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Labour Market Measures in Ireland 2008–13: The Crisis and Beyond

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Introduction[1]

The period leading up to 2008 was one of rapid growth in the Irish economy. After a long period of low growth, high unemployment and the accumulation of large public debts throughout the late seventies up to the mid-eighties, there was a sustained period of high growth from the late eighties until 2007, with average growth rates of over 6 per cent in this period. This is often referred to as the period of the "Celtic Tiger". Honohan and Walsh (2002) provide a good discussion of some of the main factors thought to be the causes of this boom and suggest that it can be seen as a period of catch-up as the Irish economy recovered from low growth rates associated with poor policy decisions and benefited from a set of other favourable factors. Some of these factors are: access to the single European market, an improvement in the industrial relations climate, favourable conditions for attracting inward foreign direct investment and an improved fiscal position. While Honohan and Walsh (2002) expected a slowdown in growth in the new millennium as the Irish economy converged towards full employment and levels of output per head close to those of its European neighbours, the period from 2000 to 2007 was one of continued economic growth. The nature of growth in this period meant that the Irish economy was particularly exposed to the 2008 financial crisis.

Figure 1(a) shows the growth in total employment, employment in construction and GDP in the Irish economy from 1998 to 2014 using the Quarterly National Household Survey (QNHS). This is the labour force survey used to calculate official labour market statistics. There is strong growth up until 2007 and then a dramatic reversal in GDP and in the numbers at work. The extraordinary growth and subsequent collapse in construction employment before and after 2008 can also be seen, with the share of construction workers peaking at around 13 per cent in 2007, substantially higher than international norms, and subsequently collapsing to about 8 per cent at the beginning of 2010 and levelling at around 5 per cent by 2012. This dramatic surge in construction employment in the earlier period hints at some of the underlying weaknesses in what, on the face of it, appeared in 2007 to be a healthy economic environment in many respects. Whelan (2010) documents the main factors that led to such a dramatic reversal of fortune in Ireland in 2008–09 relative to many of its neighbours where the downturn was less severe, while Whelan (2013) gives a more recent assessment of the background and fallout of the crisis. These factors are outlined and discussed in the next paragraph.

One of the underlying weaknesses in the economy was the dramatic rise in property prices relative to incomes, which fuelled the construction boom. Many commentators in the years leading up to the crisis recognised that a fall in property prices and slowdown in growth was likely, although projections about the size of the fall varied. A number of important consequences associated with a slowdown in property prices were not widely anticipated in this period. As Whelan (2010) and Honohan (2009) document, the main Irish banks became increasingly exposed to the domestic property price boom with a dramatic rise in property-based lending in a weak regulatory environment. While in terms of the overall budgetary position the fiscal position of the Irish government looked very healthy, as Whelan (2010, 2013) documents, the share of income taxes in revenue fell dramatically and the share of revenue coming from property-related activities such as stamp duty and capital gains tax rose dramatically from 2007 onwards. In addition to the direct effect of the decline in construction activity and property prices on revenue, they would also have an unexpected dramatic negative effect on public finances through another channel. As the decline in property prices accelerated and the extent of the exposure of the main banks to property became increasingly apparent, when the international financial crisis hit, the main Irish banks found it increasingly difficult to access capital. In the face of the likely failure of one or more of the main Irish retail banks, the Irish government guaranteed virtually all existing and new bonds issued by the main

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Figure 1(a). Employment and real GDP over time

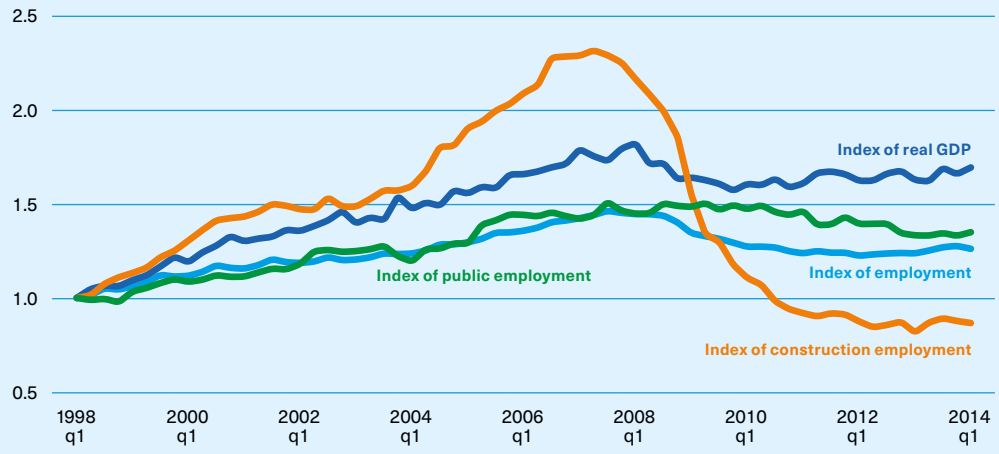
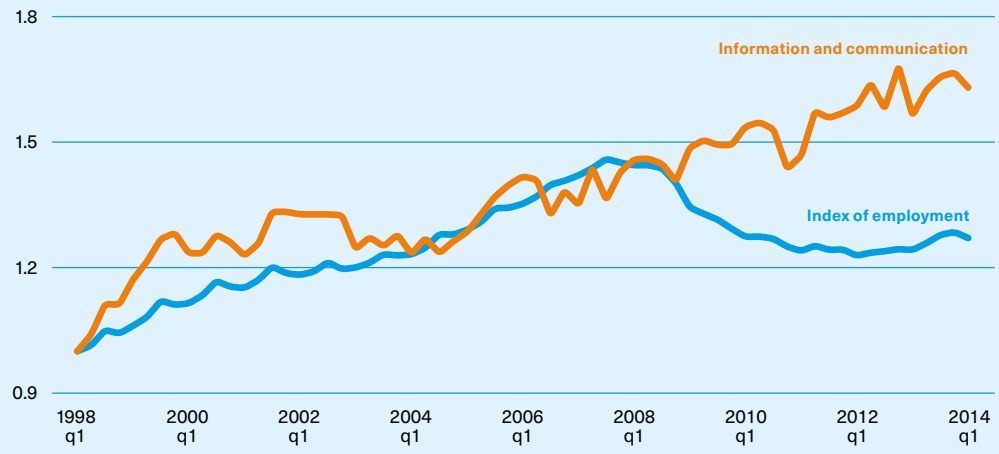


Figure 1(b). Employment in the information and communications sector over time



Note: Public employment is employment in public administration, not all public sector.
Source: CSO QNHS microdata and CSO national accounts series.

Irish banks in September 2009. This, alongside the collapse of construction-related and general economic revenue associated with the downturn, led to a dramatic deterioration in the fiscal position as the government moved from running surpluses to large fiscal deficits and markets became increasingly aware of the burden of bad debt the government had taken responsibility for with the bank guarantee. Costs of borrowing rose for the Irish government and by November 2010 the government was forced to enter an EU/IMF (International Monetary Fund) programme in order to access funds to finance the growing deficit. This fiscal crisis forced the government into a severely contractionary fiscal policy at a time of deep recession. While it is difficult to quantify the extent to which these contractionary policies exacerbated an already difficult labour market situation, it must have been substantial. Apart from the impact of contractionary policies on the demand for labour, the ability of the government to provide social protection and other services was also severely curtailed at a time when large numbers of workers and others found themselves in need of such services.

While the largest banks survived the crash with substantial aid, the difficulties in accessing credit associated with a dysfunctional banking system undoubtedly created great difficulties for Irish firms, and by extension for employment creation. For example, Lawless et al. (2013) document the dependence of small firms, which account for the bulk of employment, on commercial banks and discuss their vulnerability to negative shocks to the banking system.

Another notable feature of the crisis in Ireland was that some sectors, in particular "high-tech" manufacturing companies, which account for an exceptionally large share of output and exports in Ireland, did

relatively well during the crisis. Ireland has a disproportionately large share of multinational companies producing goods for export in some high-tech sectors. The collapse in domestic demand would not have been an important factor for these firms and the demand for many of the types of goods produced in these sectors may not be as dependent on the business cycle as other sectors. Figure 1(b) illustrates this, looking at an index of employment in the information and communications sector. There is continuous growth in employment in this sector, reflecting the fact that there were some groups of workers – those with the technical skills demanded by these industries – that fared much better than others throughout the recession. The same is true for wage adjustment where considerable variations in the adjustment in wages across sectors were found, and this will be discussed in Chapter 4 below.

This report will focus on the impact of the crisis described above on the labour market in Ireland, looking at both labour market outcomes as well as the domestic policy response. The discussion above is important to remember when discussing the policy response in that in particular for the duration of the EU/IMF programme mentioned above (December 2009–December 2013), the domestic policy response in terms of labour market policy was heavily influenced by measures outlined in this agreement and constrained by the fiscal discipline imposed on the government by the agreement. Chapter 1 looks at trends in the labour market in terms of employment, unemployment and non-participation. Chapter 2 looks at contractual arrangements, and in particular at the share of workers in self-employment as well as the share of employees in part-time employment and in temporary employment over the period, with a focus on young workers who tend to have suffered more relative to others. Trends in job destruction and job creation within firms and firm births and deaths over the crisis will be discussed in Chapter 2, showing that job destruction and firm deaths were primarily driving the collapse in employment rather than a fall in job creation. Chapter 3 looks at trends in unemployment and the substantial changes in the structure and level of benefits that have occurred. The pattern of replacement rates in Ireland compared with other countries will also be discussed. Chapter 4 looks at the pattern of wages over the crisis. An important change in wage-setting institutions was the collapse in the system of centralised bargaining mentioned earlier. This is discussed in more detail and it will be demonstrated that this has been accompanied by a decline in the percentage of employees who are union members since 2010 both in the public and private sector. The structure of minimum wages in Ireland will also be outlined. While minimum wage rates have fallen during the crisis relative to the average wage, substantial changes in the regime of sectoral minimum wages will also be described. While at the macro level the data suggests that wages adjusted slowly over the crisis, it will be shown that recent micro evidence suggests that this small average effect masks substantial positive and negative adjustment across different groups of workers. Chapter 5 looks at a range of active labour market policies over the crisis. While a range of schemes have been introduced and these are discussed individually, a particularly important change has been an increasing emphasis on monitoring of unemployed workers and on mutual obligation between unemployed workers and the unemployment service with the recent introduction of sanctions for workers who are deemed not to be meeting their obligations. Chapter 6 concludes.

Trends in the labour market

1.1 Introduction and trends in employment and unemployment

Ireland has a flexible labour market relative to most European countries. Table 1 below shows a range of OECD indices of employment protection for a small sample of European countries. There are no large changes in the indices over recent years so the countries are ranked according to the 2013 values. As can be seen, Ireland and the UK have much lower rankings than the other countries for each index. There have been no major legislative changes in terms of hiring and firing costs in Ireland since the onset of the crisis or the years leading up to it. Given this, and the relatively flexible rules described above, in this chapter the focus will be on other aspects of the employment relationship.

While policy choices have been severely limited by the budgetary situation, there have been a number of initiatives aimed at increasing employment in recent years. The employment policy response is summarised in three "Action Plans for Jobs" released between 2012 and 2014 (see Department of Jobs, Enterprise and Innovation 2012, 2013, 2014). These are characterised by a large number of small reforms such as schemes to give small firms access to capital, a lower rate of VAT on some labour-intensive sectors, policies aimed at sourcing expertise and investment from Irish migrants abroad and a range of small initiatives aimed at lowering the costs of doing business for firms, including some small-scale direct-subsidy schemes. Given the nature of these interventions and the fact that they were introduced during a period when the economy faced the combination of a large negative shock to external demand, severe problems with the banking system and an associated debt crisis for many households, and contractionary fiscal policies associated with the government's deteriorating budgetary situation, it is difficult to assess the extent to which they were effective in improving the employment outlook.

Figure 1(a) demonstrates a dramatic fall in employment, and in particular the huge fall in construction employment after 2008. The concentration of young males in construction is an important factor in explaining the much more dramatic fall in male employment rates relative to females seen in figure 2 between 2008 and 2009 and the corresponding rise in unemployment. Another striking feature of the labour market in this period is the dramatic rise in female participation rates that occurred in the years leading up to the crash. The rise in female participation came later to Ireland than many other developed European countries so there was possibly an element of catch-up here. One of the consequences of the crisis was an increase in male non-participation rates and it could be surmised from figure 2 that female non-participation rates would have continued to fall in the absence of the downturn.

Since the middle of 2013 there have been signs of a recovery in employment and unemployment rates have

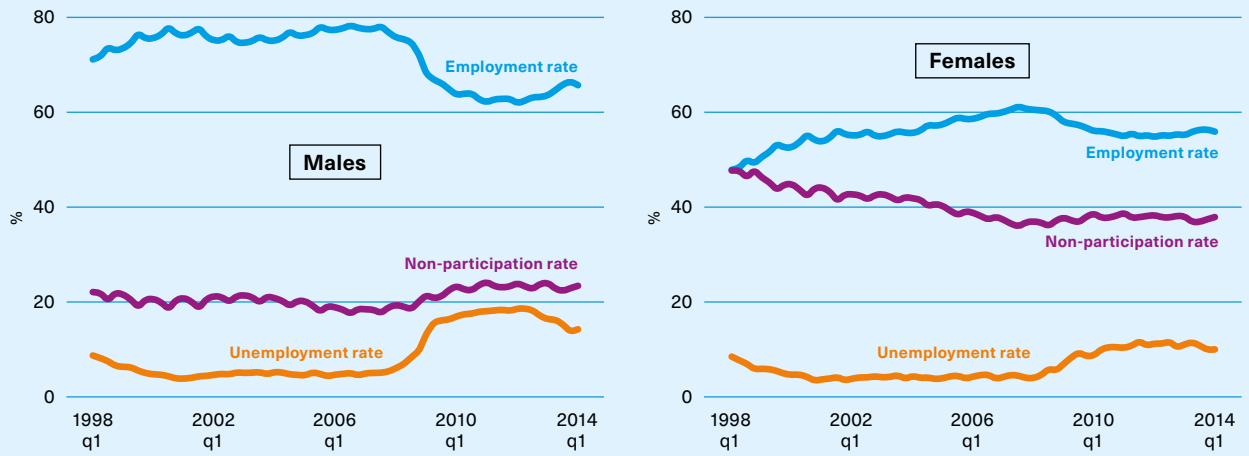
Table 1. Indices of employment protection

Country	Individual & collective	Individual contracts	Temporary contracts
France	2.38	2.38	3.63
Ireland	1.40	1.40	0.63
Italy	2.51	2.51	2.00
Spain	2.05	2.05	2.56
United Kingdom	1.03	1.03	0.38

Notes: Individual and collective is from the series "Strictness of employment protection – individual and collective dismissals (regular contracts)". Individual is from "Strictness of employment protection – individual dismissals (regular contracts)". Temporary is from "Strictness of employment protection – temporary contracts".

Source: OECD database.

Figure 2. Employment, unemployment and non-participation rates by gender



Notes: The sample is the population aged 15–64 and the rates are based on ILO definitions of employment, unemployment and non-participation.
Source: QNHS microdata.

begun to fall, especially for men. A puzzling feature of this recovery is that while other indicators such as government tax receipts have also shown stronger growth than predicted, GDP growth has not recovered. Most commentators believe that the failure of growth to materialise is because changes in output in a small number of sectors dominated by high-value-added foreign firms have had unusually large effects. The complications in interpreting both GDP and GNP, and in particular short-term changes, are discussed in Fitzgerald (2013) for example. Given these unusual features, a peculiar feature of the Irish economy is that trends in employment may sometimes be a better short-term indicator of the trend in real economic activity than GDP.

As is often the case in many countries, in recessions, young workers tend to be more vulnerable to employment loss than older workers. Among the reasons might be that young workers have less experience and tenure and so will have fewer firm-specific skills, institutional arrangements might imply "first-in, last-out" rules for firing, or that separation payments are lower for staff with lower tenure. Younger workers also tend to be more concentrated in service sectors that are more exposed to short-term changes in demand and are relatively labour intensive. Figure 3(a) illustrates a dramatic fall in employment rates and a rise in unemployment for young relative to prime-age workers at the onset of the crash where young is under 25, prime-age is 25–60 and older is over 60. From figure 3(b) it can be seen that the vast majority of workers over 60 were already not participating at the onset of the crisis and for those remaining, the impact of the recession on employment and unemployment rates was fairly minor compared with other workers. It also appears that the recent recovery in employment rates is predominantly for prime-age and older workers. Employment rates have flattened out for young workers – they have not increased. On the other hand, unemployment rates have fallen since the middle of 2013 for both young and prime-age workers. While the fall in unemployment for older males appears to be driven primarily by a rise in employment, as discussed below, it may be that migration is having a greater effect on unemployment rates of young workers. Another striking feature is the rise in non-participation rates for young workers during the crisis. Where these young potential workers went clearly has important potential welfare implications. Figure 4 below casts some light on this, graphing the share of non-participating young workers according to a more detailed classification of labour market status from the QNHS.[2] As might be expected for young non-participants, the vast majority are in education, but it is notable that the share in education was declining during the boom years leading up to the crisis, possibly reflecting the ease with which young relatively unskilled workers could find employment. The fact that the opportunity costs of further education in terms of expected forgone earnings has fallen dramatically since 2008 possibly explains the rise in the share of non-participants

2. The labour market classifications given are self-reported and subjective and so can contradict the ILO definitions. For example, a small percentage of these workers see themselves as employed, unemployed or searching even though they are classified as non-participants according to the ILO categorisation.

Figure 3. Employment, unemployment and non-participation rates by age

Figure 3(a)

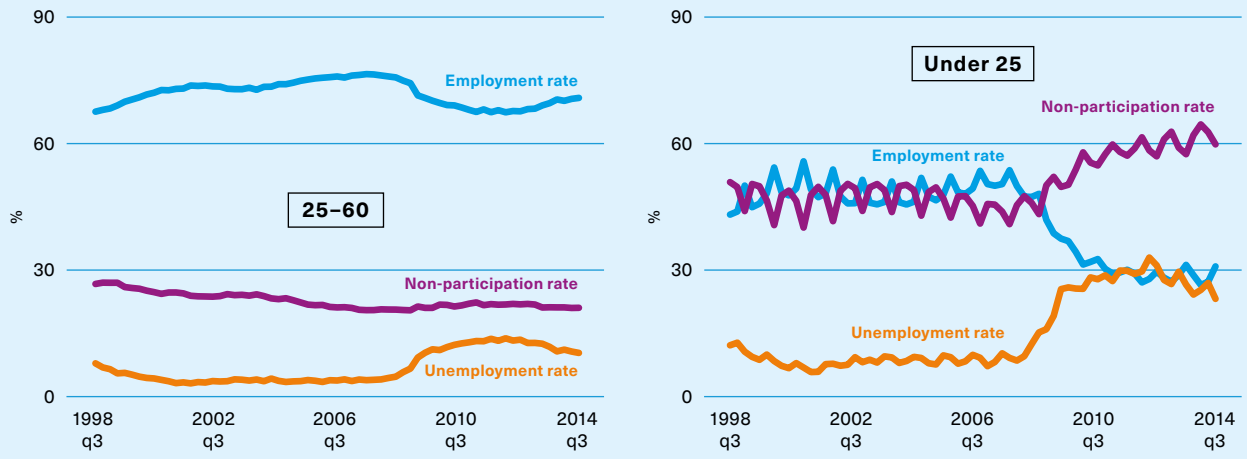
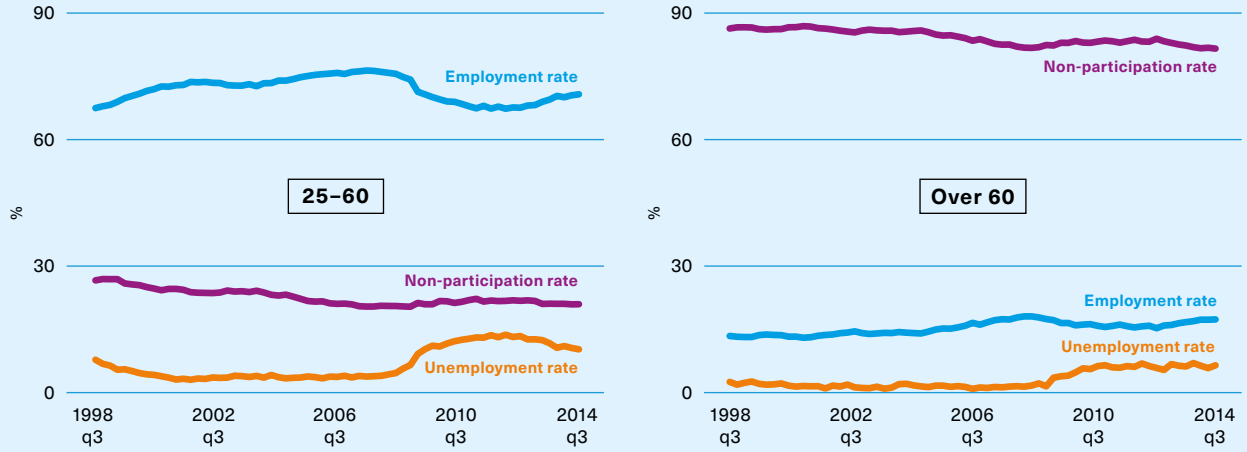


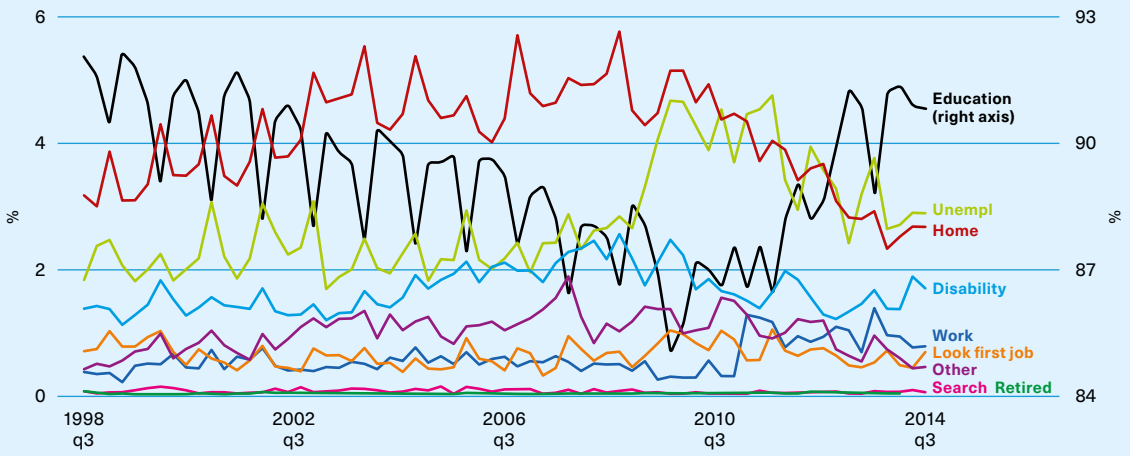
Figure 3(b)



Notes: The sample is the population aged 15–64 and the rates are based on ILO definitions of employment, unemployment and non-participation.

Source: QNHS microdata.

Figure 4. Reasons for non-participation of young workers (share of total)



Notes: The sample is the population aged 15–64 who are non-participants based on ILO definition and excluding those who had missing or "NA" answers. These amounted to about 12 per cent of the sample. The categories are: Work = "Working for payment or profit", Look first job = "Looking for first regular job", Unempl = "Unemployed, lost or gave up previous job", Search = "Actively seeking work after voluntary interruption of working for 12 months or more due to personal or domestic reason", Home = "Engaged in home duties", Retired = "Retired from employment", Disability = "Unable to work due to permanent illness, disability".

Source: QNHS microdata.

who are in education after 2008, although these conclusions are speculative, since changes in employment rates may also imply selection issues. That is, the distribution of skills amongst non-participating workers will change with the employment rate. The left-hand panel of figure 4 plots the share of non-participants who give reasons other than being in education. Most of these are small and there are no large changes. There is a spike in the number of young non-participants who categorise themselves as disabled or ill around 2009–10 but this falls back over time. The spike represents an increase of about 2 per cent in the share of non-participants, which represents about 1 per cent of the population of young people, and the rate seems to subsequently decline. Similarly, there seems to be a small rise and decline in the share of young non-participants who categorise themselves as unemployed.

1.2 Migration

The employment rates calculated above are the number of employees relative to the working-age population. Changes in the population may be affecting this as well as changes in employment. Ireland has a long tradition of mostly net outward migration during economic downturns. The changing patterns of migration in Ireland have had a dramatic effect on the composition of the labour market. Traditionally the bulk of migration consisted of native workers leaving in bad times and returning in better times, but there has been a dramatic growth in the share of migrants living and working in the Irish economy since around 1990.[3] In the new millennium, net migration flows were increasingly dominated by migrants from what would be the new accession countries to the EU. In particular, the accession of a number of eastern European countries to the EU was associated with a large surge in migration after 2004 and there was continued positive net migration until 2009, as seen in figure 5.[4] While there has been substantial negative net migration since 2009, the rate has not been as large as many expected, given the scale of the crisis, and appears to have levelled off at a rate of less than 1 per cent of the population. The other noteworthy feature of figure 5 is that there is an increasing rate of natural increase offsetting the outward migration flows so that population has increased over the period, albeit at a very low rate in recent years. Figure 6 looks at migration and population flows by age category and helps cast some light on some of the earlier pictures. Younger workers might be expected to have lower mobility costs and perhaps a higher stream of benefits from moving, and figure 6 is certainly consistent with this. The same hump-shaped graph with a surge of inward migration after 2004 and outward net migration flows after 2009 can be seen for both 15–24-year-olds and 25–44-year-olds, with much larger variation in the share of population migration for the younger group, where 3–4 per cent of the population have been leaving since 2012. For the 45–64-year-olds there is almost no net migration. These large outward flows for younger workers and the corresponding decline in population may partially explain the falling unemployment rates for younger workers in the face of flat employment rates. This is not necessarily so since it may be that migration is highly selective so that remaining workers are less likely to find employment, offsetting the increased likelihood of finding employment due to a fall in labour supply.[5] While the literature on migration certainly suggests that higher-ability workers will tend to migrate, as Clemens (2011) suggests, these are unlikely to be very large so it seems likely that migration of young workers is lowering unemployment. Of course the high net outflows underscore the general pattern of this review that, as in many other countries, the effects of the recession hit young workers most severely.

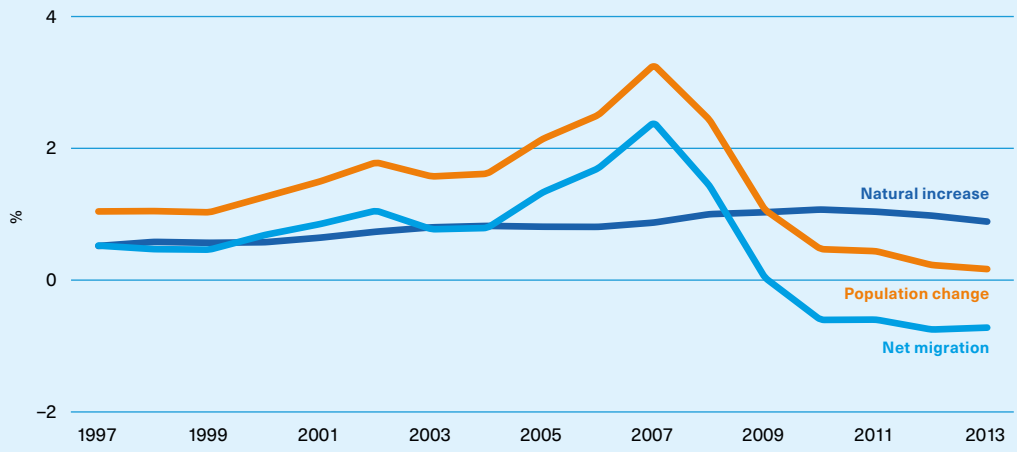
Ireland has adopted a relatively open policy towards migrants from new EU member states. Irish migration policy was primarily based on what was until the 2006 *Employment Permits Act* a fairly ad hoc work permit scheme. An Irish employer could apply for a work permit for a foreign worker and the worker could work legally in Ireland for the employer in question. Migrant workers on work permits were clearly in a vulnerable position relative to their employer, since they could not move to another Irish employer. Because many of the migrants coming on work permits came from the 2004 EU accession countries, migrants from these countries had the same employment rights as natives after 2004. Barrett et al. (2012) look at wage differentials for migrants/natives for pre- and post-accession migrants. Apart from a change in the composition of ability associated with the surge after EU accession, English language skills are a key determinant of the migrant wage penalty. The system of migration for remaining non-EU migrants

3. See Barrett (1999) for a discussion on the history and patterns of migration in Ireland before this.

4. Non-nationals as a share of the population increased dramatically in line with these trends, rising from negligible levels in the early nineties to 5.8 per cent in 2002 and peaking at around 12.8 per cent in 2008.

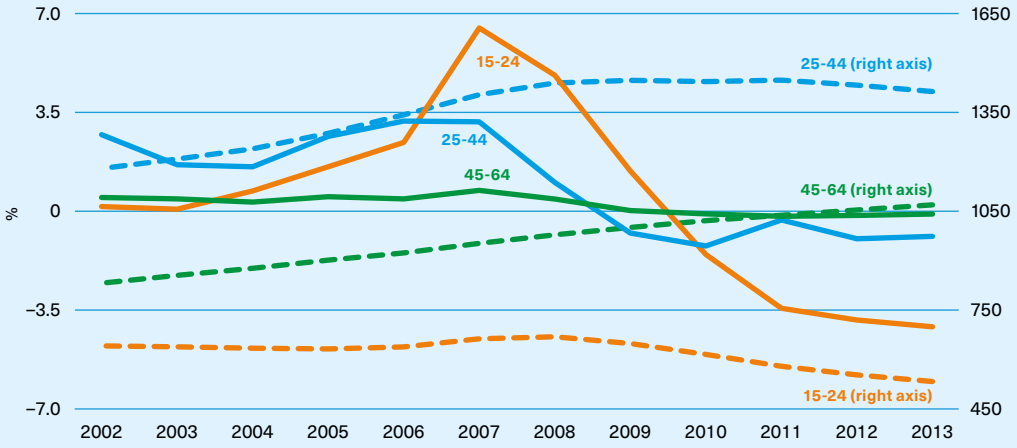
5. Glynn et al. (2013, p. 41) provide survey evidence that the probability of an outward migrant being unemployed at the time they leave increased noticeably after 2007.

Figure 5. Net migration, natural increase and population change (% of population)



Source: CSO Statbank population statistics.

Figure 6. Share of net migration and population by age group



Source: CSO Statbank population statistics.

became more restrictive after 2007. Work permits were now only granted after an employment test and not commonly for low-paying jobs. A system of green cards was issued for higher-paying jobs where the conditions were easier in sectors where labour was deemed to be scarce. Essentially the migration system has moved towards being somewhat more restrictive for non-EU migrants, but possibly no more so than most other European countries. In response to concerns that Ireland might become a welfare magnet, Ireland introduced a habitual residency condition, which made it difficult for migrants to access benefits after 2004. Whether a person satisfied the specified criterion was based on an individual assessment. Barrett et al. (2013) provide evidence that these rules did indeed limit access to welfare payments for migrants, while Barrett and Kelly (2010) show that migrants were much more severely impacted on by the recession than Irish workers in terms of job loss.

Contractual arrangements and Employment Protection Legislation (EPL)

2

2.1. Self-employment, part-time and temporary employment

Figure 7(a) shows that in the years preceding the crash, the share of workers assisting relatives and in own-account self-employment in total employment declined slowly. The share of self-employed employers stayed relatively constant and from figure 7(b) the share of employees in total employment increased, reflecting the improved labour market conditions. There is a sudden decline in the share of employees between 2007 and 2010 [figure 7(b)]. The decline in the share of self-employed employers came a little later, reflecting the shakeout of firms in the recession described later in the chapter. This decline continued until the beginning of 2014. A feature of the most recent data is the rise in own account self-employment from 2008 onwards. One possible explanation is that employees may be obliged to become self-employed contractors as a way of avoiding regulations on employees. This concern is sometimes raised by employee representatives in the construction industry in particular where, as described in the section on minimum wages in Chapter 4, legally binding minimum wages and working conditions for employees in different occupations are set at an industry level. It is difficult to know how prevalent the practice of hiring a tradesman as a contractor to avoid employee regulation is, but given that, as discussed in Chapter 4, this system of regulation has been struck down by the courts since 2013, it seems unlikely that self-employment to avoid regulation would increase around the same time as the weakening in the regulations rather than a few years earlier when the construction sector suffered a huge negative shock. This is speculative reasoning of course. It could be concluded that it is too early to say whether the recent increase in own-account self-employment is part of a long-term trend, and more research is needed to analyse the cause.

From figure 8 it can be seen that the recession not only affected the level of employment but also had a dramatic impact on the nature of employment, with a dramatic rise in part-time work after 2007 and, as with the rise in unemployment, the rise in part-time work was much more dramatic for young workers. Of course, part-time employment is not necessarily a bad thing.[6] Many workers wish to work part time, especially if they are in education or have family obligations. It seems unlikely that there would have been large increases in the number of workers wishing to work part time for these reasons in 2007 and figure 9 confirms this. Figure 9 uses a question from the QNHS which asks workers why they are part time. One limitation of this variable is that a large fraction of workers (57 per cent) who categorised themselves as part-time workers did not answer this question. While this is a serious issue for quantifying the level of the variables, arguably whatever bias may be in the proportions reported below is unlikely to change substantially over time. If this is so, this issue will be less important when looking at trends in the shares. This data is only available from 2006 onwards. Part-time employment does not seem to be an indicator of a negative labour market outcome for the bulk of workers who answered the question in 2006–07. For both age groups only about 10 per cent of part-time workers say they could not find a full-time job. The bulk of workers under 25 cite being engaged in education as the reason for being part time, while for older workers family reasons dominate, but there are other substantial categories as well. The picture changes dramatically after 2007 with dramatic surges in the share of part-timers who could not find full-time work in both age groups so that in the most recent quarters about half of older workers and one-third of younger workers could not find full-time work. This indicates that on top of the dramatic rise in unemployment documented earlier, the recession brought a substantial increase in underemployment. For example, at the beginning of 2014 about 45 per cent of young workers were part time and around one-third of these could not find a full-time job.

6. In standard neo-classical theory, variations in job characteristics are determined by the efficient matching of workers and firms with different preferences over characteristics such as hours and permanency of the job with appropriate compensating wage differentials see (Rosen 1986). That is, given the wage distribution in this model, workers are happy with their hours etc. In reality, labour markets have frictions. Altonji and Paxson (1988) document large deviations in hours from what workers would like to work but show that workers move towards desired hours over time, a result that can be rationalised in a search model.

Figure 7(a). Share of self-employed in total employment

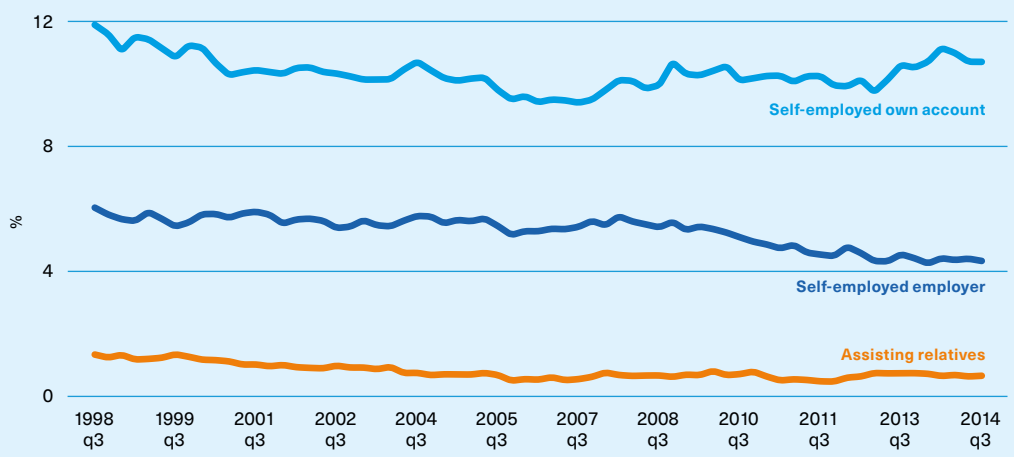
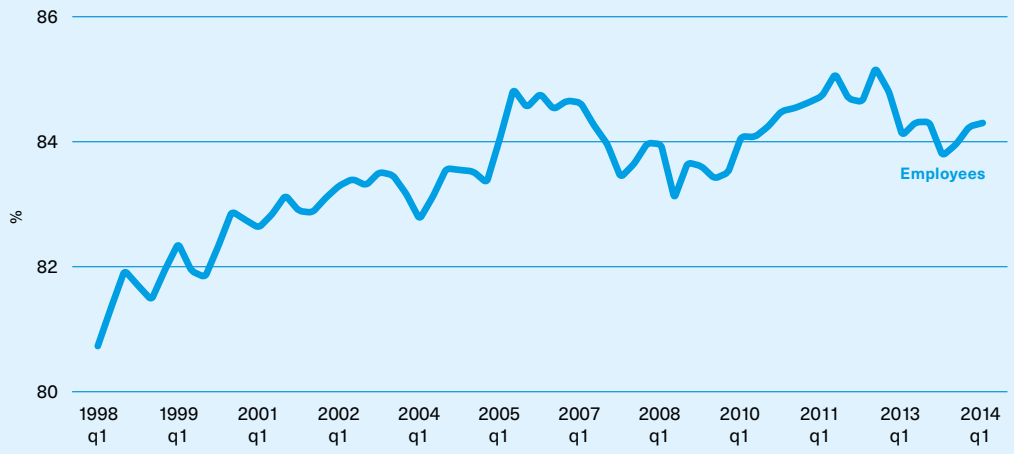
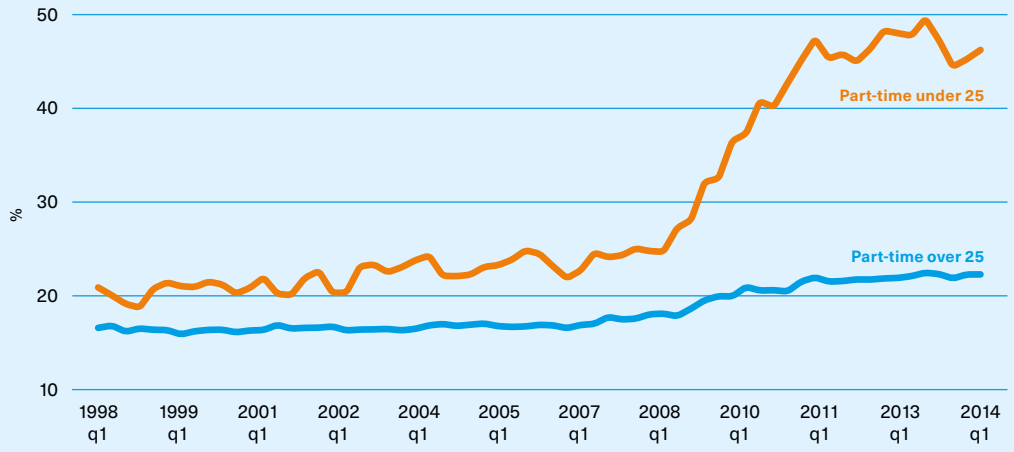


Figure 7(b). Share of employees in total employment



Notes: The sample is all persons aged 15–64 who are employed based on the ILO definition.
Source: QNHS microdata.

Figure 8. Share of employees who are part time (by age)



Notes: The sample is all persons aged 15–64 who are employed based on the ILO definition and are employees.
Source: QNHS microdata.

Figure 9a. Reasons for working part time (under-25s)

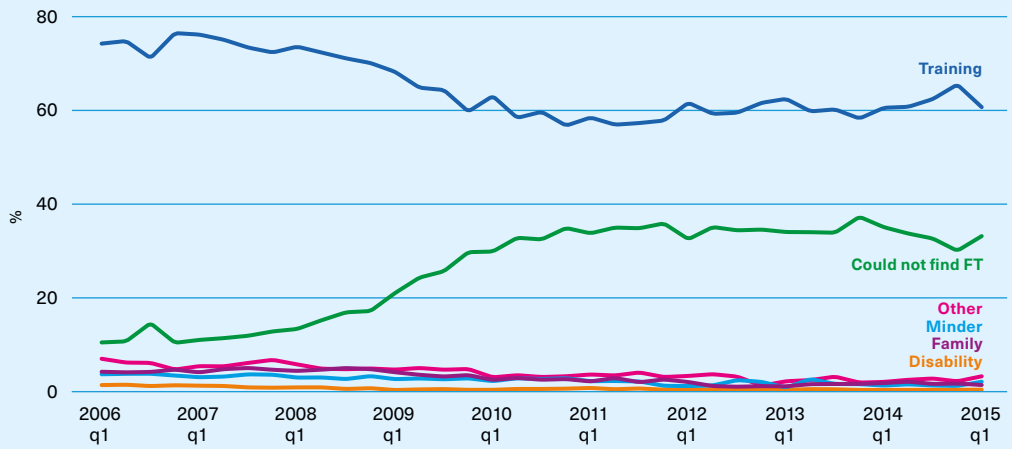
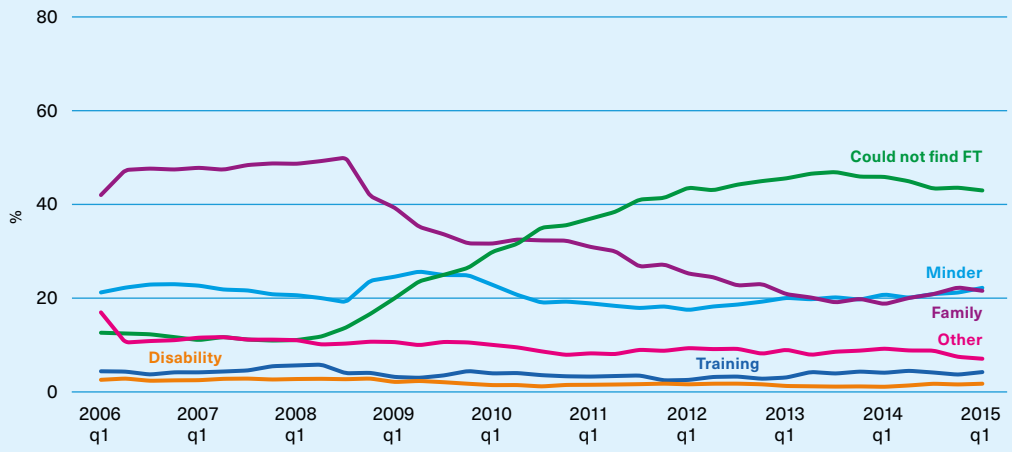


Figure 9b. Reasons for working part time (over-25s)



Notes: The sample is all persons aged 15–64 who are employed based on the ILO definition and are employees and part time. The categories are: Training = "Person is undergoing education or training", Disability = "Illness/Disability", Minder = "Looking after children or incapacitated adults", Family ="Other family reasons", Could not find FT= "Could not find a full-time job".

Source: QNHS microdata.

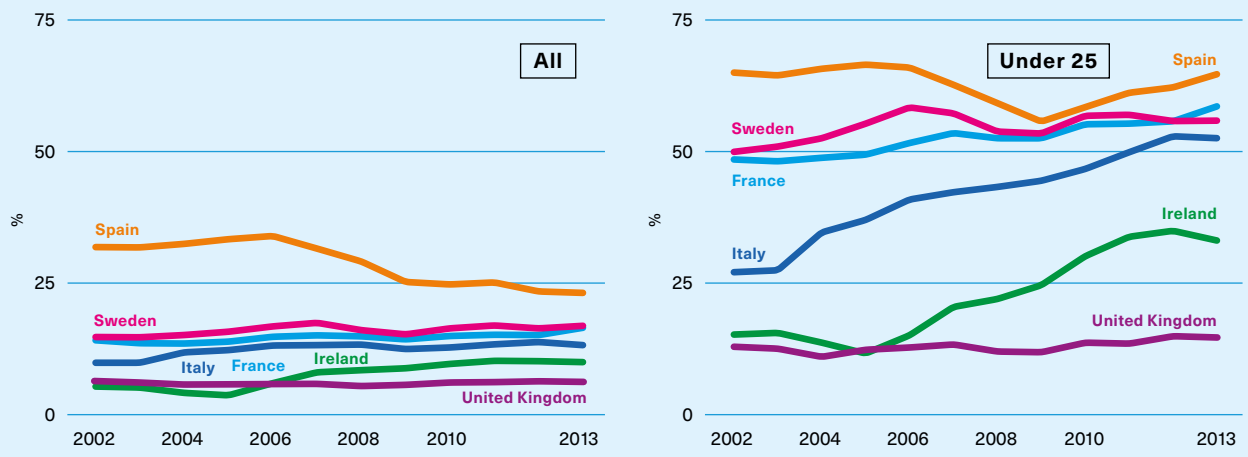
While various cuts in social welfare payments to the unemployed are discussed later, one is worth mentioning here. Unemployed workers are entitled to work up to three days a week and still claim partial benefits with a relatively high marginal tax rate in terms of lost benefits. From 2012 the amount of benefits a worker could retain if working was cut, with the objective of incentivising part-time workers to find full-time work. The effect of the policy was to increase the benefit of full-time relative to part-time work but to reduce the benefit of part-time relative to no work. Given the high and increasing percentages of workers who say they cannot find a full-time job indicated by figure 9, there is a worry that this policy might possibly have negative welfare effects or reduce the incentive to find part-time work.

Another indicator of the quality of the employment relationship is the share of temporary employment. Figure 10 shows the rate of temporary employment in Ireland compared with a number of EU countries. For both young and older workers the rates are low in Ireland and the UK, with young workers having a larger share than older workers in most countries as might be expected. As with many of the other series, with the onset of the crisis, there is a dramatic change for young workers and a much smaller effect for older workers. It is worth noting that while there was a rise in the share of young people on temporary contracts in Ireland, the increase seems to start around 2005 for both young and older workers and even earlier in other countries. That is well before the economic crisis. Before discussing other

possible explanations in an Irish context it should be noted that, as with part-time employment, temporary employment is not always a bad thing and is often an optimal outcome. Some workers may find themselves in a situation where they need employment for short periods (students for example), while employers in some sectors such as construction, where a project will last a particular length of time, may wish to hire a substantial share of employees on fixed-term contracts. Figures 11 and 12 look at the share of temporary employment calculated from the QNHS data. The pattern in figure 11 is very similar to the OECD calculation for Ireland in figure 10. The share of older workers does not rise quite as fast after 2005 in the QNHS figure and the data is quarterly so there is more seasonal variation. Broadly, the patterns are similar between figures 10 and 11. Figure 12 plots the reason for having a temporary contract as a share of all temporary workers who answered the question. Once again the extent of missing values is a serious issue here, since 47 per cent of employees who answered that they were on temporary contracts did not answer the subsequent question as to the reason they are temporary. As noted above, this issue is unlikely to be as serious when looking at trends in the data.

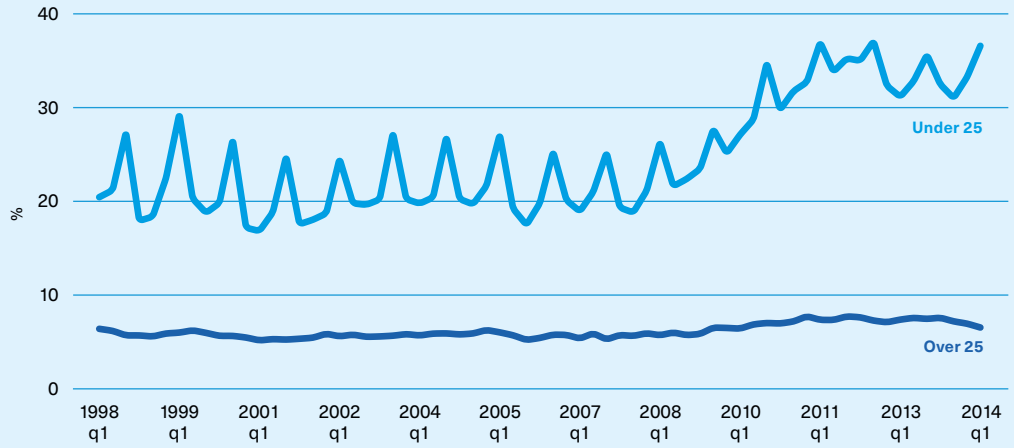
Interestingly, it is notable that for the bulk of younger workers before 2008 who answered the question, a temporary contract does not seem to be a negative signal of employment quality. Between 2000 and 2005 only about 20 per cent of young workers cite inability to find full-time employment as the reason for being

Figure 10. Share of temporary employment (% total employment, by age)



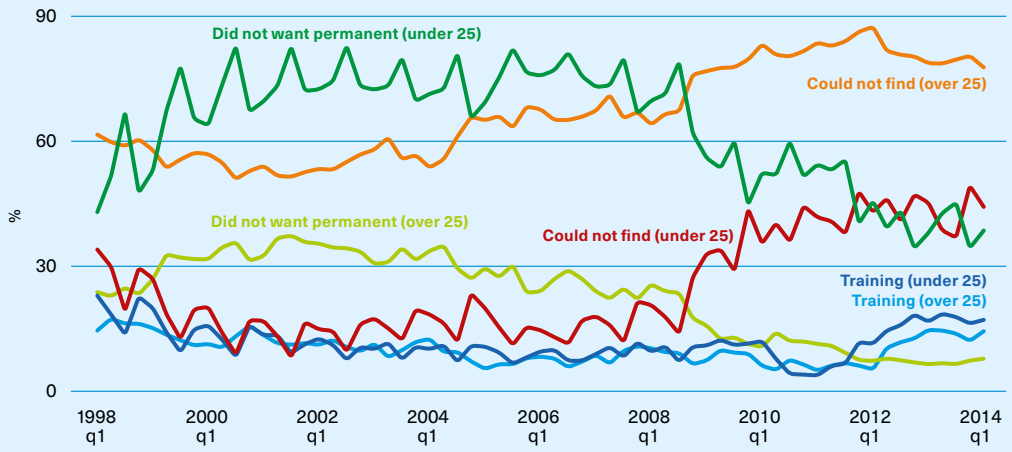
Source: OECD database.

Figure 11. Share of temporary employment Ireland by age (quarterly data)



Source: QNHS microdata.

Figure 12. Reason temporary (by age)



Notes: The sample is all persons aged 15–64 who are employed based on the ILO definition and are temporary employees. The categories are: Training = "It is a contract covering a period of training (apprentice trainees, research assistants etc.)", Could not find = "Could not find a permanent job", Did not want permanent = "Did not want a permanent job".

Source: QNHS microdata.

temporary, with 70 per cent or more saying they did not want a permanent contract. This is in contrast to the pattern for older workers, where in the earlier period over 50 per cent say they were temporary because they could not find a permanent job. For both groups there is a dramatic rise in the share of workers who said they were temporary because they could not find full-time employment, although interestingly this rise begins in 2005 for older workers, the same time as the beginning of the rise in the share of temporary contracts from figure 11, but several years later, around 2009, for younger workers. For both groups the rise is dramatic and sustained so that by the beginning of 2014, about 80 per cent of older temporary workers and 40–50 per cent of younger workers in the sample cite the inability to find permanent work as the reason for being temporary. This is convincing evidence that there has been a substantial decline in the quality of employment for many workers. While the proportion of older workers who are involuntarily temporary is very high, it should be remembered that figure 11 shows that young workers are three times more likely to be temporary than older workers at the beginning of 2014, so that the smaller share of involuntary temporary workers represents a larger share of young employees.

As noted above, the rise in the share of temporary contracts began in 2005 well before the onset of the crisis. As discussed in Chapter 3, this was a period when the centralised bargaining framework known as "Social Partnership" began to focus on the enforcement of employment rights, culminating in the establishment a National Employment Rights Authority to monitor enforcement of regulations and the 2008 Employment Rights Compliance Bill. While these administrative legislative developments came after 2005, these issues were on the agenda in these years, so it is possible that the rise in temporary employment was partially a response to this. The dramatic rise for young workers after 2009 could also partially be a response to the regulation. It is difficult to say without further research. Another important legislative development over the period was the Temporary Agency Work Bill 2011, which was adopted to give effect to the EU Temporary Agency Work Directive agreed in November 2008. This bill ensures equal treatment for temporary employees hired from agencies as if they had been directly recruited, and may reduce the incentive to use temporary staff over time.

2.2 Job creation/destruction and firm births/deaths

Table 2 shows the fall in job creation in firms after 2007 with the overall rate falling from 17 per cent to 10 per cent and a dramatic rise in the job destruction rate within firms between 2008 and 2009.[7] This trend is accentuated in construction with the collapse of job creation and a dramatic rise in job destruction. Table 3 shows the births and deaths of firms from 2008 to 2012.

7. Job creation is the total number of jobs created in firms that increased employment as a share of total employment in firms, while job destruction is the number of jobs lost in firms that decreased employment as a share of the total.

Table 2. Job creation and destruction (all firms and construction firms)

All firms	2006	2007	2008	2009	2010	2011
Job creation rate	0.16	0.17	0.10	0.09	0.14	0.13
Job destruction rate	0.11	0.10	0.14	0.23	0.18	0.11
Construction						
Job creation rate	0.27	0.21	0.12	0.07	0.13	0.17
Job destruction rate	0.14	0.19	0.33	0.50	0.40	0.30

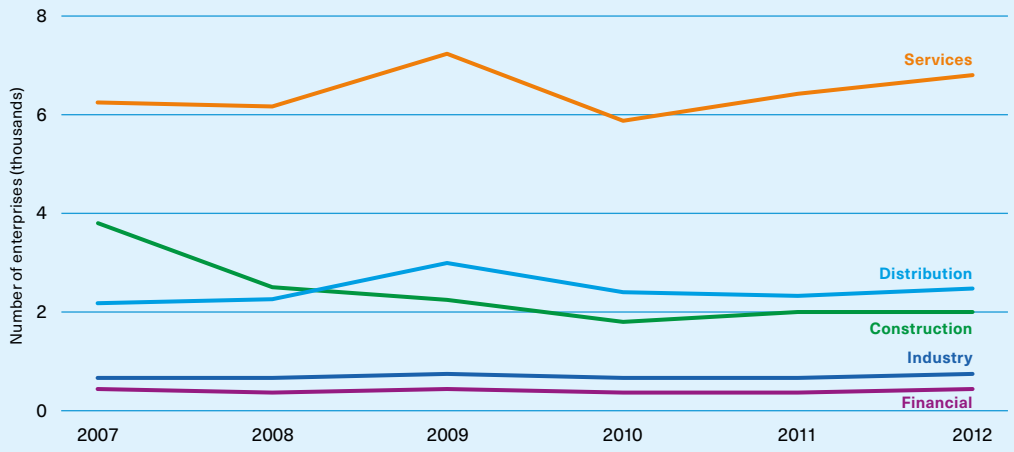
Source: CSO Statbank database.

Table 3. Births and deaths of firms (thousands)

	2008	2009	2010	2011	2012	Change 2008–12 (%)
Number of enterprises	216	207	195	189	186	–13.9
Persons engaged	1 503	1 309	1 237	1 223	1 220	–18.8
Enterprise births	12	14	11	12	13	8.3
Enterprise deaths	21	25	18	18	na	

Source: CSO Statbank database.

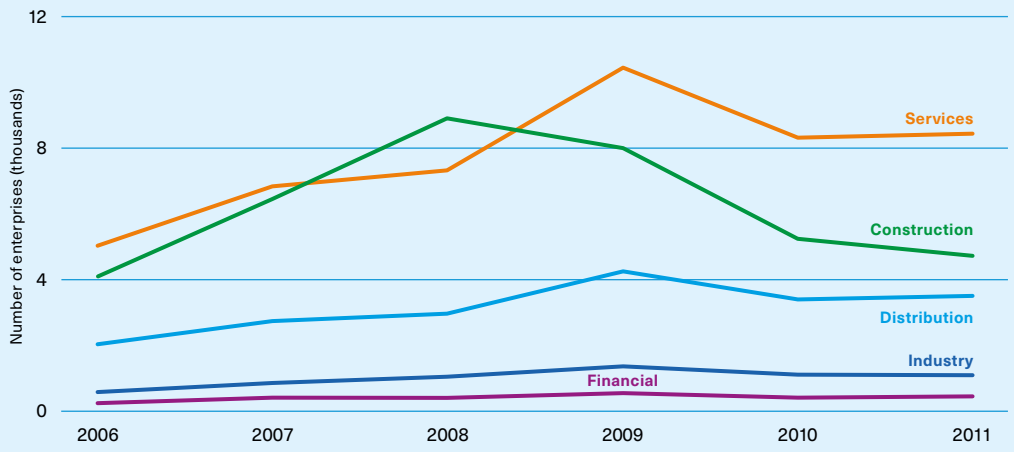
Figure 13. Enterprise births by sector



Source: CSO Business Demography Release:
http://www.cso.ie/en/releasesandpublications/er/bd/businessdemography2012/#.U9KInLFeJTJ.

It can be seen that the decline in firm numbers came a bit later than the decline in employment within firms. Enterprise deaths dominate enterprise births with a decline of over 14 per cent in the number of firms and almost 19 per cent in the numbers of workers engaged in these firms over the period. The gap between births and deaths narrows after 2009 and employment stabilises. Table 3 and the sectoral breakdown given in figures 13 and 14 show that even within sectors, the decline in firm numbers was driven by a sharp increase in firm deaths in the services and construction sector in the early part of the crisis. Firm deaths in industry were remarkably stable over the period and perhaps surprisingly also stable in the financial sector. The number of firm births is stable over the period. The change is driven by firm deaths.

Figure 14. Enterprise deaths by sector



Source: CSO Business Demography Release:
http://www.cso.ie/en/releasesandpublications/er/bd/businessdemography2012/#.U9KInLFeJTJ.

2.3 Conclusion

The analysis above illustrates fairly clearly that young workers bore the brunt of the recession not only in terms of greater job loss but also in terms of the quality of the employment relationship for remaining workers. There was a dramatic rise in the share of young workers in part-time and temporary employment at the onset of the recession. There was also a sharp rise in the fraction of involuntary young part-time and temporary workers with the onset of the recession. The final section shows that the collapse in employment was driven primarily by a rise in job destruction and firm deaths rather than by a fall in job creation activity.

Unemployment benefits, social insurance and social assistance

3

3.1 Background and main developments

The introduction of this report outlined the fiscal crisis that emerged in Ireland during 2008–09. The government responded by seeking to raise taxes and cut expenditure across all areas to stabilise the public finances. Social protection expenditure was no exception and the rates and duration of benefits were cut at a time of rapidly rising unemployment. As discussed below, these cuts were especially concentrated on young workers, the group who had the largest increase in unemployment, as outlined in the previous chapter.

There are two main supports to unemployed workers. Jobseeker's Allowance (JA) is a means-tested benefit with unlimited duration (although as discussed later, there has been increasing monitoring and conditionality associated with these payments in recent years).[8] Jobseeker's Benefit (JB) is a form of social insurance available to people who have been paying social insurance contributions for two years or more. These payments are of limited duration but rates of payment do not depend on previous wage as long as the worker earned more than €300 per week, which is less than a worker would earn working 35 hours on the national minimum wage. There have been substantial changes in these payments since the crisis.

Cuts to jobseeker's allowance

- The full adult rate of €205 cut to €196 per week in January 2010, and to €188 in January 2011;
- for workers aged 18–19, cut from €205 to €100 in May 2009;
- for workers aged 20–21, cut from €196 to €100 in January 2010;
- for workers aged 22–24, cut from €196 to €150 in January 2010, cut to €144 in January 2011.

Cuts to jobseeker's benefit

- October 2008, duration of benefits for claimants over 18 was cut from 15 to 12 months or 12 to 9 months depending on the how long the worker had been paying social insurance.[9]
- From April 2013, duration of benefits was cut from 12 to 9 months and 9 to 6 months respectively.
- The full adult rate was cut from €205 to €196 in January 2010, and to €188 in 2014.[10]

Unemployed workers may qualify for a range of other benefits such as housing benefit, fuel allowance, back-to-school clothing and free medical care. These benefits tend to be more discretionary but there have been substantial cuts here as well. As noted above, while basic rates were cut by just over 8 per cent for all workers over 25, there were large cuts in JA for workers under 25 with the basic rate more than halved for workers under 21 by 2010 and falling by 30 per cent for workers under 25 by 2011. Table 4 shows social welfare expenditure in total and on the unemployed as a percentage of GDP. During the pre-crisis years the share in both categories, but especially the overall category, was increasing. This reflected the increased generosity of the system, with large increases in areas such as old-age pensions. Despite cuts in rates and in the availability and levels of discretionary benefits, table 4 shows that the share of both unemployment and overall expenditure continued to rise after 2007, reflecting the dramatic rise in unemployment and other forms of dependency arising from the crisis. As cuts continued, the share of social expenditure as a share of GDP stabilised and fell in recent years.

Figure 15 shows that while there are always substantially more workers on JA than JB, the fraction of workers on JA began to dominate as the crisis developed. The fraction on JB is always low for workers under 25, since many will not have made enough social insurance contributions to qualify even if they have

8. In the means test for Jobseeker's Allowance, household income is assessed. If married, in a civil partnership or cohabitating, the means of the spouse, civil partner or cohabitant are also taken into account. Sometimes a certain amount of income or income from particular sources is not taken into account. The means test for Jobseeker's Allowance can be a complex calculation.

9. The shorter duration is for workers with less than 260 weeks of social insurance payments.

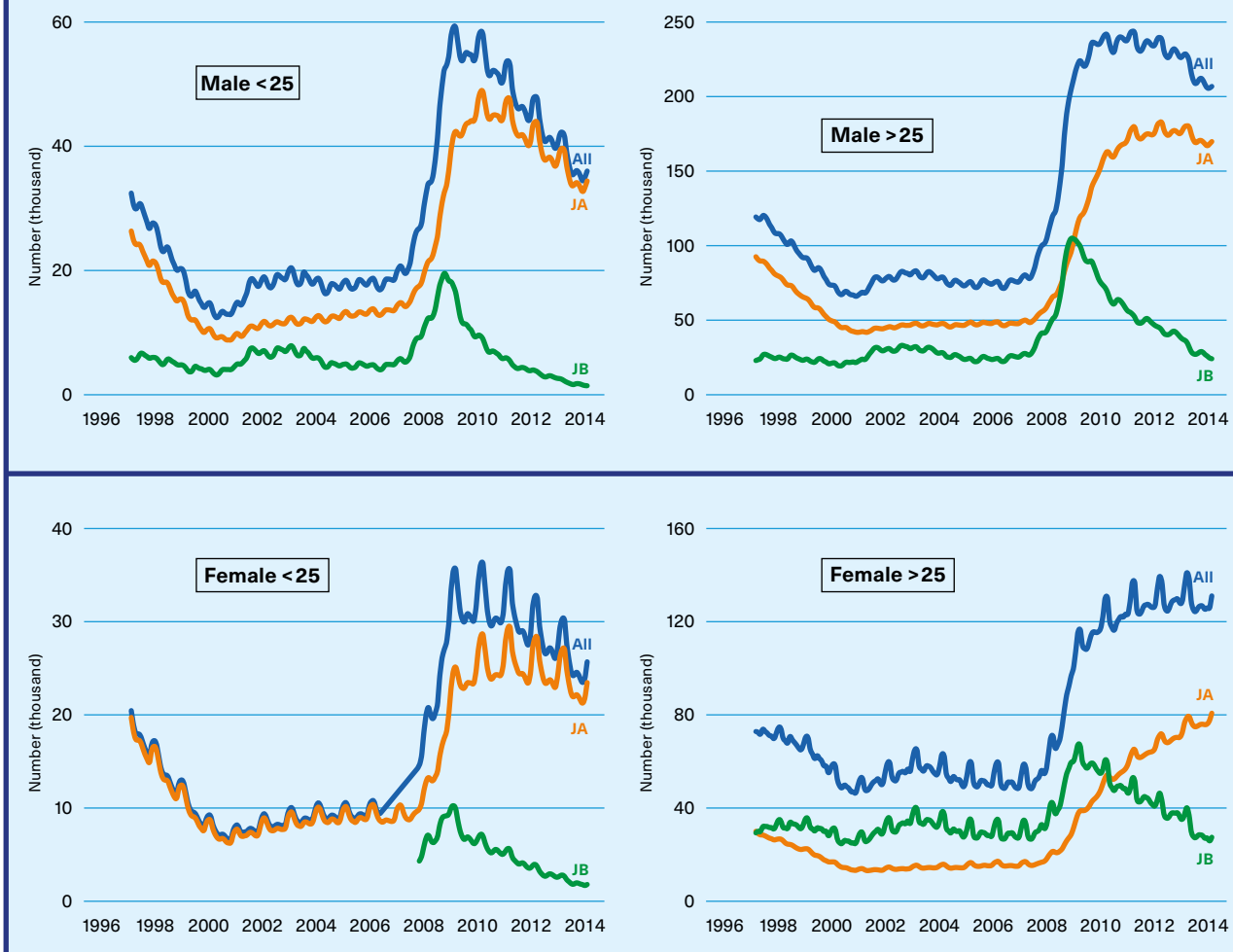
10. Note that the basic adult rate is the same for JB and JA apart from the recent lower rates for young workers claiming JA.

Table 4. Social welfare expenditure as percentage of GDP

Year	All	Unemployment	Year	All	Unemployment
2000	6.7	4.9	2007	7.7	7.3
2001	7.3	5.6	2008	8.2	9.1
2002	7.5	5.5	2009	9.9	9.1
2003	7.6	5.6	2010	12.7	9.6
2004	7.5	5.7	2011	13.2	na
2005	7.5	6.0	2012	12.9	na
2006	7.5	6.3	2013	12.7	na

Source: Department of Social Protection.

Figure 15. Numbers on jobseeker's allowance and jobseeker's benefit



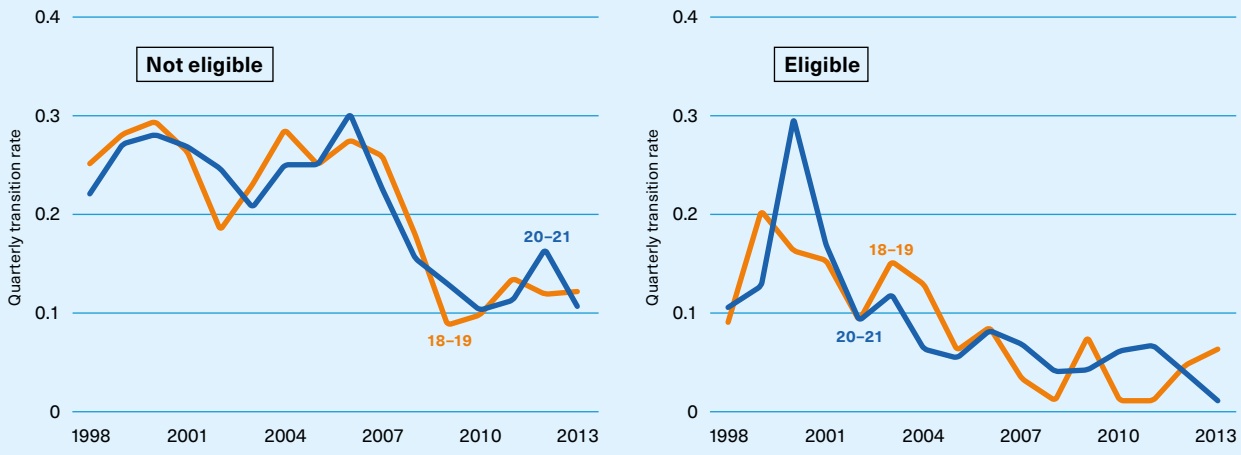
Source: CSO Statbank.

started working, but even for older workers, after 2010 the fraction on JB collapses, presumably reflecting the fact that workers on JB exhaust their benefits, a process which would have accelerated over time as the cuts in duration of benefits ensued. This pattern of cutting the duration of benefits at a time when labour demand is collapsing seems harsh and is certainly in contrast to the pattern in some countries such as the United States, where duration was extended during the crisis. On the other hand, a mitigating factor is the presence of JA, which is means tested and is designed to act as a safety net. A similar pattern emerges for females as for males.

3.2 The impact of cuts in JA on young re-employment

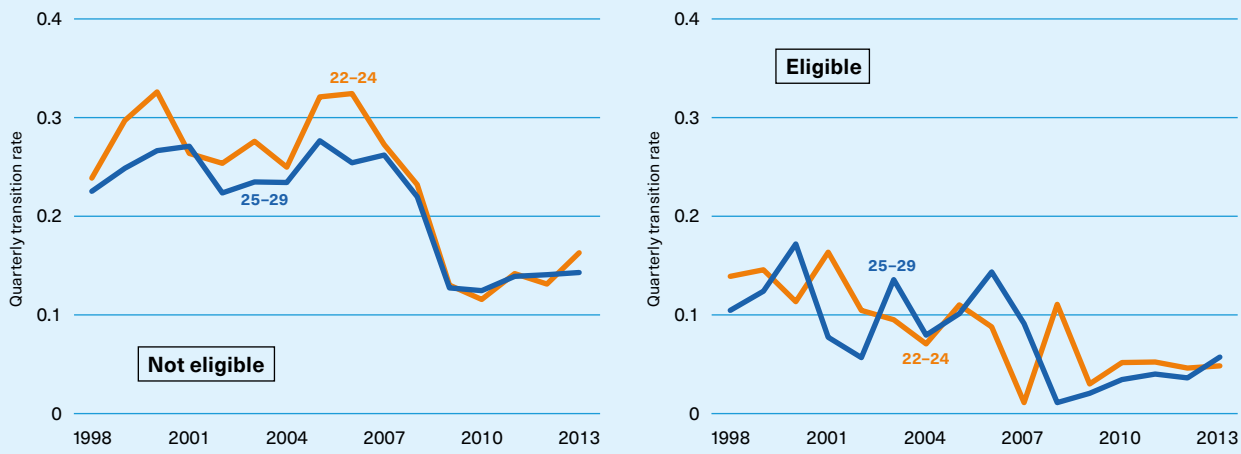
The QNHS microdata follow workers over time so that transition rates can be calculated between labour market states. In particular, as a first attempt at assessing whether the large cuts in JA for young workers had any effect on workers' exit rates from unemployment to employment, exit rates for workers who are eligible or not for JA or eligible workers affected by the cuts can be compared with similar workers who were subjected to much smaller cuts. This can be done by using the eligibility criterion for JA to identify workers who were very likely to be eligible for JA.[11] The pattern of transition rates from unemployment to employment of eligible and non-eligible workers over time are compared in figures 16 and 17 below. Given that the criterion for eligibility includes a history of unemployment, it is not surprising that exit rates tend to be lower for eligible workers. The fact that there is no sign of any change

Figure 16. Transitions from unemployment to employment, 18–19- and 20–21-year-olds



Source: QNHS microdata.

Figure 17. Transitions from unemployment to employment, 22–24- and 25–29-year-olds



Source: QNHS microdata.

11. Unemployed workers in the sample are deemed eligible if living in a household with no workers and have never worked or have not been working for three years, if they are not retired or on disability, are not single parents and have been resident in Ireland for at least ten years.

in exit rates for eligible workers in figure 16 after 2010, when JA rates were cut, is indicative that these cuts did not lead to any substantial increase in exit rates. The graph for non-eligible workers suggests that exit rates had flattened out by this time. Given that this is a time when the level of unemployment, and by implication the composition of unemployed workers in terms of observed and unobserved characteristics, may have changed, this evidence is at best suggestive. The evidence from figure 17 is a bit more convincing. Workers aged between 22 and 24 who had cuts of around 30 per cent in JA rates around 2010 are compared with workers aged between 25 and 29, who had much smaller cuts of about 8 per cent in this period. In the graphs for non-eligible and eligible workers, the patterns of exit rates are very similar for both age groups, suggesting that the older working group is a reasonable comparison group for the younger. There is no divergence in exit rates after the cut in welfare rates, suggesting that there was no substantial impact from the cuts in JA.[12] This evidence is suggestive but perhaps not that surprising. The strongest evidence in the literature argues that changing the profile of benefits may increase exit rates from unemployment. That is, if benefit payments decline with the duration of unemployment, as is the case in some Northern European economies, this may increase exit rates. Since the JA rates are flat and do not change with duration, the indicative evidence above is consistent with the evidence in the literature that the effects of cuts in benefits on exits is negligible at best.

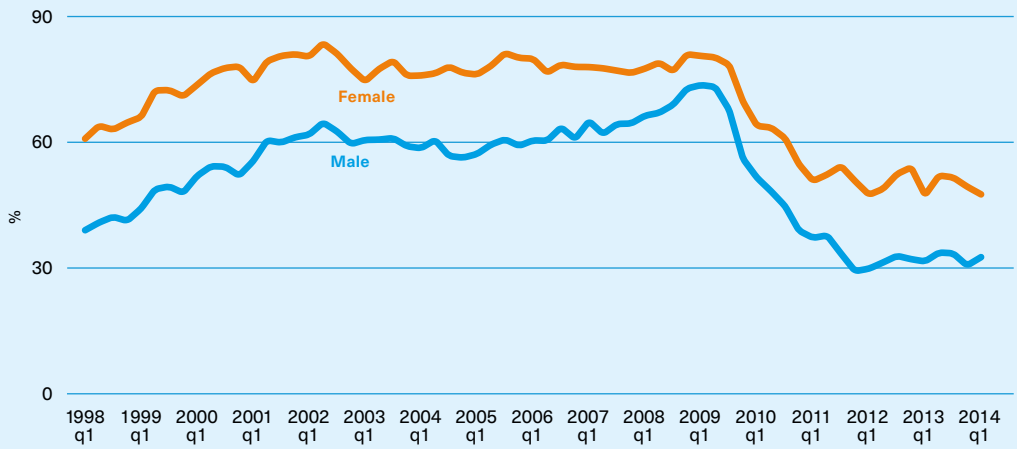
3.3 Duration of unemployment

It is well established in the literature that spells of long-term unemployment have substantial negative consequences for workers. Oswald et al. (2010) document the evidence that unemployment is associated with unhappiness and the negative consequences of this. Bell and Blanchflower (2011) present evidence from the UK that long-term unemployment amongst young workers can have long term scarring effects that will last up to 20 years after the spell of unemployment. While the literature has a range of estimates on the costs of long-term unemployment and they do not all support the conclusion of generational scarring as described by Bell and Blanchflower, there is compelling evidence that long-term unemployment is associated with a substantial loss in future earnings for several years at a minimum and other negative outcomes. Callan (2014) contains a recent discussion on this literature. Given this, the evidence below suggests that the extent of long-term unemployment is likely to have substantial negative consequences for Ireland.

Figure 18 shows that from 1998 onwards, the share of the unemployed who had spells of unemployment less than a year rose dramatically and for males continued to rise until 2009 (about a year after unemployment began to climb). As seen earlier, for both males and females, on the eve of the crisis the share of long-term unemployment was small and the unemployment rate was low. The collapse in the share of the unemployed who are short-term after 2008 in figure 18 is striking, reflecting the difficulty workers had in exiting unemployment given the scale of the collapse in labour demand. Figure 19 documents the shares by age, and it can be seen that the share of short-term unemployed is rising strongly across all groups and a sudden collapse across all groups reflects both the depth of the lack of employment opportunities after the collapse and the breadth of the collapse across age groups. An interesting feature of figure 19 is that the share of long-term unemployed increases with age across the three age groups and the age differential stays fairly fixed across most of the period. After the initial collapse in the share of short-term unemployed in 2009, from 2011 onwards the share for young workers seems to level out and even rise a little. As discussed earlier, the harsher cuts in means-tested Jobseeker's Assistance for younger workers does not seem to have had a noticeable effect on exit rates from unemployment. There have been changes in active labour market policies which could have differing effects across age groups; these mostly came later and are discussed in Chapter 5. The recent recovery in employment rates also came later and seems to have been concentrated on older workers. Perhaps the larger migration flows for young workers discussed in Chapter 1 is contributing to the flattening in the share of young workers in long-term unemployment over recent years relative to older workers, who possibly have higher moving costs and lower migration rates.

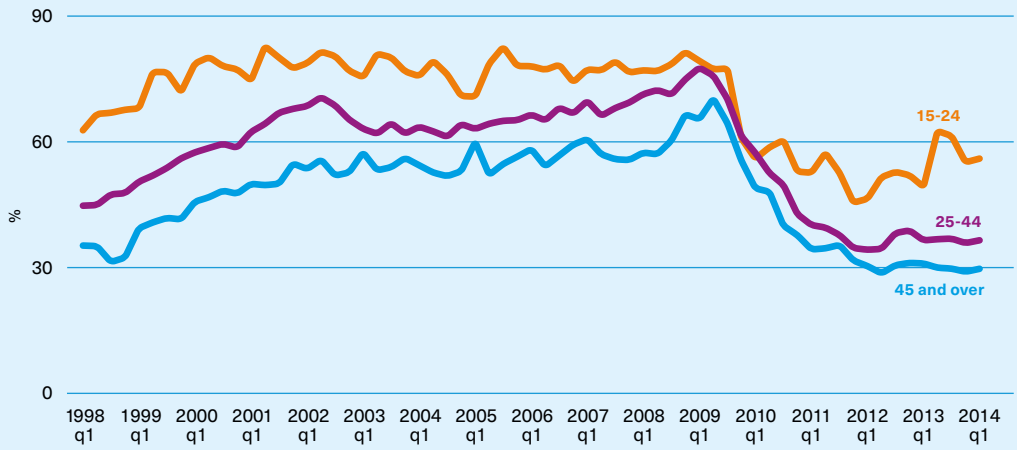
12. While it is also interesting to look at transitions of young workers into education and whether these increased as a result of the welfare cuts, it is more difficult to find a reasonable comparison group to do such an analysis, since transition rates into education change substantially between ages 18 and 21 but are very low after this.

Figure 18. Percentage of unemployed with duration under a year (by gender)



Source: CSO Statbank database.

Figure 19. Percentage of unemployed with duration under a year (by age)



Source: CSO Statbank database.

3.4 The replacement ratio and incentives to work

An excessively generous welfare system may have negative effects on unemployed workers' incentive to search for work or indeed avoid job loss, and these incentive issues need to be balanced against the welfare gains associated with providing assistance. Figures for replacement rates in Ireland for a range of family types over time and for different wage levels in previous employment are presented in table 5. There is a fair degree of variation across different groups in the relative replacement rates of Ireland compared with the OECD median. For example, a single-income married couple does substantially better than the OECD median and a double-income married couple does worse. Another feature of the table is that while OECD rates stayed fairly fixed over time, there was more variation in the Irish replacement rate, with a tendency for rates to increase between 2002 and 2008 and fall back between 2008 and 2012. In general, Irish replacement rates tend to be lower compared with the OECD median for the higher previous wage, possibly reflecting the fact that, as noted earlier, there is no relationship between previous wages and welfare payments to the unemployed for workers earning more than the national minimum wage. There is a wide variation in benefit systems across OECD countries, which makes comparisons across countries difficult. Another important drawback of the approach used to calculate replacement rates for table 5 is that the

Table 5. Net replacement rates for Ireland and the OECD

		No children			Two children		
		Single person	Single-income married couple	Double-income married couple	Single parent	Single-income married couple	Double-income married couple
67% of average wage							
2012	Ireland	71	103	75	59	90	81
2012	OECD median	68	75	84	77	76	85
2008	Ireland	78	108	75	70	97	79
2008	OECD median	67	74	84	76	77	85
2002	Ireland	71	91	72	68	90	78
2002	OECD median	66	77	81	75	81	86
150% of average wage							
2012	Ireland	39	55	52	52	65	58
2012	OECD median	45	48	62	55	58	66
2008	Ireland	43	56	51	53	65	56
2008	OECD median	44	46	63	55	54	66
2002	Ireland	38	47	48	45	54	54
2002	OECD median	45	47	64	55	57	67

Note: Table assumes that the family qualifies for cash housing assistance or social assistance "top ups" if available.
Source: OECD tax benefit models.

composition of the population can vary over country and over time, so that the shares of the population in the different categories with high replacement rates may not be high.

Both Savage et al. (2014) and Callan et al. (2012) estimate replacement rates using microdata for Ireland. They use the data to estimate the predicted wage and benefits of a representative sample of workers. Savage et al. (2014) show that while replacement rates are high for adults with children who are dependent on a jobseeker, the fraction of the unemployed falling into this category is not very large. The distribution of replacement rates is shown to be broadly similar to the UK. They do show that housing benefits can lead to high replacement rates for some workers, and the IMF has called for a change in the structure of housing benefits to deal with these incentive issues (IMF 2012). While there is no change in the regulations at the time of writing, the current administration has announced its intention to gradually phase out the main non-monetary benefits that unemployed workers receive over a period after an unemployed worker gets a job. These benefits are rental supplements, whereby an unemployed or part-time worker can apply for a fraction of their rent to be paid, and the qualified child increase whereby there is an additional payment over and above the regular child benefit payment to qualifying unemployed workers with children. There were 96,000 persons claiming rental supplements in 2011, while the total number claiming JB or JA in 2011 averaged just over 430,000, so this is a common payment. While the level of support was cut in line with the decline in market rents after the economic collapse, the supplement is designed to pay most of the rent for suitable modest accommodation at market rates (see Department of Social Protection 2012a). The qualified child increase amounts to just under €40 per week in 2014 for claimants of JA who have a dependent child that they care for; this represents a 20 per cent increase in benefits per child, so allowing workers to retain some of these benefits for a period could have a substantial effect on replacement rates.[13]

13. Claimants on JA also qualify for free medical care if their income falls below a certain threshold but can retain this benefit for up to three years after returning to work. If they are unemployed for over 13 months, they can apply for help with energy bills during the winter months, a payment of €20 per week. There are also some discretionary allowances that claimants may apply for such as clothing/footwear allowance for children returning to school.

3.5 Pensions and the welfare of older workers over the crisis

State welfare pensions are paid at a flat rate which is not linked to earnings.[14] There are two types of state pensions: contributory state pensions, which are flat payments to workers who have made sufficient social insurance payments over their lifetime; and unlike many western countries, there is a non-contributory state pension, which is means tested and provides a guaranteed basic income level for older people. There are also more generous public sector occupational pensions and private pensions. Nivakoski (2014) shows that private pension coverage is low in Ireland but also that the state pension system in Ireland is highly progressive. Table 6, taken from Nivakoski (2014), illustrates the importance of the contributory and non-contributory pension as a floor for the lower quartiles of the income distribution, where they account for a substantial fraction of income. Relative to other age groups, older workers tended to suffer less than others over the crisis. This was indicated in figure 3 which showed that the adverse labour market responses were small for older relative to younger workers. Figure 20, taken from Callan et al. (2013), looks at the share of people in poverty by age group as measured by the share below 60 per cent of median income. Of course, median income fell, especially after 2009, so it is important to remember that this is a measure of relative poverty, where all groups may suffer but some suffer more than others.[15] The share of older workers in poverty continued to fall up until 2010 with a slight rise between 2011 and 2012.

The sustainability of the state pension system, and indeed many private pension funds, has also been an important issue. In terms of public policy, two important developments over the period of the crisis have been an increase in the retirement age for state pensions and levies on public sector workers' pay to cover what are seen as relatively generous state pensions. This pension levy is discussed in the context of public sector pay in Chapter 4 below. The state pension age was increased from 65 to 66 in 2014; for those retiring after 2021 it will increase to 67 and for those retiring after 2028 it will increase to 68.

Table 6. Percentage of income from different sources by income quartile (older workers)

MALE	1st	2nd	3rd	4th	All
Contributory State pension	59.7	71.4	46.4	20.7	42.1
Non-contributory State pension	28.3	14.0	4.2	1.0	7.9
Occupational pension	4.8	8.0	39.5	68.2	41.0
Private pension	1.6	1.6	3.1	4.0	3.0
Social welfare	3.4	1.7	2.4	0.8	1.7
Asset income	2.1	3.2	4.4	5.3	4.3
Total income	**100**	**100**	**100**	**100**	**100**
FEMALE	**1st**	**2nd**	**3rd**	**4th**	**All**
Contributory State pension	32.8	83.7	57.6	23.6	46.1
Non-contributory State pension	36.1	12.1	11.0	1.8	11.5
Occupational pension	15.9	1.0	20.3	67.2	33.8
Private pension	0.5	0.3	0.9	0.8	0.7
Social welfare	10.5	1.8	6.1	1.8	4.2
Asset income	4.2	1.2	4.1	4.8	3.8
Total income	**100**	**100**	**100**	**100**	**100**

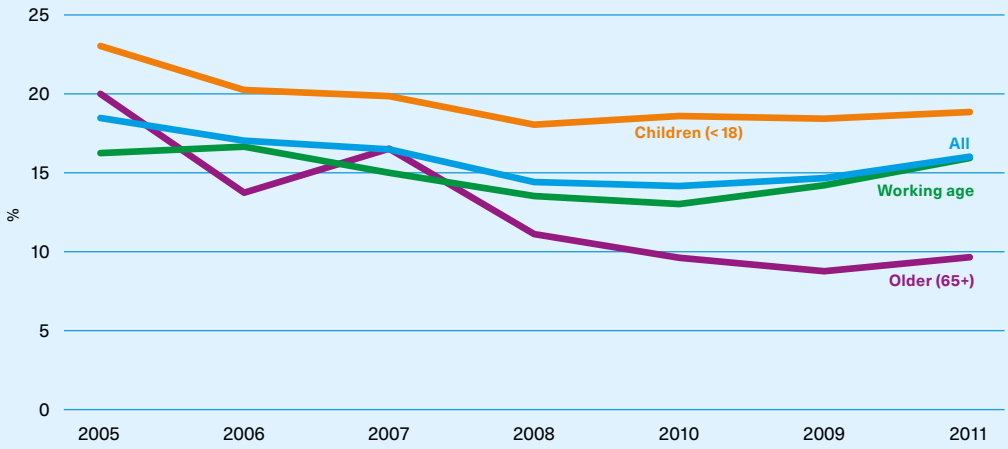
Notes: Table is constructed from the TILDA survey of Irish people aged 50 and over between 2009 and 2012. The sample comprises retired people over 65, which was the age at which workers qualify for state pensions in these years.

Source: Nivakoski (2014).

14. See Nivakoski (2014) for a detailed recent analysis of the pension system in Ireland.

15. Callan et al. (2013) show that median real income per person rose by 12.5 per cent between 2004 and 2007 when it peaked, but fell by just over 10 per cent between 2007 and 2011 with the bulk of the fall happening after 2009.

Figure 20. Percentage of persons below 60 per cent of median relative income poverty line, Ireland, 2005–11



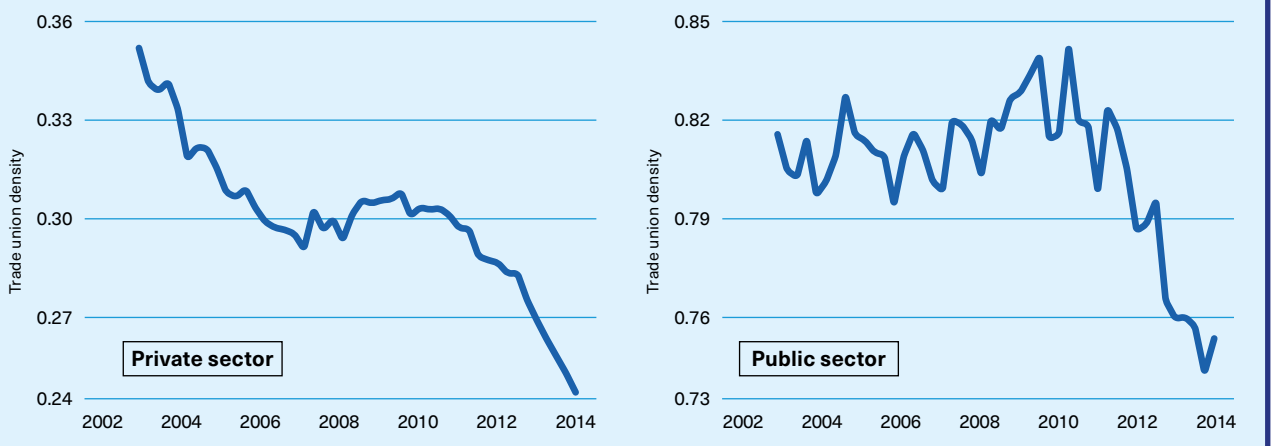
Note: Table is calculated from the Irish data for the EU Survey of Income and Living Conditions.
Source: Callan et al. (2013).

Wages

4.1 Centralised bargaining and public sector pay

The period leading up to the financial crisis was one of wage growth for most workers in the Irish economy. Public sector workers and some private sector workers engaged in national collective bargaining. This regime was known as the *partnership process* under which multiyear agreements set out pay increases for covered workers but also agreements on other public policy areas. For example, the agreement agreed in 2006 called "Towards 2016" included an agreement on pay rises over a number of years, but also focused on improving the enforcement of employment rights. In the face of the severe economic downturn, this agreement and the partnership process broke down in 2009 when the government reneged on the pay elements of the agreement for public service workers. In fact in response to the fiscal crisis in which they found themselves, the government imposed pay cuts of between 5 and 8 per cent in 2009 on public service workers. These were imposed in a progressive manner. This marked the end of 27 years of national agreements. While the government did conduct negotiations with unions subsequent to this, these only covered the pay and conditions of public sector workers. The partial centralised bargaining that had covered some private sector workers and possibly influenced pay rates in non-covered sectors was replaced by local bargaining. The system of centralised bargaining may also have been undermined by some employer groups representing small firms opting out of the process and by the dramatic fall in trade union density outlined in figure 21. Walsh (2009) examines this decline in detail up until 2006 and finds that even after controlling for a wide variety of firm and job characteristics, there still seems to be a substantial secular decline. The legal/institutional environment for trade unions did not deteriorate in any noticeable way as happened for example in the UK in the 1980s. While the decline in private sector density flattened out in the recession, this may well be a composition effect, and in any case has continued at a dramatic pace since 2011. The decline in density and increased concentration in the public sector is a trend across many countries (see Blanchflower and Bryson 2003; Calmfors et al. 2001), but the decline in

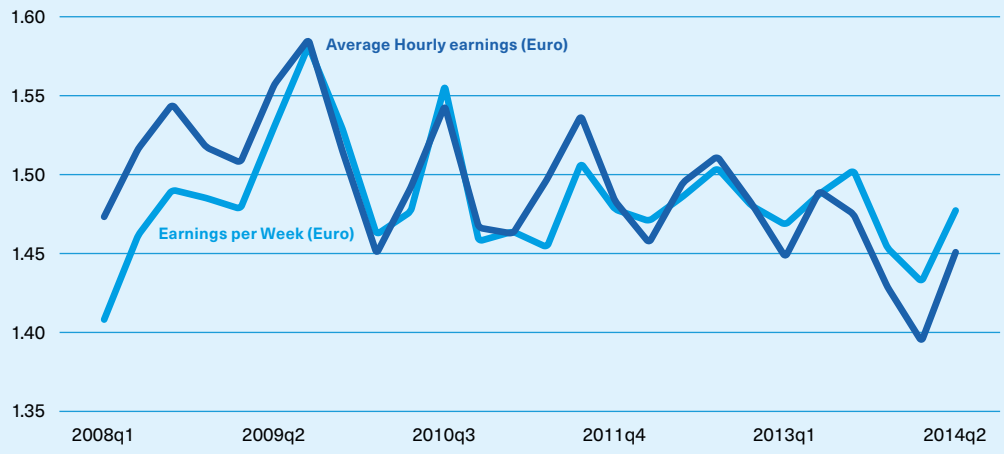
Figure 21. Public and private sector trade union density (over time)



Notes: The sample is all persons aged 15–64 who are employed based on the ILO definition and are employees. Public sector is workers employed in public administration; private sector is all other employees.

Source: QNHS microdata.

Figure 22. Ratio of public to private sector earnings (over time)



Source: CSO Earnings Hours and Employment Costs. This is a firm-level survey which began in 2008.

private sector membership in Ireland is striking, as is the decline in public sector density since 2011.

In the period leading up to the crisis a process of benchmarking against private sector pay was used to recommend changes in rates of pay for public servants. At the onset of the crisis, a number of studies had suggested that public sector workers were paid substantially more than similar private sector workers, and in particular Kelly et al. (2009) suggest that the benchmarking process played an important role in widening this gap and discuss a range of other studies which argued that there was a public sector premium in Ireland. It was also suggested that public servants enjoyed substantially better pension provisions than their private sector counterparts. Given this, and the fiscal crisis in which the Irish government found itself, a "Pension Levy" of 5 per cent of pay was imposed on public sector workers in 2009. This was followed by the pay cuts mentioned in the previous paragraph. Wages were frozen until 2013 when an agreement between the government and some public sector unions imposed pay cuts of between 5 and 10 per cent on higher-paid public sector workers. While the majority of workers initially rejected this arrangement, the government introduced legislation which implied that the cuts would be imposed unilaterally on workers not covered by the agreement, and an agreement was subsequently reached. Despite these substantial pay cuts for public sector workers, figure 22 shows that the ratio of public to private weekly or hourly earnings did not change that dramatically over the crisis, with gross average public sector earnings remaining at close to 150 per cent of those in the private sector. Microeconometric studies that look at this in detail refer to the pre-crisis period, and given the substantial changes in the composition of employment, it is difficult to know if the average figures reflect changes in the composition of employment across different types of workers. Figure 27 presents evidence from Doris et al. (2014), which is discussed in more detail below, suggesting that figure 22 may not be giving an accurate picture. Figure 27 looks at workers who stayed in their job between 2008 and 2011 and shows substantial downward adjustment in wages for public sector workers relative to other sectors.

There were severe restrictions on hiring in the public sector over this period and public sector workers had substantial negative changes in working conditions to facilitate the continued provision of public services given the smaller numbers. As can be seen in figure 1(a) an index of employment in Public Administration and Defence tracks total employment, indicating that the share did not change over the period 1998–2014.[16] While public sector employment did not fall as dramatically as private sector employment at the immediate onset of the crisis, by 2014 it had adjusted downwards to keep the share of total employment roughly fixed. The share of the Irish public sector is not especially large by international standards; as discussed earlier, the fiscal crisis that ensued at the beginning of the crisis had other causes than the relative size of the public sector.[17]

16. It should be noted that this is a narrow definition of public service employment excluding large groups in Health Education etc.

17. For example, the share of central government expenditure as a share of GDP was increasing in the years leading up to the crisis but fell dramatically after the crisis and was around 42 per cent in 2012, well below the average in the Euro 27 countries (Institute of Public Administration 2012).

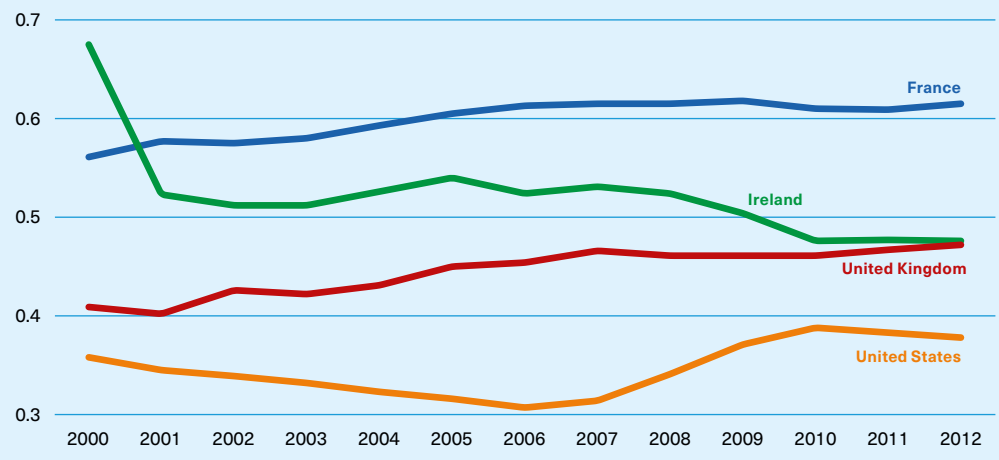
While trends in wages are discussed below, it should also be noted that there were substantial changes in taxes on income over the period. As noted in the introductory section, one of the reasons for the fiscal crisis in Ireland was an over dependence on property related taxes, which collapsed during the crisis. Part of the adjustment to the crisis involved an increase in income tax rates. A new levy on all incomes was introduced in 2009 at 1 per cent and 2 per cent for incomes below and above €100,000 and increased in 2011. Income thresholds for the higher rate of tax were lowered and a range of new property, carbon taxes and an increase in the standard VAT rate were introduced. Most of these changes are still in force at the time of writing, although the 2014–15 government budget has announced modest income tax relief for 2015.

4.2 Minimum wages

Ireland has had a national minimum hourly wage in place since 2000. This was increased to €8.65 in 2007. For a brief period from the end of 2010 to mid-2011 it was reduced to €7.65, but this cut was reversed and it remains at €8.65 at the time of writing. Wages of up to 30 per cent less than the headline rate are allowed for workers who are inexperienced or in training. The proportion of workers covered by the national minimum wage is thought to be low. Nolan, Williams and Blackwell (2006) estimate that around 5 per cent of workers were at or below the minimum wage in 2005. Figure 23 compares the minimum wage/median wage for Ireland, France, the UK and the USA. While France tends to have a high minimum wage by European standards, the UK is on the lower side and is also a close trading partner for Ireland with low moving costs and substantial labour market flows between the two countries. The USA traditionally has a lower relative minimum wage than many European countries and provides another benchmark. At the time of the introduction of the national minimum wage in Ireland, the relative minimum wage was very high in Ireland but fell rapidly but still stayed at over 50 per cent of the median wage (fairly high by European standards) until the onset of the crisis. Since 2007 the relative minimum wage has dropped and almost converged to the UK rate by 2012 at 47.6 per cent of the median wage.

Ireland also has a set of sectoral minimum wages in sectors where workers are deemed to be vulnerable. These minimum wages are set by joint labour committees (JLCs) comprising employer and employee representatives that set minimum wages and regulate other aspects of working conditions such as overtime rates, and occasionally pensions, weekend rates etc. These conditions and the level of minimum wage can vary across sector and by occupation within sector but cannot violate national standards such as the national minimum wage. While some JLCs paid no more than the minimum wage for unskilled workers, others often paid 10–15 per cent more and up to 24 per cent more for security officers (Duffy and Walsh 2011). In addition to the JLC system, registered employment agreements provide a framework where employer and employee representative bodies which are deemed to be substantially representative in a sector can agree on wages and working conditions that are legally binding on all firms in that sector. In practice, construction and electrical workers comprise the bulk of workers covered

Figure 23. Minimum wage/median wage (over time)



Source: OECD Statbank.

by such agreements and the minimum wages in these sectors for these two groups were respectively 159 per cent/248 per cent of the minimum wage[18] (Duffy and Walsh 2011). As part of the EU/IMF bailout programme the Irish government commissioned a review of these wage-setting mechanisms. This review provides more detail on the background, coverage and levels of minimum wages for these wage-setting mechanisms (see Duffy and Walsh 2011). This review estimated that between 2007 and 2009 about 15.3 per cent of private sector employees were in sectors covered by JLC agreement and a further 7.6 per cent were in a sector covered by a registered employment agreement. Walsh (2013) shows that migrants are more than twice as likely to be in low-wage JLC sectors and that the migrant pay gap which exists for non-covered workers disappears for covered workers.

The review by Duffy and Walsh (2011) concluded that the structure of these agreements needed substantial reform, and outlined a set of recommendations to create a streamlined set of sectoral arrangements with simpler procedures and clear mechanisms to ensure coordination of wage setting in line with national guidelines. The period leading up to the crisis was marked by an increased emphasis on the enforcement in labour market standards with the creation of the National Employment Rights Authority in 2007 to monitor the implementation of employment rights legislation and a range of other measures. The increased resistance to these regulations by some employers' bodies over this period, including legal challenges to the constitutionality of both types of sector wage agreements, suggests that there was an increase in enforcement on the ground. A 2011 legal challenge successfully struck down the JLC agreements, but a streamlined set of agreements broadly based on the recommendations of the Duffy Walsh review but with some weakening of workers bargaining power relative to the original arrangements came into force in 2012.[19] Registered employment agreements were also subject to a successful legal challenge in 2013. These are currently unconstitutional.[20] Contracts agreed under these agreements are still legally binding as individual employment contracts, although a firm cannot employ new workers on less favourable conditions. The Irish government has announced that it will bring forward legislation to put a streamlined version of these agreements in force on a more secure legal footing.

4.3 The evolution of wages and competitiveness over the crisis

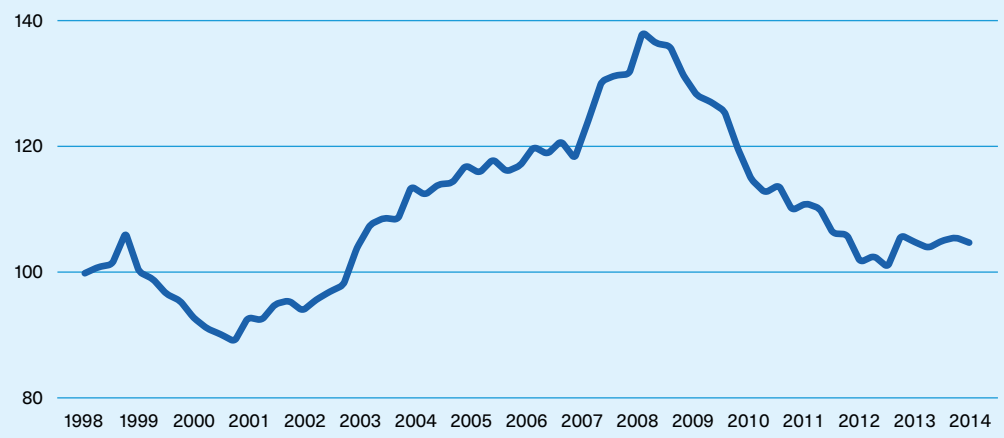
Ireland is a small open economy depending heavily on exports. In order to get a sense of how labour market developments impinged on Ireland's overall competitive position, figure 24 shows the harmonised competitiveness index for Ireland. This is produced by the Irish Central Bank and is an index of real unit labour costs for Ireland adjusted by the weighted change in the exchange rates of Ireland's trading partners (see O'Brien 2010 for a detailed description of the index and methodology). Because of Ireland's openness, negative trends in the competitive position are an important issue, but the fact that it is a small country in a large currency union means that the policy response is limited to the possibility of "internal devaluation" (see Lane 2008 for a discussion of these issues in an Irish context). Essentially this means that because the nominal exchange rate cannot be affected, responses to competitive shocks must be made by adjusting costs such as labour costs. The fiscal crisis described earlier which emerged in 2008 restricted domestic policy options to an even greater degree in the sense that contractionary fiscal policies were imposed. Given the deterioration in the competitive position in the years leading up to the crisis outlined in figure 24, arguably this contributed to the vulnerability of the Irish economy to a negative shock in 2008, although the bulk of employment adjustment was in the non-traded sector; as discussed below, this is where wages adjusted most. Given this, it is not clear how important the competitive position was relative to the impact of a large negative shock on aggregate demand in determining the shifts in wages and employment over the crisis. Since 2008 there has been a substantial improvement in competitiveness by this measure.

18. As Walsh (2013) discusses, some employers in sectors such as construction favour sectoral minimum wages since they may limit the ability of contractors from other low-wage EU countries to undercut domestic firms. Firms from other EU countries are bound by national minimum wage regulations in the destination country.

19. For example, in contrast to the JLCs that existed prior to 2011, minimum wages are restricted to the national minimum wage for workers under 18, the agreement must take account of economic conditions in the sector and economy and the employer could seek a derogation if they could demonstrate an inability to pay. The new arrangements also outlined a clear and speedy external binding arbitration system in circumstances where both parties failed to agree. While this provision does not favour either party to an agreement in principle, in practice it was a key objective for the employers' organisations.

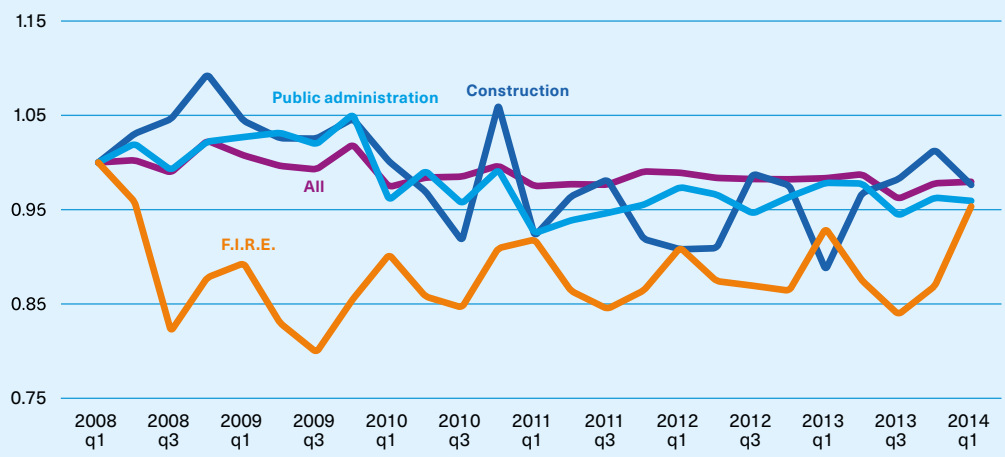
20. Under the Irish Constitution the power to enact legislation is restricted to parliament. The successful challenges to these agreements argued that for this reason all agreements made by a JLC were unconstitutional because they were not ratified by parliament.

Figure 24. Harmonised competitiveness index (over time)



Source: Central Bank of Ireland. http://www.centralbank.ie/polstats/stats/Pages/default.aspx.

Figure 25. Index of average weekly wage (by sector)



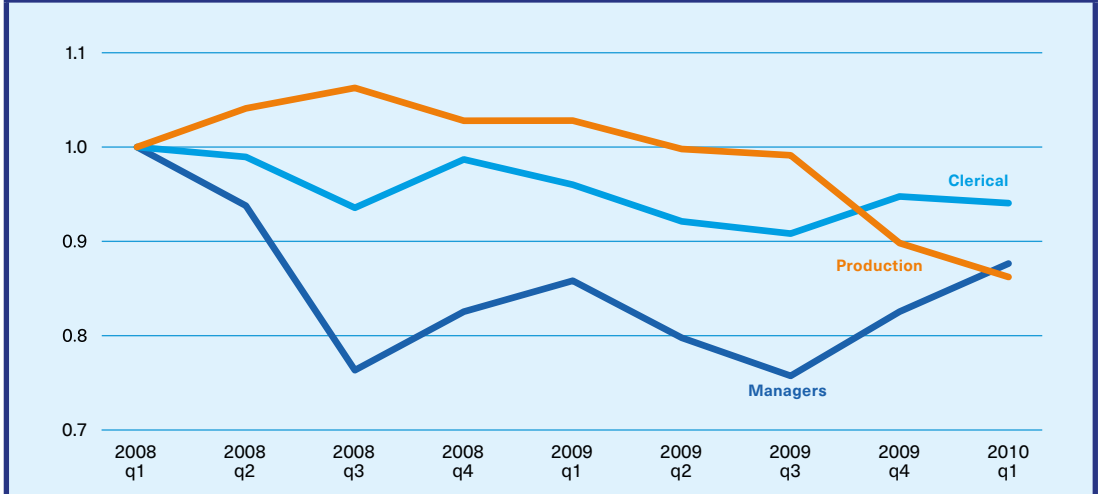
Source: CSO Earnings, Hours and Employment Costs series.

On the face of it, figure 25 could be used to find some suggestive evidence for the hypothesis that wages are rigid downward. The index of average weekly wages for all workers changes little after 2007 in the face of a dramatic downturn and fall in employment.[21] Of course, some of the sectoral wage series which jump around a lot suggest that caution should be used so as not to read too much into this. Many workers lost their job in the recession and, as seen earlier, these were not randomly drawn from the pool of workers, so there is a selection effect where workers who lose their job may well have wages above or below the average and thus distort the average wage series. The dangers of reading too much into such wage series can be seen by examining the wage series for Finance, Insurance and Real Estate (FIRE). There is a dramatic fall in wages from 2008 onwards and then a gradual catch-up later in the period. However, when the series is broken down by broad occupation in figure 26 (this breakdown is only available for a shorter period), it can be seen that the dramatic fall in wages is concentrated on professionals with much less variation for other workers.

There is considerable literature looking at how wages move over the business cycle, and in particular the possibility that wages are slow to adjust downwards. At the onset of the crisis the available evidence suggested that

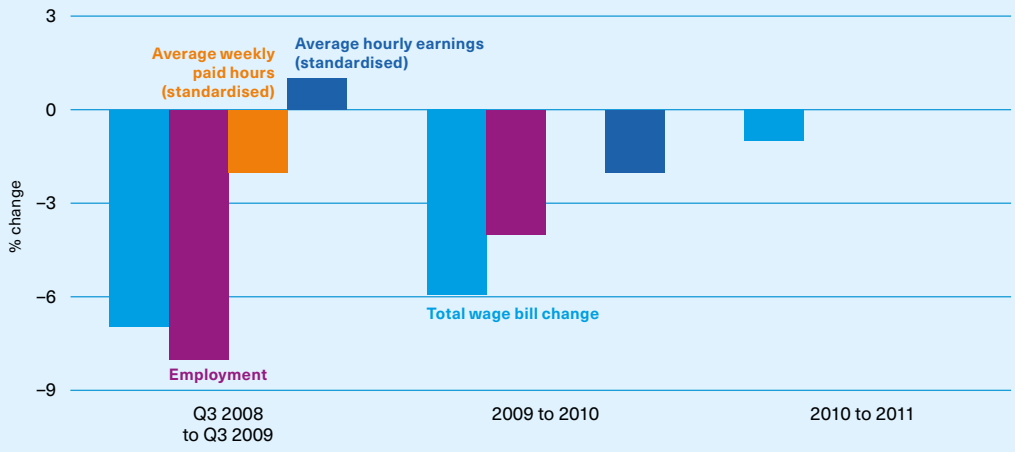
21. Unfortunately, published wage series for Ireland are limited. For example, the QNHS (Ireland's labour force survey) only asks workers their decile in the wage distribution. There is not a readily available series giving weekly wages by gender, age etc.

Figure 26. Average weekly wage by occupation (finance, insurance and real estate)



Source: CSO Earnings, Hours and Employment Costs series.

Figure 27. Change in the wage bill by component (%)

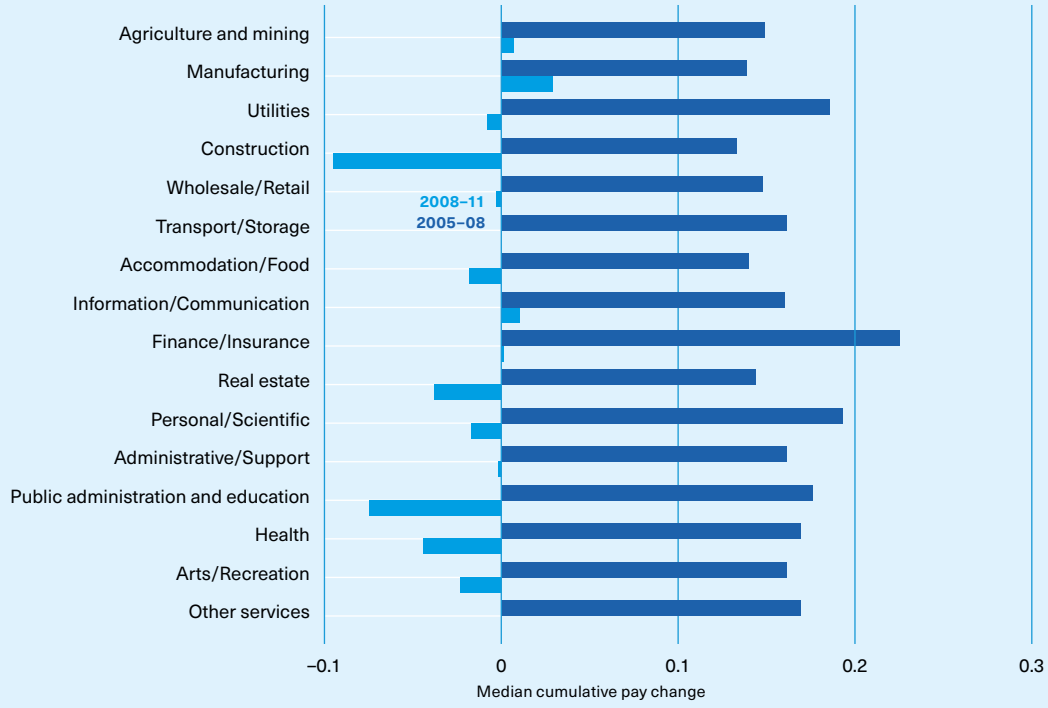


Source: Walsh (2012).

wage adjustment in Ireland was more flexible compared with other European countries. Dickens et al. (2007) found downward wage flexibility to be much more prevalent in Ireland using ECHP data across a range of European countries, although they did express concern that measurement error may be more important in the Irish data. Du Caju et al. (2013) present evidence from a survey of firms conducted across European countries. In the years preceding the crisis, employers responded that wage cuts were very rare across European countries. They expressed a reluctance to use wage cuts as a way of cutting costs, expressing the fear that this would affect worker morale and effort and the need to retain and hire good workers. A notable feature of this study is that it asks firms if regulations or collective agreements are an important feature in preventing wage cuts. The percentage citing this as a reason for not cutting wages is much lower in Ireland than in most European countries. More recent evidence presented below also suggests that substantial numbers of workers have indeed had pay cuts in Ireland in both the private and public sectors.

A number of studies have looked in detail at the evolution of wages in Ireland over the crisis. Walsh (2012) matches firm-level data from the Earnings, Hours and Employment Costs series and matches firms across years. Figure 27, taken from Walsh (2012), documents that while there is a substantial fall in the wage bill between 2008 and 2010 with the onset of the crisis, the bulk of the downward adjustment in firms' total wage bills over this period came from adjustments in hours,

Figure 28. Cumulative pay changes by NACE sector, 2005–08 and 2008–11



Source: Doris et al. (2014).

although it was noted that 25–30 per cent of firms cut average hourly earnings over the period. Bergin et al. (2012) look at two surveys of firms conducted in 2007 and 2009 and suggest that firms will resort to cutting hours worked and bonus payments before reducing basic pay. A more recent study by Doris et al. (2014) uses an impressive dataset which comprises the income tax records of all employees in the Irish state, which they use to look at the evolution of the wage distribution over the crisis. Apart from the fact that the sample is the entire population of workers, an important advantage of this study is that because it is based on income tax records rather than a survey, the data is virtually free from measurement error, which is one of the key difficulties in measuring wage adjustments for workers over time in most data. Because workers can be traced over time, this study can follow workers and observe whether individual workers had pay cuts or pay increases in the years before and after the crisis. Doris et al. (2014) find that, while median wage changes are small, the percentage of workers receiving wage cuts increased from just over 17 per cent in 2005–07 to over 50 per cent in 2008–10. The median wage cut for these workers is 5–6 per cent between these years. Between 2006 and 2007, 80 per cent of workers received wage increases, and this fraction fell to 46–51 per cent in 2008–10 with median increases of just under 8 per cent in the earlier period and around 5 per cent in the later period. This detailed data provides convincing evidence that the low average wage changes seen in aggregate or sectoral wage data mask a great deal of wage adjustment, indicating that wages are flexible in the Irish economy. It can also be seen in figure 28, which graphs the median cumulative pay changes in the years leading up to and during the economic crisis, that there is considerable variation by sector.

Active labour market policies (ALMPs)

5

Table 7 indicates that while expenditure on labour market policies in Ireland was lower than in other European countries in the years preceding 2007, unemployment rates were also substantially lower. This picture gradually reverses as the economic crisis unfolds, with unemployment rates rising rapidly in Ireland and the share of expenditure rising also. Indeed, if 2008 is used as a benchmark, it can be noted that even though unemployment rates were slightly lower in Ireland than the EU average, expenditure on labour market policies accounted for a larger share of GDP in Ireland. Given that unemployment rates tripled in Ireland between 2006 and 2010, a substantial rise in the share of GDP devoted to labour market policies was inevitable given the need to provide assistance to unemployed workers. As can be seen from the table, the share of GDP devoted to labour market policies more than doubled in this period. When expenditure on active labour market policies is looked at as a share of GDP, this barely changes. All of the increase in income share is accounted for by the need to provide income support to the increased number of unemployed workers.

Meta-analysis of the effectiveness of ALMPs suggests that some policies tend to be more effective than others. See Kluve (2010) for European countries and Card et al. (2010) et al. for results based on a survey of European and US researchers. While the literature in this area is large and results mixed, broadly they find that initiatives aimed at helping workers with job search, and to some degree training, can be effective but that public employment schemes tend not to be. Kelly, McGuinness and O'Connell (2011) provide a detailed discussion of the literature on ALMPs including a discussion of some of the main Irish schemes, while McGuinness (2013) provides a discussion of policy developments between 2011 and 2013. Table 8 summarises expenditure across different types of ALMPs as a share of the total. The main change is a decline in expenditure on direct subsidies and an increase in the share of training. The broad direction of policy seems to be in line with international evidence in this regard. The decline in the share of ALMPs in total labour market policy expenditure reflects the fact that the bulk of this expenditure goes in income supports for the rapidly growing number of unemployed workers. Initiatives which are targeted at increasing the exit rate of unemployed workers (particularly long-term unemployed workers who are the focus of most of the

Table 7. Share of GDP on labour market policies and unemployment rates

	2004	2005	2006	2007	2008	2009	2010	2011
Percentage share of GDP on labour market policies								
EU (28 countries)		2.0	1.8	1.6	1.6	2.2	2.2	1.9
EU (15 countries)	2.2	2.1	1.9	1.7	1.7	2.3	2.3	2.0
Ireland	1.6	1.5	1.5	1.6	2.1	3.4	3.8	3.5
Unemployment rates, annual average								
EU (28 countries)	9.3	9.0	8.2	7.2	7.0	8.9	9.6	9.6
EU (15 countries)	8.3	8.2	7.8	7.1	7.2	9.1	9.5	9.6
Ireland	4.5	4.4	4.5	4.7	6.4	12.0	13.9	14.7
Ireland ALMP	0.5	0.5	0.5	0.5	0.5	0.6	0.7	0.7

Note: Ireland ALMP is the share of GDP spent on training, employment incentives, supported employment and direct job creation.
Source: Eurostat database.

Table 8. Share of ALMP expenditure on different policies and share ALMP in total expenditure

	2004	2005	2006	2007	2008	2009	2010	2011
Training	0.44	0.46	0.47	0.47	0.48	0.51	0.56	0.56
Employment incentives	0.14	0.11	0.07	0.08	0.08	0.07	0.08	0.10
Supported employment and rehabilitation	0.02	0.01	0.02	0.02	0.02	0.02	0.02	0.02
Direct job creation	0.40	0.42	0.44	0.43	0.42	0.39	0.35	0.33
Share ALMP	0.32	0.32	0.31	0.30	0.26	0.19	0.19	0.20

Note: Share ALMP is the total expenditure in these four categories as a share of total expenditure on labour market policy.
Source: table constructed from Eurostat database.

policies) into employment are discussed below. A labour market activation strategy for the unemployed was part of the agreement between the EU/IMF and Ireland.[22]

5.1 Community Employment (CE) scheme

This is a longstanding and extensive scheme with over 23,000 places in 2012 which allows unemployed workers to work for NGOs and community/voluntary groups while continuing to claim benefits plus a small supplement. The objective is that workers would learn skills associated with being at work and that this would make them more employable. Evaluations have found the scheme to have no or negative impact on the probability of re-employment for participants.[23] The scheme is aimed at the long-term unemployed and other marginal workers who have low re-employment rates, and controlling for negative selection effects is a key difficulty associated with assessing such schemes. The share of long-term unemployed persons on CE schemes has fallen sharply over recent years, possibly as a result of negative evaluations in policy reviews and the international evidence that public employment schemes are ineffective. Voluntary and community groups do use the scheme to provide local services and arguably the level of displacement of other activities from these additional services is low relative to any additional employment provided by most subsidies of private firms.

5.2 Jobsplus incentive scheme (2013)

This scheme replaced a less generous subsidy introduced in 2010. Under the Jobsplus scheme an employer can be paid between €7,000–10,000 in monthly instalments for hiring unemployed workers, with larger payments for workers with longer duration. Given the structure of the programme it may well be that it will generate relatively few additional jobs. Presumably one of the objectives is to change the composition of employment in favour of the long-term unemployed, given the high costs of long-term unemployment discussed earlier.

5.3 Springboard scheme (2011)

This scheme provided training places for up to 6,000 unemployed people up to Masters level and replaced an earlier scheme introduced in 2010.

5.4 Jobsbridge National Internship scheme (2011)

This scheme allows unemployed workers of any wage who have been in receipt of JA or JB for more than three months to work as interns in private firms as well as other organisations where they would gain experience. The scheme allows employees to continue to claim unemployment benefits plus a weekly allowance of €50 for 6–9 months. There is no cost to the employer for having the worker for this length of time. The scheme has had some evaluation (see Indecon 2013). The evaluation indicates that over half of the participants moved into paid employment. An important concern is that deadweight and displacement may be important factors in that many of the employers may have hired in the absence of the subsidy or with a smaller subsidy. While the Indecon evaluation analysed these concerns, the only data available was based on employers' responses to a survey indicating whether they would have hired in the

22. While the EU and IMF provided the funding for the Irish bailout, the European Central Bank was also part of the agreement.

23. The results in Kelly et al. (2014) suggest that having been in a CE scheme in the last five years lowers the probability of exit from the live register, while Denny et al. (2000) find no impact of the scheme on subsequent employment probabilities.

absence of the subsidy. Clearly, data based on observed behaviour would be much more desirable and credible to assess these concerns.[24] A feature of the evaluation is that success seems to be measured in terms of employers retaining the interns, while internship schemes more generally are seen as opportunities for workers to gain exposure to skills that will contribute to their future employability.

5.5 Momentum programme (2012)

This scheme provides training to the long-term unemployed with a specific focus on those under 25. The objective is to identify the types of skills that are currently in demand in the labour market and provide training in these areas as well as work experience and job-skills modules.

5.6 Pathways to Work scheme 2013

This is a plan to tackle long-term unemployment that includes about 50 different measures. An important element of the scheme is the "youth guarantee". This is a state-backed guarantee that within four months of becoming unemployed or leaving education, every worker between 18 and 24 will be offered a place in education, training or employment.

5.7 Training

Apart from the schemes outlined above, some of which entail a training component, Ireland has had an extensive system of training programmes available to unemployed workers for many years. O'Connell (2002) and O'Connell and McGinnity (1997) conducted earlier evaluations of training programmes in Ireland and found that training programmes that were designed in a way that had strong linkages to the labour market and which focused on specific skills tended to be more successful in enhancing the probability of employment for participants. Kelly, McGuinness, O'Connell and Walsh (2011), in their evaluation of training schemes based on the experience of workers under the National Employment Action Plan who were observed between 2006 and 2008, find evidence that training schemes had a positive effect on exit from unemployment. More recently, Kelly et al. (2014) conducted an evaluation of the NEAP but distinguished between the duration and type of programme. They found that job-search training and high-level skills training were most successful in increasing exit rates. There was no evidence that low-level skills training increased exit rates. The authors interpret this as support for the findings of the earlier literature that training programmes more closely linked to specific job requirements tended to be more successful.

There have also been important policy developments in the state-provided training sector in recent years. The OECD conducted a review of the further education and training sector in Ireland in 2010 (Kis 2010). The review listed a number of strengths, including a wide range of vocational courses for those in and out of work and a comprehensive national qualifications and apprenticeship system. Challenges listed were the difficulty associated with the demands for places as a result of the downturn, the narrow range of occupations covered for apprenticeships and issues with pedagogical training for trainers and dealing with literacy problems amongst students. A restructuring of the further education and training sector took place in 2013 and a new training authority was formed with responsibility for the entire further education and training sector in Ireland. This authority was to be directly linked with the new integrated employment service. This involved a substantial restructuring of the training sector.

5.8 Monitoring and sanctions

As discussed above, a number of new schemes have been introduced over recent years, many of which have not yet been subjected to detailed evaluation based on microdata. There have also been a number of broad changes in policy. Internationally, activation policy has placed more emphasis on the idea of mutual obligations in the relationship between unemployed workers and the benefit providers. Chapter 5 in the 2007 OECD employment outlook (OECD 2007) is an important marker in this change in focus. For Ireland, Kelly, McGuinness and O'Connell (2013) provide evidence from a group of unemployed workers who were provided job search assistance without monitoring or sanctions and find the assistance had a negative effect. While the possibility that negative selection into the assistance programme is a major concern, the authors look at the administrative process behind selection into the programme and argue that negative selection is not an issue. Kelly, McGuinness and O'Connell (2012) also provide a model profiling the long-term unemployed in Ireland. An increased emphasis on activation with monitoring

24. For example, a concern with a scheme of this type is that many of the interns would have been hired as employees in the absence of the scheme. The only information on this is a survey question to the employer asking whether they would have hired in the absence of the scheme.

and sanctions, profiling the long-term unemployed and tailoring individual responses to unemployed workers are important themes in recent policy developments. Reflecting this policy, a new integrated employment service was launched for unemployed people in 2013 with the intention that all unemployed would be in the new service by the end of 2014. Underpinning the new service is the idea that the contract between provider and the unemployed person is based on mutual obligation and that the labour market activation process will begin on the day the unemployed person registers with the service. The objectives are for greater engagement with the unemployed person and that each unemployed person would have an individual profile and plan for exiting unemployment, with the level and type of engagement depending on the likelihood of progressing to long-term unemployment. A key feature of the new service is that unemployed workers who do not comply with offers of training or employment can have benefits reduced. There are some worries about adopting the carrot-and-stick approach. Petrongolo (2009) examines the effect of the introduction of penalties into the UK system and finds that while exits from unemployment increased, the inflows into incapacity benefits also increased, and that the threat of sanctions lowered the reservation wage and earnings of unemployed workers who did find jobs.

Conclusion

Overall the picture that emerges of the Irish labour market is one of flexibility. In the sectors most deeply affected by the crisis, wages and employment adjusted as might be expected, and this was true in the public sector also. The recovery in employment since 2013 is also a testament to this. Few commentators predicted this strong recovery in employment, which is spread across many sectors. Public policy and labour market policy before the crisis were heavily influenced by a system of centralised bargaining known as the *partnership process,* which collapsed during the crisis. Whether the collapse of this process and its replacement by local bargaining along with a sharp decline in union membership will have important implications for policy formation remains to be seen. Roche and Teague (2014) look at industrial relations practices in Irish firms during the crisis and conclude that while there was severe retrenchment for workers, for the most part, firms did not use the crisis to fundamentally alter the way they dealt with workers.

The uneven sectoral impact of the crisis in Ireland meant that the negative impact of the crisis was also uneven. Young workers, especially young men, suffered the largest fall in employment in terms of who bore the brunt of the crisis in Ireland because of the collapse in construction employment in particular. The quality of the employment relationship, such as the rate of involuntary part-time and temporary employment, also deteriorated more for young workers relative to old.[25] Worryingly, the recent employment recovery seems to be concentrated on older workers, while younger workers' net migration is proportionately much higher.

In terms of labour market policy, the crisis period was marked by substantial increases in income tax rates which were necessitated by the fiscal crisis. While there were also cuts in welfare payments, these were concentrated on young workers. There were a large number of schemes and initiatives introduced which were aimed at increasing exit rates from unemployment, with a reduction in emphasis on schemes which allow workers work while participating in some training in the community or government bodies, and a move towards subsidies for unemployed workers, especially the long-term unemployed, to move into market-based employment. An important limitation of some of these schemes is the possibility of substantial deadweight loss, although it is too soon for full evaluation of many of the more recent schemes. There has also been a substantial change in the relationship between unemployed workers and the unemployment services in recent years, with a move towards a regime based on closer monitoring of unemployed workers and the possibility of sanctions for those deemed not to be fulfilling their job-search obligations.

In Ireland the international recession was also associated with a collapse in the domestic banking system, in employment in a bloated construction sector and an associated fiscal crisis which forced the government into severely contractionary policies at a time of deep recession. The combination of these factors led to a dramatic deterioration of labour market conditions after 2008, even compared with many other European countries. The increases in tax rates and expenditure cuts associated with the fiscal crisis have loomed large on the policy arena in Ireland in recent years, both in terms of limiting the ability to fund employment or welfare programmes at a microeconomic level and in terms of the compounding effect on demand at a macroeconomic level.

25. As noted earlier, Barrett and Kelly (2010) also document that migrant workers suffered higher rates of job loss than natives in the recession. This issue has not been dealt with in the current study.

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