

# Unemployment and the Labour Market in Ireland

## INTRODUCTION\*

One of the most controversial issues in modern labour economics surrounds the attempt to establish the existence and magnitude of the effect of unemployment insurance on the level of measured unemployment. To some economists it seems self-evident that the growth of an unemployment insurance scheme which replaces a substantial amount of the earnings lost through unemployment would have a significant effect on the level of unemployment measured in terms of applicants for unemployment benefits. Minford and Peel (1981), for example, claim that "unemployment is voluntary . . . Allowing for benefits in kind and the costs of working, a man with a wife and two children would obtain *permanently* in benefits a living standard about three-quarters as good as he would on average earnings" (p. 4). But it has proved difficult to obtain conclusive empirical evidence of the magnitude of this effect, so that it is possible for Atkinson (1980), for example, to conclude that "there is at present no strong evidence that there is a large proportion of volunteers among the unemployed" (p. 28).

It would be hoping for too much to expect that a single study would establish where, between these two polar views on the subject, the Irish case lies. One issue that has been raised in the international literature can, however, be fairly conclusively explored by a properly conducted survey of the unemployed. This concerns the question of whether the amounts actually received in unemployment benefits and related payments correspond closely to the amounts hypothetically payable under the rules of the social welfare code. Donal O'Mahony's study of the income maintenance payments received by a sample of the unemployed shows that in Ireland there appears to be a close relationship between entitlement and actual benefits. Moreover, his study documents that in several important instances the percentage of net earnings from employment that is replaced by these transfer payments is very high. On both these points, the Irish situation seems to differ markedly from that currently prevailing in the United Kingdom (Atkinson, 1980).

\*The Editors are very grateful to Brendan Walsh for accepting their invitation to write this Introduction to the symposium on *Unemployment and the Labour Market in Ireland*.

The implications of changes in the replacement ratio, and other features of the unemployment insurance system, for the level of recorded unemployment are extremely difficult to establish. The paper by Gerard Hughes and Brendan Walsh explores one approach to this question by studying the effect of changes in unemployment insurance variables *inter alia* on the probability that those who are registered as unemployed will remain unemployed for a further three-month period. They encounter several technical problems in this study and note a general tendency for the duration of unemployment spells to fluctuate in a manner that cannot be readily accounted for by economic or social insurance variables. They undertake, however, an examination of the apparent tendency for higher levels of unemployment benefits (relative to net earnings) and longer periods of maximum entitlement to benefits to increase the probability that an unemployed person will remain unemployed for a further three-month interval. It emerges clearly from this investigation that even relatively slight increases in the probability of remaining unemployed have important implications for the overall level of unemployment and quite dramatic repercussions on the level of longer-term unemployment. These findings highlight the importance of devising strategies that will reduce the tendency for some newly unemployed persons to remain unemployed for a protracted period and of a possible role for a restructuring of the unemployment benefit system with this end in mind.

It has been argued by Feldstein (1973) that the unemployment rate in the United States should be viewed in the light of the fact that most of those who are unemployed spent relatively short periods of time in unemployment. This tendency to minimise the significance of American unemployment has generated a literature on the appropriate way to summarise the duration of unemployment. The complexities of measuring how long the typical spell of unemployment lasts are brought out by Mary O'Mahony's study. One measure, which is analagous to the average age of a population, is the average length of time those who are out of work at the time the data are collected have been unemployed. An alternative, which corresponds to the concept of life expectancy in the case of population statistics, is the length of time the typical entrant to unemployment can expect to remain unemployed. If there were relatively little variance in the duration of individual spells of unemployment the "average age" of unemployment spells would tend to be half their "life expectancy". In fact, in Ireland as in other countries, the age measure of duration exceeds the life expectancy measure. This implies that entrants to unemployment have greatly differing prospects of leaving unemployment. Some people enter and leave the Live Register within a relatively short time period, while others remain on it for months or even years. Mary O'Mahony shows that, even during periods of falling employment such as 1975, the growth in unemployment reflected the net difference between a very substan-

tial inflow and a very substantial outflow from the Live Register. (Of course, not all of those leaving unemployment were returning to employment.) This picture of considerable "churning" of the unemployment pool differs from the impression of a stagnant labour market conveyed by the statistics of a steadily rising level of unemployment during recessionary periods.

The underlying upward trend in the unemployment figures reflects the tendency for those whose re-employment prospects are poor to accumulate on the Live Register, but even in depressed labour-market conditions not all the newly unemployed face long spells of unemployment. The main impression conveyed by Mary O'Mahony's study is, however, that the duration of unemployment in Ireland, no matter how it is measured, is extremely high by international standards and has been increasing. The average expected duration of a spell of unemployment in 1980 was 25 weeks for Irish males, compared with about 17 weeks in Britain and much less in the United States. From the evidence of the tendency for the duration of unemployment to increase during recessions, it may be assumed that the typical male becoming unemployed in Ireland today will remain unemployed for more than six months. Moreover, the typical unemployed person today has been out of work for much longer than six months, and for those who are currently unemployed the average duration of unemployment will be probably over two years.

These features of Irish unemployment focus attention on the characteristics of the long-term unemployed, who constitute such an important component of our overall unemployment problem. Mary O'Mahony shows the sharp increase in the average duration of unemployment among the elderly and in the western and north-western regions of the country. The current concern about youth unemployment might be tempered by the consideration that in 1980 the typical unemployed male teenager spent an average of 14 weeks in unemployment, while men of 55 and over remained unemployed for over 50 weeks on average. The magnitude of long-duration unemployment in Ireland, and the undoubtedly severe social and economic costs associated with it, direct our attention to the influences on the duration of unemployment examined in the paper by Gerard Hughes and Brendan Walsh.

Taken together, these three papers shed considerable light on the nature of the unemployment problem in Ireland. They do not, of course, uncover any simple explanation for the persistently high level of unemployment in Ireland, nor for its recent rapid growth. By clarifying some aspects of the way in which the Irish labour market operates they may, however, contribute to the formulation of appropriate policy responses to one of our most pressing contemporary economic problems.

## REFERENCES

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