456	140(17)	+126(18)	+111(22)

* Figures in brackets are annual average changes

Source: Sexton G.(forthcoming): Population and Labour Force Projections for 1986 and 1991. Draft ESRI Report.

the labour force of 18,000 per annum between 1982 and 1991 compared with an average of 14,000 per annum in the NESC report. Table 3 shows that the labour force is predicted to rise to about 1,345,000 by 1986 and to 1,456,000 by 1991. Thus the annual average increase will be 18,000 over the 1979/86 period and 22,000 during the later five-year period. The implications of these figures are clear. We need net annual increases in employment of these magnitudes to prevent unemployment rising, or alternatively, we need an increase in emigration.

When we look at the different age groups we see that the increase in the under 24 years' group is likely to be much less than it was in the 1970s. In fact, in the later period, the annual average increase in this group will be about 1,600 compared with nearly 7,000 between 1971/79. The reason for this expected fall is due to a decline in the "youth population bulge", which built up gradually during the 1960s and 1970s, and a fall in the participation rate due to out-migration from this group (counterbalanced by in-migration among other groups) and to increasing numbers taking part in training courses which are being expanded at the moment. Also, it is expected that in the circumstances of a prolonged depression, a significant number of young married women would withdraw from the labour force if they failed to find work after a period, or would not enter the labour force in the first instance.¹

Most of the increase in the labour force during the coming years will be concentrated in the 25-44 year age category and, by 1991, nearly half the entire Irish labour force will be in this age group, a feature which Sexton (1981) states has particular socio-economic implications. He states that:

"Unemployment in this age group has been increasing very rapidly and this can cause particular hardship because of the need to cater for dependants. A family's circumstances can become particularly different during this stage of the family cycle".

On the basis of Sexton's figures we must now consider the prospects for obtaining job requirements of this magnitude and the sectors in which they are likely to occur.

In *The Way Forward* (1982) it was stated that the required net increase in employment can only be obtained in manufacturing industry, building construction and in private services. Agriculture will continue to lose 3,000 jobs a year annually, mainly through retirement. The need for stabilisation of the public finances rules out creating additional jobs in the public sector financed by taxation or borrowing. As a result, it is estimated that net employment in the public service will decline by an annual average of 1,000 up to 1986. The projected average annual employment changes from 1983 to 1987 are as follows:

Agriculture	-3,000
Industry	9,500
Building Construction	2,750
Public Services	-500
Private Services	9,750
Total	<u>18,500</u>

A few comments must be made on these figures. *The Way Forward* stated (p. 32), that the keystone in the employment strategy is the expansion of new employment in

¹Labour force figures do not include those seeking work for the first time or those on full-time training courses.

manufacturing industry based on growing cost competitiveness. This is a laudable, if somewhat optimistic, aspiration. Admittedly many inefficient firms are going to the wall, leaving the more efficient to carry on, but the same is happening everywhere and there is no guarantee that our position vis-a-vis other countries with regard to competitiveness will be much better in a few years' time than it is now. Also, while our currency remains stable within the EMS, there is little prospect of an exchange rate boost. Furthermore, what might be described as the "tax wedge" makes the achievement of competitiveness a rather illusory objective in Ireland. Bacon and Durkan, in the ESRI post-Budget seminar on the 10 February 1983 (The Budget 1983), have shown that between 1973 and 1983 real labour costs per non-agricultural employee have increased by 27.25 per cent whereas over the same period real employee disposable incomes have fallen by about 6 per cent. Under these circumstances it is difficult for industry to remain competitive. With falling real wages, industrial relations become strained, productivity disimproves while cost of production increases. The deadweight of public expenditure is swamping everything.

Another point to be made about the figures is, that the numbers employed in Agriculture have been falling at the rate of about 6,000 per annum since 1975 so that the figure of 3,000 seems unduly optimistic. A final point is that the figures given above for net employment changes are averages over a five-year period. The detailed data show only very slight gains in 1983 and 1984, followed by more substantial gains in the following years as world conditions improve. Hence, it was recognised that the rate of unemployment would not improve greatly up to 1985. In that and subsequent years it was hoped that viable employment opportunities will develop automatically as a result of an improvement in world trade, but even by 1985 there would likely be well over 200,000 people unemployed.

An even gloomier prospect has been put forward by Bacon and Durkan in their seminar paper (*ibid.* p. 21). These authors say that there will be some temporary pick up in growth in 1985 but that thereafter growth will become more sluggish. Hence, apart from a brief rise in 1985, employment changes only marginally and unemployment rises to over 16.4 per cent by 1987. Thereafter, some improvement should take place and, by 1991, I would hope that the unemployment rate should not be more than 12 per cent of the total workforce. This 12 per cent allows for future increases in what we might call "technological" unemployment resulting from the frictions due to current technical advances. It also assumes no increase in current emigration levels. If emigration were to increase, the levels of employment and unemployment could change. On the basis of these assumption, I indicate in Table 4 the numbers and proportions expected to be employed in the different sectors in 1986 and 1991 compared with the corresponding figures in these sectors in 1975 and 1979.

In making these estimates I have started with Sexton's total labour force projections and the unemployment rates mentioned above. I have then estimated agricultural employment by assuming a 2.5 per cent reduction per annum between 1982 and 1991. This is just slightly less than the rate of fall between 1975 and 1982 and brings the 1991 total to 12.2 per cent of total employment. The magnitude of the industrial sector is more difficult to project. At the present time we have about the same proportions employed in this sector as in Norway, Sweden, Netherlands and the USA. But whereas the proportions in most of these countries have been coming down the Irish rate has been going up, and the question is, will it go up further, level off, or go down in future years.

In view of the rapid decline in Agriculture we must assume some increase in industry if we are to make any attempt at employing the numbers coming on to the labour market. Hence I assume a slight increase to 32.5 per cent of total employment in 1985

Table 4: Numbers and proportions employed and projected to be employed in different sectors in 1975, 1979, 1986 and 1991+

Sectors	1975	1979	1986	1991	1975	1979	1986	1991
	Number 000				%			
Agriculture	238	221	177	156	22.3	19.3	15.6	12.2
Industry	337	365	368	423	31.6	31.9	32.5	33.0
Services	493	559	587	702	46.2	48.8	51.9	54.8
Total	1068	1145	1132	1281	100	100	100	100
Unemployed	73	74	213	173	6.4	6.1	15.8	11.9
Total Labour Force	1141	1219	1345	1456	100	100	100	100

Source: CSO for 1975 and 1979. Own estimates for 1986 and 1991.

+Zero emigration levels assumed.

and to 33 per cent in 1991. I would hope to see a larger increase in industry but in view of the trends in other countries it is difficult to see this taking place. Having estimated the numbers in Agriculture and industry, those in the Services are projected as residuals. This brings the proportion in the Services to 54.8 per cent in 1991 which is about intermediate between the levels of the various countries in Table I. I refrain at this stage from trying to estimate the numbers in the different branches of industry and the Services. Details of this kind are outside the scope of this paper.

PART III

THE SHORT-TERM SITUATION

It was stated above that there are likely to be over 200,000 persons on the Live Register until 1985. In the short term, therefore, the crucial problem facing the government is to develop policies for dealing with this situation.

The traditional methods of dealing with unemployment have been through unemployment compensation and special "low pay" employment schemes. More recently training and re-training programmes have been introduced in various countries, including Ireland, together with work experience and other projects for young people. (See, for example, *Youth Without Work*; OECD, 1981). Other methods used are, employment incentive schemes, to reduce the cost of labour and even employment in the public sector, a scheme adopted in Ireland in 1977 and 1978. Another scheme which has received a good deal of attention in the literature is work sharing, but so far there has been little experience of it, mainly I think because it is difficult to implement in the male workforce. From my own experiences I find that male workers are fully prepared to share work, but not income, so that introduction of work sharing usually means (though not always) paying extra wages for a given amount of work. There are examples of work or job sharing among women but these are usually not the main family breadwinners. Early retirement schemes have also been suggested, but these have not been very successful and there is some objection to them in other

countries on the grounds of premature disposal of important skills.

Most of the policies outlined above require public funding and since there is seldom any direct monetary return for the money paid out, costs can be very high when there are large numbers involved. Furthermore, as more people become unemployed, the tax pool from which the funds come diminishes so that minimum cost solutions become imperative.

The cheapest and most easily administered method of dealing with unemployment is through unemployment compensation schemes.

These schemes have, however, many undesirable side effects. Most people suffer a big reduction in living standards, while many develop guilt feelings at having lost their jobs. Others, particularly the young, with nothing to occupy their time become involved in criminal activities of all kinds, causing intolerable law and order problems where there are large numbers involved. This is happening now and the situation is likely to get worse. The schemes are also open to abuse. People can draw their allowances and work in unregistered employment at the same time. Indeed, there are many stories of employers giving workers time off to draw their unemployment allowance. Reliable evidence, regarding the extent of such abuses, is impossible to obtain, but there is widespread belief that they are common.

As a result of these problems, there is now a growing feeling in many quarters that the ordinary unemployment payment schemes, while being suitable for circumstances where relatively small numbers are involved or for short duration unemployment periods, all highly unsuitable for long stretches of depression (such as the present), where large numbers of people are out of work. In these circumstances some other system is needed. Young people in particular must be kept occupied if the type of social order we are accustomed to is to be preserved.

There is another reason also why traditional unemployment benefit schemes may require supplementation. Haveman (OECD, 1982) argues that legal and institutional factors have changed the relationship between unemployment and labour supply between the 1960s and the 1970s. This has resulted in a change in the composition of unemployment: the long term (more than six months) component of the unemployed has increased secularly and there have been very notable increases in the level of youth unemployment. According to this author the factors involved are:

- (i) Inadequate aggregate demand and excess capacity in the 1970s, so that real GNP has not been growing much faster than the labour force in OECD countries.
- (ii) Structural changes in the labour market e.g. entry of more women than in the past, an increase in the youth labour force, labour demands more skill-specific resulting in mismatching between the skills of the unemployed and the skills needed to fill vacancies etc.
- (iii) Increased voluntary unemployment as a result of better unemployment benefits, and
- (iv) Post 1970 wage increases in all OECD countries have been very high relative to increases in the 1960s.

The end result has been a substantial deterioration in the inflation-unemployment trade-off. Matthews (1982) says that incomes policy or some other change is needed on a permanent basis to cope with this situation which he calls the non-accelerating inflation rate of unemployment (NAIRU). This is tantamount to saying that the free enterprise system on its own will not in the future be able to provide full employment automatically, that even in good times a high percentage of the workforce in developed countries (probably 12 per cent) will be unemployed or in some temporary employment scheme.

If we agree with this thesis, we must think of non-automatic means of employing many of the people likely to be affected. The situation now is far different from what it was in the 1930s and 1950s. In those days the unemployed were prepared to accept their fate as being inevitable. Today we are dealing with people whose expectations have been raised by universal education and, if these are treated as outcasts from a particular society for a long period, they will inevitably strive to change this society into something different. Let us consider, therefore, ways and means of overcoming this situation.

It goes without saying that the problem of youth unemployment is the most serious. To date we try to cope with this through post-graduate studies, AnCO training programmes, work experience schemes, etc.; all very useful projects and not too expensive. AnCO is to double the numbers trained between 1981 and 1986 from 18,000 to 35,000. In addition the youth employment agency is considering a major initiative aimed at the longer term registered unemployed in the 18-24 year age group and it is expected that in 1983 about 45,000 young people will participate in schemes coming under the aegis of this agency. Also, Ireland is participating in a co-operative action programme, sponsored by the OECD and the French government, on local initiatives for employment creation and the government is to press for further aid from the European Social Fund for these and other projects.

These schemes are to be welcomed, since they keep young people occupied and out of harm's way during their duration. Their disadvantage is that they are of a temporary nature only and need supplementation with semi-permanent or permanent work. Attempts should, therefore, be made to train young people in groups so that, at the end of the training period, some might be set up in business with unemployed executives acting as group leaders or managers. For those so disposed, the business could be organised on co-operative lines. Such type of organisation has a fairly wide appeal for many people (see O'Connor and Kelly 1980). It is better able than other kinds of business organisation to produce optimal incentives to work. It can operate on a relatively small scale; there are few industrial relations problems; and with nobody round who can be blamed for skimming off the profits, co-ops have a strong ideological appeal. Unfortunately, however, their impact, or indeed that of any other normal business venture at the present time, cannot be very great. Because of the demand situation it is difficult to establish viable businesses anywhere but that should not prevent us from trying.

Public Sector Employment

Public works of all kinds are much more expensive than the payment of unemployment benefit or assistance. Such works involve the cost of administration, supervision, materials, transport, travelling and various other overheads which may be as large again as the cost of the unemployment compensation. In addition, since the people involved are now in the workforce, they are entitled to the going rate of wage for the type of work done, so that when all is added up (and taxation paid by those put to work deducted) the cost of providing an emergency job is more than twice the cost of an unemployment benefit (see Geary et al 1977). Furthermore, if, as happened in the 1970s the job is created in the regular public service, or in a semi-State company, the costs escalate because of the high salaries paid and the consequent promotions which have to be made for supervisory purposes.

The message from this is that the provision of work for unemployed persons is much more expensive and troublesome than the payment of unemployment compensation and for this reason, it is not a very popular idea among policy makers. With public finances strained to the limit and taxation almost at breaking point it is hard to see how

the State can fund such schemes at the present time. Some further money can possibly be got in direct taxation but it will have to come from the PAYE sector which is already bearing the brunt of the burden and, as indicated above, it will increase the tax wedge further. Indirect taxes seem to have reached the point of diminishing returns also and further increases will only push more people into "duty-free" purchasing, increase smuggling from Northern Ireland and make industry less competitive. What then, we might ask, is the solution to our current unemployment problems? With 190,000 people on the Live Register the problem is urgent and will not go away.

One solution often suggested is a general reduction in real incomes in both the public and private sectors, so that industry could become more competitive and extra people could be employed in the public sector for a given aggregate amount of money. Calculations made in the ESRI and elsewhere, using the newly designed macro models have shown, however, that this solution, even if attainable, would not work. If more people were to be employed in the public sector for a given total expenditure, the level of salaries in that sector would have to be reduced and those in the private sector increased so as to maintain tax revenue. But even if the private sector could afford to pay higher salaries, this is unlikely to be an acceptable option for the public sector unions; they would hardly accept a wage cut relative to other workers.

The implications of this discussion are clear. If the government wishes to bring the national finances into order by reducing public expenditure it can only do so by reducing the number of public sector jobs. We are thus left with the situation where a declining number remain at work enjoying relatively high salaries and an increasing number are left unemployed on the dole. It is a sad situation but not a new one. But even if the unemployed continue to grin and bear it, there are other dangers looming on the horizon. Tax revenue will drop as more people become unemployed and it may be impossible to finance social welfare payments at current levels. In that case we would have an intolerable situation and there would be no option except to collect more in taxation from all workers despite the undesirability of this action.

One short-term source of extra tax would be the introduction of PRSI in the public sector. The benefits of this scheme to the Exchequer in both the short and long run would depend on the terms under which it was introduced. In order to have PRSI accepted in the public service the scheme would need to make staff eligible for contributory old age pensions, in addition to their ordinary superannuation, as is the case with non-public sector workers. In the long run, therefore, there would be no net gain to the State from the policy. If, however, a period of five years were made necessary for pension eligibility, there would be an annual increase of about £80 million from the contributions for this period, even if all those over 60 years of age were omitted. This would give the authorities some breathing space and by the end of that time we would hope to be over the worst of our current difficulties.

However, if unemployment continues to increase a stage may soon be reached where the unemployed may have to be put to work somewhere in order to keep them off the streets. Emergency unemployment schemes may, therefore, have to be introduced whether we like it or not. At the present time these schemes would have to cater for non-manual, as well as manual workers, but for all, the rates of pay would have to be kept to a minimum consistent with needs. How to do this is a major problem but it might be got over by creating a separate public sector for such work which can make its own rules as regards conditions of service and rates of pay. A scheme to cater for work of this kind, introduced recently in Belgium for the long-term unemployed, might be of interest in this regard.

The Belgian "Third Sector" Experiment

Details of this scheme have been outlined by Lindermans (1982), who says that at the beginning of 1982 there were 440,000 unemployed in Belgium out of a total labour force of 3.8 million and that by 1985 there would be about 617,000 jobless or 16 per cent of the labour force. Of the current numbers unemployed, over 150,000 have been out of work for two years or more. Some of the latter are partially or severely handicapped people but it is estimated that well over 100,000 are able-bodied people willing and able to work.

Lindermans goes on to say that unemployment in the EEC is expected to reach 13 million by 1985, or 15 per cent of the labour force, and that in this situation it is illusory to expect a general economic policy based on real production to offer a valid short or medium-term solution to the problem, particularly, to that of long-term unemployment. Because of the way the market functions there is no reason to expect the spontaneous appearance of full employment in the next ten years: the growth/employment relationship has changed since the fifties and sixties. Furthermore, the kind of expansionist policies pursued by public authorities in these years are no longer possible because of budgetary restrictions, or desirable, because of inflationary pressure and for these reasons are unsustainable in the long run. This being the case, a growing number of economists and organisations are in different ways coming out in favour of a complementary policy aimed directly and specifically at employment creation.

Towards this end the Belgian government had adopted what it calls a "third sector" of employment for the long-term unemployed. Within this scheme 15,000 of the jobless are to be employed each year, outside both the market sector and the public sector, in satisfying employment deemed of use to society. The activities to be undertaken must satisfy all of the following conditions:

- (i) They must be suited to the abilities of the unemployed, possibly after retraining or further training.
- (ii) They must be adaptable to the regional unemployment structure (young people, older people, women, unskilled etc. in the provinces).
- (iii) They must be socially useful or of cultural importance, and
- (iv) They must be labour intensive.

These jobs, a list of which is given in the Appendix, must be ones which the private or public sector would not carry out in the ordinary way, but, nevertheless, they must meet long-term collective needs which would not otherwise be met. Nor must they replace other jobs. Another point emphasised is that they must not be in the Civil Service; the size of this sector must not depend on the number of structurally unemployed around at any time.

The Organisation of the Scheme: The right to work is guaranteed within a permanent "third sector" of labour to those who have been unemployed for over two years, or to those who have been without a job for a total of two years within a period of four years. Other unemployed persons could be taken on for particular projects under certain conditions, but the main thrust relates to the long-term unemployed and, by concentrating on these, a definite limit is put on the commitment. Though the criterion of being unemployed for two years may, at first, seem arbitrary, it is not entirely so. This is the group which is most in need of social attention. It can fairly be said that after two years the chances of finding a job via the market or the public service are virtually nil.

The rate of payment for the work will be based on levels in the public sector but determined by the tasks actually being carried out. It is stressed that the best way to combat abuses in the scheme is to offer a decent, reasonably well paid job. All other

measures could do more harm than good. The funds for the scheme will come from two sources. The Central Government will contribute what it already pays these people in unemployment compensation, while the balance will come from a payroll tax on other workers, specifically used for this purpose, i.e., a solidarity contribution.

Estimations have been made of the cost of the scheme under different assumptions regarding levels of pay. These are pretty large — 3.5 to 5.0 billion BF per annum for 15,000 workers (i.e., IR£53–76m). These estimates, however, seem to understate the costs as they allow very little for administration. Reports on the progress of this scheme are not yet available; they are awaited with interest.

The cost of such a scheme in Ireland would be somewhat as follows: if we assume that 10,000 people per annum were to be employed wholetime at, say, £120 per week, the wage cost in the first year would be over IR£60 million or double the unemployment assistance being paid to these people now. In addition it is estimated that the administration costs would be about £40 million, so that the total cost would be £100 million or, say, £70 million after tax. If, however, we deduct the unemployment payment of £30 million from this, the extra cost is £40 million. Now if existing workers were to pay the extra cost this would amount to a charge of 0.6 per cent of current wages to be added on to current PRSI and youth employment charges. In the second year a further 0.6 per cent of salaries would need to be collected and so on. The payments would soon become very high if economic conditions remained depressed. It is very doubtful, therefore, if we could introduce wholetime employment schemes of this nature for large numbers of people. We will have to consider less ambitious projects for the moment. However, in view of what has been said above regarding the difficulties of automatically creating full employment in future years, schemes such as this should be given careful consideration.

Part-time Projects: Because of the high cost of full-time projects, part-time schemes are of more interest. One way of operating such schemes would be to have a cut-off point for unemployment benefit for able-bodied people after six months. At the end of this period recipients would be given the option of doing three days' work on schemes suitable to their skills at somewhat more than the weekly unemployment benefit rate, or failing this having to go on to unemployment assistance. Those accepting the part-time work would be free to take other paid work in their spare time and this would reduce some of the alleged abuses in the present scheme, whereby people work wholetime on paid jobs and draw unemployment benefit as well.

If we look at the list of jobs in the Appendix we see that there is an almost unlimited range of activities which could be undertaken on schemes of this sort, from helping less favoured people, to environmental work of all kinds, special administrative work, such as filing, stock-taking, keeping archives, etc. Training and re-training schemes could also be included. The jobs could be organised on the same lines as the present youth employment experience scheme with the work being done in existing institutions such as old people's homes, libraries, offices, schools, and other training centres, thus reducing administrative costs considerably. If the jobs were ones not already being done by the institutions concerned, the workers on them would not be replacing existing paid staff. I suggest that such a scheme be given a trial.

A "third sector", if it came into existence, would likely become a permanent feature of public administration. This, in effect, would mean two distinct groups of workers within the same organisation with separate terms of pay and employment. No doubt pressure would be exerted to have the temporary jobs upgraded but we think that this pressure could be resisted, if the sector was set up by law and the conditions of service specified in the Act. Furthermore, we do not envisage any one group of people having to stay very long in this sector. Though the "third sector" would be a permanent feature

in so far as it remained in existence over time, there would be a continuous outward movement of the workforce as more remunerative jobs became available. These would be replaced by others who had lost their jobs or who had not yet taken up steady employment and so on.

Because of this movement and the temporary nature of the jobs, we believe that a "third sector" could exist side by side with a "regular sector", eventually becoming a recognised feature of the job market, where workers would become trained and retrained, obtain work experience and do some worthwhile jobs until more stable employment became available. If such a sector were introduced, the present unemployment incentive scheme might be phased out and the money saved added onto the third sector payments in order to make the work more attractive. Under the employment incentive scheme, subsidies are paid to employers in respect of additional workers taken on but despite this the uptake is low, 5,500 workers in 1982.² Furthermore, many researchers are not entirely satisfied with the efficacy of such schemes. O'Donnell and Walsh (1978) found that the apparent "windfall effect" (whereby funds are channelled to firms who would be expanding anyhow) was substantial. Their results indicate that only 17 per cent of the total number of subsidised workers related to new employments which would not have been generated, if the scheme had not existed. Nickell and Layard (1980), while favouring the scheme in some ways, claim that it seems to have little effect on employment but greatly increases the budget deficit cost per job. In view of these findings and of the problems involved in administration (i.e., ensuring that the subsidies are in fact paid for extra workers) we feel that there is little to be lost by phasing out such marginal employment schemes and replacing them by more positive policies such as "third sector" employment.

PART IV

CONCLUDING REMARKS

The picture painted above is rather depressing. We have few solutions to the unemployment problem and there is little consolation in being told that most other countries are in the same position as ourselves. What people are now asking is, how did the whole thing come about, and if recovery takes place will the same problems recur in a few years' time.

The cause of our present problems is fairly well understood. When the first oil crisis occurred in 1973 countries adopted Keynesian policies to get themselves out of trouble. They borrowed heavily and ran deficit budgets, presumably with the intention of balancing them later when conditions improved. This balancing was not done, however, and in our case we continued to borrow for employment creation throughout the 1970's. Hence, when the second oil crisis came in 1979 we were heavily in debt and had to go in deeper still to stave off further trouble. The point has now been reached when the servicing of the public debt has become almost impossible and it is dangerous to think in terms of increased borrowing.

The experience of the 1970s, however, does raise a very interesting question: can democratic governments be trusted to operate counter-cyclical fiscal policies? They have no problem about running deficit budgets but can they be trusted to balance again when conditions improve? This is a question which needs careful debate in order to see

²The weekly amounts of these subsidies are £25 per person under 25 years of age, £30 for persons 25 years and over and £45 for workers who have been unemployed for more than 26 weeks.

if some general rules, or even laws, can be devised to deal with the problem. Counter-cyclical policy is a powerful tool if properly operated but it becomes a dangerous weapon if the painful aspects of it are not implemented.

But even if governments do adopt responsible counter-cyclical policies, can we be sure that they will always work? Corden (1978) makes some interesting observations on this point. Suppose, he says, that the trade unions determine the money wage rate, business determines product prices and the government (monetary authority) determines money expenditure, who then is to be blamed if there is unemployment? Is it the government, the unions or business? After making certain rather rigorous assumptions regarding rigidities in the market, he shows that if one of the parties involved adjusts its instruments so as to fix one of the targets at a wrong level, the other two parties cannot do anything to attain full employment. For example, if the unions fix the real wage (at too high a level) the monetary authority and business cannot bring about full employment. Alternatively, if the government adjusts the money supply so as to achieve a given level of real expenditure, no reduction in money wages or product price can raise employment above the level determined by the real demand management policy. The fault lies with the party that fixes the wrong proximate target.

There must, therefore, be close co-operation between the social partners, if full employment is to be achieved. But even then, they cannot do this if the international demand situation is not buoyant. This, I am afraid, is the situation existing today. The great powers, in trying to control inflation, have choked off demand and, while the UK and the USA pursue deflationary policies, there can be no economic recovery. What is needed now is some movement towards reflation in these countries so as to generate an increase in world trade and stifle the protectionist policies which are gradually being adopted throughout the world, even within the EEC. The world requires a phased increase in demand, carefully organised by the great powers, in co-operation with international financial institutions. All other solutions are only stopgap.

Summary and Conclusions

It is expected that the Irish labour force will increase annually by about 19,000 on average over the coming decade assuming net emigration remains at current levels. We need, therefore, a net annual increase in employment of that number to prevent unemployment rising. The prospects for such increases during the present depression are remote and there will, therefore, be heavy unemployment up to 1985 and possibly beyond that date if world conditions remain depressed. The problem facing the country, therefore, is to develop policies to deal with this situation.

We have abated, temporarily, through deficit financing, the growth of unemployment during the worst of the recession. This has led to serious public finance problems and we are now faced with putting these problems in order. Hence, the funds available for employment creation are greatly constrained. To put the matter starkly, it can be said that the first priority must be public financial control; unless the finances are put in order now there may be total monetary collapse and all jobs will be in danger.

Because of the public financial situation, minimum cost solutions to the unemployment situation are imperative. The cheapest and most easily administered method of dealing with unemployment is through unemployment compensation schemes. These schemes have, however, many undesirable side effects. Among these are the effects on young people. Those, with nothing to occupy their time, become involved in criminal activities of all kinds, creating intolerable law and order problems where there are large numbers involved. The schemes are also open to abuse in so far as people draw the benefits while, at the same time, working in paid employment.

To cope with these problems, training and retraining schemes and work experience programmes have been introduced. These schemes are to be welcomed since they keep young people occupied and out of harm's way during their duration. It would be desirable, also, if older people on unemployment compensation could be put to work on emergency employment schemes. Unfortunately, the cost of such schemes (even after allowing for the tax which the workers pay) is much higher than the cost of unemployment compensation.

In Belgium, an experimental scheme has been introduced whereby 15,000 long-term unemployed are to be put "to work" each year on special employment schemes in what has been described as a "third sector" of the economy. A similar scheme in Ireland for 10,000 people would, in the first year, cost IR£40 million per annum more than is currently being paid to these people in unemployment compensation. If another 10,000 were to be put to work in the second year, the extra cost would be a further IR£40 million and so on. The costs would soon become very high if economic conditions remained depressed. At present, therefore, we could not introduce wholtime unemployment schemes of this nature for large numbers of people.

We could, however, introduce part-time work schemes for the long-term unemployed, whereby a person, unemployed for at least six months, would have the option of working three days per week for something more than the weekly unemployment benefit. For the remaining two days he would be free to take any other paid work he wished. It is suggested that the current employment incentive scheme be phased out and the money saved from it be used to increase wages in the above part-time scheme. To reduce overheads, as many as possible should be put to work in existing establishments.

A further suggestion not mentioned above is, that the public capital programme be examined in depth, so as to eliminate uneconomic schemes and make money available either for more economic projects, or to reduce the borrowing requirement. We are aware that this will create serious income redistribution problems, either through the switching of jobs from one group or region to another, or, as a result of the elimination of jobs entirely, but this may be preferable to what might happen, if scarce funds are to be wasted on completely uneconomic schemes. In any case, if the recession continues unabated, very serious income redistribution problems could arise. If the government becomes unable to pay a reasonable level of contribution PRSI may have to be introduced in the public sector. This would bring in about £80 million per annum until such time as abenefits become payable in the form of old age contributory pensions. After this the benefit payments in any year would equal the contributions, but in the meantime we would have gained a respite.

What is really needed, however, is some stimulation in world demand. Because Ireland is a small open economy there is little we can do in this regard. It must be done by the great powers, some of whom are more interested in reducing inflation than in creating employment. We should, however, be raising our voices at all international meetings to have this matter dealt with as a matter of urgency. And it is further suggested that the smaller countries align themselves with sympathetic larger ones, so as to put an end to the deflationary policies which have thrown the world into recession and confusion.

Finally, when we do get out of this depression, we must aim at controlling the size of the public sector proper. The magnitude of this sector must not depend on the number of unemployed around at any one time, nor must its cost place an undue strain on the rest of the economy. The tax wedge must be reduced if industry is to be competitive.

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APPENDIX

4. Possible Projects for a Third Sector of Employment.

1. Odd-jobs service for the less able (e.g. older people)

small repairs
painting, decorating
gardening (digging, etc.)
cleaning, polishing
above all, the unskilled can be put to work
no competition, since these are the less able

2. Hot meals for the aged, handicapped, and sick

labour requires few skills
caters for a permanent need

3. Traffic wardens

those who direct traffic outside school and at
busy junctions during rush-hours
and who can also provide information on traffic problems

4. Helping less-favoured persons.

examples:

- helping working women - immigrants

in order to help them adjust to life in
Belgium. e.g.

by going shopping with them

housekeeping

child-minding

helping with administrative paperwork

- helping children from less favoured backgrounds

helping children with their homework

or to learn a language

giving individual tuition

leisure activities

Most of these activities require no special qualifications.

5. Aiding the unemployed.

- providing training and information
- clubs and hobbies

6. Projects in schools.

- Children having difficulties with their studies would receive extra tuition from the teacher while the others were being "minded" by people from the 3rd. S.E.
- specifically for children of immigrant workers.
- Extra staff is needed to e.g. take children swimming, gymnastics (dressing - undressing), in practical lessons...
This supplementary staff need not to be highly qualified.

7. Information and training regarding:

- traffic problems
- insulation
- renovation work
- politics and society
- the budget
- the household

With a little training, these tasks could be undertaken by the less-qualified.

8. Improving the environment

- maintenance and "freshening-up" of buildings and monuments
- maintenance and "tidying-up" of parks, woodland, cemeteries
- planting
- information for those wishing to restore the outside of their house (e.g. the town of Bruges)
- cleaning-up of illegal rubbish-tips and monuments
- recovery of materials (which could be used e.g. by the odd jobs service)

(This certainly refers to non-listed monuments and areas of countryside... but even these have often been in a sorry state for over ten years).

9. Making villages and towns attractive to tourists.

- maintenance
- preparation of leaflets explaining what there is to see
- accompanying tourists
- "Mister Green Zones".
- garden villages

10. Special administrative work.

- occupying clerical staff in
 - filing
 - stocktaking
 - keeping archives
 - particular administrative formalities
 - work connected with the ten-year census

11. Basic information for adults.

Around 10% or 40,000 of those currently unemployed have had no basic education (reading and writing). Unemployed teachers could tackle this.

12. Church clubs, archaeological societies, folklore groups, regional museums could design a whole range of projects calling on many of the hidden talents of the unemployed.
13. "Green" projects: maintaining old orchards, collecting old varieties of fruit tree, small projects centred on streams, ponds, heathland, country paths...

DISCUSSION

D. McALEESE: I have much pleasure in proposing the vote of thanks to professor O'Connor for his presidential address. We are indebted to him, not alone for reviving a good tradition but also for offering us a paper on a timely, absorbing topic. No doubt had he chosen to play to his comparative advantage he would have written on authoritative analysis of Irish agriculture based on a lifetime of productive scholarship. Instead he opted for a subject of more general interest and perhaps also of more fundamental importance. There are now approaching 200 thousand people in the Live Register, a large proportion of whom experience serious deprivation. The intention of Professor O'Connor's paper is clearly stated as being "to raise some of the main issues" relating to this unemployment and to stimulate opinions "which will generate useful ideas for policy makers". In my view he has succeeded admirably in raising the relevant issues. Whether he will be successful in stimulating ideas which are useful for policy makers and which also are original and do not cost the Exchequer money is something which only time will decide.

The analysis of the first part of the paper leads to the conclusion that the main driving force for development must come from agriculture and manufacturing. In the phraseology of *Prelude to Planning*, we must look to the exposed, market-oriented trading sector of the economy to supply the basic dynamic. If this sector is looked after and prospers, jobs will be created in the non-traded or services sector. Indeed it is in the latter sector that most jobs in numerical terms will be found during the next decade. While there is no strict guarantee of this employment spin-off, the evidence of the last few decades suggests that a strong linkage does exist.

To maintain a vibrant agriculture and manufacturing sector will, as Professor O'Connor notes, require more competitiveness. Improving competitiveness in an environment where every country is engaged in the mutually frustrating effort to do the same is a difficult task even with the best domestic policy background. But domestic policies have been anything but best. One of the most fascinating statistics in the paper is the Bacon-Durkan figure of a 26 per cent rise in real labour costs per non-agricultural employee contrasting with a fall of 6 per cent in real employee disposable income during the period 1973-1983. The difference represents the burden of taxation. These taxes have been used to supply public sector services and to finance the public capital programme. The figure goes far towards explaining the difficulties in communication between the social partners. Businessmen complain that costs are too high and employees that their real take-home pay has fallen. Reasonable discussion about pay increases is not made any easier as a result.

To close the gap between costs and take-home pay, taxes must be reduced which, given the state of government finances, means that public expenditure must be cut. Easily said but how difficult to accomplish! Each attempted cutback is greeted with a chorus of disapproval. "The government is meanminded", "Minister X is insensitive", "lacking in compassion" and, of course, "the sum saved is trifling in relation to the aggregate overall deficit". If the expenditure cut applies equally to all sectors, it discriminates against the poor and in favour of the rich. If the poor are excluded, the proposal will still be attacked because it discriminates against the low-paid who are just above the poverty line. If the dividing line is made sufficiently high to exclude all those the critics wish to exclude, the cost of the paperwork would very likely exceed the revenue saved. The temptation must indeed be strong, virtually to the point of being irresistible, for the government to abandon efforts at cost-pruning in favour of global methods of taxation which may be less efficient in economic terms but at least affect "everyone" or nearly everyone and, if carefully packaged, can avoid the worse excesses

of the equality lobby.

Much of our unemployment problem owes its origin to external circumstances. Recently, Mr. Gaston Thorn was reported as predicting a level of unemployment totalling 14m. in the European Community by end 1983. The depressed economic conditions which such unemployment reflects cannot but have a most unfavourable effect on Ireland's economic prosperity. The economy has also been badly hit, more than we think, by the economic decline of the UK.

As the paper shows, Ireland's labour force is growing faster than any other country in Western Europe. This is not something that has happened to us but rather the consequence of individuals' decision to have large families, in many instances more than they can afford to support. The fall-off in the propensity to emigrate is predominantly attributable to lack of opportunity for work but national attitudes to emigration, educational policy and other domestic factors may also have contributed. We have also been slow in cultivating expertise in foreign languages, a useful attribute for anyone wishing to make a living or hoping to develop export markets on the European continent. The rush to raise social welfare payments to the UK level may, in retrospect, be seen as a great mistake. The gap was bridged in advance of the economy's capacity to finance the necessary payments and to raise real wage levels of the lower income groups sufficiently far above the welfare floor. The result has been a much reduced incentive to move to alternative locations in search of employment, and the expected benefits, in terms of reaproachment with Northern Ireland, have not materialised. Apart from the lack of coordination between the system of income tax and the social welfare code, employment protection legislation is another example of a self-inflicted disincentive to hire labour developed during the last decade. The growth in Ireland's labour supply has been assiduously documented in numerous reports (notably by the NESC). The policy implications of this growth have also been widely discussed, but the policy recommendations have been largely ignored. The labour supply situation should have, but did not, encourage caution in introducing legislation and tax measures which could only reduce the incentive to hire labour. Efforts by the trade union movement to introduce stricter controls on part-time work, seen in Professor O'Connor's paper as a source of future employment, will if implemented reduce the effectiveness of this possibility in generating employment. For all the talk of planning during the last decade and for all the plans, white papers and green papers, there has been neither consistency nor coherence in national policy towards job creation and unemployment. Instead, creeping admonitionism about the dangers of excessive real wages have been followed by policy measures which ensure that private-sector employers have more of an incentive to reduce their labour force than to add to it.

Bad policy decisions have contributed to the present crisis. Professor O'Connor is right in arguing that further expansion of the public sector offers no cure. The public sectors suffers from a deadly lack of flexibility. One has only to imagine the situation which might have ensued had agriculture been nationalised in 1978 and all farmers reduced to the status of employees in, let us say, Comhlucht Talmhuíochta Eireann (CTE). Faced with the input-output price squeeze of 1979-80, one could easily imagine the powerful arguments advanced by the farm employees' trade union to forestall any attempt to let wages absorb the burden of the fall in net revenue. By comparison with other sectors of the economy, farmers were poorly paid. A real fall in their income would have been resisted with convincing statistics and powerful rhetoric. CTE would lose money, more capital would be sought to boost productivity (supporting statistics on the under-capitalisation of land would be readily available) and the economy would be further plunged into debt. This is what could have happened, and what could have been justified by the strongest arguments on 'equity' grounds. It did not happen,

because farming remained a private enterprise activity. Farmers accepted a 50 per cent fall in real wages during this period, something which few public sector employees, would ever conceive as possible.

It is therefore to the private sector, and not to further multiplication of *ad hoc* employment schemes, that one must look for new jobs. To those of us who are conditioned to think of problems as having clearly-defined solutions, which in turn involve government intervention, this is a rather painful conclusion to have to reach. There is nothing much the government can 'do' to add directly to employment. Its best contribution must be to cease taking measures which make employment creation more difficult and to establish a domestic price and cost environment conducive to productive activity. The rest one must leave to the versatility and ingenuity of our youth and to the recovery of the world economy.

J. Corcoran: It gives me great pleasure to second the vote of thanks to Professor O'Connor on his paper. The paper demonstrates clearly the employment challenge facing us in the 1980's and outlines some of the options available to meet this challenge. The paper is extremely timely, given the continuing increase in unemployment and the importance attached by Government and the community to its solution.

The paper is divided into four parts — manufacturing industry in modern economies; the long term employment situation and labour force projections; the short term unemployment situation and counter cyclical policies.

All are of interest but I propose to deal mainly with special measures taken to deal with what was believed to be a short term unemployment situation. Having said this, I accept that the solution to our employment difficulties rests in areas other than special schemes and that the solution is essentially concerned with getting our competitiveness right, accompanied by job increases in the services sector. In other words, special employment schemes are not a substitute for economic growth and there is a danger that, by attaching too much emphasis to job creation schemes, we may detract attention from other more important issues. In this connection, it could be argued that too much attention was paid in the negotiations on the 1979 National Understanding to job creation schemes rather than to the wage rates contained in the eventual Understanding.

Following the increase in unemployment after the first oil crisis in 1974, Governments in the Western World looked to special employment schemes to reduce the numbers unemployed. A major attraction of such programmes sprang from the argument "that it is better to pay people to work than to be unemployed".

Research had shown the relatively low net costs for the State of supporting job creation programmes when account was taken of the savings on unemployment compensation and the returns to the State by way of social welfare contributions and direct and indirect tax. The schemes were also based on the belief that the unemployment difficulties being experienced were of a temporary nature. As regards administration, this was in general entrusted to bodies already implementing manpower programmes such as the National Manpower Service and AnCO in Ireland. In addition, the programmes being administered by these bodies, and which were mainly aimed at producing a dynamic and adaptable labour market, were expanded as counter cyclical measures.

As regards Ireland, the Premium Employment Programme, which provided incremental wage subsidies for employers increasing their labour force, was introduced in 1975. The scheme was replaced in 1977 by a much more elaborate scheme, the Employment Incentive Scheme. In 1976 AnCO developed the AnCO Community Youth Training Programme. In 1977 we have the development of the Department of Educa-

tion's Temporary Youth Employment Programme. In 1977 we had the Department of Environment Environmental Scheme employing young people on environmental works. Also in 1978, the Department of Labour started its Work Experience Programme. In 1981 we have the major initiative establishing the Youth Employment Agency. During this period, AnCO and other bodies increased the participation in training programmes.

The position in 1983 is that roughly 45,000 young people are expected to participate in the various programmes with an additional 6,500 over 25s participating in training. These are sizeable numbers and in fact the number of young people catered for corresponds more or less to the number of second level school leavers entering the labour force.

The rapid expansion in programmes has produced problems. The first difficulty concerns finance. The argument of low net costs to the State is questionable in a situation where a person on a scheme could be displacing another person. The question is also raised of what the future holds in store on completion of a temporary scheme. There has also been some questioning on the displacement and substitution effects of some of the programmes. This question centres on whether employers are using young people on programmes, such as the Work Experience Programme, to fill normal vacancies. The question has been raised as to the wind-fall gains that may arise in the case of a subsidy scheme where the employer gets a subsidy even though he would have hired the worker any way. All these problems are aggravated by a lack of self-sustaining jobs. This brings us back to the need to create such jobs which will be filled by the well-educated, skilled and productive workforce, the production of which was the original major aim of manpower programmes.

There is also the problem of co-ordination of schemes. The major illustration of a lack of co-ordination is probably the differences in the wages and allowances paid on the various schemes. Thus, for example, in the case of the Environmental Improvement Scheme introduced by the Department of the Environment, the wage is over £100 per week while in the case of an AnCO trainee the allowance is about £35 per week. In connection with these schemes the questions can be raised of which contributes to the better development of the young person in the long term and whether the rates of allowances and wages point the young person in the direction of that scheme.

We are doing a lot in Ireland insofar as short term job creation schemes are concerned. The same measures are being implemented by other EEC and OECD countries with minor adaptations. It would, however, be fair to say that we are doing at least as much and, in many cases, more than most of those countries. An area where we might be criticised, however, is on the evaluation of schemes. We seem to be very slow to evaluate programmes when compared to countries such as the U.K. and U.S. where evaluation starts more or less simultaneously with the programme.

Professor O'Connor has mentioned the Belgian Third Sector Programme. A somewhat similar programme exists here on more or less the same relative scale as the Belgians, in the form of the Temporary Youth Employment Scheme and the Environmental Improvement Scheme. I suspect, however, that the Belgian scheme may very well be a device for testing "availability for work" in connection with applications for unemployment compensation.

The formulation of the Youth Employment Agency has brought a new approach to job creation schemes that is better thought out, better directed, more flexible and better integrated than existed before 1981 and also offers the potential for a co-ordinated approach. In 1983/84 the Agency is supporting the continued expansion of State-aided training and Work Experience Programmes; is providing for a greater concentration on the young long-term unemployed; is replacing the current temporary employment

activities with a new integrated approach; is improving the access to training for disadvantaged teenagers through the extension of community workshops which provide more basic training than the normal AnCO Training Centres; is supporting local and community initiatives in job creation; and is promoting a number of new initiatives within the educational system to improve the transition from school to working life. Of particular interest here is probably the concentration on local and community initiatives in job creation. This idea is being developed increasingly by OECD countries following from French initiatives to provide jobs by community and local bodies mid-way between the market and public sectors.

Professor O'Connor referred briefly to work sharing. The constraints on work sharing for us in Ireland are well known. Work sharing must not increase costs and this involves an element of income sharing. The major focus in the "international" work sharing package is probably the French initiative for a 35 hour week by 1985 and similar moves by Belgium. In our own case the collective bargaining system would be the appropriate mechanism for pursuing this objective. Also in the Irish case our lower levels of income vis-a-vis the countries on mainland Europe would probably mean that we attach a greater priority to income increases rather than reductions in working hours.

On work sharing I would, however, make the point that the extent to which OECD and EEC countries have resorted to such measures may not be fully appreciated and may be under-stated in Professor O'Connor's paper. Virtually all the EEC and OECD countries with the possible exception of the US and Japan (but including the U.K. and Germany) have resorted to work sharing measures of one sort or another.

Could I conclude, by again complimenting Professor O'Connor on his paper which, I believe, contributes significantly to the discussion on employment policy in Ireland.

F. Ruane: In the light of the paper read by Professor O'Connor and, in particular, of the comments made by Mr. Corcoran, I should like to focus on two important lessons which we have learnt over the 1970s. First, the openness of the Irish economy to trade and factor flows and the inability of the Irish public sector to adjust in size, especially downwards, places severe limitations on the successful applications of Keynesian policies in Ireland, to counteract downturns in the world economy.

Second, the problem of structural readjustment, which some thought to be a temporary phenomenon in the 1960s and 1970s as the economy adjusted to free trade, is here to stay. Such readjustment will be necessitated both by the increasing pace of technological change and by the changing pattern of world trade. Unless labour is willing to retrain and adjust, massive structural unemployment is inevitable in the 1980s. Just as we found that once-and-for-all capital subsidies were insufficient to provide a permanent, dynamic industrial sector, so we are likely to find that once-and-for-all training will not guarantee permanent employment. Because of the limited scope for independent policy (apart from exchange rate policy, which for a variety of reasons, both good and bad, the government prefers not to use), and because of the increasing need for structural readjustment, I disagree completely with Mr. Corcoran's suggestion that macro-policy has been under-emphasised and manpower policy over-emphasised in recent years.

Finally, I should like to draw Professor O'Connor's and the audience's attention to some papers published recently in a symposium on Unemployment and the Labour Market in Volume 14, No. 2 of the *Economic and Social Review*. These papers throw some light on two particular issues which have been raised by Professor O'Connor in his address and by Professor McAleese in his response. First, a paper by Mary O'Mahony shows that the long-term unemployment problem is not as severe for youth

as it is for those in their thirties and forties, however, for Irish unemployed workers in general, the expected duration of unemployment is almost two years at present. Second, a paper by Donal O'Mahony, which estimates the high ratio of unemployment to employment income of certain groups under the present social welfare system, points to the need for careful co-ordination between those operating imaginative employment schemes of the type proposed by Professor O'Connor and those responsible for the tax structure and social assistance. Without such co-ordination, good employment schemes may have negligible effects on solving our unemployment problems.

L. Smith: Professor O'Connor accepts the existing structure and, logically, finds the employment problem insoluble. He finds the overwhelming State presence in the economy as a cause of our problems but his palliative prescription will further increase the State presence which has caused so much of our problem. We have constructed a nice, comfortable, rigid system, based on the "wedge" of taxation plus borrowing, to cushion either short or long-term change. We have built a structure of monopolies; of scarce skills; of the right to use those skills; of the right to hold on to a job at the previous level of pay even when the job is no longer needed. We have over-manning to an absurd extent. Fundamental change in these things will come. In attempting to make the present situation continue indefinitely, we will cause a fall in the standard of living, in employment and in social life generally which will force change.

Instead of looking to the State, look to the position of those who would give employment. An entrepreneur pays personal tax of 67 per cent often 50 per cent higher than he would pay on the Continent. In public esteem he is constantly denigrated. If he is successful, his standard of living is criticised, though that of a man who wins a lottery is not grudged by the public. His workers are so taxed that, as has been pointed out, their standard of living is falling, though "wages have increased 28 per cent in real terms". Conditions of employment have changed so that a man is foolish to employ another.

The compliance costs of employing any one legally are high in time spent filling forms. It is exceedingly difficult to dispense with labour if a project is unsuccessful or a person unsatisfactory. When winding-up a firm the employer has lost his shirt, he must pay redundancies in addition. If he engages in labour intensive work, such as the hotel industry, his Netherlands competitor pays 4 per cent Value Added Tax compared to our 23 per cent.

It is not true to say that people will refuse to do dirty work. Under present circumstances, naturally, we are all unwilling. If the alternative is a lower income than on the dole people will take less satisfactory jobs. In the early 1950's, there were 50,000 people in domestic service, nearly one-third of those now unemployed. I do not suggest that we should go back to that position, but to make the point that people will employ each other if they are allowed.

We can increase our productivity by simple steps which we are at present unwilling to take. For example, the congestion of our streets is a major cost borne by all travellers. If we enforced the Parking Regulations this would be within sight of solution. A few fines of £100 or, if necessary, £200, would clear all double parking and illegal parking on yellow lines. We are not acting to reduce legal costs on property. We are not killing-off even one white elephant in our allegedly severe Budget. Yet, the most we can get is the average product of our work in this country — minus the service of the national debts which we have incurred. The minimum wage must be well-below that, if there is to be an incentive for work and improvement of skills. It is true that this is below what is socially acceptable.

The penalty of not adjusting is written for us in history. Coventry was a textile centre in Britain before the Industrial Revolution. Guilds protected the quality of goods, the position of employers and workers under the old conditions. People were unwilling to change so Manchester, which had only a cross roads with a gallows, was built up as the centre of the textile industry. At this time we have an industrial revolution of similar magnitude. In Europe, we have, like Coventry, developed a very comfortable social system whose virtues are obvious and we are unwilling to change. In the Pacific Basin the new developments are taken with alacrity. Already, the Japanese have higher income per head than Europeans: Korea, Singapore and other countries are rapidly catching up. The history of civilisations is full of cases of dominant societies which decayed because of rigidity.

Kieran A. Kennedy: I would like to compliment the President, Professor O'Connor, on the general idea of reviving the practice of a Presidential address in this Society; and I congratulate him on the particular way in which he has restored that tradition by giving such an excellent lecture on so vital a topic.

In discussing employment creation, it is important to remember that it is not the only goal which the society sets itself. Irish society aspires, for example, to higher living standards, and also, though often ambivalently, to a more equitable distribution of income. These objectives may conflict and the society has never given absolute priority to employment creation at the expense of other goals.

Moreover, the achievement of these goals offers a greater challenge here than in most of the rest of Europe. Population and labour force are growing much more rapidly; the standard of living is only about half the EC level; and the relatively low living standard, combined with other factors like the high dependency rate, limit the scope for redistributive measures.

We also place a high value on the democratic freedoms of speech, travel, association and collective bargaining, so that policy must seek to achieve the objectives within a framework that rules out many forms of directive or coercive action.

These general influences go part of the way towards explaining why unemployment has proved to be such an intractable problem. But to explain the near-crisis levels to which unemployment has now risen, it is necessary to turn to the more proximate causes, of which three in particular are of great importance. The first is the general world depression, which not only limits demand for our goods, but also the supply of new foreign enterprise. The second is the escalation in Irish costs, interpreting that term in a wide sense, to include not only unit labour cost in the competitive sector but also the tax burden of financing the vast growth in public expenditure and the costs of non-traded inputs like postage, telephones, legal expenses etc., costs that may be excessive due more to inefficiency than high wages. The third factor hinges on the structural deficiencies arising from the comparatively underdeveloped state of the economy.

It goes without saying that there are no policies available to use to boost world demand, and the best we can hope to do is to try to counteract its effects. Realistically, we are unlikely to be able to counter the full impact of such a severe and prolonged world depression. Moreover, the choice of measures used to counteract the effects of world depression are of considerable importance. If we do so in a way that impairs our cost position, as part of the public sector deficit financing of the last four years has done, then we may very well make matters worse for ourselves within a short time.

To make any sensible progress, I believe it is essential to develop a consistent medium-term strategy. Such a strategy cannot, in present circumstances, offer a solution to all our difficulties. What it can do, however, is to pose the choices that are open to us, none of them easy, and help to ensure that consistent policies are followed.

Take for example the public finances. If it is agreed that continued borrowing on the present scale is neither feasible nor desirable, then there are only three options open: increase taxes, reduce current expenditure and reduce or re-direct public capital expenditure. There is a widespread, and not unjustified, belief that taxes are already crippling many forms of productive activity. If that is accepted, then there is no way out except to cut public expenditure. Unless this can be accomplished through pay moderation, then it will directly reduce employment in both the public sector itself and in related private sector activities. Recognition of our development needs points generally to cuts in current rather than in capital expenditure, though there is plenty of scope for re-directing public capital expenditure into more useful channels, in accordance with sensible criteria. On this approach, Special Employment Schemes through public works must be treated with some reserve, since they add to the tax burden, although I believe there is scope for local, community and voluntary effort to organise such projects.

These were some of the elements in the strategy worked out by the Steering Group on the National Plan last year, which were largely adopted in the then Government's plan, *The Way Forward*. Although it was much criticised at the time, in all the welter of criticism I do not recall many positive suggestions as to how to improve on that strategy. I have yet to see a better alternative. Indeed, apart from the Plan put forward by the Workers Party, no other alternative — good, bad or indifferent — has been offered by either economists or policy-makers.

It is to be hoped that the new Government will resume planning arrangements soon. Planning at the present time is not an enjoyable exercise, since even with considerable sacrifices, the best that may be attainable for the next few years is to keep matters from getting too much worse. But without such a medium-term strategy, the mix of policies is likely to be confused and inconsistent, making matters even worse than they need be.

T. Beere: We are greatly indebted to the President for reviving the old tradition of reading a paper during his term of Office. He has certainly given us much to think about. My first thought went back to a paper which I had read to the Society many years ago on the rehabilitation of young unemployed and the measures taken in a number of countries to deal with the problem. On looking it up I see that the opening sentence reads "Unemployment among young persons is one of the most acute and disturbing problems of this generation". Things haven't changed much!

A few days ago while waiting in the queue in my local Post Office, I began to read the massive number of advertisements on the Notice Board. Surprisingly only a few were offering services, the great majority were looking for someone to provide them with services of one kind or another. Surely there should be a role for a local organisation to bring together young unemployed in their area with those who would welcome and be prepared to pay for a service.

Someone with organising and counselling skills would be needed to organise a pilot scheme. Teams might carry out house to house enquiries to determine the extent and nature of demand. Part-time training would probably be required. If possible social security benefits should continue to be paid until earnings reached a certain amount. Work of a service nature should not be regarded as a dead end but as a means of developing new areas of work! Office blocks and similar large buildings avail of the services of Contract Cleaners. Why should not smaller units be set up on a local basis to provide essential services for the small householder unable to cope?

Horticulture should be another outlet. Why should we continue to import our vegetables and fruit while hundreds of acres of city gardens remain unproductive? There should be very considerable outlets for those who may enjoy the outdoor life and,

having learned the simple arts, they should be encouraged to go for further training.

Admittedly, these suggestions could only deal with a very small part of our problem, but the involvement of a community on a local basis would seem to be at least worth a try.

Reply by R. O'Connor: I have little to say in reply to the discussions on my paper. I am in substantial agreement with most of the points made by the various speakers and particularly with that made by Dr. Beere about the role of local organisations in bringing together the young unemployed in their area with those who would be prepared to pay for a service. I wish to thank sincerely all the speakers who contributed to the debate and the members of the audience for their attendance. Let us hope that the discussions will generate some useful ideas for policy makers.